Episode 100: Shares and equity as compensation

This time, we explore shares, their types and their value.

1. Types of shares

There are lots of different types of shares but usually you only need to think about two.
RSUs, or Restricted Stock Units, are actual shares worth the street value when sold.
Options are a right to buy shares for a certain price, or the strike price as it's known.
With options, when your sell them, you earn the difference between the strike and actual price.
If you are going to work for a start-up, in lieu of higher pay, they may offer shares.
In this case the shares may have no clear value because they are not traded.
For these shares to have value you need a 'liquidity event' like an IPO or acquisition.
At most large companies you may get a mixture of RSUs and options when you join and each year as part of a retention plan.

2. Vesting Periods

When you get awarded shares they typically have vesting periods - the time you need to own them before they can be sold.
If employment terminates before this period ends, it often cancels the unvested shares.
Vesting periods are often over many years and are usually broken into sections.
For instance, a third after the first year, and another third each year after that.
You should check the vesting period carefully on any grant you are offered.

3. Value of the shares

When trying to put a value on your grant, ask yourself some questions, like:

- How long do you think you will be staying at the company?
- What has the performance of the share been over the last few years?
- What changes in the company strategy or plan could affect the performance?
- What could happen in the industry to disrupt or accelerate the business?

4. Change of control

After vesting is change of control or what happens when the company is sold.
They have triggers on any payouts. First is that the company has a change in control.
A second may be that you are not offered a role in the new company. When valuing shares, understand this 2nd trigger.

Bottom line: Getting equity in a company is a great way for you to be compensated and for your employer to retain you, but if you can't sell them for a profit they are not worth anything.