

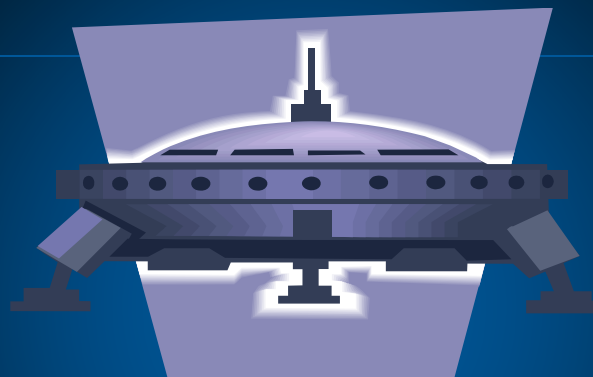
THE CASE FOR COMMUNITY BASED PROMOTION OF EMPLOYEE OWNERSHIP

Part 1 – A History to Live Up To

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UCSD



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Where Did ESOPs Come From?

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Employee Ownership is in Our DNA...

- **The Birth of our Nation: USA – something's Fishy**

- **Primary Industry in the Colonies?**
 - Cod Fishing for Oil
 - Or in dried form as a portable rugged food source (mostly for slaves and seamen)
- **The Cod fishing fleet became the Navy of the New Republic.**
- **U. S. Fishing Fleet Nearly Destroyed by The British Fleet**



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What Our Founders Did to Rebuild...

- **Some Pretty Modern Solutions:**
 - Tax Incentives
 - Subsidies for the Industry
- **Not so Modern Application**
 - 3/8 to the owners of ships
 - 5/8 to the crews



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From There...

- 19th Century – Land = Wealth
- Late 19th, Early 20th Century – Development of Industrial Base.
- Workers leave the land and move to cities.
- Work-life and self-identity disconnect.



How to keep people engaged and profitable?

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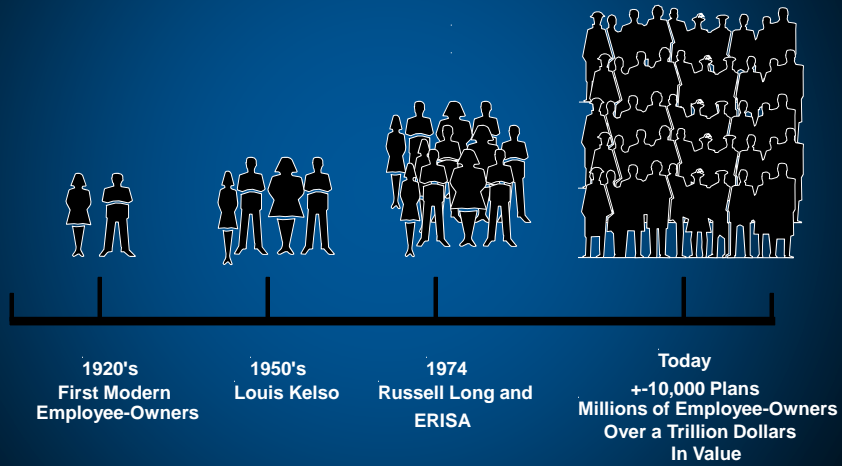
A Range of Solutions...

- Some Solutions Appear
 - Unions
 - Non-Cash Benefits
 - Some Profit Sharing
 - Violence
- Enlightened Companies Seek to Keep Connection through ownership and engagement
 - Procter and Gamble
 - Sears Roebuck
 - Minnesota Mining and Manufacturing



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20th Century: Modern Employee-Ownership



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How Does It Work?



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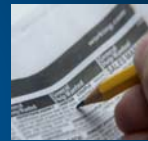
What's the Score?... (NCEO Research)

| Type of Plan: | Number of Plans: | Total Participants: | Employer Stock Held: | Total Assets: |
|------------------------|------------------|---------------------|----------------------|-----------------------|
| Standalone ESOPs: | 5489 | 1.66 million | \$102.9 billion | \$115 billion |
| KSOPs: | 1306 | 12.26 million | \$159.4 billion | \$1.12 trillion |
| Total Literal ESOPs: | 6795 | 13.9 million | \$262 billion | \$1.23 trillion |
| Other ESOP-like Plans: | 2528 | 1.18 million | \$22.2 billion | \$64 billion |
| Total: | 9323 | 15 million | \$284 billion | \$1.3 trillion |

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More Recent Research – Message is the Same!

- **Sampling Recent Research from NCEO (Kellogg Foundation Grant)**
 - ESOP creates median net worth 92% higher than non-ESOP employees
 - ESOP Companies Pay 33% better median salary
 - Employee Owners have median tenure 53% longer than others
- **NBER Data Show:**
 - The Extent of employee ownership is persistently linked to healthier county economies along lines of employment and income stability.



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Employee Ownership and Community Health

- Research on the specific influence on communities is in progress (interrupted by a stint on Bill Diblasio's ED team),
- Initially Strong Positive Suggestions:
 - The Extent of employee ownership is persistently linked to healthier county economies along lines of employment and income stability.
 - ESOPs are positively linked at the county level to increased employment in the three fastest growing industries and to median household income.



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Previous Findings Support This

2013 General Social Survey

- 12.1% of respondents lost jobs
- but only 2.6% of employee-owners

Translated into community impact...

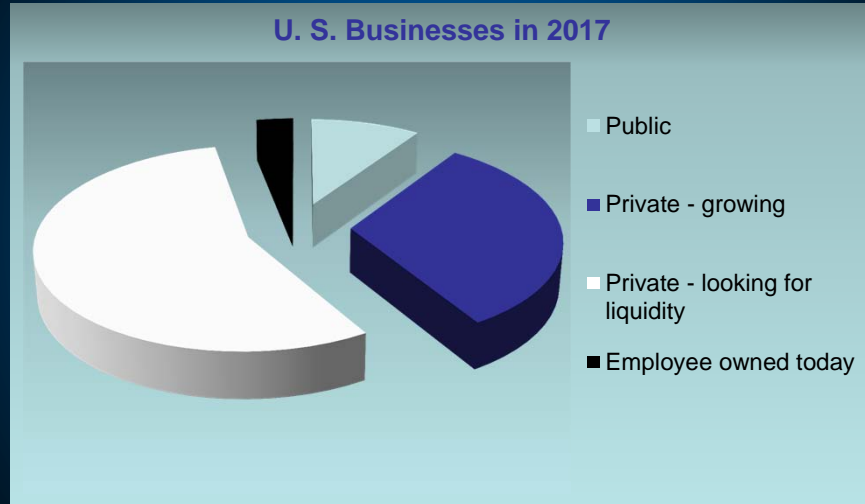
- ... without employee ownership, **1.8 million more jobs** would have been lost
- ... a benefit in federal tax revenues of **\$14 to \$23 billion** per year

You are a big part of the Picture!



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So, Where do Employee Owners Stand?



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Business Succession Challenges 2017

- The vast majority of U. S. wealth is not in a liquid form.
- Public Markets continue to represent a relatively small percentage of the wealth in the U. S. (or the World, for that matter) and is consolidating rather than expanding.
- Illiquid, closely held assets are hard to value and even harder to access.
- Within the next several years, a large percentage of the corporate wealth in the U. S. will change hands as the Baby Boomers Retire.
- How will all that Play Out?

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The Challenge Gives Us an Opportunity!



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Closely Held Business Alternatives

- Some may be handed down to future generations,
- Some may be large enough to go public,
- Some may be attractive to synergistic buyers for high multiples,
- Some may be attractive to financial buyers, but
- **Many may just wind up being liquidated!!!**

A Better Alternative for All of Us:

- Partner with employees. Sell the company to the employees for full fair market value using an ESOP!

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Whats the difference?

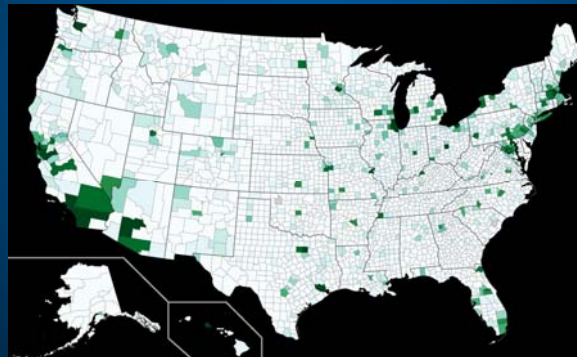
- If we just let the process go:
 - Private Equity, Financial Investors
 - Ever Larger “too Big to Fail” Companies
 - Liquidation (the real disaster)
- With Our Best Effort and Outreach
 - 40,000 to 50,000 Employee Owned Companies or more
 - Millions of better off, more secure citizens
 - A much healthier U. S. overall



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The Impact (+ or -) Will Be Massive!

Research on several fronts is beginning to paint a clear picture of the impact of employee ownership to our communities.



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CCEO Mission

- The California Center for Employee Ownership is a project of the Rady School of Management at UCSD, in cooperation with many other state and regional centers around the country. Our goal is to be sure that as the owners of closely held businesses around the State approach their retirement, they have a full understanding of all the options available to them to create liquidity for themselves as they retire and to leave a business legacy of which they can be proud. We pick up where most of the M & A firms leave off: with the idea that many times, the best market for a closely held business will be its own employees.

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Our Partners

- A Growing Number of State and Regional Centers (Rocky Mountain, Indiana, Ohio, Vermont, New York/New Jersey, Pennsylvania, and more coming all the time)...
- National Center for Employee Ownership
- The ESOP Association (Chapters and National)
- Employee Ownership Foundation
- An Engaged Professional Community, and

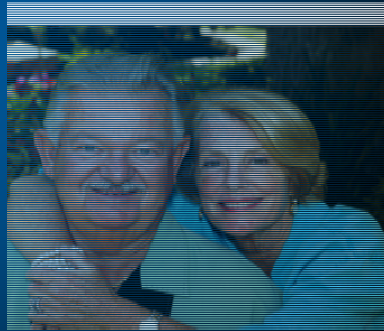
• YOU!

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Who Are We Looking For?

- High net worth individuals,
- Significant wealth in a closely held company,
- Other substantial but largely illiquid assets,
- No real long term transition planning done,
- Limited or incomplete estate planning.

SOUND FAMILIAR???



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Our Outreach:

- With the help of existing ESOP Companies, reach out to:
 - Civic Organizations (Kiwanis, Chambers of Commerce, City Economic Development Offices; Local business alliances; etc.
 - Framers of public policy (county and city supervisors, local professional organizations, etc.
 - Educational Institutions (University business schools, licensing groups, local trade associations (like CAWS) (etc.)



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CCEO 2017 Business Model:

- Develop scalable programs that can be offered to our Audience through their affiliations.
- Engage with existing ESOP Companies in the Effort:
 - Our Board of Directors comprises Chief Executives of EO companies spread from Truckee to San Diego.
 - They will be supported by Ambassadors for Employee Ownership throughout the region
- Make our Case to as Many of our Target Audience as Possible as often as possible.

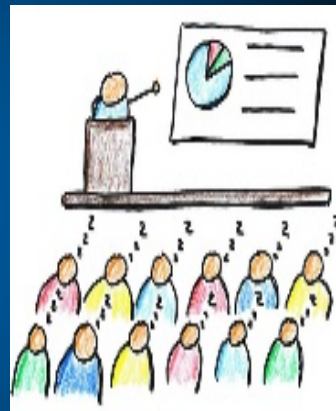
Knowledge
is
power!



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Our Target Avenues of Development...

- Civic Organizations,
- Chambers of Commerce,
- Business Networking Groups,
- Business Schools,
- Universities,
- City and County Economic Development Offices,
- **Wherever Our Audience Gathers**



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CCEO Ambassadors' Program

- Employ their community connections to create a significant communication effort through civic organizations:
 - Our aim for 2018 is to put on at least one presentation every month to our target Audience through these Connections.

- Will You Join Us as an Ambassador?



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Before We Go...

Let Me Suggest a
Larger Picture -

Maybe Our Most Significant Opportunity



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We Know How to Cure Poverty.

All of the parts of the cure for Poverty are known and available right now.



Education



Good Jobs



Secure Housing



Increasing Wealth

But How do People Get Those Things?

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Surprising News...



ESOP Companies Can Lead the Way!

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It's in our Hands!



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ESOP Companies are Leading the Way!

Your Humble Servant:

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