



Employee Stock Ownership Plans and the Construction Market

Presented to:



Presented by:

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Meet the Presenter

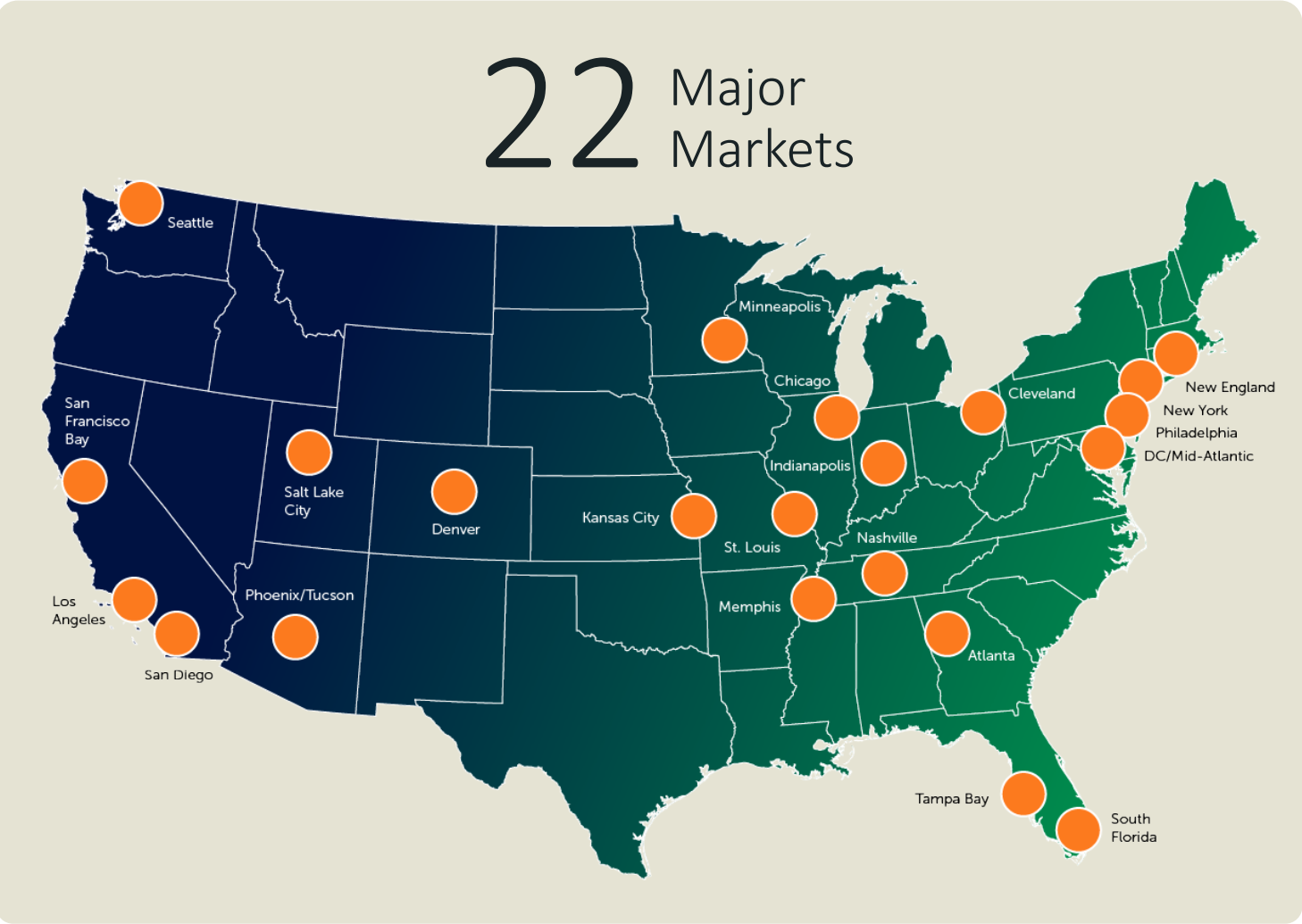


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About CBIZ



\$2.8B
In Revenue
as of November 1, 2024*

Top National Accounting Provider
per Accounting Today 2025 Top 100 Firms Report


160+
Offices


10K+
Team members


135K+
Clients



CBIZ is a consulting, tax, and financial services provider that works closely with CBIZ CPAs P.C., an independent CPA firm that provides audit, review and other attest services.
* Reflects total company pro forma revenue for fiscal 2024 as if Marcum acquisition occurred on January 1, 2024.

CBIZ Services

Accounting

- International Capabilities
- Audit, Review & Other Attest Services*
- Outsourced Accounting
- Transaction Services



Tax

- Tax Compliance
- Tax Consulting
- Tax Controversy
- Private Client Services
- International Tax
- State & Local Tax



Advisory

- Transaction Advisory Services
- Risk Advisory Services
- Forensic Consulting & Litigation Advisory
- Financial Accounting & Advisory
- Valuation
- Human Capital Management



Benefits

- Benefits Consulting
- Total Rewards Data Analytics
- Employee Experience Consulting
- Retirement Plan Consulting
- Actuarial Services
- Benefits Administration



Insurance

- Property & Casualty
- Risk Management Services
- Alternative Risk Solutions
- Program & Specialty Insurance
- Individual Insurance



Technology

- Cloud & Infrastructure Solutions
- Managed IT Services
- Cybersecurity, GRC & DFIR Services
- Enterprise Performance & Technology
- Strategic IT Consulting
- Emerging Technology



Exit Option – Common Alternatives

- *Selected Liquidity Options for Business Owners*
 - A business owner essentially has two broad choices when considering a sale or liquidity option.

External Transaction

- Initial Public Offering (IPO)
- Sale to Private Equity Sponsor
- Sale of Company – Whole or Part to a strategic buyer

Internal Transaction

- Share Redemption / Recapitalization
- Management Buy-Out (MBO)
- Employee Stock Ownership Plan (ESOP)



An Introduction to ESOPs

What is an ESOP?

- Employee Stock Ownership Plan
 - Type of tax-qualified defined contribution plan
 - Designed to invest primarily in employer securities
 - Sale of stock (minority % up to a 100% interest) by business owner to ESOP for cash and/or seller note
 - Transaction is equivalent to a tax-advantaged, leveraged buyout of your company
 - The Trustee of the Employee Stock Ownership Trust (ESOT) is the owner of the shares of stock for the benefit of the ESOP participants (employees)

ESOP Pros and Cons

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none">• Allows owners to sell their company to their employees rather than an outside investor, competitor, customer, etc.• Owners can remain in company to implement Leadership Succession Plan• Tax free rollover for owner (C. Corp)• Ability to service ESOP debt with pretax dollars• If ESOP holds 100% of ESOP and Corporation is S Corp – no corporate income taxes• A method to retain valuable employees, and a motivator	<ul style="list-style-type: none">• A leveraged ESOP adds financial risk to the Company (<i>albeit higher cash flow with substantial tax savings to repay debt</i>)• Price to a strategic buyer (if you have strategic buyers) is potentially higher than fair market value (<i>although, after taxes, may be same</i>)• Keeping middle management motivated (<i>although, there are equity and equity-like (synthetic equity) COMPENSATION to key employees that are significant incentivizers!</i>)• Administrative costs/learning curve on ESOP administration (<i>although pale in comparison to tax savings</i>)

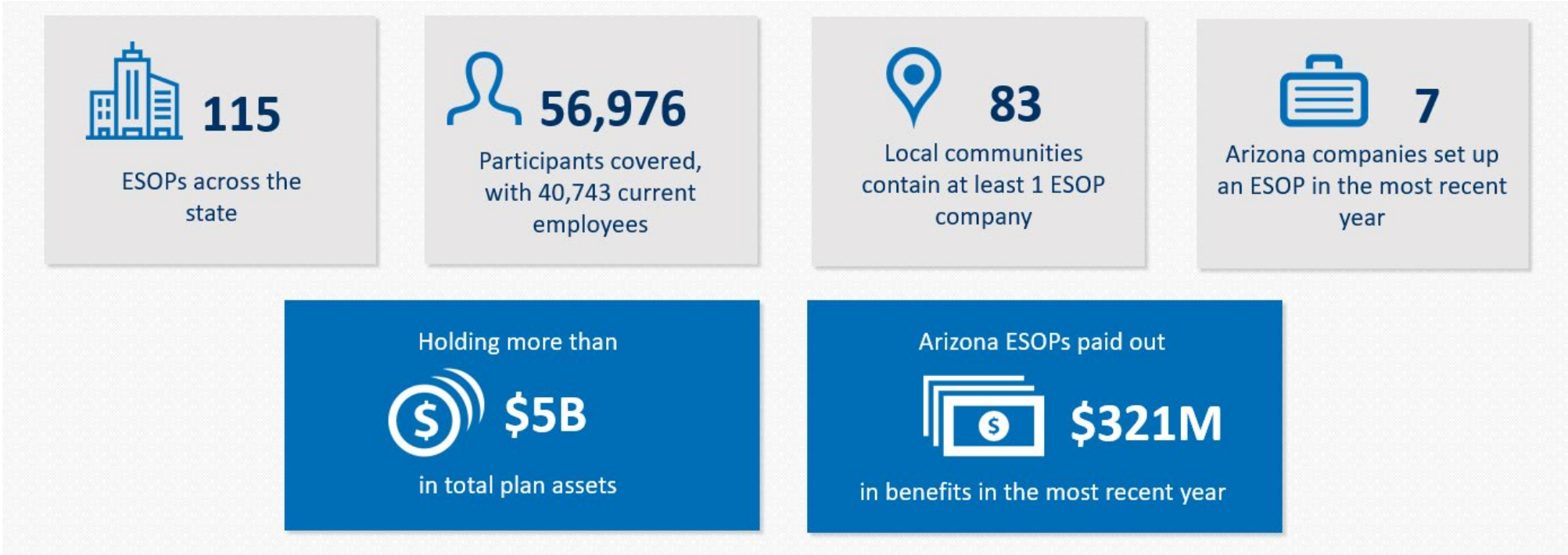
ESOPs are a Good Choice for:

- Businesses with:
 - Consistent annual EBITDA of at least \$1.5M
 - A high ratio of taxable income to EBITDA
 - A minimum of 25 employees
 - Qualified, harmonious management in place
 - Non-highly leveraged balance sheet
- Other important considerations:
 - Companies looking for innovative ways to retain/attract labor
 - Owners looking to reward long-time loyal employees
 - Limited family involvement (no natural heirs)*

ESOPs in the Construction Industry

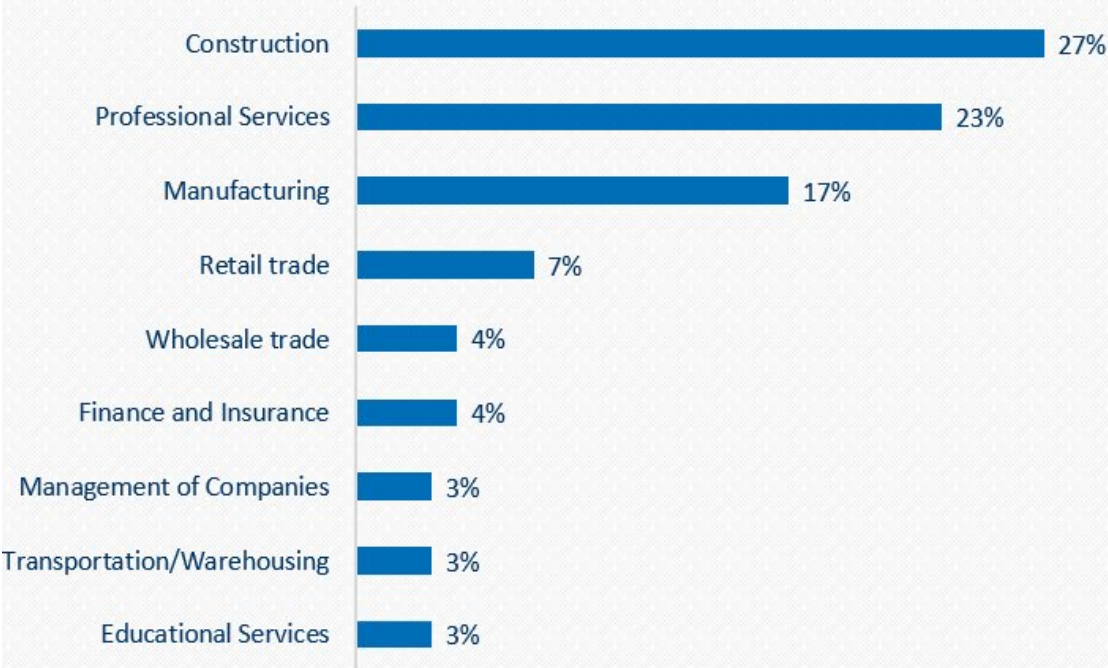


ESOPs in Arizona: By the Number



ESOPs in Arizona: Industry Overview

Spanning a wide range of industries:



Some ESOP companies you might know:



Why are ESOPs a Great Exit Strategy for Contractors?

- Not many logical 3rd party buyers
- Management has insufficient assets to buy owner stock
- Surety may find comfort in the continuity/security of the employees/company to finish long-term projects
- Protect/perpetuate the family name of construction company
- Culture matters/reward loyal employees
- Executive comp. options – to reward key executives (above and beyond being ESOP participants in the ESOP Plan)
- ESOP transaction may net more to selling shareholders

Surety Considerations

2025 CBIZ
NEW YORK
CONSTRUCTION
SUMMIT

Challenges

- Higher leverage on the balance sheet
- Fixed costs associated with debt service – especially in a down industry or economic cycle
- Repurchase obligation upon retirement
- Bank has first security interest (with the company stock/assets as collateral)
- Indemnification

Solutions

- Partial Bank financing and heavy Seller Notes
- Elevated cash flows due to significant tax breaks helps with bank covenants
- Strong feasibility analysis/reasonable purchase price based on reasonable projections
- Structure the ESOP to buy back shares over a longer duration
- Create appropriate vesting and payout periods – to make repurchase obligations manageable
- Surety and Company/selling shareholder will negotiate terms of indemnification.

Learn more:



Surety Considerations (*cont'd*)

- Importance of “early and often” *communication!*
 - “Hash out” questions & concerns early in process
- *Gaining comfort* with an ESOP transaction:
 - *Cash flow feasibility* analysis → Maintain sufficient free cash flow while paying down transaction debt
 - *Pro-forma balance* sheet → Considerations for net working capital, equity (“add back” seller notes)
 - Existing and future bonded projects executed by *same trusted company and employee base*
- Involvement of *experienced ESOP professionals!*



ESOPs: Significant Tax Benefits

- *Selling Shareholder(s)* can defer capital gain - IRC 1042 capital gains deferral provision
- *Company:*
 - C Corporation – over time, the company deducts:
 - ESOP Loan interest and principal payments
 - Dividends paid to ESOP
 - S Corporation
 - ***Potentially Tax-Exempt Entity*** - No income taxes on the pro rata earnings owned by ESOP (tax-exempt for the portion of the company owned by ESOP – up to 100%)
 - ESOP loan interest and principal payments
- *Employees*
 - Tax-deferred employee benefits

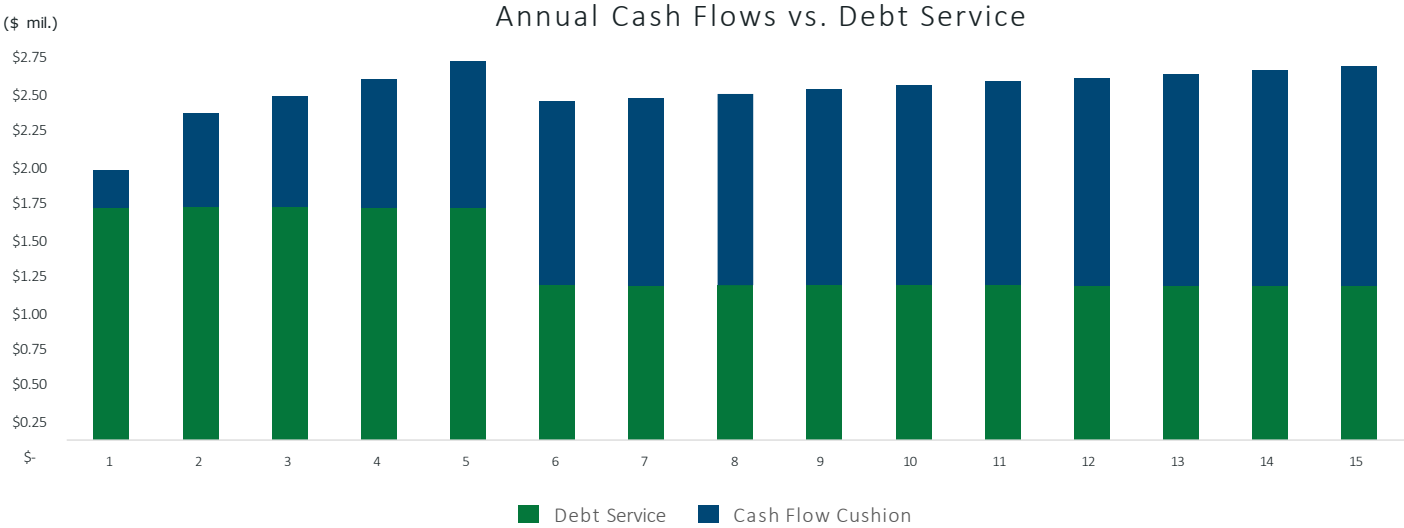
Typical ESOP Financing Structure

- Senior Debt – Traditionally, the least expensive source of outside capital.
- Subordinated Debt – Pricier than senior debt, but more readily available in the current environment.
- Seller Financing – An increasingly popular source of ESOP transaction financing.
- This is an installment sale - thus, certain additional tax considerations should be considered under IRC 453(a).

Typical ESOP Financing Structure



Sample ESOP Debt Service Analysis



Cash Flow Analysis (\$000s)															
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Pre-Debt Cash Flow	\$1,935	\$2,342	\$2,464	\$2,588	\$2,718	\$2,428	\$2,455	\$2,483	\$2,513	\$2,544	\$2,570	\$2,598	\$ 2,626	\$ 2,654	\$ 2,683
Required Debt Service	1,669	1,669	1,669	1,669	1,669	1,111	1,111	1,111	1,111	1,111	1,111	1,111	1,111	1,111	1,111
Annual CF Cushion	266	673	795	919	1,049	1,317	1,344	1,372	1,402	1,433	1,460	1,487	1,515	1,544	1,572
Ending Cash Balance	266	939	1,734	2,653	3,702	5,019	6,363	7,736	9,138	10,571	12,031	13,518	15,034	16,578	18,150

2020-2024 ESOP Transactions by CBIZ



ESOP Employee Stock Ownership Plan – A Trending Exit Strategy for Construction Companies



Valuation Services offered by



- Fairness Opinions for Transactions
- Feasibility studies/Sell-side analyses
- Annual Compliance Valuations
 - Existing ESOPs
- Peer Reviews of Valuations - Due Diligence for both trustees and board members



Thank You!

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