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Getting to Know Your Peers: Who is Alphabet Inc.?

With a major corporate restructuring, companies need to decide if Google's new holding company should remain in their equity plan peer group.

On August 10, Google announced the creation of its new parent company, Alphabet Inc., surprising the technology community. Wall Street cheered the strategy as shares rose 4.4% in next-day trading and have stayed at that level. For companies with Google as a peer, the move can impact them in numerous ways. In this piece, we examine the effect of Alphabet on relative total shareholder return (TSR) plans.

What are the Details?

The restructuring means that Google will become a slimmed down version of itself under the new holding company, Alphabet Inc. Going forward, Alphabet will preside over the Google family of companies— including its venture capital arm, life sciences businesses, and home automation products— allowing each entity to run independently with its own CEO. The move is an attempt to free up those smaller companies so they can more easily pursue their individual business goals. Financial results will also be reported for each separate entity.

Once the conversion takes place, which is expected later this year, each Google share will convert to a share of Alphabet on a one-to-one ratio, maintaining the same rights as before and the same ticker symbols. On a per share basis, it appears the only change is to the name of the company.

How Does this Impact Your Relative TSR Plan?

The most common type of peer group used within relative TSR plans locks in the peers at the start of the performance period, also known as a "closed" peer group. Typically, a closed peer group will exclude companies who go through a significant restructuring or corporate transaction in the middle of the performance period. The belief is the company at the end of the performance period is not generally viewed as the same company that it was at the beginning of the performance period and, as a result, may no longer be a relevant peer.

Most of the time, this belief is true as many restructurings involve major acquisitions or spin-offs of business units. However, in the case of Google, they are essentially the same company with the same assets as before, just in a new order. A shareholder will continue to hold the same assets on the day following the restructuring as they did the day prior. For this reason, we feel that companies with Google in their outstanding performance equity plan peer group should retain the company under its new name. No other adjustments are needed; simply connect Google's prior performance to Alphabet's performance going forward. Nonetheless, we do recommend compensation and accounting professionals have a discussion with your management team and compensation committee to verify this treatment aligns with the intentions of your plan.

To learn more about participating in a Radford survey, please contact our team. To speak with a member of our compensation consulting group, please write to consulting@radford.com.

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