

2019

PCPIQ4

PRIVATE COMPANY PRICE INDEX

'TIME FOR A LITTLE PERSPECTIVE' AS M&A TRANSACTION VOLUMES DECLINE IN Q4

BDO's latest analysis of M&A transactions shows that deal volumes were down by 13.8% from Q3 with a total of 514 transactions completing in the final quarter of 2019. The picture was the same across trade and private equity, with trade volumes declining by 13.3% to 423 deals, and private equity transactions dropping by 15.7% to 91. Compared with the same quarter a year ago, volumes were down by a third.

Looking at the year as a whole, BDO's PCPI / PEPI report reveals 2290 deals completing in 2019, representing a decline of 10.9% compared with 2018, the lowest volume since 2015.

However, while deal volumes are down, high demand for quality assets is maintaining healthy valuation multiples. The PEPI, which reflects private equity valuation multiples, saw a small fluctuation up to 12.2x from 11.8x in Q3, in line with the steady profile seen throughout the last 18 months. Meanwhile trade valuations recorded a respectable multiple in the quarter, demonstrated by the PCPI multiple of 9.5x in Q4 2019 (from 9.6x in Q3 2019). The FTSE, another indicator of market confidence, rose to a historic high of 13.9x as the Election result gave greater clarity to the market.

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

“Quarter 4 2019 was beset by delays and slow deal processes, with a number of acquirers and business owners sitting on their hands to see how political events unfolded. While the headline quarterly figures of deal volume might appear concerning, a look back over a longer period puts this quarter's performance in perspective. Based on current activity, we expect Quarter 4 to be a short-lived fluctuation. The decisive outcome of the General Election is spurring activity again, with initial indications pointing to a bounce back in deal volume for 2020.”

Read more in PCPI sector spotlight blog:

Why investors should look at boutique gyms and competitive socialising, discussing whether consolidation is the key to unlock long-term success in the sector.

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).

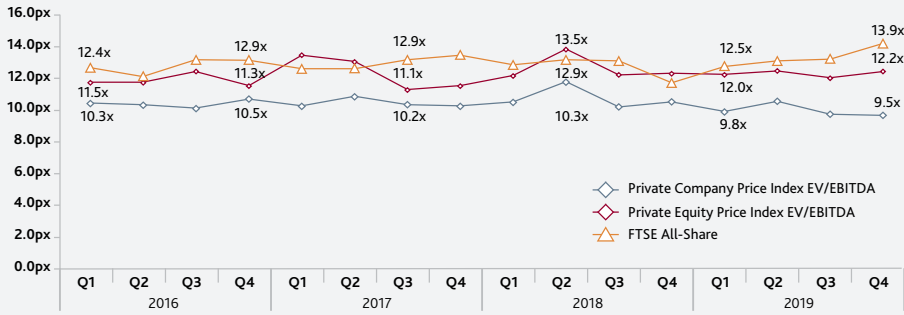


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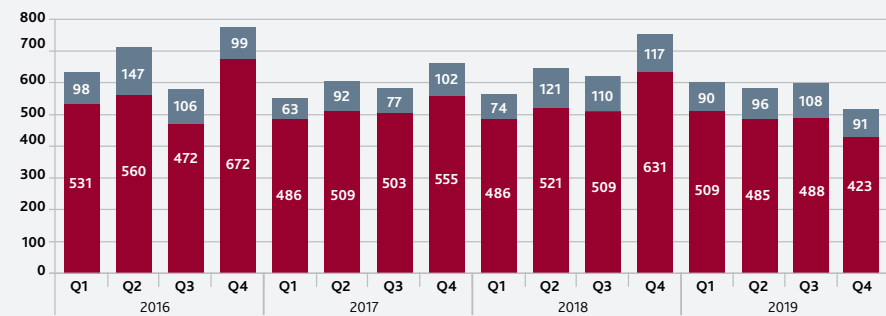
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PCPI: PEPI: FTSE COMPARISON | Q1 2016 - Q4 2019



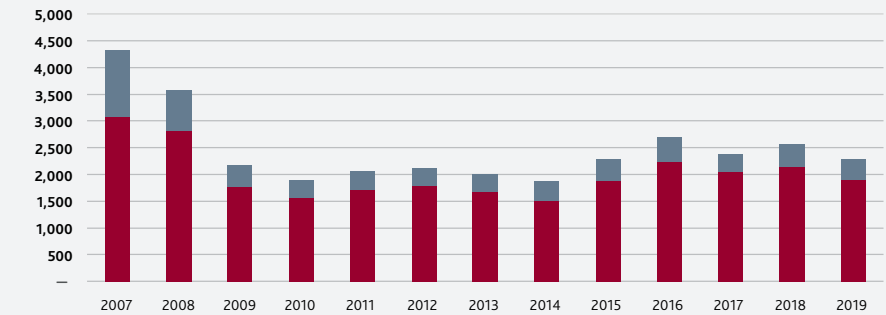
Source: MarketIQ, mergermarket, Fame and BDO research

VOLUME OF DEALS COMPLETED | Q1 2016 - Q4 2019



Source: MarketIQ

ANNUAL DEAL VOLUMES | 2007 - 2019



Source: MarketIQ

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 9.5x historic EBITDA. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 12.2x 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. Over the four years to end of Q4 2019, the included deals for the PCPI have had an average Enterprise Value of £14.1m.

The included deals for the PEPI have an average Enterprise Value of £40m.

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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