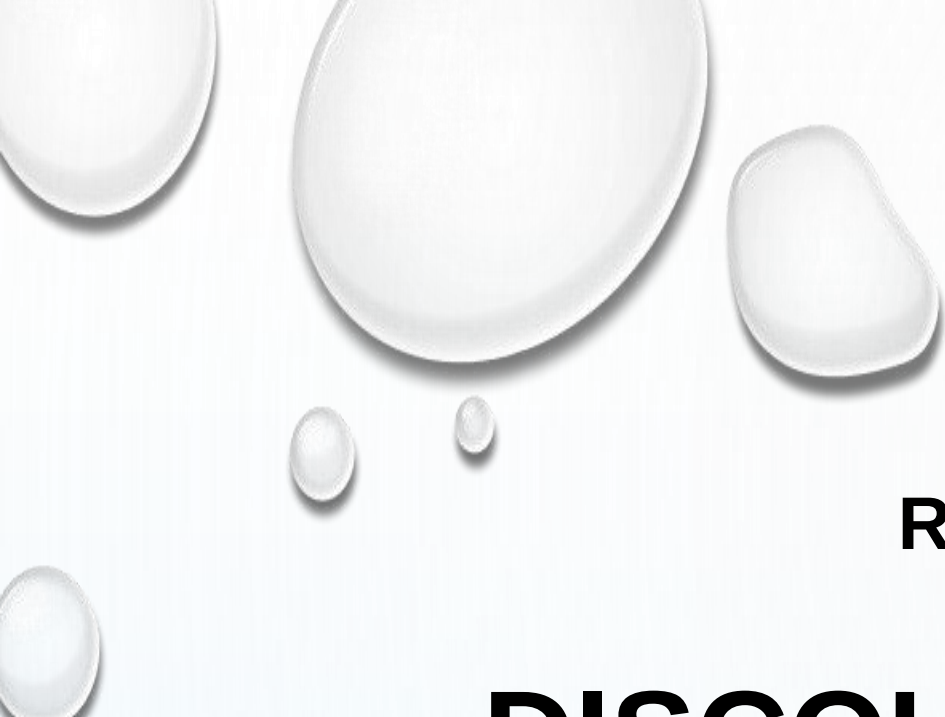


LEVEL 7 ASSESSMENT SPECIFICATION

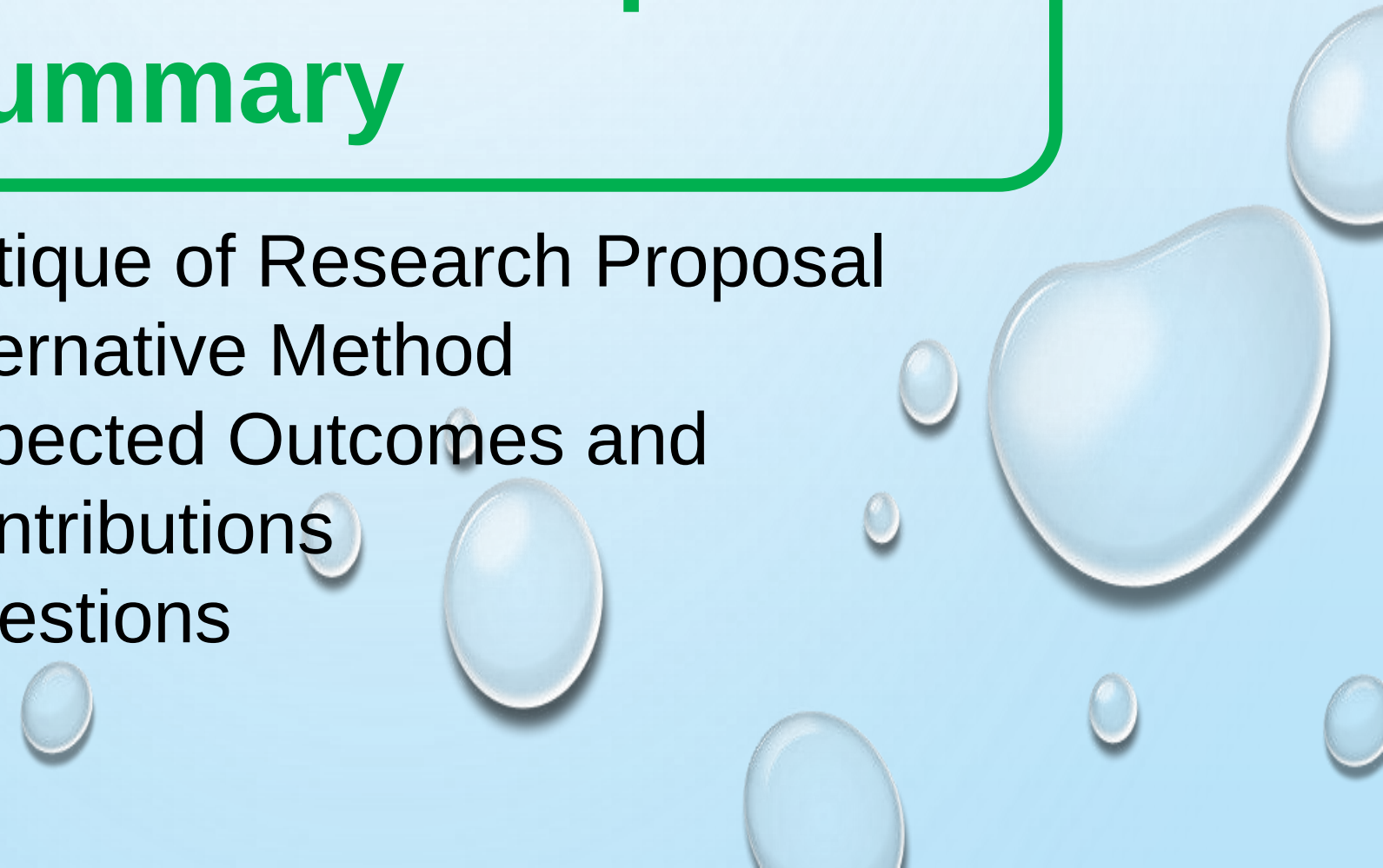
Student name:	Hung Po	Student ID number:	2337339
Programme:	DBA		
Module:	Advancing to Doctoral Research Stage		
Module code:	HKBM7022	Contribution to Overall Module Assessment (%):	40%
Lecturer:	Prof Peter Fong	Internal Verifier:	Dr Andrew Chan
Assignment Title:	Assessment 2 - Presentation	Word count (or equivalent):	18 minutes
Submission deadline:	13 March 2025 (Submission of PPT) 15 March 2025 (Presentation)	Return date of provisional marks & written feedback:	15 April 2025 (Tentative)
Submission method:	All written assessments, where practical and possible, must be submitted via Turnitin unless otherwise instructed by the Lecturer. (Please DO NOT put this assessment specification into Turnitin or it will match many similarities with other students' submissions.) Alternative submission method (if applicable): Late submission of the assessment will result in a late penalty mark. Work which is submitted up to 1 week late will be capped at 50% for the first attempt and will be awarded a mark of 0% for re-assessment. Late submission penalties may be lifted only if there is an approved extenuating circumstances claim. Work submitted more than 1 week late will be considered as a non-submission and will not be marked. The work may be considered as a submission for reassessment if offered by an Examining Board or if there is an approved extenuating circumstances claim.		
Academic honesty / referencing:	Academic honesty is required. In the main body of your submission you must give credit to authors on whose research and ideas your work is based. Append to your submission a reference list that indicates the books, articles, etc. that you have used, cited or quoted in order to complete this assessment.		



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DISCOUNT FOR LACK OF MARKETABILITY (DLOM) IN HONG KONG

1. Research Proposal Summary

2. Critique of Research Proposal
 3. Alternative Method
 4. Expected Outcomes and Contributions
 5. Questions
- 

DEFINITION OF DLOM

<illustrated by Transaction Method>

{Publicly Listed Company A}

Same Business:

- Kindergarten

Same Asset:

- Real Property of HKD 30 Million

Same Size:

- 2024 Revenue: HKD 50 Million

Same Profitability:

- 2024 Net Profit: HKD 10 Million

Valuation (Different):??

- *Market Cap of HKD 100 Million*

Price/Earnings Ratio (Different):

- *100 Million/10 Million = 10x*

DLOM:

- 0%

{Non-Publicly Listed Company B}

Same Business:

- Kindergarten

Same Asset:

- Real Property of HKD 30 Million

Same Size:

- 2024 Revenue: HKD 50 Million

Same Profitability:

- 2024 Net Profit: HKD 10 Million

Valuation (Different):??

- *Sold at HKD 70 Million*

Price/Earnings Ratio (Different):

- *70 Million/10 Million = 7x*

DLOM:

- 30%

DEFINITION OF DLOM

(INTERNATIONAL VALUATION STANDARDS, 2024):

Discount for Lack of Marketability (the “**DLOM**”) is “**an amount or percentage deducted from the value** of an ownership interest to reflect the relative absence of marketability”.

- The **Marketability** of an asset is a measure of **how easily and quickly it can be transferred in return for cash** or a cash equivalent.

(INTERNATIONAL ACCOUONTING STANDARDS, 2024):

- Discount for Lack of Marketability (the “DLOM”) quantifies the inability to convert an asset into a predictable amount of cash quickly and at a reasonably low cost.
- DLOM is **different from a blockage** factor in that a lack of marketability discount applies for any size holding, including for an individual asset.

LITERATURE REVIEW OF DLOM

- **Ample empirical studies** of DLOM by both Quantitative and Qualitative Approach were done in USA or Europe in past several decades.
- All acquisition and transaction of **in the world** have been **compulsorily applying** those findings (DLOM) in **past several decades** due to the regulation of International Accounting Standard and Listing Rule of Stock Exchange.
- Empirical studies revealed that DLOM is ranged from **5% to 65%** as shown below:

Study	Period of Study	Sample Country	Sample Size	Approach	Method	Price Discount (Average or Median)
Koeplin (2000)	1984-1998	Global	192	Qualitative	Acquisition	5.96% - 53.85%
Kooli (2003)	1995-2002	USA	331	Qualitative	Acquisition	17% - 34%
Officer (2007)	1979-2003	Global	364	Qualitative	Acquisition	8.2%
Block (2007)	1999-2006	USA	91	Qualitative	Acquisition	21.8%
Paglia (2010)	1993-2008	Global	431	Qualitative	Acquisition	46.5%
Gus De Franco (2011)	1995-2004	USA	664	Qualitative	Acquisition	33.1%
Kim van Oeveren (2018)	1985-2017	US	232	Qualitative	Acquisition	23% - 24.6%
Emanuel Bagna (2020)	2003-2019	Italy	305	Qualitative	Acquisition	-5.4%-29.3%

LITERATURE REVIEW OF DLOM

Study	Period of Study	Sample Country	Sample Size	Approach	Method	Price Discount (Average or Median)
Stryker and Pittcock (1983)	1978-1982	USA	28	Qualitative	Restricted Stocks	45%
Wruck (1989)	1979-1985	USA	37	Qualitative	Restricted Stocks	12.2% - 13.5%
Silber (1991)	1981-1988	USA	69	Qualitative	Restricted Stocks	33.8%
Hertzel and Smith (1993)	1980-1987	USA	106	Qualitative	Restricted Stocks	13.25% - 20.1%
Hall and Polacek (1994)	1979-1992	USA	Over 100	Qualitative	Restricted Stocks	23%
Johnson (1999)	1991-1995	USA	70	Qualitative	Restricted Stocks	20.0%
Columbia Financial Advisors, Inc. (Study 1) (2000)	1996 - 1997	USA	23	Qualitative	Restricted Stocks	14% - 21%
Columbia Financial Advisors, Inc. (Study 2) (2000)	1997 - 1998	USA	15	Qualitative	Restricted Stocks	9% - 13%
Bajaj, Ferris, Denis, and Sarin (2001)	1990-1995	USA	88	Qualitative	Restricted Stocks	20.6% - 21%
Barclay et al. (2007)	1979-1997	USA	594	Qualitative	Restricted Stocks	17.4% - 18.7%
Pluris Valuation Advisors (2007)	2005 - 2006	USA	61	Qualitative	Restricted Stocks	32.8% - 34.6%
Willamette Management associates Study (2007)	1981-1984	USA	33	Qualitative	Restricted Stocks	31.2%

LITERATURE REVIEW OF DLOM

Study	Period of Study	Sample Country	Sample Size	Approach	Method	Price Discount (Average or Median)
Management planning restricted Stock (2009)	1980-2009	USA	1,863	Qualitative	Restricted Stocks	13.3% - 15.9%
Aaron M. Stumpf, et al. (2011)	2005-2010	USA	98	Qualitative	Restricted Stocks	9.3% - 10.9%
Trugman Valuation Associates Inc. (2011)	2007-2010	USA	136	Qualitative	Restricted Stocks	14.3%-16.6%
FMV Opinions, Inc. (2015)	1980-2014	USA	769	Qualitative	Restricted Stocks	15.05% - 19.33%
BVR Survey (2021)	2021	USA	202	Survey	Survey	N/A
Stout (2023)	1980-2022	USA	776	Qualitative	Restricted Stocks	15.7% - 20.5%
Chaffee (1993)	1993	USA	N/A	Quantitative	Option Pricing	28-41%
Longstaff (1995)	1995	USA	N/A	Quantitative	Option Pricing	65%
Finnerty (2012)	2007-2011	USA	208	Quantitative	Option Pricing	20%
NERA CAPM-Based Method (2002)	1926-2002	USA	all companies in the S&P 500 Index	Quantitative	DCF	33.4%-44.0%
QMDM (2020)	2015-2019	USA	N/A	Quantitative	DCF	65%

LITERATURE REVIEW OF DLOM

- (ROZARIO and MA, 2025) **only** examined the DLOM in Hong Kong on a **quarterly** basis
- Average of **Three to Five Year** DLOM is more objective and acceptable for application according the IAS and HKEx.
- Both experts from famous universities and investors from famous financial institution are desperate for a **three to five year** DLOM database

AIM OF MY THESIS

Finding the average of **3-to-5 years Discount for Lack of Marketability** (the “**DLOM**”) for the Hong Kong market is the main goal of my thesis. My thesis will be the first of its kind to examine the DLOM in the Hong Kong market, filling a **GAP** in the literature that is both thorough and reliable.

RESEARCH PROPOSAL

Quantitative Approach

- Shareholder Cash Flow Adjustment Method
- Option Pricing Method

Qualitative Approach

- Restricted Stock Method
- Pre-IPO Method

RESEARCH PROPOSAL

Quantitative Approach

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RESEARCH PROPOSAL

Shareholder Cash Flow Adjustment Method

- takes into account **minority owners' interests** when applied to privately held firms using discounted cash flow inputs.
- Given the strong correlation between company projections and shareholder **expectations for growth, risk, and cash flows**
- assesses nonmarketable minority claims concurrently with an **enterprise valuation**.

RESEARCH PROPOSAL

Option Pricing Method

- A put option imitate the cost (DLOM) to bring one's unmarketable private company to publicly listed.
- put option considered the underlying investment's risk, volatility, holding time, and, occasionally, dividend yields.

RESEARCH PROPOSAL

Restricted Stock Method

compare the selling prices of publicly traded shares with its restricted shares from the same company to measure the effect of limited marketability.

CRITIQUE THE RESEARCH PROPOSAL

Pre-IPO Method

- A company's stock is not freely tradeable before its initial public offering (IPO), but after the IPO, it is fully liquid
- Differences in marketability can be further illustrated by highlighting the gap between the two prices



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CRITIQUE THE RESEARCH PROPOSAL

Quantitative Approach

- Shareholder Cash Flow Adjustment Method
- Option Pricing Method

Qualitative Approach

- Restricted Stock Method
- Pre-IPO Method

CRITIQUE THE RESEARCH PROPOSAL

Shareholder Cash Flow Adjustment Method

- **overly dependent on assumptions** as there are a number of assumptions built into the Method's valuation approach.
- **equity risk premium is a contentious point** for many previous researchers

CRITIQUE THE RESEARCH PROPOSAL

Option Pricing Method

- the Black-Scholes put value declines as option **terms** increase after reaching a peak, this model could **not be sufficient** for DLDM evaluations conducted over the long run
- distributions are supposed to minimize marketability discounts in theory, the model **overvalues** the discount on dividend-yielding assets

CRITIQUE THE RESEARCH PROPOSAL

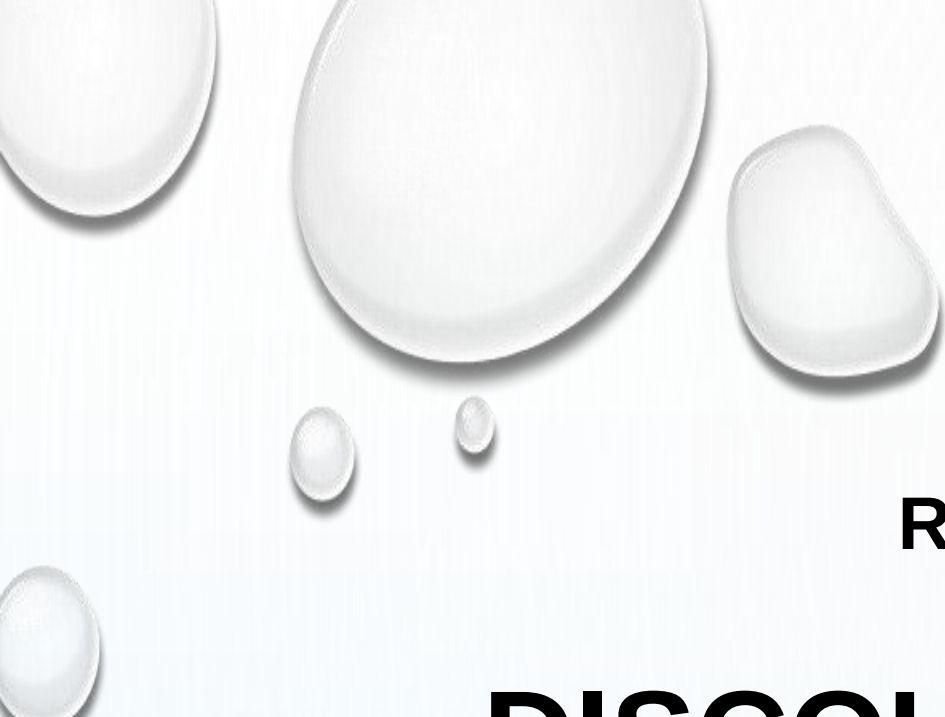
Restricted Stock Method

- **outdated** market data
- **economic factors** beyond price cuts indicate that the product is unmarketable
- **hedging strategies** would actually lead to reduced discounts

CRITIQUE THE RESEARCH PROPOSAL

Pre-IPO Method

- time it takes to go from a pre-IPO agreement to an IPO is **too long to follow**
- **unrelated factors** were responsible for the price increase due to the long period
- **undervaluation** is a typical tactic in pre-IPO agreements to guarantee full subscription

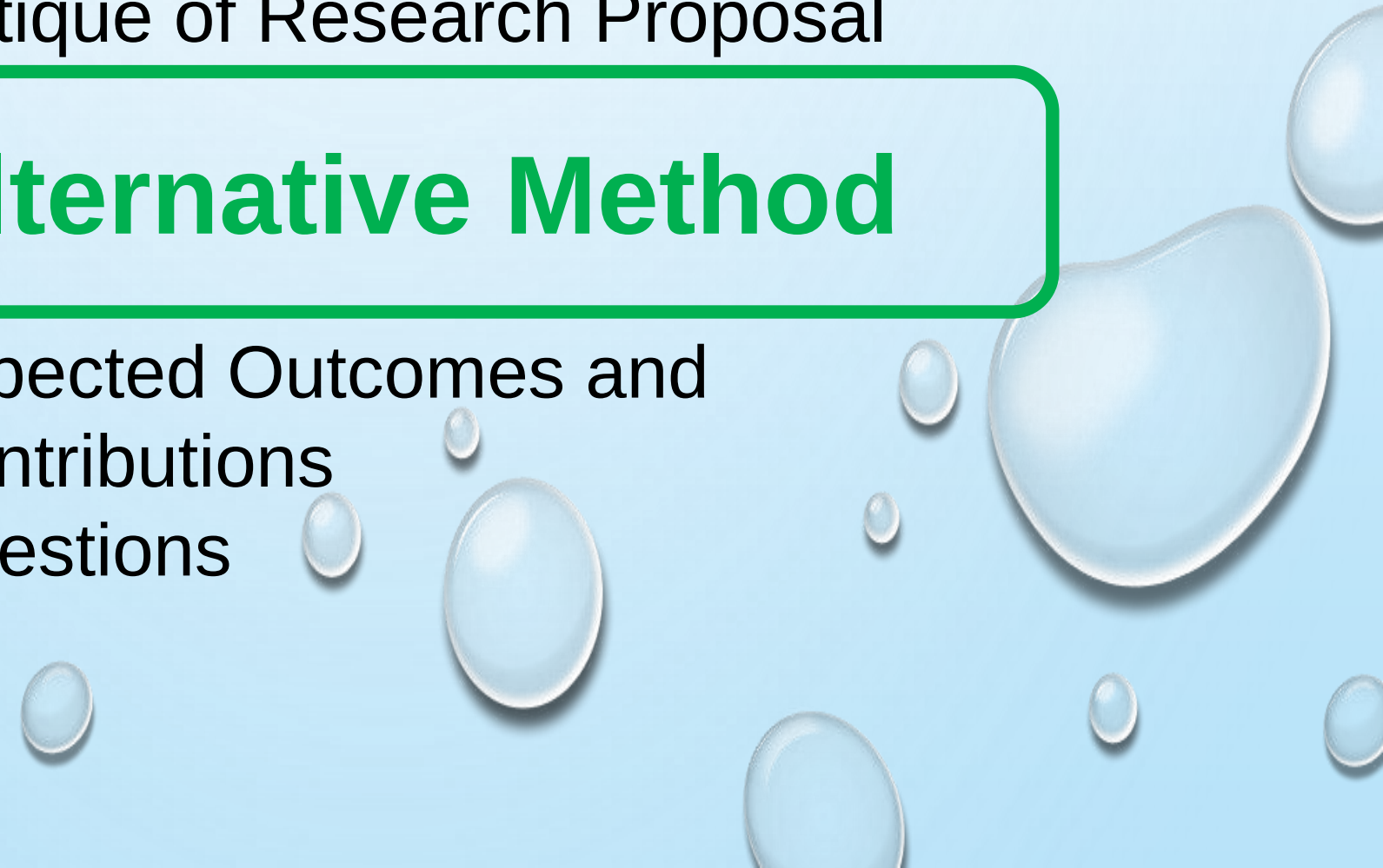


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ALTERNATIVE APPROACH

Quantitative Approach

- Shareholder Cash Flow Adjustment Method
- Option Pricing Method

Qualitative Approach

- Acquisition Method
- Survey Method

ALTERNATIVE APPROACH

Acquisition Method

- **compares** the purchase **pricing multiples** of public firms that serve as guidelines with those of private enterprises
- **Simple and Easily Understandable**
- Empirical Studies include (Koeplin, Sarin and Shapiro, 2000), (Kooli, Kortas and L'her, 2003), (Officer, 2007), (Paglia and Harjoto, 2010), (ROZARIO and MA, 2025)...etc.

ALTERNATIVE APPROACH

Acquisition Method (Methodology)

- **collect** publicly available information related to transaction of private company from the Hong Kong Stock Exchange.
- **compare** the multiples of Ratio Price/Sales, Price/Earnings, and Price/Book between the acquirer and the target, two companies involved in an acquisition transaction.
- **calculate** and analyse the difference between these three ratios.

ALTERNATIVE APPROACH

Survey Method < 10 questions from BVR (2025) >

Q1 Which of the following methodologies or tools do you use to estimate a DLOM?

~~Q2~~ If you selected "Other" in Question 1, which ones of these do you use?

Add: Q2 What is the period of DLOM do you use?

~~Q3~~ If you use option pricing models, which ones do you use?

Add: Q3 What do you expect the value of DLOM in your potential acquisition?

~~Q4~~ If you use restricted stock studies, which studies do you use?

~~Q5~~ If using restricted stock studies, what overall approach do you use?

~~Q6~~ Do you consider the ten Mandelbaum factors?

~~Q7~~ Do you consider the IRS DLOM Job Aid when estimating DLOM?

Q8 Would you apply a DLOM to a 100% interest in a private company?

Q9 How many DLOM methods do you typically include in your valuation reports?

Q10 Please give us any additional comments or observations about...

ALTERNATIVE APPROACH

Survey Method (Methodology)

- **start** with the 10 questions from the Business Valuation Resources, LLC (2021)
- **focus group** to trim or add questions which are more relevant and meaningful regarding the DLOM in Hong Kong
- **final survey** with 50 Chief Executive Officers or Chief Financial Officers from both listed companies or non-listed companies in Hong Kong.

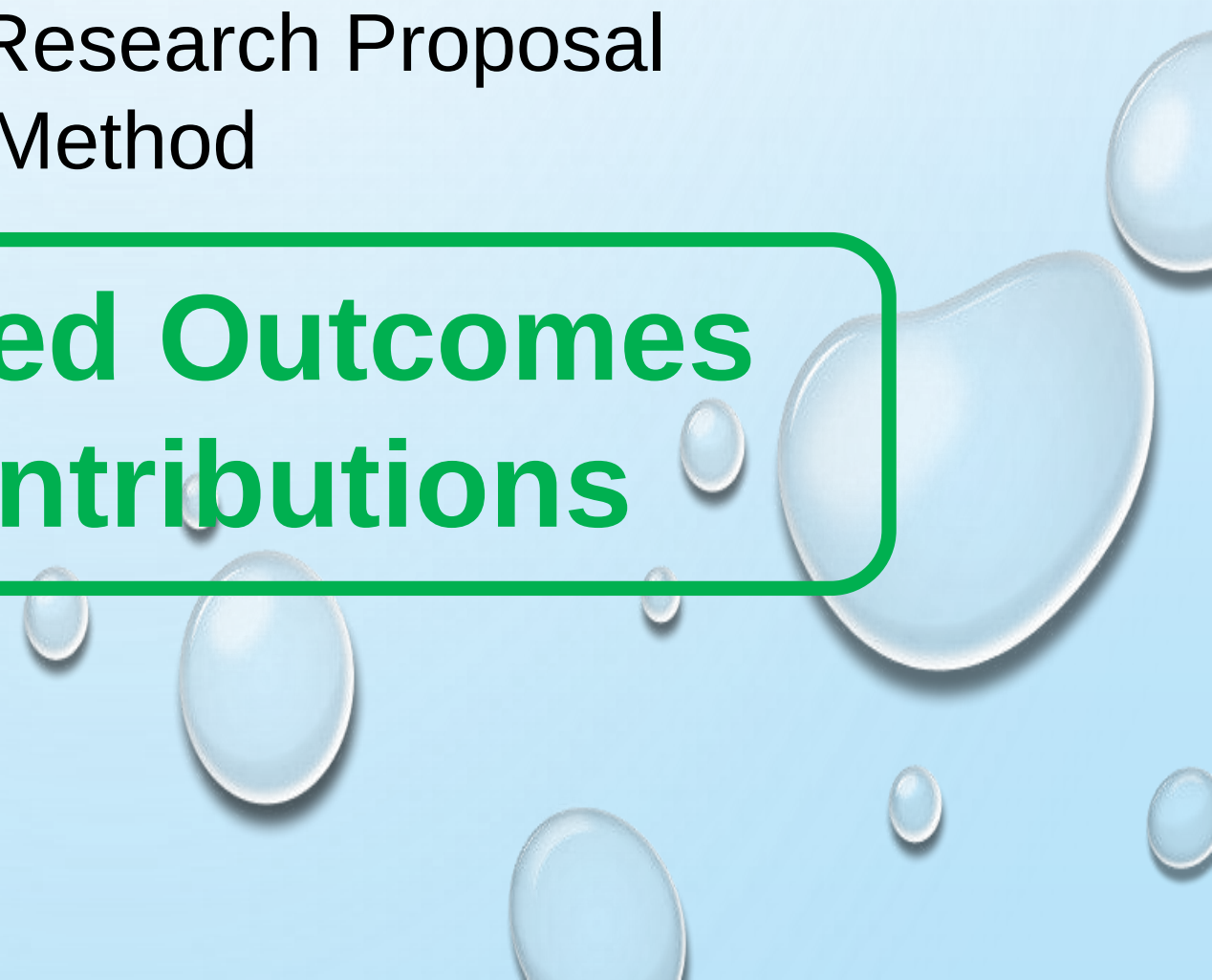


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EXPECTED OUTCOMES AND CONTRIBUTIONS

Acquisition Method

- Ample empirical research
- We expect the results from our research will be **similar** to those of empirical research

Survey Method

- Only one empirical research
- **No** fixed expectation

EXPECTED OUTCOMES AND CONTRIBUTIONS

Contribution:

- **First comprehensive study** about the DLOM in Hong Kong.
- A **more accurate and reliable DLOM data** for the compulsory use by accountants, valuers, investors in Hong Kong
- DLOM database is a long-term project providing **long-term contribution** because the financial and investment industry in Hong Kong will never stop buying or investing.
- Provide a model or **paradigm for similar research topic** in Hong Kong e.g. Discount for Minority.

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