ENSURING YOUR LEGACY

Through Employee Ownership

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www.icagroup.org/childcare

The ICA Group Child Care Initiative

- Mission: Change the nature of work by advancing businesses and institutions that center worker voice, grow worker wealth, and build worker power
- Services: business consulting, access to capital, succession planning, and cooperative ownership models to build a better child care industry



Introductions

Please use the chat to introduce yourself!

What drew you to our session today?

• What is the "top of mind" question you have coming into this session?

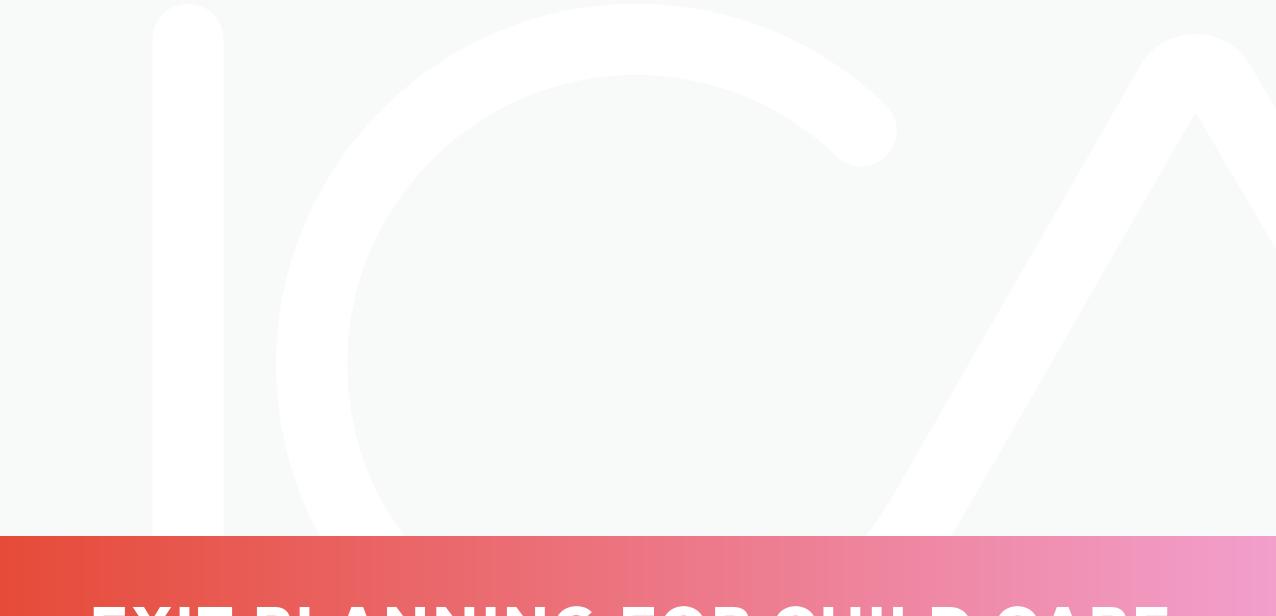


Agenda

- Quick review of exit planning and exit options for child care
- What is employee-ownership?
- Case Studies
- What is the process to transition to employeeownership?
- Q&A

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EXIT PLANNING FOR CHILD CARE

Why think about exit planning?

You've created jobs

Ensure that they exist after you leave

You've provided care to families in your community

Ensure that service continues after you leave

You've invested money into your business

Ensure that you receive a fair return from the sale



What is exit planning?

 Based on premise that at some point, every business owner will leave their business

 Includes: owner's target departure date, owner's financial needs, succession plan, preliminary valuation, and financial projections

By creating and executing an exit plan, business owners can transfer ownership while assuring that their goals can be achieved during the transaction



Special considerations for child care

Real estate

Partial or complete exit

Confidentiality

Licensing

Economy





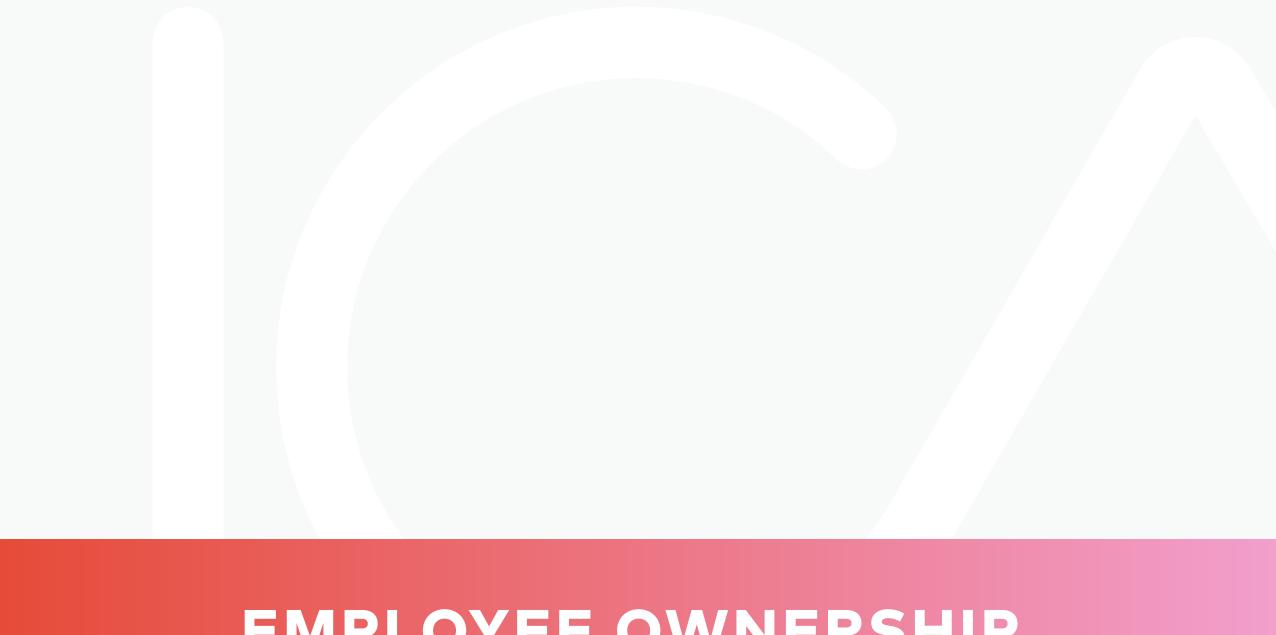
National or Regional Chain

Owneroperator

Management Buyouts

Family Members

Sale to Employees



EMPLOYEE OWNERSHIP

A worker cooperative is a business that is owned and controlled by its employees.









Workers can purchase a membership share to become an owner of the business Worker-owners have a decision-making vote in the business

Worker-owners are entitled to a portion of the business' profit

Why Employee Ownership?

Benefits for Owners

- Can preserve center's legacy, values, & connection to community
- Rewards employees for years of service
- Receive compensation for the business you've built
- Tax incentives
- Flexible timeline

Benefits for Workers

- Continuation of the business and jobs
- Shared profits and wealth building
- More participation in the workplace, improved satisfaction and retention



Why NOT Employee Ownership?

Challenges for Owners

- Might not receive as much money as in a sale to a third party
- Can pose challenges for owners who want to exit the business immediately
- Generally requires some seller financing

Challenges for Workers

- Responsibility to make informed decisions about the future of the business
- More meetings!



Case Study: Childspace

- NAEYC accredited child care centers in Philadelphia, PA
- Founded as a cooperative in 1989
- Focus on retention & employee benefits





Case Study: The Rose Garden

 Premier child care center in Buffalo, NY

Founded by Judith Frizlen in 2008

"My daughter worked at the center, but she likes working collaboratively and didn't want to own the business by herself. And I thought the culture of the center would be lost if I sold the business to a chain. A transfer to employee ownership would also help realize my goals of preserving the feel of the center." – Judith Frizlen



The Rose Garden

Exit Date

Financial Needs

- Targeted 2019 to fully exit
- Wanted to exit daily operations, but willing to stay on as consultant to mentor teachers
- Business value was important, but Ms. Frizlen also wanted new owners to profit from ownership within the first few years
- Approached selling price with some flexibility
- Some seller financing was acceptable

The Rose Garden

Management Succession

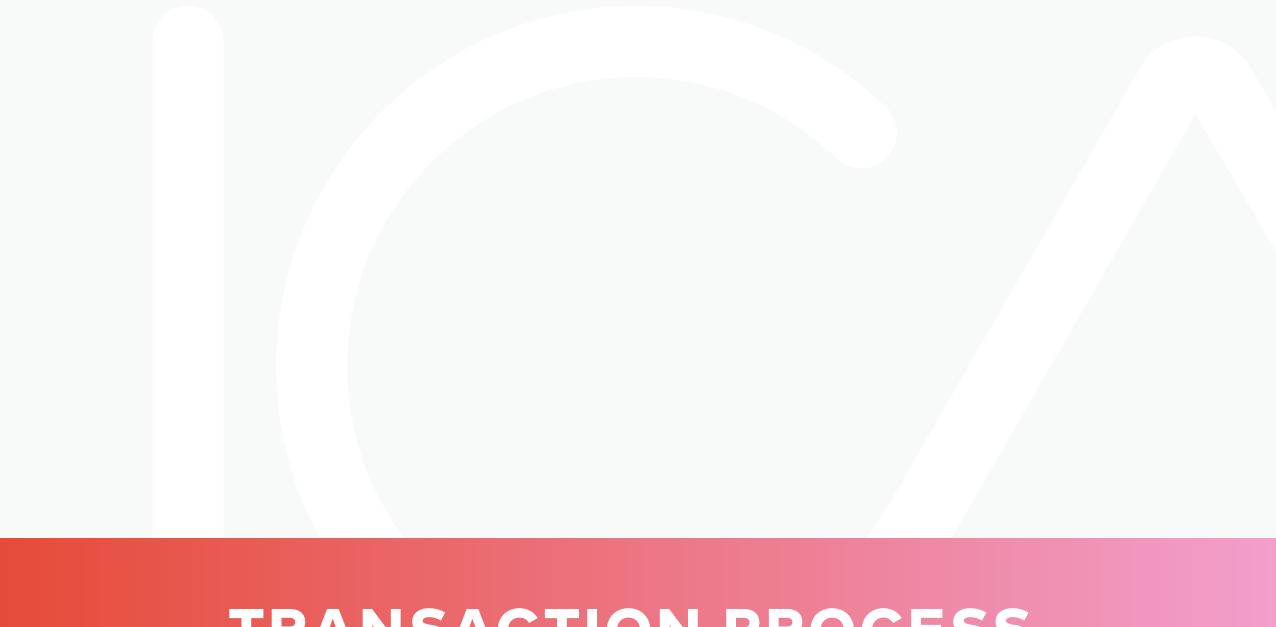
Legacy Goals

- In 2015, stepped out of Director role
- Assistant Director became Director
- In 2016, began training staff in marketing, policy, human resources, and payroll responsibilities
- Reward employees for years of hard work
- Elevate early childhood profession with opportunities to build assets through business ownership

The Rose Garden - Transaction

- Worked with two cooperative development organizations: the ICA Group and Cooperation Buffalo
- Five employees purchased business in 2017 to operate as a worker cooperative
- 70% of financing secured through the Working World and the Financial Cooperative
- Employees participated in training to build skills and tools to run the business





TRANSACTION PROCESS



Establish Goals

Outline owner goals for:

- Timeline for transferring the business
- Financial needs for the sale
- Legacy goals for the business



Assess Feasibility

- Financial Feasibility
- Can the sale meet owner goals and support a healthy business moving forward?
- Operational Feasibility
- Is there a viable management succession plan?



Plan the Transition

Engage workers on:

- Governance proposal who can become an employee owner? What is the decision-making role of the board?
- Management transition plan what responsibilities need to be transferred?
- Transaction structure what is the sale price of the business?

Financing the Transition

Francesca is selling her childcare center to her employees. Her business is worth \$120,000. Each of her 10 employees contribute \$500 for a total of \$5,000. The remaining \$115,000 can be financed by Francesca (aka seller financing), the bank, or a combination of both.







Execute the Transition

- Engage licensing rep, grantors, landlord, vendors, etc.
- Draw up legal documents for the transfer
- Finalize and close on financing



Operate as Employee-Owned Business

- Notify families and community stakeholders
- Celebrate!
- Continue to build skills to support successful employee ownership (e.g. financial training, board training, meeting facilitation)

Find resources and more information at icagroup.org/childcare

- Ensuring Your Legacy: A Guide to Exit Planning for Child Care Business Owners
- What's it Worth? A Guide to Determining and Increasing the Value of your Child Care Business
- Worker Ownership: Frequently Asked Questions
- Six Myths About Employee Ownership

THANK YOU!



Q&A