

# PERDa

Price Earnings Ratio Database

Summer 2014 European Edition

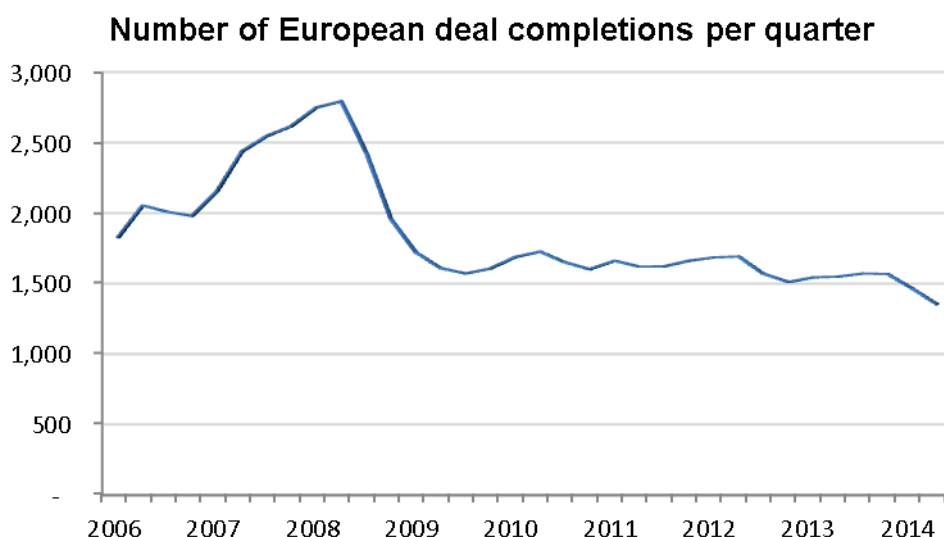


## INTRODUCTION

Welcome to the Summer 2014 European 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 a multiple of profits) as shown by recent transactions.

## DEAL VOLUMES

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

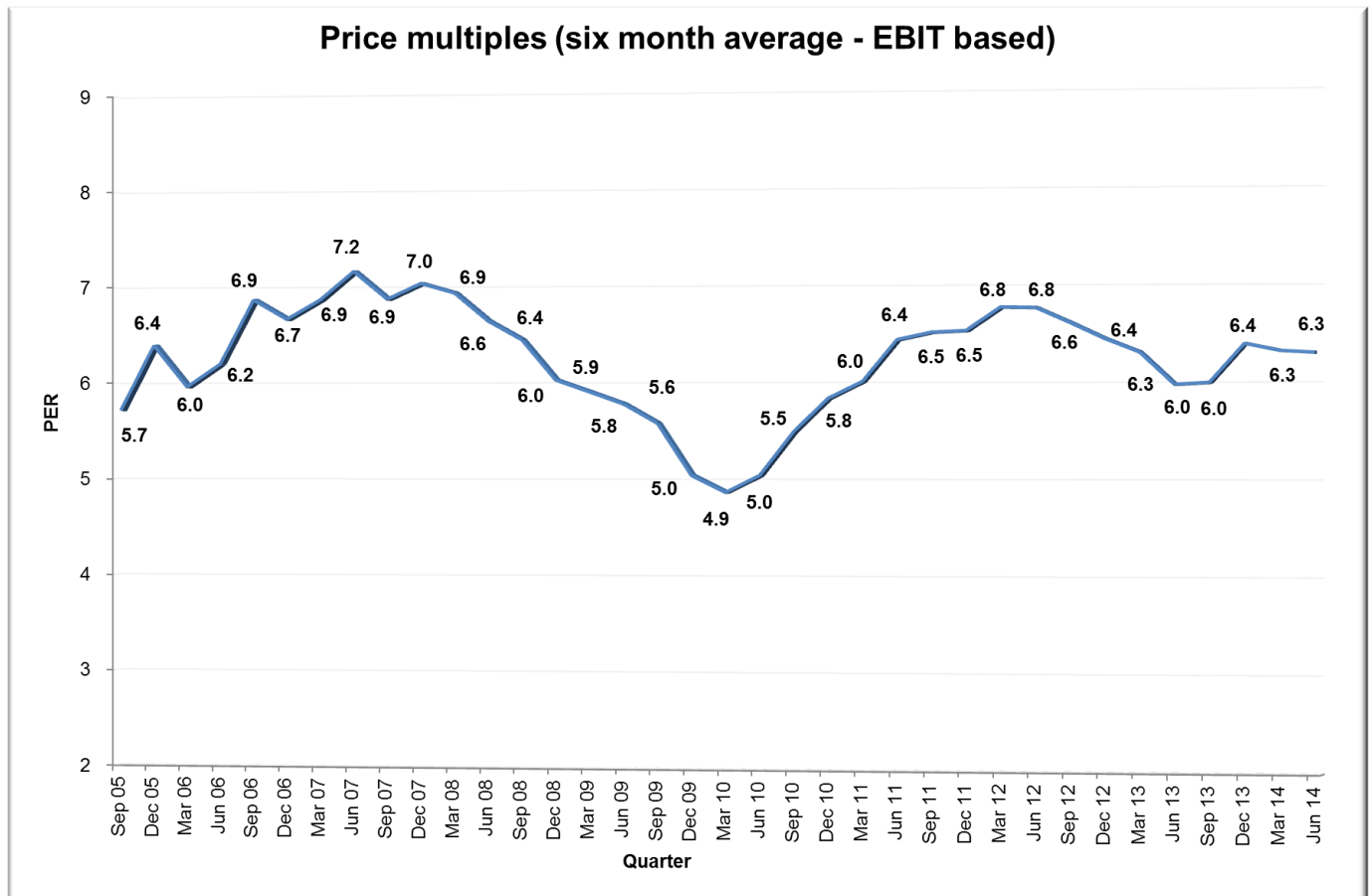


Overall deal volumes were some 13% down when compared to the first six months of 2013, with the decrease accelerating in Q2 (down some 15% on 2013). Deal volumes are now some 20% below their long-term average. This decrease was a common trend across the globe with volumes also down in the US and Asia Pacific regions. This global trend has been accompanied by a focus on mega deals (\$1bn plus), so that despite lower volumes, total deal values actually increased in 2014.

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 to the above, 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 private companies and their underlying profits on an adjusted Earnings Before Interest and Tax (“EBIT”) basis.



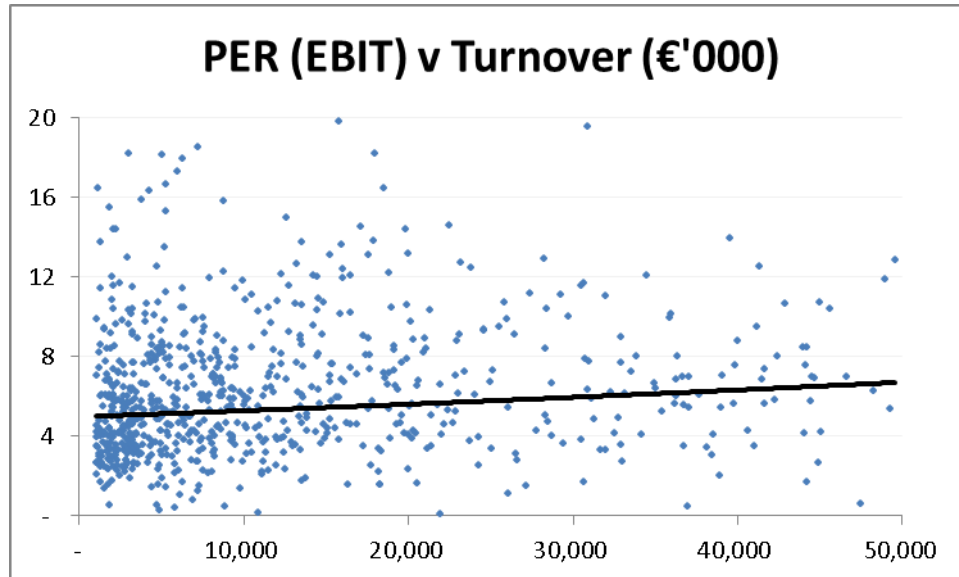
Current average PERs remain in line with their long term (10 year) average of 6.35. This does however reflect a varied underlying mix of sectors and countries. The UK results are separately analysed in the UK newsletter found at [www.perda.co.uk](http://www.perda.co.uk).

## 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 circa €14.4m and average EBIT profit of circa €2.3m.

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.