



Selling a Family or Multi-Shareholder Business to an ESOP

Presented by:

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Agenda

I. Introduction

II. Ownership transition
alternatives

III. Executing the ESOP transaction

IV. Key Takeaways



Introduction

Introduction



Rick Urschel, CEO
Urschel Laboratories



Dan Kaczmarek, Vice President
Chartwell Financial Advisory



Erin Turley, Partner
McDermott, Will & Emery

Urschel Laboratories Overview



Established: Formed when William Urschel designed the Gooseberry Snipper in 1910 to remove the stem and blossom ends from gooseberries

Service Offerings: Machines, Spare parts, Knives

Locations: Headquartered in Chesterton, IN

Customers: Nearly every major food processing manufacturer in the U.S. and in 120+ countries worldwide



Urschel Laboratories Products



E TRANSLICER® CUTTER



SPRINT 2™ DICER



MODEL CC-DL SHREDDER



**COMITROL® PROCESSOR
MODEL 1700**

Urschel Laboratories Workforce

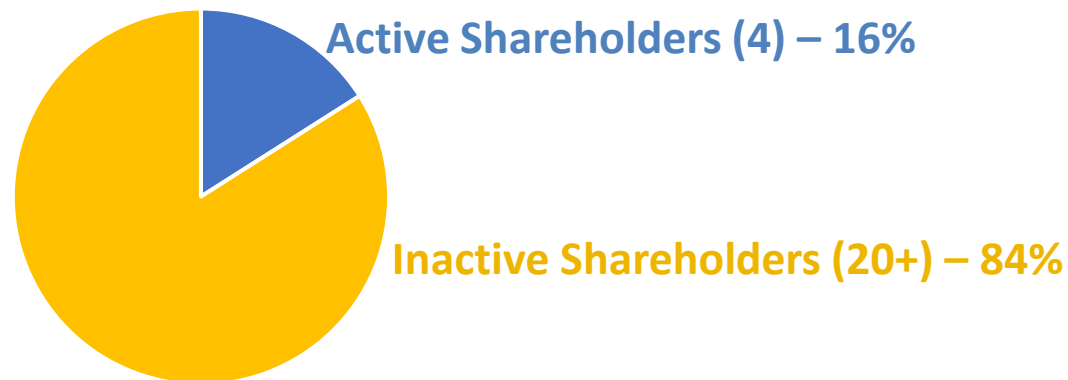
- 550 total employees (with ~75% in the U.S.)
- Kept operations local to not burden employees with drastically increased commute times
- Partners with local vocational schools for students interns and increase awareness of machine trade opportunities
- Very low turnover rate



Urschel Laboratories Pre-ESOP Ownership

- 4th generation of family leadership
- The common share ownership base was increasingly becoming fragmented among the “Inactive” shareholder base

Common Share Ownership (Pre-ESOP)





Ownership Transition Alternatives

First, Understand Goals & Objectives

Ownership And Succession

- Needs of principal shareholders
- Future involvement in the business
- Estate and tax planning needs

Liquidity And Diversification

- Near-term vs. long-term
- Current income vs. future appreciation
- Price, valuation, and taxes

Company Dynamics

- Competing capital needs
- Debt capacity for acquisition opportunities
- Growth opportunities

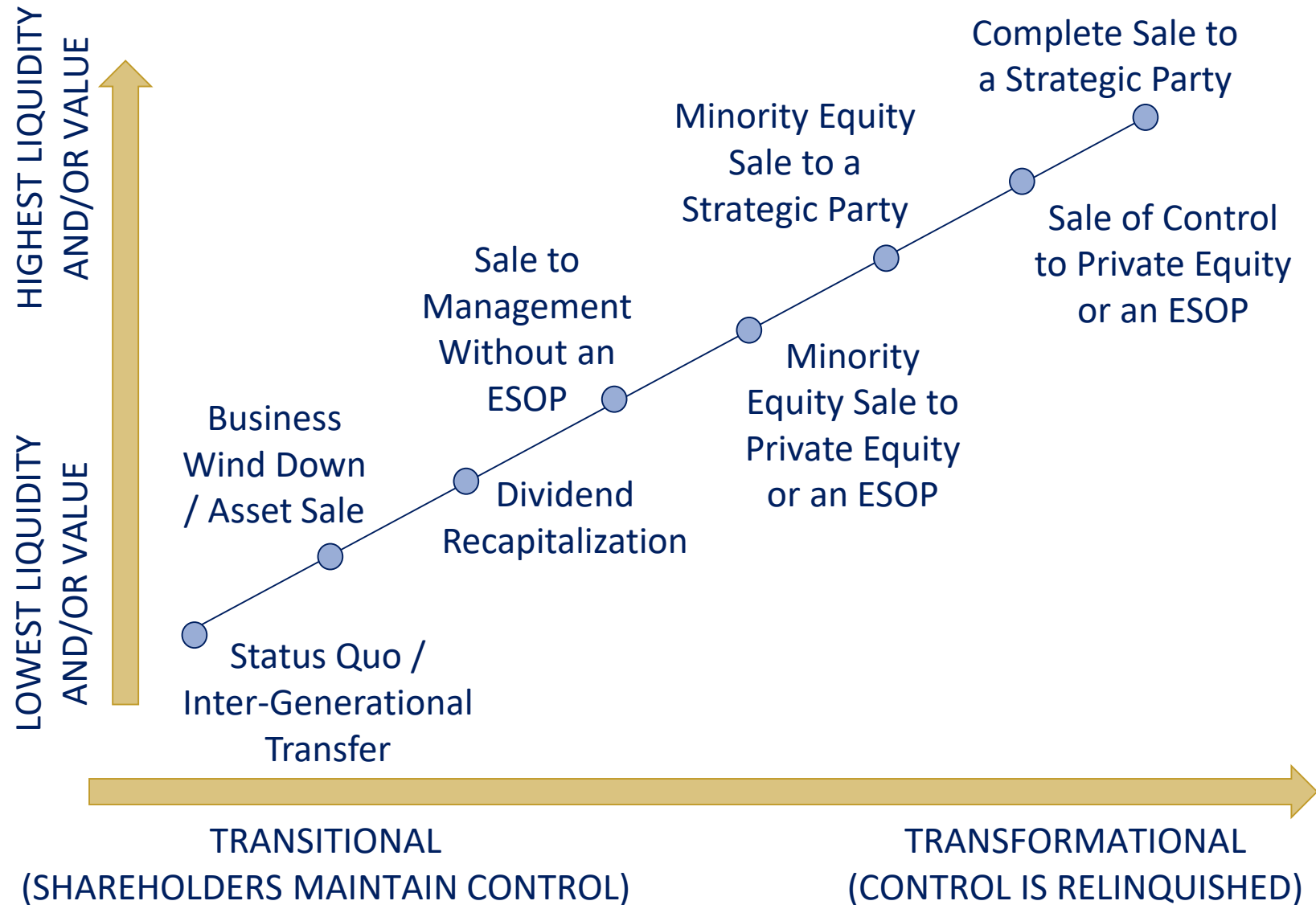
Management & Employee Needs

- Attract, reward, and retain employees
- Leadership succession / Management equity
- Workforce demographics

Timing, Regulatory, And Risks

- Tax and capital markets environment
- Regulatory compliance
- Transaction process and timing

Next, Understand Options



Finally, Hire Advisors

- What Expertise is Needed?
 - Corporate financial
 - Legal (corporate, ESOP & benefits, tax, and estate)
 - Wealth management
 - Accounting (audit, tax, quality of earnings)
 - ESOP (trustee, trustee financial advisor and third party administrator)

- How to Get the Best Team?
 - Referrals from trusted sources
 - Check references from prior relevant experience (industry, chosen strategy, size, etc.)
 - Be aware of potential conflicts of interests and/or bias towards a particular outcome

Urschel Laboratories Experience



- Goal/Objectives:
 1. Maintain private ownership and legacy
 2. Continue beneficial presence in local community
 3. Obtain fair market value for equity
 4. Create continued upside for employees

- Alternative Selection Process:
 - ESOP was the only logical solution

- Advisors Selection Process:
 - Interviewed candidates
 - Selected advisors that were most experienced and aligned with shareholder goals



Executing the ESOP Transaction

Execution – Transaction Structuring

- Based on goals / objectives, how should the ESOP be structured?
 - Minority versus majority sale
 - S-Corp versus C-Corp
 - Timing
 - Reorganization (LLC to Corp, Multiple Share Classes)

- Urschel Application:
 - C Corporation multiple share classes required reorganization
 - 100% of equity sold – post reorganization
 - S-Corporation post-closing
 - Close before February fiscal year end (2016 was a leap year 😊)

Execution – Tax Planning

- Tax issues involved:
 - C-Corp to S-Corp conversion
 - Sale of non-wanted/needed assets that are not reflected in ESOP value
 - Capital gains
 - IRC 1042 election

- Urschel Application:
 - S-Corp conversion triggered LIFO Reserve Recapture
 - Sale of old headquarters done pre-transaction
 - Non-core RE assets retained in the sale to the ESOP

Execution – Due Diligence

- Due diligence is conducted by:
 - ESOP Trustee Team (trustee, financial advisor and legal advisor)
 - Lenders
- Single point person in Company and its respective advisors identified for interaction with Trustee Team
- “Clean” financial statements and controls
- Minimize “back end” surprises on the “front end”

- Urschel Application:
 - Proactively analyzed tax situation (Company & shareholder)
 - Environmental (old headquarters)
 - All substantive discussions and negotiations done through legal and/or financial counsel

Execution – Financing

- Third party debt is NOT required for ESOP transactions
- However, liquidity objectives may dictate the need for debt
- Debt servicing should be factored into post-closing operations

- Urschel Application:
 - Use of bank financing was desired
 - Collateral base considerations
 - Foreign assets required as collateral
 - Non-core RE assets
 - Timing was very “tight”

Execution – Legal

- Decision required from all shareholders
- State and federal law considerations
- Company bylaws
- Shareholder buy-sell agreements
- Corporate governance post-closing

- Urschel Application:
 - ROFR needed to be addressed in connection with sale to ESOP and amended for ESOP as shareholder
 - Tender offer process was required given number of shareholders
 - Cash-out merger was structured in as safety net in the event all shareholders did not tender
 - Committee structure established to ensure family continuity on Board

Execution – Shareholder Communications

- Not all shareholders can / should participate in the feasibility / exploration phase
- How to select exploratory entity/persons
- Timing considerations for informing shareholders?
- Ensuring shareholder buy in

- Urschel Application:
 - “Active” shareholders led the ESOP exploration
 - ESOP solution presented to all shareholders at in person shareholder meeting with advisors – formal presentation made with modeling and net proceeds analysis
 - “Buy-in” from large shareholders was necessary to execute the ESOP solution

Execution – Employee Communications

- Employee engagement can accelerate the ESOP benefit and culture
- Consider Company wide announcement
- Annual event to announce share value and issue ESOP share certificates

- Urschel Application:
 - Company wide meeting after closing
 - Announcement of “new owners” on big screen
 - Employee participation in Committee structure



Key Takeaways

Key Takeaways

1. A multi-shareholder-owned company should not be a deterrent selling to an ESOP
2. Communicating with the shareholder group is key
3. Legal procedures must be followed to ensure all shareholders are informed

Questions ?

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