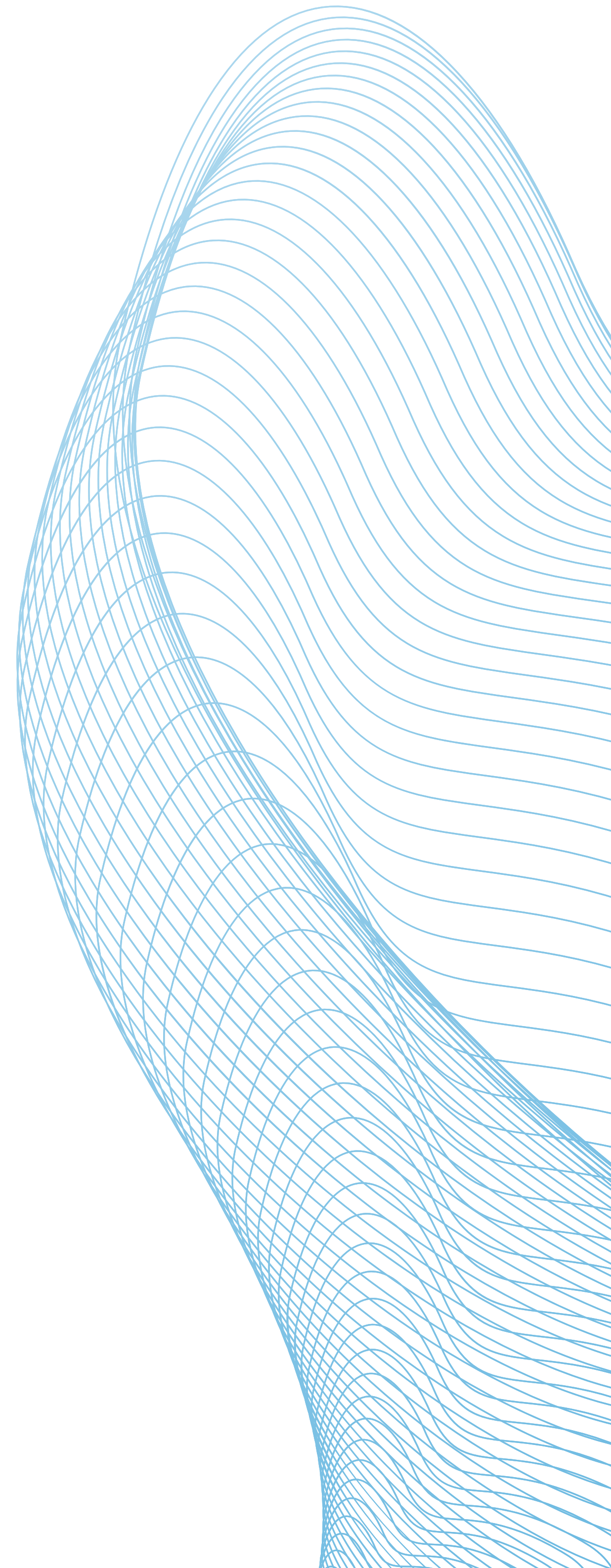




startupgrind

Knowledge Session: Understanding ESOPs.

By: Gagan Singh, CEO - WOWS Global



What are ESOPs?



“Employee Stock Ownership Plan(ESOP) is a plan through which a company grants an option to its employees to acquire shares at a future date and at a predetermined price.”

Commonly referred to as “Skin in the game”

Objectives of ESOPs.



The primary purpose of an Employee Stock Ownership Plan (ESOP) is to foster a **sense of ownership** and **align long-term goals** of employees and shareholders.

Reward Performance

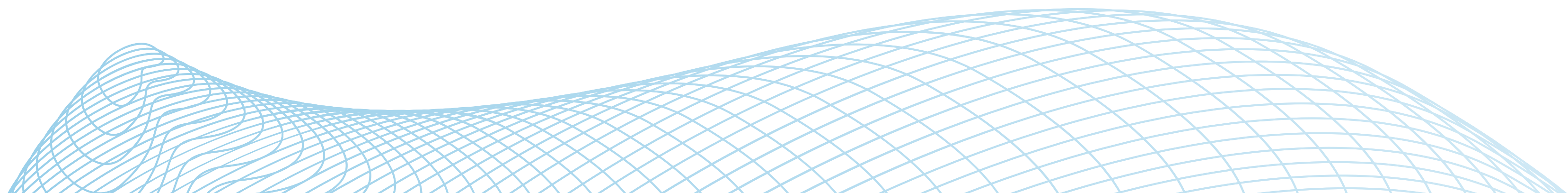
Enhance Retention

**Employee Wealth
Creation**

Attract Talent

Conserve Cash

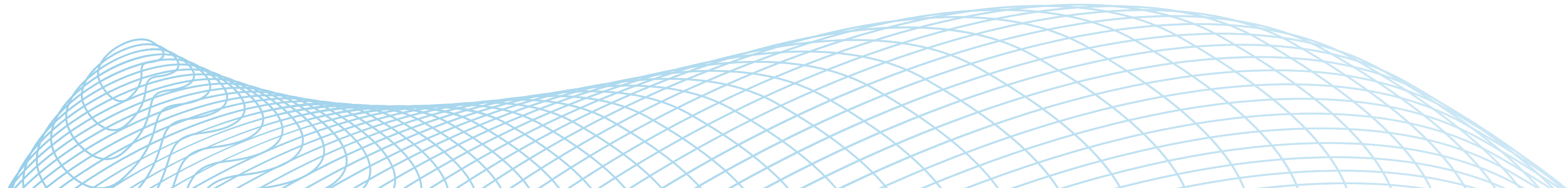
**Share in Company
Upside**



Key Terms in ESOPs.



- Date of Grant** → the date on which the Participant and the Company enter into this Employee Stock Option Scheme and on which the Participant receives the Option(s)
- ESOP Pool** → a certain percentage of the company's total equity or shares that are reserved for granting stock options to the employees of the company
- Vesting** → the process throughout which the Participant earns the Shares granted to him/her by means of the present Employee Stock Ownership Plan
- Vesting Period** → Typically it's 4 years from the date of the grant or as may be determined by the company in the ESOP scheme



Key Terms in ESOPs. (contd.)



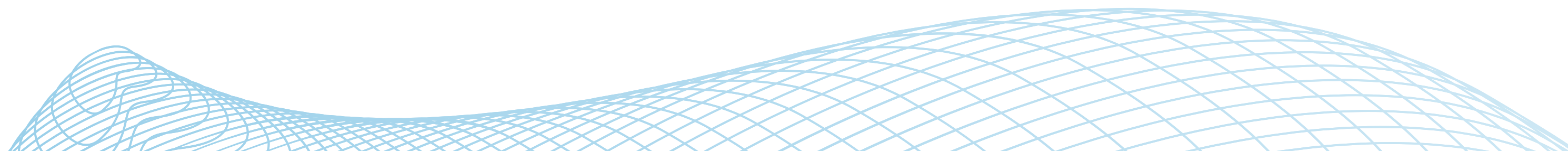
Exercise → the purchase of all Option Shares by the Participant after the Vesting Period has ended

Exercise Period → the period of time during which the Participant may purchase the Option Shares

Holder → the holder of an option to whom the options are rewarded by the Company

Key Employees → employees who are critical to the success of the company and whose skills, knowledge, and expertise are essential for the growth and profitability of the business

Bad Leaver → employee who departs the company under unfavorable circumstances, such as misconduct, resulting in forfeiture or a reduced claim to their vested shares.



How it Works?



1

Company creates a stock option program

2

Employees are rewarded with stock grants

3

Employee vests stocks over a period of time

4

Employee exercises options

5

Company collects payment

6

Shares are issued to employees

Common Types of Stock Grants.



1

Options

Gives employees the right to buy company shares at a predetermined price, typically after a vesting period.

2

Restricted Stock Units (RSUs)

Employees receive company shares after meeting vesting conditions, with no upfront cost.

3

Phantom Shares

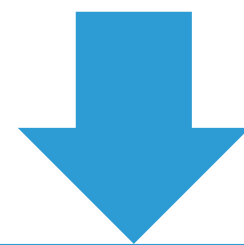
Provides the benefits of stock ownership without giving actual shares, offering cash bonuses equivalent to the stock's value.

Understanding ESOP Taxation.



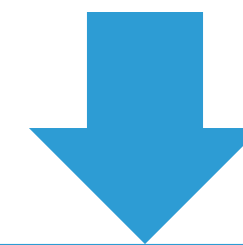
Although ESOP taxation **varies by country**, it is generally **taxed** both at the time of **exercise** and at the time of **sale**.

At the Time of Exercise



When employees exercise their stock options, the gains are taxed as part of personal income, at the individual's income tax rate.

At the Time of Sale



When employees eventually sell their shares, any profit made from the sale is subject to capital gains tax.

ESOP Best Practices.



1

Appropriate ESOP Pool

Typically, **allocate 10-15% of total equity** for the ESOP pool. This should be reassessed at major growth milestones or funding rounds.

2

Timing of ESOP Setup

Set up the ESOP **before major fundraising** to avoid dilution conflicts. Employees should be aware of its existence, as it impacts equity distribution.

3

Custom Vesting Schedules

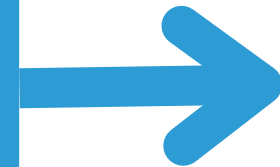
Design vesting schedules **tailored to different roles**, ensuring fairness and strong retention incentives. Employees should track their vesting progress to make informed decisions.

ESOP Best Practices. (Contd.)



4

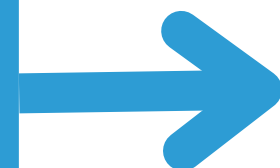
Establish Fair Valuation



Regularly **update** the company's **valuation** to ensure accurate share pricing for grants, allowing employees to understand the potential value of their equity.

5

Clarity on Exit (Leaver Clauses)



Define clear terms for **good and bad leavers** to avoid disputes. Employees should understand how leaving the company, voluntarily or involuntarily, impacts their vested and unvested shares.

6

Legal and Tax Compliance



Ensure the ESOP complies with legal and tax requirements, minimizing future complications. Employees should understand **tax implications** when **exercising** options or during **liquidity** events.

And now **The Biggest Question?**



**All this info
is good, but
when can I
sell??**



Liquidity Opportunities.



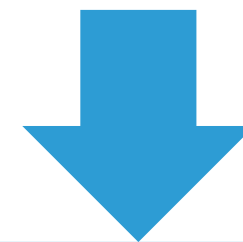
Participating in an ESOP can provide various liquidity opportunities for employees, enabling them to **realize the value** of their equity.

Secondary Market



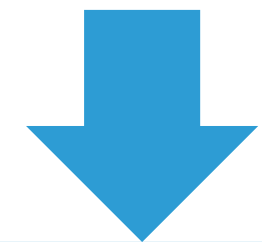
Employees can sell their shares in a secondary market if the company allows it. This option provides an avenue to monetize their equity before a formal exit event.

Company Buyback Programs



Some companies offer buyback programs where employees can sell their shares back to the company at a predetermined price or fair market value, providing immediate liquidity.

Company Exit




In the event of an Initial Public Offering (IPO) or a merger/acquisition, employees may have the opportunity to sell their shares.

Some Real Life Examples.



Swiggy offers \$65 million ESOP buyback before its IPO: Check eligibility, taxation


By [HT News Desk](#) | Edited by [Abhyjith K. Ashokan](#)



livemint.com

<https://www.livemint.com> › Companies ›

Meesho announces its largest Esop buyback, worth \$25 million



ETHRWorld.com

<https://hr.economictimes.indiatimes.com> › News ›

Urban Company announces 5th ESOP worth Rs 203 crore

May 23, 2567 BE — Urban Company has announced its fifth Employee Stock Ownership Plan (ESOP) sale, with a total **secondary** transaction amount of about Rs 203 crore.



Miguel Cordon · 16 Mar 2022 · 2 min read

Funding Societies launches \$16m ESOP buyback program

[Companies](#) / [Markets](#) / [Portfolio](#) / [Opinion](#) / [Economy](#) /  PREMIUM

Home » Companies

Adda247 to conduct ESOP buyback for over 130 employees ahead of planned IPO

Updated - July 23, 2024 at 09:57 AM.

Rs

Kristal.AI, a digital-first private wealth advisory and fund management firm, has completed more than 20 deals in the [unlisted market](#). It has an AUM of \$30 million for all

Employers: The Onus is Now on You!



Let's make ESOPs Tangible Again!



Digitize your ESOPs with

WOWS Equity Management Tools

Contact Us



hello@wowsglobal.com



www.wowsglobal.com



+65 8427 9536

