

# PERDa

Price Earnings Ratio Database

Summer 2014 UK Edition

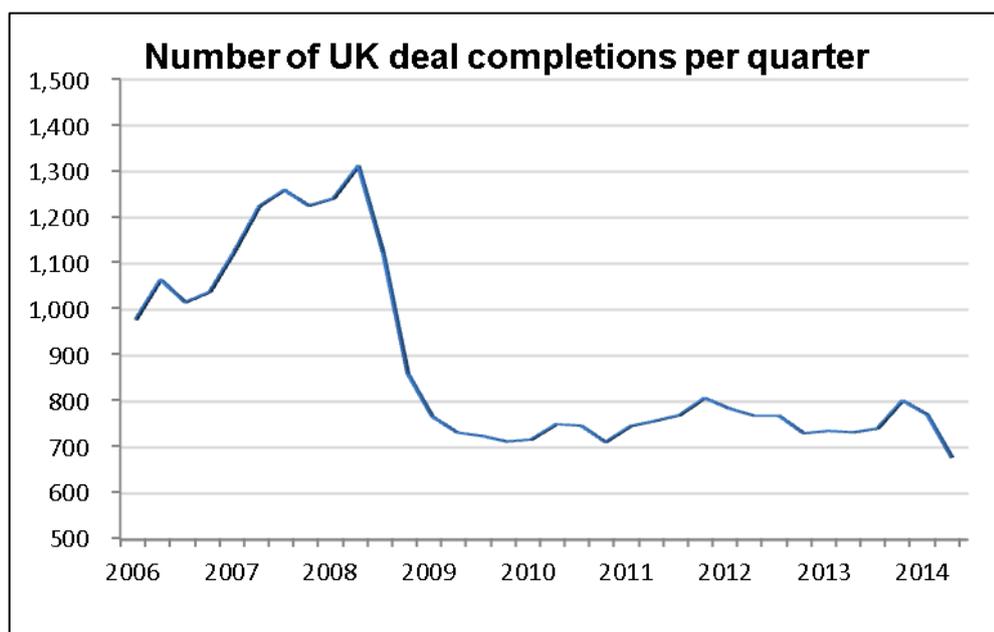


## INTRODUCTION

Welcome to the Summer 2014 UK issue of PERDa, the newsletter that summarises and provides commentary on the data contained in the private companies' Price Earnings Ratio Database. This data is used to highlight changes in the average value of UK private companies (as a multiple of profits) as shown by recent transactions.

## DEAL VOLUMES

After a notable recovery in Q4 2013, deal volumes reduced significantly across the first half of 2014 (data supplied by Experian):



Overall deal volumes were some 7.5% down when compared to the first six months of 2013, with the decrease accelerating in Q2 (down some 10% on 2013). Deal volumes are now some 20% below their long-term average. This decrease was a common trend across the globe with volumes also down across Europe, the US and Asia Pacific regions. This global trend has been accompanied by a focus on mega deals (\$1bn+), so that despite lower volumes, total deal values actually increased in 2014.

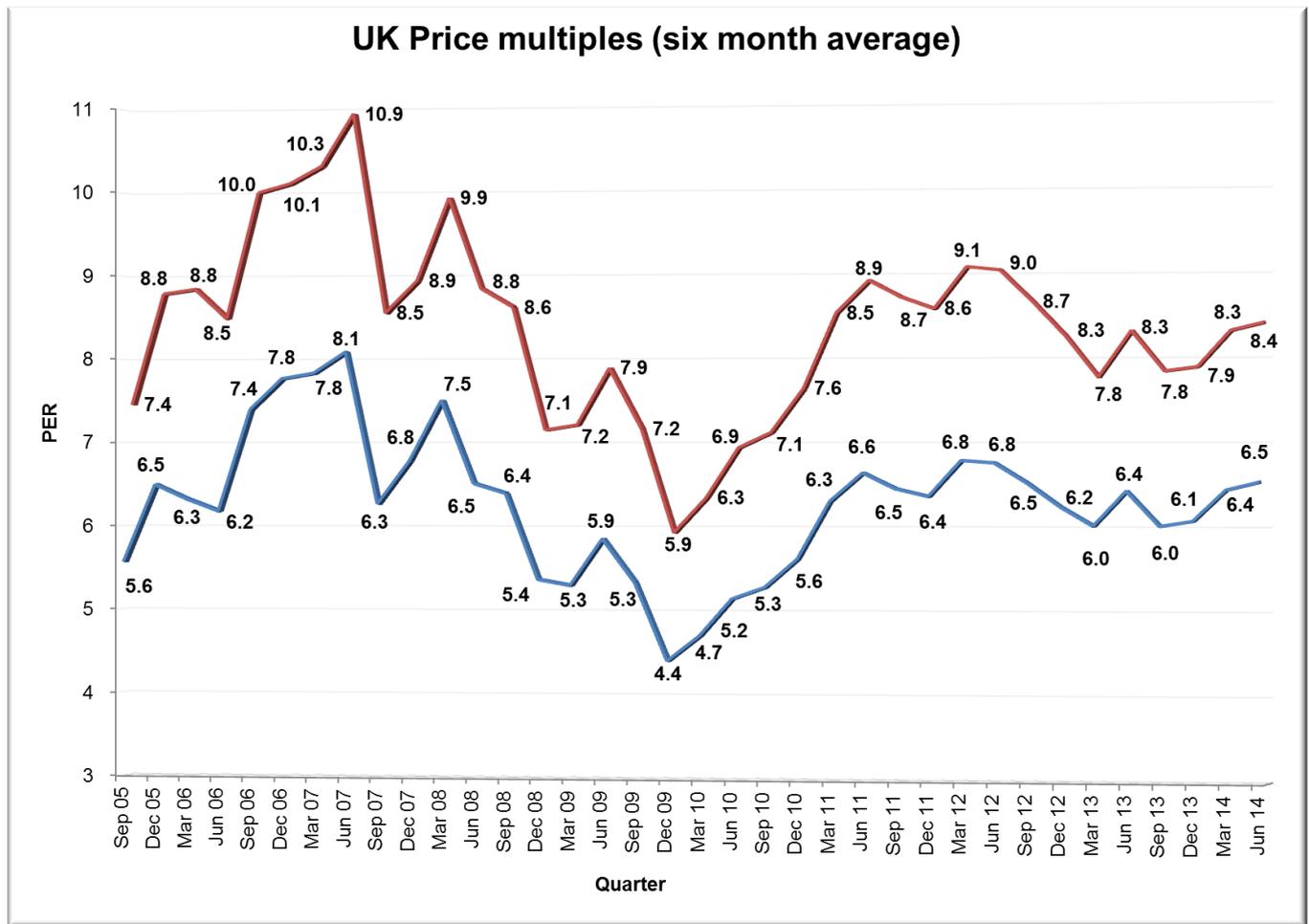
This is in stark contrast to the generally good economic news in the UK, with the latest data showing the economy growing strongly in 2014 and that the UK actually avoided the double dip previously reported.

We would hope that some of the decrease could be explained by the time taken to complete deals, so that the above reflects deals started six to nine months ago, and that the recent better economic news will result in increased deal volumes in the second half of 2014.

There are early signs of a potential recovery, with deal volumes in July 2014 increasing across all territories, but this is obviously only one month and difficult to interpret in isolation.

## PRICE EARNINGS RATIO

Below is a summary of the latest data from PERDa, showing the quarterly movements in the average Price Earnings Ratio (“PER”). This ratio measures the relationship between the consideration (price paid) for UK private companies and their underlying profits on an adjusted basis. Due to the popularity of this measure, we receive regular requests for different versions of the data. We therefore include below the average PER based on Earnings Before Interest and Tax (“EBIT”) {blue line} and Profit After Tax {red line}.



EBIT PERs increased to 6.5 during H1, slightly above their long term average of 6.35 (and notably higher than the long term average of 6.1 that excludes the 2007/2008 unsustainable peak in PERs).

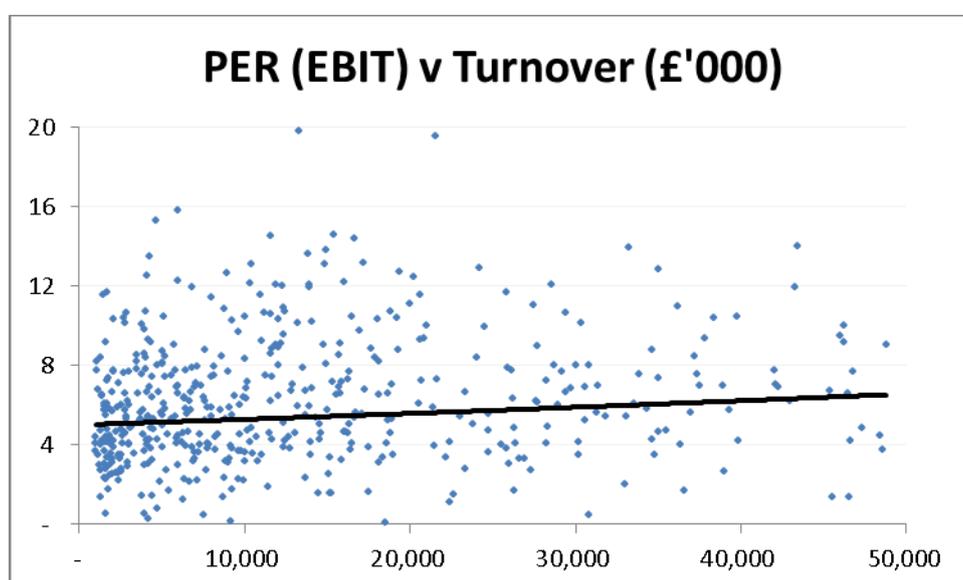
Average deal value for those UK deals within PERDa was only 1% up on the long term average, so this is unlikely to materially affect the data (assuming larger deals imply larger PERS – see below). As such, it appears that the lower volumes noted above were comprised of better quality deals with higher than average PERs.

## OTHER PER MEASURES

Although PERDa data has always been in line with anecdotal feedback from the market, there has been little academic research to support the average PERs reported above, with most other measures reporting much higher PERs as they are based purely on unadjusted public data.

However, recent research in the US (Dohmeyer, Butler and Burkert) has produced some interesting results. The focus of the work was in researching costs of capital for private (sub \$50m turnover) businesses. A by-product of the research was an estimated PER (EBIT based) for companies with turnovers of circa \$15m of 5.91, which is fairly close to those recent PERs in PERDa, especially if as their research implies, PERs increase with company size (average PERDa company turnover is higher at \$25m).

To review their findings (that PERs increase with turnover), we include below a graph showing a trend line of PERs against turnover for private companies in the PERDa database with turnover of £1m to £50m.



The bold black trend line does show a slight increase in PERs as turnover increases, but you can clearly see the variability between reported PERs, and we believe there are a large number of other factors (sector, profitability, management, etc) that affect pricing and can easily outweigh the company size element.

## MORE INFORMATION

Should you wish to discuss the details of this newsletter, or obtain a current market valuation report for your company using the data in PERDa, please contact your local LEA member at [www.leadingedgealliance.com](http://www.leadingedgealliance.com).

### DATA COMPILATION

The database contains data submitted by members of the Leading Edge Alliance ("LEA"). The LEA is an international professional association of major, independently-owned accounting and consulting firms. Financial data recorded for each deal is adjusted by the submitter to reflect the underlying basis of the deal. Graphs in this newsletter are based on the contents of the database at the time of compilation. The database is being constantly updated as deals complete and members submit new deal data and this may result in changes in historic averages included within previous newsletters. The PERDa data represents companies from across Europe, with an average Enterprise Value of £12.6m and average EBIT profit of some £1.9m. The UK transactions used in this newsletter have an average Enterprise Value of £15.2m and average EBIT profit of some £2.5m.

The information in this newsletter is based on averages derived from the PERDa database and is not intended to be an absolute guide to private company valuations as there are significant other factors involved. Due to the nature of the data, the subjective nature of the adjustments made and the constant process of updating, no responsibility is accepted by the LEA or any of its members for the use of the data in the PERDa database or this publication.