The Strategic Role of Share Ownership in Corporate Actions

GEO Award winners have successfully utilized share plans to align employee and company interests and support retention during periods of significant change.

Although corporate actions have many faces, they are fundamentally activities that materially change a company's structure and share capital. Depending on the nature of the event and ambition of the company, overhauling an existing share plan or introducing a new one, can be an effective strategic tool to ease the company's transition to its future state.

Perhaps unsurprisingly, around 30% of cross-category GEO Award winning plans from 2020 to 2022, were launched in support of a corporate action. What is perhaps unexpected, are some of the drivers behind the companies' event-driven focus on employee ownership.

Upon closer examination, these multi-faceted GEO Award-winning share plans have some common traits in their use as a vehicle to tackle periods of change.

Using equity compensation in times of corporate change can be a powerful driver of employee motivation, performance, and loyalty. Fostering a strong ownership culture encourages employees to have a stake in the reformed organization and its future, easing its transition and helping to achieving its goals.

1. TO ALIGN CORPORATE CULTURE AND INTRODUCE A SHARED PURPOSE

For events such as mergers, acquisitions or spin offs, quickly aligning corporate culture, creating common goals and performance measures are crucial steps. While this isn't always easy, equity plans can be used as a platform to communicate new corporate ambitions and help foster a sense of unity.

IHS Markit's pre-merger executive plan is a great example of this in action. It introduced new non-commercial performance indicators such as leadership and mentoring, diversity, engagement, and volunteering to provide stability, make the company a substantially stronger firm and a better place to work.

2. TO PRESERVE EMPLOYEE CONTROL

Many companies approaching IPO consider their people to be the driver of their success and want them to continue to influence the company's direction.

One such company is **Expensify**, who was determined to remain an employee-controlled organization when it went public. To keep a majority stake of the company in-house, employees were given a one-time opportunity to exchange vested or unvested common shares with 10x and 50x voting rights shares. Coupled with a grant of quarterly vesting common shares to help cover RSU taxes and more 50x voting shares, 97% of employees owned a high vote share prior to IPO allowing them to retain control of the company's destiny.

3. TO RAISE FUNDING AND IMPROVE A COMPANY'S VALUE

Securing funding through the sale of shares of company stock rather than through borrowing can be an effective way to raise money for a transaction or improve a company's value.

When the expiry of **Airbnb**'s private company stock coincided with a 72% drop caused by the global pandemic, it negotiated for 15% of vested equity to be sold and launched an ESPP program at IPO – a move that contributed to the increase in its valuation from $18bn to $120bn.

Looking to fund its joint venture with Ocado, **Marks and Spencer** raised capital through a rights issue and set up a share scheme to ensure none of their employees were adversely affected, whilst empowering them to be part of the major change.

4. TO ENCOURAGE EMPLOYEES THROUGH THE CHANGE

Companies in spin off events sometimes focus on providing an equity offer equivalent to the existing plan to protect employees' interests. **Alcon**, for example, issued awards to equalize portfolio values and created 2,300 personalized 'before and after' spin statements to provide transparency for its participants. **Upfield** introduced a new all-employee share matching plan based on notional units that increase or decrease in line with EBITDA. Its plan achieved three-times higher participation despite having no performance track record.

Siemens Energy and **Slack** found different ways to support employees through the IPO process. Siemens Energy awarded free shares with a 3-year vesting period that vested just after their IPO and featured a 'performance kicker' to protect participants' contributions.

Slack used its own technology to invent a 'tax bot' to help employees selling their shares immediately after IPO to manage their tax liability and to provide benefits such as enhanced record keeping and audit trails for the company.

5. TO RETAIN TOP TALENT

Change is a necessary part of growth, but it can also spark anxiety and uncertainty in the people that very growth depends on; a company's best employees.

To retain and also keep their top talent engaged as a pre-merger option plan vested, IHS Markit risked losing some of its most senior and instrumental individuals, so it implemented a partnership model executive plan that targeted 60 individuals critical to the organization's future success. The plan introduced new corporate values by directly linking non-financial metrics, such as diversity and volunteering, with award values to progress the company's people and culture agenda and achieved a 100% retention rate despite an adverse compensation environment.

6. TO STABILIZE THE STOCK PRICE

Maintaining a stable stock price can reassure investors of a company's ability to earn and grow its profits in the future. Some pre-IPO companies use early lockup releases and introduce new equity plans to dissuade employees from offloading vested stock – an approach that is tricky to execute.

With just 18 days until its listing, **UiPath** leveraged the power of Robotic Process Automation (RPA) to ensure shareholders didn't exceed the 30% limit. The 'Lockup Guardian' tracked and monitored trades to ensure compliance with the terms of the lockup agreement and provided essential reporting and audit trails.

Confluent designed a technology solution with a user-friendly dashboard that featured an action checklist to help employees to manage their pre-IPO transactions.

In an alternate scenario, when **Dell** shed its 81% stake in VMware the company divided, and its shares were split into two stand-alone companies which drastically lowered the stock price. Dell adjusted its stock to maintain its overall value which had a natural impact on the unvested equity in its plans and initiated a wide-reaching educational and awareness campaign for its participants.

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Sponsored by Fidelity, Excellence in Global Share Plans is a thought leadership series that spotlights recent award winners and their plans, so others may learn from and be inspired by their strategies, challenges, and successes.