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President Dick Couch, Jr. speaks to Hypertherm employees.

Ownership culture thrives

AT MINORITY-OWNED ESOP COMPANY



Kelly Solberg
The Principal

Nestled in the rolling hills of rural New Hampshire is the headquarters of an employee-owned company that is anything but quaint. For Hypertherm, their 10-year-old ESOP is the newest layer of a long-standing culture rich in shared rewards and a spirit of togetherness.

The Hypertherm Associate Stock Ownership Plan (known as the HSOP) owns just over 32 percent of the company's stock. Just as the HSOP is one piece of Hypertherm's ownership structure, it is one piece of a cohesive corporate strategy that revolves around "doing the right thing."

As Carolyn Maloney, Treasurer at Hypertherm puts it, "Our culture at Hypertherm includes the ethic of shared rewards. There is a solid belief in sharing the strong financial success of the company with all of its associates to reflect the fact that we are all in this together."

So often the ESOP community focuses on a 100 percent ESOP as the ultimate in employee ownership. Yet here is a company that has very successfully incorporated a minority-owned ESOP into their corporate way of life, and it has enhanced their unique culture while providing a succession plan for the company and contributing to the financial success of its associates' retirement.

BUILDING AN OWNERSHIP CULTURE

According to Hypertherm's President, Richard (Dick) Couch, Jr., the HSOP has been "extremely successful." To understand how the HSOP has been so successful, let's

first look at how it came into being. Ever since Couch established Hypertherm in 1968, it has been a privately held company. Prior to the creation of the HSOP in 2001, the company was owned almost entirely by the Couch family.

Maloney sees evidence of the HSOP's success in the continued growth of Hypertherm stock value, and the fact that associates feel empowered to implement changes – they work like owners and think like customers. One reason for this is that Hypertherm was building on a solid culture and benefit structure, not trying to change it.

Hypertherm associates were already familiar with performance-based rewards from their profit sharing plan. The company emphasizes the profit sharing plan as the short-term reward for collective performance. In contrast, the HSOP is the long-term potential to build wealth. Maloney states, "The HSOP is a memorialization of how we already worked. From an associate perspective, the HSOP is ... a benefit that Hypertherm has given to associates for their long-term success as a person toward their retirement. This is just one more example of the shared rewards we see."

Hypertherm has over 1,200 associates spread across 24 countries. To ensure international associates feel included in the employee ownership culture, the company sponsors a global stock value plan (GSVP). The GSVP is based on the performance of company stock, just like the HSOP.

An integral part of building an employee ownership culture is helping associates understand how their individual performance influences company performance, and encouraging innovation to drive growth. For Hypertherm, innovation is one of the most critical elements to success.

Spreading the Message

Starting with the hiring process, Hypertherm looks for individuals who exemplify their core competencies. Once on board, everyone is expected to work on improving what they do. Couch says this idea is not new – innovation has been part of the company’s operations since the beginning.

Hypertherm is an industry leader in high temperature metal cutting products. Couch commented that in the early years of the company, associates had to come up with technical improvements to their products based on feedback from their customers. As the company refined its systems, innovations no longer arose as a reaction to problems, but from a place of creativity and being proactive innovators. Today, this thought process of continuous improvement is cascaded down from engineers to office staff.

Couch believes encouraging innovation is one reason Hypertherm has extremely low turnover. “I think people want to have an impact on their work environment. People don’t want to just be told what to do. I think we tap into a basic human desire, which is to influence, participate, use your brain. People should be allowed to influence things and make improvements. It is not acceptable to just do your job,” says Couch.

Hypertherm has a Continuous Improvement Activity program in place to hold associates accountable for generating new ideas. On average, each associate submits two to three ideas per year. Some that have been implemented include:

- Safety changes at employee entrances,
- Reduction of materials used in production processes,
- Automation of processes to reduce time in completion of price lists, and
- Reduction in usage of disposable utensils and dishes by all teams – associates bring in their own.

This culture of empowerment and expectation of continuous improvement fit in well with the notion of employee ownership, in which everyone benefits when the company does well.

COMMITMENT TO ASSOCIATES

If it is not evident by now, you should know that Hypertherm’s associates are their number one priority. This became even more apparent during the economic downturn in 2009. In accordance with Hypertherm’s strict no-layoff policy, associates at all levels got creative to come up with ways to maintain productivity.

In addition to customary cutbacks such as eliminating overtime and wage increases, the company reduced some of its subcontracting and had associates do work such as landscaping, heating and

To help keep the HSOP at the front of associates’ minds, Hypertherm has an Ownership Communications Team whose charter is to educate, celebrate, and communicate associate ownership. The team consists of up to 20 members who are cross-functional and are not in leadership roles.

In terms of education, the team does a number of things.

QUARTERLY: The team organizes a meal for associates who have just entered the HSOP – breakfast, lunch, or dinner depending on the shift associates work – during which Dick Couch and his wife Barbara, VP of Corporate Social Responsibility, talk informally to associates about why the HSOP exists and welcome them to the plan.

Each quarter they also hold meetings for new hires during which they show four to six slides explaining high-level points about PAVD – an acronym Hypertherm uses for participation, allocation, valuation, and distribution.

ANNUALLY: Coincident with the delivery of the HSOP statements each spring, the team holds sessions on the HSOP for all associates. These sessions include refresher training on PAVD rules and an explanation of the statement.

Beginning in 2011, HSOP participants could elect diversification, so the team held special diversification training for those who are eligible or will be eligible within three years. The team plans to do this each year.

The Ownership Communications Team also organizes activities around celebrating the HSOP.

For example, the team delivers a \$5 gift card to each associate on their employment anniversary.

In 2010, the team conducted a celebration day with snacks available in the cafeterias. The message was simple – enjoy a free treat sponsored by the Ownership Communications Team – but it was one more way to remind associates of the HSOP and that the company values them.

The team also supports the spirit of community by organizing a canned food drive each year for a local food pantry. Associate champions are appointed to encourage participation and a group of associates also help deliver the items and sort them for the pantry.

These are just a few ways the team spreads the message.

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air-conditioning maintenance, electrical work, and helping with construction labor during a building renovation.

Couch maintains the no-layoff policy was very beneficial, as they would be scrambling this year to rehire roughly 100 associates. It also bolstered the sentiment that they all face challenges together and have a responsibility to one another. Equally as important, it gave associates time to work on continuous improvement projects they wanted to do. Associates had to report on their progress on these projects, which created meaningful, focused work. Their focus on innovation and working together helped pull them through a difficult time.

COMMUNICATION AT HYPERTHERM

To further associates' understanding of how they affect the organization, Hypertherm shares information in a multitude of ways. "Hylights," the company's bi-monthly newsletter, contains "HSOP Abbey Corner" where questions from associates are answered. The HSOP also has an intranet page where associates can access plan information including past education slideshows and materials.

Aside from communication strictly related to the HSOP, Hypertherm holds quarterly meetings where they discuss how the company is doing. Hypertherm also uses many visual indicators to illustrate what impacts the success of the organization. Couch believes these meetings and visual indicators are important for people to understand what effect company performance has on HSOP value.

Through their hard work and extensive communication efforts, Maloney believes associates understand the metrics of success and recognize that the HSOP is a final measurement of the success of the company and everything that people do. She states, "There are some aspects to the plan design that are complex in nature, but overall associates know the HSOP itself still has significant value to them for the long term."

CORPORATE SOCIAL RESPONSIBILITY

While it is important for any company to make profits and continue to grow, Hypertherm believes that financial success is only one part of the equation.

As part of their strategy, the company believes in corporate social responsibility and environmental sustainability. Associates are aware of the priority, articulated as "Community & Environmental Leadership: To significantly

reduce our impact on the environment and continually strengthen our engagement in our communities, striving to be out front in citizenship and stewardship."

Hypertherm has also taken a number of steps toward reducing their carbon footprint, rolling out a 2020 environmental scorecard to evaluate how they're doing.

In addition, Hypertherm has established the H.O.P.E. (Hypertherm Owners' Philanthropic Endeavors) Foundation to which they contribute funds and non-profit organizations submit online applications for grants.

Associates are also given 16 hours of community service time each year, which they can use for volunteer work with the H.O.P.E. Foundation or for other purposes in the community. One of the company's goals for 2011 is to have 72 percent of associates use community service time, and they are on-track to meet this goal.

As you can see, Hypertherm is an organization that realizes the connection between associate success and company success. "We're very focused on balancing customers' needs, associate well being, and our corporate social responsibility initiatives toward helping the company be successful," Maloney says.

While the HSOP is only one facet of Hypertherm, it fits neatly into all of these categories and has helped the company expand upon its existing culture of associate ownership and appreciation. With associates thinking about the core values and the reward of the HSOP on a daily basis, this culture is set to continue for the long-term. ■

