



INVESTMENT BANKING



ESOP



VALUATION



ADVISORY



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ESOPs – Keeping Family Businesses in the “Family”

Family-owned businesses, a key pillar in the American economy, make up a significant number of the privately held companies across our country. Although these companies cut across all industries and range in size from small to large, they all share common challenges. The most daunting of these challenges is how to manage the transition of the business from generation to generation. Keeping the core family values balanced with an ever-changing market place and often diverging goals amongst the family members is a challenge that many family businesses don't survive. One intriguing solution to this challenge for many family-owned businesses is to bring the employees into the shareholder group through the sale of stock to an Employee Stock Ownership Plan (ESOP).



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While creating a liquidity strategy for owners of privately held businesses, the sale to an ESOP also provides desirable tax advantages to the owners who sell to an ESOP and to the companies that have an ESOP as a shareholder. A sale to an ESOP appeals to many family-owned businesses because of its flexibility, and ability to provide different options for different family (shareholder) groups. This can be of particular importance as family-owned businesses transition into second, third and fourth generations.

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For family members who want to continue to own and run the business, the ESOP can provide significant tax advantages and support powerful gifting strategies to preserve the family ownership while minimizing personal, corporate and estate taxes. For family members who are not actively engaged in the business, the ESOP can provide a liquidity option or an income stream that supports life outside of the family business. Often times, divergent interests or goals cause family businesses to transition away from the family, but the ESOP can provide appealing solutions to preserve family ownership and control.

Family Shareholder Desire	ESOP Solution
Liquidity	Purchase stock
Pass stock to children	Advantageous gift valuation
Income stream	Seller financing / dividends

As family businesses grow, ever more positions within the company are assumed by non-family members. However, as these companies evolve, these same employees become members of the family and help perpetuate the culture and values of the original family business. An ESOP trust allows these members of the extended family (employees) to participate in ownership without ceding control to an outside party.

Key Characteristics of ESOPs Make this Possible:

- ❖ An ESOP is comfortable owning a minority stake in the company
- ❖ An ESOP Trust holds the stock on behalf of the employees; the employees don't control the company
- ❖ The Board of Directors continue to control the business with senior management remaining in place
- ❖ An ESOP Trust is comfortable with long-term holding periods, meaning there is no time limit to its ownership and it could own the company into perpetuity.

Selling the family-owned business to the employees through an ESOP is often a natural and comfortable transition for family-owned businesses, and allows the culture of the company to remain intact while giving the family ultimate flexibility to meet the needs of all family members.

About: PCE is a leading financial services firm for mid-market companies, offering clients a full range of investment banking, valuation and advisory services. It provides M&A support, ESOPs, management buy outs (MBOs), bankruptcy advisory, restructuring, and fairness and solvency opinion advisory services. Additionally, the firm offers management consulting, succession planning, strategic analysis and litigation support. Experienced in all market sectors, PCE has established several specialty practice areas, including Consumer, Diversified Industrial - Infrastructure & Power, Healthcare, Construction & Building Products, Manufacturing, and Food. Offices in Orlando, Atlanta and New York.

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