

CBV Congress 2025

I'm not nervous – Do I look nervous? – Testifying as an Expert Witness

Mock Trial Fact Set

Company Background and Key Information

Alt Aerospace Components Ltd. (the “Company”) is privately owned and based in Montreal, Quebec, operating as a parts manufacturer for aircrafts. On January 1, 2010, brothers Mark and Daniel Smith each acquired a 50% share interest in the Company.

Since inception, the Company has experienced steady growth by securing contracts with numerous aircraft manufacturers, but over the past few years, the company has faced a decline in demand. Industry trends point to an increase in consolidation as larger companies have been increasing their market share through acquisitions.

In 2022, the company was named in a \$3 million lawsuit following an accident involving the malfunction of its parts, resulting in injuries to numerous passengers.

Litigation Summary

By 2024, tensions between the brothers began to escalate as they disagreed over the best direction for the Company’s future. Mark believed the Company should continue its product offerings with a focus on reducing costs. Daniel, on the other hand, wanted more innovation and product expansion, looking to invest heavily in research and development and to develop proprietary products.

With their conflicting views, it was difficult to run the Company, resulting in management inefficiencies and poor performance. The conflict between the shareholders escalated when Daniel independently initiated negotiations with a potential purchaser without board approval, undermining the Company’s governance structure. In addition, Mark was informed that this was not the first time Daniel had been in discussions with potential purchasers.

As tensions rose between the brothers, Daniel expressed his desire to exit the Company. To that end, Daniel wanted to sell his shares in the Company, but the brothers could not agree on a fair market value for Daniel’s shares.

The Shareholder Agreement (Appendix A) includes a buy-sell provision, allowing either shareholder to trigger a buyout under certain conditions. The agreement defines “value” as 3 times the average earnings before interest, tax, depreciation and amortization, plus shareholder wages (“Adjusted EBITDA”) of the 5 preceding fiscal years.

In Daniel's view, the fair market value of his shares should be higher given the third party interest in the company.

Business Valuation

Daniel sought out legal advice to resolve the issue, which required engaging a CBV to provide an estimate on the fair market value of the Company as at December 31, 2024 (the "Valuation Date"). The Valuation Report was issued on February 20, 2025.

The CBV used a capitalized cash flow approach supported by guideline public companies and precedent transactions to determine the Company's fair market value.

The Report did not consider the buy-sell provision and formula in the shareholders agreement. With respect to personal expenses, the CBV relied on instructions from counsel to quantify the personal expenses included in the Company's Income Statement (Appendix B).

The lawsuit regarding the \$3 million lawsuit had not been settled at the Valuation Date. Based on a Legal Opinion Letter, the Company's legal counsel advised of an expected settlement. On January 25, 2025, the lawsuit ended when Transport Canada determined it had not been the part manufactured by the Company that had malfunctioned. Therefore, the Company would not incur any settlement costs. Since this was resolved after the Valuation Date, but before the Report was issued, the CBV did not include any settlement costs in the Valuation Report as the Company was absolved. (Appendix C).

Furthermore, the Estimate Report prepared by the CBV did not include an analysis on both the industry and economy. As per CBV Practice Standard Number 120 (Valuation Reports), when planning the extent of the scope of work for a particular engagement, the Valuator shall obtain sufficient understanding of the relevant industry and general economic conditions (Appendix D).

Legal Proceeding

Over the course of the past year, tensions between the brothers continued to escalate. This matter is scheduled to proceed to trial in June of 2025.

Appendices

Appendix A – Shareholder Agreement (Buy/Sell Provision and Value Definition)

Buy/Sell Clause:

- In the event of a shareholder dispute, or where one shareholder (the “Initiating Shareholder”) wishes to exit the Company or purchase additional shares, the Initiating Shareholder may deliver a written notice (the “Notice”) to the other shareholder(s) (the “Recipient Shareholder(s)”) offering to either:
 - (a) To sell the Initiating Shareholder’s shares in the Company to the Recipient Shareholder(s), or
 - (b) To purchase the Recipient Shareholder(s)’ shares in the Company, at a price determined in accordance with Section 2.

Value Definition (Section 2):

- The purchase price for the shares shall be calculated based upon the following:
 - “Adjusted EBITDA” is defined as the Company’s earnings before interest, taxes, depreciation, and amortization, plus all amounts paid or payable to shareholders as compensation or wages during each respective fiscal year.
 - The value of 100% of the Company shall be deemed to be three (3) times the average Adjusted EBITDA for the five (5) most recent fiscal years (the “Valuation Period”) immediately preceding the date of the Notice.

Appendix B – Report Instructions for Personal Expenses

“We have been instructed to assume that personal expenses included in the Company’s Income Statement amount to \$50,000 per year”.

Appendix C – Report Lawsuit Commentary

“As at the Valuation Date, the Company was the defendant in a lawsuit involving a potential malfunction of a part manufactured by the Company. On January 25, 2025, Transport Canada determined it was not the part manufactured by the Company that malfunctioned. As the determination by Transport Canada was known as at the date of the Report, we do not include any settlement costs or further anticipated legal expenses in determining the fair market value of the Company”.

Appendix D – CBV Practice Standard NO. 120

4.	Specific Standards
4.1	The following Specific Standards apply to Comprehensive and Estimate Valuation Reports: (<i>Recommendation:</i> Valuators should consider applying the Specific Standards to Calculation Valuation Reports.)
A.	When planning the extent of the scope of work for a particular engagement, the Valuator shall obtain:
I.	Sufficient understanding of the subject of the valuation; (<i>Explanatory comment:</i> depending on the type of Valuation Report being provided, the Valuator should obtain and review material documentation, including agreements, contracts, letters of understanding, letters of intent and correspondence, which bear on the subject of the valuation)
II.	Sufficient understanding of the underlying business operations;
III.	Sufficient financial information relating to past results, future prospects and present financial position; (<i>Recommendation:</i> depending on the type of Valuation Report being provided, the information to be obtained and analyzed will include prior years' operating results and cash flows, a current balance sheet, and future oriented financial information such as budgets, forecasts and projections)
IV.	Sufficient understanding of the relevant industry(s) in which the underlying business operates; (<i>Recommendation:</i> depending on the nature of the mandate and on the type of Valuation Report being provided, this analysis might consider the following: a. Critical success factors; b. Competitors and their respective market shares; c. Industry regulations; d. New developments; e. Environmental issues; f. Trading volumes and price ranges of publicly traded shares; and g. Comparable market transactions)
V.	Sufficient information relating to the general economic conditions affecting the underlying business operations. (<i>Explanatory comment:</i> such information might normally consist of selected rates of return, inflation rates and other general economic indicators)