H. Calvin Coolidge, a bank trust officer responsible for administering trusts and estates that owned all or portions of closely held businesses, performed two studies in which he compiled data on actual sales prices of closely held businesses. As an introduction, Coolidge offers the following generalities:

A number of years of experience has demonstrated that it is extremely difficult to find any market for minority interests… despite efforts to do so… On the relatively rare occasions when an offer is made to buy a minority interest, it is almost always for an amount far less than the fiduciary and the beneficiary expect to get.1

In his first study, Coolidge compiled data on 30 actual sales of noncontrolling ownership interests. He found that the average transaction price was 36% below book value, and he concluded with the following observations:

Only 20 percent of the sales were made at discounts less than 20 percent. A little more than half the sales (53⅓ percent) were made at discounts that ranged from 22 percent to 48 percent, and 23⅓ percent of the sales were made at discounts of from 54.4 percent to 78 percent.

It would be dangerous to draw too many generalizations from the survey, but those sales where the discounts were below 20 percent involved, with one exception, purchases from close relatives where friendly relations existed. The exception was the sale by a holder of swing shares who used his leverage well, but still took a 4.3 percent discount. At the other end of the spectrum was the settlement of a three-year bitter dispute between two families; the majority family raised its token offer only after threat of a lawsuit, but the price the minority interest took nonetheless represented a 78 percent discount.2

It is noteworthy that the discounts in the foregoing surveys were from accounting book value and not from the market value of the subject business enterprise. Accounting book value, of course, generally recognizes no appreciation in asset values above their depreciated original cost and generally excludes the value of any intangible assets that were developed in house. Although, in a very few cases in the above survey, the price discounts were computed from an adjusted book value, reflecting appreciation in real estate values.

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2 Ibid., p. 141.
One would expect that the subject business value would be above the book value in many cases. If that expectation is correct, then the discounts from the owners’ proportionate shares of the total business value would be even greater than the discounts as presented in the survey.

An update published in 1983 indicated a trend toward even higher discounts when disposing of noncontrolling ownership interests in closely held corporations. That study concluded a much higher concentration of discounts from accounting book value at the high end of the range, and the average discount for the two studies combined was approximately 40%. The updated study concludes as follows:

Each of the sales used in the survey involved a combination of factors that made it somewhat unique. To use any of the data, or any classification of the data, as definitive proof of the discount to be applied in a prospective valuation would be dangerous. This should not, however, obscure the true significance of the data, which is that in the actual marketplace, the typical discount is not of token size, but of substantial magnitude.3

Although the study is almost four decades old, and has not been updated since, we imagine that if it were updated today, it is likely that similar results would ensue.

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