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Mergerstat Control Premium Studies and the Discount for Lack of Control

By: Russell T. Glazer

Many valuation analysts rely on the Mergerstat Control Premium Study ("CPS") as empirical evidence for the discount for lack of control of the subject company. The analyst must therefore

i) assess the comparability of the target companies included in these studies, and

ii) determine whether factors other than the acquisition of control is driving the acquisition prices observed.

For example, the CPS only includes transactions where the target company was publicly traded. As with the use of the Guideline Public Company method under the Market Approach, the analyst's subject company should be sufficiently comparable to the public company for the discount for lack of control analysis to be reliable.

Similarly, the analyst must determine that the control premiums observed in the Study represent the price paid only for control, and do not include some element of synergies or other motivations that could cloud the interpretation of the Study's results. If the prices paid include some amount for synergistic or other motivations that are not applicable to the subject company, the analyst may choose to lower the observed discount for lack of control, but is faced with two questions – by how much should the discount be reduced, and what is the support for this estimate? This may make it problematic to use the CPS in determining the appropriate discount.

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