

AN INNOVATIVE APPROACH TO ESPP DESIGN

A GlobalFoundries and Infinite Equity Case Study

How GlobalFoundries designed a unique ESPP with a high focus on employee engagement and fostering an ownership culture!

BACKGROUND

GlobalFoundries (GF) is a semiconductor manufacturer (or fab), headquartered in the U.S., that employs a broad workforce from hourly workers to highly skilled engineers. GF faces tough competition for talent in the technology industry. It competes with “high techn” companies that offer competitive cash and equity compensation, but do not maintain a workforce as diverse as GF’s. Additionally, as a newly public company, there was a lot of excitement and demand for equity opportunities from employees.

About GlobalFoundries:

- One of the world’s leading semiconductor manufacturers
- October 2021 IPO
- 15,000+ employees
- 12+ countries

GF sought to create a unique equity program to capture and build on this excitement to create an ownership culture. To this end, GF envisioned a simple design that would be well understood by its workforce, while managing financial considerations for the company.

APPROACH

The most common employee stock purchase plan (ESPP) design for U.S. headquartered companies is a tax-qualified Section 423 plan, which must allow substantially all employees to participate on an equal basis. But, given that the tax benefit only applies to U.S. employees, and the extent that which an employee can participate is linked to salary and affordability, the result is that the treatment of all employees is not fair and equitable. This led GF to weigh the pros and cons of qualified versus non-qualified plans.

In the current environment with a heightened focus on equitable benefits, GF made a conscious decision to identify a design that would best meet its goals and utilize the flexibility of a non-qualified ESPP to its advantage, to truly treat all employees, whether located in the U.S. or outside the U.S., on an equal basis and encourage its broad workforce to become long-term shareholders and build savings.

Seed Grant Goals:

- Drive ESPP participation
- Encourage retention beyond the IPO

In addition, GF and its partner, Infinite Equity, developed the concept of a “seed” grant, or RSU grant, for employees who participate and complete the initial ESPP offering period. Some of the considerations around how to structure the RSUs included:

- Instead of a top-down approach to grants, grant from the bottom up, and exclude employees at the executive level
- Total vesting of 6 months (i.e., vested at purchase)
- Grant size equal for everyone
- Offered for any new participant



Two primary factors GF wanted to address are its global workforce spread across a dozen countries and the fact that as a semiconductor manufacturer it has a large hourly workforce. Particularly within the “fabs” (i.e., manufacturing sites), GF’s workforce is not comparable to many technology peers who offer generous equity compensation programs to highly skilled and highly paid workers.

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VP of Global Rewards | GlobalFoundries

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PROGRAM OVERVIEW



A generous company match was offered:

Participants receive a generous 20% matching contribution at purchase, which is simple to communicate across all countries.



One-time “seed shares” were given to encourage participation:

Eligible participants below a certain job level (non-executives) who enrolled in the plan were given additional incentives to participate, helping to foster an ownership culture and employee savings.



A non-qualified plan was used to unify the benefit offered:

One plan offered to all eligible participants around the world created a simpler and much more uniform program. Further, as a large global business with a potentially large mobile workforce, offering one plan worldwide significantly helps participants moving from country to country avoid adverse tax consequences that can occur when moving from one local tax-qualified plan to another or leaving a tax-qualified plan to a non-qualified plan.



Net settlement was used to cover the tax withholding obligation:

To address any participant concerns over required tax withholding obligations at purchase, a common criticism of non-qualified ESPPs, GF net settled shares to cover the taxes on the participants' behalf. Otherwise, withholding taxes from payroll could negatively impact employees living paycheck to paycheck, particularly among GF's hourly workers.

THE IMPACT



80% Participation



8% Average Contribution Rate



GEO Award Winner for Most Innovative & Creative Plan Design



Thinking differently about our talent

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CONCLUSION

GF set out to create a unique but simple ESPP with compelling benefits to distinguish its rewards program and appeal to all levels of its workforce. Their high participation rate validates their thoughtful plan design is not only easy to understand but valued by participants.

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About Infinite Equity

Infinite Equity is the premier independent professional services firm that enables companies to increase the effectiveness and return of their equity programs. We believe equity compensation programs should drive performance, foster an ownership culture, and fuel innovation. As recognized industry leaders in all aspects of stock-based and executive compensation, the Infinite Equity team partners with publicly traded and privately held companies on plan design, valuation, performance tracking & communication, tax, and financial accounting services related to stock-based compensation.