Video Transcript

Selling to management or employees

Andra Ilie

Good morning everyone, and thank you very much for joining our fourth webinar of the Beyond Business Ownership series, and today we're talking about selling to management or employees. My name is Andra Ilie and I am a senior adviser on family office, governance and philanthropy at HSBC Private Bank.

As a very quick reminder, if you missed our first three webinars, they focused on preparing your business and yourself for exit, presale planning and exit to private equity. Please do contact your Relationship Manager for a copy of the recording.

Now we know that once you decide to sell your business, be it in full or in part, different businesses may suit different types of buyers, and the planning requirements for each type of exit can vary greatly. For example, there are many business owners who believe that the future of their business rests with those who manage and run it today. Management buyouts and employee ownership trusts are exit options commonly considered by business owners. We have big names like John Lewis, Goldsmiths and Richer Sounds that have done it over the years. However, there are many exit value, tax and legal complexities that need to be understood and navigated, and having the full picture and the right team of advisers around you can make or break these exits.

Now, over the course of the next 75 minutes or so, we'll be taking a look at some of the practicalities around management buyouts and employee ownership trusts to help you explore whether they may be right for you and your business. I'm absolutely delighted to be joined today by a very experienced panel. I've got with me Adnan Hamid, who is a director in our HSBC business origination team. I have Susie Mullin, who is a partner at Blick Rothenberg, and I have Braeden Donnelly, who is a partner at the law firm Ashurst. Thank you very much to my panelists for joining me.

And finally, before we kick start, I'd just like to make a couple of things clear. So firstly, HSBC UK Bank and our panelists have no responsibility for and are not providing legal or tax advice in this webinar, and therefore any views expressed or information that you receive does not constitute legal or tax advice, so please do not rely upon it. And finally, for our audience this morning, if you do have lots of questions, which I hope you will, please just use the question box at the bottom of your screen and we will do our best to come to them at the end.

Right. Health warning over, I would like to start the day by perhaps unpicking the concept of management buyouts and EOTs if I may, so I'd like to start with you, Susie. So, I wonder, can you just share a brief overview of both these exit routes? What are they? How do they work? And for each of them perhaps, just a brief comment on what types of business owners are they suitable for?

Susie Mullin
Yeah, sure. Thanks, Andra. So, if we just start probably with MBOs, which have been around for a long time, they're a really well-trodden path to transition the ownership of the business from the existing owners, often the founders, to the next generation of management team. So that's how they work. We've done these for a long time, since I've worked in tax a long time. Broadly, in terms of how they work, a new company is incorporated by the management team, which we call NewCo. And NewCo acquires the business that's being sold, which we would sometimes call target, and it would acquire in return for cash paid to the shareholders and in return for generally debt, which is often loan notes but sometimes might be preference shares.

So effectively what you end up with then is you end up with the new management team owning the NewCo and the NewCo will own the old business, the target, and the founder or the exiting shareholders will have walked away with some cash and also with probably a debt which is owed to them to be often repaid from profits generated. So that's how they work.

EOTs are fairly new. Actually they're not that new anymore, so were introduced in 2004, heralded as the John Lewis idea of employee ownership. I think we're all probably blinded by the zero per cent CGT. So, they are provided for in statute. You create a trust effectively, how this happens, you create a trust for the benefit of all, or almost all of the employees of the company, and that trust buys effectively the target entity from the exiting management team. It has to buy the majority or more than 50 per cent of the share capital, and it's held for the benefit of those employees. So not infrequently, both of these things will be self-funded. I know Adnan will talk a little bit about the funding, but so often these will be self-funded.

So, the EOT may repay all of those proceeds from profits to be generated, so there's likely to be some upfront cash paid to the exiting management team and some later. In terms of who they're best for, look, when people come to us, it's normally fairly obvious. If you've got a thrusting management team desperate to take over the business, great plans, want to run it, that looks like an MBO. And a more diverse management team, a bigger business, a people business or a business where there's lots of people who contribute to the success rather than just a few key individuals, is often more suited for an EOT.

Andra Ilie
Great. Thank you very much. And we will come to the part around funding because I'm sure our audience are looking forward to hearing all about that. But before we do that, Adnan, could you share your thoughts around how many of these deals are you seeing in the market? And has there been any change in recent times perhaps, particularly in respect of EOTs, which are still not that new, but still quite new to Susie’s point?

Adnan Hamid
No, sure. And thanks everyone for joining today. Look, the truth is that EOTs and MBOs both make up probably the smallest portion of overall transaction types amongst the traditional corporate lending, sponsor-backed M&A, corporate M&A funding, which are the primary funding mechanisms we see probably in that order, followed by a low number but fairly consistently, I think, importantly, EOTs and MBOs. What I’d add on the MBO side is that we probably see more attempted than actually get done. And on the EOT side, we are starting to see more this year actually, potentially to take advantage of the rules whilst they still exist in their current form. So yeah, a little bit of uptick on EOTs this year, which is good to see.

Andra Ilie
Great. Thank you very much. And we'll come to the point that you made a bit further in our discussion. But Braeden, in your experience, again, similar question, are there any common threads between the profiles and the requirements of business owners looking to pursue one of these two routes?

Braeden Donnelly
Yeah, sure. I think there are a few common threads between them both. The most obvious one is that sometimes they are quite complex exits by design based on unique requirements of the shareholders. That’s quite an important one to mention. But I think the other common thread is the business really does have to have a strong track record because most of the consideration for…this is going to the vendors for the shares in the business will likely come out of future profits generated, so they're not really an option for businesses that don't have a strong track record and a really good trading record.

I would also say the third key point is that the managers need to be aligned on their vision. If you're doing an MBO or an EOT, you really need to have a good environment as a management team to take this on and decide that this is the right option for you.

Andra Ilie

That's a really good point. And we often talk to people about that alignment of vision and also being able to tell that story when they're trying to sell.

Thank you very much everybody. So, I guess, if we could take the conversation further and start thinking a bit about the high-level structuring for these deals, I'd like to come to all of you on this next one, if I may, and perhaps pose the same question with regards firstly to EOTs and then to MBOs. So, Susie, if I start with you, from a tax perspective, what are the key structuring considerations here for business owners? And what should they perhaps think about in advance if they are considering either an EOT or an MBO?

Susie Mullin

Yeah. Okay. I'm going to start with the advance actually, just because I'll forget otherwise, and I think the key point that I would always say to people is they should always think about inheritance tax before they do anything, whether they sell to an EOT, an MBO, or selling to anyone, because for me, the critical point is that lots of people who own shares in private businesses, trading private businesses, will qualify for business property relief, which is a very valuable inheritance tax relief. When they sell their businesses, they won't qualify for that, so I think it's really important that that is thought about, and it's one of those taxes that not many people get excited about. But for me, and this is why I said it first because I would forget it, but we should always think about inheritance tax when selling businesses. But if we actually talk about the conditions around them, so EOTs are provided for in statute so there's lots of conditions. So, I think the key for me is just the getting through those conditions and understanding what they are and whether they work and not just trying to squeeze into them.

So, I think there’s zero per cent CGT, but I think not be blinded by that in terms of the structuring. The trust has to own more than 50 per cent of the business, and that means it is intended to be a permanent vehicle by the legislation, for that 50 per cent. So, if the trust ceases to control 50 per cent, you have a tax charge, so I think you need to bear that in mind. And I think, for me, the important structuring piece there is how do you keep your management team incentivised if they don't own the business and they're not really preparing for an exit? So, there's a lot of thought around that, I think.

So, for me, incentivisation is really important with the EOTs. Just also, to be clear, the EOT, and I've said this before, but it does need to be a benefit, for the benefit of all the employees, and not the people who've exited. And it's just for trading businesses, which is different to MBOs that could be used for any business. There’s anti-avoidance legislation, so you will want to get clearance with an EOT, but it's probably a bit more straightforward.

And then MBO, we’re not – are we? Sorry – not MBOs. Just EOTs at this stage?

Andra Ilie
MBOs as well, please.

Susie Mullin
Okay. MBOs, so they're not provided for in statute, which may mean you can be a little bit more flexible with them in terms of what you do. I think the key is probably to get your capital gains tax treatment, which is going to be what you want as a selling shareholder. To get capital gains tax treatment, you're probably going to need to sell the majority of your shares, if not more, so you're going to want to get clearance from the Revenue. So, structuring of this is really, really important. You want to get clearance from the Revenue. So, a lot of thought, and Adnan mentioned he sees lots of MBOs fall over and I think we'll talk about that later. But so structuring and getting the understanding of what the structure’s going to look like is really important for the clearance.

And then the other key point is that for MBOs, these need to be carried out on a commercial basis. So, everything needs to happen on a commercial basis. The people selling shares are employees, so they need to not sell for more than market value, so they can't just pick a price, and the people buying the shares are also employees in the new entity for an MBO, so they need to pay market value. So, I guess the point, just to flag it, is that this needs to be a commercial transaction for tax purposes for it to work.

Andra Ilie
Great. Thank you. Lots of great points there. And we will come back to what you just mentioned, Susie, in a bit and also the management incentivisation. I think it's a really interesting point that we do talk about quite frequently and we'll tackle that in a bit more detail. But meanwhile, Braeden, can I come to you? How do you structure these exits legally and what are some of the key areas, from a legal perspective, for business owners to think about?

Braeden Donnelly
Yeah, sure. So, I mean, starting with EOTs and maybe just to pick up on the point that Susie made around incentivisation, we often see EOTs run in conjunction with an equity investment scheme as well, so that keeps managers and employees incentivised whilst

also getting benefit of the Employee Ownership Trust, so I think that's an important one which we can talk about a little bit later, but we see those two things run in conjunction quite often. I mean, I think, as Susie mentioned, obviously you need to establish the trust, which then buys the shares in the target business. But often the consideration for those shares is left outstanding and is then paid over time back to the sellers through the profits of the business. So, I think that's the main structural consideration in an EOT, and as Susie mentioned as well, obviously the trust has to have 51 per cent, so there's dynamics in terms of shareholder arrangements, how that all shakes out.

In terms of an MBO, it's probably a little bit simpler from a structuring point of view. You typically incorporate a NewCo, that NewCo's shareholders are management or potentially the financial backers, such as a private equity house or venture capital house. That NewCo then purchases the target in the usual course. In both an EOT and an MBO, you have all of the usual sale documentation, you have purchase agreements, all of that kind of stuff, and I think we're going to get on to some of the practical considerations with respect to how we affect those transactions a bit later in the talk.

Andra Ilie
Great. Thank you very much, Braeden, and that leads me nicely into my question around funding for Adnan, so we mentioned that, especially EOTs, they tend to be self-financing and the seller effectively gets paid from the profit of the business. So, Adnan, how do you work with these types of owners? What sort of leverage is available to them? And is there any difference in terms of perhaps EOTs and MBOs around what type of leverage is available to each?

Adnan Hamid
Sure. Look, in terms of how we work together, very collaboratively, right? These processes can be long if multiple options are being considered, and it can take time for owners to seek the advice that they need, which is very important whilst we work with them to structure a financing solution which will be unique to their circumstances ultimately. So, collaboration is key, seeking advice is key and I think having a fairly decent time horizon in order to complete the transaction and assess your options.

In terms of leverage, look, it's fair to say that there will be lower debt leverage in these structures than with a sponsor sale. That's a given, even potentially lower than with a minority sponsor coming in, because the risk profile just doesn't benefit from external cash funding or professional investor experience, relationships or governance, those things that make sponsor sales work and allow you to put leverage in them.

For an MBO, in terms of difference between an MBO and an EOT, look, any difference will probably depend on the rationale and the circumstances. If it's possible that the departing shareholders are not key management, and control is given to actively involved managers who are not taking money out of the business, then it's possible we may be more comfortable with a higher degree of leverage. This comes back to the incentivisation point. So, what banks don't often like to see is active management continuing to run the business, who have also taken a significant amount of cash off the table. So, it's important for the management that is ongoing in the business to be the ones that are correctly incentivised, which comes back to Susie's point around that. And if we can prove that and show that, then we may be able to put a slightly more higher degree of leverage in than we may for an EOT.

But again, in terms of the leverage range seen across funding markets, it's still going to be on the medium to low side for that MBO versus other sale options.

Andra Ilie
And then, I guess, in terms of practical considerations, I suppose, in my experience – and I know some of my colleagues as well – we're seeing that some business owners may favour one of these routes because they feel like they're dealing with parties that they know very well, be it their management or their employees, and also, I think there's an assumption that this can lead to a smoother process overall to easier due diligence, perhaps quicker timelines. I believe an EOT tends to take something around three to five months and an MBO perhaps just a bit longer. So, I'm just interested, is this a fair comment? Are they a bit easier? Braeden, what do you think?

Braeden Donnelly
Yeah, I mean, I would agree with that. It's easier in the sense that you're selling to people who should know the business, so things like due diligence, things like Q&A, things like really getting under the hood of the business should be quite a bit easier when you're selling to management or to an EOT, rather than a third party investor who'll want to take a full diligence process, which takes quite some time and puts significant strain on management. I suppose the other practical consideration, just to be mindful of, is obviously management are trying to run the business at the same time as they're trying to buy it. So, it's a high strain, high octane-type environment in which management is undertaking both an acquisition of the business and also trying to do their day-to-day job. So, I think, from a practical point of view, it does put a lot of strain in and you have to be up for it because they're a lot of work and they do take a bit of time whilst the process is smoother.

The other thing to mention is obviously when you're selling to a third party, you would typically expect to get pretty fulsome warranty representation protections from the sellers. In the case of an MBO and an EOT, I think the seller would be making the case that they don't need to keep those kind of protections for a couple of reasons. One, because you're selling to people who should know the business and would ordinarily be helping you with those protections. And two, in many circumstances, the seller's not getting their money upfront so there's not as much incentive for them to require deal protections that you usually get on a third party sale.

Andra Ilie
Great. I think it's really interesting to see that you made the point around how much time is being spent on the actual transaction, because this is a point that we picked up on in our previous webinar, which was on exit to private equity, just appreciating how much time is actually being spent away from the day job for the management team for when there is a transaction on the cards.

Braeden Donnelly
Yes. But I suppose the other point that maybe Adnan will pick up on, this is obviously from an EOT, MBO perspective, the buying entity doesn't necessarily require extensive due diligence because they know the business, but interested to hear from a funding perspective whether banks require that level of due diligence, Adnan?

Andra Ilie
Well, I'm very pleased you say that, Braeden, because I'd be very interested as well. Adnan, any comments on that?

Adnan Hamid
Yeah. Typically, yes. If we're going from an unlevered solution to putting a degree of indebtedness into a business, even often if it's in a business that the bank currently knows, we will still require a financial due diligence process. It's fair to say it wouldn't be as extensive as if there was a full private equity sale where you might be doing commercial due diligence for legal, technical, other forms of DD, but at a bare minimum, I'd expect a need to see financial due diligence in the business just to ensure that, more than anything, that they can substantiate and pay for the deferred consideration that might be required and therefore get the full cost diligence done and the existing ability of the business to be leveraged and continue to service its indebtedness. As well as, of course, legal due diligence on the EOT legal structure and certainly the legal docs and the trust documentation.

Andra Ilie
Thank you very much. I think this is very useful. So, I think, I guess what I'm hearing is it's not necessarily easier. It could be more comfortable because you know much more of the ins and outs of the business but there is still the same level, perhaps a bit easier in terms of due diligence and what have you. And also, I mean, Adnan, what's your experience and how knowledgeable and prepared are business owners when they come to you looking for funding, linked to Braeden's question? What are you seeing?

Adnan Hamid
A fairly short answer to this, to be honest, because it's a full range. I mean, some will conduct process discovery at the same time as engaging with us, which will take longer. But importantly, they're seeking the necessary advice which is absolutely needed before finalising the brief, and others will try to have a practical solution before coming to the bank. I'd suggest that coming to us earlier is better, and engaging with us at an early stage is better because then we can help with the discovery and manage conversations internally, which is always helpful. But it's a range to be honest.

Andra Ilie
Okay. So, it depends. And I guess also in the same vein, we know that it's not always to find buyers and especially when market conditions are fairly challenging, or where the business owners cannot quite articulate their story and value proposition, which is something that I know we spoke about at the beginning of this webinar. And I think sometimes business owners believe that MBOs and EOTs may well be their only alternatives. So, I mean, in your views, are these models particularly suitable for those business owners where they don't fit with third party buyers? And my second part of the question is, does that impact valuations, I guess? Okay, can I come to you again, Adnan, please?

Adnan Hamid
Yeah, sure. No, look, the challenging markets point that you've mentioned is particularly relevant right now. And actually, the largest EOT we've done this year had a very successful third party sale process, resulting in five bids from PE and one from trade before they decided not to take those offers and pivot to an EOT, which was successful. So, it's definitely not the case that these assets won't be attractive to third parties. And actually, the reason for the shift in this case was due to a realisation around governance culture, direction of the firm under new ownership, which the founder wanted to continue as it had in the past, which is clearly a common theme for EOTs.

Interestingly, on the point you make around being able to assess a value proposition and communicate that, I think probably the most important thing to say is that if you're trying to achieve a different outcome which is a private equity or trade settlement, it's important to have advisers that can help you to do that. So, if you're a management team or a founder on your own trying to do that, that will obviously be difficult. But the point of having a sell side adviser on the process for you is that they will help you to prepare for that and communicate a forward-looking rationale, a value proposition for any buyer. So having the right advice in that case is also going to make that more easy and more likely to have a successful outcome.

Interestingly on the valuation point, look, in the example that I just mentioned where there was full price discovery and offers received, which isn't often the case, but there was market validated price discovery, right, with the bids came in with a range of about 20 per cent, and the EOT agreed price was at the lowest end of that range, so arguably a lower valuation they may otherwise have been able to achieve, but importantly still within that market range. And even though we have seen high valuations, for example, where founders can maximise future deferred cash payments and perhaps have more belief and lower perceived risk about the future prospects of the business, I would expect, given the lower leverage in these deals and lack of external funding sources, the valuations would typically be on the lower end of the market range. But as mentioned, it's unlikely to be a key driver of the ultimate sell through.

Andra Ilie
Thank you. And it's like we've spoken, Adnan, again, the importance of having the right team of advisers and going and getting that advice in place before you start going out because you can never appreciate quite enough how much that team can help you get a better offer than you would have otherwise, I think, is absolutely key. Braeden, can I come to you next?

Braeden Donnelly
Yeah. So, I mean, really, just to echo what Adnan said, I mean, I don't think valuation is necessarily a key driver. It's not as if these businesses can't be sold to third parties. Often though, I would note sometimes management have a belief or they see things that maybe a third party buyer doesn't see, or see the future potential of the business that perhaps is lost on a third party buyer who's only looking at this through a due diligence process. Lots of management teams, if they're cohesive and they have a shared vision, can very successfully undertake an MBO at a price within what it marketed for anyway, and then turn that business into something really great.

So, I think it really comes down to the fact that in an MBO or EOT scenario, the guys who are buying the business understand the business, they've got skin in the game and they're really keen to build something. So, I think, again, it's not valuation that really impacts this, sometimes it's culture and sometimes it's the flexibility to allow management to challenge themselves and to really grow the business.

Andra Ilie
Brilliant, thank you very much, Braeden. And Susie, any thoughts on are these options just for people who can't get an external offer or otherwise?

Susie Mullin
No, look, I'm just going to echo what everyone else has said. We just don't see it like that. It is something that is suitable for the right fact pattern. And actually, if you can't get a third party sale to work for price reasons, you're not going to be able to sell that to your employees or to an EOT for that price from a tax perspective. For me, these are just right for – when people come to us and these things work, they work because what they want is employee ownership, the driving point. Occasionally people do obviously mention the zero per cent CGT, but the driving point is passing the ownership of the business to the management team to run. And that is the driver rather than trying to get the best price, I think.

Andra Ilie
Great. Thank you. So I wanted to focus a little bit more now on the funding piece because, again, we get quite a lot of questions in terms of how does it work in practice, what's available to people, and I know, Adnan, you've touched upon it already, but I was wondering, would you perhaps share some examples, some practical cases maybe on how you've been able to help in the past around funding these types of exits?

Adnan Hamid
Yeah, sure. So, one of the most recent deals we've done has been for a freight and logistics business. That was the one that I previously mentioned, attracting a load of bids. And then actually we've seen a number of professional services firms this year, so recruitment or consultancy firms, which makes sense given the importance of long-term incentivisation to people-heavy businesses. And these firms actually don't tend to be leveraged anyway, so potentially the opportunity cost of not going down another route, in terms of funding, is perhaps narrower. And they're also very cash generative when performing well, so could be sold in a trajectory that is accommodating of deferred consideration.

In terms of structuring the financing element, there are only a couple of points that I'll actually touch on and elaborate on because I've already mentioned around leverage and the differences in leverage here, but in particular, the covenants, controls around permissions and business activity and things like tenure and repayment requirements will all be tighter or more restrictive than what's prevalent in the sponsored back to market. The pricing will be cheaper due to the leverage being lower, but certainly more expensive than traditional unlevered corporate borrowing. So corporate borrowing would be the cheapest, then you'll get EOTs and MBOs and then you get the sponsored pricing, which would be at the highest end.

But importantly for the sponsor deals, they get the leverage to offset that, and they get slightly looser, more relationship-based terms that are more bespoke to that market. It'll be important to consider where the debt sits in the EOT versus in a company, with the lender preference always being in the company. But it can be both, or either rather, and also how the rights of the lender, with regards to the treatment of deferred consideration and upstream profits, interacts with the requirements of the EOT to make those payments. So, there'll be varying degrees of control that the bank will like to see in certain circumstances in and around payments of dividends, either from the company up to the EOT, which is the most important one, which are ultimately going to be financing the future cash flow out of the business.

But as you can imagine, the bank will want to make sure that in circumstances where our risk is stretched, that the further funding requirements of the company aren't put under additional stress by having to make those payments at any cost. So, there are definitely some considerations in and around bank versus EOT rights and control over those payments.

Andra Ilie
Thank you. And Braeden, from a legal perspective, is there anything around structuring the funding around these deals that our audience should be mindful of? And again, if I can ask you if there are any interesting cases that you worked on in the past that you could share on this?

Braeden Donnelly
Yeah, sure. I think Adnan picked up the point around the specific covenants and how that works in the banking docs. I'd say that the peculiarities around these deals is how the element of the deferred consideration or the earnout that you're paying to the vendors works with those documents. Obviously, the bank would expect to have seniority, and that's completely normal, but I think you have to be really mindful around how the deferred consideration elements are structured and drawn. Obviously,

management doesn't have all of the cash to pay for the business in the first instance so it's constantly relying on the trading of the business. Those deferred consideration elements would be hotly contested and obviously, the vendor will want to incentivise management to get the money back as soon as possible.

So I think it's important to not stretch yourself too much and promise too much, i.e. we can pay the entire deferred consideration within two years, maybe it's three years, maybe it's four years, because the quicker you try to do it, the more pressure it puts on your banking covenants and the more pressure it puts on the management team and the business as a whole, and the knock-on effect of that can be quite tricky in the sense that if you're going to have a deferred consideration element, you would expect the vendors to take some security with respect to that. And if it all ends up going not the way you think it's going to go, it might not result in you running the business after four or five years because you put too much strain on the cash flow and the ability of the business to grow in that time. So, I'd say that it's really important when you're structuring those deferred consideration payments to be mindful of your obligations under your funding documents and your bank documents, and also to be mindful of how the business is trading, and how you think the business is going to trade in the future, because I think that can lead to quite a fundamental tension.

Andra Ilie
Thank you. We hear quite a lot about business owners again who just say, 'How do I even think of these points to begin with?' And again, that goes back to the point that we were making earlier around just making sure that you do have that right team of advisers in place that will be able to talk you through all of these and make sure that you understand what you're dealing with. Thank you very much, everybody.

Now, if I could, for the next section, just take a deeper dive into each of the options, so for our audience who are perhaps a bit more advanced and looking at one of them. So, management buyouts, we've spoken about how they may be an attractive option for those businesses with either retiring owners or perhaps a track record of profitability and a strong and motivated management team – to your point, Braeden – that have a clear vision on the direction of the business. Now, obviously from a tax and legal and commercial standpoint, there's lots of aspects to consider. We've mentioned valuations, we've touched a little bit upon tax clearances and also indemnities and profit sharing arrangements. But I guess, Braeden, I'll come to you first on this one. Any other risks that we haven't mentioned or areas of focus for business owners, apart from what you've just said? And also, have you seen these types of deals, so MBOs, fall through and if so, what has caused that?

Braeden Donnelly
Sure. So, I think on the risks that we – and part of this has been touched on – there's obviously two buckets to the risks of these deals. There's the legal risk, and then I'd say what is the practical risk of these businesses? So, I guess taking them in reverse, the practical risk really lies in the cohesiveness of the management team. If you're going to undertake an MBO, you have to have a cohesive management team with an aligned and clear strategy, otherwise you're going to end up doing the MBO and then in a bun fight as to what the direction of business is. Now the legal risk of that, of course, is that you end up in a situation where you've got a bunch of shareholders who aren't aligned, who now own the business, and are not driving it forward. And that can lead to quite a messy divorce situation, shall we say, when these things start to fall apart, so I really do think that the cohesiveness of the management team is a key practical risk and then it has legal consequences as to what happens if it's not cohesive, and I suppose the sharp end of the stick on that one is that if management end up diverging in terms of their view, then at some point, some of the managers are going to have to buy the other managers out to effectively get the business back to where it needs to be and to reform a cohesive management team so that is probably number one for me.

And I think the second risk, and that's certainly why these things tend to fall over, and dealing with the second part of your question, is do management really want to do this and do they really know what they're getting themselves into? Because it's quite a process. It's quite a lot of work, and also it places a little bit of risk on management in terms of ongoing performance of the business, not only that but their reputation in the market and also the ability to operate the business as you can to attract future funding. So, this sort of, really, practical consideration around are management fully aware of all of their options and is an MBO the right option to go for? So, I think that, for me, is number two.

And then I suppose the third option, which we haven't really discussed, is how realistic management are about the price. I think there has to be a compelling story as to why what management are offering are the best price for the business. Now that price might be a mixture of some upfront cash, if you had a PE backer or something like that, or if you were able to get some funding from a bank in order to finance the transaction, but really, you have to have a compelling story as to why what you're offering is the very, very best price for the business.

Andra Ilie
There's some brilliant points there. I absolutely love the piece around the alignment on the purpose, because we do often see – I mean, in my experience, I've only seen one gone not exactly great when that exact thing happened where management thought

they were on the same page, but then after the transaction, they figured out they weren't. So, I guess, Susie, a similar question for you, if I may. Again, are you seeing or have you seen any management buyouts fall through? And if so, what causes it?

Susie Mullin
So, look, I guess the question is what is officially fall through? So, we've definitely had lots of discussions and then people decide not to go ahead. And I think primarily that is – sorry, but just really to Braeden's point – which is that there's at least two parties this transaction, there's the people leaving and there's the people taking over, and we need to think about both of them. And probably, you would want different advisers for that because their interests are not aligned. So, and so that's actually quite difficult in some senses. In some senses it's almost harder sometimes working on these sorts of deals because everyone's quite nice to each other, but everyone also is quite interested in getting the best deal for themselves so that can be a bit challenging. So, we've definitely seen those sorts of positions where we've seen deals not go forward, not least that the exiting management thinks, I'm not going to get everything that I need in terms of the consideration paid out with these people running the business, so we've definitely seen that.

I think it's really important to remember, from a tax perspective, the incoming management team need to pay market value for their shares in that NewCo, okay, so it's not going to be 100 per cent leveraged by the buyer, if that makes sense. So, they're not going to pay a penny for those shares. So as Braeden said, those people are at risk. They need to pay market value for the shares in NewCo, so it's not a risk-free punt for the management team. So, they need to understand what they're getting and, from a tax perspective, they need to pay the right price. And then on the positive side, if we were going to be more positive, where I've seen it go really well is when there's a lot of thought beforehand. So, where people come to us and say, 'This is the management team, I've been working for years to make sure that they are ready. These are the roles they're doing'. So, I do think with these things it's about preparation. And so, I don't think it's a, 'We didn't get a deal away last week. Let's do an EOT next week', I think it is a long process of making sure you've got a management team to run the business because ultimately, it's that management team who are going to be responsible for paying you out. So, yeah.

Andra Ilie
And I guess on that same point, it's also that management team that after transaction, they realise that perhaps they were amazing managers, but they may not be as skilled owners and not handle that in the way that they thought they might. So, Adnan, can I come to you on this one? What's your experience?

Adnan Hamid
Look, I'd say, in theory, that is part of the reason we do see less leverage in these deals. But rather than positioning as the fault of the management or the MBO owners, I would say that the partnership of the sponsor sale, when that route is available and chosen, has as its main advantage the introduction of professional strategisers, influencers, firms with available equity funding, to propel the business that they invest in, and moreover, they look for strong management teams. So, the combination of a sponsor and a management team in a business that's gone through a lot of due diligence is very useful.

Now, that doesn't mean for the right businesses or management teams a non-sponsor route can't be successful, but there are reasons why they need to be structured very carefully and conservatively. And I think the others have done a good job of outlining exactly why that is.

Andra Ilie
Great. Thank you very much. So now, in terms of employee ownership trust, because I guess not that – these ones we get quite a few questions on just because, again, they are perhaps less, not necessarily newer, but perhaps less known. So everybody on the call may have heard the successful story of Richer Sounds who, back in 2019, Julian Richer transferred about 60 per cent of his shares to his employees using an employee ownership trust. And another interesting fact that I want to share was, according to the Employee Ownership Association, which is the not for profit, in December 2022, there were about 1300 EOTs, as compared to about just over 300 back in December 2019. So, there is quite a big growth, which is probably quite in line with what, Adnan, you were telling us at the beginning of the webinar.

Now, unlike MBOs, EOTs are less known, and I guess there's a lot of questions that we're getting around their future and just general acceptance in the UK, and indeed abroad, so having shared that context, I just wanted to ask you a two-part question, because you know I love those. Why make it simple when I can ask you more? So, are you seeing successful EOTs in practice? And what are some of their biggest challenges, or challenges linked to their longevity, in your experience? Susie, can I come to you?

Susie Mullin
Yeah. So, look, I’m not sure what a successful EOT is yet. I think it’s a bit early, to be honest with you. I think what the Treasury and Revenue would say to you is it’s a business that stays forever in an EOT, because that is the clear intention, and we just

haven’t seen them around for long enough to see. Where things appear to be going well with clients that we’ve seen, as I said, it’s where people have really got their ducks in a row with their management team and it’s a really strong management team running that business, but where that management team really understand what that is, which is that the business is not going to b’ owned by them, that it's going to be owned by the EOT.

And for me, look, if I’m honest, where I see things become more challenging in the longevity is motivating senior management where they are not going to have an exit and Braeden, your point earlier is right, we’re doing lots of talking about some of the employees holding some shares, so you only need to have 50 plus per cent in the EOT without creating any problems. But there is the question of, even if I’ve got shares in this business, if it’s not going to be sold, how am I going to get my money? And so that’s quite complicated from a tax perspective and also commercially it’s quite complicated.

So, my concern, although not proven yet, is how do you keep the business growing as fast as it might have been before if you don’t have the people running that business with a very clear, direct relationship to the growth, and basically what goes into their pocket? That’s my concern, if I’m honest. And so, it’s the challenge of just making sure you've got the right management team. But so far, not seen any great fails, but I think it's a bit early.

Andra Ilie
Thank you very much. I'll definitely start defining late terms much more when I ask questions. Braeden, your thoughts on this? Sorry Braeden, you’re muted.

Braeden Donnelly
Sorry, I think it’s too early yet to start talking about their future. I think there are significant challenges with respect to incentivisation, ongoing incentivisation and management. And I think, when you compare this to a traditional MBO route, I think most people are probably opting for an MBO, and the key drivers to that really are incentivisation, the access to professional advisers and also, I guess, speaking maybe probably the greater access to future funding and finance. I mean, MBOs have been around for a long time, so people are familiar with them, banks are familiar with them, credit funds are familiar with them, everyone knows how they operate and the lay of the land so I think maybe EOTs will get there as we see more of them. But right now, I think that MBOs are probably favoured if we have similar circumstances.

Andra Ilie
Okay, great. Thank you. And Adnan?

Adnan Hamid
Look, as you've mentioned, we've been seeing an increase, right? As discussed, there are complications and many considerations to make them work, not least the comparative lack of funding. And when wider capital markets, and M&A does fully recover in the rest of the economy, I would actually expect other avenues to start to take precedence where, for example, businesses are in attractive sectors or when valuation is a key incentive, so this could be a challenge. But look, as long as – and I know Susie mentioned, is that tax incentives are never going to be at the top of the agenda, or they certainly shouldn't be, but the point is that there are.

So as long as there are some tax incentives and owners – I think this is probably more important – owners willing to take a longer term view on cashing out, as well as prioritising their embedded strategic vision, culture, legacy, all of the things that make an EOT attractive and why a founder might want to keep the ownership within the employees, then that option should remain. And that certainly suits some types of founders and businesses more than others.

Andra Ilie
Great. Thank you. And I mean, just before we go to questions, because we have quite a lot, you'll be pleased to hear, but before we do that, I suppose Braeden and Susie, I know you have a lot of experience with these deals, I know we covered a lot of points, but I just wondered is there any other feedback that you have, from the business owners themselves that have been through one of these processes, that you would like to share?

Braeden Donnelly
Yeah, sure. I think, for me, it's don't underestimate your time commitment and don't underestimate the – these processes can be quite gruelling in terms of documentation, running a business at the same time, and quite emotional as well. But when you're trying to build a cohesive management team, some people will be in the tent, some people will be outside the tent. And that's difficult. And I think we need to be mindful of that when we're structuring processes, and mindful of how to advise, and also mindful of being organised and having the ducks in a row.

Where these things fall down, or are potentially damaging to a business, is where things are done in a haphazard way and not properly organised or we haven't sought the right advice.

Andra Ilie
Great. Susie?

Susie Mullin
So just quickly, I guess my key takeaway would be, as a tax adviser, don't be blinded by the zero per cent CGT and EOTs are employee ownership for all the reasons that I mentioned, legacy. So, they work where people really want to do them, where they've really got that ethos, and we do have a lot of clients with that and they're the right clients for this. And on an MBO, and an EOT, just think about all the parties. It's really important that we think about all the parties, not just the person who's obviously sometimes paying our bill, which is the seller in the first instance, and preparation post-sale, making sure you got the best management team in place. That's it for me.

Andra Ilie
Great. Thank you so much. And I mean, this is all great stuff and thank you all so much for sharing your experiences and what you're seeing in your work. We have quite a few questions, so I'm actually quite keen to start diving into those. And I guess the first one is what sort of incentivisation are we seeing business owners putting in place? So, in practice, what are people doing? Can I come to you for this one, Braeden, first and perhaps then Susie?

Braeden Donnelly
Yeah, sure. I'll answer it from a corporate point of view and then I'll defer to Susie on the best way to structure it from a tax point of view. I mean, we see all kinds of things, I mean, from basic gross share structures to employee benefit trusts and then on the bigger end of the scale, you've got your typical private equity structures, which are just an equity structure with a fixed return and then a sweet pot or a growth share which has an upside potentially with things like a ratchet when the business does really, really well. So effectively, it allows management to really drive the business and to earn a great return in circumstances where the business does well on an exit.

Andra Ilie
Great. And Susie, perhaps with particular focus on EOTs as well but also MBOs?

Susie Mullin
Yeah, so EOTs with the right size, EMI is still a great share incentive and approved share option scheme which is still great, still works within an EOT. The challenge with it is, who do you sell your shares to? And that is the challenge. Traditionally, you issue EMI options and then the business is sold. Here, you're not going to sell the whole business so who are you going to sell it to? But definitely EMI, still seeing that. I've seen incentive arrangements where effectively management are issued some shares that effectively get paid out once the founder has been paid out, if that makes sense, so the

proceeds go to the founder, and to incentivise management to do that, there are shares that are issued to the management team that effectively the trust will buy once the founder has exited. So that's to keep everyone keen, so to speak.

And then in an MBO situation, as Braeden says, just lots of the standard stuff that you'll see, growth shares and sweet equity. And the important point with all of that is that the employees have to pay market value for shares to avoid tax charges at various points. So, the challenge is just giving these things to people, making sure there's an ability for them to sell them and making sure that they're tax efficient really.

Andra Ilie
Great. Thank you both very much. And there's a few questions that I'm just going to try to bunch into one, or two, as I've accustomed you all. So, somebody looking – so in practice, with regards to EOTs, who are the trustees? How do you find them? And how does it work in practice? How does the control and interaction work between the now new parties? And should the owner be on the board? So sorry, that's a bunch of questions amalgamated into one. So, I don't know who wants to take this one first. Go for it, Susie.

Susie Mullin
So, I will. So, I think what is quite sensible, and I've seen it, is that you have a subsidiary of the company and that subsidiary acts effectively as the trustee, so it is the corporate trustee of that EOT. To my mind that makes a lot of sense. You've got the business effectively almost controlling the business. So, you can have the directors of the company who effectively are therefore the trustees. And to me, through that corporate kind of trusteeship, to me, that makes a lot of sense. There are talk about offshore trustees, which we won't go into here, but if I was selling my business to an EOT, I would want the people running the business and who know the business, to be the trustees of that trust, whether through a corporate or in their own right.

Andra Ilie
Thank you. And Braeden and then perhaps Adnan?

Adnan Hamid
Yeah, I mean, just to echo what Susie said, I mean, we typically see the corporate structure. We have, as Susie said, had a lot of inbound inquiries on offshore trustees and stuff like that, but that's probably the subject of a separate discussion, I think.

Adnan Hamid

I think it makes complete sense for the people that are closest to understanding the business, and involved in the day-to-day running of it, to be the trustees of that EOT. They're the ones that know the business the best and would know how to run both the EOT and the company together at the same time. Now you're on mute, Andra.

Andra Ilie
Thank you. Braeden started the trend, so I have to jump on it. Apologies about that. So, another really nice question that we have from somebody is for their thing, 'I have a concern that in approaching our senior team to sell the business to them via an EOT, it will panic them and destabilise the business. When they realise that we want to sell, but they are not keen to buy, we could see resignation'. Is that an unrealistic worry and could it happen with any sale? Braeden.

Braeden Donnelly
I think it's a realistic concern in these scenarios, pitching up to your shareholders to say you want to buy the business where they're not necessarily in mind to sell is always a difficult conversation to be had. It needs to be managed very, very carefully. I think those kind of conversations, and there are various ways to have, all have to be hinged around having a couple of things. One is obviously the cohesive management team we've talked about and the second is having a price and a good price, and a good rationale for that price before you start approaching people.

Now, I think the other point to consider is, quite often what happens is that in those circumstances, the sellers will often kick it into a sale process. Now that's not necessarily because they don't want to sell to management, but it's a very easy way for them to validate the price management's offering. So, I think you can expect in those circumstances, if you're a manager trying to buy the business off the sellers, that you might end up having to make a bid for it in the process as well to validate your own price. So, I think that is a valid concern, but in terms of resignations, I think that's less of an issue. I don't see too many people who are senior managers of businesses trying to buy the business and then resigning the next day because the shareholders won't sell it to them. I don't think that's something that particularly happens on a practical level.

Andra Ilie
Interesting. And I guess this is one that we touched upon in some of our previous webinars as well. And there's just that initial, not necessarily tension, but when there is some sort of transaction happening, we have a lot of questions around, oh well, when do I tell my finance team? They're going to start seeing people coming into the office that they don't really recognise so is this going to cause just general nervousness around the office? And I guess the question is, the point is it probably will, but it's just a

matter of how do you manage it and how do you go about it, and who are those key people that you inform and at what time?

Braeden Donnelly
Exactly. So, I think you've got to keep the teams tight, right, in terms of it really is a need to know basis. But that's for any transaction, right? If you were carving out a bit of your business and selling it to someone else, you wouldn't want to run the business knowing it creates uncertainty, it creates unsettledness in the business. So, I think it's not any different to that scenario. The only difference is that there might be a few people that know because they form the management team that are trying to buy it.

Andra Ilie
Yeah, absolutely. Susie, Adnan, I don't know if you wanted to add anything on this before I move on to the next question?

Adnan Hamid
I think the only thing I'd say is that, look, if you want to do something like that, then ultimately you have to approach that conversation eventually, right, with the people that are in a position of power or who are the ones that are going to make the decision. So, it's got to be done eventually, and yet to Braeden's point, you've got to do it in the right way. But ultimately, people are going to find out so it's going to happen. And I think a part of that question might have been the flipside, which is, in terms of when employees find out that a business is for sale, it can panic the whole firm potentially.

But I think, at least in the perspective of an EOT, the point is here that they are the ones that are going to be buying the business, benefitting from it in the long term, so there's at least an upside to that, than them finding out that there is only going to be considered a private equity sale or a trade sale where their jobs are far more on the line in that scenario than in any other. So, there is at least an upside to the EOT scenario being divulged to or found out by the employees at the right time.

Andra Ilie
So, I guess what I'm hearing is just positioning it and focusing, highlighting on those positive aspects of it, which is it's all for the better future of the business that is now going to be run by the employees.

Adnan Hamid
Exactly.

Andra Ilie

Thank you. Great. Thank you so much. The next question again is one around MBO, still quite specific, so have you come across situations in an MBO where the buyer is also the seller? So perhaps the management owns EMI or some other growth shares, you mentioned earlier, Susie. How is this managed and does it affect anything in any way, post particularly clearances? So, can I come to you, Susie, on this one first and then perhaps Braeden?

Susie Mullin
Yeah, so definitely we see that quite a lot where either it's the second MBO or just the smaller shareholding members of management are effectively becoming the bigger shareholders, if that makes sense? So, the main founder might be exiting and the second tier management perhaps might be becoming the first tier, and so they will go from perhaps being small shareholders in the target to owning the majority of perhaps the NewCo. And you're absolutely right to flag that from a tax perspective, there are some questions around that because from the Revenue's perspective, they like to see – and I won't go into all the detail here – but they like to see a change of ownership to some extent. And frankly, the greater the change, the better. So, we would want to see a significant change, if that makes sense?

So, seeing somebody exit completely who’s a fairly large shareholder is helpful when we're getting clearance, but you're always going to want to go for clearance on an MBO, I can't think when you wouldn't want to. And in that clearance, you need to set out the VAT pattern, and so you need to explain that it's about getting the story across. And when I say story, I mean the true VAT pattern across to the Revenue, which is, some people are leaving, some people are stepping up and this is what's happening. So, we see that really frequently. And that's about making sure the VAT pattern is good for the clearance, really. And sometimes that might mean saying actually to the founder, ‘Yeah, you want to hold the majority of the NewCo and let some of management in but actually, to get the clearance, you might have to go lower than 50 per cent’. And we've definitely had those discussions but yes, certainly those are the discussions to have with your tax advisers and your lawyers, I think.

Andra Ilie
Thank you. And I guess a question, a follow up question from me, if I may. So, do you see those clearances, do they go through easily or – again, I'm sure it depends on how they're drafted and how well they're put together – but do you see them challenged often or…?

Susie Mullin

Yeah. So, we do them in lots of different circumstances. In an MBO situation, it's going to depend where you sit on the scale. So, if you had a founder who was completely exiting and a new management team, frankly you may not need to go for clearance, but a very significant change we would expect to get through. So, we would expect that to go through quite easily. If there was a very small change only, a very small shift, that would be much more difficult to get clearance. And definitely we've all been involved as tax advisers in multiple iterations of discussions with the Revenue about clearances. And sometimes tweaking the structure, one of the real benefits of going for clearance is to find out what the Revenue think and then saying, 'Okay, well, how about we do this?'

And so, when we talk about MBOs falling over, more positively might be just how we tweak them to make them work, and sometimes we're required to do that to get the clearance.

Andra Ilie
Thank you. And Braeden, what are your thoughts?

Braeden Donnelly
Sure, yeah, it's obviously a tricky dynamic where the buyers are also the sellers. I think, to the point we made in the call earlier, you really need to be separately advised. Your goals and your aspirations are not aligned at this point. Management, rightly so, will be trying to get the business for the lowest price conceivably possible, and obviously the sellers will be trying to sell to maximise their value. So, I think it's important that you have separate advice and it's important that people are cognisant of that very much from the outset.

Susie Mullin
And just to jump in on that, because I completely, completely agree with that, but we do lots of times see founders who really want to sell the business at an undervalue for the management team. They really want to give that value away to the management team. And I know this sounds terrible, but that's actually really hard from a tax perspective. So overly generous founders can be challenging. So yeah, definitely something to think about quite carefully.

Andra Ilie
Thank you. And Adnan, from your side, from where you sit, does this make any difference? Does this impact you in any way, how you look at the transaction where the buyer is also the seller?

Adnan Hamid

It does impact, and I would only echo the comments that the others have made, that from a banking perspective, it’s also good for there to be quite a large shift actually. It's not helpful for a buyer and a seller to be very, very similar in that it comes back to the point I made about incentivisation, that the banks don't tend to like to see ongoing active management also taking significant cash out of the business and therefore the ones being the seller. So, the larger that change is – and I suppose the people who are taking cash out the table then leave and are being replaced by an active management team that is sufficiently invested, they're the new owners of the business, they're the ones who are very much incentivised, driving changes in the business and driving the decisions – that's really important from a banking perspective.

Andra Ilie
Thank you. So again, I guess what I'm hearing is that change in ownership is absolutely critical from all perspectives. Another question – I'm really liking this. Keep the questions coming because it's the panelists that have to answer them. So, I guess this one, perhaps for you to begin with, Adnan, so if you're a fast-growing business, can an EOT be right for you? Does it cap your access to future capital? And are they sustainable for such businesses?

Adnan Hamid
I mean, I suppose the issue here is that for fast-growing businesses, you probably expect to be going down a route which does maximise the future value and brings into play that a buyer will pay now for growth that is going to be forthcoming in the future and invest in that business and have it continue to grow. Those types of businesses attract higher multiples, higher valuations. We're talking about scenarios here where we can't significantly leverage the existing business and aren't going to be able to put indebtedness on the back of future profitability and fast growth from a debt perspective. So, there's going to be a greater mismatch between a valuation expectation and debt funding, and probably too much deferred consideration going into a business that wants to grow fast and then sell via an EOT.

So I do see a bit of a mismatch there and therefore, it would expect that an EOT, MBO-type structure is going to be, if not more suitable then more achievable, for a more stable, mature business that's been around for quite some time and is perhaps a leader in its market, or wants to continue in a similar guise strategically, culturally to what it has done in the past. And that's a bit of a difference to what we would expect to see from a very fast-growing business that's changing, that's innovating, that's doing things differently, that may in the future look quite different to what it does now. So, there is a bit of a difference there, to be honest with you. And it probably would be more suitable to go down a different route if you were a particularly fast-growing business in a changing market and a changing sector.

Andra Ilie
Great, thank you. Braeden, Susie, I don't know if you wanted to add anything on this?

Braeden Donnelly
No, I would agree with that. I mean, I think, it’s obviously not suitable for all scenarios. So just to echo those comments that sometimes when you’ve got a fast-growing business you might be looking to unlock different opportunities and look at the rest of the future and what you can achieve.

Susie Mullin
Yeah. I mean, just from my perspective, I generally see fast-growing businesses being owned by individuals who can then sell it and get capital gains tax, and that is generally what motivates people to grow those businesses really quickly. If you trap all that into an EOT, that may be less incentivising to keep growing at the pace, I would probably say.

Andra Ilie
Great, thank you. And I only have a couple more questions for you that have come through. This is one, I suppose, Braeden and Susie, mostly for you guys. Are you seeing more specifically the EOT regime being challenged by HMRC? And this is actually linked to the last question that I have, which is, in terms of political changes, we all know the elephant in the room and what's happening in that sphere, so are we expecting any changes in the space, specifically for EOTs I suspect?

Susie Mullin
So just on that, I mean, the Revenue have announced that they are consulting on EOTs. We expect to see some changes. My hope is that – well, my expectation actually is – is there will be tweaks to stop what they would think of as, and probably I would think of as assertive planning around EOTs, where people use statutory reliefs to do assertive tax planning, the Revenue are never going to be very happy. So, we would expect to see some changes, some tweaks around the edges, but I don't see them going very quickly. I don't know what their long-term future is, but I don't think they're going very quickly. I think they're going to be tweaked.

Braeden Donnelly
Yeah, I would agree with that. I think it may not have been an area of particular focus at the moment. They're certainly starting to look at it as the volume increases, right, so we

haven't seen any particular challenges with recent ones we've dealt with. But that's not to say that things won't change in the future, particularly with the consultation.

Andra Ilie
Great. Thank you very much. I think we've completed all the questions and I think we had one more, which was somebody asking if the session is being recorded. So yes, all of the sessions are being recorded. Your Relationship Manager can provide you with a copy of them, and I guess this is it. So I mean, before we close – and thank you everybody for sharing all of your thoughts – I'd like to come to each of you and perhaps just ask if you could leave our listeners who are maybe considering one of these options, maybe going down one of them already, or just contemplating or just exploring it, maybe just a piece of advice, just a final closing thought from each of you, if I may. Can I come to you first, Adnan, please?

Adnan Hamid
Look, from me, just speak to us early, I think, is the message. You don't have to have everything figured out before telling us what your intentions are. We can help you with that process. It may take time, but importantly, EOTs and MBOs are just part of a set of options available, some of the others that we've spoken about today. So having a runway of discussions with your bank can make the outcome more flexible. For example, if you did need to pivot between options, then we could advise on the different route. And actually, I mentioned that leverage is low, but in some cases, there are ways to maximise what you can borrow for the right business. So, we may be able to help arrange a private credit, which Braeden touched on as well, for example. That's another service that we can offer for the right business. And that's all from me, actually. I hope you've enjoyed the session. And if you need them, reach out to Andra for my contact details.

Andra Ilie
Great. Thank you. And Braeden?

Braeden Donnelly
Sure. I'd say be prepared, right, and then consider all of your options. There are lots and lots of different structures that you can explore. These are only two of them, and it might not suit your business best. So, it's best to engage with people and have a chat and work out what is the best direction for your business. Thoroughly plan that out before you start pulling the trigger on a transaction. It is much more difficult to pivot structures once you're already into something than it is to think it through thoroughly at the start and have an agreed course of action.

Andra Ilie
Perfect. Thank you. Susie?

Susie Mullin
I probably don’t have much to add to everyone else. I guess my… but weirdly for a tax adviser, I would say don't start with tax. Think about what you're trying to achieve really on the sale of your business and what you want the exit to look like, and don’t be blinded by zero per cent CGT. That would be my tip, really.

Andra Ilie
Great. Thank you very much. So, get your team of advisers early, don't be blinded by the zero rate of CGT, and just make sure you've considered all of your options, I guess, is what I'm hearing from all of you. So, on that note, thank you very much, Adnan, Susie and Braeden, for sharing your views and thoughts. I'm sure our viewers have garnered some very useful insights today.

For our audience, I do hope you've enjoyed the session and the discussion and if you have any feedback, please do complete the share feedback tab. And if there is anything from today's conversation that you found interesting – I mean, I'm sure you found a lot of it interesting, I should hope you have – but if you want to learn more about it or you'd like to speak to one of our experts on the panel or to ourselves, please do take the opportunity to get in touch with your HSBC Relationship Manager. And finally, don't forget to sign up for our future Beyond Business Ownership webinars. The next one is coming up in June and it is on one of my favorite topics, Passing on Your Business Within the Family. Thank you very much for listening and goodbye.