VALUE ADJUSTMENT OR RISK ADJUSTMENT? PREMIUMS AND DISCOUNTS IN CORPORATE VALUATION: THE CASE OF BROKERAGE RECOMMENDATIONS

PhDr., Adrian_Przymuszala, MBA, LL.M.

WSB Merito University in Poznań

Faculty of Entrepreneurship and Innovation in Warsaw

PhDr., Адриан Пшимушала, MBA, LL.M.

Докторант,

ВСУ „Черноризец Храбър“, Факултет ССКН, катедра „Икономика“

e-mail: adrian.przymuszala@wsb.warszawa.pl

Introduction: *Corporate valuation is one of those areas of finance where the precision of a quantitative model must be supplemented by the analyst's professional judgment. The value of a company is not solely the result of the mechanical application of the income, comparable, or transaction-based methods. It is also the result of interpreting characteristics of the entity being valued, such as the liquidity of its shares, the size of the company, its ownership structure, exposure to legal and regulatory risks, competitive position, or the specific nature of the market in which it operates. For this reason, valuation practice requires the use of premiums and discounts, which adjust the base model's results to the economic characteristics of the asset being valued.*

The literature on the subject indicates that premiums and discounts are among the more complex, yet subjectively prone, elements of the valuation process. Prusak (2014) emphasises that their application depends on the level of value being estimated, particularly on whether a controlling, minority, freely tradable, or transfer-restricted stake is being valued. Similarly, Damodaran (2005) points out that illiquidity can affect a company's value both through a direct discount and by increasing the required rate of return. This means that the mere identification of risk does not yet determine how it should be accounted for in the valuation.

The distinction between a discount and a risk premium is particularly significant. In this article, a discount is understood as an adjustment that directly reduces the value of the company, equity, or a specific block of shares. This primarily applies to discounts arising from

illiquidity, lack of control, holding-company status, and legal or economic constraints. Risk premiums are of a different nature; they do not increase the company's value but raise the discount rate, thereby reducing the present value of future cash flows. This group includes, among others, the size premium, the specific risk premium, the country risk premium, and the regulatory risk premium. This approach is consistent with the practice of estimating the cost of capital, in which a company's additional risks may be accounted for by adjusting the cost of equity or the weighted average cost of capital (Grabowski, 2018; Harrington et al., 2021).

The research problem of this article thus boils down to how premiums and discounts are applied in brokerage recommendations and whether the manner of their recognition corresponds to the classifications presented in the literature on the subject. The aim of this article is to identify and organize the premiums and discounts used in corporate valuation, and subsequently to compare theoretical findings with the practice of analytical reports concerning Polish and foreign companies.

The empirical basis of the study is an original compilation of brokerage recommendations and analytical reports prepared in an Excel spreadsheet. The compilation includes the company name, country, report date, author of the analysis, type of adjustment applied, mechanism of its impact on the valuation, location within the model, amount of the adjustment, the analyst's justification, and a link to the source report. This allows an assessment of whether the adjustments applied by analysts constitute a direct discount to value, a premium that increases the discount rate, or a qualitative adjustment incorporated into scenarios, forecasts, or multiples.

The article consists of three parts. The first part presents the theoretical foundations for the use of premiums and discounts in corporate valuation. The second part provides an empirical analysis of the reports included in the Excel spreadsheet. The third part assesses the alignment of market practice with the literature and identifies the main methodological issues, particularly the risk of double-counting the same risk factors.

Keywords: *corporate valuation; premiums and discounts; illiquidity discount; risk premium; size premium; cost of capital; WACC; brokerage recommendations; analytical reports; firm-specific risk.*

1. Theoretical foundations for the use of premiums and discounts in corporate valuation

1.1. The essence of premiums and discounts in the corporate valuation proces

Company valuation is a process in which the result of a financial model requires economic interpretation on a case-by-case basis. The value obtained using the income, comparable, or transaction-based methods does not always reflect all the characteristics of the entity being valued, its equity stake, or the market in which it operates. For this reason, in valuation practice, additional adjustments are often applied, referred to as premiums or discounts. Their purpose is to bring the base value to a level that reflects the asset's actual economic characteristics.

Premiums and discounts should not be treated as arbitrary, discretionary adjustments to value. Prusak (2014) points out that their application should result from the difference between the value level adopted in the valuation model and the value level appropriate for the specific subject of the valuation. This means that the valuation of a controlling stake may require one type of adjustment, a minority stake another, and a stake in a private company—whose sale is restricted or takes a long time—yet another. A similar approach is presented by NACVA (2013), where premiums and discounts are presented as tools for transitioning between different levels of value, in particular between the value of a controlling stake, a minority stake, and an illiquid stake.

It is essential to distinguish between adjustments relating to the value itself and adjustments affecting the discount rate. In the strict sense, a discount reduces the estimated value of a company, its equity, or a specific block of shares. An example is the illiquidity discount, which reflects the fact that an asset that is difficult to sell is less attractive to an investor than a liquid asset. Damodaran (2005) emphasises that investors are willing to pay less for assets they cannot quickly sell at a price close to their fundamental value. In this sense, illiquidity is not merely a technical feature of the market but a real economic factor affecting value.

Risk premiums are of a different nature. They are not premiums that increase a company's value; rather, they are additional components of the required rate of return. Grabowski (2018) points out that a size premium may be accounted for when estimating the cost of capital, as smaller companies are typically subject to higher operational, financial, and informational risks. Harrington, Nunes, Aboulamer, and Grabowski (2021), however, show that country risk premiums may also be significant when calculating the cost of capital in an international context. Such premiums increase the cost of equity or the weighted average cost of capital, and thus reduce the present value of future cash flows.

The control premium has yet another nature. Byrka-Kita and Czerwiński (2013) analyse the control premium as additional value resulting from the ability to influence a company's strategic decisions. It is therefore not a risk premium in the discount rate, but an adjustment to the value of the equity stake that gives the acquirer the ability to exercise control over the company. In this context, the control premium may increase the value of a controlling stake relative to the value of a minority stake.

Even at this stage, it is clear that the concept of a "premium" is ambiguous. It can refer to both an increase in the value of the equity stake and an increase in the discount rate. From a methodological standpoint, however, these are opposing mechanisms. A control premium can increase value, whereas a risk premium increases the discount rate, thereby reducing value. Failure to distinguish between these two mechanisms leads to interpretive ambiguity and, in extreme cases, to valuation errors.

1.2. Discounts as value-reducing adjustments

A discount is an adjustment that directly reduces the value derived from the base model. The literature most frequently refers to illiquidity discounts, control discounts, holding discounts, transferability discounts, and discounts resulting from the specific characteristics of the entity being valued. Prusak (2014) emphasises that discounts should be applied when the value obtained in the model differs from the level appropriate for the asset being valued.

The illiquidity discount is of the greatest practical significance. Damodaran (2005) defines illiquidity as the limited ability to sell an asset quickly without significantly affecting its price. The valuation of shares in a private company, shares with a low free float, or securities subject to selling restrictions, therefore requires taking into account the additional cost associated with the difficulty of exiting the investment. IRS (2009) notes that when assessing the illiquidity discount, one should consider, among other factors, legal restrictions, dividend policy, the prospect of selling the shares, the company's financial condition, and the time required to liquidate the investment.

The illiquidity discount can apply to both private and public companies. For private companies, the issue stems primarily from the lack of an active market for trading shares. For public companies, however, illiquidity may result from low trading volume, a small free float, a controlling shareholder, or limited interest from institutional investors. Damodaran (2005) notes that the magnitude of the discount should not be the same for all companies, as it depends on the company's financial condition, size, asset quality, ability to generate cash flows, and the likelihood of future liquidation of the investment.

The second important category is the non-controlling interest discount. This arises when the block of shares being valued does not give the investor the ability to influence the company's key decisions. Byrka-Kita and Czerwiński (2013) note that control over a company may include influence over strategy, dividend policy, investment decisions, financing structure, the composition of governing bodies, and transactions with related parties. A minority stake that does not confer such rights may therefore be worth less than a proportional share of the company's total value.

The discount for lack of control is methodologically linked to the control premium, but it is not a simple mirror image of it. NACVA (2013) notes that the value of a controlling stake and the value of a minority stake depend on the set of rights held by the owner. If the valuation model is based on market data reflecting the value of minority stakes, applying a control premium may be justified when valuing a controlling stake. If, however, the model yields a controlling stake value, the valuation of a minority stake may require a discount for lack of control.

The group discount can also be classified as a holding discount. Wiśniewski (2018) notes that it may result from the complex structure of a capital group, the holding company's operating costs, limited transparency of assets, or the lack of direct access for shareholders to cash flows generated by subsidiaries. In practice, a holding discount may be particularly significant for investment entities, conglomerates, and companies whose value derives primarily from holdings in other entities.

Discounts may also reflect legal, regulatory, or transactional risks. However, they are not always recognised as a separate percentage adjustment. The risk of litigation, administrative proceedings, or a material claim may be accounted for directly in cash flows, in valuation scenarios, in provisions, or by applying a higher discount rate. The appropriate method of recognition depends on the nature of the risk. If the risk is one-time in nature and quantifiable, an adjustment to cash flows or values may be more appropriate. If, however, it affects the company's ongoing risk profile, it may justify an adjustment to the discount rate.

1.3. Value-Increasing Premiums and Discount Rate-Increasing Premiums

Premiums used in business valuation require special classification, as in practice the same term is used to describe adjustments with differing effects on value. The first group consists of premiums that increase the value of a specific equity stake. The most important example is the control premium. The second group consists of risk premiums, which increase the discount rate and thereby reduce the company's value. This group includes, among others,

the size premium, the specific risk premium, the country risk premium, and the illiquidity premium, all of which are included in the cost of capital.

The control premium stems from the ability to influence the company's decisions. Byrka-Kita and Czerwiński (2013) show that buyers of controlling stakes may be willing to pay more than the current market price of the shares would suggest, because control allows them to take actions unavailable to minority shareholders. These may include a change in strategy, restructuring, asset sales, a change in dividend policy, or the exploitation of synergies. For this reason, the control premium is not a premium for higher risk, but a premium for additional rights and decision-making capabilities.

The size premium should be treated differently. Grabowski (2018) argues that the size effect remains significant when estimating the cost of capital, as smaller firms may exhibit higher earnings volatility, less business diversification, weaker access to financing, and greater information risk. In this context, the size premium does not increase the company's value but raises the investor's required rate of return. In the DCF model, this increases the cost of capital and reduces the present value of projected cash flows.

The company-specific risk premium reflects factors not fully captured by market risk. Feldman and Feldman (2023) note that this may include, among other things, customer concentration, dependence on key individuals, supplier risk, low diversification, limited access to capital, a weak competitive position, or specific operational risks. However, its application requires caution, as some of these risks may already be accounted for in financial forecasts. If, for example, the loss of a key customer has been reflected in lower revenue forecasts, an additional increase in the discount rate for the same reason may lead to double-counting of risk.

In valuing companies operating in foreign markets, the country risk premium may be of significant importance. Harrington et al. (2021) point out that when calculating the cost of capital, differences between markets should be taken into account, including institutional stability, political risk, currency risk, capital transfer risk, and the quality of the economic environment. At the same time, Kruschwitz, Löffler, and Mandl (2012) are critical of certain methods for calculating the country risk premium, noting that mechanically adding it to the discount rate can lead to erroneous results if it is not properly linked to the currency of cash flows and the company's actual exposure.

The illiquidity premium can be accounted for in two ways. Damodaran (2005) notes that illiquidity can be reflected either through a direct discount on the value or by increasing the required rate of return. The choice of method should depend on the model's structure and the nature of the asset being valued. If the adjustment is recognised simultaneously as a discount to

value and as a premium in the discount rate, there is a risk of double-counting the same factor in the valuation.

1.4. Where to include the adjustment in the valuation model

One of the most important methodological issues is determining where in the model a given adjustment should be included. The same source of risk can be reflected in cash flows, the discount rate, comparative multiples, scenarios, or a direct discount to value. A correct valuation requires the analyst to consciously choose one mechanism and justify its use.

In the income approach, adjustments may be included in the numerator or denominator of the model. Inclusion in the numerator implies an adjustment to projected cash flows. This is appropriate when risk affects specific revenues, costs, capital expenditures, working capital, or reserves. Inclusion in the denominator implies an adjustment to the discount rate. This is appropriate when the risk affects the overall level of the investor's required rate of return. Damodaran (2005) emphasises that mixing these two approaches without control can lead to model inconsistency.

In the comparative method, premiums and discounts may be reflected through the selection of multiples, the choice of a peer group, or an additional adjustment relative to the market median. A company with lower liquidity, a smaller scale of operations, or higher regulatory risk may be valued at a discount to the peer group. Conversely, a company with higher profitability, a stronger market position, or better growth prospects may justify a premium relative to comparable entities. However, one must distinguish between a multiple premium and a risk premium in the discount rate. The former affects the relative market valuation, while the latter affects the cost of capital.

In practice, the greatest risk of error arises when the same company characteristic is factored in more than once. For example, a small scale of operations may lead to the application of a size premium in the cost of capital. At the same time, this characteristic may result in lower stock liquidity, thereby prompting the analyst to apply a discount for illiquidity. It may also influence the selection of lower multiples in comparative valuation. If all these adjustments are applied simultaneously without clearly distinguishing their causes, the valuation result may be significantly understated.

For this reason, the remainder of this article classifies adjustments by the mechanism through which they affect valuation. The first group consists of discounts that directly reduce the value of the company, equity, or shareholding. The second group consists of risk premiums that increase the discount rate. The third group consists of premiums that increase the value of

a specific stake, primarily the control premium. This classification avoids conceptual ambiguity and serves as a starting point for the empirical analysis of brokerage recommendations and analytical reports.

2. Empirical analysis of premiums and discounts based on a compilation of brokerage recommendations

2.1. Characteristics of the empirical data

The empirical basis for this chapter is a proprietary compilation of brokerage recommendations, analytical reports, and company valuations, prepared in an Excel spreadsheet. The compilation includes **28 observations** concerning Polish and foreign companies in which the use of a premium, a discount, or a qualitative assessment of risk factors affecting the company's value was identified. Each observation was described according to a uniform format covering: region, company name, ticker symbol, report date, report author, type of adjustment, mechanism of its impact on valuation, location within the model, adjustment amount, calculation method, analytical justification, impact on valuation, and a link to the source report.

The sample included **8 observations on Polish companies and 20 on foreign companies**. The most numerous were reports on Italian companies (10 observations) and on Polish companies (8 observations). A smaller but significant portion of the sample consisted of reports on companies from Germany, Denmark, Finland, the Netherlands, and Argentina, as well as on entities with exposure to Ukraine or African markets. This selection of material allows for a comparison of domestic and foreign practice, particularly regarding the methods for recognising adjustments to the discount rate and direct discounts on value.

The empirical data are international in nature but retain a significant Polish component. This is important for the article's purpose, as it allows us to assess whether the adjustments used in domestic analytical reports align with foreign practices. In the Polish sample, adjustments recognized in the cost of equity or WACC predominated, particularly in the form of ESG adjustments applied by BM Pekao. In the foreign sample, however, clearly described premiums for liquidity, size, country risk, and specific risk appeared more frequently.

2.2. Types of adjustments identified in the compilation

An analysis of the collected reports shows that premiums and discounts were accounted for in several different ways. The largest group consisted of adjustments to the discount rate. In the sample under study, **15 observations** were identified in which a risk premium or adjustment

was applied directly to the discount rate. After accounting for cases where risk increased the cost of capital through a higher risk multiplier or an elevated beta, the number of "risk premium" observations rises to **17**. This indicates that the reports analysed predominantly reflected adjustments via changes in the cost of capital rather than through a direct reduction in value.

Table 1. Classification of adjustments by mechanism of impact on valuation

Adjustment mechanism	Number of observations	Share in the sample
Risk premium/adjustment in the discount rate	17	60.7%
Discount/adjustment directly reducing the value	6	21.4%
Risk recognized qualitatively or through scenarios	2	7.1%
Premium increasing the portfolio value / target price	1	3.6%
No premium applied	1	3.6%
Other operating adjustment	1	3.6%
Total	**28**	**100.0%**

Source: author's own analysis

As shown in Table 1, adjustments to the discount rate are the most common in analytical reports. This is consistent with the logic of income-based valuation, in which systematic risk, country risk, size risk, liquidity risk, and specific risk can be reflected by an increase in the cost of capital. At the same time, Table 3 shows that discounts that directly reduce value also occur in practice, although they were less common in the sample studied. These primarily concerned liquidity and size discounts, as well as value adjustments resulting from environmental and regulatory risks.

It is worth noting that some reports did not apply a separate, numerically quantified premium or discount, even though they identified significant risk factors. This applied, among other things, to legal, litigation, regulatory, and geopolitical risks. In such cases, analysts accounted for the risk indirectly: through a higher beta, scenarios, sensitivity analysis, conservative financial assumptions, or a description of investment risk.

2.3. Discounts that directly reduce the value of the company

The most transparent example of a discount that directly reduces value are cases where, after calculating the base value, the analyst applies a percentage adjustment to the EV (equity value). **Six** such **observations** were identified in the Excel spreadsheet. They are primarily

concerned with liquidity discounts, size discounts, and value adjustments resulting from environmental and regulatory risks.

Table 2. Examples of discounts that directly reduce value

Company	Country	Report author	Type of discount/adjustment	Amount of adjustment	Location
Fervi S.p.A.	Italy	KT&Partners	Liquidity/size discount	25%	EV and equity value / comparative valuation
Casta Diva Group	Italy	Websim Corporate	liquidity discount	20% / -11.7 million EUR	equity value / DCF
ZE PAK	Poland	BM Pekao	environmental and regulatory value adjustment	-PLN 893 million	EV / SOTP

Source: own analysis

The data in Table 2 indicate that, for Fervi S.p.A., the liquidity and size discount was applied consistently across several KT&Partners reports. In each case, it amounted to 25% and was deducted from the value derived from the comparative valuation. The analytical justification referred to the limited liquidity of the shares and the smaller scale of the company's operations relative to the peer group. The mechanism was thus classic: first, a value was determined using EV/EBITDA or P/E multiples, and then it was discounted for limited comparability and liquidity.

The discount applied in the report for **Casta Diva Group** was similar, though not identical. In this case, the Websim Corporate report indicated **a 20% liquidity discount**, which reduced the equity value by **EUR 11.7 million**. Importantly, the report also indicated an alternative way of accounting for the same risk: instead of a direct discount, a higher WACC could be applied. This example has particular methodological significance because it shows that a lack of liquidity can be accounted for either as a discount on value or as a premium in the discount rate. However, it should not be accounted for in both places simultaneously without separate justification.

The adjustment applied in the BM Pekao report for **ZE PAK** was of a different nature. It was not a classic percentage adjustment due to lack of liquidity, but a direct adjustment to the enterprise value of **PLN -893 million**. In the Excel table, it was classified as a value adjustment resulting from environmental and regulatory risks. This adjustment included, among other things, reclamation costs and the net position of CO_2 emission allowances. In economic terms, it functioned as a discount to the present value of operations, reducing the enterprise value in the SOTP model.

The conclusions from Table 4 are twofold. First, a value discount is primarily applied when a risk or characteristic of the company can be clearly attributed to the terminal value. Second, the discount can vary in nature: it can be a percentage adjustment to EV or equity value, or a fixed-amount adjustment, as in the case of ZE PAK.

2.4. Risk premiums increasing the discount rate

The most numerous category in the sample under study consisted of risk premiums and adjustments incorporated into the discount rate. In the Excel table, they appeared in various forms: as a size premium, a liquidity premium, a country risk premium, a specific risk premium, an ESG premium, and an elevated risk adjustment factor (high beta). A common feature of these adjustments was that they did not increase the company's value; instead, they raised the cost of capital, thereby reducing the present value of future cash flows.

Table 3. Examples of risk premiums and adjustments in the discount rate

Company	Country	Report author	Type of adjustment	Amount of adjustment	Location
Quercus TFI	Poland	BM Pekao	ESG adjustment	-0.4 p.p.; -0.3 p.p. at the terminal	CoE / WACC
Expert.ai	Italy	MidCap / TP ICAP	size and liquidity premium	1.0%	WACC
Maps Group	Italy	MidCap / TP ICAP	Country, size, and liquidity premium	6.5%	WACC
RTX A/S	Denmark	Danske Bank	liquidity premium	+1.0 p.p.	WACC
Exel Composites	Finland	Danske Bank	small-cap premium	9.0%	CoE / WACC
ParTec AG	Germany	First Berlin	company-specific risk factor	2.27 %	CoE / WACC
ACOF Class C	Africa / listing	Listing Details	liquidity and small-cap premium	5% + 5%	Cost of equity
Kernel Holding	Ukraine / Luxembourg	KPMG / SII	country risk premium	WACC 16.1%–18.1%	DCF / WACC
Vista Oil & Gas	Argentina	UCEMA	liquidity, size, and country premium	2.5%; CRP 8%–14.25%	CoE / WACC

Source: author's own analysis

The data presented in Table 3 show that adjustments to the discount rate took the form of both small point premiums and very significant increases in the cost of capital. For example, in the report for **RTX A/S**, **a 1 p.p. liquidity premium** was applied directly to the WACC. The model's sensitivity was significant in this case: a 1-percentage-point change in WACC affected

the DCF value by between **-14% and +19**%. This means that even a seemingly minor adjustment to the discount rate can significantly alter the valuation result.

The small-cap premium had an even stronger impact on the cost of capital in the Exel Composites report. The report indicated a small-cap premium of 9.0%, a cost of equity of 16.5%, and a WACC **of 12.41**%. These data show that the size premium can be one of the most important components of the discount rate when valuing small companies. However, this adjustment does not increase value; on the contrary, its application reduces the DCF value.

For **Maps Group**, a combined country, size, and liquidity premium of **6.5%** was applied, resulting in a WACC of **9.0**%. This example illustrates the practice of aggregating several types of risk into a single item. While this approach is analytically convenient, it is less methodologically transparent, as it makes it difficult to assess which portion of the adjustment stems from country risk, which from the company's size, and which from limited liquidity.

A different approach to capturing risk was used in the report for **ParTec AG**, where **a company-specific risk factor of 2.27** was identified. The report attributed this factor to, among other things, free float, market capitalisation, corporate governance, earnings quality, financial risk, competitive position, and regulatory certainty. This case demonstrates that company-specific risk can be captured not only as a simple percentage premium but also as a multiplier affecting the cost of equity.

In the Polish reports, the ESG adjustments applied by BM Pekao were particularly interesting. In the case of **Quercus TFI,** an ESG rating of B resulted in a reduction of the risk premium by **7.5% of the risk-free rate**, which in one of the reports yielded an effect of approximately **-0.4 percentage points** for the 2026e–2031e period and **-0.3 percentage points** for the residual period. In the case of **Atende** and **ZE PAK**, an ESG rating of C had no impact on WACC, i**.**e., **0.0** percentage points. As shown in the Excel table, the ESG adjustment can work in both directions: it can lower the cost of capital, increasing the valuation, or remain neutral.

2.5. Legal, Regulatory, and Geopolitical Risks

Legal, regulatory, and geopolitical risks constituted a special category. Analysis of the Excel spreadsheet shows that in many cases, analysts did not present these as a separate, clearly defined premium or discount. These risks were more often captured indirectly: through scenarios, sensitivity analysis, higher beta, higher cost of capital, provisions, cash flow adjustments, or descriptions of investment risks.

Table 4. Examples of the treatment of legal, regulatory, and geopolitical risks

Company	Country	Type of risk	Method of recognition	Value / Parameter
ZE PAK	Poland	environmental and regulatory risks	EV / SOTP adjustment	-PLN 893 million
Selena FM	Poland	geopolitical and transfer risk	Risk description / cost of capital	cost of capital 14.5%; no separate premium for Russia
Bayer AG	Germany	litigation overhang	beta, WACC, operational risk	WACC 8.7%; CoE 16.1%; beta 2.08 / 2.36
Bayer AG	Germany	legal disputes	scenarios / sensitivity analysis	no separate risk premium
Kernel Holding	Ukraine / Luxembourg	country risk	premium in WACC	WACC 16.1%–18.1%
Vista Oil & Gas	Argentina	country risk	scenario-based country premium	CRP 8%–14.25%

Source: author's own analysis

As shown in Table 4, there is no single standard method for recognising legal and regulatory risks. In the case of **ZE PAK**, environmental and regulatory risk was converted into a specific value adjustment of **PLN -893 million**. In the case of **Bayer AG**, the risk of legal disputes related to the acquisition of Monsanto was not presented as a separate point premium, but was reflected in the high cost of equity, high beta, and the description of operational and reputational risks. In contrast, the report on Selena FM described exposure to the Russian market and the risks of intra-group fund transfers qualitatively, without a separate numerical premium for Russia.

The data in Table 4 confirm that legal, regulatory, and geopolitical risks are more difficult to quantify than liquidity or size risk. If a risk can be estimated in monetary terms, such as remediation costs or the net position of CO_2 allowances, it may be recognized as a value adjustment. However, if it relates to the uncertain outcome of a legal dispute, reputation, regulation, or the geopolitical environment, it is more often incorporated into scenarios, beta, cost of capital, or the description of investment risks.

2.6. Control premium as a separate category of adjustment

The sample analysed also identified a case where a premium increased the value rather than the discount rate. This concerned **GPI S.p.A.**, for which the Intermonte report indicated a

30% control premium, increasing the target price by **EUR 4.3**. The Excel spreadsheet noted that the target price rose from **EUR 14.0 to EUR 18.6**, citing the company's potential strategic value in an acquisition scenario.

This case is of significant importance to the article's conceptual framework. A control premium is not a risk premium and should not be interpreted as a component of WACC. Its economic rationale lies in reflecting the additional value of decision-making rights, the ability to implement an ownership strategy, or potential synergies. In the sample studied, this category was less common than risk premiums in the discount rate, but its presence confirms the need to distinguish between premiums that increase value and those that increase the cost of capital.

2.7. Comparison of Polish and Foreign Practices

The Excel table also allows for a comparison of Polish and foreign practices. The Polish sample included **8 observations**, most of which concerned BM Pekao reports and the methodology for ESG adjustments in the cost of capital. The foreign sample included **20 observations**, covering a wider range of adjustments: liquidity and size discounts, a liquidity premium, a small-cap premium, a country risk premium, a company-specific risk factor, and a control premium.

Table 5. Comparison of Polish and foreign practices

Criterion	Polish companies	Foreign companies
Number of observations	8	20
Dominant adjustments	ESG in WACC, environmental and regulatory risks, geopolitical risk	liquidity discount, size premium, liquidity premium, CRP, CSRP, control premium
Most common place of recognition	cost of equity / WACC, EV/SOTP, risk description	WACC, CoE, equity value, EV, target price
Examples	Quercus TFI, Atende, ZE PAK, Selena FM	Fervi, Casta Diva, Exel Composites, RTX, ParTec, Bayer, GPI

Source: own analysis

As shown in Table 5, foreign reports more often presented adjustments in a technical manner, showing a specific premium or discount and where it was included in the model. Examples include **a 25% liquidity/size discount** in Fervi's report, a 20% liquidity discount in Casta Diva's report, a 9.0% small-cap premium in Exel Composites' report, and a 1-percentage-

point **liquidity premium** in RTX's report. In Polish reports, however, adjustments were more often related to ESG, regulations, and environmental risk, with some risks being descriptive in nature or incorporated into the model through value adjustments.

This does not mean that Polish practices are less advanced. The data in Table 5, rather, suggest that the reports analyzed have a different profile. BM Pekao used a transparent ESG matrix in which a rating of A meant a reduction in the risk premium of 15% of the risk-free rate, a rating of B meant a reduction of 7.5%, a rating of C was neutral, and a rating of D increased the risk premium by 15% of the risk-free rate. In contrast, foreign reports more often concerned small- or medium-sized companies with limited liquidity, which favored adjustments such as a liquidity discount, a small-cap premium, or a company-specific risk premium.

3. Discussion of Results and Implications for Corporate Valuation Practice

3.1. Consistency of market practice with the literature

The analysis conducted in Chapter 2 confirms that premiums and discounts are not marginal elements of the corporate valuation process but rather significant tools for adjusting the model value to the economic characteristics of the entity being valued. The results of the empirical analysis are consistent with the approach presented in the literature. Prusak (2014) points out that applying a premium or discount should reflect the difference between the value level assumed in the model and the value level appropriate for the specific subject of the valuation. A similar position is presented by NACVA (2013), according to which value adjustments serve to bridge the gap between different value levels, particularly the value of a controlling interest, the value of a minority interest, and the value of an illiquid interest.

The data presented in Table 3 in Chapter 2 indicate that, in the sample under study, adjustments to the discount rate were the most common. Seventeen observations were identified in which a risk premium or adjustment affected the WACC, cost of equity, beta, or another discount parameter. This result is consistent with the approach presented by Grabowski (2018), who emphasises the importance of the size premium in calculating the cost of capital, and with Harrington, Nunes, Aboulamer, and Grabowski (2021), who highlight the role of country risk in international cost-of-capital estimates. This implies that brokerage recommendation practices largely confirm that certain risks are not captured as a direct discount on value but rather as a component of the required rate of return.

Chapter Two indicates that, in practice, discounts that directly reduce the value of the firm or equity are still used. In the sample under study, such adjustments were identified in 6 observations. Particularly clear examples were reports concerning Fervi S.p.A., where a 25%

liquidity and size discount was applied, and Casta Diva Group, where a 20% liquidity discount was applied. This type of practice is justified in the literature on illiquidity. Damodaran (2005) notes that limited ability to quickly sell an asset may justify a direct discount to value, while IRS (2009) emphasises that the magnitude of the discount should depend on the specific characteristics of the equity being valued, including liquidity constraints, the company's financial condition, dividend policy, and the prospects for liquidating the investment.

A key finding of the research is that the practice of preparing analytical reports clearly distinguishes, though not always consistently, between premiums that increase the discount rate and those that increase the value of the stake. The size premium, liquidity premium, country risk premium, or company-specific risk premium were treated as components of the cost of capital. Meanwhile, the control premium, identified in the case of GPI S.p.A., increased the value of the stake or the target price. This is consistent with the distinction presented by Byrka-Kita and Czerwiński (2013), according to which the control premium stems from the ability to influence a company's strategic decisions, rather than from an elevated level of investment risk.

The results of the empirical study thus confirm the basic finding of the literature: there is no single universal mechanism for applying premiums and discounts. The same economic category, such as illiquidity, can be treated as a direct discount to value or as a premium that increases the discount rate. Damodaran (2005) explicitly allows for both approaches, but their correct application requires model consistency. If illiquidity has already been reflected in the discount rate, treating it again as a discount to value would require additional, separate justification.

3.2. Key Findings from the Empirical Analysis

The empirical analysis, prepared in an Excel spreadsheet, allows us to draw several conclusions about the actual practice of applying premiums and discounts in brokerage recommendations. First, the sample under study shows that adjustments incorporated into the discount rate are more common than adjustments that directly reduce the value. As shown in Table 3, premiums and risk adjustments in the discount rate accounted for 17 out of 28 observations. This means that in the analysed reports, risk was more often treated as a factor influencing the required rate of return than as a separate discount from the terminal value.

Second, the observation results indicate that adjustments to the discount rate varied widely in magnitude. For RTX A/S, the liquidity premium was 1 percentage point. For Exel Composites, the small-cap premium reached 9.0%. For Maps Group, the total premium for country, size, and liquidity amounted to 6.5%. This means that risk premiums can have both a

moderate and a very significant impact on the final valuation result. This is particularly important in DCF models, where even a relatively small change in WACC can significantly alter the present value of cash flows.

Third, it was observed that discounts that directly reduced the value were less common but often very clear in their methodology. For example, the 25% discount applied in Fervi S.p.A.'s reports and the 20% discount in the Casta Diva Group's report were attributed to specific reasons: limited liquidity, smaller scale of operations, or limited comparability with the peer group. In such cases, the analyst first determines a base value and then applies a final adjustment. This mechanism is simple and transparent, but requires a strong justification for the discount rate.

Fourth, the analysis indicates that legal, regulatory, and geopolitical risks are treated less uniformly than liquidity or company size. In the case of ZE PAK, environmental and regulatory risk was converted into a specific value adjustment of PLN -893 million. In the case of Bayer AG, legal risks related to litigation were reflected more in higher beta, cost of capital, and risk description than in a separate point premium. For Selena FM, geopolitical and transfer risks were described qualitatively. This means that the more difficult it is to estimate the probability and magnitude of a given risk's potential impact, the more often analysts opt against a clear percentage adjustment in favour of scenarios, a description, or an indirect impact on the cost of capital.

It is also worth noting that the article highlights differences between Polish and international practices. International reports more frequently featured clearly defined technical adjustments, such as liquidity discount, small-cap premium, liquidity premium, country risk premium, or company-specific risk premium. In Polish reports, ESG adjustments, regulatory and environmental risks, and a descriptive treatment of geopolitical risks were relatively more significant. This does not necessarily imply a qualitative difference, but rather a different profile of the analyzed companies and reports. In the foreign sample, small and medium-sized companies with low liquidity appeared more frequently, whereas in the Polish sample, companies subject to regulatory or environmental risks were of significant importance.

Consequently, it can be concluded that the practice of brokerage recommendations confirms the fundamental categories described in the literature, yet demonstrates considerable flexibility in their application. Premiums and discounts are not a mechanical tool. Rather, they are an element of the analyst's professional judgment, which should be subordinated to the logic of the valuation model, the nature of the risk, and the level of value being estimated.

3.3. The Problem of Double Counting of Risk

One of the most significant methodological issues revealed in the study is the risk of double-counting the same factors. This problem is particularly significant for liquidity, company size, country risk, and specific risk. The same characteristics of a company can simultaneously influence the level of comparable multiples, the discount rate, cash flow scenarios, and the decision to apply a direct discount to value.

An example is low stock liquidity. Damodaran (2005) points out that a lack of liquidity can be reflected by a direct discount or by an increase in the required rate of return. The empirical comparison shows both practices. In the reports of Fervi S.p.A. and Casta Diva Group, illiquidity was treated as a discount to value. In the RTX A/S report, however, a liquidity premium was applied in the WACC. Both approaches are methodologically acceptable, but applying them simultaneously to the same risk could lead to an undervaluation.

A similar issue concerns firm size. Grabowski (2018) notes that smaller firms may require a higher rate of return, which justifies the use of a size premium in the cost of capital. However, in practice, a small scale of operations is often associated with lower liquidity, less recognition among investors, weaker access to financing, and lower market multiples. If an analyst simultaneously applies a size premium to the WACC, a liquidity discount, and lower comparative multiples, they should clearly demonstrate that each adjustment relates to a different aspect of risk.

The risk of double counting is particularly high for the company-specific risk premium. Feldman and Feldman (2023) note that the company-specific risk premium may encompass many factors, such as customer concentration, dependence on key individuals, financing risk, limited diversification, or a weak competitive position. However, some of these factors may already be reflected in financial forecasts. If, for example, the risk of losing a key customer has already been reflected in lower revenue forecasts, including it again in the company-specific risk premium would duplicate the adjustment. Legal and regulatory risks also require particular caution. If the risk of a legal dispute has been included in provisions, scenarios, or cash flows, an additional premium in the discount rate should reflect only that portion of uncertainty that has not yet been quantified in the model. Otherwise, the valuation may be burdened with excessive caution. In practice, this means that the analyst should indicate in each case whether a given risk affects the numerator of the model—i.e., cash flows—the denominator—i.e., the discount rate—or the terminal value through direct discounting.

The problem of double counting does not, therefore, lie in the mere application of multiple adjustments. Valuing a complex enterprise may require the simultaneous consideration

of several risks. The problem arises only when different adjustments reflect the same source of risk. For this reason, it is necessary to assign each premium and each discount to a specific economic rationale and a specific place in the valuation model.

3.4. Proposal for a Structured Approach to Applying Premiums and Discounts

Based on the literature and empirical analysis, a structured procedure for applying premiums and discounts in corporate valuation can be proposed. Its purpose is not to limit the analyst's professional judgment but to increase the transparency and consistency of the valuation model.

The first step should be to identify the source of the adjustment. The analyst should clearly indicate whether the adjustment stems from illiquidity, lack of control, company size, country risk, specific risk, legal risk, regulatory risk, bankruptcy risk, or other characteristics of the entity being valued. Without such identification, the premium or discount becomes a discretionary adjustment that is difficult to verify.

The second step should be to determine the value level to which the adjustment applies. Prusak (2014) and NACVA (2013) emphasise that premiums and discounts are closely linked to the value level. The value of the entire company should be treated differently from the values of equity, a controlling stake, and an illiquid minority interest. For example, a discount for lack of control should apply to the stake itself, not necessarily to the company's entire value. A country risk premium, on the other hand, may affect the discount rate for operations conducted in a specific market.

The third step should be to determine where to incorporate the adjustment into the model. If the risk affects specific cash flows, it should be reflected in the forecasts. If it affects the overall required rate of return, it may justify an adjustment to the WACC or the cost of equity. If it relates to the limited liquidity of the equity interest, it may justify a discount to value. If it relates to the ability to exercise control, it may justify a control premium. This breakdown helps mitigate the risk of model inconsistency.

The fourth step should be to verify whether a given risk has already been accounted for elsewhere in the model. This is a critical step from the perspective of valuation quality. If low liquidity has been reflected in a direct discount to value, its inclusion in the WACC requires separate justification. If legal risk has been accounted for in provisions or scenarios, an additional risk premium should apply only to residual uncertainty.

The fifth step should be to justify the amount of the adjustment. In the analyzed reports, the level of justification varied. Some reports specified concrete values, such as a 25% discount

for liquidity and size, a 20% discount for liquidity, a 1-percentage-point liquidity premium in the WACC, or a 9.0% premium for small market capitalisation. However, the reports did not always present a full empirical basis for these values. Meanwhile, the premium or discount amount should be derived from market data, empirical research, transaction comparisons, liquidity analysis, free float, cost of capital, or other measurable factors.

The proposed procedure can be summarised as follows.

Table 6. Proposed procedure for applying premiums and discounts in corporate valuation

Stage	Check question	Significance for valuation
1	What source of risk or company characteristic justifies the adjustment?	Identification of the economic basis for the adjustment.
2	Does the adjustment apply to the entire company, equity, or a specific block of shares?	Determination of the appropriate value level.
3	Should the adjustment affect cash flows, the discount rate, multiples, or the terminal value?	Selecting the appropriate location for recognition in the model.
4	Has the same risk already been accounted for in another parameter?	Avoiding double-counting of risk.
5	Is the magnitude of the adjustment empirically justified?	Increasing the verifiability of the valuation.
6	Does the report disclose the impact of the adjustment on the final value?	Improving the transparency of the analysis.

Source: author's own work

The proposed approach is particularly important for brokerage recommendations, as the report's user should understand not only the final target price but also the mechanism used to arrive at that price. A premium or discount can significantly alter an investment recommendation. An imprecise description of these factors limits the ability to assess whether the valuation reflects fundamental data or a discretionary risk adjustment.

3.5. Implications for Brokerage Recommendation Practice

The study's findings lead to several practical implications for the authors of brokerage recommendations and analytical reports. First, every premium and every discount should be clearly named and attributed to a specific mechanism influencing the valuation. It is not sufficient to indicate that a company is "risky," "small," or "illiquid." It is necessary to explain

whether this risk affects the WACC, cash flows, multiples, terminal value, or the value of a specific block of shares.

Second, the report should distinguish between value-increasing premiums and premiums that increase the discount rate. The control premium, according to Byrka-Kita and Czerwiński (2013), increases the value of a stake conferring decision-making rights. The size premium, according to Grabowski's (2018) approach, increases the cost of capital. Using the same term "premium" for both categories without explanation may lead to misinterpretation by the report's reader.

Third, it is advisable to present the impact of the adjustment on the final valuation. A good example is the RTX A/S report, which indicates the sensitivity of the DCF value to changes in WACC. Such a presentation allows the investor to assess the significance of a given adjustment. For high-risk premiums, such as the 9.0% small-cap premium in the Exel Composites report, disclosing the impact of this adjustment on the final value is particularly important.

Fourth, reports on legal and regulatory risks should clearly indicate whether the risk has been accounted for in monetary terms, through scenarios, or via the discount rate. Table 6 shows that practice in this regard is inconsistent. Valuations of companies such as ZE PAK, Bayer AG, and Selena FM demonstrate that risks with similar names can be accounted for in entirely different ways. From the report recipient's perspective, it is therefore crucial not only to identify the risk itself but also to explain how it is translated into value.

Fifth, brokerage recommendations should avoid accumulating adjustments without showing their interrelationships. If the model simultaneously applies a size premium, a liquidity premium, a company-specific risk premium, and a discount to multiples, the reader should know whether these are four distinct factors or four ways of capturing the same factor. Only in the first case is such an approach methodologically justified.

3.6. Limitations of the Study

The analysis is both qualitative and quantitative and is based on the author's compilation of publicly available brokerage recommendations and analytical reports. This means that the study does not cover all recommendations prepared by brokerage houses, investment banks, and advisory firms. Some reports are available exclusively to institutional clients, some are behind a paywall, and some are not publicly archived. For this reason, the research sample cannot be treated as a complete representation of the entire recommendations market.

A second limitation is the varying level of detail in the analysed reports. Some reports very precisely indicate the amount of the premium or discount and how it is applied. Others merely describe the risk without assigning it a specific numerical value. Consequently, some observations may have been classified based on the mechanism disclosed in the report rather than on a fully detailed calculation.

A third limitation is the diversity of the companies analysed. The sample includes entities from various countries, sectors, and market segments. While this allows for a comparison of practices, it also limits the ability to simply generalise the results. The premiums and discounts applied to a small technology company, an energy company, an investment fund, or an industrial company may stem from different economic factors.

Despite these limitations, the study captures significant patterns in market practice. The most important of these is the need to distinguish between three mechanisms: a discount that directly reduces value, a risk premium that increases the discount rate, and a premium that increases the value of a controlling stake. This distinction should form the basis for further research and corporate valuation practice.

Conclusion

The analysis confirms that premiums and discounts constitute a significant yet methodologically sensitive element of the corporate valuation process. Their application should not be arbitrary nor serve solely to "adjust" the valuation result to the analyst's expectations. Premiums and discounts are justified only when they result from specific characteristics of the company being valued, the equity stake, the market, or the risk profile, and their impact on value is clearly defined.

The most important conclusion from the theoretical section is the need to distinguish between three distinct adjustment mechanisms. First, a discount directly reduces the value of the company, equity, or a specific block of shares. This primarily applies to illiquidity discounts, lack-of-control discounts, holding company discounts, or discounts resulting from transferability restrictions. Second, the risk premium does not increase the company's value but raises the discount rate, thereby reducing the present value of future cash flows. This group includes, among others, the size premium, the country risk premium, the specific risk premium, and the illiquidity premium, which are incorporated into the cost of capital. Third, the control premium is of a different nature, as it can increase the value of a stake that allows for influence over the company's strategic decisions.

The results of the empirical section, based on the author's compilation of brokerage recommendations and analytical reports, indicate that market practice generally aligns with the categories described in the literature, though their application is not uniform. As shown in Table 3, adjustments reflected in the discount rate dominated the sample under study. This means that analysts more often reflected additional risks by increasing the WACC, cost of equity, beta, or another discount parameter rather than by directly reducing the firm's value. At the same time, Table 4 shows that value discounts also occur in practice, particularly with regard to illiquidity, small scale of operations, and specific regulatory or environmental risks.

Observations regarding liquidity and firm size are particularly important. The data in the table shows that illiquidity can be treated in two ways: as a direct discount to value or as a premium that increases the discount rate. Similarly, a small scale of operations may justify applying a size premium to the cost of capital, but in some reports, it may also lead to a discount relative to the peer group. It is precisely in this area that the risk of double-counting the same factor is particularly evident. If low liquidity or small market capitalisation are simultaneously included in the multiples, the discount rate, and the final discount to value, the valuation may be unduly reduced.

An analysis of legal, regulatory, and geopolitical risks, however, shows that these are more difficult to quantify unambiguously. As shown in Table 6, some of these risks are recognised as a specific value adjustment, some through an increase in the cost of capital, and some only descriptively or through scenarios. This means that the choice of where to recognize the adjustment should depend on the nature of the risk. If the risk can be estimated in monetary terms, it may be appropriate to recognise it in cash flows, provisions, or a direct value adjustment. If, however, it affects the firm's overall uncertainty profile, it may be more appropriate to incorporate it into the discount rate or into scenario analysis.

The article proposes a structured procedure for applying premiums and discounts, presented in Table 8. Its essence lies in sequentially answering the following questions: which source of risk justifies the adjustment, what level of value it concerns, where it should be included in the model, whether it has already been accounted for in another parameter, and whether its magnitude has empirical justification. This approach increases the transparency of the valuation and reduces the risk of arbitrariness.

In summary, premiums and discounts are an indispensable tool for professional corporate valuation, but they require a high degree of methodological discipline. What is key is not the application of the adjustment itself, but its proper classification, justification, and placement in the model. In the practice of brokerage recommendations, it would be particularly

desirable to provide broader disclosure of the impact of premiums and discounts on the final value and to make a clearer distinction between value adjustments and discount rate adjustments. Only then can the report's recipient assess whether the final valuation stems from the company's fundamentals or from the level of risk adjustment adopted by the analyst.

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