

The ESOP Option

Dealers share their employee ownership stories

by: Brent Hoskins, Office Technology Magazine

If you are an office technology dealership owner looking to retire, have no children pursuing ownership, and want to keep your company independent and dedicated to taking care of its employees, then you may want to establish an employee stock ownership plan (ESOP). It could be a better alternative for you than a traditional exit strategy.

An ESOP is a plan that gives employees ownership in a business through company stock. They typically earn shares over time, the quantity often based on salary and years of service. The exiting owner earns a payout as if the company is being sold, while the ESOP helps employees build wealth for retirement.

In the following three dealership profiles, company leaders share their employee ownership stories. Perhaps the details and insight they provide will lead you to take a closer look at the ESOP option.

Electronic Business Machines

In 2001, Carl Jason was preparing to retire from Electronic Business Machines (EBM), the Lexington, Kentucky, dealership he founded in 1970. “He wanted to provide an opportunity to the team members who helped him build the business,” says Mike Hicks, president of EBM. “He wanted to give us an opportunity to prove that we could forge our own futures.”

The result was the establishment of an ESOP. At the time, Jason selected Hicks, who had served as service manager since 1991, to assume the presidency. “Carl had received offers to buy EBM; IKON, for example, was trying to buy the dealership for a while,” he recalls. “But one day he called me into his office and said, ‘This is what I’ve decided to do; it will be effective 65 days from today.’”

The ESOP learning curve was immediately underway for Hicks. “I had 65 days; I was learning and teaching at the same time,” he says, noting that he quickly joined The ESOP Association (TEA) for guidance. “To be honest, explaining



the ESOP in plain English — vesting, allocations, distributions, and the relationship between company performance and employee retirement — was more difficult than I thought it would be.”

Today, 25 years later, Hicks fully understands ESOP development and is accustomed to the process of maintaining and explaining the plan. “With the involvement of an attorney and the trust department at a local bank, we did a non-leveraged ESOP,” he says, noting that the non-leveraged structure transferred company ownership to EBM employees without acquisition debt. Following the establishment of the

ESOP, Jason was paid over multiple years as the ESOP trust gradually acquired his ownership shares. All of EBM’s stock shares are now fully owned by current employees. “At the end of each fiscal year, a valuation CPA [which must be a different person than EBM’s regular CPA] determines EBM’s current value and the value of the stock. Our trustee then divides non-allocated shares among the participants based on the ESOP rules, acting as the fiduciary of the plan’s trust, holding company stock and managing assets solely in the best financial interest of the employee participants.”

EBM allocates a certain dollar amount to the ESOP each November to further strengthen the trust’s cash position. The amount is determined by the company’s earnings for the prior year, Hicks says. The number of shares owned by each employee is based on the employee’s percentage of the dealership’s total annual payroll expenditure. “So, for example, if annual payroll is \$1 million and my salary is 8% of payroll, then my ownership of a \$1-million allocation to the ESOP would be \$8,000 in shares,” he explains. “We settled on 1,000 shares total companywide.”

Hicks says anytime an employee leaves, retires or begins diversification after age 55, those excess shares go back into a pool and are distributed each year to current and new employees. “New employees have a two- to seven-

year vesting period, so if they leave us before seven years, they only get the vested portion of their ESOP accounts ... An employee at EBM can never own more than 20% of the stock, so when a long-term employee gets close to 20% — or anytime all 1,000 shares are allocated — we start diversifying retirement funds into conservative mutual funds.”

The level of enthusiasm for employee ownership tends to vary by age group, Hicks acknowledges. When EBM hires employees who are at least 50 years old, “they see the stock value as a true, tangible number, since they are only 10 years or so away from approaching retirement,” he says. “However, younger people just see it as a ‘pie-in-the-sky’ number, not as real, tangible cash. So, we are currently in the process of implementing a matching 401(k) plan in addition to the ESOP; we’re going to match up to 4% ... Together, the ESOP and 401(k) will make our retirement package better than some major corporations.”

Hicks readily shares the benefits to any dealership owner who is considering an ESOP: “Why an ESOP? It provides owner retirement succession. There are potential tax advantages. You are keeping the company independent. You are rewarding and retaining the employees who helped you grow the company. It’s a matter of taking care of your people.”

PERRY proTECH

In 1985, 20 years after founding what is today PERRY proTECH, Rex Perry was diagnosed with a serious illness. “The experience led him to consider the company’s future,” says Becky Taylor, chief financial officer for the dealership, based in Lima, Ohio. “He decided to look at two options — sell to an outside investor or determine the right path to employee ownership.”

Perry opted to establish an ESOP, Taylor says. It was a 10-year structure. In 1996, the company became 100% employee owned. At the time of the transition, PERRY proTECH had approximately 50 employees; today, it has nearly 300 employees in Ohio, Indiana and Michigan.

The ESOP has paid off in a big way for the dealership’s employees. “Many people have retired from PERRY proTECH as millionaires,” says Pat Summers, president. “Some of them have retired as multimillionaires.”

Employees are fully aware of the value of the ESOP long before retirement. In fact, the education process begins during recruitment, “prior to a candidate stepping foot in our door,” Taylor says. “When someone is being considered

“Nothing drives an ESOP like performance. Our ‘magic elixir’ is: We perform. If your company performs at a high level, so will your ESOP.”



— Pat Summers
PERRY proTECH

for a position at PERRY proTECH, we send him or her some information on our employee ownership and what that means.”

During the interview process, PERRY proTECH shares a document that shows a candidate “how much money they could have for retirement with an average [ESOP] stock appreciation value at 8% — ‘This is what you could have in 20 years,’” Summers

says. “Then we show the candidate what the average person who only has a 401(k) might have for retirement after 20 years.”

While some younger recruits may not be focused on retirement, “we have people right out of college who are all over this,” Summers says, noting that they may have initially asked a parent or sibling about ESOPs. “That person might have said, ‘Oh my gosh, you have got to really dig into this because it can be unbelievably powerful.’”

Once on board, the educational process continues. “On the day of onboarding, a lot of information on the ESOP is shared,” Taylor continues. “By six months into their employment, they will have attended a new hire orientation for the ESOP [to understand the vesting process, etc.] ... Throughout the year, there are different activities focused on employee ownership, including ‘ESOP Month’ in October, managed by the Employee Owners Communications Committee ... There is also an annual event — our shareholders meeting.”

Summers emphasizes that all employees — as owners — remain very informed on the performance of the dealership. “The way we communicate with our employees is probably a little different than most companies,” he says. “We have a monthly call with all of our shareholders to talk about the performance of the business. We share openly about how we are doing.”

In the monthly calls, the focus, in part, is on four key performance areas driving the company’s growth, Summers says — production print placements; imaging aftermarket revenue; net-new business; and managed network services. PERRY proTECH’s successful ESOP is directly related to success in the key performance areas, he says. “Nothing drives an ESOP like performance. Our ‘magic elixir’ is: We perform. If your company performs at a high level, so will your ESOP.”

The strong performance of PERRY proTECH’s ESOP has driven high employee retention, Taylor explains. “Twenty percent of our employees have been here more than 20 years; 25.6% of our employees are currently at the 15-plus-

years mark,” she says. “That builds confidence in those employees and expertise. It is also a cost-saving measure, minimizing turnover costs.”

Being an employee-owned company “affects our customer relationships because they know our people,” Summers says. “We have salespeople and sales leaders who have been selling to the same folks for 20 to 30 years ... We like people to know we are an employee-owned business — [salespeople can say] “You’re talking to an owner right now.”

Woodhull LLC

Jay Woodhull purchased his father’s dealership in the late 1980s. He sold it to Alco Standard (later IKON) in 1996; it did not go well. “That experience was awful,” says Susie Woodhull, Jay’s wife, who was vice president of service for the dealership. “We stayed on until June 1999.”

Jay had a five-year noncompete; his career then went in another direction. After her one-year noncompete ended, Woodhull acquired another dealership (with nine employees) near Cincinnati, Ohio, renaming it Woodhull LLC, now headquartered in Springboro (Dayton), Ohio, with locations in the Cincinnati and Columbus, Ohio, areas as well. At the time of the acquisition, the dealership was at about \$900,000 in revenues. Today, it is a \$28-million dealership with 80 employees.

Woodhull’s son, Robert, joined the dealership 14 years ago, working his way up to his current role as president. With an eye on her eventual exit from the company, Woodhull, who serves as CEO, began considering the options. Remembering the IKON experience, she knew she “couldn’t sell the company to a conglomerate ... Having been through that once, I couldn’t do it again.” So, she and Robert were in a quandary. “I said to him, ‘We’re at \$28 million; I can’t ask you to go to the bank and borrow that kind of money.’”

A May 2024 “60 Minutes” story provided Woodhull the answer. The story focused on C.H.I. Overhead Doors, which had implemented an employee-ownership arrangement. “The company was acquired in 2015 for \$700 million [the employee ownership arrangement went into effect at that time] and sold in 2022 for \$3 billion,” she says. “Those factory workers became rich overnight. It was a great story ... We both came into the office Monday morning and said, ‘What about an ESOP?’ That’s how the idea was born.”

Soon thereafter, Woodhull met with leadership at Henny

“You get the biggest bang for the buck if you go 100% ESOP, which is what we did — it’s 100% federal and [Ohio] state tax free. It costs a lot of money to run it, but we’re paying millions less in taxes.”



— Susie Woodhull
Woodhull LLC

Penny, a local food service equipment manufacturer that had set up its ESOP in 2014. “I talked to them and people they had worked with, and started down the path,” she says. “I also met with the president of a local PNC Bank, which, nationally, is one of the largest lenders to ESOPs in the United States ... He recommended that I work with the same people Henny Penny had worked

with — CGS Partners LLC — to help set up our ESOP.”

There are other companies involved in supporting the dealership’s ESOP. “Blue Ridge Associates is our third-party administrator,” Woodhull says. “And GreatBanc Trust Company is our trustee; GreatBanc is the nation’s leading ESOP trustee, relied upon by 500-plus employee-owned companies.”

The dealership opted for a highly leveraged ESOP, initially financed by a loan from PNC, in order to pay Woodhull over many years for her ownership, she says, noting that as the debt is paid down, the value of employee shares will increase. Even so, she says, one 20-year employee’s shares are already valued at “just over \$12,000” after only one year.

Woodhull says the many details involved in setting up the ESOP “blew my mind” with “almost a thousand pages” of documentation. “It took every moment of a year; that’s literally what I was consumed with doing,” she says, noting, too, that it was also an expensive process. “It cost about a million dollars to set up, plus we pay our third-party administrator about \$6,500 a quarter.”

However, with a 100% ESOP (an ESOP owning all of an S corporation’s stock; lesser-percentage ESOPs are an option) there is a major tax advantage. “You get the biggest bang for the buck if you go 100% ESOP, which is what we did — it’s 100% federal and [Ohio] state tax free,” Woodhull says. “It costs a lot of money to run it, but we’re paying millions less in taxes. That frees up the money to do other things, like reinvest back into the company.”

That includes reinvestment further benefitting employees; the company recently launched a 401(k) with “a much better match” than the SIMPLE IRA it replaced. “So, now we have two retirement plans,” Woodhull says. “That’s been very positive for recruiting.” ■

*Brent Hoskins, executive director
of the Business Technology Association,
is editor of Office Technology magazine.
He can be reached at (816) 303-4040
or brent@bta.org.*

