

2023

PCPI Q1

PRIVATE COMPANY PRICE INDEX

M&A ACTIVITY LEVELS HOLD FIRM, WITH PRIVATE EQUITY UPHOLDING Q1 2023 DEAL VOLUMES



Roger Buckley, M&A Partner at BDO LLP commented:

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The M&A market remains resilient in both volume of deals and deal value being achieved. Private equity continues to find ways to do deals. The proportion of transactions completed by private equity rose to 17%, the highest for a couple of years.

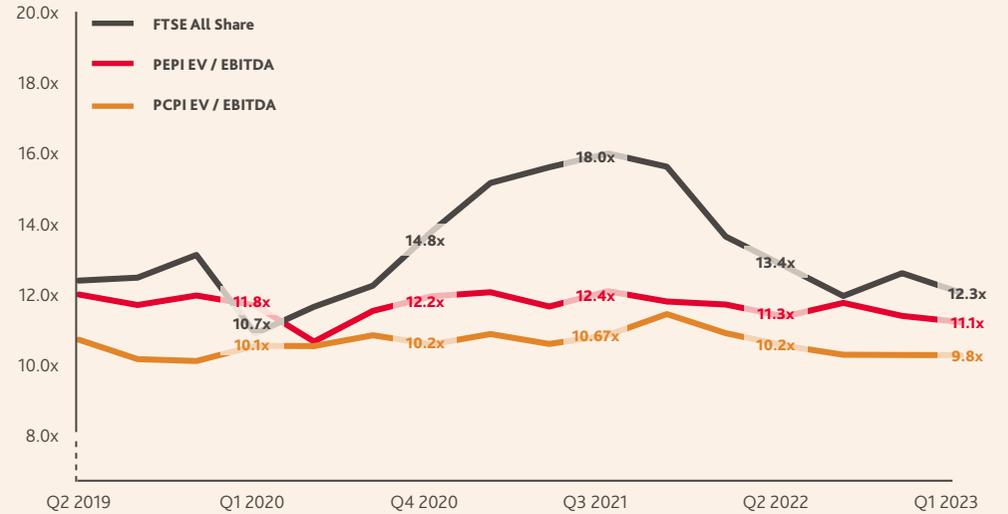
We have seen an element of modest restructuring of deal terms to help bridge value expectations and achieve strategic objectives for both buyers and sellers. The popularity of earnout structures continues amidst ongoing economic uncertainty, with parties using these mechanisms to ensure a fair reflection of value and risk.

There are many drivers of M&A activity and plenty of deal activity underway in the market. ”

642 transactions completed in Q1 2023, compared with 684 the previous quarter, representing a modest decline of 6.1%. Fluctuations are in line with quarterly activity levels seen over the last year. Trade deals saw the steepest decline with 9.5% fewer completions in Q1 – 536 deals completed compared with 592 in Q4 2022. But private equity activity surged by 15.2% in the quarter, with 106 deals, up from 92 in Q4. Private equity deals increased to 17% of total transactions, the highest proportion for two years.

Private company valuations remain stable overall and reflect the settling of the listed markets. The PCPI was static, at 9.8x EV/EBITDA, the same as the two previous quarters. Meanwhile the PEPI dipped to 11.1x down from 11.4x, the lowest level seen for three years. A similar trend was seen in the FTSE all-share, which declined to 12.3x (13.1x in Q4), returning to normalised levels seen pre-pandemic.

PCPI V PRIVATE EQUITY Q2 2019 – Q1 2023



Q2 2019 TO Q1 2023 VOLUME OF DEALS COMPLETED



MAKING THE MOST OF THE PCPI / PEPI

The PCPI incorporates Enterprise Value to EBITDA multiples as the method of valuation.

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 9.8x historic EBITDA, the same as the two previous quarters. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 11.1x down from 11.4x in Q4, the lowest level seen for three years.

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 median of EV/EBITDA for deals where sufficient information has been disclosed. The PCPI Enterprise Value trailing four-year average rises to £14.4m (Q4 – £14.3m) for trade deals.

The included deals for the PEPI maintains an Enterprise Value of £41m for private equity deals (Q4 £41m) (median).

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.



Read more in the PCPI sector spotlight blog:

PACKAGING IS A DYNAMIC INDUSTRY - AND SUSTAINABILITY IS THE KEY FOCUS

If you would like to know more about how to value or understand M&A market dynamics for your company, please contact your usual BDO contact or the author.



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