

# ESOP

---

## Empowered by smart money financing

Andraž Grahek, Managing Partner & Founder, Capital Genetics

April 2024

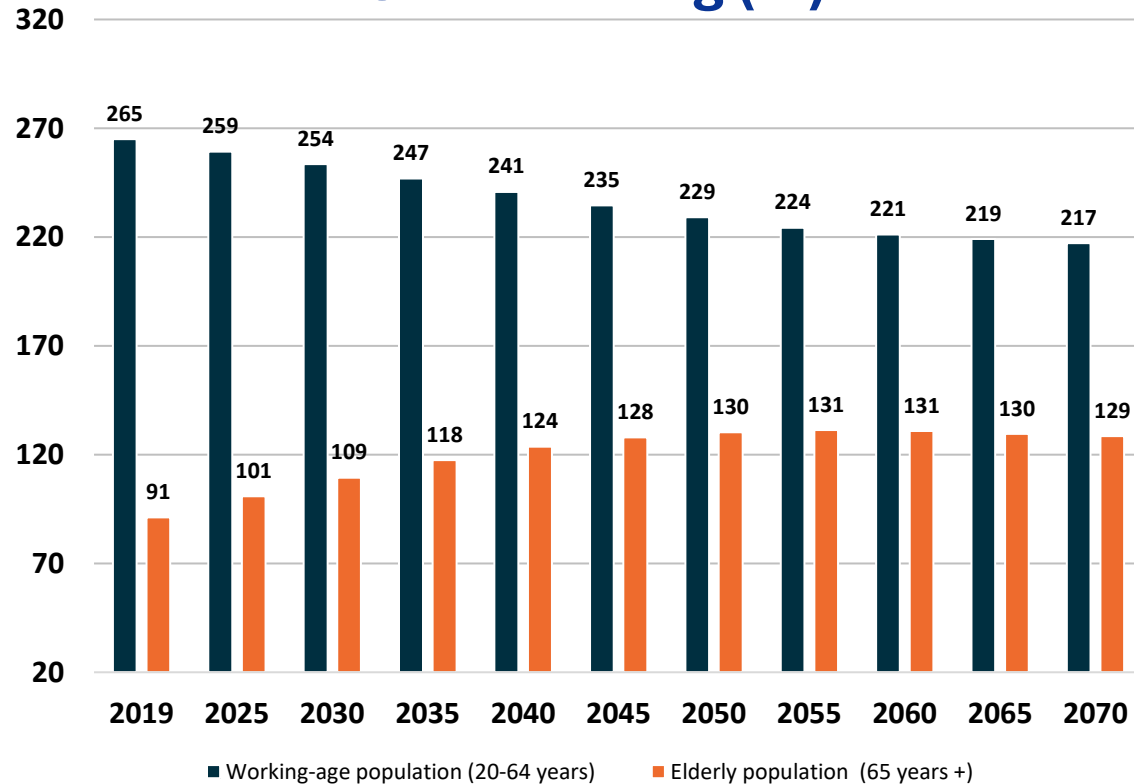
# SAILING THE LOOMING DEMOGRAPHIC STORM



# The Problem is Massive

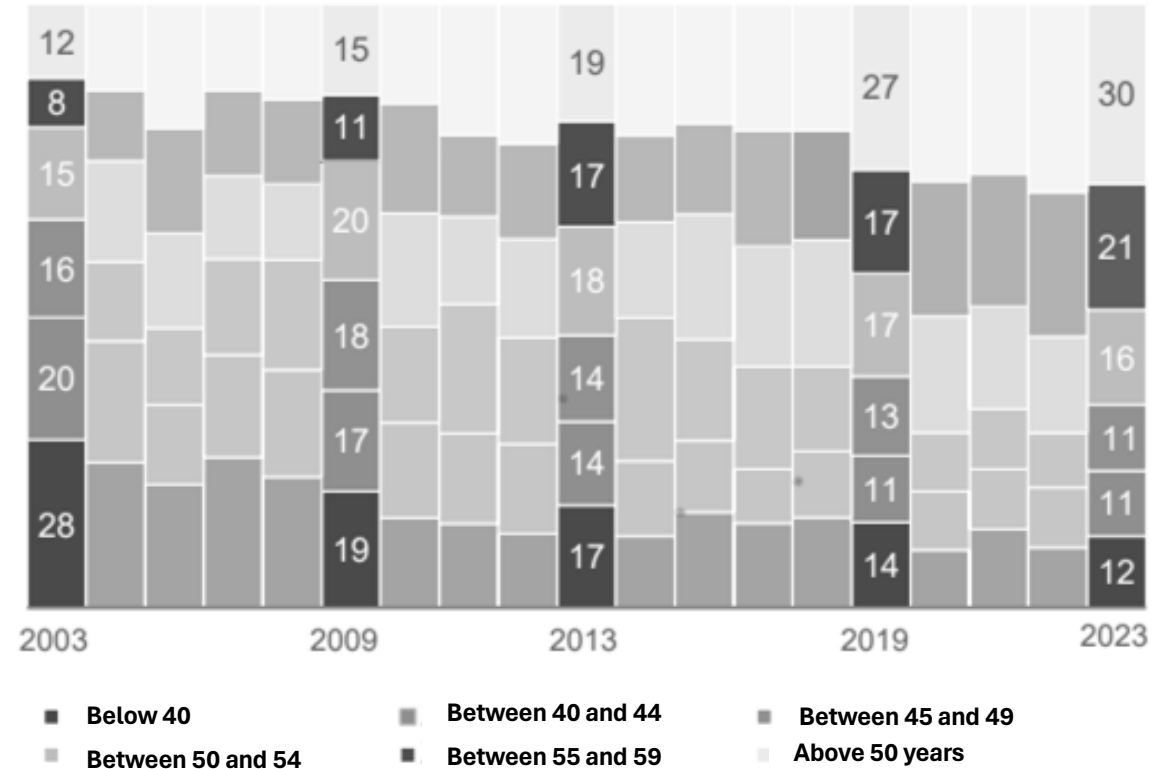
Unsolved succession issues exacerbated by a dwindling and disengaged labor force

## The working age population of the EU is shrinking (M)



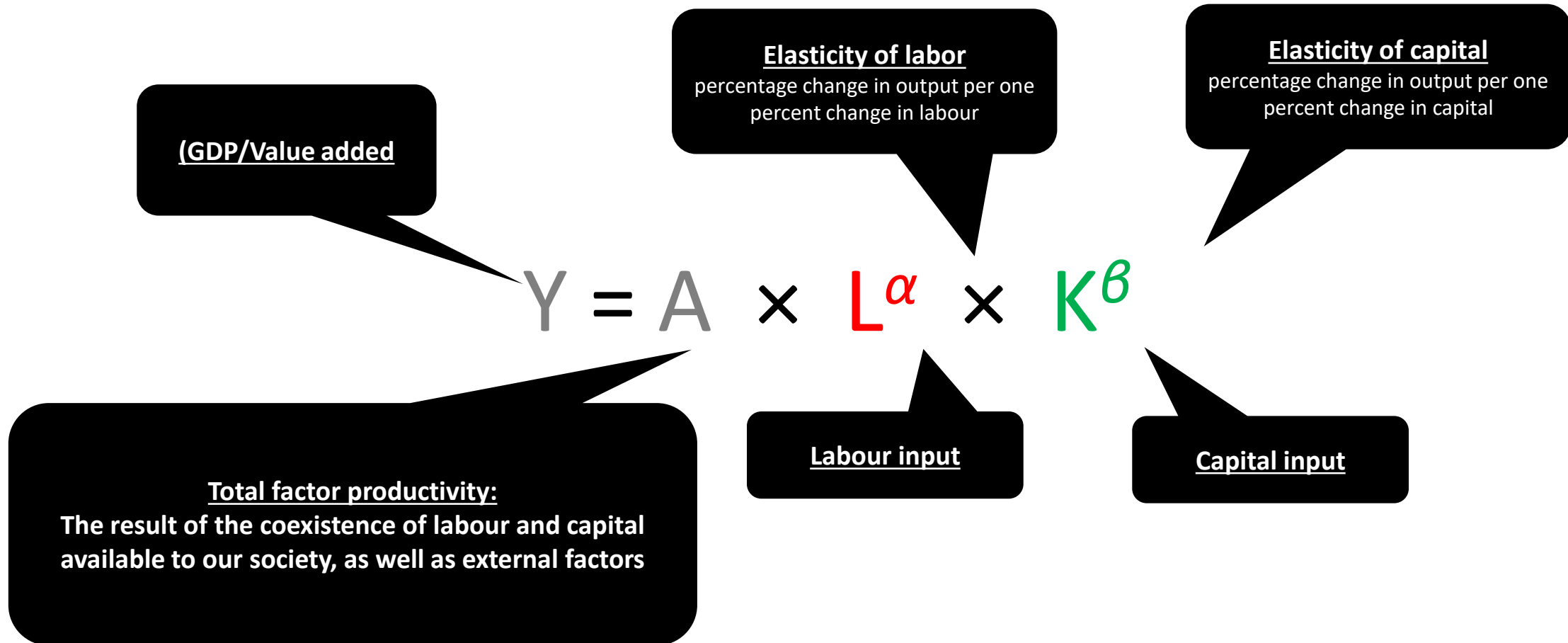
Sources: EC and KfW

## Half of the SME founders are running for the door (Age groups in %)



# Back to the Drawing Board

The solution requires a closer bond between labour and smart capital



Note: Cobb–Douglas production function

# Combining domain knowledge and years of experience

## Summary of the key roles and activity of ESOP project partners



- Financial consulting, modeling and forecasting of future cash flows
- Valuation preparation in the context of the ESOP transaction
- Managing the process of arranging external financing and possible refinancing of existing financing
- Structuring and execution of financing transactions and transfer of ownership shares
- Support in monitoring cash flows after the transaction



- Mapping organizational needs for employee ownership
- Informing and educating stakeholders about the ESOP model
- Establishment of an ESOP scheme
- Education (financial literacy, culture of ownership, "soft skill" training)
- Communication (PR, employer branding, etc.)
- ESOP administration and maintenance of ownership culture

# A structured process of setting up an ESOP structure that leaves nothing to chance

The process roughly consists of three phases

## PHASE 1- PLANNING

- Assisting shareholders, board members and management in determining whether ESOP will achieve the required objectives.
- In-depth valuation after performance of financial, management, operational and legal reviews.
- Analysis and presentation of multiple scenarios and options tailored to shareholders' goals, with an emphasis on financial feasibility.
- Organizational culture mapping and ESOP training proposal.
- Activity plan and timeline regarding the establishment of the ESOP (financing, education, managerial succession, communication activities)

## PHASE 2 - EXECUTION

- Financing arrangements
- Employee activation through presentations, workshops and the election of employee representatives
- Establishing internal rules of the ESOP, documentation and establishment of the ESOP scheme
- Contractual arrangements for the transfer of share/shares
- Beginning of the educational program
- The possibility of support in the implementation of communication/PR activities

## PHASE 3- MAINTENANCE

- ESOP system administration (personal account system, reporting, membership management, etc.)
- Continuous learning and induction programs
- Management with open books - financial transparency and linking goals with the interests of employees-co-owners
- Valuation and monitoring of cash flows.

# Starting with the Slovenian Ecosystem and the Vision to Expand Across Europe

Walk the Talk – Unpacking the building blocks of the ESOP capital management platform

## #1

*We have gone far and wide and reviewed in detail existing ESOP structures in the North American ecosystem*

## #2

*We were left inspired, however discovered one can't just copy paste, but needs to develop EU specific solutions.*

## #3

*So we are engaging with SMEs, partner banks and professional investors in Slovenia to validate our solution and complete first ESOP financing transactions...*

## #4

*...and working towards the launch of an alternative investment ESOP fund, ...*

## #5

*...the first building block of an EU wide end-to-end capital management platform,...*

## #6

*...while engaging with EU institutions and local stakeholders to understand the policymakers' positions*

# THANK YOU FOR YOUR ATTENTION

**Andraž Grahek, Managing Partner**

**CAPITAL GENETICS**

[andraz.grahek@capitalgenetics.com](mailto:andraz.grahek@capitalgenetics.com)