



2023 Midwest Regional Conference

Trustee Review of the Valuation Report

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Agenda

- Trustee's Role & Responsibilities
- Valuation Process
- Reviewing the Valuation Report
- Setting the Share Price

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Kim currently serves as Sr. Vice President for approximately 65 ESOPs, the majority of which are closely held companies, and has worked on a number of ESOP transactions. In addition, she serves as Sr. Vice President for several 401k Plans as well as Nonqualified Plans. Kim is a member of The ESOP Association, National Center for Employee Ownership (NCEO), and is involved in various other local chapter organizations and speaking engagements. Kim has been with TI-TRUST since 2001 with experience in the investment and insurance sectors.



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Melissa Goetz joined Prairie Capital Advisors in 2018. She performs comprehensive valuations and provides financial advisory services to privately-held companies in a wide variety of industries, specializing in companies that have employee stock ownership plans (ESOPs). Her experience also includes performing business valuations for Federal estate and gift tax purposes, buy/sell arrangements and succession planning. Melissa is a member of the founding board of the Kansas Center for Employee Ownership (KSCEO). In addition, she serves on the Business Valuation and Litigation Support Task Force of the Kansas Society of Certified Public Accountants (KSCPA) and on the membership committee of the Heart of America chapter of The ESOP Association.



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
- See only 1 valuation each year

External Institutional Trustee

Strengths

- Knowledge / expertise of:
 - Business Transactions / Deal
 - Trust Law / ERISA
 - Corporate law
 - Valuation methodology
- Independent of Board and Management team
- See Multiple Valuations per year

Challenges

- Likely limited direct and intimate 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 or institutional 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 addresses Trustee Settlement Agreements
 - Professional designations (CFA, ASA, ABV) – 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
 - Timeliness 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 with Trustee
- Determination of Fair Market Value



Planning in 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 (Continued)

- Financial statement & forecast analysis
- Valuation methodologies
- Discounts / Premiums
- Summary 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

- 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

