



Equity 101

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A little about me

- Master's in Data Science @ UC Berkeley (2015)
- 3 years in Uganda working on off-grid solar and pay-as-you-go financing
- Joined Carta Feb 2019



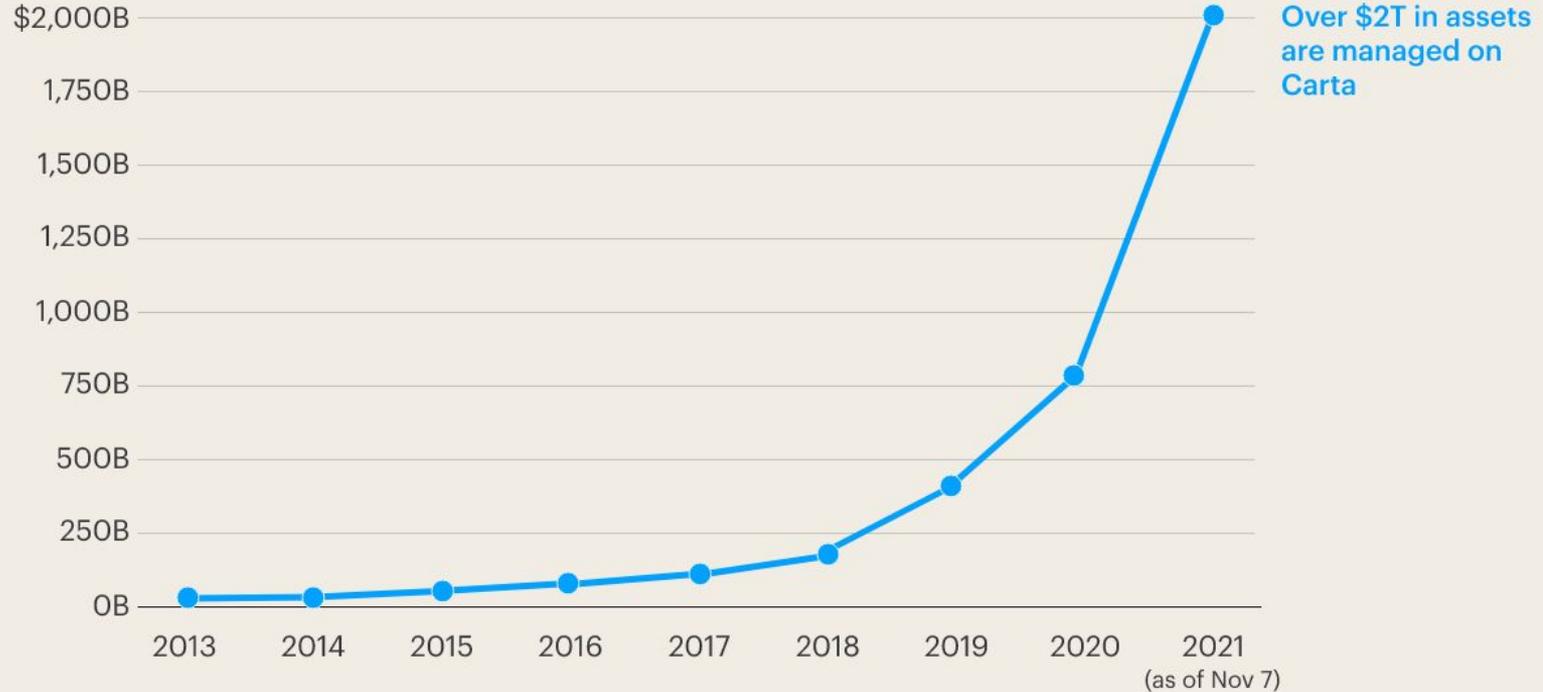
Why Carta?

Cap tables are the
roadmap to wealth & power
in Silicon Valley



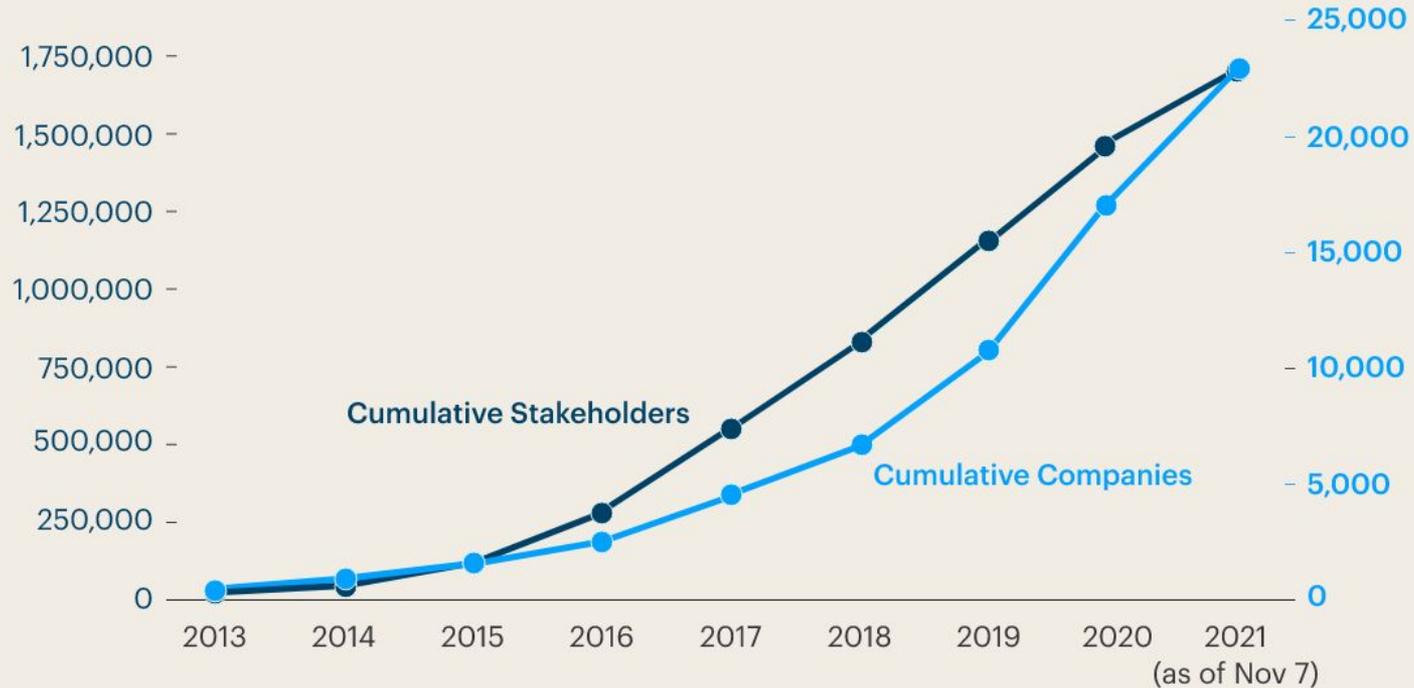
Equity Ownership Managed on Carta

Total valuation of assets managed on Carta, 2016-21



Total Owners on Carta

Cumulative count of stakeholders and companies on Carta's platform, 2016-21



“

“We’d like to see another metric layered into the diversity discussion: the percent of the cap table that belongs to women and URMs. We suspect it’s incredibly small.”

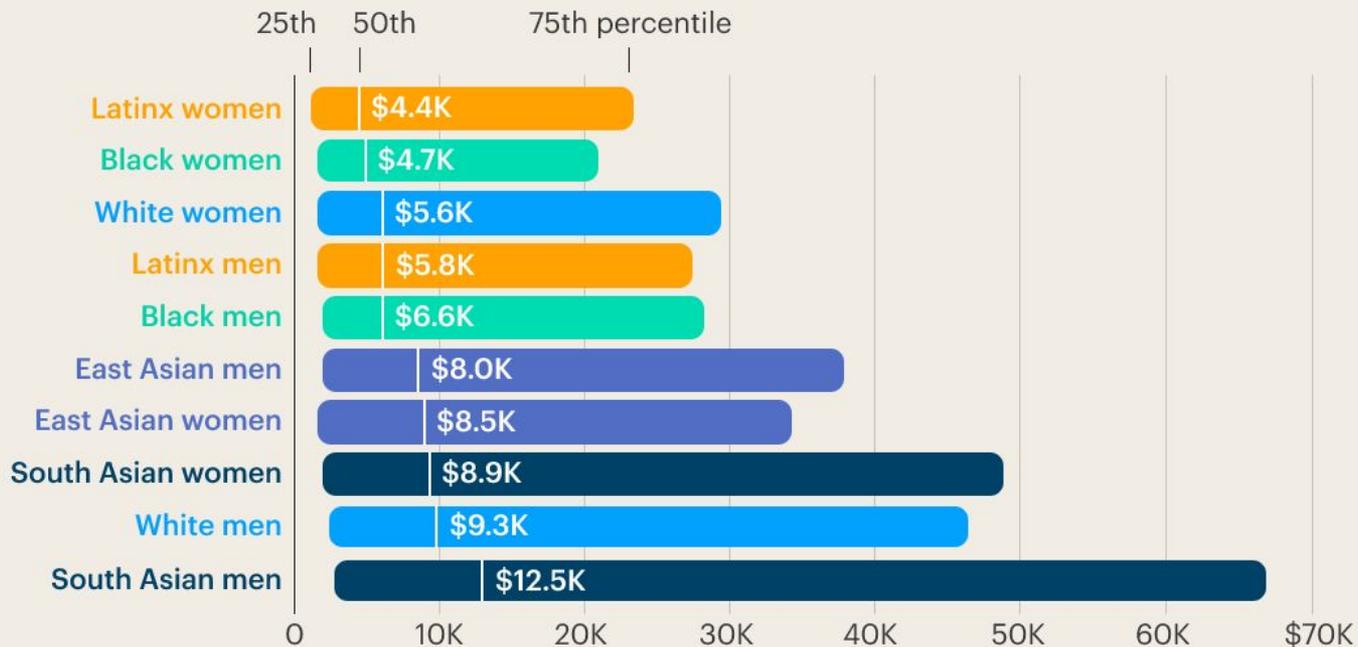
[#Angels](#)

[2018 Medium Post](#)



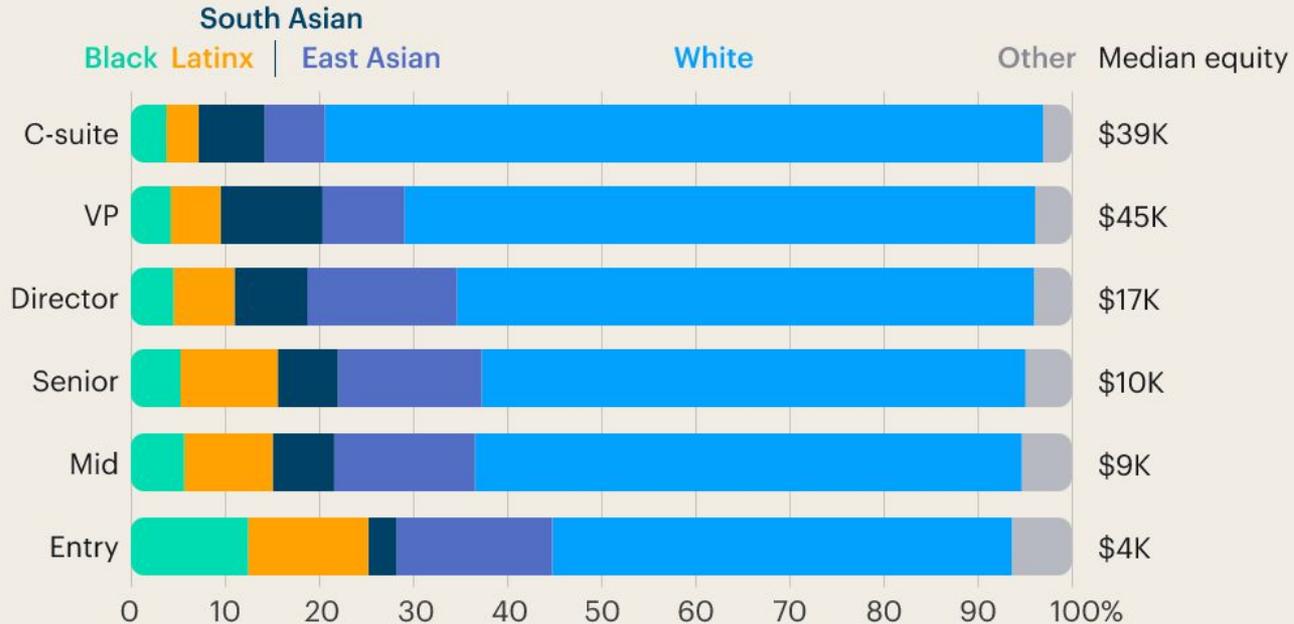
Black and Latinx Women Hold the Least Equity

25th, 50th, and 75th percentile value of equity held by employees by ethnicity, race, and gender, 2016-21



People of Color Are More Likely to Hold Junior Positions

Percent of employees within job levels by race and ethnicity, and median equity held by mid-level employees, 2016-21



You can't win if you don't know
how to play the game



Introducing

Equity 101



Disclaimers

I am not a financial advisor

I am not speaking on behalf of Carta



What is equity?

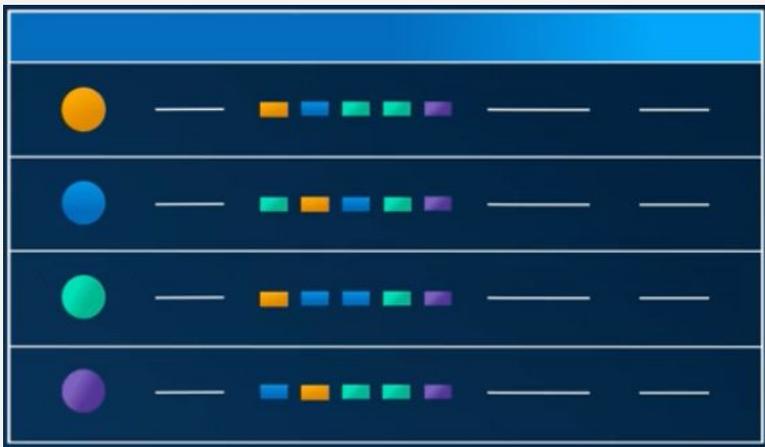
Equity is partial ownership in a company

- Form of compensation
- Can be granted as:
 - RSUs
 - Option Grants
 - Convertible Notes
 - Warrants
 - Many others....
- Can have life-changing results when people get liquidity (IPO, acquisition, tender offer)



What is a cap table?

A document, like a **spreadsheet**, that details who has ownership in a company.



Cap tables track:

1. How and when you'll get your shares
2. How many shares you'll get
3. How you'll be paid out



Why do offers include equity?

Because it helps recruit talent!

Investors require companies to maintain an option pool for employees to recruit the best talent.

If employees own a piece of the company, more likely to:

1. Work hard to drive value
2. Stay in roles longer



Types of equity



Not all equity is created equal

- Equity may all have different rights, preferences, tax liabilities, timelines for receiving shares...
- It's a lot to keep track of!
Which is why we have the cap table



What do you need to know as a...

venture-backed startup employee



Accepting an equity offer

Tells you:

- How many shares you're getting
- How much each share is worth
- How long it will take to "vest" all your shares
- Other important dates

MEETLY, INC. 2021 STOCK PLAN – NOTICE OF STOCK OPTION GRANT



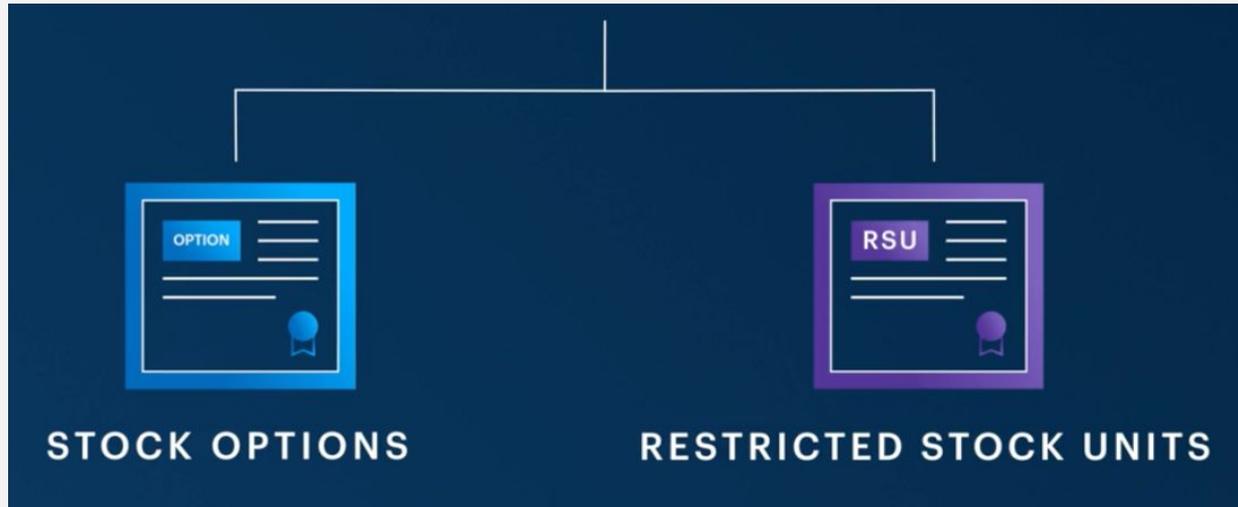
NAME OF OPTIONEE:
IRIS WARD

TOTAL NO. OF SHARES: 4,000	DATE OF GRANT: JAN 1, 2021
TYPE OF OPTION: INCENTIVE STOCK OPTION	VESTING COMMENCEMENT DATE: JAN 1, 2021
EXERCISE PRICE PER SHARE: \$1.00	EXPIRATION DATE: JAN 1, 2031



Main types of equity in startups

Stock options are typical in early stage startups whereas RSUs are typical in later stage companies



Options vs. RSUs

Stock Options

1. You have the option to buy shares (no obligation)
2. Vest on single trigger (usually time-based)
3. Taxed when you buy and/or sell shares
(depending on type of option, i.e. ISO vs NSO)

RSUs

1. You receive shares that you own automatically (if conditions are met)
2. Vest on double trigger (usually time-based with another event, like an acquisition)
3. Taxed when shares vest



Vesting

Earning the right to buy your shares (aka “exercising your options”)

Vesting can determine:

- When you're taxed
- When you can buy shares

Vesting might be structured as:

- Time-based (how long you've been at the company)
- Event-based (Meeting a sales target, company acquisition)



Let's look at Iris' vesting schedule

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Let's look at Iris's vesting schedule



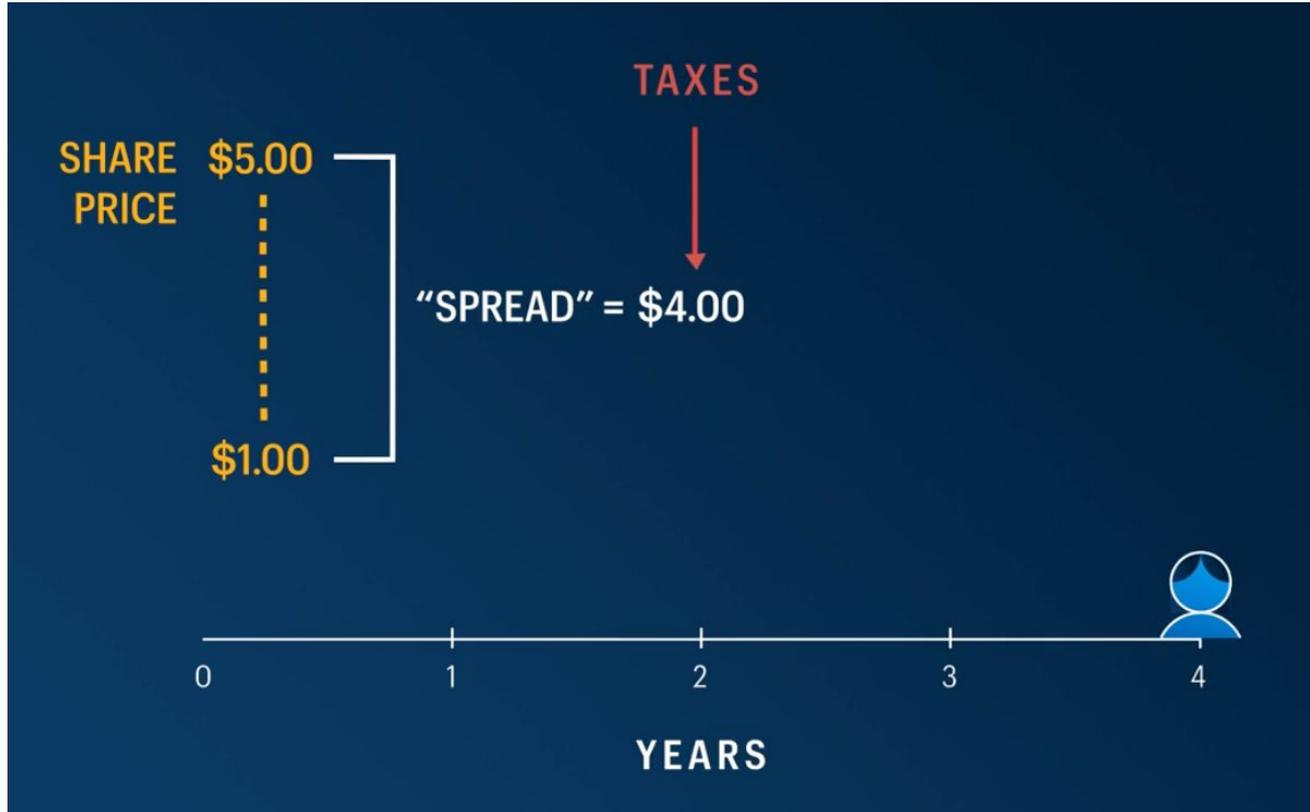
Basics of Exercising

You do not own your options until you exercise

- Exercising = purchasing your stock at a specified price (“strike price”)
- Strike price does not change as the company grows
- Strike is determined by a 409A valuation (often before a fundraise)



How do you profit?



Early Exercising



Exercising options before they vest

- Your company is “doing you a solid”
- Allows you to exercise options when tax implications are way lower
- Much riskier (but potentially more reward)



83b Elections

Absolutely have to file this form if you early exercise.
Must file within 30 days of early exercise.

Tells the IRS to **tax your options *now* instead of when they vest.**



Selling Shares

IPOs

- “Going public”
- Shares become liquid on public exchange
- Restrictions: Usually can’t sell shares immediately (common 6 month lock-up period)

Mergers & Acquisitions

- “Getting bought”
- Another company buys your shares
- Either purchase for cash or pay with stock
 - Employees often get paid last and might walk away with very little

Tender Offers

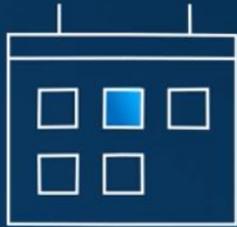
- “Buy back”
- Your company buys shares back from you
- This happens while the company is **still private**



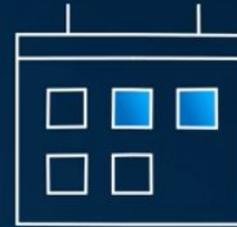
How are equity grants taxed?

Can get preferential tax treatment (long term capital gains) with a qualifying disposition.

To qualify, you must hold your equity for 1 year after exercise and 2 years after the grant date.



1 year
after **exercise**



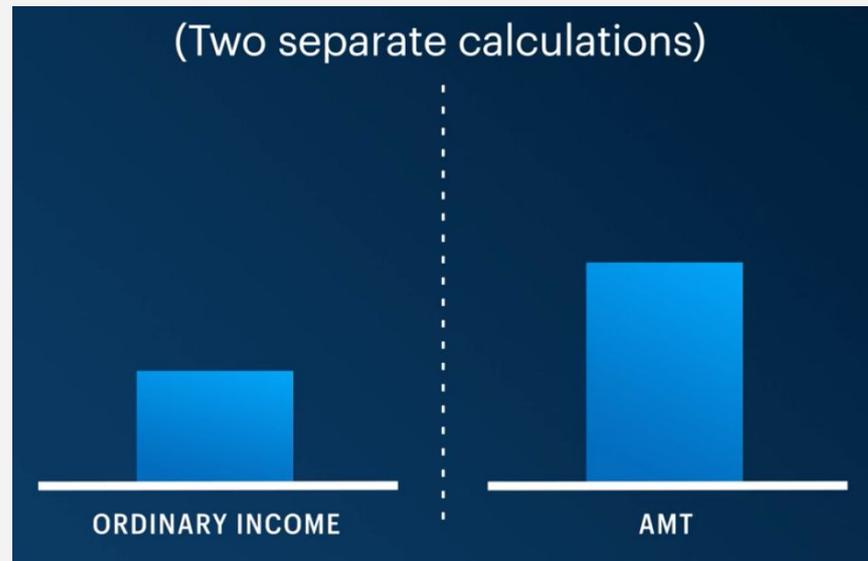
2 years
after option grant date



AMT

“Alternative Minimum Tax”

- If there is a spread on your equity at exercise, the IRS recognizes a gain that is used to calculate AMT obligations
- **You are taxed on equity that you have not sold yet**
- AMT can be used as a tax credit in future years
- Talk to a **financial advisor** if there is a spread on your equity at exercise



What do you need to know as an...

venture-backed startup applicant
with an offer



Getting an Offer

What does the offer letter say? What is it missing?

- Read Carta's "[A Better Offer Letter](#)" post
- If your offer is missing details that help you understand your total compensation, ask your recruiting contact for more information
- Do your homework
 - What is the company's financing history (what series have they raised and at what valuation?)
 - Which investors led the rounds

Compensation summary

ANNUAL SALARY

\$100,000

OPTIONS GRANTED

1,200¹

STRIKE PRICE

To be determined²

PROJECTED PREFERRED

PRICE

\$10.70³

OPTION VESTING SCHEDULE

Monthly for 4 years with 1-year cliff

TOTAL COST TO EXERCISE

1,200 x strike price²

PROJECTED GRANT

NOTIONAL VALUE

\$12,840 = 1,200 x \$10.70⁴



Getting an Offer

What questions should you ask (nicely!) to assess an offer?

- “How much is this going to cost me to exercise and what % fully diluted does this represent?” (strike * number of shares)
- “What is my vesting schedule and can I early exercise?”
- “What is the current strike price, projected preferred price? What post-money valuation are these projections based on?”
 - Judgement call - do YOU think the company can achieve the post-money valuation their quoting?
- “What is the company’s exit strategy and do you allow tender offers for early liquidity?”



Negotiating an Offer

Always negotiate!

- Best method, as with salary, is to have competing offers on-hand
- Equity offers are NOT directly comparable between public and private companies
 - You expect much higher risk and potential multiples at small startups
- Great post from an engineer on how they [negotiated their total compensation](#) in Silicon Valley



Negotiating an Offer

How to think about your levers

- Salary
 - High-growth companies are least concerned with salary negotiations. It's peanuts compared to equity value. Roles are typically banded by job area & level for fairness.
- Equity
 - Equity grows exponentially so is more valuable to high-growth startups. Negotiate, but companies will expect you to perform at a level that warrants your shares. % ownership is less standardized at present, so depends on leadership strategy / principles.
- Title
 - Be careful negotiating this. If you accidentally mislevel yourself in negotiations, this has the most risk of negative consequences for you. Consider asking about internal promotion process instead.



Negotiating an Offer

How do you know if you got a good offer?

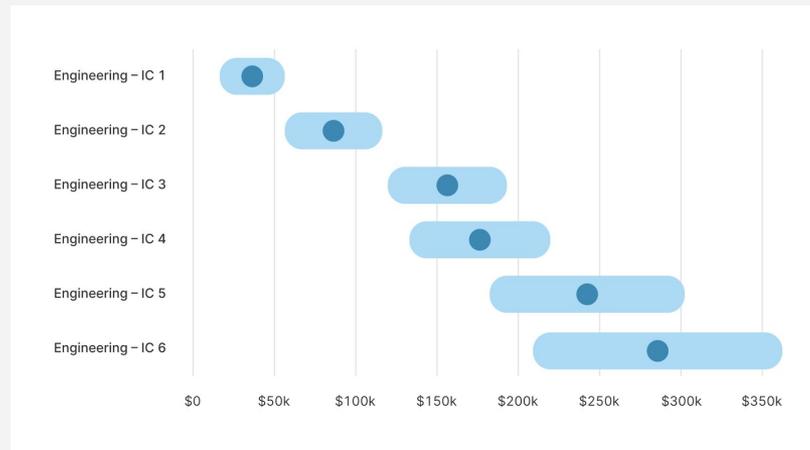
- Negotiate in terms of fully diluted % or (projected) notional value
 - Shares are an apples to oranges number across offers
 - Think about multiples. How many multiples of your strike would you need to see a great payout. 5x? 10x? Do you think it's realistic?



Hot Tips

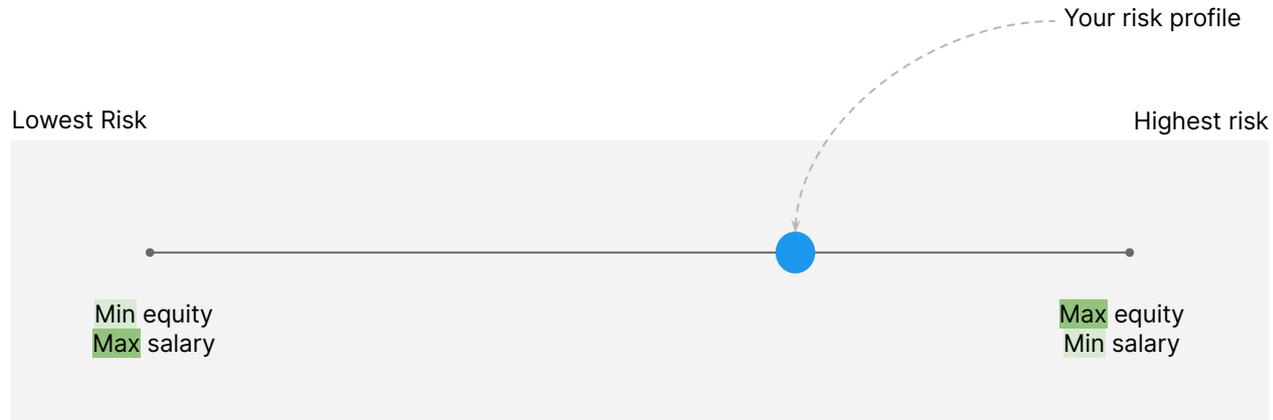
Benchmarking your offer

- levels.fyi can be a resource to benchmark your offer, but lots of inaccurate info out there
- Quick plug: we're building [Carta Total Compensation](#) to make equity compensation more transparent and deterministic



Hot Tips

Growing trend in the market: total compensation sliders



Additional Resources

Interested in learning more about equity?

- carta.com/equity/learn - Carta's Equity 101 course
- cartaequitysummit.com - Site for Carta's Annual Equity Summit; hosts reports from 2018-2021
- medium.com/building-carta - Carta's engineering blog



