2016

PCPIQ1

PRIVATE COMPANY PRICE INDEX

Spotlight on Transport and Logistics

BDO

M&A ACTIVITY STAYS STRONG IN Q1 2016 DESPITE BREXIT UNCERTAINTY

Mergers and acquisitions (M&A) deal activity has continued to stay strong in the first quarter of 2016 despite uncertainty created by the EU referendum.

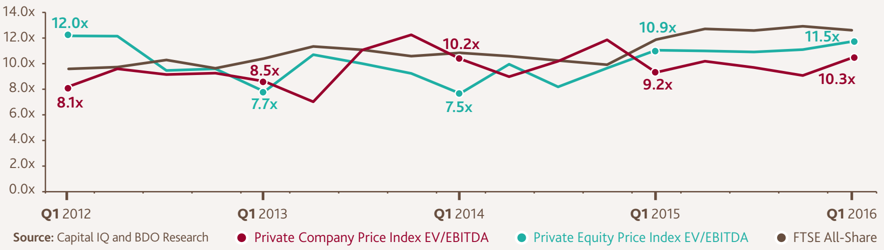
2015 ended on a high with 642 deals and the highest deal volume since before the recession. The first quarter of 2016 saw a slight drop to 629 deals but still reflects a strong and active M&A market despite a backdrop of global instability and Brexit uncertainty.

The PCPI/PEPI index, which tracks multiples paid by trade and private equity buyers for private companies, saw both trade (10.3x) and private equity (11.5x) prices increase.

We continue to see strong appetite for quality businesses from UK buyers, international buyers and private equity investors. There is a real desire to pursue inorganic growth strategies and, with debt markets being firmly open, there is real competition in auction processes at present.

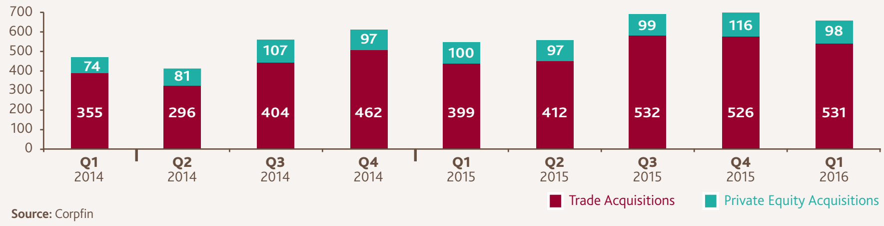
Despite recent currency fluctuations, private business owners are taking Brexit uncertainty in their stride. As yet, we have not seen a direct impact on deal volumes in the mid-market or on values achieved. Based on current activity, we predict another strong year for M&A.

PCPI V PRIVATE EQUITY | Q1 2012 – Q1 2016



Source: Capital IQ and BDO Research

VOLUME OF DEALS COMPLETED | Q1 2014 – Q1 2016



Source: Corpfin

BDO UK

18 Offices
250 Partners
3,500 Staff

No.1 for exceptional client service[1]

95% of our clients would recommend us[2] | 77% already have[2]

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 ON THE BACK)

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 10.3x historic EBITDA. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 11.5x 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 five years to December 2015, the included deals for the PCPI have had a mean Enterprise Value of £78.3m and a median Enterprise Value of £15.8m. This included deals for the PEPI have a mean Enterprise Value of £112.1m and median Enterprise Value of £33.5m.

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.

CONSUMER DEMAND OR TECHNOLOGY PULL?

BOTH HAVE COMBINED OVER RECENT YEARS TO REVOLUTIONISE GLOBAL TRANSPORT AND LOGISTICS (T&L)

T&L is a bell-weather for global M&A activity. With global trade and financial performance returning to growth in 2014 and 2015 providing some confidence that this growth is sustainable, there has been a marked increase in mega deals with 28 global transactions in 2015 valued at over $1 billion compared to 17 deals in 2014.

GLOBAL CONTEXT

The fragmented nature of the global T&L sector and the perception that scale and geographic coverage is required to operate in a global market has long been a key strategic rationale for creating and sustaining cross-border M&A. Two recent examples of this are:

- $2.8bn acquisition of Groupe Norbert Dentressangle (GND) by XPO Logistics
- $4.7bn acquisition of TNT Express by FEDEX.

The CEO of XPO, Brad Jacobs, explained the key driver for acquiring GND was "the scale to be a global supply chain provider". However if you scratch a little deeper, you will find that these global players are often acting defensively in an ever changing market place where emerging technologies and changing consumer behaviours are threatening their dominant market position. Adding scale and new geographies potentially masks the threat that smaller more agile, asset light, technology driven competitors are posing.

INNOVATION, FLEXIBILITY AND DISRUPTION

Local purchasing decisions have an international impact with the majority of consumer goods having been handled by a number of international and local T&L partners before making it to the high street or your house (if bought on-line). This change in global sourcing was initially supported by global T&L businesses but as supply chain complexity is increasing, traditional networks are beginning to look cumbersome. Set out below are some of the underlying drivers to this ever increasing complexity:

- Supply chains have been stretched to drive out 'waste' or more accurately reduce stock and inventory costs. The 'quid pro quo' for such tight supply chains is an increased risk of failure and an increase in the costs associated with rectifying such failures. The working assumption is that savings made on reduced stock would more than off-set the increase in emergency logistics.
- Off-shore or low cost production was a key trend in the 90's and 00's but this has now been further developed into a hybrid, combining off-shore with near-shore and on-shore operations to increase flexibility and response times.
- Global events whether natural or geo-political have increasingly impacted not only local supply chains but global business as well. For example, Calais dock strikes or Asian tsunamis both had direct impact on a whole range of UK industries and in particular the automotive industry.
- Huge growth in e-commerce has been driven by the consumer and is increasingly being adopted by B2B where delivery costs have been driven down at the same pace as delivery time whilst shipment complexity has increased.

These changes have not generally been suited to the established global T&L companies where technology led customers require agility and speed of response and traditional asset heavy networks developed over many years cannot necessarily meet these demands. This has created the opportunity for new market entrants to slice off aspects of the T&L sector, cherry picking specific areas where innovation and service are perceived to be more important and therefore traditional full-service T&L providers are less able to compete, two case studies demonstrate these emerging trends well:

- Evolution Time Critical works with global car manufacturers and their associated tier one and tier two suppliers to provide mission critical services when the traditional automotive supply chains have broken down. They are a product of the changing requirement expected from logistics service partners where an asset-light model, unencumbered by assets but empowered by technology and a deep understanding of the global automotive industry can deliver real competitive advantage.
- Royal Mail in one respect has been given the mandate to develop innovative delivery solutions but while they are still mandated to provide a 'Universal Service' until 2021, new competitors can more economically attack their core market. Down-stream Access (DSA) providers such as Whistl, UK Mail and Secured Mail came from the de-regulation of the UK mail sector and have been busy developing e-commerce and other managed mail solutions with the back-stop of the Royal Mail delivering any un-economic post.

Disruption will continue and this will remain a dynamic sector for start-ups and new entrants to attack as new technologies emerge that can more efficiently leverage the transport and logistics assets already in circulation.

OUTLOOK FOR UK M&A

The UK remains a leading nation in this new technology enabled world and therefore continues to offer a rich hunting ground for Private Equity and international buyers alike exemplified by the following notable deals:

- LDC have been busy; supporting the £175m MBO of CitySprint, the UK's leading technology-driven same day distribution company; and £17m MBO of Panther Logistics, the UK's largest, technology enabled, 2-man next day home delivery provider.
- US fund Emergevest acquired Palletforce for £30m and will look to develop the IT led, pallet network model internationally. This builds on its 2014 acquisition of chilled distribution business NFT.
- Culina acquire Great Bear to expand further into ambient transport and warehousing. It has created a £400m revenue Group with 5,000 staff, 7.5 million square feet of warehousing and a joint fleet of more than 600 vehicles.
- Canadian based Metro Supply Chain acquired Evolution Time Critical to increase its automotive industry presence, expand in Europe and further develop its North America footprint.
- Next Wave Partners acquired CMS Networks and then formed The Delivery Group along with Secured Mail to create a managed mail group with revenues in excess of £120m.
- Sovereign Capital support the MBO of Dalepak the specialist tech-enabled outsourced logistics provider.

The deals listed above are just a small snap-shot of M&A activity in this vibrant sector. While the slowdown of China, concerns over BREXIT and Middle East instability have created uncertainty, the pace of global change in T&L will continue to drive significant deal flow for the foreseeable future.

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