Owning the Future: Creating the Next Generation of Employee Owners

June 14, 2023

Description

US businesses and workers are currently at a critical crossroads. Millions of baby boomers will soon retire and sell their businesses, transitioning trillions of dollars of wealth in the process. This transition, along with the continued strength and profit growth of large corporations in the US, has created a once-in-a-generation opportunity for millions of workers to share in the profits of their labor and become business owners. Many barriers, however, stand in the way of the US realizing this opportunity, and new policy innovations are needed to address these obstacles.

In this conversation, speakers discuss the barriers and solutions, including proposed legislation, to capitalize on the growing number of business owners selling their businesses to build a future where American workers' path to prosperity is self-determined. It features special remarks from the Honorable Chris Van Hollen (US Senator for the State of Maryland), the Honorable Dean Phillips (US Representative for the State of Minnesota), and the Honorable Blake Moore (US Representative for the State of Utah), followed by a panel discussion with Regina Carls (Managing Director, ESOP Advisory Group Head, JPMorgan & Chase Co), John Cochrane (Senior Manager of Policy and Programs, US Impact Investing Alliance), Bill Hayes (Founder and Managing Partner, Mosaic Capital Partners), Todd Leverette (Partner, Apis and Heritage), and moderator Jack Moriarty (Founder and Executive Director, Ownership America; Assistant Director for Policy Analysis, Institute for the Study of Employee Ownership and Profit Sharing, Rutgers University). For more information about this event — including video, audio, transcript, speaker bios, and additional resources — visit: https://www.aspeninstitute.org/videos/owning-the-future-creating-the-next-generation-of-employee-owners/

About

This discussion took place as part of the Employee Ownership Ideas Forum, co-hosted by the Aspen Institute Economic Opportunities Program and the Institute for the Study of Employee Ownership and Profit Sharing at Rutgers University. This two-day event brought together leading policymakers, practitioners, experts, and the media for a robust discussion on how we can grow employee ownership for the shared benefit of American workers and businesses. Learn more at as.pn/eoforum.

The Aspen Institute Economic Opportunities Program advances strategies, policies, and ideas to help low- and moderate-income people thrive in a changing economy. Learn more at as.pn/eop.

The purpose of the Institute for the Study of Employee Ownership and Profit Sharing at Rutgers University is to study the various models that have emerged and will emerge of employee ownership shares and profit shares in the corporation and society of the United States and around the world. Learn more: https://smlr.rutgers.edu/faculty-research-engagement/institute-study-employee-ownership-and-profit-sharing

Speakers

The Honorable Chris Van Hollen

U.S. Senator for the state of Maryland

Elected to the United States Senate by the people of Maryland in November 2016, Chris Van Hollen is committed to fighting every day to ensure that our state and our country live up to their full promise of equal rights, equal justice, and equal opportunity. Sen. Van Hollen believes that every child deserves the opportunity to pursue their dreams and benefit from a quality education and that anyone willing to work hard should be able to find a good job. That's why his top priorities include creating more and better jobs, strengthening small businesses, and increasing educational and job training opportunities for individuals of all ages and in every community.

Sen. Van Hollen started his time in public service as a member of the Maryland State Legislature, where he became known as a tenacious advocate for everyday Marylanders and someone who was unafraid to take on powerful special interests on behalf of working people. In 2002, he was elected to represent Maryland's 8th Congressional District. In the House of Representatives, he served as a member of the Democratic leadership and was elected by his colleagues to be the Ranking Member of the House Budget Committee and protect vital interests like Social Security and Medicare.

A tireless fighter for the people of Maryland, Sen. Van Hollen has also become known for working hard to find commonsense solutions to difficult national issues. In January 2015, he released a comprehensive plan to address the problem of growing inequality in America and provide a blueprint for building an economy that works for everyone, a goal that he will continue to fight for in the U.S. Senate. Sen. Van Hollen is proud to have worked successfully with members of both parties to pass bipartisan legislation whenever possible on issues of common concern, including expanding medical research, protecting the Chesapeake Bay, fighting childhood cancer, and passing the ABLE Act to assist families with children with disabilities.

Sen. Van Hollen is a graduate of Swarthmore College, the John F. Kennedy School of Public Policy at Harvard University, and Georgetown University Law Center, where he attended night school. He and his wife, Katherine Wilkens, are the proud parents of three children, Anna, Nicholas, and Alexander.

The Honorable Dean Phillips

US Congressman for the State of Minnesota

Dean Phillips is a father, businessman, civic leader, eternal optimist, and Representative for Minnesota's Third Congressional District in Congress.

A Gold Star Son who lost his birth father, Artie, in the Vietnam War, Dean was adopted into the Phillips family when his mother DeeDee married Eddie Phillips, who raised Dean to work hard and always share success.

Dean was raised in Edina, attended Brown University, and returned to Minnesota to earn his MBA from the University of Minnesota's Carlson School of Business. After working at a variety of small startups, he worked his way up and eventually led his family's business, Phillips Distilling. He later went on to help build Talenti Gelato into one of the top-selling ice cream brands in the country. He is now co-owner of Penny's Coffee, a small business in the Twin Cities, and is active in the philanthropic community in Minnesota through the Phillips Family Foundation.

In Congress, Dean is focused on restoring Americans' faith in our government. He's on a mission to inspire a new era of collaboration in Washington, pursue common ground for the common good, and end the corrupting influence of special interest money in our politics. Dean is Vice Chair of the bipartisan Problem Solvers Caucus and is a member of the House Ethics, Small Business, and Foreign Affairs Committees, as well as the Select Committee on the Modernization of Congress.

Dean has shown leadership and a commitment to working across the aisle during the COVID-19 pandemic. After hearing from struggling small business owners in the summer of 2020, Dean wrote the Paycheck Protection Program Flexibility Act with Texas Republican Chip Roy. Signed into law by President Trump, this critical piece of legislation helped small businesses keep their doors open and saved thousands of American jobs. Dean has also been a voice for oversight and transparency of trillions of pandemic-related stimulus dollars, and has led the Problem Solvers Caucus in negotiations with the White House and Congressional leadership to deliver bipartisan solutions for the American people.

The nonpartisan Lugar Center ranks Dean as the 13th most bipartisan out of 435 Members of Congress. He has been named a Fiscal Hero by the Committee for a Responsible Federal Budget and was recognized by the U.S. Chamber of Commerce with the Jefferson-Hamilton Award for Bipartisanship in the 116th and 117th Congress.

Dean has two adult daughters, Daniela and Pia. He lives in Wayzata, Minnesota with his wife, Annalise, and Henry the Norwich Terrier.

The Honorable Blake Moore

US Congressman for the State of Utah

A native of Ogden, Blake is a proactive problem solver committed to representing each and every constituent of Utah's First District. He is dedicated to reflecting Utah's values in Congress and finding solutions to the challenges facing the district and the state. Advocating for inclusive, pro-growth, and aspirational principles, Blake is amplifying Northern Utah's voice on a national level to ensure Utahns receive the service and representation they deserve. Blake currently serves as the first-ever Utah Republican on the House Ways and Means Committee, where he sits on the Healthcare, Social Security, and Work and Welfare subcommittees. He also serves on the House Budget Committee to push for policies to reverse our national debt crisis and advocate for Utah's defense community. His passion for helping organizations manage the change process drives his ambition to overcome partisan gridlock, improve federal agencies, and smartly streamline the nation's bureaucracy. Blake continues to represent Hill Air Force Base as co-chair of the Armed Forces and Depot caucuses.

Before being elected to Congress, Blake worked for small businesses and in the foreign service, experiences that now guide his work on domestic and foreign policy. Blake obtained a Master's in Public Policy and Administration from Northwestern University. He is married to Jane Boyer, his amazing, humorous, and very candid wife, who encourages him to take risks and pursue big things. Blake and Jane have four awesome and active boys who keep them on their toes!

Regina Carls

Managing Director, ESOP Advisory Group Head, JPMorgan Chase & Co.

Regina Carls is Managing Director of the ESOP (Employee Stock Ownership Plan) Advisory Group. She is dedicated to helping bankers and their privately held clients evaluate the benefits of selling stock to an ESOP and therefore creating liquidity for the owners in the transaction. Regina was responsible for the initial development of the ESOP Advisory Group. She quickly became a liaison with all areas of the firm assisting in the analysis and structuring of complex ESOP financings. Regina has been with J.P. Morgan for 30 years. Prior to spearheading the ESOP Advisory Group, she was a division manager within Middle Market Banking. She has gained broad experience during her career within the firm. Regina received a Bachelor of Business degree in Finance from the University of Iowa and holds a Master of Business Administration from DePaul University. She is licensed by FINRA with a Series 24, Series 63 and Series 79. Regina is a recognized expert and frequent speaker in the ESOP Community. In 2014, Regina was appointed to the Advisory Committee of ESCA (Employee-Owned S Corporations of America). She is a member of the ESOP Association headquartered in Washington, D.C and serves on their Banking and Finance Committee. Additionally, Regina is an active member of the National Center for Employee Ownership and Ohio Employee Ownership Center.

John Cochrane

Senior Manager of Policy and Programs, US Impact Investing Alliance

John is Senior Manager, Policy & Programs, at the U.S. Impact Investing Alliance. The Alliance is a non-profit organization dedicated to building the impact investing ecosystem by bridging market gaps and addressing shared challenges. At the Alliance, John helps to lead a range of program areas, including public policy advocacy, investor engagement and education, and the work of the Global Steering Group on Impact Investing. Prior to joining the Alliance in 2017, John was Associate Director for Social Innovation at the Council on Foundations, where he created impact investing programs to educate and train community, corporate and private. He has also worked with the Inter-American Development Bank, White House Business Council, U.S. State Department, and Morgan Stanley.

Bill Hayes

Founder, Partner at Mosaic Capital

Bill currently sits on the Board of Directors of Express Medical Transporters, ETAK Systems, and Linxx Global Solutions.

Prior to founding Mosaic Capital, Bill was Head of Corporate Credit for Deerfield Capital Management and Managing Director with Babson Capital Management. Bill is a graduate of The Citadel where he was commissioned as an officer in the U.S. Army. Mosaic Capital provides mezzanine debt and equity to middle market companies with greater than $10 million in revenues for change of control transactions. We recognize that a family-owned business is more than a means of wealth creation. It's the manifestation of optimism, determination and a willingness to take risks – key values worthy of passing on to the next generation of family, management and employees.

Todd Leverette

Co-Founder, Apis & Heritage Capital Partners

Todd is Co-Founder of Apis & Heritage Capital Partners, an impact-focused private equity firm that looks to address the nation's racial wealth gap by using the power of employee ownership. Prior to co-founding Apis & Heritage, Todd was the Program Manager of Legacy Business Initiatives at the Democracy At Work Institute, a national nonprofit that leverages employee ownership models as tools for racial and social equity. Todd is also a former Wall Streeter, start-up co-founder, and independent business consultant who has dedicated his life and career to leveraging the tools and best practices of big business to empower communities of color. He received his JD/MBA from Columbia University and is a Phi Beta Kappa graduate of Morehouse College.

Jack Moriarty

Founder and Executive Director of Ownership America; Assistant Director for Policy Analysis, Institute for the Study of Employee Ownership and Profit Sharing, Rutgers University

Jack Moriarty is the Assistant Director for Policy Analysis, Institute for the Study of Employee Ownership and Profit Sharing, Rutgers University. He is also the Founder and Executive Director of Ownership America, a think tank building the next generation ownership society. Ownership America is creating a movement for broad participation in ownership through policy development and organizing coalitions of grassroots advocates and across the country. Prior to Ownership America, Jack held a number of strategy and operations roles at early-stage healthcare delivery and technology companies. Jack received his MBA from the Cornell Johnson Graduate School of Management where he was a Roy H. Park Leadership Fellow and named a 2020 "MBA to Watch" by Poets & Quants. Jack is the Policy Institute Analysis Fellow at the Rutgers Institute for the Study of Employee Ownership and Profit Sharing and was named to the Massachusetts Baby Bonds Task Force by Treasurer Deb Goldberg in 2022. He holds a BA and MA in Political Science from Boston University and is an AmeriCorps alumnus.

Transcript

Jack Moriarty (00:00:03)

Good afternoon everybody, and welcome to our fourth and final panel of the day. Thank you all for being here once again. We've got a wonderful panel of market leaders and employee ownership here and in just a moment, Senator Chris Van Hollen of Maryland will be joining us to give some brief remarks. Before, while we'll wait for the Senator, I'll kick us off on the topic of the panel. This is about owning the future and creating the next generation of employee owners. And as we've heard, first of all, you met me earlier. I'm Jack Moriarty, I'm supporting the institute and I'm also in my day job, the founder and executive director of Ownership America, which is a nonprofit public policy organization, a think tank focused on scaling employee ownership, and in particular doing so through addressing access to capital issues and financing issues from a policy standpoint.

And so that's why I'm so thrilled to be here with, as I mentioned, for market leaders that are already in the capital markets working on this in some cases at the forefront or representing investors that want to see more opportunities to invest in employee ownership and grow the field. With that, I'd love to introduce our featured speaker, Senator Chris Van Hollen. Senator Van Hollen is the Junior United States Senator from the state of Maryland. The senator has been a strong proponent of equal rights, equal justice and equal opportunity. He's been a champion of creating an economy based on good quality jobs, which includes of course his tremendous support of employee ownership. The senator started his time in public service as a member of the Maryland State Legislature, and he's admired by leaders in both parties for his commitment to bipartisanship, which includes his lead sponsorship of the recently introduced bipartisan by Cameral Employee Equity Investment Act, which he will discuss with us shortly. Thank you, Senator for being here and for your leadership and promoting this issue. [inaudible 00:01:55]

Chris Van Hollen (00:01:57)

Well, thank you Jack for that very warm welcome. Even more thank you and others in this room for your focus on trying to grow the number of employee owned businesses in the United States of America. And I'm really grateful to the organizers, to Rutgers and The Aspen Institute for convening this because I think this is an essential and important issue for the future of our country. And I'm glad you've already had the opportunity to hear from some of my colleagues from the House and the Senate, and I apologize if I repeat some of what they said. I do want to give a special shout out to my colleague and senior senator from Maryland, Ben Cardin, who I think was here earlier who of course chairs the small business committee. I'm going to miss him. He announced his retirement, but I keep telling him he's got another 18 months.

And one of the things we're going to work on in those 18 months is employee ownership. And he of course has been active in this area, including the legislation he probably talked about in terms of providing more tax incentives for employee ownership. Look, I'm not going to spend a lot of time trying to convert all of you on the benefits of employee ownership. I'm guessing that you're here because you already understand how important it is, but I do just want to highlight and summarize some of the things we do know, which is all the evidence indicates that when you have employee ownership of a business, productivity of employees is up, resilience is strengthened because if you look at these companies when the economy goes bad or tough times hit, they find a way to more easily adapt. And of course there's more shared prosperity and that makes common sense because all those employees not only have a stake in getting their next paycheck, but they have a stake in the success of the company and the wealth that can be built from the company.

So that of course is the fundamental ideas to have more shared prosperity. And the figures bear it out. Employee owners retire with about three times the assets of employees that are not part of employee owned businesses. So this is clearly a good thing for the workers. It's a good thing for our communities, it's a good thing for the country, but we don't have a lot of them. If you look at the share of employee owned businesses in the economy overall, it's pretty small and it's been flat for about 10 to 15 years. In Maryland, for example, we have 125 companies that are employee owned. They're really good. But 125 out of thousands and thousands of companies in Maryland is obviously a small figure. So we know it's a good thing. What are the barriers? And there are a couple barriers. One is education awareness. I mean, there are lots of small business owners who are not familiar with this model, and that is something we all need to work on.

Another is complexity and the legal challenges of converting, and there are substantial legal challenges that people have to go through in order to make this kind of conversion. And third, and most of all, of course is the financing, the capital that you need to bring to the table. If you're an owner and you're selling your business, if there's not, neither, another source of capital out there, you of course have to self-finance it. And that means that if you're in the, first of all, you have to be in the position to self-finance it and usually means that your return on that sale to your employees takes place over a much longer period of time than obviously if someone swooped in from the outside, a private equity firm and just bought it, right, then you have your cash-out and you're done. But if you're an emplo, an owner who really does want to leave that company in the hands of the people who have made it productive for you, you want to both know about this option.

You want to find, we should find a way to streamline the conversion and we want to find a source of capital to really address that very big issue. And so we've introduced legislation that aims to tackle these issues, especially the financing issue and access to capital. It's called the Employee Equity Investment Act. I'm very pleased that it is bipartisan. So in addition to a number of my fellow Democratic senators, we also have on board Senator Rubio, Senator Young, Senator Braun, and a lot of them have important roles now and in the past on the small business committee, which turns out to be the place that this legislation will go. So I'm very pleased also to have my senior senators chairing that committee. And as I said to him, he's got 18 more months here, we got to get that passed. I understand you've heard a little earlier today from Jim Bonham with the ESOP Association.

We've worked closely with people like Jack and with people at the ESOP Foundation as we put this together to try to address a lot of the issues, which obviously come up when you're trying to do something. And we settled on this idea of using an existing model, using an existing platform at the Small business administration. And the current platform is called the Small Business Investment Company Program. And it was established decades ago because of the challenges small business were having to access capital, they were smaller, they were riskier, they didn't necessarily have a big track record. And so by law, this was established to help provide incentives for others to bring capital to the table. But at the end of the day, those who are bringing capital to the table are actually financing the costs of the program itself and are also taking the greatest risk ultimately because their capital is what's burned through first before you get to any guarantee from the small business administration and the government.

So we use that platform and we want to build on it to not only encourage investment in small businesses, but specifically target investment for the purpose of establishing employee owned businesses and helping those that are trying to expand the number of employees participating in the business. And these are called the Employee Equity Investment Companies. That's the parallel to the small business investment companies. And it's important that we launch this now because we are experiencing major demographic changes around the country. I suppose others are probably spoken about the silver tsunami already, but right now we're projected to see that the owners of 2.9 million small and local businesses employing 32 million Americans are likely to retire soon. This is the baby boom generation of small business owners and they're going to be retiring. So what's going to happen to all those small businesses? Well, it's very possible that outside private equity firms will come in and somebody on Wall Street may say, Hey, that's a really good target.

That obviously is not going to make the employees owners there. And a lot of these small businesses, as you all well know, are also connected to our communities, contributing to our communities. They're our neighbors, they're part of the little league, they're part of the social fabric of a community. And it makes a difference to have the employees as owners and also owners who are part of the surrounding community. And so given what we're facing in terms of the silver tsunami, we think it's really an important moment to move on this effort. If you look at the current figures in terms of ownership, at least of public companies, you'll find that 40% of US corporate stock is owned by foreign nationals. And our goal is to make sure that as these small businesses, their owners retire, that instead of being bought up by private equity firms, including a lot of folks who may be foreign investors, that the investors be the employees themselves, and that the beneficiaries be the employees themselves.

And so that is what this is all about. It's about making sure that we can achieve this goal that everybody talks about. But it's always been hard as you look at the trends over time to accomplish, which is a more shared prosperity. And I understand if we pass this legislation, we're not going to wake up tomorrow morning and see everything transformed. But by providing this mechanism, I am absolutely convinced that over time we will definitely see the growth of employee owned businesses. We got to take away the, we got to make it more, people more familiar with the model, we got to get rid of some of the legal barriers while also making sure that we're protecting employees. And this bill, in my view, does exactly that, and we've got to address this big financing piece. So thank you all for devoting this time to this goal, and I hope all of you will join our efforts and encourage all of our colleagues to pass it.

And I do want to thank our house members who are leading the effort. Dean Phillips and Blake Moore are the primary co-authors. Christi Houlahan, I don't know if you heard from her yet, but she's also a co-sponsor in the house. So whatever you can do, I mean, you can be our best ambassadors here in terms of reaching out to other members to make sure that we get this over the finish line. And I do think there's a lot that we're not going to be able to do in the next two years given the sort of political division. But the fact that we have bipartisan support for this bill makes it different than a lot of other proposals that are out there. So we really want to invite you to be part of this effort. So thank you very much for having me.

Jack Moriarty (00:12:54)

[inaudible 00:12:56].

Chris Van Hollen (00:12:55)

Thank you. Thanks a lot. And I do want to thank Harry Stein, who's right here in the back, who's really put an enormous amount of effort as my point person on this. Thank you all.

Jack Moriarty (00:13:13)

Thank you. Well, thanks so much, senator. And thank you, Harry. While I'm going to go ahead and take this opportunity to introduce our esteemed panel, I'll also note that the Congressman Dean Phillips will be joining us a little bit later on. So part of the dance is we'll maybe have to pause things and bring the congressman in, but that's how we roll here. So as I mentioned this, the senator's comments a perfect segue to thinking about how do we address financing barriers? And I'm thrilled to be introducing my colleagues to my right, starting with Regina. Regina Carls is a managing director of the ESOP Advisory Group at JP Morgan. She's dedicated to helping bankers and their privately held clients evaluate the benefits of selling stock to an ESOP and therefore creating liquidity for the owners in the transaction. Regina was responsible for the initial development of the ESOP advisory group.

She quickly became a liaison with all areas of the firm, assisting in the analysis and structuring of complex ESOP financings. Regina has been with JP Morgan for 30 years. Prior to spearheading the advisory group, she was a division manager within middle market banking. She's gained broad experience during her career with the firm and received a bachelor's degree of finance from the University of Iowa and holds a master of business administration from DePaul University. She is licensed by FINRA with a series 24, series 63 and 79. She's a recognized expert in frequent speaker in the ESOP community, and in 2014 was appointed to the advisory committee of ESCA. She's a member of the ESOP Association, headquartered here in DC and serves on their banking and finance committee. And finally, Regina is an active member of the National Center for Employee Ownership and Ohio Employee Ownership Center.

So my immediate right, Bill is a founder and partner. Bill Hayes is a founder and partner at Mosaic Capital Partners, an employee ownership focused private equity firm. He currently sits on the board of directors of Express Medical Transporters, eTax Systems, and Linxx Global Solutions. Prior to founding Mosaic Capital, Bill was head of corporate credit for Deerfield Capital Management and managing director with Babson Capital Management. Bill is a graduate of the Citadel where he was commissioned as an officer in the United States Army. Mosaic Capital provides mezzanine debt and equity to middle market companies with greater than $10 million in revenues for change of control transactions. Bill and his team recognize that a family-owned business is more than a means of wealth creation. It's the manifestation of optimism, determination, and a willingness to take risks, key values worthy of passing on to the next generation of family management and employees.

Todd Leverett is a co-founder of Apis and Heritage Capital Partners, an impact focused private equity firm that looks to address the nation's racial wealth gap by using the power of employee ownership. Prior to co-founding Apis and Heritage, Todd was the program manager of Legacy Business Initiatives at the Democracy at Work Institute, a national nonprofit that leverages and employee ownership models as tools for racial and social equity. Todd is also a former Wall Streeter startup, co-founder and independent business consultant who has dedicated his life and career to leveraging the tools and best practices of big business to empower communities of color. He received his JD MBA from Columbia University and is a Phi Beta Kappa graduate of Morehouse College. And last but certainly not least, John Cochrane is Senior Manager Policy and Programs at the US Impact Investing Alliance. The Alliance is a nonprofit organization dedicated to building the impact investing ecosystem by bridging market gaps and addressing shared challenges.

At the Alliance, John helps to lead a range of program areas including public policy advocacy, investor engagement and education, and the work of the Global Steering Committee group on Impact Investing. Prior to joining the Alliance in 2017, John was associate director for social innovation at the Council of Foundations where he created an impact investing program to educate and train community corporate and private stakeholders. He's also worked with the Inter-American Development Bank, White House Business Council, the US State Department, and Morgan Stanley.

So thank you all for being here. I'd love to kick things off with a sort of macro question. All of you are either directly operating in capital markets or you're directly adjacent. If you could start, and we'll start with Bill and go down the row here, just give us a sense of the ESOP market. We know the demographic challenges, we know some of the interest rate environment, the Fed met earlier today and paused on a rate increase, but we've certainly seen a lot of changes from a monetary policy standpoint. Give us a sense of what are you seeing in the market and tell us more about your specific investment strategy.

Bill Hayes (00:17:42)

Sure. As an SBIC, we're more focused on the lower middle market and kind of the beginning of the true middle market. Oh, sorry about that. Can you hear me? Closer? All right, we'll try this. Not used to doing this folks. As I was saying, we are a small business investment company. So by the very nature of that, we're focused on the lower end of the middle market. Typically, our companies have five to eight million of IBDA, so that's pretty small business. We've done 16 companies since 2013, created over 2,600 employee owners through that process. And we are in the licensing process for our second fund to do that very strategy. Having said that, we're a bit of an odd duck at SBA. We're the only fund licensed to do this at this point. We typically, different than long ago where you used shoe leather, you went and you met business owners and you started pitching ideas. Most companies that we see are now represented by investment banks, some big and banks, some small local niche. And the goal is to drive the highest value for the owner of that business.

And as a result, we compete with other private equity funds that might be looking to buy a company of that nature as well as strategic buyers. So larger companies or companies looking to roll up and add to their business line. And so we have to be competitive in that process. And some of the unique features of ESOP transactions allow us to do that. I think one of the biggest impediments that we consistently see is because we bring capital, no banks, other funds that help raise the capital needed to do the transaction, but it's getting a price that those sellers willing to transact. They don't want a partial exit from their business. They would like full liquidity because they're doing estate planning and other things that they would like to move on with the business.

And in our transactions, we're typically able to get them about 90% of the liquidity. We do like to have them roll over a piece so that our interests are aligned with theirs over time. And often we see them involved in the business post-sale of the transaction at least for a few years, but often throughout the life of our investment. And I think the others will say that that's probably the biggest impediment to convincing a seller to do an ESOP is the ability to get full liquidity of the transaction versus taking the seller notes that Jack had mentioned earlier.

Regina Carls (00:20:40)

So as Jack mentioned, can you guys hear me, okay? It's on.

Jack Moriarty (00:20:41)

[inaudible 00:20:43].

Regina Carls (00:20:43)

It's red.

Jack Moriarty (00:20:46)

It's red.

Speaker 5 (00:20:48)

Bring it.

Regina Carls (00:20:48)

Can you hear me? Okay, sorry. So as Jack mentioned, I head up our ESOP advisory practice for the commercial bank and our team has been around, I founded the group 16 years ago. I've started on the commercial side working with business owners, financing corporations my whole career and always looked at this. We were the benefit of a lot of practitioners who are in the room here today, some good work that's been done to really expose the market to ESOPs. And it was interesting when I got started, it was one of those areas that I approached the bank three times to start a practice group and twice was turned down, told that it was not a big enough market that we did ESOPs within our portfolios, but the reality was we did them, but I don't think we knew what we were doing. And I said, it's really the least understood corporate finance tool out there.

And so fortunately after the three is a charm, they came back and asked me to really greenfield a group. And I've been doing that for 16 years. It's been a very successful group within our commercial bank. And I would agree, I think starting with awareness, I've heard that multiple times today. I think back when I started the group, awareness was a big issue. People hear of it, they don't really understand it. The other piece of it I'd say is it's dispelling the myths. You always talk about the financial advisors who have the ear of the owner. And many times when you talk about an ESOP to these owners, they'd say, oh, I talked to my accountant. They said, that's not the option to go, or you can't get what they're representing. Or an ESOP causes a company to fail. And I quickly come back to the argument that it's not an ESOP that causes a company to fail.

Companies go through cycles. We work in the banking industry, banking clients have problems. It's how you work through those problems. And I would argue that the ESOP structure, especially in those 100% S structure, actually gives them a little bit more of a tax shield to sustain some of that volatility. And as a result, we've seen great performance within our portfolio. And I think when I talked to my other competitor peers out there, we all can share in that and we can talk about that in a little bit. As far as the capital restraints, I would agree that there are transactions where that will limit business owners who may want to get more cash at close. So I would say it's not the entire universe. And I can look at some people in the room here who've gone down the route who actually enjoy a bigger seller financing component to transactions.

So it's really bringing capital to bear. And I can talk about a transaction where that came in, whereas it was important based on the age of the owner. But I think overall as a space, the awareness is there. I would say going back to my role as an advisor, we're an advisory group within the commercial bank. That's exactly what we're doing. We're spending our time going across the country, meeting with our bankers and underwriters, our private bankers to really educate them on what is an ESOP. Because I think most people, and before I started this role, I can tell you when you say what is an ESOP? People would say E-S-O-P. Beyond that, they didn't want to have to get into the weeds. And I think the technicalities of an ESOP at times may scare companies off, may scare bankers off because you do have to invest in it.

And that's why we set our group up the way we did that we work exclusively with ESOPs and we don't just get in the transaction at the initial formation. We're staying in through the life of the loan. And I think the other difference with my team is, they always say surround yourself with talent. I have some exceptional talent on the team. When you look at what is involved in an ESOP transaction, it's various disciplines. And I have former evaluation practitioners. I have a former ERISA attorney, a trustee. I've got actually an individual on my team that used to be CEO and CFO of an ESOP company. And so we're seeing more and more of this and more and more banks are entering the space, which I think, although somebody mentioned it's good for us that know how to underwrite to an ESOP company, the reality is every bank should understand this because if they do have the ear of these owners and they need to be able to represent this as a viable transition. Because the last thing we want to be doing is terminating ESOPs because they didn't know what they were doing.

Todd Leverette (00:24:55)

Great. Good afternoon everybody. Thank you for the opportunity to speak today. My name is Todd Leverett. I'm co-founding partner of Apis and Heritage Capital Partners. And as Jack mentioned, we're a lower middle market buyout fund that focuses on converting closely held, privately held companies to employee owned. One thing that makes our firm unique is that we focus on companies with diverse workforces. So we will only convert companies that have at least a third of their workforce being BIPOC workforce. And we also focus on those workforces that are majority low and moderate income. So to date, we have two companies within our portfolio, a landscaping company in El Paso and a plumbing company in Denver that represent almost 250 families. Over 80% of the workers are BIPOC and the majority of the workers are low and moderate income. So we really see this as, I think everybody here sees this not just as a solution for owners, but also for workers who need opportunities to build wealth who've been locked out of those opportunities by other means of who are diverse and not diverse.

Every worker within our portfolio gets to participate. I'll take a step back. When we talk about the state of the ESOP market and Senator Van Hollen talked about this before, I'd like to just frame it as two pieces. There's a big opportunity and there's a big risk. And often those are the different sides of the same coin. So the opportunity is really related to there are, especially in the lower middle market where Bill and I play, there are a lot of companies that need to transact, there are lot of sellers who need to exit. And y'all have probably heard silver tsunami a 100 times a day, so I won't say that, but I'll kind of say it. When you look at the market for, especially lower middle market transactions, there are just huge amount of opportunity. And on the risk side, there's a ton of over trillion dollars of dry powder in traditional private equity spaces looking to consolidate that wealth building power in the hands of a relatively small number of folks.

And then you have other models that are able to take that wealth building power and make sure it's dispersed a little bit more broadly. Again, not to talk negatively about our traditional private equity partners, but I think when you're an investor, when you are someone, an economic developer, somebody who's thinking about not just returns on investment, but all the externalities that come along with where capital goes, and I think looking at, I think about if you're a state pension fund investing in something that's not just getting you return on your dollar but that's also preserving jobs in the state that you care about. So making sure your outcomes are aligned with your investment is really important. And we think this model does that in spades when done the right way. So tremendous opportunity but also tremendous risk in that if we don't jump on the opportunity, then we probably won't have a window of investment like this with all these businesses looking to change hands for a long time, if ever. So happy to be [inaudible 00:27:52].

Jack Moriarty (00:27:53)

John, I'll bring you in as someone who's sitting in a little bit of a different position representing investors that care about impact, but they also are competitive investors. They want attractive risk adjusted returns. How do you view the intersection of employee ownership and the other priorities of your investors? What's the appetite for seeing more investment opportunities in this field? And love to give your perspective on those issues.

John Cochrane (00:28:19)

Yeah, thank you. There we go. And I think I'm in the unenviable position of probably knowing the least on this panel about employee ownership, but I know the most about how to work the microphone having watched everyone else, so well positioned. So yeah, as Jack said, I sit at the US Impact Investing Alliance, and to say just a bit more about who we work with, we represent a range of investors including foundations, high net worth individuals, increasingly corporate investors, corporate venture capital funds, and the like who are seeking to invest their capital to achieve financial returns as Jack was just saying, positive financial returns, but also to achieve positive and measurable social economic or environmental impact through those investment decisions. In addition to the asset owners that we work with, we also have a number of intermediaries, wealth platforms, fund managers, et cetera, who are represented on our various advisory boards and councils.

And so collectively, our asset owners hold hundreds of billions of dollars in capital and the managers are responsible for trillions of dollars in capital. And across that there is a broad range of expectations for what they're going to achieve through their investment decisions. And so when you talk about impact investing, sometimes it can be hard to pin down what that says, and we're not always helpful because we do look across the spectrum from folks who are willing to really make concession to achieve the impact that they're seeking. But as Jack was pointing out, it definitely goes through to folks who are looking at sort of attractive market rate returns.

And so why did we get involved since, as I said, I don't know all that much about how to actually structure an employee-owned company. That's not my role. What brought us to it, and I think Senator Van Hollen started to bring it up. Todd was mentioning it. There is obviously this silver tsunami conversation, but it goes beyond that too. There are so many other factors that I think make this a critical conversation right now, and one that the investors that we represent are extremely interested in. So you could look at everything from the lingering effects of the COVID crisis and the disproportionate impacts that had on small businesses, especially minority-owned small businesses.

You could look at the sort of supply chain challenges that highlighted and how we need to think about keeping the sort of small producers that are doing good work in this country in place so that we push back on that and grow them and make sure that there's an opportunity to grow into all of the opportunities that are presented to us with the sort of ongoing economic transitions that we see. Our president at the US Impact Investing Alliance, Fran Seegull, who unfortunately couldn't be here today just because of scheduling, she had the chance to sit on the Good Jobs initiative that we heard about earlier from our Department of Labor colleagues.

And so that is really the confluence of those macroeconomic changes, the desire that we see from investors to pursue these positive social economic and environmental impacts and the commitment that we see right now from government to promote good jobs. That really brought us into this thinking about, okay, what is the role that investors could be playing? And employee ownership was a really natural extension of that. So we have seen just incredible interest from the members that we work with, the investors that we work with in being able to be a part of this growing conversation about employee ownership. But to pick up on what Regina was talking about, these are not, there's a lot of, and what we heard about earlier in the panels that I was able to attend, there's a lot of capacity needed to be able to do this right, to do this well.

And you're not going to build that out inside of a foundation. You're not going to build that out inside of a family office. You need to be able to work with the kinds of sophisticated capital markets, intermediaries to my left, who are able to do these deals well, to structure funds that are going to be successful. And so that's what our members are eager for and what I think the policy being advanced by Mr. Van Hollen and his colleagues presents an opportunity for is to get more of those sort of critical intermediaries in place that really build the infrastructure so that we can do more of these deals because the interest is there from the capital that we work with, but they sort of need the opportunities presented to them.

Jack Moriarty (00:33:27)

Absolutely. Well, thank you, John. We've heard a bit now both from the senator's remarks, from the congresswoman earlier and others about this seller financing barrier and how transactions, when you have a sponsor, a fund sponsor that is putting forward an ESOP strategy that it's an unusual, it's a bit different than your traditional structure. So I'd love, Bill and then Todd, and then I'll bring in Regina, love to just a little more bit more in the weeds on how does that actually look in practice. Bill, you'd mentioned that you are participating in auction processes with traditional intermediaries, right? That is an unusual place often for the ESOP model to play. Tell us about that experience.

Bill Hayes (00:34:08)

When we set out, can you hear me now? When we set out with this strategy, which started back in late 2011, 12, we felt we were trying to serve this niche that had not been served by the capital markets because these companies are great investments for all the reasons we have discussed, but pretty much ignored by the normal capital markets with regard to the junior capital. And so we went through the process to get licensing, but our structures look really no different than any private equity buyer or strategic. We raise some senior debt from banks, which is 25 or 30% of the total purchase price. We work with other funds, many of them are SBIC funds that do traditional mezzanine debt lend, kind of junior debt lending. And then our fund provides the junior capital, which would typically be funded by the equity block from a private equity fund.

We use some of the unique laws around ESOPs to make that investment where we don't own the company work out economically. So we're getting equity-like returns. But in the process of doing that, we're creating a significant value to the employees that they don't have to pay for the management ourselves as kind of a sponsor and the outside directors that we bring in, sit on a board and really guide strategy and solve problems and bring resources to bear at the company level. So in that regard, we don't look terribly different than a typical buyout, but the structure of our securities is different. The new act takes account of that and we've been able to make it work. I think that's pretty much all I'd say on the structure.

Todd Leverette (00:36:04)

And what I'll add to that to do the compare contrast, traditional private equity on, I'll talk about our transactions, but I sure live it applies to yours as well. On day one of the transaction, when the senior lender brings in the capital, our team brings in the capital. As soon as the papers are signed, the company is not owned by a percent Heritage or not owned by Mosaic and just want to accentuate this point, Bill, it's 100% owned in most cases. We can go down to 80 by the workers at the firm and we will sit on the balance sheet, so to speak, as a mezzanine debt product. So it's really important for the model for several reasons for these companies to be 100% employee owned on day one. One, I think that the fact that they are in reality, a 100% employee owned is very meaningful. Not just to us, but it's very meaningful to the employees and to the workforce.

And so, one of the first things we do is bring in our artistic director from the fund and they add the words 100% employee owned to the logo, that's the first change that happens, old logo just add a 100% employee owned. But what I think that represents is this concept and idea. I know that we espouse at A&H that ownership is you can set up the cool retirement account, but real ownership is more than that. And if you really want to see a lot of the improvements and the research shows this, that you see in employee-owned companies where they're able to withstand downturns better, where they lay off less employees, where they grow faster. It's really important to pair with that cool ESOP retirement account start to really create a culture of ownership with those workers.

And this is something you can do, whether or not you have an ESOP or not, but it's a lot more effective when the financial reality is ownership. And so really coming in and our partner DAW, Democracy at Work, Institute comes in partners with us in these firms and starts to create a ownership culture where these workers really start to see the connection between their life and their wellbeing and the quality of their jobs and connect that with the success of the company. I think I'm way far off the question, but the idea is on day one, a 100% employee owned, but until you really start to build that culture of ownership in our heads, it's not a 100% employee owned to the workers understand it, and until it starts to change the way that they engage with their work and make the business better. So the financing and the reality of the culture kind of go together.

Jack Moriarty (00:38:33)

Well, let's turn our attention. We of course heard from the senator on the Employee Equity Investment Act and others today. First Bill and then Regina. Bill, you sit in a unique position given that you are an SBIC licensee, you have some experience with the program. Tell us about what that experience has been like. I know you operate a little bit differently than your traditional SBIC fund. So tell us about a little bit more about the SBIC program. Senator Van Hollen gave us a little bit of background context, your role, and then where you see the opportunities in the EIA to accelerate its potential.

Bill Hayes (00:39:09)

Sure. Just a little bit of background. The SBIC program was established I think in 1958, and the goal was to have private capital and the government partner to provide capital to smaller businesses in order to, as you well know, most employees are employed by small businesses, but the goal was to energize the economy and grow. And so that's been a hugely successful program. Most SBICs, and there's 350 or so at any given time are focused on mainly mezzanine debt. Some provide more senior debt similar to banks because some companies, banks aren't interested. But SBIC funds will often step into that based on the profile of the company. Some of those funds will do small pieces of equity like investments, and there are a few that maybe do 50%, 50%, but there aren't many of those. So when we came into the program effectively making debt investments that look like equity, we were a bit of an odd duck, as I said earlier.

And so there's not a lot of institutional knowledge within SBA around ESOPs. They know a lot about small businesses and the things around that program, but not very, I would say very little knowledge institutionally around ESOPs. And so we've spent a tremendous amount of time and effort educating them both with our first license and then due to turnover of people, we've had to do that with our second license. And then there's turnover in their investment division that monitor and work with you throughout the life of your SBIC fund, that we continually do educational efforts there so that they understand the life cycle of an ESOP, how are they structured, how do you get in? Who are the parties to the transaction? What controls do you have as an investor? How do you get out of your investment?

So we're continually doing that, and I think the office of employee ownership that would be established by the bill would be huge in establishing that institutional knowledge and also enabling other management teams such as ourselves to use this program to bring more capital to the lower middle market. And in particular, I mentioned we'd done 16 companies, about 2,600 employees that's working within the size standards of the current SBIC program. But with the new act, it would triple the size of the companies that you can invest in. So for the same effort that we put forth, we could have touched three times as many people. And so I think that's a big part of the new program.

Jack Moriarty (00:41:56)

Regina, from a senior lender's perspective, tell us a little bit about the potential opportunity of having more fund sponsors into the market in a more junior subordinated position, and also as you've gotten up to speed where you see opportunity in the new legislation.

Regina Carls (00:42:13)

Well, I think as we've said, the majority of our transactions today have gone this a 100% S-corp piece up route just because the benefits afforded to that structure. We do have situations, as I mentioned before, that the additional capital that is needed to be brought to the table through mezzanine. Additional cash to close would encourage more business owners to consider an ESOP. It doesn't discourage overall companies from pursuing this path, but having more capital at the table would be impactful. I would say in the economic environment we're in right now. The other benefit would be risk and the fact that as the banks and lending markets change, we've seen it from recession to growth to recession, the bank markets change. And so the amount of financing that we're able to bring to the table will change as a result of the economic conditions. And having a layer of capital that could basically bolster the capital structure to fulfill this ownership transition, I think would continue to drive more activity in this space.

A lot of people ask me when the markets change, are we going to see ESOPs dry up? And the reality is we did not. We see more transactions closing. They may go a predominantly seller finance route and they wait till the markets improve and they come back to the market and recap it through the senior markets. So this to me would be a flexible tool to bring to the table to bring some cash because obviously that's important when anytime you're transitioning a business to the business center wanting some capital at close, this kind of provides that layer of capital that we otherwise wouldn't have.

Jack Moriarty (00:43:49)

Todd, we've talked about relationships between subordinated lenders with banks. Tell us about the interactions with sellers, right? You've done a couple of deals now at least, and how that conversation has been that may not have been possible potentially if not for your capital solution.

Todd Leverette (00:44:07)

Yeah, I'll tell you, even before we went into the market with this model, we wanted to get as much of a view and perspective of it as we could. So we spoke to the team at Mosaic, spoke to the team at American Working Capital and some other folks who had engaged with cells around the model. And what we heard from them is really what we experienced, which is when you tell people, and I also had this experience working in the nonprofit world, when you tell people that there's a very real tangible opportunity to move a business, the ownership of a business from the owner to the workers, I mean the level of, first, confusion because the concept of disbelief, confusion because the idea, and I think this is part of the zeitgeist of ownership.

And I think we live in that the age like the hero entrepreneur, like only one person could have started this business. Only one person keep this business going. Where the reality is, if you have the right support, if you have the right leadership structure, if you have the right financing, and businesses can succeed with all that, but the excitement of a owner who has no idea where his or her business is going to go when they exit and leave, are they going to have to sell it to the competitor down the street who they hate, who they never want to sell the business to or to another sort of investment firm that they know is going to start cutting heads immediately. And it's funny, sellers always know who's going to get fired first when they sell to a traditional buyer. And so to present them with an opportunity where the investor or the buyer is the worker, the next question is they can't afford it. And the capital that we bring to the table is what enables a workforce to be able to buy a company without coming out of pocket.

So there's excitement first or there's doubt first. And we talk sellers through that. And then the question is, am I going to be able to get the liquidity and the fair value for my business that I would've gotten otherwise? And sometimes that's the first question. So if you can get through all of those questions, make them feel confident that they can get fair value for their business and the liquidity that they need to retire and take care of their own families, if you can convince them that what you're bringing to the table, that opportunity is real and really just let the excitement around the opportunity kind of go from there. I mean the competitive of this model in the market when you can make sure that folks are getting paid fairly. I mean, I think folks without the model should be nervous and worried as more capital comes into the space because it's the most compelling value proposition for an owner that a lot of folks can imagine.

Bill Hayes (00:46:51)

If I could just add to that, we haven't addressed the management team, which is who you you're really going to work with going forward.

Todd Leverette (00:46:58)

Yeah.

Bill Hayes (00:46:58)

Hands down, management prefers the structure because they control their own destiny. When you go from a private owner to a private equity fund in three to five years, they're going to flip it. And you don't know what that means to you as the executive team or the senior management folks running the business. With an ESOP, you know what that outcome's going to be and you have more control over your destiny. And I think that's a huge part. And often these businesses, the management team can really influence the seller as to which course of action to take, because if they really believe in what we're suggesting, they may say, if you go that route, I think I'm going to leave.

And if that's the key that keeps the private equity guy buying it, then there's some influence that can be had. It's very interesting, those dynamics as you get into the transaction. We've also found, I don't know if you've experienced this yet, but by the time you get deep into the transaction, most of the owners have said, I think I'll roll over some of my investment or more than I thought I would because I like what you're doing and I'm very pleased with what you're going to do for my management team and my employees. And you don't really see folks wanting to put more money into a private equity deal in my experience.

Jack Moriarty (00:48:18)

John, circling back to your observation that there's a lot of appetite for this and the investors that you organize and engage with, but I think the opportunity set is still small, right? We have a number of great early adopters including those that are here today. But I think one of the things that the alliance has been thoughtful about is using public policy as an opportunity to catalyze, right? New markets, new investment opportunities that again, marry this high financial performance outcome and return outcome, but with issues like workforce and local job creation and so forth. Tell us a little bit about how public policy generally and then in particular in our employee ownership can really catalyze the role of private investment.

John Cochrane (00:49:07)

Yeah, no, it's an important question and I think we do always think really carefully about this because our role is not to say the federal government should be subsidizing the investors that we work with. No, it's about enabling, encouraging investors to think about the way that they can achieve these positive impacts that I talked about before. And fortunately, we have actually a really robust track record of the federal government doing just that, going back to the '70s if you want to, between tax credit policy, between the Community Reinvestment Act, bringing banks into the mix, between some of the more modern things like up to opportunity zones recently, there are different ways that federal government can shine this spotlight on investible opportunities that really do catalyze a private market more than anything else. And I think actually the SBIC program, building off this established model makes a lot of sense for the new legislation because we have seen that provide an opportunity for funds like Bill's to go through. It's rigorous, you're talking about it and you're going through it again to show that this is a solid fund that can manage private capital well.

And so there's this really important spotlight effect that the federal government can play. And I think that's what we're seeing now. The senator who spoke earlier and the others who came really highlighting that employee ownership is something that should be thought about right now. And I think the other thing as I was just listening to everyone else on here who does sit on the deal side talk through this that's so important is that, and which we certainly hear from the impact investors that we work with, is you need alternative capital structures to make some of this work. Just if you really want to have the sort of deep impact that the folks we work with are seeking traditional debt, traditional equity leaves just that gaping chasm in between for a lot of the communities and the businesses and the workers and the residents that we're trying to benefit at the end of the day.

And so how the government can help to prove out these alternative models, that's incredibly important. We saw that, again, I go back to so much of the experience from 2020, it was critically important because we saw a real fear from the investors that we were working with. They had capital to deploy, they wanted to put it to work in the communities that we're seeing shutdowns or sort of business disruptions, payroll disruptions, but they didn't want to over in debt those companies, they didn't want to sort of shackle those companies. They wanted to grow them over time. And what they needed was an alternative approach. And so this is one alternative approach and we hope that it'll continue to grow and that spotlight effect will be really useful.

Jack Moriarty (00:52:23)

Well, thank you John, and we will momentarily pause our featured program to welcome our final member, speaker and champion for the day. Hey, Congressman, how are you? [inaudible 00:52:32]

Dean Phillips (00:52:31)

Fantastic. Well, I actually don't, my remarks are about 45 minutes so and I know you've been here probably for many, many hours. And I just want to say thank you. I come to this work from a background that's somewhat unique, grew up in a business family. My great-grandfather, Jay Phillips, used to tell me regularly, he said, Dean, money is like manure. If you stack it up, it stinks. And if you spread it out, it fertilizes. And he reminded me time and time again that business is a means to an end. The end is not to aggregate as much capital as possible, rather to share as much possible with those who helped create it. And I've been working hard over four and a half years here in Congress to find common ground between Democrats and Republicans. And I'm pleased to say that I think we have. You heard from my dear friend and colleague Blake Moore earlier, that Senators Van Hollen and Rubio are also leading this in the Senate, some strange bedfellows, which is actually a darn good sign that we might be onto something.

And I just want to thank every single one of you, our panelists, all of you here in the audience for prioritizing, I think something that could be transformational for our country. And if we can share success, create an ownership economy, we will have accomplished something that I think will be transformational in beautiful ways, socially, economically, and frankly from a unification perspective, which our country needs more than ever. So those are my remarks. I have nothing else to share other than heartfelt gratitude for what you're doing. I am on this mission with all of you. I'm your friend, your colleague, your ambassador, and your humble servant. So with that, please call on me when I can, whenever you need anything. But also help us now if you can. Encourage our brothers and sisters on both sides of the aisle to get on board with this. Because if we do this together, I think it'll be an extraordinary legacy for every one of us and the communities in which we live. So thank you so much. I'm honored to be with you, and I hope I'm the last speaker of the day. Thanks, everybody. [inaudible 00:54:43]

Jack Moriarty (00:54:42)

Okay. Well, thank you, Congressman. We really appreciate it. I think wrapping up here, I think, why don't we go to some Q&A. I like Maureen's approach of three questions in a row. So Ken, why don't you kick us off and then others feel free to raise your hand, and mic is on the way. Thanks, Matt.

Speaker 9 (00:55:19)

Starting early to do an ESOP at an early age and taking back some of the financing from a seller's standpoint. And if you have banking relationships already with your line of credit and what have you, that means it's mezzanine financing. And so that means that you can get a higher interest rate, and correct me if I'm wrong, 9, 10, 11. So there's, from a seller standpoint, not that I did this, I found this out afterwards. That's an added benefit of getting a return on your investment. And number two, if the selling shareholders stays with the company that is in an employee of the company, he or she's getting the shares back free. And I'm not sure if everybody really talks about those two items, which if you start stacking them up into the spreadsheet and looking at private equity and looking at employee ownership, it certainly could maybe tip the scales, especially if share price is going up and you're getting those shares back free. So I just wanted to, I don't have a question. I have a, sorry.

Speaker 10 (00:57:00)

I actually think I can frame what your question may have been, which is the debt service of the higher interest rates on the company's balance sheet as you continue to grow. My question is this, Chris, and you and I forget your name, John and Regina, nothing against you two, but you're in the private equity world, is have other strategies... Nothing bad. I appreciate what you're doing, not, have other strategies been evaluated to promote investment in employee ownership? One thing that comes to mind is, especially John, when you were talking about it, was the historical preferential interest rates to banks to be investing in ESOPs, which gave a lower cost of financing. We've talked a lot today at the state levels, and there's been some extraordinary opportunities with state guarantees credited, as a credit enhancement or link deposits to provide lower cost of credit as well. And I would be interested in any discussions around other forms of capital enhancements to promote employee ownership.

Jack Moriarty (00:58:07)

And one more question.

Speaker 11 (00:58:09)

I have to put this in the forum. It's a comment with a disguise question. So the [inaudible 00:58:15] beginning with the question is this enough a statistic, which Dick May and I have and other friends have dug up, which was a little bit behind the idea of coming up with this bill, is that we believe that ESOP transactions are about two-tenths of 1% of M&A activity in the United States. So why are we doing this? We've got 7,000 ESOPs. It's been flat, the growth has been flat. We need to do something more, I think to get from two-tenths of 1% to being a real competitor, a professional friendly competitor with conventional private equity to do this kind of work. So my question is two-tenths of 1% enough. There we go.

Regina Carls (00:59:05)

Well, I'm going to just address that we've been flat because I would argue that we do see growth every year. I mean, my team looks at several billion dollars in transaction activity a year. The reality is we have a lot of M&A in this space. And then we do have companies who are very successfully sub companies for a long period of time that are bought out by private equity. And back to the comment earlier in the day, there's not bad private equity. And I think it benefits those employee participants. I mean, they had shares in the company and there are certain companies that makes sense that they maybe not, don't have a future. They don't have, there's not a strategic that can acquire them. There's not a management team. And that alternative and bringing that capital in to buy out that company could be the best alternative for that company.

So I just want to make the comment, because I keep hearing that we're flat, we're not growing. I think there is growth, there is awareness. I think there's more awareness out there. Because I agree with you, it's still a very small component of the M&A and I think you're seeing more companies. I mean I'm encouraged when I have my investment bankers come to me and say that the business owners want to understand the strategic alternatives and they want to understand the ESOP. And I had one situation where our investment banker was given that task, he came and the professional management team said, we really want to understand this ESOP. And after interviewing the family, coming back, they did the traditional investment banking slide showing the half moons what it can deliver, what it can't deliver. The ESOP always was showing that it wasn't delivering as much as the rest.

And as the first question that was asked was, why is it that the ESOP is at the lowest, is at lower in the pecking order of all the other alternatives? And the investment banker said, well, because there's definitely more learning that needs to be done. And the board member said, well isn't that why you're here? And I just had a big smile on my face because it is, I mean, it's a learning curve. We're fortunate we have a team within the bank that can help get up the learning curve. But it's also many companies go through this dual track, they're beginning to look at an ESOP compared to a third party sale. And I'll also argue that there's not always a strategic out there that's a fit for business. And so as we talked about, private equity isn't a full cash at close either in every day.

So I think it's alternatives and I think putting it on the spectrum of alternatives for any business owner is important and I think that's what they're looking for. And truly that's why our advisor group was set up. We're not a fee for service. We're set up to help advise. Obviously the end of the day after we're doing the modeling, we want to do the financing, we'd love to invest the proceeds, but we're not, we're going at it with, we're agnostic and business is not for every company and we need to really understand the objectives of company hours and they really want to understand what the options are and from those options make that decision in an unbiased way. But an ESOP should absolutely be on the level playing field with all the other alternatives.

Todd Leverette (01:01:47)

And I'll respond to Ken's statement. I won't go into the weeds of the financing, but can you bring up a interesting point? One of the benefits of employee ownership of selling to an ESOP or even to a co-op or EOT, is how much control it gives the seller and when they exit, the transactions that we do are typically, the seller wants to exit completely. It's a 100% buyout. What we're exploring and thinking about down the line was what if you're an owner who has a company and you want to grow and you need financing to help your company grow and the traditional capital markets have dried up or they don't understand your business model or you just can't find the capital.

What does it look like to sell 30% of your company to your workers, get the capital needed to jumpstart this next idea and partnership with your workers and with your board and then sell another 30% year later. And Ken, you're an excellent person to talk to about this because that's kind of what you did with your company. But that level of flexibility is something that I think needs to be understood and talked about more. And as people, you should be thinking about your exit for your business over a 5, 10 or more year period. What does it look like to do 30% in year 5, 30% in year 7, 30% in year 10?

Bill Hayes (01:03:08)

I'll try to address a couple of those questions. I think you're talking about getting warrants back with your notes perhaps as to you getting shares even though you were the seller of the business or through the ESOP itself.

Speaker 9 (01:03:26)

[inaudible 01:03:24] getting higher percentage-

Bill Hayes (01:03:27)

Right.

Speaker 9 (01:03:27)

[inaudible 01:03:29].

Bill Hayes (01:03:29)

We're getting into the weeds a little bit, but there are some tax benefits that when Congress created ESOPs in 1974, among those, if you are a C corp and you sell to your employees, you can get what's called section 10(42) deferral of your capital gains. Much like if you sold your home and you roll your profits into a new home, you get to defer. Same thing here. If you choose that then you can't participate in the ESOP plan. You could have warrants associated with your note but not participate in the plan. If you do not choose that and you stay, you could theoretically participate in the plan.

But there are caps, you have a 409(P) testing and all that all ERISA plans have that could limit the economics to you. As to the rates on the notes, keep in mind at least the way we're doing this, we're creating a 100% employee owned business. They put nothing into it themselves. So we as the junior capital providers have to get equity like returns for the capital that we're putting into it. And so the way we do that, there's a small cash pay component. Typically, it's about 4% on the note. And keep in mind we're 40 to 50% of the capital, occasionally 60% of the total capital. So we're getting that, we're getting payment in kind interest that those two combined looks something like 14%. That payment inkind interest is taxable to our limited partners, which is a problem because we often don't get that paid until we exit.

So three, five years down the road, it would be much better for us if the taxes on that pick were not due until we got the cash because it creates a drag on the returns to our limited partners. That would be huge. But it's a different side of congress dealing with taxes. All we're asking is that you align the cash with when the taxes are paid. That's huge. I think is one of the deterrence historically to other participants coming into these structures. What's unique about the SBIC program and it goes back to the original intent effectively by the government, through the debentures that are issued but guaranteed by the government that the SBICs are paying the interest and principle on that. The government doesn't allocate money to it, it's self-funding, but there is a guarantee there to help reduce the cost of those debentures.

Effectively, by having that leverage at your fund, you're helping enhance the returns to your limited partners. So just with small businesses that are risky where you tend to lose more money, right, riskier, you're able to offset some of that such that your limited partners can get market like returns and therefore attract that capital. Same thing goes when we're doing these ESOP investments because we're effectively giving 60% of the upside. We effectively have a warrant for about 40% of the company. That gets us to something like a 20% return for our equity capital, which is not even market because most equity capital wants something like 25 to 35%, that's where the market is today. But we have to work for that, we have to earn that. And the leverage helps us achieve better returns for the limited partners while still giving a benefit for free to the employees. Therein lies the rub. You've got to bring market-like economics to something that they traditionally have not come into and we think this bill really does that.

Jack Moriarty (01:07:25)

Well, Bill and others, thank you. You'll have the last word. Appreciate. Can we have a round of applause for the panel please? And I'm pleased to hand it off to Joseph who will introduce our closing speaker.

Joseph Blasi (01:07:40)

Let me just stay here. Okay. So thank you very much. We're moving into this sort of reflection part of the day and let me just say we have three books out there they actually are for you to take to encourage your further reflection. We have Aspen Rutgers research summary which like you to take a look at because tomorrow we're going to move more into talking about research and ideas. As part of our first reflection, I'd like to introduce the dean of the School of Management and Labor relations distinguished professor Adrienne Eaton. Adrienne has been a wonderful advocate and supporter in developing the institute for the study of employer ownership of profit sharing. And delighted to hear her thoughts.

Adrienne Eaton (01:08:38)

When I first became Dean, I think it was six years ago, which is hard to imagine, I learned that deans do a lot of welcomes. So today I get to do something a little more fun actually than welcoming and to do a little reflection on the day. I'm concerned that that may also make Joseph nervous. We'll see because I'm going to be a little bit off script, but I am going to say a few things from my original remarks from this morning. So to start, I'm just really pleased that we were able to co-sponsor this event and to work so closely with Aspen and the Aspen team. It's just been a really great day and many people thanked Mary Ann Beyster earlier in the day and the Beyster family. And I want to add to that, but I also want to say more specifically that this program is partly a result of a conversation Mary Ann and I had outside the aquarium at the Scripps Institute in La Jolla last year on a very lovely day.

And in addition to always appreciating Mary Ann's financial support, I also really deeply appreciate that what I will call a gentle push to come to Washington and to do a program like this. So again, thank you so much for that. Second thing I wanted to say that I would've said this morning is to say that as a state university we don't advocate for particular policy proposals and I think Aspen as that position as well. So we don't do that. Nevertheless, I will, and by the way we do as individuals, we are certainly allowed to advocate for policies just not as an institution. Given that though, I'm going to say listening today, I want to talk just quickly about what I heard about maybe not consensus, that's probably not quite the right word, but themes or areas of policymaking that came up again and again. And of course improving access to capital.

We just heard from some of the funders and investors around that topic. Making transactions and conversions easier, clarifying, relaxing, streamlining depending on who you are, the rules and regulations. And it was so great to hear from the panel of agency representatives what academics sometimes call street level bureaucrats, which is not at all meant to be an insult, but a very interesting area of public policy and public administration work that the actual implementation of policy as important as the passing of original laws. And I think we were really hearing that today and hearing that threaded throughout the conversation. And I find that quite interesting, incentives of course for employee ownership. And then awareness and knowledge including for service providers and bankers and then more research. And of course we see us, the institute, the school as having a central role in the awareness and knowledge piece.

And then the research piece that we always like to hear people encouraging more research. A few other things that I thought about today that just kind of stood out to me, they may not have to you, but I really appreciated the discussion of the broader social benefits of employee ownership. And it strikes me that that's important to be thinking about in terms of the politics of policymaking, right? So that there's a broader set of stakeholders in the communities where employee-owned companies operate. And we talked about resilience, adaptability, stability, the ability to respond in constructive ways to crises, community spillover, also known by economists as positive externalities. And a couple of what seemed to me to be kind of spillovers from the impact on workers. And that is companies with employee ownership that give some primacy to financial literacy. That has spillover benefits for communities, for the workers with the financial literacy, but then to the communities in which they live and operate.

And then one of my favorite topics, voice and influence in the workplace and researchers actually know quite a bit about or something about the spillover effects of the worker's ability to have voice and influence participation in the workplace into community life. And it's very important for building active citizens or political participants. So those are I think are some of them. And then I guess just at a conceptual level that imagining Bologna in Emilia-Romagna, I really loved that. And thinking maybe we ought to learn more about that, Joseph, at a future conference. Just a couple of other things, interplay between the different levels of government, particularly state government and federal government. So we've had a lot of emphasis. We're sitting in the US Capitol in Washington DC but I think we've heard a lot today about experimentation at the state level and that's so important generally, but important particularly in times of federal dysfunction.

And then they all saw about states as the [inaudible 01:13:56] of democracy. So I think that's important that we kind of keep in mind these different levels of policymaking and government along the way. One other thing I guess I worry about a little bit that we're just preaching to the choir about this, but I do think even if we are doing a bit of that, that these events do help to create synergies, new ideas, new connections. I met someone today, who I'm, doing something that I'm really interested in myself and potentially as a research project in the future, just as an example. And then Richard Freeman and I were talking earlier this morning about just the hopefulness of programs like this. So even those of us who've been working in this vineyard for a long, long time, I think this was a very hopeful day actually.

And it can seem frustrating and maybe things are flat or no, I think actually we're in a moment here as a number of people talked about. And so I think we need this kind of exchange to keep ourselves feeling hopeful. And then just a last thing, or maybe two last related things. Thank you to Joseph, of course, to Jack Moriarty, to Bethany. Is she in the back there someplace? Oh, outside. And anybody else from Rutgers who helped to make this possible. And just a final comment that we're hoping this is the first in a number of forums like this going forward, so we will have to discuss that further with Aspen and Joseph, but I think we're not done with this kind of investigation in this place at this time. All right, thank you.

Maureen Conway (01:15:40)

Thank you, Adrian. That was really helpful and I'm thrilled that you've been taking such great notes all day. So I just have a couple of things to say before introducing the last speaker for today. So first of all, it's the end of today, but it's not the end of the Employee Ownership Ideas Forum. We are again tomorrow in The Aspen Institute offices, which are at 2300 N Street Northwest. So over at the west end of the city, it's actually 24th and N, but somehow it's 2300 N Street. I don't really get that, but that's where we'll be tomorrow. Breakfast is available at 8:15 and we'll begin the program at 9:00. And then I also want to thank, a huge thank to my team, in particular the Aspen team, but to both teams really. I mean, this is a lot of work putting these things on and there's a ton of things people are doing.

You saw them getting all these name badges done and handing them out and directing people the right way to go, making sure there's food for everybody to eat. I want to do a particular call out to my colleague Matt Helmer. Matt has been a thought partner on this throughout as well as sort of making sure all of the logistics work. He's sort of the everywhere, every place, everywhere, all at once or whatever it is person. I'm sure you've seen him, you've probably met him because he's been doing everything. So huge thanks to Matt, just really he, when I said we should really try this and he actually trusted me and went there, so I appreciate that. So let's.

And now to close out our day, it's really my great pleasure to introduce my friend Sarah Keh from Prudential Financial to say a few words. Sarah is Vice President of Inclusive Solutions at Prudential Financial. In her current role, she leads strategic philanthropy and partnerships to help advance the company's purpose and commitment to inclusive economic growth. She oversees, I have to read this because her job changes a lot. She oversees philanthropic grants, business aligned partnerships and employee volunteer programs to expand work and wealth opportunities for financially vulnerable populations, build inclusive and equitable communities, advanced racial equity and justice and support disaster response and recovery experts. She's been a big supporter of The Aspen Institute of the work of the Economic Opportunities program and just a real delight always to work with and also a great thought partner. So Sarah, thank you for being here and let me welcome.

Sarah Keh (01:18:20)

Thank you so much, Maureen. I will keep it short because I know I'm at the close of the day. I'll say it's been such a great day just to listen to all of the great panelists. We've heard from investors and funders and researchers and government agencies, and just to see all of these people come together. I think this is almost kind of years in the building to see so many people invested in this, and particularly to see the bipartisan level of support. A few of us were talking outside just how rare that is unfortunately, in this economy today. I was here yesterday participating in another Hill Briefing around baby bonds. And so this is all in an effort on how do we make sure that people have access to wealth building pathways for both the short term and the long term. And so for those of you who don't know Prudential Financial, we are a global financial services company and we were founded 148 years ago on the principle of equity that financial security and the peace of mind that comes with it should be within reach for everyone.

And so we've heard a lot today about how wealth for everyday Americans is decreasing, yet the racial wealth disparities are ever-increasing and continue to grow even more. And so at Prudential, we're really focused on how do we connect people to good jobs? How do we make sure that we're promoting practices and policies that are expanding wealth building opportunities and really looking at new innovative wealth building pathways like employee ownership. We know employee ownerships keeps assets and commerce in communities. It helps maintain good jobs and really looks at how do you create vibrant local economies in making sure that we have a shared prosperity. And so we hope that you will continue to advocate and join and help us businesses, whether it be small to large. We're really excited because today, this morning the reason why I was late, we had a board meeting and we just approved. So Hilary too grants to ownership works and project equity for $3 million.

So we're really happy to say that that was unanimously approved and we continue to champion all the work that you all are doing because we know this is so important to even local communities, but at the state and the federal level and all again in the effort to make sure that we are helping people create wealth. So I thank everyone today and I look forward to seeing all of you tomorrow as well. And thank you so much to Maureen and the Aspen team, to Joe. I also want to recognize Paula who leads our work and wealth portfolio here, who's with us today as well too. So thank you all and I hope you enjoy the rest of your evening.

Jack Moriarty (01:20:43)

Thanks so much everybody. Great job. Really appreciate it. Thank you for doing this.