

The Power of an ESOP

Tips for success from inside



Ayers Saint Gross, Inc.

Who are we?

- **Our History:** Founded in 1912
Became 100% employee-owned in 2013
- **Our Footprint:** Nationally and Internationally recognized
- **Our Expertise:** Architecture, planning, landscape architecture, graphic design, interior design, and space analytics
- **Our Clients:** We have built a reputation for designing environments of enduring value largely for ‘mission-driven’ clients such as colleges, universities, and cultural institutions
- **Our Design:** Inspired by an analytical and critical discourse, a respect for past wisdom, a mind to future potential, and a belief that we have an obligation to leave places better than we found them

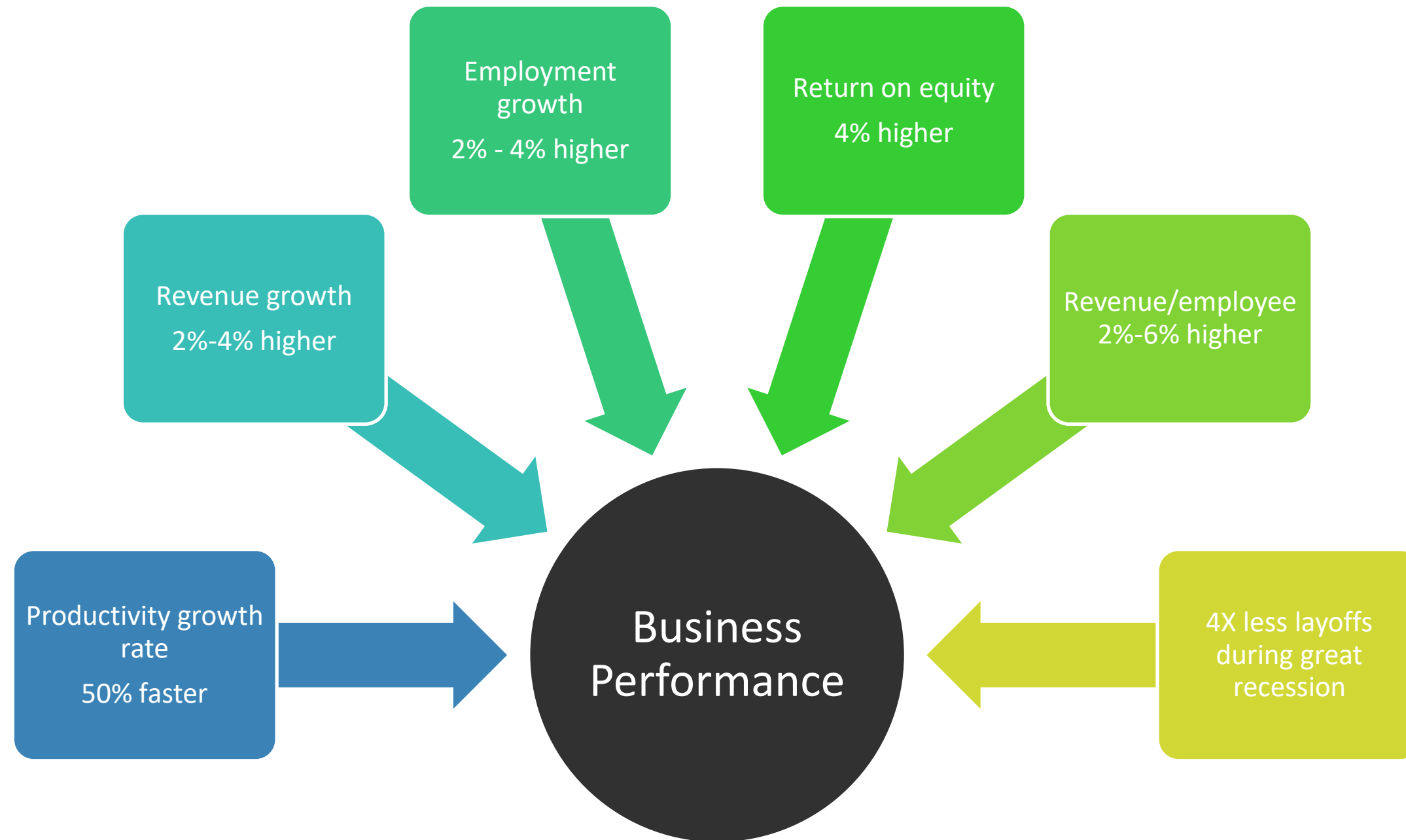


Polling Question #1

Who owns your organization?

- 1. Publicly Held*
- 2. Private Equity*
- 3. Privately Held*
- 4. Employee Owned*
- 5. Nonprofit*
- 6. Other*

ESOP's Historical performance compared to other forms of ownership



Agenda – ESOP Evolution

Baby (new) ESOP ➡ *Teenager ESOP* ➡ *Mature ESOP*

- ESOP Understanding
 - Initial Transaction
 - In-house Expertise
 - Employee Education
- Organizational Development
 - Management functions
 - Board Composition
 - Succession plan
 - Growth philosophy
- Cultural Evolution
 - Employee Engagement
 - Employee Education



“It’s a marathon, not a sprint!”

Luanne Greene
President
Ayers Saint Gross, Inc.

ESOP Understanding

An ESOP

- Employee Stock Ownership Plan
- 100% Company funded retirement plan
- Designed for long term compensation
- Provides for shareholder liquidity
- Allows for corporate Tax planning



Polling Question #2

How important is it for the sellers to understand the initial sales transaction?

- 1. Not at all - The lawyers have my back*
- 2. The basics – I'll understand the details when I need to*
- 3. I'd better understand it – It's my money at stake!*

The Transaction



- Sellers should fully understand
 - Initial valuation as it relates to the sales price
 - Financing and attached warrants
 - Limitation/cap on management bonuses
- Clarify the transaction documents
 - Provide a summary of key elements
- Communicate to lesser shareholders
 - Supplement with retention stock appreciation rights (RSARs)
- Revisit and re-explain the documents periodically
 - Remember...It's a marathon, not a sprint

Seeking Expertise



- Rely on external experts
 - You are paying for them!
 - Valuation consultant, Trustee, Recordkeeper, Auditor, Lawyer, Bank
- Develop or hire in-house expertise
 - Consider a strategic hire who knows the ESOP world
 - Take advantage of NCEO and ESOP Association resources
 - Conferences and Chapter meetings
 - Webinars and materials
 - Study specifics related to your plan
 - ESOP Accounting
 - ESOP Plan Document
 - Distribution policy (supplemental document)

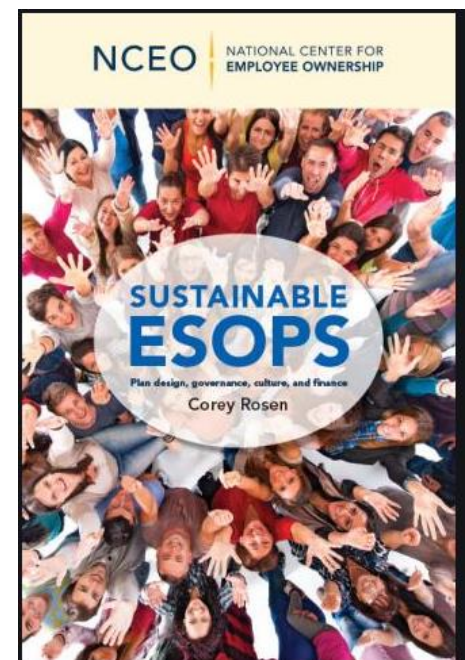
Ongoing Responsibilities



- ERISA Compliance
 - Fiduciary code of conduct for plan sponsors
 - Ensure detailed reporting
 - Provide required disclosures to participants
 - Ensure procedural safeguards
 - Financial and Best-Interest Protection

Ongoing Responsibilities cont'd

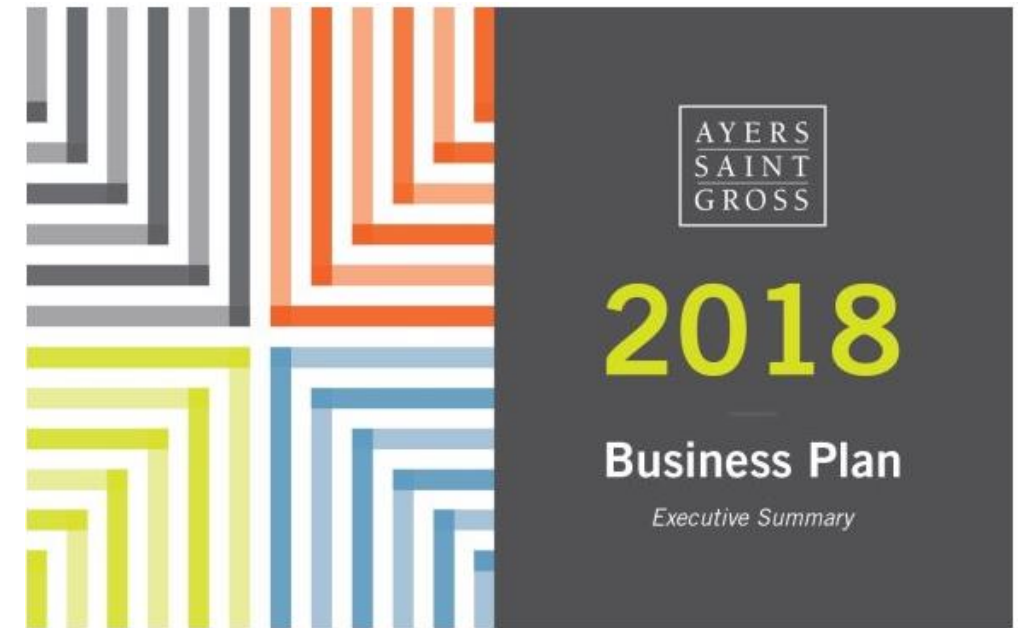
- ESOP Sustainability
 - Release of shares to participants
 - Segregation of participant accounts
 - Distributions to retirees and terminated employees
 - Professional fees associated with trusted partners
 - Repurchase obligation studies
 - Long term Cash Management
 - Employee engagement



Organizational Development

Professionalize

- Hire experts for corporate management functions
- Prepare a strategic plan every 3-5 years and an annual business plan
- Take a deep dive into the annual valuation
- Consider an external trustee



Polling Question #3

Do you have an external or internal trustee?

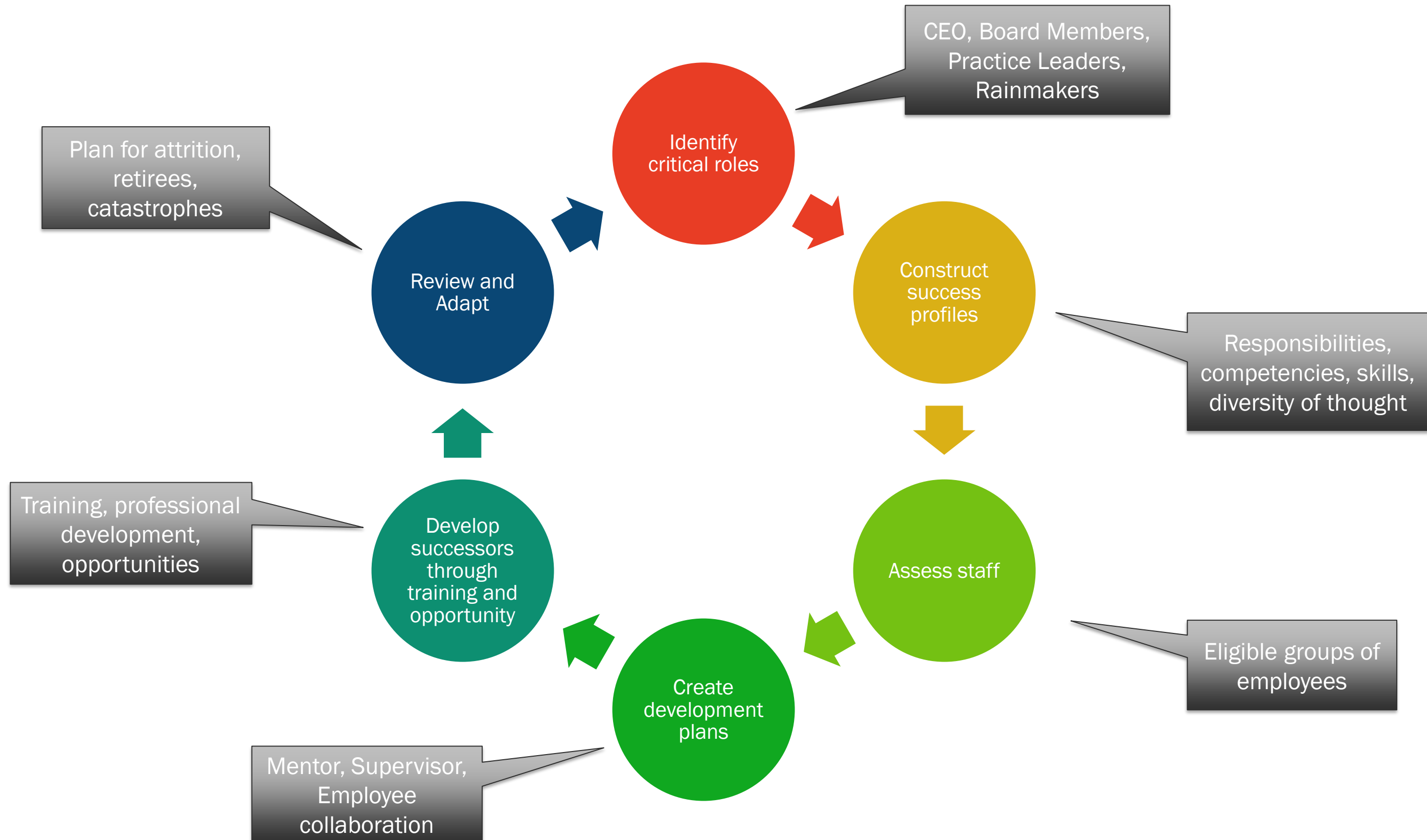
- 1. Internal*
- 2. External*

Rethink Board Composition



- Create a board charter
- Hire at least one independent board member
- Disentangle the board from management (at least in thought, if not physically)
- Prepare board member evaluations
- Match people skills, competencies, and diversity of thought to board positions

Create a succession plan



Develop a growth philosophy

- Markets, Geographies, Skills
- Proactive vs opportunistic acquisitions
- Acquisition vs organic growth
- When would it make sense for the ESOP to sell itself



Cultural Evolution

Polling Question #4

Is developing Employee Culture important to your business?

1. Yes

2. No

Firm Culture

*Firm culture is a business issue that has significant impact on a venture's ability to generate a return on investment and should be prioritized and measured just like other business objectives such as financial growth, product development, sales, marketing and the like. Culture is defined as the **identity and personality of an organization**. It consists of the **shared thoughts, assumptions, behaviors, and values** of the employees and stakeholders. Culture is **dynamic, ever-changing**, and evolves with time and new experiences.*

People and Culture Committee

2017

2018

2019

- Held focus group meetings to brainstorm and develop structure
- Slowly began to recruit key champions
- Presented framework to Executive Leadership
- Held collective meeting to get all captains and corporate sponsors on board
- Unveiled framework at COLLABORATION DAY
- Held Wellness Wednesdays campaign to recruit people passionate about getting involved



Employee Engagement



- Celebrate the ESOP
 - Vesting Ceremony for 100% vesting (February)
 - Employee Ownership Month (October)
 - Collaboration Day/Stock price reveal (May)
- Community partnerships
 - United Way, Introducing design to students, etc.
- Knowledge sharing
 - Social media intranet (Knowledge Architecture)
- Employee education
 - Personal investment seminars
 - ESOP Education 101 (What is an ESOP?)
 - ESOP Education 201 (How do I create value as an employee owner?)
 - Financial literacy/transparency (Where does our money go?)

Wrap up

Successful ESOP Evolution

- Ensure a thorough understanding of the ESOP at every stage in the ESOP lifecycle, at every level of the organization
- Develop in-house expertise to facilitate the ESOP learning curve
- Design a professional organizational structure that can manage and sustain growth
- Create a culture of employee engagement where everyone learns and understands the responsibility of employee ownership

Polling Question #5

What is most important to the success of an ESOP?

- 1. Ensuring a thorough technical understanding*
- 2. Developing in-house expertise*
- 3. Designing a professional organizational structure*
- 4. Creating a culture of employee engagement*
- 5. All of the above*

Questions?



An Employee Owned Design Firm