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Equity for Endorsement? What to Know

Star athletes and entertainers are now inking endorsement deals that include equity compensation. Here's what to consider when determining whether this approach makes sense for you.

Brand sponsorships have long offered an important revenue stream for celebrities. These deals have traditionally been a straightforward exchange of cash payments in return for an endorsement. In recent years, however, a trend of brands trading equity for endorsements has gained steam, and it's a movement that could hold even greater financial upside than traditional endorsement deals.

Athletes and entertainers have inked such deals with major brands, but up-and-coming companies—and up-and-coming stars—also increasingly see value in this approach. Equity-for-endorsement deals may add more authenticity to such partnerships, since the pro now owns a piece of the product they're pushing, and the company gets a potentially valuable partner without having to lay out additional cash. Plus, the entertainer has an added incentive to do what they can to improve the value of the company, since the more the business grows, the higher the value of their equity may be.

Still, these transactions can be complex, with considerable risk. Like anyone evaluating equity compensation, you'll need to consider the following questions to determine whether an equity-for-endorsement deal makes sense for you, and if so, how to make the most of the equity that you receive:

- ***What is the value of my equity?*** With a traditional brand endorsement deal, you may not need to dig too deeply into the company's financials, beyond making sure that the check will clear. When you're accepting equity, think of it as an investment in the organization, its long-term prospects and its potential for future success.

  For public companies, understanding the value of the equity is relatively straightforward, but at startups and other private firms it requires a bit more due diligence. The current value of your shares will reflect the current valuation of the company, but you'll also need to consider how the value of the company could increase or decrease in the future—and how that could impact the value of your shares.

- ***When can I sell my stake?*** If you'll need or want to tap into the value of your equity in the near term, it's important to understand whether that's possible, and the process (and cost) for doing so.

  Particularly at private companies, there may be restrictions on when and how you're able to sell your shares. If you're receiving equity from a public company, there may still be blackout periods or other limitations on when you can sell your shares. Your Morgan Stanley Global Sports and Entertainment Director can help you understand the implications of selling your shares and the timing of such sales.

- ***Is there a risk of over-concentration in my portfolio?*** You don't want your portfolio to be too dependent on the performance of a single stock or company. The total amount of company stock you should have in your portfolio depends on your personal goals and risk tolerance. Some financial professionals advise keeping no more than 25% of your net worth invested in any individual stock.[1]

  Keep in mind that even if the equity received at the outset of a deal does not pose a concentration risk, if the value of the company grows over time, you could still end up with an overweight position. Your Global Sports and Entertainment Director can help you track the value of your equity and determine whether it's time to rebalance your portfolio.

- ***What is the tax impact of receiving equity compensation?*** Like other forms of pay, the equity you receive for an endorsement will have an impact on your taxes. The US federal income tax treatment of your equity compensation will vary depending on factors like its type as well as the length of time you hold the actual shares. Depending on these factors, you might be subject to ordinary income tax, alternative minimum tax, and/or capital gains tax (short- or long-term). You may even be able to minimize your tax bill by including equity compensation as part of your charitable giving planning. Learn how gifting your shares can have a positive impact on your year-end tax bill.

  Additionally, you should consider how changes in the value of your shares may affect your taxes. If the value of your shares decreases over time (and you don't expect it to go back up), you might also consider selling them to harvest the losses. When you sell at a loss, you can usually use those losses to offset capital gains.

  Connect with a professional tax advisor to better understand how your equity compensation may impact your tax situation.

- ***How can this equity compensation help me meet my financial goals?*** Whether you're thinking about retirement or your future legacy, the equity you've received for your endorsement can play a role in meeting a range of financial goals. The best way to use any proceeds from your equity compensation will depend on several factors, including your short- and long-term objectives, other funding sources, and risk tolerance.

Your Morgan Stanley Global Sports and Entertainment Director can help you get a better understanding of how your equity compensation fits into your overall financial picture. Learn more about equity compensation and how Morgan Stanley can help you make the most of yours.

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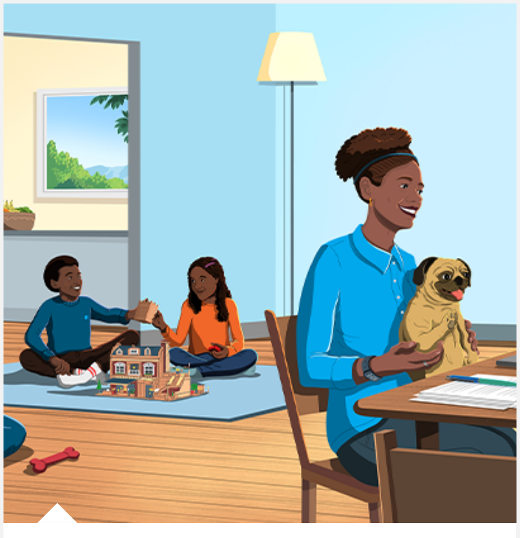

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