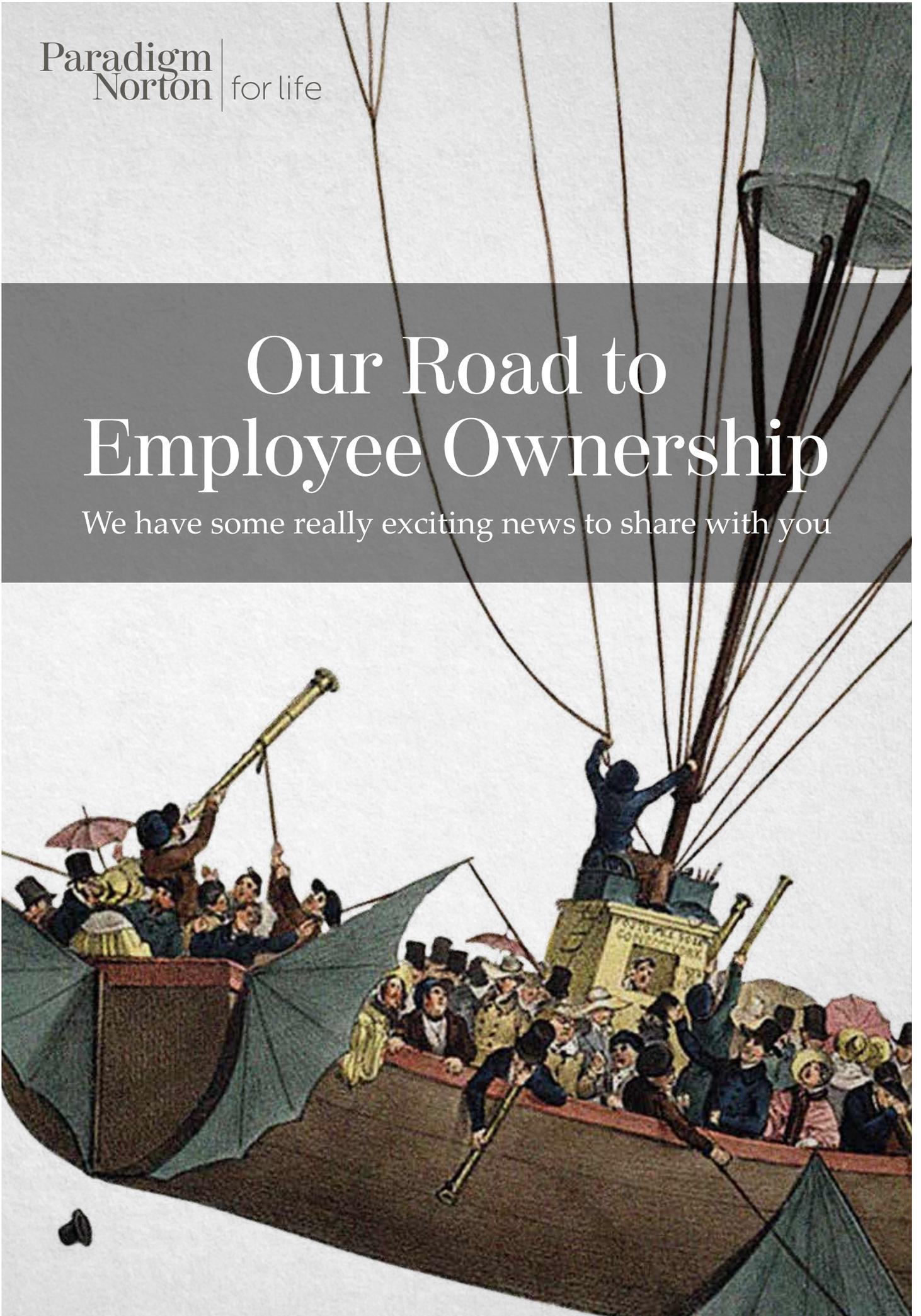


Paradigm
Norton | for life

Our Road to Employee Ownership

We have some really exciting news to share with you



“If you want to go quickly, go alone.
If you want to go far, go together.”



We are delighted to announce that Paradigm Norton became an employee owned business on 13th March 2019.

The background

Over the last five years a number of the Paradigm Norton team have started to consider when they might retire, and those with equity in the firm, how they might realise the value of their investment in Paradigm Norton.

For some years the Board, with encouragement from our non-executive director Kevin Gregory, and supported by the Executive Committee, have been looking at the issue of both leadership and ownership succession. The challenge has been to

preserve the key factors which make the firm what it is today whilst enabling it to continue to thrive and grow.

The ownership succession strategies that we have explored include:

1. A structured management buy-out.
2. A trade sale to a larger firm.
3. A flotation on the Alternative Investment Market (AIM).
4. The transition of the business to being 'employee owned'.

It was this fourth option that really resonated with us.

In 2014 the UK Government, through the UK Finance Act, introduced a structure whereby a business can be owned collectively for the benefit of all those working in it through the establishment of an 'Employee Ownership Trust' (EOT).

An employee owned business ensures that our decision making continues to bear in mind the best interests of our key stakeholders: our clients, our team, and those who founded the business and resourced its growth and development. When you read 'Employee Ownership Trust' think John Lewis!

“I am delighted at the news of the EOT; in my view this move gives both our clients and our team members certainty around the long-term ownership, direction and stability of Paradigm Norton, crucial factors when building a financial plan or career.”

Ruth Sturkey Client Director



The Paradigm Norton Board began exploring the transition to employee ownership via an EOT in 2017, led by London law firm Fieldfisher who have considerable expertise in this area. In fact, it was Fieldfisher Partner Graeme Nuttall who was the author of the review into employee ownership that formed the basis of the 2014 legislation.

We have kept the team up to date with our thinking and progress as we have moved through this process with everyone being overwhelmingly supportive of the potential transition.

What has becoming employee owned allowed us to achieve?

A move to being employee owned secures the longevity of the business for both our team and our clients, effectively taking off the table the need for the Board to ever have to announce, “we have sold the business to a competitor”. In doing so we have:

1. *Future proofed our firm, realising our ambition to become a trans-generational business.*
2. *Protected our long term client relationships, the strength of which is the core of our business.*
3. *Ensured that the firm will now outlast its founders without threat of a change in culture that could result from a takeover or business sale.*
4. *Given ourselves the opportunity to build confidently for the future, meaning we can continue to deliver an outstanding level of service for our clients and engage with their children to provide inter-generational planning to protect their family’s wealth and security.*
5. *Allowed us to continue to offer our graduates the very best opportunities in their careers as we prepare our next generation to serve our clients and lead the business.*
6. *Been true to our core value of ‘Building for the long term’. In all our decisions we ‘start with the end in mind’. We can now envision where we want the firm to be in 10 years’ time and, without the risk of external interference, navigate a path to fulfil our ambitions.*

The Legal Structure

Converting to employee ownership involves establishing an employee ownership trust. The Trust has a corporate trustee, Paradigm Norton Employee Ownership Trustee Ltd (a new company limited by guarantee with no share capital) (the “Trustee”). The Trustee has purchased the shares of Paradigm Norton Holdings Ltd (PNH) and will hold the shares in trust for up to 125 years on behalf of all employees.

The Trustee company’s articles provide the Trustee’s own constitution and sets out its administrative arrangement:

The main purpose of the Trust is to benefit the beneficiaries (the employees of Paradigm Norton) by:

1. *Ensuring the ongoing continuation of the business for the team and clients.*
2. *Maintaining the current culture and values of the business.*
3. *Meeting the ‘controlling interest requirement’ by acquiring and holding over 51% of the PNH company shares.*

“It’s such a positive move – I’ve always believed that PN was a special place to work and employee ownership secures that for another generation of team members and clients.”

Lee Dunn Client Director



The diagram opposite shows our new employee ownership structure. The employee committee is an optional feature, not normally adopted at outset; we plan to implement an employee engagement team in the second half of 2019.

As explained overleaf, Paradigm Norton Employee Ownership Trustee Ltd (The Trustee) being a private company limited by guarantee with no share capital, is the corporate vehicle we have used to establish the Employee Ownership Trust (EOT).



On 13th March 2019, 80% of the shares in PNH were sold to the EOT in return for 'deferred consideration' which will be paid to the sellers of the shares over a period of 10 years.

We are therefore thrilled to announce that we are now formally employee owned and controlled.



"This is such great news. Not only does it help to retain the values and integrity of PN but it safeguards the future for the benefit of our clients, our employees and stakeholders for decades to come.

I feel immensely proud to be part of such a forward thinking organisation."

Martin Ruskin Client Director

Paradigm Norton Employee Ownership Trust

The Trustee board of the EOT is formed of eight members. Firstly there must be an independent chair. The other seven members include Barry Horner, acting in his capacity of Board director of Paradigm Norton; three Paradigm Norton employees appointed from the 'at large' group of employees; and three Paradigm Norton employees appointed by the holding company Board.

Patrick Burns, the former CEO of the Employee Ownership Association, has been appointed as the Independent Chair.

The three trustee directors appointed by the PNH Board are Tommy Watson, Tracey Reed and Anne Hill.

Why are we so supportive of Employee Ownership as a means of ownership transition?

1. The employee ownership model allows Paradigm Norton to retain the unique, special factors which we all value so deeply.
2. The business will continue under the same leadership team.
3. Our values and core purposes are protected.
4. The existing owners will be paid out over a period of up to a decade ensuring growth capital is retained in the business.
5. We can ensure that the business will be run for the benefit of the employees of Paradigm Norton, who are the new owners. The Trustees will be legally responsible for ensuring that this is the case.

With effect from 2019 we can start to pay all of the team a bonus, which is clearly a helpful team retention tool. This bonus will be modest at outset but will potentially increase in time. Under EOT rules the first £3,600 per annum of any such bonus is free of income tax.

The EOT allows us to achieve 'business as usual' as the day to day operations of the business will still be controlled by the same operating Board meaning our clients will experience **no change**.

1. The name of the company remains unchanged.
2. The key leaders of the business remain unchanged.
3. The team remains unchanged.
4. The Financial/Tax Planner that our clients have historically worked with remains unchanged.
5. The services offered to our clients remain unchanged.
6. Our fee tariff remains unchanged.
7. Our terms and conditions of business remain unchanged.
8. Our office locations remain unchanged.

"We feel very positive knowing that our future is secure and we all have a part to play in it."

Anne Hill Finance Assistant



Frequently asked questions

We recognise that for some of our clients this news will raise further questions. We have therefore prepared the following 'frequently asked questions'. We have also created a short film that can be found on the Paradigm Norton website.

We hope that this is helpful.

1. Will the Board and senior management of the business remain the same or will they now be retiring?

Richard Child, one of the four executive directors, has been transitioning his Board and other roles and responsibilities to others over the last five years. Richard plans to work for a further 2-3 years to complete this transition process and then retire.

Barry Horner will continue to work full time for a further five years, at which point he will likely transition the CEO role to another team member. Barry then plans to work on a part-time basis for a period to allow some helpful overlap with the new CEO.

William Pratt and Matt Fowler have no plans to retire and will continue to work for the firm for many years to come.

Kevin Gregory our non-executive director will continue to serve on the Board for up to a further five years.

2. If the business has to repay some of the exiting owners, will it retain sufficient cash to be able to continue to build the business and serve current and future clients?

We have carefully modelled the out-going payments of the deferred consideration to the sellers such that the business will be able to continue to build; recruit further talented financial planning and tax professionals; maintain its regulatory capital adequacy requirements; and also meet the investment return expectations of the remaining shareholders who did not sell their shares to the EOT at this stage.

There will be no bank borrowing or liabilities created to fund the shareholder exit process.

3. Is an Employee Ownership Trust the same as an Employee Benefit Trust? (EBT)

No, they are quite different. EOTs have wide cross-party support and the employee ownership community is now estimated to be worth some £33 billion. Employee ownership is becoming ever more popular, with two other well known west country brands moving to employee ownership over the last twelve months – Aardman Animations and Riverford Organics.

EBTs, in contrast, have been abused and do not have a good reputation, as individuals have sought to exploit HMRC rules to avoid tax. EBTs, which have been around since the late 1980s, have been used extensively by high-earning employees – ranging from IT specialists to Premier League footballers.



“The EOT gives a sense of belonging and the opportunity to be part of something special – just like a family. Knowing that the Board has confidence in its employees to continue its commitment to our clients is really empowering.”

Sue Groves Tax & Business Services Administrator

4. How does the EOT benefit me as a client? What are the implications?

Being employee owned will change neither the membership of the team that looks after you nor the services they deliver to you. EOT ownership ensures the longevity of the firm and its services indefinitely.

5. Are the wider employee group pleased with the change and transition to employee ownership?

Yes, the team are thrilled. They have been aware of the likely change and transition for the last 18 months and we have sought to keep them abreast of our discussions as we approached the FCA for permission for change of control and HMRC for the various tax clearances required to establish an employee owned business.

6. The transition to being employee owned satisfies the ownership transition challenge, but how have you addressed the issue of the future leadership of the business?

Over the last decade we have been addressing this very issue. Not only do we have a Board of five but we also have an excellent and well-functioning senior leadership team of a further five team members. The majority of day to day operational issues are now managed by this latter group. We envisage that it will be out of this group, plus from the growing team (that now exceeds 70 employees), that our future Board members will emerge.

If you have further questions please get in touch with any of the Paradigm Norton team, after all, we are here to help.

Paradigm
Norton

Bristol.

☎ 01275 370 670
✉ bristol@pnfp.co.uk

Paradigm House,
Macrae Road,
Ham Green,
Bristol BS20 0DD

London.

☎ 020 7269 7960
✉ london@pnfp.co.uk

140–142
St John Street,
London
EC1V 4UB

Torquay.

☎ 01803 618 318
✉ torquay@pnfp.co.uk

Pomona House,
Oak View Close,
Edginswell Park,
Torquay, TQ2 7FF

© 2019 Paradigm Norton Financial Planning Ltd.

Paradigm Norton Financial Planning Ltd is authorised and regulated by the Financial Conduct Authority
Registered address: Paradigm House, Macrae Road, Ham Green, Bristol BS20 0DD Reg. no. 4220937 England