

Business Resilience & Succession Planning Through Employee Ownership

April 30, 2025



North Carolina Employee Ownership Center



NCEOC is a nonprofit organization providing free education, advice and mentoring about different employee ownership models and their benefits.

We serve as the central hub for information on employee ownership in NC.



Illa Burbank

- Executive Director, NCEOC
- Commercial Loan Analyst and Small Business Lender
- Sheet metal prototype manufacturing: start-up to president
- ESOP conversion and board experience



Pamela Colley

- Senior Public Affairs Manager for Schweitzer Engineering Laboratories, a 100% employee-owned manufacturer
- 15 years of policy, advocacy, and outreach experience
- Member, NCEOC Board of Directors



Services Provided by NCEOC

- No cost to businesses and trusted advisors
- Education & Outreach (Webinars, Exhibits, Meetings...)
- Training & Events
- One-on-One Business Advising
- Referrals to professionals to make it happen
- Research & Policy



Turn a Threat into Opportunity | Silver Tsunami

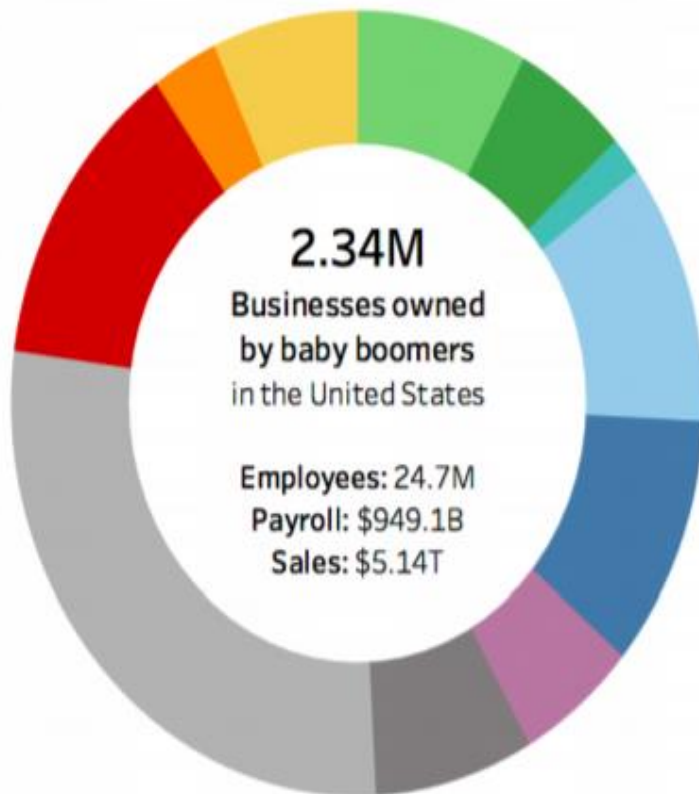
THE SMALL BUSINESS CLOSURE CRISIS



BABY BOOMERS
OWN ALMOST
HALF OF ALL
PRIVATELY-HELD
BUSINESSES
IN THE US.

6 out of 10 business owners plan to sell their business in the next decade.

As most retire, our local business landscape is about to go through a dramatic shift.



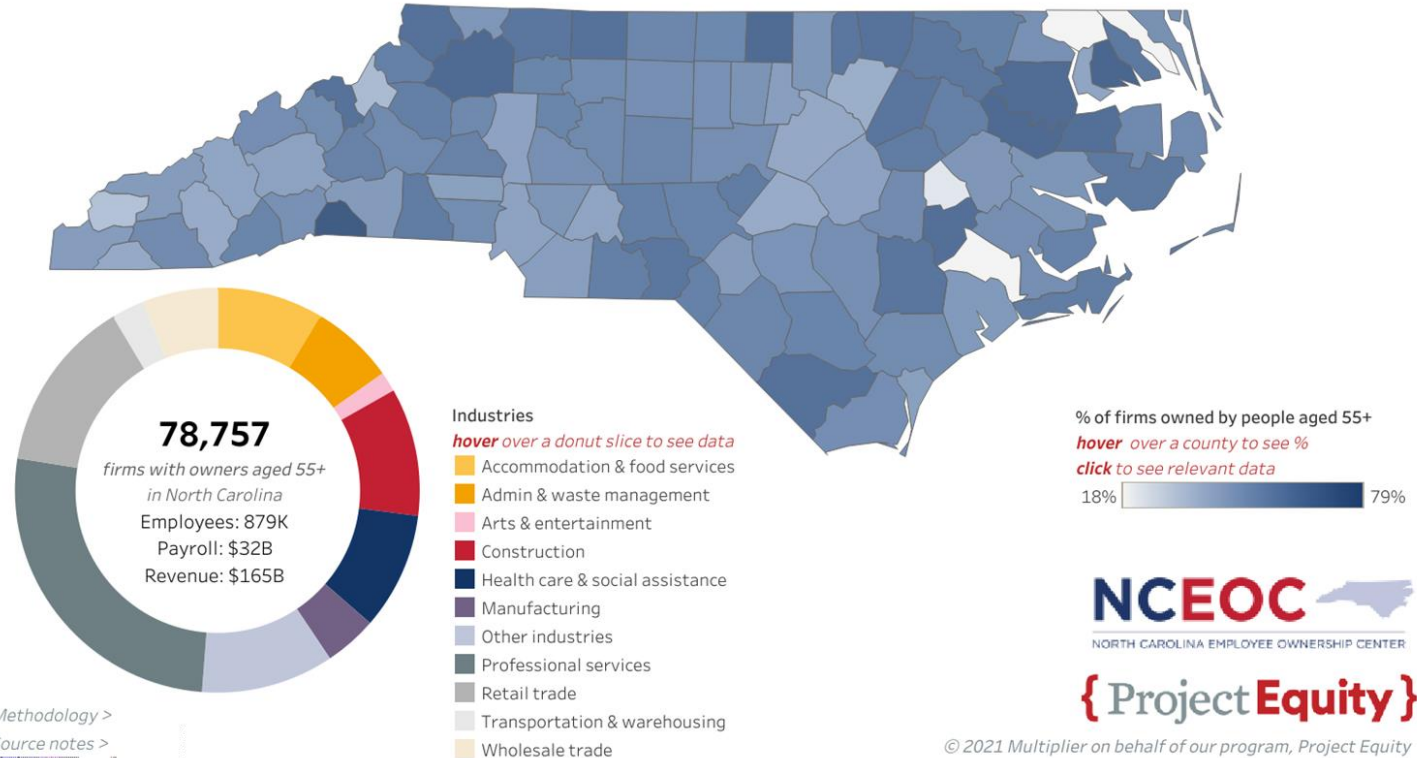
Industry

- Accommodation & food services
- Admin & waste management
- Arts & entertainment
- Construction
- Health care & social assistance
- Manufacturing
- Other industries
- Professional services
- Retail trade
- Transportation & warehousing
- Wholesale trade

project
{EQUITY}

Threat → Opportunity

Baby boomers own half of the privately held businesses with employees in North Carolina



Other reasons to convert to Employee Ownership

- Partial sale to invest in another entity
- Gradual transition
- Give back to employees
- Maintain legacy
- Employee Ownership should not be “last resort”

Succession Planning

A plan for someone to own or run your business after you retire or exit

- 1/2 of all small business owners do not have a succession plan
- An exit strategy is not always about retirement
- 5Ds – Death, Divorce, Disability, Disagreement, and Distress



Succession Planning

- Start early
- Identify options
- Identify & train successors
- Plan for tax exposure
- Get legal advice
- Get financial advice



Succession Planning Options

- Family members
- Management buy out
- Outside purchaser
 - Supplier
 - Customer
 - Competitor
 - Investor/private equity firm
- Brokers (only 20% sell)
- Closing down the business
- **Employee ownership**



Employee Ownership

Employees collectively own a percentage of the business





ENGINEERS



Employee Ownership Benefits

- Preserve **legacy**, jobs, community impact
- **Reward employees** who helped build the company
- Potential **beneficial tax** treatment
- 8-10% better **performance**
- greater employee **retention** rates
- Employee **Engagement**
- Culture of **Innovation**
- Treat employees well and they'll treat customers well

Employee ownership creates high quality jobs



Median wage income is
33% higher



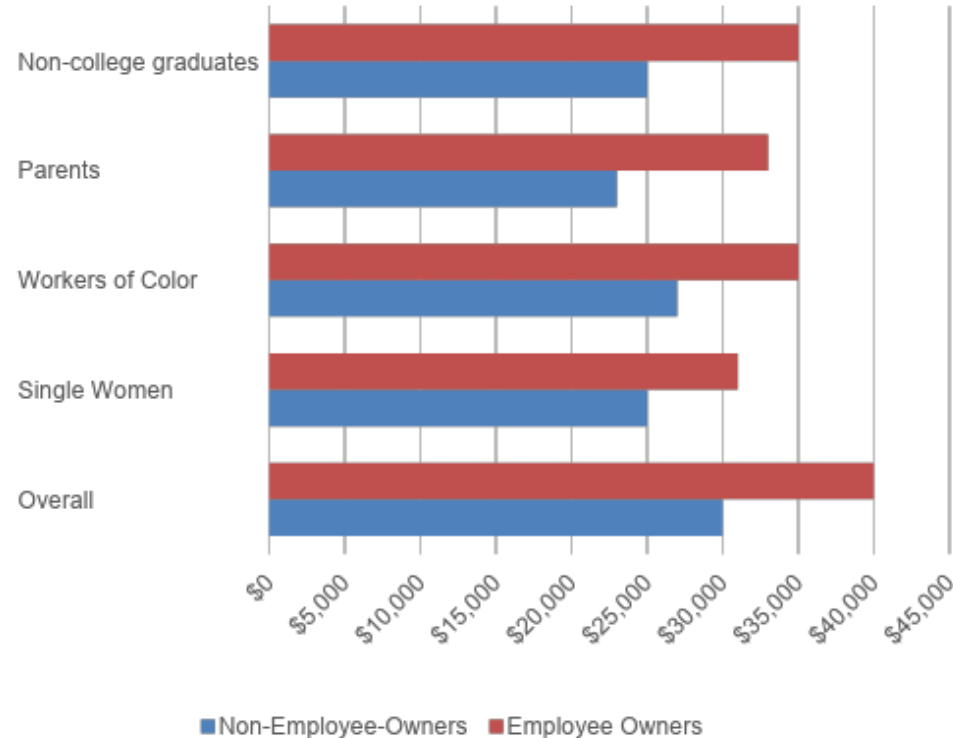
Median job tenure is
53% longer



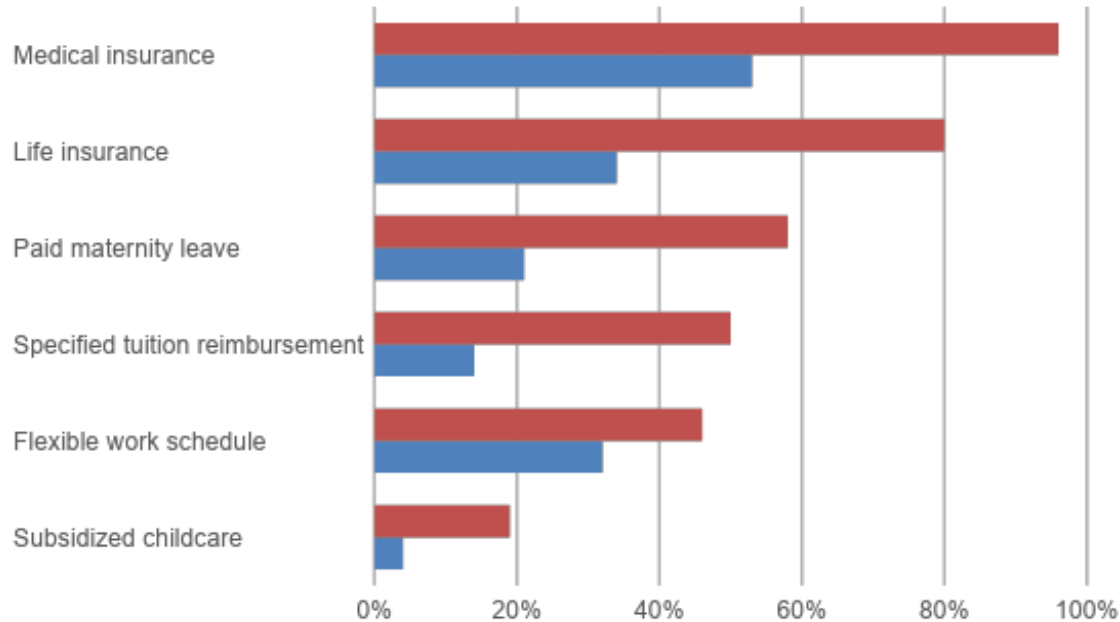
Household net worth is
92% higher

Based on a 2017 study by the National Center for Employee Ownership

Better Pay-Median Wage Income is 33% higher



Better Benefits



■ Non-Employee-Owners ■ Employee-Owners

Community Impacts of Employee Ownership

Triple win for the selling owner, workers, and the community

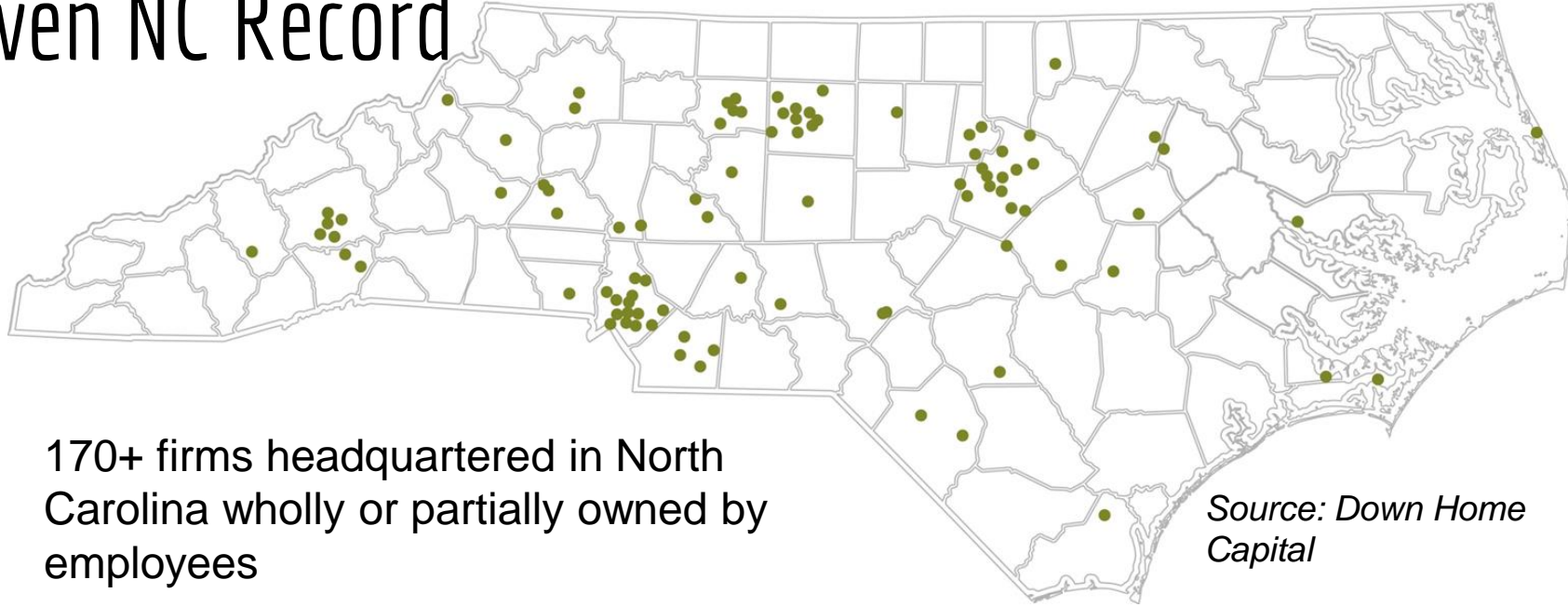
- Owner gets **fair market value** for their business
- Worker-owners build wealth
- Jobs stay rooted in the local community

Considerations for Selling to Employees

- Privately owned
- Profitable with good cash flow
- Experienced advisors are available
- Tax benefits for owner(s) and company
- Business growth and resilience
- Increasing employee recruitment and retention



Proven NC Record



Source: Down Home Capital

- 170+ firms headquartered in North Carolina wholly or partially owned by employees
- 21,500+ current and former employees benefitting

Types of Employee Ownership

- **Employee Stock Ownership Plan (ESOP)**
 - 6,533 ESOPs in U.S.
 - 14.7 million participants
- **Worker Cooperative**
 - 751 worker cooperatives in U.S.
 - 15,000 participants
- **Perpetual trust/Employee Ownership Trust (EOT)**
 - About 50 in U.S.

Employee Stock Ownership Plan (ESOP)

- A **trust** is formed, which can borrow funds, to **buy** the selling shareholder's shares of company **stock**
- Shares are **allocated** to individual employee accounts that **vest** over time
- Employee shares are **cashed** in when employees **retire** or leave the company
- Significant **tax benefits** for both selling shareholder & ESOP companies



Schweitzer Engineering Laboratories (SEL)

Our mission:

Making Electric Power Safer, More Reliable, and More Economical

What we do:

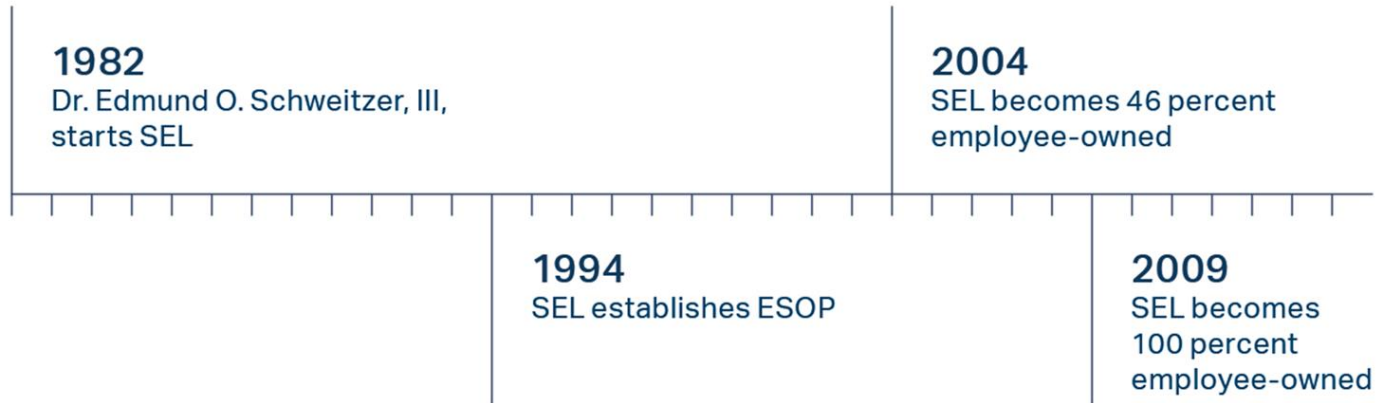
SEL invents, designs, sells, manufactures, and supports products and services for the electric power industry and other critical infrastructure.

Who we are:

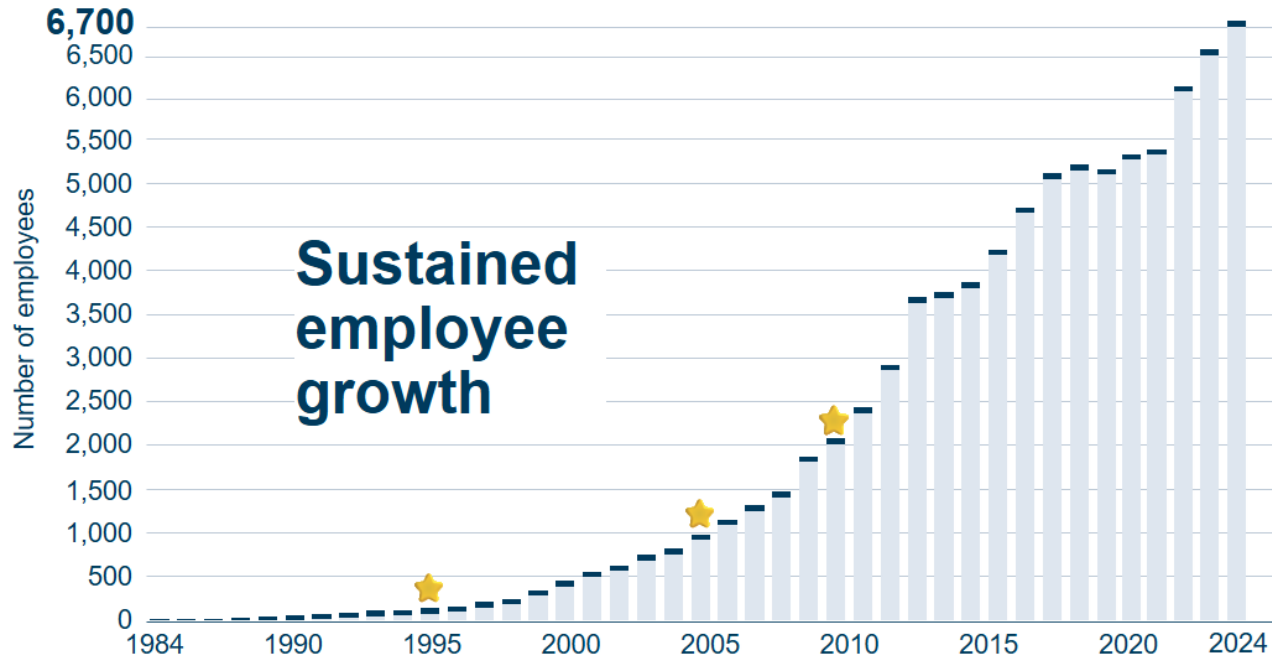
We are a global company with 6900 employees spread across American 5 electronic device factories and 100+ sales and support facilities around the world.



Schweitzer Engineering Laboratories (SEL)



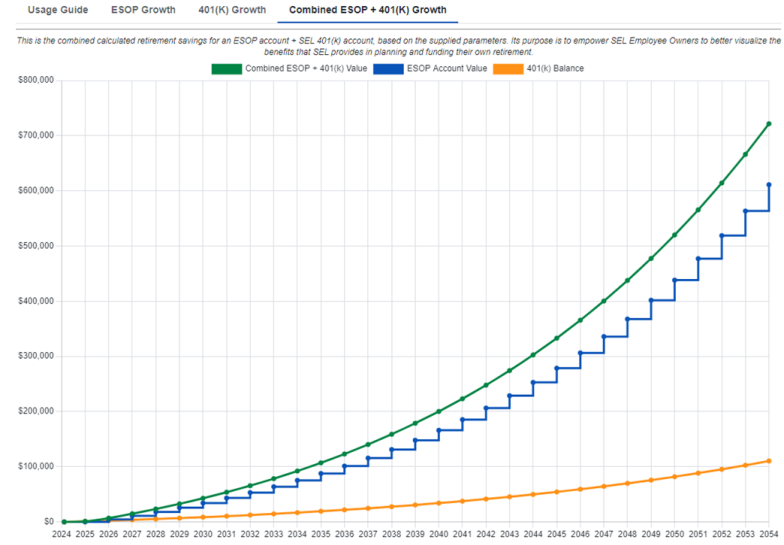
Schweitzer Engineering Laboratories (SEL)



Schweitzer Engineering Laboratories (SEL)

SEL ESOP Overview: Education is Key

- **1 year:** ESOP Plan Entry and Orientation
- **6 years:** 100% Vested in ESOP
- **10 years:** ESOP Diversification
- Strong Internal Communications
- Internal Retirement Resource Page
- Retirement Ambassadors
- ESOP introduction in New Employee Orientation
- Exit interview with ESOP counseling



Schweitzer Engineering Laboratories (SEL)

Don't take my word for it...

"The ESOP provides a financial incentive to stick to our corporate values, provide superior solutions to our customers, and grow the long-term value of the company."

Bob, SEL retiree

"I was able to retire early at 54 because of employee ownership."

Nancy, SEL retiree

"I have been very satisfied with the performance of our ESOP. As we [SEL] make various business decisions, you can visualize the impact to our ESOP and quickly realize its effectiveness in our annual summaries. This direct correlation is powerful in seeing how my professional contributions are

helping to make my personal financial goals for retirement more attainable and realistic. Unlike other private retirement plans, the ESOP is something we, the employees share with greater rewards which transcend most market uncertainties."

Lew, employee owner since 2009

"As an employee owner, I appreciate working for a stable, caring company. We are making a difference beyond electric power!"

Katie, employee owner since 2006

"The career opportunities at SEL have turned my life around, and with the ESOP, I am now looking at being able to retire with a secure financial future."

Sara, employee owner since 2008

ESOP Considerations

- For a C Corp, the selling shareholder can defer capital gains taxes indefinitely if they sell at least 30% of the company's shares to an ESOP.
- If the company is an S Corp, whatever portion of the company is owned by the ESOP (if it is 30% or greater) pays no federal or state corporate income tax
 - 100% ESOP owned S Corps are tax exempt
- Can boost company performance
- Best for companies with 40 or more employees and strong cash flow
- Highly regulated with significant administrative costs, including annual valuation

Worker Cooperative

- A business entity (corporation, LLC, trust) owned and controlled by its members
- Governed by bylaws: how members join or leave the co-op and how profits are distributed
- One member, one vote
- Shared equity rights and democratic governance



Co-op Considerations

- Potential tax advantages for selling to co-op
- Good fit for smaller companies (fewer than 10 employees)
- Works well with highly motivated employees who know the business
- Fewer hurdles than an ESOP (no annual valuation, etc.)
- Employee voice
- Cost to employee to buy in (can be deducted from paycheck)
 - Shares could cost \$100-5,000

Employee Ownership Trust (EOT)

- A relatively new form of employee ownership common in the UK
- A trust holds shares of the company
- Annual profit sharing at direction of the trust (income, retirement, other)
- EOT is not a regulated retirement plan



Employee Ownership Trust Considerations

- Allows company to remain employee **owned in perpetuity** if desired
- Not regulated by ERISA
- **Low administrative costs**, no annual valuation
- No favorable tax treatment
- **Flexible**: current profit sharing/retirement/other
- Allows for (but does not require) employee voice similar to a co-op

ShopBot Tools

- Small manufacturer based in Durham, NC with 35 employees
- Implemented open book management first
- Company to buy out founder and other shareholders over time via an Employee Ownership Trust (EOT)
- Broad-based profit sharing



COMPARE FEATURES



EMPLOYEE STOCK
OWNERSHIP PLANS
(ESOPS)



WORKER-OWNED
COOPERATIVES



EMPLOYEE
OWNERSHIP
TRUSTS (EOTS)

SUITABLE COMPANY SIZE	40+ employees, \$1 million+ EBITDA	Any size	Any size
TAX BENEFITS TO SELLING OWNER	✓ Can opt for §1042 deferral of gains	✓ Can opt for §1042 deferral of gains	No
TAX BENEFITS TO EO BUSINESS	✓ S Corp tax avoidance	✓ Tax deduction for patronage	✓ Tax deduction for profit-sharing
SETUP AND ONGOING COSTS	High	Low	Low
FLEXIBILITY OF MODEL	✓ Within ESOP parameters	✓✓ Within coop parameters	✓✓✓ Highly flexible
EMPLOYEES BUY THEIR SHARES	No	✓	No
EMPLOYEE ROLE IN STRATEGIC DECISION-MAKING	Optional	✓✓✓	Optional
PARTIAL EO TRANSITION	✓	✓	✓
PROFIT-SHARING BUILT IN	No	✓	✓

Phased Transitions

- Can start with selling up to 49% to employees and holding on to 51%
- Allows time for employee training and education
- Smaller financing amounts decrease the burden on the bottom line

Initial Questions For Business Owners

- Where do you see yourself in 5-10 years?
- Where do you see your business in 5-10 years?
- Do you have family interested in taking over the business?
- Do you have employees interested/able to take over the business?



Evaluate Your Business

- Strong profits?
- Solid customer base?
- Attractive industry?
- Good location?
- Assets in good shape (facility, machinery, inventory)?
- Good supplier relationships?
- Business reliant on your skills?
- Require certifications?
- Healthy balance sheet? (retained earnings, low debt, collectable A/R)



Learn & Prepare

- Learn about the options
- Talk to other companies that have gone through a similar transition
- Decide on the timeline
- Ensure your financials are in order



Evaluate & Plan

- Conduct a feasibility study
- Conduct a valuation
- Consult an attorney
- Get tax advice
- Obtain funding



Train & Communicate

- Train successors
- Transition key customer and supplier relationships
- Communicate the plan to employees



Upcoming NCEOC Events

- <https://nceoc.org/events/>
- **Webinar Series with Small Business Center Network**
 - May 15 (EOT), August 19 (ESOP), and November 13 (Co-op) at noon
 - Hear from business owners who chose each form of employee ownership
- **Employee Ownership Ambassador Program**
 - Four week cohort in June Tuesdays 2-3pm
- **Ownership Matters: Employee Ownership & celebration in NC**
 - When: 4:00-6:00 pm, October 16, 2025
- **ExitPro 101 Continuing Education Training for Exit Planning Professionals**
 - Dates TBA

Questions/Discussion



Services Provided by NCEOC

- Education & Outreach
- Training & Events
- One-on-One Business Advising & Referrals
- Research & Policy

Contact Us

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Resources

- *Finish Big*, Bo Burlingham
- *How to Run Your Business so You Can Leave it in Style*, John H. Brown
- North Carolina Employee Ownership Center, <http://www.nceoc.org>
- The Industrial Commons, <https://theindustrialcommons.org/>
- Mountain BizWorks Market Advisors (TA, valuations & financing), <https://www.mountainbizworks.org/market-advisors/>
- National Center for Employee Ownership www.nceo.org
- The ESOP Association, <https://www.esopassociation.org/>
- Family Business Institute, <https://www.familybusinessinstitute.com/>