

# Business Planning

## ESOP Valuation

Employee Stock Ownership Plans (ESOPs) are an innovative ownership structure that enables businesses to retain and reward the best employees, reduce tax expenses and increase working capital and cash flow. In accordance with Employee Retirement Income Security Act (ERISA) requirements, ESOP shares must be valued at Fair Market Value annually. Gordon Brothers can help.

To arrive at Fair Market Value, Gordon Brothers examines the full capital structure of the company to understand the cash flow “waterfall” or distribution of capital and the priority of each stakeholder. We analyze the risk and potential cash flow available to the equity position being valued. Consideration is given to the distribution of ownership so that factors affecting the value of controlling or minority interests can be taken into account.

Our professionals engage in a comprehensive analysis in accordance with the three primary valuation methodologies:

- **Income approach** – The net present value of the company's anticipated future cash flows are estimated.
- **Market approach** – Transactions of similar private businesses and guideline public companies are examined. The market value paid for the comparable transactions is determined, and appropriate adjustments are made for differences between the subject and comparable transactions. Consideration is given to discounts for lack of control and discounts for lack of marketability as appropriate.
- **Adjusted asset approach** – The subject company's underlying asset and liabilities are considered and adjusted to their estimated net realizable value.

## Independent

Companies and ESOP trustees turn to third parties to value ESOPs because ERISA and the IRS require that they be valued by a party who is not vested personally in the valuation. Gordon Brothers is an independent third-party professional appraisal firm that satisfies ERISA and IRS requirements.

## Accredited

Gordon Brothers employs a team of dedicated business valuation experts who are recognized in their field. Our professionals are members of and have received professional certifications and continuing education from numerous professional appraisal organizations including:

- *American Society of Appraisers (ASA)*
- *National Association of Certified Valuation Analysts (NACVA)*
- *American Institute of Certified Public Accountants (AICPA)*

Our reports are compliant with the Uniform Standards of Professional Appraisal Practice and meet the reporting requirements of ERISA and the IRS.