

Excerpt from:

## BVB Insights®:

Data and analysis on UK private company multiples

2015 edition



# BVR

**What It's Worth**

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## Introduction

This publication is the first and the only one of its kind in the UK. Until now, there has been no single source of accurate information for private-company transaction multiples in the UK, broken down by industry sector.

### The UK's first reliable research on private company multiples

*"If you need to benchmark your business valuations with confidence, you will find this document invaluable."*

Previously, if you needed to know how much a business was worth, you had to pore over and analyse large datasets.

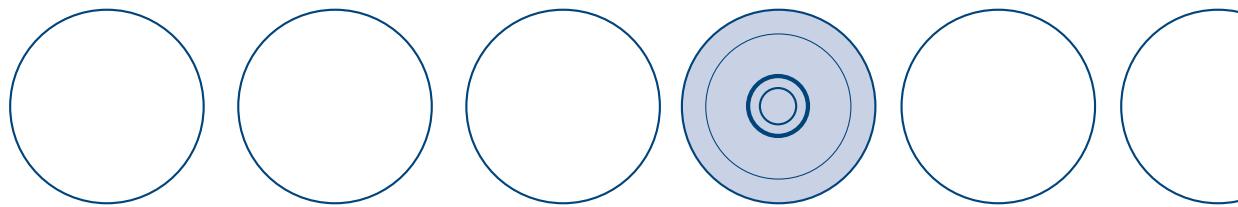
With BVB's research, all of the work has been done for you. This document puts at your fingertips the most robust and reliable information on transaction multiples paid for UK companies in 2014.

In researching *BVB Insights: Data and Analysis on UK Private Company Multiples 2015*, our analysts assembled large amounts of transaction information from a variety of sources. They then applied 30 years of business valuation expertise to make sense of the raw data.

The result is an in-depth and highly accurate overview of transaction multiples paid for UK private companies for the year ended December 2014.

To give you more precise insights, the information is broken down into 10 industry sectors and, where appropriate, 40 industry subsectors. We also offer an independent view on what is driving the multiples paid, and we have included key details of each transaction.

This research therefore fills a large knowledge gap for business valuation professionals. If you need to prepare business valuations with confidence or want to better understand what multiples are being paid for UK private businesses, you will find this document an invaluable benchmarking tool.



*"Our approach gives you a truer picture of the value of a business."*

## BVB's approach: robust research you can trust

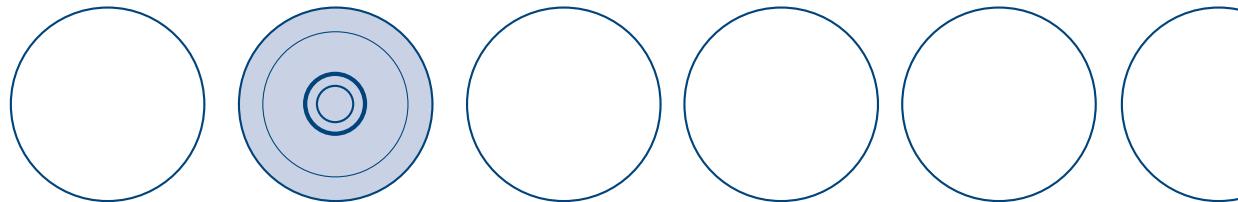
BVB's founders are chartered accountants who between them have specialised in business valuation for over 30 years. Since January 2011, we have been monitoring UK private-company transaction multiples based on normalised earnings.

In this research, we focus on multiples related to enterprise value or the value of the business, as opposed to share value.

Enterprise value multiples reflect the value acquirers pay for the business, independent of financing structure. Because every business adopts a different financing structure, our approach gives you a truer picture of a business's value. *BVB Insights 2015* covers transactions for the year ended December 2014. It is the 2015 edition of an annual publication dedicated to helping you understand UK private company multiples.

## What makes our research different?

- Compiled by chartered accountants with over 30 years' combined business valuation experience.
- Each transaction has been carefully scrutinised to ensure transaction prices are accurate and consistent.
- Earnings for each target company have been adjusted to remove the effect of discontinued operations, exceptional items and the like. The earnings multiples therefore represent multiples of normalised earnings.



# Methodology

## Sources

The sources of information used to create this publication are:

- **Experian Corpfin**, the UK business database for mergers & acquisition intelligence on transactions over £500,000
- **IbisWorld** and specialist industry bodies for industry information
- **Companies House** for company accounts
- **Publicly available information**, such as annual reports, press releases, articles in the financial press

## Enterprise value

Enterprise value (EV) represents the value of a business independent of its financing structure. Transactions to acquire a company's business (or the shares of the company that operates the business) may be structured differently, depending on circumstances such as debt, contingent liabilities and tax issues. In concentrating on EV, we exclude consideration specific to the way each transaction is structured and focus on the value of the business. In this publication, EV is determined before any consideration of interest-bearing debt.

Approximately 20% of the transactions we have analysed include deferred consideration or earn-out provisions.

Where consideration is deferred (i.e., payable within one to two years of the transaction date) and not contingent upon any factors such as financial targets, the deferred consideration has been included in the EV.

However, our calculation of EV excludes any consideration that is contingent upon future events such as financial growth targets. Publicly available information does not provide a reliable picture of a company's ability to meet growth targets or other contingent factors. Accordingly, we consider it prudent to exclude any element of contingent consideration from the calculation of EV.

The calculation of EV for each individual transaction has been carefully researched to ensure it reflects the value paid for the business. The EV for each transaction is based on sourcing the most reliable evidence of the price paid and, where possible, cross-checking against other sources of information such as press releases and annual accounts of both the target and the acquirer.

## Normalised EBITDA

The EBITDA used in the EV/EBITDA calculation is the normalised EBITDA of the target company.

The process of calculating normalised EBITDA begins with sourcing the earnings before interest and taxes (EBIT) from the target company's most recent financial statements as of the transaction date.

To arrive at normalised EBITDA, each target company's financial statements were carefully analysed and the following adjustments made to reported EBIT:

- Depreciation and amortisation expenses;
- Gain or loss incurred on the disposal of assets;
- Profit or loss on discounted operations;
- Impairment costs;
- Share-based payments; and
- Exceptional items.

In some instances, acquirers may provide their own calculation of normalised EBITDA for the target company. This calculation may be more current than that shown in the latest statements we have sourced from Companies House. In such instances, we have used the acquirer's calculated normalised EBITDA in our EV/EBITDA calculation.

## Normalised Revenue

The figure for revenue is sourced from the target company's most recent financial statements as of the transaction date.

The revenue used in the EV/revenue calculation is the normalised revenue of the target company.

We first took the revenue figure in the target company's most recent financial statements at the transaction date. We then reviewed and analysed previous year's financial statements to make the following adjustments to reported revenue:

- Revenue from discontinued operations;
- Nonrecurring revenue items (e.g., government incentives, rebates); and
- Other factors, where identified.

Some acquirers provide their own calculated normalised revenue for the target company, which may be more current than that shown in the latest financial statements we have sourced from Companies House. In such instances, we have used the acquirer's calculated normalised sales in our EV/Revenue calculation.