
Dashboard
Dispatch
Contracts
NEW CUSTOMERS MAP
FLEET SUMMARY
72%
REPAIR COSTS
UPCOMING DELIVERIES - 4
NEW MONTHLY CONTRACTS
JAN FEB MAR APR MAY JUN
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25

Who will take over your company?

A large number of companies operating in the market sectors that C&A covers are family owned, often by those individuals who founded the business many years earlier. When the time comes to step down, from the full on day to day hustle and bustle, for whatever reason, an owner's thoughts turn to selling or handing on the business in order to realise some, or all, of the value built up by the many years of hard work and/or free up increasingly precious time for retirement and other pursuits. In cases where the business is financially strong and a highly competent second generation is ready and eager to take over, it can be relatively easy to organise a steady hand over and transition. All too often that it is not the case however, and the process becomes far more daunting.

It is hard to say what sort of percentage of companies at this stage in their development do not have a willing or able family connection, or even a management layer that can take over, so alternatives have to be explored. That usually means either speaking with the owners of other companies you know, or responding to one of the many brokers, agents, consultants and intermediaries that are always scouting for small to medium companies whose owners are interested in selling up. This usually involves a 'trade sale' where the brokers can earn a commission. Then there is the MBO or MBI - management buyout or buy in, funded by a bank or private equity firm.

Trade buyers

If you are a founder/owner manager who is passionate about the business and your employees, finding a trade buyer that is good enough to take over your 'baby' is never easy. There are some really good examples that have worked out well, but against this are a much longer list of less than successful take overs, at least in terms of preserving and building on the founders' principles, while looking after the employees who are often as close as family. And as to private equity firms …well! Once again there are a few good examples, but they are the exception. And it is not made any easier if the owners stay on board for an extended transition period, in fact it can be a whole lot worse and end up spoiling the closing chapter of a thoroughly enjoyable career.

Trade sale
Acquisition
Auction
Private Equity
Brokers
Merger
EOT

Private equity pitfalls

All too often a private equity owner will want to load up the business with as much debt as it can bear, sometimes getting a large percentage of their money back on day one. Then they add exorbitant 'management fees' for doing nothing much at all. The 'owner' can find themselves managing a heavily indebted company, while having to report to their new masters on a regular basis, with decisions being cross examined and questioned by 'upstarts' with little understanding or experience of running a 'proper business'. Companies are all too often used as cash cows for as long as possible, and then passed on to another private equity firm. Or if a downturn or economic challenge comes along, the business collapses under the weight of its debt mountain and cost cutting measures that purely generated more cash during the good times. A slightly jaundiced view perhaps, in order to make the point, but not entirely an exaggeration.


Horizon management team

So, what are the alternatives?

The founders of UK based Horizon Platforms faced this dilemma last year, although the owners are nowhere near the usual retirement age, and do not seem the types to take up full time travel or gardening. They were though keen to benefit from some of the value they had built up before becoming too decrepit to enjoy it. So, having looked at all of the options already mentioned they took the decision to transfer the 14 year old business to an employee owned trust, which caught our attention. While we reported on the move in our online news section when it completed in February, we thought we would find out more. Leigh Sparrow of C&A therefore spoke online with co-founder Ben Hirst and Martin Cooper from the tax and accountancy company that advised them – RSM.

To provide a little perspective, before setting up Horizon majority owners Ben Hirst and Ruairi Duggan had been involved with an earlier start up in the shape of UpLift which they sold to AFI back in 2006. Duggan founded that business with Nick Higgins in 2001, while Hirst joined in 2003 as operations director. He left UpLift shortly after the merger with AFI got underway and just over a year later set up Horizon. Duggan joined the business in 2009, once his non-compete period came to an end. Their experience and long term observations of how the trade sale to AFI worked out was, they admit, one of the factors behind their ultimate decision not to follow that route again.

When it came to the private equity route observations of what can happen didn't help, but keeping an open mind they began talking to potential suitors. However, a meeting with one of the more promising candidates highlighted the massive gulf in cultural approach and aspirations, quickly eliminating that as an option. "It was a real eye opener", said Hirst. "At the same time, we were hearing more and more about the potential benefits of an Employee Ownership Trust (EOT)." In the UK this method of selling or transferring a business came into law in 2014 but has really begun to take off over the past two to three years.

If you are looking to take the money and head for the beach….

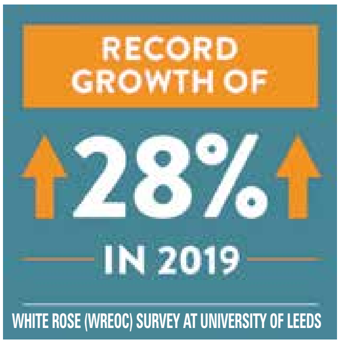
At first glance the concept appears to be a highly tax efficient alternative, being zero rated for the sellers, while employees can receive dividend type bonuses of up to £3,600 a year tax tree. So, the two began talking with a number of advisors who specialise in this form of 'sale'. In their first meeting with Martin Cooper his manner and straight talking style hit a chord and was exactly what they were looking for. He made it clear from the very start that the potential tax benefits should not be the main factor in their decision.


Martin Cooper

"Anyone using this as the justification to go with an EOT will almost certainly be disappointed," he says. "If you are looking to take all of your money out on day one and head for the beach this is not for you!" He went on to add that it can be a good solution for companies that might have a high intrinsic value, but which are difficult to sell to a third party, perhaps being too reliant on a few people and therefore potentially seen as 'fragile' by potential buyers, even when those in the business know that it is a solid and profitable company. Other reasons his clients have given for an EOT have included "wanting to be able to look my employees in the eye once it is all done" and wishing to remain active and involved with the external pressures of private equity investors.

Cooper's clear no nonsense advice and manner was exactly what the pair felt they needed, and they hired him and his company to steer them through the process and make it happen.

Cooper points out that size is not a critical factor with EOTs but most fall into the five to £150 million range. He also said that only 25 percent of those companies that set out to organise an EOT actually end up going ahead. "All too often it simply isn't the right solution". He highlights electronics retailer Richer Sounds as a good example of a successful EOT, thanks to its strong culture and clear business values. "The process has added to these values and even enhanced customer service, making it a great place to work."



As with other forms of ownership transfer, a good independent valuation is essential and effectively starts the whole process off. All manner of variations are possible, but the key is not to load the business up with too much external debt. Depending on the financial situation an ideal scenario is for the owners to take out a reasonable sum in cash to realise the desire to extract some of the equity but convert the rest of their 'value' into loans to the EOT, which are paid back as and when it is possible from the after tax profits. In Horizon's case the owners focused much less on what they could take out on day one and have an eight year pay-out in mind.


Ben Hirst (L) and Ruairi Duggan

Hirst points out that they had stopped expanding the business in 2017, choosing instead to pay down debt. In hindsight this looks like a master stroke. It has of course not only left the business in good shape to steer a passage through the current crisis, but also provided more flexibility in structuring the EOT process. It enabled the company to choose not to add any new external credit lines. "We did look at raising some debt, but the cash flow allowed for an adequate day one payment and we didn't want too much third party influence or covenants that might come back and bite us," said Hirst.

How long does it take?

As to how long it takes, according to Cooper everything can be wrapped up in 12 weeks, but he advises companies to take their time and ensure the process is well thought through, with a good succession plan and timetable, while also leaving plenty of opportunity to communicate the process to every employee. In Horizon's case the process began with a free assessment in August 2020 and was completed in February.

Owners must transfer at least 51 percent of the shares to the trust and set up a Trustee board. The Horizon one has five members including a non-executive, two 'employers', one management team representative and another member to represent the other employees' interests. These appointments are made through an election process. Hirst points out that the board is proving to be invaluable for internal communication, adding: "If you skip making the most of the Trustee board you will really miss out. Not doing this well sends out the message that the management/ owners are not truly committed to the process." The two also add that the Trustee board does not turn the management of the company into a democracy. The trustee board is there to oversee the wider company issues and performance, giving members the chance to hold the company directors to account. In Horizon's case the board meets quarterly with three members standing down or seeking re-election every two years.

Finally, Hirst adds: "Choosing the right adviser is really important. Some clearly did not appreciate what we were looking to achieve and in some cases were too aggressive from a funding perspective, it's worth taking your time to find an advisor who quickly understands you and the business. I am really excited about remaining invested in the business and this is the proudest moment of my career. Transferring ownership into the hands of our employees offers this organisation the opportunity to live on, and truly become what we have always strived to achieve, a business built for our grandchildren."

If you are interested in finding out more on this subject, the Employee Ownership Association – the EOA – that provides a wealth of information on the process and a visit to its website www.employeeownership.co.uk is a good starting point.

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