



(Most) equity
benchmarks are
lying to you.



Contents.

Introduction	3
What do equity benchmarks include (and what are they missing)?	4
Why do equity practices matter?	5
Why have we been living with this reality?	8
What should you do?	9
Conclusion	10

Introduction.

Omission is generally considered to be lying. And most equity benchmarks are omitting some big elements that drastically change the value of equity grants: the equity practices that dictate how the equity vests.

Without insight into the equity practices coupled with equity benchmarks, it's functionally impossible to be able to accurately predict the value of the equity to the employee, or the cost of the equity to your company.

These are some bold claims, so let's backtrack a bit...



What do equity benchmarks include (and what are they missing)?

Your standard equity benchmark likely includes:

Total value of equity owned:

The total value (most commonly the gross equity value) of all the grants owned.

Total percent ownership:

The percent of shares owned divided by the fully diluted shares outstanding.

Broken down by company valuation, revenue, or capital raised.

Some tools (like Pave) also include New Hire Equity Value and Percent. New Hire Equity refers to the value of an equity grant at the time and valuation that it was granted at (vs. the current value of that equity).

So, for instance, you could look at what the value/percent of the equity owned by a Customer Success Manager at a company that's raised between \$20m-\$100m (for reference, it's about \$25,000 / 0.015% at time of offer).

Most equity benchmarks **omit equity practices**, such as:

- **Vesting schedule:** 4 years, 3 years, 1 year
- **Cliff:** None, 1 year
- **Vesting structure:** Linear, backweighted, accelerated
- **Vesting interval post-cliff:** Monthly, quarterly
- **Equity vehicle:** Options, RSUs

They also don't get granular enough, often talking about total grant values, not providing insight into:

- **Annualized** vs. **total** grant value
- **Intended** vs. **actual** equity grant value
- **Vested** vs. **unvested** value
- **New-hire** value vs. **non-new hire** value



Why do equity practices matter?

You may be thinking to yourself, “the equity benchmarks we get are perfectly fine because we can assume all companies participating in the benchmark use a 4 year vest, with a 1 year cliff and a monthly vesting schedule”.

Had we been discussing this in 2018, you may be right. But today, companies – from large to small – are deviating from these old norms. For instance, only about 55% of public and 80% of private companies use a 4 year vesting schedule. Only 80% of private & public companies use a cliff, and 25% of private companies vest quarterly rather than monthly. By comparison, about 75% of public companies vest quarterly.

How big of an impact can a 3 versus 4 year vest, or having a cliff versus not having a cliff make? Turns out, it’s a big difference.

41% differences at 2.5 years between a 3 year vs. 4 year vest.

Let's compare two employees at two companies that would fall into the same "benchmark" in most equity benchmarks.

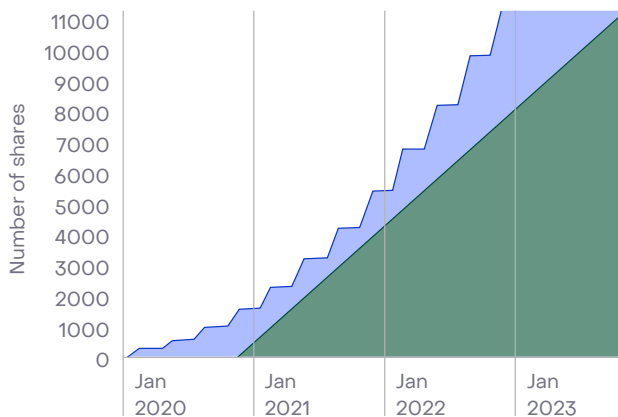
They both have these basic benchmarking stats:

- **Company valuations:** \$1.5B
- **Intended grant value:** \$100,000
- **Number of shares:** 11,310
- **% Ownership:** 0.005%
- **Equity type:** RSUs
- **Vesting start date:** Jan 2020

However, they differ in their equity practices:

	Company A	Company B
Vesting schedule	3 Year	4 Year
Cliff	No	1 Year
Vesting cadence	Backweighted	Linear
Vesting interval	Quarterly	Monthly

Company A vs Company B:
Equity vested over time



At 2.5 years (roughly, the average startup employee tenure), this employee would have vested drastically different amounts:

- **Company A:** 7,975 shares
- **Company B:** 5,655 shares

This means that at 2.5 years, the employee at **Company B** has vested 41% more than the employee at **Company A** – but the equity benchmark would call these two employee's equity compensation functionally the same.

47% differences at 2 years between a back weighted vs linear vest.

Now you may be thinking “well, of course, if someone has a 3 year vest versus a 4 year vest they are going to vest more in the first 2 years”. And while this is a more extreme (but not uncommon) example of how equity practices drastically impact the equity value (and the equity burn), let’s look at two more companies: **Company C** and **Company D**.

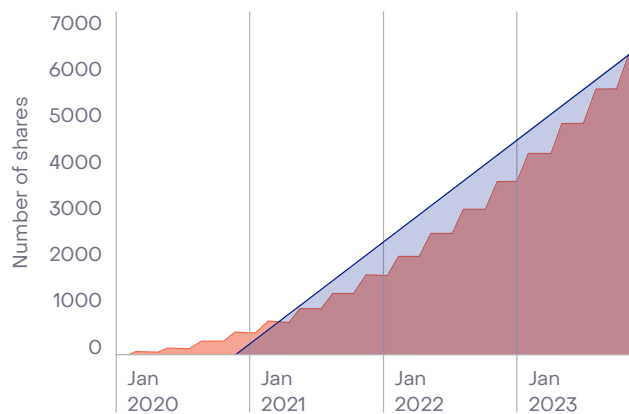
They both have these basic benchmarking stats:

- **Valuation:** \$1.8B
- **Intended grant value:** \$140,000
- **Number of shares:** 6,120
- **% Ownership:** 0.006%
- **Equity type:** RSUs

However, they differ in their equity practices:

	Company C	Company D
Vesting schedule	4 Year	4 Year
Cliff	No	1 Year
Vesting cadence	Backweighted	Linear
Vesting interval	Quarterly	Monthly

Company C vs Company D:
Equity vested over time



In this case – where these two companies use the same 4 year vesting length – at 26 months after their vesting start date, the person working for **Company D** has vested 47% more shares (760 more) than the person at **Company C**.

Why do we care?

If you’re using baseline equity benchmarks without any equity practices data – or even better – annualized equity value data split by vested versus unvested, you’re flying blind.

You could be dramatically over or under compensation relative to the market – which impacts not only your ability to attract and retain the top talent, but your equity burn.

Why have we been living with this reality?

I'm not claiming that equity benchmark providers have been intentionally misleading you.

For a long time, a 4 year vest with a 1 year cliff was normal; you could use these as an assumption to contextualize your equity benchmarks. But times have changed, and so must equity benchmarks.

What does this take? It comes down to collecting detailed, grant-by-grant, month-by-month grant information. Most benchmarking providers don't (and can't, with traditional survey techniques) get this level of detail about equity.



What should you do?

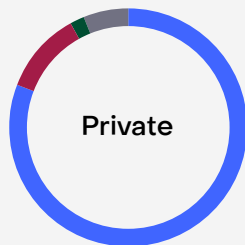
We don't share this information with you as simply a bearer of bad news. There are things you can do to create a more holistic understanding of the equity practices that companies use.

Know the stats

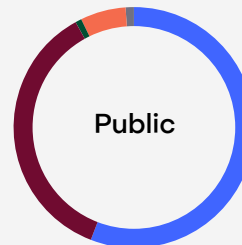
We mentioned a few statistics above about the most common equity practices for companies, but seeking out and having a general sense of what practices are used can help you use existing equity benchmarks most effectively.

As of April 2023, here are the most common practices for private and public companies:

New hire vesting length



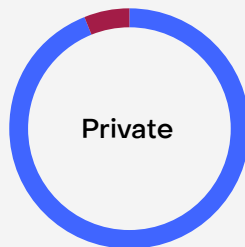
4 years: 81%
3 years: 11%*
2 years: 2%
1 year: 0
Other: 6%



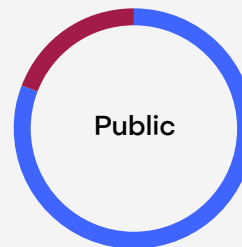
4 years: 56%
3 years: 36%
2 years: 1%
1 year: 6%
Other: 1%

*(Up 10% since Spring 2022!)

New hire cliff

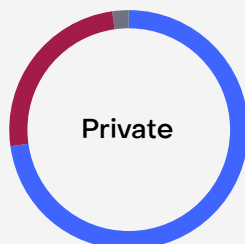


Cliff: 94%
No cliff: 6%

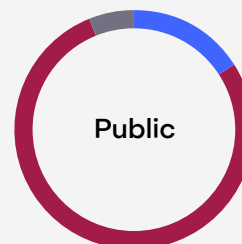


Cliff: 81%
No cliff: 19%

New hire vesting cadence



Monthly: 73%
Quarterly: 25%
Other: 2%



Monthly: 16%
Quarterly: 78%
Other: 6%

Leverage benchmarks that offers more detailed equity information

At Pave, we've split out Total Equity Value (which is the value/percent of equity "today", plus any secondary/tertiary grants) and [New Hire Equity](#) (which is the value/percent of equity associated with the first grant; no additional grants or stock appreciation impact).

Additionally, we are working towards offering more in-depth equity benchmarks and equity practices benchmarks (hence this guide!) – unlike other survey-based benchmarking providers, Pave integrates with cap table management systems to be able to access the detailed information required to create these intricate benchmarks.

Conclusion

Equity benchmarks aren't giving you the full picture you need to run an effective equity compensation strategy. By omitting equity practices, aggregating new hire and total equity, and not splitting out intended vs. actual or vested vs. unvested equity grant value they are obstructing the truth about how much equity is "typical" for companies of your size or stage.

These omissions can lead to dramatically different equity outcomes and benchmarks.

One way to reduce the impact of incomplete equity benchmarks is to understand what practices are most common in the surveys that you use. Additionally, you should search for equity benchmarks that disaggregate equity data by new hire versus non-new hire/total equity to ensure your new hire grants are a more accurate reflection of the market.

Coming soon: Pave is working on solving each of these problems by providing more advanced and compete equity information – if you're keen to learn more reach out to us at equity-benchmarking@pave.com.



pave.com