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Pricing with Performance-Controlled Multiples

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[Volker Herrmann](#) ¹ & [Frank Richter](#)¹

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Abstract

We test an approach for estimating the potential price of as yet untraded equity investments. The innovative aspect of our approach is that we use specific control factors, which we identify on the basis of a simplified valuation model. We investigate the accuracy of our approach by using a multi-year sample of American and European firms. The empirical results suggest that a selection of comparable assets based on control factors is superior to a selection based on SIC industry codes. Our study also offers some guidance on the reliability of different bases of reference and on diverse methods of estimating multiples from comparable sets.



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Author information

Authors and Affiliations

Institute for Mergers & Acquisitions, University Witten/Herdecke, Witten, Germany

Volker Herrmann & Frank Richter

Corresponding author

Correspondence to [Volker Herrmann](#).

Additional information

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