What is Precedent Transaction Analysis?

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❖ Precedent Transaction Analysis is one of the three main valuation methods used in investment banking

❖ The other two being Comparable Companies Analysis and DCF

What is Precedent Transaction Analysis?

❖ This method relies on previous transactions in M&A to provide valuations of similar companies

❖ After all, these values were realised in a real deal - they were worth what someone was prepared to pay for them

What is Precedent Transaction Analysis?

❖ As with Comps, this method is a relative form of valuation

❖ Unlike Comps which rely on current prices, Precedent Transaction Analysis relies on historical deal data

What is Precedent Transaction Analysis?

❖ The similarities between the two methods are:

  ❖ Relative Method

  ❖ Multiple used for valuation

  ❖ Peer Group difficult to establish

  ❖ Pricing - Market based

What is Precedent Transaction Analysis?

- However, there are some significant differences
  - Takeover Premium is included in Precedent Transactions but not in Comps
  - Historical nature of the data
  - Information may not have been disclosed

What is Precedent Transaction Analysis?

❖ Lets look at the PTA process step by step…

What is Precedent Transaction Analysis?

❖ 1. Identify Relevant Transactions
❖ As with the Peer group in Comps, you need to find transactions which are relevant to your target company
❖ Criteria is shown here

❖ SIC Code
❖ Public, Private Co
❖ Key Financial Metrics (Revenues, EBITDA, PAT)
❖ Location - HQ & Ops
❖ Products and Services
❖ Type of Buyer (PE, Strategic, Public, Private)
❖ Deal Size
❖ Valuation Ratios - EV/Sales, EV/EBITDA)

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❖ 2. Screen Peer Group

❖ You should be able to identify a long list of transactions

❖ Now you have to filter out those that don't fit or for which you don't have the key financial data

❖ Further research in press releases, analyst reports may help you to fill in missing information

What is Precedent Transaction Analysis?

- 3. Assess Valuation Multiples
- These need to be screened and outliers removed
- Attention needs to be paid in particular to the Takeover Premium, which can be problematic
- Calculate Mean, Median, High and Low (as in Comps)

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❖ 4. Apply Multiples

❖ Apply the multiples from your PTA to your target company to establish a range of value

❖ Results can be presented in a table, graphically or in a "Football Field" style presentation along with results from other methods

What is Precedent Transaction Analysis?

❖ PTA has a major caveat in my view

❖ The transaction multiples tell you nothing about the deal

❖ Each transaction is always unique, as are the strategic reasons for the deal.

❖ The Peer Group must be chosen with care and due diligence done on the deals to understand the background - read the Press Release at the very least

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