Good morning everybody. It's an honor to be here with all the employee owners of your various companies and those of you supporting the employee ownership movement, and those of you wanting to take this to the next level. I personally think there is no more American, bipartisan, and straight down the middle of Main Street American value than employee ownership. I mean, we're a country founded by immigrants. We're a middle class country. We believe in pragmatic values. We all came here wanting to own land. Some of us came here under difficult circumstances, but the quest for ownership, from home ownership and now to workplace ownership, has been a constantly recurring American theme. There is nothing like workplace ownership.

I want to talk to you about a number of models that I've been involved in, that I've experienced personally, and that I think have relevance. What I'd like to do is come up with some templates that have worked historically for people, both in the United States and in Spain.

So, let me try to get you back to 1935. Imagine you're in a mountainous region that has made things, historically. You've made the armor for Europe, the swords, the shields—anything metal, anything that comes out of the ground, anything that's metal bending—you've made it. You've competed with the Germans to the north, the Italians to the south.

A New Approach to Outside Offers – McIntyre Follows Up

Bill McIntyre

In the Winter 2011 of *OAW*, I detailed a situation where ABC Company, a 100% ESOP-owned company, valued at $10 per share, received an offer from XYZ Company to purchase 100% of ABC Company's stock for $14 per share.

I suggested that an analysis simulating XYZ's probable plans for layoffs would indicate to ABC's ESOP trustee that ABC was worth $17.12 per share to XYZ, and that the ESOP trustees could safely reject the $14 per share offer. Probably a better statement would have been that the ESOP trustees did not have to automatically accept the $14 per share offer.

Two additional concepts are relevant.

First, the concept of **synergy**. The increase in price that XYZ is willing to pay is because of the synergy to XYZ of combining the two companies. If ABC sold its stock to XYZ for $10 per share, then 100% of the benefit of the synergy would belong to XYZ. If ABC sold its stock to XYZ for $17.12 per share, then XYZ would receive no benefits from the synergy as all benefits of the synergy would go to ABC. Clearly, that would be unacceptable to XYZ. The implication is that an appropriate price is somewhere between $10 and $17.12 per share and that the transaction price would be determined by negotiation.

Additionally, the $17.12 price assumes no cost to XYZ for implementation of the synergy. In reality, it would cost money to achieve the synergy, and the example does not include that additional cost. Further, synergy is not guaranteed. XYZ would be incurring risk that the synergy might not be successful. The model does not incorporate risk into the calculations.

Second, the concept of **"ESOP participant standard of value."** As pointed out by Davin Gustafson of Apple Growth Partners, the $10 price is based on the willing buyer-willing seller fair market value of ABC Company's ESOP stock. Assuming that ABC is an S Corporation, it would have significant financial advantages (e.g., exemption from income tax) by remaining a 100% ESOP S Corp. The $10 price does not include that advantage. Thus, ABC's ESOP trustee should ask its valuation advisor to determine ABC's stock price using an "ESOP participant standard of value" that would take into account the benefits accruing to ABC as an S Corp ESOP. The ESOP participant standard value for the stock may exceed the $14 offer price, thereby providing additional justification for the ESOP trustee to reject the offer.

Both additional concepts support the basic premise of my article: ABC's ESOP trustee should not automatically accept an offer that is 40% above ABC's ESOP stock value, but should do additional analysis as described in this and my original article. That analysis may support the rejection of that offer. OAW

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