

# TOTAL SHAREHOLDER RETURN AWARDS

## INTEGRATED TSR SERVICES FROM BEGINNING TO END

**TOTAL SHAREHOLDER RETURN (TSR) AWARDS HAVE EMERGED AS THE MOST POPULAR PERFORMANCE-BASED LONG-TERM INCENTIVE VEHICLE, AND ARE LIKE NO OTHER, WITH DANGERS THAT CAN CASCADE INTO MAJOR SHAREHOLDER, REPUTATIONAL, AND FINANCIAL PROBLEMS FOR COMPENSATION PROFESSIONALS, EXECUTIVES, AND COMPENSATION COMMITTEES.**

To successfully deliver TSR awards, you need a cohesive design, valuation, and tracking strategy. **UPFRONT**, perform modeling in order to set appropriate expectations for your executives and compensation committee members regarding costs and changes in costs leading up to the grant date. **AT GRANT**, perform an accurate financial statement and proxy valuation that actually maps back to expectations set during the design stage. **FINALLY**, track performance and communicate current updates to stakeholders.



Equity Methods delivers value at each stage of the process to help maximize your prospects for success in implementing this powerful but particularly complex award.

### 1. TSR DESIGN ANALYTICS

Rapid, cost-effective guidance to management to ensure compensation committee and executive expectations are adequately set and the final design terms are optimal in light of potential alternatives.

### 2. PRO FORMA AWARD VALUATION

Pre-grant date valuation used by your senior management and compensation committee as a close approximation for the fair value calculated on the grant date, which will typically drive the number of units actually awarded.

### 3. FORMAL VALUATION AND AUDIT SUPPORT

ASC 718-compliant grant date valuations using best-in-class valuation methodologies, rigorous audit support, and relevant project documentation.

### 4. ONGOING TSR PERFORMANCE TRACKING

Ongoing tracking of TSR outcomes for participant communications, senior management review, and financial reporting.

## 1 TSR DESIGN ANALYTICS

### INCORRECT COST AND GRANT ESTIMATES

Initial unit and cost estimates presented to the compensation committee unexpectedly change leading up to the actual grant, giving rise to numerous problems with recipients and overall program credibility.

### SUBOPTIMAL AWARD FEATURES

Award features may exist that are not critical to the incentive objectives, but serve to inflate cost and reduce the number of units relative to an alternative design that otherwise achieves the same objectives.

- Estimating award cost throughout upfront planning process
- Modeling scenarios to envision how costs could change during period leading up to the grant date
- Analyzing how different award features are driving the overall value (attribution analysis)

## 2 PRO FORMA AWARD VALUATION

### DISCONNECT WITH INITIAL DESIGN ANALYTICS

After initial analytics have been performed, but prior to the grant date, fluctuations in company and comparison group prices may cause large swings in value.

- Flexibility and speed in updating cost estimates to hone in on a near-final value
- Attribution analysis to understand drivers or causes behind swings in value

## 3 FORMAL VALUATION AND AUDIT SUPPORT

### EXTERNAL AUDIT DEFICIENCIES

TSR awards need to be valued using advanced financial economic techniques. External auditors are well-versed in catching simplistic or flawed methodologies, which can give rise to significant deficiencies or other audit problems.

### GRANT-DATE VALUATION DOES NOT TIE TO INITIAL EXPECTATIONS SET DURING PLANNING PROCESS

TSR award values depend on the movement of hundreds of variables. Inadequate scenario analysis and expectation setting upfront is a recipe for surprises and broken agendas come the formal grant date.

- Experience in performing thousands of valuations, all successfully audited and defended to Big 4 audit teams
- Models used to perform formal, ASC 718-compliant valuations are the same models used during upfront modeling phase

## 4 ONGOING TSR PERFORMANCE TRACKING

### RECIPIENT UNCERTAINTY ABOUT TSR AS A TARGET

TSR seems too nebulous and uncontrollable of a target, thus diluting the incentive effect. Recipients get excited on the grant date, but lose sight of the metric shortly thereafter. Recurring tracking updates are needed to keep the award top of mind.

### QUARTERLY REPORTING ON PERFORMANCE

Financial reporting requires quarterly updates on current TSR performance for ASC 260 purposes.

### PERFORMANCE TRACKING AMBIGUITY

Complex or ambiguous grant agreements often result in disagreements over performance results, such as when peer firms delist or merge. Methodical analysis is needed to ensure performance measurements align with the provisions and intent of the grant agreements.

- Robust graphical analytics explaining current TSR progress help make the award feel more real to participants
- TSR tracking reports satisfy ASC 260 reporting responsibilities
- Unparalleled data access and customized processes improve reliability of tracking relative to standard “off-the-shelf” software or manual calculation procedures