State of Equity Compensation.

January 2024

Reporting Methodology

In fall of 2023, our team at Pave analyzed the real-time data available in our platform across 6,400 customers to understand the latest trends in equity compensation.

This analysis includes public and private companies of all sizes, from startups to large enterprises, with employees from over 50 countries.

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Introduction

The forces shaping the state of equity today

Equity compensation has rapidly changed over the last three years. The unprecedented rate of change is due, in large part, to increasingly volatile market conditions.

For instance, 2022 was deemed the "SaaSacre." In the first half of the year, the S&P 500 fell by 21%. Big Tech stocks collectively lost nearly $4 trillion in market value. Many companies responded in 2023 with reductions in workforce and other cost-cutting measures that have continued to impact market volatility.

Private companies were not immune to the 2022 market drop, and experienced the reverberative effects as they struggled to raise new funding. If they were able to raise more capital, the deals were often framed in investor-friendly terms that put the company in a long-term financial disadvantage.

When the market is down, managing equity strategically becomes even more critical. Investors focus more on profitability and stock-based compensation is a substantial company expense. They're also looking to protect their returns, which puts added pressure on organizations to carefully manage share issuance. And, finally, when equity targets are dollar denominated, companies are required to issue more shares to maintain compensation levels.

The SaaSacre of 2022

-41.9%	-22.8%	-14.3%	-9.0%
EMCLOUD	NASDAQ	S&P 500	Dow Jones

What compensation leaders want to know about the changing equity landscape

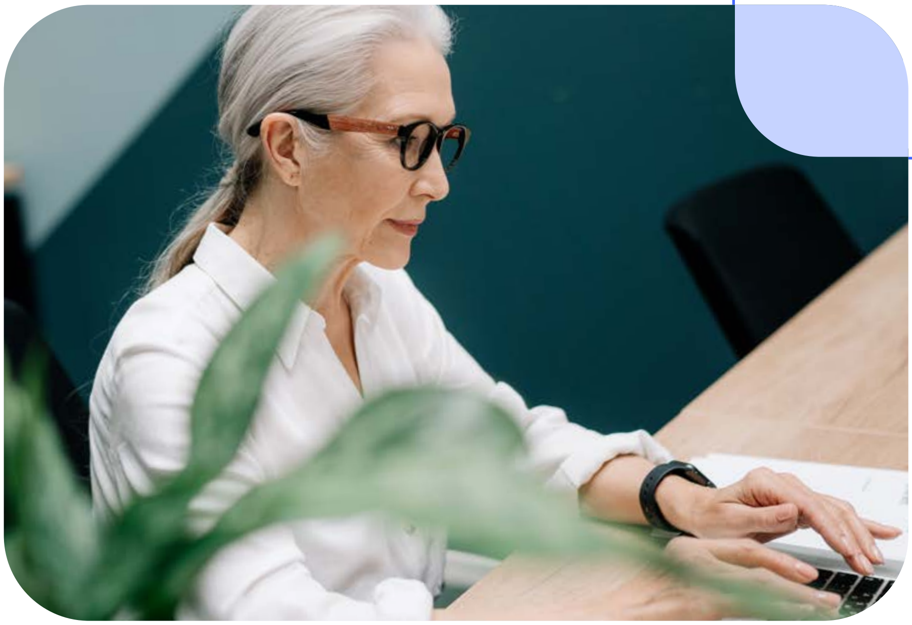
Establishing and effectively managing a strong equity compensation strategy has never been more complex—both for private startups and large enterprises alike. With this complexity comes greater visibility and pressure on compensation leaders.

Compensation leaders face competing organizational demands. The board wants assurance that burn and dilution are being managed, and their employee population is alarmed by fluctuating stock prices. They are contemplating what high-impact levers they can pull, like employee eligibility and vesting schedules, to achieve their financial goals. All of this is ongoing, while they also focus on building confidence and trust in their compensation decisions.

Compensation leaders need real-time benchmarking data to keep pace with the shifting market and competitive equity practices. From the analysis of our dataset, we see four top trends shaping the state of equity compensation in 2024.

Top 4 Trends in 2024

1. Companies are tightening eligibility for new hire grants
2. The 4-year vesting schedule is no longer a given at public companies
3. Variation in equity practices makes survey-based data less reliable
4. Transparency about data-based equity decisions builds confidence and trust



Trend one

Companies are tightening eligibility for new hire grants.

Employee eligibility is one of the areas where we see the most change in equity practices. This is particularly true as it relates to new hires.

Our data shows that since 2020, across private and public companies, there has been a steady decrease year-over-year in the percent of employees who were granted new hire equity grants. For many job families, we saw declines of 5 to 10% year-over-year, and this trend continued as 2023 came to a close.

This trend indicates that companies are becoming more selective about who they grant new hire equity to.

Both private and public companies are likely redefining the threshold for which roles qualify for new hire equity grants. They're now considering a variety of factors including job family, level of role, and geographic location.

How global hiring practices converge with new hire equity grants

One of the key reasons why we're seeing fewer new hire grants is due to the rise of global hiring practices in recent years.

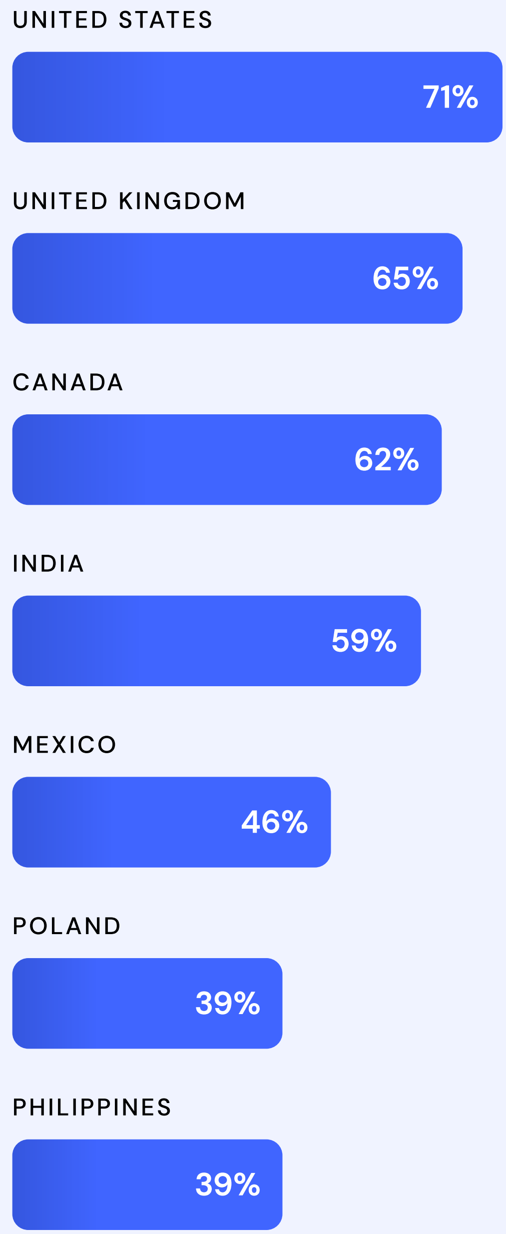
Hiring internationally contributes to fewer new hire equity grants. This is because companies that are primarily based in the United States generally grant less (if any) equity to employees in international markets.

Below is data showing the percentage of new hires from 2021 or 2022 who were granted new hire equity by their primarily USA-based companies. (2023 was excluded due to potential delays in board approvals skewing the data). These locations were selected as some of the most common international hiring locations.

> **While this equity practice is not new, the implications that hiring internationally has for managing equity burn may make it a more attractive strategy for compensation leaders. When we compare 2021 to 2022 and in-progress 2023 numbers, we also see a year-over-year decline in equity participation numbers *within* most countries with a sizable workforce even in the United States.**

However, there is not a one-size-fits-all approach to managing equity internationally. Compensation leaders need to take into account their compensation philosophy, and local market forces when determining the best equity strategies for their organizations.

Percentage of employees granted new hire equity by country



Note these numbers are overall, across all company stages, industries, job families, and levels.

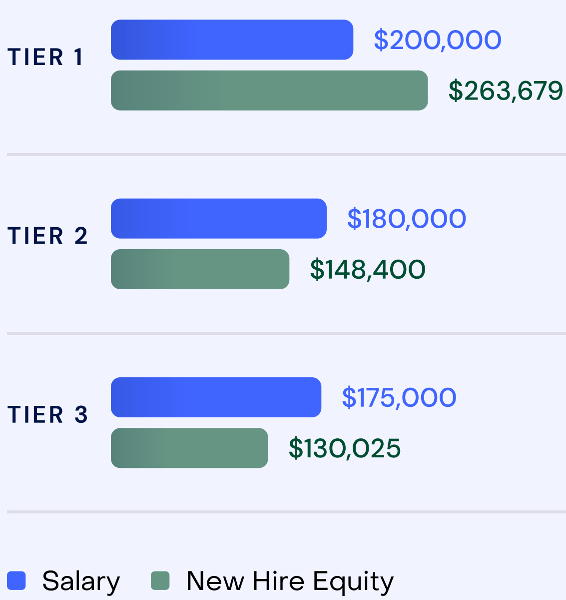
How remote work influences new hire equity for US employees

International hiring isn't the only hiring practice on the rise. There has also been a sharp increase in remote hiring with teams distributed across the United States since 2020.

As a result, the salary gap has been shrinking between employees hired across markets. Now, there is less of a disparity between Tier 1 locations—higher cost of living cities like San Francisco, New York, and Seattle, versus Tier 3 locations—where cost of living is less expensive.

For example, the salary difference for a P4 software engineer hired in a Tier 1 location versus a Tier 3 location used to be about 80%. This means historically a P4 software engineer in a location like Tampa, FL could expect to make 80% the cash salary of what a P4 software engineer in San Francisco made.

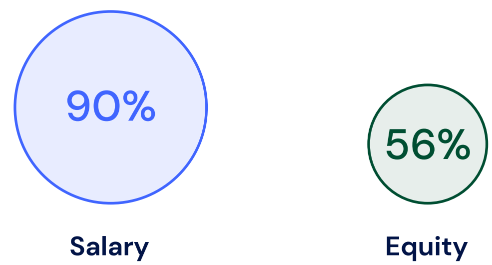
Comparing P4 Software Engineering compensation by location tier



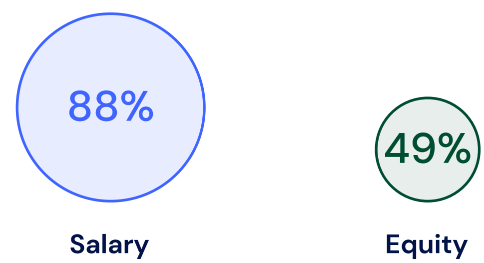
Now the salary delta has narrowed to 88% in this example: the software engineer living in Tampa, FL is earning only 12% less in cash salary on average than the software engineer living in San Francisco.

Before someone decides to work remotely in Florida, they should know that there's a sizable difference with equity compensation. Newly hired software engineers in Tier 3 locations are earning 49% of the new hire equity than those in Tier 1 locations.

Geo-differentials between tiers 1&2



Geo-differentials between tiers 1&3



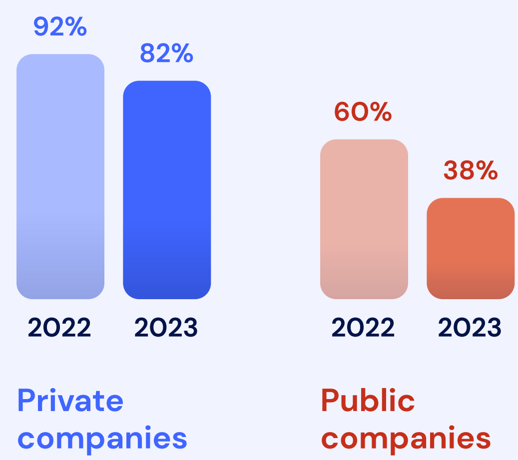
One cause of this trend is that many organizations lack reliable benchmarks to build equity bands. As a result, there's less consistency with equity practices compared to how companies set salaries. When exceptions are made for remote work, there are fewer standards set for equity, and new hires might have less leverage to negotiate.

Trend two

The 4-year vesting schedule is no longer a given at public companies

Another landmark trend is the change in vesting schedules at public companies. Until very recently, 4 years was the predominant schedule across the board. This is still true at most private companies. However, for public companies, the 3-year vesting schedule is now the most common.

Percent of companies with 4-year vesting schedules

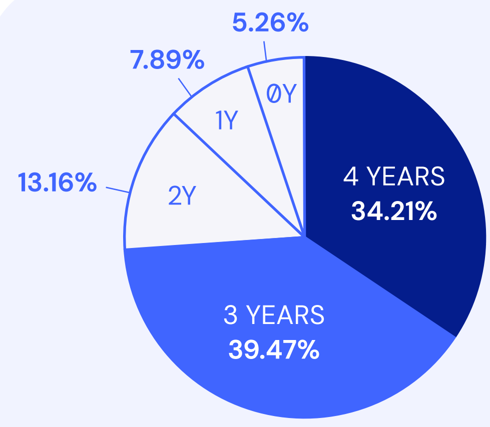


Percentages based on refresh grants. Data pulled in September 2023.

Why the sudden change?

Companies are utilizing a shortened vesting duration to reduce grant sizes. For instance, they might opt to give an $85K grant over 3 years instead of a $100k over 4 years. Though the employee may view the grant as better on an annual basis, the company is managing burn more effectively because the total grant size has decreased.

> Right: Vesting duration for refresh equity at public companies. Data pulled December 2023.



Vesting duration

Learning from companies who do equity differently

> While vesting schedules are still overwhelmingly linear at large public companies, it's worth taking note of companies known for their nonlinear structures.

For instance, **Amazon** has been known to backweight their vesting schedule so that employees receive more equity in their third and fourth years than in the first two. While examples of backweighed vesting schedules can receive a lot of press, our data shows that it's an uncommon equity practice.

On the other hand, **Google** has done an accelerated vesting schedule. This schedule is generally perceived by employees as a benefit because they receive their new hire equity grant more quickly into their employment.

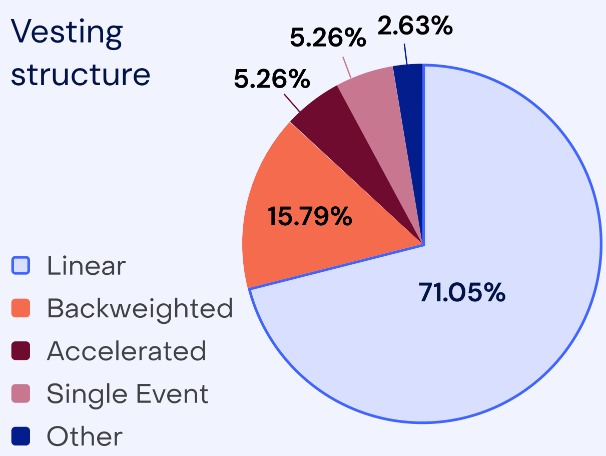
Lyft is an example of a public company that has done annual structures. Annual structures can be more challenging to manage as grants are recalibrated each year, opening the company to market volatility. Also, since employees are not familiar with this structure, it can be difficult to communicate.

At the same time, because there is less downside and risk for employees, it could ultimately become a competitive advantage.

These notable exceptions demonstrate how important it is to have accurate and nuanced equity benchmarking data. The diversity of equity programs is only increasing.

> Below: Vesting structure for refresh equity at public companies.

Vesting structure



Trend three

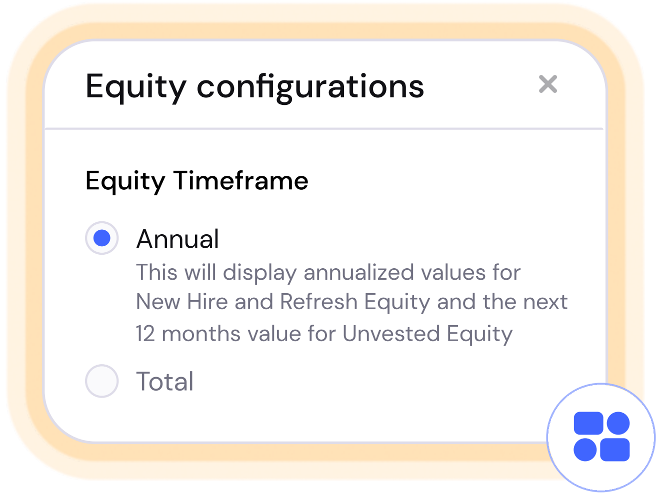
Variation in equity practices makes survey-based data less reliable

Given the variety in vesting schedules and structures, companies need to look at annualized equity values (the value of a grant per year that it is granted over) instead of relying on the total value of an equity package.

Historically, companies communicated the total value of an equity package to employees. They also used the total value of equity grants in benchmarking datasets because 4-year vesting schedules were the norm at most companies.

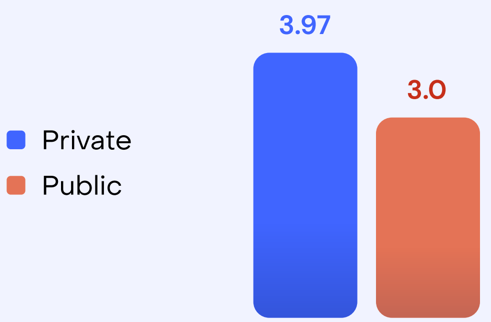
However, as vesting durations become unpredictable, an annualized view of equity is necessary. This view will account for all the different equity practices represented in the competitive labor market. Without this view, companies won't have an accurate picture of how their equity practices compare to those at companies competing for the same top talent.

Using the role of Senior Software Engineer as an example, failing to use annualized equity values could cause public companies to undershoot a competitive benchmark by 21%.



When leveraging equity benchmarks, an annual value will provide a more accurate picture, particularly for public companies.

Total Equity Value to Annualized Value Ratio



These numbers are calculated using P4 software engineer as a reference.

Why the traditional way to assess refresh equity no longer works

A common analysis to understand whether a company's equity strategy is set up to keep top talent is to look at the ratio of new hire equity to refresh equity in the company and in the market. This ratio, as illustrated in the table below, helps leaders assess if they're granting enough refresh equity to retain employees.

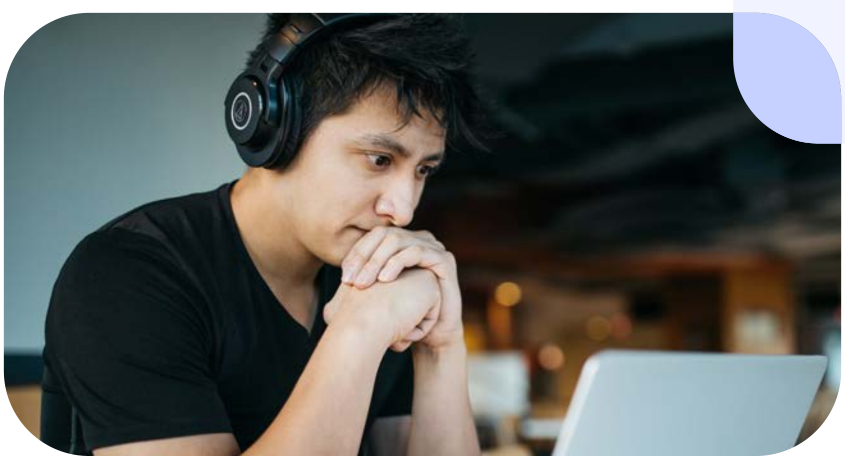
> **While we see a downtrend in all new hires receiving equity, the most competitive job families—like engineering—are still receiving large new hire equity grants. This is in response to the war on talent that was at its peak in 2021.**

In contrast, for roles like Sales and Customer Success, we see lower ratios of new hire equity to refresh equity. This signals that grants are being used more as a retention play for these roles.

Looking at the ratio between new hire to refresh equity has been a common way to create a retention strategy, but we think there's a better way to do it.

Average ratio of New Hire equity to Refresh Equity across job families

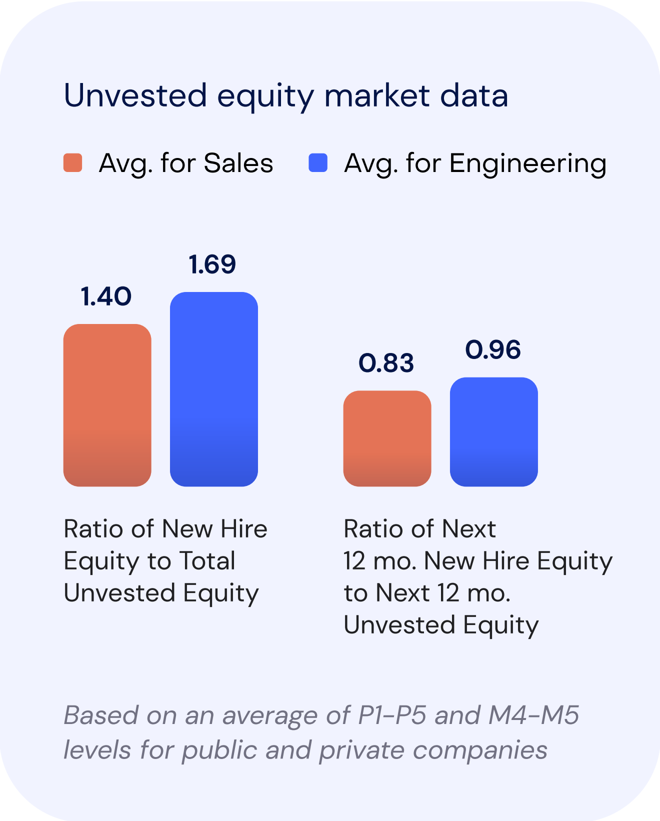
Calculated with total grant values



The modern way to assess the staying power of your equity strategy

A more modern approach to evaluating whether you have an equity strategy that will retain top talent is to look at the ratio between new hire grants and unvested equity, **based on market benchmarks.**

With this type of market data, you can assess whether the amount of unvested equity your employees hold is truly enough to retain them. It also helps you communicate a comprehensive, compelling picture of equity compensation to your employees.



For example, our data shows that an engineer would receive slightly more equity moving to a new company versus staying at their current one over the next 12 months, and a salesperson would make notably more.

By zooming out from the perspective of a single company, department, or employee, compensation leaders can better assess whether or not their organization is at a greater risk of attrition in a particular job market.

This exercise also helps compensation leaders understand how much of their remaining equity pool is better allocated to existing vs. new employees based on unvested equity market data. Having a market perspective in hand is invaluable when defining compensation strategy alongside the CFO and board.

Deeply understanding the holding power of unvested equity across the market is a key competitive advantage to attracting and retaining the best talent. Historically, companies have only ever understood this at a company and individual employee level.

Trend four

Transparency about data-based equity decisions builds confidence and trust

An organization can set the perfect compensation philosophy, strategy, and structure without achieving their goals. How is that possible?

A lack of transparency and communication.

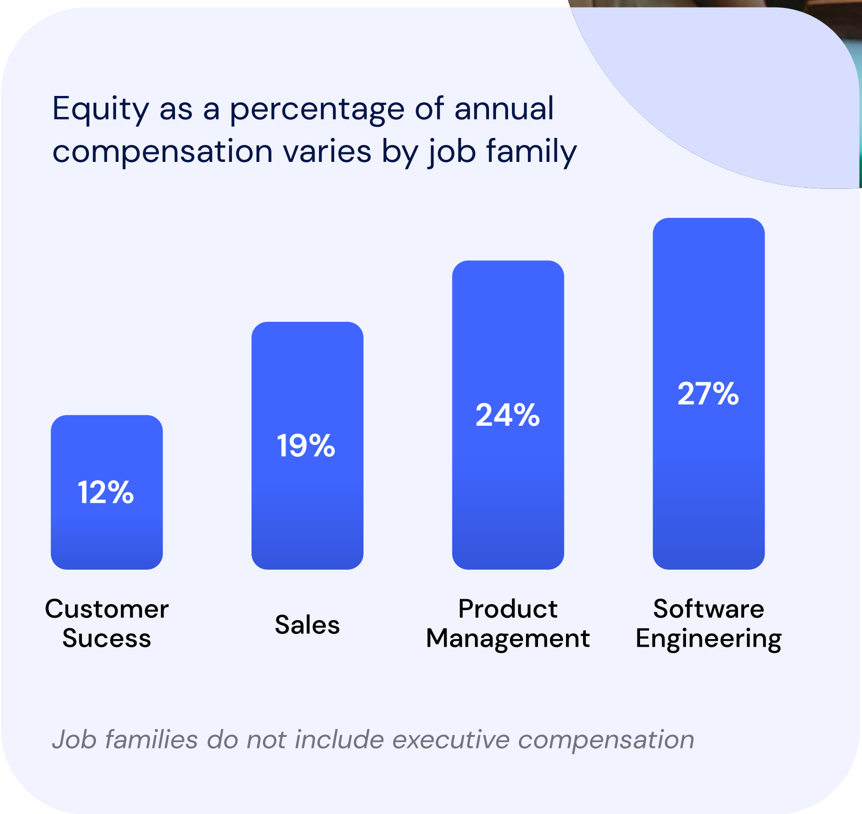
By rooting equity compensation decisions in data-based benchmarks, organizations set themselves up to defensibly and effectively educate their employees on the value of their equity. Organizations can then impart the philosophy behind their equity structure and how the program has been designed to ladder back to their core strategy.

Equity as percentage of total compensation varies by job family

One reason educating employees about their equity is challenging is that equity generally varies widely across job families. This means that equity can represent a much bigger part of compensation for some than others.

While difficult, transparency and communication are no less important.

Because equity plays a different role in employee experiences, compensation leaders need to tailor their communication approach so employees understand why the benefit is significant for them. At the same time, they must ensure that employees receive the same level of information and a consistent message about the company's broader equity philosophy.



Avoiding the pitfalls of misunderstanding and misinformation

Without education and communication, employees can make wrong assumptions about their compensation, which can have org-wide impacts on retention and engagement.

First, they might leave the organization incorrectly believing they could get paid more at another company. In reality, the value of their total rewards might actually be higher in their current role. Unfortunately, we often hear this scenario from HR and compensation leaders.

The second negative effect is misinformation. Without adequate education, employees are likely to create their own narratives that spread across the organization.

A company's equity compensation narrative can bridge the gap between equity strategy and the outcome leaders are seeking—attracting and retaining top talent.

KEY TAKEAWAY

No matter the stage of development, every company needs a cogent, employee-facing narrative about the purpose of equity and its value to employees. Whether it's used to help pay off student loans or provide the down payment for a house, it's important to clearly convey the value of equity in employees' lives.

pave

Paving the way to better equity compensation.

For compensation leaders, managing equity burn is more important and more complicated than ever. With rapidly changing markets, leaders need access to real-time data that helps them manage equity programs in ways that are both market competitive and financially responsible.

The days of relying on stale compensation surveys and manual data entry are over.

Pave's platform integrates with HRIS, equity management, and ATS systems to provide real-time equity benchmarks and streamline compensation management workflows.

Through Pave's platform, compensation teams can inspire trust and confidence in every compensation decision.

[Request a demo to see Pave's Advanced Equity and compensation planning products in action.]