Optimize Talent

Compensation "behind the scenes"

Hispanic Foundation Silicon Valley

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Topics in our session

1. Elements of compensation
2. Drivers of compensation
3. Market data
4. Pay Bands
5. Equity Overview

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What are the top 3 challenges you face when negotiating compensation with an employer?

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Let’s review the basics

What is compensation?

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What elements comprise direct compensation*?

Cash

- Base Salary
- Short Term Incentive aka Bonus (% Base Salary)
- Commission/Variable Pay (Sales Only)
- Long Term Cash Incentive

Equity

- Stock Options
- Restricted Stock Units (RSUs)
- Stock Appreciation Rights (SARs)
- Performance Shares

Other

- Sign on bonus
- Relocation (Cash/Reimbursed)
- Acceleration of vesting
- Severance payments
- Allowances (e.g. car, housing)

Most Common

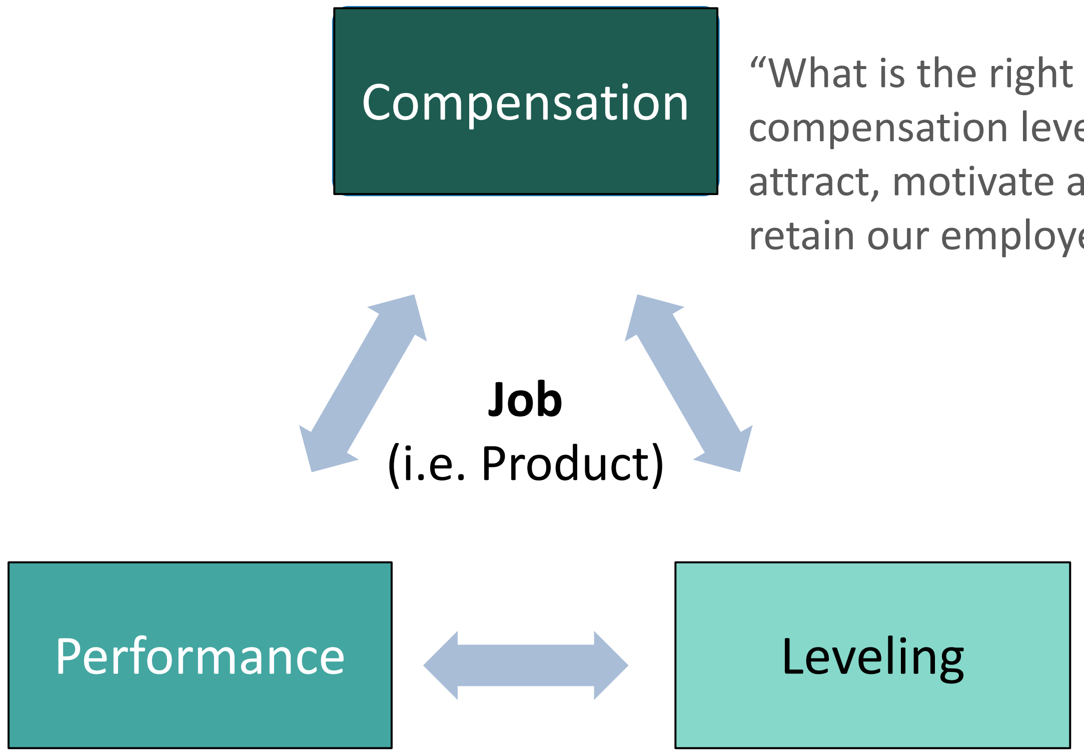
Executive Only

Exception- Not common in tech

**Excludes Benefits*

The Compensation "Triangle"

Compensation is a function of job, performance and leveling - "Fair Pay is not equal pay"



"What is the right compensation level to attract, motivate and retain our employees?"

"How do we tie performance to pay?

"What level of contribution do we expect relative to pay?"

- **Job** - "What domain knowledge and skills are required to do the job?"
- **Level -** "What are the expectations in the role based on experience, education and the definition of the role's duties?"
- **Performance** - "How did you perform against the expectations of your level"? (determined once you join and perform in your role)

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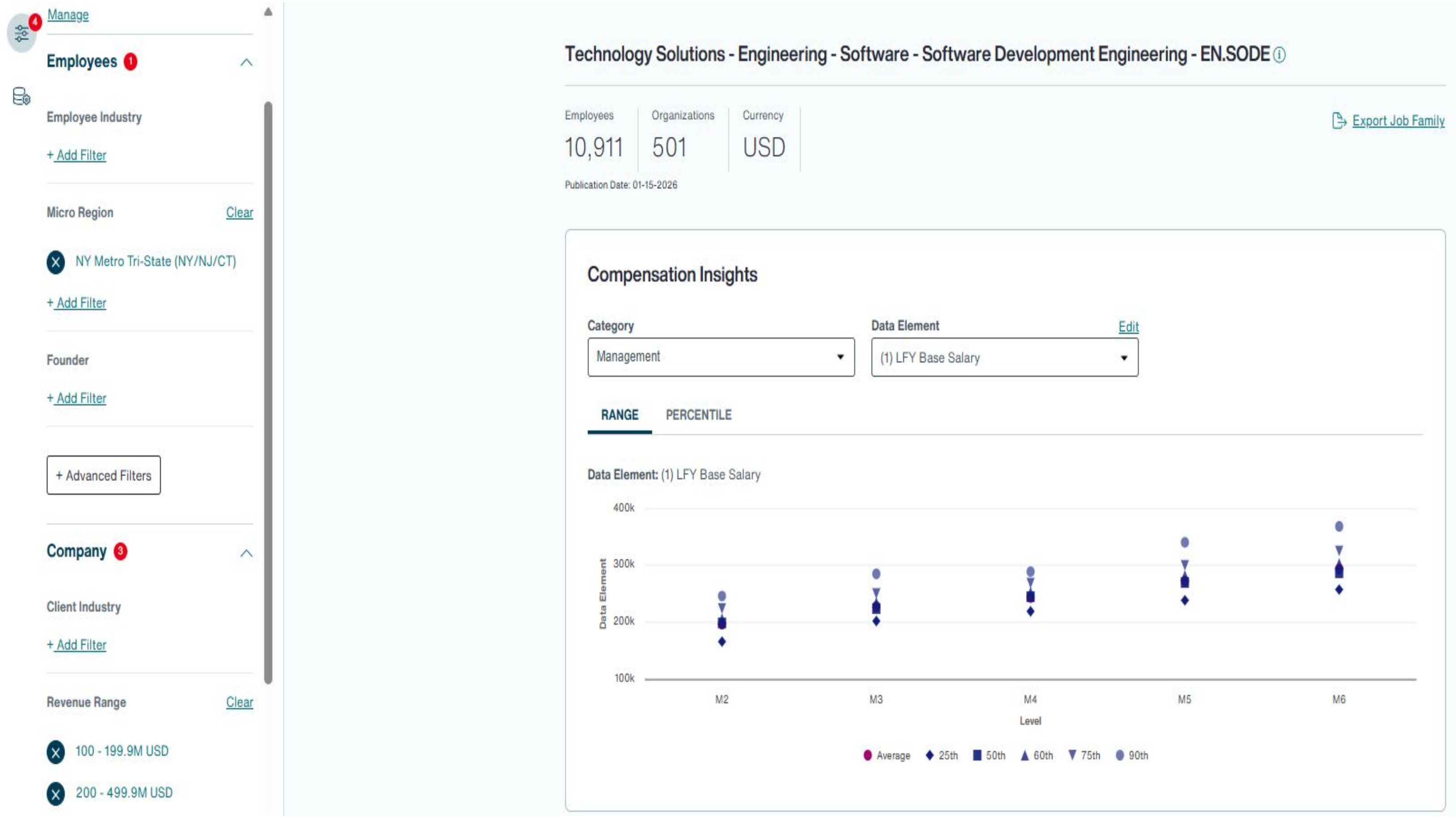
Market Data and Benchmarking

Employers will determine pay based on 3rd party data submitted by employers (common) and employees (less common)



- "EN.SODE" refers to the job, in this case - Software Engineer (Full Stack)
- M2, M3… refers to management level (as opposed to individual contributor)
- The goal is for employers to understand what the labor market is paying based on **job and level**
- There are over 200 pay elements in Radford alone!

Market Data is translated into a Pay Band

Pay bands translate market data into a “target/midpoint” with a range width (usually 15-20%)

Salary | Total cash | Equity | All data

Market position: 50th | Peer group: $100M - $250M | Benchmark version: Latest | Export

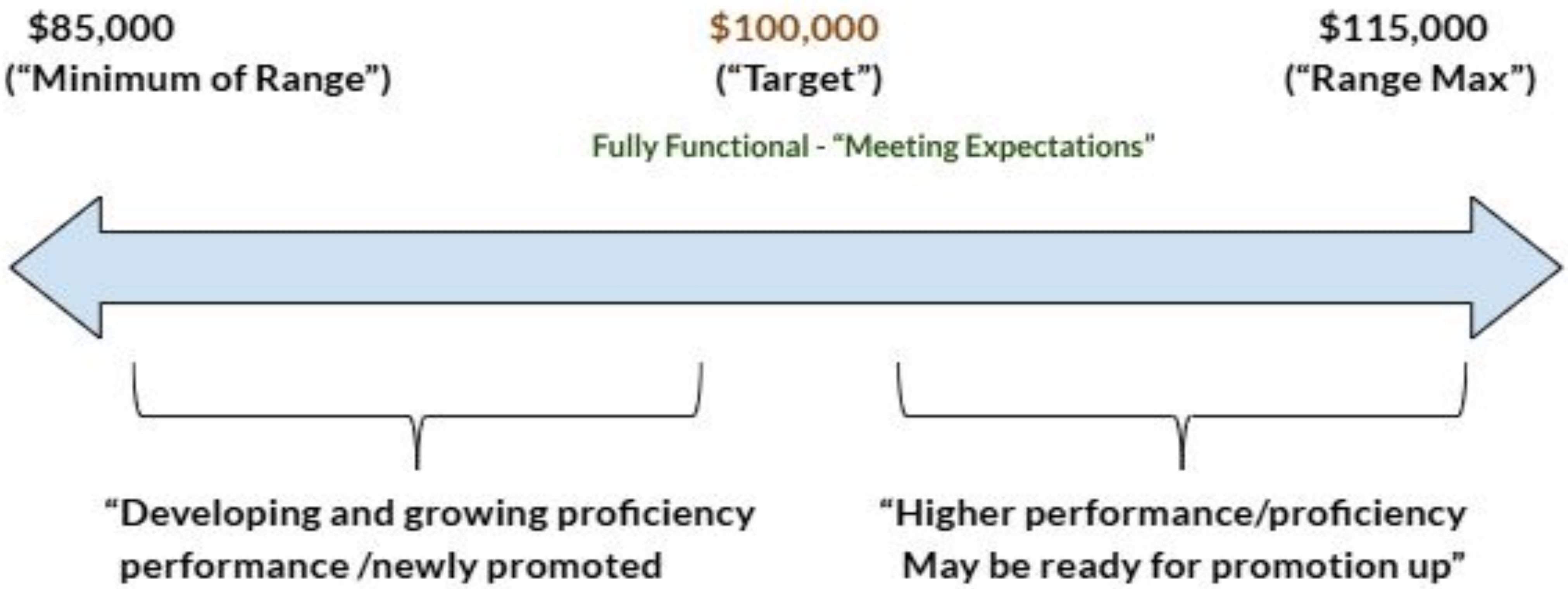
Hide visualization

Level	Role	Example title Learn more	Min (-15%)	Target (50th)	Max (+15%)
IC 1	Entry	Associate Engineer	$82,000	$97,000	$112,000
IC 2	Mid 1 (Developing)	Software Engineer I	$100,000	$118,000	$136,000

- Every job (e.g. Software Engineer II) is part of a job family (Software Engineering)
- Every job family will have multiple levels (IC1 = P1 in Radford)
- Portions of the pay band will be published but this view is the “full view”
- Titles are often matched to level but not always → be sure to confirm what level you’re being hired into!

Pay bands = "Lever" for how employers administer pay

This band will vary by job, level and geography but the core use of it as a way to pay employees is consistent



Pay Equity - An evolving landscape

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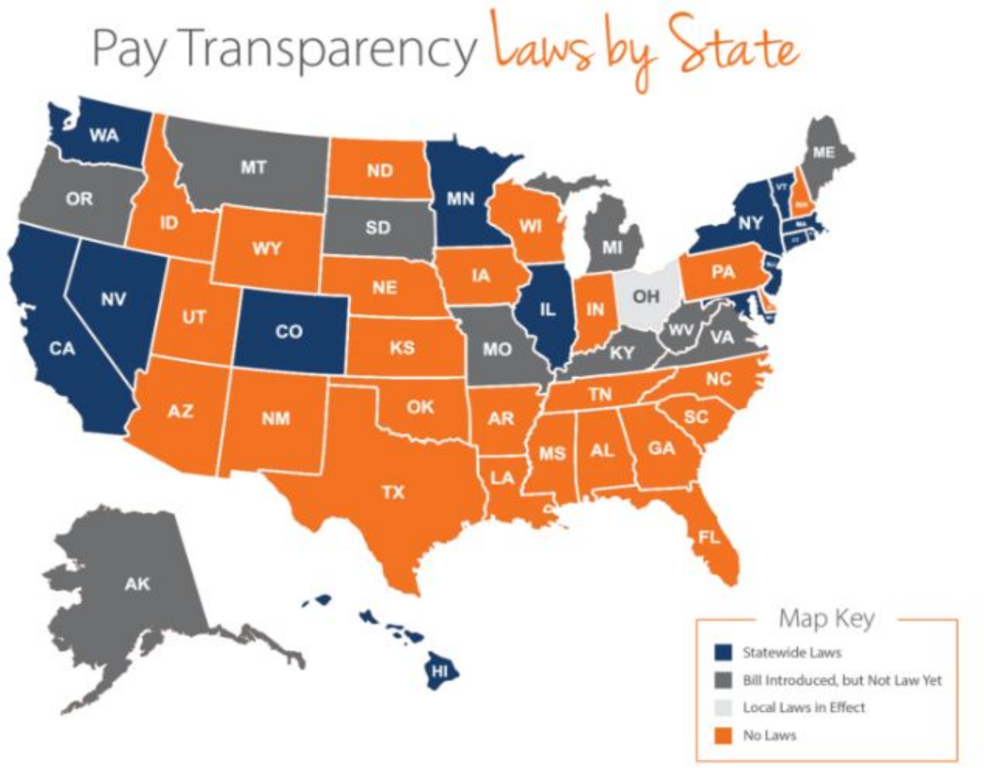
You may be seeing pay ranges in job postings. That is not by accident and is tied to a growing patchwork of laws and regulations.

Pay Transparency Laws By State: Which States Have Salary Transparency Laws?



- Pay equity/transparency is a growing priority for states who are enacting these laws to ensure that candidates are armed with the data to negotiate and be paid fairly for their work
- These laws have good intent but beware that the actual pay ranges may not include all elements of pay (equity)
- The ranges also may be broader than a typical pay band (incorporate the pay across SWE I and SWE II for example)
- Use the posted pay ranges as a starting point but ask questions about the job, level and who the employer compares their pay against

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Equity Quick Summary

Equity is a key portion of compensation as you move up in tech

Why does equity matter?

Equity is a meaningful currency to both sides

Employee

- Motivate sustained effort through a meaningful and shared long term incentive
- Realize major upside in case of a successful exit or liquidity event
- Create identity, status and worth through ownership in the firm

Company

- Attract, engage and retain talent with an incentive prevalent among tech companies
- Align company goals and employee incentives to motivate long term performance
- Build loyalty and commitment through an "ownership culture"

What is equity?

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Most common to employees

- Equity
  - Stock
    - Common Stock
    - Preferred Stock
    - Restricted stock
    - Restricted Stock Unit (RSU)
  - Option
    - Incentive Stock Option (ISO)
    - Non-Qualified Stock Option (NQ)
    - Warrants

•% Ownership stake based on either $ invested or effort – expressed in % Fully Diluted Shares for the company

Ashish Simple Description

- Share of ownership with little to no rights and fully vested
- Shares of ownership with rights and privileges, fully vested
- Common shares of ownership but with vesting usually time based
- Promise of a common stock share upon vesting usually time based
- Option to buy a share of common stock at an "exercise price" – ISOs and NQs operate the same way but ISOs are far more tax efficient and provide choice to employee
- Similar to employee options but for outside parties not employees

** For illustration only – have excluded other but less common equity forms (e.g. Phantom Stock, SARs)*

How do we think about valuing each share?

While the math is simple, it's the "complications" that make equity value comparisons difficult (biggest factor is the volatility and future exit valuation)

Category	Equity vehicle	Basic Math	"Complications"
Stock **"Full Value Share"**	Preferred Stock Common Stock Restricted Stock **Restricted Stock Unit (RSU)**	**Value of each Share x Quantity of Shares** (e.g. $50/share x 20 shares = $1000 of value prior to taxes)	• Rights/privileges with ownership differ by type • Vesting conditions may differ (time/performance based) • Tax treatment may differ by equity type owned
Option **"Right to buy a share"**	**Options- ISO** **Options - NQ** Warrants	**(Value of Each Share – Exercise Price) * Quantity** (e.g. $50/share - $10/share exercise price) x 20 shares = $800 of value prior to taxes)	• Exercise price varies over time and driven by 409a valuation • Ability to exercise early (83b) or have longer exercise window upon termination • Tax treatment differs between ISO and NQSO

"Do I want options or RSUs?"

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Deciding here is not a simple answer. How much equity you get, the price at which you "buy in" (options) and growth in a company's valuation could make either the better choice

Equity	Pros	Cons
Options	• Opportunity to get "more" (options 1.5 to 3x more volume to RSUs) • Higher volume --> upside could be great if company values grows substantially (2x or more) • Tax advantages mean lower taxes if ISO options (and conditions met)	• Value can drop to $0 ("underwater") if valuation of company drops (e.g. you joined when strike was $4/share and now it's $3) • Exercise costs to truly "own" shares of stock → high strike price may be cost prohibitive (e.g. you have to pay $10/share to exercise 10,000 shares = $100,000 from your pocket)
RSUs	• No risk of value going to $0 (always a residual value since no strike price) • RSUs can offer partial "insulation" against erosion in value from a reduced stock price/lower growth • No upfront investment - shares automatically owned upon vesting	• "Less risk = less reward" since fewer shares granted ("safer" than options) • No ability to reduce taxation - ordinary income upon vesting of shares • No ability to "tender" shares (e.g. shares cannot be sold prior to IPO to a 3rd party)

Remember comp is only one part of the "deal"

Our focus today