



2015

# PCPIQ3

PRIVATE COMPANY PRICE INDEX

Spotlight on Leisure Travel

## 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 10.7x historic EBITDA. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 10.8x 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 arithmetic mean of EV/EBITDA for deals where sufficient information has been disclosed. Over the five years to December 2014, the included deals for the PCPI have had a mean Enterprise Value of £44.1 million and a median Enterprise Value of £40.4 million. The included deals for the PEPI have a mean Enterprise Value of £62.0 million and median Enterprise Value of £57.9 million.

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.

The third quarter of 2015 saw a total of 631 deals completed, which is a significant uptick from last quarter's 509 deals, meaning mergers and acquisition ('M&A') activity has returned to its highest level since the pre-recession boom times (Q2 2008 – 802 deals).

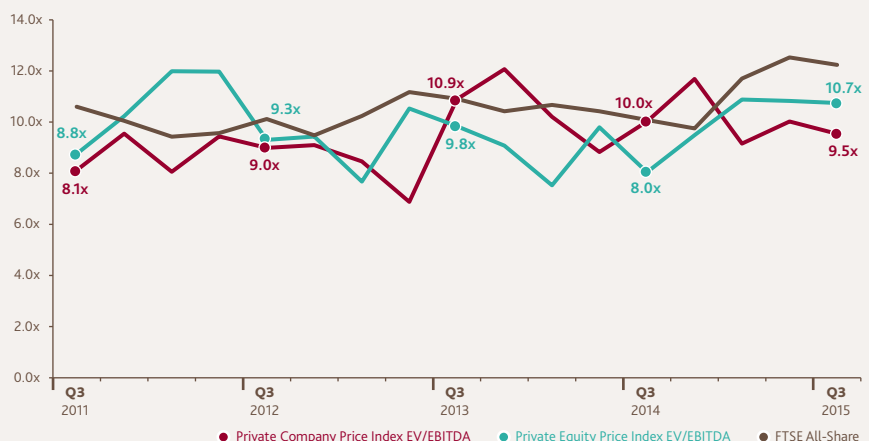
In this third quarter trade buyers completed 532 deals, which reflects nearly a third (29%) increase from the previous quarter. The PCPI/PEPI index, which tracks the multiples paid by trade and private equity buyers for private companies found that the levels of private equity activity have continued to rise modestly over the past 12 months, with 99 deals (from 97) completed in Q3, a slight increase from last quarter.

As the economy continues to perform well, trade buyers are actively seeking to make strategic acquisitions in order to enter new

markets and expand their businesses, which has pushed the levels of private company M&A to its highest levels since 2008. The trade (9.5x) and private equity (10.7x) multiples have both remained at high and fairly constant levels throughout 2015.

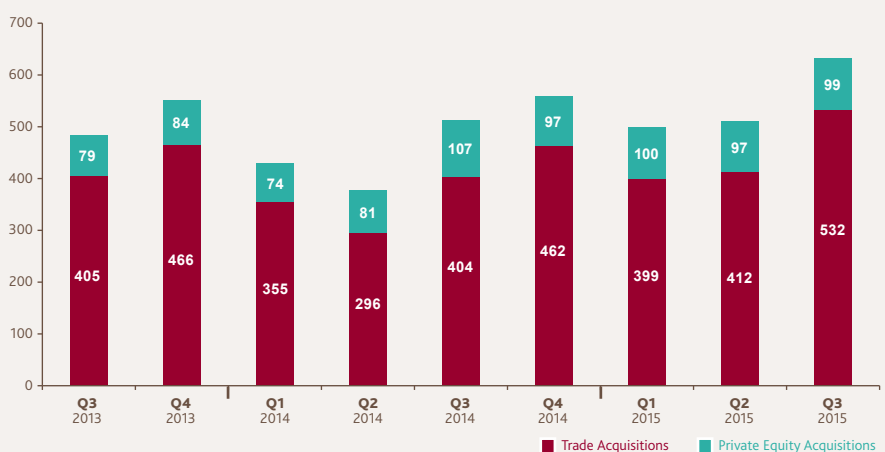
We have seen a high level of activity among the Technology, Financial Services and Business Services sectors and we foresee a strong end to the year, leading to an even stronger 2016. This remains a good 'seller's market'.

PCPI V PRIVATE EQUITY | Q3 2011 – Q3 2015



Source: Capital IQ and BDO Research

VOLUME OF DEALS COMPLETED | Q3 2013 – Q3 2015



Source: Corpin

## LEISURE TRAVEL

20 years ago, to book a holiday I would have strolled down to my local agent on the high street. Today I can't remember the last time I entered a travel shop.

Like most of us, I will research on my phone or tablet in my free time (usually when I'm on the move) and book it, mostly without even speaking to a human. A holiday these days also needs more complexity to be interesting. Lying on a beach for two weeks is just too dull. So more of us are doing multi-trip itineraries or activity-led getaways.

A shift in consumer tastes and new booking channels are creating a surge of new successful entrepreneurial travel businesses and creating plenty of investable opportunities for private equity, trade buyers and the public markets. Like most M&A advisers in this sector, we're very busy at the moment!

### LUXURY WELL POSITIONED

The UK is the fastest growing economy in the G7 and economic growth coupled with a disproportionately affluent cohort of those aged 55+ has supported the rise of luxury independent travel. The M&A deal press has widely reported that Audley Travel, a business BDO sold in 2012, is likely to be sold again this year. Audley has doubled its EBITDA in three years; its outstanding performance and US market entry has helped to inspire many private equity investors that leisure travel is a sound investment.

Scott Dunn is another stand-out brand in the UK luxury market. BDO advised its current backer Inflexion when it acquired Scott Dunn in December 2014 with most of its growth deriving from luxury long haul tailormade travel.

### ONLINE

Markets with a high number of large assets that need to be filled will support the role of a sales agent. Iglu does exactly that, mostly for the cruise market where it has particular strength in online customer acquisition. Iglu completed another private equity backed deal earlier this year and LDC will support Richard Downs and Martyn Williams to continue Iglu's growth in selling cruise and ski holidays online and taking the business to more overseas source markets.

Perhaps the best value deal from a buyers perspective is Cox & Kings' acquisition of Late Rooms for a reported price of £8.5m. Late Rooms has a total transaction value of £300m, is profitable with high booking volumes from mobile and tablet. It looks to be an excellent investment.

The biggest news story in 2015 for online Travel in the UK is the IPO of On The Beach at around 12x forward EBITDA. Inflexion, who retain a significant stake, only invested in the business at a price just above £70m in autumn 2013 and the IPO was priced at around 3.5x the 2013 deal value; quite an achievement. Underpinning the IPO is the permanent channel shift experienced across the sector with UK consumers becoming more likely each year to book holidays online. For a more commoditised product, such as the Mediterranean beach holiday, this is even more pronounced and explains the strategy around differentiation among the sectors two UK giants.

### DIFFERENTIATION

The two largest operators in the UK, Thomas Cook and TUI, have cemented a vertically integrated asset (hotel) strategy to secure differentiation. The inevitable result is the divestment of specialist non-core assets. BDO advised Thomas Cook in 2013 on the disposal of three businesses, including Neilson the ski and beach club activity holiday business. TUI is now following with its version of selling off the non-core, the first being Late Rooms, with more expected to follow.

A clever way to secure embedded differentiation is through the use of complex itineraries and excellent tour leaders, a winning combination for many UK based escorted tour businesses. Several leading brands have changed hands in recent years, all backed by private equity. ECI acquired Great Rail Journeys in 2013, Phoenix acquired Riviera in 2014 and this year Kings Park Capital acquired an archaeological tours business called Specialist Journeys.

### RETAIL STILL WORKS FOR SOME

While most travel businesses think about reducing their UK retail footprint, Kuoni is embarking on a rollout of new sites. Kuoni's B2C business in Europe was acquired by REWE of Germany during the summer. By using a hybrid model of blending the best of retail and remote call centres, where calls are diverted to the sales consultants in store, REWE will support Derek Jones in his plans to grow the UK Kuoni business. Another operator utilising a multi-channel approach with success is Barrhead Travel whose online travel agency business is complemented by a network of 40 stores in Scotland and Northern England.

HARRY STOAKES

TRAVEL SPECIALIST IN BDO'S M&A TEAM

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no. 1 for exceptional client service<sup>1</sup>

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BDO INTERNATIONAL

US\$7 billion<sup>3</sup>  
2014 REVENUE

152 Countries 1,350 Offices  
60,000 Staff

1. Independent research (Mid Market Monitor 2012-15) undertaken by Meridian West shows BDO has the highest client satisfaction rating among its peers  
2. Client Listening Programme 2014/15  
3. US\$7bn (£5.62bn) combined fee income 2014

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