STATE OF EQUITY & OWNERSHIP REPORT 2022

Ledgy

Contents

Introduction

We are in a renaissance period for equity.

The tech explosion is incentivizing talented people to invest their time, ingenuity and energy in innovative startups. One of the main attractions for these employees is the chance to own a stake in the success of the business.

Increasingly, founders and companies around the world view equity as a competitive differentiator, instead of a hassle or a sunk cost. Leaders are investing time in developing forward-looking equity and share ownership strategies fit for modern organizations.

Overall, it appears that companies are catching up with the research, which indicates that the benefits of granting share options to employees hugely outweigh the cost of the share plans themselves.[1] Studies are clear in their conclusions: employees who own shares are more motivated and likely to stay with their employers for longer.[2]

And as equity becomes a mainstream part of compensation packages, early-stage companies will have more power in the battle for top talent, particularly in regions like Europe that have up until now moved more slowly than startups in the United States.

Even as share ownership is becoming more important, though, some companies aren't catching up with this shift in mindset. Our survey reveals, for instance, that almost one in 10 founders who raised money in the previous 12 months said they spent no time at all thinking about or discussing employee share options.

When greater employee ownership has so many positive effects for companies and teams alike, even a small proportion of companies failing to evolve is not good enough. In 2022, we call on all stakeholders – including investors – to ensure that every company seeking investment spends time discussing employee share options during the fundraising process.

To create this report, we surveyed more than 1,000 founders, executives and employees of companies across 12 different countries in Europe and beyond. The full report contains many more insights that could make a real difference for growing companies, employees and investors. We hope you enjoy reading the report, and we wish you a successful and enjoyable 2022.

Y.S.

Yoko Spirig
CEO, Ledgy

Summary

Some founders think share options don’t matter. Employees disagree.

A third of founders said that offering employees share options would make little or no difference to their motivation. However, almost three quarters of the employees that do have share options in their company say that their options make at least some difference to their motivation.

7% of founders who raised money in the last 12 months didn’t discuss employee share options at all.

A small percentage of founders are potentially damaging employee satisfaction and holding back their own growth prospects.

The US is still more generous than Europe on employee equity.

More than a third of companies in European countries set aside less than 10% of total equity for employees. Compared to the US and Israel, European companies are three times more likely to give employees 5% or less of all equity.

‘No demand’ for shares from employees? Really?

Half of founders that don’t offer share options to employees said that the main reason was a lack of demand from employees. But a comfortable majority of employees without share options said that having share options would make a material difference to their motivation. Something is getting lost in translation...

Fundraising is still hard to manage, even in a boom year.

Less than half of tech companies who went to market seeking investment in 2021 raised the amount of money they’d originally targeted. (Almost a quarter of companies raised more than they’d planned.)

PART 1

What does a record-breaking fundraising climate mean for equity?

When it came to funding and investment, 2021 broke every record in the book. There is more capital in the early-stage startup ecosystem than ever before. But will all this money result in material changes to the fundraising process?

Looking back to 2021

In the first three quarters of 2021, companies raised nearly half a trillion dollars – $454 billion in just nine months. In Q3 alone, private tech companies from seed to pre-IPO raised $160 billion, the highest total for a single quarter on record.[3]

And barring any new systemic crises, it is unlikely that the funding taps will suddenly be turned off. Venture capital (VC) investors, who provide the majority of investment into private companies, are attracting more and more capital from their limited partners (LPs). In the United States, for example, VCs pulled in $96 billion from LPs in the first nine months of 2021.[4] These funds will be channeled into innovative and fast-growing companies all over the world. For startups looking to partner with investors, 2022 could bring just as many opportunities as 2021.

So how have the enormous amounts of capital flowing into and through technology companies affected the fundraising experience?

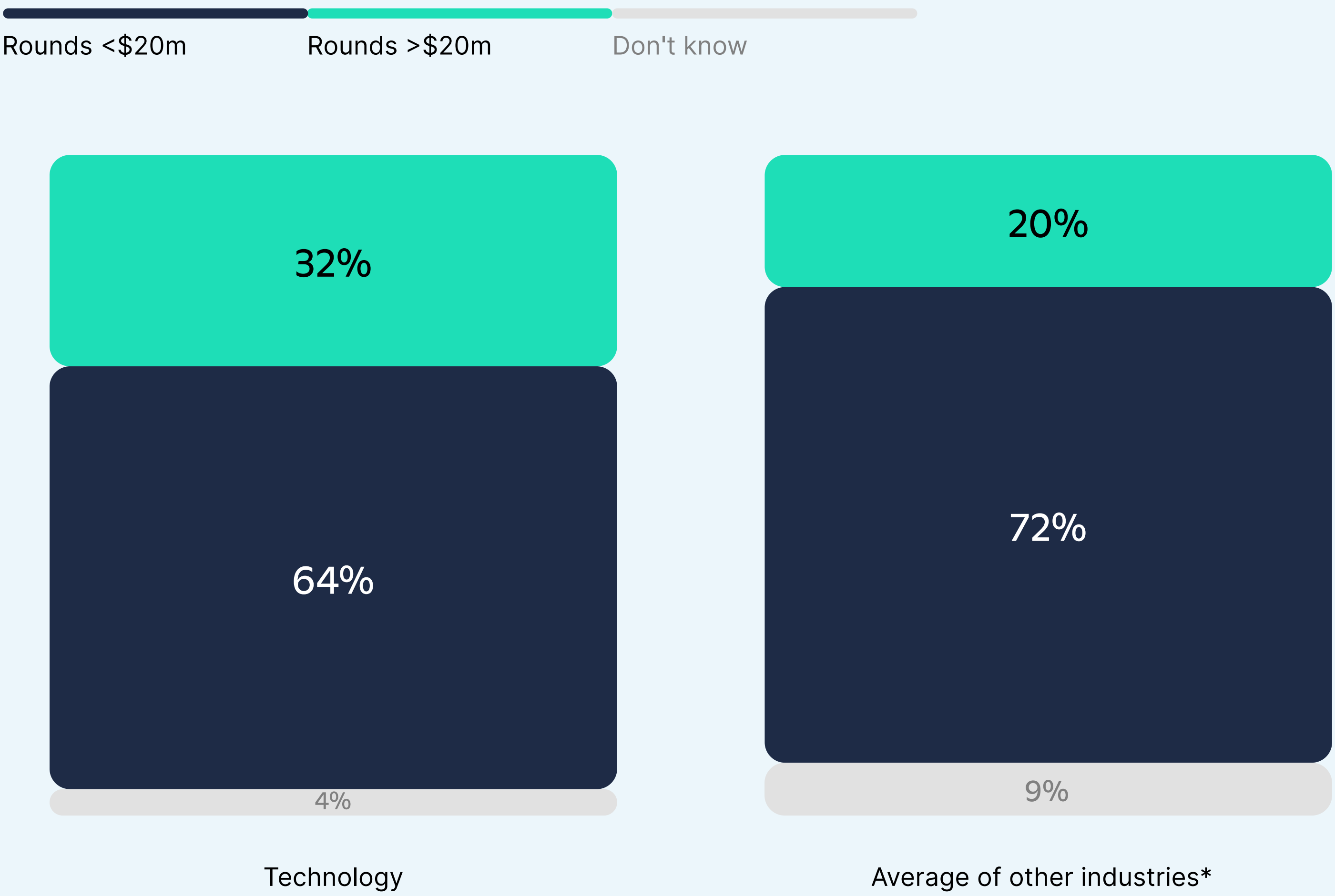
Show me the money

We asked employees of companies in different industries about their fundraising activity in the previous 12 months. 46% of respondents said that their company had raised money in the last 12 months. We also asked those respondents the size of the rounds their companies had raised.

On average, the rounds raised by technology companies were larger than those raised in other sectors. Of the technology companies that raised money in the previous 12 months, almost a third (32%) raised more than $20 million, compared to an average of just a fifth (20%) of companies in other sectors.

Does size matter? Tech companies raised bigger funding rounds than firms in other sectors

Question to founders, executives and employees of companies that had raised money in previous 12 months: When your company last raised money, how much money did you raise?



* Industries surveyed include: Financial Services, Healthcare, Industrial, Utilities & Manufacturing, Marketing/Advertising/Design, Retail & Consumer Staples, and Other.

Fundraising: a finely tuned process, or a scramble for cash?

As well as the amount of money raised, the way funding rounds are executed makes a big difference. Thoroughly planning fund-raising activity, and efficiently managing the fundraising process, creates a competitive advantage for founders.

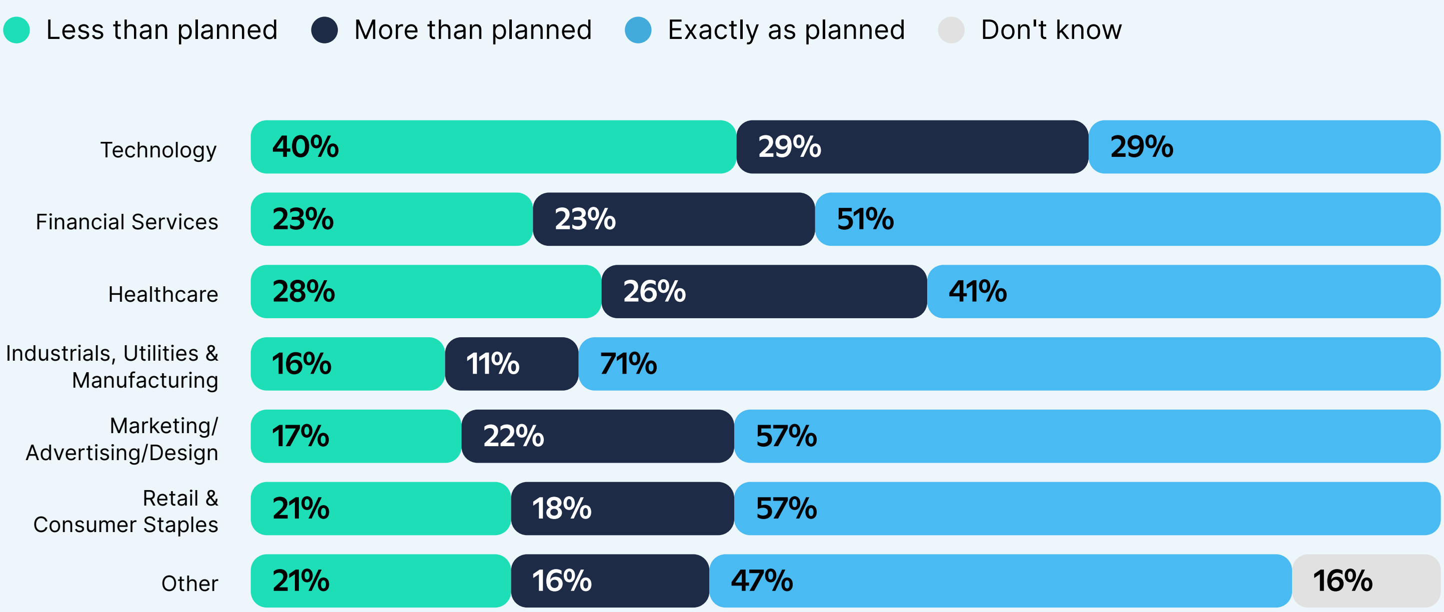
We asked respondents who raised money in the previous 12 months how the funds they secured compared to the amount of money they set out to raise. In all, 71% of industrials, utilities and manufacturing companies raised exactly what they planned to raise, higher than any other sector.

In comparison, tech funding was an unpredictable rollercoaster. 29% of tech companies raised more than they originally intended to, a higher proportion than any other sector. But surprisingly, 40% of tech companies actually raised less money than they set out to raise. In all, less than a third of tech companies raised the amount they wanted to when they started fundraising. Reading the technology press, one might think that raising money is quick and pain-less, with scaling companies closing massive rounds seemingly overnight. But behind the headlines, it isn't quite so smooth.

Even in a record-breaking year, a significant number of tech businesses didn't meet their funding goals. Raising money from investors demands rigorous focus and endurance, even when the market appears to be awash with cash.

Fundraising outcomes were harder to predict for tech companies

Question to founders and executives of companies raising money in previous 12 months:
How did the money you raised compare to the amount you set out to raise?



> "Even in a record-breaking year, a significant number of tech businesses didn't meet their funding goals."

ACTION FOR 2022

Proper preparation prevents poor performance

Before kicking off a fundraising process, know which investors are top of your priority list. In companies beyond Series A stage, having a battle-ready data room and understanding your most important metrics are critical. Be clear about how much money you are looking for, and what you are going to do with the capital. And organize your cap table, giving new investors clarity as to who owns what, pre- and post-money.

In 2021, tech companies found fundraising difficult to predict. Setting achievable but ambitious goals, and working out an optimal process ahead of time, could help make fundraising a little smoother in 2022.

Fundraising is only part of the picture, though. While raising capital and scaling operations, leaders must work out how to distribute equity fairly to all stakeholders. And despite some progress, when it comes to managing equity and share ownership, there is still work to be done.

PART 2

Equity and share ownership: the heat is on for below-par companies

The trail blazed by Silicon Valley has helped normalize the idea of giving employees a stake in the success of their companies. Although ecosystems around the world are making progress, there is still much more we can do to raise awareness, improve communication internally and with external stakeholders, and drive lasting cultural changes.

Europe still has catching up to do

It won't be news to anyone working in tech that Europe has lagged behind the US when it comes to employee share ownership. Our survey indicates that despite some bright spots, employees in European companies are still generally granted a smaller piece of the pie than teams in other centers of tech innovation.

In comparison to the US and Israel, European countries are not so generous when it comes to employee share ownership. More than a third of companies in European countries (36.4%) set aside less than 10% of total equity for employees.

Ledgy's own research suggests that European startups usually offer employees between 10% and 15% of total equity.[5]

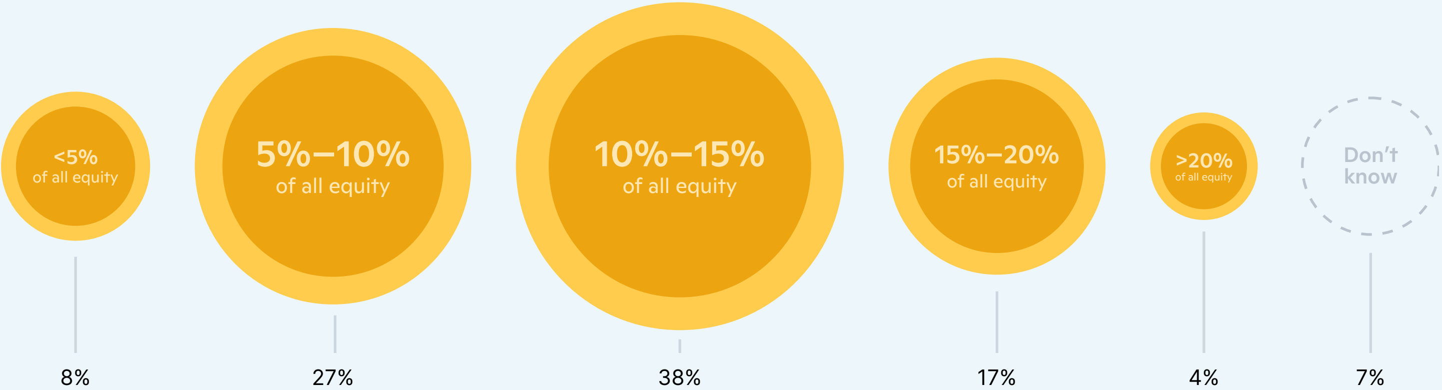
But some companies are even less generous: European companies are three times more likely to give employees 5% or less of all equity when compared with their peers in the US and Israel.

Some European countries do stand out. In the Netherlands, almost a third of companies offered more than 15% of total equity to employees. But on the whole, the structural issues highlighted by initiatives like Not Optional[6] and other advocates persist.

Despite some promising policy work being done in different European countries, fragmented regulatory frameworks, business cultures and currencies across Europe are all playing their part in holding startups back, particularly the companies that have different European bases.

Employees are most commonly offered 10 to 15 percent of the company's equity

Question to founders and executives and employees of companies offering share options to at least some employees: What proportion of your company's equity is reserved for your employee option pool?



Benchmarking tech against the rest

Make no mistake, though: compared to some industries, employees in the technology sector are in an advantageous position. Perhaps because of pioneering companies – predominantly in the US – that have demonstrated the benefits of opening up access to equity, employee option pools are an active and increasingly mainstream part of the ownership conversation.

When we asked employees whether they owned shares or share options in the company they worked for, more than two thirds of those employed in technology companies (68%) said yes – a higher proportion than any other industry we surveyed.

Wider share ownership also means that tech employees without access to options increasingly understand what they're missing out on.

We asked employees who didn't own shares or share options how their motivation would change if they owned a stake in their employer. Nearly three-quarters of employees in technology companies (73%) said that being granted share options would make at least some difference to their motivation at work, while on average, only six in 10 employees working in other sectors said the same.

So why are some companies failing to move with the times and give employees a fair stake? Our survey has identified a crucial disconnect between what founders think employees want, and what they actually want.

Equity for all? Some founders aren’t catching up

All companies prize open, candid communication around the team. But when it comes to equity, it seems that crucial conversations between senior leaders and the rest of the business just aren’t happening.

We asked founders of companies that didn’t offer options to all employees why they hadn’t opened up access more widely. We learned that a substantial minority of founders mistakenly believe that share options don't make a difference for employees.

A third of founders (33%) said in our survey that offering employees share options makes no difference or not much difference to their motivation. However, almost three quarters (72.3%) of the employees that do have share options in their company said that their options make at least some difference to their motivation. Share options make a real impact for employees, but a significant proportion of founders aren’t getting the message.

ACTION FOR 2022

Better communication, from both sides

Many founders think that there may not be demand for equity stakes from their employees. Our data suggests, though, that if all employees owned share options in their businesses, they and their employers would feel real benefits.

Founders and leaders in growing businesses need to be proactive and engaged when discussing share ownership. They shouldn't assume that because employees aren't shouting about equity, they don't need or want more ownership. Meanwhile, employees should make it clear if they feel they would benefit from share options. That can help start a constructive discussion with positive consequences for all parties.

The pressure will ramp up on companies that don't give employees a piece of the pie

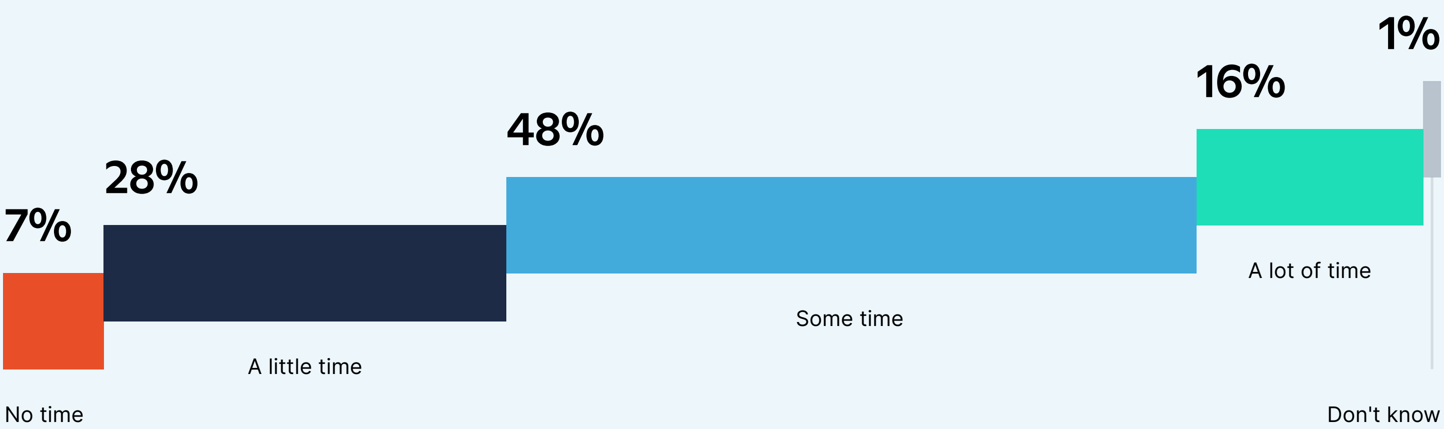
The number and size of tech funding rounds, and the amounts of money being channeled to early-stage companies, was a prominent theme in 2021. And VCs are still raising big new funds to continue investing in high-growth companies. But when founders and investors come to the table for negotiations, are employees getting a fair deal?

We asked founders of companies that had raised money in the previous 12 months how much time they spent considering employee options during the fundraising process. While a healthy 64% of founders spent at least some time thinking about employee equity, 7% of founders admitted spending no time at all considering their employees' share options.

Even though more companies are adopting forward-thinking share ownership plans, there is still an ongoing piece of work for the whole ecosystem: educating stakeholders and advocating a fundamental best practice of opening up ownership to all full-time employees wherever possible. As employee ownership becomes more mainstream, the companies that are still holding out and reserving options for founders and investors will feel more and more pressure.

Nearly one in 10 founders and CEOs spent no time thinking about employee shares when raising money

Question to founders and CEOs of companies raising money in the last 12 months:
While you were raising money, how much time did you spend considering employee share options?



ACTION FOR 2022

Ask questions, start conversations

Investors: in 2022, we are challenging you to bring employee share ownership to the table in your conversations with companies. We want you to ask two key questions of all your prospective investments, whether or not they currently offer employees share options:

- Have you presented your full cap table to your employees, either in a company-wide discussion or as a permanent resource?
- If your company performs as you expect in the years ahead, do you feel that the equity you are offering to employees is a fair reward for their efforts?

When it comes to equity and ownership, these questions bring transparency and fairness to the table. We hope that these questions will help foster open and productive discussions, and shine a light on the star performers and late adopters in your ecosystems.

> "Most companies understand that employees are entitled to at least open up a conversation if they feel their salary doesn't reflect the value they add to the business. Why isn't the same true for equity?"

As more employees come to experience and appreciate share ownership for themselves, we also expect talent to gravitate towards the companies offering meaningful equity as part of their compensation offer for candidates. This puts late adopters – the companies still unconvinced that opening up equity to employees will make a difference – at an increasing disadvantage when it comes to hiring.

Most companies understand that employees are entitled to at least open up a conversation if they feel their salary doesn't reflect the value they add to the business. Why isn't the same true for equity? Setting new expectations for equity should be at the heart of companies' goals for 2022. Compensation discussions should be cascaded down from the boardroom to functional heads by the CEO. Where appropriate, function heads should be empowered to have equity-focused discussions with their team members, rather than annual awards being decided privately and unilaterally by the founders or C-suite.

It is rightly up to company founders and leadership teams to set the agenda for share ownership. But that doesn't mean other key stakeholders shouldn't make their voices heard, and it can't just be left to employees to plead their case. Investors should play their part too. As well as making good business sense, broadening access to share ownership is simply the right thing to do.

Final thoughts

In our inaugural State of Equity report we have tried to shine a light on the good and the not-so-good of share ownership. Our survey uncovered insights into how founders and employees think about equity, as well as how far certain markets still have to go to broaden access to share ownership. We have provided action points for companies, employees and investors to continue evolving best practices as we move into 2022.

In producing a recurring touchpoint for stakeholders invested in improving equity best practices, we hope to build on the great work already being done in the European tech ecosystem to raise awareness of equity and ownership, including by campaigning founders such as wefox's Julian Teicke.[7] As more employees are granted share options over the months and years ahead, they need resources that demonstrate what good – and bad – looks like.

We look forward to seeing how the trends we've highlighted continue to evolve in next year's report. Until then, what did we miss? And what would you love to see next year? Let us know what you think by getting in touch. We'd love to hear from you.

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Email **contact@ledgy.com**

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Appendix

We would like to thank all our customers (and their employees) for the many constructive conversations that helped us define our focus areas within fundraising and share ownership. Thanks also to everyone from different parts of the ecosystem who provided their feedback as we refined the report. And of course, we need to thank our survey and design partners for their valuable input.

About the survey

Ledgy commissioned The Marketing Eye Limited to carry out a quantitative survey of employer and employee attitudes towards fundraising and share ownership. The survey gathered responses from 1,005 individuals from 12 different countries. Six different industries were targeted specifically. Effort was made to obtain a broadly even distribution of respondents across age, gender, industry and employee type (non-executive, executive, and owner (CEO/founder/MD)).

Footnotes

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4. Pitchbook, 'These 6 charts show how much VC is awash in capital in 2021', October 2021. https://pitchbook.com/news/articles/2021-us-vc-fundraising-exits-deal-flow-charts
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