



January MAC Meeting in Tysons Corner Draws Record Crowd

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A timely topic, an excellent panel, and a new meeting time contributed to record attendance for our last meeting at E&Y in Tysons on January 22nd.

A dream team panel of ESOP valuation experts offered its perspective on “ESOP Valuation in a Bear Market” as Paul Horn of WorkPlace Consultants generated provocative questions. Dave Bogus of Ellin & Tucker, Scott Levine of SRR, and Brooke Tucker of Tucker & Meltzer did a great job of presenting ESOP valuation methods and current valuation conditions.

The agenda included:

- Review of Market Conditions
- Principle Valuation Methods
- Factors Driving Computations Under These Methods
- How Will Bear Market Affect Valuations
- Past As Precedent?
- Questions to Ask Your Valuator

Per Rev. Rul. 59-60, valuation of securities is, in essence, a prophecy as to the future, and must be based on facts available at the required date of appraisal. We can all agree that the valuation term *fair market value* is the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any duress to sell, both parties having reasonable knowledge of relevant facts. Case law indicates that the theoretical seller and buyer are to be well informed about the property including the market for such property.

While everyone is aware of the recent market crash, it was interesting to learn about the individual stocks that have performed well over the past year. The three basic valuation approaches were then covered. The asset approach is based on company assets net of liabilities, but this approach is seldom used. The income approach converts anticipated economic benefits into Present Value terms. Common income methods include the Discounted Cash Flow method and the Capitalization of Earnings method. The third approach is the market approach. This method compares the company to similar businesses that have been sold.

The “meat” of the presentation involved the discussion of key valuation drivers. Valuation reflects the economics of 1) the Company itself 2) the Company’s Competitive Marketplace and 3) the General Economy and Capital Markets. Therefore, independent



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appraisers need to look both inside and outside the company. The internal factors affecting value include earnings, customer expectations, intellectual property, human capital and other factors. External factors include industry, market and economic conditions.

The panel then looked at how specific factors impact valuation, fleshing things out by going through a real-life example. One of the key questions discussed was: "Given that we're not publicly traded, what do values of comparable publicly traded stocks have to do with our value?" A common answer is really not much - except as a boundary test for earnings and asset driven models.

Thanks to the panelists for a timely presentation and for E&Y's sponsor of the meeting room and lunch. Hope to see you at our next gathering this summer.