

Marc Tognotti, PhD, President - Infinity Point CDFI

Fractional ESOPs

*Making a transformative
business tool available to very
small business*





Infinity Point CDFI – Who We Are

- Non-Profit Impact Investment Fund and Business Accelerator
- *Mission:* To bring employee ownership to scale across the United States
- Our core team, collectively, has created 500+ ESOPs in the past 20 years



Marc Tognotti, PhD
President & Founder



Bimmy Dhanapala
Interim-CFO



Nagaraj Srinivasa, CA,
Board Member



Anu Damodaran
Board Member



Chethana Johnson
Board Member



Reagan Jones
Business & Community Leader



Michael Harden, CPA, CFA
Principal, Ambrose Advisors



Tony Mathews, BSc
Principal, Mathews & Co



ESOPs: Employee Stock Ownership Plans

- Bring powerful benefits to companies, business owners, employees and communities
- *Historically, available only to companies with 20+ employees*





Fractional ESOPs

Two or more smaller companies *can share an ESOP* to ...

- Meet minimum size threshold
- Reduce cost barriers
- Bring ESOP benefits to more companies, employees & communities





What's an **ESOP**?

- Owners sell 30%-100% of company stock to an *Employee Stock Ownership Trust*
- The Trust holds stock on behalf of employee-owners
- When employees leave the company, the company repurchases the shares



*A transformative
economic paradigm
to close the wealth gap*



Next-Gen Worker-Owner Empowerment

- As ownership stake aligns employee & company interests
- Best practices develop all employees into business- and finance-literate owners
- Empowers workers to create wealth for themselves and others





ESOP-Empowered Economics

Powerful incentives enacted by U.S. Congress to encourage forming ESOPs:

- An owner who sells to an ESOP can *defer* or *eliminate* capital gains taxes on the sale
- ESOPs are *exempt* from federal and usually state income tax – 100% ESOP operates 100% tax free
- ESOP companies are *professionalized*, undergo annual independent valuation, and become fully investible





Silver Tsunami Crisis / Opportunity



- Over the next 10-15 years, the baby boomers are retiring
- 6 in 10 small businesses will close down or transfer ownership
- Owners need exit & succession solutions
- Communities need to retain local business and jobs

Transition to Employee Ownership is a powerful solution.



What is the **best way** to sell your business?

	<i>Receive market value?</i>	<i>Special Tax benefits?</i>	<i>Control terms and process?</i>	<i>Protect employees?</i>	<i>Preserve legacy?</i>
<i>Close the Business</i>	No	No	N/A	No	No
<i>Family Transfer</i>	Unlikely	No	Maybe	Maybe	Low success rate (10%)
<i>Sale to Third Party - Competitor or Private Equity</i>	Possibly	No	Unlikely	Unlikely	No
<i>Sale to an ESOP</i>	Yes	Yes	Yes	Yes	Yes

Worker-Ownership: A 5-Way Win-Win Solution



1

LEGACY
BUSINESS
OWNERS

2

EMPLOYEES

3

LEGACY
COMPANIES

4

LOCAL
COMMUNITY

5

REGIONAL
ECONOMY



Fractional ESOP – How it Works

- Two or more companies, with 20+ employees collectively, become independent subsidiaries of an ESOP Holding company
- The subsidiaries need not have any obligations or ties to one another except the ESOP
- Companies share costs of implementation and administration
- Companies collectively must have:
 - 20+ employees
 - 2M in free cash flow
 - Record of profitability





Financing Sale to an ESOP – Typical Scenario

Owner sells 30%-100% to the ESOP:

- Bank finances 30% of the sales price
- Seller takes a note for the remaining 70%

Company repays bank and seller with pre-tax dollars

Tax savings cover:

- Employee acquisition (\$0 out of pocket)
- Cost of transaction
- Ongoing ESOP administration





A Future Platform for **Local Economic Solidarity?**

Imagine an ESOP holding company whose many local subsidiaries:

- Develop joint business strategies
- Pool their equity in the holding company
- Offers residents the opportunity to invest in the local business ecosystem





Contact

Marc Tognotti President

Infinity Point CDFI

macr@infinitypointcdfi.org

www.infinitypointcdfi.org