

# PERDa

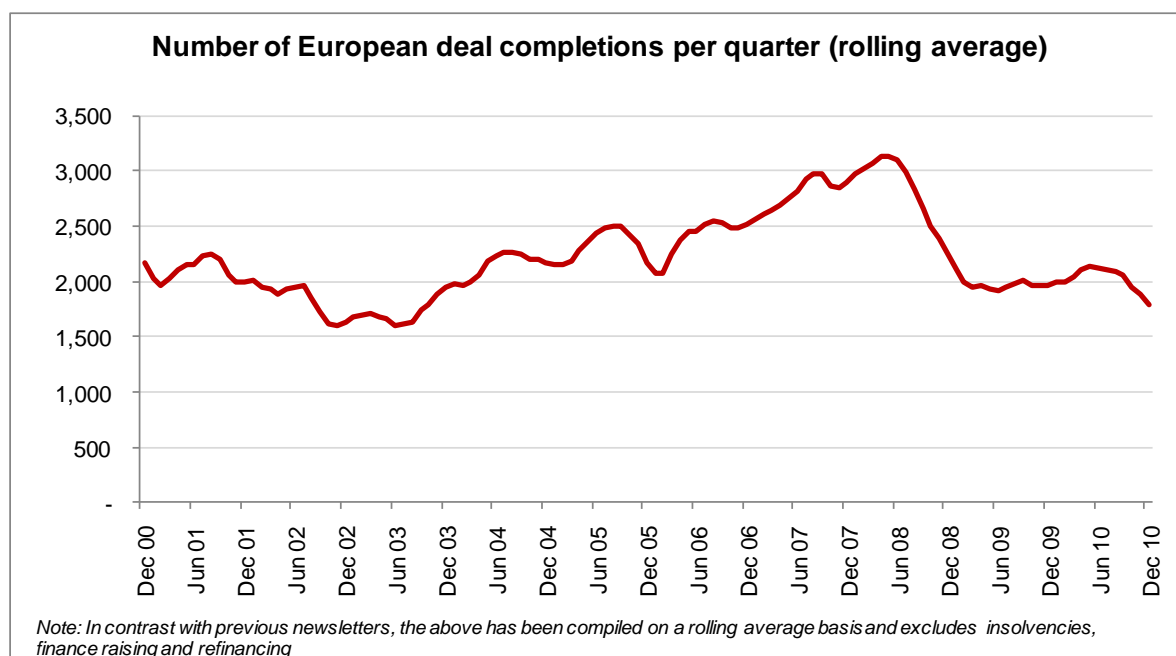
Price Earnings Ratio Database



## Issue 6: Winter 2010/11 European Edition

Welcome to the Winter 2010 issue of PERDa, the newsletter that summarises and provides commentary on the data contained in the private companies' Price Earnings Ratio Database.

In terms of deal completion volumes, 2010 was definitely a year of two halves. The first half saw the gentle recovery in deal volumes of late 2009 continue. However, this was followed by a steep reduction in reported deal completions from June 2010 onwards (data supplied by Corpfm/Experian).

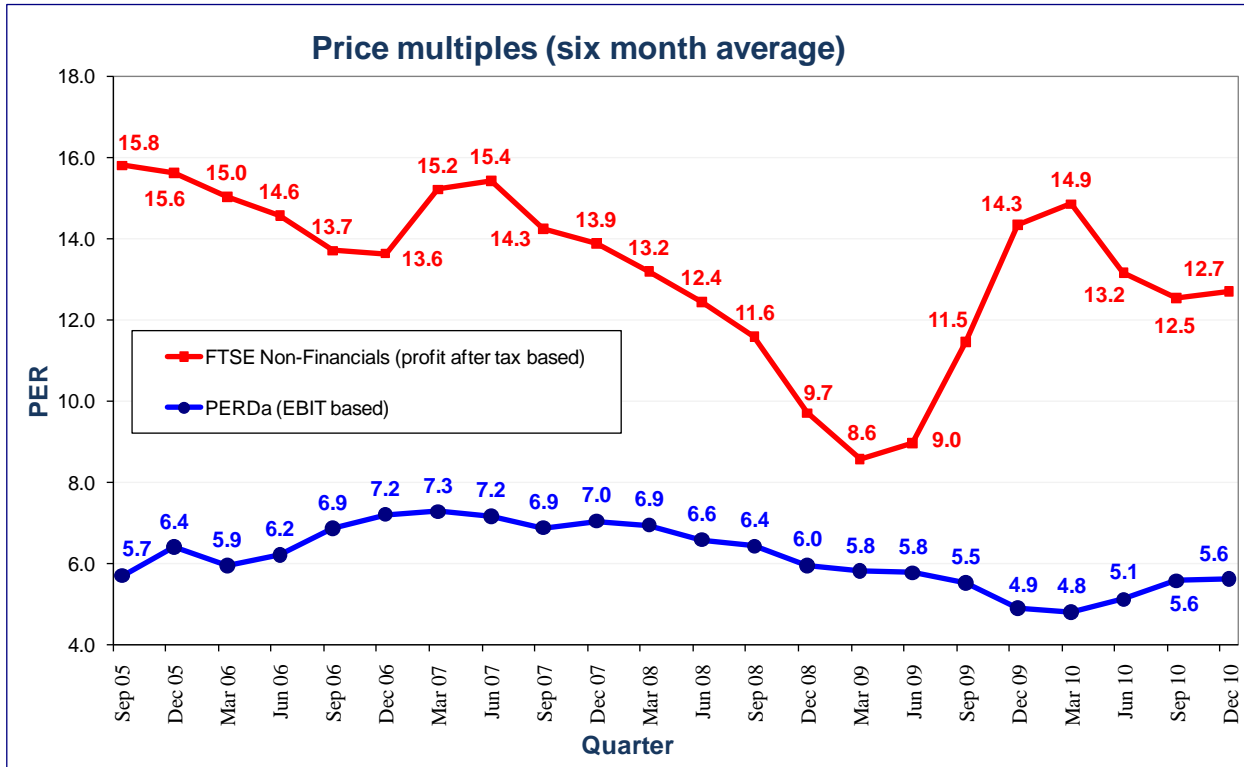


Interpreting this trend is complex – with deals taking at least six months from inception to conclusion, deal completions in late 2010 reflected both market circumstances in late 2009/early 2010 and the attitude of the parties at completion. Given the economic uncertainties, especially in Europe, over 2010 and the continued problems in accessing debt, the uneven end result is perhaps not surprising. In addition, it is not certain as to whether the current deal volumes (which are in line with the long term average of volumes over the last decade) are the new norm, or they might fall further in light of the continued economic difficulties. Anecdotal feedback from the market shows a significant increase in deal commencements, but it remains to be seen if this activity will increase deal completions.

Naturally, there were also significantly different trends in deal volumes depending upon location, sector and deal type. For example, M&A activity in parts of the media sector increased significantly in Q4 2010, albeit from a very low base. Conversely, the renewable sector did not produce the forecast M&A boom in 2010, with the solar sector in particular being affected by country specific issues.

## PRICE EARNINGS RATIO

Below is a summary of the latest data from PERDa, showing the movements in the average ratio between consideration (price paid) for private companies and their profits (on an EBIT basis). This is contrasted with the price to profit multiple for FTSE Non Financial companies.



The above shows a continued recovery in average price multiples from their recent historic lows. This is unsurprising (even against the lower second half 2010 volumes) as the 2009 deals were set against one of the worst economic backgrounds of recent times, with buyers being extremely risk conscious, and funders even more so. In addition, for 2010 there is some evidence that the uncertainty resulted in a flight towards quality (and higher multiples), with only those better quality and larger businesses being able to achieve a sale (although partly offset by the continued sales/acquisitions of distressed business). However, current multiples remain below their long term average.

## 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. The PERDa data represents companies from across Europe, with an average Enterprise Value of €9.7m and average EBIT profit of some €1.6m. The FTSE data is taken from the Financial Times.

The two profit multiples taken from PERDa and FT are not directly comparable for each quarter as, amongst other factors, the PERDa data is based on profits before tax and interest, whilst the FT line is based (broadly) on adjusted, post tax profits. We therefore concentrate in this newsletter on trend comparison. 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.