



Leading / Thinking / Performing

Fairness Opinions

The trend to achieve growth through acquisitions and the increasing complexity of the environmental influences are part of the current management challenges. In order to meet these demands, decisions regarding acquisitions often must be made under time pressure and in a competitive environment. The same decision making situation is associated with the management's responsibility towards shareholders.

Based on this, the design of Fairness Opinions is gaining importance within Europe. In Germany, the basis for the Fairness Opinion can be found in § 93 section 1 sentence 2 German AktG and in form of laws regarding the integrity of companies and the modernization of the right of avoidance (UMAG). The board of directors is therefore obliged to make decisions based on appropriate information. In the case of an external expertise, this constitutes documentation of these decision-making processes. Apart from the German Companies Act, institutional investors and private equity houses require assistance for their investment decisions.

In an international environment, the requirements for a Fairness Opinion are defined by the assessment of the adequacy of the economically best offer. This assessment is important, because different parties will have different ideas of the adequacy. Further, the final purchase price can differ from the offered price of the company due to regulations in regard to cash payments, e.g. in the „Squeeze-Out“ or a compulsory offer.

Marginal pricing

The consideration of the actual purchase price is the result of a value between the marginal prices of the buyer and the seller. Which party turns out to be the strongest and therefore can claim the bigger part of the agreement leeway must be assessed individually.

If pressure from the market is very high on one of the two sides, strategic and operational factors may result in a critical assessment of the conditions of the shareholders.

Synergies

Synergies which drive and enable most transactions in bullish markets deserve special attention. These usually extend the leeway for the buyer, but at the same time are subject to especially critical assessments through financial markets and shareholders.





Assistance of management

In addition, an independent expertise supports the communication with shareholders. Due to the asymmetrical allocation of information between shareholders and management, the Fairness Opinion constitutes an additional parameter for the appraisal of the advantages for shareholders in view of a transaction.

The Fairness Opinion serves to assist management and therefore should not be understood as an instrument for the purchase price determination.

Determination of a Fairness Opinion

The determination of a Fairness Opinion requires an independent and highly qualified expert who, apart from his obligatory independence, has extensive experience in the areas of appraisal and especially in view of Fairness Opinions. Experience in other areas of corporate finance or accountancy cannot replace this expertise.

A specialty in regard to Fairness Opinions is the detachment from national appraisal standards and the focus on actual, realistically achievable market prices.

Communication of a Fairness Opinion

The publication of a Fairness Opinion is usually effected with a short report, including the core statement regarding the adequacy of the purchase price.



More extensive is the content of a Letter Report that also includes description of processes, information sources and a substantiation of the appraisal results.

A Valuation Report includes the elements of a Letter Report plus the data on which these are based, a detailed description of the appraisal methods and their limitations in the specific case. An analysis of the industry and economic parameters are also included.

For the objectives of internal documentation, we compile a Fact Book where the data is summarized in a structured way and helps management to gain detailed insight into the decision basis.

How American Appraisal can assist you

American Appraisal is the leading worldwide independent appraisal company. Our global network enables us to advise global players, leading medium-sized businesses and strongly growing technology companies in a professional way. We provide our clients with fairness opinions on a regular basis.

In any of the above-mentioned cases, we assist you in form of a neutral expertise or consultancy. We especially offer you:

- Compilation of a detailed Fairness Opinion to assist management
- Documentation of the important value drivers
- Provision of a professional report
- Assistance in communication with shareholders and investors
- Extensive expertise as the biggest, independent company for appraisal services
- Extensive know-how in neighboring areas like transactions and post-merger integration

American Appraisal
Bockenheimer Landstr. 22
60323 Frankfurt am Main / Germany
Tel: +49-69-719184-0 / Fax: +49-69-719184-44
Website: www.american-appraisal.de