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FRANCE



French dealflow hits record high

French private equity enjoyed another busy year in 2016. After years of failing to exceed UK dealflow, the country finally clinched the top spot of the European league table in buyout volume. **Alice Tchernookova** reports

France was home to 166 private-equity-backed buyout transactions in 2016, accounting for 23% of the total deal volume in the EU in 2016. By comparison, the UK & Ireland saw 163 transactions making up 22% of the total. In terms of value, France could not quite match the

DACH region, whose contribution to European buyout activity reached 22% with €25.8bn of aggregate value, slightly ahead of France with 21% or €24.7bn.

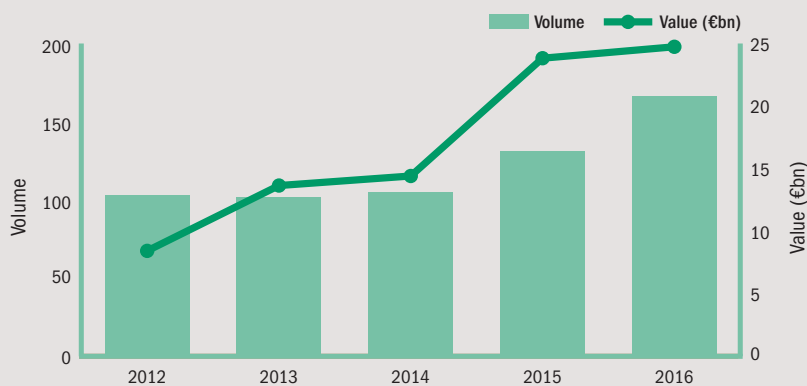
Despite this hike in activity, the political and economic situation in France is likely to be on the mind of investors. As Argos Soditic president Louis Godron pointed out during the *unquote* conference held in Paris last November, while France's GDP is expected to rise by 1.4% this year, GDP per capita has been consistently decreasing over the past 10 years, while the public debt level is nearing 100%. These are challenges the next administration will certainly have to address.

Vote of confidence

Speculating on the outcome of the upcoming French presidential elections, Godron said in November: "It will be a positive outcome either way for business and investment. Presidential candidates Emmanuel Macron and Francois Fillon, for instance, both have a good understanding of investment policies and a keen interest in innovation and transforming the country's economy over the next 10 years." French GPs seem optimistic that May 2017 might bring new tailwinds for entrepreneurs and businesses, following on from the progress made under the previous administration.

But French GPs should remain wary of other factors that could easily shake investor confidence, according to Siparex CEO Bertrand Rambaud: "There has been great growth and a good recovery lately, but things are still extremely fragile. In light of the recent events that shook up

French overall dealflow



Source: *unquote* data

Private-equity-backed buyouts

	2012	2013	2014	2015	2016
Volume	103	102	105	131	166
Value (€bn)	8.43	13.65	14.41	23.82	24.74
Average value (€m)	82	134	137	182	149
% of European volume	17.5%	18.0%	16.0%	20.3%	22.6%
% of European value	11.0%	16.0%	14.5%	18.9%	21.2%

the political scene over the past few weeks [such as the Fillon scandal], public opinion might change very quickly and the whole model could be called into question again.”

Buyout activity

Buyout levels hit highs across the board in France in 2016. This marked the culmination of three years of steady increases. Since 2014, the yearly number of deals went up from 105 to 131, and up to 166 last year. Meanwhile, aggregate deal value jumped from €14.4bn to €23.8bn in 2015, to settle on €24.7bn in 2016.

Last year saw three deals hitting or exceeding the €1bn EV mark: in June, Bridgepoint and Eurazeo sold their shares in real estate group Foncia to Partners Group for €1.8bn; and three months later, Advent International acquired

pointed to a general slowdown in activity both in the retail and energy sectors, where investors remain cautious.

Looking at sourcing trends, secondary buyouts again featured prominently in the French market. While SBOs have constantly been the most common deal type since 2013, they reached a record high in 2016 with 89 deals recorded, meaning more than half of dealflow was sourced from fellow GPs. That said, buyouts sourced on the primary side from private or family vendors did register a yearly increase as well, from 52 deals in 2015 to 63 last year.

Pricing

Several fund managers highlighted the fact that the market is currently characterised by exceptional levels of liquidity. While this is testament to the ability of players to raise capital and finance the economy, it could also prove problematic. Prices are notably hitting record highs, especially at the higher end of the market. Furthermore, while the French market has traditionally always been more focused on mid-cap deals, it could be slowly shifting towards a higher proportion of large-cap deals.

Speaking to *unquote* in September, Dominique Gaillard, head of direct funds at Ardian, identified three driving factors for the rise in aggregate deal value: the increased use of debt, with GPs pointing to a return of higher leverage reminiscent of the 2006-2007 period; LPs' willingness to make larger commitments to funds; and the rising competition between funds, as well as with industrial groups, which are keener to make strategic acquisitions. “This is no spontaneous evolution,” he said. “It’s a trend that has been building over the years. A business that could be acquired at 10x EBITDA in 2010 would now be acquired at 13x.”

“Very high prices are a constant aspect of the French market, regardless of macroeconomic trends,” says François-Xavier Mauron, partner at Edmond de Rothschild Investment Partners (EdRip). “It is getting increasingly difficult for firms to deploy their funds; as a result, some large-cap vehicles end up taking over some of the mid-cap deals, which wasn’t the case a few years ago.”

According to Siparex’s Rambaud, prices within the mid-market segment are currently in the

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François-Xavier Mauron, Edmond de Rothschild Investment Partners

Safran’s identification and security arm for an estimated €2.42bn, ahead of a merger with portfolio company Oberthur Technology. Finally, in December, Bain Capital Private Equity entered into exclusive talks to acquire concrete elements producer Consolis from LBO France.

Other noteworthy large-cap buyouts included the €700m acquisition of InfoPro Communications by TowerBrook in February, the sale of Ethypharm by Astorg to PAI Partners for €725m, Decomeubles sale of retail chain But to Clayton Dubilier & Rice and WM Holding for an estimated €525m, and the secondary buyout of Equistone’s Unither by Ardian for €675m.

The past year was marked by a peak of activity in the consumer and industrial sectors, where the number of recorded buyouts went up from 33 to 47 and from 36 to 49, respectively, compared to the previous year. The technology and healthcare sectors were more subdued, with 19 and 14 buyouts respectively, though those were still on the rise compared to 2015 (17 and 10 deals respectively). Several GPs also



region of 6-8x EBITDA, with average leverage at around 3x EBITDA. Meanwhile, for its Fund VIII, invested between 2011-2015, Apax Partners reported an average entry multiple of 8x EBITDA, with leverage at 4.5x EBITDA. “Compared to other European countries and other market segments, these are actually very reasonable prices,” says Eddie Misrahi, president and CEO at Apax Partners.

When it comes to pricing, the rule of thumb seems to be “the larger the cap, the bigger the excesses”. Large-cap deal values can currently reach as much as 9-10x EBITDA, which, according to Argos Soditic’s Godron, is even higher than the average 9.1x witnessed by the firm in Q2 2006. “We are seeing some record valuations,” he says.

This high-multiple environment is, however, mitigated by two positive factors: record-low, risk-free interest rates (currently standing below 1%, according to Godron), and strong yearly growth rates for businesses, which can range between 15-30%, according to several GPs. Apax, for instance, reports an average 18% yearly growth for turnover and 20% for EBITDA for its current 15 portfolio companies.

Attracting foreign investors

According to figures published jointly by trade body Afic and professional services firm EY, foreign direct investments in France underwent a steep drop between the years 2007-2010, decreasing from more than €80bn to €20bn, and hit a record low in 2015, with €10bn, in spite of a small peak at around €40bn in 2012.

“Over the past few years, it has been very hard to sell the French macroeconomic system abroad,” Charles Diehl, partner at Activa Capital Partners, told attendants at the latest *unquote* Paris conference. “However, France has a deep and broad market, and, in our experience, foreign investors love it – more so than other EU countries.”

That said, Diehl urged delegates to maintain discipline: “France is viewed as a market that isn’t really flying on the same plane – there are irregularities between funds, with some of them being off the range in terms of pricing and returns. What it needs to do is align itself on certain constraints and standards.”

Apax’s Misrahi adds: “The fundraising environment is generally blooming at the moment,

with LPs looking to allocate more funds to private equity. But investing in France exclusively can be a handicap, as many international investors are wary of the country’s investment policies and its tense political climate at present.

“This can create challenges, particularly in the lower mid-market space, where many funds are France-focused.”

As a result, many international LPs prefer investing in France through pan-European funds, rather than through purely French ones, according to Misrahi.

Fundraising

Fund managers also speak of a very positive year in terms of fundraising, especially in the mid-market space.

Ardian notably had a successful year in that regard. After closing its Expansion Fund IV with €1bn in commitments, significantly above the €650m original target, the firm announced in September that it had raised a total of €4.5bn for its sixth upper mid-cap fund Ardian LBO Fund VI, including a €500m co-investment pocket.

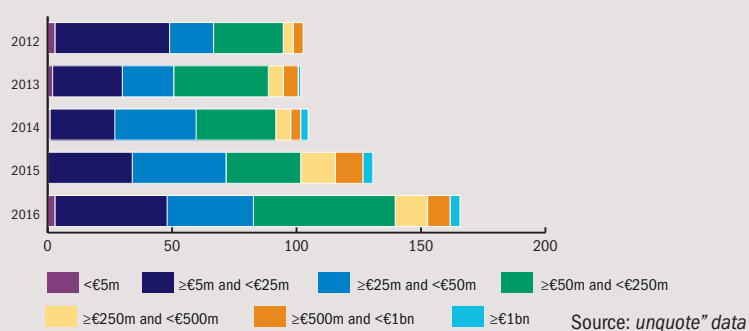
Another record fundraise was Astorg’s fund VI, closed on an extended hard-cap of €2.1bn. Launched in October 2015, with an initial target of €1.5bn, the fund was said to be substantially oversubscribed and is twice the size of its predecessor, Astorg V, now fully invested.

Other noteworthy fundraises within the upper-mid-market space included Apax France’s Fund IX, which held an interim close on €610m in 2016, and for which the GP is targeting between €750m-1bn in commitments by March 2017, Misrahi told *unquote*. EdRip also completed a record fundraising for the third generation of its Edmond de Rothschild Equity Strategies (Eres) fund franchise, closing Eres III on its €300m hard-cap. Finally, Argos Soditic held a first close on €300m for its Euroknights VII fund, which is likely to hit its €650m hard-cap in the first half of 2017.

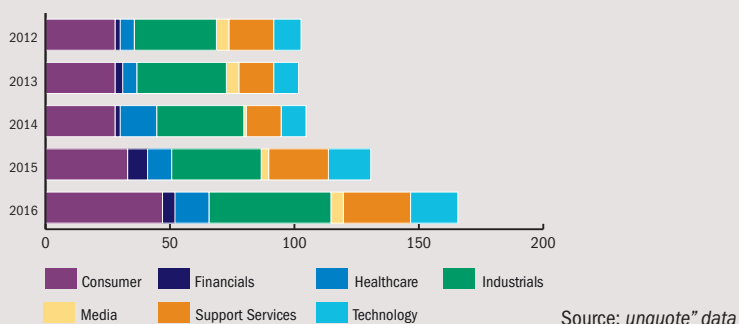
Looking at the lower end of the mid-market, notable events included the launch of Siparex ETI 4, which has hitherto received €200m in commitments, the closing of Montefiore Investment’s fourth fund on its €420m hard-cap, that of MBO Partenaires 4 on €200m, and Omnes Croissance 4 on €180m after two years on the road. ■

FRANCE STATS

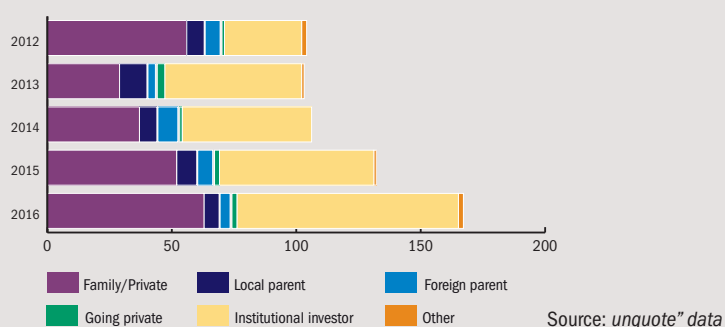
France buyouts by size range (volume)



France buyouts by super-sector (volume)



France buyouts by vendor type (volume)



France buyouts by €m size range (volume)

	2012	2013	2014	2015	2016
<5	3	2	1	0	3
≥5 and <25	46	28	26	34	45
≥25 and <50	18	21	33	38	35
≥50 and <250	28	38	32	30	57
≥250 and <500	4	6	6	14	13
≥500 and <1bn	4	6	4	11	9
≥1bn	0	1	3	4	4

France buyouts by super-sector (volume)

	2012	2013	2014	2015	2016
Consumer	28	28	28	33	47
Financials	2	3	2	8	5
Healthcare	6	6	15	10	14
Industrials	33	36	35	36	49
Media	5	5	1	3	5
Support Services	18	14	14	24	27
Technology	11	10	10	17	19

France buyouts by vendor type (volume)

	2012	2013	2014	2015	2016
Family/Private	56	29	37	52	63
Local Parent	7	11	7	8	6
Foreign parent	6	3	8	6	4
Going Private	1	3	1	2	2
SBO	31	55	52	62	89
Other	2	1	0	1	2

France exits 2016

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
SANEF	Trade sale	9,000 (est)	BPI France
Numéricable	Flotation	3,000	Cinven
Kerneos	Trade sale	880	Astorg Partners
Ethypharm	SBO	725 (est)	Astorg Partners, Sofina, Intermediate Capital Group
Unither	SBO	675	CM-CIC Capital Privé, Parquest, Picardie Investissement, Equistone Partners Europe
Novacap	SBO	624	Ardian
But	SBO	525.00 (est)	Colony Capital, Goldman Sachs Private Equity, OpCapita
Parkeon	SBO	450	Intermediate Capital Group, European Capital
Maisons du Monde	Flotation	330	Bain Capital Europe
Groupe Bertrand	Buy-back	200	Euromezzanine Conseil, Natixis Private Equity, Capzanine

€9bn**Largest France
exit in 2016****€4.5bn****Largest France
fund in 2016****France funds 2016**

Fund name	Fund manager	Fund target (€m)	Amount closed
Ardian LBO Fund VI (and co investment fund)	Ardian	4,000	4,500
Astorg VI	Astorg Partners	1,500	2,100
Ardian Expansion Fund IV	Ardian	650	1,000
Montefiore Investment IV	Montefiore Investment	350	420
BlackFin Financial Services Fund II	BlackFin Capital Partners	350	400
Eres III	Edmond de Rothschild Investment Partners	250	300
MBO Partenaires 4	MBO Partenaires	200	250
Access Co-Investment Fund Buy-out Europe	Access Capital Partners	150	226
Cabestan Capital II	Edmond de Rothschild Investment Partners	150	165

166**Volume of
France buyouts
in 2016**

France deals 2016

Deal name	Business description	Deal value (€m)	Sector	Equity
Safran Identity and Security	Provider of secure ID documents and systems, and biometry-based identification systems	2,420	Business Services	Advent International, BPI France
Foncia Groupe	Provider of residential property management services	1,800	Financials	Partners Group
Consolis	Manufacturer of concrete elements used in the construction industry	n/d (1,000+)	Industrials	Bain Capital
Vallourec	Producer of hot-rolled steel tubes and pipes serving energy and oil & gas companies	1000	Business Services	BPI France
Zodiac Pool solutions	Manufacturer of pool-care, boats and environment-related products	n/d (500-1,000)	Consumer	Rhone Capital
B&B Hotels	Operator of budget hotels	825 (est)	Consumer	PAI Partners
Ethypharm	Developer of drug delivery systems to optimise the absorption of orally ingested drugs	725 (est)	Healthcare	PAI Partners
InfoPro Communications	Publisher of business-to-business information	700 (est)	Media	Towerbrook Capital
Unither	Provider of contract formulation and packaging to pharmaceutical companies	675	Healthcare	Ardian
Novacap	Producer of mineral and organic chemical products	624	Industrials	Eurazeo, Merieux Developpement, Ardian
Sagem Communications	Manufacturer of network equipment and television set-top boxes	n/d (500-1,000)	Industrials	Charterhouse Capital Partners
But	Operator of retail stores specialised in home goods	525 (est)	Consumer	Clayton Dubilier & Rice
Mecaplast	Manufacturer of automotive equipment	n/d (500-1,000)	Industrials	Equistone Partners, BPI France
Parkeon	Provider of parking management and ticketing solutions	450 (est)	Industrials	Astorg France
Marlink	Provider of business-critical communication services	n/d (250-500)	TMT	Apax France
Financière Cofidim	Provider of car maintenance services and manufacturer of auto parts	400 (est)	Industrials	ALPHA Associes Conseil
Groupe Marle	Producer of medical forging services mainly for the manufacture of stems used for hip implants	350 (est)	Healthcare	Carlyle Group, IK Investment Partners AB
Ecotel Chomette Favor (E.CF)	Distributor of small equipment and non-food consumables to catering and hotel professionals	n/d (250-500)	Business Services	Naxicap Partners
Isabel Marant	Provider of footwear, clothing, jewellery and accessories	300 (est)	Consumer	Montefiore Investment
Ponroy Sante Group	Manufacturer of a range of natural healthcare and cosmetics products	n/d (250-500)	Consumer	Cathay Capital Private Equity, 3i

France deals 2016

Deal name	Business description	Deal value (€m)	Sector	Equity
Trigo	Provider of quality control services	300 (est)	Business Services	Ardian
Aqua Lung	Provider of personal aquatic equipment	n/d (250-500)	Consumer	Montagu Private Equity
Digital Virgo	Distributor and monetiser of digital content in mobile phones	n/d (250-500)	TMT	BNP Paribas Développement
HRA Pharma	Provider of reproductive health products	n/d (250-500)	Healthcare	Astorg Partners, Goldman Sachs, Riverside Company
InfoVista	Provider of network performance management software solutions	n/d (250-500)	TMT	Apax France
Mondelez	Operator of confectionery business	250	Consumer	Eurazeo
Groupe Primonial	Provider of financial services	n/d (50-250)	Financials	Crédit mutuel Arkéa, Bridgepoint
TEXA	Provider of insurance services, including claims and loss management	n/d (50-250)	Financials	Naxicap Partners
Les Petits Chaperons Rouges	Provider of childcare services	n/d (50-250)	Consumer	BPI France, Eurazeo
Coventya	Developer of electroplating and surface treatments	n/d (50-250)	Industrials	Silverfleet Capital
Diam International	Designer and manufacturer of point-of-purchase advertisement displays	n/d (50-250)	Media	BNP Paribas Développement, Ardian
Hypred	Manufacturer of agricultural feed hygiene products	n/d (50-250)	Industrials	Ardian
Laureate International Universities France	Operator of higher education institutions	n/d (50-250)	Consumer	BPI France, Apax France
Sandaya	Developer and provider of camping sites	170 (est)	Consumer	Arkéa Capital, Societe Generale, BPI France, Apax France
Vulcanic	Manufacturer of electrothermics and instrument transformers	n/d (50-250)	Industrials	Qualium Investissement
Actéon	Supplier of dental equipments	n/d (50-250)	Healthcare	Bridgepoint Development Capital
Altares Group	Provider of B2B information	n/d (50-250)	Media	Naxicap Partners
Camusat	Manufacturer and installer of mobile telecommunication infrastructures	150 (est)	TMT	Equistone Partners
Sogetrel	Designs, installs and maintains multimedia and telecoms networks	n/d (50-250)	Industrials	Quilvest, BPI France
Alkern Groupe	Manufacturer of prefabricated concrete products and blocks	140	Industrials	Chequers Capital
Ionisos	Provider of ionising radiation treatment services	n/d (50-250m)	Healthcare	Ardian