

# Business Valuation:

## Marketability, Control, and the Lack Thereof

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# Agenda

Introduction

Appraisal Considerations

Practical Examples

Unique Valuation Considerations

Common Issues We Deal With

Key Points to Remember

# Chris Keizer

- Accredited Member with the American Society of Appraisers
- Nearly a decade of professional financial experience in business appraisal, community banking, and financial regulation
- Specialize in valuing private companies and intangible assets for tax reporting, litigation, transactions, and financial reporting

# When Business Valuations Are Needed



Tax  
Reporting

Litigation

Transactions

Financial  
Reporting

# Common Valuation Engagements

Operating Companies

Holding Companies / Family Limited Partnerships

Undivided / Tenant-in-Common Interests

Notes Receivable

Trust Interests

Personal Goodwill

# The Fundamental Issue: What is it Worth?

It depends.

# What Does it Depend On?



Purpose of the engagement



Valuation date



Control features



Marketability features



Many other factors

# Coordinating Advisors



Other  
Appraisers

CPAs

Wealth  
Advisors

Attorneys

# Valuation Standards: A Non-Exhaustive List

Fair Market Value  
(Rev. Ruling 59-  
60)

Investment Value

Fair Value (AICPA,  
Statutory, Case  
Law)

# Valuation Date



DATE OF TRANSFER OR  
OTHER TRIGGER



ALTERNATE DATE



AS OF A CURRENT DATE

# Level of Value Chart



# Control vs. Lack of Control

## Can the block:

- Appoint or dismiss management/directors?
- Set management/board compensation?
- Acquire or divest assets or a line of business?
- Sell the subject company?
- Declare distributions/dividends?

## Other important considerations:

- What do the governing documents prescribe?
- Is the subject interest a swing vote?

# Marketability vs. Lack of Marketability

## Can the block:

- Unilaterally dissolve the subject company?
- Withdraw any or all of its capital account balance?
- Put its ownership interest

## Other important considerations:

- Is there a market for the ownership?
- Have there been recent transactions?
- How much cash flow is the subject company distributing?

# Other Considerations



What is the reality of this transfer?



Can the subject interest vote at all?



Are there material non-operating assets to consider?



What is the plan for the non-operating assets?

# Practical Example #1

Operating Company

# Practical Example #1

## Appraisal Issue:

Determine the fair market value of the subject company's common equity on each of the control and illiquid minority basis for potential gift transfers

# Practical Example #1

Subject Company:

Environmental consulting business  
specializing in soils testing

Management compensation is above market

The shareholder owns the real estate that the  
company operates out of in a separate LLC

Excess working capital is \$1.8 million

# Practical Example #1

## Earnings Adjustments: Control

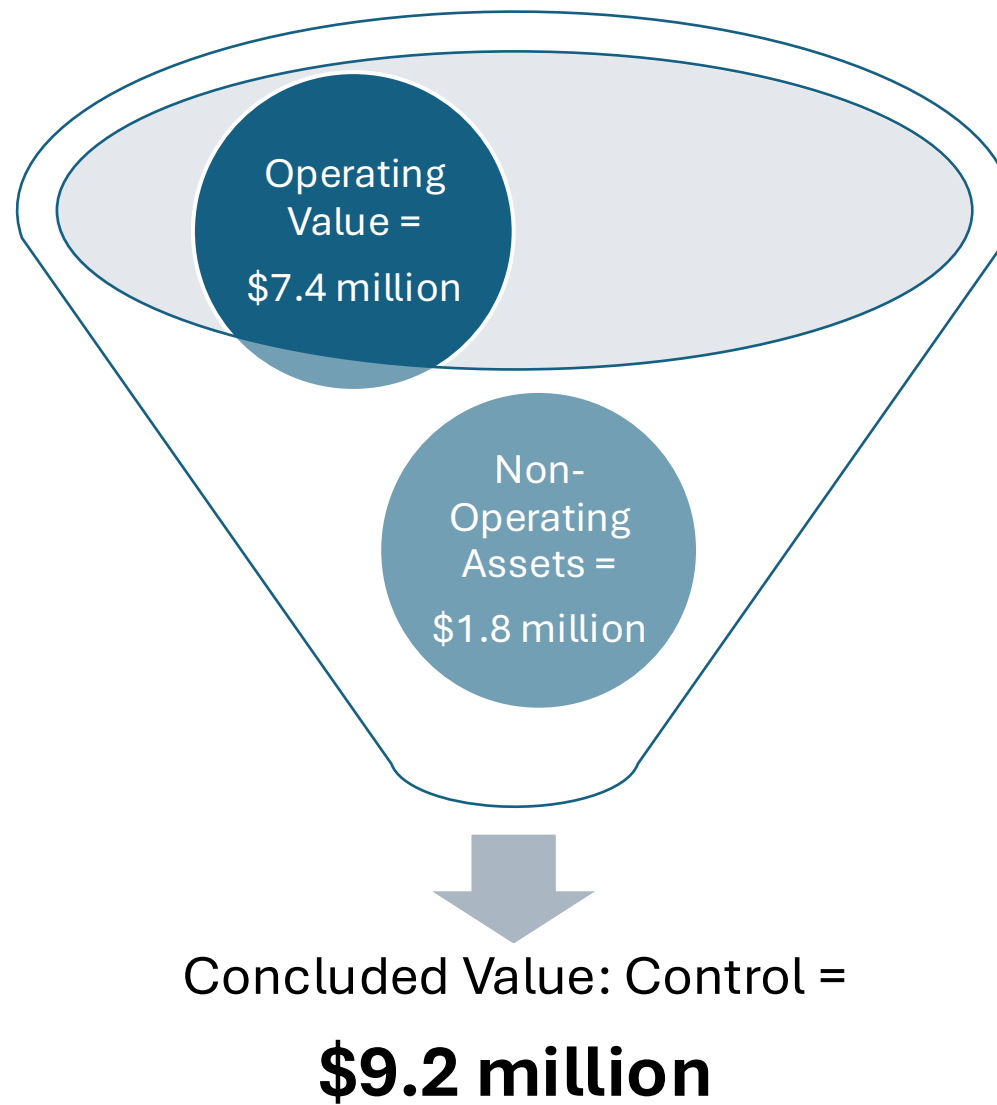
	<b>Actual LFY</b>	<b>Projected NFY</b>
	<hr/>	<hr/>
<b>Gross Revenue</b>	\$7,200,000	\$7,500,000
<b>Pretax Income</b>	\$1,350,000	\$1,365,000
+ Net Interest Expense	0	0
+ Officer Compensation	600,000	600,000
- Normalized Officer Compensation	(450,000)	(450,000)
+ Rent Paid	300,000	300,000
- Market-Level Rent	(432,000)	(445,000)
	<hr/>	<hr/>
<b>Adjusted EBIT</b>	\$1,368,000	\$1,370,000
+ Depreciation & Amortization	270,000	280,000
	<hr/>	<hr/>
<b>Adjusted EBITDA</b>	\$1,638,000	\$1,650,000

# Practical Example #1

## Valuation Analysis: Control

	<b>Actual LFY</b>	<b>Projected NFY</b>
<b>Adjusted EBITDA</b>	\$1,638,000	\$1,650,000
× Selected EBITDA Multiple	4.50	4.40
= Enterprise Value	\$7,371,000	\$7,260,000
– Interest-Bearing Debt	0	0
<b>= Equity Value for the Operation</b>	<b>\$7,371,000</b>	<b>\$7,260,000</b>
 <b>Free Cash Flow to Invested Capital</b>		\$825,000
÷ Capitalization Rate		11.0%
= Enterprise Value		\$7,500,000
– Interest-Bearing Debt		0
<b>= Equity Value for the Operation</b>		<b>\$7,500,000</b>

# Practical Example #1



# Practical Example #1

## Earnings Adjustments: Minority

	<b>Actual LFY</b>	<b>Projected NFY</b>
	<hr/>	<hr/>
<b>Gross Revenue</b>	\$7,200,000	\$7,500,000
<b>Pretax Income</b>	\$1,350,000	\$1,365,000
+ Net Interest Expense	0	0
+ Officer Compensation	0	0
– Normalized Officer Compensation	0	0
+ Rent Paid	300,000	300,000
– Market-Level Rent	(432,000)	(445,000)
	<hr/>	<hr/>
<b>Adjusted EBIT</b>	\$1,218,000	\$1,220,000
+ Depreciation & Amortization	270,000	280,000
	<hr/>	<hr/>
<b>Adjusted EBITDA</b>	\$1,488,000	\$1,500,000

# Practical Example #1

## Valuation Analysis: Minority

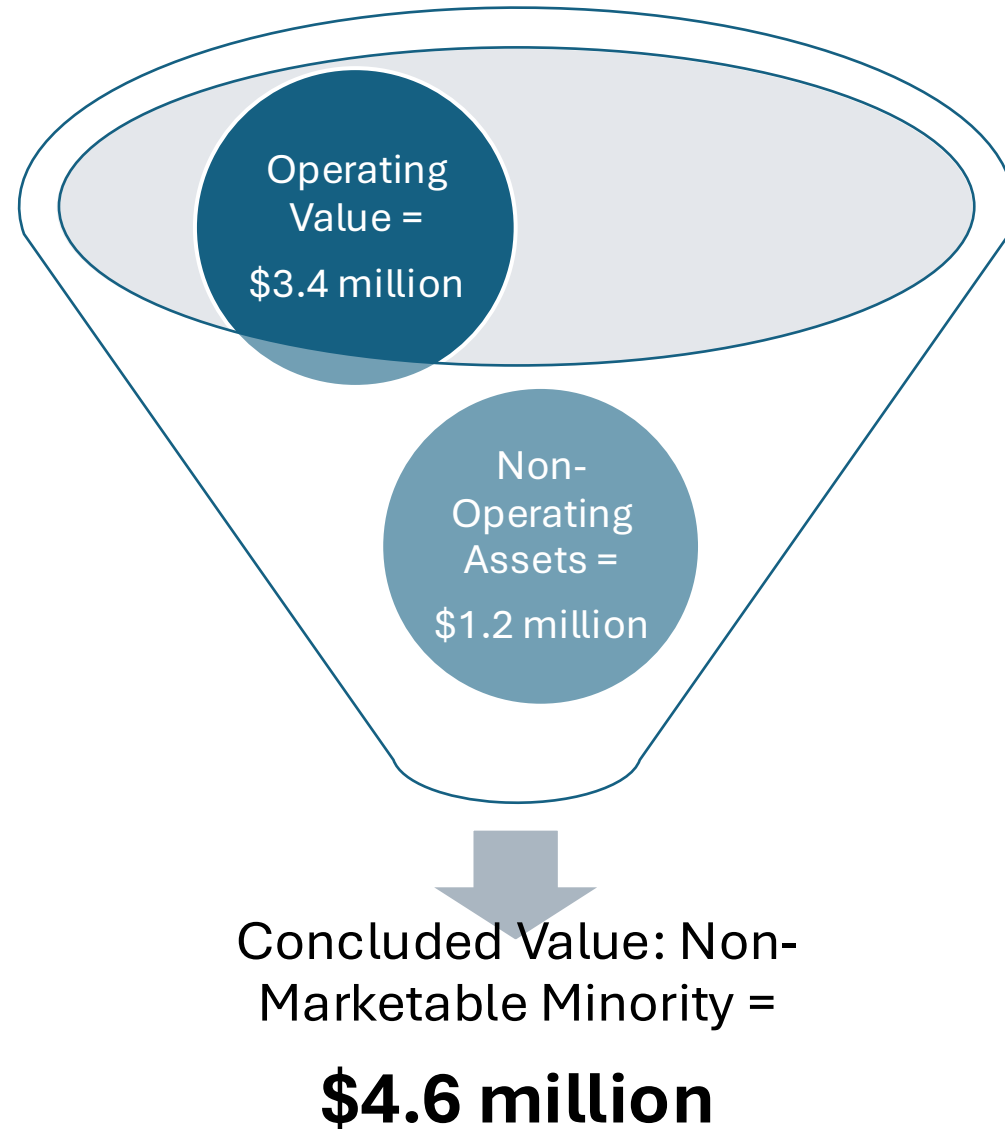
	<b>Actual LFY</b>	<b>Projected NFY</b>
	<hr/>	<hr/>
<b>Adjusted EBITDA</b>	\$1,488,000	\$1,500,000
× Selected EBITDA Multiple	3.30	3.20
= Enterprise Value	<hr/> \$4,910,000	<hr/> \$4,800,000
– Interest-Bearing Debt	0	0
= Marketable Equity Value for the Operation	<hr/> \$4,910,000	<hr/> \$4,800,000
– Discount for Lack of Marketability	(28%)	(28%)
<b>= Illiquid Minority Value for the Operation</b>	<hr/> \$3,535,000	<hr/> \$3,456,000
<b>Free Cash Flow to Invested Capital</b>		\$735,000
÷ Capitalization Rate		16.0%
= Enterprise Value		<hr/> \$4,594,000
– Interest-Bearing Debt		0
= Marketable Equity Value for the Operation		<hr/> \$4,594,000
– Discount for Lack of Marketability		(28%)
<b>= Illiquid Minority Value for the Operation</b>		<hr/> \$3,308,000

# Practical Example #1

## Excess Working Capital: Minority

Excess Working Capital	\$1,800,000
- Discount for Lack of Control	(7%)
= Marketable Minority: Excess W/C	<hr/> \$1,674,000
- Discount for Lack of Marketability	(28%)
= <b>Illiquid Minority Value: Excess W/C</b>	<hr/> \$1,205,000

# Practical Example #1



# Practical Example #2

Asset Holding Company

## Practical Example #2

### Appraisal Issue:

Determine the fair market value of a 30 percent nonvoting interest in a limited liability company for tax reporting purposes

Date of death was October 2025

There is limited wealth outside of this LLC

## Practical Example #2

### LLC Holdings at Date of Death:

Microsoft Corporation shares with market value of \$70 million

Other marketable securities with market value of \$18 million

Commercial properties with market value of \$12 million

Private equity funds with market value of \$8 million

Margin line with a \$10 million outstanding balance

Net Asset Value = \$98 million

## Practical Example #2

Value at date of death:

Net asset value = \$98 million

Discounts for lack of control = 11 percent

Discount for lack of marketability = 28 percent

Discount for lack of voting rights = 4 percent

Fair market value of the subject interest =

**\$18.1 million**

## Practical Example #2

Value at the alternate valuation date

Net asset value = \$88 million

Discount for lack of control = 11 percent

Discount for lack of marketability = 28 percent

Discount for lack of voting rights = 4 percent

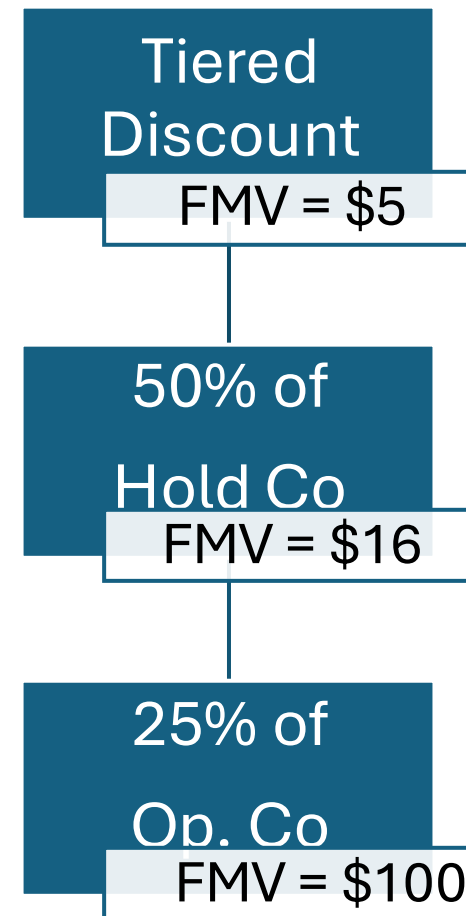
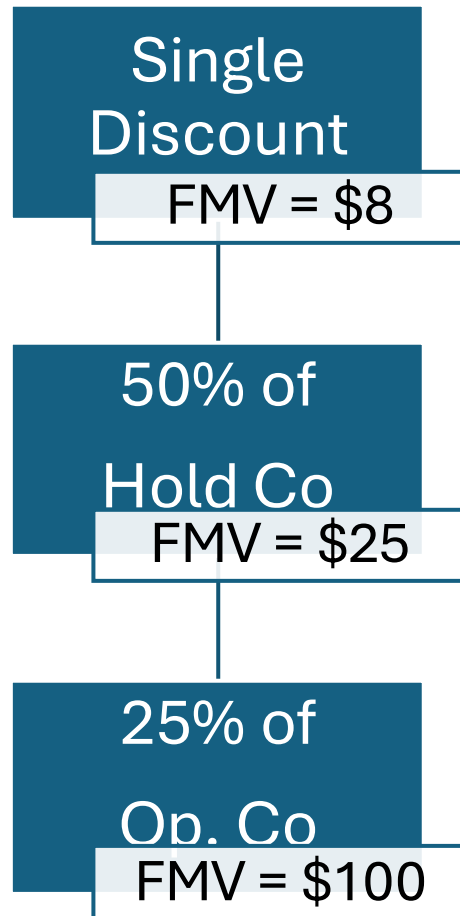
Fair market value of the subject interest =

**\$16.2 million**

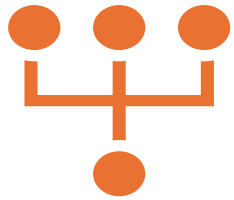
# Unique Valuation Considerations: Tiered Ownership Structures



# Unique Valuation Considerations: Tiered Ownership Structures



# Unique Valuation Considerations: IRC §2701 (Applicable Retained Interests)



## Triggered when:

A transfer is made within the family control group

There is an existence of an applicable retained interest

The transfer is for subordinate equity interest



## Implications:

Valuation must consider the residual equity

In general, discounts are lower for these transfers

# Common Issues We Deal With

1

Waiting too long to  
involve an appraiser

2

Assuming that  
valuation discounts  
apply

3

Treating all ownership  
interests as equals

# Key Points to Remember

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The valuation date matters

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In most cases, transfers can (and should) be made before a valuation is obtained

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Control and marketability are on spectrums

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Governing documents typically dictate the level of value

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Consult your appraiser early and often when establishing an estate plan

# Questions?

(509) 309 – 6058