andera INSIGHTS

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To grow or perish: the necessary Europeanization of French SMEs

While the European single market creates innumerable opportunities for French companies looking to scale up, many managers find it difficult to take the plunge: cultural, psychological and legal barriers, difficulties in planning for the long term... All these obstacles are likely to limit the ambitions of the most competitive SMEs within national borders. This pool of untapped growth opportunities exposes national companies to absorption by larger players. And yet, solutions do exist to help SMEs expand their playing field into the European market.

Creating a French Mittelstand: a challenge for development and independence

The harmonization of member states' regulations has greatly simplified the Europeanization of companies: equivalent models, open markets and identical regulations. Even so, some French companies remain satisfied with being only national leaders.

Moreover, France has a very specific economic landscape, made up of very small businesses and large groups, with very few ETIs, compared with Germany, for example, and its famous Mittelstand. French SMEs often reach the critical size to lead their national markets, but struggle to break through the glass ceiling to conquer larger markets. Yet the single market is the ideal playground for SMEs to scale up and become ETIs.

"Currently, many SMEs and small and medium-sized companies that encounter the limits of the national market end up being bought out by large groups, whether French or foreign, before they have reached their full potential. The Europeanization of French companies is becoming an issue of sovereignty, and the support of Private Equity funds towards this Europeanization is more strategic than ever, in particular to finance and accompany the success of external growth operations abroad", stated **Laurent Tourtois, Andera MidCap partner.**

Sectors are also becoming more European

Business sectors do not wait for French companies to change scale. On the contrary, some companies are taking advantage of the expansion of their sector to become Europeanized and leaders in their field.

For historical reasons and market trends, certain sectors are bound to move from a national to a European scale.

For example, the Covid crisis made it unthinkable to envisage a healthcare sector confined to a national ecosystem. The free movement of goods and people within the European Union meant that the solution to the pandemic had to be on the same scale. In the same way, the various sectors of the digital world will undergo a high degree of Europeanization. For reasons of competitiveness, only European-sized companies will be able to build Europe's competitive efficiency. For an SME, going international means above all supporting the development of its main customers.

Often, these players are already internationalized at some level, whether in terms of the composition of their teams, their board of directors, or the identity of their investors. This means that they are already attractive on an international level, and that Europeanization is a missing step and a logical next step.

The European adventure: a challenge for business leaders

For human-scale companies operating within the national market, Europeanization represents a real challenge, one that managers sometimes find difficult to overcome. Companies sometimes need support to overcome a number of obstacles, whether strategic, operational or financial.

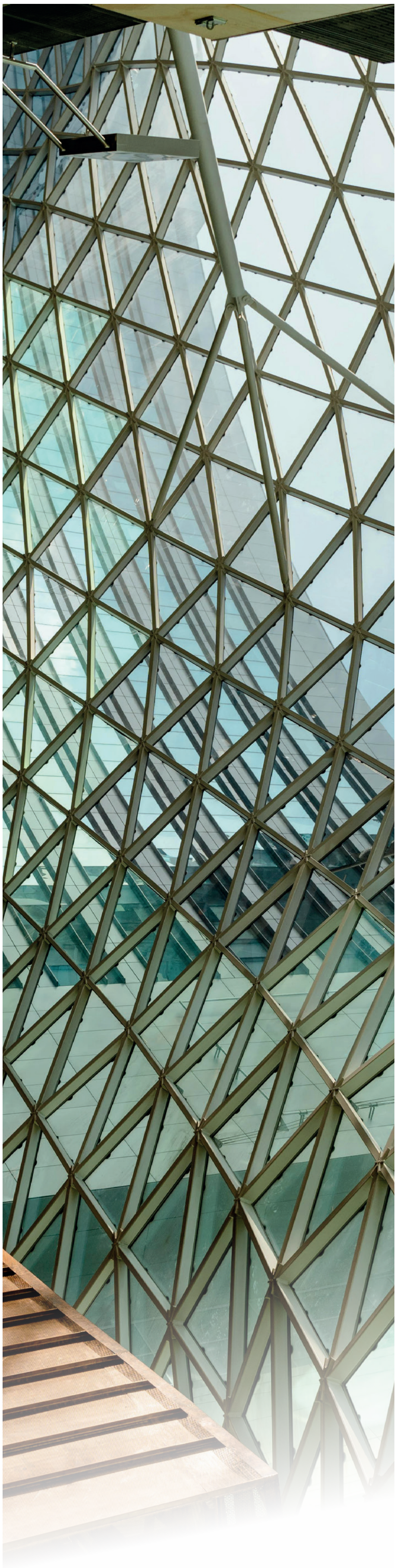
Europeanization requires a long-term strategy. In the short to medium term, a company's growth potential in the home market is generally the main focus of its strategy. However, Europeanization is not necessarily a subsequent step in the development of the home market. In fact, the two stages may be concomitant. An initial Europeanization at a less advanced stage of development can kick-start a virtuous circle of international growth. It also means that the energy released by a period of rapid growth can be mobilized at the right time.

For **Olivier Le Gall, partner in the Andera Expansion team**, "the first Europeanization is particularly formative for managers. Whether it is the opening of a commercial or industrial subsidiary or the acquisition of local players, it enables them to break the deadlock and to conquer new markets. It is also a significant challenge internally as it requires stronger teams, systems as well as operational and financial process, so as to reduce risks and maximize chances of success."

Setting up in a new country: how best to prevent setbacks?

Set-up costs, unfamiliarity with foreign markets, differences in tax and social standards... The road to your first international expansion seems full of pitfalls, discouraging entrepreneurs who want to try their hand at the European adventure.

This is where market analysis skills need to be mobilized, so as to gradually acquire an understanding of the country and market in which the company intends to establish itself. It is often the creation of a detachment of the sales team, dedicated to the target country, that will enable it to gain a foothold in this new environment.



Initial contacts with prospects provide information about the company's potential in the market and the adjustments that need to be made. But the best way to accelerate international development is still through a build-up. It offers a highly advantageous risk/return profile, provided the risk is well managed. This is precisely where asset management companies can make their strategic contribution and support the manager in this decisive phase.

Becoming European: a profound transformation of the company

The harmonization of standards, like the absence of customs barriers, never guarantees the success of European projects. Differences in customs, language, market, mentality, etc. require company managers to assess the substantial change that is sometimes required by the Europeanization process.

Thus, companies need to become truly European. Managers need to guide them beyond the simple acquisition stage, creating a common corporate culture and cross-functional management. All too often, companies make acquisitions in neighboring countries without creating the link that a sufficiently structured internal organization would enable, and Europeanization strategies remain too superficial. Effectively integrating companies into a coherent whole by creating real governance is one of the essential keys to success.

"This requires a solid integration plan, capable of overcoming linguistic and cultural barriers. This very effort reduces the risk of a failed graft and makes the acquisition complete. The creation of an integrated, consistent group allows for a truly valuable acquisition", continues **Mayeul Caron, partner in the Andera Expansion team.**

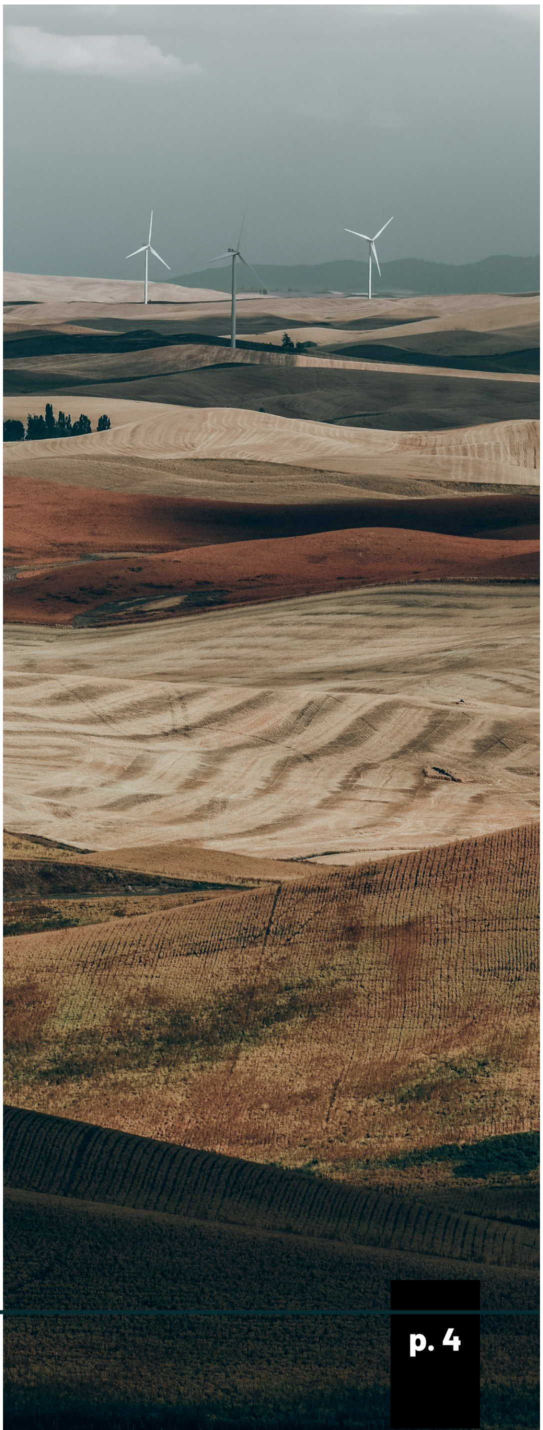
For Andera Partners, French companies, but also more broadly European ones, need to think of Europe as their natural commercial outlet. Already in 2023, half of the external growth operations of Andera Partners' holdings took place outside France. The growing strength of our Milan, Munich and Antwerp offices gives our management company a resolutely pan-European footprint, a real asset for the companies we support.

Renewable energies: what ambitions for France and Europe?

To accelerate Europe's energy transition and meet its CO2 emission reduction targets, €260 billion a year in financing will have to be mobilized over the decade 2020-2030. As a new European mandate begins, EU has set a target of a 42.5% share of renewable energy in final energy consumption by 2030. Two indicators that reflect the urgency and scale of the efforts required to reshape Europe's energy landscape.

Europe presents a contrasting landscape when it comes to energy transition. Historically, France has played a pioneering role in the adoption of a decarbonized energy mix, mainly thanks to its massive investment in nuclear power. However, at a time when renewable energies (RE) are becoming an essential part of the global energy transition debate, France seems to be lagging behind. Paradoxically, in 2023, France once again became a net exporter of energy. This seemingly positive turnaround conceals deeper challenges, notably a growing dependence on nuclear energy, with ever-increasing costs to develop future generations of reactors.

This could leave France in a vulnerable position, with the potential to be a net importer of energy by 2030. Such a reversal of its status as an “energy richer” is not without consequences, not least for its economic attractiveness. Historically, France's competitive energy costs, combined with a favorable carbon footprint, have been a key factor in attracting foreign investment, particularly in the most energy-intensive sectors. Faced with rising energy prices, resulting on the one hand from increased import dependency and on the other from the need to catch up on investment in renewables, France could see its competitive advantage eroded.



Other EU countries seem to be much further ahead with renewable energies. Germany, although still dependent on gas and coal, has a record number of solar installations and 52% of its electricity consumption comes from renewable energies. Spain and Portugal have also made significant progress, exploiting their favorable climate to develop solar and wind power. In 2023, Spain reached an important milestone, generating more than half of its electricity from renewable sources for the first time, with annual production reaching almost 135,000 gigawatt-hours, or 50.4% of its energy mix. Megaprojects in sparsely populated areas of northern and central Spain have played a key role in this success, benefiting from significant investment policies. A notable example: the Andera Infra team recently invested 25 million euros in Spanish developer Ingesnostrum to support the development of large-scale renewable energy projects in Spain. An investment that highlights the importance of strategic partnerships between developers and investors in accelerating the energy transition.

Portugal, meanwhile, has overtaken Spain in percentage terms, with renewable energies providing 61% of the electricity consumed in the country by 2023.

In this unstable context, the question of energy costs is crucial. With the rising cost of nuclear power, which accounts for 70% of the French energy mix, renewable energies are emerging as a competitive alternative. With forecasts of a significant drop in costs over the coming decades, renewable energies could well be the key to Europe's energy independence.

At the same time, the USA and China are leading the way with massive investments in the sector, underlining the stakes of global competition in this field. According to Carbonbrief, the ENR sector was the main driver of China's overall economic growth in 2023, accounting for 40% of GDP expansion. These efforts are essential to position economies for sustainable, competitive growth.

Diversification of renewable energy sources is also becoming essential. Beyond wind and solar power, already well established in the energy landscape, lies a range of under-exploited resources. Hydropower, for example, with its dams and small hydroelectric facilities, offers a decarbonized and reliable source of energy, capable of adding significant capacity to the energy mix. Similarly, biomass and biogas, derived from the processing of organic waste, constitute a valuable resource for the production of renewable energy and heat. Although these sources require careful management to ensure their sustainable integration into ecosystems, they open up promising prospects for diversifying and strengthening Europe's energy independence. A sustainable energy future relies on a holistic approach, embracing all facets of the renewable spectrum, to design a resilient and adaptive mix.

This diversification is crucial not only for energy security, but also for ecological resilience. The integration of these diversified technologies would reduce dependence on energy imports and create a more flexible energy system, less vulnerable to fluctuations in traditional sources.

The wide disparities between member countries clearly show that, although progress is being made across Europe, greater efforts are needed to achieve the ambitious targets set for 2030. Aligning national policies with Europe's "Green Deal" ambitions is crucial to fostering a just transition to a sustainable energy future.

Potential repercussions of the new political situation in Europe on green energy markets and investment opportunities will have to be closely monitored. The focus on transnational cooperation represents another critical dimension for the RE sector. The policies adopted by the EU on energy interconnections, shared renewable energy projects and research and development can either accelerate or hinder market growth.

Investment in energy transition infrastructures represents a major opportunity for financial players, offering a market of great depth with attractive and stable financial returns. The recent successful closing of the Andera Smart Infra 1 fund illustrates this dynamic and the market's interest in financing renewable energy, energy efficiency and energy storage projects.

Investment in life sciences: the 2024 environment in 3 key figures

The life sciences sector showed encouraging signs of recovery in early 2024, thanks in particular to renewed interest in follow on issues and initial public offerings (IPOs) and successful industrial exits. Will this year mark a turnaround for investors in this field?

IPOs and follow on offerings – nearly $30 Billion raised in the first half of 2024 on public markets

The first half of 2024 saw a record level of financing raised on public markets in Europe and the USA, with $29.8 billion raised through IPOs, PIPEs, or follow on offerings. This record level for a single semester compares with $27.2 and $29.8 billion raised on public markets in 2022 and 2023, respectively, and with $55.5 and $48.9 billion raised in 2020 and 2021, during the market peak linked to the pandemic. So far, this strong resurgence in public market financing has been driven by follow on offerings ($16.8 billion) and PIPEs ($10.8 billion). We are currently seeing a limited reopening of the IPO window for biotech companies after a notable slowdown in 2022 and 2023, due to the large number of life sciences companies that went public with high valuations at the peak of the pandemic. The subsequent market correction led to a decline in public investor appetite for new listings and a drop in post-COVID valuations. Thus, in the first half of 2024, 16 IPOs raised $2.5 billion, compared to $3.8 billion raised in 22 IPOs throughout 2023. This first half of the year suggests a slight recovery, though still quite limited at this stage, compared to the $6.4 billion raised in 73 IPOs in 2019.

M&A – 48 M&A deals for $140 billion in the first half of 2024

The continued increase in mergers and acquisitions (M&A) activity is also a positive sign, with $140 billion in the first half of 2024 across 48 deals, compared to $156 billion in value across 112 deals in 2023. A number of major transactions have taken place, such as Karuna – BMS for $14 billion, Immunogen – AbbVie for $10 billion, and SeaGen – Pfizer for $43 billion. There were 18 M&A transactions over $1 billion in the first half of 2024, compared to 28 transactions in 2023, and only 20 in 2022. These significant deals exceed pre-pandemic levels and demonstrate a dynamic market ready to invest in high-value opportunities.

Private financing – increase in the average size of funding rounds

After two years of contraction following the pandemic-related peak, the number of private financings stabilized in the first half of 2024, with $15.4 billion raised across 342 private rounds, compared to $23.8 billion raised in 718 in 2023. The average size of funding rounds has thus increased, indicating heightened interest in companies deemed promising. This trend suggests a concentration of capital towards projects considered to have higher growth and return potential, essential for maximizing impact and mitigating risks.

As the market continues to mature and life sciences companies advance in their clinical and commercial developments, investment opportunities become clearer and potentially more lucrative. The sector, often perceived as riskier compared to other areas like tech, is now demonstrating its ability to offer competitive returns, thus attracting a broader range of institutional and private investors.

AMOLYT PHARMA

The example of the sale of Amolyt Pharma to AstraZeneca for over 1 billion euros illustrates the potential for M&A exits and the dynamism of the sector in France and Europe. This acquisition of Amolyt, the first investment by Andera Partners' BioDiscovery 6 fund, which develops key innovations for rare endocrine and metabolic diseases, highlights the vitality and growth potential of the sector.

In conclusion, the outlook for the life sciences sector seems to be brightening in 2024, after two years where only private investments remained at high levels. The quality of science and innovation in the sector is reflected in strong private financing for companies developing products with the highest transformative potential for the healthcare system. Coupled with a gradual reopening of financing on stock markets and a strong resurgence in mergers and acquisitions by major strategic players, this signals a promising future for the asset class.

« 2024 could mark a turning point for our asset class. The dynamic recovery of M&A exits reflects the quality of innovation coming from biotech and medtech companies, and the initial reopening of stock markets demonstrates the sector's ability to create value. »

Raphaël Wisniewski, Andera Life Sciences' team Partner

ENTREPRENEURS

3 questions to Denis de Becker, Chairman and CEO, Orest Group

Denis De Becker is Chairman and CEO of Orest Group, France's leading jewelry manufacturer, which was sold by Andera Partners and Bpifrance to LVMH almost a year ago, after tripling in size in 4 years and completing two major acquisitions.
Entering the Andera Partners portfolio in October 2018 on the occasion of a majority primary LBO led by Andera Expansion, a team dedicated to smallcap investment, alongside Bpifrance and its CEO Denis De Becker, Orest is the European benchmark in terms of jewelry production.

1. What were the key strategies implemented by Orest and Andera to triple in size in four years?

Orest's impressive trajectory is set against the backdrop of a particularly dynamic high-end jewelry market. At the heart of this organic growth is a notable synergy with Andera Partners, which has encouraged investment without imposing constraints, thus facilitating the Capex necessary for Orest's development.

Acquisition strategy also played a crucial role, notably with the successful integration of BD Product in January 2022, which rapidly doubled its results, and the strategic purchase of the Abysse group in July 2022, propelling Orest to the position of leader in the fine jewelry industry in France, and indeed in Europe. These strategic moves not only broadened Orest's product portfolio, but also captured the interest of customers and luxury houses, which admired Orest's long-term production capacity.

The partnership with Andera Partners and Bpifrance has proved particularly fruitful,

The role of Andera Partners was crucial in achieving our strategic and operational objectives. When we decided to open the capital to a fund, it was important to find a long-term partner. Typical investment funds offered average terms of 3 years, which didn't seem sufficient for our industrial logic. So, a partnership was established with Andera Partners with a target term of around 5 years, with a discussion clause after 4 years, so that we wouldn't be under pressure to value the company very quickly. In particular, this enabled us to commit to ambitious Capex.

2. How did Andera's support help you get through the Covid crisis?

Andera Partners provided Orest with the support it needed to navigate through this difficult period of COVID-19, without sacrificing investment or continuity of operations. While the country was largely at a standstill, the company benefited from a strong order book, which meant it was able to avoid ceasing operations altogether in 2020.

Thanks to the confidence and support of its financial partners, the company did not have to undergo any restructuring plans or investment stoppages, and was able to remain the main supplier capable of restarting quickly after the crisis. This decision to continue in July 2020 proved extremely beneficial, particularly when the market rebounded.

3. How do you see Orest evolving within LVMH?

Faced with a promising future, Orest aims to continue its ambitious growth, despite a slight slowdown due to fluctuations in the Chinese market. The emphasis is on maintaining double-digit growth, supported by ongoing investment in human resources and training, in order to overcome the shortage of skilled workers in the jewelry industry.

The commitment to excellence and innovation has resulted in the creation of new production facilities and the development of training centers, demonstrating Orest's ability to adapt and evolve in a demanding sector. The acquisition by LVMH opens up new avenues, including support for Tiffany's growth in Europe, while preserving relationships with other luxury customers, testifying to Orest's unique position as a preferred supplier to the industry.

The particularly fruitful relationship we have built up with the Andera Partners teams over the past 5 years, marked by mutual trust and understanding, has enabled us to approach this new phase with confidence and ambition.