



ESOP Formation

Challenge:

The owner of a successful mid-sized privately held business in Columbus was considering the succession planning options for his business. He wanted to begin to gradually exit the business, but would prefer to stay involved with the company for several more years. The vast majority of his wealth was tied up in the business and he needed to diversify his financial portfolio. Although he recognized that a sale of the business might be advantageous, he was concerned that a new owner might eliminate jobs of some employees. He contacted GBQ to assess his strategic alternatives and assist him with his ownership and succession planning issues.

Solution:

GBQ analyzed both a sale to a third-party strategic buyer as well as a sale to employees through an employee stock ownership plan (ESOP). Through GBQ's efforts, several letters of interest were obtained for attractive sale prices; however, GBQ and the company ultimately concluded that a sale to an ESOP would be the best option for all parties involved. Engaged on behalf of the ESOP, GBQ performed the independent valuation work, helped assemble a high-quality team of ESOP professionals, and structured the transaction in a mutually beneficial way. The net result was the shareholder selling 100% of the company's stock to a newly formed ESOP, financing partially by bank debt and partially by a seller note. Due to the advantageous transaction structure, the shareholder's net proceeds from the transaction will exceed the proceeds from a third-party asset sale by over 25% despite a lower sales price. Additionally and importantly, the owner will continue to operate as president for several more years, the company's legacy as an independent Columbus-based company will be preserved, and all employees will retain their jobs and be rewarded with ownership in the company they helped build. Last but not least, the company will now operate as an income-tax free entity since the ESOP is now the owner of 100% of the company, enhancing the company's future cash flows by 40% and allowing for greater profitability and growth.