

Perpetual knowledge bank series: company options

10 June 2021



Company options or options provide the opportunity, but not the obligation, for an investor to acquire an ordinary share at a fixed price at a predetermined time on or before the option expiry date. The terms and conditions of these options are determined solely by the issuing company, which means all options will be different. Common features of these options include:

- Exercise price or strike price – this represents the fixed price at which the investor can buy the underlying share.
- Expiry date – this represents the last day where the option holder may exercise it based on the terms and conditions of the option. Prior the expiry date of the option, the holder may also choose to sell it on market if the options are quoted. If option holders do nothing, then the options will expire.
- Quotation – the issuing company may apply for quotation of the options on the ASX, which means investors can buy and sell options in the same way as shares. Options that are quoted will generally be issued under a prospectus document.

Investors may often hear the terms “in the money” or “out of the money” when considering options. The term “in the money” is often used to refer to the situation where the share price of the underlying shares of the option is higher than the exercise price of the option. In this case, option holders may choose to exercise their options and be issued new ordinary shares at a discount to the market price. On the other hand, an option is “out of the money” when the share price of the underlying shares of the option is lower than the exercise price of the option. In this case, option holders may choose to not exercise their option and instead buy additional shares on market at less than the exercise price of the option.

Company options should not be confused with exchange traded options (ETOs), which are a type of derivative. ETO contracts are standardised by the ASX whereas company options are solely issued by a listed company and can have a variety of features.

This analysis has been prepared by [Perpetual Investment Management Limited \(PIML\)](#) ABN 18 000 866 535, AFSL 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

The information is believed to be accurate at the time of compilation and is provided in good faith. This document may contain information contributed by third parties. PIML does not warrant the accuracy or completeness of any information contributed by a third party. Any views expressed in this document are opinions of the author at the time of writing and do not constitute a recommendation to act.

The product disclosure statement(PDS) for the Perpetual Diversified Income Fund issued by PIML, should be considered before deciding whether to acquire or hold units in the fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website <http://www.perpetual.com.au>.

No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital. Past performance is not indicative of future performance.