



CONSTRUCTION WEBINAR

ESOPs: Tax Advantaged Sale for Business Owners

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Speakers



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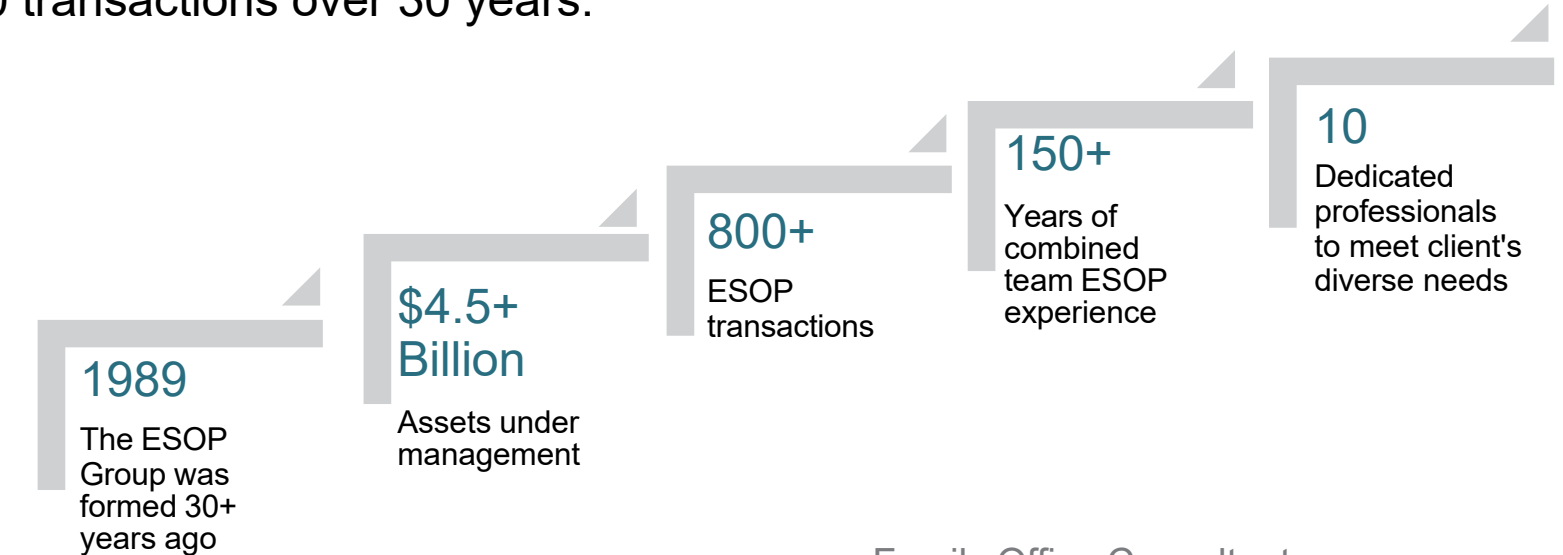
Marcum LLP Construction Services Group

- ▶ Founded in 1951
- ▶ Audit, consulting, and taxation services to clients ranging from start-ups to multi-billion-dollar enterprises
- ▶ 2700+ Clients Nationwide
- ▶ Frequent industry authors and speakers and serve as technical reviewers for the AICPA's construction audit and taxation guides
- ▶ Publisher of several definitive industry resources:
 - ▶ annual **Marcum National Construction Survey**,
 - ▶ the quarterly **Marcum Commercial Construction Index**,
 - ▶ the **Marcum PAS Contractor Compensation Quarterly**,
 - ▶ the annual **Marcum JOLTS Analysis** of construction employment trends
 - ▶ Presents an ongoing series of **industry summits and technical webinars** focused on the unique needs of construction contractors
- ▶ Recognized as the No. 3 construction accounting firm nationally in The Top 50 Accounting Firms™ ranking by *Construction Executive*



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The ESOP Group is one of the leading UBS ESOP advisory teams in the U.S., having advised on more than 800 transactions over 30 years.



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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)

What is an ESOP?

ESOPs are defined contribution plans that invest primarily in employer stock and are governed by The Employer Retirement Income Security Act (ERISA) of 1974

- Intent was to create ownership and retirement assets for working-class Americans
- Subject to DOL and IRS regulation and compliance

1

An ESOP is an Ownership Transition Tool

- ESOP Trust is a single shareholder
- Creates ownership-minded culture

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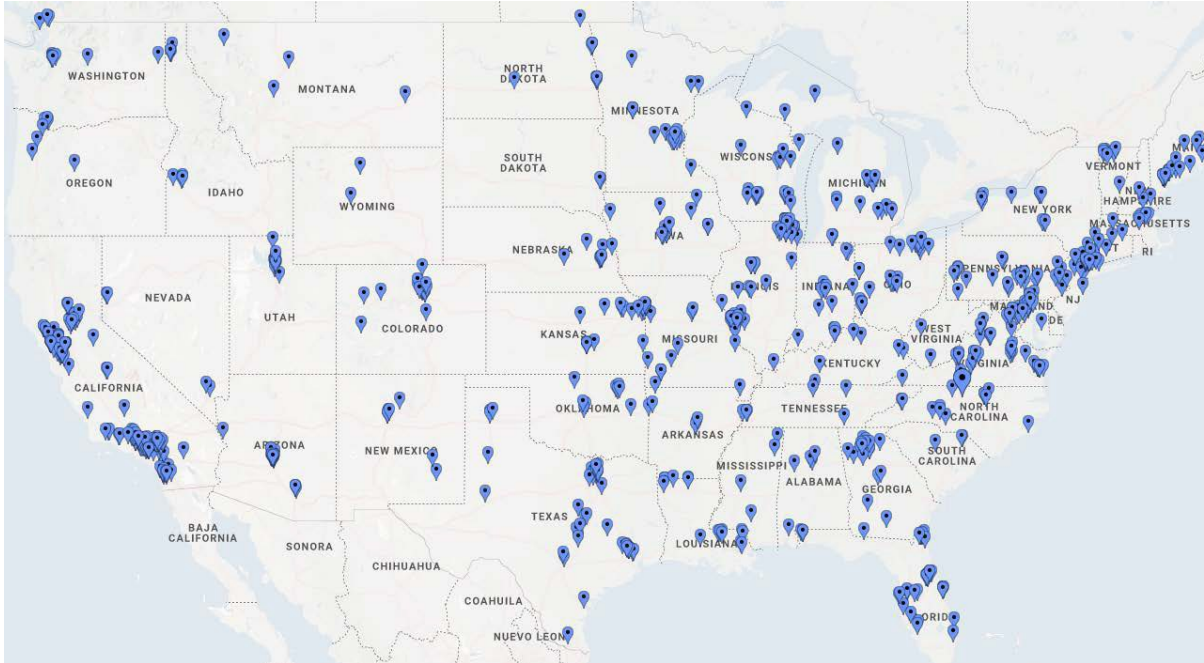
An ESOP is an Employee Retirement Plan

- Qualified retirement plan, non-discriminatory, tax-deferred growth
- ESOP trustee acts as a plan fiduciary
- Company buys out employees when they retire or leave

3

An ESOP is a Tax-Efficient Leveraged Buy-Out

- Tax deferral on the gain is available to certain shareholders of a C-Corp at the time of the transaction
 - Tax free status is available to the Company upon conversion of a C-Corp to an S-Corp post closing
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Data as of 2019 from DOL

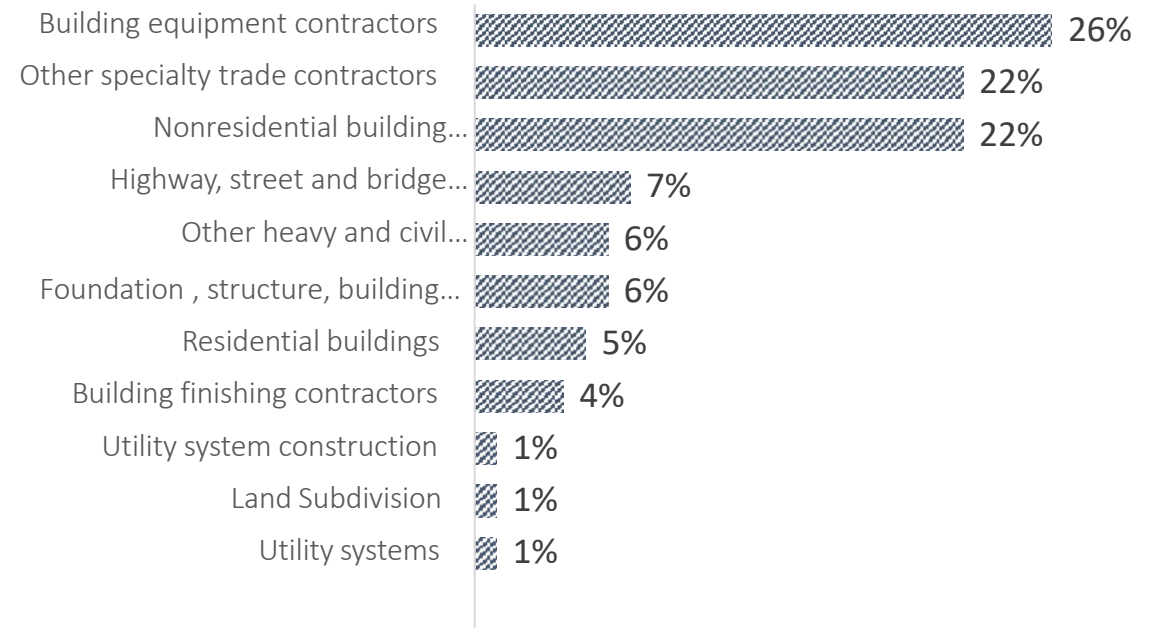
Source: *National Center for Employee Ownership*

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EMPLOYEE OWNERSHIP

- 810 privately held ESOPs
- Headquartered across 700+ communities
- Covering over 200,000 participants, with 140,000 current employees in ESOPs
- Holding more than \$23 Billion in retirement assets

Construction Company ESOP Facts

- **Wide range** of industry types within construction
- Mostly in **smaller business**: more than half have <100 employees
- **181** have been established since 2016, and 309 are 20+ years old



Data as of 2019 from DOL, Source: National Center for Employee Ownership

Reasons Why ESOPs Work Well for Contractors

- Not many logical 3rd party buyers
- Management has insufficient assets to buy owner stock
- Limited assets to secure senior bank loan
- 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
- Desire to perpetuate company and reward loyal employees
- Executive comp. options – to reward key executives (above and beyond being ESOP participants in the ESOP Plan)
- Incentivize employee and management via ownership in the company to help improve productivity

ESOPs – Pros and Cons

Advantages

- 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 to increase performance and productivity (“think like owners”)

Disadvantages

- A leveraged ESOP adds **financial risk** to the company (albeit higher cash flow with substantial tax savings to repay debt)
- Price to a strategic buyer (if you have strategic buyers) is potentially higher than fair market value
- Keeping **middle management** motivated (there are equity and equity-like (or synthetic equity) COMPENSATION that typically do motivate!)
- Administrative costs / learning curve on **ESOP administration**

Please note ESOPs are complex transactions. In order to take full advantage of ESOP benefits, careful planning is required. These may not be the best option for all businesses.

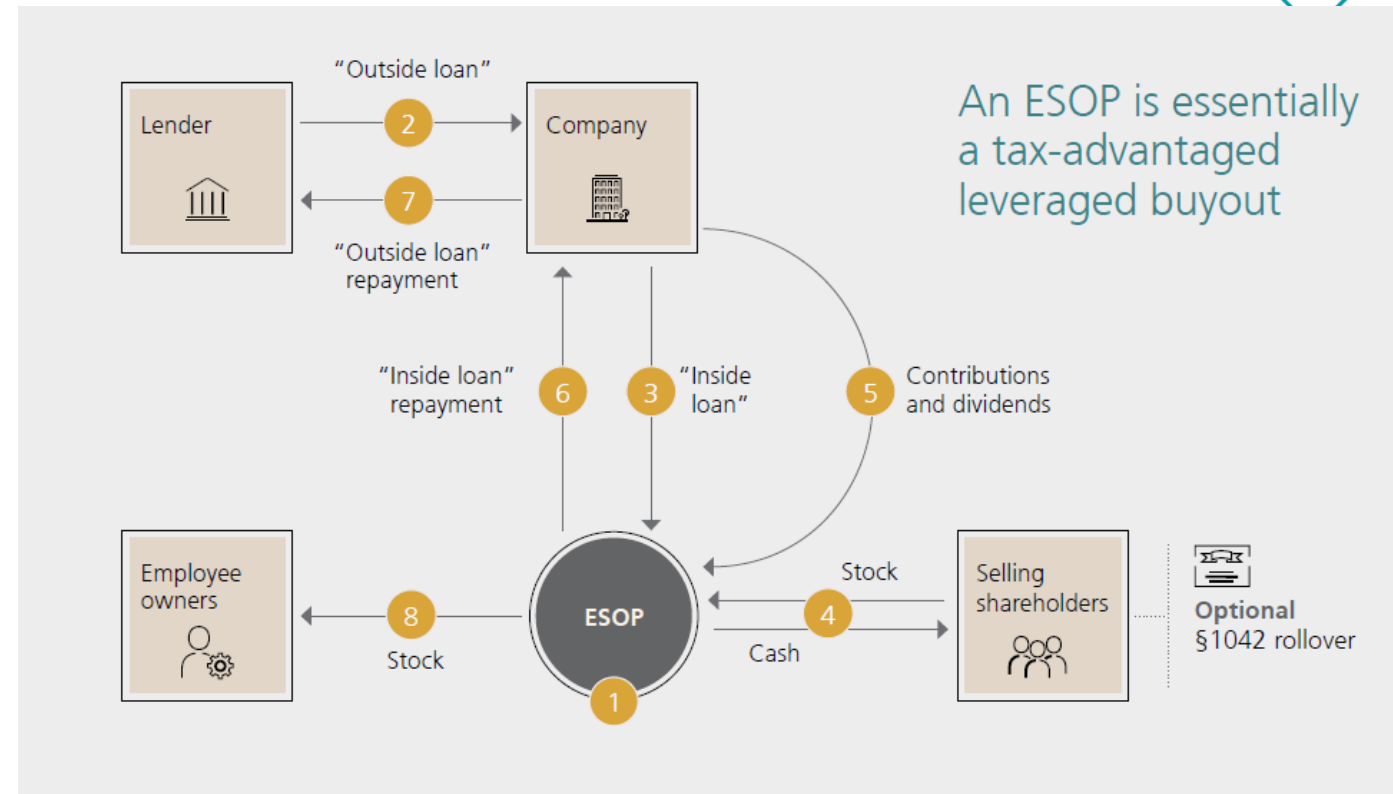
How do ESOPs work?

Initial Structuring

1. Company creates ESOP trust
2. Company borrows funds from lender ("outside loan")
3. Company re-lends the funds to the ESOP ("inside loan")
4. ESOP uses funds from "inside loan" to purchase shares from selling shareholders (cash in exchange for stock)
5. Optional: If a C-Corp at the time of sale, selling shareholders can elect IRC section 1042 in order to defer capital gains tax associated with the sale

Ongoing

6. Company makes tax-deductible contributions to ESOP
7. ESOP repays the "inside loan" to company
8. Company repays "outside loan" to the lender
9. As the "inside loan" is repaid, shares held as collateral for the "inside loan" are released and allocated to retirement accounts for the employees



Marcum ESOP Success Stories – 2020/2021

Cargo Aircraft Company Florida

Company Profile

- Large cargo aircraft company in Florida
- Selling shareholder was approached by PE, Strategic Buyers and had possibility of doing an IPO
- **Shareholder Goals:** Sale of partial interest; selling shareholder to continue working; reward loyal employees and strong sale price

Deal Specifics

- Transacted at an EBITDA multiple very similar to bona fide offers
- Raised approximately \$500 million in a Wall Street debt capital raise
- Top employees received SARs (stock appreciation rights)

General Contractor Ohio

Company Profile

- Construction company in Holland, Ohio
- There were no obvious buyers
- The tax benefits was a highly attractive feature
- **Shareholder Goals:** Sale of 100% interest; retire in 2 years; reward loyal employees (including son) and strong sales price

Deal Specifics

- Shareholder signed an employment agreement for 2 years – will then retire.
- Very strong EBITDA multiple
- Top employees to receive stock appreciation rights (SARs)
- Warrants for selling shareholder

Marcum ESOP Success Stories – 2020/2021

General Contractor / Concrete Florida

Company Profile

- Construction company in Florida
- There were no obvious buyers
- The tax benefits was a highly attractive feature – especially in light of Biden's tax plan
- **Shareholder Goals:** Sale of a minority interest; selling shareholders to continue working; reward loyal employees and strong sales price; Will also do a 2nd tranche in 5 years to sell remainder of company to ESOP.

Deal Specifics

- Maxed out senior bank loan (switched banks for competitive package) and financed remainder with Seller Notes
- Very strong EBITDA multiple
- Selling shareholders all made 1042 election
- Selling shareholders
- Top employees to receive stock appreciation rights (SARs)
- Warrants for selling shareholder

Architecture Firm Connecticut

Company Profile

- Architecture firm in New Britain, CT with 70 employees
- Architecture firms not commonly purchased/sold
- Three selling shareholders – each own 33%
- Primary selling shareholder and founder in his 80s and looking to sell
- **Shareholder Goals:** Sale of 100% interest; 1 s/h retire and other 2 to work for 10 more years; provide strong incentive for employee retention; legacy

Deal Specifics

- 1 shareholder retired and 2 signed employment agreements and are also participants in the ESOP
- No bank financing; 100% seller financing
- SARs plan to be implemented
- Despite set-backs in COVID year, Company sold at very strong deal multiple.

Surety Considerations – Challenges and Solutions

Challenges

- Higher leverage on the balance sheet
 - Fixed costs associated with debt service
 - Repurchase obligation upon retirement
 - Bank has first security interest (with the company stock/assets as collateral)
 - Sureties rely on corporate and personal indemnification
-

Surety Considerations – Challenges and Solutions

Solutions

- Strong feasibility analysis/reasonable purchase price
 - Create financial projections that are achievable based on proven historical results
 - Demonstrate post-transaction financial position via pro-forma balance sheet
 - Highlight any potential savings/changes to overhead costs in addition to the future annual tax savings
 - Structure the ESOP to buy back shares and repay seller notes over a longer duration
 - Allow for flexibility within the seller notes terms and conditions
 - Subordination and indemnity structure
 - Create appropriate vesting periods to make repurchase obligations manageable
-

Recommendations from a Surety Perspective

- Demonstrate the key elements of a company's historical success remain
 - Future leadership structure and transition – prior ownership involvement
 - Involve your surety broker early and throughout the process
 - Guidance to help understand the effects to your company's credit profile and any consequential surety program impacts
 - State Tax Deferment bonds for sellers (bond products to help alleviate the initial tax burden)
-

Overview of Important Tax Attributes

- Deferral and possible elimination of Capital Gains Tax ~ IRC § 1042
 - Deductibility of principal & interest ~ IRC § 1361 (6)
 - S Corp ~ IRC § 404(a), Small Business Job Protection Act of 1998
 - Significant Trust & Estate strategies due to:
 - Equity is typically at low point post-ESOP transaction
 - Minority interest discounts
 - Lack of marketability discounts
-

Capital Gains Deferral: C Corp sale to an ESOP

	Defer Taxes - Sale to ESOP (1042 roll-over) (1)	Pay Gap Gains Taxes - Current Cap Gain Tax Rate
Sample Capital Gains Tax Rates	0%	20%
Purchase Price	\$10,000,000	\$10,000,000
Federal Cap Gain Tax (20%)	0	(2,000,000)
Estate State Cap Gain Tax (5%)	0	(500,000)
Affordable Care Act Tax	0	(380,000)
	\$10,000,000	\$7,120,000

Savings

-29%

(1) Assumes that the QRP assets are held until death and that the current tax legislation in place to step-up basis of QRP assets to fair market value, upon death.

Benefits

- Defer capital gains and tax using "like-kind exchange"
- Increased earning potential, as a result of tax savings
- Eliminate capital gains tax, with a **stepped-up basis**

IRC Section 1042 – "like kind" exchange

- **30% ownership:** ESOP must own at least 30% of the company after completion of the transaction
- **Stock origin:** Selling shareholder cannot have received stock to be sold to the ESOP from:
 - Retirement plan
 - Pursuant to a stock option
 - As restricted stock
 - As a form of compensation
- **Holding period:** Minimum 3-year ownership period for stock sold to the ESOP
- **Reporting type:** Must be non-publicly traded C-Corporation
- **Stock type:** Common stock having the highest voting and dividend rights or preferred stock convertible into such common stock
- **Reinvestment window:** 15-month window for reinvestment of proceeds, commencing 3 months prior to and ending 12 months following the sale of qualified securities
- **Reinvestment requirements:** Must reinvest proceeds into qualified replacement property (QRP)
- **Tax filings:** Statements of Election, Consent and Purchase must be filed with the shareholders tax return for the year in which the sale occurred

What is qualified replacement property (QRP)?

Eligible QRP

- Stocks
- Convertible bonds
- Corporate fixed rate bonds
- Corporate floating rate notes (FRNs)

Non-Eligible QRP

- Bank CDs
- U.S. government bonds
- Municipal bonds
- Foreign securities
- Exchange traded funds (ETFs)
- Mutual funds
- REITs
- Master limited partnerships (MLPs)

Company Cash Flow Comparison – S Corporations

No ESOP	
SIMPLIFIED INCOME STATEMENT (\$ in thousands)	
Net Revenue	\$ 30,000
Cost of Goods Sold	0
Gross Profit	30,000
Overhead	(27,000)
Depreciation	(500)
Net Interest	0
Pre-tax Income	2,500
Income Tax (37%) (individual rates)	(925)
Net Income	\$ 1,575

CASH FLOW STATEMENT (w/o ESOP)	
Net Income	\$ 1,575
Depreciation	500
Working Capital	—
Capex	(500)
Free Cash Flow	\$ 1,575

With 100% ESOP	
SIMPLIFIED INCOME STATEMENT (\$ in thousands)	
Net Revenue	\$ 30,000
Cost of Goods Sold	0
Gross Profit	30,000
Overhead	(27,000)
Depreciation	(500)
Net Interest	0
Pre-tax Income	2,500
Income Tax (%)	0
Net Income	\$ 2,500

CASH FLOW STATEMENT (ESOP)	
Net Income	\$ 2,500
Depreciation	500
Working Capital	—
Capex	(500)
Free Cash Flow	\$ 2,500



ESOP Incremental Benefit = 60%

Recap Comparison of ESOP and Taxable Sale

Considerations	ESOP	Taxable sale
Deal structure		
Cash at close	35% – 50%	90% – 100%
Seller note	50% – 65%	0%
Deferred compensation/rollover	15% Warrants	0% – 10%
Ongoing participation		
Time	5 years	1 to 2 years
Non-compete	Yes	Yes
Ability to transition	Yes	No
Personal guarantee	No	No
Influence	High	Low
Financial upside participation	Yes	No
Transaction process		
Type	Internal Buyer/No Auction	External Buyer/Auction
Timing	4 to 6 months	6 to 9 months
Confidentiality risk	Low	Moderate
Buyer type	Trust/employees	Strategic or financial
Probability of close	High	Moderate to high
Management participation		
Buy-in	No	No
Option pool/SARs	Yes	Maybe
After-tax cash consideration¹		
100% tax deferral	Yes	Maybe, depends on terms
Estimated after-tax proceeds ²	100%	60 – 70%
Initial sale	\$20,000,000	\$12,589,000
Rollover equity/warrants ³	\$1,896,000	\$0
Total after-tax proceeds ⁴	\$21,896,000	\$12,589,000

¹ Assumes stock sale, zero basis and 1042 deferral under ESOP transaction.

² All transactions assume a \$20MM equity value and a federal capital gains tax rate of 20% and 13.3% state income and capital gains tax rate. This also includes a 3.8% Medicare surtax (applies only to the extent of AGI in excess of \$250,000).

³ Estimated rollover equity and warrant amounts assume 15% of the company's equity value would be issued as warrants in an ESOP transaction. The value at the time of exercise was estimated at \$3.0MM and was reduced by the estimated federal and state capital gains taxes.

⁴ All future proceeds discounted at a 5% discount rate and assume a 5-year holding period. Excludes all transaction costs.

*Source: Eureka—"Overview of ESOP Buyouts"

Ideal ESOP Candidate

Company Dynamics

- Stable performer with meaningful taxable income and free cash flow (usually \$2.5M in free cash flow and greater.)
- Solid management team, particularly if owner is not active day-to-day
- Specialized niche business where other third-party buyers may be difficult to identify
- Strong employee culture
- Unlevered or low current debt position
- Adequate liquidity pre and post transaction for operational and growth needs.

ESOP as a Logical Buyer

Ownership Situation

- Business owners seeing partial or full liquidity and looking for an alternative to a strategic sale, private equity or IPO
- Closely-held business where some family members or partners are seeking liquidity and others are not ready to exit
- Owners sensitive to income and capital gain taxes and/or operating in high tax states
- Owners wishing to retain governance in running their operations
- M&A deal
- Consolidate shareholder base
- Confidentiality concerns are high

Who are the Players Involved?

Company / Seller Representation

Investment Banker / ESOP Consultant

- Lead and manage transaction process
- Negotiate price, terms, and conditions with ESOP Trustee
- Capital structure analysis
- ESOP transaction design
- Pro forma cash flow analysis

ESOP Plan Administrator/CPA

- ESOP plan design (employee level)
- Repurchase liability study
- Employee communication

Special ESOP Legal Counsel

- Prepare required corporate documents for ESOP
- Assist in ESOP transaction design
- Draft ESOP/ERISA documents

Company Tax Advisor

Personal Shareholder Advisors

UBS Private Wealth Management Advisor

- 1042 Analysis
- Investment management and coordination with QRP
- Trust, tax and estate planning, philanthropic planning

Personal Accountant

Estate Planning Attorney

ESOP / Buyer Representation

Institutional ESOP Trustee

- Transact on behalf of ESOP participants
- Ensure compliance with ERISA and DOL regulations

ESOP Trustee's Financial Advisor

- Prepare valuation and issue fairness opinion to trustee
- Assist trustee in due diligence

ESOP Trustee's Legal Advisor

- Review legal documents
- Ensure compliance with requirements under ERISA, Internal Revenue Code, and DOL regulation
- Assist trustee in due diligence

Capital Providers to the Company

Traditional Commercial Banks

- In-house ESOP expertise
- Cash flow lending
- Asset based loan

Non-bank financial institutions

- Senior credit
- Uni-tranche or Mezzanine tranche

Why ESOP?

- **Flexibility:** ability for owner to sell part or all their company stock at Fair Market Value
 - **Confidentiality:** eliminate the need to release confidential information to prospective buyers
 - **Control:** Continue to lead their company after selling
 - **Culture:** Preserve their company legacy and independence
 - **Loyalty:** Incentivize employee and management via ownership in the company to help improve productivity.
-

Patrice Radogna, ASA, CPA, ABAR

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As the co-leader of Marcum's national employee stock ownership plan (ESOP) practice, Patrice specializes in advising middle-market companies on ESOP sale transactions, fairness opinions and other consulting advisory services. Patrice serves as a trusted advisor to a diverse range of middle-market companies nationwide delivering strategic consultation. Patrice has been instrumental in completing numerous transactions each year and, under her leadership, provides annual valuation updates to ESOP Trustees with existing ESOP clients. Her prior career experience also includes providing fiduciary services for ESOP companies, including assisting in buy transactions from existing shareholders. Prior to her current role Ms. Radogna spent 20 years building a diversified valuation practice in one of the leading independent national valuation firms in the U.S., with a focus in the areas of ESOP (buy-side and sell-side valuation services), gift and estate, M&A and shareholder consulting services. Prior to appraising privately-held businesses, Patrice spent three years as a financial underwriter for a surety company, working with contractors in New York City.

Ms. Radogna earned a B.S. in finance from Boston College. She subsequently received a Certificate of Accounting from New York University, Leonard N. Stern School of Business and is licensed as a Certified Public Accountant. She is also an accredited senior appraiser and holds the ABAR (Accredited in Business Appraisal Review) designation. Patrice speaks at national ESOP conferences on ESOP-related topics and regularly publishes for both Marcum newsletters and outside publications. Patrice also provides educational seminars for Marcum's ESOP partners and for business owners contemplating an ownership transition event.

PROFESSIONAL & CIVIC AFFILIATIONS

American Institute of Certified Public Accountants (AICPA)
American Society of Appraisers (ASA)
National Association of Certified Valuators and Analysts (NACVA)
The ESOP Association
National Center for Employee Ownership
Appalachia Service Project



EXPERTISE

Employee Stock Ownership Plans
Business Valuation
Litigation Support
Construction expertise

EDUCATION

Boston College
Bachelor of Science, Finance
New York University,

Leonard N. Stern School of
Business, Certificate in Accounting

About Leslie Lauer



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Early in her career and just five days after entering the employee benefits field, Leslie attended her first national conference—she was immediately “hooked” on the idea of business owners selling to their employees. Since then, she has dedicated her career to advising business owners on their succession options, specifically Employee Stock Ownership Plans (ESOPs). Today, as a multi-credentialed member of The ESOP Group, Leslie continues to work closely with business owners and their families. With more than 30-years of expertise, she and her team are uniquely qualified to assist clients on all aspects of tax, estate and retirement planning, asset allocation, insurance solutions, lending and strategic philanthropy. Leslie advises a number of corporate client relationships as well, providing them with cash management, executive compensation and captive insurance company asset management.

Family Office Consultant (FOC)

While Leslie’s extensive ESOP and corporate experience has helped differentiate her within the industry, she has expanded her work with family offices that could benefit from her investment and planning insight. Leslie is among a select group of Financial Advisors who have earned the UBS business designation of Family Office Consultant (FOC). She has undergone rigorous training to strengthen her knowledge and proficiency to help manage the investment, business, passion and legacy needs of sophisticated, ultra-high net worth clients and their families. Leslie understands the complexities of intergenerational wealth and the challenges faced by exceptional clients. She aligns their specific needs to the full suite of UBS capabilities to help them pursue their most important goals.

Industry recognition

- *Barron’s* Top 1,200 Financial Advisors, 2018 – 2021
- *Barron’s* Top 100 Women Financial Advisors, 2016 – 2021
- *Financial Times* 400 Top Financial Advisers, 2017, 2018
- *Forbes*, Best-In-State Wealth Advisors, Georgia, 2018 – 2022
- *Forbes* Top Women Wealth Advisors, 2020 - 2022
- *Forbes* Top 200 Women Advisors, 2017 – 2020
- *Forbes* Top 250 Wealth Advisors, 2021
- *REP*. and *WealthManagement.com’s* Top 50 Wirehouse Women, 2015
- *Barron’s* Top 100 Private Wealth Management Teams, 2021

Life

- Leslie and her husband, Bruce, reside in Columbus, OH and Los Angeles, CA.
- Her personal interests include traveling (46 countries and counting), golf, swimming and venture capital investing.
- Leslie is an active supporter of the Mid-Ohio Food Bank, the Leukemia & Lymphoma Society and the American Cancer Society.
- Leslie is an active board member of two 100% ESOP owned companies (Fleetwood Group and Intervine Inc.).
- She is an active instructor on ESOPs for the Exit Planning Institute, the Beyster Institute/ UCSD and the NY/NJ Center for Employee Ownership at Rutgers University.

About Nick Labbe



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The More Rewarding Way to Manage Risk

Nick is a surety specialist with Alliant's Construction Services Group in Boston. He has over thirteen years of industry experience having been a Senior Surety Underwriter prior to joining Alliant in 2013.

His responsibilities include managing bonding programs for many of New England's top heavy/civil contractors, general builders and subcontractors as well as several companies operating on national and international levels. His experience includes successfully facilitating numerous clients' surety programs through ESOP transitions.

Nick is involved with numerous local surety and construction industry associations and serves on multiple committees. He is a graduate of Providence College where he earned a Bachelor of Science degree in Business Management and minored in Finance.

Speakers



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Appendix

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ESOP: Recap of Benefits to Owners/Employees/Company

Benefits to Owner

- Defer/avoid capital gains tax on sale under § 1042
- Staged sale generally over 5 to 7 years
- Financeable transaction
- Retains some control during transition
- Real property kept in use
- Protect legacy in the community and reward employees
- Significant estate planning benefits

Benefits to Employees

- Retained job
- Gained control of career
- Received equity position
- Expanded capabilities
- Maintained community
- Job flexibility

Benefits to Company

- Increased cash flow as a result of tax savings
 - Future acquisitions can be structured to allow the seller to sell tax-free
 - Motivated management and employees who are now “owners”
 - Debt financing flexibility – seller note to previous owner
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Leveraged Transactions / Seller Notes and Warrants

Deal Value, Senior Debt (Bank) and Junior Debt (Seller's Notes)

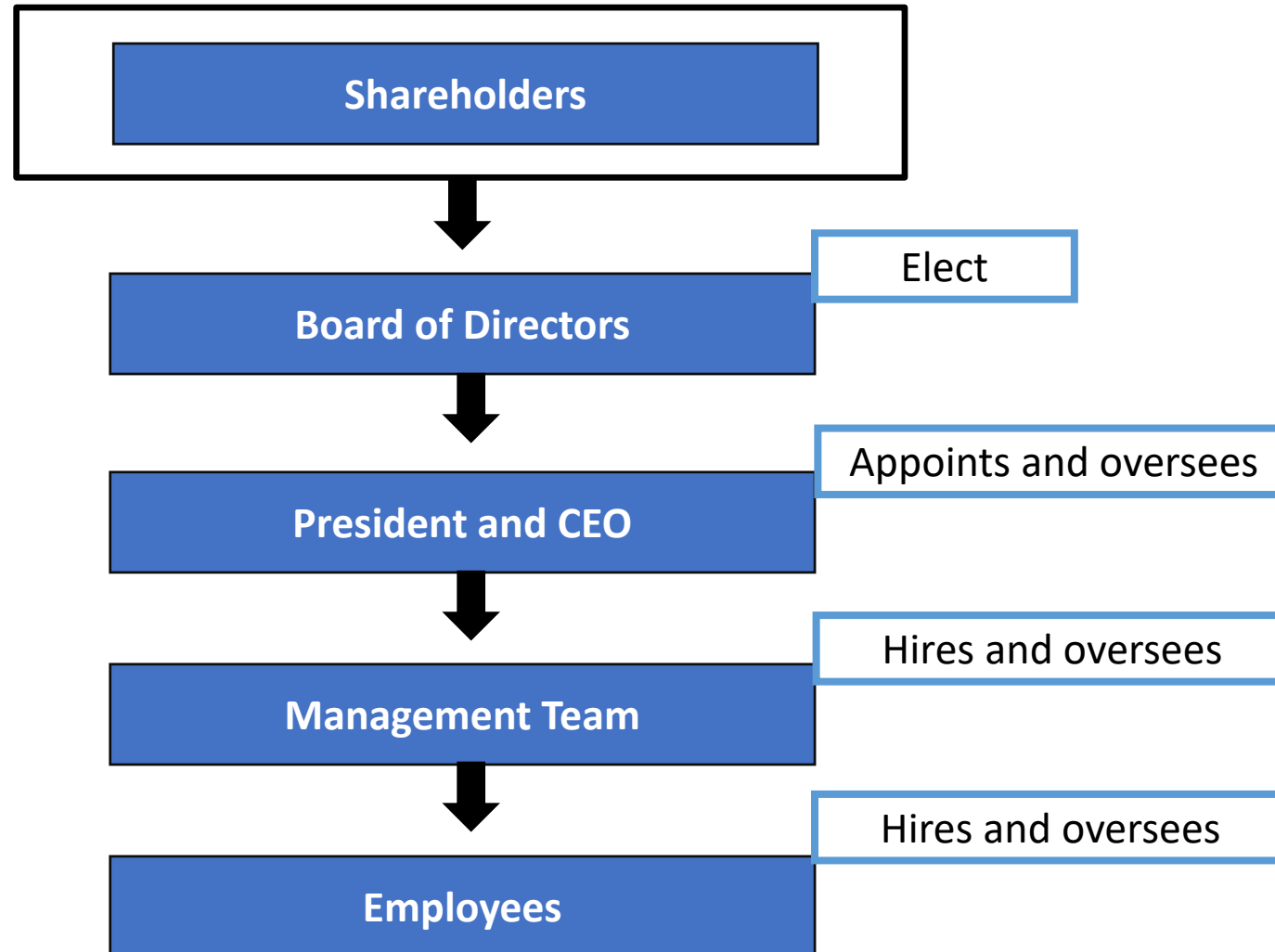
EBITDA	\$5,000,000
MVIC- Deal Value	\$30,000,000
Deal Multiple	6x
Bank loan multiple	2x
Bank Loan (senior debt)	Bank Loan (senior debt)
MVIC -Deal Value (above)	\$30,000,000
Bank Loan (senior debt)	10,000,000
Balance = Seller's Notes (junior debt) (a)(b)(c)	<u>\$20,000,000</u>

- (a) Seller's Notes are junior in priority to senior debt
- (b) Seller's Notes typically yield low coupon rates and is taxed at ordinary income tax rate
- (c) Market rates of return (yields) for Mezzanine Debt (akin to Seller's Notes) are typically 12-15% and taxed at capital gains rate.

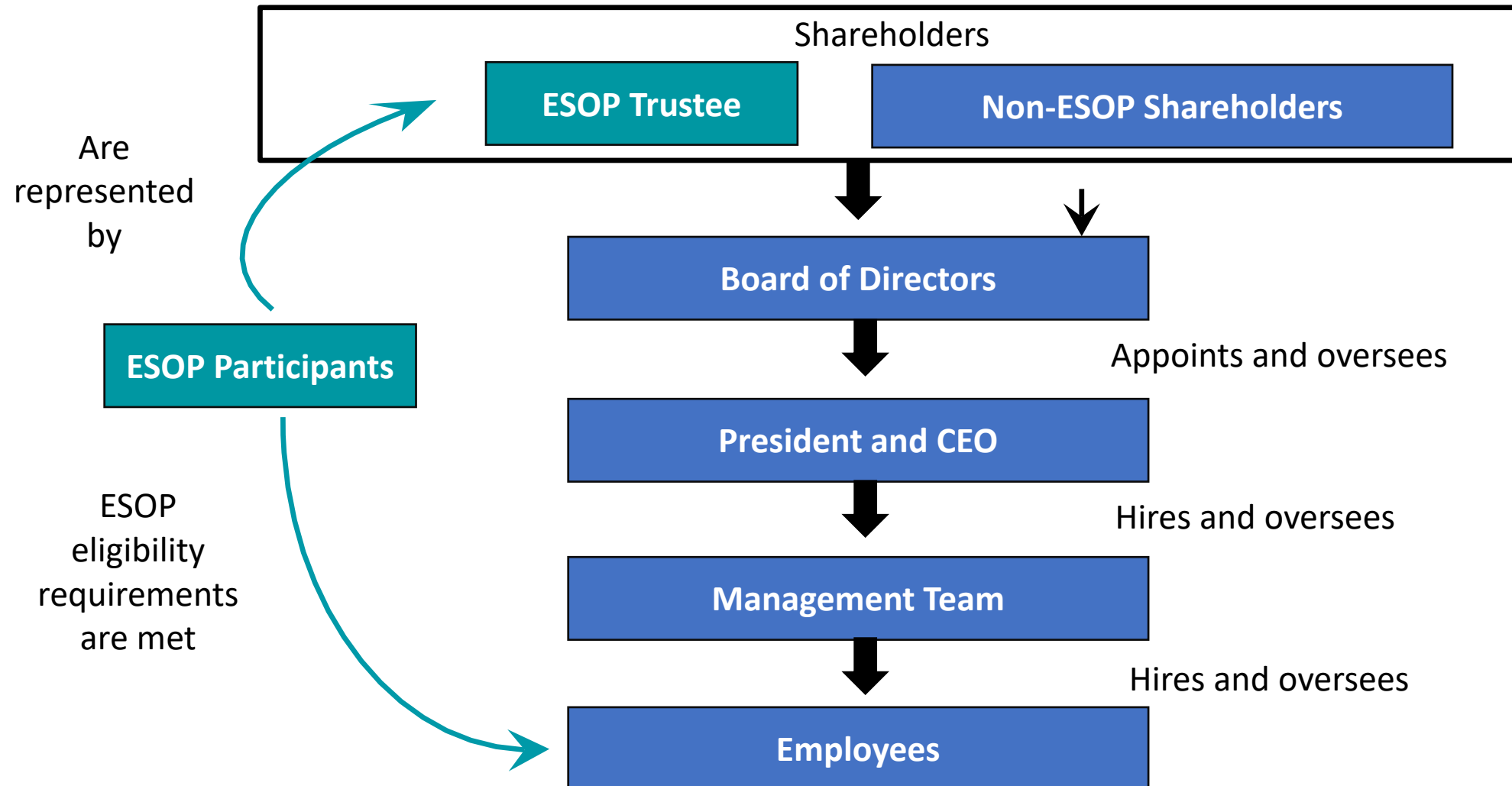
The purpose of warrants is to provide "synthetic equity to augment the overall return (through upside equity option) to selling shareholders for their risk, post-Tx.

Warrant value is ultimately dependent on future fair market value, aligning seller with other ESOP stakeholders

Corporate Structure: Pre-ESOP



Corporate Structure: Pre-ESOP



Dispelling ESOP Myths

- ESOP participants will be hurt by the post-transaction decline in stock value
 - This is simply false. The ESOP participants are “given” the company stock, AFTER the transaction, on a post-leverage basis.
 - As ESOP debt is paid down over time, all things held equal, value of the stock will increase over that same period. If company does better than expected, equity will increase at an accelerated rate.
 - The ESOPs dilutive effect on the value of the Company will not incentivize high-level and/or key employees
 - Alternatives may be considered at the time of the ESOP transaction
 - Stock Appreciation Rights
-

Dispelling ESOP Myths

- Being an ESOP requires management to have greater transparency, regarding financial statements, with its employees
 - Providing confidential financial statements is NOT a requirement
 - Annual benefit statements to ESOP participants is required
 - 401(k) plans are safer than ESOPs
 - According to DOL data between 1991 and 2010, ESOPs with over 100 participants outperformed 401(k) plans in 15 of the past 20 years
 - Maintaining an ESOP is not cost effective
 - In any liquidity event, professional fees will be incurred, whether an investment bank, PE firm, or by installing an ESOP
 - The annual tax savings to the Company typically far exceed the annual administration costs of an ESOP
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How to Prepare Your Company for Sale

1. Books and records
 2. Accounting system
 3. Accounting personnel
 4. Financial statements
 5. Cleanliness of transactions, piggy bank?
 6. Owner compensation and perks
 7. Cost v. benefit (investment to maximize sale value)
 8. What is a quality of earnings assessments?
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Advantages/Disadvantages - Comparative Analysis

	Sale of Company	IPO	Dividend Recap	ESOP
Shareholder Liquidity	100%	Typically zero to partial	Partial	Between partial and 100%
Valuation	Premium over market value	Stock is issued at discount to market value	N/A	No greater than Fair Market Value (FMV)
Certainty	Low	Low	Medium	High
Financing Risk Dependence on Favorable Market Conditions	Low	High	High	Low
Ownership Dilution	Typically 100% transferred to buyer	Typically 20%–40% dilution	Typically zero dilution	Typically 30%–100% transferred to employees through ESOP trust
Business Disruption	High	High	Moderate	Low
Employee Retention	Significant flight risk	Excellent retention incentive	Leverage increases operational risk	Superior retention incentive and increased productivity
Confidentiality	Low	Business strategy/key contracts publicly disclosed	Confidential information limited to potential lenders	Confidential information limited to potential lenders, trustees and valuation firm

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Information contained herein is of a general nature and plan sponsors should seek professional guidance from their tax and legal advisors before implementing an ESOP. Neither UBS Financial Services Inc. nor its employees provide tax or legal advice.

ESOP laws are complex; specific recommendations on courses of action are dependent on a thorough review of the facts and circumstances relative to a particular company and its shareholders. In particular, any use of ESOP assets is subject to ERISA's fiduciary standards and must be carefully reviewed in light of those rules.

In addition, shareholders who sell into an ESOP should understand the applicable rules of the Internal Revenue Code, including requirements for Qualified Replacement Property ("QRP"), and should also understand the potential risks associated with obtaining QRP including whether sufficient QRP will be available in the future, availability of QRP with features such as put options and whether diversification can be obtained from the available QRP. The foregoing is a general description of potential risks. Shareholders who sell into an ESOP must consult their tax and legal advisors regarding their personal circumstances.

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