

ESOP Stock Valuation



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ESOP Stock Valuation



- **Appraisal Requirements**
 - Independent appraiser
 - Appraiser is financial advisor to ESOP fiduciary

ESOP Stock Valuation



- **Appraisal Requirements**
 - **With transaction between ESOP and shareholder**
 - **Annual updates**

Standard of Value



- **Fair Market Value**
 - Hypothetical transaction
 - Assumes a financial buyer
 - Terms are cash
 - ✦ IRS, Treasury Department, Department of Labor

Standard of Value



- **Repurchase Obligation and “Put” Option**
 - Company must make market for stock
 - Employees may put stock back to company
 - Call provision

Ownership Considerations

A decorative graphic consisting of a white circle with a green outline, positioned centrally below the title and above a horizontal dashed line.

- **Enterprise Value**
- **Minority Position**

Approaches to Valuation



- **Income Approach**
- **Market Approach**
- **Asset Approach**

Income Approach



- Often best estimate of value because it relates future economic benefits to overall opinion of value
- Two common estimates of value:
 - Discounted Cash Flow (DCF)
 - Capitalization of Earnings
 - ✦ Adjustments to normalize income

Market Approach



- **Publicly held companies**
- **Closely held company transactions**
- **Auction process**
- **Prior company stock transactions**

Asset Approach



- **Underlying assets**
- **Note: future earnings and repurchase obligation**

ESOP Stock Valuation



- **Discounts and Adjustments**
 - **Lack of marketability**
 - **Ownership characteristics**
 - ✦ **Minority and control positions**
 - **Dilution considerations**

ESOP Stock Valuation



- **Specific Issues**
 - Staged transactions
 - Leverage ESOPs

ESOP Stock Valuation



- **Specific Issues**
 - **C vs. S Corporations**
 - ✦ **Multiple Class of Stock in C Corporations**