



Employee Owners, Jobs and the Local Community

By Thomas Roback, Jr., CEP, QKA

How do you want to be remembered? Many business owners ask themselves this question as they ponder the future of the company they built. An Employee Stock Ownership Plan (ESOP) is not the right succession strategy for every business owner, but ESOPs are worth considering.

Let's forget about the power cities of America for a minute and think about small town USA. A successful manufacturing company in a small southern city created jobs in the local community for decades. Employees of this growing business enabled families to thrive and generations to be hopeful for their futures. It was a proud town and the company gave people their dignity. Two years ago, the business owner got an offer from a big competitor she could not refuse. It would create more wealth for her than she could ever dream of. It was a tough decision and a grueling process involving secret meetings and suits of investment bankers. When the corporate transaction was announced to employees there were tears and fears. Three months later the new buyer started a restructuring and jobs were cut. Input from the selling shareholder was not appreciated and it didn't feel good for anyone. One night the seller came to dinner at her local country club where she used to be the hometown hero and got mean looks and heard whispers at the other tables. I met this seller about a year ago and she wished she had known ESOPs were an alternative.

It doesn't have to be that way. That same year another business owner in a humble Midwest town pondered her legacy and worried about the future of her medical instrument company after she retired. She knew she could sell to a competitor, but it just didn't feel right. Her CPA told her an ESOP could be a tax-efficient strategy to consider. She talked to her management team and started to groom and prepare them to run the company. This business owner was a smart entrepreneur, but she knew her employees helped execute her vision. She hired an experienced firm to assess the feasibility of an ESOP and their analysis concluded that an ESOP made sense. The valuation may not have been as high as a strategic buyer could pay, but the after-tax liquidity was more than enough for this seller to enjoy a comfortable retirement. The ESOP transaction was thorough, but not as stressful as a sale to an outside entity. The seller and management team scheduled a company meeting after the ESOP transaction happened. The proud founder kicked off the meeting announcing she had sold the company. Immediately employees looked worried and then one by one she called out the name of all of her 150 loyal employees and asked them to stand up. After they were all standing she announced that they were now the indirect owners of the company! A roar of cheering and high-fives ensued. These motivated employee-owners have continued to grow the company keeping jobs in the local community. This little town is loud and proud.

A publicly traded meat processing company in the Midwest had a Covid-19 outbreak last year. Some felt the company did not do enough to protect and socially distance its' employees from this horrible disease. The local sheriff advised the plant to shut last Spring, but they were slow to react and some employees died. Compare this story to how a comparable ESOP



company, Superior Farms (Transhumance), reacted. They immediately instituted safety precautions in their plants in March of 2020. Management implemented policies and heightened their focus to practice social distancing, optimal hygiene and sterile working environments. They quickly implemented policies recommended by the CDC and state and local officials to limit the number of people gathered and restrict non-essential travel. They continue to monitor these policies and adjust them as needed. and have not had a Covid-19 case traced to their workplace a year later. Superior Farms, the largest processor of American Lamb, is headquartered in Davis, CA. They have had their ESOP over three decades and their reaction to the pandemic shows how they truly care about their employees. Superior Farms is an employee-owned company. Each and every one of their employees has a personal stake in their success and in the responsibility to deliver the highest quality products to consumers. Many of their employee owners have been with the company for decades and they are proud of their safety record. This kind of care makes the local community a better place to live.

ESOP companies are not immune to mistakes, but it helps having employee-owners who have a personal stake in the long-term success of their company and the community. The pandemic has given business owners a lesson on how quickly life can change and many are ready to exit and enjoy life. The pandemic has given us all more perspective on what is truly important and we hope ESOP companies continue to be leaders for a healthy community.