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## **100% ESOP ‘The Best Thing’ for The Gazette Company: Hillary Hughes**

'It was a great time to reinvest in the company and expand the ownership'

Hillary Hughes recalls hearing from colleagues and other outside parties supporting [The Gazette Company](#) through its transaction to 100 percent Employee Stock Ownership Plan (ESOP) that this was one of the most complex ESOP transaction they'd encountered in their careers.

“We all commented that it would not have been surprising had the (Hladky) family gone down the path and said, ‘You know what, this just isn’t worth the headache, we’re just selling (to an outsider)’,” says Hillary, a chartered financial analyst.

“But everyone was committed to it because they really thought it was the best thing for the company.”

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*Hillary Hughes*

Hillary is vice-president of [Prairie Capital Advisors, Inc.](#), an employee owned company offering investment banking, ESOP advisory and valuation services to middle-market companies.

The Gazette Company engaged Prairie Capital Advisors a couple of years ago to vet every scenario they could think of around creating a more sustainable capital

structure for the company.

The scenarios that were explored ranged from taking on private equity investors to selling the entire company, selling it to key family members, removing the existing ESOP — which had been introduced in 1986 — or expanding the ESOP.

“But what we kept hearing from family members and from the board was, here are our key objectives and essentially it was that they remain privately owned and that they remain locally owned so that they could continue to serve the Cedar Rapids community,” says Hillary.

“They felt that if they sold or took on a private equity investor it would absolutely violate their mission and purpose to some extent as a family, as a shareholder group and board, of really providing for the longevity of the company to serve the community.”

It was ultimately identified that 100 percent ESOP was the only scenario that met all of the above objectives and provided for a healthy financial transition for the company.

“Given what they’re doing with new media, their commitment to the community and really reassessing their revenue stream and who they are as a company, it was a great time to reinvest in the company and expand the ownership,” says Hillary.

And so, despite the challenges, including having 29 shareholders spread across the country agree to the vision of local, independent ownership, not to mention a myriad of financial issues that parties on all sides had to take the time to understand and respond to, the transaction was undertaken in 2012.

The shareholder group was likely reassured in part by the board’s sophistication — the majority being comprised of non family members — as well as its history of providing open and robust communication, Hillary says.

“But there is also a lot of credit that should go to the family, that they really set aside just financial objectives of getting the last dollar out, but they really wanted to see (the company) remain privately held and independently owned in the community,” she notes.

Hillary, who today dedicates most of her time to ESOP consultancy, initially worked in general business valuation services. She had never heard of ESOPs in her business education.

When she finally came upon them, she says she found ESOP companies to be typically organizations “who were happy, who were successful, they shared a lot of information with you and genuinely cared about their employees.”

“It was just a completely different business model than I had seen from working in other aspects of business valuation and pretty much early on decided I was going to put myself on a path where I would work with these companies more,” Hillary says.

One trend she’s observed over the last several years is more companies moving from zero to 100 percent ESOPs.

While ESOPs can provide an exit strategy for a business owner as well as the opportunity for broad-based equity ownership for their employees, they also present an opportunity to create a shift to a company culture more deeply and broadly shaped by ownership thinking, Hillary notes.

But that’s a culture that has to be cultivated. “An ESOP isn’t going to make a bad company a great company,” she notes.

Effecting culture change requires committed leaders who seek to foster an environment where employees “feel safe to really think and act like owners,” for instance, to question decisions that relate to financial outcomes such as what’s being done with inventory and express their opinions.

At the same time, employees need to present an element of trust and buy-in, Hillary says. “Otherwise it can be a long journey before it really turns into more than a financial benefit to a change in culture.”

Working with the board and senior management team of The Gazette Company, Hillary has seen firsthand their level of commitment to the ESOP vision.

“They see what is possible because of the ESOP and the runway it’s given the company to really launch and reinvent itself,” Hillary says.

She would like to see this commitment leak out into other areas of the company over the coming year — that employees across the board also understand and take pride in the ESOP.

“I really do believe from a financial perspective, and clearly from their organizational mission and objectives, that this was the best solution for The Gazette Company and it really should position them for sustained future success,” Hillary says.

“Hopefully it will provide opportunity for a lot of people to be creative and inventive and it should be really exciting to see where it takes the company.”

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