



SINGLE-USE PULSE 2022

A WEBINAR SERIES EXPLORING

THE BUSINESS OF SUTS

**THURSDAY,
MARCH 17**

**10:00-10:45
AM EDT**

EXIT/SUCCESSION STRATEGIES: THE CASE FOR EMPLOYEE OWNERSHIP ("ESOPs")



KEN BAKER
CEO, NEWAGE[®] INDUSTRIES/
ADVANTAPURE[®]



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ESOPs – Best Business Model –
Case study, Structure
How to sell your company without guilt?

Ken Baker
CEO





- ▶ 66 years in business
- ▶ Family Business – Ken Baker – 2nd generation
- ▶ Start businesses from scratch – “Green Field”
- ▶ 20% of sales are exported to 54 countries
- ▶ ESOP – Employee Stock Ownership Plan
 - 2006 sold 30%, 2012 sold 10%, 2016 sold 9%
 - 2019 sold 51% now 100%



Headquarters Southampton PA New plant Warrington Pa





- ▶ 3 Manufacturing divisions
 - **NewAge** – plastic tubing, hose and fittings
 - **AdvantaPure** – high purity tubing, hose and fittings – single use system for the manufacturing of pharmaceuticals and biologics – Clean room
 - **Verigenics** – RFID (Radio Frequency Identification) systems for track and trace of assets on manufacture plant floor and in medical devices







Manufacturing



“Our employees are truly worried about their long term future – how do we as leaders provide some comfort and at the same time get a more committed employee?”



According to the National Institute on Retirement Security, about 45 percent of all U.S. households have zero retirement savings

What will Americans do when Social Security is depleted it's fund by 2034?

Pay out 78% of benefits?

Raise tax withhold?

Later time to get benefits?

Social Security was never design for the only income for retirement.

Every day 8,000 Americans turn 60

Over the next 12–15 years more than 4 million baby boomer owned companies will be sold*

* Exit Planning Institute



Silver Tsunami

4 million companies will transact in the next 10 years*

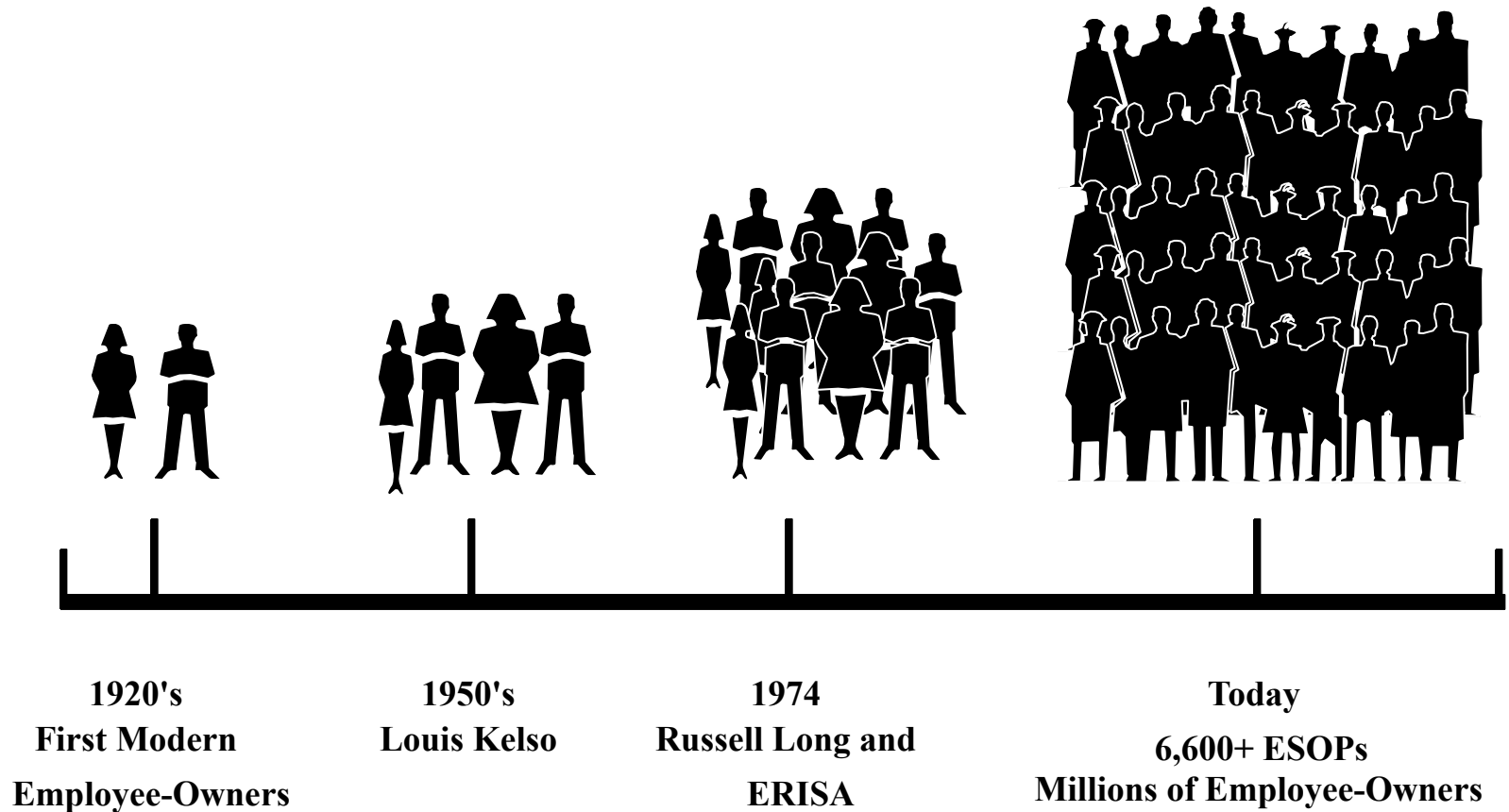


* Exit Planning Institute/NCEO

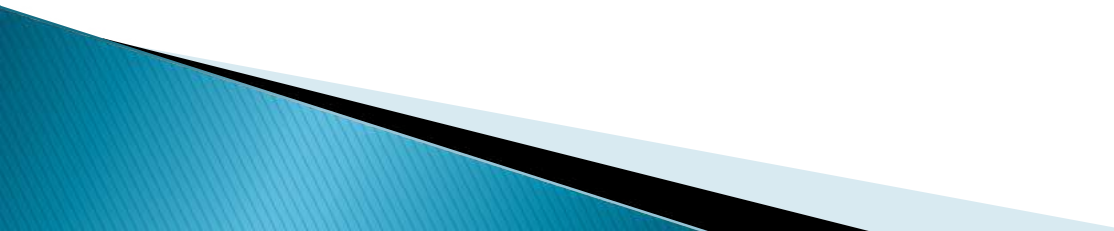
What is an ESOP? Sub S Corp

- ▶ A qualified retirement plan under ERISA
- ▶ Founder sells shares to an ESOP trust
- ▶ Can sell as little as 1% to 100% of the company shares (Sub S)
- ▶ **All** employees are participants in the trust
- ▶ Employees don't pay for the shares – they are **free**
- ▶ A loan is between the ESOP trust and the company
 - Internal loan
- ▶ A loan is between the company and the bank
 - External loan
 - Or loan can be between the company and founder
- ▶ The ESOP is over seen by a trustee
 - Trustee can be internal employees or external
- ▶ **The ESOP (Sub S) is tax free – pays no state or federal taxes**
 - 100% ESOP become a tax-free company

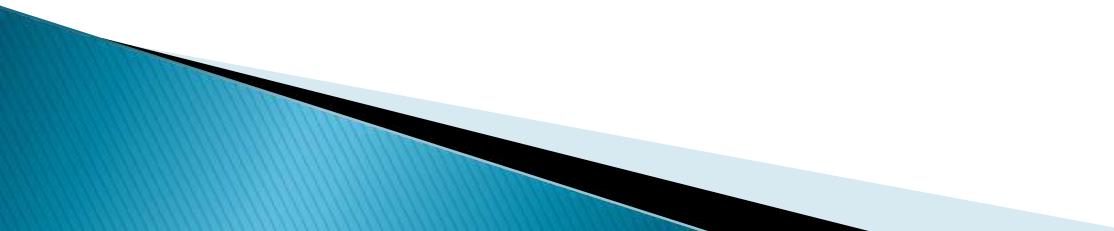
Employee–Ownership in the U.S.: A History Lesson for the Future



What are the alternative exit strategies for a business owner?

- ▶ Gifting or selling to family members
 - ▶ Selling to a private equity
 - ▶ Selling to a Competitor
 - ▶ Selling to a Multi-National
 - ▶ Selling to a group of company managers
 - ▶ Liquidating the company
- 

ESOP Statistics

- ▶ Approximately 6,600+ ESOPs in the United States
 - ▶ 14 Million employee owners (over 10% of the private workforce)
 - ▶ On average, Company growth 2.5% faster
 - ▶ 5–12% better wages on average
 - ▶ 2.5 times the retirement benefits on average
- 

National Employee Ownership



ESOP Statistics

ESOP companies outperform
peers by 8 to 11% bottom line

Employees do not pay for the shares,
they are free (at least tax deferred)

The secret sauce of Sub S Corporation ESOPs

The tax dollars which would have been paid to the IRS is paid to the ESOP trust and then is used to pay back the bank loan.

Why NewAge established an ESOP

- ▶ Final step of TQM (Total Quality Management) training started 30 years ago
- ▶ Gives the team members the feel of “ownership”
- ▶ Good fit for our corporate culture
- ▶ A reward for our long-term team members – create long term wealth
- ▶ Keep our excellent team together
- ▶ The ESOP is an attractor to find new team members
- ▶ It differentiates us from our competitors
- ▶ Ken Baker was able to take some NewAge share money “off the table”

An ESOP can continue the
founder/owner's legacy long
after he/she has left the
company

What would happen to the legacy of Ray Baker if NewAge was sold to a competitor or multi-national?

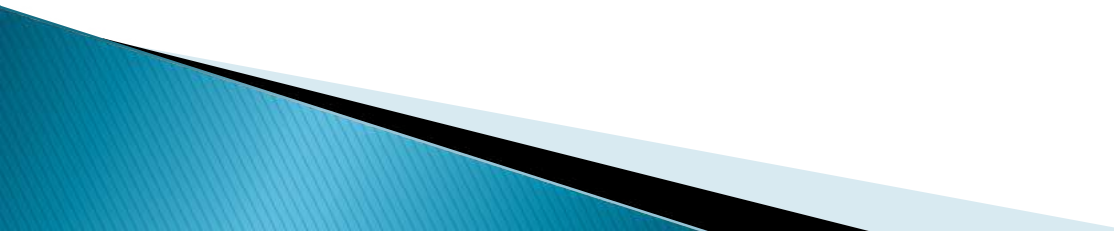




“Culture eats strategy for
breakfast”

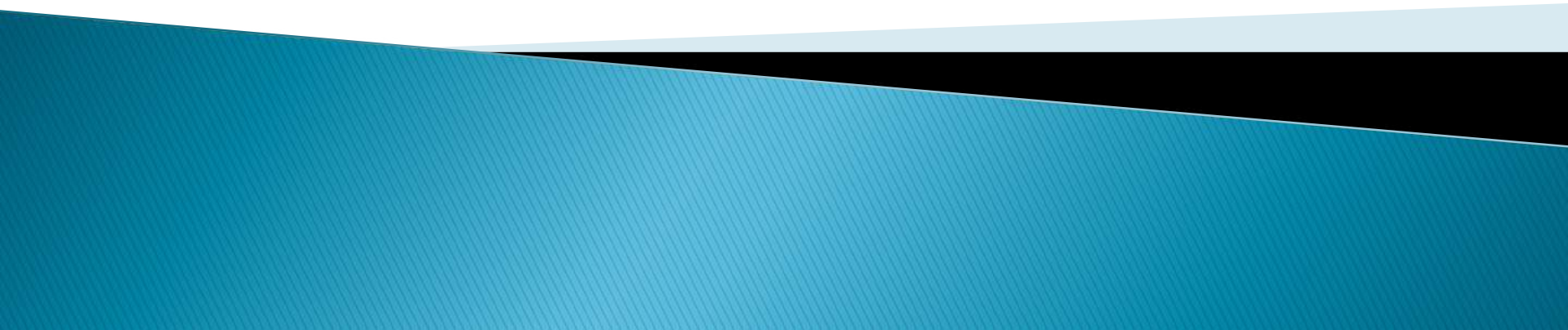
Peter Drucker

When you have Highly Engaged Employees

- ▶ Less absenteeism
 - ▶ higher gross margins
 - ▶ Higher productivity
 - ▶ Lower turnover
- 

The Waste Gas Fabricating Story

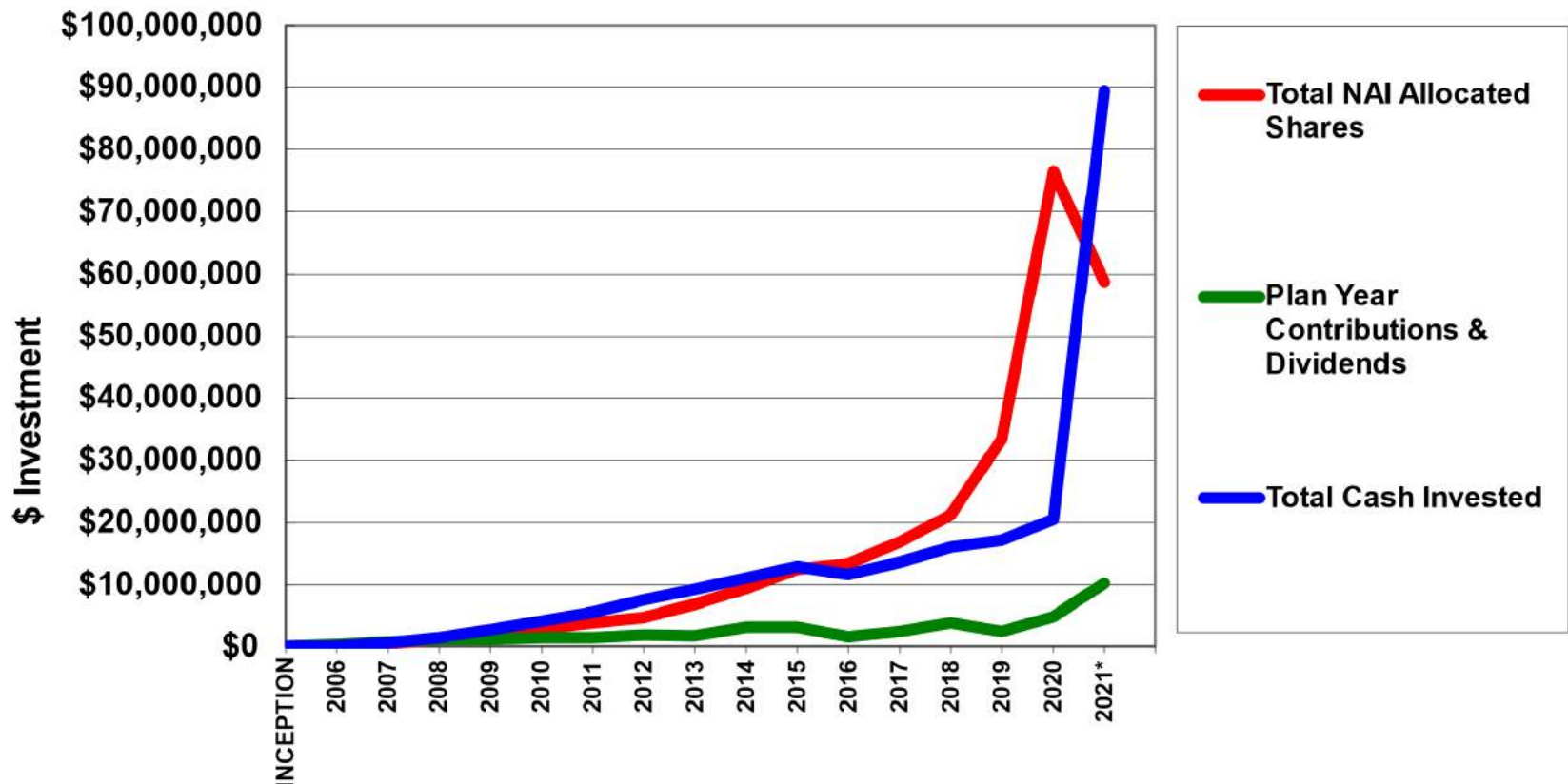
Kyle Coleman President



By selling a series of share tranches over time to the ESOP, founder/CEO could possibly receive the same total share value as a strategic buyer

2006 sold 30%, 2012 sold 10%, 2016 sold 9%
Sold last 51% in 2019 – ESOP – 100% owner of
NewAge

Total Value of NewAge's ESOP: \$148,213,714*



*Estimated based on PY Share Value



ESOP Employee Owned
for Your Benefit

A company can elect that no one
from a collective bargaining unit –
Union – can be part of the ESOP

The employees do not pay for
the shares – it is a fee part

Employees must pay income tax on the gain

How can a Sub S 100% ESOP be
useful for M&A work?

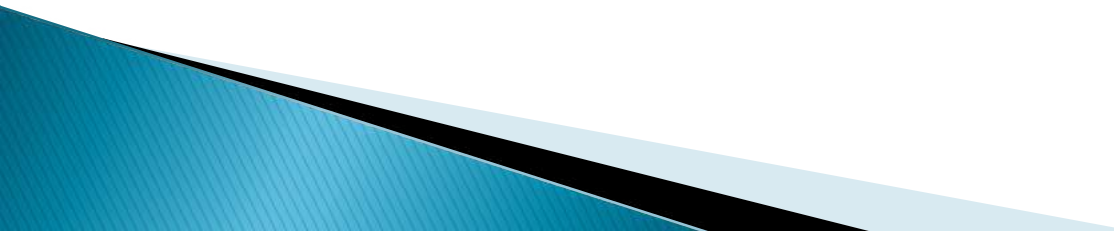
And make the acquisition with no free cash.

Is an ESOP right for every owner
or business?

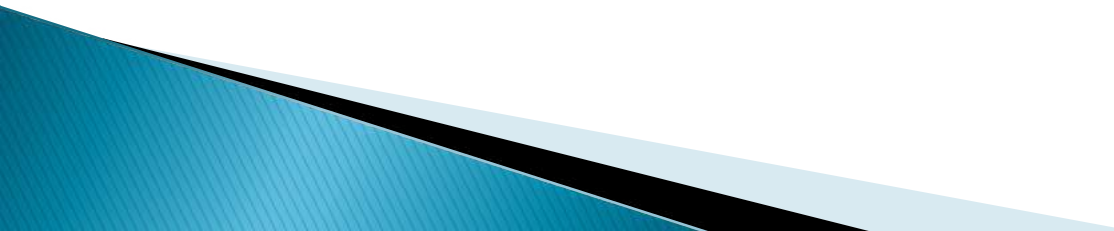
No!

There must be a certain type of owner and size of
business

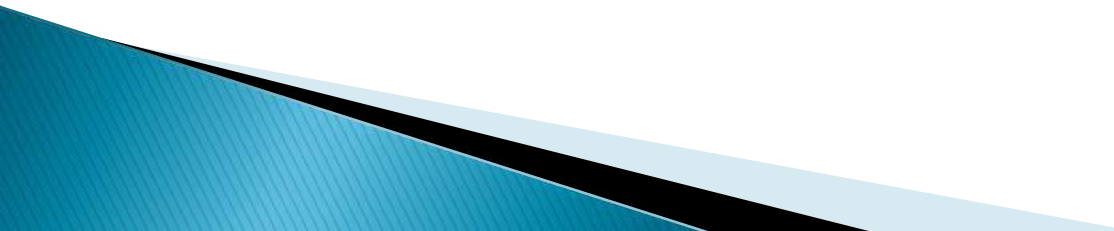
What are the company minimum requirements to be a candidate for an ESOP?

- ▶ Over 20 to 25 employees
 - ▶ Profitable consistency
 - ▶ EBITDA – \$750K +
 - ▶ Not a toxic culture – some trust with ownership
- 

What are the downsides with establishing an ESOP?

- ▶ The founder/CEO or management must communicate and educate the whole organization in how the ESOP works and how the employee can maximize the benefit
 - Will cost extra expense and time
 - ▶ The employee will not “get it” right away and appreciate what the founder/CEO is doing for the employees
 - ▶ Repurchase Obligation
- 

What are the downsides with establishing an ESOP?

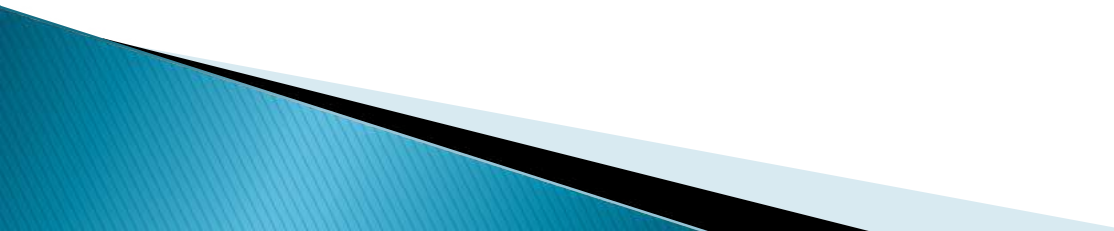
- ▶ ESOPs sometimes are a bit harder to set up than just selling the company out right
 - ▶ Founder/CEO might not get “top dollar” for the company’s value
 - ▶ Up front cost for legal, evaluation, communications and 3rd party administration
 - ▶ May take a little longer to execute the deal
- 

How much is enough?

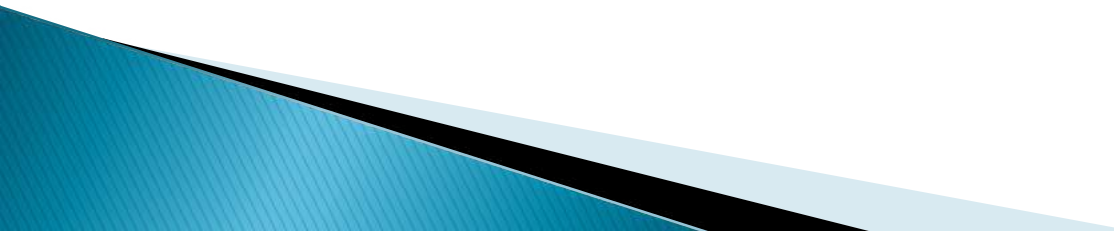
ESOPs can help family businesses

- ▶ Flexibility to sell all or a portion of the business
 - Buy out older family members
 - Buy out non-working family members
 - Buy out family members who want to just “cash out”
 - Make a statement by new G2 or G3 – “I am an owner and all of you are now”
- ▶ And keep the business going
 - Reward employees
 - Grow the business

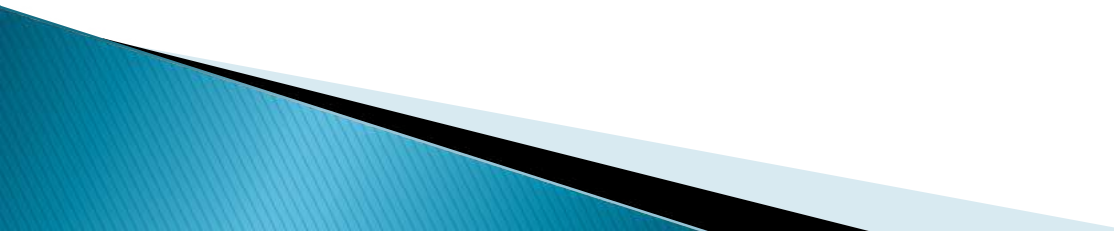
ESOPs can work for business which have multiple owners

- ▶ One principal wants to buy out the other – does not have the capital to buy the whole company
 - ▶ Buy out outside investors
 - ▶ Buy out a disengaged or disgruntled owner
- 

What are the characteristics of an owner of a company who wants to do an ESOP?

- ▶ Care about the legacy of the company
 - ▶ Concern about the employees
 - ▶ Concern about what might happen to the company if sold to 3rd party
 - ▶ Care about the community – if 3rd party moves the company
 - ▶ These issues are more important than getting top dollar for the company – being sold to a strategic buyer
- 

What are possible downsides of selling the company to a competitor, private equity or a multi-national

- ▶ Teaser offer to get the founder/CEO engaged – then decreased through due diligence – sometimes up to 20%
 - ▶ Laying off employees to get the return on investment
 - ▶ Relocating the plant out of state or out of country
 - ▶ Destroying the culture of the company
 - ▶ Much of what the founder/CEO built over time can be dismantled
- 



What are the hopes that you have for your business after you sell it?

What are the fears you have for
your business after you sell it?

Thank you Questions

Ken Baker
NewAge Industries Inc.
kbaker@newageind.com
215-526-2300

Kevin McPhillips
kevin@paceo.org
www.ownershippennsylvania.org
www.nceo.org