

September 24, 2013

“Long-Term Incentives: Which is Right for Your Company?”



THE VISIONLINK
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Today's Presenter:

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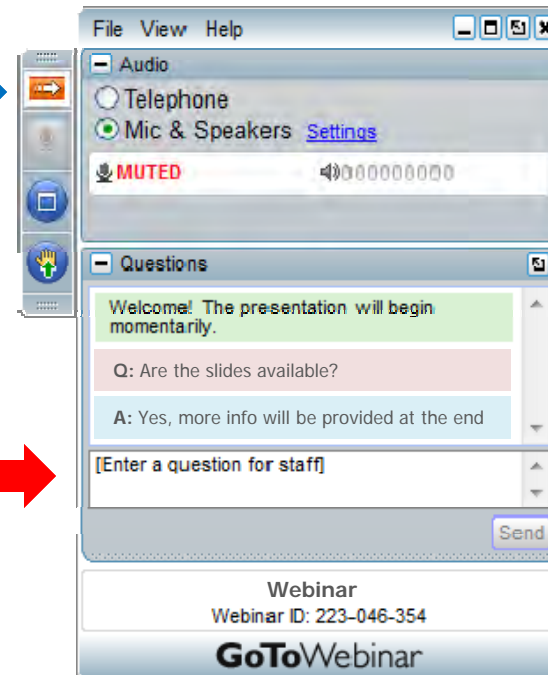
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We're happy to provide a copy of today's slides.
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of the presentation.

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Key Questions

- Where are growth-oriented businesses headed?
- What kind of talent will those businesses need?
- What kind of value proposition will attract and retain that kind of talent?



The Business Landscape

The New Corporate Garage

...Apple's inventiveness is no anomaly; it indicates a dramatic shift in the world of innovation. **The revolution spurred by venture capitalists decades ago has created the conditions in which scale enables big companies to stop shackling innovation and start unleashing it.**



Harvard Business Review, September 2012

What Kind of Talent?

“...**entrepreneurial individuals, or ‘catalysts,’** within big companies are using those companies’ resources, scale, and growing agility to develop solutions to global challenges in ways that few others...”

Harvard Business Review,
September 2012 (cont.)



Conclusions Regarding Talent Trends

- Companies will need catalysts to maintain a competitive advantage
- Those individuals need to spend their time on things that have the most strategic impact
 - Especially important due to high comp levels
- These two factors lead to scarcity of high impact talent
- Scarcity creates high competition within the talent pool
- Companies will need a unique and robust value proposition to win the talent wars

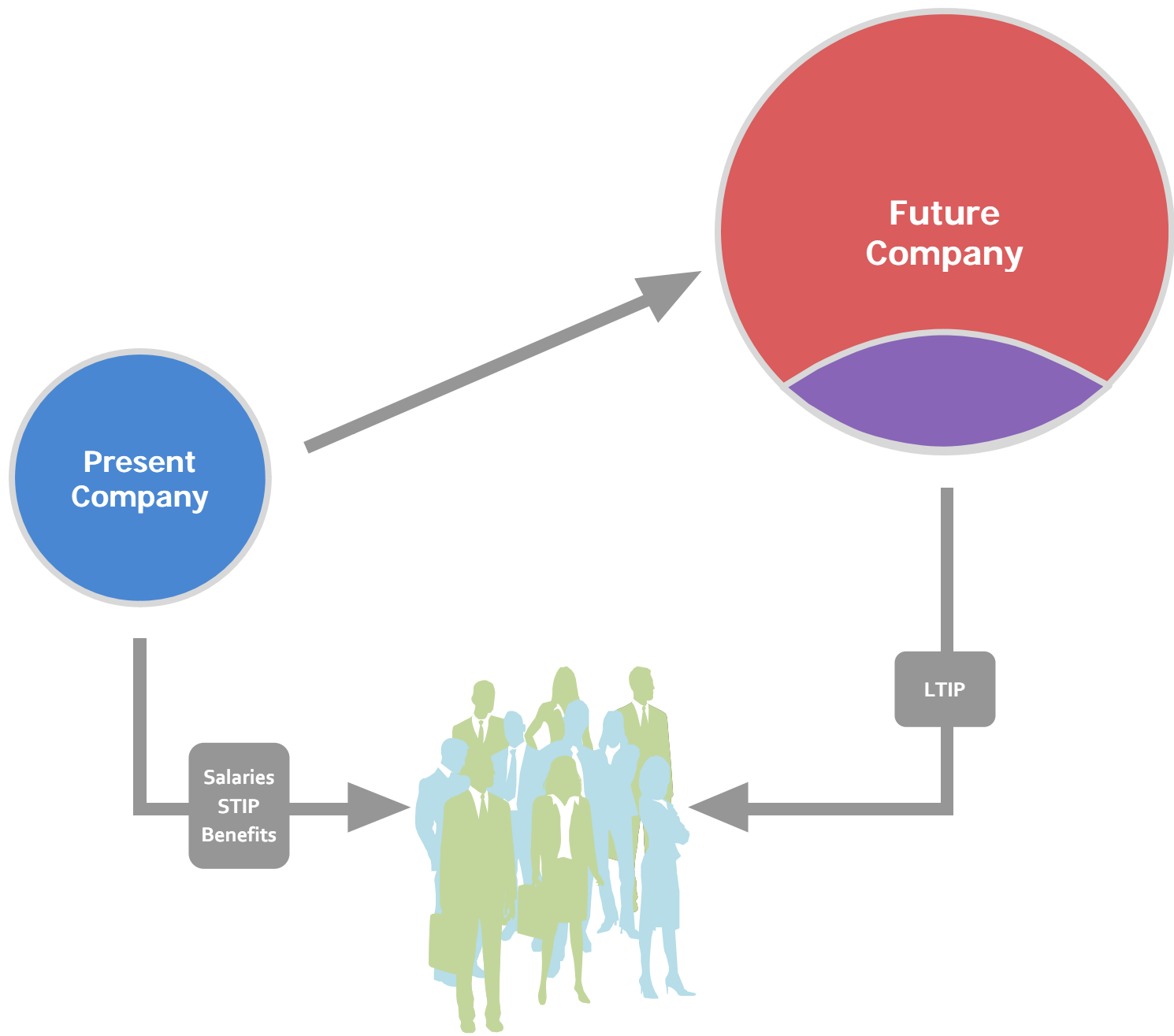


Long-Term Value Sharing Plans

Broad Application

- Key component in attracting “catalysts”
- Used in every size organizations
- Creates “wealth multiplier” mindset
- Ties employees to vision and business plan of the company

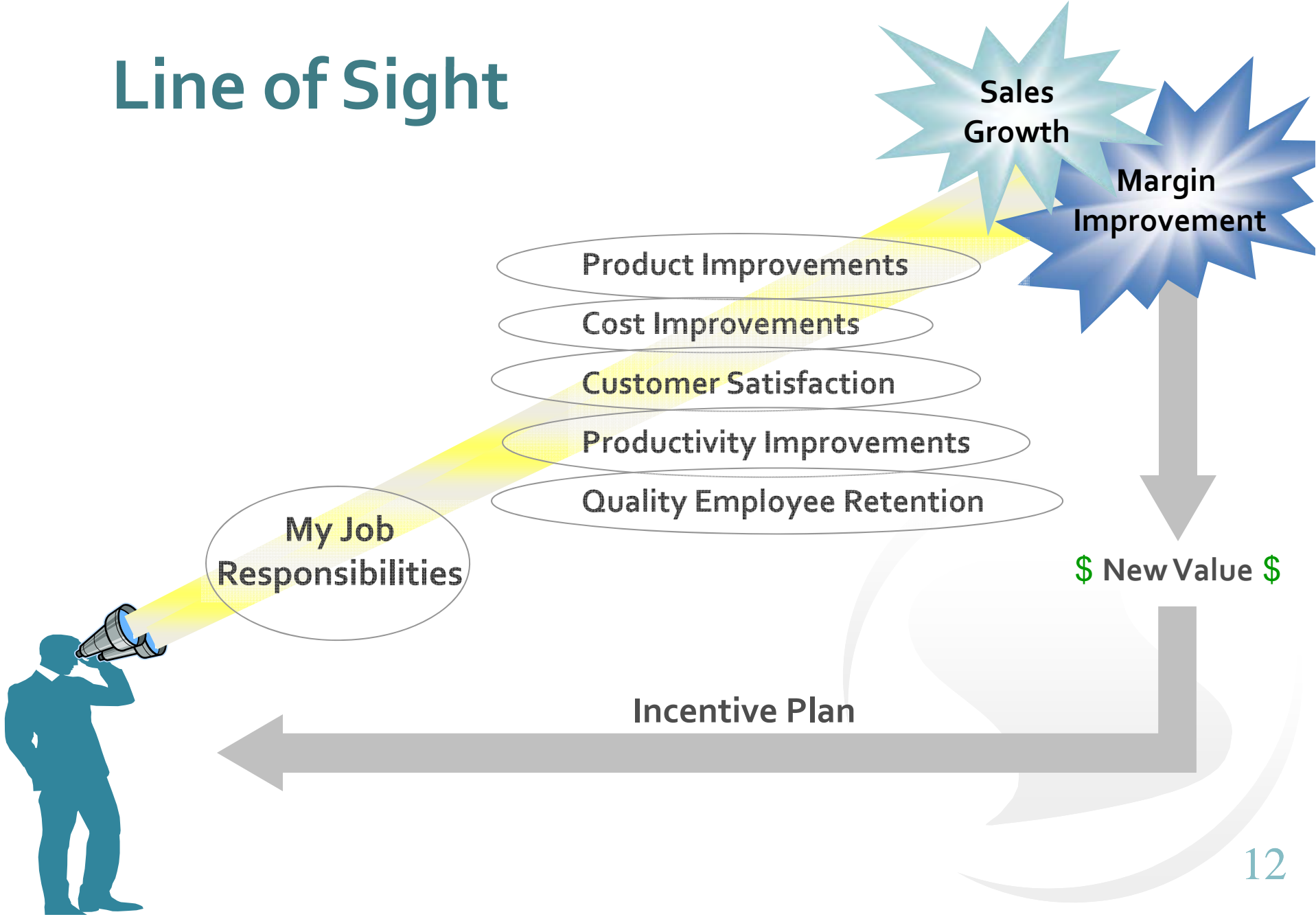


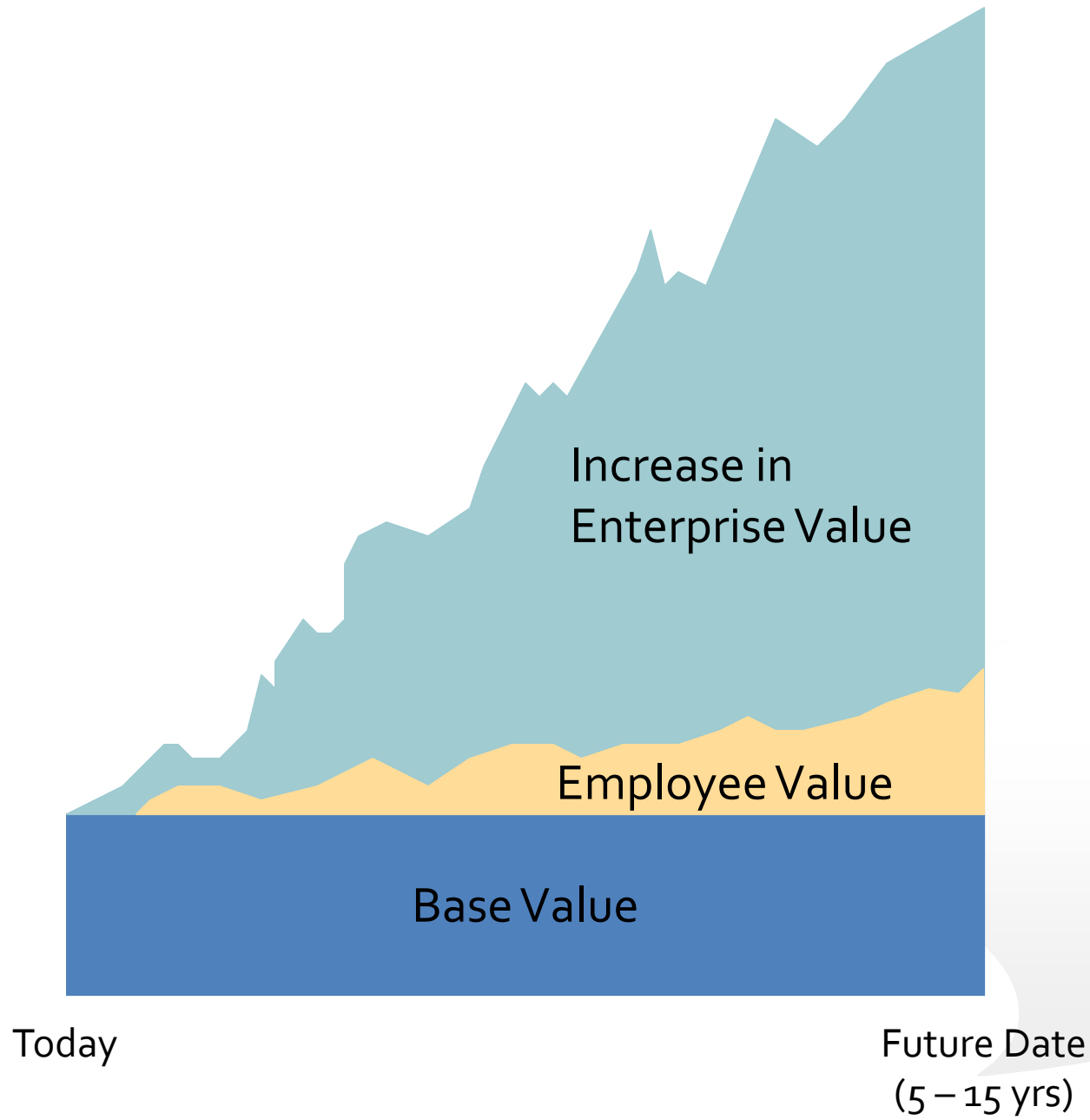


Purposes of a good incentive plan

- Create a unified financial vision for growing the business
- Communicate the outcomes and results most valued by the organization
- Create flexible means of rewarding high performers and recognizing special circumstances and achievements
- Improve shareholder value

Line of Sight





Long-term Value Sharing Plan

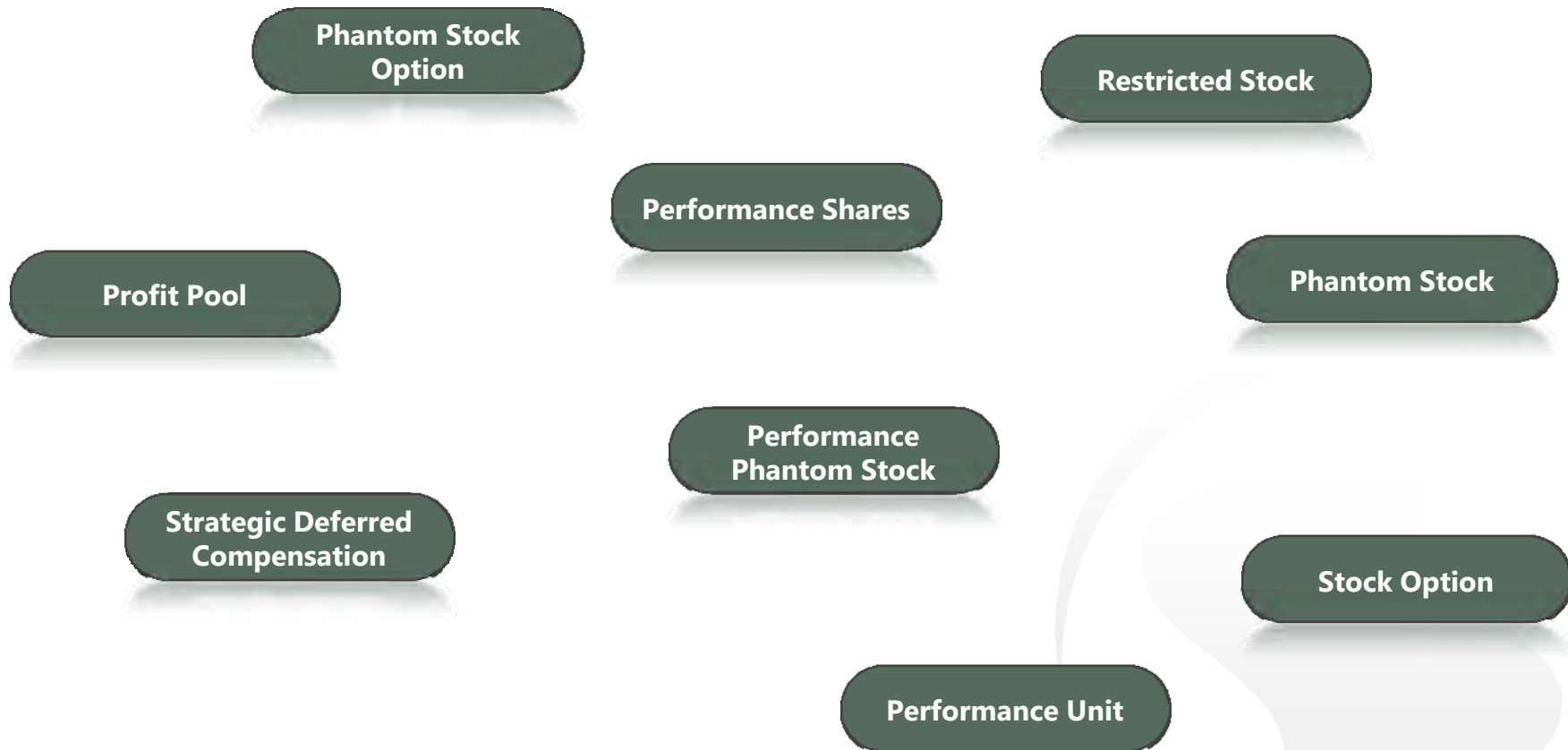
- The most important incentive plan to attract, retain and focus catalysts
- The most under-utilized incentive plan in privately held companies

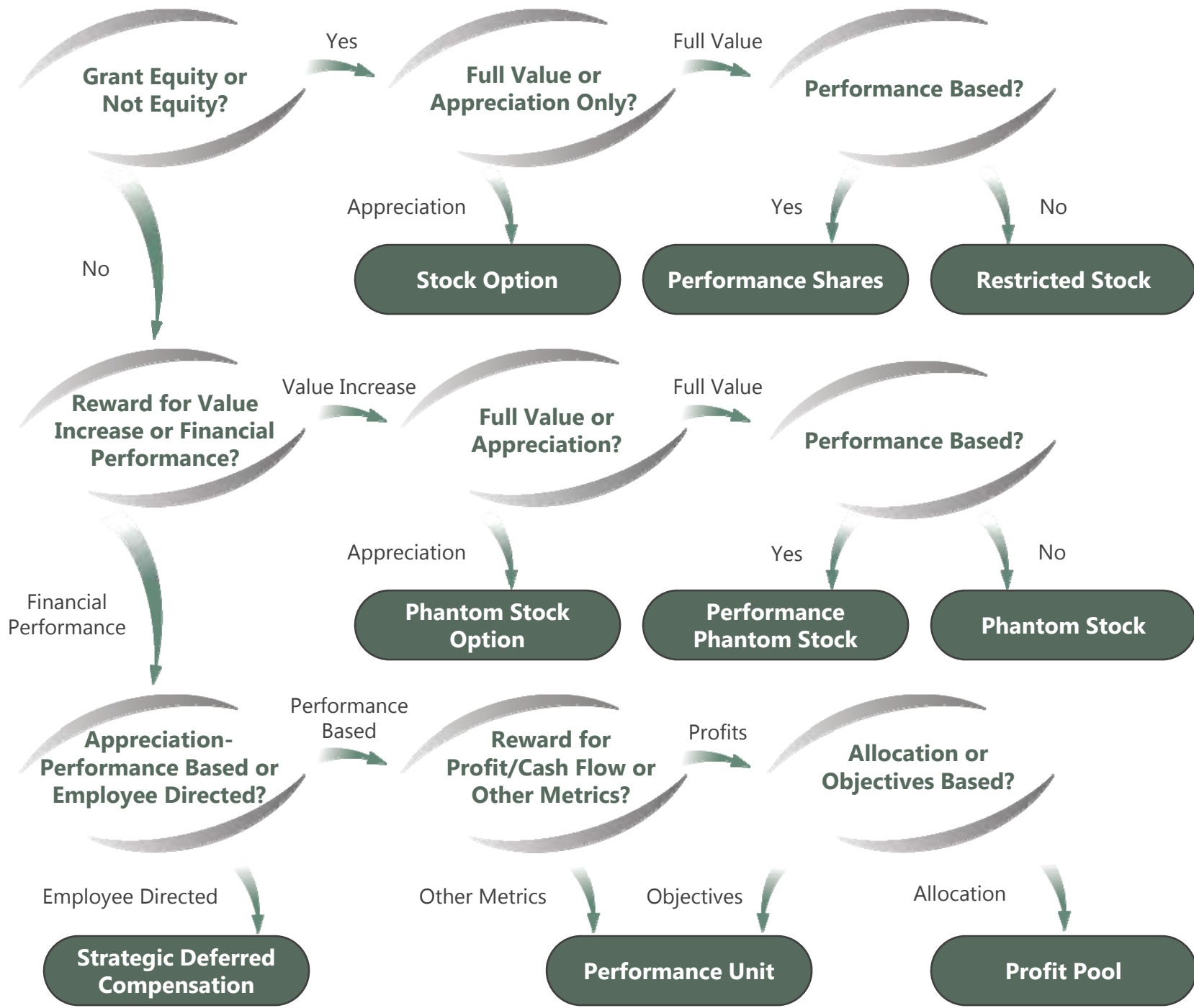
Why under-utilized?

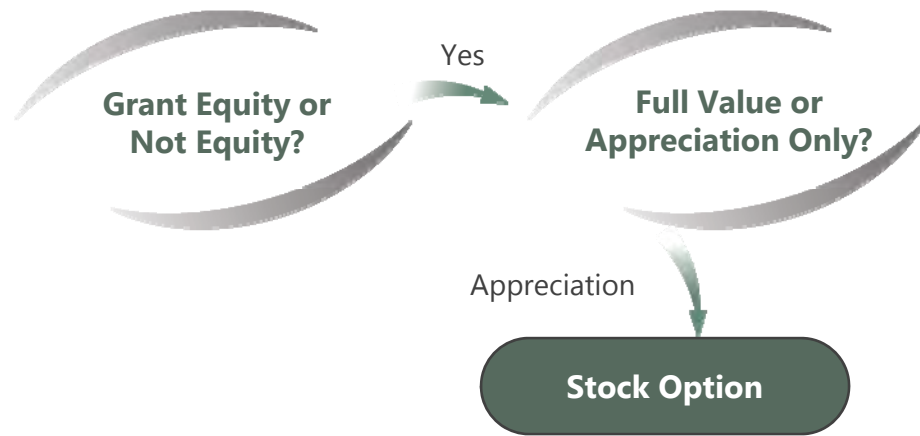
- Not as common as short-term plans (others don't do it; why should we?)
- Appear more complicated (what don't we know about the future?)
- Lack of familiarity (where would we begin?)
- Fear of diluting equity (do we have to share stock?)
- Concern for disclosure (do we have to open the books?)



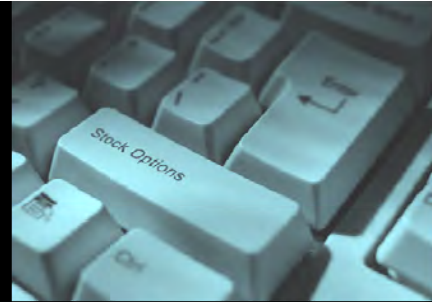
Select the Right Plan Type



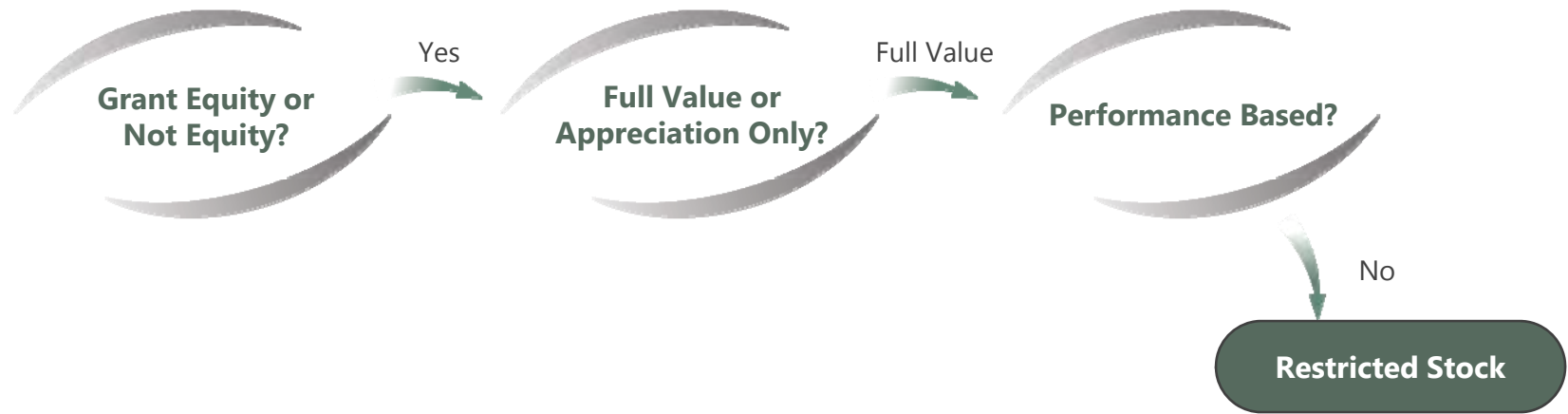




Stock Options



- Employees given a right to purchase stock at a pre-set price
- The right is subject to a time limit and a vesting schedule
- Common in public companies
- Requires employees to produce cash to make purchase
- Typically still a tax upon exercise



Restricted Shares



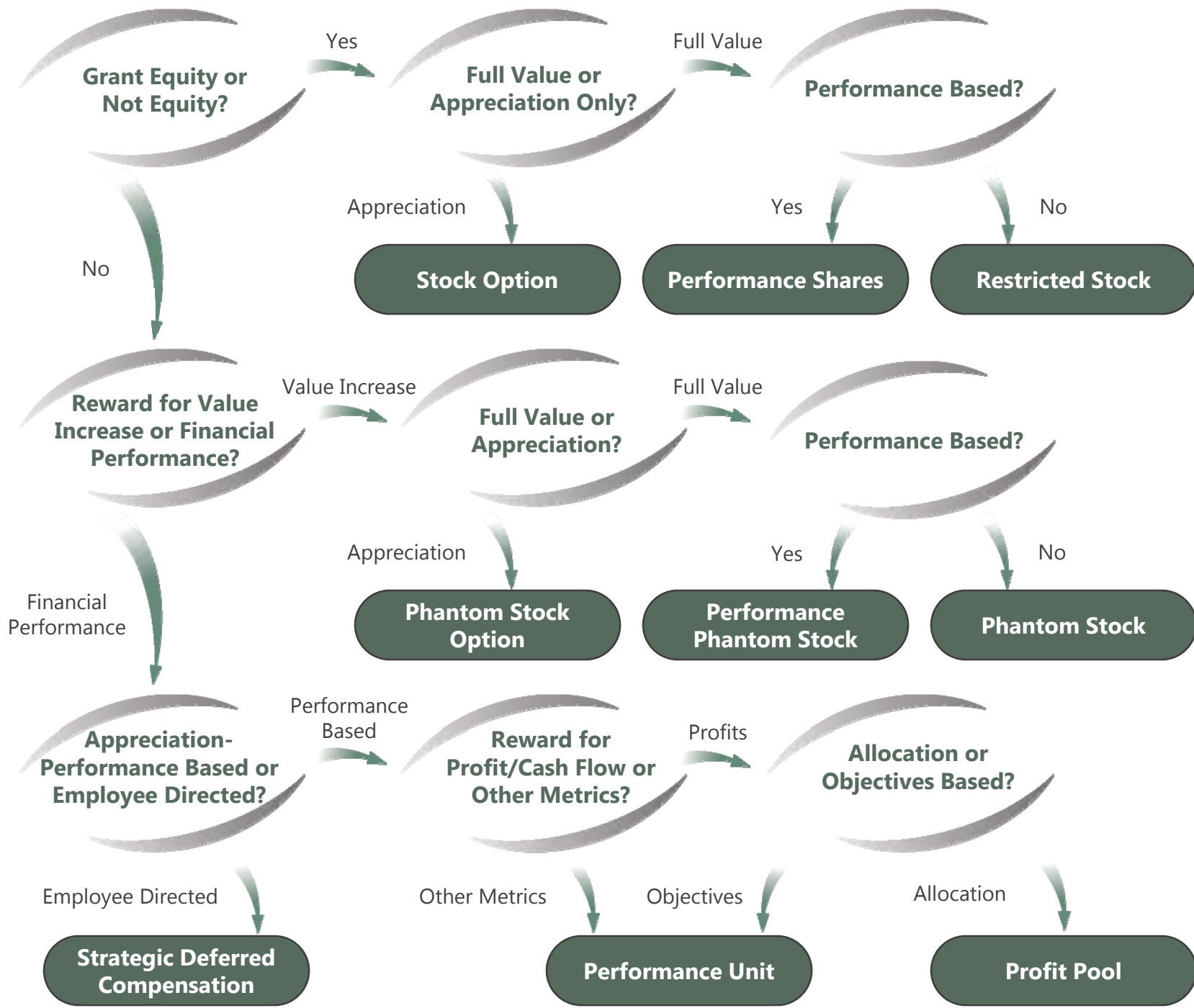
- Employees given actual stock at current value
- Their ability to sell the stock is limited by vesting schedule or other restrictions
- Rewards for past contributions and future growth
- Employees choose to pay tax (ordinary) in year of receipt or when vesting occurs (83(b))
- Full deduction for company in year employee takes into income

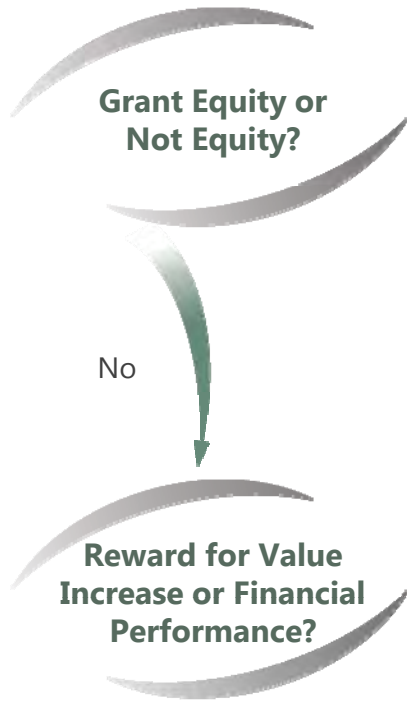


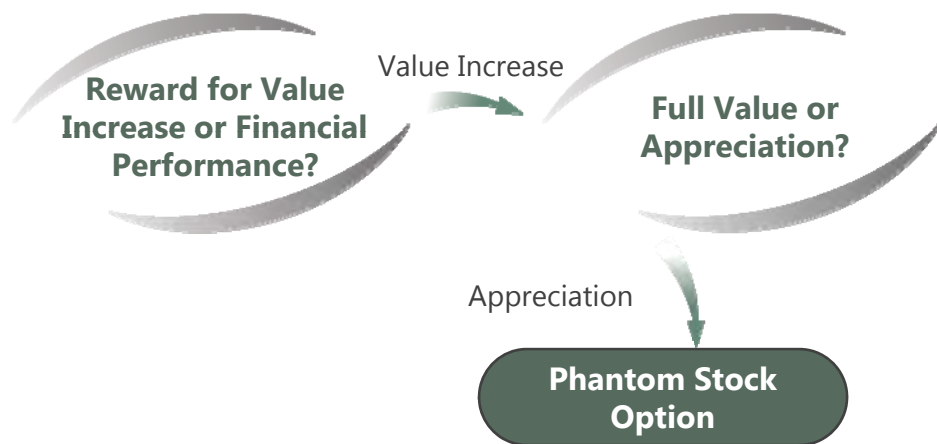
Performance Shares



- Employees given the promise to receive stock upon fulfillment of financial goals
- Shares will be “restricted” once received
- Dilution is “self-financing”
- “Sweat equity” converted to actual equity



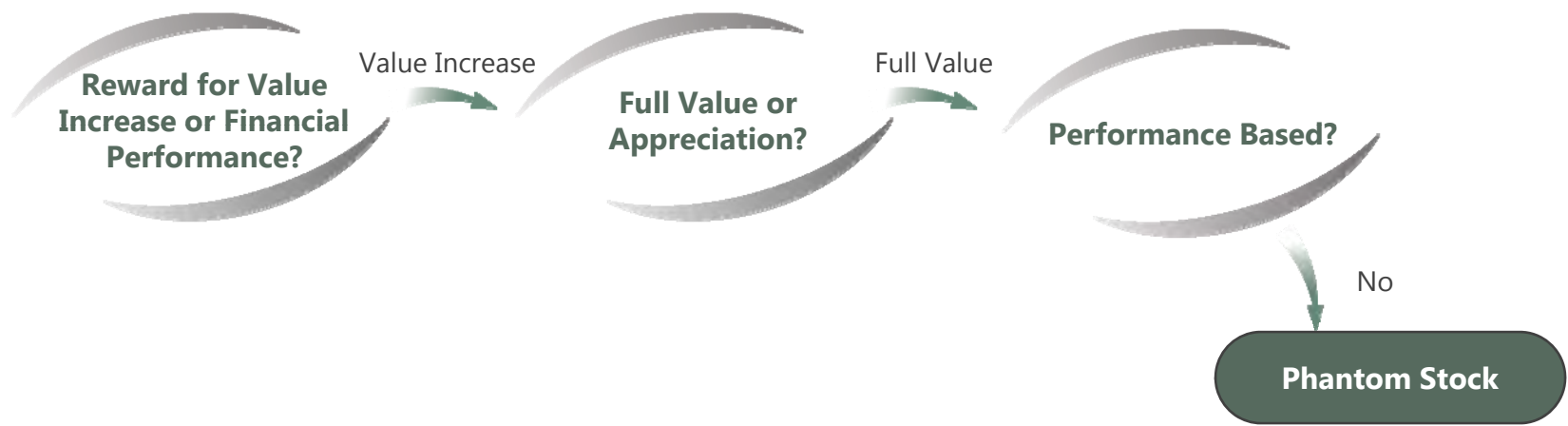




Phantom Stock Options



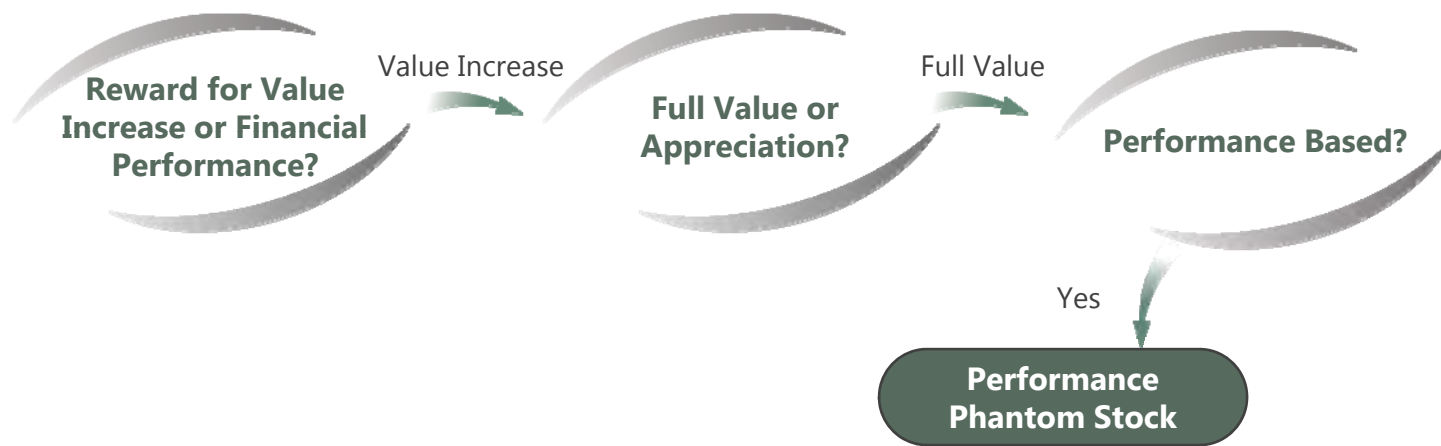
- Employees given a promise of cash payment at a future date
- The value will be based on the appreciation in stock price from the date of award to the date of redemption (*stock appreciation rights*)
- Like a stock option but without the need to pay for shares
- Value will be taxed as ordinary income when received
- Employee not typically given full control over date of redemption



Phantom Stock



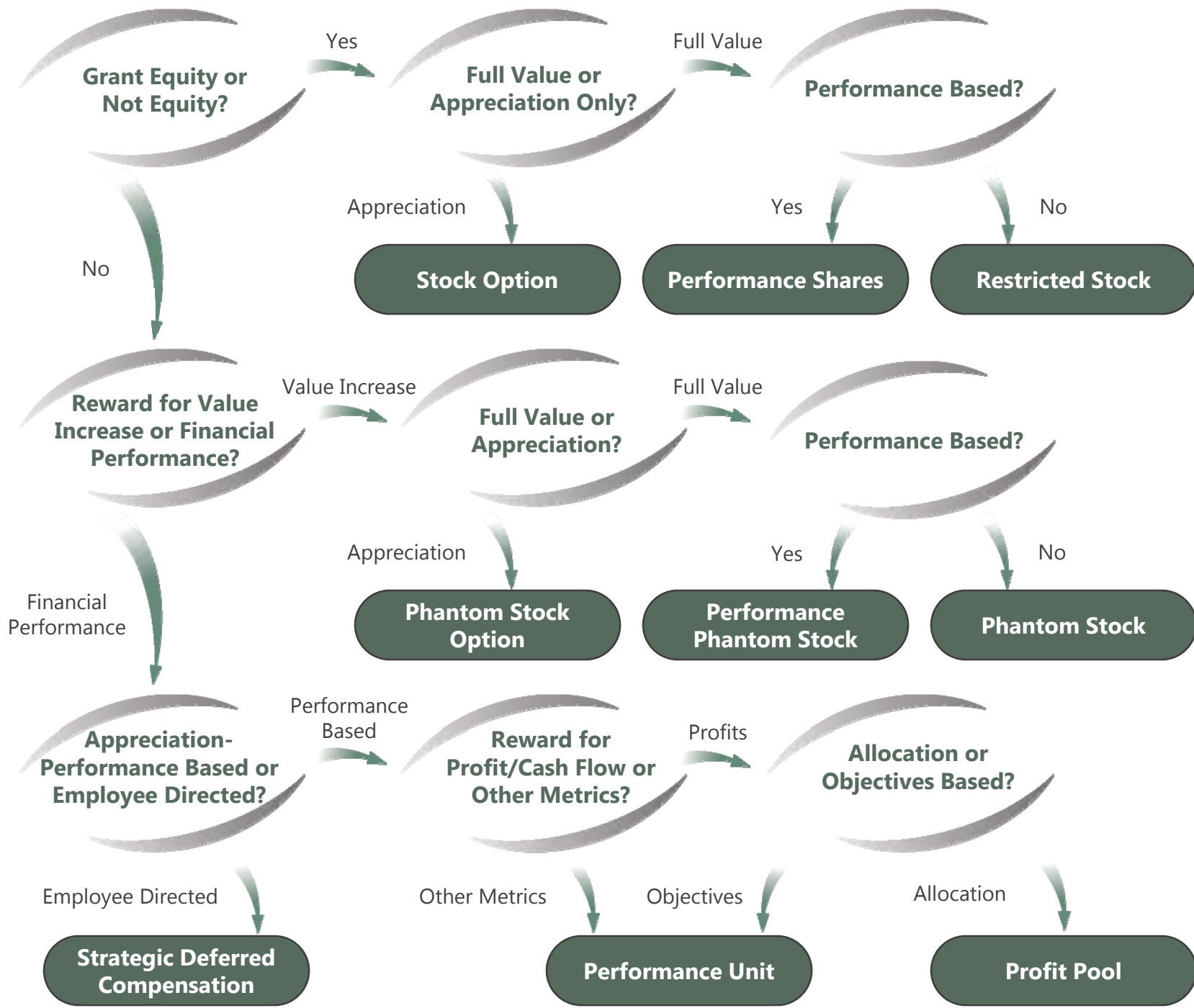
- Employees given an award that has current value essentially equivalent to company stock value (subject to vesting schedule)
- No rights of ownership
- Rewards for past contributions and future growth
- Payments will be made in cash (or stock) at pre-determined dates (taxable to employees)
- Full deduction for company in year employee takes into income

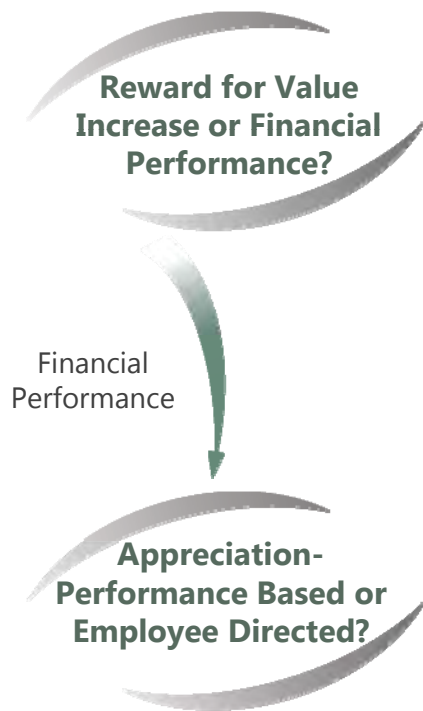


Performance Phantom Stock



- Employees given the promise to receive phantom shares upon fulfillment of annual financial goals
- Shares can be full value or appreciation
- Pay-for-performance concept



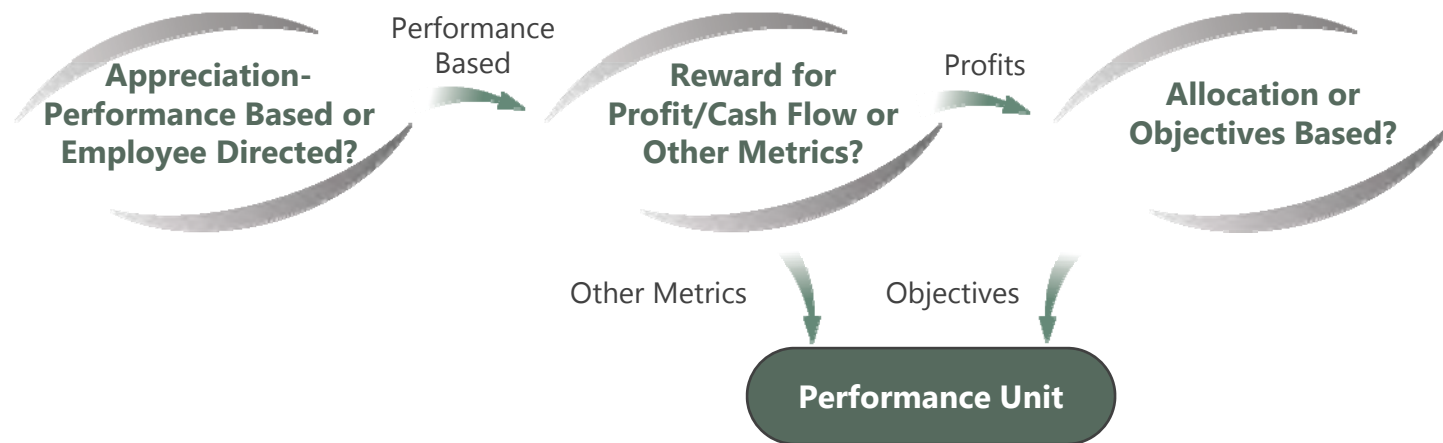




Profit Pool



- Employees given a right to participate in an annual distribution from an accumulating profit pool
- A percentage of profits are credited to a pool that is to be distributed to selected participants in future years
- Selected percentage of the pool allocated to participants
- Typical distributions may begin in year 3 and recur annually
- Productivity Profit concept calls for a reduction in pool for “capital profits” attribution



Performance Unit Plan



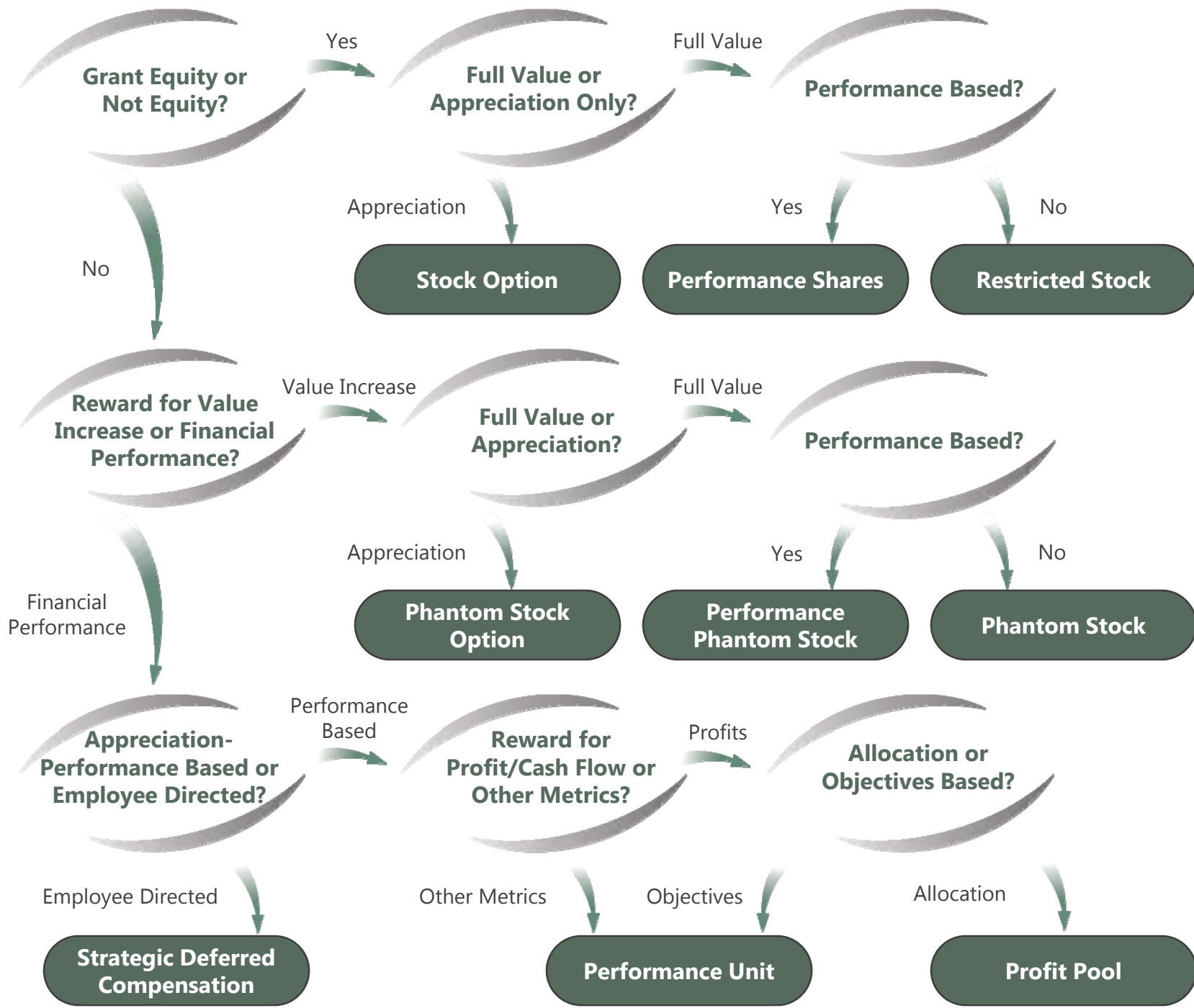
- Employees given award units (PUPs) with a current value (e.g., \$100) that will be redeemable in a few years (3 years most common)
- Payment is made in cash at the end of the period
- The value of the PUP at redemption will depend on 2 (or 3) performance metrics
- Value of the PUP may be much higher than starting amount, or much lower (even \$0)
- New PUP cycle starts each year, thus ultimately producing an annual payout



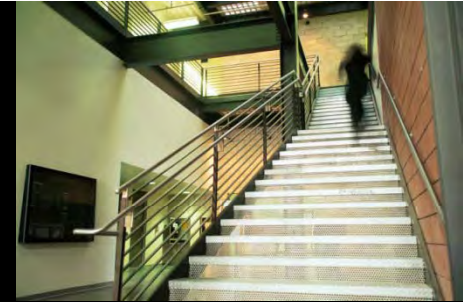
Strategic Deferred Compensation



- Employees awarded a credit to a retirement account
- The amount credited typically varies depending on pre-set company performance achievements (e.g., revenue and/or profit goals)
- The account is “self-directed” so that employee may choose between alternative investment options
- Vested account paid in cash upon termination or retirement
- Employee may add voluntary deferrals



Steps



1. Determine eligible group (allow for future participants)
2. Build a financial growth model
3. Assess new value being created for shareholders
4. Determine the percentage or amount of the future value (or increase in value) to be shared
5. Select a grant schedule (typically annual) and begin illustrating the grants

Steps



6. Test the model for Base, Target and Superior standards
7. Determine vesting schedule
8. Allow for turnover and future employees
9. Test cash flow (and determine if pre-funding is appropriate)
10. Document and launch

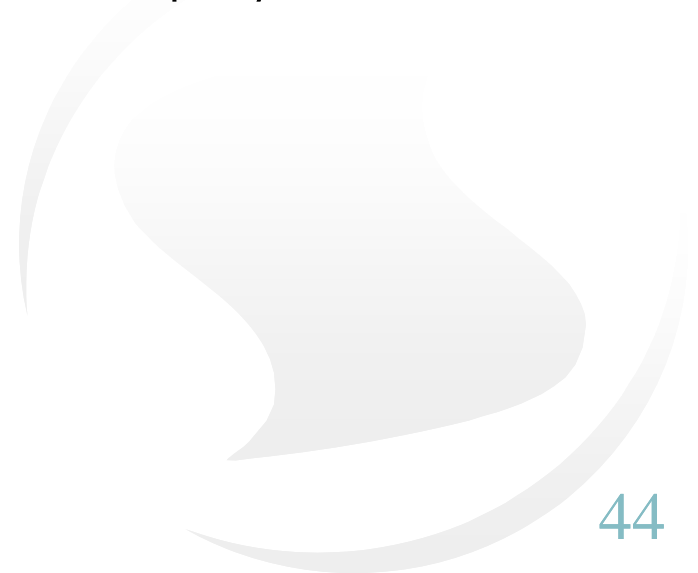
Why Long-Term Value Sharing Matters



Long-Term Value Sharing Plans

A philosophical and practical approach to “incentive plans”

- We recognize the logical and moral obligation to share part of the financial value our employees help create
- Incentive plans are not intended to “change behavior”
- They are a reflection of a partnership relationship
- Creates “wealth multiplier” mindset
- Ties employees to vision and business plan of the company



Why Long-Term Value Sharing Matters

1. Value sharing attracts the best talent and magnifies results
2. Value sharing plans (effectively designed) reinforce the company's business model
3. Value sharing protects against bad profits and promotes good profits
4. Value sharing promotes an ownership mindset
5. Value sharing builds trust and accelerates results



What shareholders want

- Align pay with shareholder interests
- Tie pay results to value creation
- Large incentives are fine if shareholders receive a fair return first
- Encourage top talent to join and stay



What top producers want

- Align pay with shareholder interests
- Share in value creation
- Large variable upside once shareholders receive a fair return first
- A place to make a long-term difference



Well, look at that...

- Align pay with shareholder interests
- Tie pay results to value creation
- Large incentives are fine if shareholders receive a fair return first
- Encourage top talent to join and stay

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- Align pay with shareholder interests
- Share in value creation
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Conclusions

- A long-term value sharing plan is an essential incentive arrangement for growth companies
- These plans create a differentiating edge that satisfies the expectations of catalysts
- They're not difficult to implement if you follow a careful process



Type Your Questions

Special Offer

One hour consulting call with a VisionLink
principal at no charge

(CEO or other senior leader)

Indicate interest on final survey

Next Online Seminar:

“Salaries and Incentives: What’s the Right Balance?”

To be held on:
Tuesday, October 22nd, 2013

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The screenshot shows the Phantom Stock website homepage. At the top left is the logo "Phantom Stock The Equity Alternative" with a green arrow pointing up and to the right. To the right of the logo is a dark green navigation bar with white text: "KNOWLEDGE CENTER", "TOOLS", "BUILD A PLAN", "BLOG", "ABOUT US", and "CONTACT". In the top right corner, it says "POWERED BY VISIONLINK".

The main content area has a light gray background. On the left, there are three green arrow-shaped buttons pointing right, labeled "WHAT IS IT?", "WHAT WILL IT CHANGE?", and "WHERE DO I BEGIN?". To the right of these buttons, the text "A way to share ~~equity~~ *Value*" is displayed, where "equity" is crossed out and "Value" is written in red cursive. In the top right corner of this section, there is a red play button icon and the text "Phantom Stock Watch overview".

Below this section is a row of four white boxes, each with a title and an icon:

- KNOWLEDGE CENTER**: Icon of a blue circle with a white 'i'. Text: "Explore our wiki and find the answers to your Phantom Stock questions."
- TOOLS**: Icon of a brown briefcase. Text: "Decide whether Phantom Stock is a fit for your company."
- BUILD A PLAN**: Icon of crossed wrench and screwdriver. Text: "For 'do-it-yourselfers.' Follow this guide to create your own plan."
- BLOG**: Icon of an orange RSS symbol. Text: "Read the latest discussions about Phantom Stock and other value sharing strategies."

At the bottom, there is a dark green footer bar with white text: "Knowledge Center Tools Build a Plan Blog About Us Contact" and "© 2012 PhantomStockOnline.com".

You can also subscribe to our blog

NEW VisionLink website to be released later this week!

The screenshot shows the homepage of The VisionLink Advisory Group. At the top left is the logo, which includes a stylized 'V' icon and the text 'THE VISIONLINK ADVISORY GROUP'. To the right of the logo is a navigation menu with links for 'About Us', 'Capabilities', 'Knowledge Center', 'Blog', and 'Contact Us'. Further right are social media icons for Facebook, Twitter, and RSS, followed by a 'Client Login' button. A phone number '(888) 703 0080' is displayed on the far right. Below the navigation is a main banner with the text 'Drive Growth - Increase Value - Multiply Wealth' and a large heading 'How Should I Share Value?' with a sub-link 'Click here to learn more'. The banner features a background image of a person's face in profile, partially obscured by a colorful, abstract overlay. Below the banner are three call-to-action buttons: 'Learn About VisionLink's Capabilities' (red background), 'View a VisionLink Webinar' (purple background), and 'Speak to a Compensation Expert' (blue background). Each button includes a plus sign icon and a 'CLICK HERE' link.

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NEW WHITE PAPER

*The Total Compensation Structure:
Growing Your Business by Building a Balanced Approach to Rewards*



Express interest on the final survey

Thank you for attending

Please complete our brief survey immediately following our presentation.

We value your input.

You may request a copy of our slides, White Paper and the 1-hour free consultation time with one of our principals.



Q&A

Thank you!

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