

Dramatic fall in Q1 2012 in European Buy & Build activity

Silverfleet Capital, in conjunction with mergermarket, today publishes the findings of its Buy & Build Monitor for Q1 2012, which show a dramatic fall in Buy & Build activity in Europe.

Headline Findings

1. The volume of Buy & Build activity in Europe in Q1 2012 fell by around a third from the level seen in Q3 and Q4 of 2011, and was the lowest of any quarter since mid-2009
2. The average disclosed value of add-ons fell to £21 million down from an already very modest £34 million in Q4 2011 and £70 million in Q3 2011. The average disclosed value per add-on was the lowest of any quarter in the last four years
3. The number of add-ons undertaken in Southern Europe has been in gradual decline over the past three years, with only 9% of all add-ons undertaken in Q1 2012 being based in Italy, Iberia or South Eastern Europe (which includes Greece)

Comment

Commenting on the findings, Neil MacDougall, Managing Partner of Silverfleet Capital said: "The downward trend in Buy & Build activity that we observed in the second half of 2011 was even more pronounced in Q1 2012."

"The two LTRO operations by the European Central Bank took place on 22nd December 2011 and 29th February 2012. The beneficial impact on buyout activity of those two operations will become clearer later in the year but we think that they occurred too recently to have had any influence on the Q1 Buy & Build statistics. However, this data provides some small justification, if any more was needed, for the ECB's actions."

"We have also looked specifically at add-on deals undertaken in Southern Europe, given the issues facing Portugal, Spain, Italy and Greece. As would be expected, the volume of add-ons completed in these countries, when compared to add-on deals done by European private equity-backed companies as a whole, has fallen significantly."

Detailed Report

During the first quarter of 2012 the decline in Buy & Build activity seen in H2 2011 continued, both in terms of volume and value. The volume of add-ons fell from 85 in Q4 2011 and a quarterly average of 96 for the full year 2011, to 55 in Q1 2012. This level had not been seen since Q3 2009, when financing markets were at their most challenging following the 2008 credit crunch. Similarly the average disclosed value per add-on in the quarter was a mere £21 million, versus £34 million in Q4 2011 and £62m for 2011 as a whole.

The key drivers behind this fall are most likely to be continued nervousness in undertaking acquisitions due to uncertainty over the macroeconomic environment in the Eurozone, coupled with a continued lack of availability of bank financing. We believe, however, that the ECB's recent LTRO programmes are likely to provide some support for Buy & Build activity later this year, through better debt availability if nothing else.

Below is an updated graph of the quarterly performance of European add-on activity shown against a mid-market M&A activity index and a new index of overall European PE buyout activity based on data provided by Private Equity Insight.

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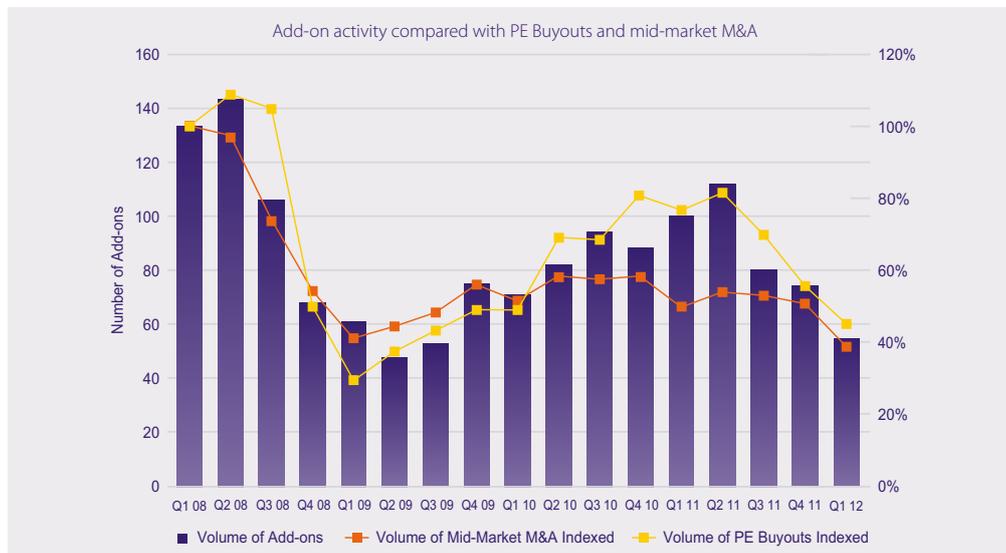
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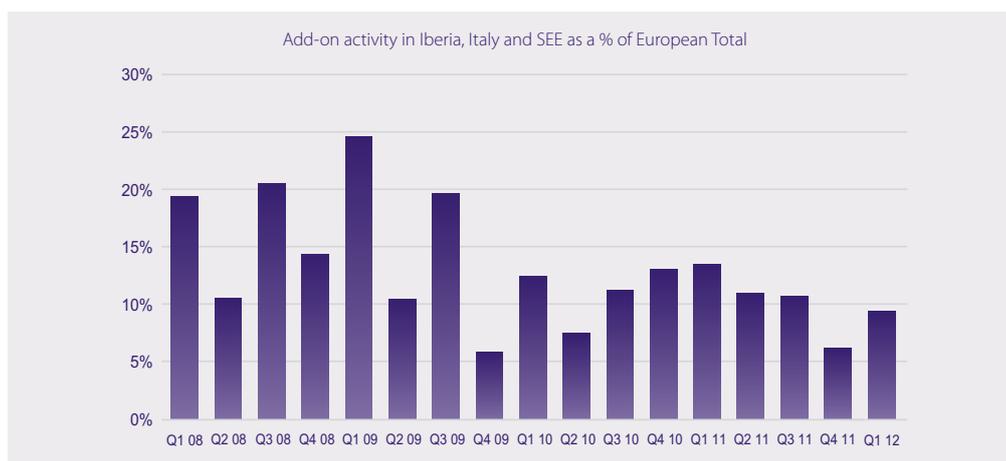
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As in the past the volume of add-on deals has broadly tracked the trend in the mid-market M&A index. However, when measured against the volume of overall PE buyouts in Europe, add-on activity appears to track that index even more closely, implying that Buy & Build activity is subject to the same economic forces as the broader private equity market.

Looking in more detail at the level of Buy & Build activity in the Southern European economies, the regions which mergermarket classify as Iberia, Italy and South East Europe (this includes Greece); while there was a slight rebound in Q1 2012 in add-on activity in these countries relative to add-ons done by all European private equity-backed companies, the trend over the past four years is nevertheless a downward one. We also note that the in absolute terms the number of add-ons undertaken in Southern Europe in Q1 2012 was at an all-time low, with for example no add-ons seen in Italy for the first time since we began tracking this data on a quarterly basis.



Notes on Methodology

Since 2003, Silverfleet Capital has, together with mergermarket, been analysing the trends in buy & build activity within the European private equity market. In 2010 Silverfleet Capital began publishing a quarterly update to the buy & build monitor in addition to an annual review.

The data prepared by mergermarket only includes add-on acquisitions made by companies with over 30% of their equity held by a private equity fund where the platform business is a European company. In addition, the value of the add-on needs to exceed €5 million or else the target should have at least €10 million of sales to be included.

For this analysis South East Europe is defined as Albania, Cyprus, Greece, Malta and Turkey.

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