

PCPI Q1

PRIVATE COMPANY PRICE INDEX

ENCOURAGING START TO THE YEAR, WITH PRIVATE EQUITY FUELLING THE MARKET

BDO's latest analysis of M&A transactions reveals ongoing confidence in the market with deal volumes holding firm, PE valuations remaining robust and trade valuations only dipping slightly in the first quarter of 2019.

599 deals were recorded in Q1 2019, an increase of 7% compared with the first quarter of 2018. While trade deal volumes saw a moderate increase of 5% compared with the previous year, private equity activity rose by an impressive 22%.

PE valuation multiples continued to hold firm, with the PEPI recording a multiple of 12x, in line with the two previous quarters and maintaining its premium profile compared to trade valuations. Meanwhile trade valuations dipped in the quarter, demonstrated by the PCPI decline from 10.4x in Q4 2018 to 9.8x in Q1 2019.

Read more in PCPI sector spotlight blog: 'Media – is winter really coming?', which focuses on deal trends in Media & Marketing Services.

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).

“ Given the current geo-political backdrop, the M&A market delivered a very creditable performance in Q1. There is a smattering of hesitancy from vendors and delay in some investment decisions, but the number of acquirers in the marketplace continues to exceed the number of businesses for sale.

Across the market, we see sector-specific dynamics being a stronger determinant of value and success than Brexit uncertainty. Although we would expect some reduction in activity and possibly further softening in values during 2019, we believe that such softening will not affect a quality business seeking good value. Ultimately, the PE and debt markets remain open for business and ready to deploy cash. ”

Roger Buckley | M&A Partner at BDO LLP

MAKING THE MOST OF THE PCPI / PEPI

The PCPI incorporates Enterprise Value to EBITDA multiples as the method of valuation.

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 9.8x historic EBITDA. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 12.0x 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.

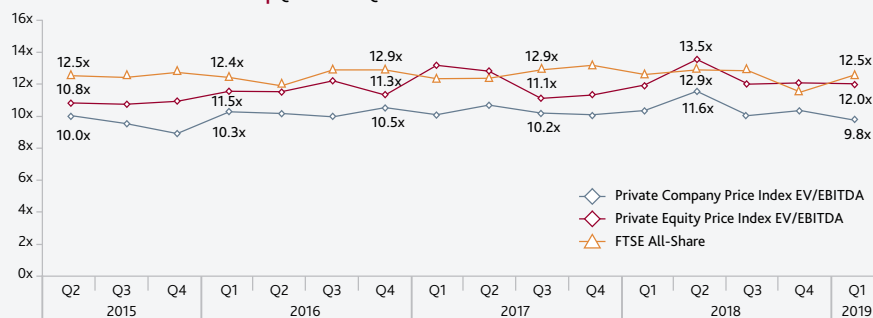
This will have been factored into the price the purchaser paid, but may not be reflected in the profits declared to the public.

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 median of EV/EBITDA for deals where sufficient information has been disclosed. Over the four years to end of Q1 2019, the included deals for the PCPI have had an average Enterprise Value of £15.5m.

The included deals for the PEPI have an average Enterprise Value of £40m.

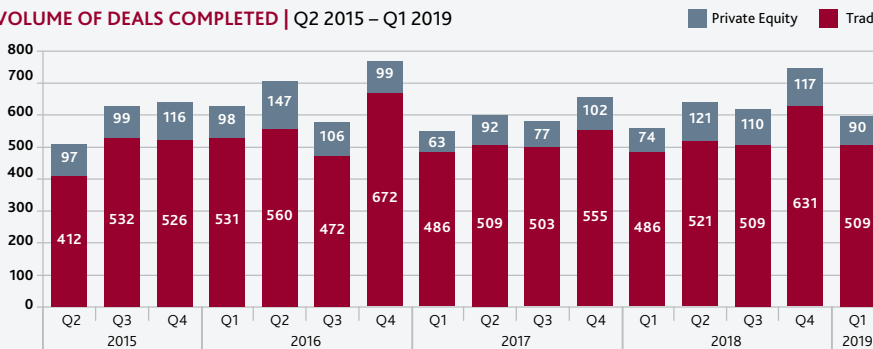
The PCPI/PEPI is an average measure and a guide, not an absolute measure of value, as there are many other factors that can have an impact on value.

PCPI: PEPI: FTSE COMPARISON | Q2 2015 – Q1 2019



Source: MarketIQ, mergermarket, Fame and BDO research

VOLUME OF DEALS COMPLETED | Q2 2015 – Q1 2019



Source: MarketIQ

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