

2018

PCPI Q1

PRIVATE COMPANY PRICE INDEX

STRONG START TO THE YEAR AND CONTINUING M&A MARKET STABILITY

BDO's latest analysis of M&A transactions reflects ongoing stability and unwavering confidence in the market with deal volumes holding firm in Q1 and valuations rising slightly. With a further 560 deals recorded in Q1 the UK remains a highly attractive marketplace for M&A.

Businesses and private equity investors remain calm and committed to completing M&A transactions with valuations and deal volumes holding firm in the first quarter of 2018. A further 560 deals were recorded in Q1, maintaining the volume profile seen through 2017. Valuation multiples slightly increased for both trade and private equity transactions. BDO's PCPI/PEPI report shows that multiples paid on trade deals increased from 10.1x in Q4 2017 to 10.3x in the first quarter. Meanwhile, multiples paid on private equity transactions increased to 11.9x, up from 11.3x.

International buyers, particularly from the US and Europe, continue to invest in the UK market, completing a number of the largest deals seen in the quarter. The Building Products sector was a strong performer in the quarter with several large transactions reported and some impressive multiples paid.

It appears that we are set for another prosperous year ahead for sellers, with an expectation of a continuing strong M&A market.

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.

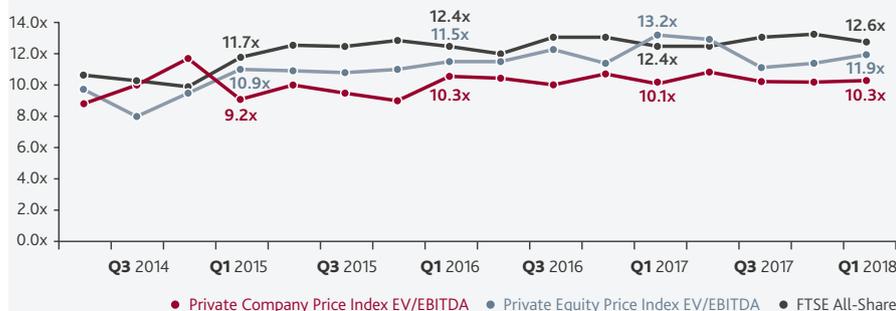
The private company EV/EBITDA is calculated from publicly available financial information on deals that complete in the quarter. At present, the Private Company Price Index (PCPI) indicates that, on average, private companies are being sold to trade buyers for 10.3x historic EBITDA. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 11.9x 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 2018, the included deals for the PCPI have had a mean Enterprise Value of £89m and a median Enterprise Value of £14m. The included deals for the PEPI have a mean Enterprise Value of £149m and median Enterprise Value of £50m.

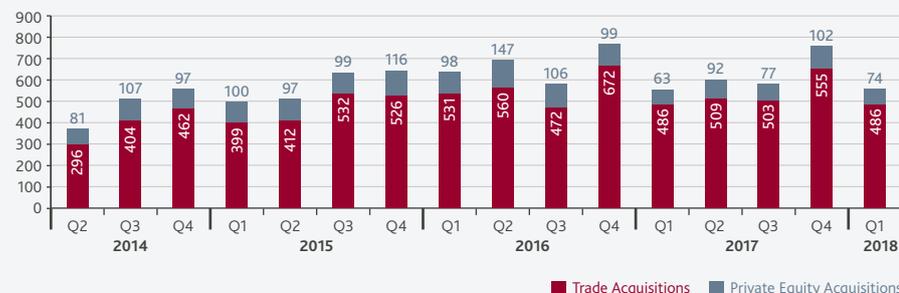
The PCPI/PEPI is an average measure and a guide, not an absolute measure of value, as there are many other factors that can have an impact on value.

PCPI PRIVATE EQUITY I Q2 2014 – Q1 2018



Source: MarketIQ, mergermarket, Fame and BDO research

VOLUME OF DEALS COMPLETED I Q2 2014 – Q1 2018



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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