March 2017

The Top Five Reasons Social Services Companies Should Consider ESOPs

By Michael McGinley

Social services companies can be uniquely suited to be employee-owned companies, creating a transition strategy for owners, providing retirement benefits for employees, and ensuring long-term business success.

An Employee Stock Ownership Plan ("ESOP") is a vehicle to transfer ownership of a company from an owner to a trust for the benefit of its employees. ESOPs are most commonly used as an ownership transition vehicle to provide liquidity for business owners using tax-deductible corporate funds. The employees benefit from this since the value of these shares accumulate in their accounts for their retirement, which can be a valuable motivational tool to attract, retain and reward employees. Today, the National Center for Employee Ownership ("NCEO") estimates that there are about 7,000 ESOP companies nationwide and that approximately 28 million employees participate in some form of broad-based employee equity ownership.

There are several reasons an ESOP can be an attractive ownership transition strategy for social services companies, including the following:

1. **Preserving Owner Legacy** — Owners who have worked hard to build their business and reputation often want a way to preserve their legacy and the culture of the business they built. Selling the business to a third party is not always a preferred or viable option. Fortunately, ESOPs can help ensure the continuation of the business while providing significant financial rewards for the owner and employees.

2. **Attract and Retain Employees** — Many employees who work in the social services industry are passionate about what they do, but modest wages and high stress can cause employee burnout and high turnover. ESOPs can be a great way to attract and retain employees.

3. **Favorable State Laws** — The regulatory environment is favorable for social services companies who implement ESOPs. States like New

York, for instance, have a favorable view of ESOPs as a transition strategy as part of an overall state strategy to increase access to care. They also like that ESOPs help retain and reward workers and keep ownership in the state.

4. **Industry Growth** — Industry growth and demand are high, which translate to some of the highest valuations for firms in this space in recent history. For example, firms in the Substance Use Disorder industry are getting a lot of national attention. Opiate addiction in particular has been called the worst drug crisis in America, with overdoses from heroin and other opioids now killing more than 270,000 people a year. In some cases, patients reportedly are on waiting lists because of a shortage of beds, underlying the increasing need for this type of service and driving up values. Other social services including mental health treatment are also seeing greater funding and valuations for their companies.

5. **A Robust Financial Market** — A robust financial market exists for leveraged ESOPs as lenders see the industry expanding and there is a near-zero default rate in investments.

ESOPs are becoming more popular in this industry as awareness of their benefits grows. According to the NCEO, there are more than 150 healthcare/social services companies with ESOPs, representing approximately 200,000 participants with total plan assets of approximately $6.4 billion.

As awareness increases, it is anticipated that more companies will turn to this succession planning strategy that offers a win-win for owners and employees.

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