The founder-entrepreneur's guide to succession

A practical guide for business owners considering an internal sale

Postlethwaite

As a business owner, succession is one of the most significant decisions you will ever make. After years, often decades, building a successful company, the question becomes not simply whether to exit but how to do so in a way that rewards you as the founder fairly, protects the business and secures the future of your employees and clients.

Who is this guide for?

If you are a business owner thinking about how you can step back, leaving your company in safe hands and well-positioned to thrive into the future, this guide is for you.

It primarily looks at alternatives to selling to a third party (such as a trade buyer or private equity investor). Although we briefly consider them, our primary focus is on how you can successfully hand on your business's ownership to those working within it: **an internal sale, retaining its independence**.

Employee Ownership Trusts (EOTs), direct employee ownership, Management Buyouts (MBOs), or hybrids such as Management and Employee Buyouts (MEBOs) all share one fundamental core feature: the business becomes owned by people who already understand its culture, clients and long-term vision.

120,000

UK business owners are expected to exit within the next decade. 43% of these are likely to close due to having no buyer, however **creating your own buyer** through an internal sale is, unless you are a micro-business, nearly always possible.

Choosing the right route requires careful planning. Both the company and its current owners will need clarity on valuation, tax, funding, leadership readiness, timing and long-term legacy. Using our experience over many years guiding hundreds of diverse businesses to their right internal succession, we've designed this guide to help business owners understand:

- the main internal succession options available;
- the advantages and challenges of each route;
- the key questions to consider before proceeding; and
- how specialist advisers can help structure a successful transition.

Is succession feasible in my business?

There are two principal elements to succession:

- ownership
- leadership

At least one of the routes to ownership succession explained in this guide will generally be feasible for your business.

In deciding which to choose, you will also need to know what your firm's **leadership succession** is going to look like, even if you aren't yet ready to put it in place.

It will be essential to have a co-ordinated overall succession plan that covers both elements.

We'll start by looking at the main ways in which you can find a new owner for your business:

Other ways to leave your business that we don't cover here

As this guide is about succession and how your business can continue, it does not consider liquidation or simply closing your firm down, which will always be possible as a last resort.

We do not consider a gift of the business to your family. A simple thing to do on the face of it, but where inheritance tax planning may (depending on the value of your business) be your main challenge.

Find a buyer, or create your own?

A great starting point is to think about whether you could sell your business to a third party buyer or investor, and if so whether you would wish to.

If this isn't feasible or desirable, you will often be able to create your own buyer to take over the ownership.

1 Sale to a third party or investor

This may be possible where a trade buyer can be found who sees strategic value in integrating your business with its own. Sometimes a sale to a third party may provide new advantages, such as economies of scale in a larger group, new leadership and access to wider markets.

A private equity (**PE**) buyer may be feasible in some business sectors. It will generally look to grow and increase your company's value over a defined time period before selling it on for a profit. Often, PE will back existing management (another version of MBO) either incentivising them through personal share investment and/or a long term cash bonus.

A trade or PE buyer can sometimes maximise your sale price, particularly where cost savings or cross-selling opportunities exist.

However, integration often brings change – which may include cost cutting, restructuring and/or redundancies. It may bring shorter investment horizons, the potential for your firm's hard won culture being lost, and reduced opportunity to harness employees' engagement for further business growth.

2 Create your own buyer

The alternative to a third party sale is a transfer of ownership to those working in the company. Either:

- to an **employee ownership trust (EOT)** resulting in ownership by all the employees (**employee ownership**)
- to the management team (**management buyout** or **MBO**)
- **management and employee buyout** or **MEBO** (combining an MBO with an EOT or other form of employee ownership).

Why sell to members of your team in this way?

For many founders, preserving their firm's independence is a priority.

Advantages can include:

- maintaining agility and entrepreneurial freedom
- protecting the culture and values you have built
- preserving jobs and local identity
- maintaining continuity for customers and suppliers
- creating space for fresh leadership and energy from within
- rewarding loyal employees and management teams
- avoiding the disruption of a third-party sale process
- securing a gradual and flexible exit

An internal succession strategy can often align commercial objectives with these broader personal and cultural priorities. If employee ownership is also in the mix (that is, a sale to an EOT or a MEBO) there is clear evidence that this can bring significant additional benefits which we would strongly urge any business to consider:

Advantages of employee ownership for:

BUSINESS

Improved productivity and performance through greater employee engagement leading to longer term resilience

RETIRING OWNERS

Legacy and the preservation of culture and independence

EMPLOYEES

Increased and clearer purpose, voice and involvement plus the opportunity to share in profits

Employee Ownership Trust (EOT)

An EOT sale involves the founders selling either all or (generally) a majority (more than 50%) of shares to a trust which holds the shares for the benefit of all employees.

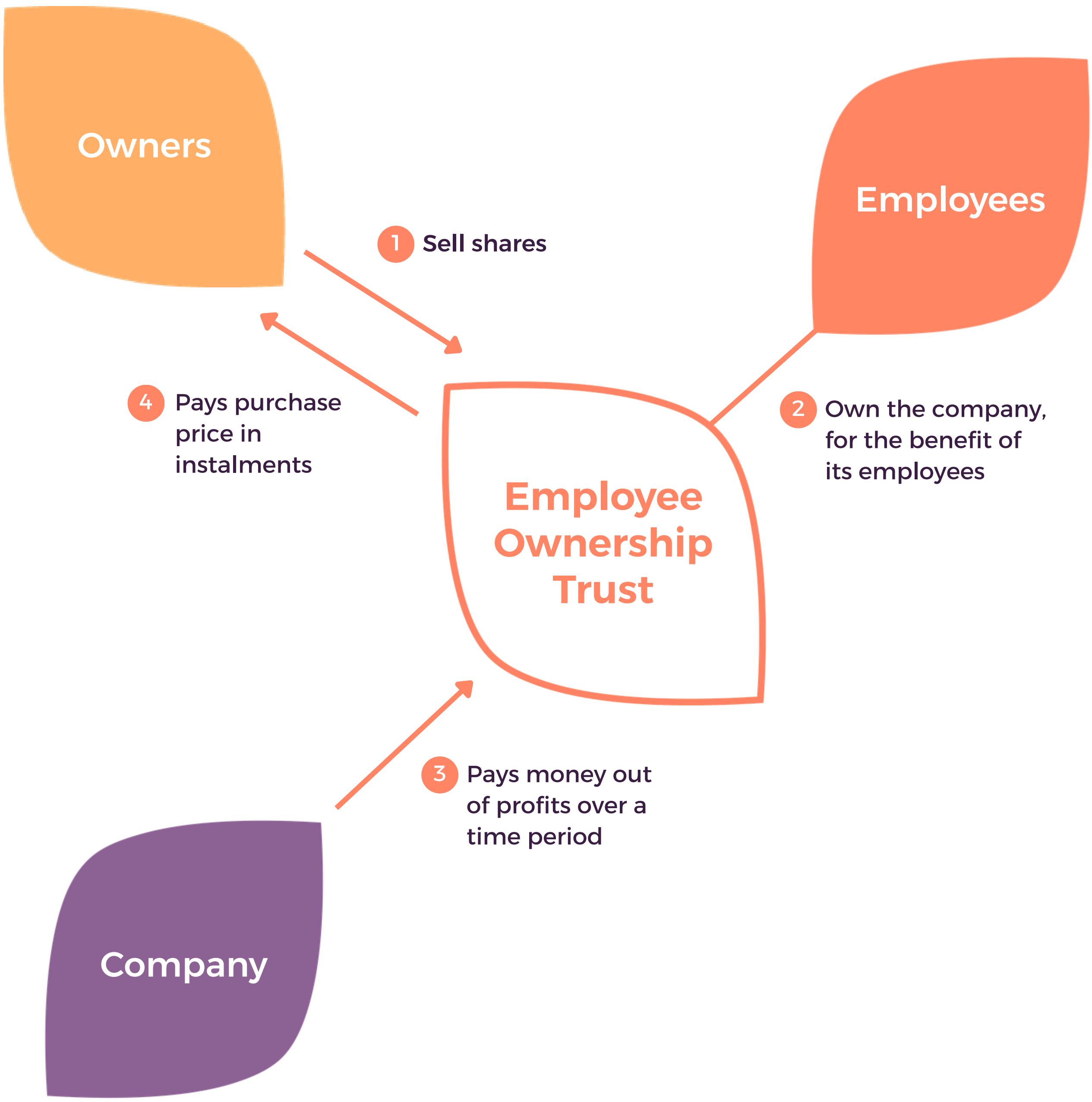
Key EOT features typically include:

- payment for the shares is usually made over time from the company's future profits
- the Company remains independent
- the rewards of success are shared with all employees, who take no personal financial risk

2,800+

EOTs in the UK

Over the last few years **selling to an EOT** has been the fastest growing exit route for UK private company owners



Employee Ownership Trust (EOT) CONTINUED

Taxation

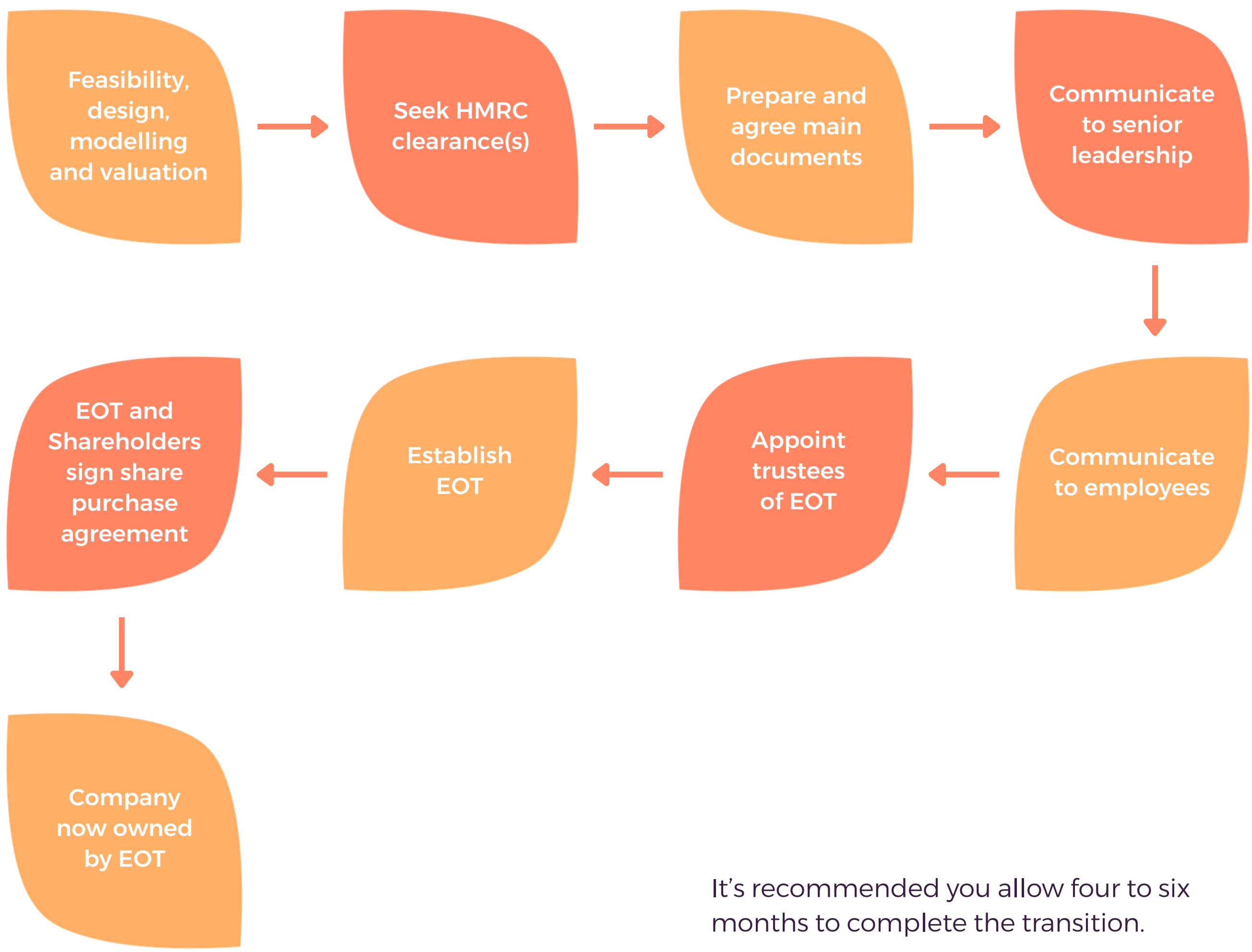
An EOT has **several tax advantages**:

- As a seller you **pay 50% less capital gains tax (CGT)** on your total chargeable gain (a rate of **12%** rather than the current main rate of 24%), with a facility for payment in instalments.
- Your employees can be paid an annual bonus free of income tax up to £3600 (National Insurance still applies).
- If you give your shares away to an EOT, this will be exempt from inheritance tax.

If some shares (at least 10%) are sold to a specific form of employee trust (a **Share Incentive Plan (SIP)**), it may be possible to pay 0% CGT on those shares if their sale proceeds are reinvested in other investments. A SIP provides a way to create individual employee share ownership with separate tax reliefs for employees.

In addition to these tax benefits, many founders are attracted to an EOT to preserve the company's independence and culture and the strong platform this ownership model can create for further growth through employee engagement in its success.

Key steps



It's recommended you allow four to six months to complete the transition.

Consider an EOT where:

- you can see benefits for your business from majority employee ownership
- your business has, or can develop, a strong collaborative culture
- you don't yet have a new leadership team in place (this can be addressed after the EOT sale)
- your current leadership team will support employee ownership
- retaining employees, customer relationships and continuity is a priority
- you'd like flexibility over timing, structure and level of ongoing involvement

Some points to be aware of:

- qualifying conditions must continue to be met for a period after the ownership change
- payment of purchase price is usually reliant on future company profits
- employee communications and engagement are key to success.

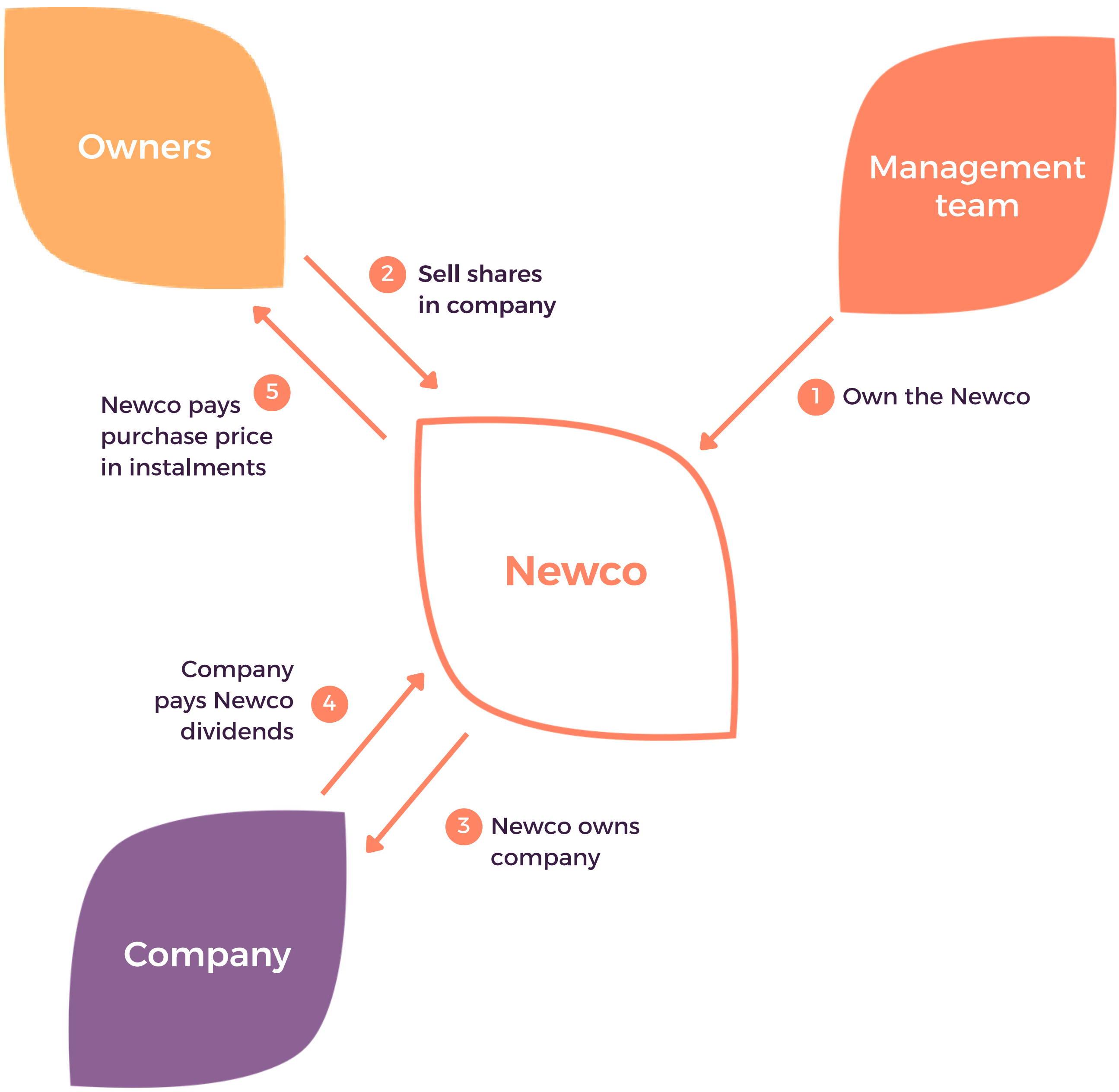
Management Buyout (MBO)

An MBO is a long-established form of internal ownership succession in which a new generation of leaders take over the business's ownership. In this scenario, the founder would generally sell to a new company (**Newco**) which is owned by the management team.

Payment of the purchase price may be:

- paid in instalments from future profits (vendor funding), or
- partly or wholly paid upfront using third party investment and/or bank loans to the Newco.

WHAT DOES A MBO STRUCTURE LOOK LIKE?



Taxation

You as the seller will pay capital gains tax (**CGT**) at **24%**, (or 18% on the first £1m of gains if you qualify for business asset disposal relief). Payment of CGT can generally be structured in instalments over a period of years linked to when you are paid.

Key steps

This shows the key steps in a vendor-funded MBO. If you want to be paid the whole or a high proportion of your sale price immediately, it will generally be necessary for the Newco to be financed with loans and/or equity investment, leading to a more complex transaction.

1. Feasibility, design and valuation with management team
2. Seek HMRC clearance(s)
3. Prepare and agree main documents
4. Management team seek own advice if required
5. Finalise independent valuation
6. Management team form Newco and become its shareholders and directors
7. Newco and selling shareholders sign share sale agreement
8. Company now owned by management team (through Newco)
9. Communicate to employees (or earlier)

Consider an MBO where:

- there is a strong and entrepreneurial new management team committed to the business's long term success
- retaining employees, customer relationships and continuity is important

Some points to be aware of:

- unless payment of purchase price is largely deferred, funding may be complex
- negotiations can become sensitive where personal relationships exist
- management capability must be carefully assessed

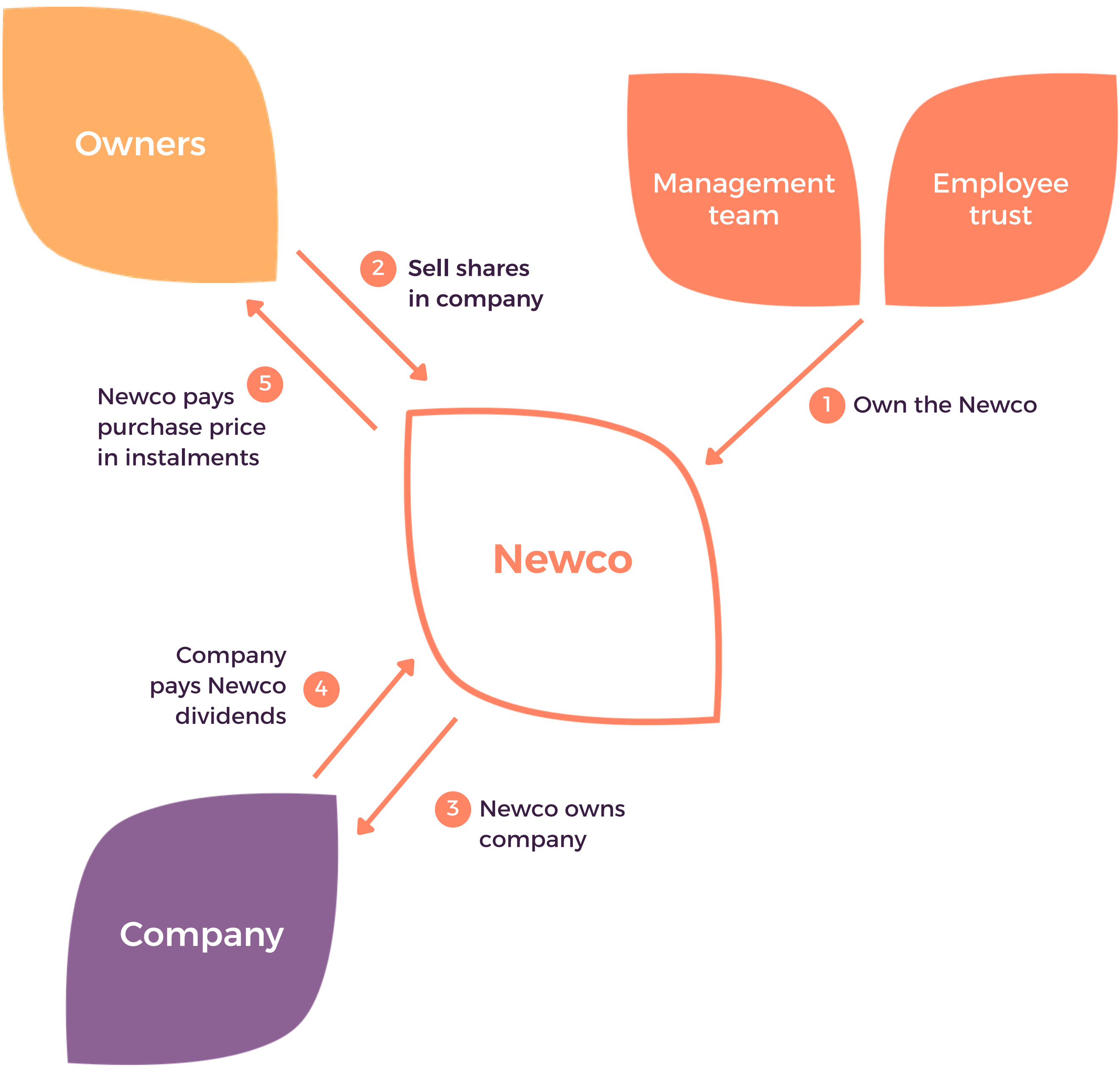
Management & Employee Buyout (MEBO)

Where there is a preference for a new generation of leaders to acquire a major ownership stake **alongside** wider employee ownership, a MEBO may be an attractive solution.

This could be structured in a similar way to an MBO but with Newco's new shareholders also including:

- either individual employees, or
- (simpler) an employee trust (providing a stake in the company without the risk of personal investment and the prospect of all employees sharing in profits).

WHAT DOES A MEBO STRUCTURE LOOK LIKE?

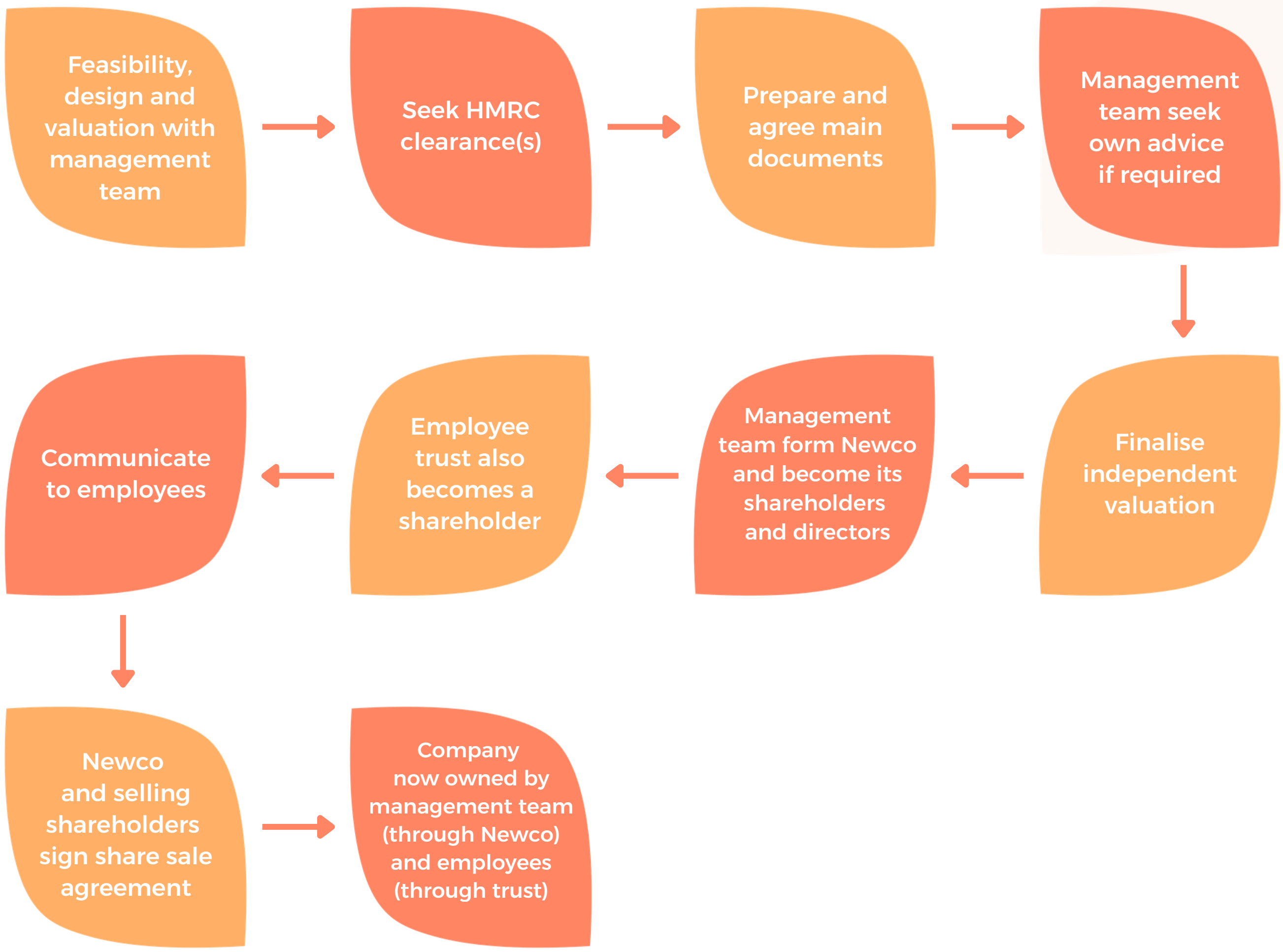


Taxation

The tax treatment would generally be the same as for an MBO. However, as with an EOT explained before, if some shares (at least 10%) are sold to a Share Incentive Plan (SIP), it may be possible to pay 0% CGT on those shares if their sale proceeds are reinvested in other investments.

A MEBO can be an excellent succession solution in the right circumstances, particularly where owners want to combine significant management ownership with wider employee participation.

Key steps



Consider a MEBO where:

- there is a strong and entrepreneurial new management team who want to take the business forward and who will support employee ownership
- you can see benefits for your business from being majority employee owned
- your business has, or can develop, a strong collaborative culture

Some points to be aware of:

- a MEBO will be at least a little more complex than an MBO
- as with an EOT, employee communications and engagement are key to success
- plan carefully for how ownership and rewards of success are shared between management and employees

Leadership Succession: who will run the business?

Whatever new ownership structure you choose, you will also need to consider who is going to take over running the company.

Continued independence will only be possible if you have, or can grow or recruit, a new leadership team.

Is there a capable and committed management team ready to step up? Will you remain involved for a period, or do you wish to exit quickly?

Sale to an EOT allows leadership succession to be put in place over time. However, an MBO or MEBO will by definition need your business to have a new leadership team in place.

Key practical considerations when deciding on your succession route

Price

- in an **EOT** sale, the trustees must ensure they are not paying more than market value, supported by an independent valuation
- under an **MBO** or **MEBO**, the price will be agreed between the seller(s) and the buyer(s), normally with support from at least one professional adviser.

Timing

A sale to an EOT or vendor funded MBO or MEBO may often be quicker to complete compared with a third party sale and the founder will often be able to set the timetable.

With a trade or PE sale (or externally funded MBO or MEBO), due diligence is likely to be disruptive and add significantly to the time, cost and work involved.

Regulatory approvals (where relevant) can extend timelines under any structure.

Warranties and indemnities

A trade or PE buyer will likely require significant warranties and indemnities from the sellers, often leaving them with an ongoing potential liability. Warranty insurance is sometimes available.

By contrast, an EOT or vendor funded MBO or MEBO will often involve limited warranties and relatively light due diligence.

Post sale under the chosen succession route

The post-sale experience as you might expect varies significantly.

Under an EOT:

- the trust becomes the majority shareholder
- trustees oversee the board, with a majority required to be independent of the selling shareholders
- the founder(s) can remain involved for a transitional period if desired
- it will be important to start building an ownership culture which engages employees as owners
- leadership succession will need to be planned if not already
- to demonstrate the financial advantage to employee ownership, it is recommended to pay income tax free bonuses to employees as soon as possible.

Under an MBO or MEBO:

- the new leadership team takes control and will likely wish to place their own stamp on the company and reshape strategy
- for employee participation through a MEBO to be effective, employees will need to be engaged as with an EOT.

Under a third party buyout:

Under a trade and/or PE sale, the direction of the business will be led by the new owners. Founders may be required to continue working in the business as a condition of them being paid for their shares.

Choosing the right succession route for you and getting the right advice

Succession is not just a transaction. It is a defining chapter in the life of your business and in your own life.

The right choice depends on your priorities:

- financial return
- legacy
- independence
- employee involvement
- speed and simplicity
- appetite for ongoing risk

The right succession route for you, your business and your employees

In our over twenty years' experience providing tailored succession plans, no two businesses are ever the same:

- **every business owner will have their own goals**
- **every company will have its own culture**
- **every leadership team will have its own ambitions and motivations**
- **employees will value well paid and purposeful work, rewards for success and as much job security as is feasible.**

We can guide you through the various decisions you need to make and help understand and work out the right one for you.

On the next few pages are some real client case studies for the different internal succession options.

EOT CASE STUDY:
MIMA GROUP

The business

Mima is a design agency that for nearly 50 years has put human behaviour at the heart of designing spaces, services and experiences. A recent project involved working with the COP28 teams to ensure that the 2023 event held in Dubai was accessible for guests, staff members and volunteers.

Why a vendor-assisted management buyout?

The company's major individual shareholders had retired from working in the business and were looking to sell their shares. The three leadership team members, two of whom already held a minority shareholding, were keen to succeed them by mounting a management buyout which would not involve significant personal investment or third party funding.

Working with us

We were engaged by the company to listen to what it, its shareholders and management team wanted to achieve, then help it develop a plan. We then presented to the management team and shareholders an outline plan, involving a core suggested way to pass on the ownership with some possible alternative variations to help ensure that the plan met the needs of all parties.

After careful discussion this was developed into a final plan which everyone was happy with. The agreed solution was a vendor assisted management buyout, that is each of the majority shareholders were to sell their shares to a new company (newco), agreeing to be paid in future instalments funded from the company's profits.

We then arranged HMRC tax clearance and implementation and project managed the transaction to ensure successful delivery for all parties.

How did it work?

Newco purchased the company at a price agreed between the selling shareholders and the directors:

- Most of the retiring founder shareholders agreed to be paid over a time period, fixed amounts by certain dates. One of them wished to continue as a part-owner and so was partly paid by receiving new shares in Newco.
- The directors were paid partly through loan notes (a form of IOU, to be repaid over the same time period) in Newco and partly through Newco shares (so their ownership continued but now through Newco)[1].
- A third director who did not already hold shares in the company invested in Newco shares.
- The terms of the sale of the company were recorded in a share purchase agreement and the terms of the ongoing relationship between the four Newco shareholders were set out in a shareholders' agreement

The result was that the company (through Newco) became owned (approximately 25% each) by its three directors and the original non-director shareholder who wished to continue as a co-owner.

Who runs the company?

Mima is now both majority owned and led by its directors.

[1] By exchanging their shares in the company for loan notes and shares in Newco, they were able to defer liability for capital gains tax until the loan notes were paid off and Newco shares sold.

EOT CASE STUDY:
PARSONS BAKERY

The business

Founded in 1926, Parsons Bakery is one of the South West's most loved independent bakery businesses. Family owned for four generations, the business has grown to 50 stores across the region and employs more than 400 people.

Approaching its 99th year of trading, Parsons has built a reputation not only for quality baking, but also for its strong people-first culture and deep roots within the communities it serves.

Having stepped back from the day-to-day running of the business several years earlier, owners Nick and Nicola Parsons had already begun a carefully planned leadership transition, empowering the senior management team and developing the next generation of leaders within the business.

In 2025, the family made the decision to transition Parsons Bakery to employee ownership, ensuring the business would remain independent and continue to thrive for generations to come.

As Nick Parsons explained, the business was left "in the hands of the people who bake, serve and keep it running every day."

Why Employee Ownership (EO)?

For the Parsons family, employee ownership represented the best possible way to secure the long-term future of the bakery while protecting its culture, people and independence.

After exploring a range of succession options, including trade sale and private equity investment, employee ownership stood out as the most natural fit. Previous experiences of acquisition had highlighted the challenges that can come with culture clashes, restructuring and reduced headcount – outcomes the family were determined to avoid.

The key motivations behind the transition were clear:

- Securing the future of Parsons Bakery
- Keeping the business independent
- Leaving the company in the hands of those who know it best
- Protecting the culture and values built over generations
- Rewarding the employees who contribute to the bakery's success every day

Nick Parsons had long believed that the success of the business was driven by its people. The company's "grow our own" approach to leadership development had already created a strong senior management team capable of leading the business forward.

The transition was therefore planned carefully over more than a year, allowing time for leadership succession arrangements to bed in before completion. The senior

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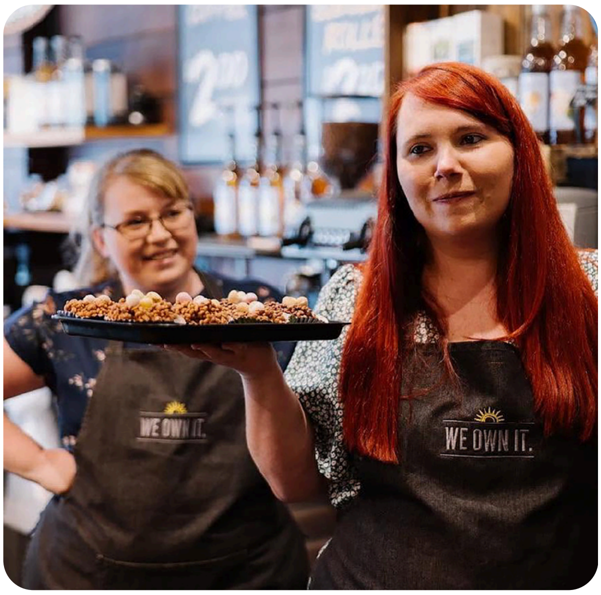
leadership team were informed 18 months ahead of the transaction, with the wider workforce engaged six months before completion through a structured communication programme across the business's many locations.

The move to employee ownership also reflected the family's desire to preserve the legacy of a business that had been part of the South West community for nearly a century.

As Nick explained:

"It didn't feel right for the business to be sold. This way, the employees who make the business what it is get to share in its success going forward."



A governance structure was established to support the transition, including the creation of informal feedback sessions with various groups across the wider team.

How does it work?

Parsons Bakery is now 100% owned by an Employee Ownership Trust (EOT).

Under the EOT structure, the trust holds the shares in the business on behalf of all employees, ensuring the company is run for the long-term benefit of its people. The model allows profits to be reinvested into the business while also enabling employees to benefit directly from its ongoing success.

A governance structure was established to support the transition, including the creation of informal feedback sessions with various groups across the wider team. This provides employees with a voice in discussions with the Trustees on matters affecting the workforce and the future direction of the business. Longer term they hope to set up a more formal approach with an Employee Council.

The transition was supported by a carefully phased handover process. Having already stepped back operationally several years earlier, Nick and Nicola Parsons were able to give the new leadership team the space and confidence to continue leading the business independently.

The result is a business that remains rooted in its communities, led by an experienced management team and owned by the employees who contribute to its success every day.

One year on, the transition has proven to be a positive step for both the business and its people, securing the future of Parsons Bakery while preserving the culture and values that have defined it for almost 100 years.

Tax ready reckoner

	EMPLOYEE OWNERSHIP TRUST (EOT)	MANAGEMENT BUYOUT (MBO)	MANAGEMENT AND EMPLOYEE BUYOUT (MEBO)	SHARE INCENTIVE PLAN (SIP)
Ownership model explained	Trust acquires 51–100% of company on behalf of all employees	Management team acquire 51–100% of company	Management team acquire 51–100% of company, with an employee trust also acquiring shares	Acquires at least 10%, shares are then allocated to specific employees (they purchase them or receive them free). Most likely combined with EOT, MBO or MEBO and not a stand alone option
Capital gains tax (CGT) on seller	12% (50% of headline CGT rate, currently 24%)	24% (18% on first £1m of gain where seller eligible for business assets disposal relief (BADR))	As for MBO	0%
When CGT must be paid	By 31 January after end of tax year in which sale is completed. This is on full sale price. HMRC will consider requests to pay by instalments where payment by this date is not feasible.	By 31 January after end of tax year in which sale is completed. This is on full sale price. However, a seller will often be able to “rollover” their CGT into loan notes or/and shares in Newco. CGT then payable when loan notes redeemed or new shares sold.	As for MBO	Not applicable
What if I give my business away?	No inheritance tax or CGT	Inheritance tax on value of business/ shares	As for MBO	As for MBO
Employee income tax	Employees can receive an income tax free annual bonus (up to £3600 each per year)	No favourable treatment	No favourable treatment	Enables employees to purchase shares using pre-tax salary or receive free shares without income tax on their value

Working with you

If you are beginning to think about succession, the earlier the conversation starts, the more time you have to make the right choice.

An initial discussion can explore:

- whether internal succession is viable;
- alternative succession routes, to help you chose which is best for your company
- likely timescales and funding considerations; and
- how to prepare the business for transition.

The right succession strategy must secure the confidence of the exiting owner, the future leadership and the employees.

Get in touch

If you are beginning to think about succession and would like to explore your options in confidence, we would be delighted to have an informal conversation with you.

Please contact us by calling our office on **020 3818 9420** and or email info@postlethwaiteco.com

Meet the Postlethwaite team

We are 100% employee owned ourselves, regulated by the Solicitors Regulation Authority (SRA), B Corp certified and have top firm and lawyer rankings for several consecutive years with Law Guides, Chambers & Partners and Legal 500.

You can therefore be sure you're making the right decision when choosing to work with us.

THE SOLICITORS

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Partner and Managing Director

Robert set up Postlethwaite in 2003. He's the author of 'The Employee Ownership Manual' written and independently published and top tier ranked for 16 years by Chambers & Partners.

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