PERDa

Price Earnings Ratio Database

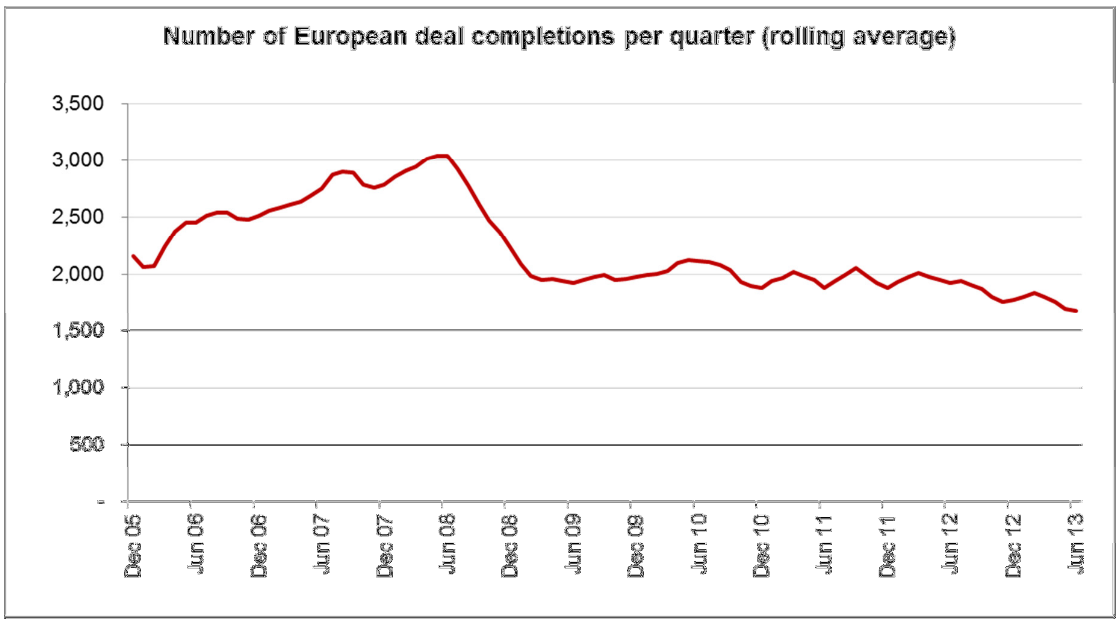
Summer 2013 European Edition

INTRODUCTION

Welcome to the Summer 2013 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 private companies as shown by recent transactions.

DEAL VOLUMES

As noted in our recent newsletters, deal volumes have been gradually declining over recent years, with short term recoveries more than overcome by larger subsequent falls. Overall volumes are now greater than 20% below their ten year average (data supplied by Corpfin/Experian).



Even excluding the boom period of 2007 and early 2008, average volumes are still 15% below their long term average. This decline trend seems to have been caused by a number of factors:

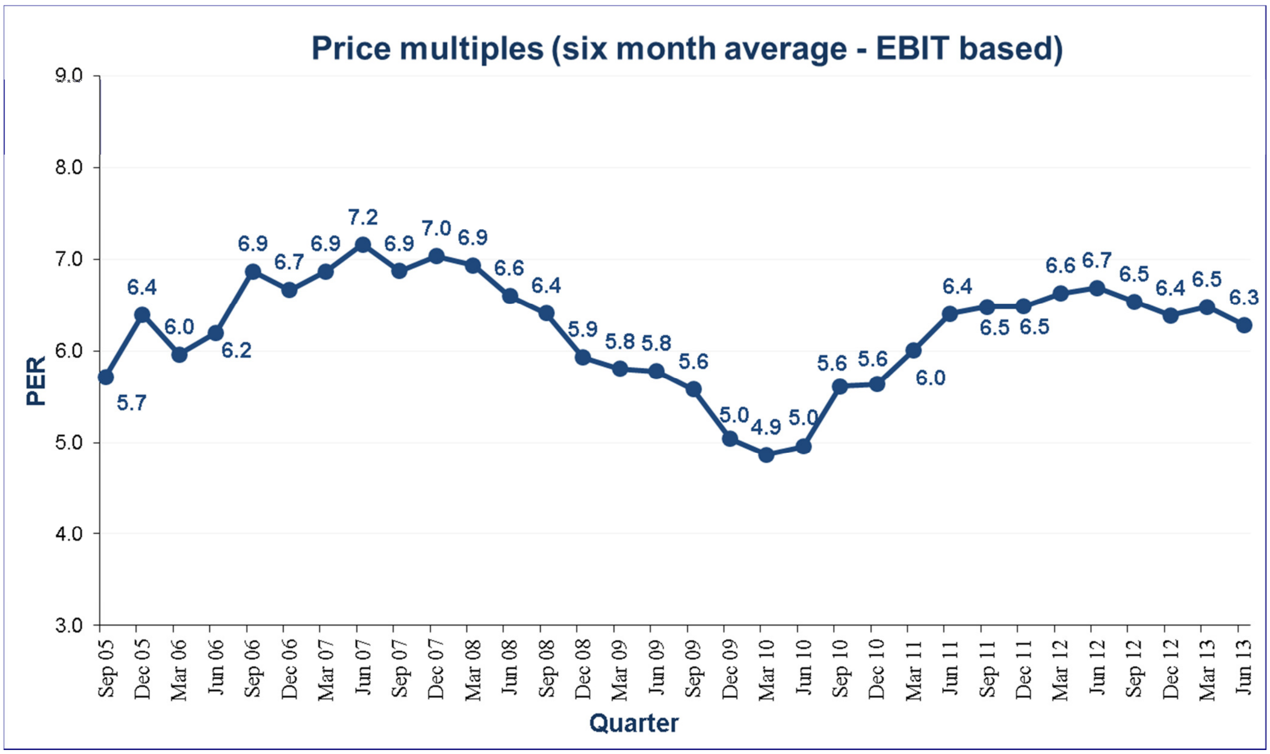
1) the continued European economic and political instability (as highlighted repeatedly by the media);
2) the perceived reluctance of certain funders to provide deal finance, especially in the SME sector, although this is again much overplayed in the media; and
3) the persistent caution of larger corporates resulting in cash hoarding.

Whilst there is still significant cash ready to invest from the equity sector, it seems they are having difficulty in finding suitable targets for investment or acquisition, or matching terms with strategic corporate buyers.

In addition, the level of aborted deals being reported remains at high levels – historically problems that occur later in the timeline of a deal were more easy to deal with by one party or the other adjusting the underlying deal. Nowadays we are seeing deals being aborted over minor matters, even just a few days before completion due to the prevailing risk adverse attitude of acquirers, investors and funders.

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 private companies and their underlying profits on an adjusted Earnings Before Interest and Tax ("EBIT") basis.



The long term average for PERs is 6.5 to 6.7, so recent PERs as above are slightly below this (but broadly in line with the average of 6.4 that excludes the 2007/2008 unsustainable peak in PERs).

Feedback from contributors and anecdotal evidence from the market place reveals that deferrals and earn outs are now far more common and far higher than historic percentages within deals. Negotiations continue to have significant focus on minimising the amount of the deferral and/or lessening the earn out element/criteria. The average PER is obviously only one factor in assessing any deal.

OTHER ANALYSIS

The PERDa database has now been running for a decade and it is interesting to look at the changes in the average PER over this period, especially split between pre and post the financial crisis of 2008.

The average PER pre crisis (which includes the "boom" period of 2007 and early 2008) was 6.8 which decreased to 6 post the 2008 crisis, a fall of some 12%. However, as with all averages, this hides underlying trends:

1) Food manufacturer businesses saw their average PER fall some by some 25%, which reflects the 'froth' of the market with numerous deals completed in the mid 2000s at (unsustainably) high multiples. This sector still remains premium priced though, with average PERs some 16% above overall averages;
2) Basic manufacturing ("metal bashers") PERs fell by some 30%, reflecting the need for any business to stand out from the crowd via brand, added value, etc in order to both achieve a sale and attract a decent valuation;
3) Construction business PERs fell only by some 12%, but remain at a significant discount of circa 25% to overall averages, reflecting the difficulties of this sector;
4) The leisure sector (hotels, restaurants and pubs) saw the largest overall fall in PERs of greater than 40%, although this sector has one of the more widespread PER ranges; and
5) MBOs remain priced at a discount to trade sales of circa 15% to 20%, reflecting the higher difficulties of funding this deal type and also the financial discount vendors are willing to accept to gain the other advantages of such deals such as better confidentiality and control, as well as maximising the chances of the business remaining in its current form.

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.

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 circa €12.8m and average EBIT profit of circa €2.1m.

We would highlight that the PERDa data is based on profits before tax and interest, whilst other PERs such as those quoted in the Financial Times are based on post tax profits.

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 Leading Edge Alliance or any of its members for the use of the data in the PERDa database or this publication.