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WASHINGTON, D.C. • 9.26 - 9.28.17

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Cooperative Conversions

Timely Strategy for Preserving Legacy Businesses in Vulnerable Communities


Thursday, September 28, 2017



Democracy
at Work
Institute
USFWC

CAPITAL IMPACT PARTNERS

- **Why business conversions?**
- **Capital Impact Partners commitment**
- **A minority-owned business strategy**
- **CDFIs as champions of the concept**



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DEMOCRACY AT WORK INSTITUTE

Our mission is to expand the promise of worker ownership to communities most affected by social and economic inequality, and to ensure that worker cooperative development is strategic, supported and effective.



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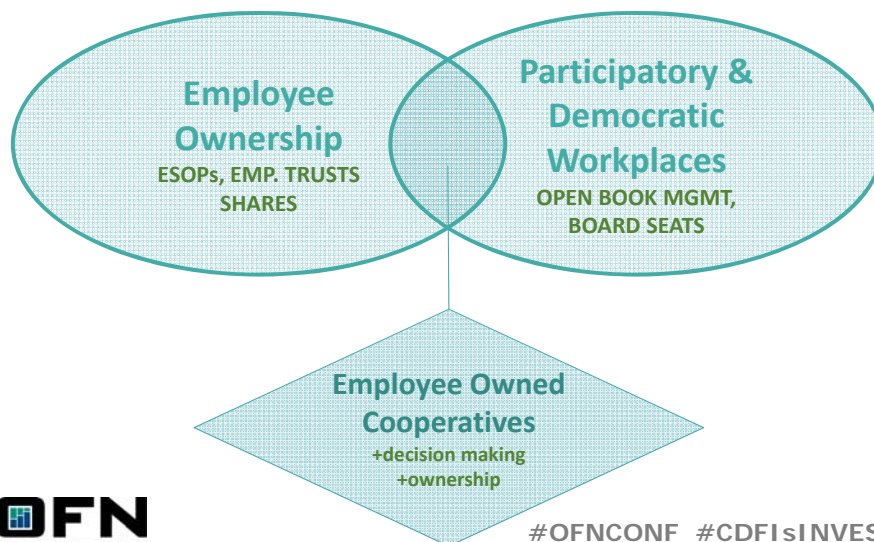
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ABOUT EMPLOYEE-OWNED BUSINESSES



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NATIONAL INITIATIVES TO SCALE EMPLOYEE OWNERSHIP

Workers to Owners

National collaborative of technical assistance, capital, and other partners working together to advance cooperative ownership conversions

- Standard conversion process, tools
- Access to succession planning and technical advisors
- Study and communicate impact of conversions

Legacy Business Initiative

Focus on retaining legacy minority-owned businesses and expanding business ownership through employee-ownership.


- Research on market opportunity
- Engage private sector, finance, municipal partners
- Promote asset building







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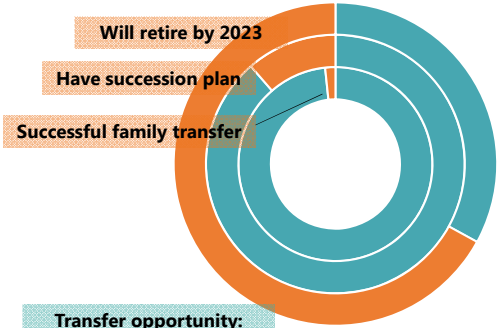
ASSET BUILDING OPPORTUNITY

Silver tsunami: largest transfer of privately-held businesses in U.S. history


\$3.5 trillion in assets will be transferred over 20yrs.

Lenders play a critical role helping finance **transfers to employees**

Dim prospects for retiring Boomers



Transfer opportunity: TO WHOM?

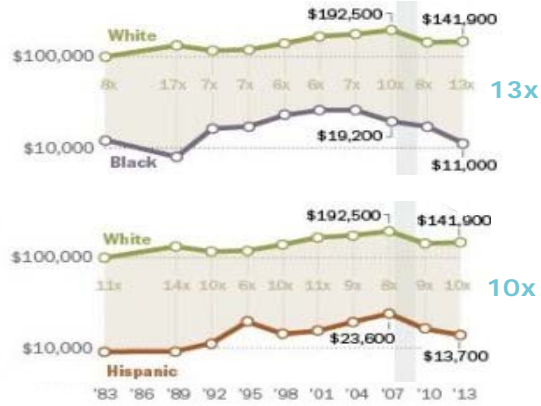


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RACIAL WEALTH GAP

Median household net worth



Loss of minority-owned legacy businesses will further exacerbate a growing racial wealth gap

Business ownership is second largest path to wealth creation after home ownership

Source: Pew Research Center
<http://www.pewresearch.org/fact-tank/2014/12/12/racial-wealth-gaps-great-recession/>



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LENDING OPPORTUNITY OF A GENERATION



Preserve existing business
 Where is business ownership concentrated in communities of color?

Expand ownership opportunities
 What industries and geographies have concentrations of POC employees?



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LENDING OPPORTUNITY OF A GENERATION



Critical Sectors:

POC-owned business with high employment

- Food Service & Accommodation
- Healthcare & Childcare
- Manufacturing



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AN ASSET BUILDING ENGINE A CHILD'S PLACE, NYC



What makes a good candidate for conversion to employee ownership?

- Successful business
- Exiting owner or owner planning for succession
- Not publicly traded
- 10 – 100 employees
- \$500k-\$10mm annual revenue

Denise Jeffries-EI, the educational director of A Child's Place, with her daughter. Photo Credit Chang W. Lee/The New York Times



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Cooperative Fund of New England

Celebrating 40 years of financing co-ops www.coopfund.coop



We work for economic, social, and racial justice by advancing community based, cooperative, and democratically owned or managed enterprises with a preference to assisting cooperatives in low-income communities by:



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- Providing financial products at reasonable rates
- Developing business skills
- Offering an investment opportunity that promotes socially conscious enterprise



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Conversions Are Good Business

- Conversions Financed since 2012: 8 Businesses
 - Plus 5 working capital lines to other recent conversions
 - \$3.9M in Loan Approvals;
 - \$2.3M in Loans Receivables;
 - Conversions = 59% of our worker co-op portfolio
 - Pipeline: 11 Businesses

# Loans	< \$100	\$100k - \$300k	> \$300k	Avr.
Acquisition Only	4	3	1	\$213k
All CFNE Debt	2	7	4	\$281k
Delinquencies	0	0	0	\$0



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Conversion Financing Sources

	Members	Non-Members
Equity	Voting Shares	Preferred Shares Contributions & Grants
Debt	Member Loans	Bank Debt (inc. NCB) CDFI Debt (inc. CFNE) Seller Financing Community Loans



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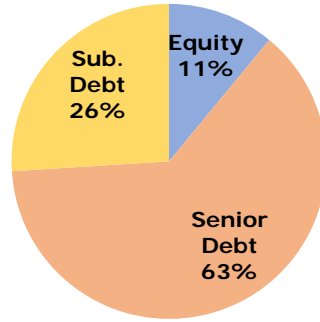
A Yard & A Half Landscaping Co-op



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A Yard & A Half Landscaping Co-op

Equity	
Owners Equity	\$62,000
Contributions	\$5,000
Debt	
CFNE (Senior)	\$400,000
Seller Loan (Sub.)	\$77,000
Friends/Family (Sub.)	\$91,000
Total Sources	\$635,000
Business Purchase	\$450,000
Acquisition Working Capital	\$185,000
Total Uses	\$635,000



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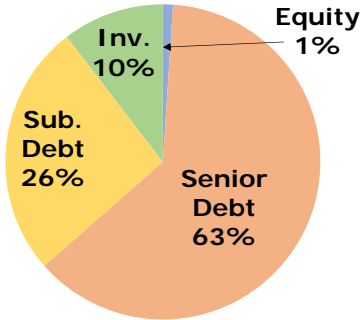
Island Employee Cooperative



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Island Employee Cooperative

Debt	
Bank (Senior)	\$1,800,000
CEI (Senior)	\$1,000,000
CFNE (Senior)	\$800,000
Seller (Sub.)	\$1,500,000
AGNE	\$500,000
Total Sources	\$5,600,000
Purchase of Business	\$4,250,000
Inventory	\$930,000
Working Capital	\$175,000
Closing Costs	\$130,000
Technical Assistance	\$115,000
Total Uses	\$5,600,000



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Underwriting Worker Co-ops

Sole Proprietorship	Cooperatives
* Credit Scores	* Management & Governance Experience
	* Sufficient Support Resources
	* Relationship Building
* Personal Guarantees	* Business Assets
	* Limited/External Guarantees



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SENATOR GILLIBRAND'S OFFICE

The current state of policy for business conversions
Your CDFI's role in advocacy



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How do you move from interest to commitment?



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STEP 1: Institutional exploration process



Internal champion



Presentation to leadership



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STEP 2: Access training and education



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STEP 3: Identify sources for deal flow

	Alameda
Food Svcs & Accommod'n	1,928 firms
	19,022 Jobs
Health Care	1,679 firms
	11,151 Jobs
Retail Trade	1,332 firms
	9,442 Jobs
Additional Key Focus	Manufacturing
	597 firms
	9,634 people Avg wage: \$41.20/hr



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Partnerships with minority business support organizations



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Tools Available to You



Readiness



Structure



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