



Burn Rate Tells Part of Your Share Utilization Story— Effective Remaining Life and Inventory Tells the Rest

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For our study of share utilization in 2018, we ran the S&P 500 through MDG's Equity Dilution report. This is the second writeup on our findings. The first, on the topic of burn rate, is available [here](#).

Let's assume your company's three-year average burn rate approximated its industry peers. Practice among industries varied widely between 2016 and 2018: at the median, companies in the communication services and information technology sectors awarded roughly 1.3% of basic weighted-average common shares outstanding per year whereas companies in the real estate and utilities sectors awarded roughly 0.3%¹ (see Exhibit I).

Should you worry?

Unless your plans include an evergreen provision that annually replenishes the authorized pool of available shares—an increasingly rare practice and red flag for governance watchdogs—you also have to keep an eye on how quickly your pool is evaporating, which will help determine how quickly you'll need to solicit shareholders for a fresh supply. The first step is to determine the number of shares remaining in the authorized pool for future grant. Consistent with our calculation of burn rate, we show remaining shares as a percentage of basic weighted-average common shares outstanding. This varied significantly among industries. On the surface, it suggests the information technology sector is well-funded at 8.3% while the utilities sector, with only 1.6% available for future grant, is heading for burnout (see Exhibit II).

But this perspective is deceiving; the remaining reserve makes sense only when viewed in the context of the anticipated future equity spend. The number of years before the well runs dry (the effective remaining life) is a crucial metric in equity management:

$$\text{Shares Available for Future Grant/Annual Burn Rate} = \text{Effective Remaining Life}$$

When viewed from the perspective of the effective remaining life, it is the communication services sector, not utilities, where the clock is ticking fastest (see Exhibit III).

¹Throughout this analysis, we used basic weighted-average common shares outstanding as a benchmark. MDG's Equity Dilution report permits users to select one of three choices: common shares outstanding, basic weighted-average common shares outstanding, or diluted weighted-average common shares outstanding.

Exhibit II: Shares Available for Future Grant (previously authorized but ungranted shares as a percent of basic weighted-average common shares outstanding)

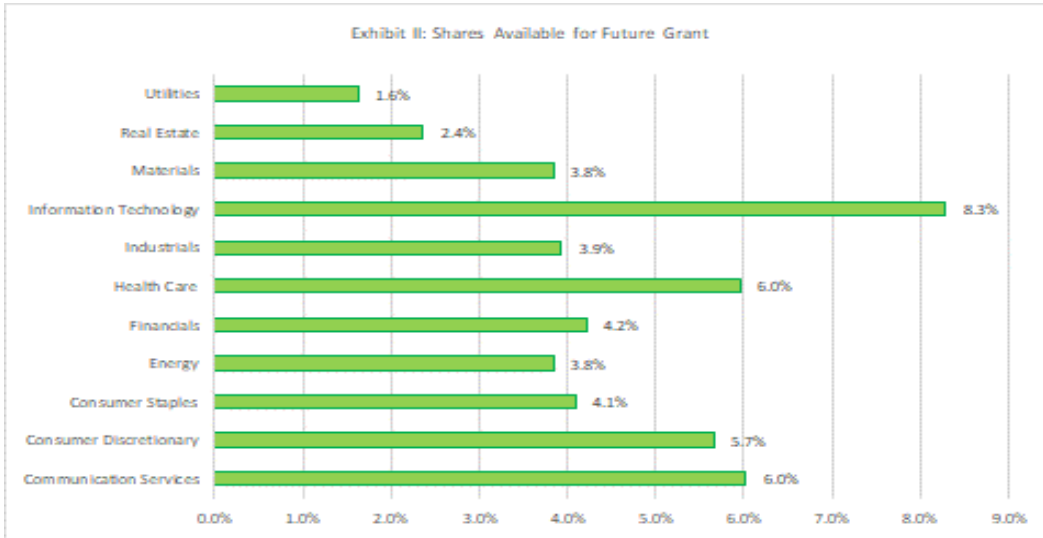


Exhibit III: Effective Remaining Life (Shares Available for Future Grant [Exhibit II] divided by Burn Rate [Exhibit I])

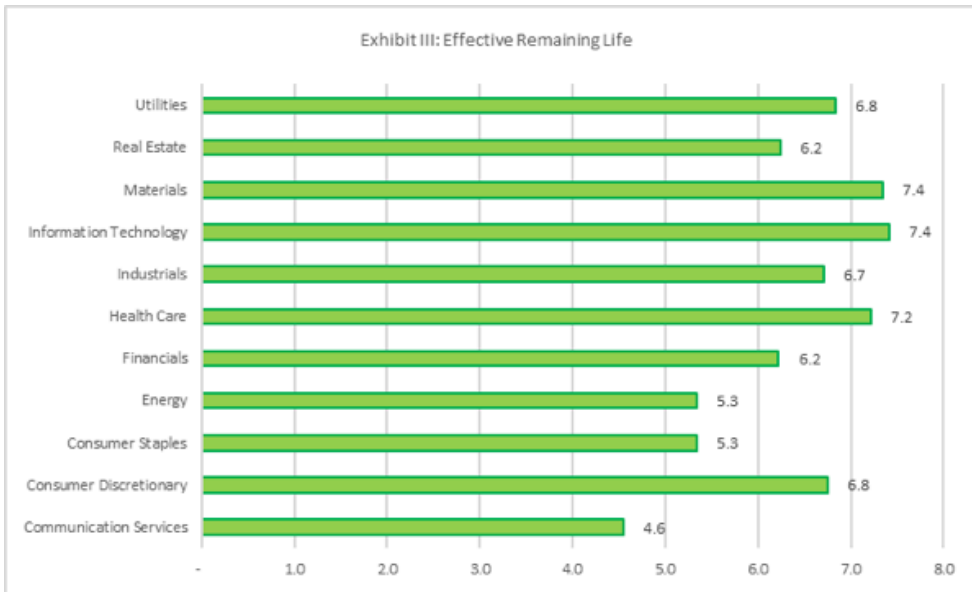


Exhibit IV: Total Outstanding Equity Awards (sum of unexercised options or SARs and unvested full-value shares or RSUs as a percent of basic weighted-average common shares outstanding)

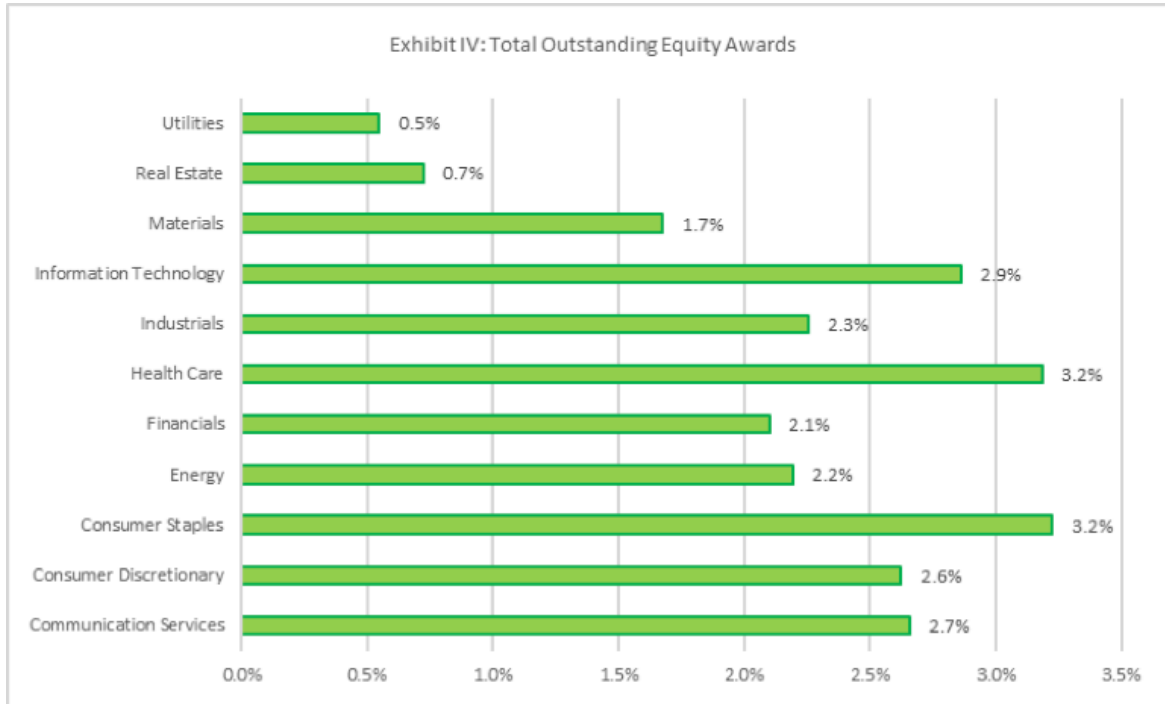


Exhibit V: Overhang (sum of Shares Available for Future Grant [Exhibit II] and Total Outstanding Equity Awards [Exhibit IV])

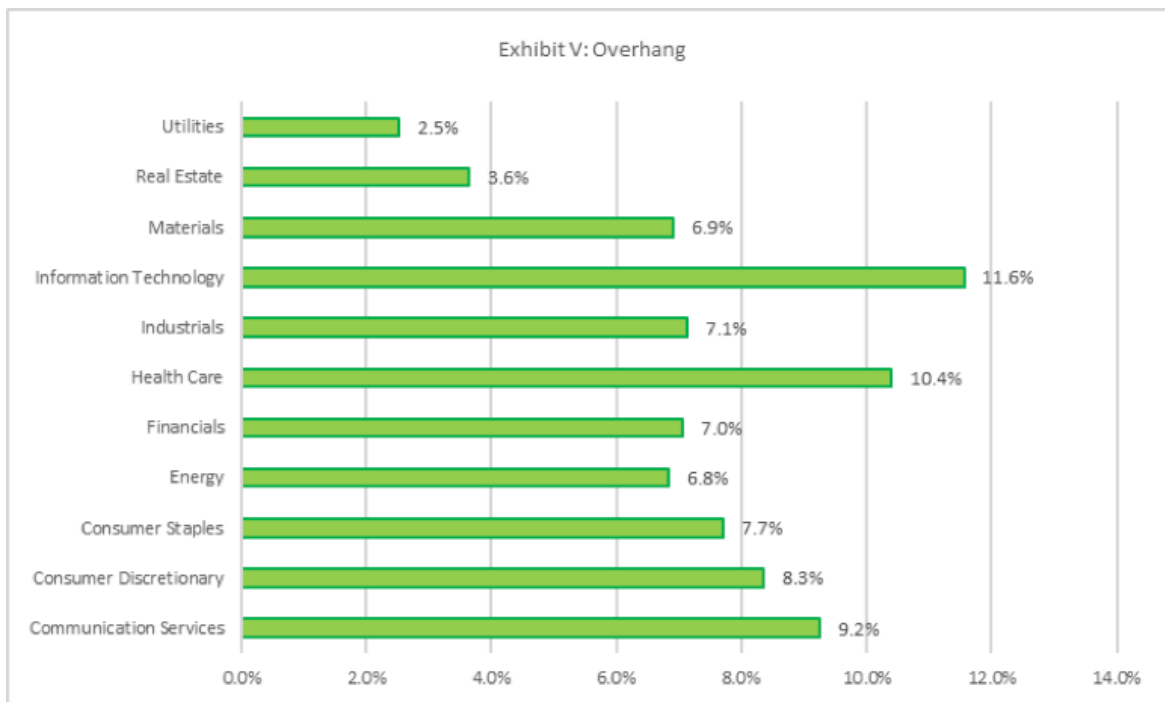


Exhibit VI: Total Potential Share Commitment (sum of new shares requested and Overhang [Exhibit V] as a percent of basic weighted-average shares outstanding)

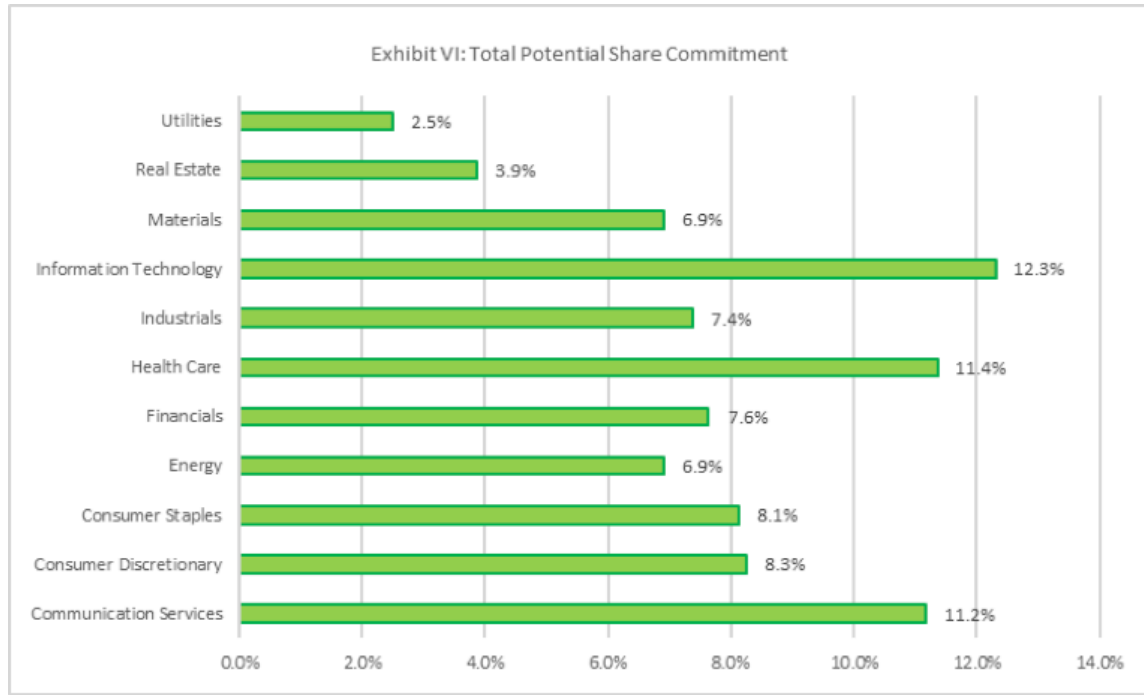


Exhibit VII: Prevalence of Shareholder-Approved Requests for Additional Shares (number of companies in an industry sector adding shares to existing reserves following shareholder approval, divided by the number of companies in that industry sector)

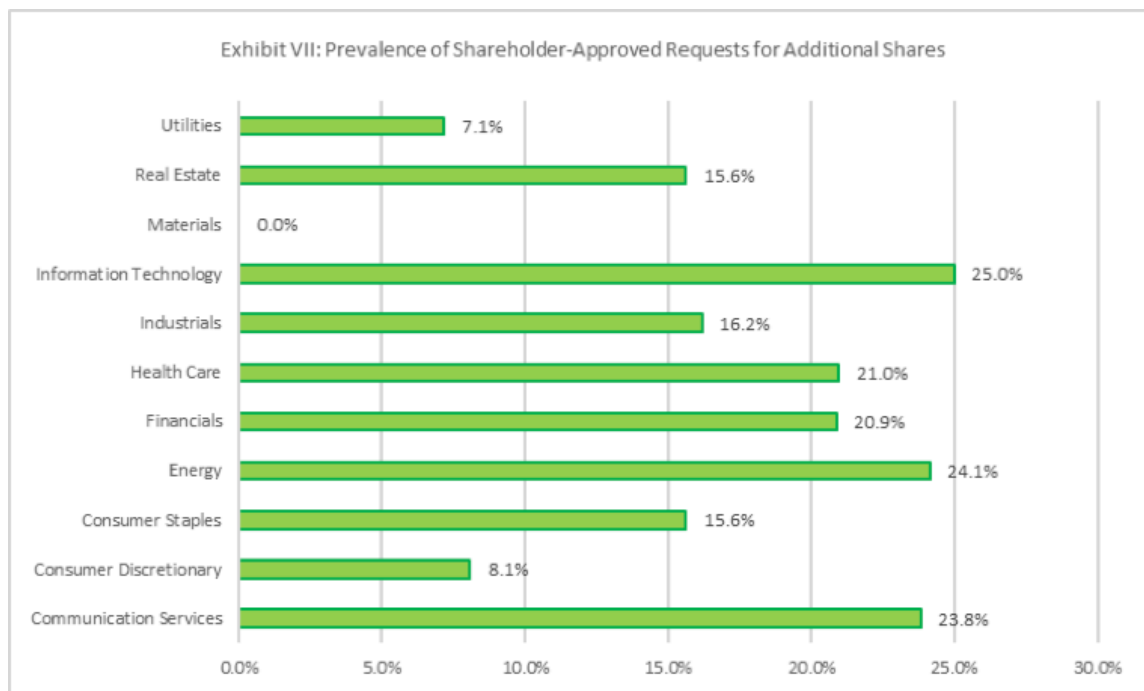


Exhibit VIII: Size of New Reserves (number of shares requested as a percent of Shares Available for Future Grant [Exhibit II]) Categorized by Company Market Capitalization)

