

Employee Share Markets

May 2023

Introduction

Employee share markets work well for unlisted companies in the UK that either intend to exit in the medium to long term or wish to retain their independence. In both cases the market is most effective when combined with other share based awards.

Companies that may wish to exit in the medium to long term should consider introducing an employee share market to:

- make discretionary share based incentives for employees more attractive;
- encourage a greater interest in financial performance by management and employees; and
- enable founders to release some capital pre-exit should they wish to do so.

Companies that wish to retain their independence should consider introducing an employee share market as a solution to succession issues and as a means of transferring ownership to the next generation of management and key employees (in addition to the above advantages).

How does it Work?

We have extensive experience of introducing employee share markets using a model with a proven track record. Under the model, trading windows are operated at least twice a year in which employees can apply to buy shares at a price agreed with HMRC to be the market value of the company's shares. Buy-side demand is stimulated using:

- A tax-advantaged share incentive plan to allow employees to purchase shares out of pre-tax salary (deducted monthly);
- A high dividend yield to make shares an attractive investment;
- Regular grants of "short life" options to management and employees based on individual performance - options become exercisable after three years and lapse after three and a half years to encourage share ownership;
- Shareholding targets for new members of the management team (funded from bonuses and dividend payments).

Net buy-side demand can be satisfied by the issue of new shares or by founders agreeing to release shares into the market.

Founders may want to release shares to enable them to realise funds in capital form pre-exit or to facilitate the gradual transfer of ownership.

“They are always a step ahead of what the client might need and they customise their advice.”

Chambers & Partners UK, 2022

Warning

Content is for general information only and is not intended to constitute or contain legal or other advice. If you require assistance, please seek specific advice from a member of the team.

Read our other Fact Sheets Available:

- Business Asset Disposal Relief
- Company Share Option Plans
- Discretionary Share Option Plans
- Growth Shares
- Enterprise Management Incentive Plans
- Long Term Incentive Plans and Deferred Bonus Plans
- Share Incentive Plans

This document gives general information only as at 1 May 2023 and is not intended to give a comprehensive analysis. It should not be used as a substitute for legal or other professional advice, which should be obtained in specific circumstance.

Thank you



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