



# ESOP

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## Employee Stock Ownership Plan

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- Grew up in a family business
- 25+ years in the industry
- Niche focus on closely-held businesses and their transitions



# What Is an ESOP?

## The Benefits of Selling to an ESOP

An ESOP can use pretax future corporate earnings to buy shares from an owner.

Sellers can defer taxation on the gain depending on the type of corporation.

The business will also receive numerous tax benefits depending on the type of corporation.



Sell the business at once or gradually in installments.

Sellers can define their role in the company moving forward.

Protects jobs.

Provides employees with a significant retirement benefit.

Protects the integrity of the business by assuring that it will not be dismantled.



**Financial Benefits**  
**Flexibility**  
**Rewarding Employees**

Employee stock ownership plans, or ESOPs, are a way to sell a business that benefits the company, employees, and the selling business owners. Business owners sell some or all of their shares to an ESOP trust, which owns those shares on behalf of employees.

ESOPs can be funded in many ways, but usually the transaction involves a loan. The company can take out a loan and then reloan the funds to the ESOP trust. The company makes contributions to the trust, which the trust uses to repay the loan. Sometimes the person selling the shares provides the loan. Almost all ESOPs are completely company-funded. Employees pay nothing.

As the loan is repaid, shares become available to allocate to employee accounts. The allocations must be made on a non-discriminatory basis, like payscale or a more level formula. With limited exceptions, all employees participate in the plan.

The company administers the plan in accordance with federal laws and regulations that govern issues such as contribution and allocation limits, vesting, benefit distributions, diversification, and more.

ESOP companies often have ownership cultures that encourage employees to "think and act like owners." Research shows such companies are more productive, faster growing, more profitable, have less turnover, and generate more wealth.

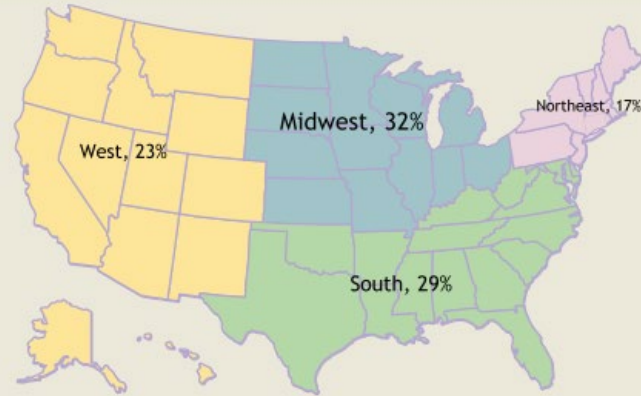




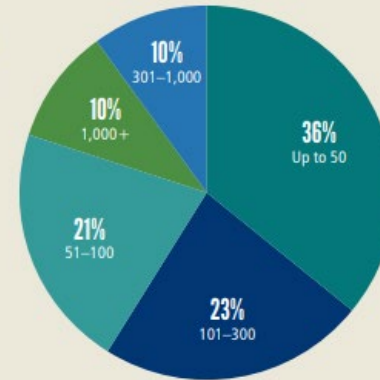
# ESOPs in the U.S.

Currently, there are 6,717 ESOPs covering more than 14 million participants. ESOP companies are diverse: there are ESOPs in almost every industry, ranging in company size from just a few employees to more than 250,000, spread throughout the U.S.

## Geography of ESOPs



## Number of Participants



## Most Common Industries



## A Brief History of Employee Ownership

Year	1956	1974	1996	2017
<b>Event</b>	Peninsula Newspapers establishes first ESOP.	Federal government creates statutory framework for ESOPs.	Congress passes legislation allowing ESOPs to own S corporations.	Today, there are roughly 14.1 million ESOP participants.
<b># of ESOPs</b>	1 ESOP	200 ESOPs	6,680 ESOPs	6,717 ESOPs
<b>Participants</b>	Under 200	250,000	6.3 million	14.1 million



# ESOP Nuts and Bolts

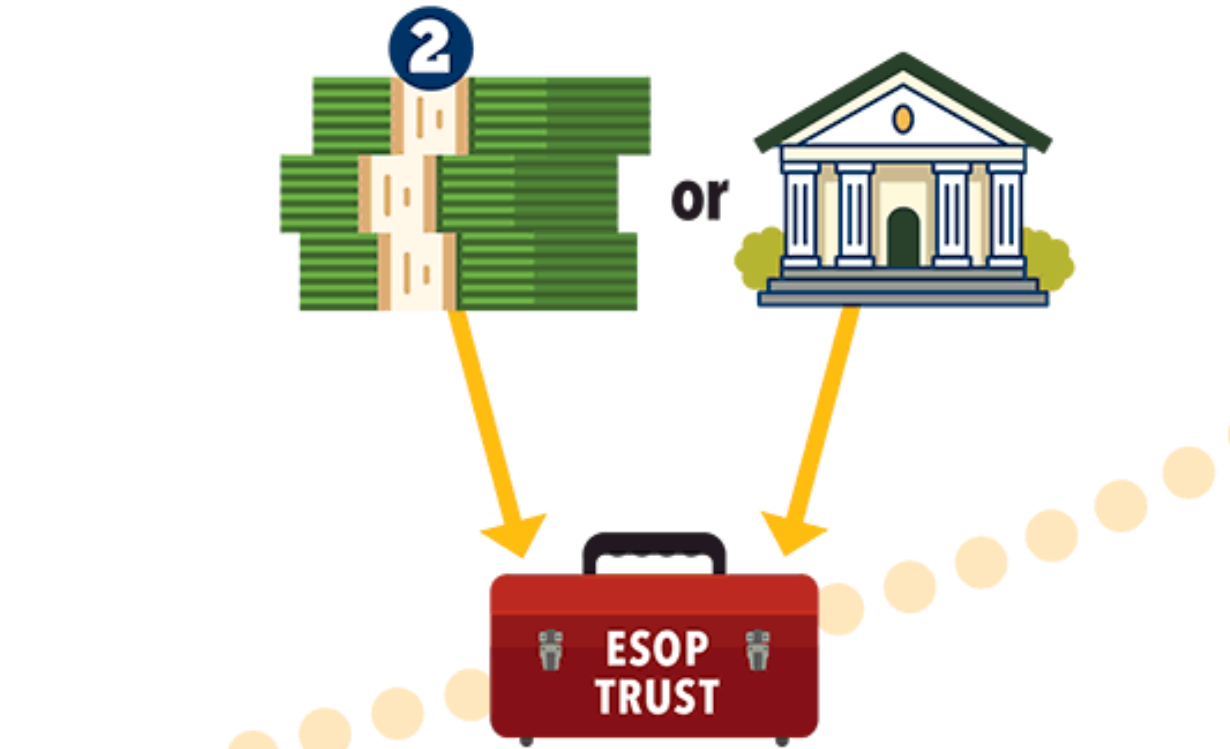
An ESOP enables employees to own part or all of the company they work for. Individual employees accumulate shares in their retirement accounts over time, and they cash in those shares when they retire or leave. Yet the stock they own never costs them a nickel. To see how this works, let's imagine that Pat, a company owner, decides to sell shares to an ESOP.

# ESOP Nuts and Bolts



The first step is to set up an ESOP trust. The trust is a legal entity that will hold shares of stock on behalf of the employees. It is governed by many of the same rules as 401(k) plans, but it is funded entirely by the company.

# ESOP Nuts and Bolts



Next, the company contributes money to the trust, or else the trust borrows money from a bank, the seller, or both. If it borrows the money, as is common, the arrangement is called a leveraged ESOP.

# ESOP Nuts and Bolts



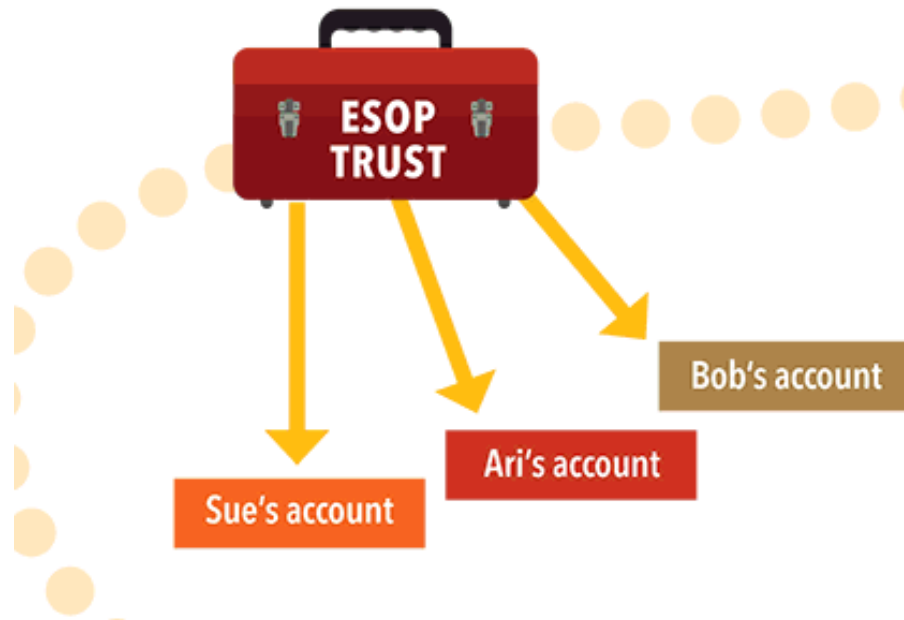
Using that money, the trust buys some or all of the company's shares from the owner or owners (Pat in this case). The price of the shares is determined by an independent appraiser.



# ESOP Nuts and Bolts

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Then the trust begins allocating shares to the retirement accounts of employees. In a leveraged ESOP—the kind with borrowed money—it allocates the shares as it pays back the loan. By law, shares must be distributed according to relative pay or by some formula that results in a more equal distribution.



See what happened? The employees' accounts now have stock, and they are the owners—without having made any cash outlay.



# ESOP Nuts and Bolts



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When employees leave the company, they are cashed out. The ESOP provides them with a significant retirement benefit. Beyond individual employees, the ESOP protects jobs by providing ownership continuity and keeping the company as a going concern.



And Pat not only found a buyer for her business while keeping it going, but she can keep working there and ease out in stages if that's the right thing for her and the company.

# How Many Workers Are in ESOPs?

ESOPs cover over **14 million participants**, of whom 10.3 million are active participants—those currently employed and covered by an ESOP.

*Table 1: Table of Plans, Participants, and Assets*

	Plans	Total participants	Active participants	Employer securities (millions)	Total plan assets (millions)
Privately held companies	5,864	2,014,771	1,480,533	\$138,721	\$186,218
Small plans (under 100 participants)	3,421	147,971	112,013	\$13,790	\$16,358
Large plans (100+ participants)	2,442	1,866,800	1,368,521	\$124,931	\$169,860
Publicly traded companies	638	12,035,803	8,895,826	\$133,914	\$1,273,710
Total	6,501	14,050,574	10,376,360	\$272,635	\$1,459,928

# Contact Information



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Questions?

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Thank You