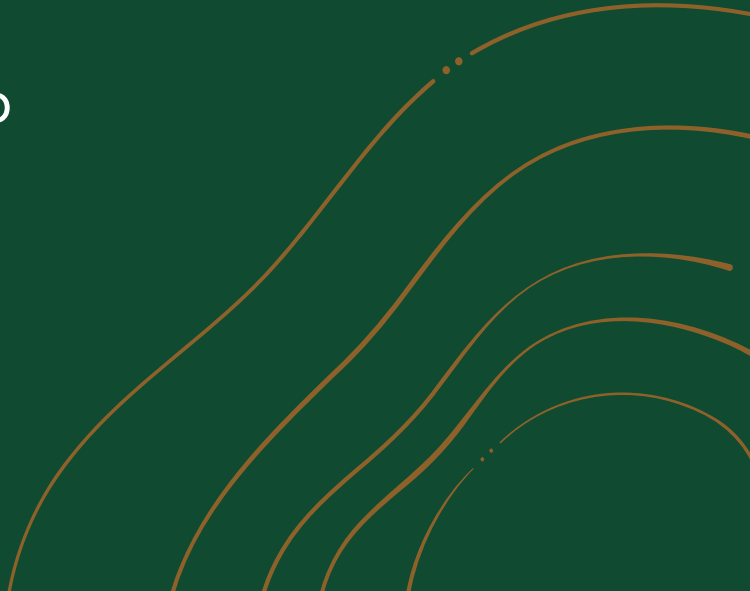


Ownership Succession Options

14th November 2024

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Aims and Objectives

- Introduction to Baxendale
 - Succession Objectives
 - What are the succession options?
 - A closer look at Employee Ownership
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Baxendale Employee Ownership


- Over 20 years' experience of helping businesses and their owners navigate successful transitions in ownership and leadership of their organisations
 - Helping create sustainable business structures: employee ownership specialists
 - Team includes lawyers, consultants, former EO business leaders
 - Louise's background is in corporate law – specialising in family businesses before becoming part of the Baxendale team in 2018. Helped more than 100 businesses become employee owned
 - We are employee owned ourselves and have been for over 40 years
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Succession Objectives



What we have learned

The most successful succession transitions occur when:

- business owners have an opportunity to explore all of the succession options available to them; and
 - a bespoke succession plan is prepared to meet the individual needs and objectives of exiting owners and their businesses.
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Succession Objectives

Continuity

- Continuity of business activities
- Business remains in current location
- Retaining the business name
- Retaining business culture and values
- Improving business culture and values
- Leaving a legacy for future generations
- Owners continuing to have a role in the business

Commercial

- Selling for the highest possible price
- Getting paid for the business on sale
- Maintaining customer / supplier relationships
- Increasing growth / profitability
- Current owners getting a quick exit from the business

Employees

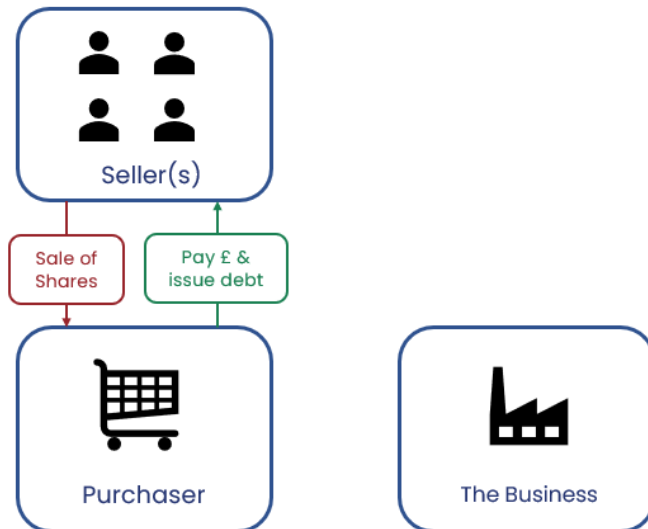
- Job security for current employees
- Giving employees a voice in the business
- Retaining management team
- Retaining key employees
- Owners continue to work in business



What are the succession options?

Trade Sale

- involves an independent third party buying the business from the current owners
- can involve either the purchase of all of the shares in the company by a third party or a sale of the company's business and assets



Trade Sale

Advantages

- Addresses ownership – and usually management succession
- Should realise the highest price if you find the right buyer

Key Questions

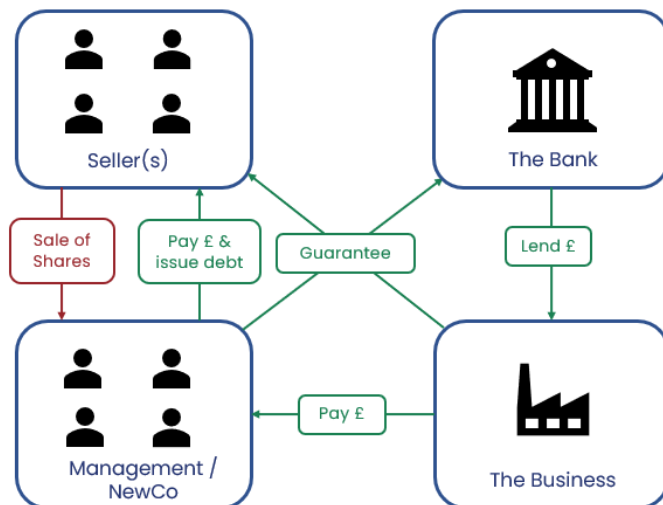
- *Is there a third party buyer interested in purchasing the business?*
- *Are the terms of the purchase acceptable to the current owners?*
- *Is the business prepared for the necessary due diligence process?*

Disadvantages

- Some buyers will pay more for the business because they identify savings / duplicate skills within your business and their own – this often translates into redundancies and the moving or closing of the target's premises
- A proportion of the price will almost certainly be deferred with lock ins for the key employees (usually including the key sellers) for a period.
- The external buyer will usually not know the business and will want to carry out extensive due diligence prior to any sale. The negotiation around the outcomes of that due diligence and various potential future events that could impact in the business can be fairly robust and occasionally adversarial.
- The process of finding a buyer if you do not receive an approach can be uncertain

Management Buyout

- involves the management team of a business buying the shares in the company they manage from the current owners
- an important element to consider is if the management team has or can source the funds to pay for the buyout
- the management team would then use their combined expertise to grow the business and drive it forward



Management Buyout

Advantages

- Addresses ownership and management succession
- You know the buyers and what they can deliver
- Continuity for the business, its values and current location
- Motivate the management team
- Due diligence should be light

Key Questions

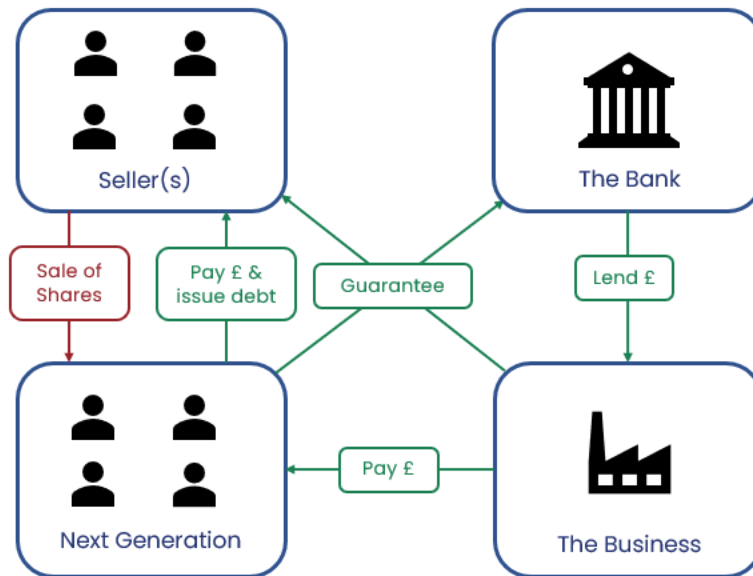
- *Does the business have a management team in place?*
- *Is the management team willing and able to buy the shares?*

Disadvantages

- The majority of the price is usually raised from the current assets or future profits of the business. This usually means that the sellers will need to wait for some years for all of the price to be paid to them
- Usually requires the management team to raise some of the finance personally – are they in a position to do this? If they are not raising any of the finance, this can be a more expensive exit for the current owners than other options with no compensation for this
- The sellers would usually expect personal guarantees from the MBO team for at least some of the debt – they may not be willing to provide these
- Can the business sustain another MBO when the manager-owners are ready to retire?

Family Succession

- Family succession options involve ownership and often leadership of the business transferring to the next generation of family members




Family Succession

Advantages

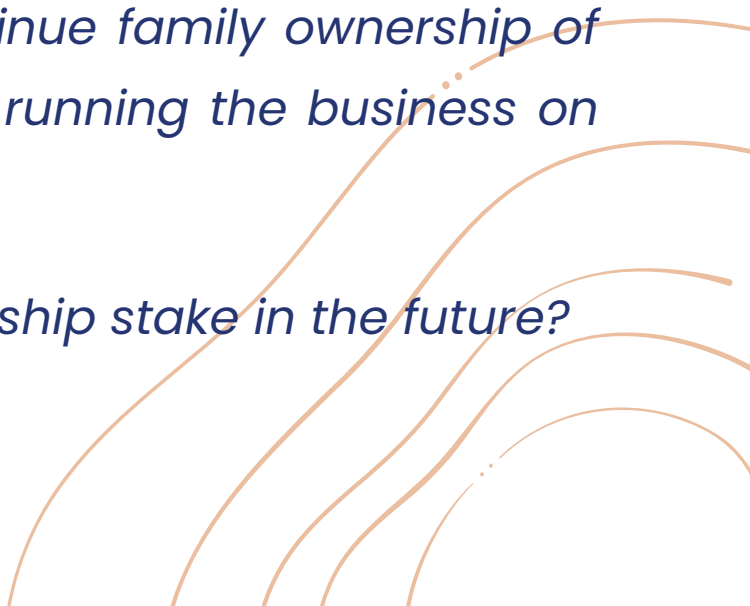
- Usually a non-adversarial process that gives a lot of control to the sellers around the timing and structure of the transition
- Addresses ownership – and potentially management – succession
- You know the buyers and what they can deliver
- Continuity for the business, its values and current location
- Secure family ownership of assets
- Due diligence process should be light

Disadvantages

- The majority of the price is usually raised from the current assets or future profits of the business. This usually means that the sellers will need to wait for some years for all of the price to be paid to them. There is also sometimes the question of a “family discount” on the price
 - May require the family to raise some of the finance personally – are they in a position to do this?
 - Is this deferring the ownership succession issue? Very few family businesses make it to the third generation of owners
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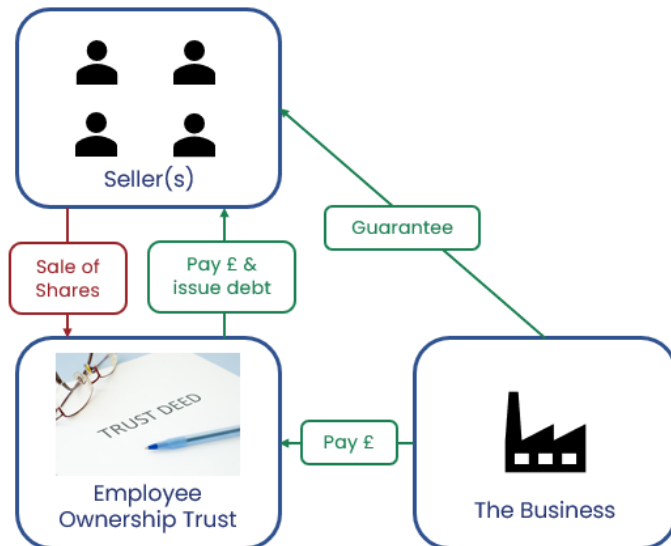
Family Succession

Key Questions

- *Have next generation family members been identified who are willing and able to take on the ownership and leadership roles of the exiting owners?*
 - *Does the next generation wish to continue family ownership of the business with a non-family board running the business on the family shareholders' behalf?*
 - *Will the current owners retain an ownership stake in the future?*
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Employee Ownership

- Employee ownership is where all employees have a significant and meaningful stake in a business
- usually means that at least the majority of the ownership is transferred to the employees



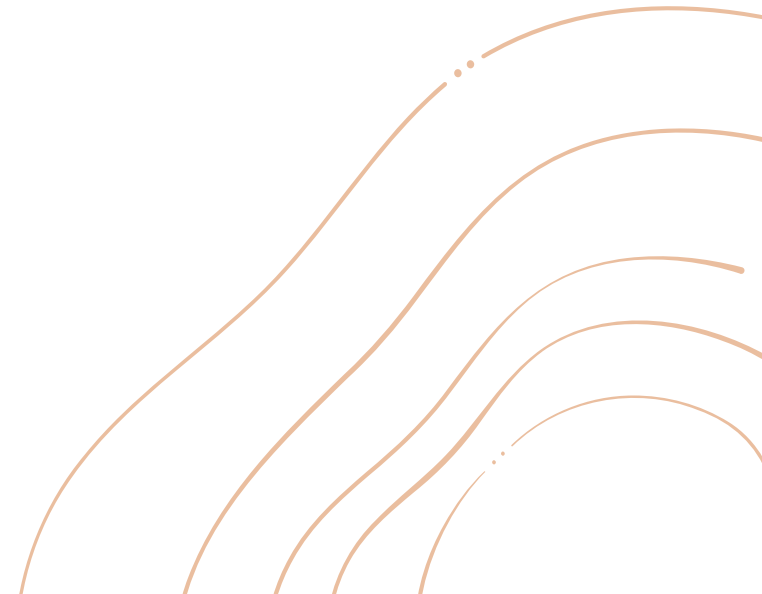
Employee Ownership

Advantages

- If structured appropriately, can involve no tax being payable on the sale proceeds and bonuses free from income tax being available to employees
- Addresses ownership and succession.
- You know the business and what it can deliver
- Continuity for the business, its values and current location.
- Due diligence should be light
- A hybrid model can be used with some ownership held collectively and some made available to individuals
- Usually a non-adversarial process that gives a lot of control to the sellers around the timing and structure of the transition

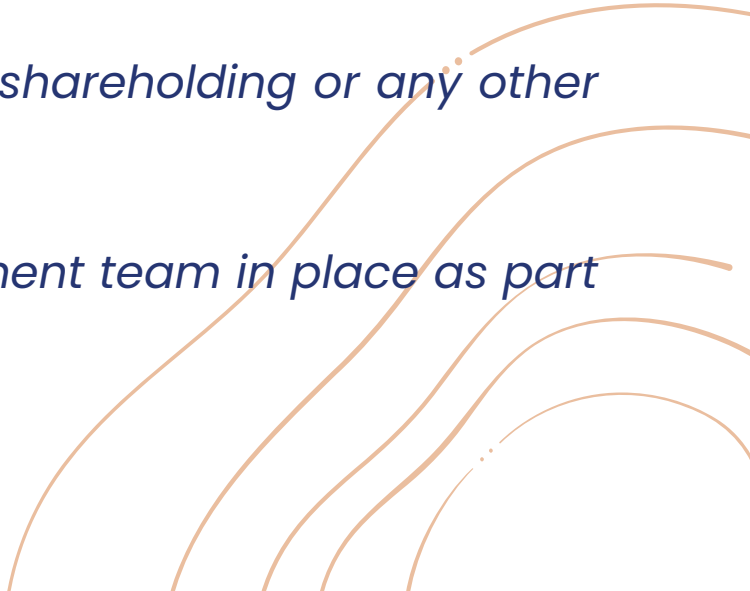
Disadvantages

- The majority of the price is usually raised from the current assets or future profits of the business. This usually means that the sellers will need to wait for some years for all of the price to be paid to them
- Does not automatically address management succession



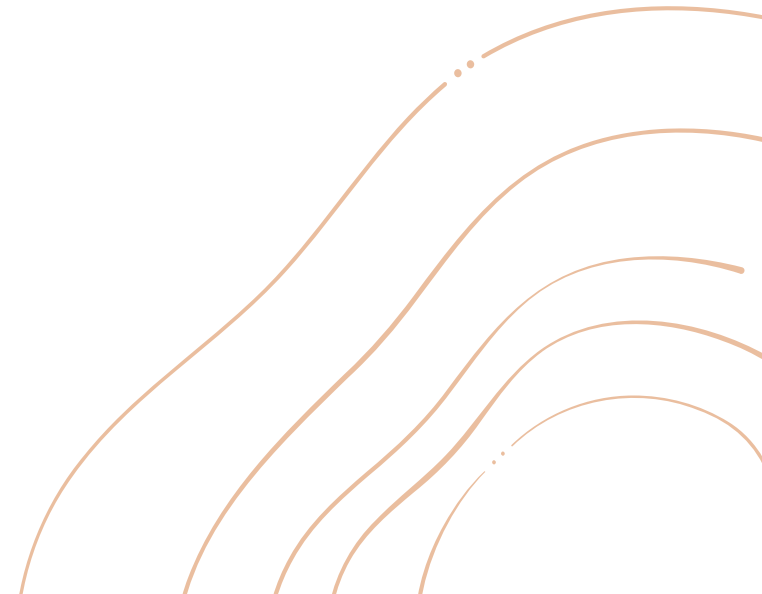
Employee Ownership

Key Questions


- *Will some or all of the shares be held in an employee trust for the benefit of all of the employees?*
 - *Will the employees become individual shareholders in the business?*
 - *Will the current owners retain a minority shareholding or any other rights?*
 - *Does the business need a new management team in place as part of the transition?*
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Why Employee Ownership?

- The Company
- The Owners
- The Employees



Misconceptions

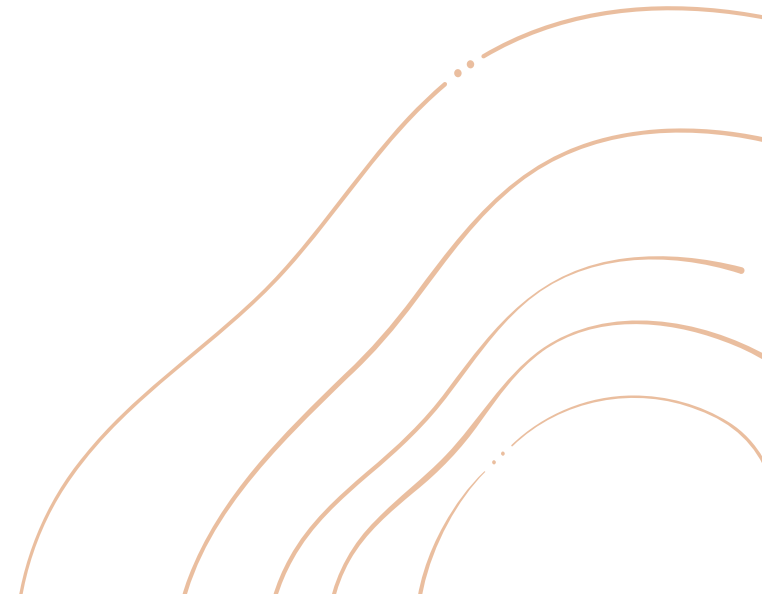
- No requirement to change management structure
 - Directors can continue to run the business as normal
 - Deal and governance can suit the business and individuals concerned – no one size fits all
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A closer look at Employee Ownership


A group of diverse professionals are seated around a table in a modern office setting, engaged in a meeting. They are looking at laptops and documents, with some resting their heads on their hands. The scene is overlaid with a semi-transparent teal filter.

EO Structures

- Indirect versus Direct Ownership
- Employee Ownership Trusts (**EOT**)
- Share schemes



What is an Employee Ownership Trust

- Discretionary Trust for current and future employees
 - Can hold shares and other assets on behalf of employees
 - Is a separate legal entity
 - Can act as a shares “warehouse” and market maker – and part of your governance structure
 - So long as the EOT acquires / holds a majority of the shares:
 - Shares can be sold to the EOT free from UK capital gains tax in the tax year that the EOT acquires a majority shareholding
 - Bonuses of up to £3,600 per tax year per employee can be paid free from UK income tax (although still subject to NICs)
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Direct Share Ownership

Can sit alongside EOT

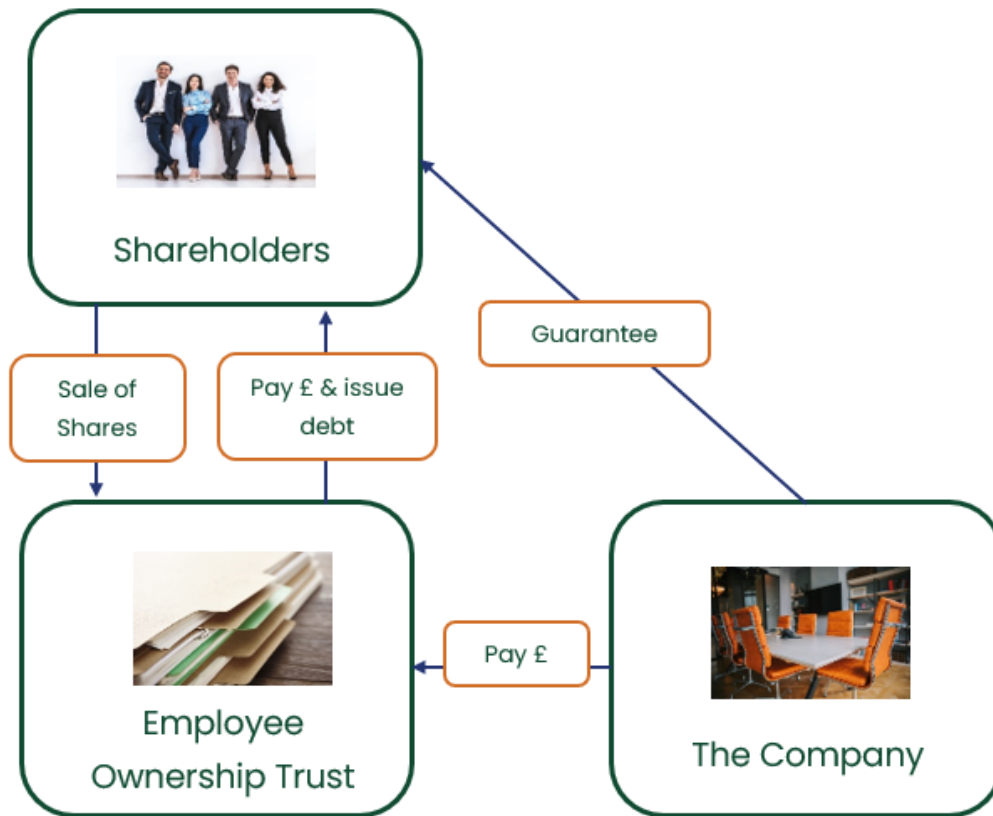
Allow employees to:

- Share in any increase in the value of the business
- Share in profits through dividends
- Vote on certain matters
- Access to certain information

Various Tax efficient share schemes / share options:

- Share Incentive Plans
 - Enterprise Management Incentive options
 - and others
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The Deal Structure



New Governance structure

