



2015

PCPIQ4

PRIVATE COMPANY PRICE INDEX

Spotlight on Test & Measurement

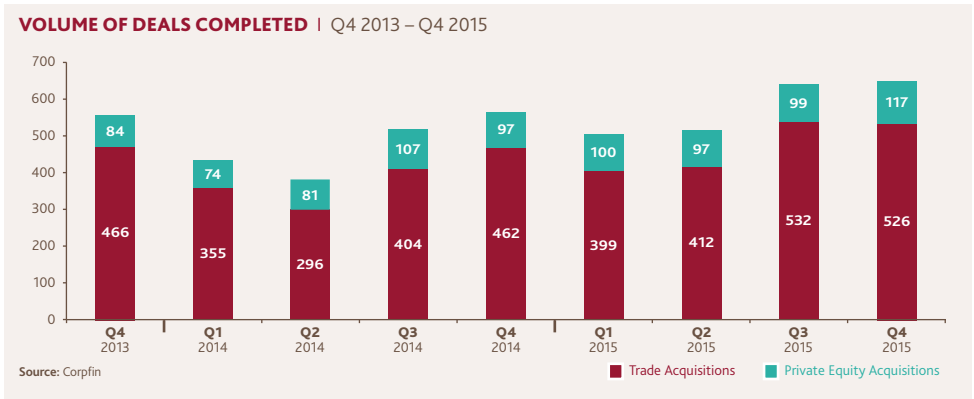
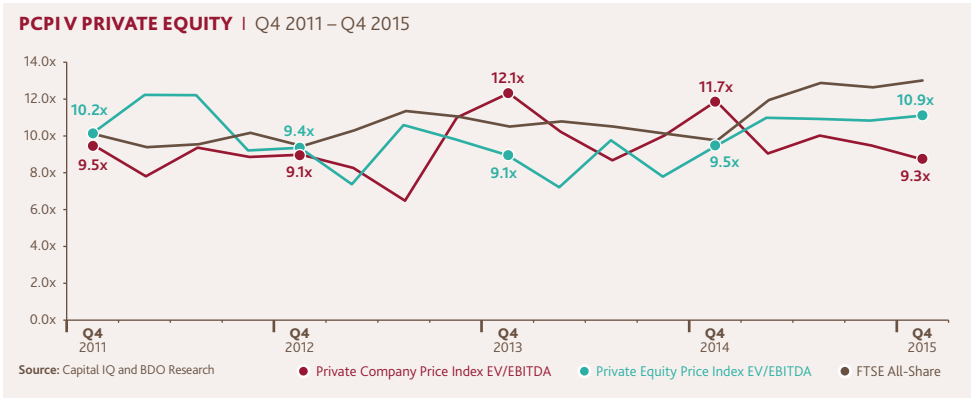


THE 'ICING ON THE CAKE' FOR A RECORD M&A YEAR

The fourth quarter of 2015 saw a total of 643 deals completed, which is an uptick from last quarter's 631 deals and once again the highest level of quarterly Mergers and Acquisitions (M&A) activity since pre-recession.

In the final quarter of 2015, trade buyers completed 526 deals, continuing the strong M&A appetite amongst corporates. The PCPI/PEPI index, which tracks the multiples paid by trade and private equity buyers for private companies, found that the level of private equity activity has also risen over the quarter, with 117 deals (up from 99) completed in Q4.

The continued growth in the level of M&A activity in Q4 reinforces the fact that there is renewed confidence in the market driven by corporates actively seeking growth, Private Equity having large quantities of dry powder and debt markets being firmly open. The trade (9.3x) and private equity (10.9x) multiples have both remained at high levels throughout 2015.



TEST & MEASUREMENT ('T&M')

A SECTOR PROPELLED INTO THE SPOTLIGHT...AGAIN

The Test and Measurement ('T&M') sector is focused on the development, production and use of equipment designed to detect, measure and control a variety of factors in manufacturing processes such as power, flow, temperature and vibration to name but a few. T&M also includes Testing, Inspection & Certification services ('TIC').

The UK Technical Testing & Analysis market is a subsector of T&M worth £5.7bn. It is expected to grow at a CAGR of 6.9% over the next 5 years to reach a value of £7.9bn in 2021¹.

Key factors fuelling the forecast UK annual growth are:

- Increased regulation, industry standardisation and sophistication
- Globalisation and increasing industrial output and innovation
- The ever increasing complexity of products, materials and supply chains
- A continuing need for efficiencies and cost reduction in the production process
- An increasing 'cost of failure'
- Outsourcing.

The sector has been propelled into the spotlight in recent times, firstly with the horsemeat food contamination scandal in 2013 and latterly with the VW emissions scandal.

EMISSIONS SCANDAL

The ultimate fallout from the VW scandal is yet to fully unfold, but the impact is likely to be positive for T&M companies, with calls for independent and fair testing potentially leading to a complete overhaul of the vehicle testing regime, and significant opportunities for companies operating in the sector.

Europe in particular has been noted for its allegedly lax testing system, where car makers can test their own vehicles alongside independent testing organisations.

The SMMT stated in September 2015 that the European motor industry "accepts that the current test method for cars is out of date, and is seeking

agreement from the European Commission for a new emissions test that embraces new testing technologies, and which is more representative of on-road conditions".

AUTOMOTIVE M&A DEALS SNAPSHOT

There is a keen focus on M&A opportunities which provide capabilities in:

1. Testing of key product areas; or
2. Manufacturing of components that provide better fuel efficiency controls and emissions reduction.

Examples include:

- In July 2015, Japanese Group HORIBA acquired UK business MIRA Ltd, a £45.7m turnover vehicle development and testing company for £85m. MIRA had completed a major upgrade of its Vehicle Exhaust Emissions Laboratory in June 2015.
- SGS has been building its vehicle and engine testing services business in North America with the acquisitions of ETC in 2011, ATE in 2014 and TSG in 2015, a provider of fuel systems testing.

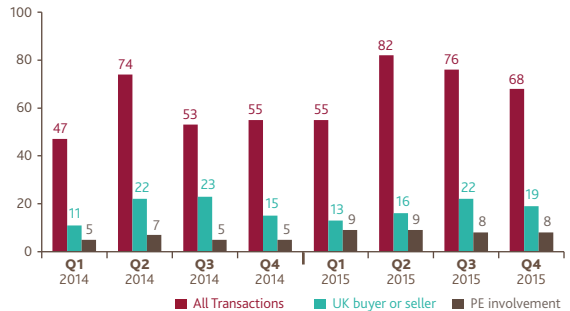
CONSOLIDATION IN THE MARKET IS SET TO CONTINUE

The T&M sector is broad and highly fragmented, but industry consolidation is continuing. Five of the industries largest companies – Bureau Veritas, Dekra, Eurofins, Intertek and SGS completed more than 260 acquisitions from 2006 through to 31 December 2015. Bureau Veritas plans to remain a major consolidating player by pursuing targeted acquisitions.

A YEAR IN REVIEW: 2015²

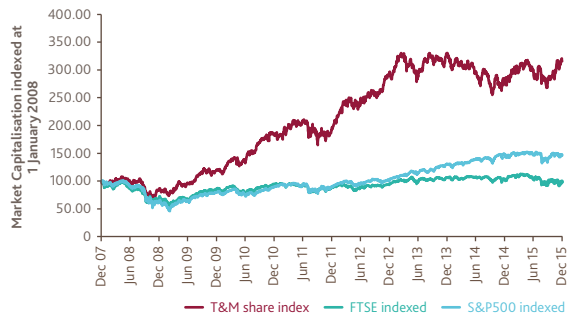
- T&M deal volumes in 2015 have significantly outstripped deal volumes in 2014, an overall increase of 22%.
- The US is leading the consolidation of the T&M market, with 47% of deals involving a US buyer. The proportion of transactions involving a US seller has also increased from 27% in 2014 to 47% in 2015.
- The UK is the second most active M&A market. 70 of the 281 transactions completed in 2015 involved a UK buyer or seller.
- Cross-border deal volumes continue to help drive the market consolidation, accounting for 40% of all deals in 2015.
- An attractive market for PE investment: 12% of T&M transactions over 2015 involved a financial buyer.
- A number of transactions achieved EBITDA multiples in excess of 12x in 2015, and valuations of trading multiples of the BDO T&M index averaged 12.8x over the last twelve months exceeding the FTSE All-Share index and S&P 500 index averages.

M&A ACTIVITY BY QUARTER³



THE BDO T&M INDEX – T&M SHARE PRICES AND TRADING MULTIPLES RESILIENT

The BDO T&M index of 20 quoted T&M companies is compared to the FTSE 100 and S&P 500 since 1 January 2008. The T&M index reveals that whilst rises in All-Share indices have been muted after 2013, the T&M sector continues to outperform the FTSE index⁴.



Notes and sources:

¹ Ibisworld

² Our analysis of the T&M market includes TIC, instrumentation and equipment, and associated markets, but excludes life sciences

³ MarketIQ

⁴ Thomson Reuters

MAKING THE MOST OF THE PCPI/PEPI

The PCPI has been updated to incorporate 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 10.9x historic EBITDA. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 9.3x 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 arithmetic mean of EV/EBITDA for deals where sufficient information has been disclosed. Over the five years to December 2015, the included deals for the PCPI have had a mean Enterprise Value of £69.8m and a median Enterprise Value of £16m. The included deals for the PEPI have a mean Enterprise Value of £113.4m and median Enterprise Value of £35m.

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.

BDO UK

8 Offices **250** Partners
1 Offices **3,500** Staff

no. 1 for exceptional client service¹

95% of our clients would recommend us² | **77%** already have²

BDO INTERNATIONAL

US\$7.3 billion 2015 REVENUE

154 Countries **1,400** Offices
64,500 Staff

1. Independent research (Mid Market Monitor 2012-2015) undertaken by Meridian West shows BDO has the highest client satisfaction rating among its peers
2. Client Listening Programme 2014/15

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 (SHOWN OVERLEAF)

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

martin.gouldstone@bdo.co.uk
0122 353 5000

GLASGOW

neil.mcgill@bdo.co.uk
0115 249 5232

GATWICK

jamie.austin@bdo.co.uk
0207 893 8805

IPSWICH

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

LEEDS

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

LIVERPOOL

ruth.percival@bdo.co.uk
0151 249 5200

LONDON

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

john.gilligan@bdo.co.uk
0207 893 3676

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

LONDON

michael.ware@bdo.co.uk
0207 893 3354

MANCHESTER

ruth.percival@bdo.co.uk
0161 833 8345

NORTHERN IRELAND

shane.hall@bdo.co.uk
0289 043 9009

NORWICH

keith.ferguson@bdo.co.uk
0160 361 5914

NOTTINGHAM

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

READING

paul.russell@bdo.co.uk
0203 219 4024

SOUTHAMPTON

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

SCOTLAND

neil.mcgill@bdo.co.uk
0141 249 5232

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO LLP to discuss these matters in the context of your particular circumstances. BDO LLP, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

BDO LLP, a UK limited liability partnership registered in England and Wales under number OC305127, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. A list of

members' names is open to inspection at our registered office, 55 Baker Street, London W1U 7EU. BDO LLP is authorised and regulated by the Financial Conduct Authority to conduct investment business.

BDO is the brand name of the BDO network and for each of the BDO Member Firms.

BDO Northern Ireland, a partnership formed in and under the laws of Northern Ireland, is licensed to operate within the international BDO network of independent member firms.

© 2016 BDO LLP. All rights reserved.

www.bdo.co.uk