

# PERDa

Price Earnings Ratio Database

Winter 2012/13 UK Edition

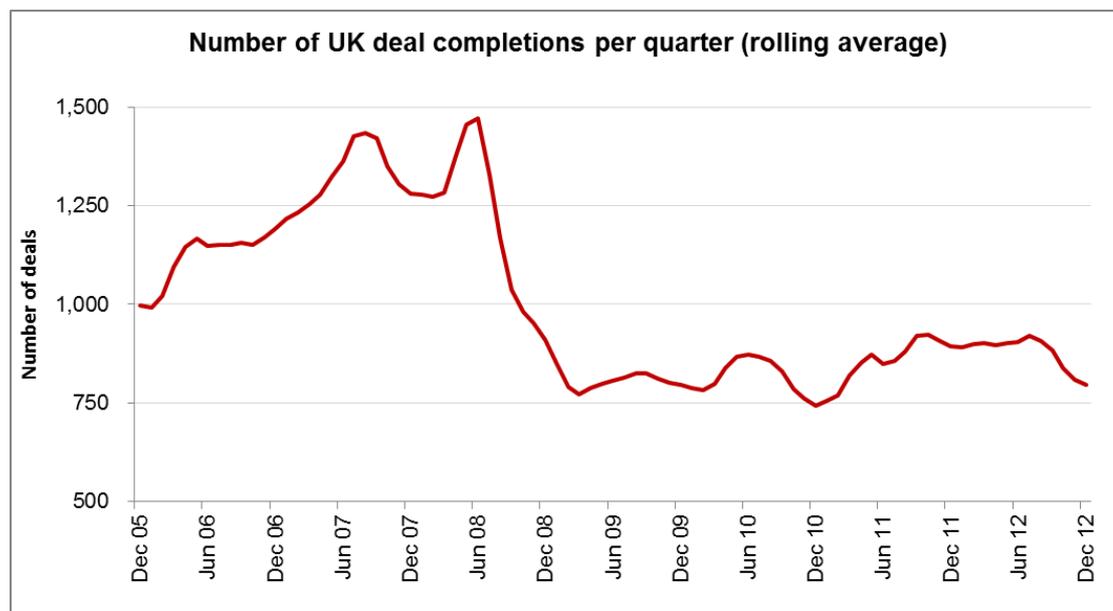


## INTRODUCTION

Welcome to the Winter 2012/13 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 shown by recent transactions.

## DEAL VOLUMES

As shown below, UK deal volumes started to recover in 2011, but this trend reversed in 2012 (especially Q4), and volumes are now nearly 20% below their ten year average level (data from Corpfm/Experian):



2012 levels overall were 3% down on 2011, but Q4 levels were 11% lower than the equivalent period in 2011. This annual decrease was, however, less than suffered in Europe overall. The picture was further complicated by the value of UK deals actually increasing by circa 5% due to a number of very large deals. The volume decrease was concentrated in the mid market sector with deal sizes of £10m to £100m.

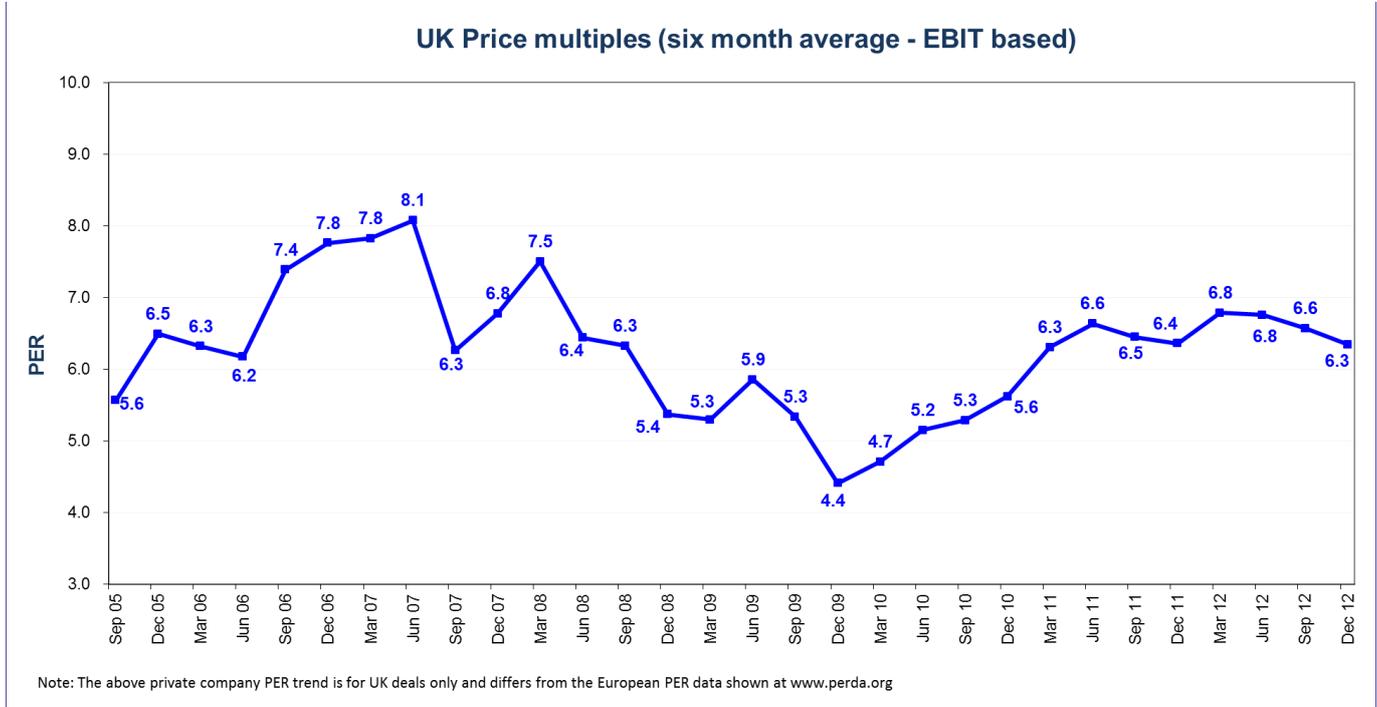
The number of transactions funded by bank debt increased by 12% in 2012, with mezzanine-funded deals also increasing. However, volume of deals funded through equity dropped by 9% in volume in 2012. This matches our experience that equity funds are struggling to either find suitable targets or complete deals on agreeable terms.

With regards to market sector, the only real bright spot was in the food and drink sector where deal volumes were still strong.



## PRICE EARNINGS RATIO

Below is a summary of the latest UK data from PERDa, showing the movements in the average Price Earnings Ratio (“PER”). This ratio measures the relationship between the consideration (price paid) for private companies and their profits on an adjusted Earnings Before Interest and Tax (“EBIT”) basis.



The combination of lower deal volumes and decreased PERs makes uncomfortable reading but does reflect the difficult market conditions. Although there is significant and increasing amounts of funding available through debt, mezzanine and equity, there is a shortage of quality target businesses on the market.

We are aware that the volume decreases in 2012 have resulted partly from a significant number of deals being deferred until prices recover. This has increased an already crowded deal pipeline. We believe that this may boost volumes towards the end of 2013 through a combination of buyers (particularly foreign) seeking to make an acquisition at an attractive price and vendors realising that disposal cannot be delayed indefinitely.

## 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 £10.3m and average EBIT profit of some £1.7m. The UK transactions used in this newsletter have an average Enterprise Value of £14.5m and average EBIT profit of some £2.4m.

We would highlight that the PERDa data is primarily 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 LEA or any of its members for the use of the data in the PERDa database or this publication.

