

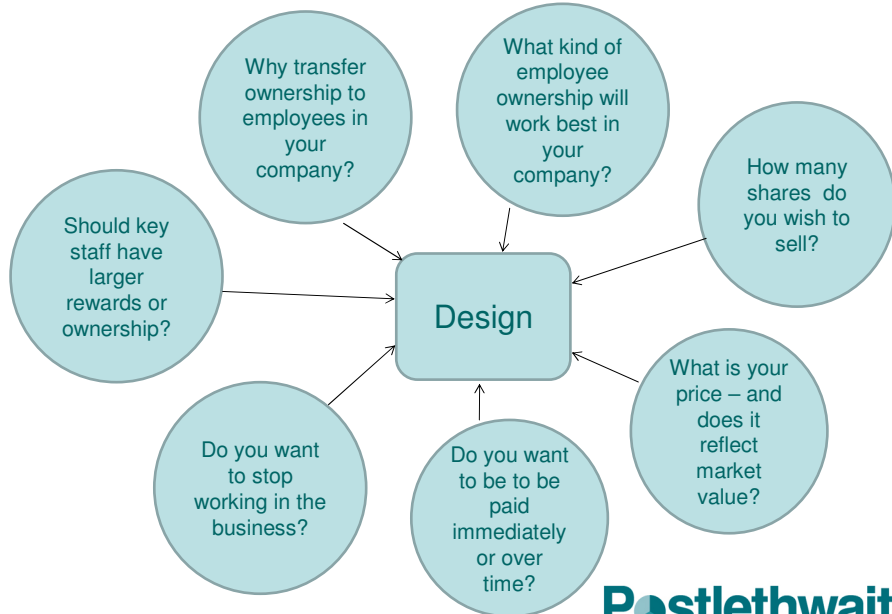
The Complete Guide to Employee Buyouts

Part 1: Meeting the Vendors' Objectives

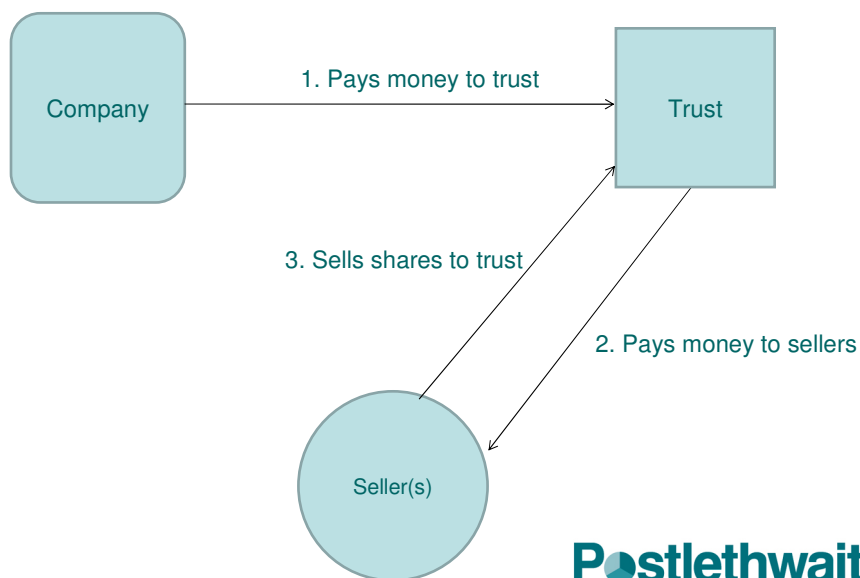
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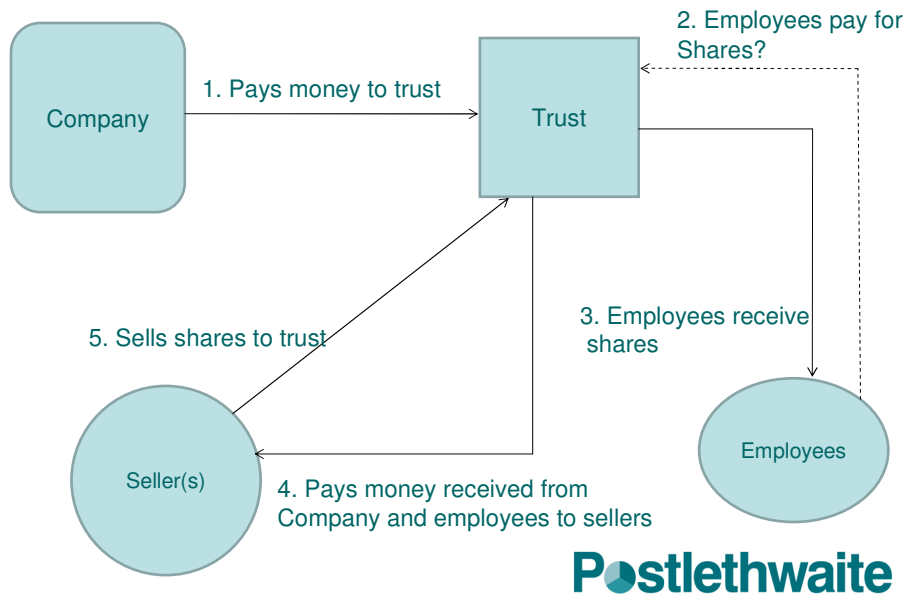
Working out your objectives



Permanent trust ownership



Trust and individual share ownership



Identifying your objectives

Why transfer ownership to your company's employees?

- Reward for past service
- Build a stronger company
- Maintain independence
- Lack of alternatives
- Others?

Identifying your objectives

What kind of employee ownership will work best in your company?

- What is likely to work best with your employees
- Long term trust ownership?
- Individual ownership?
(if so, is goal long term employee ownership or working towards a sale or float?)
- A combination of the above two?
- If individual ownership, on same terms or higher levels of ownership for key people?

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Identifying your objectives

What kind of employee ownership is feasible?

- Funding
- Revenue clearance for use of Company money
- Your employees and management
- Growth prospects
- Keeping it going – internal share market if individual ownership

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Identifying your objectives

Funding

Less difficult

More difficult

Small % of company 100% of company

Seller(s) willing to be paid over time Seller(s) require immediate payment

Seller flexible on price Seller requires full market value price

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- Company value: £2 million
- Founder (Ms Swift) wishes to sell 100%
- She is willing to be paid out over ten years
- She would like to retire gradually over that period
- She would like a trust to acquire the whole company – no individual share ownership

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A simple possible approach:

- *Establish an employees' trust*
- *The trust agrees to buy out Ms Swift, paying £200k per annum over ten years (subject to adjustment according to available funding)*
- *Subject to available cash, the Company funds the trust to purchase the shares over that period – not corporation tax deductible*
- *Trust retains shares indefinitely*

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Some variations:

The Company is unlikely to have insufficient cash to pay £2m

- *Reduce the price*
- *Bring in external finance*
- *Consider allowing employees to acquire some shares directly:*
 - free shares – corporation tax deductible*
 - purchased shares – funds from employees*
 - e.g. through Share Incentive Plan (SIP)*

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Some variations:

Some individual share ownership is felt to be important

- *SIP would allow tax free share purchase or receipt of free shares*
- *Other ways of enabling employees to acquire shares*
- *Establish internal market to facilitate future sale and purchase*

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Next: Abacus Design Associates case study

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