



2015

# PCPIQ2

PRIVATE COMPANY PRICE INDEX

Spotlight on Windows and Doors

# STRONGEST ACTIVITY SINCE 2012

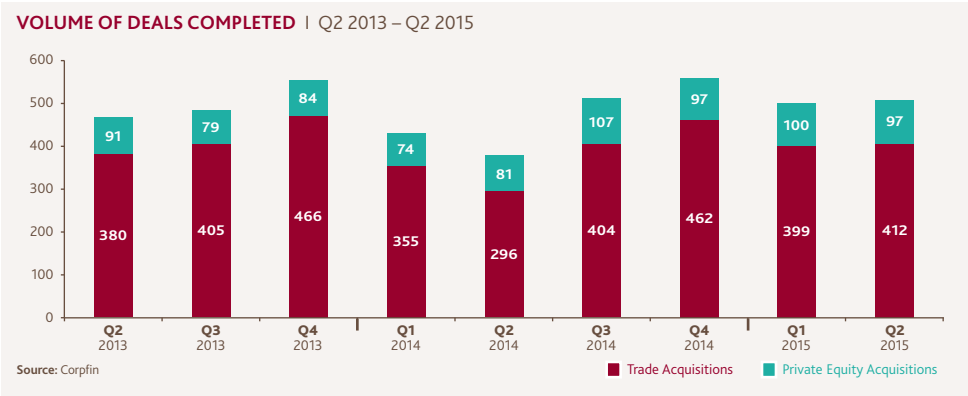
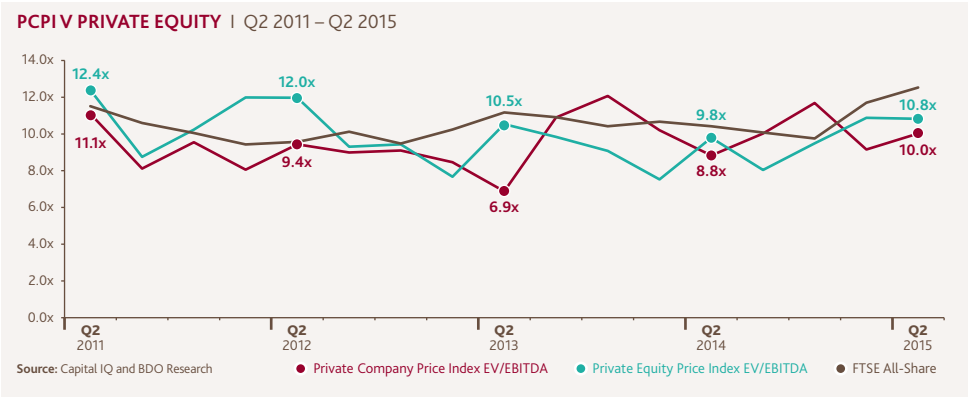
The second quarter of 2015 saw a total of 509 deals completed, a slight increase from last quarter's 499 deals, making the first half of the year the most active since 2012 with a total of 1,008 deals, reinforcing the renewed confidence which the M&A market is experiencing.

The PCPI/PEPI index, which tracks the multiples paid by trade and private equity buyers for private companies found that even during a period of heightened uncertainty around the election, trade multiples edged up to 10.0x from 9.2x, whilst private equity multiples remained constant at 10.8x (from 10.9x). Both multiples are at a slightly higher level than the average post-recession

multiples for trade (9.4x) and private equity (10.0x) buyers, which reflects the competition evident for good quality businesses.

The UK's newly elected one party Government and strong macroeconomic performance brings with it more stable market conditions and we expect to see this translate into a boost for the M&A market. All the ingredients are there to make 2015 the strongest year for post-recession deal making.

We have seen high M&A activity among the Pharmaceutical, Software and Manufacturing sectors and we expect to see a further boost in activity over the next 6 months.



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# BUYERS FUELLING WINDOWS & DOORS M&A AS MARKET CONFIDENCE BUILDS

Windows & Doors M&A activity has intensified over the last 12 months – an exciting trend which looks set to continue. The M&A resurgence in the sector is being driven primarily by pent-up, post-recession demand from corporates, PE buyers seeking to capitalise on bulging consumer wallets and increased demand for replacements. PE interest is also being fuelled by a fragmented market and a desire to invest during this growth spurt.

Recent deal activity has included:

IPOs	PRIVATE EQUITY	INTERNATIONAL CORPORATES
<ul style="list-style-type: none"><li>▶ Epwin Group plc, manufacturer of extrusions, mouldings and fabricated building products including windows and doors</li><li>▶ Eurocell plc, manufacturer and distributor of windows, doors and roofline PCV-U products</li></ul>	<ul style="list-style-type: none"><li>▶ Synseal (backed by HIG) acquired LB Plastics, a supplier of extruded PVC-U products to fabricators and installers</li><li>▶ Northedge Capital acquired Solidor, a manufacturer of composite doors</li></ul>	<ul style="list-style-type: none"><li>▶ Quanex acquired HL Plastics, a manufacturer of PVC-U products including windows and doors</li><li>▶ Masonite acquired Door-Stop International, a door manufacturer</li></ul>

## THE FEEL GOOD FACTOR RETURNS

The Windows & Doors market is estimated to be worth in excess of £4 billion by 2018, after a modest growth rate of 3% - 4%. This is following a period of decline between 2008 and 2012, and these growth forecasts have reinvigorated the industry – further fuelling M&A activity.

The Windows & Doors sector is influenced primarily by Replacement and New Build markets:

### Replacement

Gross mortgage lending is set to increase by CAGR 9% to 2019. Together with credit easing and prolonged low interest rates, consumers are either relocating and renovating or replacing their windows and doors.

### New Build

New Build activity is driven by UK's well publicised housing shortage, which has prompted the government to offer incentives such as 'Help to buy'.

CPA forecasts that UK construction output will grow by 5.5% in 2015 (2014: 4.8%) whilst private housing construction is set to rise by 10% in 2015 (2014: 18%), with output expected to surpass the 2007 recession peak by 2017.



## MARKET GROWTH DRIVERS

### Replacement:

- Continuation in the wave of replacement units, particularly earlier units, which tended to be aluminium and German style influenced
- Increased frequency of replacements due to home moves and aesthetic trends
- Credit easing and continued low interest rates
- More aesthetically pleasing products

- Energy efficiency initiatives
- Rising house prices stimulating home improvements spend

### New build:

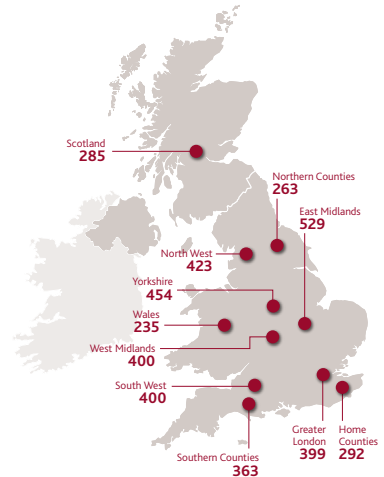
- Recovering housing market
- Government schemes to stimulate housing demand
- Faster/easier planning permission

## A HIGHLY FRAGMENTED MARKET RIPE FOR M&A OPPORTUNITIES

The Windows & Doors industry is highly fragmented with a few leading integrated players and a long tail of smaller fabricators and manufacturers. The fact that non-UK windows technology is not compatible for the UK market and vice versa, provides a natural barrier to entry.

Acquisition thesis is therefore driven by increasing market share, accelerating a rate of growth and gaining operational efficiencies with greater geographical coverage.

The map opposite shows the number of fabricators / manufacturers of windows and doors by UK region.



## IPOS AND PE INTEREST

Three UK businesses and two Non-UK businesses have successfully undertaken an IPO over the last 2 years. This activity suggests a real surge in confidence from the investor community and IPOs are now included as potential PE exit strategies.

26% of the UK windows and doors M&A transactions since 2012 were PE deals. With private equity seeking to enhance earnings ahead of exits and trade players seeking to consolidate

market share, M&A activity is expected to accelerate over the next couple of years as the recovery becomes more sustained.

## MULTIPLES

Recent UK transactions in the sector provide an average EBITDA multiple of 6.1x and an EBIT multiple of 8.3x. Notable transactions include the acquisition of Door-Stop International by Masonite International for an EBITDA multiple of 9.3x and the acquisition of Corialis International by a private group led by Advent International for £477 million.

# 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 10.0x 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.

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**1** **3,500** Staff

**1** for exceptional client service<sup>1</sup>

**92%** of our clients would recommend us<sup>2</sup> | **76%** already have<sup>2</sup>

1. Independent research (Mid Market Monitor 2012, 2013 and 2014) undertaken by Meridian West shows BDO has the highest client satisfaction rating among its peers

2. Client Listening Programme 2013/14

## BDO INTERNATIONAL

**US\$7** billion<sup>1</sup>  
2014 REVENUE

**152** Countries and territories **1,350** Offices  
**60,000** Staff

1. US\$7bn (€5.62 bn) combined fee income 2014

**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 OVERLEAF)**

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