

EQUITY PLAN SOLUTIONS INSIGHT 2022



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Our mission is to connect people with their assets, and we understand that employees are often a company's most important asset

IN THIS EDITION

Welcome to our 2022 EPS Insights

This year we focus on Employee Incentive Plan trends, in start-ups and unlisted companies, and how companies have applied Employee Share Plans as a tool to retain, motivate and reward their employees.

This review is based on the plans offered by our clients and implemented by Link Group's Equity Plan Solution (EPS) team. It builds on the previous years' research and brings new insight into the operation of the Broad-Based Plan.

In addition to our focus on start-ups and unlisted company incentive plan trends, we take a look at share-based payment expense requirements, an update on ESS Tax and legislative matters and discussion with Pedal Group Pty Limited about their employee plans and philosophy behind them.

Link Group's EPS team experienced a busy 2021, managing projects for our 200 + plan administration clients. We hope you enjoy these insights from our EPS team.



Tom McCarty
General Manager,
Equity Plan Solutions
Link Group

Key takeaways

82%

Greater employee participation - 82% of ASX200 companies managed by Link Group now have a General Employee Share Plan

Legislative changes

Recent changes will make it easier for unlisted companies to offer employee equity plans

ESS Taxing Event update

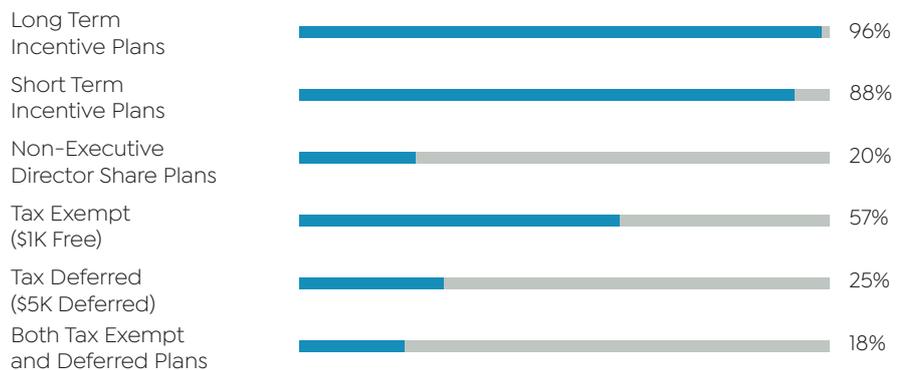
Removal of Cessation as a taxing event will reduce administrative burden for employees and employers

LISTED COMPANIES – EMPLOYEE SHARE PLAN TRENDS

We have observed an increasing number of listed companies making employee incentive schemes available to employees beyond key management personnel.

Below are some of the key findings based on S&P/ASX 200 plans managed by EPS.

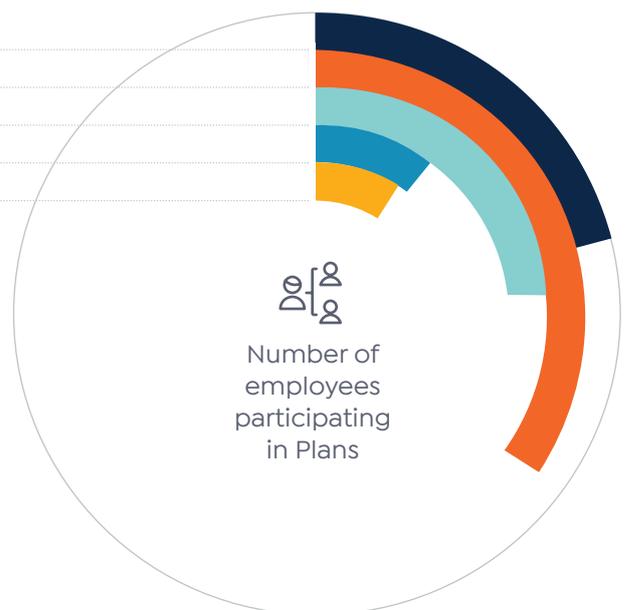
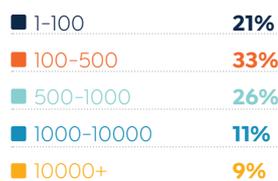
Types of plans offered to employees



Unsurprisingly, almost all companies have Long-Term Incentive Plans, followed by Short-Term Incentive Plans, in the form of restricted shares/rights.

It is great to see almost 82% of clients have a general Employee Share Plan, either as Gift Shares or Salary Sacrifice Plan. This figure increased by 20% from our analysis in 2018.

Number of employees participating in Plans



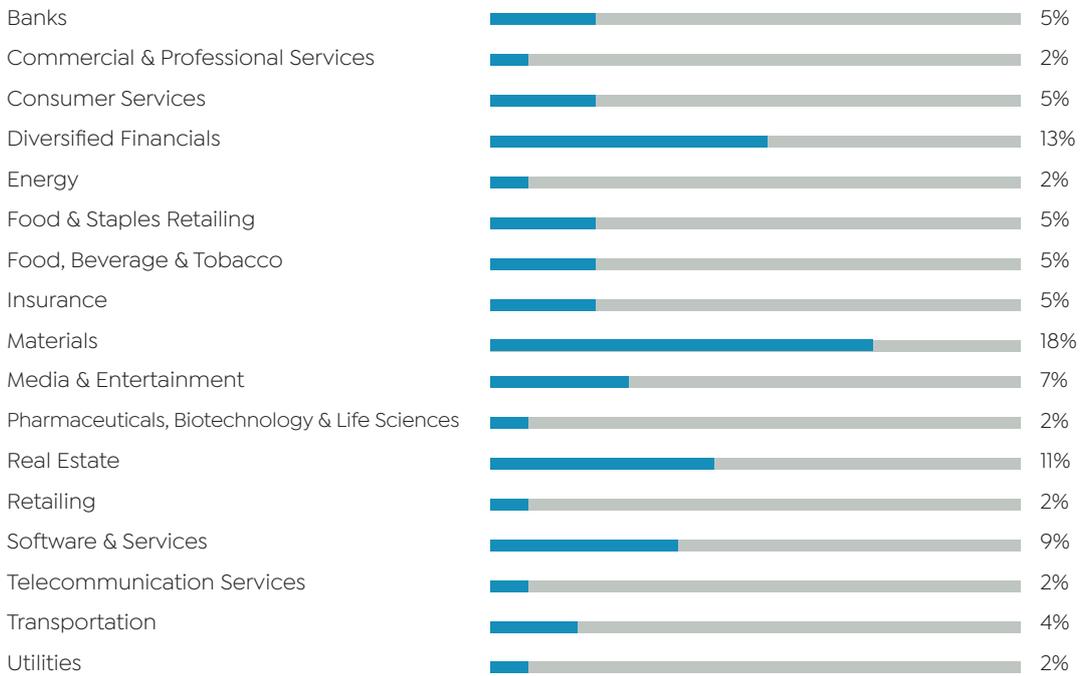
RECENT IPOs

>65%

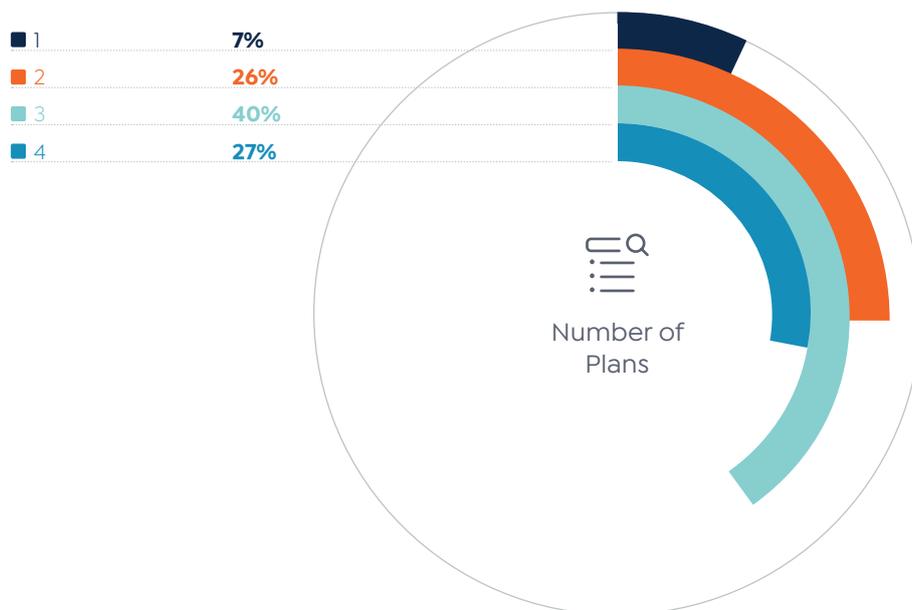


listing of companies, with a listing value of \$50 million and above, offer an employee incentive scheme at their IPO launch

By Industry



Number of Plans



AGM

REMUNERATION RESOLUTIONS

Since the amendments to the Corporations Act 2001 that allows strikes to be registered against Remuneration Resolution and the ability for shareholders to spill the board—there has been a tremendous shift in the way companies engage with their shareholders, proxy advisors and other stakeholders.

Recommendations to avoid the strike

- **Review:** Review the remuneration framework on a regular basis to align with the changing business environment and regulatory changes. The “set and forget” approach is no longer viable.
- **Enhance:** Engage with external consultants for recommendations and implement the recommended changes to align with key stakeholder expectations.
- **Communication:** Formulate communication that is easy to understand and appropriate for a broad audience.
- **Engage:** Engage in constructive dialogue with key stakeholders throughout the year to understand their concerns and articulate the company rationale for the scheme framework.
- **Upfront:** Remuneration is a key agenda item when communicating with major shareholders and proxy advisors.

Strikes

Of the 20 Link Group clients receiving a first strike in 2020, 7 of these received a second strike in 2021. There were 21 Link Group clients that received a first strike in 2021.

2021	1st Strike	2nd Strike
S&P/ASX 100	2	0
S&P/ASX 200	4	3
S&P/ASX 201+	15	4

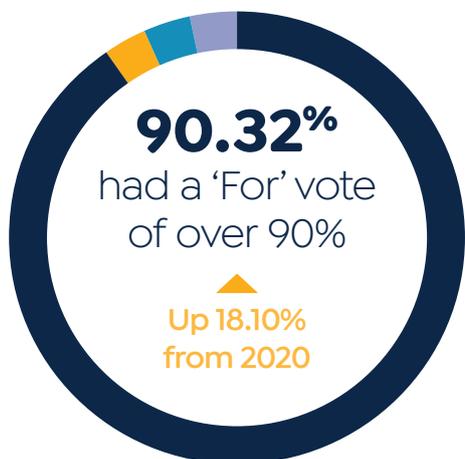
2020	1st Strike	2nd Strike
S&P/ASX 100	3	0
S&P/ASX 200	2	1
S&P/ASX 201+	15	4

2019	1st Strike	2nd Strike
S&P/ASX 100	1	0
S&P/ASX 200	1	1
S&P/ASX 201+	11	5

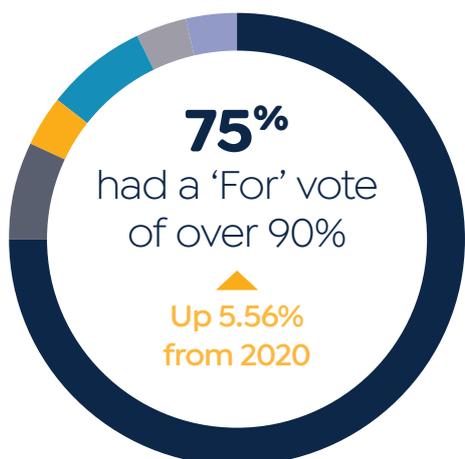
2018	1st Strike	2nd Strike
ASX 100	3	0
ASX 200	2	0
ASX 201+	25	4

As part of our 2022 AGM Snapshot, we released the outcome of the remuneration resolution for the 2021

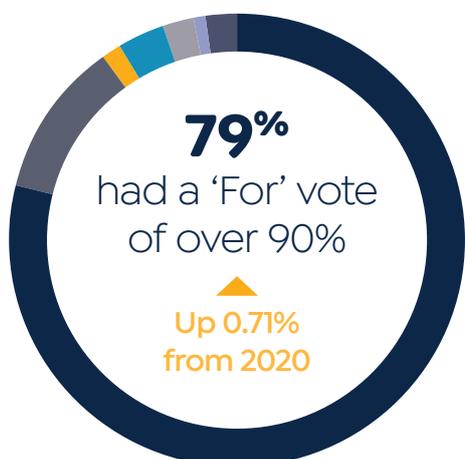
Remuneration Resolution



S&P/ASX 100	2021	2020
● Over 90%	90.32%	72.22%
● 80% – 89.99%	0%	13.89%
● 75% – 79.99%	3.23%	5.56%
● 60% – 74.99%	3.23%	2.78%
● 40% – 59.99%	0%	5.56%
● Less than 39.99%	3.23%	0%
● Show of Hands	0%	0%



S&P/ASX 200	2021	2020
● Over 90%	75.00%	69.44%
● 80% – 89.99%	7.14%	19.44%
● 75% – 79.99%	3.57%	2.78%
● 60% – 74.99%	7.14%	0%
● 40% – 59.99%	3.57%	5.56%
● Less than 39.99%	3.57%	2.78%
● Show of Hands	0%	0%



S&P/ASX 201+	2021	2020
● Over 90%	79.02%	78.31%
● 80% – 89.99%	11.15%	10.58%
● 75% – 79.99%	1.31%	2.12%
● 60% – 74.99%	3.28%	3.70%
● 40% – 59.99%	2.30%	2.65%
● Less than 39.99%	0.98%	1.59%
● Show of Hands	1.97%	1.06%

EMPLOYEE OWNERSHIP IN UNLISTED COMPANIES

Over the years, we have seen a positive shift in unlisted companies providing employees with a vehicle to invest and become a shareholder. Although there is room for improvement to fully realise the potential of employee ownership, legislative changes have made it easier for unlisted companies to offer Employee Incentive Plans.

Below is some key information on unlisted and/or start up Employee Share Option Plans (ESOPs), managed by the EPS team.

Type of Plans

The most common plan for start ups is the ESOP. Given the early high-growth stage of the company cycle, ESOPs provide an opportunity for employees to gain benefits during an increase in company valuations, while remaining a source of capital for the company.

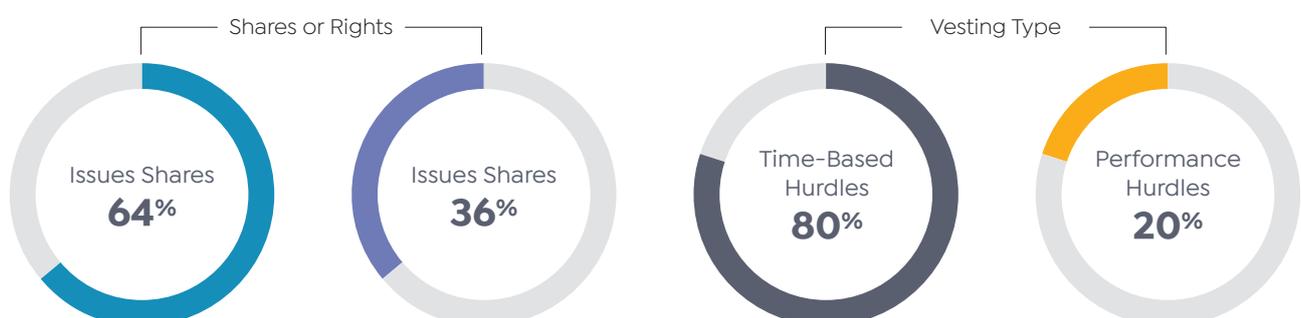
Employee Loan Share Plans and Salary Sacrifice Plans are popular with unlisted companies in an advanced stage of the company's lifecycle. Both Loan or Salary Sacrifice Plans allow employees to purchase shares or pay them off via regular salary deductions.

We also see a prevalence of Phantom or Cash Plans for companies with global employees.

Type of Plans



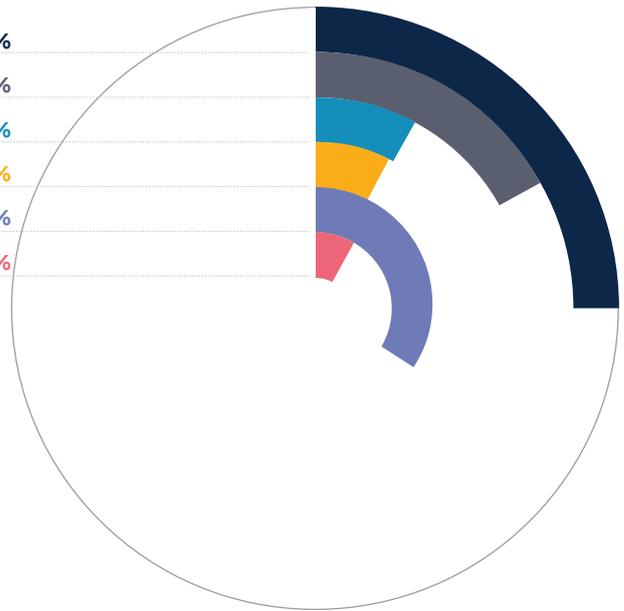
Type of Security



Type of Industry

When we mention start ups or an unlisted company, we think of an Information Technology company. Based on EPS clients, there is a wide array of unlisted companies and industries they operate in.

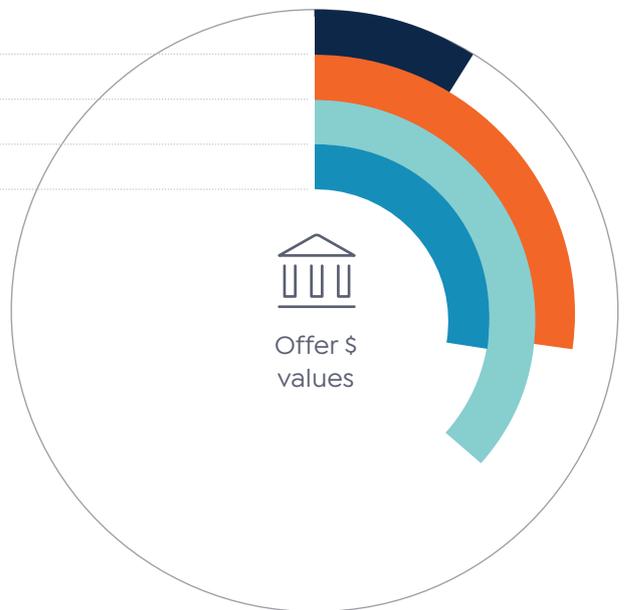
Information Technology	25%
Consumer Discretionary	17%
Communication Services	8%
Real Estate	8%
Financials incl. FinTech	33%
Materials	8%



Offer \$ values

The value offered to employees varies depending on the type of scheme. For a qualifying contribution plan there is a \$5,000.00 limit. Loan plans may vary from \$5,000 – \$100,000.

Up to -5K	9%
5k -10K	28%
10K -50K	36%
50k and above	27%



Plan Offering by Number of Employees

There was a significant increase in the number of employees receiving offers under existing or new plans. Many employees became shareholders for the first time, adding another dimension to employee engagement.

1-50	45%
50-100	19%
100-500	27%
500-1000	9%



82%
of companies offered the plan globally

CHECKLIST FOR UNLISTED COMPANIES

Further details of the two arrangements is described in the table below. We have compiled a checklist for unlisted companies considering implementing and administering an Employee Incentive Scheme.

Company vision	It's important to review and identify the company's vision and its link to employee behaviour, and outcome of the Employee Incentive Plan. E.g. Is the objective of the plan to encourage co-ownership, retention or motivate?
Documents	<p>A number of documents are required to meet various legislative and compliance requirements.</p> <p>The key documents are:</p> <p>Plan rules: Plan rules are the overarching rules of the scheme and provide a framework within which the scheme may operate.</p> <p>Offer invitation documents: An invitation document provides the specifics of the offer, terms and conditions, and general FAQs for employees to understand and make an informed decision.</p> <p>Offer Information Statement: Certain offers may rely on the exemptions available under CO 14/1001, however if the scheme doesn't meet the requirement, an Offer Information Statement must be issued by the company and lodged with ASIC to provide the offer details and company's financial statement.</p> <p>Employee communication documents: It is important to draft communications in simple language, and engage employees via multimedia channels such as intranet, teaser emails, engagement via business managers, town halls, webinars etc.</p>
EST or Bare Trust	<p>A common query concerns whether the company should implement an Employee Share Trust (EST) or action a Bare Trust arrangement to meet their requirements.</p> <p>An EST is a common structure that employers (for listed and unlisted companies) use to manage the sale restrictions and forfeiture conditions that are often associated with their Share-Based Incentive Programs. Contributing to an EST enables the EST to purchase or subscribe for shares, which allows the employer to enjoy certain tax benefits. As a result, the company can manage its costs and share capital position more effectively. The EST can also 'recycle' forfeited shares for future grants, avoiding potentially complicated buy-back requirements.</p> <p>Bare Trust means a third party is nominated by the Company to hold the Shares in the trust for the benefit of an Eligible Participant, and only deal with the Shares as directed by the Eligible Participant.</p>
Eligibility List	Generally, the offer is made to full and part-time employees. The offer may also be extended to contractors. If you are relying on the Class Order exemption, the contractor must work at the company equivalent to 40% of full time workers.
Plan Type	<p>When deciding on the plan framework, it's important to consider the end-to-end life of the scheme. The requirements for an Option Plan differ from a Loan Scheme or Contribution Plan.</p> <p>Each plan requires a different set of administration requirements. It's critical to understand this to ensure the company doesn't end up implementing a complex and highly administrative scheme.</p>
Termination Rules	<p>Similarly, it is important to understand what happens if an employee leaves the business, and the treatment available under the scheme.</p> <p>This is critical in relation to a Performance or Loan-Based Share Scheme where an employee may forfeit certain shares on cessation of employment.</p>
Ability to Cash Out	As there is no readily available market to transact shares, it is important to create a framework that allows employees to cash out at certain events. The company may be able to buy-back shares or allow existing shareholders to buy shares from the employee.

75%



of companies have an Employee Share Trust to hold shares on behalf of participants. A number of Short Term Incentive Grants have a forfeiture condition linked to these grants

SPOTLIGHT

PEDAL GROUP

We spoke with James Cassidy, Head of Finance, at the Pedal Group Pty Ltd.



Tell us a little about The Pedal Group and your role

Pedal Group operates as a vertically integrated bicycle retailer and wholesaler in Australia and New Zealand through the brands 99 Bikes and Advance Traders.

99 Bikes has 70 stores across both countries and Advance Traders distributes bicycles & bicycle accessories including brands Merida & Norco directly to 99 Bikes, and through their own independent bicycle network. Pedal Group has over 1,000 staff across all businesses and during the last 5 years has designed an Employee Ownership Plan to provide a simple way for all employees to become shareholders and share in the long-term success of the company.

My role at Pedal Group as Head of Finance involves the design, implementation, and administration of the plan along with the key stakeholders. I also help drive the communication, engagement and education across all parts of the business.

What plans are employees able to participate in?

This year we are introducing our Next Gen ESS which we believe will be even more popular and help further increase employee ownership. The details are still being finalised however we intend to offer ordinary shares with generous loans, and increase the amount we offer as gift shares.

Our philosophy is to encourage long term ownership for all staff, not just top management so we are not interested in any Options or Performance Bonus Type Schemes. We want all staff to have a belief in the future, hold shares long term and receive the dividends.

Why did you offer both Gift Shares and Share Purchase offer?

We believe that any cost of the gift shares is far outweighed by the future benefit of improving culture. It also provides an opportunity for some staff who may never had owned shares before to get their foot in the door as an employee owner. We have seen many examples of the attitudes and behaviour change in staff once they become a shareholder, so our goal is to ensure every staff member has a chance to own shares.

How do employees value the plan? (This may be an answer from a personal point of view as a participant yourself)

The plan has been gaining popularity/momentum each year as more staff understand the benefits and promote it within. Having true ownership in the parent company has helped bring each business together with a big picture and long-term view. For many the concept of ownership was a mindset which helped them succeed but now it has become real and helped so many more staff members find that motivation to reach their potential in the company and improve their performance.



We believe that any cost of the gift shares is far outweighed by the future benefit of improving culture

How do you engage with employees throughout the offer period – what is involved?

We are constantly talking about ESS throughout the year even outside of the offer period through presentations at monthly events. It is also ingrained in our onboarding documentation, and we use it as a recruitment tool. During the offer period the internal communication really ramps up and we broadcast details of the plan on as many platforms as possible to try to reach all staff. This includes emails, WhatsApp groups, weekly leadership phone calls, daily broadcasts to stores, presentations, and webinars. We find the interactive webinars where employees can ask direct questions usually have the best results in helping employees understand the offers in detail.

What would you do differently to engage employees effectively?

Our idea to improve the rollout this year is to implement a “train the trainer” process where there will be 10 experts trained up in the business who will then roll out the plan to each area including 1:1 sessions. Additionally, there is a challenge with employees understanding their personal financial impact of the plan, so we have engaged financial advisors to run 1:1 and group sessions with employees which is paid for by the company.

What were the key challenges in implementing the new plans?

There is always a fair bit of work done behind the scenes with advisors to make sure we cover all the bases around both the corporation and tax acts. The rollouts are always challenging especially with so many new employees each year. Last year only about 90% of eligible employees took up our \$1,000 gift share offer which I think is a reflection on our challenges with communication.

What feedback have you received from employees since the launch of the plan?

A lot of employees have commented that through being a shareholder they have improved their financial knowledge which has had a knock-on effect to making better financial decisions across all aspects of their life. The share plan has created a sense of being one big team across all business units and has helped lift motivation and performance of individuals and teams.



TAX AND GOVERNANCE UPDATE

ESS Taxing Event Update

On 10 February 2022, a Bill was passed by Federal Parliament removing cessation of employment as a taxing point. This applies to existing and future ESS awards that are covered by the ESS rules in Division 83A of the Income Tax Assessment Act 1997. The amended taxing event rules will be applicable from 1 July 2022 onward for all existing and future awards.

Link Group's View

Currently, upon cessation of employment, employees may have a tax liability for awards they are unable to access due to further restriction or haven't reached the performance condition end date.

From our experience, it creates an enormous amount of administrative tasks for the employee, as awards that eventually do not vest require an amendment to their tax return.

By removing cessation as the taxing event, the tax liability in most cases will only arise at the time of exercise, or at the removal of any disposal restriction that limited employees' ability to access their shares. This is a positive change, welcomed by all involved in employee share schemes.

Treasury – Employee Share Schemes

On 20 December 2021, the Treasury released for consultation exposure draft legislation and a consultation paper on Employee Share Schemes (ESS). The exposure draft legislation builds on previously consulted reforms in August 2021. The changes are intended to make it easier for businesses to offer ESS as well as attract and retain talent.

A summary of the changes, relative to what was consulted on previously, include:

- Making the availability of regulatory relief contingent on offers including certain terms, such as terms limiting the size of purchases and provision of disclosure documents changing the limit on the size of purchases to a monetary cap where an employee can outlay AUD \$30,000 per year (which can be accrued for unexercised options over a five-year period, up to a maximum of AUD \$150,000) plus 70% of dividends and 70% of cash bonuses, for an unlisted company ESS offer
- Removing the limit on the size of purchases where the terms are such that an employee cannot pay for their interests unless there is a liquidity event, and the sale or listing price is higher than what the employee will pay
- Limiting loans to employees who are not existing shareholders
- Extending regulatory relief in respect of issues to certain discretionary trusts, consistent with existing relief in respect of offers to senior managers
- Extending regulatory relief in respect of free offers to independent contractors
- Providing ASIC exemption and modification powers, and regulation making powers.

The consultation paper also seeks feedback on the necessity of an issue cap and any alternative regulatory mechanisms that could be used to minimise the risk of fund raising through Employee Share Schemes.

These reforms have been implemented as part of the Treasury Laws Amendment (Cost of Living Support and Other Measures) Act 2022, which received Royal Assent on 31 March 2022.

ATO – Draft Determination on Employee Share Schemes

On 23 February 2022, the ATO released for consultation, a draft taxation determination on TD 2022/D2 Income tax: deductibility of expenses incurred in establishing and administering an ‘employee share scheme’ (ESS). The draft determination sets out the Commissioner’s views on the deductibility of expenses in establishing and administering an ‘employee share trust’ that holds shares or rights for employees participating in the ESS.

The draft determination covers:

- **Establishment expenses:** Establishment expenses are those associated with creating an ESS, such as legal fees and stamp duty. These expenses are not deductible upfront because they are capital in nature. However, establishment expenses may be claimed as a deduction over five years to the extent that the business carried on is for a taxable purpose;
- **Amendment expenses:** Expenses incurred amending an ESS are not deductible because they are capital in nature. However, amendment expenses may be claimed as a deduction over five years to the extent that the business carried on is for a taxable purpose; and
- **Ongoing expenses:** Ongoing expenses associated with administering an ESS, such as brokerage fees, audit fees and bank charges, are deductible in the year they are incurred.

The final determination is proposed to apply both before and after its date of issue. However, the determination will not apply to taxpayers to the extent that it conflicts with the terms of settlement of a dispute agreed to before the date of issue of the determination.



TECHNOLOGY & SERVICE UPDATE

Share Based Payment Expense Reporting Service

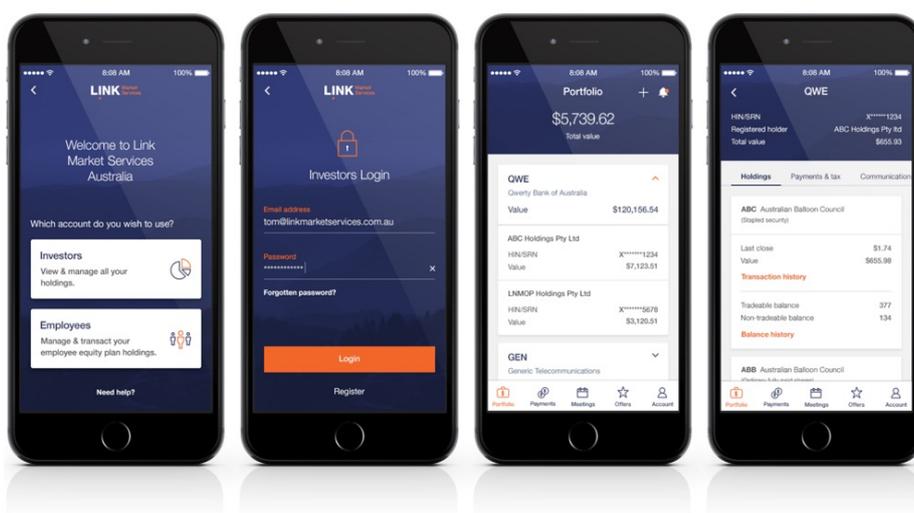
We have developed a tailored solution providing clients with a comprehensive share-based payment expense report that assists accounting and finance teams. The reports are aligned to our share plan platform and allows an up-to-date report to be produced.

The new reporting service complements existing metrics services providing clients Fair Value and TSR performance calculation.

miraql metrics is a specialist division of the Link Group and a market leader in quantitative analysis for employee performance plans. miraql metrics is the trusted advisor to S&P/ ASX Top 200 companies and has provided performance condition analysis services for over 15 years.

If you require any additional information on how we can assist with valuation or IFRS2 reporting please contact our in-house team of experts.

Award-Winning Investor Centre App



Winner of the 2021 MAX 'Digital Platform of the Year' Award, Link Group has continued to enhance our award-winning Employee Investor Centre mobile app to include brand new employee features, offering employees the ability to participate in offers, view and download plan documents, transact on their shares, including exercising options, share transfers and sales, update details including bank account and DRP, and lodge their vote for the AGM.

The workplace in 2020 dramatically changed and it has never been more important for issuers to communicate quickly and easily in real-time with staff domestically and globally. The Investor Centre app has been an essential tool in achieving higher rates of participation in share plans and delivering successful offers during 2020, as many of us around the globe worked remotely.

The Investor Centre mobile app is available in both the App Store and Google Play Store for Australia, New Zealand and Hong Kong.

Connecting Employees to their Payments in a Foreign Currency



Link Group, together in partnership with OFX (previously OZForex), have digitalised currency payments, which is great news for the global workforce.

It has become much easier for employees to receive share sale payments and have it electronically credited to a nominated account in the currency of their choice (with 50 currencies available).

OFX provides quality and reliability of service, an end-to-end digital experience, convenience and security for your employees.

Employee Ownership Australia (EOA)

Employee Ownership Australia (EOA) assists companies of all sizes that have or aim to implement employee ownership or employee share plans by providing high quality and topical educational resources and hosting information sharing and networking events.

EOA is also the leading advocate for change at the legislative level to improve the tax and legal operating environment for businesses with employee share schemes in Australia.

By becoming a member of EOA you and your organisation will gain access to industry leading events, educational resources and networking opportunities, and directly contribute to the development, progression and growth of employee ownership in Australia.

If you are interested in becoming a member or would like more information on how to attend our upcoming May Virtual Employee Ownership Conference please email info@employeeownership.com.au or visit www.employeeownership.com.au



Employee Ownership
Australia *Making it your business*



Want to know more?

There is no better way of aligning employee reward with corporate performance than with a well-designed share plan.

With over 25 years experience, Link Group is a leading administrator of global share plans. We have designed and managed every type of plan typically offered to help our clients offer equity as a key reward component to their employees and globally-mobile executives.

Our success is driven by the experience of our team, underpinned by innovative technology that includes a market-leading global employee share plan platform and global issuer reporting portal.

Our team of experts comes from a broad range of backgrounds including law, accounting and human resources, whose skills are regularly updated via training programs. Our market insights and knowledge are also enhanced through our membership of industry organisations such as the Global Equity Organization and Employee Ownership Australia and New Zealand.

Our broad range of services includes the following:

- **Design & administration** - we assist companies to design, structure and manage share plans that align with their corporate strategy and promote strong employee engagement.
- **Reporting** - we offer plan participants a wide range of tools which enable them to track plan performance (including TSR) and model vesting scenarios. We also provide our clients with comprehensive online data analysis of their plans, including at the participant level, and undertake Australian Tax Office reporting.
- **Trustee services** - Our trustee entity, provides trustee services for Australian and New Zealand employee share trusts, this includes acting as a trustee, maintaining accounts and reconciliations, auditing and Trust reporting.
- **Share trading** - we facilitate share trades on behalf of companies, trusts and employees. Our Investor Centre website seamlessly links to third party brokers to provide a simple and transparent trade execution service for employees.

Download the Employee Share Plan Product Suite.

For further information on Link Group's Employee Share Plan please contact us on +61 2 8280 7100 or newbusiness@linkmarketservices.com.au

Link Group

Level 12, 680 George Street
Sydney NSW 2000
Australia

linkgroup.com

Link Administration Holdings Ltd
ABN 27 120 964 098