



Cameron Partners Insight Series

Premia in New Zealand Takeover & Offer Proposals

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Cameron Partners has maintained a database on each of the offers (61 finalised and 1 pending) that have occurred since the Takeovers Code was introduced on 1 July 2001. This article sets out some observations and insights on “control premia” in New Zealand offers.

For each offer Cameron Partners has captured and tabulated nearly 100 data fields. Our database distinguishes successful and unsuccessful offers and captures key data such as:

- the premia offered;
- whether the takeover occurred in stages;
- whether there was a follow-on offer; and
- what shareholding the acquirer had prior to the offer.

Cameron Partners have used this database in advising clients in regard to offer strategy and response. It has also been a key source for our previous articles including “M&A trends in New Zealand” and “Takeover Responses in New Zealand”.

Control premia are usually calculated by measuring the extent to which the offer is greater than the share price prior to that offer. In most commentary we have seen in New Zealand this analysis has been relatively simplistic – comparing the offer price to the price immediately prior to a formal announcement or to some weighted average price during the period leading up to the offer.

Cameron Partners believes it is more useful to think of the control premia as being the total premium that shareholders receive compared to a counterfactual of there being no offer or indeed any expectation of such an event.

The calculation becomes more complex in the following two situations.

- Firstly, where an offer is known or expected in advance of a formal offer being made. For example, where a party acquires a cornerstone shareholding first, or the target company announces it has received approaches.
- Secondly, where a full offer is staged over two or more offers.

In the first case, the premium is adjusted as the pre-offer share price will impound the expectation of an offer. In the second case, the premium is adjusted to reflect the total premia paid across the multi-stage offer.

In the following analysis, we have made all the adjustments necessary to address these issues and measure what we believe is the true control premia being paid in New Zealand. For the technically inclined, we are happy to discuss our approach. However, we do not go into the adjustments in this article.

Average Premium and Range The median premium across all offers in New Zealand (whether successful or unsuccessful) is **23.6%**.

However, **premia have ranged from as low as 1.2% to as high as 113.5%**, although the inter-quartile range (25% to 75%) is a narrower 13% to 35%. These ranges clearly illustrate that **premia are company and situation specific.**



Offer Success Of the 61 finalised offers that have been made since the Takeovers Code, **21 have been “immediately” successful** - where no revision of the price and no follow-on offer has been required for the acquirer to reach its target shareholding. Offer revisions and follow-on offers have led to **a further 14 offers being “ultimately” successful**; 9 offers were and have remained unsuccessful.

As expected, **successful offers have exhibited significantly higher premia** than unsuccessful offers, with the average premium paid being 30.6% compared to 20.4% in unsuccessful offers.

Relationship Between Existing Ownership and Premia There is evidence that **the higher the initial pre-offer stake the acquirer has, the lower the premium that has been paid. However it is not a strong relationship.** For example the average premium offered in situations where the acquirer already has control (50%+) is only 4% lower than the average premium when the initial stake is below the control threshold (50%-). It seems **the “premium for control” is not just about majority voting control.**

Offer Revision and Follow-On Offers

Since the inception of the Code, there have been:

- 16 offers that have involved a revised offer (where the offer is increased during the period of the offer); and
- 12 offers that have resulted in a follow-on offer.

However, since 2006 **there has been a dramatic trend towards follow-on offers. Our analysis suggests that this strategy can be beneficial to bidders.** While the average increase in premia is similar across revised offers and follow-on offers, in a follow-on offer the increased premium is not paid to shareholders that have already accepted the first offer. For this reason **the total premia paid by bidders in follow-on offers can be materially lower.**

It should be noted that there are unique elements to each offer which make the applicability of averages limited. Our database captures details of individual offers and is able to provide useful insights across a range of takeover scenarios for both acquirers and targets.

Whether you are contemplating initiating takeover activity or considering how your company should respond to takeover activity, you should call us first.

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