

European Buy & Build Market surprisingly weak in H1 2014

Very low activity levels and deal values in Q1 2014 drag down half year figures

Silverfleet Capital, in conjunction with mergermarket, today publishes the findings of its European Buy & Build Monitor for H1 2014. The Buy & Build Monitor tracks add-on activity undertaken by European companies backed by private equity.

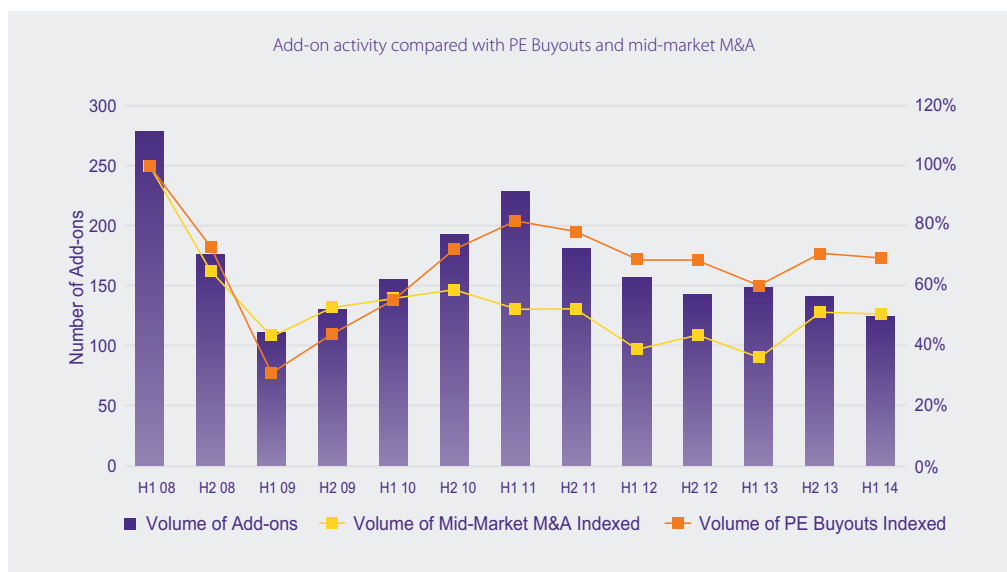
Headline Findings

124 add-ons were reported in H1 2014 compared to 148 in H1 2013 and an H2 2013 figure of 141 which has been revised upwards from 129. Further data for smaller Buy & Build transactions usually emerges well after the publication of this report. Therefore, based on our experience, the number of deals in H1 2014 is very likely to be revised upwards in our next report, possibly at the expense of the average reported deal size. However, the lower figure is mainly the result of a very weak first quarter which is now unlikely to see much subsequent adjustment so we conclude that activity levels in the first half of 2014 have been weaker.

The average disclosed value of add-ons in H1 2014 was also down at £48 million, based on the 19 deals with disclosed values reported in that period, well below the average of £73 million for 24 deals with disclosed values announced in H2 2013 and even the £53 million for the 30 deals in H1 2013 for which valuations are available.

Noteworthy deals in H1 2014 included the £200 million purchase of Banner Homes by CALA Group, the largest add-on in Q1 2014, and R&R Ice Cream's A\$ 440 million purchase of Peters Food Group based in Melbourne which was also the largest add-on in Q2 2014. Another notable transaction in the first half of 2014 was Sophos buying Ahmedabad based Cyberoam Technologies, for a value estimated to be around \$75 million. CALA is backed by Patron Capital, Legal & General and Electra while R&R is owned by PAI and Sophos by Apax.

Silverfleet Capital backed Competence Call Center was also active in Q1 2014 acquiring Berlin based Air Berlin Dreizehnte Flugzeug GmbH and other assets of the Air Berlin group in a move that has outsourced Air Berlin's customer service activities.



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Comment

Commenting on the findings, Neil MacDougall, Managing Partner of Silverfleet Capital said:

"This volume and value data has come as a surprise. With a stable economic situation in Europe and benign financing conditions we had expected stronger levels of buy & build activity than this. However, we note that many private equity backed companies have been busy returning cash to investors through dividend recaps or flotation. It is possible these activities have taken precedence in a sufficient number of cases to make a difference to the market data as a whole."

On previous page is an updated graph of the half-yearly performance of European add-on volumes shown against mid-market M&A activity and overall European buyout indices, based on data provided by unquote" data.

Historically the volume of add-on deals has been strongly correlated with the volume of private equity funded buyouts in Europe and has broadly tracked the trend in the mid-market M&A index. This correlation looks to have been weaker in H1 2014 possibly for the reasons outlined above.

The table below shows the geographic split of the location of the add-on targets that were acquired in H1 2014, and for comparison both halves of 2013 and the total for that year. In H1 2014 the Nordic Region was again the most active area, followed by the UK. France has maintained a steady level of activity whilst the figure for German-speaking Europe and Benelux were both unexpectedly low. Activity in Central & Eastern Europe and the Iberian Peninsula was also weak compared to 2013. Add-on activity undertaken outside of Europe was steady overall, supported by strong figures for North America, the favourite target region for add-ons by European companies. South American add-ons were noticeably absent.

Location of target company	2013	H1 2013	H2 2013	H1 2014
Nordic Region	58	29	29	29
UK and Ireland	53	29	24	23
France	30	13	17	16
Germany, Switzerland and Austria	38	19	19	11
Benelux	22	16	6	7
Italy	12	7	5	7
Central and Eastern Europe	18	9	9	5
Spain and Portugal	15	7	8	4
South Eastern Europe	3	1	2	2
Total Europe	249	130	119	104
North America	17	10	7	13
Asia Pacific	14	6	8	6
Middle East and Africa	3	0	3	1
Latin America	6	2	4	0
Total Rest of World	40	18	22	20
Total Overall	289	148	141	124

Notes on Methodology

Since 2003, Silverfleet Capital has been analysing the trends in buy & build activity within the European private equity market. The data, which is prepared by mergermarket, only includes add-on acquisitions made by companies where more than 30% of their equity is held by a private equity fund and where the platform business is a European company. In addition, the value of the add-on needs to exceed €5 million or the target should have at least €10 million of sales to be included.

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