2020

PCPI Q2
PRIVATE COMPANY PRICE INDEX

NO SURPRISES:
TRANSACTION VOLUMES SLUMP IN Q2

As predicted last quarter, lockdown of the markets had a significant impact on M&A deal volumes in Q2. Overall, deal volumes slumped by 57% with just 250 deals recorded in the quarter, down from 582 in Q1. Trade deal volumes fell by 58% to 214 deals and 36 PE deals were recorded, a drop of 53%.

As lockdown was imposed at the end of Q1, a sudden impact was seen in the markets, but interestingly no further deterioration was seen, with M&A volumes remaining steady month on month through Q2. Notably it was businesses in resilient sectors including technology, healthcare, pharma and food & drink that continued to transact.

While deal volumes saw a significant reduction, businesses that were still transacting saw values holding firm on the whole. Trade multiples were maintained at 10.1x, while PE multiples contracted to 10.3x (11.8x in Q1). Meanwhile the FTSE all share rebounded to 11.8x.

Roger Buckley, M&A Partner at BDO LLP commented:

“Deals completing in Q2 achieved multiples that were broadly in line with terms agreed pre-lockdown. However we expect to see a mixed picture going forwards. Some hard-hit sectors are likely to be absent from the M&A arena, while earn-out structures will become increasingly important to get deals over the line.

Businesses which continue to transact are likely to be those in resilient sectors, which in turn should continue to attract decent multiples. Given these dynamics, it is of course possible that valuations could even increase in some resilient sectors such as tech, pharma and food & drink as the money chases safe havens, and competition increases for a smaller population of businesses.”

Read more in the PCPI sector spotlight blog:
A rise of prominence in the face of adversity – what has changed for IT managed services (ITMS) and unified communications (UC)?

If you would like to know more about how to value or understand M&A market dynamics for your company, please contact a BDO representative (overleaf).

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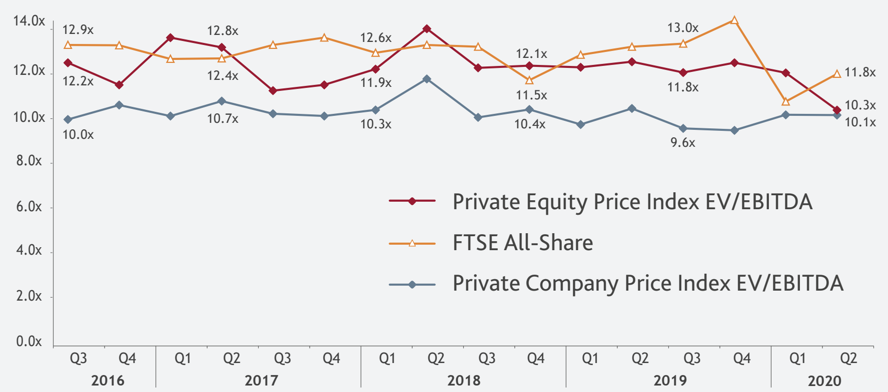
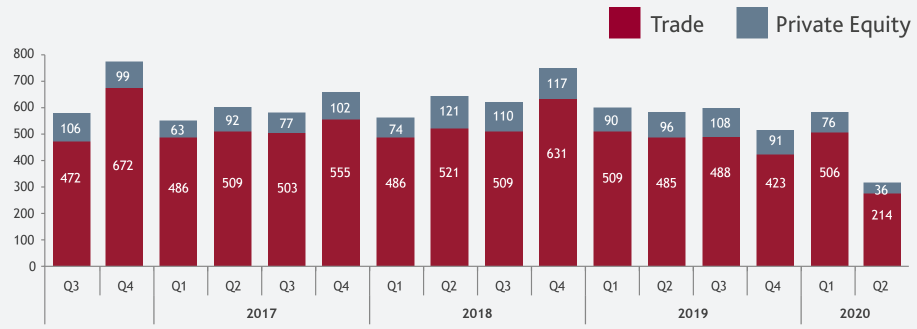
PCPI V PRIVATE EQUITY | Q3 2016 – Q2 2020



Q3 2016 TO Q2 2020 | VOLUME OF DEALS COMPLETED



MAKING THE MOST OF THE PCPI/PEPI

The PCPI incorporates Enterprise Value to EBITDA multiples as the method of valuation.

The PCPI/PEPI tracks the relationship between the Enterprise Value (EV) to Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) multiple (EV/EBITDA) paid by trade and private equity buyers when purchasing UK private companies.

The private company EV/EBITDA is calculated from publicly available financial information on deals that complete in the quarter. At present, the Private Company Price Index (PCPI) indicates that, on average, private companies are being sold to trade buyers for 10.1x historic EBITDA. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 10.3x historic EBITDA.

As private companies are generally owner-managed, reported or disclosed profits tend to be suppressed by various expenses that may be non-recurring under a new owner.

This will have been factored into the price the purchaser paid, but may not be reflected in the profits declared to the public.

The effect of this is that the EV/EBITDA paid as calculated from the publicly available information may be overstated. The PCPI/PEPI is calculated as the median of EV/EBITDA for deals where sufficient information has been disclosed. The PCPI Enterprise Value trailing four year average declines to £13.7m for trade deals.

The included deals for the PEPI maintains an average Enterprise Value of £41m for private equity deals.

The PCPI/PEPI is an average measure and a guide, not an absolute measure of value, as there are many other factors that can have an impact on value.

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