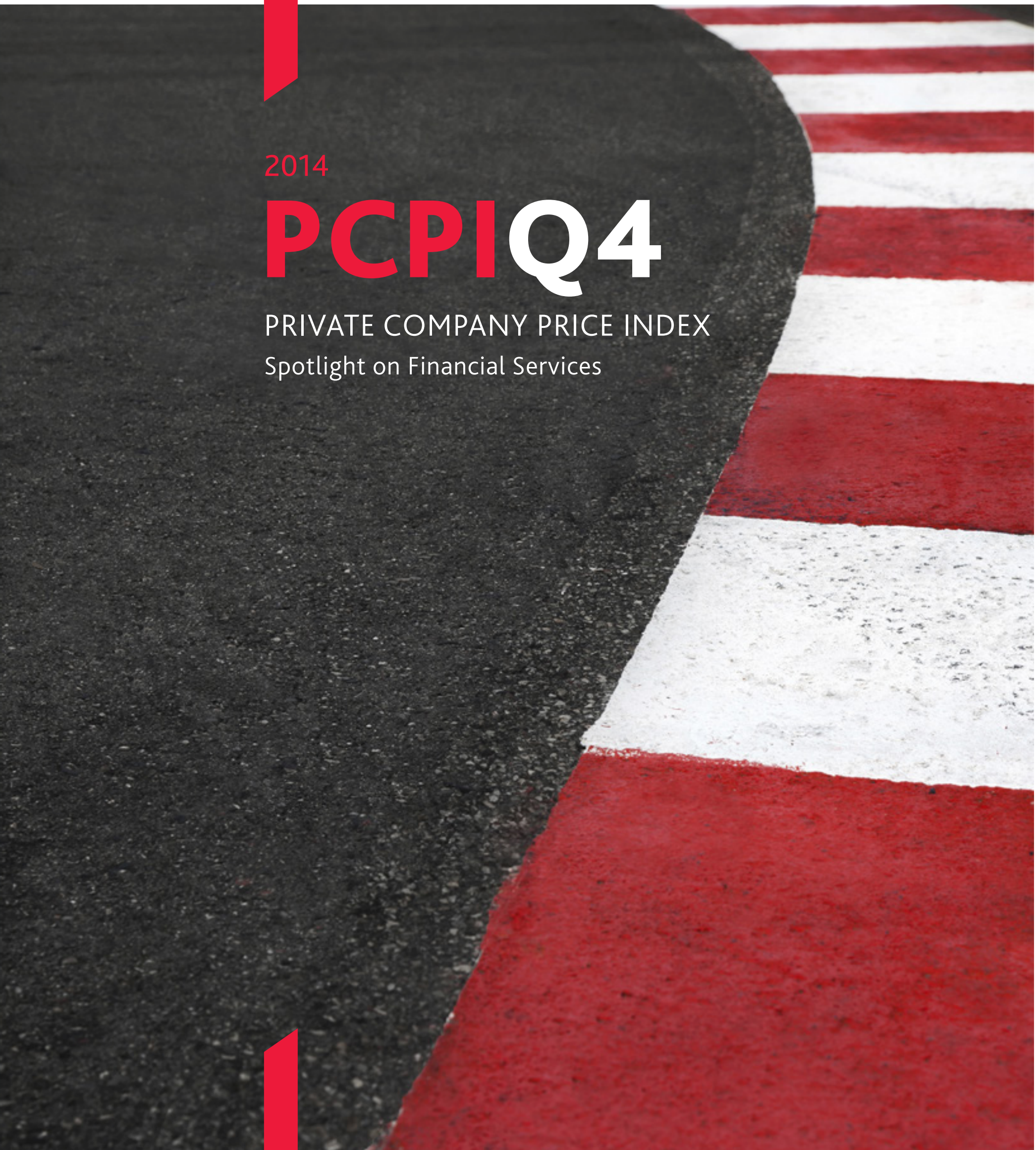
2014

PCPI Q4

PRIVATE COMPANY PRICE INDEX

Spotlight on Financial Services



BDO

PCPI/PEPI - Q4 2014 DEAL VOLUME HIGHEST SINCE Q3 2011

As expected, the final quarter of 2014 saw a real flurry of activity. Whilst the first half of the year disappointed, there was a strong showing in the second half and especially in Q4, as UK M&A activity reached 559 deals in the quarter – the highest number since Q3 2011. The quarter's activity reflects the pent up demand for M&A from buyers and excellent selling conditions, according to the latest PCPI/PEPI from BDO Corporate Finance.

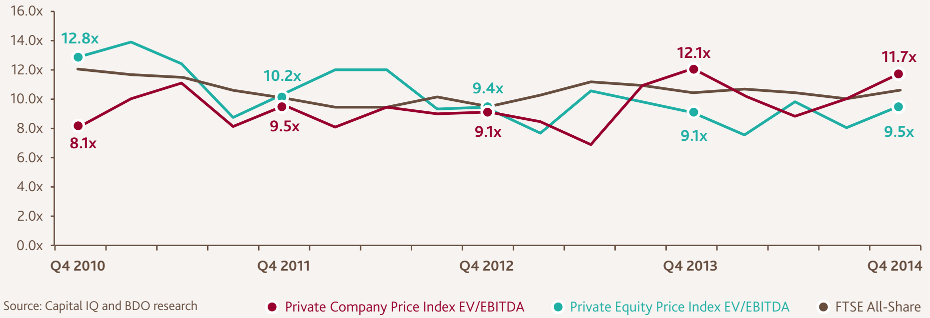
The PCPI/PEPI index tracks the relationship between the Enterprise Value (EV) to EBITDA (Earnings Before Interest Tax Depreciation and Amortisation) multiple paid by trade and private equity buyers when purchasing a UK private company.

Not only did the fourth quarter of 2014 see a strong uptick in deal volumes, but also a significant increase in deal multiples. Trade deals continued their rise from 404 in Q3 to 462 deals in Q4 and well ahead of Q2 rock bottom figures.

Trade multiples continued their rise from 10.0x to 11.7x with no diminution seen for the increase in deal volumes, indicating that many corporates are willing to value highly acquisitions which can accelerate their growth profile and PE firms continue to need to deploy capital.

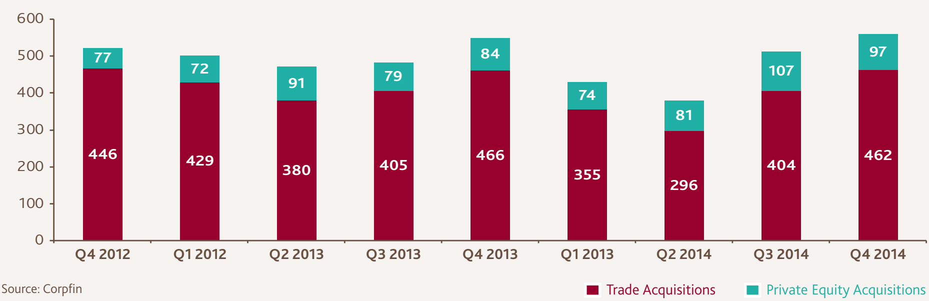
Roger Buckley, Partner at BDO, said: "Sellers in 2014 have enjoyed good conditions for sale. Both corporate buyers and private equity continue to complain that there is a shortage of quality deals in the market. Acquirers remain undeterred by the uncertainties caused by the general election and continue to pay strong multiples for target companies. With many businesses showing significant improvement in profitability during 2014 and pent up M&A demand, 2014 has been a good year to exit. That said, we expect the 'sellers-market' to continue - there remains a lot of cash chasing good quality deals".

PCPI V PRIVATE EQUITY | Q4 2010 – Q4 2014



Source: Capital IQ and BDO research

VOLUME OF DEALS COMPLETED | Q4 2012 – Q4 2014



Source: Corpfin

FINANCIAL SERVICES MARKET ACTIVITY

FINANCIAL SERVICES ACTIVITY HOTS UP

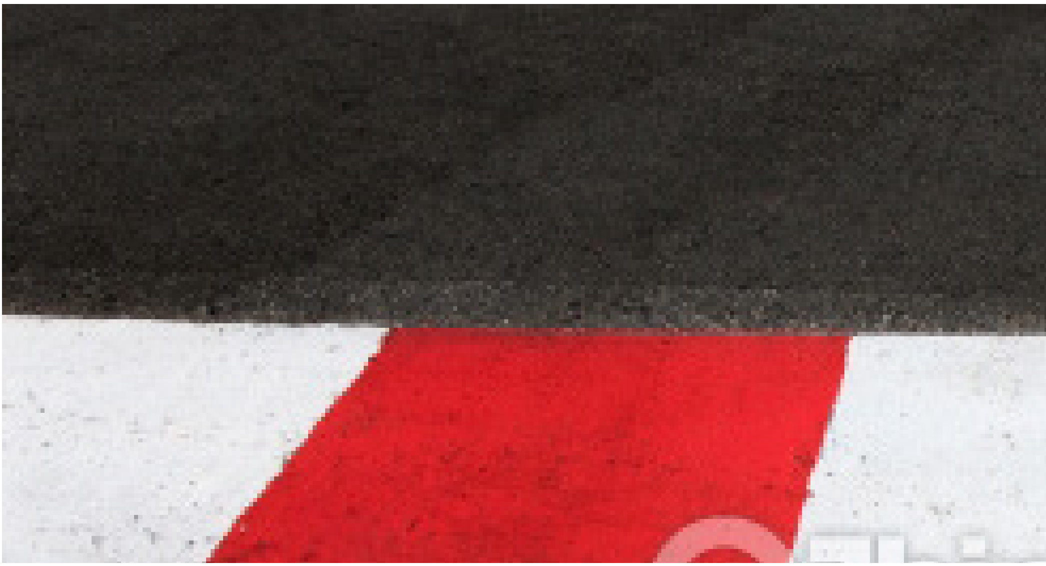
M&A activity in the financial services market has accelerated over the last 12 months with deal volumes rallying during 2014, especially those in the lower mid-market in the second half of the year. The headlines were full of completed deals and rumours of future transactions such as the Private Equity acquisition of Kensington, interest in Acenden, the Mortgage Advice Bureau float, rumoured interest in the international arm of Coutts and the recent news concerning SimplyBiz.

The principal drivers of these trends include global economic performance, which was strong in 2014 although now slowing a little, continuing regulatory change and uncertainty, retail opportunities and a positive equity market performance, although again the heat has dissipated a little here. These all contributed to a dynamic subsector, with deal volumes outstripping the majority of other subsectors.

PRIVATE EQUITY AND TRADE ACTIVE ACROSS THE UK

In this vibrant area buyers really sharpened their focus and competed strongly for quality businesses. The liquidity of the private equity was a key dynamic. Many UK and foreign based private equity houses see real growth in the UK financial services sector and are prepared to pay high multiples for it, often in contemplation of further buy and build M&A activity. The raft of private equity transactions covered the full range of financial services, from insurance, asset management, lending and support services. A prominent examples included Equistone selling A Plan to Hg Capital, the £300m MBO of Open International backed by Montagu Private Equity, Carlyle's acquisition of Dealogic and RIT plc acquiring GVO.

Trade buyers continue to provide the majority of deal volumes with consolidation in a number of subsectors. Trade consolidators frequently in the news were Bluefin and Ballpenny. Fuelled by supporting shareholders, debt providers and often a substantial cash pile the volume of deals hit a two year high in Q4 2014. Again these transactions covered all the key financial services subsectors, in particular insurance saw much activity with Jelf buying Beaumont, Esure the remainder of Go Compare, JLT buying Haywards from Towergate and Covea in France acquiring the UK based Sterling Insurance.



Private equity see real opportunities for capital growth in technologically driven innovative and agile financial services businesses, often serving niches overlooked by the more established players. Trade bidders are often concerned with revenue growth. Trade find it increasing difficult to drive organic growth and as such look to multiple M&A transactions to meet their growth forecasts.

PRICES REMAIN HIGH FOR QUALITY ASSETS

All this activity is helping to sustain high prices paid for quality assets. The scarcity of quality assets is driving heated auction processes and those who have a commercial or investment requirement will have to pay a top price to win. In many ways the underlying business model of many financial services businesses underpin value with many recurring income models out there. It is a regular occurrence to see quality assets fetching double digit profit multiples.

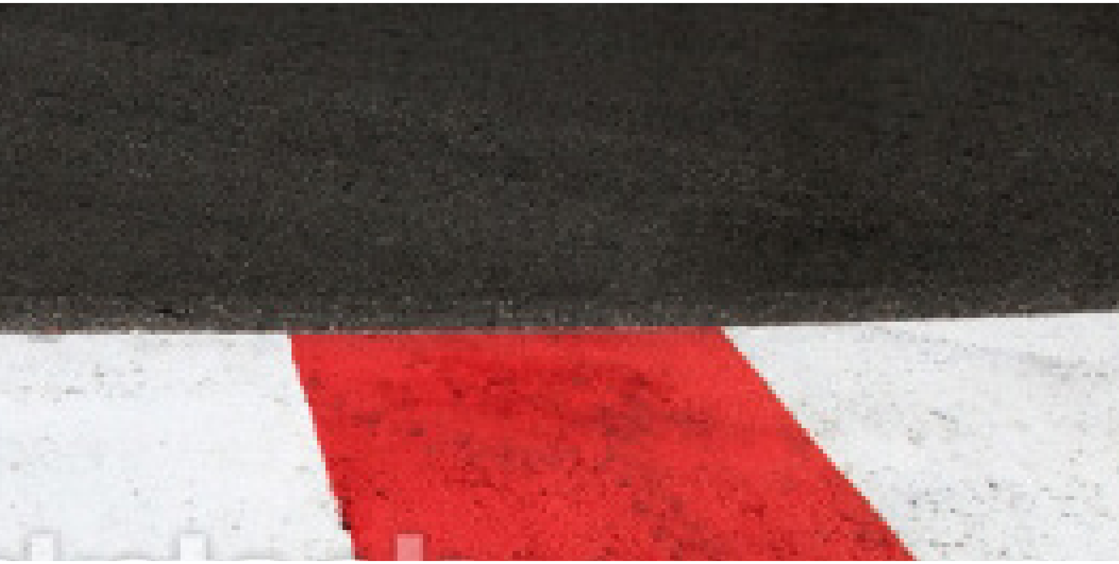
There is a word of caution in this regard however; those buyers of assets prepared to pay high prices are very selective. The business needs to have no 'skeletons in the closet' as buyers are continuing to be less prepared to take a view on issues indeed they are more likely to walk away from a deal if they perceive there to be unresolved issues.

Equally subscale businesses are more likely to be picked up by trade consolidators as the private equity houses prefer to deploy investment into larger, more established assets wherever possible. The value for the very much smaller businesses is often lower than the PCPI would indicate but this allows the trade consolidators or Private equity to create value arbitrage.

LONGER TERM SUSTAINABILITY OF ACTIVITY

Looking forward it is easy to see a continuation of significant demand by investors and consolidators for high quality financial services assets. Continual regulatory pressures, global opportunities for innovative businesses and operational cuts by the larger financial institutions will undoubtedly continue to fuel this vibrant market.

This is undoubtedly one of the most active M&A sectors. 2015 may see a few quieter months with the impending General Election and current concerns over economic growth in the Eurozone but barring disaster, these are likely to cause a short term hiatus at most. Consolidators need growth and private equity still has huge amounts of dry powder ready to deploy. High growth, high quality assets with defensible market positions will be highly sought after and are almost guaranteed to attract a high price.



MAKING THE MOST OF THE PCPI/PEPI

The PCPI has been updated for 2014 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 10.0x historic EBITDA. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 8.0x 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 last four years, the included deals for the PCPI have had a mean Enterprise Value of £54.2 million and a median Enterprise Value of £14.2 million. The included deals for the PEPI have a mean Enterprise Value of £82.4 million and median Enterprise Value of £32.0 million.

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

21 Offices
300 Partners
3,500 Staff

No.1 for exceptional client service[1]

92% of our clients would recommend us[2] | 76% already have[2]

1. Independent research (Mid Market Monitor 2012, 2013 and 2014) undertaken by Meridian West shows BDO has the highest client satisfaction rating among its peers
2. Client Listening Programme 2013/14

BDO INTERNATIONAL

US$7 billion[1] 2014 REVENUE

152 Countries and territories
1,350 Offices
60,000 Staff

1. US$7bn (€5.62 bn) combined fee income 2014

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)

CONTACT US

BIRMINGHAM
roger.buckley@bdo.co.uk
0121 352 6213
john.stephan@bdo.co.uk
0121 265 7264

GATWICK
jonathan.allen@bdo.co.uk
0129 384 7844

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

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

LONDON
peter.hemington@bdo.co.uk
0207 893 2344
michael.ware@bdo.co.uk
0207 893 3354

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

NORTHERN IRELAND
barry-john.kelly@bdo.co.uk
0289 043 9009

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

READING
gareth.davies@bdo.co.uk
0207 893 3885

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

www.bdo.co.uk

HB007253