

Top 10 Compensation Pitfalls

APRIL 20, 2023

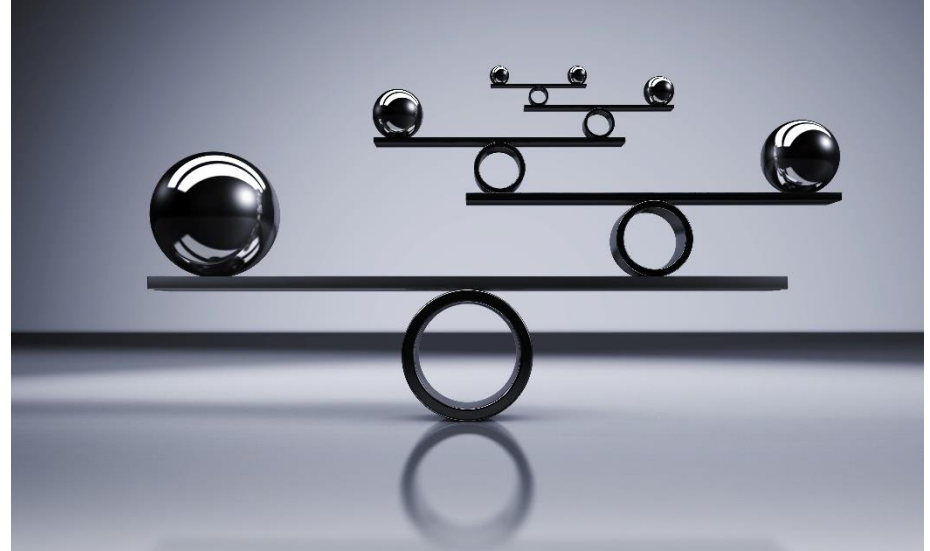
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So What?

- Compensation planning is more nuanced than it used to be!
- Start conversations early
- Up front planning is worth the time
- Don't assume the status quo
- Learn lessons from others' experiences
- Avoid surprises!



Not Dedicating Enough Time to Planning

“We have a Compensation Committee meeting in a week...what’s on the agenda?”

- Have a calendar
- Schedule meetings in advance
- Send out materials before the meeting
- Allow enough time to make decisions



Not Getting Consensus on Data Set(s)

“where did this data come from?”

“this data is higher than I have ever seen, it must be wrong”

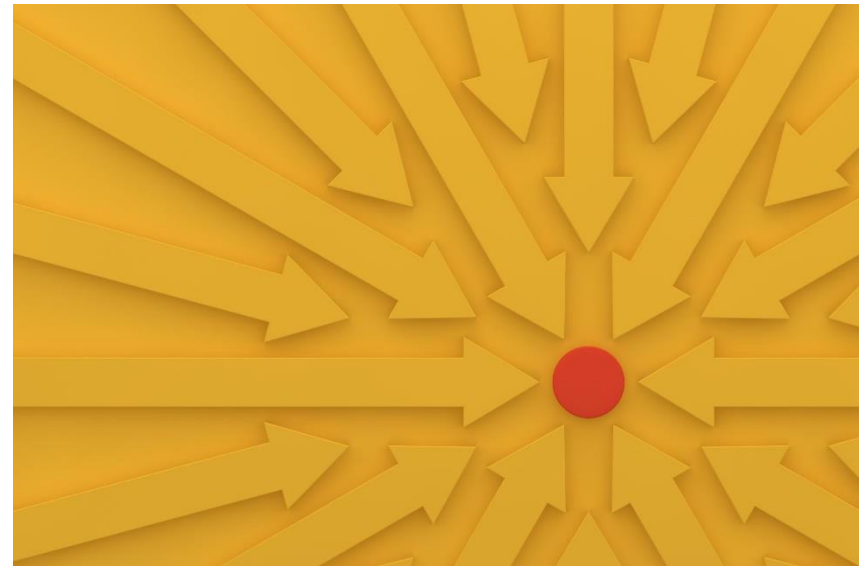
- The appropriate dataset(s) allow us to understand market practices and levels for similarly situated companies
- It is worth spending the time to agree on the foundation to avoid conflict/mistrust later
- Peer groups are not set in stone – set the expectation that they will be reviewed annually



Following Market Data Too Closely

“The market data increased by 20%, it’s a hot market and we’re behind!”

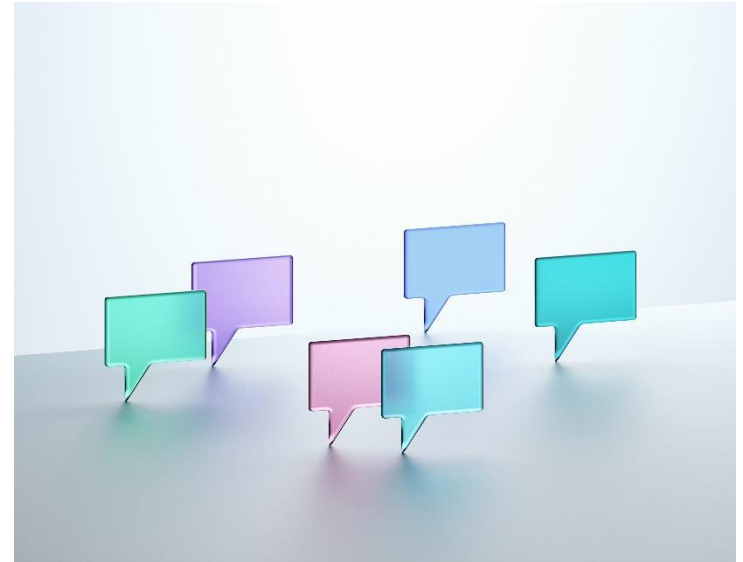
- Market data is a good reference point but not the end all be all
- Look beyond the market data
- Understand what is most appropriate for your company
- Understand the pros and cons of program changes



Speaking Different Languages

“The Compensation Committee wants us to target a 4% burn rate this year”
...”net? gross? including financings during the year? including director grants?”

- Sounds simple but often results in confusion and inefficiencies
- Define terminology
- Understand terminology
- Make sure you’re comparing apples to apples



Not Getting The Post-IPO Evergreen Right

“Our evergreen refresh is 2.5% this year? I thought we approved a 4% evergreen...”

- How you define the evergreen is not as straightforward...
 - Pre-funded warrants/multiple share classes?
 - Lesser of # of shares or % percent of company?



Not Providing Enough Structure to Bonus Programs

“This didn’t “feel” like a 125% of target year”

- Discretionary plans typically result in negotiation and “feeling” vs. being tied to facts
- Especially difficult to determine performance in down years
- Should assess the relative importance of events prior to their outcomes



Only Talking about the Bonus Program Twice a Year

...when setting and measuring performance metrics

“I had a great year and I’m receiving a smaller bonus than last year??”

- Lack of communication on progress during the year often leads to unpleasant surprises at the end of the year
- Goals sometimes need to be adjusted before the end of the year
- Applies to individual performance too!



Rushing Plan Design

“We really should do performance-based equity this year...let’s develop a program in the next week before the grants are made on May 1”

- Get appropriate buy in
- Be thoughtful about plan design
- Test for unintended consequences
- The devil is in the details



Being Too Reactive...or Not Reactive Enough...

“Our stock price went down \$5, we must do a repricing!!!”

- Assess the expected short- and long-term implications of the change
- Does this really require a change? If so, is now the right time?
- What can we afford to do?



“We recommend increasing base salaries to the 75th percentile. This will be noncontroversial since it is the philosophy we agreed to last year”

- Don't assume the status quo from previous years
- Recognize how the internal and external environments have changed

Not Doing Multi-Year Equity Modeling

“We are projecting a burn rate of 8% this year due to aggressive hiring plans”
...”will we have enough shares for future years?”

- Assess if current programs are sustainable and scalable
- Have a multi-year roadmap
- Spend time discussing the assumptions
- Avoid surprises



Only Planning for the Win State Scenario

“We have pivotal trial results coming up. Once results are in we’re going to be a \$5B valuation company”

- Have a contingency plan – plan for the best, prepare for the worst!
- Have an understanding of what the market practices are for companies of both sizes

