Why this Michigan company is a good fit for an ESOP

History of Company

The company in question is a small manufacturing company that designs and produces hardware solutions for sound, vibration, and shock problems for both small and large vehicles. It was founded in 1996, and was bought by the current owner in 2014, when the previous owner retired. In the years since the current owner bought the company, it has grown tremendously from approximately sixteen full time employees to over 3 times that original number, with two facilities covering 50,000 square feet, and a revenue growth by 5 times its initial over the same period. It offers sound and vibration expertise from a team of outstanding engineers and technicians who have years of field experience. With its talented team of engineers, this company has provided tremendous services for the Department of Defense (DOD) for many years and support for the people of its community.

Why this company considered an ESOP transition

When the current owner took over as sole owner of the company in 2014, he took stock of the talent and skill of the workers and stepped back to observe how hard his colleagues have worked over the years toward the growth and success of the company. Now, considering the aging population of the majority of the workforce, he decided to sort out employee ownership (EO) transition guidance from the Economic Growth Institute (EGI). With EO transition the owner can now have time to become more involved in engineering roles in the company while running the company with his employees. This opportunity will also provide essential retirement benefits for these employees who have worked so hard over the years. The company also cares about its long term presence and purpose in the community and the strong support it has provided over the years for the people of its community and wants to continue doing so.

ECONOMIC GROWTH INSTITUTE

About the Economic Growth Institute and the Broad-Based Employee Ownership Initiative

The Economic Growth Institute leverages the University of Michigan's resources, research, technologies, and expertise to foster innovation and create positive economic impact for local, state, and national communities and economies by working with small- and medium-sized enterprises. Within the Economic Growth Institute, the Broad Based Employee Ownership initiative aims to help businesses evaluate Employee Ownership as a viable succession mechanism. We work with businesses interested in transitioning to Employee Ownership to better understand what factors make a company eligible for such a transition. In sharing our learnings with the community of business owners, we hope to educate them on why Employee Ownership should be considered in their succession planning and how they can initiate their own transition.

Why this company is a good fit for an ESOP

This company possesses multiple qualities that make it a prime candidate for an ESOP transition.

High concentration of talented employees
Being an engineering firm, the company has a high concentration of employees who are highly skilled in their domain, and the majority of employees work at the same level. This makes the transition to an ESOP easier because company shares can be distributed evenly among employees without concerns regarding fairness. Companies that have more hierarchical structures may struggle to decide how shares should be equitably distributed among employees, as their working at many different levels complicates the matter. This company does not experience this issue as intensely, so the transition to an ESOP is more feasible.

History of financial stability and growth
The company has not only been profitable, but has experienced significant growth in profits in the time that the current owner has owned the company. Since the owner

bought the company in 2014, it has expanded to over 3 times the original number of employees and over 7 times the original amount of revenue. The company's history of financial stability and growth means it can finance the debt necessary for the ESOP transition without financially harming anyone involved.

Existing profit-sharing program

This company implemented a profit-sharing initiative about 5 years ago, one that is still in place today. Employees receive 10-15% of the company's profits as contributions to their 401(k) plans. Companies with existing profit-sharing programs are better-suited to Employee Ownership transitions because there is already a mechanism in place that works to distribute the company's wealth. As such, it takes less effort for these companies to adjust to the financial shift that accompanies an Employee Ownership transition, as everyone is already accustomed to profit-sharing in some capacity.

In addition to these qualities that make an ESOP transition feasible, the company also has an owner planning to continue working at the company for at least 10 more years, which smooths the transition. All of these aspects of the company make it well-suited to becoming Employee-owned.

Transition Plan

After consultation with the Economic Growth Institute, the owner was advised to start with a 30% ESOP. With this, he doesn't have to retire now, but he can stay on as a regular employee or still maintain a leadership role for the next 10-15 years he has to work while the company and its new employee owners enjoy some tax benefits. The 30% leveraged ESOP will set up the stage for a more smooth full transition later on in the future since the mechanism has already been put in place.