

Investing in the Future

How an Employee Stock Ownership Plan can be good for you and your employees

By Al Reijmer

When we last left Sam, the second-generation president and owner of Valley Graphic Media (VGM), he seriously was contemplating the possibilities of winding down his 40-plus year career in the printing industry. He and his wife, Margaret, had spent countless hours discussing their expectations, desires and personal “bucket lists” for life after VGM.

Sam and Margaret are both classic “Type A” personalities. They raised four happy and successful children, while simultaneously working through a challenging past decade of VGM’s 55-plus years of existence. While they’re both satisfied with the results of their personal and business lives, they know that successfully transitioning into the next chapter involves an expertly devised plan.

Still weighing their various exit strategy paths, Sam and Margaret realize that the first step in the process is to determine an accurate market value for VGM. Having discussed this in the past with several printing peers, Sam knows he must confirm that VGM’s actual value is in line with his expectations. He wisely chose to engage the assistance of an M&A consulting firm that specializes in the printing industry. No matter which exit path they ultimately choose, Sam and Margaret don’t want to experience any negative surprises that an inaccurate valuation likely would provide.

If you read my article in the last issue of *CANVAS*, “One Size Does Not Fit All,” you’ll recall that not unlike many owners contemplating their next phase or exit strategy, Sam appreciates the efforts and contributions of VGM’s many key employees over the

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years. His first priority would be to give them a secure future. Sam and Margaret have performed some preliminary research on the possible formation of an Employee Stock Ownership Plan (ESOP). Around for nearly 40 years, ESOPs originally were authorized by federal legislation in 1974. While ESOPs can be viewed from multiple perspectives, from the owner of a privately held

business such as VGM, it allows Sam to liquefy some portion of the equity he has accumulated in his company, without sacrificing the identity of VGM, jeopardizing the jobs of valued employees or relinquishing control of the company.

There are many interesting reasons to consider an ESOP as a potential exit strategy. For starters, an ESOP can be a beneficial “tax shield” for all or part of your company’s earnings, depending upon the percentage of stock held by the ESOP. It establishes an incentive-based retirement program for your employees, making them beneficial stockowners in the company where they work.

And while Sam and Margaret surely appreciate an ESOP’s provisions and creativity, they realize that in their situation it likely will only provide them a “partial exit strategy” for the foreseeable future. The formation of an ESOP would allow Sam to immediately access a percentage of his equity in VGM, but unless he’s able to appoint or hire a successor to relieve him of his daily involvement in the management of VGM, he’d need to delay the couple’s retirement and “bucket list” activities. In time, upon the continued success of VGM, Sam could offer additional shares of his stock to VGM employees, further realizing his remaining equity to complete the exit strategy.

ESOPs can be a viable alternative for many company owners. Sam and Margaret only have scratched the surface of the due diligence necessary to fully determine if this will be their most effective and rewarding exit path.

In the next issue, we will examine another option in the quest for Sam and Margaret to successfully transition into the next chapter in their lives. ■



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