

European Buy & Build activity disappoints in H1 2015

Number of add-on deals in H1 2015 fell back significantly after strong H2 2014

Silverfleet Capital, in conjunction with mergermarket, today publishes the findings of its European Buy & Build Monitor for H1 2015. The Buy & Build Monitor tracks global add-on activity undertaken by European headquartered companies backed by private equity.

Headline Findings

143 add-ons were reported in H1 2015 compared to 169 in H2 2014, which has now been upwardly revised to 202 as further data for smaller Buy & Build transactions usually emerges after the publication date. Based on our experience, the number of deals in H1 2015 is therefore very likely to also be revised upwards in our next report. However, the comparable number for the first half of 2014 was 167 and we believe that it is unlikely that any subsequent revisions will significantly transform the picture that the period was noticeably less active than H2 2014 and probably only on a par with H1 2014.

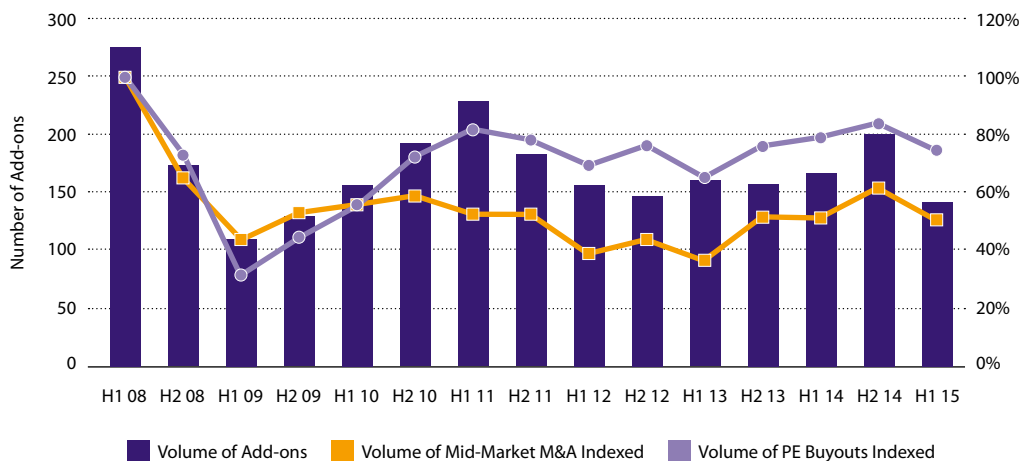
The average disclosed value of add-ons in H1 2015 was £36 million, based on the 30 deals with disclosed values reported in that period. This is however below the upwardly revised average of £42 million for the 39 deals with disclosed values announced in H2 2014 and is well below the £83 million average for the 27 deals in H1 2014 for which valuations are available.

Despite overall Buy & Build activity in the Nordic region being well down several of the noteworthy add-ons during H1 2015 occurred in that region. These included the DKK 1.7 billion (Euro 230 million) acquisition of Nordea Merchant Acquiring by Advent International and Bain Capital-backed Nets Holdings A/S. Another active acquirer in Scandinavia was Cinven's Visma AS which acquired the Nordic activities of e-economic international a/s for an estimated DKK 1.5 billion (Euro 200 million) as well as three other businesses in the region for undisclosed sums.

Most of the other noteworthy add-ons in the period occurred in the UK. These included OMERS Private Equity-backed Lifeways Group acquiring the learning disability division of Care UK for an estimated £66 million. Three of the other larger UK transactions all shared a Competition and Markets Authority (CMA) theme. Funeral Services Partnership backed by August Equity Partners bought the 47 locations of Laurel Funerals not acquired by Dignity plc. CCMP Capital-backed Pure Gym Limited announced a deal to buy LA Fitness which the CMA approved in August, unlike their earlier bid for The Gym Group. The CMA are currently scrutinising the Electra Private Equity-backed Original Bowling Company's bid to buy Bowlplex Limited before moving on to the holiday park industry.

Comment

Commenting on the findings, Neil MacDougall, Managing Partner of Silverfleet Capital said: "Getting add-on deals done has clearly proved tougher for PE backed companies over the last half year. Based on the experiences of our own portfolio companies the competition from rival trade buyers has been fierce, sellers price expectations have continued to rise in many sectors and due diligence can identify unacceptable risks.



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On top of those issues, at a certain level of sector consolidation, the regulatory authorities become involved as some of the larger deals announced in the UK demonstrate.”

On the 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 information 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.

The table below shows the split of add-on targets acquired in H1 2015 and for comparison in each half of 2014 by geographic location. The Nordic Region, usually the most active area in Europe, dropped significantly possibly due to economic headwinds in Finland and Norway. Otherwise most of the other regions of Europe saw levels of activity drop back to broadly that seen in H1 2014. Add-on activity undertaken outside Europe fell back noticeably in North America but nevertheless the region maintained its position as the favourite one in the rest of the world for add-ons by European companies.

Location of target company	H1 2014	H2 2014	2014	H1 2015
UK and Ireland	31	43	74	28
Germany, Switzerland and Austria	15	19	34	16
France	25	18	43	18
Nordic Region	37	40	77	27
Benelux	8	14	22	8
Spain and Portugal	6	9	15	8
Italy	7	9	16	4
Central and Eastern Europe	8	9	17	7
South Eastern Europe	2	1	3	3
Total Europe	139	162	301	119
North America	18	23	41	12
Asia Pacific	9	11	20	8
Latin America	0	5	5	2
Middle East and Africa	1	1	2	2
Total Rest of World	28	40	68	24
Total Overall	167	202	369	143

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 headquartered 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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