CompStudy

Executive Compensation & Team Composition:

Attracting and Retaining the Best and Brightest to Your Team

PARK SQUARE EXECUTIVE SEARCH

WILMERHALE WH

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Chief Executive Officer

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Professor of Clinical Entrepreneurship and Founding Director, Founder Central

Today's Agenda

Intro/CompStudy Overview

Current *Founder's Dilemmas* Research

Team Composition

Key Roles

- Chief Executive Officer
- Vice President, Sales
- Vice President, Engineering
- Chief Financial Officer
- Outside Director

Attraction & Retention Tools

CompStudy Overview

Each year, CompStudy collects and reports data on equity and salary compensation for Technology and Life Sciences executives at private, venture-backed companies. Participants in the annual survey receive free, year-long access to the reports.
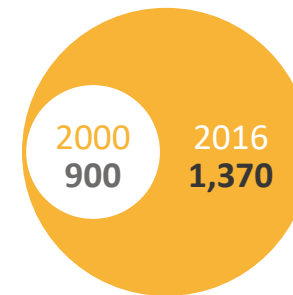
CompStudy Overview

Data collected in every survey includes:

- ❑ Cash compensation & equity
- ❑ Founding team
- ❑ Financing history
- ❑ Company size
- ❑ Products/revenue
- ❑ Equity programs
- ❑ Executive backgrounds
- ❑ Board of directors

Technology Survey
Annual Responses

2000
900

2016
1,370

All Time Responses
25,000+ executives

Life Sciences Survey
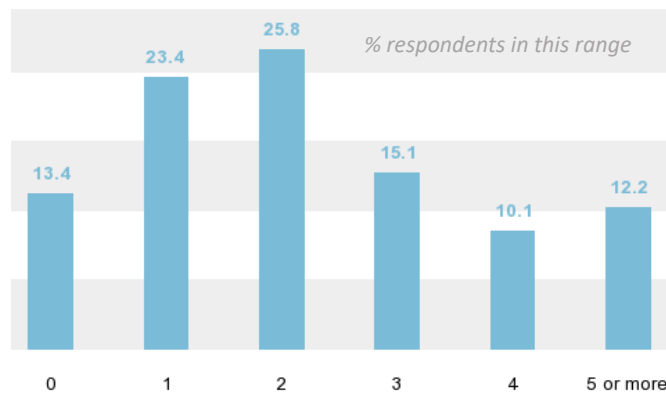Annual Responses

2002
500

2016
575

All Time Responses
10,000+ executives

2016 Survey – Company Profiles

Institutional Rounds Raised

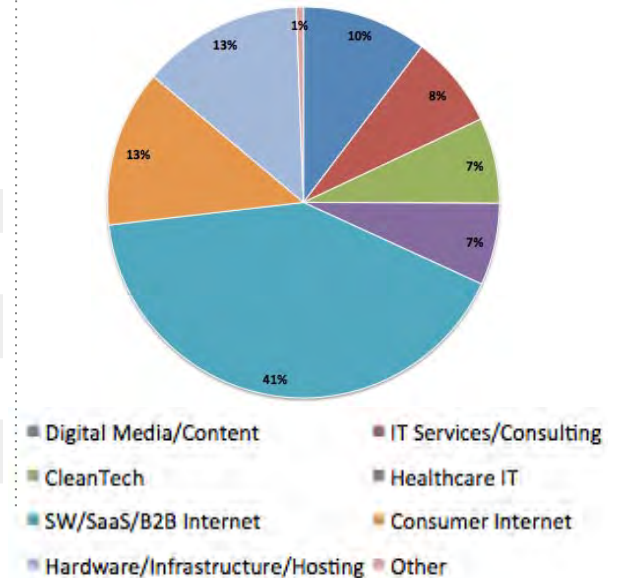Fewer companies with 0 rounds of funding this year. Slightly more with 4+.
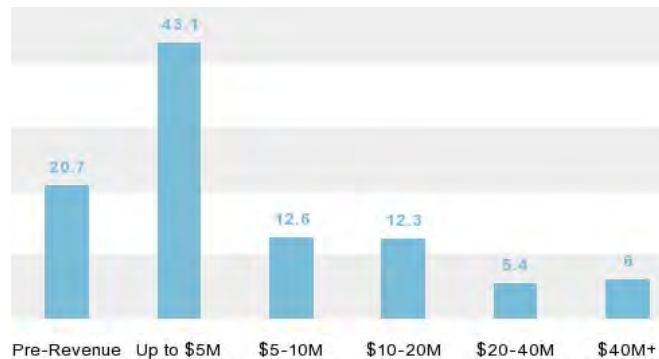
% respondents in this range

Rounds	0	1	2	3	4	5 or more
%	13.4	23.4	25.8	15.1	10.1	12.2

Headcount

Companies cut by headcount are distributed approximately the same as they were in the 2014 survey.

% respondents in this range

Headcount	1-20	21-40	41-75	76-150	151+
%	49.5	17.1	17.7	8.6	7

Business Segments

- ■ Digital Media/Content — 10%
- ■ IT Services/Consulting — 8%
- ■ CleanTech — 1%
- ■ Healthcare IT — 7%
- ■ SW/SaaS/B2B Internet — 41%
- ■ Consumer Internet — 13%
- ■ Hardware/Infrastructure/Hosting — 13%
- ■ Other — 1%

Pie chart values: 1%, 10%, 13%, 8%, 7%, 7%, 41%, 13%

Revenue

Revenue	Pre-Revenue	Up to $5M	$5-10M	$10-20M	$20-40M	$40M+
%	20.7	43.1	12.6	12.3	5.4	6

Geography

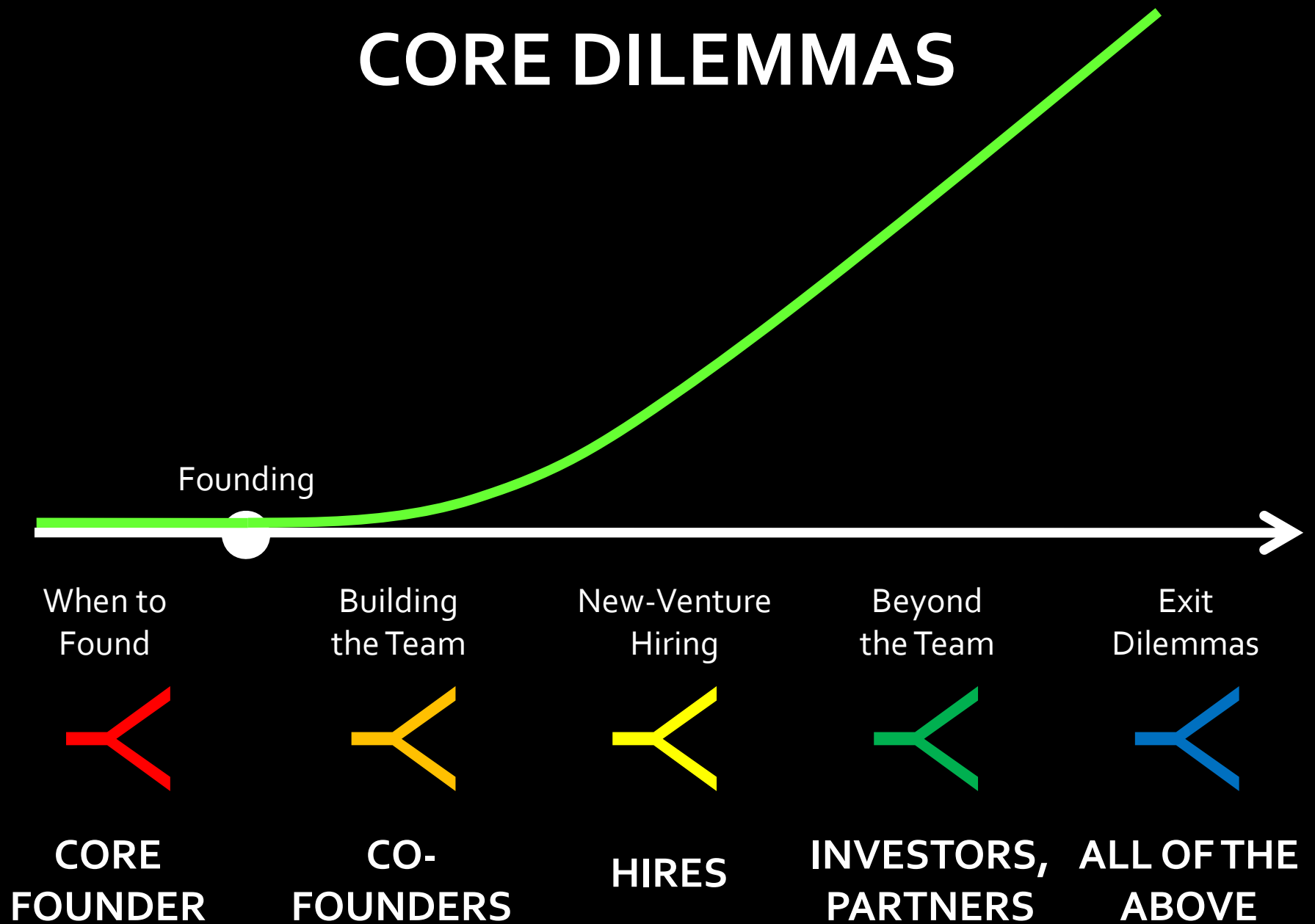| Region	California	New England	Mid-Atlantic	Midwest	West	South
%	27.7	26.3	18.3	5.3	9.1	13.3

CompStudy

THE
FOUNDER`S
DILEMMAS

ANTICIPATING AND
AVOIDING THE
PITFALLS
THAT CAN
SINK
A
STARTUP

?

$

NOAM WASSERMAN
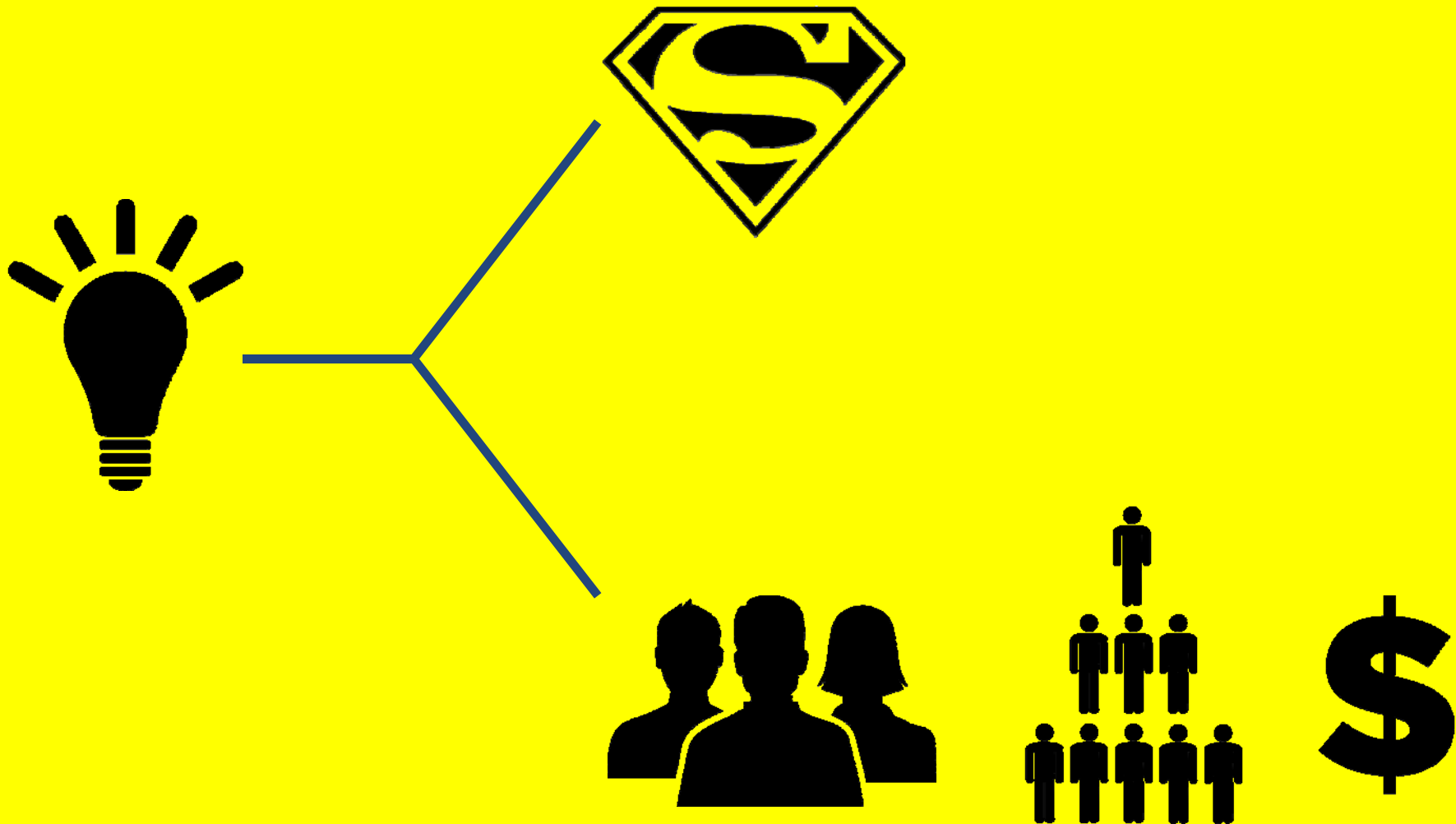
THE RESEARCH

6,300 startups

16,000 founders

31,000 executives

FOUNDING TEAM DILEMMAS

RELATIONSHIPS

TEAM
TENSIONS

ROLES

REWARDS

73%

SPLIT EQUITY
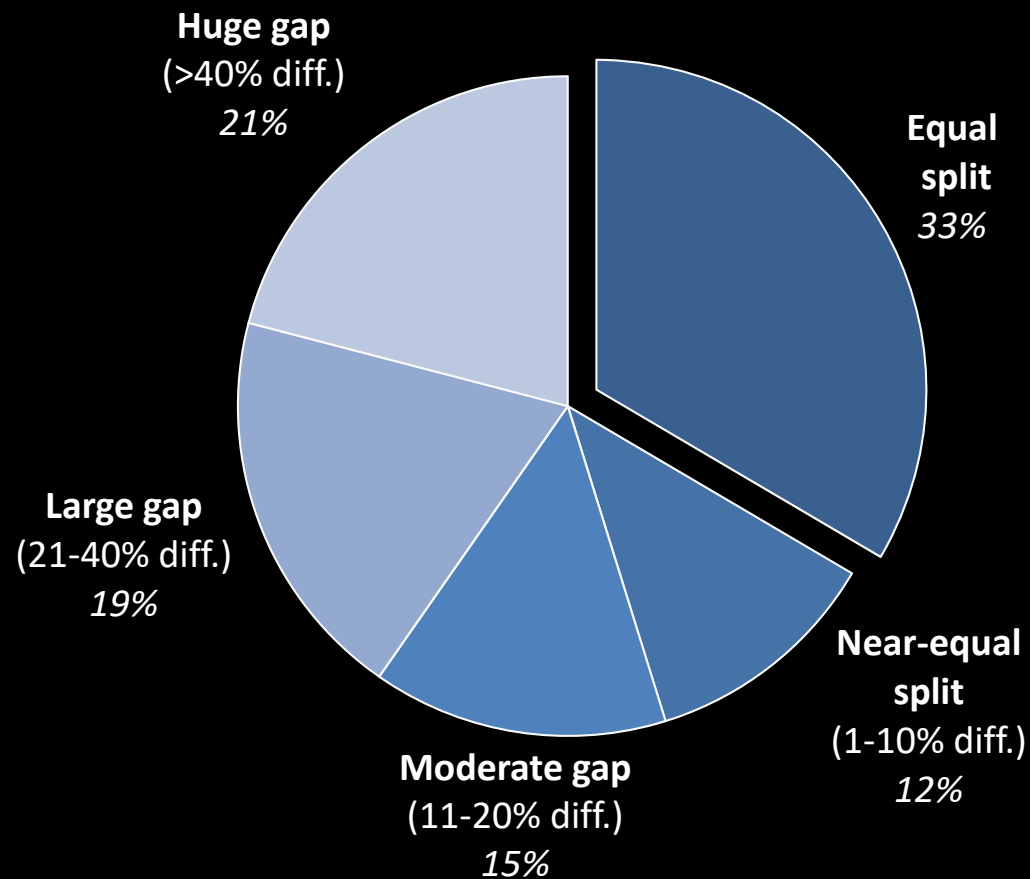WITHIN A
MONTH
of founding

EQUITY SPLITS AMONG FOUNDERS

Figure 6.4 from Wasserman,
The Founder's Dilemmas (2012)

THE QUICK HANDSHAKE: FAST+EQUAL

The First Deal: The Division of Founder Equity in New Ventures

Thomas Hellmann

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We examine the trade-off between efficiency and equality within the context of entrepreneurial founding teams. Using a formal theory where founders may have preferences over relative outcomes, we derive predictions about the antecedents and consequences of dividing equity equally among all founders. Using proprietary survey data, we empirically test the predictions. Our central finding is that teams that split equity equally are less likely to raise funds from outside investors. The relationship appears not to be causal, but instead driven by selection effects across heterogeneous teams with varying degrees of inequality aversion.

THE QUICK HANDSHAKE: FAST+EQUAL

Lower pre-$ valuation in first financing round

    Split quickly ⟵⟶ split equally

        80% of equal splitters spent <1 <u>hour</u> negotiating

    No effect if long dialogue and still end up equal

Signal of…

    Immaturity?

    Inability to negotiate effectively?

    Conflict avoidance?

    Carelessness?

Hellmann and Wasserman (2016), "The First Deal," *Management Science*.
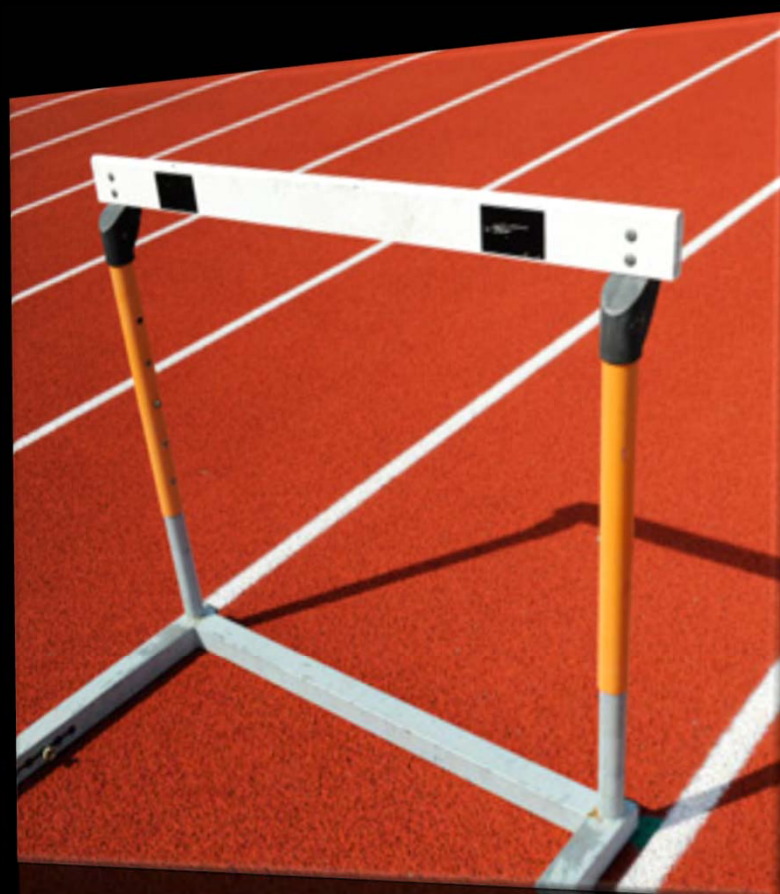
Key Roles

CEO — Chief Executive Officer

VP|S — Vice President, Sales

VP|E — Vice President, Engineering

CFO — Chief Financial Officer

DIR — Outside Director
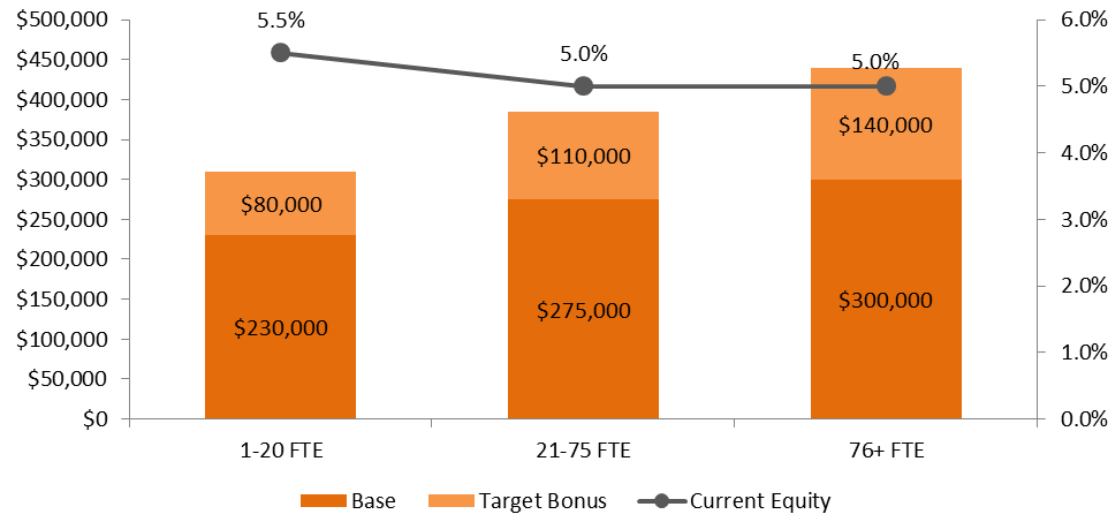
CEO
Chief Executive Officer

Primary charter of the CEO role is to be responsible for all strategic and tactical aspects of the management of the company

- How does role evolve as company matures

- When to hire

- First timer vs. experienced

- Founder transition

CEO
Chief Executive Officer

Non-Founder CEO Pay – by Headcount

Legend: Base | Target Bonus | Current Equity

Values by headcount group:
- 1-20 FTE: Base $230,000, Target Bonus $80,000, Current Equity 5.5%
- 21-75 FTE: Base $275,000, Target Bonus $110,000, Current Equity 5.0%
- 76+ FTE: Base $300,000, Target Bonus $140,000, Current Equity 5.0%

Non-Founder CEO Pay – by Revenue

Legend: Base | Target Bonus | Current Equity

Values by revenue group:
- $0-$5 MM: Base $250,000, Target Bonus $95,000, Current Equity 5.0%
- $5-20 MM: Base $262,500, Target Bonus $130,000, Current Equity 5.0%
- $20 MM+: Base $300,500, Target Bonus $132,500, Current Equity 5.0%

VP|S
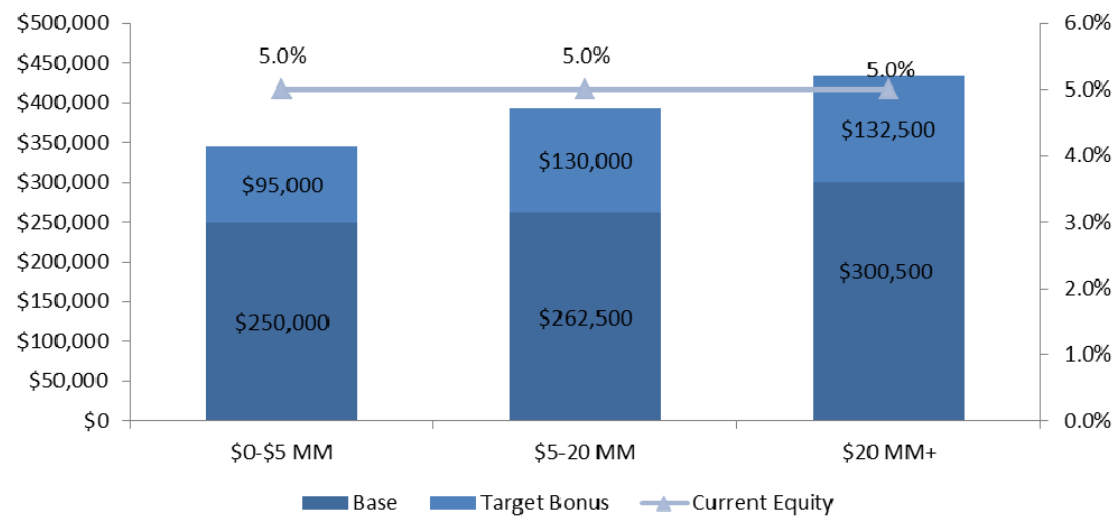
Vice President, Sales

Primary charter of the VP, Sales role emphasizes aggressive growth of the top line of the company

- When to hire

- How role evolves over time

- Considerations in a combined Sales/ Marketing role

VP|S

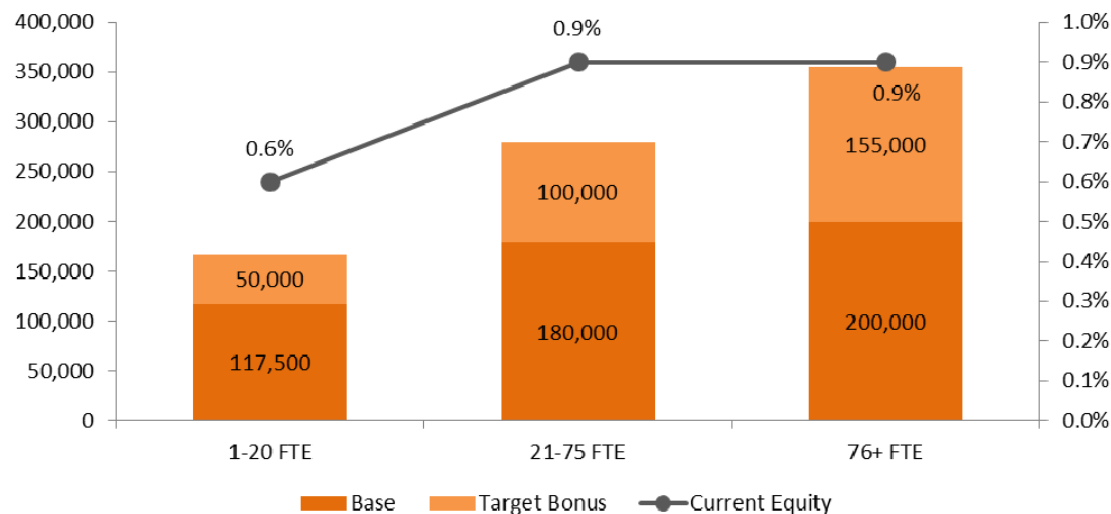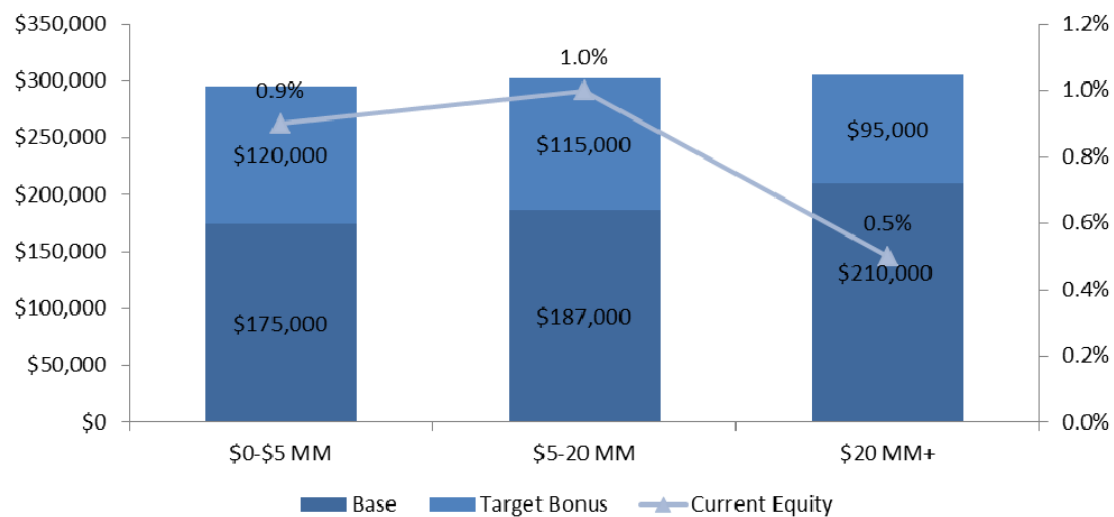## Vice President, Sales

Non-Founder VP|S Pay – by Headcount

Left axis: 400,000 / 350,000 / 300,000 / 250,000 / 200,000 / 150,000 / 100,000 / 50,000 / 0
Right axis: 1.0% / 0.9% / 0.8% / 0.7% / 0.6% / 0.5% / 0.4% / 0.3% / 0.2% / 0.1% / 0.0%

	1-20 FTE	21-75 FTE	76+ FTE
Target Bonus	50,000	100,000	155,000
Base	117,500	180,000	200,000
Current Equity	0.6%	0.9%	0.9%

Legend: Base — Target Bonus — Current Equity

Non-Founder VP|S Pay – by Revenue

Left axis: $350,000 / $300,000 / $250,000 / $200,000 / $150,000 / $100,000 / $50,000 / $0
Right axis: 1.2% / 1.0% / 0.8% / 0.6% / 0.4% / 0.2% / 0.0%

	$0-$5 MM	$5-20 MM	$20 MM+
Target Bonus	$120,000	$115,000	$95,000
Base	$175,000	$187,000	$210,000
Current Equity	0.9%	1.0%	0.5%

Legend: Base — Target Bonus — Current Equity
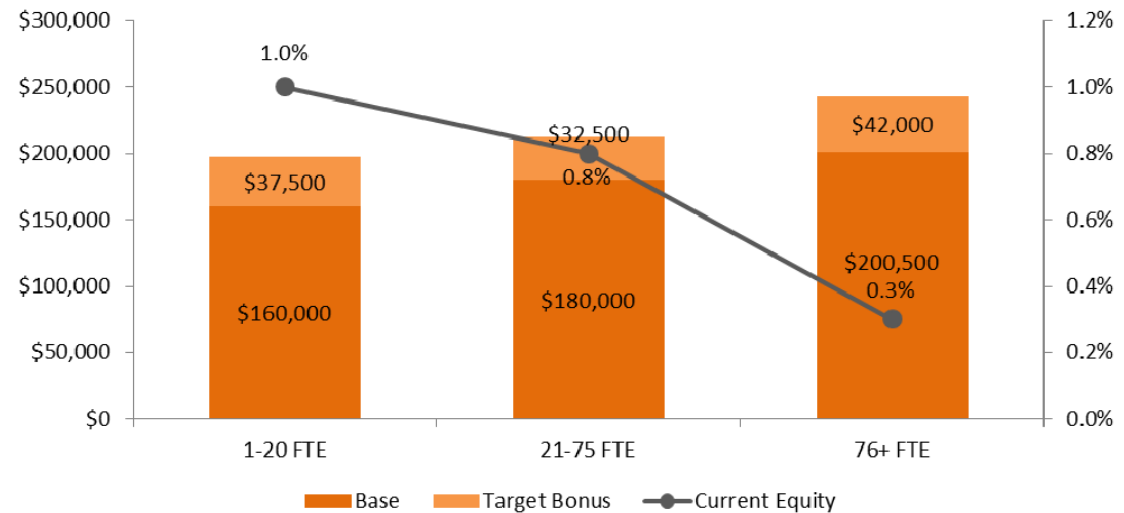
VP|E

Vice President, Engineering

Primary charter of the VP, Engineering role emphasizes hiring and retaining top engineering talent, delivering quality solutions, and ensuring that business and technical product goals are met predictably, efficiently, and reliably

- Vice President, Engineering vs. Chief Technology Officer

- Strategic/technical vision – road map vs. product development

- How role evolves as product suite becomes more complex
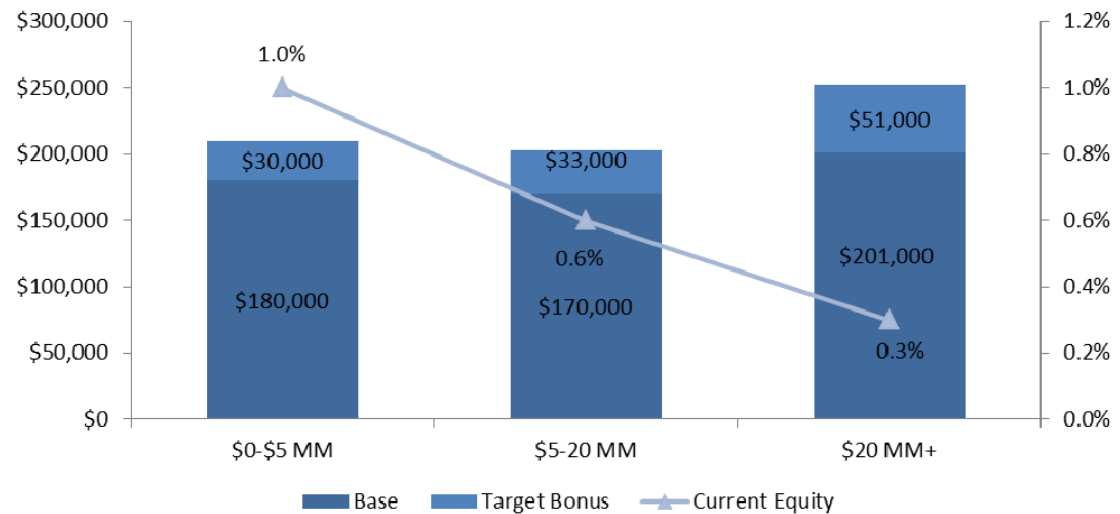
- How to attract and retain

VP|E
Vice President, Engineering

Non-Founder VP|E Pay – by Headcount

1.0%

$37,500
$160,000

$32,500
0.8%
$180,000

$42,000
$200,500
0.3%

Base — Target Bonus — Current Equity

1-20 FTE   21-75 FTE   76+ FTE

Non-Founder VP|E Pay – by Revenue

1.0%

$30,000
$180,000

$33,000
0.6%
$170,000

$51,000
$201,000
0.3%

Base — Target Bonus — Current Equity

$0-$5 MM $5-20 MM $20 MM+
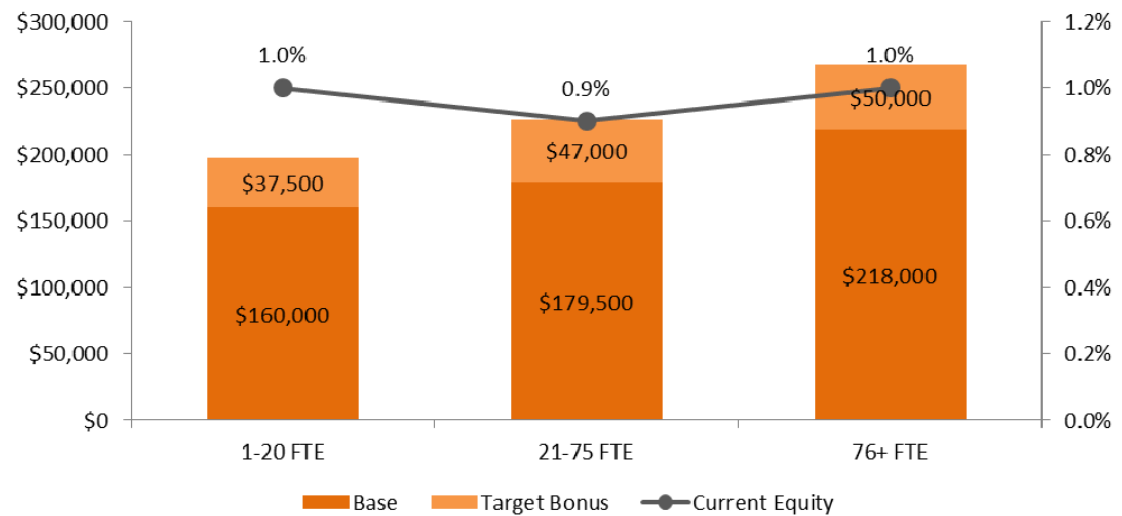
CFO

Chief Financial Officer

Primary charter of the CFO role is to provide fund-raising support, financial leadership, administrative, and operational discipline and structure for the company in support of scaling operations

- When to hire

- First time vs. experienced

- Functional strength in accounting vs. transactional vs. operational
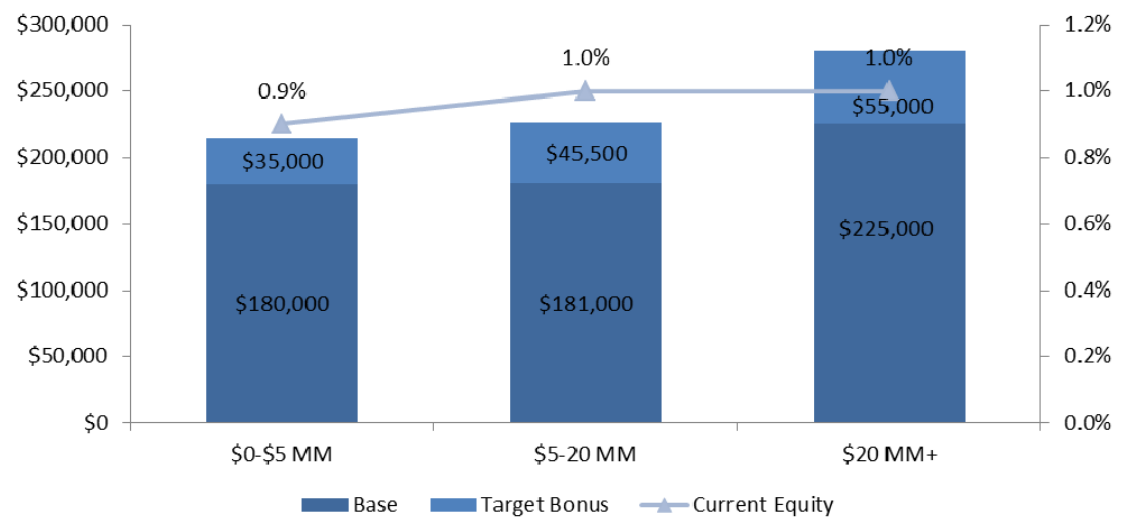
- Public company/IPO experience

CFO

Chief Financial Officer

Non-Founder CFO Pay – by Headcount

Values shown:
- 1-20 FTE: Base $160,000, Target Bonus $37,500, Current Equity 1.0%
- 21-75 FTE: Base $179,500, Target Bonus $47,000, Current Equity 0.9%
- 76+ FTE: Base $218,000, Target Bonus $50,000, Current Equity 1.0%

Legend: Base | Target Bonus | Current Equity

Non-Founder CFO Pay – by Revenue

Values shown:
- $0-$5 MM: Base $180,000, Target Bonus $35,000, Current Equity 0.9%
- $5-20 MM: Base $181,000, Target Bonus $45,500, Current Equity 1.0%
- $20 MM+: Base $225,000, Target Bonus $55,000, Current Equity 1.0%

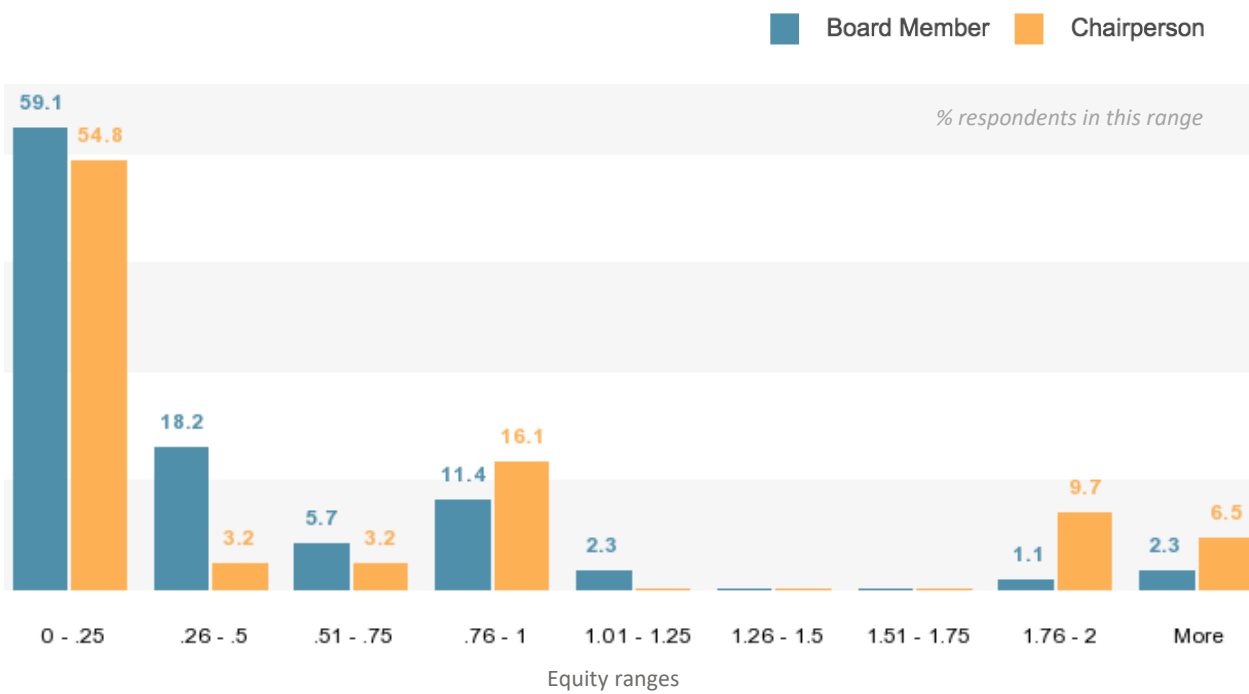Legend: Base | Target Bonus | Current Equity

DIR

Outside Directors

- When to bring in outsiders

- Transition from private to public

- Domain expertise vs. functional expertise vs. industry contacts

- Sitting executive vs. professional board member

- How to pay (equity vs. cash)

DIR
Outside
Directors

Equity granted to outside directors to join board

Legend: Board Member, Chairperson

% respondents in this range

Equity ranges	Board Member	Chairperson
0 - .25	59.1	54.8
.26 - .5	18.2	3.2
.51 - .75	5.7	3.2
.76 - 1	11.4	16.1
1.01 - 1.25	2.3	
1.26 - 1.5		
1.51 - 1.75		
1.76 - 2	1.1	9.7
More	2.3	6.5

CompStudy Overview

Compensation inflation rate - non-founder total cash

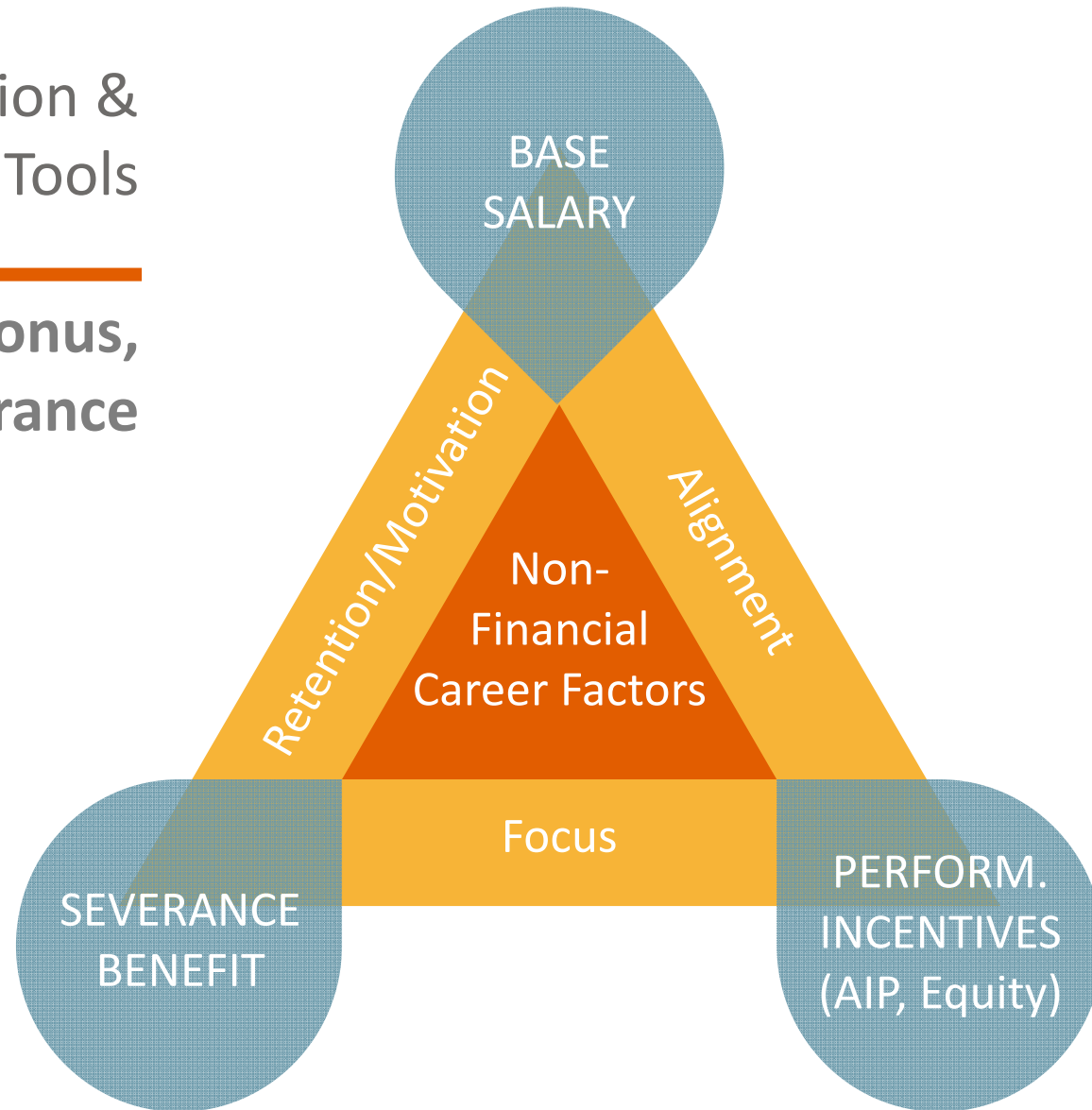# Building a Winning Team

Sources of Talent:

- Putting the band together

- Team referrals/board referrals

- Strangers

Key Considerations:

- What are the top 4 senior roles on your team; how does that list evolve over time

- Domain expertise vs. general purpose, best athlete

- First time vs. been in role before

- Small vs. large company experience

Attraction & Retention Tools

Equity, Bonus, Severance

BASE SALARY

Retention/Motivation

Alignment

Non-Financial Career Factors

Focus

SEVERANCE BENEFIT

PERFORM. INCENTIVES (AIP, Equity)

Attraction & Retention Tools

Equity

- Equity vehicles used

- Dilution

- Vesting (time based vs. performance)

- Annual/episodic equity grants

- Offsetting existing equity holdings at time of hire

- Accelerated vesting/change of control

- Realizing value of equity in mature private companies

Attraction & Retention Tools

Bonus Considerations

- When, if, and how to pay

- How to structure

- Guaranteed?

- Individual vs. company performance

- Annual increases

- Sign-on bonus

Attraction & Retention Tools

Severance

Severance Grant (Months)

Recap

- 1-minute recap from each panelist