NEGOTIATING EQUITY
A BEST PRACTICE GUIDE FOR FOUNDERS AND THEIR FUTURE TEAM

A Robert Walters Group Company

ROBERT WALTERS

Introduction

Distributing equity makes it possible for founders, investors, employees, and other contributors to own a piece of the company they are building. Equity plays an especially important role in the startup community, with billions of dollars being converted into company equity every year. With equity, you can generate significantly more wealth and with skin in the game, be more motivated at work too.

Negotiating equity has a direct impact on a company's ability to grow. With a functional equity distribution plan, all parties involved will feel valued and committed to ensuring the company succeeds. On the other hand, a poorly crafted equity plan can lead to internal conflict and introduce a variety of financial hardships.

The knowledge of negotiating equity can be universally beneficial, especially in a competitive startup ecosystem. No matter what the economic turbulence we're facing today, be it the rise of inflation or an impending recession, the fundamentals of equity negotiation remain the same. And with today's startups competing to attract and retain the best talent in a hot job market, understanding the ins and outs of equity has never been more beneficial for founders and new team members. In this guide, we will discuss the most important things to know about the equity negotiation process for founders and the talent looking to join them.

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Compensation and Why it Matters

Providing a competitive compensation package will be critical for any company that wants to attract and retain good talent, remain competitive, and be capable of achieving its long-term goals. Prospective partners and other interested parties will be actively comparing various equity offers and will follow the best equity situation imaginable.

Finding the so-called “equity sweet spot” will involve the careful balancing of various competing interests. When companies are willing to offer a larger equity package to new parties, that means already existing equity holders will lose a portion of their control of the company. But without a deliberate and competitive equity distribution plan, even the best-intentioned companies will fall behind.

> Consistently reviewing compensation and equity ahead of the annual pay review cycle, will ensure that companies stay ahead of the curve when retaining their top talent and will ultimately reduce attrition when staff or employees may be tempted to make a move.
>
> **Nick Louca, Director, Robert Walters New York**

Compensation packages can be sorted into one of three categories:

- **Cash Compensation:** employees’ base salaries, bonuses, commissions, and other types of cash compensation
- **Equity Compensation:** stock options, common stock, restricted stock units (RSU), and other types of equity
- **Other Types of Compensation:** a signing bonus, cash allowances, relocation and severance packages, health insurance, vacation days, maternity/fertility leave and more

In the startup community, equity compensation will likely be the one that potential prospects will take the most seriously. This is where the long-term potential truly resides. And considering the risk-seeking nature of those involved in the startup industry, most prospects will be willing to take a chance in pursuit of future rewards.

Fundamentals

The entire equity landscape has significantly changed throughout the past 20 years. Here are some of the most common terms you are likely to encounter throughout the equity negotiation process.

Common Terms

Equity: the amount of value a company has created—represents the difference between a company's assets and its liabilities

Common Stock: a type of equity ownership in a company that represents a claim to par

Venture Capital: a type of private equity that utilizes private investments to finance a business

Seed Funding: the first type of funding that a new enterprise will receive

Series Funding: additional rounds of startup financing, often categorized as Series A, B, C, D, or E financing

Crowdfunding: a financing strategy that relies on receiving many small investments from a large group of people

Angel Investor: investors who use their own net worth to finance a business venture

Company Value: the current worth of a company, as measured by the balance sheet

Employee Stock Options: equity compensation that enables employees to own a piece of the company

Liquidity Event: a company is dramatically changing its structure, which keep turning illiquid assets into cash

Vesting Period: the amount of time required to work at a company before you gain access to equity. Many companies use a four-year vesting period with equity contributions changing over time

Here's a brief breakdown of the main differences between Series A, B, C, D, and E financing:

A

Series A: immediately following the seed funding, this describes the first round of financing received by a new company

B

Series B: by this point in the series, the company has likely brought its product to market but is looking for financing to help them scale-up

C

Series C: the company has established itself but is now looking into new markets and might even be thinking about a near-term IPO

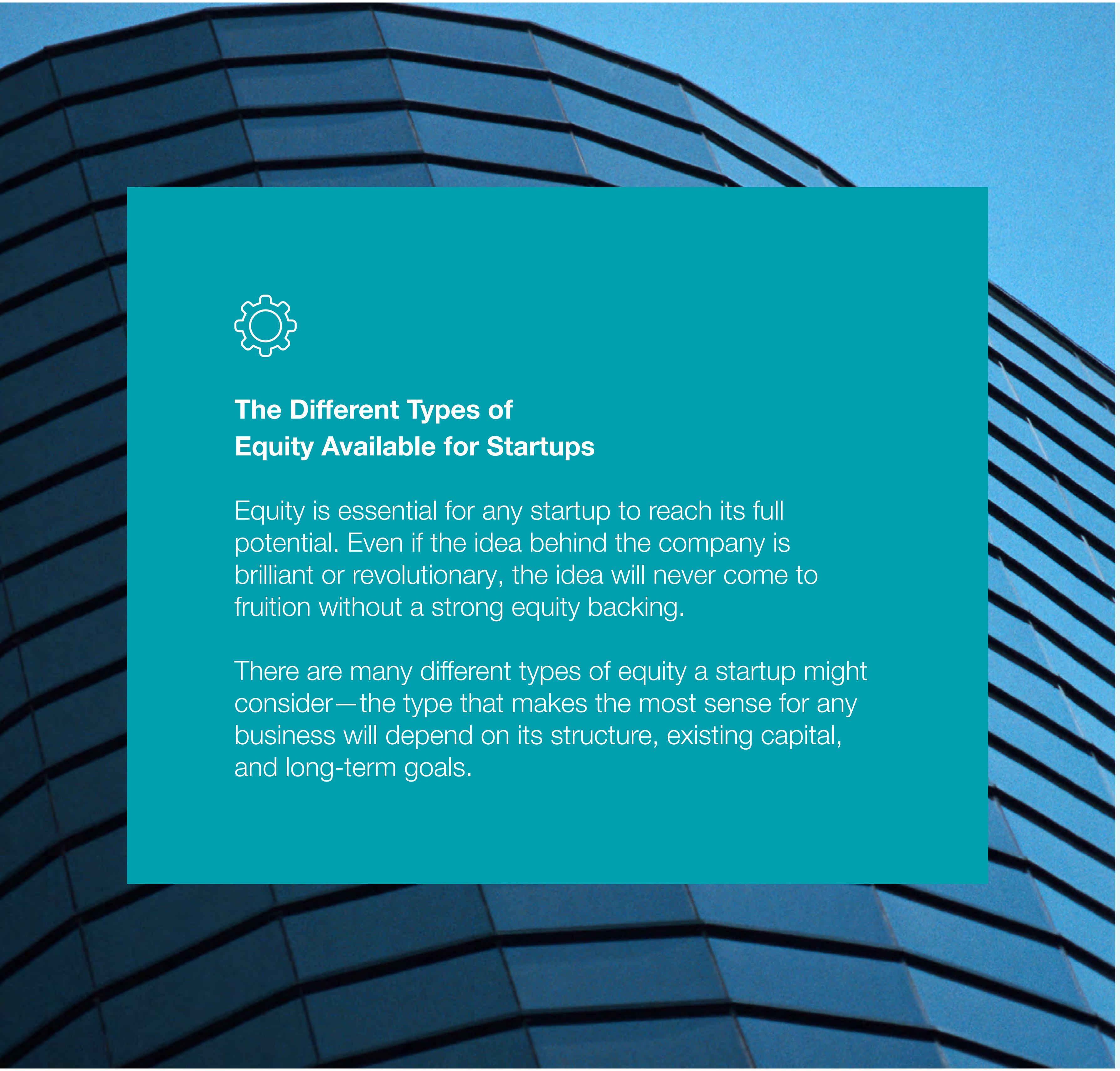
D

Series D: an occasional additional round of financing to further build the financial base

E

Series E: a rarely used round of financing used by companies that want to stay private for longer

Other financing options, including corporate bond issuance and SPACs, can help a startup gain additional access to needed capital. These alternatives often present the quickest path to new capital.



The Different Types of Equity Available for Startups

Equity is essential for any startup to reach its full potential. Even if the idea behind the company is brilliant or revolutionary, the idea will never come to fruition without a strong equity backing.

There are many different types of equity a startup might consider—the type that makes the most sense for any business will depend on its structure, existing capital, and long-term goals.

Some of the most common types of startup equity you'll encounter include:

- **Angel Investors:** these investors will pay from their own net worth in exchange for partial ownership of the company
- **Venture Capital:** by using an investment fund, venture capitalists will give startups cash and other possible assets in exchange for equity
- **Equity Crowdfunding:** often done digitally, equity crowdfunding helps make it possible to raise funds from a large group of people
- **Royalty Financing:** in exchange for the right to a pre-determined portion of future profits (royalties), investors may be willing to make cash investments today
- **Small Business Financing:** there are many small business financing options that are great for companies that have had challenges securing financing elsewhere
- **Mezzanine:** additional rounds of debt financing that can involve an array of different investors
- **Initial Public Offering (IPO):** issuing an IPO creates a pool of shares that can be bought or sold by public investors. This can bring in a lot of cash for the company, but it can also dilute the company's ownership structure

Who Gets Each Type of Equity?

At a startup, the way that equity is structured and distributed can have a tremendous impact on a company's well-being. And equity distribution that might make sense on paper might not always be fair or effective when put into practice.

If a founder is acting as the CEO, they might be entitled to more equity than their partner in a different role. And when additional layers of partners and investors are added, the equity claims situation can become even more complicated.

There are several things that can affect who is entitled to claim ownership of:

- The type of equity being used
- Compensation structure (salary versus equity)
- Stage in the equity building cycle (Series A, B, C, D, or E)
- Number of investors
- Future equity goals and needs
- Debt to equity ratios

When a firm's shareholder equity ratio is high (closer to 1 than zero), that means a larger portion of that firm is being financed via equity.

Here are some additional ways that equity contributions can be categorized, including how ownership of this equity is typically determined:

Common Stock: represents the investment the shareholder has made into the business. Shareholders of common stock will gain proportional voting rights and a "residual claim" to the company's assets. By making a larger equity investment, shareholders can directly increase the portion of the company that they own.

Preferred Stock: another type of equity ownership that is guaranteed a cumulative dividend. Preferred stock can be acquired by both company founders and later-round investors.

Contributing Surplus: also referred to as "additional paid-in capital." By paying more than par (market) value for shares, investors who contribute additional equity can effectively increase their ownership stake.

Treasury Stock: also referred to as a "contra-equity account," treasury stock represents the common stock that the company has bought back from investors.

Additional Comprehensive Income: this can include any form of company equity that has not been realized on the balance sheet (unrecognized gains, etc.).

Retained Earnings: a form of equity that represents all earnings that have not been paid to shareholders or used to cover other expenses. These earnings are owned by (retained) the company and can be used in the future, as needed.

Restricted Stock: additional form of employee equity that can be accessed and distributed when certain conditions have been met.

In the software start-up world, it's very common to calculate valuation based on revenue and growth. This happens because start-ups typically grow very fast and use all their cash to grow even faster, meaning that there is rarely much in profit.

Alfonso Tiscareno, Business Director, Robert Walters, San Francisco

Equity Shares Relative to the Value of the Company

There are several ways an equity compensation package can be structured. When a business offers a specific percentage of their company's value, that means their wealth at any given point in time will depend on the company's total value, which can be measured in two ways: enterprise value or equity value.

$3m if the company is valued to be worth $3 million and the partner has a 2 percent equity stake, they will have about $60,000 worth of equity.

Founders need to carefully balance the needs of their investors, employees, and stakeholders. Finding the right amount of equity to issue can be challenging, which is why it's crucial to make sure you get it right.

Calculating Enterprise Value and Equity Value

To calculate enterprise value, all you need to do is look at the current market capitalization and subtract all outstanding debts. If debts exceed the current market cap, then the enterprise value would be negative.

$4m

If a company has a current market cap of $5 million and current debt of $1 million, then the company would have an enterprise value of $4 million.

To calculate the equity value, you must add the already calculated enterprise value to the company's redundant assets, and then subtract the "debt net" of cash available.

$550k

If a company has an enterprise value of $4 million, $2 million of redundant assets, and $500,000 debt net of cash available, that company's total enterprise value would be $5.5 million. A partner with a 10 percent equity share, in this case, would have $550,000.

Whether the enterprise value or equity value will be higher depending on the company's financial status, and understanding the differences between various types of company valuations will be critical during the equity negotiation process.

Dilution

When negotiating equity, one variable that both founders and secondary investors will need to consider is share dilution. Dilution can affect both prospective joiners and existing founders by changing the value of outstanding equity and changing their ownership share. The presence of dilution is usually a sign that a company is growing but can also result in ownership challenges.

When more shares of common stocks are issued in the mezzanine financing process, every party that holds existing shares will have their ownership portion effectively decrease.

Dilution can create immediate problems for existing equity owners, including new members of the company and owners who are hoping to maintain majority ownership within the company.

1. **Company A** currently has **1,000,000** shares of common stock in circulation.

2. **Investor B** owns **600,000** of these shares, meaning they own **60 percent** of the company's common stock.

3. During the mezzanine fundraising round, **Company A** decides to issue an additional **2,000,000** shares of stock. The total common stock in circulation has now reached **3,000,000**.

Following issuance, **Investor B** will still have **600,000** shares of stock but instead of owning **60 percent** of the company, they now own **20 percent**. In this case, they will have gone from being a majority shareholder to a minority shareholder—this can have a huge impact on company operations, especially when it comes to voting.

By expanding the share pool, the power of outstanding equity will change.

"To attract and retain the best talent, many private companies will offer equity options for their employees. These options might be issued for a variety of reasons, including as a part of a broader compensation practice or to encourage employees to help the company achieve certain financial goals.

Martin Fox, Managing Director, Robert Walters Canada

Option Pool

The option pool represents the shares of stock that have been specifically set aside to be distributed to employees and other possible parties.

The size of the option pool can fluctuate depending on where the company is in the equity cycle. Typically, most firms will establish an option pool that contains 15 percent to 25 percent of the company's initial shares.

How is the size of an option pool determined?

Ownership will need to balance multiple concerns when setting the size of the option pool. Specifically, they want to ensure the pool is large enough to motivate employees with access, but small enough to prevent the dilution of existing shares.

The sizes of option pools are also frequently adjusted in response to either a pre-money valuation or post-money valuation. There is often a considerable amount of negotiating that occurs when investors are crafting the size of the options pool. This decision will immediately affect the firm's price, value, and ability to attract future talent and capital.

Strike Price

One of the biggest benefits of joining or investing in a company during its earliest stages is that early participants can usually capitalize the most on their stock options.

When someone receives stock options, they will later have the right to buy stock from the options pool at a pre-determined price. The price they will typically be able to buy at is usually the market price when the options were sold, also known as the equity holder's strike price or exercise price.

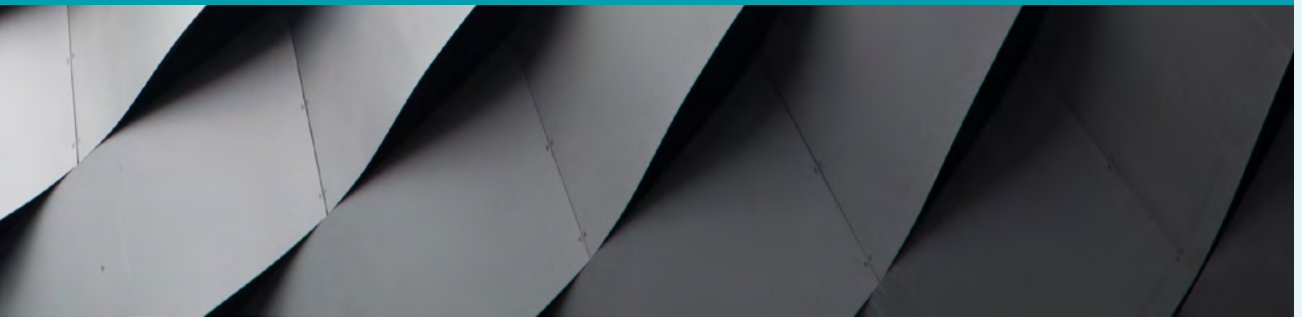
How Options can be exercised

1. An employee holds 10,000 stock options giving them the right to buy at $30 per share.
2. In the future, the stock price increases to $50 per share. Starting at a pre-determined point in time, the employee can now exercise their options and buy 10,000 shares at $30—well below market value.
3. Since the employee was able to spend $20 below market value on these options, they will have immediately gained $200,000 in equity. The strike price plays a major role in equity negotiations because it can significantly impact how much the option holder stands to make and whether dilution is likely to occur.

If the employee waits until share values increases, having options with a lower strike price will become more valuable.

Investing Period

Timing is a variable that always plays a crucial role in equity negotiations. The only reason an investor would typically pursue equity is to increase their wealth over time. The investing period, also referred to as the investment time horizon or holding period, will directly affect the equity structures these investors pursue.



There are various ways that investors might adjust their time horizon:

Short-Term Investors: some investors will want to buy and sell equity within the company for a year or even less. These investors will want to see strong evidence of near-term return potential, including highly liquid assets

Medium-Term Investors: these investors, often involved for about five years, will have balanced expectations and goals

Long-Term Investors: usually long-term investors will want to stay involved for at least ten years. They will need to truly believe in the company's future vision, including its scalability potential and its ability to protect and sustain equity values

Timing truly does matter during the equity negotiation process. If it seems unlikely that someone will need to be able to access their capital or increase their wealth for quite some time, they will rightfully want to be compensated accordingly.

Triggers

The accumulation and eventual distribution of equity in a company is not something that happens overnight. The equity vesting process takes place over the course of years or even decades.

Every startup or business that is building equity will have an equity vesting schedule that will cause the existence of these rights, such as the right to exercise options, to come into fruition.

An event can occur that will accelerate the equity vesting process, and is something investors will need to consider very carefully. When these events occur, certain parties may gain a large ownership share within the company. The events that accelerate the vesting process, known as triggers, can come in several different forms:

- **Change of Control:** if a company is sold, dissolved, acquired, or experiences a change of control, some of the company's equity holders may be vested with the full value of their equity.
- **Involuntary Termination:** if an employee is involuntarily terminated, their equity might become fully vested.
- **Single vs. Double Trigger:** a single trigger acceleration occurs when one event causes equity to be invested; double triggers when two events cause the change.

Negotiating Equity

The way(s) that equity will be distributed within a company will typically require a considerable amount of negotiation. There are usually multiple parties that have an active interest in the equity distribution structure, including the company founders, primary stakeholders, workers, and future company collaborators.

All parties will naturally want to act in their own personal best interest. Overall, what this means is:

- **Current Equity Owners:** will want to maintain as much control of the company as possible (avoid dilution), while also ensuring they can attract top talent and keep those involved in the company happy
- **Prospective Hires:** will want to get as large of an equity stake as they possibly can, while avoiding having to give up any of their salary or other types of compensation
- **Investors:** will want to ensure that the current equity structure keeps the company financially sound and capable of long-term performance

"From an incoming hire perspective, we often see talent within the Engineering space demanding equity play, specifically for earlier-stage organisations, which then adds more complications to deals being completed. From a broader market point of view, we're seeing some companies' offering huge equity play and lower base salaries, which often appeals to candidates and vice versa, creating a highly competitive market.

Elliot Jackson, Director,
Robert Walters Austin

Delivery Offers

During the equity negotiation process, it is important for both parties to develop a negotiating framework that avoids using emotion and instead relies on the clear illustration of a more prosperous future.

This illustrated future, or the company's narrative, is why prospective hires care about getting equity in the first place. They expect their shares of the company's value to be worth more in the future than it is today. That's why they're hoping to be at least partially compensated with equity, rather than simply accept an all-cash offer.

When crafting the company narrative, it is important for the company founders to:

- Create a clear path to profitability
- Demonstrate why the company is more likely to succeed than its competitors or comparable alternatives
- Use data, not just rhetoric or appeals to emotion, to demonstrate why near-term and long-term growth scenarios are most likely to occur
- Create realistic expectations, while remaining optimistic
- Demonstrate an ability to adapt if an unforeseen event were to suddenly unfold

Storytelling will play a critical role here. If the company can tell a believable and verifiable story that includes strong equity growth, then that equity will be considered intrinsically more valuable.

Storytelling has to be part of the entire interview process, so when it comes to the offer negotiation stage, the candidate is already bought into the vision. More tactically, it's critical for whoever is extending the offer to truly understand how the equity works so that they can create a compelling picture of the future value, the candidate's specific role in making that value achievable, and their overall impact on the company's success.

Paula Judge,
Vice President of Talent, Accel

Recommendations on Positioning Offer Packages

With a developed company narrative, the firm will be able to better position its offer. At this point, the company should consider itself to be beyond the initial "hype" stage, and they should prepare for all possible shareholders to be skeptical. Therefore, it's up to them to prove their offer is fair.

To overcome the "burden of proof" and position themselves to prospective employees, companies ought to:

- Demonstrate how compensation might change in the event of the best-case, worst-case, and most likely scenarios
- Utilize a comprehensive approach to valuating compensation that accounts for equity, cash compensation and general benefits. The more tangible numbers the company can use, the better off they will be
- Reinforce the company story; this means illustrating a path to profitability, creating a unique value proposition, and relating these developments to future growth in equity
- Compare the company to others like it, explaining why the company's compensation proposal is better than the alternative
- Use facts and figures based in reality, and be willing to honestly answer any questions prospects might have

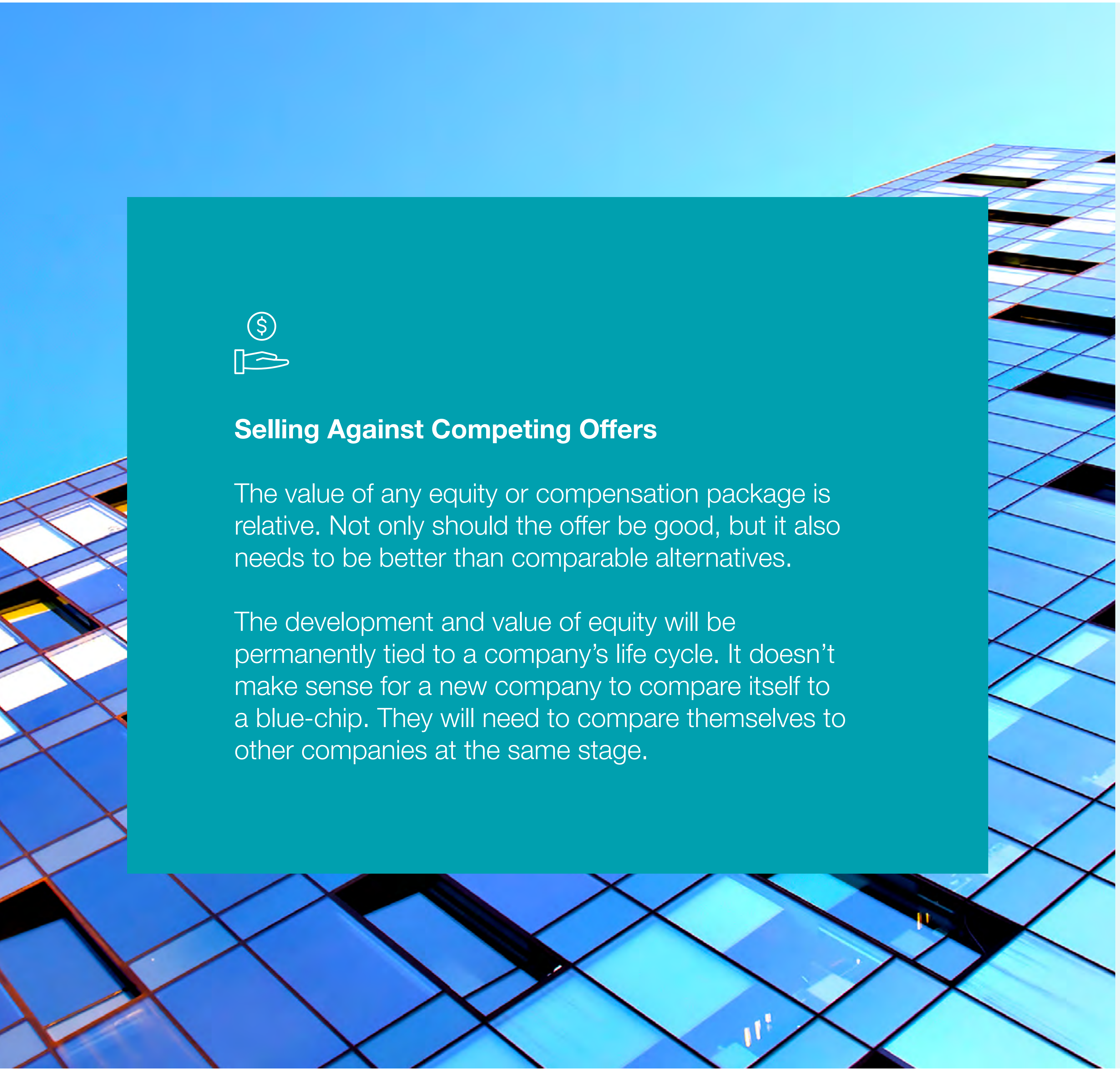
Valuing Equity

The importance of using hard, tangible figures throughout the equity negotiation process cannot be overstated. Telling a potential equity holder that the company "has a lot of potential" will rarely be enough to sell the company story.

Any potential shareholder will want to see how the value of their equity will potentially change. Here are a few formulas that can be used to calculate changes in equity value:

Options: ISOs & NQs	**Total value**= (value of share x quantity) – (strike price x quantity) **Today:** ($2/share x 8,000) – ($1/share x 8,000)= $8,000 **Future:** ($10/share x 8,000) – ($1/share x 8,000) = $72,000
Stock: RSUs	**Total value**= (value of share x quantity) – (strike price x quantity) **Today:** $8/share x 4,000 shares = $32,000 **Future:** $12/share x 4,000 shares= $48,000

As the chart above illustrates, holders of early, lucrative stock options will disproportionately benefit from the growth of the company's equity. When the stock's value increased from $3 to $15, the value of the stock, on the open market, would have experienced a 5x growth ratio. But because of the employee's stock options, they were able to enjoy a 7x growth ratio—effectively earning them an additional $40,000 in equity.



Selling Against Competing Offers

The value of any equity or compensation package is relative. Not only should the offer be good, but it also needs to be better than comparable alternatives.

The development and value of equity will be permanently tied to a company's life cycle. It doesn't make sense for a new company to compare itself to a blue-chip. They will need to compare themselves to other companies at the same stage.

As companies move through different stages, their equity structure will evolve. This means that a company might need to adjust their key selling points as they mature and develop over time.

- **Early-Stage Companies:** these companies need to emphasize potential for growth, their ability to adapt, and that early equity holders will be able to play a strong role in crafting the company's future.
- **Growth-Stage Companies:** during the growth stage, companies need to show that they're putting their vision into motion, that there's a clear plan for scalability, and though risk has decreased equity can still skyrocket.
- **Late-Stage Companies:** by this stage, companies need to emphasize goodwill and brand value as a source of equity, the limited timeline to equity realization, and continue illustrating a clear vision for the future.
- **Public Companies:** when a company goes public, they will need to be thinking about the biggest picture possible. Brand value, global expansion, diversification, and stability will all be major selling points. As long as equity keeps growing, so will the relative return of each additional stock option.

The Do's and Don'ts of Negotiating Equity

There are many people who can be affected by equity negotiations, including the employee, current equity holders, founders, and nearly every other party with stake in the business.

During the course of equity negotiations, there are many critical factors that need to be considered:

- The numbers of shares that have already been distributed
- Risk of dilution
- Current equity distribution structure
- Existing compensation structure (benefits, retirement contributions, other equity, etc.)
- Competitiveness of employment and capital markets
- Equity offerings from comparable and competing firms

The "Do's" of Equity Negotiation

As companies move through different stages, their equity structure will evolve, which means that a company might need to adjust its key selling points as it matures and develops over time.

Here are a few ways to accel throughout the negotiation process:

- Be willing to listen to what the other side has to say
- Use tangible numbers and verifiable figures
- Be willing to make changes
- Rely on the original narrative and frame the negotiation as a story
- Illustrate a bright future where both parties win
- Utilize industry benchmarks and norms to understand a reasonable starting point
- Have a target range of options in mind, rather than insisting on one figure
- Look for creative opportunities to compromise
- Understand the expectations of the stakeholders who are not at the equity negotiating table

The "Don'ts" of Equity Negotiations

Utilizing general equity negotiation best practices will put both parties in a better position. However, it's also important to avoid common negotiation traps.

These can include, but are not limited to:

- Creating completely unrealistic expectations
- Promising a result that is unlikely to be delivered
- Presenting misinformation to make your position look better
- Misrepresenting how stock options or any other type of equity compensation works
- Blame the other party or tell them they are unreasonable
- Refuse to compromise or be flexible
- Assume that all components of a working relationship can be represented by numbers on a spreadsheet
- Only think about the past and present, refuse to think about the future

Establishing trust is so important in this process. If either party believes the other is negotiating in bad faith, they will inevitably begin to look towards alternatives. But with an open, informative, and good faith negotiating process, both parties can end up getting what they want.

The optimal time for equity negotiations is after receiving a job offer, and before formal acceptance. If equity plays a big part of your decision, then know there is risk attached – so before accepting, make sure you are comfortable with the company's growth potential, and risks involved – just as you would with any other investments you might make.

Tim Mulligan, CHRO,
BEN Group Entertainment

Current Trends in the Market

The state of private (and public) equity markets has significantly changed. Today, employee compensation packages look significantly different than they did 20 years ago, with investors also looking for new ways to build their equity share.

Here's how the startup equity market has been changing:

- **Shorter Fruition Timelines:** with employees switching jobs faster than ever before, many employees have begun on equity options that will be vested within a shorter amount of time.
- **KPI-Focused Equity Options:** many equity compensation packages now include conditional triggers, giving employees the possibility of accessing additional benefits if the company reaches certain KPIs.
- **Democratizing of Ownership:** rather than having one or two parties act as majority shareholders, firms have adopted a more diversified ownership structure. This has helped revolutionize the fundraising and equity accumulation process, including the growth of equity crowdfunding.
- **Inflation Protection:** the costs of goods and services have become exceptionally volatile, with recent year-over-year inflation figures hovering above 8 percent. Future price uncertainty has caused inflation protections to become a key component of negotiations.
- **Cheap Access to Capital:** in early 2022, interest rates sat at an all-time low. With access to capital as affordable as ever, many private equity firms and investors were willing to raise their risk tolerance. But with interest rates creeping back up, this trend may reverse before the year's end.

Adaptability, specifically the ability to change the use, accumulation, and deployment of equity with ease, seems to be a key underlying factor, and is something today's employees and investors should prioritize.

The equity data below represents the leadership roles supported by Robert Walters:

Job Title	Seed Funding Only	Post Series A	Post Series B	Post Series C	Post Series D	5+ Rounds of Funding
VP Operations	1.3%	1.0%	0.6%	0.4%	0.3%	0.3%
VP Engineering	4.3%	1.7%	1.1%	0.8%	0.5%	0.4%
VP Finance	1.5%	0.6%	0.5%	0.4%	0.2%	0.2%
VP Marketing	1.1%	0.6%	0.5%	0.4%	0.3%	0.2%
VP Product	5.5%	1.4%	0.8%	0.6%	0.5%	0.3%
VP Design	3.5%	1.6%	0.5%	0.3%	0.2%	0.2%
VP Sales	1.8%	0.9%	0.6%	0.4%	0.3%	0.2%
VP Business Development	1.4%	1.0%	0.6%	0.4%	0.3%	0.3%
VP Human Resources	0.5%	0.4%	0.3%	0.3%	0.2%	0.2%
VP Legal	4.8%	0.5%	0.7%	0.3%	0.3%	0.3%

Job Title	Seed Funding Only	Post Series A	Post Series B	Post Series C	Post Series D	5+ Rounds of Funding
Director of Business Operations	1.0%	0.3%	0.2%	0.1%	0.0%	0.1%
Director of Engineering	2.7%	0.7%	0.4%	0.2%	0.2%	0.1%
Director of Software Engineering	1.13%	0.50%	0.35%	0.17%	0.15%	0.11%
Director of Data Engineering	-	0.86%	0.48%	0.14%	0.17%	0.10%
Director of Data Science	1.35%	0.37%	0.16%	0.13%	0.05%	0.06%
Director of Design	0.82%	0.30%	0.19%	0.14%	0.07%	0.06%
Director of Product	1.17%	0.41%	0.20%	0.14%	0.09%	0.10%
Director of Product Management	1.9%	0.4%	0.3%	0.2%	0.1%	0.1%
Director of Marketing	0.54%	0.23%	0.15%	0.07%	0.05%	0.04%

Job Title	Seed Funding Only	Post Series A	Post Series B	Post Series C	Post Series D	5+ Rounds of Funding
Director of Marketing Comms	0.49%	0.20%	0.09%	0.06%	0.04%	0.04%
Director of Operations	0.69%	0.32%	0.17%	0.08%	0.08%	0.04%
Director of Demand Generation	0.17%	0.12%	0.12%	0.10%	0.05%	0.05%
Director of Business Development	0.95%	0.29%	0.19%	0.11%	0.05%	0.07%
Director of Sales	0.56%	0.23%	0.16%	0.10%	0.06%	0.05%
Director of Strategy/Biz Ops	0.77%	0.29%	0.19%	0.09%	0.06%	0.06%
Director of Human Resources	0.60%	0.15%	0.12%	0.07%	0.06%	0.04%
Director of Recruiting	0.43%	0.13%	0.14%	0.07%	0.07%	0.04%
Director of Legal	0.68%	0.38%	0.17%	0.12%	0.08%	0.05%

The Future of Equity

There are a number of trends that are likely to directly impact the broader equity landscape over the course of the next few years:

- **Shift Towards Valuing "Non-Financial" Compensation:** even in a competitive startup ecosystem, much of today's top talent is demonstrating a new set of values: freedom and work-life balance are more important than ever. Many partners are willing to sacrifice a portion of their equity in exchange for life-enriching benefits, more time away from work, more flexibility, etc., meaning that creating a competitive compensation package is no longer the simple numbers game it once was.
- **Diversification of Equity Financing:** firms are looking beyond their founders and even mezzanine investors to secure equity financing. Crowdfunding, private exchanges, goodwill, and other sources of equity have all significantly changed how startups build their broader equity stack.
- **Increased Time to IPO:** in 2000, the average amount of time it took for a firm to issue an IPO was just 3.1 years. Today, firms are nearly twice as long to go public, with an average IPO timeline of 6 years. This is likely due to changes in how investors evaluate a company's potential, along with changes in how value is typically created.
- **Added Access to Equity:** rather than condensing equity within the board and compensating most employees with only cash, equity is now being extended to a wider range of workers, which has helped democratize the broader equity ecosystem.

Equity is the currency of tech and the start-up eco-system. It helps companies compete for talent, combat turnover, and motivate employees to higher levels of performance. With venture dollars increasing 10x in as many years, the number of new start-ups funded will likely grow in the years ahead, with equity continuing to play a critical role in attracting new founders and talent to the market.

Peter Milne, Managing Director,
Robert Walters North America

Conclusion

For the founders, newcomers, and other members of a startup, creating a functional equity structure will be very important. Equity can help attract top talent, promote company loyalty, enable growth, and help the entire organization achieve its goals. When all parties involved can understand the importance of negotiating and distributing equity, startups will find themselves well-positioned to succeed.

Contact Us

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