



Vaasan yliopisto
UNIVERSITY OF VAASA

Tino Korjala

**Deal Pricing and Leverage in Private Equity-Backed
Versus Strategic M&A Transactions: Implications
for Long-Term Value Creation**

School of Accounting and Finance
Bachelor's Thesis
Finance

Vaasa 2025

UNIVERSITY OF VAASA**School of accounting and finance**

Author:	Tino Korjala		
Title of the thesis:	Deal Pricing and Leverage in Private Equity-Backed Versus Strategic M&A Transactions: Implications for Long-Term Value Creation		
Degree:	Bachelor of Science in Economics and Business Administration		
Degree Programme:	Finance		
Supervisor:	Nebojsa Dimic		
Year:	2025	Pages:	46

ABSTRACT:

This thesis examines the differences between private equity-backed acquisitions and strategic acquisitions in terms of leverage use, deal pricing, and long-term value creation. The goal is to understand how capital structure decisions, pricing approaches, and management practices affect long-term value creation. Previous studies indicate that private equity investors are more likely to use debt and employ a stricter pricing strategy. On the other hand, strategic acquirers are more interested in long-term growth, integration, and the benefits of combining operations. The study tests three hypotheses based on these insights: private equity-backed acquisitions use more leverage, strategic acquirers pay higher acquisition premiums, and strategic acquirers achieve more long-term value. The study shows how different acquisition structures and management approaches affect post-acquisition performance by analyzing the financial and strategic behaviors of two distinct buyer types. This offers new viewpoints on value creation and efficiency in the M&A market.

KEYWORDS: Mergers and acquisitions (M&A), Private Equity, Strategic Acquirers, Leverage, Deal Pricing, Acquisition Premiums, Long-Term Value Creation, Capital Structure

VAASAN YLIOPISTO**Laskentatoimen ja rahoituksen yksikkö**

Tekijä:	Tino Korjala		
Tutkielman nimi:	Deal Pricing and Leverage in Private Equity-Backed Versus Strategic M&A Transactions: Implications for Long-Term Value Creation		
Tutkinto:	Kauppateiden kandidaatin tutkinto		
Oppiaine:	Rahoitus		
Työn ohjaaja:	Nebojsa Dimic		
Valmistumisvuosi:	2025	Sivumäärä:	46

TIIVISTELMÄ:

Tämän kandidaatintutkielman tarkoituksena on vertailla private equity -rahoitettujen yritysostojen ja strategisten yritysostojen välisiä eroja velan käytössä, kauppahinnan määrittelyssä ja pitkän aikavälin arvonluonnissa sekä arvioida, miten nämä vaikuttavat yritysostojen onnistumiseen. Tutkielmassa arvioidaan erityisesti sitä, miten omistusrakenne, johtamiskäytännöt ja rahoituspäätökset eroavat näiden kahden eri ostajatyypin välillä ja miten nämä vaikuttavat pidemmän aikavälin arvonluontiin. Kirjallisuuskatsaukseen perustuvassa lähestymistavassa tutkielma testaa kolmea eri hypoteesia perustuen aiempaan kirjallisuuteen: private equity rahastot käyttävät enemmän velkaa yritysostoissa, strategiset ostajat maksavat korkeampia preemioita yritysostoissa ja strategiset ostajat saavuttavat enemmän pidemmän aikavälin arvonluontia. Tutkielmassa otetaan myös huomioon erinlaiset johtamiskäytännöt yritysostorakenteiden lisäksi, joka tarjoaa uusia näkökulmia arvonluontiin ja tehokkuuteen yritysjärjestelymarkkinoilla.

AVAINSANAT: Mergers and acquisitions (M&A), Private Equity, Strategic Acquirers, Leverage, Deal Pricing, Acquisition Premiums, Long-Term Value Creation, Capital Structure

Table of Contents

1 Introduction	6
1.1 Research questions and hypotheses	7
1.2 Structure of the thesis	9
2 Theoretical background	10
2.1 Capital structure theories	10
2.1.1 Modigliani & Miller theory	10
2.1.2 Trade-off theory	12
2.1.3 Pecking order theory	13
2.1.4 Agency theory	14
2.2 Private equity vs. strategic acquirers	15
2.2.1 Overview of private equity	15
2.2.2 Characteristics of strategic acquirers	17
2.2.3 Key differences in deal structuring and performance	18
2.3 Valuation and deal pricing in M&A	19
2.3.1 Valuation framework and key pricing drivers	20
2.3.2 Behavioral influences and deal premiums	22
2.3.3 Pricing logic: private equity vs. strategic acquirers	23
2.4 Theoretical links to long-term value creation	24
3 Deal pricing, leverage, and value creation in previous research	26
3.1 Deal pricing differences between private equity and strategic acquirers	26
3.2 Leverage and financing structures in M&A transactions	28
3.3 Post-acquisition performance and long-term value creation	30
3.4 Synthesis and identified research gap	32
4 Discussion and conceptual analysis	34
4.1 Evaluation of conceptual hypotheses	34
4.2 Integrative discussion: PE vs. strategic differences	36
4.3 Implications for long-term value creation	38
5 Conclusions	40

1 Introduction

Today's global business environment, capital reallocation, and industry restructuring have made mergers and acquisitions (M&A) one of the most significant factors in today's corporate finance. Although acquisitions are being made every day, their use is very complex and uncertain, especially for small and medium-sized companies. The success of M&A is volatile. The increased demand for M&A has raised academic interest, especially when it comes to differences in behavior, use of leverage, deal pricing, and value creation between different types of buyers.

The main goals for companies in M&A transactions are to gain a competitive advantage, increase market share, and exploit synergies. It can therefore be considered that M&A is an essential part of companies' growth strategies and dynamics in the capital markets. However, previous studies show that the results of acquisitions vary considerably. Malmendier et al. (2018) note that winners of acquisitions often underperform compared to losers, which suggests that managerial overconfidence and overpricing can distort decision-making. This finding shows that the success of an acquisition depends not only on market conditions but also on managerial and behavioral factors.

Most research done on mergers and acquisitions has concentrated on the differences in strategy and value creation between various buyer types. According to Fidrmuc et al. (2012), private equity funds and strategic acquirers mostly select distinct target categories and employ separable negotiation strategies. These two different strategies are mirrored in deal prices and risk levels. According to Cui et al. (2020), management skills are crucial. Their research can help to understand why some acquisitions perform better than others, especially when the acquisitions are made in the same market. Their study shows that managers who are better at exploiting synergies and have stronger skills and experience are better at exploiting acquisitions.

Many different factors, such as capital structures and incentive systems, affect the deal price. Previous studies have also examined how these factors affect post-acquisition

outcomes. Du and Gerety (2018) find that private equity funds usually pay lower acquisition premiums than public strategic acquirers, which reflects tighter ownership control and more disciplined pricing. These previous studies create a basis for this thesis, which examines how private equity funds and strategic acquirers differ in their use of leverage, deal pricing, and long-term value creation.

1.1 Research questions and hypotheses

Previous studies support the idea that the success of acquisitions depends on many different factors. Studies have highlighted management behavior, financing decisions, and ownership structure as the most important indicators of success. The purpose of this bachelor's thesis is to compare the differences between private equity funds (PE) and strategic acquirers in mergers and acquisitions (M&A) from the perspective of capital structure, deal pricing, and long-term value creation. Although both types of buyers have been extensively studied, there is still a lack of research comparing private equity-backed acquisitions and acquisitions made by strategic acquirers. This is especially emphasized when combining the use of debt, pricing, and their impact on post-acquisition performance.

Based on this motivation, the study aims to answer the following research questions:

RQ1: How do capital structure and leverage decisions differ between private equity-backed and strategic M&A transactions?

RQ2: What factors explain the differences in deal pricing and acquisition premiums between private equity and strategic acquirers?

RQ3: How do differences in leverage and pricing practices influence long-term value creation in private equity versus strategic acquisitions?

To answer these research questions, the thesis presents three hypotheses based on past research and theory.

First, previous research by Acharya et al. (2013) shows that private equity-backed acquisitions are typically financed with higher leverage than comparable strategic acquisitions. This finding is supported by Axelson et al. (2013), whose results suggest that leveraged buyouts systematically rely more on debt than public companies. These findings are in line with standard capital structure theories, which suggest that debt can be used both for value creation and for managerial discipline. This gives rise to the first hypothesis:

H1: Private equity-backed acquisitions employ higher leverage levels than strategic acquisitions.

Second, Barger et al. (2008) demonstrate that strategic acquirers typically pay higher acquisition premiums compared to financial buyers in M&A transactions. Their findings also find that financial buyers are more prepared to pay for anticipated synergies and advantages of long-term strategic synergies. In contrast, private equity funds consider the price and returns of the deal to be the most important factors, which are in line with behavioral perspectives on M&A. According to behavioral theories of finance, bid prices can rise due to overoptimism about synergies. Therefore, it is expected that:

H2: Strategic acquirers pay higher acquisition premiums than private equity buyers.

Third, a study by Moeller et al. (2005), which focuses on large strategic acquisitions shows mixed results for the acquiring firms. However, Guo et al. (2011) find that many private equity-backed companies improve their operations and performance after buyouts. Together, this evidence does not give a clear explanation for the connection between the buyer type and long-term value creation. This uncertainty motivates the third hypothesis:

H3: Strategic acquirers, due to synergy realization and long-term operational integration, generate greater long-term value creation compared to private equity-backed buyers.

1.2 Structure of the thesis

The structure of this study is organized as follows: The first chapter introduces the topic and provides the background and motivation for the study. It also outlines the research questions and hypotheses. The second chapter establishes the theoretical framework. It reviews the main literature related to capital structure, deal pricing, and long-term value creation in mergers and acquisitions. It also covers the key theories used in analysis. The third chapter presents the empirical findings. It compares private equity and strategic acquirers based on leverage, deal pricing, and post-acquisition performance. The fourth chapter links these findings to theory. The fifth chapter provides a comprehensive summary and reflection on the main findings, comparing the key theoretical and practical implications and suggesting directions for future research.

2 Theoretical background

This chapter presents the theoretical foundation of the study, which introduces key concepts and frameworks related to capital structure, types of acquirers, and valuation mechanisms in mergers and acquisitions. The goal is to build a theoretical basis that connects the financial and behavioral aspects of acquisitions with long-term value creation.

This chapter is divided into four main sections. Section 2.1 discusses capital structure theories. Section 2.2 compares private equity investors and strategic acquirers. Section 2.3 examines valuation and deal pricing, and Section 2.4 integrates these perspectives into a theoretical model of long-term value creation.

2.1 Capital structure theories

When examining companies from a capital structure perspective, it is important to understand how changes in capital structure can affect financial performance and strategic decisions. In short, capital structure theories explain why companies use debt and equity and how they balance the two in order to maximize the value of the company. It can be said that the Modigliani and Miller's (1958) theory had a significant impact on financial research. However, theories by Miller and Modigliani (1958, 1963) contain some shortcomings that later versions aim to fix. The following section discusses the most important capital structure theories, such as Modigliani and Miller theory, trade-off theory, pecking order theory, and agency theory.

2.1.1 Modigliani & Miller theory

As mentioned earlier, the work of Miller and Modigliani (1958) was a significant turning point in the study of capital structures. Their research was based on assumptions of

efficient financial markets: no taxes, no transaction costs, and no information asymmetry. Their work emphasized that the use of debt does not affect the value of the company, i.e., the cost of capital is constant, regardless of how it is divided between debt and equity. According to Miller and Modigliani (1958), the value of a company depends on their ability to generate profits, as well as on the type of investment opportunities the company has. Modigliani and Miller (1958) also find that investors can create their own desired financial structure, which would not affect the value of the company at all. Harris and Raviv (1991) also support the idea that Modigliani and Miller's (1958) propositions created the basis of a framework that influenced all subsequent capital structure theories.

However, Modigliani and Miller noticed an "error" in their (1958) work, which they corrected in their later research, which took taxes into account. The study by Modigliani and Miller (1963) notes that debt creates a tax shield. The interest expense on new debt can be deducted from taxable income, increasing after-tax profit, which ultimately affects the value of the company. Modigliani and Miller's (1963) revised model, therefore, proves that the tax advantage of debt financing constitutes the only permanent advantage of debt financing. With the new theory, their previous argument that investors exploit valuation differences can no longer be fully valid in a real environment where taxes also have an effect.

Modigliani and Miller's (1963) modified theory laid the foundation for later developments in corporate finance. The model, which took into account taxes, showed that debt can create value by providing a tax shield for the company. This changed the attitude of companies towards their financing decisions. However, the model still relied on strong assumptions, such as the absence of bankruptcy risk and the assumption of efficient markets. Later theories sought to find models that also consider the real, imperfect conditions of corporate finance.

2.1.2 Trade-off theory

Modigliani and Miller's (1958, 1963) theories contain many assumptions about markets. Their theory also implied that companies could take on an unlimited amount of debt without ultimately affecting the company's value. However, Kraus and Litzenberger (1973), as well as other researchers questioned, why companies would not then finance themselves entirely with debt. Kraus and Litzenberger's (1973) model considered the risk of bankruptcy, which Modigliani and Miller's theories did not. According to Kraus and Litzenberger (1973), the cost of bankruptcy and the taxation of corporate profits can be considered market imperfections that directly affect the market value of a company when debt is added. According to Kraus and Litzenberger (1973), the optimal capital structure of a company is the point at which the marginal tax benefits are equal to the expected cost of financing. In other words, the value of a company using debt leverage is the same as the value of a company without debt plus the present value of the tax shield, minus the expected cost of bankruptcy.

Myers (1984), however, challenged the theory by Kraus and Litzenberger (1973) and supplemented it by introducing adjustment costs. According to Myers (1984), companies face adjustment costs and asymmetric information that prevent companies from achieving the optimal value proposed by Kraus and Litzenberger (1973). If there were no adjustment costs and the trade-off theory were fully realized, each company's debt-to-value ratio would be its optimal ratio. The friction factors introduced by Myers' (1984) theory can explain why capital structures vary across companies and industries. Myers (1984) also criticized Modigliani and Miller's (1958) work, as their model was based on unrealistic assumptions such as perfect capital markets without taxes, bankruptcy costs, or managerial behavior.

Trade-off theory is built on the work of Modigliani and Miller (1963) but takes into account the risk of bankruptcy and the costs of adjustment. Trade-off theory seeks to explain how companies find a balance between debt and its costs. However, Myers (1984) noted that companies rarely reach this point. This provides an understanding that other

factors also affect the financial structure, such as management behavior, market conditions, or information asymmetry. These observations have been the basis for later theories, such as the pecking order theory.

2.1.3 Pecking order theory

As Modigliani and Miller's theories (1958, 1963), also Kraus and Litzenberger's (1973) research, are based on efficient markets and on symmetric information in the market. According to the trade-off theory, the optimal capital structure of a firm is the point at which the tax benefits of additional debt equal the expected financing costs. Myers and Majluf (1984) challenged this idea and argued why companies choose certain sources of financing rather than considering the optimal debt-equity ratio.

Myers and Majluf (1984) highlighted information asymmetry, which is the key reason for explaining financial behavior. According to Myers and Majluf (1984), companies can have very different debt ratios than similar companies under the same markets and similar risk profiles. This would contradict the trade-off theory. In the pecking order theory presented by Myers and Majluf (1984), companies first prefer internal financing, which is supported by past profits. When companies finance themselves using internal financing, they do not have to disclose private information to the market. If the company's internal funds are insufficient, the company prefers debt financing, but equity issuance is still seen as a last resort. However, Murray and Vidhan's (2003) research highlights how small companies prefer external financing and that the explanatory power of the pecking order theory has weakened over time. Myers and Majluf (1984) noted that issuing new shares can signal to the market that the company's stock is overvalued, which would often lead to a decline in the price and a deterioration in the wealth of existing owners.

The main idea of the pecking order theory is to emphasize the importance of information asymmetry. According to Myers and Majluf (1984), rational managers tend to avoid

equity issuances to have more financial flexibility for future investment opportunities without external capital. Although Myers and Majluf (1984) offer valuable insights, they do not include the behavior and incentives behind decisions. These questions are central to agency theory, which is discussed in the next subsection.

2.1.4 Agency theory

Originally, Jensen and Meckling (1976) thought that a company could be viewed as a set of agreements between different parties, each with its own interest. This has given rise to the agency theory, which arises when units act primarily in their own interest, for example, by undertaking excessively risky projects in which wealth is transferred from creditors to shareholders. Haugen and Senbet (1981) highlighted how stock options can mitigate agency problems when a company raises external capital. Options are used to give the company's management the right to buy or sell the company's shares at a predetermined price, which helps align the interests of shareholders and management.

According to Haugen and Senbet (1981), the company's management is offered call options, and investors are offered put options. Call options create an incentive to use the company's assets efficiently, because every bad decision reduces the value of the stock. Put options provide investors with security and reduce agency conflicts. They also show that put and call options can also be combined, making them compatible with modern reward mechanisms. Jensen (1986) later supported this view by stating that debt can act as a mechanism to discipline decision-making and reduce poor investments.

Agency theory also brings out the behavioral and human aspects of decision-making. Companies may have thousands of different investors, and their preferences for risk and debt structure vary greatly due to information asymmetry. Agency theory, therefore, complements other capital structure theories by emphasizing that decisions are also human and organizational. Agency theory provides a good understanding of M&A

transactions. It emphasizes that successful integration and value creation depend on how well the interests of management and owners are aligned.

2.2 Private equity vs. strategic acquirers

In M&A transactions, the two main buyer types are usually strategic acquirers and private equity companies. Their goals and methods for adding value are very different. While private equity investors usually focus more on the financial aspect and immediate value, strategic acquirers look for long-term growth, market expansion, and synergies. It is crucial to comprehend how these two work in order to understand why deal structures and financial options differ between them.

2.2.1 Overview of private equity

According to Kaplan and Strömberg (2009), private equity represents an investment form in which companies obtain equity financing through private equity funds. Private equity investments can be roughly thought of as representing a group that invests in unlisted companies. Private equity companies usually rely on a very large amount of debt, and therefore a small amount of equity. Typically, this arrangement is made through a leveraged buyout arrangement (LBO), in which the investors also take a more active role in the company. The idea of this arrangement is that the future cash flows of the acquired company are large enough to cover the repayment of the debt. This form puts a very high pressure on operational efficiency, while the arrangement aligns management incentives. Kaplan and Strömberg (2009) describe private equity funds with a large number of limited partners (LP) and a general partner (GP). In LBOs, funds are raised from investors, such as insurance companies, pension funds, or wealthy private investors. Limited partners have limited influence. Their role is to invest money that the general partner manages. The general partners also participate in the funds themselves by

investing in them, which acts as a signal of trust and also as a way to combine the interests of LPs and GPs.

Kaplan and Strömberg (2009) believe that the main success of private equity investments is based on a large amount of debt, as well as improved efficiency of the target company. They also emphasize that incentives are an important part of the success of private equity funds. Cumming et al. (2007) also emphasize the importance of governance structures and active ownership. These aspects reduce agency problems, while also improving the performance of debt-financed acquisitions. Cumming et al. (2007) show that concentrated ownership and tight management control are the main factors explaining the improvement in performance, even when companies are heavily indebted. Kaplan and Strömberg's (2009) work also provides some references to agency theory. According to Kaplan and Strömberg (2009), the value of a company does not always increase unambiguously due to financial issues, but incentives also play an important role. In the 2000s, LBOs were a large part of corporate restructurings around the world. Although companies contain a lot of debt, Kaplan and Strömberg (2009) report bankruptcy rates to be at the same level as those of less indebted companies. It can therefore be thought that ownership activation has positive effects, while incentive systems reduce risk. However, Kaplan and Strömberg's (2009) findings challenge the traditional assumption that higher debt is thought to increase instability and risk. Boucly et al. (2011) findings are consistent with those of Kaplan and Strömberg (2009). According to Boucly et al. (2011), the value of private equity investments increases not only through financial structure, but also through efficiency improvements and strategic planning that improve the use of resources. Boucly et al. (2011), therefore, states that LBOs support the growth of target companies by expanding their operations and increasing their productivity.

As Kaplan and Strömberg (2009) noted, LBOs have become a large part of the M&A field. The success of private equity funds is mainly based on increasing efficiency in the target company and on financial restructuring. Unlike private equity investors, strategic

acquirers' motives are much more traditional. Strategic acquirers value synergies and integration benefits. Understanding these differences provides a good starting point for comparing these two different types of buyers. This is particularly essential when examining valuation and pricing in acquisition situations.

2.2.2 Characteristics of strategic acquirers

Mergers and acquisitions can be thought of as having been carried out for several decades in order to achieve synergies, create longer-term value, or eliminate competitors from the market. As previously stated, private equity funds aim for short-term profits, but the goals of strategic acquirers are almost the opposite. The main goal of strategic acquirers in corporate restructuring is to create synergies, expand the market area, and gain access to new technology. Trautwein (1990) presents several reasons for companies to merge and acquire companies, which can also be interpreted as key goals of strategic acquirers. According to his efficiency theory, companies combine to achieve operational benefits, such as cost savings or increased productivity. According to his monopoly theory, acquisitions are seen to acquire more market power for a company, which helps the company to strengthen its market position or eliminate competitors. Trautwein (1990) also emphasizes that management motives drive acquisitions. These can be, for example, better information or different expectations compared to the market.

Seth (1990) examines in his own work how synergy expectations affect the value creation that occurs after mergers and acquisitions. According to Seth (1990) expected synergies are often overvalued or mispriced. Even if the acquiring company has correctly assessed that the acquisition or merger can produce benefits through synergies, they are often mispriced. Seth's (1990) research emphasizes that the most important individual factors for the success of synergies are management decisions and the way the integration is implemented. Trahan's (1993) research does not directly deal with strategic acquirers, but his results are nevertheless comparable to those of strategic acquirers. Trahan's

(1993) research shows that companies with unused debt capacity, i.e., a lot of equity, are most often acquiring companies. In this case, the acquiring company can benefit from the unused debt capacity without significant increase in risk. Strategic acquirers are often described as large companies that are financially strong and prefer internal financing over external. Trahan's (1993) results also show that there is a connection between dividend policy and corporate acquirers. If a company has distributed dividends regularly, it is also more active in corporate acquisitions (Trahan, 1993). A history of dividend distribution indicates that the company has sufficient internal funds, so there is no need to resort to debt when financing an acquisition (Trahan, 1993).

Strategic acquirers are large companies that aim for longer-term value creation, synergies, market expansion, and operational efficiency. Strategic acquirers represent a more cautious and long-term financing policy than private equity companies. This is reflected, for example, in stable cash flows and moderate debt levels. Strategic acquirers and private equity firms often differ quite clearly in their objectives and financing solutions. Recognizing these differences provides a useful framework for examining deal structures, valuation, and differences in longer-term results. These differences are examined in later parts of this study.

2.2.3 Key differences in deal structuring and performance

The previous sections show that private equity-financed and strategic acquisitions differ in terms of objectives, valuation methods, and also financing structures. When analyzing the M&A market, understanding the differences is essential. Strategic acquirers are often more cautious. They seek operational benefits, market expansion, and longer-term returns. Private equity companies, however, are more risk-seeking. They focus solely on financial arrangements, and most often on short-term, sometimes medium-term returns.

According to Kaplan and Strömberg (2009), private equity firms are truly indebted in their financial structure, meaning that there is less equity. They finance acquisitions

using a leveraged buyout arrangement, the main idea of which is as follows: The target company's future cash flows pay the costs of the debt taken to finance the acquisition. When there is a lot of debt, it creates pressure and incentives for the company's management to make rational decisions and improve the efficiency of the target company's operations. According to Kaplan and Strömberg (2009), most private equity companies exit the target company within a few years after the company's goals have been achieved, even though the investment horizon is short. Although LBOs involve a lot of risk, as debt levels are high, Kaplan and Strömberg (2009) still emphasize that active ownership and well-structured incentive systems help reduce the risk incurred.

Internal financing keeps the debt ratio low. This structure is very familiar to strategic acquirers. Trahan's (1993) research find that companies with a small amount of debt are more likely to acquire companies, as they can utilize the benefits of debt without excessive risk of bankruptcy. The main goal of strategic buyers is to create synergies, integrate operations, and also to enter new markets and acquire new technology. Trautwein's (1990) theories also support these goals, as his efficiency and monopoly theories support that the motives of strategic buyers are often operational, rather than economic. Private equity firms rely on strong debt leverage and quick returns. Strategic buyers rely on their own resources, striving for sustainable and long-term growth through synergies.

2.3 Valuation and deal pricing in M&A

When defining the key aspects of M&A, pricing is often the first thing that comes to mind. At what price is a company acquired? Valuation determines how the value is divided between the buyer and the seller. In theory, valuation is based on data that is measurable, but in practice, it is also influenced by assumptions and expectations that are partly subjective. Deal pricing and justification of the purchase price are often described as a process that combines management judgment and financial analysis. The challenge here is to combine financial models, but also cash flows and risks. Companies also use

different pricing mechanisms, which are due to different investment horizons or different objectives. Acquisitions are primarily thought to have short-term financial effects, but in reality, they can create longer-term value.

2.3.1 Valuation framework and key pricing drivers

When starting to make corporate restructurings, the key question that arises is: What is the transaction price? Generally, companies' financial indicators are available to everyone, such as EBITDA or revenue, but how can the true value of a company be generally determined? In corporate finance, it can be thought that the value of a company can be determined in three ways. The first way focuses on cash flows, the second compares companies with similar industries, and the third way is based on accounting information, such as the book values of the balance sheet.

The most commonly used model is the discounted cash flow model (DCF). In this model, the future cash flows of companies are predicted and discounted to the present using the company's weighted average cost of capital (WACC). In this way, the enterprise value of the company is obtained. When the company's debts are deducted from this value, the value of equity is obtained. The central idea in this formula is that the value of a company is the present value of its future cash flows. Kaplan and Ruback (1995) studied how well DCF models work when determining the value of a company. Although their work uses a "compressed adjusted present value" model, which deviates slightly from the normal and traditional DCF model, it can still be applied for valuation purposes. Kaplan and Ruback's (1995) results show that models based on discounted cash flows provide reliable valuations that deviate from the actual transaction prices by less than 10 percent.

Another possible valuation model is market-based valuation. It uses the assumption that every company operating in the same industry, with a similar level of risk and business model, should have a similar value. In practice, using this model requires finding a

comparator in the market and using various valuation multiples, such as P/E (Price/Earnings), EV/EBITDA (Enterprise Value / Earnings Before Interest, Taxes, Depreciation, and Amortization), or EV/Sales (Enterprise Value / Sales). These different multiples give an idea of how much companies are willing to pay for the company based on these key figures. The most common models in the market-based model are comparable company analysis (CCA), which compares the key figures of comparable companies. Another model used is precedent transaction analysis (PTA), in which the value of a company is determined from completed transactions that have taken place in the same industry.

The third approach to valuation relies on the balance sheet. The value of a company is determined based on its assets and liabilities. The basic idea in this model is that the value of a company corresponds to its net assets, i.e., the book value of equity. Generally, these figures are adjusted to fair values, because market values are not always fully proportional to book values. The most common models are the balance sheet method and the adjusted net asset method, in which tangible and intangible assets are valued at fair values. Companies that are in capital-intensive markets have often preferred balance sheet-based valuation. This is also suitable for companies that are being dissolved or liquidated. Liu et al. (2002) investigated how these different valuation models predict the value of a company. A Study by Liu et al. (2002) gives the best estimates for cost-based and balance-sheet-based measures. In contrast, revenue-based measures received poor estimates. According to Liu et al. (2002), market-based valuation models are widely used because they are simple, but not necessarily theoretically as complete. Penman and Sougiannis (1988) also investigated these three different models in their own study by comparing them. According to Penman and Sougiannis (1988) results, each valuation model has a high correlation with the others, meaning that they tend to produce similar valuations for companies.

Contrary to common assumptions, valuation is also about more than data and numbers. It is also influenced by the potential seen by people and the market. Such behavioral

models can have a strong influence on the final purchase price, for example, in terms of behavioral impact and premiums paid.

2.3.2 Behavioral influences and deal premiums

The biggest assumptions in financial markets are that management and investors behave rationally. However, decision-making is influenced by self-confidence, optimism, and competitive pressure, which can be thought of as psychological factors rather than rational factors. When such factors take hold, decisions deviate from rational valuation models. The most visible consequence is that the company is being priced too high, as emotions and behavioral biases take over.

According to hubris hypothesis proposed by Roll (1986), business leaders tend to overestimate their own abilities and underestimate risks. This overconfidence leads managers to believe that they can run the company better than others. As a result, companies are often offered at excessively high prices, meaning that the purchase price exceeds the company's intrinsic value and the acquiring company must pay a premium. According to Roll (1986), such actions transfer value from the acquirer's shareholder to the target company's owner without creating new value. Roll's (1986) results further show that the target company's share price often increases after a corporate acquisition, while the acquiring company's share price often remains unchanged or decreases. In this case, investors see that they have paid too much for the company. Research by Malmendier and Tate (2008) supports Roll's (1986) findings. According to Malmendier and Tate (2008), overconfident CEOs are more likely to make acquisitions, especially when internal resources are abundant. In this case, the market reacts negatively, and prices fall. Malmendier and Tate's (2008) results therefore support the view that arrogance can destroy value rather than create it.

Thaler's (1988) research supports the views of Roll (1986) and Malmendier and Tate (2008). According to Thaler's winner's curse, the winner in auctions is the one who has

overestimated the value the most. In other words, the winner would have gotten away with less money than he actually paid. According to Thaler's (1988) research, this behavior is explained by bounded rationality and overconfidence. Although Thaler's (1988) results do not deal with mergers and acquisitions themselves, his findings can still be applied to M&A. When there is competition in the market and several different buyers want to buy the same company, typically the one who exceeds the market value the most and thinks the most optimistically wins the bidding. Mergers and acquisitions often involve premiums that can be thought of and interpreted as being caused by the winner's curse.

Overconfidence and overoptimism, and in general all behavioral factors, can lead business leaders to make decisions that deviate from rational expectations. In this case, companies are paid higher prices and, most often, the value of the company to the shareholders of the acquiring company decreases.

2.3.3 Pricing logic: private equity vs. strategic acquirers

The previous sections have highlighted how the valuation and structuring approaches used by strategic and private equity funds differ. It can therefore be assumed that their pricing logics also differ in acquisitions.

Private equity firms use high levels of debt and often structure their acquisitions as leveraged buyouts (LBOs). Kaplan and Strömberg (2009) highlight that these arrangements are designed to generate high returns for limited partners while also seeking to maximize the internal rate of return (IRR). Private equity investors have limited time horizons and clear return targets for acquisitions, which results to more disciplined, financially driven pricing. Since private equity investors use high levels of debt, it forces them to generate steady cash flows, which, according to Jensen (1986), also helps to reduce agency problems and, at the same time, helps the company focus on improving efficiency.

Strategic acquirers often think about acquisitions from a broader perspective, as their goals often include, in addition to financial benefits, entering new markets, acquiring new technologies, and synergies between functions. Jensen (1986) emphasizes that companies with high free cash flow rates are more prone to overpaying for acquisitions. The use of debt can be limiting, as it creates discipline and, at the same time, forces managers to make more cautious decisions. However, strategic acquirers overestimate the benefits of synergies, which are difficult to measure and which often lead to overly optimistic pricing.

Since the goals of private equity companies and strategic acquirers are different, their pricing logic also differs. Since strategic acquirers have a longer investment horizon and higher internal financing, they can also accept lower returns measured by the internal rate of return. Private equity investors, on the other hand, rely more heavily on debt leverage, which emphasizes shorter-term efficiency as well as the discipline that comes with high levels of debt. Taken together, private equity investors' pricing is more rational and less susceptible to behavioral factors and managerial biases, while strategic acquirers' pricing is often driven by broader objectives.

2.4 Theoretical links to long-term value creation

When assessing a company's success, it is necessary to take a longer-term view of its development and the factors that influence it. If a company wants to succeed in the long term, it must maintain its competitive advantage, maintain sufficiently large and stable cash flows, and above all, still find growth opportunities many years after the acquisition.

When talking about how capital structure affects long-term value creation, it is natural to talk about agency theory. When a company has debt, it encourages managers to act more disciplined and use the company's cash flows more judiciously, and avoid bad decisions or unnecessary investments. On the other hand, one should not rely too much

on debt, because if a company has too much debt, it can lose its flexibility and potential for future growth, which would reduce the company's longer-term value. Private equity companies operate in the short term and efficiently. This exposes them to the planning of their operations in terms of return targets, as well as issues of exit time, and thus guides their financing decisions. Strategic acquirers operate more flexibly and see value creation as a longer-term process. At a theoretical level, the optimal capital structure balances financial discipline, while at the same time enabling the possibility of sustainable growth.

Several different methods can be used to determine the value of companies. However, the true longer-term value is based on successful integration and operational performance. If a company overestimates the value of synergies, it can lead to overpricing of the company and thus weaken its long-term value.

Markets and decisions are always influenced by factors other than rational ones. Roll's (1986) hubris hypothesis and Thaler's (1988) winner's curse refer to situations where pressure from competition and the arrogance of managers lead to overpricing. Therefore, pricing based on rationality and realistic integration planning are key factors if a company wants to create sustainable value.

3 Deal pricing, leverage, and value creation in previous research

Previous chapters have presented theoretical differences between private equity firms and strategic acquirers, but this chapter examines how these differences appear in practice. This chapter draws on empirical evidence to understand how financing structure, pricing behavior, and post-acquisition performance differ between these two types of buyers.

This chapter is divided into three main parts. Section 3.1 discusses deal pricing and valuation differences. Section 3.2 looks at leverage and financing structures. Section 3.3 examines how value is created after the acquisition. Section 3.4 brings these results together and identifies the main research gap that current literature has not yet explained clearly. These findings help to form a clearer picture of how private equity and strategic acquirers behave in acquisitions, what kind of motives guide their decisions, and how these choices appear in long-term performance and value creation.

3.1 Deal pricing differences between private equity and strategic acquirers

To compare how private equity investors and strategic acquirers differ, it is important to examine the pricing of corporate acquisitions. The aim for deal pricing is to use as many theoretical bases as possible, but motives, expectations, and the financial situation affect the pricing of the deal.

The theoretical part provided the basis for how private equity firms use the leveraged buyout structure to finance a company with a relatively small amount of equity. Guo et al. (2011) examined 192 US corporate acquisitions from 1990 to 2006, all of which were over 100 million dollars in size. Their study focused on pricing, debt leverage, and post-acquisition performance. According to Guo et al. (2011) results, the average premium, i.e., the difference between the offer price and the share price before the deal was announced, was about 29%. This means that private equity companies paid about a third

more than the market price of the target company before it was announced. Guo et al. (2011) also show that the median EBITDA-to-equity ratio was 11.37%, corresponding to approximately 9x EBITDA, compared to 7.7x for S&P 500 companies. This suggests that private equity companies pay higher valuation multiples than public companies, even though private equity companies base their pricing on expected returns and realistic cash flow assumptions.

Officer et al. (2010) provide additional insight into how deal structure affects pricing. Their study compares acquisitions by individual funds to acquisitions by multiple private equity funds, which are collectively known as "club deals". Results by Officer et al. (2010) show that premiums paid in club deals were approximately 40% lower than those paid by individual private equity firms, even though the financial metrics were similar. This shows that the market dynamics and competition influence the pressure on firms to raise prices, whereas cooperation between companies reduces that pressure. These results provide insight into the fact that private equity firms' pricing is dependent on financial conditions, but also on competition between funds, as well as on market strategy.

Bargeron et al. (2008) studied private and listed buyers and compared their pricing. Although their study uses the terms "public" and "private" buyers, their results can still be applied to strategic acquirers. According to Bargeron et al. (2008) results, strategic acquirers paid a median premium of 46.5%. Officer et al. (2010) state that strategic acquirers tend to act alone most of the time, because their goals are to increase synergies and integrate operations. Therefore, the activity increases competition, which can also be reflected in the pricing of deals by strategic acquirers. Kaplan and Strömberg (2009) emphasize that private equity companies cannot pay too high premiums, as private equity firms operate under strict return targets and debt constraints. Strategic acquirers, on the other hand, can better justify the high premiums they pay, as they seek value over a longer period of time by exploiting synergies.

Pricing is quite different between these two actors. Strategic acquirers view acquisitions more broadly than private equity firms, considering synergy targets and the opportunities created by integration. Private equity companies operate in a disciplined manner and aim solely for returns when they acquire companies. In addition to deal pricing, the use of debt is another good way to differentiate these two different types of acquirers. Both types of acquirers use debt, but its role is slightly different for each. Private equity companies use debt financing to keep operations efficient and focused, while for strategic acquirers, debt is more of a tool for longer-term growth and integration. Section 3.2 discusses the use of debt between these two types of buyers in more detail.

3.2 Leverage and financing structures in M&A transactions

The use of debt has a strong impact on how companies finance their acquisitions and how they are managed after the deal. Debt is often thought of as just a financing tool, but it also has positive effects, for example, on the alignment of incentives or risk sharing. Empirical studies have shown clear differences in how debt is used and what kind of financing solutions these two types of buyers prefer.

Axelson et al. (2013) studied over a thousand leveraged buyout acquisitions, of which about half are from North America and the rest are from 24 different countries. Their results are in line with other empirical findings, which show that private equity-backed acquisitions are very debt-driven. The results of Axelson et al. (2013) also highlight the highly debt-driven nature of leveraged buyout transactions. According to results by Axelson et al. (2013), the average Debt/EBITDA ratio was 5.6, and the average debt-to-enterprise value was about 70 percent. Their results compared these to public buyers, which had similar results of 3.8 and 35 percent. Axelson et al. (2013) research also highlights the largest IPOs and secondary acquisitions, where debt levels rose to up to 6.5 times EBITDA. Results by Axelson et al. (2013) give a typical LBO structure of around 70-75 percent debt financing, with 25-30 percent of the financing coming from equity.

The loan is divided into three different levels, with a senior loan forming the base, and lower interest rates but stricter terms. This is followed by mezzanine and second lien loans, which increase debt but are also more expensive in terms of costs. Acharya et al. (2013) found in their study that by the mid-2000s, over 60 percent of LBO loans were sold to non-bank investors such as hedge funds. In this way, credit risk is spread across many different investors, but this transfer weakens the ability of lenders to control loan terms.

Axelsson et al. (2013) and Kaplan and Strömberg (2009) show that debt levels are very cyclical, meaning that more debt is taken when it is cheap and less when financing is expensive. These research results also support the "borrow cheap, buy high" pattern, whereby easy debt financing encourages higher debt leverage and higher company valuations. However, according to later research, strategic acquirers do not act in the same way, which means that the debt level of private equity deals is clearly more dependent on market cycles.

Moeller et al. (2004) research consists of over 12,000 US acquisitions from 1980 to 2001. Their results are in line with the theory presented in previous chapters, which suggest that strategic acquirers rely more on internal cash flows and equity than on debt. Moeller et al. (2004) research suggest that the average debt ratio for larger acquirers was about 29 percent, while for smaller acquirers it was about 33 percent. Therefore, Moeller et al. (2004) result supports the idea that company's size affects strategy related to debt. Blomkvist et al. (2022) study suggests that strategic acquirers vary their debt levels, in this case, lowering their debt levels before the acquisition to have a better chance of winning the bidding process. Blomkvist et al. (2022) results suggest that firms' debt levels return to normal after the acquisition. Uysal (2011) supports this view with his study. According to Uysal (2011), firms with lower debt ratios make more acquisitions than more indebted firms. Findings by Uysal (2011) also shows that the use of debt limits the use of cash transactions, and thus also reduces the share of cash in bids. According

to Uysal's (2011), financing challenges are bigger problems than the ease of borrowing, which also easily affects how acquisitions are financed.

In short, strategic acquirers rely more on equity and less on debt in their financing than private equity firms, which are driven by high levels of leverage and market cycles. Strategic acquirers view debt more as a tool to support longer-term growth and integration, whereas private equity firms use debt to optimize returns and as a means to improve discipline. These differences have a big impact on the kind of returns that acquisitions achieve, which the next section discusses.

3.3 Post-acquisition performance and long-term value creation

The purpose of an acquisition is not merely to increase leverage or justify a high purchase price, but to create long lasting value. The previous sections have provided empirical evidence on deal pricing and the use of debt between these two types of buyers. Deal pricing and debt levels can create the basic framework for acquisitions, but value creation is also affected by, for example, how well the target company's operations can be developed and made more efficient.

Acharya et al. (2013) studied 395 European private equity deals that were made by 37 large private equity firms. The main purpose of their study was to distinguish the sources of value creation, i.e., operational improvements and the use of debt. According to the results by Acharya et al. (2013), the average internal rate of return was 56.1 percent, of which 34% was created through operational efficiency, and about 50% was created because of the use of debt. This result by Acharya et al. (2013) supports the idea that private equity firms also improve the operations of target companies, and that returns are not based solely on financial solutions. Study by Acharya et al. (2013) also highlights how target companies' EBITDA/revenue ratio improved by 0.4 percentage points, and EBITDA/enterprise value ratio improved by about 16% compared to the industry median. Acharya et al. (2013) also show that the top-performing private equity firms are able to

generate strong long-term performance. In these situations, operational partners, who are former CFOs or consultants, focus on organic growth and improving efficiency. Financial partners are more responsible for the target company's inorganic growth through optimization and capital structures. Acharya et al. (2013) also highlight in their study how the median debt/equity ratio decreases from 1.9 to 0.8 and the debt/EBITDA ratio from 4.1 to 3.0 by the time of exit. This view is also supported by Guo et al. (2011). According to Guo et al. (2011), the value of LBO targets increases during the ownership period, as market returns are 72.5 percent and risk-adjusted returns are 40.9 percent. According to Guo et al. (2011) results, the value creation of LBO deals has been based on different areas in the 1980s, as it is in the 2000s. Guo et al. (2011) research shows that the 1980s, value creation was practically based solely on improving efficiency, while in the 2000s, value creation was also due to debt leverage and operational development. Harris et al. (2014) show how LBO funds have exceeded the return of the stock market with an annual excess return of 4 percent, while the PME figure was 1.20. These results encourage the idea that private equity firms are also successful in creating value over the longer term.

Much more mixed results are available on strategic acquirers. Moeller et al. (2005) studied 12,000 US acquisitions from 1980 to 2001 and found that strategic acquirers significantly destroyed shareholder value, especially in the 1980s, when acquisition activity was particularly high. Moeller et al. (2005) results show that between 1998 and 2001, shareholders lost a total of about 240 billion dollars, or about 12 cents for every dollar spent on acquisitions. However, in the 1980s, the same result was about 1.60 dollar for every dollar spent. Moeller et al. (2005) suggest that these losses are not related to any major market reversals, but rather to a few very large loss-making acquisitions in which the expected synergies did not materialize. According to Moeller et al. (2005), there were only 87 of poor acquisitions, which managed to account for most of the lost value, although they correspond to about 2 percent of all acquisitions in the study. The market also reacted negatively to these acquisitions, with the average

abnormal return (CAR) being significantly more negative: the mean t-statistic was -5.49 and the median -4.49, indicating that investors had very negative expectations regarding these acquisitions. Moeller et al. (2005) wanted to investigate whether these bad results could be explained by general industry conditions alone, but they found that the industry-adjusted abnormal returns were still significantly negative. Fuller et al. (2002) research examines market reactions to companies that make multiple acquisitions in a short period of time. According to Fuller et al. (2002) results, the results depend very much on the type of target company. On average, acquirers achieve a cumulative abnormal return (CAR) of 1.77 percent, but the returns vary depending on the target company: -1.00 percent for listed companies, +2.08 percent for private companies, and +2.75 percent for subsidiaries. The market therefore, reacts better if the target is a private company or subsidiary. According to Fuller et al. (2002) study, this could be explained by a lower purchase price or better integration opportunities. Fuller's (2002) study also found that the payment method affects market reactions, as deals financed with stock exchanges receive on average, more negative reactions compared to deals paid in cash. According to Fuller et al. (2002), this phenomenon would support the idea that a stock-financed acquisition signals that management holds the company's own shares overvalued.

Research has shown that these two players are quite different when it comes to how a company is managed after an acquisition. Private equity firms' actions offer opportunities for better performance and higher returns. Strategic acquirers can also lose shareholder value due to over-optimism and equity-based financing. Ultimately, what matters in creating long-term value is how well the buyer handles the integration and how managers steer the business development after the acquisition.

3.4 Synthesis and identified research gap

The previous chapters have shown clear differences in how private equity firms and strategic acquirers approach acquisitions. Taken together, these different buyers have

formed two different value creation paths, with differences in pricing behavior, financing structure, and post-acquisition performance. One emphasizes the use of leverage and financial discipline, while the other emphasizes longer-term strategic goals.

As mentioned in the previous chapters, private equity investors are very debt-driven, seeking high returns by leveraging high debt levels and efficient financing solutions. Strategic acquirers are content with lower debt ratios and setting goals for synergies, market expansion, and operational integration, i.e., longer-term goals. Empirical results from private equity firms show that they generate clear and consistent returns, while the results of strategic acquirers are variable.

The research literature on the subject is quite comprehensive and extensive, but there are also some shortcomings. Most of the research is based on the U.S. market, and it is not clear with sufficient certainty whether similar reactions occur in the Nordic countries, especially Finland. Another gap that the research literature has not found a clear answer to is how strategic acquirers price their acquisitions, what valuation multiples they use, or how their financing solutions affect the final results of the acquisition. In contrast, there is a wealth of empirical data available on private equity firms, such as gearing ratios, IRR figures, PME ratios, or EV/EBITDA ratios.

Thus, this gap in the research literature highlights the differences between these two types of buyers. The pricing behavior of strategic acquirers has remained quantitatively somewhat poorly described and case-specific. For this reason, further research would be good to focus on how strategic acquirers form their valuations compared to buyers with a financial background. Future research could examine how pricing relates to debt use, expected returns, and synergy objectives. Such research would help assess whether strategic acquirers typically pay higher or lower acquisition prices.

4 Discussion and conceptual analysis

This chapter brings together the key findings of the study, which are compared with the theories presented in Chapter 2. The aim is to assess how well the empirical results correspond to the underlying theories and what they reveal about the differences between private equity funds and strategic acquirers. In addition, the chapter reviews the formulated hypotheses (H1-H3) and research questions (RQ1-RQ3), which are related to leverage, deal pricing, and long-term value creation.

Section 4.1 compares empirical findings with the theoretical assumptions of leverage and deal pricing and connects them with the first two hypotheses. Section 4.2 brings together the findings and examines how private equity funds and strategic acquirers differ from each other from different perspectives. Finally, Section 4.3 discusses how these factors influence long-term value creation and evaluate the third hypotheses, as well as what overall conclusions can be drawn from the results.

4.1 Evaluation of conceptual hypotheses

This section assesses how the empirical results support the theoretical assumptions about capital structures and pricing presented in Section 2. Post-acquisition performance and longer-term effects are discussed in more detail in Section 4.3

The first hypothesis (H1) and research question (RQ1) focus on leverage and capital structure. Theoretical sections 2.1.1-2.1.4 emphasize the firms' weighting and optimizing use of debt relative to tax shield, bankruptcy risk, and cost of equity. In addition, agency theory suggests that debt has a disciplinary effect that combines the preferences of investors and managers and thus encourages efficient decision-making. The empirical results for private equity firms support these theoretical implications quite well. Acharya et al. (2013) and Axelson et al. (2013) both show that debt levels in LBOs

are very high: The debt/EBITDA ratio is on average 5.6, and the average debt as a percentage of firm value is around 70 percent, in contrast to strategic acquirers, who have more moderate debt, around 30 percent of firm value. Furthermore, the study also shows that debt levels in LBOs vary with market cycles, and not with profitability or risk profiles. This behavior deviates from the assumptions of the trade-off theory, according to which the debt structure is rationally optimized at the firm level. The pecking order theory, on the other hand, receives support from strategic acquirers, as they primarily rely on internal financing and accumulated cash flows. The agency theory receives support from private equity firms, as they use debt specifically as a tool for financial discipline and performance management. The empirical results, therefore, support H1.

The second hypothesis (H2) and research question (RQ2) are related to premiums and acquisition price formation. In the theoretical part, Modigliani and Miller (1958) and Myers and Majluf (1984) assume that the value of a firm reflects the expected value in relation to future returns and risk. However, Roll's (1986) hubris hypothesis and Thaler's (1988) winner's curse emphasize that company management can overestimate synergies and thus overpay for acquisitions. Empirical data support these theories. According to Guo et al. (2013), private equity funds typically pay premiums of 29-30 percent, and their pricing remains clearly within a disciplined framework. Strategic acquirers, on the other hand, pay higher premiums, especially when targeting new markets or seeking new synergies, which is also reflected in the median premium, which is about 46.5 percent (Bargeron et al., 2008). Thus, private equity funds act more rationally and in closer alignment with financial theory than strategic acquirers, who seems to be very susceptible to behavioral theories. Empirical results support H2 and suggest that strategic acquisitions are more susceptible to overpricing, especially when the market is optimistic and when the acquisitions are trending.

Overall, theoretical models provide reasonable support for the behavior of private equity funds, which is in line with agency theory and partly in line with trade-off theory, as the level of debt is also driven by market cycles. However, private equity firms use debt in a

disciplined manner, and pricing is based on return requirements. These are also supported by control and incentive mechanisms. The empirical results of strategic acquirers are not as consistent with theory as those of private equity firms. Strategic acquirers' decision-making is based more on behavior and organization than on theoretical foundations. This is also reflected in the unevenness of pricing. Thus, private equity can be seen as more compatible with theories than strategic acquirers.

4.2 Integrative discussion: PE vs. strategic differences

Empirical evidence and theory on deal pricing, use of debt, and ownership structure allow us to examine these two different types of buyers. It is clear that private equity funds and strategic acquirers approach acquisitions differently. This section brings together these findings and shows how financing decisions and corporate structures affect the decision-making of these two different buyers.

Private equity firms operate on a principle that is highly debt-driven, using incentives, active ownership, and decision-making that is strongly structured, guided by return targets, and strict control. Acharya et al. (2013) and Axelson et al. (2013) show that private equity funds use high levels of debt, which forces them to use cash flows more efficiently and, at the same time, discipline management. Such findings are in line with agency theory, which states that increasing debt reduces conflicts of interest between investors and managers, while also increasing financial pressure. Jensen (1986) also emphasizes that high debt helps to reduce the free cash flow problem, as debt forces the use of free cash flow in productive assets rather than in unproductive ones. Strategic acquirers often rely on internal financing and a moderate amount of debt, which is in line with the pecking order theory. According to the pecking order theory, established companies prefer internal financing and retained earnings over external financing.

Differences can also be observed in how these two types of acquirers react to cyclical fluctuations. Private equity funds closely follow economic cycles, as Axelson et al. (2013)

research shows that private equity players are strongly linked to the state of credit markets and also to the general level of interest rates. When credit is easily available, leverage and valuation levels increase, indicating that private equity funds are strongly dependent on market liquidity. Strategic acquirers, on the other hand, are more reactive to changes in the industry. Strategic acquirers are more active in waves of acquisitions, when competition in the market becomes more intense (Moeller et al. 2005). Since strategic acquirers are relatively cyclical, this somewhat separates them from traditional rational capital market theories. Instead, they emphasize behavior and the importance of situational factors in decision-making.

One of the main differences between these two types of acquirers is in ownership and management structures. Since private equity funds operate within a limited investment period and are closely monitored by investors, this creates constant pressure to improve results. Such a setup binds ownership and decision-makers together. Kaplan and Strömberg (2009) point out that the capital structures of private equity funds allow for the necessary changes to be made quickly, because the processes are short. Strategic acquirers are at the opposite end of this, as they are usually large companies where employees are divided into several levels and objectives that are not only financial. Strategic acquirers often have a rigid, hierarchical decision-making process, where decision-making is slow, and management responsibilities can become blurred. As strategic acquirers seek synergies and a stronger market position, integration and cultural differences can make it difficult to achieve the expected benefits.

Private equity firms represent a more structured and theory-driven approach to acquisitions, where leverage, incentives, and ownership steering are very much present. Strategic acquirers, on the other hand, experience challenges that arise from company size, organizational structures, and, at times, overconfidence in their own strategic goals. This leads to more variable results for strategic acquirers. However, private equity funds and strategic acquirers are not opposites of each other, but simply two different ways of creating value. Private equity provides more of an example of disciplined action aimed

at improving efficiency, while strategic acquirers show how long-term planning and the pursuit of synergies can create sustainable value. These two different types of buyers complement each other when creating an overall picture of how acquisitions work in practice.

4.3 Implications for long-term value creation

The ultimate goal of any acquisition is to create longer-term value, to which strategic acquirers and private equity firms follow different paths. This paper draws on previous findings on the use and pricing of debt to assess whether strategic acquirers create more long-term value as suggested in H3. It also answers RQ3 on how financing and pricing decisions affect post-acquisition performance.

The ownership model of private equity players is active, based on financial discipline, as well as strict return targets. Although these players usually have a limited investment horizon, private equity investors have also been shown to influence the long-term value creation of target companies beyond the period of ownership. Acharya et al. (2013) and Guo et al. (2011) studies found that a significant portion of value creation comes from operational improvements, rather than the use of debt. According to Acharya et al. (2013), about a third of the returns were related to better efficiency and management practices. Harris et al. (2014) also show in their own study how private equity funds have produced an average of about four percentage better than the stock market per year worldwide. These findings provide a clear view that the value created during private equity ownership continues to grow even after the exit, especially when the changes remain permanent parts of the company's strategy.

Strategic acquirers' goals are broader, and their success depends on many moving parts. Therefore, their situation is also different. Since Strategic acquirers strive for synergies, target new market areas, and strengthen their position in the market, the goals are not always easy, which is why they may not always be realized as planned. Moeller et al.

(2005) and Fuller et al. (2002) show in their studies how strategic acquirers vary in terms of value creation. Their results provide insight into the fact that some strategic acquirers create value, but many destroy it because integration is difficult and the expected synergies are not achieved. Moeller et al. (2005) observe in their study how shareholder values were destroyed in many cases in the late 1990s and early 2000s because expectations were too high. Fuller et al. (2002) observed in their study how the market reacts more positively on average to the announcement of an acquisition when the target is a private company or subsidiary, since these deals are easier to manage and the synergies are easier to realize. In other words, integrations are successful when they are realistically planned and not overestimated.

Empirical findings provide evidence that both types of acquirers are successful in creating long-term value, even though the ways of operating are noticeably different from each other. Based on the results, hypothesis H3 is only partially supported. Strategic acquirers can achieve long-term benefits if their integration is successful, but private equity funds can achieve the same, or even better, results with discipline and operational focus.

The most important conclusion is to understand that long-term value creation does not depend on what kind of company acquires the company, but on what the owner does after the transaction. Strategic acquirers remind us how the success of long-term value creation depends on people, company culture, and on how the integration works in the company's everyday life. Both different types of acquirers contain their own strengths, but long-term value creation occurs when the company is managed well after the acquisition, regardless of the owner.

5 Conclusions

The aim of this study was to gain an understanding of how private equity funds and strategic acquirers differ in their use of debt, purchase price determination, and long-term value creation. The empirical results suggests that private equity funds are more clearly guided by economic intelligence and rationality than strategic acquirers, which are strongly influenced by behavioral factors and strategic goals. Private equity companies rely heavily on debt and targets for returns, but strategic acquirers emphasize improving longer-term competitiveness.

Based on the empirical results, private equity funds use higher levels of debt than strategic acquirers. These findings support the argument that debt has a disciplinary effect, reducing agency problems and limiting the misuse of excess cash flow. Strategic acquirers act like the pecking order theory, since they rely more on internal financing and use less debt, while private equity players are more rational and stay better within their own goals, and therefore aligns better with agency theory. Strategic acquirers are overoptimistic and often overestimate synergies, which is reflected in higher premiums and fluctuations in results.

The evaluation of the study's hypotheses is straightforward and clear based on the empirical results. The first hypothesis is supported, as LBOs with a strong presence in private equity activities use significantly more debt than strategic acquirers, whose debt levels are lower. The second hypothesis of this study is also supported, as the results clearly show how strategic acquirers pay higher premiums than private equity players. However, the third hypothesis of the study is only partially supported, as strategic acquirers can create good long-term value when integration is successful and synergies are realized. However, empirical studies show that private equity companies can also achieve the same results, if not better results, thanks to their disciplined and efficient operations.

The results of this study can also be widely utilized, and therefore, the results of the study can be of practical importance to company management and investors. Leverage can be a very effective tool if it is also combined with incentives and active ownership, as private equity companies do. However, it emphasizes the importance of risk management, which should not be underestimated. Decision-makers of strategic companies should be careful and thoughtful when examining the synergy benefits of the acquired company, as overly optimal pricing can weaken the company's longer-term value creation. In this case, the board and other decision-makers should not focus solely on the purchase price but critically review the upcoming transaction and ensure that the goals are realistic and the integration can be implemented without problems.

The results of this study provide direct insight into the fact that every private equity company or strategic acquirer can succeed in an acquisition, but it requires the right solutions after the acquisition. Long-term improvements can be achieved with financial discipline and incentives when talking about private equity companies, but strategic acquirers emphasize the importance of integration and organizational culture. In the future, research should focus more on the pricing behavior of strategic acquirers. Research in the Nordic countries, especially Finland, should also be increased, as additional information from here could provide many new perspectives on the literature, which is largely based on the United States.

References

- Acharya, V. V., Gottschalg, O. F., Hahn, M., & Kehoe, C. (2013). Corporate Governance and Value Creation. Evidence from Private Equity. *Review of Financial Studies*, 26(2), 368-402. <https://research-ebSCO-com.proxy.uwasa.fi/c/slwlh3/viewer/pdf/rylxffpkub?route=details>
- Axelson, U., Jenkinson, T., Strömberg, P., & Weisbach, M.S. (2013). Borrow Cheap, Buy High? The Determinants of Leverage and Pricing in Buyouts. *The Journal of Finance*, 68(6), 2223-2267. <https://research-ebSCO-com.proxy.uwasa.fi/c/slwlh3/viewer/pdf/h4sypp3ssv?route=details>
- Bargeron, L., Schlingemann, F. P., Stulz, R.M., & Zutter, C. J. (2008). Why do Private Acquirers Pay So Little Compared to Public Acquirers? *Journal of Financial Economics*, 89(3), 375-390. <https://www-sciencedirect-com.proxy.uwasa.fi/science/article/pii/S0304405X08001025?via%3Dihub>
- Blomkvist, M., Felicson, K., Löflund, A., & Vyas, H. (2022). Strategic Underleveraging and Acquisitions. *Journal of Corporate Finance*, 76, 102283. <https://www-sciencedirect-com.proxy.uwasa.fi/science/article/pii/S0929119922001262>
- Boucly, Q., Sraer, D., & Thesmar, D. (2011). Growth LBOs. *Journal of Financial Economics*, 102(2), 432-453. <https://www-sciencedirect-com.proxy.uwasa.fi/science/article/pii/S0304405X11001371>
- Cui, H., Leung, S. C.-M. (2020). The Long-run Performance of Acquiring Firms in Mergers and Acquisitions: Does Managerial Ability Matter? *Journal of Contemporary Accounting & Economics*, 16(1), 100185. <https://www-sciencedirect-com.proxy.uwasa.fi/science/article/pii/S1815566919300426?via%3Dihub>
- Cumming, D., Siegel, D. S., & Wright, M. (2007). Private Equity Leveraged Buyouts and Governance. *Journal of Corporate Finance*, 13(4), 439-460. <https://www-sciencedirect-com.proxy.uwasa.fi/science/article/pii/S0929119907000272>
- Du, D., & Gerety, M. (2018). Do Private Acquirers Pay Less Compared to Public Acquirers? *Economic Letters*, 164, 35-37. <https://www-sciencedirect-com.proxy.uwasa.fi/science/article/pii/S0165176517305311?via%3Dihub>

- Fidrmuc, J. P., Roosenboom, P., Paap, R., & Teunissen, T. (2012). One Size Does Not Fit All: Selling Firms to Private Equity Versus Strategic Acquirers. *Journal of Corporate Finance*, 18(4), 828-848. <https://www-sciencedirect-com.proxy.uwasa.fi/science/article/pii/S0929119912000570>
- Fuller, K., Netter, J., & Stegemoller, M. (2002). What do Returns to Acquiring Firms Tell us? Evidence From Firms That Make Many Acquisitions. *The Journal of Finance*, 57(4), 1763-1793. <https://research-ebSCO-com.proxy.uwasa.fi/c/slwLh3/viewer/pdf/n2cl5hfinv?route=details>
- Guo, S., Hotchkiss, E. S., & Song, W. (2011). Do Buyouts (still) Create Value? *Journal of Finance*, 66(2), 479-517. <https://research-ebSCO-com.proxy.uwasa.fi/c/slwLh3/viewer/pdf/d43d6tonsr?route=details>
- Harris, M., & Raviv, A. (1991). The Theory of Capital Structure. *Journal of Finance*, 46(1), 297-355. <https://onlinelibrary-wiley-com.proxy.uwasa.fi/doi/full/10.1111/j.1540-6261.1991.tb03753.x>
- Harris, R. S., Jenkinson, T., & Kaplan, S. N. (2014). Private Equity Performance: What do we Know? *The Journal of Finance*, 69(5), 1851-1882. <https://research-ebSCO-com.proxy.uwasa.fi/c/slwLh3/viewer/pdf/vamdmqkaqb?route=details>
- Haugen, R. A., & Senbet, L. W. (1981). Resolving the Agency Problems of External Capital through Options. *The Journal of Finance*, 36(3), 629-647. <https://research-ebSCO-com.proxy.uwasa.fi/c/slwLh3/viewer/pdf/s46oztgc7f?route=details>
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, 3(4), 305-360. <https://www.sciencedirect.com/science/article/pii/0304405X7690026X>
- Jensen, M. C. (1986). Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers. *American Economic Review*, 76(2), 323-329. <https://research-ebSCO-com.proxy.uwasa.fi/c/slwLh3/viewer/pdf/jwlvixdwj?route=details>
- Kaplan, S. N., Ruback, R. S. (1995). The Valuation of Cash Flow Forecasts: An Empirical Analysis. *The Journal of Finance*, 50(4), 1059-1093. <https://research-ebSCO-com.proxy.uwasa.fi/c/slwLh3/viewer/pdf/kkdbsgoc7v?route=details>

- Kaplan, S. N., & Strömberg, P. (2009). Leveraged buyouts and private equity. *Journal of Economic Perspectives*, 23(1), 121-146. <https://research-ebSCO-com.proxy.uwasa.fi/c/slwLh3/viewer/pdf/qvOreObkgi?route=details>
- Kraus, A., & Litzenberger, R. H. (1973). A State-Preference Model of Optimal Financial Leverage. *The Journal of Finance*, 28(4), 911-922. <https://research-ebSCO-com.proxy.uwasa.fi/c/slwLh3/viewer/pdf/gign44a4er?route=details>
- Liu, J., Nissim, D., & Thomas, J. (2002). Equity Valuation Using Multiples. *Journal of Accounting Research*, 40(1), 135-172. <https://research-ebSCO-com.proxy.uwasa.fi/c/slwLh3/viewer/pdf/o45o4y2z6z?route=details>
- Malmendier, U., & Tate, G. (2008). Who Makes Acquisitions? CEO Overconfidence and the Market's Reaction. *Journal of Financial Economics*, 89(1), 20-43. <https://www-sciencedirect-com.proxy.uwasa.fi/science/article/pii/S0304405X08000251?via%3Dihub>
- Malmendier, U., Moretti, E., & Peters, F.S. (2018). Winning by Losing: Evidence on the Long-run Effects of Mergers. *The Review of Financial Studies*, 31(8), 3212-3264. <https://research-ebSCO-com.proxy.uwasa.fi/c/slwLh3/viewer/pdf/figguxcvsv?route=details>
- Modigliani, F., & Miller, M. H. (1958). The Cost of Capital, Corporation Finance and the Theory of Investment. *The American Economic Review*, 48(3), 261-297. <https://research-ebSCO-com.proxy.uwasa.fi/c/slwLh3/viewer/pdf/rbh4dpOz4b?route=details>
- Modigliani, F. & Miller, M. H. (1963). Corporate Income Taxes and the Cost of Capital: A Correction. *The American Economic Review*, 53(3), 433-443. <https://research-ebSCO-com.proxy.uwasa.fi/c/slwLh3/viewer/pdf/mpiod4hgen?route=details>
- Moeller, S. B., Schlingemann, F. P., & Stulz, R. M. (2004). Firm Size and the Gains from Acquisitions. *Journal of Financial Economics*, 73(2), 201-228. <https://www-sciencedirect-com.proxy.uwasa.fi/science/article/pii/S0304405X04000327>
- Moeller, S. B., Schlingemann, F. P., & Stulz, R. M. (2005). Wealth Destruction on a Massive Scale? A Study of Acquiring-Firm Returns in the Recent Merger Wave. *The Journal*

- of Finance*, 60(2), 757-782. <https://research-ebSCO-com.proxy.uwasa.fi/c/slwLh3/viewer/pdf/avqhk4qg2n?route=details>
- Murray, Z., & Vidhan, G. K. (2003). Testing the Pecking Order Theory of Capital Structure. *Journal of Financial Economics*, 67(2), 217-248. <https://www-sciencedirect-com.proxy.uwasa.fi/science/article/pii/S0304405X02002520>
- Myers, S. C. (1984). The Capital Structure Puzzle. *The Journal of Finance*, 39(3), 574-592. <https://onlinelibrary-wiley-com.proxy.uwasa.fi/doi/full/10.1111/j.1540-6261.1984.tb03646.x>
- Myers, S. C., & Majluf, N.S. (1984). Corporate Financing and Investment Decisions When Firms Have Information that Investors Do Not Have. *Journal of Financial Economics*, 13(2), 187-221. <https://www-sciencedirect-com/science/article/abs/pii/0304405X84900230>
- Officer, M. S., Ozbas, O., & Sensoy, B. A. (2010). Club Deals in Leveraged Buyouts. *Journal of Financial Economics*, 98(2), 214-240. <https://www-sciencedirect-com.proxy.uwasa.fi/science/article/pii/S0304405X10001339>
- Penman, S.H., & Sougiannis, T. (1988). A Comparison of Dividend, Cash Flow, and Earnings Approaches to Equity Valuation. *Contemporary Accounting Research*, 15(3), 343-383. <https://research-ebSCO-com.proxy.uwasa.fi/c/slwLh3/viewer/pdf/wn63r4plcz?route=details>
- Roll, R. (1986). The Hubris Hypothesis of Corporate Takeovers. *Journal of Business*, 59(2), 197-216. <https://research-ebSCO-com.proxy.uwasa.fi/c/slwLh3/viewer/pdf/35nvsvadgf?route=details>
- Seth, A. (1990). Sources of Value Creation in Acquisitions. An Empirical Investigation. *Strategic Management Journal*, 11(6), 99-115. <https://research-ebSCO-com.proxy.uwasa.fi/c/slwLh3/viewer/pdf/wuuvha2utr?route=details>
- Thaler, R. H. (1988). Anomalies: The Winner's Curse. *Journal of Economic Perspectives*, 2(1), 191-202. <https://research-ebSCO-com.proxy.uwasa.fi/c/slwLh3/viewer/pdf/xar3wwcwhz?route=details>
- Trahan, E.A. (1993). Financial Characteristics of Acquiring Firms and Their Relation to the Wealth Effects of Acquisition Announcements. *Journal of Economics and Finance*,

17(2), 21-35. <https://research-ebSCO-com.proxy.uwasa.fi/c/slwIh3/viewer/pdf/gtiycxmbyz?route=details>

Trautwein, F. (1990). Merger Motives and Merger Prescriptions. *Strategic Management Journal*, 11(4), 283-295. <https://research-ebSCO-com.proxy.uwasa.fi/c/slwIh3/viewer/pdf/my4rbq6o4f?route=details>

Uysal, V.B. (2011). Deviation from the target capital structure and acquisition choices. *Journal of Financial Economics*, 102(3), 602-620. <https://www-sciencedirect-com.proxy.uwasa.fi/science/article/pii/S0304405X11001620>