

ESOP UPDATE

Information about your Employee Stock Ownership Plan (ESOP)

What sets the market value of your stock?

For most ESOPs, the market value of the stock changes once a year. In a privately-held ESOP the stock is not determined by a stock market, so the ESOP needs a reliable way to determine a fair price. By law, ESOP trustees must hire an independent business valuator at least one time a year to determine the fair market value of your company's stock. Once the professional valuator has determined a stock price, the trustee reviews it and finalizes the market value you see on your ESOP statements.

But what does the business appraiser use to determine the valuation?

They must look at your company's performance in the same way an outside investor would. The valuator uses a combination of the methods below to examine business performance.

1. Income-Based Methods

How much income will this company generate in the future? Since future potential for profits/income makes a company valuable, these methods are often weighted heavily.

2. Market-Based Methods

What are similar companies worth? The valuator looks at public markets and private transactions. This method considers your company's earnings and market trends. While this approach can provide helpful points of reference, not all companies have good comparison firms.

3. Asset-Based Methods

If a company owns a considerable amount of assets or has significant debt, the appraiser will factor this in as well. The asset methods are often weighted less than the others because current and future potential performance is generally more valuable than the things the company owns.

The independent valuation professional uses these methods to identify what someone would be willing to pay for a share of stock in your company as of the valuation date. The stock value is directly tied to company performance, and company performance is directly tied to employees like YOU!

You're not a passive recipient; **you're a key player in shaping the value of your ESOP!** As you work, your actions help the company meet its goals and help your company demonstrate its potential for the future. These are key elements in the long-term growth of stock value.

