



Employee Ownership Trusts



Chris Michael
EOT Advisors



chris@eotadvisors.com

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Chris Michael is Founder and Managing Director of EOT Advisors. He is responsible for developing the Employee Ownership Trust as a new financial and legal mechanism in the United States and has published articles introducing the concept in leading peer-reviewed journals, including *Tax Notes* and *Probate & Property*. He is also a professor at Rutgers University, where he directs the Institute for the Study of Employee Ownership and Profit Sharing.



Overview

1. The “John Lewis Economy”
2. EOT Definition
3. A Brief History of the American EOT
4. EOTs Today
5. EOT Advantages

The "John Lewis Economy"





The “John Lewis Economy”

John Lewis Partnership:

- Largest and oldest EOT in the world
- 83,000 employees (current)
- \$14.1B in 2020 revenue
- Employee-owned for almost 100 years



EOT Definition

An **Employee Ownership Trust (EOT)** is a trust that holds some or all of the shares of a company on behalf of most or all of the employees of the company.



EOT Definition

As with an **Employee Stock Ownership Plan (ESOP)**, the profits and gains, the corporate governance, and the culture of an EOT-owned company are directed to the benefit of the company's employee-owners.



EOT Definition

Unlike an ESOP, an EOT does not have individual employee share accounts. The EOT's distinct features flow from this primary difference...



EOT Definition

Employee Ownership Trust:

- not a retirement plan
- not a tax shield
- not regulated under ERISA



EOT Definition

Employee Ownership Trust:

- no annual valuations
- no repurchase obligations
- no third-party administrator



EOT Definition

EOTs are “employee ownership without the ESOP.”

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EOT Definition

EOTs are a private, flexible, low-cost, easy-to-understand, and sustainable alternative to the ESOP.

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EOT Definition

Two key points to remember:

1. Once the shares go in, they stay in.
2. Employees are “naked in, naked out.”

EOT? Epsilon Omega Tau?





A Brief History of the American EOT

"in trust for the benefit of ... 'persons acting together for the purpose of owning, acquiring, operating, conducting and maintaining a communal industrial institution"



John Lewis Partnership
1929



Menke & Associates
1974



Publix Supermarkets
1980



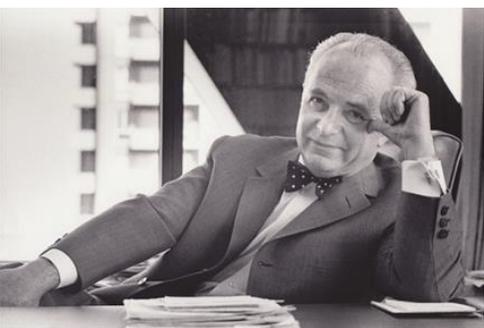
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2017

Peth v. Spear
1897

1926
Columbia Conserve Company



1956
Peninsula Newspapers



1978
NCEO



2015
Tax Notes and Probate & Property





A Brief History of the American EOT

Published Research

- Traditional EOT is not subject to ERISA
- Existing U.S. trust law works
- Available in any state with out-of-state trustee
- Advantages of “noncharitable purpose trust”
 - ✓ choose whether to include employees as beneficiaries
 - ✓ customize enforcement mechanism
 - ✓ minimize litigation risk



EOTs Today

EOT Advisors is the first investment banking and financial advisory firm in the country dedicated to assisting business owners sell to an EOT. We work in all 50 states and provide a one-stop shop for EOTs.

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EOTs Today

To date, we have been involved with all U.S. EOTs, which include about 15 closed transactions. We are on track to increase the total number of closed U.S. EOTs to about 30 by 2022 year-end.



EOTs Today

Representative EOT Clients



EMPLOYEE OWNERSHIP TRUST

has acquired a 100% interest in Bicycle Technologies International, Ltd.

Santa Fe, NM

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PERPETUAL PURPOSE TRUST

has acquired a minority interest in Optimax Systems, Inc.

Ontario, NY

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Organically Grown Company
PERPETUAL PURPOSE TRUST

has acquired a majority interest in Organically Grown Company

Eugene, OR

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EMPLOYEE OWNERSHIP TRUST

has acquired a majority interest in Caboose PBC

Lakewood, CO

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EMPLOYEE OWNERSHIP TRUST

has acquired a 100% interest in Paras and Associates

Emeryville, CA

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EMPLOYEE OWNERSHIP TRUST

has acquired a 100% interest in Equity Atlas Inc

Portland, OR

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EMPLOYEE OWNERSHIP TRUST

has acquired a 100% interest in Metis Construction, Inc

Seattle, WA

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EMPLOYEE OWNERSHIP TRUST

has acquired a 100% interest in The Illuminator Collective, Inc

Brooklyn, NY

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EOTs Today

EOT Deal Characteristics

Typical enterprise value: \$10 –\$20 million

Typical workforce size: 50 – 100 employees

Typical time to close: 6 months



EOT Advantages

EOTs are a private, flexible, low-cost, easy-to-understand, and sustainable alternative to the ESOP.

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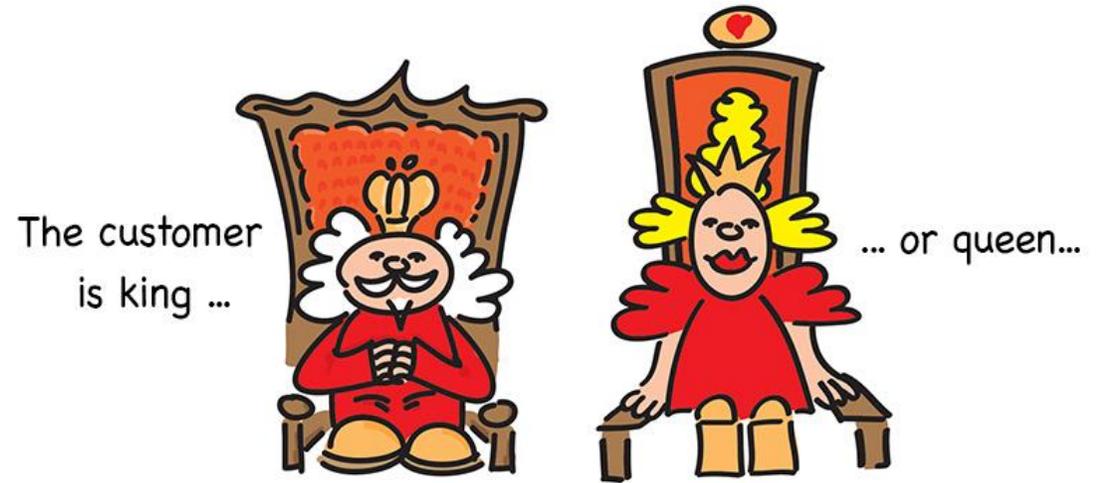
44% of CEO respondents rank **data privacy** among top 3 policies most impactful to their business



Source: PwC Election 2020 Poll, November 2019

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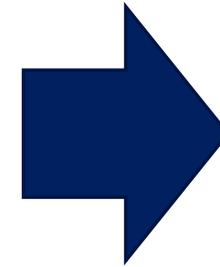
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EOT Advantages

- Fewer sellers using 1042
- PE targeting lower middle market
- Increased levels of ESOP litigation
- Higher costs of establishing ESOP



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Questions?



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EOT Advisors



chris@eotadvisors.com
www.eotadvisors.com