Summer 2019 UK Edition

PERDa

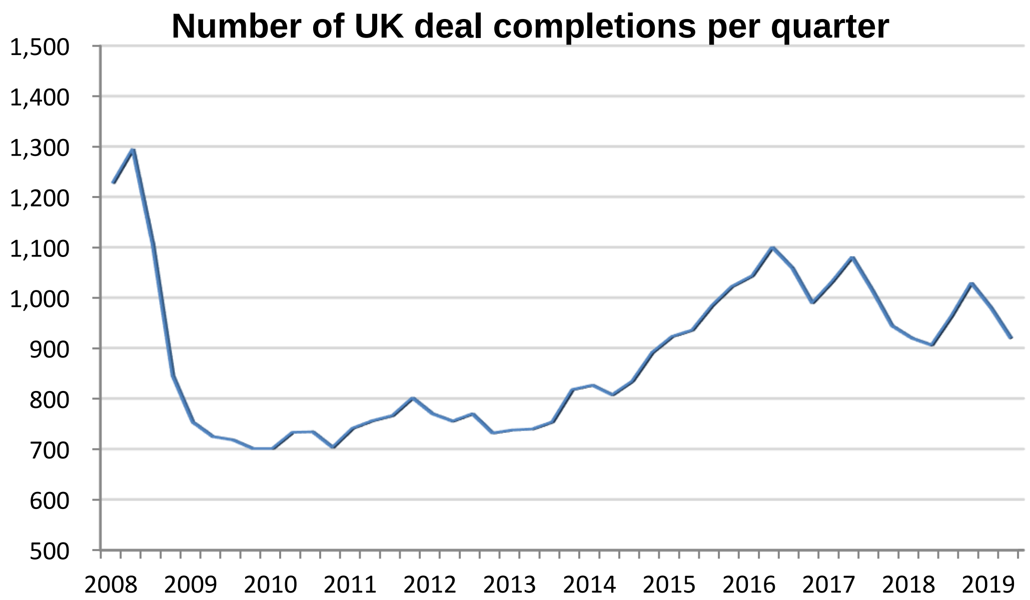
Price Earnings Ratio Database

INTRODUCTION

Welcome to the Summer 2019 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 increased by 1.5% during the first two quarters of 2019 compared to the same period in 2018, but is down compared to the second half of 2018. (data supplied by Experian):

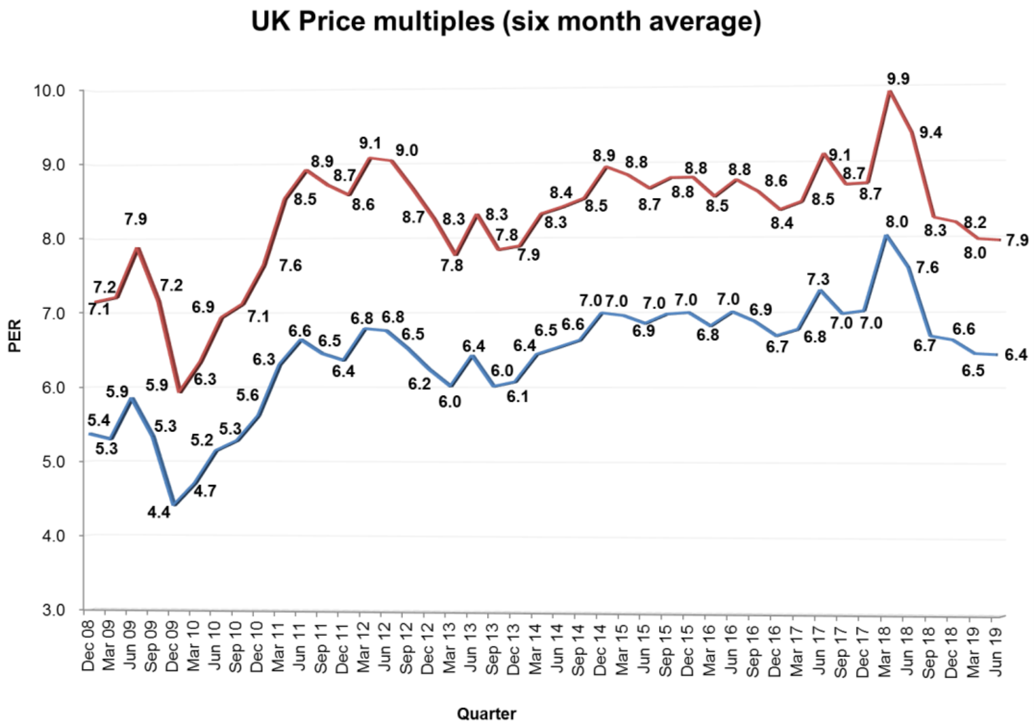


Deal values increased by 9.4% compared to the same period in 2018, however this was primarily down to the £46bn acquisition of Shire PLC by Takeda. This suggests an increase in the number of deals in the small deals market, but a shrinking of the level of mid-mega size deals. Continued caution on debt due to uncertainty on interest rates, plus the level of management capacity tied up in Brexit related concerns may be contributing factors.

Sterling rose against the USD during Q1 but then resumed its downward trend since early 2018. The fall in sterling has been argued to increased competiveness for UK exporters, but this is balanced by the now less competitive high proportion of imports used in UK production.

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 6.6 in the second half of 2018 to 6.5 in the third quarter of 2019, before dropping to 6.4 in the final quarter. This has now fallen slightly below the long terms averages (5 year: 6.9 and 10 year: 6.5). Although there is an appetite for high quality businesses, investors are being more cautious in terms of the multiple they are willing to pay.

This caution is also reflected in the capital markets. The enduring low yields on debt might expected to result in investors seeking returns from equity, but this does not appear to have been the case. UK investors withdrew more the £2bn from equity funds in the first half of 2019, and in contrast invested nearly £6bn in to bond funds.

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 £20.3m and average EBIT profit of £3.4m. 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.