Employee stock ownership plan survey

Current ESOPs look to make organic growth a priority

Deloitte Corporate Finance LLC conducted its first annual client survey with ESOP companies around the country. This infographic explores the key findings and trends.

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

- **Advanced your ESOP success**
  - **CONFLICTS OF INTEREST**
    - **What conflicts of interest are ESOP plan sponsors more likely to face?**
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  - **Underlying assumptions and risks:**
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  - **Benefit and cost imperatives:**
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**Survey respondents by industry:**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace and defense</td>
<td>12%</td>
</tr>
<tr>
<td>Oil and gas</td>
<td>10%</td>
</tr>
<tr>
<td>Media</td>
<td>8%</td>
</tr>
<tr>
<td>Real estate</td>
<td>7%</td>
</tr>
</tbody>
</table>

**Majority of the survey respondents had employee bases of less than 500:**

- 87% of total participants made an acquisition in the past year.
- 32% of total participants made an acquisition in the past five years.
- 36% of total participants had a financial adviser.
- 32% of total participants used a financial adviser.
- 8% of total participants used seller note financing.
- 65% of total participants utilized seller note financing.
- 67% of total participants indicated that they do not have enough operating cash flow to fund inorganic growth.

**S-Corp structure:**

- 44% of total participants favored the S-Corp structure.
- 25% of total participants favored the LLC structure.
- 25% of total participants favored the C-Corp structure.
- 8% of total participants favored the Ltd structure.

**C-Corp ESOP transactions:**

- 56% of total participants had C-Corp ESOPs.
- 54% of total participants used financial advisers.
- 84% of total participants were satisfied with their C-Corp ESOP.
- 36% of total participants were dissatisfied with their C-Corp ESOP.

**Larger ESOPs look for growth organically:**

- 87% of total participants with more than 500 employees aren't considering making a future transaction.
- 67% of total participants with 500–1000 employees aren't considering making a future transaction.
- 65% of total participants with 100–499 employees aren't considering making a future transaction.
- 64% of total participants with less than 100 employees aren't considering making a future transaction.

**Valuation of greater than 7x EBITDA:**

- 17% of total participants are satisfied with their valuation.
- 22% of total participants are dissatisfied with their valuation.

**Underlying assumptions and risks:**

- 100% of total participants are aware of repurchase obligations.
- 95% of total participants are aware of capital market interest.
- 99% of total participants are aware of significant size premium.
- 85% of total participants are aware of new customer development.
- 82% of total participants are aware of geographic expansion.
- 75% of total participants are aware of repurchase obligations.

**Benefit and cost imperatives:**

- 78% of total participants are aware of employee compensation.
- 90% of total participants are aware of the tax benefits of ESOPs.
- 93% of total participants are aware of employee investment.
- 85% of total participants are aware of new customer development.
- 87% of total participants are aware of geographic expansion.
- 72% of total participants are aware of repurchase obligations.

**CONFLICTS OF INTEREST:**

- 100% of ESOPs in the survey that were dissatisfied with their ESOP, potentially implying they do not have enough operating cash flow to fund inorganic growth.
- 32% of ESOPs in the survey that were satisfied with their ESOP, implying that they do have enough operating cash flow to fund inorganic growth.

**Underlying assumptions and risks:**

- 100% of companies with more than 500 employees aren't considering making a future transaction.
- 85% of companies with 500–1000 employees aren't considering making a future transaction.
- 81% of companies with 100–499 employees aren't considering making a future transaction.
- 75% of companies with less than 100 employees aren't considering making a future transaction.

**Benefit and cost imperatives:**

- 93% of companies with more than 500 employees are aware of new customer development.
- 90% of companies with 500–1000 employees are aware of geographic expansion.
- 88% of companies with 100–499 employees are aware of new customer development.
- 85% of companies with less than 100 employees are aware of geographic expansion.
- 73% of companies with more than 500 employees are aware of repurchase obligations.
- 68% of companies with 500–1000 employees are aware of repurchase obligations.
- 65% of companies with 100–499 employees are aware of repurchase obligations.
- 60% of companies with less than 100 employees are aware of repurchase obligations.

**CONFLICTS OF INTEREST:**

- 78% of companies with more than 500 employees are aware of employee compensation.
- 75% of companies with 500–1000 employees are aware of the tax benefits of ESOPs.
- 72% of companies with 100–499 employees are aware of employee investment.
- 68% of companies with less than 100 employees are aware of the tax benefits of ESOPs.

**Benefit and cost imperatives:**

- 75% of companies with more than 500 employees are aware of employee compensation.
- 72% of companies with 500–1000 employees are aware of the tax benefits of ESOPs.
- 69% of companies with 100–499 employees are aware of employee investment.
- 65% of companies with less than 100 employees are aware of the tax benefits of ESOPs.