

2018

PCPI Q3

PRIVATE COMPANY PRICE INDEX

NO DAMPENING IN APPETITE TO TRANSACT, ESPECIALLY FOR PE

The M&A market remains on course for another year of strong deal making with a further 619 transactions completed in Q3.

The PE market is particularly healthy, with 305 PE deals recorded so far in 2018. Full year volumes of PE deals are expected to be well ahead of 2017, which saw 334 deals complete. In spite of the economic and political uncertainties arising from Brexit negotiations, the M&A market remained settled and strongly committed to completing transactions.

Our latest analysis reveals that the Private Company Price Index (PCPI), which tracks the multiples paid in trade deals, has seen gentle fluctuations between 10.0x and 10.7x since the beginning of 2018, and remains in line in Q3 with a multiple of 10.0x.

Volumes are resilient and are in fact up by 7% compared with Q3 2017. Valuations are holding firm, with double-digit EV/EBITDA multiples continuing in Q3 2018.

The second quarter of 2018 was notable for an uptick in valuations. In the third quarter of 2018, the PCPI returned to the levels seen over recent quarters. The Private Equity Price Index (PEPI), which tracks the multiples paid by private equity buyers, has seen average valuations fluctuating a little more, but continued to reflect the long-term trajectory of attractive valuations in Q3.

Have we hit the top of the market? No-one knows for certain, but we see no slowing in the market with a robust profile of ongoing M&A activity and significant levels of corporate and PE capital seeking the right transaction.

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, replacing the previously used Price to Earnings ratio. These changes have been made to incorporate the level of debt in deals and to use a less subjective measure of profitability. Historical data has been incorporated to ensure comparability and to identify trends.

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.

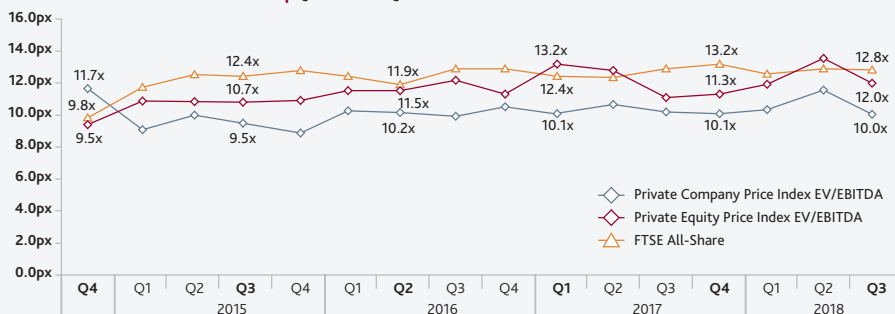
The private company EV/EBITDA is calculated from publicly available financial information on deals that complete in the quarter. At present, the Private Company Price Index (PCPI) indicates that, on average, private companies are being sold to trade buyers for 10.0x historic EBITDA. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 12.0x 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 arithmetic mean of EV/EBITDA for deals where sufficient information has been disclosed. Over the four years to end of Q3 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.

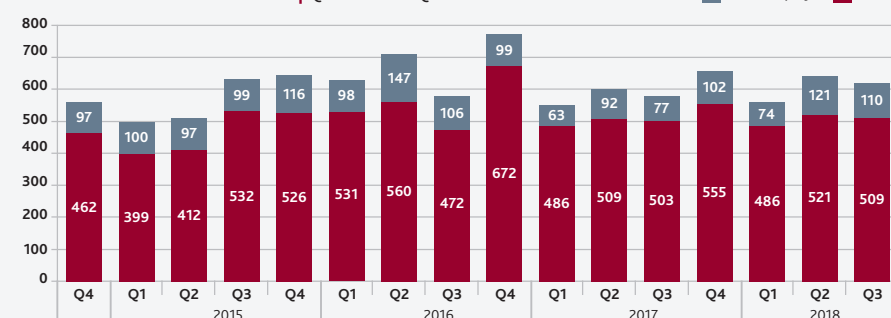
The PCPI/PEPI is an average measure and a guide, not an absolute measure of value, as there are many other factors that can have an impact on value.

PCPI: PEPI: FTSE COMPARISON | Q4 2014 – Q3 2018



Source: MarketIQ, mergermarket, Fame and BDO research

VOLUME OF DEALS COMPLETED | Q4 2014 TO Q3 2018



Source: MarketIQ

FOR MORE INFORMATION:

BIRMINGHAM

roger.buckley@bdo.co.uk
0121 352 6213

john.stephan@bdo.co.uk
0121 265 7264

BRISTOL

laura.shaw@bdo.co.uk
0117 930 1629

CAMBRIDGE

peter.hemington@bdo.co.uk
020 7893 2344

GATWICK

jamie.austin@bdo.co.uk
0207 486 5888

IPSWICH

keith.ferguson@bdo.co.uk
0147 332 0755

LEEDS

jason.whitworth@bdo.co.uk
0113 204 1237

LONDON

jamie.austin@bdo.co.uk
0207 893 3805

LONDON

peter.hemington@bdo.co.uk
0207 893 2344

ross.mcdonald@bdo.co.uk
020 7893 2192

LEICESTER

john.bryant@bdo.co.uk
0115 962 9260

LIVERPOOL

jason.whitworth@bdo.co.uk
0113 204 1237

MANCHESTER

jason.whitworth@bdo.co.uk
0113 204 1237

NORWICH

keith.ferguson@bdo.co.uk
0147 332 0755

NOTTINGHAM

john.bryant@bdo.co.uk
0115 962 9260

READING

duncan.lamb@bdo.co.uk
0238 088 1796

SOUTHAMPTON

paul.russell@bdo.co.uk
0238 088 1796

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