

EMPLOYEE OWNERSHIP TRUSTS

CANADA'S NEWEST BUSINESS EXIT
STRATEGY

SUCCESSION
ONTARIO 

YOUR LEGACY, THEIR FUTURE

With Canada's new Employee Ownership Trust, business owners **can control their exit by selling to their employees, creating a lasting legacy for themselves and their team.**

To encourage adoption, the Canadian government is exempting **the first \$10M in capital gains in any sale to an EOT.**

WHY DO OWNERS SELL TO EMPLOYEES?

Secure Legacy

Selling to employees instead of a third party keeps the company local, and maintains the culture they've created over many years

Control Process

In a sale to employees, a business owner can control the pace of the transaction and ensure a smooth transition

Reward Team

Internal sales reward employees with stability, control and long-term financial benefits, while still providing a fair exit for business owners

EMPLOYEE OWNERSHIP OFFERS POWERFUL BENEFITS FOR TRANSITIONING OWNERS, WORKERS, AND COMMUNITIES.

PRESERVES JOBS

Employee-owned companies stay in their communities and are more resilient in recessions, meaning more job security over the long term.

BUILDS WEALTH

Employees will benefit financially, as excess cash flow can now be shared with the employee owners.

STABLE WORK ENVIRONMENT

Third party sales are very disruptive, while a sale to employees is designed to maintain stability and culture – these can be done at zero cost to employees through an EOT.

STRONGER BUSINESSES

Employee-owned businesses perform better: they grow faster, are safer, more productive, and have lower turnover.

THERE ARE MANY WAYS TO SELL TO EMPLOYEES

**MANAGEMENT
BUY-OUTS**

**WORKER
COOPERATIVES**

HYBRID

**EMPLOYEE SHARE
OWNERSHIP PLANS**

**STOCK OPTIONS +
SYNTHETIC EQUITY**

**EMPLOYEE
OWNERSHIP TRUSTS**

There are many ways to structure employee ownership depending on the business characteristics and priorities. Structures are often combined and can evolve over time.

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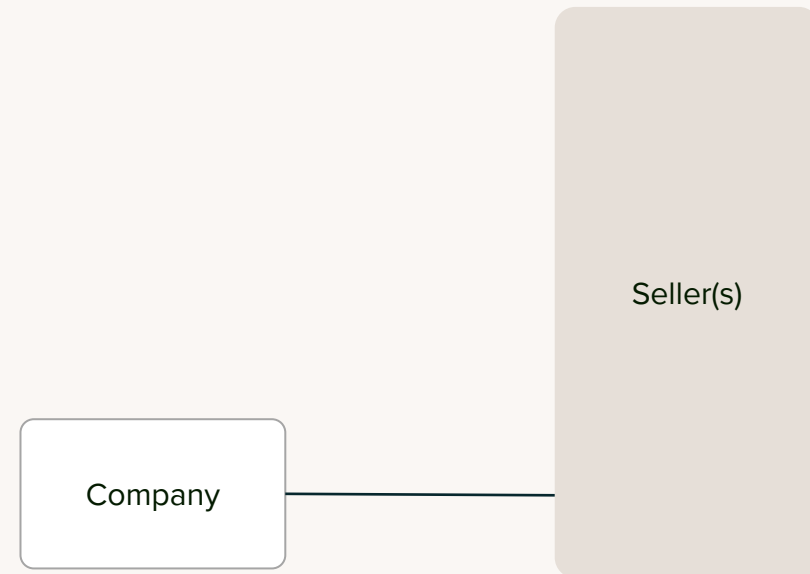
WHAT ARE EMPLOYEE OWNERSHIP TRUSTS?

- **A new trust structure** established in 2024, designed to facilitate the majority **sale of a company to its employees.**
- **The trust owns the company on behalf of all employees**, who become beneficiaries of that trust.
- **Business owners are paid fair market value** with debt and future company cash flow.
- Operations continue with **traditional management.**

HOW DOES AN EOT WORK?

Here's a simplified EOT Transaction.

1. Seller owns shares of a Company.

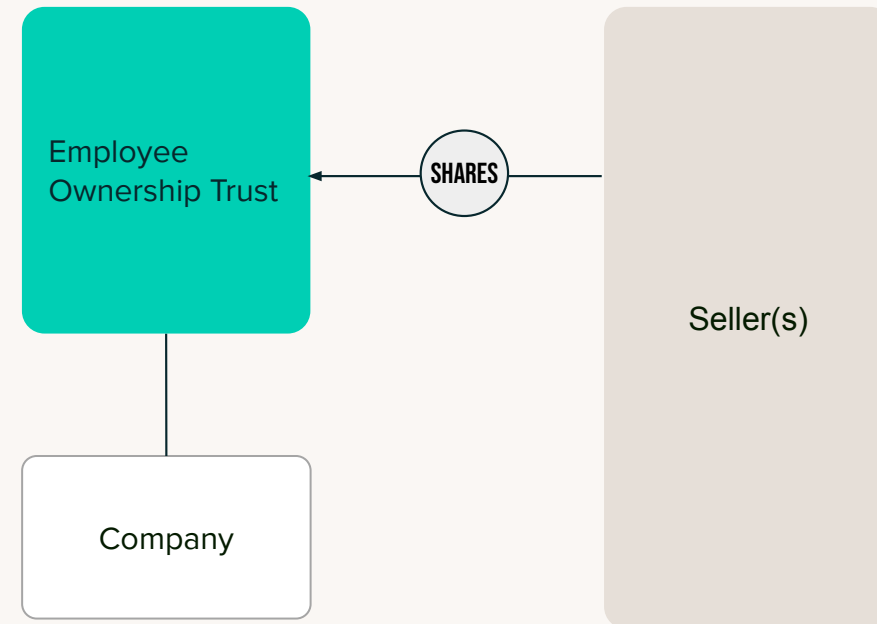


HOW DOES AN EOT WORK?

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2.

Seller sells shares to an Employee Ownership Trust for fair market value

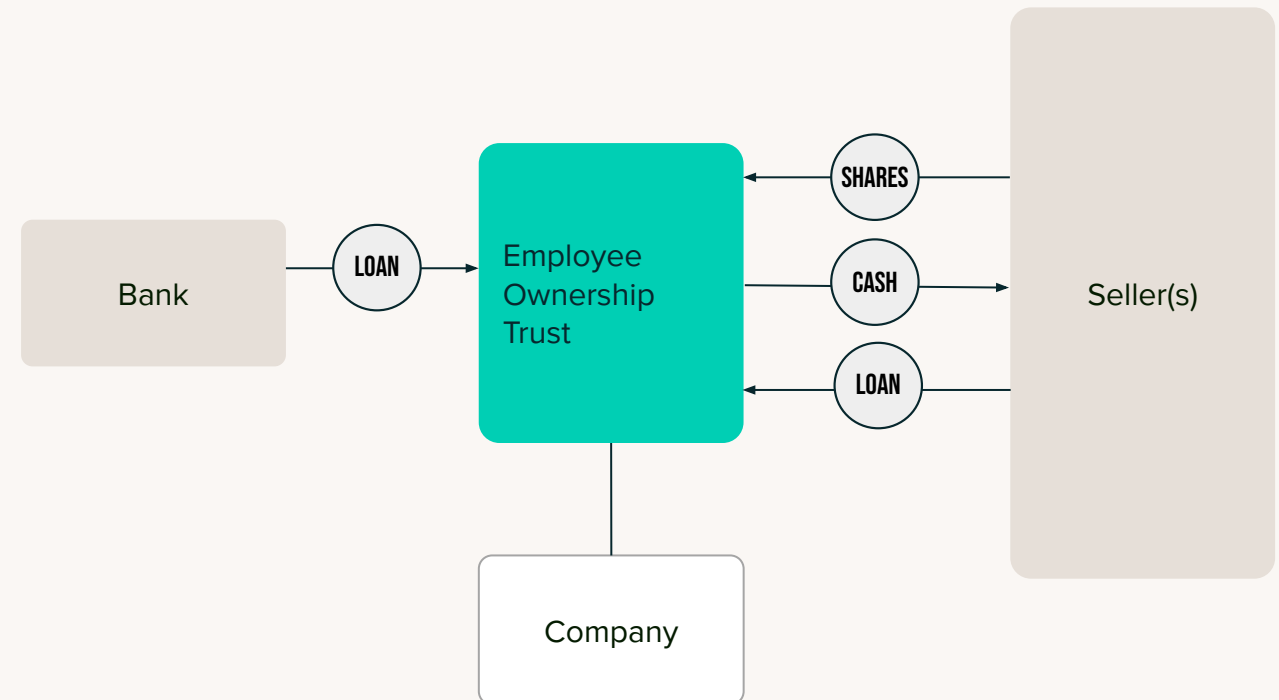


HOW DOES AN EOT WORK?

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3.

Seller and lender(s) provide loans to the EOT to pay for the shares.

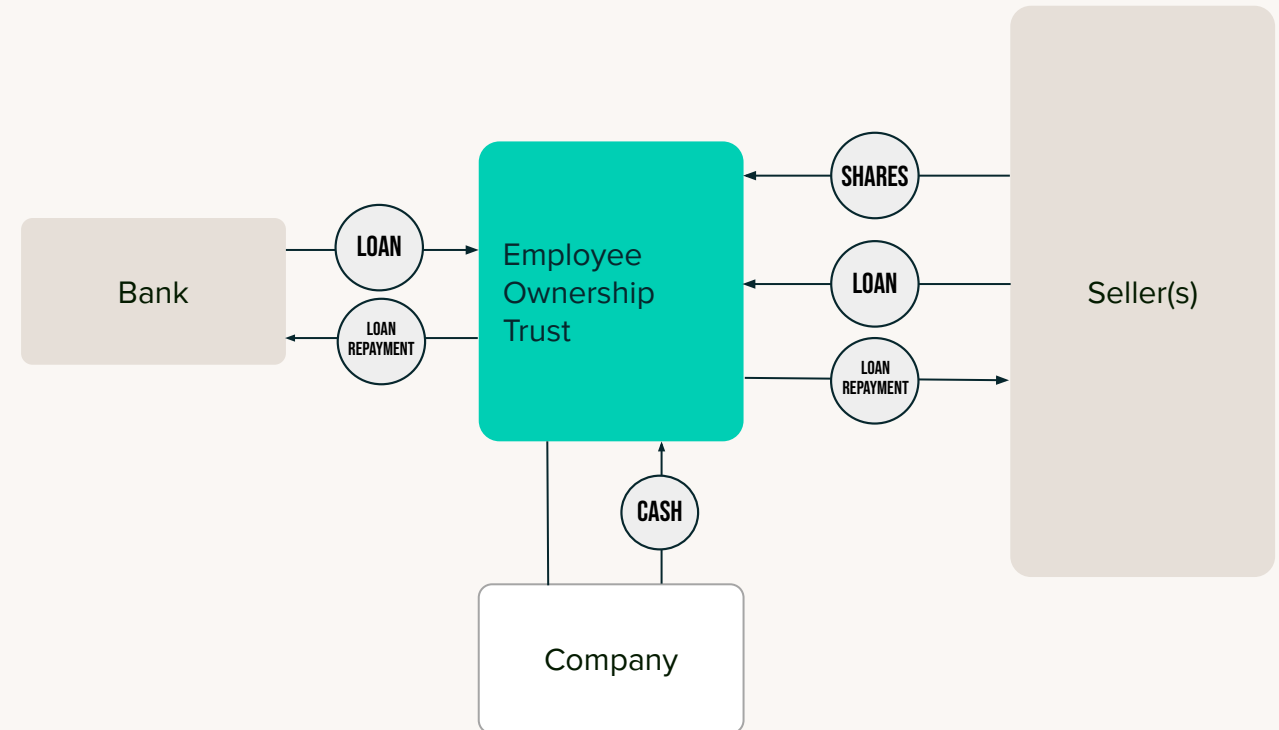


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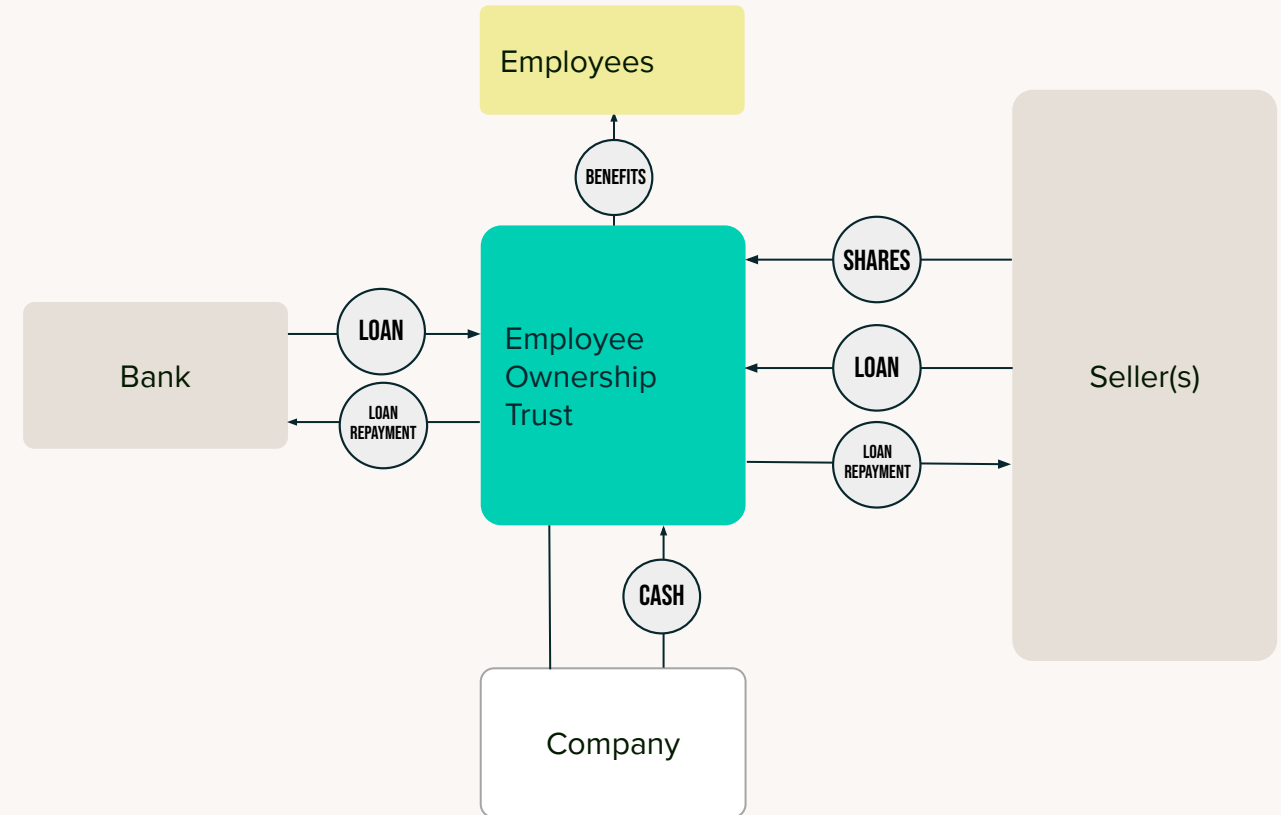
4.

Over time, the company cash flow is used to repay the loans.



HOW DOES AN EOT WORK?

Here's a simplified EOT Transaction.



5.

As the loan is paid down, any excess cash flows to the Employees of the company.

HOW DOES AN EOT WORK?

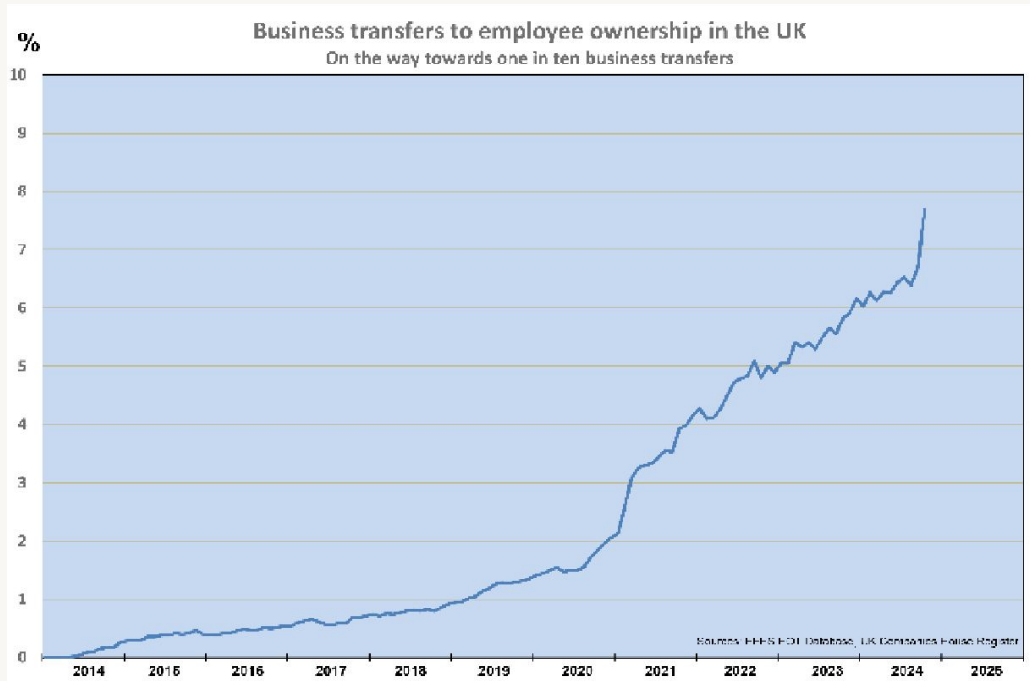
Here's a simplified EOT Transaction.



6.

Once the bank debt and seller's notes are repaid, the ownership of the company stays with the EOT.

THE CANADIAN EOT IS BASED ON A SIMILAR MODEL IN THE UK



- Since it was established in 2014, **about 2,000 UK businesses have been sold to EOTs.**
- In 2024, over 400 businesses were sold to an EOT, or about 8% of all transactions. **It is now considered a credible exit strategy in the UK.**
- Research shows EOT-owned companies grow faster, are more productive and have happier and better-compensated employees than their peers.
- If Canada were to follow a similar path, **over 1,000 businesses would be sold to employees over the next 10 years.**

WHAT KINDS OF COMPANIES ARE GOOD FITS FOR SALE TO AN EOT?

Strong, stable cash flow. Companies in mature industries with good track records are best positioned to reliably pay down debt.

Not too small. EOTs are best suited to companies with at least 25 employees, as some infrastructure is required to manage the process.

Clear management succession plan. For a smooth transition to EOT ownership, it's best if management succession is in process or has already occurred.

Limited short-term capital needs.

Companies without major investments plans are better positioned to pay down acquisition debt.

Any industry. EOTs are suitable for any industry. Popular industries in the US and UK are manufacturing, professional services, construction, wholesale and distribution.

HOW DOES THE CAPITAL GAINS TAX INCENTIVE WORK?

All sales to EOTs that are completed by December 31, 2026 qualify for a \$10M capital gains tax incentive. (presently lobbying to get this extended)

Most shareholders of Canadian companies who have at some point been active in the business will qualify for the incentive.

It's important to discuss your situation with your accountant or tax advisor. More resources are available on employee-ownership.ca

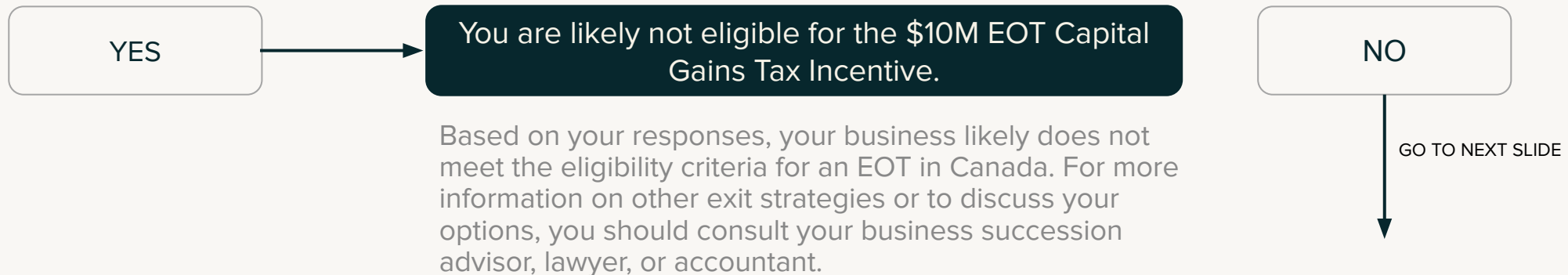
WHO QUALIFIES FOR THE CAPITAL GAINS TAX INCENTIVE?



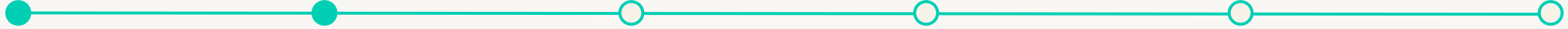
1.

Is your business a “professional corporation” under the Federal Income Tax Act?

The Income Tax Act defines Professional Corporations as accountants, dentists, lawyers, medical doctors, veterinarians, and chiropractors.



WHO QUALIFIES FOR THE CAPITAL GAINS TAX INCENTIVE?



2.

Is more than 50% of your company's value coming from assets used for active business?

A “non-active asset” refers to things like real estate or stock investments, where you're not providing services to clients. If most of your business's value doesn't come from these passive assets, you should answer “yes.”

YES

GO TO NEXT SLIDE



NO



You are likely not eligible for the \$10M EOT Capital Gains Tax Incentive.

Based on your responses, your business likely does not meet the eligibility criteria for an EOT in Canada. For more information on other exit strategies or to discuss your options, you should consult your business succession advisor, lawyer, or accountant.

WHO QUALIFIES FOR THE CAPITAL GAINS TAX INCENTIVE?

3.

Are 75% or more of the employees Canadian residents?

YES

GO TO NEXT SLIDE

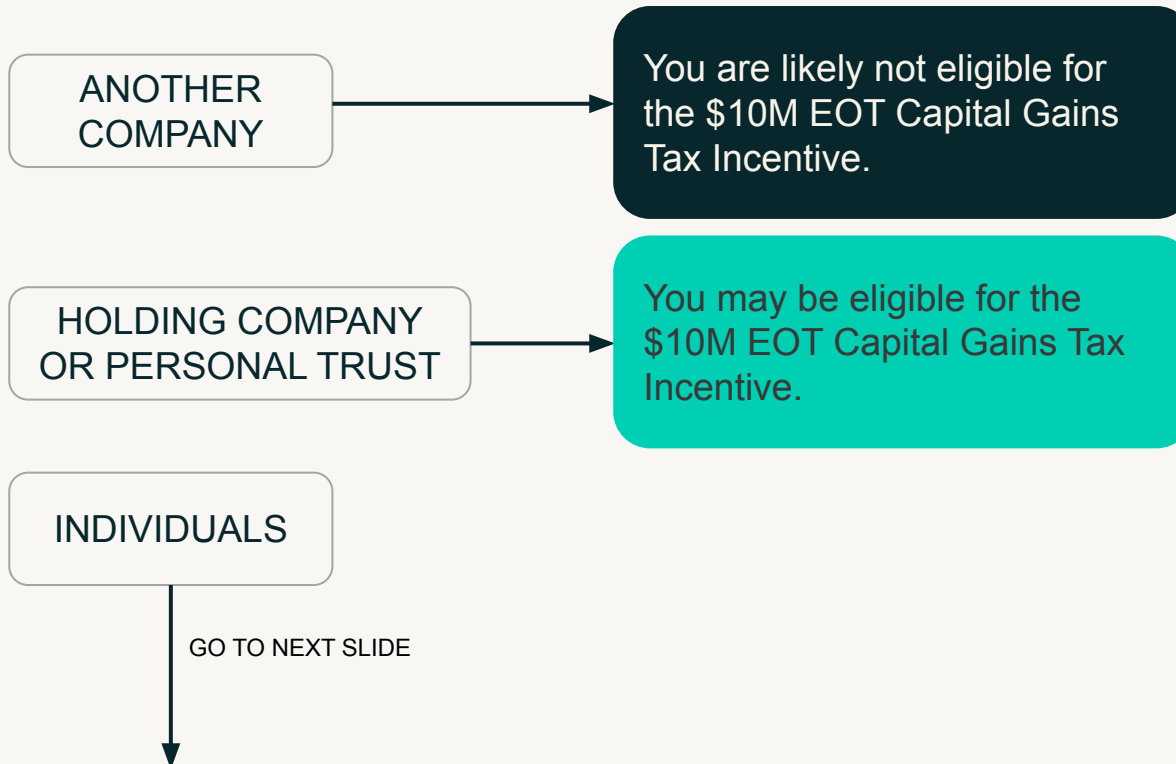
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WHO QUALIFIES FOR THE CAPITAL GAINS TAX INCENTIVE?

4. Who owns your business?



Based on your responses, your business likely does not meet the eligibility criteria for an EOT in Canada. For more information on other exit strategies or to discuss your options, you should consult your business succession advisor, lawyer, or accountant.

Your responses suggest that your business may need to meet additional requirements to be eligible for the \$10M Capital Gains Tax Incentive. To confirm your eligibility, consult your business succession advisor, lawyer, or accountant.

WHO QUALIFIES FOR THE CAPITAL GAINS TAX INCENTIVE?



5.

Have you or your spouse been active in the business for at least 2 years at any point in time?

YES

GO TO NEXT SLIDE



NO



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WHO QUALIFIES FOR THE CAPITAL GAINS TAX INCENTIVE?

6. Are you over 18 years old?

YES

You are likely eligible for the \$10M EOT Capital Gains Tax Incentive.

Your business seems to meet the criteria required to take advantage of the \$10M EOT Capital Gains Tax Incentive in Canada. Consult your business succession advisor, lawyer, or accountant for more information., lawyer, or accountant.

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KEY QUESTIONS ABOUT EOT TRANSACTIONS

WHAT PRICE GETS PAID?

Best practice is to sell for fair market value, and a valuation is recommended

WHERE DOES THE MONEY COME FROM?

Sellers provide a loan to the company to pay for the shares. The loan is repaid out of future company cash flows. In some cases, banks will finance part of the sale transaction, providing some cash to the seller at the time of the sale. Employees do not pay for their shares.

WHO ARE THE BENEFICIARIES OF THE TRUST?

All employees become beneficiaries of the Employee Ownership Trust and will participate in cash distributions.

HOW MUCH OF THE COMPANY NEEDS TO BE SOLD?

In an EOT transaction, the majority of the shares of the company must be sold to the EOT.

IS AN EOT RIGHT FOR ME?

Selling a business is hard and complex, whether it's to an EOT or to an outsider like a private equity firm or a competitor in your industry.

Every company is different, and an EOT won't be right for everyone. But for some business owners, it will be a great answer for their exit strategy.

Here are some key questions to ask yourself:

1. How will I feel if my company is moved to another community, or if the culture changes?
2. If other business owners in my industry have sold to outsiders, how do they feel about the new owners now?
3. Am I financially secure enough to wait to be fully paid for my shares?
4. Am I confident in the management team I've built?
5. Am I willing to stay involved and support a smooth transition after I've sold the company?

Consult your advisor if you feel an EOT might be right for you.

THANK YOU

FOR MORE RESOURCES ON EMPLOYEE OWNERSHIP,
SEE WWW.EMPLOYEE-OWNERSHIP.CA

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