What can Premiums
Paid analysis tell us?

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❖ As we have seen, Precedent Transactions Analysis includes the Takeover Premium

❖ Different business strategies can lead to justification for very significant premiums in deals

❖ You need to be aware of what these are to make sure that your results are not distorted

What can Premiums Paid analysis tell us?

❖ This analysis really only works for public companies as it depends on an analysis of share prices in the period prior to and immediately before the announcement of a deal

What can Premiums Paid analysis tell us?

- The reasons for paying a premium are many but essentially its the additional amount over and above the trading value of the company paid for change of control
- The premium is very specific to the transaction circumstances and tells us nothing about the company involved.

- Control
- Synergies
- Take Private
- Friendly / Hostile

What can Premiums Paid analysis tell us?

❖ The assembly of the Peer group deals has to be done as carefully as possible and you may have to go back several years to get enough deals to make the analysis statistically meaningful

❖ The risk here is that market conditions change over time and may have impacted the trading levels and premiums paid

What can Premiums Paid analysis tell us?

❖ As well as the transaction data collected in the previous lecture, we need to examine the behaviour of the share price in the run up to the deal

❖ Premium paid over the average price for

❖ 1 day

❖ 7 days

❖ 30 days

❖ 90 days

What can Premiums Paid analysis tell us?

- With a range of transactions you can calculate the typical premium range for each time period

- This allows you to present and additional dimension to your analysis

- It also enables you to compare the Public companies before and after valuations with private company deals where this data will not be available as there is no stock trading data

- Premium paid over the average price for

- 1 day

- 7 days

- 30 days

- 90 days

What can Premiums Paid analysis tell us?

❖ If you are in a position of evaluating an offer from a buyer this analysis enables you to judge whether they are paying (in your opinion) a sufficient premium for your company

What can Premiums Paid analysis tell us?

❖ This is a useful technique and you should consider including it in your Precedent Transactions analysis when ever it can add value to your analysis and valuation

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