PHANTOM STOCK WITH EVA-BASED VALUATION

PHANTOM STOCK WITH EVA-BASED VALUATION

- Colombina is a public company, with shares listed on the Colombian Stock Exchange, but the shares are not traded. When the company does not trade on the stock exchange, and there is no open market for its shares, estimating shareholder returns becomes more challenging, and these returns are also affected by the liquidity limitations of their investment in the company.
- As a result, to associate the value created for the shareholder, it is necessary to obtain a substitute for Market Value Added (MVA), which in our case would be based on Economic Value Added (EVA), or the economic value added that the company generates through its operations and investments. This is the valuation we use for our phantom stock system to compensate executives.
- Our long-term compensation system, structured as a benefits plan for the CEO, vice presidents, and business unit managers, is a three-year plan based on the EVA methodology. It aims to align employees with the company's long-term objectives and make them feel like shareholders.
- 30% of the annual compensation is tied to this incentive. In the first year, one-third of the economic value generated during the year is paid, considering two variables: the incremental value and "(Δ EVA)". The remaining balance (2/3) is held in a bonus bank, which increases or decreases according to the value generated or destroyed in subsequent years.
- This system aims to ensure that decisions are made with consideration for the company's long-term financial stability, rather than for short-term gains.

PHANTOM STOCK WITH EVA-BASED VALUATION

- EVA= Net Operation Profit After Taxes – (Working Capital+ CAPEX) x WACC
- **EVA Year 0→ $1000**
- **EVA Year 1→ $1200**

➢ **Calculation Methodology:**

$\boxed{\text{Annual Shared Value= [1,75\% x EVA] + [5\% x ΔEVA]}}$

Annual Shared Value= [1,75% x 1200] + [5% x (1200-1000)] =31

Shared Value Paid in Year 1= 1/3 x 31 = 10,2

Accumulates in the Bank= 2/3 x 31 = 19,8

- **EVA Year 2→ $800**

Annual Shared Value= [1,75% x 800] + [5% x (800-1200)]= -6

New Balance in the Bank= 19,8 – 6 = 13,8

Shared Value Paid in Year 2= 1/3 x 13,8 = 4,6

Accumulates in the Bank= 2/3 x 13,8 = 9,2

The system seeks for the CEO, vice presidents and business unit managers to behave as a shareholder of the Company, prioritizing the generation of long-term value.