VALUATION

The Premiums Paid Approach

The Premium Paid Analysis (Prepaids) is based on multiples which are derived from the value of historical mergers, de-mergers and acquisitions.

The valuation approach via Prepaids is also – such as the Comparable Company Analysis (Comps) - commonly applied as a cross-check to confirm assumptions made in a discounted cash flow valuation.

However, whilst the Comps approach is based on the trading multiples of similar publicly listed businesses, the Prepaids multiples are derived from transactions, as far as required parameters to calculate them have been publicly disclosed: This is usually the case, if publicly listed companies are involved. As far as private deals are concerned, available data may be severely limited. And, further, as Prepaids are linked to transactions which frequently include premiums paid on top of market prices, such will have to be adjusted for – hic! - premiums paid.

As is the case in the Comps approach, such historical M&A or similar transactions have to be selected which are of relevance to the valuation of the specified target. Selection criteria comprise – among others: Same industry or similar characteristics in regards to size or geographic focus. And, selected transactions should not have happened too long ago to still have relevance for the current economic, macro-economic and transaction-specific environment.

The relevant premiums are assessed in deducting the price offered for a target compared to its historical trading prices at various points in time prior to the announcement of the transaction. This addresses the fact that a target´s share price often increases as a result of speculative trading or on the basis of company-specific information prior to public announcement.

The most common explanation for premiums paid in the course of M&A-related transactions is the concept of the control premium, which is largely driven by anticipated synergies which are assumed to be generated through the intended transaction. Other explanations may be deal-specific, such as consideration paid (cash vs stock), type of approach (friendly vs hostile) or transaction type: Assume that a premium will be driven by different parameters when a firm is being taken private transaction compared to when a firm is the target of a fierce hostile takeover attempt.

To assess the premium for which Prepaids have to be adjusted for, can be challenging: Premiums paid not least change significantly over time: They may reflect either a very dynamic and active M&A environment driven by low interest rates, pre-emptive strikes, me-too mentality or possible periods of sluggish activity underlined by relatively low premiums. Consequently, takeover premiums can fluctuate from anywhere between 5 – 30 percent.

Also Prepaids multiples can be distinguished into equity price-based multiples (such as P/E, P/BV) and enterprise value-based multiples (such as EV/EBIT, EV/EBITDA, EV/S). To derive the value of the equity of a firm when applying enterprise value based multiples, one needs to deduct from the EV the firm´s net debt, defined as all interest bearing liabilities minus cash and marketable securities.

STRATEGIC CONTROL VALUE

↑ STRATEGIC CONTROL PREMIUM

FINANCIAL CONTROL VALUE

↑ FINANCIAL CONTROL PREMIUM

MARKETABLE MINORITY | BLOCK

PREPAIDS

COMPS