Equity Increase Considerations - A Guide

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Based on best practices, Assemble typically sees companies distinguish between equity increases across 3 discrete scenarios. For each of these scenarios, the approach for calculating the equity increase varies, which we've outlined in the sections below.

Scenarios

SCENARIO 01.

Promotions - current equity is below the new hire band

Context

The ideal and easiest scenario is when an employee is promoted into a new role and their existing unvested equity is below the new hire equity band for that new role. The objective here is to ensure that an employee is NOT in a position whereby quitting and getting immediately re-hired at that new role would result in the employee having more unvested equity.

Approach

Best practice is to calculate the difference between a new hire grant and the employee's unvested equity, then granting that amount over a 4-year vesting period starting to vest immediately. Selecting the position in the new hire equity band will depend on a company's compensation philosophy and standard practices.

Rationale

This approach grants an employee additional equity that incentivizes them to stay longer with the company, while ensuring the employee does not receive less equity than if they quit and were immediately re-hired for that new role.

SCENARIO 02.

Promotions - current equity is above the new hire band

Context

There may be cases – especially when dealing with early employees or shortly after a financing event – where an employee is being promoted into a role, but their unvested equity already exceeds what a new hire would receive. This is a tricky situation that is usually handled on a case-by-case basis, depending on the employee's impact and available equity.

Approach

Depending on the company's constraints and compensation philosophy, there will be two general paths (and other options in between):

- ***Apply a formulaic grant.*** In some cases, companies may calculate a promotion grant that ignores the employee's existing unvested equity. A common case here is to grant an employee 25-50% of what a new hire would receive in the new role, which will generally vest over 1-4 years.
- ***No additional equity.*** In other cases, companies may decide not to grant additional equity in a promotion. Instead, the company may use cash compensation only (e.g., salary increase, one-time bonus).

Rationale

If the main objective is to retain strong performers, companies should increase those employees' compensation and recognize their contributions (resources allowing). As such, the first option enables that by taking a formulaic approach that leverages existing new hire equity bands. However, other companies may be more constrained, or there might be situations where the company's philosophy dictates that no additional equity is a more proper response.

SCENARIO 03.

Equity Refresher - Time-based refreshers

Context

Companies generally implement equity refresh programs with one objective – increasing employee retention. While equity refresh programs are important and effective, they can become costly and result in additional dilution. As such, companies should evaluate their available equity pool, hiring plans, and existing employee base to craft their programs. Key factors companies should consider are:

- ***Amount:*** *How much equity will an employee receive? (We recommend that companies calculate equity refresh bands as a discount to new hire equity bands)*
- ***Vesting period:*** *Over what period of time will this additional equity vest? (e.g., 1-year, 4-years)*
- ***Vesting schedule:*** *How will the equity vest over the vesting schedule? (e.g., monthly over the vesting period; backloaded; frontloaded)*
- ***Vesting start:*** *When will this new equity start vesting? (e.g., immediately, at the 4-year anniversary)*
- ***Vesting cliff:*** *Will the new equity vest immediately or will there be a cliff? (generally, we do not see cliffs on refresh grants)*
- ***Eligibility****: What are the eligibility criteria for receiving refresh grants? Is it just tenure? Or are there other factors like performance or role?*
- ***Frequency:*** *How often does the company intend on issuing refresh grants? Is this an annual program?*

Approach

Companies will have different equity refresh programs by pulling on the different levers laid out above. We included two tables to help guide your thinking.

- *The first highlights the two most common approaches: Evergreen and Boxcar refresh programs.*
- *The second highlights how companies can flex levers to be more conservative or more aggressive.*

SECTION 03.

Equity Refresh - Based on a defined time-period

Table 1: Common Programs

	EVERGREEN (REFRESH)	BOXCAR (REFRESH)
DESCRIPTION	Grants tenured employees short-vest grants that begin vesting immediately. Extend grants annually.	Grants tenured employees short-vest grants that begin vesting once the initial new hire grant is fully vested. Extend grants annually.
AMOUNT	25% of a new hire's grant	25% of a new hire's grant
VESTING PERIOD	1-year	1-year
VESTING SCHEDULE	1/12th Monthly	1/12th Monthly
VESTING START	Immediately or at the 3-year anniversary	Begins vesting when the new hire grant vests (usually at the 4-year anniversary)
VESTING CLIFF	None	None
ELIGIBILITY	Tenure: 2.5 year mark Performance: meets or exceeds expectations	Tenure: 2.5 year mark Performance: meets or exceeds expectations
PROGRAM FREQUENCY	Annual (every year)	Annual (every year)

SECTION 03.

Equity Refresh - Based on a defined time-period

Table 2: Evaluating a spectrum of factors

	CONSERVATIVE	AGGRESSIVE
DESCRIPTION	Favors the Company, consumes less equity	Favors employees, consumes more equity
AMOUNT	Reduce percentage (below 25%)	Increase percentage (above 25%)
VESTING PERIOD	Extend vesting period (2+ years)	Reduce vesting period (e.g., 1 year)
VESTING SCHEDULE	Backloaded	Frontloaded
VESTING START	Delay vesting start (e.g., boxcar)	Expedite vesting start (e.g., immedite or retroactive vesting start date)
VESTING CLIFF	Incorporate a cliff (e.g., 1 year)	No cliff
ELIGIBILITY	Tenure: raise requirements (e.g., 3+ years) Performance: raise threshold (e.g., exceptional performance only)	Tenure: lower requirements (e.g., 2 years) Performance: lower or eliminate threshold (e.g., at least meets performance; or no performance threshold)
PROGRAM FREQUENCY	Reduce frequency (e.g., every 2 years)	Increase frequency (e.g., every 6 months)