Winter 2018 UK Edition

PERDa

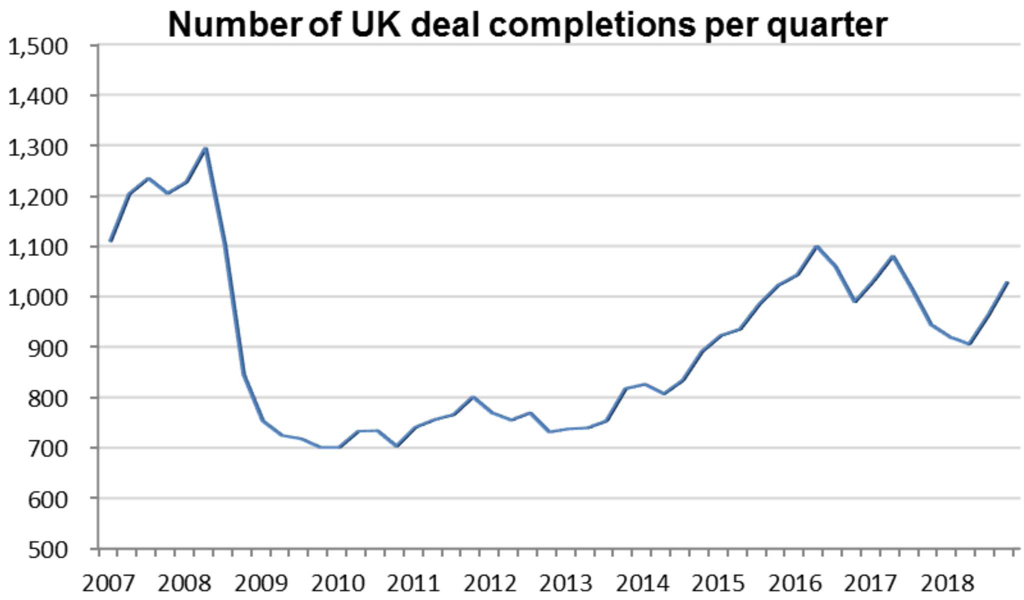
Price Earnings Ratio Database

INTRODUCTION

Welcome to the Winter 2018 UK 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 a multiple of profits) as shown by recent transactions.

DEAL VOLUMES

Total UK deal volumes decreased by 4% in 2018 compared to 2017. This was despite a late rally in second half of 2018 with deal volumes up 9% compared to the second half of 2017, ending a four-quarter run of decreasing deal volumes (data supplied by Experian):

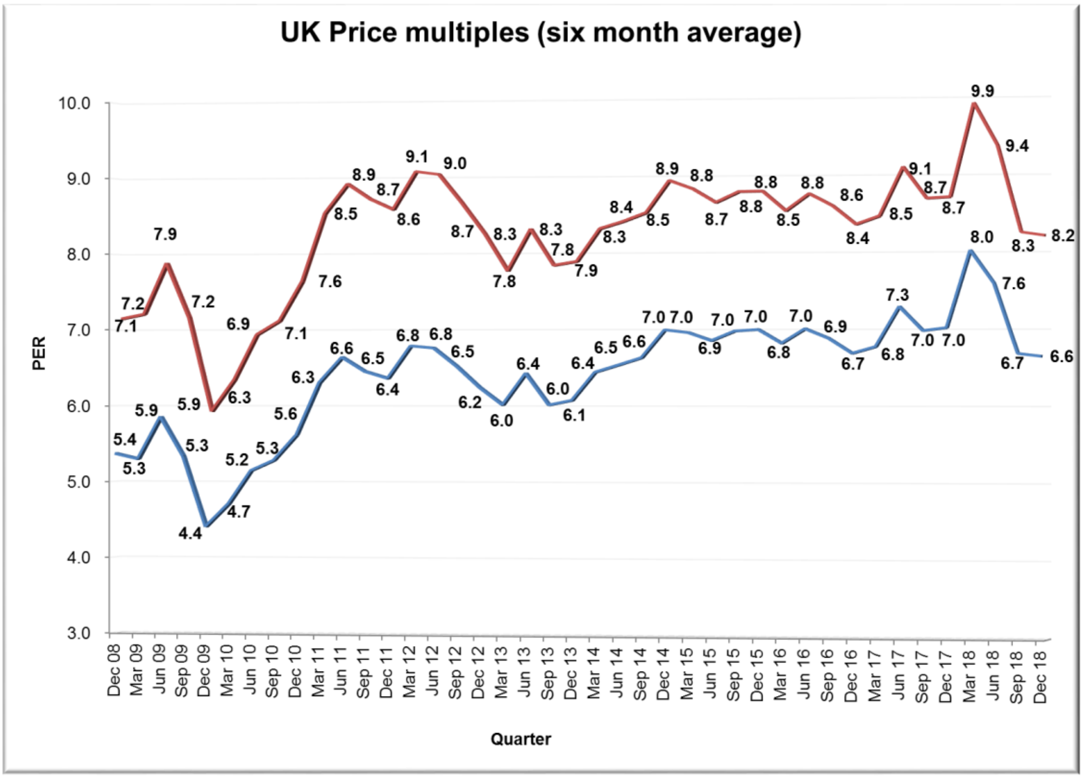


In addition to total deal volumes for the year being down, the total value of deals also decreased by 25% compared to 2017. The invigoration of the market from external investors capitalising on a weaker pound appears to have been balanced by uncertainty around Brexit. Potential reasons include increased caution on gearing due to uncertainties around inflation and interest rates, plus a more limited management capacity available due to a focus on other Brexit related concerns.

The effect of the uncertainty has however resulted in several large deals with investors seeking to invest in more established, proven companies. In the second half of 2018 the large deals included Comcast's £37bn offer for Sky in September and Costa being sold to Coca-Cola for £3.9bn in August. In December 2018 Takeda's £46bn takeover of pharmaceuticals firm Shire was also approved by shareholders.

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 UK private companies and their underlying profits on an adjusted basis. We include below the average PER based on Earnings before Interest and Tax (“EBIT”) {blue line} and Profit after Tax {red line}.



EBIT PERs fell from 7.6 in the first half of 2018 to 6.7 in the third quarter of 2018, before dropping to 6.6 in the final quarter. This approximately in line with long terms averages (5 year: 6.9 and 10 year: 6.4). Decreases in deal volumes and values have resulted in private equity continuing to have access to high levels of “dry powder” funds, with an increased focus on debt and a high level of competition between firms. Firms are also looking to diversify geographically and take advantage of strong overseas growth through outward investment from the UK.

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 **info@perda.co.uk.**

DATA COMPILATION: The database contains data submitted by Corporate Finance advisors and Experian PLC. Financial data for each deal is adjusted 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 UK transactions used in this newsletter have an average Enterprise Value of £20m and average EBIT profit of some £2.9m. 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 Corporate Finance advisors who submit data or Experian for the use of the data in the PERDa database or this publication.