Pearl Meyer

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When New Hire Equity Grant Requirements Exceed Your Guidelines



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The competition for talent in the life sciences industry is as high as it's ever been. With the advances in biotechnology and drug development processes, ensuring the attraction and retention of the best people to build or sustain competitive advantage is an ongoing assignment.

We work with many life sciences clients to develop annual and new hire equity grant guidelines to facilitate that task. Annual equity guidelines are typically tiered by employee level, with the midpoint of the range generally tied to the market median or the company's targeted pay positioning strategy. New hire guidelines are then typically communicated as a multiple—often 1.5x to 2x—of the annual guideline. But what happens when the new hire guidelines are not sufficient to accommodate what's needed to bring someone in who would be leaving significant equity behind at their current employer?

We see this issue arise most frequently among non-c-suite employee levels (i.e., SVP and below) where the breath of talent, experience, and potential is widest. Competing firms working hard to identify and retain their next generation of leaders will proactively seek to preserve whatever holding power is in place for their top performers, and will likely add to it over time. This means that in order to attract high caliber talent away from a competitor, a premium must sometimes be paid which "breaks" the new hire guidelines that the company has in place.

In these situations, conduct some straightforward due diligence to arrive at an overall new hire award which comprises both the initial inducement (e.g., 1.5x or 2x a normal new hire award, depending on when during the fiscal year the offer is being made), plus a "make-up" amount tied to the realizable value that the candidate would have received if they stayed with their current employer over the next one to two years. It's often a sensible strategy to match the award vehicles like-for-like, so that forgone realizable value in restricted stock units (RSUs) is replaced with RSUs, or forgone value in options is replaced with options. As for vesting schedules, mirroring what was in place on their forfeited equity is a possibility, although a new four-year vesting term to maximize the retentive power of the awards provides additional benefit.

About the Author

Rob has 15 years experience in executive compensation and finance, specializing in life sciences and technology—especially emerging, high-growth companies navigating M&A and IPOs.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.