THE TRILLION–DOLLAR OPPORTUNITY HIDING IN PLAIN SIGHT

Why Investors Are Paying Attention to Employee Ownership

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about transform finance

Transform Finance creates insights, connections, and actionable strategies for all stakeholders who seek to challenge legacy investment approaches and seed transformative investment models. In doing so, we work to ensure that capital aligns with the three Transformative Finance Principles:

1. It meaningfully engages communities in the design and governance of investment processes;
2. It adds more value than it extracts; and
3. It fairly balances risk and return between investors and non-investors.

We create awareness of impactful trends and innovations through written materials, webinars, and communications that shape dialogue and create narratives. We educate the field through technical materials, collaborative spaces, and trainings that equip our community with knowledge to transform their practices. Lastly, we advise investors, philanthropic actors, collaborative initiatives, and other critical organizations to help move capital towards transformative strategies.

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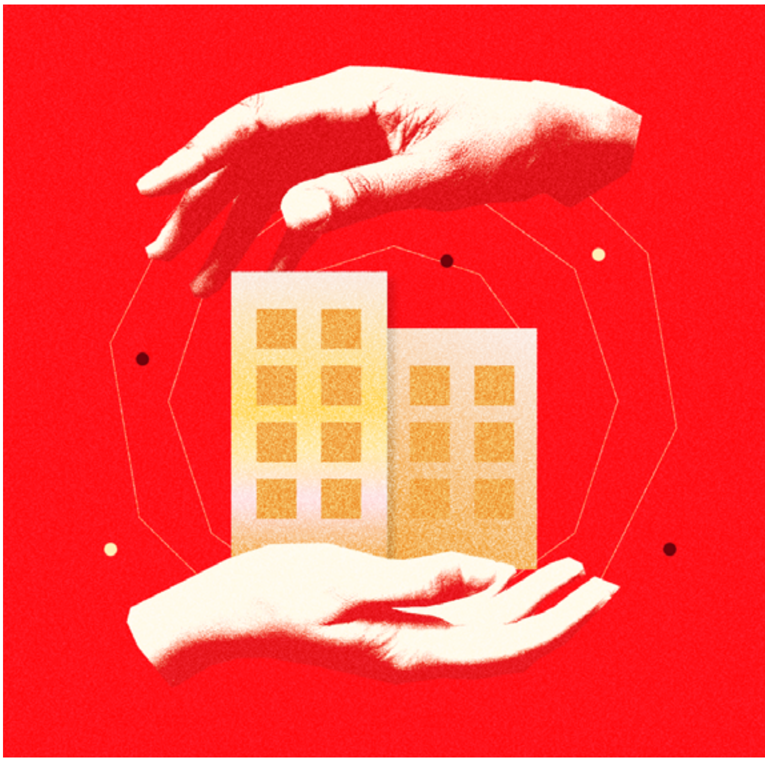
The Employee Ownership Opportunity

A recent research brief by Matt Mazewski at the Institute for the Study of Employee Ownership and Profit Sharing at Rutgers University paints a striking picture:

> **There are 1.2 million companies in the United States employing 58 million people – a third of the US civilian labor force – that are potential candidates to transition to employee ownership.**

Collectively, these businesses represent trillions of dollars in revenues–and with them, a rare opportunity to reshape who holds power and wealth in our economy.



Just How Big Is This Opportunity?

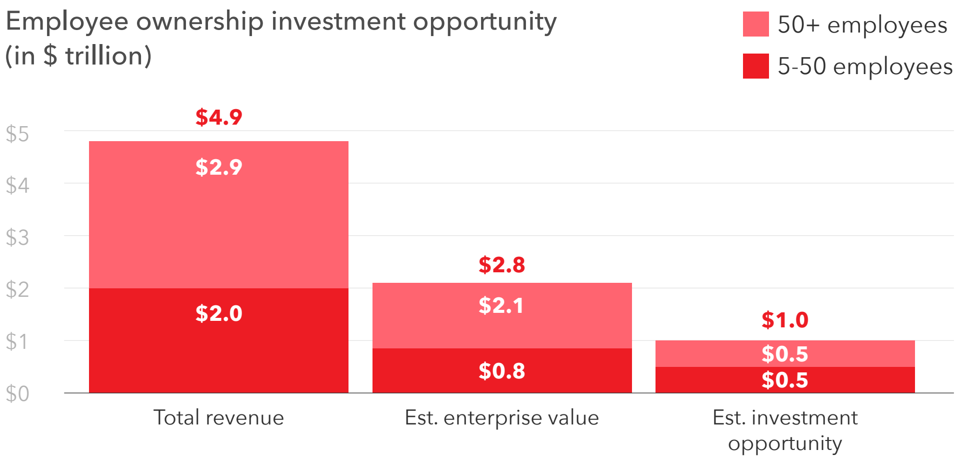
External capital is typically needed to buy the company from departing owners. That investment is then repaid from the company's cash flows over time. If only 20% of the 1.2 million companies identified in the briefing convert to employee ownership,

> **This represents an investment opportunity of one trillion dollars in the United States.**

These numbers rely on a number of assumptions but they do offer a clear order of magnitude (see Methodology and Assumptions Annex for details).

Today, however, the capital actually dedicated to employee ownership transitions is still small: in the low single-digit billions across bank financing, private credit, and catalytic funds combined. As a point of comparison, the U.S. private credit market holds about $1.1 trillion in assets under management. Financing employee ownership transitions could mobilize capital on a similar scale–drawing not only from private credit and traditional bank lending, but also from catalytic, evergreen, and other flexible sources. **Converting companies to employee ownership is a massive opportunity and one that more and more investors, deploying both catalytic and "market rate" capital, are seriously considering.**

Employee ownership investment opportunity (in $ trillion)

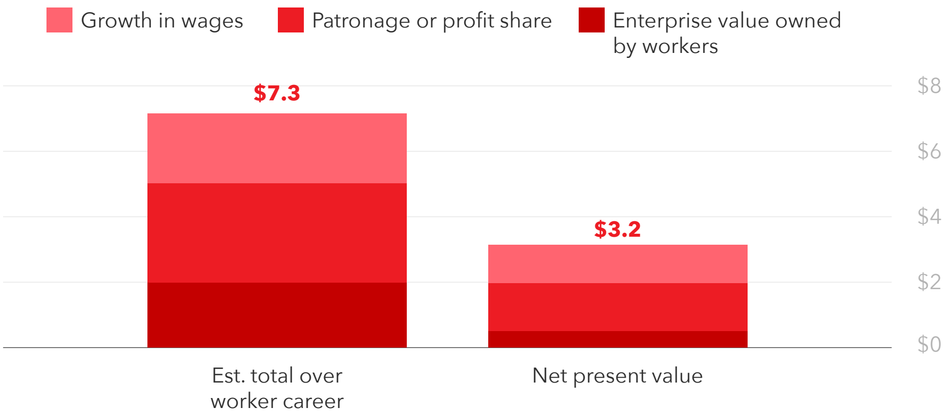


Beyond the scale of the investment opportunity, what makes this so exciting is the transformational potential–not just for capital markets, but for the economy more broadly.

What Happens When Workers Own the Companies?

Employee ownership is a powerful wealth-building mechanism for people who have been shut out of asset ownership opportunities. **Our estimates suggest that if these businesses converted to 100% employee ownership structures, it could lead to $3+ trillion in wealth built for over 11 million working people over a generation, or about $270,000 per worker**.

Estimated wealth building opportunity for workers (in $ trillion)



Here's how:

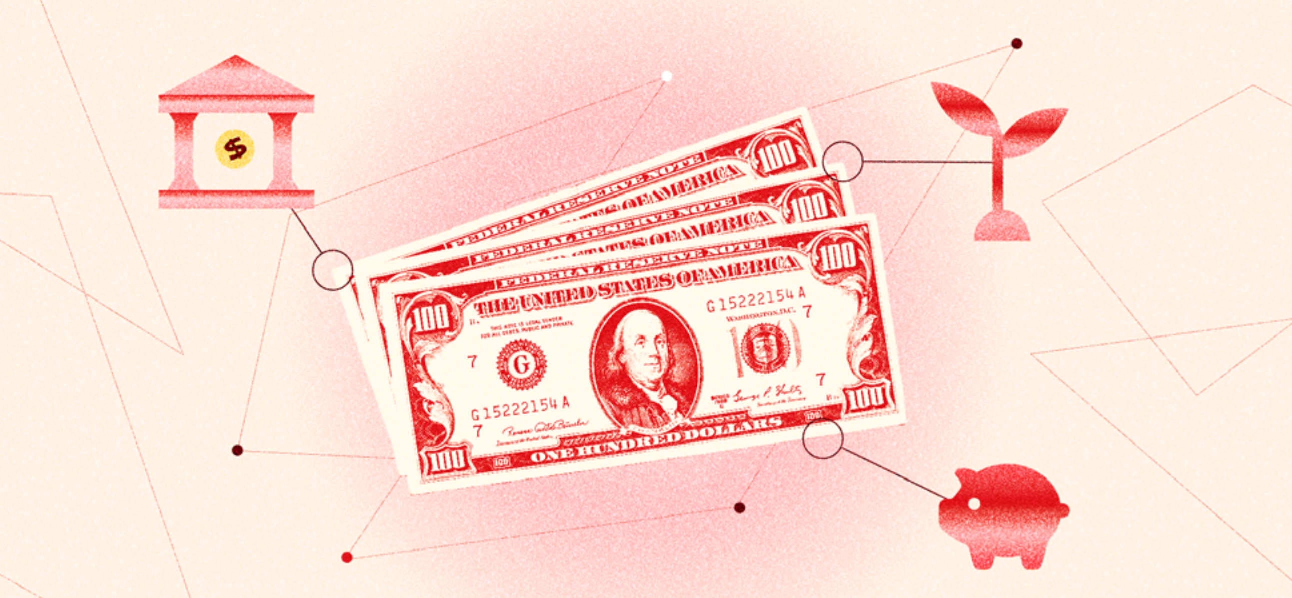
- **For Employee Stock Ownership Plans (ESOPs)**, a trust is established upon transition that holds company shares on behalf of the employees. This ownership comes at no cost to employees. Employees become owners of the company and are paid their share of the total company's value when they leave. They also benefit from an increase in average wages.

- **For worker cooperatives**, employees are given the opportunity to buy into membership, which provides equal access to decision making, access to a share of the company's profits (via a patronage dividend) as well as an increase in average wages.

- **For employee ownership trusts (EOTs)**, a trust owns the company. Employees participate in the governance of the company and access a share of the company's profits via profit sharing.

To put that wealth shift into perspective: the bottom 50% of U.S. households currently own just $4 trillion in assets, while the top 1% holds around $50 trillion. Employee ownership puts businesses into the hands of the workers who contribute to its success. Investors who finance these conversions to employee ownership will also receive a return on their investment, from catalytic levels (0 to 5%) to comparable to other private credit investments (12-15%).

It's important to remember that employee ownership is more than a tool for improving individual outcomes—it also strengthens businesses and the broader economy. Companies with broad-based employee ownership tend to perform better financially, experience lower turnover, and show greater resilience during downturns. They also contribute to more stable local economies by keeping businesses rooted in their communities. Evidence shows that these firms improve job quality and help reduce racial and gender disparities in the workplace. By distributing income and ownership more widely, employee ownership can boost consumer demand and support long-term economic growth. In turn, this creates a more stable and predictable environment for investors and other stakeholders.



A Wide Range of Capital is Needed

As mentioned earlier, many broad-based employee ownership transitions rely, at least in part, on loans from external capital providers that are repaid from future cash flows. These transactions typically draw from one or more of three main sources of capital—each with distinct dynamics, risk tolerance, and return expectations (see Transform Finance's database for examples and more information).

- **Bank financing:** Banks are a common source of senior debt in employee ownership transitions, especially ESOPs. These loans are typically secured by company assets and repaid from projected cash flows, making them well-suited for stable, cash-generating businesses. Bank financing often forms the foundation of the capital stack.
- **Private Credit and Mezzanine Debt Funds:** A newer and fast-growing segment of financing includes private credit and mezzanine debt funds, which often play a key role in ESOP transactions. These funds target higher returns than senior lenders and can bridge the gap between traditional bank financing and seller expectations. The tax advantages that ESOPs benefit from can enhance investor returns, making these deals particularly attractive. While features like warrants are sometimes used in ESOP transactions to increase upside, cooperative and EOT models may employ alternatives such as earn-outs to align incentives.
- **Catalytic and Evergreen Funds:** Some employee ownership transitions require more flexible, impact-oriented capital. CDFIs and non-profit funds provide lower financial returns to focus on lasting community-centered impact. These funds are especially important in contexts where businesses operate on thinner margins or face barriers to accessing traditional credit.

Scaling employee ownership will require a set of financial and non-financial strategies: better data to understand the risk and return profile to more appropriately price capital (in that context it bears repeating that the "market rate of return" for investments is often based on an extractive economic model that externalizes social and environmental costs), increased catalytic capital willing to prioritize impact over returns, and broader awareness within mainstream finance of the opportunity this represents. In light of the opportunity for financial innovation, we are seeing a "Cambrian Explosion" of new types of funds, including some which provide radically new ways to finance employee ownership conversions (e.g. equity investments, acquisition by holding companies, etc.).

Where To Go From Here

> **This analysis—while still directional—points to a powerful opportunity hiding in plain sight: a large, investable market for employee ownership transitions that could dramatically expand who holds wealth and power in our economy.**

To move from possibility to practice, investors must understand which segments of this opportunity are relevant for them, and the broader field must clearly outline what it will take to shift capital toward this opportunity. That includes clarifying risk and return expectations, identifying the barriers investors perceive, and building the infrastructure to help capital move at scale.

Additionally, investors who care deeply about workers should view governance as equally important as wealth building. True employee ownership isn't just about distributing shares—it's about ensuring that workers have real decision–making power and long-term stability. This is not just about the benefit of workers, either: the productivity gains of employee ownership are contingent upon strong support of workers to feel and behave like owners.

Furthermore, across the opportunity as a whole, the employee ownership field must pay attention to who stands to benefit. With the right structures and priorities in place, employee ownership can deliver outsized benefits to low-wage workers and workers from historically marginalized communities—those who have long been excluded from ownership.

Workers, business owners, philanthropic funders, institutional investors, and policymakers all have a role to play in aligning around this vision—and many are already taking action. The recent introduction of the bipartisan American Ownership and Resilience Act (AORA) is one such signal since policy can help catalyze a broader transformation.

For our part, we're committed to supporting this growing movement through tools, research and community building so that together we can build the infrastructure needed to make employee ownership a reality.

This is a strategic opportunity for investors to deploy capital at scale and support a more inclusive, resilient economy. Seizing it will take intention, but the returns—both financial and societal—are well within reach.

ANNEX

Methodology, Assumptions, and Further Reading

The figures presented here are intended to provide a directional estimate of the scale and impact of widespread employee ownership conversions. The numbers shared here are based on a number of assumptions and should be understood as a starting point for further research—not as definitive forecasts

Market Size and Capital Estimates

Number of Eligible Companies: The Rutgers analysis by Matt Mazewski provides a comprehensive look at firms that could feasibly be converted to employee ownership (privately-held, owner over 55 years old, not currently employee owned, more than 5 employees, not likely to hand over the business to a family member). To reflect the reality that not all of these companies will be viable candidates, we apply a conservative assumption that only 20% are suitable. This adjustment accounts for additional disqualifying factors such as:

- Insufficient or unstable cash flow to service debt
- Owner-dependent business (e.g. consulting)
- Cultural barriers to employee ownership

Enterprise Value Multiples: We estimated enterprise value (EV) based on total company revenues, using the midpoint of following ranges:

- **Companies above 50 employees:** 0.4x to 1.0x revenue (0.7x midpoint)
- **Companies with 5 to 50 employees:** 0.3x to 0.5x revenue (0.4x midpoint)
- These multiples assume operating margins of 10–15%, typical for many stable mid-sized businesses. A more precise estimate would require a breakdown sector-by-sector and by size of business, as well as a deduction for the debt currently held by these businesses.
- Valuation multiples for larger companies are typically higher, and may be higher than our estimated range.

Capital Requirements: The external financing needed is less than the full enterprise value of suitable companies because companies can be financed via seller debt, or through incremental conversion or by acquisition from an existing employee owned company that uses its available cash and credit facilities. Based on current transactions:

- For **companies above 50 employees**, we assume 23.5% of enterprise value would require outside capital. This assumes 65% of transactions don't require external financing, and are instead financed incrementally or through acquisition by an existing employee owned company, 20% of companies use a mix of 50% seller financing and 50% senior debt, and the remaining 15% of transactions require 90% external financing through senior (building on relative share of different financing pathways in *Creating Shared Value: An Investor Guide to the Growing Employee Ownership Investment Opportunity* by Noah Klein-Markman). The percentage of enterprise value externally financed may grow as the market matures.
- For **companies with 5 to 50 employees**, the estimate is 60% of external capital required.
- These estimates do not include financing for working capital or inventory, which are often required at the time of conversion and would increase the total capital needs. They also do not include any capital for startup enterprises or ongoing financing needs

Worker Wealth Estimates

ESOP Wealth: Workers in ESOPs receive shares in the company at no personal cost, with value realized upon retirement or exit from the business. We calculate the net present value of these shares assuming:

- A 30-year ownership period
- A 5% discount rate
- No growth in share value over time (a conservative assumption)
- Increased wages: Data from Rutgers University Research Brief, Do ESOPs Substitute for Cash Compensation? Preliminary Evidence from the Health and Retirement Study (Mazewski, 2024) finds wages are 5-20% higher for ESOP workers than non-ESOP peers. Another study Employee ownership for union workers: positive outcomes and negative perceptions (Eaton, Kruse, Blasi, Schur, 2024) finds a 25-30% increase in wages. We use a more conservative 10% increase in wages.
- We have assumed all companies above 50 employees are converted to ESOPs, even though those companies could feasibly be converted to cooperatives or EOTs

Worker Cooperative Wealth: Wealth accumulation in cooperatives comes through:

- Patronage distributions: 5% of revenue, equal to ~50% of profits for businesses with an assumed 10% margin. Actual patronage likely varies much more widely.
- Increased wages: Data from USFWC which found the average wage of workers at cooperatives to be $19.67 per hour suggests wages can be 30 to 60% higher than comparable non-cooperative firms, using $12 to $15 for non-cooperative workers. We use a more conservative 10% increase in wages.
- We calculate the combined value of patronage and wage gains over a 30-year career, again using a 5% discount rate to estimate present value.

EOTs: Our calculations do not estimate the wealth built by EOTs but it is similar to the way worker cooperatives build wealth for workers.

Additional notes

- The research that demonstrates the wide range of benefits of employee ownership are summarized in The Case for Employee Ownership (Project Equity, 2020) as well as Alternative Ownership Enterprise: An Introduction for Mission-Oriented Investors (Transform Finance, 2023).
- The Rutgers briefing does not mention EOTs but those are also a viable pathway for many companies. The financing mechanism for EOTs is also typically a mix of seller financing, or seller financing with debt (and occasionally equity). The capital need for EOTs is not specifically calculated here.
- The numbers here are specific to the United States. There are also thriving employee ownership ecosystems in other countries that represent promising investment opportunities as well.

Additional resources about investing in employee ownership

- Database of investment funds and vehicles for employee ownership and other alternative forms of ownership, Transform Finance website.
- Capitalizing The Employee Ownership Opportunity, Transform Finance and Ownership Capital Lab, 2024
- Investing Employee Ownership Briefing, Transform Finance, 2024.