

Welcome to

Employee Ownership Association Annual Conference 2017

Where employee ownership meets

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Capital
for
Colleagues 

Advice Investment Growth

Welcome to 'What To Do With Profit'

Facilitated by: Nigel Borowski – Telos Partners

Presented by:

Matthew Lee – Aber Instruments

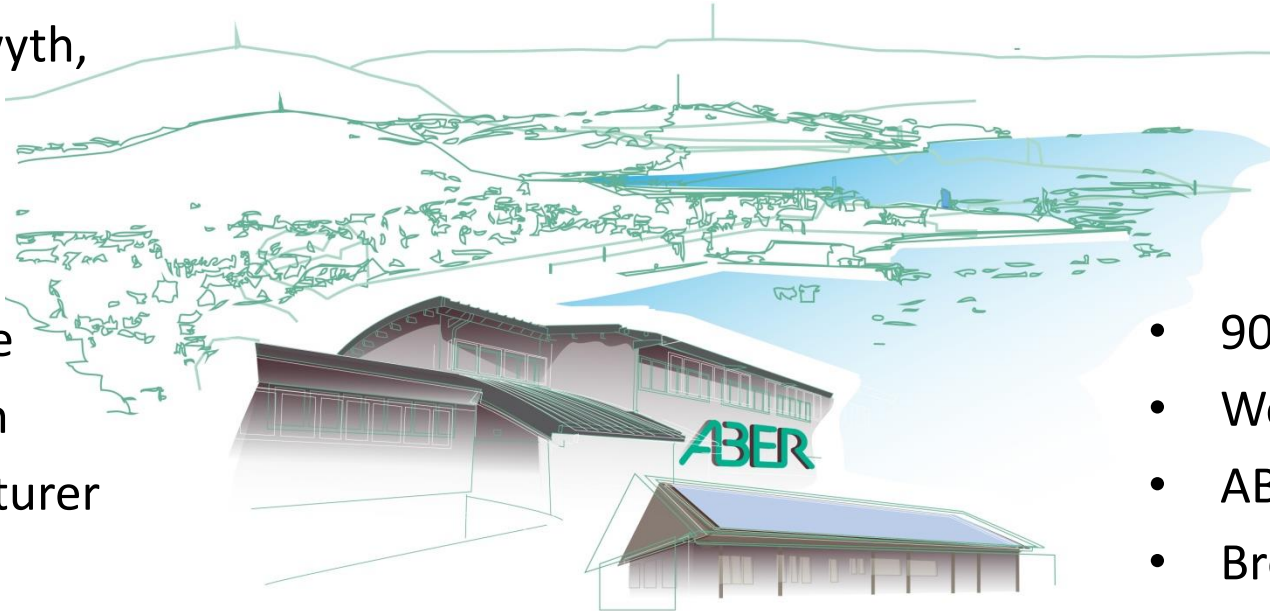
Robert Postlethwaite – Postlethwaite Solicitors

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Advice Investment Growth

What is ABER?

- Aberystwyth, Wales
- Spinout
- 30 Years
- 30 People
- High Tech
- Manufacturer



- 90% Export
- Worldwide
- ABER Inc
- Brewing
- Biotech

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Who owns ABER?

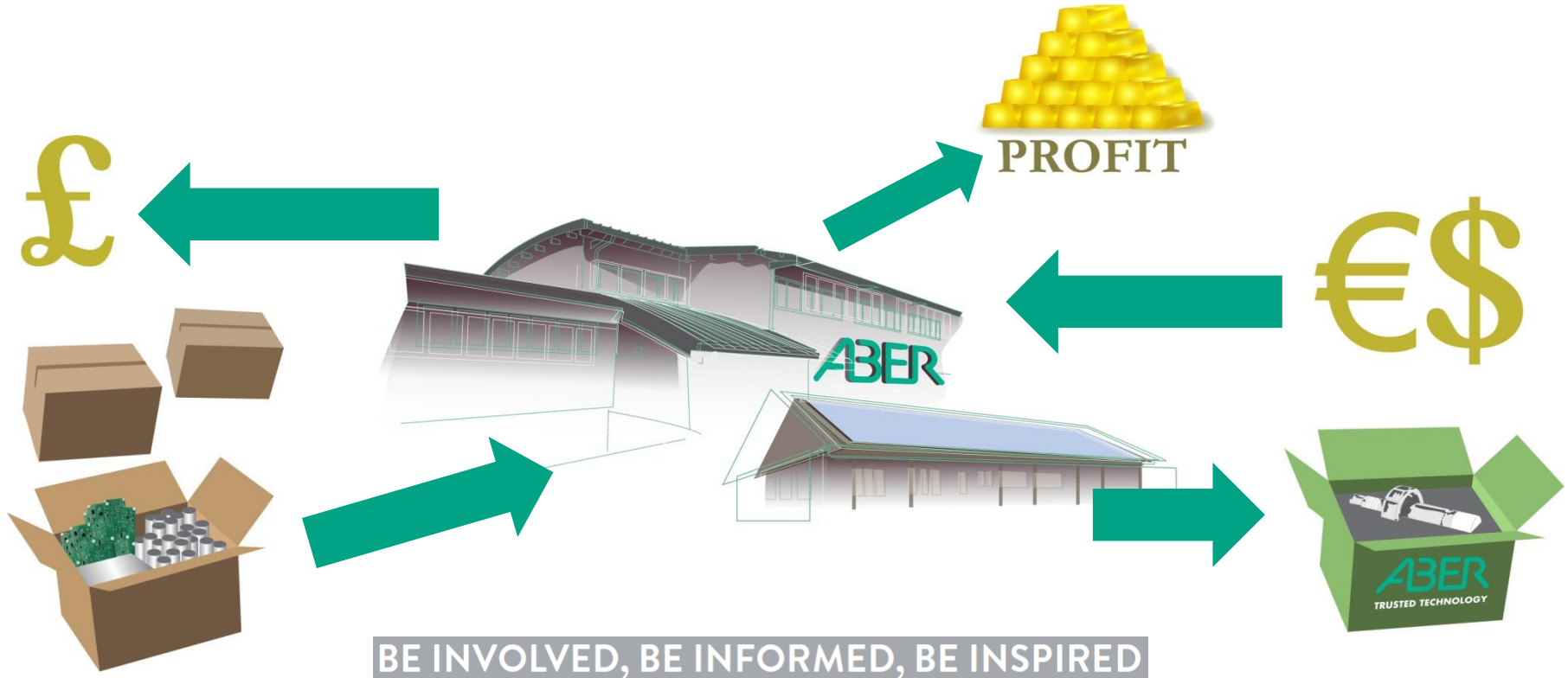
- Employee Owned
- EOT, EBT, SIP
- 2000, 2009, 2013, 2016

- Ruckus
- Working Group
- Short, medium and long term reward schemes



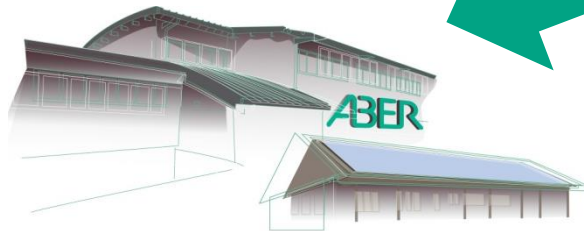
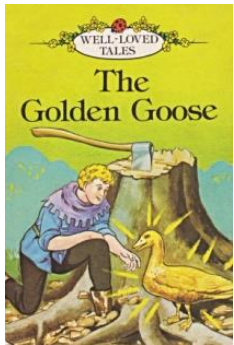
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How does ABER make a Profit?



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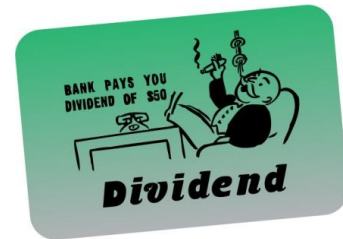
Divvying up the Profit



Cash Flow & Reinvestment



AFTER TAX PROFIT



Shareholders

Employee No.	Employee	Date	Pay Period	Net Payable
21	Mr. Smith	10 November	10-20 18 A	£600
Earnings		Deductions		
Standard Rate	0.00	0.00	Income Tax	£80.00
Overtime	0.00	0.00	National Insurance	£8.00
Total Hourly Pay	0.00	0.00	Statutory Pension	£8.00
Basic Pay	0.00	0.00	Student Loan Repay	£8.00
Added Total	0.00	0.00	Total Deductions	£120.00
Totals This Period				Totals Year To Date
NET PAY £				600

ABER Profit Sharing Scheme



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ABER Profit Sharing Scheme

- Aims to distribute a proportion of the profits in order to:
 - Ensure that employees benefit from being part of an employee owned business
 - Ensure that employees benefit from their contribution to ABER's success
 - Balance the reinvestment needs of the business with rewarding employees for their performance

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The Board

- Aber Instruments Limited will **aim** to distribute 25% of its after tax profit to the employees
- The board of directors of Aber Instruments will define how much profit is to be shared depending on the state and needs of the business. The board will always put the interests of the company first



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Distribution



- The profit share is paid in February and August salaries:
 - Trade July to December; Add up accounts in January; Pay in February
 - Trade January to June; Add up accounts in July; Pay in August
- The profit is distributed to employees in direct proportion of each employee's gross earnings during the trading period
 - All changes in rates of pay, roles and responsibilities, and part time hours are fully and automatically accounted for

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Eligibility

- Every person employed at Aber Instruments on the day of a payout will receive their share of the profits



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Exceptions



- Overtime is not counted towards the salary earned for profit share
 - Not every employee has the opportunity to earn overtime
 - Overtime is usually paid at a greater than normal rate thus automatically having its own reward system built into it
- Other out of the ordinary payments are not included in the profit share calculation
 - Refunds, expenses, the profit share itself, dividends, bonuses, etc

EOT Tax Benefits

- Aber Instruments meets HMRC's EOT status
- Each employee has a profit share tax free allowance of £3600
- Pay slips contain two lines:
 - Tax Free Profit Share
 - Taxed Profit Share (normal PAYE rate applies)
- National Insurance has to be paid on all profit share payments
 - Don't forget employers NI too!



Communicating Value

- We communicate amounts of profit share in ‘Multiples of Monthly Salary’
 - Removes the need to talk about absolute £ values
 - Every individual immediately knows what it means for them
- ABER’s August 2017 profit share was 1.49 x monthly salary
- Yes, ABER is very profitable at the moment, however I believe a scheme like this is about more than money, it’s about valuing the individual employee’s contributions to the bigger picture

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Distributing profits to employees: options and practicalities

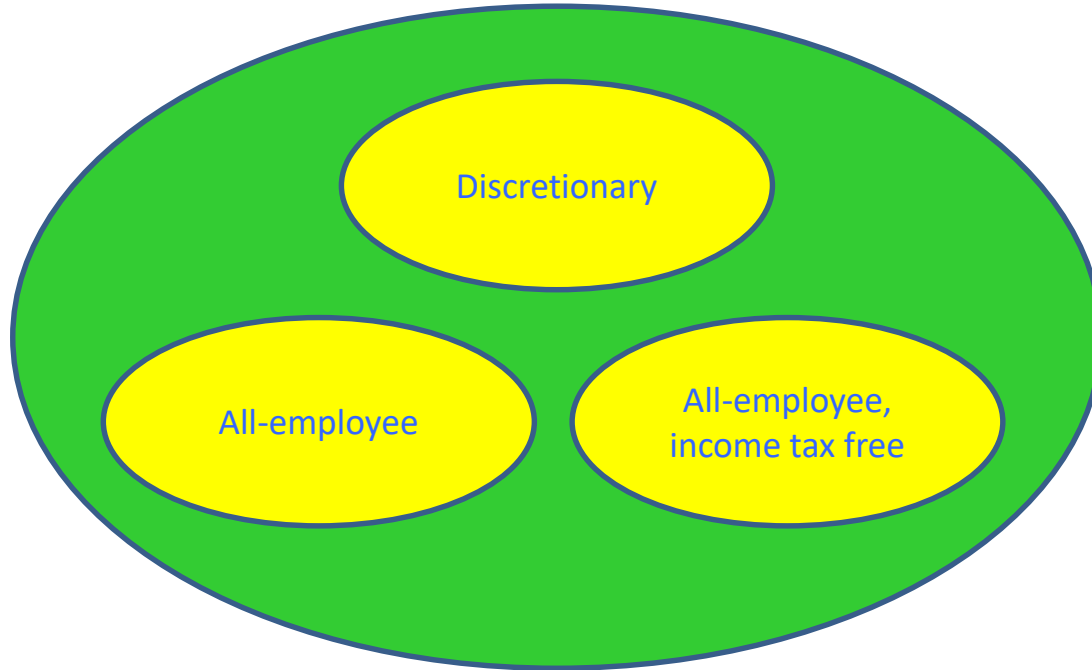
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Distributing profits to employees: how to do it

- Profit share or bonus
- Dividends
- Free shares
- Fund to buy back shares

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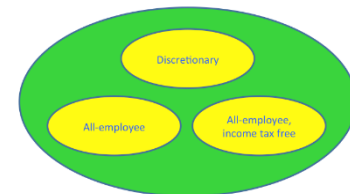
Profit share/bonus



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All-employee

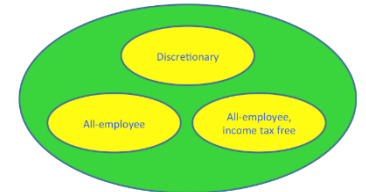
- Key part of financial reward for many/most employee-owned companies
- Important for companies which have recently become employee-owned
- Taxable through payroll, unless...



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All-employee, income tax free

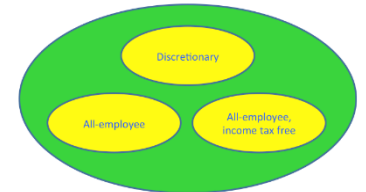
- Available for companies >50% owned by an employee ownership trust
- Up to £3,600 per year bonus per employee
- Must be paid on *same terms*
- Paid directly by the Company
- Other conditions apply eg maximum ratio between directors and employees
- National Insurance still due



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Discretionary bonuses

- Are these suitable for an employee-owned company?
- Need to be clear on why certain people/management team members merit a higher reward than others
- Payments to directors should be approved by shareholders (not just the directors!)
- Taxable through payroll



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Dividends

- Only feasible if individual shareholders (rather than 100% trust ownership)
- Taxable
- Exempt amount £2,000 per annum

7.5% (basic rate taxpayers).

32.5% (higher rate taxpayers).

38.1% (additional rate taxpayers).

Paying dividends

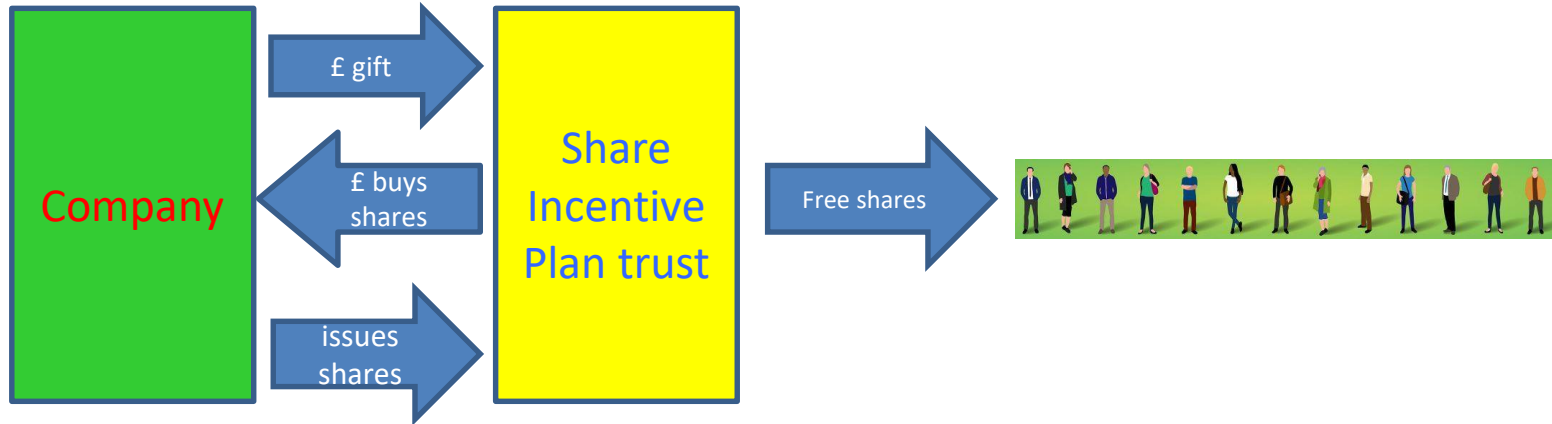
- Only out of reserves/profits
- Do they need to be approved by shareholders? See articles of association
- If not, directors can decide
- If yes, directors recommend and shareholders decide

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Free shares

- May not need to use profits if enough shares already available in employee trust
- But might be relevant in some cases

Free shares



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Fund to buy back shares

- If you have individual employee shareholders:

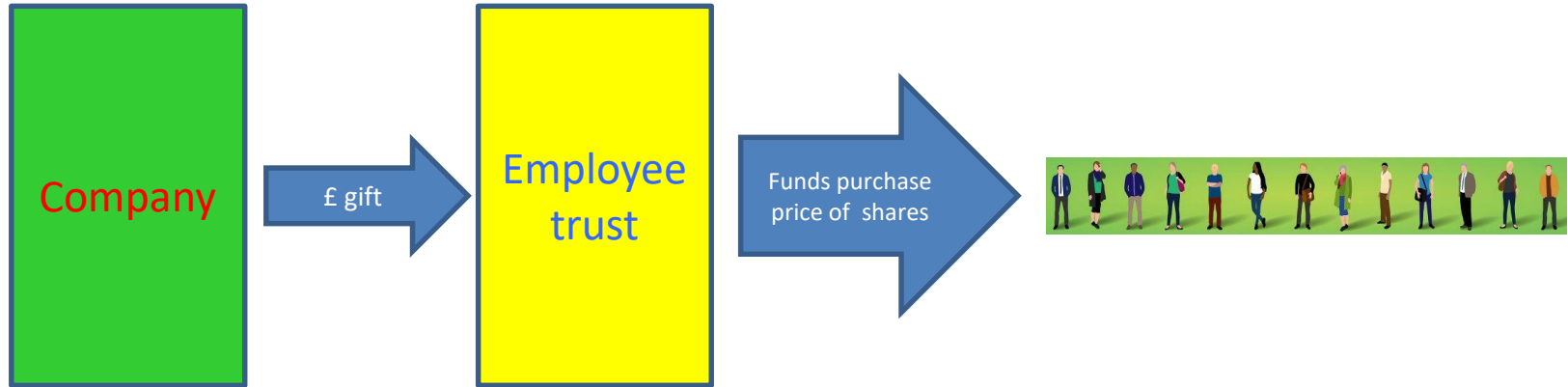
Eventually they will want to sell

And if they leave, you may want them to sell

- Where does the money come from?

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Fund to buy back shares



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Questions

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The 65% Problem



- It can be hard for an EO Board to make the correct investment decisions
- What is the long term aim? Why are we growing?
 - Increase employees' wealth, local job creation, community and charitable work, creation of innovative technology, acquisitions, promote employee ownership
- How does an EO company balance Risk and Reward?

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Table discussion

How do you decide how to invest profits back into the business to sustain success over the long-term?

- What voice do employees have?
- What guides your decision making?

Table feedback

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Thank you. Enjoy the rest of the conference

Please make your way to the Sovereign Suite for your keynote speech from Loren Rodgers

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