2017 M&A MONITOR

SHEDDING LIGHT ON M&A IN BELGIUM

CENTRE FOR MERGERS,
ACQUISITIONS AND BUYOUTS

Vlerick Business School

Banque·Bank J.Van Breda & C° BDO Gimv

CONTENTS

ABOUT THE CENTRE FOR MERGERS, ACQUISITIONS AND BUYOUTS

Vlerick Business School's Centre for Mergers, Acquisitions and Buyouts develops and disseminates knowledge concerning best practices in the entire M&A field – from deal origination to completion, from financing to integration. The Centre reaches out to key decision-makers and influencers in an M&A process as well as to professional advisors and intermediaries. Founded in 2016, the Centre incorporates all of the activities of the Platform for Entrepreneurial Buyouts, including the annual Buy Your Own Company Conference and the Buyout Academy. Its activities are supported by Bank J.Van Breda & C°, BDO and Gimv.

BANK J.VAN BREDA & C° is a specialised bank focusing exclusively on family businesses and the liberal professions, covering both professional and private needs throughout the client's lifetime. We assist our clients in systematically building up, managing and protecting their assets. Our clients can count on us for personal, specialised and proactive advice. Bank J.Van Breda & C° is a 100% Belgian bank and is part of the group Ackermans & van Haaren.

BDO Belgium specialises in four areas: Audit & Assurance, Accounting & Reporting, Tax & Legal, and Advisory (including Corporate Finance). BDO provides to-the-point expert advice. Our clients value us especially for our straightforward and pragmatic approach, availability, proximity, integrity and our international network. In Belgium, BDO has more than 500 Partners and staff working out of 9 offices. BDO is part of a strong international network with about 65,000 Partners and staff active in more than 150 countries.

Gimv is a European investment company with over three decades of experience in private equity and venture capital. Gimv is listed on Euronext Brussels and currently manages around €1.8 billion (including co-investment partnerships) of investments in about 50 portfolio companies. As a recognised market leader in selected investment platforms, Gimv identifies entrepreneurial and innovative companies with high-growth potential and supports them in their transformation into market leaders. These companies can be in different stages of their life cycle: from young companies with strong growth ambitions, to healthy and established companies with the ambition of becoming a trendsetter. Gimv's 4 investment platforms are: Connected Consumer, Health & Care, Smart Industries, and Sustainable Cities. Each of these platforms works with a skilled and dedicated team across Gimv's home markets of the Benelux, France and Germany and can count on an extensive international network of experts.

ACKNOWLEDGMENTS

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Please direct questions and comments about this report via e-mail to: **mathieu.luypaert@vlerick.com** or **nicolas.delange@vlerick.com**.

PREFACE

Following an annual tradition, this M&A Monitor presents an overview of current trends in the Belgian M&A market. Based on survey responses of 120 M&A experts in Belgium, we present unique insights into the evolution of M&A activity, typical multiples, deal structures and process characteristics. Every year, we devote special attention to one particular aspect of M&A. In the current edition, we focus on **cross-border transactions** by Belgian acquirers, representing around one third of all deals that the surveyed experts have worked on. The most targeted countries in Europe are France, The Netherlands and Germany.

Despite a global drop in M&A activity (from a record level of $4.5 trillion in 2015 to around $3.5 billion in 2016), Belgian M&A volume is still growing intensively. **Two out of three respondents observed an increase in Belgian M&A activity in 2016**. Moreover, only 10% of all experts anticipate a possible drop in 2017. While we observe a similar picture for Belgian targets acquired by international companies, **more conservative growth numbers are expected for cross-border takeovers by Belgian acquirers**. An uncertain political climate as a result of the Brexit, Trump's US protectionism, and upcoming elections in several EU countries might impede Belgian acquirers from pursuing a cross-border external growth trajectory.

The continued traction in the Belgian M&A market is also reflected in **elevated multiples**. The average Enterprise Value (EV)/EBITDA multiple rose for the fourth year in a row towards a level of 6.4. Belgian acquirers are even found to pay on average 7 times EBITDA in cross-border acquisitions. Academic evidence indicates that cross-border acquirers are willing to pay higher premiums because of the cross-border targets' country-specific knowledge and local distribution networks.

The respondents indicate that **bank financing is readily available** at cheap rates and has improved especially for the segment of deals worth less than €5 million. The average ratio of net financial debt (NFD)/EBITDA for this segment of smaller transactions increased from 2.1 in 2015 to 3.3 in 2016. Banks seem to increasingly consider acquisition financing of smaller companies with a proven track record as an alternative source of income, leading to looser credit standards. In line with rising bank financing, a decline in the amount of (semi-) equity that is needed to finance an MBO/MBI is observed for transactions under €5 million, dropping even below 30% on average. Similarly, the use of vendor loans and earnouts across all deal sizes has diminished significantly.

These findings, and many other critical aspects of domestic and cross-border M&A, are explored in detail in this 2017 M&A Monitor. We wish you a pleasant and informative read!

MATHIEU LUYPAERT
Professor of Corporate Finance and M&A
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Coordinator Centre for Mergers, Acquisitions & Buyouts
Vlerick Business School

METHOD

The insights presented in this document are based on the online survey responses of **120 Belgian M&A experts**, collected between **15 March and 20 April 2017**. This sample of M&A professionals was gathered through Vlerick's professional network and that of the sponsors of the Centre for Mergers, Acquisitions and Buyouts, supplemented by online searches.

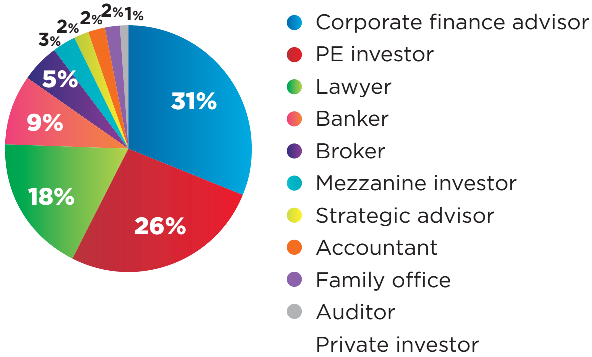
We first present the respondents' insights into the evolution of the Belgian M&A market. We distinguish between strategic M&A (i.e. M&A by companies that provide products or services themselves), financial transactions (acquisitions by financial sponsors like private equity or family offices), and cross-border M&A (M&A transactions outside Belgium). The subsequent results relate specifically to the transactions that the respondents have been involved in during 2016. Before the survey was sent out, it was tested extensively and verified by several practitioners and academics.

ABOUT THE RESPONDENTS

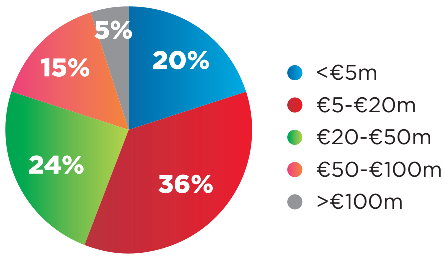
The surveyed experts represent a **comprehensive view of the entire Belgian M&A market**. They:

- cover a wide variety of professional roles, with corporate finance advisors (31%), private equity investors (26%), lawyers (18%), bankers (9%) and mezzanine investors (5%) as the largest groups;
- represent various deal segments: 60% of the respondents are primarily active in M&A with a total deal value between €5 - €50 million, 25% work on deals with a value greater than €50 million, and 20% work on small transactions (< €5 million);
- cover a wide range of industries, with the strongest presence in business services (50%), Industrial products (48%) and consumer goods (45%);
- have an average of 14 years of professional M&A experience, with a minimum of 1 year and a maximum of 35 years of experience;
- have worked on an average of 8.9 deals over the 12-month period preceding this survey;
- are active in the three main regions of Belgium (103 in Flanders, 73 in Brussels, and 58 in Wallonia), as well as outside Belgium's borders (52 in Europe, 20 in other regions).

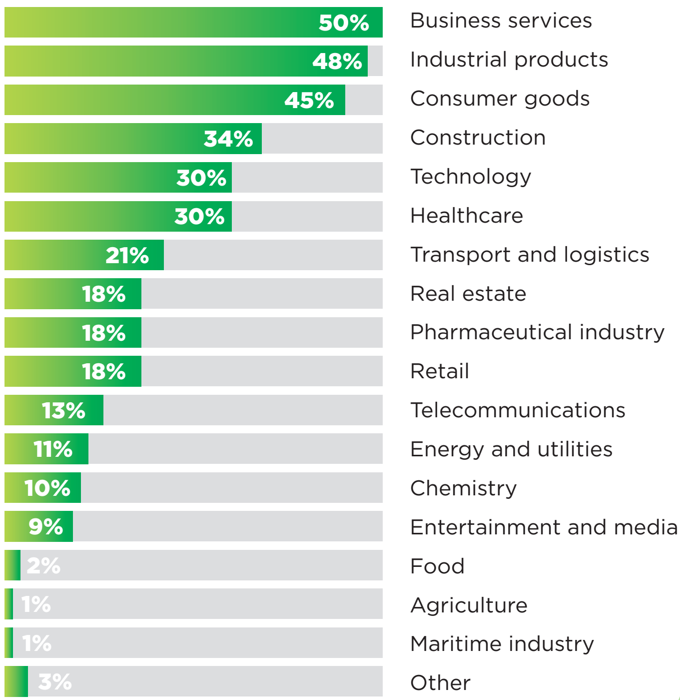
% RESPONDENTS PER PROFESSIONAL ROLE



PRIMARY MARKET SEGMENT OF RESPONDENTS - TRANSACTION VALUES



% RESPONDENTS INVOLVED IN M&A IN A GIVEN SECTOR OVER THE PRECEDING YEAR

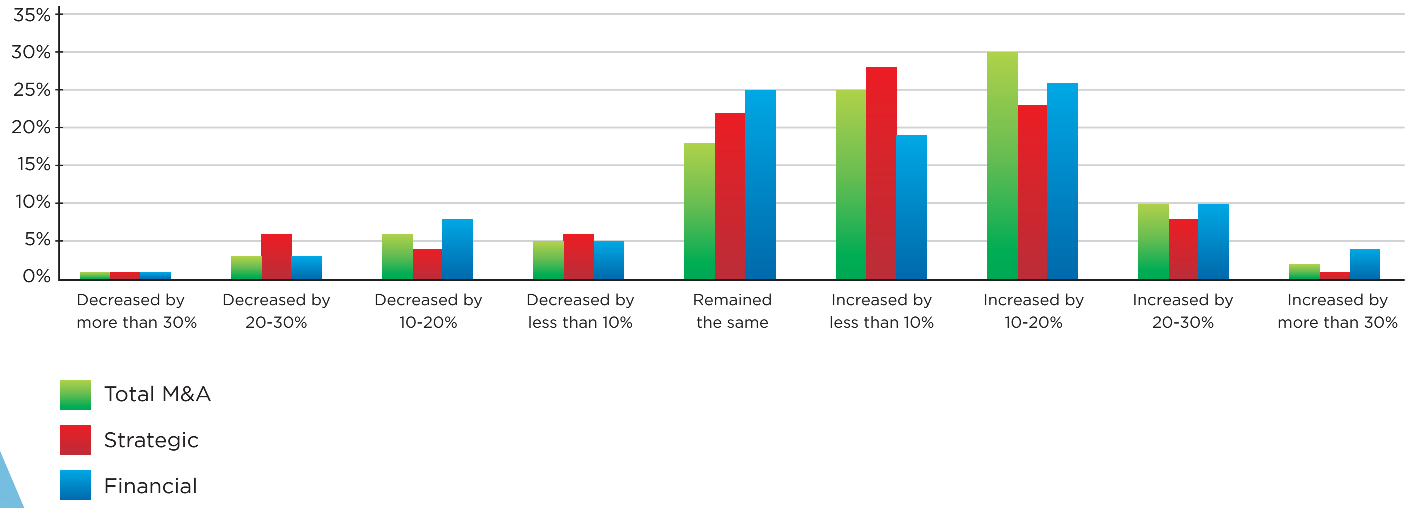


THE EVOLUTION OF THE BELGIAN M&A MARKET

BELGIAN M&A KEEPS ON BOOMING

Despite a severe drop in global M&A activity in 2016, the Belgian M&A market kept on growing. 67% of the surveyed experts have observed an increase in the number of M&A transactions in Belgium, while only 15% perceived a decline. More than half of them even reported a rise of more than 10%. This surge in Belgian M&A activity is driven by both strategic and financial buyers: 60% and 59% of the experts, respectively, indicated a higher number of strategic and financial transactions.

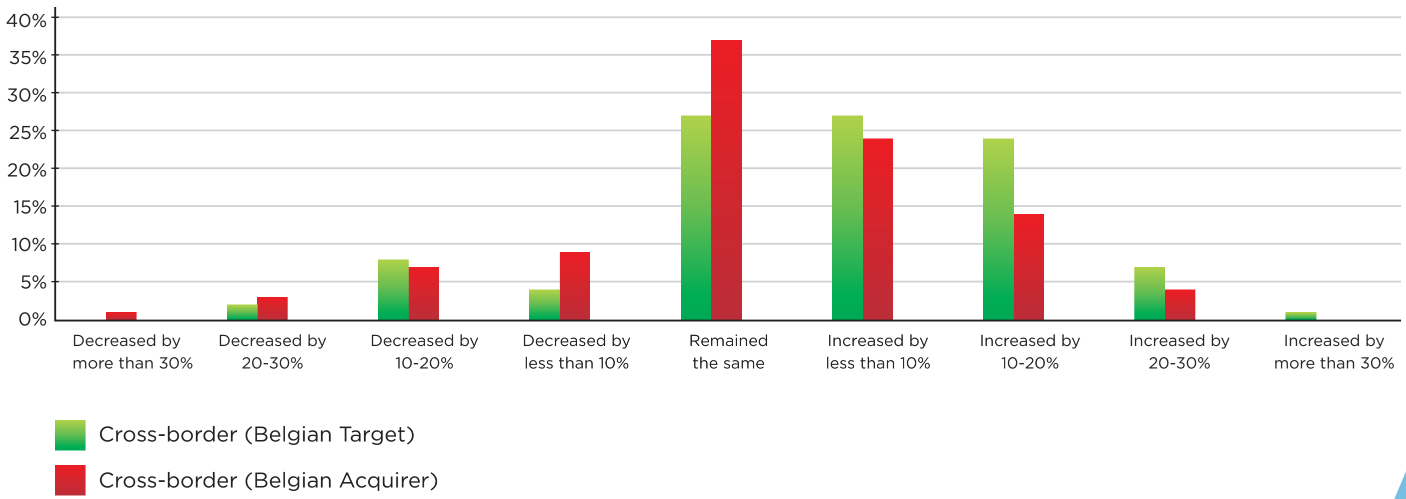
2016 EVOLUTION OF NUMBER OF M&A TRANSACTIONS



CROSS-BORDER M&A INVOLVING BELGIAN COMPANIES

M&A experts experienced a similar growth pattern for cross-border acquisitions of Belgian target companies. Increased interest from international private equity funds, Asian companies considering Belgium to be an advantageous gateway to Europe, and more favourable pricing compared to neighbouring countries are highlighted as main drivers behind this upward trend. More moderate growth is observed for Belgian companies acquiring cross-border targets, with only 42% of the experts noting an increase.

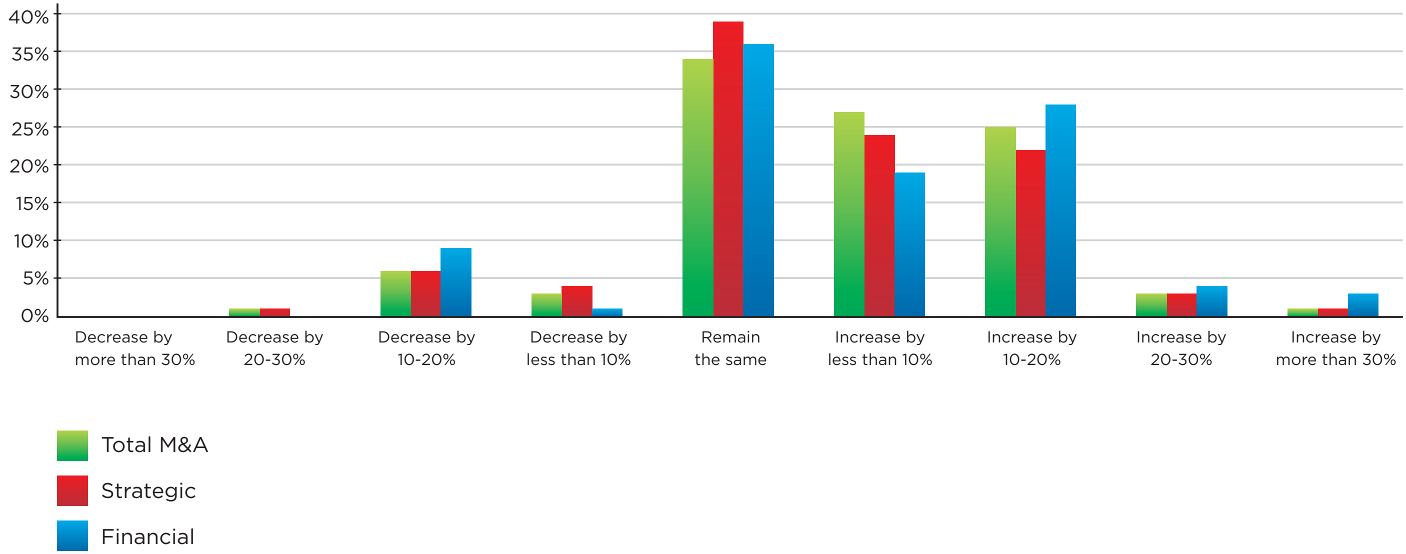
2016 EVOLUTION OF NUMBER OF CROSS-BORDER M&A TRANSACTIONS



EXPERTS PREDICT CONTINUED GROWTH IN M&A

Although M&A activity reached record levels in 2015 and 2016, 57% of all experts even expect further growth in the number of deals in 2017, while 34% believe the market will stabilise this year. Only 9% predict a (small) decline. The experts anticipate a similar trend for strategic and financial M&A.

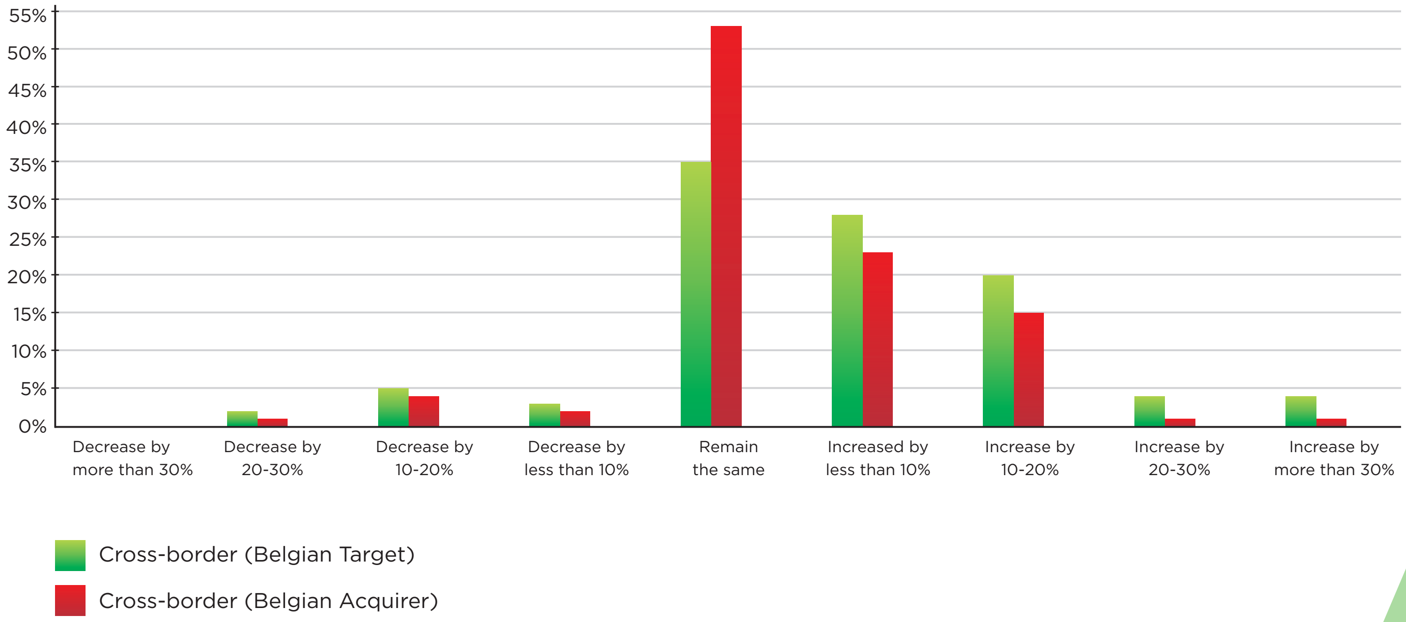
EXPECTED EVOLUTION OF THE NUMBER OF M&A TRANSACTIONS IN 2017



POLITICAL UNCERTAINTY LIMITS INTERNATIONAL EXPANSION OF BELGIAN ACQUIRERS

While expectations for international acquirers buying Belgian targets match those for domestic transactions, a more conservative evolution is expected for cross-border transactions by Belgian acquirers. The surveyed experts overwhelmingly indicate that increased regulatory uncertainty, additional trade barriers and geopolitical tensions hamper further international expansion of Belgian companies through external growth. The top 5 countries targeted by Belgian acquirers (France, the Netherlands, Germany, the United Kingdom and the United States – see page 21) have either experienced a recent change in government or have upcoming elections whose outcome is very uncertain.

EXPECTED EVOLUTION OF THE NUMBER OF CROSS-BORDER M&A TRANSACTIONS IN 2017



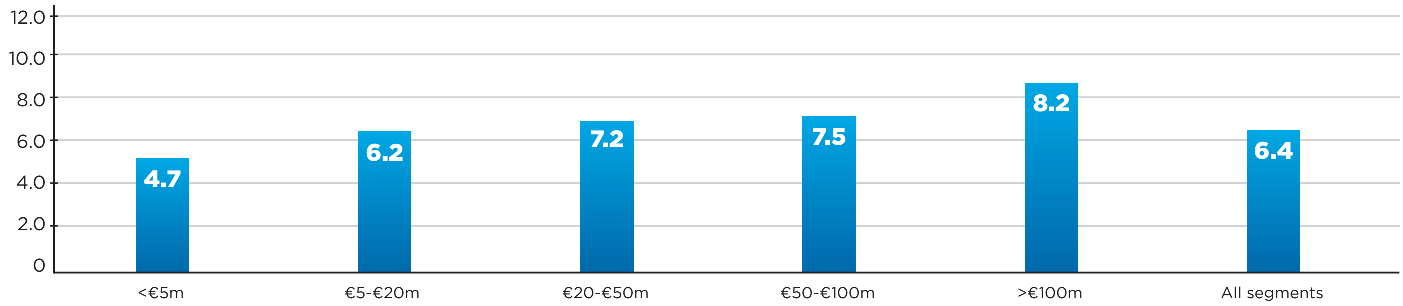
M&A timing can be steered but is not fully controllable. The capital structure should be sufficiently flexible in order to meet M&A financing needs.

Marc Gallet, CFO Ontex & Christian De Cartier, M&A Director Ontex
Acquisition of Hypermarcas (Brazil) and Grupo Mabe (Mexico)

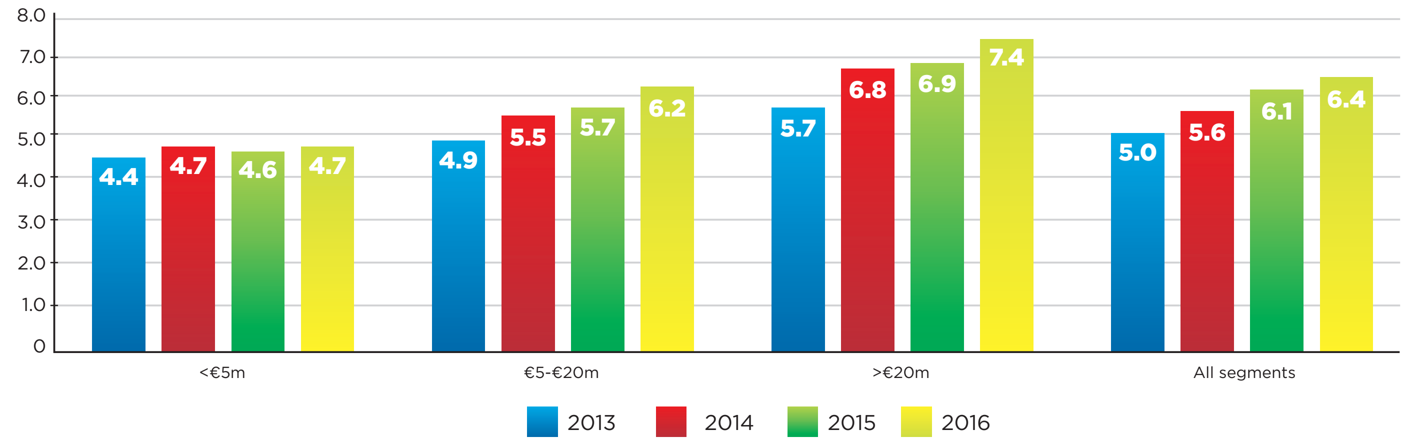
VALUATION

With money readily available and interest rates on bank financing still historically low, M&A multiples keep on rising. We asked the experts to provide the average multiple of the deals they were involved in during 2016. The average observed EV/EBITDA multiple across all industries amounts to 6.4, ranging from 4.7 for deals smaller than €5 million to 8.2 for deals larger than €100 million. The average of 6.4 is slightly above the average for 2015 (6.1). Current deal prices exceed those of 2013[1] with, on average, 1.4 times EBITDA. The multiple increased in every deal segment except for deals under €5 million: with a stable multiple of around 4.7, this segment of smaller deals appears to be less affected by market conditions.

AVERAGE ENTERPRISE VALUE (EV)/EBITDA



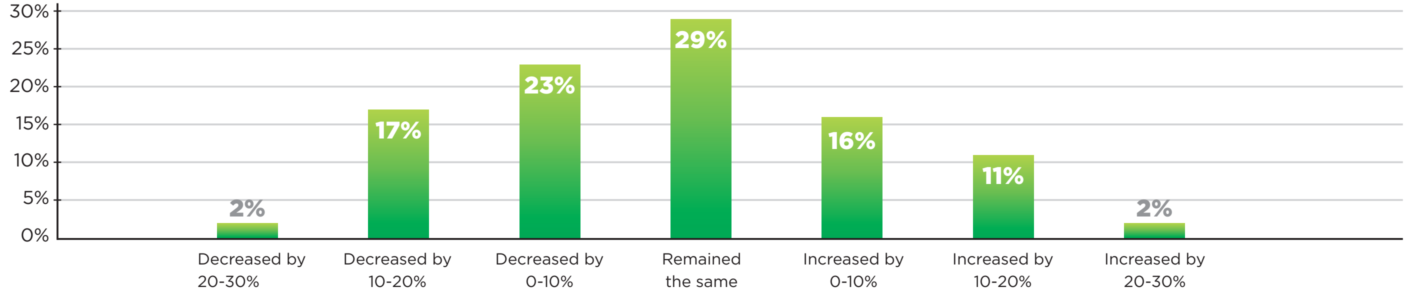
EVOLUTION EV/EBITDA



[1] *Current results are compared with the prior results of Vlerick's Entrepreneurial Buyout Monitor (2013 and 2014). We are not able to present a separate historical evolution for the €20-50 and €50-100 million segments, because all deals representing a value of more than €20 million were pooled in the Entrepreneurial Buyout Monitor.*

We also analysed price dynamics in M&A negotiations by asking experts how the indicative offer compares with the deal price. Interestingly, 42% of the experts indicate that the average final deal price is lower than the initial indicative offer, while 29% report a higher final price. This is a reverse situation compared to 2015. In about 2 out of 3 cases, price corrections do not exceed 10%. Explanations for downward price adjustments include: risks identified in due diligence, normalisations of EBITDA and working capital, changes in net financial debt, and deteriorated performance. Some advisors point out that parties might make high bids in the first round in order to gain exclusivity in the second round. Most of the reasons cited for increases in offer price are: strong competition, negotiation by the sellers, receiving additional information, and improved performance during the process.

CHANGES FROM THE INDICATIVE OFFER TO THE FINAL DEAL PRICE

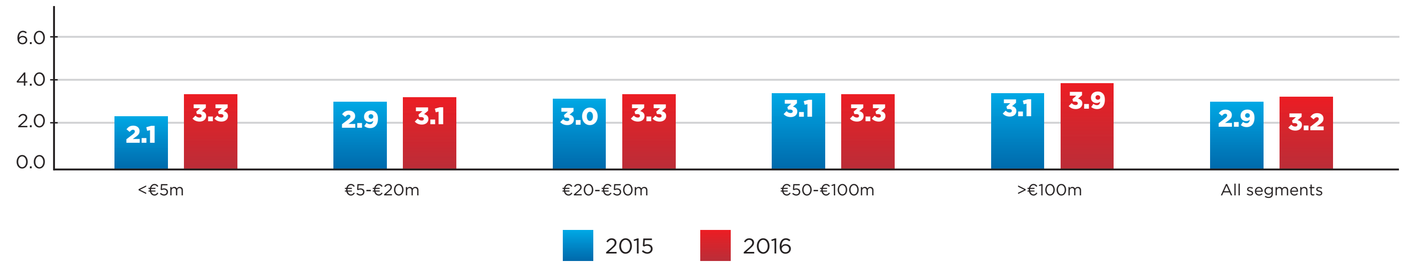


DEAL STRUCTURING & FINANCING

This section zooms in on the sources of funds used to finance M&A transactions. We examine the typical extent of debt financing in M&A and the required (semi-) equity in MBO/MBI transactions. In addition to upfront financial needs, the deal structure might include delayed payments that are fixed (vendor loans) or that depend on post-M&A-performance (earnouts).

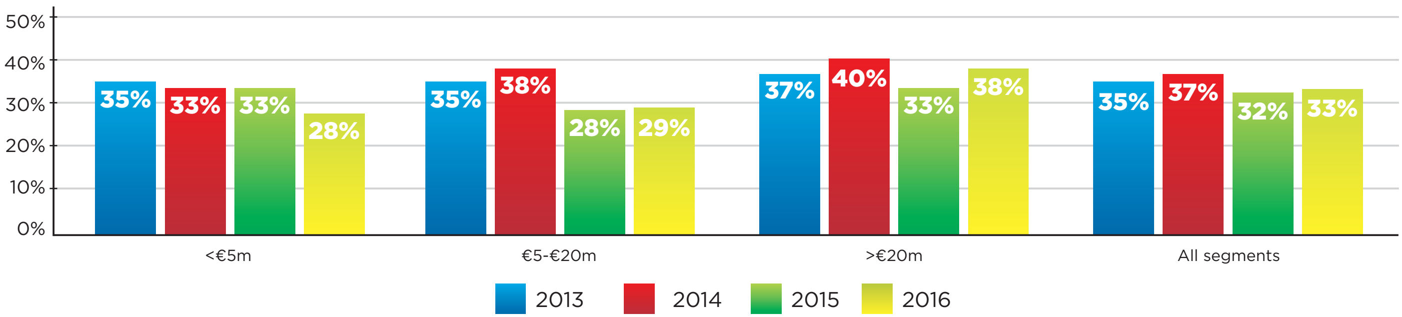
The average ratio of net financial debt compared to EBITDA amounts to 3.2. This represents an increase of 0.3 compared to 2015, supporting the claim that bank loans are increasingly accessible in acquisition financing. In 2015, we noticed that NFD/EBITDA was strongly driven by transaction size, while in 2016 this no longer seems to be the case. Even for the segment of small deals (<€5 million), NFD/EBITDA amounts to the average across all the segments. This suggests that banks consider acquisition financing of smaller companies with a proven track record to be a profitable additional source of income, inciting them to apply looser credit standards.

NET FINANCIAL DEBT/EBITDA



In line with the results of the NFD/EBITDA ratio, experts indicate that the average fraction of equity and semi-equity needed to finance a small (<€5 million) MBO/MBI decreased from 33% in 2015 to 28% in 2016. The average fraction of equity and semi-equity needed to finance a transaction across all size segments remained 33%.

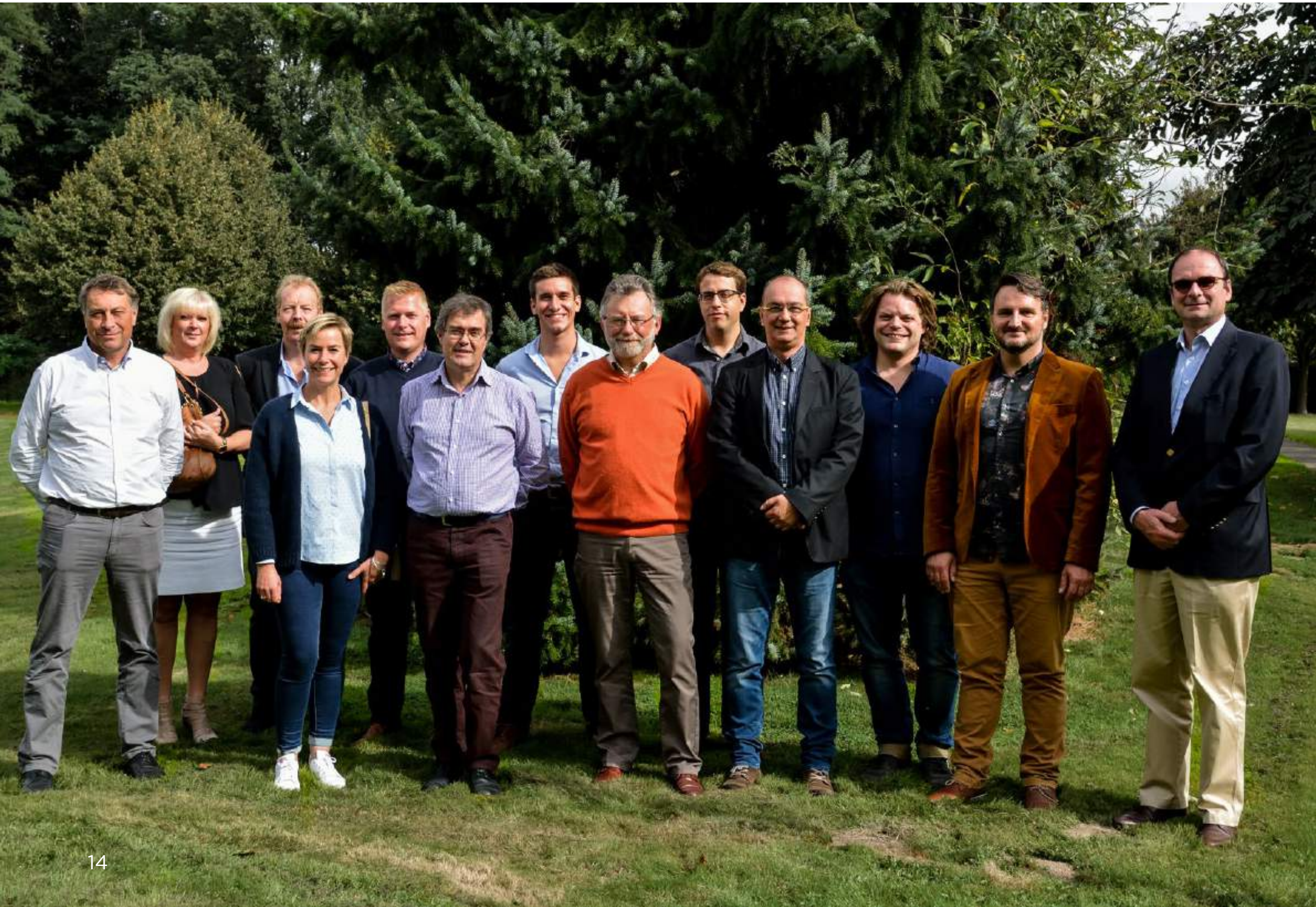
% (SEMI-) EQUITY NEEDED TO FINANCE MBO/MBI



Although IPSO did not fit my original ideal target, looking more deeply into the info memo prepared by BDO, I found a lot of potential value in terms of accreditation, the company's own mobile IT solutions, and recurrent contracts. IPSO is in the very niche market of consulting and quality control in the Facility Management world, where my previous experience in terms of Solution and Value selling is a real asset!

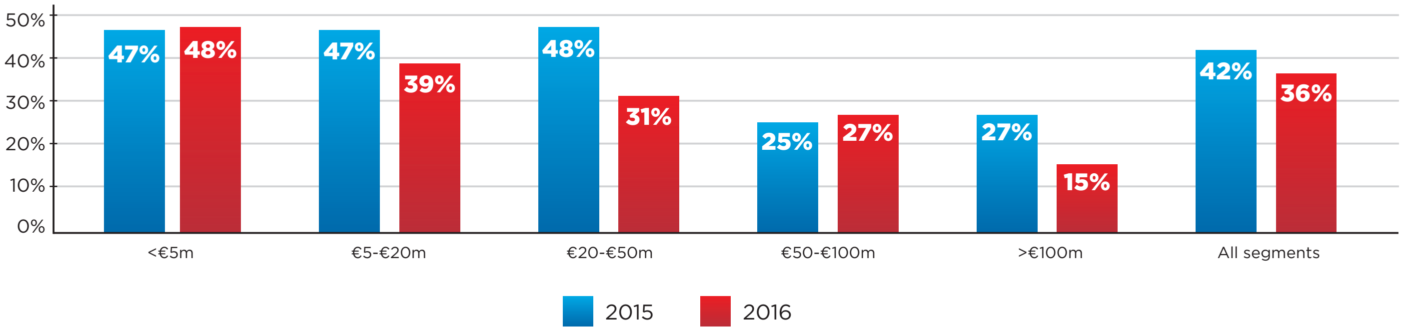
My conclusion is: Don't be closed to opportunities outside your 'box' – there are real gems out there!

Benoit de Dorlodot, Managing Partner IPSO SPRL
Entrepreneurial Buy-in (2016)

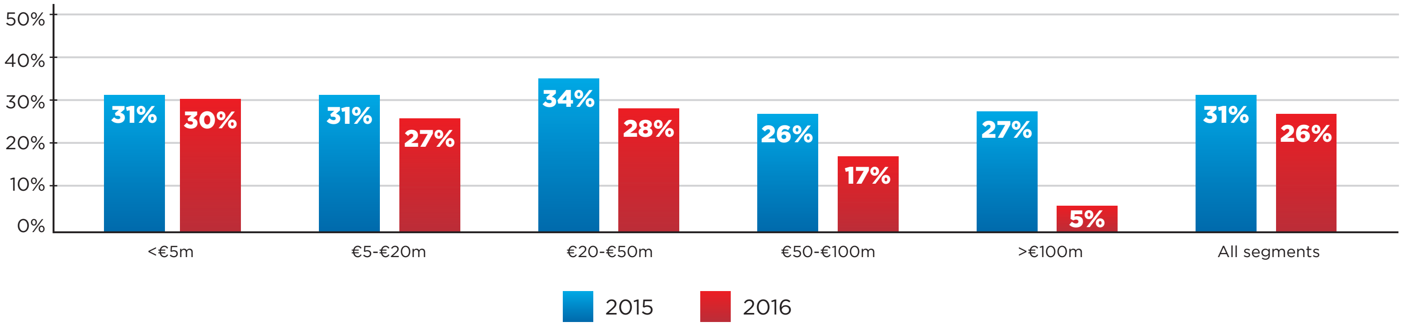


In line with a more intensive use of bank financing in 2016, a decline in vendor loans and earnouts can be noticed. In 2015, a vendor loan was used in 42% of the M&A cases, while this percentage was only 35% in 2016. Similarly, earnout structures represented 25% of all deals in 2016, compared to 31% in 2015. The decline in vendor loans and earnouts is mainly due to a strong drop in the segment of larger deals. Vendor loans are still used in almost half of the small deals (48% of all deals <€5 million). Vendor loans finance an average of 14% of the total deal value over all segments and involve an average interest payment of 5.45%.

% OF DEALS INCLUDING VENDOR LOANS

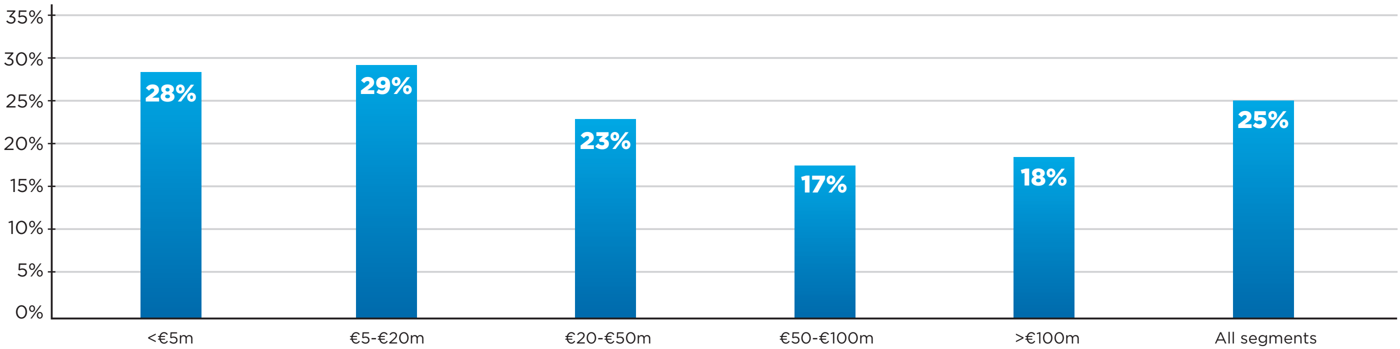


% OF DEALS INCLUDING EARNOUTS



We also asked the respondents to provide input on the maximum liability of the selling party in case of a breach of representations and warranties. Our results indicate that risk allocation differs according to deal size: in deals smaller than €20 million, a liability cap of 28% of the purchase price was established, while a significantly lower liability cap is observed in larger deals (around 17% for deals exceeding €50 million). The average liability cap across all deal segments is set around 25% of the purchase price.

LIABILITY CAP



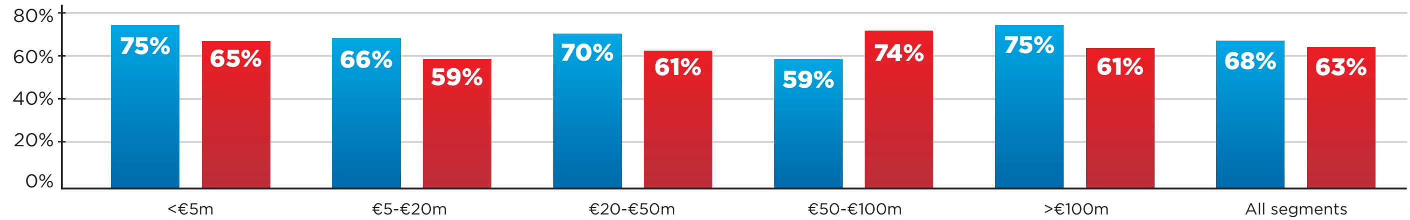
DEAL PROCESS

M&A experts experienced a drop in seller-initiated transactions – 63% of all deals in 2016, compared to 68% in 2015. Of those seller-initiated transactions, around 43% are conducted through an auction.

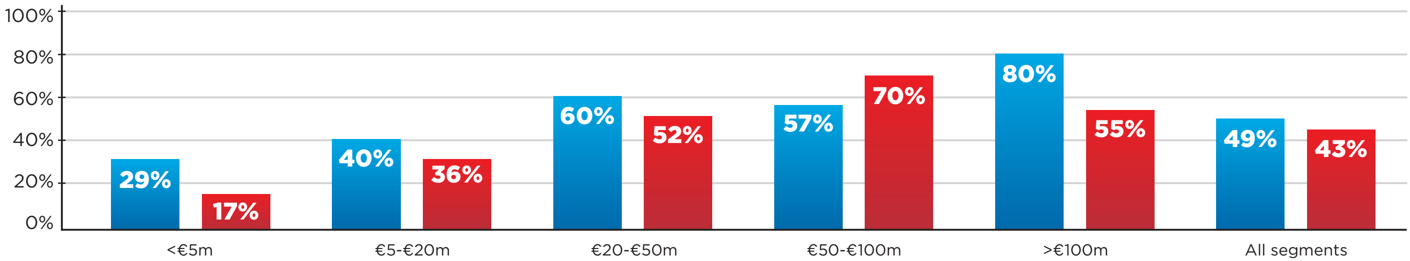
We further observe that auctions are typically used for larger deal sizes. Only 17% of the transactions smaller than €5 million are conducted through an auction.

2015
2016

% SELLER-INITIATED TRANSACTIONS

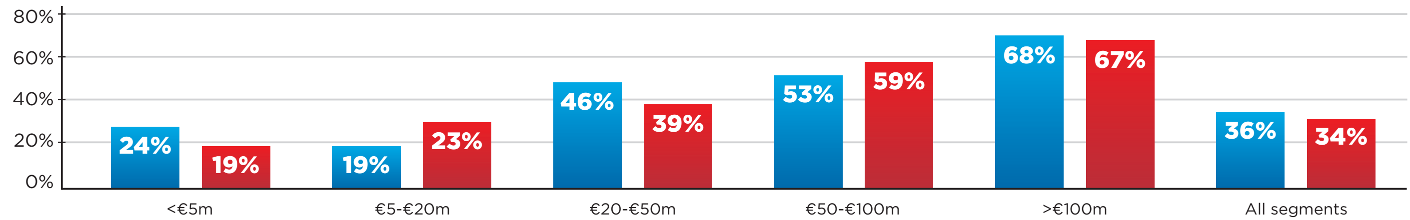


% AUCTIONS



Somewhat more than one third of all M&A are supported by vendor due diligence. The prevalence of vendor due diligence also increases with transaction size: the percentage of transactions supported by vendor due diligence is 67% for targets with a value exceeding €100 million, and only 19% for small deals (<€5 million).

% TRANSACTIONS SUPPORTED BY VENDOR DUE DILIGENCE

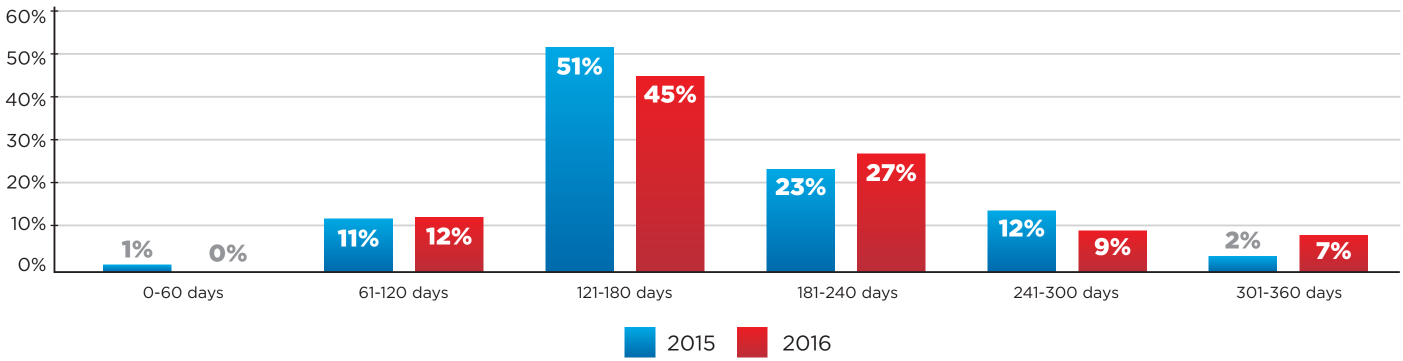


At ESAS, we believe that 'combining the best of multiple technological worlds by consolidation' will be the new reality for companies active in the IT sector. The growth capital injection by the private equity firm Buysse & Partners will allow ESAS to lead this new era of consolidation. After 6-8 months of negotiations, our ambitions were aligned – and from now on, we look to the future together.

Robert Decant, CEO ESAS & Frank Buysse, Managing Partner Buysse & Partners
Acquisition of Simac 3Services

The typical M&A process (from first contact to final closing) takes from 4 to 6 months. 43% of the experts report that the deal process exceeds 180 days on average, while 12% indicate that a typical deal process takes less than 120 days. These results are in line with the results obtained in 2015. No remarkable differences are observed.

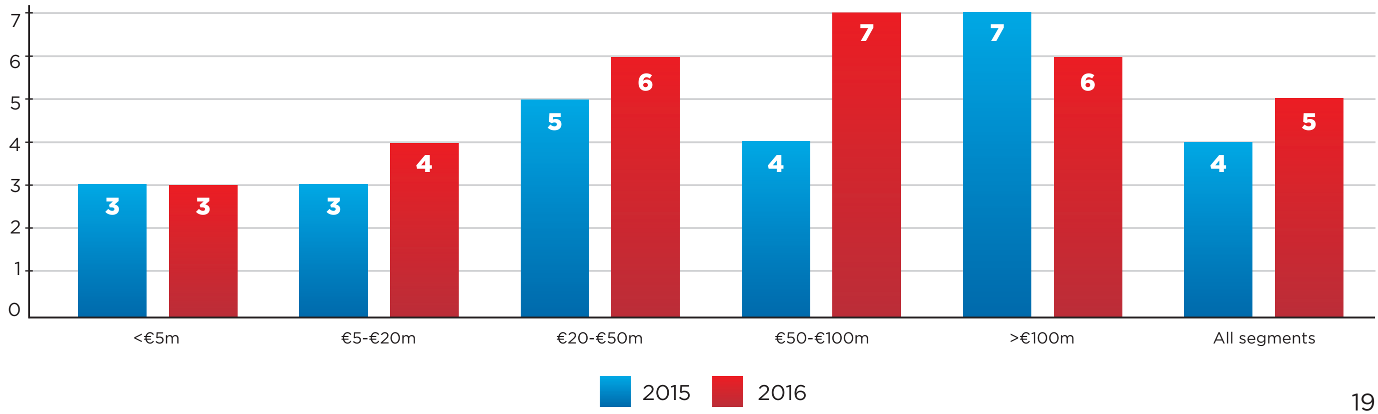
LENGTH OF DEAL PROCESS



BIDDING COMPETITION

On average, 5 bidders made an indicative offer per target company in 2016 versus an average of 4 bidders in 2015, indicating intensified competition amongst potential buyers in the Belgian M&A market. This number increases with the size of the target – ranging from 3 for the small targets (<€5 million) to 6 for big transactions (>€100 million). Despite the vast capital requirements needed to acquire very large targets, these sale processes often attract more interested parties due to their greater visibility, strong networks, the interest of foreign parties, and greater opportunities to realise economies of scale. Compared to 2015, we see an increase in the average number of buyers. This is in line with the experts sensing growing competition for deals.

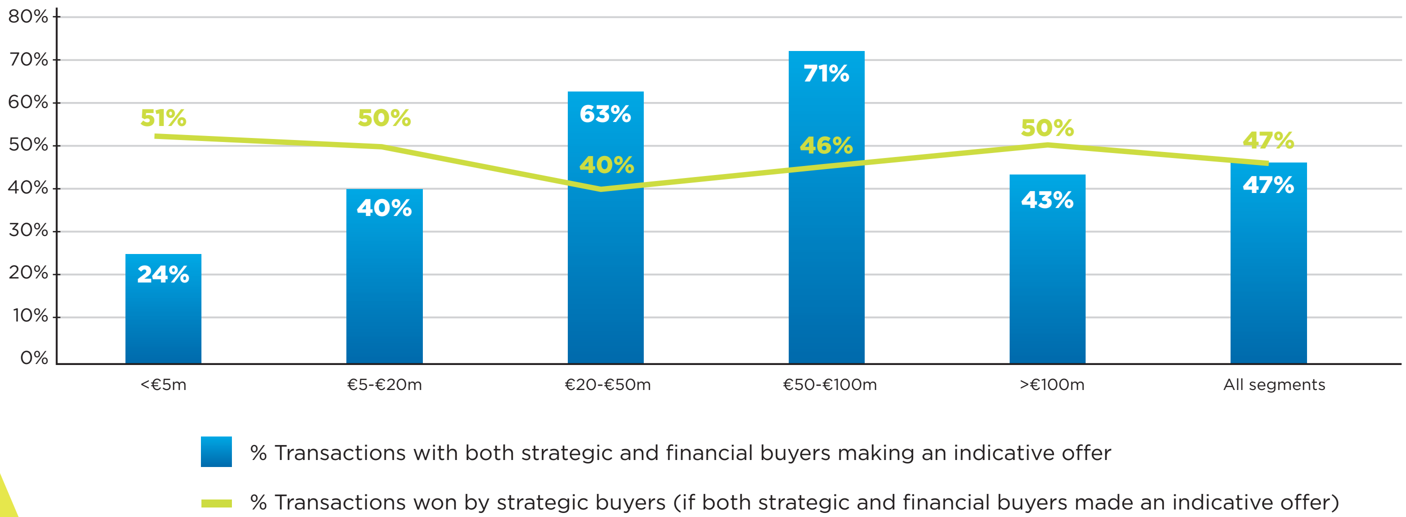
AVERAGE NUMBER OF BUYERS MAKING INDICATIVE OFFER



FINANCIAL OR STRATEGIC BIDDERS AND ACQUIRERS?

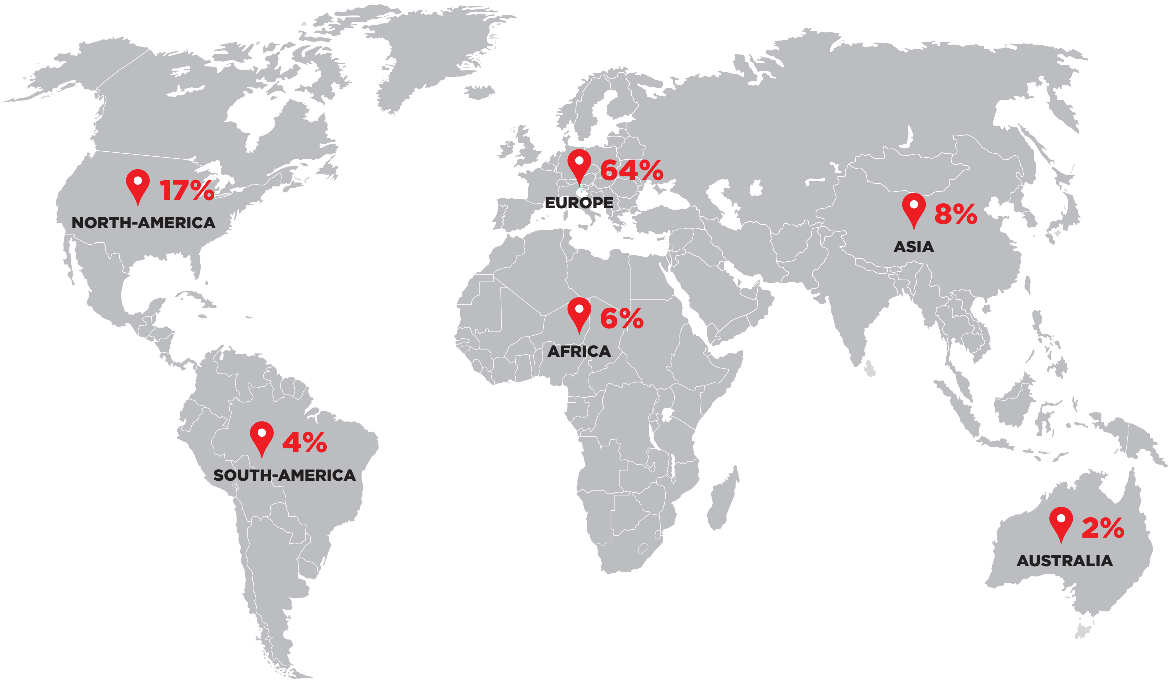
Around half (47%) of all M&A bidding contests involve both strategic and financial bidders. This occurs in around 67% of the transactions with a deal value between €20 and €100 million, but in only 35% of the transactions with a deal value of less than €20 million. When strategic and financial bidders compete, both have a more or less equal chance of winning the bidding contest.

COMPETITION BETWEEN STRATEGIC AND FINANCIAL BUYERS



CROSS-BORDER M&A

In 2016, of all cross-border deals in which a Belgian company was acquiring a foreign target, 64% were located in Europe and 17% in North-America. Very few targets were located on other continents.



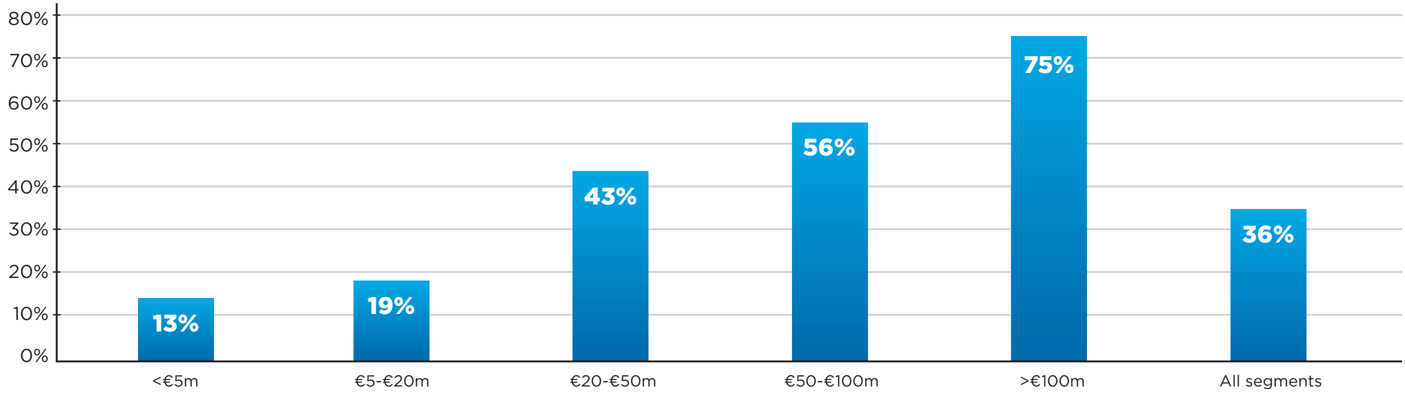
COUNTRIES: CROSS-BORDER TARGETS (EUROPE)

25%	France
19%	The Netherlands
16%	Germany
11%	UK
6%	Spain
4%	Luxemburg
4%	Switzerland
4%	Denmark
4%	Sweden
4%	Ireland
2%	Slovakia
2%	Iceland

Most of the European companies acquired by Belgian companies were based in France (25%), the Netherlands (19%), Germany (16%), the UK (11%) and Spain (6%).

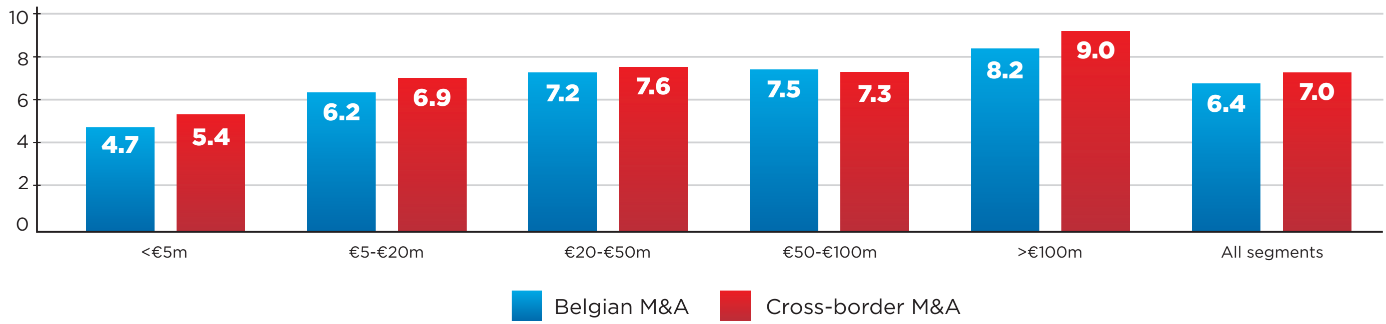
The surveyed experts indicate that 36% of all deals they were involved in during 2016 were cross-border transactions. We also note that the percentage of cross-border deals is highly dependent on the size of the transaction: the smaller transactions are mainly domestic (13% cross-border), while more than 50% of the transactions surpassing €50 million are cross-border.

% CROSS-BORDER DEALS BY BELGIAN ACQUIRERS



The average EV/EBITDA multiple paid for cross-border targets is 7.0 and is higher compared to the average EV/EBITDA multiple paid in Belgium – which indicates that Belgian acquirers are willing to pay higher multiples for cross-border targets to obtain market access, country knowledge or specific innovations.

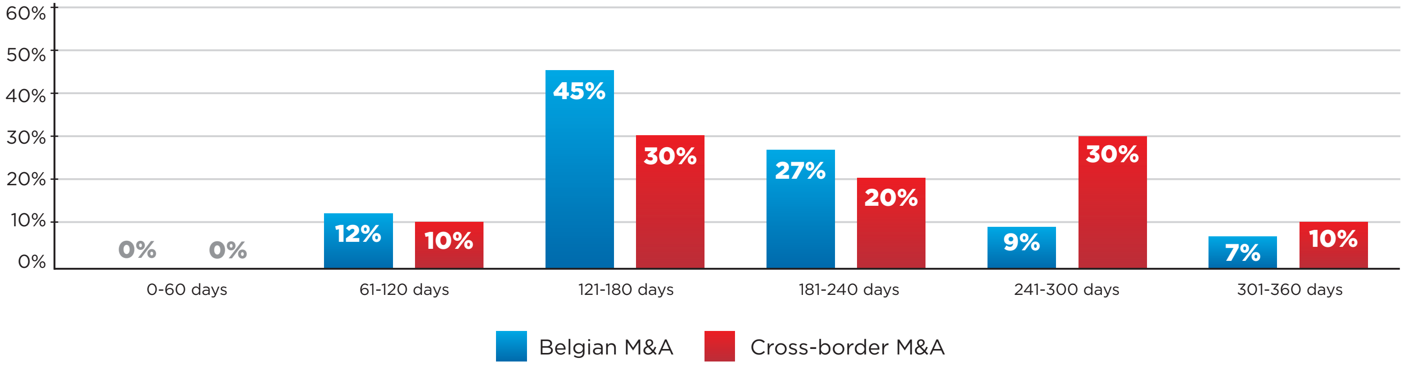
AVERAGE ENTERPRISE VALUE (EV)/EBITDA



The deal process for cross-border deals is lengthier compared to domestic transactions. A typical cross-border deal takes from 4 to 8 months, but experts report that in 40% of the cases the deal process exceeds 240 days. Only 10% indicate that a typical cross-border deal process takes less than 121 days.

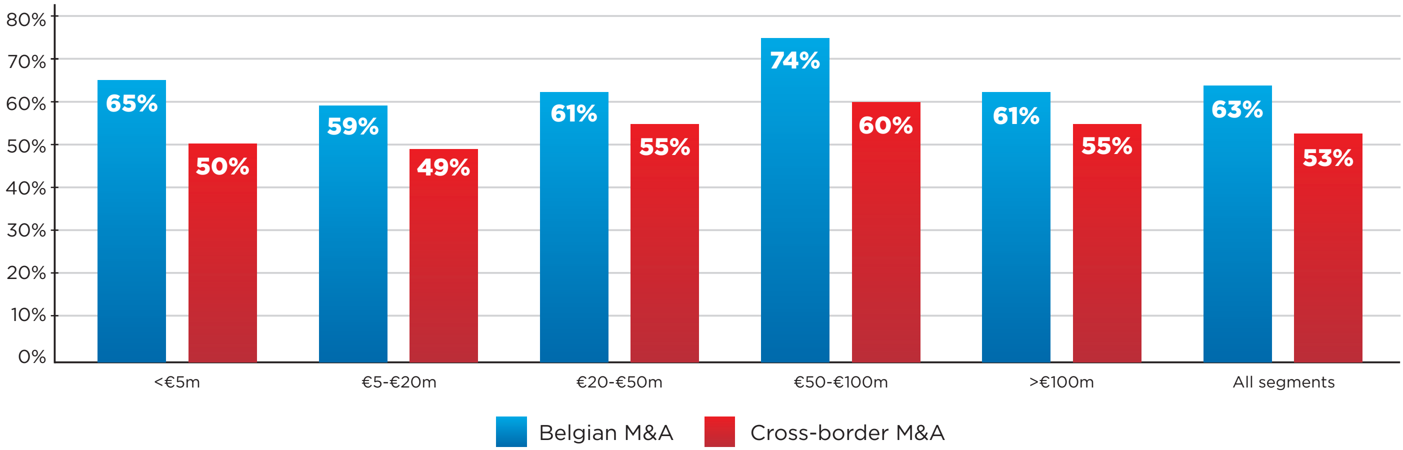
Cross-border deals typically have to overcome a number of obstacles – such as legal barriers (restrictions on the type of offer, employment legislation, accounting systems, ...), tax barriers, language barriers and economic barriers – which lengthens the cross-border process.

LENGTH OF DEAL PROCESS



53% of all cross-border transactions in 2016 were seller-initiated, compared to 63% in the Belgian M&A market. This lower fraction of seller-initiated deals is visible across all deal segments and demonstrates that cross-border transactions are usually driven more by an active pursuit of an external growth strategy (and hence, specifically selected targets) compared to domestic transactions.

SELLER-INITIATED CROSS-BORDER TRANSACTIONS



> Blue is the new orange.

Stef De corte, CEO Smartphoto
Acquisition of Webprint (The Netherlands)

TRENDS & CHALLENGES

FINANCIAL BUYERS: KEEP CALM AND STAY DISCIPLINED

Current record levels of dry powder held by private equity companies are pushing them towards a more active approach in finding interesting targets. They seem to be increasingly interested in the smaller deal segment and in exploring more risky industries. Intensified competition – from (newly created) family funds, international private equity funds, foreign strategic buyers and SMEs following a buy-and-build strategy – is putting upward pressure on prices and might limit potential returns.

STILL A SELLER'S MARKET

Despite the expected retirement of the baby-boom generation, the demand for healthy companies exceeds the supply – it's not the quantity but the quality of the deal flow that causes problems. Many companies for sale are sub-prime: and hence, very difficult, or even impossible, to sell. As a consequence, investors are typically chasing the same deals, resulting in elevated prices and better conditions. We particularly notice seller-friendly contracts with few conditions, limited liability caps, and little blocked money (escrow, earnouts, ...). We also observe a drop in average deal size, as few big targets have been on the market.

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ALTHOUGH THE ECONOMIC ENVIRONMENT COULD LEAD TO AN OVERHEATED MARKET, TRADITIONAL PE INVESTORS ARE REMAINING RATHER DISCIPLINED.

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DUE TO THE LOW INTEREST RATE ENVIRONMENT, SOME COMPANY OWNERS PREFER NOT TO SELL THEIR COMPANY DUE TO THE REINVESTMENT RISK OF THE PROCEEDS.

PROFESSIONALISATION OF M&A ADVICE

The surveyed experts indicate that the M&A market has become more and more professional in terms of deal support. M&A process know-how is increasingly perceived as common knowledge, and the use of data rooms has improved substantially. In addition, more specialised sector advisory teams have been entering the Benelux M&A space. Notwithstanding this positive evolution, many advisors continue to stress the importance of educating entrepreneurs in terms of realistic price expectations.

CHALLENGE TO KEEP DECISION CENTRES IN BELGIUM

The evidence presented in this report clearly highlights the fact that the outlook for Belgian inbound M&A exceeds that for outbound transactions. Many scale-ups are sold in a rather early stage to multinational companies. In addition, foreign funds are actively entering the Belgian market. Headquarters are likely to move abroad, causing undesirable economic effects on the local economy. In order to keep decision centres in Belgium, local companies should find ways to internationalise themselves instead of starting that process after a sale.

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IT REMAINS A CHALLENGE TO MAKE SME SHAREHOLDERS AND MANAGERS AWARE OF THE IMPORTANCE OF VENDOR DUE DILIGENCE BEFORE STARTING THE M&A PROCESS.

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BELGIAN COMPANIES SHOULD HAVE THE COURAGE AND SUPPORT TO EXPAND AND BECOME A CONSOLIDATOR INSTEAD OF BEING ACQUIRED BY AN INTERNATIONAL GROUP.

POLITICAL UNCERTAINTY CAUSES HESITATION

The vast majority of the experts expect regulatory uncertainty to remain high as a result of important political events like the Brexit and upcoming elections in member states of the European Union. In addition, the global M&A market is still assessing the impact of the new US administration. Such uncertainty may have an adverse effect on companies' readiness to pursue complex deals and will contribute to companies scrutinising the regulatory landscape more thoroughly before evaluating transaction opportunities. This impact will mainly be reflected in the number of cross-border transactions.

> FACTORS THAT MIGHT SEVERELY IMPACT THE CROSS-BORDER M&A MARKET ARE THE UNDECIDED OUTCOME OF CERTAIN EUROPEAN ELECTIONS AND, IN PARTICULAR, INCREASED UNCERTAINTY ABOUT TRADE AGREEMENTS WITH THE UK AND THE US.

FINAL THOUGHTS

BANK J.VAN BREDA & C°

"This Monitor provides a good overview for each seller, buyer and adviser to draw a realistic picture of the Belgian acquisition market. It is noted that, despite the increasing multiples, the acquisition market remains very active, helped by low interest rates and high availability of money. This gives the benefit that sellers – if they have prepared their business sufficiently for sale – can receive a good price for their life's work."

Wannes Gheysen
Responsible
Succession &
Acquisitions
Bank J.Van Breda & C°

BDO

"Looking back at 2016, this Monitor confirms our observations (from our M&A advisor perspective) regarding the relatively intensive M&A activity in Belgium, and it provides additional valuable insights. Looking ahead to 2017, macro-economic factors (like interest rate settings by Central Banks) will influence markets, and politics will continue to play a leading part, with upcoming elections in various European countries and China. Uncertainty concerning low interest rates and Belgian tax reform will further disturb a clear view on how valuation multiples and financing structure will evolve here locally."

Veerle Catry
Partner
BDO Belgium

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