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Europe Still Calling

M&A activity has slowed on the continent, but dealmakers are far from spooked.

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Outwardly, it may seem as if there is little to like for dealmakers in Europe at the moment. The sovereign debt crisis in Greece and Spain threatens the standing of the entire Eurozone; the demographics, broadly speaking, are marked by an aging population that in some countries is actually shrinking; and the continent, despite Spain's victory, found disappointment in the World Cup, where France, Italy, and Greece all suffered early, in some cases embarrassing, exits. Against the odds, however, an undercurrent of M&A activity still exists, signaling that buyers are keen to look beyond the macro-economic issues to make value plays where they can.

"The economics are somewhat misunderstood, because everyone wants to take the stats and lump them all together," Ashley Rountree, a partner at global investment bank CW Downer tells Mergers & Acquisitions. "But you really have two Europes at the moment, one of which is doing pretty well."

Rountree points to Germany, France, Austria and the Benelux region, noting that as the value of the Euro has plummeted, industry in these areas has steadily improved.

Regarding the 'other' Europe, the countries like Greece, Spain, Ireland and Portugal whose fortunes are far less clear, Rountree notes the mood, as of late June, resembles what was witnessed in US circa September, 2008.

"There is still a view that the sky is falling and nobody sees how it can get any better," he describes.

While few would characterize the whole of Europe as a buoyant market, M&A activity is not exactly flatlining either. Larger European trade buyers are looking overseas, perhaps in an effort to reduce exposure to their home markets, while private equity firms and US corporate acquirers are opportunistically snapping up assets in the region, capitalizing on the dislocation.

To be sure, even in Rountree's 'other' Europe, the stronger companies remain buyers. In June, for instance, Barcelona-based Grifols SA agreed to acquire medical products developer Talecris Biotherapeutics Holdings for \$3.4 billion and \$600 million in assumed debt. That same month, Ireland's Covidien acquired Minnesota-based Ev3 Inc. through a \$2.6 billion acquisition.

Activity is moving in the opposite direction as well. Private equity firm Vector Capital crossed the Atlantic Ocean to acquire London Stock Exchange-listed Trafficmaster Plc, a vehicle tracking company, for £73.3 million in June. TPG Capital also made a bet on the European consumer, acquiring UK-based youth fashion retailer Republic for a reported £300 million. These transactions reflect that buyers are being drawn to Europe's middle market, where financing is available and hidden gems still reside.

Investors and banks, meanwhile, continue to build out their resources, a sign that expectations are high. Avista Capital Partners, for instance, recruited three former DLJ Merchant Banking veterans to launch a new London-based investment effort, while Jefferies poached Robert Foster from Morgan

Stanley to serve as a managing director and European head of the firm's consumer investment banking group.

In a lot of ways, the market in Europe has resembled the domestic landscape for the past two years. During the global credit crisis, deal flow all but disappeared, as lenders recoiled and few had a clear picture of where things were headed.

However, Rountree points to BC Partners' February acquisition of France-based laundry and cleaning product manufacturer Spotless Group as a bellwether transaction. Spotless had been up for sale ahead of Lehman

Brothers' collapse in 2008. It was one of the last marquee properties to abandon its process amid the credit unrest.

Its €600 million February sale, Rountree says, underscores that lenders have returned and buyers and sellers can again find common ground. "It is a bookend deal for me," he describes.

There are other similarities to the US market, thanks in part to the presence of domestic buyers. Harris Williams' Thierry Monjauze, a managing director at the firm, points to private equity's \$450 billion overhang as driver of acquisition activity and he notes that tax issues, specifically recent changes to the treatment of carried interest, is also making motivated sellers out of the PE firms with holdings in the region. "Just about any good asset," Monjauze says, is fair game for buyers targeting PE portfolios.

Strategic activity, he adds, is being driven largely by sector-specific dynamics, and he cites healthcare, tech and business services as among the most active industries.

The statistics don't necessarily reflect what people on the ground are seeing. Data from Thomson Reuters shows that 5,360 deals were completed in Europe in the first half of the year, worth a combined \$183.94 billion. Based on those numbers, the annual deal volume in Europe is not even on pace to match 2009. When the data is broken up, however, bullish signs exist. In the UK, for instance, the total deal volume of PE-backed activity at the close of June came in well above last year's total for the full year, according to the Centre for Management Buyout Research.

And dealmakers, anecdotally, insist the market is firming. Sevket Basev, an IMAP managing partner based in Turkey, says he is still seeing activity, but "the nature of the transaction is changing." He cites, for instance, that "buyers are performing more thorough due diligence, and trying make more assurances" before signing off on a deal. That translates into a drawn out process that can take months longer than what was considered normal two years ago.

Basev points to other consequences caused by the upheaval, noting that material adverse change clauses -- normally a rare sighting in parts of Europe -- are now being regularly inserted into the negotiations to protect buyers and their lenders against the unforeseen.

Harris Williams' Monjauze is careful to not overstate the health of the market. "Calling it buoyant would be an exaggeration," he says. Monjauze, though, believes the deal market is much more resilient than some may assume. "If people thought the economic uncertainty would shut down the M&A market, it hasn't. The level of discussions has increased dramatically."

By the second half of the year, dealmakers anticipate those conversations will translate into a rebound that is evident in the numbers.