



ESOP Survey of SCIF Portfolio Companies

April 2016

Background

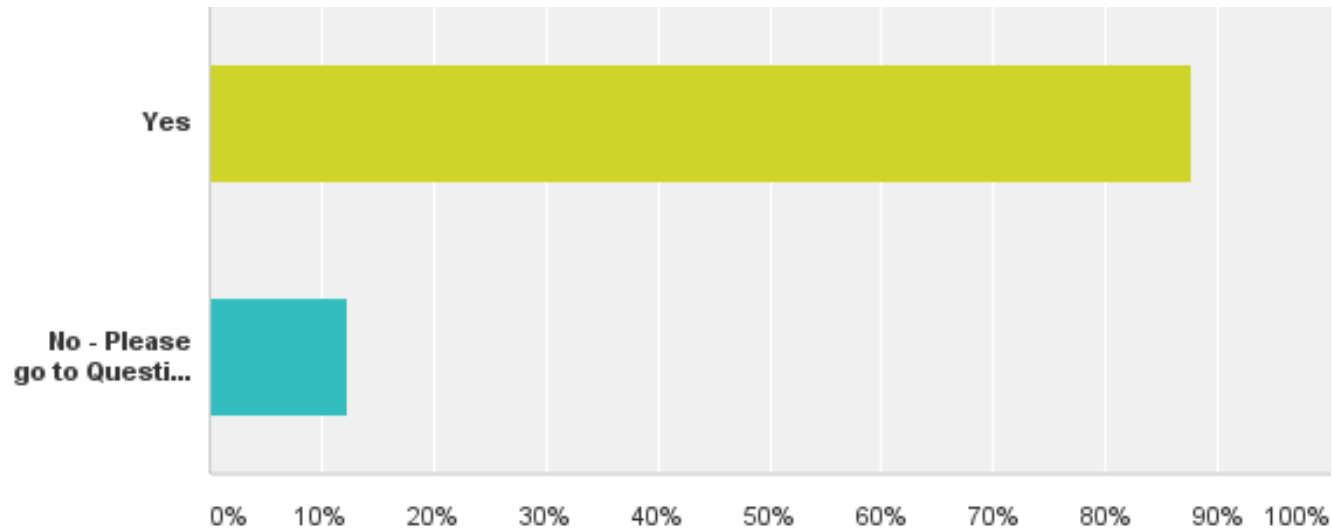
- ❑ NZVIF now has more than 140 early stage companies in our seed fund portfolio with the median holding period of three years, of which we have seen varying degrees of ESOP (Employee Stock Ownership Plan) implementation.
- ❑ NZVIF management team undertook a quick survey in mid April with 98 active operating SCIF portfolio companies.
- ❑ We are glad to share the aggregated results with the wider angel market in New Zealand, and hope the analysis can be very helpful for start up entrepreneurs, employees, board members and angel investors.
- ❑ We greatly appreciate those portfolio CEOs who contributed their time in completing our survey.

Key Findings

The survey includes 14 short questions. We received 50 responses (51%) in 8 business days. Of the 50 responses, two-thirds companies are aged between 2-5 years and one-quarter are between 6-10 years. Below are the key findings:

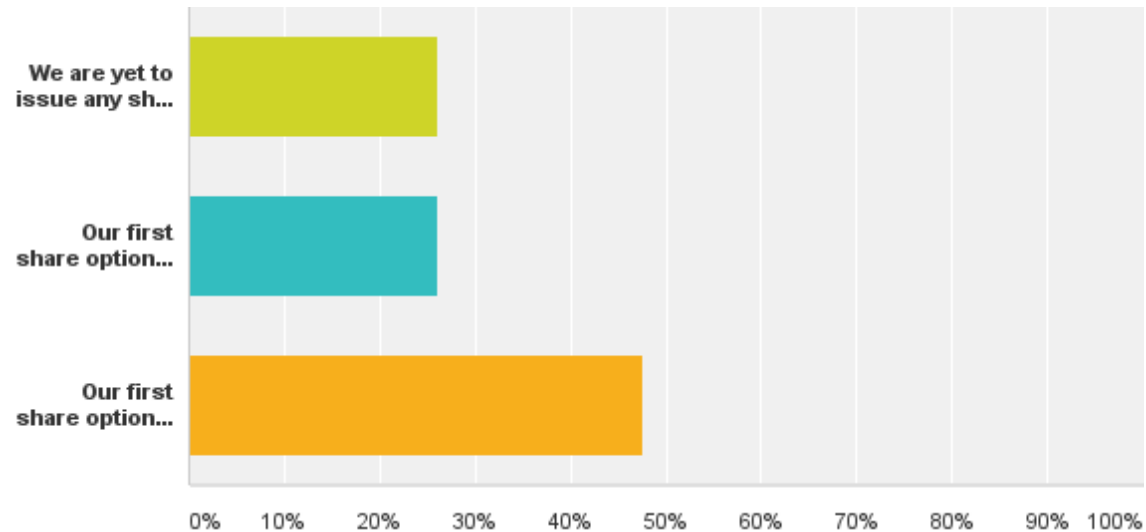
- ❑ 88% of start-up companies currently have a ESOP provision;
- ❑ Nearly half of them issued share options after the first 12 months of operation;
- ❑ About two-thirds of companies adopt basic share option plan;
- ❑ ESOP allocation are mostly in the 6%-10% range, follow by 11%-15% range;
- ❑ 47% of companies received positive reception when announcing the ESOP plan although 14% indicated further education was required to explain the nature of the proposed plan for employees;
- ❑ About one-third of companies staff have exercised their ESOP and another 50% not yet;
- ❑ 96% of CEOs expressed that they would implement ESOP plans in the future organisations.

Q1: Do you currently have a specific provision for an ESOP in your Shareholders' Agreement or Constitution?



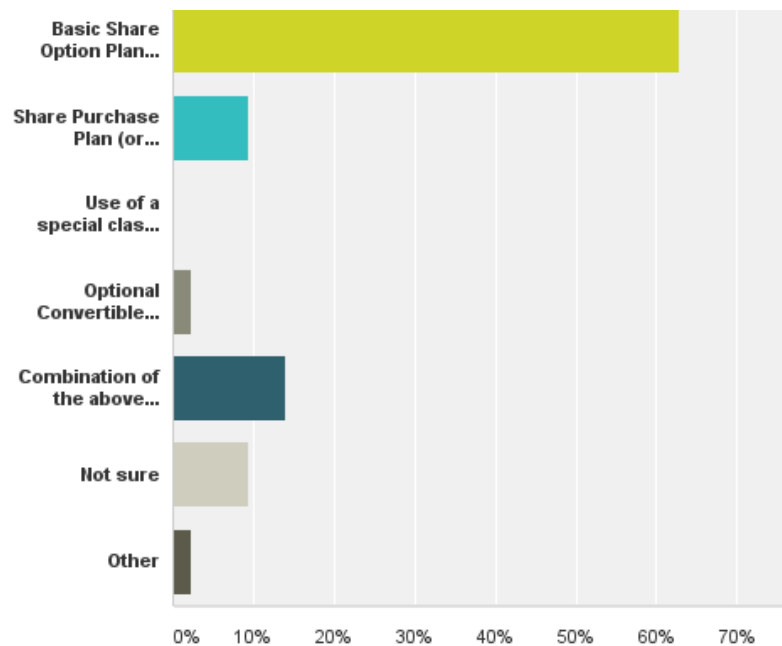
Answer Choices	Responses
Yes	87.76%
No - Please go to Question No.10	12.24%
Total	

Q2: When did you issue the ESOP?



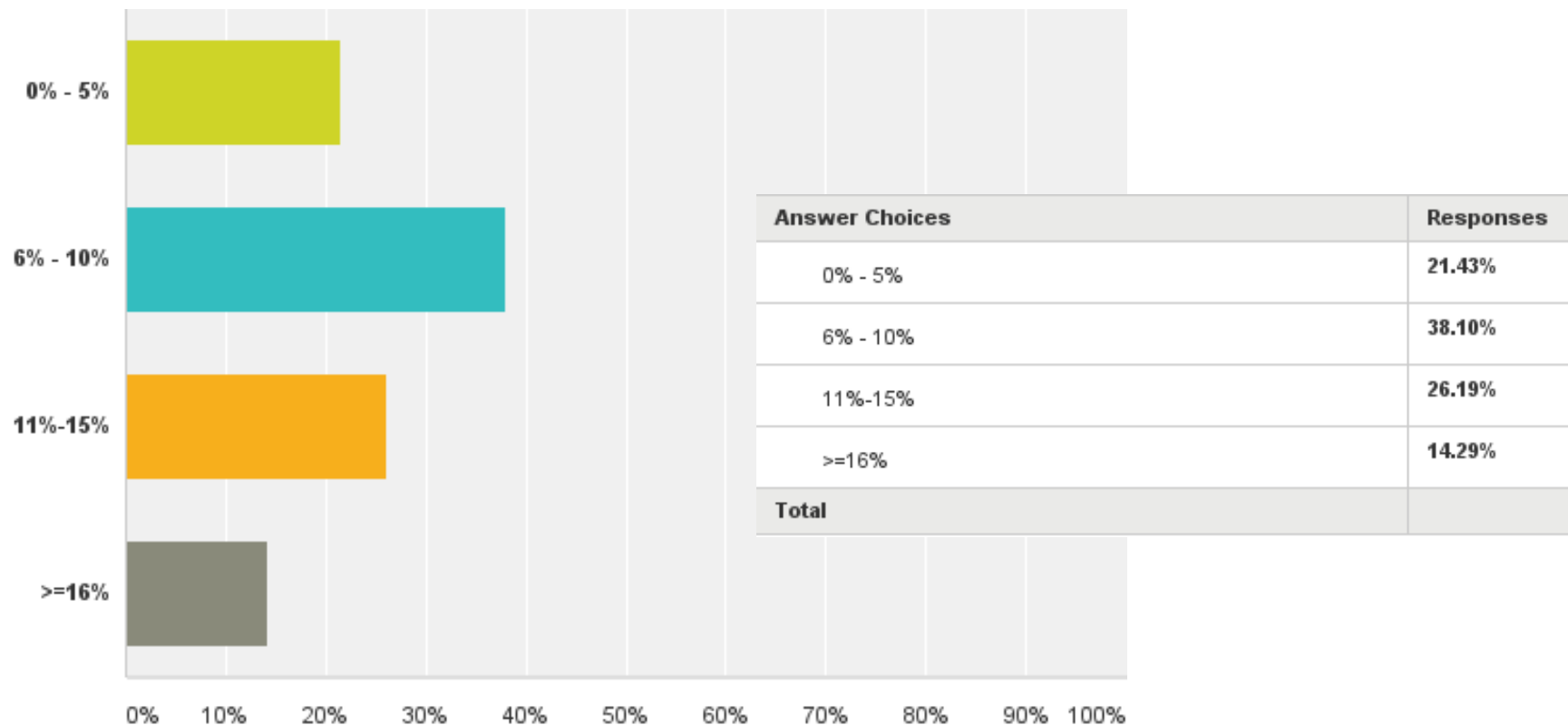
Answer Choices	Responses
We are yet to issue any share options	26.19%
Our first share options were issued within the first 12 months of operation	26.19%
Our first share options were issued after the first 12 months of operation	47.62%
Total	

Q3: What type of ESOP plan have you implemented?

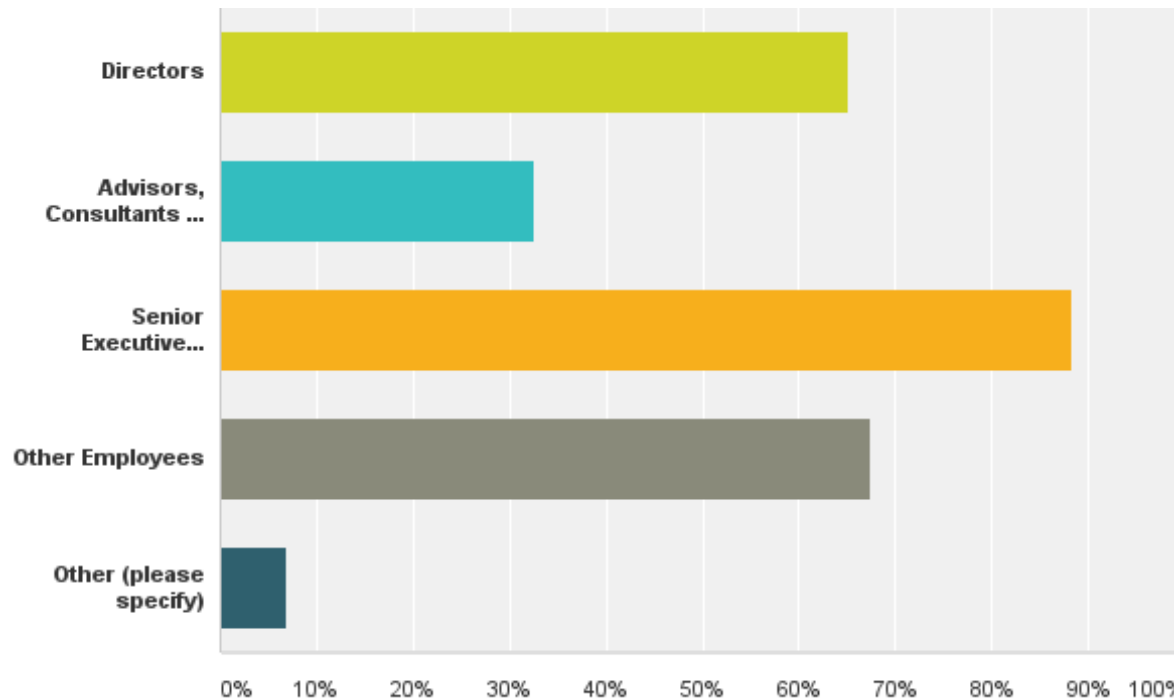


Answer Choices	Response
Basic Share Option Plan (including fully and partly paid shares) - A simple option scheme where the company grants options to employees to acquire shares at a later time. Upon exercise of an option by a participant, the company issues ordinary shares to the participant at the pre-determined price specified in the initial option grant. The option holder only acquires shareholder rights when the option is exercised.	62.79%
Share Purchase Plan (or "borrow to buy") -The simplest way to provide employees with the opportunity to realise tax-free share gains is to issue them shares (rather than options) at the outset. Provided the shares are issued to the employees at market value at the time of issue, subsequent gains will not be taxable provided the shares are held on capital account.	9.30%
Use of a special class of share- Other structures have been developed to achieve the same commercial objectives as are readily achieved with option plans. One such structure involves the issue of a special class of shares which can be converted to full ordinary shares after expiry of a similar period and subject to similar conditions as for an option scheme.	0.00%
Optional Convertible Notes (OCNs)- An OCN structure seeks to achieve similar objectives as the schemes involving conversion of one share class to another without any liquidation risk, but involves additional complexity. Under a typical OCN structure, the employer company lends funds to employees which the employees use to acquire OCNs issued by the employer at a similar value. After a qualification period and subject to similar conditions as for an option scheme, the employee can either redeem the OCNs for cash or convert the OCNs into shares. The company loan is repayable on redemption or conversion.	2.33%
Combination of the above structures	13.95%
Not sure	9.30%
Other	2.33%
Total	

Q4: What is the allocation you have made for the ESOP (as a percentage of share registry)

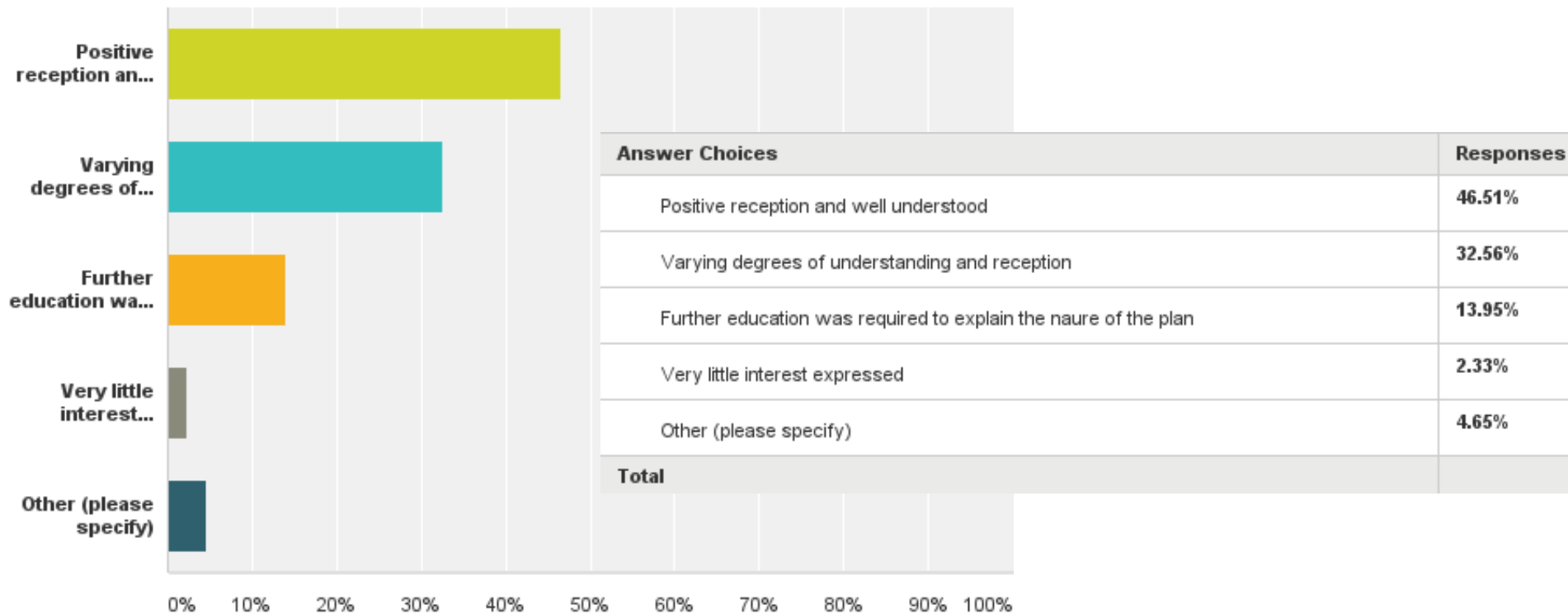


Q5: Who is eligible to participate in the ESOP (multiple choice)?

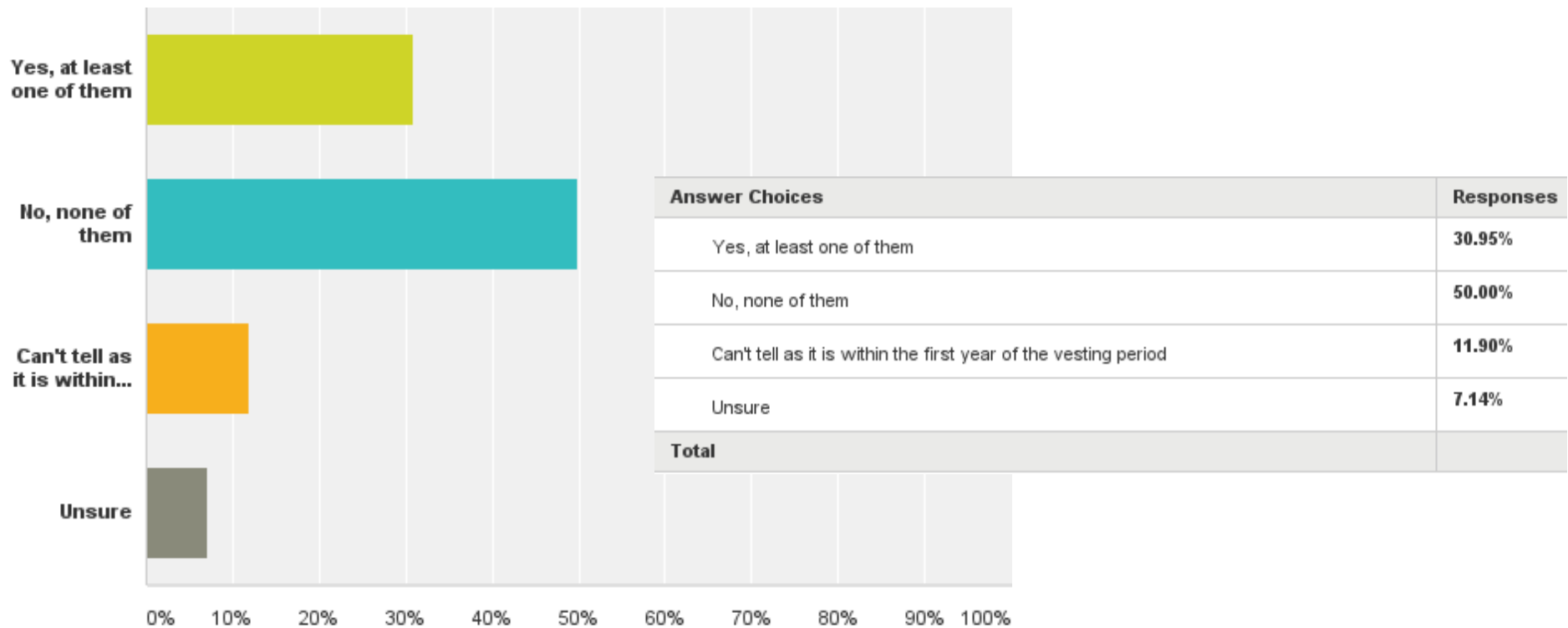


Answer Choices	Responses
Directors	65.12%
Advisors, Consultants and other Professional Services	32.56%
Senior Executive Management	88.37%
Other Employees	67.44%
Other (please specify)	6.98%

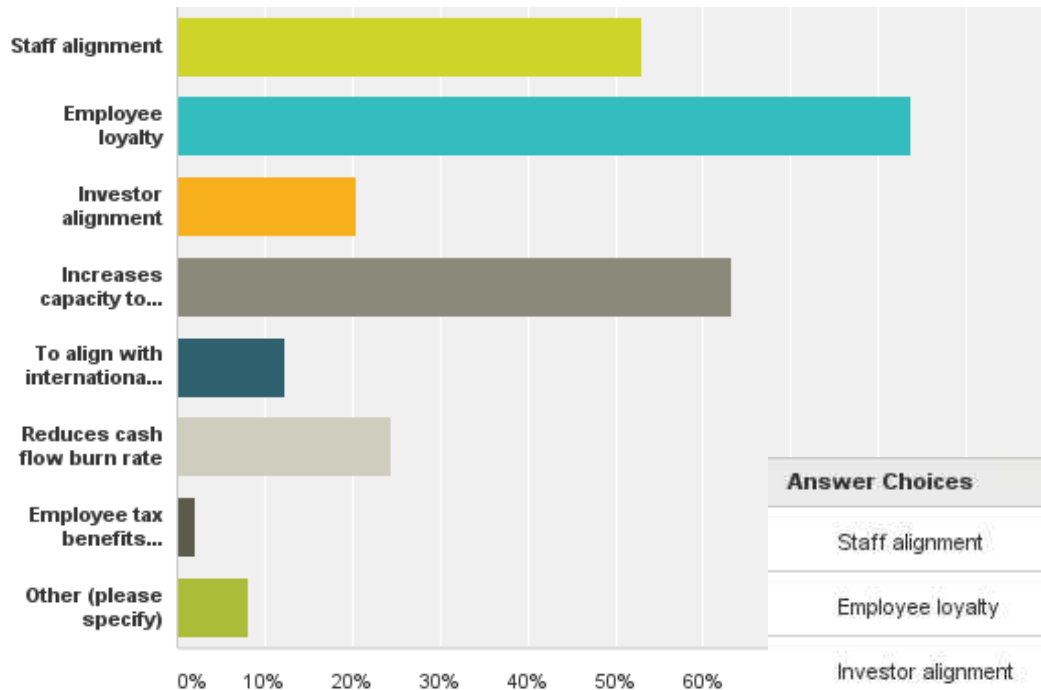
Q6: In offering the ESOP scheme, what was the level of reception from the participants



Q7: Have any of the eligible participants exercised their options?

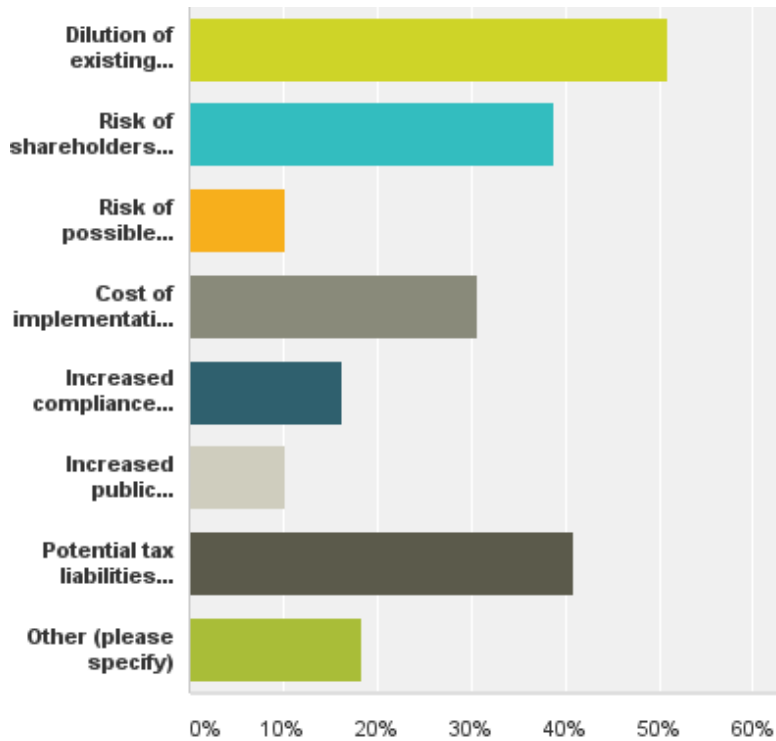


Q8: What do you see as the three most positive impacts for your business by having an ESOP plan?



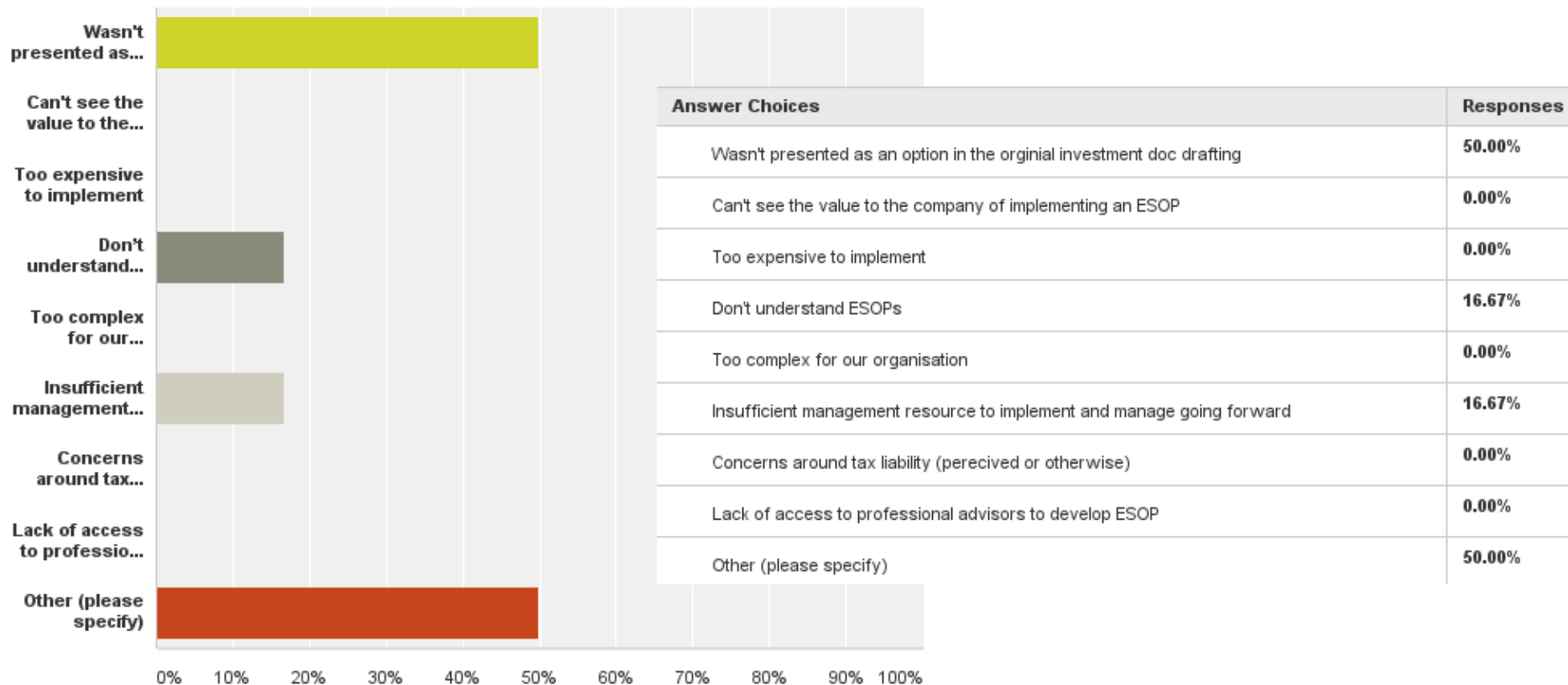
Answer Choices	Responses
Staff alignment	53.06%
Employee loyalty	83.67%
Investor alignment	20.41%
Increases capacity to recruit high calibre employees	63.27%
To align with international best practice and expectations	12.24%
Reduces cash flow burn rate	24.49%
Employee tax benefits (perceived or otherwise)	2.04%
Other (please specify)	8.16%

Q9: What (if any) do you see as the three most negative impacts for your business by having an ESOP plan?

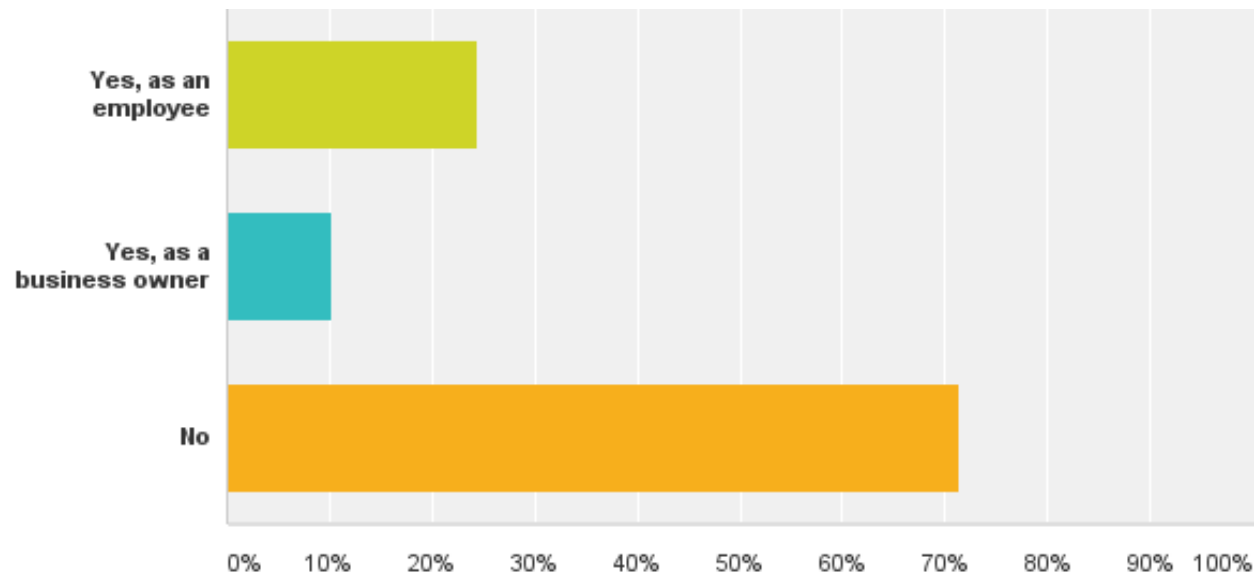


Answer Choices	Response
Dilution of existing shareholders	51.02%
Risk of shareholders on register who no longer have any involvement with the company	38.78%
Risk of possible employee disputes impacting shareholder decisions	10.20%
Cost of implementation and support	30.61%
Increased compliance costs	16.33%
Increased public disclosure of company affairs	10.20%
Potential tax liabilities (perceived or otherwise)	40.82%
Other (please specify)	18.37%

Q10: What are the key reasons you haven't made a provision for an ESOP (Choose top 3)

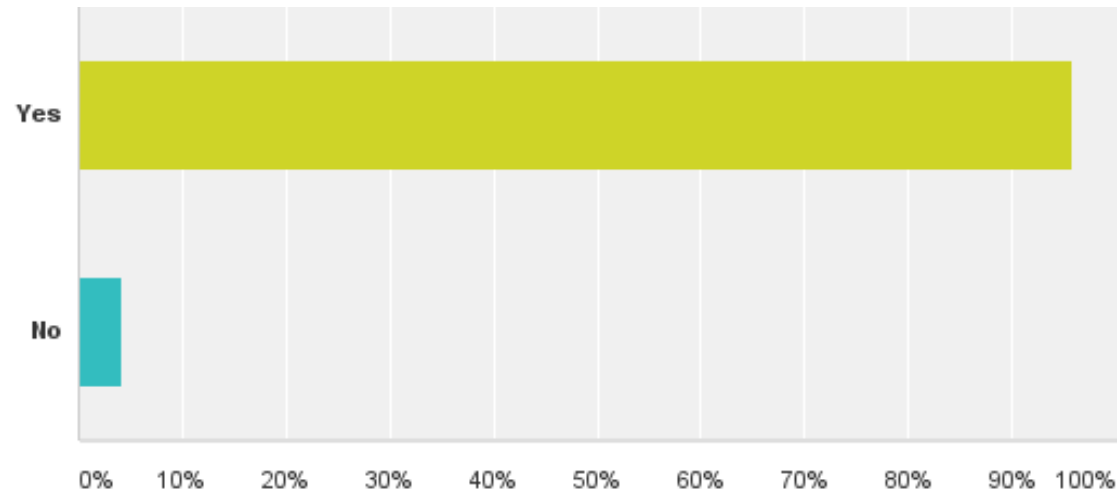


Q11: Have you previously participated in or set up an ESOP plan in a previous business?



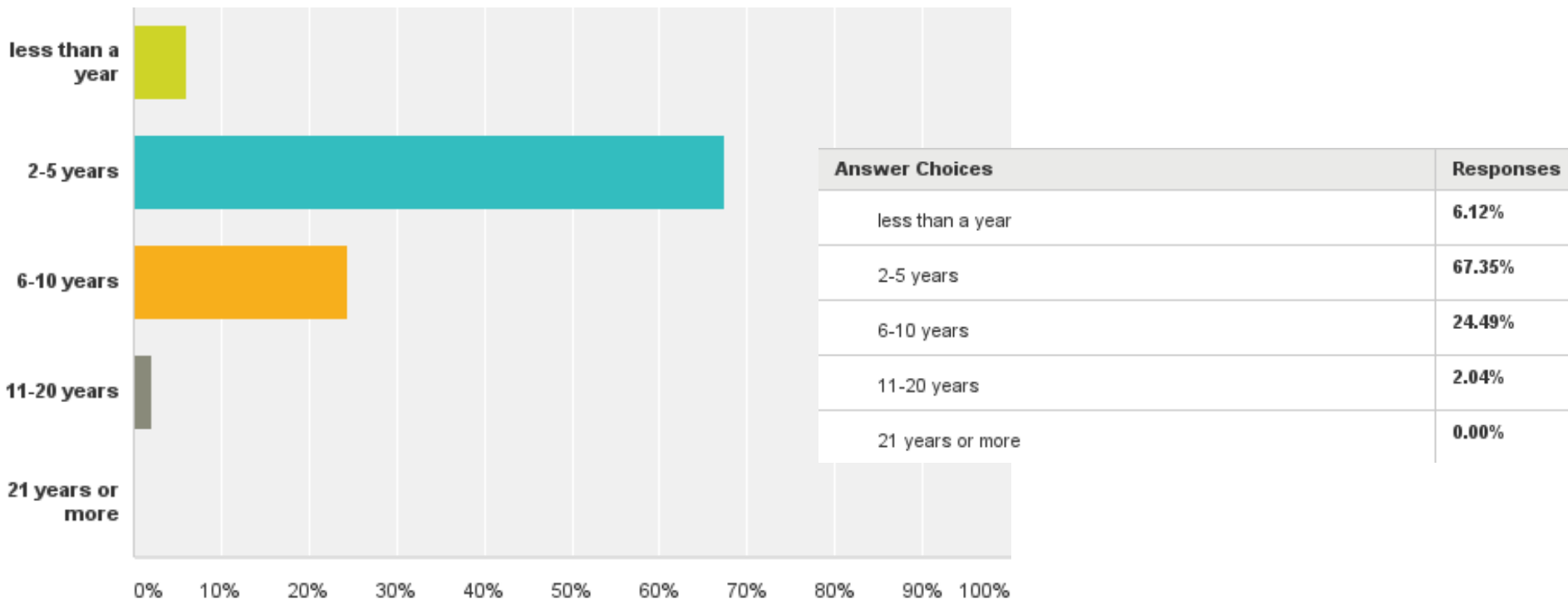
Answer Choices	Responses
Yes, as an employee	24.49%
Yes, as a business owner	10.20%
No	71.43%

Q12: In a future organisation would you implement an ESOP plan?



Answer Choices	Responses
Yes	95.92%
No	4.08%

Q13: How many years has your business been operating?



Q14: How many employees does your business employ (FTE equivalents)

