



ESOPs are two things

- An M&A transaction to buy out the current owner
- A retirement plan governed by ERISA



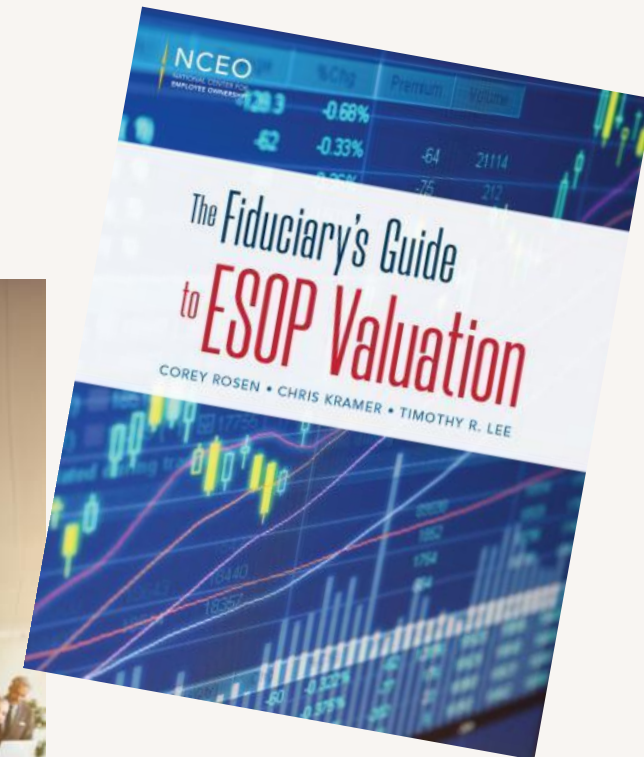
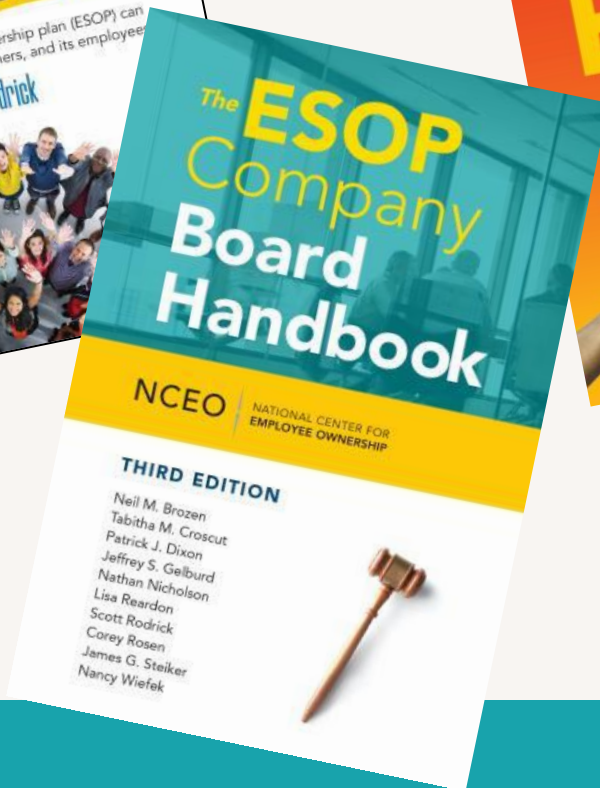
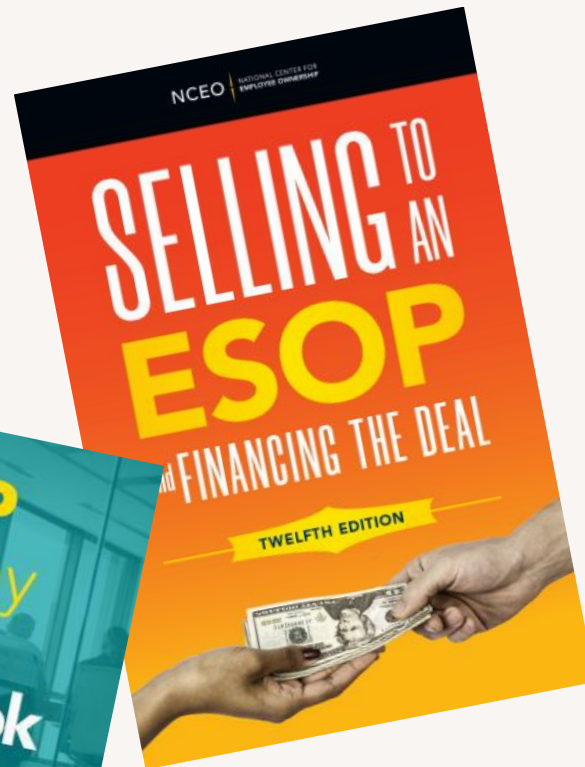
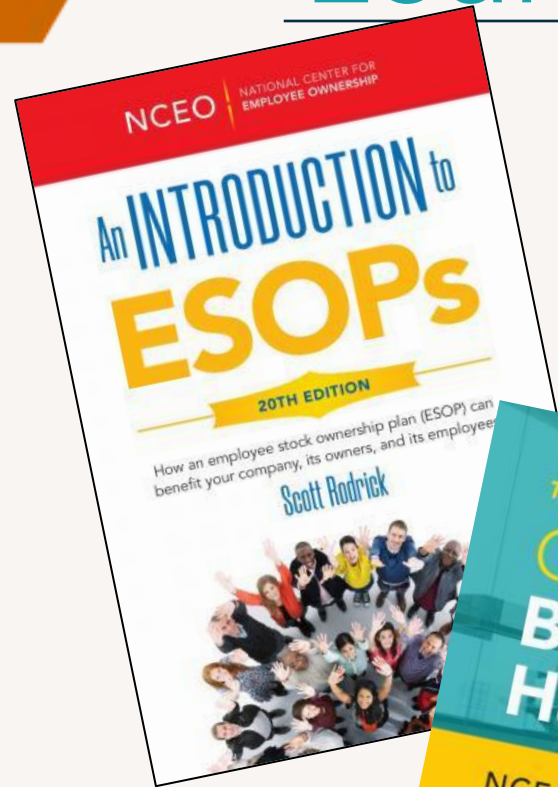


ESOPs matter to CPA firms...

- ... because your clients need exit planning support
- ... because your own firm may one day need a new ownership structure



Learn more about ESOPs





ESOP Lifecycle

- Transaction design and feasibility analysis
- Transaction
- Ongoing operations





How CPAs serve ESOPs (part 1)

1. Pre-ESOP sale considerations
2. Sale readiness reviews
3. Accounting: company side / pre-/post-transaction
4. Accounting: employee benefit plans
5. Tax – transaction
6. Tax – 1042 analysis
7. Feasibility analysis
8. Corporate structuring
9. Repurchase liability
10. Stock valuation – indicative range of values, seller side

1. Seller/buyer negotiations
2. ESOP vendor selection / management – trustee, trustee’s attorney, trustee financial advisor
3. ESOP lending / financing / investment banking / PE consulting
4. ESOP – land environmental evaluation
5. AAA recapture and financing
6. Anti-abuse compliance testing -- 409(p)
7. Recordkeeping / administration
8. Employee communications
9. Employee education and financial advice
10. Equity compensation design



How CPAs serve ESOPs (part 2)

21. Equity compensation accounting / administration
22. Equity compensation valuation
23. ESOP stock / warrant gifting
24. ESOP transaction insurance
25. ESOP board member selection
26. ESOP committee assembly
27. ESOP sale / merger / divestiture / spin off / carve out
28. ESOP foreign entity investment
29. ESOPs and multi-employer plan participants / employees
30. Leadership transition
31. Change management
32. Acquisitions
33. Deferred compensation
34. SARs consulting
35. Warrant consulting
36. Plan documents
37. Investment – proceeds
38. Investment – 1042 / margin
39. Investment – vendor selection





Screening questions

1. Can reasonably anticipate cash flows and revenues
2. Company has to be a C or S corporation
3. Sufficient debt collateral
4. Successor management team
5. Openness to the concept of broad-based ownership
6. Minimum number of employees should be 25
7. Minimum EBITDA should be approx. \$2m
8. Has been in business for several years
9. The seller has personal goals compatible with an ESOP
10. ESOP rules are compatible with company culture / practices



Building a New Model for Our Firm of the Future



Accounting/Advisory Industry Landscape


- Talent and technology are **critical for growth**

- Deployment of private equity investment **to capitalize on a highly-fragmented, transformative industry** poised for growth

“These firms are all wrestling with how you essentially take a 100-year-old business model and update it in a much more fluid, dynamic, financially oriented market.”

W. ROBERT KNECHEL

Accounting Professor at University of Florida



BDO's ESOP
is a “Yes, and ...”



Beneficial ownership with a stake in the business



Opportunity to enhance financial well-being



Compelling addition to compensation and benefits



Annual ESOP allocation funded by BDO with company stock



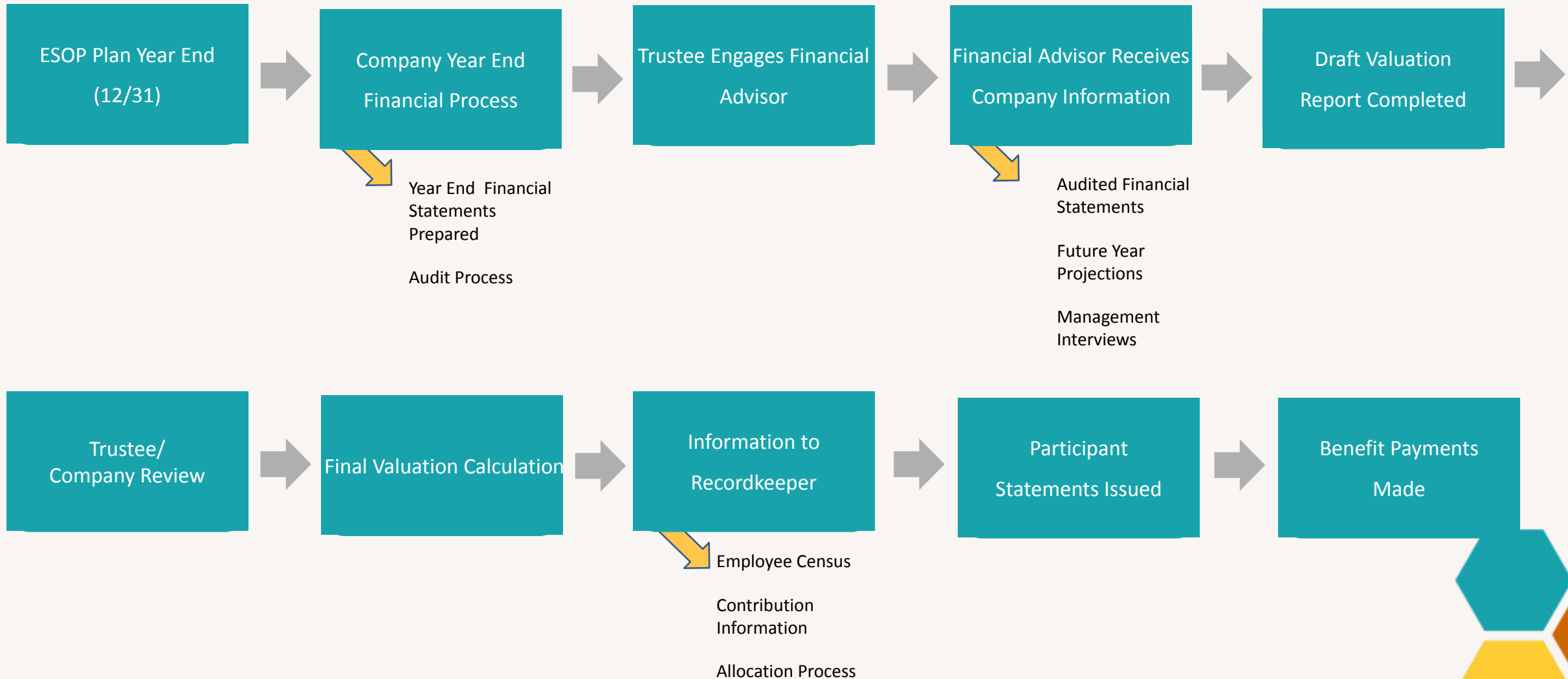
No out-of-pocket contributions



Chance to grow wealth over time as shares vest and appreciate



Annual Valuation Process





BDO Facts and Figures

- Approximately 10,000 U.S. employee participants.
- ESOP allocation + salary, performance bonus, 401(k) match and other firm benefits.
- Participants vest in their ESOP allocation over 6 years.
- Contribution is based on eligible wages up to established IRS limits.
- Currently, the ESOP represents approximately 42% ownership of the firm.
- An annual valuation is completed by an independent third-party expert.
- An internal trustee committee comprises BDO principals who are also CPAs, an important regulatory element in our sector. An independent fiduciary serves as a consultant to the trustee committee.

WHAT'S THE IMPACT?

The ESOP marks a transformational step forward in shaping a stronger, more resilient and sustainable future for BDO. It is a tangible way to invest in each other and ensure that everyone who contributes to the firm's success can participate financially in the firm's success.



Notes - KSM ESOP Transaction

- KSM founded in 1942
- Firm was sold to H&R Block in 1998 during a period of industry consolidation
- ESOP was created, effective January 1, 2001 (bought back the company via the ESOP)
- Scott Read Innovation Award - named for our partner who was integral to the ESOP solution and ESOP implementation for KSM



Notes - KSM ESOP Transaction

- 100% ESOP owned since formation
- 'Rollover' option used to help with financing of original stock purchase
 - All employees given option to roll-over 401(k) or Profit Sharing plan funds
- Non-leveraged ESOP plan as a result
- Annual contribution of shares made






Potential Questions

- How does an ESOP-owned CPA firm structure vary from a traditional partnership?
 - Structure must be work with your State Accountancy rules
 - Example: having a Partnership entity issue Attest Services (Audited and Reviewed financial statements) owned by CPAs
 - Work on 'model' for split of net income & partner compensation pool



Potential Questions

- What are your 'takeaways' from being ESOP-owned for over 20 years at KSM?
 - "Unity" as our firm Value; more connected team
 - Employee Ownership as a Powerful Differentiator for Talent Attraction and Retention
 - An Ownership Mindset Drives Innovation and Entrepreneurial Spirit
 - The ESOP Model Builds Long-Term Wealth and Security
 - Providing ESOP Services is enhanced by "living" the ESOP model ourselves



Notes for CPA ESOP Presentation



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