

Hold, Flip, Split

The Acrobats of Employee Ownership Using Data and Analytics to Tell the Story

Emily Cervino, CEP
Fidelity Stock Plan Services



2016 Employee Share Ownership Study

Restricted Stock



Analysis of Employee Share Ownership Behavior

Fidelity clients grant more than \$25B in equity to employees each year – a significant portion of which is granted as RSA, RSU, or PSU awards. With an understanding of employee behavior, clients can better evaluate if the objectives of their equity program are being met.

Study's Purpose

- This study helps clients understand employee behavior across multiple dimensions, after long-share based awards are distributed

Covered in the Study

- Data was analyzed from more than 350K employees at 246 Fidelity clients that received shares (after tax) distributed in 2014
- Employee behavior was measured as of YE 2015

Basic Definitions

- Holder = Employees that held onto all their shares that were distributed in 2014*
- Partial = Employees that held a portion of their shares distributed in 2014, and sold a portion of shares*
- Seller = Employees that sold all the shares distributed in 2014*

* All shares distributed *after tax* in 2014

Analysis Population: Key Facts and Figures

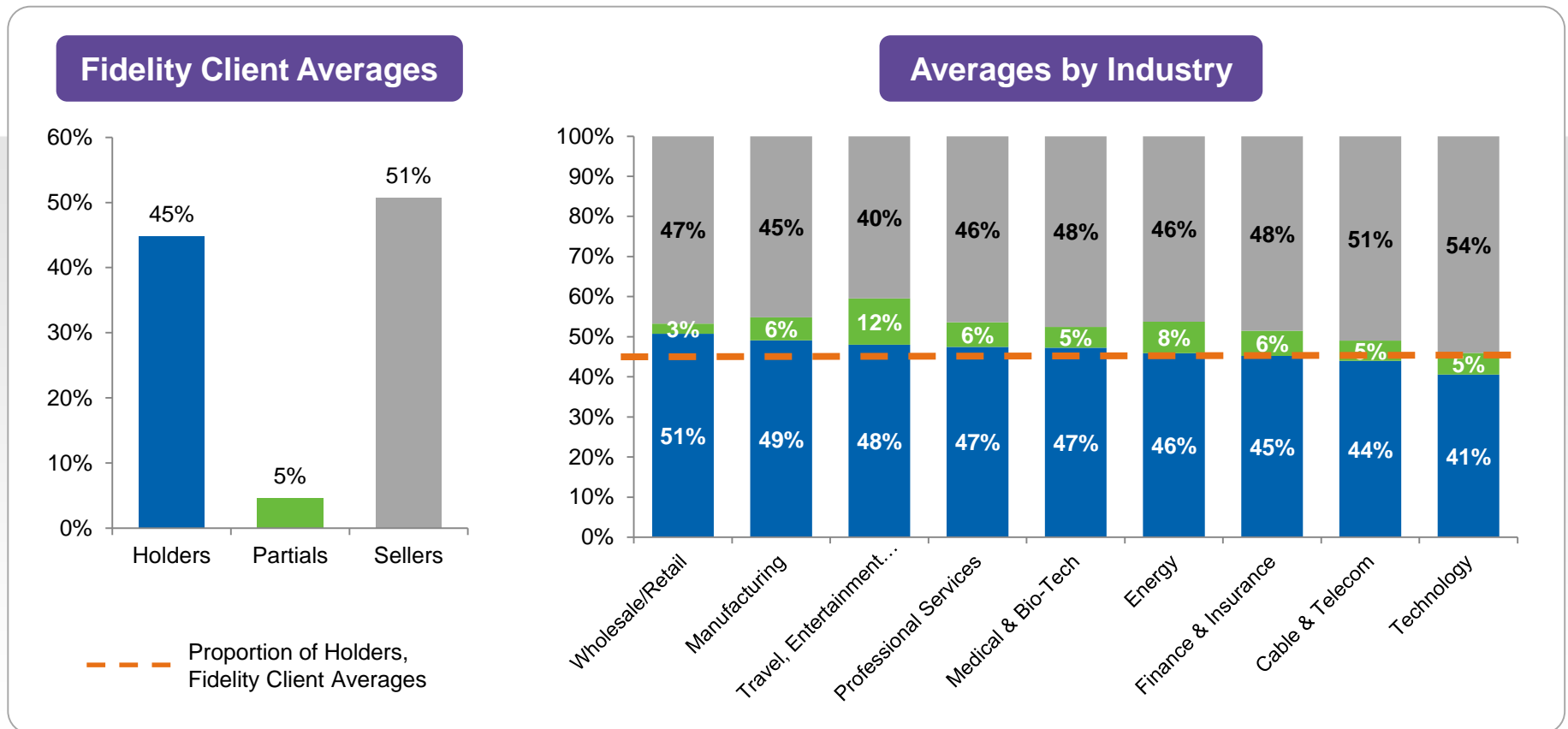
Analysis Population	
Employees	350K
Shares	157M
Value of Shares	\$7.2B

- Analysis includes employees who sold/held all shares within a Fidelity account
- Employees from companies with a corporate event – stock split, spin-off, or merger are excluded
- Distributed shares are shares (net of taxes) deposited into a Fidelity account
- Distributed value is the value of the distributed shares on the day the distribution was made

Note: Analysis is focused on employees who received shares distributed in 2014 and the shareholding data is as of 12/31/2015. Employees who transferred some/all shares to accounts outside Fidelity are excluded from the analysis.

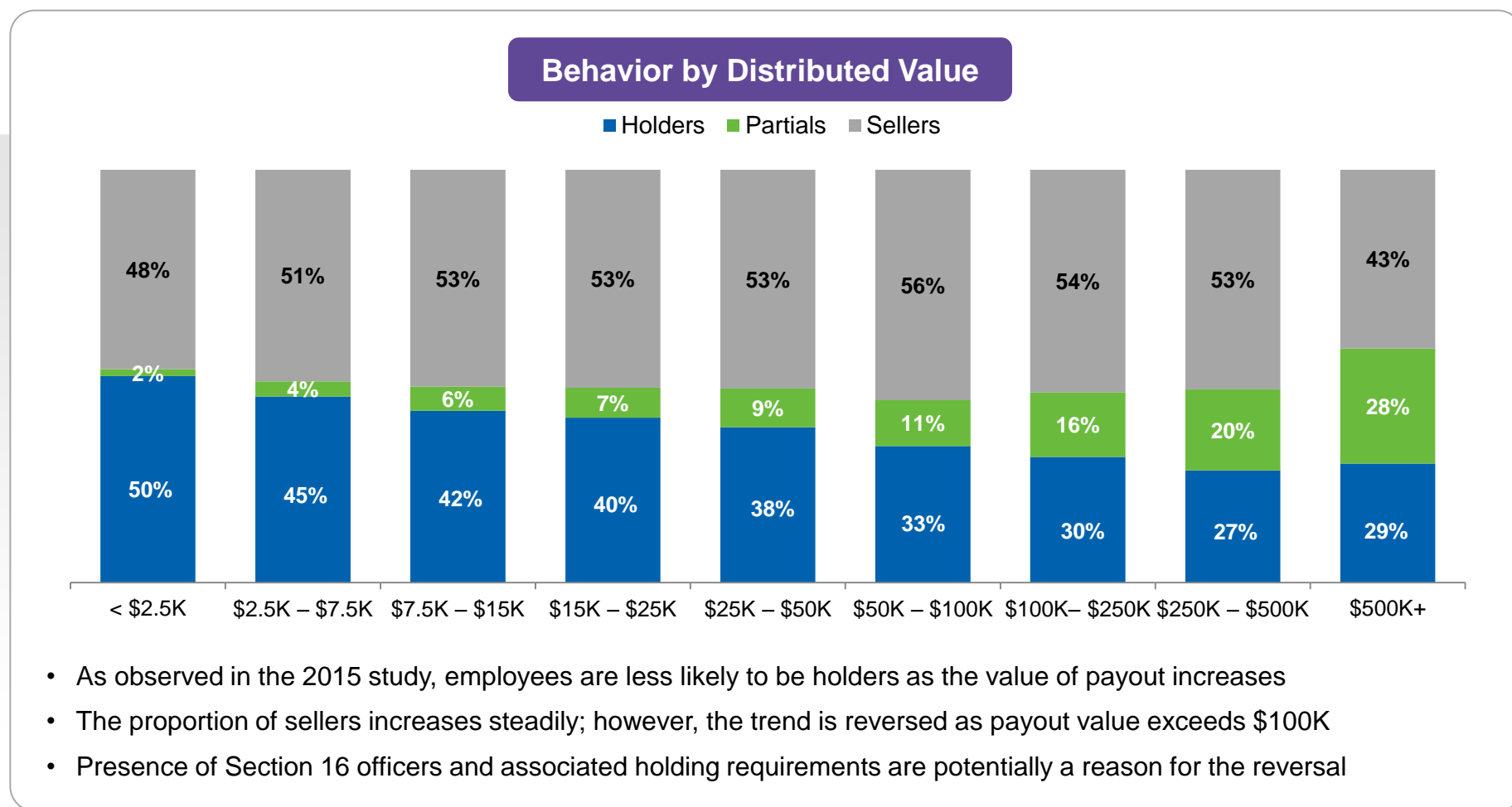
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Half of the Employees Are Holding Some or All Their Shares



Note: All shares distributed *after tax* in 2014.

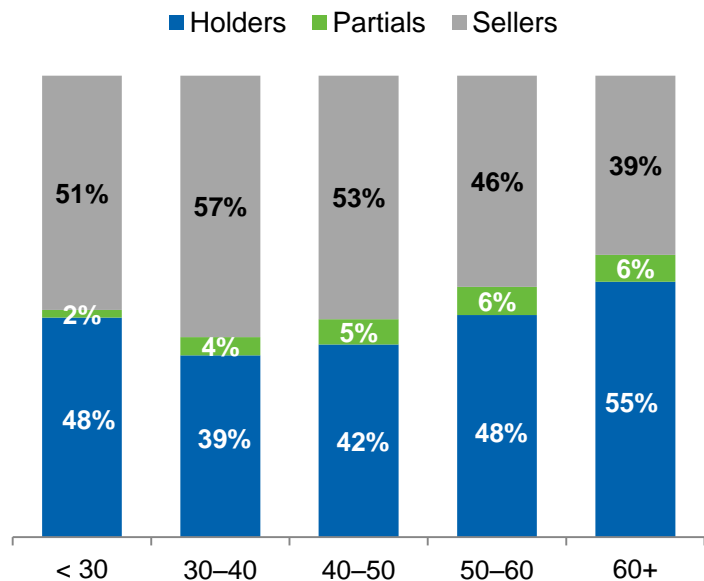
Employees Are Less Likely to Hold All Their Shares as Value of Payout Increases



Note: Value based on the fair market value of the security on the day of distribution.
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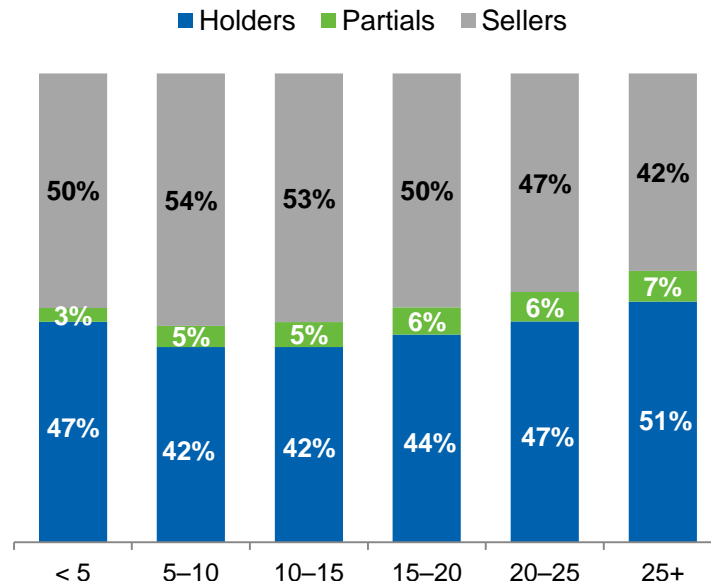
Holding Behavior Is Influenced by Age; Tenure in Company Does Not Appear to Influence Holding Behavior

Behavior by Age



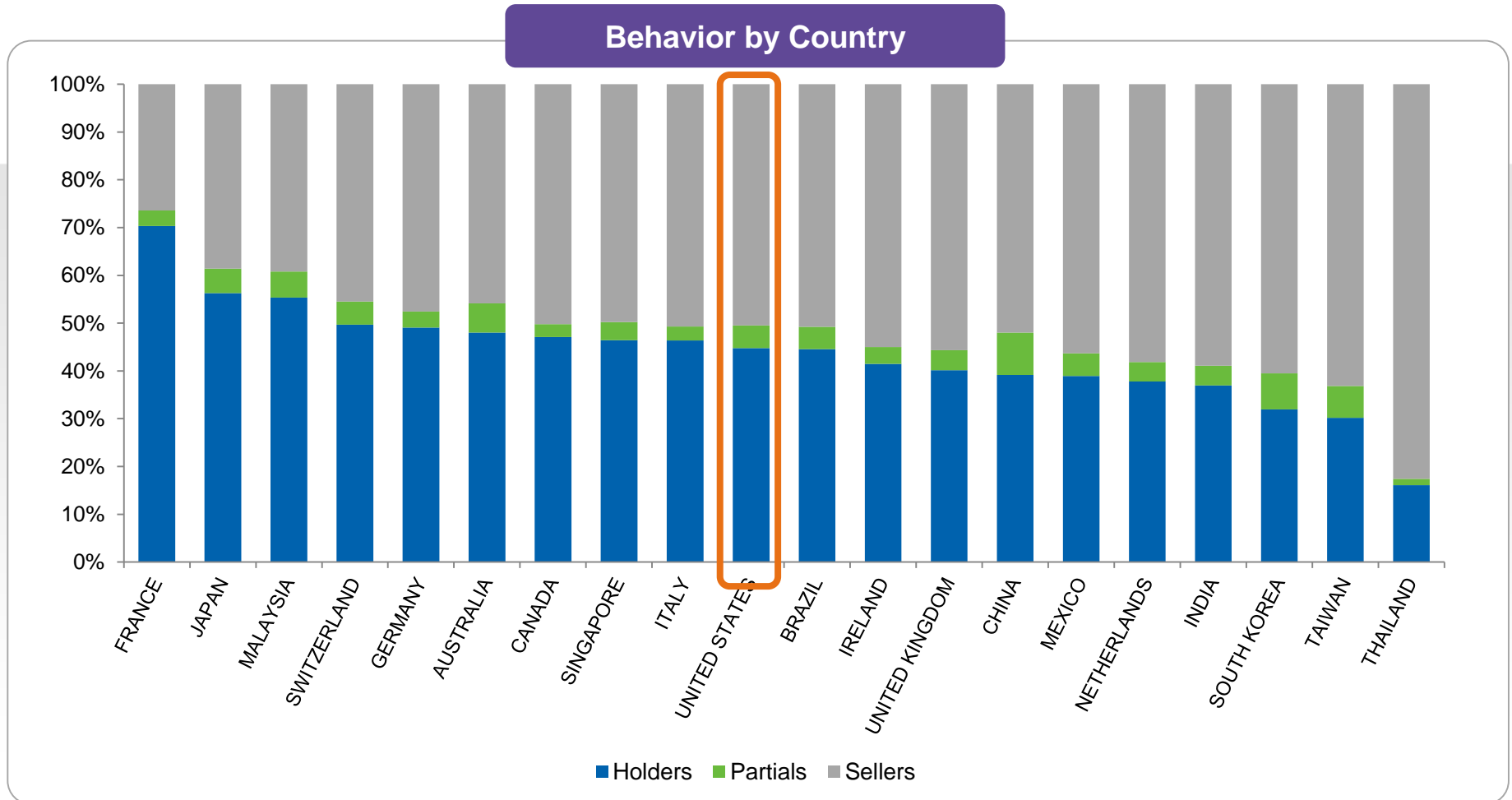
- Young employees (<30) and older employees (60+) are more likely to hold
- Employees between 30 and 50 are more likely to be sellers, potentially dictated by life stage needs

Behavior by Tenure



- Low tenure employees (<5 years) are more likely to be holders as a high proportion of employees are <30 years
- Employees with tenure ranging from 5 to 20 years demonstrate similar holding behavior

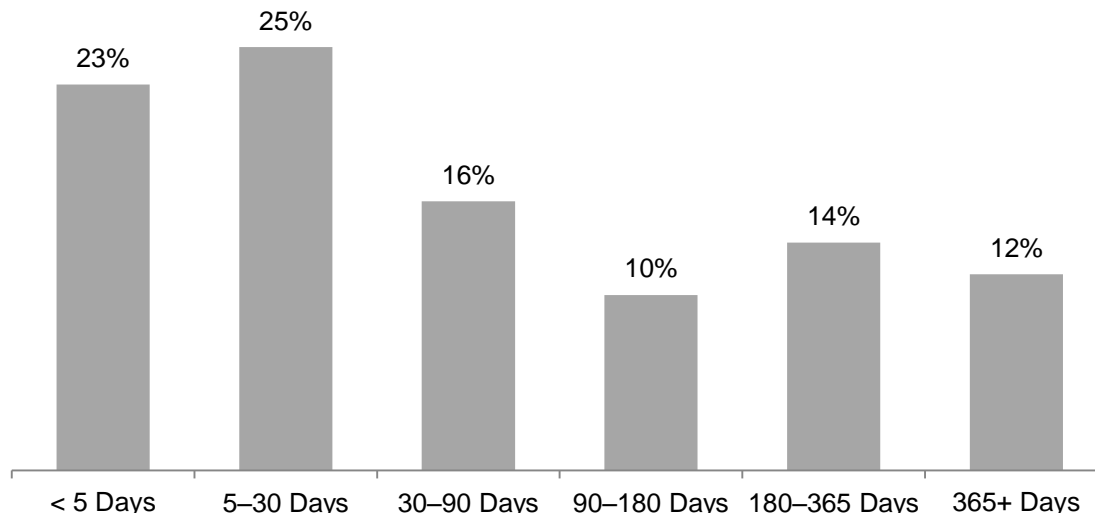
Holding Behavior Influenced by Country



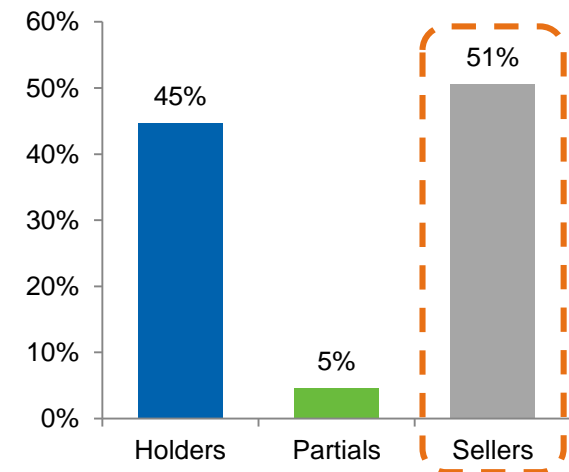
Note: Data reported for Top 20 countries based on employee counts.

Almost 2/3rd of Sellers Liquidate Holdings within 90 Days of Payout

Sellers: Average Holding Period



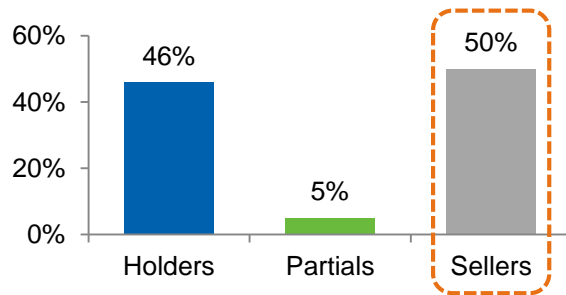
Fidelity Client Averages



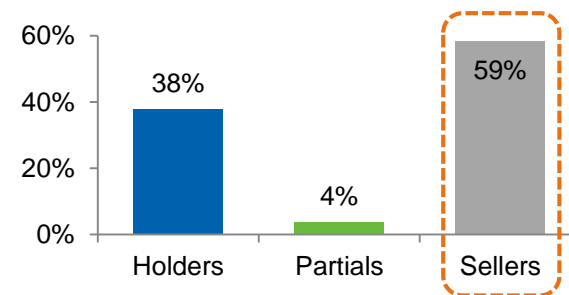
- 1 in 4 sellers liquidate all their shares almost immediately after distribution
- 64% sell all their shares within 90 days, and about 90% sell all their shares by the end of the first year
- Employees selling within 90 days could be selling to supplement income or meet life-stage needs – price insensitive

2.5 Years After Distribution, 25% of Sellers Hold Shares for More Than a Year Before Selling

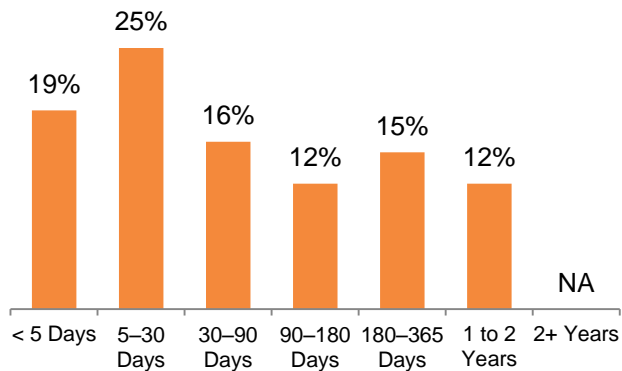
2013 Distributions as of YE 2014
Fidelity Client Averages



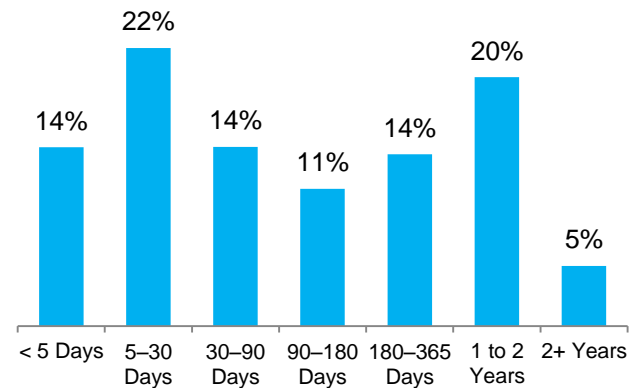
2013 Distributions as of YE 2015
Fidelity Client Averages



Sellers: Average Holding Period



Sellers: Average Holding Period



Employee Behavior Remains Consistent Over Time

Holding Behavior: Participants Receiving Distribution in 2013 and 2014

		2014 Distributions, as of YE 2015		
		Holder	Partial	Seller
2013 Distributions, as of YE 2014	Holder	83%	3%	15%
	Partial	45%	26%	29%
	Seller	9%	6%	85%

- Analysis compares holding behavior of participants across their 2013 and 2014 distributions, 18 months after distribution
- 83% of participants that were holders for the shares distributed in 2013 remained holders for the shares distributed in 2014
- 85% of participants that sold all their shares from their 2013 distribution also sold all their shares from their 2014 distribution
- Consistency in participant behavior provides an opportunity to use communication/messaging to influence behavior

Note: All shares distributed *after tax* in 2013 and 2014.

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Employee Share Ownership Behavior

Stock Purchase Plans (ESPP)



Analysis of Employee Share Ownership Behavior

Analysis Framework

Study's purpose

- Help clients understand employee behavior specific to ESPP
- Analyze employee behavior across multiple dimensions and plan design attributes

Study's value

- ESPPs are one of the most common ways to introduce broad-based equity ownership with employees
- By understanding employee behavior and the relationship between plan design and behavior, clients can evaluate if the objectives of the program are being met

Study's source

- Data from more than 365,000 employees at 119 Fidelity clients that completed ESPP share purchases in 2013
- Employee behavior measured as of June 2016

Basic definitions

- Holder = Employees that held onto all shares purchased in 2013
- Partial = Employees that held a portion of shares purchased in 2013, and sold a portion of shares
- Seller = Employees that sold all shares purchased in 2013

Overall Behavior

Fidelity Client Averages

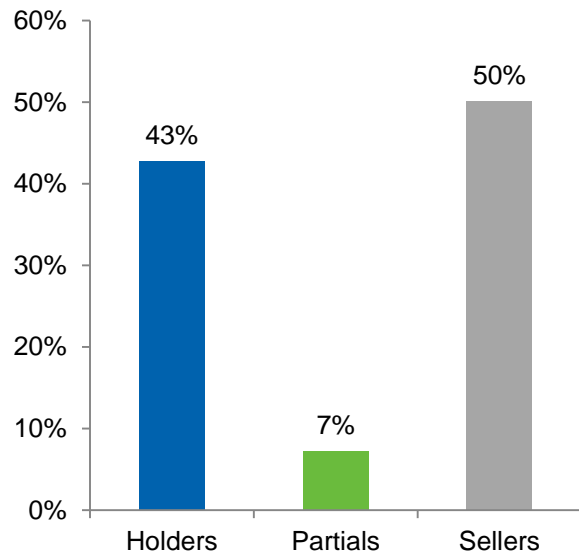


Chart illustrates behavior across Fidelity clients

- Analysis population includes more than 365,000 employees from 119 Fidelity clients
- Analysis covers 98% of employees that had purchases in 2013 and excludes those that moved shares outside their Fidelity Account® or Stock Plan Account
- Employee behavior analyzed as of June 2016
- Roughly 3 years after purchase:
 - 43% held all of their shares (holders)
 - 7% were still holding a portion of the shares (partials)
 - 50% had sold all of their shares (sellers)

Behavior by Plan Discount

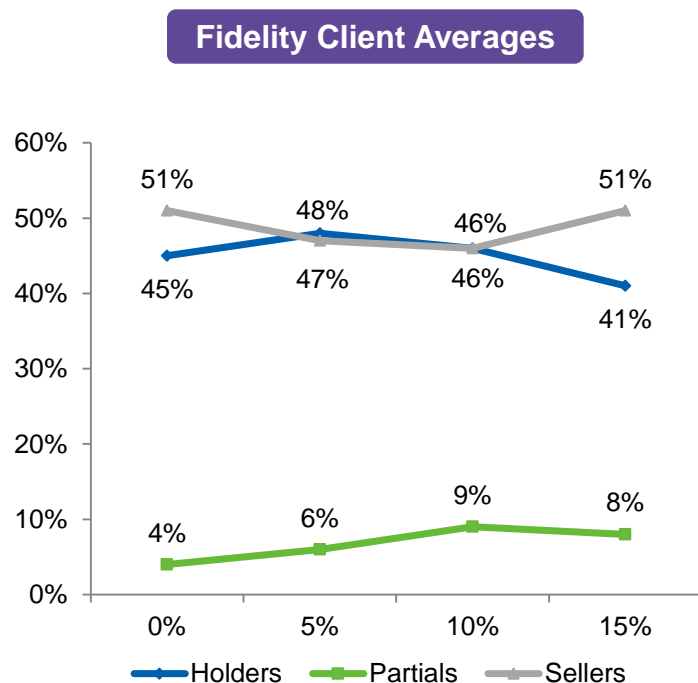


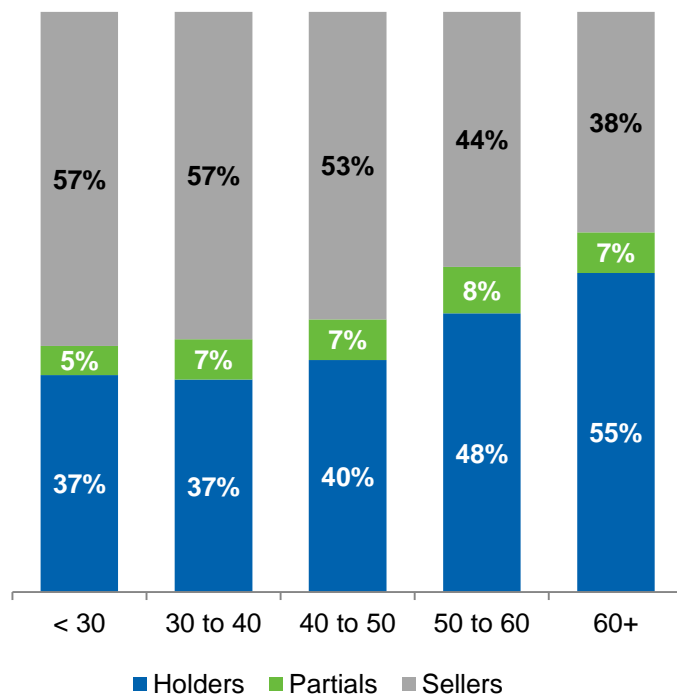
Chart illustrates the difference in behavior among employees in plans with different discount rates*

- Employee behavior across Fidelity clients:
 - Proportion of sellers is the highest among plans with no discount and plans with a higher discount of 15%
 - The proportion of holders is highest when the discount is 5%
 - The holder population declines as the discount goes up to 15%; however, 15% discount plans have significantly higher participation rates
 - Proportion of partials increases slightly as the discount increases, highlighting that more employees are selling at a higher discount

* Plan characteristics as of 2013

Behavior by Age

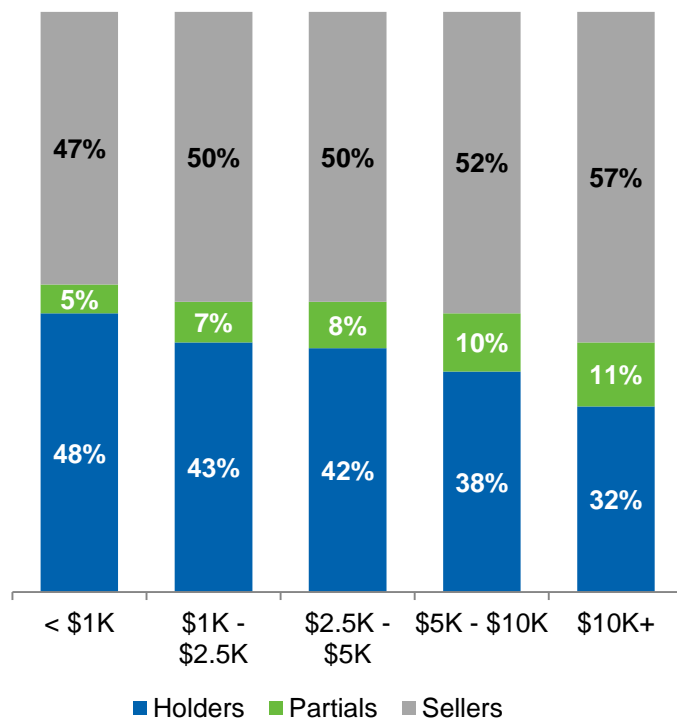
Fidelity Client Averages



- Employee behavior across Fidelity clients:
 - Distribution by age shows a direct relationship between age and the propensity to hold shares
 - Employees are more likely to be holders as age increases, with the highest proportion of holders in the 60+ age segment
 - The proportion of partials is fairly consistent across different age groups, implying that employees across age groups are more likely to either sell all their shares or hold all their shares

Behavior by Contribution Value

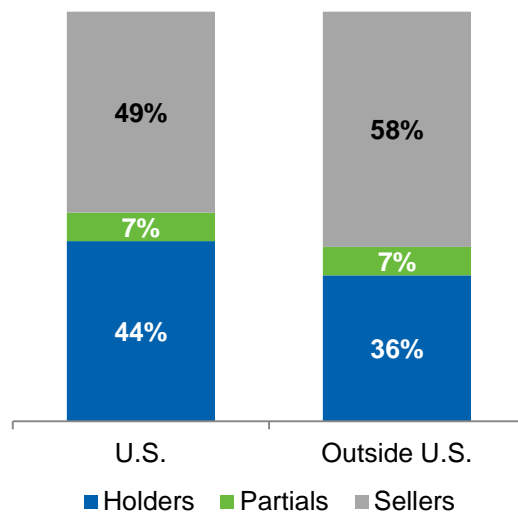
Fidelity Client Averages



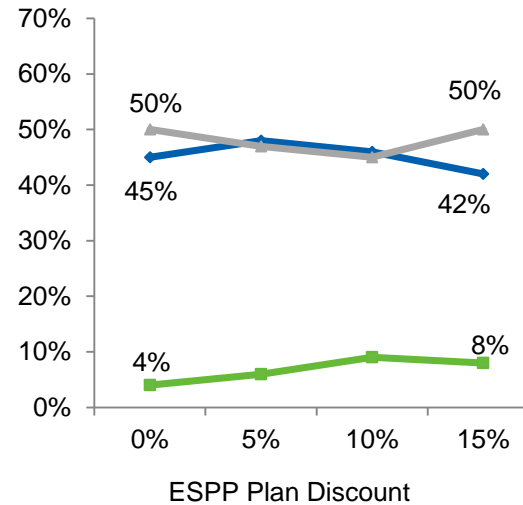
- Employee behavior across Fidelity clients:
 - Contribution value is the aggregate annual value of contributions made to purchase shares (in 2013); this does not include the value associated with discount, lookback, or company match
 - Employees with lower contribution amounts are more likely to be holders
 - Proportion of holders declines steadily as the contribution value increases
 - Proportion of partials increases with contribution value; this implies that employees investing more in ESPPs are more likely to sell a portion of their shares

Behavior by Location and Discount

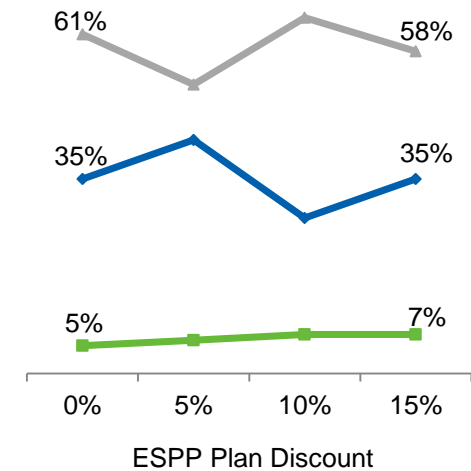
Fidelity Client Averages



U.S.



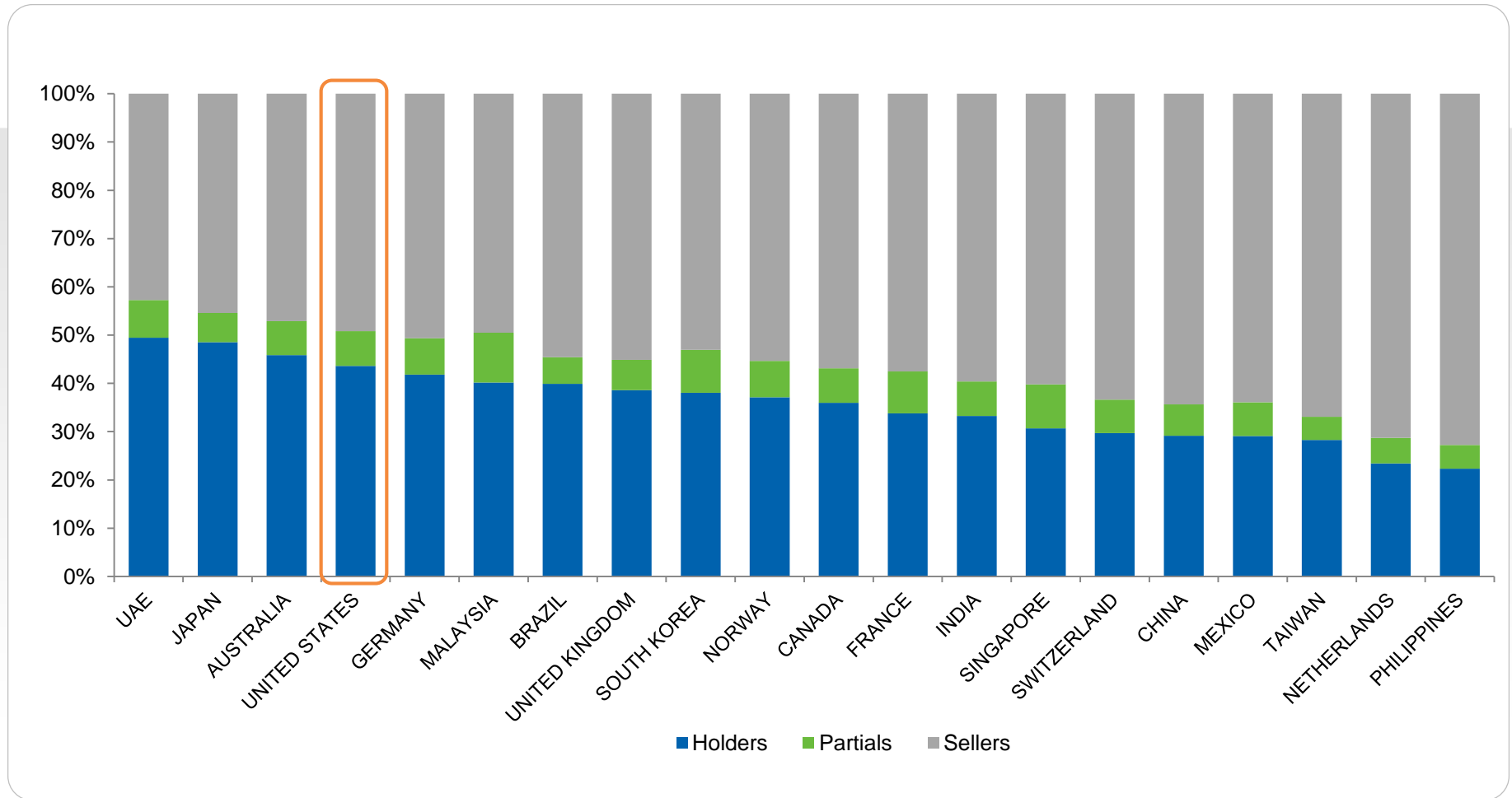
Outside U.S.



- Employee behavior across Fidelity clients:
 - U.S. employees with purchases account for a little under 90% of the analysis population
 - Outside U.S. employees are more likely to be sellers compared to their U.S. counterparts
 - Outside U.S. employees also demonstrate a higher propensity to sell at higher discount rates

Behavior by Country

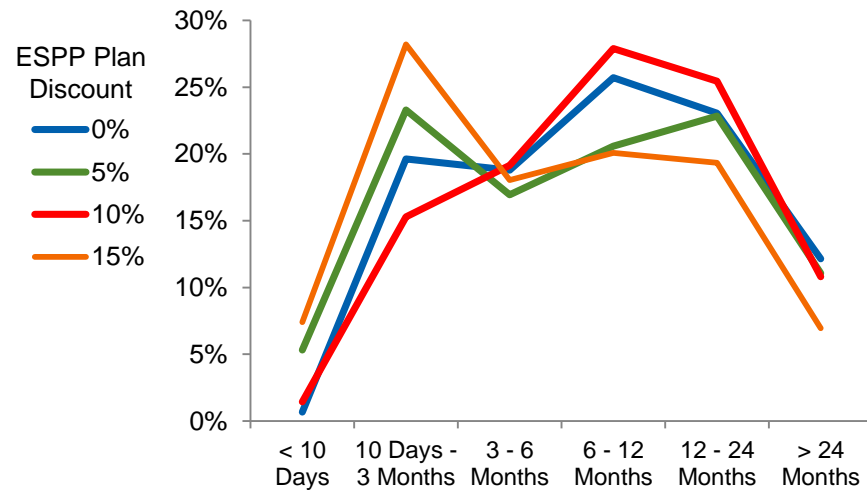
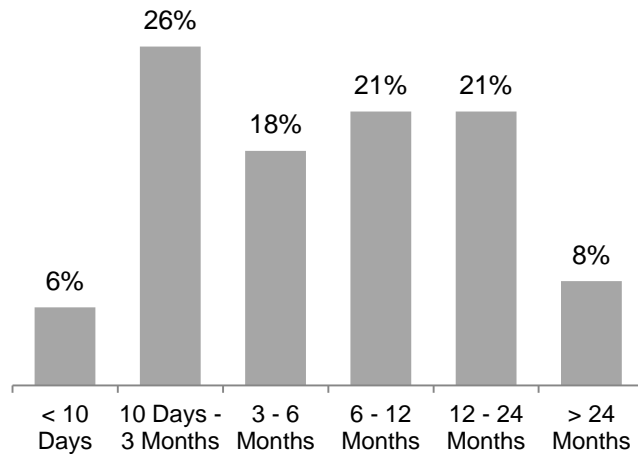
Fidelity client averages



Note: Data reported for only select countries. Countries shown here meet minimum client count and employee count thresholds FOR PLAN SPONSOR USE ONLY. NOT FOR PLAN PARTICIPANT DISTRIBUTION.

Behavior by Holding Length

Fidelity Client Averages: Sellers Only



- Employee behavior across Fidelity clients:
 - Sellers account for 50% of the total population
 - Only about 6% of the sellers liquidate their shares 'immediately' after purchase (inside 10 days)
 - In the first 90 days after purchase, about a third of sellers liquidate all their shares, and in the first year about 70% of sellers liquidate all their shares

- Employee behavior across Fidelity clients:
 - The chart illustrates the distribution of sellers based on holding length for the different levels of discount
 - Sellers in plans offering a 15% discount are more likely to sell sooner – almost 35% sell all their shares within 90 days

Impact of Plan Design on Holding Behavior and Participation Rate

ESPP Type	Purchase Frequency	Discount	Price Type	Holders	Participation Rate
Qualified	Monthly	5%	End Price	49%	15%
Qualified	Quarterly	5%	End Price	48%	8%
Qualified	Semi-Annual	5%	End Price	45%	16%
Qualified	Semi-Annual	15%	Lookback	43%	24%
Qualified	Quarterly	15%	End Price	42%	27%
Qualified	Semi-Annual	15%	End Price	40%	29%
Qualified	Quarterly	15%	Lookback	32%	28%

- Qualified plans with 5% discount have a higher proportion of holders compared to plans with a 15% discount
- Participation rates at plans with a 15% discount are almost twice that of plans with a 5% discount
- Despite the lower proportion of holders, higher participation rates at plans with 15% discount translates to more employee shareholders

Contact Info

Emily Cervino

emily.cervino@fmr.com

www.linkedin.com/in/fidelityemilycervino

408.656.2666

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