



Employee Financial Involvement Case Study - IBM

IPSA Annual Conference, November 2012

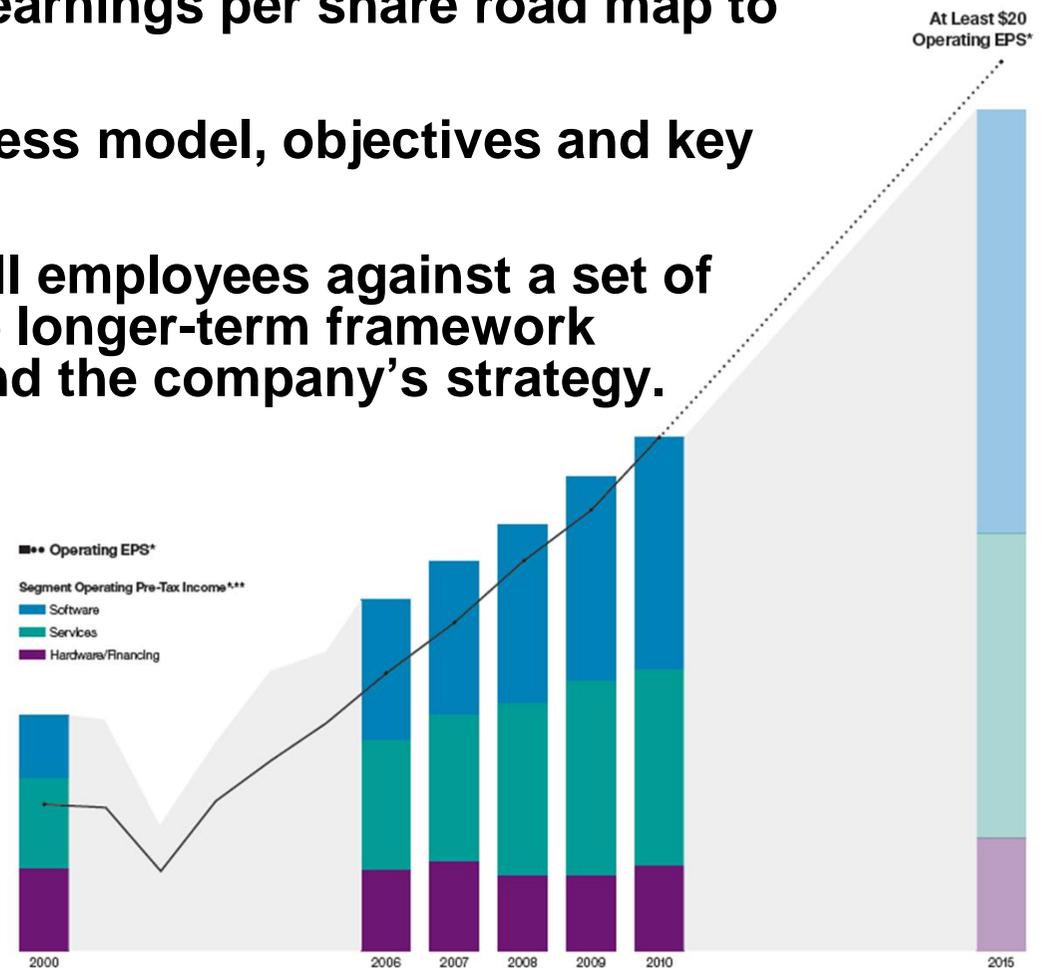
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Overview

- Context – IBM earning per share roadmap
- Employee equity grant
- Growth driven profit sharing programme
- Profit sharing options for employees

Context - Earning per share roadmap

- In 2007, IBM established its earnings per share road map to 2010.
- Provided clarity about business model, objectives and key factors driving performance.
- The road map also aligned all employees against a set of long-term objectives and the longer-term framework helped employees understand the company's strategy.
- In 2010 IBM exceeded its targets.
- Roadmap extended to 2015 with a target of at least \$20 operating EPS.



Employee equity grant

- **In 2011 IBM announced it would issue stock-based grants to nearly every employee.**
- **One-time event designed to**
 - Recognise their contribution to the 2010 road map.
 - Provide a way for employees to share directly in the company's financial performance, as reflected in its stock price.
 - Encourage achievement of the 2015 Road Map.
- **Grants will vest in 2015 when IBM's next financial roadmap concludes.**

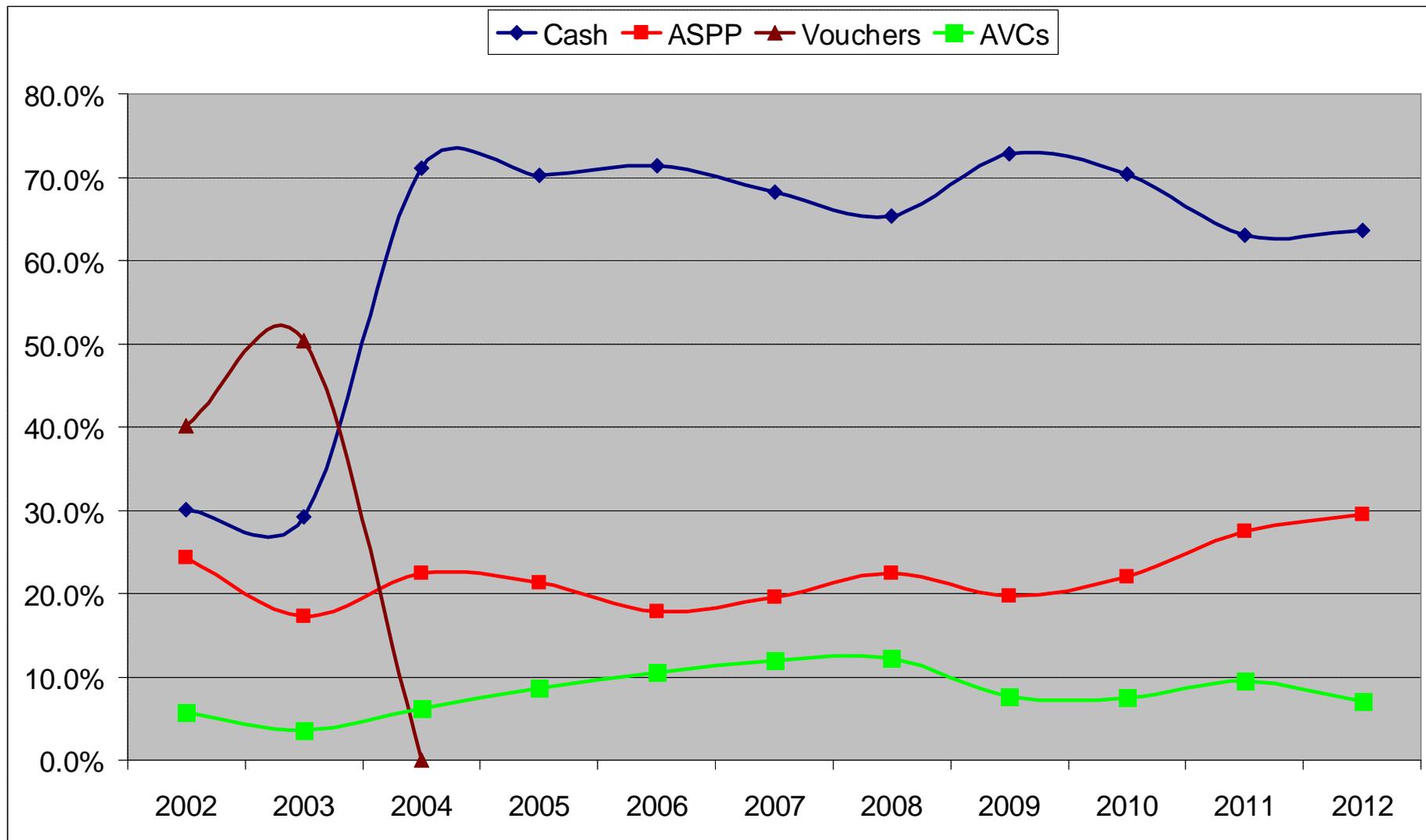


Growth driven profit sharing programme

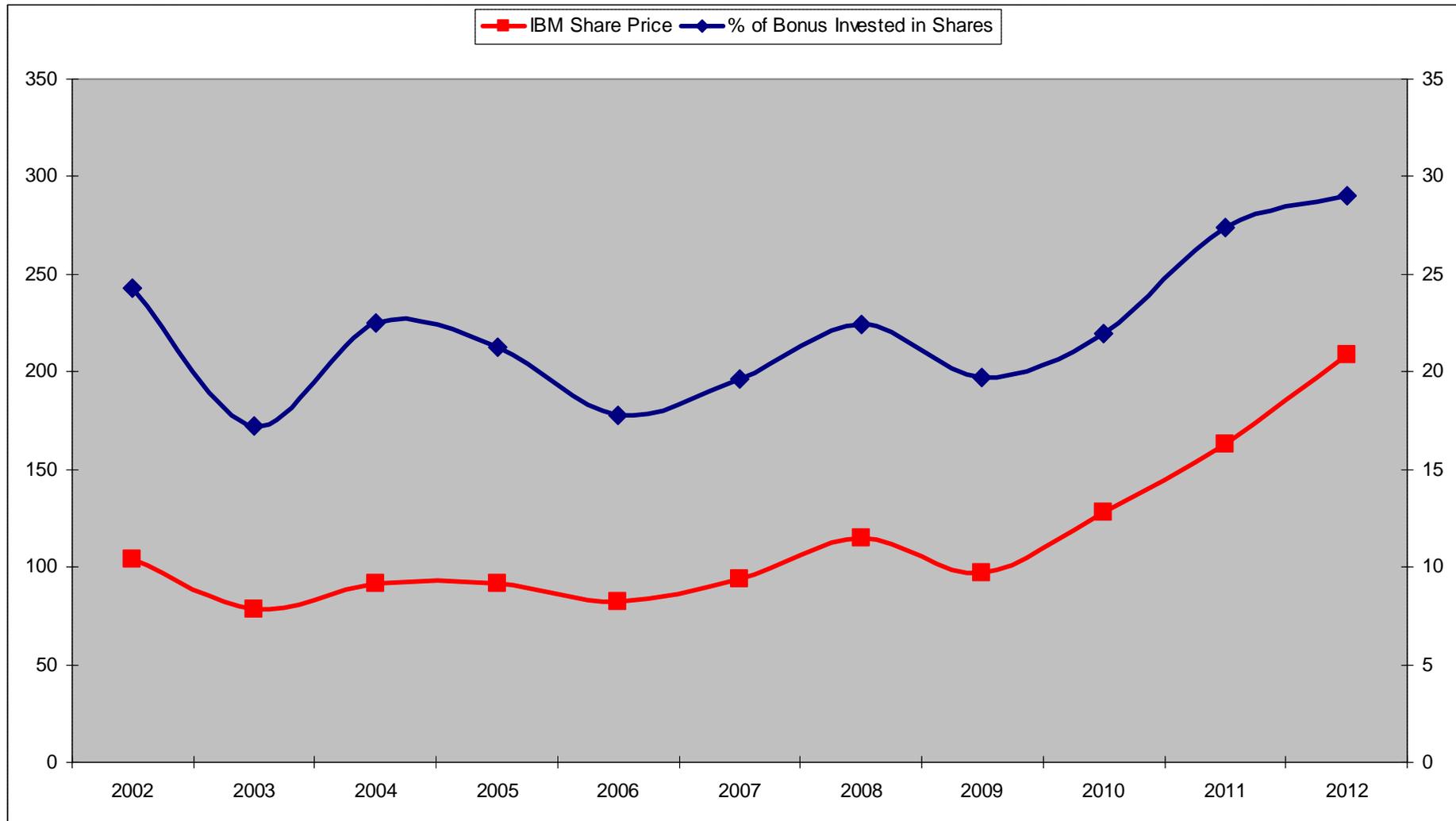
- In 2007 IBM introduced its GDP programme which replaced existing performance bonus programme.
- Emphasis on profitable growth.
- Move to one company wide pool rather than individual business units.
- Simplified metrics.
- Uncapped potential.



Profit sharing option trends



Participation in ASPP relative to share price



Final comments

- **Choice of bonus option is important to employees and changes in tax treatment of the options have an impact.**
- **Cash remains the most popular option but a significant amount is reinvested back into the company through the ASPP scheme.**
- **Interest in the ASPP tracks the performance of the company suggesting employee engagement with strategy and results.**
- **Employee share ownership complements the company's growth strategy.**
- **Favorable rate of taxation enhances employees ability to invest in ownership of the company and further participate in the growth.**

