

Service

Employee Stock
Ownership Plans

Industries

Financial Services &
Capital Markets

Food Systems

Professional

ALAN H. KANDEL

ST. LOUIS:

314.345.6463

ALAN.KANDEL@

HUSCHBLACKWELL.COM

From Founder-Owned to Employee-Owned: Why ESOPs Are Gaining Momentum in the Alcohol Beverage Industry

For generations, many breweries, wineries, distilleries, and beverage distributors have been built around a founder's palate, personality, and persistence. That founder-led identity can be a competitive advantage—but it can also complicate succession. As owners approach retirement, families reassess their roles, and acquisition markets remain selective, more beverage companies are considering employee stock ownership plans, or ESOPs, as an alternative to a sale to a strategic buyer or private equity fund.

An ESOP is a qualified retirement plan that invests primarily in the sponsoring company's stock. In a typical leveraged transaction, an ESOP trust borrows funds to acquire some or all of the founder's shares. The company then makes contributions that help the trust repay the debt, while shares are gradually allocated to eligible employees. Employees generally do not pay out of pocket for the stock; instead, they earn a beneficial ownership interest over time.

A Succession Solution Built for Legacy Brands

The alcohol beverage sector is unusually personal. A winery may be tied to family land and a multigenerational name. A craft brewery may have grown from a neighborhood taproom into a regional brand. A distributor may depend on decades of supplier and retailer relationships. In each case, the owner may want liquidity without surrendering the company's identity, relocating operations, or disrupting employees and commercial partners.

An ESOP can address those concerns because the buyer is a trust created for the workforce rather than an external operator. The founder can sell a

minority interest, retain control during a phased transition, or sell 100% and step away over an agreed period. That flexibility is particularly valuable when the next generation is unwilling or unprepared to take over, but management and employees have the capacity to carry the business forward.

Two Founder-to-ESOP Examples

Harpoon Brewery. In 2014, the existing shareholders of Boston-based Harpoon Brewery transferred 48% of the company's shares to an ESOP. The transaction provided liquidity to co-founder Rich Doyle and other selling shareholders while allowing co-founder Dan Kenary to remain a significant owner and assume the CEO role. Rather than sell the brewery outright to a strategic or financial buyer, the founders used a partial ESOP to preserve Harpoon's independence and team-oriented culture while creating an ownership interest for employees.

Switchback Brewing Company. In 2017, founder and brewmaster Bill Cherry transferred 100% of Burlington, Vermont-based Switchback Brewing to an ESOP. Cherry remained president and brewmaster, but ownership moved to the employees. He described the purpose as keeping Switchback Vermont-owned, preserving local jobs and entrusting the brewery's future to the people who had helped build it. The transaction illustrates how a founder can achieve liquidity and succession while continuing to lead the business after closing.

Tax Efficiency Can Strengthen the Economics

Tax treatment is another major reason ESOPs attract attention. Subject to applicable limits and transaction structure, company contributions used to fund an ESOP are deductible. A qualifying seller of C corporation shares to an ESOP owning at least 30% may also be able to defer capital-gains tax by reinvesting the proceeds in qualified replacement property. For an S corporation, the share of income attributable to the ESOP is generally not subject to federal income tax; a 100% ESOP-owned S corporation can therefore operate without federal and most states' income tax at the corporate or shareholder level.

Those savings can materially improve cash flow available for debt service, equipment, inventory, expansion, and acquisitions. In beverage businesses, where aging inventory, packaging lines, cold storage, route infrastructure, and compliance can absorb significant capital, retaining cash inside the company can be strategically important. The tax advantages do not make a weak transaction viable, but they can improve the economics of a sound one.

Ownership Culture Fits the Product

Alcohol beverage companies also compete on authenticity. Customers often want to know who made the product, where it came from and what the brand stands for. Employee ownership can reinforce that narrative: the cellar team, brewers, distillers, warehouse staff, drivers, and salespeople all have a

long-term stake in quality and reputation. That alignment can become part of the brand story without changing the traditions that made the business valuable.

The potential workforce benefits are equally relevant. Beverage producers and distributors routinely face competition for skilled production employees, sales talent, and operational leaders. An ESOP adds a retirement benefit tied to the company's long-term value and may strengthen recruitment, retention, and engagement. The strongest results, however, come from more than issuing annual account statements. Companies must teach employees how value is created, share appropriate performance information, and connect day-to-day decisions—waste reduction, safety, service, and quality control—to business outcomes.

A Different Alternative to Consolidation

Consolidation has reshaped the industry. A strategic acquirer may offer synergies and immediate liquidity, while private equity may bring capital and acquisition expertise. But those paths can also create pressure to centralize functions, rationalize brands, or pursue a shorter investment horizon. An ESOP offers a third route: monetize the founder's investment while keeping the company independent and locally rooted.

That does not mean an ESOP will always pay the highest headline price. An independent trustee must determine that the plan pays no more than fair market value, and the transaction must be supportable by projected cash flow. Yet price is only one measure of value. Founders may also weigh continuity, employee opportunity, community presence, confidentiality, and the ability to remain involved after closing.

The Structure Demands Discipline

Because a leveraged ESOP effectively uses the company's future cash flow to finance the purchase, owners should test the business against industry-specific volatility. Distributor concentration, supplier agreements, tied-house and franchise laws, licensing requirements, commodity costs, crop variation, excise taxes, and changing consumer preferences can all affect results. The company must also plan for future obligations to repurchase shares from departing or retiring employees.

Governance is another important distinction. Employees become beneficial owners through the trust, but they do not automatically manage the company or vote on every operating decision. A trustee acts on behalf of plan participants, the board of directors oversees the enterprise, and management continues to run it. The transition therefore requires experienced legal, financial, valuation, lending, and benefits advisers, as well as clear communication about what employee ownership does—and does not—mean.

Who Is a Strong Candidate?

The best candidates are generally profitable C or S corporations with stable cash flow, a capable management team, a meaningful workforce, and owners willing to plan well before an exit. Companies with highly volatile earnings, excessive existing leverage, or a business value dependent almost entirely on the founder may need additional preparation. A feasibility study can compare an ESOP with a family transfer, management buyout, strategic sale, or private equity transaction, modeling seller proceeds, financing capacity, taxes, and long-term obligations under multiple scenarios.

More Than an Exit Strategy

ESOP momentum in the alcohol beverage industry reflects a convergence of forces: aging founders, succession gaps, continuing consolidation, labor competition, and a desire to protect independent brands. For the right company, an ESOP can convert years of founder value into liquidity while giving employees a meaningful stake in the next chapter.

It is neither a shortcut nor a purely tax-driven strategy. It is a long-term ownership solution that requires sustainable cash flow, independent valuation, careful governance, and an intentional culture. When those pieces align, employee ownership can preserve what founders built, reward the people who helped build it and keep a distinctive beverage business independent for another generation.

What This Means for You

Alcohol beverage industry leaders and in-house counsel evaluating succession options should treat an ESOP as a structural decision, not a tax play alone. Start with a feasibility study that models an ESOP against the alternatives discussed above (family transfer, management buyout, strategic sale, or private equity transaction) and tests the company's projected cash flow against industry-specific risks, including distributor concentration, tied-house and franchise laws, licensing requirements, and excise tax exposure. Assemble an experienced transaction team early, including legal, valuation, lending, and benefits advisers, since an independent trustee must confirm the plan pays no more than fair market value. Finally, plan for the company's ongoing obligations: transaction debt, repurchase liability for departing and retiring employees, and an employee communication strategy that explains what ESOP ownership means for employees.

Contact Us

If you have questions about employee stock ownership plans (ESOPs), succession planning, or ownership transition strategies in the alcohol beverage industry, please contact Alan Kandel or your Husch Blackwell attorney.

This article provides general legal information. It does not constitute legal advice to the reader and does not create an attorney-client relationship between the reader and Husch Blackwell LLP. The

reader should seek legal advice if they have questions about how this legal information may apply to their own circumstances.