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Mid-market buyouts: Valuations taking off?

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30 Mar 2011, Gregoire Gille, unquote

Private equity buyers got increasingly busy as 2010 went on, with unquote" recording a 22% increase in volume for European mid-market buyouts between the first and second semesters. Value was driven up as well: the second half of 2010 witnessed a 10% increase in the total value of mid-market deals compared to the first six months of the year.

This surge in activity apparently saw private equity houses willing to pay higher multiples for their investments. The latest Argos Mid-Market Index - tracking median EV/EBITDA multiples on a 12-month rolling basis - showed a 6.7x median paid by PE players in December 2010. This is a 15% increase on the June 2010 figure of 5.8x.

What is more, LBO funds were inclined to pay higher prices than corporate buyers for the first time since December 2005. According to the Argos Index, strategic buyers paid a median EBITDA multiple of 6.6x in December 2010, slightly up from the 6.5x median witnessed in June.

One could think that the record "capital overhang" - the large amount of dry powder that couldn't be deployed during the worst of the downturn - combined with more readily available debt facilities played a significant part in pushing prices up. A large number of PE houses still feel a pressing need to invest as funds raised before the crisis see their investment period drawing to a close, and are therefore prone to outbid each other in order to snatch the best assets on the market.

The scarcity of truly attractive investments is indeed another factor that could explain the current rise in EBITDA multiples. The median figure given in the Argos Index hides a more nuanced reality, with a wide array of multiples depending on the underlying asset. "There is a significant difference between the few really good assets - which command high multiples - and the majority of transactions where prices are more reasonable. The ‘flight to quality' phenomenon is quite noticeable," notes Argos Soditic partner Gilles Mougenot.

So while the current average EBITDA multiple could paint the picture of a seller's market, only a few outstanding businesses can claim to command the attention of investors and capitalise on the current mid-market appetite displayed by PE buyers - a trend that is likely to carry on in 2011 given the slow recovery prospects for most European countries.

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