THE PRICE OF VALUE:

THE DIFFERENCE BETWEEN VALUE AND PRICE OF FIRMS IN THE DUTCH SME SECTOR

MASTER'S THESIS

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ABSTRACT

The goal of this study is to find a gap between theory and practice regarding Dutch SME valuation methods and a trend in the difference between the initially calculated value and the transaction price – with corresponding variables which effect this difference – within the Dutch SME sector. In order to reach this goal, a case study has been conducted, in which twelve cases – transactions where de Jong & Laan Corporate Finance had a role as an external advisor – were studied. It has been found that the accuracy of the financial forecast is crucial and that it is hard to judge and estimate the effect of relating factors individually. Furthermore, the outcome of the negotiations has a direct influence on the difference between value and price.

COLOPHON

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" Price is what you pay.

Value is what you get. "

BENJAMIN GRAHAM, AMERICAN EONOMIST AND
PROFESSIONAL INVESTOR

PREFACE

In front of you lies the master's thesis I wrote in order to complete the master of business administration at the University of Twente. I really liked the course and discipline corporate finance, and that motivated me to write a thesis linked to that topic. I applied for an internship at de Jong & Laan – an accounting firm active in the north, middle and east of the Netherlands – which had a corporate finance department in Zwolle.

De Jong & Laan Corporate Finance searched for an intern who would like to conduct a research into the field of valuation methods in the Dutch SME sector. Furthermore, they would like to know more about the difference between the value of a firm and the transaction price paid for the same firm. For this purpose I studied the theory and practice related to valuation methods in the Dutch SME sector. I have read books, magazines, academic journals and consulted the internet a lot.

I would like to utilize this opportunity to thank several people who – to a greater or lesser extent – contributed to this study. First, I would like to thank the faculty advisors of the University of Twente, in particular Henk Kroon and Peter Schuur. Henk was my first supervisor and I would like to thank him for the thrust he had and the good advises he provided me with. These definitely had a positive contribution to the realization of this thesis.

Second, I would like to thank Theo de Cock of de Jong & Laan Corporate Finance. I would like to thank him for his thrust in me, for the interviews and conversations, for the feedback I received and for making me a job offer. Furthermore, I thank all my colleagues for the great working environment. In particular I would like to thank Kenneth Derksen for the interview, and Annemarie Schulenburg and Annemarie Hulsman for their feedback.

Finally, I would like to thank everybody who I didn't name personally, but who did have a supportive role – to what extent whatsoever – the past few months. I wish you a lot of fun reading my thesis.

Sebastiaan Klunder

Goor, Febuary 2016

Table of Contents

1 INTRODUCTION

In November 2014, the Dutch Financial Times published an article which claimed that there is a selloff of family businesses about to emerge (Verbeek, 2014). The article outlined that almost two third of the Dutch small and medium-sized enterprise (SME) owners think about their business succession plan. Moreover, lots of Dutch entrepreneurs make wrong estimations regarding the value of their company. On average, these entrepreneurs assume that their company is worth 8.8 times the net profit, where in practice around five times the net profit is paid (Het Financieel Dagblad, 2015; Verbeek, 2014). Because of these higher expectations, deals are more often canceled in the SME sector (Maarsen, 2015b).

The Dutch economy recovers slowly and it is expected that this recovery will increase in the upcoming years (ANP/NU.nl, 2015). Maarsen (2015b) acknowledges that the confidence in the economy is increasing and the improved economic situation will definitely play an important role. This recovery could be an explanation regarding the expected upturn in the merger and acquisition (M&A) market (Clifford Chance, 2014). This upturn can drive up the prices to be paid for companies, which in turn can motivate entrepreneurs rather to sell their company (Maarsen, 2015a). Moreover, it is getting easier to find financing, which in turn may also increase prices.

Panteia studied the relation between business transfers, the economic downturn, and the aging population within the Dutch SME sector (Prince, Zeijden, & Matser, 2014). These authors found that there is a relation between these variables, either in quantities, the transaction price, funding, and the process itself. It is also found that in case of selling a business, in the majority of the cases an external consultant is deployed. The accountant is the most common example of these consultants. Such an external consultant can play an important role for the development of the process, within an accounting firm these consultants can often be found in the corporate finance (CF) department. Except guiding the whole process, these consultants are also responsible for the contact with potential interested parties (Blok, 2002). It is important that sensitive company information will not become publicly available, the external consultant can help to prevent that.

De Jong & Laan Corporate Finance is such a party – part of an auditing and accounting firm with 700 employees distributed over 26 branches in the north, east and middle of the Netherlands – and they believe in local involvement and focus on the Dutch SME sector (de Jong & Laan, n.d.-b). The corporate finance (CF) department is based in Zwolle and deals with business transactions and valuations. They value companies, facilitate the buying/selling process, fulfil a role as negotiator, and bring parties in contact with each other (de Jong & Laan, n.d.-a). During the conduction of these duties, they often see the emergence of a difference between the initially calculated value and the transaction price – the price paid.

Lots of authors performed studies regarding the valuation of companies. Different studies[1] found inconsistencies in estimates and assumptions regarding to firm valuation or in

[1] (Astrachan & Jaskiewicz, 2008; Bancel & Mittoo, 2014; Butler & Pinkerton, 2006; Damodaran, 2006; Grüninger & Kind, 2013; Herrera & Álvarez, 2012; Koeplin et al., 2000; Kramná, 2014; McConaughy, 1999; Petersen, Plenborg, & Scholer, 2006; Pricer & Johnson, 1997; Rojo-Ramírez, 2014; Velez-Pareja & Burbano-Perez, 2010)

the differences between valuations of publicly traded and privately held firms. The inconsistencies may also be part of the cause of the difference between value and price as mentioned earlier.

De Jong & Laan CF recognized earlier mentioned developments (Th.L.E. de Cock, personal communication, July 22, 2015). This study, in consultation with de Jong & Laan CF, investigates the difference between the initial calculated value and the transaction price in the Dutch SME sector, along with the underlying causes of this difference.

Research goal and question

The goal of this study is to find a gap between theory and practice regarding Dutch SME valuation methods and a trend in the difference between the initially calculated value and the transaction price – with corresponding factors which effect this difference – within the Dutch SME sector.

Research question: "*What is the difference – related to business transactions – between the initially calculated value and the transaction price of companies within the Dutch SME sector and how can this difference be explained?*"

Accompanying sub questions are formulated in order to answer the research question and eventually reach the research goal:

1. What is the definition of the Dutch SME sector?
2. Which kinds of business transactions are the most common considering the Dutch SME sector?
3. Which valuation methods are the most relevant for Dutch SMEs according to theory and practice?
4. What are the differences between initial valuation and transaction price with respect to business transactions in the Dutch SME sector within the period 2001 to 2014?
5. Which factors explain the differences between initial valuation and transaction price?

2 Theoretical framework

This chapter contains an explanation about different theories regarding the SME sector, business transactions, business value, transaction price and private and public companies.

2.1 Small and medium-sized enterprise

This thesis uses the definition of SME as stated in the Dutch law – both articles 2:396 BW and 2:397 BW. A company has to comply with at least two of the following three criteria for at least two subsequent years to be an SME: (1) amount of total assets is below € 17,500,000, (2) net turnover is below € 35,000,000, and (3) a maximum of 250 employees. There is also a difference between small and medium sized firms, the tilting point is total assets of € 4,400,000, net turnover of € 8,800,000, and 50 employees. The same rules apply regarding to the aforementioned criteria. These criteria will change per January 1, 2016 (SRA-Vaktechniek, 2015). As per this date, the definition of SME will change in the Netherlands. Because all the transactions regarding this thesis are in the past, where the first definition was applicable, the first mentioned definition is used.

2.2 Business transaction

Duitman & Flören (2007) distinguish two closely related processes, transfer of ownership and transfer of control. In this report business transaction is used by means of transfer of ownership, because valuation and transaction price are associated with transfer of ownership, not with transfer of control. It is also possible to transfer the company step by step.

There are several motives related to the decision of an entrepreneur to sell their company. It is found that the amount of entrepreneurs with retirement as a motive who (recently) sold their company, are selling their company or will sell their company in the near future is rising (Prince et al., 2014). Other motives found during the study are sickness, occupational disability and finding a better job.

Duitman & Flören (2007) distinguish four main categories regarding business transactions: (1) transfer within the family, (2) transfer to third parties, (3) merger with a third party, and (4) close the business. Management buy-out (MBO) and management buy-in (MBI) are two commonly occurring transaction possibilities, falling within the second group – transfer to third parties. Blok (2002) adds initial public offering (IPO) to the context of business transactions. It is important to understand that different transaction methods have different consequences regarding sales proceeds, keeping their identity, and involvement of previous generation.

By trading shares in privately held companies, a significant interest is more rapidly acquired than with trading shares in public companies (Boudreaux, Rao, Underwood, & Rumore, 2011). It is found that in 63.94 percent of the cases related to privately held companies, a majority interest is acquired. With publicly held firms it is only 1.41 percent. When someone acquires the majority stake of the shares, in most of the cases (s)he acquires the controlling interest of the firm (Herrera & Álvarez, 2012).

There are two types of transaction alternatives: asset deal versus share deal. By performing an asset deal, the buyer becomes owner by the transfer of the assets for a certain price, which the seller can use to (partly) pay off his/her liabilities (Slagter, Herst, Stevens, & Schons, 1993). The advantage of performing an asset deal is the lower information risk. When performing a share deal, the shares of the concerning company will be transferred, which involves the transfer of all risks to the buyer.

2.3 Initially calculated value

The variable 'value' is expressed as units of currency and is ought to be subjective (Neap & Celik, 1999; Notenboom, 2002). In addition, the value of a company is related to the owner(s) and directors of the firm (Koller, Dobbs, & Huyett, 2010) and is in case of a business transaction different for buyer and seller (Fernandez, 2015a). A buyer, for example, can see synergies (Janssen & Heuvelen, 1999), where sellers can see their pension in it (Prince et al., 2014).

Valuations are based on different assumptions and estimations (Bancel & Mittoo, 2014). It plays an important role in the M&A process, especially regarding the determination of the demand or bid price (Notenboom, 2002). Literature acknowledges different methods, with their own advantages and disadvantages, and groups them into three different categories: (1) income approach, (2) market approach, and (3) asset-based approach (American Society of Appraisers, 2009; Fernandez, 2015a; Ibbotson Associates, 2013; Pratt & Niculita, 2008; Pricer & Johnson, 1997; Tack, 2009). These approaches are elaborated in the next paragraphs.

2.3.1 Income approach

According to Koller, Goedhart & Wessels (2010) cashflows are the ultimate source of value. Valuation methods categorized in the income approach are based on cashflows. In general, in methods covered by the income approach, "the company is viewed as a cash flow generator and the company's value is obtained by calculating these flows' present value using a suitable discount rate" (Fernandez, 2015a, p. 8). In an utopian world, valuation methods should take into account the elements time, money, and risk (Luehrman, 1997; Notenboom, 2002). The 'garbage in, garbage out' concept applies to valuation methods (Slagter et al., 1993).

The discounted cash flow (DCF) method is considered to be the most substantiated and theoretically sound method (Fernandez, 2015a; Havnaer, 2012; Koeplin, Sarin, & Shapiro, 2000; Pratt & Niculita, 2008; Uijtendaal & Cock, 1999). There are many methods related to the DCF approach, such as free cash flow to firm, free cash flow to equity, capital cash flow, adjusted present value, and economic value added (Damodaran, 2006; Fernandez, 2015a, 2015c; Luehrman, 1997).

The aforementioned discount rate depends on several factors. There are different methods available to calculate this rate and there are estimations and assumptions needed in order to get to the right rate (Bancel & Mittoo, 2014). Examples of these methods are capital asset pricing model (CAPM), build-up approach, and weighted average cost of capital (WACC) (Butler & Pinkerton, 2006; Fernandez, 2015a; Ibbotson Associates, 2013; Pratt & Niculita, 2008).

2.3.2 Market approach

The market approach is merely based on the use of multiples. According to Fernandez (2015b) the use of multiples is highly debatable, because there is almost always a broad dispersion. Nonetheless, multiples can be useful after using another method. In that case multiples can be used to make a comparison between the valued firm and some peers. Koller, Goedhart et al. (2010) give three requirements to carry out a useful analysis of comparable multiples: (1) use the right multiple, (2) calculate the multiple in a consistent manner, and (3) use the right peer group. Desmond (1994) contributes to the multiple literature regarding small business valuation; he elaborated formulas and rules of a thumb for different kinds of businesses.

2.3.3 Asset-based approach

With this [asset-based] (S.K.) approach, the value of a business is determined by valuing each component of the business separately. Taking the sum of the asset values, both tangible and intangible, and subtracting the value of liabilities derives the ultimate value of the business. (Ibbotson Associates, 2013, p. 19)

When using the asset-based approach, the balance sheet (B/S) is taken as a starting point and each asset is revalued at fair market value[2] (Ibbotson Associates, 2013). Using this method makes it easy for potential purchasers to identify where the value of a business is coming from. The downside of using the asset-based approach is that it can be time-consuming and expensive, and it may require the aid of outside experts. When it is not possible to value a substantial portion of the assets with accuracy, this approach is not ideal. Pratt & Niculita (2008) give two general methods regarding business valuation according to the asset-based approach: (1) the capitalized excess earnings method, and (2) the asset accumulation method. Where the first method revaluates all of the company's assets and liabilities collectively, the latter revaluates them individually.

2.3.4 Other methods

Besides the methods described in the previous paragraphs, there are some less used or less substantiated methods. The most important one, which is quite often used in practice, is the (improved) profitability value[3]. By using this method, the standardized net profit, which has to be representative for the future, is discounted against the profitability requirement[4], and subsequently corrected for the capital structure. The other, less relevant for this study, methods are option pricing, intrinsic value model, liquidation value model, replacement value model, rentability value model and the mixed model.

2.4 Transaction price

In the context of sub question 4, this paragraph elaborates on the definition of transaction price and the difference between value and price. Prices are established in markets and are the result of the encounter of two parties – supply and demand – whom form a market together (Notenboom, 2002). The price represents an amount – with certain conditions – what the seller would like to receive and the buyer would like to pay, and is established by negotiations (Uijtendaal & Cock, 1999).

[2] Fair market value: "The prices, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when either is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts (American Society of Appraisers, 2009, p. 27).

[3] Free translated from Dutch: (verbeterde) rentabiliteitswaarde

[4] Free translated from Dutch: rentabiliteitseis (REV)

The difference between value and price is a much debated subject. Value is subjective, after all every person has its own expectations regarding the future cashflows and risks. Seller and buyer have their own opinions with regard to the value of a firm (Denneboom, 2014). Denneboom (2014) adds that if a seller shares the estimations and assumptions of a buyer to a large extent, and there is a high demand, the value perception will be close to one another.

3 METHOD

In order to find and explain the difference between value and price in the Dutch SME sector, various cases were studied. This is called a case study in research literature. In the context of this study a case can be operationalized as the transfer of a firm – to an individual or a corporation – In which de Jong & Laan CF has had an advising function on behalf of the seller during the period 2001 until 2014. Often the link is made between a case study and qualitative research, which does not have to be the case (Bryman & Bell, 2011). The use of a case study is often justified when an extensive and detailed research to one or more cases is necessary. Diverse (qualitative) methods can be combined and it is advised that there will not be too much emphasis on one of them (Knights & McCabe, 1997). Furthermore, Bryman & Bell (2011) indicate that the discriminating power of a case study can be found in the elaboration of several unique characteristics of the cases. In order to answer sub question 5, the last mentioned is of interest.

3.1 SELECTION OF THE CASES

The focus of the case selection is – considering the primary goal – to gain insight in the specific characteristics and the complexity of the different cases. Eventually, the similarities and/or differences are checked. The selection of the cases takes place by means of a derivative of the convenience sampling method. A convenience sample is a sample of cases which are accessible and obtainable (Bryman & Bell, 2011). De Jong & Laan CF developed an extensive client base during the past decades, which forces the author to select a sample of them. Mr. Th.L.E. de Cock – Partner Corporate Finance at de Jong & Laan CF – selected the sample on the basis of availability of the data, the timeline, and the magnitude of the transaction/firm. A divers selection of cases has been formed.

3.2 DATA COLLECTION

In order to answer the sub questions related to the CF practice – value, price, and other characteristics of the transaction/firm – it is important to collect all required data. After mapping the required data, the physical and digital archives were searched for this data. In the first place the author searched for the order confirmation, prospectus, valuation report and purchase agreement. These sources of data contain valuable information concerning this research.

The collected data was printed or copied and stored in a folder – sorted in order of assignment date. The confidentiality of this data is very important, because it can harm the clients as well as de Jong & Laan CF, if this data gets publicly accessible. Because of this confidentiality, the comprehensive description of the cases can be found in the confidential appendix. This is in accordance with Bryman & Bell (2011), whom elaborate on the fact that in case of confidentiality the data has to be handled carefully.

Thrust on documents only is a possibility, but there is a possibility that unrecorded data and/or circumstances has been neglected. Aforementioned is especially the case with characteristics and/or factors which can explain the possible differences between value and price. In that context, after collecting the data in the form of a document analysis, the author has had unstructured interviews with the primarily responsible person of each case.

The combination of document analysis and unstructured interviews has gained accuracy, reliability and validity (Bryman & Bell, 2011). The responsible person was asked to give a detailed description of the circumstances at that time and whether there are remarkable things to notice. Author can empathize and get a feeling about the situation. Furthermore, the author can ask for confirmation about several things found during the document analysis. Obtaining new information as well as conformation about other things by applying another research method is called triangulation in the research literature.

The data has been graphically presented in tables, where the most important data is highlighted. These tables are, as mentioned earlier in this chapter, confidential and is only presented in the confidential appendix.

3.3 DATA ANALYSIS

The data can be analyzed by means of the tables mentioned in last paragraph. This analysis tries to give answers to the second, third, fourth, and fifth sub question, based on the collected data during the data collection. Author tried to find patterns which could lead to the answer of the research question. With reference to a table, author has presented which factors were compared to one another, in order to find an answer for the different sub questions. Finally, after answering all possible sub questions, author has elaborated which links and relations whether or not were found by the comparison.

4 DATA COLLECTION

This chapter contains the collection of the data regarding the cases. The data that will be collected is presented in a table, as well as the sources of the data. The collected data is elaborated narratively in the appendix, because of the confidentiality of the data. By presenting it narratively the reader will get a better understanding.

In order to perform a complete and correct analysis of the data in chapter 5, it is important that the data will be correct and complete as well. Table 1 will be filled with data in this chapter, whereby the factors – at the left side of the table – will be collected and for every case presented in the columns A till M – twelve cases. The filled in table will be the basis for the analysis of the data and can – as mentioned earlier – be found in the confidential appendix.

Data necessary to collect	A	B	...	M
1 Firm size				
2 Year (mandate)				
3 Reference date (valuation)				
4 Year (transaction)				
5 Business transfer alternative				
6 Average turnover growth per year				
7 Made normalisations?				
8 Valuation method				
9 Discount rate (type)				
10 Discount rate (%)				
11 Growth (remaining years)				
12 Forecast period (years)				
13 Value of the firm				
14 Transactionprice				
15 Difference				
16 Reason for transfer				

Table 1: Data necessary to collect per case

4.1 FACTORS AND SOURCES

In the first instance, four documents will be consulted to fill in table 1: the order confirmation, prospectus, valuation report and purchase agreement of every case. Furthermore, the data will be verified during the interviews. Table 2 presents which data will be collected by means of which source.

Data per source	Order confirmation	Prospectus	Valuation report	Purchase Agreement	Interviews
1 Firm size		x	x		
2 Year (mandate)	x				
3 Reference date (valuation)			x		
4 Year (transaction)				x	
5 Business transfer alternative	x	x	x	x	x
6 Average turnover growth per year		x	x		
7 Made normalisations?		x	x		
8 Valuation method	x		x		
9 Discount rate (type)			x		
10 Discount rate (%)			x		
11 Growth (remaining years)			x		
12 Forecast period (years)		x	x		
13 Value of the firm			x		
14 Transactionprice				x	
15 Difference			x	x	x
16 Reason for transfer	x	x	x		x

Table 2: Data to collect per source

4.2 SUMMARY OF THE DATA

The oldest case – year (mandate) – dates from 2001, and the youngest case dates from 2012. The first transaction was in 2002 and the latest was in 2014. Of the twelve cases, ten were small sized firms and only two were midsized, with respect to article 2:396 BW en 2:397 BW (Dutch Law), as elaborated in chapter 2.1. All cases concerned “besloten vennootschappen” – private limited companies. Six transactions concerned an MBI, four strategical buyers, one MBO and one BIMBO combined with a recapitalization.

The average turnover growth per annum is irrelevant for cases where another method than the DCF has been used. In the cases where it is relevant, the average growth has been between 3,0 and 43,6 percent. The number of years (forecast) has been between one and four and every case has been normalized in order to disregard incidental income, expense, revenue and/or cost.

Three valuation methods has been used in the cases: (1) (improved) profitability value method, (2) discounted cashflow method, and (3) intrinsic value method. The intrinsic value method has been used only once and was solely used with comparative purposes. The first and second methods has both been used six times. The DCF method can be subdivided in DCF against WACC – used three times – and APV method – used three times.

Three different discount rates has been used in the twelve cases, all dependent of the valuation method and these were used right – compared with literature. The value of the companies laid between € 300,000 and € 12,000,000, and the transaction prices were between € 400,000 and 11,000,000. No exact value or price is mentioned here because of confidentiality – these can be found in the confidential appendix.

Personal circumstances is one of the most common reasons for transfer in the cases – whereby reasons related to health are included. Other – less common – reasons were to focus on other activities, cashing in, to be ready for another challenge, and the changing market. These reasons are not comprehensive and it may be possible that more underlying reasons were relevant.

5 DATA ANALYSIS

This chapter describes the findings of the analysis of the research. The analysis of the data will be elaborated, which is required for the practical part of the sub questions. By carrying out this analysis, it is attempted to gather information which can help achieving the goal of this research, and thereby answering the research question. The question is related to which factors have an effect on the difference between value and price and whether or not there is an observable trend.

By means of the tables in the confidential appendix – table 1 filled in – the second till fifth sub question will be answered. The required data is shown in these tables and are summarized in the confidential appendix as well. Some general anonymized non-confidential data is elaborated in the previous chapter. Table 3 contains a graphical presentation of the factors which will be compared which each other in order to find the answers to the different sub questions. The bold black numbers in the table – **2**, **3**, **4** en **5** – represent the different sub questions which it relates to. The information in this chapter is – just like chapter 4 – some general anonymized non-confidential information. For the full analysis is sufficed to refer to the confidential appendix.

Analysis	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1 Firm size					2			3							5	
2 Year (mandate)																
3 Reference date (valuation)								3							5	
4 Year (transaction)					2										5	
5 Business transfer alternative	2			2										2	5	
6 Average turnover growth per year															5	
7 Made normalisations?															5	
8 Valuation method	3		3						3				3		5	
9 Discount rate (type)								3							5	
10 Discount rate (%)															5	
11 Growth (remaining years)															5	
12 Forecast period (years)															5	
13 Value of the firm								3							5	
14 Transactionprice					2											
15 Difference	5		5	5	5	5	5	5	5	5	5	5	5			5
16 Reason for transfer															5	

Table 3: Analysis of the different factors

5.1 CONCLUSION OF THE DATA ANALYSIS

The most common business transaction alternatives are – with reference to the cases – the management buy-in (MBI) as a buyer and the strategical buyers. These two were represented in two of the twelve cases. No relation has been found between the period or firm size in comparison with the alternative. What has been found is that lower transaction prices – below € 900,000 – were mainly covered by MBI-candidates, and the prices above were mainly strategical buyers.

It has been found that in practice the (improved) profitability value method and the DCF method were used. Both methods were used six times. In the cases where the DCF method was used, it concerned three times DCF against WACC and three times the APV method. It has been found that both midsized companies were valued with the DCF against WACC method. Furthermore, it has been found that in the period before 2005 mainly the (improved) profitability value method has been used and in the period after 2005 mainly the DCF method.

The value of the companies laid between € 300,000 and € 12,000,000, and the transaction prices were between € 400,000 and 11,000,000. The average value of the firms was € 2,545,000 and the average transaction price € 2,599,000. The differences between value and price were both positive and negative and had a range of 42.5 percent negative till 54.3 percent positive.

6 CONCLUSION

Many business transfers are guided by an external advisor. De Jong & Laan CF is such an advisor. De Jong & Laan CF often notices a difference between value and price in their valuation and transaction practice. The goal of this research was to find the difference between theory and practice regarding valuation methods, and to find a trend in the differences between value and price, with corresponding factors. The research question was:

> *"What is the difference – related to business transactions – between the initially calculated value and the transaction price of companies within the Dutch SME sector and how can this difference be explained?"*

In the context of the first sub question a Dutch SME is defined as a firm which has to comply with at least two of the following three criteria for at least two subsequent years: (1) amount of total assets is below € 17,500,000, (2) net turnover is below € 35,000,000, and (3) a maximum of 250 employees. The previous mentioned definition is in accordance with the Dutch Law, at the time of the cases.

The second sub question is related to business transfer alternatives in the Dutch SME sector. The most common alternative was the management buy-in (MBI), followed by the strategical buyer. Transaction prices below € 900,000 were mainly MBI-candidates, and above were mainly strategical buyers.

The third sub question is related to both theory and practice of valuation methods. According to theory, in an utopian world valuation methods should take into account the elements time, money, and risk. Whereby the 'garbage in, garbage out' concept applies. Literature considers the DCF method – related to aforementioned – to one of the better methods. However, the perfect method does not exist and the value of a company is by definition subjective. In practice has been found that both the (improved) profitability value method and the DCF method were used equally often. Whereby in the period until 2005 the (improved) profitability value method mainly has been used, and in the period after 2005 the DCF method has been used in most of the cases. The two midsized companies were valued by means of the DCF method.

Sub question 4 is related to the difference between value and price in the Dutch SME sector. In every case a difference has been found. The extremes were 42.5 percent negative and 54.3 percent positive. The – possible – causes of these differences were tried to find with the fifth sub question. It can be concluded that from the perspective of the collected – confidential – data, no uniform trend can be observed, and the differences seem to be ad random in terms of direction – positive or negative – and extent during the years.

It was expected that there would be a pattern observable between the business transaction alternative and the extent of the difference. Where according to literature strategical buyers will pay a higher price – due to synergy effects – will MBI-candidates pay less according to literature. This trend has not been found in the cases. Furthermore, it was expected that in cases of health problems – as the reason for transfer – the difference would be relatively big negative, but this connection has not been found.

From the interviews can be concluded that in the majority of the cases the difference between the forecasted returns and the actual realized returns – between valuation and transfer – is in most of the cases one of the biggest causes of the difference between value and price. As mentioned before, the value of a firm is per definition subjective and depends on several factors. Because these factors all have an influence in the creation of value, it is hard to judge and estimate the effect of the factors individually. Key in difference between value and price are estimations and assumptions regarding to the forecasts and discount rate and cannot – or to a limited extend – be explained by individual factors. Furthermore, the transaction price is the result of negotiations. The outcome of the negotiations has a direct influence on the difference between value and price. The price of value: dependent on different subjective factors.

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