



NCEO

NATIONAL CENTER FOR
EMPLOYEE OWNERSHIP

Economic Conditions during COVID-19



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The Clouds

The Silver Linings

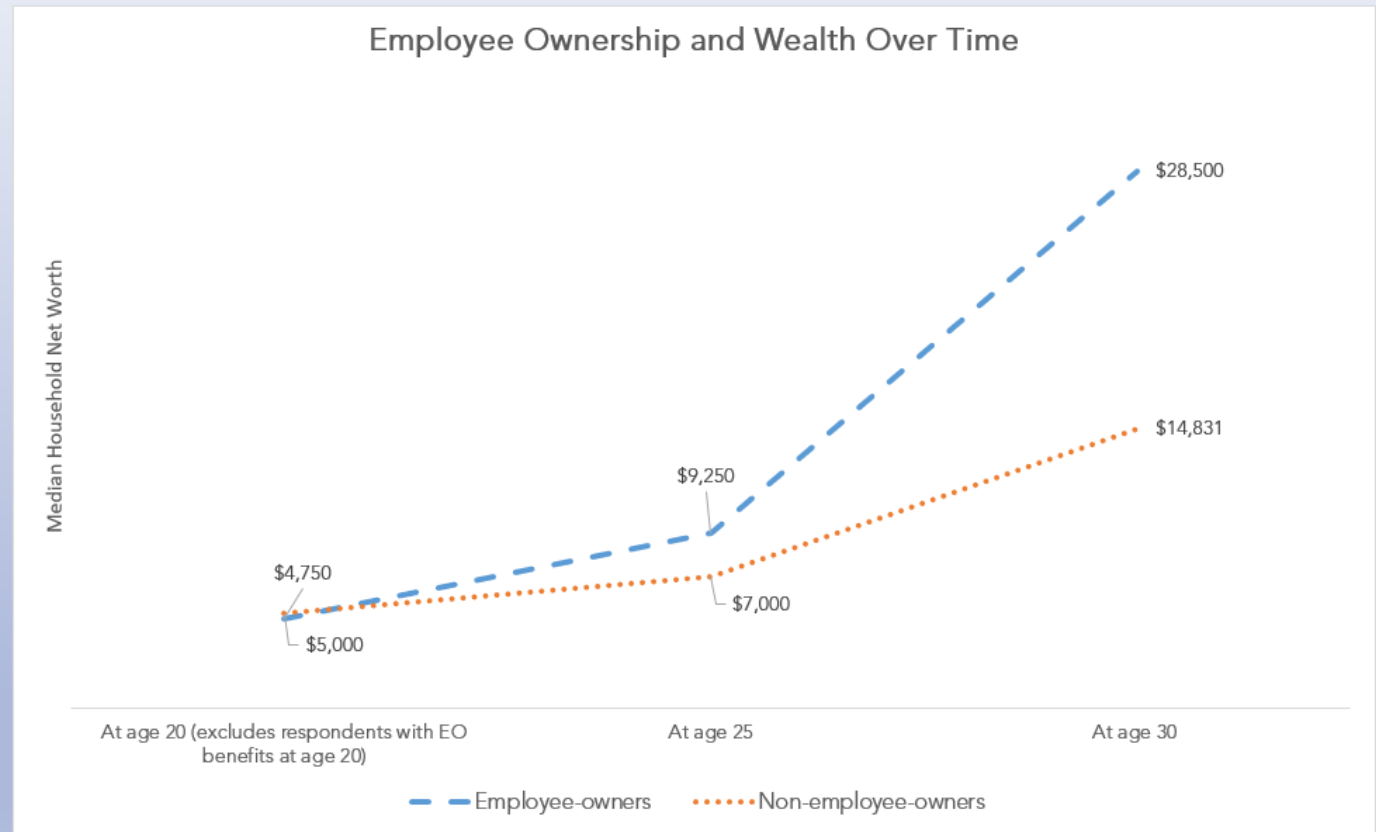
“Median household net worth is 92% higher for employee-owners.”

Reports on ESOP company research

Read [results of our research](#) on ESOP companies, like our Repurchase Obligation and Executive Compensation surveys and more.



Both groups start out with modest household wealth.



Source: NCEO analysis of NLSY97 data

Resilience

Employee-owners

- 53% higher tenure
- 53% more likely to have flex-time

Employee-owned companies

- Improved performance
- More likely to remain in business

Dr. Joseph Blasi at Rutgers

WORKERS WITHOUT EMPLOYEE OWNERSHIP HAD LAYOFFS SIX TIMES MORE THAN THOSE WITH IT LAST YEAR.

PERCENT OF WORKERS LAID OFF LAST YEAR



Presentation at 2019 ESOP Association conference.

Data from General Social Survey.

Employee ownership component funded by the Employee Ownership Foundation.

Layoffs during the Recession

“Data from the General Social Survey shows that in 2010, for instance, **12.1% of all working adults** in the private sector reported having been laid off during the prior 12 months from being asked, compared to just **2.6% of those who own stock** in their company through some kind of company-sponsored employee ownership plan.”

<https://www.nceo.org/blog/employee-ownership-and-costs-unemployment>

The New Normal: What do we Know?

- Sectors that will grow
- Re-shoring
- Redesigning work
- The return of demand
- Habits will change

Contract Issues

- Lease modifications/rent abatement
- How to interpret/utilize Force Majeure clauses
- Identifying notice requirements that have been or may be triggered
- Insurance coverage questions

Considerations for Ongoing Business Operations

- What is an “essential business”?
- [CDC/OHSA requirements/guidance](#) to continue operations
- Modifying operations to manufacture Personal Protective Equipment (PPE)

Employee Relations Issues

- Differences between layoff and furloughs
- Families First Coronavirus Response Act
- WARN Act Considerations

Additional Issues

- Tax Filing Deadline Extensions.
- Impact of Coronavirus, Aid, Relief and Economic Security Act (CARES ACT)
- Board Governance Issues (see related resources after webinar)

Capital Planning

Senior Credit Considerations:

There has been a rush to LOC draw downs. You see this evidenced by an increase across the board in deposits. Companies are nervous about the access to credit and trying to build some cushion of security.

Capital Planning (cont.)

- Should Borrowers draw down on their lines of credit to increase short term liquidity?
 - Libor floors
 - Trends in fees and for changes
- Should Lenders make accommodations for Borrowers (defer principal and interest payments, reduce overdraft and credit card fees, etc.)
- Impact to Lenders of new capital requirements
 - Short term (don't need to reclassify formerly well performing loans)
 - Long term (perhaps an understatement of bank risk)
- Action: Vital importance of
 - Relationships
 - Bench of relationships

Highly Leveraged ESOP Considerations

For more newly formed ESOPs, or those w/ significant debt (seller note or other) who were already struggling with:

- Covenants, including fixed charge coverage ratios
- cash flow to meet:
 - Debt obligations
 - working capital
 - repurchase obligation
 - Balance sheet cushion

Highly Leveraged ESOPs (cont.)

- Talk to lenders about [FDIC guidelines](#) and [other accommodations](#)
- Perhaps renegotiate terms
 - Seller note restructure
 - Re-negotiate terms: (Interest rate (PIK?), duration, equity kicker, etc.)
 - Debt Equity swap
 - Claw back re-negotiation
 - Junior Capital restructure
 - Etc.
- Most important action: stay in front of it

Alternatives to Alleviate Cash Challenges

- [SBA emergency loan programs](#)
- Cash conservation
 - Compensation
 - Deferred capital expenditures
 - Other Deferred expenses
 - Reduced overall expenses:
 - T & E
 - Overtime
 - Part-time, e
 - Etc.
 - Divestitures
 - Other

Board Governance

Support management holistically

Capital Expenditures

- What can be deferred
- What needs to be accelerated

Seize opportunities for efficiency

- Accelerated decision making
- Quick prioritization on both near in and perhaps a pivot in medium term

Identify stars and gaps in talent

- talent (Battlefield promotions)
- who can and can't pivot?

Board Governance (cont.)

- Disaster recovery plans/sensitivity analysis
- Valuation / monitor the trustee
- Need to consider conflicts of interest
- Potential duty to creditors
- ESOP operations
- Identify opportunities to seize as we come through this
Brand culture
 - Divestiture
 - M&A

Economy

Importance that this is a Health Crisis

- Drop ideology on all sides
- Everyone needs help
 - Wall Street
 - Main Street
 - States
 - Citizens
 - Employed
 - Unemployed
 - Underemployed

Economy (cont.)

- While Covid-19 is an iceberg, we don't have to be the Titanic. What we see now is a collaboration of lots of life boats (vs. one huge vessel)
 - Accelerating abilities for access and response on testing (Abott)
 - Acceleration of Anti-viral and Anti inflammatory measures to abate symptoms
 - We won't have a vaccine for months. Can we flatten until then?
- Economists believe, in collaboration w/ epidemiologists, that, while q2 will be disastrous, we should see pick up in summer as a result of:
 - Stimulus (likely more to come)
 - Flattening
 - Increased confidence

Economy (cont.)

- Nonetheless, there remains a residual concern there could be a resurgence in fall of the disease. Ideally with better testing and protocol available. But none the less we can't predict a perfect "V", narrow "U", or long "U"
- How long will it take to get back to pre-Covid GDP?
 - Some of the loss is lost permanently
 - Some economists feel it could take over 1.5 years to get back to pre-virus GDP
 - Too soon to tell.
 - It follows effectiveness of controlling the health crisis

Story time

How are companies responding to this crisis?

How are ESOPs continuing to support and anchor their communities?

What companies are doing

Davey Tree:

“We made arrangements with local restaurants for meals to be sent to First Responders in the local Police and Fire Departments, to the local homeless shelter and Veterans home, supported the local student meal assistant program and sent PPE from our Shop to local hospitals and First Responders.”

SRC Holdings:

“our facilities are putting together care packages of waters and snacks for truck drivers since they’re working so many hours and aren’t able to enter our facilities.”

What companies are doing

“We have also placed a great focus on checking in with staff members on their physical and mental health multiple times per day, even tasking extroverts on their team to reach out to specific individuals at least daily.”

Torch Technologies:

“We are 3D printing face masks for first responders.”

“We bought the materials and partnered with a local brewery to make sanitizer for first responders, hospitals, and local businesses.”

Questions?

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A yellow graphic element consisting of two horizontal bars with arrowheads pointing towards each other, positioned below the text 'NCEO'.

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 LEVENFELD
PEARLSTEIN, LLC®

The logo for Levenfeld Pearlstein, LLC, featuring the letters 'L' and 'P' in white on a red and gold background respectively, followed by the firm name.

For more on ESOPs during COVID-19...

... see our [COVID-19 Resource Page](#) for more responses from the ESOP community

...find answers to your questions at [COVID-19 Q&A](#) at nceo.org/covid-qa.

...watch our [other COVID-19 webinars](#) on current economic conditions, and communications and culture

...and see annualconference.nceo.org to learn how our annual conference is going virtual.