



# Knowledge Session: Understanding ESOPs.

**By: Gagan Singh, CEO - WOWS Global**

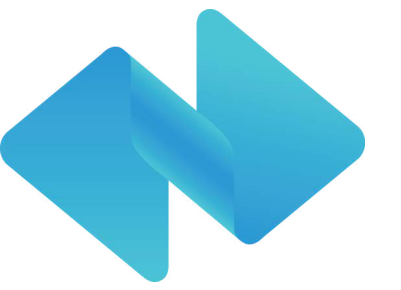
# What are ESOPs?



**“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

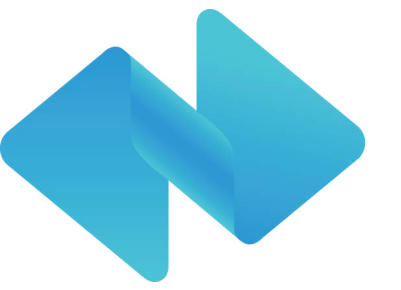
**Holder** → the holder of an option to whom the options are rewarded by the Company

**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?

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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)

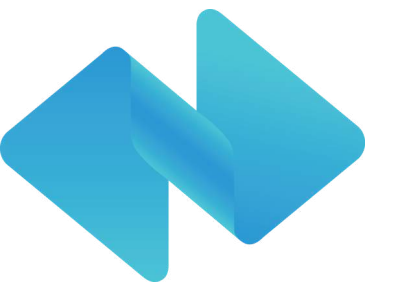
Employees receive company shares after meeting vesting conditions, with no upfront cost.

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.

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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

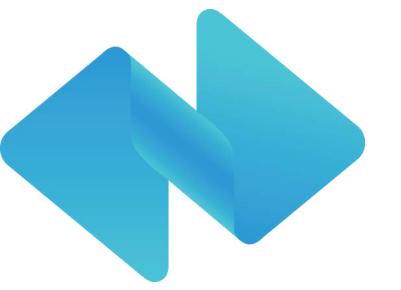
## Clarity on Exit (Leaver Clauses)

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?**

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**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

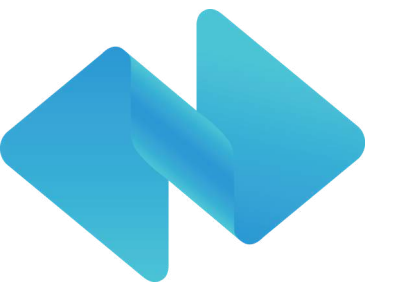
Employees can sell their shares in a secondary market if the company allows it. This option provides an avenue to monetize their equity before a formal exit event.

## 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



Miguel Cordon · 16 Mar 2022 · 2 min read

## Funding Societies launches \$16m ESOP buyback program



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.

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## 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!**

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Let's make **ESOPs** Tangible Again!

# WOWS. Equity Management Pricing

Empower Your Team with a Tailored ESOP Platform.

Launch	Growth <span>Most Popular</span>	Enterprise
<b>\$0/month</b> Up to 10 Stakeholders	<b>\$1.25/User</b> 11 Stakeholders or More	<b>Custom</b> White Label Solution
<ul style="list-style-type: none"><li>✓ Digital Cap Table</li><li>✓ Up to 10 Stakeholder Dashboards</li><li>✓ Run Deal Scenarios</li><li>✓ Launch <b>Buyback</b> Programs</li><li>✓ Calculate <b>Dilution</b> Impact</li><li>✓ Create and Manage <b>ESOP</b></li><li>✓ Track Employee <b>Vesting</b> Schedules</li><li>✓ No Credit Card Needed</li></ul>	<ul style="list-style-type: none"><li>✓ All Features from Launch Plan</li><li>✓ Unlimited Stakeholder Dashboards</li><li>✓ Guided Onboarding Session</li><li>✓ ESOP Policy Review</li><li>✓ <i>Easy-apply for Your Next Capital Raise on My Deal Flow</i></li><li>✓ Cancel Anytime</li></ul>	<ul style="list-style-type: none"><li>✓ Custom Branded Platform &amp; Stakeholder Dashboards</li><li>✓ Personalized Domain</li><li>✓ Dedicated Implementation Team</li><li>✓ Fully Integrated APIs</li><li>✓ Flexible Access and Permission</li><li>✓ On-Site Onboarding &amp; Training</li><li>✓ Multi-Language Support</li></ul>
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# WOWS. Fundraising Service Pricing

Zero investment fees for investors and a tiered pricing structure for companies.

Basic	Pitch Ready	Endorsed (Minimum 4 Months) <i>Most Popular</i>	Premier
<b>\$0/month</b> Between Rounds	<b>\$249/month</b> Get Connected	<b>\$999/month</b> Get Funded	<b>\$9,999</b> Full-Service Fundraising
<ul style="list-style-type: none"><li>✓ <i>Live Profile on My Deal Flow</i></li><li>✓ <i>Share Pitchdeck with Hundreds of Global Investors</i></li><li>✓ Equity Dashboards for Founders and Stakeholders</li><li>✓ Manage Company and Holdings Portfolio</li><li>✓ Simplified Equity Management</li><li>✓ Unlimited Stakeholders</li><li>✓ <b>No Credit Card Required</b></li></ul>	<ul style="list-style-type: none"><li>✓ Everything in "Basic"</li><li>✓ <b>7 Day Free Trial</b></li><li>✓ <i>"Ready to Pitch" Profile on My Deal Flow</i></li><li>✓ <i>Book a Pitch Session: Calendar Integration</i></li><li>✓ <i>Access to Exclusive Investor Events</i></li><li>✓ <i>Upload Your Pitch or Product Video</i></li><li>✓ Cancel Anytime</li><li>✓ <b>Zero Success Fees</b></li></ul>	<ul style="list-style-type: none"><li>✓ Everything in "Pitch Ready"</li><li>✓ <i>Co-Branded Deal Room</i></li><li>✓ <i>Fundraising Campaign to Internal Investor Network</i></li><li>✓ <i>WOWS Endorsed Profile on My Deal Flow</i></li><li>✓ <i>Dedicated Investment Manager</i></li><li>✓ Investor Meeting Preparations</li><li>✓ Only <b>3% success fee</b> on Equity Financing</li><li>✓ Only <b>1.5% success fee</b> on Venture Debt</li></ul>	<ul style="list-style-type: none"><li>✓ Everything in "Endorsed"</li><li>✓ <b>4 Months</b> Endorsed Listing</li><li>✓ <i>Pitch Deck Development &amp; Design</i></li><li>✓ <i>3-Year Financial Model</i></li><li>✓ <i>409A Valuation Report</i></li><li>✓ <i>Deal Room Setup &amp; Assistance</i></li><li>✓ <i>SAFE Note Preparation(s)</i></li><li>✓ <i>Term Sheet Negotiation(s)</i></li><li>✓ Only <b>3% success fee</b> on Equity Financing</li><li>✓ Only <b>1.5% success fee</b> on Venture Debt</li></ul>
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# WOWS. Key Milestones



We have established the **Largest Curated Network** of startups and investors in the ASEAN region.

**350+**

Accredited  
Investors

**150+**

Vetted  
Companies

**\$72M+**

Deployed  
In Transactions

**\$1B+**

Customer  
Equity Value

**2021**

Founding  
Year

**1,000+**

WOWS Angel  
Investors

**3**

Global  
Offices

**15K+**

Social Media  
Followers



# Proven Excellence in Service



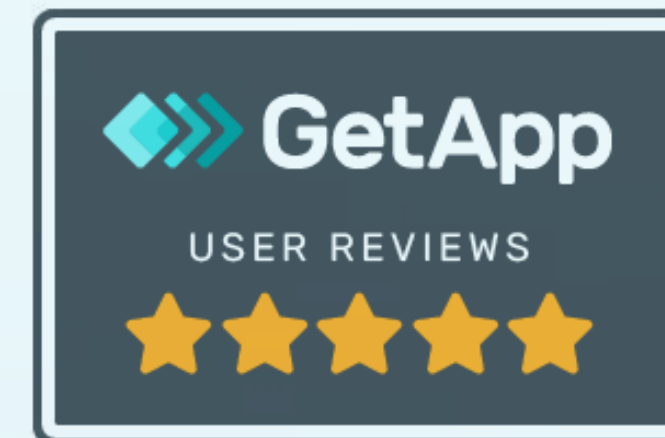
Top-Rated  
on Capterra

Celebrated for **outstanding service**, our platform has earned a **5-star rating** from satisfied users on Capterra.



Best Value Distinction  
by Capterra

Honored with the Best Value award by Capterra, reflecting our commitment to deliver **high-quality** at **great worth**.



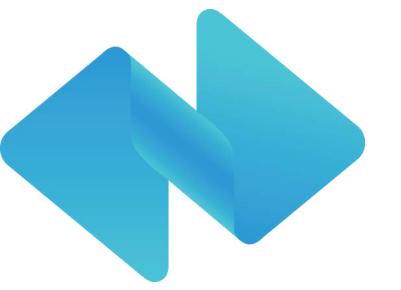
User-Approved  
on GetApp

User reviews on GetApp acclaim our **solution's performance** and **user satisfaction**.



Exceptional Support  
Recognized

Awarded for **best-in-class support**, we're proud to be acknowledged by Software Advice in 2023.



# Thank you



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