




## **SUSQUEHANNA GROWTH HACKS**



# 2023 EQUITY INCENTIVES BENCHMARK REPORT



Equity incentives are critical to hiring and retaining world-class talent. To help our portfolio companies secure and motivate top talent, we benchmarked the equity incentive plans across the Susquehanna portfolio.

**In this document we will seek to answer the following questions:**

- Why offer equity incentives to employees?
- How should I think about equity incentive plan design?
- What are the main types of equity incentives?
- Who typically receives equity?
- What are the most common ways that equity vests?
- When does vesting accelerate?
- Should my company have repurchase rights and post-termination exercise periods?
- How do equity incentive components vary between technology and non-technology companies?
- How do companies approach equity refresh grants?
- How should I explain equity incentives to employees?
- What is a 409A valuation process?

We look forward to hearing your stories, thoughts, and questions!



## ABOUT SUSQUEHANNA

Susquehanna was founded to create a different kind of investor: a firm that itself is funded by entrepreneurs who understand the ups-and-downs of operating a business; a firm that has no fixed time horizons and is not subject to the vagaries of the private equity fundraising cycle; a firm that can be flexible in the types of deals it does, the securities it holds and the risks it takes; and a firm that will help strategically without forcing its operational playbook on its operators.

All our capital comes from Susquehanna International Group (SIG), one of the world's largest privately-held financial services firms. Founded in 1987, SIG has grown to multiple offices across the globe, while continuing to be owned and operated by its founders. We are proud to be a part of one of the biggest bootstrapped, entrepreneurial success stories in history.

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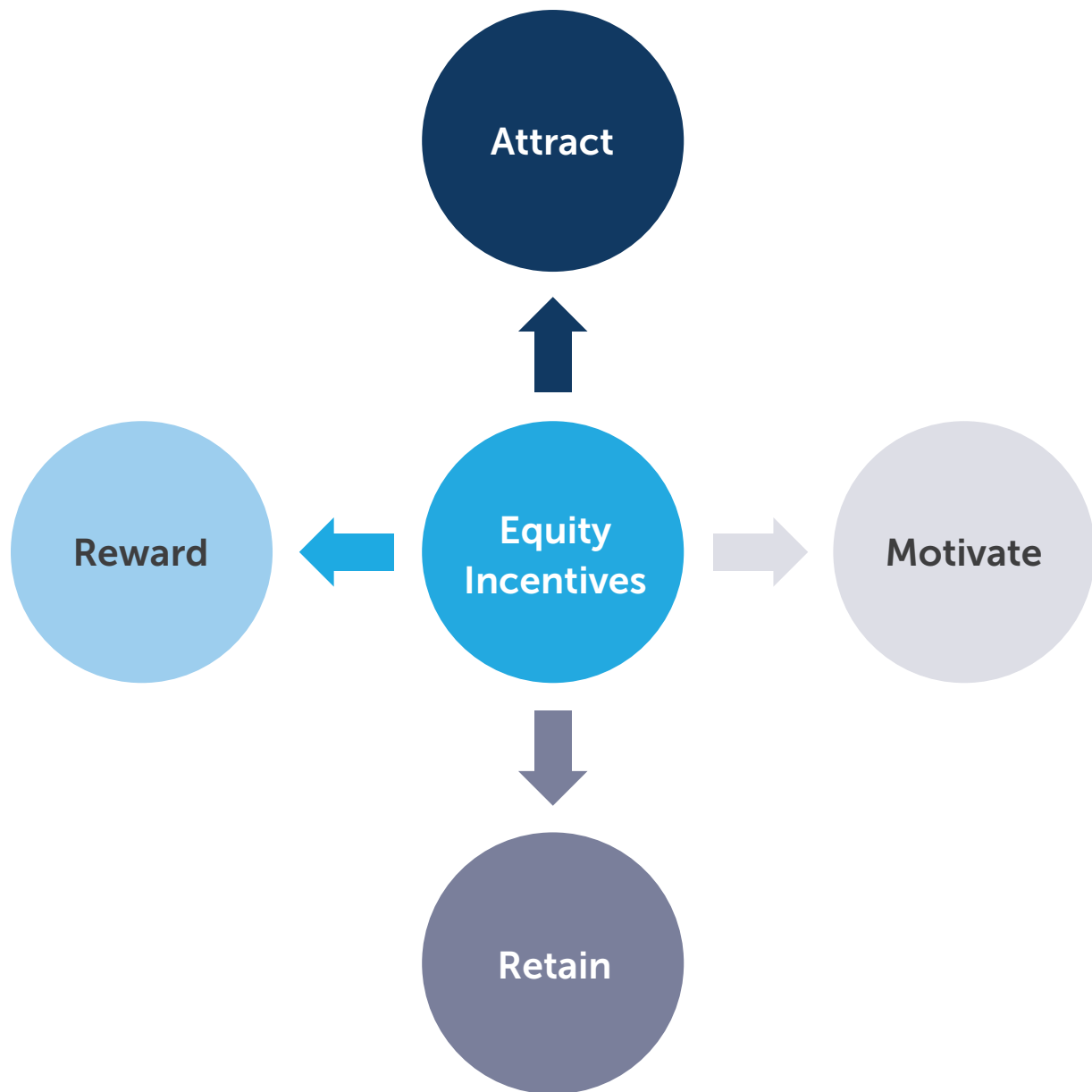
# Executive Summary

When you negotiate equity agreements, it's essential to start from a market-driven approach that allows room for potential compromise in balancing the interests of the individual vs. the company. The following reflects Susquehanna's recommendation on a fair baseline approach to equity agreements. Some areas are more employee friendly versus benchmarks, and some are a bit less (5-year versus 4-year vest), but as a whole, they reflect what we believe is a fair position, consistent with market practice.

TERM	DETAIL	COMMUNICATION
Vesting term	5 years	Standard market vesting term
Vesting cliff	12 month cliff, quarterly vest after	Standard market vesting term
Strike price / participation threshold	Last priced round (preferred or common stock) OR most recent 409A valuation	We're giving you free money – "dollars at work" – at the same price as our investor!" [or at a fair market value..."]
At employee departure	If tenure exceeds vesting cliff, employee retains vested equity	Usually, employees are granted "options" and they have to write a check to the company to keep their equity ("exercise the option")  If the company is an LLC and grants profit interests, then we're just giving you the equity – aka "profits interests" – no "exercise" required. This is better for you.
Repurchase rights (good leavers)	Company has the right – but not the obligation – to purchase departed employee equity at fair market value	If the company decides to exercise, you get proceeds before the company realizes an exit.
Vesting acceleration	Double trigger on change of control	Standard market term

# Why offer equity incentives to employees?

Equity incentives help organizations attract, motivate, retain and reward employees for performance. This aligns the interests of equity holders and management.

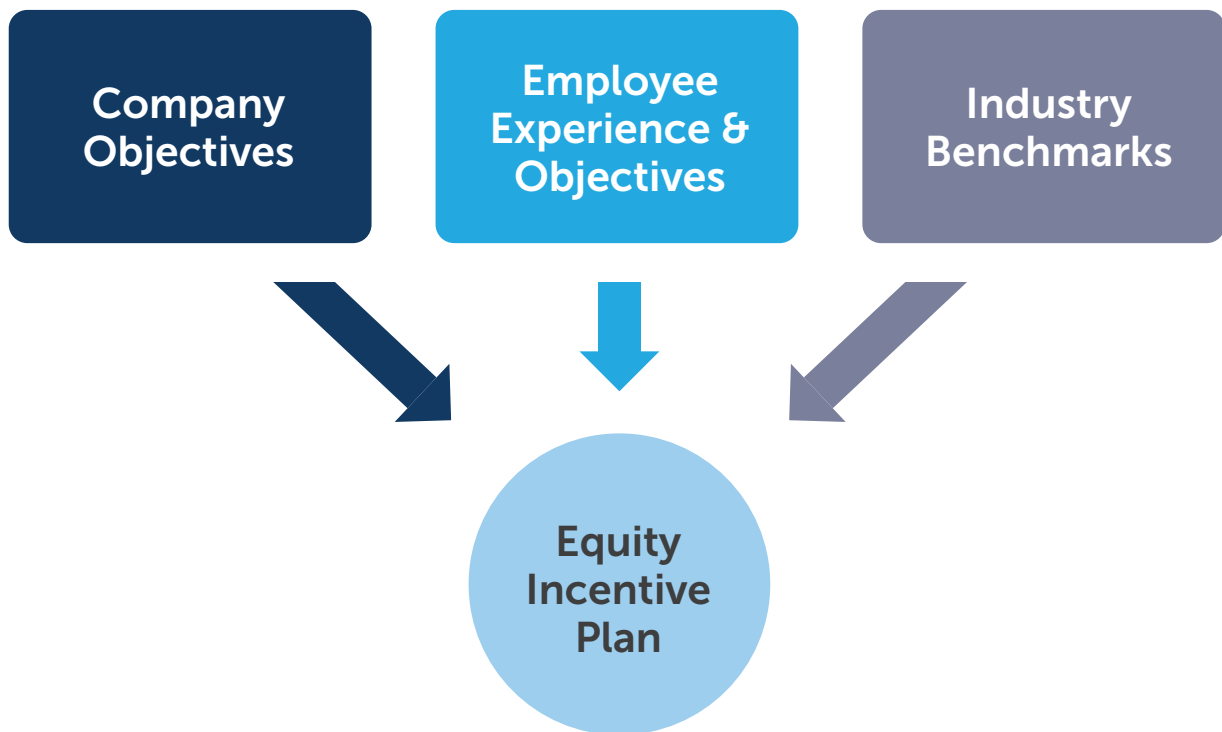




# How should I think about equity incentive plan design?

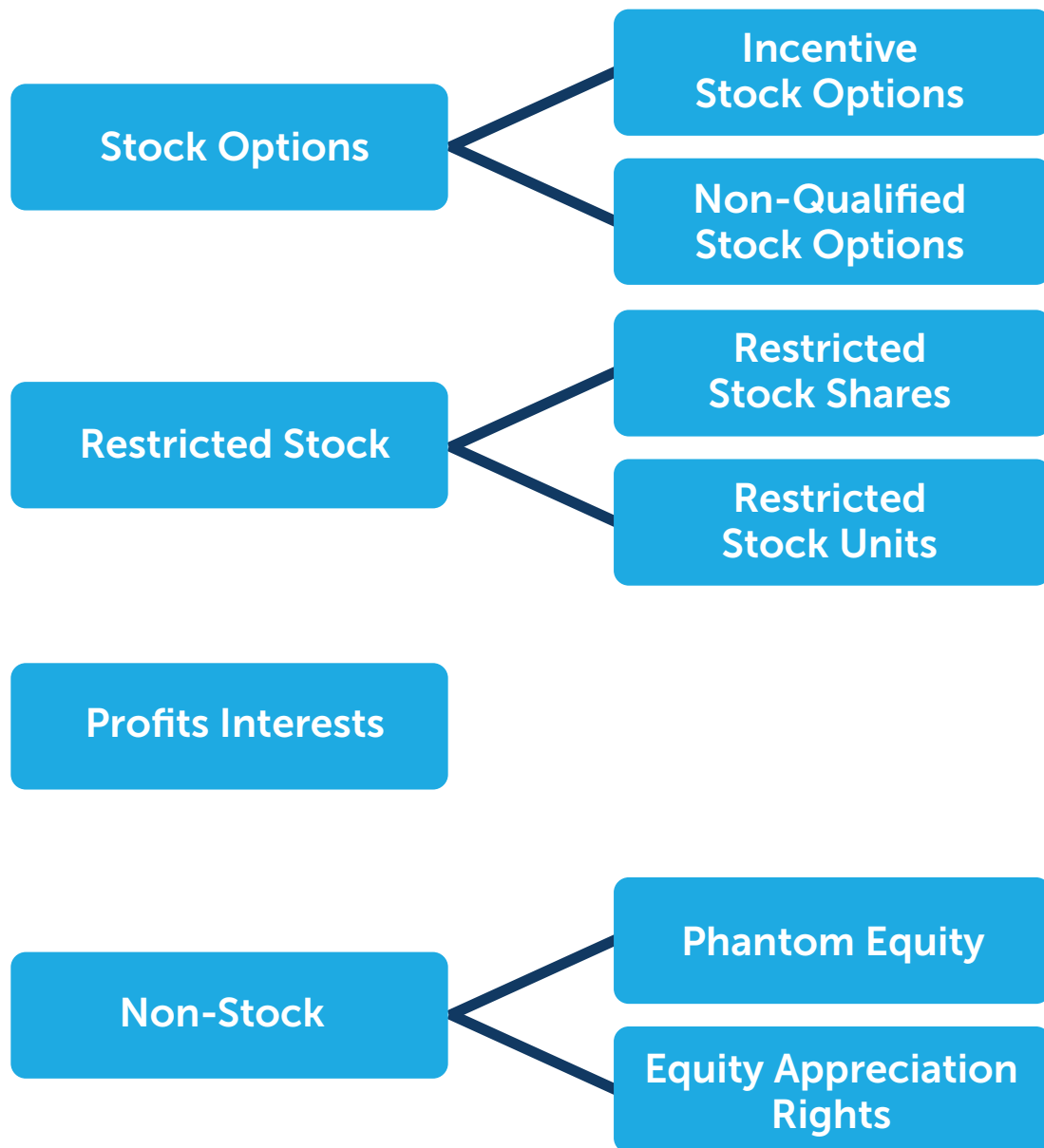
**Equity incentive plan design should consider the objectives of the company and broadly align with industry benchmarks. It is also important to do the following:**

- Define the purpose of the plan
- Explain key terms to make sure management understands and values the incentives
- Identify parties responsible for administering the plan
- Explain how many shares/options/interests and under what circumstances equity is issued
- Explain value of equity incentives under several scenarios to employee
- Explain how and at what point the employee can convert the equity to cash
- Always consider current management incentive arrangements (i.e. equity, bonuses, etc.) and management's prior experience



# What are the main types of equity incentives?

There are four main types of equity incentive programs.



# Equity Incentive Types

TYPE	SUBTYPE	DESCRIPTION
STOCK OPTIONS <sup>1</sup>	<b>Incentive Stock Options (ISOs)</b>	<ul style="list-style-type: none"> <li>• Permit holder to purchase a specific number of shares at a pre-defined price after vesting</li> <li>• If the shares are held at least one year from the date of exercise and two years from the date of grant, any gain at sale will be taxed as long-term capital gain rather than ordinary income</li> <li>• If shares are sold prior to the required holding period, the sale will be deemed a disqualifying disposition and treated for tax purposes as an NSO</li> </ul>
	<b>Non-Qualified Stock Options (NSOs)</b>	<ul style="list-style-type: none"> <li>• Permit holder to purchase a specific number of shares at a pre-defined price after vesting</li> <li>• No income recognized and no taxes are due at grant</li> <li>• When options are exercised, the difference between the Fair Market Value on the exercise date and the grant date price is reported as ordinary income on W-2</li> <li>• When shares purchased from an NSO exercise are sold, if the sale price is higher (lower) than the FMV at exercise, a capital gain (loss) will be recognized</li> </ul>
RESTRICTED STOCK <sup>2</sup>	<b>Restricted Stock Shares (RSSs)</b>	<ul style="list-style-type: none"> <li>• Awards that entitle holders to ownership rights (including voting and dividend rights) in the company's stock</li> <li>• Generally subject to sale restrictions and/or risk of forfeiture until the vesting event occurs</li> </ul>
	<b>Restricted Stock Units (RSUs)</b>	<ul style="list-style-type: none"> <li>• Awards granted in units instead of actual shares</li> <li>• Each unit awarded usually represents the value of one share of stock</li> <li>• Entitles holder to stock or cash upon vesting</li> <li>• Not eligible for dividend or voting rights until vesting</li> <li>• Subject to forfeiture prior to vesting</li> </ul>
PROFITS INTERESTS	<b>LLC</b>	<ul style="list-style-type: none"> <li>• A share of the increase in the value of the LLC / partnership over a stated period of time</li> <li>• Vesting requirements can be attached to this interest</li> <li>• If held for at least one year after vesting, the amount received in a sale is treated as a long-term capital gain</li> <li>• Typically granted to C-level executives and VPs</li> <li>• Requires K-1 reporting (typically short form tax document showing \$0 of taxable income)</li> <li>• Used in LLC or partnership structure</li> </ul>
NON-STOCK AWARDS <sup>3,4</sup>	<b>Phantom Equity</b>	<ul style="list-style-type: none"> <li>• Provides the right to the monetary equivalent of the value of a specified number of shares over a specified period of time</li> <li>• Normally paid out in cash, but could be paid in shares</li> <li>• Not capital gain eligible</li> <li>• May reflect dividends and stock splits</li> <li>• Payments are usually made at a fixed, predetermined date or sale</li> </ul>
	<b>Equity Appreciation Rights (EARs)</b>	<ul style="list-style-type: none"> <li>• Provides the right to the monetary equivalent of the increase in the value of a specified number of shares over a specified period of time</li> <li>• Normally paid out in cash, but could be paid in shares</li> <li>• Often can be exercised any time after they vest</li> <li>• Not capital gain eligible</li> </ul>

<sup>1</sup><https://financialwellness.morganstanley.com/wws/program/finwell.html/article/glossary-stockplan-awards?uType=spc-c>

<sup>2</sup><https://financialwellness.morganstanley.com/wws/program/finwell.html/article/glossary-stockplan-awards?uType=spc-vc>

<sup>3</sup><https://www.nceo.org/articles/equity-incentives-limited-liability-company-llc>

<sup>4</sup><https://www.nceo.org/articles/phantom-stock-appreciation-rights-sars>

# What are the main types of equity incentives?

Equity incentives have differing tax implications for recipients. Certain incentives have potential voting / shareholder rights.

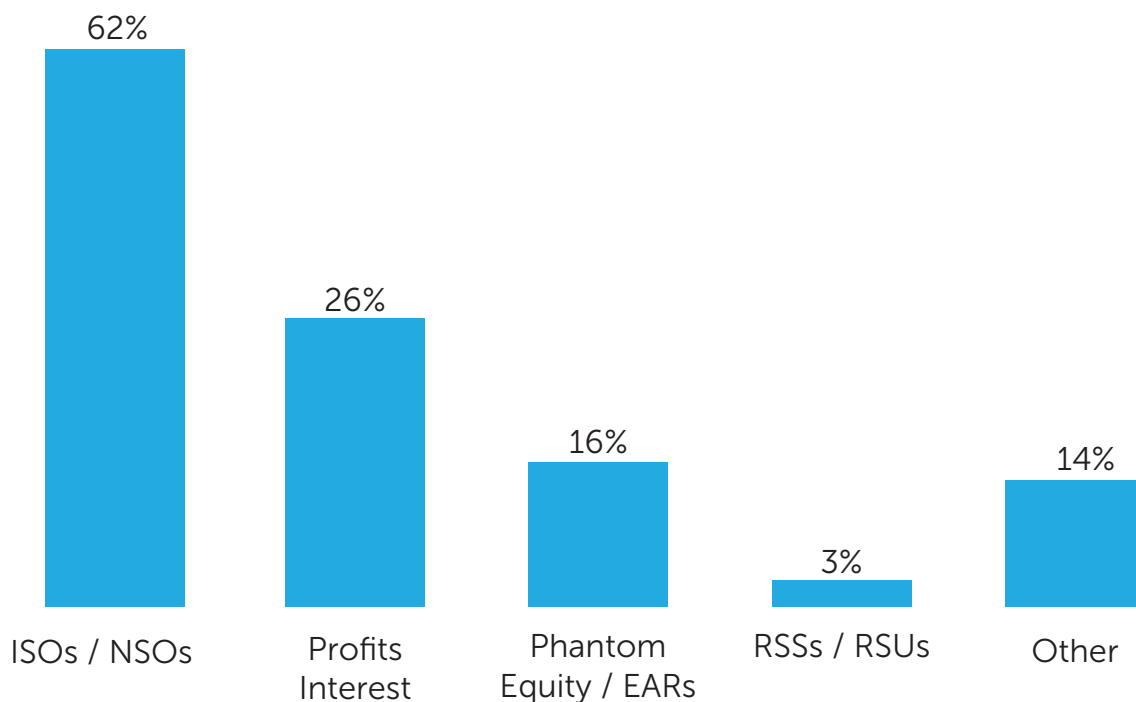
TYPE	ELIGIBILITY		VOTING RIGHTS?	RECIPIENT TAXED AT				COMPANY TAX DEDUCTION
	C-Corp	LLC		Grant	Vesting	Exercise	Sale	
ISOs	✓		Upon exercise	No	No	No	Yes (capital gains if held for required period)	No
NSOs	✓		Upon exercise	No	No	Yes (ordinary income)	Yes (ordinary income)	Yes (at exercise, deduction equals fair market value over exercise price)
RSSs	✓	✓	No	No	Yes (ordinary income)	N/A	Yes (capital gains if held for required period from vesting)	Yes (at vesting or 83(b) filing, deduction is equal to fair market value of stock at time of vesting or grant, depending on 83b election)
RSUs	✓	✓	No	No	Yes (ordinary income)	N/A	Yes (ordinary income)	Yes (upon settlement, deduction equal to amount received by employee)
Profits Interest		✓	Typically no	No	No	N/A	Yes (capital gains if held for required period)	No
Phantom Equity/ EARS	✓	✓	No	No	No	N/A	Yes (ordinary income)	Potentially Yes (upon payment to employee, deduction equal to payout)



# What are the main types of equity incentives?

97% of surveyed Susquehanna companies offer equity compensation. Due to tax requirements (K-1s), profit interests are often only used for CxO incentives.

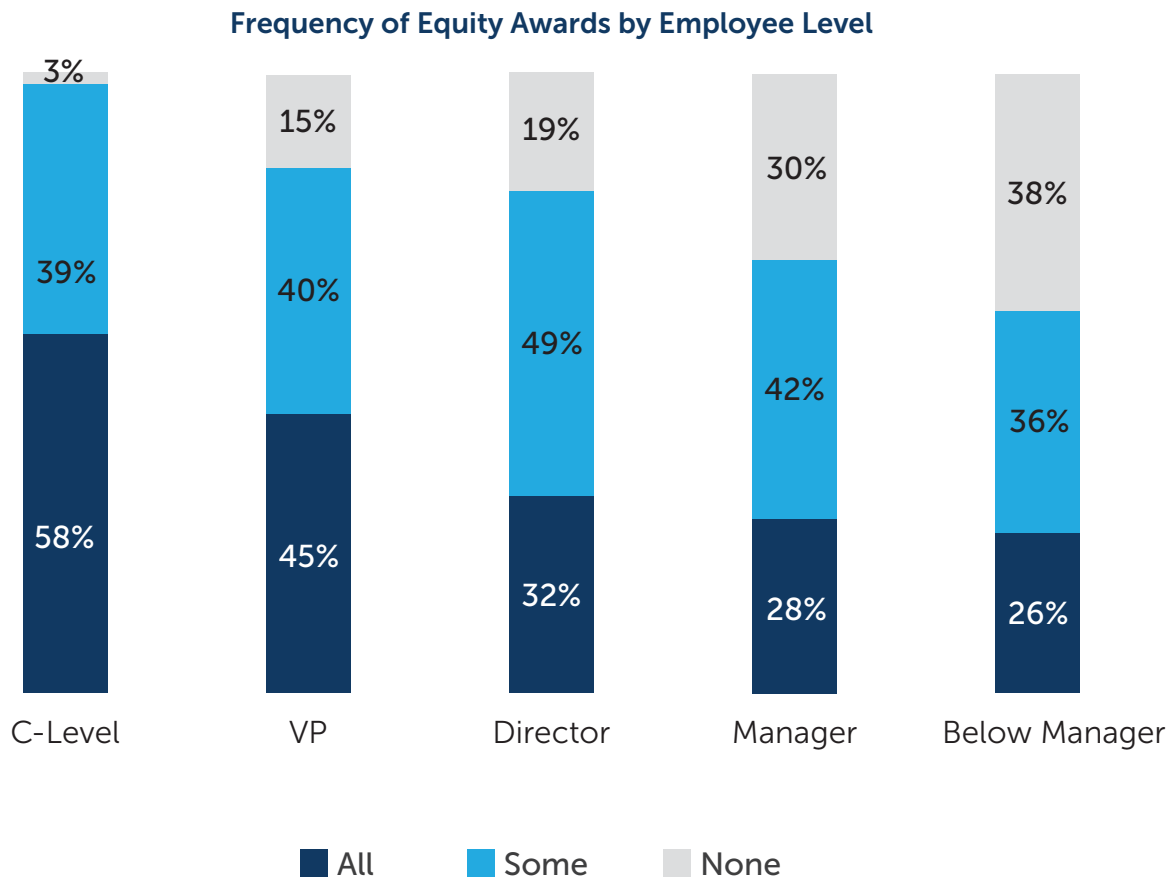
**Percent of Portfolio Companies that Utilize Each Equity Incentive Type**



30% of companies reported using two or more types of equity incentives.

# Who typically receives equity in a growth-stage company?

The majority of companies give equity incentives to all or some CEOs and C-level executives, while VP and Director levels are more mixed. Less frequently, managers and other employees will participate.



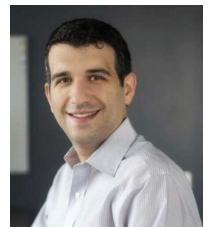
# What are the most common ways that equity vests?

**There are three types of vesting. A plan can include a combination of these types.**

- **Time:** Vesting over time (typically several years). This is the most common type of vesting among both founder-led and private-equity-backed companies. The best practice is monthly, quarterly or annual vesting over a period of five years with a 1-year cliff (i.e., the first 20% vests upon conclusion of first year and continues on a monthly/quarterly basis thereafter).
- **Performance:** Vesting dependent on the company achieving certain metrics – typically a threshold on company valuation or financial return to investors. For example, management gets options with different vesting thresholds – 25% at 1.0 MOIC<sup>5</sup>, 25% at 1.5x MOIC and 50% at 2.0x MOIC. This type of vesting is common among private-equity-backed companies.
- **Other:** Vesting dependent on employees achieving certain individual or company goals. For example, vesting could require an exit event such as an IPO or the sale of the majority of the company shares. This type of vesting is relatively rare for equity grants but common for cash bonus pools or phantom equity plans.

“Equity incentives are instrumental to aligning interests of management teams and financial sponsors and achieving company growth objectives. It is important to effectively choose the type of incentive to utilize, set the level of compensation, incorporate protective mechanisms (i.e. vesting periods, repurchase rights, etc.) and communicate value to recipients (i.e. employees).”

– **DAVID BADLER**, PARTNER, SUSQUEHANNA

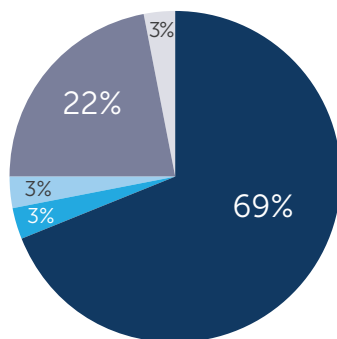


<sup>5</sup>MOIC = Total Value Realized / Total Capital Invested

# What are the most common ways that equity vests?

69% of companies utilize time-based vesting for their equity grants. A few plans require achievement of predefined performance goals to vest.

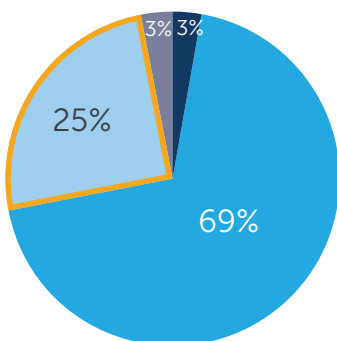
Equity Vesting Basis Summary



■ Time ■ Performance ■ Other ■ Time & Performance Hybrid ■ Time & Other Hybrid

72% of companies issue equity grants that vest over a 4-year or 5-year period.

Vesting Period



■ 2 Years ■ 4 Years ■ 5 Years ■ Hybrid

5% of companies reported using two or more (hybrid) vesting periods

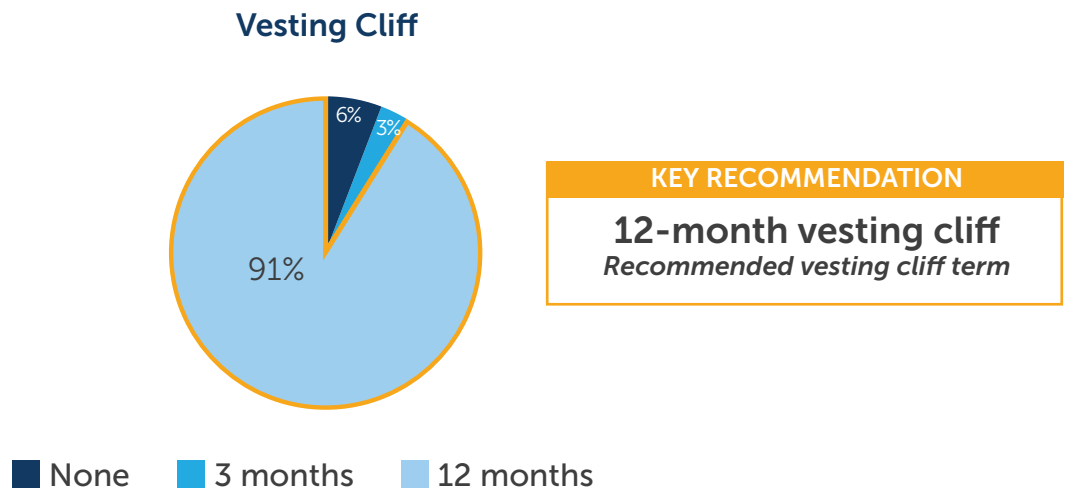
## KEY RECOMMENDATION

**5-year vesting term**  
*Recommended vesting term*

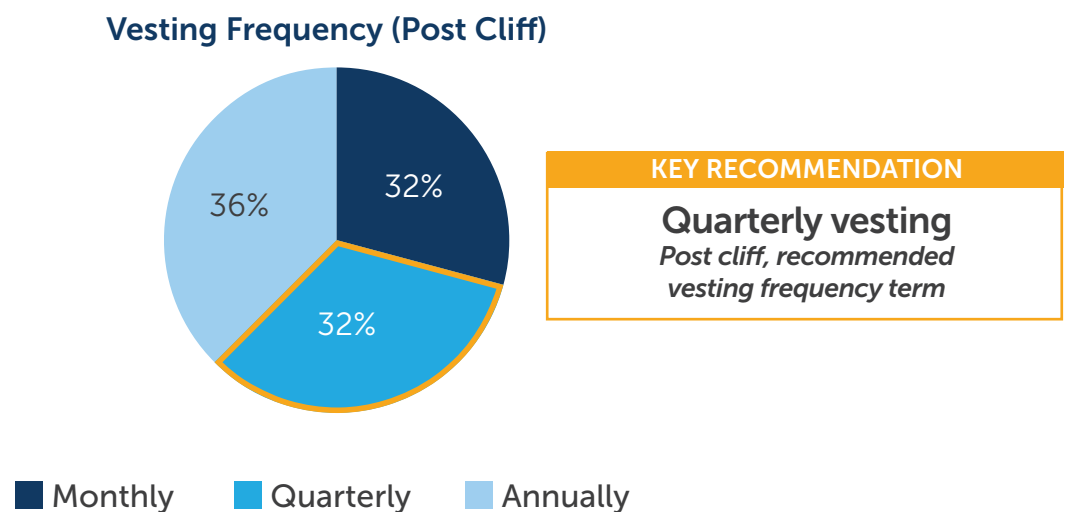


# What are the most common ways that equity vests?

94% of companies utilize cliff vesting for their equity grants, typically 12 months.



After cliff vesting, companies use a variety of monthly, quarterly and annual vesting frequencies.

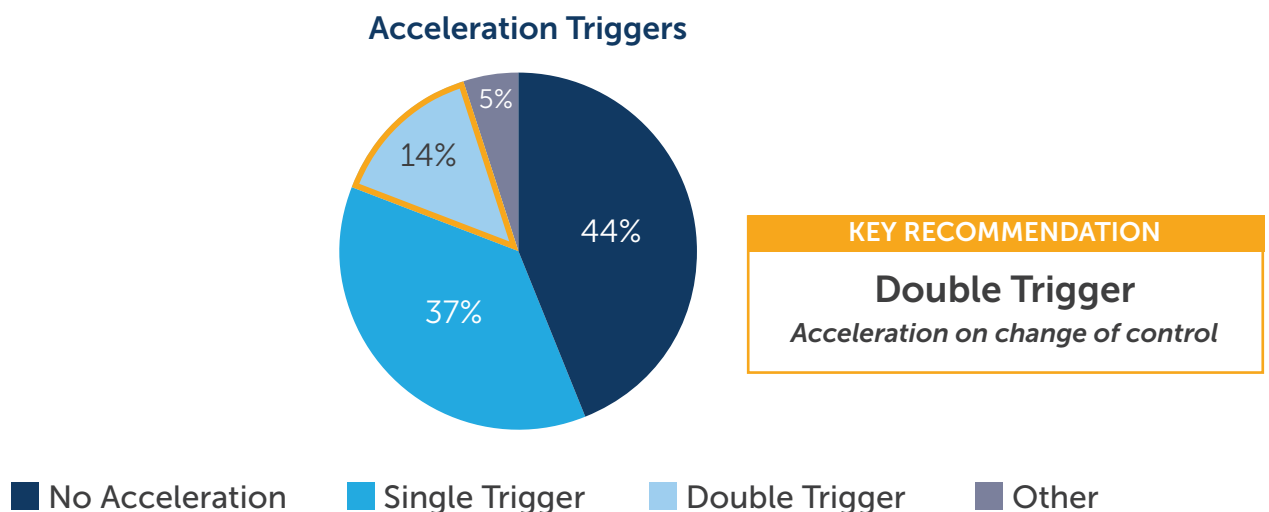


# When does vesting accelerate?

**Acceleration triggers are typically implemented to benefit employees and motivate the management team to reach an exit. A plan that does not contain acceleration triggers is ideal for potential buyers but is more restrictive to employees and less competitive in the talent market.**

- **Single trigger:** Acceleration based on one triggering event, typically sale or exit. In general, acceleration benefits employees but may be unpopular with potential acquirors. Buyers typically want to ensure continuity of talent and operations. If a key employee has a vesting acceleration upon the company's sale, then the buyer is at risk of losing (or disincentivizing) the talent that built a successful organization.
- **Double trigger:** Acceleration based on two triggering events, typically, sale (as before) and termination of the employee without cause within one year post sale. This type of acceleration is more attractive to potential buyers since it promotes mutual benefits to both key employees with the acceleration rights, as well as the acquiring entity. Rather than triggering automatic acceleration upon the event of a company's acquisition, employee's termination without cause is required to trigger vesting acceleration. If an employee is terminated for cause, both vested and unvested shares may be subject to forfeiture.

44% of companies do not utilize acceleration triggers. Compared to our 2022 benchmark, we've seen an increase in the percentage of surveyed companies with no acceleration (from 31% to 44%).



# Should my company have repurchase rights and post-termination exercise periods?

**Repurchase Rights and Post-Termination Exercise Periods are important considerations during employee departures.**

- **Repurchase Rights:** A repurchase right permits a company to buy back shares from shareholders. In the context of departures, it may be used to 1) provide liquidity to departing employees, and 2) allow only remaining employees to benefit from future growth.
- **Post-Termination Exercise Period (“PTEP”):** Represents the period after employee departure during which an option must be exercised before it expires. Longer PTEPs benefit employees while shorter ones benefit employers. There are various pros and cons to longer post-termination exercise periods including:

## PROS

- **Improved morale:** Employees are not worried about having to immediately pay for options and taxes should they decide to depart.
- **Recruiting:** Greater flexibility for employees should benefit bringing in talent.
- **More leeway:** Less pressure to facilitate secondary sales or implement employee liquidity programs.

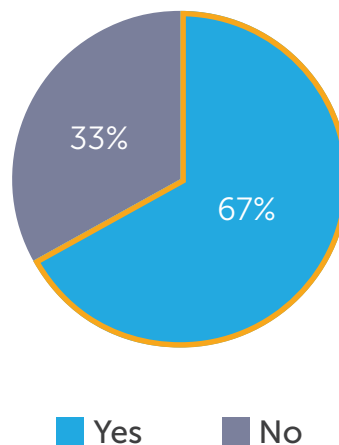
## CONS

- **Free Rider Problem:** Creates a scenario where someone can benefit from the stock for years after they depart.
- **Untimely departures:** The pressure to exercise and/or pay taxes often keeps employees at a company until a liquidity event.
- **Administrative burden:** Because many options will be taxed as NSOs, companies will have to remit payroll taxes at exercise, which can be expensive. Additionally, tax withholding is required when employees and former employees exercise NSOs – this may be difficult to administer. Finally, options with a longer post-termination exercise period have a higher accounting expense.

# Should I have repurchase rights and post-termination exercise periods?

The majority (67%) of companies have repurchase rights. Compared to our 2022 benchmark, the utilization of repurchase rights has remained about the same.

Repurchase Rights



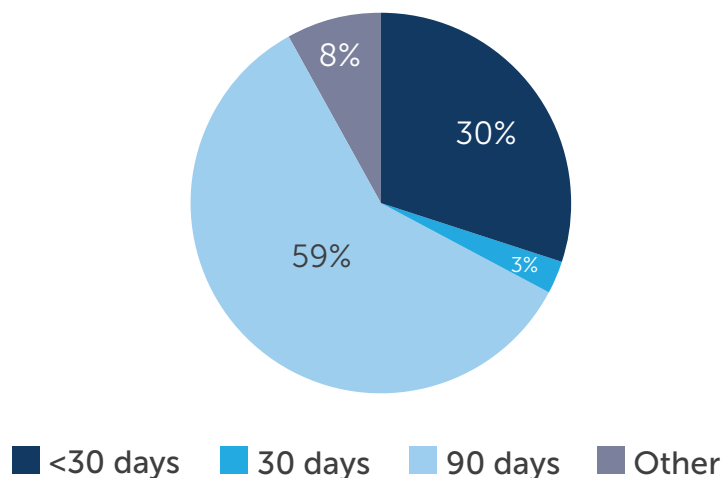
## KEY RECOMMENDATION

### Repurchase rights

*Company has right, but not obligation, to purchase departed employee equity*

Of the surveyed companies that utilize stock options, 92% utilize a 90-day or shorter PTEP. We recommend keeping this period short (<90 days).

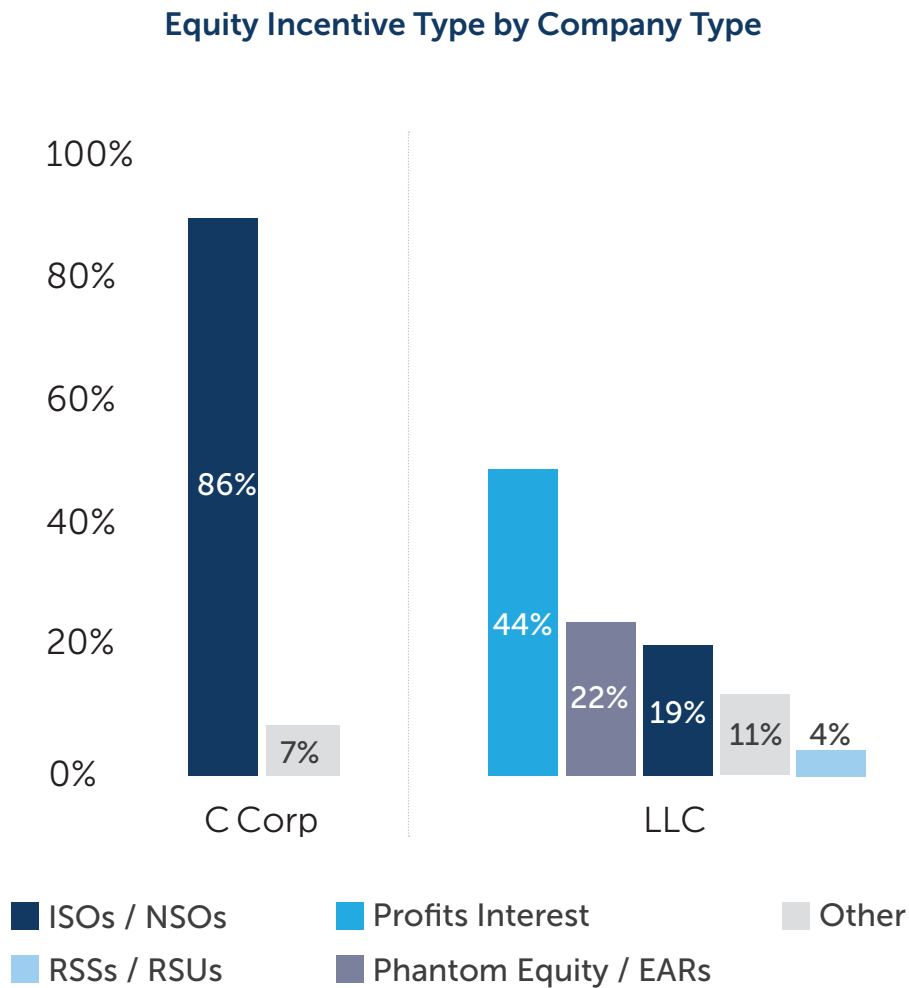
Post Termination Exercise Period





# How do equity incentive components vary by company size/type within the Susquehanna portfolio?

C-Corps typically utilize ISOs / NSOs while LLCs utilize Profits Interests.

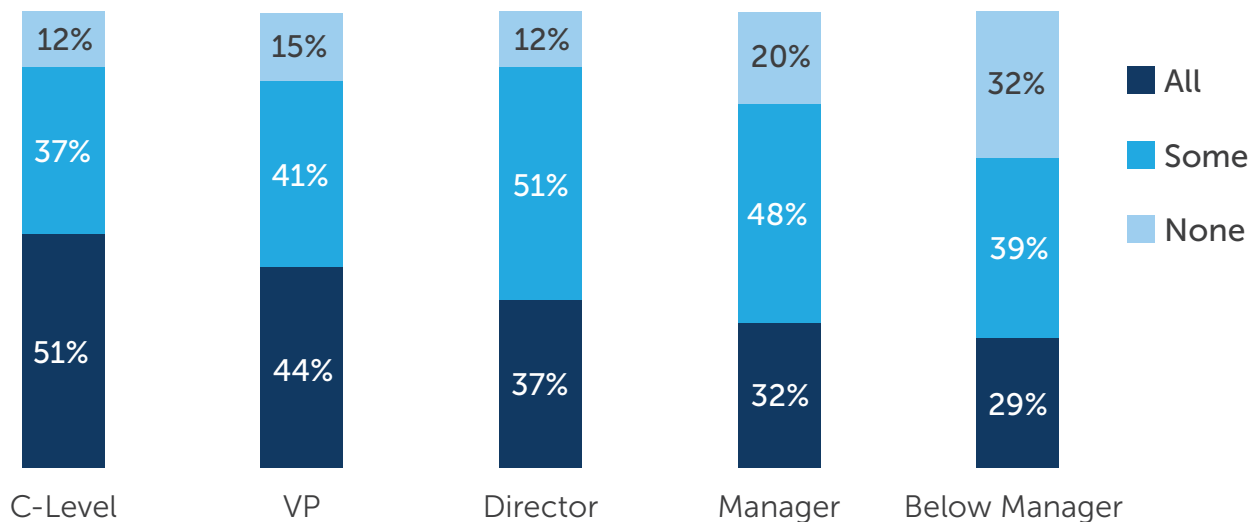


Note: 30% of surveyed companies reported using two or more types of equity incentives. International (LTD/APS) companies excluded.

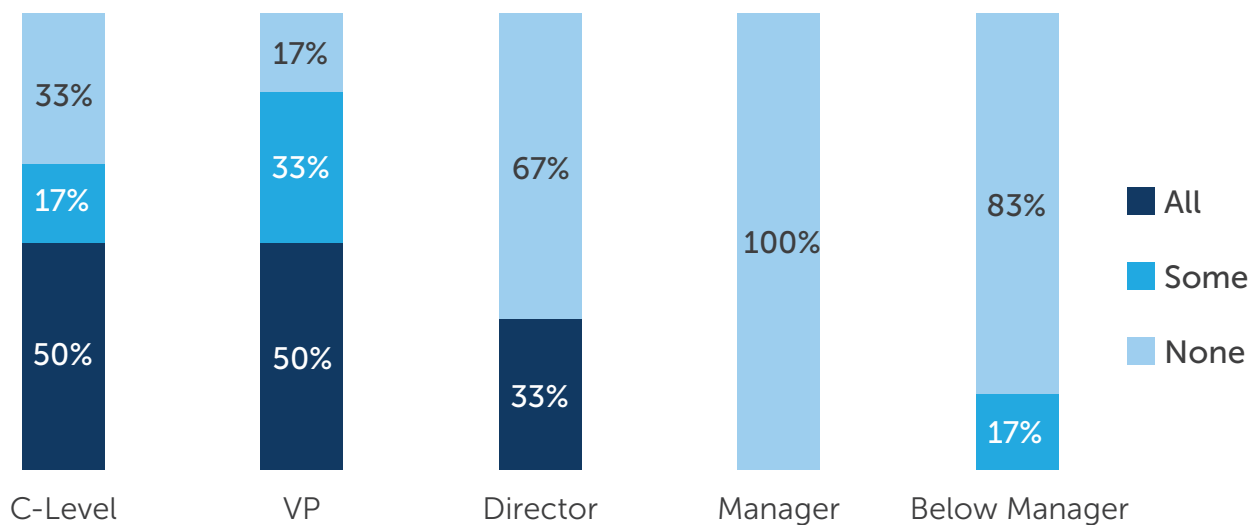
# How do equity incentive components vary between technology and non-technology companies?

Overall, by level, technology companies tend to offer equity awards to employees more frequently than non-technology companies.

Frequency of Equity Awards by Employee Level for Technology Companies



Frequency of Equity Awards by Employee Level for Non-Technology Companies

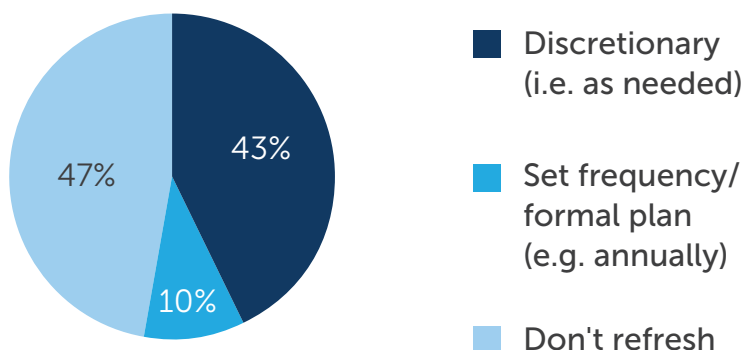


# How do companies approach equity refresh grants?

Another lever that employers use to incentivize talent is equity refreshes. A company can issue an equity refresh to help retain them at the company. Some companies do this annually, while other companies do this after initial grants expire. Typically, companies will target employees who have a longer tenure with the company for these types of grants.

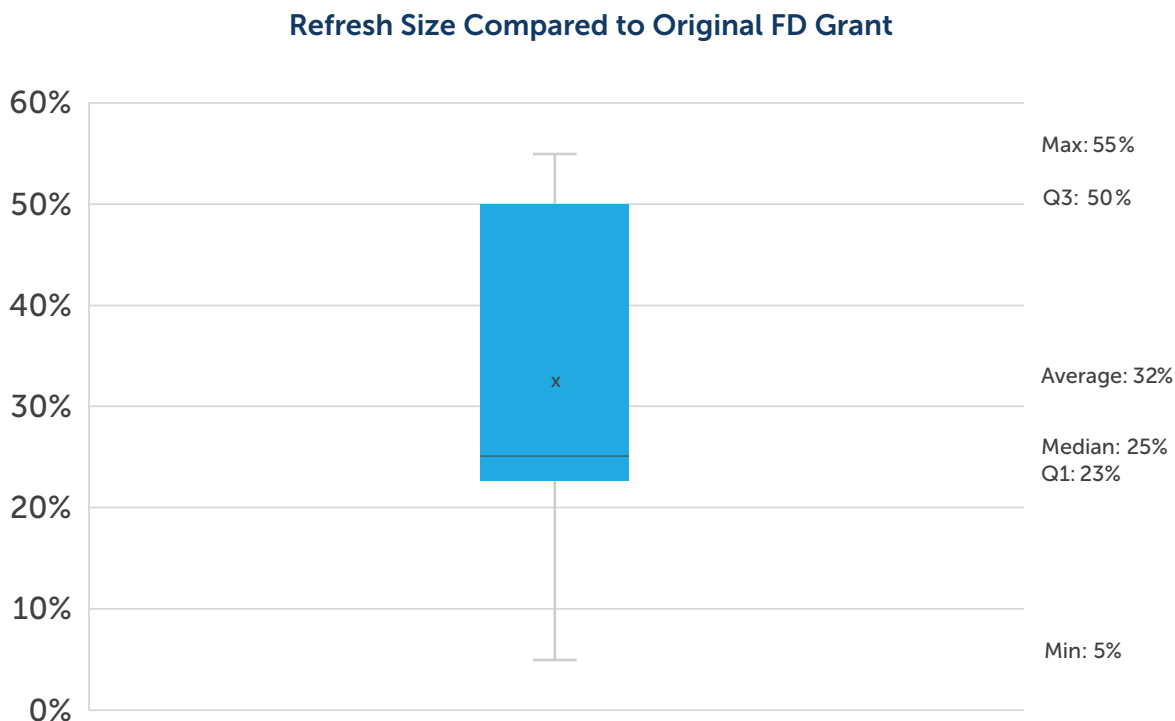
**Just over half (53%) of Susquehanna's portfolio companies offer equity refresh grants. The vast majority of surveyed companies do this on a discretionary basis.**

Equity Refresh Grants



# How do companies approach equity refresh grants?

Across portfolio companies offering equity refresh grants, the size of the refresh grant varies widely (5%-55%). A typical refresh grant is 20-50% of the original FD grant.



There were no material variances between original and refresh grants in terms of eligibility by level or vesting mechanics.



# How should I explain equity incentives to employees?

1-on-1 meetings are an effective way to explain an equity incentive to employees and answer any questions. A brief presentation that contains the following components can increase the effectiveness of the meeting. When composing the presentation, it is important to consider how an employee will perceive the presented information.

## 1. Executive summary that defines the equity incentive:

- Define key terms (strike price, vesting, post-termination exercise periods, repurchase rights, acceleration triggers, etc.)
- Explain how the equity incentive vests
- Explain when and how the equity incentive can be converted to cash

## 2. Illustrative example that shows how the value of the equity incentive is calculated

- From employee's perspective what counts is not the percentage ownership, but the potential dollars based on projections
- Explain the assumptions in the example
- Highlight that the example is illustrative and not intended to guarantee a certain financial outcome

## 3. A scenario analysis that highlights value of the equity incentive under several scenarios

- Scenarios should have a wide and realistic range
- Highlight that scenarios are illustrative and not intended to guarantee a certain financial outcome

Please see appendix for examples of time-based, performance-based and hybrid vesting structures and payout calculations.



When implementing equity incentives, management should consider both the tax implications and the compliance requirements for the company and its employees."

— **JASON WOLFE**, PARTNER, SUSQUEHANNA



# 409A Valuation<sup>6</sup>

## What is a 409A valuation?

A 409A valuation is an appraisal of the fair market value of a company's stock.

## Why do you need a 409A valuation?

A 409A valuation provides a safe harbor for tax purposes for companies that issue stock options. The valuation determines a "strike price" (the price at which employees can buy equity in the company) that must be at or above fair market value.

## When do you need a 409A valuation?

You should get a 409A valuation:

- Every 12 months; or
- Your company closes a new funding round before issuing new options or promptly after

## How does a fundraising round impact my company's 409A valuation?

The impact of a fundraise is generally dependent on the type of round:

ROUND TYPE	DESCRIPTION	IMPACT
<b>Common Stock</b>	This will be weighted very heavily in the 409A valuation.	Heavy
<b>Preferred Stock</b>	Given that preferred stock is considered intrinsically more valuable than common, it is not directly correlated to the market's common stock valuation.	Medium
<b>3rd Party Secondary</b>	This will have the lowest impact on 409A valuation since these rounds can differ from the market's common stock valuation.	Low

<sup>6</sup><https://www.inc.com/larry-kim/7-things-you-need-to-know-about-409a-valuation.html>

# 409A Valuation<sup>7</sup>

## How do you get a 409A valuation?

You have three options to get a 409A valuation report:

OPTION	RECOMMENDATION	DESCRIPTION
<b>Do it Yourself</b>	Not recommended	This is the riskiest option because there is no "safe harbor" protection should the IRS get involved. That means the company has to prove that the valuation is correct.
<b>Use Software</b>	Recommended	Using a software service like Carta is acceptable for smaller companies.
<b>Hire a Firm</b>	Recommended	Paying a knowledgeable and experienced independent firm for a 409A is the least risky option because it offers safe harbor protection. That means now the burden of proof is on the IRS (rather than the company) to show that the valuation is too low.

## How long does the 409A valuation process take?

A typical 409A valuation process takes 2-5 weeks to complete, depending on team availability and valuation complexity.

STAGE	TIMING
Data collection (cap table, articles of incorporation, financial projections, term sheets, and past 409A reports)	1-2 days
Run the report	10-20 days
Review first draft	1-2 days
Revisions	1-2 days
Final report is delivered	1-10 days
<b>Total Time</b>	<b>14-36 days</b>

## What happens if you don't have a 409A valuation?

Improperly pricing stock options can cause major tax issues. Any option holders or company discovered to be in violation of 409A will have to pay taxes plus a 20 percent federal penalty, any applicable state penalties, an IRS tax underpayment penalty, and any interest on unpaid taxes.

<sup>7</sup><https://www.inc.com/larry-kim/7-things-you-need-to-know-about-409a-valuation.html>



# APPENDIX





## Example 1: Time-Based Vesting without Acceleration

### **TERMS:**

**Equity Compensation:** 10,000 restricted units, which represent 1% of fully-diluted share count.

**Money at Work:** \$1 million, given the company's equity valuation of \$100M and 1% ownership.

**Vesting:** 100% time-based. Units will vest over a 5-year period with a 1-year cliff and quarterly thereafter. Vesting requires continuation of full-time employment with the company.

**Vesting Acceleration:** None.

**Minimum Return Threshold:** Equity grant value calculated on equity value in excess of 1.0x return to financial sponsor.

### **ILLUSTRATIVE EXAMPLE:**

Assume the company's equity value increases from \$100M to \$300M at exit, which occurs at the end of year 4 from the start of vesting. Given no acceleration, the equity grant is 80% vested (i.e. 4 years vested out of a 5-year vesting period), resulting in payout at exit of \$1.6M. Unvested equity continues to vest post exit. Please see Example 1 on page 29 for a detailed calculation.

### **ILLUSTRATIVE SCENARIOS:**

EXAMPLE 1: Time-Based Vesting without Acceleration			
Scenario	1	2	3
Equity Value at Exit	\$ 100	\$ 200	\$ 300
Return Multiple	1.0	2.0	3.0
Minimum Return Threshold met?	No	Yes	Yes
Money at Work	\$ 1.0	\$ 1.0	\$ 1.0
Acceleration?	No	No	No
% Vested	80%	80%	80%
Total Payout	\$ -	\$ 0.80	\$ \$1.60

**Scenario 1:** Given Return Multiple of 1.0x, Minimum Return Threshold is not met, resulting in no payout.

**Scenario 2:** Given Return Multiple of 2.0x, Minimum Return Threshold is met. Given no acceleration and an exit at the end of year 4 from the start of vesting, equity grant is 80% vested resulting in \$800k payout. Remaining 20% unvested equity continues to vest post exit.

**Scenario 3:** Given Return Multiple of 3.0x, Minimum Return Threshold is met. Given no acceleration and an exit at the end of year 4 from the start of vesting, equity grant is 80% vested resulting in \$1.6M payout. Remaining 20% unvested equity continues to vest post exit.

## Example 2: Time-Based Vesting with Acceleration

### TERMS:

**Equity Compensation:** Employee to receive 10,000 restricted units, which represent 1% of fully-diluted share count.

**Money at Work:** \$1 million, given company's latest equity valuation of \$100M and 1% ownership.

**Vesting:** 100% Time-Based. Units will vest over a 5-year period with a 1-year cliff (first 20% of equity grant vest on the 1-year anniversary) and quarterly thereafter. Vesting requires continuation of full-time employment with the company.

**Vesting Acceleration:** 100% of unvested equity automatically vests upon change of control.

**Minimum Return Threshold:** Equity grant value calculated on equity value in excess of 1.0x return to financial sponsor.

### ILLUSTRATIVE EXAMPLE:

Assume the company's equity value increases from \$100M to \$300M at exit, which occurs at the end of year 4 from the start of vesting. Given acceleration, despite an exit in year 4, 100% of the equity grant vests, resulting in payout at exit of \$2.0M. Please see Example 2 on page 29 for a detailed calculation.

### ILLUSTRATIVE SCENARIOS:

EXAMPLE 2: Time-Based Vesting with Acceleration			
Scenario	1	2	3
Equity Value at Exit	\$ 100	\$ 200	\$ 300
Return Multiple	1.0	2.0	3.0
Minimum Return Threshold met?	No	Yes	Yes
Money at Work	\$ 1.0	\$ 1.0	\$ 1.0
Acceleration?	Yes	Yes	Yes
% Vested	100%	100%	100%
Total Payout	\$ -	\$ 1.0	\$ \$2.0

**Scenario 1:** Given Return Multiple of 1.0x, Minimum Return Threshold is not met, resulting in no payout.

**Scenario 2:** Given Return Multiple of 2.0x, Minimum Return Threshold is met. Given acceleration, despite an exit in year 4, the equity grant is 100% vested resulting in \$1M payout.

**Scenario 3:** Given Return Multiple of 3.0x, Minimum Return Threshold is met. Given acceleration, despite an exit in year 4, the equity grant is 100% vested resulting in \$2M payout.

## Example 3: Performance-Based Vesting

### TERMS:

**Equity Compensation:** 10,000 restricted units, which represent 1% of fully-diluted share count.

**Money at Work:** \$1 million, given company's latest equity valuation of \$100M and 1% ownership.

**Vesting:** 100% Performance-Based. Units will vest upon a change of control and 3x cash-on-cash return to financial sponsor. Vesting requires continuation of full-time employment with the company.

**Minimum Return Threshold:** Equity grant value calculated on equity value in excess of 1.0x return to financial sponsor.

**Performance Threshold:** 3.0x cash-on-cash return to financial sponsor.

### ILLUSTRATIVE EXAMPLE:

Assume the company's equity value increases from \$100M to \$300M at exit. Given return multiple of 3.0x, both return and performance thresholds of 1.0x and 3.0x, respectively, are met. The equity grant payout at exit would be \$2M. Please see Example 3 on page 29 for a detailed calculation.

### ILLUSTRATIVE SCENARIOS:

EXAMPLE 3: Performance-Based Vesting			
Scenario	1	2	3
Equity Value at Exit	\$ 100	\$ 200	\$ 300
Money at Work	\$ 1.0	\$ 1.0	\$ 1.0
Return Multiple	1.0	2.0	3.0
Minimum Return Threshold met?	No	Yes	Yes
Performance Threshold met?	No	No	Yes
Total Payout	\$ -	\$ -	\$ \$2.0

**Scenario 1:** Given Return Multiple of 1.0x, Minimum Return Threshold is not met, resulting in no Payout.

**Scenario 2:** Given Return Multiple of 2.0x, Minimum Return Threshold is met but Performance Threshold is not met, resulting in no payout.

**Scenario 3:** Given Return Multiples of 3.0x, both Return Multiple and Performance Thresholds are met, resulting in \$2M payout.



## Example 4: Time & Performance-Based Hybrid Vesting with Acceleration

### TERMS:

**Equity Compensation:** 10,000 restricted units, which represent 1% of fully-diluted share count.

**Money at Work:** \$1 million, given company's latest equity valuation of \$100M and 1% ownership.

**Vesting:** 67% Time-Based and 33% Performance-Based. Time-Based component will vest over a 5-year period with a 1-year cliff and quarterly thereafter. Performance-Based component will vest upon a change of control and a 3x cash-on-cash return to financial sponsor. Vesting requires continuation of full-time employment with the company.

**Time-Based Vesting Acceleration:** 100% of the Time-Based equity vests upon change of control.

**Minimum Return Threshold:** Equity grant value calculated on equity value in excess of 1.0x return to financial sponsor.

**Performance Threshold:** 3.0x cash-on-cash return to financial sponsor.

### ILLUSTRATIVE EXAMPLE:

Assume the company's equity value increases from \$100M to \$300M at exit, which occurs at the end of year 4 from the start of vesting of the time-based equity grant. Given acceleration, despite an exit in year 4, 100% of the time-based equity grant vests. Additionally, given return multiple of 3.0x, both return and performance thresholds of 1.0x and 3.0x, respectively, are met. The equity grant payout at exit would be \$2M. Please see Example 4 on page 29 for a detailed calculation.

### ILLUSTRATIVE SCENARIOS:

EXAMPLE 4: Time & Performance-Based Vesting with Acceleration			
Scenario	1	2	3
Equity Value at Exit	\$ 100	\$ 200	\$ 300
Money at Work	\$ 1.0	\$ 1.0	\$ 1.0
Return Multiple	1.0	2.0	3.0
Minimum Return Threshold met?	No	Yes	Yes
Performance Threshold met?	No	No	Yes
Time-Based Vested %	100%	100%	100%
Time-Based Payout	\$ -	\$ 0.7	\$ 1.3
Performance-Based Payout	\$ -	\$ -	\$ 0.7
Total Payout	\$ -	\$ 0.7	\$ 2.0

**Scenario 1:** Given Return Multiple of 1.0x, Minimum Return Threshold is not met, resulting in no payout.

**Scenario 2:** Given Return Multiple of 2.0x, Minimum Return Threshold is met but Performance Threshold is not met, resulting in no performance-based payout. Given acceleration, 100% of the time-based equity grant vests. The equity grant payout at exit would be \$0.7M.

**Scenario 3:** Given Return Multiples of 3.0x, both Return Multiple and Performance Thresholds are met. Additionally, given acceleration, 100% of the time-based equity grant vests. The equity grant payout at exit would be \$2M.

The following chart outlines the calculation of Total Payout in Scenario #3 under the four vesting structures:

STEP	CALCULATION	EXAMPLE 1: Time-Based Vesting without Acceleration	EXAMPLE 2: Time-Based Vesting with Acceleration	EXAMPLE 3: Performance- Based Vesting	EXAMPLE 4: Time & Performance- Based Vesting with Acceleration
Calculate Money at Work	<b>Money at Work:</b>				
	Equity Value - Current	\$ 100	\$ 100	\$ 100	\$ 100
	x Ownership	1.0%	1.0%	1.0%	1.0%
	= Money at Work	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0
Calculate Return Multiple and determine whether minimum return is met	<b>Return Multiple:</b>				
	Equity Value - Exit	\$ 300	\$ 300	\$ 300	\$ 300
	/ Equity Value - Current	\$ 100	\$ 100	\$ 100	\$ 100
	= Return Multiple	3.0	3.0	3.0	3.0
	Return Multiple	3.0	3.0	3.0	3.0
	- Minimum Return Threshold	1.0	1.0	1.0	1.0
	Return Multiple above Threshold	2.0	2.0	2.0	2.0
Calculate Potential Payout	<b>Potential Payout:</b>				
	Money at Work	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0
	x Return Multiple above Threshold	2.0	2.0	2.0	2.0
	= Potential Payout	\$ 2.0	\$ 2.0	\$ 2.0	\$ 2.0
Determine time-based vesting progress and calculate Time-Based Payout	<b>Time-Based Payout:</b>				
	Years Vested at Exit	4	4	NA	4
	/ Vesting Period (Years)	5	5	NA	5
	= Vested % at Exit	80%	80%	NA	80%
	<i>Acceleration at Exit?</i>	No	Yes	NA	Yes
	Potential Payout	\$ 2.0	\$ 2.0	NA	\$ 2.0
	x Time-Based %	100%	100%	NA	67%
	x Vested %	80%	100%	NA	100%
Determine progress vs. performance threshold and calculate Performance- Based Payout	<b>Performance-Based Payout:</b>				
	Return Multiple	NA	NA	3.0	3.0
	Performance Threshold	NA	NA	3.0	3.0
	<i>Performance Threshold met?</i>	NA	NA	Yes	Yes
	Potential Payout	NA	NA	\$ 2.0	\$ 2.0
	x Performance-Based %	NA	NA	100%	33%
	x Performance Threshold met?	NA	NA	1.0	1.0
	= Performance-Based Payout	NA	NA	\$ 2.0	\$ 0.7
Calculate actual Total Payout	<b>Actual Payout:</b>				
	Time-based Payout	\$ 1.6	\$ 2.0	NA	\$ 1.3
	+ Performance-Based Payout	NA	NA	\$ 2.0	\$ 0.7
	= Total Payout	\$ 1.6	\$ 2.0	\$ 2.0	\$ 2.0



# GROWTH EQUITY BEST PRACTICES

Grow new and existing customers	Strategy	Channel strategy/introductions International expansion
	People	Go-to-market (GTM) organizational design (roles, responsibilities, territories) GTM hiring & retention
	Process	Sales & Marketing (S&M) process design (sales efficiency, lead ranking, value selling) Account Management & Customer Service process design (health score)
	Tools	GTM systems/services selection
Make new friends (M&A)	Strategy	Acquisition/exit strategy design
	People	Strategic introductions
	Process	Diligence & transaction process assistance
Deliver innovation	Strategy	Product strategy & roadmap Pricing & packaging strategy Payments strategy
		Product and engineering hiring, development & retention
		Information security
Build your team and foundation	Strategy	Growth strategy
	People	Organization design Executive hiring, development, retention <b>Compensation design &amp; benchmarking *</b>
		Culture & benefits
		Company operating system
	Process	Key Performance Indicator benchmarking
	Tools	Non-GTM systems/services selection

\* Focus of this growth hack