Q4 2008

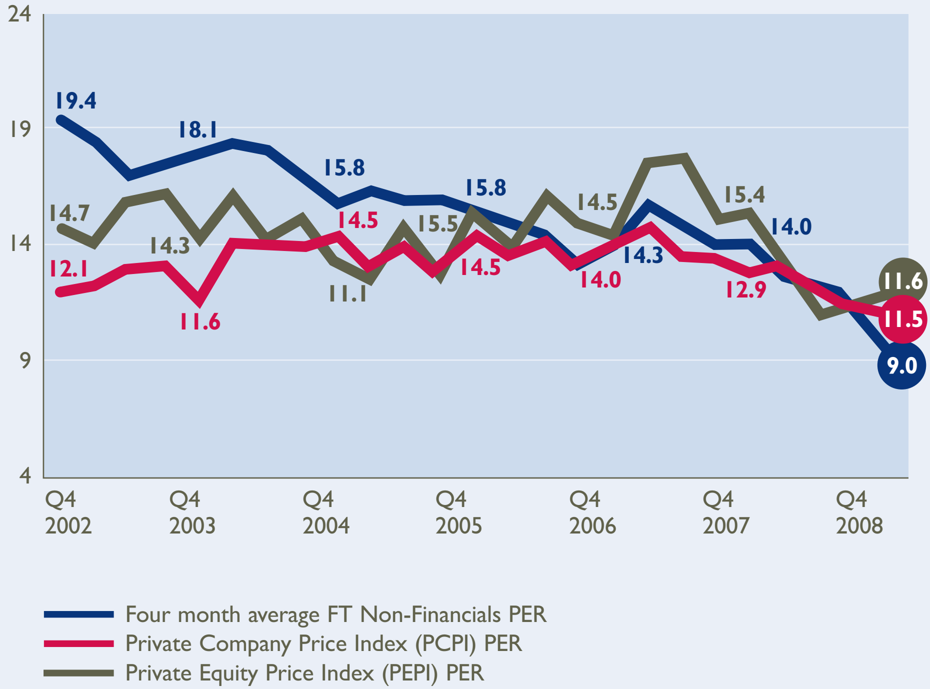
PCPIQ4

Private Company Price Index

BDO

BDO Stoy Hayward

PCPI v PEPI Q4 2002 - Q4 2008



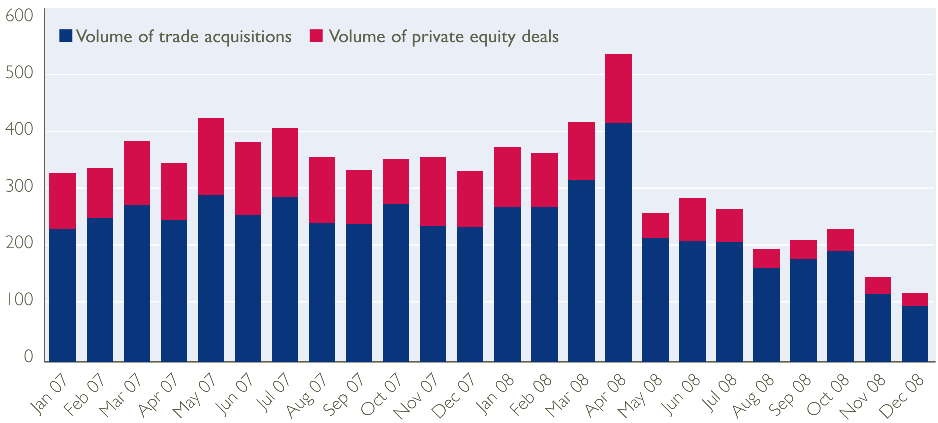
The key to reigniting the market for company acquisitions is to incentivise banks to lend funds rather than simply adjusting the price at which credit is available.

Further falls in private company deal volumes

Sales of privately owned UK mid-market companies fell again in Q4 2008, for the fourth consecutive quarter and to its lowest level since 1998, as acquisition finance continues to be limited despite government intervention and Bank of England measures to reduce interest rates.

The total number of deals in Q4 2008, at 494, was down 26 per cent on the third quarter and was less than half the number seen in the same period in 2007.

Trade sales fell by 52 per cent and private equity deals dropped by 70 per cent between Q1 and Q4 2008. The chart below shows the proportion of trade and private equity transactions on a monthly basis, since January 2007. The most obvious peak occurs in April 2008, when the capital gains tax regulations changed, similarly a noticeable drop is evidenced in the last two quarters of the same year, since the turmoil in the financial markets and wider economy.



Source: Corpfin

Despite the sharp fall in deal volumes, the prices paid for private companies held constant. The PCPI, which tracks price/earnings (p/e) multiples paid by trade buyers for private companies remained the same as Q3's index at 11.5 times (sold for 11.5 times their historic after tax profits). The Private Equity Price Index (PEPI), which shows comparable multiples on sales to private equity was 11.6 times, up only marginally on the previous quarter's 11.2 times.

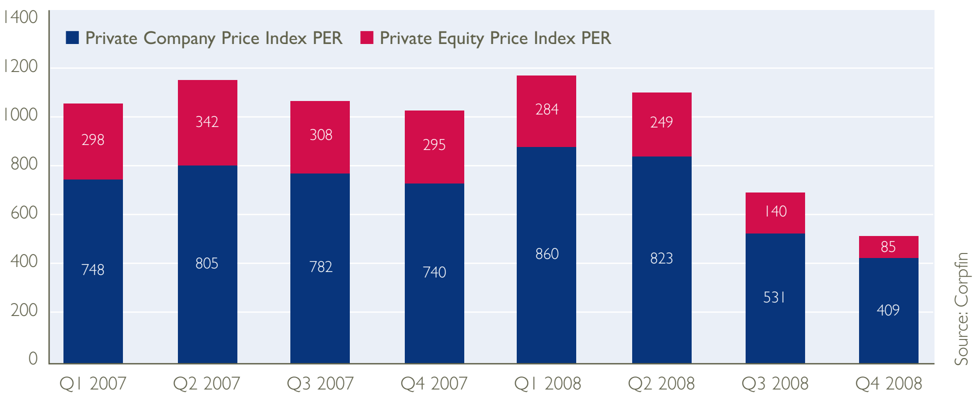
The Financial Times Non-Financials Index (FTNF), which charts the movement in comparable listed companies' p/e ratios dropped to a low of 9.0. According to BDO Stoy Hayward's records, this is the lowest since the inception of the PCPI in 1987.

An increasing proportion of vendors were unwilling to publish the statistics of their transactions; the proportion of non-disclosed deal values rose from a two-year average of 36 to 66 per cent this quarter. It is common practice for principals to be more reluctant to disclose transaction data for the acquisition of distressed assets and as the volume of accelerated and turnaround transactions has increased in recent months, this suggests that opportunistic cash-rich investors are capitalising on the instability of the current climate.

Christopher Clark, Corporate Finance Partner at BDO Stoy Hayward said: "There will always be a market for high-quality assets and as such, competition for the reduced number of stellar businesses will keep their values steady. The further reduction in volume is, in part, a result of the postponed disposal of less attractive companies – whether that be for the short or medium term it is likely to be determined by accessibility to debt funding.

Christopher continued: "We are yet to see a positive impact on deal activity from recent government legislation to tackle the turbulent financial markets. Whilst base rates, and consequently LIBOR, have come down, a rise in the interest margins and fees charged by banks is neutralising any potential benefit to businesses. The key to reigniting the market for company acquisitions is to incentivise banks to lend funds rather than simply adjusting the price at which credit is available."

Q1 2007 to Q4 2008 volume of deals completed



Making the most of the PCPI/PEPI

The PCPI/PEPI tracks the relationship between the current four month rolling average FTSE Non-Financials price/earnings ratio (p/e) and the p/es currently being paid on the sale of private companies to trade and private equity buyers. The FTSE Non-Financials p/e is calculated from the p/es published in the FT. The private company p/e is calculated from publicly available financial information on deals that complete in the quarter. At the moment, the PCPI indicates that, on average, private companies are being sold for 11.5 times their historic after tax profits. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 11.2 times their historic after tax profits.

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 p/e paid as calculated from the publicly available information may be over stated.

The PCPI/PEPI tracks the discount between how public and private companies are being valued. This discount enables us to use valuation techniques which are only relevant to public companies and apply them to private companies in the same sector.

The PCPI/PEPI is calculated as the arithmetic mean of the p/es for deals where sufficient information has been disclosed. Over the last six years, the included deals for the PCPI have had a mean deal size of some £21m and a median deal size of some £6m. And the included deals for the PEPI have a mean deal size of £30m and median deal size of £16m. Therefore, if a company is smaller than this, then a further discount should be applied.

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

If you would like to know more about how to use the PCPI/PEPI to value your company, please contact your local BDO Stoy Hayward representative.

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