

2018

# PCPIQ4

PRIVATE COMPANY PRICE INDEX

## M&A SURGES IN Q4: DEALMAKING APPETITE REMAINS STRONG

2018 finished with a flurry of deals with a total of 748 deals completed in the fourth quarter.

The resilience of buyers and dealmakers has defied prevailing economic and political uncertainties with a flurry of deals to close 2018.

BDO's latest analysis of M&A transactions reveals that deal volumes were up by 21% in the final quarter of 2018 with a total of 748 deal completions.

Q4 was by far the busiest quarter of the year, with both trade and private equity seeing significant increases in deal volumes. Overall, 2018 saw 2,569 deals completed which represents an 8% increase on 2017 volumes.

Likewise, valuation multiples held firm, with private equity continuing to pay higher multiples on average than trade. Trade multiples rose slightly to 10.4x and the PEPI saw a small increase to 12.1x in Q4 confirming the abundance of investment capital available and the willingness to pay well for attractive assets. Towards the end of Q4, the FTSE all share index dropped to 11.5x, the lowest level seen in four years and potentially a harbinger of a 2019 valuation decline in private company M&A.

“ The M&A market has remained resilient, with strong transaction volumes and values persisting through to the end of 2018. BDO was the no1 M&A adviser by volume in 2018 and we saw huge capital flows in the market fuelling demand and outstripping supply. Whilst, these fundamental market dynamics continue to exist, the latest BDO Business Trends report and decline in the FTSE all share index at the end of 2018, highlight stronger headwinds for M&A at the start of 2019. ”

Roger Buckley | M&A Partner at BDO LLP

Find out more in PCPI sector spotlight blog, which looks at the Private Equity market trends.

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).

### 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 10.4x historic EBITDA. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 12.1x 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.

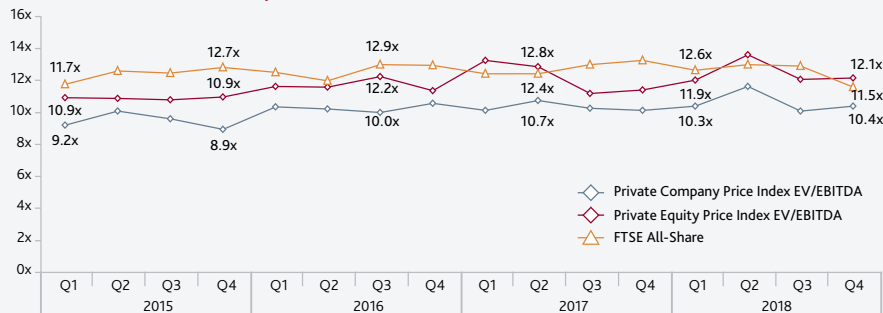
This will have been factored into the price the purchaser paid, but may not be reflected in the profits declared to the public.

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 2018, the included deals for the PCPI have had an average Enterprise Value of £16m.

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

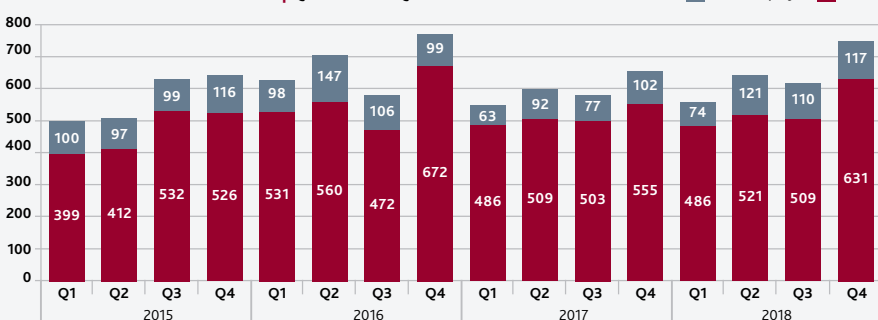
The PCPI/PEPI is an average measure and a guide, not an absolute measure of value, as there are many other factors that can have an impact on value.

PCPI: PEPI: FTSE COMPARISON | Q1 2015 – Q4 2018



Source: MarketIQ, mergermarket, Fame and BDO research

VOLUME OF DEALS COMPLETED | Q1 2015 TO Q4 2018



Source: MarketIQ

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