Avondale

How Employee Ownership Compares - Exit Strategies

	Employee Ownership	Management Buy-Out	Growth Capital	The Trade Sale
	A vendor-led sale to ALL employees (Indirect ownership) , financed by reserves and cashflows	*Management negotiated, usually 3rd party debt and equity finance*	*A partial sale with a retained stake - usually requires fast growth scale-up*	*A strategic deal ideally secured in an auction - usually 100% sale*
Valuation	Depends on duration and reserves | Long pay-out periods | Interest on vendor loans plus repayment period make them competitive	Can be restricted by third-party debt and management's willingness to invest | Usually shorter repayment periods than employee-owned | Great reward to senior team	With Private Equity in abundance, headline values can match trade | Structured deal likely - so can be complex | Retained stake can be a real motivator to double value	Best multiple achieved if a motivated, strategic buyer | Can require premium quality to secure | Low deal structure
Timescale	Typically 5-7 year pay out | 30% on day one | Sale process 3-4 months	Typically 3-4 year pay out | 60%-80% on day one | Sale process 4-5 months	Typically 3-5 years | 40-70% pay out on day one, retained stake for the rest | Minimum EBITDA c. £750,000 - some smaller PE looking at c. £500,000 | Sale process 5-7 months	0-2 years | Typically 75% plus pay out on day one | Some handover | Sale process 5-9 months
Process	Confirmation that EOT qualifications are met by financing arrangements | HMRC clearance is critical | Full change of control - 51% minimum | Covid remodelling easy | Warranties light	Buying and selling can create tension as managers seek best deal | Third-party debt adds complexity but increases pay-out	Like a trade deal a process is best | Important to find genuine added-value investors who see beyond the spreadsheet | Locking the management team in is critical to investors | Technical with rollover	Streamlined auction via a marketing data room and sale-ready preparation helps | Trade buyers still finance most deals so due diligence heavy | Global research required
Capital Gains Tax (UK)	0%	10% on first £1 million | 20% thereafter per 5% shareholder | Assumes no prior use of Entrepreneurs Relief		
Employees	Up to £3,600 a year tax-free bonus to all employees | Employees get more involved | Job security as the business is held in trust for the benefit of the employees |Better recruitment and staff retention	Limited change for employees | Management need to move to leadership |Risk and strategy to be understood better | Outside help can assist as can end up static	Investors are commercial so accountability and focus are center stage | Performance is placed over loyalty | Top talent can be attracted	Senior management often in the firing line | Many executives see end of cycle | Can reward and create career opportunities | Employee benefits usually good

Costs & Support	All costs to the company, so highly tax-effective and if co-ordinated, usually costs much lower than all other approaches | Critical to look for co-ordination of all elements - legal, finance, trustee and strategy	Multiple costs of advisors mainly to the shareholders | Medium due diligence - less than trade sales	Many investors are highly analytical on risk which drives costs | Professional buyers, whilst more thorough are more straightforward than trade	Many trade buyers are highly analytical on risk
Risks	None - it is clear early on if the financial modelling will not work	Management can take their 'eye off the ball' as they focus on the MBO |An unsuccessful transaction can result in a disgruntled team	Can be hard-nosed in terms of negotiation and due diligence resulting in a time intensive process | Risks on retained stake can be high | Heavy due diligence | Heavy warranties	Concerns that they may be sharing propritary information that they would prefer not to | Heavy due diligence | Heavy warranties | Yields on capital from sale can be a challenge
Future Business	Finance over long period can stiffle growth | Succession can be a challenge but a 'soft' timescale assists | Culture shift easily managed and positive | Favoured by most clients and employees and can help in tenders | Rewards all	Managers usually highly motivated to stay and drive growth | 3rd party debt focusing the mind | Culture change often minimal apart from leveraged finance | Customer friendly	Can catapualt growth which makes retained stake 'elevate' - although equities are at risk and shares can go up as well as down | Potential for growth through bolt-ons | PE exit strategies vary - most look at 3-5 year period, a few at longer term investment	Trade deals usually bring big cultural shifts from reporting to brand | Strong pride recognition as trade buyers value your venture | Hard to assess legacy | Can disrupt for customers & suppliers
Handover & Next Steps	Handover can be over time with shareholders moving to employees | Great legacy for staff and the business to reinvest long-term and grow | Management can be incentivised with the right pay package | Direct shares can be held so flexible	Management can really grow to the next level | Proven expertise aids succession| Management rewards can be significant	A derisk on initial sale creates lifestyle | Investor journey brings new contacts | Retained stake can prove highly lucrative | Chairing role possible	Earn-out aside, trade deals are usually light handovers for sellers | Cash in the bank should enable the next journey | Capital helps serial entrepreneurs
	Legal | Finance | Strategy | Trustee - One team: Avondale the complete Employee Ownership turnkey solution			