

2017

# PCPI Q1

PRIVATE COMPANY PRICE INDEX

## M&A confidence in 2017 remains, despite slow start in the first quarter

- 2016 ended on a high with Q4 deal volumes up at a whopping 771 - the highest levels since 2008.
- But 2017 starts with a lull with lowest number of deals since Q2 2015.

Whilst confidence for 2017 remains high, deal volumes are down with 549 deals closing in the first quarter, the lowest seen since Q2 2015.

Despite the fall in numbers, valuation multiples remain strong. BDO's PCPI/PEPI report shows that the multiples on private equity deals increased from 11.3x in Q4 2016 to 13.2x in the first quarter - a notable increase driven by deal size and sector. The Private Company Price Index (PCPI) – which tracks the multiples paid by trade buyers - decreased slightly from 10.5x in Q4 to 10.1x in Q1 2017.

Despite the lower number of deals in the first quarter, there remains an expectation of a strong M&A market in 2017 and yet another prosperous year ahead for sellers.

Whilst deal volumes might suggest a declining interest in M&A, market chatter suggests the opposite. Many trade buyers and private equity investors complain that there aren't enough good quality businesses coming to market. So, when a good company does come to market, the competition is driving prices. It is a good time to be selling.

## 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.

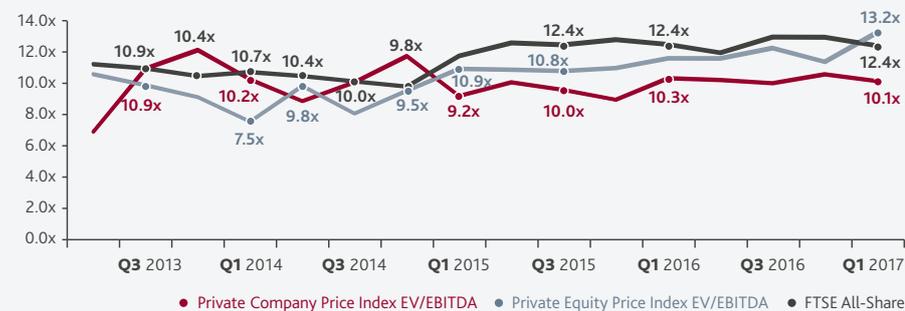
The private company EV/EBITDA is calculated from publicly available financial information on deals that complete in the quarter. At present, the Private Company Price Index (PCPI) indicates that, on average, private companies are being sold to trade buyers for 10.1x historic EBITDA. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 13.2x 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 Q1 2017, the included deals for the PCPI have had a mean Enterprise Value of £81.6m and a median Enterprise Value of £16m. The included deals for the PEPI have a mean Enterprise Value of £117m and median Enterprise Value of £40m.

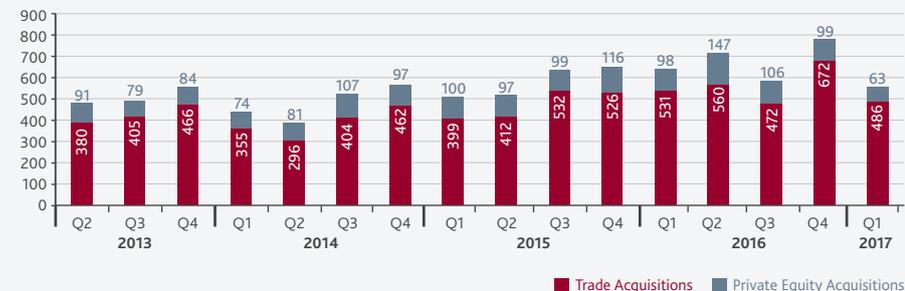
The PCPI/PEPI is an average measure and a guide, not an absolute measure of value, as there are many other factors that can have an impact on value.

PCPI V PRIVATE EQUITY I Q2 2013 – Q1 2017



Source: Capital Q, Fame and BDO Research

VOLUME OF DEALS COMPLETED I Q22013 – Q1 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)

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