

GLOBAL EQUITY INSIGHTS SURVEY 2019

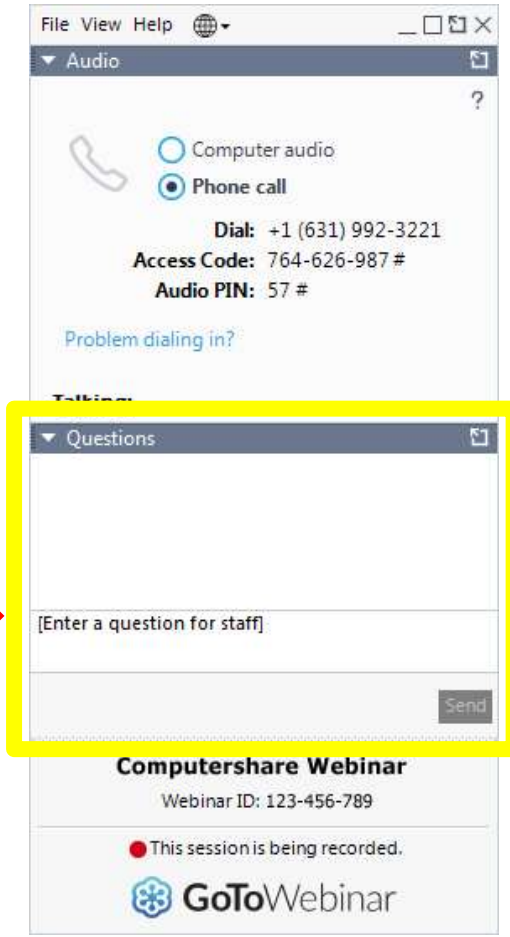
CERTAINTY | INGENUITY | ADVANTAGE

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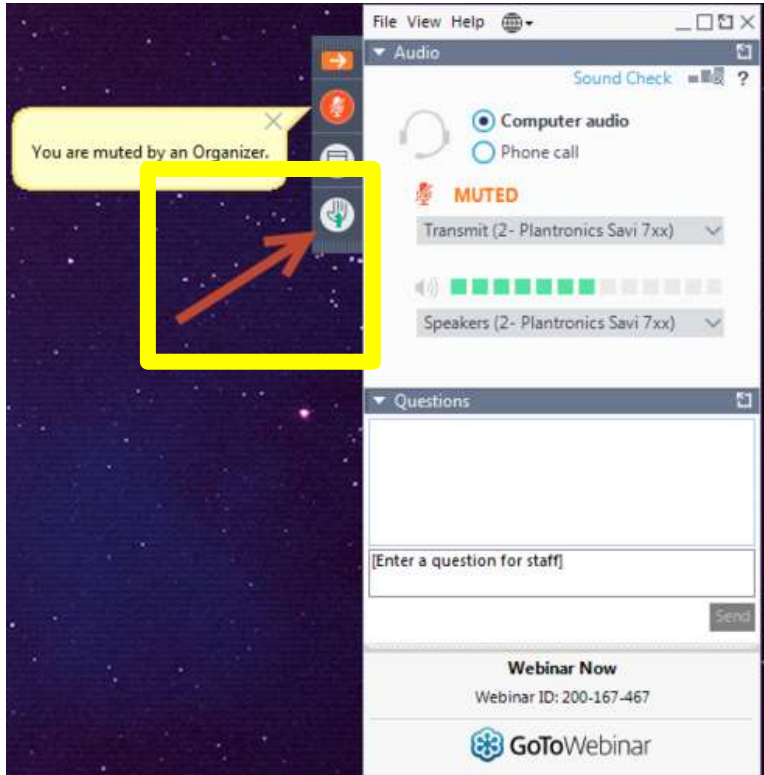
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Introductions

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David Voggeser, Senior Manager, hkp/// group

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Agenda

1 Survey background & key highlights

2 Sample & company information

3 Long-Term Incentive Plans (LTIP)

4 Share Purchase Plans (SPP)

5 Individualization & Flexibility

6 Communication

7 Appendix

Survey background & key highlights

Global Equity Insights Survey – a success story for market intelligence since 2013

- The Global Equity Insights Survey is the seventh edition in a row in 2019:

Global Equity Insights						
Year	2013	2014	2015	2016	2017	2018
Topics	LTIP	LTIP	LTIP	LTIP	LTIP	LTIP
	ESPP	ESPP	Broad-based LTIP	Equity Admin	SPP	SPP
	SOG	SOG			Admin & Communication	Administration
	Equity Admin	Equity Admin				Communication
						Regulation

2019

LTIP

SPP

Individualization & Flexibility

Communication

Remarks – Analysis of company data

- Regarding the analysis of the survey data from 2013 to 2019:

GEIS 2013 – 2019



Large sample size provides for high quality results with high statistical power – however, sample constituency fluctuates from year to year.



The questionnaire has been systematically reviewed by Rutgers University and University of Goettingen to ensure valid survey design. Each year some questions may be slightly adapted in their wording.



The University of Goettingen performs regression and correlation analysis, allowing to control for confounding risk factors (size, industry, growth).

GEO – Key Highlights

2019

Long-term incentive plans



In **middle management**, **82%** (compared to 70% in 2018) are now eligible for **LTI**s.



Almost all companies have implemented **SOGs** for their **Management Board (over 90%)**, and a majority also for **executives (65%)**.



SOG fulfillments are usually checked by **self-reporting / in-house software** or **by the external banking provider**.



Nearly **90%** of companies active in China also **implement their LTI** to their local employees and **50%** have filed a **SAFE filing**.

Share Purchase Plans (SPP)



63% of participating companies operate an **SPP**, consistent across all economic regions.



62% of **European companies** adapt SPPs based on **local requirements or tax qualifications**, whereas only about 30% of American companies do this.



SPPs are most **often introduced** in order to **promote** various forms of **entrepreneurship**.



At the median, employees in **North American companies** contribute on average **8%** of their **base salary** annually.

Sample & company information



148 leading **companies**



16 **countries**



10 **industries**



Most participants (98%) have a **market capitalization** above USD 1 billion.



The **top 11%** exceeded USD 100 billion in **market capitalization**



80% of the participating companies generated **revenues** of more than USD 5 billion

Individualization & Flexibility



Of companies that operate more than one LTI Plan, **10%** of companies reported allowing their participants **to choose their LTI plan**.



Less than 2% of all companies allow LTI participants to define for themselves the amount of the LTI share in their Total Compensation package.



65% of all companies apply **LTI grants outside the normal annual compensation package**, and the **vast majority** of companies in North America does so.

Communication



While **e-mails** are still the most important means of information, other digital means of information (**digital brochures / flyers**) are becoming increasingly important.



One fourth of all companies reported leaving the creation and implementation of **communication campaigns** to external providers.

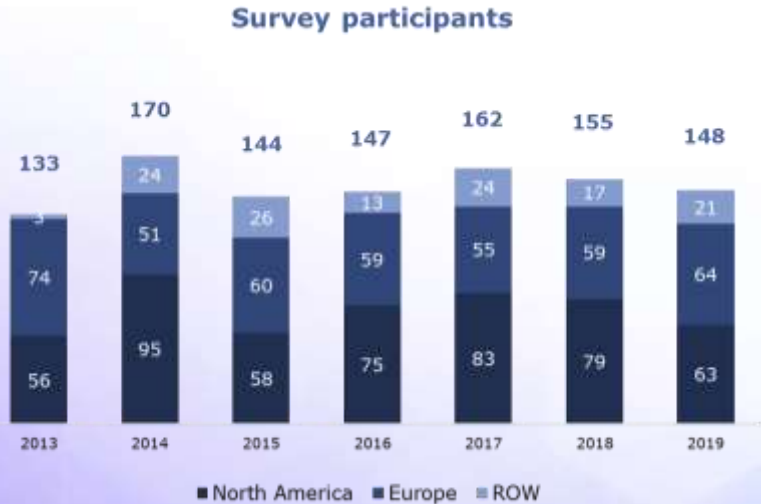


In the context of **communication**, **financial education** continues to be much more important in the North America than in Europe.

Sample & company information

Survey participants 2013-2019

- The largest global corporations from across all economic regions and industries participate annually:



GEIS 2019



Representative sample across 10 industries



98% with a market capitalization above USD 1 billion at year-end 2018 (top 11% > USD 100 billion)

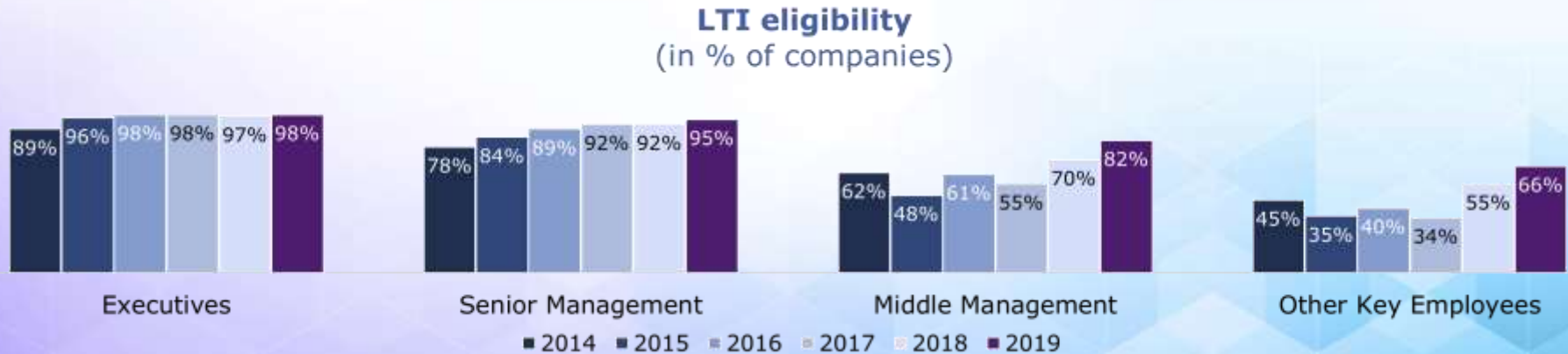


80% of the companies generated revenues above USD 5 billion in 2018

Long-term incentive plans

LTI spreads further

- In middle management, over 80% (compared to 70% in 2018) are now eligible for LTIs.
- We also observe a further increase in the key functions, with over 65% in 2019 compared to 55% in 2018:



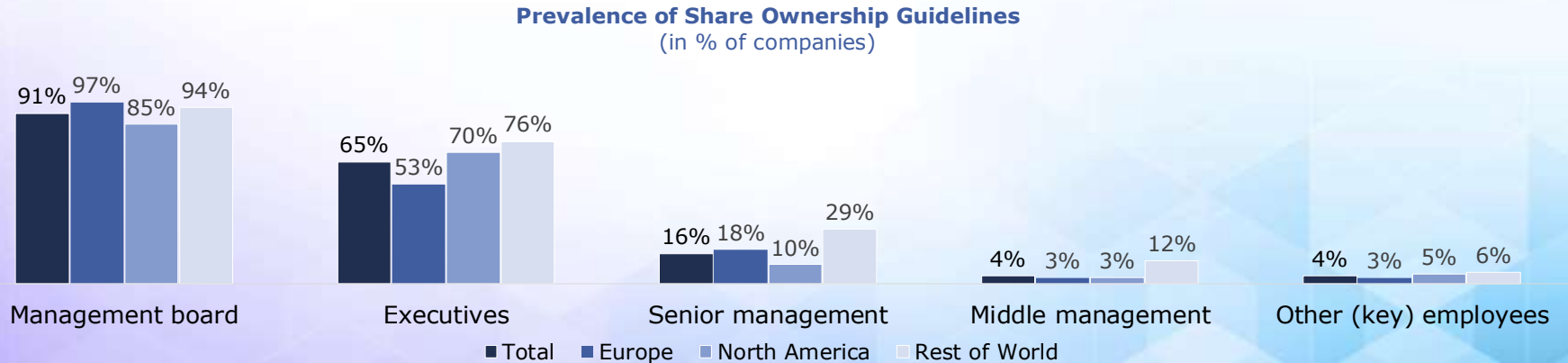
LTIP portion (pay mix)



Which cultural changes and positive effects from higher LTIP do you expect?

SOGs mandatory for Management Board

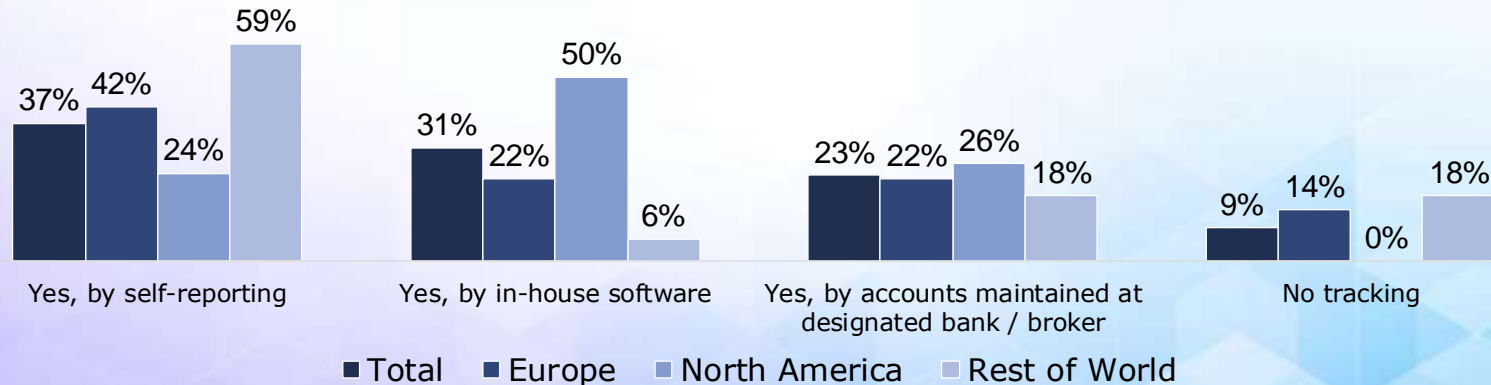
- Almost all companies have implemented SOGs for their Management Board (over 90%), and a majority also for executives (65%).
- At the senior management level, 16% of companies have implemented SOGs:



The majority tracks the SOG's through employee responsibility or software

- SOG fulfillments are usually checked by self-reporting / in-house software or by the external banking provider.

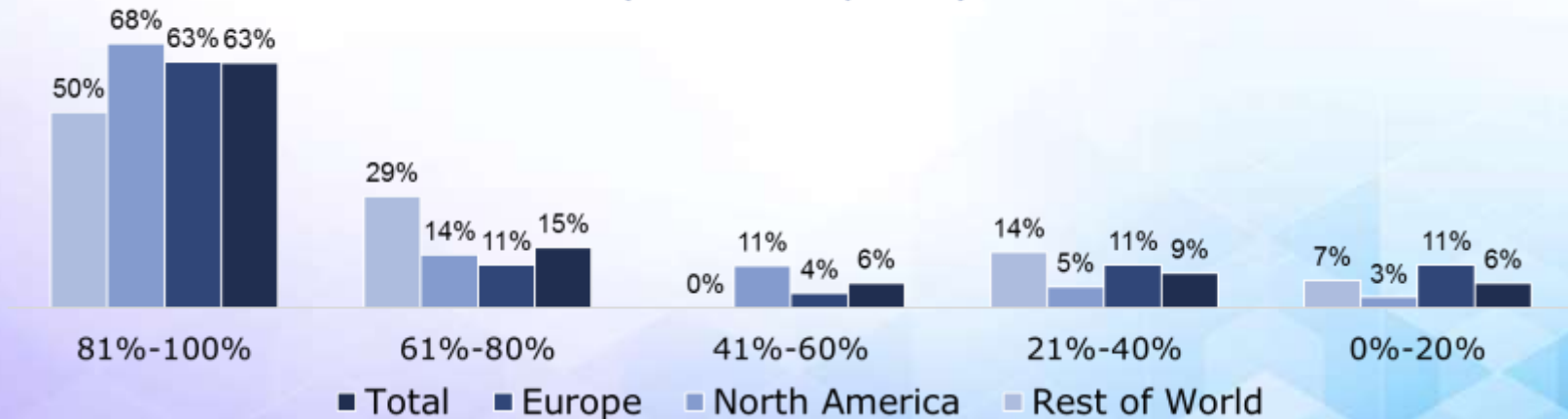
Tracking of Share Ownership Guidelines (SOGs)
(in % of companies)



Compliance with SOGs is not quite at target

- While 63% of companies reported a fulfillment rate of over 80%, 37% of companies reported an SOG fulfillment rate at significantly lower levels:

Fulfillment of Share Ownership Guidelines (SOGs)
(in % of companies)



SOGs



Why aren't SOGs consistently defined for all LTI-eligible employees



Would you rather trust self-reporting or software to track SOG fulfillment?

Offering LTIs in China is seen as important

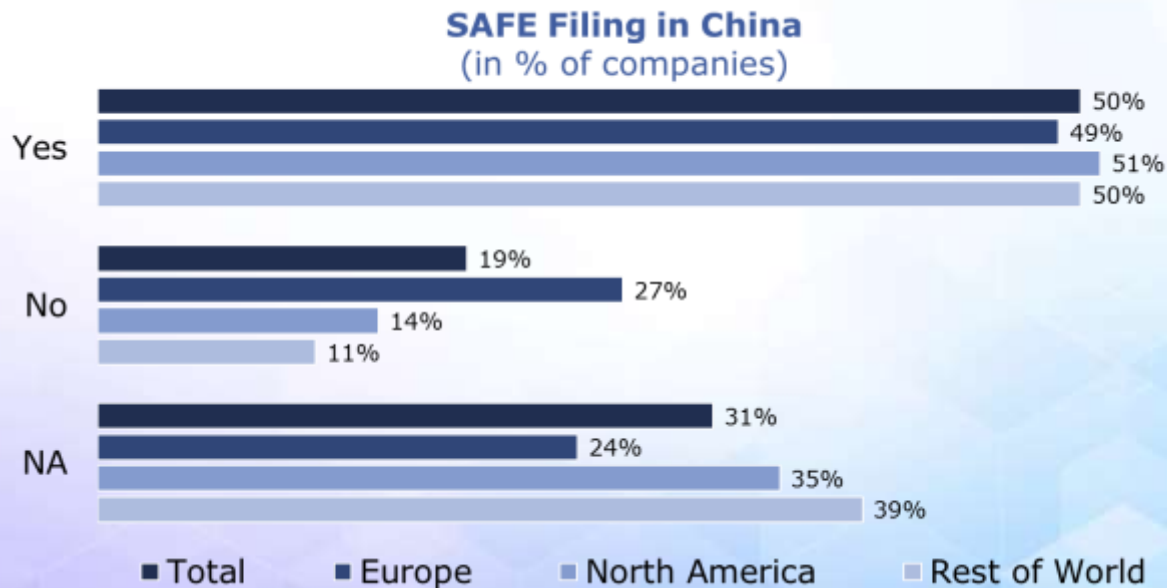
- Only 12% of the active companies in China have decided not to proceed with offering their LTI to employees in China.
- This increases to 21% for companies in other economic regions (ROW):

LTIP in China
(in % of companies)



Safe with SAFE?

- Across all economic regions, roughly half of all companies reported having submitted a SAFE Filing in China:



LTIPs in China



What key considerations from your experience can you share for successfully implementing an LTIP in China?



Why are LTIPs so important for Chinese employees?



All the hassle with SAFE – is it worth the effort?

Share Purchase Plans (SPP)

European companies seem to consider local requirements more often

- Over 60% of European companies adapt SPPs based on local requirements or tax qualifications, whereas only about 30% of American companies do this:

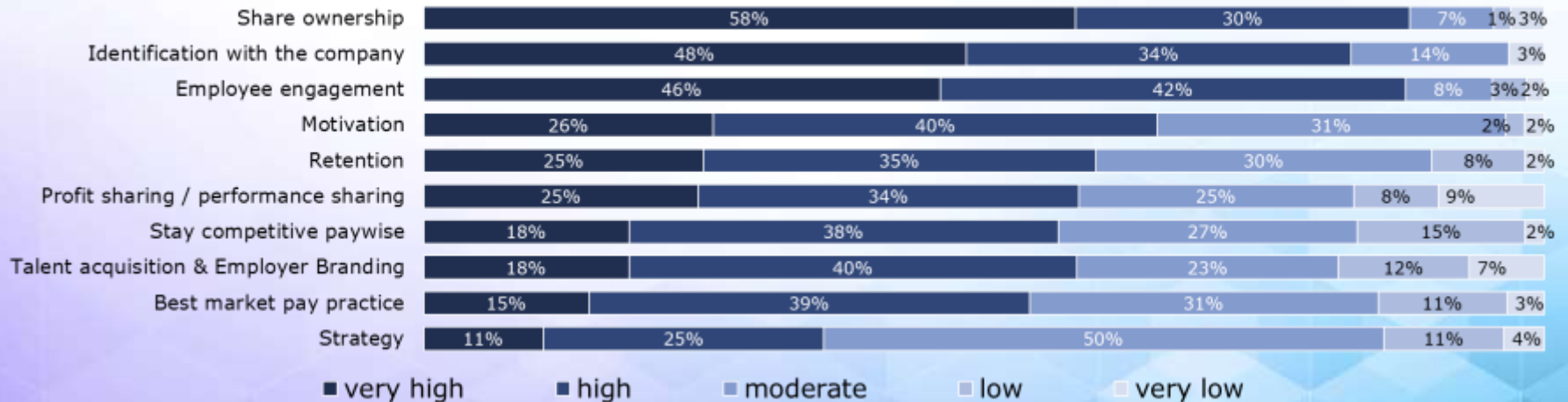
Country-specific Share Purchase Plans
(in % of companies)



“Make your employees entrepreneurs” is a main objective for companies worldwide

- SPPs are most often introduced in order to promote various forms of entrepreneurship ("Share ownership" / "Employee engagement", etc.):

Objectives for implementing Share Purchase Plans
(in % of total companies)



Objectives for implementing SPPs



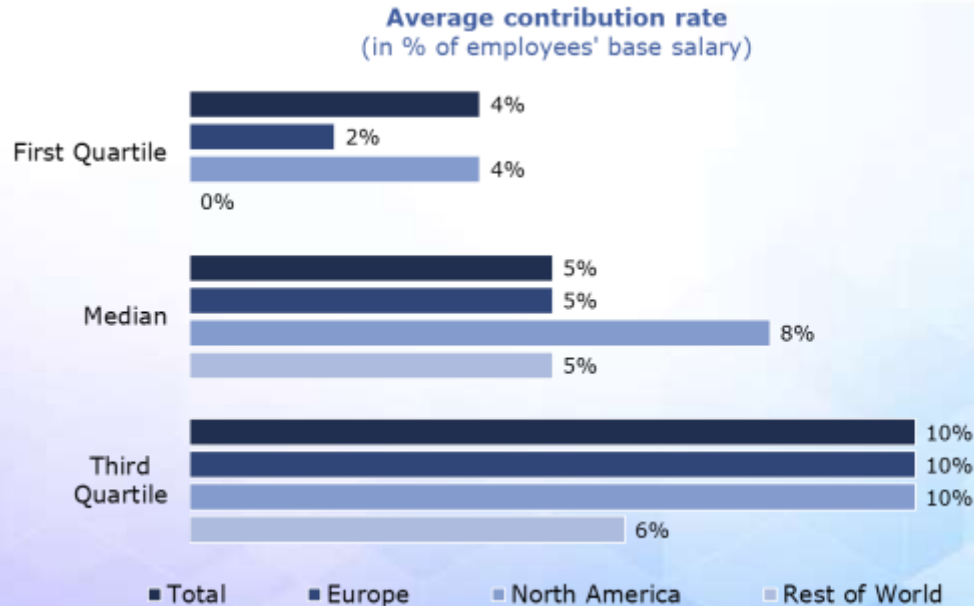
Can you see a difference in companies / BUs with and without SPPs?



Is adaptation to local requirements appreciated by local employees?

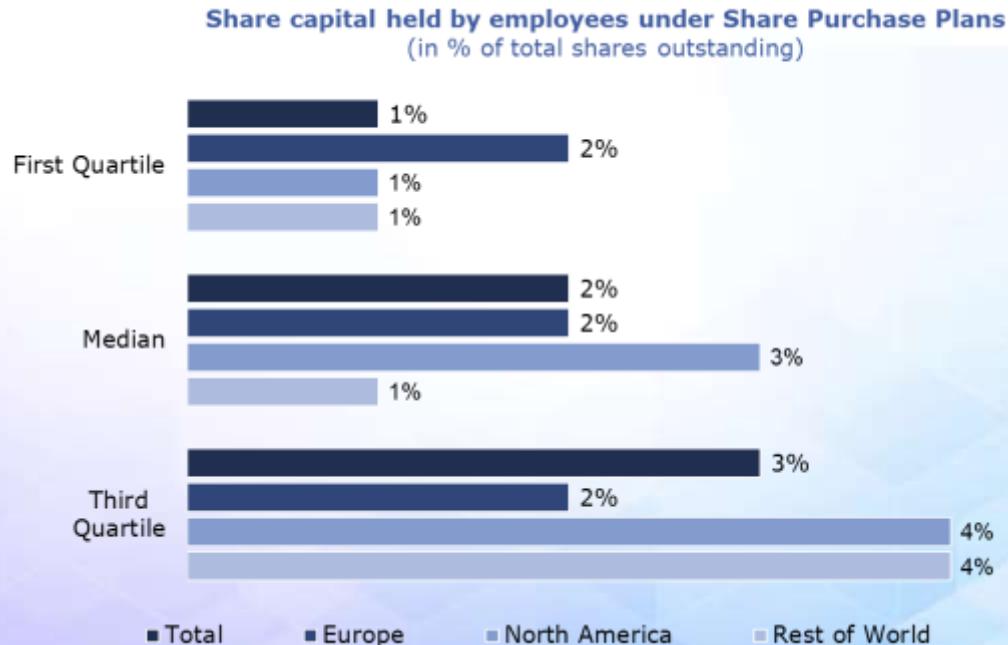
North American employees invest the most

- At the median, employees in North American companies contribute on average 8% of their base salary annually:



Employees of North American companies hold more share capital of their company

- While 2% of the share capital is employee-owned from SPPs at the median, employees of North American companies tend to hold even more share capital (3%):



SPP contribution rates & share ownership



What factors drive the average contribution rate for your SPPs?



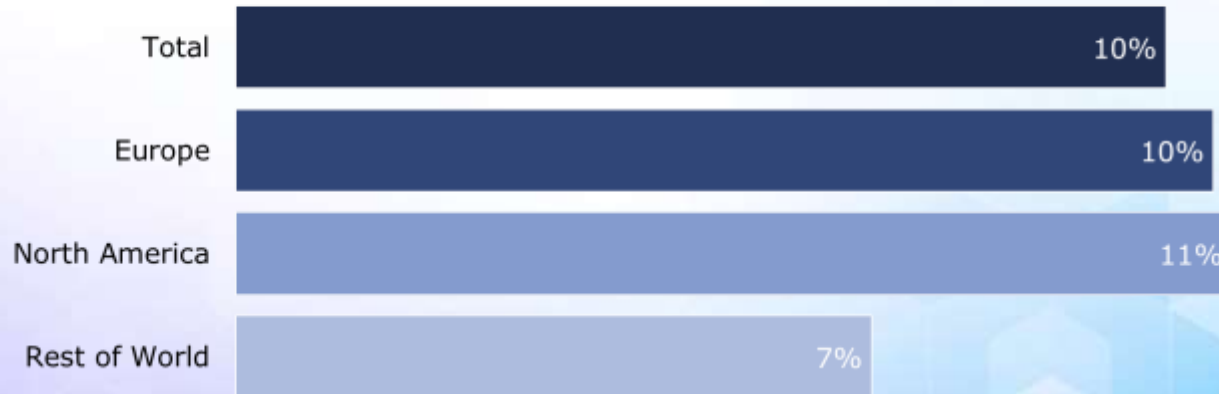
Is having a certain amount of the market capitalization held by employees a strategical target of companies?

Individualization & Flexibility

LTI – Make it your choice?

- Of companies that operate more than one LTI Plan, 10% of companies reported allowing their participants to choose their LTI plan:

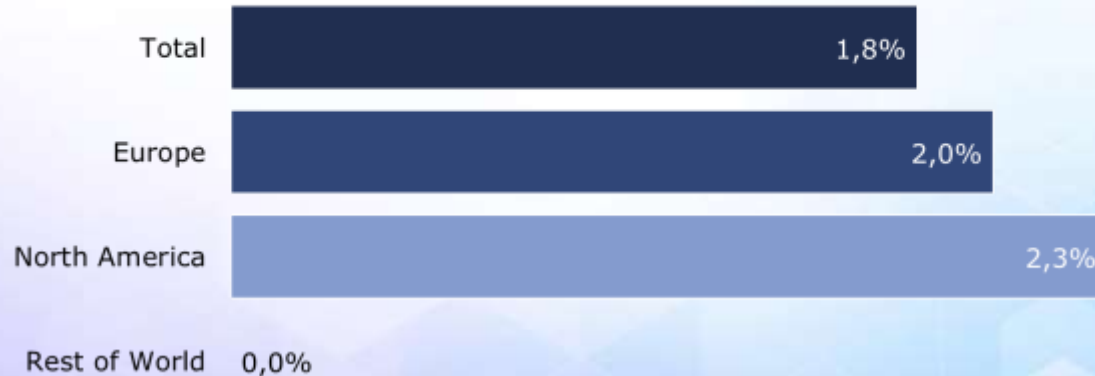
Companies allowing participants to choose between different LTI plan types
(in % of companies with more than one LTI plan type)



Pay mix is not a choice

- Less than 2% of all companies allow LTI participants to define for themselves the amount of the LTI share in their Total Compensation package:

Companies allowing participant to define how much of their Total Compensation package should be defined by an LTI
(in % of companies)



LTIP choice

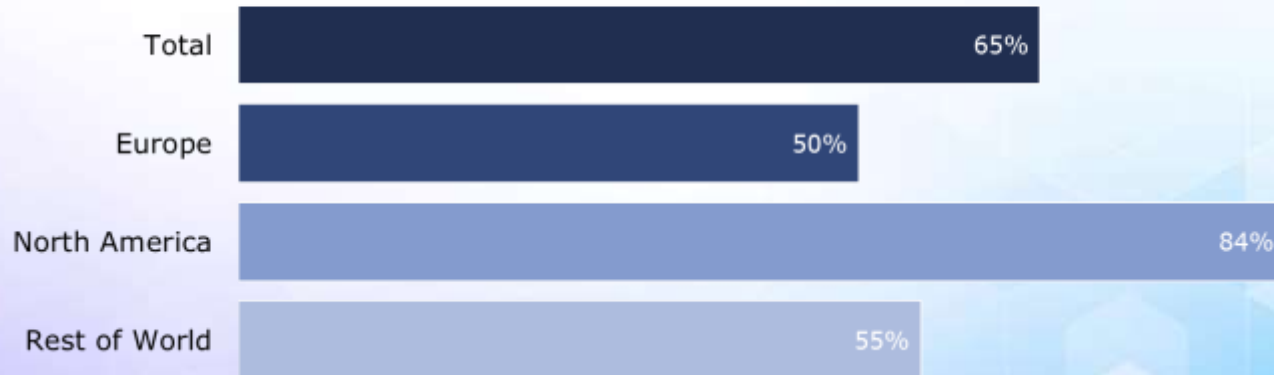


If there is a choice:
What are the results, what are the advantages?

LTIPs are used as more than just another compensation element

- 65% of all companies apply LTI grants outside the normal annual compensation package, and the vast majority of companies in North America does so:

Companies allowing LTI grants outside of annual compensation
(in % of companies)



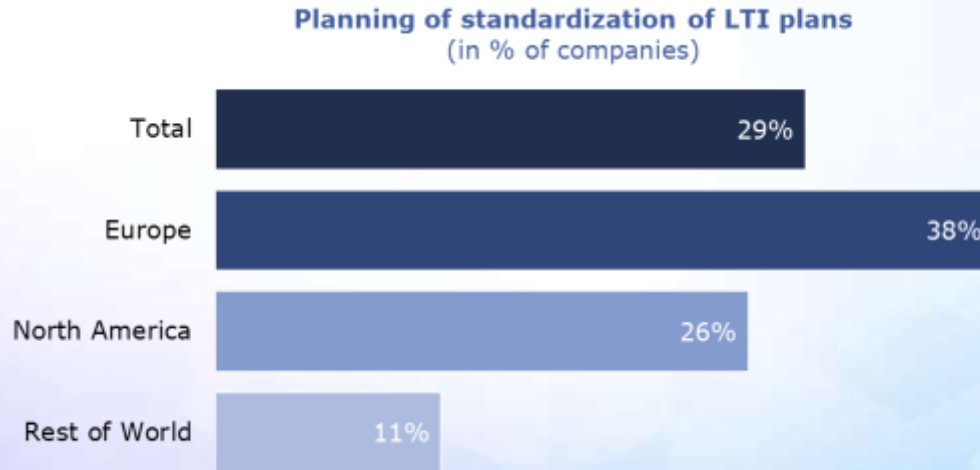
Extraordinary LTI grants

?

What are the most prevalent reasons for applying grants outside of the normal compensation cycle and have they been successful?

More European companies plan to further standardize their Equity plans

- Nearly 40% of European companies plan to further standardize their equity plans, while only 26% of North American companies plan to do so:



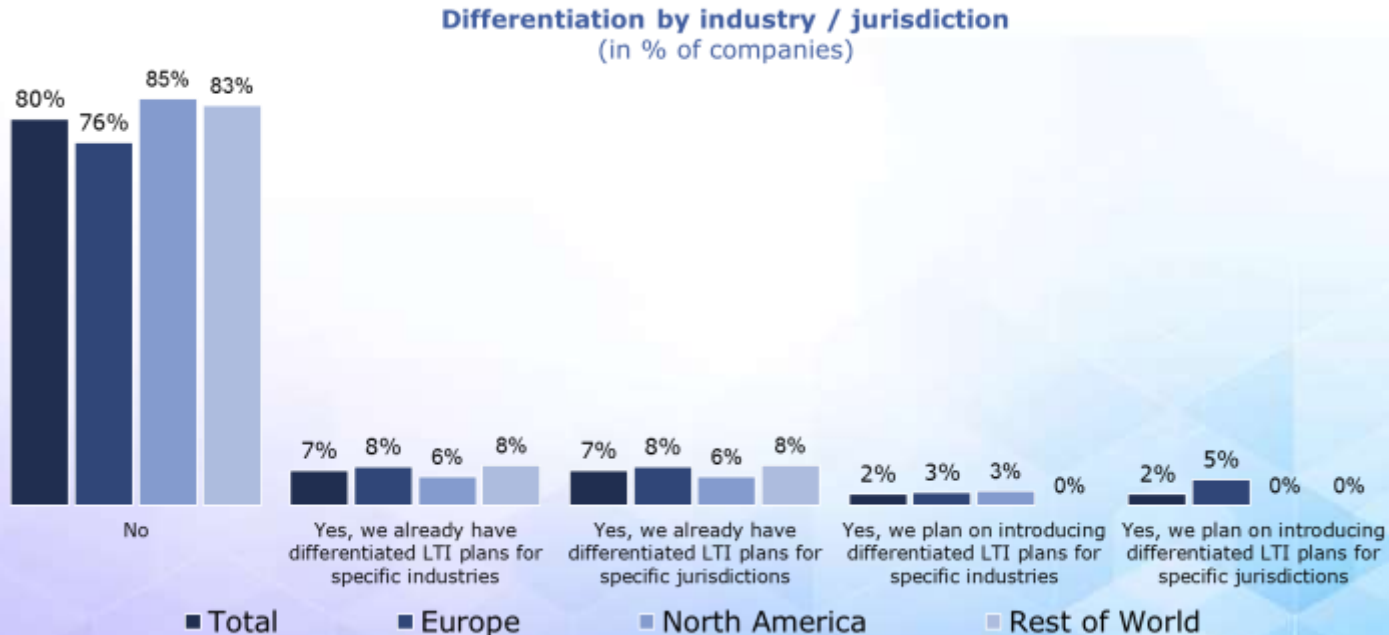
LTIP standardization



More standardization or more individualization – what is the future?

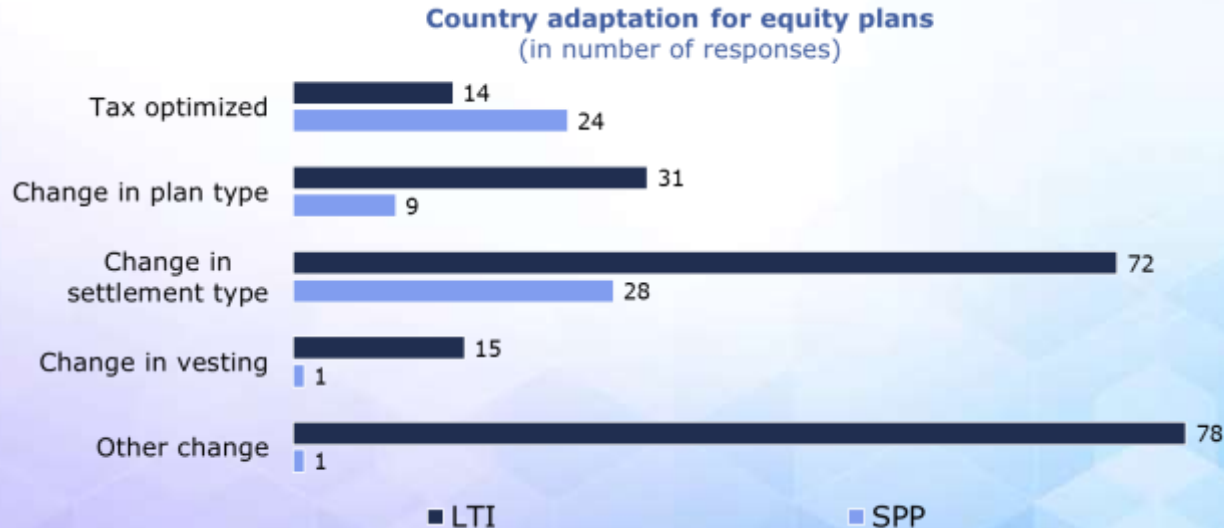
Most companies do not distinguish between industry and jurisdiction

- About 20% of the participants distinguish between different industries (and jurisdictions) with regard to LTI plan design.



Different LTI plans across the world

- SPPs are adjusted much less frequently than LTI plans. LTI plans are often adjusted by changing the settlement type and by 'other changes.'
- SPPs are mostly adapted to achieve tax optimization. Companies reported making adjustments especially in France, Israel and the UK:



LTIP Differentiation

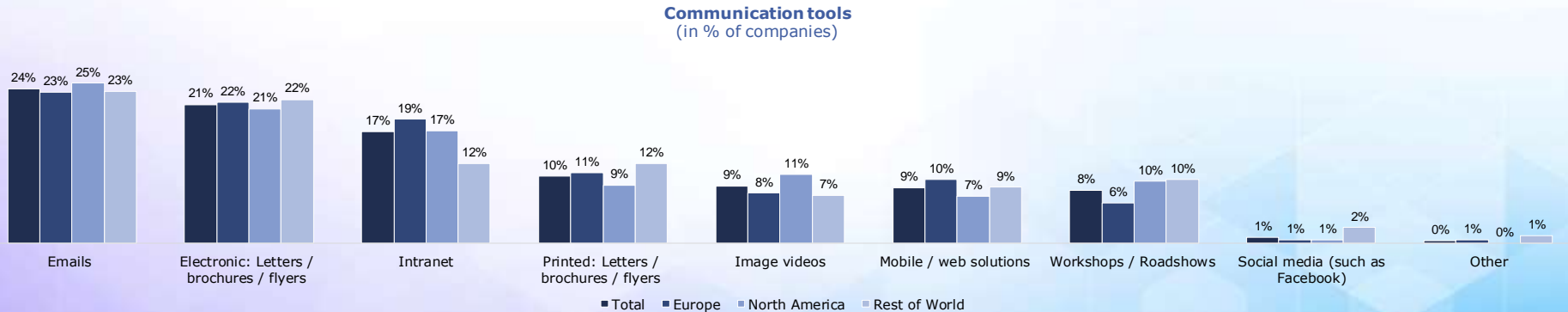


Why do so many companies maintain a standardized approach to their LTIPs?

Communication

“You’ve got mail” is still the most used communications tool

- While e-mails are still the most important means of information, other digital means of information are becoming increasingly important.
- This includes digital brochures or flyers as well as the intranet.



Communication tools



How has the equity communications landscape changed over the past years and which generates the most added value today?

Outsourcing communications can be seen in the market

- One fourth of all companies reported leaving the creation and implementation of communication campaigns to external providers.



Outsourcing of Communication



When would it make sense to at least partially outsource equity communications?

Financial education is an important topic in America

- In the context of communication, financial education continues to be much more important in the North America than in Europe.



Priority of financial education



Why is financial education so important?

Thank You

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Thank You

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Appendix

Sample & company information

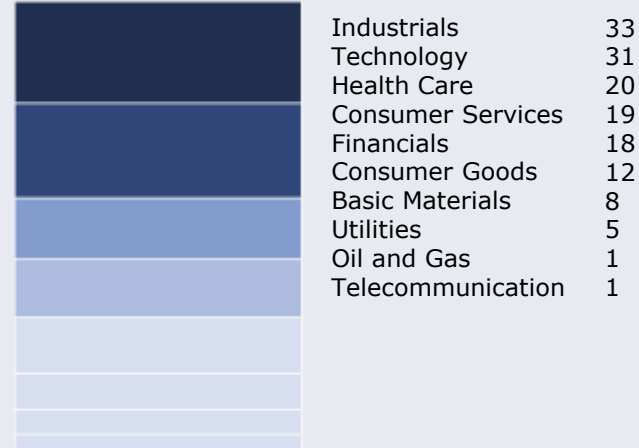
Country and industry coverage

- The sample includes 148 leading companies from 16 countries around the world, with special focus on USA (39%) and Germany (16%).
- The sample is representative and covers 10 industries.

Participants by headquarters' country



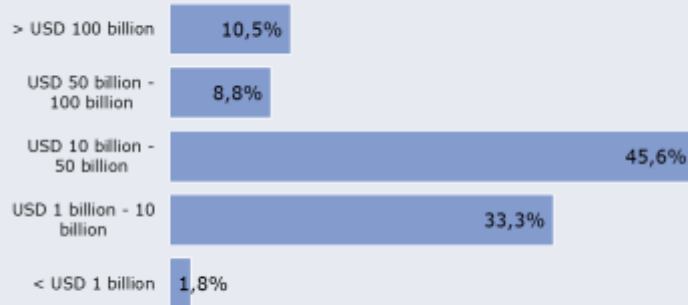
Participants by industry



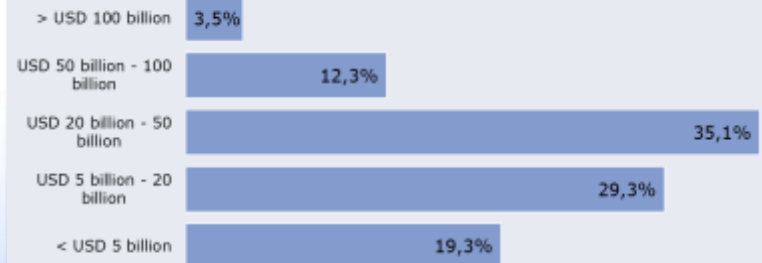
Survey participants

- Survey participants are among the largest global corporations.
- Most participants (98%) have a market capitalization above USD 1 billion. The top 11% exceeded USD 100 billion in market capitalization at year-end 2018.
- 80% of the participating companies generated revenues of more than USD 5 billion in 2018.

Participants by market capitalization



Participants by revenue



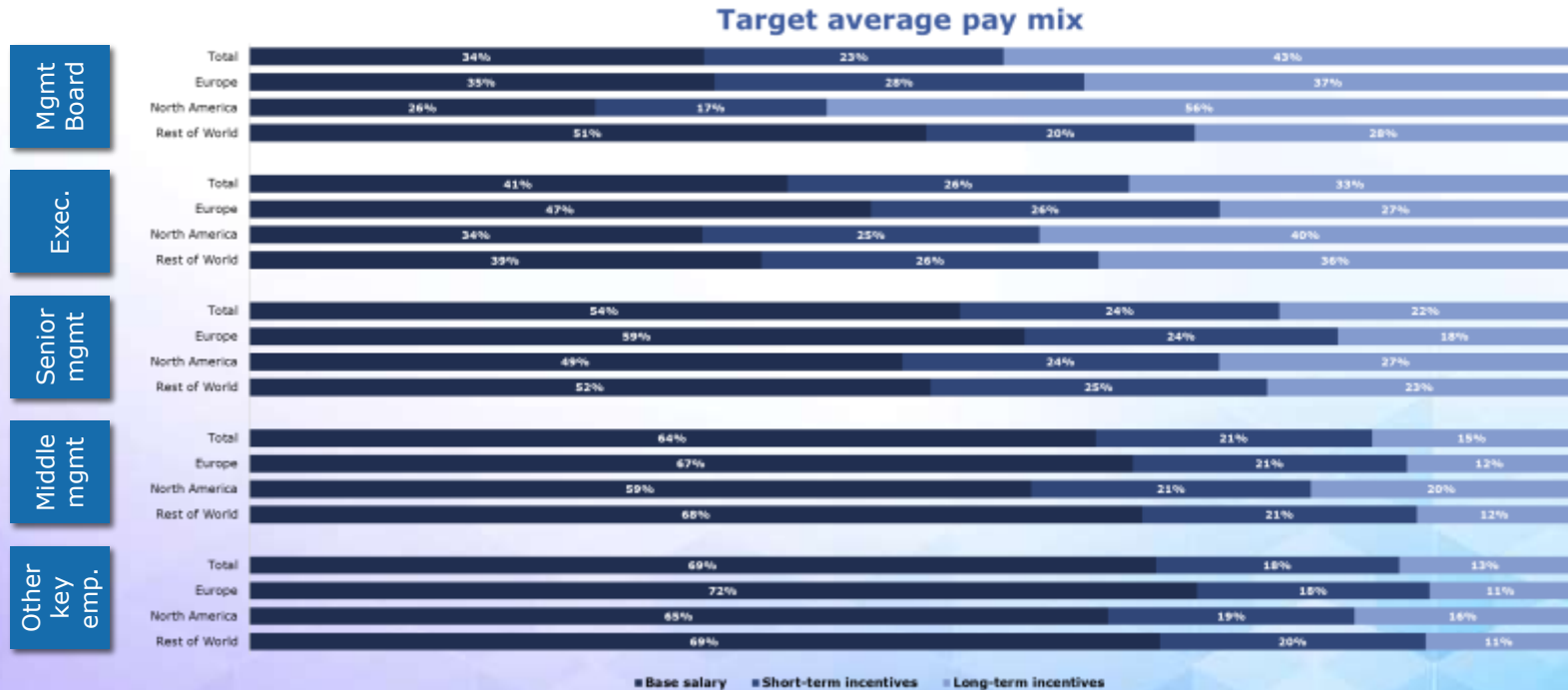
List of survey participants

- 21st Century
- Abcam PLC
- Accenture
- Aditya Birla Management Corp
- Adobe
- Aggreko plc
- Allianz SE
- Amazon
- Ambarella
- Amyris, Inc.
- Aon plc
- Applied Materials, Inc.
- Aristocrat Leisure Limited
- Arthur J. Gallagher
- Atlassian, Inc.
- Automattic
- Aviva plc
- BARCLAYS
- Bayer AG
- BHP Billiton
- Bilfinger SE
- BKW Energie AG
- Blackhawk Network
- Bombardier
- Booz Allen Hamilton
- BP
- Brambles Limited
- BT Group plc
- Cabot Corporation
- Cargill, Inc.
- Carnival Corporation
- CGI Group Inc
- Cisco Systems, Inc
- Citi
- Citrix
- Clariant Intl
- Cloudera Inc
- CommScope
- Continental AG
- Corning
- Covestro
- CSL Limited
- Daimler AG
- Danaher Corporation
- Danone
- Deutsche Bank AG
- Deutsche Lufthansa AG
- Dexus
- Diageo plc
- Dolby Laboratories, Inc.
- DuluxGroup
- E.ON SE
- Ericsson
- Essilor
- F. Hoffmann-La Roche Ltd
- FactSet
- FedEx Corporation
- Finisar Corporation
- FirstGroup
- FIS
- flex
- Ford Motor Company
- Fresenius Medical Care
- GAM Holding AG
- GEA Group AG
- General Mills
- General Motors
- Global Shares
- Google Inc
- Great Canadian Gaming Corporation
- GSK
- Guidewire Software
- Hewlett Packard Enterprise
- Hill-Rom
- Horizon Pharma plc
- Hortonworks
- IDEXX Laboratories
- IDP Education
- Illinois Tool Works
- Iluka Resources Limited
- Infineon Technologies AG
- Infusion Software, Inc.
- innogy SE
- Intertrust Group
- ISP Advisors
- Jazz Pharmaceuticals, Inc.
- Johnson Electric
- Johnson Matthey
- Kimberly-Clark Corporation
- KLA-Tencor
- korn ferry
- KRONES AG
- LafargeHolcim Ltd
- LANXESS
- Macquarie Group
- Motorola Solutions, Inc.
- Naspers
- National Australia Bank
- Nestlé
- NN Group
- Novartis AG
- NuVasive, Inc.
- nVent Electric plc
- Okta, Inc.
- Oracle Corporation
- OSRAM GmbH
- Oyster Pond Associates, LLC
- Philip Morris International SA
- Philips
- Qantas Airways Limited
- Qualcomm
- Randstad
- Red Hat
- Rheinmetall AG
- Richemont International SA
- S&P Global
- Salesforce
- SANOFI
- SAP
- Schindler
- Schneider Electric
- Schroders
- SEEK
- Siemens AG
- Siemens Healthineers
- Signify
- Simpson Manufacturing Co., Inc.
- Sims Metal Management
- SNC-Lavalin
- Solium
- STMicroelectronics
- Sun Life Financial
- Swiss Re
- TECH DATA CORPORATION
- Teva Pharmaceutical Industries LTD
- The AES Corp
- ThyssenKrupp AG
- Treasury Wine Estates
- trivago
- TUI AG
- UCB
- Uniper SE
- Veeva Systems
- Vocera Communications, Inc.
- Walmart
- Western Digital Corporation
- Zurich Insurance Company
- PWC

Long-term incentive plans

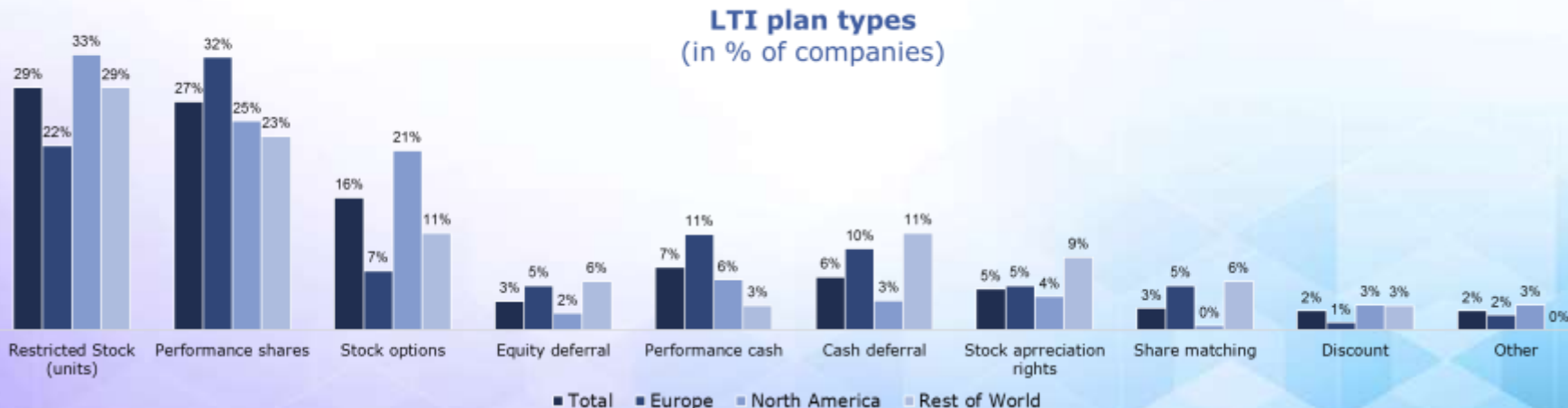
The LTI portion is still gaining ground

- The target average pay mix for lower levels of the hierarchy has become more long term:



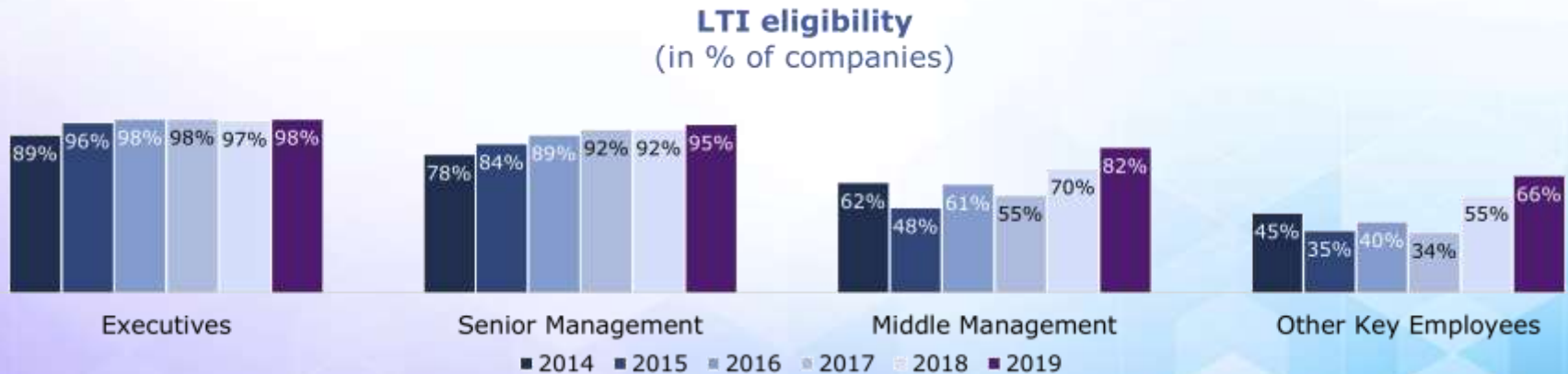
The distribution of plan types differs considerably between Europe and North America

- While European companies prefer performance shares as a long-term incentive (32%), North American companies prefer restricted stock (units) (33%).
- Other plan types such as share matching, discount plans and equity or cash deferrals only play a minor role in the compensation mix:



LTI eligibility for other key employees is on the rise

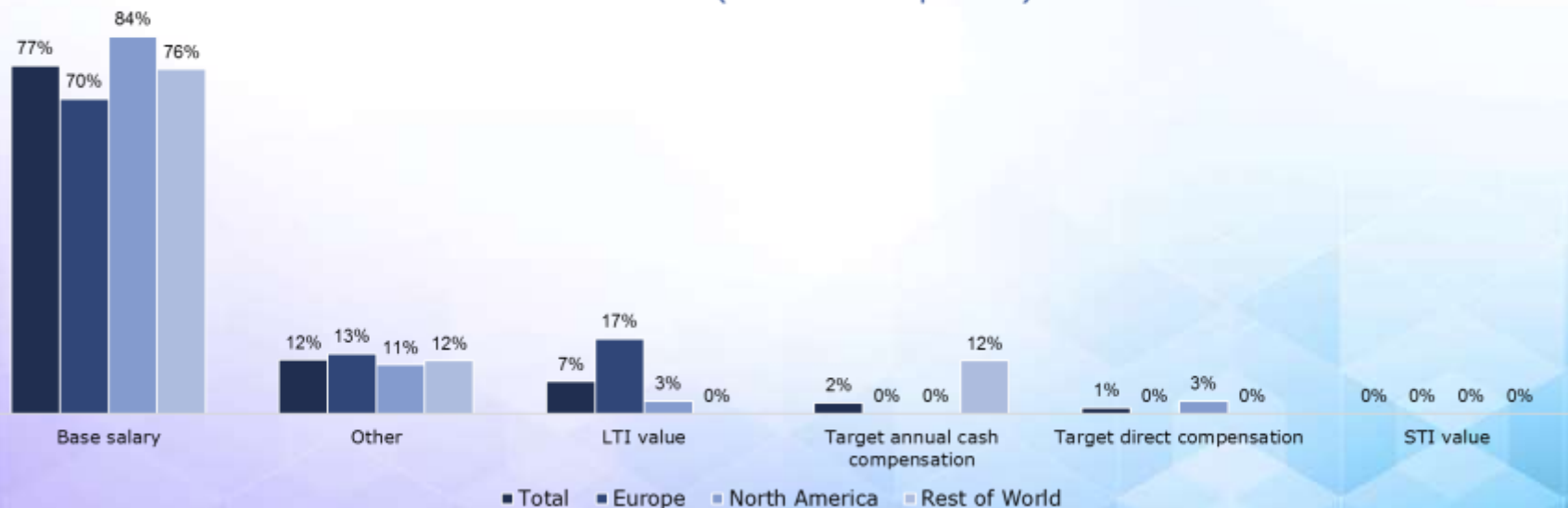
- The majority of companies extend LTIP eligibility to their executive and senior management levels.
- A trend towards greater LTI eligibility has been observed over the past several years:



The base salary is the most consistently applied measurement for SOGs

- Three fourths of companies reported measuring the amount to be invested in shares as a portion of base salary, a trend consistent across all economic regions:

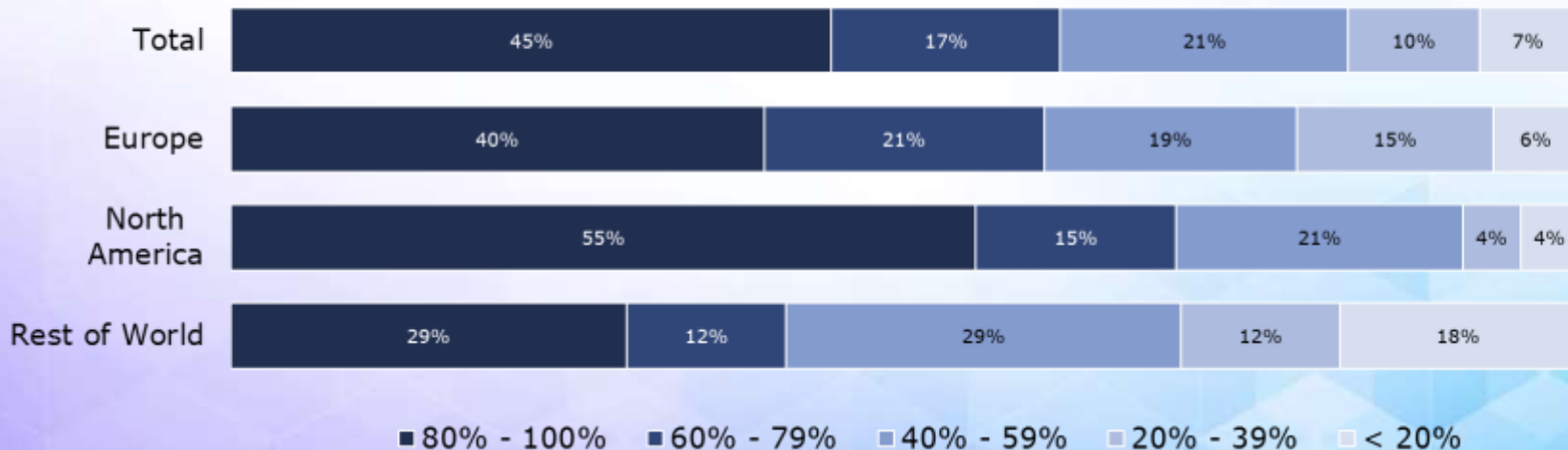
Measurement of Share Ownership Guidelines (SOGs) (in % of companies)



North American companies implement their LTI in more of their operating countries

- North American companies implement their LTI in 55% of their operating countries, significantly more than European companies:

Share of operating countries in which an LTI is implemented
(in % companies)



TSR remains the most frequently applied performance measure

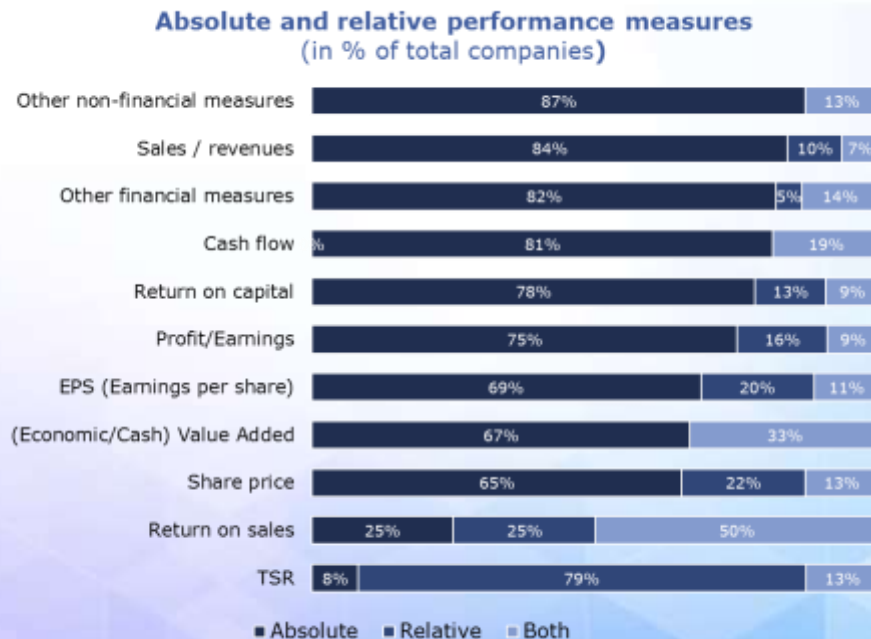
- Since the beginning of the study, TSR remains the preferred performance measure with over half of companies applying it.
- Profit/Earnings and EPS come in second and third respectively:

Types of performance measures
(in % of companies)



Absolute and relative performance measures greatly depend on plan type

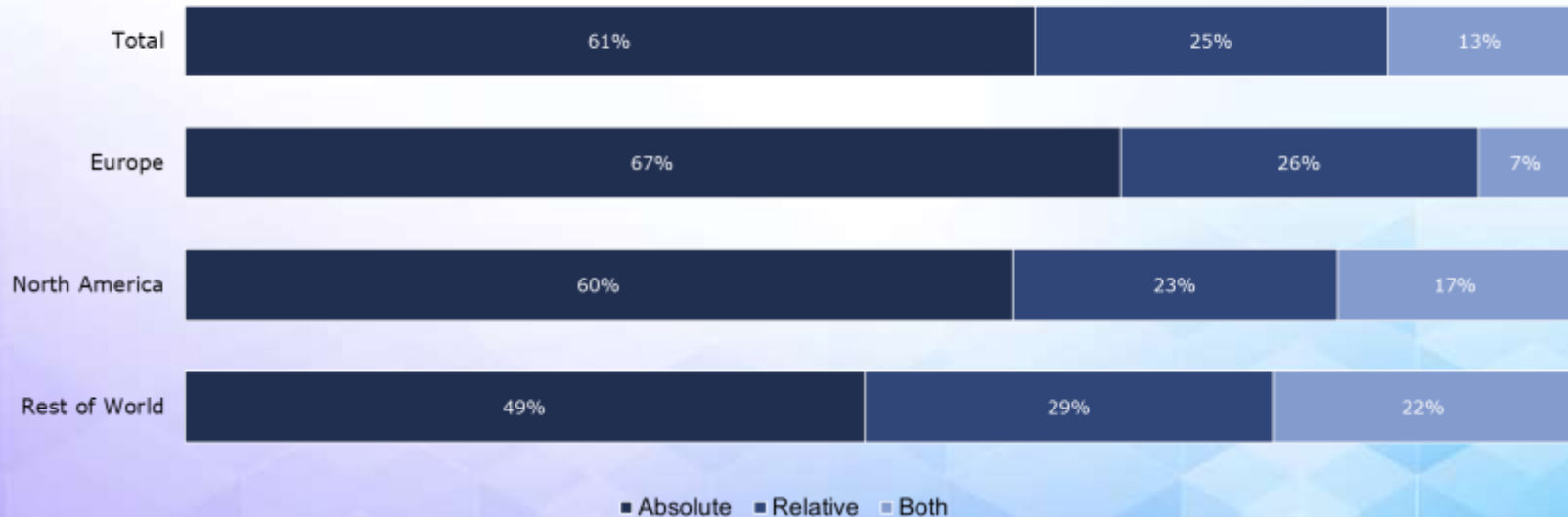
- Frequently, TSR is measured by comparing the TSR to a peer group or index.
- Thus, relative TSR captures the advantages of an investment into the company's shares instead of an alternative investment:



Performance measures are similar across regions

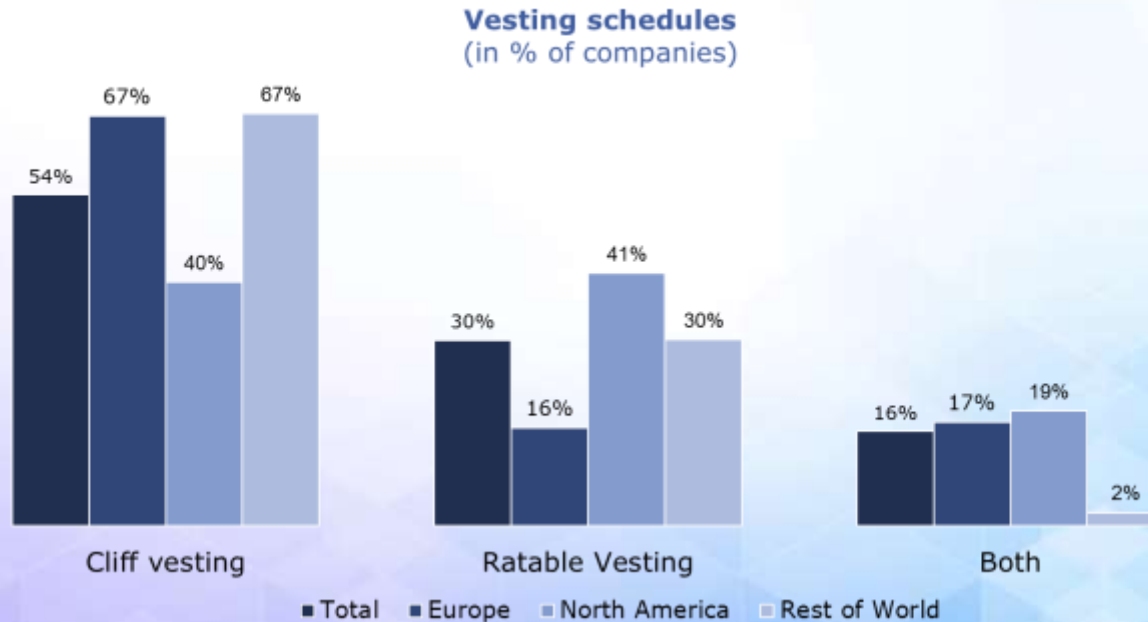
- The application of absolute and relative performance measures doesn't change substantially across economic regions

Absolute and relative performance measures
(in % of companies)



Vesting schedules vary greatly across regions

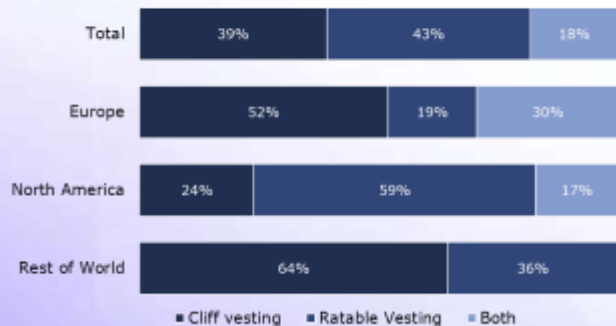
- North American companies tend to use more ratable vesting schedules, whereas European companies and companies from other economic regions have a strong preference for cliff vesting schedules:



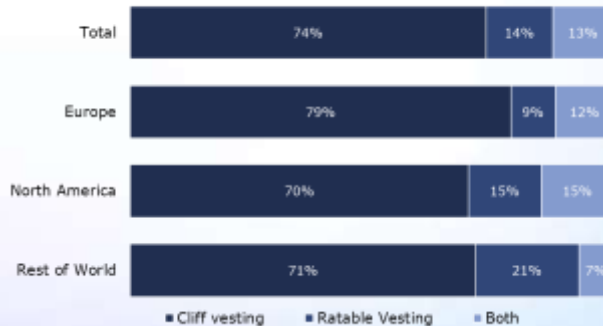
Vesting schedules vary by plan type

- While Restricted Stock (Units) often have ratable cliffs and are often considered “time-based awards”, performance shares more often apply cliff vesting.
- Stock options display strong regional variation – North American companies prefer cliff vesting:

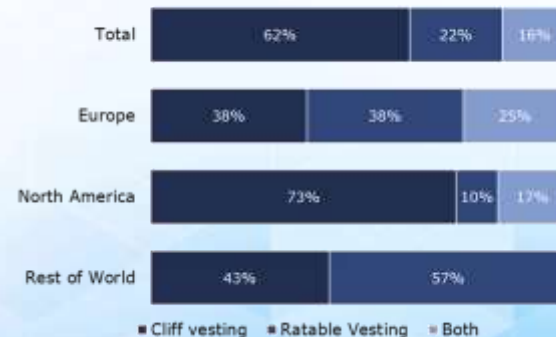
Vesting schedules for Restricted Stock (Units)
(in % of companies with Restricted Stock (Units) Plans)



Vesting schedules for Performance Shares
(in % of companies with Performance Shares Plans)

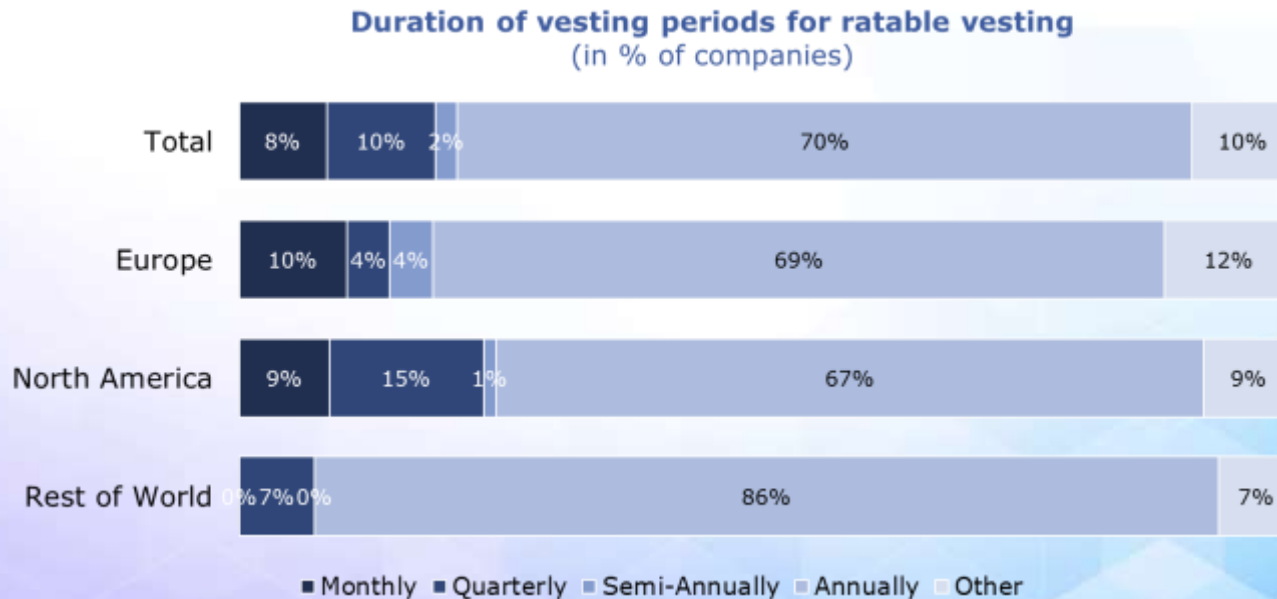


Vesting schedules for Stock Options
(in % of companies with Stock Option Plans)



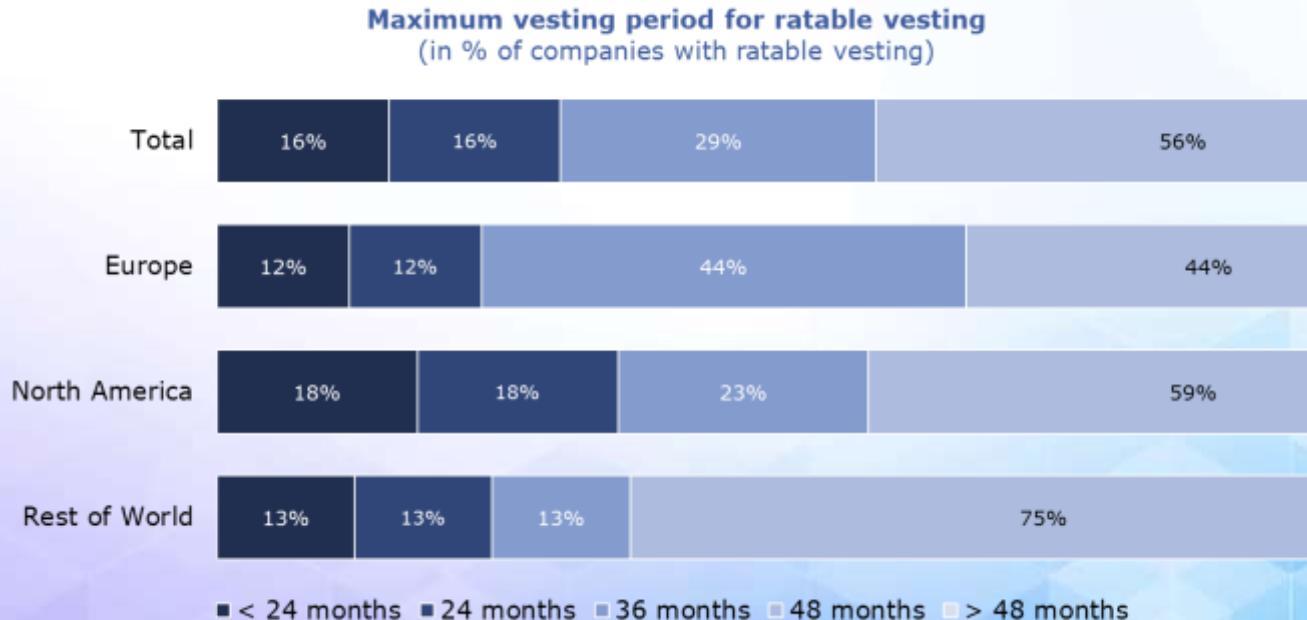
Annual vesting is standard

- 70% of companies apply annual vesting schedules to their ratable vesting plans, while 20% also apply a vesting period of less than one year:



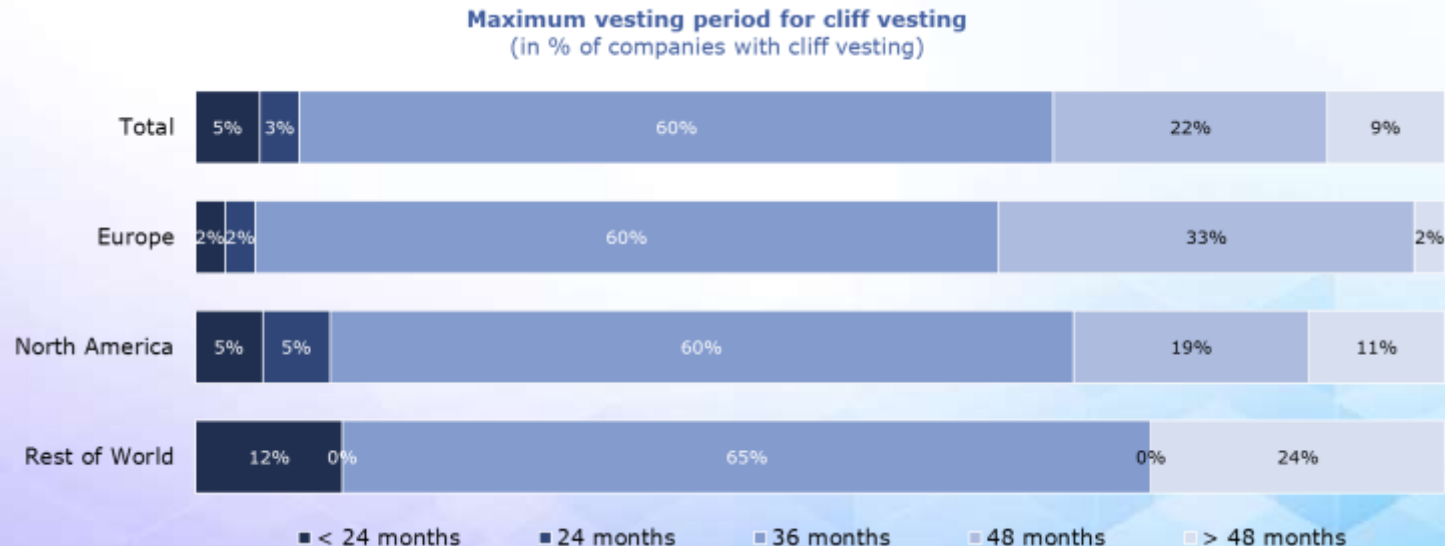
Maximum vesting periods are quite long...

- Over half of companies have maximum vesting periods which can extend well past 5 years for ratable vesting plans.
- Companies in other economic regions especially apply long maximum vesting periods:



...while maximum cliff vesting periods are shorter

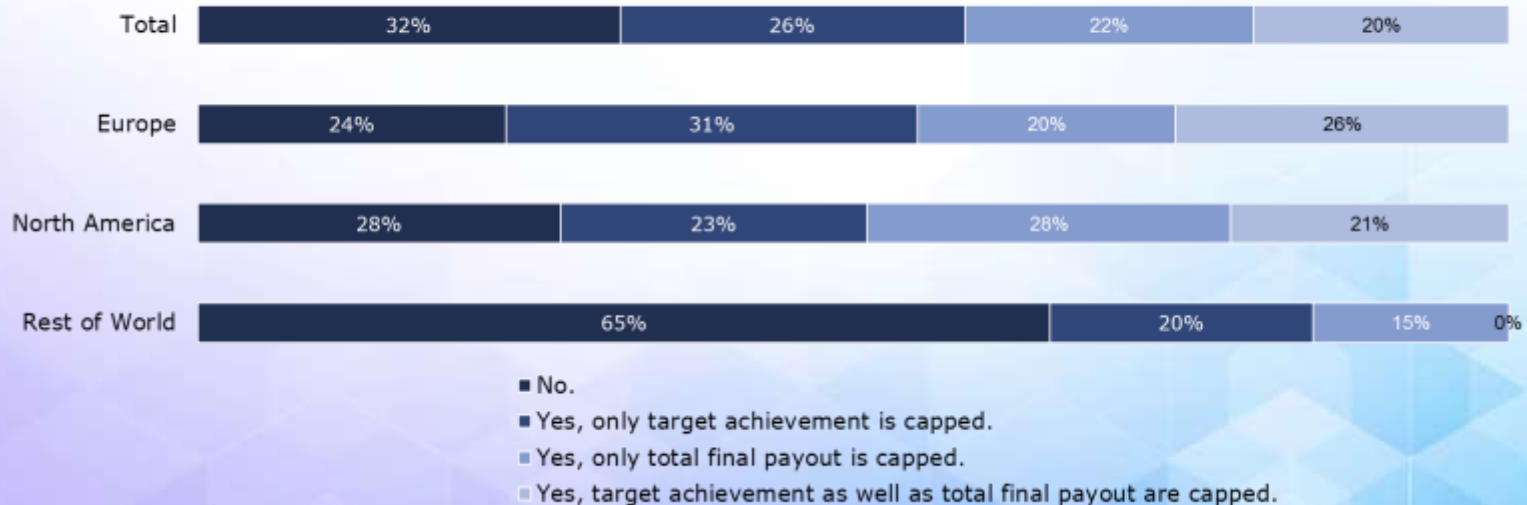
- In contrast to maximum ratable vesting periods, maximum cliff vesting periods often align with the full length of the performance periods of 3 to 4 years:



Caps are quite common

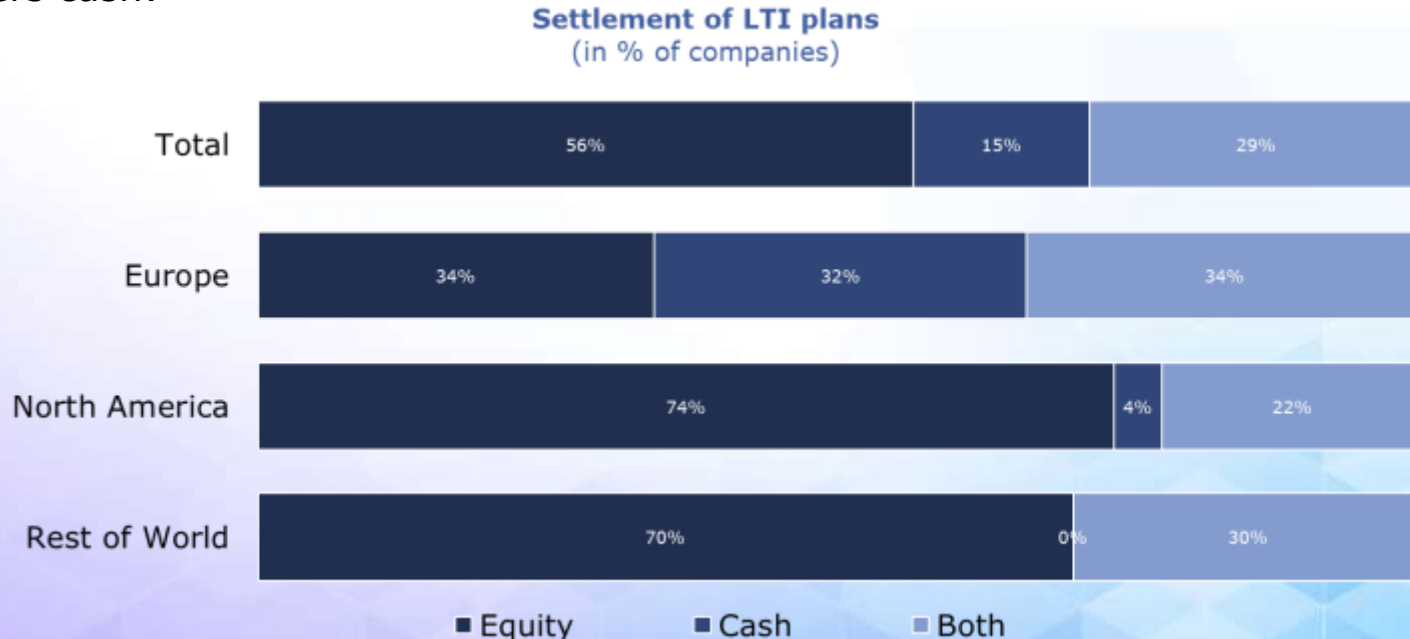
- The vast majority of companies apply caps to their plans, with 68% of participating companies reporting some type of cap.
- Companies in Rest of World, however, deviate from other regions and don't often apply caps:

Application of cap on LTI plan payouts
(in % of companies)



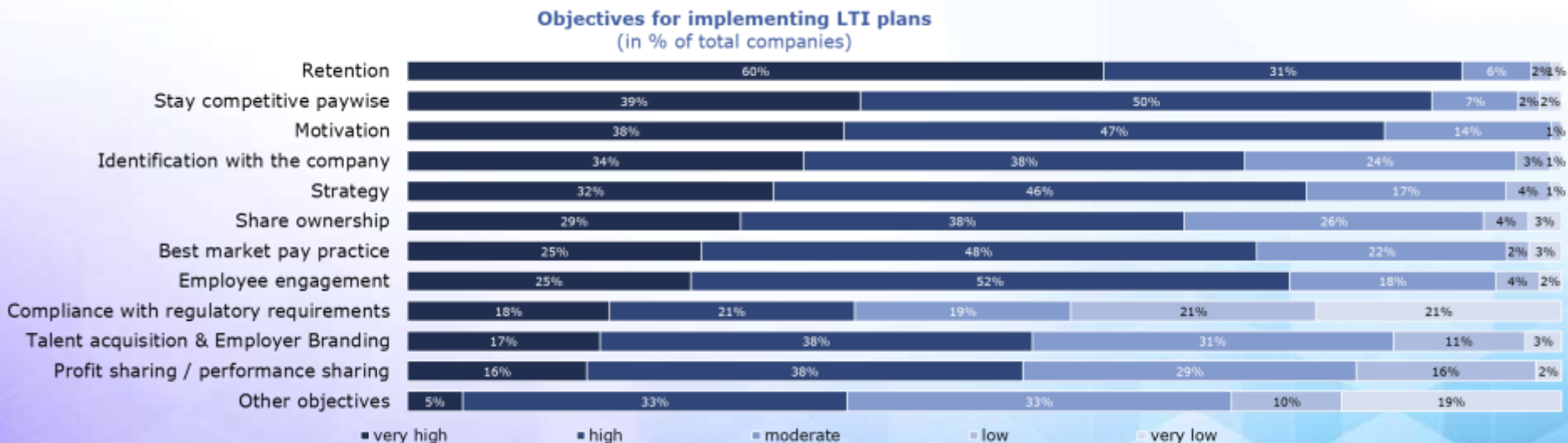
Equity or Cash? The region decides...

- The classic Equity or Cash question is still highly dependent on region.
- Most North American companies use equity to settle their plans, while Europe still prefers cash:



Retention is key for LTIs

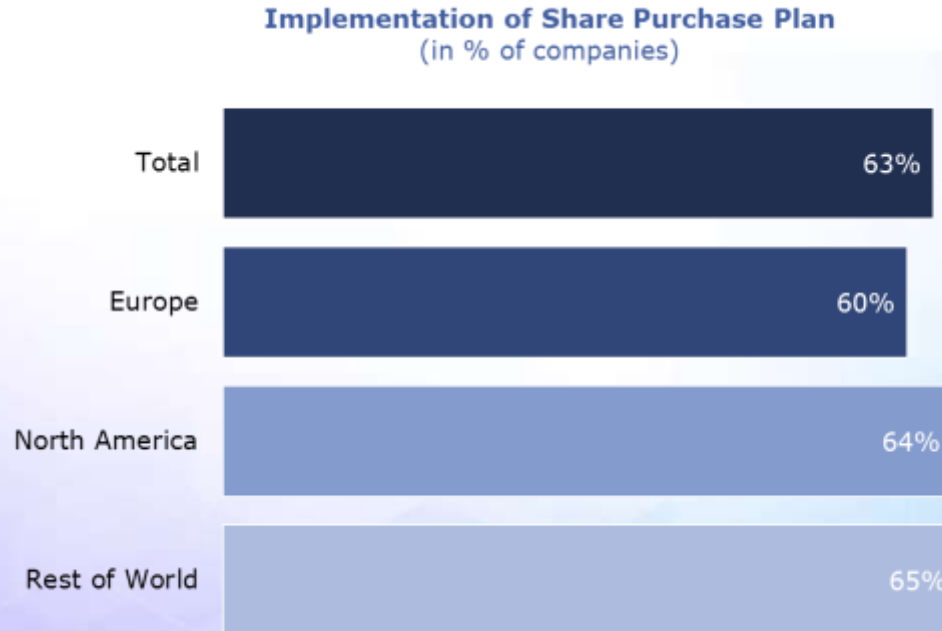
- Retention is the clear key objective for LTI plans, with 60 % of participating companies reporting it as a very high objective:



Share Purchase Plans (SPP)

SPPs are widely popular

- Nearly two thirds of participating companies operate an SPP, consistent across all economic regions



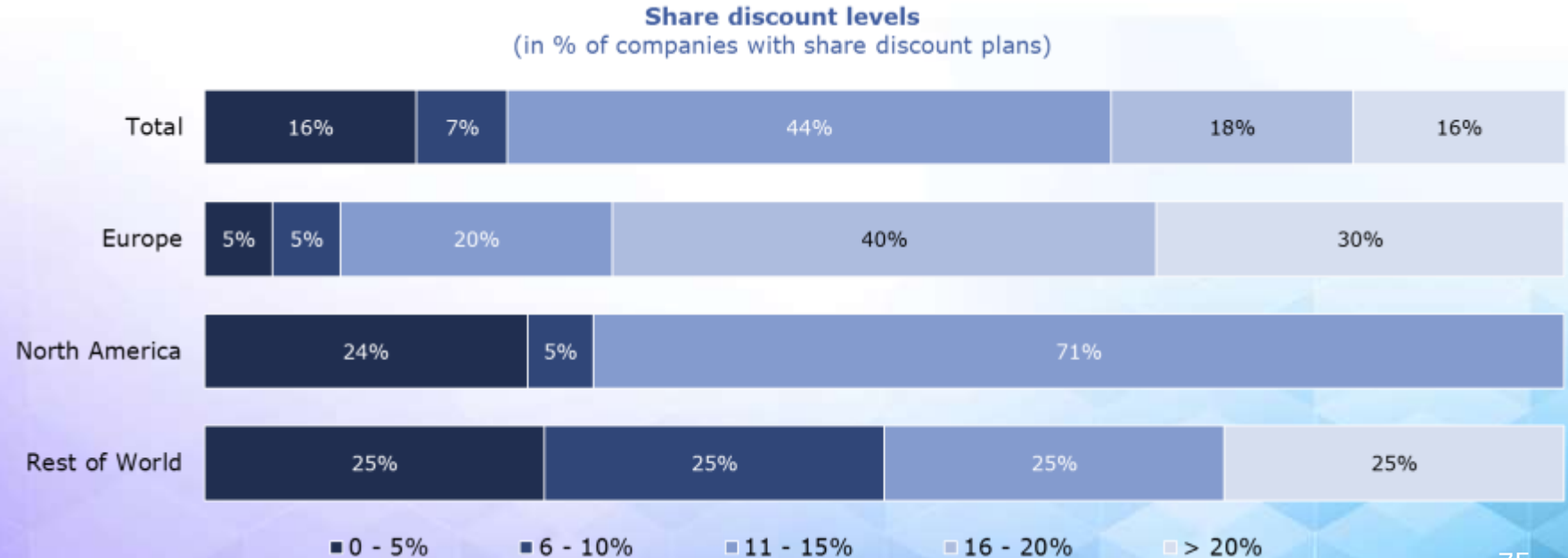
The preferred SPP type is split across the Atlantic

- North American companies continue to prefer share discount plans, while European companies apply matching plans more frequently:



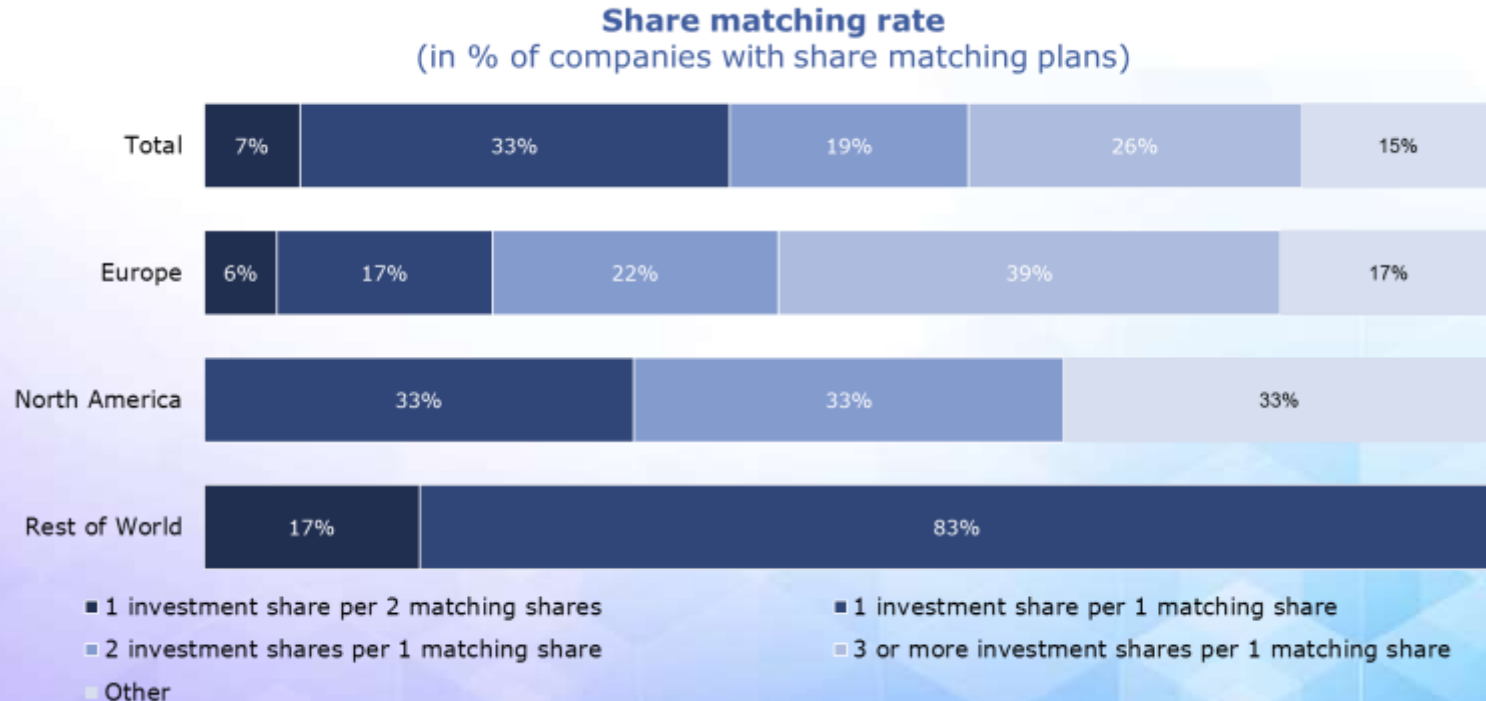
North American companies ensure tax qualification

- While other economic regions tend to have more varied approaches to share discount levels, North American companies usually do not cross the tax qualified limit of 15%.



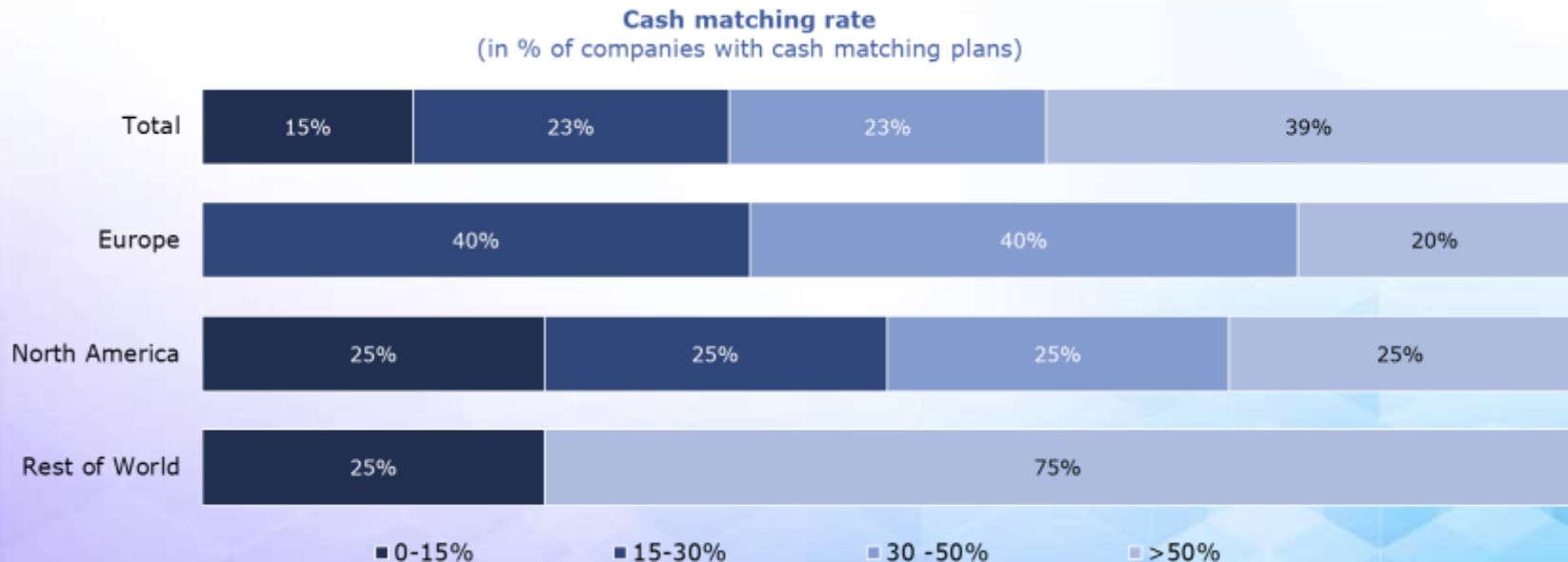
North American companies require more investment from their employees

- More European companies grant generous matching shares per investment match than North American companies – while the most generous are companies in Rest of World:



Rest of World provides generous cash matching

- In companies with cash matching plans, Cash matching ranges from slight matches to generous 50% matches.
- Rest of World is the most generous in this regard:



North American companies don't apply holding periods

- European companies are keen to require their employees to keep their SPP share held during a specific period, 72% of North American companies allow their employees to sell immediately:



SPP eligibility is on the rise

- Of the companies that have implemented an SPP, 61% of their employees globally are eligible to participate.
- This is even higher for global employees of North American companies:

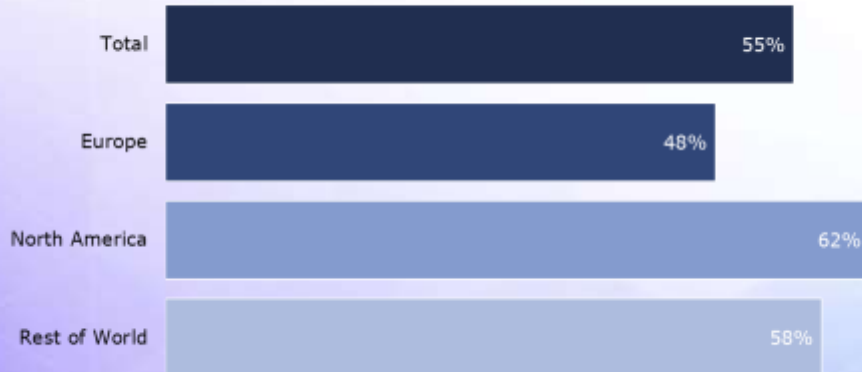
Eligible Share Purchase Plan participants divided by all employees
(in % of employees)



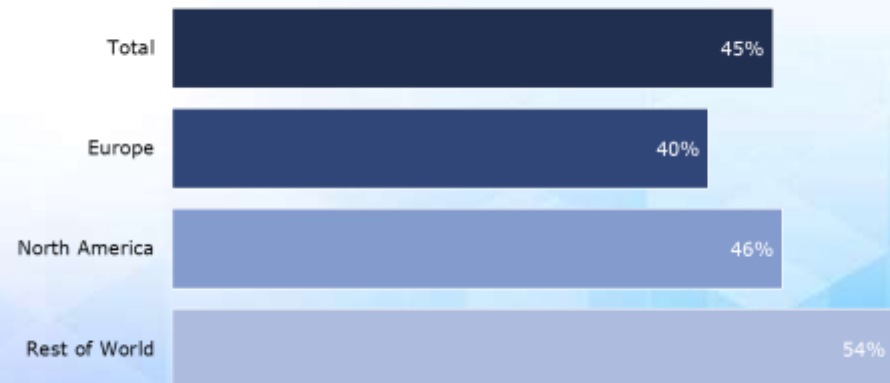
Actuals and targets differ slightly...

- Compared to their targets, companies miss their mark.
- On average, companies tend to underperform their benchmark by 10%.
- Companies in Rest of World perform the best of all regions:

Target participation rate of Share Purchase Plans
(in % of companies)

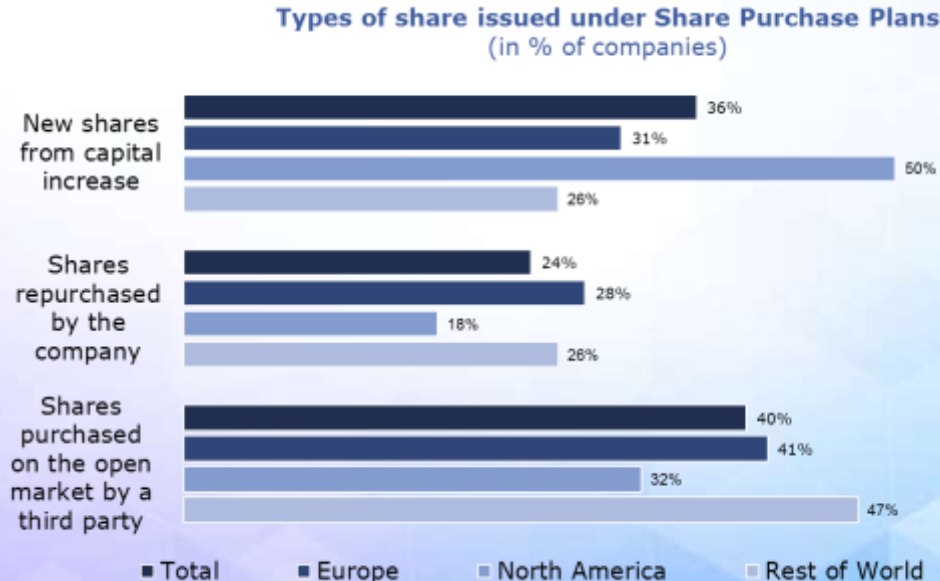


Actual participation rate of Share Purchase Plans
(in % of employees)



North Americans prefer capital increases

- 50% of North American companies do not have a problem with share dilution resulting from capital increases.
- Companies in other economic regions are much more split with regards to types of shares:



Participation rate is the clear success measure

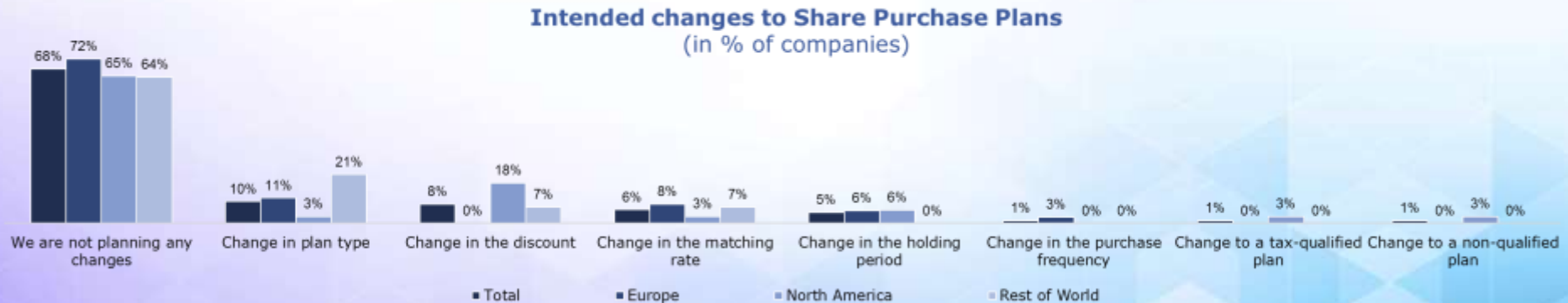
- Across all economic regions, the participation rate is the key performance indicator for measuring the success of SPPs.
- Other success measures, however, contribute to over 70% of the responses:

Success measures for Share Purchase Plans
(in % of companies)



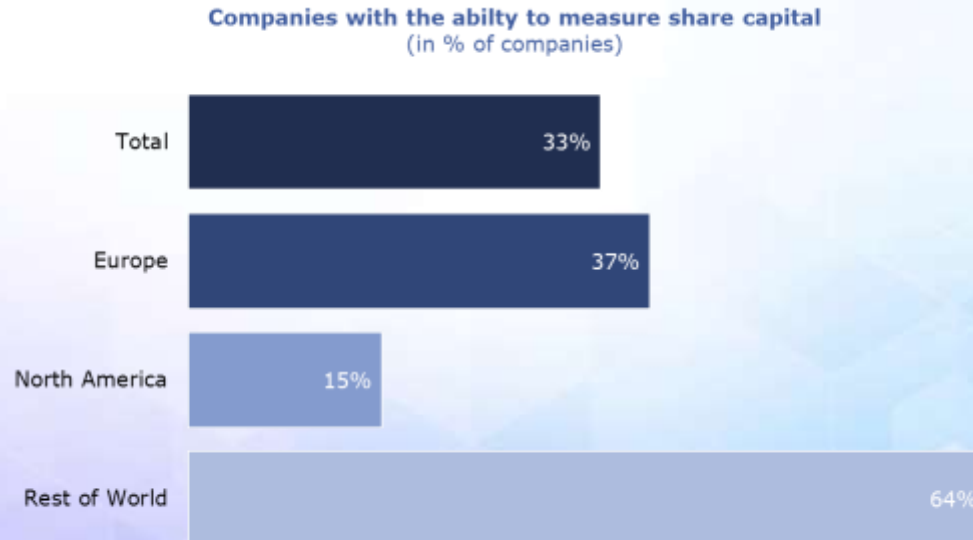
Companies are content with their plans

- The majority of companies will not make any changes to their plans.
- However, nearly a third of companies are intending to adapt their plans in the coming years:



Companies struggle to measure employee share capital

- While a third of companies are able to track the shares that flow into SPPs, North American companies struggle to measure the amount of share capital in the hands of their own employees.
- For companies in Rest of World, this does not seem to be a problem:



2% of companies' employees are owners

- At the median, 2% of the staff own shares in the company through share purchase plans:



Data issues are holding companies back from observing employee share capital

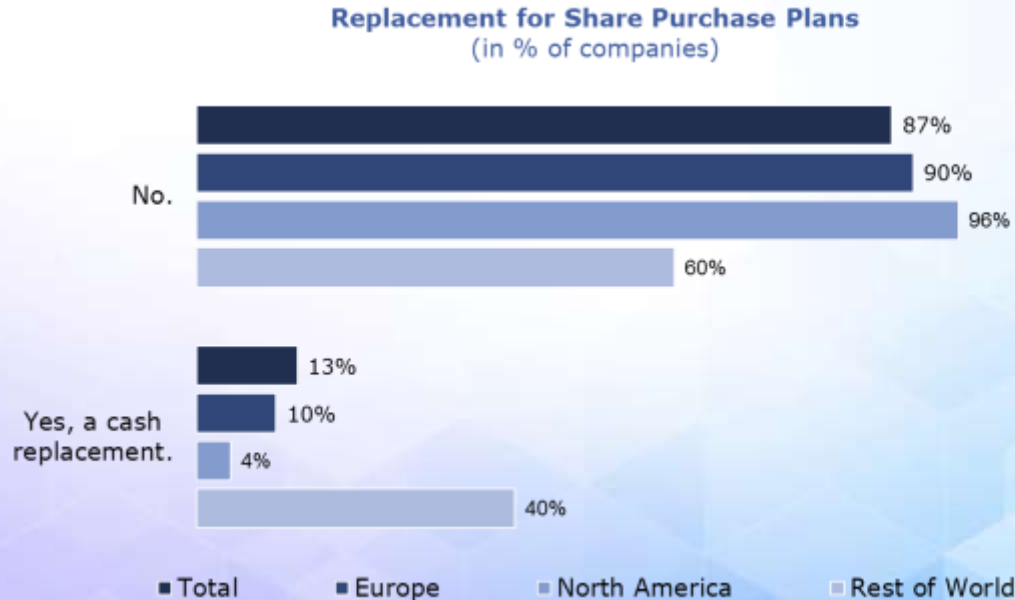
- Of the companies that cannot accurately measure the share capital in the hands of their employees through share purchase plans, data aggregation issues seem to be the biggest factor:

Issues preventing observation of share capital held by employees under Share Purchase Plans
(in % of companies)



No SPP? No replacement...

- Most companies do not offer any replacement to employee groups who are ineligible for SPPs.
- The exception are companies from Rest of World:

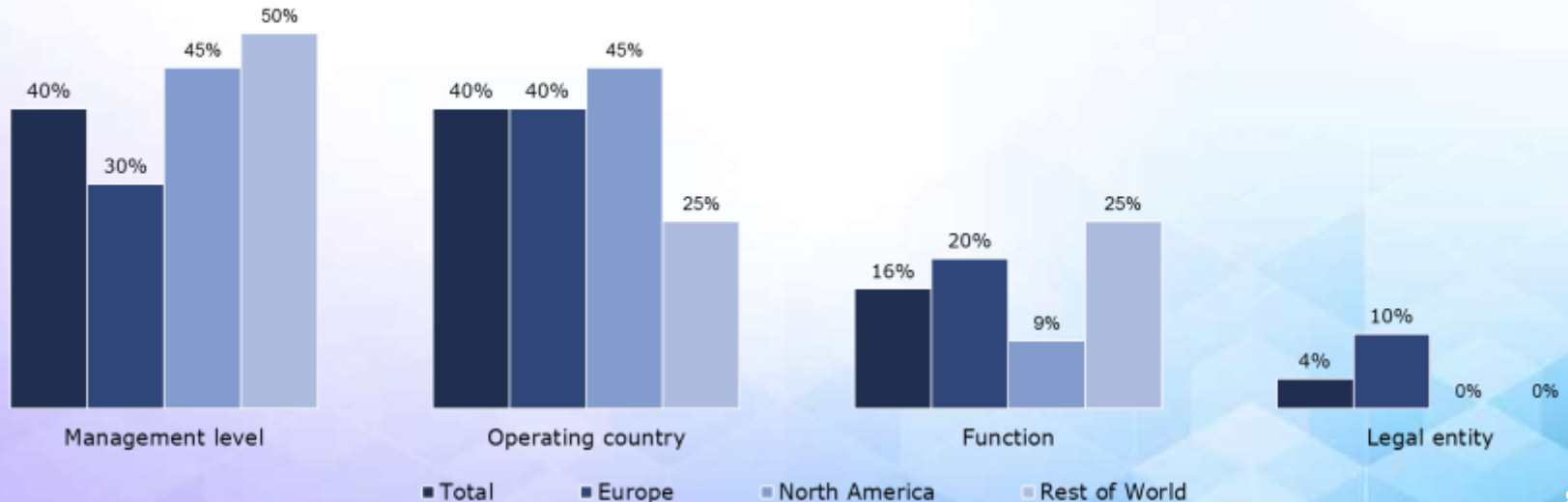


Individualization & Flexibility

Who gets which LTI?

- Management level and operating company are the most frequent reasons for adapting LTI plans for specific employee groups, with 80% of the responses together.
- Differentiating by function is less frequent:

LTI plan adaptation for specific employee groups, based on
(in % of companies)



Some countries make equity-based compensation challenging

Countries where the LTI plan is not implemented
(in number of responses per country)



Countries where the Share Purchase Plan is not implemented
(in number of responses per country)

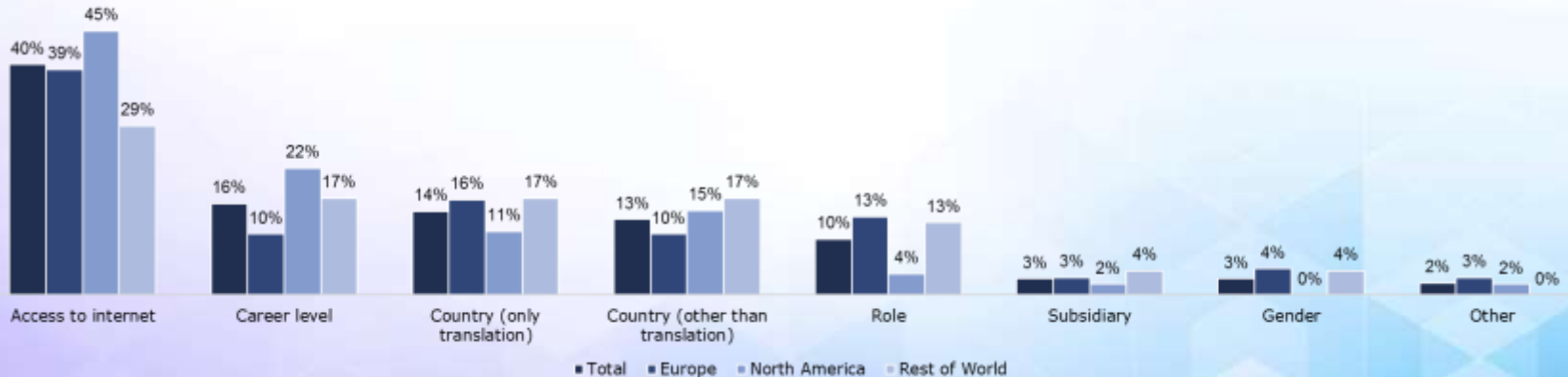


Communication

No internet, no communication?

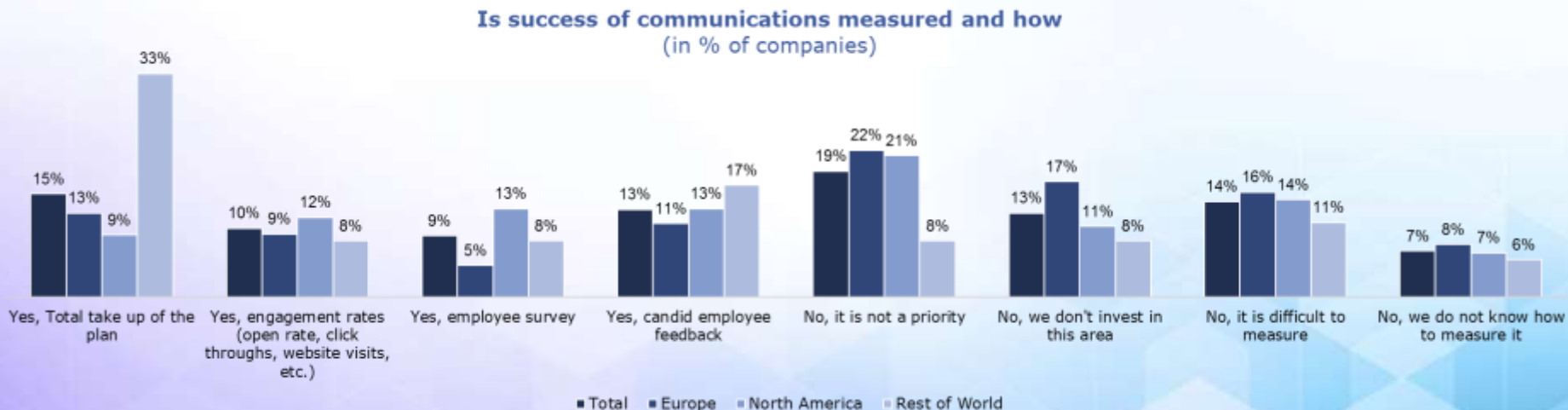
- Companies make it easier for their employees to understand the advantages of their SPPs by differentiating their communication approaches, especially based on access to internet for, blue collar workers in factories, for example:

Adaptation of communication tools based on...
(in % of companies)



How successful are your communication measures?

- 52% of company report that they do not measure communication measure, with nearly a fifth of companies reporting measuring communication not a priority.
- Only 9% measure success through employee surveys:



No single desired impact of communication tools is decisive

- Companies reported all responses provided as approximately equally important.
- Helping employees understand the value of the rewards and retention, however, took the two top spots in the survey:

