South America becomes popular with European private equity backed companies pursuing buy & build strategies

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 second quarter of 2011 are presented below.

Headline Findings

1. The number and size of add-on deals made outside of Europe in the quarter, particularly in South America, stands out. Given the relatively modest current prospects for economic growth in Europe it is no surprise that European private equity-backed companies have decided to acquire in other regions. This trend also illustrates private equity’s ability to support such transactions.

2. The second quarter of 2011 saw overall volumes of add-on transactions remain at a similar level to the first quarter of 2011, with 77 add-on acquisitions made (versus 90 in Q1 2011). The average value of build deals for which a price was disclosed showed a fall in the second quarter (£60 million in Q2 2011 versus £110 million in Q1 2011), however a number of sizeable add-on acquisitions were still made.

Comment

Commenting on the findings, Neil MacDougall, Managing Partner of Silverfleet Capital said: “During the second quarter of 2011 private equity-backed companies were clearly able to obtain financing packages for the right add-on deals, and this has sustained the level of buy & build activity. As one of our portfolio companies recently had a close look at a potential acquisition in São Paulo, we were not at all surprised to see Brazilian and Colombian companies featuring prominently as targets, as other private equity investors also search for growth”.

Detailed Report

Add-on Activity in South America by European Private Equity-backed Companies

The second quarter of 2011 saw seven add-on acquisitions made in South America, constituting almost 10% of all add-on activity by volume. Interestingly these acquisitions were made by portfolio companies from across Europe, rather than the traditional acquiror headquartered in the Iberian Peninsula. In addition this acquisition activity involved both the service as well as the manufacturing sector, perhaps reflecting the increased maturity of several South American economies. As well as Travelex’s acquisition of Banco Confidence de Cambio, mentioned in more detail below, other add-ons included:

- the acquisition of Colombian Grupo EMI by Nordic Capital backed Falck A/S, based in Denmark;
- Industri Kapital’s acquisition of Brazilian Pentec Industrial for its German portfolio company Schenck Process; and
- Arle Capital-backed Capital Safety Group’s bolt-on of Colombia-based companies Arseg, Pass and Clasi.
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Volume and Value of Buy & Build Deals in Q2 2011
Quarterly add-on activity levels were broadly flat versus Q1, and continued essentially to track the volume of European mid-market M&A, as shown in the graph below:

Whilst volumes remained relatively flat, the average value of add-on deals decreased in Q2 versus the high figure seen in Q1 2011. However, the average value of deals in the second quarter (and H1 in aggregate) for which prices were disclosed remained above the levels for 2008, 2009 and 2010.

Noteworthy larger transactions that illustrate this include the €300 million acquisition of Bond Air Services, an air ambulance business, by KKR and Investindustrial-backed Inaer Aviation Group and the acquisition of Banco Confianza de Cambio in Brazil by Travelex, a portfolio company of Apax Partners, for an estimated enterprise value of $500 million.

Silverfleet Capital has been an active European mid-market private equity investor for more than twenty five 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. 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. Also at least one of the bidder, target or parent should be a European company.

Quarterly figures are subject to subsequent revision as additional information becomes available. The numbers previously published for Q1 2011 were 76 add-ons and £120 million as the average disclosed value.