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Exits – still good news for sellers

2017 continued the strong run of exits by European buy-outs seen since 2014.

There were 461 exits in Europe worth a combined €115.6bn in 2017. Typically, as more data is gathered during Q1 2018, another €1-2bn is added to the year's tally, as previously announced deals complete. This means 2017's buy-out exits will, most likely, exceed 2014's level of €115.9bn. As such this places 2017 buy-out exits, by value, third place behind the bumper years of 2007 (€123.8bn from 680 exits) and 2015 (€160bn from 522 exits).

IN FOR THE LONG TERM

In 2017, the average time a buy-out investor held an asset was 70 months. In the years 2010 to 2017, average hold time was between 65 and 77 months. This belies the 'quick flip' stereotype often applied to the buy-out market. Exits can, of course, happen earlier; 16 buy-outs undertaken in 2016 and 76 in 2015 have already exited.

EXIT SOURCES

Since 2014, trade sales have generally been greater in value than secondary buy-outs. Trade sales, have also been greater in number than secondary buy-outs since 2014. However, this excludes 2017 when 211 secondaries (€47.8bn value) were recorded compared to 206 (€52.4bn value) trade sales. From 2002 to 2013, the only years trade sales totalled less than secondary buy-outs were 2008, 2009 and 2011. These years were tainted by the crisis when trade buyers are more focused on maintaining, rather than expanding, their businesses. That said, secondary buy-outs have increased in number and value in 2017.

IMPORTANCE OF BIG DEALS

Average deal size rose to €250m in 2017, up from €223m in 2016. Average deal size reached its highest level ever, at €308m during 2015's bumper year, having climbed

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from €226 in 2014 and €174m in 2013.

2017 saw 27 exits with a value of €1bn+. These comprise 5 IPOs worth €9.6bn, 12 trade sales worth €29bn, and 10 secondary buy-outs worth €19bn. In 2016 there were five mega secondary buy-out exits worth a combined €7.2bn; less than half the value of 2017.

The ability to exit by IPO, predominantly the preserve of mega deals, also had a marked effect on overall values. In 2017, IPO markets were less buoyant with 26 reaching exit via IPO bringing in €15.4bn.

Trade sales dominated in 2017, with 12 exits in the mega category having a combined value of €29.3bn.

MARKET LEADERS

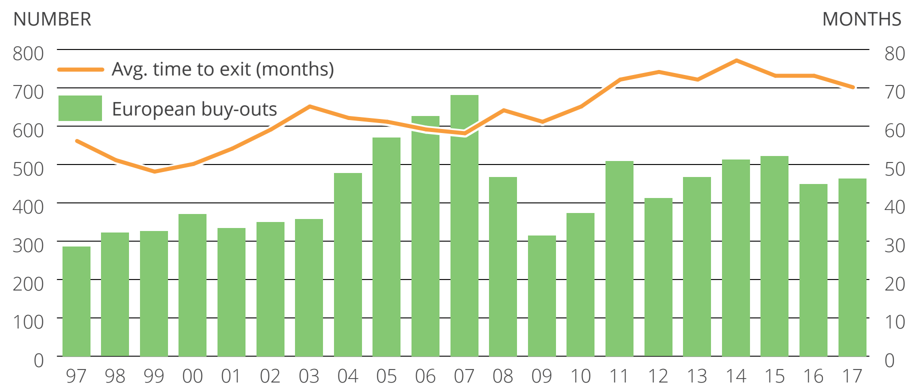
France saw 61 exits worth €13.9bn in 2017. This was marginally down on 2016. In 2017 four mega exits included: nursing home operator Domus Vi sold in July by PAI Partners to ICG in a secondary buy-out; clinical pathology laboratory company Cerba Healthcare sold in April in a secondary buy-out by PAI Partners to Canadian investor PSP Investments and Partners Group; Alliance Automotive sold in November by Blackstone in a trade sale to US Genuine Parts Company; PAI Partners sold Industrial Parts Holding, the distributor of industrial supplies for maintenance and production applications, in September to Advent International.

Germany saw 48 exits worth €15bn in 2017. Although the number remained static, the value increased by around 30% on 2016's figure (€10.7bn.) This is down to three €1bn+ exits, all in April. They were: medical solutions company, BSN Medical, which was sold to global hygiene and forestry products company Svenska Cellulosa by EQT Partners; Mauser Group, a supplier of industrial rigid packaging products and reconditioning services, sold by Clayton, Dubilier & Rice to Stone Canyon Industries; and Xella, the building materials maker, sold by PAI Partners & Goldman Sachs to Lone Star.

The UK saw 176 exits worth €39bn, eight of these were mega exits that added €18bn to the UK's count. They included the sale of Formula One by a CVC Capital-led consortium in January to Liberty Media for €7.5bn. This exit represents around 40% of the value of UK mega exits in 2017. Also falling in January was the sale of consumer credit card finance provider NewDay to Cinven & CVC Capital by Värde Partners for €1.17bn.

Later in the year, were Parkdean Holidays (€1.6bn), Beacon Rail Leasing (€1bn), Host Europe Group (€2bn), Civica (€1.1bn), International Car Wash Group (€1bn), and CPA Global (€2.7bn).

1997-2017 // EUROPEAN BUY-OUTS – AVERAGE TIME TO EXIT (BY YEAR OF EXIT)



2013-2017 // EURO BUYOUT EXITS BY COUNTRY

	2013		2014		2015		2016		2017	
	No	€m	No	€m	No	€m	No	€m	No	€m
France	64	8,642	74	12,943	66	21,336	69	15,910	61	13,982
Germany	55	17,383	49	17,484	53	23,069	47	10,685	48	15,444
UK	212	28,623	235	44,920	207	65,908	164	28,535	176	39,157
TOTAL	467	81,361	513	115,962	522	160,934	449	100,485	461	115,604

Source: CMBOR / Equistone Partners Europe / Investec Specialist Bank

Safety first in deal structures

European buy-out firms have the greatest amount of capital to spend ('dry powder') in their history. Investor demand for private equity is driven by a booming exit market and the flight of capital away from lower yielding asset classes into private equity and other alternatives.

Throughout 2017, market commentators warned that this heady cocktail would result in higher prices being paid for buy-outs and greater debt multiples. Full year figures for 2017 financing structures show this is not being borne out in the €100m+ segment.

Equity contribution to buy-outs worth €100m+ in 2017 averaged 46%. This is largely unchanged from the more challenging market faced in 2016 when equity averaged 46.8%. For all buy-outs, however, equity contribution did reduce, to 48.6% in 2017 from 54% in 2016.

One beneficiary of attractively priced and liquid debt markets was refinancings. In 2017, 136 refinancings worth €41.6bn were concluded. The other times that refinancings exceeded this value were in 2005, 2006 and 2007 when an abundance of cheap debt meant all buy-outs were averaging around, or just under, 40% equity contribution. Refinancings also boomed in 2013 (151 refinancings worth €46.5bn) and 2014 (€54.8bn). This boom was in response to a pent up demand for refinancing capital. As debt markets loosened, equity components in buy-outs dropped from 66.5% in 2012 to 52.3% in 2013 and 52.4% in 2014.

Business as usual for buy-outs across Europe

The first half of 2017 saw €42.8bn across 341 buy-outs, compared to €53.8bn from 339 buy-outs in the second half of the year.

This bounce was more in line with other years, unlike 2016 when H2 buy-out activity was slowed by the uncertainty surrounding the UK's departure from the EU.

MID-MARKET VS €1BN+

The UK's mid-market saw a return to form in 2017, as did its €1bn+ category. The UK's total value of €30.7bn across 190 buy-outs was boosted by eight mega deals with a combined value of €14.05bn. This means around €16bn worth of buy-outs fell into the mid-market category in 2017; some €5bn more than in 2016. In 2016, €14.7bn was raised by 194 UK buy-outs. This €14.7bn figure included just two mega buy-outs (RAC's €1.98bn and Argus Media's €1.17bn). Taking RAC and Argus Media out of the numbers, 2016 saw €11bn fall into the mid-market.

In Germany, 2017's buy-out market value was driven by mega deals. Of the €18.5bn raised across 102 buy-outs, €11.1bn is attributed to just five mega buy-outs. They are: Stada Arzneimittel (€5.4bn take private of this pharma company); €2bn secondary buy-out of building material firm Xella; €1.58bn public-to-private of market research company GfK by KKR; Hensoldt, the border defence and security business, which span out of Airbus and was bought by KKR for €1.1bn; and Rhodia Acetow, the manufacturer of materials in cigarette filters bought by Blackstone for €1bn. These mega deals gave Germany the highest buy-out value in 2017 for the past decade.

Although 2016 was a low year, just €6.4bn in value, there was only one mega deal boosting this figure. This was the €1.2bn spin-off of Bilfinger facility management backed by EQT. This leaves around €5.2bn of value being created by 94 buy-outs in 2016. When 2017's mega buy-outs are stripped out, around €4.5bn was created by 97 buy-outs. The assumption might be that Germany's mid-market buy-outs have not yet bounced back from 2016s difficult H2. However, looking back to the bumper year of 2015, the German mid-market continued business as usual in 2015, just as it did in 2016. In 2015, 76 buy-outs were valued at €12.5bn. But when four mega deals worth €7.8bn are removed this puts the mid-market value at around €4.7bn across 72 buy-outs. 2014 paints a similar picture, albeit with improved average buy-out values. In 2014, 74 buy-outs accounted for €12.6bn. After five buy-outs with a combined value of €6.8bn are excluded, around €5.8bn was recorded by 69 buy-outs.

The French buy-out market appeared more balanced in 2017; 98 buy-outs worth €14.9bn were recorded. Taking away four mega buy-outs with a combined value of €7.6bn, this puts a value of €7.3bn on France's mid-market in 2017. This compares to 90 buy-outs valued at €11.3bn in 2016. But with just one mega buy-out, the €1.8bn secondary buy-out of residential real estate and property management services company Foncia Groupe, the French mid-market in 2016 was worth €9.5bn across 89 buy-outs.

The years 2017, 2015 and 2014 recorded French mid-market buy-outs around the €7bn mark, this shows 2016 saw a spike in average mid-market buy-out values. This was despite a challenging market in 2016. In 2015, 95 French buy-outs were valued at €12.5bn. Taking away three mega buy-outs valued at €5.6bn, 92 French mid-market buy-outs were valued at nearly €7bn. In 2014, 87 buy-outs were valued at €9.4bn. Excluding two mega buy-outs valued at €3bn, this brings the mid-market to around €6.4bn across 85 buy-outs in 2014.

SOURCES & SECTORS

Deal sources were stable in 2017 with the exception of public-to-private buy-outs, which spiked at €15bn having generally stayed below €5bn for the past decade. The exceptions are 2008 (€14bn), and 2010 (€7.57bn).

2017's spike was caused by three public-to-private buy-outs. They include Germany's largest buy-out (also the largest deal recorded in 2017) of pharmaceutical company Stada Arzneimittel for €5.4bn by Bain Capital and Cinven.

Paysafe, the prepaid cash card and online wallet company, was taken private by Blackstone and CVC Capital in August for €3.3bn and brewery group, Punch Taverns, was taken private by Heineken for €1.95bn.

Manufacturing saw the highest number (210) and value (€24.4bn) of new buy-outs. Overall value, although not volume, also rose for healthcare (€14.1bn) and financial services (€11.6bn).

2013-2017 // EURO BUYOUTS DEAL SOURCE

	2013		2014		2015		2016		2017	
	No	€m	No	€m	No	€m	No	€m	No	€m
Foreign divestment	60	5,489	67	7,999	74	11,712	40	3,971	40	9,123
Insolvency	26	337	26	436	19	155	10	107	14	76
Local divestment	118	9,722	137	21,514	101	15,556	91	6,631	68	11,154
Private	216	7,076	287	9,895	293	15,617	318	12,632	333	12,156
Privatisation	1	232	2	184	1	399	2	194	1	1,000
Public buy-in	–	–	1	1	1	439	–	–	1	31
Public to private	6	2,490	12	3,039	14	4,590	13	3,658	17	15,025
Secondary buy-out	165	35,124	176	30,401	202	42,239	197	33,562	206	48,076
TOTAL	**592**	**60,469**	**708**	**73,468**	**705**	**90,706**	**671**	**60,755**	**680**	**96,641**

Source: CMBOR / Equistone Partners Europe / Investec Specialist Bank

Into 2018...

European buy-out firms will continue to be under pressure to put a huge amount of 'dry powder' to work during 2018 and beyond. At the start of 2018, they look set to be supported by a continued benign debt financing market. However, there are a number of issues that could cause bumps in the road.

First, inflation is beginning to bite and could ultimately result in central governments raising interest rates. This will have a knock-on effect on debt pricing, making leverage less attractive.

Second, lack of progress on UK Brexit talks. H2 2016 saw buy-out market activity drop sharply while the UK government appeared to procrastinate on triggering Article 50. Once Article 50 triggered in March 2017 and Brexit talks got underway in June 2017, the UK buy-out market appeared to resume its normal pattern. Undoubtedly Brexit talks will dominate European headlines throughout 2018. However, evidence suggests markets price according to outcomes, regardless of whether positive or negative. But indecision leaves investors in limbo. Expect 2018, cautiously, to continue with business as usual.

Emerging European countries may continue to produce significant buy-out opportunities during 2018. Poland yielded two mega deals in 2017. Cinven bought Grupa Allegro, a Polish eBay, from South African corporate Naspers for €3.1bn and EQT sold food retailer Zabka Polska to CVC Capital for €1bn.

2013-2017 // FINANCING STRUCTURES ON EURO BUYOUTS (%)

	2013	2014	2015	2016	H1 2017
Equity – all	52.3	52.4	46.5	54.0	48.6
Equity – €100m+ buyouts	42.2	41.8	40.9	46.8	46.0
Mezzanine – all	4.3	0.8	1.6	0.3	1.0
Mezzanine – €100m+	4.0	0.8	1.1	0.2	1.0
Debt – all	41.3	45.7	49.6	45.0	49.8
Debt – €100m+	53.0	56.4	57.7	53.0	53.0
Loan note – all	1.8	1.1	0.6	0.3	0.3
Loan note – €100m+	0.6	1.0	0.3	–	–
Other finance – all	0.3	–	1.7	0.3	0.3
Other finance – €100m+	0.1	–	–	–	–
Total financing – all (€m)	**36,354**	**37,011**	**50,012**	**32,490**	**49,745**
Total financing – €100m+ (€m)	**34,777**	**36,086**	**49,218**	**31,077**	**48,296**
Vendor contribution – all	0.4	0.3	0.1	1.2	–
Vendor contribution – €100m+	–	0.1	–	–	–
Management contribution – all	0.6	0.4	0.5	0.5	–
Management contribution – €100m+	0.2	–	0.5	–	–
Management share of equity – all	26.9	31.9	29.6	27.7	27.5
Management share of equity – €100m+	21.1	19.4	20.9	20.6	22.6

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