

Q2 2009



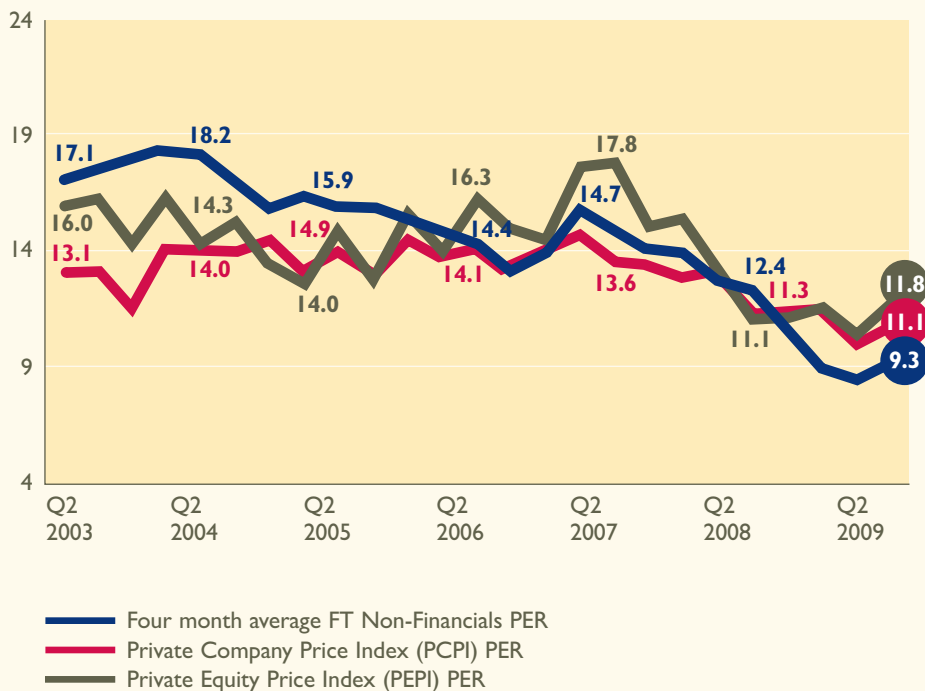
PCPIQ2

Private Company Price Index



BDO Stoy Hayward

PCPI v PEPI Q2 2003 - Q2 2009



The second quarter's pricing dynamics have however shown some improvement over the first quarter which indicates that as debt availability improves acquirers can improve the pricing they are willing to pay.

Although volumes continue to fall, prices are buoyed by increased availability of debt

Aggregate M&A activity in Q2 2009 declined for the sixth successive quarter to 476 transactions compared to 515 last quarter. At this level, there are less than half the number of deals being completed compared to Q2 2008 highlighting the significance of the fall currently being experienced.

A recurring trend from the recent deal analysis is that a greater proportion of deals have undisclosed values. This implies that while the decline in the volume of deals has reduced, the types of transaction being undertaken are significantly different from those of 2007 and early 2008. A number of those deals being done are restructuring in nature with debt for equity swaps occurring much more frequently as the various stakeholders in a business realign their interests in the equity.

There were however two transactions during Q2 2009 over £250m with private equity involvement. The lack of appetite for leverage transactions especially at the quantum previously seen saw these transactions as good as disappear from June 2008 onwards. In the nine months prior to Q2 2009, there were only three transactions so these further two now make it five in total during the last twelve months.

The drivers for these two transactions are however, largely of a distressed nature and hence no different to the general market. The first transaction announced in the

quarter was the approach made to Eircom to replace their investor; Babcock and Brown that is currently in administration. The second was the sale of Wood Mackenzie to Charterhouse that was part of Candover's stabilisation programme to bolster its cash reserves. What is encouraging from these transactions is that acquirers are able to raise sufficient funds to make a transaction of this quantum possible which as the data highlights has not been feasible during the past twelve months.

Where a leveraged business had previously relied on being able to sell the business to a trade acquirer or refinance through a secondary buyout to repay its debts, this route may now not be available. With the backdrop of an uncertain economic climate, being able



to support the historic level of finance raised will become more challenging. Companies therefore need to consider their options and look to realise proceeds from non-core assets in order to reduce their debt burden.

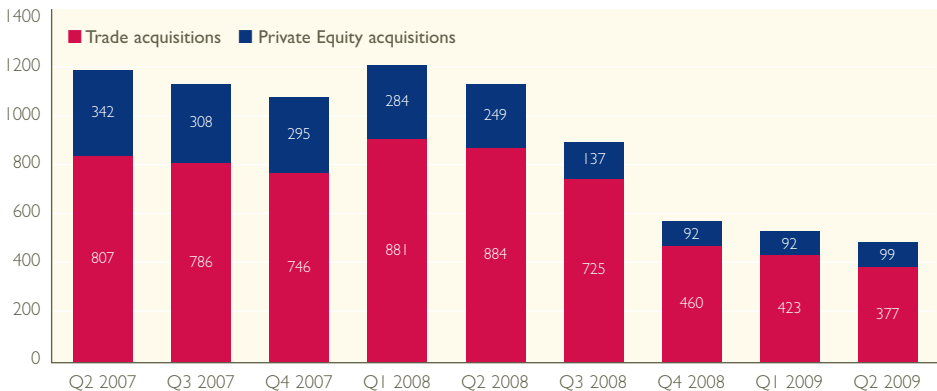
The values attributed to the companies that are being bought/sold increased against the previous quarter; the Private Company Price Index showed that average multiples paid by trade buyers increased 10% from the last quarter to 11.1 times (sold for 11.1 times their historic after tax profits). PEPI, the equivalent metric for private equity purchasers, was 11.8 times – up 13%.

The average public company price:earnings ratio for the FTNF

(Financial Times Non-Financials Index) was up 9% between Q1 2009 and Q2 2009, at 9.3times.

Christopher Clark, M&A partner commented, “Currently, the first question being asked by acquirers when a business embarks on a marketing process is “What is driving the need for the sale to place?”. Assessing the quality of the asset has become secondary. This, coupled with a reduced level of debt finance being available has led to the lowest pricing metrics being paid during the first quarter. The second quarter’s pricing dynamics have however shown some improvement over the first quarter which indicates that as debt availability improves acquirers can improve the pricing they are willing to pay”

Q2 2007 to Q2 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 11.1 times their historic after tax profits. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 11.8 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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