

Q3 2008



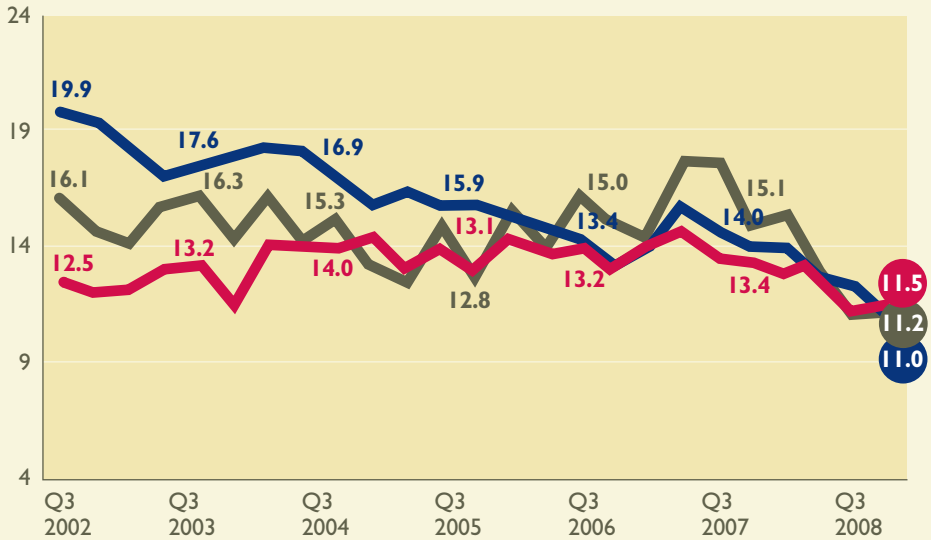
PCPIQ3

Private Company Price Index



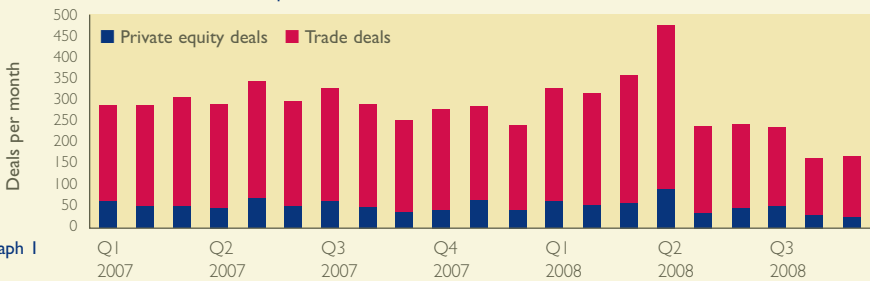
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PCPI v PEPI Q3 2002 - Q3 2008



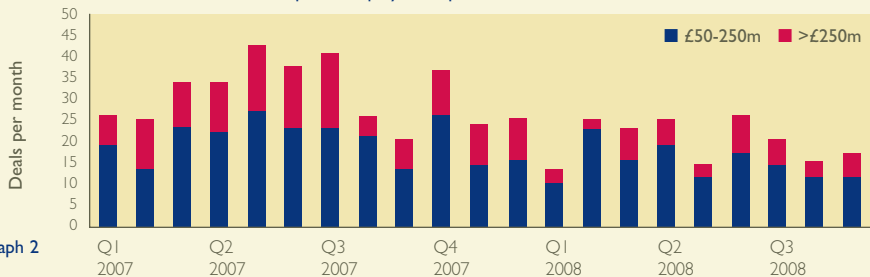
- Four month average FT Non-Financials PER
- Private Company Price Index (PCPI) PER
- Private Equity Price Index (PEPI) PER

Number of transactions per month



Graph 1

Total number of trade and private equity deals per month



Graph 2

Sharp fall in private company deal volumes countered by hold in prices

The third quarter of 2008 saw a dramatic reduction in the number of deals that completed however; for those that did, prices held steady.

The Private Company Price Index (PCPI) p/e ratio for sales of companies to trade acquirers was 11.5 times, up only marginally on the previous quarter's 11.3 times. Similarly, the Private Equity Price Index (PEPI) p/e ratio was 11.2 times which remained relatively unchanged from the previous quarter's 11.1 times.

By comparison, the FT Non-Financials Index (FTNF) fell 11 per cent this quarter from 12.4 times to 11.0 times, most noticeably hit by the turmoil in the markets caused by the collapse of the banking sector in the second half of September:

The principal reason why the average multiples of public listed companies fell and those of private companies, by comparison, did not is that multiples in the public markets move in real time whereas there is invariably a time lag between an M&A transaction being agreed in outline, based on multiples at the time, and the completion of that transaction after due diligence and detailed legal negotiations have concluded. The recent upheaval in the financial markets will have postponed or killed many deals but, while this has affected volumes, the effect on values will not be seen in the indices until Q4 2008.

Given that volumes have reduced, the static pricing observed in the private company arena suggests that vendors who do not need to sell are holding out for reasonable prices rather than feeling forced to sell at a discount into a turbulent market.

The total number of deals in Q3 2008, at 567, was 35 per cent down against Q3 2007 with the volume of trade sales falling by 36 per cent over the year and private equity deals dropping by 28 per cent.

Graph 1 illustrates the number of transactions per month over the last two years.

The second half of 2007 saw the first signs of the slow down in the market for large (>£250m) deals as banks became reluctant to lend to each other and the required syndication, or risk sharing, of debt became almost impossible to facilitate. The impact was felt less in the mid-market as the majority of transactions were comfortably financed by individual lenders without the need for

Due to the rapid contraction in the funding markets, only deals of real quality are still being transacted.

banks to club together pre deal or syndicate post deal. Since Q3 2008 however, the seizure in the banking market has meant that all deals have been affected, irrespective of size.

Graph 2 illustrates the total number of trade and private equity deals per month in 2007 and 2008 for the large (>£250m) and mid-market (£50m-£250m) segments.

Due to the rapid contraction in the funding markets, only deals of real quality are still being transacted. This indicates that buyer, investor and financing appetite remains even though the required returns are understandably higher and the approval processes are more tortuous.

Given the inflationary impact of energy prices, labour rates and financing costs

we see the next year being characterized by a growing number of companies being hit by the wider economic malaise and defaulting with their lenders. This will result in a significant increase in the volume of accelerated M&A deals which is good news for buyers seeking to increase market share by acquiring undervalued assets. While many of these deals will not be reflected in the PCPI and PEPI, as they are often not reported or there is no multiple available, the few that are reported will form a drag on the indices over the coming year.

Jon Breach, Corporate Finance Partner
jon.breach@bdo.co.uk 020 7893 2396
Editor

Private equity in the mid-market

Private equity 'buys to sell' and as both buyers and sellers of businesses their views on company values provide a unique insight into the private company M&A market. We surveyed 100 private equity backed companies and private equity investors to identify views on valuation, debt, distressed M&A and the approach to UK private equity investing post credit crunch. Private equity remains liquid and with enormous levels of committed capital they still want and

need to do deals. The prices they will pay are tempered by debt availability and company growth prospects but they will certainly be in the market in 2009.

To receive your copy of one of the most substantial surveys into mid market private equity this side of the credit crunch please contact

privateequitysury@bdo.co.uk

Alex White, Corporate Finance Partner
alex.white@bdo.co.uk 020 7893 3002

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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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

john.fingland@bdo.co.uk
0141 249 5292

Hatfield

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

Leeds

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

London

jon.breach@bdo.co.uk
020 7893 2396

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



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