A Step by Step Guide to Conducting

Precedent Transaction Analysis (PTA) Valuation

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What is PTA

Precedent transaction analysis (PTA) is a valuation method used in investment banking to determine the value of a company by comparing it to similar companies that have been sold or acquired in the past.

It is also known as "transaction comps" or "precedent M&A analysis".

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Identify comparable transactions

The first step is to identify similar companies that have been sold or acquired in the past.

These companies should be in the same industry, have similar size, growth prospects, and business models.

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Gather transaction data

Once the comparable transactions are identified, the next step is to gather data on the transaction, including the purchase price, deal structure, and other relevant details.

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Analyze the data

The data is then analyzed to determine the valuation metrics used in the transaction, such as enterprise value (EV) to earnings before interest, taxes, depreciation, and amortization (EBITDA) multiple or price to earnings (P/E) multiple.

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Apply the valuation metrics

The valuation metrics are then applied to the company being valued to estimate its value.

For example, if a comparable company was sold for an EV/EBITDA multiple of 8x and the company EBITDA has a 10 million, then the Company Valuation would be 80 million.

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Adjust for differences

Adjustments may be made to account for differences between the comparable transactions and the company being valued.

For example, if the comparable transaction included assets or liabilities that are not relevant to the company being valued, adjustments may be made to reflect this.

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Conslusion

PTA is often used in conjunction with other valuation methods, such as discounted cash flow (DCF) analysis and comparable company analysis (CCA), to provide a more comprehensive view of a company's value.

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