Valuation and Transaction Price

Factors influencing the difference between valuation and transaction price of acquisitions in the Dutch SME market

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ABSTRACT

This research examines the factors that influence the difference between company valuation and transaction price of acquisitions in the Dutch SME market. To gather insights, I interviewed fifteen merger and acquisition advisors who advise on acquisitions in the Dutch SME market. I presented the interviewees with a list of factors that previous research indicated affect the difference between valuation and transaction price of acquisitions. I asked them to assess the relevance of these factors in the Dutch SME context. Furthermore, the interviewees indicated whether each factor could result in the acquiring company paying a premium, a discount, both a premium or discount or if the factor was deemed not applicable within the market context. The research found that factors such as the presence of competing bidders, valuation assumptions, operational synergies, and factors related to the bargaining strengths of the seller and acquirer significantly influence the difference between valuation and transaction price of acquisitions in the Dutch SME market. The study also revealed that factors like competing bidders, bargaining strengths, and operational synergies are associated with a higher likelihood of the acquiring company paying a premium. In contrast, factors like conflict between shareholders and the desire to retire may lead to a discount in the acquisition price. Factors such as valuation method, valuation assumptions, and availability for financing showed mixed indications, suggesting that their impact on the difference between valuation and transaction price of acquisitions in the Dutch SME market can vary depending on specific circumstances.

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1. INTRODUCTION

On March 19, 2023, UBS Group AG, a Swiss investment bank, announced an all-stock deal to acquire Credit Suisse for CHF 3 billion, brokered by the Swiss government and the Swiss Financial Market Supervisory Authority. To support the takeover, the Swiss National Bank provided UBS with more than CHF 100 billion in liquidity. At the same time, the Swiss government offered a guarantee to cover losses of up to CHF 9 billion over the short term. Furthermore, CHF 16 billion of Additional Tier 1 bonds were written down to zero (Ashley Capoot, Katrina Bishop, 2023). Initially, UBS offered CHF 927 million to Credit Suisse, which was deemed too low by Credit Suisse. UBS increased the final offer to CHF 3 billion, which led to Credit Suisse shareholders receiving one UBS share for every 22,48 Credit Suisse shares held. The deal comes at a significant discount compared to Credit Suisse's market capitalization just two days before, with UBS paying the equivalent of CHF 0,76 per share, less than half of Credit Suisse's CHF 1,86 share price when markets closed on the Friday before the deal was announced (Marisa Dellato, 2023).

Credit Suisse was acquired at a significant discount due to its financial and reputational challenges, including significant losses from the Archegos and Greensill Capital scandals, resulting in a decreased market value. UBS made an all-stock offer reflecting these risks, resulting in a discount compared to the bank's previous market capitalization. In conclusion, market capitalization, e.g., the company's public valuation, significantly differed from the acquisition price due to the risk associated.

Besides the risk associated with an acquisition, other factors influence acquisitions' valuation and sale prices. Contradicting UBS's recent example of the takeover of Credit Suisse, Robert G. et al (1999) suggest that "*the purchase price of an acquisition will nearly always be higher than the intrinsic value of the target company*." The purchase price of an acquisition lies somewhere between the market value of the target and the market value of the target plus the synergy value to acquirer shareholders.

Other studies show that advisors add value to mergers and influence acquisition prices. Hunter and Walker (1990) find that merger gains relate positively to investment banking fees and other proxies for investment banker efforts. Investment banking fee structures often consist of a fixed fee and a success fee, "*which is a commission paid to an advisor for completing the transaction. In a merger and acquisition process, a success fee is typically a percentage of the deal value or the enterprise value of the business being acquired or sold*" (CFI, 2022). This fee structure incentivizes the advisor to get the best possible deal and thus potentially influencing acquisition prices.

A study published in the Journal of Financial Economics by Micah S. Officer (2006) argues that liquidity influences the sales prices of acquisitions. He states that *"sale prices for unlisted targets are affected by both the need for and availability of the liquidity provided by the buyer."* In addition, Micah S. Officer states that "acquisition discounts are significantly greater when debt capital is relatively more expensive to obtain." When looking at the effects of liquidity on the sale prices of companies in the Dutch market, and in this case, the Dutch SME market, the latest edition of the Brookz Overname Barometer (2023) suggests that ascending interest rates negatively affect the availability of financing available to acquirers and as a result the sale prices of enterprises. In fact, in the second half of 2022, the number of transactions in the Dutch market declined by 6% and the average sale price by 3,1%.

In practice, M&A advisors try to involve as many factors as possible when performing company valuations to make them as accurate as possible and to provide prospective buyers with an idea of how much they should pay for an asset or company and, for prospective sellers, for how much they should sell. However, the experience of mergers and acquisitions professionals tells that valuation and transaction price can differ significantly. On the one hand, companies receive too high of a valuation compared to the actual transaction price. While on the other hand, companies receive too low of a valuation compared to the actual transaction price.

Therefore, this research aims to explore the factors that influence the difference between valuation and transaction price of acquisitions in the Dutch SME market.

The following research question is formulated to reach this objective:

"What factors influence the difference between valuation and transaction price of acquisitions in the Dutch SME market?

The academic relevance of this research lies in its contribution to understanding the factors that influence the difference between valuation and transaction price in the context of acquisitions within the Dutch SME market. By conducting interviews with merger and acquisition advisors, the study provides insights into the specific factors that are considered relevant and influential within this market. This research expands upon previous studies by focusing on the Dutch SME market specifical, offering a more targeted and contextualized analysis.

This research carries significant implications for various stakeholders involved in the acquisition transactions within the Dutch SME market. The identified factors provide valuable guidance to both acquiring companies and sellers in understanding the dynamics that contribute to the difference between valuation and transaction price of acquisitions. By recognizing the impact of these factors, acquiring companies can make more informed decisions regarding their bids or negotiations. At the same time, sellers can leverage this understanding to negotiate a favorable transaction price. Additionally, this research emphasizes the importance of careful consideration and adaptability in navigating the difference between valuation and transaction price of acquisitions in the Dutch SME market, underscoring the need for a nuanced understanding of various factors during acquisition transactions.

2. LITERATURE REVIEW

A literature review on relevant topics is needed to develop a research methodology for answering the above-formulated research question. This literature review will cover theories on the Dutch SME market, company valuation, acquisitions, and, ultimately, state factors that influence the difference between valuation and transaction price of acquisitions.

2.1 SME Market

This research uses the definition of an SME according to the definition provided by the Dutch Chamber of Commerce (2023). In the Netherlands, enterprises fall under a specific business category if the financial statements meet at least two of the requirements below for two successive years:

Table 1. Business Categories in the Netherlands

	Assets	Net Turnover	Number of Employees
Micro	< € 350.000	< € 700.000	< 10 persons
Small	€ 350.000 - € 6 million	€ 700.000 - € 12 million	10 - 50 persons
Medium	€ 6 - € 20 million	€ 12 - € 40 million	50 - 250 persons
Large	> € 20 million	> € 40 million	< 250 persons

Businesses which fall under the header SME - small and medium-sized enterprises - are microbusinesses, small and medium-sized businesses. When looking at the table above, one can conclude that companies fall under the header SME when they meet the following conditions: (1) a business has less than 250 employees, (2) a business has a net turnover of less than € 40 million and/or (3) a business has a balance sheet total of less than € 20 million. According to the Dutch Chamber of Commerce (2023), as of January 1, 2023, there were 2.325.141 active enterprises in the Netherlands, of which 449.850 fall under the header SME.

2.2 Company Valuation

A valuation procedure involves determining the theoretically appropriate value of an investment, company, or asset instead of its cost or current market value. Merger and acquisition advisors frequently perform valuations in mergers and acquisitions, strategic planning, capital financing, and securities investment purposes. In the case of mergers and acquisitions, advisors use valuation to provide acquiring firms with an indication of the highest price they should pay for a target company and selling firms with an indication of the lowest price at which they should sell their company.

2.2.1 Valuation Methods

One can utilize three different approaches to determine the value of a business or asset. The first is the asset approach, which determines the fair market value of each asset, considering factors such as cost to build or cost to replace. This method is particularly useful in valuing real estate, including commercial property, new constructions, and special-use properties. The second approach is the income approach, which "*is a general way of determining the value of a business by converting anticipated economic benefits into a present single amount*" (Mercer Capital, 2021). This approach is highly detailed and comprehensive in its valuation modeling. The last approach is the market approach, a type of relative valuation widely used in the finance industry. It includes the methods of comparable company analysis and precedent transaction analysis. When valuing a company as a going concern, there are three primary valuation techniques: a Discounted Cash Flow (DCF) analysis, a comparable company analysis, and the precedent transaction analysis.

Although practitioners most commonly use these three valuation methods in general, practice shows that the valuation methods used for the valuation of companies in the Dutch SME market are somewhat different. The comparable company analysis "*looks at ratios of similar public companies and uses them to derive the value of another business"* (Vipond, 2023). Since almost all Dutch SME companies are private, and if they are listed on a special occasion, there are to view comparable companies to compare the company in question to. That is why the comparable company analysis is less relevant in the context of this research. However, the comparable transaction method, the second relative valuation method, is commonly used in valuing companies in the Dutch SME market. Furthermore, the DCF method and a variant of the DCF analysis, the adjusted present value, or the APV method, are also regularly used. The three valuation methods, the precedent transaction analysis method, discounted cash flow method, and the adjusted present value method, are elaborated on in the following paragraphs.

2.2.1.1 Precedent Transaction Analysis Method

The precedent transaction analysis uses prior merger and acquisition deals to valuate comparable businesses today. This method uses the financial information of similar companies that have recently undergone mergers or acquisitions to estimate the expected value of the company under evaluation.

Mergers and acquisitions advisors typically look for comparable companies in size, industry, and other relevant factors to perform a precedent transaction analysis. They then determine a range of valuation multiples, which "*are financial measurement tools that evaluate one financial metric as a ratio of another, to make different companies more comparable"* (Vipond, Tim, 2023). When assessing a merger or an acquisition, enterprise value multiples are preferable since they eliminate the effect of debt financing. The most extensively used enterprise value multiples for precedent transaction analysis are Enterprise Value (EV) / Earnings Before Interest Tax Depreciation Amortization (EBITDA) and Enterprise Value (EV) / Revenue. The last step is applying the valuation multiples to the discussed company. After determining a range of valuation multiples from previous transactions, one can utilize these valuation multiples on the ratios of the financial metrics of the discussed company. For instance, if the valuation range were: 4.0x EV/EBITDA (low) to 6.0x EV/EBITDA (high), and the company in question has an EBITDA of € 10 million, the valuation for the business would be: € 40 million (low) - € 60 million (high).

2.2.1.2 Discounted Cash Flow Method

The discounted cash flow method (DCF) determines a business's or security's value. It represents the value an investor would be willing to pay for an investment, given a required rate of return on their investment. The DCF is an income approach that attempts to determine the value of an investment today based on projections of how much money it will generate.

Discounted Cash Flow Formula:

$$PV = \sum_{t=1}^{\infty} \frac{CF_t}{(1+r)^t}$$

Where:

PV = present value

CF_t *= cash flow in period t*

r = discount rate

t = life of the asset, which is valued

One can measure the cash flow in period t as Free Cash Flow, which refers to the cash flow a company generates (taxes excluded) by considering non-cash expenses, fluctuations in working capital, and capital expenditures. One can measure Free Cash Flow as Free Cash Flow to Equity (FCFE), which refers to levered cash flow, and Free Cash Flow to Firm (FCFF), also known as unlevered cash flow. FCFE represents the cash available to equity investors after settling interest payments to debt holders, adjusting for net debt issued, and capital expenditures. FCFF is utilized in a DCF analysis to compute the enterprise value, serving as a hypothetical amount to estimate the enterprise value if debt is absent.

FCFE = Net Income + D&A – CAPEX + Δ *Net WC – Net Debt Issued*

FCFF = NOPAT + D&A – CAPEX - Δ *Net WC*

Where:

NOPAT = net operating profit after tax

D&A = depreciation and amortization

CAPEX = capital expenditures

Δ *Net WC = changes in net working capital*

Forecasting a business's cash flow for its entire lifespan is not feasible. As a result, cash flows are typically predicted for a limited period of 5-7 years and extended using a Terminal Value for the remaining period. The Terminal Value estimates the value of the business beyond the forecasted cash flow period. One can compute the terminal value using the perpetual growth rate or exit multiple approaches.

The perpetual growth rate method calculates the terminal value as follows:

$$TV_n = \frac{CF_n\,(1+g)}{(r-g)}$$

Where:

TV_n = *terminal value at the end of a specified period*

CF_n = *cash flow for the last specified period*

g = growth rate

r = discount rate

The exit multiple methods estimate the terminal value by employing a multiplier, obtained by calculating the multiple of EV/EBITDA or EV/Sales.

The discount rate refers to the rate of return applied to discount the value of future cash flows to their present value. This rate is often a company's Weighted Average Cost of Capital (WACC). As shown below, the WACC formula is:

*WACC = (E/V) * Re) + ((D/V * Rd) * (1-T))*

Where:

E = market value of the firm's equity

D = market value of the firm's debt

V = total value of capital

Re = cost of equity

Rd = cost of debt

T = tax rate

One can calculate the cost of equity using the Capital Asset Pricing Model (CAPM), which equates rates of return to volatility. Below is the formula for cost of equity:

Re = Rf + β (Rm – Rf)*

Where:

Rf = the risk-free rate (typically the 10-year Treasury bond yield of a given geographical location)

β = equity beta (levered)

Rm = annual return of the market

The cost of debt is the effective interest rate a company pays on its debts. Since interest payments are tax-deductible, the cost of debt needs to be multiplied by (1 – tax rate), which refers to the value of the tax shield.

2.2.1.3 Adjusted Present Value Method

In addition to using the DCF method with the WACC as discount rate, merger, and acquisition advisors often employ the adjusted present value method (APV) when valuing companies in the SME market (Factor & Ros, 2023). The adjusted present value method is a variant of the discounted cash flow method. The adjusted present value method states that the value of a company equals the value of its operations plus the value of all financial side effects. The value of a company today is determined by the value of free cash flows of the operations, discounted at the cost of equity as if the company was financed entirely by equity (Ke). Afterward, the valuation process involves making a detailed estimate of the value of all financial side effects. The tax benefit on paid interest costs, or tax shield, arises from the deductibility of interest on debt. To obtain the value of these financial side effects, one discounts the cash flows associated with them against the required rate of return on equity (Ke).

Thus, the essence is that the APV variant explicitly states the value of these financial side effects by separately displaying them in the cash flow projections, discounting them correctly, and adding them to the value of operations. The standard DCF method, which uses the WACC as the discount rate, often works with one cash flow and one cost of capital. The WACC assumes a fixed capital structure, which is rarely the case in an SME context.

The APV formula is:

$$PV = \sum_{t=1}^{\infty} \frac{FCFF_t}{(1+Ke)^t} + \sum_{t=1}^{\infty} \frac{FCD_t}{(1+Rd)^t}$$

Where:

PV = The present value of the enterprise

t = The life of the asset, which is valued

$FCFF_t$ = *the free cash flow to a firm in period t*

Ke = the cost of equity as if the company was financed entirely by equity

FCD_t = *the cash flow debt in period t*

Rd = cost of debt

As stated earlier, there are other options than forecasting a business's cash flow for its entire lifespan. As a result, cash flows are typically predicted for a limited period of 5-7 years and extended using a Terminal Value for the remaining period. The perpetual growth rate method calculates the terminal value in the APV method as follows:

$$TV_n = \frac{FCFF_n\,(1+g)}{(Ke-g)}$$

Where:

TV_n = *terminal value at the end of a specified period*

$FCFF_n$ = *the free cash flow to the firm for the last specified period*

g = growth rate

Ke = cost of equity as if the company was financed entirely by equity

The cost of equity as if the company was financed entirely by equity (*Ke*) is calculated by using, similarly to calculating cost of equity in the WACC formula, the CAPM model. However, since it is difficult for equity investors to hold a sufficiently diversified portfolio that eliminates specific or non-systematic risk when investing in non-listed companies, an additional firm premium (AFP) is often added to compensate for this specific risk. When determining the additional firm premium, one compares the object to a listed company and quantifies additional risk. Business-specific risk can, for example, consist of the dependency on customers, suppliers, and management, the diversification of activities, and barriers to entry into the market. Most of the time, an additional illiquidity premium is added to the additional firm premium since shares of private companies are limited tradable. Below is the formula for *Ke* (required rate of return on equity):

Ke = Rf + β (Rm – Rf) + AFP*

Where:

Rf = the risk-free rate (typically the 10-year Treasury bond yield of a given geographical location)

β = equity beta (levered)

Rm = annual return of the market

AFP = additional firm premium

2.2.2 *Valuation Drivers*

The previous subsection examined three different valuation methods: the precedent transaction analysis method, the discounted cash flow method, and the adjusted present value method. The latter two methods use a formula to calculate a company's enterprise or equity value. By breaking down these formulas, one can determine which variables drive the valuation of a company. For simplicity, I choose to break down the standard DCF formula, which is as follows:

$$PV = \sum_{t=1}^{\infty} \frac{CF_t}{(1+r)^t}$$

As one can see, the present value of the enterprise (*PV*) is dependent on CF_t (which is measured by free cash flow) and the discount rate (*r*) (in the case of SMEs, one often refers to it as *Ke*, or the cost of equity when one assumes that the company finances itself entirely through equity). Although the asset's lifetime (*t*) influences the present value of the enterprise, it is a constant that cannot be changed or influenced and, thus, not considered when looking at influenceable variables. Since the terminal value (*TV*) represents a large part of cash flows and is dependent on CF_t, *r*, and the growth rate (g), the growth rate is also considered a variable on which the enterprise value is dependent. Enterprise value will increase when CF_t and *g* increase and when *r* decreases. In short, the drivers for valuation are free cash flow, discount rate, and growth rate.

2.3 Acquisitions

Mergers and acquisitions, often abbreviated as M&A, refer to the consolidation of businesses or assets through various financial transactions, such as mergers, acquisitions, consolidations, tender offers, purchase of assets, and management acquisitions (Adam Hayes, 2023). In this research, I prioritize acquisitions over mergers as they occur more frequently in the Dutch SME market, and I consider them the most relevant to investigate.

In this research, I define "acquisition" as a business transaction in which a larger company acquires a smaller company. Sometimes, however, a smaller company with sufficient capital can acquire a larger company. Companies typically transfer 100 percent of the shares in an acquisition, whereas, in a partial acquisition, they transfer a smaller percentage of the shares (Mulder, W. W, 2023). An acquisition can be friendly or hostile and is often referred to as a friendly or hostile takeover, respectively. "*A friendly takeover is the acquisition of a target company by an acquirer/bidder with the consent or approval of the management and board of directors of the target company*." On the other hand, "*a hostile takeover is the acquisition of a target company by another company by going directly to the target company's shareholders, either by making a tender offer or through a proxy vote*" (CFI Team, 2022). A hostile takeover differs from a friendly takeover in that the target company's board of directors does not consent to the deal.

2.3.1 *Types of Acquisitions*

According to A.K. Srivastav (2023), one can categorize acquisitions into four types: horizontal, vertical, congeneric, and conglomerate. A horizontal acquisition occurs when a business acquires another firm operating in the same industry and production level. This kind of acquisition creates a combined entity that can enjoy a more favorable competitive position than the individual companies that merged, as it can benefit from increased market share and economies of scale (Will Kenton, 2021).

Vertical acquisitions involve a company acquiring one of its suppliers, often called forward or backward integration. To illustrate, if a manufacturing business procures a partially developed product and proceeds to complete it before selling it, purchasing its supplier would constitute a vertical acquisition. This approach can yield various advantages, mainly if the acquiring company is concerned that the supplier may increase its price (Nate Nead, 2023).

A congeneric acquisition refers to an acquisition of a company that operates in a similar or related industry or market but offers different products than the acquiring company. The two companies may share comparable distribution channels in such an acquisition, resulting in synergies. Additionally, the acquiring and target company may have overlapping technology or production systems, facilitating the integration of the two companies. The acquiring company may perceive the target as a chance to broaden its product line or expand its market share (Will Kenton, 2021).

Finally, a conglomerate acquisition refers to a situation in which the acquiring company and the target company operate in different industries or engage in activities that are not related to each other. For instance, a real estate firm may acquire an insurance company. One of the primary reasons for pursuing a conglomerate acquisition is diversification (Sandra Feldman, 2022).

2.3.2 *Motives for Acquisitions*

The previous paragraph already mentioned some motives for acquisitions. Prof. Ian Giddy (2009) states, "*The dominant rationale used to explain M&A activity is that acquiring firms seek improved financial performance*." This increase in financial performance often arises from synergy, *"which is the potential additional value from combining two firms"* (Aswath Damodaran, 2012). Damodaran makes a classification between operating synergy and financial synergy.

Operating synergies enable companies to enhance their operational earnings, foster growth, or achieve both simultaneously. One can classify these operating synergies into four distinct types:

1. Economies of scale can arise from an acquisition, enabling the combined entity to operate more efficiently and profitably by reducing costs.
2. Greater pricing power resulting from the decrease in competition and increased market share. This should lead to improved profit margins and operating income.
3. Combination of different functional strengths, such as when a company with exceptional marketing expertise acquires another with a strong product line.
4. Higher growth in new or existing markets by leveraging the strength of both merging firms. For instance, a U.S.-based consumer product company acquiring an emerging market firm with an established distribution network and brand recognition can utilize these advantages to boost sales of its products.

These operating synergies can significantly impact profit margins, growth rates, and, consequently, the overall value of the merging or acquiring companies.

Financial synergies can manifest in two forms: increased cash flows or a reduced cost of capital (discount rate). They include the following:

1. Combining a cash-rich firm with limited investment opportunities and a company with high-return projects can

increase the merged entity's value. This value enhancement arises from pursuing projects that utilize excess cash that otherwise would not have been undertaken. Such synergies occur more frequently when large companies acquire smaller ones or publicly traded firms acquire privately held businesses.
2. The debt capacity of the combined firm may increase as the merged entities' earnings and cash flows become more stable and predictable. This expanded borrowing capacity provides a tax advantage to the combined firm through higher cash flows or a lower cost of capital.
3. Tax benefits can arise from the acquisition capitalizing on tac laws utilizing net operating losses to offset income. For example, a profitable firm acquiring a company with losses can reduce its tax burden by utilizing the latter's net operating losses. Additionally, a company can increase its depreciation charges post-acquisition, realize tax savings and augment its overall value.

Undoubtedly, numerous acquisitions hold the potential for synergies. The key concerns revolve around evaluating the value of these synergies and determining the appropriate valuation method. Numerous studies have shown that these synergies could lead to acquiring companies paying a premium for the target company (Walkling, R., & Edminster, R., 1985), (Gondhalekar, V., & Sant, R., & Ferris, S., 2004); (Laamanen, T., 2007).

Besides motives for an improvement of financial performance, two other relevant motives for a merger or an acquisition that might not improve shareholder value are:

1. Manager hubris, which is the unrealistic belief of managers of the acquiring firm that they can manage the assets of the target firm in a more efficient manner than the current management. Moreover, one can link manager hubris to overconfidence on the part of the manager regarding anticipated synergies from mergers and acquisitions. A study by M. Hayward and D. Hambrick (1997), which examined a sample of 106 large acquisitions, found that four indicators of CEO hubris, or manager hubris, are highly associated with the size of premiums paid.
2. Empire-building, which is "*the act of attempting to increase the size and scope of an individual or organization's power and influence"* (Hayes, 2022). Empire building may lead to acquisitions or other decisions that do not ultimately benefit shareholders, increase the corporation's financial health, or bolster the company's long-term viability. Bargeron et al. (2008) argue that managers of strategic players are willing to overpay for a target and have an empire-building mentality.

Next to motives for companies acquiring a firm, sellers have various motives for selling their firm too. According to research by Brookz (2023), these are the five most prominent motives for selling a company in the Dutch SME market: (1) the desire to cash; (2) the desire to retire; (3) the absence of a suitable successor; (4) the want for a new challenge; (5) a conflict between shareholders. A combination of the aforementioned motives often prompts an entrepreneur to sell their business. Could these motives for selling a business be an underlying factor in explaining the difference between valuation and transaction price of acquisitions? Could certain motives to sell, in general, lead to the willingness to accept a discount on the sale of a company? Or could it lead to the willingness to, no matter what, receive a premium on the sale of the company?

2.3.3 Pricing of Acquisitions

When companies engage in mergers and acquisitions, the price they pay for the target company is critical in determining the transaction's success. Mergers and acquisitions advisors often refer to the price paid for the acquisition as the acquisition price, which reflects the value the acquirer assigns to the target company. When the acquisition price exceeds the valuation of the target company, the acquirer pays an acquisition premium. Acquirers may pay a premium for various reasons, such as gaining access to new markets or technologies. When the acquisition price is lower than the valuation of the target company, the acquirer pays an acquisition discount. For publicly listed companies, one can calculate the acquisition premium/discount as follows:

Acquisition Premium/Discount = (DP – SP) / SP

Where:

DP = Deal Price per share of the target company

SP = Current Price per share of the target company

In the context of this research, we are not interested in acquisition premiums and acquisitions discount paid for publicly listed companies but in acquisition premiums and acquisition discounts paid for Dutch SME companies. To align with the context of this research, one can express the formula mentioned above as follows:

Acquisition Premium/Discount = (Consideration – Target's Stand-alone Value) / Target's Stand-alone Value

Where:

Consideration = gross purchase price, including subordinated loans, earn-out arrangements, etcetera.

Target's Stand-alone Value: "Stand-alone value is the value of a company in its present condition. This includes the assets owned, personnel, business relationships, and other variables" (divestopedia, 2023).

Figure 1: Acquisition Premium and Acquisition Discount (CFI Team, 2023)

There are several reasons why a company may choose to pay an acquisition premium or discount. Earlier in this research, the literature has shown that factors such as investment banking fees and other proxies for investment banking efforts, the need and availability for financing, expected synergies, manager's hubris, and empire-building can potentially lead to acquiring firms paying a premium or discount for the target company. Besides these factors, the literature clearly states that many more variables influence the price the acquiring company pays for the target company. One of them is the managerial effectiveness of the target company's management team. The managerial effectiveness of the target company's management team can play a role in justifying a premium. If the current management team is ineffective, a new management team may be able to create more excellent value for the acquiring company. This could justify paying a premium to acquire the target company. Furthermore,*" managements that hold larger proportions of* *their firm's shares offer smaller premia*" (Alexander R. et al., 1991). Would the latter indicate that managements with smaller proportions, if any of their firm's shares, offer bigger premia?

Furthermore, B. Gondelhalekar et al. (2004), in their study on cash-only acquisitions of Nasdaq targets during the period 1973-1999, found that over-invested firms pursue acquisitions more aggressively by paying premia while under-invested firms pay less, on average. Companies with a surplus of free cash flows often allocate excessive amounts of capital towards investments, resulting in higher premiums for their acquisitions. Conversely, companies facing constraints in free cash flows, yet boasting a significant array of lucrative internal projects, tend to pay less. These companies can generate internally positive net present value projects, allowing them to pay less for external growth opportunities.

As mentioned in the Introduction, the liquidity provided by the buyer influences the sales prices of acquisitions. "*Sale prices for unlisted targets are affected by both the need for and availability of the liquidity provided by the buyer*" (Officer, 2006). Furthermore, Micah S. Officer states that "*acquisition discounts are significantly greater when debt capital is relatively more expensive to obtain*." Could the opposite be true? Are acquisitions premiums significantly greater when debt capital is relatively inexpensive to obtain? The pecking order theory, however, suggests that the financing hierarchy of SMEs typically begins with cash, then equity, and debt. When the acquiring company chooses to pay with cash, the transaction price may be lower, as this method offers immediate payment to the seller, thereby reducing the risk of receiving lower or no payment. (Martynova, M. & Renneboog, L.D.R., 2006).

According to a study conducted by Alexandridis, G. & Fuller, K.P. (2013), both academic researchers, findings indicate that the likelihood of a premium decreases as the company's size increases. In other words, a notable negative correlation exists between the M&A premium and the size of the target companies. This phenomenon arises because larger companies generally provide more information in the public market than smaller companies, reducing the information asymmetry between the parties involved in the merger & acquisition transaction. In examining acquisitions involving emerging market firms, a study by Zhu, P. and Jog, V.M. (2009) revealed a robust positive correlation between information asymmetry and acquisition premiums. Additionally, the study confirms that in situations characterized by elevated levels of information asymmetry, acquiring firms tend to employ lower cash payments (opting for higher stock payments) and exhibit a higher propensity to acquire majority control in the target companies.

In a study investigating the determinants of premiums in acquisition transactions, Varaiya (1987) observed that the projected premiums are anticipated to have a positive correlation with the two factors: (1) the relative bargaining power of the seller and (2) the buyer's pre-acquisition estimation of the potential acquisition gains. The empirical findings strongly validate the anticipated impacts of the seller's bargaining power determinants. The level of competition in the acquisition market and the presence of anti-takeover amendments in the seller's corporate charter significantly bolster the seller's negotiating position in relation to the buyer.

Finally, when there are multiple bidders for a firm, the target firm's shareholders will probably be favored. A study by Bradley, M., Desai, A. and Kim, E.H. (1982) examined a substantial sample of 236 tender offers from 1963 to 1984. The researchers found that when multiple bidders are involved in a takeover, the targeted companies gain the primary advantages of synergy. According to their findings, the successful bidder experienced a market-adjusted stock return of 2% in takeovers where only one bidder was involved. In contrast, the researchers estimated the market-adjusted stock return at -1,33% in contested takeovers with multiple bidders.

2.4 Factors that Influence the Difference Between Valuation and Transaction Price of Acquisitions

In the previous chapter, I mentioned several variables that could explain why acquiring companies pay a premium or discount for a target company. Besides these variables, I posed some questions to explore whether a particular factor could account for acquiring firms paying a premium or discount for a target company. These questions concern the valuation method used, the valuation assumptions, the four different types of acquisition, and the five motives for an entrepreneur to sell their company. Based on these findings, an overview of variables that influence or might influence the difference between valuation and transaction price can be made (see Table 2).

Table 2: Factors that Could Influence the difference between valuation and transaction price of acquisitions

#	Factor
1.	Valuation Method
2.	Valuation Assumptions
3.	Horizontal Acquisition
4.	Vertical Acquisition
5.	Congeneric Acquisition
6.	Conglomerate Acquisition
7.	Financial Synergies
8.	Operational Synergies
9.	Manager Hubris
10.	Empire Building
11.	Desire to Cash
12.	Desire to Retire
13.	Absence of a Successor
14.	Need for a New Challenge
15.	Conflict Between Shareholders
16.	Investment Banking Success Fee
17.	Bargaining Strengths Seller
18.	Bargaining Strengths Acquirer
19.	Presence of Competing Bidders
20.	Liquidity Provided by the Acquirer
21.	Over-invested Firms
22.	Cash Up Front
23.	Size of the Enterprise
24.	Managerial Effectiveness
25.	Information Asymmetry
26.	Amount of Shares Held by Management

As the literature primarily focuses on publicly listed companies and large corporate firms, one cannot assert that the abovementioned factors explain the difference between valuation and transaction price in the Dutch SME market. Therefore, I developed a research methodology to bridge the gap between publicly listed companies and large corporations, and the Dutch SME market. I will discuss this methodology in the next chapter.

3. DATA & METHODOLOGY

In numerous studies, researchers have examined the difference between valuation and transaction price of acquisitions. Most of these studies share a common approach of gathering data from publicly listed companies, as their data is widely accessible. When one wants to understand the causes for the difference between valuation and transaction price of acquisitions in a privately held dominant market, this data is not widely accessible. A lack of information makes research on privately held companies more difficult. This research explores factors that influence the difference between valuation and transaction price of acquisitions in the privately held dominant Dutch SME market.

3.1 Data

3.1.1 Secondary data

This research uses secondary data collected by someone other than the researcher. The selection of secondary data consisted primarily of scientific articles but also corporate sources in mergers and acquisitions and corporate finance in general. Additionally, I gathered data from mergers and acquisitions advisors at the company Factor & Ros.

3.1.2 Primary data

Next to secondary data, a great emphasis in this research lies on primary data. In contrast to secondary data, primary data refers to data directly from sources for a specific research purpose. One can collect primary data via various methods such as surveys, questionnaires, interviews, observations, and experiments. I collected the primary data for this research through semi-structured interviews. Semi-structured interviews combine elements from both structured and unstructured interview formats. Semi-structured interviews frequently have open-ended questions, which allow for flexibility. Asking questions in a specific order makes it easy to compare responses, but it can also impose limitations on the research. Less structure can nevertheless allow for comparison between responders while facilitating the identification of trends (George, 2022). The selection of interviewees consisted of 15 mergers and acquisitions advisors from eight different companies specialized in advising acquisitions in the Dutch SME market.

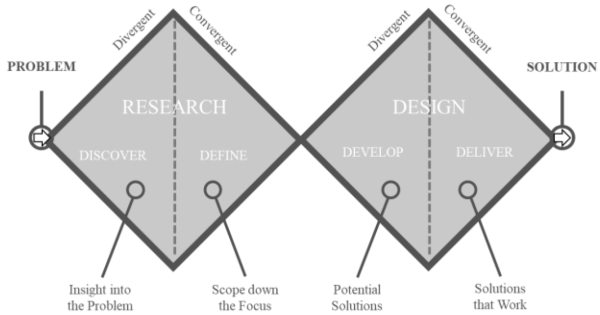
3.2 Methodology

3.2.1 Research method

I used a design-oriented research method to reach the objective of this research and ultimately answer the research question: *"What factors influence the difference between valuation and transaction price of acquisitions in the Dutch SME market?"*. Design-oriented research is an innovative research approach that focuses on developing innovative solutions to complex problems in a specific context or domain. It involves collaboration between researchers, practitioners, and stakeholders to identify needs, design and develop interventions and evaluate their effectiveness. It is about creative customization in which the user or recipient of information lies central. Design-oriented research aims to generate new knowledge and develop solutions to implement in real-world settings.

The use of design-oriented research adds value in addressing complex issues regarding questions. New insights and meaningful research can be generated by working iteratively, tangibly, and human-centered. A commonly used approach in design-oriented research is the double-diamond method. The British Desing Council made this approach famous in 2005, and it is grounded in the divergence-convergence model put forth by Hungarian American linguist Béla H. Bánáthy in 1996. The two diamonds symbolize first engaging in more extensive or in-depth analysis, divergent thinking, followed by targeted action, convergent thinking. It implies that there should be four stages to the design process: discover, define, develop, and deliver (see Figure 2).

Figure 2: The Double Diamond Method



- The Discover stage represents the initial step in the problem-solving process. This phase aims to identify and contextualize the actual problem or opportunity. In this phase, the primary objective is to understand the problem or challenge that requires attention comprehensively.
- During the Define stage, the goal is to use the insights gained from the Discover stage to define the problem statement and identify the key challenges and opportunities. The Define stage acts as a filter for the ideas and data from stage one.
- In the Develop stage, the goal is to generate a wide range of ideas and solutions to the problem identified and defined in the previous stages. In the Develop stage, the ideation and prototyping happen. One explores, tests, and refines various options, ultimately selecting the best one to proceed to the Deliver stage.
- During the Deliver stage, the goal is to develop and implement a solution that addresses the problem statement defined in the previous stages. The Deliver stage involves creating a detailed plan for implementation, testing, refining the solution, and ultimately delivering it to the intended user or stakeholder.

In this research, the Discover stage's primary goal is to gain a deep understanding of the difference between valuation and transaction price of acquisitions by conducting a literature review on the topics such as the Dutch SME market, company valuation, and acquisitions. As shown in Figure 1, the Discover stage is about developing insights into the problem and is divergent.

The next stage in the research phase of the double diamond model is the Define stage. The Define stage serves as a filter to identify and select various factors that influence the difference between valuation and transaction price of acquisitions for further examination in the next stage. It involves narrowing down the focus based on findings from the literature, making it a convergent process.

The following two stages in the double diamond method focus more on the design of the solution. The first stage in the design phase is the Develop stage. In the Develop stage, identified and selected factors that influence the difference between valuation and transaction price are presented to 15 mergers and acquisition advisors active in the Dutch SME market. As mentioned earlier, I will present the selected factors through semi-constructed interviews. As a result of this semi-constructed interview, the research defines a wide range of ideas and solutions that could explain the difference between valuation and transaction price. In the Develop stage, I assess and arrange the factors that influence the difference between valuation and transaction price of acquisitions based on the average score assigned by the interviewed mergers and acquisitions advisors.

In the final stage of the double diamond model, the Deliver stage, the potential explanations from the development stage converge into the final solution. This solution will be presented as a brief report, mentioning the most relevant factors that influence the difference between valuation and transaction price of acquisitions in the Dutch SME market.

3.2.2 *Sampling*

A purposive sampling technique was employed to understand the factors contributing to the difference between valuation and transaction price of acquisitions within the Dutch SME market. The sample consisted of 15 mergers and acquisition advisors with specialized expertise advising acquisitions, specifically within the Dutch SME market.

Purposive sampling, a non-probability sampling method, was chosen as it allowed for deliberate selection based on characteristics deemed relevant to the research objectives. The selection criteria included the advisor's experience and knowledge in mergers and acquisitions within the Dutch SME context.

The advantages of purposive sampling within this research context were manifold. First, by focusing on advisors within the Dutch SME market, the sample was highly targeted and directly aligned with the research objective. This approach ensured the relevance and applicability of the findings to the specific context under investigation. Second, given the specialized expertise required, purposive sampling facilitated a more time and cost-efficient data collection process than probability sampling methods. Additionally, it allowed for the exclusion of individuals who did not meet the specific requirements, thereby enhancing the accuracy and validity of the sample.

Nonetheless, it is crucial to acknowledge the limitations inherent in purposive sampling. Subjectively is an inherent concern, as the selection process relies on the researcher's judgment. However, to mitigate this potential bias, the collaboration with Factor & Ros was established to aid in the sample selection process.

The sample acquisition process involved collaboration with Factor & Ros. Six out of 15 interviewed mergers and acquisitions advisors were employees of Factor & Ros. Additionally, contact details of fellow professionals were provided by Factor & Ros, resulting in the availability of nine other mergers and acquisitions advisors from 8 different companies (see Table 3).

Given the limitations associated with sample size and potential selection bias, it is essential to interpret the findings within the scope of this study. While the sample may not be fully representative, the insights and analysis derived from this purposively selected group of 15 mergers and acquisitions advisors provide valuable contributions to understanding the factors influencing the difference between valuation and acquisition price of acquisitions within the Dutch SME market.

Table 3: The Research Sample

#	Company	Function
1.	Factor & Ros	Consultant
2.	Factor & Ros	Consultant
3.	Factor & Ros	Manager
4.	Factor & Ros	Manager
5.	Factor & Ros	Partner
6.	Factor & Ros	Partner
7.	InCorpe	Partner
8.	InCorpe	Analyst
9.	Westerhof Corporate Finance	Partner
10.	Westerhof Corporate Finance	Partner
11.	KroeseWevers	Partner
12.	Taurus Corporate Finance	Partner
13.	Marktlink	Consultant
14.	Palthe Finance	Partner
15.	Mazars	Associate

3.2.3 *The Interviews*

Researchers widely recognize interviews as a primary data collection technique in qualitative research methodologies. Interviews offer several advantages, including high cooperation and low refusal rates, the ability to conduct long and in-debt conversations, high response quality, and the advantage of interviewer presence. However, interviews also come with certain disadvantages, such as requiring a significant data collection period and the potential concern regarding the interview qualities of the interviewer.

In this research, I employed semi-structured interviews with the participants. Semi-structured interviews typically begin with a few specific questions and then allow for the exploration of the interviewee's thoughts and ideas through probing by the interviewer. An interview protocol was used as a guideline during the interviews, enabling flexibility to pursue tangents and delve into new insights shared by the interviewee. This approach is essential when seeking to understand the meanings attributed by respondents to various phenomena. I recorded the interviews using audio recording devices to enable a comprehensive analysis of the interview data.

The types of questions employed in the interview included open questions, probing questions, specific questions, and closed questions. Open and closed questions were the major types utilized. Open questions were employed in this research to provide respondents with more freedom to express their thoughts, add personal insights, and ensure flexibility in their responses. Closed questions, on the other hand, offer advantages such as more accessible analysis, specificity, comparability, time efficiency, and greater control for the interviewer. The types of closed questions utilized in the interviews consisted of ranking and category questions.

3.2.4 *Analysis*

I evaluated the 26 factors in Table 2 using a 7-point Likert scale, an uneven scale consisting of seven answer options: 1, 2, 3, 4, 5, 6, or 7. A rating of 7 signifies that the factor significantly influences the difference between valuation and transaction price of acquisitions. In contrast, a rating of 1 minimally influences the difference between valuation and transaction price of acquisitions. If a factor was deemed to influence the difference between valuation and transaction price, the interviewees had to determine if this factor would lead to the acquiring company paying a discount or premium for the target company.

After conducting a total of 15 interviews, I analyzed the scores provided by the interviewees and calculated the average. Additionally, the standard deviations of each score provided by the interviewees were analyzed. Furthermore, I performed a frequency analysis to determine whether specific factors would lead to the acquiring company paying a premium or discount for the target company.

3.2.5 Limitations

During any research, it is essential to acknowledge and address potential restrictions and limitations. A significant limitation of this study pertains to the small sample size. Given the expansive and diverse nature of the Small- and Medium-sized Enterprises (SME) sector, obtaining a representative sample requires a large sample size and an efficient and expeditious data collection method. However, this research utilized a small sample of only 15 mergers and acquisitions advisors. Furthermore, the selection process for the merger and acquisition advisors may influence the outcomes. Utilizing in-depth interviews inherently limits the ability to work with a large sample. To yield statistically validated results about the broader population would necessitate an extensive sample, which would be time-consuming given the nature of in-depth interviews. Consequently, it is imperative to acknowledge that this research may not hold significant scientific generalizability. However, one should exercise caution when extrapolating these findings to the general population of mergers and acquisition advisors in the Netherlands.

4. RESULTS

This chapter presents the study's results, which aimed to examine the perceived influence of various factors on the difference between valuation and transaction price of acquisitions in the Dutch SME market. The study interviewed 15 mergers and acquisition advisors who provided valuable insights into the factors influencing company valuations and acquisition deal sizes.

Fifteen interviewees participated in the research and provided ratings for 26 factors that could influence the difference between valuation and transaction price of acquisitions in the Dutch SME market. The interviewees rated these factors on a 7-point Likert scale, with a rating of 7 indicating that the factor significantly influences the difference between valuation and transaction price of acquisitions and a rating of 1 indicating a minimal influence. Table 4 presents the average score of each factor.

In addition to rating the factors, I asked the interviewees if each factor would result in the acquiring company paying a premium, a discount, both a discount or premium, or if it was not applicable (in this case, the interviewees assigned a score of 1 to the factor). Table 5 presents the frequency of responses for each factor.

When one analyses these two tables, one can see that factors such as valuation assumptions, operational synergies, conflict between shareholders, bargaining strengths seller, bargaining strengths acquirer, and presence of competing bidders received scores higher than 4,50 (figure 3). However, factors such as amount of shares held by management, need for a new challenge, empire-building, and conglomerate acquisition received scores lower than 2,50.

Factors like operational synergies, financial synergies, bargaining strengths seller, presence of competing bidders, and over-invested firms, the interviewees assessed to result in the acquiring company paying a premium majority (with majority implicating a frequency of >9) of the times. On the other hand, factors such as the desire to retire, absence of a successor, a conflict between shareholders, bargaining strengths acquirer, and cash upfront were assessed by the interviewees to result in the acquiring company paying a discount majority (with majority implicating a frequency of >9) of the times.

Furthermore, regarding factors such as valuation method and valuation assumptions, the interviewees assessed the factors to result in the possibility of the acquiring company paying both a premium or discount absolute majority (with majority implicating a frequency of >9) of the times.

Table 4: Average Scores of Factors that Influence the Difference Between Company Valuation and Transaction Price

#	Factor	Average Score
1.	Valuation Method	2,57
2.	Valuation Assumptions	5,53
3.	Horizontal Acquisition	3,23
4.	Vertical Acquisition	2,97
5.	Congeneric Acquisition	3,20
6.	Conglomerate Acquisition	2,23
7.	Financial Synergies	2,83
8.	Operational Synergies	5,27
9.	Manager Hubris	2,97
10.	Empire Building	2,30
11.	Desire to Cash	2,60
12.	Desire to Retire	3,17
13.	Absence of a Successor	3,17
14.	Need for a New Challenge	2,07
15.	Conflict Between Shareholders	4,70
16.	Investment Banking Success Fee	3,63
17.	Bargaining Strengths Seller	5,23
18.	Bargaining Strengths Acquirer	4,87
19.	Presence of Competing Bidders	6,00
20.	Liquidity Provided by the Acquirer	3,70
21.	Over-invested Firms	4,20
22.	Cash Up Front	4,20
23.	Size of the Enterprise	2,80
24.	Managerial Effectiveness	2,50
25.	Information Asymmetry	3,37
26.	Amount of Shares Held by Management	1,67

Table 5: Frequency of a Factor Resulting in a Premium (P), Discount (D), Both (P&D), or Not Applicable (N.A.)

#	Factor	P	D	P&D	N.A.
1.	Valuation Method	0	1	11	3
2.	Valuation Assumptions	0	0	14	1
3.	Horizontal Acquisition	7	0	4	4
4.	Vertical Acquisition	8	1	2	4
5.	Congeneric Acquisition	8	0	2	5
6.	Conglomerate Acquisition	3	2	2	8
7.	Financial Synergies	11	0	2	2
8.	Operational Synergies	14	0	1	0
9.	Manager Hubris	9	0	1	5
10.	Empire Building	7	0	1	7
11.	Desire to Cash	4	4	0	7
12.	Desire to Retire	0	10	2	3
13.	Absence of a Successor	2	10	1	2
14.	Need for a New Challenge	1	4	2	8
15.	Conflict Between Shareholders	0	15	0	0
16.	Investment Banking Success Fee	11	0	1	3
17.	Bargaining Strengths Seller	12	0	3	0
18.	Bargaining Strengths Acquirer	12	0	3	0
19.	Presence of Competing Bidders	15	0	0	0
20.	Liquidity Provided by the Acquirer	0	7	7	1
21.	Over-invested Firms	14	0	0	1
22.	Cash Up Front	0	13	1	1
23.	Size of the Enterprise	3	1	4	7
24.	Managerial Effectiveness	7	0	3	5
25.	Information Asymmetry	0	9	2	4
26.	Amount of Shares Held by Management	0	2	3	10

Figure 3: Factors that Influence the Difference Between Valuation and Transaction Price of Acquisitions in the Dutch SME Market.

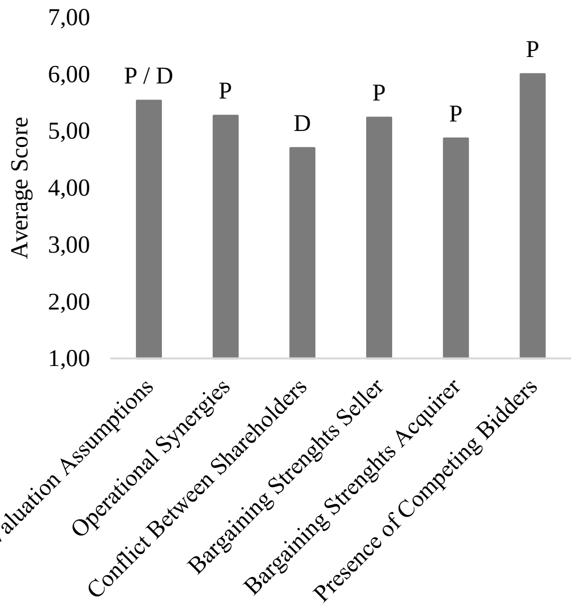


Figure 3 shows the factors that influence the difference between valuation and transaction price of acquisitions in the Dutch SME market. P / D indicates that the factor could result in the acquiring company paying either a premium or discount for the target company. P indicates that the factor results in the acquiring company paying a discount for the target company. D indicates that the factor results in the acquiring company paying a discount for the target company.

Besides these six factors, other factors that influence the difference between valuation and transaction price of acquisitions, although less marked, worth noting, are over-invested firms, cash up front, and investment banking success fees. The interviewees assessed these factors with 4,20, 4,20, and 3,63, respectively. The interviewees assessed all three factors to make the acquiring company pay a premium for the target company.

5. CONCLUSION, IMPLICATIONS, RECOMMENDATIONS, AND LIMITATIONS

5.1 Conclusion

This research aims to find factors that influence the difference between valuation and transaction price of acquisitions in the Dutch SME market. To reach this objective, I formulated the following research question: "What factors influence the difference between valuation and transaction price of acquisitions in the Dutch SME market?

The research findings indicate that several factors significantly influence the difference between valuation and transaction price of acquisitions in the Dutch SME market. These factors include the presence of competing bidders, valuation assumptions, bargaining strengths of the seller, bargaining strengths of the acquirer, operational synergies, conflicts between shareholders, and desire to retire. Factors such as amount of shares held by management, need for a new challenge, and conglomerate acquisition were perceived to have minor influence.

5.1.1 Perceived influence

The analysis of the average scores obtained from the interviewees' ratings revealed the perceived influence of each factor on the difference between valuation and transaction price of acquisitions in the Dutch SME market. The findings indicated substantial variations in the average scores across the 26 factors, providing insights into the factors the interviewees deemed significant in influencing the difference between valuation and transaction price of acquisitions.

The factor presence of competing bidders received the highest average score of 6,00. This suggests that interviewees considered the presence of multiple bidders in an acquisition process to significantly influence the difference between valuation and transaction price of acquisitions. This finding implies that competing bidding situations can increase the acquisition price above the initially estimated valuation.

Valuation assumptions also received a relatively high score of 5,53. This indicates that interviewees believed that the assumptions made during the valuation process substantially impact the ultimate difference between company valuation and transaction price of acquisitions. The accuracy and reliability of these assumptions are crucial in determining the stand-alone valuation of the company.

Factors related to the merger and acquisition advisors advising in the acquisition process, such as bargaining strengths seller (5,23) and bargaining strengths acquirer (4,87), were also rated relatively high. This implies that the relative negotiating power of both the selling and acquiring parties can significantly affect the final acquisition transaction. A strong bargaining position may lead to a higher or lower price than the initial valuation, depending on the circumstances.

Operational synergies received a high average score of 5,27. This suggests that interviewees believed that potential synergies resulting from the combination of operations and resources between the acquirer and the target company significantly influence the difference between valuation and transaction price of acquisitions. These operational synergies can justify a higher acquisition price, reflecting the expected value created by the combined entities.

On the other end of the spectrum, factors such as amount of shares held by management received a relatively low average score of 1,67. This implies that interviewees believed that the percentage of shares held by management has a minimal impact on the difference between valuation and transaction price of acquisitions. Other factors with lower average scores, such as need for a new challenge (2,07) and conglomerate acquisition (2,23), were also perceived as having a minor influence.

In addition to the aforementioned factors, other factors contribute to the differences between valuation and transaction price of acquisitions. Although these factors may have a less pronounced impact, they are still noteworthy. These factors include over-invested firms, cash up front, and investment banking success fee. According to the assessment provided by the interviewees, these factors received average scores of 4,20, 4,20, and 3,63, respectively.

These results highlight the importance of the factors in understanding the drivers behind the differences between valuation and transaction price of acquisitions in the Dutch SME market. Factors related to competing bidders, valuation assumptions, bargaining strengths, and operational synergies emerged as influential in the interviewees' perceptions. However, it is essential to note that one should interpret these results cautiously as they reflect the opinions and perceptions of the interviewees.

5.1.2 Relationship Between Factors and Acquisition Pricing

Furthermore, the respondents' indications of whether a factor would result in a premium, discount, both a discount or premium or if it was not applicable shed light on the relationship between the factors and acquisition pricing. The data analysis revealed varying responses for each factor, providing valuable insights into how these factors influence acquisition pricing outcomes.

Factors such as presence of competing bidders, bargaining strengths seller, operational synergies, over-invested firms, cash up front, and investment banking success fee were associated with a higher likelihood of the acquiring company paying a premium. The indication that these factors would result in a premium suggests that their presence or influence increases the perceived value of the target company, leading to a higher transaction price. The competition among bidders, a strong bargaining positions of the seller, and expected operational synergies are likely driving forces behind the premium payment.

On the other hand, factors such as conflict between shareholders and desire to retire were more likely to lead to a discount on the transaction price. These factors may create uncertainties or challenges that can negatively impact the perceived value of the target company. Internal conflicts among shareholders may signal potential risk or difficulties in the post-acquisition integration process, which could result in a lower transaction price. Similarly, the acquiring party may perceive a seller's desire to retire as reducing their commitment to the company, potentially lowering its value.

It is worth noting that some factors showed mixed indications, with respondents suggesting that both a premium and discount could be associated with them. For instance, the motive desire to cash received indications for both premium and discount, indicating that the motivation to cash out could lead to different pricing outcomes depending on the specific circumstances of the acquisition. Similarly, the factor valuation assumptions received indications for both a premium and a discount, suggesting that the accuracy and alignment of valuation assumptions with market realities can have divergent effects on the stand-alone valuation of the target company.

5.2 Implications and Recommendations

The findings of this study have several implications for researchers and practitioners involved in mergers and acquisitions in the Dutch SME market. First, the identified factors provide valuable insights into the drivers behind the difference between valuation and transaction price of acquisitions in this context. Understanding these factors can assist in more accurate valuation assessments, negotiation strategies, and deal structuring.

Second, the findings highlight the importance of considering a comprehensive set of factors and their potential interactions in the Dutch SME market. The complex nature of mergers and acquisitions necessitates a holistic approach to understanding the dynamics of valuations and transaction prices.

Based on the results, I recommend that mergers and acquisition advisors operating in the Dutch SME market carefully evaluate the factors identified in this study and tailor their strategies accordingly. Mergers and acquisition advisors should consider factors like competing bidders, valuation assumptions, operational synergies, and bargaining strengths, as these significantly influence the difference between valuation and transaction price of acquisitions and can help provide more accurate valuations and negotiate better transaction prices. These findings can inform decision-making processes and help mitigate potential risks in the acquisition process. Further research is warranted to validate and refine these findings. Future studies could employ quantitative methods, expand the sample size, and consider additional factors specific to the Dutch SME market to enhance the generalizability and robustness of the findings.

5.3 Limitations

While the findings of this research provide valuable insights into the factors that influence the difference between valuation and transaction price of acquisitions in the Dutch SME market, it is essential to acknowledge the limitations inherent in the study design and methodology. One should consider these limitations when interpreting and generalizing the results to another context.

Firstly, the study's sample size of 15 mergers and acquisition advisors may need to be revised to allow the generalizability of the findings. While I tried to select knowledgeable and experienced professionals, a more extensive and diverse sample could provide a broader perspective on the factors that influence the difference between valuation and transaction price of acquisitions in the Dutch SME market.

Secondly, the study relied on subjective ratings provided by the interviewees on a Likert scale, which introduces the potential for response bias. Their personal experiences, biases, and individual perspectives may influence the respondents' perceptions and interpretations. Moreover, the subjective nature of the data may limit the objectivity of the findings.

Additionally, the study did not account for all possible variables that influence the difference between valuation and transaction price of acquisitions. The research could have captured additional factors like economic conditions, industry-specific dynamics, or regulatory environments. Finally, the absence of control variables limits the ability to isolate the specific effects of the factors examined in this study.

Acknowledging these limitations is essential for a comprehensive understanding of the research findings. Future studies should address these limitations by employing more extensive and diverse samples, incorporating control variables, and utilizing more objective measures to strengthen the validity and generalizability of the findings.

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7. APPENDICES

7.1 Definitions of the Assessed Factors

1. Valuation Method: A valuation method "*is the methodology used to determine the fair market value of a business*" (divestopedia, 2016).
2. Valuation Assumption: Valuation assumptions encompass business valuators' statements and inputs used to estimate the fair market value of a business, a segment of the business, a security, or an intangible asset. These assumptions reflect the truths underlying the valuation under consideration.
3. Horizontal Acquisition: A horizontal acquisition occurs when a business acquires another firm operating in the same industry and production level.
4. Vertical Acquisition: Vertical acquisitions involve a company acquiring one of its suppliers, often called forward or backward integration.
5. Congeneric Acquisition: A congeneric acquisition refers to an acquisition of a company that operates in a similar or related industry or market but offers different products than the acquiring company.
6. Conglomerate Acquisition: A conglomerate acquisition refers to a situation in which the acquiring company and the target company operate in different industries or engage in activities that are not related to each other.
7. Financial Synergies: Financial synergies can manifest in two forms: increased cash flows or a reduced cost of capital (discount rate). They include combining a cash-rich firm with limited investment opportunities and a company with high-return projects, increased debt capacity, and tax benefits.
8. Operational Synergies: Operating synergies enable companies to enhance their operational earnings, foster growth, or achieve both simultaneously. They include economies of scale, greater pricing power, the combination of functional strengths, and higher growth in new or existing markets.
9. Manager Hubris: Manager's hubris, which is the unrealistic belief of managers of the acquiring firm that they can manage the assets of the target firm in a more efficient manner than the current management. Moreover, one can link manager hubris to overconfidence on the part of the manager regarding anticipated synergies from mergers and acquisitions.
10. Empire Building: Empire Building is "*the act of attempting to increase the size and scope of an individual or organization's power and influence"* ((Hayes, 2022).
11. Desire to Cash: Desire to cash refers to a preference or need for cash or liquid funds. It suggests a situation where an individual or entity has a strong inclination or requirement to have readily available cash resources rather than holding illiquid assets or investments.
12. Desire to Retire: A desire to retire refers to wanting to leave work permanently.
13. Absence of a Successor: The absence of a successor means no designated person can take over a role or position when the current holder departs.
14. Need for a New Challenge: A need for a new challenge refers to a desire for new opportunities and experiences beyond the current business.
15. Conflict Between Shareholders: A conflict between shareholders refers to a disagreement among company owners over various aspects of the business.
16. Investment Banking Success Fee: Investment Banking Success Fee is "*a commission paid to an advisor for completing the transaction. "In a merger and acquisition process, a success fee is typically a percentage of the deal value or the enterprise value of the business being acquired or sold*" (CFI, 2022).
17. Bargaining Strengths Seller: The bargaining strengths of a seller refers to the negotiating skills and advantages possessed by the advisors representing the selling party in an acquisition transaction.
18. Bargaining Strengths Acquirer: The bargaining strengths of the acquirer refers to the negotiating skills and advantages of the advisors representing the acquiring party in an acquisition transaction.
19. Presence of Competing Bidders: The presence of competing bidders refers to multiple parties vying to acquire the same company, leading to increased competition.
20. Liquidity Provided by the Acquirer: The liquidity provided by the acquirer refers to the funds or capital available for the acquiring company to complete the purchase and meet financial obligations of an acquisition.
21. Over-invested Firms: Over-invested firms are companies with a surplus of free cash flows.
22. Cash Up Front: Cash up front refers to the immediate payment of a specified amount of cash at the initiation of the transaction, serving as the initial consideration or payment for the acquisition.
23. Size of the Enterprise: Size of the enterprise refers to the magnitude of a company's operations, indicating its overall scale. This can be measured through various indicators, such as assets, revenue, production, market capitalization, number of employees, and capital invested. (Nasrudin, 2022)
24. Managerial Effectiveness: Managerial effectiveness refers to a manager's ability to achieve goals and fulfill their organizational role. If the current management team of the target company is ineffective, a new management team may be able to create more excellent value for the acquiring company.
25. Information Asymmetry: Information asymmetry is an imbalance in which one party possesses more or superior information compared to the other party.
26. Amount of Shares Held by Management: The amount of shares held by the management pertains to the proportionate allocation of the company's total shares held explicitly by the managerial personnel within the organization.

7.2 Interview Format

The interview format that the research used in the interviews.

Below in Dutch:

Datum:
Adviseur:
Bedrijf:

Introductie

Het doel van mijn onderzoek is om factoren te vinden die verschil tussen bedrijfswaardering en de uiteindelijke dealwaarde van een overname in de Nederlandse MKB markt kunnen verklaren.

Hierbij het gaat om de bedrijfswaardering die is opgesteld door de verkopende partij en de uiteindelijke dealwaarde (bruto koopsom, inclusief achtergestelde leningen, earn-out regelingen e.d.).

In dit interview gaan we een aantal factoren/punten bespreken waarvan uit de literatuur blijkt dat deze van invloed zijn op het verschil tussen bedrijfswaardering en dealwaarde. Deze onderzoeken zijn veelal gebaseerd op niet-MKB bedrijven in de mondiale markt. Aan jou zal gevraagd worden of jij acht dat deze factoren ook van invloed zijn in de Nederlandse MKB markt – en zo ja – in welke mate. Vervolgens zal er onderscheid gemaakt worden tussen een premium en een discount.

Voordat we beginnen met het doorlopen van de verschillende factoren zou ik jou willen vragen welke factoren volgens jou verschil tussen bedrijfswaardering en dealwaarde kunnen verklaren.

De volgende onderwerpen komen aan bod:

- Waardering
- Type overname
- Motieven om aan te kopen
- Motieven om te verkopen
- De invloed van adviseurs en het aantal bieders
- De toegang tot kapitaal
- Overig factoren

De factoren zullen op een 7-point Likert schaal geëvalueerd worden met de antwoord mogelijkheden: 1, 2, 3, 4, 5, 6 & 7, waarbij 1 betekent dat de factor geen verschil in bedrijfswaardering en overname prijs verklaart en 7 betekent dat de factor veel verschil in bedrijfswaardering en overname prijs verklaart.

Waardering

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	Discount	Premium
De gebruikte waarderingsmethode									
De gemaakte (subjectieve) aannames									

Type overname

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	Discount	Premium
Horizontale overname									
Verticale overname									
Congeneric overname									
Congolomeraate overname									

Synergetische motieven

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	Discount	Premium
Echte synergiën									
Financiële synergiën									

Bijzondere motieven

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	Discount	Premium
Manager hubris									
Empire Building									

Motieven om te verkopen

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	Discount	Premium
De wens om te cashen									
De wens om met pensioen te gaan									
Het ontbreken van een geschikte opvolger									
Behoefte aan een nieuwe uitdaging									
Conflict tussen aandeelhouders									

Onderhandeling

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	Discount	Premium
Success fee									
Onderhandelingskracht verkoper									
Onderhandelingskracht koper									
Concurrerende bieders									

Kapitaal

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	Discount	Premium
Liquiditeit									
Over-invested Firms									
Cash up front									

Overig

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	Discount	Premium
Grootte van de onderneming									
Bestuurlijke effectiviteit									
Informatie asymmetrie									
Hoeveelheid van de aandelen in bezit van het management									