Applying Control Premiums or Minority Discounts

- When dealing with discounts and premiums it is essential to specify the level of value to which the discounts or premiums are applied.

- The valuation report should identify the level of value it has estimated.

- Control premium or minority discount is primarily described by the projected cash flow.

- When control cash flows are used, a control premium is not necessary.

- The opposite holds true:
  - Minority cash flows are used when valuing a minority interest and a control premium is not applied.

Should You Apply Control Premiums Or Minority Discounts?

- When a controlling level of value is the result of the business valuation approaches and methods applied, a control premium should not be applied.

- A controlling level of value is the result of applying the following business valuation methods:
  - Capitalization or DCF model where the economic income in the numerator represents the expected cash flows by a controlling owner.
  - The guideline transaction methods, where the guideline transactions represent sales of controlling interests in public or private companies.
  - The guideline public company method, where the guideline companies already trade at the control value, this is a controversial area, some analysts apply a control premium.
and some don’t after arriving at an indication of value from the guideline public company method
- An asset approach will generally result in a controlling level of value, so a controlling premium would not be needed

- As a result, a control premium will commonly be applied to the indication of value resulting from the guideline public company method

- When a non-controlling level of value is the result of the business valuation approaches and methods applied, a minority should not be applied

- A non-controlling level of value is the result of applying the following business valuation methods:
  - Capitalization or DCF model where the economic income in the numerator represents the expected cash flows by a non-controlling owner
  - The guideline public company method, where the public guideline companies trade at minority values (this is a controversial area)
  - As a result, a minority discount will commonly be applied to the indication of value resulting from the guideline transaction method and the asset approach

Control Premiums and Standards of Value

- Fair market value has been generally interpreted by the Tax Court to exclude synergies with a particular buyer

- Value is to a “hypothetical buyer”

- Fair value in dissenters’ rights and minority oppression cases are usually interpreted by the courts to mean a proportion of the enterprise value without any discount for lack of control, even if the subject of the valuation is minority shares

- The Delaware Court consistently applies a control premium to the indication of value from the guideline public company method