

2021

# PCPIQ1

PRIVATE COMPANY PRICE INDEX

## HUGE SPIKE IN Q1 M&A DEAL VOLUMES, WITH A SURGE IN PRIVATE EQUITY CONFIDENCE

In Q1, there was a huge spike in M&A deal volumes, with 776 transactions completing, the highest level for 13 years. While Q4 2016 came close with 771 deals, the last time these levels were exceeded was in Q2 2008, 13 years ago.

The rise in volumes, which represents an 8.2% increase on Q4 activity levels, reveals a market continuing to catch-up on deals following last year's lockdown hiatus, and an acceleration to complete transactions before the rumoured rise in capital gains tax.

Trade deals were up 3.4% to 612 deals, the highest since Q4 2018. But it was private equity which demonstrated the most significant surge in confidence, with volumes up 31.2% on Q4, to complete 164 deals. The last time over 150 deals was recorded for PE was in Q2 2008.

Amid the bustle, deal values remained strong. Trade multiples edged up to 10.6x (Q4 10.2x), while PE multiples maintained strength at 12.3x (Q4 12.2x). Meanwhile, the FTSE all-share continued to soar, delivering a record multiple of 16.8x (Q4 14.8x), reflecting market valuations based on current year earnings rather than the 2020 dip in performance.

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

“ We saw an astonishing quantity of deals completing in the first quarter of this year, which was driven by a number of factors including catch-up activity, the potential rise in CGT, and a considerable step-up in private equity investment. Private equity raised £55.3bn in the UK in 2020, up from £52bn the previous year – they have huge quantities of cash that needs to be deployed in the market. Private equity increased their share to 21% of all deals completed in Q1, up from 17% in Q4, and we expect to see their foothold maintained. Although we live in uncertain times, the Q1 result doesn't feel like a blip. Overall, we anticipate a robust 2021-22, with deal activity levels continuing to stay strong. ”

Read more in the PCPI sector spotlight blog: *M&A activity in manufacturing is at record levels... why?*

**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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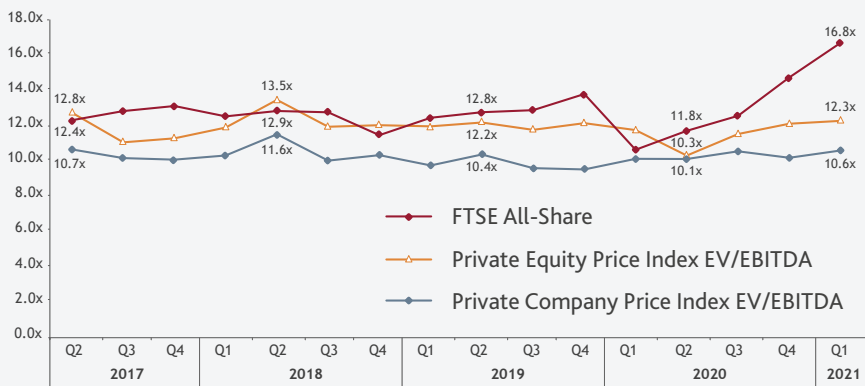


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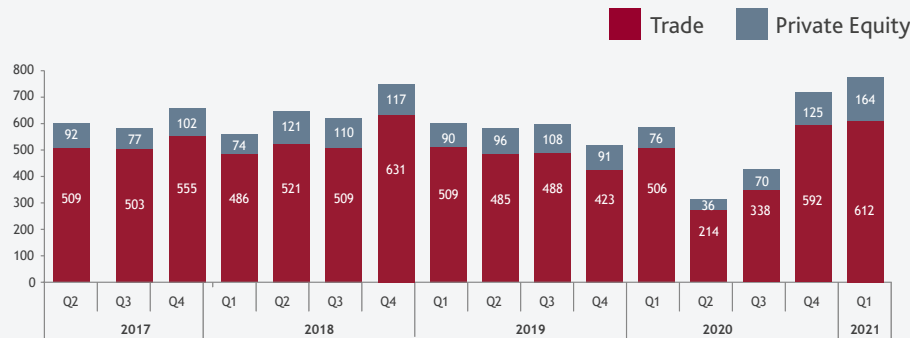
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PCPI V PRIVATE EQUITY | Q2 2017 – Q1 2021



Q2 2017 TO Q1 2021 | 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 10.6x historic EBITDA, an increase on the Q4 value of 10.2x. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 12.3x historic EBITDA, up from 12.2x in Q4.

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 is maintained at £14.1m (Q4 - £14.0m) for trade deals.

The included deals for the PEPI maintains an Enterprise Value of £40m for private equity deals (Q4 £41m) (median).

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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