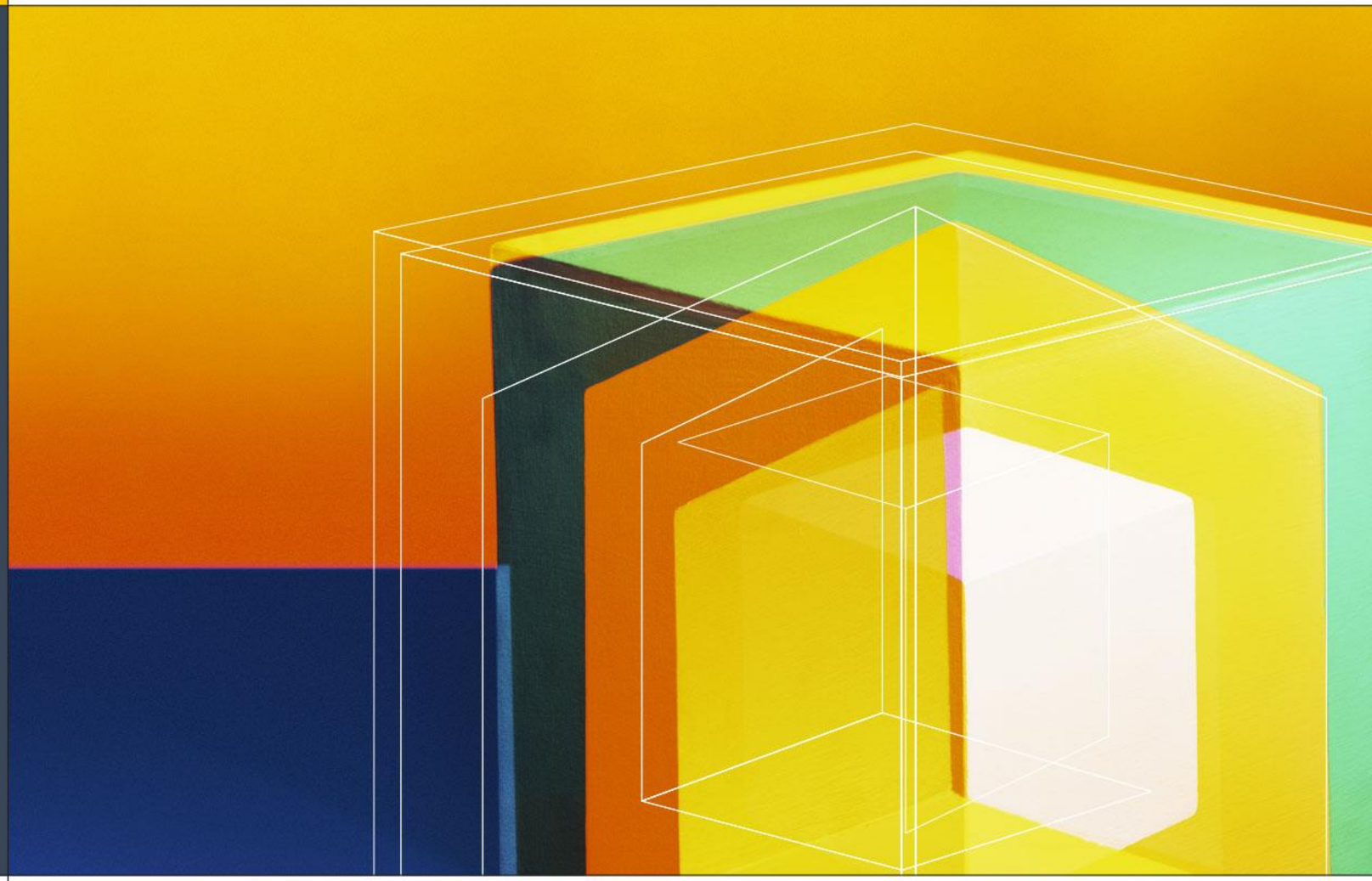
SEMLER BROSSY

2021 Equity Grant Practices at IPO



SEMLER BROSSY REPORT

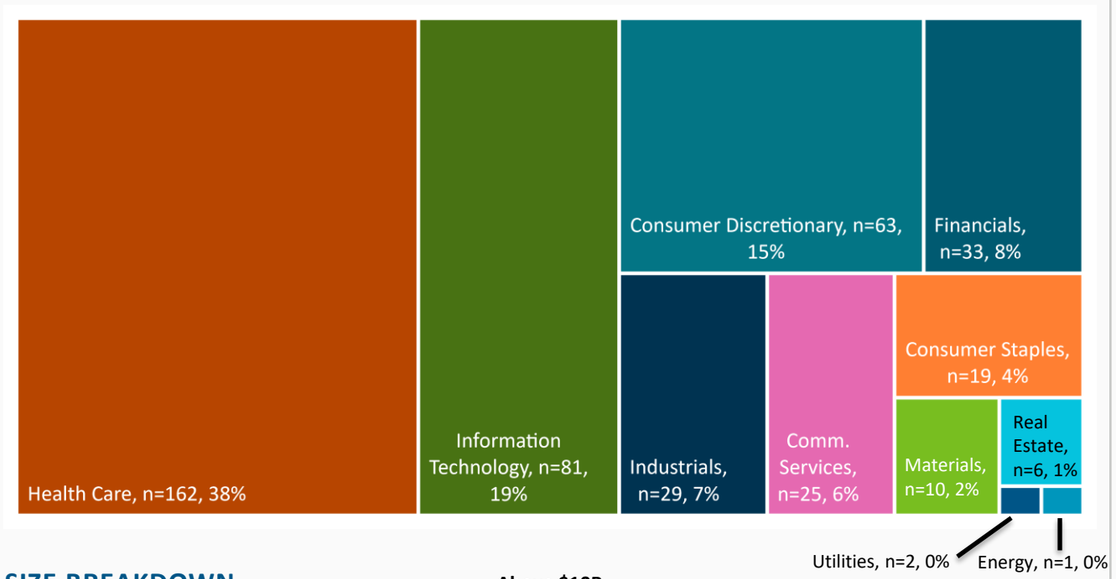
DATA AS OF JANUARY 1, 2022

NOTE: Semler Brossy Consulting Group does not provide tax, legal or accounting advice and does not provide regulatory guidance in the jurisdictions being considered. The Company should consult its respective experts in those fields on such matters, as appropriate.

Overview

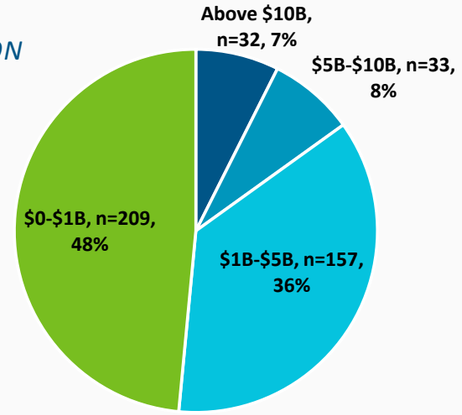
N = 431 COMPANIES (INITIAL PUBLIC OFFERINGS IN CALENDAR-YEAR 2021)

SECTOR BREAKDOWN



SIZE BREAKDOWN

MARKET CAPITALIZATION



Semler Brossy analyzed 431 companies with an initial public offering (IPO) in calendar-year 2021 (excluding SPAC mergers). Across the sample:

- Companies range from $3MM to $85B in market capitalization at listing (median = $1.1B)
- ~85% of companies had less than a $5B market capitalization at listing
- Represented industries are broad and varied; Health Care and Information Technology companies were most prevalent (38% and 19%, respectively)

Companies need to address a number of equity grant-related issues as they approach IPO:

- Equity grant size and structure
- Dilution and overhang levels
- Initial equity pool sizing
- Evergreen provisions

This report frames how companies address the issues above.

Report Highlights

& GO-FORWARD IMPLICATIONS

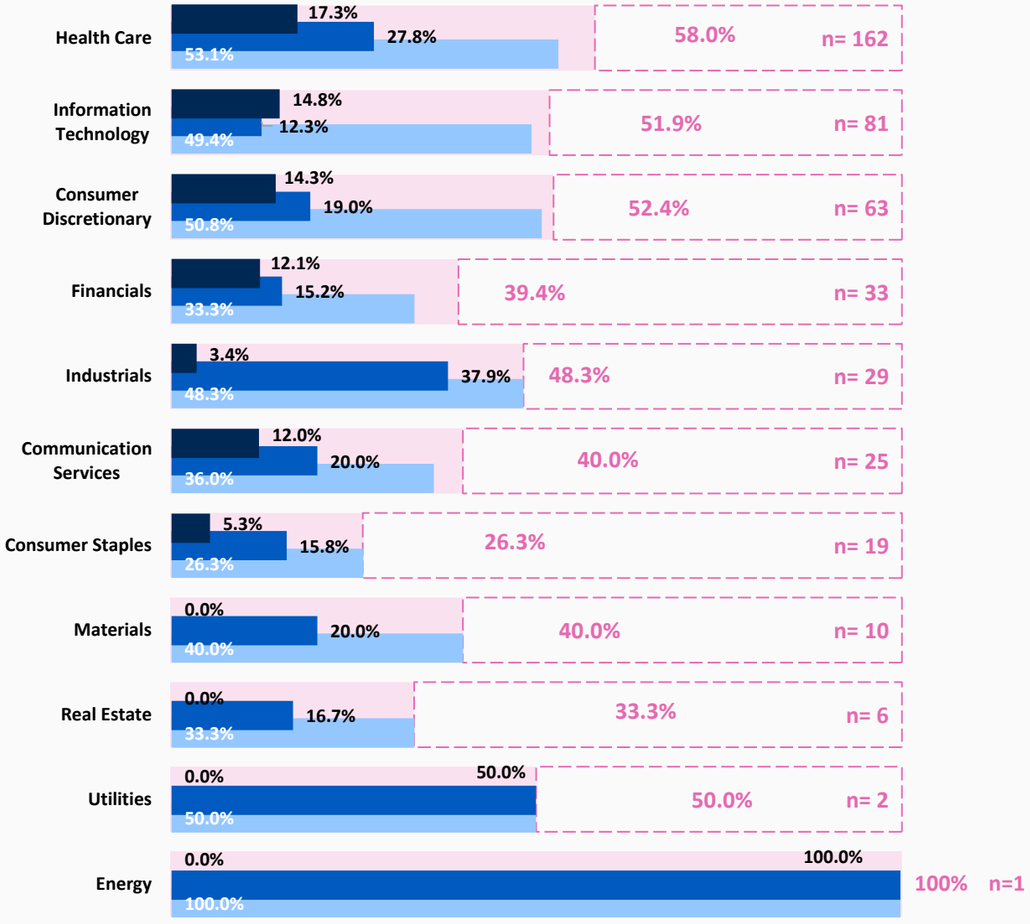
Topic	Key Takeaways
Executive Equity Grant Prevalence & Sizing (P. 4-5) *Prevalence and quantum of executive equity grants in the 12 months leading up to IPO*	▪ 51% of companies granted equity to executives in the 12 months leading up to IPO ▪ There is minimal differentiation between Founder and Non-Founder CEO award sizes ▪ Approximately 7% of companies granted equity awards to CEOs valued above 3% of common shares outstanding (CSO) i.e., mega-grants
Equity Usage (P. 6) *Dilution and Overhang directly after closing of IPO*	▪ Dilution and overhang are generally not strongly correlated with market capitalization at IPO ▪ Information Technology and Health Care companies incurred the highest dilution and overhang at IPO, likely due to the highly competitive market for talent in each industry
Initial Equity Pools (P. 7) *Initial equity pool request as a percent of fully diluted shares outstanding (FDSO) at IPO*	▪ Initial equity pools generally reflect approximately 8% to 10% of FDSO, which typically provides enough runway for approximately 3 to 5 years of equity grants post-IPO (assuming an approximate 2%-3% burn rate each year following IPO)
Evergreen Provisions (P. 8) *Prevalence and quantum of evergreen provisions in year of IPO*	▪ A majority of companies implement an evergreen provision prior to IPO (~63%), generally reflecting 5% of CSO across industries and company sizes

IPOs were highly prevalent during calendar-year 2021, driven in part by strong market tailwinds and capital surpluses. The market has drawn back significantly in 2022, with only 56 IPOs from the start of the year through the 2nd quarter (vs. 220 IPOs through Q2 in 2021). While IPO activity has declined coincident with broader market declines, our anecdotal experience suggests equity grant practices have generally remained consistent with our 2021 observations.

Executive Equity Grant Prevalence

PREVALENCE OF EXECUTIVE EQUITY GRANTS IN THE 12 MONTHS LEADING UP TO IPO

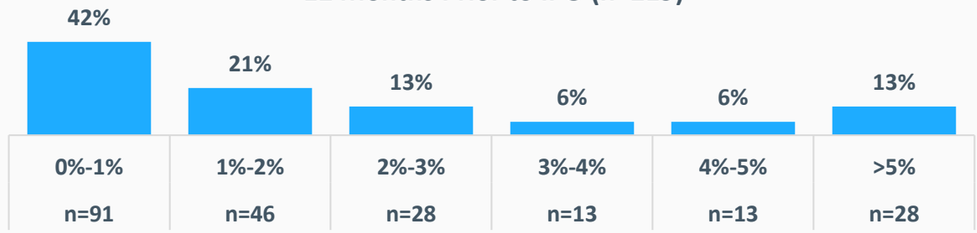
PREVALENCE OF EQUITY GRANTS AT COMPANIES IN 12 MONTHS LEADING UP TO IPO



Observations

- ~51% of companies that went public in 2021 granted equity awards to executives in the 12 months leading up to IPO
  - Health Care and Information Technology companies have the highest prevalence of equity awards in the 12 months leading up to IPO (58% and 52%, respectively)
  - ~49% of companies in the sample did not grant equity awards to executives in the 12 months leading up to IPO due to ownership position, hiring timing, executive tenure, and other factors
- Notably, ~60% of companies that granted equity to executives in the 12 months leading up to IPO made the grants within 30 days of listing; this suggests that companies that grant equity prior to IPO tend to do so to "top-up" existing executives and/ or "stake" new hires with equity directly prior to listing
- Equity grant prevalence in the 12 months leading up to IPO is not strongly correlated with market capitalization
- Most companies that grant equity in the 12 months leading up to IPO grant more than 1% of CSO in aggregate to executives (58%):

Distribution of Aggregate Equity Granted to NEOs as % of CSO in 12 Months Prior to IPO (n=219)

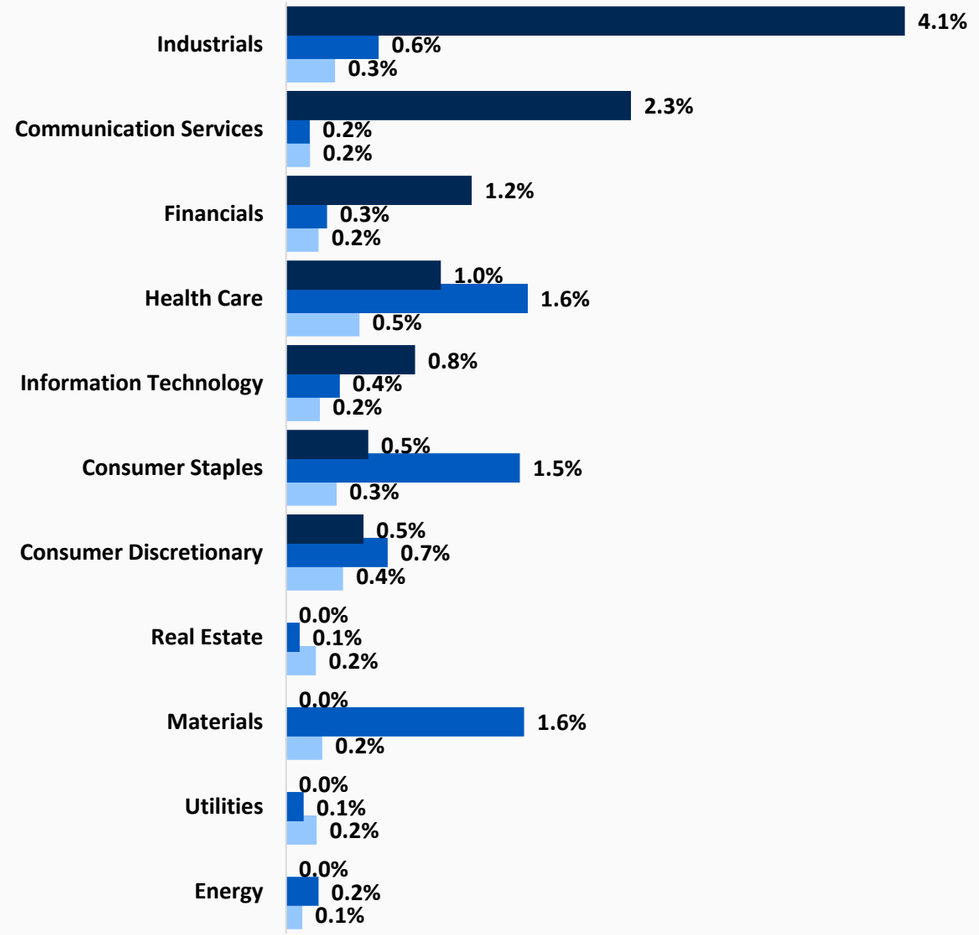


Executive Equity Grant Size

QUANTUM OF EXECUTIVE EQUITY GRANTS IN 12 MONTHS LEADING UP TO IPO

Legend
- CEO Founder
- CEO Non-Founder
- NEO Average

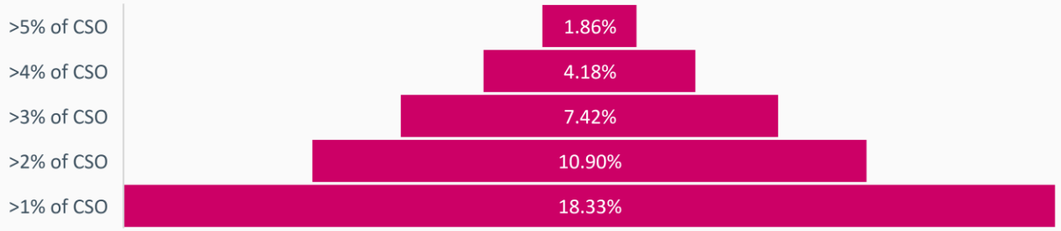
MEDIAN EQUITY GRANT SIZE IN 12 MONTHS LEADING UP TO IPO AS A % OF CSO



Observations

- Equity awards granted to executives in the 12 months leading up to IPO as a % of CSO are typically similar in size for founder CEOs and non-founder CEOs:
  - CEO founder grants generally range from 0.1% to 3.9% (median grant = 1.0%)
  - CEO non-founder grants generally range from 0.1% to 4.3% (median grant = 1.2%)
- Average equity grants to NEOs in the 12 months leading up to IPO generally range from ~0.05% to 1.2% of CSO (median grant = 0.3%)
- Equity grant sizes in the 12 months leading up to IPO are not strongly correlated with market capitalization
- Mega grant awards (i.e., grants >3% of CSO) to CEOs (full sample) are relatively uncommon (7.4%):

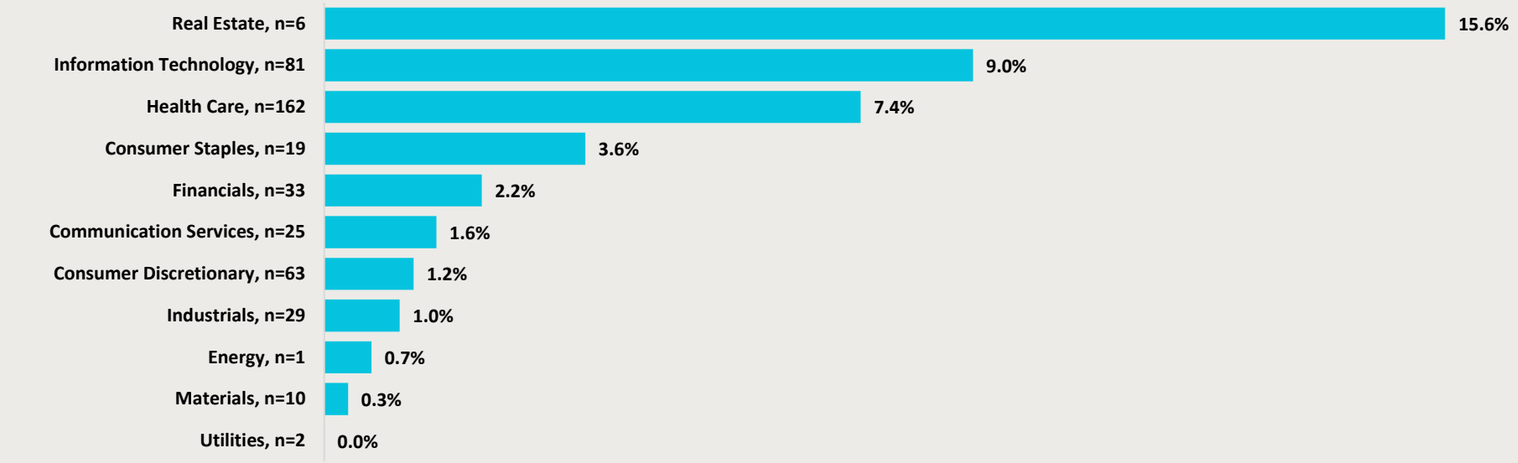
Prevalence of CEO Equity Grants Sized Above Certain Thresholds as a % of CSO



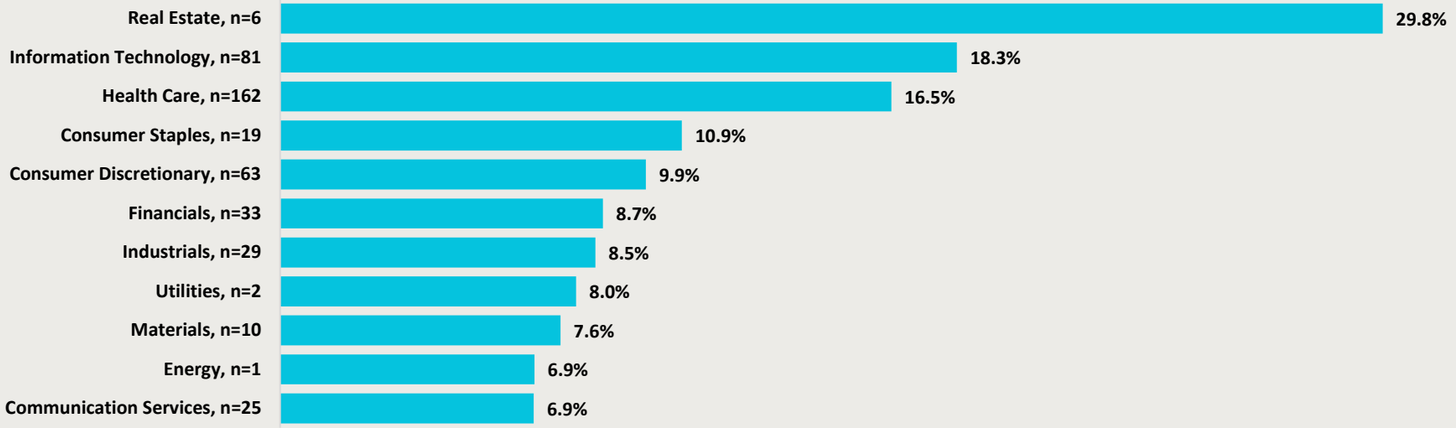
Equity Usage

DILUTION AND OVERHANG DIRECTLY AFTER CLOSING OF IPO

MEDIAN DILUTION AT IPO BY INDUSTRY



MEDIAN OVERHANG AT IPO/SPAC BY INDUSTRY



Observations

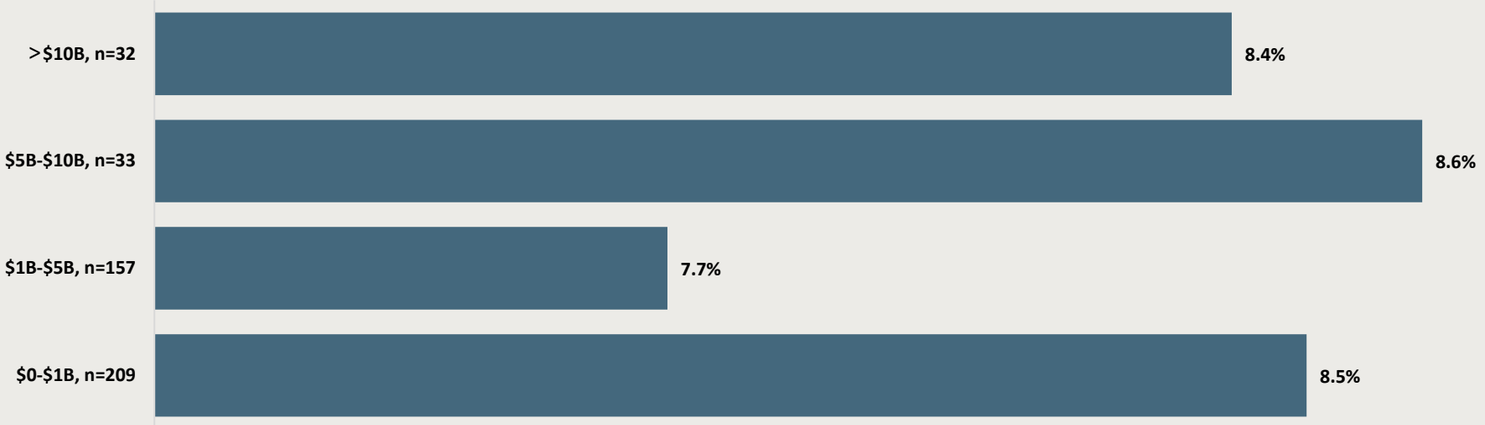
- The Information Technology and Health Care industries generally have the highest median dilution and overhang at IPO, likely caused by the strong emphasis on equity compensation in these industries and a highly competitive talent market backdrop (note: high dilution and overhang figures in Real Estate are influenced by small sample size)
- Notably, median dilution does not rise higher than 4% in any other industry; dilution is often much higher at IPO as companies grant equity to employees to retain and motivate performance through IPO, but dilution often returns to lower ‘steady-state’ levels within 1-2 years of IPO
- Higher dilution and overhang is not strongly correlated to market capitalization at IPO or with lower total shareholder returns 6 months following IPO across the sample

Initial Equity Pools

INITIAL EQUITY POOL REQUEST AS A PERCENT OF FULLY DILUTED SHARES OUTSTANDING AT IPO

MEDIAN INITIAL EQUITY POOL REQUEST AS A PERCENT OF FDSO INDUSTRY BREAKDOWN

MEDIAN INITIAL EQUITY POOL REQUEST AS A PERCENT OF FDSO MARKET CAP BREAKDOWN



Observations

- Initial equity pool requests at IPO generally range from ~3% up to ~15% of fully-diluted shares outstanding (FDSO), with a tighter range of ~8% to 10% of FDSO from median to 75th percentile at IPO (which would provide ~3-5 years of equity assuming a ~2%-3% annual burn rate post-IPO)
  - ~21% of the sample had initial equity pool requests at IPO above 10% of FDSO
  - ~65% of the companies with initial equity pool requests at IPO above 10% of FDSO are in the Information Technology and Health Care industries
- Information Technology and Health Care companies have the largest median share requests at IPO
- Market capitalization does not demonstrate strong correlation to initial share requests at IPO

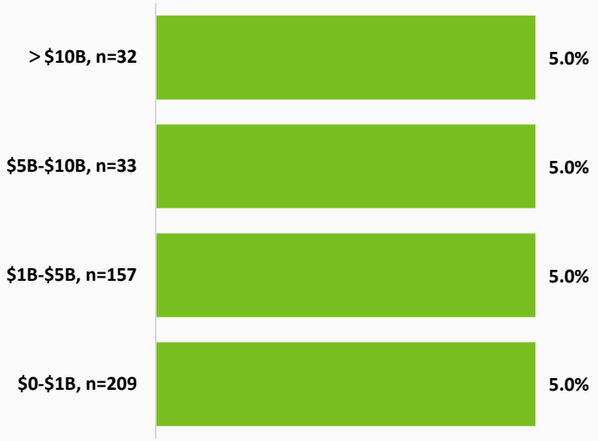
Evergreen Provisions

PREVALENCE AND QUANTUM OF EVERGREEN PROVISIONS IN YEAR OF IPO

Observations

- ~63% of companies implemented an evergreen provision as part of their equity plan agreement
  - Evergreen provisions are most prevalent in the Health Care and Information Technology industries (78% for each)
- Evergreen size at IPO generally ranges from ~1% to ~6% (median = 5%); ~65% of companies that implemented an evergreen plan incorporated a 5% evergreen provision
  - All industries except for Consumer Staples and Industrials have a median evergreen provision of 5%; in these industries, less emphasis is placed on equity spend to retain talent given the slower growth characteristics of these companies
  - All market capitalization categories have a median evergreen provision of 5%

MEDIAN EVERGREEN REFRESH MARKET CAP BREAKDOWN



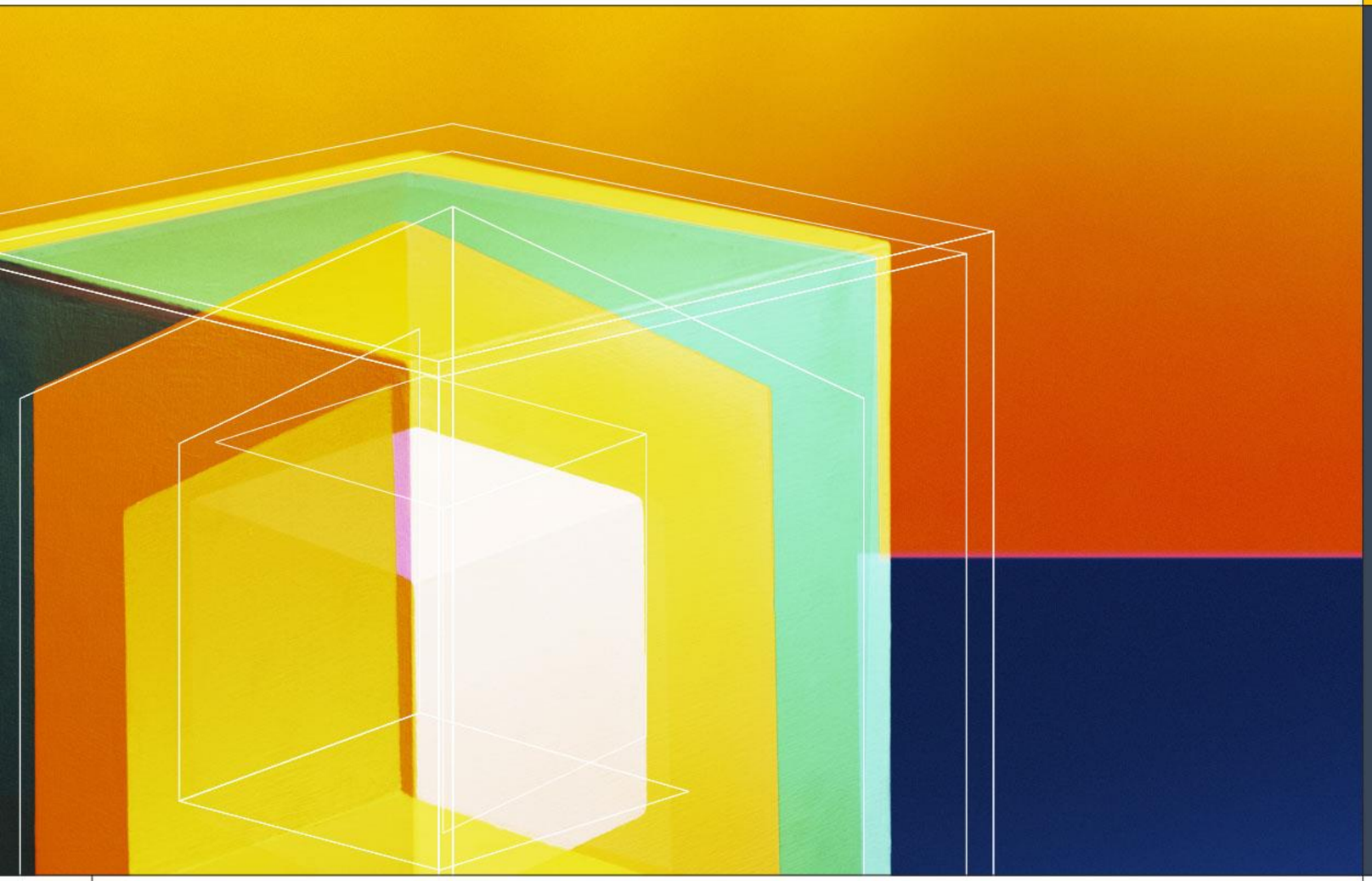
Industry	Total Prevalence	Evergreen Prevalence	Evergreen Prevalence % ▼
Information Technology	81	63	78%
Health Care	162	126	78%
Consumer Discretionary	63	37	59%
Industrials	29	14	48%
Communication Services	25	10	40%
Consumer Staples	19	7	37%
Financials	33	12	36%
Real Estate	6	1	17%
Materials	10	1	10%
Utilities	2	0	0%
Energy	1	0	0%
Total	**431**	**271**	**63%**

MEDIAN EVERGREEN REFRESH INDUSTRY BREAKDOWN

Appendix

GLOSSARY

Item	Definition
Percentile Calculations	All percentile calculations exclude "0" values or values that do not exist in the sample.
Basic Common Shares Outstanding (CSO) at IPO	Reflects common shares outstanding directly after the offering.
Fully Diluted Shares Outstanding (FDSO) at IPO	Calculated as common shares outstanding directly after the offering in addition to i) shares requested and remaining available for grant at IPO, ii) outstanding common stock and stock underlying stock options, iii) equity grants made prior to IPO, and iv) shares underlying warrants (excluding shares offered by selling stockholders).
Prevalence of Equity Grants at IPO	Count of any equity grants made to any named executive officers in 12 months leading up to IPO.
IPO Grants as a Percentage of CSO	Calculated as: $\frac{Total\ shares\ granted\ in\ 12\ months\ leading\ up\ to\ IPO}{CSO\ at\ IPO}$
Dilution at IPO	Calculated as: $\frac{Outstanding\ shares}{FDSO}$
Overhang at IPO	Calculated as: $\frac{Outstanding\ shares + shares\ requested\ at\ IPO + remaining\ available\ share\ pool}{FDSO}$
Initial Equity Pool Request at IPO	Calculated as: $\frac{Shares\ requested\ at\ IPO\ (excl.\ evergreen\ pool)}{FDSO}$



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Data provided by ESGauge

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