

From public to private how Wella adapted their equity awards to incentivize leaders

94%

participation rate

25

Countries



WELLA
COMPANY

Case Study

Name: Wella Company

Headquarters: Switzerland

Industry: Hair, nail and beauty tech

Any major change to a company's ownership structure is going to have an impact on its equity compensation programmes and this is especially true when going from a publicly traded to privately owned company. Maintaining a truly incentivized and engaged employee population can prove vital at such a crucial time.

This was the challenge facing Wella Company, the global hair, nail and beauty tech company in 2020 when it was 'carved out' of parent group Coty, in a deal which saw KKR, the American private equity investment firm, acquire a 60% stake. This move brought Wella back into private ownership as a standalone company. An immediate impact for employees was the loss of access to the annual long-term equity grants, they had been receiving.

Wella Company, which includes such well-known household brands as Wella Professionals, Clairol, OPI and ghd, considers directors and senior executives as owner-managers and understands these are the individuals who can have a real impact on the company's direction and progress. With this in mind, the company immediately set about creating a new equity plan for management; Wella Incentive Scheme aka WINS.

The challenge

At such a critical juncture, Wella Company understood that retention of key personnel at c-suite and executive levels was essential to maintain a sense of continuity, consistency, leadership and stability. It's worth noting that KKR seeks to invest in companies that create a share in value for employees and so were supportive of developing a new long-term incentive plan to unite these circa 400 senior leaders.

As a private company pricing is more complicated than it had been as part of a publicly traded organization. Another challenge was that since WINS is a buy-in plan there are tax implications for participants across different countries.

What's next? ->

The solution

Wella Company discussed legal issues and obtained tax support early in the process in order to provide relevant and comprehensive guidance to participants. Managing the tax element is a key part of the plan and the company understood it was important to keep the program as tax efficient as possible for participants.

The roll-out was also backed by an employee education program so employees could fully understand the benefit of partaking, which is why for every share purchased Wella Company would provide a matching share. Through WINS, employees could immediately see how their investment was augmented: for every 1 share purchased, 1 additional share was awarded.

What about **the plan?**

WINS launched in January 2021 and is established as an equity offering split into two parts – preference shares and ordinary/common shares, with a five-year vesting cycle. Individuals were invited to acquire actual equity using their own funds.

Ownership is tracked using the **J. P. Morgan Workplace Solutions** (formerly Global Shares) platform which also allows Wella Company's WINS participants to track, view what equity they hold and see the current valuation 24/7, via the participant portal and app.

Success brought with it new challenges however when KKR increased its holding by an additional 14%. This was a positive action that both demonstrated KKR's strong belief and instilled confidence which acted to inspire employees, but also provided a hurdle which needed to be addressed – the company's share price valuation increased. This meant the program became more expensive for employees to invest, i.e. purchase shares. As WINS was designed to be tax efficient, i.e. no discount as that would have tax implications, Wella Company immediately set about tweaking the plan to tackle these changes.

An elegant solution was developed whereby Restricted Stock Units (RSUs) were introduced as a top-up, thereby ensuring the plan remained attractive to new joiners and promoted employees. These additional RSUs were offered at no cost to the employees, meaning they were able to continue to offer value to employees as a result.

Wella Company were also aware in the early planning stage that an essential component needed to be incorporated into the program – a buy-back mechanism which enables leavers prior to the end of the five-year vesting period to offload shares. As a private company, all shares are purchased back when a plan participant leaves.

Following launch, other areas of complexity also emerged, e.g. IRS reporting, dealing with foreign trusts if investing from the US, s83(b) elections, etc. Wella Company addressed these by providing tax support and guidance directly to employees and also leveraging financial wellbeing seminars and education sessions/materials.



What did **success** look like?

With a participation rate of circa 94%, below industry average attrition and almost no voluntary attrition at the very senior level this initiative has been a significant success. Using their own funds, employees have actively bought into the plan, been rewarded with matching shares and are partaking in determining the company's future.

In terms of the share value, Wella Company have the ordinary shares valued by an external company twice a year. This information is shared with employees to enable transparency and to provide a view on progress which helps drive even more value creation

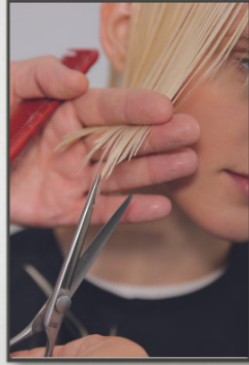
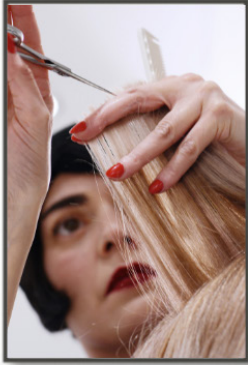
Wella Company consistently remind these employees to think of themselves as owner-managers who are playing an active role in its progress and achieving performance goals.

The company also takes a very proactive approach to financial wellness and a premium is placed on education and helping people to understand the value of what they have available to them, which they can view using the Workplace Solutions app.

Engagement is a key component - these owner managers are not just acquiring shares to forget about them; instead, Wella Company want their people to understand fully what they are buying into, how it can impact them as individuals, how they themselves can affect the performance and

how they can help to grow the business - in turn reaping the benefits of any growth. Building on the initial success and positive feedback on WINS, the ownership created a second program named We Own our Way (WOW) which creates the opportunity for all 6,000 plus employees globally to share in the equity upside of the current investment period. This second program includes all employees not in the WINS program and has helped to drive engagement across the entire company, with employees participating in the WOW ideas campaign where they share ideas to help create increased value through innovation, efficiency or growth programs.

Wella Company's belief is to be better by doing better, a mantra which guides their business, environmental and social progress. To achieve this, Wella Company seeks to create a culture where all employees lead as owners, invested in shared success and therefore ensuring Wella Company prospers for generations to come. This is aligned with KKR's view that implementing broad-based ownership and giving employees a voice enhances employee engagement and can be a powerful tool for value creation for everyone involved. As a founding member of Ownership Works (a nonprofit created to support public and private companies transitioning to shared ownership models), KKR is committed to enabling broad-based employee ownership across its portfolio companies and Wella Company employees have benefited from this since launch in February 2023.



What next?

WINS continues to drive engagement and motivation and fosters a culture of shared success and investment in the company's future.

New hires are onboarded to the plan on a defined periodic basis, managed inhouse and executed automatically via the Workplace Solutions system. Tax guidance is provided as this is a 'buy-in' plan with reporting requirements and tax implications. The tax element is a key component so high level country-specific tax guidance is also provided.

The company firmly believes in giving people the tools they need to make informed choices through education and awareness programs. Through these employee ownership programs Wella Company wants every employee to have a vested financial interest in the company's future and share in the company's success they help enable.

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