# SUCCEEDING WITH STOCK PLAN PROPOSALS

*Why more boards are issuing replenishment requests to bolster equity incentive pools—and what to consider when weighing one.*

**IN 2023, THE NUMBER** of Russell 3000 companies seeking shareholder approval for the replenishment of their equity plan hit a 10-year high (i.e., 22 percent) after trending upward in recent years. Heightened competition for talent coupled with economic volatility have been key drivers.

"Equity compensation continues to be heavily used to attract and retain talent," explains Voytek Sokolowski, a principal at FW Cook. "In recent years, market turbulence brought meaningful share price declines for many issuers and has resulted in them burning through shares at a faster pace than originally planned."

The faster than anticipated depletion of equity pools is, in turn, forcing companies to go back to shareholders with equity plan replenishment proposals with increased frequency. The trend has been particularly prominent in industries that have experienced greater stock price volatility and that rely more heavily on equity compensation, such as technology and biotechnology.

For companies introducing stock plan proposals, Institutional Shareholder Services (ISS) continues to be an influential voice. Increased prevalence of "Against" recommendations from ISS on equity plan proposals suggests its standards for support have risen and that companies may be requesting more shares than ISS will support in order to meet their human capital objectives. During 2023, ISS recommended "Against" stock plan proposals at 30 percent of Russell 3000 companies and 13 percent of S&P 500 companies, up from 26 percent and 10 percent in 2022, respectively. (See Prevalence of ISS "Against" Vote Recommendations, bottom left.)

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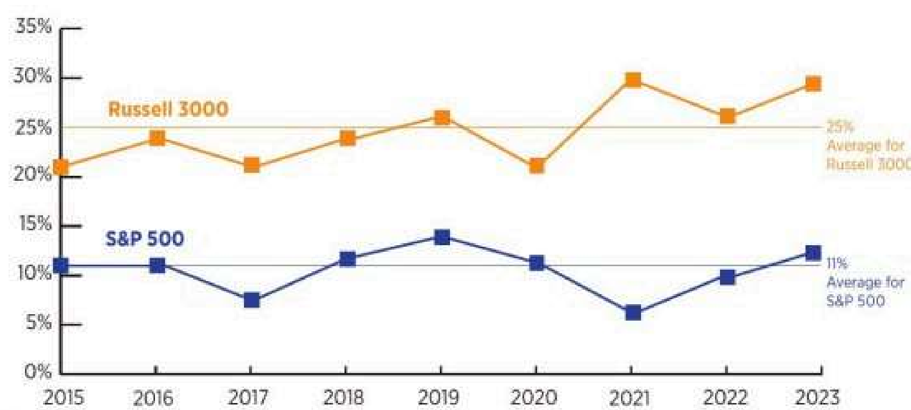
>
> **—Noah Kaplan, Managing Director, FW Cook**

## Prevalence of ISS "Against" Vote Recommendations

During 2023, ISS recommended that investors vote against stock plan proposals at 30 percent of Russell 3000 companies and 13 percent of S&P 500 companies.




Source: 2023 Top 250 Report, FW Cook

### SCORING SHARE PLANS

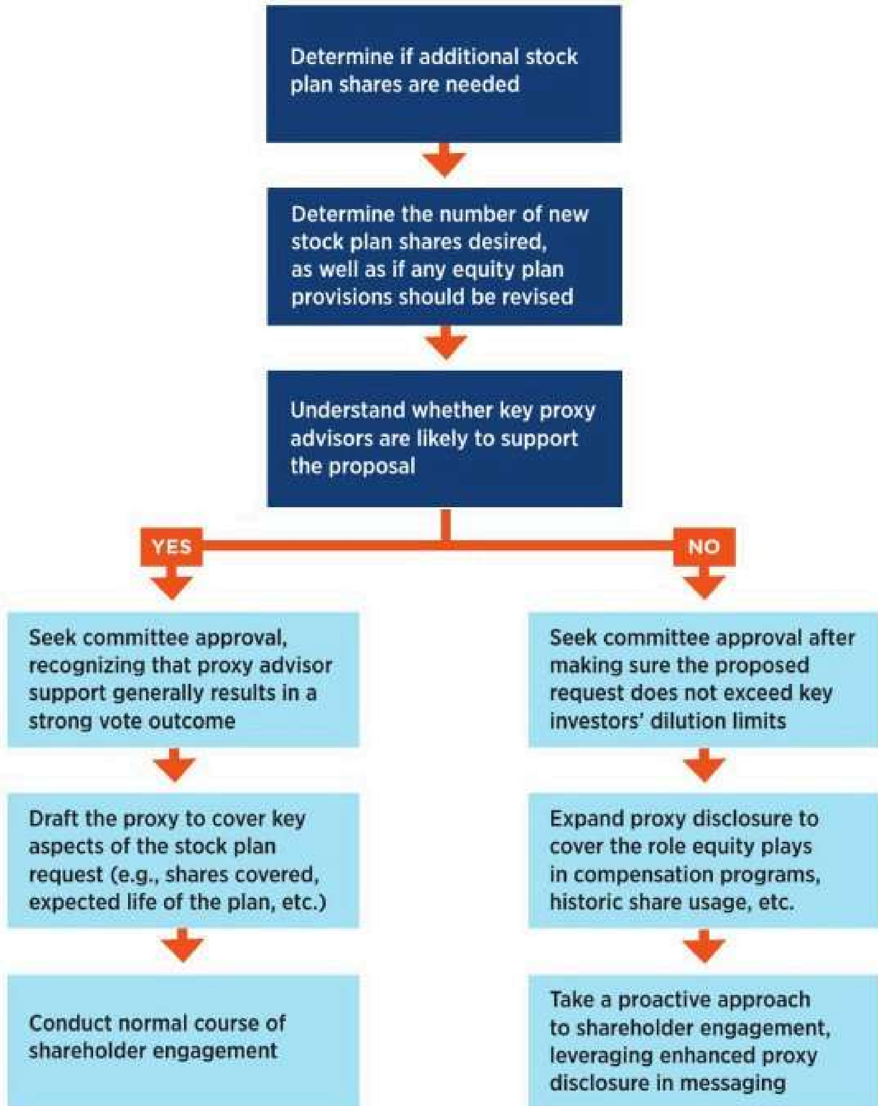
Companies seeking insight on the likelihood of ISS support can purchase access to its equity plan scorecard (EPSC) model through the proxy advisor's consulting arm to see how adjusting the number of shares being requested or other components of the plan will impact their score. "The only thing you cannot toggle is the company's historic grant practices," says Noah Kaplan, a managing director at FW Cook, who says a company can use the EPSC model to explore how changes such as requesting fewer shares or adjusting stock plan provisions might affect its score.

While a "For" vote recommendation by ISS is a strong indication that a stock plan proposal will garner significant support by shareholders, an "Against" recommendation is not a death knell. Shareholder support for Russell 3000 stock plan proposals that ISS recommended "Against" in 2023 averaged 74 percent shareholder support, as compared to 92 percent average support for stock plan proposals that ISS recommended "For."

"It remains quite rare for a stock plan proposal to fail," says Sokolowski. "On average over the past decade, only 0.5 percent of equity plan proposals from Russell 3000 companies have failed [i.e., two to three companies each year], although the failure rate ticked up to a 10-year high of 0.9 percent in 2023."

## The Stock Plan Proposal Process

A board anticipating a lack of proxy advisor support should be prepared to conduct shareholder outreach.




### VYING FOR VOTES

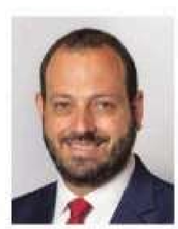
In cases where ISS recommends "Against" supporting a stock plan proposal, boards can appeal directly to large shareholders. Based on published proxy voting guidelines, many large institutional investors focus on standard "best practice" provisions and overall dilution levels when evaluating stock plan requests. While some have specific criteria, such as a 10 percent or 20 percent dilution limit, others use a more subjective approach.

Sokolowski advises that boards anticipating ISS opposition to their equity plan proposal consider proactive shareholder outreach to promote support. "To start, it's important to understand the company's investor profile before going through the engagement process," he says. "Identify your top investors, look into their voting policies and ensure the company is not putting forth an equity plan request that will be viewed as having too high of a cost."

Boards should also be prepared to make a case for the role equity compensation plays in attracting and retaining talent and in incentivizing performance, ensuring that shareholders understand the rationale behind their proposals. "Shareholders are increasingly interested in equity compensation practices," says Kaplan. "Outreach should be used as a forum to understand any sensitivities your investor may have in terms of your approach to equity compensation, and compensation more broadly, and to answer questions."

Finally, pressure from ISS and shareholders to stay below certain dilution limits may require companies to get comfortable with asking for smaller share requests on a more frequent basis. "There's a perception among some directors that going back too often is a potential problem," says Kaplan. "However, provided you're putting forth a request that is not viewed as unduly costly from the standpoint of major investors, there's no policy from ISS or large investors regarding the frequency with which companies can request additional stock plan shares."

ISS and investor scrutiny of stock plan proposals is likely to continue to intensify. As companies navigate this evolving landscape, strategic shareholder engagement and a clear articulation of their compensation strategies will be key in securing support for stock plan proposals.



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PHOTOS COURTESY OF FW COOK