Employee Ownership Trust or Management Buy Out/Buy In?

gL LAW

Looking for an exit route without a trade sale?

Employees engaged

Business continues

Confidential no trade sale

EOT or MBO

If you have **employees who are engaged**, if you want **business continuity** and if it is important to maintain **confidentiality** from competitors, then either an Employee Ownership Trust ("EOT") or a Management Buy Out/In ("MBO") are possibilities.

Which you choose will depend on your answers to some key questions...

EOT	MBO
Tax efficiencies	Competitive valuation

The tax benefits of EOT are significant (for seller, company and employees) and may cancel out a possible higher market valuation on MBO

EOT	MBO
Benefit all employees	Incentivise management

An EOT benefits all employees although not all need to be actively involved in management. An MBO will tend to focus on the senior management, who take higher risk and earn higher reward.

EOT	MBO
Internal funding	External funding

EOT can be funded from future profits and does not always require capital investment up front. MBO typically use a combination of third party (debt and equity) funding, sometimes in addition to management funding. Any external funding (for EOT or MBO) will normally entail a due diligence process and debt will often be secured over business assets.

EOT	MBO
Legacy	Handover

EOT tends to mean that the business values and ethics are maintained going forwards. An MBO tends to mean a cleaner break, though in both cases the seller may stay involved with the business in some capacity for a period of time.

These alternatives are neutral - they can be accomodated in either route.

- Deferred consideration
- Payment up-front
- Immediate exit
- Ongoing seller involvement

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