

ESOP Feasibility

ESOP transactions involve significant planning. A careful process will result in fewer problems and surprises throughout the plan's existence. The process involves:

- Obtaining material to become familiar with the ESOP basics. Information is available from:
 - ESOP practitioners
 - National Center for Employee Ownership (www.nceo.org)
 - The ESOP Association (www.esopassociation.org)
 - Foundation for Enterprise Development (www.fed.org)
- Meeting with advisors to determine if a study should be performed. These may include:
 - ERISA counsel
 - Investment advisor
 - Valuation advisor
 - ESOP administrator
 - CPA
- Consult with peers at other ESOP companies who have been through the process. Find out what worked and what did not work.
- Advisors should present the feasibility study to the principals.

A feasibility study, generally performed by a valuation firm or financial advisor should include:

- Possible ranges of value an ESOP might pay. This is not a valuation opinion, but a rough estimate. Typical valuation methods could include the discounted future cash flow and guideline companies analysis. Consideration should be given to the amount of control (majority or minority).
- Barriers to an ESOP transaction. Common issues are:
 - Shareholders have an unrealistic expectation of value
 - Successor management is inadequate
 - Company growth is declining
 - No unencumbered assets to collateralize an ESOP loan
 - Environmental or legal barriers
- Determine short-term and long-term effects on the company after an ESOP transaction with respect to additional debt or management.
- Determine the available financing, collateral, guarantees necessary from financial institutions for implementing the ESOP transaction.
- Assess the tax, retirement and estate planning issues for the selling shareholder(s).