

2018

PCPI Q2

PRIVATE COMPANY PRICE INDEX

STRONG M&A MARKET THE FEEL GOOD FACTOR CONTINUES

The second quarter of 2018 saw 642 deals complete, a notable increase from last quarter's 560 deals and a rise of 7% compared with Q2 2017.

The M&A market is strong, populated by a large number of corporates and private equity eager to acquire a comparatively small population of high quality businesses. These dynamics are pushing up valuations and driving increases across all three indices. Our analysis reveals that a higher number of transactions are attracting double-digit multiples across the board.

BDO's PCPI / PEPI report shows a significant increase in the volume of PE transactions: 121 PE transactions completed in Q2, the highest number for two years. The increase in PE transactions represents a 64% increase on Q1 2018, and 32% increase on Q2 2017. 521 trade transactions were recorded in Q2: an increase of 7% on the previous quarter and a moderate increase on Q2 2017.

Alongside climbing volumes, the second quarter of 2018 saw valuations rising, with both the PCPI and PEPI seeing impressive upticks. The PCPI increased to 11.6x, the highest recorded since Q4 2014, and the PEPI increased to 13.5x, the highest recorded for seven years.

Private equity has plenty of cash to deploy, and international investors are continuing to make significant investments in the UK, creating positive outcomes for sellers and encouraging more big ticket deals to come to market. We see continuing confidence in the M&A market and expect 2018 to continue to be a strong year for deal making.

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.

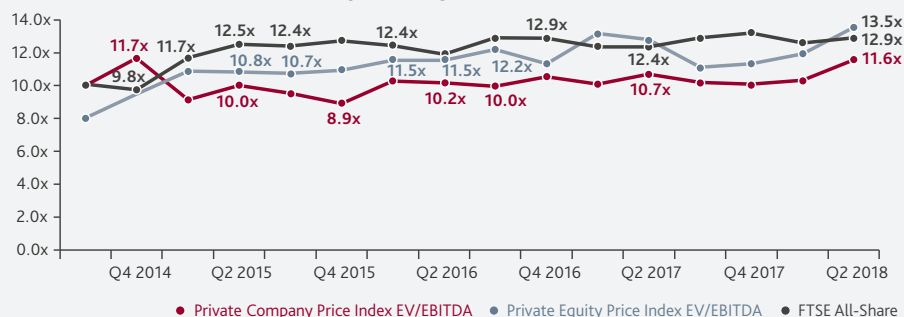
The private company EV/EBITDA is calculated from publicly available financial information on deals that complete in the quarter. At present, the Private Company Price Index (PCPI) indicates that, on average, private companies are being sold to trade buyers for 11.6x historic EBITDA. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 13.5x 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 Q2 2018, the included deals for the PCPI have had an average Enterprise Value of £80.9m. The included deals for the PEPI have an average Enterprise Value of £50m.

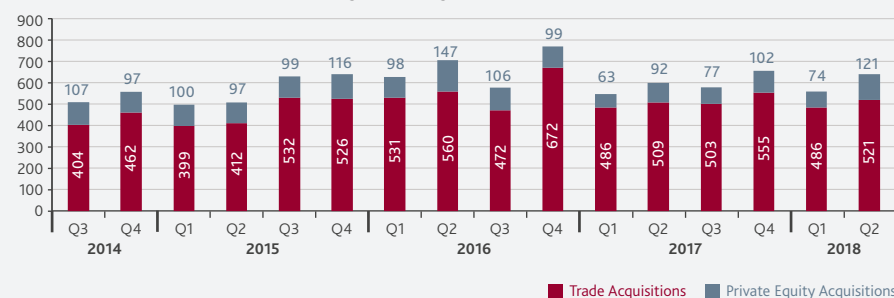
The PCPI/PEPI is an average measure and a guide, not an absolute measure of value, as there are many other factors that can have an impact on value.

PCPI : PEPI : FTSE COMPARISON | Q3 2014 - Q2 2018



Source: MarketIQ, mergermarket, Fame and BDO research

VOLUME OF DEALS COMPLETED | Q3 2014 - Q2 2018



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)



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