

Peak
Performer Webinar Series

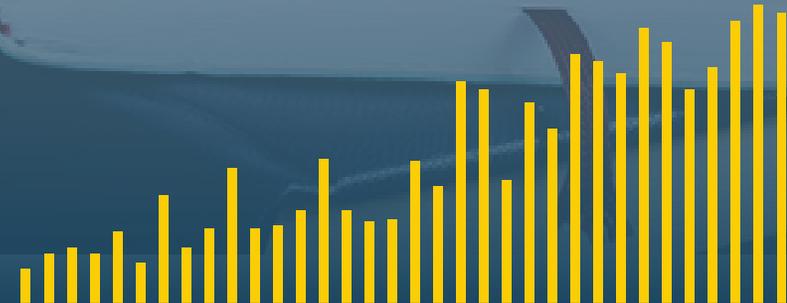
VISTAGE

The impact of ESOPs: Employee engagement & corporate culture

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Overview

Section 1	ESOPs at a Glance	2
Section 2	Rewarding Employees	10
Section 3	Impacting Corporate Culture	13
Section 4	Can ESOPs Help Improve Bottom Line?	17



ESOPs at a Glance



What is an ESOP?

- An Employee Stock Ownership Plan (ESOP) is a **flexible, tax-efficient** exit strategy
- It allows the owner to **sell a portion or all** of their stock
- The seller can defer or, with proper planning, permanently **avoid capital gains taxes** on the sale

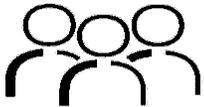
What is an ESOP?

- ESOPs **reward employees** with an additional retirement benefit
- They can help **improve corporate culture**
- ESOPs can also help **increase productivity and profitability**
- An ESOP can help **align the goals** of the employees with those of the company and its management

Why consider an ESOP?



You may be able to **defer capital gains taxes** and potentially even eliminate them entirely



You can **continue to lead and participate in the management** of the company even after a sale



ESOPs can help **reward employees and management**, which may, in turn, increase productivity*

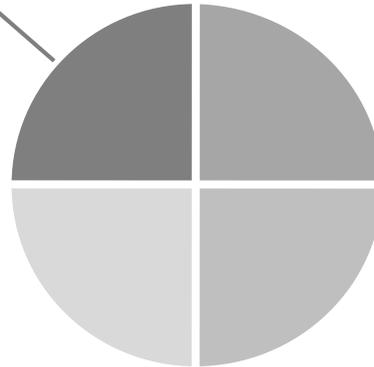


You can **preserve your legacy** within the company while gaining the independence to start the next chapter of your life

ESOPs enable an alignment of interests

Owner

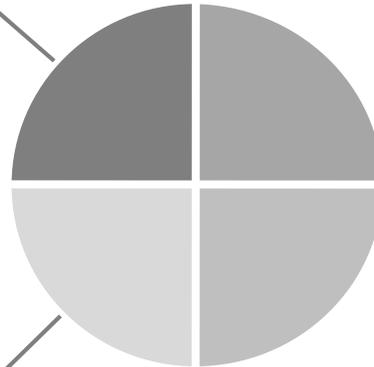
- The potential for more in total after-tax proceeds, compared to a sale of the company to an outside buyer, mainly from the abilities to:
 - Sell stock and defer or potentially eliminate the capital gains taxes associated with the sale
 - Hold a high-yield seller note with an attractive total return
 - Retain upside potential in the company through warrants, which are typically taxed at long-term capital gains rates instead of rates for ordinary income
 - Continue drawing a salary
- Preserve your legacy and a potentially meaningful benefit to employees
- The ability to remain active in the business
- The time to create and implement succession and estate plans through a gradual ESOP transition over time



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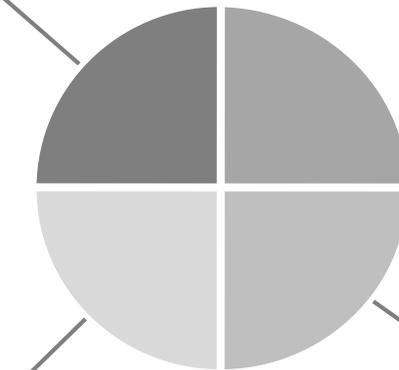
Employees

- Provides no-cost retirement benefits for those participating in the ESOP
- Participation can be combined with other benefit and retirement plans
- Can create opportunities within the company, rather than reasons to leave the company

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Management

- Gradual transition to fully running the company
- Participation in ESOP and Stock Appreciation Rights (Non-Qualified Plan) can provide meaningful wealth building opportunities
- Recognition opportunities that can help motivate, retain and recruit key talent

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Company

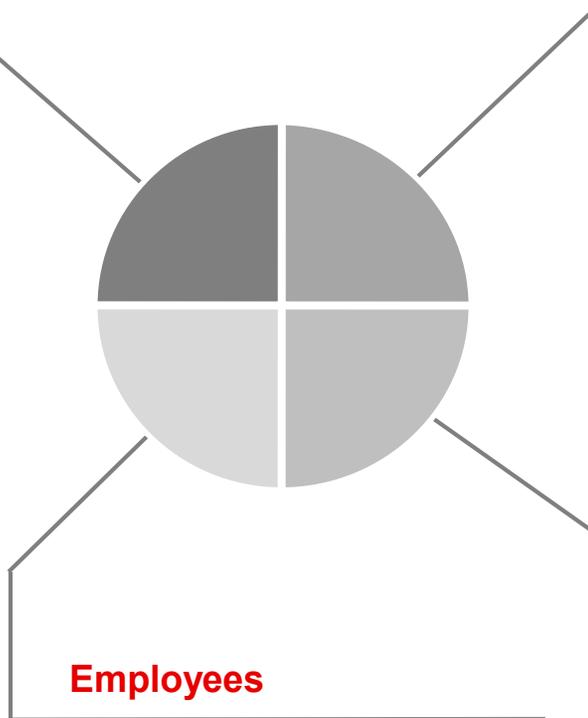
- May reduce tax liability of corporate earnings
- Ability to repay debt with pre-tax dollars
- Potentially increased productivity from employees who are now "owners"/"participants"
- The possibility for future, tax-efficient acquisitions

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Rewarding Employees



Rewarding Employees

- An ESOP provides a qualified retirement plan for each employee, **in addition to other traditional retirement plans** the company has in place such as a 401(k)
- Employees are given an **ownership stake in the company** through contributions of stock to the ESOP
- **Employees do not pay for the shares** in any manner
- ESOP shares and interest income are **tax-deferred** until employees begin receiving distributions

Rewarding Employees

- ESOP **distributions can be rolled** into another qualified retirement plan and/or an IRA to continue deferring taxation¹
- Contributions to each employee are based on employees' **compensation or tenure**²
- Employees must be **fully vested** in their shares within 6 years
- Employees can **sell their vested shares at market value** back to the company if they leave the company or retire^{3,4}



Impacting Corporate Culture



Impacting Corporate Culture

- ESOPs allow an owner to preserve their legacy and inspire an **“ownership culture”**
- Employees can **directly benefit** if the company’s performance improves
- This **positive feedback cycle** creates an atmosphere that rewards highly motivated employees⁵

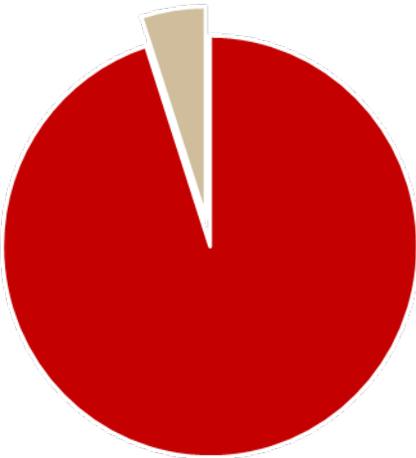
Impacting Corporate Culture

- ESOP employees may earn **higher incomes** and have **higher household wealth** than non-ESOP employees⁶
- ESOP participants may hold up to **2.5x the amount of retirement assets** held by non-ESOP employees in comparable businesses⁷

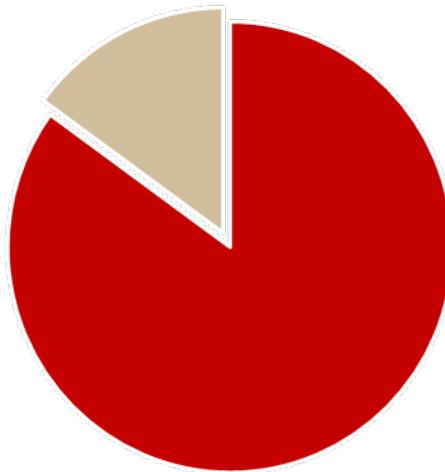
Impacting Corporate Culture

- ESOPs can help **increase employee commitment** and **inspire innovation**⁹

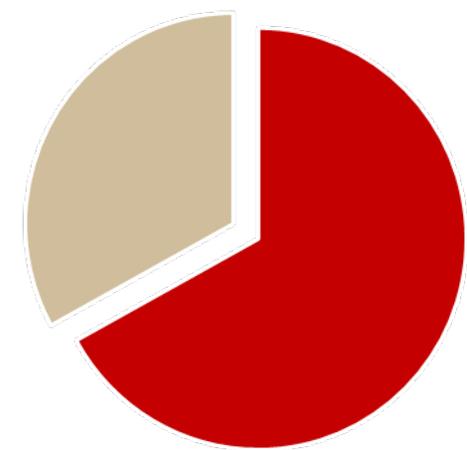
95% said an ESOP was a **good decision** for their company



Over 85% said an ESOP had a **positive impact** on company culture



Over 67% said an ESOP **improved productivity** of employees





Can ESOPs Help Improve Bottom Line?

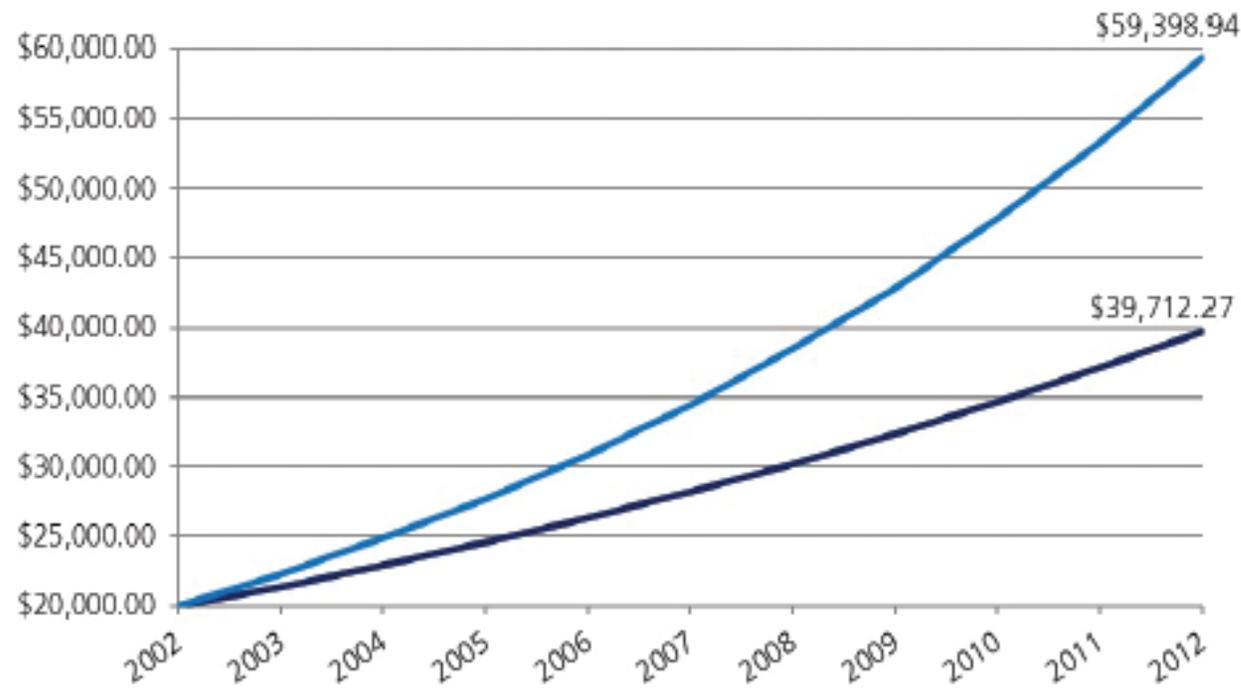


Can ESOPs Help Improve Bottom Line?

- From 2002 – 2012, private S corporation ESOPs outperformed the S&P 500 Total Returns Index by **over 60%** ¹¹

S ESOP vs. S&P 500:

Total returns per participant, 2002 – 2012



Can ESOPs Help Improve Bottom Line?

- Studies suggest that **ESOP-owned companies outperform** non-ESOP companies¹²
- ESOP-owned companies with highly engaged employees **grew 8 to 11% faster** and **created 2.5% more jobs** annually than predicted^{13,14}
- Even during the 2001 and 2009 recessions, nearly one-third of ESOP-owned companies **reported an increase** in their profits and/or revenues¹⁵

Can ESOPs Help Improve Bottom Line?

In the year an ESOP is established, productivity increases

4 to 5%

on average

ESOP-owned companies are

50%

less likely to go bankrupt than non-ESOP companies¹⁶

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