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CENTRE FOR MANAGEMENT BUY-OUT RESEARCH
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Continental buy-outs race ahead in 2018

European buy-outs registered a punchy €109.3bn in 2018 thanks to a strong year for continental deals. This is the highest total value since 2008, although the number of deals did not climb significantly. There were 760 buy-outs in 2018 versus 712 in 2017, which reached an overall value of €100.5bn.

Put into historical context, 2018 is the busiest year for European buy-outs overall since 1985 with the exception of the boom years of 2005-2007. In 2018 European buy-outs saw some notable trends: the prevalence of US private equity firms acquiring €1bn+ continental European companies, a 30% fall in the value of UK buy-outs, French buy-outs holding strong, mega €1bn+ buy-outs driving continental buy-outs value and the sub-€10m deal segment experiencing the highest growth.

US PE FIRMS JUMP IN

US private equity firms dominated the mega buy-outs category, where deals are worth €1bn+. There were 29 such deals in Europe in 2018. Of these, 10 deals, worth a total of €30.5bn, were backed by North American private equity funds. Four of the top six buy-outs were backed by US or Canadian investors.

These mega deals include the €10.1bn acquisition of Akzo Nobel's Speciality Chemicals Dutch business by Carlyle and GIC, Singapore's Sovereign Wealth Fund, in October and the €6.8bn by KKR in Unilever's Dutch spreads division in July. In February, Hellman & Friedman bought Nets, the Danish payments processing business for €4.4bn after it delisted from NASDAQ's Copenhagen exchange; and in July Silver Lake spent €2.5bn on Zoopla, the only UK buy-out to feature in the top 10. Zoopla is an Internet property search company that was delisted from the London Stock Exchange.

The remaining mega buy-outs backed by North American private equity firms included another public-to-private: Bain Capital's €1.4bn buy-out of UK insurance company Esure. Esure was listed by Tosca Penta Investments LLP in March 2013. There was also a buy-out that arose from the first successful privatisation of a German Landesbank: Cerberus and JC Flowers supported the buy-out of HSH Nordbank, worth €1bn, in November.

Cerberus also bought Worldwide Flight Services for €1.2bn in October. It acquired this French air cargo handler and provider of ground handling and technical services from Platinum Equity Partners. Worldwide Flight Services was a tertiary buy-out with Platinum Equity Partners having bought the business from the original investor, LBO France, in 2015.

The other three North American private equity-backed buy-outs were corporate divestments. In May Platinum Private Equity bought Vacation Rentals UK from Wyndham Worldwide for €1.1.bn. In March Lone Star bought Danish building materials business Stark Group from the UK's Ferguson plc for €1bn and in October Lone Star bought

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Edilians, the roof tiles business of French Imerys, for €1bn.

UK MEGA DEALS GO MISSING

North American firms only invested in three UK businesses: Zoopla and Esure, which both delisted from the London Stock Exchange; and Vacation Rentals UK, a spin-off from a larger US operator.

Just five mega buy-outs valued over €1bn happened in the UK in 2018. Alongside Zoopla, Esure and Vacation Rentals, was the €1.4bn public-to-private of Laird plc, the maker of wireless communication equipment and technology for automated systems, backed by Advent International.

The fifth buy-out was of accounting software group Iris Software for €1.4bn. HgCapital reinvested in Iris Software in 2011, when it bought out Hellman & Friedman, the firm HgCapital sold the business to in 2007. HgCapital retains equity in this latest buy-out and is joined in the capital structure by ICG.

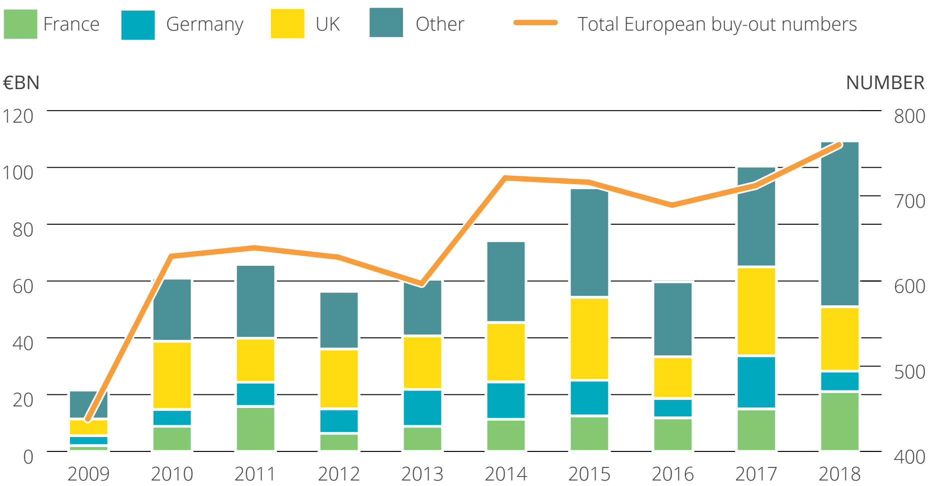
This lack of UK mega deals resulted in a fall of 30% in the total value of the UK buy-outs between 2017 and 2018. In 2018, UK buy-outs across all deal sizes accounted for €22.7bn, down from 2017s figure of €31.3bn.

In 2018 UK mega buy-outs accounted for €7.5bn of the total UK buy-outs value of €22.7bn (33%.) In 2017, when all UK buy-outs were valued almost €10bn higher (€31.3bn), mega buy-outs accounted for €14.1bn (45%). In 2016 UK mega buy-outs accounted for 22% of all UK buy-out activity, in 2015 they accounted for 36% and just 5% in 2014.

In 2018 all UK buy-outs accounted for 21% of all European buy-outs, in 2017 they accounted for 31%, and 24% in 2016. They returned to 31% in 2015 to 28% in 2014. The fall in the UK's market share must surely be in part down to political uncertainty and the potential impact of a difficult Brexit. In 2016 H2, investment fell away following the referendum and it seems that confidence was blighted in 2018 by a lack of consensus on how 'Brexit' should work.

And at the same time, it is striking that a series of mega deals in countries such as Denmark and the Netherlands provided a significant share of the activity that boosted overall deal activity on the continent. Indeed, the German market remains a conundrum, with activity levels falling back in 2018 after a strong 2017.

10 YEARS OF EUROPEAN BUY-OUT VALUES



Source: CMBOR / Equistone Partners Europe / Investec Specialist Bank

FRANCE HOLDS STRONG

Despite the relative slump in 2018, the UK buy-out market retained its top spot in Europe. But only just; France is a close second on €20bn. This is the biggest value from France in a decade and follows on from a strong year in 2017, which saw the French buy-out market reach €14.9bn. President Macron's tax reforms and plans for a more flexible labour market set a positive tone. Investors remain positive despite domestic dissents rumbling throughout the year, ending in a blaze of 'gilet jaunes' protesting about fuel tax rises. In response, President Macron began 2019 by launching a national consultation on how to shape France's reform. Investor confidence is buoyed by an assurance that past reforms will not be undone and implicit acknowledgment that more reform is on its way.

Exits dip below new deals

European buy-out exit values dropped below new deal values in 2018; for the first time in almost a decade. In 2018, there were 443 buy-out exits worth €97bn compared to 760 buy-outs valued at €109.3bn. The last time buy-out exits dropped below new investments was in 2009 when exits were valued at €13.1bn compared to €21.6bn invested in new buy-outs.

New buy-out values have risen steadily, with the exception of 2016, over the past decade. The uncertainty surrounding Brexit is probably to blame for the fall off in UK exit activity in 2018. Post the 2008 financial crisis, UK buy-out exits recovered gradually year-on-year. From their low of €3.6bn in 2009 they reached €66.1bn in 2015. UK buy-outs slumped to €28.6bn in 2016; the year of the UK referendum, recovered to €39.7bn in 2017 and finished 2018 at €25bn, 37% down on the previous year.

Despite €25bn worth of buy-out exits in 2018, the UK remained the highest value exit market in Europe. France followed with €18.3bn. This figure was buoyed by seven mega deals. All seven were secondary buy-outs; Sebia, Kiloutou, Exclusive Group, Alcan Packaging, Asmodee Group, Worldwide Flight Services and Siaci Saint Honore.

Germany followed France and was the next biggest buy-out exit market with a total of €14.3bn. That figure was buoyed by four mega deals: the trade sale of Ista to Cheung Kong Property for €5.8bn; the secondary buy-out by BC Partners, for €2.6bn, of CermaTec sold by Cinven; the €1.7bn trade sale of Scandilines by 3i to First State Investments; and the €1.1bn sale of Senioren-Residenzen by Carlyle to Nordic Capital.

Interestingly UK mega €1bn+ buy-out exits were predominantly sold to strategic trade buyers. Those exits were: SkyBet to Stars Group for €3.8bn; Cognita to Jacobs Holding for €2.3bn; Pret A Manger to JAB

Investors across the buy-out spectrum were attracted to the French market in 2018. Of the €21bn invested in France, €11.4bn (or 54%) came from 9 mega deals. With the exception of Edilians, Imerys' roof tiles business bought by Lone Star for €1bn in October, the rest were secondary buy-outs.

PAI Partners bought both Albea Services and Asmodee Group. Albea is a packaging company servicing the personal and oral care markets. PAI bought Albea, which had been held by Sun Capital since 2010, for €1.2bn. PAI also paid €1.2bn for Asmodee Group. Asmodee is a games publisher and distributor held by Eurazeo since 2014. PAI also sold, alongside co-investor Sagard, Kiloutou to HLD Europe and HLDI, the investment holding company of the Dentressangle family. Kiloutou's price tag was €1.5bn. Kiloutou is an equipment rental company PAI bought from Sagard in 2011, although Sagard retained a stake.

Ardian bought out Les Derives Resiniques et Terpeniques (DRT) alongside Tikehau Capital. DRT produces ingredients derived from plant-based chemistry, mainly pine trees. Ardian also sold its 2015 buy-out of Siaci Saint Honore to Charterhouse for €1bn. Siaci Saint Honore sells insurance and consulting services to large and mid-cap companies.

Montagu Private Equity and Astorg sold Sebia (France's largest buy-out in 2018) to CVC Capital Partners and Téthys Invest for €2bn. Sebia, a manufacturer of instruments and reagents for in-vitro diagnostics, has been through four successive buy-outs. Montagu bought Sebia in 2006 and sold it to Cinven in 2010 and Cinven sold it to Montagu and Astorg in 2014.

Cobepa sold Exclusive Group to Permira for €1.3bn in July. Exclusive Group markets cybersecurity, data centres and associated value-added services solutions. In October 2018 Platinum Equity sold Worldwide Flight Services to Cerberus Capital Management for €1.2bn. Worldwide Flight is an air cargo handler and provider of ground handling and technical services that Platinum bought from LBO France in 2015.

MEGA DEAL AND SUB €10M SPACE

In 2018, German buy-outs had a combined value of €7.2bn. This includes CeramTec which was sold by Cinven to BC Partners for €2.6bn. Cinven bought this technical ceramics maker from Rockwood Holdings in 2013. Meanwhile, Nursing home operator Alloheim Senioren-Residenzen was bought by Nordic Capital for €1.1bn. Germany's third mega buy-out was the €1bn privatisation of HSH Nordbank by Cerberus.

2018's €7.2bn compares unfavourably to the prior year, which stood at €18.7bn. 2017 was driven by five mega buy-outs including the €5.4bn public-to-private of pharmaceutical group Stada Arzneimittel. Germany has never yielded the buy-outs its economic weight might imply. Germany remains a difficult market to predict.

Denmark, Finland, Italy and the Netherlands all experienced jumps in value. In Denmark, €4.4bn Nets and €1bn Stark Group buy-outs accounted for 83% of that country's total buy-outs value. For The Netherlands this figure rose to 90% thanks to Akzo Nobel Speciality Chemicals (€10.1bn), Unilever's spread (€6.8bn), plus TMF Group, Ammeraal Beltech and Refresco Group.

Mega buy-outs accounted for 58% of European buy-out values, up from 18% a decade ago. At the other end of the spectrum sub €10m buy-outs also had their best year in a decade; €1.32bn was invested across 324 of these small buy-outs, which are an important feeding ground for future deals.

What's coming in 2019?

European buy-out investors head into 2019 on the back of two stellar fundraising years. Firms have a large amount of dry powder while those fundraising are focused on completing before the end of March pre-Brexit.

Ongoing uncertainty has stalled UK buy-out and exit markets. Commentators believe markets have repriced for a soft Brexit only.

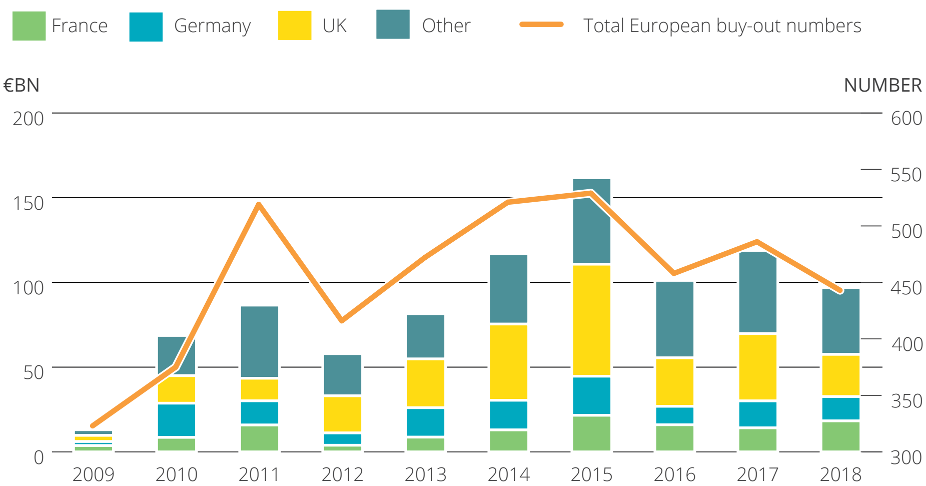
Those concerns aside, European private equity is coming towards the end of a fundraising cycle. Buy-out exits have slowed, demonstrated by exit values being less than money deployed into new buy-outs in 2018. Falling exits mean less funds for LPs to recycle into new fundraisings. LPs upcoming commitments to repeat fund investments reportedly already exceed funds available. This coupled with a slowdown in cash returns means some buy-out fund investors will lose out.

2019 is likely to be a year of consolidation. As buy-out investors nurture existing portfolio companies by supporting acquisitive and organic growth.

Holdings for €1.7bn; MRH to MFG for €1.4bn; and Callcredit Information Group to TransUnion for €1.2bn. Iris Software was involved in a €1.2bn secondary buy-out supported by existing investor HgCapital and newcomer ICG. The UK buy-out exit picture at the €1bn+ end of the market is in stark contrast to mainland European activity. Of the 28 €1bn+ exits, 9 were trade sales, 3 IPOs and 16 secondary buy-outs.

All 3 IPOs saw North American private equity firms exit. Onex Corp sold out of packing company SIG Combibloc Group for €3.2bn, which it had held since 2015. JC Flowers sold out of NIBC Bank for €1.3bn having been invested since 2005 and Apollo sold its stake in Ceva Logistics for €1.3bn.

10 YEARS OF EUROPEAN BUY-OUT EXIT VALUES



Source: CMBOR / Equistone Partners Europe / Investec Specialist Bank

EBITDA and equity shifts

Historic EBITDA multiples have seen their biggest change in five years in the €10-€100m deal category, dropping by 1.4x from 2017 (9.4x) to 8x in 2018. At 8x this is the lowest EBITDA average for new buy-out investment in over five years and reflects a more price-conscious mid-market in 2018.

Financing structures moved only slightly during 2018. The equity component of buy-outs rose to 51.6% (up from 49.4% in 2017) across all buy-outs. However, in buy-outs valued over €100m equity held at 45.4%, having been at 45.9% in 2017.

Management's share of equity fell to 23.5% over all buy-outs in 2018. This compares to 26.8% in 2017, 27.7% in 2016, 28.8% in 2015, 31.6% in 2015 and 26.3% in 2014, for all buy-outs. There is a dramatic change, however, in the share of management's equity in buy-outs valued at €100m+. The equity component of these larger transactions fell from 20.5% in 2017 to 12.6% in 2018. This is the lowest value in over 15 years. The drop is likely to be explained by the increased relative importance of mega (€1bn+) buy-outs in 2018.

Separately, last year mega buy-outs accounted for €62bn of the total buy-out value of €109.3bn, or 57%. Typically, management's share of equity is in inverse proportion to the size of buy-out; as buy-out sizes increases, management's percentage share reduces. The relative predominance of mega buy-outs in 2018 helps explain the large drop in management's share of equity in the €100m+ bracket compared to previous years. In 2017 mega buy-outs accounted for 46% (€46.5bn of the €100.5bn invested). In 2016 they represented 21% (€13bn of the €61.7bn invested.) In 2015 they accounted for 42% (€38.7bn of the €92.8bn invested). In 2014 they came to 30% (€22.5bn of the €74.2bn invested.

2014-2018 // FINANCING STRUCTURES ON EURO BUY-OUTS (%)

	2014		2015		2016		2017		2018	
	All	>€100m	All	>€100m	All	>€100m	All	>€100m	All	>€100m
Equity	53	41.9	48.8	41.6	54.2	46.8	49.4	45.9	51.6	45.4
Mezzanine	0.7	0.8	1.4	1.1	0.3	0.2	1.1	1.2	0.8	0.6
Debt	45.2	56.3	47.7	57.1	44.9	53	48.9	52.9	46.6	53.8
Loan note	1	0.9	0.6	0.3	0.3	–	0.2	–	0.6	0.2
Other finance	–	–	1.5	–	0.3	–	0.3	–	0.4	–
Total financing (€m)	**37,349**	**36,206**	**50,776**	**49,682**	**32,527**	**31,077**	**56,206**	**54,414**	**54,513**	**52,940**
Vendor contribution	0.2	0.1	0.1	–	1.1	–	–	–	0.1	0.2
Management contribution	0.4	–	0.5	0.5	0.5	–	–	–	–	–
Management share of equity	31.6	19.4	28.8	19.7	27.7	19.5	26.8	20.5	23.5	12.6

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