State of ESOPs in Southeast Asia

A region-first report on the intersection of startup equity and human capital

2021 Findings

Foreword

Why ESOPs, Why Now?

2021 has heralded a new era for startup talent in Southeast Asia, with record levels of venture capital funding and unicorn creation. For many, joining an existing or future unicorn is no longer a far-fetched dream, but a likely reality.

People who share the risks of building a successful company should also share the rewards. Powering Southeast Asia's unicorn acceleration is an increase in conversations around stock compensation for talent.

Catalysed by greater competition for talent and visible upside for exits (trade sales, IPOs and SPACs), founders in Southeast Asia can no longer ignore stock compensation.

Saison Capital, alongside Svested, have collaborated on a first-in-the-region landscape study in Southeast Asia, engaging with founders to understand the current state of employee stock option plans (ESOPs). We believe that more conversations will lead to greater awareness, greater awareness will lead to better practices, and better practices will create a win-win situation for both employers and talent.

Companies that introduce, structure and continuously refine employee stock options will win the war for talent. But there's a little more to ESOPs than that.

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About Saison Capital

Saison Capital is an early-stage venture capital fund (pre-seed to Series B) with a focus on emerging markets.

We back ambitious founders solving big problems, focused on embedded finance - non-fintech companies expanding into fintech.

Each individual in our team comes from an operating background, and we are unafraid to roll up our sleeves to support our founders.

We are backed by Credit Saison, a Tokyo-listed 30b AUM consumer finance company with extensive financial services across Asia.

Find out more at www.saisoncapital.com

About Svested

Svested is a trusted partner to founders. We support them by digitalising and handling their administrative matters so they can pursue their purpose, grow their profits, and attract and retain good people.

As one of Southeast Asia's leading ESOP specialists, we advise founders in the planning and setting up of their startup equity strategy. We enable founders and employees to manage their ESOPs easily through a user-friendly digital platform.

We are also an ACRA-certified Filing Agent and provide a comprehensive end-to-end service that takes care of all administrative and compliance matters, from incorporation to exit.

Find out more at www.svested.com

Executive Summary

This initial report offers a strong starting point to survey the state of employee stock option plans (ESOPs) in Southeast Asia. **We have learned that founders are implementing ESOPs for the right reasons, but they need to take a longer-term view to maximise their utility.** For example, ESOPs need to grow in size, along with the company. Currently, most startups assign 10% or less for ESOPs at seed stage, but this remains across subsequent rounds of fundraising.

There's more good news - **most startups offer stock options to team members who sit outside senior management.** This is worth celebrating and should be further encouraged. Also, we learnt **the critical role investors and employees alike play to encourage founders to start ESOPs**.

However, there needs to be greater awareness and understanding of ESOPs, especially around buy backs and top ups. Reducing these frictions would encourage more startups to set up ESOPs.

We hope that by capturing the current landscape, founders and employees can approach ESOPs with a better understanding of how they are being used, and how they could serve a greater purpose in talent attraction and retention strategies.

Why does this matter?

There are a few surprising insights that we think demand attention:

ESOPs can be prohibitively expensive for employees, as many companies set **strike price at the same level as their valuation at the last round of fundraising**, and give departing employees **less than 6 months to exercise options**.

A shocking number of companies **dissolve all options (including vested) upon employee departure**. This acts as golden handcuffs, keeping employees trapped by their options.

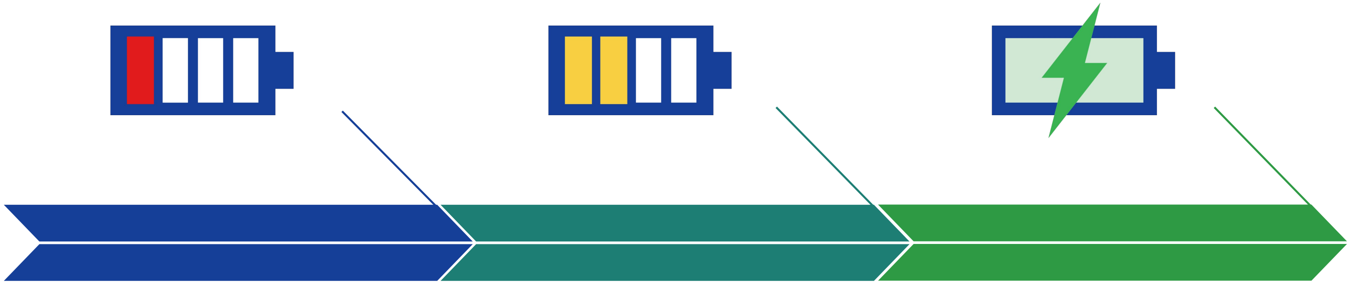
Only half of companies offer accelerated vesting to employees in liquidity events. This means that in the event of an exit, the **other 50% of startups' employees will not be able to reap the benefits of their unvested options.**

It's not all bad news though: **leaders at startups are keen to explain ESOPs to employees, primarily before they even accept job offers.** However, the efficacy of this depends on how familiar founders and senior executives are themselves in understanding ESOPs, which, we discovered, is not necessarily the case.

We hope this report serves to inform and educate you - and if you're still struggling to wrap your head around ESOPs, fear not. We have our handy cheat sheet summarising the key takeaways at slide 38.

Note on Findings

Of the 20 observations from this study, we identified an equal number of opportunities for improvement and positive practices to keep up.



Opportunities for improvement

9

OBSERVATIONS

For example (page 19):
1 in 5 startups dissolve all options (vested or otherwise) when an employee leaves.

Neutral

2

OBSERVATIONS

For example (page 15):
Most companies follow the 1 year cliff and 4 year vesting period.

Positive practices to keep up

9

OBSERVATIONS

For example (page 22):
More than 9 out of 10 leaders make the effort to explain ESOPs to their prospective hires.

Table of contents

What founders understand about ESOPs

Chapter 1

Founders implement ESOPs for the right reasons: culture and retention

Reasons founders implement ESOP:

87%
To retain talent

86%
To build culture and create a sense of ownership

79%
To attract talent

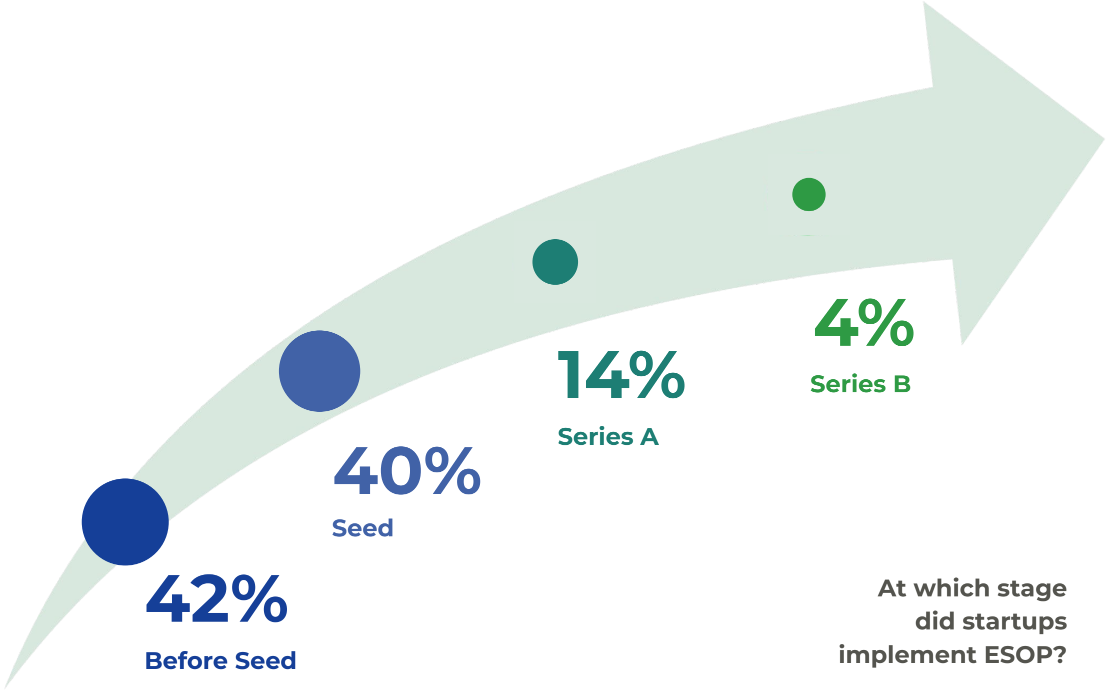
33%
To save cost to increase liquidity

Founders are more likely to implement ESOPs to retain and attract talent, or to build a good workplace culture with a sense of ownership.

Only a minority of founders view ESOPs as a cost-saving device to reduce overheads spent on salary and other benefits. While ESOPs can reduce the initial cash spent on compensation, it is by no means “cheap” - especially considering how it dilutes stock pools for future fundraising.

Most founders that offer ESOPs to employees implemented them at an early stage.

- ESOPs help to align incentives between investors, founders and employees. The earlier this happens, the more likely it will generate value for all parties involved.
- Early-stage companies often struggle to compete in the war for talent with more established, well-funded peers.
- Offering ESOPs enhances the employer's value proposition, where early employees can reap significant financial upside when the company succeeds.

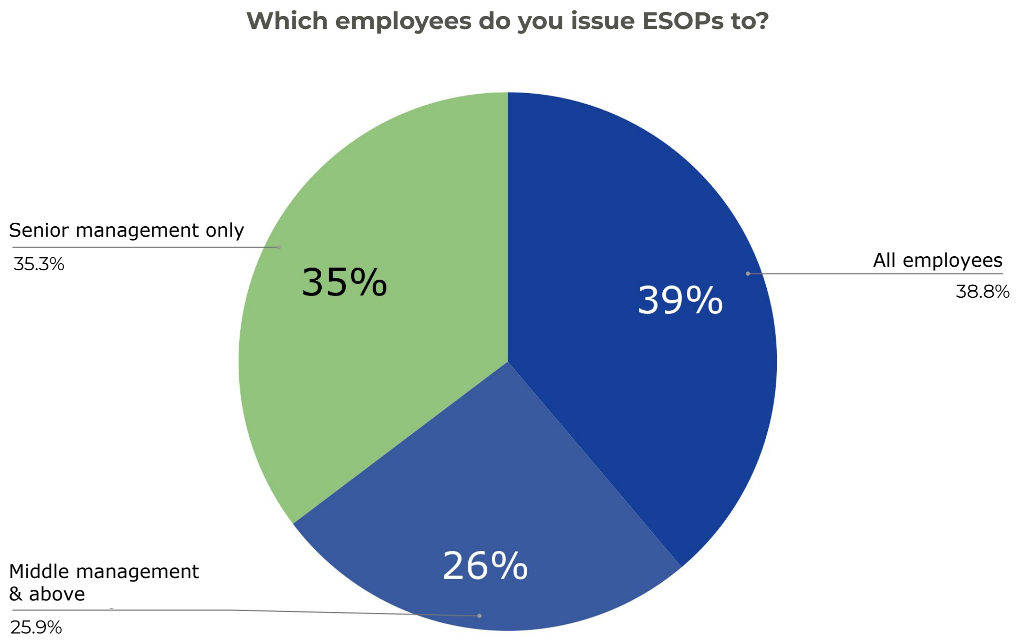


At which stage did startups implement ESOP?

ESOPs for everyone: 2 out of 3 companies offer stock options to employees outside the senior management team

- The majority of Southeast Asian startups offer ESOPs to employees outside of the senior management team. Nearly 2 in 5 offer ESOPs to all employees, regardless of rank.

- This approach aligns incentives and motivations across the organisation and nourishes a culture of ownership.



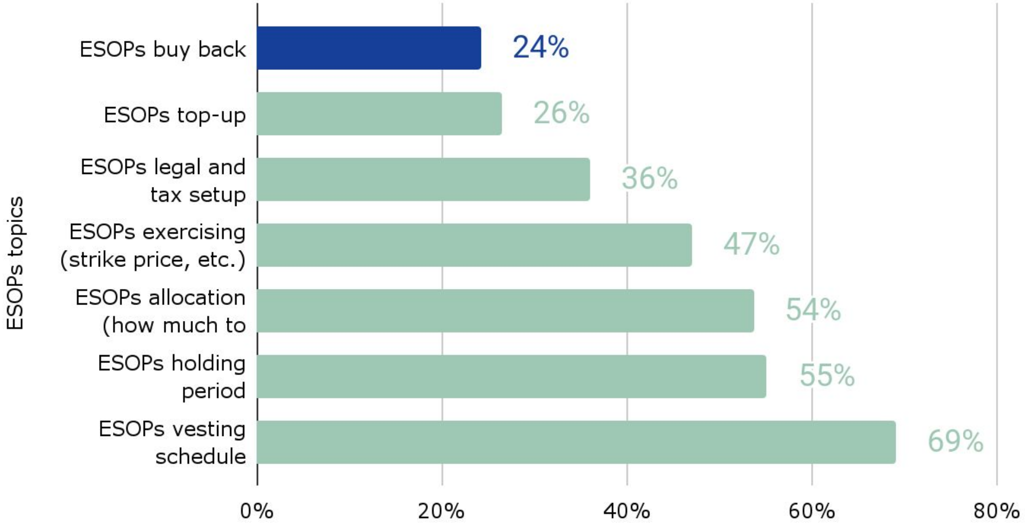
However, there is a lack of understanding of how to use ESOPs beyond the basics.

While most founders understand ESOPs’ vesting schedules, the majority do not understand **how to translate ESOPs into cash** (through buybacks).

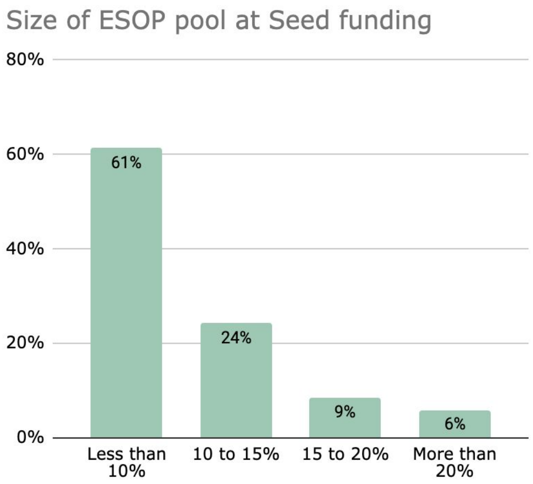
This means **challenges exist for founders and employees to fully realise the value of their ESOPs** and limits the realisation of potential upside.

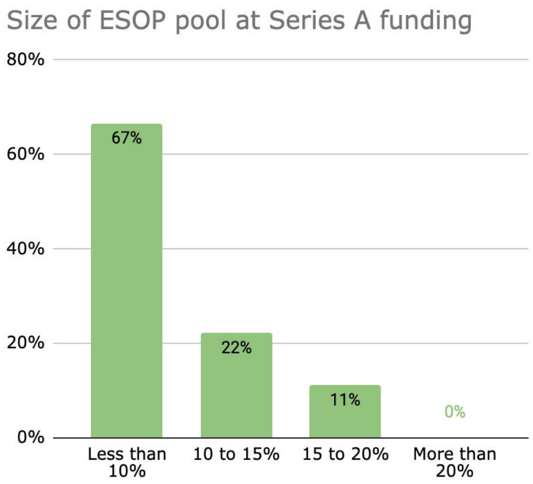
It is also concerning that founders **do not understand ESOPs top-up:** growing the pool of stocks that can be allocated to ESOPs. This explains why ESOPs do not grow across subsequent rounds of funding (more on next page).

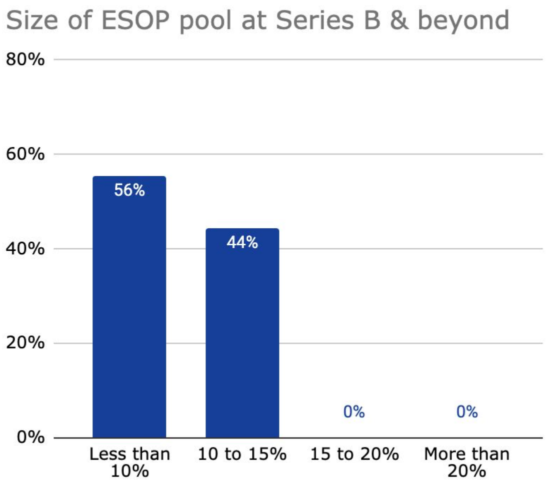
Founders who say they understand the following ESOPs topics:



Unfamiliarity of ESOPs top-up results in relatively stagnant ESOP pools even at later stages







- At Seed stage, 2 out of 3 companies have ESOPs of 10% or less.
- While the number of employees grow at Series A and beyond, ESOPs are not growing accordingly.
- This could impact talent attraction if there are not enough ESOPs to offer a competitive compensation plan.

2 out of 3 Southeast Asian founders could be more familiar with the risks associated with ESOPs.

Any financial instrument or share-related matter carries risk, so it is alarming to see how many founders have limited awareness of the risks associated with ESOPs.

29%
I do not understand well

37%
I have a rough idea

27%
I understand well

7%
I understand very well

Potential risks include:

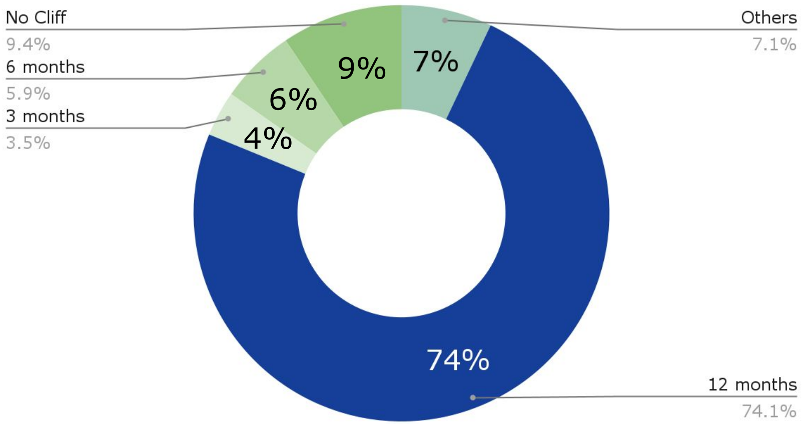
- Over- or under-capitalising ESOPs, which can impact talent attraction and retention.
- Legal implications of stock ownership can differ by the country that the company or employees are based.
- Tax implications on the company and employees, especially during exercise, buyback or liquidation.

How founders structure ESOPs

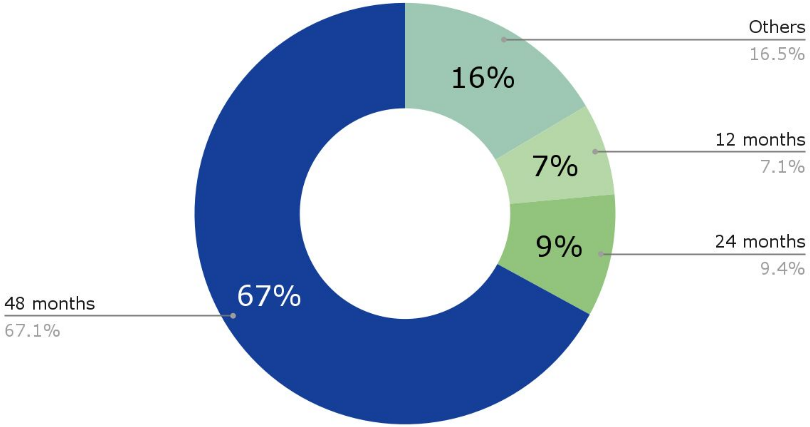
Chapter 2

Most companies follow the **standard ESOP structure.**

What is the cliff period?



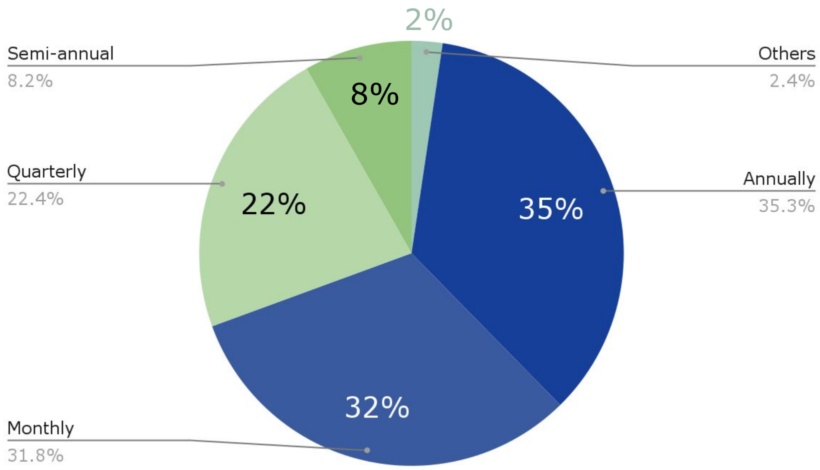
What is the vesting period (including cliff)?



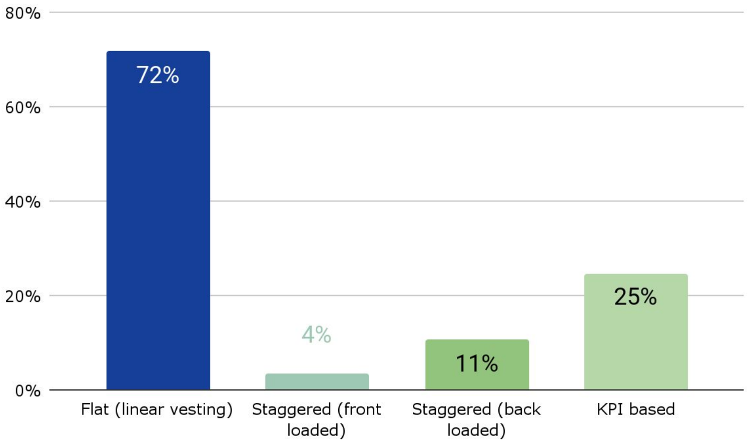
That is, a 4-year vesting period with a 1-year cliff. This aligns with the global industry standard in tech.

Annual and monthly vesting are equally popular among startups; most adopt linear vesting structures.

What is the vesting cycle after cliff period?



What is the vesting structure?[1]



Monthly vesting is recommended, as it reduces the risk of mass attrition at the end of the financial year - when stock options typically vest, in the case of annual vesting - which may strain a startup's human capital strategy. Furthermore, monthly vesting allows employees to be fairly compensated for their effort - one who works 11 calendar months of the year before leaving should be entitled to a prorated reward.

Linear vesting structures are also simpler to communicate and administer, compared to other forms. It creates predictability for both founders and employees, as well as administrators such as accountants and auditors.

[1] Founders were allowed to select more than one option, hence responses do not add up to 100%

Only 1 in 3 founders offer a low or negligible strike price, making ESOPs more valuable to startups than their employees.

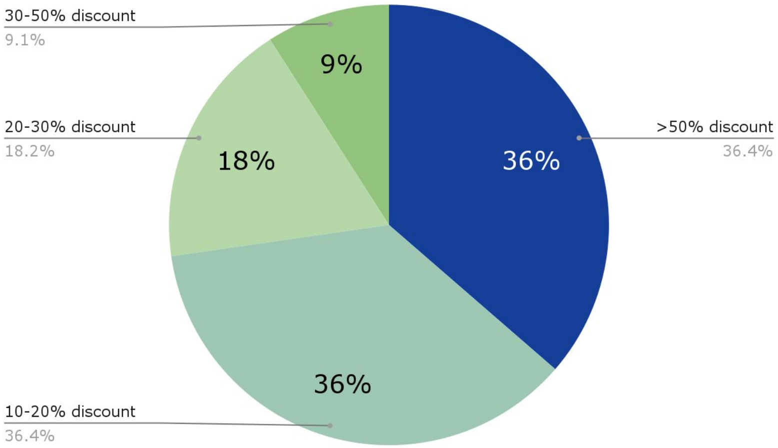
How do you set the strike price?

36% Low or negligible strike price

45% Based on the price per share for the latest fundraising round

19% A discount off the price per share for the latest fundraising round

Discount % for those who set a discounted strike price.

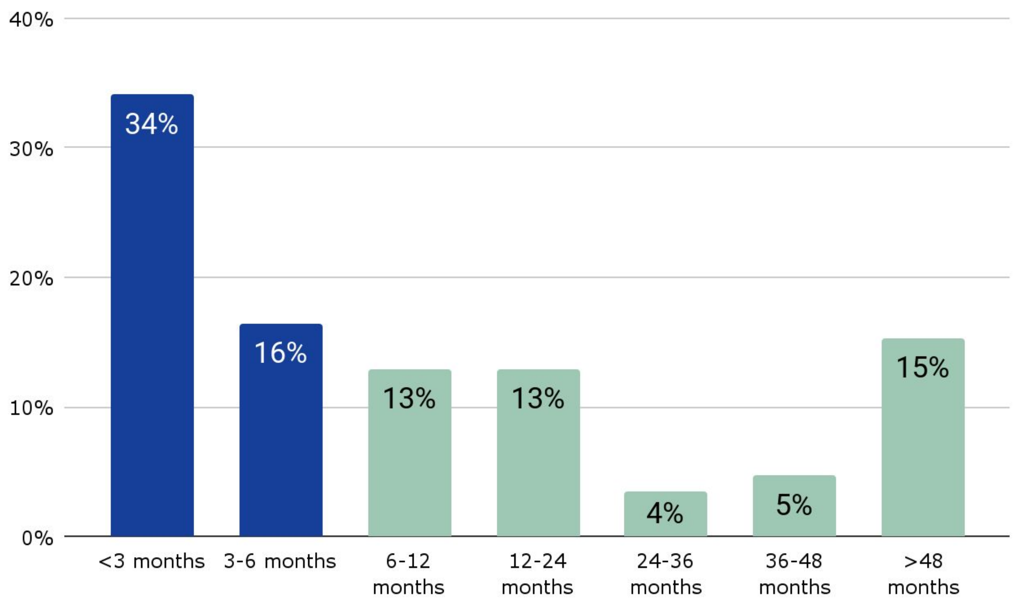


The majority of founders set strike prices in line with valuations at the last round, which means employees may not be able to afford the strike price, especially at later stages of funding. If employees cannot afford to exercise their stock options, their ESOPs are worthless to them.

While more than a third of startups offer generous discounts of more than 50% off strike prices, another third offers limited discounts of 10 to 20%.

Half of startups give employees **6 months or less** to exercise their options.

If an employee who is leaving can exercise their options within a set period, what is that period given to employees to exercise?

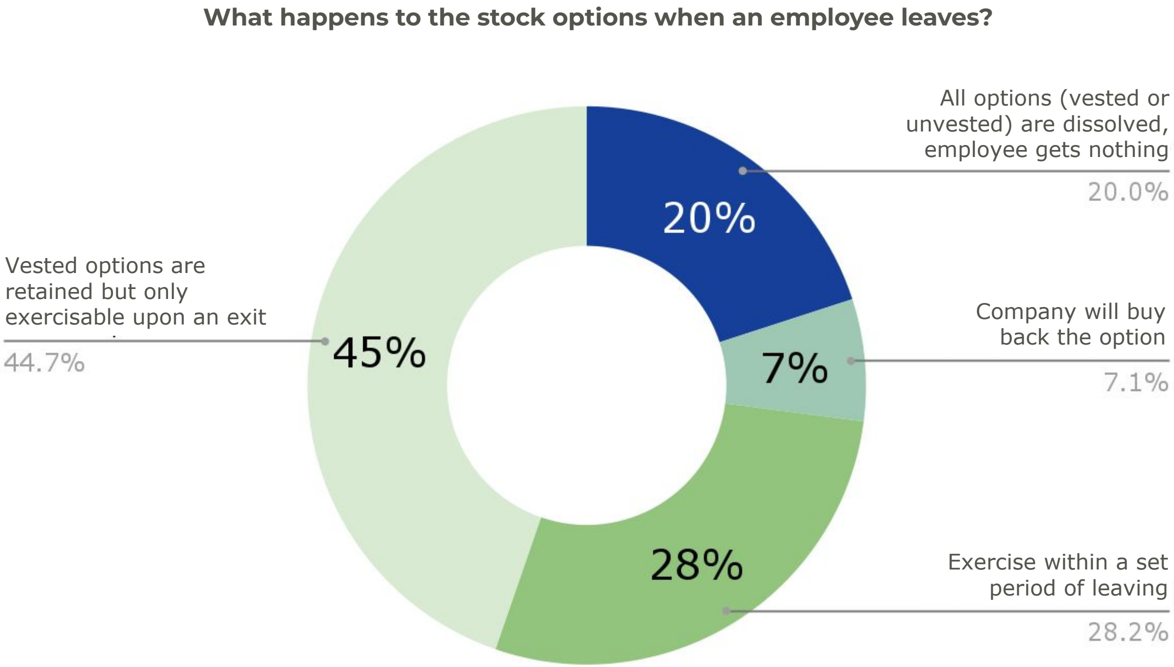


If an employee is leaving, they may struggle to shore up sufficient capital to exercise their stock options, rendering any vested ESOPs as forfeit.

Furthermore, there are tax implications to exercise ESOPs. In jurisdictions such as Singapore, gains from the exercise of ESOP are taxable even when these gains are not realised in cash.

This can result in a ‘double-whammy’ for employees, who need cash to both exercise ESOPs and pay taxes

Shockingly, 1 in 5 startups dissolve all options (vested or otherwise) when an employee leaves.



This practice means that employees who leave a startup **lose all of their ESOPs benefits,** even vested options. This acts as golden handcuffs, tying people to a role as they receive zero upside to the company's success if they leave.

While certain situations are regulatory-driven (e.g. in Vietnam, ownership of foreign company shares is only permitted among current employees), founders can consult lawyers and tax advisors familiar with local regulations to set up appropriate ESOPs that both abide by regulation and reward employees even after their exit.

3 in 5 startups operate good/bad leaver policies for ESOPs.

Bad leavers tend to be fairly defined.

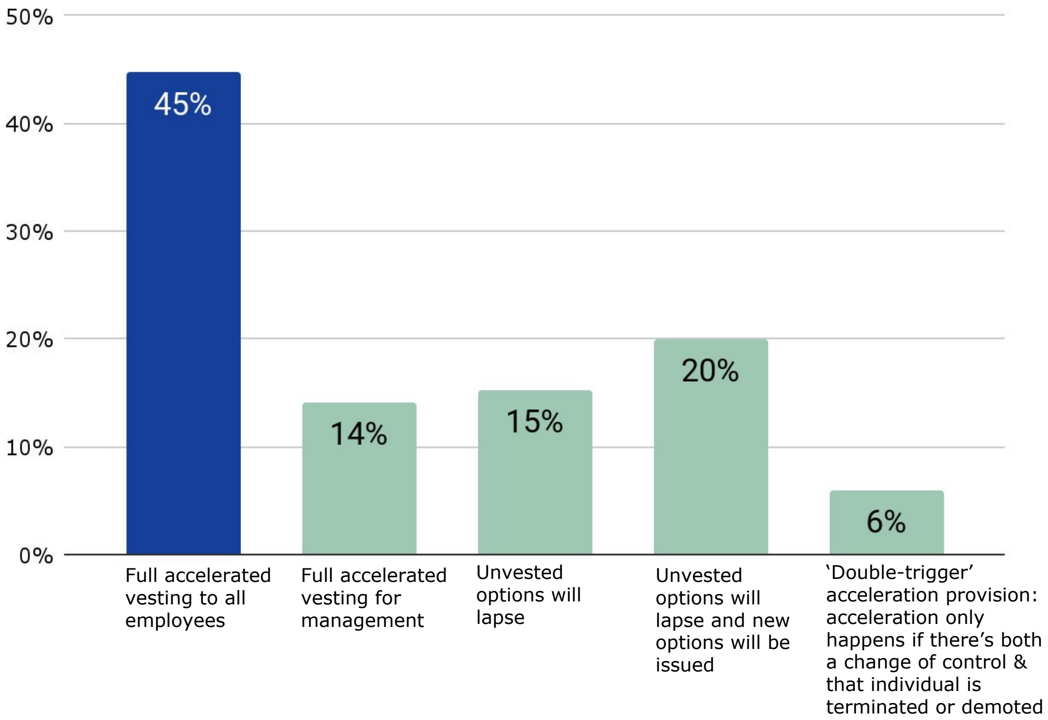
According to startups, a bad leaver is an employee fired for major disciplinary breaches (96%) or involved in fraud, negligence or in breach of confidentiality (92%).

Most startups do not consider employees who choose to leave as bad leavers (only 6% do).

However, 1 in 3 startups consider employees who are terminated for poor performance to be bad leavers, which could create conflict. A good/bad leaver policy ensures all employees have clarity around the implication of leaving on their ESOPs.

Only 1 in 2 companies offer accelerated vesting to all employees in a liquidity event.

- A liquidity event should offer the whole team a chance to reap the rewards of their ESOPs, even if in part.
- However, 1 in 7 startups only offer accelerated vesting to senior management; excluding the rest of the company from the benefits of a liquidity event.
- A shocking 1 in 3 companies will let unvested options lapse, and only half will issue new options. In these situations, employees risk losing potential financial upside, as the clock for cliff and vesting has "restarted."



Most startups explain ESOPs to their employees **before the contract is signed.**

39% — **During interview**
Before job offer

36% — **At the point of job offer**
Before candidate accepts

8% — **After candidate accepts**
Before candidate starts work

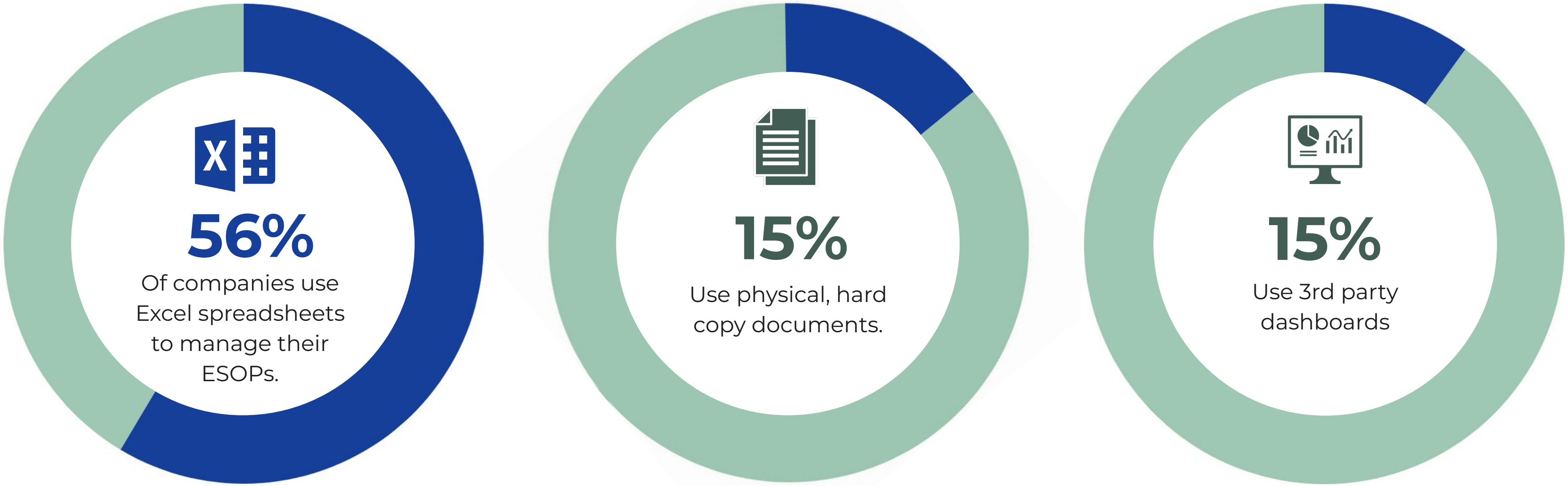
19% — **After candidate starts work**
First 30 days

36% — **After first 30 days**
Of starting work

More than **9 out of 10** leaders make the effort to personally explain ESOPs to their prospective hires.

Founders were allowed to select more than one option, hence responses do not add up to 100%

Startups are still using **Microsoft Excel to manage ESOPs.**



Only **1 in 6** startups use a **purpose-built dashboard** to manage ESOPs.

Dashboards allow employees to see and manage their own ESOPs. This should be more commonplace, to promote greater transparency and awareness among founders and employees. Moreover, with frequent updates on ESOPs (e.g. via ESOPs vesting slips, revised ESOPs valuation upon completion of fundraising), it enhances the legitimacy and reminds employees of the value of ESOP.

How the pie is sliced: Who gets what? A breakdown of ESOPs by roles

Chapter 3

Overview of ESOPs awarded across the organisation

Median ESOPs as a % of company shares:

1-3%
Leadership

- **0.5-1%** Senior Technical
  - **0.1-0.25%** Junior Technical
- **0.25-0.5%** Senior Non-technical
  - **0.1-0.25%** Junior Non-technical

Median ESOPs as a % of annual cash compensation[1]:

40-60%
Leadership

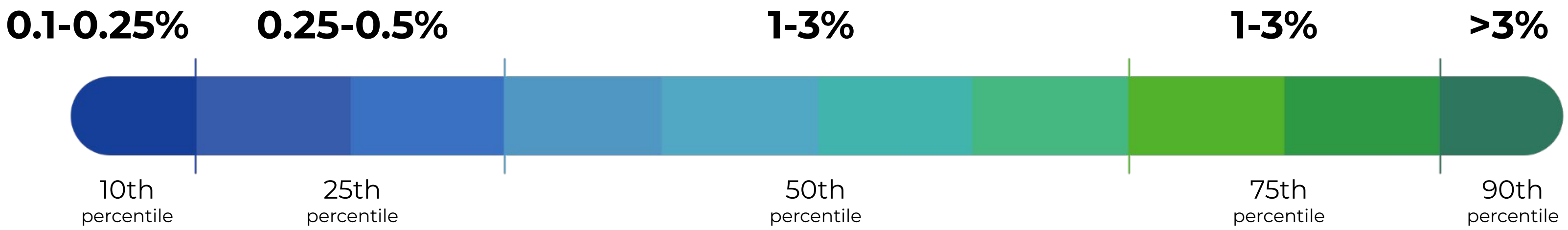
- **20-40%** Senior Technical
  - **0-20%** Junior Technical
- **20-40%** Senior Non-technical
  - **0-20%** Junior Non-technical

[1] For example, if an employee has an annual cash compensation of $100K, s/he receives $XXK in ESOPs on top of cash compensation

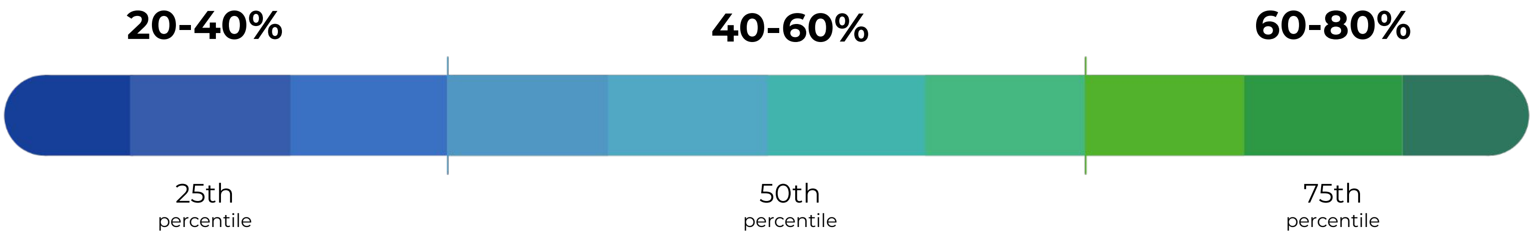
Leadership

This is the senior management team: Directors; the C-Suite; Executives.

ESOPs Received (as a % of total company shares):



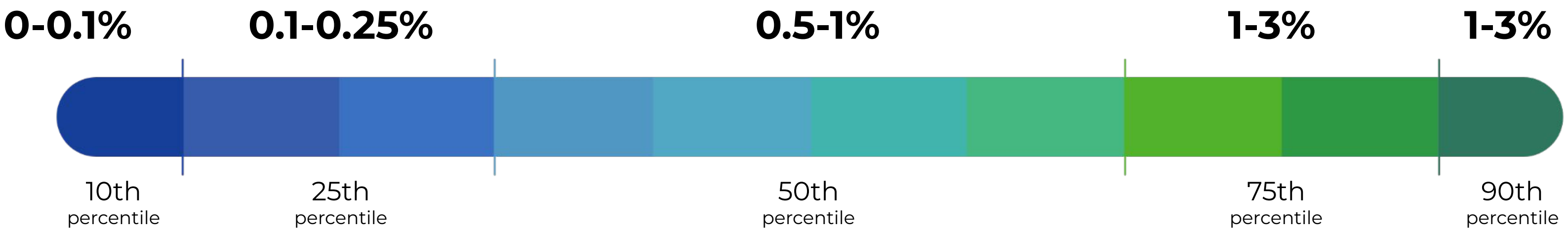
ESOPs Received (as a % of annual cash compensation):



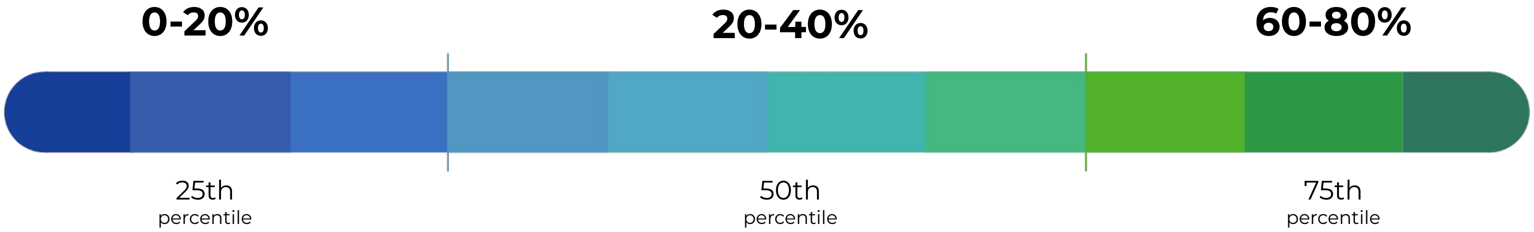
Senior Technical

Technical team members work in the product and technology side of the business.

ESOPs Received (as a % of total company shares):



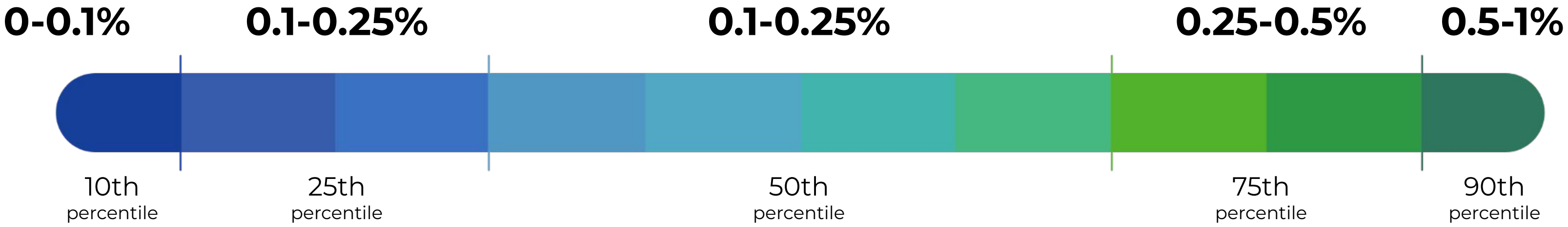
ESOPs Received (as a % of annual cash compensation):



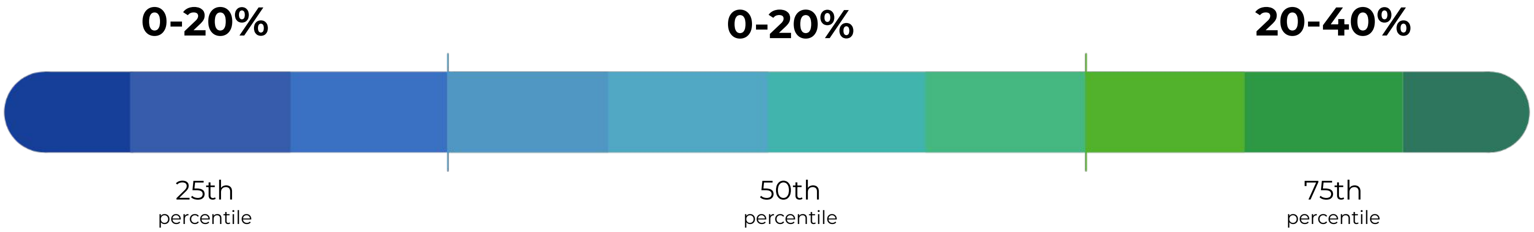
Junior Technical

Technical team members work in the product and technology side of the business.

ESOPs Received (as a % of total company shares):



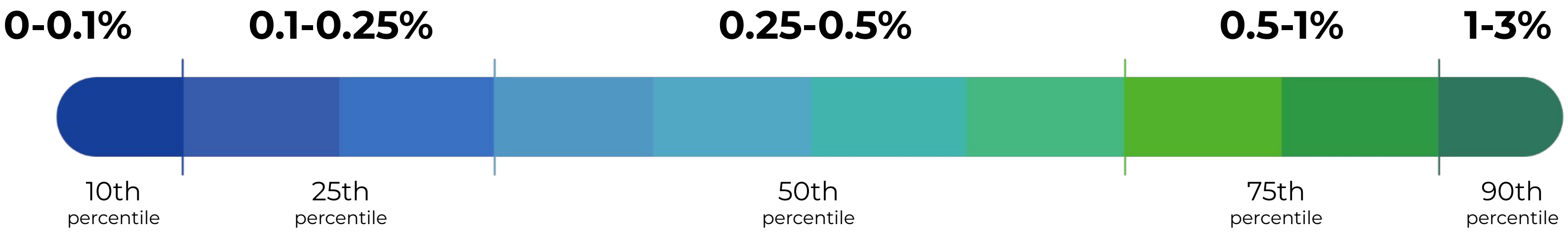
ESOPs Received (as a % of annual cash compensation):



Senior Non-Technical

This includes Operations, HR, Marketing and Sales team members.

ESOPs Received (as a % of total company shares):



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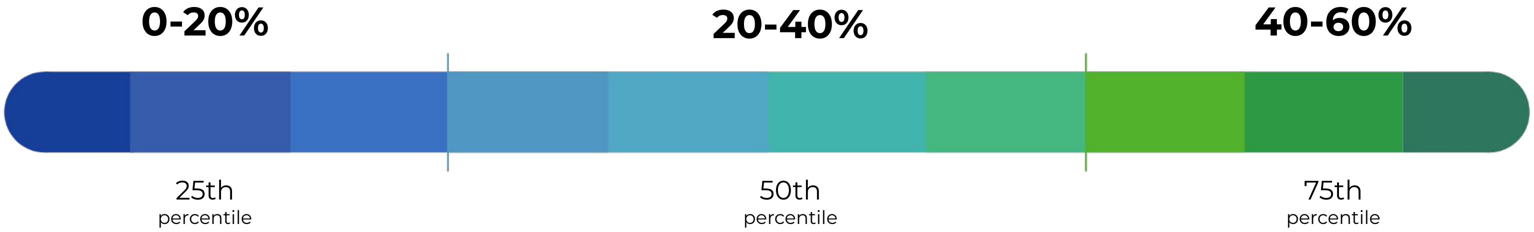

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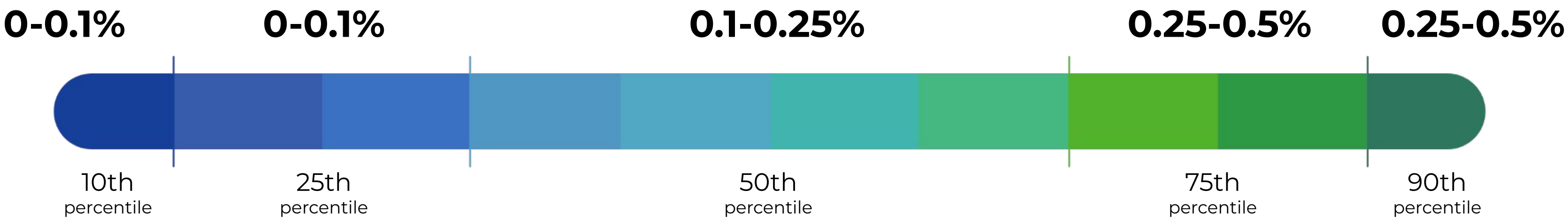

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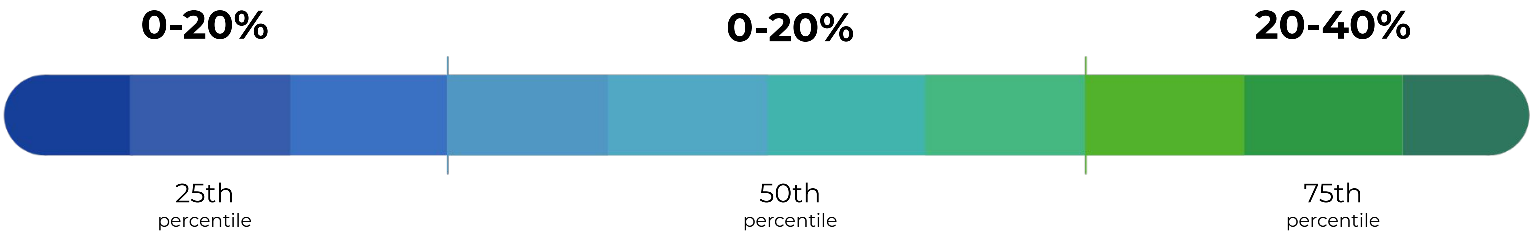


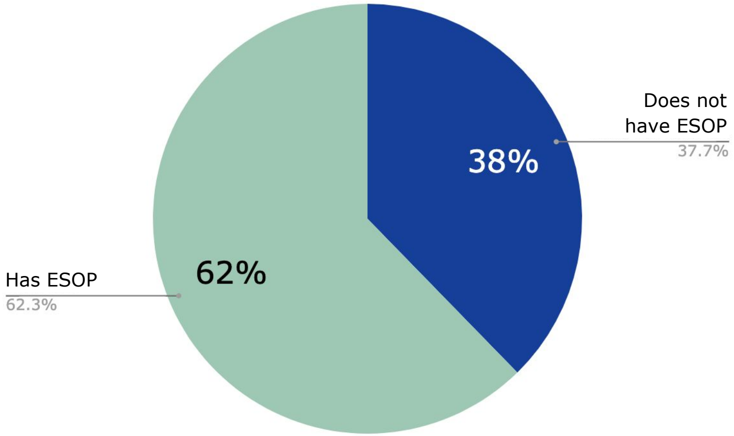
ESOP FOMO*: Who's missing out from the upside?

Chapter 4

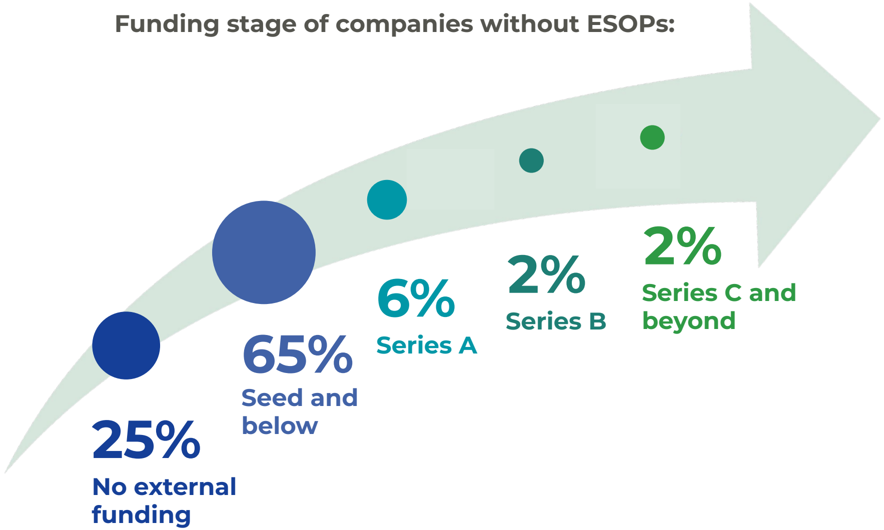
*FOMO: Fear of missing out

2 out of 5 startups in Southeast Asia do not use ESOPs.

Does your company have ESOPs in place?



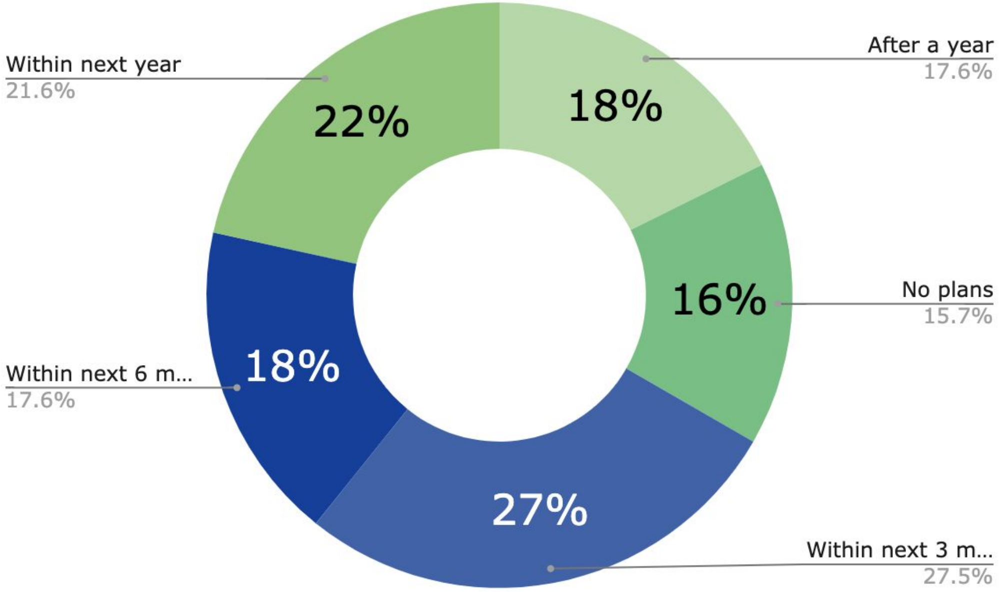
Funding stage of companies without ESOPs:



The majority of companies that do not have ESOPs are seed stage (or earlier) or have grown without external funding.

Almost half of these companies intend to set up ESOPs in the **next 6 months.**

How soon do you foresee yourself setting up ESOPs?



Around 1 in 6 startups who do not have ESOPs already, have no plans to set up ESOPs. There is a clear need to improve awareness of and education around ESOPs and their benefits for startups and talent alike.

The greatest hurdles to ESOPs adoption are doubts over their efficacy and understanding of the process.

The top 3 reasons that companies without ESOPs do not use them:

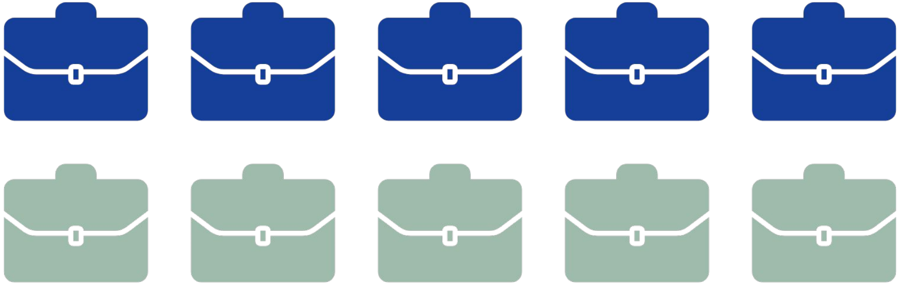
- **58%** — **Uncertainty around how effective ESOPs are in attracting (and retaining) talent**
- **51%** — **Unsure how to set ESOPs up**
- **51%** — **Concern for the legal implications of setting up and managing ESOPs**

- **47%** — Accounting and audit implications
- **37%** — Complicated administrative process
- **31%** — Not enough information about ESOP
- **25%** — Not sure what is ESOPs or how it works
- **25%** — Ownership dilution
- **13%** — Majority of the employees do not want it
- **13%** — Tax implications

Investors and talent play a key role in motivating leaders to adopt ESOPs.

5 in 10 founders

who are setting up ESOPs in the next 6 months were asked by investors and/or employees to do so, revealing the critical role these stakeholders have in creating an ESOPs infrastructure.

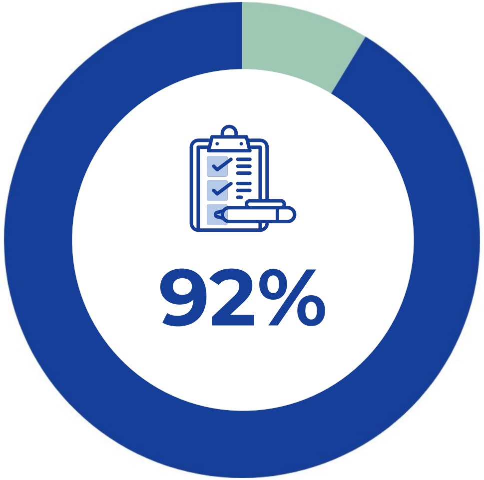


In contrast...

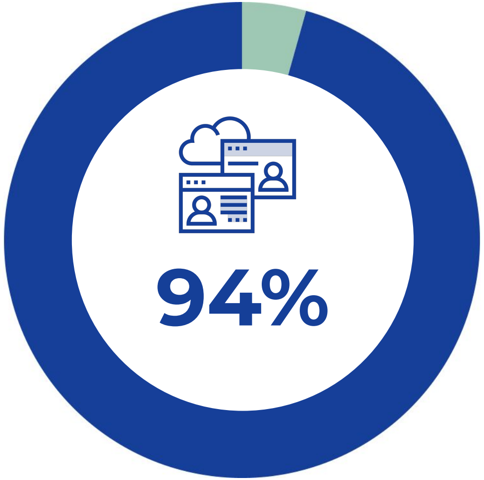
- Those who are not planning to set up ESOPs within next 6 months had less investor / employee pressure
- Only 18% of these founders said investors had asked them to set up ESOPs
- Only 15% of these founders said employees had asked them to set up ESOPs

The **majority of founders** would implement ESOPs if it was an **easier process.**

92% of founders would be willing to implement an ESOPs strategy if there was **someone to guide them through the structuring and setup process.**



94% of founders would be willing to implement an ESOPs strategy if there was a **platform that made the administration process easy.**



Could this be an emerging niche of Startup Service as a Service startups?

The three stages to ESOPs success

Chapter 5

Three stages to ESOPs success.

1. Plan

Understand:
Invest the time to understand ESOPs, from setup and structure to management and risks, especially if you operate across multiple geographies

Strategise:
Be clear on what purpose ESOPs serve, and be transparent to the team

Start Early:
Implement ESOPs at seed-stage or earlier (e.g. angel, friends/family)

Standardise First, Iterate Later:
4-years vesting + 1-year cliff

Vest More Frequently:
Vest shares monthly

2. Include

ESOPs For All:
Offer the whole team ESOPs, not just senior management

Make ESOP Strike Prices Accessible:
Offer generous discounts or set a negligible strike price to make ESOPs affordable

Make ESOP Exercise Periods Accessible:
Offer a longer exercise period to allow employees who leave to remain connected with the company

No Golden Handcuffs:
Establish good leaver / bad leaver policies; be fair and transparent around them. Then, uphold good leaver policies, such as not dissolving employees vested options on departure.

Reward:
Accelerate vesting upon liquidity events

Educate:
Explain ESOPs to employees before they accept the job offer

Engage:
Founders / senior leaders should do the explaining.

3. Scale

Grow:
Plan to grow your ESOPs as you fundraise subsequent rounds

Educate:
Explain ESOPs to employees before they accept the job offer

Engage:
Founders / senior leaders should do the explaining

Manage:
Figure out the right tools to manage ESOPs for your company - Excel might not be the best

Realisation:
Consider introducing or facilitating a buyback or sale of ESOP

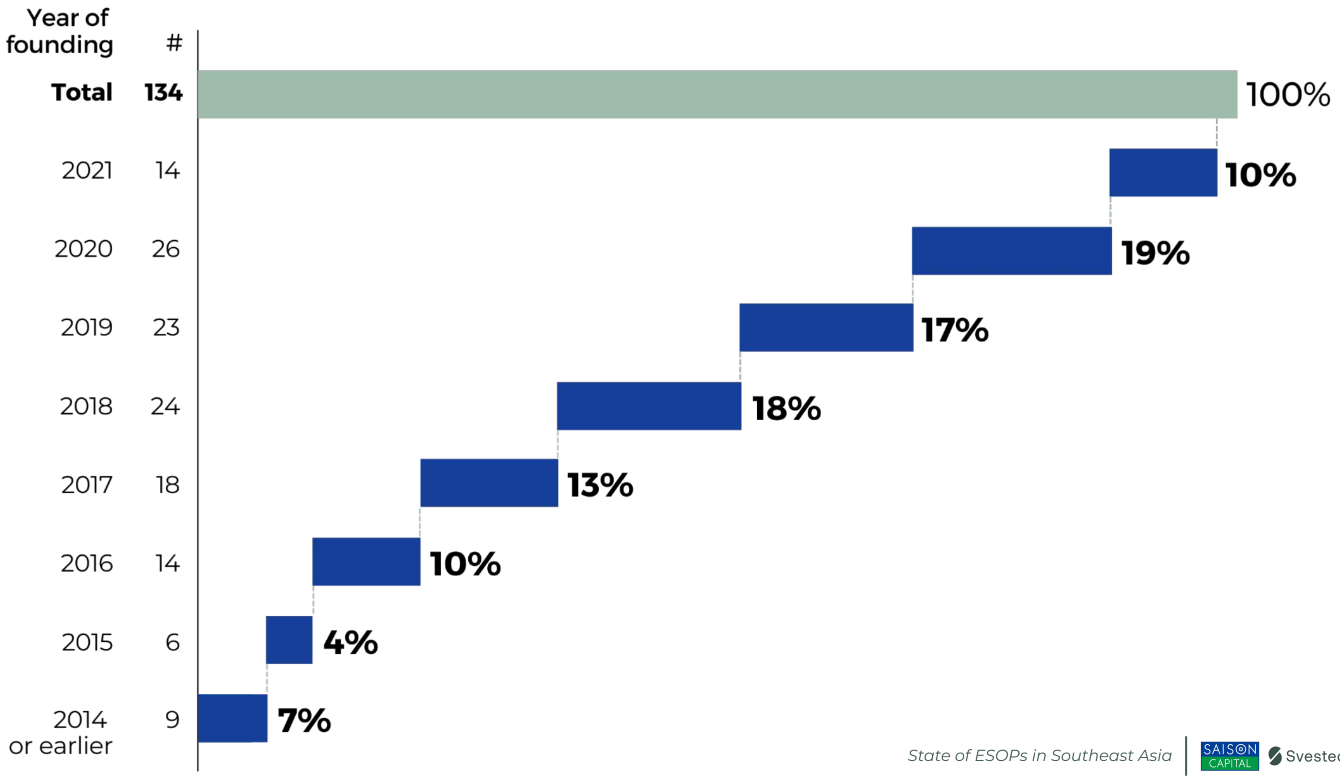
Conversation:
Talk more about it - facilitate industry conversation

Appendix

Demographics of survey respondents: Vintage

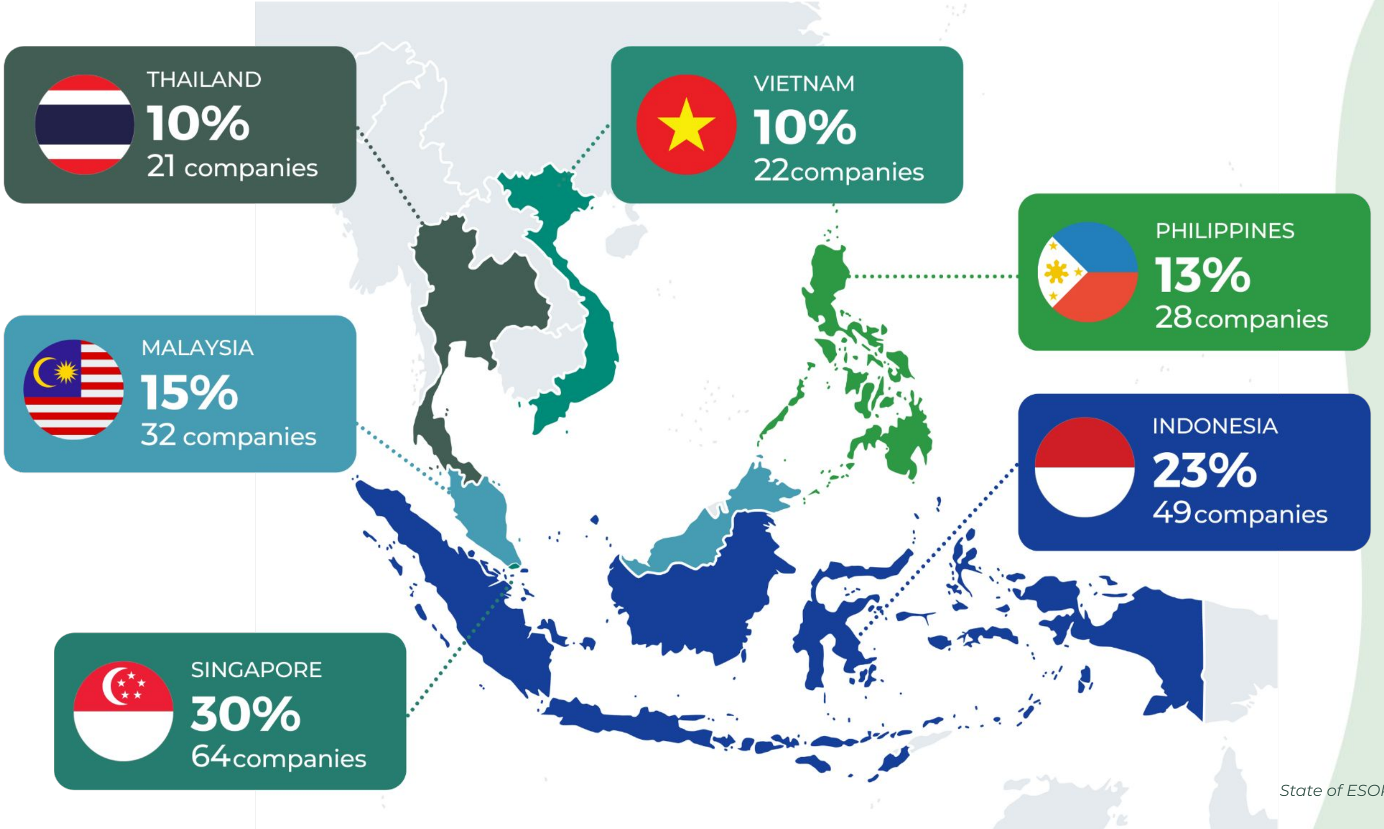
A total of
134
Companies took part in the survey.

This table reflects the year the companies were founded:



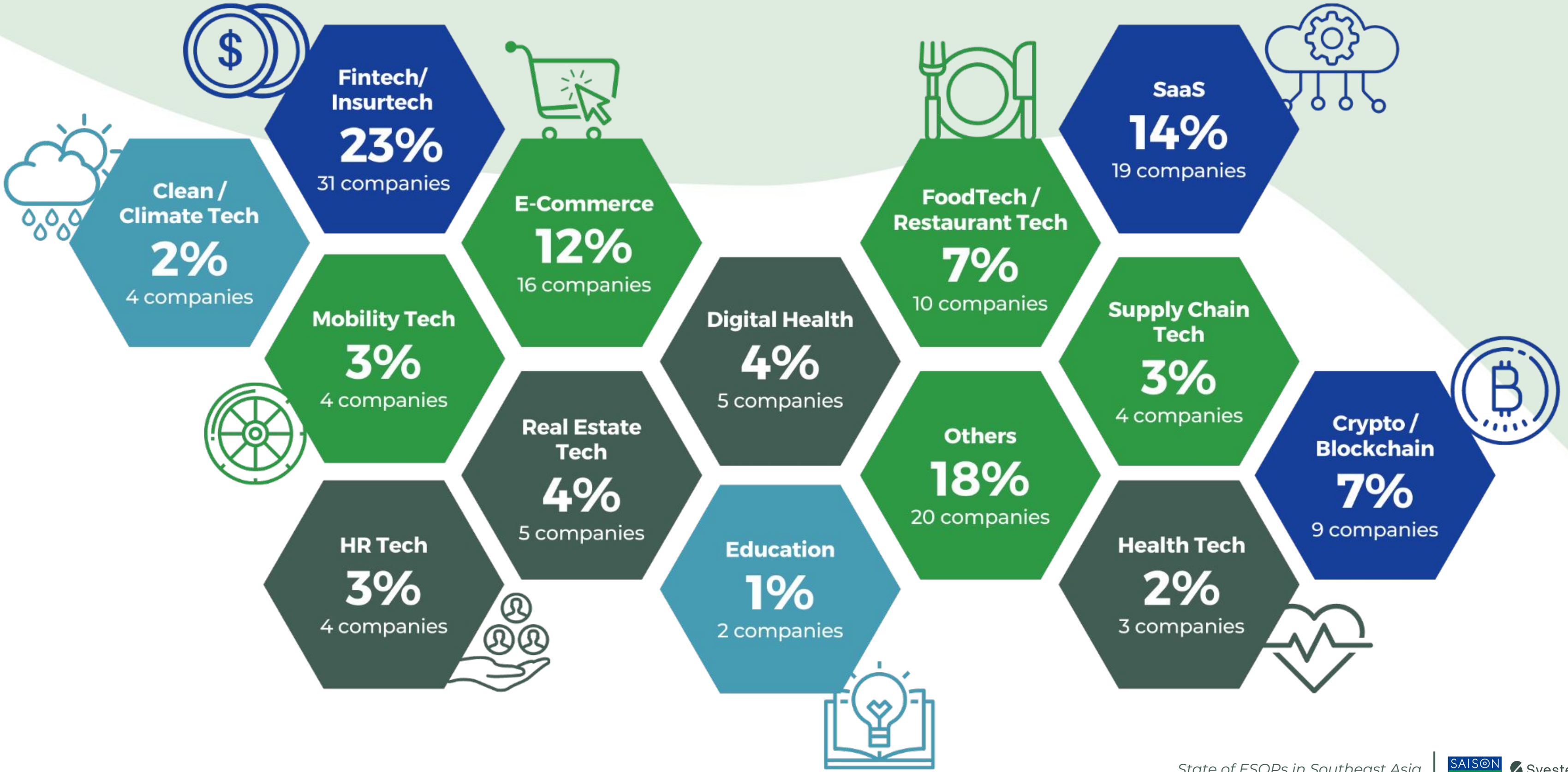
Demographics of survey respondents: Geography

We asked founders “Which country is / countries are your primary market?”



Founders were allowed to select multiple countries as their target markets.

Demographics of survey respondents: Industries



Demographics of survey respondents: funding and team size

Stage of funding:

14% — **No external funding**
19 companies

63% — **Seed and below**
85 companies

14% — **Series A**
19 companies

1% — **Series B**
1 company

8% — **Series C and beyond**
10 companies

Team size:

51-100
10%
14 companies

26-50
16%
22 companies

11-25
20%
27 companies

201 & ABOVE
8%
10 companies

101-200
5%
6 companies

1-10
41%
55 companies

Methodology

There are ~6,000 technology companies in Southeast Asia according to PitchBook
A sample size of 134 companies translates to a 95% confidence level* at a 10% margin of error.**

1. Online survey made up of 45 questions.
2. Responses accepted 10 Nov to 24 Nov 2021.
3. 134 responses from startups. 60+ in the first 48 hours alone; reached 100+ responses within a week.
4. Designed and analysed by Saison Capital and Svested. Saison Capital portfolio companies and Svested input made up less than 10% of respondents respectively.
5. All survey results were solely evaluated on an aggregated, anonymous basis - we did not analyse individual companies.

* Confidence level is the percentage of confidence that the target population would select an answer within a certain range.

** Margin of error is a percentage that the survey results would reflect the views of the overall population.

Glossary

Buyback	The process where the company may choose to buy back an employee's stock options before a liquidation event at a mutually agreeable price, so that employees can realise value.
Cliff Period	The lock-in period before employees are entitled to their vested stock options.
ESOP	Employee Stock Option Plan
Exercise	The process of converting a stock option to a share.
Exercise / Strike Price	The amount to be paid by the employee to convert a stock option to a share.
Exercise Period	The time period which the employee can convert the stock option to a share.

Liquidity Event	An event, usually involving an external party, where the valuation of the company is re-assessed and additional capital is injected into the company or to shareholders. Usual liquidation events include IPO or an acquisition / investment in which the incoming owner becomes a majority shareholder.
Secondary Markets	A market where employees sell stock options to other investors, rather than to the company (buyback).
Stock Option	A stock option gives employee the right, but not an obligation, to purchase shares in the company.
Top Up	Increasing the number of available stock options for current and future employees.
Vesting	The process where employees earn their stock options over time. Vested stock options refer to stock options that have been earned by the employee.
Vesting period	The time period for the awarded stock options to be distributed across.

Thank you

Editorial Partner: ***RDF Strategies***

Creative Partner: ***byrdcreative.co***

SAISON CAPITAL

Svested

SAVE THE DATE

State of ESOPs in Southeast Asia

VIRTUAL EVENT UNVEILING SURVEY INSIGHTS

9:00 - 10:00 AM (SGT)

15 DEC

2021

STRICTLY BY INVITE ONLY. ZOOM LINK SENT VIA EMAIL.
Only invited guests will be admitted

SAISON CAPITAL

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