2017

PCPI Q4

PRIVATE COMPANY PRICE INDEX

A HEALTHY Q4 FOR M&A AND A POSITIVE 2018 OUTLOOK

BDO's latest analysis of M&A transactions reveals that deal volumes were up by 13% in the final quarter of 2017. Q4 was by far the busiest quarter of the year, with both trade and private equity seeing significant increases in deal volumes.

Healthy market signals suggest that international buyers remain keen on UK assets, in spite of Brexit negotiations and the economic and political uncertainties.

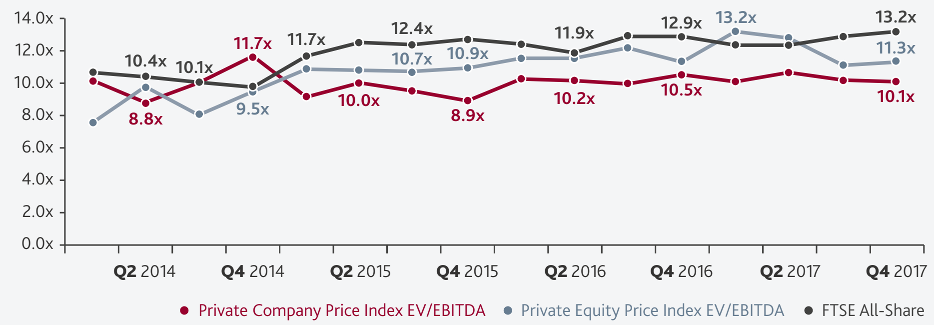
Trade buyers followed up a strong Q3, where 503 deals were completed, with a 10% increase taking Q4 trade deals to 555 for the closing quarter. Private equity deal volumes surged by 32%, with 102 deals in Q4. These robust deal volumes indicate no decrease in M&A deal appetite, nor jitters about the future.

Valuation multiples held firm, with private equity paying higher multiples on average than trade. The PEPI saw a slight increase to 11.3x in Q4 suggesting plenty of investment funds available and a willingness to pay well for attractive assets. Trade multiples remained stable compared to Q3, with the PCPI holding steady at 10.1x.

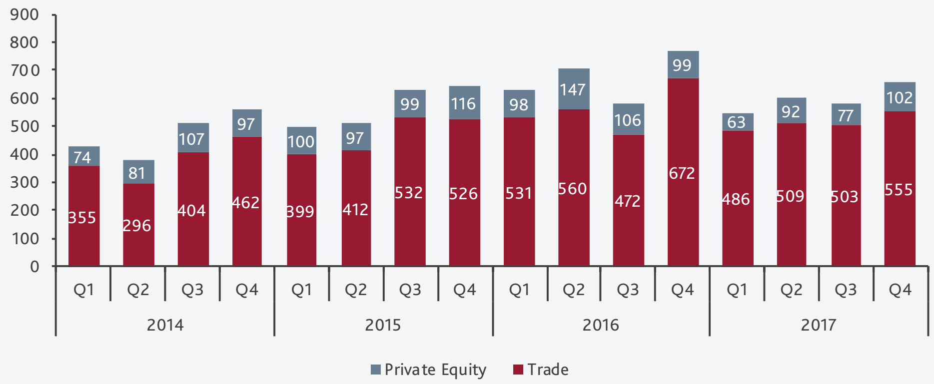
Roger Buckley, M&A Partner at BDO LLP commented:

"When an attractive business comes to market there is a strong appetite from both trade and PE investors. We have seen a resilient 'business as usual' ethos from investors and trade buyers who actively seek deals to deploy capital or drive market opportunities. The outlook for 2018 remains positive, with valuations holding firm."

PCPI V PRIVATE EQUITY I Q1 2014 – Q4 2017



VOLUME OF DEALS COMPLETED I Q1 2014 to Q4 2017



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 10.1x historic EBITDA. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 11.3x 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 four years to end of Q4 2017, the included deals for the PCPI have had a mean Enterprise Value of £79m and a median Enterprise Value of £16m. The included deals for the PEPI have a mean Enterprise Value of £157m and median Enterprise Value of £38m.

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.

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

EDINBURGH

rory.mcpherson@bdo.co.uk
0131 347 0385

GATWICK

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

GLASGOW

rory.mcpherson@bdo.co.uk
0131 347 0385

GUILDFORD

michael.ware@bdo.co.uk
020 7486 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

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

LONDON

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

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

harry.stoakes@bdo.co.uk
0207 893 2307

LEICESTER

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

LIVERPOOL

ruth.percival@bdo.co.uk
0161 817 7500

MANCHESTER

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

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

www.bdo.co.uk

HB010358