

# PHANTOM VS RSU VS SARS



## What's the buzz?

Phantom, RSUs & SARs are innovative strategies taking the market by storm. Gone are the days of a simple fixed monthly salary; now, it's about sharing in the company's success and ownership.

## But why the shift?

It's all about attracting and keeping top talent engaged by offering them a stake in the company's prosperity.

## Definitions at a Glance

### Phantom Stocks

**Phantom stocks** are a form of employee incentive where employees receive hypothetical/virtual shares, reflecting actual stock value. Unlike actual equity, employees don't own tangible shares but receive cash or equivalent value upon certain conditions.

#### ▶ When to choose?

Ideal for incentivizing employees without ownership transfer, they provide cash equivalents on a set date, aligning incentives with company performance.

### RSUs (Restricted Stock Units)

RSUs are a form of employee compensation where a company grants its employees a certain number of shares, typically linked to performance milestones or tenure. Unlike traditional stock options, employees are not required to buy company stock upon vesting. Instead, they seamlessly acquire the shares once the predetermined vesting conditions are fulfilled.

#### ▶ When to choose?

Beneficial when wanting employees to share in the company's success over time, as the value is tied to the stock's performance.

### SARs (Stock Appreciation Rights)

**SARs** offer employees the right to receive cash or stock equal to the appreciation in company stock value over a predetermined exercise price, fostering employee motivation without actual stock ownership.

#### ▶ When to choose?

Suitable for linking compensation to stock performance while sidestepping actual stock ownership and its associated complexities



## Key Differences Among Phantom Stocks, RSUs, & SARs

Key Factors	Phantom Stocks	RSUs	SARs
<b>Ownership Rights</b>	No actual stock ownership	Actual stock ownership upon vesting	No actual stock ownership
<b>Dividend Payments</b>	No dividends	Receives dividends when RSUs vest	No dividends
<b>Vesting Period</b>	Typically has a vesting period with conditions	Has a vesting schedule over time	Dependent on a vesting period with conditions
<b>Payout Mechanism</b>	Cash upon triggering event (e.g., sale)	Company stock upon vesting	Cash upon triggering event
<b>Tax Implications</b>	Taxed as ordinary income upon payout	Company stock upon vesting	Cash upon triggering event
<b>Conversion to Shares</b>	Doesn't convert to actual shares	Converts to actual shares upon vesting	May result in cash or stock settlement
<b>Liquidity for Holder</b>	Cash settlement provides immediate liquidity	RSUs may be sold after vesting, providing liquidity	Cash settlement provides immediate liquidity

## A Win-Win Scenario: Advantages of Equity Compensation Plans for Both Employees and Employers

Type of Equity Compensation Plan	Employee Benefits	Employer Benefits
<b>Phantom Stocks</b>	Cash payout without owning actual shares	Non-dilutive way to share success
<b>RSUs</b>	Stock ownership without upfront costs	Long-term commitment of the employee
<b>SARs</b>	Financial gain from stock appreciation without investing their own money	Employee commitment without diluting existing shareholders' stakes

### Who's Offering What?

**Restricted Stock Units (RSUs)** are widely prevalent in the private sector, with sought-after companies such as **Amazon, Uber, Apple, and Microsoft** frequently incorporating them into their employee compensation packages. In addition to traditional RSUs, some companies, such as **DLF, Birla Sunlife, and Bajaj Allianz**, opt for innovative approaches like **phantom stock options**. Notably, **Apollo Tubes** stands out for granting **SARs** to its employees, contributing to the diverse landscape of employee incentive programs in the corporate sector.

Choosing the right equity incentive plan for your organization involves considering various factors. These include the **extent of equity dilution you're comfortable with, the perks you're willing to offer employees, and the projected profits over a specific period**. So, outline your unique needs and identify plans that align with your long-term goals

