

# TRUE COST OF AN ESPP: ARE THEY WORTH IT?

CERTAINTY

INGENUITY

ADVANTAGE

 **Computershare**

# ESPP Offerings

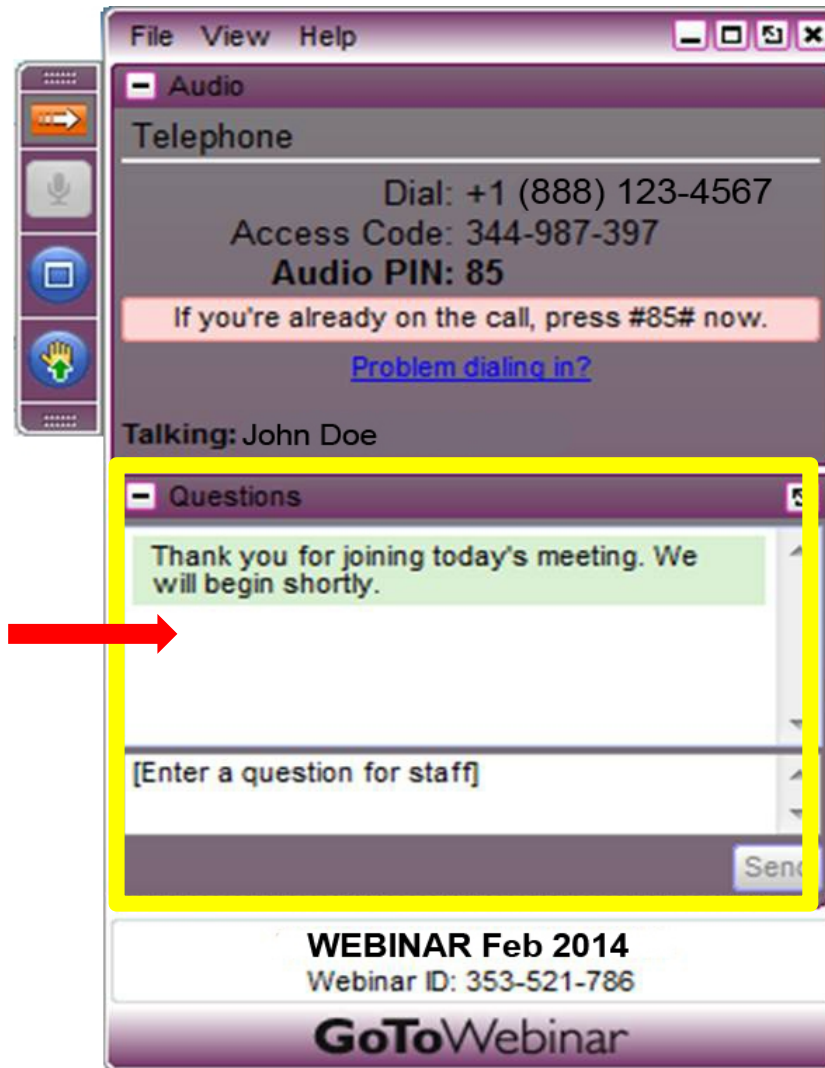
- › All Things ESPP Webinar Series  
[www.computershare.com/allthingsespp](http://www.computershare.com/allthingsespp)
- › ESPP Day Conference  
February 8, 2018 | New York, NY  
[www.computershare.com/esppday](http://www.computershare.com/esppday)

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# Asking Questions

Enter your question into the Questions pane on the GoToWebinar Control Panel.



# Introductions



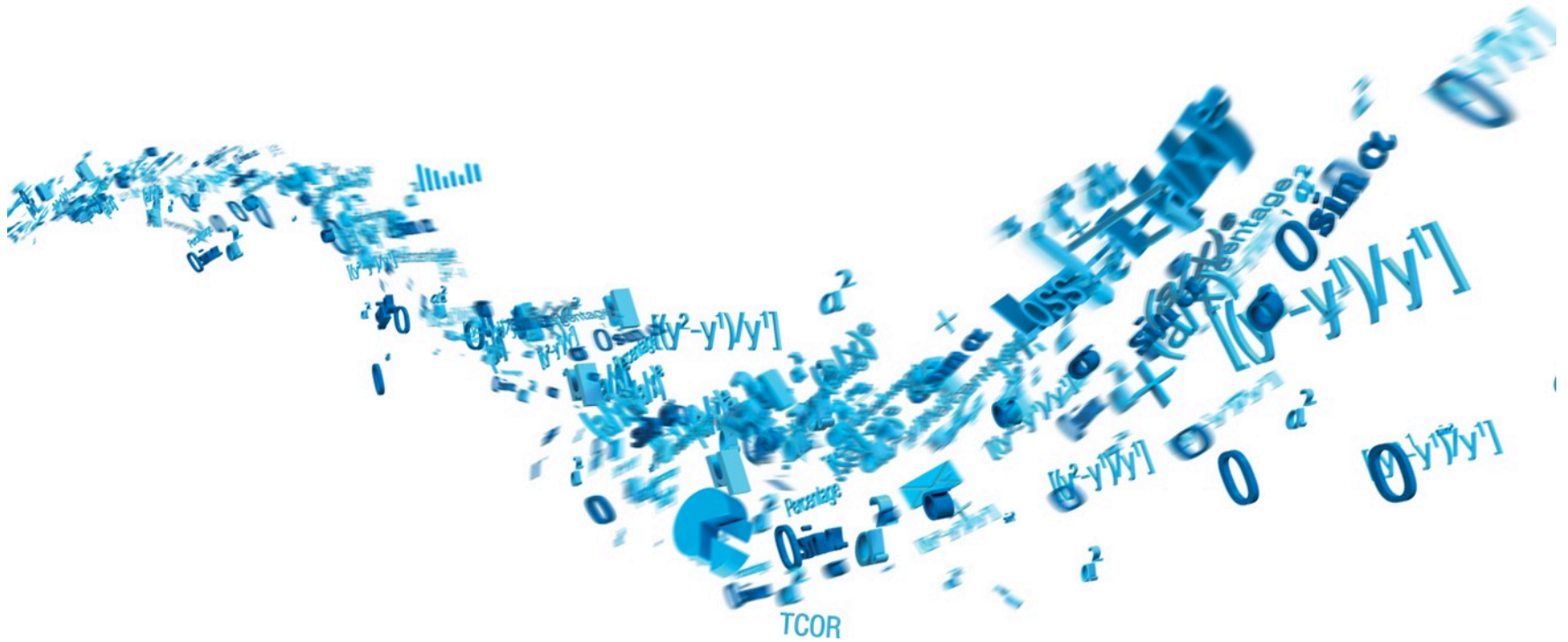
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# True Cost of an ESPP – Are they worth it?

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November 2017

Prepared by Aon

Aon is part of Aon Hewitt, a business unit of Aon plc.

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# Costs and Considerations

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- Why have an ESPP?
- Plan Design Considerations and Costs
  - Compensation Expense
  - Taxes
- Administrative Considerations
- Costs of Shares and Governance Considerations



# Why Have an ESPP?

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## Employee Benefits



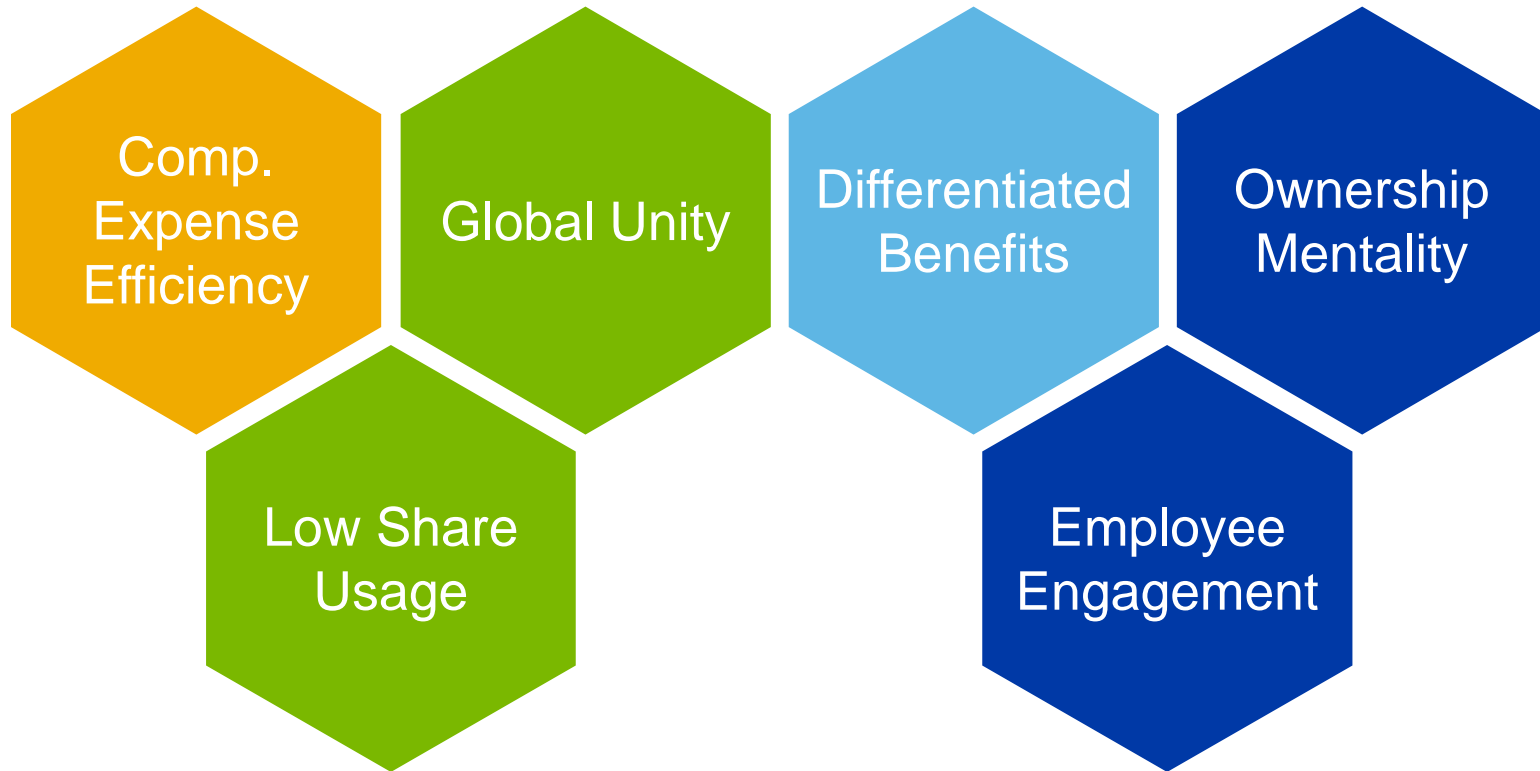
\*With most designs



# Why have an ESPP?

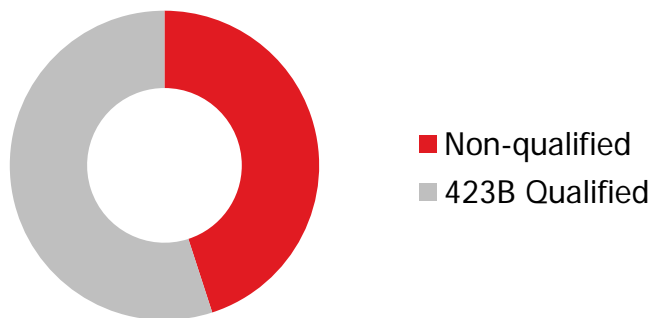
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## Company Benefits

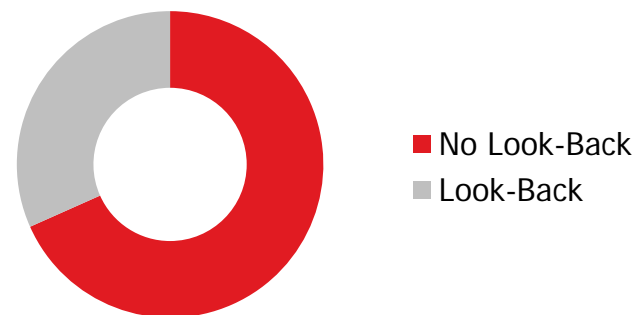


# Plan Design Considerations and Costs

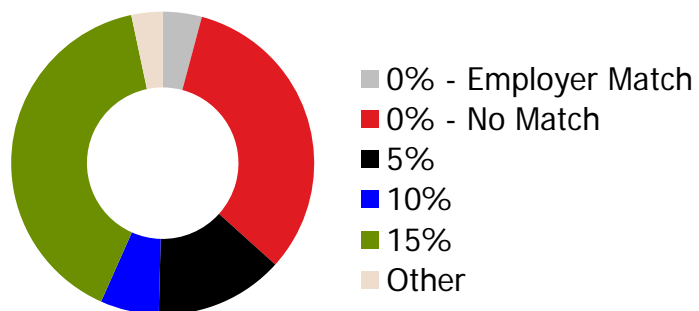
## Plan Type



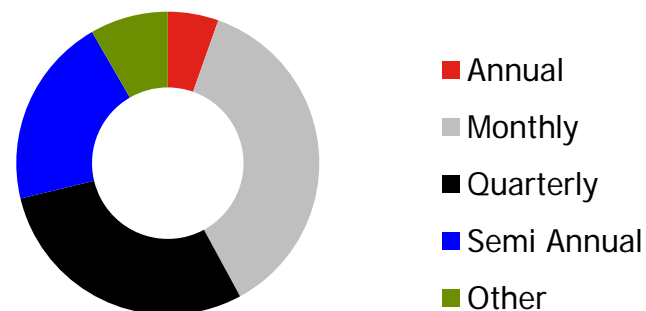
## Look-Back



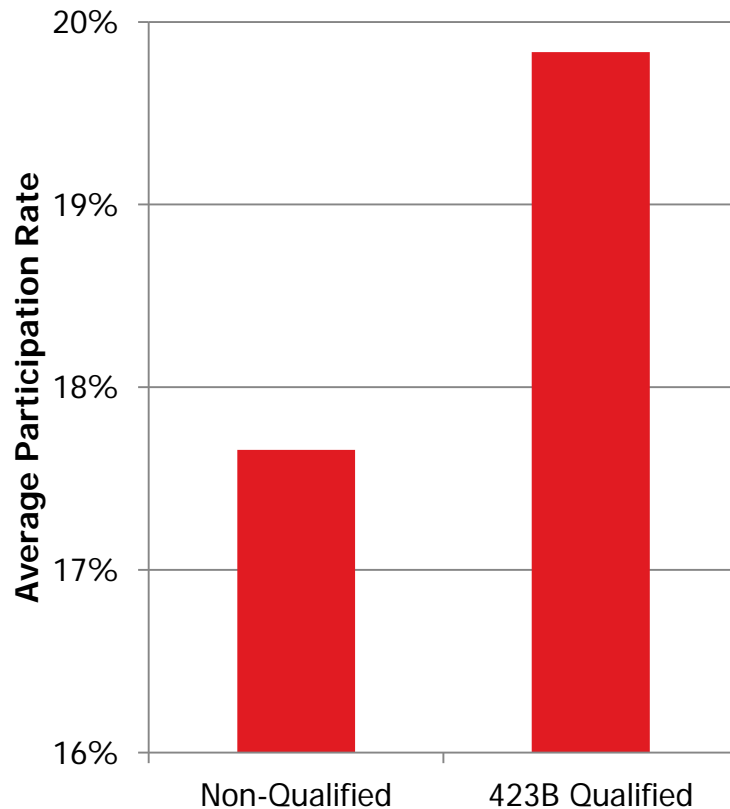
## Discounts



## Length of Purchase Period



## Plan Design – Plan Type

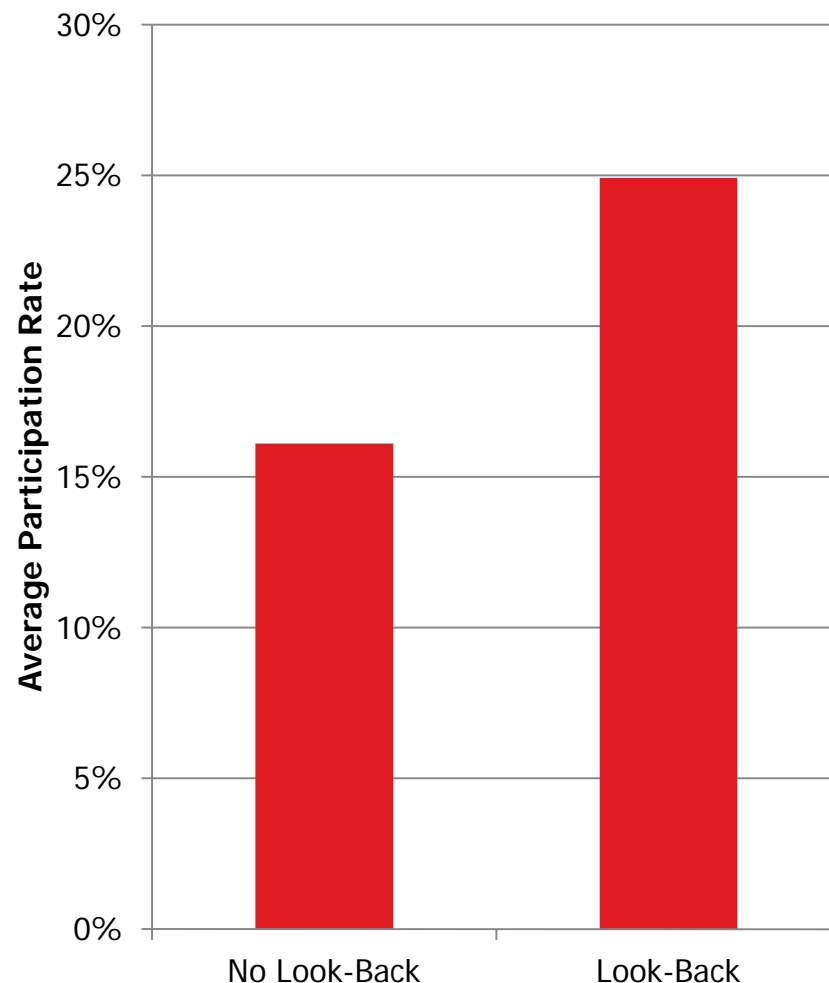


Qualified Plans have more possible tax advantages for employees.

## Plan Design – Look-Back

Look-Back can provide a lot of potential gains for employees, but does cost more.

	No Look-Back	Look-Back
Grant Date Stock Price	\$10.00	\$10.00
Fair Value*	\$1.50	\$2.61
% change	15.00%	26.10%

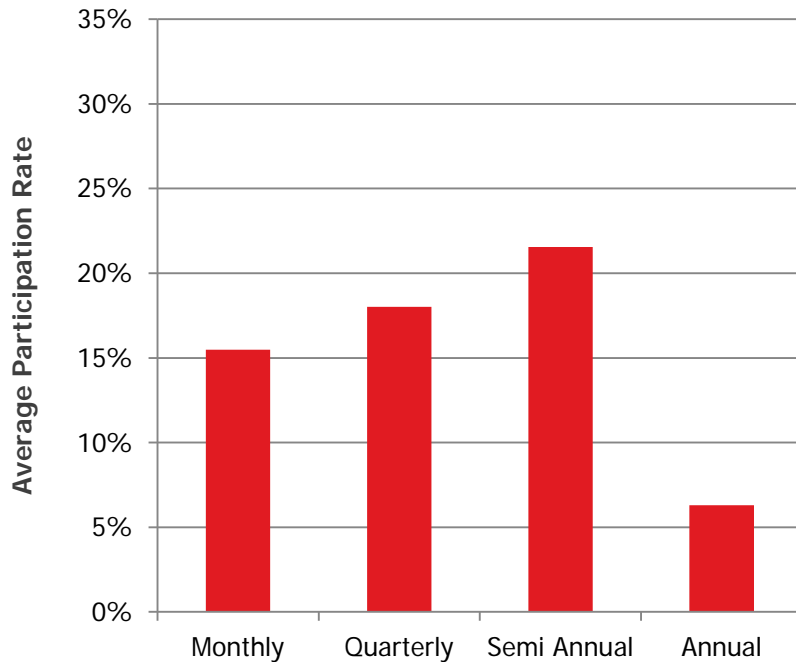


\*Assuming 40% Volatility, 1.20% RFR, 15% discount, 6 month purchase period

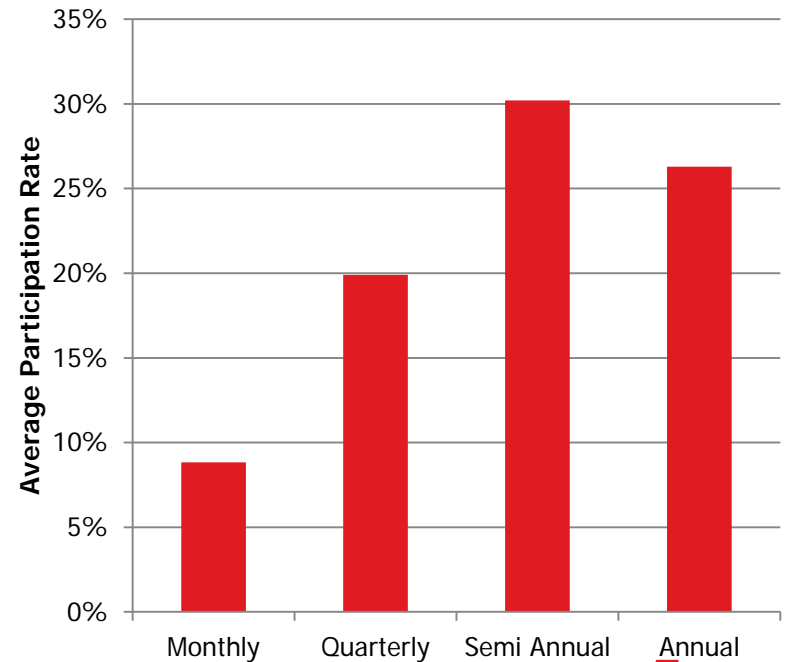
## Plan Design – Length of Purchase Period

A longer purchase periods will  
lead to higher compensation  
expense

**Average Participation Rate  
w/o Look-Back**



**Average Participation Rate  
w/ Look-Back**

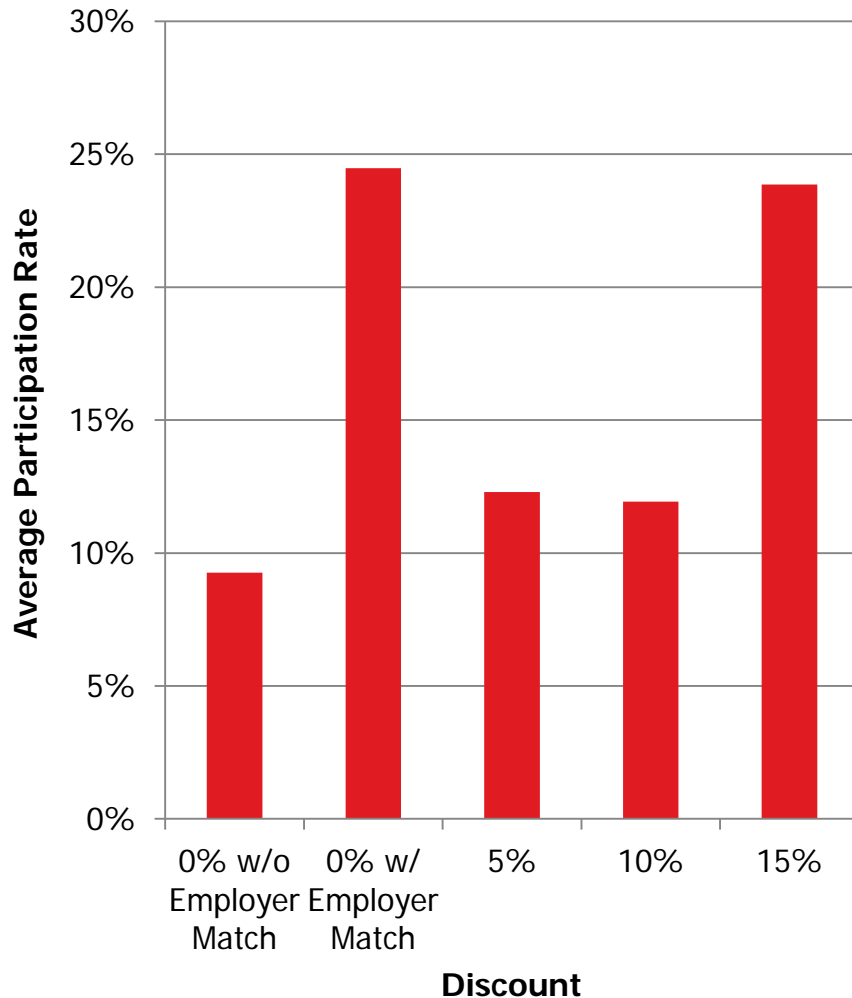


## Plan Design – Length of Purchase Period

	Monthly	Quarterly	Semi-Annual	Annual
Grant Date Stock Price	\$10.00	\$10.00	\$10.00	\$10.00
Fair Value*	\$1.96	\$2.29	\$2.61	\$3.06
As a percentage of Grant	19.60%	22.90%	26.10%	30.60%

\*Assuming 40% Volatility, 1.20% RFR, 15% discount, with look-back

## Plan Design – Discount



Discount is largest driver of participation, and easiest design feature to communicate.

	10%	15%
Grant Date Stock Price	\$10.00	\$10.00
Fair Value*	\$2.12	\$2.61
As a percentage of Grant	21.20%	26.10%

\*Assuming 40% Volatility, 1.20% RFR, 6 month purchase period, and Look-Back



## Administrative Costs

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### Different Factors affect the overall cost of your ESPP



#### **Plan Design**

The administrative cost of a plan can vary greatly based on complexity and plan type.



#### **Due Diligence**

Outside resources to help design and maintain ESPP. Very important internationally.



#### **Where are your employees located**

Is your employee base domestic only or global.



#### **Communications**

This can be large factor in both the overall cost of your ESPP and it's success.



#### **Where does administration happen**

Do you have the internal resources to administer in-house or are you partnering with an outside vendor.

# Plan Design

- Open Market or Direct Purchase Plan
  - Simplified steps for purchase
- Non-Qualified plan
  - No Rules or Limits
  - Discount or Company Match
- Tax Qualified plan
  - Rules & Limits set by Section 423 of Tax Code
  - Sales Tracking & Tax Reporting

# Where are your employees located

## ➤ Domestic

- Single Payroll
- US Dollars
- Minimal Language Requirements

## ➤ Global

- Multiple Payrolls
- Multiple languages and currencies
- Local Expertise for implementing and maintenance
- Increased Postage

# Where Does Administration Happen

Whether you administer your plan in house or use a fully outsourced vendor there are costs with setting up the infrastructure to support your plan.

## ➤ In House Administration

- Additional resources needed to fully manage all aspects of the ESPP

## ➤ Full Outsourcing

- Minimize burden on internal resources
- Fees based on services provided

# Due Diligence

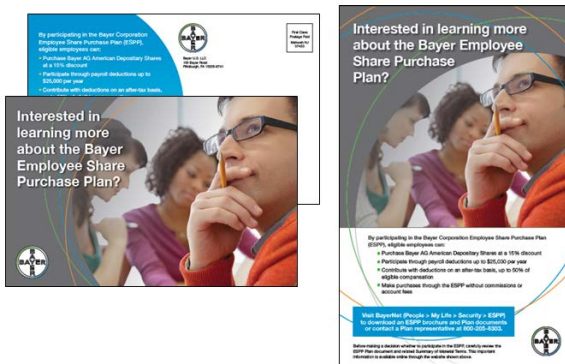
- Consulting for overall plan design and prospectus
- For international locations Securities filing and other regulatory requirements may be necessary(i.e. ChinaSAFE)
- Translation of plan-related documentation where required by local law
- Local Tax and legal experts may be required to keep the plan in good standing

# Administrative Costs

## Communications

- A well-planned and executed communication campaign can make all the difference in a successful ESPP. Cost will vary depending on what is chosen – e-campaign, direct mail, combination of both campaigns, dedicated microsite.

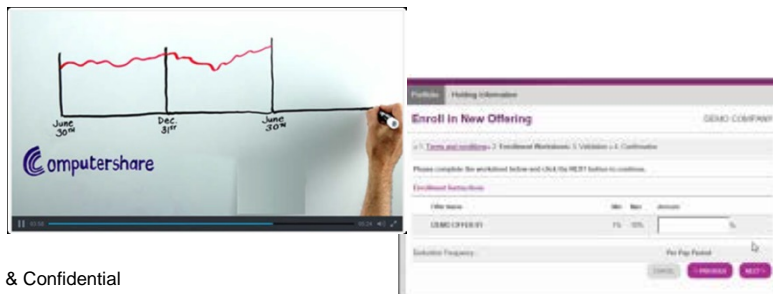
### Poster/Postcard Campaign



### Brochure and Frequently Asked Questions



### White board and how to videos



# Governance Considerations

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## ISS Policy

- ***General Recommendation:*** Vote case-by-case on qualified employee stock purchase plans. Vote for qualified employee stock purchase plans where all of the following apply:
- Plan Design:
  - Purchase price is at least 85 percent of fair market value
  - Offering period is 27 months or less
- Share Request
  - The number of shares allocated to the plan is 10 percent or less of the outstanding shares.
  - Most investors do not factor in ESPP shares when assessing Company dilution



# Governance Considerations

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## Glass Lewis Policy

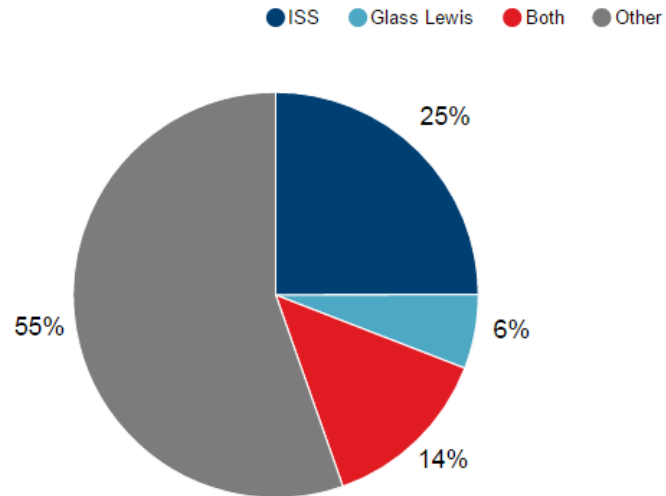
- **General Recommendation:** Generally support employee stock purchase plans, unless the plan contains an evergreen provision or fails some/all of quantitative tests
- Based on expected discount, purchase period, expected purchase activity (if previous activity has been disclosed) and whether the plan has a lookback feature, Glass Lewis utilizes a quantitative (black box) model to analyze:
  - The estimated cost of the plan compared to peers
  - Pace of grants
  - Projected plan duration
- Focus on duration and the potential cost of the plan, although dilution is considered
- Glass Lewis will generally support plans even if they fail some or all of their quantitative tests, as Glass Lewis generally believes the potential benefits of the plan outweigh these concerns

# Governance Considerations

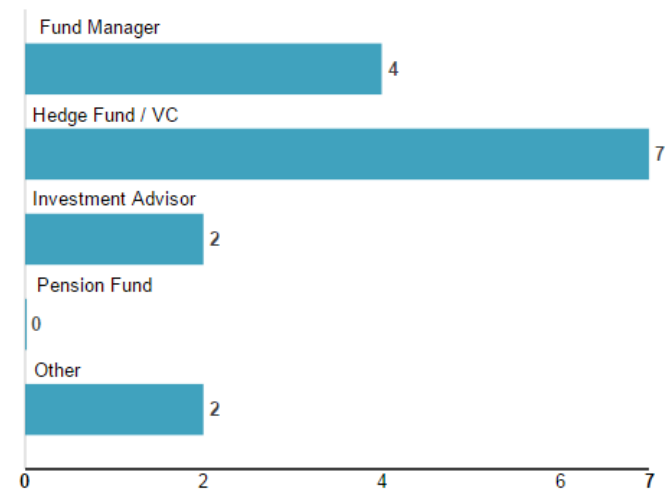
Complete Shareholder Analysis which includes Proxy Advisory Firm Considerations

Example:

Proxy Advisory Firm Influence



Top 15 Shareholders



## Contact Information

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