BUSINESS VALUATIONS:
FUNDAMENTALS, TECHNIQUES
AND THEORY (FT&T)

CHAPTER 7
REVIEW QUESTIONS
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Chapter 7: Valuation Discounts and Premiums

1. Select the reason(s) why a discount for lack of marketability (DLOM) for a controlling interest, even one that is 100%, may be applicable.
   a. Uncertain time horizon to complete the offering or sale
   b. Cost to prepare for and execute the offering or sale
   c. The eventual sale price is finalized
   d. Market conditions may require a quick sale

2. What circumstances permit the additive application of the DLOC and DLOM?
   a. There are no circumstances permitting additive application of discounts
   b. When the DLOM is applied prior to the DLOC
   c. When the DLOC is applied prior to the DLOM
   d. All circumstances require the addition of all applicable discounts

3. Which of the following best describes the concept of marketability?
   a. How much one will be paid for a bundle of rights
   b. The best listing price to get the greatest number of buyers
   c. How quickly an interest can be sold in terms of cash
   d. Having control of the assets of a business

4. The DLOM and DLOC show a relationship in valuations that:
   a. Indicate it is more difficult to sell a non-controlling (i.e., minority) interest in any privately-held business than to sell a controlling interest in that same business
   b. The greater the DLOC, the greater the DLOM
   c. A DLOM is only available for a non-controlling interest, which is also subject to a DLOC
   d. Indicate it is harder to sell a controlling interest in any business than to sell a non-controlling (i.e., minority) interest in that same business
5. It would be appropriate for the valuation analyst to use the restricted stock studies DLOM average of 35% in the valuation of a non-controlling (i.e., minority) interest.

   a. Yes. The studies were done by well-known entities, including the SEC, and, as such, can be trusted by the valuation analyst and report receiver to be accurate.
   b. No. Not all the studies are published, and, therefore, those numbers must be deleted from what the valuation analyst uses.
   c. Yes. The studies are updated periodically, so the average is current and applicable to today’s valuations.
   d. No. The average rate of 35% may be used as a starting point for the valuation analyst.

6. The formula used to generate an implied minority interest discount from control premium data (such as found in the Mergerstat Review) is:

   a. 1 minus ((1) divided by (1 minus Control Premium))
   b. 1 plus ((1) divided by (1 plus the control premium))
   c. 1 minus ((1) multiplied by (1 plus the control premium))
   d. 1 minus ((1) divided by (1 plus the control premium))

7. In a valuation in which the valuation analyst applies both a marketability discount and a discount for lack of control, the application of the discounts is additive not multiplicative.

   a. True
   b. False

8. Which level of value would be considered equivalent to owning stock in a publicly traded company?

   a. Control marketable
   b. Minority marketable
   c. Synergistic value
   d. Minority non-marketable

9. The ability of an individual to set company policy, appoint management, and ability to determine dividend policy and payments are examples of:

   a. A minority interest
   b. A control interest
   c. An equal shareholder with 50% operating control
   d. A shareholder of a publicly traded company

10. The following are sources of empirical data on control/minority interests EXCEPT for:

    a. Mergerstat Review
    b. Morningstar Principia
    c. SEC Studies
    d. Emory Studies
11. It would not be surprising for a valuation analyst to have the same marketability discount for a controlling interest as they would when valuing a minority interest.

   a. True
   b. False

12. Which of the following factors may increase a marketability discount?

   a. Restrictions on transfer, limited access to financial information, and an imminent public offering
   b. Little or no dividends, little prospect of going public, and high dividend payouts
   c. Low dividend payouts, limited access to financial information, and an imminent public offering
   d. Restrictions on transfers, little or no dividends, and limited access to financial information

13. What are the two primary cases listed in the Internal Revenue Service Valuation Training for Appeals Officers as the basis for discounts for lack of marketability?

   a. Simplot and Central Trust Co.
   b. Central Trust Co. and Estate of Andrews
   c. Estate of Andrews and Estate of Gross
   d. Estate of Gross and Estate of Adams

14. Which court case specifically isolates the issue of marketability discounts?

   a. Simplot and Central Trust Co.
   b. Estate of Kelly
   c. Mandelbaum
   d. Gross

15. It would be appropriate for a valuator, when adjusting assets to their fair market value, to also make an adjustment for the liability resulting from a built-in capital gains tax.

   a. True
   b. False

16. Transactions offering a substantial amount of a single entity’s stock, which visibly creates a supply that exceeds current demand may result in a:

   a. Blockage discount
   b. Key person discount
   c. Restrictive agreement discount
   d. Investment company discount
Chapter 7 Bonus Questions Responses

1. Your state ________________ What does your state consider a majority interest?

2. Synergy—what is this and how does it affect value?
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