



MOSAIC CAPITAL
PARTNERS

Mosaic Capital Investors – Statement of Keith Butcher

December 6, 2022

Employee Ownership is Beneficial for all Constituents ⁽¹⁾

Good For Employees

- **Wages** - Employee owners earn average wages 5 to 12 percent higher than employees in conventional firms
- **Wealth** - The net worth of employee owners aged 28 to 34 is 92 percent higher than for non-employee owners
- **Retirement Savings** - The average retirement savings for an ESOP employee is \$170,000, twice the national average

Good For Business

- **Turnover** - Employee engagement is higher and turnover is lower at employee-owned companies
- **Growth** - Transitions to employee ownership increase productivity by more than 4 percent
- **Stability** - Employee owners are one-fourth as likely to be laid off and their companies go bankrupt less frequently

Good For Communities

- **Jobs** - Employee ownership saves local jobs, because companies that are owned by their employees are far less likely to leave their communities
- **Local Wealth** - Employee ownership keeps wealth circulating in local communities

Good For Owners

- **Legacy** - When business owners sell their businesses to their employees, they can keep their legacy alive for generations to come
- **Savings** - Entrepreneurs and family owners can realize the value the business has built while enjoying substantial tax savings
- **Responsibility** - Business founders and families can find ready buyers in employees, avoiding sale to those who would dismantle the business

(1) National Center for Employee Ownership (NCEO) and Democracy Collaborative.

Keith Butcher has been serving the employee ownership business community for the past 25 years. He worked on his first ESOP buyout transaction in 1998 and since then has been an advisor or investor to over 300 employee owned companies.

Currently, Mr. Butcher is one of the founding partners of Mosaic Capital, a SBIC licensed investment fund based out of Charlotte, NC. Mosaic is the only SBIC fund solely focused on investing in ESOP owned companies. Mosaic invested in 12 ESOP owned companies in Fund I and has completed 2 investments in ESOP owned companies in Fund II.

Additionally, Mr. Butcher is one of the founding partners of ButcherJoseph & Co., a middle market M&A advisory firm focused on ESOP related transactions, based out of Saint Louis, MO.

Finally, Mr. Butcher is an active Board member in several companies: Custom Profile, Inc. (ESOP owned, HQ Grand Rapids, MI), Sayers Technology, Inc. (ESOP owned, HQ Chicago, IL), DAI Magister (subsidiary of DAI Global, Inc., ESOP owned, HQ Bethesda, MD), and Forest City Trading Group, Inc. (HQ Portland, OR).

Mr. Butcher received a B.A. in International Business/Finance from Bradley University, Peoria, IL and a J.D. from Wake Forest University School of Law, Winston-Salem, NC.

Of the approximately 77 million Baby Boomers in the U.S., an estimated 12 million have ownership in privately held businesses. Roughly 10,000 Baby Boomers reach retirement age every day, meaning all members of this generation will reach age 65 by 2030. As the Baby Boomer retirement era continues and ownership stakes are passed to next generation of leadership, an estimated \$10 trillion worth of business assets is expected to be transferred. Ultimately, the ~\$100 trillion net worth of individuals over age 55 (as of Q4 2021) will be passed on to successors and inheritors.

SBA

The SBA has a genuine opportunity to influence the massive succession of Baby Boomer businesses. The capital provided by SBA to these businesses could be used to encourage businesses to transition to employee ownership. By transitioning to employee ownership, those companies continue to reside in their communities, provide quality jobs and local stability. **(2)**

(2) Source: U.S. Census Bureau; Federal Reserve; Wilmington Trust Business Owners Outlook: Rush to Retire (Q2 2021)

Business succession requires some form of capital to enable the transfer of ownership.

SBA 7(a) Program and ESOP buyouts: The vast majority of the Baby Boomer businesses would qualify for SBA size limitations. The 7(a) program is particularly well suited for the lower end of these businesses. For businesses valued less than \$15 million, this program would be a natural fit to provide the senior debt funding for an ESOP buyout. Currently, there are few options for financing the sale of a small business (less than \$15 million valuation) to an ESOP. Primarily, these transactions are seller financed. As a result, the only ESOP transitions that occur are those where the owner has few sale options or where the owner is truly committed to employee ownership. If the owner has the option to sell the company to a 3rd party (likely a strategic buyer at this size level) and receive liquidity upon the sale – it is a challenge for them to select a seller-financed transaction.

By truly aligning the structure of the 7(a) program with the traditional structure of an ESOP buyout and enabling the PLP program to support these transactions, the ESOP buyout becomes a viable alternative to a sale of the business.

As a result, the 7(a) program truly becomes a catalyst for growing employee ownership in America.

Finally, the resources/knowledge to underwrite these transactions already exists in the SBA's traditional partners. Most large and regional banks have some form of dedicated ESOP lending platform (for larger transactions). The dedicated teams at these banks have deep knowledge in underwriting the credit and the structure of ESOP buyout transactions. By enabling this group to add 7(a) lending to their existing ESOP lending platforms, the SBA opens up the ability for small business to access employee ownership.

As an SBIC licensed fund, Mosaic has been investing over the past 9 years to support the sale of businesses to ESOPs. Mosaic supports transactions that are larger than what the 7(a) program could support (greater than \$15 million in value). Mosaic has proven over the past 9 years that business owners will choose ESOP structured succession over sales to traditional private equity or strategic buyers. Mosaic competes in the traditional M&A auction marketplace to provide owners who are considering a sale a similar economic option through the use of an ESOP structured buyout.

- Mosaic is projected to create over \$130 million of ESOP value in Fund I for for than 1400 employees
 - Mosaic's first six realizations generated \$36 million in cash value for its employees
 - Mosaic's remaining ESOP portfolio companies are projected to generate ESOP value in excess of \$94 million

In addition to the 7(a) program's influence on growing employee ownership for companies in a value range less than \$15 million, the SBIC program can be a strong influence on the next size category of businesses. The combination of these two capital programs gives SBA the power to influence the succession path for 12 million Baby Boomers who own businesses. Over the next decade, the growth of employee ownership in America would be multiples of the past decades. There is no doubt that given a viable economic option to reward their employees, many business owners would choose ESOP over selling to a 3rd party.