Executive Compensation: Insights from the 2012 CompStudy Survey of Venture-Backed Companies

Technology Edition

October 11, 2012
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Partner, Americas Director, Ernst & Young
Entrepreneur of the Year
Ernst & Young
Today’s agenda

- CompStudy overview
- Current *Founder’s Dilemmas* research
- 2012 Survey – company profiles
- Summary compensation data
- CEO compensation review
- Hot topics and current trends
Today’s presenters

Aaron Lapat
Park Square
Executive Search
Managing Partner

Kim Wethly
WilmerHale
Partner

Kim Reinert
Ernst & Young
Partner

Jeff Stein
WilmerHale
Partner

Noam Wasserman
Harvard Business School
Associate Professor,
Tukman Faculty Fellow
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CompStudy.com

All reporting now done on our online, fully interactive platform, located at CompStudy.com.

Participants in the annual survey receive free, year-long access to the reports. Access is also available for purchase.

New features for 2012:

• New options for filtering the data, including company valuation, profitability, CEO experience, and more

• Enhanced Board of Directors reporting

• Additional printable summary-level charts
The CompStudy.com Survey

Data collected in every survey includes:

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

<table>
<thead>
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<th>Survey Type</th>
<th>Year 1</th>
<th>Year 2</th>
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<td>Technology survey</td>
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<td>2012</td>
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<td></td>
<td>211 cos.</td>
<td>578 cos.</td>
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<td>Life Sciences survey</td>
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<td>168 cos.</td>
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THE FOUNDER'S DILEMMAS

ANTICIPATING AND AVOIDING THE PITFALLS THAT CAN SINK A STARTUP

NOAM WASSERMAN
CAUSES OF FAILURE IN VC-BACKED VENTURES
Product devt.
Functional mgmt.
Market probs.

PROBLEMS

35%
65%
Gut
Passion
Anecdote
Rule Of Thumb
Founder-CEO Succession at Wily Technology

Lew Cirne sat stunned in his chair, digesting what Richard Williams had just proposed. As the founder, CEO, and chairman of Wily Technology, Cirne (pronounced “Ser-nee”) had worked hard to build the skills necessary to lead a start-up, had developed Wily’s early technology single-handedly, had hired 50 employees to help him build the company, and had successfully spearheaded a strategic transformation of the company. He had led the company to the point where he had convinced several important customers to buy Wily’s flagship product and had successfully raised two rounds of financing from top investors.

However, after the last round of financing, at the behest of Wily’s lead venture capitalist, Cirne had agreed to give up his CEO position and step down to CTO and had helped find and recruit the new CEO.
THE RESEARCH

- 4,000 startups
- 10,000 founders
- 20,000 executives
“RICH VS. KING”

<table>
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<th>SMALL PLAYER</th>
<th>BIG PLAYER</th>
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<tr>
<td>Flop</td>
<td>Rich</td>
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<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>KING</td>
<td>Rich &amp; King</td>
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FINANCIAL TRADEOFF

The Founder’s Dilemmas, Figure 11.3.

Share of Company Valuation ($M)

- Gave up CEO and Board control
- Kept CEO position only
- Kept Board control only
- Kept CEO and Board control

Older Company
Younger Company

The Founder’s Dilemmas, Figure 11.3.
READ CHAPTER 1
from the bestseller
The Founder's Dilemmas

ORDER A COPY

Having seen these dilemmas derail countless startups, I wish every entrepreneur and prospective founder would read this book.” — Eric Ries, author of The Lean Startup

• Detailed table of contents
• Chapter 1
• Self-assessment survey
• “When to Leap” video
• Other awesome stuff 😊
What is your company’s outlook on the economy over the next 12-18 months:

A. The economy has turned a corner and we are beginning to see expansion opportunities
B. Still a difficult business environment
C. Receiving mixed signals from the market
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Respondent companies were slightly later stage in this year’s survey, with fewer companies having raised no institutional money, and more having raised five or more rounds.

Companies were also slightly larger; 55% had over 20 full time employees, up from 53% in 2011 and 49% in 2010.
Participants had essentially the same founder/non-founder split by position profile as in 2011.
What change do you anticipate for total target cash next year?

A. Decrease greater than 5%
B. Decrease up to 5%
C. No change
D. Increase up to 5%
E. Increase over 5%
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Founders received a smaller target cash increase than their non-founder peers, receiving a 1.2% increase over 2011, on average.
On the average, founders of technology companies hold significantly more equity than their life science peers – largely due to the less capital-intensive nature of most technology start-ups.
Percentage growth in year-over-year non-founder total target cash compensation
Non-founder total cash targets were up 4.8% in 2012, bettering their 3.7% year-to-year increase in 2011, and 3.3% increase in 2010.

2012 target bonuses were up 6.1% over 2011, on average.
Bonus as a percentage of base salaries – non-founders

On average in 2011, non-founder executives received 71% of their target bonus.

Target bonuses were up 6.1% on average, but due to increases in base salaries, actually made up a smaller percentage of total cash compensation for a few positions.
Compensation data

Equity holdings – non-founder executives

Current equity - % of fully diluted shares

Equity at hire - % of fully diluted shares
What percentage of the equity in your company is reserved for management, directors and employees?

A. Less than 10%
B. 11 – 15%
C. 16 – 20%
D. 21 – 25%
E. More than 25%
Equity holdings – type of equity vehicles used

% of equity grants given by vehicle type

- Incentive Options: 51%
- Non-Qualified Options: 19%
- Restricted Stock: 9%
- Common Stock: 9%
- Mix of Stock & Options: 8%
- None/Other: 4%
- None/Other: 9%
56.1% of non-founder CEOs surveyed had some sort of severance package, down from the survey’s historical average of 60%.
As the median numbers suggest, the length of most severance packages granted is a multiple of three months.
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CEO compensation review

Non-founder CEO base (1,000s USD)

By number of financing rounds raised

By number of full time employees

CEO salaries are more highly correlated with company headcount, as evidenced in the chart above by the large gap in pay between CEOs at 1-20 FTE companies and CEOs at 21-40 FTE companies.
Both financing rounds and FTEs are fairly good predictors of non-founder CEO equity holdings, though there is slightly more variability among companies that have raised 1 or fewer rounds of funding.
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Hot topics and current trends

Recruiting and retaining top talent in an increasingly competitive market
  - Founder transitions
  - Recruiting dynamics
  - Retention issues

The effect of tax law changes on executive compensation

Revisiting the effect of secondary markets for common on compensation planning

Performance based vesting
Thank you for joining us for today’s webinar.

For more information, please visit [www.compstudy.com](http://www.compstudy.com).