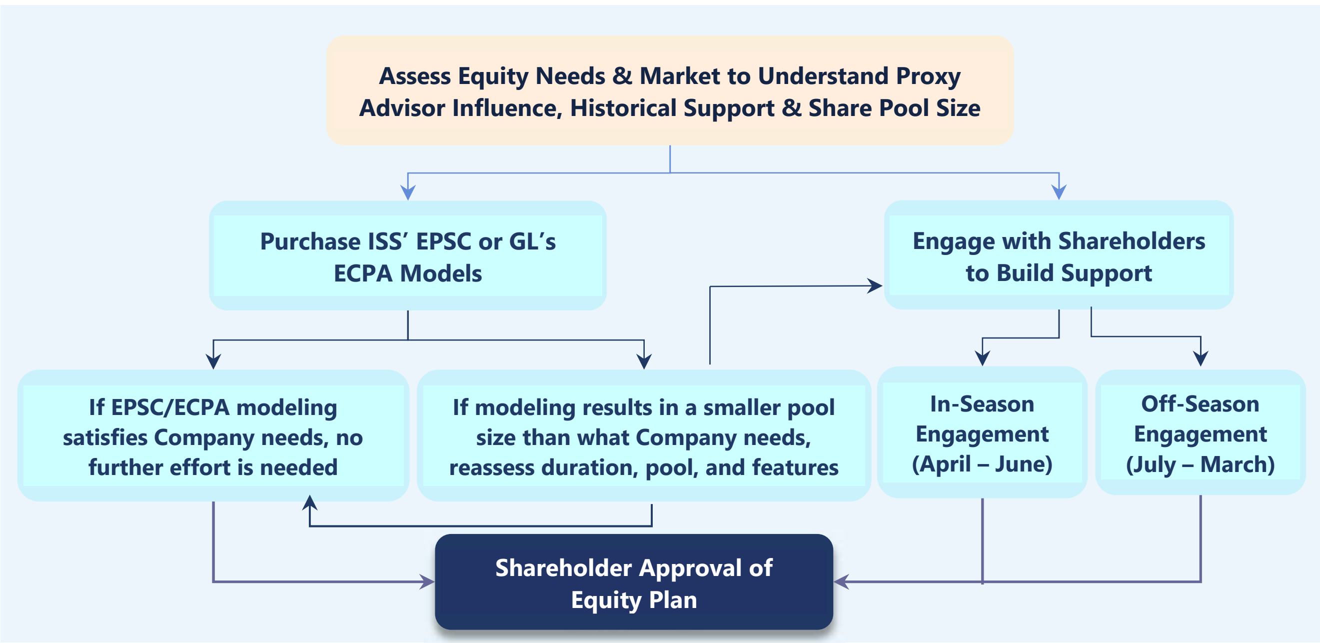
Navigating the Equity Plan Proposal Process at Technology Companies

Balancing Company Needs, Proxy Advisory Firm Policies, and Investor Preferences

Introduction

Gaining support from proxy advisory firms[1] likely ensures that your equity plan proposal is approved with shareholder support. However, the process can be costly, and the resulting proposal may be more conservative than the company's anticipated equity needs. In our experience, support for an equity plan proposal that balances company needs and shareholder interests is achievable regardless of ISS or GL vote recommendations but requires a clear understanding of your investors' expectations. We outline here key considerations and observations from recent technology company equity plan proposals to help you navigate the equity plan approval process. As illustrated below, there are multiple paths to shareholder approval.



Key Considerations

- **Understanding your investors' reliance on each proxy advisory firm** can inform how influential each advisor's equity plan-related vote recommendations are for your investor base. This information can inform which modeling service to purchase, if any, and your potential pathways to approval absent ISS and GL support.

[1] Institutional Shareholder Services (ISS) and Glass Lewis (GL) are the two most influential proxy advisory firms that we focus on in our study.

- **Understanding your historical equity usage, anticipated equity needs and grant practices relative to market, and key investor expectations** is critical to developing a thoughtfully constructed equity request. Understanding how your post-request available pool, equity burn rate, and total overhang compare to industry and index peers provides strong insight into how shareholders may react to the size of your share request.
- **Proactive shareholder outreach and engagement** can inform proposal specifics and potential roadblocks to shareholder support. If your equity program has been an outlier vs. market practices or if there are unique circumstances such as a low historical burn rate relative to projected go-forward needs or significant senior executive turnover, proactive outreach may be more critical to help contextualize your request for shareholders.
- **A company's disclosure** will need to be tailored to each company's specific facts and circumstances. For example, a company with non-linear hiring patterns or significant changes to equity strategy on the horizon will require more in-depth explanation than one with steady-state equity usage and regular cadence to share requests.

Trends from Recent Proposals

Due to the binding nature of the equity proposal vote, companies generally take a conservative approach, as evidenced by only one technology company failure from January 2022 to July 2024.[2] For many, this means seeking a requested increase that is likely to pass muster with proxy advisor models. As a result, in recent years public technology companies have begun to more frequently request additional shares under their equity plans. Several factors have contributed to this trend, including depressed market values, which lead to granting more shares to deliver similar year-over-year values and result in smaller share requests under proxy advisor models.

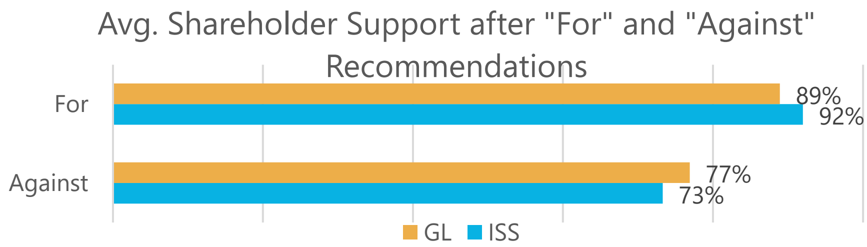
ISS and GL Recommendations and Resulting Impact[3]

It is important to recognize that ISS and GL models differ significantly both in terms of inputs and outputs. For example, GL recommends voting "for" significantly more proposals than ISS.

Across all proposals, ISS continues to have a greater impact on voting support than GL, but the variation in support levels is less significant for equity plan proposals than with Say on Pay:

[2] To understand trends among technology companies, we analyzed 235 equity plan proposals at technology companies in the Russell 3000 and S&P500 from January 2022 to July 2024 (excluding multi-class structure companies).
[3] Statistics reflect 235 equity plan proposals at technology companies in the Russell 3000 and S&P 500 from January 2022 to July 2024 (excluding companies with multi-class capital structures).

- An "against" GL rec. results in a 12 percentage point decline in average support
- An "against" ISS rec. results in a 19 percentage point decline in average support



Ultimately, the actual impact of GL and ISS recommendations varies by company, depending on the composition of their shareholder base and the degree of influence each proxy advisory firm holds over those shareholders. In most cases, equity proposals are likely to comfortably pass if either advisory firm recommends approval.

Need Assistance?

Compensia has extensive experience in assisting companies with equity plan proposals and developing effective strategies for obtaining shareholder approval, from modeling equity needs to communicating with shareholders through tailored shareholder engagement campaigns and effective proxy disclosure.

If you would like assistance in analyzing your equity compensation strategy or negotiating the various pressure points in implementing an equity plan or a share reserve increase, or if you have any questions on the subjects addressed in this Thoughtful Pay Alert, please feel free to contact the author: Will Cockle at 669.721.9352 or wcockle@compensia.com.