WORKING OWNERSHIP

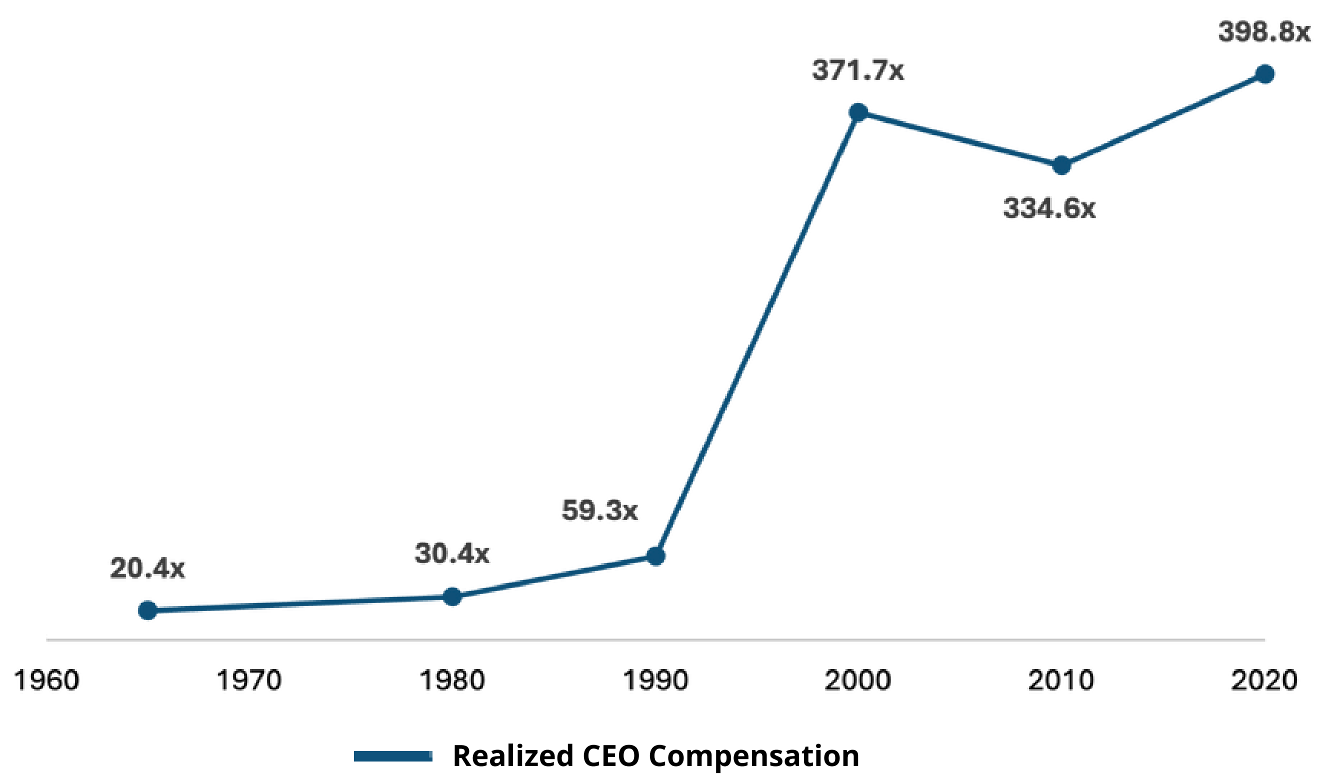
GREENWICH CAPITAL GROUP

Employee stock bonuses date back to the 1920s. Louis Kelso pioneered the employee stock ownership plan (ESOP) model in 1956. In the 1970s, Industrial America first introduced the idea of full employee ownership. As the American economy shifted from industrial to service-oriented, family-owned to PE-backed, and from Middle America to the 1%, the "social contract" between the Executive Team and the line worker started fraying and breaking down. Instead of both classes prospering in robust economic expansion, the line worker salary stayed stagnant while the C-Suite grew 400x. With the wealth "gap" inside Corporate America now becoming more like a seemingly insurmountable wealth "canyon," employee resentment and dissatisfaction crept back onto the production floor, and margins suffered.

2010: Pete Stavros, son of a line worker and high riser within the PE group at KKR, becomes an early believer in the creation of a more effective social working contract. Pete eventually runs the Industrial PE team for KKR and soon realizes the best way to achieve high performance with his portfolio companies: employing a fully distributed ownership plan for all employees. Spectacular financial results followed, and KKR earned a reputation for doing the right thing. KKR's SOP in the past 47 US buyouts is to implement a form of this "all-in" ownership program. Stavros would take this wealth creation philosophy outside KKR into the non-profit world by founding Ownership Works ("OW"). OW is a non-profit designed to help all companies improve their performance and return dignity and education to the line workers. The key is changing the ethos and mindset of a traditional hierarchical structure, which chokes off the best ideas from the employees closest to the action.

According to recent leadership studies, US CEOs' number one future issue is recruiting and retaining talent/labor. The “social contract” between the C-Suite and its employees appears to be broken. Net wages to the line worker have stayed relatively stagnant over the past 30 years. The wealth divide between the highest-paid employee of a company and the lowest-paid employee has never been greater. What used to be a 10x-20x wealth “gap” has now become a 400x wealth “canyon” where the CEO can now make in one day, what a line worker might make in a year.

CEO-to-Worker Compensation Ratio



Sources: Bureau of Labor Statistics, Bureau of Economic Analysis

The vast disparity in compensation within most companies has led to a growing dissatisfaction amongst the rank and file in most US companies. The stats are alarming and getting worse. Far too many Americans are financially insecure. As of 2023, nearly 40% of Americans struggle to pay their bills and cannot afford a $400 emergency expense, according to the U.S. Census Bureau and Federal Reserve. Additionally, many Americans are ill-prepared to navigate the labyrinth of complicated financial resources and products currently available, making it difficult for them to choose the right resources for their personal financial situation. These financial literacy obstacles have far-reaching implications for households, impacting everything from credit card debt to retirement savings. Any shared ownership model implemented would, therefore, have to be supported, including personal financial education, coaching, and access to resources like employee retirement funds and employer-sponsored loans. The goal would be to help employees make informed financial decisions and enhance their financial well-being and long-term wealth-creation opportunities.

According to Gallup, the percentage of engaged workers in the U.S. declined for the second year in a row, decreasing from 36% in 2020 to 34% in 2021 to just 32% in 2022. The other 68% of workers describe themselves as "not engaged" or "actively disengaged." Through employee ownership, companies can replace a culture of apathy with an invigorated culture of ownership. Pairing stock grants with greater communication, transparency, and a voice for each person can create the ultimate alignment of interests and engage an entire workforce around a common purpose and strategy. Full equity can also help increase a sense of fairness and equitable treatment, which is a core driver of long-term retention. Employees know their companies best, and when given the opportunity to both contribute to and participate in the success they helped create, all employees can take a company from good to great.

Current Employee Sentiment

70%	Don't like their job/dissatisfied
20%	Hate their company / actively sabotage
66%	of the US workforce is financially illiterate
40%	Quit rate annually
32%	Historic low engagement

Sources: Gallup

In June of 2015, C.H.I. Overhead Doors ("CHI"), a North American manufacturer of residential and commercial garage doors, announced that KKR, a leading global investment firm, pre-empted an auction and acquired the company from FFL, a San Francisco-based middle-market private equity firm. Headquartered in Arthur, Illinois (2,000 population), CHI was founded in 1981 by a local Amish carpenter who built a reputation for high-quality products and best-in-class customer service while achieving steady, profitable growth. CHI had more than 1,500 dealer/installer customers in North America and approximately 800 employees. The KKR team was led by Pete Stavros, then Head of KKR's Industrials investing team.

Instead of implementing the normal slash & gash PE playbook: cut costs, cut labor, leverage up, sell non-core assets, and squeeze out as much profit as possible, as quickly as possible, KKR re-invested in the operations and outlined a long-term strategic plan focused on automation, growth and employee safety. The most unusual part of this plan was the employee stock incentivization plan. In addition to the C-Suite being incentivized with large equity packages, a small portion of the equity that the C-Suite would have received was carved out and given to every single employee in the company. The goal was to make everyone who works for CHI think like an owner, act like an owner, and work like an owner. In the long-term strategic plan, each employee's stock would, on average, be worth one year of salary at the time of KKR investment exit. In addition, all employees were offered and encouraged to take financial literacy programs to better build and manage their future wealth plan.

In June 2022 (7 years later), KKR announced that they had completed the sale of CHI to Nucor Corporation for $3.0 billion. Over the "hold period," revenue at CHI grew 120%, and EBITDA margins almost doubled to an industry-leading 35%. At the $3.0 billion sale level, KKR made 10x their original equity invested – KKR's best return since 1980. Gross IRR was 42.3%, and Net IRR was 37.8%.

The average cash payout to employees was expected to be $15,000. Instead, CHI would distribute more than 10x that number - ie. about $175,000, on average, to each employee. Equity payouts were driven by tenure and seniority: A newly (less than one year) employed worker might receive $20,000. More tenured (less than five years) employees: $400,000 for plant workers and $800,000 for truck drivers. Old timers (over 20 years) received 6.5x their salary. For many CHI employees, this was a life-changing event. The median household income in Arthur, IL, was $58,920.

Case Study: C.H.I. Overhead Doors

	2015	2022
Buyer:	KKR	NUCOR
Seller:	FFL PARTNERS	KKR
Price:	$685mm	$3B
Employees:	800	800
EBITDA:	$61mm	$229mm
EBITDA Margin:	21%	35%
MOIC:	-	10x

C.H.I. OVERHEAD DOORS

Employee Equity Payout

Tenure	Employee Stock Value
<1 year	$20,000
Average	$175,000
< 5 years	$400,000 - $800,000
> 20 years	6.5x salary

After ten years of success with roughly 50 companies implementing the full employee stock ownership program, Pete Stavros started a nonprofit organization in 2021 – Ownership Works, to help non-KKR companies implement this game-changing culture strategy. Stavros felt this ownership philosophy could be an important component/first step in making American industry great again. Step #1: the C-Suite needs to prioritize this equity plan. If the leadership team is not 100% bought in, this plan won't work. Keep in mind that the C-suite is likely giving up only a very small portion of its equity, so they had better be committed. The message leadership wants to send to its employees:

- Voice - employee feels understood and contributes. We hear you, and we will act.
- Trusted - financial information on the business. More information leads to better decisions.
- Respected - as an owner, you matter to the Company. We will invest in you, your education, and your financial literacy. We want to help you plan for a better future for your family.

Along the way, Management will share the Company's financial results with all employees. Management will listen to employee ideas - change outcomes. Management is committed to change - keep your word, become aspirational. Ownership means you receive financial information. Creating a different culture of financial literacy. Up to now, employees have had no real financial hope. The Ethos is ownership - think like an owner. Investors/Buyers buy Culture - Culture is a "compound." The only way for PE to create a meaningful return is to improve performance. Everyone in the company needs to be focused on operational improvement. How will employee success be measured: 1) lower quit rate, 2) higher engagement.

One way to solve the first step towards implementation, full and coordinated buy-in from the C-suite leadership team, is using a Management Consultant. The right "coach" can walk each executive and the group through the process, as well as the financial and professional development each executive will receive. Based in NYC, long-time executive performance coach Mark Heller has had proven results with high-performance executive teams at Microsoft, HSBC, Pfizer, JP Morgan, and, more recently, with hedge funds. Heller can enable the C-suite to embrace and evangelize the cultural business shift of shared ownership. Heller utilizes philosophies based on Emotional Intelligence and Action Learning as ways to build group momentum through which leaders grow. Oftentimes, having an objective and non-partisan expert leading the education can achieve better holistic results than having the owner in residence preach the self-serving gospel.

Ownership Works

"Reimagining equity to build wealth"

What is Ownership Works?

A nonprofit organization that partners with companies and investors to provide all employees with the opportunity to build wealth at work.

Broad-based employee ownership creates:

- meaningful wealth-building for employees
- uplifts families
- reinvigorates corporate cultures
- improves business performance

Providing all employees with a stake in the ultimate value creation that they control is:

- better business
- smart investing
- the right thing to do

What is the goal, and what has been the impact of OW?

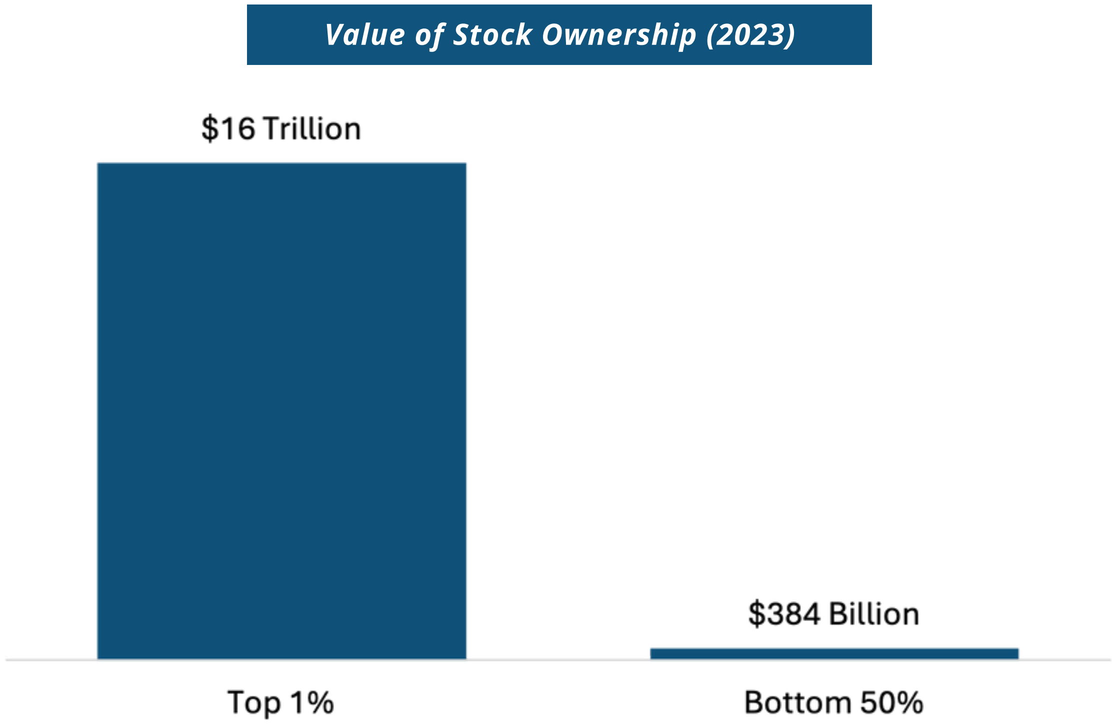
Employee ownership can unlock new levels of success for companies and employees - access and participation in wealth creation. At scale, employee ownership helps lower and moderate-income households access the single largest source of wealth in America: stock ownership.

Ownership Works aims to generate at least $20 billion of wealth for workers over the next decade. Since its founding in 2021 by Pete Stavros (KKR):

88	companies with shared ownership programs
111,658	employees impacted by shared ownership
$395.3mm	total wealth shared to date with employees
$130.1mm	impact to lower and moderate income workers

Despite America's overall growing prosperity, millions of working-class families lack the stability and security that wealth bestows. The bottom 25% of US households have a median net worth of only $500, and a quarter of US workers have no retirement savings. For employees in the bottom half, economically, there's just not enough in wages to weather a crisis or build a secure future.

Employee ownership provides workers access to one of the most significant pathways to wealth creation: stock ownership. Since 1989, directly held stocks and mutual funds have grown exponentially from $2.06 trillion to just under $40 trillion in 2023. The bottom half of all households own just over $384 billion (1%) of this pool and have limited financial security and an uncertain path to retirement. By distributing access to wealth creation opportunities more broadly, employee ownership can help more families build savings to weather financial setbacks and invest in their futures/retirement.



Sources: Federal Reserve Board, Distributional Financial Accounts

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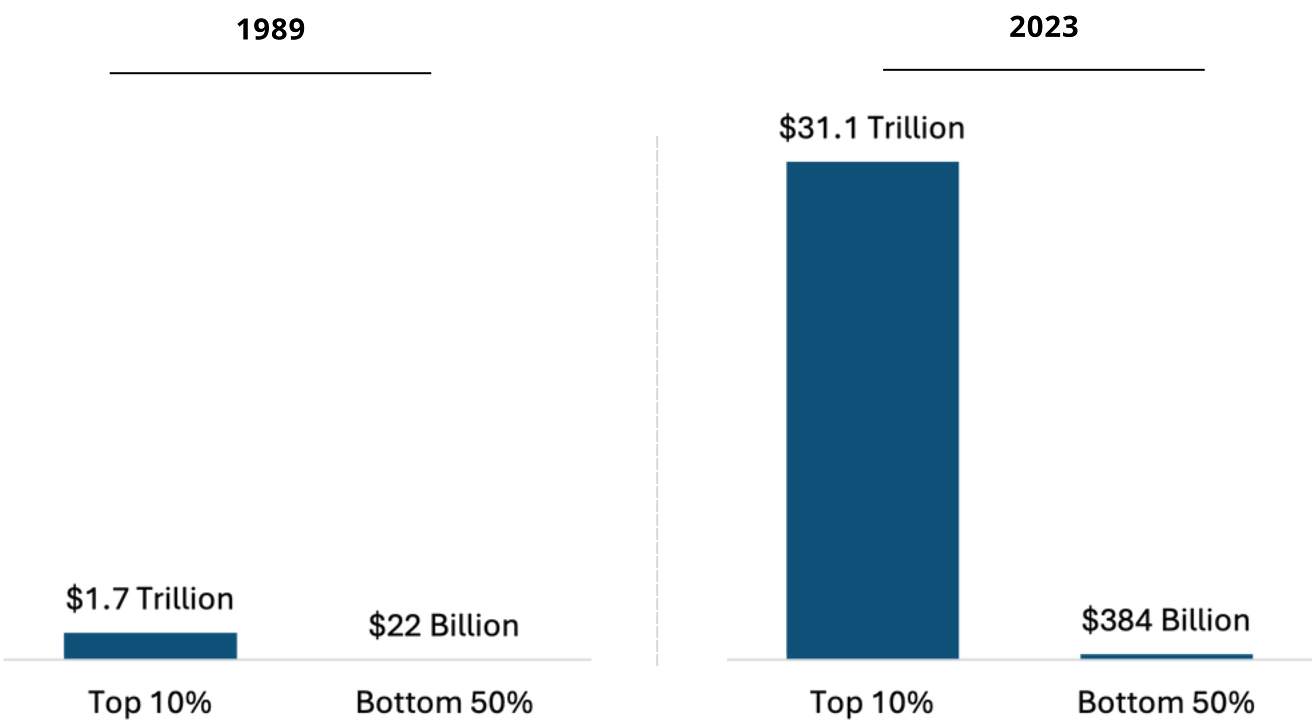
The bottom 50% of American households also missed out on the vast majority of wealth created by directly held stocks and mutual funds since 1989.

Share of Wealth Held



Sources: Federal Reserve Board, Distributional Financial Accounts

In March 2013, KKR took Gardner Denver private for $76 per share in a transaction valued at $3.9 billion, including the assumption of debt. Garnder Denver, with 2012 revenues of $2.4 billion, was a leading manufacturer of compressors, liquid ring pumps, and blowers for fluid transfer equipment in various industries globally. Pete Stavros, head of Industrials Investment, led the KKR transaction team. In May 2017, KKR took Gardner Denver public (NYSE: GDI) through a $826 mm IPO. At the time of the IPO, the GDI leadership team announced that all of its 6,100 employees would receive stock ownership in GDI. The total value of the equity award was $100mm, equivalent to 40% of an employee's base salary. In March 2020, Gardner Denver completed the $1.9 billion purchase of the Industrial Segment of Ingersoll Rand. The newly combined company was re-named Ingersoll Rand (IR). At the time of this acquisition, an additional $150 million of equity was distributed to all 16,000 combined employees, representing 20% of their base salary.

Case Study: Ingersoll Rand

	2017	2020
Event:	$826mm IPO - GDI	Acquire IR Industrial
Equity Award:	$100mm	$150mm
Employees:	6,100	16,000
% of Base:	40%	20%

From the IPO through the acquisition of IR and into today, there was a commitment by KKR and the GDI/IR leadership team to educate its workforce to understand what it means to be an owner: "my company," not "I work for." Thoughtful metrics and KPIs were created to set up clear goals for all employees. The key focus was on Net Working Capital and improving their cash flow cycle - to better unlock cash, grow payroll, and make growth investments. To do this correctly, transparency and trust had to rule the day. Management listened to all of its "shareholders," especially the ones who worked there. Many employees had changes that would improve the business. Now, management was listening. Employee engagement scores moved from 20% to 90%. Thirty-two thousand employee comments were put forth, and surveys showed 91% participation levels. Attrition fell from 19% to 3%. Safety issues incident rate decreased by 71%.

The financial results coming out of Ingersoll Rand following this combined $250mm ($100mm in 2017 and $150mm in 2020) employee stock ownership investment was nothing short of stunning: Financial results dramatically improved, driving the stock price from a market cap of $3 billion to $27 billion. Ingersoll Rand calculates $3 billion of value directly attributed to the move to a full employee ownership model. The key was linking stock ownership to 1) performance, 2) strategy and goals, and 3) purpose, respect, and trust.

Ingersoll Rand

$250mm of Employee Ownership 7 Year Packback Results	
Topline:	Significant organic growth
EBITDA Margin:	Increase of 700 Basis points
EBITDA $:	$380mm to $1.185 billion
Working Capital % of Sales:	30% to 20%
Market Cap:	$3B to $27B

Share Ownership Created $3B of Value	
$200mm	Training and alignment of operational goals
$271mm	Reduced voluntary turnover by more than 15%
$2.5B	Ownership Culture (EBITDA Multiple expansion of 1x-2x)
$100mm - $200mm	M&A Competitive Advantage Value Creation
$3B	Total Value Enhancement

While Pete Stavros of KKR is credited for re-invigorating the “all employee equity program,” he didn’t invent or trademark it. KKR’s success has been in how they have implemented the nuances of the program and the C-Suite management team buy-in, as well as how they selected portfolio companies to buy that are most likely to embrace the new cultural ethos. Their financial and PR results have been off the chart. So much so that KKR’s competition has been swift to borrow and adapt these ideas to their own portfolio companies. Apollo, Blackstone, Harvest Partners, Leonard Green, Oak Hill, TPG, and Silver Lake have all implemented a variation of the fully distributed equity model to a portion of their portfolio companies. It's too early to know quite yet what the ROI might be with these fast followers.

Stavros is clear to point out that a fully equity-incentivized labor force is not the magic bullet to solving all of the issues that compose the breakdown of the social contract within much of corporate America today. Nor is the re-distribution of equity to all employees going to return the wealth canyon of 400x CEO comp to line worker comp back to the earlier ratios of 10x-20x. Stavros's thesis is that this new broad-based incentive methodology is part of the answer – not the full answer. Employee stock ownership, in combination with a myriad of other best-of-breed business practices, could potentially restore employee / executive trust and respect within the workplace. At Greenwich Capital Group, we pride our unbiased and trusted advisory role being built upon mutual respect for all employees of our clients. We have seen many transactions that have transformed long-standing family businesses with the leadership teams sharing the same last name to PE or strategically-owned companies that employ a newly developed and more widely distributed equity incentive plan. Future results of these transformations can be directly linked to the equality each team member feels as an “owner” in the go-forward entity.

For more information, please contact GCG’s Consumer Co-Lead

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