# Selling Your Dental Business....?

Presentation by

Employee Ownership Wales

(part of the Social Business Wales programme)

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Welsh Government

Cronfa Datblygu Rhanbarthol Ewrop
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## Agenda

- Welcome and introduction to succession issues
- Introduction to EO & benefits
- Selling your dental business using an Employee Ownership Trust
- The vendor’s perspective
- The buyer’s perspective
- Legal considerations
- Support available

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## Background

- ✓ Set up in 1982, offices across Wales, 90+members of staff
- ✓ Delivering projects on behalf of Welsh Government and the European Union & delivering commercial services

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**Providing growth and start up support to Social Businesses across Wales**

- ✓ Co-operatives
- ✓ Mutuals
- ✓ Social enterprises
- ✓ Employee-owned businesses – Employee Ownership Wales

**7-year operation funded by**

- European Structural Funds (ERDF)
- WG Department for Economy & Infrastructure
- WG Targeted Match Funding

**Scheduled to end in late 2022**

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## The Employee Ownership Wales Team

- Nicola Mehegan, Project Manager
- Prof. Paul Cantrill, Specialist EO Adviser
- Branwen Ellis, Specialist EO Adviser
- Sarah Owens. Specialist EO Adviser

**www.employeeownershipwales.co.uk**

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# Introduction to succession issues in Wales

Sarah Owens: Specialist EO Adviser

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## Wales: Succession issues

- ✓ 99% of businesses are SME's
- ✓ 75% 'shut shop' simply as a result of no planning
- ✓ 12% of family businesses reach third generation
- ✓ lack of formal planning
- ✓ unrealistic price expectations.
- ✓ can be reluctant to discuss the matter openly.
- ✓ owners have limited awareness of different succession options

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## Succession options:

- ✓ Sale to trade buyer
- ✓ Management Buy-out (MBO)
- ✓ Management Buy-in (MBI)
- ✓ Liquidation – do nothing
- ✓ Family succession
- ✓ Employee Buy-out (EBO)

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# Introduction to Employee Ownership and the benefits

**Branwen Ellis: Specialist EO Adviser**

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## What is Employee Ownership?

Significant ownership by employees

via

- Trust ownership
- Individual share ownership

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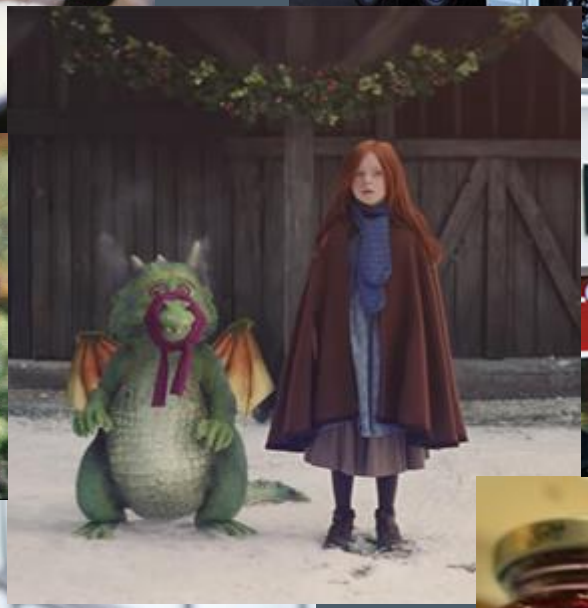

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## Why is Employee Ownership good for business and the Welsh economy?

- Shared responsibility, risk and reward – employees, as co-owners enjoy greater levels of engagement and are more fulfilled in their roles.
    - Increased productivity
    - Greater efficiency, improved margins.
    - Greater levels of innovation
    - Reduced absenteeism
    - Improved recruitment and retention of talented, committed staff.
    - Better resilience to economic turbulence.
- Succession plan for owners – keeps businesses and jobs rooted in their community and money circulating in the local economy
- ***"How wolves change rivers"***

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## Ownership models for success

**Paul Cantrill: Specialist EO Adviser**

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## Employee Ownership Structures

- ***Direct ownership - employees become individual shareholders*** of the company they work for  using own tailor-made share scheme, tax advantaged schemes such as Share Incentive Plan, Options Plan.
- ***Indirect ownership*** - ***shares held collectively on behalf of employees*** through an Employee Ownership Trust *(**EOT**)*
- *A **hybrid** of the above* - indirect and direct

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## Issues to consider by both parties

- ❑ Willing seller willing buyer
- ❑ Valuation
- ❑ Vendor expectations
- ❑ Employee expectations
- ❑ The future needs of the business

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## Employee Ownership Trust (EOT)

- 2014 Finance Act and the Nuttall Report
- Has become the model of choice for employee ownership
- Why? It's a clear, yet flexible, approach which offers stability for the long term
- There are tax incentives for shareholders who sell and the employees
- Its an all employee approach

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# How does an EOT work?

- It's a Trust – a legal instrument which a settlor transfers assets to a second party, a trustee on behalf of a third party, the employees
- In nearly every EOT, the trustee is a corporate trustee which is registered at Companies House – its purpose is to look after the interests of the employees and the trustee is obliged to ensure that that happens
- The Trust company is independent of the trading company but linked to it through an agreement, a Trust Deed

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## How do I sell shares to an EOT?

- A Trust company, EOT is set up to acquire the company from shareholders for the benefit of the employees
- The trading company can gift surplus money from profits or reserves to the EOT which can be used to buy owners shares or the trading company or the EOT itself can take a loan to finance the purchase – efficient route to transfer money to the owners
- The EOT buys the shares through a Sale and Purchase Agreement – deferred payment option

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## The Benefits of an EOT

- Minimum disruption to trading and removes ownership tensions
- Company still run by its Board
- Certain decisions such as a sale reserved to EOT trustee on behalf of employees
- Ensure that the company always exists for the benefit of employees both present and future
- Coherent buffer, sounding board and communication channel between directors and employee shareholders – Employee Council option
- Tax benefits for former owners and employees
- Possible direct shareholding alongside, e.g.EMI

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## HMRC Requirements

- ❑ Trading requirements
- ❑ All employee participation requirement
- ❑ Equality requirement
- ❑ Limited participation requirement
- ❑ Market value condition

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## Tax Advantages

- If requirements are met, transaction is exempt from Capital Gains Tax
- If EOT has controlling interest, company can pay a bonus which would be tax free to an annual limit of £3,600

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Trustees

- Long term interests of beneficiaries (employees)
- Assess the Board of Directors

Board of Directors

- Set company goals, allocate resources, pursue success of company
- Directs the Management Team

Management Team

- Commercial success and a great place to work that encourages everyone to give their best
- Reports to Board of Directors

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## Gateway OHS Dentists

https://employeeownershipwales.co.uk/case-study/gateway-dental-practice/

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## What support can EOW team offer you?

**Branwen Ellis: Specialist EO Adviser**

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## Employee Ownership Wales Support

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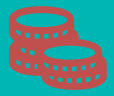
Business Evaluation

Staff and Board Engagement

Valuation

Leadership Development



Financial Advice

Tax Advice

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## Diolch yn fawr iawn!

## Get in touch……

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