

# Private Equity: A Driving Force Behind European Integration

The conclusions from a detailed analysis by Silverfleet Capital, in conjunction with mergermarket, of buy & build activity for European private-equity backed companies during the third quarter of 2011 are presented below.

## Headline Findings

1. In contrast to the second quarter of 2011, European buy & build activity in the third quarter was mostly focused on Europe and the USA with almost no add-ons being done in South America or Asia. Deals in the quarter included Saga's purchase of Allied Healthcare, Tunstall's acquisition of American Medical Alert Corp., Photobox's tie up with Moonpig, Brenntag's takeover of Multisol, Tarkett buying up Parquets Marty and Kiloutou taking over Groupe AltéAd.
2. However, the third quarter of 2011 saw only 67 add-on transactions, a relatively low number when compared to the 103 add-ons completed in Q2 2011 and the 94 done in Q1.
3. The majority of add-ons, 66% of the total in the quarter, were domestic or regional deals. Almost 25% of the total were add-ons of businesses located elsewhere in Europe and the remaining transactions were purchases by European platform companies of businesses outside of Europe.

## Comment

Commenting on the findings, Neil MacDougall, Managing Partner of Silverfleet Capital said: "During the third quarter of 2011 private equity-backed companies were less active in terms of add-on deals, possibly reflecting the increase in economic and financial uncertainty and the disproportionate impact this can have on companies with leveraged balance sheets."

"However, yet again almost a quarter of the add-ons were deals where European companies made acquisitions not in their own domestic or regional market but of firms operating elsewhere in Europe. Our analysis of buy & build data going back over ten years shows that this has been a remarkably consistent feature of buy & build activity and is clear evidence that private equity is driving greater integration between businesses across Europe."

"Earlier this year we sold our investment in European Dental Partners. EDP was a build-up in the dental consumables sector consisting of five acquisitions made by a platform German company across Central & Eastern Europe. EDP is a good example of private equity driving greater integration of European businesses. The company was in turn acquired by Lifco Dental International, the leader in the sector in the Nordic Region".

## Detailed Report

### Volume and Value of Buy & Build Deals in Q3 2011

The level of add-on activity in the period was weaker than in previous quarters. As usual we would expect further data to become available over the coming months that will cause us to revise up this figure from 67 add-ons. Nevertheless we think it is unlikely that it will reach the level of activity seen in either of the earlier quarters of this year or indeed the same quarter in 2010. As expected during the last three months further information on buy & build in H1 2011 became available and we have now revised up the number of add-ons done in Q2 2011 from 77 to 103 and for Q1 2011 from 90 to 94.

These upward revisions for both Q1 and Q2 2011 suggest that buy & build activity in the first half of 2011 was actually slightly stronger than the index of mid-market M&A would predict.

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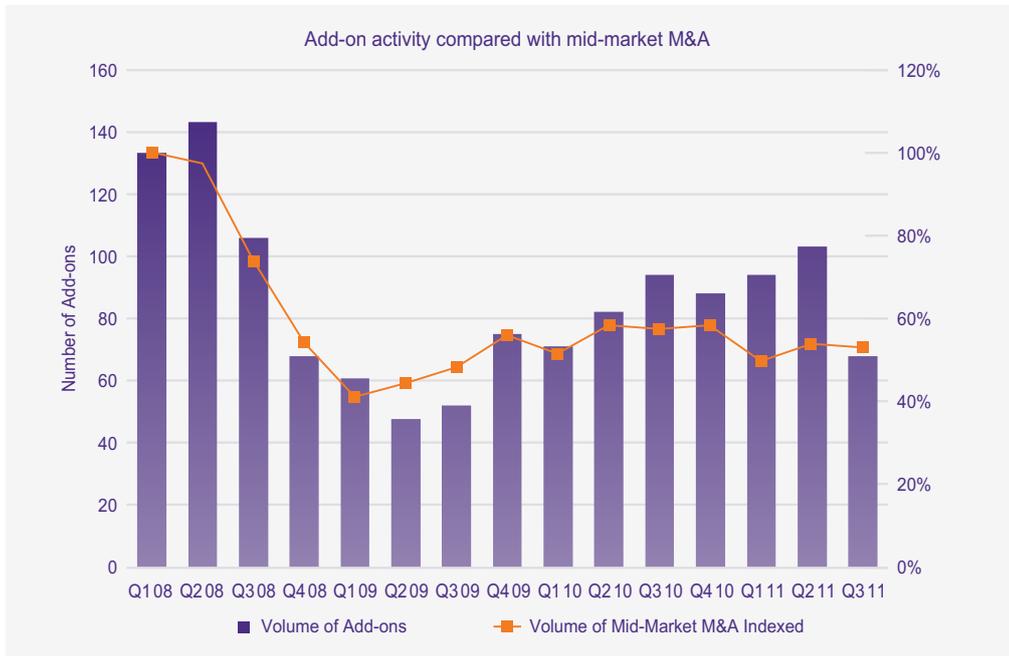
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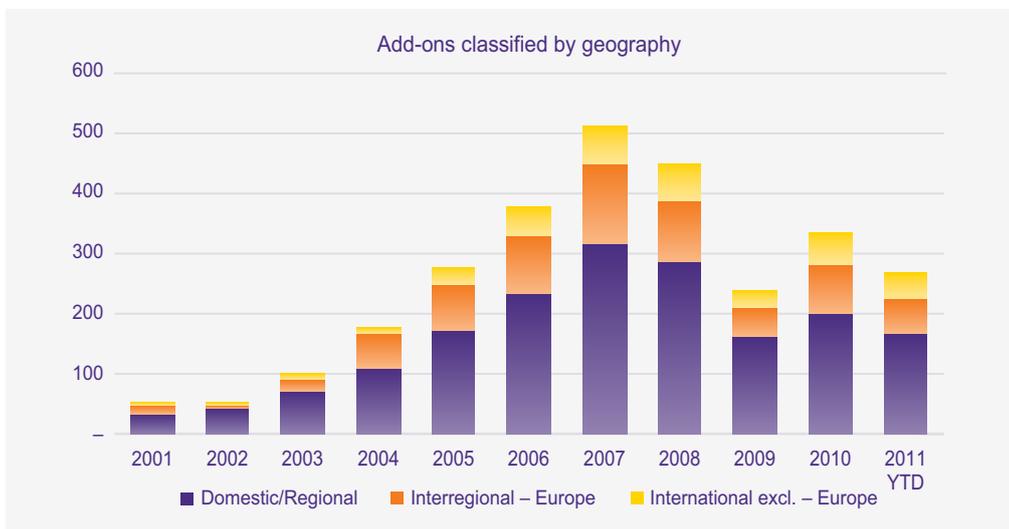
The average value of add-on deals in Q3 2011 for which prices were disclosed was £66 million. This is close to the figure of £67 million for the same quarter last year but 34% below the high figure seen in Q1 2011.

## Regional Analysis of European Buy & Build Activity By Private-Equity Backed Companies

This quarter we have looked at the regional breakdown of European buy & build activity and then compared it with historic trends.

Within the quarter 44 (or 66%) of the add-ons were either domestic or regional transactions. Of the remaining transactions 16 (24%) were add-ons of businesses located elsewhere in Europe and 7 (10%) were purchases by European platform companies of businesses outside of Europe.

We have gone back to 2001 and reviewed the data since then to see how it compares. As the stock of European companies held by private equity has increased, the volume of add-on activity has risen. However, as a percentage of add-on activity, acquisitions between regions in Europe have accounted for a remarkably consistent 25% of all add-on activity, as illustrated in the graph below.



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However, as you would expect in Europe further analysis of the data since 2001 shows noticeable differences between regions.

The most add-ons have been done by PE backed companies in the UK and Ireland (689) followed by the Nordic region (600). This to some extent may reflect the greater maturity of these markets in terms of overall private equity activity.

Companies in German-speaking Europe are much more inclined to make international acquisitions outside of Europe (22% of all the add-ons made by these companies) followed by companies based in the Benelux countries (16%).

The most enthusiastic acquirers of other European companies outside their region have been companies based in the Benelux countries (38%) followed by Italy (32%) and France (31%).

The least enthusiastic acquirers of businesses outside of their region are companies based in South East Europe (91% of add-ons in their own region), companies in Central & Eastern Europe (86% in their own region) and companies in the UK & Ireland (75% in their own region).

Silverfleet Capital has been an active European mid-market private equity investor for more than 25 years. Silverfleet Capital works actively with the management teams of their investee companies to realise buy & build strategies and in the last 10 years has made 109 add-ons to its portfolio companies.

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.

Notes about methodology: 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.

Due to the close linguistic and cultural ties between certain European countries we felt it was more appropriate to evaluate geographic data by region rather than individual country. The regions that we have defined are: the Nordic region; Central & Eastern Europe; South East Europe; German-speaking Europe; the Benelux countries; the Iberian Peninsula and the United Kingdom & Ireland. France and Italy are countries that are also treated as individual regions. South East Europe is defined as Albania, Cyprus, Greece, Malta and Turkey.

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