Discounts for Lack of Marketability
Emory Pre-IPO Discount Studies 1980-2000
As Adjusted October 10, 2002

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The American Society of Appraisers Business Valuation Standards (2002) and the International Glossary of Business Valuation Terms (2001) both define marketability as "the ability to quickly convert property to cash at minimal cost." Marketability is highly valued by investors, and the relative absence (lack) of marketability generally reduces an asset's fair market value.

To provide data to help quantify discounts for lack of marketability, we have done studies from 1980 through 2000 comparing the prices of stock transactions occurring within five months prior to an initial public offering (IPO) to the subsequent IPO price. Prior to an IPO the stock of a company lacks marketability, but is likely to get it. Thus, the difference in price prior to and at the IPO is related to changes in marketability, which is expressed as a percent discount from the IPO price.

We have reviewed each transaction used in our pre-IPO studies from 1980 through 2000 and made minor data adjustments, each of which is explained on our web site. These adjustments did not materially affect the studies' overall results, with the overall mean discount and the median discount each dropping 1%, to 46% and 47%, respectively.

In all cases we have used the transaction farthest from the IPO but within five months of the IPO. Our 1997-2000 Pre-IPO study had originally used transactions closest to the IPO date. We eliminated all transactions that possibly could have been outside of the studies' time frame of five months before the IPO. Most were removed because only the month of a transaction was given in the prospectuses, making it difficult to determine the exact date. Changes were also made to correct other minor errors that had occurred over the years. Our adjustments made little difference to the mean and median discounts of the studies.

The data from all our original studies, as adjusted, can be downloaded for free in a manipulatable Excel spreadsheet on our web site. Detailed text descriptions of each correction are also on our web site, www.emorybizval.com. All of the transactions have been listed alphabetically within the chronologically ordered studies. Data from our Dot-Com Pre-IPO study are included only in the 1997-2000 study.

Mean and median discounts from the adjusted studies can be summarized as follows:

	All Transactions	**Sale Transactions**	**Option Transactions**
Mean	46%	50%	43%
Median	47%	52%	42%
Count	543	282	261

We also analyzed the relationship of the discount versus the time between a transaction and the IPO:

Discounts versus Time Between Transactions and IPO

Days	Mean	Median	Count
0 – 30	30%	25%	18
30 – 60	40	38	72
60 – 90	42	43	162
90 – 120	49	50	161
120 – 153	55	54	130
Total			**543**

When the exact dates of the transactions were not available we used the 15th of the month. The increase in discounts the farther the transactions were from the IPO is conceptually consistent with the studies of Philip Saunders Jr.[(1)] and Brian Pearson.[(2)]

Finally, it should be noted that the discounts found in these studies occur where a high degree of marketability is probable, but not certain. Perhaps the discounts should be greater for the more typical company's stock, with extremely limited marketability and dim prospects for the company being sold or having an IPO any time soon.

Conclusion

To reflect consistency and to correct for minor errors made over the years, we have reviewed each transaction used in our pre-IPO studies since 1980. The overall mean and median discounts for all 543 transactions after our adjustments decreased by 1%, to 46% and 47%, respectively.

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Notes

1) Philip Saunders Jr., "Marketability Discounts and Risk in Transactions Prior to Initial Public Offerings," Business Valuation Review, December 2000, pp. 186-195.
2) Brian K. Pearson, "Y2K Marketability Discounts as Reflected in IPOs," CPA Expert, September 2001, pp. 1-5.