

2019

# PCPI Q2

PRIVATE COMPANY PRICE INDEX

## M&A MARKETS REMAIN RESILIENT AND PRIVATE EQUITY CONFIDENCE ABOUNDS

As predicted last quarter, BDO's latest analysis of M&A transactions reveals that the market saw a gentle slowing in deal volumes in Q2, with M&A activity declining by 3%. The decline was however driven by trade deals which dipped 4.7% the second quarter. Private equity activity continued to increase, rising 6.7% compared with Q1.

BDO's PCPI / PEPI report shows a gentle slowing in deal volumes with 581 deals recorded in Q2 2019, a decline of 3% compared with the first quarter of 2019. While private equity deal volumes saw a moderate increase of 6.7%, trade deals dipped from 509 in Q1 to 485 in Q2.

The second quarter saw valuation multiples holding firm, with both PCPI and PEPI rising slightly. The PEPI, which reflects private equity valuation multiples, recorded a multiple of 12.2x, in line with the three previous quarters, maintaining its premium profile compared to trade valuations. Meanwhile trade valuations also increased modestly in the quarter, demonstrated by the PCPI increase from 9.8x in Q1 2019 to 10.4x in Q2 2019.

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

“Considering this analysis reflects deal activity since the first anticipated Brexit-date, the M&A market has shown itself to be resilient. Our

*experience suggests that the modest downturn in volume has been driven by business owners delaying a decision to exit rather than any overhanging hesitancy from buyers. PE markets remain strong and across the board, valuations remain robust.* ”

**Read more in PCPI sector spotlight blog which focuses on debt market dynamics and trends impacting M&A activity.**

**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).**

### 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 10.4x historic EBITDA. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 12.2x 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.

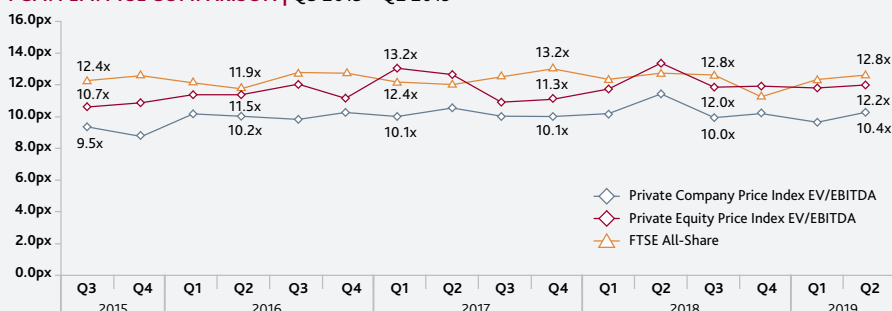
This will have been factored into the price the purchaser paid, but may not be reflected in the profits declared to the public.

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 median of EV/EBITDA for deals where sufficient information has been disclosed. Over the four years to end of Q2 2019, the included deals for the PCPI have had an average Enterprise Value of £14.6m.

The included deals for the PEPI have an average Enterprise Value of £40m.

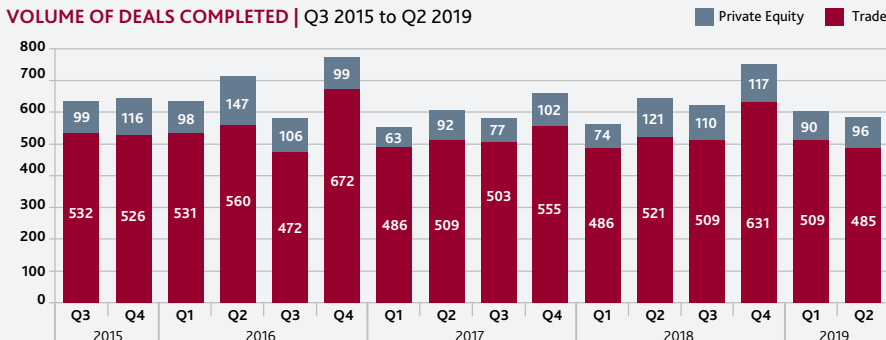
The PCPI/PEPI is an average measure and a guide, not an absolute measure of value, as there are many other factors that can have an impact on value.

PCPI: PEPI: FTSE COMPARISON | Q3 2015 – Q2 2019



Source: MarketIQ, mergermarket, Fame and BDO research

VOLUME OF DEALS COMPLETED | Q3 2015 to Q2 2019



Source: MarketIQ

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