NCEO NATIONAL CENTER FOR EMPLOYEE OWNERSHIP

2023 ESOP Repurchase Obligation Survey

Thank you for participating in the NCEO's 2023 ESOP Repurchase Obligation Survey.

It pertains to privately-held ESOP companies only and asks for:

- Information about your company's ESOP distribution policies;
- Information about how your company manages and projects its ESOP repurchase obligation;
- And a few demographics to help in making comparisons with the data.

Your progress will be automatically saved if you close your browser while completing the questionnaire. You may stop and resume taking the survey whenever you wish without losing your progress.

If you wish to receive a discount on your purchase of the full report as a thank-you for participating, provide your contact information at the end of the questionnaire. **We will delete your email address and any other identifying information from the data before we begin our analysis.**

Contact Research Director Nancy Wiefek (nwiefek@nceo.org or 510-208-1312) with any questions.

1) Before we begin, does your company have an ESOP in place currently?

○ Yes

○ No

2) Is your company's stock publicly traded?

○ Yes

○ No

3) When did your company establish its ESOP? Please answer with a 4-digit year.

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4) What percentage of the company's shares are owned by the ESOP? (Include allocated and unallocated shares.)

Percentage between 0 and 100:

____

5) Is your company an S or C corporation?

- ○ S corporation
- ○ C corporation

Background

6) What was your company contribution to the ESOP in the most recent plan year as a percentage of covered compensation?

(For example, if you contributed $100,000 to the ESOP for the most recent plan year and covered compensation for all ESOP participants is $1,000,000, your contribution is 10% of covered compensation; enter 10.)

Percentage between 0 and 100:

____

7) What is the ratio of the value of the stock held by the ESOP (allocated and unallocated) to the total eligible compensation of the participants?

(For example, if the value of the stock is $30 million and eligible compensation is $10 million, the ratio is 3:1.)

Enter ratio as #:#

____

8) Loan repayment and unallocated shares: Which of the following best describes your company?

- ○ We never had an ESOP loan, so all ESOP shares are allocated.
- ○ We had an ESOP loan but we do not have one now, so all ESOP shares are allocated.
- ○ The ESOP loan has been partially repaid; 75% or more of ESOP shares are allocated.
- ○ The ESOP loan has been partially repaid; 50% or more, but less than 75%, of ESOP shares are allocated.
- ○ The ESOP loan has been partially repaid; 25% or more, but less than 50%, of ESOP shares are allocated.
- ○ The ESOP loan has been partially repaid; less than 25% of ESOP shares are allocated.

9) When do you expect to fully repay your ESOP loan?

- ○ We expect to pay back our ESOP loan in 2023 or 2024.
- ○ We expect to pay back our ESOP loan in 2025 to 2027.
- ○ We expect to pay back our ESOP loan in 2027 to 2032.
- ○ We expect to pay back our ESOP loan after 2032.

10) Over the next five years, do you expect the percentage of shares owned by the ESOP to increase or decrease?

- ◯ Increase by more than 20 percentage points (e.g., from 45% to 70%)
- ◯ Increase by less than 20 percentage points (e.g., from 35% to 40%)
- ◯ Stay about the same
- ◯ Decrease by less than 20 percentage points (e.g., from 50% to 35%)
- ◯ Decrease by more than 20 percentage points (e.g., from 60% to 30%)

11) For distribution amounts above those that are legally required to be a lump sum, how do you make distributions from your plan?

	A combination of lump sums and installments	Lump sums only	Installments only
Death	◯	◯	◯
Disability	◯	◯	◯
Retirement	◯	◯	◯
Other terminations	◯	◯	◯

12) If you allow lump sum payments for small accounts, what is the maximum dollar amount eligible for a lump sum payment, for each of the following types of terminations?

Death:

____

Disability:

____

Retirement:

____

Other terminations:

____

13) Not counting small distributions (under $5,000 or so, depending on your company), what form of distribution do you use?

- ○ Cash for all distributions
- ○ Stock for all distributions
- ○ A combination of the two
- ○ Other

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14) For death, disability and retirement, when do distributions from your plan occur (or, in the case of installments, when do they begin)?

	In the plan year in which termination occurs	Within one year after the end of the plan year in which termination occurs
Death	○	○
Disability	○	○
Retirement	○	○

15) If you pay out distributions earlier than required, do you have a dollar cap on how much can be distributed earlier than required?

○ Yes - we pay distributions earlier than required, subject to a dollar cap

○ No - we pay distributions earlier than required, but not subject to a dollar cap

○ N/A - we do not pay distributions earlier than required

16) For other terminations, when do most of your distributions from your plan occur (i.e., when do former participants receive cash)? Ignore required minimum distributions or distributions postponed because your ESOP debt has not yet been repaid.

○ In the plan year in which termination occurs

○ Within one year after the end of the plan year in which termination occurs

○ Between one and two years after the end of the plan year in which termination occurs

○ Between two and four years after the end of the plan year in which termination occurs

○ Five years after the end of the plan year in which termination occurs

17) For other terminations, will you delay distributions until an ESOP loan has been repaid?

- Yes
- Our plan gives us the ability to do this but we have not
- No, our plan does not allow us to do this
- No, we do not have an outstanding ESOP loan

18) What percentage of ESOP shares are held by separated participants?

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19) How does your company satisfy the statutory diversification requirements? (Select all that apply)

- [ ] We provide transfers to a 401(k) plan
- [ ] We provide for diversification within the ESOP
- [ ] We provide in-service distributions

20) If your plan has been in effect more than 10 years and has participants who are eligible for diversification, approximately what percent of eligible *shares* have been diversified?

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21) Does your company use or plan to use the following?

	We use this.	We do not use this, but plan to in the future.	We do not use this and do not expect to.
A. Provide diversification options beyond the statutory requirement (e.g. early or excess diversification)	○	○	○
B. Adopt a price protection feature for participants who are adversely affected by a drop in value due to debt used to finance an ESOP transaction – **See below for clarification**	○	○	○
C. Rebalancing participant accounts (the mandatory transfer of employer stock into and out of accounts, usually on an annual basis, resulting in all accounts having the same proportion of stock and cash)	○	○	○
D. An account segregation policy that purchases shares when employees terminate but delays the distribution until the normal distribution schedule	○	○	○
E. Using a 401(k) contribution to maintain a targeted retirement benefit level alongside the ESOP	○	○	○

NOTE: "Price protection" features usually involve valuing the company with and without the transaction-related debt. Participants in the protected class are subject to the volatility of the stock from normal economic/financial factors, but they don't suffer from the negative impact of the transaction-related debt. The price protection feature usually goes away when the transaction-related debt is repaid.

22) Please feel free to share any comments you have to explain the reasoning behind your choices in the above question.

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23) Does your company have a written distribution policy separate from the plan documents?

- ○ Yes
- ○ No

Size and Funding of Repurchase Obligation

24) What percentage of allocated ESOP shares was repurchased in the most recently completed fiscal year?

(Note: "Repurchased" means that the company or the ESOP exchanged these shares for cash. Do not count shares eligible for repurchase that were not repurchased.)

Percentage between 0 and 100:

____

25) Does your company use a combination of recycling and redeeming ESOP shares to achieve a targeted benefit level?

- ○ Yes
- ○ No

26) Please indicate how often you use each of the following options for handling repurchased ESOP shares. NOTE: You may use more than one option regularly.

	Regularly	Occasionally	Never
A. Redemption: Shares are bought by the company and retired	○	○	○
B. Recycling: Company contributes cash to ESOP, ESOP distributes cash to participants, participants' shares are allocated to remaining participants	○	○	○
C. External: Shares are bought by others	○	○	○
D. Releveraging: Redeemed and some or all of the shares are sold back to the plan with an exempt loan	○	○	○

27) Any additional comments about how your company handles repurchased ESOP shares?

____

28) Out of the total ESOP distributions in the most recently completed fiscal year, approximately what percentage of the funding came from each of the following sources?

Approximate answers are welcome, such as to the nearest 10%. The total of all answers should add roughly to 100%.

Cash in the company from current operations (i.e., company redeems shares):

_________%

Cash in a corporate sinking fund (funded in prior years) (i.e., company redeems shares):

_________%

Cash already in the ESOP from a prior plan year (i.e., shares recycled through ESOP):

_________%

Cash already in the ESOP from current-year contribution (i.e., shares recycled through ESOP):

_________%

Corporate-owned life insurance:

_________%

New ESOP debt:

_________%

Purchases by management:

_________%

Other:

_________%

29) Some ESOP distributions come from assets already inside the ESOP and others come from assets in the company. If the company provided funding for ESOP distributions in the most recently completed fiscal year, what was the form of that funding? (Check all that apply.)

- [ ] S corporation distributions to the ESOP; ESOP buys shares
- [ ] C corporation dividends to the ESOP; ESOP buys shares
- [ ] Cash contributions to the ESOP; ESOP buys shares
- [ ] Redemption of shares; company buys shares
- [ ] New ESOP loan
- [ ] Not applicable

30) In the most recently completed fiscal year, did the company provide funding for future repurchase obligations (e.g. by making excess contributions, paying S corp distributions / C corp dividends, setting up a sinking fund inside the company, or buying insurance)?

- ○ No
- ○ Yes

31) How did you calculate the amount of pre-funding to provide?

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32) Approximately what percentage of that funding went to each of the following?

Approximate answers are welcome, such as to the nearest 10%. The total of all answers should add roughly to 100%.

A corporate sinking fund: _________%

Cash in the ESOP: _________%

Corporate-owned life insurance: _________%

33) Approximately what percentage of the assets in your company's ESOP is in cash (in other words, non-company stock investments)? For purposes of determining total assets, consider all allocated and unallocated shares at the most recent valuation.

_________%

Looking Forward

34) What best describes your level of confidence about your company's ability to do each of the following?

	Confident	Somewhat concerned	Likely to be a problem	We have not examined this issue	Not applicable
A. Meeting short-term repurchase obligation (the next two plan years)	○	○	○	○	○
B. Meeting longer-term repurchase obligation (more than two years away)	○	○	○	○	○
C. Preventing a "have / have-not" situation (**see below for clarification**)	○	○	○	○	○

NOTE: A "have / have not" situation is one where the stock in the ESOP has been allocated and ongoing allocations are small (generally forfeited shares, shares purchased from terminated employees, etc.). Long-term participants have large accounts (the "haves"), and new participants have much smaller accounts (the "have nots").

35) Please indicate how much you agree or disagree with each of the following statements.

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
We intend our ESOP to be permanent.	○	○	○	○	○
It's more than 50% likely that we'll have to sell our company in the next five years to deal with the repurchase obligation.	○	○	○	○	○
I'm confident that our appraiser is adequately considering repurchase obligation in determining our company's value.	○	○	○	○	○
Some people terminate employment at our company earlier than they would otherwise in order to receive ESOP distributions.	○	○	○	○	○

36) Who at your company is responsible for monitoring the repurchase obligation?

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37) Have you done a repurchase obligation study?

- No
- Yes, within the last 12 months
- Yes, within the last 12 to 24 months
- Yes, within the last 2 to 4 years
- Yes, but more than 4 years ago

38) Who performed the study?

- In-house (a company employee)
- In-house, using third-party software
- Third party administrator
- Accountant
- Appraiser
- Insurance or investment broker
- Independent consultant
- Other

39) Do you provide your appraiser with a copy of your repurchase obligation study?

- No, our appraiser does not ask for it
- Yes, our appraiser asks for it
- Yes, our appraiser does not ask for it but we provide it anyway

40) Do you have a formal repurchase obligation plan that describes the form, timing, and sources of your ESOP distributions?

- ○ Yes, our repurchase plan specifies form, timing, and source
- ○ Our repurchase plan specifies some but not all
- ○ We do not have a repurchase plan

41) Does your appraiser adjust the enterprise value of your company to reflect the repurchase obligation?

- ○ No impact--the appraiser determines enterprise value based on earnings exclusive of ESOP funding requirements
- ○ Some impact--the appraiser reduces enterprise value by including an estimated expense for normal retirement plan expenses in determining enterprise value, regardless of our actual ESOP contributions in a given year
- ○ Full impact--the appraiser reduces enterprise value by including the actual ESOP contributions in a given year
- ○ Discount--the appraiser estimates enterprise value excluding our repurchase obligation and applies a percentage discount
- ○ Not sure

Insights

42) How has the experience of managing the repurchase obligation compared with your expectations?

- ◯ Much better than expected
- ◯ Moderately better than expected
- ◯ About as expected
- ◯ Moderately worse than expected
- ◯ Much worse than expected
- ◯ Not applicable

43) According to your best estimate, what percentage of your free cash flow has been used to meet the repurchase obligation, on average over the past three years?

- ◯ Less than 25%
- ◯ 25% to 50%
- ◯ 51% to 75%
- ◯ 76% to 100%
- ◯ More than 100%

44) What, if any, impact does your repurchase obligation have on your business strategy? Select all that apply.

- ☐ It has caused us to reinvest less in the company less than we otherwise would have.
- ☐ We expect to grow more slowly because of the repurchase obligation than we would without it.
- ☐ The repurchase obligation is making the sustainability of our company uncertain.
- ☐ Not having a significant impact on our strategy.

45) If you knew when you first started the ESOP what you know now about repurchase obligation, would you have done anything differently?

- ○ Yes, please explain ______________________________
- ○ No

46) How has your approach to repurchase obligation changed over the past 5 years?

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47) From your experience, what piece of advice would you offer newer ESOPs about planning for repurchase obligation?

48) How else could the NCEO be most helpful to companies on repurchase obligation issues?

Demographics

49) Which of the below best describes your industry?

- ◯ Construction
- ◯ Manufacturing
- ◯ Wholesale trade
- ◯ Retail trade
- ◯ Finance, insurance, real estate
- ◯ Engineering or architecture
- ◯ All other professional, scientific and technical services
- ◯ Health care and social assistance
- ◯ Information, technology (computers, biotechnology, software)
- ◯ Other (please specify)

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50) How many full-time employees does your company currently have?

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51) How many part-time employees does your company currently have?

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52) What percentage of current full-time employees are eligible to participate in the ESOP?

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53) Does your ESOP have a 401(k) component?

- ○ Yes
- ○ No, but we sponsor a separate 401(k) plan
- ○ No, and we do not sponsor a separate 401(k) plan

54) What state is your company headquartered in?

____

55) Please choose a category below for the dollar value of your company's revenues in the most recently completed fiscal year.

- ○ Up to $10 million
- ○ $10 million to $50 million
- ○ $51 million to $200 million
- ○ $201 million to $500 million
- ○ $501 million or more

56) Based on what you know today, how do you expect your 2023 revenue to compare to 2022?

- Up by more than 50%
- Up by 25% to 50%
- Up by 10% to 25%
- Up by up to 10%
- Flat
- Down by up to 10%
- Down 10% to 25%
- Down 25% to 50%
- Down more than 50%

57) What was the company's change in stock price in the most recent valuation compared to the last valuation before COVID?

- Negative (we had a loss)
- 0-10%
- 11-20%
- 21% or higher

If you would like to receive a discount on the purchase of the full report, please provide your contact information below. All identifying information will be removed from the database and your answers will not be associated with your company in any way.

Name:

____

Company:

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Email address:

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Thank you for your participation!

If you have any final comments, additions or clarifications, please enter them here.

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