Compensation Considerations for Go-Public Transactions

The market for IPOs and SPAC mergers is white hot, with hundreds of SPACs in search of targets and numerous IPOs in process. Companies preparing to become public are faced with both opportunities and challenges. Meridian Compensation Partners has deep experience assisting companies throughout the process of undergoing a go-public transaction – working through the key events and related executive compensation issues.

What are the key business phases that impact compensation for a newly-public companies company?

Newly-public companies experience several key governance events that have bearing on executive compensation and corporate governance.

- Go-Public Transaction: As a result of the transaction, whether through an IPO, carve-out IPO, spin-off, or SPAC merger, the company becomes subject to public disclosures and higher governance expectations and standards.
- Evolution of Ownership: Over time, the parent/sponsor potentially will reduce its remaining interest in the company. As ownership becomes less concentrated, the company no longer has the benefit of the controlling interest of a “friendly” shareholder.
- Loss of EGC Status: Some companies also face a transition from status as an Emerging Growth Company (EGC). “Graduating” from EGC status triggers enhanced disclosure requirements and other governance requirements, including Say on Pay votes.

Adoption of sound compensation governance practices and policies helps facilitate the transition through these events.

What are some of the compensation and governance actions Compensation / HR / Remuneration Committees should be taking in advance of a go-public transaction?

Typically, the top priority for a company prior to going public is the development and approval of equity incentive plan. Equity-based incentives are a critical tool to attract, retain and motivate executives in a public company. Key elements of this process include:

- Long-term Incentive (LTI) Strategy: The company should consider how it will use equity-based incentives going forward. Key decisions include award participation (how deep into the organization) and award vehicles, and vehicle mix.
- Equity Reserve Modeling: Guided by the LTI strategy, modeling should be done to determine the number of shares to reserve in the equity plan. Consideration should be given to possible one-time grants associated with the transaction, along with competitive annual awards for 3-5 years post-transaction. Often times, if initial larger grants are made in connection with the deal, there is often a multi-year “ramp up” to fully competitive ongoing compensation.
- Plan Approval: Plan document provisions such as share reserve, plan maximums, and change-in-control treatment should reflect future investor expectations and industry best practices. Approval of the plan before the transaction is easier than once the company is public.

It’s also important to confirm the impact of the transaction on pre-existing equity held by management and other employees. This is typically articulated in the documents related to the equity interests, but may be subject to negotiation. There may be an effort to retain and convert a portion of those interests into public company equity to bolster retention and align management with shareholders.

What are the initial compensation decisions post-transaction?

Compensation adjustments are highly common for senior executives at a newly-public company. These adjustments account for the expanded scopes of the key roles, including the CEO, CFO and other senior executives. To inform decisions, companies typically conduct benchmarking of compensation to assess the competitiveness of pay for both the senior executives and outside directors, although this is often completed before the go-public transaction. As part of this effort, an appropriate peer group should be developed or re-affirmed, as market data will take on a more important role as a public company.

In its initial meetings, the new Compensation / HR / Remuneration Committee should also make preparations to govern the executive compensation program according to public company standards. Key actions include the adoption of key compensation-related policies (i.e., stock ownership, clawback, anti-hedging/pledging, etc.), and processes. An annual compensation committee calendar should be established creating a predictable cadence to the critical evaluation of executive pay levels and design practices.

Are there additional compensation and governance transitions that should be considered as a public company?

Directors associated with the parent/sponsor sometimes exit. The company should establish standards and qualifications for board refreshment to ensure continued oversight and leadership. It is particularly important to consider increasing expectations and requirements regarding board diversity.

Diminishing stock price volatility, potential adoption of a dividend policy and more clear financial objectives often lead to a transition to performance-based, full-value equity and reduced emphasis on stock options or appreciation-based equity plans, though the pace of this is dependent on each company’s situation.