

A guide to employee stock ownership plans

The Capital ESOP Group
UBS Financial Services Inc.
Private Wealth Management



An overview of employee stock ownership plans (“ESOPs”)

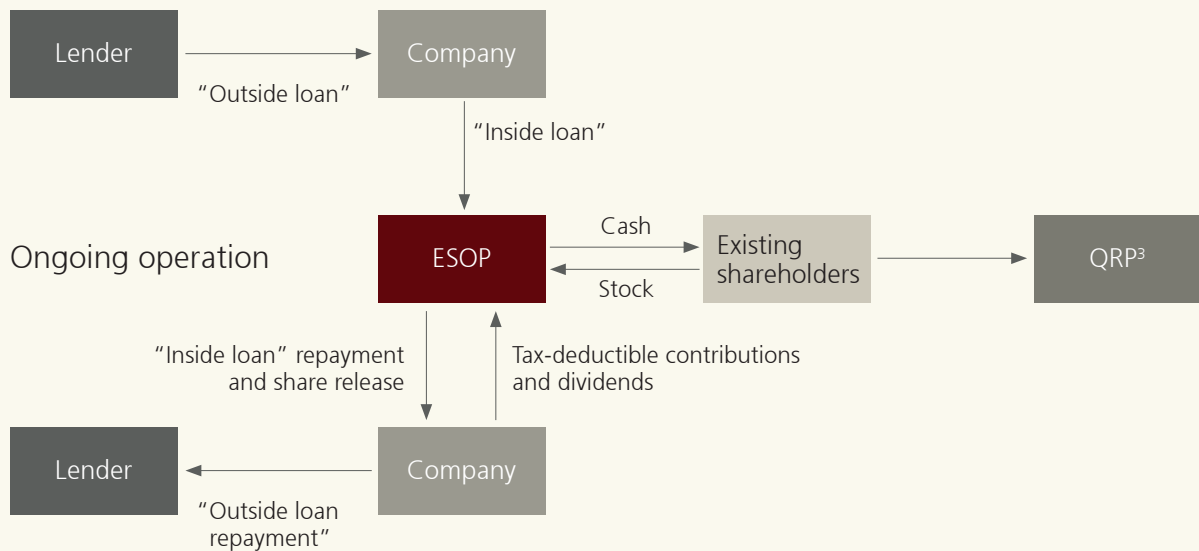
What is an ESOP?

An ESOP is a flexible, tax-efficient strategy that owners of privately held businesses can use to monetize some or all of their stock. With certain structures, the owner can sell their business and defer or potentially avoid capital gains taxes* associated with the sale. Additionally, the company can operate federal income tax-free (and in many cases, state income tax-free), and the employees can receive a retirement benefit provided by the company. In 2022, the National Center for Employee Ownership (“NCEO”)¹ estimated that roughly 6,500 ESOPs in the United States covered approximately 14.9 million employees.²



How does it work?

- Company creates the ESOP.
- Company borrows funds from Lender (“outside loan”) and re-lends the proceeds to the ESOP through the “inside loan.”
- ESOP uses funds from “inside loan” to purchase shares from existing shareholders.
- Company services the new debt by making tax-deductible contributions* and/or dividends/distributions to the ESOP.
- ESOP repays “inside loan” to Company.
- Company repays “outside loan” to Lender. As the “inside loan” is repaid, shares held as collateral for the “inside loan” are released and allocated to employee accounts.





ESOPs represent a mutual alignment of interests

What's in it for the owner?

- The potential for more in total after-tax proceeds compared to a sale of the company to an outside buyer, mainly from the abilities to:
 - Sell stock and defer or potentially eliminate the capital gains taxes associated with the sale*
 - Hold a high-yield seller note with an attractive annual return
 - Retain upside potential in the company through warrants, which are typically taxed at capital gains rates instead of rates for ordinary interest income
- Legacy preservation and a potentially meaningful benefit to employees
- Remain active in the business
- The time to create and implement succession and estate plans through a gradual ESOP transition over time



What's in it for the company?

- May reduce tax liability of corporate earnings
- Ability to repay debt with pre-tax dollars
- Potentially increased productivity from employees who are now "owners"/"participants"⁴
- The possibility for future tax-efficient acquisitions

What's in it for management?

- Gradual transition to fully running the company
- Participation in ESOP and stock appreciation rights (nonqualified plan) can provide meaningful wealth building opportunities
- Recognition opportunities that can help motivate, retain and recruit key talent

What's in it for employees?

- May reward employees with retirement benefits
- Participation can be combined with other benefit plans
- Can create opportunities within the company, rather than reasons to leave the company

Comparing an ESOP to an outright sale⁵

Considerations	ESOP	Outright sale
Deal structure		
Cash at close ⁶	35% – 50%	90% – 100%
Seller note	50% – 65%	0%
Deferred compensation/rollover	15% warrants	0% – 10%
Ongoing participation		
Time ⁷	Up to 5 years	1 to 2 years
Noncompete	Yes	Yes
Ability to transition	Yes	No
Personal guarantee	No	No
Influence ⁸	High	Low
Financial upside participation	Yes	No
Transaction process		
Type	No auction	Auction
Timing	4 to 6 months	6 to 9 months
Confidentiality risk	Low	Moderate
Buyer type	Trust/employees	Strategic or financial
Probability of close	High	Moderate to high
Management participation		
Buy-in	No	No
Option pool/SARs	Yes	Maybe
After-tax cash consideration ⁹		
100% tax deferral	Yes	No
Initial sale (pre-tax)	\$60,000,000	\$60,000,000
Estimated capital gains taxes ¹⁰	\$0	\$22,260,000
Rollover equity/warrants ^{11, 12}	\$5,670,000	
Total after-tax proceeds ¹³	\$65,670,000	\$37,740,000

This illustration is for demonstration purposes only. No representation is made that the shareholder will achieve results similar to those shown.

Is your company a good ESOP candidate?

- Is your company profitable?
- Does your company have a minimum of 30 employees?
- Does your company have an annual payroll of at least \$1 million?
- Does your company have moderate to significant debt capacity?
- Did your company have strong earnings and/or cash flow over the previous two years?
- Is your company experiencing steady and controlled growth?
- Does your company have a strong executive team that would remain in place after the active shareholders left?
- Would your company benefit from significant corporate income tax savings?
- Does your company currently make contributions to an employee benefit plan (i.e., profit sharing or 401(k) plan)?
- Would the current executive team be incentivized by equity-based compensation?
- Would the selling shareholders like to participate in the future growth of the company after the sale?





The Capital ESOP Group
UBS Financial Services Inc.
Private Wealth Management
1700 M Street Northwest, Fifth Floor
Washington, DC 20036

advisors.ubs.com/capitalesopgroup

Keith J. Apton, CEPA®

Private Wealth Advisor
Managing Director–
Wealth Management
keith.apton@ubs.com

Sarah Bothner, CEPA®, CRPC™

Senior Wealth Strategy Associate
sarah.bothner@ubs.com

Marguerite Hodgkins, CFP®

Senior Wealth Strategy Associate
Wealth Planning Specialist
marguerite.hodgkins@ubs.com

Alexandra Nemeroff

Registered Client Associate
alexandra.mulligan@ubs.com

Gary Cundall

Registered Client Associate
gary.cundall@ubs.com

Nick J. Francia, CEPA®

Private Wealth Advisor
Managing Director–
Wealth Management
nick.francia@ubs.com

**Breton Laubscher,
CIMA®, CRPS™, AWMA™**

Relationship Manager
breton.laubscher@ubs.com

Jake Pantalone

Wealth Strategy Associate
jake.pantalone@ubs.com

Caroline Ryan

Registered Client Associate
caroline.ryan@ubs.com

Zachary Levine

Client Associate
zachary.levine@ubs.com

Joanne Ferland, CFA

Senior Wealth Strategy Associate
joanne.ferland@ubs.com

Kaveh Gilanshah, CEPA®

Senior Wealth Strategy Associate
kaveh.gilanshah@ubs.com

Steve Brinckhaus

Senior Registered Client Associate
steve.brinckhaus@ubs.com

David Gordon

Wealth Strategy Associate
david.j.gordon@ubs.com

Eduardo Macedo

Client Associate
eduardo.macedo@ubs.com

¹ The National Center for Employee Ownership (“NCEO”) is a self-sustaining, nonprofit organization that provides resources and reliable information on employee stock ownership plans (“ESOPs”), equity.

² Wiefek, Nancy. “ESOPs by the numbers.” Articles. March 1, 2023. Accessed July 30, 2025. <https://www.nceo.org/articles/esops-by-the-numbers>.

³ Qualified replacement property is defined as the common stock, preferred stock, bonds and convertible bonds of operating companies that are incorporated in the United States. More information on what constitutes QRP can be found in Section 1042 of the Internal Revenue Code, compensation plans and ownership culture.

⁴ “Research on Employee Ownership.” Articles. July 1, 2019. Accessed October 14, 2019. <https://www.nceo.org/article/research-employee-ownership>.

⁵ Source: Eureka, “Overview of ESOP buyouts.”

⁶ This is an average range in a 100% leveraged ESOP transaction. In a partial transaction, the percentage of cash at close can be higher.

⁷ This is an average and can fluctuate with deal structure and willingness of seller to work less or more with the company.

⁸ In a partial transaction (less than 50%), the owner would still have a majority interest in the company, so he/she would still control the company. In a 100% transaction, the selling shareholder could possibly sit on the board.

⁹ Assumes stock sale, zero basis and §1042 deferral under ESOP transaction.

¹⁰ All transactions assume a \$60 million equity value and a federal capital gains tax rate of 20% and 13.3% state income and capital gains tax rate. This also includes a 3.8% Medicare surtax (applies only to the extent of AGI in excess of \$250,000).

¹¹ Estimated rollover equity and warrant amounts assume 15% of the company’s equity value would be issued as warrants in an ESOP transaction. The value at the time of exercise was estimated at \$9.0 million and was reduced by the estimated federal and state capital gains taxes.

¹² Warrant percentages and value will fluctuate with deal structure and performance of the company.

¹³ All future proceeds discounted at a 5% discount rate and assume a five-year holding period. Excludes all transaction costs.

* Information contained herein is of a general nature and is provided for informational purposes only. Laws governing ESOP transactions and the rules under Section 1042 of the Internal Revenue Code of 1986, as amended (“Code”), are complex and persons considering an ESOP or Section 1042 transaction should seek professional guidance from their tax and legal advisors. Specific structures and decisions can only be developed based on a thorough review of the facts and circumstances relative to a particular company and its shareholders. Neither UBS Financial Services Inc. nor its employees (including its Financial Advisors) provide tax or legal advice. You should consult with your legal counsel and/or your accountant or tax professional regarding the legal or tax implications of a particular suggestion, strategy or investment, including any estate planning strategies, before you invest or implement. In addition, shareholders who sell into an ESOP should understand the applicable rules of the Internal Revenue Code of 1986, as amended (“Code”), including requirements for qualified replacement property as defined by Code Section 1042 (“QRP”). Shareholders should understand the potential risks that may be associated with obtaining securities as QRP, sufficiency of available QRP in the market that satisfy the shareholder’s investment objectives, limitations on UBS’s ability to offer margin or financing for the purchase of a new-issue QRP where UBS has participated in the underwriting of such new issue, availability of QRP with put features and whether available QRP offers appropriate diversification. The foregoing is a general description of potential risks. Shareholders who invest in QRP should consult with their tax and legal advisors regarding their personal circumstances. The strategies and/or investments referenced may not be suitable for all investors as the appropriateness of a particular investment or strategy will depend on an investor’s individual circumstances and objectives. Investing involves risks and there is always the potential of losing money when you invest.

Certified Financial Planner Board of Standards, Inc. (CFP Board) owns the CFP® certification mark, the CERTIFIED FINANCIAL PLANNER® certification mark, and the CFP® certification mark (with plaque design) logo in the United States, which it authorizes use of by individuals who successfully complete CFP Board’s initial and ongoing certification requirements. CIMA® is a registered certification mark of Investment Management Consultants Association Inc. doing business as Investments & Wealth Institute® in the United States of America and worldwide. For designation disclosures, visit ubs.com/us/en/designation-disclosures.

Important information about brokerage and advisory services.

As a firm providing wealth management services to clients, UBS Financial Services Inc. offers investment advisory services in its capacity as an SEC-registered investment adviser and brokerage services in its capacity as an SEC-registered broker-dealer. Investment advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate arrangements. It is important that you understand the ways in which we conduct business, and that you carefully read the agreements and disclosures that we provide to you about the products or services we offer. For more information, please review the client relationship summary provided at ubs.com/relationshipsummary, or ask your UBS Financial Advisor for a copy. **Private Wealth Management is a division within UBS Financial Services Inc., which is a subsidiary of UBS Group AG.** © UBS 2026. All rights reserved. The key symbol and UBS are among the registered and unregistered trademarks of UBS. UBS Financial Services Inc. is a subsidiary of UBS Group AG. Member FINRA/SIPC. ED_02242026-6