SOS Educational Webcast:
Market Trends in ESPP Design

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Materials Slides


Agenda

• Introduction of Survey Parameters
• Plan Design
• Plan Participation
• 2014 to 2016 ESPP Trends
ESPP Plan Design Basics

More than eight in ten plans are tax-qualified plans under §423. The majority of plans offer a 15% discount, a three- or six-month purchase period, and for non-Safe Harbor plans, a look-back.

Offering Type

- 423
- Nonqualified

Length of Purchase Period

- 2 weeks or less
- 1 month
- 3 months
- 6 months
- 1 year

Discount

- 0% – No match
- 0% – Match
- 5%
- 10%
- 15%

Price Type

- Ending price
- Look-back

Price Type (>5% Discount)

- Ending price
- Look-back

Fidelity/Radford 2016 ESPP Data Analysis study.
ESPP Plan Design Details

Contribution Type

- Percentage: 21%
- Dollars: 7%
- Both: 72%

Withdrawals Allowed?

- Yes: 33%
- No: 67%

Max Shares per Purchase

- Less than 1,000: 61%
- 1,000 – 1,999: 14%
- 2,000 – 5,000: 7%
- 5,001 – 10,000: 10%
- +10,000+: 5%
- No limit: 3%

Nonqualified Plans

- No match or discount: 23%
- Match: 45%
- Discount: 32%

Plan Design Details

Minimum Contribution %

- None: 73%
- 0.01% – 3%: 27%

Maximum Contribution %

- None: 8%
- 10%: 25%
- 15%: 41%
- 20% – 50%: 41%

Number of Increases Allowed

- 0: 84%
- Between 1 and 5: 9%
- Unlimited: 7%

Number of Decreases Allowed

- 0: 66%
- 1: 15%
- 2 or more: 14%
- Unlimited: 5%

Sale Restriction

- Total participation rate: None: 22%
- Some restriction: Between 1 and 5: 25%
- U.S. participation rate: 0: 18%
- O.U.S. participation rate: 1: 18%
- Unlimited: Between 1 and 5: 19%
- Unlimited: Unlimited: 11%
Plan Design—Restrictions

Sale restrictions are not a common plan feature. Transfer restrictions are more common, particularly in §423 plans.

### Sale Restriction

- None: 78%
- 3 or 6 months: 11%
- 1 year or greater: 11%

### Transfer Restriction

- No transfers allowed:
  - 3 months: 6%
  - 6 months: 6%
  - 1 year: 7%
  - 1.5 years: 15%
- 2 years: 14%
- None: 51%

Plan Design—Length and Discount

Plan design varies considerably. Plans with a 15% discount and six-month offering make up just over a third of plans, with other combinations representing smaller percentages.

- No discount or match: 27%
- 3 months; all discounts; ending price: 6%
- 3 months; 15% look-back: 16%
- 6 months; all discounts; ending price: 12%
- 6 months; 15% look-back: 39%
Plan Design—Purchases

When do purchases occur in ESPP?

- 38% Month-end
- 27% Quarter-end
- 23% Dec 31
- 15% Payroll period
- 14% Fiscal year-end
- 29% Avoid all of these

From NASPP October 2013 Quick Survey

ESPP Plan Design by Industry

Industries are well represented in the study. Technology companies offer the most benefits with ESPP.

<table>
<thead>
<tr>
<th>Industry</th>
<th>% of Companies</th>
<th>Design by Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cable &amp; Telecom</td>
<td>4%</td>
<td>No discount or match, 3 months; all discounts; ending price</td>
</tr>
<tr>
<td>Energy</td>
<td>6%</td>
<td>3 months; 15%; look-back</td>
</tr>
<tr>
<td>Finance &amp; Insurance</td>
<td>18%</td>
<td>6 months; all discounts; ending price</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>16%</td>
<td>15% look-back</td>
</tr>
<tr>
<td>Medical &amp; Bio-Tech</td>
<td>9%</td>
<td>6 months; all discounts; ending price</td>
</tr>
<tr>
<td>Professional Services</td>
<td>5%</td>
<td>6 months; 15%; look-back</td>
</tr>
<tr>
<td>Technology</td>
<td>22%</td>
<td>6 months; 15%; look-back</td>
</tr>
<tr>
<td>Travel, Entertainment &amp; Recreation</td>
<td>5%</td>
<td>6 months; 15%; look-back</td>
</tr>
<tr>
<td>Wholesale/Retail</td>
<td>15%</td>
<td>6 months; 15%; look-back</td>
</tr>
</tbody>
</table>

Due to rounding, totals may not add to 100.
Fidelity/Radford 2016 ESPP Data Analysis study.
Plan Design by Industry

Plan design varies by industry.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Purchase Price Type</th>
<th>Sale Restriction</th>
<th>Discount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cable &amp; Telecom</td>
<td>67%</td>
<td>71%</td>
<td>29%</td>
</tr>
<tr>
<td>Energy</td>
<td>36%</td>
<td>64%</td>
<td>36%</td>
</tr>
<tr>
<td>Finance &amp; Insurance</td>
<td>72%</td>
<td>28%</td>
<td>31%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>70%</td>
<td>30%</td>
<td>7%</td>
</tr>
<tr>
<td>Medical &amp; Bio-Tech</td>
<td>66%</td>
<td>44%</td>
<td>31%</td>
</tr>
<tr>
<td>Professional Services</td>
<td>56%</td>
<td>44%</td>
<td>31%</td>
</tr>
<tr>
<td>Technology</td>
<td>54%</td>
<td>46%</td>
<td>13%</td>
</tr>
<tr>
<td>Travel, Entertainment</td>
<td>63%</td>
<td>38%</td>
<td>12%</td>
</tr>
<tr>
<td>Wholesale/Retail</td>
<td>65%</td>
<td>35%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Due to rounding, totals may not add to 100%. Fidelity/Radford 2016 ESPP Data Analysis study.

PLAN PARTICIPATION
Participation by Plan Design

Plan design drives participation. Plans offering tax qualification, 15% discount, and a look-back have higher participation rates.

<table>
<thead>
<tr>
<th>Offering Type</th>
<th>Total participation rate</th>
<th>U.S. participation rate</th>
<th>Outside the U.S. (O.U.S.) participation rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fidelity/Radford 2016 ESPP Data Analysis study.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Length of Purchase Period</th>
<th>Total participation rate</th>
<th>U.S. participation rate</th>
<th>Outside the U.S. (O.U.S.) participation rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 weeks or less</td>
<td>16%</td>
<td>18%</td>
<td>6%</td>
</tr>
<tr>
<td>1 month</td>
<td>22%</td>
<td>23%</td>
<td>1%</td>
</tr>
<tr>
<td>3 months</td>
<td>21%</td>
<td>20%</td>
<td>6%</td>
</tr>
<tr>
<td>6 months</td>
<td>23%</td>
<td>22%</td>
<td>3%</td>
</tr>
<tr>
<td>1 year</td>
<td>24%</td>
<td>25%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Participation by Plan Design

Price Type and Discount

Plans with a 15% discount with a look-back have the highest participation, but discount is the largest single driver of participation.

<table>
<thead>
<tr>
<th>Price Type and Discount</th>
<th>Total participation rate</th>
<th>U.S. participation rate</th>
<th>Outside the U.S. (O.U.S.) participation rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fidelity/Radford 2016 ESPP Data Analysis study.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Nonqualified Plans

Nonqualified plans offer plan design flexibility. Discounts and matching programs can drive participation.

<table>
<thead>
<tr>
<th>Nonqualified Plans</th>
<th>Total participation rate</th>
<th>U.S. participation rate</th>
<th>Outside the U.S. (O.U.S.) participation rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fidelity/Radford 2016 ESPP Data Analysis study.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Participation and Contributions

Participation can vary dramatically by plan design type. Plans with a 15% discount have the highest participation and the highest annual contributions. U.S. participation tends to exceed participation outside the U.S.

Participation by Length and Discount

Annual Contributions by Plan Design

Participation by Industry

Participation varies by industry, with the highest participation rates in industries offering the most value in the ESPP.
Participation by Industry and Plan Design

Participation rates are tied to plan design.

Total Participation Rate by Industry

Discount and purchase price type impact participation.

Discount

Purchase Price Type

Sales Restriction
2014 TO 2016 ESPP TRENDS

ESPP Trends

In comparing 2014 to 2016, there is a slight trend to the positive, with more tax qualification, more 15% discounts, and more look-backs.

Offering Type

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount</td>
<td>20%</td>
<td>18%</td>
</tr>
<tr>
<td>Price</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Sales</td>
<td>None</td>
<td>1 year or greater</td>
</tr>
</tbody>
</table>

Price Type

<table>
<thead>
<tr>
<th></th>
<th>Ending price</th>
<th>Look-back</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>6%</td>
<td>3%</td>
</tr>
<tr>
<td>2016</td>
<td>6%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Discount

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>0% - No match</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>15% Match</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Sales Restriction

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>3 or 6 months</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>1 year or greater</td>
<td>11%</td>
<td>11%</td>
</tr>
</tbody>
</table>
ESPP Participation Trends

Consistent with expectations, as plan design improves, so does participation. Participation rates grew more profoundly than plan design improvements.

Participation Rates

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>U.S.</th>
<th>O.U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>21%</td>
<td>17%</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>23%</td>
<td>17%</td>
<td></td>
</tr>
</tbody>
</table>

Participation by Plan Design

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Total</th>
<th>U.S.</th>
<th>O.U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>No discount or match</td>
<td>12%</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>3 months or less all discounts ending price</td>
<td>18%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 months 15% look-back</td>
<td>23%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 months all discounts ending price</td>
<td>19%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 months 15% look-back</td>
<td>32%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Nonqualified ESPP Participation Trends

Nonqualified plans are trending toward match provisions rather than discount.

<table>
<thead>
<tr>
<th>Category</th>
<th>2014</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>No match or discount</td>
<td>43%</td>
<td>32%</td>
</tr>
<tr>
<td>Match</td>
<td>32%</td>
<td>45%</td>
</tr>
<tr>
<td>Discount</td>
<td>25%</td>
<td>23%</td>
</tr>
</tbody>
</table>
APPENDIX

U.S. and Outside the U.S. Participation Rates

Price Type and Discount, U.S.

<table>
<thead>
<tr>
<th>Price Type and Discount, O.U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ending price</td>
</tr>
<tr>
<td>0% – No match</td>
</tr>
<tr>
<td>0% – No match</td>
</tr>
</tbody>
</table>

Fidelity/Radford 2016 ESPP Data Analysis study.
ESPP Value

Average Value Delivered for Plans with Look-back

- Average value delivered – 15% discount
- Russell 2000 Index
- S&P 500
- 15% discount trendline

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