
PROPRIETARY

Belgium trendspotter 2H18: buyouts to power M&A after strong first half

Analysis

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- Smile Invest, Down2Earth, Smartfin, Fund+, We are Jane in fundraising wave
 - PE activity on the up: Alpamin, Noukie's, Eyes and More and Interparking
 - Consolidation in financial services with CKV, Callant, BDO, Foederer, ACS
 - ECM markets quieter; Godiva, Belfius dominate IPO pipeline
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Mergermarket data shows Belgian M&A performed robustly in 1H18, as local deal value totalled EUR 5.82bn, against EUR 1.63bn in 1H17, even as deal count fell to 76 from 92.

Belgium accounted for four of the Benelux's 10 largest deals. Biopharmaceuticals developer Ablynx's [EBR:ABLX] EUR 3.68bn sale to Sanofi [EPA:SAN] was the second-biggest transaction and Spirit Aerosystems' [NYSE:SPR] EUR 542m takeover of Asco Industries the sixth-largest. Assicurazioni Generali's [BIT:G] EUR 540m divestment of Generali Belgium to Bermuda-based Athora Holding and drug developer Tigenix's [EBR:TIG] EUR 476m acquisition by Takeda Pharmaceutical [TYO:4502] came in seventh and eighth place, respectively.

This vibrancy is in stark contrast with a wider regional slowdown. Overall, Benelux deal value declined to EUR 22.55bn from EUR 23.39bn over the same period last year.

Buyout buoyancy

Private equity is poised to intensify M&A in the second half of the year, said Henk Vivile, chairman and founding partner of newly-established local midcap advisory firm, Kumulus Partners. Sponsors are eager to put their cash piles to work, while low interest rates mean debt financing is accessible, Vivile said, adding: "There is quite some firepower".

Strong returns have enticed high net-worth individuals to back PE, Vivile said. New entrant Smile Invest has raised EUR 300m-plus from local entrepreneurs, while Down2Earth Capital has closed a second, EUR 110m-plus fund.

Biotech, pharmaceuticals and medtech should see more buyouts, according to Vivile. "There is also bit more specialisation within the funds," he said. We are Jane, servicing firms led by women, is raising a first EUR 50m fund in the third quarter. Last month, this news service reported Fund+ has up to EUR 100m for buying life science companies. In March, it reported technology-focused SmartFin Capital was boosting its new fund's target cap from EUR 75m to EUR 120m.

In parallel, foreign sponsors have discovered Belgium. It is understood that London-headquartered Inflexion Private Equity Partners examined restaurant chain Ellis Gourmet Burger, acquired last month by GIMV [EBR:GIMB], and Top Brands. 3i Group [LON:III] and HIG Capital -- which last bought in Belgium when it purchased cargo handler Aviapartner in 2014 -- have also been sounding out targets, it is understood.

More varied financing is fueling buyouts. Unitranche structures are increasingly common and foreign debt funds are more willing to back deals, Vivile said: "In the midcap segment, this is something new".

Sponsor-owned firms, in turn, are consolidating, Vivile said. Ergon Capital Partners-backed Vanreusel Snacks, GIMV-backed Grandeco Wallfashion Group and Naxicap Partners-backed House of HR are pursuing buy-and-build strategies, as reported.

Amid this bustle, Kumulus is sourcing deals for foreign sponsors, Vivile said. In April, its partners guided IT consultancy Savaco's AAC Capital Partners-backed buyout for an undisclosed sum. Their 2017 deals included conducting Dossche Mills' acquisition of Nimbus-backed Dutch flour producer Meneba, and Saffelberg Investments' sale of marketing company Gemaco to Capiton, for undisclosed sums.

Sponsor plays, privatisations and consolidation

Midcap PE targets include Alpamin, a source briefed on the matter said. Alpamin -- trading as Alpaca Flanders -- develops mineral supplements for camelids. Meanwhile, MBO Partenaires is eyeing a new buyout for toy and kidswear retailer Noukie's, a second source briefed said. Local sponsor Vendis Capital has also been mulling a sale of Netherlands-based Eyes and More, the second source briefed and a second sector banker tracking the optical retailer said.

Large-cap sponsors are circling parking lot operator Interparking, a third source briefed and a third sector banker said. Shareholders include Luxembourg property investor CPP Investment Board European Holdings.

Macquarie Group [ASX:MQG]'s hotly-anticipated sale of its 36% stake in Brussels Airport Company is launching in September, a fourth source briefed said.

Meanwhile, news reports have tipped national railway company NMBS and bus service De Lijn -- owned by the federal and Flemish governments, respectively -- for privatisation. In May, *Liedekerke* municipality sold its ambulance service to emergency transportation provider Ambuce Rescue Team.

Financial services providers are expected to consolidate to gain scale and tackle digitalisation, according to local news reports. Centrale Kredietverlening snapped up a EUR 150m portfolio of mortgages from ING Group [AMS:INGA, EBR:INGB] in March and EUR 100m in loans from Van Lanschot Kempen [AMS:VLAN] in January. In May, insurance broker Callant Financieel Advies bought into claims management software developer Keypoint.

Brussels-headquartered auditor BDO International is aiming for 30 buys worldwide this year, as reported. Local consolidators include Foederer DFK -- which in January acquired D&D Accountants - - and ACS Accountants & Belastingconsulenten which in May rolled up LBO Accountants.

Another flagship of Belgian finance, insurer Ageas [EBR:AGS], is in the sights of conglomerate Fosun [HKG:0656], according to a newswire report.

Is Godiva coming home?

With family-owned firms pursuing buyouts over IPOs, the ECM outlook is mixed, Kumulus' Vivile said. Still, going public can bring branded companies extra exposure, he said. One consumer-facing business, fashion group FNG [EBR:FNG] floated in Brussels on 6 July, raising EUR 60m. However, the listing was hardly a roaring success, as the clothing retailer fell short of its original target of EUR 80m in primary proceeds and EUR 15m in a secondary offering.

Dossiers to watch include Yildiz Holding's [IST:ULKER] mooted carve-out of Godiva Belgium, a fourth banker and a fifth banker tracking the chocolatier said. Pricing comparables include Barry Callebaut [SWX:BARN], Chocoladefabriken Lindt & Spruengli [SWX:LISN], Rocky Mountain Chocolate Factory [NASDAQ:RMCF], Hershey Co [NYSE:HSY] and Mondelez International [NASDAQ:MDLZ], the fourth banker said. Yet Godiva's international profile could prompt it to list in New York instead of Brussels, the fifth banker said.

The most high-profile deal in the pipeline is the government's plan to float 30% of lender Belfius, a news report said on Wednesday (24 July). The earliest window for the deal would be mid-October, but no timeline has been set yet. This news service previously reported that preparations were ongoing for the listing, despite political pressure. The IPO would need to happen before mid-2019, so as not to run too close to federal elections pencilled in for that autumn.

Mind the Brexit

Despite the strong performance of the Belgian market, there are a few risk factors to its continued success.

The Flemish region's tight job market could yet dampen M&A. Rising labour costs could erode companies' margins, Vivile said. Oscillating raw material prices could also hit Belgium's petrochemicals and metal industries, he said.

Uncertainty over Brexit is another sticking point. Belgium is highly exposed to the UK, Vivile said. "How that ultimately turns out is certainly relevant," he concluded.
