



VIP

VIBRANCY IMPACT PROFESSIONALISM



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ANNUAL CONFERENCE
APRIL 23-25, 2026

SHERATON GRAND AT WILD HORSE PASS
PHOENIX, ARIZONA



2026 ANNUAL CONFERENCE

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Discussion Topic Today:

***Preserving The Employee Ownership Model –
Is Your Firm Ready?***



DISCLAIMER

- I am biased toward manager-owner models
 - Financial rewards flow to talent and effort
 - Decisions made by those in the firm
- I am not suggesting this is the "best" or the "only" way
- I will "paint with a roller" today
 - Splatter
 - Put it on too thick
 - Lots of clean-up
- I believe there is space for all ownership models in our business
- I do not intend to be preachy or judgmental

My contention: You can grow and maintain a manager-owner model well past 500 employees. It is not easy. But here's how.



MY EXPERIENCE IN THE INDUSTRY

- Government (Corp of Engineers)
- Large, privately owned (Metcalf & Eddy (M&E))
- Large, publicly traded (M&E)
- Small, privately owned partnership (DOWL Engineers w/ 50 employees, 10 owners)
- Small, privately owned Sub S (DOWL, 100 employees w/ 20 owners)
- Medium, privately held LLC (DOWL LLC, 400 employees w/ 80 members)
- Medium, privately held LLC (DOWL LLC, 550 employees w/ 50 members)

* Never worked in an ESOP or a privately equity owned firm, but I have consulted with firms in both model spaces.



COMMON OWNERSHIP MODELS

Common ownership
with progression with
growth



1. Founders and single owners
2. Founders and executive team owners
3. Manager-owners, closely held
4. Broadly owned, non-ESOPs
5. ESOPs or partial ESOPs
6. Private Equity owned firms (or Family Office owner)
7. Publicly traded companies

Can we
stop here?





WHAT'S THE DIFFERENCE?

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2. Founders and executive team owners
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Introduction of
“outside” \$\$\$
(or expertise)





DEFINE MANAGER-OWNED, CLOSELY HELD

- Must be a full-time employee to own stock, shares, units
- All owners are high-performance individuals contributing at a high level
- Tenure, loyalty, and financial wherewithal are not a consideration regarding who gets to be an owner
- Ownership is not offered as feel-good bonuses to long-standing employees or those that are well liked
- Ownership is not an employee retention tool
- Pass through entities are culturally best (K-1 filings, quarterly taxes)
- 1 owner : 10 employees +/- (range 1:7 to 1:12)



THE SECRET SAUCE (six ingredients)

1. Grow
2. Make money
3. Never lose an A-Player
4. Preserve a culture of high expectations (this is hard!)
5. Ownership is “invite only” based on individual performance
6. Condition all owners to the notion that they will sell internally for LESS than they could get on the open market (previous owners did it for you, you must do it for future owners)



GROWTH

- Grow the firm (consistently > 5% in real terms)
- Tactical acquisitive growth must be part of the plan
- You will have to let go of things you have “outgrown” as a company
 - Poorly performing offices
 - Poorly performing service lines
 - Yesterday’s clients
 - Problem employees and owners
- Constantly move up the food chain
- Cultivate a spirit of “tomorrow will be better than today”



JOB OF THE CEO

- Grow the firm (> 5% in real terms)
- Make it profitable (retained earnings > 15% - 20% on NSR)
- Commitment to continual leadership development and ownership transition

The result:

- A strong appetite for stock purchasing by mid-career professionals. This is the sign of a healthy firm.



MAKE MONEY

- Retained earnings > 15% of NSR
 - Real earnings (after all expenses including non-discretionary bonuses)
- Be prepared to re-invest in the company
 - Acquisitions
 - Efficiency
 - Growth
- Use money, not stock for employee retention
- Eliminate under-performing assets
- Hygiene: Clean up your balance sheet and P&L

It is hard, but it is not complicated: Utilization, collections, lump sum performance, increased multiplier



NEVER LOSE AN A-PLAYER

- Put gold stars on the folks that are true difference makers
- Give them the precious gift of your time
- Invest in their development
- Stretch assignments
- Special influence over the company's direction and governance
- Make sure they know they are special, and that they have a bright future at your company
- Reward them financially



PRESERVE A CULTURE OF HIGH EXPECTATIONS

- Multiple P&Ls within the company that are published monthly
- Healthy competition between offices/business units
- No more than 5 or 6 KPIs
- Set targets for the offices/business units against these KPIs. Report on progress at least quarterly.
- Bonus pools based on performance against communicated goals
- Those that give the most, get the most
- “You can lose people off the top of the roster, or off the bottom. You decide.”



OWNERSHIP IS INVITE ONLY

- Ownership must be coveted
- Executive team nominates and works with President/CEO to select new owners based on general criteria
- Board approves new owners
- Meter the "in" and "out" to maintain desired owner/employee ratios
- Promissory note (5 years +/-) to assist with buy-in
- Do not finance all of it – they need skin in the game
- Do not "gift" shares



OWNERSHIP IS INVITE ONLY (cont.)

- Stock Appreciation Rights program to encourage retention
 - Synthetic equity, or phantom stock
- Manage the SAR liabilities and have a vesting program
- Not a fan of mandatory sell-down ages:
 - Interpreted as a guarantee that you do not HAVE to sell down to age 62 or 65
 - Encourages “walking over the finish line”
 - President must have the ability and the backbone to force sell-down at any time
- Money is just money . . . But ownership is gold!



INTERNAL VALUATION LESS THAN “BID PRICE”

- Establish a clear and concise formula for valuation
 - BV
 - BV plus earnings, or weight trailing earnings
 - Average of BV, multiple of earnings, percentage of NSR, multiple of FTE, etc.
 - Anything else you dream up
- Don't mess with it (hardly ever)
- Valuation for internal ownership transfer should be 50% to 70% of FMV
- Check FMV with third party study every 5 years +/-



INTERNAL VALUATION LESS THAN “BID PRICE”

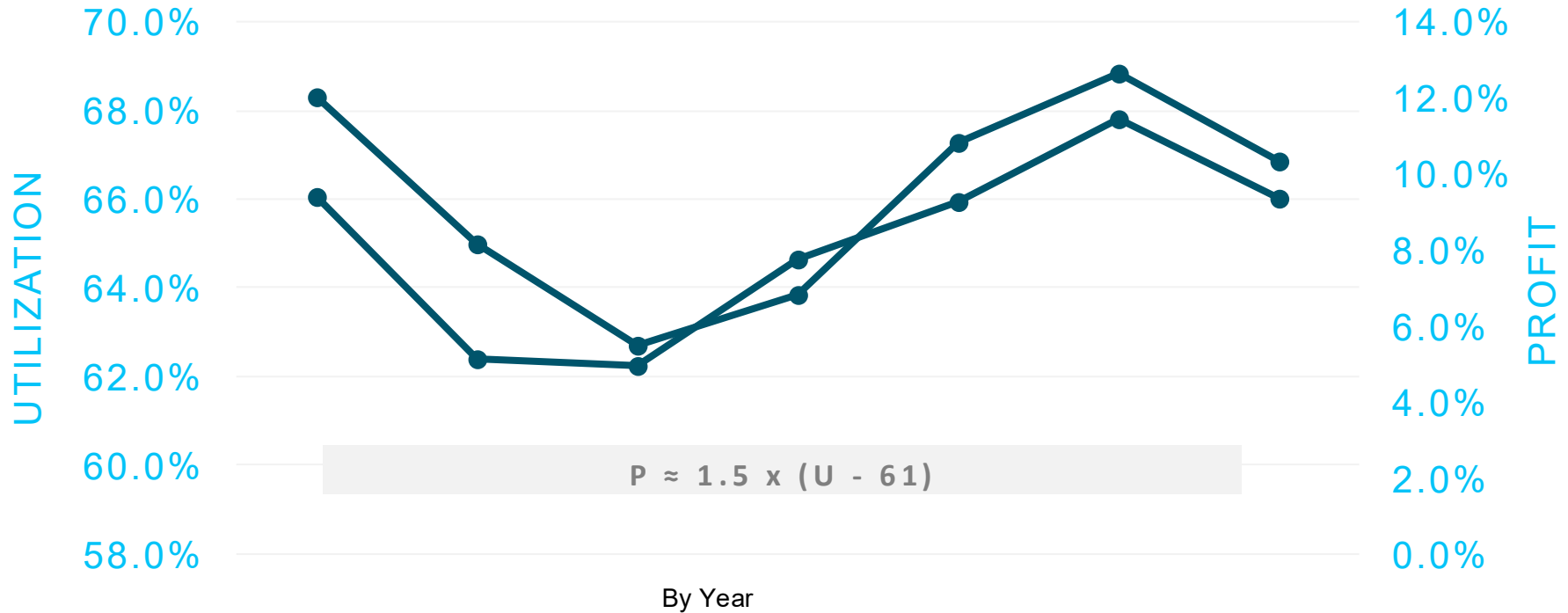
- It MUST be cultural
- President reinforces with the ownership group why they are selling below FMV
 - Previous owners did it for you
 - Do you want to be part of the generation that broke the string?
 - How much money do you really need?
 - For the additional 30% in your pocket, we would lose some of what makes us special:
 - Autonomy
 - Entrepreneurial spirit
 - Meritocracy
 - People doing the work get the rewards



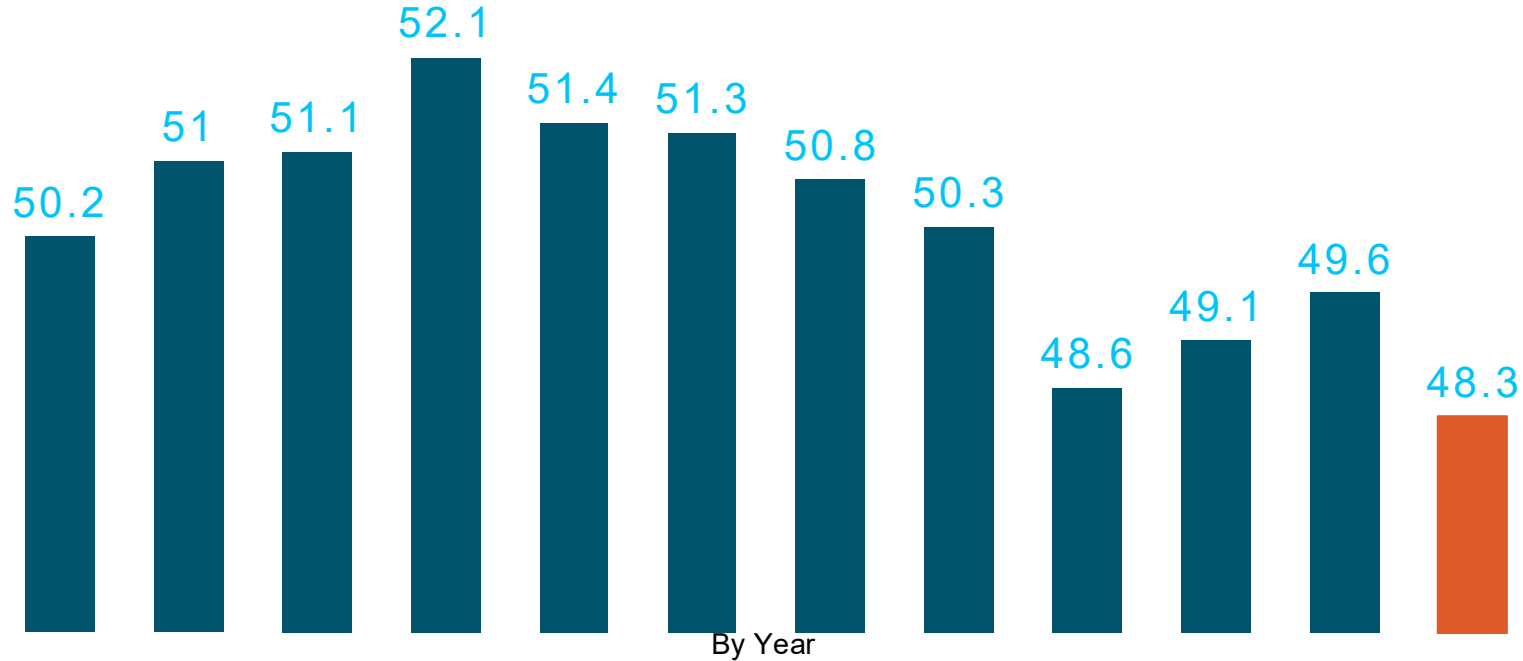
OTHER OBSERVATIONS

- No real estate, boats, airplanes, sports tickets, country club memberships, condos in Vail, etc. – they are distractions
- Calculate average age of your shares (preferably < 54)
- Profitability is a choice
- 3 – 6% of your company changes hands every year
- Make enough money when you are working that you do not need a big payday at the end
- Owners may need to sell down on a timeline that considers their needs and the needs of the company
- As the leader(s), you eat last

Profitability is a Choice

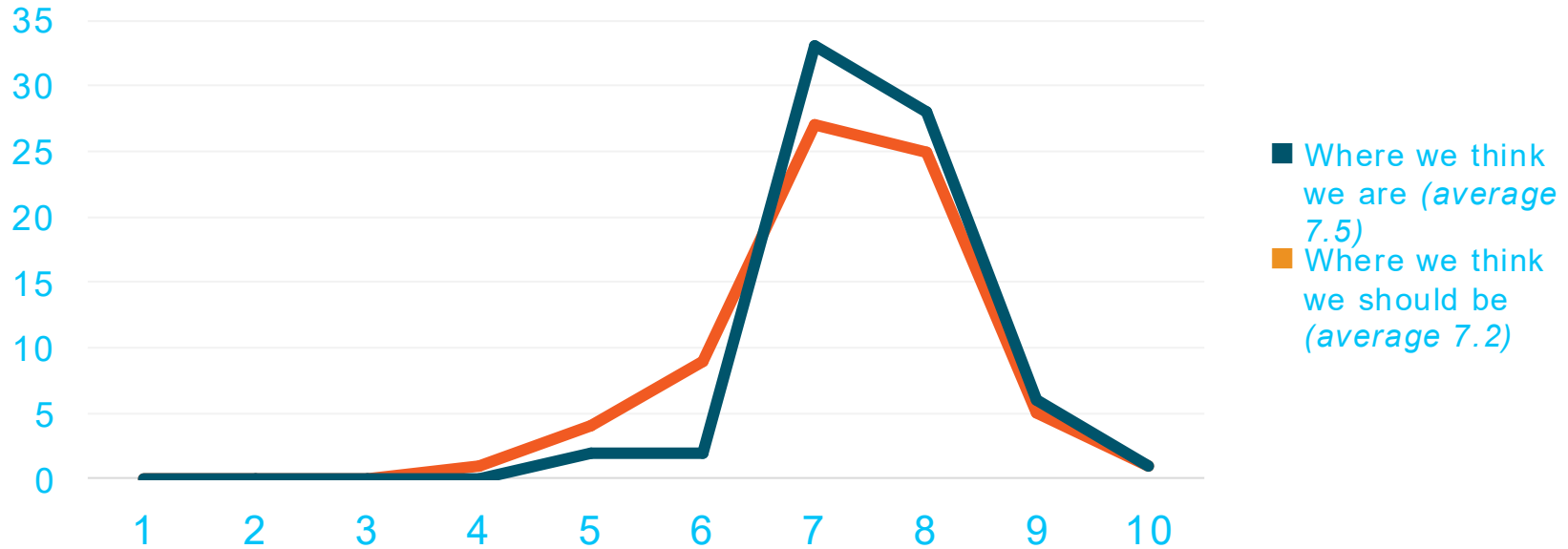


Monitor Average Age of Shares



OWNERSHIP & LEADERSHIP - ALIGNMENT

Q: On a scale of 1 to 10, with 1 being a relaxed social club with no accountability or expectations and 10 being a hard-nosed pay for performance business, what number do you think currently describes our firm?



SIMPLE AND DIRECT KEY PERFORMANCE INDICATORS

Financial Indicator	Company	CSS	BU 1	BU 2	BU 3	BU 4
Gross Revenue						
Net Service Revenue						
Profit % (on Gross)						
Utilization Rate						
Utilization Ratio						
Backlog Weeks						
Net Multiplier						
Resource Utilization						
Net Revenue per Employee						
AR over 60 days						



CASE STUDY ALPHA

- M&A target in a “newish” market
- Profile of Alpha
 - 110-person firm
 - \$19M in revenue
 - C-Corp
 - Profitability rating of “fair”
 - Structural and Civil practice areas
 - Not growing
 - One major client type
 - 45 owners
 - Very low turnover
 - Treat employees very, very well (flexible schedule, compensation, benefits, every hour paid, modest expectations)
 - Leadership team is terrific group of people
 - In short, a fabulous firm by many measures



CASE STUDY ALPHA (cont.)

- But
 - Everyone was very comfortable
 - No one was stretching
 - Stock offered to everyone that wanted to buy it
 - Minimal appetite to buy the stock (low profitability and growth)
 - When members retired, the company bought the stock and added it to treasury
 - In short, everyone wanted to be an employee, and no one wanted to own the company
 - Board wanted to remain manager owned and not go the ESOP or PE route
 - My company was able to offer them a solution, if they were willing to adopt to our way of doing business
 - Grow
 - Be profitable
 - Take care of leadership and ownership transition
 - Incredibly successful acquisition



CASE STUDY BETA

- M&A target in a “newish” market
- Profile of Beta
 - 110-person firm
 - \$19M in revenue
 - S-Corp
 - Profitability rating of excellent
 - Civil and Water practice area
 - Growing
 - One major client type
 - 5 owners, but founder had 85% of the stock
 - Small leadership team focused on getting engineering work done
 - In short, a fabulous firm by many measures



CASE STUDY BETA (cont.)

- But
 - They were an unsustainable cash machine
 - High profitability rate, but re-investment was lacking
 - Growth
 - Leadership development
 - Ownership transfer
 - Too busy with projects to spend time on ownership transition and leadership development
 - Major owner got tired, and was less interested in spending money on growth
 - Wanted to “sell in” to a growing regional firm
 - Was willing to “take less” to find a soft landing spot for his team
 - Legally an acquisition, effectively a merger
 - Young Beta-Owners transferred their equity in Beta for equity in the new firm
 - Highly successful blending of two firms with little collateral damage



SUMMARY – PERSONAL LEVEL

- Get comfortable with your own obsolescence (get over yourself)
- Let other people “do it” (You’re the coach, not the player)
- Give your A-Players influence in the company
- Grow, make money, hyper-attention to leadership development and ownership transition
- Ownership transition is a continual process (not an event)
- As the CEO, do unpleasant things that need to be done
 - It is your job
- Are you willing to give up a larger exit payday to see an internal ownership transition? Really?
- You can do this!