



**EQUITY  
INCENTIVES  
LIMITED**

## Case study: Family Owned Company Limited

Established in 1892, Family Owned Company Limited (FOCL) has grown from a producer of label systems to a communication and information business whose specialisations include printing on plastics, self-adhesive and wet glue labelling, magnetic media cards, gift products and creative graphics.

The family wished to resolve the question of long-term management and ownership succession. The next generation of the family did not intend to be involved in managing the business, but nor did they wish to sell the company to a third party. Instead, both directors and the family decided to preserve the independence of the company and significantly extend level of employee share ownership.

## Principal steps

- A new company was formed ('Newco'), to become the new holding company. Shareholders exchanged their FOCL ordinary shares for Newco shares, the family taking a proportion of their holding in fixed value Newco preference shares rather than ordinary shares, enabling them to crystallise some of their value in the business
- Newco established both a qualifying all employee ESOP trust (QUEST) and a case law discretionary ESOP trust
- Over approximately seven years, the Newco preference shares are intended to convert into Newco ordinary shares, immediately after which those ordinary shares will be purchased by the ESOPs (principally, the qualifying ESOP)
- The ESOPs will finance their purchases of Newco ordinary shares from cash contributions by Newco. After an initial cash contribution financed by bank loan, future contributions will come from free cashflows
- Sellers to the qualifying ESOP claim CGT rollover relief. Contributions to the qualifying ESOP are tax deductible; contributions to the case law ESOP may be tax deductible
- Shares acquired by the ESOP's are ultimately passed to the employees

- Newco introduces special management incentives.

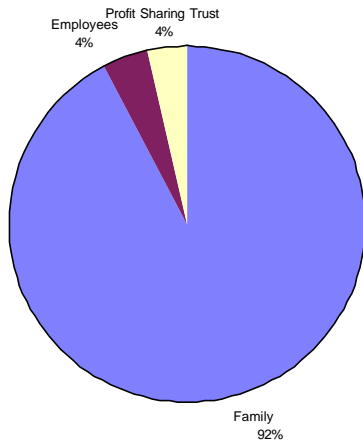
## Summary of benefits

- Family shareholders secure CGT rollover relief, deferring indefinitely significant capital gains tax liabilities
- The purchase of the family's holdings are financed by the company on a fully corporation tax deductible basis
- The pace of purchases can match the business's ability to generate free cash
- Enables the family to fix the value of part of their holding in the company
- Maintains the independence of the business and provides a powerful vehicle for future employee and management incentives.

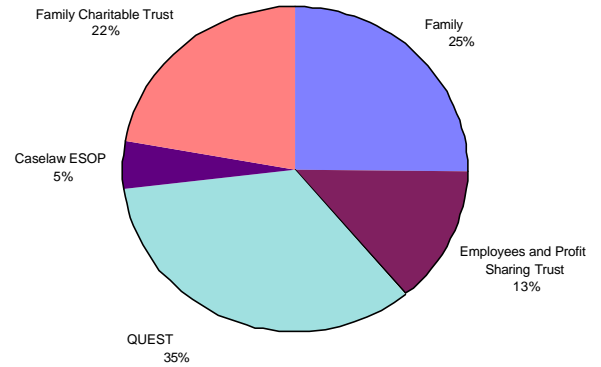
## What if circumstances change?

- Although intended that the new ownership structure will be long term, for companies wishing to preserve flexibility of ownership according to change of circumstances further change is not ruled out. If warranted, flotation, venture capital investment or trade sale can all be pursued.

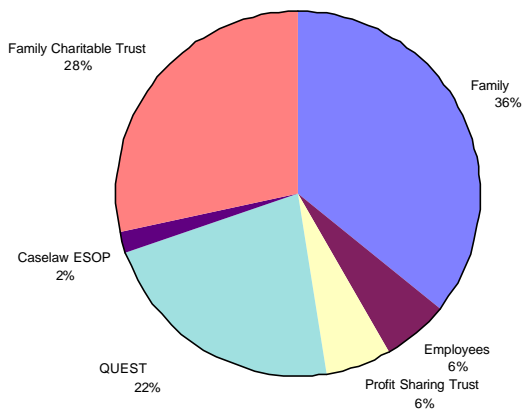
## Share distribution before restructuring



## Projected share distribution 7 yrs after restructuring



## Share distribution immediately after restructuring



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