MEDIA RELEASE

16 May 2016

90% of angel-backed startups use employee share plans - survey

New Zealand startups are enthusiastic about implementing Employee Stock Ownership Plans – or ESOPs – according to a survey undertaken by the New Zealand Venture Investment Fund and the Angel Association.

The survey was sent to the chief executives of 98 angel-backed companies in NZVIF's portfolio to gauge their interest in and uptake of ESOPs. Fifty companies responded, two-thirds of which have been operating for between two to five years and a quarter between six and ten years.

Of the 50 responses, almost 90 percent of the companies had an ESOP in place for their employees, among which 58 percent are software companies and 12 percent are technology hardware companies

NZVIF Investment Director Chris Twiss said the reason that many startups offer employee share ownership plans is that it gives them a greater ability to employ key employees and directors whom they might not otherwise be able to afford or attract.

In addition, share ownership plans can provide a financial incentive to employees to reach predetermined goals and in time, if the company is successful, enjoy the upside monetary benefits of an ownership stake, Mr Twiss said.

"ESOPs are useful in the way they align the interests of employees and owners in the success of a startup. Early stage companies are high risk investments and many fail. In order to attract employees, startups need to be able to offer something different, such as the prospect of a share in the upside should the company go on to be successful.

"Clearly New Zealand startups see the benefits of ESOPs with 88 percent of companies in this survey currently using an ESOP plan of some form. And 96 percent of the CEOs who responded said that they would implement ESOP plans in future organisations, which suggest the plans are working well and seen as a really important part of a start up's armoury."

NZ Angel Association chair Marcel van den Assum said that the major benefits of an ESOP to a company, as cited by the CEOs, were around staff loyalty, an increased ability to hire high quality people into the business, and increased alignment between the employees and the business.

"The survey also found that ESOPs are also commonly used to attract and incentivise directors in addition to senior executives and other staff. Over 30 percent of companies also made ESOP provisions available for external advisers and consultants.

"The value of this survey is that it will be a useful guide for many current and prospective ventures. It also encourages us - NZVIF and the Angel Association - to take this to the next level by looking at some specific 'best practice' parameters such as ESOP percentages for directors, and vesting milestones."

Other key results from the survey included:

- Nearly half of the companies created an ESOP after the first 12 months of operation.

- About two-thirds of the companies with ESOPs adopted a basic share option plan, rather than other ESOP types such as 'borrow to buy' plans or the use of special classes of shares.
- ESOP allocation is mostly in the range representing 6%-10% of a company's total share register, followed by the 11%-15% range.
- 45% of companies received a positive reception from employees to their ESOP plan while 14% indicated further information was required to better explain the nature of the proposed plan.
- At least one eligible person at one-third of the companies had exercised their ESOP rights. For 51% of the companies, no eligible staff (or other eligible people) had yet to do so.

For here for the full ESOP survey report.

Media contact: David Lewis 021-976 119 david.lewis@nzvif.co.nz