



Baxendale Employee Ownership

Guide to Employee Ownership

What is it? Would it work for you? How can we help?

WHAT IS EMPLOYEE OWNERSHIP?

Employee Owned businesses are companies that are largely or completely owned by or on behalf of their employees. Employee Ownership is an increasingly popular ownership model that has been adopted by businesses across many different sectors. Employee Ownership Trusts (EOT) are now the most common way that businesses move into employee ownership in the UK.

WHY ARE BUSINESS OWNERS CHOOSING EMPLOYEE OWNERSHIP?

Many business owners are choosing sale to an EOT as a succession option, rather than sale to a third party, or a conventional internal exit route like a management buy-out. Here are some of their reasons:

1. Employee ownership can protect the things that are important about your business: its values, culture and legacy; its geographical location and its place in its local community
2. Employee ownership rewards employees, many of whom may have contributed significantly to the business
3. A sale to an EOT means there is no need to find an external buyer for the business and ensures a fair price is paid
4. Leadership and ownership are separated, so in terms of leadership succession you only need to look for the best people to run the business in the future, not the best people who also have the money to buy the business
5. Owners can step back from the business on a timescale that suits both them and the business
6. In a sale to an EOT the owners can have a lot of control over the sale process, terms and timescale
7. Holding the shares in an EOT secures succession for the long term, the business can invest and grow without the distraction of buying out the next generation or trying to look attractive for a trade buyer
8. Sale to an EOT protects employee jobs in circumstances where a third party sale may not
9. Employee owned businesses are typically more innovative, productive and resilient

WHAT ARE THE TAX BENEFITS?

- Owners can sell their business to an EOT free from capital gains tax
- Employees can be paid certain bonuses free from income tax (up to £3,600 per year)

However to be a qualifying EOT the trust must hold a majority (more than 50%) of the shares in the company

An EOT can be used with other tax incentivised share schemes like enterprise management incentive (EMI) options and share incentive plans (SIP).



THE OWNERSHIP EFFECT

With the right support from leaders and managers, employee ownership can deliver cultural change within your business.

Employees who feel like owners are more engaged in the business, and businesses can be more productive and innovative.

Ownership can unlock a sense of shared purpose with everyone working towards the same goal

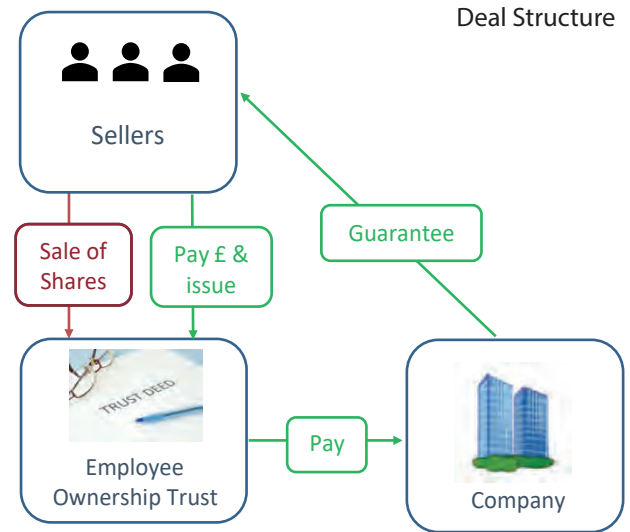
HOW DOES IT WORK?

HOW IS THE SALE OF SHARES TO AN EOT FUNDED?

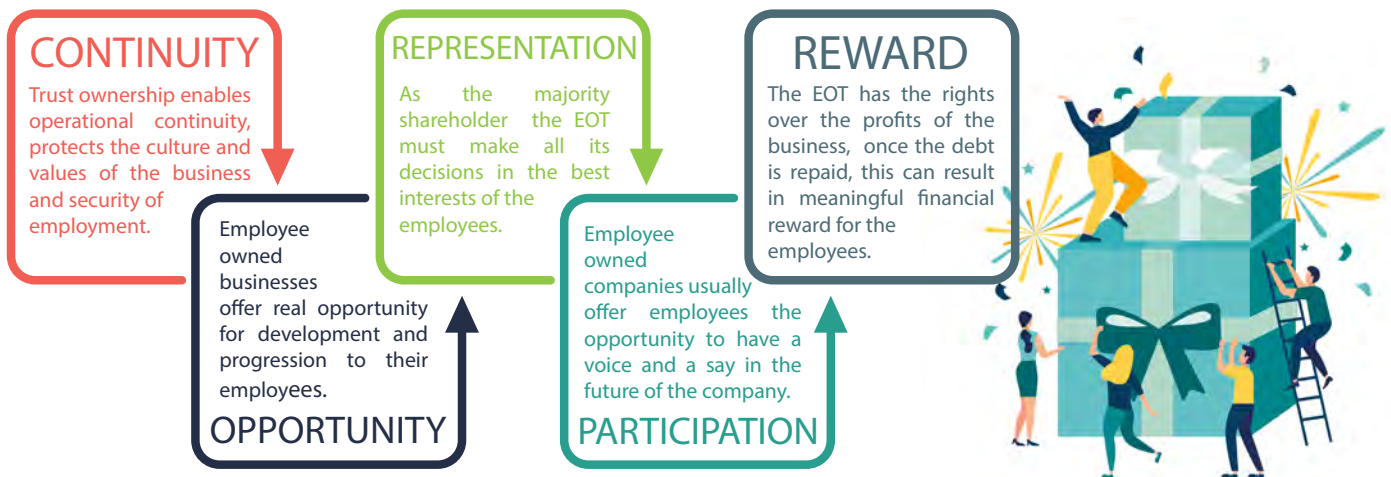
The company will usually need to fund the payment of the price for the shares, since the EOT has no income or assets of its own. Sometimes third-party funding can be used if this suits the parties involved.

There will usually be an upfront payment on completion of the share sale (funded through surplus assets in the business and / or external debt), with the balance paid in instalments over a number of years funded from the profits of the company.

An independent valuation of the business can be useful, but it is not always necessary. As the company funds the purchase of the shares the final purchase price usually reflects what the company is able to fund over a reasonable time period



WHAT WILL EMPLOYEE OWNERSHIP MEAN FOR YOUR EMPLOYEES?

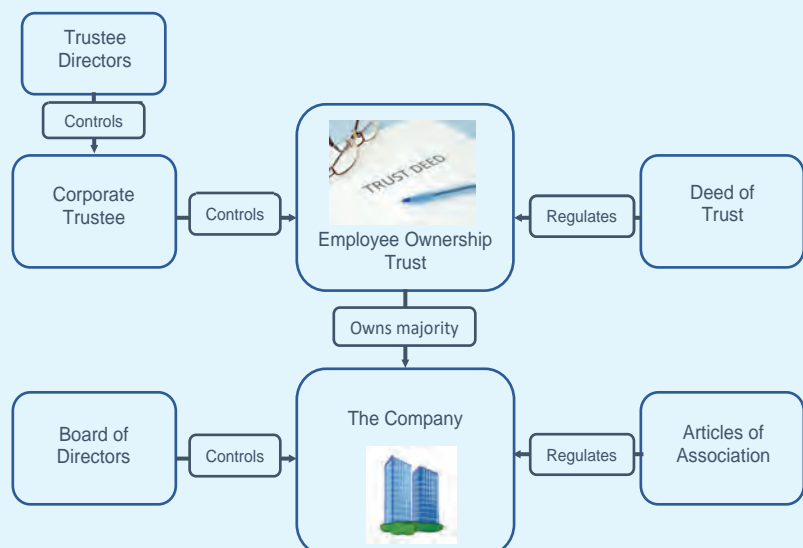


WHO RUNS THE BUSINESS AFTER THE SHARES ARE SOLD?

The operational Board of the company will still be responsible for the day-to-day running, leadership and strategy of the business.

Leadership does not need to change along with a transition to employee ownership; although often a leadership succession process will take place in parallel with the change in ownership.

The majority shareholder in the business will be the EOT. EOTs are controlled by a trustee or trustees. Typically a corporate trustee is put in place, controlled by a group of trustee directors.



The Trustee directors' duty is primarily to monitor the running of the business; to ensure that it is financially healthy, and to act in the best interests of its beneficiaries, the employees of the company.

HOW CAN BAXENDALE HELP?

Baxendale Employee Ownership are expert advisors on employee ownership in all its forms; we have been helping businesses become employee owned for twenty years. During this time we have helped over 250 businesses become employee owned, as well as supporting employee owned businesses post transition.

We are employee owned ourselves, owned by a trust since 1983, and are able to offer an unrivalled combination of legal, financial and practical experience and expertise in the sector. We will work with you to ensure that the transition delivers what the current owners require in terms of the sale of their business, and that the new employee owned business has the best possible chance of further success in the future.

We can project manage your employee ownership transition, from beginning to end. Typically this can involve:

- Ensuring that your wishes for the future of the business are clearly understood
- Creating the deal structure
- Obtaining tax clearance from HM Revenue & Customs
- Preparation of all the legal documentation required
- Design, implementation and establishment of an Employee Ownership Trust
- Working with project teams and/ or the wider employee group
- Support with employee communications and events to ensure that employee ownership is understood by every one within the business
- Workshops for all employees, senior teams and future leaders
- Support with the formation of employee councils or other groups to facilitate employee voice
- Support with the appointment of trustee directors
- Training for trustee directors on their new role and responsibilities
- Advice on and implementation of share schemes, for direct share ownership by employees, if required

We also support our clients, and other employee owned businesses post transition. Our aim is to give you the best possible start in employee ownership so that you can move forward independently; but if you need us we will be there to support you.



If you want to find out more, why not speak to one of our advisers by emailing contact@baxendaleownership.co.uk or calling 020 3598 9982, we also offer half day workshops for businesses and business owners exploring employee ownership, to give you an in-depth opportunity to explore whether employee ownership is right for you.