

2019

PCPI Q3

PRIVATE COMPANY PRICE INDEX

'STEADY AS SHE GOES' FOR M&A MARKET WITH REMARKABLY STEADY PROFILE OF DEAL VOLUMES

BDO's latest analysis of deal transactions reveals a remarkably steady profile of M&A volumes throughout 2019, fluctuating by less than 3% quarter on quarter. In Q3 overall volumes rose slightly by 2.6% to 596 deals.

BDO's PCPI / PEPI report shows a gentle rise in M&A volumes, with 596 deals recorded in Q3. Trade deal volumes, which account for over 80% of market activity, have held firm in the quarter, with 488 deals completing in Q3. Private equity activity has continued to accelerate in the year, rising from 90 deals in Q1, to 96 in Q2 and 108 in Q3. The rise represents an increase of 6.7% in Q2 and 12.5% in Q3.

While the FTSE all-share rose from 12.8x to 13.0x, not far from its peak of 13.2x (Q4 2017), transaction valuations in the PCPI have slightly declined. Trade valuations recorded a slight dip in the quarter, demonstrated by the PCPI decrease to 9.6x in Q3 2019 (from 10.4x in Q2 2019). The PEPI, which reflects private equity valuation multiples, saw a small fluctuation to 11.8x from 12.2x in Q2, in line with the steady profile seen throughout the last 18 months.

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

“There has been a reduction in mega-deals this year which has grabbed the headlines, but there is actually a huge amount of deal making going on and the mid-market continues to see high levels of deal activity. Despite geopolitical headwinds, we see a robust M&A mid-market as organisations and entrepreneurs 'get on with it' - doing what they need to do to build great businesses.”

Read more in our PCPI sector spotlight blog: [Why is UK Manufacturing so popular?, analysing the growth in manufacturing deal volumes and opportunities presented by automation and digitalisation.](#)

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 9.6x historic EBITDA. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 11.8x 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.

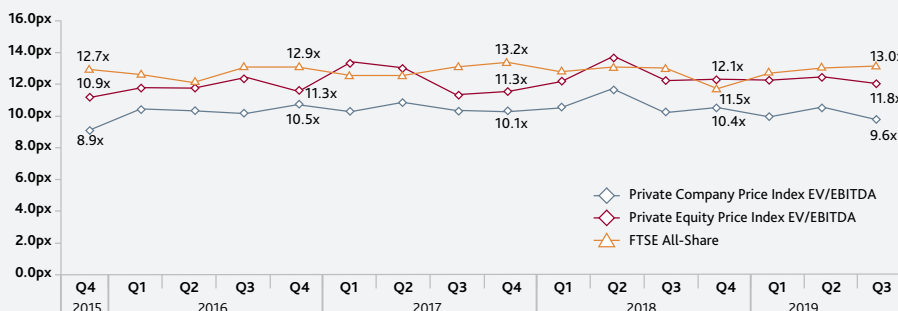
This will have been factored into the price the purchaser paid, but may not be reflected in the profits declared to the public.

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 Q3 2019, the included deals for the PCPI have had an average Enterprise Value of £14.3m.

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

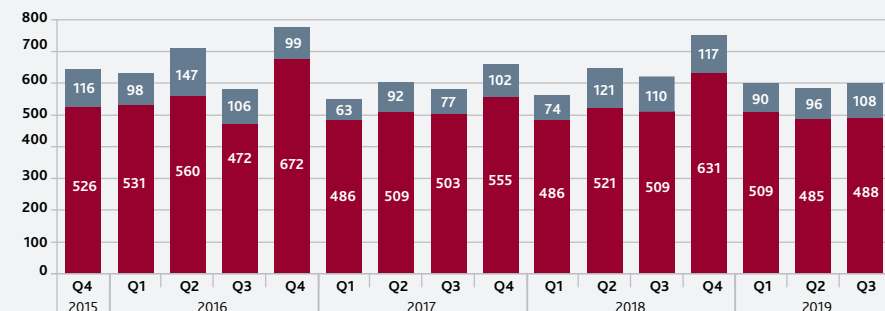
The PCPI/PEPI is an average measure and a guide, not an absolute measure of value, as there are many other factors that can have an impact on value.

PCPI: PEPI: FTSE COMPARISON | Q4 2015 - Q3 2019



Source: MarketIQ, mergermarket, Fame and BDO research

VOLUME OF DEALS COMPLETED | Q4 2015 - Q3 2019



Source: MarketIQ

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