

# Tech Talent North

## Decoding Private Company Equity Compensation: Considerations, Best Practices & Communicating Value

October 28, 2024

# Cracking the code – four design themes



**Making the case  
for an LTIP**



**Choosing the  
right equity vehicle**



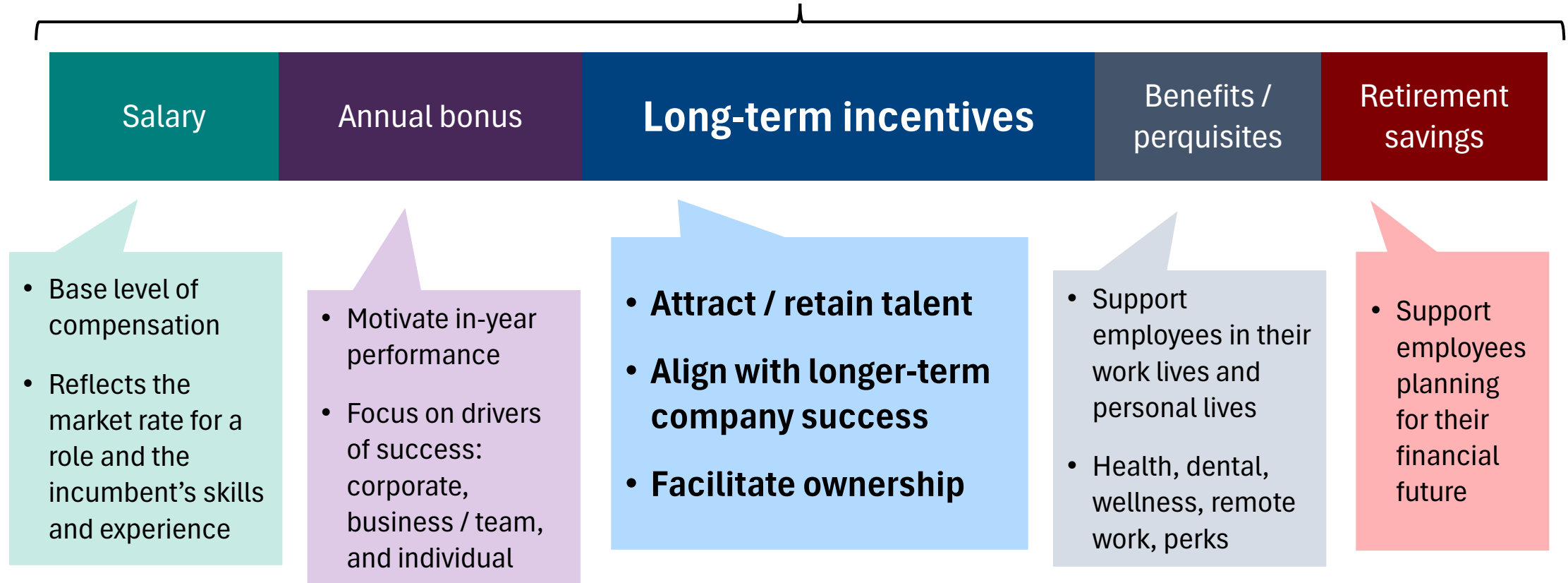
**Determining the  
grant value**



**Avoiding  
common pitfalls**

# 1. Making the case for an LTIP

## Role of total rewards elements



# 1. Making the case for an LTIP

## Purpose of the LTIP influenced by the business profile

**Start-up, fast growth,  
near-term IPO**

- Compete for talent
- Preserve cash
- Rally around future IPO

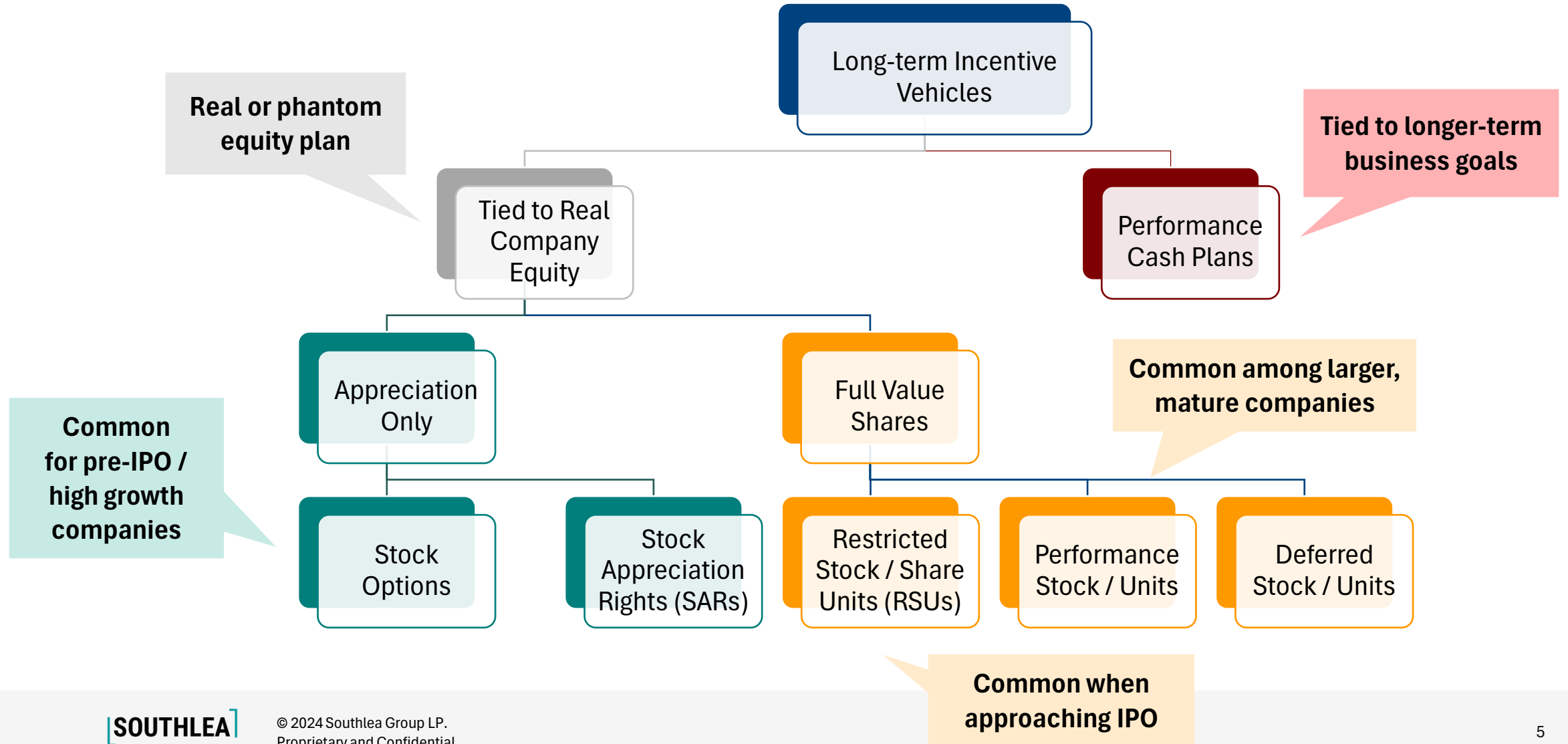
**Mature, medium  
growth, longer-term  
exit plans**

- Enhance total rewards
- Focus on longer-term goals
- Facilitate ownership

**Mature, stable,  
no exit plans**

- Retain talent
- Reinforce ownership culture
- Mitigate dilution

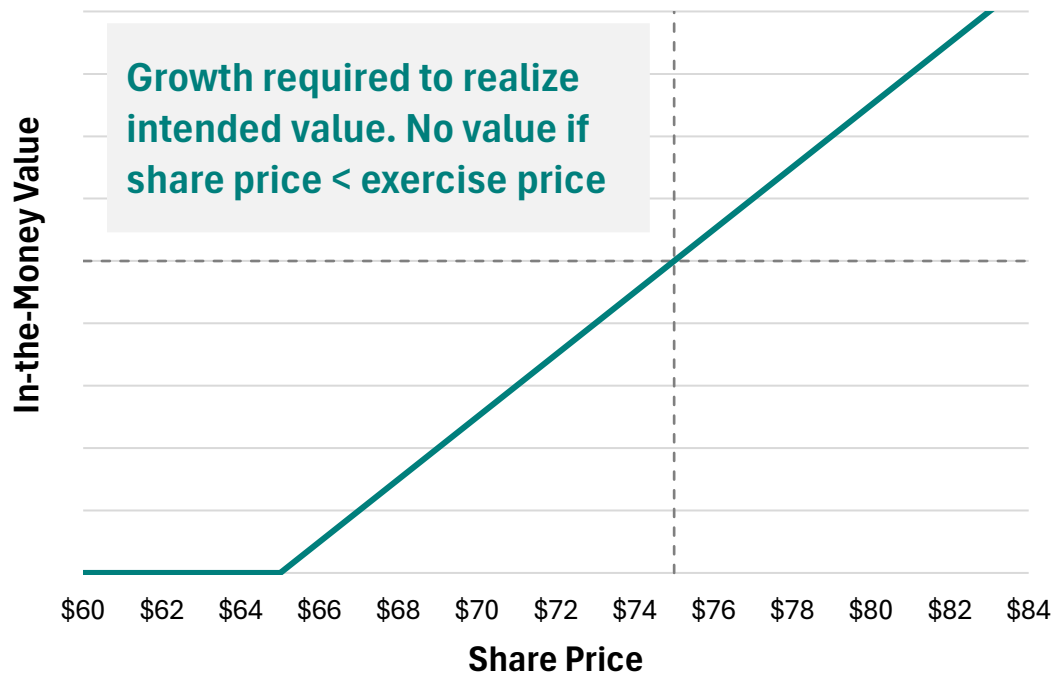
## 2. Choosing the right equity vehicle



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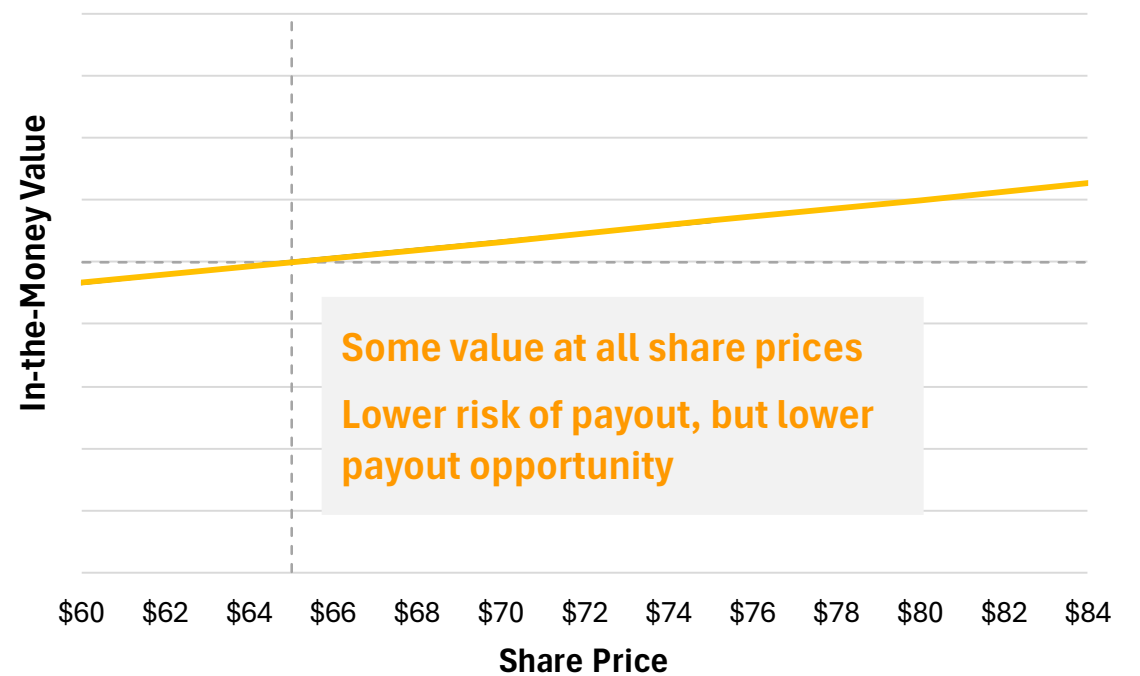
## Stock Options

$$\text{Options Granted} \times (\text{Current Price} - \text{Strike Price}) = \text{Value of Options}$$

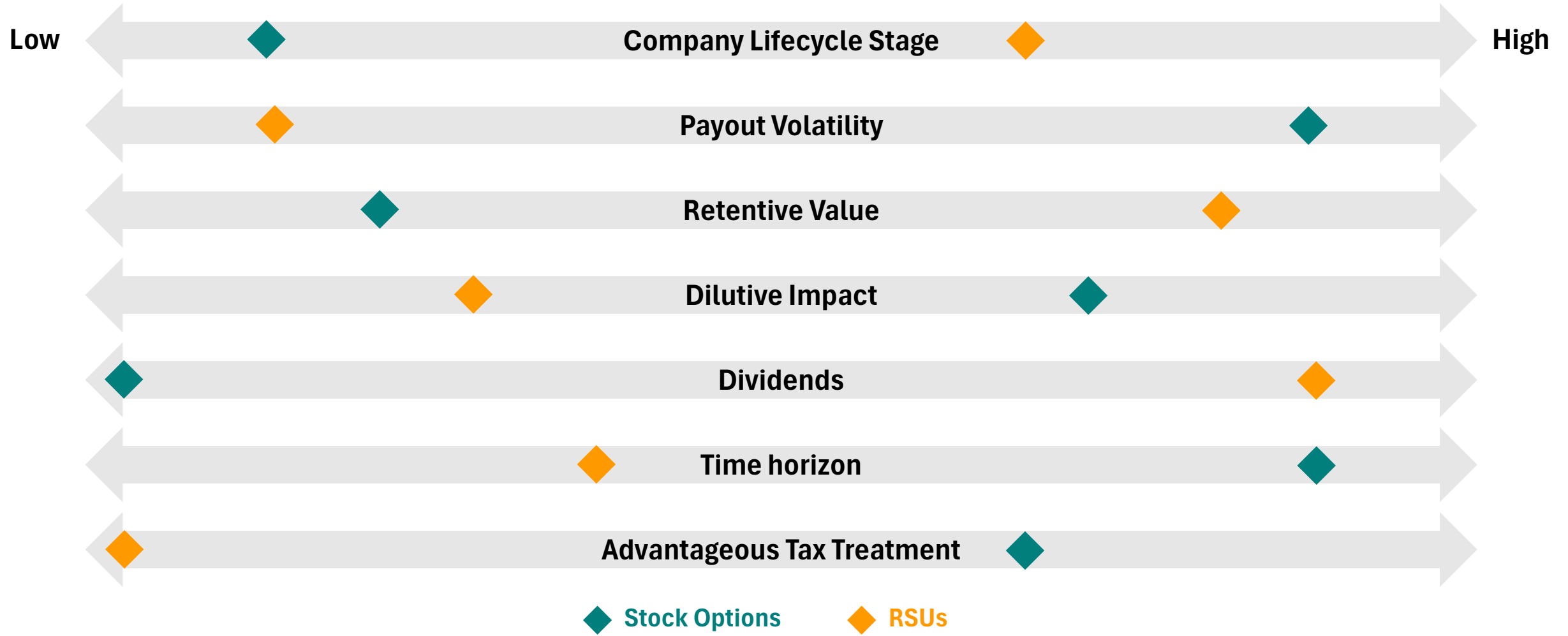


## RSUs

$$\text{Units Granted} \times \text{Current Price} = \text{Value of RSUs}$$



## 2. Choosing the right equity vehicle



# 3. Determining the grant value

## Common granting events



- Immediate alignment with company objectives / investors
- Make whole grants for lost equity compensation

- Maintain retentive “hooks” with unvested equity
- Facilitate ownership to a market-typical pre-IPO level

- True-up to market
- Align with grant guidelines for the new position level / role



### 3. Determining the grant value

#### Alternatives for setting the number of options / units granted

<b>% of Common Shares Outstanding (CSO)</b>	<b>Defined Number</b>	<b>Expected Value</b>
<ul style="list-style-type: none"> <li>• Facilitate market-typical share ownership</li> <li>• Common for early stage</li> <li>• Test value under different share price scenarios</li> </ul>	<ul style="list-style-type: none"> <li>• Deliver market-typical number of options / units</li> <li>• Simple / easy to communicate</li> <li>• Grant value varies depending on company valuation</li> </ul>	<ul style="list-style-type: none"> <li>• Grant market-typical expected value (\$)</li> <li>• Common for annual grants</li> <li>• For options, requires confidence in option valuation</li> </ul>
<b>CSO x Grant as a % of CSO</b>	<b># Options / Units</b>	<b>For Options: Expected Value ÷ Black Scholes Value</b>

## 4. Avoiding common pitfalls

### Clarifying the purpose of the LTIP

- Misalignment of objectives / goals
- Influences design decisions: vehicle, vesting, term, settlement form

### Inefficient use of reserve

- Over-granting of equity
- Requesting too few, or too many shares without proper forecasting

### Granting options / units without a sense check

- Determining grant values without a clear, consistent methodology
- Lack of stress testing future value
- Misunderstanding of realizable / retention value of outstanding equity

### Insufficient communication

- Lack of understanding by participants (purpose, mechanics, pay opportunity)
- Low perceived value of the program

## 4. Avoiding common pitfalls

**Communication is critical!**



**Plan documents  
/ FAQs**



**Manager and  
participant training**



**Regular  
valuation**



**Modelling  
tools**



**Tally sheets  
(total rewards)**



**Prospect / new hire  
summary**

# 4. Avoiding common pitfalls



Disclaimer: Southlea is not a law or accounting firm – this information is meant to provide a high-level overview and should not be taken as legal or tax advice

## Don't forget about the details...

Termination treatment		Participant tax	
Resignation / termination	<ul style="list-style-type: none"> <li>• Forfeit unvested equity</li> <li>• 90 days to exercise vested outstanding options</li> </ul>	Options	<ul style="list-style-type: none"> <li>• At grant and vesting, no tax impact</li> <li>• Taxation at exercise – may be subject to a tax deduction under certain conditions</li> <li>• Increased flexibility as a CCPC *</li> <li>• If shares are held, any gains are taxed as capital gains, subject to a tax deduction</li> </ul>
Retirement	<ul style="list-style-type: none"> <li>• Retirement must be defined (e.g., min. age 55 + 10 years' service)</li> <li>• Continue to vest</li> <li>• 3 years to exercise vested options</li> </ul>	Share units	<ul style="list-style-type: none"> <li>• No tax at grant</li> <li>• At vesting, share units taxed as employment income</li> <li>• Post-vesting, if participant receives and holds shares, and share price gain taxed as a capital gain</li> </ul>
Death / long-term disability	<ul style="list-style-type: none"> <li>• Immediate vesting</li> <li>• 1 year to exercise vested options</li> </ul>		

\* CCPC = Canadian Controlled Private Corporation

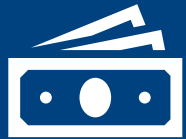
# Cracking the code – key takeaways



**Review LTIP as part of EVP and total rewards**



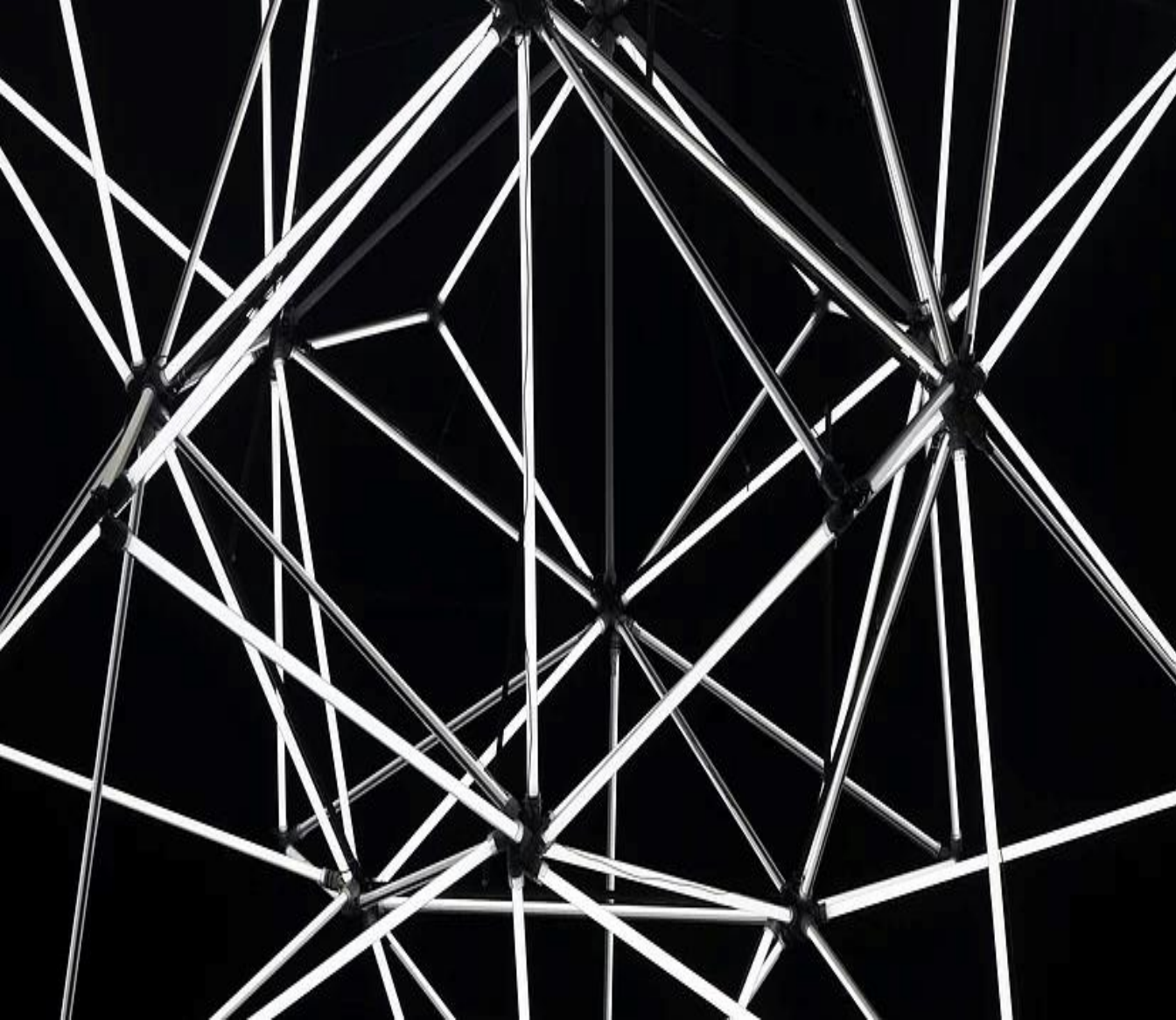
**Select a vehicle aligned with your strategy**



**Give thought to grant frequency and the math**



**Communicate, communicate, communicate!**



# Thank you!

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