

# Argos Index<sup>®</sup>

The mid-market reference

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The Mid-market Argos Index<sup>®</sup> tracks the valuation of unlisted eurozone SMEs. The index was launched at the end of 2006 by Argos Wityu and Epsilon Research, an online platform for managing M&A transactions on listed companies. Published quarterly, the index catalogs mid-market acquisitions that have taken place during the previous three months.

2<sup>nd</sup> quarter 2023

9.9x



“ The Argos Index® was born out of the desire to create a database for the unlisted market that would be both methodologically robust and rich in high-quality information. Robustness is the index’s salient characteristic. ”

**Louis Godron,  
Managing Partner, France**

“ When the CEO of a company wonders if now is the right time to sell, the Argos Index® supplies essential business cycle information and helps him or her make a decision. The Argos Index® derives its legitimacy from its longevity and independence. ”

**Frank Hermann,  
Managing Partner, DACH**

“ If the Argos Index® is now a benchmark in Europe, it’s because we use information from our EMAT (Epsilon multiple Analysis Tool) database that has been proven to be reliable. The index has always been based on this methodology. We work meticulously, transaction by transaction, examining documents, analyzing annual reports, reconstituting transactions and building hypotheses. ”

**Grégoire Buisson,  
Founder & CEO, Epsilon Research**

# Main conclusions

- After several quarters of decline, the Argos Index® has stabilized at 9.9x EBITDA
- Record proportion of transactions at extreme multiples
- Index resistance driven by the bounce of multiples paid by strategic buyers
- Trade buyers supported Mid-market M&A activity, which stabilized at a low level

## 01 | The Argos Index® has stabilized at 9.9x EBITDA

The Argos Index® is slightly up in Q2 2023 at 9.9x EBITDA and back to its Q4 2022 level. It is stable over the last 3 quarters, although below its last 5 years average of 10.2x, and 1.7x EBITDA lower than its Q2 2021 peak.

The Index stabilization in Q2 is due to strategic buyers' renewed M&A activity and increased price paid for acquisitions: multiples paid bounced back to 9.6x EBITDA, in line with equity markets' upturn. This contrasts with private equity funds' decline in both activity and multiples paid, at 10.3x EBITDA.

Overall, prices for the mid-market were not affected by the macroeconomic environment of persistent inflation, continued interest rates hikes, and a euro zone on the brink of a recession. They were not affected either by the M&A cycle reversion: Euro zone mid-market M&A activity was down 30% in value and 15% in volume (number of transactions) the 1<sup>st</sup> semester 2023 (vs. H2 2022), although number of transactions have stabilized in Q2 vs. Q1 2023. Indeed, the sellers' price has not yet adjusted to the new environment, and the gap with buyer's expectations usually takes time to adjust in periods of market reversal.

Tensions build up in the market which is still very polarized (as in Q1): the price divergence between the upper and lower mid-market is down at 3.6x EBITDA but still at a high level; and the proportion of multiples at extreme levels (<7x or >15x EBITDA) represents 48% of the deals in Q2, its highest level on record.

### Argos Index® mid-market Median EV/EBITDA multiple on a six-month rolling basis



## 02 | Index resistance driven by the bounce of multiples paid by strategic buyers

Multiples paid by strategic buyers bounced back to 9.6x EBITDA this quarter. Listed buyers benefited from the 2023 upturn in public equity markets<sup>(1)</sup>. Large corporates, with better financial results than anticipated<sup>(2)</sup>, continued to look for attractive growth opportunities to transform their business models on the face of structural changes.

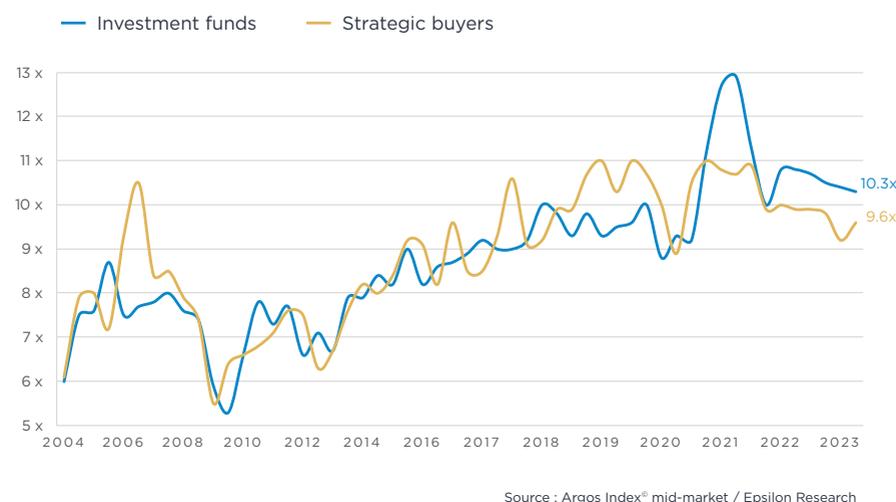
<sup>(1)</sup>The EURO STOXX® TMI Small is up 6.1% since 01.01.2023.

<sup>(2)</sup>Eurozone large corporates net margin was 8.5% on average in March 2023 vs. 7.2% in 2019. Source: Refinitiv in Agefi/Dow Jones

Multiples paid by investment funds continued their slow decline: they are down 1% at 10.3x EBITDA, while the number of LBO transactions is down 3% in Q2 2023, and 22% comparing H1 2023 with H2 2022. Both private equity activity and prices were impacted by the continued interest rates rise, higher borrowing and refinancing costs, and lower leverage.

As strategic buyers have taken the lead on the mid-market, and funds are more on a wait-and-see mode, prices paid are converging. However there is still a significant gap (of 0.7x EBITDA) : funds seem more selective and favor higher quality assets at higher prices.

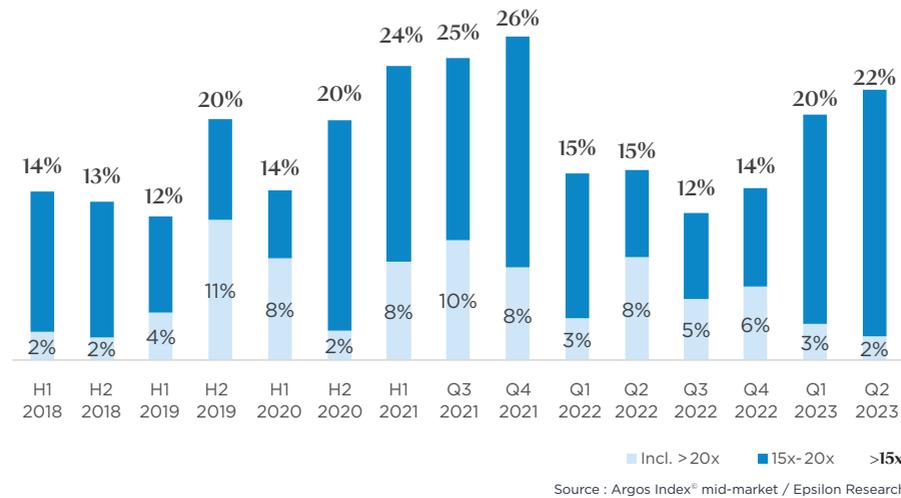
### Enterprise value / historical EBITDA



### 03 | Record proportion of transactions at extreme multiples

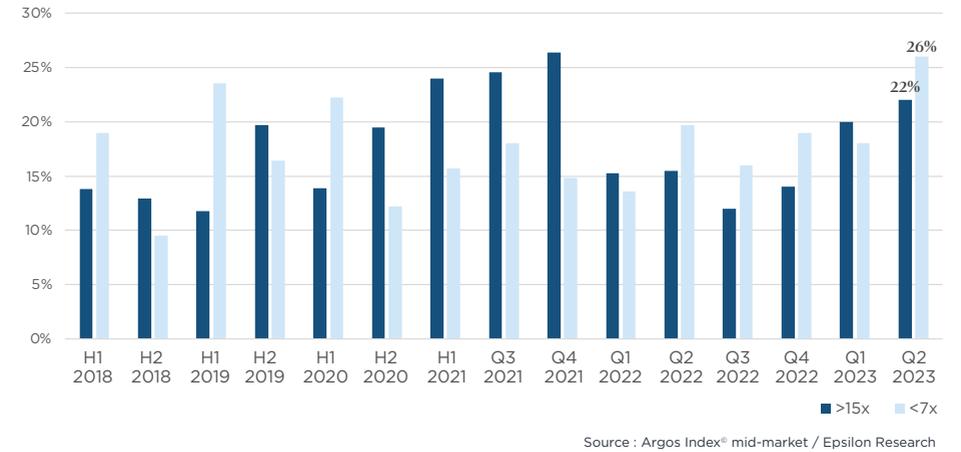
48% of the transactions in Q2 2023 are at multiples < 7x or > 15x EBITDA, which is the highest level recorded to date. 22% of the transactions are at multiples > 15x EBITDA, up from the five previous quarters. Accordingly, 26%, or every fourth transaction, is trading below 7x EBITDA. But the proportion of multiples > 20x EBITDA is at a record low (2% of deals): indeed, most are deals between 15x and 17x EBITDA.

Share of transactions at multiples >15x EBITDA Argos Index® sample

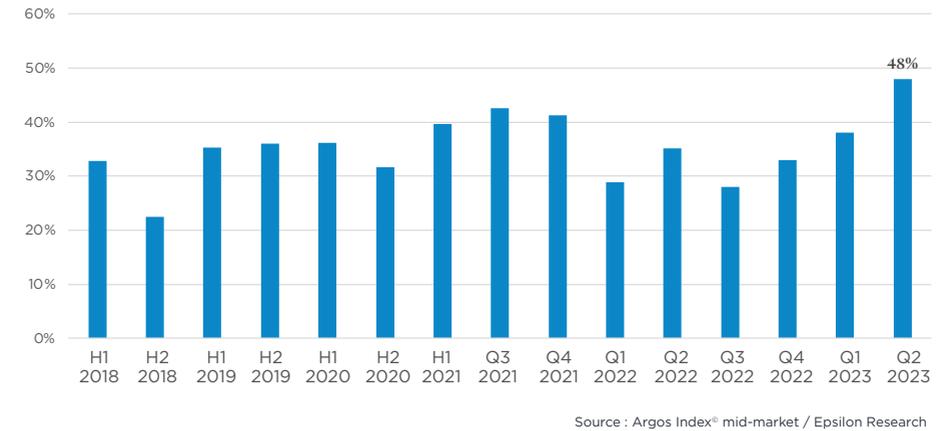


The share of transactions at multiples < 7x EBITDA accounts for 26% of analysed transactions, its highest level recorded.

Share of transactions at multiples <7x and >15x EBITDA Argos Index® sample



Share of transactions at extreme multiples (<7x and >15x EBITDA)



## 04 | Mid-market M&A activity has stabilized at a low level

Euro zone M&A activity is down 30% in value and 15% in volume (number of deals) on the 1<sup>st</sup> semester 2023 vs. H2 2022, pulled by the upper segment (€150m-€500m) that decreased by 45% in value and 20% in volume.

The upper mid-market fall is in line with the global M&A market, which dropped 38% in value in H1 2023 to \$1.3tn<sup>(1)</sup>. The M&A activity is impacted by the macroeconomic environment: inflation still at record level, pursuit of the interest rates hikes by the ECB<sup>(2)</sup>, recession in the Euro zone<sup>(3)</sup> as the war in Ukraine fuels continued uncertainty on the continent.

However, the mid market M&A activity has stabilized this quarter: the deal number is up 2% vs. Q1 2023, and 32% in disclosed value (from a very low level). The M&A mid-market is pulled by smaller deals, which continues to prove more resilient and less volatile than the global market.

### Eurozone mid-market activity (€15-500m) in volume and value

- Value of disclosed mid-market transactions (€15-500m)
- Estimated number of mid-market transactions (€15-500m)

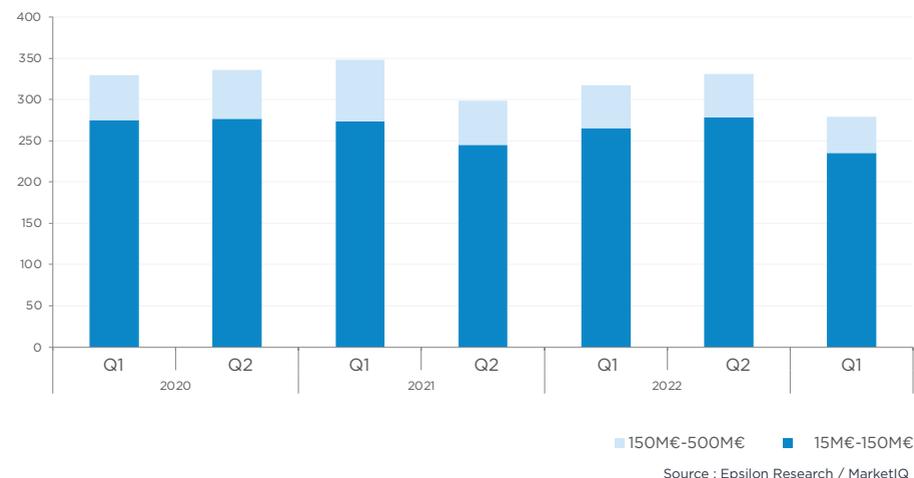


<sup>(1)</sup>Source: Refinitiv in the FT, 01.07.2023

<sup>(2)</sup>The ECB has increased rates 7 times since summer 2022.

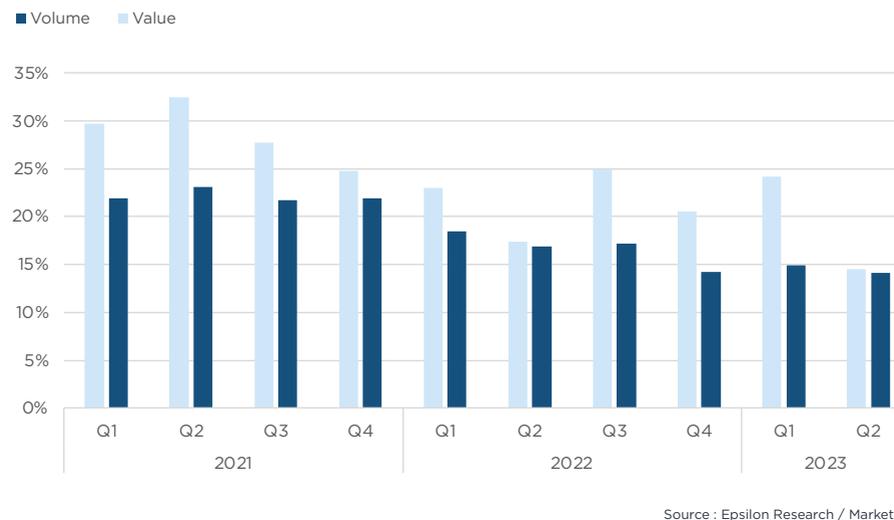
<sup>(3)</sup>Euro zone GDP was down 0.1% in both Q1 and Q2 2023 according to Eurostat.

### Eurozone Mid-market - Number of deals



Private equity funds activity continued to decline, and their share<sup>(1)</sup> in Q2 mid-market M&A is at a record low level, below 15% in both number of deals and value.

### Share of LBO in Eurozone Mid-market M&A



<sup>(1)</sup> Does not include build-ups

# All on the Argos Index<sup>®</sup>



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The index serves as a benchmark for all participants in the unlisted market. It is based on a rigorous methodology and a detailed, individual analysis of each transaction, including the structure of the transaction, the company's business activity (restated financial information) and transaction multiples. The index is calculated using data from Epsilon Research's EMAT (Epsilon Multiple Analysis Tool) database, which is based on analyses of more than 10 000 M&A transactions.

Every quarter, based on reliable financial information, Epsilon Research analyzes in detail around 25% of the transactions that meet the criteria for inclusion in the index: acquisition of a majority stake in a eurozone company whose book value is between €15 and €500 million.



One firm, two strategies. Argos Wityu is an independent European private-equity group that supports the growth of mid-sized business and back their management teams.

With more than €1.4bn assets under management, over 30 years of experience, and more than 90 businesses assisted, Argos Wityu operates from offices in Amsterdam, Brussels, Frankfurt, Geneva, Luxembourg, Milan, and Paris. The group seeks to acquire majority stakes and invests between €10m and €100m in each investment of its two strategies:

- The Mid-Market fund helps companies implement ownership transitions to accelerate growth.
- The Climate Action fund aims at shaping European sustainable leaders by making their 'grey-to-green' transition.



Epsilon Research developed the first online platform for the management of non-quoted M&A transactions, aimed at M&A professionals. The Epsilon platform includes data, analysis reports, software and services essential for private company valuation / deal management: EMAT, the largest database of European private company transaction multiples, with detailed analysis of 8,000 M&A deals, ranging from €1m to €500m

in value, covering all industry sectors; indices and studies published regularly by Epsilon, including the Argos Index; cloud-based software for managing M&A contacts and projects; valuation of comparables, private equity fund investments.

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