

RICHTER



Private Company Compensation: Incentivizing Business Leaders

June 13, 2025

MONTREAL

1981, McGill College, #1100
Tour Richter
Montréal QC H3A 0G6
T 514.934.3400

TORONTO

181, Bay St., #3510
Tour Bay Wellington
Toronto ON M5J 2T3
T 416.488.2345

CHICAGO

200, South Wacker, #3100
Chicago IL 60606
T 312.828.0800



[RICHTER.CA](https://richter.ca)



Disclaimer

Richter LLP is an independent firm that provides family office, accounting, tax and business consulting services, including wealth, investment advisory, portfolio management and consolidated wealth reporting services.

The contents of this Presentation are not meant for broad distribution and should be considered for informational purposes only.

All data provided is directional in nature, shared for discussion purposes only and should not be considered to be absolute or conclusive. Users should exercise their own judgment and discretion when interpreting the data and seek professional advice if needed.

Nothing contained in this Presentation is to be construed as a legal interpretation of, or opinion on, any contract, document, legal or otherwise, income tax laws, CICBV Standards or on any statute or regulation; nor is this Presentation to be interpreted as a recommendation to invest or divest.

RICHTER



Today's Speakers



Alana
Geller

ageller@richter.ca



Zachary
Brzezinski

zbrzezinski@richter.ca

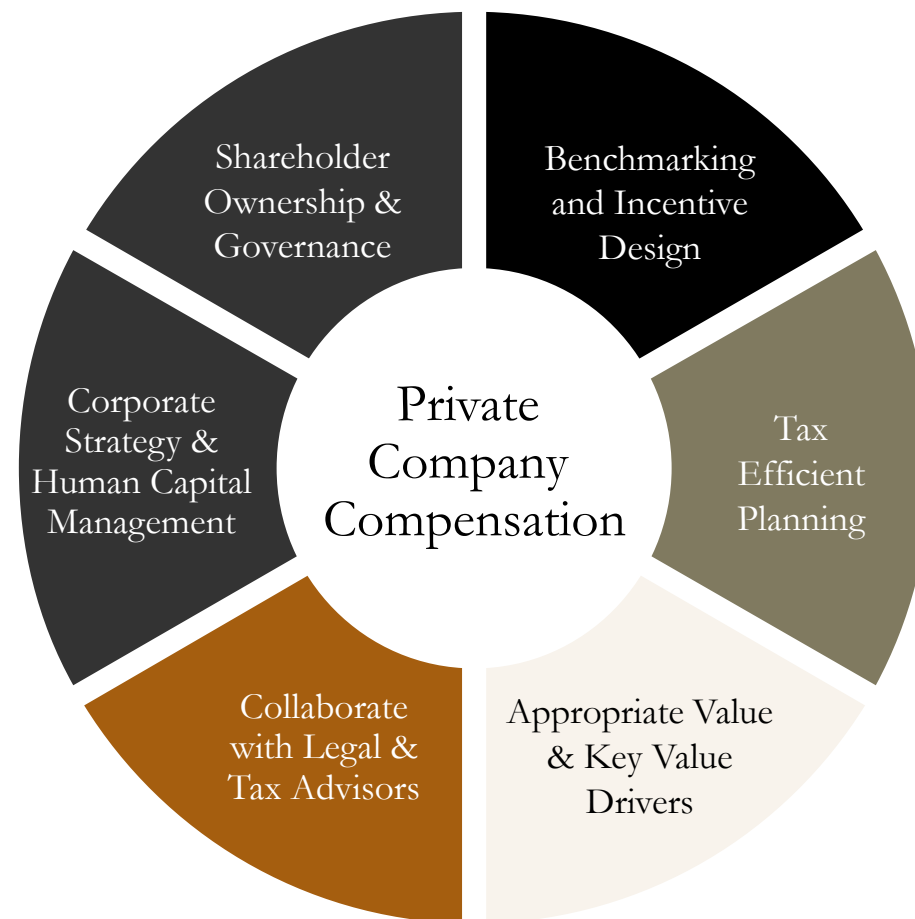
CBVs focused on succession planning, executive compensation, shareholder buy-outs & private company disputes.

What We Do – Customized Advice

Our approach offers a complementary team of experts focused on finding solutions tailor-made for businesses, owners and their families.

We advise clients at the intersection of business, ownership and family.

- Entrepreneurial strategic advisors
- Committed to understanding business and client objectives
- Tailored advice and practical solutions
- Work as an integrated team with multi-disciplinary professionals
- High degree of private company and intergenerational family expertise



Our Experience

Gained from working in succession planning and compensation matters over the past decade:

- Design of short, medium and long-term performance-based incentive plans in a variety of operating, real estate holding and family office businesses
- Dispute resolution quantifying the value of incentive plans in mid-large operating businesses and single-family offices
- Business valuation in the context of equity / equity-like plans
- Review and quantification of plan value as requested by the board of private entities to foster good governance
- Ownership and management succession planning in intergenerational private companies, often with complex family / ownership dynamics
- Collaboration with tax experts (accountants and lawyers)
- Collaboration with legal advisors including labour, business and litigation counsel in a variety of contexts

Today's Agenda

1

Introduction

2

Common objectives of
effective compensation
programs

3

Elements of compensation
and best practices

4

Are performance-based
incentives a good idea?

5

Key considerations and types
of performance-based
incentives

6

Should an employee
invest their own capital?

7

How CBVs can play a role

8

Appendices:
References
About Richter

Introduction



When compensation is managed carefully, it aligns people's behavior with the company's strategy and generates better performance.

When it's managed poorly, the effects can be devastating: the loss of key talent, demotivation, misaligned objectives, and poor shareholder returns.

Given the high stakes, it's critical for boards and management teams to get compensation right.

SOURCE: HAVARD BUSINESS REVIEW

Polling Question?

Have you been involved in a matter where the outcome was significantly linked to senior leadership compensation in a private business? If so, what was the nature of the matter:

- a) Valuation
- b) Dispute
- c) Transaction
- d) Two of the above
- e) All of the above



Introduction – Incentivizing Business Leaders Considerations and Key Trends



Impacts all services lines of a typical CBV (M&A, disputes, business valuation)



Many private companies are facing headwinds today with *attracting* and *retaining* key talent



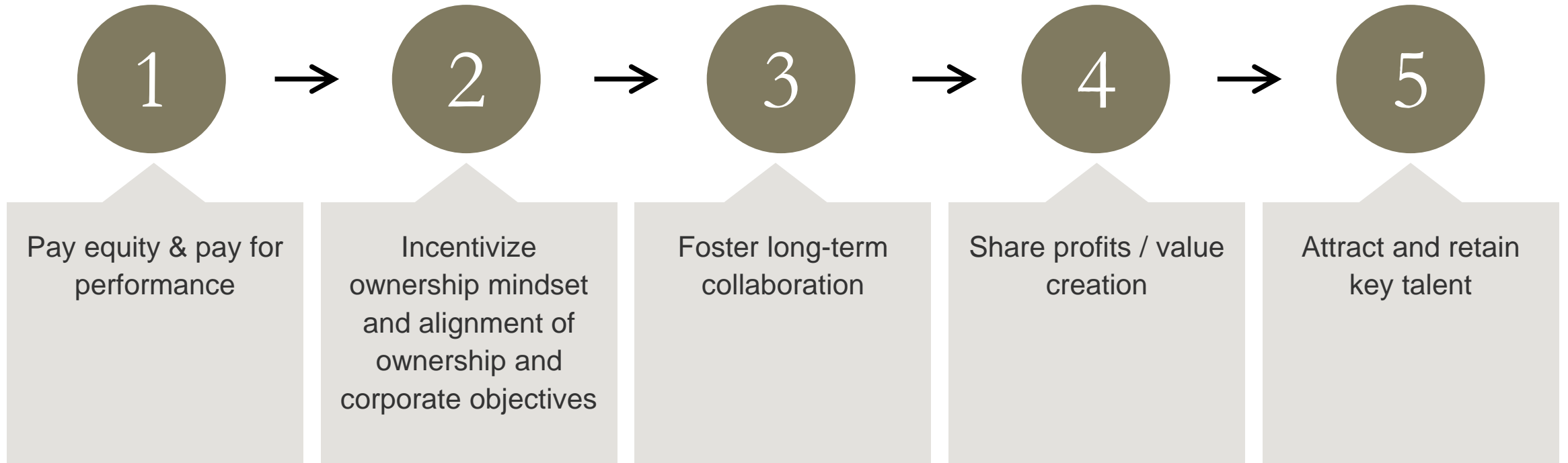
You will be hard-pressed to find a business owner who is not interested in learning *how to align* their interests with their key employees



The *value created* for the owner by the employees following a well-crafted plan should far exceed the cost of the plan

Common objectives of effective compensation programs

The Compensation System – Key Objectives



Source: Adapted from Espace Magazine



“

...internal and external equity are the foundations of compensation fairness. Compensation equity is the goal that generally means positions are neither overpaid nor underpaid.

SOURCE: FAMILY BUSINESS COMPENSATION

Elements of compensation and best practices

Compensation Framework - Best Practices

**Base
Salary**

Benchmarked to
comparable
position

**Short-Term
Incentive
Plan
("STIP")**

% of base salary
with a target and
maximum

**Long-Term
Incentive
Plan
("LTIP")**

Equity, quasi
equity or long-
term bonus

Pay equity, pay for performance and align objectives across the organization

Four Dimensions of Compensation Design



Fixed vs Variable

Base salary vs performance incentives



Short vs Long-Term

Annual (usually cash) vs. 2+ years (long-term bonus, phantom stock, options, equity)



Cash vs Equity

Younger companies and certain sectors rely more heavily on equity



Group vs Individual

~70% of exec compensation is typically weighted on firm performance – “We” vs “I” culture

Business Cultures Impact Compensation



Entrepreneurial Culture

- Case-by-case basis
- Maximize owners' control and optimize tax
- Secrecy is common
- Often first-generation business



Family First Culture

- Family needs and owners' control prioritized
- Merit generally not considered
- Goal is family togetherness
- Secrecy is common



Bureaucratic Culture

- Rigid and complex process
- Little regard to goals and objectives
- May follow owner burn-out



Custodial Culture

- Preserve shareholder value and maintain dividends
- May underpay family employees
- Offers little incentive to work hard in the short-term



Strategic Management Culture

- Compensation is tool to achieve strategic goals and guide culture
- Encourages merit-based pay
- Often includes evaluation against pre-determined objectives
- Gold standard but may not be right for all organizations

Source: Family Business Compensation

Are performance-based incentives a good idea?



Compensation is the largest single cost in most organizations.

Hence, the extent to which these resources are allocated effectively is likely to have a major beneficial impact on organizational performance.

Conversely, when these pay resources are used poorly the results may be disastrous to the local firm and in some cases the negative repercussions may transcend organizational boundaries, harming society at large.

SOURCE: COMPENSATION AND ORGANIZATIONAL PERFORMANCE

In the past, many owners cited problems with performance-based plans



Complex ownership and family dynamics

- Multiple share structures
- Passive owners did not understand
- Family / ownership conflict



Fear that plans may impact tax optimization

- Strong focus on tax optimization
- Unclear separation between business and personal assets



Privacy issues

- Reluctance to share financial information



Lack of liquidity for the shares

- Unclear how employees will cash out



Conflicts of interest

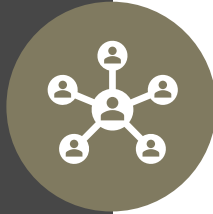
- Concern that employees will prioritize their own financial gain over the company and / or owners

Source: Adapted from Espace Magazine

Sentiments are
changing...

Why incentivize with an Employee Incentive Plan?

RICHTER



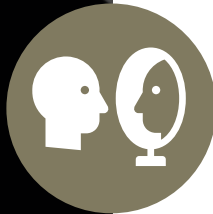
Attract top talent

Private companies are competing with public and institutionally backed firms for top talent. These firms offer short-term and long-term incentives to key leaders.



Foster short-term & long-term mindset

Reward, motivate and retain key leaders over both the short-term and long-term by aligning their interests with corporate objectives. The employees and owners will benefit, and the company will be stronger.



Align ownership and employee objectives

Encourage the key leaders to think like owners and be entrepreneurial.

Key considerations of performance-based incentives

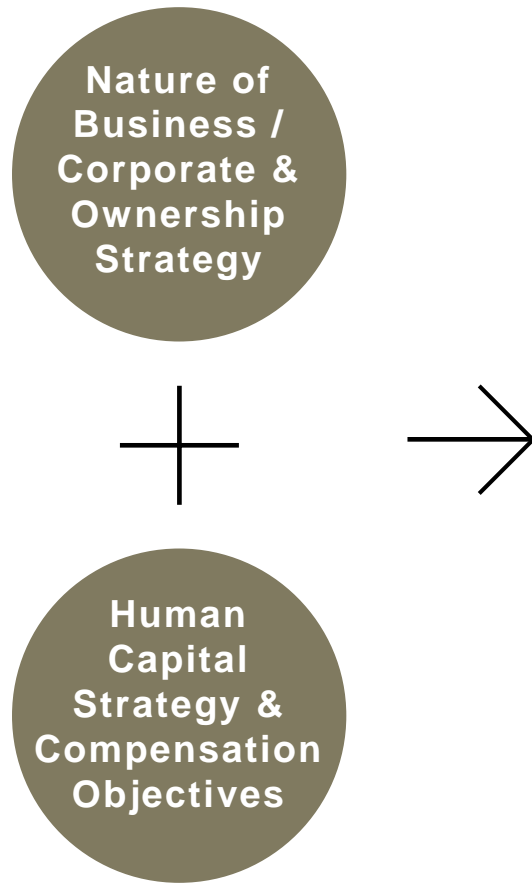
Polling Question?

Have you encountered a situation where business owners have informal or verbal incentive arrangements with key employees that are not supported by a well-documented agreement?

- a) Yes, all the time
- b) Sometimes
- c) Rarely
- d) Never



Key Considerations



Key Considerations:

1. Participants
2. Profits and value to be shared
3. Cost to join, if any
4. Vesting
5. Valuation – entry / exit
6. Triggering events
7. Payout terms
8. Voting rights, if any
9. Hurdle rate
10. Restrictive covenants
11. Related party transactions
12. Financial analysis and business valuation
13. Taxation

Various types of performance incentives

Incentives Structure – Many Options

**Short-Term
Bonus**

**Long-Term
Bonus**

**Phantom
or Stock
Appreciation
Right**

**Stock
Option /
Equity**

Ownership Mindset



Short-Term Incentive Plan

STIP or short-term bonus is a method to incentivize employees based on short-term employee and corporate performance

- Favours short-term decisions
- Easy to administer
- Wider participant pool
- Personal vs corporate objectives
- Paid annually in cash
- No cost to join
- Limited retention
- Governed by employment agreement or corporate bonus plan
- Taxed as employment income when paid, deductible to the company

Case Study: Short-Term Incentive Plan (Annual Bonus)

Streetwear Retailer

The Situation

- Status quo bonus plan was primarily sales based and did not match current business reality
 - Ownership objectives misaligned with bonus plan
 - Did not promote an entrepreneurial mindset or value creation

What we Proposed

- Bonuses as % of salary (target + max)
- Sliding scale to measure performance
- Weighted average: personal + corporate goals
 - Senior roles weighted more to corporate results
- Regular check-ins and clearer objectives
- Boosted transparency and alignment

Key Engagement Considerations

- Reinforced performance-based culture aligned with shareholder goals
- Clearer link to business performance
- Supported stronger goal setting across teams
- Increased fairness and consistency
- Promoted accountability and ownership

Long-Term Bonus Plan

A long-term bonus is a method to incentivize employees based on employee and corporate performance over a term up to 3 years

- Favours medium-term decisions
- Relatively simple to administer
- More senior participant pool
- Personal vs corporate objectives
- Paid in cash within 1-year of measurement period
- No cost to join
- Modest retention
- Governed by employment agreement or corporate bonus plan
- Taxed as employment income when paid, deductible to the company

Case Study: Long-Term Bonus Plan Appliance Retailer / Homebuilding

The Situation:

- Owners planning transition in ~5 years
- No long-term retention plan in place
- Explored equity-like plan, opted for long-term bonus
- Sought simple, effective retention and motivational tool

What we Proposed:

- 3-year performance-based bonus plan
- Senior team only; future roles included
- Tied to stretch budget targets
 - Firm results → senior leaders
 - Department goals → directors/managers
- No equity or significant governance changes

Key Engagement Considerations

- Aligning pay with long-term success
- Layered in addition to well functioning STIP
- Considered interdepartmental competition
- Boosted engagement / entrepreneurship through clear goals

Stock Appreciation Right (SAR – Phantom Stock)

A deferred cash bonus based on long-term value creation over the duration of employment or until the business is sold

- Favours long-term value creation
- Most senior participant pool
- Vesting can be time or milestone based
- Triggering events
- Measurement based on value appreciation
- Plan cannot pay cash during its tenure
- Following a triggering event, plan pays
- No cost to join but may be in lieu of cash bonuses
- High retention
- Governed by Phantom Plan agreement
- Flexibility to define the business
- More costly to design / monitor, requires annual valuations
- Taxed as employment income following triggering event, deductible to the company

Case Study: Stock Appreciation Rights Real Estate Holding, Development and Construction

The Situation

- Desire to share long-term value creation with key leaders of real estate holding and development business
- Need for succession plan in construction business

What we Proposed

- Real Estate
 - Phantom Plan (growth above hurdle)
- Construction Business
 - Exit Package for retiring leader over next 5 years
 - Phantom Plan (growth above hurdle) for incoming leaders together with revised STIP

Key Engagement Considerations

- Complex organizational structure
- Legacy employees
- Vesting for tenured execs
- Valuation
- Family compensation
- Financial modelling and returns
- Updated contracts with stronger covenants

Stock Options & Equity

Stock options and equity ownership enable participation in long-term value creation and cash distributions

- Favours long-term decision making
- Most senior and sophisticated participant pool
- Vesting can be time or milestone based
- Triggering events
- Voting rights
- Measurement based on value appreciation and distributions
- More flexible terms
- High retention
- Legal entity considerations
- Sophisticated and senior employee may invest
- Governed by stock option plan and / or ownership agreement
- Often taxed as capital gain when paid, not deductible to the company, alternative minimum tax (AMT) may apply
- Financial information

Should an employee invest their own capital?

Polling Question?

Do you believe it is a good idea for employees to invest in a private business where they are employed?

- a) Yes
- b) No
- c) Not sure



Stock Options and Equity – Should an employee invest their own capital?

ADVANTAGES OF INVESTMENT



Provides strongest degree of ownership mindset and alignment of employee and owner interests.



Can work well for sophisticated key employees that are driving the business.



Provides capital to the company, albeit this is often immaterial to the overall capital structure.



Various financing options exist including:

- Employee capital (often limited)
- Company financing
- Bank financing - arranged / guaranteed by the company or by employee

Stock Options and Equity – Should an employee invest their own capital?

DISADVANTAGES OF INVESTMENT



Change in balance of power between employee and employer.



Higher degree of scrutiny of investment terms (valuation, related party transactions, governance).



Stronger expectation to share financial information.



Many employees are not sophisticated enough to understand the nature and risk associated with the investment.



Employee could be subject to loss of investment that may have meaningful impact to their wealth and home life (spouse or children may not understand).



Employee may fear declining the investment opportunity as it would signal lack of commitment.



Declining the investment opportunity may create two classes of employees and this could lead to negative culture impact.

Case Study: Employee Equity Plan Real Estate Developer and Property Manager

The Situation

- Privately held real estate development and property management
- Desire to bring on employee shareholders
- Initially requested valuation which led to assisting with terms for the employee equity program

What we Proposed

- Modification to payment terms
- Modification to FMV definition and process
- Put / call arrangements on any kind of employment cessation
- Changes to existing shareholders' agreement

Key Engagement Considerations

- Entry and exit valuation
- Exit mechanisms
- Employee cash flow implications

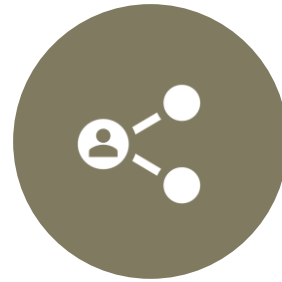
How CBVs can play an important role in
performance incentives

How CBVs can play an important role in performance incentives



Assisting with Key Plan Components

- Provide entry and exit fair market values
- Design an appropriate valuation formula for internal tracking
- Quantify performance return (hurdle rate)
- Financial modelling and understanding of key value drivers
- Identify potential tax and legal implications and coordination with appropriate experts



Litigation & Dispute Support

- Act as independent expert witness
- Quantify the value of the incentive plan
- Assist with negotiations and settlement discussions



Mergers & Acquisitions

- Quantify liabilities in respect of existing incentives plans
- Quantify the impact to the valuation, earn-outs and other price considerations
- Identify implications of proposed incentive arrangements in the context of the transaction
- Assistance with key plan components of proposed new plans



“

Compensation is second only to succession as a concern in family business owners' minds. The importance of the [compensation] issue is growing, as more second and third generation heirs enter management of family businesses.

SOURCE: COMPENSATION AND ORGANIZATIONAL PERFORMANCE



Questions?

APPENDIX: REFERENCE MATERIALS

Reference Materials

- Aronoff, Craig E., and John L. Ward. Family Business Compensation. Family Enterprise Publishers, 2016.
- Brzezinski, Zachary and Geller, Alana. “Aligning Compensation with Corporate and Ownership Objectives, Part 1” *Espace Montréal*, vol. 33, no. 4, 2024, pp. 68-73.
- Brzezinski, Zachary and Geller, Alana. “Aligning Compensation with Corporate and Ownership Objectives, Part 2” *Espace Montréal*, vol. 34, no. 1, 2025, pp. 70-75.
- Groysberg, Boris, Abbott, Sarah, Marino, Michael and Aksoy, Metin, "Compensation Packages That Actually Drive Performance." Harvard Business Review, vol. 99, no. 1, Jan.–Feb. 2021, pp. 102–111. Harvard Business School Publishing.
- Gomez-Mejia, Luis R., Pascual Berrone, and Monica Franco-Santos. Compensation and Organizational Performance: Theory, Research, and Practice. Routledge, 2015.

Note: While not specifically referenced herein, our work has been informed by public company management proxy circulars and CapitalIQ. These sources include robust data in respect of public company compensation for senior leaders.

APPENDIX: MEET RICHTER

Our Firm

Founded in 1926, Richter’s 700-person multidisciplinary team continuously innovates to create value for our people, clients, and community in Canada and in the US.

Our firm offers a wide range of business advisory and family office services, providing tailored guidance with sophisticated expertise.

1926

70

700+

YEAR
FOUNDED

PARTNERS

TEAM
MEMBERS

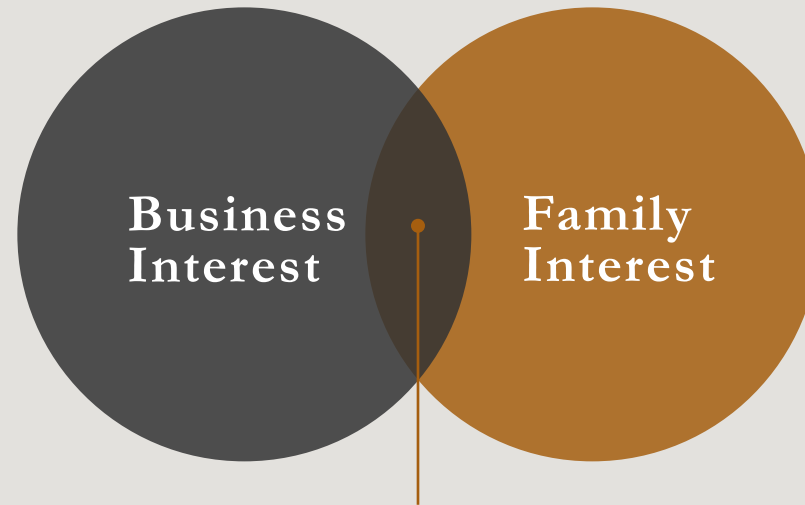


BRIDGING THE GAP

Over time, we have adapted our expertise to support the evolving goals of successful business owners and their families.

Our **Business Advisory** platform ensures all our advice links to your business' long-term strategy and sustainable growth.

Our approach ensures that key stakeholders' interests are at the centre of every decision.



Our **Family Office** offers an integrated in-house platform delivering independent strategic advice on families' wealth and personal objectives across generations.

Our tailored approach helps manage the complexities of your family matters, giving you back the luxury of peace of mind.

We bring all the pieces together to ensure entrepreneurial success across generations.

Whether business, personal, or both,
we always have the owners' best interests in mind

Richter Consulting

Business
Interests

Owners

Family
Interests

Richter Family Office

CREATE LONG-TERM VALUE

BUSINESS STRATEGY

- Owner Objectives
- Business Planning
- Growth Strategy and Acquisitions
- Business and Leadership Succession
- Governance

PERFORMANCE IMPROVEMENT

- Capital Structure Optimization
- Organizational Design
- Management Incentive Plans
- Operational Efficiencies
- Restructuring of Underperforming Segments

BUSINESS FOUNDATION

- Financial Reporting - Audit/Assurance
- Internal Controls
- Risk Assessment
- Tax Optimization
- Human Capital Management

OUR METHODOLOGY

The Richter Approach

Strategic meetings to ensure family and business
priorities are aligned and moving forward.

YOUR BESPOKE FAMILY OFFICE SOLUTION

DESIGN

- Situational Assessment
- Goals and Objectives
- Tailored Solutions

IMPLEMENT

- Governance Framework

SUPPORT

- Chief Investment Officer (CIO)
- Chief Financial Officer (CFO)
- Chief Operations Officer (COO)
- Chief Accounting Officer (CAO)
- Private Investment and Real Estate
- Tax Optimization
- Estate Planning
- Philanthropy
- Risk Management and Cybersecurity
- Financial Literacy
- Insurance Advisory

Entrepreneurial Journey

ENTREPRENEURIAL STAGE

DIVERSIFICATION STAGE

WEALTH CREATION STAGE

WEALTH TRANSITION STAGE

OUR EXPERTISE

We offer personalized, comprehensive solutions that are tailored to each unique goal and aspiration.

Richter Consulting

ADVISORY	TAX OPTIMIZATION	FINANCIAL REPORTING
<ul style="list-style-type: none"> - Corporate finance, transaction support and due diligence - Business transition and succession planning - Growth strategy and business planning - Business valuation - Crisis management and restructuring - Litigation support and dispute resolution - Risk management and cybersecurity - Human capital management - First Nations and Indigenous advisory 	<ul style="list-style-type: none"> - Transaction support (tax structuring and Canadian, U.S., international due diligence) - Transfer pricing - Commodity taxes - Cross-border services - Government assistance - Scientific research and experimental development 	<ul style="list-style-type: none"> - Accounting - Audit and review - Internal audit and risk management - IT audit and security - Management advisory services - Corporate governance (SOX)

Richter Family Office

WEALTH MANAGEMENT	FAMILY OFFICE SERVICES	INTERGENERATIONAL SUCCESS
<ul style="list-style-type: none"> - Chief Investment Officer - Investment strategy - Portfolio management advisory - Due diligence advisory - Consolidated investment reporting and performance monitoring - Private capital real estate investment strategies 	<ul style="list-style-type: none"> - Finance, operations and lifestyle management - Chief Financial Officer - Chief Accountant Officer - Chief Operating Officer - Cybersecurity and Richter Guardian 	<ul style="list-style-type: none"> - Tax optimization - Estate planning - Insurance advisory - Governance and board optimization - Family dynamics - Next generation preparation and family succession planning - Financial literacy - Philanthropy



Richter Consulting

OUR BUSINESS
ADVISORY EXPERTISE

RICHTER CONSULTING

Our Business Advisory platform is focused on enhancing the value of the business in line with the stakeholders' goals and interests, through a customized strategic approach.

HOW WE CREATE VALUE

As trusted advisors, we support our clients by adopting an iterative and integrated approach that evolves with the business, responds to market dynamics, and aligns with the achievement of long-term goals. Our business-like advice leads to practical outcomes that can be successfully implemented.

SET CORPORATE AND PERSONAL GOALS

- We work with business owners to define their business goals to achieve their personal/family objectives.
- We help ensure alignment and resolve any tensions so that the goals can serve as the anchor-point for a long-term plan.



DEVELOP AN ACTIONABLE PLAN

- Collaboratively develop a long-term plan for the business, aligned to the owner's goals.
- Incorporate external market and internal company perspective to refine and validate the plan.



SUPPORT EXECUTION AND MONITOR PROGRESS

- Proactively support execution, bringing in the right specialists to help drive progress, resolve issues, and refine the plan as needed.
- Formalize a progress monitoring cadence to help ensure accountability and proactively mitigate/address risks.



Richter Family Office

OUR FAMILY
OFFICE EXPERTISE

RICHTER FAMILY OFFICE

We understand the unique complexities of wealthy families: diverse investments, sophisticated legal structures, intricate financial and compliance requirements, and unique cash management challenges. As an integrator, we manage these complexities, crafting personalized solutions tailored to each family's needs and objectives.

HOW WE CREATE VALUE

Each family is unique. We create a financial roadmap based on where each family is and where it wants to be. We become part of their journey, supporting them across generations and ensuring each family's objectives are met with a deep understanding of their story.





ALANA GELLER

PARTNER, CPA, CBV, CFF, FEA

ageller@richter.ca

T 514.934.3424

T 416.642.0818

Alana is a trusted advisor to corporate executives, business owners, and their families, guiding them through complex matters related to business valuation, shareholder dynamics, and ownership transitions. She is known for her ability to navigate sensitive situations with clarity and empathy, earning the confidence of both clients and legal professionals alike. She continues to support families as a long-term advisor, helping them make thoughtful, well-aligned decisions.

With extensive experience across ownership arrangements, executive compensation, shareholder disputes, and succession planning, Alana brings both technical precision and sound judgment to her work. She has acted as an advisor and independent expert in high-stakes disputes and has led valuation mandates in the context of transition planning and private transactions. In recent years, she has worked closely with real estate clients, offering support across valuation, governance, and ownership changes—always with a focus on long-term impact and family continuity.

Known for her thoughtful and collaborative approach, Alana ensures all voices are heard—especially in emotionally charged or complex situations. She combines methodical analysis with practical solutions, helping clients move forward with clarity and confidence. Beyond her professional work, she is actively engaged in community causes focused on children's health and diversity and is a proud recipient of the King Charles III Coronation Medal.

RICHTER

RICHTER.CA



ZACHARY BRZEZINSKI

VICE-PRESIDENT, CPA, CBV
zbrzezinski@richter.ca
T. 514.934.3510

Zachary is an experienced professional in business valuation and advisory services, excelling in comprehensive solutions in the context of ownership transition, employment incentives and shareholder disputes. His expertise extends to assisting entrepreneurs in ownership arrangements, crafting compensation plans for executives and offering strategic guidance in valuation and dispute advisory.

Zachary directs complex mandates and provides strategic guidance to ensure high-quality service delivery. He leads valuation engagements and is recognized as a trusted advisor among colleagues and clients.

Zachary's inquisitive nature, collaborative spirit, and problem-solving abilities propel him to meticulously analyze data, foster effective teamwork, and deliver innovative solutions. Renowned for his adept communication skills and unwavering dedication to continuous learning, he builds strong client relationships and consistently remains at the forefront of industry trends. Moreover, his resourcefulness ensures he can navigate complex challenges, optimizing resources to achieve exceptional outcomes.

RICHTER

BUSINESS | FAMILY OFFICE

RICHTER.CA
    

TORONTO
181 Bay St., #3510
Bay Wellington Tower
Toronto ON M5J 2T3
T 416.488.2345

MONTRÉAL
1981 McGill College, #1100
Richter Tower
Montréal QC H3A 0G6
T 514.934.3400

CHICAGO
200 South Wacker, #3100
Chicago IL 60606
T 312.828.0800