marshall stevens

Valuation Consulting since 1932

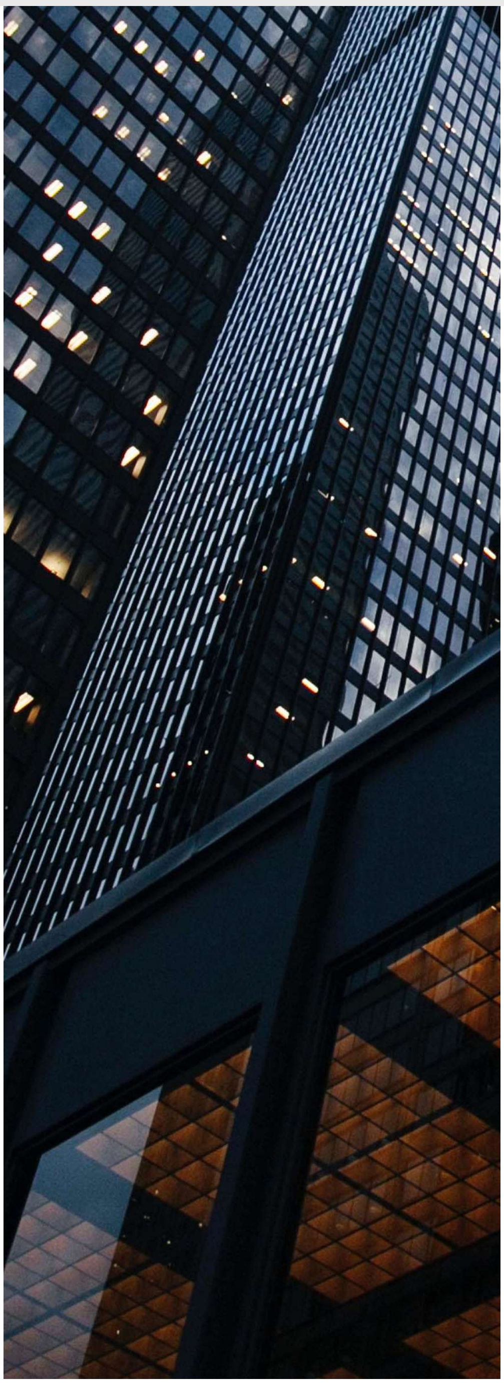
ESOPs: Best Practices and Benefits

Trusted advisors refer the professionals at Marshall & Stevens to provide independent valuations of equity in business enterprises, for companies in a wide range of industries, to assist with ESOP transactions and compliance purposes including:

A. Annual ESOP shareholder reporting and buy/sell consideration,

B. Fairness Opinions, Solvency Opinions, and Letters of Adequate Consideration,

C. ESOP Formation analyses.



Our valuation professionals pursue the three generally accepted valuation approaches, as we believe they apply, in the valuation of every business enterprise, including ESOPS:

1. Income Approach (Discounted Cash Flow)
2. Market Approach (Guideline Public Company Transactions and Metrics)
3. Asset or Cost Approach.

Our ESOP valuations meet the standards set by the US Department of Labor (DOL) as well as the Internal Revenue Service (IRS), Uniform Standard of Professional Appraisal Practices (USPAP), and the American Society of Appraisers (ASA)

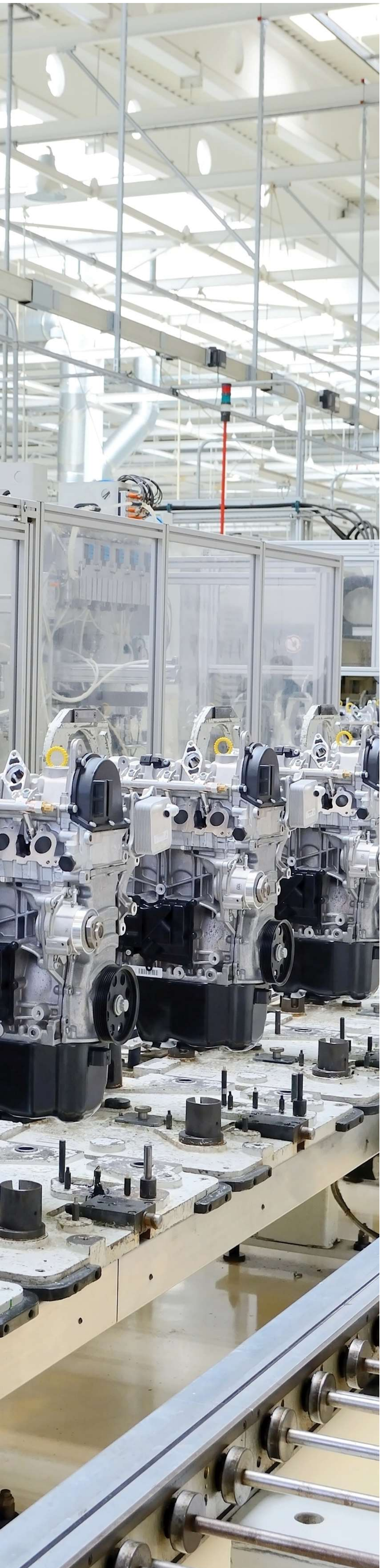
What is important to address in every ESOP valuation?

In 2014, the DOL entered into a Settlement Agreement with GreatBanc Trust Co. which set best practices for the valuation of ESOPs.

https://www.dol.gov/sites/dolgov/files/EBSA/about-ebsa/our-activities/enforcement/esop-agreement-appraisal-guidelines.pdf

Paragraph D of the Settlement Agreement provides a list of specific analyses and documentation that should be provided by the valuation firm to the Trustee. In brief, the valuation report should:

1. Identify the party(ies) responsible for the subject company's financial projections and document if any conflict of interest exist.
2. Provide an opinion as to the reasonableness of the financial projections and how the projections and performance compare to past subject company performance.
3. If adjustments are made to historical or projected financials by the valuation firm, document and explain them.
4. Explain the comparison of the subject company to public company comparables.
5. Explain the weighting of the valuation methodologies pursued.
6. Address the ESOP stock repurchase liability obligations



Are you considering an ESOP for your Company?

What was it about ESOPs that attracted you to the concept? Was it:

- Selling your business for cash to a ready, willing, and able buyer in a private transaction, at fair market value without endless haggling over the price and terms and preserving the company legacy?
- Deferring capital gains tax on the sale of some or all of your company stock?
- Financing the transaction with a loan and paying off the debt with pre-tax dollars, enabling you to deduct not only the interest, but also the principal?
- Selling a majority interest in your company, yet still maintaining control?
- Creating an “ownership culture” in your company that improves the morale, loyalty and productivity of your employees in order to recruit and retain key employees?

We can provide valuations under multiple scenarios in order to help you understand the potential benefits and challenges to selling equity to an ESOP.

What’s the magic about an ESOP?

ESOPs are tax-qualified retirement plans, like a profit-sharing or 401(k) plan with two important distinctions:

1. ESOPs are required to invest primarily in the stock of the sponsoring employer, while other plans are required to diversify their asset holdings.
2. ESOPS are the only type of employee benefit plan that can use corporate credit to finance the purchase of company stock from a shareholder, while for other plans, this would be a prohibited transaction.

For more information about Marshall & Stevens ESOP valuation services:

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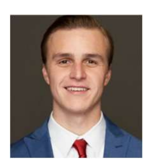

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