

Employee Ownership Trust Readiness Checklist

ManagementXP



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SECTION 1: Owner Goals & Succession Intentions

Checklist Questions

1	Does the owner want to retain the company's legacy and culture post-exit?	
2	Is a gradual exit (vs. an immediate sale) desirable?	
3	Is avoiding external buyers (e.g., private equity or trade sale) a priority?	
4	Is the owner motivated by employee welfare and long-term sustainability?	

Proforma Notes:

What are the owner's key motivations for exploring employee ownership?

What is their ideal timeframe for transition?

Are there other stakeholders (co-owners, family, board) whose views influence the exit plan?

SECTION 2: Business Structure & Shareholding

Checklist Questions

1	Is the business privately held?	
2	Is the ownership structure simple (e.g., sole owner or aligned small group)?	
3	Can at least 51% of shares be transferred to the trust?	
4	Are all shareholders aligned on pursuing EOT?	

Proforma Notes:

Are all shareholders aligned on pursuing EOT?

Are there any restrictions in the Articles or shareholder agreements?

Would vendor financing or retained ownership (e.g., 49%) be considered?

SECTION 3: Financial Health & Viability

Checklist Questions

1	Has the business been consistently profitable over the past 3+ years?	
2	Does it generate free cash flow sufficient to support share purchase and bonuses?	
3	Are cash reserves or vendor financing options available?	
4	Is the business lightly leveraged or financially stable?	
5	Has a business valuation been obtained or considered?	

Proforma Notes:

EBITDA margin and net profit trends over the last 3 years:

Available free cash flow (post capex and tax):

Current cash position vs. anticipated share sale cost:

Would external debt be needed? Has it been explored?

SECTION 4: Workforce & Engagement Readiness

Checklist Questions

1	Does the business have 10–150 employees?	
2	Are employees skilled, engaged, and culturally invested in the business?	
3	Is there a low turnover rate or long average tenure?	
4	Is the team likely to value shared ownership or a bonus scheme?	

Proforma Notes:

Describe the employee mix (roles, seniority, distribution):

How would you describe morale and engagement right now?

Have there been any consultations or sounding boards with staff on ownership ideas?

SECTION 5: Cultural & Strategic Fit

Checklist Questions

1	Does the company prioritise ethical practice, employee wellbeing, or customer-first values?	
2	Is collaborative decision-making already part of the culture?	
3	Would transparency in profit-sharing and performance metrics be welcomed?	

Proforma Notes:

What are the business's stated mission and values?

How are decisions typically made—centralised or consultative?

Are there any past examples of employee engagement or ownership initiatives?

SECTION 6: Governance & Operational Maturity

Checklist Questions

1	Are there capable leaders below the founder(s) to support operational continuity?	
2	Is the business prepared to adopt trustee-led oversight and governance structures?	
3	Are systems in place for clear financial reporting and compliance?	
4	Will the owner(s) accept independent trustee involvement in strategy?	

Proforma Notes:

Who are the key leaders, and what succession plans are in place?

Is there openness to employee or external trustees sitting on a board?

Are quarterly reporting and staff communications part of existing practice?

SECTION 7: Readiness for Transition Process

Checklist Questions

1	Has the business budgeted for EOT legal, tax, and valuation advice?	
2	Is the owner prepared for a 3 – 6 months process?	
3	Is the business willing to undergo cultural change (shared ownership mindset)?	
4	Is there appetite to run employee briefings and onboarding workshops?	

Proforma Notes:

Anticipated budget range for setup:

What professional advisors (lawyer, accountant, financial) are already engaged?

Are there major changes or uncertainties coming (e.g., exit of key clients, new product launches)?

Summary

Business Status:	
Well-Suited for EOT Transition	<input type="checkbox"/>
Potentially Suitable – Requires further financial/cultural alignment	<input type="checkbox"/>
Not Currently Suitable	<input type="checkbox"/>

Recommended Next Steps:

1. Conduct Detailed Business Valuation

Purpose: Establish a fair market value for the shares to be sold to the EOT.

Requirements:

- Engage an independent, qualified business valuer.
- Prepare 3–5 years of financial statements.
- Provide forecasts, asset schedules, and key client data.
- Review sector-specific earnings multiples and apply valuation methodology (often EBITDA multiple).

Led By: Financial advisor or independent valuer

Output: Written business valuation report (used to set the EOT share purchase price)

2. Financial Modelling of Trust Commitments

Purpose: Assess the business's ability to fund the EOT over time without risking cash flow or growth.

Requirements:

- Model future free cash flow (5–10 year horizon).
- Include share purchase repayments, trustee expenses, and employee bonuses (up to £3,600 per year).
- Stress test against downturn scenarios (e.g. loss of key clients).
- Consider different financing options: vendor finance, bank loans, or hybrid models.

Led By: Financial consultant or in-house finance lead

Output: Financial model (Excel or advisory report) showing affordability of the EOT structure

3. Employee Engagement Scoping

Purpose: Assess employee appetite for ownership and prepare them for cultural change.

Requirements:

- Run workshops, surveys, or focus groups.
- Communicate the purpose of an EOT and what it means for staff (rights, benefits, responsibilities).
- Identify employee champions who can support the transition.
- Gauge readiness for shared governance, bonus culture, and long-term thinking.

Led By: Internal HR or external change consultant

Output: Summary of employee feedback and engagement plan (can feed into trustee selection and comms strategy)

4. Draft Timeline and Cost Plan

Purpose: Create a practical roadmap and budget for the EOT transition.

Requirements:

- Build a Gantt chart or step-by-step plan (typically 3–6 months).
- List key milestones: valuation, trust deed, sale agreement, trustee recruitment, employee comms, completion.
- Estimate professional costs: legal, tax, valuation, trust setup, and governance training.
- Allocate internal time/resources and identify critical dependencies.

Led By: Business owner or project lead with support from advisors

Output: Implementation plan and cost summary (used to guide board and stakeholder sign-off)

5. Introduce Independent Trustee Role

Purpose: Ensure good governance and impartial oversight of the EOT.

Requirements:

- Identify candidate(s) with relevant skills (governance, finance, legal, employee advocacy).
- Ensure they are independent: no current or past financial or familial ties to the business.
- Provide onboarding on company structure, culture, and EOT duties.
- Define their role within the trustee board (often alongside employee and founder reps).

Led By: Founder or interim trust board

Output: Appointment of independent trustee with agreed terms and responsibilities (included in trust deed or trustee board policy)



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