

APRIL 2024

Rho × The CFO Roundtable

PRESENT

CFO Compensation Survey

2024



About the Author

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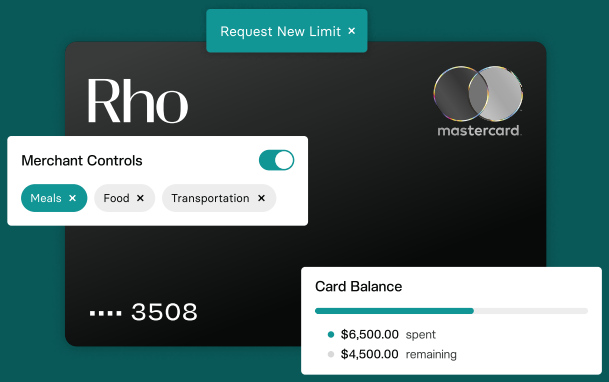
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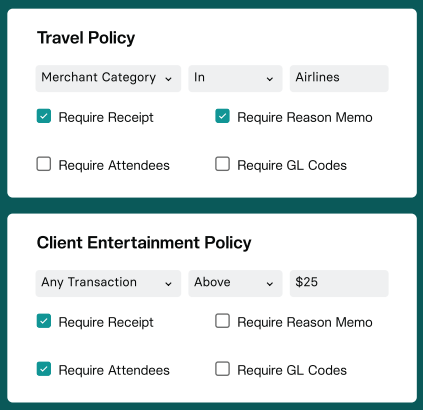
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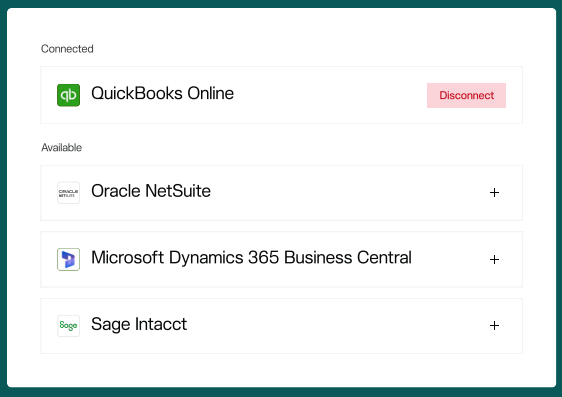
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Overview

The CFO Roundtable is organized to facilitate the questions, referrals, and advice that helps CFOs, COOs, and Finance Heads make faster, better decisions for their organizations in financing, strategy, and operations.

Members have expressed a regular interest in assessing CFO compensation by sharing their experiences so they can better understand their options in the market. This is the third such survey conducted by the CFO Roundtable, with the last one conducted in late Fall 2021 and released in Winter 2022.

The CFO Compensation & Services Survey provides a window on the compensation practices and services that affect the office of the CFO in venture-backed and mid-market growth companies. This survey was organized in response to and in coordination with the members of the CFO Roundtable.

The CFO Compensation Survey is, in its essence, two things. It is **a description** of the marketplace and a product of the network of participants. The survey does not claim to have predictive power or entail a perfect or exhaustive description of the marketplace. It is merely **a description** of the market, which sometimes could be contradicted. Second, it is **a product** of the network. The network determined the questions. The network provided the answers. The network framed how they would like to receive the results. This report aims to present the data and qualitative feedback in aggregate so that those who participated may register their experiences and opinions in the context of their peers.

As such, the report is considered a tool that makes the aggregate results more readable. Therefore, it will include the presentation of respondents' impressions indirectly or through individual quotations but without editorial prejudice. Any color or opinion in the report is, fundamentally, a reflection of individuals in the community of survey respondents and solely attributable to them. These opinions, as in all cases, must therefore be taken with a grain of salt and engaged for their educational opportunity.

The analysis of the aggregate results is intended solely for the participants. Therefore, the report should be kept from those who did not take the survey. However, high-level extracts of the survey results will be made more generally available.

The survey responses, taken together, provide a unique, peer-to-peer description of the compensation practices that directly impact the CFO community. Please refer any questions regarding these results directly to the CFO Roundtable.

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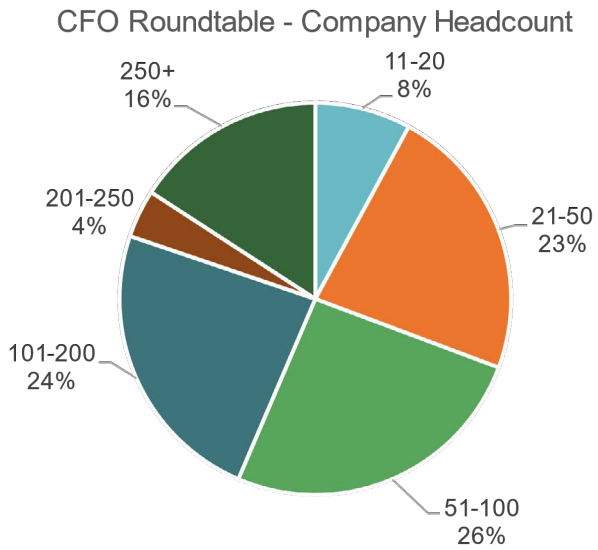
The Roundtable – Participant Demographics

Some one hundred and eighteen respondents participated in the survey. They primarily consist of CFOs at venture-backed businesses in the Greater New York area. Still, the population extends into some middle-market public companies and those in other geographies, such as Greater Boston, the Bay Area, the Southeast, the Southwest, the Midwest, and smaller regions. At a high level, the survey captured the total employees, revenue, and details of the finance function.

Employees & Location

The respondents provided a strong cross-section of middle-market growth companies across various regions. The largest cohort was from Greater New York. The next largest groups were from the Bay and Southeast, followed by the Midwest and Southwest.

Respondents were classified according to a range of employees. These are outlined in the pie chart below, and comparisons with the prior survey are presented inline.



Some 20% (vs 16%, 21%) of respondents have more than 250 employees, and 70% (vs 45%, 35%) have more than 100 employees. The next largest cohort consisted of approximately 10-50 employees (vs 31%, 21%). The total number of employees touched by the survey – 19,106 (vs 14,453, 9,060).

"Mostly observations: It's common to see series B through C startups offering $225 to $250K base, plus bonus to CFOs. Another trend is CFOs in the growth equity range who are taking lower cash packages (e.g., low $200K + bonus) in favor of more equity (e.g., 1.25% to 1.5% fully diluted)."

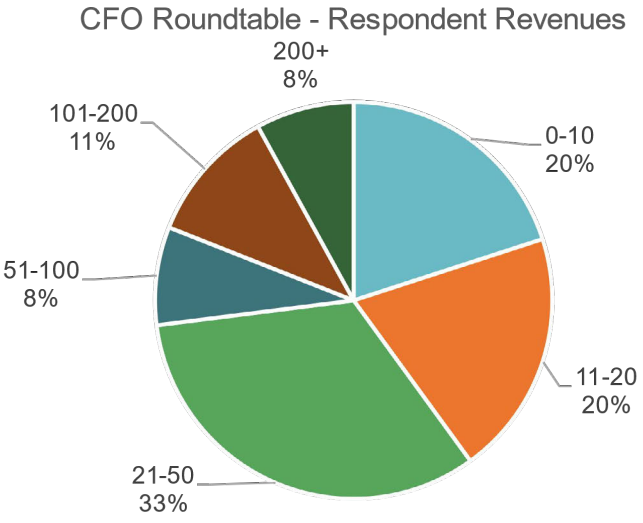


Gustafson, C. J. (2023, April 25). Are You Being Paid Enough? Mostly Metrics. Retrieved from https://www.mostlymetrics.com/p/the-state-of-corporate-finance-pay

Revenue

The projected aggregate revenues across 2024 respondents is $7.8b (vs $4.2b, $2.7b). This is a conservative estimate and most likely understates the economic contribution of the reporting participants. **On average, this is approximately $415k in revenue per employee.**

Respondents reported specific revenue targets for 2024. On average, the survey reflects approximately $77m in revenue per respondent. Revenue targets were then classified according to revenue ranges so respondents could be grouped. These are outlined in the pie chart below, and comparisons with the prior survey are presented inline. Some 27% (vs 27%, 35%) of respondents projected 2024 revenues of more than $50m, with 19% (vs 7%, 17%) of respondents projecting more than $100m in revenue. **Just over 50% (vs 46%, 43%) project revenues of $10-50m.**





"And how much are they going to pay you for this? Sounds like a lot of work."

*"Sh*t. I don't know, I forgot to ask."*

Talk about a rookie error.

I called the Group CEO back "you realize I'm not the cheap option for this job, right?"

He laughed "I'm glad you called me back ... I was beginning to think we'd picked the wrong guy. Don't worry, I'll have the comp detail over to you tomorrow. I think you'll be happy."

Secret CFO. (2024, February 24). The Long and Winding Road (to CFO). CFO Secrets. Retrieved from https://www.cfosecrets.io/p/path-to-cfo

Finance Employees

Respondents individually reported the number of employees in their company's finance function. By comparing the current survey to our prior surveys, one can see how the finance function has contracted and expanded over time, perhaps based on macroeconomic conditions. Our previous survey, in 2021, illustrated the desire to do more with fewer people. **Today, the finance function has stabilized, if not grown, in some cases.**

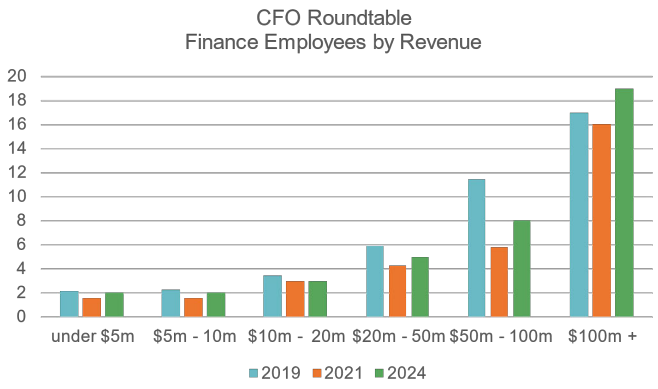
Our prior surveys were nearly identical regarding the number of respondents, but the number and distribution of finance employees differed meaningfully. While the number of respondents was largely identical, the number of finance employees was larger than in the prior survey. The current poll reported 649 employees in the finance function across all respondents, compared to 587 in the preceding study.

Some of the survey disparity may be explained by the current survey's skew towards somewhat larger companies. While this was not substantial, it's reasonable to note. To control for this factor, one can intersect the finance employee data with revenue projections to illustrate the typical size of the finance function by projected 2021 revenue.

Our current survey has a broader base and skews to slightly larger organizations, so it requires some adjustments to compare with the prior surveys. There were 629 finance employees across just over 100 respondents, with an average of six finance employees per respondent.

The typical respondent reported that just about two people were in the finance function when the projected revenue was under $10m. This is about the same as the prior survey. Next, the current poll is consistent with previous surveys, indicating three people for the $10-20m band vs three and 3.5 people in the prior surveys. Next, it starts to diverge from our last survey. It shows five vs 4.3 and six for the $20-50m band and eight vs. six and 11.5 for the $50-100m band. As the revenues exceed $100m, today's respondents come in at 19 vs 16 or 17 employees. This can be attributed to some larger companies in the mix. For those companies between $100m and $250m, the average number of finance employees was 11. For those above $250m, the average was 23.

On average, scaling the finance function from $10m to $100m in revenue remained an almost 9x increase in headcount, but the road there has become far less lean – especially in the band between $50-100m in revenue.



Analysis – Survey Results

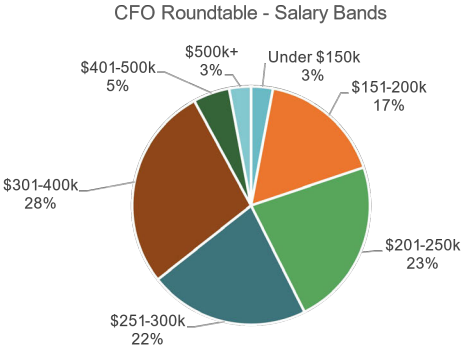
The CFO Compensation Survey aims to uncover the experience and results CFOs have had across all compensation lines. The questions were organized by salary, bonus, severance, equity ownership, and terms. The demographic data taken at the front end, combined with the strong response from the community, allows us to parse the results according to specific cohorts and experiences.

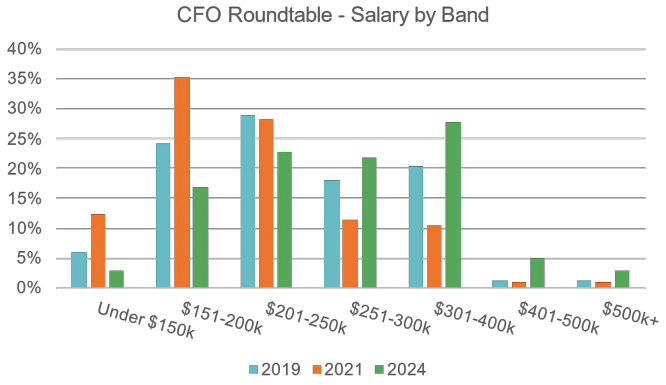
Cash Compensation

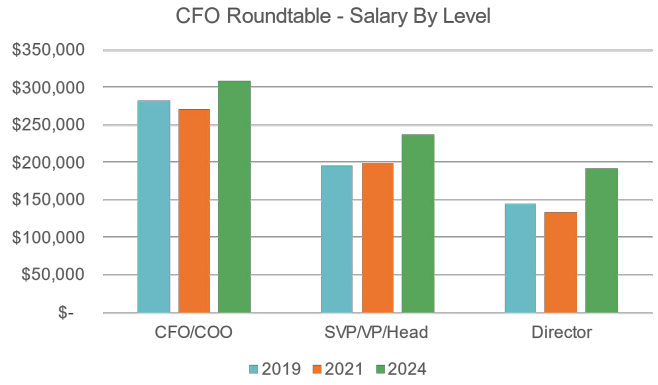
Cash compensation is in line with the previous survey's findings. Both surveys requested respondents to self-report their salary according to salary bands in the form of a multiple-choice question. The averages were then tabulated according to the normalized level of seniority reported by respondents.

The charts to the right illustrate the distribution of salary bands across all respondents and the average compensation according to the respondent level. The averages were calculated by taking the midpoint of each band and starting with $100k for the first band and $600k for the last, $500k+ band. Additional feedback is available on request.

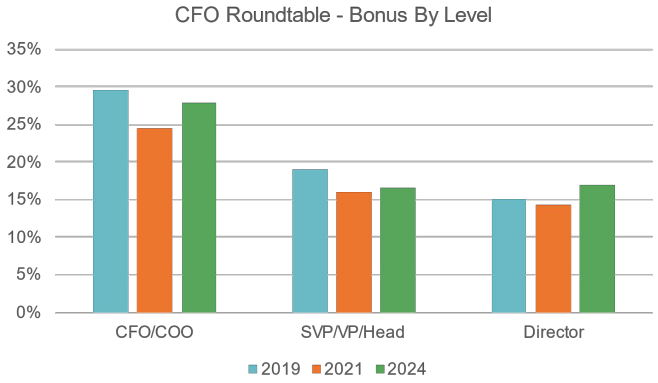
Salary-based compensation was skewed toward **the higher end** in our 2024 survey compared to our prior surveys—the distribution of salary compensation levels in both 2019 and 2021 skew lower than in 2024. Moreover, when viewed according to position levels normalized to reflect CFO/COO, SVP/VP/Head, and Director, the effect is visible and highly pronounced, especially at the director level. This may reflect the impact of inflationary pressures on the economy.







Some 77% of respondents reported receiving a performance-based cash bonus, which indicates a slight increase from 65% in 2021. This reflects an increased focus on cash over weak or weakened equity-based compensation. Those reporting $300k or more in salary expect to receive an average cash performance bonus of 32%. Those reporting between $200-300k in salary expect to receive a cash performance bonus of 20%, on average, with a slight skew toward higher bonuses in the $251-300k range, but 20% of this cohort did not have a cash bonus, which is a slight decrease from 2021, which was 26%. Among those reporting less than $200k in salary, some 82% expect a cash bonus of, on average, 20%, which is a meaningfully higher percentage than in the 2021 survey in which some 64% of those in this band expected a bonus that ranged from 10-20%, with some coming in higher.

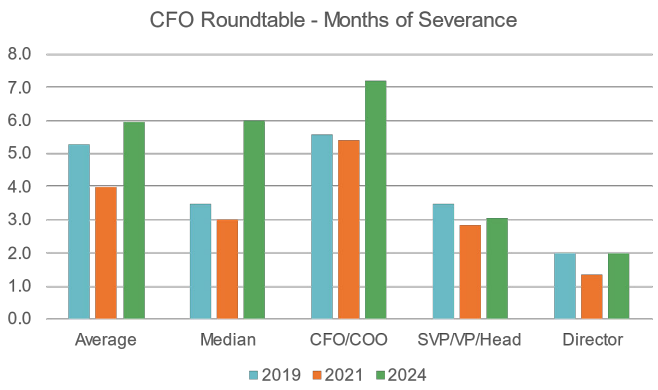


A comparison of estimated cash bonuses among those who receive them is detailed according to their corresponding level

Severance

Severance is an often-overlooked portion of an individual's compensation package. A minority of participants have a formal agreement in place, but it can provide a critical layer of risk management for the employee. For the purposes of the survey, severance was reported in months' worth of salary. The current survey's results indicate an improvement in severance packages across cohorts.

Just under half –some 42% of respondents— reported having a severance agreement. This is identical to the findings of the prior survey. While the 2021 survey had seen agreements degrade from the 2019 survey, this population appears to have seen severance agreements improve from our 2021. The average severance payment for those with a deal in place was six months, a 50% improvement from the four months reported in 2021. The maximum severance was 24 months, which is higher than the prior survey's maximum of 12 months. Those at the director level with severance reported an average of 2 months (vs. 1.3). The chart below illustrates the average and median months of severance for the overall population on the left. To the right of the line are the averages by level. These are calculated according to the subset of those with an agreement in place.



Equity

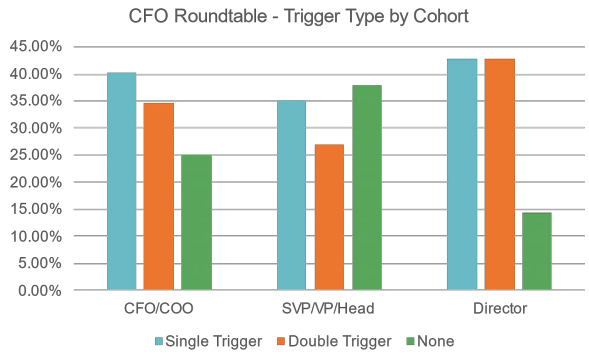
Equity is an important part of the compensation package for CFOs in venture-backed and growth businesses. Respondents noted their equity compensation as a percentage of the company at the time of the initial award, the vesting schedule, and the division between timing and performance-based triggers. In most cases, these awards were in the form of options. Respondent answers were provided as descriptions in open text fields and parsed to normalize the responses.

Some 67% (vs 51%, 76%) of respondents who had been awarded equity were awarded 0.5% or more in equity at the time of their initial award, and 47% were awarded more than 1%.

These awards took the form of options with a four-year vesting period in 86% (vs 87%) of the cases. Those outliers included one, three, five, and six-year vesting periods, with a slight increase in those receiving three years or less -- 9.2% (vs 8%). Most respondents reported a cliff reported a one-year cliff. The typical vesting after that skewed towards monthly vesting: 63% monthly, 20% quarterly, and 18% annually.

Respondents also reported specific qualifications regarding single and double-trigger events. A single trigger specifies acceleration based on a sale of the company; a double trigger specifies a sale of the company coupled with termination without cause. Over 70% of respondents hold a single or a double trigger acceleration clause: single trigger, 39%; and double-trigger, 32%.

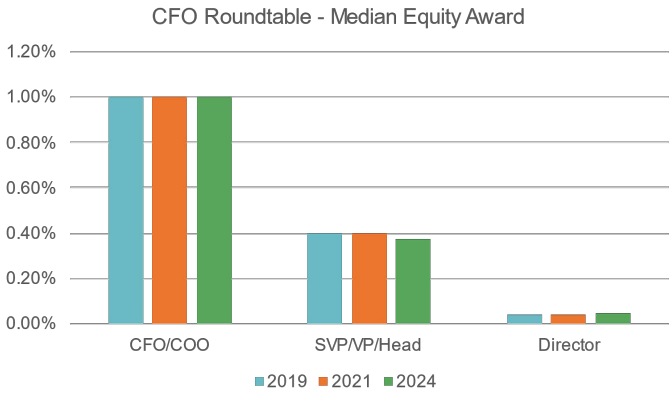
No unorthodox vesting schedules, such as backend-weighted schedules, were reported, though some performance-based kickers were included. These were keyed by achieving the revenue plan or the investor Multiple on Invested Capital (MOIC). The breakdown of single vs double triggers by cohort follows.

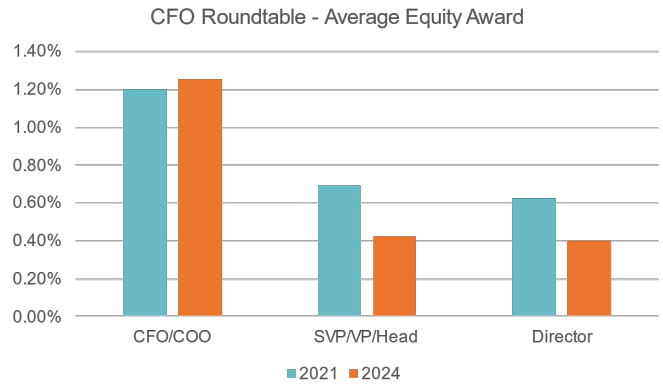


The median and the average equity award among those who received equity was 1%. Among those who had been awarded 0.5% or more equity at the time of their initial award, the average was 1.4% (vs 1.2%).

Median equity awards by level have been remarkably consistent, but the skew within the data holds promise for higher equity awards among CFOs/COOs. The average award among respondents at the CFO/COO level was 1.26%, with a median of 1%. Though the middle-of-the-pack respondent received 1%, the skew illustrated by the average award indicates substantial flexibility to negotiate higher awards. These conditions appeared to improve since the last survey. However, they must still do so for the SVP/VP/Head or the Director levels. They deteriorated.

However, the negotiating position for Directors appears to be stronger than that of SVP/VP/Heads, based on the relative skew of this year's data.





A small minority of respondents had not been awarded equity. In some cases, these respondents noted alternative, cash-equivalent plans with founder status and shares. These plans are designed to vest cash balances over time but were not described in a way that indicated any linkage to the company's equity value in the event of a transaction or liquidity event.

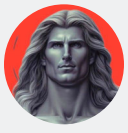
Retention

Our prior compensation survey was amid the so-called Great Resignation. The spotlight on retention and turnover amongst employees ignored no one, let alone CFOs.

At the time, just over fifty percent of respondents had seen an increase in attrition within their company, and some twenty-five percent of respondents indicated that they "are planning to look for a new job in 2022."

One would expect more stability amongst respondents, given that we have moved on from the Great Resignation, and worries about recession have become more prominent. Today, however, some 35% of respondents indicated that they plan to look for a new job in 2024, and some 50% of Director-level respondents indicated they were looking.

"The path to CFO for both accountant and finance folks is fairly linear from a cash perspective but equity looks much more exponential."



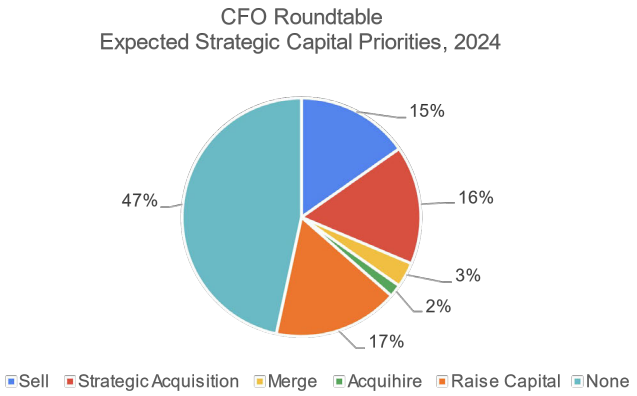
Only CFO. (2024, February 9). Guide to Headcount Efficiency | And Salary Benchmarks for Finance Roles. Retrieved from https://www.onlycfo.io/p/guide-to-headcount-efficiency-and

Strategic Capital Priorities

The capital markets have been largely closed since the onset of the war in Ukraine and the subsequent spike in inflation. Though the initial jitters due to Russia's incursion have subsided, and year-on-year inflation numbers dropped to relatively normal levels in 2023, the capital environment has been unfavorable. Few companies have gone public. Mergers and acquisitions have been quiet. Read any LP letter for a venture fund. Unless a company is tied to Artificial Intelligence, many companies seek to conserve cash to avoid down-rounds and wind-downs.

To put a finger on expectations within the CFO community, the survey asked the top Strategic Capital Priority for the respondent in 2024.

The largest cohort anticipated doing nothing in 2024 – 47%. The next largest group, at 17%, planned to raise capital, followed by some 16% who expected to make a Strategic Acquisition, followed by those who would wish to sell their business, at 15%.



Observations

The strategic capital priority question was followed by a request for respondents to describe their plans. Responses provide a keyhole perspective on how individuals view capital availability and the market's direction. As one would expect, "Fundraising at an up round will be hard except for the best-performing companies" and "Companies unable to control burn will need to explore the sale of the company at significant discounts to last round's valuation," but much of this might be characterized as speculation about other businesses. Most respondents are just focused on profitability and growth.



"As the CFO shifts from Chief Financial Officer to Chief Performance Officer, so too do the expectations, and resulting pay, for those working within the finance function. Gone are the days of FP&A being 'just a budgeting team.'"

Gustafson, C. J.

Gustafson, C. J. (2023, April 25). Are You Being Paid Enough? Mostly Metrics. Retrieved from https://www.mostlymetrics.com/p/the-state-of-corporate-finance-pay

Strategic Acquisitions

As one might expect, those considering acquisitions were particularly enthusiastic. They sometimes highlighted pending or future acquisitions: “looking to make acquisitions,” “acquisitions!” However, some also warned that “targets have high valuation expectations” and “valuation expectations for sale companies are inflated - unlikely to acquire anything.” However, as we get further into the year, there is a worry that some opportunities may disappear: “As the economy starts getting better, it will be harder to find good companies at lower prices, which may reduce our appetite for acquiring a company.” In a related comment, one noted, “gut says overall valuations increase YoY but relatively modest, still opportunities for strategic value acquisitions."

Capital Raising

Those considering raising capital have mixed concerns about its availability and quality. There is a view that “the mid-late stage VC companies need capital and are not getting it from the equity markets,” one respondent offered, “expect to see a continual growth in the debt markets to finance these companies, especially as interest rates are expected to improve.” Others remarked that capital “is more expensive and difficult to come by, so the use of capital will be key. Ensure that capital deployment has the proper ROI to justify the spend.” However, most of those who intend to raise capital in 2024 did not mention constraints, and some mentioned the prospect of growing at an up-round.

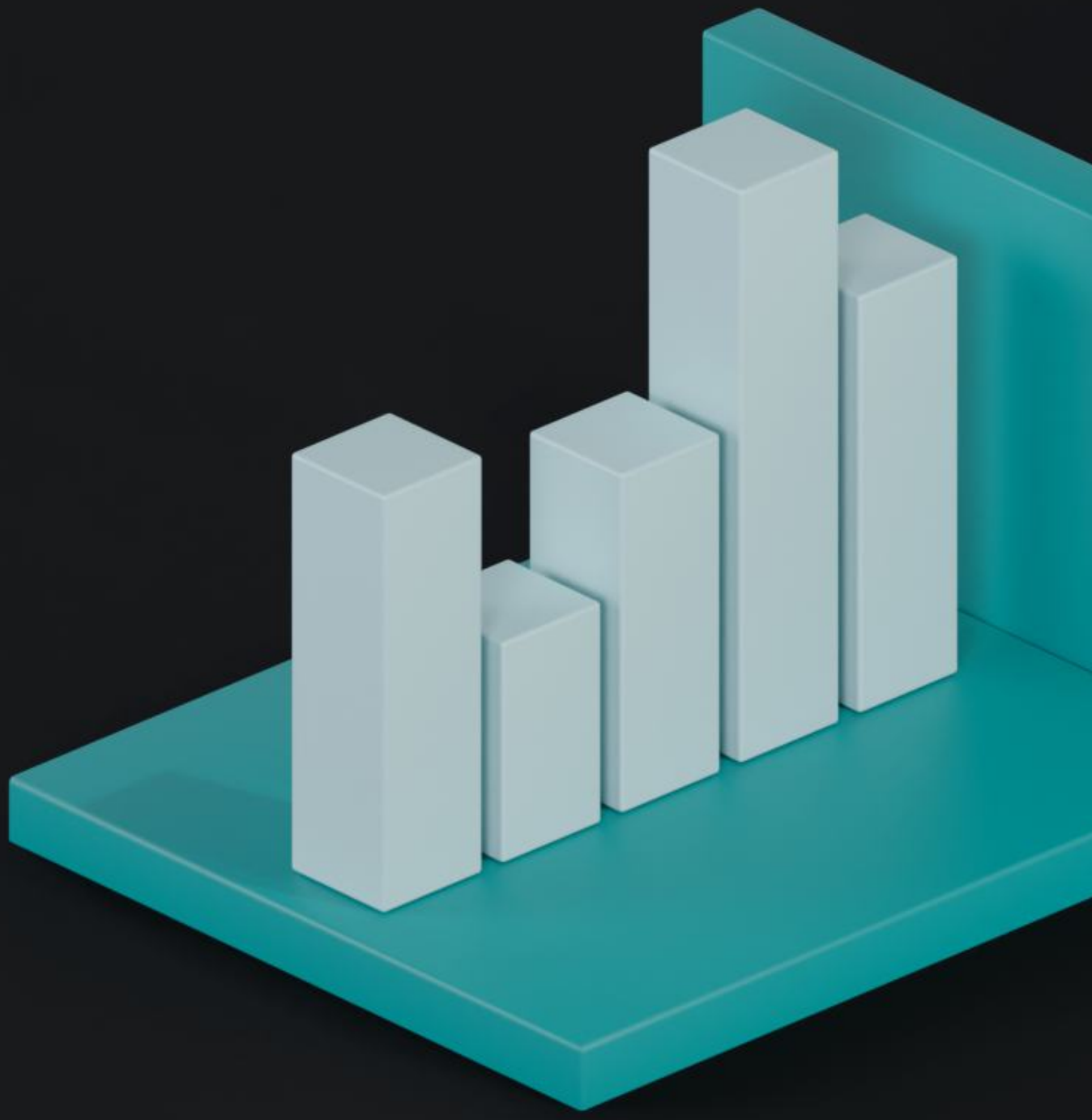
Strategic Sale

Those considering a sale of their company composed a range of perspectives. Some emphasized the underlying need for “more cash, and it will be hard to find” or the desire to sell to “avoid raising capital.” Another put it, “raise money or get busted!” The fear is that businesses with bad economics won’t be able to raise capital and will have to settle for “a suboptimal exit,” so, for example, “not looking good out there” and “inefficient SaaS will get acquired for cheap.” But just as potential acquirers haven’t seen valuations come in enough and have started to worry about the market recovering, some considering a sale remarked, “the market will thaw as rates come down and companies demonstrate profitable growth” or “valuations are climbing again, even though it's not in the public comps.”

Merge

There was also a cohort considering merging with another company, which is, in a way, halfway between considering an acquisition or considering a sale. In that way, it may signal an intermediate comfort with one’s capital and commercial position while being open to making an acquisition or being acquired. To that end, one remarked, “open to opportunities - the runway issue is still very real,” and another, “open to anything - but the easiest path forward is to grow our revenue and give us optionality and not force us into a transaction.” Another warned, “we haven't seen an extreme impact from QT and interest hikes.”

Rho × The CFO Roundtable



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