EQUITY INCENTIVES LIMITED

Case study: Wilkin & Sons Ltd

Wilkin & Sons Limited

Wilkin & Sons Limited, makers of the famous Tiptree preserves, was founded by A C Wilkin in 1885. Today, his great-grandson, Peter Wilkin, is chairman of the business, which still farms around 1,000 acres in and around the Essex village of Tiptree.

The company is still privately owned, with an annual turnover of over £10 million, and employs around 170 people. The company holds royal warrants for preserves and marmalades, and exports its products all over the world.

Background to employee share ownership

A long-term, stable and loyal workforce employed by a family owned company wishing to retain its independence provided a background for the gradual introduction of employee share ownership. The motivation of the workforce was seen to have a direct impact on the quality of the product because of the labour intensive aspects to the company's products. The independence of the company was an essential characteristic from the point of view of distributors, retailers and customers.

Establishment of EBT

With these facts in mind, Wilkin & Sons Limited set up an Employee Benefit Trust ("EBT") in 1989, which bought shares from the existing shareholders on a regular basis, building up a substantial shareholding over the years which was held on behalf of employees. The EBT was also used to pay out cash bonuses to employees. The purpose of the EBT was to give the employees a stake in the business, so as to increase their motivation and commitment through greater involvement.

By 1997, the EBT held 25% of the shares in Wilkin & Sons on behalf of employees. The EBT trustees kept under review the various Inland Revenue approved share and share option plans. These permit shares to be distributed tax efficiently to employees. The company and the trustees also took steps to explain what employee share ownership meant to all employees.

Introduction of direct share ownership

The Finance Act 2000 introduced a new type of share plan hailed by the Chancellor as a way of encouraging "the new enterprise culture of team work in which everyone contributes and everyone benefits from success". This plan was the New All Employee Share Plan, recently renamed Share Incentive Plan, or SIP. SIP is arguably the most tax-efficient, flexible all-employee share plan ever introduced in the UK, and it appealed to the directors of Wilkin & Sons for a variety of reasons:

- SIP does not involve share options, but encourages the direct and immediate ownership of shares by employees

- SIP allows companies to choose one of three ways to benefit their employees through share ownership:

    - Free Shares

    - Partnership Shares (where employees purchase shares out of pre-tax salary)

    - Matching Shares (where the company gives employees free shares for each Partnership Share purchased, up to a ratio of two Matching Shares for each Partnership Share bought)

- SIP must be made available to all employees of the company, but there may be a minimum qualifying period of up to 1 year's employment before employees can participate.

- The company may use Free Shares to reward employees for reaching personal, team or divisional performance targets.

- Employees will be required to take their shares out of the SIP when they leave employment.

- The full tax benefits for employees holding shares under SIP will only be attained if their shares have been kept in the plan for 5 years. The long-term nature of the plan is ideal for the loyal and long-serving employees of a company such as Wilkin & Sons.

- Inland Revenue Shares Valuation Division would work with the company to agree a share valuation methodology for the SIP.

Wilkin & Sons specific requirements

In addition to the benefits of SIP listed above, the introduction of the SIP also met some very particular requirements of the company:

- The company had an old pension scheme that was required to divest itself of shareholdings in the company
- The shareholdings in the pension scheme could therefore be sold to the EBT with the intention of distributing shares over time to employees through the SIP.
- A one-off initial distribution of free shares could be made to employees who had more than one year's service, providing a reward for long-serving employees.
- Subsequent distributions of free shares would be made twice yearly, with the number of shares received based on relative rates of pay.

Successful implementation of SIP in Wilkin & Sons

The Wilkin & Sons SIP received formal Inland Revenue approval in the early part of 2002. There was a takeup rate of almost 100%, with only 1 employee choosing not to participate.

The chairman, when announcing the plan to employees, stated: "The SIP is really a progression of the idea behind the EBT, and is very much in line with Wilkin & Sons philosophy. The purpose is to encourage participation and a sense of ownership, to the benefit of the individual and the business".

The use of SIP in this privately held, family run company, illustrates what we believe is a growing trend towards the spread of all employee share ownership in privately owned companies, especially as more tax-efficient plans are introduced by the government.

Who are we?

Equity Incentives has substantial experience in all aspects of employee benefits, including equity incentives. The Managing Director, Graeme Nuttall, is a member of the HM Treasury advisory group which helps the Inland Revenue introduce new share schemes including EMI and SIP. Through membership of the **Global reward plan group** we implement international share schemes.

For further information, please contact:

Graeme Nuttall:

E-mail: graeme.nuttall@equityincentives.co.uk

Sarah Anderson:

E-mail: sarah.anderson@equityincentives.co.uk

This document is intended as a general guide on complex subjects. It is not intended as a comprehensive review. It should not be relied upon as a substitute for advice in a particular circumstance.