

ESOP Valuation Checklist

Evaluating an Appraisal Report

	Reviewed	
	Yes/No	Page #, Report Section
Appraiser		
Does the engagement letter, proposal, letter of opinion and the report clearly state that the appraiser has been retained by and for the trustee only?		
Does appraiser's contract clearly state the fiduciary relationships? What document is it listed in? (engagement letter, plan document, trust document, appointments etc.)		
Has the Appraiser included a Summary of Qualifications for each signatory to the report?		
Reviewed experience of the team providing the valuation? -Name, Bio, -Expertise, -Membership -Credentials		
Verified Independence of the Appraiser- is there a statement to the effect that the appraiser has no present or contemplated interest in the business being valued?		
Does the appraiser indicate that the following guidelines were followed? <ul style="list-style-type: none"> • IRS Revenue Ruling 59-60 • Standards 9 and 10 of the Uniform Standards of Professional Appraisal as established The Appraisal Foundation USPAP • DOL Proposed Regulations under ERISA Section 3(18) if appropriate 		
How are appraiser fees paid? From the plan or by the company?		
Most common finding in DOL audits is math errors in valuation reports- who is responsible for math errors? Is it in writing?		
Valuation Report		
Is the name of the company whose shares are being appraised clearly indicated?		
Are the correct opinions being requested and delivered (Fair Market Value, Adequate Consideration, Relative Fairness, Fairness from a Financial Point of View, other) Circle which method.		
Does the valuation report provide reconciliation with prior opinions?		
Does the appraiser provide adequate support and/or discussion for changes in methods and/or critical assumptions from one report to the next?		
Does each valuation report stand on its own while also reflecting the evolution of reporting and analytical standards?		

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<p>Does the appraiser state that the valuation factors shown in Revenue Ruling 59-60 were considered?</p> <ul style="list-style-type: none"> • Nature of the business and the history of the enterprise • Economic outlook in general and condition and outlook of the specific industry analysis • Book value of the stock and the financial condition of the company • Company's earning capacity • Company's dividend paying capacity • Whether or not the Company has goodwill or other intangible value • Market price of corporations engaged in the same or similar lines of business whose stocks are actively traded in a free and open market, either an exchange or over the counter 		
Company History and Current Operations		
Is there an accurate and brief history of the Company?		
The locations of operations and descriptions of facilities included?		
List of locations the appraiser visited and why?		
Company product lines or services offered adequately identified?		
Discussion of the geographic and demographic markets served?		
Discussion about the Company's customer base (i.e. is it highly concentrated, fragmented, industry-specific)?		
The Company's position within its industry? Is it changing or static?		
The Company's primary competitors and what are their strengths or weaknesses?		
Any emerging competitors that represent a potential threat to the company?		
A discussion about management and the workforce?		
The size of the workforce? A description of the degree of dependence that the workforce has on key personnel included in the appraisal report?		
Which members of the management team did the appraiser request to interview? Did the appraiser have free access to all key management that it requested?		
Were any specific business issues identified such as gain or loss of large customer dominating revenue, gain or loss of one large supplier, competitor taking market share, product discontinuance etc.?		
Has the company experienced volatile and/or declining performance?		
How has the valuation report changed to reflect any such impact on value?		
Financial Projections		

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Are the individual responsible for providing financial projection identified?		
With regard to those individuals: <ul style="list-style-type: none"> • Does any of those individuals have, or reasonably may be determined to have any conflicts of interest with regard to the ESOP? • Does any of those individuals serve as the agent or employee of anyone with such a conflict? • How did the Trustee and valuation advisor consider such conflicts in determining the value of the employer securities? 		
Are the projections reasonable in light of the company's five-year historical averages and/or medians of a group of comparable public companies for the following metrics: <ul style="list-style-type: none"> • Return on assets • Return on equity • EBIT margins • EBITDA margins • Ration of capital expenditures to sales • Revenue growth rate • Ratio of free cash flows of the enterprise to sales 		
Should any of the above metrics be disregarded for any reasons?		
Were historical or projected financial metrics adjusted? If so, how and why?		
Were some valuation methods weighted more heavily than others? If so, why?		
Have you considered how the plan document provisions regarding stock distributions, the duration of the ESOP loan, age and tenure of the ESOP participants may affect the sponsor's repurchase obligation, the prudence of the stock purchase or the FMV of the stock?		
Have you analyzed whether the plan sponsor will be able to service the debt?		
Has the ESOP pool been examined for diversification and retirement needs?		
Financial Statement Analysis		
Were the past five years of audited unqualified financial statements reviewed?		
Are the results of the financial statements, historical and current, discussed and conclusions developed?		
Have relevant ratios been identified and computed?		
Have the ratios been compared to appropriate industry averages?		
Are ratios clearly defined so that the reader could go to source documents and make the same computations?		

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IS there a discussion of whether and why the Company differs from the industry averages?		
Were pro forma income statements and statement of cash flows developed? IS so than re the assumptions incorporated, discussed and analyzed?		
Are the results of the financial statement analysis summarized and conclusions drawn?		
Does the financial statement analysis ultimately result in some statement or evaluation of the degree of risk associated with the Company, either on an absolute basis or relative per companies or industry averages?		
Are the economic and industry data relevant to the particular valuation?		
Have significant Industry trends been identified and analyzed?		
Selection of Valuation Approaches		
How many different methods were used to determine Fair Market Value?		
Does the report state that the method, or are the methods, utilized appropriate for the valuation of the company? Why?		
Is there a discussion of why other methods were NOT selected?		
Are the data and steps used in determined a value clearly shown so that the reader can duplicate the thought process of the appraiser?		
If discount rates, capitalization rates or multiples area used, then is the development of the rate or multiple clearly presented?		
Is the amount of the rate or multiple justified?		
Have excess cash or assets been included as an excess asset?		
Is "excess cash" defined or measured?		
Is the methodology(ies) selected clearly defined and all steps shown?		
Was the market comparison approach used? Why or Why not?		
If not were any guideline companies available?		
Has the appraised lumped together and averaged the guideline multiple for several companies?		
Has the appraiser selected particular companies whose margins, growth, etc. show strong resemblance to the Company and used this cluster of multiples?		
Is there a common thread among the market multiples selected?		
Is the basis for any premium/discount clearly addressed? (Circle which premium or discount)		
If the valuation is deemed for a controlling interest, what evidence is provided to support a control premium? Did the ESOP obtain voting control?		

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Are discretionary expenses added back as well as a premium/discount for control being applied?		
Has the appraiser considered the Company's mandatory put obligations required by the ESOP when applying a discount for lack of marketability in the valuation?		
Has the Company's ability to honor put rights (if relevant) been discussed?		
Have all capital requirements need to support continued or expected future operations been taken into consideration (working capital, cash on hand)?		
Does the valuation reflect an adjustment to capture the so-called ESOP benefit?		
Other Considerations		
Share Release <ul style="list-style-type: none"> • complies with ERISA • complies with the plan document • does release adjust for actual payment history rather than release from original amortization schedule 		
Did the report review minority vs control?		
Are questions or concerns raised in the report answered or addressed in the same report?		
Is the conclusion clearly communicated to the reader?		
Is all the information presented in the report pertinent to the valuation?		
Is there any double counting of risk factors, discounts or premiums?		
Are seemingly contradictory facts, risks or assumptions reconciled?		
Are mathematical calculations accurate?		
Agree with report as presented		
Minutes taken and rationale for approval of valuation included		

Completed by: _____

Date: _____ Title: _____

See minutes of the meeting for additional comments regarding this checklist.