Gamucatex

PROPOSAL: EMPLOYEE EQUITY SCHEME

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EXECUTIVE SUMMARY

The following document contains information surrounding employee payment. Currently, there is no strategy for employee payment. Due to the early stages of *Gamucatex's* development, employees are working with no incentive. Employees who are not incentivised for their work with no sight of financial gain could result in a lack of work efficacy, efficiency, and employee longevity. The document aims to provide a resolution surrounding employee incentivisation's using equity in the company as payment. Equity entitles employees to a share in the value the company making up for the loss of salary they are not receiving.

Key highlights

- Reasoning for equity scheme
- Company benefits for equity scheme
- Cost evaluation for the proposal
- Vesting methods
- Associated risks
- Equity allocation.

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PROPOSAL SCOPE

Scope
As Gamucatex advances through the beta testing and market research stages of the game's development. Gamucatex is currently has no debts or liabilities. No revenue is currently being turned over and no profit is currently being generated. Employees across the world are devoting their time to working on a project that has been operating between 6 months and 1 year. The proposal aims to create unity between the co-founders and employees through incentivising their work through an equity scheme.

Research
Feelings or employees -> longevity etc why do they need it

Key goals
- Create stronger employee relation and trust
- Recognise employee's work
- Increase employee longevity
- Increase employee efficiency
- Devise an equity scheme for employees and founders.

SCHEDULING AND TIME MANAGEMENT

The implementation of the equity scheme can be implemented from varying dates dependent on the founder's decision. Implementation dates are susceptible to change.

Date of Implementation:

October 2021 (Game Release)
January 2022
Date of Revenue Generation
Date of Profit Generation

Dates may vary dependent on the number of employees and possible negotiations of employees and the founders.

EMPLOYEE EQUITY SCHEME

One of the defining differences between start-ups and the corporate world is the almost universal practice to let employees share in the start-up equity.

When implemented properly, employee equity ownership can:

- Align risk and reward for employees betting on an unproven company
- Reward long term value creation by employees
- Encourage employees to think about the company's success first

It is also a very important tool to attract and retain top talent.

Types of equity incentives

Equity incentives can be divided into four groups.

Start-up equity that should be used to attract new hires. Important here is to have a good view on what is a competitive compensation package for the position and profile that you are looking to fill. Also make sure that the equity is the correct tool for incentivisation. For example, sales functions might be better incentivised with a commission, while equity might be a better fit for engineers.

Ensure there is equity for employees making a promotion. Make sure to bump their equity to the market standard for their position.

Account for equity to be awarded for outstanding performance. Make sure to only reward the actual top 10 – 20% and make it worthwhile, without upsetting

equity, often cited as the most important equity tool for retention.

As employees come close to the end of their vesting periods (cliff) the opportunity cost to leave lowers significantly. A great way to avoid this dynamic is by distributing additional equity at the right time.

Employee equity allocation

Providing the owner maintains ***over*** 50% of the equity in the company they remain the majority shareholder.

Equity that is made available to employees is determined by the founder/owners.

More equity may be allocated to senior employees, longer servicing employees or employees have worked more hours. This is to be determined by the founder/owner.

It is important to allocate equity conservatively amongst employees as equity may need to be divided between potential future investors and future employees.

References have been made that 10-20% of equity should be divided between current and future employees. *This number is susceptible to change based on Founder/owners preference.*

It is important not to allocate the full amount of the 10-20% pool to all current employees if you plan to increase your business and are not currently generating profit to offer a salary.

Sample Allocation of equity:

- At 1–10 person companies, 0.5%—2.0% is a pretty common range, though some companies fall outside of this range.
- For 11–50 person companies, 0.1%—1.0% is typical.
- For 51–200 person companies, 0.01%—0.2% is typical.

Depending on the level of the advisors, equity grants can range as follows:

- Regular advisors: 0.1% – 0.25%
- Mid-range: 0.25% – 0.50%
- Expert level: 0.5% – 1.0%

Equity for employees can be distributed using vesting methods (see below).

It is important to with old equity to allow for ‘promotions or major milestones to be awarded to employees to keep them at the company.

VESTING METHODS

Vesting is a process where employees have a 'vested interest' in the company. Equity is contribution can be offered by Gamucatex in various ways as seen below.
For start-ups that highly depend on a small number of team members (say, a founder and co-founder) for success, vesting is an important way to protect the business and increase sustainability. By providing a time-based vesting schedule, team members can ensure loyalty and long-term security. A cliff period also ensures that the team members are entitled to no compensation if they leave before the set period.

* *'The cliff'* is the point when the employee receives the entirety of their equity with no more to gain.

Time-based

Time-based vesting is a method of vesting through which employees earn their share of stock options over time, usually based on a set schedule and a cliff – which is the time when the employee's first option is granted and exercisable. After reaching the cliff, the remaining options are issued on a monthly or quarterly basis, depending on the vesting schedule. Typically, companies offer vesting contracts with a one-year cliff – which means that the minimum amount of time that an employee needs to stay at the company before earning a vested interest is one year.

Milestone-based

Milestone-based vesting refers to the method of vesting whereby the employer grants stock options and/or benefits based on the completion of specific tasks or the achievement of certain objectives that are set by the employer. Examples include meeting sales quotas or completing a specific project.

Hybrid

Hybrid vesting is a combination of time-based vesting and milestone-based vesting. In this method, employees must stay at the company for a certain amount of time and reach a particular goal or milestone to be eligible for exercisable stock options.

Alternative payment methods

Payment per hours worked

Alternatively, employee could log their hours form the past year in which they have been working. Based on the number of hours worked they may be paid for their work hours once the company starts turning profit.

Considerations

***** Will employees retain their equity if they leave the company?
*Will employees be allowed to give up their equity to another employee? (no)
*When will they be able to sell their equity? (Board must sign off on any sale)
*Will employee equity provide them with a basis for company decision making?
*Will employees be able to choose their vesting options?

RISK AND LIMITATIONS

The following table illustrates some of the possible risks and limitation with the Employee Equity Scheme.

Name	Probability	Impact	Mitigation	Contingency
Employee Equity Pool Shortage	Medium	High	Ensure you do not allocate to much equity to current employees.	Buy employee equity back or have a legal clause allowing you to reclaim in. (eg if they leave the company).
Employees Selling their Equity	Medium	Medium	Ensure legal clauses prevent selling of equity.	See a lawyer for additional assistance.
Employees Trading Equity amongst themselves	Low	Medium	Ensure legal clauses prevent selling of equity.	See a lawyer for additional assistance.
Employees discussing their equity ownership	Low-Medium	Medium	Allow employees to negotiate their own equity/or assign everyone the same amount.	Seek legal advice if any issues arise

COSTS

Major cost drivers are dependent on legal costs. Factors that will impact the costs of the proposal includes:

- Lawyer’s fees
- Number of hours spent consulting with the lawyer
- Contractual disputes with employees which requires further legal assistance.

The allocation of legal fees is dependent on the owner and founder. Due to no revenue generation, legal fees will be required to be paid ‘out-of-pocket’.

IMPLEMENTATIONS

Determine preferred equity scheme for employees

Dependent on what the founders/owners decided on which equity scheme they wish to provide to provide to their employees. Founders/owners can decide whether they provide a set scheme for all employees or allow employees to choose the option that best suits their needs.

Seek Legal Advice

Once the equity scheme has been selected, it is important to seek legal advice from a professional/registered lawyer specialising in business law. Due to the nature of the company working across several countries and the company being based in Denmark, there may be varying legal issues with different countries laws surrounding equity. During this period, it would be important to ensure company security with strict guidelines and rules on the ownership of equity within the company.

Negotiate with existing employees

Having acquired legal aide, founders/owners will be able to discuss equity options with their employees. This will give the owners/founders a chance to detail the amount equity being offered and how they will receive. Negotiations may or may not take place based on founders' decision.

Contractual Agreement

Legally binding documentation will be required as proof of ownership for employees. This process will require further legal aide. The contracts may vary dependent on the employee's role within the company.

PROPOSAL REVIEW

Granting employees equity can be used as a tool to attracting new and skilled employees, but it also creates sustainability and loyalty amongst existing employees. Granting equity after the first year or first milestone assures security for business that work will be completed before they are awarded equity. Equity should award based on performance and seniority. Expect employees to talk about their equity to one another. Employees should be awarded their full share of their equity over a 3-5years depending on the business milestones and revenue generation. Ensure that the pool of 10-20% equity to be divided amongst employees isn't allocated to existing employees only as more equity may need to be allocated to future employees. To avoid any risk associated with employees selling or trading their equity of the company, ensure necessary legal action is taken to prevent any unauthorised transactions.