

SES Assists Redner's Markets, Inc. ESOP in Examining Strategic Alternatives for Long-term Growth and Sustainability

Company Overview

Redner's Markets, Inc., headquartered in Blandon, PA, was founded in March 1970 by Earl Redner. The Company is primarily a discount supermarket offering dry groceries, perishables, frozen foods, health and beauty aids and general merchandise. Redner's currently owns and operates 44 supermarkets, 19 convenience stores that also include gasoline pump service, three gas stations with limited product sales, eight pharmacies, and two distribution centers.

On December 21, 1975, the Company formed its original employee stock ownership plan (ESOP). As of December 31, 2017, the ESOP owned approximately 48.1 percent of the Company.

Situation

Although the ESOP has sufficient liquidity to honor distribution, diversification and repurchase obligations in the near future, Redner's management realized that such obligations would exceed ESOP liquidity over the medium term. In light of competitive pressure in the supermarket space, a significant amount of the Company's free cash flows would be required to satisfy distribution, diversification and repurchase obligations. This in turn would constrain the Company's ability to grow and imperil the long-term sustainability of the ESOP as a meaningful employee benefit.



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Solution

SES professionals, along with ESOP professionals from Griffin Financial Group, were engaged to complete an analysis to explore strategic alternatives to manage the repurchase liability of the ESOP while also satisfying the following goals:



- Maintain the ESOP as a long-term meaningful employee benefit
- Manage the ESOP's repurchase liability in a financially efficient manner that will give the Company the best opportunity to continue investing in its long term-growth and sustainability
- Maintain meaningful family ownership for the fourth generation

We worked closely with Principal Financial Group, the ESOP's third-party administrative services provider, to model the impact various structuring alternatives would have on the ESOP's repurchase liability. SES integrated the repurchase liability analysis into the Company's longer-term corporate financial statements to show the pro-forma effect on the Company's income statement, balance sheet and statement of cash flows. This enabled the Company's board of directors to better understand the impact various strategic alternatives would have on the ESOP and the Company's long-term sustainability.

After reviewing the various alternatives with SES, the Company decided that deploying a repurchase obligation strategy that includes a combination of annual contributions and redemptions best satisfies the Company's goals and objectives. Michael McNaney, the Company's Vice President of Finance, said, "The analysis provided by SES gave us the information we needed to implement a repurchase strategy that is optimally designed to continue the long-term sustainability of both the Company and the ESOP."