

2021

PCPI Q4

PRIVATE COMPANY PRICE INDEX

HIGHEST LEVELS OF TRANSACTIONS FOR 13 YEARS AS 2021 SEES A SURGE IN DEAL ACTIVITY



2021 was the strongest year for deals since 2008 with 2782 completions. It marks a very strong recovery from activity levels in 2020, a rebound of 42% which was reflected equally across trade and private equity transactions.

2350 deals were completed by trade acquirers and 432 by PE. Deal volumes were stronger than levels seen pre-pandemic, up 21% compared with 2019, and up 8% compared with 2018.

Q4 deal volumes remained strong, with 689 deals completing, a small 5% decline compared with Q3 (725 deals). 609 trade deals completed in Q4 (622 in Q3), representing a 2.1% decline, and 80 private equity completions (103 in Q3), a more marked decline of 22.3%, but still a strong performance across the year.

Trade deal values increased, edging closer to private equity multiples. The PCPI crept up to 11.4x (10.6x in Q3), as trade acquirers become more willing to offer higher prices to compete in the M&A market, while the PEPI fluctuated to 12.0x (12.4x in Q3). The FTSE all-share settled at 17.5x, tapering off from the peak of 18x seen in Q3.

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

"The last year has been extremely busy for M&A, full of strong pricing, dynamic deals and happy sellers. The fundamental drivers of strong M&A activity in 2021 remain in place and so far, we see no indication of activity levels abating. That said, headwinds and tailwinds are unpredictable and there are many external factors which could impact the market in 2022. For the moment, there is certainly strong momentum in the market, with the resurgence led by more tech deals than we have ever seen before."



MAKING THE MOST OF THE PCPI / PEPI

The PCPI incorporates Enterprise Value to EBITDA multiples as the method of valuation.

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 11.4x historic EBITDA, an increase on the Q3 value of 10.6x. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 12.0x historic EBITDA, down from 12.4x in Q3.

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.

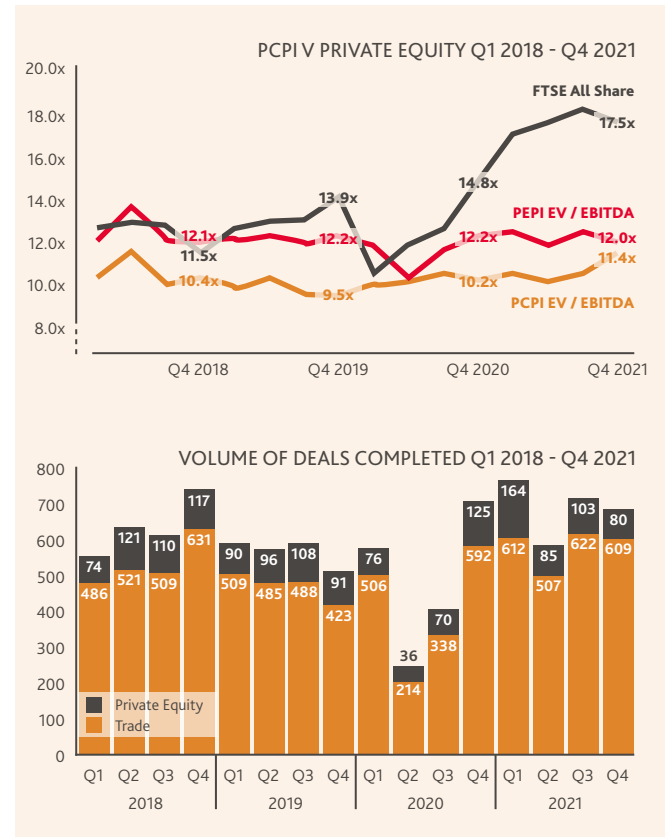
The effect of this is that the EV/EBITDA paid as calculated from the publicly available information may be overstated. The PCPI/PEPI is calculated as the median of EV/EBITDA for deals where sufficient information has been disclosed. The PCPI Enterprise Value trailing four year average increases to £15.2m (Q3 - £14.3m) for trade deals.

The included deals for the PEPI maintains an Enterprise Value of £41m for private equity deals (Q3 £41m) (median).

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.

Read more in the PCPI sector spotlight blog: **Tech M&A trends; Momentum from 2021 to continue in 2022**

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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