



2016

PCPIQ2

PRIVATE COMPANY PRICE INDEX

Spotlight on Test and Measurement

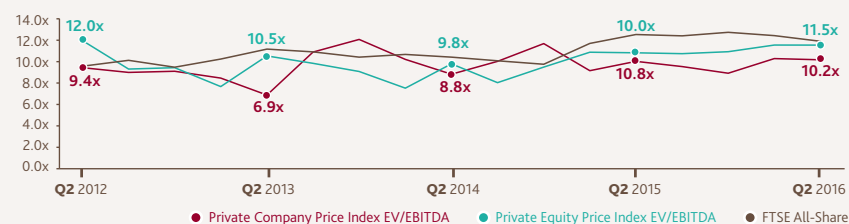
M&A ACTIVITY – A WATERSHED MOMENT?

The second quarter of 2016 saw a total of 707 deals completed – a record number of deals not seen since the boom-times of Q3 2008.

Is this a watershed moment? Possibly not...once the initial shock of the referendum result subsided, it has largely been business as usual and this is because the market fundamentals remain strong. We estimate that only 10% of M&A transactions have been 'lost' due to Brexit. The vast majority of deals have not been falling over and new business M&A activity is at good levels. The position varies by sector, but so far, mid-market M&A has proven robust. This positive outlook is underpinned by £50bn of dry powder in the private equity space.

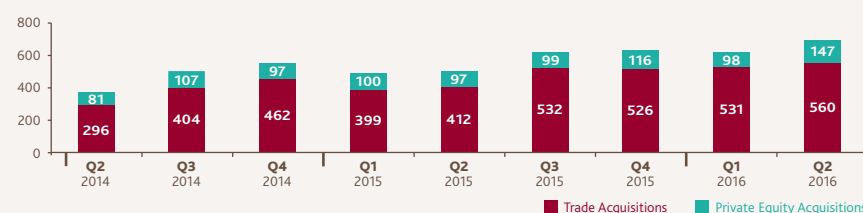
We anticipate that PE houses will keep spending. Numerous international and UK trade buyers are also actively looking to acquire and debt markets remain open. It's still early days following the referendum result but a theme is emerging of overseas bidders seeing opportunity in the UK with the fall in sterling outweighing the risks of Brexit uncertainty. In particular we are seeing US private equity money coming into the market which perhaps is not surprising given the pound's three decade low against the dollar.

PCPI V PRIVATE EQUITY | Q2 2012 – Q2 2016



Source: Capital IQ and BDO Research

VOLUME OF DEALS COMPLETED | Q2 2014 – Q2 2016



Source: Corpfm

BDO UK

18 Offices **250** Partners
1 Office **3,500** Staff

1 for exceptional client service¹

95% of our clients would recommend us² | **77%** already have²

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

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 10.2x 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.

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)

TEST AND MEASUREMENT ("T&M")

A RESILIENT SECTOR

The Test and Measurement ("T&M") sector is focused on the development, production and use of equipment designed to detect, measure and control a variety of factors in manufacturing processes such as power, flow, temperature and vibration to name but a few. T&M also includes Testing, Inspection & Certification services.

The global T&M equipment market is forecast to grow at a CAGR of over 5% during the period 2016-2020, driven by:

- Increased regulation
- Industry standardisation and sophistication
- Globalisation and increasing industrial output and innovation
- The ever increasing complexity of products, materials and supply chains
- A continuing need for efficiencies and cost reduction in the production process
- An increasing 'cost of failure'
- Outsourcing; and technological advance.

THE FOURTH INDUSTRIAL REVOLUTION WILL FUEL CONTINUED INVESTMENT IN T&M

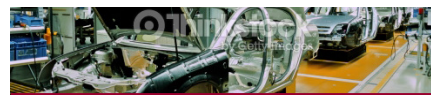
The INDUSTRIE 4.0 project (aka the fourth industrial revolution) began as a marketing opportunity for Germany to establish itself as an industry lead market and technology provider.

The phrase has now been subsumed into the business lexicon as a catchall covering the automation of manufacturing, machine-to-machine and machine-to-product communication, the industrial internet and technology needed for mass customisation of production.

It essentially means smart, flexible factories, where machines capture more data and convey more useful data to business operators so that they can make quicker, better decisions about how something is manufactured.



01 MECHANIZATION, WATER POWER, STEAM POWER



02 MASS PRODUCTION, ASSEMBLY LINE, ELECTRICITY



03 COMPUTER AND AUTOMATION



04 CYBER PHYSICAL SYSTEMS

The main drivers for the digital factory evolution are:

- Higher productivity
- Product variation and customisation
- Quality control and consistency
- Traceability
- Supply chain responsiveness.

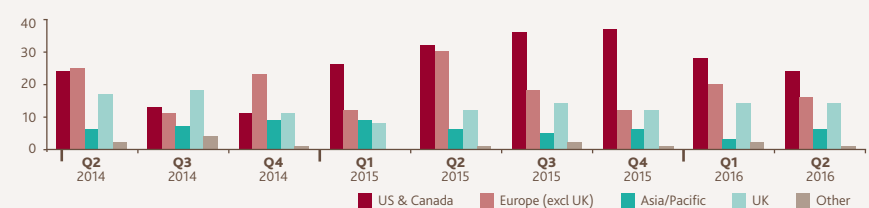
The emergence of Industry 4.0 is expected to support the global T&M market as it responds to the challenge to monitor and measure increasingly complicated systems and processes, providing and using the "big data" for automated decision-making.

INDUSTRY CONSOLIDATION CONTINUES

The T&M sector is broad and highly fragmented but industry consolidation is continuing, fuelled particularly by the M&A activities of the large global players.

- T&M deal volumes increased by 22% in 2015 to 279 deals worldwide
- The US is leading the consolidation of the T&M market with 47% of deals involving a US buyer
- The UK is the second most active M&A market. 70 transactions completed in 2015 involved a UK buyer or seller
- Cross border deal volumes help continue to drive the market consolidation, accounting for 40% of all deals in 2015
- 12% of T&M transactions over 2015 involved a financial buyer, highlighting the attractiveness of the market to PE investors
- Quoted company valuations and transactions in the sector both consistently achieve double digits EBITDA multiples.

QUARTERLY M&A ACTIVITY BY SELLER REGION



Source: Market IQ

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