

# How Growing Companies Can Evolve Their Equity Compensation Strategy

Jon W. Burg, Infinite Equity

Matt Schulman, Pave



# Presenters



Jon W. Burg, FGE, CEP  
Founder, Managing Partner  
Infinite Equity  
[jon@infiniteequity.com](mailto:jon@infiniteequity.com)  
+1.415.205.9534



Matt Schulman  
Founder, CEO  
Pave  
[matt@pave.com](mailto:matt@pave.com)  
+1.610.945.6533

**“You will get more from your employees, and they will be more committed if you share equity immediately in a meaningful way, so that everybody rises up”**

**-Mark Cuban**

# Agenda





# Equity Strategy Basics

# Equity Strategy – Overview



## Philosophy

- A company's equity philosophy is the intended goal of their equity program
- The philosophy will inform the strategy decisions
- This includes eligibility, vehicle, vesting, frequency and timing, etc.



## Benchmarking

- Benchmarking is the exercise of determining how much equity to grant employees and the organization of the guidelines
- At this stage we may utilize survey data or market trends research



## Affordability

- Companies are often limited in the amount of equity they can offer by their share pool reserve or burn rate constraints
- In scenarios where companies are limited in available shares, the equity strategy may become an allocation exercise

# Equity Strategy – Levers



**ELIGIBILITY &  
PARTICIPATION**

**BENCHMARK  
PERCENTILE**

**VEHICLE  
& MIX**

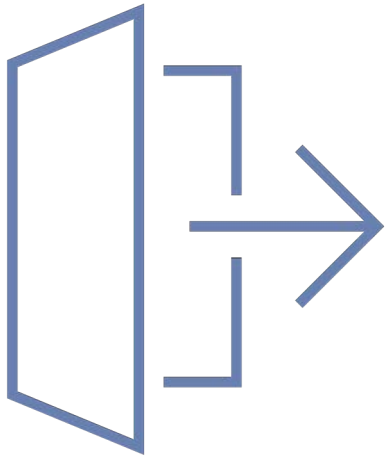
**GLOBAL &  
REMOTE  
DIFFERENTIALS**

**VESTING CRITERIA**

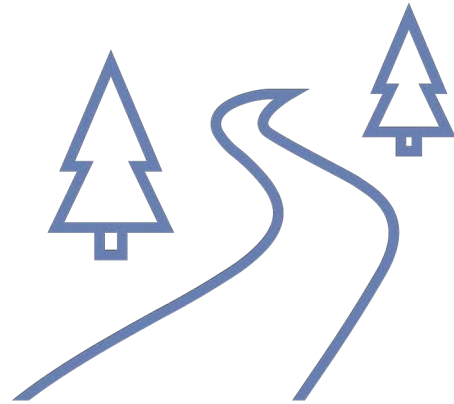
**GRANT FREQUENCY  
& TIMING**

# Equity Strategy – Award Design

Choosing the right equity vehicle and determining the design details of the award for your employees should also consider several key factors.



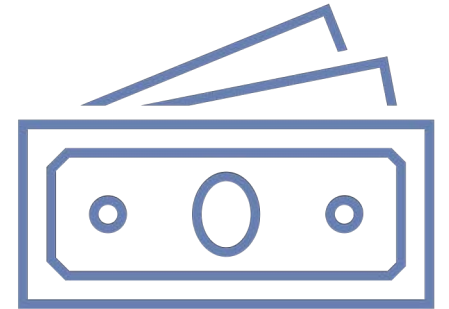
**Exit  
Strategy**



**Time  
Horizon**



**Vesting  
Provisions**

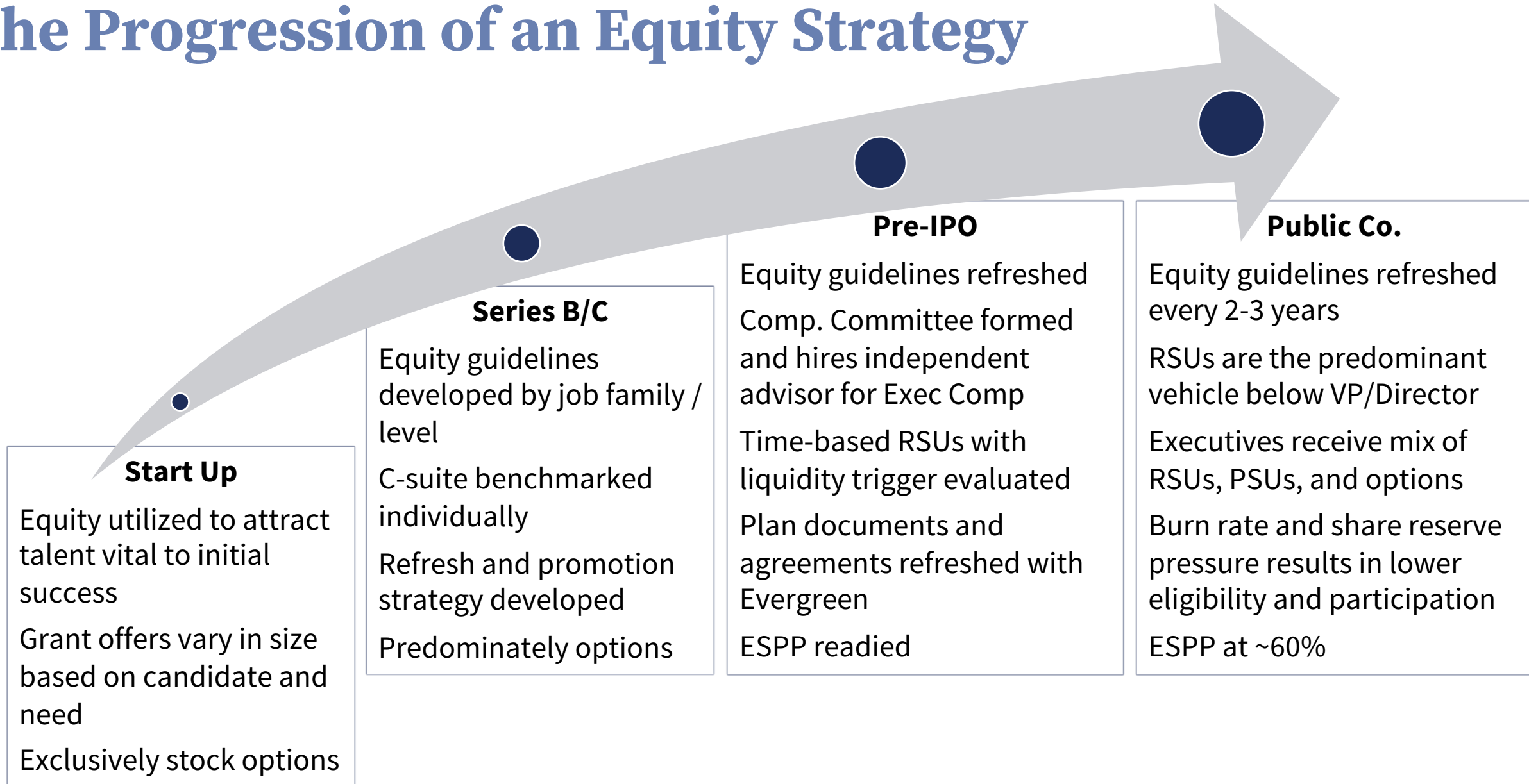


**Providing  
Liquidity**



# Equity Strategy Progression

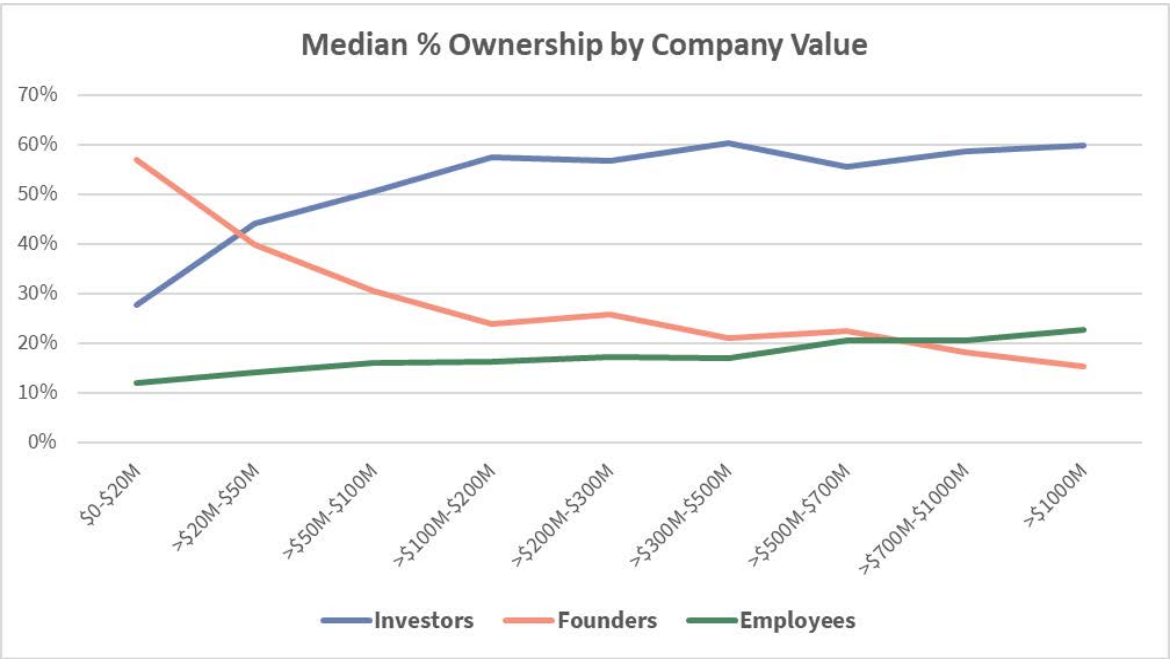
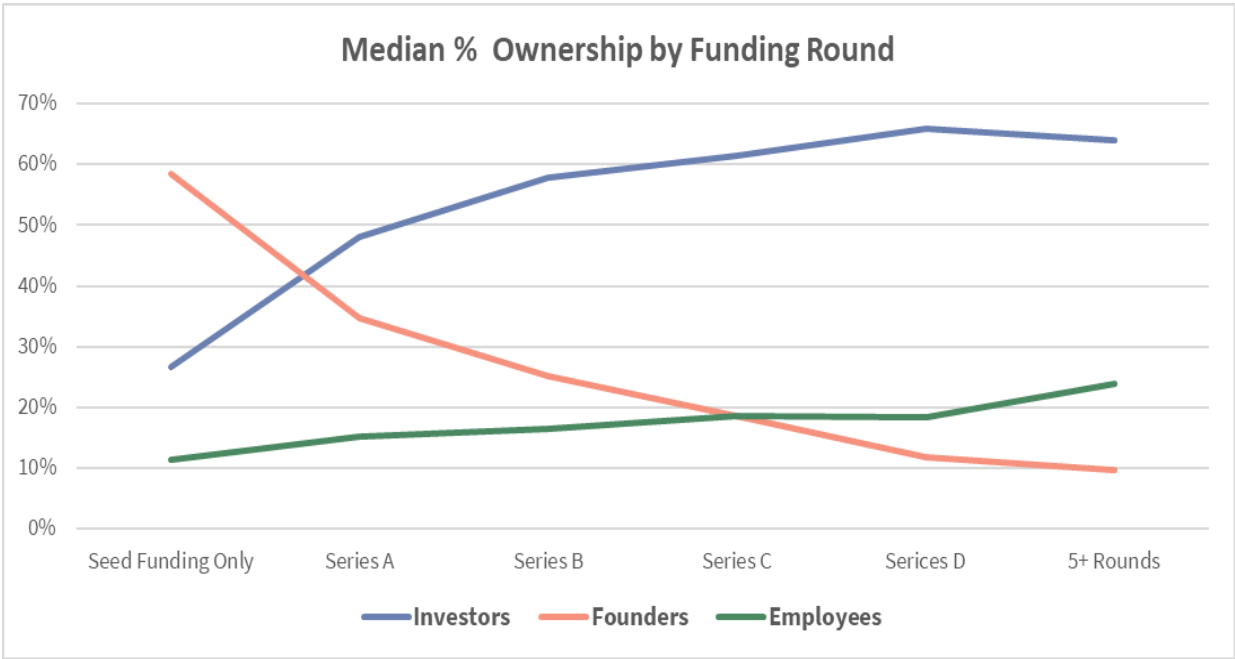
# The Progression of an Equity Strategy



# The Progression of an Equity Strategy

The following charts show the Median % Ownership for Investors, Founders, and Employees by

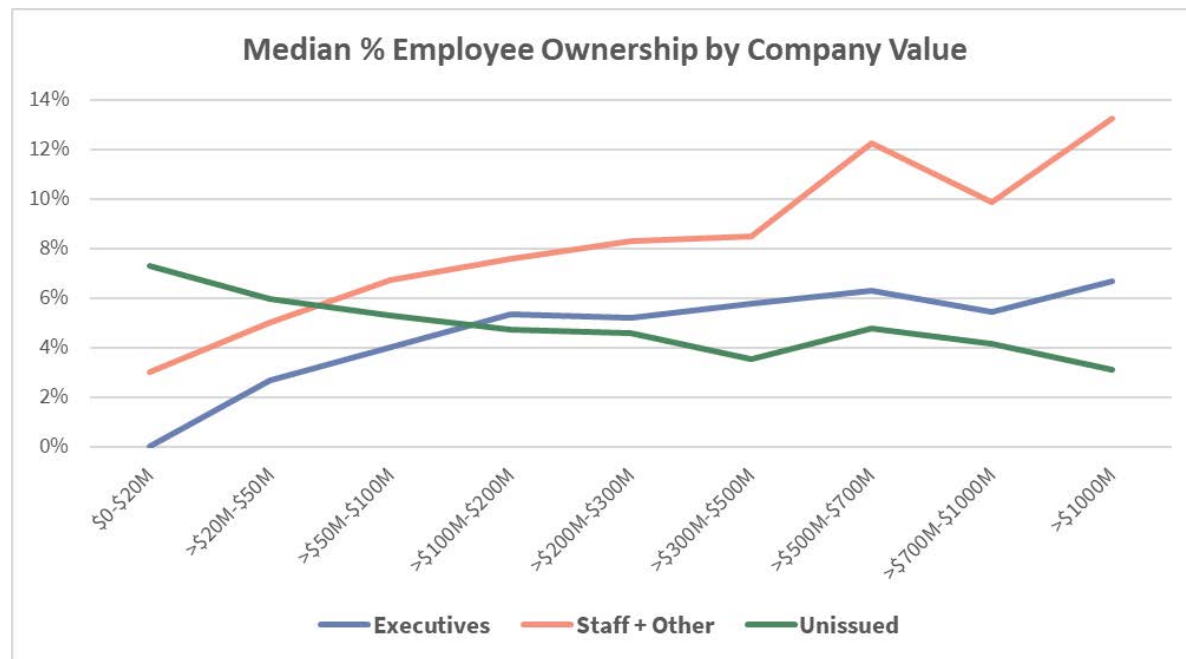
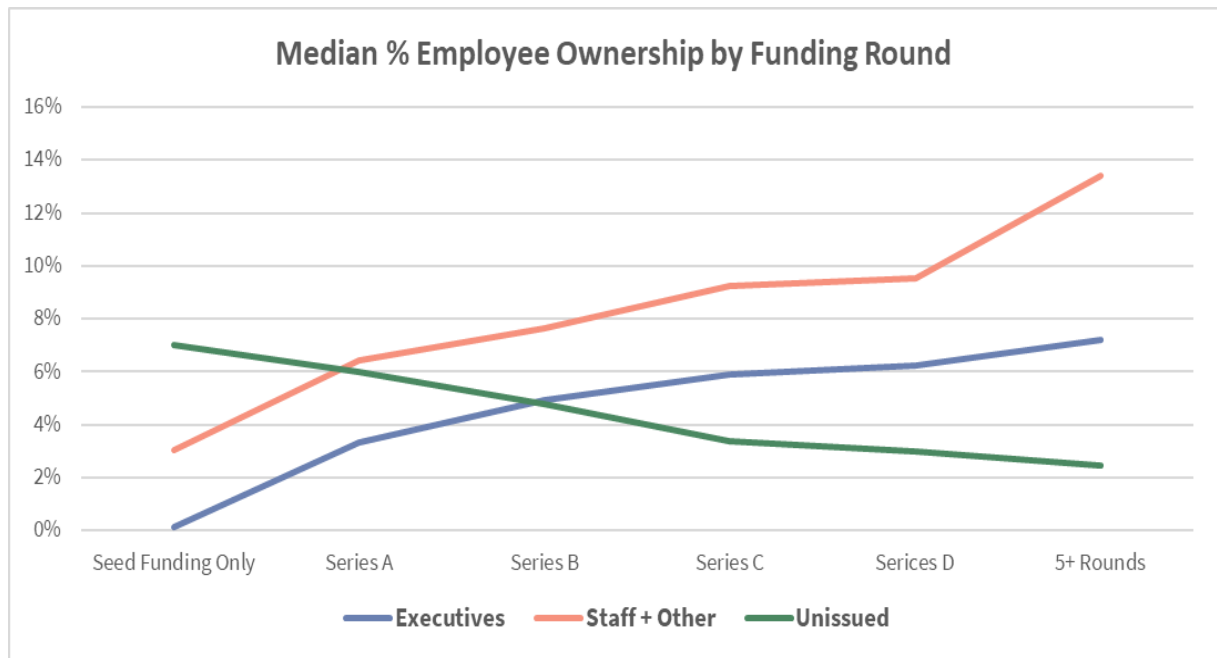
- 1) Funding Round
- 2) Company Value



# The Progression of an Equity Strategy

The following charts show the Median % Employee Ownership for Investors, Founders, and Employees by

- 1) Funding Round
- 2) Company Value



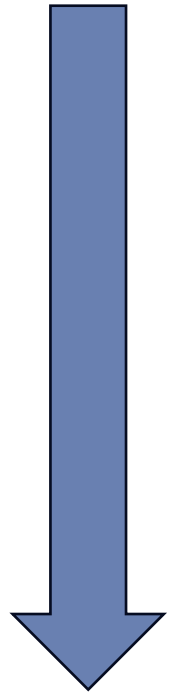


# Allocating Equity



# Allocating Equity

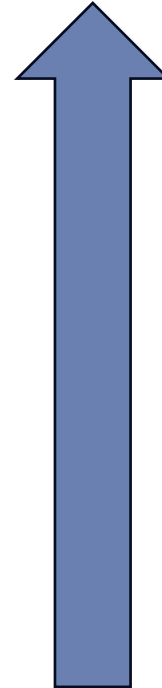
Generally, there are two approaches for allocating equity –



## Top Down

Establish what percentage of the company should be allocated to employees on a cumulative basis

1. Determine the total amount of equity to be granted to employees, which will vary by company size
2. Distribute the allocated equity to employees over time using the predetermined schedule



## Bottom Up

Establish the appropriate grant size by job level

1. Determine job levels and grant size as a % of company, grant value, or multiple of base salary
2. Calculate the grant size as a function of the predetermined equity guideline and current share price

**But, in practice, the determination will be a combination of both and may require an iterative process**

# Benchmarking – Data and Structure

Companies approach equity by identifying their comparative market then organizing guidelines into a company-specific structure.

Data	Structure
<ul style="list-style-type: none"><li>• Compensation surveys provide market data on grant sizing and industry trends</li><li>• If applicable, we will identify a peer group, or select group/list of companies, whose data we gather to make equity compensation decisions</li><li>• Market data may also provide information on vesting trends, vehicle mix, eligibility and participation, burn rate, and overhang</li></ul>	<ul style="list-style-type: none"><li>• Granting equity on an individual role basis is not practical for the majority of organizations</li><li>• Structure Architecture:<ul style="list-style-type: none"><li>• United States vs. Non-US</li><li>• Geo-differentials</li><li>• Job families</li><li>• Job levels</li><li>• New Hires vs. Ongoing Roles</li></ul></li></ul>

# Structure – Levels and Grades

The market awards equity differently for each type of employee.

## Executive

Executives are the VP level and above, including the CEO. Due to the specifics of executive job offers, executives are typically reviewed individually though some companies create equity guideline ranges for the VP and SVP level

## Management

The management level requires an individual to be a current people manager or expecting a direct report in the near future  
Ex: Manager, Accounting; Director of Compensation; Head of Data Science

## Professional

The professional track is typically exempt professionals without direct reports. Some distinguish these roles as have a college degree requirement  
Ex: Consultant, Senior Engineer, Accounting Manager

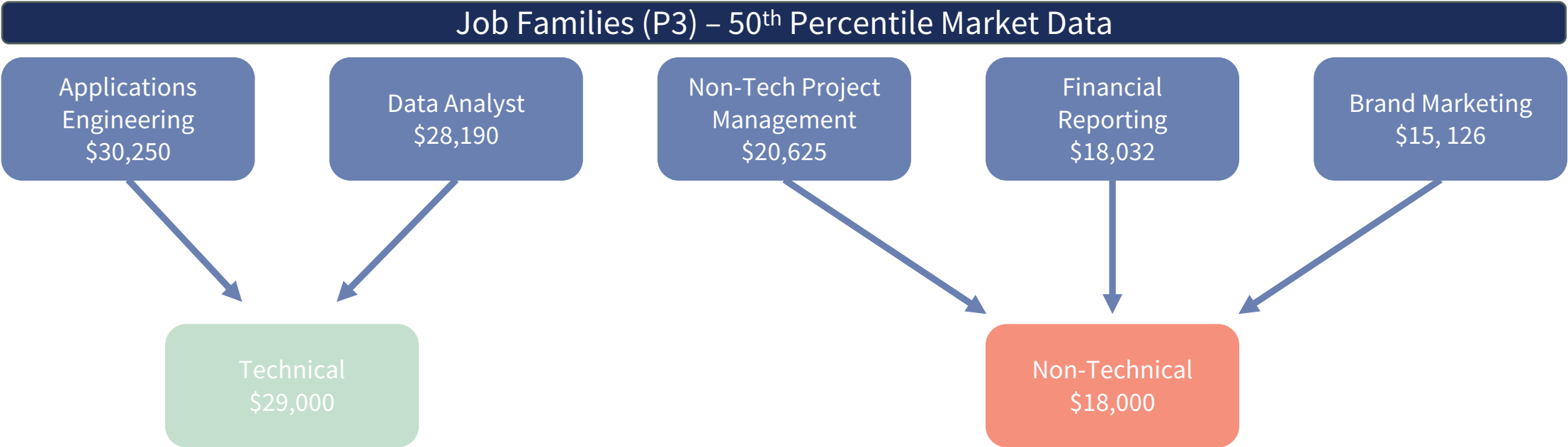
## Support

Support roles are typically non-exempt workers that may not require a college degree  
Ex: Accounting Coordinator, Receptionist, HR Clerk

# Structure – Job Families vs. Individual Roles

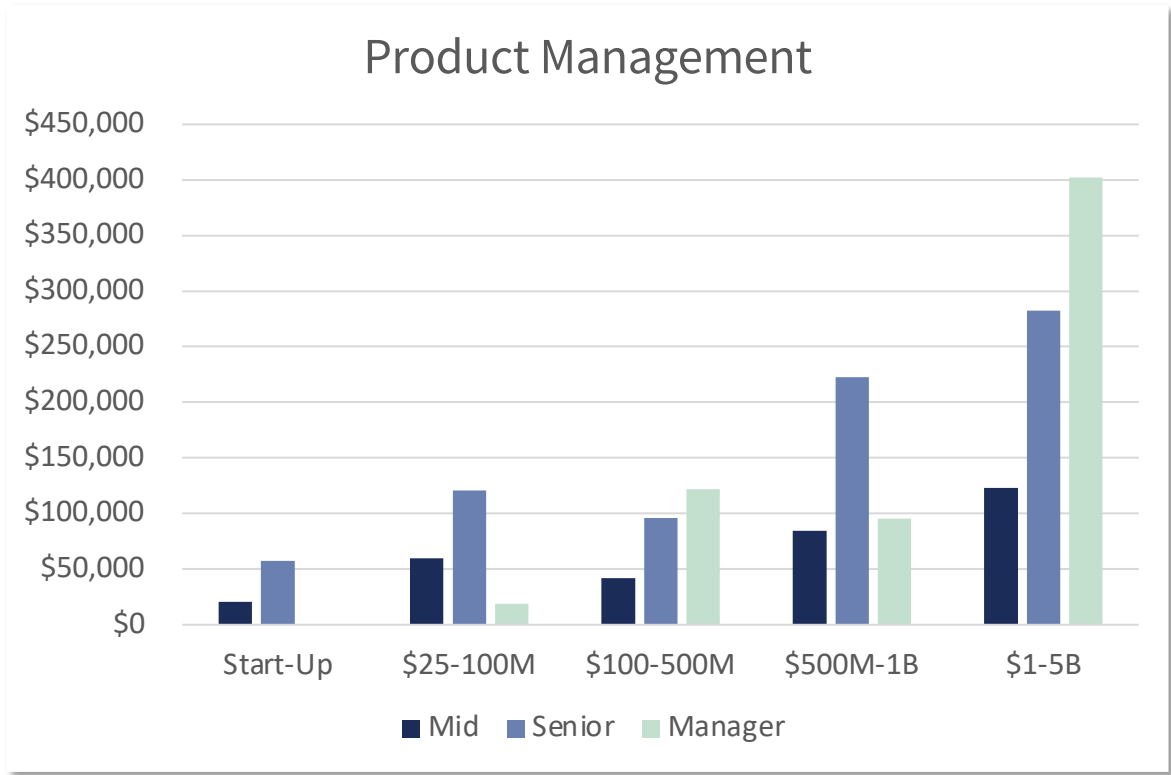
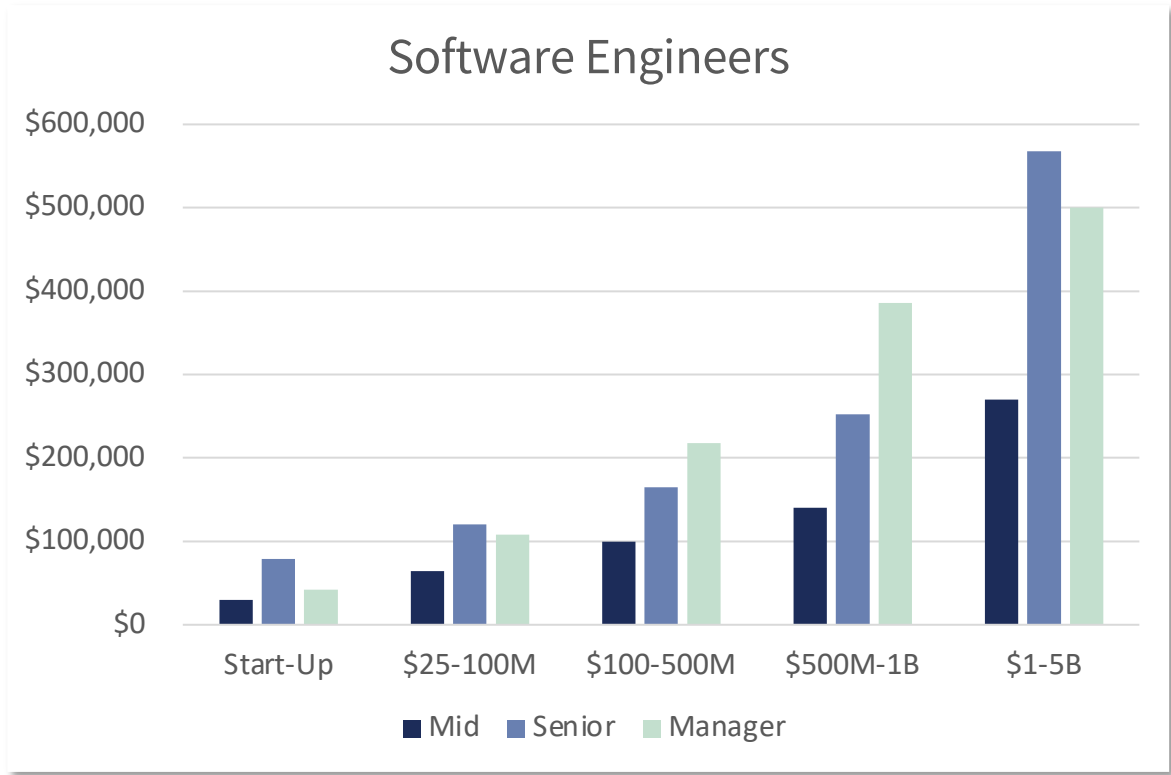
For small companies, roles may be benchmarked by individual families though for most organizations, roles are grouped by similarities in market data to create sets of guidelines

Common ways to group are by technical vs. non-technical, scientific vs. non-scientific, or “A, B, and C” by market data



# Competitive Data – New Hires

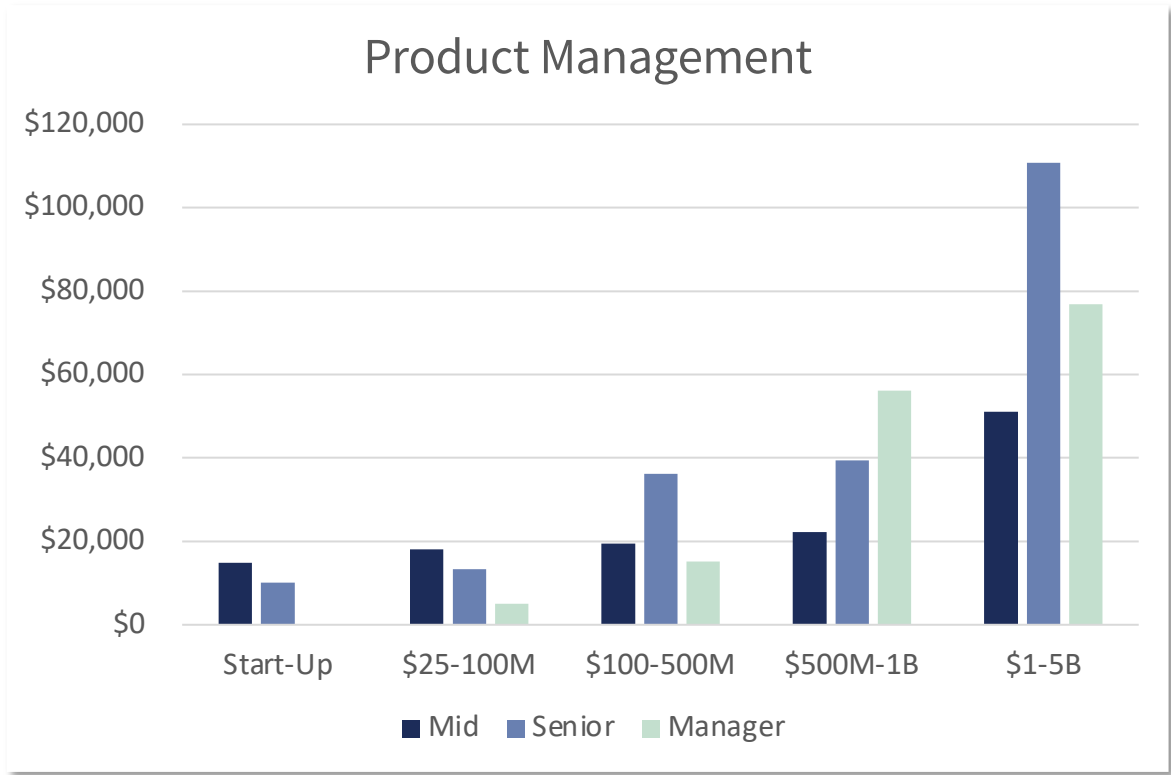
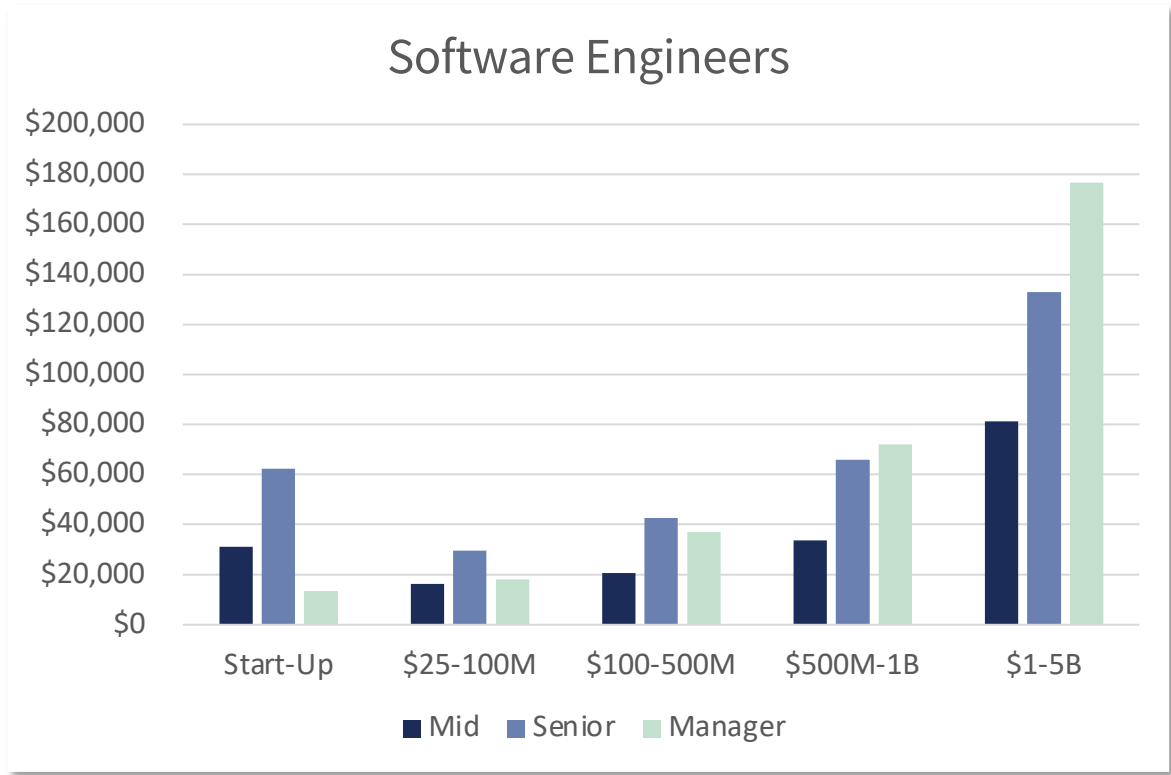
The following exhibits represent Pave data on the total value of new hire equity grants.





# Competitive Data – Annual Refresh

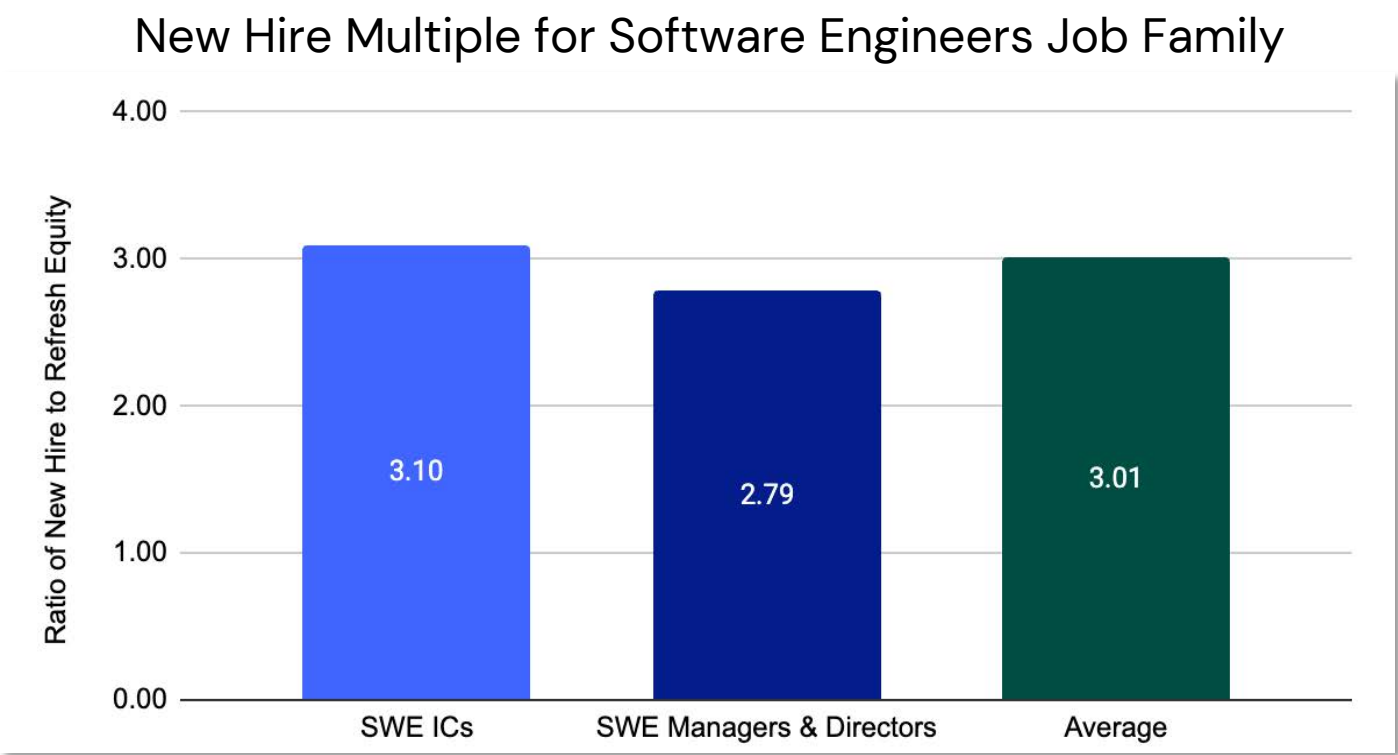
The following exhibits represent Pave benchmarks on refresh equity values.



# Competitive Benchmarking – New Hire Multiple

The following exhibits represent Pave data on new hire and refresh equity across and within job families.

Average Ratio of New Hire Equity to Refresh Equity	
Engineering	3.01
Marketing	2.54
Customer Success	1.96
Sales	1.93
Product	1.85



# Equity Guidelines – Illustrative Example

The example below shows United States technical population guidelines created by providing the quantity of options at each level. This example uses a 2x multiple for new hire vs. refresh awards.

## United States Technical

		New Hire Options Grant (#)			Refresh Options Grant (#)		
Grade	Level Description	Minimum		Maximum	Minimum		Maximum
		(-25%)	Midpoint	(+25%)	(-25%)	Midpoint	(+25%)
T10	Sr. Director	10,000	15,000	18,000	5,000	7,500	9,000
T9	Director	7,500	10,000	12,500	4,000	5,000	6,500
T8	Manager	5,500	7,000	9,000	2,500	3,500	4,500
T7	Senior	3,800	5,000	6,200	1,800	2,500	3,200
T6	Mid	2,200	3,000	3,800	1,200	1,500	1,800
T5	Entry Professional	1,600	2,000	2,600	800	1,000	1,200

Differentials can be utilized to convert guidelines to Non-Technical roles or different geographic locations without overcomplicating the structure.

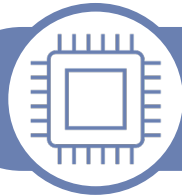
# Award Designs and Trends

# Equity Strategy and Design Decisions

While there are dozens of decisions that go into a company's equity strategy and award design, the focus for today is in these four critical areas:



**Type of Equity Award**



**Vesting Criteria and Structure**



**Eligibility and Participation**



**Refresh Strategy**



# Equity Vehicles

1

## Stock Options

- No value at grant
- Future value based on growth in stock
- By far the most common vehicle for private companies

2

## Full Value Awards

- Equivalent in value to common stock
- Value at grant equal to stock price
- Less common than options but increasingly used at larger private cos.

3

## Phantom Equity & Cash Plans

- Cash-based programs where value can mimic options, full value awards, or another company-specific approach
- Utilized often by companies wishing to remain private or limit dilution

4

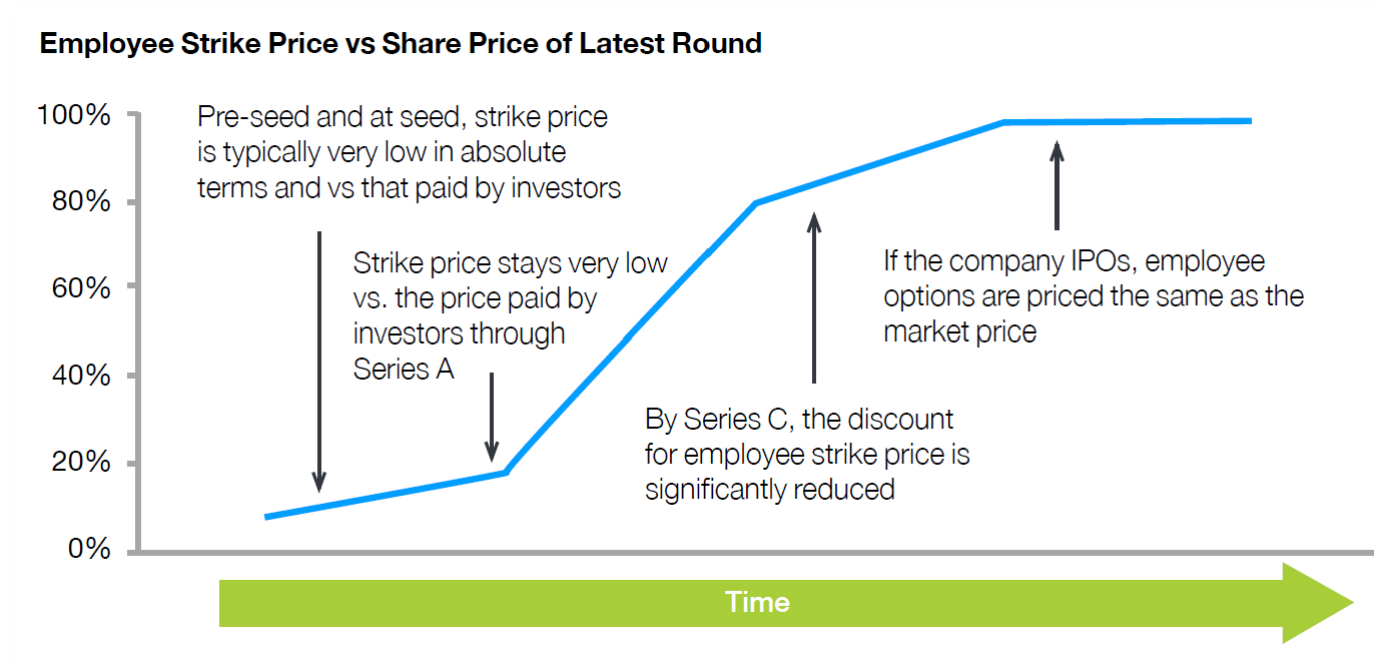
## Profits Interests

- Special tax-efficient instrument for limited liability corporations (LLCs)
- Value can be based on appreciation (like an option) or full value

# Equity Vehicles – Stock Option Advantage (Priv. Co.)

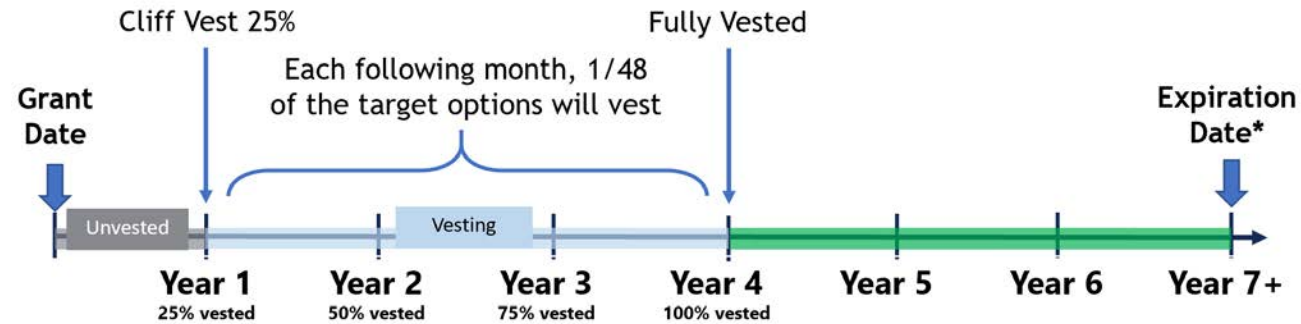
The strike price of stock options generally increases over time as a company grows. However, unlike for a public company where the stock price = current trading price, the strike price for a private company at a discount compared to the price paid by investors (often a significant discount).

Combine this with the exercise timing and flexibility and opportunity for long-term, pre-tax, stock options have a significant advantage over RSUs.



# Vesting Criteria and Structure

The vesting of the equity awards should take into consideration the time-period and desired outcomes in which the awards are intended to motivate and retain



## 1 Time-Based

## 2 Time and Exit

Vesting occurs at later of time-based schedule (example above) and exit event

## 3 Qualified Exit

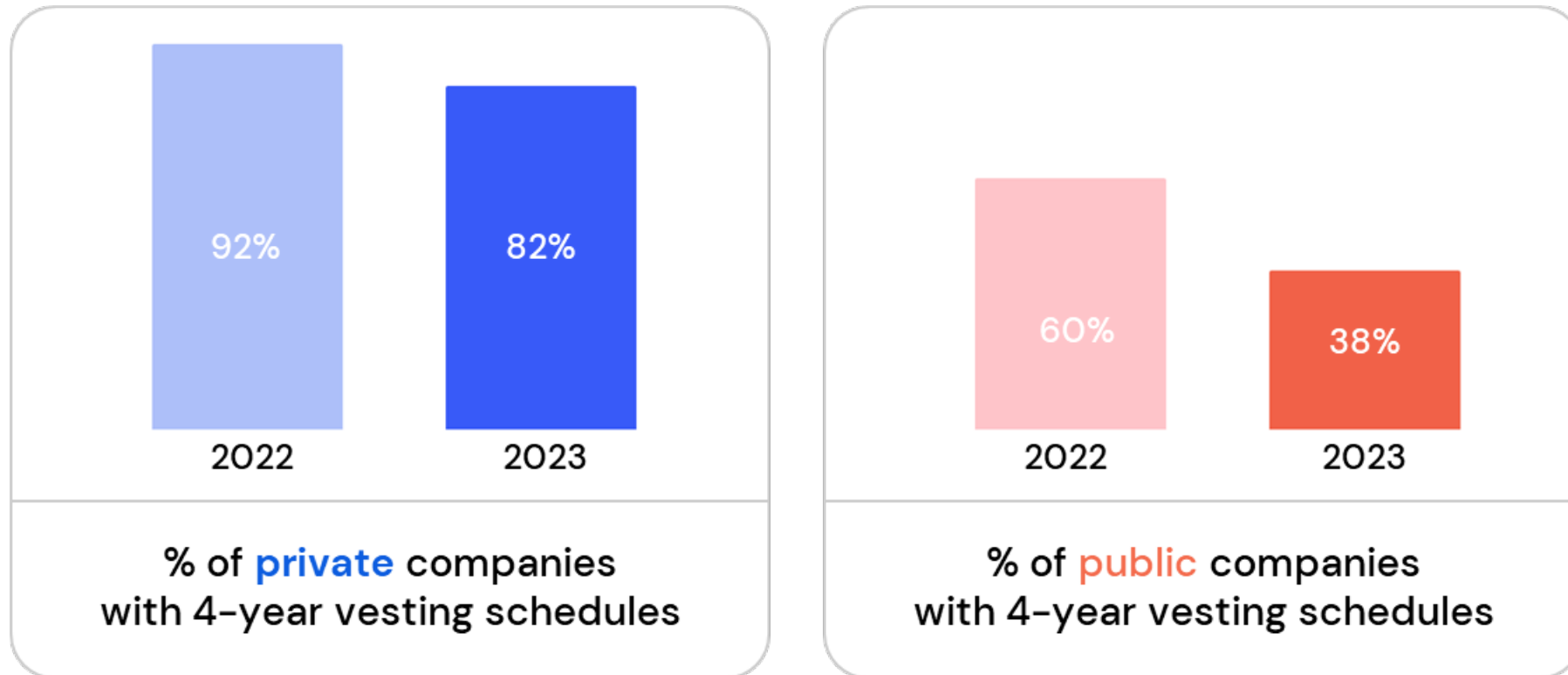
Portion of award tied to achieving growth goal such as multiple on invested capital (“MOIC”) or internal rate of return (“IRR”) based on the exit price

## 4 Performance

Vesting can be based on the level of achievement of one or more criteria measuring performance of the award holder or the company

# Vesting Criteria and Structure

In the past year, the 4-year vesting schedule has become less prevalent\*



*\*Based on refreshed grants*

# Vesting Criteria and Structure

A deeper look into refresh grants at larger private companies shows slightly less reliance on 4-years:

## Equity Practices

Equity Type: Refresh Equity

Company Stage: Number of Employees - 501-1000

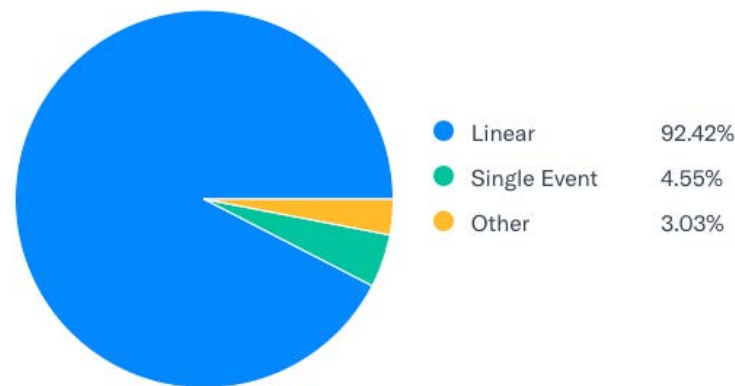
Industry: All

Company Status: Private

Vesting Duration



Vesting Structure





# Vesting Criteria and Structure

When vesting trends are changing, annualized equity is essential

	Private	Public
Total Equity Value to Annualized Value Ratio	3.98	3.4

Assuming a 4x ratio of total to annual value for public companies would undershoot a competitive benchmark by **17.5%**


Equity Configurations

Equity Timeframe

☒ Annual

This will display annualized values for New Hire and Refresh Equity and the next 12 months value for Unvested Equity

☐ Total



# Eligibility and Participation Rates

The number of positions eligible, as well as receiving equity awards inevitably goes down as a company grows due to share reserve constraints and burn rate pressure.

## Option Holders by Number of Employees

		<10	10-25	26-50	51-100	101-200	>200	All
Information Technology	Everyone	80%	69%	61%	59%	46%	46%	64%
	Levels or Groups Excluded	20%	31%	39%	41%	54%	54%	36%
All Industries	Everyone	79%	67%	62%	57%	46%	43%	63%
	Levels or Groups Excluded	21%	33%	38%	43%	54%	57%	37%

## Option Holders by Company Value

		\$0-\$20M	>\$20M-\$50M	>\$50M-\$100M	>\$100M-\$200M	>\$200M-\$300M	>\$300M-\$500M	>\$500M-\$700M	>\$700M-\$1000M	>\$1000M	All
Information Technology	Everyone	74%	68%	62%	55%	60%	51%	56%	57%	58%	64%
	Levels or Groups Excluded	26%	32%	38%	45%	40%	49%	44%	43%	42%	36%
All Industries	Everyone	73%	66%	60%	59%	62%	48%	53%	57%	57%	1,470
	Levels or Groups Excluded	27%	34%	40%	41%	38%	52%	47%	43%	43%	860

However, the importance of equity to retaining and motivating key talent does not. A company’s refresh strategy is critical to maximizing the impact of the program.

# Refresh Strategy

A private company refresh strategy should consider the following key decisions:

Which positions should be eligible?

What is the criteria to receive a grant?

When should a new hire become eligible?

What vesting schedule should be utilized?

Should existing awards be considered?

# Refresh Strategy

The following charts illustrate the two alternatives with grants either annual or every two years:

## 1. Traditional

Annual:								
Year	1	2	3	4	5	6	7	8
New Hire	2,000							
Refresh 1			500					
Refresh 2				500				
Refresh 3					500			
Refresh 4						500		
Total	500	500	625	750	375	500	500	500

Every two years:								
New Hire	2,000							
Refresh 1			500					
Refresh 2					500			
Total	500	500	625	625	250	250	250	250

## 2. Boxcar

Annual:								
Year	1	2	3	4	5	6	7	8
New Hire	2,000							
Refresh 1			500					
Refresh 2				500				
Refresh 3					500			
Refresh 4						500		
Total	500	500	500	500	500	500	500	500

Every two years:								
New Hire	2,000							
Refresh 1			500					
Refresh 2					500			
Total	500	500	500	500	250	250	250	250

Note the boxcar vesting schedule does not start vesting until the third year after grant.

# Refresh Strategy

Assess your “holding power” using unvested equity market data

	Ratio of New Hire Equity to Unvested Equity	Ratio of Next 12 Months New Hire Equity to Next 12 Months Unvested Equity
Average for Engineering	1.70	0.99
Average for Sales	1.15	0.70



Filters

Reset

Compensation Types

☒ Base Salary

☐ Variable

☐ Total Cash

☒ New Hire Equity

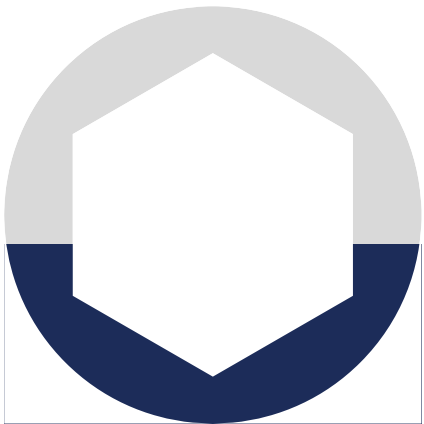
☒ Refresh Equity

☒ Unvested Equity

# Communicating the Value



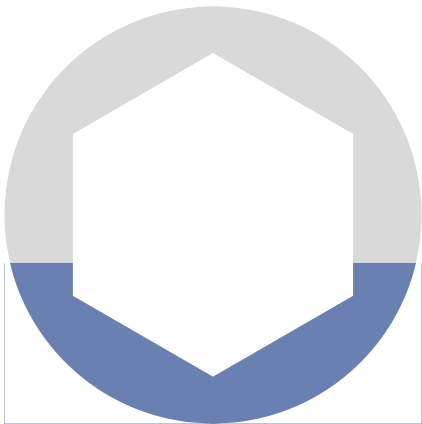
# Why Educational Content is Key



46%

**Stock Plan perceived value is higher and so is the need for answers.**

Less than half, 46%, know how to reach someone to ask questions about their stock plan.



39%

**Stock Plan understanding has increased but gaps remain.**

Only 39% of respondents said they understand how taxes might impact their stock plan benefits.



60% +

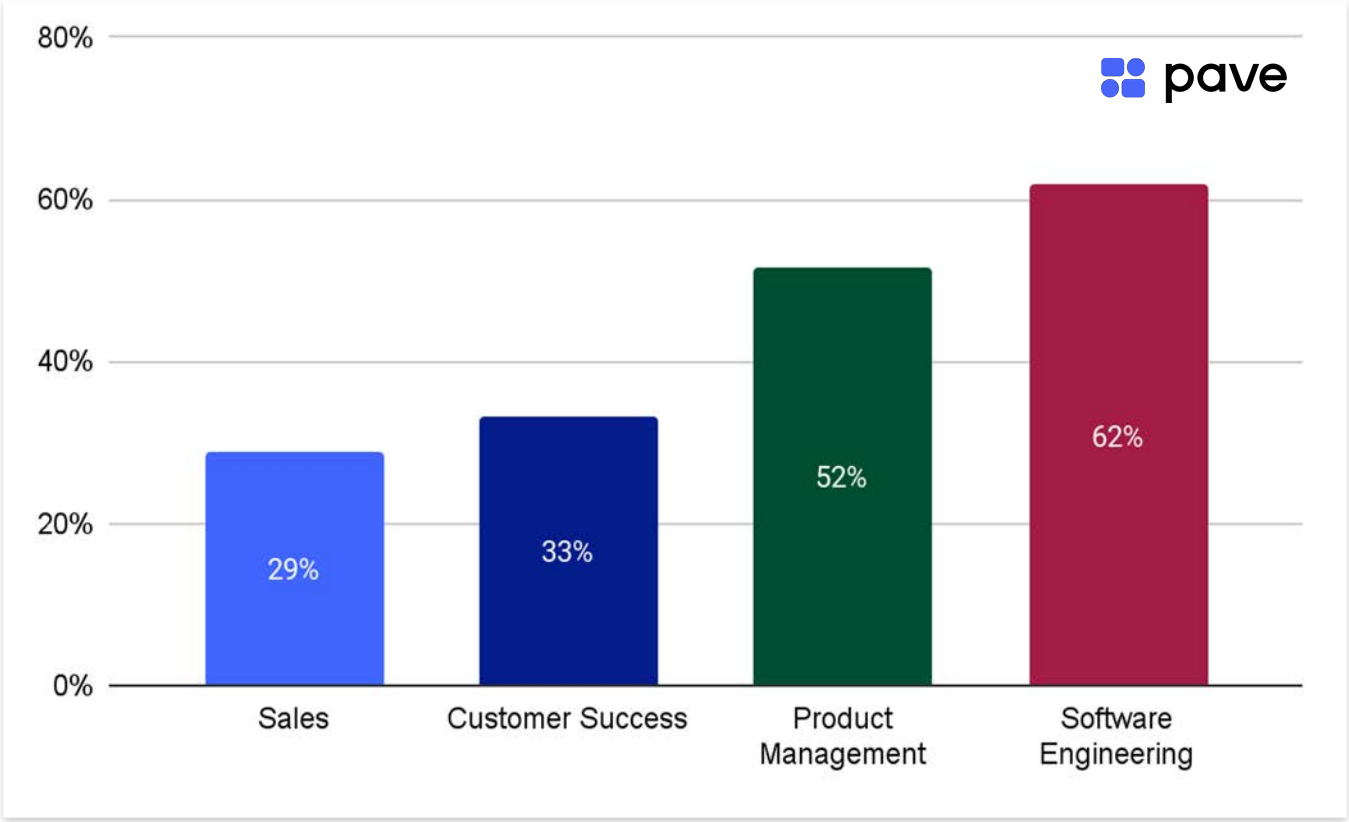
**Educational content demand is strong and key to empowering employees.**

60% + said they are likely to attend an education session on investing, stock plan benefits, or retirement.

Source: Morgan Stanley at Work 2022 VOICE OF THE PARTICIPANT – ANNUAL SURVEY RESULTS

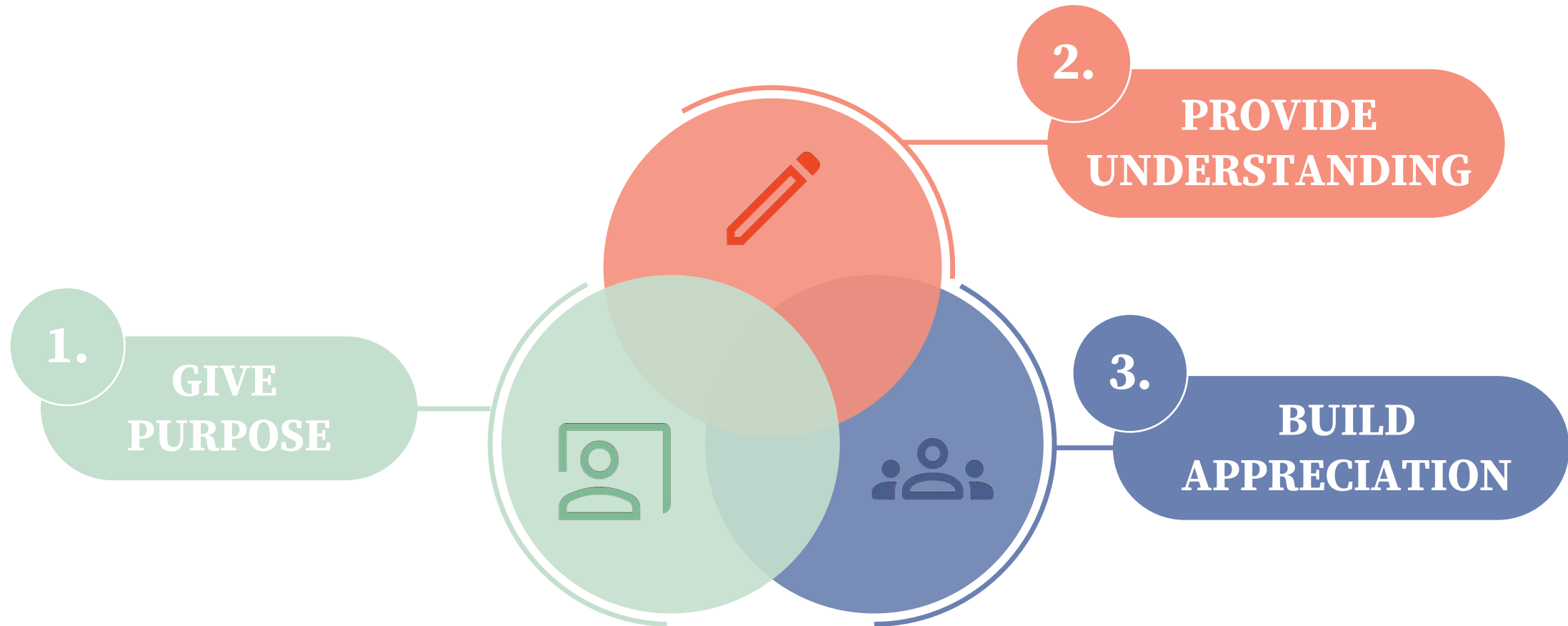
# Why Educational Content is Key

Equity as % of total compensation varies by job family\*



\* Excludes executive awards

# What does a successful communication strategy need?



# Thank You!, Questions, and Learn More



If you would like to schedule a free 1-hour consultation to review your equity strategy, please reach out to [jon@infiniteequity.com](mailto:jon@infiniteequity.com)

More information can be found at <https://infiniteequity.com/who-we-serve/#Private-Companies>



[Equity  
Benchmarking](#)



[Private  
Company Equity  
Strategy Review](#)



We'd love to hear from you!

- See Advanced Equity (and more) in action by requesting a demo at **[pave.com/request-demo](https://pave.com/request-demo)**
- Or reach out at [matt@pave.com](mailto:matt@pave.com)

