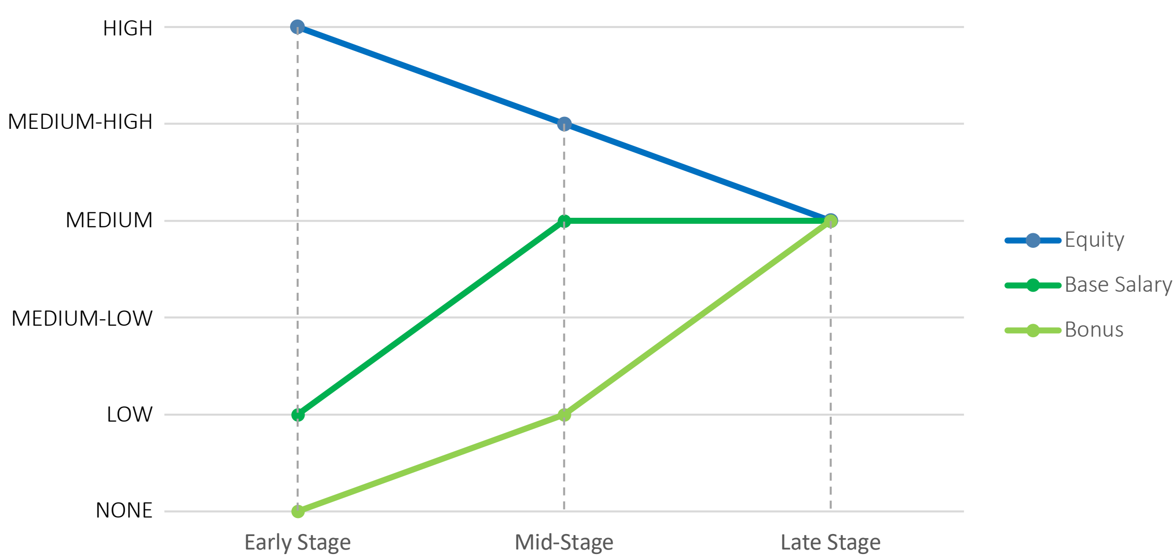
CASH, EQUITY, AND WHY COMPENSATION PHILOSOPHY COMES FIRST

Prior to creating compensation ranges or even benchmarking, companies need to consider current stage of development and available cash and equity resources. Benchmarking will not reflect each company's unique position and will not serve as a scalable compensation strategy.

CASH AND EQUITY THROUGH STAGES OF DEVELOPMENT

The first thing to consider is your cash and equity mix. The needs of the company will change drastically over time so it's important to consider the current stage of development when attempting to make the best use of available resources.



Early Stage Companies: Salaries are on the low end of the competitive market. Due to limited cash resources, bonuses aren't provided and equity is used as the primary incentive. The risk is high so the relative reward is high for early employees willing to take a chance.

Mid-Stage Companies: Salaries increase as capital is more readily available and bonuses are used for competitive hiring. Key positions are hired, development milestones are achieved, and risk reduces. Equity grants are still on the higher side as employees are still taking a risk, but begin to decline as the company increases in value.

Late Stage Companies: The cash compensation component increases through higher cash ranges or a more prominent bonus program as revenue grows towards profitability. The risk reduces dramatically at profitability making it the most valuable resource. Equity may not motivate candidates with earlier stage grant requests causing cash to be the bargaining chip.

PLANNING AHEAD FOR FUTURE STAGES

As the company increases in value, equity will become more valuable and should be reserved as a more limited resource. Cash compensation becomes the focus; however, most companies wait too long to increase their cash ranges or consider a bonus plan, which leads to turnover and lost key hires.

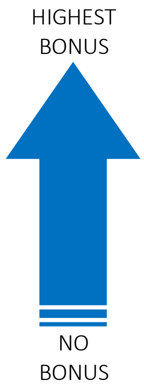
Traditionally, private companies have implemented bonus programs at profitability. The issue is this is probably too late to stay competitive in the labor market. Prior to profitability, companies are trying to conserve cash and equity is less readily available which leave total rewards offers lower in cash without the higher equity offers to make the offer appealing. To combat this, companies should consider enhancing their cash program prior to their series B round when they being to reduce equity. Companies need to encompass increased cash in profitability projections. This will compensate for smaller equity with increased exercise costs.

To consider the whole picture, total rewards comes into play. What is the value proposition for each employee? What role does equity play? What is the cash market position? And will an increased cash offering come by way of a bonus plan or increased ranges? The most common mistake is that companies rely too heavily on market data over company strategy and affordability. If you can't afford a large cash program, equity will need a strong offering and vice versa. Similarly, if equity is already valuable, that should have more weight over similar companies that might be offering comparably sized grants with regards to the market data.

CASH COMPONENTS

Base Salary: Understanding how to pay against the competitive labor market is essential to recruiting efforts for competing for talent. It's seen as best practice to compare staff-level cash comp to public company data. Due to the fact that staff-level employees typically don't receive enough equity to accept significant cash discounts, you should consider the broader labor market. Although you may be offering equity for less cash, especially relevant for early stage companies, a higher cash offer from a public company may look more appealing to a potential candidate. In order ensure you're attracting the top talent with your compensation, you want to look at the public company cash comp for your staff.

Total Target Pay: Companies can decide to introduce higher cash ranges in lieu of a bonus program, it's dependent on what the company is trying to communicate and the level of effort needed to implement a plan.



Reduced based salary with larger bonuses typically rewards more for desired results and is more prevalent at senior levels with discretionary income.

High base salaries with a less rigid bonus structure. Discretionary bonuses can serve as great incentives for hiring on or to maintain market position for specific employees without requiring a company-wide plan.

Eliminate bonus and pay higher base salaries. This eliminates the need for bonus administration and awards employees higher pay, which allows employees to feel reassured knowing their cash is guaranteed.

Merit: Annual increases (raises) are different from bonus as they raise the base pay going forward, whereas bonus is a one-time payout and base salary stays the same. Prior to implementing a merit program, ensure an effective system of assessing individual performance. An ineffective performance review can set the expectation for a raise regardless of performance.

EQUITY COMPONENTS

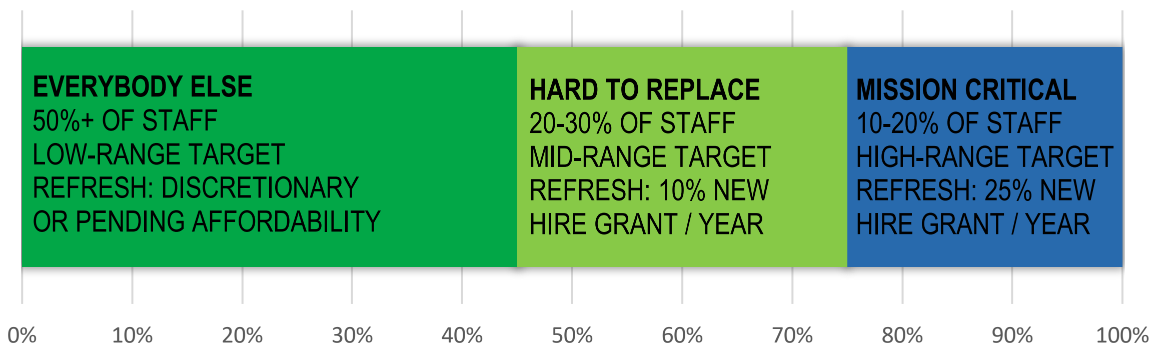
Hire-On Grants: Companies that are less than 60% through development should typically review new-hire ranges every 6 months or at any major company milestone. Companies that are 60% or more through development should minimally review equity guidelines annually or at any major company milestone. Even though company ranges may not differ significantly from the market data used to establish ranges, during review the company should consider a reduction of about 20 – 25% in the staff new hire ranges to keep pace with the increase in company value.

Retention Grants: In private companies, the optimal vesting for retention is to “tag” the vesting on to the back end of the new hire grant to create a horizon of unvested stock. This means that you will approve an option grant now, locking in a lower strike price, but that vesting will delay until the new hire grant is vested and the vesting of the new grant will occur over one year. Consider constructing your refresh grants as a % of hire-on grants. As the company increases in value and equity grants diminish, retention grants will then decrease proportionally

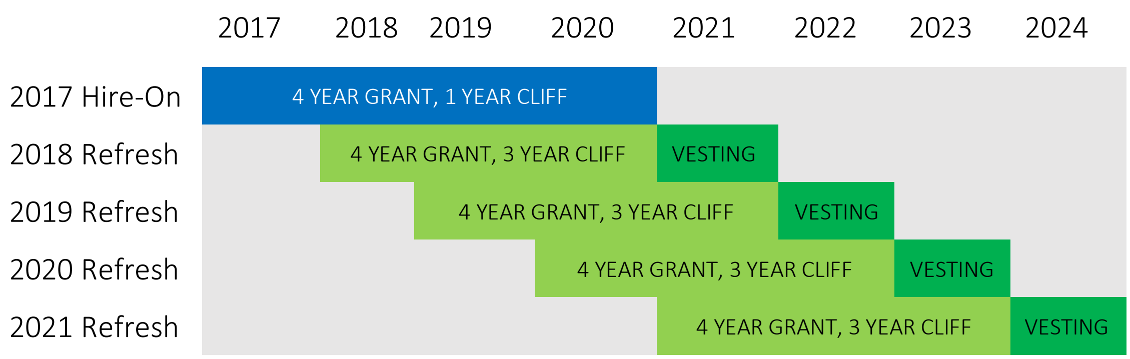
RETENTION STRATEGIES

If a company does not have an effective retention strategy in place, top employees are more likely to leave when early stage grants are fully vested. Implement retention strategies early and incorporate cash and equity ranges as well as refresh grants. Ensure affordability by costing out the budget for cash and equity needed to implement. If the correct strategy returns a cost that is larger than anticipated, consider implementing the strategy over 18 - 24 months instead of 12 months.

Not all employees are created equal and it doesn't make sense to compensate them as such. Relying too heavily on market data can result in allocating resources to employees who might not be critical to company success. Instead, consider a program to pay consistently across departments and levels, but allocate cash and equity based on employee criticality.



Tag-on = Boxcar = Evergreen = Refresh = Unvested Equity: Create equity retention with an annual 4-year grant, but delay the vesting onset until the new hire grant has fully vested.



Initial implementation of an equity plan may result in large adjustments for certain individuals to reach their targeted position. If the company has vesting of 2+ years, the "catch up" equity budget needed to implement a performance equity plan may be too expensive. Consider reducing new hire grants < 25th percentile of market to fund the ongoing retention strategy.

STRATEGIC VALUE OF JOBS

This is another area where companies tend to rely on data over strategy. It doesn't always make sense to follow the market if your company values jobs differently. Consider how you value each your functions within you company when designing ranges.

As examples, Data Science and Design are relatively new functions from a data collection perspective which leads to sparse and skewed datasets. Example: Product people. Many companies pay these functions like Engineering, while some pay more these positions more like Marketing people. This results in market data that is lower than technical ranges based solely on value within companies. If data is scant or the relative value of these functions is similar to your technical employees, consider compensating the Data Science, Design, or Product employees with ranges from a different department based on value to the company.

COMPENSATION PHILOSOPHY FOLLOW-THROUGH

Regardless of how you value your employees, what market percentile you target, or if bonus plays a role in your cash plan, the compensation philosophy needs to be a constant. This allows for companies to scale without going over budget. A successful and competitive approach needs to have, at minimum, the following things:

1. Cash and Equity based off of competitive data, labor market strategy, and affordability.
2. Recognition of contribution through higher compensation, raises, bonus, and/or grants.
3. Review of peer pay to ensure allocation of resources based on relative value to company.