

# **Discount for Lack of Marketability Guide and Toolkit**

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*To all the professionals who preceded us in the research and analyses on discounts for lack of marketability. You helped lay the groundwork for us. Thank you.*

*James R. Hitchner*

*R. James Alerding*

*Joshua B. Angell*

*Katherine E. Morris*

*To my son, Jason Earle Hitchner:*

*James R. Hitchner*

*To my wife, Laura, without whose patience and love this would not have happened; and to my family and to the late John McCormick, may he rest in peace.*

*R. James Alerding*

*To my father, for everything you've done and for always believing. To my mother, for never letting up and for always being there. And, to my brother, Nick, because, without you, life simply wouldn't be the same. I love you all so deeply. This book is forever dedicated to you all.*

*Joshua B. Angell*

*To my parents, John and Elizabeth Francisco.*

*Katherine E. Morris*

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# PREFACE

The *VPS DLOM Guide and Toolkit* is a powerful tool for considering, calculating, and defending discounts for lack of marketability. While the *Guide* is a powerful source of information and excellent tool in its own right, we suggest use of the accompanying but separate *Toolkit* to maximize this product's usefulness.

This *VPS DLOM Guide* begins by laying a solid foundation. Terms frequently used in the determination of discounts for lack of marketability (DLOM) are clearly defined to strengthen the reader's core understanding of the process. DLOM approaches and methods from both the past and present are explored, including analyses of their strengths and weaknesses.

The *VPS DLOM Guide* presents the most detailed analysis of restricted stock studies ever published, including the important characteristics of the companies who issue such stock. It considers the factors that affect restricted stock discounts and offers methods for calculating DLOM. There are also insightful analyses of the most common restricted stock transaction databases, again with comments on strengths and weaknesses.

The *VPS DLOM Guide* also presents a detailed look at pre-IPO studies and option pricing models. Shareholder cashflow models, including the Quantitative Marketability Discount Model, are addressed, along with other models and studies.

In the Appendices, the reader will find case studies and sample report language for both a dividend and non-dividend-paying company, guiding the reader through the actual process of applying a DLOM. A complete reproduction of the *IRS DLOM Job Aid for Valuation Professionals* is included in this text, allowing for quick and easy reference. An additional excellent reference aid is an appendix of over 90 DLOM-related court cases.

In addition to this *Guide*, the separate *VPS DLOM Toolkit*, available at <http://www.valuationproducts.com/DLOMToolkit.html>, includes 10 Excel models with User Manuals including:

- Restricted stock calculator to allowing for detailed comparison of subject company characteristics to restricted stock transactions, adjusting the data for differences in holding period and volatility between the subject and the transactions. The model incorporates option methodology and includes a qualitative factors assessment tool.
- Frequently used option models for the calculation of DLOM based on subject company specifications input by the user
- A summary version of the QMDM calculator
- All models include report-ready exhibits

We welcome all feedback. If you have comments, suggestions, or a question, please email me at [jhitchner@finvaluation.com](mailto:jhitchner@finvaluation.com).

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