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CENTRE FOR MANAGEMENT BUY-OUT RESEARCH
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On course for a strong year?

After a relatively quiet start, European buy-outs look as if they could deliver another strong year. However, it appears FY2019 figures are unlikely to come close to 2018's €120bn.

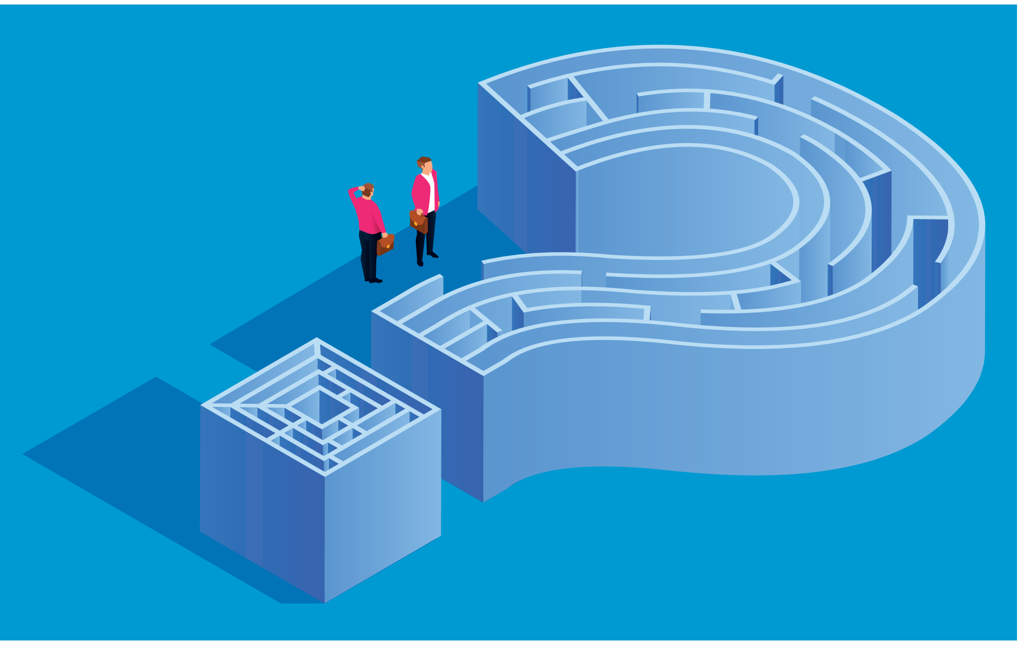
A slowdown in European buy-outs has been anticipated with the ongoing Brexit uncertainty, concerns about a slowing Chinese economy and sabre-rattling in global trade negotiations.

Despite challenges, the value of European buy-outs are remarkably resilient. As H1 2019 drew to a close, there were 15 large buy-outs announced. Since none of these had closed, their combined value of €42bn was not included in H1 figures. All are expected to close during H2 2019, however. This indicates European buy-outs should exceed €83bn in 2019.

At €83bn, 2019 is already the fourth biggest year, by value, for European buy-outs in the past decade. Exceeded only by 2015 (€93.9bn), 2017 (€101bn) and 2018 (€120bn).

THE GOOD

Buy-out values were robust in northern European countries, as well as Spain and Ireland. Two buy-outs, which will complete in H2, will give Ireland its best buy-out value, in excess of €3bn, in over a decade. They are CVC Capital's €2bn buy-out of New York Stock Exchange-listed Perrigo's pharmaceuticals unit and Cinven's €925m buy-out of AXA Life Europe.



Full year 2019 figures for Spain, including one yet-to-close buy-out, will give Spain its second highest buy-out value in a decade. The buy-out expected to close in H2 is CVC Capital's buy-out of private education provider Universidad Alfonso X el Sabio for €1bn. Spanish buy-out values in H1 were driven by five large buy-outs. They are renewable energy company Eolia Renovables de Inversiones bought by AIMCo (Alberta Investment Management Corp) from Oaktree for €1.4bn in March, educational provider Universidad Europea de Madrid bought by Permira for €770m from Laureate Education in January, energetic materials specialist Maxam bought by Rhone Capital from Advent International for €700m in February, Telepizza in a take-private led by KKR and valued at €604m in May and seafood provider Grupo Ibérica de Congelados acquired by Platinum Equity Partners for €550m from Portobello Capital in June.

In northern Europe, Sweden and the Netherlands performed well. Sweden, on €4.6bn across 18 buy-outs, has already recorded its highest value of buy-outs in a decade. The Netherlands, on €7.2bn across 31 buy-outs, recorded its second highest value in a decade. Neither Sweden nor The Netherlands were waiting on large buy-outs to close at the end of H1.

Swedish buy-out values were buoyed by three notable delistings from the Swedish Stock Exchanges: Ahlsell, at €2.3bn, led by CVC Capital Partners, which floated this tools and building materials supplier three years prior; online gaming company Cherry

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On course for a strong year?

AB, at €892m, led by Bridgepoint; and Karo Pharma, at €605m, led by EQT.

Dutch buy-out values closed at €7.3bn in H1 2019, €6.3bn came from three buy-outs. These were the sale of media and communications firm United Group by KKR to BC Partners for €2.6bn in March, the spin off by Brambles of IFCO Systems – a supplier of reusable packaging for fresh foods – bought out by Triton for €2.2bn in June and the €1.5bn sale of business and accounting software firm Exact Software by Apax Partners to KKR, also in June. Although these larger buy-outs have bolstered Dutch buy-out values in H1 2019, deal numbers remain steady and symptomatic of the healthy state of the Dutch market.

Finally, Switzerland and Germany look set to have their first and second strongest years in a decade. The picture does not look strong based on H1: Germany saw 34 buy-outs valued at €3.6bn. However, when three large German buy-outs, expected to close in H2 2019, are taken into account, this figure rises by more than 4 times to €17.4bn. Two of these buy-outs are public-to-privates; KKR's €6.8bn for media giant Axel Springer and Bain Capital and Carlyle's joint €4bn bid for lighting company Osram. The third is the methacrylates business being spun off Evonik for €3bn by Advent International.

Switzerland saw five buy-outs close in H1. Much of the value was driven by the €2.5bn buy-out of airline catering company Gategroup Holding by RRJ Capital in April. Swiss buy-outs will hit an all-time high when the buy-out of Nestlé Skin Health by EQT, the Abu Dhabi Investment Authority and Canadian Pension Fund PSP Investments closes for €9bn in H2.

THE BAD

Overall, French buy-out market activity has been disappointing in H1. (In contrast, French exits were stellar in H1 – see page 4.) French buy-outs, although lifted by bright pockets, have failed to deliver in H1 2019. In H1, 43 buy-outs valued at €5.5bn closed. This will lift to €7bn when Euronext-listed Elior Group completes the sale of its concession catering division Areas for €1.5bn to PAI Partners in H2. The only €1bn+ buy-out to close in H1 in France is the €1.1bn sale by Montagu Private Equity of pharma company Nemera to Astorg.

The French mid-market, however, held up with three buy-outs in the €500m-€1bn bracket and 10 in the €100-€500m bracket. However, France has failed to knock the UK off the no.1 spot as the most valuable European buy-out market. That France might become Europe's largest buy-out market, at least for a period, looked possible in the wake of the uncertainty caused by the UK's 'Brexit' vote in June 2016.

The fact remains that France has long been Europe's second biggest buy-out market and has a depth and breadth as a consequence. In most years (excluding years with macro-economic shocks), H2 typically sees greater buy-out values than H1. So while the UK, with the potential for a no deal Brexit to fall in October, may falter again in H2, France could once again draw close if not ahead of the UK. As things stand the UK is likely to come close to Germany, and they will be followed by either Switzerland or France.

Disappointing figures, compared to activity in the previous decade, have also come from Austria, Belgium, Denmark and Finland. Austria recorded just one buy-out worth €4m, Belgium eight buy-outs worth €690m, Denmark 11 buy-outs worth €674m and Finland five buy-outs worth €88m.

THE UGLY

Uncertainty, thanks to an intractable Brexit, is reducing overall deal activity in the UK. This played out clearly in buy-out numbers (just 85) and values (€7.6bn) recorded in H1 2019.

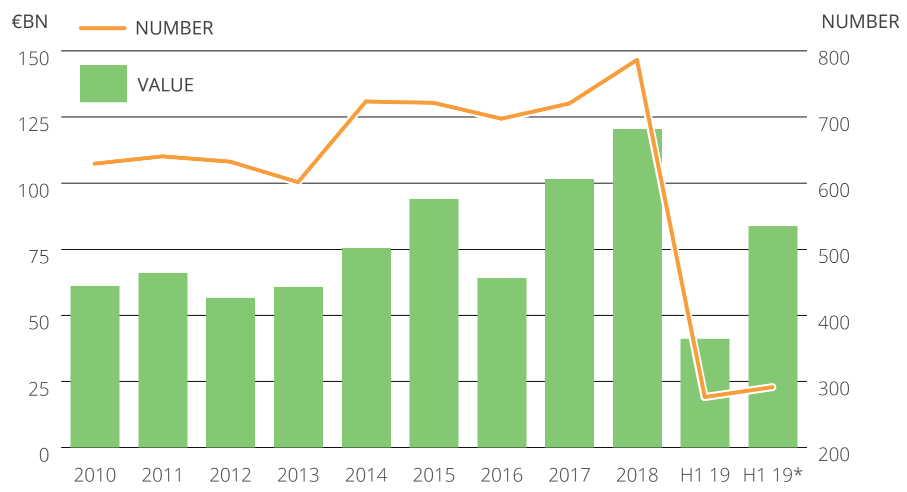
The three largest buy-outs in the UK in H1 2019 were the €3.9bn public-to-private buy-out of Berkshire-based travel technology platform Travelport Worldwide in May by two US investors, the €907m buy-out of catering operator WSH Investments by US firm Clayton Dubilier & Rice in March and the €456m buy-out of Scottish whisky producer Loch Lomond Group in June by Chinese private equity firm Hillhouse Capital.

Europe's debt markets still boast good levels of liquidity. So, given the abundance of dry powder at investors' disposal too, it remains an absence of will, rather than the means, to make investments in the UK.

However, that €7.6bn in H1 becomes at least €18bn when four large buy-outs, expected to complete in H2, are counted. Three are public-to-private buy-outs: satellite company Inmarsat, worth €2.3bn, is being led by Apax Partners; theme park operator Merlin Entertainments, worth €6bn, is being led by Blackstone and CPPIB; and media firm Tarsus, worth €668m, is backed by Charterhouse. KPS Capital is backing air and gas handling services Howden in a €1.38bn spin out of Colfax Corp.

Even post this uplift, €17.3bn remains considerably short compared to H1 2018 (€54.4bn), H1 2017 (€44.8bn) and H1 2016 €35.8bn).

2010 – H1 2019 // EUROPEAN BUY-OUTS



* Includes c.€1bn+ buy-outs announced, but not completed in H1. Expected to complete in H2.

SOURCE: CMBOR / EQUISTONE PARTNERS EUROPE / INVESTEC SPECIALIST BANK

2015 – H1 2019 // EUROPEAN BUY-OUTS BY DEAL SOURCE

	2015		2016		2017		2018		H1 2019		*H1 2019	
	No	€m	No	€m	No	€m	No	€m	No	€m	No	€m
Foreign divestment	75	11,791	43	4,233	42	9,385	45	21,625	26	9,587	32	18,492
Insolvency	19	163	10	108	15	79	9	93	4	23	4	23
Local divestment	102	16,624	95	7,124	70	12,303	63	16,351	21	2,293	21	2,293
Private	302	16,264	330	12,872	352	13,177	426	13,055	176	5,017	176	5,017
Privatisation	1	399	2	194	1	1,000	1	1,000	–	–	–	–
Public buy-in	1	439	–	–	1	31	–	–	2	616	2	616
Public to private	14	4,590	14	4,238	17	14,925	16	19,163	9	8,191	15	29,959
Secondary buy-out	208	43,749	203	35,209	222	50,548	226	49,069	79	15,408	82	27,108
TOTAL	**722**	**94,019**	**697**	**63,977**	**720**	**101,449**	**786**	**120,355**	**317**	**41,134**	**332**	**83,507**

Sources and deal sizes shift

2015 – H1 2019 // EUROPEAN BUY-OUTS BY DEAL SIZE

	2015		2016		2017		2018		H1 2019		*H1 2019	
	No	€m	No	€m	No	€m	No	€m	No	€m	No	€m
<10	307	1,256	293	1,187	275	1,139	349	1,414	127	523	127	523
10 – 24	94	1,675	112	2,007	139	2,406	117	2,030	62	1,090	62	1,090
25 – 49	92	3,401	70	2,630	77	2,865	89	3,377	40	1,504	40	1,504
50 – 99	70	4,869	78	5,729	73	5,408	69	5,039	26	1,836	26	1,836
100 – 249	65	9,976	73	11,379	69	11,221	82	12,843	27	4,163	27	4,163
250 – 499	46	15,393	39	13,153	34	11,622	25	8,688	16	5,379	16	5,379
500 – 999	28	18,731	22	14,887	29	20,164	23	15,665	10	6,964	10	6,964
>1,000	20	38,717	10	13,006	24	46,625	32	71,299	9	19,674	24	62,047
TOTAL	**722**	**94,019**	**697**	**63,977**	**720**	**101,449**	**786**	**120,355**	**317**	**41,134**	**332**	**83,507**

* Includes c.€1bn+ buy-outs announced, but not completed in H1. Expected to complete in H2.

SOURCE: CMBOR / EQUISTONE PARTNERS EUROPE / INVESTEC SPECIALIST BANK

Mega buy-outs propped up values in H1.

Nine buy-outs worth €1bn+ with a combined value of €19.7bn completed in H1. Taking into account the €42.4bn from 15 mega buy-outs that should close in H2, 2019 will see mega buy-outs exceed €60bn. This is close to 2018's figure of €71.3bn invested in 32 buy-outs and the highest ever recorded.

Buy-outs in the €500m-€1bn range have remained steady. In H1, there were ten deals with a combined value of €7bn in this range. AXA Life's spin off and Tarsus' public-to-private, announced but not closed in H1, will raise this figure to €8.6bn. This compares to €15.7bn raised in 2018. Similarly, buy-outs in the €250-500m range have held steady with 16 accounting for €5.4bn in value. This compares to €8.7bn for full year 2018. Buy-outs in the €25-€250m range recorded significant drops in both combined values and overall numbers in H1.

Unsurprisingly, given how the largest deals drive the overall statistics, deal sources have shifted. Secondary buy-outs raised €15.4bn across 79 buy-outs in H1. This figure rises to €26.6bn across 82 buy-outs when AutoStore (€1.6bn), Nestlé Skin Health (€9bn) and DOC Generici (€1.1bn) close in H2. This compares to €49.1bn raised across 226 secondary buy-outs in 2018 and €50.1bn raised across 222 buy-outs in 2017.

By far the biggest shift is in the value of public-to-private buy-outs. In H1, there were nine worth a combined €8.2bn. Announced, but not completed, at the end of H1 were a further six public-to-private buy-outs with a combined value of €21.8bn. This puts 2019 close to the previous high of €34.5bn achieved in 2007. Typically, in the past decade public-to-privates have accounted for around €5bn in value, with the exception of 2018 (€19.2bn) and 2017 (€14.9bn).

Foreign divestments also crept up in H1 with €9.6bn recorded across 26 buy-outs. Adding in a further six, yet to be closed, mega deals this figure jumps to €18.5bn across 32 buy-outs.

Equity and debt

Strong liquidity in debt markets was reflected in buy-out deal structures in H1 2019. Across all buy-outs the equity component in H1 was 50% compared to 51.7% in 2018, 48.4% in 2017 and 54.5% in 2016. Debt structures over €100m saw their equity component reduce to 44% in H1 2019, compared to 45.9% in 2018, 45.3% in 2017 and 47.1% in 2016.

As more debt has become available, buy-outs over €100m have taken on more debt in their financing structures. In H1 2019 they averaged 56% debt, compared to 53.4% in 2018, 53.5% in 2017 and 52% in 2016. Across all deal structures the debt element of buy-outs was 49.3% in H1 2019. This compares to 46.8% in 2018, 49.3% in 2017 and 43.7% in 2016. These numbers suggest the small to mid-market broadly retains its conservative funding approach.

Management share of equity across all structures in H1 2019 stood at 24.8% compared to 18.7% in buy-out structures over €100m. This is lower, but stable, across all buy-out structures given that this figure stood at 23% in 2018, 27.2% in 2017 and 27.6% in 2016. The reduction in management's share of equity in debt structures over €100m (18.7% in H1 2019) is a continuing trend. In 2018, management's equity share of larger deals was 12.3% compared to 23.2% in 2017 and 19.9% in 2016.

Exits take a tumble

European buy-out exits faltered in H1 2019, recording just €37.6bn across 170 exits. Even taking into account €16.7bn due from eight large buy-outs exits announced in H1, closing in H2, the exit market would reach only €54bn.

By comparison, 2018 saw €99.9bn achieved by 449 buy-out exits and annual exit value from 2014 to 2017 exceeded €100bn.

France, however, bucked the trend in H1 2019, recording €13.8bn across 28 exits. When the €4bn IPO of French bottle maker Verallia, bought by Apollo in 2015 completes in H2, France looks on course to have its second best year in a decade. If another €1bn+ buy-out exit completes in H2, this could push France ahead of its best year to date; 2015. In 2015 there were 69 French buy-out exits worth €21.7bn. This figure was boosted by the IPO of glasses retailer Grandvision worth €5bn and the €3.6bn trade sale of mobile infrastructure company TDF.

In H1 2019, five of the nine buy-out exits with values of €1bn+ came from French companies. They include four trade sales: in February, CVC sold Linxens, the components maker, to Tsinghua Unigroup for €2.2bn; in April, BC Partners sold Antelliq, the animal health digital tracking company, to Merck for €3.3bn; in May, Bridgepoint sold eFront, the software solutions provider, to Blackrock for €1.2bn; and in June, CVC Capital Partners sold ParexGroup, the construction chemicals company, to Sika for €2.3bn. France also had one mega secondary buy-out exit; the €1.1bn sale of Nemera, healthcare devices and prescription retail business, by Montagu Private Equity to Astorg.

The most disappointing buy-out exit markets were Germany and the UK. Germany, where fears of looming recession remain, recorded 19 buy-out exits worth €1.5bn. This figure will receive a boost when software company TeamViewer IPOs at €5bn. However, Germany will not come close to previous exit years; €14.6bn in 2018, €16.3bn in 2017, €10.9bn in 2016 and €23.1bn in 2015.

The UK exit market has struggled since the Brexit vote in June 2016 and this looks set to continue. In H1 2019, the UK saw 56 exits valued at €5.3bn. This will climb to €8.1bn when the €1.5bn IPO of online rail and coach ticket seller Trainline and the €1.3bn IPO of data and insight analytics firm Acuris come to market. But these barely move the dial; 212 UK buy-out exits worth €66.3bn were recorded pre-Brexit in 2015.

The market fell away in 2016 recording 169 exits worth €28.7bn. It rebounded somewhat in 2017 when 184 exits valued at €39.8bn were recorded, but slipped again in 2018 when 169 exits were valued at €27.3bn. Even accounting for H2 typically seeing greater values than H1, the UK market looks likely to have a relatively low year for exits.

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