2017

PCPI Q3

PRIVATE COMPANY PRICE INDEX

STRONG AND STABLE M&A MARKET DEFIES EU UNCERTAINTY

The M&A market remains on course for another good year of deals, with a further 580 deals completed in Q3. In this healthy M&A market, most buyers say their biggest issue is finding the right business to buy in the face of strong competition and pricing.

Perhaps in defiance of economic and political uncertainties arising from ongoing Brexit negotiations, the M&A market remains calm and committed to completing M&A transactions.

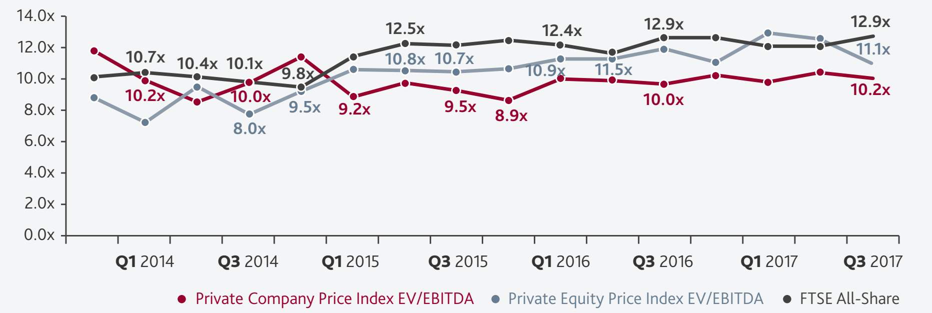
Our latest analysis reveals that the Private Company Price Index (PCPI), which tracks the multiples paid in trade deals, has seen gentle fluctuations between 10.0x and 10.7x since the beginning of 2016, and rested at 10.2x in Q3.

The Technology and Media sector was one of the strongest performers in the quarter, with a high proportion of software transactions reported and some heady multiples paid.

Digitalisation is permeating all sectors of business and society, and the race to acquire quality businesses, especially those that bring competitive edge, shows no signs of abating.

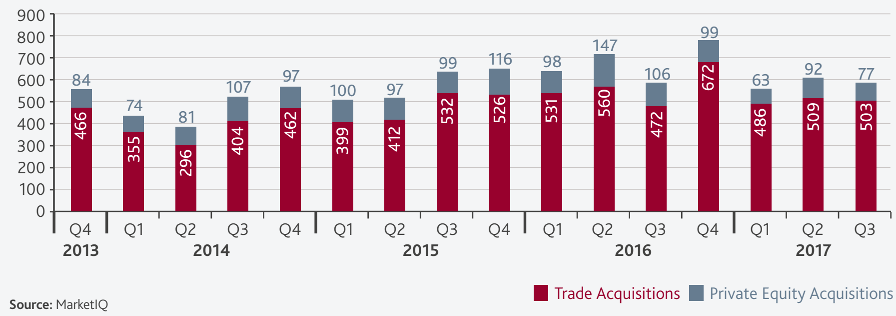
The Private Equity Price Index (PEPI), which tracks the multiples paid by private equity buyers has seen multiples rising well above 11x since early 2016, but saw a slight decline to 11.1x in Q3, nearer the levels seen in early 2016. Private equity houses still have a large quantum of cash to deploy in the market and we can see no signs of decreased appetite on their part. How long will this market last? No-one knows for certain, but we can say that it is a very good time to be selling a quality business.

PCPI V PRIVATE EQUITY I Q4 2013 – Q3 2017



Source: MarketIQ, Pitchbook and BDO Research

VOLUME OF DEALS COMPLETED I Q4 2013 – Q3 2017



Source: MarketIQ

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 10.2x historic EBITDA. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 11.1x 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 arithmetic mean of EV/EBITDA for deals where sufficient information has been disclosed. Over the four years to end of Q3 2017, the included deals for the PCPI have had a mean Enterprise Value of £83m and a median Enterprise Value of £17m. The included deals for the PEPI have a mean Enterprise Value of £155m and median Enterprise Value of £41m.

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

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