

2020

# PCPIQ4

PRIVATE COMPANY PRICE INDEX

## IMPRESSIVE LEVELS OF M&A ACTIVITY IN Q4

2020 was a year like no other, and yet following the Q2 lockdown shock, the M&A market showed a remarkable recovery, with deal volumes picking up in Q3 then soaring impressively in Q4. There were 717 transactions completing in Q4, up from 408 in Q3, representing a 76% increase. Trade volumes rose from 338 in Q3 to 592 in Q4, while PE volumes nearly doubled to 125 (70 in Q3).

Q4 volumes represented the highest levels recorded for two years for trade, and the highest since Q2 2016 for private equity. The quarter made an important contribution to the year, resulting in overall 2020 volumes down by just 14.5% compared with 2019. Whilst these are the lowest volumes seen since 2014, a longer-term view reveals that the global pandemic and ongoing Brexit uncertainty had relatively little impact on the M&A market overall.

Alongside the surge in deal volumes, values remained strong. Trade multiples were maintained at 10.2x (Q3 10.6x), while PE multiples edged up to 12.2x (Q3 11.6x). Meanwhile, as Brexit completed, the FTSE all share bounded to a high of 14.8x.

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

“*Despite a global pandemic and the prospect of no trade deal with Europe, the fourth quarter of 2020 saw the highest levels of deal activity for years. While much of this was a catch up on processes that had been on hold earlier in the year, and driven by favoured sectors including Tech, there was a wider sense of businesses putting uncertainty aside to move forward with their strategy. Looking ahead, we expect the market to remain active with plenty of cash chasing transactions of quality businesses that have strong underlying earnings.*”

Read more in the PCPI sector spotlight blog: [“We’d like to make you an offer...” and the eight stages that lead to those seven magic words.](#)

**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).**

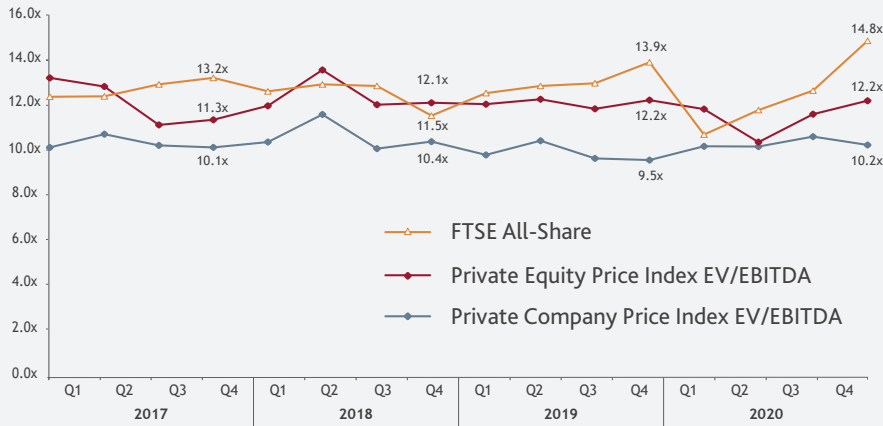


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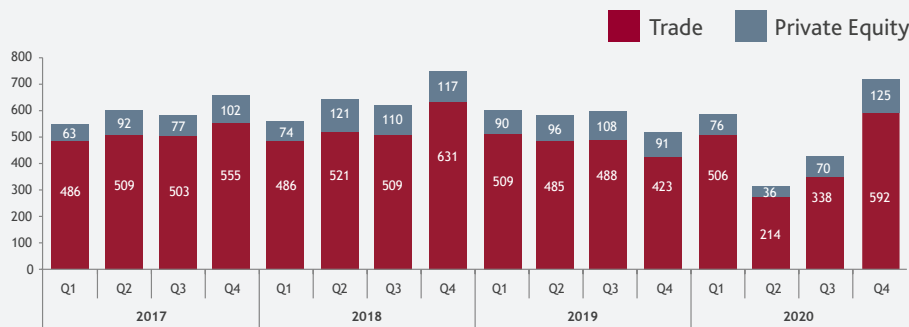
# PCPI Q4

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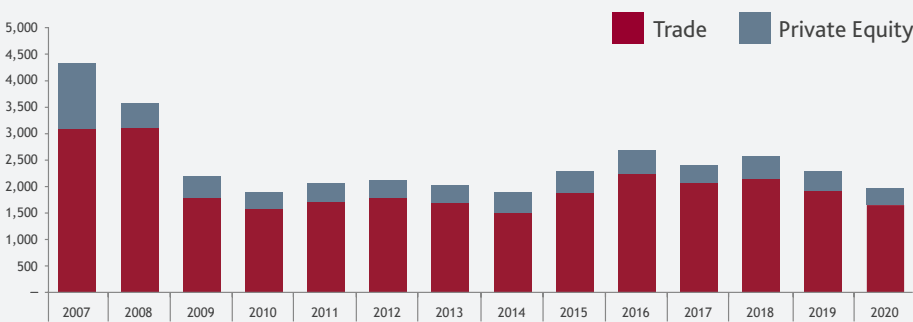
## PCPIV PRIVATE EQUITY | Q1 2017 – Q4 2020



## VOLUME OF DEALS COMPLETED | Q1 2017 – Q4 2020



## ANNUAL DEAL VOLUMES | 2017 – 2020



## 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 10.2x historic EBITDA, broadly maintaining the Q3 value of 10.6x. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 12.2x historic EBITDA, up from 11.6x 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 dips to £14.0m (Q3 - £14.3m) for trade deals.

The included deals for the PEPI maintains an Enterprise Value of £41m for private equity deals (Q3 £40.5m) (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.

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