Major Changes Enhance the 2018 Edition of Mergerstat Review of M&A Activity

The recently released 2018 edition of Mergerstat Review has a number of important changes, including updates to historical data, new tables that show premiums paid over the targets’ enterprise values, a change to industry categories, better defined foreign seller ownership roles, and the inclusion of “transaction value” instead of base equity price.

Mergerstat Review is an annual publication (with monthly updates) that presents compiled statistics relating to U.S. and cross-border mergers and acquisitions that involve both publicly traded and privately held companies. Data on M&A announcements and purchase prices are presented annually and quarterly, for the current period and historically, including details on individual deals and trends in prices, methods of payment, multiples, and premiums.

BVU spoke with BVR’s Kenny Woo, who oversees the publication of the Mergerstat Review, to explain the new changes.

Historical updates. “This is the first year we have been able to update historical data,” says Woo. BVR was given full access to the FactSet Mergers M&A data feeds, which allowed BVR to update 20 years of M&A data that capture new and updated transaction data not included in prior editions. Also, FactSet improved its data collection and was able to gather more data than it could for previous editions. “For example, if you look at the year 2000 in the 2017 edition, you’ll see 9,566 M&A transactions, but, in the 2018 edition, you’ll see 13,098 transactions,” says Woo. “The benefit is that users now have more accurate and complete historical data as well as updated trend analyses, multiples, and premiums.” The 2018 Mergerstat Review is the first edition to feature historical updates, he points out. Past editions are relevant because they captured the M&A market from a point in time, but, starting with the 2018 edition and going forward, transaction data will be updated.

Premiums over EV. New to the 2018 edition is additional content that is reflected in several new tables that focus on premiums paid over the enterprise values of the target firms. “This is in response to requests BVR received from users of the guide,” says Woo. Transaction premiums still feature the premium paid for the targets’ share prices five days prior to the announcement, but now several tables focus on premiums paid over the targets’ enterprise values. The data now take into consideration the fact that not all comparable companies have the same capital structure. The new tables added are:

- Table 1-25, which features premiums over enterprise value categorized by deal size;
- Table 1-26, which focuses on the premiums paid comparing public to private buyers, where, for the first time in five years, private buyers paid a higher premium than public buyers; and
- Tables 2-10 and 2-11, which feature the average and median premiums paid over the enterprise value and are analyzed by year and by sector.
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Category changes. FactSet has replaced the 40-plus category Mergerstat industry classifications with its 20-category industry sectors, Woo explains. For FactSet Mergers database subscribers, the sectors are now aligned with FactSet’s database screening taxonomy when searching for transactions either in the Mergerstat Review or the online database. “Mapping is provided to match the selected SIC code with the relevant FactSet sector,” says Woo. The mapping is located on page 361 of the guide.

Foreign sellers. There is now a clearer definition to foreign seller ownership roles, Woo points out. In prior editions, seller ownership roles were classified as either public, private, divestiture, or foreign. The 2018 edition breaks down the seller ownership into two groups: (1) domestic transactions: public, private, and divestiture; and (2) foreign transactions: public, private, and divestiture. Foreign ownership roles can be seen in the context of foreign—public, foreign—private, and foreign—divestiture.

Transaction value. The guide now details the purchase price of transactions as the “transaction value” price rather than the base equity price, notes Woo. Transaction value includes the assumption of net debt, when applicable. It excludes transactions in the finance sector, where selling companies have debt-heavy balance sheets. The switch was done to better reflect the net debt associated with the purchase, says Woo.

We must point out that recent guidance1 on control premiums for financial reporting purposes indicates that it cannot be automatically assumed that premiums paid in prior transactions give an indication as to a premium for control that may apply to your subject business. Historical transactions, such as those reported

in *Mergerstat Review*, should definitely be considered, but appraisers must be careful when simply relying on historical data regarding premiums paid to determine a control premium. Also, while the new guidance is in the context of financial reporting, it may be relevant for valuations in other contexts. Future issues of *BVU* will cover the applicability of control premiums in light of this new guidance.

For more information on the 2018 edition of *Mergerstat Review*, there are FAQs and additional information at bvresources.com/products/factset-mergerstat-review-2018.