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26 Conditional Equity Milestones

A list of goals you can set to determine the release of equity.

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Introduction

There is a growing trend towards conditional equity in the UK. Why? Because founders like to set goals and milestones as part of the equity agreements they agree with people.

The goals must be reached before some or all of the equity is released, an approach that is fair and proportionate. Doing things this way protects existing shareholders while keeping recipients motivated and aligned to key targets.

This short guide will walk you through the kinds of conditions that you can set when setting up your schemes.

Our mission is to help you understand how to use equity to grow your company.

Book a **free consultation** with one of our equity specialists to quickly figure out the best way to share ownership... with strings attached.

Ifty Nasir
Co-founder and CEO at Vestd

What is conditional equity?

Ordinary Shares are still the most common method of distributing equity, largely because many founders are unaware of the other ways of doing it.

Ordinary Shares are unconditional: when you give someone these shares they immediately become a shareholder. Other scheme types are conditional and offer a lot more flexibility and protection .

Conditional share schemes require certain criteria to be met before some or all of the equity is unlocked.

Options are often conditional by their very nature, as they tend to be governed by a time-based vesting schedule. Most commonly we see recipients being asked to stick around for four years before all of their options vest.

However, other conditions can be set. For example, a Chief Revenue Officer might have a conditional equity agreement which releases options over a four-year vesting period, so long as pre-agreed revenue goals have been reached. There are all sorts of other conditions which you can use, though you must avoid over-complicating these agreements.

Conditional share schemes, when designed properly, help to eliminate the risk of businesses giving equity to third parties who ultimately don't deliver on their promises.

They are great for building early relationships with co-founders. They can also be used to motivate an existing team, to reset the goalposts. And they can be used to help owners exit the business.

Vestd offers a number of conditional share schemes, including **EMI Options**, **Unapproved Options**, **Growth Shares** and **Agile Partnerships™**.

What does a good condition look like?

Like all well-designed goals, a condition must be **measurable**. And it should be straightforward to measure.

There cannot be any room for interpretation or subjectivity.

A perfect condition in this sense is binary. Yes or no. It has either been met, or it hasn't.

Some founders take a more balanced approach.

You can reward people proportionately, in line with what they deliver. So if they reach 80% of their targets they may earn 80% of their equity allocation.

It is also possible to structure the conditions so that chunks of equity are released when a recipient reaches a series of checkpoints.

For example, the Chief Revenue Officer might unlock increasing amounts of equity in line with increasing revenue.

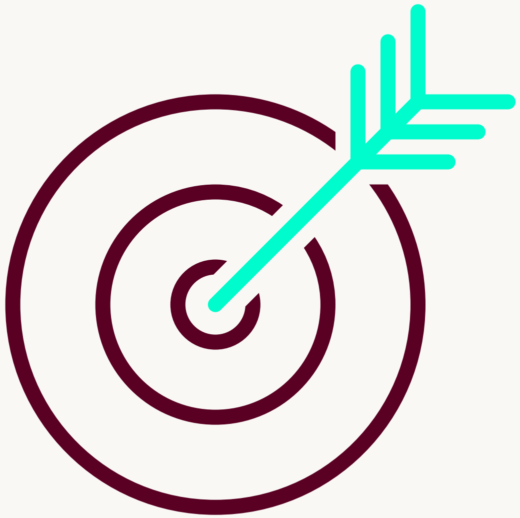
Rather than having one big target, there could be **a series of smaller goals to aim for**. Or an agreement to release a percentage of the equity in a linear manner, relative to how much revenue has been generated relative to the goal.

The beauty of conditional shares is that **you can custom design each scheme**, on a person to person basis. There can be common conditions for everyone, along with distinct goals for individuals or teams.

As such, a company options scheme might always have a four-year vesting period for all recipients, but there can be additional goals set for each team member.

What to avoid when designing a share scheme?

In a word: **complexity**. Too many conditions and clauses can result in problems down the line. Less is often more.



Poorly-defined goals are another problem area. Try to set goals that are easy to measure.

Also, we are of the view that tactical, role-based conditions are somewhat irrelevant. The tasks and responsibilities you put in someone's employee agreement are not necessarily right for a conditional equity agreement. Doing one's job is a basic requirement, rather than a goal.

Instead, focus on outcomes and key results. Things that measurably add value to your business. These types of goals help to keep the recipient aligned, and their eyes firmly on the prize.

Let's now look at some of the most common goals and conditions that founders use in their conditional equity agreements.

Generic conditions

Firstly, when designing your scheme you might set some conditions that apply across the board.

Often these conditions reflect the personal philosophy of the founders. What do you want to happen when someone leaves? Do you want to allow recipients to unlock packets of equity every month? And so on.

When setting up a scheme via Vestd we will ask you to think about questions relating to the following areas.

- Vesting period
- Cliff (if any)
- Dynamic vesting (monthly, annual or custom)
- Good/bad leaver
- Exercisable or exit only option schemes
- Accelerated vesting
- 90 days to exercise after leaving the company

Need some guidance?

Schedule a free discovery call with one of our conditional equity specialists to understand why these things matter, and to help you figure out what's best for your company.

Performance conditions

The best goals reflect an individual's contribution to the business. They often directly move the needle, in terms of revenue or company value targets.

So what kind of tangible performance conditions might you use to motivate recipients?

We have collated some ideas based on analysis of the hundreds of conditional schemes we have helped people to design and launch.

This is not a comprehensive list. You may have other ideas that will work for your scheme. But it will help you to see what's possible...

Time-based conditions

- Be part of the team over a certain period or at a certain date
- Work for X days / weeks per month (useful for non-executive directors and consultants)

Financial conditions

- Generate £x in sales (can be tiered)
- Deliver client work valued at £x or above
- Profit goal reached
- Positive profit margin
- Revenue goal reached
- Revenue + gross margin target reached
- Revenue run rate above £x per month for an agreed period of time
- Generate £x of new business
- Generate £x in upsells
- Maintain or reduce churn rate
- Reduce costs

Value-based conditions

- Business worth X at a certain date
- Business sold for X

Output-based conditions

- Deliver an agreed project
- To create X blog posts a month
- To meet KPIs
- Number of referrals

Funding conditions

- Secure £x of funding
- Options issued after funding round

Participation conditions

- Complete X actions / activities
- Refer X users to the platform
- Achieve an average rating of X
- Achieve an engagement score of X
- ...or some combination of the above

Talk to us

We specialise in helping UK founders use equity to grow their businesses via share schemes and other equity-based agreements.

If you are thinking about sharing ownership with key people then **book a free discovery call.** You'll learn so much in just 30 minutes.

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We will explore:

- Your company structure
- What you are looking to achieve
- The best scheme types for your needs
- Setting conditions and milestones
- How to protect existing shareholders
- The costs and tax implications

We'll also answer any questions you have about sharing ownership. There's no obligation to use Vestd afterwards.

About Vestd

Vestd is the first and only regulated share scheme platform for SMEs in the UK. Thousands of people use it to manage and monitor their equity.

The platform was specifically designed and built to help SMEs launch and manage share and option schemes. Our customers also benefit from ongoing access to our in-house team of experts.

Why choose Vestd?

01. Choose from a range of share / option schemes, including: EMI schemes, Unapproved Options, Growth Shares, Ordinary Shares and Agile Partnerships™.

02. Guided scheme design, setup and ongoing support from our team of equity specialists.

03. Full two-way Companies House integration. Issue shares and options immediately via the platform.

04. Regular company valuations from our analysts (no need for accountants) and industry standard legal docs provided (no need for lawyers).

05. A personal dashboard for all of your shareholders and share scheme participants.

06. 100% accurate real time and historic cap tables.