Deloitte.

Employee stock ownership plan survey

Taking stock: Creating value through alternative corporate structures

There are almost 7,000 employee stock ownership plans (ESOP) currently in existence that represent more than 14 million employees and $1.4 trillion in assets.[1] This unique corporate structure dates back more than 70 years and has been a choice for companies looking to achieve certain tax benefits while simultaneously retaining key talent through vested interests in their own company. Deloitte Corporate Finance LLC (DCF) conducted its first annual client survey with ESOP companies around the country.[2] This infographic explores the key findings and trends.

About the survey

2019: Participants were surveyed throughout the year

80% + of survey participants represented C-suite roles in their respective companies

Survey participants by industry:

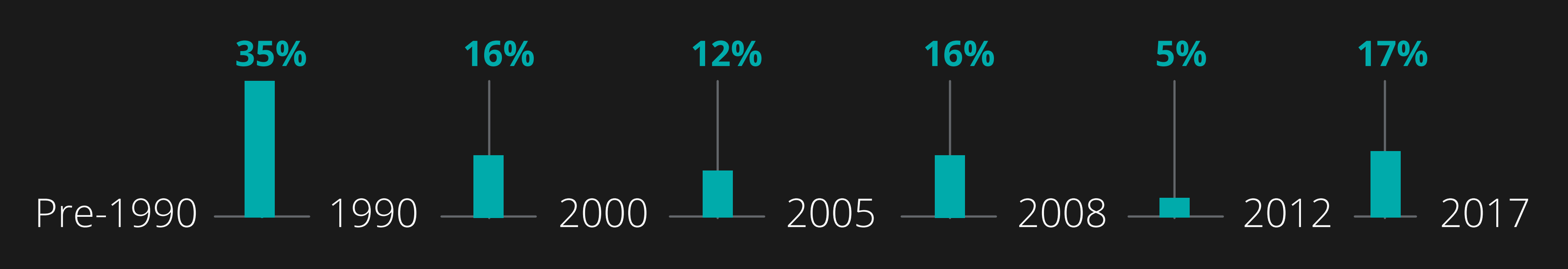
Survey respondents represented a variety of different industries, with the heaviest ESOP concentration in the engineering and construction industry and other manufacturing and industrial-related fields. The "Other" category featured most prominently the aerospace and defense, oil and gas, media, and real estate industries.

Engineering and construction	Manufacturing	Building materials	Building products	Consumer products	Software	Other
25%	25%	8%	8%	6%	4%	24%

Quick statistics about the survey respondents

Year participant established an ESOP:

The majority of the ESOPs in the survey were established prior to 2000, demonstrating the longevity of the corporate structure, with only 22% of survey respondents established after the financial crisis in 2008.



Participant employee count:

Majority of the survey respondents had employee bases of less than 500, suggesting that an ESOP works well even among smaller and less established firms.

87% 0–500

13% 501–1000

ESOP transaction structure:

Survey respondents were relatively evenly split between S-Corporation (S-Corp) and C-Corporation (C-corp) structure election, highlighting the potential benefits of both structures under certain conditions.

S 56% S-Corp

C 44% C-Corp

What were the top ESOP trends?

Type of structure by year

Firms favored the S-Corp structure pre-2008

2008

C-Corp structure gained greater market share post-2008, likely the result of leverage constraints following the financial crisis

ESOP M&A appetite trends and figures:

As a percentage of their cohort, S-Corp ESOPs were more likely to make an acquisition

100% of ESOPs who made an acquisition viewed their structure favorably, making the ESOP structure an effective acquisition vehicle

C-Corp ESOPs have increased acquisition appetite, likely due to the easing of financial covenants and increased financing alternatives following the economic prosperity after 2008

Of the percentage of the participants considering making a future acquisition:

Engineering and construction was the most likely to consider using M&A

Manufacturing was the least likely

How did size affect ESOP acquisition interest?

36% of total participants made an acquisition and aren't considering making another one

Larger ESOPs look for growth organically rather than through acquisitions

Opportunities for organic growth, such as:

- Product development
- New customer channels
- Geographic expansion

100% of the companies with more than 500 employees aren't considering making a future transaction

ESOP valuation trends and the use of a financial adviser:

As a percentage of their cohort, C-Corp ESOP transactions tended to earn higher valuations than S-Corp ESOP transactions

Valuation of greater than 7x EBITDA

33% of C-Corp ESOPs

17% of S-Corp ESOPs

Larger companies received higher valuations than smaller companies, demonstrating a significant size premium of approximately 17%

Consumer product companies yielded the highest valuations, with participants on average receiving valuations greater than 10x EBITDA, meaning strong capital market interest

100% of consumer product companies surveyed utilized a financial adviser

Of the 45% of survey participants that utilized a financial adviser, **engineering and construction** benefited the most, with the average engineering and construction company who hired an adviser earning 2x turns of EBITDA more than those that did not in a transaction

Current ESOP sentiment and trends:

Satisfaction regarding the ESOP was generally positive

84% of participants would choose an ESOP transaction again, viewing their transaction favorably

90% of companies who used greater than 3x debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) in the transaction viewing their ESOP favorably

2012+ = **50%** of the ESOPs in the survey that were established after 2012 showed dissatisfaction with their ESOP

This compares to ESOPs created before 1990 showing 100% satisfaction with their ESOP, potentially implying that ESOP sentiment increases with time as the employee and corporate benefits are fully utilized

100% of those that were dissatisfied with their ESOP had never made an acquisition, potentially implying that they do not have enough operating cash flow to fund inorganic growth

ESOPs who were dissatisfied

100% utilized seller note financing

67% utilized seller note financing that made up between 75 and 100 percent of the aggregate transaction value

VS.

ESOPs who were satisfied

65% used seller note financing

34% utilized seller note financing that made up between 75 and 100 percent of the aggregate transaction value

Areas that participants would like the ESOP community to focus on:

32% Lobbying for greater ESOP tax benefits

26% Enhanced education tools for ESOP plan participant awareness

21% More corporate tools for managing ESOP repurchase obligations

21% Better industry relationships with regulatory authorities

Advance your ESOP success

As a steward of a company's and its employee-shareholders' wealth, corporate leadership and the board have many important factors to consider when reviewing their capital structure and understanding key capital markets trends. DCF is working closely with our clients and other active industry participants to provide benchmarks on existing and emerging trends through a series of thought pieces and surveys.

To learn more about DCF and the ESOP insights and trends highlighted above, please visit www.deloitte.com/us/dcf.

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1 NCEO, "Employee Ownership by the Numbers," https://www.nceo.org/articles/employee-ownership-by-the-numbers.
2 This survey represents responses from 60 ESOP groups that were the basis of the data in the presentation.