

# Fairness Opinions

## MAXIMIZING VALUE THROUGH KNOWLEDGE™

When a Board of Directors decides whether or not to approve a proposed transaction, one of the first and most critical inquiries concerns price. In the course of discharging the fiduciary duty bestowed upon them by shareholders, a diligent Board invariably seeks to answer one question in particular: "Is it a fair price?" And while some deals are admittedly "fairer" than others, the Board must exercise due care before answering this question in the affirmative and approving the proposed transaction.

The question of fairness from a financial perspective can be rephrased alternatively as "Are we receiving enough?" or "Are we paying too much?" depending on whether you are the seller or the buyer. Clearly, a seller will rarely balk at receiving too much. Likewise, a buyer will seldom refuse to pay too little. Consequently, defining fairness from a financial point of view boils down to identifying the intersection between the respective valuations of the seller and the buyer.

The assumption that is perhaps most critical to the evaluation of fairness from a financial point of view is the selection of the appropriate basis of value. Before deciding on the most appropriate means of measuring value, several key questions regarding the subject company or offer must be answered, including:

- Are there suitable comparable publicly traded companies?
- Are there recent transactions involving controlling interests in similar companies?
- How did the subject company perform historically?
- How is the subject company expected to perform in the future?
- What, if any, synergies can the buyer hope to realize from the transaction?

Finding the correct answers to these questions requires objectivity, judgment, and experience. Once these questions are answered and the appropriate means of valuation are selected, the business is then valued based on alternative sets of assumptions. The resulting range of value is the backdrop against which the proposed offer is evaluated and deemed either fair or unfair from a financial perspective.

Circumstances such as conflict of interest and fiduciary duty may preclude a Board from issuing an opinion on the fairness of a proposed transaction. Furthermore, the courts have determined that, to fulfill their fiduciary duty, a Board of Directors must, at a minimum, consider all relevant facts and alternatives when making a recommendation and provide supporting documentation. Faced with these practical and legal considerations, a diligent Board should always seek the counsel of a qualified, independent valuation firm such as Adams Capital to seek an unbiased opinion of fairness for a transaction. The professionals of Adams Capital are well-accredited and experienced in providing fairness opinions in support of a Board's fiduciary duty in such matters.