



COVID-19 Action Center
An ESOP™ Association Webinar



How Boards Should Help Manage Crises

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Today's Presenters



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TODAY's AGENDA

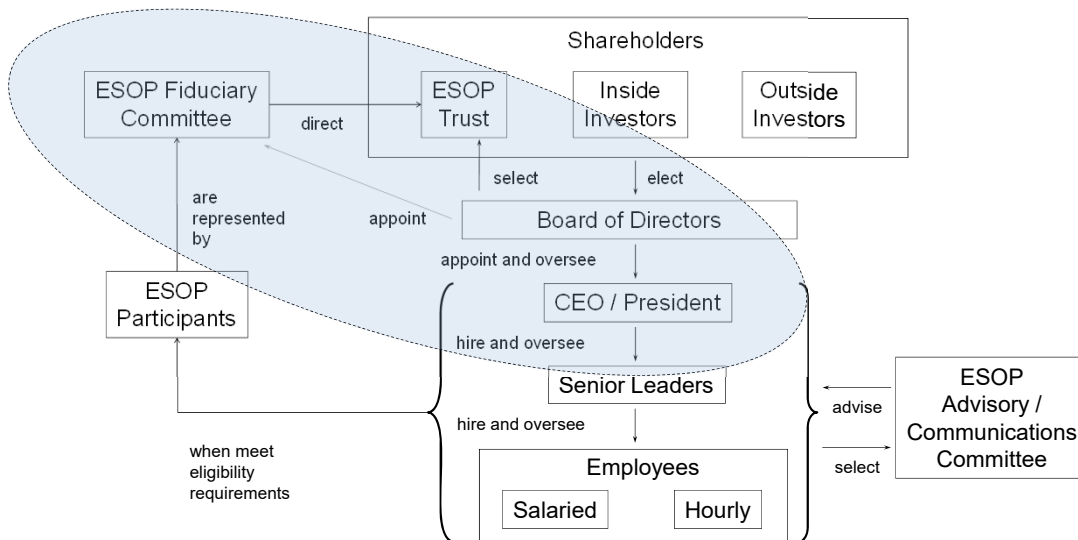
- Governance in ESOPs
- Immediate Action
- Looking to the Future
- Q&A

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Our Focus Today: The Board in an ESOP Company



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Employee-Owners Build More Wealth

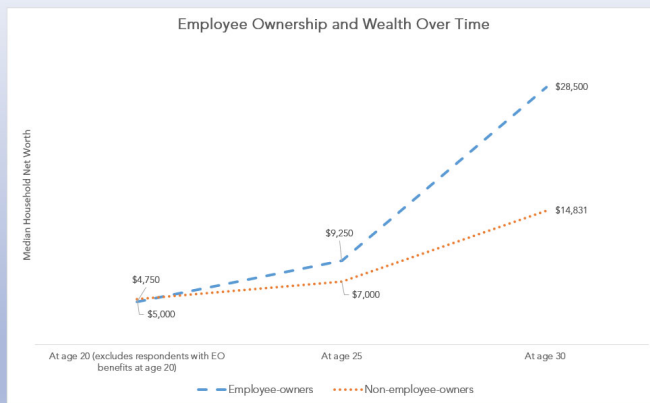
“Median household net worth is 92% higher for employee-owners.”

Reports on ESOP company research

Read results of our research on ESOP companies, like our Repurchase Obligation and Executive Compensation surveys and more.



Both groups start out with modest household wealth.



Source: NCEO analysis of NLSY97 data

NCEO/Employee Ownership & Economic Well-Being

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Dr. Joseph Blasi at Rutgers

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

PERCENT OF WORKERS LAID OFF LAST YEAR



Presentation at 2019 ESOP Association conference.

Data from General Social Survey.

Employee ownership component funded by the Employee Ownership Foundation.



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ESOP Companies Have Higher Survival Rates



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First: Safety

Written plan to include:

- When not to report to work
- Work remotely (equipment and IT security issues)
- Work on site – multiple shifts without overlap
- Cleaning protocols
- Personal hygiene education
- Eliminate common services (e.g. coffee and vending machines)
- Provide personal protection devices
- Prohibit in person meetings
- Limit visitors and have protocols for visitors
- Limiting doorknobs and other employee common touch points

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Cash Is King

Assess Situation

- Business continuity plan

Working Capital Management

- 13, 26, 39-week cash flow analyses
- Expense control
- Manage receivable and payable

CAPEX review

Third Party Funding

- Senior debt (term & LOC)
- Seller debt
- Government programs

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Managing the ESOP Distributions & Interim Valuations

Questions

- Does the plan document allow for an interim valuation?
- Can the plan be amended to allow for an interim valuation?
- Who determines if an interim valuation should be used?
- Does the valuation report need to be a full-report or a bring down letter?
- When should the interim valuation be done?
- Cost/benefit analysis is critical

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Managing the ESOP Distributions & Interim Valuations

• Caution for Boards

- There are important ERISA fiduciary considerations in determining whether to conduct an interim valuation, delay distributions, amend your ESOP plan document, etc.
- It is critical to be aware of when the Board may be stepping into an ERISA fiduciary role – to be purposeful in doing so or in choosing not to do so

• Other resources

- The ESOP Association & many member advisors have conducted webinars on these questions
<https://esopassociation.org/covid-19-response-action-center/covid-19-economic-response-webinars/covid-19-economic-response-webinars-archive>
- Consult your ESOP attorney and Trustee for guidance

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Stay the Course

- Draw lessons learned from 9/11 & the Great Recession.
- Is this a crises or an emergency for your company?
 - Status may change
- Is there redundancy for response team leaders?
- Where is your information coming from?
 - i.e. Subscribe to the Wall Street Journal

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Stay the Course *(cont.)*

- Are roles & responsibilities clearly defined for internal & external board members?
- Are leaders sufficiently delegating & getting focused feedback?
- Is management & the board reacting rapidly enough?
- Is initiative being encouraged & recognized, & subpar performers reassigned?
- “Nothing in life is so exhilarating as to be shot at without result!” - Winston Churchill

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Scenarios / Sensitivity Analysis

- Contingency planning
 - Short term, rolling 30 days
 - Midterm, rolling 90 days,
 - Long term, rolling 180/270 days
- Sensitivity analysis ESSENTIAL with a minimum of 3 scenarios, 1 worst case.
- Draw something on your LOC for cash reserves above normal levels?
- Prepare for an extended slowdown, may not V shaped or even U shaped.
- Strong ESOP companies in many cases will emerge stronger. Anticipate acquisition opportunities & be prepared to analyze them quickly.

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Economic Framework

- **Importance that this is a Health Crisis**
- **Strategies:**
 - Testing
 - Anti-viral and anti-inflammatory
 - Vaccine
- **Economists in collaboration with epidemiologists believe we need:**
 - Flattening
 - Increased confidence to return to work
 - Stabilization vs increase in cases as we move to work
- **Shape of recovery is undetermined**
 - Some of lost GDP is permanent
 - Current estimates suggests it could take over 2 years to get back to pre-virus GDP
 - It follows effectiveness of controlling the health crisis

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Boards & Conflict of Interest in Crisis

- **Duty of Care**
 - Extends to debt holders in times of solvency risk
 - Protecting equity value
- **Potential conflicts**
 - Seller Notes
 - Management incentives
 - Consult with counsel
- **Key Guidance**
 - Independence of Board is even more critical in this context
 - Lean on your outside BoD members

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Leadership / Talent Development

- **In crisis: need to make decisions quickly**
- **Opportunity to bring in younger leaders**
 - Give them a chance to lead
 - Focus on innovative solutions
- **Check your ego**
- **Build your foundation for the future**
- **Understand & plan in phases**
 - Immediate crisis management
 - Adapting and managing during the ongoing epidemic
 - Planning and emerging into the “new normal”

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Maintaining a Longer-Term Strategic Focus

- We will emerge on the other side of this crisis
- ESOPs with strong balance sheets & liquidity may have opportunities for both organic and inorganic growth
- Keep working with your leadership team to revise and pursue strategy
- Buy-Side and Sell-Side M&A
- “Strategy Dating”
 - Your BD teams know the landscape
 - Now is the time to be meeting, building relationships, and preparing for the future

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ESOPs: Long-Term & Recent Changes



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Questions



If you would like to ask a question, please click on the Q&A symbol at the bottom of your screen. Type in your question and hit submit. Be as concise as possible for the presenter.

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Thank You for attending

<https://esopassociation.org/covid-19-response-action-center>

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