

PERDa

Price Earnings Ratio Database



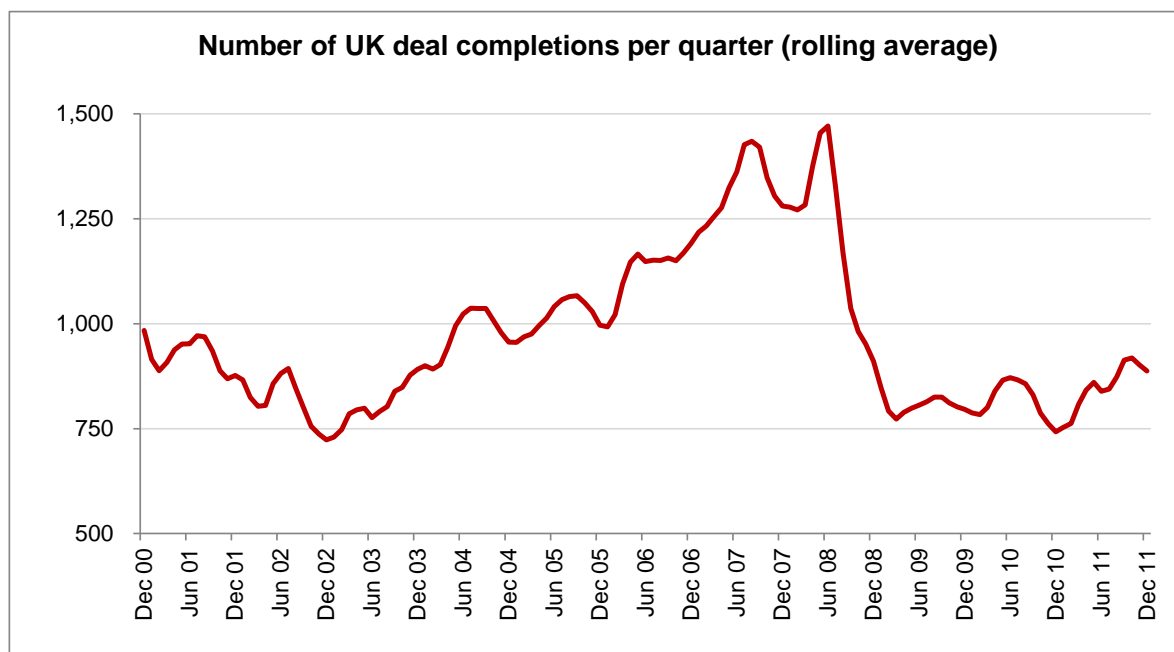
Issue 8: Winter 2011/12 UK Edition

INTRODUCTION

Welcome to the Winter 2011 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, with this edition concentrating on UK companies and deals.

DEAL VOLUMES

As shown below, UK deal volumes started to recover in 2011, although still remain below their long term average level (data from Corpfm/Experian):



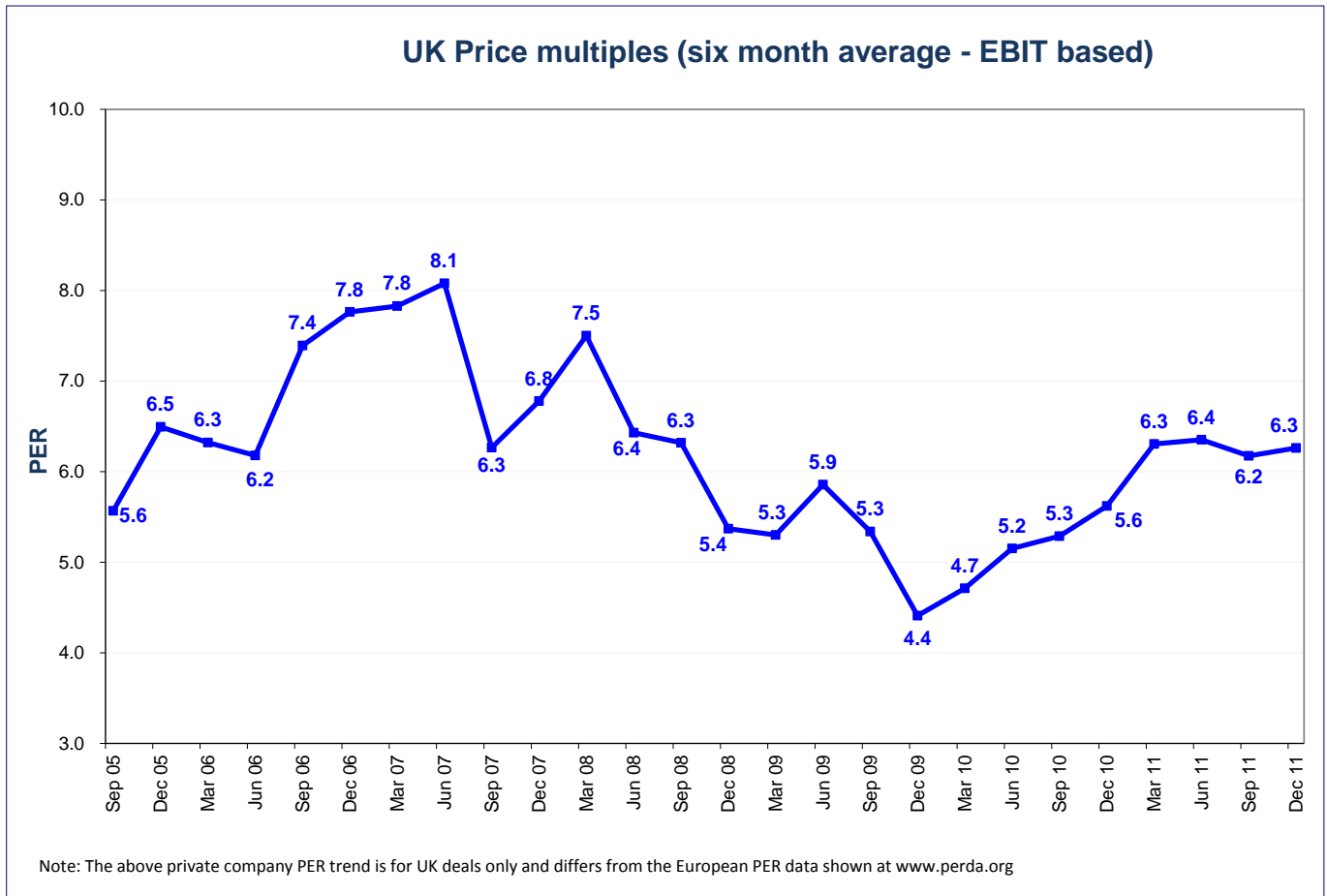
This increase in the number of UK deals completed partly reflects the record low deal volumes since late 2008. However, although volumes remain over 10% below their long term average, this gap was substantially reduced in 2011 (and there is some current anecdotal evidence that this trend has continued into 2012). Some of this may be due to more certainty about deal pricing (see overleaf) and the return to the market of a number of deals deferred from 2009..

Whilst debt funding remains focused on the best quality and larger deals, there are signs of more equity backed deals helping to generate demand and potential exits, particularly in the mid cap market.

However, further recovery in volumes could easily be endangered by any worsening of the economic climate in the UK or the Eurozone.

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.



2011 saw a period of stability return to the pricing of UK private company deals, with overall PERs stabilising at circa their long term UK average of 6.3. This may have encouraged the improvement in deal volumes as seen overleaf.

Deals are still proving hard to complete due to a combination of a comparative lack of funding (although this comparison is partly against the overheated funding market of 2006/7) and the complex political and economic climate. Anecdotal evidence from the market place is still showing significant levels of aborted transactions.

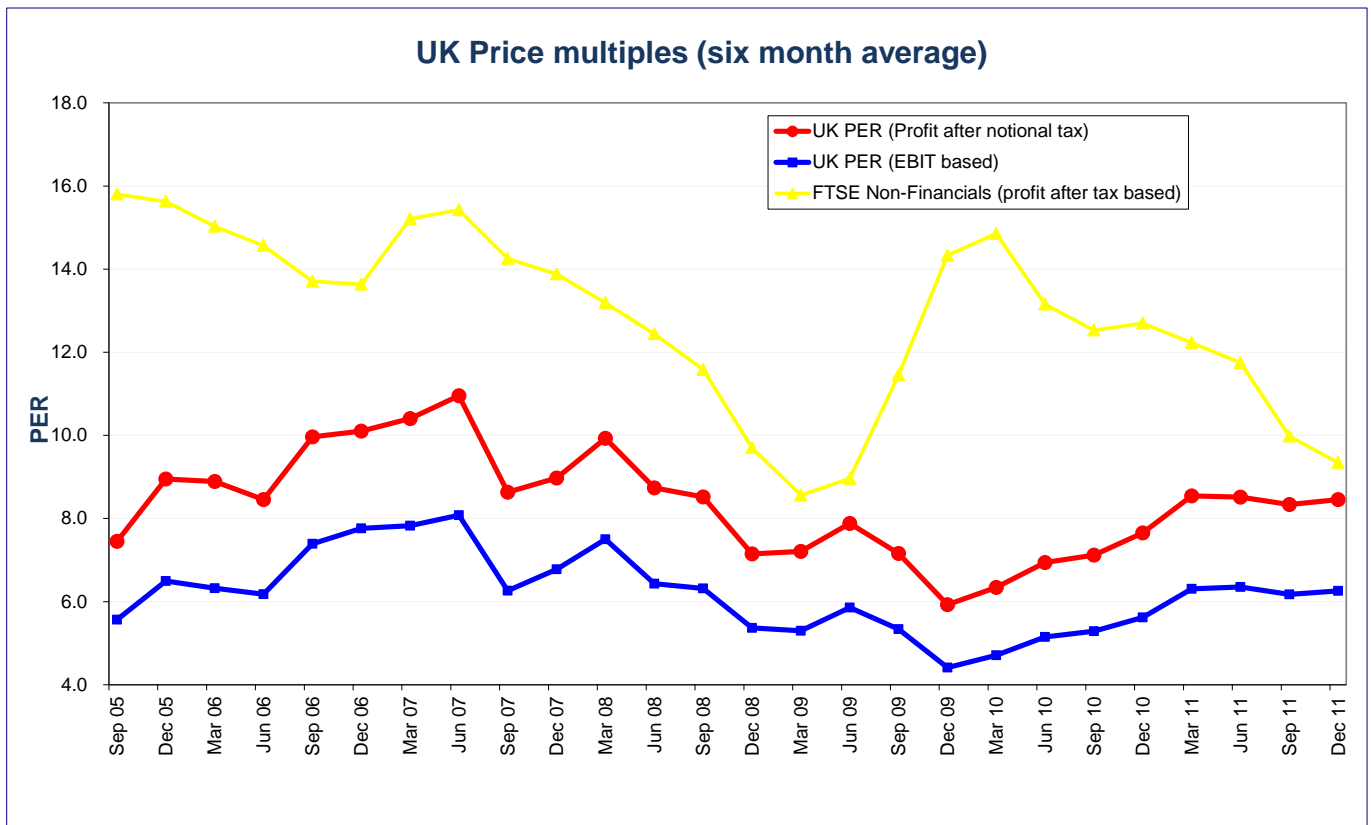
With better visibility regarding pricing, and a potential return to underlying economic growth in the UK (and most of the Eurozone), we anticipate deal volumes increasing during 2012. This will be driven by SME exits that have been postponed over the last five years as well as equity exits from investments made in the mid 2000's.

We also see a substantial amount of equity funding available and looking for the right deal. This should help assist the shortfall in debt funding that is concentrated towards the lower end of the mid cap market.

POST TAX ANALYSIS

We have received a number of requests to show PERs on an after tax basis to make it comparable to other PERs shown in publications such as the Financial Times. We continue to track EBIT profit figures in our database as this makes comparison across a number of variable and territories easier to track. In addition, it facilitates adjustments for one off income/costs and excess assets/debt.

However, based on a notional adjustment for corporation tax, using rates that broadly applied at the time of the transaction, produces the following:



We have included the PERs derived from the FTSE Non-Financial Sector, which are based on post tax profits. The higher multiples for larger, public companies are unsurprising. However, there are substantial differences in the trends shown for public and private company pricing. The discount shown above between the FTSE (public company) and PERDa (private company) data varies between 10% and 60%.

Multiples for quoted companies (derived for liquid companies from regular trades in smaller share percentages) reflect day to day concerns and overall market sentiment, whilst the multiples from PERDa are derived from individual transactions in usually smaller private companies.

The above demonstrates that PERs for public companies within the FTSE Non-Financial Sector are significantly more variable than for private companies, and valuation trends (on average) may not move in a consistent manner.



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. Over the period the database has been operating, we have received a number of late submissions that have been excluded from the derived average. Starting from the Summer 2011 update, we have included these late submissions, which has altered some of the historic averages from previous newsletters, although not to a material extent.

The PERDa data represents companies from across Europe, with an average Enterprise Value of £10m and average EBIT profit of some £1.5m. The UK transactions used in this newsletter have an average Enterprise Value of £13.9m and average EBIT profit of some £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 LEA or any of its members for the use of the data in the PERDa database or this publication.

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.