

Holding Company Valuations

Valuations of interests in general and limited partnerships, limited liability companies, qualified personal resident trusts, etc. are a specialty of Friedman Associates, Ltd. We've performed about 500 valuations for more than 350 clients.

Since these own only assets and are valued for investment purposes, only the asset-based approach is applicable to the analysis in valuing a 100% interest. Factors considered in this decision are that the entity has no value from labor or intangible assets, the assets are composed of liquid assets and other investments, and it has no significant operations.

Asset-Based Approach

The fair market value of 100% of the partners' or members' capital is developed in the asset-based approach by adjusting the balance sheet to present the current fair market values of its assets and liabilities. An indication of the fair market value of 100% of the capital is then obtained by netting the fair market values of the assets and liabilities.

Discount for Minority Interest

A controlling interest holds additional ownership rights over and above those of a minority member or limited partner. These rights include the ability to appoint its officers; to manage the operations of the business; to regulate compensation levels, capital expenditures, and distributions; and to sell all or part of the enterprise or its assets. For these and other reasons, the purchaser of a control position may also anticipate the realization of synergistic benefit from the combination of an investment in the company or partnership and in other assets. Minority members or limited partners do not enjoy such rights. Consequently, the conclusion for a controlling interest must be adjusted to reflect a discount for lack of control.

Real Estate Analysis. For holding companies that own real estate I use data from the secondary market for limited partnership interests. Partnership Profiles, Inc., through their Direct Investments Spectrum (formerly known as The Partnership Spectrum) and database provides data of actual transactions

Closed-End Fund Analysis. For entities that hold marketable securities I examine closed-end funds which are publicly traded. Using Morningstar's "Principia Pro" and information from the Wall Street Journal I determine appropriate discounts based on the various classes of assets.

Discount for Lack of Marketability.

Because the entity is private and closely held, its owners have no access to an active market in the Partnership's or LLC's units. Further, limited partners or minority members cannot force registration to provide marketability. Without market access, an investor's ability to control the timing of potential gains, to avoid losses, and to minimize the opportunity costs associated with the inability to direct funds to a more promising investment is severely impaired.

Appropriate discounts for lack of marketability are derived based upon pre-IPO studies from Valuation Advisors "Lack of Marketability Discount Study" and Emory Business Advisors, LLC "Pre-IPO Discount Studies" and from FMV Opinions' "Restricted Stock Study."