

Welcome to
Employee Ownership Association
Annual Conference 2017

Where employee ownership meets

CONFERENCE SPONSOR

Capital
for
Colleagues 
Advice Investment Growth

Welcome to how to ensure your employee ownership share structure is sustainable

Facilitated by Arend Welmers, Ninety Days

Presented by Nigel Mason, RM2

Barry Flannaghan, InSync Technology



CONFERENCE SPONSOR



Topics covered

- Why do private companies want employee share plans?
- Perceived challenges and how to meet them
- Share Incentive Plans
- Case study: InSync Technology
- Post implementation – managing your share plan
- Questions

BE INVOLVED, BE INFORMED, BE INSPIRED

Why employee share plans

- Make ownership feel real and personal
- Allow employees to build a capital stake (tax-efficiently)
- Attract and retain key employees
- Pay dividends to employees
- Be upfront about the longer term goal of an exit if that is the aim

BE INVOLVED, BE INFORMED, BE INSPIRED

Perceived challenges for private companies

- Losing control
- Dilution
- Leavers
- Valuation
- No market for the shares/liquidity
- Complexity and ongoing costs

BE INVOLVED, BE INFORMED, BE INSPIRED

Leavers

- Options
 - Lapse automatically if leave for any reason
 - Differentiate between good/bad leavers
 - Flexibility for EMI
 - Defined terms for SIP, SAYE
 - May exercise/retain after leaving to extent vested
 - May exercise/retain for a limited period after leaving
- Shares
 - e.g. for shares acquired following option exercise
 - e.g. for shares acquired directly or under SIP
 - Articles – mandatory transfer for leavers
 - SIP – Free/Matching Shares may be forfeited
 - EBT may acquire shares from leavers

BE INVOLVED, BE INFORMED, BE INSPIRED

Valuation – a typical approach

- Derive an arms-length figure for EBITDA (e.g. adjusting for non-market rates of directors' remuneration), before exceptional items
- Make a provision for ongoing capex
- Call this “normalised EBIT”
- Derive a weighted average of normalised EBIT for the last three years
- Apply an EBIT multiple, based on:
 - Comparable private company transactions
 - Growth trajectory of the business
 - Inherent risks in the business
 - Efficiency of cash conversion
- Result = enterprise value
- Deduct debt and add excess cash
- Result = equity value. Discount by up to 80% for small, uninfluential, minority holding and for any restrictions on the scheme shares

CONFERENCE SPONSOR

No market?

- Exit only options
- Employee benefit trust as warehouse/market maker
 - Annual dealing day
 - Allow share transfers at last certified share value
 - Match requests to buy with requests to sell
 - Follow procedure for scaling down applications to buy or applications to sell
- Share Incentive Plan
- Company buyback of shares
- Existing shareholders purchase directly from leavers (include employee participants)

CONFERENCE SPONSOR

What is a SIP?

- Tax advantaged, government recognised employee share plan
- Introduced in Finance Act 2000 with aim of boosting productivity
- Replaced old Finance Act 1978 profit sharing scheme
- All employee plan
- Most FTSE-350 companies and several hundred private companies have SIPs
- Income tax and NICs savings when shares allocated
- Capital gains tax exemption when shares sold
- Corporation tax relief for participating companies
- Modular design and certain flexibility in mode of operation

CONFERENCE SPONSOR

Why use a SIP?

- All employee plan enables wider employee share ownership
- Fosters ownership culture across the company
- Encourages long term commitment
- Provides share trading vehicle for leavers
- Design can meet a variety of objectives
- Tax savings based on statutory reliefs

BE INVOLVED, BE INFORMED, BE INSPIRED

Free Shares

- Up to a value of £3,600 per participant per tax year
- No company limit (though shareholders will have a view)
- No income tax on gift
- No NICs (employee's or employer's) on gift
- May be linked to years' service/remuneration/hours worked
- Holding period of at least three years (maximum 5 years)
- May be subject to forfeiture on leaving

BE INVOLVED, BE INFORMED, BE INSPIRED

Partnership/Matching Shares

- Each participant may purchase up to £1,800 shares per tax year
- Offer to purchase must be made “on similar terms”
- Purchase out of pre-tax, pre-NICs salary
- For each share bought, company may allocate up to a further two free shares (Matching Shares)
- Purchase of partnership shares may be one-off annually (e.g. using cash bonus) or out of monthly payroll deduction or after an “accumulation period” of up to 12 months

BE INVOLVED, BE INFORMED, BE INSPIRED

SIP offerings and take-up #EOAConference

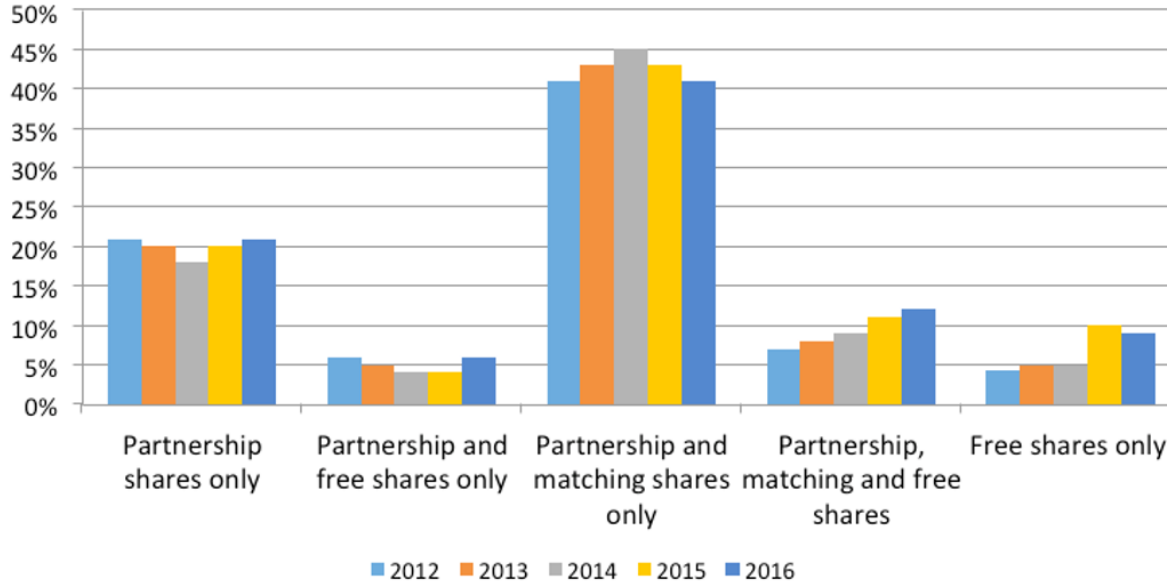
- 90% of SIP companies offer partnership shares
- Of these, 66% offer matching shares (and of these 92% have forfeiture provisions)
- 30% of SIP companies offer free shares
- The most common share award combination is partnership and matching shares (41% frequency)
- The second most common combination is partnership shares only (21% frequency)
- The most common matching share ratio is 1:1 (34% of cases)
- The second most common matching share ratios is 1:2 (13% of cases)
- If free shares only are offered, take-up can be in the region of 95%
- If partnership shares only are offered, take-up can be in the region of 20% to 40%
- If partnership and matching shares are offered (on a maximum 2:1 basis), take-up can be in the region of 45% to 70%

Source: ProShare survey, June 2017

BE INVOLVED, BE INFORMED, BE INSPIRED

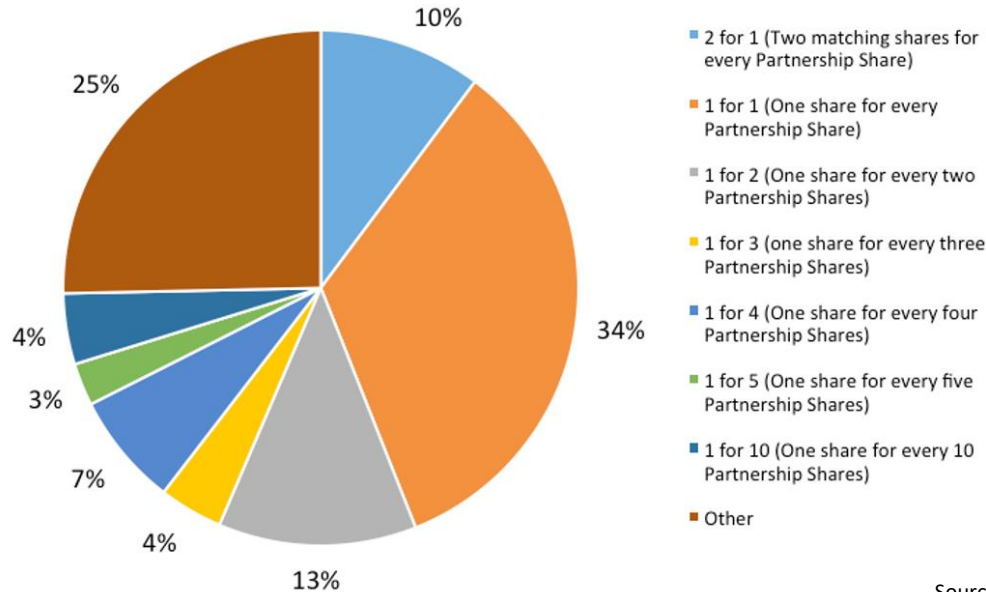
Market practice

Percentage of SIP companies offering different SIP elements



Market practice

Popularity of different matching share ratios
(34% of SIP companies with partnership shares offered no matching shares)

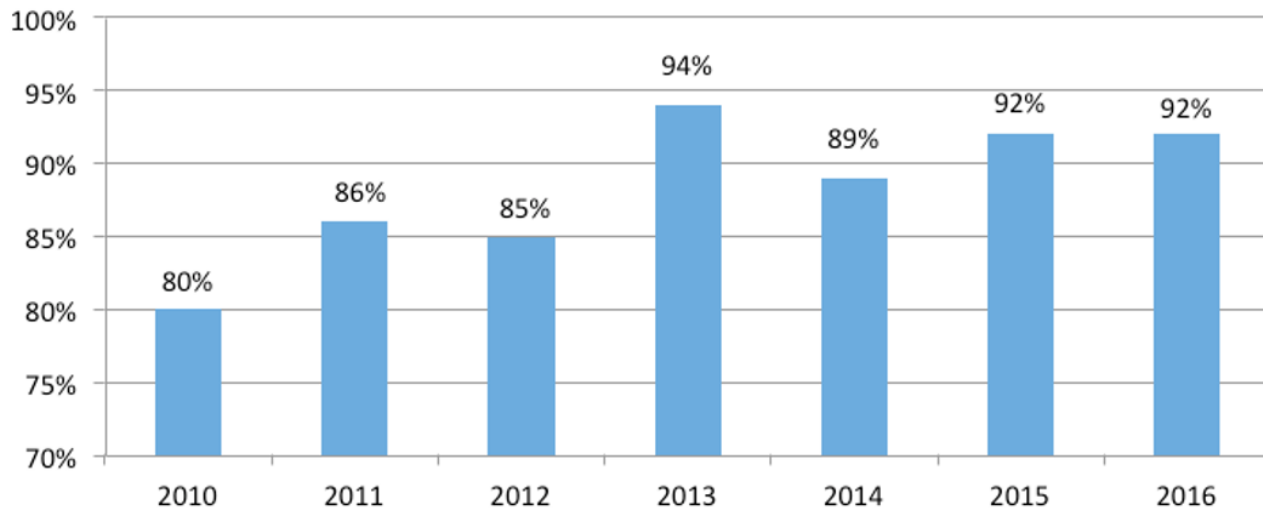


Source: ProShare survey, June 2017

BE INVOLVED, BE INFORMED, BE INSPIRED

Market practice

Percentage of companies operating forfeiture conditions for matching shares



Source: ProShare survey, June 2017

BE INVOLVED, BE INFORMED, BE INSPIRED

Other features

- May set qualification period (maximum 18 months)
- Dividends may be paid as cash or used to purchase further shares
- SIP Trust – holds shares on behalf of employees
- SIP Trust is (generally) CGT exempt
- No tax for employee if shares held in trust for at least 5 years
- May be tax charge if shares taken out of trust within 5 years (unless Good Leaver)
- Leavers can be required to forfeit Free/Matching Shares if shares withdrawn within a certain period

Tax rules

Shares withdrawn from SIP*	Tax consequence**
Up to 3 years from award	Income tax and NICs on market value of shares at date of withdrawal
Between 3 and 5 years from award	Income tax and NICs on lower of cost and market value at date of withdrawal No CGT on gain for as long as shares held in SIP
More than 5 years from award	No income tax or NICs No CGT on gain for as long as shares held in SIP

* Shares must be withdrawn when a participant ceases to be an employee. Partnership shares may be withdrawn by employee at any time (but with tax consequences if within 5 years)

** No tax consequences for “good leavers”, viz. injury, disability, redundancy, TUPE transfer, retirement, death in service or cash takeover

BE INVOLVED, BE INFORMED, BE INSPIRED

Illustration of SIP benefits

For an employee

Employee buys shares in Jan 2012 (52p) and sells in Feb 2017 (61p)	Annualised return
Without SIP	9.4%
With SIP for basic rate tax payer	14.9%
With SIP for higher rate tax payer	22.6%

For the company

Assumptions	
No. of employees buying partnership shares	150
Average annual contribution per employee	£1,200
Employer NICs saving	£24,840

BE INVOLVED, BE INFORMED, BE INSPIRED

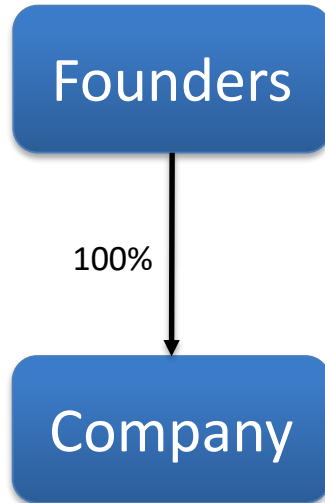
Case Study: InSync Technology

- Founded 2003
- Software and hardware for video image processing
- Transfer to majority employee ownership in October 2013
- 21 employees



BE INVOLVED, BE INFORMED, BE INSPIRED

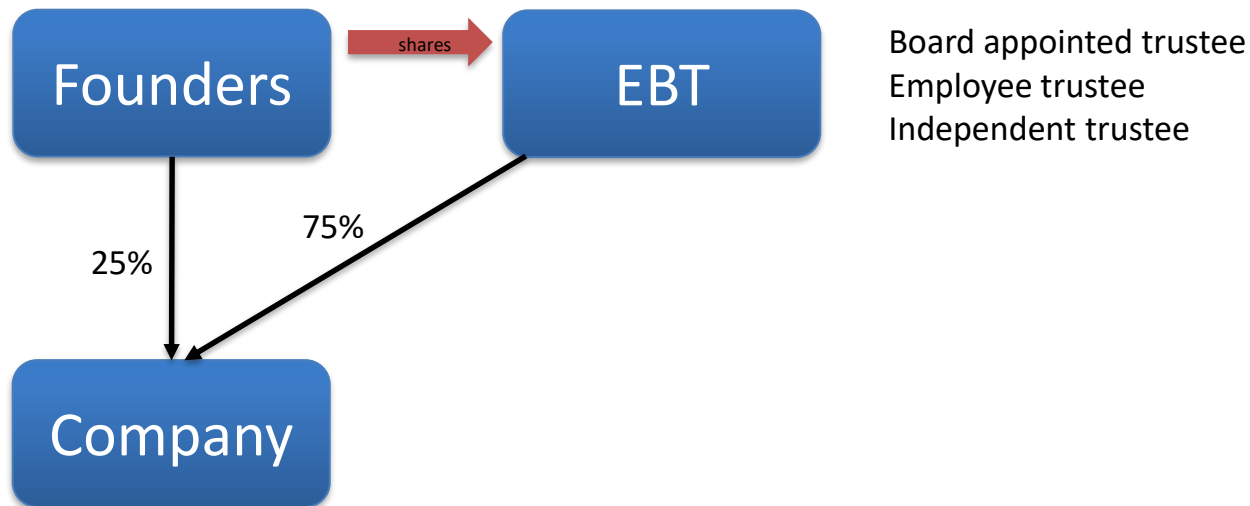
Case Study: InSync Technology



BE INVOLVED, BE INFORMED, BE INSPIRED

Case Study: InSync Technology

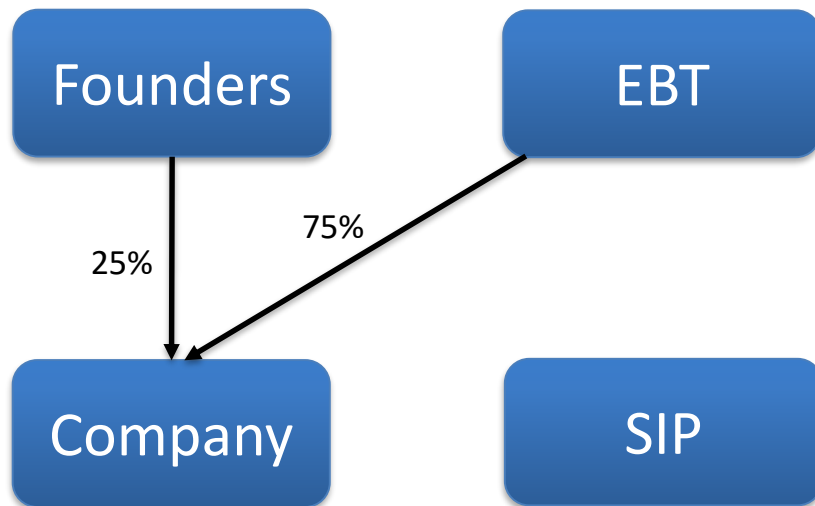
#EOAConference



BE INVOLVED, BE INFORMED, BE INSPIRED

Case Study: InSync Technology

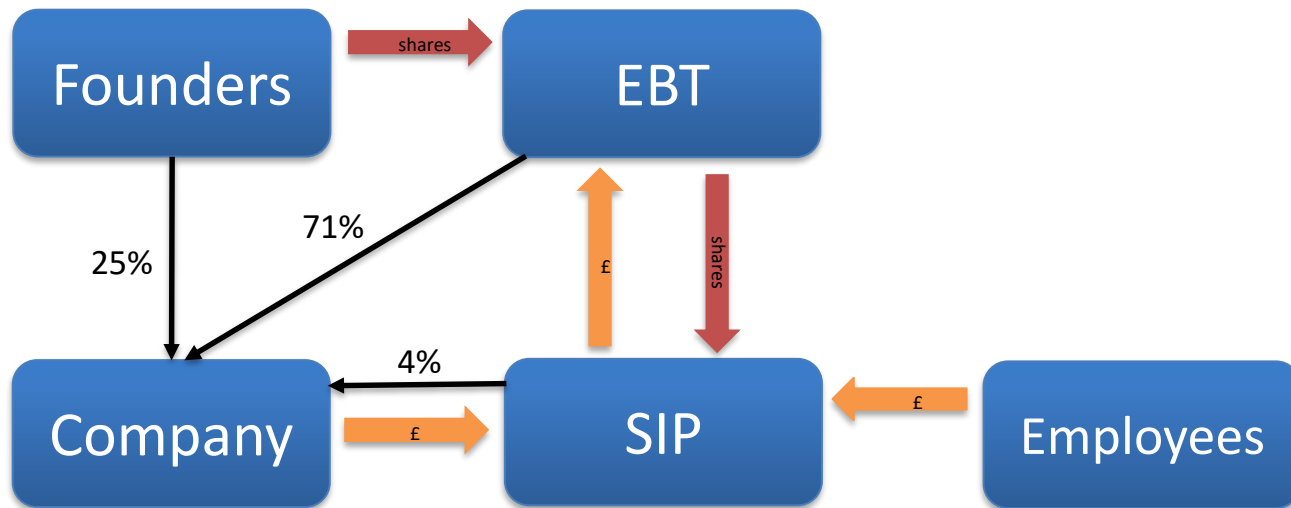
#EOAConference



BE INVOLVED, BE INFORMED, BE INSPIRED

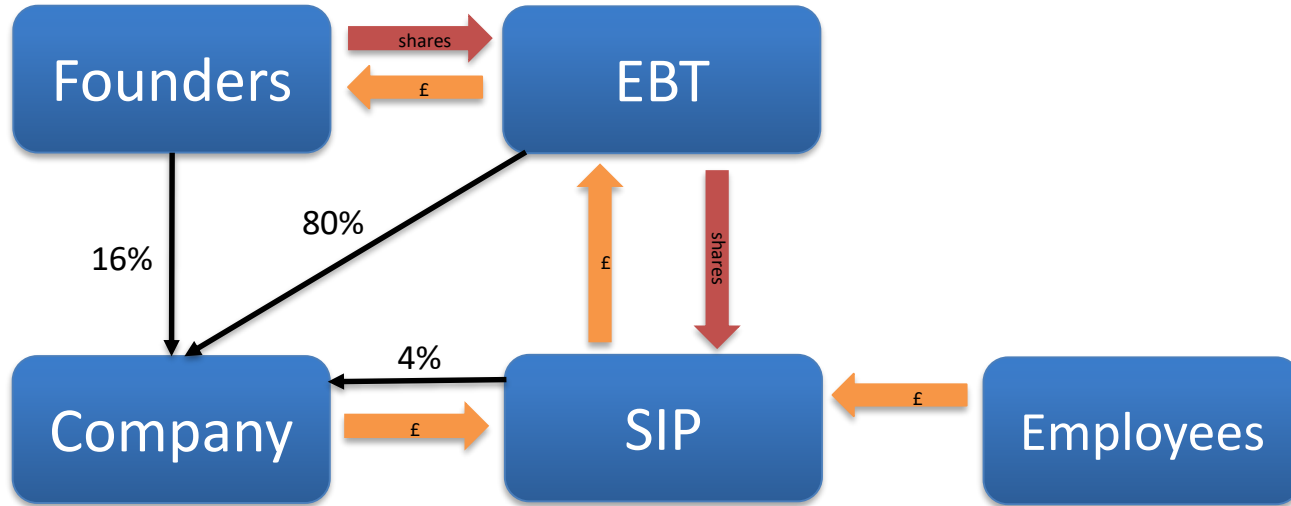
Case Study: InSync Technology

#EOAConference



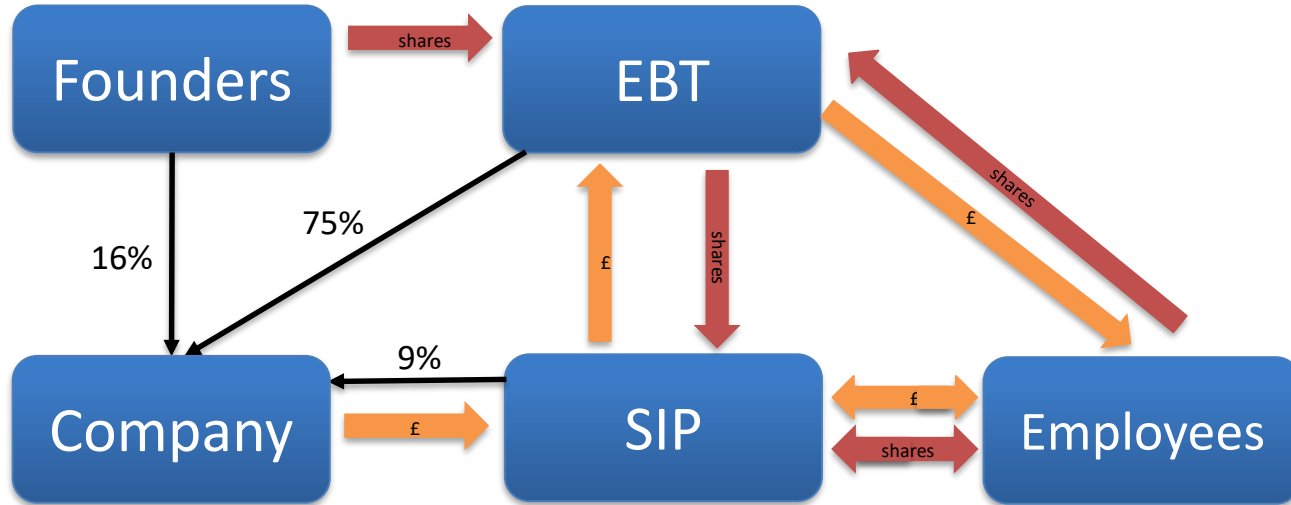
BE INVOLVED, BE INFORMED, BE INSPIRED

Case Study: InSync Technology



BE INVOLVED, BE INFORMED, BE INSPIRED

Case Study: InSync Technology



BE INVOLVED, BE INFORMED, BE INSPIRED

Ongoing basic administration

- Keep good records
- Board minutes/resolutions (including trustee minutes)
- Participants' details
- Records of valuations sought/agreed
- If no SAV agreement – keep records of how value agreed between the parties
- Copies of all fully executed agreements
- Companies House filings
- If discretion applied, record reasons
- HMRC Employment Related Securities (online filing of returns)
- Records of leavers and reasons for leaving
- Grant and award dates/lapse dates/exercise dates
- Register each share plan
- Notify EMI option grants
- Trust / share plan annual returns

BE INVOLVED, BE INFORMED, BE INSPIRED

Questions and Discussions

CONFERENCE SPONSOR

Capital
for
Colleagues 

Advice Investment Growth

Thank you. Enjoy the rest of the
conference

Please make your way to the Kings Suite
for lunch.

CONFERENCE SPONSOR

Capital
for
Colleagues 
Advice Investment Growth