



ARIZONA  
SMALL  
BUSINESS  
BOOT CAMP &  
COLLECTIVE

RESPOND → PLAN → RETURN STRONGER

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# Employee Ownership: A business succession strategy

PRESENTED BY

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project  
**{EQUITY}**



# Agenda



Project Equity and the work we do



Today's challenging environment



Challenges in exit planning



Employee ownership - benefits and how it works



Q&A



Business owner testimonial



# Meet Project Equity



## Miyaka Cochrane

Business Engagement &  
Partnership Manager

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We help owners of small & medium size businesses secure their companies' legacies by transitioning to employee ownership.

This process sustains high-quality jobs, keeps businesses rooted in their local communities, and provides selling business owners with a fair price and a viable succession.

# Employee ownership

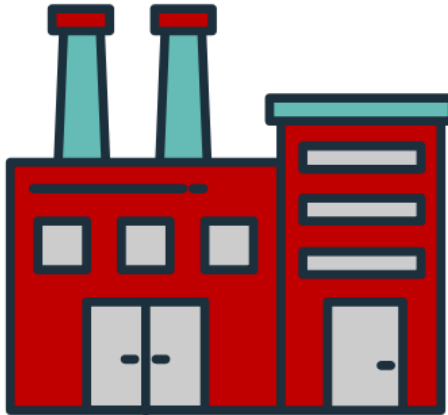
creates stronger businesses and stronger communities

## Profit margins



**8.5%** higher than peers

*Democracy at Work Institute*



## Sales and employment



Grows **2%** faster per year

*National Center for Employee Ownership*

# Unique benefits of employee buyouts



Owners can achieve  
a market rate sale



Median **job tenure is longer**  
(>50% in one study)



Employee household  
**net worth is higher**  
(almost double in same study)

*Based on a 2017 study from the National Center for Employee Ownership*

# Poll: Where are you with exit planning?

1. Just thinking about it
2. Looking to exit ASAP
3. Seeking liquidity, and exit later on
4. Exiting in the next 2-5 years
5. Exiting in 5+ years
6. Exit? I'll never stop working!



# Today's challenging environment

# Project Equity's Mission



We foster economic resiliency with low-income communities and communities of color by demonstrating and replicating strategies that increase worker ownership.

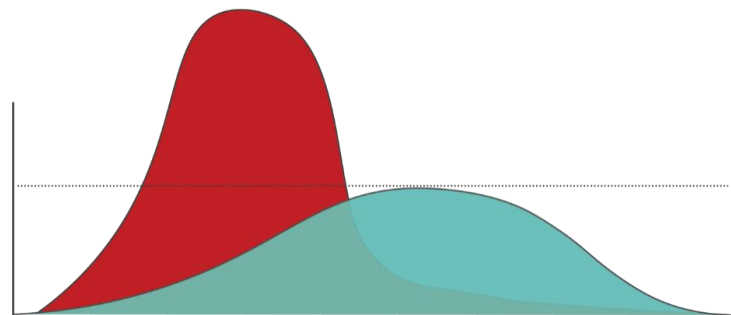


# Working people are not economically secure

- Small businesses employ 47% of the workforce and have **only 27 days of cash available** on average.
- In Arizona, as of May 2020, the number of hourly employees in small businesses **decreased by 34.9%** compared to January 2020.
- Also in Arizona, as of May 2020, there are **245,000 unemployed claims**.

## COVID-19

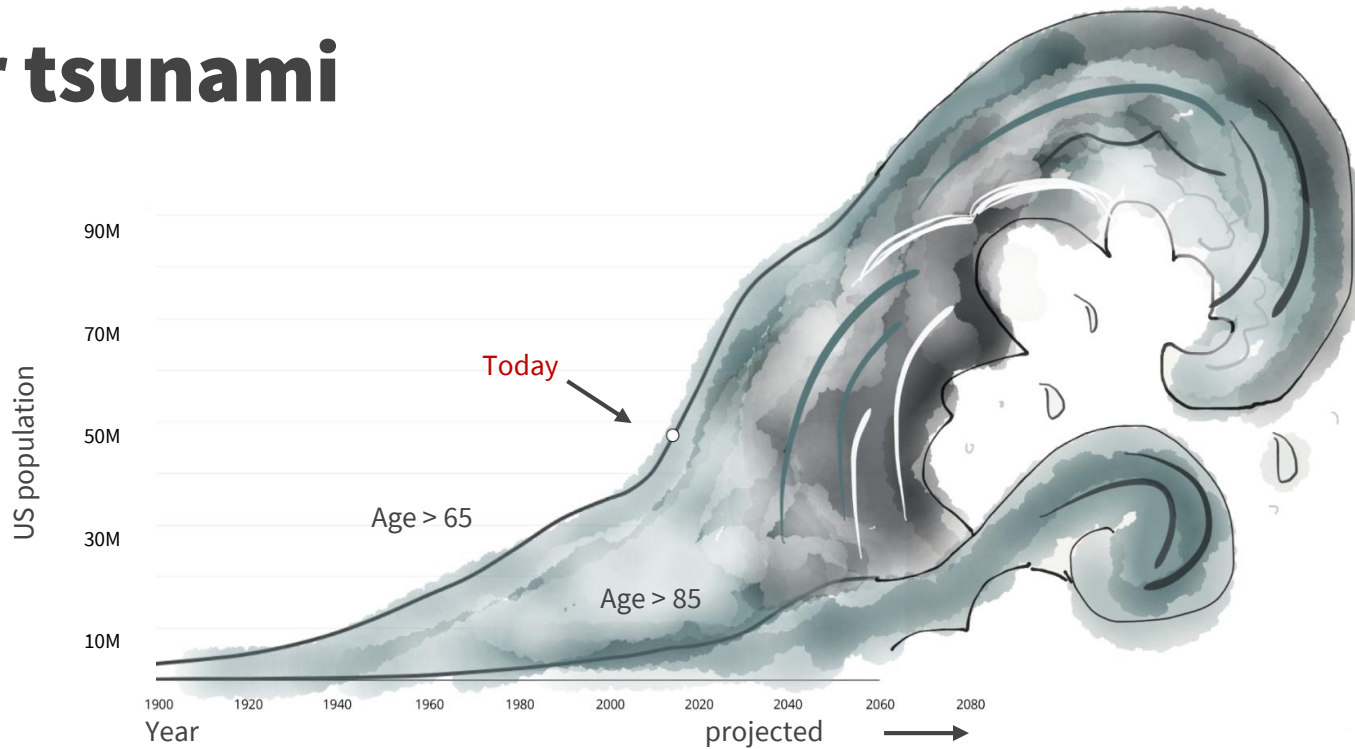
Puts additional pressure on the workforce



*Based on a 2016 study by JP Morgan Chase and data from Opportunity Insights Economic Tracker, 2020*

# Businesses are at risk as baby boomers retire

## Silver tsunami



Original image from University of Scranton Journal Fall 2016 | Data source: Older Americans 2016 Key Indicators of Well Being, [agingstats.gov](https://agingstats.gov)

# Businesses are running out of runway

Employee ownership can lead the charge to create a new economy



Support business continuity through the crisis.



Provide favorable financing that supports business success post COVID-19.

# The need for succession planning in Arizona



More than **25,000** businesses in Arizona are over **20 years old**

(Phoenix Metro Area = 20,043)  
(Tucson Metro Area = 5,198)



These businesses employ over **2.6 million workers**

(Phoenix Metro Area = 2,210,000)  
(Tucson Metro Area = 439,775)

*According to a Project Equity study. Measurements indicate total businesses included in the study and do not include nonprofits, publicly traded companies, franchises, public sector and related companies.*

# Selling a business isn't easy



Only **20%** of  
businesses sell

# Selling a business isn't easy



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businesses sell



About **15%** transition  
within families

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










**1 in 5** businesses  
are at risk of closing

**Employee ownership is a great solution**



# Understanding your succession options

Options	 Preserve legacy	 Market value	 Tax benefits	 Retain employees
Sell to family members				
Acquisition				
<b>Employee ownership</b>				
Close down operations				

# Employee ownership transaction

## ABC company

Revenue: **\$4 Million**

EBITDA: **\$330,000**

Valuation: **\$1 Million**

Transaction price: **\$1 Million**

	Initial liquidity 60% of sale price	Seller note 40% of sale price	Earnout ***	Interest financing *	Tax savings	Total financial benefit
High scenario	<b>\$600,000</b>	<b>\$400,000</b>	<b>\$130,000</b>	<b>\$43,967</b>	<b>\$90,000**</b>	<b>\$1,263,967</b>
Low scenario	<b>\$600,000</b>	<b>\$400,000</b>	<b>-0-</b>	<b>\$43,967</b>	<b>-0-</b>	<b>\$1,043,967</b>

\*Assumes 3% interest rate and 7 year term on seller's note.

\*\*Assumes all \$600K reinvested in a QRP and 15% Capital Gains rate.

\*\*\* Earnout calculated over 3 years at best case revenue growth scenario (3.3% per year). Seek legal and tax advice to assess this option.

# The Project Equity CHALLENGE

# Quiz question #1



## TRUE OR FALSE?

Selling to employees requires accepting a lower selling price.



## FALSE!

Seller receives market value, based on a business valuation.

# Quiz question #2



## TRUE OR FALSE?

Employees are going to have to “foot the bill.”



## FALSE!

Employees are not obligated to finance the transaction. Usually it is completed through a leveraged buyout.

# Quiz question #3



## TRUE OR FALSE?

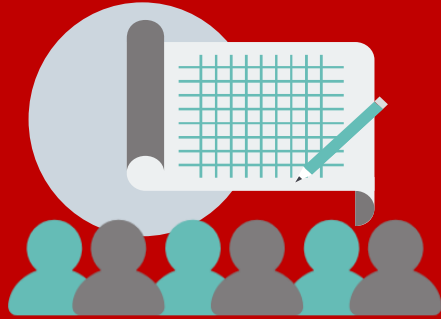
Owners can remain involved in strategic direction after they sell.



## TRUE!

Selling owners have many options to stay involved in the business.

# Quiz question #4



## TRUE OR FALSE?

All employees will be managing the business equally.



## FALSE!

Management would be in place to ensure a robust operational structure.

# The advantages



**Market value sale** - Seller receives value based on a business valuation



**Delivers significant tax advantages** - Owner and business benefit



**Owner controls process** - Owner drives the sale, timing and process



**Supports flexible financing** - A leveraged buyout allows for flexibility



**Strengthens local economies** - New employee-owners build equity, preserve business legacy and keep money in the local economy



# The Employee Ownership Transition Process

Brought to you by Project Equity

## STEP ONE Explore the fit

Are you curious to learn more about Employee Ownership?



## STEP TWO Assess the feasibility

Is Employee Ownership a solution for you and your business?



## STEP THREE Transition

How will the employee-owned business work?



## Close the sale

Are all the T's crossed and I's dotted?



## STEP FOUR Thrive

How does the employee-owned business flourish?



# Project Equity provides capital for transitions



Launched in partnership with a national CDFI, Shared Capital, in 2019. Our capital program brings together tailored financing with expert guidance and hands-on technical assistance to enable successful long-standing businesses to transition to employee ownership and create and sustain quality jobs.

*This initiative was seeded with an investment from the Quality Jobs Fund, a project of the New World Foundation, itself seeded by the Federal Home Loan Bank of San Francisco.*

# Summary

## Employee ownership is a solution



Business owners get a fair market value exit



Employees enter a pathway to ownership



Preserving community businesses & jobs



Creating a more inclusive economy



# Readiness factors for employee ownership



## **Profitable company**

In good financial health for the past 3+ years



## **10-20+ employees**

Grows a strong team and expands access to equity



## **Proven track record**

Years of experience, not a start-up



We offer  
**FREE**  
business  
advisory calls!

To learn more about  
employee ownership  
visit

[PROJECT-EQUITY.ORG/AZ](https://PROJECT-EQUITY.ORG/AZ)

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