

Q1 2009



# PCPIQ1

Private Company Price Index



BDO Stoy Hayward

## PCPI v PEPI Q1 2003 - Q1 2009



Whilst the reduced deal volumes and prices remain a frustration to the corporate and professional community, there are reasons to be cautiously optimistic about the future.

---

# M&A activity falls but banking appetite increases

Aggregate M&A activity in Q1 2009 declined for a fifth consecutive quarter. The volume of private company transactions, at 493, was limited by the availability of debt funding for mid-market deals. However, there is more optimism in the marketplace; a combination of government and banking initiatives seems to be working as an increasing number of lending institutions are conveying to the professional community the message that they are now 'open for business'. Nevertheless, it will take time for the banks' appetite to fund leveraged transactions to fully feed through to the execution of deals in the pipeline. Given the higher capital cost of funding transactions from equity, it is therefore not surprising that deal pricing is down across all the metrics we monitor.

Sales of privately owned UK mid-market companies in Q1 2009 totalled 402 for trade acquirers whilst there were 91 deals with private equity involvement; down 11% and 1% respectively on Q4 2008.

The values attributed to the companies that are being bought/sold dropped again this quarter; the Private Company Price Index showed that average multiples paid by trade buyers dropped 12% from the last quarter to 10.1 times (sold for 10.1 times their historic after tax profits). PEPI, the equivalent metric for private equity purchasers, was 10.4 times – down 10%.

A trend commented on in last quarter's review, the increased proportion of deals without disclosed values, continues to be high at two-thirds of all activity.

The average public company price:earnings ratio for the FTNF (Financial Times Non-Financials Index) was down 6% between Q1 2009 and Q4 2008, at 8.5 times. However, recent pieces of good news in the global banking sector have helped to boost the market's confidence.

According to Neil McDaid, Head of Debt Advisory, "Private companies looking to raise finance need to ensure that they have a compelling and coherent message to take to market to gain a share of a resource that is scarcer now than it was 18 months ago. While there seems to be



no relaxation of credit committee parameters, certain banks (essentially UK clearers plus one or two others) are acting with more confidence and showing more willingness to look at opportunities. All transactions are taking longer to move through credit committee than pre-crisis and this in part explains why we have not seen an upturn in corporate lending yet."

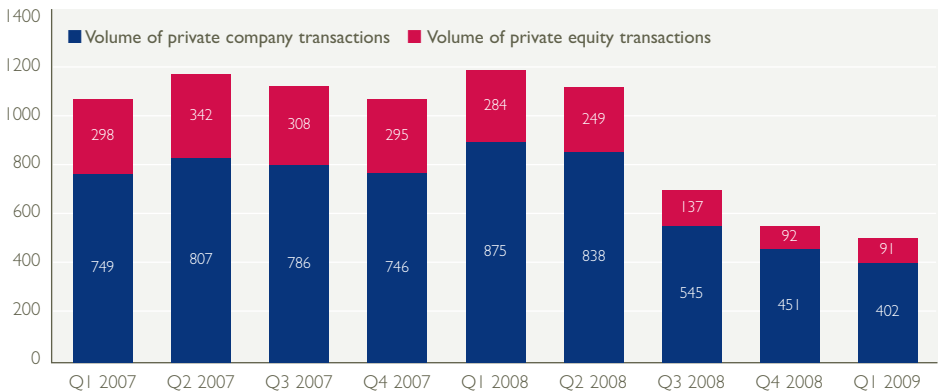
Transactions in sectors such as healthcare and companies supplying to the public sector appear more popular with bankers than anything exposed to consumer spending and the broader macro-economic environment.

The Government's asset protection scheme is behind some of this improved sentiment. As part of this scheme, it is

expected that Lloyds TSB and The Royal Bank of Scotland will increase lending to corporates by £11 billion and £16 billion respectively by March 2010.

Christopher Clark, M&A partner commented, "Whilst the reduced deal volumes and prices remain a frustration to the corporate and professional community, there are reasons to be cautiously optimistic about the future. An increasing number of blue-chip funders are actively seeking investment opportunities and whilst we acknowledge that a return to the peak in the market, evidenced in 2007 and early 2008 will be a long way off, the foundations for a return to normal, albeit conservative, levels of funding appear to be being laid."

## Q1 2007 to Q1 2009 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 10.1 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.

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.

**Belfast**

johnny.webb@bdo.co.uk  
028 9043 7209

**Birmingham**

roger.buckley@bdo.co.uk  
0121 352 6213

**Bristol**

andy.butler@bdo.co.uk  
0117 930 1512

**Cambridge**

john.barker@bdo.co.uk  
01233 535 000

**Chelmsford**

john.barker@bdo.co.uk  
01707 255 940

**Glasgow**

neil.craig@bdo.co.uk  
0141 249 5234

**Hatfield**

john.barker@bdo.co.uk  
01707 255 940

**Leeds**

tim.clarke@bdo.co.uk  
0113 204 1211

**London**

christopher.clark@bdo.co.uk  
020 7893 2395

**Manchester**

gordon.lane@bdo.co.uk  
0161 817 7504

**Reading**

john.parkinson@bdo.co.uk  
0118 925 4433

**Southampton**

paul.russell@bdo.co.uk  
023 8088 1796

**Southern region:**

**Epsom**

paul.smith@bdo.co.uk  
01372 734 343

**Gatwick**

simon.keeble@bdo.co.uk  
01293 591 140

[www.bdo.co.uk](http://www.bdo.co.uk)



'Audit Team of the Year' 2008  
'Tax Team of the Year' 2008  
'Corporate Finance Deal of the Year' 2008

BDO Stoy Hayward LLP operates across the UK with over 3,000 partners and staff. BDO Stoy Hayward LLP is a UK limited liability partnership and the UK Member Firm of BDO International. BDO international is a world-wide network of public accounting firms, called BDO Member Firms. Each BDO Member Firm is an independent legal entity in its own country. The network is coordinated by BDO Global Coordination B.V., incorporated in The Netherlands, with its statutory seat in Eindhoven (trade register registration number 33205251) and with an office at Boulevard de la Woluwe 60, 1200 Brussels, Belgium, where the International Executive Office is located. In the UK the Belfast Firm is operated by a separate Partnership known as BDO Stoy Hayward - Belfast.

BDO Stoy Hayward LLP and BDO Stoy Hayward - Belfast are both authorised and regulated by the Financial Services Authority to conduct investment business.

BDO Stoy Hayward LLP is the Data Controller for any personal data that it holds about you. We may disclose your information, under a confidentiality agreement, to a Data Processor (Shamrock Marketing Ltd). To correct your personal details or if you do not wish us to provide you with information that we believe may be of interest to you, please call Beverley Keery on 020 7893 2164 or email [beverley.keery@bdo.co.uk](mailto:beverley.keery@bdo.co.uk)

Whilst every care has been taken to ensure the accuracy of this information at the date of publication, the information is intended for general guidance only. Please call us if you would like specific advice on any matter.

Copyright © May 2009. BDO Stoy Hayward LLP. All rights reserved.



This document is printed on 9lives 80, a paper containing 80 per cent recycled fibre and 20 per cent virgin Totally Chlorine Free (TCF) fibre sourced from sustainable forests. 9lives 80 is produced by an ISO 14001 accredited supplier.