

THE ESTIMATION OF EQUITY VALUE: A PREDICTIVE MODEL FOR SMES

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ABSTRACT

The paper examines the valuation methods employed by Italian professionals to define the equity value of Small and Medium-Sized Enterprises (SMEs), in order to understand if the estimation procedures are effective and able to foster the merger & acquisition processes. In fact, successful development processes would have a strong impact on the economic growth of a country such as the increase of employment, GDP and exports. We propose a predictive model which estimates the probability, based on historical data gathered through the analysis of 82 estimation reports, that the most suitable SME valuation model will be applied by professionals, identifying which variables could affect the choice. The findings show that the variables, which significantly affect the mixed method choice, are the trade sector and the official appraisal. In more detail, belonging to the trade sector favors the adoption of the mixed method by the experts. On the contrary, the necessity of the official appraisals by law does not favor the selection of the mixed method. Thus, the mixed method, which effectively combines book values and earnings, and allows a purification by subjective elements concerning the private sphere of the decision-making owner, is widespread for the trade sector and for formal/informal appraisals, especially demanded for intra-group business transfers or mergers.

Keywords: *SMEs, valuation methods, predictive model*