How are ESOP Companies Faring in the COVID-19 Crisis?

In our Spring 2020 ESOP Topics Survey, we surveyed ESOP companies about the effects of the COVID-19 crisis on their business and how they are responding. We received responses from 160 privately held companies with an ESOP in May and June 2020. The surveyed companies represent a range of industries and sizes, though they are not intended as a representative sample of all ESOP companies.

Table 1 shows the percentage of companies taking (or planning to take) each of several potential measures in response to the crisis. A majority of respondents are tapping into emergency cash reserves, and pay freezes are common. A few companies are considering an interim ESOP valuation to adjust their stock price to reflect changed circumstances.

Fourteen percent of responding companies have laid off at least some staff as a result of the crisis, and an additional 15% say they are planning to perform layoffs. Among companies that have done layoffs, the percentage of employees laid off ranges from 3% to 17% (median 10%). Companies with over $50 million in revenue were more likely to report layoffs.

To put this layoff data in national context, approximately 30% of all U.S. workers have filed an unemployment claim since the beginning of the COVID-19 crisis in mid-March, according to data from the Department of Labor.

Table 1. Actions ESOP companies are taking or planning to take in response to COVID-19	Companies of revenue $50 million or less (94 responses)	Companies of revenue over $50 million (66 responses)
Using emergency cash reserves	52%	56%
Freezes on pay increases across the board	41%	38%
Receiving short-term financing other than a PPP loan	32%	30%
Reducing executive base pay	**24%**	**35%**
Layoffs	**24%**	**36%**
Furloughs	**14%**	**29%**
Reducing executive deferred pay	15%	17%
Saving cash by reducing contributions to benefit plans	13%	15%
Modifying bonus targets to make them easier to achieve	7%	15%
Saving cash by switching to employer stock for retirement plan contributions	7%	11%
Performing an interim ESOP valuation	10%	6%

A plurality of respondents expect their 2020 revenue to be equal to or greater than their 2019 revenue, and over two-thirds expect no more than a 10% decrease in revenue. About one-third of the respondents are foreseeing a drop of 10% or more. See table 2.

Table 2. Based on what you know today, how do you expect your 2020 revenue to compare to 2019?	Number of responses	Percent of total
Flat or increasing	64	40%
Down by up to 10%	48	30%
Down 10% to 25%	36	23%

Down 25% to 50%	11	7%
Down more than 50%	1	1%
Total	**160**	**100%**

Manufacturing and wholesale trade companies are most likely to be expecting a large decrease in revenue in 2020. Thirty-nine percent of manufacturing companies and 33% of wholesale trade companies say they expect a 10% decrease or greater, followed by construction companies (32%).

A solid majority of survey respondents said being employee-owned has had a positive effect on their ability to respond to COVID-19. Almost none said it has had a negative effect. See table 3.

Table 3. How has being employee-owned affected your company's ability to respond to the coronavirus crisis, if at all?	Number of responses	Percent of total
Very positive effect	47	30%
Somewhat positive effect	57	36%
Somewhat negative effect	4	3%
Neutral or no effect	50	32%
Total	**158**	**100%**

Discussing the positive impacts of the ESOP, many respondents emphasized the mindset of “all in this together” that their ESOP has helped to create. Others noted that using open-book finances and other forms of transparency helped create buy-in for the actions necessary to keep the business running. In the words of one employee-owner quoted in the responses: **“Employee ownership might not make that much of a difference in good times but it really helps in bad times.”**