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The ROI of Employee Stock Purchase Plans

How companies with ESPPs have outperformed the market over the last 10 years

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ROI of an ESPP: Assessing the impacts of an ESPP for Companies and Employees

As employers explore strategies to attract, motivate, and retain top-tier talent, employees continue to seek out organizations that recognize and reward their contributions. One established strategy to foster alignment of these goals is the implementation of an employee stock purchase plan (ESPP).

An ESPP offers employees the opportunity to buy company stock, usually funded through payroll deductions. ESPPs often have features such as purchase price discounts, look-back features, matching share opportunities, and potential tax benefits that increase their value to employees. In addition to providing a valuable wealth accumulation opportunity, an ESPP can foster a sense of ownership and help employees feel as if they are a part of a company's success. Overall, an ESPP can contribute to employee engagement and loyalty while serving as a powerful financial incentive.

While an ESPP can be a valuable benefit, many companies are hesitant to offer it given the increased workload, administration, and perceived cost. Before implementing an ESPP, companies should consider whether the plan will benefit both its employees and the company.

With that in mind, Deloitte Tax LLP, in collaboration with Deloitte's Insights2Action team, performed an in-depth analysis of ESPPs among S&P 500 companies to assess the return on investment (ROI) of ESPPs for companies and employees. We set out to analyze whether companies with an ESPP generate higher returns than companies without an ESPP, and if companies with an ESPP have improved employee sentiment.

Key Findings

- Deloitte analyzed cumulative TSR performance, EBITDA, EPS, and revenue growth over the last 10 years from 2014 to 2023 to analyze whether companies in the S&P 500 with an ESPP outperform companies without an ESPP. Across all measures, we observed a **trend of outperformance over the long-term for S&P 500 companies with an ESPP.**
- An analysis of four employer recognition award lists from 2023 revealed that **companies with ESPPs won twice as many "best places to work" awards than companies without ESPPs**. This suggests that ESPPs may contribute to heightened positive employee sentiment.
- We do not suggest that correlation implies causation, and that an ESPP will result in better returns. However, we believe allowing employees to have a financial stake in the company can lead to increased motivation, as employees directly benefit from the company's growth and performance.
- Companies may be hesitant to offer an ESPP due to administrative concerns; however, the share usage and expense, administrative cost, and operational burden is relatively modest when compared to the potential benefits.

To obtain our research sample, we reviewed proxy statements and 10-K filings to identify the companies in the S&P 500 that offered an ESPP to employees. We analyzed total shareholder return (TSR), EBITDA, earnings per share (EPS), and revenue growth to analyze whether companies in the S&P 500 with an ESPP outperform companies in the S&P 500 without an ESPP. We also performed a meta-analysis of employer recognition awards for all companies in the S&P 500 Index, aligned to the assumption that such awards provide one gauge of positive workforce sentiment.

When measuring TSR, EBITDA, EPS, and revenue growth, S&P 500 companies with ESPPs have demonstrated long-term outperformance over 3, 5, 7, and 10 years over those without ESPPs. While employees are commonly allowed to sell their shares purchased through an ESPP right away, many employees hold their shares at least 1-2 years after purchase, thereby creating a commitment to the company and aligning with a trend of long-term outperformance.[1]

A review of S&P 500 companies appearing in four "best places to work" lists revealed that companies offering ESPPs were more frequently recognized as top employers. Additionally, it was observed that companies with ESPPs frequently appeared on three or four of these lists, while those lacking ESPPs were typically present on only one or two lists, with no non-ESPP companies appearing on more than two lists.

Our analysis of company performance and employer recognition awards does not suggest that correlation implies causation, and that an ESPP will result in better returns or employee sentiment. However, we believe allowing employees to have a financial stake in the company can lead to increased motivation, as employees directly benefit from the company's growth and performance. An ESPP can improve employee engagement by creating a sense of ownership, wealth accumulation opportunities, and alignment of interest between employees and the company.

1 National Association of Stock Plan Professionals and Deloitte Tax LLP. *2023 ESPP Survey*, 2023.

ESPP Prevalence by Sector

We found that 50% of S&P 500 companies have an ESPP. The sector with the highest ESPP prevalence is Information Technology with 82% of companies having an ESPP.

ESPPs may be more prevalent in certain sectors that face strong competition for skilled workers. An ESPP can be an attractive benefit that differentiates a company and attracts talent. Additionally, an ESPP may incentivize employees to stay with a company due to the potential long-term financial benefits of being a shareholder.

ESPPs are also common in sectors with historically high levels of stock market performance, such as Information Technology and Financials. In these sectors, the potential for future financial gains from stock ownership make ESPPs particularly appealing to employees.

Additionally, industry and company culture may influence the prevalence of ESPPs. In the Information Technology sector, equity compensation and ESPPs are more common. Equity participation aligns employees' interests with the overall success and performance of the company, promoting a culture of ownership and employee participation in value creation.

Overall, the prevalence of ESPPs in certain industries may be linked to competition for talent, stock performance, and culture.

GICS Sector	ESPP Prevalence
Information Technology	82%
Health Care	66%
Utilities	50%
Financials	47%
Real Estate	45%
Communication Services	45%
Consumer Discretionary	44%
Energy	43%
Industrials	39%
Materials	31%
Consumer Staples	29%

Company Performance

We analyzed cumulative TSR performance, EBITDA, EPS, and revenue growth over the last 10 years from 2014 to 2023 to analyze whether companies in the S&P 500 with an ESPP outperform companies without an ESPP. Across all measures, we observed a trend of outperformance over the long-term for S&P 500 companies with an ESPP.

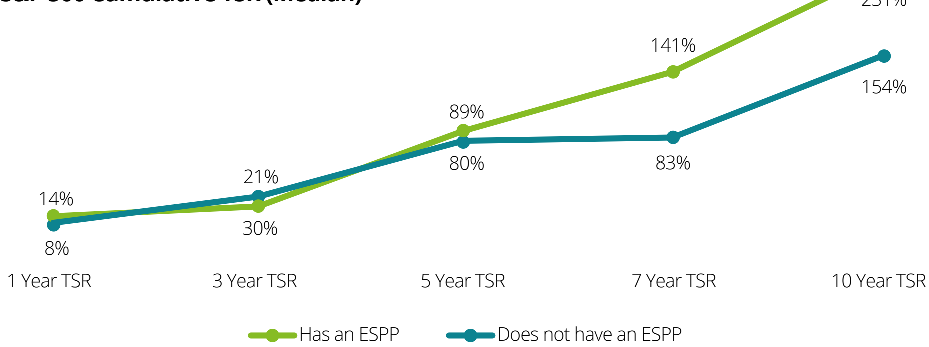
This trend is not as apparent in the short-term (less than three years), where the 1-year and 3-year periods are more impacted by short-term market fluctuations like the impact of the COVID-19 pandemic, high levels of stock market volatility, and economic uncertainty due to interest rates and geopolitical concerns. Measuring performance over the long-term allows us to better analyze the overall growth and success of companies.

Below is a summary of our findings by performance measure. We sourced all financial data from S&P Capital IQ, and we looked at median performance (i.e., 50th percentile) instead of average performance to reduce the impact of outliers and provide a representative measure of the central trend.

Total Shareholder Return (TSR)

- Over a 1-year period, companies with an ESPP outperformed companies without an ESPP by 6 percentage points at the median.
- However, over a 3-year period, companies without an ESPP outperformed companies with an ESPP by 9 percentage points.
- Companies with an ESPP begin to exhibit more notable outperformance over 5, 7, and 10 years, with the level of outperformance increasing over time.
- Over a 10-year period, median TSR for S&P 500 companies with an ESPP is 77 percentage points higher than companies without an ESPP.

S&P 500 Cumulative TSR (Median)

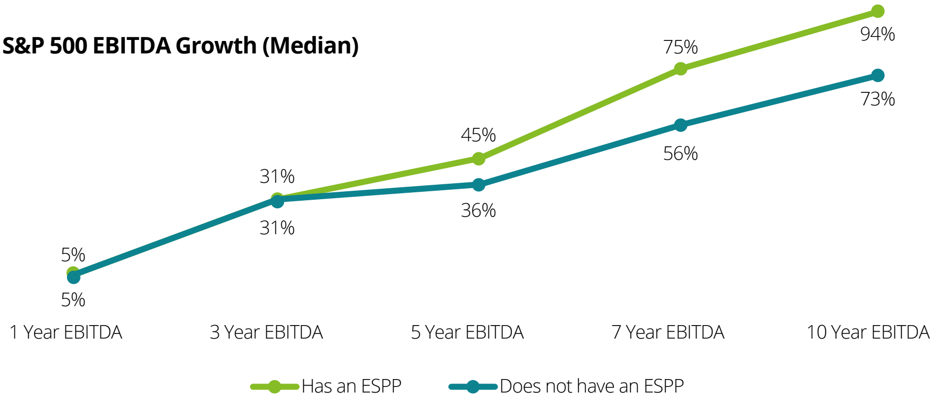


S&P 500	# of Orgs	1 Year	3 Year	5 Year	7 Year	10 Year
Has an ESPP	250	14%	21%	89%	141%	231%
Does not have an ESPP	250	8%	30%	80%	83%	154%

EBITDA Growth

- Over each measurement period, median EBITDA growth for companies with ESPPs equals or exceeds the median EBITDA growth for non-ESPP companies.
- The level of outperformance for ESPP companies increases over the long term, with a 9 percentage point increase in 5-year EBITDA growth, a 19 percentage point increase in 7-year EBITDA growth, and a 21 percentage point increase in 10-year EBITDA growth.

S&P 500 EBITDA Growth (Median)

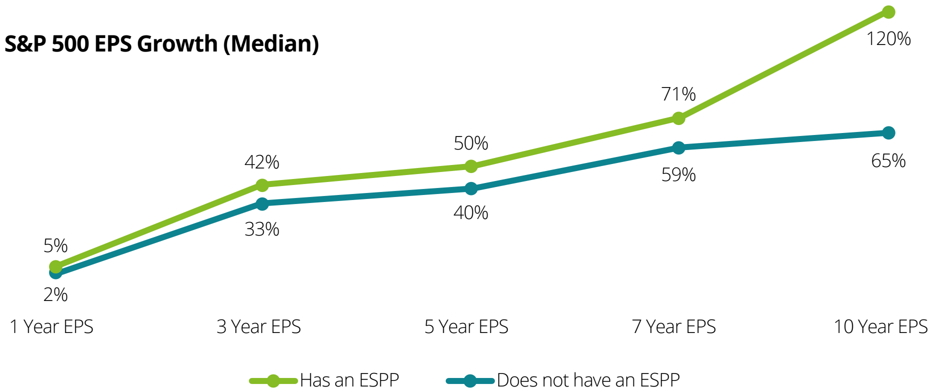


S&P 500	# of Orgs	1 Year	3 Year	5 Year	7 Year	10 Year
Has an ESPP	250	5%	31%	45%	75%	94%
Does not have an ESPP	250	5%	31%	36%	56%	73%

EPS Growth

- Over each measurement period, the median performance of companies with ESPPs exceeds the median performance of non-ESPP companies.
- The level of outperformance for ESPP companies increases over the long term, with a 3 percentage point increase in 1-year EPS growth, a 9 percentage point increase in 3-year EPS growth, a 10 percentage point increase in 5-year EPS growth, and a 12 percentage point increase in 7-year EPS growth.
- Over a 10-year period, median EPS growth for S&P 500 companies with an ESPP is 55 percentage points higher than companies without an ESPP.

S&P 500 EPS Growth (Median)

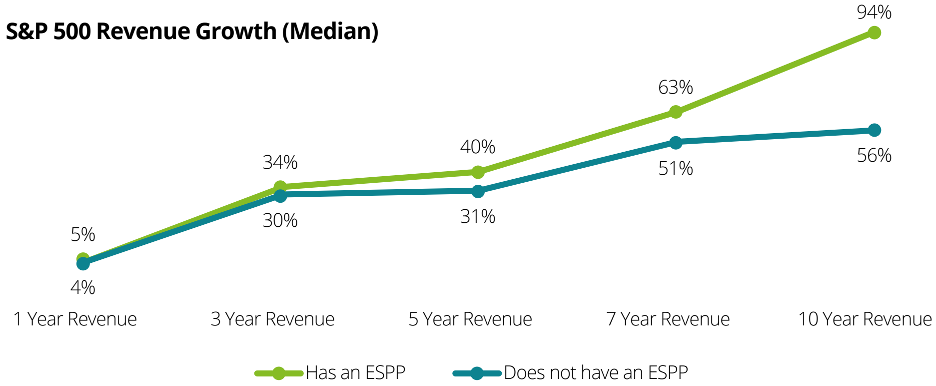


S&P 500	# of Orgs	1 Year	3 Year	5 Year	7 Year	10 Year
Has an ESPP	250	5%	42%	50%	71%	120%
Does not have an ESPP	250	2%	33%	40%	59%	65%

Revenue Growth

- Over a 1-year period, performance is similar; median revenue growth is 5 percent for companies with an ESPP and 4 percent for companies without an ESPP
- Companies with an ESPP begin to exhibit outperformance over 3, 5, 7, and 10 years, with the level of outperformance increasing over time.
- Over a 10-year period, median revenue growth for S&P 500 companies with an ESPP is 38 percentage points more than companies without an ESPP.

S&P 500 Revenue Growth (Median)



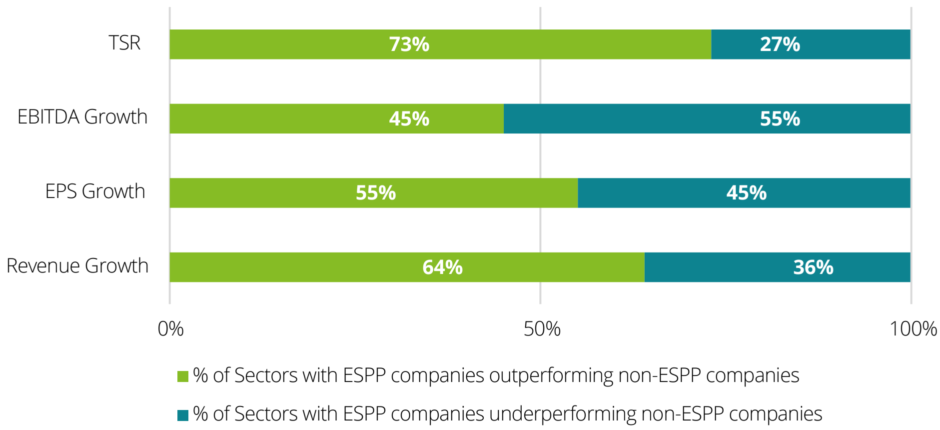
S&P 500	# of Orgs	1 Year	3 Year	5 Year	7 Year	10 Year
Has an ESPP	250	5%	34%	40%	63%	94%
Does not have an ESPP	250	4%	30%	31%	51%	56%

Sector Performance

After observing this trend of long-term outperformance among all S&P 500 companies, we considered whether this trend existed across different sectors of the S&P 500. We conducted the same analysis for each of the 11 sectors identified earlier in this analysis and noted similar trends. Over the long term, companies with ESPPs outperform companies without ESPPs, and the level of outperformance increases over longer time periods.

When we look at 10-year performance, companies with ESPPs outperform companies without ESPPs across most financial measures and sectors.

10-Year Performance for S&P 500 Companies by Sector



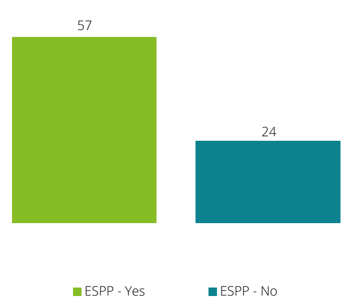
Employee Sentiment

After analyzing the financial results, we decided to gauge employee sentiment to see if employees at companies with ESPPs showed more favorable attitudes about their employers. To capture this data, Deloitte's Insights2Action team performed a meta-analysis of employer recognition awards for all companies in the S&P 500 Index, aligned to the assumption that such awards provide one gauge of positive workforce sentiment.

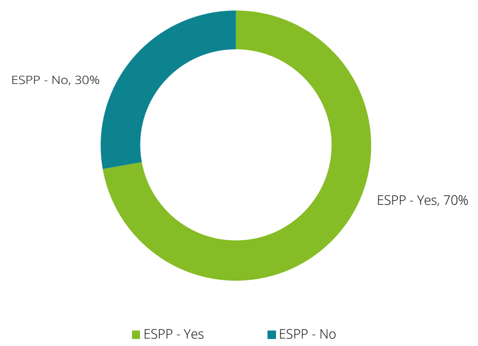
The team utilized four employer recognition award lists to evaluate workplace sentiment: Fortune 100 Best Companies to Work For 2023, Glassdoor Best Places to Work 2023, Comparably Best Company Perks & Benefits 2023, and Built In Best Places to Work 2023. These lists were selected because they all include employee survey input and attract a large number of companies to participate. Each S&P 500 company was reviewed for award presence and quantity of awards across these lists.

Upon analyzing the S&P 500 companies across these lists, the findings seem compelling. Companies offering ESPPs were more likely to receive awards— receiving 57 awards in total across the four lists, which is more than double the 24 awards won by companies without ESPPs. Of the total 81 awards given to S&P 500 companies, 70% were awarded to companies with ESPPs compared to 30% for those without.

Total Best Places to Work Awards



Prevalence of Best Places to Work Awards



This trend of increased employer recognition awards for companies with ESPPs was consistent across most industry sectors. Furthermore, companies providing ESPPs had a higher likelihood of being recognized on multiple award lists compared to those without ESPPs.

While this approach cannot be considered definitive, it generated some very interesting insights, and suggests the potential for correlation between better benefits, such as an ESPP, and the positioning of a company as an employer of choice.

Benefits of an ESPP

Our analysis of company performance and employee sentiment illustrates how an ESPP can benefit companies and employees. We are not suggesting that an ESPP will result in better financial returns or employee sentiment. Instead, we think our analysis of the S&P 500 exemplifies that the primary benefit of an ESPP is the alignment it creates between a company and its employees.

When employees become shareholders and are able to generate wealth accumulation opportunities, they are more likely to focus on the company's long-term success, fostering a culture of shared goals. An ESPP can also serve as a long-term financial investment and a valuable employee retention tool. As the value of a company's stock grows, employees may benefit financially, further enhancing employee satisfaction and loyalty.

Eight Reasons to Consider an ESPP

1. **Offer employees equity at a discounted price**

   Employees can easily purchase company equity using payroll deductions at a discount to market value.

2. **Create an ownership culture**

   When employees hold equity in their employer, they may feel linked to and support the success of the company.

3. **Invest and build savings simply**

   Regular, automatic discounted equity purchases can help employees achieve their savings goals and be a valuable part of their overall financial planning strategy.

4. **Recruit and retain higher-quality talent**

   Based on the ESPP survey, only around 40% of US companies offer their employees access to a discounted ESPP. This can make a program a differentiator in the talent market.

5. **Provide a long-term investment opportunity**

   Employees have the potential to profit from long-term business growth if they hold onto their equity over time.

6. **Improve the employee experience**

   ESPP participants may be less absent, less likely to leave the business, and report greater job satisfaction.

7. **Raise capital**

   Regular payroll deductions from participating employees can provide steady cash flow for the company.

8. **Reward globally**

   ESPPs can be designed for global implementation, meaning your employees all over the world can participate.

When offering an ESPP, companies should also educate employees about the mechanics of the ESPP, such as enrollment process, contribution limits, and holding periods. Highlighted below are potential benefits of employee education around ESPPs.

- Helps employees appreciate the financial advantages and encourages active participation
- Promotes informed decision making and empowers employees to make strategic choices aligned with their financial goals
- Builds trust and confidence among employees, reinforcing the positive impact of the ESPP on their financial well-being

Employee education around an ESPP is essential for enhancing the plan's effectiveness, fostering informed decision-making, and enabling a positive impact on both employees and the company. Better knowledge of the ESPP can increase participation and the employee experience, resulting in improved employee engagement.

In summary, an ESPP can promote a stronger connection between employees and the company. Thoughtful design features and employee communication around the ESPP can increase the value of this benefit and further strengthen employee engagement and the retentive value of an ESPP. Companies may be hesitant to offer an ESPP due to administrative concerns; however, the share usage and expense, administrative cost, and operational burden may be relatively modest when compared to the potential benefits.

Get in touch

Considering an ESPP or looking to improve your employees' understanding of your current ESPP benefit?

Looking to leverage Deloitte's Insights2Action (I2A) research-based insights, tools, resources, and services to elevate your organization's Human Capital practices and strategies?

We are here to help. Contact us to arrange a meeting to discuss your organization's needs, respond to an RFP, or answer any other questions.

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