

# Discounting Small and Medium Enterprises in Valuation: Evidence from Germany's Stock Market

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## Abstract

Business valuation is a critical process in estimating the value of a company, and various methodologies are available for this purpose. In cases where traditional valuation methods may have limited applicability, discounts such as DLOC (Discounts for Lack of Control) or DLOM (Discounts for Lack of Marketability) may be necessary to correct the resulting value. This paper aims to propose a discount specifically applicable to the valuation of small and medium-sized enterprises (SMEs). Empirical research was conducted to investigate whether applying a valuation discount for SMEs is necessary. A balanced panel dataset was collected from the Thomson Reuters database, consisting of data from 567 (2835 observations) German private and listed companies spanning from 2017 to 2022. The company value for each company was estimated using the European average EV/EBITDA from the Damodaran database, and this benchmark value was compared with the company's intrinsic value. The research examined whether the difference between the European average benchmark and the intrinsic value of the company changes with increasing company size. The results reveal that smaller companies tend to fall short of the European average benchmark more significantly, supporting the hypothesis that a discount for small and medium-sized enterprises is justified. Therefore, this paper proposes the use of a discount based on company size and presents the research findings in detail. This research contributes to the literature on business valuation by highlighting the importance of considering discounts specifically tailored to small and medium-sized enterprises.

**Keywords:** business valuation, company size, empirical research, SMEs, valuation discounts