Business Case – Employees to Owners: Is an Employee Ownership Trust the right answer?

March 2025 Meeting

ABC Industrial Services Ltd. (“**ABC**”)

A 50% Shareholder (the President) would like to sell his business to an Employee Ownership Trust (EOT). The Shareholder would like to retire and no longer be involved with the business.

Background

- ABC was founded in 1975 by the Shareholder’s father and provides industrial services, active mainly in Alberta
- Average 3-year EBITDA approx. $1 Million – $1.2 Million, 35 – 40 % gross profit
- 30 employees with 3 key long-term employees
- ABC currently has no debt of any kind, and $1M cash in the bank
- Reorganization completed 10 years ago (The Shareholder wishing to sell owns 50% via a Holdco - the other 50% of ABC is owned 50% by the Shareholder’s brother via a Holdco)
- The brother has no desire to sell but is willing to consider a transaction and remain a shareholder and active in the business.
- All shares are common shares other than $900,000 of Preferred Shares remaining from the reorganization 10 years ago held equally by the Shareholder and his brother

Employee Ownership Trust - Framework

- Legislation regarding EOT’s passed last year retroactive to January 1, 2024, and expires Dec 31, 2026,
- First $10 Million in capital gains realized on the sale of a business to an EOT is exempt from tax
- A typical transaction would see the shares sold to the EOT via a combination of:
    - Bank loan to ABC and then lent to the EOT to purchase the shares. ABC then can use cash and proceeds from the bank loan to lend to the EOT with a 15-year repayment.
    - Purchase by an outside party of up to 49%
    - Shareholder financing to EOT.
- The Trust does not expire, unlike other trusts (21 year deemed disposition rule)

- Double deferral period for capital gains. Shareholder receiving proceeds over time have up to 10 years (vs 5 years) to claim the capital gain reserve
- A minimum of 51% of ABC must be owned by the EOT
- The former shareholders of ABC cannot retain more than 40% of the EOT vote (i.e. Board of Trustees of EOT)
- 1/3 of the Trustees of the EOT must be current employees
- Former shareholders cannot control more than 40% of the directors of ABC
- Former shareholders who owned 50% or more of ABC are excluded from participation in the EOT
- Any employee post sale to an EOT that retains 10% or more of ABC is excluded from participation in the EOT
- All employees (with more than 1 year service) participate as beneficiaries with income and capital distributions. Former employees can participate in distributions as well
- A distribution formula criterion must be based on annual total remuneration, hours worked and/or years of service

Is an EOT the right framework? What are the alternatives?