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Equity compensation plans: shaping a successful proposal

FW discusses equity compensation plans with Donald Cioffi, Stephen Freyman, Etelvina Martinez, Reid Pearson and Michael Vogeles at Alliance Advisors.



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Donald Cioffi is a managing director on the corporate governance team at Alliance Advisors. He joined the Alliance Advisors corporate governance team in 2022 from the Proxy Advisory Group, where he had more than 10 years of experience working on equity compensation plans, say on pay and other proxy proposals. He graduated from the University of Delaware in 2007 with a bachelor of science in finance.

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Etelvina Martinez has been in the field of corporate governance since 2003 and has worked with issuers and institutional investors in the US and several international markets. She began her career as an analyst at Institutional Shareholder Services advising institutional investor clients on proxy voting decisions, including proxy fights and other contested situations. Following this, she spent seven years at CtW Investment Group working closely with public and union pension funds to engage companies on a variety of ESG practices such as executive compensation, human capital management and shareholder rights.

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Michael Vogle is a multilingual professional with 25 years of experience providing consultative services on the design and disclosure of governance and compensation topics within global corporate filings. His expertise lies in analysing executive and director compensation structures, evaluating governance practices, and modelling proxy voting trends.

FW: What are three key actions a company can take during the planning phase to

maximise shareholder support for an equity compensation plan proposal?

Freyman: First, understand your shareholder base. You will need to make a map of what the



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Make sure your proxy statement tells your story as to why you are asking shareholders to approve shares for your equity plan.

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influences are that determine how your shareholders will vote – factors such as dilution, burn rate, proxy advisers and so on. Second, build your plan within those limits. This may be choosing a new share number that matches the maximum dilution allowed by your shareholder's specific guidelines, or that a proxy adviser will likely support. Lastly, reach out to your shareholders. Establishing a relationship with your top holders before you need their vote will give you a strong platform to talk again during the proxy process.

FW: What are the primary factors institutional investors and proxy advisers consider when evaluating an equity plan proposal?

Cioffi: Dilution, burn rate and plan features are primary factors. While dilution and burn rate are the most important factors, it is important to remember that plans that allow for repricing or contain 'evergreen' provisions and other problematic 'features' are likely to face significant blowback from institutional investors and proxy advisers.

FW: What are three common missteps companies should avoid during the planning phase of an equity compensation plan proposal?

Vogele: We find one of the most common missteps that typically occurs when a company has an

older equity plan, established more than seven years ago, is where the company proposes to amend the existing plan rather than create a new plan. Frequently, legal provisions and best-market practices change over the years, and having a newly designed plan document is normally easier than finding and fixing the mistakes from the past. In a similar way, should a company be updating its plan documents, one common misstep is not removing evergreen provisions or single trigger conditions for change in controls, something many investors see as red-line issues. Another common misstep that occurs when implementing a new equity plan is not cancelling unawarded shares from the previous authorisation. New plan shares have new guidelines, and keeping the old, unawarded shares that may not get granted, just hampers dilution calculations unnecessarily.

FW: What strategies can a company deploy to address potential investor concerns or mitigate risks associated with an equity plan proposal?

Martinez: In instances where a company anticipates opposition from one or both proxy advisers, it is imperative to reach out to shareholders directly to underscore the importance of their vote in securing approval for the equity plan. These conversations should be informed by a clear understanding of each investor's policies, whether

they prioritise dilution thresholds, plan cost, historical burn rate or a combination of these and other factors. It is equally important to assess how closely each shareholder aligns with proxy adviser recommendations versus relying on their own internal guidelines. Some may follow Institutional Shareholder Services (ISS) or Glass Lewis closely, while others apply proprietary criteria. Because each investor evaluates equity proposals through a distinct lens, outreach should be tailored to address their specific concerns and decision drivers. While technical metrics such as burn rate or dilution are important, they are not the sole factors shareholders consider. Overall, messaging for shareholders should emphasise the strategic role the equity plan plays in attracting, incentivising and retaining key talent, and how equity grants are aligned with the company's long-term business objectives. The argument that the equity plan is a tool to drive performance can be especially persuasive when the plan benefits a broad employee base, not just the named executive officers. Finally, emphasise how the board actively stewards the plan by highlighting any shareholder-friendly features it may contain, such as minimum vesting requirements or double trigger change-in-control provisions, and takes a disciplined approach to dilution. These elements demonstrate a commitment to responsible governance and

alignment with shareholder interests.

FW: How critical is obtaining Institutional Shareholder Services support for the success of an equity compensation plan proposal?

Martinez: Having the support of ISS is not critical. Certainly, having ISS support your plan is helpful, but it is not essential to secure shareholder approval of your plan proposal. Roughly 99 percent of plan proposals pass despite ISS recommending against approximately 30 percent of proposals. Planning a successful vote outcome begins with an analysis of your shareholder base. Three factors to consider are, firstly, the makeup of your shareholder base, in terms of retail investors and institutional investors. Secondly, for your institutional base, how many are influenced by ISS and Glass Lewis, and how strictly these shareholders follow those firms. And thirdly, which investors follow their own internal guidelines and what are the equity plan guidelines of these investors. Once you understand your shareholder base model, undertake several vote projections with each investor, considering factors like burn rate, voting power dilution and plan duration, among other factors. If you identify any potential pressure points with these factors, consider engaging with your investors before the proxy is filed. Do this



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analysis before signing up with ISS's consulting arm.

FW: What role does transparent communication and stakeholder engagement play in securing approval for an equity compensation plan?

Pearson: Make sure your proxy statement tells your story as to why you are asking shareholders to approve shares for your equity plan. For example, your burn rate may be considered high by some investors. Perhaps you have increased headcount to focus on a new business line and provided these new employees with equity grants – make sure the proxy explains this. Many investors look at thousands of proxies every year, so make your rationale for why they should support the plan proposal easy for them to find. Also make sure to explain how your equity plan proposal ties to your overall business strategy. At many investors, it will be a stewardship or governance team that makes the vote decision, and they may not be as familiar with the business strategy as the investment side. This will be important context for them. Shareholder engagement can also be an important step in maximising support for your plan. As you are in the planning phase and you identify some potential pressure points, such as high voting power dilution, for example, you may want to set up some time to engage with your holders before you file the proxy. The feedback can be important in

your proxy disclosure. Of course, you will want to follow up with your holders after the proxy is filed.

FW: How can benchmarking against peer practices and market norms strengthen the credibility and competitiveness of an equity plan proposal?

Cioffi: An understanding of peer practices and market norms is crucial for most companies that have a significant institutional shareholder base for equity plan proposals. Dilution and burn rate outside of peer and market norms can be problematic for advisory firm recommendations and individual institutional investors' guidelines. Many of ISS's plan features have become widely accepted over the years since the 'Scorecard' has been implemented, however all are not widely accepted. The most common equity plan feature is prohibiting dividends on unvested awards, and by far the least common is limiting the discretion to accelerate vesting. ■

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