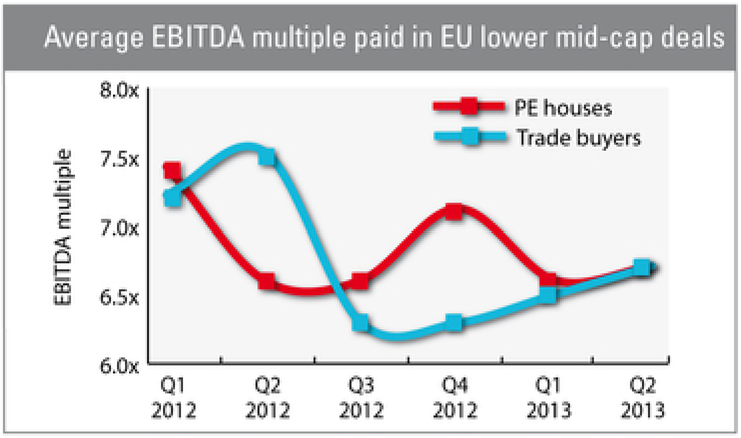
Analysis

Mid-cap valuations remain stable as dealflow stagnates

Gregoire Gille reports - Source: **unquote** | 25 Jul 2013



Source: Argos Mid-Market Index / Epsilon Research

Entry multiples for lower mid-cap deals remained virtually stable in the second quarter for both private equity and strategic buyers, according to the latest Argos Mid-market Index.

GPs have been paying a median entry multiple of 6.7x EBITDA in lower mid-market buyouts – here defined as deals valued in the €15-150m range – according to the latest Argos Mid-market Index, published by Argos Soditic and Epsilon Research. This is up ever so slightly from the 6.6x median multiple recorded over the first quarter of 2013.

Overall though, entry multiples in lower mid-market LBOs have remained stable over the past 12 months, according to the index (see chart above) – with the exception of Q4 last year, when the rush to get deals across the line before year-end resulted in a slightly higher 7.1x median multiple. Pricing therefore remains some way off the 7.4x average recorded across 2010 and 2011.

The second quarter of 2013 also saw corporate buyers pay the same median multiple as mid-cap GPs for transactions in the €15-150m segment. This is again marginally higher than the 6.5x multiple witnessed in Q1 this year. Looking back over the past few quarters, multiples paid in lower mid-cap corporate M&A have been slowly inching upwards after falling from the 7.5x mark in the first half of 2012 to 6.3x in the later months of that year.

Wait and see

The stability of the index doesn't surprise Argos Soditic president Gilles Mougenot given the lacklustre dealflow experienced so far this year across Europe. "Deals are very hard to see to the finish line: we are seeing a fair bit of caution from the banks, trading conditions remain difficult for many businesses. While LBO activity still revolves around high-quality assets, many processes are dragging on or are being renegotiated," he told unquote", before adding that this "flight-to-quality" syndrome explains why multiples have not fallen in line with activity volumes.

As Mougenot already noted when commenting on the Q1 index, the combination of these trends continues to foster "wait and see" behaviour from both sellers and investors. Bar any significant shift in outlook from either group, both dealflow and pricing are likely to remain lukewarm.

"Multiples won't move significantly until the volume of activity picks up. It remains very hard at this stage to predict when this backlog of assets will finally come to market – although private equity houses that have been holding on to portfolio companies for longer than expected will inevitably run out of time sooner or later," says Mougenot. Indeed, unquote" reported recently on the increase in average holding periods for private equity portfolios, now reaching the upper limit of the traditional investment lifetime – and potentially testing the patience of liquidity-hungry LPs.

The full Argos Mid-market Index can be viewed here