



What's Your Business Worth?



Melissa A. Bizyak, CPA/ABV/CFF, CVA

Partner, Business Valuation Services

GROSSMAN YANAK & FORD LLP

BIZYAK@GYF.COM



Brad W. Matthews, CPA/ABV, CVA

Senior Manager, Business Valuation Services

GROSSMAN YANAK & FORD LLP

BMATTHEWS@GYF.COM





Background & Legal Requirements



Fundamental Concepts

Standard of Value

- *Department of Labor regulation 3-18(b) requires ESOP to pay no more than “adequate consideration”*
- *Adequate consideration deemed to equate to “Fair Market Value” standard of value*
- *Fair Market Value defined:*
 - International Glossary of Business Valuation Terms
 - Internal Revenue Code of 1986, as amended, in Sections 2031 & 2512, and
 - Revenue Ruling 59-60, 1959-1 C.B.-1, p 237

Fundamental Concepts

Definition of “Fair Market Value”

- *The price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is under no compulsion to sell, both parties having reasonable knowledge of relevant facts.*

Fundamental Concepts

Fair Market Value

- *Financial Value*
- *Value 'as is'*
- *Value operations in current form*
- *Exclude any hypothetical changes in operations*

Fundamental Concepts

“Known or Knowable”

- *Point in time determination*
- *Dictates information utilized in analysis*
- *Restricts ability to consider subsequent events*



Role of Trustee

Responsibility

- *On behalf of ESOP participants*
- *Act in best interest of plan*
- *Internal, External, or Committee*



Role of Trustee

Duties

- *Oversee annual ESOP valuation*
- *Determine fair market value of ESOP shares*
- *Consult with Management on major corporate actions*





Company Involvement





Sharing of Data & Information

Corporate Records and Documents

- *ESOP-Related Agreements*
- *Organizational Documents*
- *Management Contracts*
- *Other Relevant Documentation*





Sharing of Data & Information

Financial Information

- *Historical Financial Statements*
- *Forecasted Financial Statements*
- *Commentary on Financial Results*

Management Interview & Input

Company Outlook

- *Commentary regarding the current state of the business*
- *Potential threats and opportunities*
- *Competitive landscape*
- *Upstream and downstream markets*

Management Interview & Input

Valuation-Related Assumptions

- *Future financial results*
- *Required future capital requirements*
- *Short-term and long-term growth*



Methods & Drivers in Valuation



Valuation Approaches

Fundamental Precept of Valuation:

- *All value is “forward-looking”*
 - Determined by expectations of future performance
 - Measured through estimates of expected future economic benefits, which must be tempered by the risk associated with realization

Income approach is simplest way to determine future economic benefit streams as well as the associated risk assessment

Income Approach

Introduction

- *All value is “forward-looking” – based on economic principle of anticipation*
- *Primary drivers for calculating value:*
 - Numerator: Future expected economic benefit stream
 - Denominator: Risk associated with realization of future economic benefits
- *Discounted cash flow (DCF) method*
 - Most commonly-utilized method under the income approach



Income Approach

Application of the DCF Method

- Management constructs a discrete period forecast of future expected performance on year-by-year basis to a point of stabilization
- Determine “terminal value”
- Calculate discount rate to match the selected benefit stream
- Discount discrete period economic benefit streams and terminal year to present value
- Add/subtract non-operating assets and liabilities



Market Approach

Introduction

- *Brings information from “real” market transactions into valuation process*
- *Predicated on economic concept of substitution*
- *Application of market-based multiples to the subject company financial metrics to arrive at a market-based indication of value*



Market Approach

Guideline Public Company Method

- *Selected multiples developed from identification and analysis of companies traded freely on open stock exchange*
- *Draw comparable guideline companies from large pool of candidates*
- *Offers significant amount of quality financial, industry, and economic data due to SEC mandates*
- *Observes actively-traded stocks price driven by independent third-party investors*

Market Approach

Guideline Completed Transaction Method

- *Also referred to as “Merger and Acquisition Method”*
- *Observes value indicators produced through closed and completed transactions*
 - *Greater availability of transaction data*
 - *Both public and private company transactions*

Market Approach

Subject Company Completed Transaction Method

- *Review and consider past transactions involving companies' equity interests*
 - *Control or minority transactions*
- *Ascertain the independent, objective and arm's-length nature of the transaction*
 - *Identify and unwind those elements of the deal that are not arm's-length*

Cost/Asset Approach

Introduction

- *Determination of value predicated upon assessment of each of a company's assets and liabilities on its historical financial statements*
 - Tangible and intangible assets
 - Recorded and unrecorded assets and liabilities
- *Converts GAAP-prepared historical balance sheet to an economic balance sheet*
- *Subtracting economic balance sheet liabilities from assets yields economic value of the equity of the company*

Cost/Asset Approach

Application of the Asset Accumulation Method (a/k/a Net Asset Method)

- *Obtain balance sheet with information at the date of valuation*
- *Adjust the assets and liabilities to reflect their current appraised or market values*
- *Identify and quantify unrecorded assets and liabilities*
- *Assess/quantify goodwill or other intangible value (if applicable)*
- *Make necessary adjustments to reflect deferred income tax effects*
- *Adjust value for control and marketability discounts, if any are applied*

Drivers of Value

Future Economic Benefits

- *Expected future profitability*
- *Ability to increase future revenue*
- *Reduce costs or leverage cost structure*
- *Increase efficiencies / economies of scale*



Drivers of Value

Risk Profile

- *Mitigation of business risks*
- *Management succession*
- *Employee retention / minimization of turnover*
- *Diversify customer / supplier base*



Other Valuation Considerations

Valuation amid uncertainty

- *External factors will also impact share value*
 - Health of financial markets / interest rates
 - Volatility in market multiples
- *Forecasting becomes more difficult*
- *Best available information*
- *Discrete period forecasts rather than single period models*
- *Speed and magnitude of recovery*

Other Valuation Considerations

Repurchase Obligation

- *Funding status / annual contributions*
- *Formal repurchase obligation study*
- *Timing of trigger events, size of participant balance*
- *Growth in share value*
- *Recycle / Redeem / Retire*



Other Valuation Considerations

ESOP Ownership Characteristics

- *Controlling or minority position*
- *Legal bundle of rights of shares held by ESOP*





Other Valuation Considerations

Synthetic Equity

- *Often included in ESOP transaction*
- *Detachable warrants*
- *Stock Appreciation Rights plan*
- *Phantom Stock*
- *Impact on Equity Value*

Other Valuation Considerations

DOL Process Agreements

- *Agreements between DOL and ESOP Trustees*
- *Policies and procedures that must be followed*
- *No signed into law, provides guidance*
- *GreatBanc Trust Company*
- *Subsequent agreements utilize same structure*



Questions?



Melissa A. Bizyak, CPA/ABV/CFF, CVA

Partner, Business Valuation Services

GROSSMAN YANAK & FORD LLP

BIZYAK@GYF.COM



Brad W. Matthews, CPA/ABV, CVA

Senior Manager, Business Valuation Services

GROSSMAN YANAK & FORD LLP

BMATTHEWS@GYF.COM

