

# WORKERS WERE ALWAYS 'ESSENTIAL': EQUITY PLAN DESIGN FOR HOURLY EMPLOYEES

May 28, 2020

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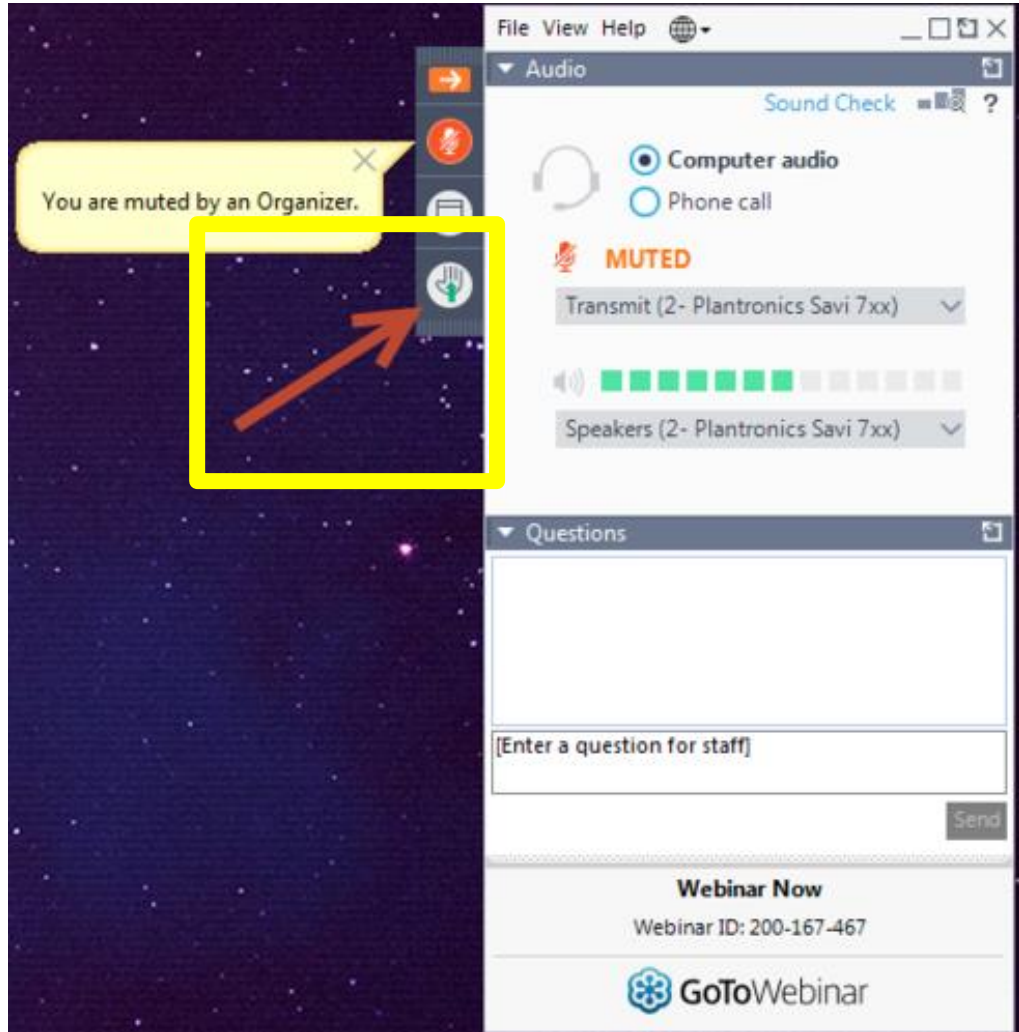
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# Our Presenters Today



**Robyn Shutak, CEP**  
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Partner



# About Computershare

World leaders in corporate financial services

Computershare offers full service support including:

|  |                                |                               |                                |                                       |                                     |
|--|--------------------------------|-------------------------------|--------------------------------|---------------------------------------|-------------------------------------|
| Plan administration and dealing services | Employee benefit trust support | Employee communication design | Annual general meeting support | Registry and corporate action service | Corporate governance and compliance |
|--|--------------------------------|-------------------------------|--------------------------------|---------------------------------------|-------------------------------------|



**AUD\$6.3bn**  
market cap



**12,000**  
employees



**21**  
countries with  
offices



**16,000**  
clients



**75m**  
investor records  
maintained

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# About Infinite Equity

## Who We Are

We believe equity compensation programs should drive performance and fuel innovation.

We are an independent professional services firm that enables companies to unlock the value of their equity programs.

## What We Do

Our highly experienced team can deliver a wide range of technical expertise with results-oriented solutions in the following areas:

- Program Design
- Award Valuation
- Accounting
- Performance Tracking
- Employee Stock Purchase Plans

**Broad-based equity compensation is essential to creating a culture of ownership**

# ESSENTIAL WORKERS

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# COVID-19 Significant Market Turmoil

- Millions of cases of COVID-19
- 1/3 of world's population working from home
- Market volatility
- Financial hardship
- Customer and employee engagement challenges



UK 30% of firms have sent home between **75%** and **100%** of their workforce.



**30million**  
North Americans  
have lost their jobs



# Current State of Hourly Workers

## **“Essential” Businesses**

- Strong revenues/profits
- “Essential” employees appreciated in a way like never before
- Working tougher hours
  - › Risking health and lives
  - › Customer abuse
- Some companies gave temporary raises or bonuses
- Challenge to engage, motivate, and retain in a risky environment

## **“Non-Essential” Businesses**

- Layoffs/furloughs at all levels, but particularly hourly employees
- Decreased/non-existent revenues
- No guarantee of retaining furloughed employees
- Unemployment at 14.7% in April (“real” rate at 22.8%)
  - › Goldman Sachs predicts peak rate of 25% and “real” rate of 35%
  - › Fed survey indicates households with income below \$40K experienced 39% rate of layoff/furlough

# We Will Discuss Today

- Why now?
- Why equity?
- What can we learn from history?
- What kind of equity are we talking about and why?
- How will we know it works?

Why Now?



# Why Now?

- Global inequality, gap between rich and poor getting wider
- Global Citizen, Business Fights Poverty
- **New understanding of essential workers**
- Public debate about exec pay when employees being laid-off
- Covid time-out has given us all time to reflect
- Societal shift in wanting a better world?
- **Renewed focus on mission, engagement and employee wellbeing**
- **Evolution in employer/employee relationship**




# Evolution in Employer/Employee Relationship

## Pre-Pandemic

- Rank and file/hourly employees do job, get paid, little room for growth; workers mostly interchangeable
- Employees viewed as numbers, comparing input (salary plus benefits) to output
- Employee engagement generally not focused on at lower levels

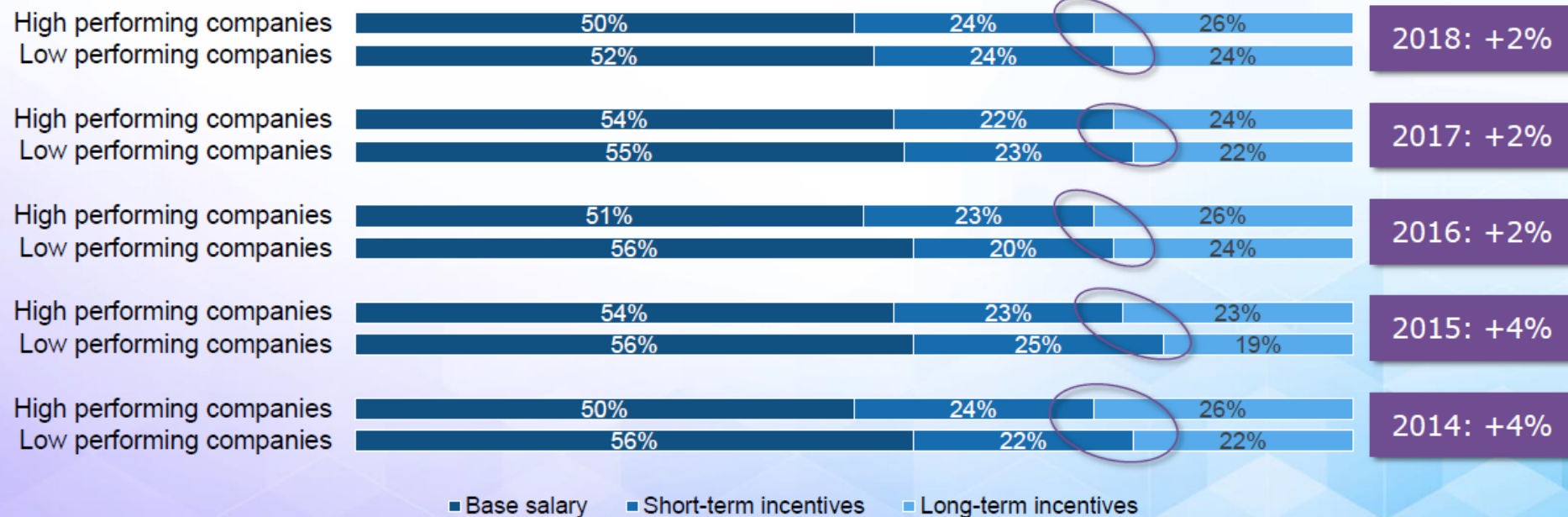
## Post-Pandemic “New Normal”

- New view of hourly workers who kept businesses, food chain, household supplies going
- Renewed focus on company mission, employee engagement, and employee wellbeing
  - › Companies will need differentiated benefit offerings to recruit laid off/furloughed staff
- Every society will always have a need for low-skilled jobs (i.e., farm workers, truck drivers, warehouse and grocery store workers)
  - › Should be compensated fairly 

# Why Equity?

# Successful companies grant a larger LTI portion than less successful companies

## Pay mix for the Senior Management (in % of total direct compensation)



\* We measure performance with an industry adjusted return on assets (ROA) averaged over the past three years. High (low) performers have return on assets in the upper (lower) third of the distribution.

# Employees Who Participate in Share Plans...



Are absent  
less frequently



Work longer  
hours



Are less  
likely to quit



Are more likely  
to recommend  
working at the  
company to others

**TALENT  
RETENTION!**

**TALENT  
ACQUISITION!**

Computershare Share Plan Survey (London School of Economics, 2014)

# Employee ownership is good for business

Customers would rather support employee-owned businesses...

**38%**  
said they're more likely to buy from them



Employee-owned companies can recruit better talent

When choosing between two similar jobs,



said they'd take the job that offered them employee ownership

**72%** want to work for a company owned by employees

19% owned by investors

9% owned by the state



Employee turnover can be **3 times lower** in employee owned companies

## ...and it's good for employees

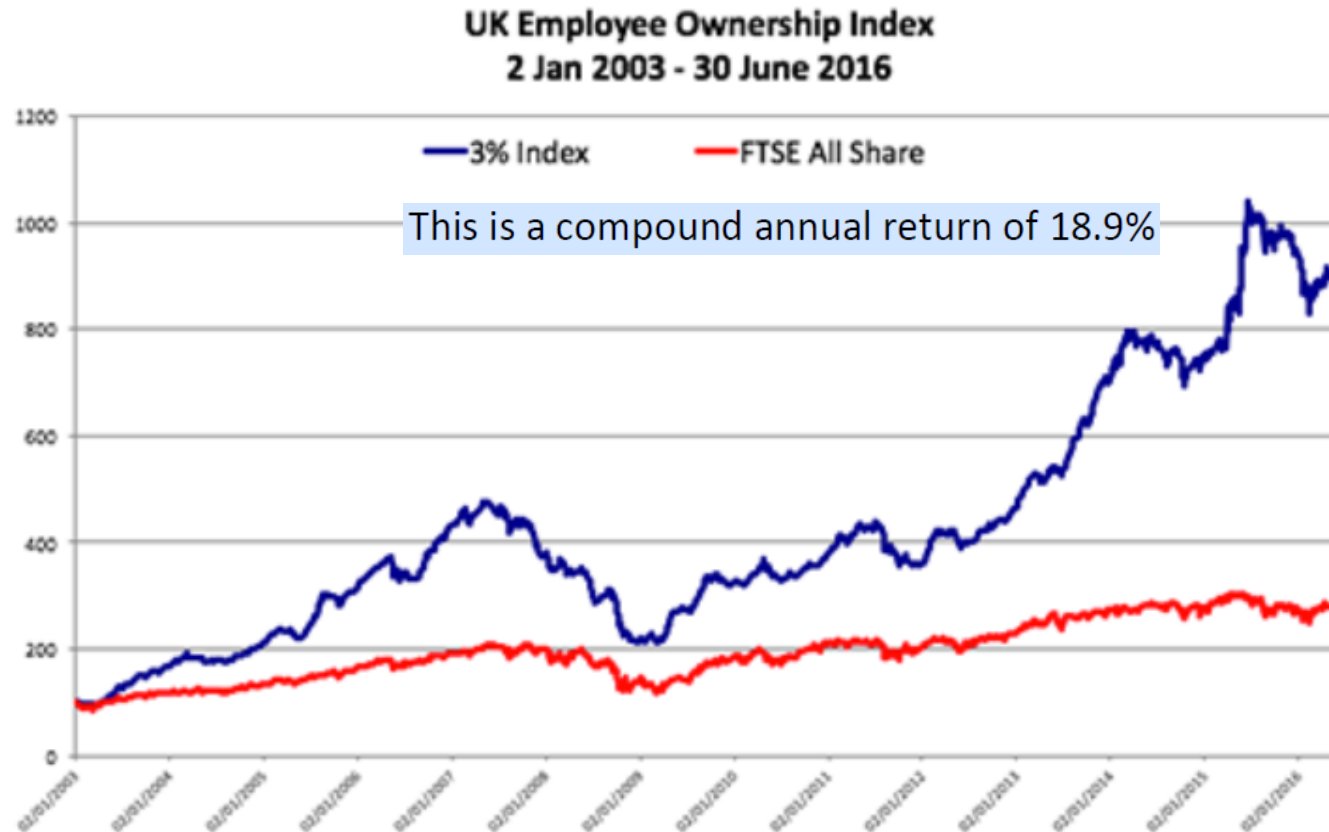


They also have more training, more diversified retirement plans, more profit and gain sharing, and more involvement in the business.



# The Case for Wider Employee Ownership

UK listed companies with >3% non-director broad employee ownership



Companies with high levels of employee share ownership outperform those without employee ownership



A new FTSE Employee Share Ownership Index will highlight some of the key benefits of encouraging employees to take an active interest in the future success of the companies in which they work. This new FTSE index will help raise awareness of how significant employee equity ownership can be advantageous for both companies and employees.

Xavier Rolet, CEO, London Stock Exchange



# What History Shows Us...



# What History Shows Us

- Recessions
  - Polarises the winners and losers
  - Lower paid lose out most of the time
  - Execs make a fairly quick comeback
  - Many employee plans have exposed employees to risk (in a way exec plans do not)
  - Many employee plans stopped for cost saving – employees further lose out

# What History Shows Us

- But, companies with broad-based employee stock ownership:
  - Had half as many layoffs during the past 2 recessions (2001-2003 and 2007-2009) (Source: study by Rutgers University)
- Employee engagement is crucial
  - Only 33-34% of employees are engaged (Gallup)
  - Companies with a critical mass of engaged employees have higher EPS and recovered from 2009 recession at a faster rate (Gallup 2013 “State of the American Workplace”)
    - Employees more likely to come up with innovative ways to save money and generate new products





## What Kind of Equity Are We Talking About and Why?



# Plan Objectives and Priorities

**FAIRNESS | ENGAGEMENT | PRODUCTIVITY | EMPLOYEE VOICE | RETENTION**

\*Retain talent\*

**\*Loyalty and motivation\***

\*Enhance employee benefits\*

**\*Financial wellness and security\***

\*Attract and keep attracting talent\*

**\*Match competitive market practice\***

\*Increase employee production and morale\*

**\*Align employee focus with corporate performance\***

\*Raise employee awareness in stock price performance\*

**\*Facilitate a means for employees to buy company stock\***

\*To underline a broader company change, e.g., IPO or turnaround\*

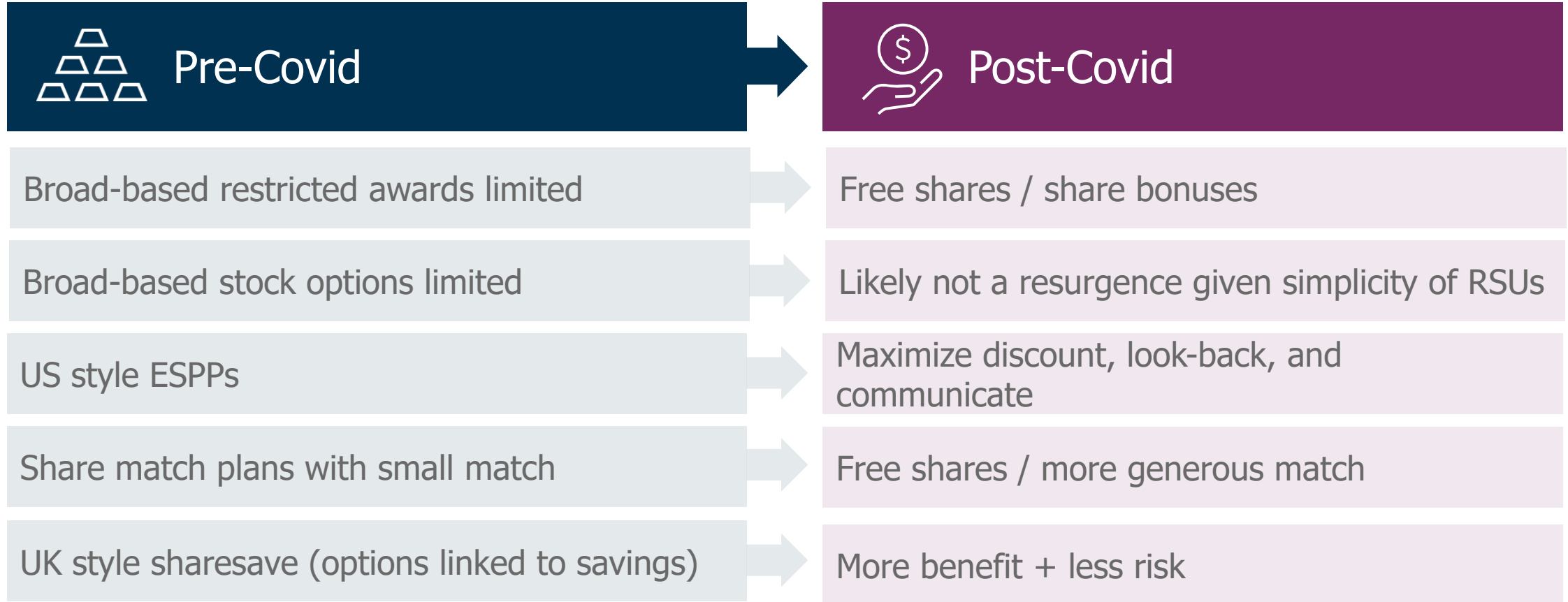
**\*Encourage stock ownership and provide asset accumulation opportunity\***

# Retention and engagement are key objectives for LTI plans



Source: Global Equity Insights Survey

# What Kind of Shares Are We Talking About and Why



# Analysis of Different Share Schemes

- Wide range of pandemic impact on companies
- Equity is a flexible and cash efficient way to meet company constraints and achieve goals to attract, motivate, and retain workers

| Impact to Company | Restricted Shares                          | Stock Options                                      | Tax Qualified ESPPs                  | Nonqualified ESPPs                |
|-------------------|--|--|--------------------------------------|-----------------------------------|
| Dilution          | Most dilutive                              | Moderately dilutive                                | Least dilutive                       | Least dilutive                    |
| Compensation Cost | Most expensive – 100% fair value per share | Moderately expensive – 30-50% fair value per share | Most efficient – 30-40% per share    | Most efficient – 30-40% per share |
| Value Delivered   | Max guaranteed value                       | No guaranteed value                                | Some guaranteed value                | Some guaranteed value             |
| Cash Inflow       | None                                       | Exercise price                                     | Employee contributions               | Employee contributions            |
| Tax Benefit       | Guaranteed at vest                         | Upon exercise                                      | Only upon disqualifying dispositions | Guaranteed at vest/purchase       |
| Governance        | Least shareholder friendly                 | Shareholder friendly                               | Most shareholder friendly            | Most shareholder friendly         |

## The flexibility of equity vehicles provides a unique opportunity to design a program to meet a wide-range of objectives

### "Essential" Share Ownership Bonuses

Create a share pool to reward "Essential" workers for going above and beyond

Empower managers to allocate rewards to key hourly workers

Flexibility on vesting

### Performance Share Program for All

Broad-based equity grant aligned to new strategic goals or objectives post-Covid

Ensures everyone is staked and united in effort to achieve goals

### Share Matching Program

Create a broad-based "benefit" program that facilitates ownership through savings and rewards matching shares

Generous match for Hourly workforce to drive participation

### Give Existing Purchase Plan a Boost

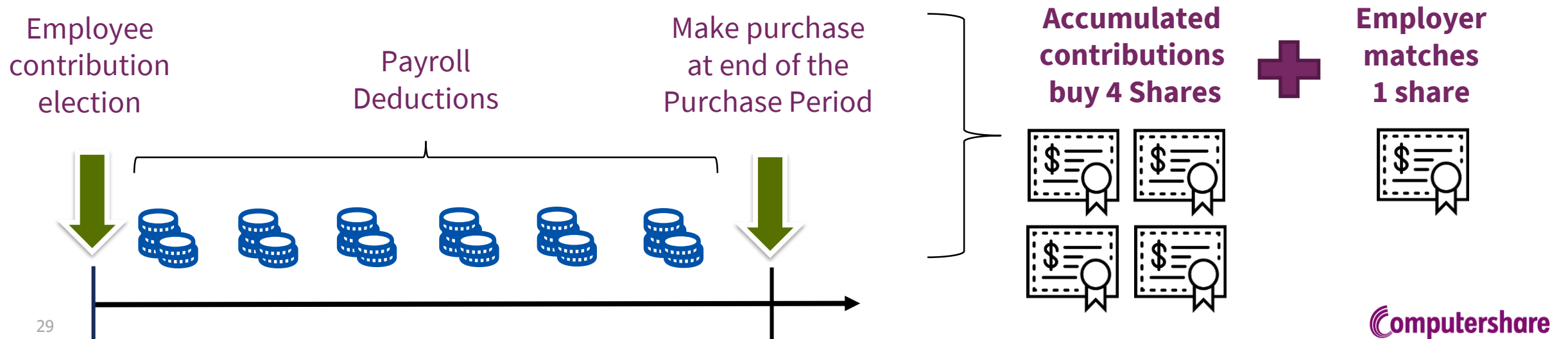
Add "Cashless Participation" feature to an existing ESPP

Cashless Participation will allow Hourly workforce to participate by facilitating a loan for the purchase



# Share Matching Program

- ESPPs with a contribution or share match may be an attractive alternative to a qualified plan
  - Simple to understand and explain to employees
  - More flexible design around benefits offered and employee eligibility
  - Generally taxed as ordinary income at purchase



# Cashless Participation for ESPPs

- Carver Edison, a FinTech company, has created a solution that enables employees to fully participate in their company's ESPP through Cashless Participation
- Company sponsors can offer interest-free loans which allows employees to supplement their contributions up to the maximum and purchase additional shares
- Loan is repaid upon purchase with shares, and employee keeps additional net shares
- The table at the right assumes the following
  - Employee can contribute up to \$10,000
  - Discount of 15%
  - Stock price at purchase \$50

| Employee Contribution | Total Shares Purchased | Shares Sold To Cover Loan | Total Shares Purchased | Net Shares Owned |
|-----------------------|------------------------|---------------------------|------------------------|------------------|
| \$1,000               | 235.3                  | 180                       | 55.3                   | 23.5             |
| \$2,000               | 235.3                  | 160                       | 75.3                   | 47.1             |
| \$3,000               | 235.3                  | 140                       | 95.3                   | 70.6             |
| \$4,000               | 235.3                  | 120                       | 115.3                  | 94.1             |
| \$5,000               | 235.3                  | 100                       | 135.3                  | 117.6            |
| \$6,000               | 235.3                  | 80                        | 155.3                  | 141.2            |
| \$7,000               | 235.3                  | 60                        | 175.3                  | 164.7            |
| \$8,000               | 235.3                  | 40                        | 195.3                  | 188.2            |
| \$9,000               | 235.3                  | 20                        | 215.3                  | 211.8            |
| \$10,000              | 235.3                  | 0                         | 235.3                  | 235.3            |

# How Will We Know It's Worked

# Post Covid World: How Will We Know It's Worked

- Shift in how we see all our employees – essential workers
- Shift in public tolerance for executive pay and inequality with pay for workers
- Shares for employees provide a great opportunity, when well designed, to:
  - Share gains with employees
  - Build employees' financial resilience over a period of time
  - Conduit for a better, more engaged, dialogue within company

If you want people to think and act like owners, make them owners.

Corey Rosen, Founder of the National Center for Employee Ownership