



Perfecting the Process for Trustee Review of a Valuation Report



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CE Requirements Onsite

1. Scan the session QR code upon entering the breakout room, using the Fall Forum Event app
2. Complete the CE survey via the session page in the mobile app

CE Requirements Virtual

In order to receive continuing education credit you must do the following steps.

1. Be signed into the virtual platform under your email you registered with
2. Fill out the 3 polling questions
3. Submit the CE survey

Trustees Own the Value

- Trustees are responsible for setting the Value (Share Price)
 - Not the financial advisor
- Determining Value is a fiduciary duty
- Fiduciary responsibilities include:
 - For exclusive benefit of participants and beneficiaries
 - Carry out duties as a prudent expert
 - Follow plan terms (unless inconsistent with ERISA)





Internal Trustee

Strengths

- Likely much greater knowledge of:
 - Company products and services
 - Company industry / industries
 - Company market position
 - Company culture
 - Key performance indicators

Challenges

- Likely limited knowledge / expertise of:
 - Business Transactions / Deal
 - Trust Law / ERISA
 - Corporate Law
 - Valuation Methodology
- May hold other corporate roles



External Trustee

Strengths

- Knowledge / expertise of:
 - Business Transactions / Deal
 - Trust Law / ERISA
 - Corporate Law
 - Valuation Methodology
- Independent of Board and Management Team

Challenges

- Likely limited direct knowledge of:
 - Company products and services
 - Company industry / industries
 - Company market position
 - Company culture
 - Key performance indicators

So You're the Trustee

- I'm a Fiduciary, Now What?
 - ERISA governs fiduciary duties
 - Duty of care
 - Personal liability
 - Follow Plan documents
- Be clear as to your role
- Document, document, document



Trustee Role in the Valuation Process

- Engage an independent, qualified, appraiser
- Understand and set process
- Set aside time to review the valuation report with the appraiser
- Be clear as to your role
- Document, document, document



Hiring the Right Financial Advisor

- Independence is a must!
- Qualifications
 - Specifically addressed Trustee Settlement Agreements
 - Professional designations (CFA, ASA, AVA) – can help but are not required
 - Valuation philosophy
 - Communication skills
- Experience
 - ESOP knowledge
 - Industry knowledge



Hiring the Right Financial Advisor

- Document selection of financial advisor
- Basis for selection and criteria
- Helpful to include firms considered but eliminated
- Current Advisor
 - Timeless of correspondence
 - Does the financial advisor understand YOUR issues
 - Deadlines and work product
 - Qualifications





Valuation Process

Valuation Process

- Planning & Scope
- Information Request
- Site Visit / Due Diligence
- Draft Report
- Review of Report
- Determination of Fair Market Value



Planning the Valuation Process

- Timing
- Information – Complete and Accurate
 - Financials (audited, reviewed, internal)
 - Projections
 - Company specific
 - Industry
- Information requested
- Information not requested or not received



Valuation Process

- Site Visit / Interview with Management
 - Who / Does it change from year to year
 - What types of questions
 - If Internal, participate as Trustee
 - External Trustee participates
- Financial Advisor completes their analysis
 - Was all the requested information received?



Valuation Process

- Review Draft Report
 - Review / Discussion/ Questions
- Trustee to set Fair Market Value
 - Follow up





Reviewing the Draft Report

Valuation Methodology

- **Standard of Value = Fair Market Value**
 - Willing buyer and willing seller standard
 - Assumes a taxpayer and normalized tax
 - Financial buyer / not strategic
- Adequate Consideration
 - Fair Market Value
 - Determined in good faith
 - Process is key



Valuation Methods

- Market
 - Guideline Public Company
 - Guideline Merged and Acquired Company
- Income
 - Discounted Cash Flow
 - Capitalization of Cash Flow
- Asset
 - Net Asset Value



Valuation Application & Issues

- Repurchase Obligation
- Discount for Lack of Marketability
- Tax rate assumed
- Control / Minority Value
- Projections
- Treatment of ESOP debt
- Warrants / SARs
- Acquisitions



Valuation Report Content

- Report can be a demonstration of ‘good faith effort’
- Information to be included in a report?
 - Description of the assignment and securities to be valued
 - Definition of value (fair market value)
 - Purpose of the report (annual ESOP update for example)
 - Level or basis of value (controlling, minority, 100%)
 - Premise of value (going concern business)



Valuation Report Content

- Description of company and its position
- General economic background
- Industry specific information
- Sources of information used
- Due diligence procedures used
 - Did the appraiser perform a site visit?



Valuation Report Basics (continued)

- Financial statement & forecast analysis
- Valuation methodologies
- Discounts / Premiums
- Synthesis and Conclusion
- Contingent and Limiting Conditions
- Statement of Independence & Appraisal Certification



Report Review

- Factual Accuracy
 - Is this your Company? - Are these your financials?
 - Technical corrections
 - Typos
- Valuation Methods
 - What methods used
 - Do they make sense
 - Do the numbers foot (use your calculator!)
 - Did they change form year to year (why / why not)



Report Review

- Understand the report
- Meeting to Review with the Appraiser
 - Review the analysis and critical assumptions
 - Ask Questions / Clarifications
 - Factual
 - Key Factors Assumptions



Setting the Share Price

Finalize Report

- Trustee sets the Fair Market Value
 - Document the approval in writing
- Trustee instructs the financial advisor to finalize the report
- Read the finalized report
 - Ensure any discussed changes were made



Documentation

- Data provided and who provided
- Site visit – who and why
- Copy of draft / with Trustee questions – comments – changes
- Discussion points
- Questions and Answers
- Meeting minutes (in writing)



Documentation

- Interview of the financial advisors (who and questions/responses)
- Hiring of financial advisor (engagement letter and minutes)
- Certification by management that gave accurate and complete information to the financial advisor
- Copy of draft valuation report marked up with questions/notes
- Completed checklist as reviewed draft valuation report
- Financial advisor's answers to questions
- Minutes of meeting with financial advisor
- Documentation of review and acceptance of final valuation report
- How long to keep the valuation documentation – at least 6 years





Questions???

Thank you for
participating in today's
program.

Please complete the
session evaluation!

