

Bpifrance promotes M&A among SMEs in bid to strengthen France's industrial backbone – Analysis (April 2015)

Proprietary Intelligence



Story

- Bpifrance's financing capability to reach EUR 8bn
 - Fels, Loyalty Expert, ADDEV among SMEs in acquisition mode
 - One-third of acquisitions are cross-border
-

Bpifrance, the public investment bank, is fast becoming a major player on the country's M&A scene as the government tries to address the shortage of strong mid-sized businesses driving the economy.

France's industrial backbone has long suffered from the fact that it is made up on the one side of companies too small to compete on the global market, and national champions on the other, with very little in between.

In order to help French companies grow, internationalize, and become more akin to their German Mittelstand cousins, Bpifrance is seeking to help smaller companies develop into Enterprises of Intermediary Size (ETIs) -- with more than 250 employees and revenues exceeding EUR 50m.

Bpifrance was created in 2012 from the combination of various agencies, providing traditional financing to promising small and medium-sized enterprises (SMEs) for new factories, new commercial networks, and new IT projects. Bpifrance has now gone one step further and created its own M&A department to assist companies with their external growth strategies. It also provides debt funding for acquisitions and guarantees bank loans for deals. When firms do not have sufficient internal financial resources to close a deal it can also contribute equity.



AURIGNAC FINANCE

The Bpifrance financing capacity dedicated to companies' development will increase to EUR 8bn, French President François Hollande announced on 3 April. In 2014, the volume of such financing reached EUR 1.8bn. Hollande also announced the creation of EUR 535m investment fund dedicated to encourage capital investment in French SMEs. The fund, to be launched in May, will be financed by international and French insurance companies.

To foster investment and the creation of jobs in France, Hollande said other measures will be announced and detailed at the French ministries' council on 8 April.

Consolidation effort gathering speed

Bpifrance mainly helps companies with sales of between EUR 5m-EUR 50m looking to make acquisitions. These are of little interest to traditional M&A actors because commissions on these deals are low and completion times long and laborious, said Jean-Marc Durand, director of Bpifrance's M&A Department.

One interesting feature is that companies getting help with their first acquisition are in most instances ready to continue on a path of external growth. **Jean-Rene Griton, partner and co-founder of Aurignac Finance, one of the M&A partners of Bpifrance**, said that until the 2008 crisis, only investment funds got SMEs closer together, and SMEs had trouble getting bank loans. The French government then stepped in to help small companies with acquisition projects through Bpifrance.

But there is still a long way to go. According to data provided by the Economics Ministry, there were only close to 5,000 ETIs in France in 2011, around half the number in Germany (12,000) and in the UK (10,000).

Although Bpifrance's teams started to work in 2013, their efforts are coming to fruition now. Among acquisitions signed but not yet closed there were 45 in 2013 and 54 in 2014. Completed deals amounted to 10 in 2013 and 22 in 2014. The path to closing a deal is long for small companies, a number of deals that are signed fail to come off, and this explains why a public bank is needed for that kind of endeavor.



AURIGNAC FINANCE

The 2015 harvest of external growth operations is beginning on an upward trend. For the first three months of 2015, 24 deals have already been signed, and Bpifrance is banking on a harvest of 60 to 70 signings in total this year. The bank has not provided the names on any of these deals yet.

Bpifrance never provides more than half of the financing for a deal, the rest comes from the companies' banks and in certain instances funds provided by managers. Also, the bank does not advise on disposals, only on acquisitions.

For instance, Bpifrance introduced Lyon-based Thivend (thin sheet metal work and assembly) to Alsace-based Fels Group (electromechanical engineering for automobile, aeronautics and rail industries) which was in an acquisition mode. The deal, announced in January 2014, created a EUR 30m-revenue player with 220 employees.

"We want to expand to become an ETI, similar to Germany's Mittlestand," said Bruno Russo, CEO of Fels Group. Bpifrance introduced the M&A boutique that found the target and provided one-third of the debt for the acquisition and the guarantees for the banking pool. Fels is now looking to make an acquisition in Germany.

Another case in point is **Loyalty Expert, a Lyon-based customer marketing firm**, very keen on external growth. **With the help of Bpifrance and Aurignac Finance, it bought Ile de France-based Correlations (animation of sales networks)**, increasing its revenues from EUR 7m to EUR 22m. The deal was completed in March 2014 and the company is already looking for a new target.



Cross-border search

French SMEs are also being encouraged to make acquisitions abroad. In fact, one-third of all acquisitions involve a foreign country, according to Bpifrance data.

The privileged partner for such operations is Pramex, a French M&A firm specialized in international operations, with particular strength in the US. It helped ADDEV (high performance materials for industry) which had EUR 50m in revenues, to acquire Materials Converting (Milwaukee) and Focused Solutions (Cleveland) to strengthen its adhesive and electrical insulation divisions. Both deals were done in March 2014. ADDEV has gained EUR 7.5m in additional revenues from the deals and can now consider itself an ETI.

“Synergies expected are now being realized,” said Nicolas Fournier, strategic manager of ADDEV. “For us, these acquisitions have been the first step to penetrate the North America market.”

ADDEV is now envisaging new buys in the US or Canada, Fournier said. “The US is a very dynamic market, many clients and suppliers are based there,” Fournier added.

Jerome Dupas, managing director of Corporate Finance at Pramex, said most companies want to expand abroad but they lack an international culture and have difficulties accessing funds. Bpifrance can help these to find the necessary investment funds and if need be a capital increase to help them get a more international focus.

In 2014, Pramex has registered more demand and greater growth in acquisitions abroad, ad 2015 will also be a good year, Dupas said.

To pick up targets, Bpifrance has a network of 600 agents though six regions in France that scout for companies. The scope is large as BPI can provide M&A financing to any of the 200.000 enterprises that are clients of the bank, because they already receive traditional loans from Bpifrance. But Bpifrance only picks those with more than EUR 5m in sales.



AURIGNAC FINANCE

Such agents will then submit names to six executives in charge of M&A support who will make the final choices. The challenge is to find managers with the right psychological profile and drive to become larger, Durand said.

Economy Minister Emmanuel Macron now wants to go one step further with a new program, the SMEs accelerator. Some 70 companies have been selected for the first “class” and they will be accompanied for two years.

They will get a diagnosis of their weak and strong points from consulting firms, collective training, financing, and M&A help. The program is co-financed by the French government, Bpifrance, and the companies in the program.

The Economy Ministry indicates that the companies selected come from most French regions, from diversified sectors (industry and services). They have average revenues of EUR 22m and employees of 105, and 34% growth over the last three years.

by Blanca Riemer and Arezki Yaiche in Paris