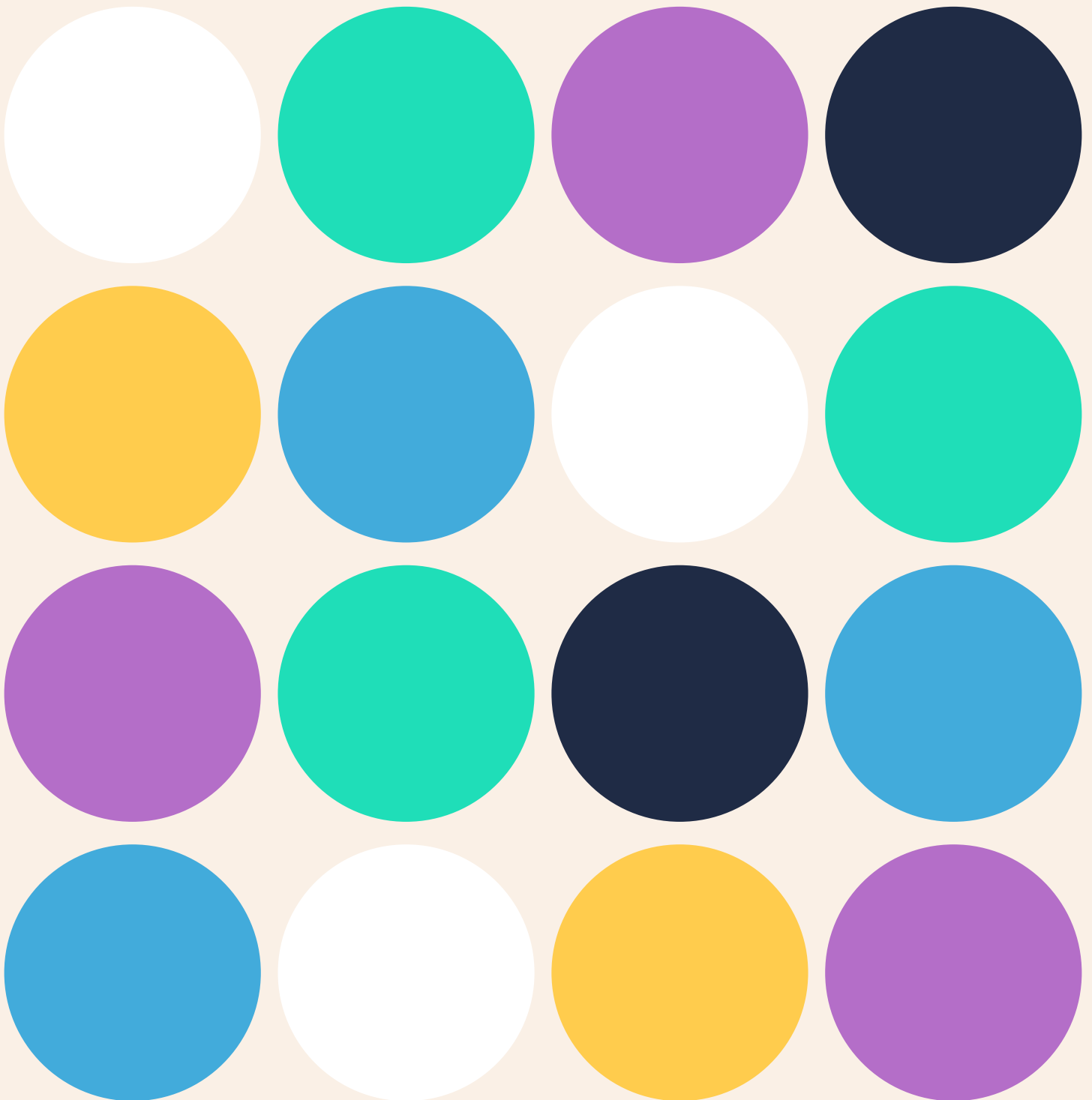


# The State of Equity & Ownership 2023

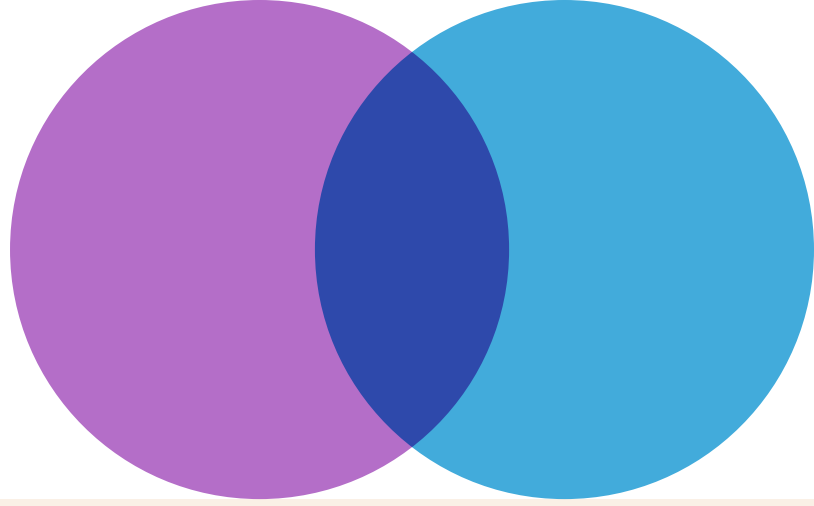
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 Ledgy



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# Introduction



## **Has the tech ecosystem come back down to earth this year? In some ways, maybe. But there is still an enormous amount of development and innovation happening. So what's been the effect of a tumultuous 12 months on equity and share ownership?**

To create our 2023 State of Equity and Ownership report we surveyed 1,200 employees, executives and founders in four critical markets for early-stage companies: France, Germany, the United States and the United Kingdom. We also used Ledgy platform data to showcase how different trends actually affect the equity grants being issued throughout Europe and beyond.

We found that despite market turmoil, equity trends are still moving in the right direction. And not only in the most mature and developed tech markets.

Yes, the US is still out in front on key metrics: more employees in US companies get equity, and equity pools are still bigger across the Atlantic. But the proportion of companies establishing more progressive

equity plans in developing startup markets like France and Germany is increasing even faster than in the US and UK.

We are pleased that companies are responding to market conditions by doubling down on equity. Despite some organizations making cutbacks, overall two thirds of businesses are looking to make their equity plans more generous in 2023.

For the first time, we've also dug into the different experiences of men and women when it comes to equity. We reveal that the gender gap in equity and fundraising is real: our female respondents were less positive about the effects of equity on team motivation than men, while fewer female founders raised money in the previous 12 months.

At Ledgy we are optimistic that despite headwinds, 2023 will be another year of progress for equity and share ownership.

**Yoko Spirig**  
CEO, Ledgy

# Highlights



3x

more founders spent **'a lot of time'** discussing employee equity when fundraising



64%

of companies are planning to make their equity plans **more generous** in 2023



2x

**as many companies** allocated 20% or more of equity to employees compared to our 2022 survey



60%

of US companies use tax-optimized equity schemes, **more than anywhere in Europe**

# The fundraising environment: equity trends defy the gloom

We opened last year's report with the remark, "There is more capital in the early-stage startup ecosystem than ever before." It sure doesn't feel like that this time. But have market worries affected equity and share ownership?

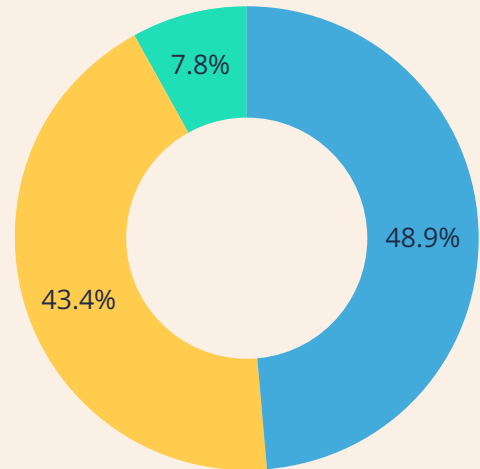
## 2023: a tougher time to raise money

Compared to last year, fewer founders are going out to market and successfully raising money. It was more common to raise money than not last year; we reported in 2022 that 48% of founders had raised money from external investors, while 43% had not.

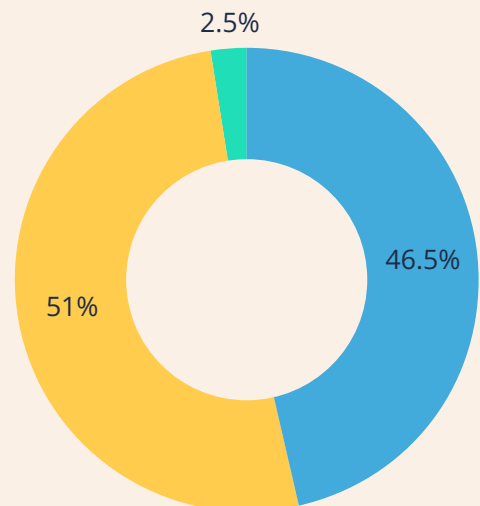
This time, we saw that a majority of founders across the UK, US, France and Germany – 51% – had not raised money from investors in the previous 12 months:

In the last 12 months, did your company raise money from external investors? (All responses)

2022



2023



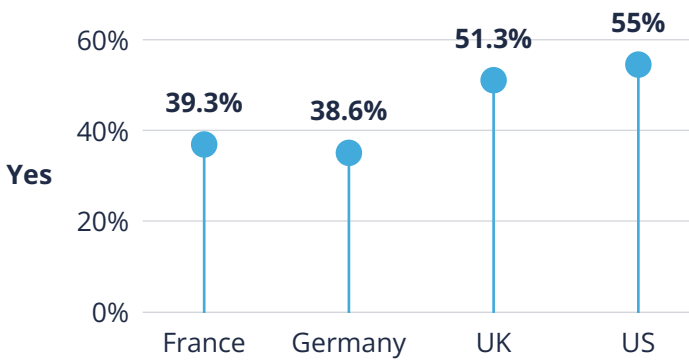
● Yes ● No ● Unsure

Fewer companies raised money last year compared to our previous survey in 2022.

## Do mature markets give companies more fundraising confidence?

Fewer than 40% of French and German companies said they had raised money in the past 12 months; by contrast, more than half of companies in the UK and US had raised money from external investors, with the US having the highest proportion of founders successfully raising capital.

In the last 12 months, did your company raise money from external investors? (By geography)



More US and UK businesses raised money in the last 12 months than those in France and Germany.

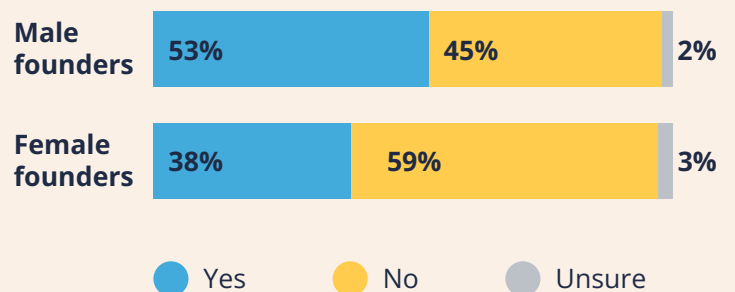
This is not surprising: the UK and especially the US have long-standing venture capital (VC) industries with greater depth and liquidity than their equivalents in Germany and France. In 2020, for example, UK companies raised more VC investment than in Germany and France combined. These ecosystems may have helped UK and US companies feel confident that their fundraising efforts would be productive, despite a more challenging environment.

## Overall, a majority of founders did not raise capital in the last 12 months

### The gender gap in fundraising is real...

Fewer female CEOs and founders completed fundraising processes compared to male leaders: 38% of female CEOs and founders surveyed had raised money in the previous 12 months, compared to 53% of the male founders and CEOs surveyed.

In the last 12 months, did your company raise money from external investors? (By gender)

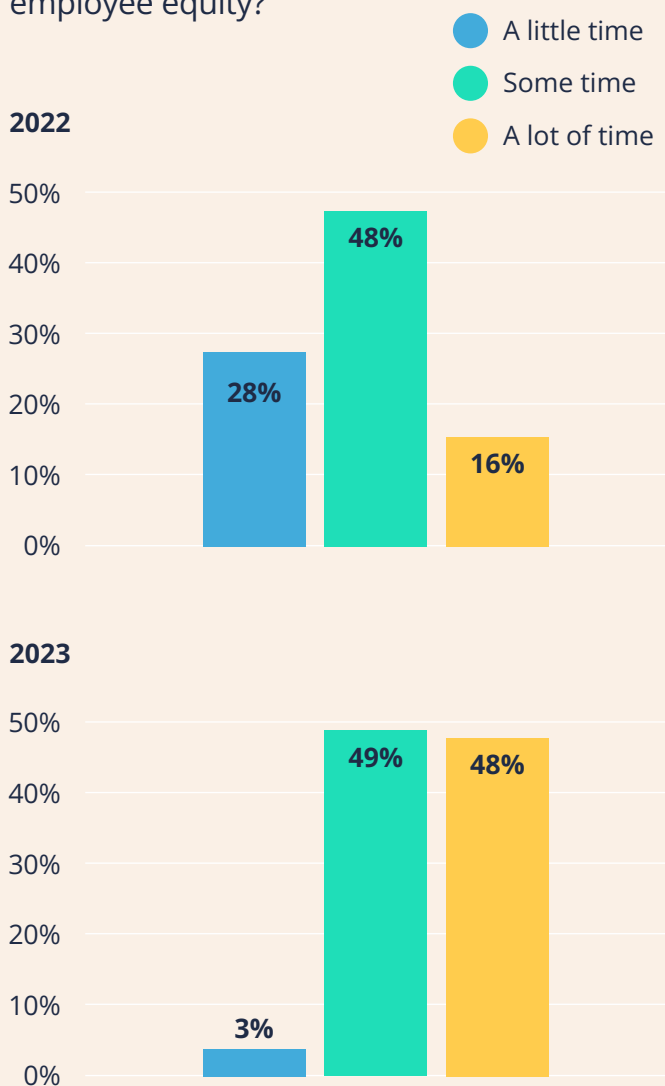


A majority of male founders raised money last year, compared to just two in five female founders.

## ...but founders are dedicating more time to employee equity when fundraising

In our 2022 survey, just 16% of founders who'd raised money in the last 12 months said they spent 'a lot of time' thinking about the team's equity. This soared to 48% in our new survey, a sharp increase that suggests employee equity is becoming more central to fundraising.

While you were fundraising, how much time did you spend thinking about and discussing employee equity?



Compared to last year, 3x more founders spent "a lot of time" on employee equity when fundraising.

It's a subjective measure, but getting founders' own take on how they spend their time when fundraising is instructive, pointing to a change in attitudes and perhaps a new primacy for employee equity.

How did this translate from country to country? It appears that the most dramatic changes took place in less mature markets. The proportion of French companies reporting that they spent "a lot of time" thinking about employee share options more than doubled from 19% to 40%, a greater leap forward than in the UK or US. Overall, though, the US was out in front with 60% of founders spending "a lot of time" on employee share options during fundraising.



**French founders spending "a lot of time" thinking about employee equity when fundraising:**

**19%**

2022


**40%**

2023

## Does equity motivate everyone equally?

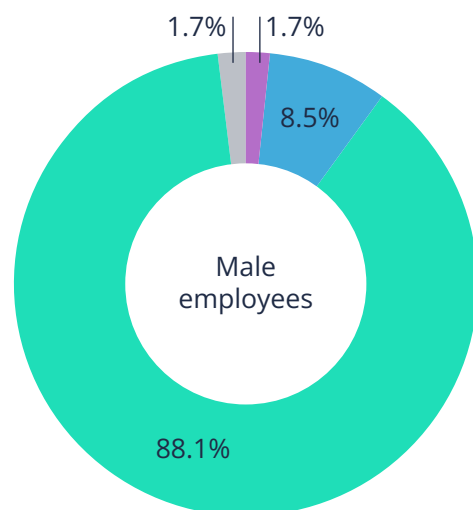
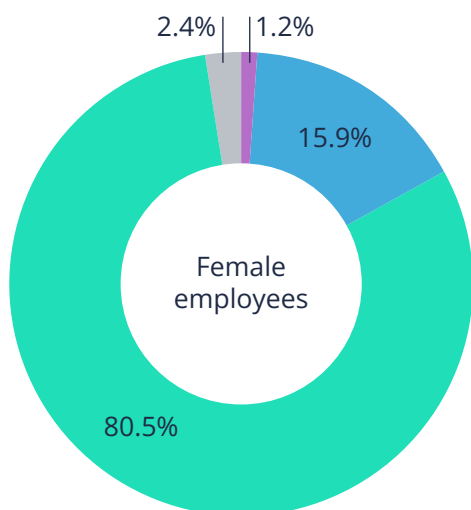
It's not news that when it comes to compensation, tech has a gender inequality issue. Our survey reveals that male employees generally see equity as having a bigger effect on the team's togetherness and morale. 88% of male employees thought that equity had a positive impact on motivation, compared to 80% of female employees. Notably, women were twice as likely to say that they were 'neutral' about equity's effect on the team compared to men.

Looking at the data, it seems as though lots of equity trends are moving in the right direction. But that doesn't matter if some groups are benefiting more than others.

 **Women were twice as likely to say that they were 'neutral' about equity's effect on the team compared to men**

---

In your opinion, what effect does equity have on the team's motivation?



-  Negative
-  Neutral
-  Positive
-  Unsure

Women working in tech companies were twice as likely to say they were "neutral" about equity's motivational effect.



# Equity in 2023: the international picture

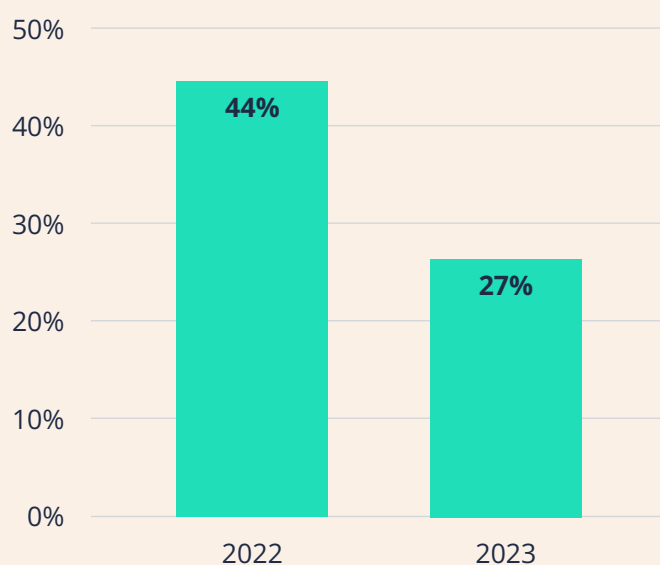
## Employees are pushing for equity...

Since 2022's State of Equity report we have moved from a full-blown hiring boom to a pronounced market correction. But Looking forward, the overall picture for equity on both sides of the Atlantic is good.

As the tech sector continues to mature, more employees are recognizing that equity should form a core part of compensation packages. For a second consecutive year we asked founders who have not rolled out equity plans to everyone why they elected not to do so.

Compared to last year, far fewer founders cited a lack of demand from employees:

(To founders without employee equity plans):  
What is the main reason you haven't set up an equity plan?



Compared to last year's survey, fewer founders without employee equity plans pinned the blame on a lack of employee demand.

Companies are doubling down on equity as an incentive to align the team and keep the company focused in a tougher growth and funding environment. Almost two-thirds of companies (64%) said they were planning to make their employee equity plans more generous in the coming 12 months.

## ...but market conditions might leave some teams frustrated

Despite a generally positive climate, it's certain that some companies will reflect a tighter economic climate in their equity allocations. In particular, almost 30% of German companies are planning to make equity schemes less generous in the next 12 months. This is double the average of 15% across all markets.

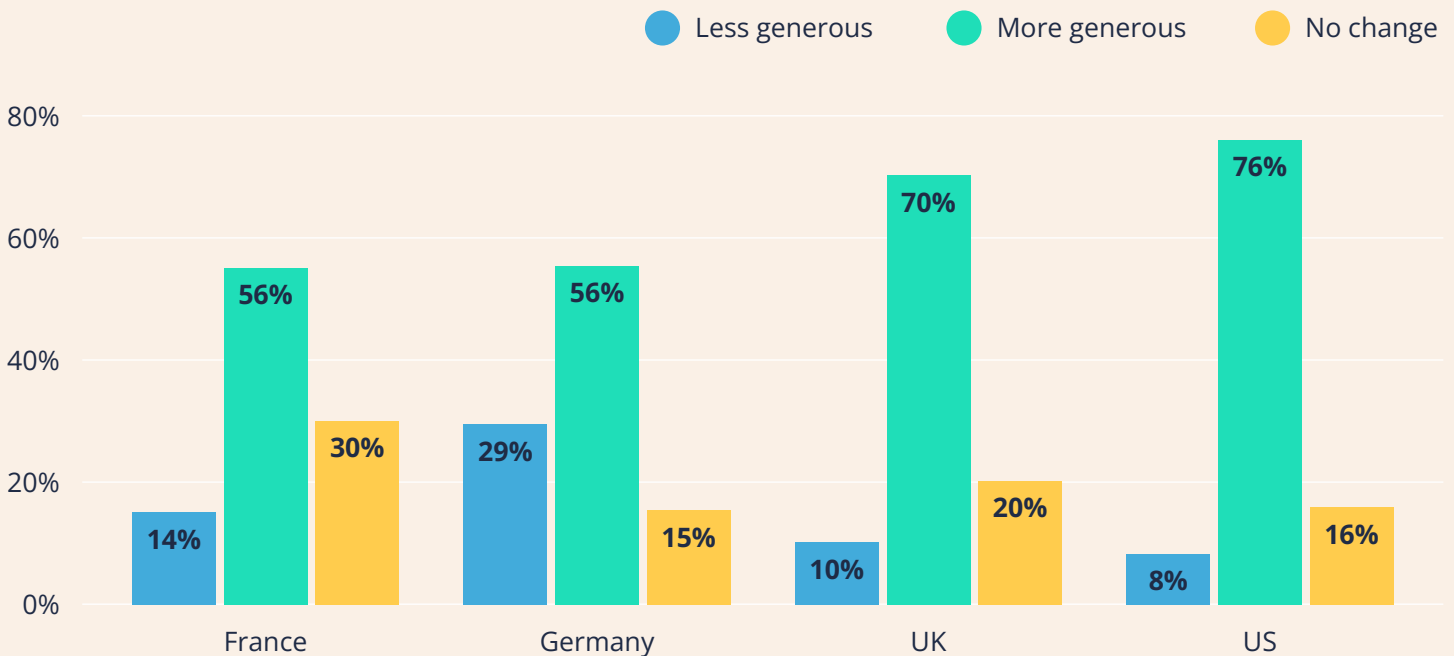


# 64%

of companies are planning to make their equity plans more generous in 2023

In particular, 30% of German companies are planning to make equity schemes less generous in the next 12 months. This is double the average of 15% across all markets. US and UK respondents are broadly more bullish on the generosity of their equity plans over the coming year:

Do you expect your employee share scheme to become more or less generous in the next 12 months? (By geography)



German and French companies are planning to make bigger equity cutbacks than those in the UK and US.

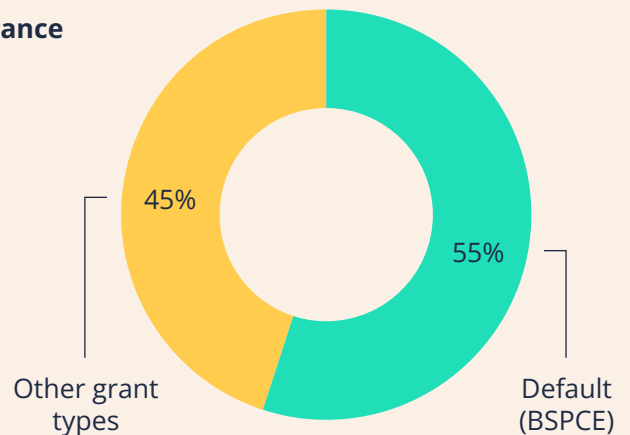
## 'Default' equity schemes in Europe: France and BSPCE on fire

As the equity ecosystem in Europe continues to develop, different countries are progressing towards having 'default' scheme types, where one kind of option grant becomes ubiquitous in a given market. Whether it's an employee share option plan (ESOP) or a virtual share option plan (VSOP), offering the 'market standard' option type reduces the administrative complexity for companies and makes it easy for employees to understand their equity stakes.

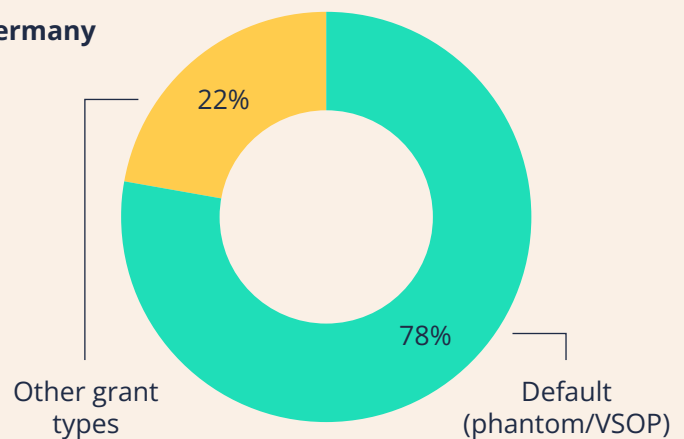
Analyzing almost 30,000 equity grants issued on Ledgy, we obtained a picture of the relative success of the 'default' equity schemes in France, Germany and the UK:

How popular are the 'default' equity grant types in France, Germany and UK? (Ledgy data)

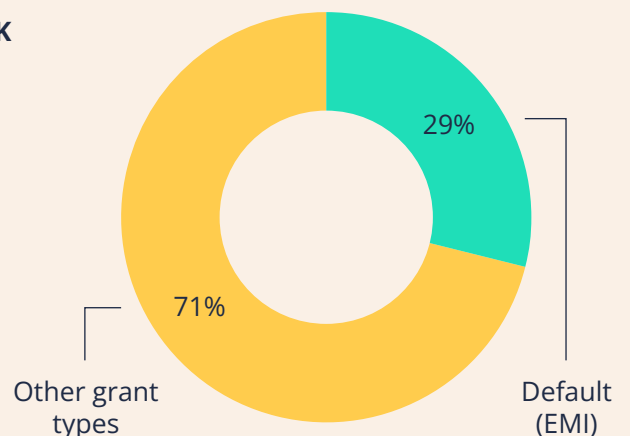
### France



### Germany



### UK



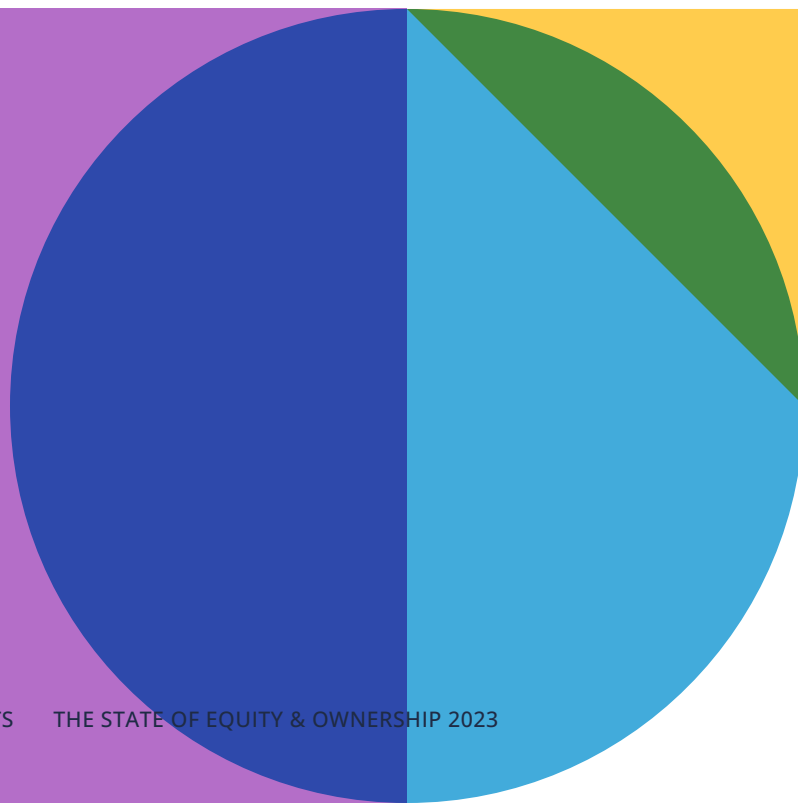
EMI option grants in the UK are less ubiquitous than BSPCE grants in France or phantom shares / VSOPs in Germany.

In France, the BSPCE option grant has become the default for early-stage companies since restrictions on its use eased in 2015. The chart shows that the uptake of BSPCEs in just a few years has been impressive, particularly compared with the UK. Although the EMI option grant has been the 'default' for early-stage companies in the UK since the turn of the millennium, BSPCEs have already become more ubiquitous in France than EMIs are in the UK.

Just 29% of UK grants are EMI options, which may be because of the relative popularity of other types of share option plan in the UK, such as growth share schemes, joint share option plans (JSOPs), company share option plans (CSOPs), and so on. It appears that the lack of meaningful alternatives in France pre-BSPCE has actually helped consolidate its status as the first choice for French startups.

Germany's default grant type – the VSOP or phantom share scheme – may enjoy its very high market share of 78% because of the same lack of viable alternatives for early-stage companies. VSOPs are the default in Germany despite having significant drawbacks – phantom shares are treated as liabilities on a company's balance sheet, for instance, and because virtual shares are essentially contracts giving employees a right to benefit economically from the company's future success, team members do not actually own any of the business.

Why does Germany not simply adopt ESOPs as the default? The short answer is because ESOPs in Germany are even worse for employees, with an excessive administrative overhead for key internal stakeholders and punitively high tax burdens of up to 64% when selling shares. (This compares with 10-20% tax paid when people 'cash out' their EMI and BSPCE stakes in the UK and France.)

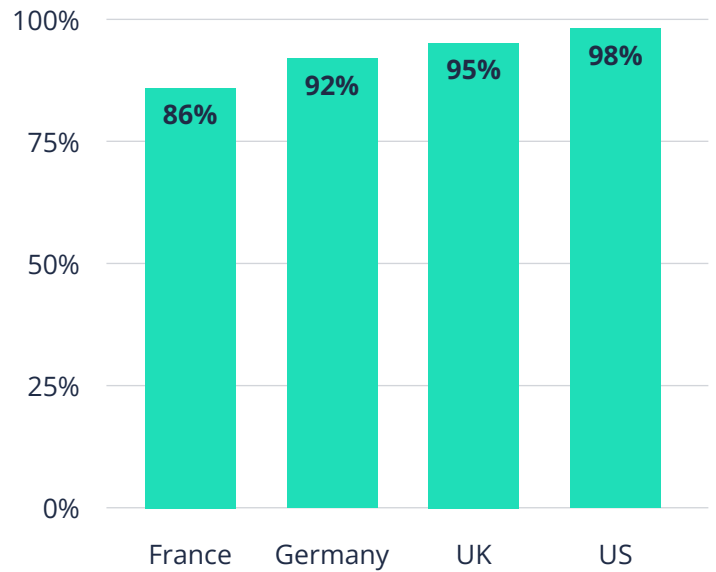


## US still beats Europe on key equity metrics

In last year's report, we highlighted the ways in which the US stands out from European markets when it comes to equity. In our new survey, we reveal that the US is still the most progressive market for employees seeking out strong equity packages.

First, in the US it is relatively uncommon to offer small portions of the company to the team. Just 1 US company in 50 allocates less than 5% of equity to employees, far higher than in the UK, Germany or France.

How much of your company's equity is taken up by your employee option pool? (% of responses reporting employee pools of >5%)



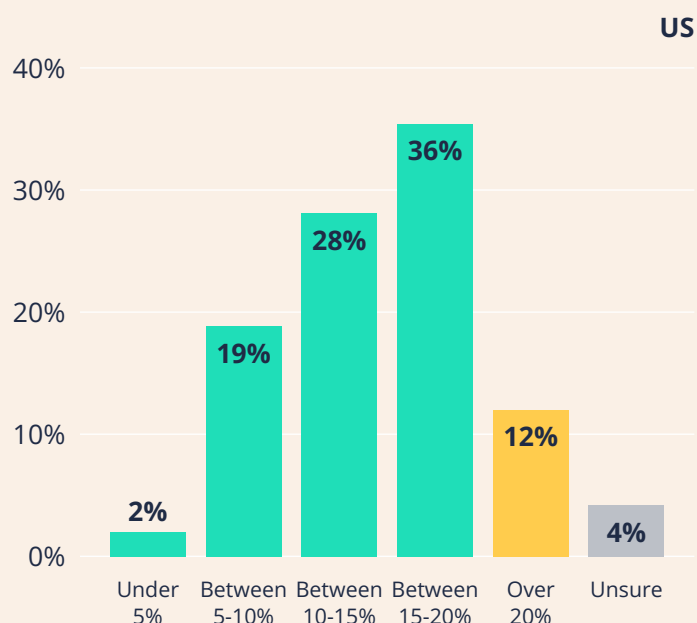
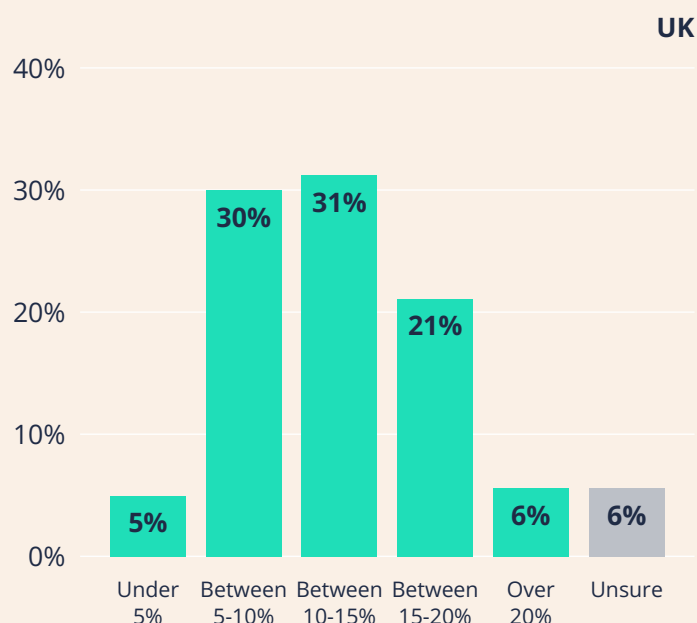
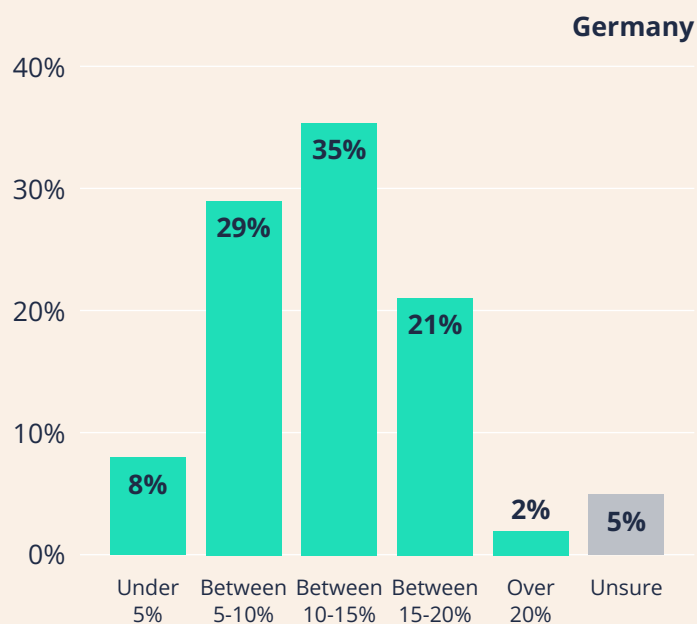
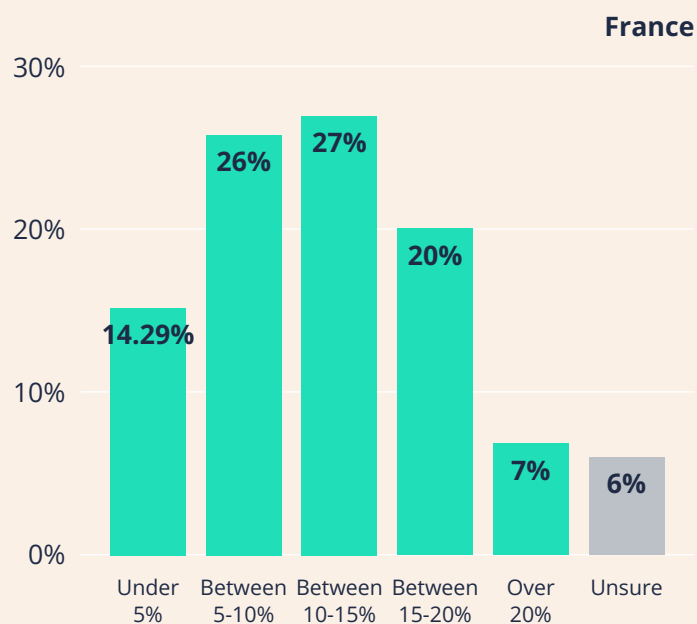
Small employee equity pools are far more common in Europe than in the US.

The US is the only market where allocating between 15% and 20% of the company to employees is the most common decision; everywhere else, it's most common to have between 10% and 15% of shares dedicated to employees.

 **US companies are twice as likely to give 20% or more to employees as UK companies**

Meanwhile, roughly one in every eight US companies gives more than 20% of equity to the team. The team is usually granted a smaller proportion of share capital in European markets:

How much of your company's equity is taken up by your employee option pool? (By geography)



It is significantly more common for teams in the US to be allocated 20% or more of the company's equity.

Even though the US still leads on equity allocations to employees, the general trend across markets is positive. Compared to last year, more companies are adopting best-in-class employee equity plans that allocate 20% or more of shares to the team. In our 2022 survey, just 4% of companies hit this benchmark; this time, that's almost doubled to 7.6%.

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# 4%

Last year, 4% of companies allocated 20% or more of equity to employees



# 7.6%

This time, 7.6% of companies allocated 20% or more of equity to employees, nearly double 2022's survey

## Which vest is best?

Ledgy platform data reveals that in general, all markets are coalescing around a standard vesting formula for employees' equity: a four-year vesting period with a 12-month cliff. (The 'cliff' is the period an employee has to work before becoming entitled to any of their shares. An employee on a four-year vesting schedule sees 25% of their equity vest after the 12-month cliff is reached, with options then vesting in even-paced monthly or quarterly increments after that.)

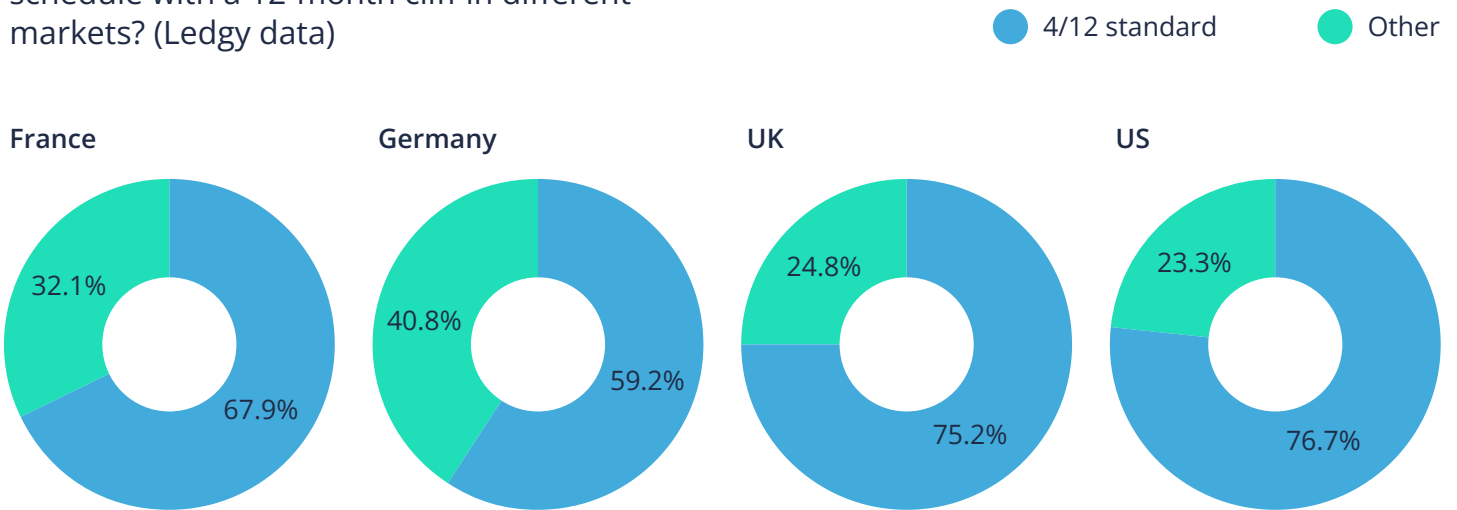
A four-year vesting period with a 12-month cliff is easy for employees to understand. It is also relatively simple to manage operationally compared to alternatives like performance-based vesting. Companies that adopt the vesting 'best practice' stand to benefit from simpler equity plan administration and lower overhead for finance and legal teams. In addition, managers may well see fewer questions and pushback from candidates or employees who will increasingly be expecting the market norm.



Ledgy data indicates that the US has made the most progress towards creating a true standard for vesting, with more than three quarters of companies having at least some shares vesting on a four-year schedule with a 12-month cliff. The '4/12' model is similarly popular in the UK, but the less developed ecosystems in France and Germany have a higher degree of variance:



How common is the four-year vesting schedule with a 12-month cliff in different markets? (Ledgy data)



The US has the highest adoption of the 'standard' vesting schedule, ahead of European markets.

Given the rate of development in these markets, in the next 12 months we expect to see France and Germany increase the adoption of the 4/12 vesting schedule, catching up with the US and UK.



## Equity for all?

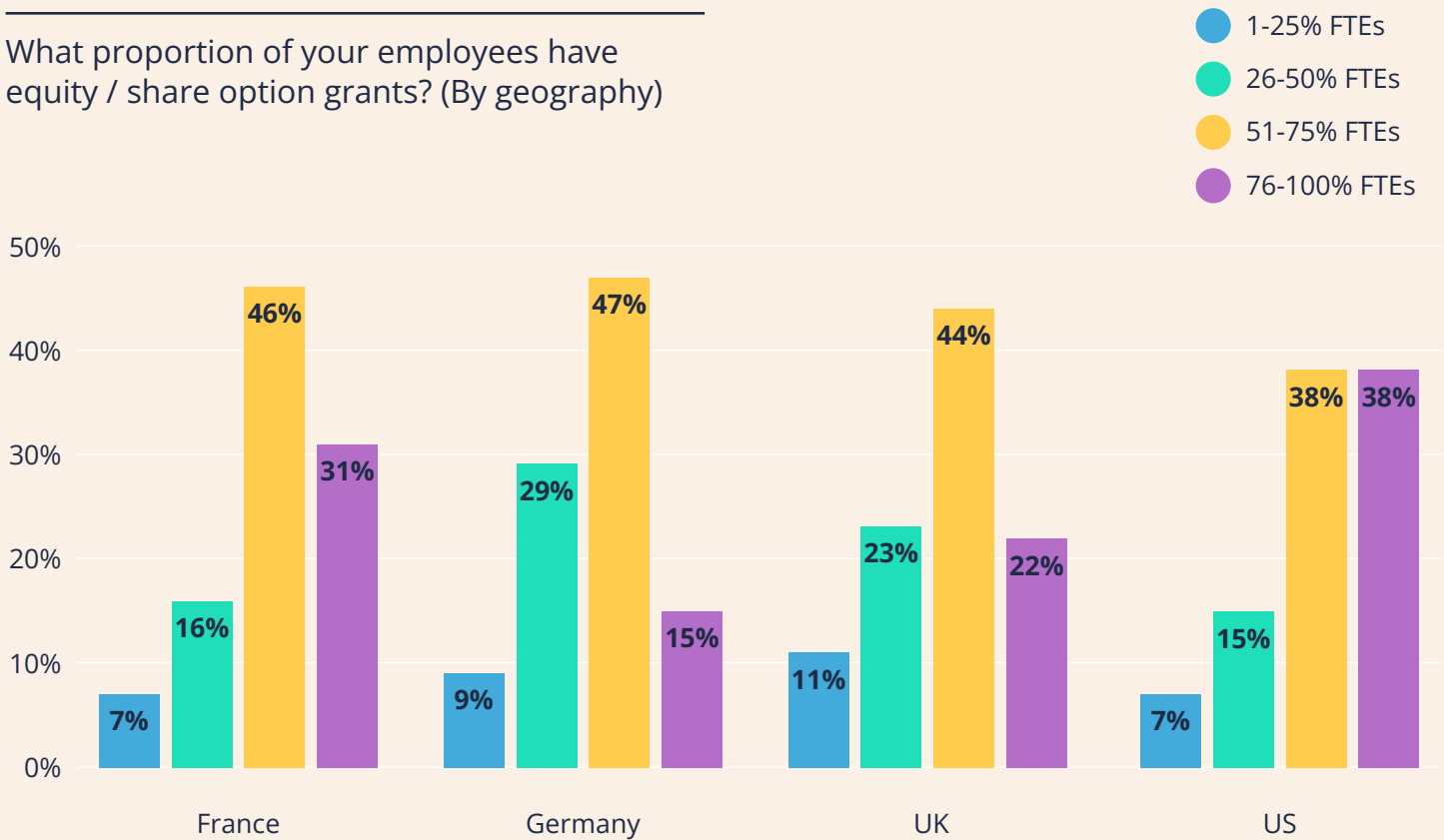
### Europe has catching up to do

The European tech sector has benefited from initiatives like the [#ESOPASAP](#) campaign and Index Ventures' [Not Optional](#) work. But earlier, when we saw the popularity of VSOP grants on Ledgey and the absence of viable alternatives, it becomes clear that these efforts are only part of the picture.

The US also remains out in front when it comes to how broadly equity is distributed across the team.

Compared to European companies, it is far more common for companies in the US to distribute equity to more than three-quarters of employees:

What proportion of your employees have equity / share option grants? (By geography)



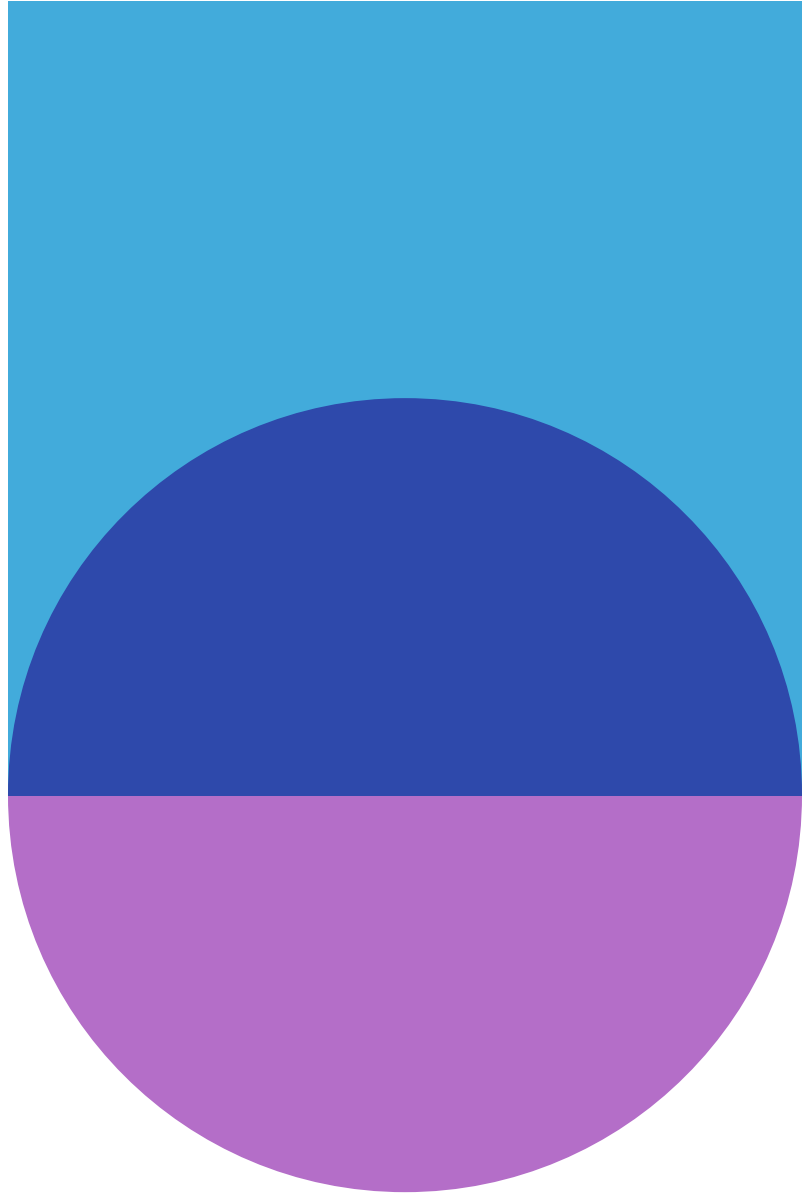
On average, US companies empower more of the team with equity, particularly when distributing grants to more than three-quarters of employees.

# Let's talk about tax, baby

As European economies increase their focus on equity compensation, more mechanisms are launching that promise to help companies and their teams see more of the value they create when it comes to selling shares and cashing out.

Restricted Stock Units (RSUs) are well established in the US, and Enterprise Management Incentive (EMI) share schemes have been up and running in the UK for a couple of decades. But the game is changing in newer markets too: in 2019 BSPCE plans became a viable option for companies in France, significantly reducing the tax bill for employees selling shares.

Meanwhile, despite efforts to revamp equity-based compensation, Germany is yet to bring the same transformative measures to market. Although VSOP is the market standard in Germany, it does not benefit from favorable tax treatment, meaning that Germany essentially has no tax-optimized equity scheme available to employees.

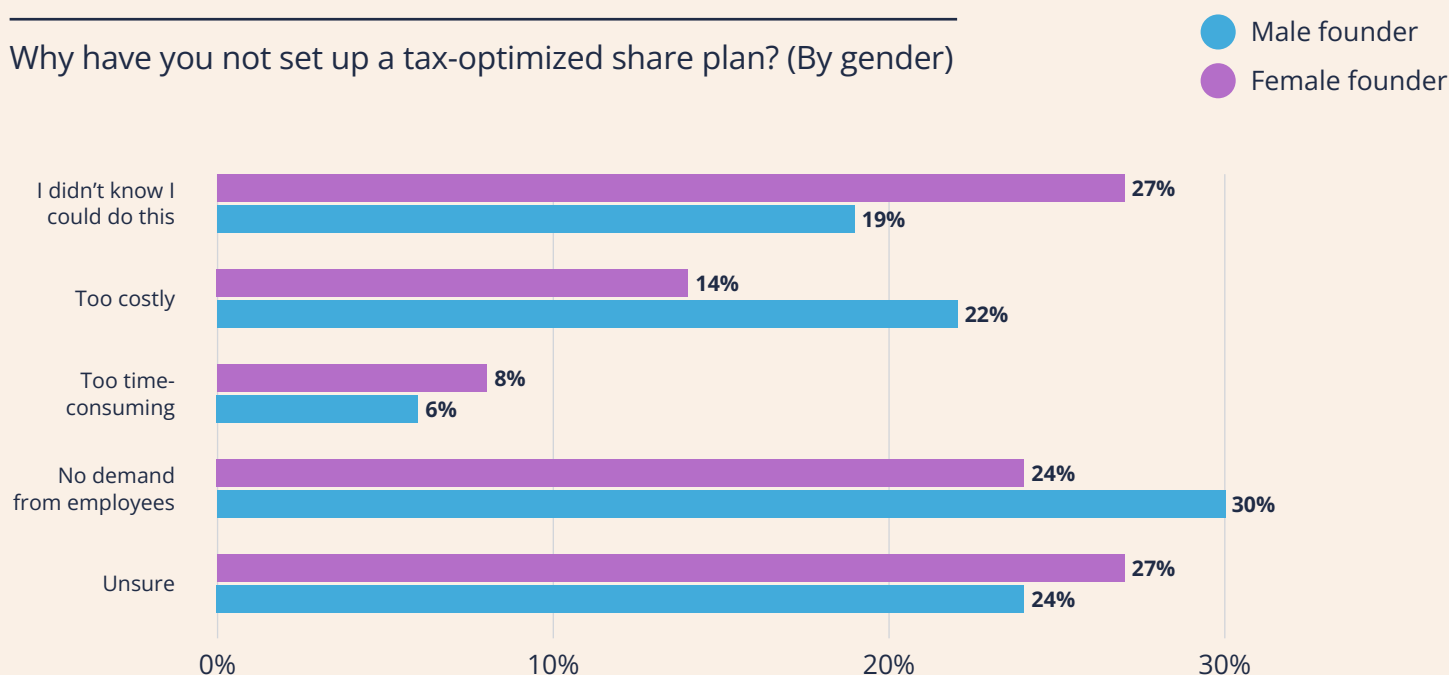


## The biggest blockers to setting up tax-optimized schemes

We asked founders who had not set up a tax-optimised equity plan why they didn't take this step, breaking out our results by gender. Male and female founders' responses varied somewhat. More female founders than male didn't know that it was possible to set up tax-optimised plans for employees – perhaps a consequence of the tech and VC world's challenges around [bias towards male founders?](#)

In one sense, founders wary of costs are right: it does take more time and effort to get started with an EMI scheme in the UK, for instance, compared to an 'unapproved' share scheme which doesn't need any dialogue or approvals from the tax authority. However, that effort is far from wasted. After all, employees will benefit to a much greater extent from the company's success if their share plan is designed to put as much money in their pockets as possible after an exit or liquidity event.

Why have you not set up a tax-optimized share plan? (By gender)



More female founders said they didn't know they could leverage tax-optimized equity plans, while more male founders were put off by expense.

# Final thoughts: is 2023 a reality check or the start of something great?

## Our latest **State of Equity and Ownership** report captures a snapshot of four critical markets at a crossroads.

Many parts of the picture are very positive: employees' growing recognition of equity's power, employees getting bigger slices of the equity pie, and more. But a significant minority of companies are planning to cut back their equity plans this year. And we have found that equity motivates men and women to different degrees: how can companies better communicate about equity so that all stakeholders feel included and engaged by their ownership stakes?

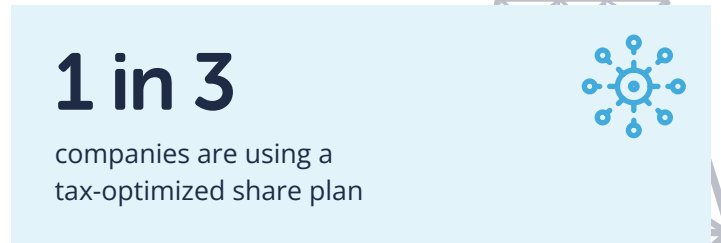
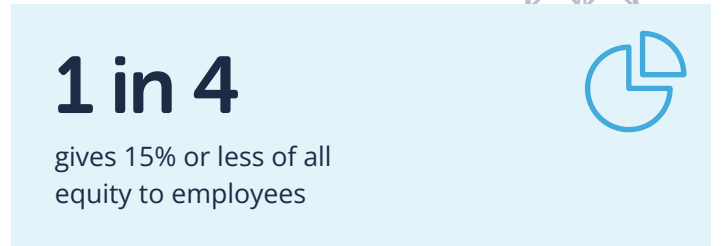
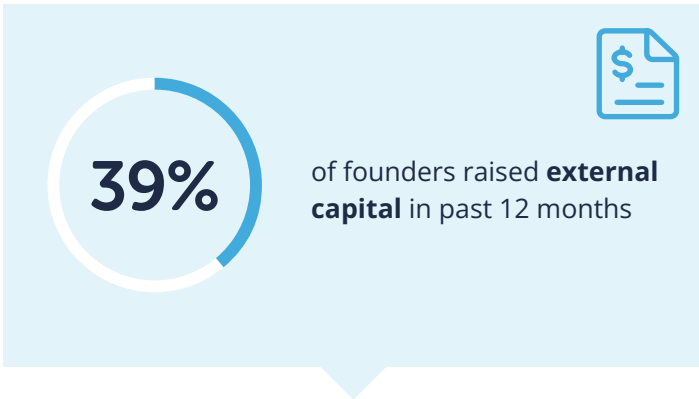
In a downturn, it is critical for companies to align the whole company around the same mission. The short term is always important, but leaders must put the company's long-term vision at the center of their communications. Equity is the best lever companies have to help people picture what the company, and the industry, looks like once we move through this correction cycle. Giving people skin in the game encourages them to think like owners and helps everyone come together to push through tougher times.

It has been a fascinating exercise taking the temperature of equity and ownership across four such important markets. We are already looking forward to seeing how the tech sector evolves in the next 12 months.

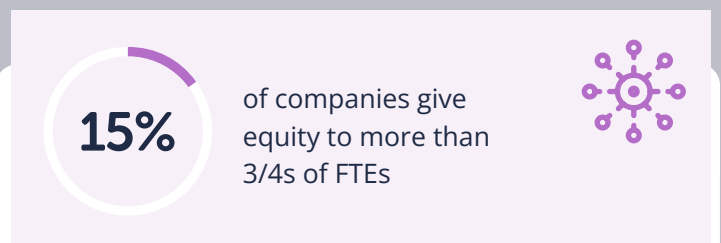
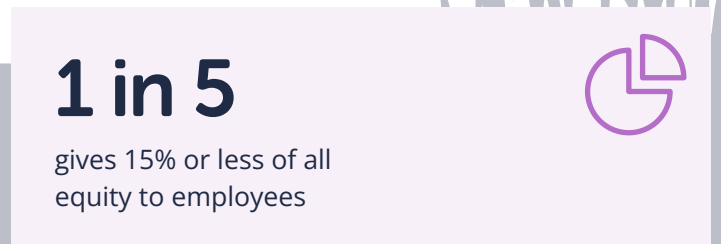
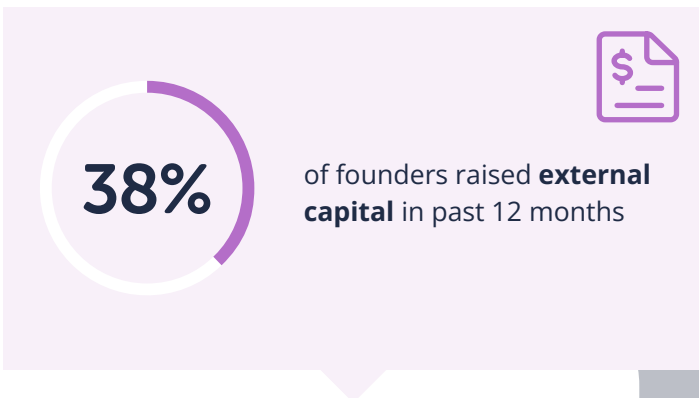




# France factsheet

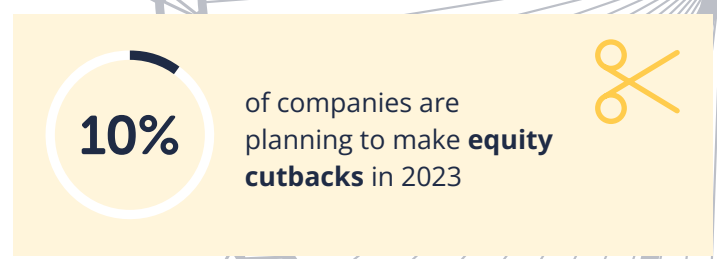
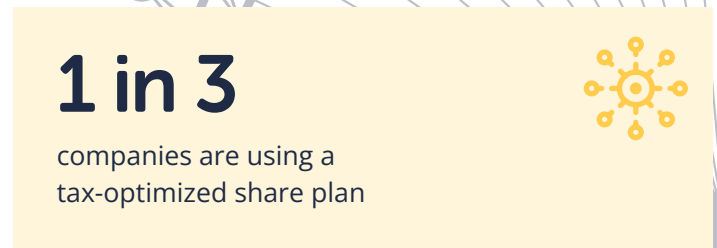
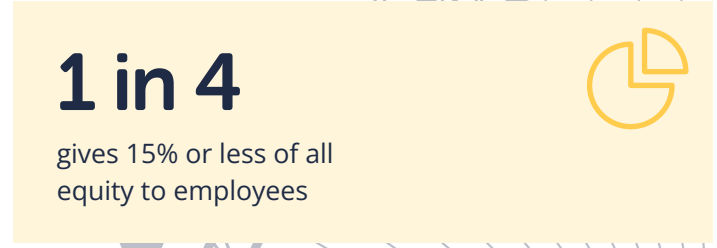
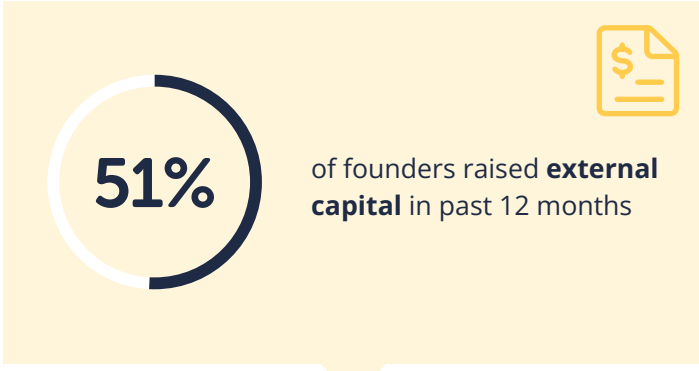
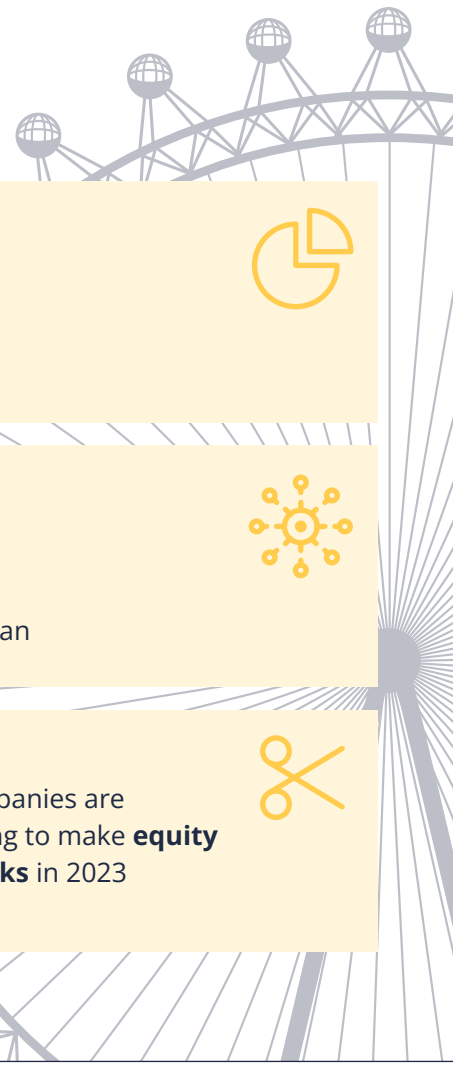


# Germany factsheet

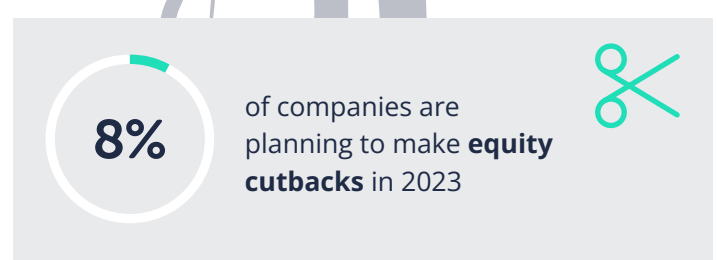
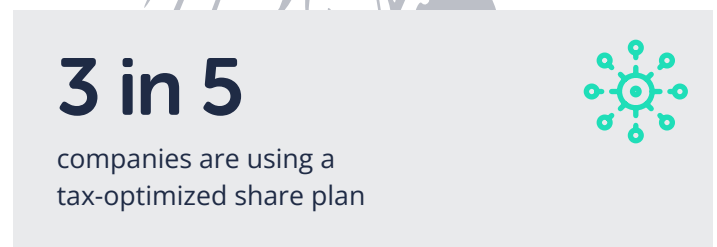
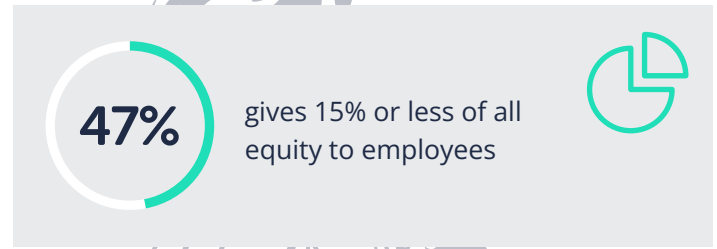
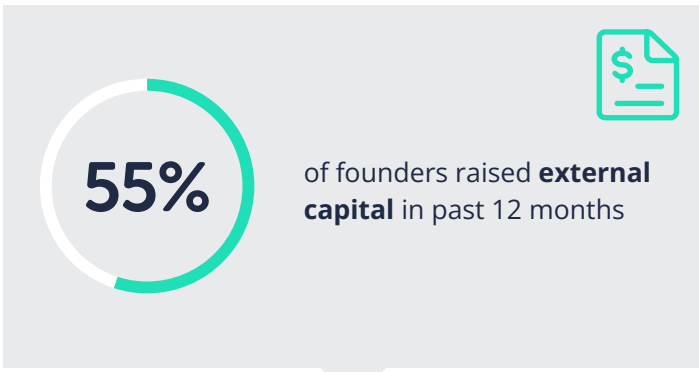




# UK factsheet

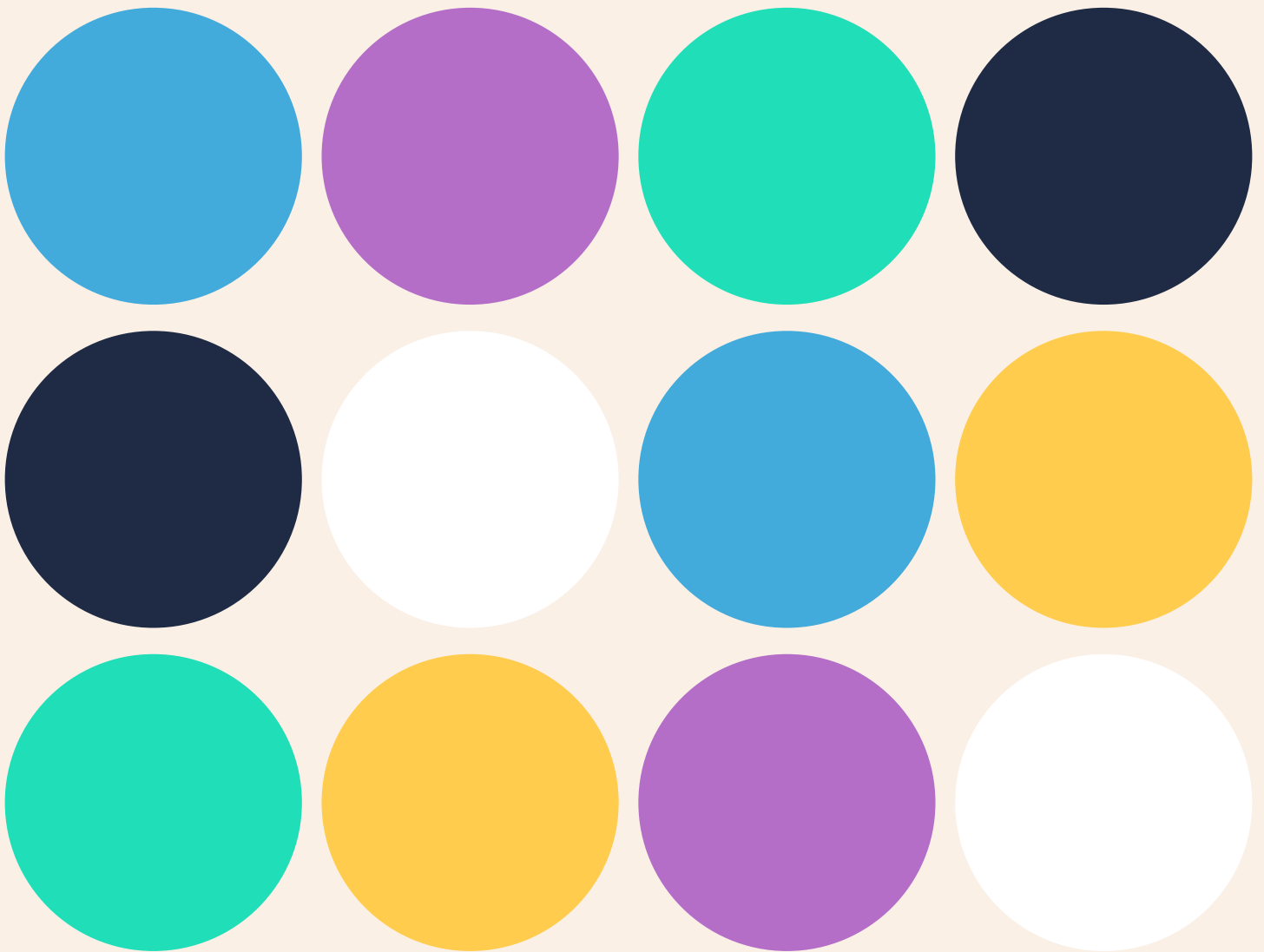


# US factsheet



To learn more about equity and share ownership, visit [ledgy.com](https://www.ledgy.com) or send us an email: [contact@ledgy.com](mailto:contact@ledgy.com)

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