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There is sees plenty of potential for acquisitions of French companies in 2006 and corporate buyers are expected to push financial sponsors hard for the most valued businesses. We asked some experts on the French market how do you see the prospects for the year ahead, and which sectors, companies and private equity firms do you think will be most active?"

The potential for French M&A in 2006

"Transction flow in France is extremely robust"

Transaction flow in France is extremely robust and one has to go back to 1999 to find such a level of activity. Interestingly, we see a strong rise in hostile activity, as investors welcome transforming transactions. As CEOs realise the market supports such bold moves, they are less and less resistant to embarking on such projects. Defence and attack are going to be two critical themes for 2006.

Large transactions will continue to take place, given the current support from both equity and debt markets. Similarly, LBOs should maintain a sustained pace following a very strong last 12 months, as larger and larger funds are raised and debt multiples remain at an all time high. We believe, however, that strategic corporates are likely to become more aggressive than in the past two years against private equity firms when in auctions for assets that fit their particular portfolio.

A number of the large transactions that took place last year are going to trigger continuing concentration in certain industries. In utilities, trans-


Pierre-Antoine Saunier

actions such as EDF/Edison, Suez/Electrabel, and Gas Natural/Endesa are reshaping the industry and all the majors have to consider their strategies. Telecoms has been one of the busiest sectors, with some significant moves including Telefonica/O2, and France Telecom/Amena and we believe the industry is poised to face a new wave of consolidation.

Some other sectors are also facing particular conditions, which could trigger some reshaping. For example, the automotive market is in a unique environment, where traditional global leaders such as GM and Ford are facing difficulties – which is opening windows for other players.

Finally, it would not necessarily be surprising to see some large companies with very diversified portfolios or a lack of obvious strategy being taken private, as the bigger private equity houses are looking at more and more complex transactions."

Pierre-Antoine Saunier, managing director, investment banking, UBS

"The drivers that have shaped the French M&A market during 2005 are not expected to lapse in 2006. For example, the tax environment has and will further accelerate corporate activity. For instance, in the real estate sector the 2003 reform of the SIIC status has dramatically accelerated property corporate activity in France. This should continue in 2006, with number of new corporate players that have emerged as newly listed SIICs. This will lead to further corporate activity, whether outsourcing real estate portfolios to gain financial flexibility – ACCOR or Casino – or the emergence of new sector-dedicated players – Foncière des Régions, for example – in addition to future consolidation among players.

Mixing the asset classes is pushing competition to further highs. It's a fact that liquidity in the financial market is high irrespective of the asset classes. We are now seeing 'cross-selling' among different asset classes, as illustrated by the simultaneous presence of private equity, mezzanine, hedge, securitisation and even PERE funds in some LBOs. At first glance, this should further contribute to the LBO players' aggressiveness. However, the stock market rally, the continued low real interest rates and the lending banks' eagerness should lead to a

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strong comeback of strategic corporates, which were considered as potential targets for LBOs (Saint-Gobain and BPB).

Finally, sector consolidation drivers will keep up the pressure. In the TMT sector, the full convergence trend (triple and now quadruple plays) combined with the stock market recovery in almost all segments of TMT will further push corporate players to contemplate and initiate 'strategic option reviews' on their respective markets (9Cegetel). For base and industrial product sectors, other drivers will keep pushing corporate activity. In addition, national barriers are falling, and globalisation and delocalisation are accelerating. Traditional corporates will be consolidators and/or consolidated (Mittal/Arcelor/Dofasco), while we should still see strong activity from private equity players, thanks to stable and high level cashflow."

Paul Le Clerc, CEO, Wagram Corporate Finance

"Last year saw another 12 months of frantic activity in the French market, as all the big private equity funds are trying to establish market share and show success on the Continent. Private equity funds will continue to face stiff competition from trade buyers, as we saw in December 2005 when France's second-largest champagne producer, Lanson, was acquired by Boizel Chanoine Champagne Group for €520m, with Butler Capital emerging as the under-bidder. This high level of competition is responsible for some uncommon trends in the market, such as sharing or forming consortiums, even on smaller transactions, so that private equity houses can put some money to work.

It has to be mentioned that the government's influence on deal making had no negative effect on the level and type of buyout in France, in particular the expected sale of Taittinger Group, which saw Starwood Capital win over local competition that included Eurazeo. Other politically sensitive deals in the defence and nuclear sectors were sold to foreign buyers. In September 2005, Qioptiq, the high-tech optic division of defence industry manufacturer Thales, was acquired by Candover Group in a deal valued at €220m. We will see this trend of foreign buyers continue in 2006, as we believe that the government's activity is posture rather than punch.

Several combining factors will further drive an increase in M&A activities in the French market in 2006. Some of these factors will be structural, for example, as in other European markets, French 'baby-boomer' entrepreneurs will approach retirement age and are seeking exit opportunities for the businesses they have built. Other factors likely to encourage M&A activity relate to the current economic and political environment, including specific tax exemptions on capital gains, restored profitability after years of downturn and the availability of debt to fund buyouts.

In 2005, the most active buyout players in this buoyant market were LBO France, AXA Private Equity, Barclays Private Equity, AtriA Capital Partenaires and Sagard Private Equity Partners, which all had a deal volume of close or more than €1bn, except for AtriA, which did €242m in deal volume. Dozens of players are now com-

Paul Le Clerc

Richard Winters

peting in this segment in France, mostly based in Paris (although such historical players as 3i or Siparex also operate regional offices. Some of these firms are independent, such as MBO Partenaires; others are backed by major retail banks such as Crédit Agricole's CAPE or Banques Populaires' SPEF, both prominent players. In 2005, more than 500 French companies were acquired through LBOs, and as private equity fundraising has reached new records, there is no doubt that French firms will stay in the foreground in 2006.

The year 2005 was excellent for large groups, and the long-expected comeback of strategic trade buyers should be seen in 2006. Increased profitability, reduced debt and attractive interest rates should reinforce external growth strategies, especially in fragmented markets such as transportation, healthcare, construction, and facilities management. This keen competition shown in 2005 will carry through to 2006 and the creativity and hard work each team will have to put into each deal will increase, separating the better and average houses."

Richard Winters, head of European Mergers and Acquisitions, Noble Group

"A noticeable feature of the current upturn in the M&A market in France is that the market of French companies acquiring foreign targets aboard has been significantly larger than the domestic M&A market. With the recent perceived tightening up of France's regulations on foreign investments in 11 'protected sectors' and the French government's decision to allow additional defences against hostile bids, an outsider would be forgiven for thinking that 'Fortress France' was closed to investors. In reality, a number of factors are combining to make the outlook for M&A in France for the next 12 months better than it has been for a long time.

With approximately 50% of all SBF 120 companies owned by a controlling shareholder in France, the M&A market in family-owned businesses remains active. These companies are often valuable assets and a number of them face generation planning issues. Selling to a third party appears an attractive option, as shown in the recent examples of Laboratoires Fournier, Taittinger and Galeries Lafayette.

Private equity investors are key players in these transactions and more generally across the M&A market in France, with approximately 25% of acquisitions made by private equity investors in 2005. The French private equity market is marked by international investors having to compete against large French funds, such as Eurazeo and Wendel; newer players such as Sequana Capital; and, in recent months, against non-financial buyers again.

The persistent rumours of possible bids by different consortia of financial buyers for some of France's large industrial conglomerates (unthinkable a few years ago) are a sign of how far the private equity market has come in such a short time. More recently, they have been joined by hedge funds, which have contributed in successfully blocking a bid for clothes retailer Camaieu twice in recent months, and more generally participated in an increase in shareholder activism in France, a trend that looks set to continue.

Antoine Vignial

Consolidation has started in certain specific sectors in France, such as defence, luxury goods and retail – in particular with Asian buyers trying to position themselves strategically in this market in France – and real estate, as players seek to take advantage of a new favourable REIT-style tax regime in France. The rest of 2006 is likely to see continued M&A activity in these sectors.

The M&A market in France has improved a lot over the past year and this is unlikely to be affected by recent changes to French law and regulations. There are currently a number of large transactions in the pipeline involving French companies. It remains to be seen which side of the transaction they will find themselves on over the coming 12 months!"

Antoine Vignial, head of M&A, and Alan Mason, corporate associate, Freshfields Bruckhaus Deringer, Paris