

What's next?

Business owner seeks *fresh challenge?*



RVE - Realising value through Employee Ownership

RVE



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About RVE



RVE was founded to provide business owners with independent financial and legal advice on the sale of their business, with a particular focus on a sale to the business's employees through an Employee Ownership Trust ("EOT").

A sale to an EOT is now a mainstream option, and RVE expects EOT transactions to continue to grow in popularity as business owners become better aware of the significant tax and commercial advantages that an EOT transaction offers, as well as the benefits and incentives that becoming employee-owned bring to the business and its employees.

Employee Ownership?

Your journey starts here

Dear Business Owner



There is a right time for everything, including the time to move on from your business, be it to take up a fresh opportunity or quite simply because you have plans to retire. In these circumstances what should you do with your business? What's best for you, your employees and customers?

You will want a fair price for your business - it may be the source of your retirement funds - and you will likely consider options such as selling to a trade buyer or management. These exit routes may get you to the right number in terms of valuation but can come with strings attached - such as an extended earnout period during which you have less control. Also guarantees for your valued management team and employees may be hard to secure, and what about the company identity and culture you worked to create?

That's where selling to an Employee Ownership Trust (EOT) comes in. When you sell to an EOT you get more control and flexibility over the sale process and you also benefit from very generous tax reliefs. The owners take the sale proceeds over a number of years and can choose how long they wish to remain in the business in an operational way. They can also provide the succession planning for key employees and maintain the company culture.

From the employee perspective, the EOT model is empowering and rewarding and can provide a stable long-term ownership structure. Employees are more engaged and typically more motivated - having a real hand in how the business operates and develops. They can also share in the success of the company and can benefit from tax-free bonuses.

We hope you find this introduction to Employee Ownership Trusts informative and useful. If you would like to explore this further, we would be absolutely delighted to help you.

The RVE Team

EOT deals

- a mainstream exit option

There is no doubt that EOT deals are moving into the mainstream. The positive press coverage of recent high-profile EOT transactions, such as Richer Sounds, Aardman Animations, Riverford Organic Farms and Go Ape has raised awareness and moved EOT transactions from a niche area of the M&A market into a mainstream option to consider when selling a business.

At RVE we very much welcome this press coverage and the interest it is helping to stimulate. We firmly believe that the option of selling to an EOT remains underused.

Guardian News & Media

Richer Sounds founder hands over control of hi-fi and TV firm to staff

Chain joins John Lewis in employee ownership as staff get £1,000 for each year they have worked



The high-profile Richer Sounds deal of Summer 2019 was an example of a well-known name choosing to convert to employee ownership. Whilst it is the large household names that grab the headlines, by far and away the largest number of EOT deals are in the SME sector.

Charlie Bibby / FT



Husband and wife founders of Go Ape Tristram and Rebecca Mayhew have stepped back from executive roles but will sit on the board of trustees of their newly formed EOT (Aug 2021)

There are around 800 UK businesses under EOT ownership as of July 2022 which is tiny when compared to the 245,000 UK businesses of between 10 and 250 employees in the 'SME' sector alone. However, the number of EOT owned SME businesses will grow strongly in the next five years as the benefits of the EOT structure are becoming better understood by business owners and their advisors

Employee ownership is well represented across all industries in the SME sector. Our analysis shows however, an increasingly significant number of deals involving professional services businesses typically valued at between £1m and £20m for whom this model represents a particularly well-suited exit route. We expect to see many more EOT deals in this area.

Your future starts here

The decision to sell your business can be daunting but all business owners must at some time plan what comes next for their business. You may already have some idea of what you want to do personally and in what time frame but may have spent less time on planning the detail of how you get there and what that might mean for the business.

Employee ownership is still a relatively recent option so do some research of your own (we certainly feel that the contents of this booklet will help in that respect) and **take some advice**, speak to others that have chosen this route and consider joining the Employee Ownership Association (see details below).



Lifestyle pictures / Alamy Stock Photo

Most business owners will benefit from specialist professional advice when selling their business. You should expect advice and analysis on the merits (and any shortfalls) of an EOT deal for your specific requirements as well as an analysis of alternative options together with modelling of those options. You can then make an informed and hopefully inspired decision!

The Employee Ownership Association (EOA)

The EOA is a not-for-profit and politically independent organisation that represents businesses which are employee owned or transitioning to employee ownership across the UK.



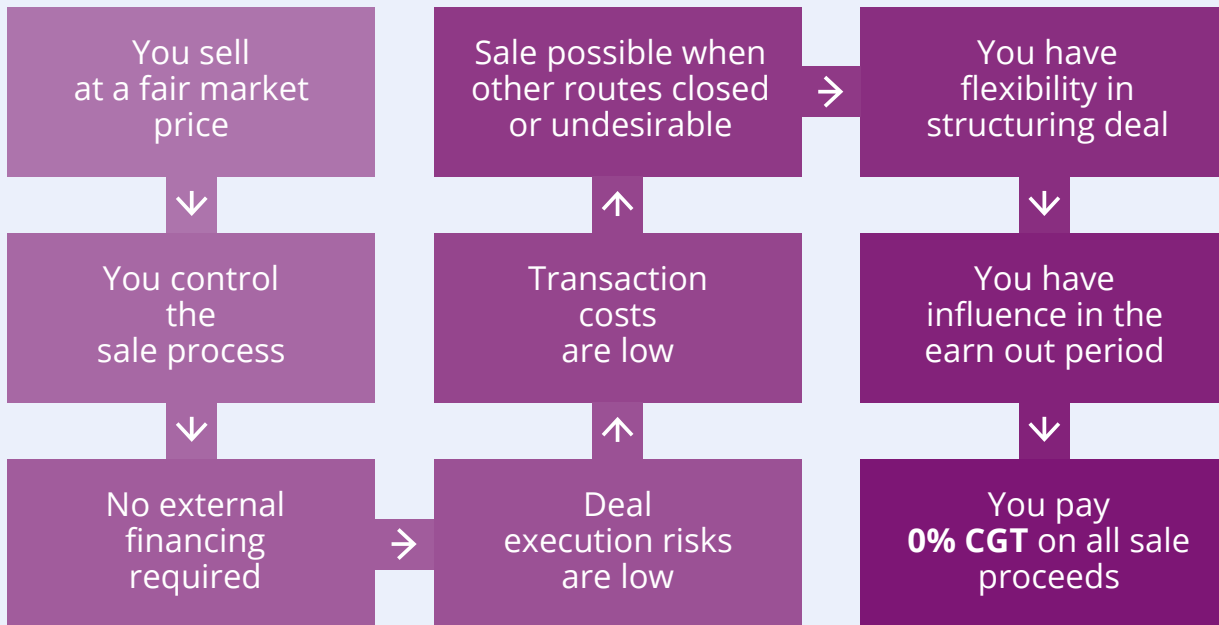
BETTER BUSINESS TOGETHER

In 2019 – the EOA celebrated 40 years of being the leading voice for employee ownership in the UK. Supporting more than 600 businesses, the EOA works in close partnership with its members to champion, promote and provide insight into the business case for employee ownership, and advocate the place of employee ownership within the UK economy.

Key advantages

of selling your business to an EOT

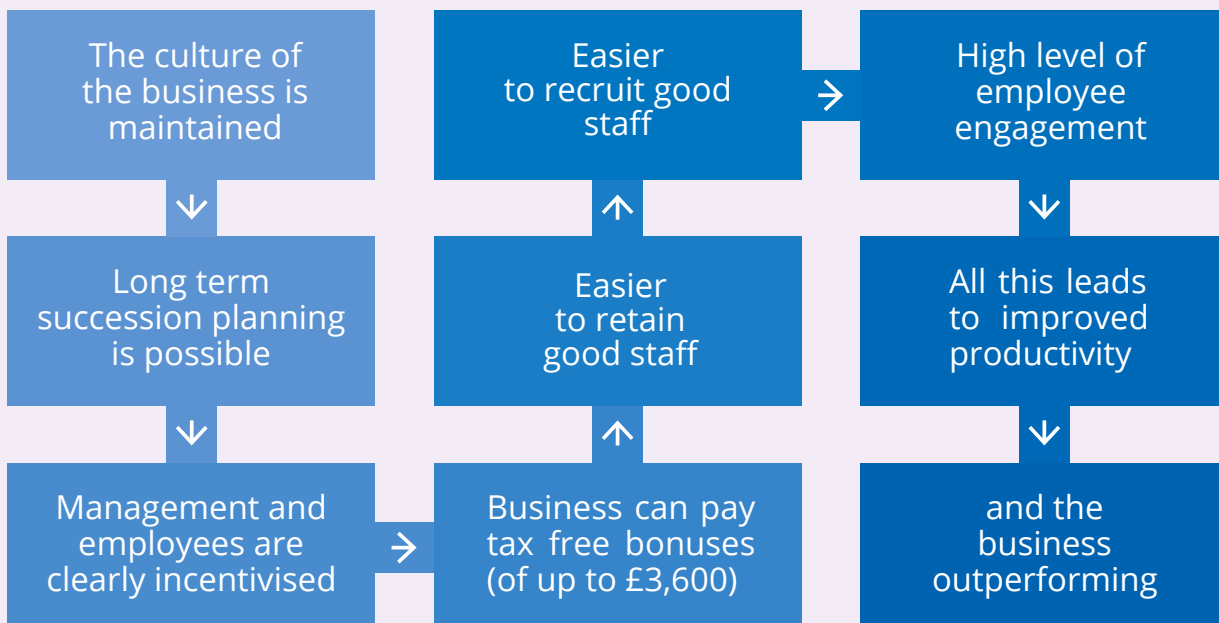
These include selling at a fair market price with 0% CGT on all sale proceeds including any surplus cash in the business distributed to the owners (which might otherwise be taxed as income at 32.5% or 38.1%).



Benefits

for the business *and* employees

These include being able to maintain the business culture post sale and to fully incentivise management and staff.



Qualifying conditions

to obtain the EOT tax reliefs

There are four key conditions that need to be met in order for the sale of the business to an EOT to qualify for the EOT tax reliefs.

The owners must be selling shares in a trading company or group

The EOT must acquire a controlling interest in the company at a fair value

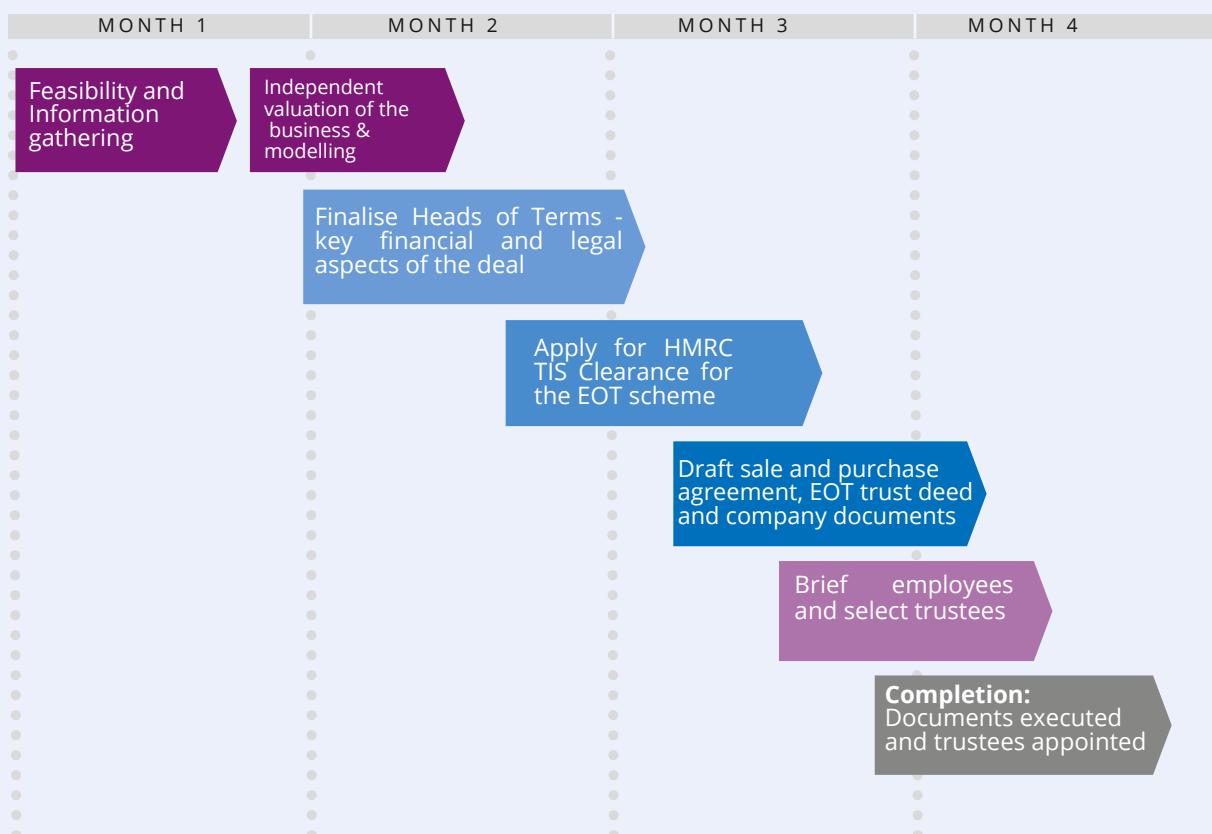
The company must have sufficient employees who are not shareholders or connected persons

The EOT must be established for the benefit of all the employees

High level timetable

for an EOT transaction

Selling to an EOT is an “in-house” transaction that does not require detailed due diligence by the purchaser or fund raising. It can therefore be completed in a relatively short timeframe (typically 3 to 4 months).



Case Study

Renaissance Leadership

Renaissance is a recruitment consultancy based in London and Marlow, Buckinghamshire and with an associate office in San Francisco. It was established in 2004 by founder Tony Willis and his business partner Sebastian Kyall. Renaissance recruits C-suite management for Technology companies and has 13 employees.

In November 2016 Gerry Young of RVE was appointed by Renaissance to evaluate various exit options for the Founder Shareholders. After considering a range of exit options including trade sale and a sale to a financial buyer, the Founder Shareholders concluded that their preferred option was to transition to employee ownership through a 100% sale to an EOT.

RVE constructed a financial model to value Renaissance, which involved valuing the business on a multiple of its sustainable profits, then adding the Surplus Cash in the business (the cash that was not needed to provide working capital to the ongoing business). The valuation is needed to set an independent price for the business, at which the EOT will buy the shareholdings from the Founder Shareholders.

After valuing Renaissance, the most appropriate earnout profile was structured. The Founder Shareholders were issued Loan Notes repayable over a 3-5 year period, funded by the projected profits of the Company, plus 10 year interest bearing Loan Notes repayable at Year 10.

After preparing the valuation, structuring the earnout and drafting Heads of Terms (which set out the key legal terms of the transaction), the Transaction was submitted for HMRC clearance. Clearance was received from HMRC within two weeks.

Gerry Young also advised on the appointment of Trustees to the EOT and was subsequently invited and agreed to act as Chairman of the EOT. The transaction completed in June 2017. The deal value has not been publicly disclosed.

Since the deal was completed, the business has performed strongly and new senior staff have been recruited to join the team. The earnout is being paid down ahead of schedule and levels of employee engagement in the business are strong.

Tony Willis

Founder CEO, Renaissance Leadership

“When I started to examine the options to realise value for my business, it became clear that the traditional exit route of a sale to a competitor or a financial buyer would not achieve my goals. I wanted to realise a fair value for my business but also preserve the client relationships and corporate culture which were the foundations of the business’s success. I also wanted to stay involved in the business (in a full or part time capacity) until I felt ready to finally retire.”

The advice I received from Gerry was excellent. He talked through the different exit options and explained the benefits of an employee buy-out using an Employee Ownership Trust. There was an obvious fit with what I wanted to achieve, and I could realise the value of my business over time without incurring capital gains tax. Since becoming employee-owned the business has continued to thrive. Overall, Gerry gave excellent advice, structured the transaction effectively, and was extremely professional and efficient at managing the whole process. I would highly recommend Gerry and RVE.”



The Renaissance Team



Renaissance
Leadership

How selling to an EOT

compares to traditional exit routes

The table below highlights the advantages for owners of selling to an EOT versus a trade sale and MBO. Selling to an EOT achieves a fair market price for the owners and benefits from very advantageous tax treatment. Selling to an EOT is also possible when other exit routes are closed or undesirable.

	EOT Transaction	Trade Sale	MBO with external finance	MBO with vendor finance
You sell at a fair market price	✓	✓	✓	✓
You can incentivise management and staff with equity	✓	?	✓	✓
You can continue working in the business	✓	?	?	✓
You have flexibility in structuring the deal	✓	X	X	✓
Purchaser doesn't need to raise debt or equity finance	✓	?	X	✓
You have influence in the earn out period	✓	X	X	✓
Business culture is maintained	✓	?	?	?
Deal execution risks are low	✓	X	X	X
You pay 0% CGT on proceeds	✓	X	X	X
Tax free staff bonuses are possible (up to £3.6k pa per employee)	✓	X	X	X

Most business owners will benefit from specialist professional advice when selling their business. When RVE is appointed it works with business owners to understand the business and their goals and helps determine the most suitable exit route. RVE will provide expert advice and analysis on the merits (and any shortfalls) of an EOT for your specific requirements as well as analysis and modelling of any alternatives.

You need to make the right decision and can only make that decision once!

The RVE leadership team



RVE is a corporate finance advisory firm which advises owners of small and medium sized companies (“SMEs”) on the sale of their business. We specialise in structuring employee buyouts, where the owners sell the business to a newly formed employee ownership trust (“EOT”). With our in-house legal capabilities we can provide clients with a full-service advisory team from inception to completion of any EOT.

If the most suitable route is not an EOT transaction then RVE has the experience to advise the business owners on alternatives, whether for example a trade sale, private equity funded management buyout or vendor funded management buyout.

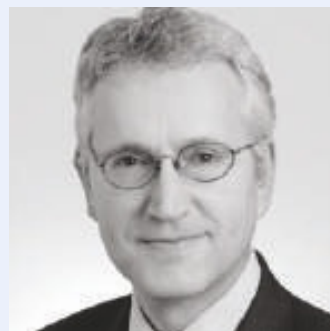
The team at RVE includes experienced chartered accountants and corporate finance advisers who have previously worked together at PwC Corporate Finance.



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*RVE is a member of the Employee Ownership Association
and the Corporate Finance faculty of the ICAEW*

RVE – Realising value through Employee Ownership

“We are delighted to have implemented a structure which returns TTP to full employee ownership. We very much enjoyed working with the team at RVE. Their professional and innovative approach played a key role in creating our new EOT ownership structure, and helped both our shareholders and employees understand the benefits that the Offer would bring.”

Peter Taylor – Co-Founder, TTP Group

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