

Court of chancery of delaware

Law



The issue presented in this case was the proper valuation methodology to employ for minority shareholders in a "squeeze-out" merger.

Holding

The court held that the Delaware appraisal law's comparable company analysis framework required a discounted cash flow analysis that incorporated the risk factors underlying the corporation's financial structure.

Legal Discussion

As an initial matter, the court stated that the correct valuation method under Delaware law was a discounted future cash flow analysis; the more troubling issues pertained to an analysis of the assumptions regarding the inputs into the discounted future cash flow analysis. The court, consequently, engaged in a detailed analysis of these input assumptions, identifying them as "four principal areas of disagreement the value of ABC's coal reserves, the value of ABC's investment in the VP-5 mine in Virginia, the amount of ABC's excess working capital and, finally, the EME report on the purported environmental liability at ABC's Tarrant coke plant" (28).

The court's first decision was to reduce the corporation's asset value determinations to net present value. It then changed some of the input assumptions and held that the corporate assets ought to have been presented with higher asset values. Both parties stipulated to the use of a capital pricing method in order to select a discount rate; the court, however, ordered that risk factors be explicitly incorporated into this valuation model.

Consequently, the court ordered that respondent pay to petitioners " the fair value of Petitioners' common stock in Alabama By-Products Corporation on August 13, 1985, \$ 180. 67 per share (66).