

10 Considerations When Designing “Moonshot” Awards

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The term “moonshot” has become synonymous with blockbuster equity awards granted to technology CEOs with seemingly unfathomable price tags. While these awards often capture headlines, the underlying concept can apply to companies of many sizes and growth stages. Regardless of structure, moonshot awards are generally designed to deliver extraordinary rewards only when shareholders realize extraordinary value creation.

Below are the 10 most important considerations for Compensation Committees exploring the use of “moonshot” awards.

- 1. Business Rationale** – Management and the Committee must first align around a strong business rationale for a moonshot award. Not only does this create an internal rallying cry, but there must be clear and consistent messaging externally to mitigate the risk of scrutiny.
- 2. Covered population** – Should the award opportunity be granted to just the CEO, all CEO direct reports or a broader group of senior leaders? While expanding participation increases cost, the most important consideration is identifying the executives most critical to developing and executing on the company’s long-term growth strategy.
- 3. Vehicle** – Typically three vehicles are considered for moonshot awards: 1) performance-vested full-value share units (PSUs), 2) performance-vested stock options (Performance Options) or 3) time-vested stock options with premium exercise price(s) (Premium Options). These types of awards often require a complex valuation model to determine the grant-date fair value. Historical and implied share price volatility are often among the most significant drivers of grant-date fair value and can materially influence which vehicle provides the most cost-efficient design.
- 4. Metric** – These awards are often designed in a way to create a very clear and direct tie to shareholder value creation. Therefore, absolute share price growth is the most common metric, though other

alternatives are observed (e.g., price + operational milestones, relative TSR, market cap). If share price is used, how will stock splits, special dividends, or other capital structure changes be treated?

5. **Value awarded** – “Value” can be examined through three lenses. The first lens is grant-date fair value. This determines the compensation cost recognized over the requisite service period as well as the value disclosed in the proxy statement. This value is often some multiple of a market-competitive annual LTI grant value. Compensation Committees should be prepared to justify this value as it will be the most readily available to investors and often the most scrutinized.

Given moonshot performance metrics are most often market-based, the grant-date fair value will be determined using a complex Monte Carlo valuation. Some companies may model several design scenarios (e.g., length of performance period, rigor of targets, post-vest holding periods) to achieve the most cost-effective grant-date fair value.

When an aggregate award value is determined, it is important to consider the impact on stock-based compensation expense and share usage.

6. **Potential value delivered** – The second lens for assessing value and most compelling figure for the award recipients is typically the maximum potential realized value. This figure should incorporate the “double leverage” of the shares earned and the future share price if the highest performance goal hurdle is achieved.
7. **Value sharing** – The third lens and most compelling figure for shareholders is typically the value sharing. This is calculated by dividing the maximum potential realized value by the incremental shareholder value created above the Company’s starting market cap.
8. **Performance period** – Moonshot award performance periods are typically longer than three years. Compensation Committees should consider the Company’s strategic plan and the rigor of the performance hurdles when establishing the performance period. For awards with market conditions, shorter performance periods combined with more demanding goals generally reduce grant-date fair value because the probability of achieving the hurdles decreases. However, time to achieve such rigorous goals must be perceived as realistic by recipients to remain motivating.
9. **Performance goals and measuring achievement** – Performance hurdles should be tied to a strategic plan. Finance teams should model potential impact on share price if the Company executes on financial goals set forth in the strategic plan. Generally, these awards contain at least three performance “hurdles” so not to concentrate payouts on a single share price. Compensation Committees should also evaluate the implied annualized growth rates required to achieve each hurdle to ensure the goals are both rigorous and aligned with the Company’s strategic plan.

The goal of these awards is to motivate sustained shareholder value creation. Relying solely on a single-day closing share price to measure goal achievement does not accomplish that goal. Often hurdles need to be sustained over a multi-trading day period (e.g., 30- or 90-trading days) for the goal to be deemed achieved. Some awards may allow the goals to be achieved at any time during the period while others only allow for achievement during specific windows (e.g., final year of the period) making the goals more difficult to achieve and thus lowering the accounting cost.

10. Public disclosure and shareholder engagement – Given many of these awards are off-cycle and large in magnitude, external disclosure expectations are heightened. Although not required, performance goals are typically disclosed upon grant (rather than at cycle end) to demonstrate significant performance rigor. Some companies may commit to using these types of awards sparingly in the future or in lieu of future awards to emphasize their one-time nature.

These awards are often accompanied by director-led shareholder engagement efforts to build support for the Say on Pay vote, with a focus on the “win-win” shareholder economics reflected in the LTI grant. Some companies may even engage shareholders before the grant itself, to gather feedback on overall direction and design features (e.g., share price hurdles vs. market cap goal).

Key Takeaways

Moonshot awards are among the most powerful—and scrutinized—tools available to Compensation Committees. Their success depends not only on ambitious performance goals but also on thoughtful design, transparent disclosure, and compelling business rationale. When these elements are aligned, moonshot awards can create meaningful alignment between executives and shareholders while supporting transformational long-term value creation.

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