

2022

PCPI Q3

PRIVATE COMPANY PRICE INDEX

ROBUST Q3 TRANSACTION VOLUMES IN RESILIENT UK M&A MARKET



Roger Buckley, M&A Partner at BDO LLP commented:

"Given recent turbulence in the UK markets, the resilience of the M&A market is impressive. We are in a period of high inflation, rising interest rates, low economic growth, and geo-political instability, and yet despite this, the M&A market has been remarkably robust and continues to go about its business."

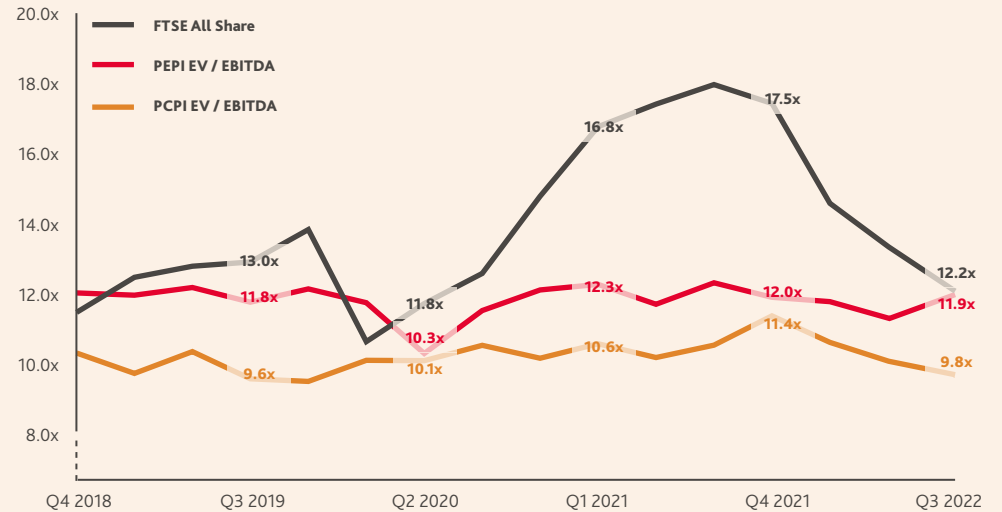
"The long-established motives for M&A, such as consolidation, synergies and need for scale remain compelling, there are also plenty of hot sectors and other reasons to transact. New technologies, zero carbon strategies, readjustments to supply chains are all prevalent drivers of activity. As the debt markets have softened, there is increasing scrutiny of the attractiveness of M&A, but corporates and PE alike have capital to deploy to complete deals that make good strategic sense."

Q3 has seen the strongest quarter for deal volumes so far this year with volumes rising by 13.9%. 663 deals completed in Q3, compared with 582 in Q2. Growth in trade deals was slightly ahead, with 557 transactions recorded, an increase of 14.6% on the 486 reported in Q2. Private equity deals also rose, seeing a 10.4% increase to 106 deals, from 96 in Q2.

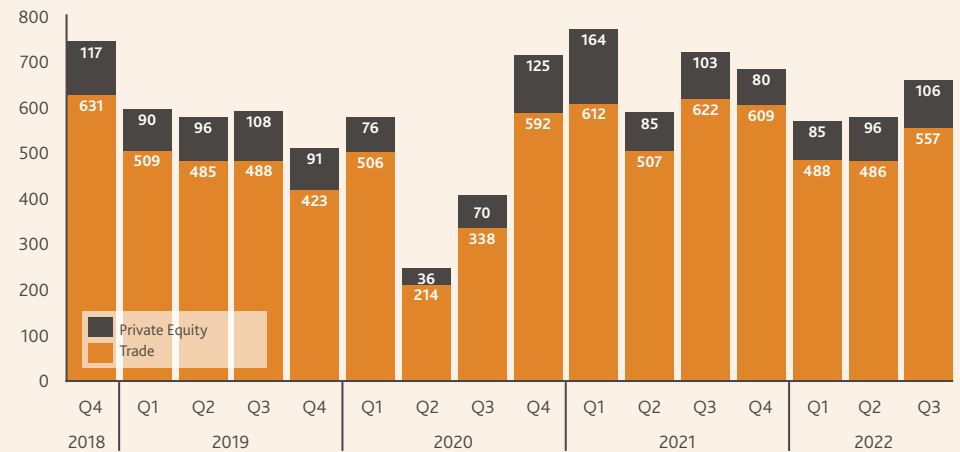
Volumes for the first nine months of the year were lower than the corresponding period a year ago but activity levels are impressive in view of the headwinds and turbulence across several sectors.

Trade valuations softened slightly in the quarter, with the PCPI dipping to 9.8x (10.2x in Q2), while private equity remained strong, as the PEPI rose to 11.9x (11.3x in Q2). The FTSE all-share declined to 12.2x from 13.4x in the previous quarter, returning closer to the historic norm following the inflated values seen during the pandemic period.

PCPI V PRIVATE EQUITY Q4 2018 - Q3 2022



Q4 2018 TO Q3 2022 VOLUME OF DEALS COMPLETED



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, a decrease on the Q2 value of 10.2x. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 11.9x historic EBITDA, rising from 11.3x in Q2.

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. The PCPI Enterprise Value trailing four-year average increases to £14.4m (Q2 - £14.3m) for trade deals.

The included deals for the PEPI maintains an Enterprise Value of £41m for private equity deals (Q2 £41m) (median).

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.



Read more in the PCPI sector spotlight blog: Raising debt when the future is uncertain

If you would like to know more about how to value or understand M&A market dynamics for your company, please contact your usual BDO contact or the author.



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