2020

PCPI Q1

PRIVATE COMPANY PRICE INDEX

TRANSACTION VOLUMES IN Q1 PICK UP PRECEDING THE IMPACT OF COVID-19

Following the decisive outcome of the general election, market sentiment was very positive at the beginning of the year.

The M&A market saw a busy Q1, with a significant rise of 13.2% in transaction volumes. Trade deal volumes resurged by almost 20% to 506 deals, reflecting pent up demand in the market. Meanwhile, volumes in the Private Equity market tapered off somewhat to 76 deals, the lowest quarter for two years.

Deal values maintained a strong profile in the quarter, with trade multiples increasing from 9.5x to 10.1x and PE multiples fluctuating from 12.2x to 11.8x. The decline in the FTSE all share to 10.7x reflects the sharp contraction in the market at the end of the quarter as lockdown was imposed due to the COVID-19 pandemic. The decline in listed market values is a harbinger of the likely decline in M&A activity over coming quarters as businesses are diverted from deals to concentrate on immediate priorities.

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

“Q1 2020 seems a long time ago already. Pre-lockdown, we saw a healthy M&A market in the UK, with much of the quarter's deal activity preceding the impact of COVID-19.

We expect to see a significantly reduced volume of M&A activity in Q2. Deal completions in Q2 are likely to be centred on businesses which are trading in sectors less impacted by COVID-19, such as technology, pharma and parts of the healthcare sector.

Whilst it is too early to say what the M&A market will look like in the second half of 2020, we anticipate a significant variation in both M&A activity and value impact, by sector and sub-sector. The hardest hit sectors may not see a resumption of M&A activity until 2021.

A number of corporates are considering re-entering the M&A market later in the year to capitalise on M&A acquisition opportunities which arise, to provide competitive advantage over the longer term.”

Read more in PCPI sector spotlight blog:
Back to the Future: Why market fundamentals will restart the insurance M&A market in the post COVID-19 world.

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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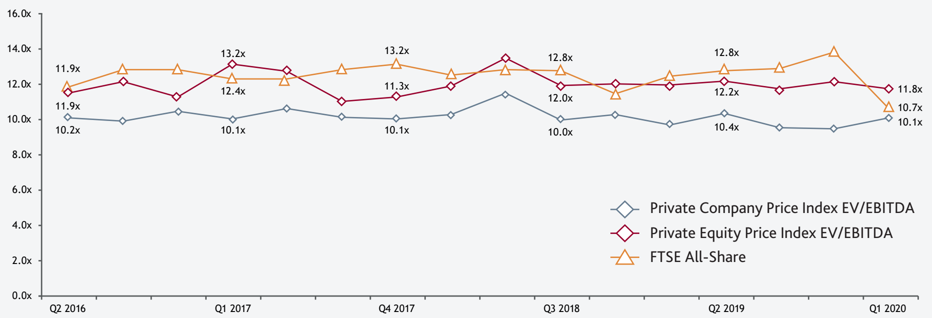
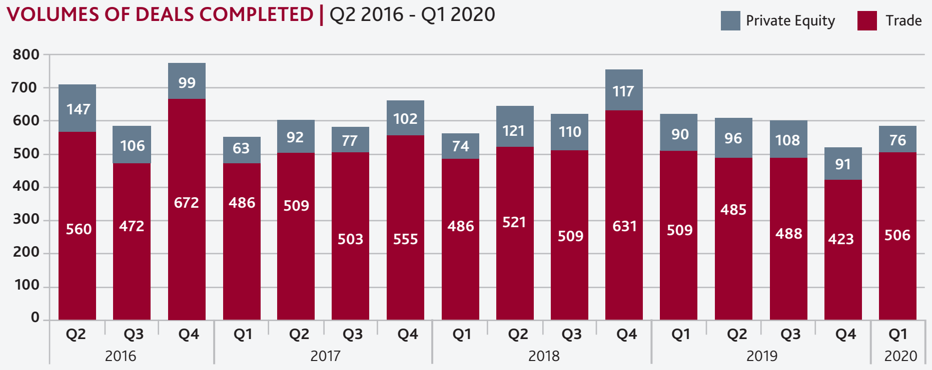
PCPI v PRIVATE EQUITY | Q2 2016 - Q1 2020



VOLUMES OF DEALS COMPLETED | Q2 2016 - Q1 2020



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 10.1x historic EBITDA. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 11.8x 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 median of EV/EBITDA for deals where sufficient information has been disclosed. The PCPI Enterprise Value maintains a trailing four year average at £14.1m for trade deals.

The included deals for the PEPI have an average Enterprise Value of £41m for private equity deals.

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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