Frontiers of Entrepreneurship Research

Volume 34 | Issue 3
*CHAPTER III. FINANCING*

Article 11

6-7-2014

# PRICING ENTREPRENEURIAL FIRM EXIT: AN INSIGHT FROM MEDIA INDUSTRY ACQUISITIONS DURING THE 2008 FINANCIAL CRISIS (INTERACTIVE PAPER)

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INTERACTIVE PAPER

# PRICING ENTREPRENEURIAL FIRM EXIT: AN INSIGHT FROM MEDIA INDUSTRY ACQUISITIONS DURING THE 2008 FINANCIAL CRISIS

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## Principal Topic

Private entrepreneurial firms often lack assets and a proven track record, which makes it difficult for potential acquirers to assess the synergies that they could create through the acquisition and for entrepreneurs to know the true value of their own firms. In addition, this information ambiguity is further compounded by potential information asymmetry, which could result in serious “lemon” problems. Furthermore, entrepreneurs often do not know how to find potential buyers due to the lack of a ready market, which could reduce the firms’ liquidation competiveness. This study develops and tests a theoretical model to analyze how entrepreneurs, investors, and acquirers interact in pricing entrepreneurial firms in media industry acquisitions. By doing so, we attempt to aid our understanding of how information ambiguity, information asymmetry, and liquidity constraints affect the acquisition premium.

## Method

The sample for this study is obtained from the Peachtree Media Advisors 2008 and 2009 M&A round-up reports. It consists of transactions that disclosed the acquisition price, involved targets that were privately-held young firms (15 years or younger), and comprised acquirers that were publicly-traded firms. We used a variety of sources during our data collection process to confirm the data provided in the round-up reports and to identify other key variables such as revenue of acquirers and targets, price multiples of acquirers and targets, acquirer acquisition strategy, target venture funding, CEO experience, and board information.

## Results and Implications

The valuations of the transactions rise significantly in 2009 compared to 2008. Basic statistics show that the acquisition premium is positively related to acquirer revenue (but not revenue growth), firm size, size of the board, number of outside directors, and size of the top management team. Surprisingly, the acquisition premium is not related to acquirer research and development spending or market strategy, and it is negatively related to acquirer new product strategy. Further, targets that received equity funding had higher acquisition premiums, and the acquisition price is positively related to target revenue, CEO experience, and firm size.

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