Comparison of 3rd Party Sale to an ESOP Sale

	3rd Party	Comments on 3rd Party	ESOP	Comments on ESOP
Offer Price	**$50,000,000**	Assumes fair market value. 3rd party buyers may pay a strategic price for a business, which is higher than the FMV in an ESOP deal.	**$50,000,000**	The ESOP cannot pay more than fair market value for a business.
Taxes on Sale	**-$11,250,000**	Assumes S-corp tax rate of 20%, zero NIIT tax, and 2.5% state tax.	**$0**	Assumes seller elect tax code section 1042 to defer tax on the gain. Similar to a 1031 tax deferral election. Tax permanently goes away with a step up in basis at death.
Net after tax	**$38,750,000**		**$50,000,000**	
Timing for closing on the deal	**TBD**	To be determined	**4 to 6 months**	An ESOP transaction avoids the lengthy marketing process to find a buyer, and follows a simple negotiations and due diligence process. Typical timing for an ESOP deal is 4 to 6 months from start to closing.
Timing of payout	**60% to 100% at close**	Most 3rd party deals fund 60% to 100% at close. With the remainder being an earnout, rollover, or some other deferral.	**25% to 40% at close**	ESOPs obtain funds from bank lenders or the company for closing day cash. Typically banks loan between 1.5x to 3.0x of last year's EBITDA, less any existing debt. Remaining amount is typically funded with an a Seller note, making installment payments to the sellers over x number of years.
Timing for last payment received	**2 to 3 years**	A typical earnout/rollover is usually 2 to 3 years.	**5 to 10 years**	ESOP transactions often utilize a bank loan to fund the initial downpayment, and then once loan one is paid, the banks typically offer another loan to pay off some or all of the remaining amount owed to the sellers.
Interest payments on portion of buyout received later	**TBD**	To be determined	**Yes**	Typically the interest paid on the seller note is market rate, which rangest betwee 8% to 12%, depending on the type of debt.
Other incentives	**TBD**	To be determined	**10% to 20%**	Typically in an ESOP transaction the seller is able to negotiate an additional 10% to 20% of synthetic equity (phantom stock, etc.) as an incentive to help the company remain profitable. The value of these incentives is based on the future value of the company.
Management of company	**TBD**	To be determined	**Stays**	The management of the company stays the same after selling to an ESOP, regardless of selling 1% or 100%.
Control of the board of directors	**TBD**	To be determined	**Favorable**	The seller will nominate board members of the company. The ESOP trustee does not sit on the Board, but will require the Seller to nominate at least one independent director to sit on the board. In other words, everyone on the board, post sale, will be known to the seller.
Results to employees	**Fair**	Most employees keep their jobs. Pressure from high cost of buyout to increase profit to pay off buyout debt and return a profit for the purchaser.	**Great**	The typical employee in an ESOP company will have an retirement account that is 2x to 3x larger than before, will have lower layoffs, and higher wage growth. Plus culture stays the same or improves.
Availability for a partial sale	**Less likely**	Most outside buyers prefer buying 100% of the company.	**Yes**	The ESOP is a willing buyer for any percentage the sellers make available, from 1% to 100%. There are thousands of "partial ESOP" in existence, where sellers sold a portion of the stock and wanted to retain the rest for future growth.