

# BANG FOR YOUR ESPP BUCK

## Maximizing Perceived Employee Value

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# Upcoming Events

## Webinar Series

- All Things ESPP @ [www.computershare.com/allthingsespp](http://www.computershare.com/allthingsespp)
- All Things Equity Plans @ [www.computershare.com/allthingsequityplans](http://www.computershare.com/allthingsequityplans)

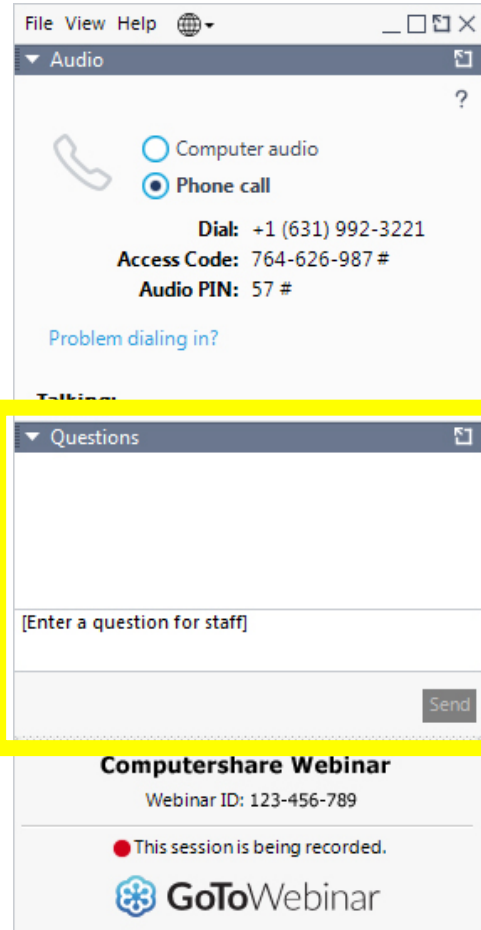
## ESPP Day

- November 8, 2018, San Jose, CA
- Sign up for alerts at [www.computershare.com/esppday](http://www.computershare.com/esppday)

# Disclaimer

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# Housekeeping

Presentation is being recorded

- Email will be sent to all attendees with link to recording and presentation

Presentation qualifies for one CEP credit

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# Introductions



David Outlaw, CEP  
Director, Equity Methods



Scott Bellinger, CEP  
VP, Manager, Computershare

# Agenda & Learning Objectives

## Agenda

- › Introduction
  - Ways to think about costs and benefits
- › Design features
  - Plan aspects and effect on value
- › Add-ons
  - Details that can make a plan take flight
- › Wrap up
  - Takeaways and questions

## Learning Objectives

- › Examine different ways of measuring cost and benefit of ESPPs
- › Explore different plan features and their effect on plan cost and employee benefit
- › Review statistics on market prevalence of various plan designs
- › Highlight actionable ways of unlocking employee value from an ESPP

# The ESPP of 2018

- › The pendulum is swinging back toward ESPPs as a broad-based equity vehicle
- › Not all ESPPs are created equal
  - Plan terms and features; communication; culture
- › How do you know what's best for you?

## “Bang” (Benefit)

- Dollar value delivered & riskiness
- Participation & engagement
- Value perceived by employees



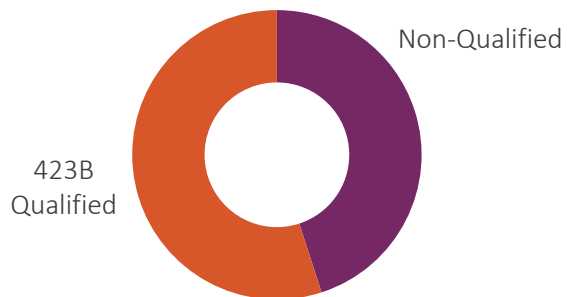
## “Buck” (Cost)

- Administrative complexity
- Accounting (ASC 718) cost
- Communication difficulties

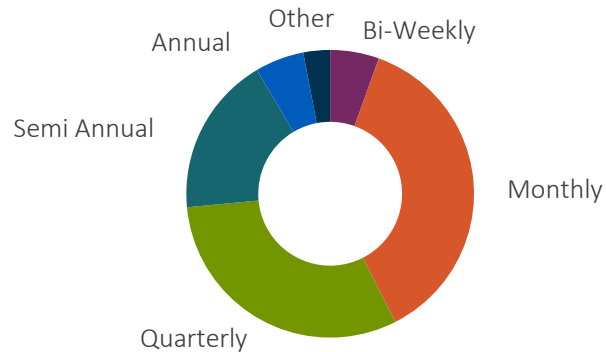


# Computershare Plan Design Summary

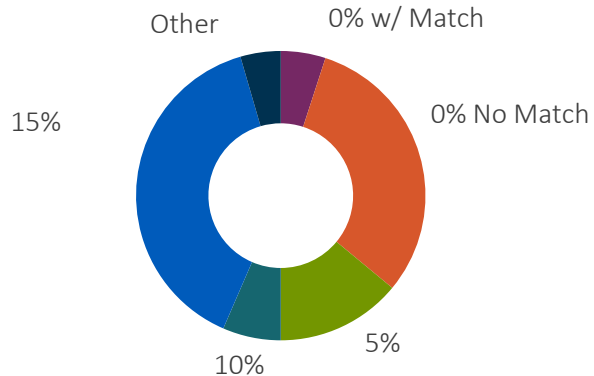
## Plan Type



## Purchase Period Length



## Discounts



## Look-Back



# Design Features

What to consider as you maximize Bang for your Buck

# Know your employees!

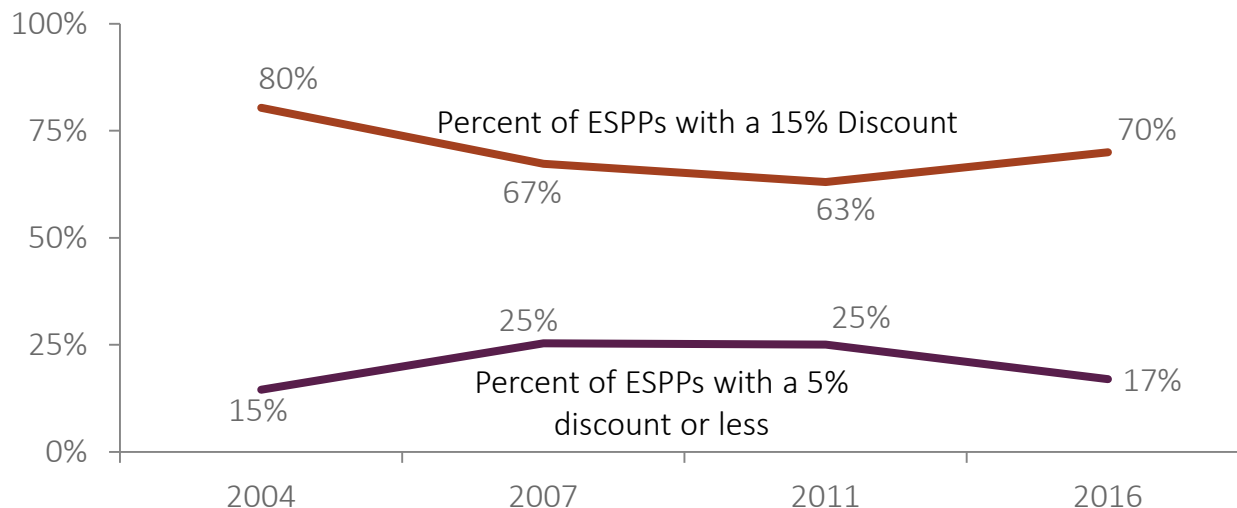
One size doesn't fit all.



# Discount Percentage

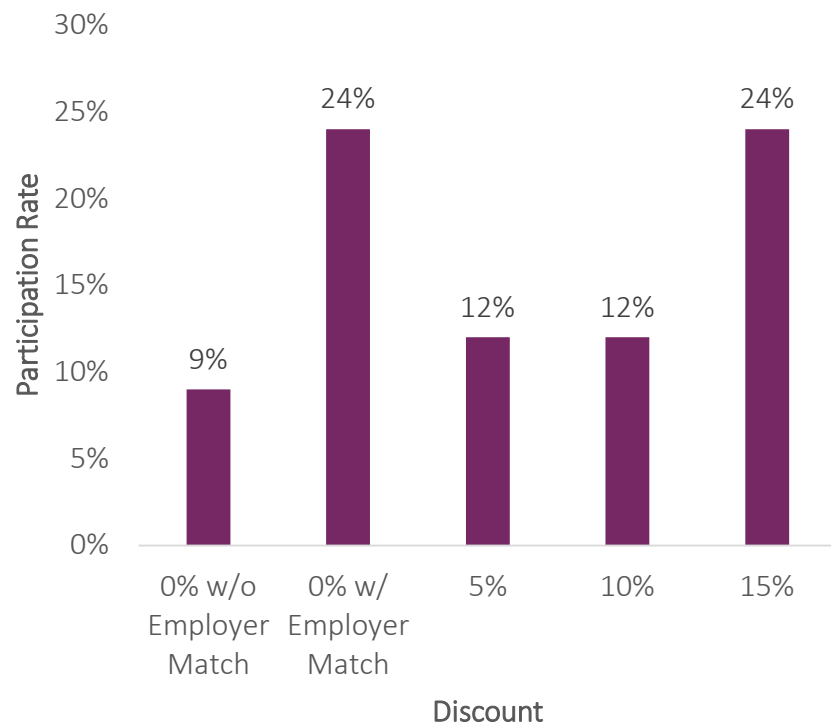
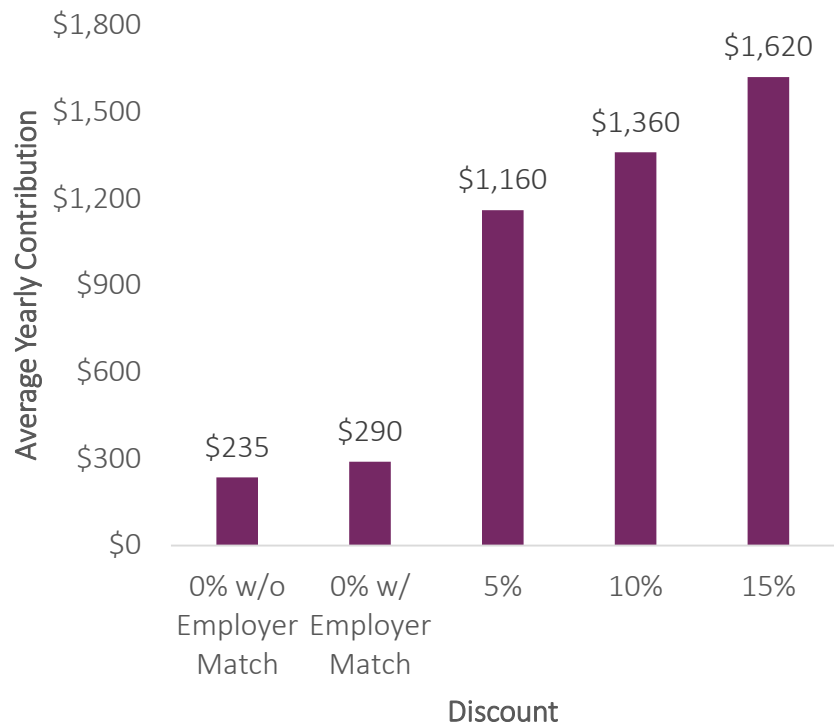
5%, 10%, 15%...more?

- › Large discounts are back on the rise



- › Accounting for a discount is easy...it's just not free above 5!
- › How strongly does a higher discount drive participation?

# Higher discounts drive participation and contribution rates



# Lookbacks

Slightly more complex, but potential for major windfall

- › In a single decent purchase period, a lookback feature can radically increase value delivered



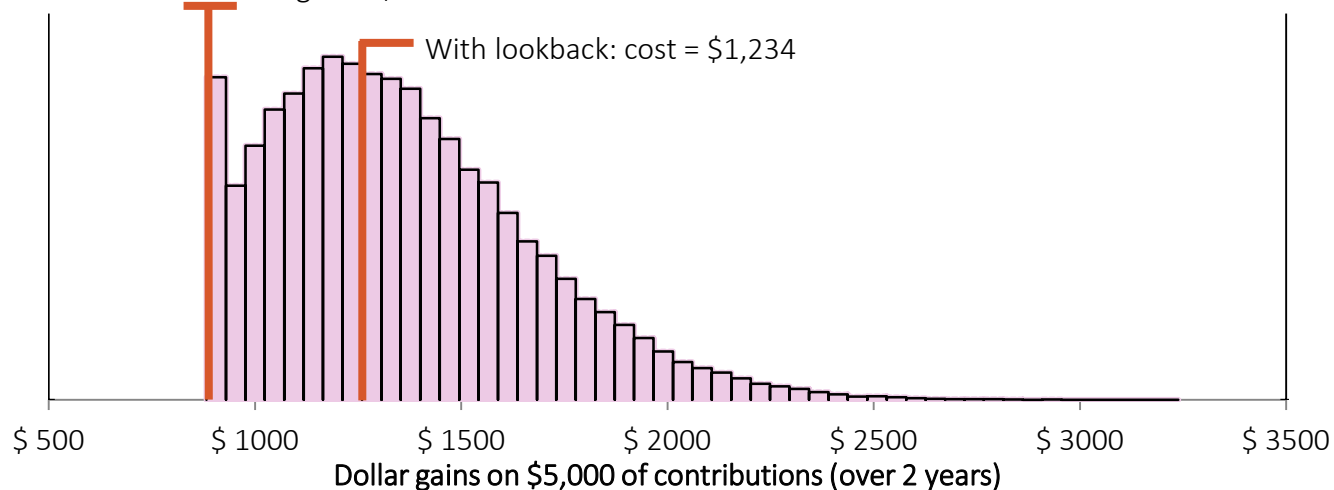
- › Accounting still straightforward: just use a form of Black-Scholes
  - Value typically similar to stock option, a fraction of stock price

# Benefits of Lookbacks

## Actual and perceived

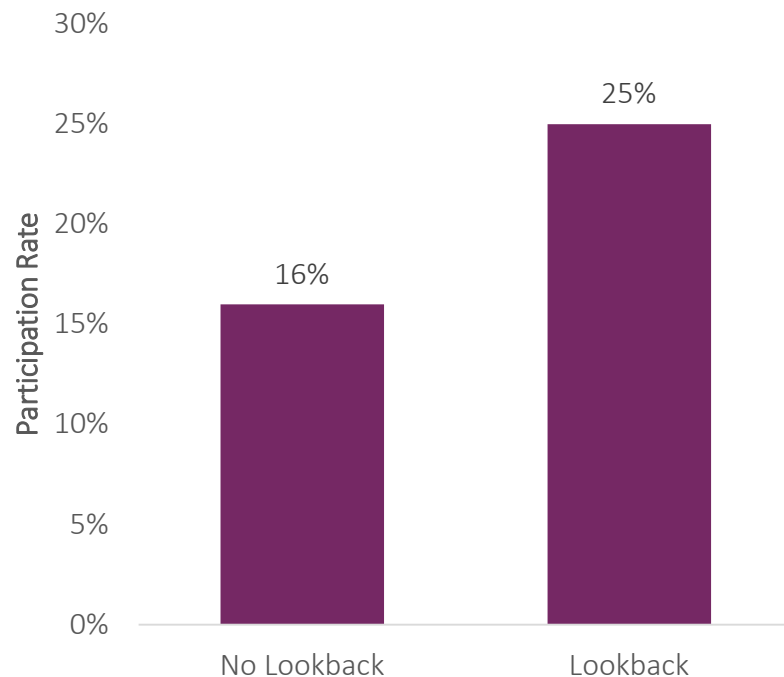
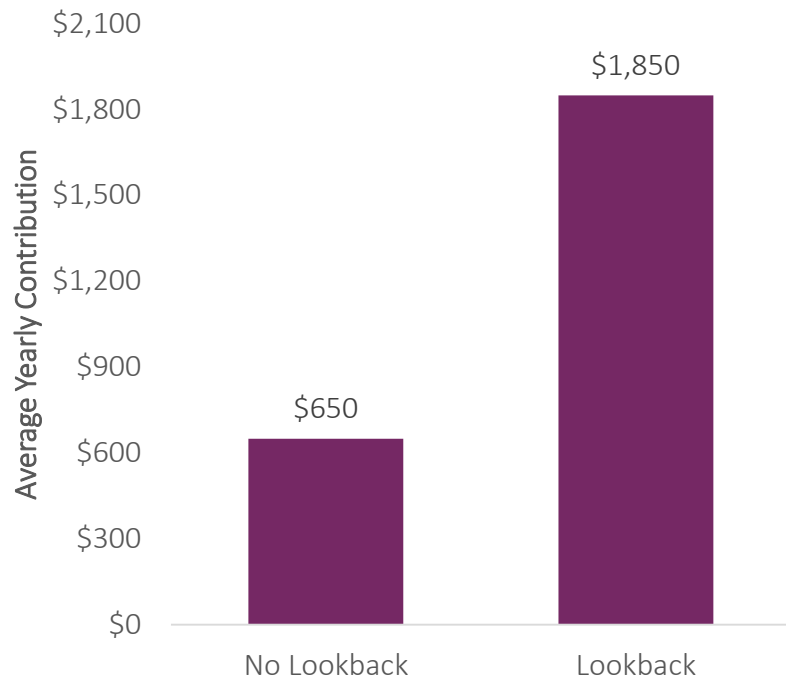
- › A lookback feature opens a whole range of upside, with same floor as a fixed discount

No lookback: cost and gain = \$882



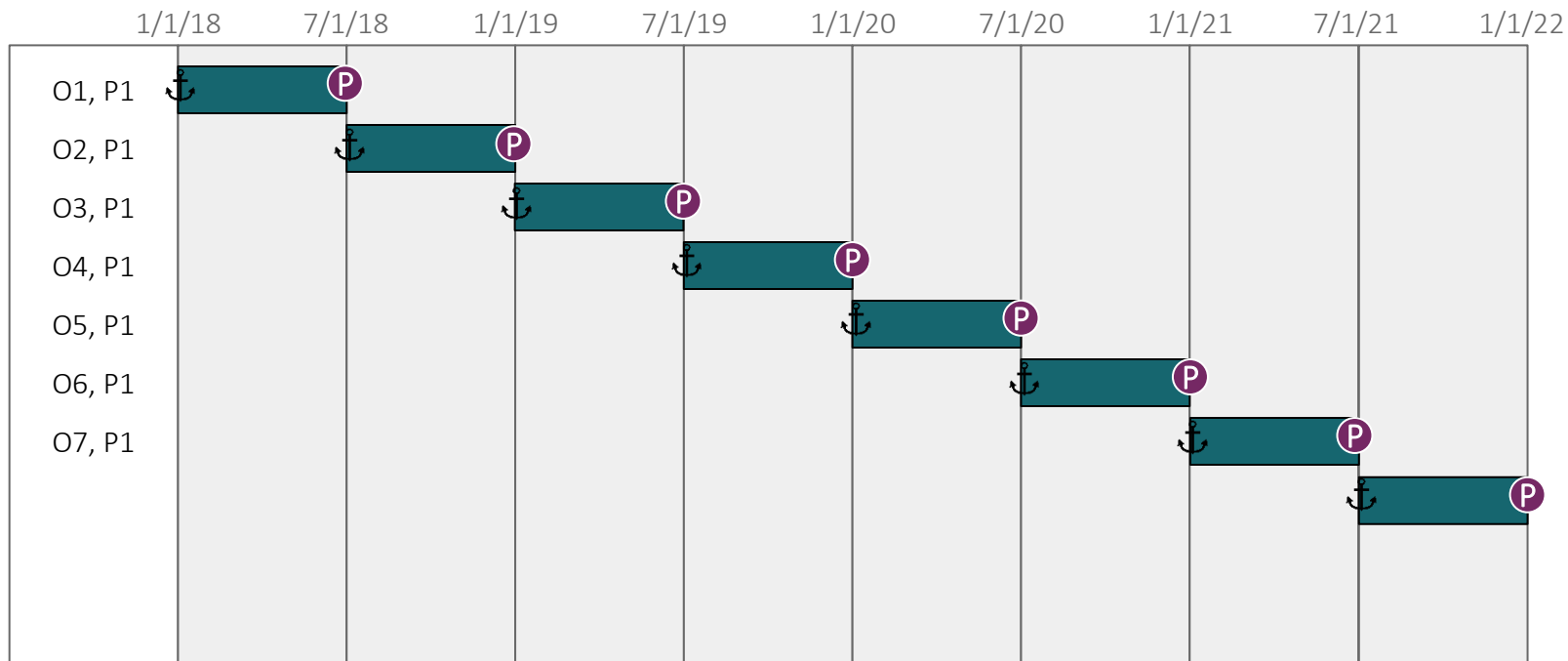
- › Perceived benefit: do employees understand the upside?
- › What drives their perception and how can we help?

# Employees respond positively to lookback benefits





# Illustration: 6 month offering, 6 month purchases



Accrue deductions toward purchase



Purchase occurs



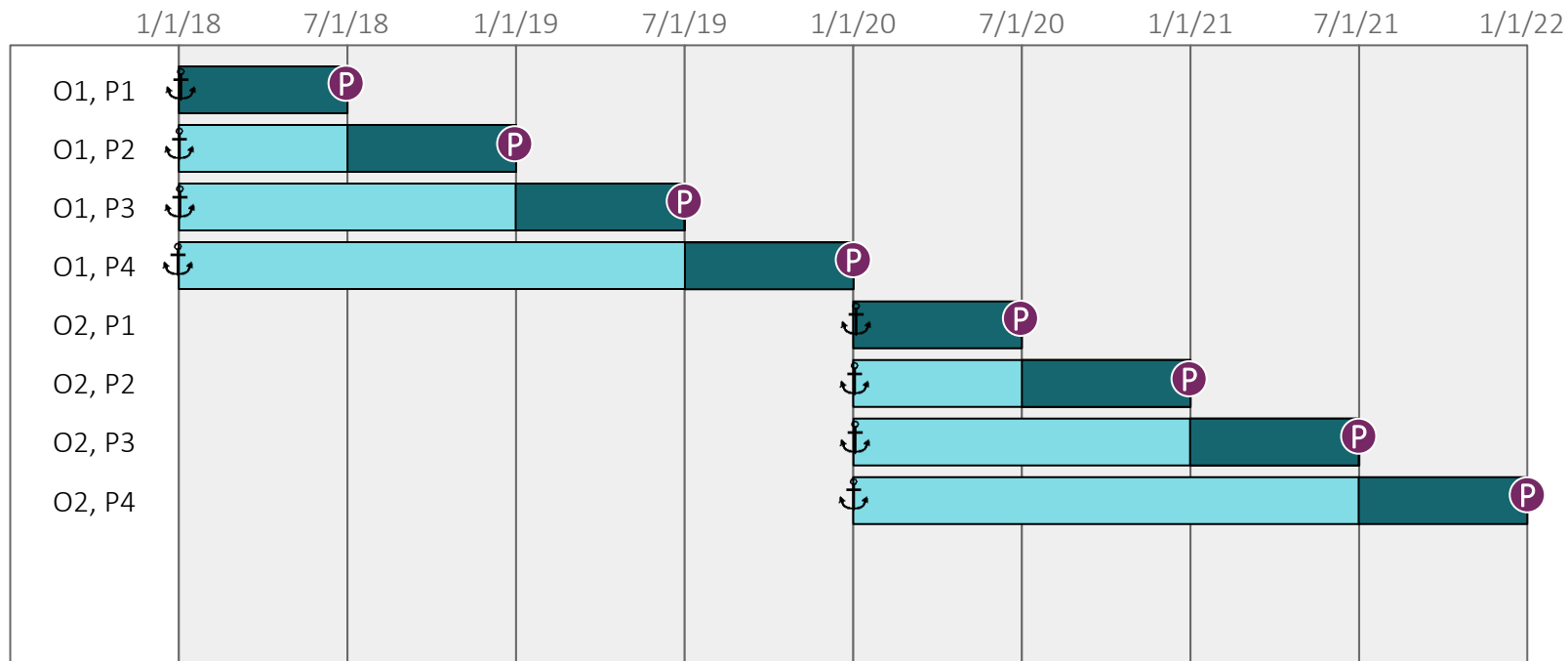
Lookback price set







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# Illustration: 24 month offering, 6 month purchases



-  Accrue deductions toward purchase
-  Begin recognizing expense
-  Purchase occurs
-  Lookback price set

## Offering Length: beyond six months

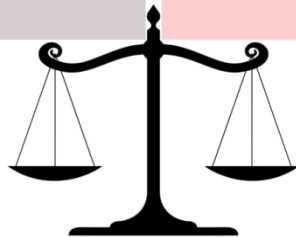
- › 6 months is still most common (~50%)
  - 12-24 months is also common (~20%)

### Pro

- Longer terms increase potential windfall size
- Accounting burden only marginally tougher
  - Extending previous example: expense increases by 17%; avg. gain increases by 32%

### Con

- Longer offerings also mean overlapping offerings
- Additional administrative and tracking burden
- Communication challenges, water cooler confusion due to different active offerings



# Resets and Rollovers

Higher cost, maximum benefit

- › For longer offerings with multiple purchase periods
  - When the stock price goes down, the lookback price “resets” to that lower price
- › Of companies with interim purchases within longer offerings, 38% have reset features

## The number of moving parts means three things:

1. Accounting is more complex: every reset is a “modification”
  2. Administration and tracking are trickier still
  3. Communication and education are even more crucial
- › Employee upside is very high: this is the most favorable “standard” plan design

# Add-Ons

Other details that can drive more employee value

# Auto-Enrollment

A unique solution for unique situations

- › Auto-enrollment is gaining traction for things like 401 (k) plans, but is still rare for ESPPs
- › Part of the reason is accounting: you're generally stuck with expense if someone withdraws
- › So when might auto-enrollment make sense to consider?

- ✓ Likely to have minimal withdrawals (e.g., small group, savvy culture)
- ✓ Major inflection point in business (e.g., change in control)
- ✓ Special buying opportunity (e.g., start offering at IPO price)

# Non-423-qualified Plans

Unconstrained plan design and a series of tradeoffs

## On one hand...

- > Most compensatory plans are 423-qualified, so designs are considered “standard”
- > IRC 423 gives employees favorable tax treatment if holding conditions are met
- > Accounting treatment is the same for otherwise-identical non-qualified plans

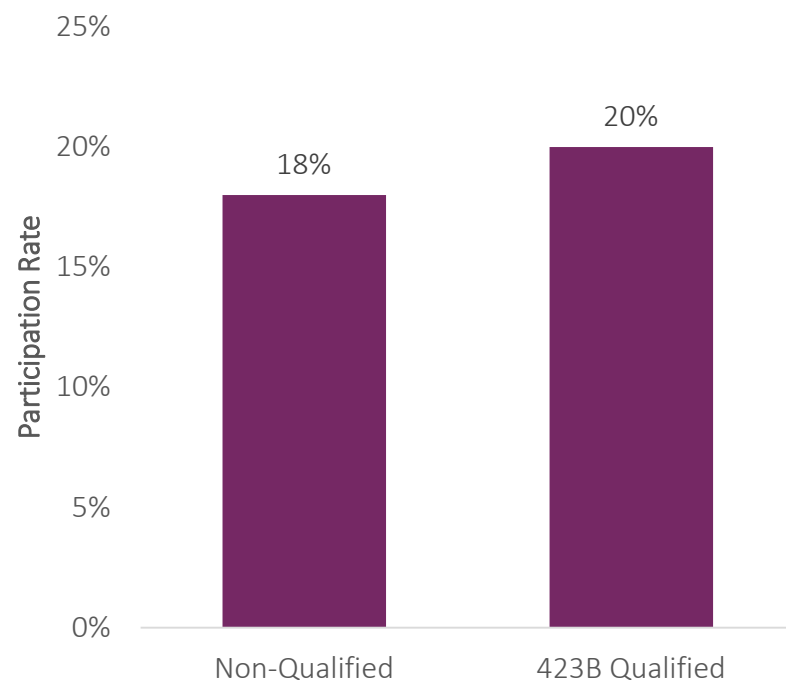
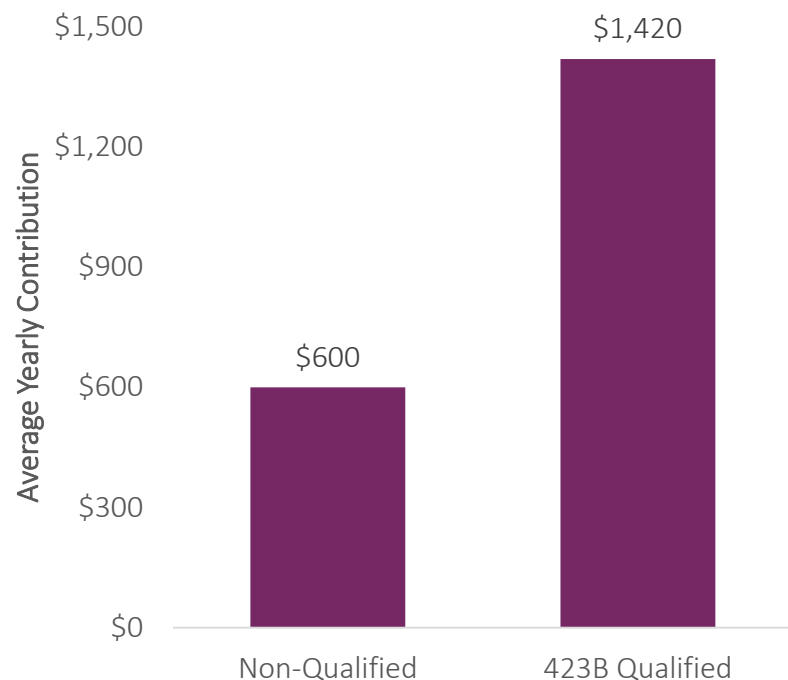


## On the other...

- > Without worrying about 423, design can be more flexible: limited participation, higher discount, longer term, etc.
- > Employees may sell quickly and not take advantage of the tax treatment
- > The company always gets a tax deduction for purchases in a non-qualified plan

# IRC 423-qualified plans are associated with higher contributions

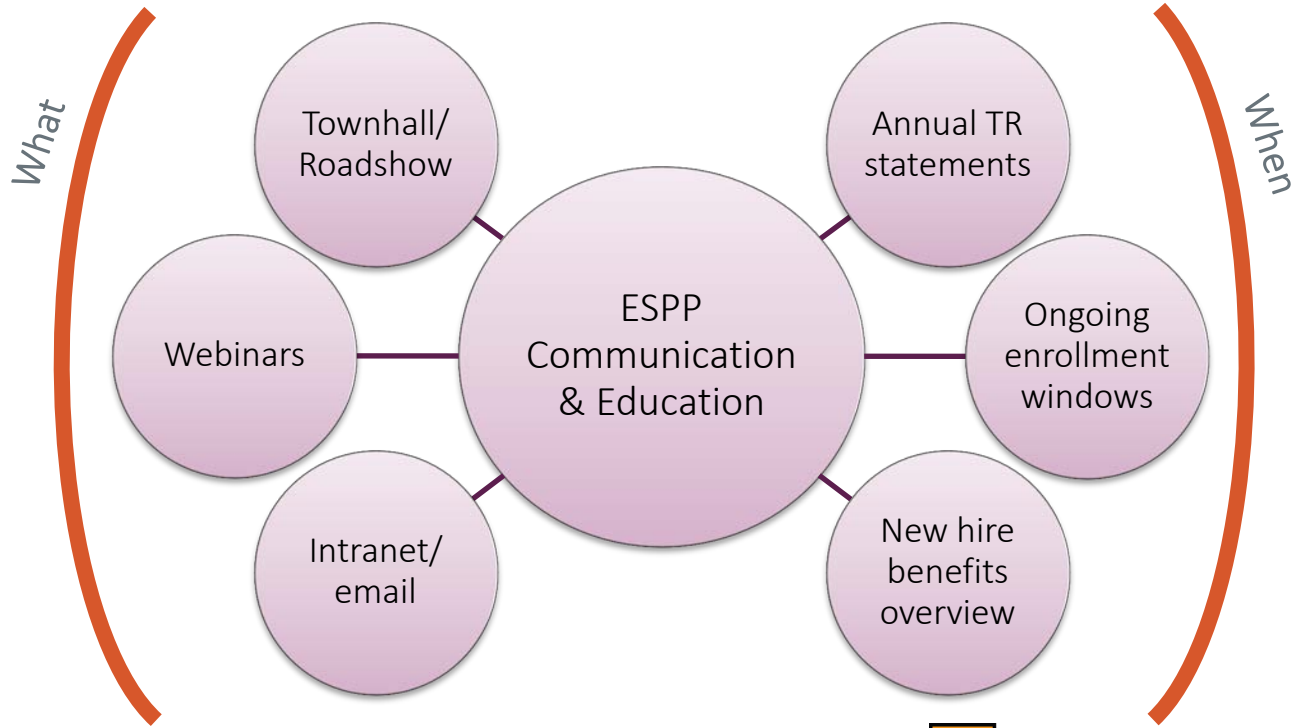
But non-qualified vary widely in favorability and participation





# Communication: tying it all together

- > Numerous options at your disposal...what do you do, and what works best for you?



# Wrap Up

# Key Takeaway: Get the right plan for your situation

#1

Benefits and costs have a quantitative side and a qualitative side. Always consider both.

#2

The quantitative side—potential dollar gains and accounting costs—can be modeled. It's 2018, decisions should be based on data.

#3

The qualitative side is less black-and-white but no less important. Consider your workforce's culture and experience.

#4

Plans are less “one size fits all” than they have been in the last decade. Consider multiple designs when implementing a new plan.

#5

To drive engagement and ROI:  
Communicate, communicate, communicate!

# Speaker Information

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David is a Director at Equity Methods, and a practice leader of both the HR Advisory and Valuation Services Groups. David is an expert in compensation design and modeling, proxy best practices, and fair value measurement and accounting under ASC 718. Since joining the firm in 2009, David has managed many of the practice's largest and most complex engagements. David has been instrumental in Equity Methods' build-out of pay ratio analysis, ESPP implementation, proxy modeling and messaging, modification design and execution, and merger and spin-out transactions. David is on the Finance Advisory Board at the WP Carey School of Business, and is a Certified Equity Professional (CEP).

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Scott Bellinger is responsible for a dedicated and unique relationship management team at Computershare that administers all aspects of both employee equity plans as well as stock transfer agency for a small group of large and fully integrated client companies with highly customizable and complex needs. Scott specializes in bringing an in depth consultative approach to bridging the gap between plan design, system capabilities and ongoing administration. He joined Computershare in 2012 with the acquisition of the Shareowner Services business from The Bank of New York Mellon. He brings nearly 25 years of experience in the equity compensation, stock transfer agency, corporate banking and financial services industry.