



SHORTS

Norrie Waite & Slater Solicitors Limited

*A Guide for Employees of EOT
Owned Companies*



Overview

The shares in Norrie Waite & Slater Solicitors Limited (the “Company”) are due to be acquired by an Employee Ownership Trust (“EOT”).

The purpose of this note is to provide employees with information regarding the structure of the business post completion, together with an overview of the key benefits of working at an EOT owned company.

What is an EOT?

An EOT is effectively an indirect form of employee ownership in which a trust holds a controlling stake in a company on behalf of all its employees. Employees will not directly hold shares in the Company, they will become beneficiaries of the trust.

When the government introduced Employee Ownership Trusts in 2014, the legislation was intended to encourage more businesses to adopt the “John Lewis” ownership model. The John Lewis model gives each employee part-ownership of the company, along with a share of its profits, and a say in how the company is run.

Structure

The structure of the Company ownership post-completion will be as per the Appendix.

Each of the shareholders of the Company will sell their shares to an EOT, which has been specially formed for the purpose of acquiring the shares to be held for the benefit of the employees. The price paid for the shares by the EOT is based upon a valuation of the Company carried out by an independent third party.

The EOT will pay the money to the selling shareholders over a period of time - funded by ongoing profits of the Company.

An EOT is set up by way of a Trust Deed and is run by Trustees. The individuals who will act as Trustees of the EOT will be Directors of a specially formed company whose only activity will be to act as the sole Trustee of the EOT. This is to ensure the Trustees have the protection of limited liability.

The Trustee Directors will have an overriding duty to act in the best interests of the employee beneficiaries of the EOT.



Management of the Company

Directors of the company are:

- Karen Moxon Smith
- Nick Elliott
- Sean Bennett
- Sherryl Kirk
- Jon Darwin
- Dave Staniforth

Trustees of the EOT

NWS Trustees Limited has been formed to oversee that the company is being run correctly for the benefit of all

The Trustees are:

- Karen Moxon Smith
- Sherryl Kirk
- Alan Card - retired accountant
- Jon Darwin
- Dave Staniforth

What it means for Employees

The main benefits for employees of an EOT owned business are:

Bonuses

Once the exiting shareholders have been paid for the sale of the Company to the EOT, the future profits of the business can be shared out to staff. This will be in the form of a bonus payment.

The Company will be able to pay bonuses to employees tax-free up to a certain level. Although all employees must benefit equally, the trustees of the EOT can vary tax-free bonuses based upon any of the following:

1. Remuneration,
2. Length of service, or
3. Hours worked.

Up to £3,600 per annum of bonuses can be tax-free in the hands of each eligible employee (although the payment is still subject to employees' and employer's National Insurance).

Job Security

A sale to an EOT involves no third parties, therefore it can provide greater ongoing job security than a sale to a competitor.

Smooth Succession

Selling the business to employees allows for a gradual and carefully planned transition as opposed to sudden change.

Motivation

EOTs were born out of a desire to increase employee ownership in the UK. Studies have consistently shown employee-owned businesses perform better and have greater resilience, innovation and profitability.

What it means for Employees (continued)

Choice and Opportunity

Just because a business is employee-owned does not mean that every employee needs to be part of the management team. A select number of Trustees will be appointed to act in the best interest of all the employees.

No Day-to-Day change

There will be no changes of employees' contracts, terms of employment or job roles.

Improved leadership skills

Longer term, studies have shown that leadership skills in employee-owned businesses vastly improve as employees feel they have direct input into the Company.

Part of a unique club

Whilst employee-owned businesses are becoming more popular, they are still relatively rare. The Employee Ownership Association hold annual conferences where employee-owned businesses share their experiences and ideas on how to run an employee-owned business effectively.



Future Sale of the Company

In future the EOT could sell the Company shares to a third party. However, this is only on the basis that the Trustee determines that the sale would be in the best interests of the EOT's beneficiaries (i.e. you as employees).

The EOT would pay Capital Gains Tax on the sale of the shares to a third party. Once the Capital Gains Tax has been paid by the EOT, the net proceeds could be equally distributed to the employees as beneficiaries of the EOT.

Similar to the tax-free bonus, each employee's share of proceeds can vary based upon length of service, hours worked or salary. Ultimately it is down to the Trustee Company (and its Directors) to decide the fairest methodology. Such distributions received by employees will be subject to Income Tax and Class 1 National Insurance via payroll.

However, the over-riding intention behind setting up an EOT is that it is a long-term structure for employee-ownership. The main aim is for ongoing employees to continue to grow the business and not for the Company to be sold.



FAQs

This employee guide is intended to explain the main features of the Employee Ownership Trust. Some Frequently Asked Questions are answered below. Please let us know if you have further questions.

How is the EOT funded and the shares paid for?

The EOT is a new entity and has no cash of its own. The purchase price will be transferred into the EOT from the Company's subsequent profits and paid over as deferred consideration to the vendor shareholders over a planned period.

Do all employees benefit equally from an EOT?

Employees do not own the shares in an EOT owned company; they are potential beneficiaries of the Trust. In general, all employees benefit from the EOT on equal terms. As referenced in this booklet, the Trustee has the power and flexibility to differentiate between different employees based on factors such as length of service, working hours and salary.

What are the responsibilities of the Trustees?

The Trustees are there to appoint and hold the Board of Directors to account in the same way that shareholders would in a traditionally structured company. The Trustees will ensure the Board of Directors (who manage the day to day running of the business) are working in line with the shareholder's interests, which are ultimately the purpose of the Trust as set out in the trust deed.

What happens if I decide to leave the Company?

As an employee of the Company, you will not own shares directly but instead will be a beneficiary of the EOT. Therefore, if you decide to leave the Company you will no longer be a beneficiary of the EOT so will have no further interest in the Company – this will happen automatically upon leaving. There will be nothing you need to do and nothing to report to HMRC.



FAQs (Continued)

What will change for me on a day-to-day basis?

There will be no changes to your contract, terms of employment or job roles. The only changes you are likely to see will be the transition with the management team, as previously discussed.

The ethos and culture of the business is what this process is designed to support and maintain so that employees and customers see no tangible changes when the EOT takes ownership of the Company shares.

The Trustees may decide to implement arrangements to increase employee involvement in management decisions.

It has been reported by employees of companies owned by an EOT that they feel more motivated because they feel a part of the business and feel able to help shape and benefit from the successes of the business.

What happens if a new employee joins the company?

New employees (subject to remaining employed for the appropriate qualifying period) will automatically become a beneficiary of the EOT, sharing in the benefits with all other employees.

Structure





**Better Ideas.
Sharper Results.**

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