EOT's in Canada
Policy Need, Structure, Governance, and Process of an Employee Ownership Trust

Presented by Joanna Phillips, CHRL
for THECIS (The Centre for Innovation Studies)

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The case for employee ownership trusts

$300 Billion worth of Canadian businesses are going to change hands

61% of small to medium Canadian business owners are aged 50+.

One in five are planning to exit within the next 5 years, however, **less than 10%** have a formal succession plan in place.

54% of owners believe the greatest obstacle to succession planning is finding a suitable buyer.

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Canadian EOTs build on existing models

The United States has had **ESOPs since 1974.**

14.9M employees in the US are ESOP beneficiaries and every year more than **250 new ESOPs are created.**

In 2014 the UK established EOTs. The number of EOTs has since grown exponentially.

Employee owners have higher incomes and net worth

- UK EO businesses have a higher minimum annual wage
- US ESOP employees have a 33% higher median income
- US ESOP employees have 92% higher household net wealth
- US ESOP employees are four times more access to benefits like retirement plans, parental leave and tuition.

Employee owned businesses outperform their peers

- UK EO businesses are 12% more productive
- UK EO businesses are 50% more likely to be adding new staff
- UK EO businesses are 25% more likely to see profit growth
- US ESOP businesses are 50% more likely to see profit growth
- US ESOPs are 3-4x more likely to retain staff
- US ESOPs are half as likely to make pay cuts
- US ESOP companies are half as likely to close or go bankrupt

Studies from Rutgers School of Management and Labour Relations and NCEO (National Centre for Employee Ownership)

Defining Features

- Trust-based ownership, not individual ownership
- 100% debt financed, no equity contribution
- EOT as majority shareholder (>50%)
- All eligible employees are beneficiaries
- Employees do not have Board voting rights or seats

Anatomy of an employee ownership transaction

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Who can be an EOT?

1. Canadian Private Corporation

The corporation controlled by the Trust must be an active CCPC.

2. Arm's Length Transaction

EOT needs independent due diligence and assess Fair Market Value (FMV)

3. Controlling Interest

The EOT must own the controlling interest in the company.

4. All Employees are Beneficiaries

All employees of the company must be included as beneficiaries of the Trust.

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HOW IT WORKS

How can you get the full value of your business when you sell to your employees, at no cost to them personally?
With an Employee Ownership Trust.

There are 5 parties to an EOT transaction:

THE SELLER

THE BUYER /THE TRUST

THE CORPORATION

THE EMPLOYEES

THE FINANCIER

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The first $10 million in capital gains realized on the sale of a business to an EOT is **exempt from taxation.**

Capital gain proceeds from the sale of a company to an EOT can be **deferred over ten years.**

The EOT exemption is now **permanent.**

EOT is a True Change of Ownership

Seller and family can't retain more than 49% of the company shares

Seller and family can't retain more than 40% of the directorship of the business

Seller maintains maximum **cultural control** post-transaction

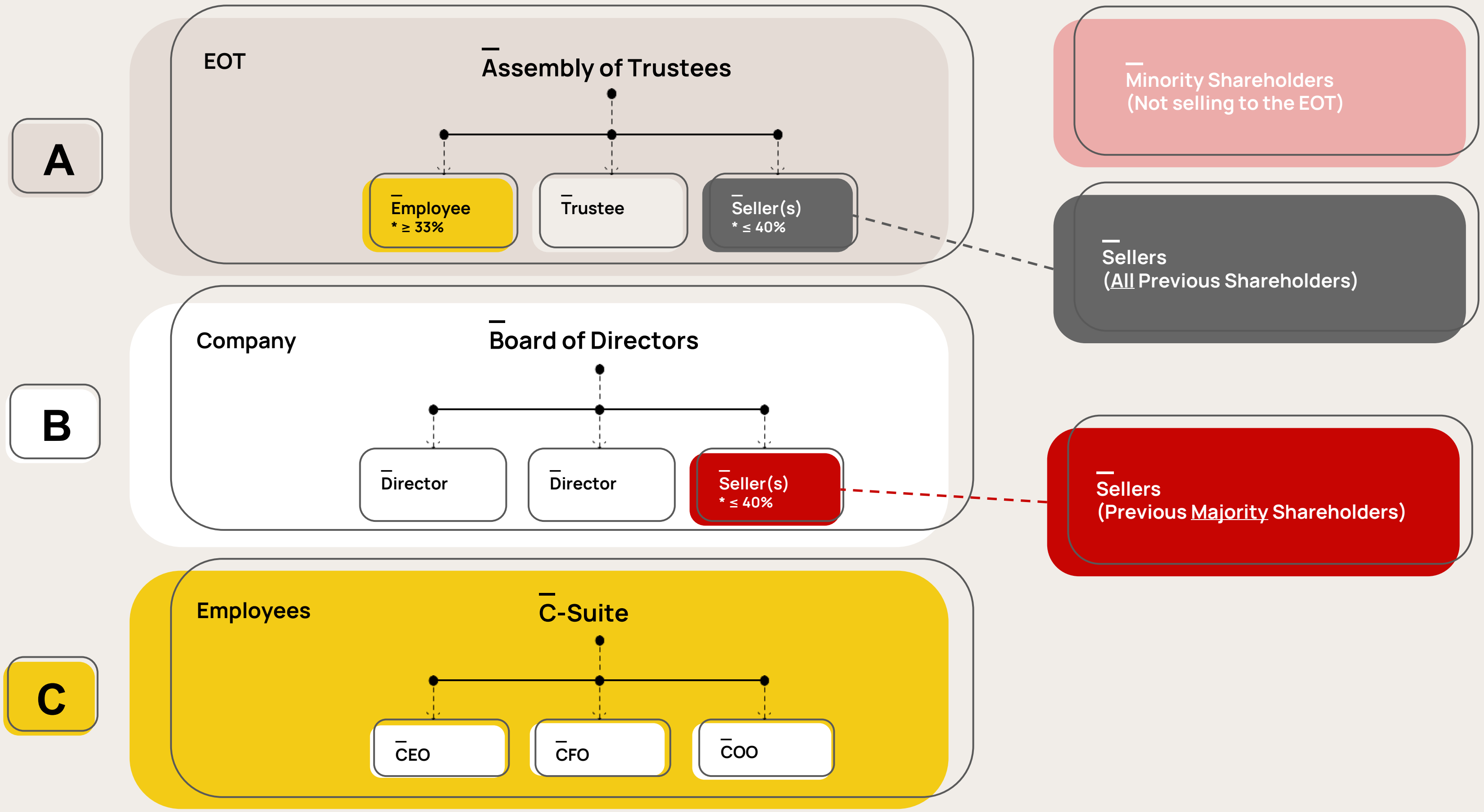
The EOT does not require:

- Equal shareholding
- Individual voting rights
- Employees on the Board of Directors

Clear and Delineated Roles

1. **Assembly of Trustees** - acts as the shareholder, elect and dismiss Directors, approve by-laws and by-law changes
2. **Board of Directors** - sets the strategic direction
3. **C-Suite** - executes the strategic plan and oversees company outcomes
4. **Employees** - benefit from the Trust, hold pass-through votes in certain cases

THE ABCs OF EOT GOVERNANCE



Through employee ownership, business owners protect their company and legacy.

By lifting up their employees, owners stay loyal to the people who helped make their business a success.

FOR QUESTIONS

Visit our website at:
www.rewrite.capital

Email Joanna Phillips, Director at:
joanna@rewrite.capital