



Employee Stock Options

Choosing the right plan for your organization



*Purpose of Stock Ownership Plans is to achieve **unison between interests of shareholders and employees**. Whilst this sounds simple and obvious, a quick Google search on this topic will fetch you more articles on how employees felt cheated under their Company's stock ownership plans or cases where the plans did nothing but serve as a piece of paper in the hands of employees, eventually rendered worthless.*

This should be an ALARM BELL for how Companies approach their Stock Ownership Plans.

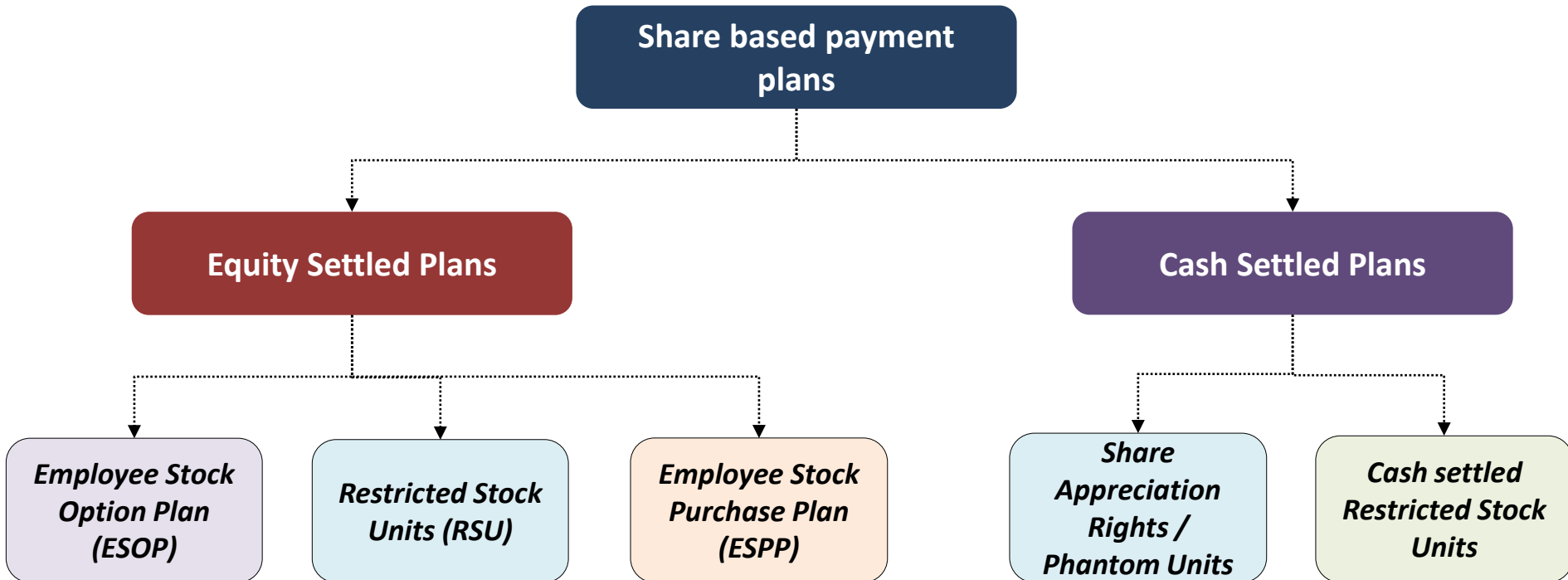
Many companies think of the exercise of creating their Stock Ownership Plans as synonymous to creating a Scheme document. The focus is thus on getting the documentation and legalities right. Some more informed of such companies will consider the accounting impact of such a scheme as well.

But if all you did was create a piece of paper, then how is it supposed to act as a catalyst in motivating your employees? And if your business plan, your Company's unique growth story / stage was never even discussed in putting the scheme contours together, how is the scheme expected to achieve alignment of interests?

*Whilst Legal and Accounting aspects are IMPORTANT and ought to be considered, **creating a Stock Ownership Plan is a much bigger exercise, one which needs to be closely knitted with your Company's growth stage, risk return profile and future business plans**. This is ESSENTIAL and a prerequisite for having the right Stock Ownership Plan!*

This presentation gives insights into the different plans available and the approach for choosing the right plan for your Company.

Types of Plans available

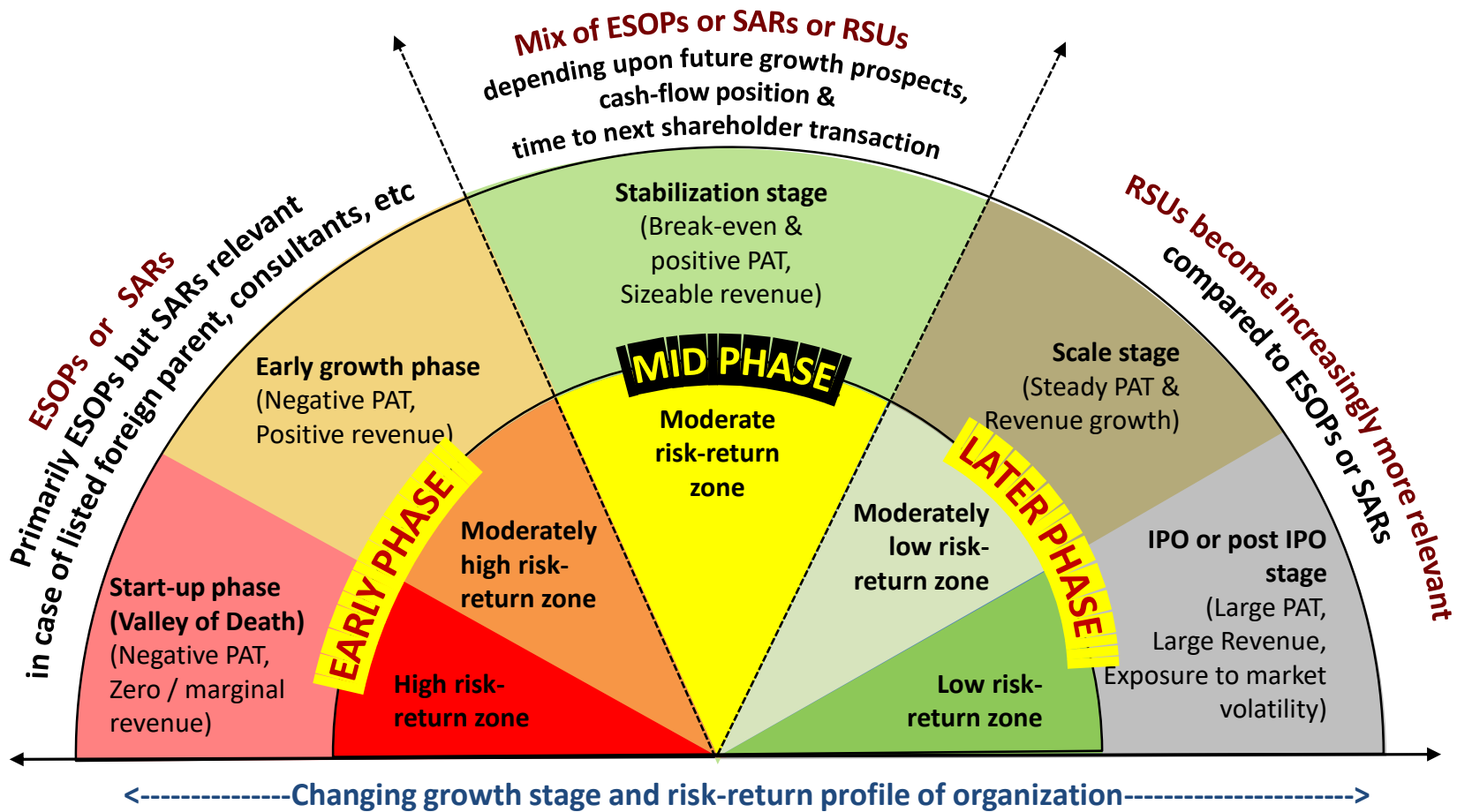


Each plan varies in its risk-return profile and hence the objective that it helps fulfil.

*Companies should **choose a plan whose risk-return profile matches with that of the Company**. A high level suitability matrix is shared on the next slide.*

Suitability Matrix

High-level suitability matrix based on the stage of the organization:



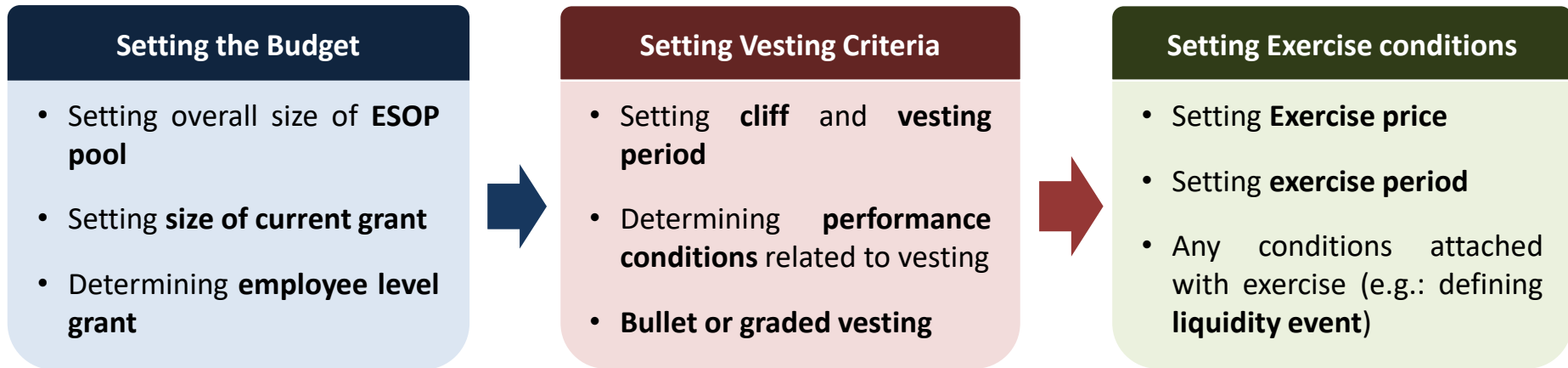
This is only an indicative matrix and Companies may choose a different one based on Company specific factors.

Note that **cash settled schemes** (i.e. SARs / Phantom stocks etc.) **involve actual cash outflow** for the Company and should be used after due consideration of the cost and benefit of such schemes.

- **Growth Stage of Company**
 - **Early Phase Companies**, being in the high risk-high return zone can use ESOPs as the primary instrument, provided the vesting and exercise price philosophy chosen is such that it replicates the high risk-high return pay off profile, thereby enabling proper alignment of interests.
 - **Mid Phase Companies**, operating in the moderate risk-return zone benefit from having a combination of ESOPs and RSUs, targeting different categories of employees differently.
 - **Later Phase Companies**, who have achieved scale and / or are listed / plan to list benefit from more of RSUs and cash-settled instruments. ESOPs become increasingly less relevant at this stage, unless their design contours (such as exercise price philosophy) are changed substantially to in-effect replicate the pay-off profile under a RSU.
- **Ownership considerations:** Do you intend to keep the Company closely held or do you plan to raise capital from various sources (VCs, PEs, Public etc.)?
- **Other Factors:** Holding / Subsidiary Relationship, Incorporated in India or elsewhere, Legal considerations on who can be rewarded etc.

Setting remaining terms

Having chosen the **'Type of Plan'** based on risk-return profile of organization, other **key decisions** include:



Each of the above decision involves considering:

- **Business plans of the Company** in relation to **future funding and planned liquidity events**
- **Cost to P&L** for different options
- **Estimated wealth creation for employees**
- **Market benchmarking**

Diluted too much, too soon? Scheme creating cash-flow strain for employees with no sight of liquidity event? Not sure how vested options of ex-employees will be treated? Look out for these and more such pitfalls when setting the terms and choosing your scheme rules.

What should be the approach?

Many companies we encounter have a pretty good idea of what kind of employee ownership plan they want to use, usually based on the specific needs and goals. However, sometimes they might be better served by another kind of stock plan.

Others say they'd like to have an employee ownership plan, but they're not sure what it might be.

There is no one approach that fits all. Your Company is unique and so should be your stock ownership plan.

Understand your choices available, ramifications of each from shareholders, employees, company, legal and financial aspects and how your approach should change over time as your Company matures. Accordingly, make an informed choice!

A large, solid dark blue diamond shape is centered on the page. Inside the diamond, the text "About KPAC" is written in a white, sans-serif font.

About KPAC



Research driven

- KPAC is a research driven actuarial consulting firm **providing actuarial and consulting services** since 2013.
- Empowered by **creative thinking and research-oriented approach**, we offer solutions that go beyond 'just-compliance'.



Going Beyond Compliance

- KPAC delivers customised solutions with use of data analytics and continuous research, which helps clients in **optimum recognition of liability and better management of expenses**.
- KPAC also helps clients in reducing volatility of expenses through ALM, better planning and budgeting, etc.



Strong Clientele

- Driven by passion to exceed expectation every single time, KPAC is providing valuation and consulting services to **more than 500 clients** (including large corporate houses and MNCs)
- KPAC's **engagements spread across all parts of India** and in various other countries like USA, Australia, UK, Middle East, SAARC countries.



Strong Team

- KPAC has a **strong team of consultants** and domain experts, who focus on delivering excellence each time.
- Each consultant has experience of handling assignments of large corporate houses and complicated employee benefits.

Your employees are worth more than a 'cut-copy-paste' scheme taken off the net. Invest in creating the right scheme which will truly align interests and motivate your employees.

Please hire experts who understand all that goes into creating a stock ownership plan and save yourself the hassle, time, and unwarranted risk of trying to figure this out yourself.

Reach out in case you require any further information:



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