

2017

PCPI Q2

PRIVATE COMPANY PRICE INDEX

Seller's market sees M&A valuations on the up:

- The PCPI index which tracks the multiples paid in trade deals – reached 10.7x, the highest levels seen since Q4 2014
- The PEPI index which tracks the multiples paid by private equity buyers – remains strong at 12.8x, reflecting the high levels of competition for quality businesses
- In the last quarter over 600 deals completed, demonstrating continued confidence in the market and a steady level of activity.

There was an uplift of 9.5% in deal volumes in Q2 2017 compared with the previous quarter, demonstrating the ongoing resilience of the M&A market.

Alongside a rise in volumes, the market saw an increase in market valuations. Our latest analysis reveals an increase in the average multiples paid on trade deals to 10.7x, the highest levels seen since Q4 2014. The PEPI index remains particularly robust, pointing to ongoing strength in the private equity market, with investors paying an average multiple of 12.8x for businesses.

The continued strength of the M&A market might be surprising to some, given the political and economic uncertainties in the UK and overseas. However, the strength of private equity funding, liquid debt markets and cash rich corporates means that the number of acquirers in the market exceeds the businesses for sale. This is creating a seller's market, where competition for quality businesses is driving attractive valuations for vendors. The main challenge for investors and corporates is finding and winning the right targets to acquire.

MAKING THE MOST OF THE PCPI/PEPI

The PCPI incorporates 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.

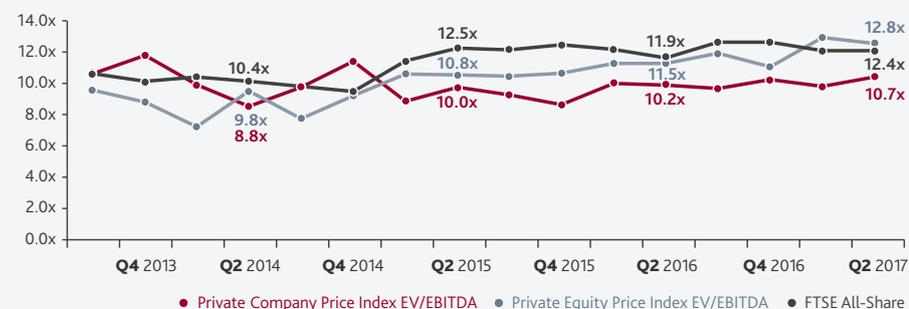
The private company EV/EBITDA is calculated from publicly available financial information on deals that complete in the quarter. At present, the Private Company Price Index (PCPI) indicates that, on average, private companies are being sold to trade buyers for 10.7x historic EBITDA. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 12.8x 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 four years to end of Q2 2017, the included deals for the PCPI have had a mean Enterprise Value of £86m and a median Enterprise Value of £17m. The included deals for the PEPI have a mean Enterprise Value of £137m and median Enterprise Value of £40m.

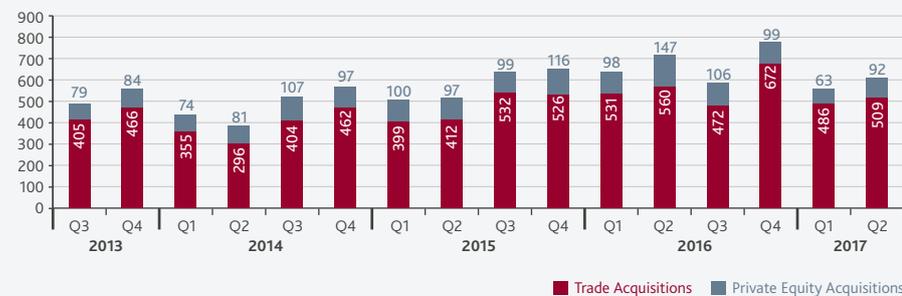
The PCPI/PEPI is an average measure and a guide, not an absolute measure of value, as there are many other factors that can have an impact on value.

PCPIV PRIVATE EQUITY I Q3 2013 – Q2 2017



Source: Capital Q, Fame and BDO Research

VOLUME OF DEALS COMPLETED I Q3 2013 – Q2 2017



Source: MarketIQ

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)

FOR MORE INFORMATION:

BIRMINGHAM

roger.buckley@bdo.co.uk
0121 352 6213

john.stephan@bdo.co.uk
0121 265 7264

BRISTOL

laura.shaw@bdo.co.uk
0117 930 1629

CAMBRIDGE

peter.hemington@bdo.co.uk
020 7893 2344

EDINBURGH

craig.martin@bdo.co.uk
0141 248 3761

GATWICK

jamie.austin@bdo.co.uk
0207 486 5888

GLASGOW

craig.martin@bdo.co.uk
0141 249 5232

GUILDFORD

michael.ware@bdo.co.uk
020 7486 5888

IPSWICH

keith.ferguson@bdo.co.uk
0147 332 0755

LEEDS

jason.whitworth@bdo.co.uk
0113 204 1237

LONDON

jamie.austin@bdo.co.uk
0207 893 3805

peter.hemington@bdo.co.uk
0207 893 2344

LONDON

michael.ware@bdo.co.uk
0207 893 3354

ross.mcdonald@bdo.co.uk
020 7893 2192

LEICESTER

john.bryant@bdo.co.uk
0115 962 9260

LIVERPOOL

ruth.percival@bdo.co.uk
0161 817 7500

MANCHESTER

ruth.percival@bdo.co.uk
0161 833 8345

NORWICH

keith.ferguson@bdo.co.uk
0147 332 0755

NOTTINGHAM

john.bryant@bdo.co.uk
0115 962 9260

READING

duncan.lamb@bdo.co.uk
0238 088 1796

SOUTHAMPTON

paul.russell@bdo.co.uk
0238 088 1796

This publication has been carefully prepared, but it has been written in general terms and should be seen as containing broad statements only. This publication should not be used or relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained in this publication without obtaining specific professional advice. Please contact BDO LLP to discuss these matters in the context of your particular circumstances. BDO LLP, its partners, employees and agents do not accept or assume any responsibility or duty of care in respect of any use of or reliance on this publication, and will deny any liability for any loss arising from any action taken or not taken or decision made by anyone in reliance on this publication or any part of it. Any use of this publication or reliance on it for any purpose or in any context is therefore at your own risk, without any right of recourse against BDO LLP or any of its partners, employees or agents.

BDO LLP, a UK limited liability partnership registered in England and Wales under number OC305127, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. A list of members' names is open to inspection at our registered office, 55 Baker Street, London W1U 7EU. BDO LLP is authorised and regulated by the Financial Conduct Authority to conduct investment business.

BDO is the brand name of the BDO network and for each of the BDO member firms.

BDO Northern Ireland, a partnership formed in and under the laws of Northern Ireland, is licensed to operate within the international BDO network of independent member firms.

Copyright © July 2017 BDO LLP. All rights reserved. Published in the UK..

www.bdo.co.uk