



# The Prefeasibility Checklist: Are you an ESOP Candidate?

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## Today's Speakers

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# Learning Objectives

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- Determine if the company is or is not a good candidate to establish an ESOP, including whether an ESOP transaction will accomplish the company's and its employees' objectives
- Verify if the owner (selling to the ESOP) is a good candidate to undertake an ESOP transaction, including whether an ESOP transaction will accomplish the owner's objectives
- Understand the benefits of an ESOP and help the owner determine both the value of his or her company and what he or she can expect to receive (i.e., managing expectation)



# Who is a Good/Bad ESOP Candidate?

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- ◆ Owner's motivation and objectives:
  - ◆ Are they seeking to implement an exit strategy or desire some liquidity?
  - ◆ Will they continue with the Company after the Transaction?
  - ◆ Do the Owners want to keep the company intact with minimal disruption?
  - ◆ Do the Owners seek to increase employee productivity?
  - ◆ Do the Owners desire to utilize corporate tax savings to increase growth/accelerate debt repayment?
- ◆ Succession Management team:
  - ◆ Is there in place (or will there be) a competent succession management team?
- ◆ Company Financial Condition:
  - ◆ Is the Company Profitable?
  - ◆ Does the Company have a strong predictable revenue stream and cash flow?
  - ◆ Does the Co. have manageable prospective capital expenditure requirements?



# Who is a Good/Bad ESOP Candidate? (Cont.)

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- ◆ Realistic Assessment of Company Value:
  - ◆ Are the Owners willing to accept FMV for their stock?
  - ◆ Are the Owners looking to be paid out all at once or over time?
  - ◆ Do the Owners desire to utilize corporate tax savings to increase growth/accelerate debt repayment?
  
- ◆ Employee Census:
  - ◆ Does the Company employ more than 15 employees?
  
- ◆ Ability to repay ESOP debt:
  - ◆ Does the Company have the ability to make recurring contributions to repay the ESOP loan?



# Who is a Good/Bad ESOP Candidate? (Cont.)

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- ◆ Corporate culture:
  - ◆ Does the Company foster an “ownership culture”?
  - ◆ When Employees own a piece of the company, studies show increased motivation, productivity, profitability, retention, etc.
  
- ◆ Post Closing Governance:
  - ◆ If the Owners are staying with the Company, are they willing to allow for independent directors to control or be on the Board?
  
- ◆ Post Closing Involvement in the Business:
  - ◆ Are the Owners willing to dilute “control” at the Board level and/or at the Management level?





# The Candidate Checklist (Yes or Not)

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- ✓ Our company operates in more than one state
- ✓ Our company's annual net profit before taxes is greater than \$600,000
- ✓ The company's annual EBITDA is greater than \$3,000,000
- ✓ If our company employs more than 15 non-union employees
- ✓ If our company employs more than 100 non-union employees
- ✓ Our owners (which could be family, partners, investors, trustees, and/or corporate shareholder(s)) are now discussing or are interested in selling their stock
- ✓ Our company has experienced continued increases in profitability in the last two years



## The Candidate Checklist (Yes or Not) (Cont.)

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- ✓ Our company is a C corporation, with a sizable block of shares owned by one or more shareholders wanting to sell their shares
- ✓ Our company is an S corporation, and distributions to shareholders is more than \$100,000 a year to help pay their taxes
- ✓ Our company currently contributes to one or more qualified retirement plans for its employees (e.g., 401k plan, profit sharing plan, defined benefit plan, etc.)
- ✓ Our company recently had a valuation report/analysis and the value was significant
- ✓ Our management team is ready or could be ready in 3 to 5 years to assume most of the responsibilities to run the company without the current president/owner



# The Candidate Checklist (Yes or Not) (Cont.)

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- ✓ There are family members identified or capable for management succession or to run the company
- ✓ Our company's owners/executives desire to work less than usual while still running the company
- ✓ The company's marketplace is growing, or the company is growing, in spite of the marketplace
- ✓ The company's owners are concerned that if they sell to an outside 3rd party, the employees will be harmed or the company will not retain the legacy of the previous owners
- ✓ The company's owners have buy-sell agreements in place to provide a smooth ownership transition



# The Candidate Checklist (Yes or Not) (Cont.)

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- ✓ The company has received serious offers to purchase the company (by management or third parties) and/or the owners are looking for an alternative buyer
- ✓ The company tries to reduce company taxes by paying significant compensation, fringe benefits or other compensation/accounting methods
- ✓ The company currently pays, believes in, or is interested in rewarding employees with incentive compensation, for the success they create for the company
- ✓ The company's owners already share management information, such as the company's financial and operational performance, to managers and other key employees



# Thank You for Attending!

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