Case Study: Employee Ownership Trust [EOT]

Client: Arbuckles

About the company

John Murphy and Maxine McCaughey opened their first restaurant in Downham Market in Norfolk in 2008, and their second in Ely in 2017. Over the years they have expanded in all aspects and now serve over 300,000 customers a year with sales in excess of £7m.

The couple were early adopters of the EOT model, selling their business to an EOT in December 2018 for a mix of cash, senior debt from a third party lender, and deferred consideration to be paid back over a period of 5 to 7 years.

In some ways, the timing was disastrous. The Brexit vote in 2016 was still resulting in elements of uncertainty across all sectors; in 2020, Covid-19 arrived, which decimated the restaurant industry throughout the UK. To add insult to injury, in June 2020, the Downham Market restaurant was devastated by flooding, resulting in an extra 4 month closure straight after the Covid closures and an entire renovation of the restaurant. The vendors' repayment was put firmly on hold while they negotiated with the external lenders. John, who'd been gently stepping away from the business, found himself back in the teeth of the storm, supporting his management team and employees through the most challenging trading period the company had ever experienced.

Despite everything, Arbuckles has not only survived but is flourishing. By the middle of 2022 all of the vendors' loans had been settled due to a renegotiation with the third party lender. In June 2023 all the third party debt was cleared by reorganising the sellers' debt so that the company could achieve "financial freedom" day for the employees by the end of 2023, within the original 7 year timeline - 5 years to the day from the original sale.

By the end of 2024, employees will start to benefit from EOT bonuses, and the concept of employee ownership will become a reality. It is hoped that during the year of 2024 over £700,000 of company profit can be distributed between the EOT beneficiaries and direct shareholders who were awarded those shares as part of the EMI scheme. John says that "those first payments will be the proudest moments of my business life".

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Why an EOT?

In John's words, "the EOT was a no-brainer". After 20 years working at the coal-face, he and Maxine were ready to step back from the restaurant, see some returns for their hard work and investment, and seek new challenges. They knew that the people who had worked with them for years were absolutely the best people to take the business forward.

"When people ask us what is the secret of our success, the first answer is always the people. Everyone we've employed, starting from 12 people to more than 120 now, they are the family, they are everything we stand for. This is our way of saying to the staff: 'You've stuck with us, you've been fabulous employees, now this is your little bit of luck."

Certain staff were absolutely key to the business's history but also to the future success, with the intention for them to take on senior management roles, so an EMI share option plan was put in place for those individuals. Options were exercisable only once the debt had been repaid. "The idea being that as the restaurant industry does have people working for some shorter periods of time while at school and university we needed to reward differently the people who were going to drive the business into the future, deliver for the Trust and create management and kitchen stability. The EMI complemented the EOT scheme perfectly in our business type and was the essential ingredient in us achieving our payment timelines", said John.

How RM2 helped

RM2 is proud to say that it's been helping Arbuckles, an early adopter of the EOT model, right from the start of their journey, and on an ongoing basis.

We project managed the entire EOT transaction, including sourcing and arranging the third party debt, and planning the post-EOT EMI arrangements for senior staff. Since the transaction we've been on hand to advise the business on option regrants where required, administration of the EOT trust and the share scheme, and agreeing valuations with HMRC for option regrants. As financial freedom day approached, we've helped with the final issue of shares under the EMI option arrangements, and advised on the best way to structure and deliver bonus payments.

John told us: "The EOT and EMI scheme were alien concepts to me at the start, and in fact I would say I was more sceptical than most. RM2 advised me from the very start and tailored the scheme that was right for us. They were my torch in the dark and have helped shine the light to the most amazing solution to business sale I could hope for. Of course there have been bumps in the road but fast forward nearly 5 years and we are just about there. Since our sale I have been happy to help some other businesses make the move to an employee owned business and their feedback is the same as mine - Why do more companies not do it?"

Now

Now the debt has been cleared to allow for staff to enjoy the rewards of the profit, there are a number of key staff who hold shares directly in the company, alongside the indirect EOT share ownership held on behalf of all the employees.

But the majority shareholder remains the EOT and the company is now in a position to pay tax-free bonuses to all employees. A maximum payment, tax free, of £3,600 per employee is a hugely significant amount in a sector and location where salaries tend to be less generous. Bonuses are paid on the basis of hours worked, and length of service, without any reference to salary – ensuring that even the most junior employee on a zero hours or seasonal contract is rewarded according to their commitment and service. "The criteria for payment were devised by the Employee Ownership Council that we created that has a staff representatives from each division of the company. When ideas were proposed these were run past RM2 so they could be worded in such a way that we complied with all rules."

Direct shareholders, who are all employed by the company and play a vital role in delivering the company profit, will also receive dividend payments, but as the EOT is the majority shareholder, the majority of any profits will always be shared among employees on an equitable basis.

John and Maxine's legacy is a strong, profitable, sustainable local business, which is owned by its staff, who will share in the success and the profits.

RM2

For shareholders and employees to own the future of their business.

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