

ARES Team,

In a previous email, I addressed why we implemented an ESOP, what it means for employees, and what the first ESOP year looks like for everyone. I'd like to follow that up and go over how an ESOP works, who can participate, how the board of directors decides how much to contribute to the ESOP each year, how the value of the shares get determined, and how employees vest and get their shares.

We will continue to have additional information and opportunities to ask questions at HR Open Houses available over the next few months. We have also set up an online form where you can ask questions to be addressed in ongoing communication about the ESOP. You'll find the link below.

What is an ESOP and how does it work?

An ESOP is a qualified retirement plan, similar to a 401(k) plan, that gives employees an ownership interest within the company they work. Unlike a 401(k) plan, our ESOP only owns and invests in shares of ARES. The value of the ARES shares owned by the ESOP are allocated to individual employee accounts over time, and, as the company grows and the stock value increases, employees benefit from the increased value of their shares.

To accomplish this, ARES set up an ESOP trust. Into that trust, ARES loaned money to buy out the shares of stock from prior shareholders at a value agreed by an independent professional ESOP trustee. The value agreed upon was within the range of values determined by an independent valuation completed last fall.



ARES will contribute money annually to the ESOP so that the ESOP Trust can pay down its debt. As debt is repaid, ARES ESOP share values will increase. Further increases in share value comes through growth in company size and profitability.

Each year, employees are allocated shares held in the ESOP trust. These shares are distributed to each eligible employee (defined below) pro rata as a function of salary. In approximate terms, your salary is divided by ARES' total payroll of eligible ESOP participants and you receive that percentage of ESOP shares. Each year worked as an employee you receive an increased right to the shares – known as vesting. Departing employees receive the fair market value, in cash, for your vested ESOP shares. Payment for the shares will be distributed to you over time.



Who can participate in ARES' ESOP?

All active employees who are at least 21 years old and work at least 1,000 hours over a calendar year are automatically considered participants and are eligible to receive ESOP shares. Departing employees will no longer be eligible to receive new ESOP shares.

How does the board of directors decide how much to contribute to the ESOP each year?

In order for the ESOP Trust to repay debt, ARES must contribute a minimum amount to our ESOP each year to make scheduled repayments. This minimum amount is used to reduce the amount of the outstanding debt, increasing the value of the ESOP shares.

At the end of each year, our board of directors may elect to contribute additional funds to the ESOP based on profitability that year. Due to the tax advantages of ESOP contributions, the Board is incentivized to contribute the maximum reasonable amount to the ESOP.

How is the value of an ESOP share determined?

Every year, ARES hires an independent firm that is experienced in ESOP valuations to determine the value of the shares owned by the ESOP. This appraiser considers factors including, but not limited to, the company's financial performance, market conditions, and potential future growth.

The ESOP shares increase in value as debt is paid down. The share price as of December 31, 2022 is anticipated to be quite low because the amount of debt at that time equaled most of the value of the company. As debt is paid down and we grow, the overall value of ARES will increase resulting in ESOP share price growth.

It's analogous to a mortgage – if you took out a loan for 80% of your house's sale price to buy your home, you only hold 20% of your house's initial value. As you make your mortgage payments, you possess more of your house's initial value. Additionally, as your house appreciates in price, you benefit from that increase – apart from the amount that you owe the bank.

How and when do I get shares?

Once the board of directors has decided on how much money to contribute to the ESOP, each participant receives a pro rata number of shares as a function of salary (as explained above). Due to IRS rules, employees are not able to buy shares outside of this distribution process. The initial distribution of shares will happen following the first contribution to the ESOP at the end of 2023. We expect the ESOP shares to be allocated to individual accounts before July 31, 2024.

Am I entitled to my entire ESOP account balance immediately?

Our ESOP has a five-year vesting schedule where 20% of the account value vests each year. You receive a year of service for each year where you work at least 1,000 hours. Due to the laws that govern ESOP plans, ARES is not able to credit your years of service prior to the creation of the ESOP.

What happens if I leave ARES?

If you leave ARES, for any reason, you will be entitled to receive the vested portion of your ESOP account. Since the ESOP functions similar to a 401(k) and is a retirement account, you will have the option to roll the value of your vested ESOP shares into a qualified retirement account or receive the equivalent cash value directly. There are tax implications associated with these options that will be unique to each individual employee. Distribution of cash will be in equal payments over 5-years or longer if your account balance owed exceeds \$1,090,000. This is done to preserve the financial health of ARES and mitigate potential declines in ARES ESOP share value for remaining participants.

I'll be sending out additional information with greater detail over the next few months including:

- HR Open House (schedule to be announced)
- Articles in the Summit Newsletter

- Intranet page dedicated to the ESOP
- Future emails from me

In the meantime, if you have any questions about anything related to the ESOP, please submit it here and we will be sure to include an answer in future communications: [Submit Questions Here](#) or type the following URL into a web browser: <https://forms.gle/uWEqdi6u63XKahrK9>

Have a great weekend,

Tom