

# Planning for a Transaction: Compensation and Leadership Considerations

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*A Compensation Committee Series Webinar*

Presented by NACD and Pearl Meyer

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# Presenters



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- Submit a question and receive your answer directly from the presenters, either during today's webinar or as a follow-up. You will also be opted-in to receive future executive compensation thought leadership from Pearl Meyer.
- Presentation slides are available today at [www.pearlmeyer.com/planning-for-a-transaction-compensation-and-leadership-considerations](http://www.pearlmeyer.com/planning-for-a-transaction-compensation-and-leadership-considerations)
- The replay will be available early next week at [www.nacdonline.org/webinars](http://www.nacdonline.org/webinars) and [www.pearlmeyer.com/planning-for-a-transaction-compensation-and-leadership-considerations](http://www.pearlmeyer.com/planning-for-a-transaction-compensation-and-leadership-considerations)

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When preparing for a transaction, compensation committee members need a clear roadmap for performing human capital due diligence; ensuring the best leadership team coming out of a transaction; and ensuring the compensation program maps to the organization's goals before, during, and after the deal.

Whether your company is embarking on a merger, acquisition, or preparing for an IPO, this webinar will offer actionable guidance for transitioning compensation programs over time and ensuring leadership alignment and organizational readiness.

## Learning objectives:

- Considerations for pre- and post-transaction executive compensation programs in the context of IPOs and M&As
- New transaction and retention bonus survey data from companies that have undergone a recent deal
- When it comes to deals, where to focus on human capital due diligence; organizational readiness; and leadership development and alignment

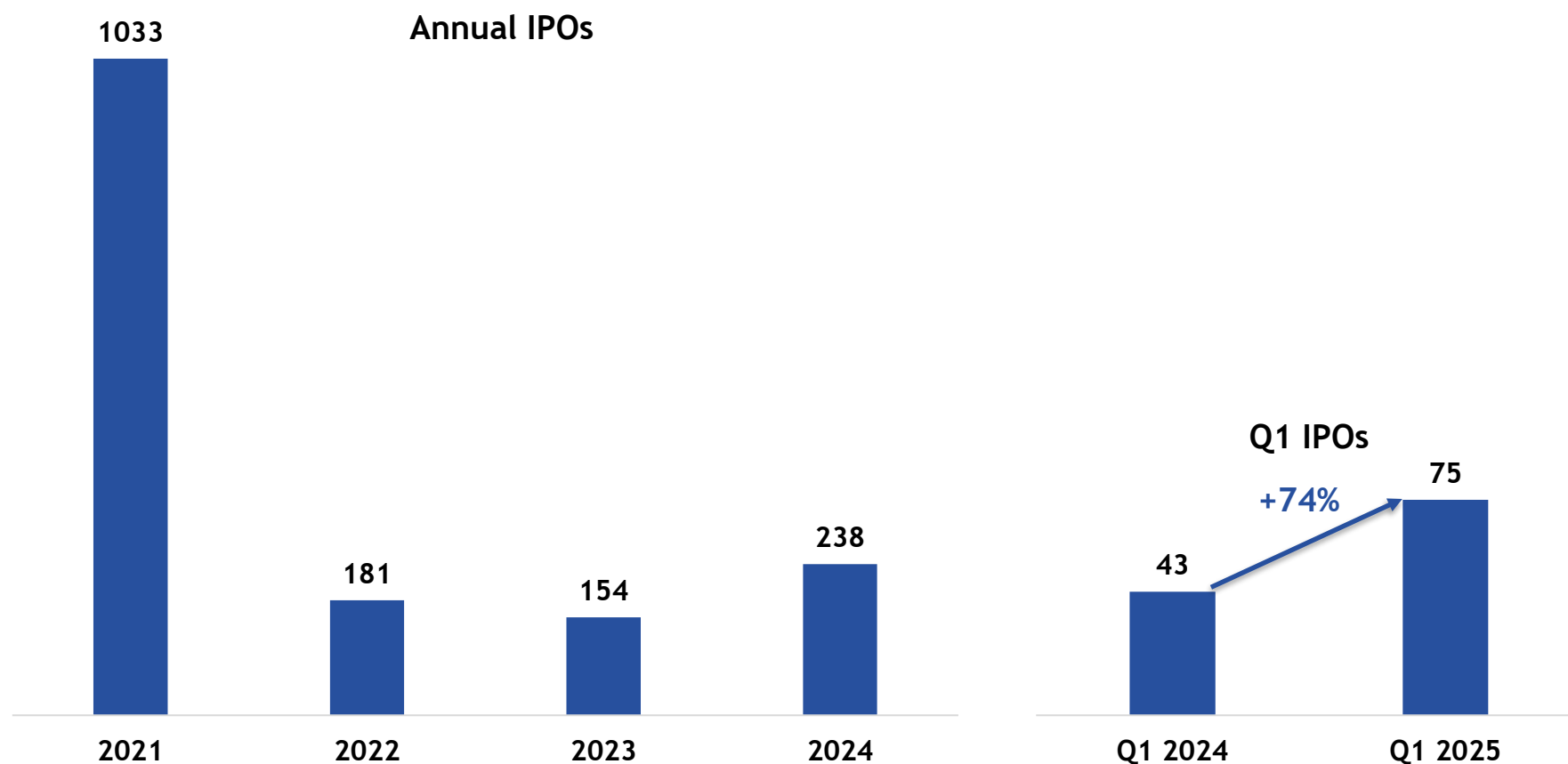
# Polling Question #1



Q: Is your organization considering any of the following transactions in 2025? (Please check all that apply)

- ☐ Initial Public Offering (going public)
- ☐ Public to Private Transaction (going private)
- ☐ Acquiring Another Company
- ☐ Being Acquired (looking for a purchaser)
- ☐ Merger of Equals
- ☐ Spinoff
- ☐ n/a (*no transaction planned currently*)

# IPO Landscape: Recent History and Projections



Q2-Q4 2025?



# Executive Compensation Checklist for Pre-IPO Companies



1. Establishing the Right Project Team
2. Compensation Philosophy
3. Peer Group Development
4. Market Pay Levels
5. Annual Incentive Plan Design
6. Long-Term Incentive Plan Design
7. Employment Security Arrangements
8. Board of Directors Compensation
9. Governance and Regulatory Compliance
10. Evolving Practices Over Time



# Private vs. Public Compensation Evolution



Compensation Area	Company Lifecycle				
	Startup Private	Early/Late-Stage Venture Private	Emerging Growth Public	Maturing Company Public	Established Company Public
<b>Ownership/Investor Profile</b>	Seed; Series A	Series B-E	IPO/Post-IPO	Institutional Growth/ Value	Institutional Value
<b>Company Pay Positioning Strategy</b>	Often Undefined	Median to 75th	Median to 75th	≥ Median	Median
<b>Cash Pay Philosophy</b>	Very Conservative	Conservative	Modest	Strong	Strong
<b>Equity Pay Philosophy</b>	Aggressive	Significant	Significant	Emphasized	Emphasized
<b>Equity Grant Frequency</b>	Ad Hoc/Refresh	Ad Hoc/Refresh	Annual	Annual	Annual
<b>Compensation Leverage</b>	Highest	Very High	High	Moderate	Lower
<b>Retention/Recruitment Strategy</b>	Equity-Led	Equity-Focused	Equity-Oriented	Stable Cash and Equity	Stable Cash and Equity

# Typical IPO Timeline Summary



Q3 - Q4 2024	Q1 - Q2 2025	Q2 2025 - IPO	Q4 2025 - Q2 2026
<ul style="list-style-type: none"> <li>+ Develop IPO Peer Group</li> <li>+ Develop Compensation Peer Group</li> <li>+ Conduct Benchmarking                             <ul style="list-style-type: none"> <li>+ Executive Stock Ownership</li> <li>+ Executive Compensation</li> <li>+ Dilution/Grant Rate</li> <li>+ STI/LTI Design</li> <li>+ CIC/Severance Arrangements</li> <li>+ Policies and Practices</li> <li>+ Employee Stock Purchase Plan (ESPP)</li> <li>+ Non-Employee Director (NED) Pay</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>+ Adopt Pay Philosophy and Strategy</li> <li>+ Adopt NED Pay Structure</li> <li>+ Approve Any Executive Pay Adjustments</li> <li>+ Develop Post-IPO LTI Plan Design</li> <li>+ Develop Omnibus Equity Plan Document</li> <li>+ Establish Initial Share Reserve</li> <li>+ Develop Equity Award Agreements                             <ul style="list-style-type: none"> <li>+ Employment Contracts</li> <li>+ Severance/CIC Agreements</li> </ul> </li> <li>+ Develop/Adopt Appropriate Policies                             <ul style="list-style-type: none"> <li>+ Compensation Clawback Policy</li> <li>+ Executive Stock Ownership Policy</li> <li>+ Equity Grant Timing Policy</li> <li>+ Insider Trading Policy</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>+ Approve any "At IPO" Equity Awards</li> <li>+ Adopt Compensation Committee Charter</li> <li>+ Approve Compensation Committee Calendar</li> <li>+ Develop Required S-1 Disclosures</li> </ul>	<ul style="list-style-type: none"> <li>+ Review/Update Compensation Peer Group</li> <li>+ Update Executive Pay Benchmarking</li> <li>+ Approve Executive Pay Adjustments</li> <li>+ Approve 2026 STI Plan Design, Metrics, and Performance Goals</li> <li>+ Approve 2026 LTI Plan Design and Equity Awards</li> <li>+ Develop/Update CD&amp;A Disclosure</li> <li>+ Prepare Any New Proxy Disclosures</li> <li>+ Adopt ESPP Program</li> </ul>
Understand Competitive Landscape Parameters	Adopt Appropriate Programs/Policies	Complete the IPO and Required Disclosures	Begin Normalized Annual Planning Cycle
Leadership Assessment and Development Plans		Leadership Coaching and Succession Planning	
Pay Equity and Pay Gap Analysis		Pay Transparency and Job Architecture Analysis	

# Executive Compensation Effectiveness Journey



Private Equity Firm	Portfolio Company		
Executive Compensation Due Diligence	Investment Period (Privately-Held)	Pre-IPO “IPO SUCCESS” Activities	Post-IPO (Publicly-Traded)
<ul style="list-style-type: none"> <li>+ Are there any compensation-related risks to having a smooth transition to PE ownership and retention of key talent?</li> </ul>	<ul style="list-style-type: none"> <li>+ Is the company providing reasonably competitive cash compensation opportunities in addition to above-market equity and total compensation?</li> <li>+ Are the short-term incentive plan metrics, weights, and goals aligned with the company’s business strategy and performance expectations?</li> <li>+ Are there any emerging practices and trends that the company should be aware of?</li> <li>+ Is the company able to attract and retain top talent with its core compensation offers?</li> </ul>	<ul style="list-style-type: none"> <li>+ Is there a need for any “at IPO” equity awards or purchase plans?</li> <li>+ What will the post-IPO equity plan look like and how many shares should be reserved for issuance under the new stock plan?</li> <li>+ Is there a need for any compensation adjustments prior to, or commensurate with, the IPO?</li> <li>+ Does the company have all the compensation policies and practices that will be expected of a public company?</li> <li>+ Is the company telling a compelling compensation story via required disclosures leading up to the IPO?</li> <li>+ Is there a market-competitive compensation structure to attract new independent board members?</li> </ul>	<ul style="list-style-type: none"> <li>+ Are compensation arrangements fully competitive with public company peers?</li> <li>+ What retention risks do we have with key talent that materially benefited from the IPO?</li> <li>+ How and when should PSUs be introduced in the LTI award mix?</li> <li>+ What measures, goals, and calibration are appropriate for PSUs?</li> <li>+ What new disclosure requirements is the company facing and how to address?</li> <li>+ How should the committee think about the views of the proxy advisory firms?</li> <li>+ How should the committee think about activist shareholders and/or shareholder outreach?</li> </ul>

# M&As: Compensation Planning Activities



Change-in-Control (CIC) Planning	Pre-Merger Planning	Post-Merger Integration
<ul style="list-style-type: none"><li>+ Evaluation of program competitiveness</li><li>+ Outlining unique tax, accounting, and SEC disclosure issues</li><li>+ Quantifying potential payouts</li><li>+ Estimation of golden parachute excise tax liabilities and lost tax deductions</li><li>+ Developing annual proxy disclosures</li></ul>	<ul style="list-style-type: none"><li>+ Design and costing of severance and retention plans</li><li>+ Development of key employee transaction bonus plans</li><li>+ Establishing proposed replacement compensation structures and modeling costs</li><li>+ Structuring new employment contracts for management</li><li>+ Due-diligence reviews, including identifying and quantifying deal-related executive compensation liabilities and payouts</li><li>+ IRC 280G “golden parachute” analyses and planning</li><li>+ RC “reasonable compensation analyses”</li></ul>	<ul style="list-style-type: none"><li>+ Evaluating the competitiveness of existing programs</li><li>+ Comparing target and buyer compensation philosophies and structures</li><li>+ Assisting compensation committees in developing a new entity philosophy</li><li>+ Designing new compensation structures for base salary and annual and long-term incentives</li><li>+ Revising or implementing new severance and CIC plans</li></ul>

## • Polling Question #2



Q: For those of you that are anticipating a possible M&A transaction in 2025, are you considering any of the following compensation arrangements? (please check all that apply)

- ☐ Transaction bonus (cash)
- ☐ Transaction equity
- ☐ Enhancing severance/change-in-control (CIC) agreements
- ☐ Unsure

# Transaction Bonus Types



- There are two types of awards that are commonly referred to as transaction bonuses: deal support and value sharing.
  1. **Deal support bonuses** reward for the significant workload required to bring a transaction to closing or to compensate for post-deal integration work.
    - In most cases, deal support bonuses are paid in cash, with award amounts based on a percentage of base salary. Grants are typically paid once a given milestone has been achieved.
    - For the deal team, that is often upon closing or shortly thereafter, and for post-deal integration awards, once the applicable goal or task has been completed.
  2. **Value sharing awards** reward key senior managers for maximizing shareholder value.
    - Awards can be structured as a percentage of deal value, flat dollar amount, or fixed number of shares. These awards can be significant, and participation is typically restricted to senior management who can have a more direct impact on the transaction value.
    - Vesting and payment most often occur at closing with possible acceleration for a qualifying termination (e.g., involuntary termination without cause or termination for good reason).

# Transaction/Retention Bonus Design Considerations

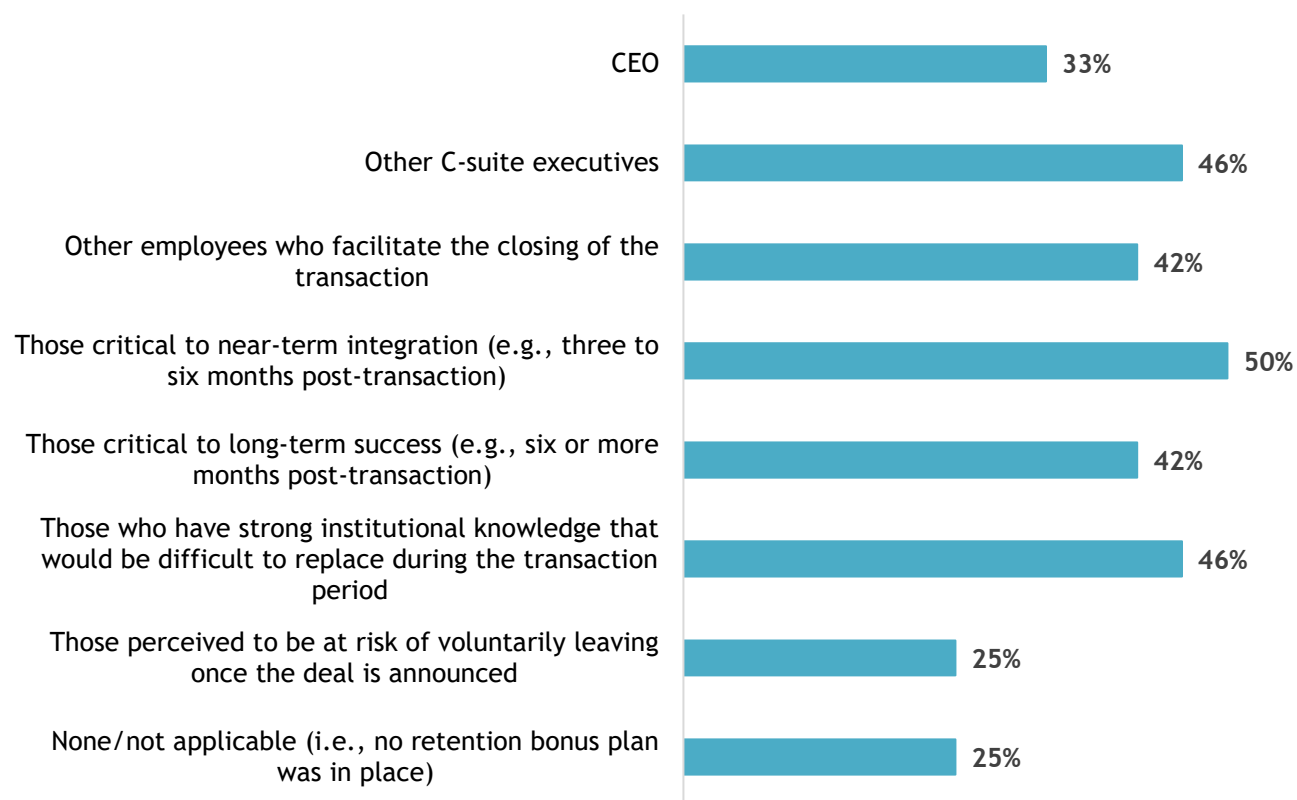


Considerations	Key Questions
Eligibility	<ul style="list-style-type: none"><li>▪ Who is critical to the success of the transaction, or to the resulting company over the longer term?</li><li>▪ Who is likely to take on significantly more work in addition to their normal job responsibilities?</li><li>▪ Is there impact/additional workload post-transaction?</li></ul>
Transaction Approval and Integration Period	<ul style="list-style-type: none"><li>▪ Is additional workload isolated to closing the transaction or are there additional workstreams post transaction?</li><li>▪ What is the extent of the integration efforts?</li></ul>
Method and Timing	<ul style="list-style-type: none"><li>▪ Should the award be granted in a single lump sum or in installments?</li></ul>
Form of Payment	<ul style="list-style-type: none"><li>▪ Should the transaction/retention incentive be awarded in cash (most common) or equity?</li></ul>
Conditions for Payout	<ul style="list-style-type: none"><li>▪ Typically, only a service-based component</li><li>▪ Performance may be included, but this can undermine retention</li></ul>
Level	<ul style="list-style-type: none"><li>▪ What award level is necessary to retain key employees?</li></ul>

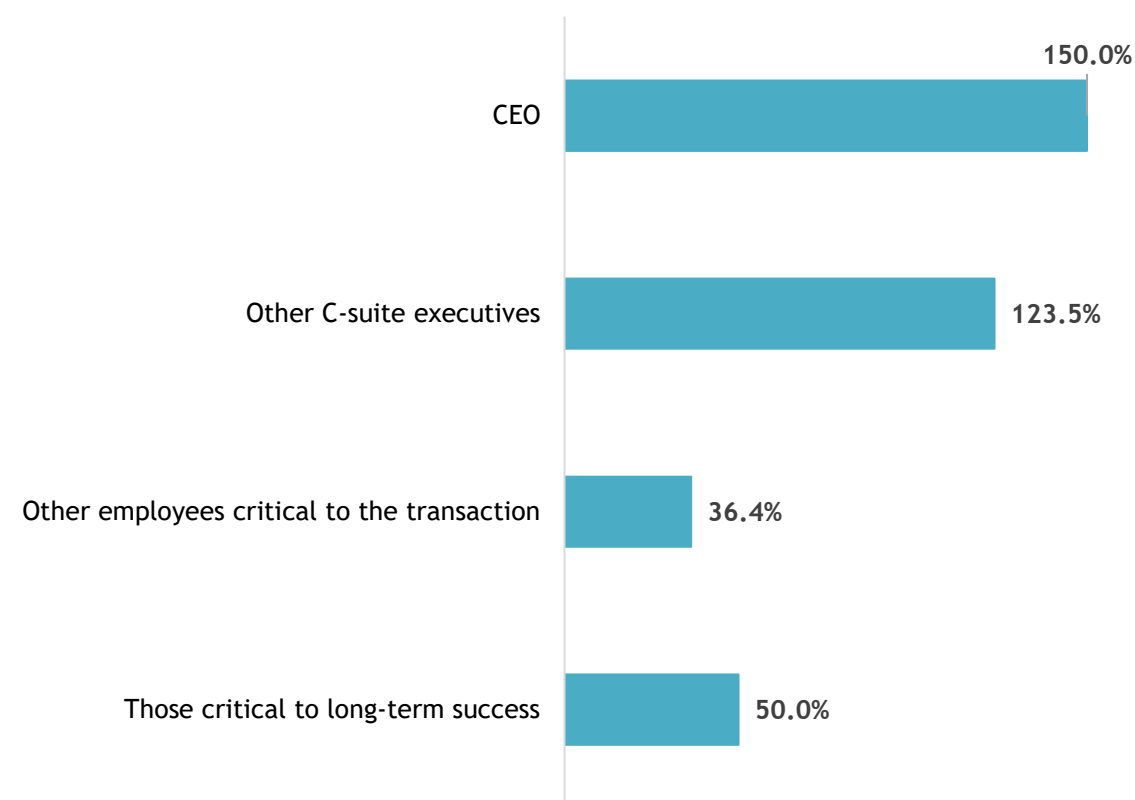
# Pearl Meyer M&A Survey: Retention Bonus—Eligibility and Amount



Which of the following groups of employees were eligible for a retention bonus? (check all that apply)



What was the average retention bonus as a percentage of base salary, for each of the following groups?

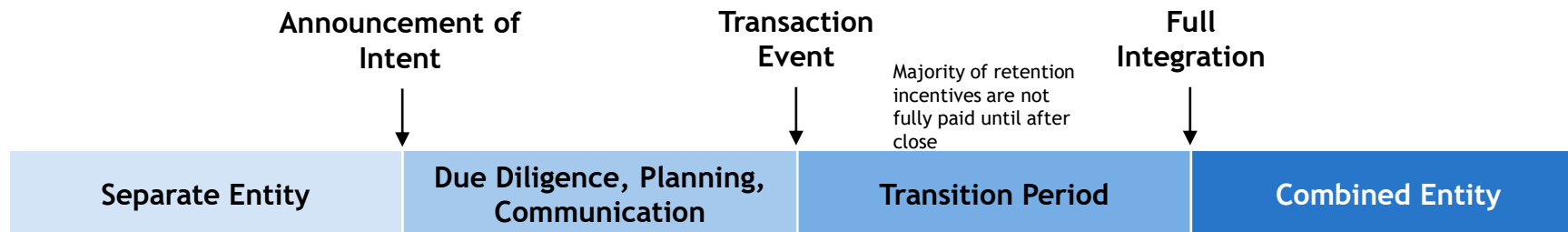




# Retention Period

- A majority of plans become payable at close and then six months post close. However, employees critical to long-term success may have longer terms (and higher payouts).
- It is also important to examine current compensation arrangements (competitive positioning, unvested equity, etc.) to determine whether current programs are sufficiently retentive.

## Transaction Timeline Example



Retention Period Objective	
Stay Through Transaction Event	Ensure that a retention incentive exists for employees who are critical for a successful transaction
Stay Through Full Integration	Ensure that a retention incentive exists for employees who are critical during the transition period
Stay Long-Term	Ensure that a retention incentive exists for employees who are critical to the success of each new entity going forward

# Retention Bonus Payment Method and Timing



- Most plans provide for a six-month retention period, although for some key long-term individuals 18 to 24 months may be appropriate (with a correspondingly higher multiple of salary).
- Awards that are intended to cover a period of 12 months or more typically pay out in multiple installments. For example, a two-year retention award might pay out in installments at six months, 12 months, and 24 months.
- Installment programs also tend to increase the perceived value of the program to participants, which optimizes the program for its intended purpose (retention).

## Timing and Method of Payout

Retention Period	Timing of Payout	Method of Payout
Stay Through Transaction Event	■ Full award will not be paid out until the transaction event	■ Typically in a lump sum
Stay Through Integration	■ Full award will not be paid out until the integration period is complete (e.g., six months after the transaction)	■ Typically in a lump sum or in two installments
Stay Long-Term	■ Full award will not be paid out until the employee is fully integrated into the new entity (e.g., one to three years after the transaction)	■ Typically in two or three installments

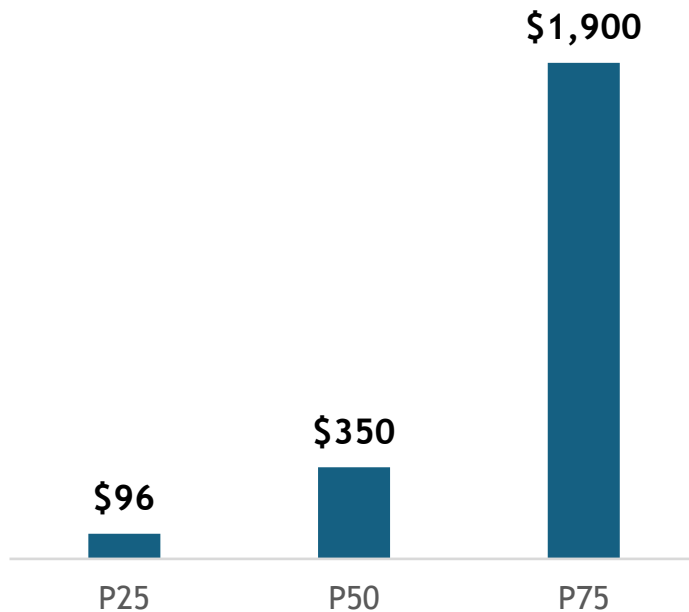


# Pearl Meyer M&A Survey: Transaction Bonus Pools

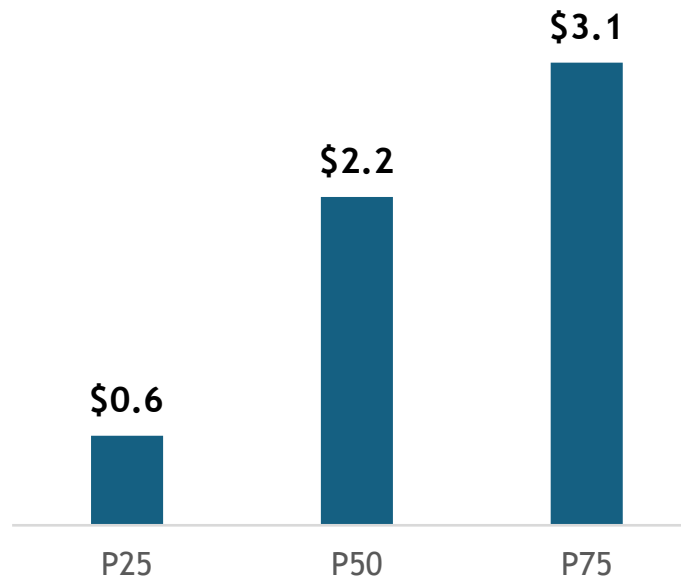


- Most participants had transaction bonus pools that were < 1% of the deal value and were of the “deal support” type (e.g., based on a bottom-up approach as opposed to a top-down approach defined as a % of the deal value)

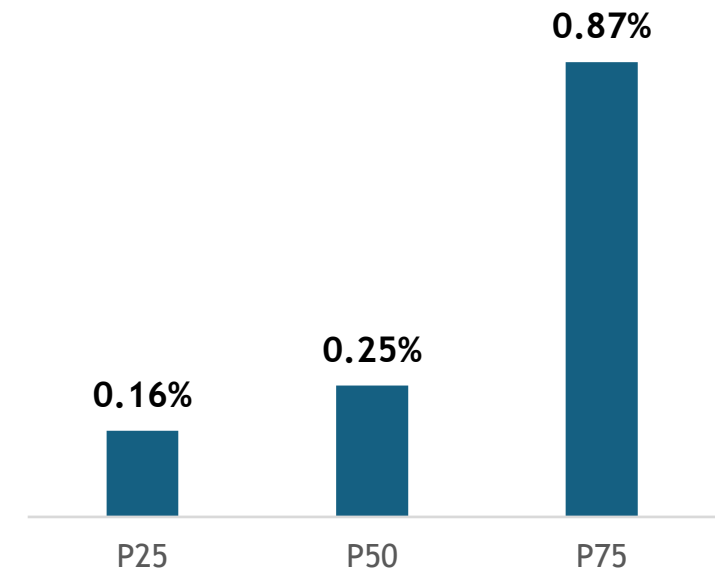
**Deal Value  
(\$ millions)**



**Transaction Bonus Pool  
(\$ millions)**



**Transaction Bonus Pool  
as % of Deal Value**



# Proven Way to Beat the Odds: Focus on Human Capital



- Attention to people issues yields improved ROI in M&A (Larsson & Brousseau) with increasing focus in the market on human capital in M&A contexts.
- Proactive pre- and post- close talent management improves M&A performance by 45% (KPMG).
- Effective talent and cultural integration increases M&A success rate to between 60% - 70% (Cartwright & Cooper).
- 90% of successful M&A addresses culture within first 30 days after announcement (Harding & Rouse).

## Polling Question #3

Q: Where there is not focus on human capital, many M&A deals fail to achieve their financial and strategic promise. Which of the following derailers have you encountered from a recent transaction? (Check all that apply)

- ☐ Unwanted turnover of strong performers
- ☐ Failure to move quickly on talent (e.g., ensuring right people are in right seats and defining new role priorities within first 100 days)
- ☐ Culture clashes (e.g., including impeding collaboration and demotivating employees)
- ☐ Unclear integration process and priorities
- ☐ Other

# Key M&A Leadership Considerations



Pre-Close	Post-Close
Human Capital and Organizational Due Diligence	Top Team Formation and Effectiveness
<ul style="list-style-type: none"> <li>+ With a focus on C-suite, what prioritized talent changes are needed to execute the go-forward business strategy?</li> <li>+ What is the openness to change at the top?</li> <li>+ What other key human capital and organizational risks exist that threaten successful execution?</li> <li>+ Other customized areas of focus depending on the context</li> </ul>	<ul style="list-style-type: none"> <li>+ Ensuring right leadership at the top with a clear talent action plan (e.g., identify where new skills/talent are needed; which roles need to transition; where changes are required in role priorities)</li> <li>+ Ensuring appropriate scaffolding and development plans to support key leaders given new strategic focus</li> <li>+ Bringing organizations together culturally</li> <li>+ Bringing the new top team together (e.g., alignment on goals, working norms, etc.)</li> <li>+ Ensuring updated succession plans are in place for key roles</li> </ul>

Ongoing CEO (potential other C-suite) succession discussion through M&A cycle

# Pre-Close: Human Capital Due Diligence



1. **Ground in emerging go-forward company goals** (e.g., one year, three to five years)
2. **Against this backdrop, conduct talent/organizational diligence** focused on CEO and key L1 leaders
3. **Utilize data to improve the deal outcomes**, in the following ways:
  - Go/no go on deal
  - Price negotiations
  - Discussions with key leaders on retention, timeline, and/or go-forward roles
  - Shaping integration planning (e.g., including re-culture and talent)
  - Building alignment among key constituents around the go-forward plan

# Post-Close: New Team Formation and Top Team Effectiveness



Phase I	Phase II	Phase III
Diagnostic (Organizational Review)	New Team Formation	Top Team Effectiveness
<ul style="list-style-type: none"> <li>+ Refine/align company strategy/goals</li> <li>+ Diagnose organizational readiness of post-close leadership team vs go-forward strategy                             <ul style="list-style-type: none"> <li>• Key leaders individually</li> <li>• Across ELT</li> </ul> </li> <li>+ Build Talent Action Plan across C-suite to ensure—with high degree of predictability—the right people are in the right roles, with the right priorities to execute company goals</li> </ul>	<ul style="list-style-type: none"> <li>+ Execute Talent Action Plan, including deep-dive assessments of incoming key talent as needed</li> <li>+ Examples of changes to execute:                             <ul style="list-style-type: none"> <li>• Hire and effectively onboard new skills (e.g., to scale or with bigger mandate)</li> <li>• Scaffold or otherwise develop key talent (e.g., behavioral change, skill-building, onboarding execution)</li> <li>• Modify roles to best play to individual executive strengths and to mitigate risks</li> <li>• Move out underperformers (best practice: within three to six months)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>+ Customize team development</li> <li>+ Design high performing culture among leadership team</li> <li>+ Establish optimal executive leadership team practices:                             <ul style="list-style-type: none"> <li>• Mindsets and behaviors</li> <li>• Priorities and accountabilities</li> <li>• Communication protocols</li> <li>• Feedback commitments</li> </ul> </li> </ul>



## Accelerating performance through customized leadership development

- Focused executive coaching to hone new skills:
  - Operating at larger scale or first time in new role
  - Inspiring and motivating others to drive the necessary change
- Focused executive coaching to drive behavioral change:
  - De-risking derailers
  - Cultivating growth mindset (an important ingredient in developing potential)
  - Executive flourishing, including stress management and related behavioral shift
- Individual or team executive feedback/360 processes
- Customized onboarding plans for new roles
- Other customized initiatives (e.g., maximizing effectiveness of chair and CEO working relationship)

# Tips: M&A Organizational Readiness



Common Pitfalls in M&A Org. Readiness	Solutions to Prevent Pitfall
✗ Overestimating key leaders' ability to scale to the next level	<ul style="list-style-type: none"><li>✓ Proactively assessing key leader ability to scale to new growth expectations (e.g., through executive coaching/leadership development)</li><li>✓ Year One monitoring by board, including end-of-year CEO (or other key leader) executive feedback process</li></ul>
✗ Not having go-forward Talent Action Plan across C-suite (or not identifying clear owner for plan)	<ul style="list-style-type: none"><li>✓ Coming out of organizational review, align on Talent Action Plan with clear ownership for ensuring results, with check-ins at six months, 12 months, and 18 months</li></ul>
✗ Waiting too long to move on underperformers	<ul style="list-style-type: none"><li>✓ Removing underperformers quickly (e.g., recommended within three to six months of identifying talent gap)</li></ul>

# Ongoing: CEO & C-Suite Succession Planning



Successful CEO succession planning includes a transparent, data-driven process and deliberate ongoing stakeholder communication

~3 YEARS PRIOR	~2.5 YEARS PRIOR	12-18 MONTHS PRIOR	TRANSITION (TIMING TBD)	POST- TRANSITION
<ul style="list-style-type: none"><li>• Define “future leader” scorecard, grounded in business goals</li><li>• Identify potential internal candidates</li></ul>	<ul style="list-style-type: none"><li>• Assess internal candidates</li><li>• Build coaching/development plans</li></ul>	<ul style="list-style-type: none"><li>• Alignment around a transparent, data-driven selection process</li><li>• Diagnose relevant team talent/dynamics</li><li>• Assess external market/candidates</li><li>• Align around data-driven decision</li></ul>	<ul style="list-style-type: none"><li>• Name successor, with customized Year One onboarding plan</li><li>• Define transition plan for incumbent leader</li><li>• Tight management of key stakeholders (incoming, outgoing, team, external, board)</li></ul>	<ul style="list-style-type: none"><li>• Manage to Year One CEO onboarding plan</li></ul>

## Polling Question #4



Q: In your experience, what have been the biggest challenges in succession planning in M&A? (check all that apply)

- ☐ Retaining top internal CEO candidates
- ☐ Incumbent CEO changing mind about transition timeline (“I’m not leaving”)
- ☐ Waiting too long to initiate external search to broaden candidate pool
- ☐ Other (share in chat with group)
- ☐ n/a (no experience in CEO or key C-suite succession planning)

# Key IPO Considerations

Pre-IPO	Post-IPO
Preparing Team for IPO	Evolving Skills for New Environment
<ul style="list-style-type: none"><li>+ How will C-suite role priorities need to change in a public company environment?</li><li>+ Do C-suite leaders have both the “skill” and “will” to prepare for the IPO and to continue in their roles as public company executives?</li><li>+ Where should the company consider upgrading talent to maximize success post-IPO?</li><li>+ Does the company have the right mix of competencies and experiences on the board to guide company for the next five years?</li></ul>	<ul style="list-style-type: none"><li>+ Where does the team require leadership coaching and development?</li><li>+ How will the board evaluate the CEO’s performance?</li><li>+ Does the board have a data-driven process in place for CEO succession planning?</li><li>+ How will the board evaluate their own performance to ensure functioning at a high-level?</li></ul>

# Q&A

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Please submit your questions in the Q&A box below.

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July 29<sup>th</sup>, 2025

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