

MARKET ANALYSIS – SHARE RESERVE POOLS AND EQUITY AWARDS

The allure of equity, and the potential of a lucrative liquidity event, are what draw so many executives to join financially-sponsored businesses. Leaving the resources of a large, mature business can be extremely difficult, but for those who can operate without the large team and support network, they may (with great strategy, execution, and a little luck) receive a payout far beyond the compensation they may receive in the broader market.

Current operating company executives, and those interested in joining PE-sponsored businesses often ask what the market will bear as it relates to equity awards. Below is a synopsis of the market trends in Southern California as it relates to equity investments, and equity awards. (*synopsis based on the following approximate PE firm investment criteria: revenues between \$25MM and \$250MM; investment of \$15MM to \$55MM of equity capital*)

SHARE RESERVE POOLS

- Generally, PE Firms reserve share pools between 7%-15% of fully diluted equity for management, of which 10%-20% is held for future grants.
- Grants for the CEO typically represent 25% of the share reserve (dependent, however, upon the CEO's overall share ownership from previous personal investment).

MANAGEMENT INVESTMENT

- Typically, management who is staying on following an acquisition by PE is expected to invest a portion of their sale proceeds into the new business.
- Most executives are called upon to invest between 25%-50%; with the CEO typically investing 50% or more.

AWARDS AND VESTING

- We typically don't see financial sponsors granting equity below the first two levels of management.
- The majority of firms award appreciation-only awards, with most plans using stock options or profit interests as the primary incentive.
- The majority of funds use a combination of performance-based vesting and time-based vesting, with a heavier reliance (nearly 3/4 of the award) on performance-based vesting. This mirrors public company equity structures.

EQUITY AWARD (as percentage of fully diluted shares)

- CEO: 2.25% - 5.0%
- COO: 1.5% - 2.5%
- CFO: 0.75% - 1.5%

*McDermott & Bull is a full-service executive search firm with a dedicated **Private Equity Practice** serving institutionally backed operating companies throughout California. The Firm's Private Equity Practice Group, led by **Chris Bull** and **Brandon Biegenzahn**, partners with investor groups, boards and senior leadership teams to align talent strategies with business strategies at the executive management level. Clientele include the likes of The Riverside Company, Blackrock Kelso, ClearLight Capital, Partners Group, Riordan Lewis & Haden, and Triton Pacific Capital Partners, to name a few.*