



PRIVATE EQUITY LIQUIDITY · OCTOBER 1, 2026

Employee Ownership as a Sponsor Exit

Using an employee stock ownership plan to sell a portfolio company that fits the pattern — liquidity for the fund, ownership for the people who run it

Philip A. Baratelli, CPA, MBA

33,575 UNSOLD PE-BACKED PORTFOLIO COMPANIES AT JUNE 30, 2026	PROFESSIONAL, SCIENTIFIC & TECHNICAL SERVICES THE ASSET IS THE STAFF, SO OWNERSHIP RETAINS THE ENTERPRISE VALUE	MANUFACTURING PREDICTABLE CASH FLOW CARRIES THE ACQUISITION DEBT	CONSTRUCTION OWNERSHIP HOLDS CREWS AND SUPERVISORS THROUGH THE CYCLE
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The three sectors in which the National Center for Employee Ownership's 2026 National ESOP Database finds private-company plans concentrated. Why each one works, and the sectors that do not, are set out in the body.

\$20.0M WORKED EXAMPLE: EBITDA	\$140.0M PRICE AT 7.0x EBITDA	51–60% OF THAT PRICE FUNDED IN CASH AT CLOSE	\$9.9M ADDED DEBT CAPACITY FROM THE S-CORP TAX SHIELD
79–95% OF THE MARK A CASH AUCTION MUST CLEAR TO BEAT THIS ROUTE	49–72% OF FACE IF THE FUND SELLS THE SELLER NOTE TODAY	YEAR 10 WHEN THE COMPANY CAN REFINANCE THE NOTE OUT	129% OF FACE THAT REFINANCE RETIREES, BASE CASE

There were **33,575** unsold private-equity-backed portfolio companies waiting for an exit at **June 30, 2026**, against 32,451 at December 31, 2025. That is the population. This brief is not about its size; it is about one route out of it that most sponsors have not priced.

A portfolio company that is profitable, boring, well managed and of no obvious interest to a strategic acquirer can be sold to its own employees through an employee stock ownership plan. The fund receives cash at closing and a note for the balance. The employees receive ownership of the business they already run, at no cost to them. And because a company owned entirely by an ESOP through an S corporation pays no federal income tax on its earnings, the buyer can service more debt than a taxable buyer of the same company — which is where the price comes from.

The stars go to the auction. The middle of the portfolio can go to the people who built it, and the fund still gets its distribution.

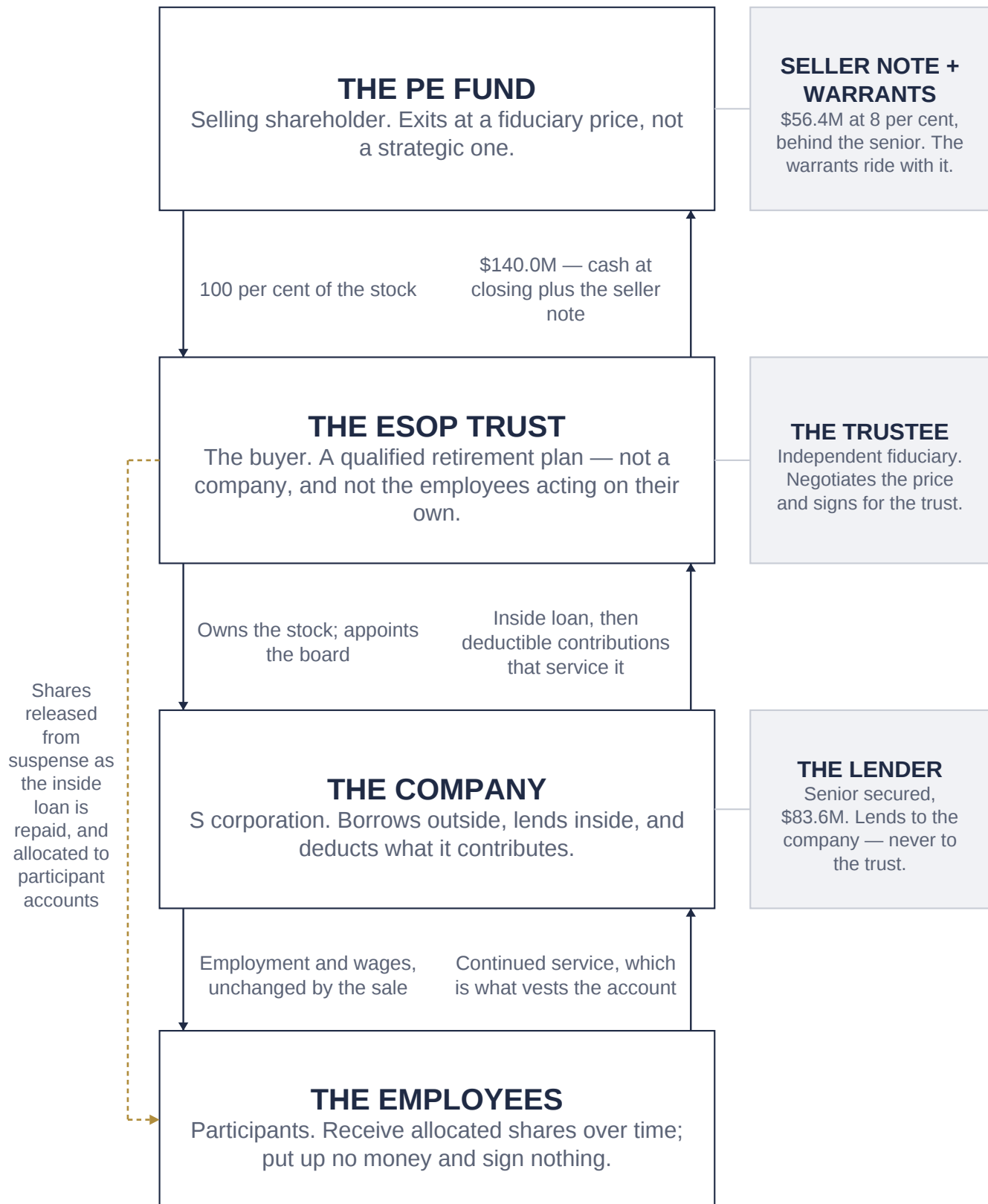


Figure 1. The parties to an employee stock ownership plan buyout of a private equity portfolio company, and what moves between them. A sponsor sells the company to a trust established for the benefit of its employees; the trust borrows to pay for it, from a bank and from the sponsor itself, and the company services both loans out of its own cash flow. The dashed route is the one flow that does not run through the company: shares leave the suspense account and land in participant accounts as the inside loan is repaid. Every amount shown is the worked case carried through this brief — a \$140.0M price at 7.0x EBITDA. Institute illustration, September 30, 2026.

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1. The routes out of an aged position

A private equity fund buys a company, improves it, and sells it inside a stated hold period. The exit is not an afterthought to that business — it is how the return is realised and how the limited partners are paid, and a fund that cannot exit has not underperformed on paper so much as it has stopped functioning. Most positions leave by one of two doors: a sale to a strategic buyer, or a sale to another sponsor.

Sometimes neither door opens. A sponsor holding a company past its intended hold has six routes to liquidity, and the choice among them is commonly made before more than two have been costed. They are set out here, first, on the dimensions a sponsor is actually measured on, because the rest of this brief examines one of the six in detail and that examination is worth nothing to a reader who has not seen what it is being compared against.

Route	Liquidity at close	Price discipline	Certainty	Principal cost
Sale to a strategic buyer	Full	Market, with synergy premium available	Low, if no buyer exists	Requires a buyer the process has not found
Sale to another sponsor	Full	Market, no synergy premium	Moderate	The asset the current fund could not exit is the asset the next fund is buying
Dividend recapitalisation	Partial, funded by new debt	None — no valuation event occurs	High, while the credit market is open	The position is still held, now at higher leverage and with less cushion under it
GP-led continuation vehicle	Partial, LP-elective	Set against a NAV reference the same GP influences	Moderate to high	Conflict-of-interest scrutiny; the position is not actually sold
Sale to an ESOP	About 51–60% cash, balance in a note	Fiduciary ceiling; no synergy premium	High once financing is committed	No price discovery; a seller note the fund must carry
Hold and continue	None	Deferred	Certain, and the problem is unchanged	The distribution the limited partners are asking for does not arrive

For context on the continuation-vehicle row, and on the market the whole table sits in: GP-led secondaries ran \$108B in 2025 against \$77B in 2024, and \$65B in the first half of 2026, which was 54 per cent of all secondary volume (Jefferies). Single-asset continuation vehicles were 62 per cent of GP-led volume at an average discount of 2.9 per cent to net asset value. Exit counts: 872 PE-backed exits in the first half of 2026 against 1,210 in the first half of 2025, about 28 per cent lower (S&P Global Market Intelligence, July 2026).

Two of the six are doing most of the work in the current market. The continuation vehicle is the honest comparison for a sponsor that wants the cash moved without the position sold: elective partial liquidity, the asset left with the same manager, at a reference value that manager influences. The dividend recapitalisation is the same instinct with less machinery and no valuation event at all. Both defer the question rather than answer it.

Also available, and rarely costed, is a sale to the company’s own employees. It is not a route for every position, and the test that disqualifies most of them is the first one. **Where a logical strategic buyer exists, an employee stock ownership plan is the wrong answer.** A strategic buyer brings a synergy premium no fiduciary is permitted to pay, settles in cash at closing rather than partly in a note the fund has to carry, and takes the position off the books in a single step. Against that, this structure loses on price, on liquidity and on finality at once. The Institute states the rule in that direction on purpose: a sponsor reaching for an ESOP while a trade buyer is available has mispriced its own position, and the

banker who says so is doing the job properly.

The route is for the residue — the positions that have stopped growing, that throw off predictable cash, that a scoped process has failed to place, and where the realistic alternative is another two years of holding. **What the fund gains is not liquidity for its own sake. It is the capital back, at a price a fiduciary has to defend, to put behind something with a higher expected return than the asset it came out of.** That is the comparison a sponsor should run, and it is not the comparison the table above invites. The question is not whether this structure beats a trade sale, because it does not. It is whether 60% of the mark in cash now, plus a note, redeployed at the fund's own target return, beats holding a no-growth position for another two years against the chance that a buyer arrives. Where a position fits that description — and section 4 sets out the test — an employee stock ownership plan delivers less cash at close than a trade sale and more finality than anything else on the list, at a price a party with a fiduciary duty has determined and has to defend.

2. The finding, and the position this brief is about

An employee stock ownership plan is not a philanthropic gesture and it is not a distressed outcome. It is a leveraged buyout in which the buyer is a tax-qualified retirement trust holding stock for the company's own workforce. The trust borrows, buys the stock at a price an independent appraiser has determined, and repays the debt out of the company's cash flow. The seller is paid.

For a sponsor holding an aged, cash-generative, unglamorous asset that a competitive process will not reward, the structure answers the question the fund actually has: how to convert a position into a distribution without accepting a discount to fair value and without waiting for a market that may not come. The Institute's reading is that this route is underused relative to how many positions fit it — not because sponsors have examined and rejected it, but because most have never had it costed.

Whether a given position can actually be sold this way is a separate question, and section 4 sets the test. What this section does first is describe the position, because the screen is only worth running against a company of the right shape. The pattern is specific. A sponsor-held company in this brief's frame is:

- past the fund's intended hold, commonly five years or more, in a vehicle whose distribution schedule has become the limiting partner's principal complaint;
- profitable and cash-generative, with maintenance capital expenditure that is predictable rather than lumpy;
- of no particular strategic value to any obvious acquirer, so there is nothing in the asset for a trade buyer to pay up for;
- without the growth story a secondary sponsor needs in order to underwrite its own return, which is what takes the next buyout off the table — not the size of the company;
- carried on the fund's books at a mark the sponsor would rather not test in public, so a process that clears below it is itself a cost and not merely a disappointment;
- run by a management team that is competent, long-tenured, and would stay.

One item on that list is routinely carried as an assumption when it is a **finding**. **That no strategic buyer exists is produced by a banker who has scoped or run a process.** A sponsor that has not tested the market does not yet know it holds a marginal position — it knows it holds an aged one, which is a different thing and has different remedies. Scope the market first.

Marginal is not distressed. A company in genuine distress cannot support the leverage this structure requires, and the discussion below about debt capacity is the reason. The asset this brief describes is a good business in a fund that has run out of patience with it.

3. What an employee stock ownership plan actually is

An ESOP is a defined-contribution retirement plan, qualified under IRC §401(a) and governed by ERISA, that is required by its own terms to invest primarily in the stock of the sponsoring employer. It is the only qualified plan permitted to borrow money to buy that stock. A trustee holds the shares for the participants; shares are allocated to participant accounts as the acquisition debt is repaid; and participants are paid out in cash when they leave or retire.

Employees do not buy anything. They do not write a cheque, they do not guarantee the debt, and they do not put retirement savings at risk to fund the purchase. The company's future cash flow buys the stock and the trust holds it on their behalf. This matters to how the transaction is described internally: an announcement that reads as if staff are being asked to invest will be received as a request for money, and it is not one.

Party	Role in the transaction	Who selects them
Trustee	Buys the stock on behalf of the plan. Owes a fiduciary duty to participants and is obliged under ERISA §3(18) to pay no more than adequate consideration.	The company's board, before the deal — and once seated, the trustee acts for the plan, not for the board
Independent appraiser	Determines fair market value. Engaged by and reporting to the trustee, not to the seller.	The trustee
ERISA counsel	Documents the plan, the loan and the fiduciary process, and defends it if it is ever examined.	The trustee and the company separately; they do not share counsel
Feasibility adviser	Tests whether the company can carry the debt and meet the future repurchase obligation.	The company
Sell-side banker	Scopes or runs the market test that establishes whether a strategic or financial buyer exists, and advises on route selection.	The sponsor

The trustee and the appraiser sit on the buy side. A sponsor that treats either as its own adviser has misunderstood the structure, and the Department of Labor will read the file the same way.

4. The screen — which portfolio companies can use this structure

Four conditions are close to binding.

- **Free cash flow that covers the debt with room.** Lenders underwrite to a coverage ratio; below about 1.25 times, the structure does not fund. This is the first test and it disqualifies most of what it is applied to.
- **Management that can run the company without the sponsor.** After closing there is no fund partner on the other end of the telephone. A team that has been directed rather than trusted is a real execution

risk and the trustee will price it.

- **A defensible valuation close to the sponsor's carrying mark.** If the appraiser lands materially below the mark, the fund is choosing between a write-down and a dead deal.
- **An S corporation election available, or a C corporation willing to convert.** Section 8 explains why this is the whole economic engine.

Five more shift the odds without settling them.

- Revenue that is recurring or contracted rather than project-by-project.
- Customer concentration inside about twenty per cent for the largest account — a fiduciary buyer discounts concentration harder than a strategic one, which can absorb it.
- Maintenance capital expenditure that is steady and known, because it competes directly with debt service.
- A workforce stable enough that the repurchase obligation is forecastable.
- A clean balance sheet, with no unfunded pension, environmental or litigation exposure a trustee would have to underwrite.

The disqualifiers, stated plainly.

Cyclical earnings that can halve in a downturn. A business whose value is concentrated in one departing owner-operator. Any company that needs the buyer to supply strategic capital, because this buyer cannot. And any company whose price only clears at a strategic multiple — the trustee cannot pay a synergy premium, because the plan receives no synergies.

5. Where employee ownership fits, and where it does not

Section 4 screens one company. This section screens the sector that company sits in, because the same four conditions bind very differently depending on what the business actually does. The National Center for Employee Ownership's 2026 National ESOP Database finds private-company plans concentrated in three sectors — professional, scientific and technical services; manufacturing; and construction. That concentration is not an artefact of sampling. The structure works where cash flow is steady enough to carry both the acquisition debt and the repurchase obligation, where the value of the company lives in the people who show up rather than in an asset a buyer could operate without them, and where management can already run the business without the founder or the fund.

Most suitable	Why the structure works there
Engineering, architecture and technical services	The asset is the staff, so ownership retains the people who are the enterprise value. Capital needs are light enough that reinvestment does not compete with debt service.
Manufacturing with contracted or repeat demand	Predictable cash flow carries the acquisition debt, and long-tenured workforces build accounts large enough that the plan is felt as ownership rather than as a benefit.
Construction and specialty contracting	One of the three sectors the database finds ESOPs concentrated in. Ownership holds crews and supervisors through the cycle, which is the margin in a bidding business.
Wholesale distribution	Stable margins, modest capital spending, and relationship-driven sales that reward the retention the structure produces.
Grocery and regional retail	Thin but steady margins spread across a very large workforce, which is the profile that produces the largest plans in the country.
Field services — tree care, facilities, environmental	Crew-based work where quality depends entirely on who shows up, and where no buyer acquires anything if the crews leave.
Established consumer brands with a departing founder	Where the seller's stated objective is independence and continuity rather than the highest number, the structure is competing on the axis it actually wins on.

Least suitable	Why the structure struggles there
Early-stage technology and biotechnology	There is no steady cash flow to service acquisition debt. These companies need venture equity, which is the opposite instrument from a leveraged buyout.
Highly cyclical and commodity businesses	Volatile cash collides with fixed debt service and with a repurchase obligation that does not wait for a good year. This is section 4's first disqualifier at sector scale.
Capital-intensive businesses needing heavy reinvestment	Capital spending competes directly with debt and repurchases. The 1994 employee buyout of United Airlines ended in a 2002 bankruptcy filing, and the capital cycle was central to it.
Law firms and other licensed-ownership professions	Rules of professional conduct in the general form of the American Bar Association's Model Rule 5.4 bar non-lawyer ownership; medicine and public accounting carry their own restrictions.
Very small companies	Appraisal, trustee, legal and annual administration costs are largely fixed. Section 12 sets out the range; against a small payroll it is a different proposition entirely.
High-turnover and seasonal workforces	Short tenures produce small accounts and constant repurchases, so the plan costs what a plan costs and delivers very little of what a plan is for.
Founder-dependent businesses	If the customers follow the founder, neither a lender nor a trustee will underwrite the company without him. Section 4 states this as a disqualifier and it is worth repeating here.
Deals that depend on Small Business Administration financing	A 2026 change to the SBA's citizenship requirements has put that programme out of reach for most ESOP borrowers, which pushes smaller deals onto conventional banks and the seller note.

Sector concentration is from the National Center for Employee Ownership's 2026 National ESOP Database. The United Airlines outcome and the professional-ownership rules are as publicly reported; the SBA position is as reported by the same centre in May and August 2026 and should be confirmed with counsel against the rule as it stands on the day a deal is priced. Suitability is the Institute's reading and exceptions exist in every row of both tables. All of it was measured as of September 25, 2026.

6. The names, and the two cautionary files

A structure is easier to judge against companies that have lived inside it than against a description of one. The Institute has no commercial relationship with any company named below, the list is not a ranking, and naming a company here is not an endorsement of it as an investment or as an employer. Two of the entries are failures, and they are the more instructive half.

Company	The ownership fact	What the case shows
Publix Super Markets	Employee-owned since 1974 and majority employee-owned since; about 260,000 employees	The structure scales. This is one of the largest private employers in the country and it has never needed an exit.
WinCo Foods, Burns & McDonnell, Amsted Industries	Each wholly employee-owned since the mid-1980s; about 20,000, 12,000 and 14,600 employees respectively	A forty-year hold across grocery, engineering and manufacturing, with no terminal event required of any of them.
King Arthur Baking	Wholly employee-owned since 2004	A family brand kept whole and independent rather than sold into a portfolio.
Bob's Red Mill	Partial ESOP from 2010, wholly employee-owned from 2020, after the founder declined acquisition offers	A founder choosing continuity over the highest bid, which is the axis section 5 says this structure wins on.
New Belgium Brewing	Partial ESOP from about 2000, wholly employee-owned from 2012, sold to Lion in late 2019	An ESOP is not a lock-up. The company sold later and the employees shared in the proceeds.
Tribune Company — cautionary	The plan bought \$250M of stock in the 2007 buyout; bankruptcy filed December 2008; \$32M Labor Department settlement in 2012	An ESOP bolted onto an over-levered transaction fails the participants it was sold to as a benefit.
RVR Inc. — cautionary	The plan bought the company outright for \$105M in 2014; the trustee paid \$20.4M and a penalty in 2023	Price is the whole exposure, and the trustee is personally accountable for it. This is section 7 with a dollar figure on it.

National Center for Employee Ownership, Employee Ownership 100, October 2025, for the rankings and headcounts; company statements for the ownership dates; United States Department of Labor releases of February 23, 2012 and September 13, 2023 for the two settlements. Headcounts and revenue are company-reported on the dates stated and were measured as of September 25, 2026.

Five that worked, and five different sellers.

A public company's own employees, a founding family, a private equity sponsor, and two sets of founders. Each one shows a different reason the plan won the sale, and the fourth is the one a sponsor reading this brief should read twice.

Parsons Corporation — the employees bought a public company, and then took it public again

Parsons established its plan in 1978 to compete for engineers, and in 1984 its employees completed one of the largest takeovers of a public company by ESOP shareholders on record. The company then stayed private and employee-owned for thirty-five years. It returned to the New York Stock Exchange in May 2019 at \$27.00 a share, raising about \$500 million, with plan participants holding 81 per cent of the shares after the offering and receiving a \$52.1 million dividend. Parsons reported revenue of \$6.4 billion for fiscal 2025 with about 21,000 people.

The lesson. An ESOP is not a dead end for value. It can hold a company for a generation and still deliver a public-market exit to the people who own it.

Davey Tree Expert Company — a business that has belonged to its crews since 1979

The company traces to 1880 and has been employee-owned since 1979. The National Center for Employee Ownership ranked it the eighth-largest employee-owned company in the country in its October 2025 list. It reported revenue of \$1.84 billion for fiscal 2024 — a measurement twenty-one months old at the date of this brief — with about 12,000 employees.

The lesson. A services business whose value walks out of the door every night is exactly where this structure earns its cost: the owners are the crews.

Schreiber Foods — a Green Bay cheesemaker that became a global supplier

Founded in Green Bay, Wisconsin in 1945, Schreiber transferred ownership to the employees it calls partners through an ESOP in 1999. The company reports more than \$7 billion of annual sales and between 9,000 and 10,000 employees worldwide. Both are company statements with no fiscal year attached and therefore carry no measurement date; they are the only figures in this brief that arrive without one.

The lesson. Employee ownership scales in manufacturing. Schreiber kept its independence and grew into a supplier to the largest food brands in the world while doing it.

Bi-Mart — a private equity sponsor that sold to the employees

Management and Endeavour Capital bought the Pacific Northwest retailer from Rite Aid in 1997. Seven years later, on March 1, 2004, they sold it to an employee stock ownership plan for \$94 million, including \$12.5 million contributed from the employees' own 401(k) plan. Bi-Mart operated 64 stores at the time and reported more than 3,200 employees by 2021.

The lesson. This is the transaction this brief is about, and it has already been done. A fund that needed an exit sold to the employees, and the employees have owned the result for more than twenty years.

Taylor Guitars — founders who chose independence over the highest bid

Bob Taylor and Kurt Listug founded Taylor in 1974. In January 2021 they made the company wholly employee-owned, covering more than 1,200 people in El Cajon, California and Tecate, Mexico. The purchase was financed with debt from the Healthcare of Ontario Pension Plan, Social Capital Partners and the founders themselves. Listug framed the decision as the question every founder eventually reaches: who will keep the company true to its values and maintain the culture.

The lesson. The financing does not have to be a bank loan and a seller note. Patient institutional capital will underwrite these transactions, and the founders can stay to run the handoff.

Washington Technology, May 2019, and company filings on Parsons; the National Center for Employee Ownership on Davey Tree; company statements on Schreiber Foods; the East Oregonian of March 2, 2004 on Bi-Mart; Taylor Guitars and PR Newswire of January 11, 2021, and Social Capital Partners, on Taylor. All company figures are as reported on the fiscal years and dates stated, and measured as of September 25, 2026. Re-resolve every one of them before any reprint.

7. Price, and who determines it

This is the point the Institute has most often seen stated backwards, and it is worth making precisely. **The trustee determines the price.** ERISA §3(18)(B) defines adequate consideration, for an asset with no generally recognised market, as the fair market value of the asset *as determined in good faith by the*

trustee or named fiduciary. The independent appraiser advises. The appraisal is evidence of good faith and it is not a substitute for it, which is why a trustee who adopts an appraised number without interrogating the assumptions underneath it has not discharged the duty at all — the holding in *Donovan v. Cunningham*, applied again in *Chao v. Hall Holding* and in *Brundle v. Wilmington Trust*. The appraisal is an annual requirement thereafter under IRC §401(a)(28)(C), not a one-time closing document.

One thing a selling sponsor should understand before the term sheet. A sale of employer securities to the plan is a **prohibited transaction** under ERISA §406 and IRC §4975. It happens at all only because ERISA §408(e) and IRC §4975(d)(13) exempt it, and the exemption is conditioned on adequate consideration and on no commission being paid. If the price is later found excessive the exemption is not available, and the excise tax under IRC §4975 falls on the disqualified person — which, in a stock sale, is the seller. A selling sponsor is not a bystander to the valuation. It is a party to the exemption the whole transaction depends on, and that is the reason to want the trustee's process to be rigorous rather than accommodating.

The practical consequence for a sponsor is that there is nobody to negotiate against in the usual sense. A strategic buyer can be talked up. A trustee cannot, because paying above adequate consideration is a breach of duty with personal exposure attached. What a sponsor can do is make the company easier to value well: clean financial statements, a quality-of-earnings study done early, documented customer relationships, and a management team that presents its own forecast rather than the fund's.

The register point, and it matters.

A trustee who is difficult is a trustee doing the job. The plan is a counterparty with a fiduciary obliged to be difficult, and a sponsor who experiences that as obstruction has misread the room. That is not a criticism of sponsors, and it is not a criticism of trustees. It is the design. The same feature that makes the price hard to move is what makes the transaction defensible five years later when somebody examines it.

8. The engine — the S corporation shield

An ESOP is a tax-exempt trust. Under IRC §512(e)(3), the trust's share of S corporation income is excluded from unrelated business taxable income. So a company owned **100 per cent** by an ESOP through an S corporation pays **no federal income tax on its earnings**. The shareholder is exempt and there is no other shareholder.

This is not a loophole and it is not new. It is the deliberate design of the 1996 and 1997 legislation that made S corporations eligible ESOP shareholders, and it is why the structure exists in the form it does. For a sponsor the point is narrower and more useful: the shield is not a benefit that accrues to the employees after closing. **It is the reason the buyer can pay.**

Every dollar not paid in federal income tax is a dollar available for debt service, and debt service capacity is what converts into purchase price. On the worked example in section 10 — \$20.0M of EBITDA, \$3.0M of maintenance capital expenditure, a 1.25 times coverage floor, ten-year private credit at 10 per cent — the arithmetic is:

Buyer	Annual cash available for debt service (\$M)	Debt the company can carry (\$M)	Share of the \$140.0M price
100% ESOP-owned S corporation (no federal income tax)	13.6	83.6	60%
Taxable buyer, 21% federal corporate rate	12.0	73.6	53%
Difference — the value of the shield		9.9	7%

Institute calculation, September 29, 2026, on the stated assumptions. The taxable-buyer line solves for the debt level at which interest deductions and tax liability are mutually consistent. Both lines assume the same lender terms, so the difference is the tax treatment and nothing else. Illustrative; not a quotation of available credit.

About \$9.9M of additional purchase price, or 7% of enterprise value, is available to this buyer and not to a taxable one at the same coverage discipline. That is the number a sponsor should carry into the decision. It is also the honest answer to the objection that an ESOP underpays: on a company of this shape, against a financial buyer applying the same leverage test, it does not. Against a strategic buyer with synergies, it will.

Two constraints travel with the shield. The election is an all-or-nothing proposition in practice — a partial ESOP leaves the remaining shareholders taxable and the arithmetic above collapses toward the taxable line. And IRC §409(p) polices the result: if synthetic equity and concentrated ownership cause disqualified persons to hold fifty per cent or more of the deemed-owned shares, the consequences are severe and immediate. Section 13 returns to this.

9. The seller's tax question, and why the answer usually disappoints

Every sponsor asks about IRC §1042, and for most sponsor-held positions the answer is no. Section 1042 permits a seller to defer capital gain on a sale to an ESOP, but the conditions are narrow:

- the company must be a **C corporation** at the time of sale — which sits directly against the S election that produces the shield in section 8, so the two reliefs compete;
- the seller must have held the stock for at least **three years**;
- the ESOP must own at least **30 per cent** of the outstanding stock immediately after the sale;
- the proceeds must be reinvested in **qualified replacement property** — securities of domestic operating corporations — within a window that runs from three months before to twelve months after the sale;
- and the relief is a **deferral**, not an exclusion. Disposing of the replacement property triggers recapture under §1042(e), and Rev. Rul. 2000-18 governs the treatment.

A fund is typically not an eligible seller in the first place, and reinvestment into qualified replacement property is not a use of proceeds a limited partner expects. If the whole point of the exercise is a distribution, a deferral conditioned on not distributing is not the relief the sponsor needed. Where a C corporation would have to be created to qualify, the sponsor is trading away the §512(e)(3) shield — and §1362(g) then locks the company out of re-electing S status for five years.

One change is coming and it is worth diarising rather than acting on. SECURE 2.0 §114 extends a deferral to sellers of **S corporation** stock, capped at **10 per cent** of the amount realised, for sales after **December 31, 2027**. Ten per cent of a gain is not a transaction rationale. It is a modest improvement to a structure that has to stand on its own economics.

The Institute's position: do not build a sponsor exit around §1042. Where it happens to be available to an individual co-investor or a founder rolling alongside the fund, take it. Do not restructure the company to reach it.

10. Financing the purchase, worked

This section answers the question a sponsor actually has: **how much of the price arrives as cash at closing?** An ESOP sale is commonly described as a cash close and just as commonly funded in part with bank debt, and both cannot be true of the same transaction. The answer below is the arithmetic, stated once.

Assumptions, all illustrative and all stated so a reader can substitute their own: EBITDA of \$20.0M; maintenance capital expenditure of \$3.0M; a minimum debt service coverage ratio of 1.25 times; an enterprise value of 7.0 times EBITDA, or \$140.0M. Annual cash available for debt service is therefore $(\$20.0M - \$3.0M) \div 1.25 = \$13.6M$.

The cash flow the debt is underwritten against

Every figure in this section descends from the six lines below, so it is worth reading them in order. The first two are assumptions. The other four are consequences of them, and a reader who substitutes their own EBITDA or their own coverage ratio can follow the same four steps to a different answer.

Line	Amount (\$M)
EBITDA	20.0
Less: maintenance capital expenditure	(3.0)
Cash available for debt service	17.0
Annual debt service supported at 1.25× coverage	13.6
Less: senior service on the 10-year private credit tranche, years 1 to 10	(13.6)
Cash reaching the subordinated seller note	3.4

Institute calculation, September 29, 2026. EBITDA and maintenance capital expenditure are the two assumptions; the remaining four lines are derived from them and from the 1.25× coverage ratio. Figures in parentheses are deductions. The final line is what the seller note has to live on for a decade, and it is the single most consequential number in this brief — it is why the note accretes rather than amortises. Flat EBITDA, no revolver, no excess-cash sweep. Illustrative only.

Debt capacity, and what the note has to absorb

Source of funds	Terms	Proceeds (\$M)	Share of \$140.0M
Senior bank debt	7 years, 8%	70.8	51%
Private credit, in place of the bank	10 years, 10%	83.6	60%
Seller note for the balance	Subordinated, typically 5–10 years	56.4	40%
Cash at close, plus the note sold to a junior-capital buyer	At a required return of 12–17%	111.3–123.7	80–88%

Institute calculation, September 29, 2026. Proceeds are the present value of \$13.6M of annual debt service at the stated rate and term. Senior bank debt at 30–40 per cent of total transaction cost is the commonly observed range; the 8 per cent seven-year line above lands at 51%, which is consistent with it. Illustrative only; not a quotation of available credit on any specific company.

So the honest statement is this. **Cash at closing is on the order of half to sixty per cent of enterprise value** — 51% on the bank structure, 60% on private credit. The balance is a subordinated seller note the fund holds and is repaid out of the same cash flow. What that note is worth to a third party is not a matter of opinion and is not a discount somebody picks: it is the note’s own payments discounted at whatever a buyer of junior paper requires. Across the 12 to 17 per cent range that capital was priced at through 2026, the note changes hands at 29 to 51 per cent below face and total proceeds reach 80–88% of enterprise value. A sponsor should treat a sale as an option rather than a plan — and should read section 10 before treating it as the only one.

A fund near the end of its life has to look at that seller note carefully. It is a receivable in a vehicle that may need to wind up before it is repaid, and the mechanisms for handling that — distribution in kind, a sale of the note, an extension — each carry their own limited-partner conversation. That conversation is better had before the structure is chosen than after.

Sources and uses, at the closing table

The table above sets the price against the funding. It is not the closing statement, because the price is not the only use of funds. The trustee, the independent appraiser, ESOP counsel, the lender’s counsel and the lender’s own fees are all real, all payable at closing, and none of them are funded by the debt or by the note. On this worked example they are assumed at 2.25 per cent of enterprise value, the midpoint of the range section 12 quotes, and are paid out of the company’s own balance-sheet cash.

Use of funds	Amount (\$M)	Share of uses
Purchase of 100 per cent of the stock from the fund	140.0	97.8%
Transaction costs — trustee, appraiser, counsel, lender fees	3.1	2.2%
Total uses	143.2	100.0%

Institute calculation, September 29, 2026. The 2.25 per cent cost assumption is the Institute’s, not a quotation, and is the midpoint of the commonly observed range; substitute your own. Illustrative only.

Source of funds	Terms	Amount (\$M)	Share of uses
Private credit, senior secured	10 years, 10%	83.6	58.4%
Subordinated seller note, retained by the fund	8%, behind the senior	56.4	39.4%
Company balance-sheet cash	Applied at closing	3.1	2.2%
Total sources		143.2	100.0%

Institute calculation, September 29, 2026. The senior tranche is the private-credit structure from the table above; the bank structure raises \$70.8M instead and enlarges the note by the difference. Illustrative only; not a quotation of available credit.

The senior debt, year by year

Ten years at ten per cent, serviced with the full \$13.6M of underwritten capacity. The company pays \$136.0M in total, of which \$52.4M is interest and \$83.6M is principal.

Year	Opening (\$M)	Interest (\$M)	Principal (\$M)	Closing (\$M)
1	83.6	8.4	5.2	78.3
2	78.3	7.8	5.8	72.6
3	72.6	7.3	6.3	66.2
4	66.2	6.6	7.0	59.2
5	59.2	5.9	7.7	51.6
6	51.6	5.2	8.4	43.1
7	43.1	4.3	9.3	33.8
8	33.8	3.4	10.2	23.6
9	23.6	2.4	11.2	12.4
10	12.4	1.2	12.4	0.0
Total		52.4	83.6	0.0

Institute calculation, September 29, 2026. Level annual service of \$13.6M, the figure the 1.25 times coverage test supports. The build refuses to produce this brief if the closing balance does not reach zero. Illustrative only.

The seller note, and why it grows before it shrinks

This is the part of the structure a sources-and-uses table cannot show, and it is the reason this section was expanded. Free cash flow before any debt service is \$17.0M. Senior service takes \$13.6M. **So for the ten years the senior debt is amortising, the entire cash flow available to the subordinated note is the \$3.4M cushion** — against \$4.5M of first-year interest on a \$56.4M note at 8 per cent. The note does not amortise. It accretes. The cash applied column in the schedule below carries that \$3.4M down the page, so the arithmetic is on the paper: cash applied less interest is the principal column, and it is negative for a decade.

Year	Opening (\$M)	Interest (\$M)	Cash applied (\$M)	Principal (\$M)	Closing (\$M)
1	56.4	4.5	3.4	(1.1)	57.5
2	57.5	4.6	3.4	(1.2)	58.8
3	58.8	4.7	3.4	(1.3)	60.1
4	60.1	4.8	3.4	(1.4)	61.5
5	61.5	4.9	3.4	(1.5)	63.0
6	63.0	5.0	3.4	(1.6)	64.6
7	64.6	5.2	3.4	(1.8)	66.4
8	66.4	5.3	3.4	(1.9)	68.3
9	68.3	5.5	3.4	(2.1)	70.4
10	70.4	5.6	3.4	(2.2)	72.6
11	72.6	5.8	17.0	11.2	61.4
12	61.4	4.9	17.0	12.1	49.3
13	49.3	3.9	17.0	13.1	36.2
14	36.2	2.9	17.0	14.1	22.1
15	22.1	1.8	17.0	15.2	6.9
16	6.9	0.6	7.5	6.9	0.0

Institute calculation, September 30, 2026. **Read a row across: cash applied less interest is the principal column, and principal comes off the opening balance to give the closing balance.** Figures in parentheses in the principal column are accretion rather than repayment — interest accrued in excess of the cash available to pay it, which is what every year through 10 shows. The cash applied column is free cash flow after senior service: years 1 through 10 receive the \$3.4M cushion only, from year 11 the full \$17.0M is available, and the final year takes only what retires the note. The build refuses to print this table if any row fails to reconcile. Flat EBITDA, no revolver, no excess-cash sweep above the cushion. Illustrative only.

Read the closing column. The note peaks at **\$72.6M** in year 10 — above the \$56.4M face the fund accepted at closing — and is not retired until **year 16**. On a 3 per cent EBITDA growth case the peak falls to \$58.5M and the note clears in **year 13**. Over the full flat-case runoff the fund is paid \$70.0M of interest on top of the face, which is the compensation for the wait and should be read as such.

Three consequences a sponsor should take from this schedule. First, the seller note is a long-dated instrument whatever its stated maturity: a five-year note on these cash flows does not get paid at five years, it gets refinanced or extended, and the fund should price that rather than assume it away. Second, the warrants in section 11 are not a courtesy — they are the compensation for a coupon the company cannot pay in cash for a decade, and a sponsor that has not costed them has not costed the deal. Third, the whole schedule is one lender's appetite away from a different shape: a senior tranche that amortises over seven years instead of ten frees the cushion sooner and shortens the note materially.

What the fund receives, and the three routes the note can take

The five tables above describe a structure. This one prices it. Once the note is in hand the fund has three routes and not two: hold it to maturity, sell it to a buyer of junior paper, or wait for the company to refinance it into senior debt. Present value is used throughout rather than an internal rate of return, because an internal rate of return would require the fund's cost basis in the company, which this brief does not have and will not invent.

One thing has to be said before the numbers, because it is the reason this section prints ranges rather than points. A sale is worth the note's own payments discounted at whatever the buyer requires. Holding is worth the same payments discounted at whatever the fund requires. The two are therefore equal exactly when those two rates are equal. **The rate at which selling starts to beat holding is not a threshold to be derived — it is the buyer's required return, and nothing else.** Quoting a discount to face and quoting a crossover rate are the same statement in two units, and a brief that prints both has printed one number twice. So what follows prices the buyer instead, across the range that capital was actually offered at.

Buyer's required return	Note price (\$M)	Per cent of face	Discount	Total proceeds (\$M)	Share of mark
12 per cent	40.2	71%	29%	123.7	88%
15 per cent	31.9	57%	43%	115.5	83%
17 per cent	27.8	49%	51%	111.3	80%

Institute calculation, September 30, 2026. Proceeds are \$83.6M of cash at closing in every row; the rows differ only in what the \$56.4M note fetches. Read the discount column as an output rather than an input: it is what the note's own payment schedule is worth at the return in the first column, not a haircut anybody negotiated. The range is the 12 to 17 per cent all-in that mezzanine and hybrid junior capital was reported at through 2026; unitranche, which is senior paper and a different instrument, blends 9 to 11. There is no organised secondary market for a note of this size, so every one of these sales is bilateral and the buyer knows it. Both sides are stated before the seller's own advisory fees, which fall on either route. Illustrative only.

The route nobody prices: the company refinances the note

A seller note is not a bond with a fixed destiny. It is subordinated debt sitting behind a senior facility that amortises, and the day the senior facility clears, the cash flow that was servicing it becomes borrowing capacity again. The window is not chosen in this brief and is not an assumption: senior capacity is the same annual debt service the model has used throughout, \$13.6M, annuitised at the refinance rate and term, and the window opens in the first year the combined senior-plus-note balance fits inside it. On these cash flows that is **year 10**. It is the year the senior facility clears, and it barely moves with the rate: the combined balance is \$82.7M a year earlier and \$72.6M in year 10, against a capacity of \$70.8M to \$74.9M.

The pricing is measurable rather than assumed. SOFR was **3.90 per cent at the New York Fed's September 28, 2026 publication**, and ESOP senior lending was reported through 2026 at SOFR plus 150 to 250 basis points. Section 8's own eight per cent seven-year bank line therefore sits *above* market, which makes it the conservative case rather than the optimistic one: it buys less capacity, opens the window in year 11 instead of year 10, and retires a smaller balance. Year 10 is a floor, not a forecast.

And the note is retired at par on what is by then owed, which is not what is owed today. It accretes for most of a decade while the senior facility is being paid down, so a refinance in year 10 takes out \$72.6M

against an original face of \$56.4M — **129 per cent of face**, in cash, on a note a buyer would take off the fund's hands today at 49 to 72 cents. That is the comparison the brief has been missing.

Fund's cost of capital	Hold to year 16 (\$M)	Refinance in year 10 (\$M)	Sell at 12% (\$M)	Sell at 15% (\$M)	Sell at 17% (\$M)
8 per cent — control	140.0	140.0	123.7	115.5	111.3
10 per cent	130.9	132.4	123.7	115.5	111.3
12 per cent	123.7	126.1	123.7	115.5	111.3
15 per cent	115.5	118.6	123.7	115.5	111.3
17 per cent	111.3	114.5	123.7	115.5	111.3
20 per cent	106.4	109.5	123.7	115.5	111.3

Institute calculation, September 30, 2026. **The 8 per cent row is an arithmetic control and not a finding.** Retiring an 8 per cent asset early and reinvesting the proceeds at 8 per cent is a wash, so holding and refinancing have to return the price exactly, and the build refuses to run if they ever stop doing so. The three sale columns do not move with the fund's cost of capital because a cash sale is rate-invariant; that flatness is the whole point of the comparison. On the bank case the window opens a year later and the column reads 131.9, 125.3, 117.5, 113.3, 108.4 at the same rates. On the 3 per cent growth case the note clears in year 13 rather than 16, the window opens in year 8, and the refinance retires \$50.5M — 89 per cent of face, *below* par, because with growth the note begins amortising instead of accreting. The direction reverses, so neither case generalises to the other. Illustrative only.

Read it down the columns. Refinancing beats holding at every cost of capital above the coupon, for the plain reason that it hands the fund the same money sooner. It beats a sale to a buyer requiring 15 or 17 per cent at every rate in the table. The one route that competes with it is a sale at the tight end of the buyer band, and the honest crossover is between those two: **a sale at 12 per cent beats waiting for the refinance only once the fund's own cost of capital passes 12.88 per cent** — 18.84 per cent against a buyer requiring 17. Restated without the arithmetic: selling wins only when the fund is a materially worse holder of this risk than the buyer is. That is a real condition and a fund at the end of its life may well meet it. It is not the general case, and the brief should not have been printing it as one.

Two things the table does not carry, and both belong to the reader rather than to the model. The refinance is **not the fund's decision**. The company refinances; the fund receives. The incentives are aligned — retiring an 8 per cent subordinated note with senior debt at 6.40 per cent is accretive to the ESOP and the trustee will see that — but alignment is not control, and a fund that needs the money on a date certain cannot rely on somebody else's refinancing. And the wait is real: year 10 is 10 years of a company performing to plan, against a sale that is available today at a price that is known today.

*And then the number that belongs in section 1 rather than here. A competitive process has to clear **79 to 95 per cent of the mark, in cash**, to beat the ESOP route on these assumptions. The low end is a fund that has to sell the note today to a buyer requiring 17 per cent; the high end is a fund that can wait for the year 10 refinance and discounts at 10 per cent. The brief prints the range rather than a point because the point is whichever assumption the reader is willing to make about their own fund, and the reader is entitled to see which assumption is doing the work. Even the low end is a sponsor accepting a haircut of less than 20 per cent to get a process done — which is inside the range this structure delivers without one. That is the case for costing it, and it is not a case against running the process: it is a floor to run the process against.*

None of this argues against the structure. It argues against describing it as a cash exit. The fund receives 60% of enterprise value at closing and a receivable for the rest, and the receivable behaves like a long-dated one. Section 11 sets out what the fund keeps alongside it; section 12 sets out what it gives up.

11. What the sponsor keeps

More than sponsors generally expect, and the retained pieces are negotiable rather than standard:

- **The seller note**, which carries interest and is a real return component rather than a courtesy.
- **Warrants**, commonly attached to the note, giving the fund participation in the equity value it is helping to create through the deleveraging. This is where a well-negotiated sponsor recovers much of the difference between a fiduciary price and a strategic one.
- **A board seat** for the life of the note, which is ordinary creditor protection and not control.
- **The relationship**. A management team that has been sold to its own employees by a sponsor that structured it well is a reference. A team sold into a structure that fails is the other kind.

What the fund does not keep is control, optionality on a later strategic sale, and any claim on the tax shield. Those are the price of the exit.

12. Timeline, cost, and what is given up

Four to seven months from decision to closing is the working range, assuming the company is diligence-ready. Feasibility and preliminary valuation take four to eight weeks; trustee selection and the trustee's own diligence, six to twelve; financing and documentation run alongside. Transaction costs land in a range of roughly one and a half to three per cent of enterprise value on a company of the size described here, which is comparable to a small-cap sale process and is not the saving a sponsor should be selecting the route for.

The real tradeoff is not time and it is not fee load. It is this: with one counterparty there is no market test of price. A competitive process exists to buy exactly that test, and a single-buyer sale gives it up. The certainty of closing is paid for in price discovery, and a sponsor should make that trade knowingly rather than discover it afterwards. Being outbid is the seller's upside; a structure in which nobody can outbid you is a structure in which you will never learn what you were holding.

Which is the strongest argument for scoping the market first, even where the sponsor expects the answer. A banker's scoping exercise is cheap relative to the number it informs, and it converts an assumption about the absence of strategic interest into a finding the investment committee can rely on.

13. The traps

- **The repurchase obligation**. The company must buy back shares from participants as they retire or leave. It is a real, growing, forecastable liability and it is the most common reason a mature ESOP company gets into difficulty. Model it to twenty years before closing, not after.
- **Section 409(p)**. The synthetic equity rules will disqualify the S election if disqualified persons reach the fifty per cent threshold. Management incentive design has to be run past §409(p) before it is promised to anybody.

- **The annual appraisal is governance, not paperwork.** IRC §401(a)(28)(C) requires it every year, it sets the price at which participants are cashed out, and a company that treats it as a compliance item will find it has been setting employee payouts carelessly for a decade.
- **Leverage on a marginal asset.** The structure funds because the company carries debt. A company that was marginal for trading reasons rather than size reasons now carries debt as well, and the employees own the downside.
- **Concentration for the participants.** Employees' wages and their retirement account are now exposed to the same company. This is an honest criticism of employee ownership and it is not answered by pointing at the tax treatment. A well-run plan diversifies as participants age, and IRC §401(a)(28)(B) requires it from age 55.

14. The regulatory clock

Three dates a sponsor should hold. In **January 2026** the Employee Benefits Security Administration removed ESOPs from its national enforcement project list, and **FAB 2026-01** set out the agency's current approach. EBSA has targeted **November 2026** for a notice of proposed rulemaking on ESOP valuation, under SECURE 2.0 §346(c)(4)(B) — guidance the industry has been asking for since 1988 and which would, for the first time, tell trustees and appraisers what adequate consideration means in operational terms. And SECURE 2.0 §114's S corporation seller deferral applies to sales after **December 31, 2027**.

The Institute does not read the enforcement change as permission. An agency reallocating examination resources has not altered ERISA §3(18), and the private plaintiffs' bar did not reallocate anything. A transaction that would not have survived scrutiny in 2024 is not made sound by a 2026 enforcement priority. Build the file as though it will be read.

A sponsor weighing timing should note that proposed valuation guidance cuts both ways: it may reduce trustee caution and therefore support price, or it may codify a methodology less favourable than current practice. Waiting for November 2026 to find out is a decision with its own cost, measured in another year of holding.

15. What to ask for, by name

A sponsor testing this route seriously should commission five things, in this order:

- **A market scoping exercise from the sell-side banker.** Whether a strategic or financial buyer exists is the question that decides whether the rest of this list is worth commissioning. The sponsor's existing banker should be in the room on route selection, not informed of it afterwards.
- **A preliminary valuation range from an independent appraiser.** This is a different instrument from a banker's indication of value and from the sponsor's carrying mark, and the difference is duty, not quality: an indication is a read on what the market will actually pay, which is the right first call and often the cheapest one; the appraisal answers the separate question of what a fiduciary can certify. A sponsor generally needs both.
- **A feasibility study** covering debt capacity, the twenty-year repurchase obligation forecast, and the sensitivity of both to a revenue decline the company has actually experienced before.

- **A financing indication** from a lender that has closed ESOP transactions, on the specific company, at a stated coverage ratio.
- **ERISA counsel's read on §409(p)** against the existing and intended management incentive arrangements, before any of those arrangements are discussed with management.

16. Where the Institute comes out

The route is unfamiliar in a market where familiarity is how deals get shortlisted. The banker is the party best placed to raise it, and is usually the party who can model it fastest once asked. It is asked for less often than it should be because a sell-side mandate is scoped to run a process, and a route that ends without one sits outside the scope somebody wrote. That is not a criticism of bankers; it is a description of how the engagement is written. It is fixed by scoping the mandate to include the route, not by going around the adviser.

Where the pattern in section 2 holds and the screens in section 4 are met, the Institute's reading is that an ESOP sale will deliver more to the fund than a further two years of holding, and will deliver a comparable price to a financial buyer applying the same leverage discipline, for the reason set out in section 8. It will not beat a strategic buyer, and a sponsor that has not established the absence of one is not yet in a position to choose.

The employees get the business they run. The fund gets its distribution. Neither of those is charity and neither is a concession. It is a sale, priced by someone with a duty to get the price right.

A sponsor exit and an employee ownership transition are the same transaction seen from the two ends. The structure works precisely because nobody has to pretend otherwise.

17. Sources and measurement dates

This brief was prepared on October 1, 2026. Most of the figures in it were measured earlier, by whoever measured them, on dates the source set rather than the Institute. Where the date of preparation and the date of measurement differ, the measurement date governs the figure and the gap between them is real. The Institute's standard is that every figure carries its own measurement date beside it. **This edition does not meet that standard everywhere.** The places where it does not are named immediately below rather than left for a reader to discover.

Figures in this edition that do not yet carry a measurement date beside them. Schreiber Foods' sales and headcount are company statements with no fiscal year attached, and therefore carry no measurement date at all. The Davey Tree revenue figure is fiscal 2024, twenty-one months old at this brief's date and the stalest number in the document. The Publix, WinCo, Burns & McDonnell and Amsted headcounts are dated in this section rather than beside the figure. The timeline and the cost ranges are practitioner ranges and carry no measurement date because none exists for them. Every one of these is flagged for re-resolution before any reprint.

33,575 unsold PE-backed portfolio companies at June 30, 2026, against 32,451 at December 31, 2025 — Bain & Company, Private Equity Midyear Report 2026.

872 PE-backed exits in H1 2026 against 1,210 in H1 2025, about 28 per cent lower — S&P Global Market Intelligence, July 2026.

Distributions as a share of net asset value about 14 per cent, the lowest since 2008–09; 2017–2021 vintages below 1.0x DPI — McKinsey Global Private Markets Report 2026.

GP-led secondaries \$108B in 2025 against \$77B in 2024; \$65B in H1 2026, 54 per cent of secondary volume; single-asset CVs 62 per cent of GP-led at an average 2.9 per cent discount to NAV — Jefferies, Global Secondary Market Review, 2026. Projections of continuation vehicles reaching 30–40 per cent of all PE exits in 2026–27 are forward estimates, not measurements, and are not relied on here.

Senior bank debt commonly 30–40 per cent of total transaction cost — observed ESOP lending practice; treat as a range, not a rule.

Statutory and regulatory references — ERISA §3(18); IRC §§401(a)(28)(B) and (C), 409(p), 512(e)(3), 1042, 1042(e), 1362(g); Rev. Rul. 2000-18; SECURE 2.0 §§114 and 346(c)(4)(B); EBSA Field Assistance Bulletin 2026-01 and the January 2026 removal of ESOPs from the national enforcement project list.

Sector concentration of private-company ESOPs in professional, scientific and technical services, manufacturing and construction — National Center for Employee Ownership, 2026 National ESOP Database. The Small Business Administration citizenship position is as reported by the same centre in May and August 2026. Both were measured as of September 25, 2026.

All company names, headcounts, revenue and transaction values in sections 5 and 6 are as reported by the companies themselves or by the sources named in those sections, on the fiscal years and dates stated beside them, and were measured as of September 25, 2026. A headcount or a revenue line is measured on the company's own reporting date, not on the date of this brief, and every one of them should be re-resolved before any reprint.

All financing and shield figures are Institute calculations dated September 29, 2026 on the assumptions stated in sections 8 and 11. They are illustrative and are not a quotation of credit available to any company.

Prior Institute position: consistent with *M&A Advisory Decoded*, Volume Two, Chapter 13.14, dated September 23, 2026. Where a reader finds a conflict between this brief and that chapter, the chapter governs.

18. Where to go next

Named below because a reader who wants to test this on a real company needs somewhere to start. Naming and locating a provider is orientation; it is not a recommendation, and the Institute has no commercial relationship with any of them.

Category	Providers
Education and neutral reference	National Center for Employee Ownership — nceo.org · The ESOP Association — esopassociation.org · Employee Benefits Security Administration — dol.gov/agencies/ebsa
Sell-side M&A advisory and market scoping	PCE Investment Bankers — pcecompanies.com · Long Point Capital — longpointcapital.com
Transaction structuring and feasibility	Menke & Associates — menke.com · CSG Partners — csgpartners.com · ESOP Partners — esoppartners.com
ERISA counsel	Employee Benefits Law Group — employeebenefitslawgroup.com · The Wagner Law Group — wagnerlawgroup.com · BrownWinick — brownwinick.com
Accounting, valuation and administration	RSM US — rsmus.com · Boulay — boulaygroup.com
ESOP lending	First Financial Bank — bankatfirst.com · First American Bank — firstambank.com

Domains resolved September 29, 2026. A domain is a measurement like any other figure here: vendors rebrand, merge and redirect, so re-resolve before relying on any of them.

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The Baratelli Institute publishes practitioner-grade financial analysis in plain English, under the banner *Mentoring at Scale*. Every quantitative reference is traceable to a filed or published source and carries its own measurement date. Institute Briefs, case studies, the Practitioner Series and a library of free tools and Foundations references are at **baratelliinstitute.com**.

Baratelli Bankable is the Institute's accounting platform, and it is free to use. It keeps the books a transaction like this one runs on — invoices, bills, banking and reconciliation, payroll entries and financial statements — for every entity in a structure at once, and it consolidates them inside the program, with intercompany eliminations, rather than in a spreadsheet assembled by hand. That is the difference that matters here: a sponsor-held company and the entities above it are rarely one set of books, and the decade following a closing of the kind worked in section 10 is a decade of covenant reporting, borrowing-base certificates and year-end packages owed to an ESOP lender, an independent trustee and an independent appraiser. The figures in section 10 are illustrative. A reader who wants to run the same arithmetic against a real trial balance can open the sample books, or the loan-readiness quick check, at **baratelliinstitute.com/bankable/**.

THE BARATELLI INSTITUTE

MENTORING AT SCALE

Employee Ownership as a Sponsor Exit

Section 10 — Financing the purchase, worked

Model	Section 10 financing model, built live off five stated assumptions
Companion publication	Baratelli Brief — Employee Ownership as a Sponsor Exit, printed pages 13 to 18 (measured on the shipped brief dated October 1, 2026, where section 11 opens on printed 19)
Brief measurement date	September 29, 2026 (section 17 of the brief carries every figure's own date)
Workbook prepared	October 1, 2026
Format standard	Rosenbaum & Pearl / Baratelli Financial Modeling Toolkit

HOW TO READ THE TYPE

Blue figures	Hardcoded inputs. These are the assumptions. Substitute your own.
Black figures	Formulas computed inside their own sheet.
Green figures	Formulas that reach across to another sheet.
	Every figure in this workbook that is not blue is derived. Nothing is typed.

WHAT IS AN ASSUMPTION AND WHAT IS A MEASUREMENT

Illustrative, the Institute's own	EBITDA, maintenance capital expenditure, the coverage ratio, the enterprise value multiple, the 2.25% transaction cost, the stated debt terms, and the 3% growth sensitivity.
Measured, and dated	SOFR at 3.90% — New York Fed, September 28, 2026. The 150 to 250 basis point ESOP senior spread and the 12 to 17 per cent junior capital band, both as reported through 2026. A figure measured by somebody else runs on their clock, not on this workbook's.

TABS

1. Assumptions	Every input, and the four consequences every other tab descends from
2. Debt Capacity	Bank, private credit, the note face, and the S corporation shield by iteration
3. Sources & Uses	The closing table, including the fees the debt does not fund
4. Senior Schedule	Ten years at ten per cent, level service
5. Seller Note	Why the note accretes before it amortises — the base case
6. Seller Note (growth)	The same schedule on the 3 per cent EBITDA growth sensitivity
7. Note Pricing	What a buyer of junior paper pays, across the 12 to 17 per cent band
8. Refinance	The window, derived rather than chosen, on both the market and the bank case
9. Routes	Hold, refinance, or sell — against the fund's own cost of capital
10. Crossover	The rate at which selling starts to beat waiting, solved on a grid
11. Controls	Nine arithmetic controls, live. A control that only runs at build time cannot protect a reader.

NOT INVESTMENT ADVICE

The Baratelli Institute is a publisher. This workbook is illustrative, is not a quotation of available credit on any company, and is not a recommendation. Independent editorial analysis.

Assumptions

Blue is an input. Substitute your own and every other tab follows. The four derived lines at the foot are what the rest of the workbook descends from.

Line	Value	Unit	Source and standing
EBITDA	20.0	\$M	Institute assumption, illustrative
Less: maintenance capital expenditure	3.0	\$M	Institute assumption, illustrative
Minimum debt service coverage ratio	1.25x	times	The coverage a senior lender will underwrite
Enterprise value multiple	7.00x	x EBITDA	Institute assumption, illustrative
Senior bank debt — interest rate	8.00%	per annum	Section 8's own seven-year bank line. Above market on the September 28, 2026 SOFR, which makes it the conservative case.
Senior bank debt — term	7	years	
Private credit — interest rate	10.00%	per annum	The base case the brief carries through section 10
Private credit — term	10	years	
Seller note — coupon	8.00%	per annum	Subordinated, behind the senior facility
Transaction costs	2.25%	of enterprise value	Institute assumption — the midpoint of the 1.5 to 3.0 per cent range section 12 quotes. Not a quotation.
Corporate tax rate — taxable-buyer comparison	21%		Used only to size what a taxable buyer could borrow, which is what the §512(e)(3) shield is measured against
SOFR	3.90%	per annum	MEASURED — New York Fed, September 28, 2026. Re-measure before reuse; this figure runs on the publisher's clock.
ESOP senior spread over SOFR	2.50%	per annum	REPORTED — ESOP senior lending at SOFR plus 150 to 250 basis points through 2026. The wide end is used.
Refinance term	7	years	The term a senior lender advances over when the note is refinanced
EBITDA growth — base case	0.00%	per annum	Flat. No revolver and no excess-cash sweep above the cushion.
EBITDA growth — sensitivity case	3.00%	per annum	The sensitivity the brief states as one. The direction reverses under growth, so neither case generalises to the other.

DERIVED — consequences of the inputs above, and the four lines every other tab reads

Enterprise value	140.0	\$M
Free cash flow before any debt service	17.0	\$M
Annual debt service capacity at the coverage test	13.6	\$M
Cushion reaching the subordinated seller note	3.4	\$M

Institute calculation. The first sixteen lines are inputs; the four above are consequences of them. A reader who substitutes their own EBITDA or their own coverage ratio follows the same four steps to a different answer — which is the only reason this is a model and not a table.

Debt capacity, and what the note has to absorb

Proceeds are the present value of the annual debt service capacity at the stated rate and term. Nothing here is typed.

Source of funds	Term (years)	Rate	Proceeds (\$M)	Share of enterprise value
Senior bank debt	7	8.00%	70.8	51%
Private credit, in place of the bank	10	10.00%	83.6	60%
Seller note for the balance — private credit case		8.00%	56.4	40%
Seller note for the balance — bank case		8.00%	69.2	49%

Institute calculation. Senior bank debt at 30 to 40 per cent of total transaction cost is the commonly observed range; the eight per cent seven-year line lands at the share in column E, which is consistent with it. Illustrative only; not a quotation of available credit on any specific company.

THE S CORPORATION SHIELD — what §512(e)(3) is worth, by iteration

An ESOP-owned S corporation pays no federal income tax, so its whole free cash flow services debt. A taxable buyer pays tax first — and its tax bill depends on its interest, which depends on how much it can borrow. The circularity is solved here by iteration, visibly, rather than by switching on circular references.

Iteration	Debt carried (\$M)	Interest (\$M)	Taxable income (\$M)	Tax at the stated rate (\$M)	Cash after tax (\$M)	Service capacity (\$M)	Debt that supports (\$M)
1	83.6	8.4	8.6	1.8	15.2	12.1	74.6
2	74.6	7.5	9.5	2.0	15.0	12.0	73.7
3	73.7	7.4	9.6	2.0	15.0	12.0	73.6
4	73.6	7.4	9.6	2.0	15.0	12.0	73.6
5	73.6	7.4	9.6	2.0	15.0	12.0	73.6
6	73.6	7.4	9.6	2.0	15.0	12.0	73.6
7	73.6	7.4	9.6	2.0	15.0	12.0	73.6
8	73.6	7.4	9.6	2.0	15.0	12.0	73.6
9	73.6	7.4	9.6	2.0	15.0	12.0	73.6
10	73.6	7.4	9.6	2.0	15.0	12.0	73.6
11	73.6	7.4	9.6	2.0	15.0	12.0	73.6
12	73.6	7.4	9.6	2.0	15.0	12.0	73.6

Taxable-buyer debt capacity, converged

73.6 53%

ESOP debt capacity, same rate and term

83.6 60%

Added debt capacity from the S corporation tax shield

9.9 7%

Institute calculation. The iteration converges in fewer passes than are shown; the extra rows are left visible because a reader is entitled to see that it converges rather than be told that it does. This is the figure the brief's cover carries as the tax shield.

Sources and uses, at the closing table

The price is not the only use of funds. The trustee, the appraiser, ESOP counsel and the lender's fees are all real, all payable at closing, and none are funded by the debt or by t

Line	Terms	Amount (\$M)	Share of uses
USES OF FUNDS			
Purchase of 100 per cent of the stock from the fund		140.0	97.8%
Transaction costs — trustee, appraiser, counsel, lender fees		3.2	2.2%
Total uses		143.2	100.0%
SOURCES OF FUNDS			
Private credit, senior secured	10 years, 10%	83.6	58.4%
Subordinated seller note, retained by the fund	8%, behind the senior	56.4	39.4%
Company balance-sheet cash	Applied at closing	3.2	2.2%
Total sources		143.2	100.0%
CONTROL — sources less uses, which must be zero		0.0	

Institute calculation. The 2.25 per cent cost assumption is the Institute's, not a quotation, and is the midpoint of the commonly observed range; substitute your own on the Assumptions tab. The senior tranche is the private-credit structure; the bank structure raises less and enlarges the note by the difference. Illustrative only.

The senior debt, year by year

Ten years at ten per cent, serviced with the full annual capacity the coverage test supports. Level annual service.

Year	Opening (\$M)	Interest (\$M)	Principal (\$M)	Closing (\$M)	Service (\$M)
1	83.6	8.4	5.2	78.3	13.6
2	78.3	7.8	5.8	72.6	13.6
3	72.6	7.3	6.3	66.2	13.6
4	66.2	6.6	7.0	59.2	13.6
5	59.2	5.9	7.7	51.6	13.6
6	51.6	5.2	8.4	43.1	13.6
7	43.1	4.3	9.3	33.8	13.6
8	33.8	3.4	10.2	23.6	13.6
9	23.6	2.4	11.2	12.4	13.6
10	12.4	1.2	12.4	0.0	13.6
Total		52.4	83.6	0.0	136.0

Institute calculation. Level annual service of the capacity the 1.25 times coverage test supports. The closing balance must reach zero in the final year; the Controls tab asserts it live, so a reader who changes the rate or the term sees the control move.

The seller note, and why it grows before it shrinks

While the senior debt amortises, the only cash reaching the note is what is left of free cash flow after senior service. On these assumptions that is less than the note's own interest, so the note accretes.

Year	Free cash flow (\$M)	Senior service (\$M)	Cash available (\$M)	Opening (\$M)	Interest (\$M)	Cash applied (\$M)	Principal (\$M)	Closing (\$M)	Reconciles
1	17.0	13.6	3.4	56.4	4.5	3.4	(1.1)	57.5	ok
2	17.0	13.6	3.4	57.5	4.6	3.4	(1.2)	58.8	ok
3	17.0	13.6	3.4	58.8	4.7	3.4	(1.3)	60.1	ok
4	17.0	13.6	3.4	60.1	4.8	3.4	(1.4)	61.5	ok
5	17.0	13.6	3.4	61.5	4.9	3.4	(1.5)	63.0	ok
6	17.0	13.6	3.4	63.0	5.0	3.4	(1.6)	64.6	ok
7	17.0	13.6	3.4	64.6	5.2	3.4	(1.8)	66.4	ok
8	17.0	13.6	3.4	66.4	5.3	3.4	(1.9)	68.3	ok
9	17.0	13.6	3.4	68.3	5.5	3.4	(2.1)	70.4	ok
10	17.0	13.6	3.4	70.4	5.6	3.4	(2.2)	72.6	ok
11	17.0	0.0	17.0	72.6	5.8	17.0	11.2	61.4	ok
12	17.0	0.0	17.0	61.4	4.9	17.0	12.1	49.3	ok
13	17.0	0.0	17.0	49.3	3.9	17.0	13.1	36.2	ok
14	17.0	0.0	17.0	36.2	2.9	17.0	14.1	22.1	ok
15	17.0	0.0	17.0	22.1	1.8	17.0	15.2	6.9	ok
16	17.0	0.0	17.0	6.9	0.6	7.5	6.9	0.0	ok
17	17.0	0.0	17.0	0.0	0.0	0.0	0.0	0.0	ok
18	17.0	0.0	17.0	0.0	0.0	0.0	0.0	0.0	ok
19	17.0	0.0	17.0	0.0	0.0	0.0	0.0	0.0	ok
20	17.0	0.0	17.0	0.0	0.0	0.0	0.0	0.0	ok
21	17.0	0.0	17.0	0.0	0.0	0.0	0.0	0.0	ok
22	17.0	0.0	17.0	0.0	0.0	0.0	0.0	0.0	ok
23	17.0	0.0	17.0	0.0	0.0	0.0	0.0	0.0	ok
24	17.0	0.0	17.0	0.0	0.0	0.0	0.0	0.0	ok
Total					70.0	126.5		0.0	

Peak closing balance (\$M)	72.6
Year the balance peaks	10
Year the note is retired	16
Interest paid to the fund over the runoff (\$M)	70.0

Institute calculation. Read a row across: cash applied less interest is the principal column, and principal comes off the opening balance to give the closing balance. Figures in parentheses in the principal column are accretion rather than repayment — interest accrued in excess of the cash available to pay it. Column J reconciles every row live, which is the claim the brief makes in print about its own build. Flat EBITDA on the base case, no revolver, no excess-cash sweep above the cushion. Illustrative only.

The seller note on the growth sensitivity

The same schedule, with EBITDA growing at the sensitivity rate on the Assumptions tab. The direction reverses under growth — the note begins amortising instead of accreting — so neither case generc

Year	Free cash flow (\$M)	Senior service (\$M)	Cash available (\$M)	Opening (\$M)	Interest (\$M)	Cash applied (\$M)	Principal (\$M)	Closing (\$M)	Reconciles
1	17.0	13.6	3.4	56.4	4.5	3.4	(1.1)	57.5	ok
2	17.5	13.6	3.9	57.5	4.6	3.9	(0.7)	58.2	ok
3	18.0	13.6	4.4	58.2	4.7	4.4	(0.2)	58.5	ok
4	18.6	13.6	5.0	58.5	4.7	5.0	0.3	58.2	ok
5	19.1	13.6	5.5	58.2	4.7	5.5	0.9	57.3	ok
6	19.7	13.6	6.1	57.3	4.6	6.1	1.5	55.8	ok
7	20.3	13.6	6.7	55.8	4.5	6.7	2.2	53.5	ok
8	20.9	13.6	7.3	53.5	4.3	7.3	3.0	50.5	ok
9	21.5	13.6	7.9	50.5	4.0	7.9	3.9	46.6	ok
10	22.2	13.6	8.6	46.6	3.7	8.6	4.9	41.8	ok
11	22.8	0.0	22.8	41.8	3.3	22.8	19.5	22.2	ok
12	23.5	0.0	23.5	22.2	1.8	23.5	21.8	0.5	ok
13	24.2	0.0	24.2	0.5	0.0	0.5	0.5	0.0	ok
14	25.0	0.0	25.0	0.0	0.0	0.0	0.0	0.0	ok
15	25.7	0.0	25.7	0.0	0.0	0.0	0.0	0.0	ok
16	26.5	0.0	26.5	0.0	0.0	0.0	0.0	0.0	ok
17	27.3	0.0	27.3	0.0	0.0	0.0	0.0	0.0	ok
18	28.1	0.0	28.1	0.0	0.0	0.0	0.0	0.0	ok
19	28.9	0.0	28.9	0.0	0.0	0.0	0.0	0.0	ok
20	29.8	0.0	29.8	0.0	0.0	0.0	0.0	0.0	ok
21	30.7	0.0	30.7	0.0	0.0	0.0	0.0	0.0	ok
22	31.6	0.0	31.6	0.0	0.0	0.0	0.0	0.0	ok
23	32.6	0.0	32.6	0.0	0.0	0.0	0.0	0.0	ok
24	33.6	0.0	33.6	0.0	0.0	0.0	0.0	0.0	ok
Total					49.4	105.8		0.0	

Peak closing balance (\$M)	58.5
Year the balance peaks	3
Year the note is retired	13
Interest paid to the fund over the runoff (\$M)	49.4

Institute calculation. Read a row across: cash applied less interest is the principal column, and principal comes off the opening balance to give the closing balance. Figures in parentheses in the principal column are accretion rather than repayment — interest accrued in excess of the cash available to pay it. Column J reconciles every row live, which is the claim the brief makes in print about its own build. Flat EBITDA on the base case, no revolver, no excess-cash sweep above the cushion. Illustrative only.

What the fund receives if it sells the note

A sale is worth the note's own payments discounted at whatever the buyer requires. The discount is an OUTPUT, not an input — it is not a hedge

Buyer's required return	Note price (\$M)	Per cent of face	Discount	Total proceeds (\$M)	Share of the mark
12%	40.2	71%	29%	123.7	88%
15%	31.9	57%	43%	115.5	83%
17%	27.8	49%	51%	111.3	80%

Institute calculation. Proceeds are the cash at closing in every row; the rows differ only in what the note fetches. The range is the 12 to 17 per cent all-in that mezzanine and hybrid junior capital was reported at through 2026; unitranche, which is senior paper and a different instrument, blends 9 to 11. There is no organised secondary market for a note of this size, so every one of these sales is bilateral and the buyer knows it. Both sides are stated before the seller's own advisory fees, which fall on either route. Illustrative only.

Auction break-even — floor: a sale today at the wide end of the buyer band

80%

The route nobody prices: the company refinances the note

The window is DERIVED, not chosen. As the senior facility amortises, the cash flow that was servicing it becomes borrowing capacity again. The window opens in the first year the combined senior-plus-note balance fits inside

Year	Senior closing (\$M)	Note closing (\$M)	Combined (\$M)	Capacity — market (\$M)	Fits (market)	Fund cash flow — market refinance (\$M)	Capacity — bank (\$M)	Fits (bank)	Fund cash flow — bank refinance (\$M)
1	78.3	57.5	135.9	74.9	0	3.4	70.8	0	3.4
2	72.6	58.8	131.3	74.9	0	3.4	70.8	0	3.4
3	66.2	60.1	126.3	74.9	0	3.4	70.8	0	3.4
4	59.2	61.5	120.7	74.9	0	3.4	70.8	0	3.4
5	51.6	63.0	114.5	74.9	0	3.4	70.8	0	3.4
6	43.1	64.6	107.7	74.9	0	3.4	70.8	0	3.4
7	33.8	66.4	100.2	74.9	0	3.4	70.8	0	3.4
8	23.6	68.3	91.9	74.9	0	3.4	70.8	0	3.4
9	12.4	70.4	82.7	74.9	0	3.4	70.8	0	3.4
10	0.0	72.6	72.6	74.9	1	76.0	70.8	0	3.4
11	0.0	61.4	61.4	74.9	1	0.0	70.8	1	78.4
12	0.0	49.3	49.3	74.9	1	0.0	70.8	1	0.0
13	0.0	36.2	36.2	74.9	1	0.0	70.8	1	0.0
14	0.0	22.1	22.1	74.9	1	0.0	70.8	1	0.0
15	0.0	6.9	6.9	74.9	1	0.0	70.8	1	0.0
16	0.0	0.0	0.0	74.9	1	0.0	70.8	1	0.0
17	0.0	0.0	0.0	74.9	1	0.0	70.8	1	0.0
18	0.0	0.0	0.0	74.9	1	0.0	70.8	1	0.0
19	0.0	0.0	0.0	74.9	1	0.0	70.8	1	0.0
20	0.0	0.0	0.0	74.9	1	0.0	70.8	1	0.0
21	0.0	0.0	0.0	74.9	1	0.0	70.8	1	0.0
22	0.0	0.0	0.0	74.9	1	0.0	70.8	1	0.0
23	0.0	0.0	0.0	74.9	1	0.0	70.8	1	0.0
24	0.0	0.0	0.0	74.9	1	0.0	70.8	1	0.0

Refinance 6.40%

Refinance 8.00%

Window opens in year — market 10

Window opens in year — bank 11

Balance retired at the market window (\$M) 72.6

That balance as a share of the original note face 129%

Capacity at the market window (\$M) 74.9

Capacity at the bank rate (\$M) 70.8

THE GROWTH SENSITIVITY — window and balance on the 3 per cent case

The route nobody prices: the company refinances the note

The window is DERIVED, not chosen. As the senior facility amortises, the cash flow that was servicing it becomes borrowing capacity again. The window opens in the first year the combined senior-plus-note balance fits inside

Year	Senior closing (\$M)	Note closing (\$M)	Combined (\$M)	Capacity — market (\$M)	Fits (market)	Fund cash flow — market refinance (\$M)	Capacity — bank (\$M)	Fits (bank)	Fund cash flow — bank refinance (\$M)
1	78.3	57.5	135.9	74.9	0				
2	72.6	58.2	130.8	74.9	0				
3	66.2	58.5	124.7	74.9	0				
4	59.2	58.2	117.4	74.9	0				
5	51.6	57.3	108.8	74.9	0				
6	43.1	55.8	98.9	74.9	0				
7	33.8	53.5	87.3	74.9	0				
8	23.6	50.5	74.1	74.9	1				
9	12.4	46.6	59.0	74.9	1				
10	0.0	41.8	41.8	74.9	1				
11	0.0	22.2	22.2	74.9	1				
12	0.0	0.5	0.5	74.9	1				
13	0.0	0.0	0.0	74.9	1				
14	0.0	0.0	0.0	74.9	1				
15	0.0	0.0	0.0	74.9	1				
16	0.0	0.0	0.0	74.9	1				
17	0.0	0.0	0.0	74.9	1				
18	0.0	0.0	0.0	74.9	1				
19	0.0	0.0	0.0	74.9	1				
20	0.0	0.0	0.0	74.9	1				
21	0.0	0.0	0.0	74.9	1				
22	0.0	0.0	0.0	74.9	1				
23	0.0	0.0	0.0	74.9	1				
24	0.0	0.0	0.0	74.9	1				

Window opens in year — growth case

8

Balance retired at that window (\$M)

50.5

That balance as a share of the original note face

89%

Institute calculation. SOFR is measured at the New York Fed's September 28, 2026 publication and ESOP senior lending was reported through 2026 at SOFR plus 150 to 250 basis points. Section 8's own eight per cent seven-year bank line therefore sits ABOVE market, which makes it the conservative case rather than the optimistic one: it buys less capacity and opens the window later. The window year is a floor, not a forecast. On the growth case the direction reverses — the note amortises instead of accreting, so the refinance retires a balance BELOW par. Neither case generalises to the other. Illustrative only.

What the fund receives, and the three routes the note can take

Present value throughout rather than an internal rate of return, because an internal rate of return would require the fund's cost basis in the company, which the brief does not have

Fund's cost of capital	Hold to maturity (\$M)	Refinance — market (\$M)	Refinance — bank (\$M)	Sell at 12% (\$M)	Sell at 15% (\$M)	Sell at 17% (\$M)
8%	140.0	140.0	140.0	123.7	115.5	111.3
10%	130.9	132.4	131.9	123.7	115.5	111.3
12%	123.7	126.1	125.3	123.7	115.5	111.3
15%	115.5	118.6	117.5	123.7	115.5	111.3
17%	111.3	114.5	113.3	123.7	115.5	111.3
20%	106.4	109.5	108.4	123.7	115.5	111.3

Institute calculation. The first row is an ARITHMETIC CONTROL and not a finding: it is the note's own coupon, and retiring an asset early then reinvesting at the same rate is a wash, so holding and refinancing must both return the enterprise value exactly. The Controls tab asserts that live. The three sale columns do not move with the fund's cost of capital because a cash sale is rate-invariant; that flatness is the whole point of the comparison. Illustrative only.

WHAT THE TABLE DOES NOT CARRY, AND BOTH BELONG TO THE READER

The refinance is not the fund's decision. The company refinances; the fund receives. The incentives are aligned — retiring a subordinated note with cheaper senior debt is accretive to the ESOP and the trustee will see that — but alignment is not control.

The wait is real. The window year is that many years of a company performing to plan, against a sale that is available today at a price that is known today.

The rate at which selling starts to beat waiting

Solved on a 1,701-row grid, not in closed form, because the cash flow is not a closed form once the cushion steps up. The print copy carries

Fund's cost of capital	Refinance — market (\$M)	Less sale at 12%	Less sale at 15%	Less sale at 17%
8.00%	140.0	16.3	24.5	28.7
8.01%	140.0	16.2	24.4	28.6
8.02%	139.9	16.2	24.4	28.6
8.03%	139.9	16.1	24.4	28.5
8.04%	139.8	16.1	24.3	28.5
8.05%	139.8	16.1	24.3	28.5
8.06%	139.8	16.0	24.2	28.4
8.07%	139.7	16.0	24.2	28.4
8.08%	139.7	15.9	24.2	28.3
8.09%	139.6	15.9	24.1	28.3
8.10%	139.6	15.9	24.1	28.3
8.11%	139.5	15.8	24.0	28.2
8.12%	139.5	15.8	24.0	28.2
8.13%	139.5	15.7	24.0	28.1
8.14%	139.4	15.7	23.9	28.1
8.15%	139.4	15.7	23.9	28.1
8.16%	139.3	15.6	23.8	28.0
8.17%	139.3	15.6	23.8	28.0
8.18%	139.3	15.5	23.7	27.9
8.19%	139.2	15.5	23.7	27.9
8.20%	139.2	15.5	23.7	27.9
8.21%	139.1	15.4	23.6	27.8
8.22%	139.1	15.4	23.6	27.8
8.23%	139.1	15.3	23.5	27.7
8.24%	139.0	15.3	23.5	27.7
8.25%	139.0	15.3	23.5	27.7
8.26%	138.9	15.2	23.4	27.6
8.27%	138.9	15.2	23.4	27.6
8.28%	138.9	15.1	23.3	27.5
8.29%	138.8	15.1	23.3	27.5
8.30%	138.8	15.0	23.3	27.4
8.31%	138.7	15.0	23.2	27.4

The rate at which selling starts to beat waiting

Solved on a 1,701-row grid, not in closed form, because the cash flow is not a closed form once the cushion steps up. The print copy carries

Fund's cost of capital	Refinance — market (\$M)	Less sale at 12%	Less sale at 15%	Less sale at 17%
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THE PRINT COPY IS AN EXCERPT, AND THIS IS THE SEAM. The grid above runs 1,701 rows — eight per cent to twenty-five per cent at one basis point — and every one of them is live in this workbook, with its formula intact, so the solve can be audited row by row. The printed appendix carries the first thirty-two of those rows and then this block. Fifty-three further sheets differing only in their digits is not an audit trail. The elision is stated here because spreadsheet row numbers do not print, so a reader holding the paper copy could not otherwise detect it.

THE SOLVE — the last grid rate at which waiting still wins, then interpolated	
Selling beats waiting above this cost of capital — buyer at 12 per cent	12.88%
Selling beats waiting above this cost of capital — buyer at 15 per cent	16.47%
Selling beats waiting above this cost of capital — buyer at 17 per cent	18.84%

Institute calculation. The grid runs from eight per cent in one basis point steps; the figure above is the last grid rate at which the refinance still beats the sale, plus a linear interpolation across the final step, so it resolves inside a basis point. Restated without the arithmetic: selling wins only when the fund is a materially worse holder of this risk than the buyer is. That is a real condition and a fund at the end of its life may well meet it. It is not the general case.

Auction break-even — ceiling: refinance at a ten per cent cost of capital	95%
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Nine arithmetic controls, live

The brief tells its reader, in print, that its build refuses to run if these stop holding. A guard that only runs at build time cannot protect a reader who changes an assumption, so every one of them recomputes here.

Control	Measured	Must be	Verdict	Why it is a control and not a finding
Sources less uses	0.0	0	PASS	The closing table has to balance. Nothing else on it is checkable by a reader at a glance.
Senior schedule closing balance, final year	0.0	0	PASS	A schedule that does not close is not a schedule.
Seller note closing balance, end of horizon	0.0	0	PASS	If the note does not retire inside the horizon the schedule is describing an instrument this model does not resolve.
Seller note rows that fail to reconcile	0.0	0	PASS	Cash applied less interest is the principal column. A column that does not reconcile is worse than no column at all, because it is checkable and wrong.
Note peak closing balance, less the face	16.1	above zero	PASS	On the base case the note ACCRETES. If this ever goes negative the prose in section 10 describes a schedule this model does not produce.
Hold route at the note coupon, less enterprise value	0.0	0	PASS	The note accretes at exactly its coupon, so discounting its payments at the coupon returns its face, and face plus cash at close is the price by construction. A gap here means every present value in the model is wrong in the same direction — which is the failure mode a reader cannot see.
Market refinance at the coupon, less enterprise value	0.0	0	PASS	At the coupon, retiring the note early and reinvesting is a wash, so the refinance route has to return the price exactly too.
Bank refinance at the coupon, less enterprise value	0.0	0	PASS	The same control on the OTHER printed case. A guard that covered only the column a reader looks at first would leave the other column unguarded while appearing to cover the table.
Hold at a 12% discount, less a sale to a 12% buyer	0.0	0	PASS	THE IDENTITY. The rate at which selling starts to beat holding is not a threshold to be derived — it is the buyer's required return and nothing else. Quoting a discount to face and quoting a crossover rate are the same statement in two units.
CONTROLS FAILING	0		ALL CONTROLS	PASS

A control is not a finding. Each line above has a value it must return by construction, so it carries no information when it passes and carries all of it when it fails. Reading a passing control as evidence that the model is right is the mistake these are here to prevent: they establish that the arithmetic is internally consistent, which is a floor and not a verdict.