

IPO and Post-transaction Retention Plans

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Coming up...

IPO Plans

Pay models

Use of shares

Implementation

Big picture

Technical detail

Retention Plans

Purpose and timing

Types and how to combine

Selecting participants

Quantum

Case study



Private v Public Company Remuneration

Pay models

	Private	Listed
<i>Objectives</i>	Exit focused , sometimes profit driven, high growth strategy, capital wealth delivery – so employees need to be aligned to to shareholder(s) via high equity payout only at exit	Long-term sustainable growth , regular steady income - leaders need to act and think like shareholders via long-term ownership and retention of shares
<i>Accountable to</i>	One main shareholder and/or a group of investors (VC model)	Many institutional shareholders & representative bodies
<i>Main elements</i>	Salary and bonus (sometimes also a profit-sharing plan) and ad hoc share-based awards to selected employees (no established market norm)	Salary, bonus and annual long-term incentive plan grants to senior employees (LTIP)
<i>Bonus</i>	Often linked almost entirely to profit (e.g. EBITDA)	Mix of several metrics including non-financial esp ESG
<i>Use of shares</i>	Varies (PE generally senior executives only) Executives of PE portfolio companies often required to invest in ‘institutional strip’ as well as receiving ‘sweet equity’ Tangible value only on an “exit” event	Shares are a key part of pay and treated as income Bonus is usually a mix of cash and shares LTIP is all shares Often operate all-employee share plans



Private v Public Company Remuneration

Use of shares

	Private	Listed
<i>Liquidity & reward</i>	Considerable wealth creation potential but usually realised only on an exit event	Annually under bonus plan (subject to deferral for execs), every three years under the LTIP (plus 2-year holding period for execs). Much more “liquid” than in private companies
<i>Focus</i>	Capital not income	One element of the remuneration package
<i>Total allocations / Dilution</i>	Pool size dependent on shareholder ownership structure (e.g. founder-led vs VC or PE-backed).	IA principles of remuneration almost always followed by UK main market companies (5% in 10 years for executive schemes; 10% in 10 years for all-employee). EBTs can help.
<i>Individual allocations - quantum</i>	Selective participation (not always linked to grade). Often thought about in terms of percentage of the company, e.g. 1%-1.5% in the early stages.	Between 100% p.a. (small cap) to 250% p.a. (larger FTSE 250) of salary for CEO is common (must be set out in remuneration policy for directors) annually. Typically a policy for who participates with a broader population Can be widely spread especially if all-employee plans utilized.
<i>Individual allocations - timing</i>	PE: shares awarded upfront. Others: often ad hoc.	Grants on IPO usually followed by annual grants.



Private v Public Company Remuneration

Technical & Implementation (1 of 2)

	Private	Listed
<i>Type</i>	EMI / Growth Shares	Long-term incentive plan (LTIP) Annual bonus plan + deferred annual bonus plan All-employee plan (SAYE or SIP).
<i>Malus and clawback</i>	Generally not a feature	Now virtually universal and scope perhaps increasing
<i>Discretionary adjustment provision</i>	Generally not a feature	Increasingly common for the Remuneration Committee to be able to adjust outcomes to ensure no windfall gains.
<i>Leaver provisions</i>	Bespoke (often very employee-friendly)	Fairly standardized (generally harsher)
<i>Tax</i>	Share plans often tax-efficient (EMI, CSOP, growth shares, JSOPs). Employer NICs often transferred. s431 elections almost always needed.	Often non-tax efficient . (CSOPs not widely used as the limit is too low; JSOPs and subsidiary plans not generally well-regarded by investors). Employer NIC transfer is rare. s431 elections can still be needed!
<i>Accounting (IFRS2)</i>	Often low accounting cost to benefit delivered	Typically much higher than in unlisted companies



Private v Public Company Remuneration

Technical & Implementation (2 of 2)

	Private	Listed
<i>Directors' Remuneration Policy</i>	Not required	Mandatory for quoted companies and unquoted traded companies (not AIM or non-UK incorporated companies) – and subject to shareholder vote.
<i>Market value</i>	Independent valuation – often to stay within EMI/CSOP limits and set exercise price at MV.	Awards often nil-price options / CSAs – but still needed to comply with limits above. Share price – often averaged...except for awards made on admission where the offer price is often used.
<i>Visibility and compliance</i>	Accounts. Shareholder approval often not needed for new plans.	Directors' Remuneration Reporting in the UK regulations require full transparency (similar rules apply in the EU and US). Scrutiny from various proxy advisors – IVIS / PIRC (UK), ISS / Glass Lewis (bigger, more global) Rules of the exchange may require shareholder approval for new schemes and for amendments to key terms
<i>Administration</i>	Cap table software (at best!)	Share plan administrators.
<i>Performance conditions</i>	Depends on maturity of company.	Always for executive awards; even restricted share awards generally subject to an underpin.



IPO plans

Which plans have Performance Conditions and what are they?

Type of Plan	Performance Conditions
All-employee plan (SAYE/SIP)	None
Annual Bonus	<p>Generally operational targets measured over a year, with a balance of financial and non-financial metrics tailored to the company's published KPIs.</p> <p>Part paid in cash, paid generally deferred via an award under a Deferred Annual Bonus Plan.</p>
Deferred Annual Bonus Plan	None - already earned.
Long-term Incentive Plan	<p>Generally measured over three years.</p> <p>Common performance conditions include EPS, TSR and, increasingly ESG (see next slide).</p> <p>Alternative – “restricted share awards” (c.f. “performance share awards”) which are subject only to a performance underpin rather than formulaic target. Restricted shares are common in more mature companies and also below board where retention can be a key focus.</p>



IPO plans

Common LTIP performance conditions

Metric	How typically operated	Considerations for companies post-transaction/IPO
Relative Total Shareholder Return (TSR)	<ul style="list-style-type: none"> • Share price growth + dividends compared to a group of other stocks • Ranked after 3 years and vesting % based on final rank (usually median to upper quartile) 	<ul style="list-style-type: none"> • Very aligned to shareholder experience from point of transaction • Post transaction, share prices can often be volatile with high spikes immediately followed by greater volatility than average companies • This can make TSR volatile for the first couple of cycles post IPO
Earnings Per Share (EPS)	<ul style="list-style-type: none"> • EPS growth ranges set over 3 years • Threshold and stretch vesting defined • Usually measured as compound annual growth % • E.g. growth of 4% p.a. to 10% p.a. over 3 years 	<ul style="list-style-type: none"> • Getting growth range right is critical to ensure a credible incentive. • Must align with investor messaging (transaction case) • Best measure of profitability within listed companies to align with shareholder experience • Transition from “thinking” in EBITDA to EPS can be an adjustment
Environmental, Social Governance (ESG)	<ul style="list-style-type: none"> • Bespoke targets tailored to the industry and business the company is in • Need to be defined and measurable over 3 years <ul style="list-style-type: none"> • Often based on reducing carbon emissions 	<ul style="list-style-type: none"> • Some companies new to market don't have a deeply embedded ESG strategy – may be appropriate to make annual bonuses subject to shorter-term ESG targets until the ESG strategy is formulated and LTIP awards can be linked to its long-term implementation. • Measurability of targets can be an issue



Retention Plans

Post-IPO/transaction retention and recruitment risks

RISK:

Loss of key executives (e.g. Executive Directors/Executive Committee level) due to **significant wealth creation** at IPO

Loss of key contributors who did not have significant pre-IPO equity

Below Board there may be lots of **new plc-specific roles** and attracting candidates with the right experience can create **internal pay relativity challenges**

New **post-transaction incentives may take a long time to pay out** (fallow period)

Wider employee retention issues for example due to perceived cultural changes

Consideration points:

- Generally **difficult to replicate the one-off pre-IPO wealth creation**
- Consider a **“bridging plan” to cover the “fallow period” between IPO and first payouts (see below)**
- Typically **around 3-5 year tenure post IPO for Executive Directors and Executive Committee**

- **Targeted one-off IPO retention awards for key IPO contributors** can be very effective
- May **put in place before IPO but with vesting in tranches post-IPO**

- **Period of alignment post IPO** where new joiners are on higher packages than legacy executives
- Particularly pertinent below Exco where many new roles can be created
- This internal relativity issue **tends to smooth over time** but in the meantime **targeted retention awards can be considered**

- Most plc plans: annual grants with a 3-year vesting period, providing annual vesting once the from the third anniversary of the transaction/IPO.
- This can give a **retention risk in the first 3 years post IPO.**
- Below board: consider **tranching vesting for first awards (e.g. with part payout after 18 months)** to help mitigate retention risk whilst waiting for the first cycle to pay out

- Consider one-off “recognition” **restricted share awards**
- **Utilise all-employee share plans** – e.g. free shares (under a SIP) or SAYE



Retention Plans

Three main types

	Time-based	Performance-based	Enhanced severance
<i>Core Objective</i>	Retention through the transaction, and some period thereafter.	Provide opportunity for “upside” associated with the transaction.	Focuses employees on completing a transaction which may result in their own job loss (generally implemented pre-transaction)
<i>Delivery mechanism</i>	<ul style="list-style-type: none"> More senior executives may receive shares. Less senior roles tend to receive cash. 	As per time-based.	Cash.
<i>Vesting</i>	<ul style="list-style-type: none"> Based on time or milestone / event Typically ranges from through the transaction date to 1-2 years beyond For senior executives, vesting of share-based awards may be up to 3 years 	<ul style="list-style-type: none"> Based on performance against pre-determined objectives. Performance is typically based on organization and/or divisional results rather than individual performance. Timing as per time-based plan. 	<ul style="list-style-type: none"> Paid out upon termination (other than for cause). Typically in place through the transaction date to 1-2 years beyond.
<i>Value</i>	<ul style="list-style-type: none"> Range depends on job grade and cost Most typical multiple for less senior roles tends to be ½ x to 1x target bonus 	<ul style="list-style-type: none"> Range depends on job grade and cost Actual bonus ranges from 0 to 2.5x target (with more upside opportunity than may be typical in the company’s existing incentive plan) 	<ul style="list-style-type: none"> For more senior executives, award tends to range from 1x base to 2x base + bonus For less senior employees, award tends to be range from 0.5x base to 1.5x base Some companies use severance formulas.
<i>Best used when....</i>	Near-term retention may be more important than near-term performance to support the success of the integration.	Near-term performance may be more important than near-term retention to support the success of the integration.	Certain employee groups are anxious as to their job security as a result of the transaction.

Retention Plans

Combination plans

Assess the company's objectives and tailor the retention plan to their needs – including using the three types of plan in combination. For example:

1. A retention bonus based 50% on time and 50% on performance

- The first half of the award vests upon completion of the transaction.
- The other half of the award is linked to two-year EBITDA goals for the company for the period post-transaction and can range from ½ to 2x the target award depending on performance.
- **Outcome: provides a meaningful incentive to stay through the transaction while focusing employees on ongoing successful and productive integration**

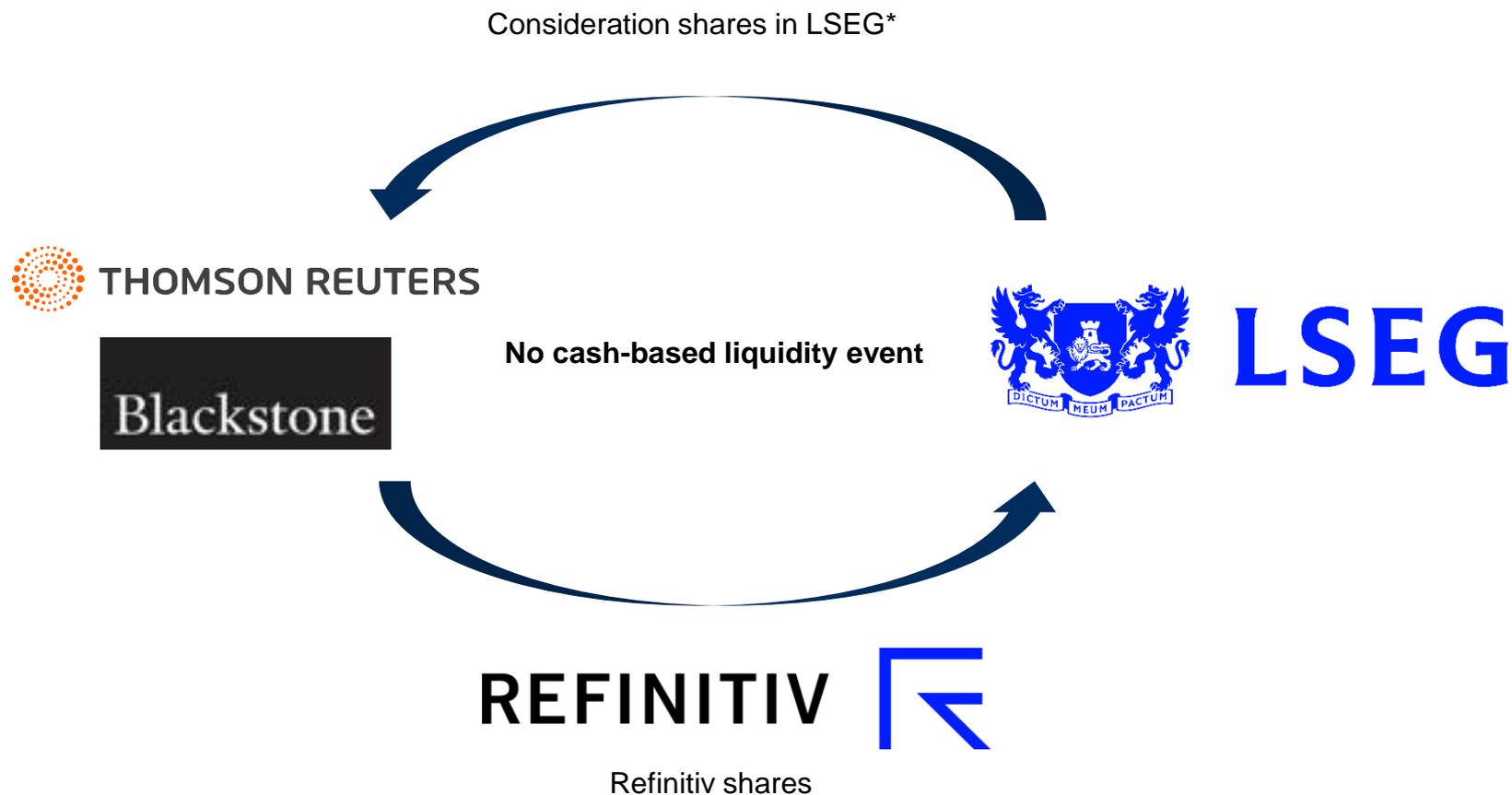
2. A performance-based retention bonus and enhanced severance

- A performance-based bonus measuring divisional performance for the year following the transaction
- Enhanced severance providing executives with 2x base + target bonus and all others with a 50% increase over the existing severance formula for six months post-transaction
- **Outcome: focuses employees on successful and productive integration through the transaction while providing additional protection in the event of termination**



Retention Plans

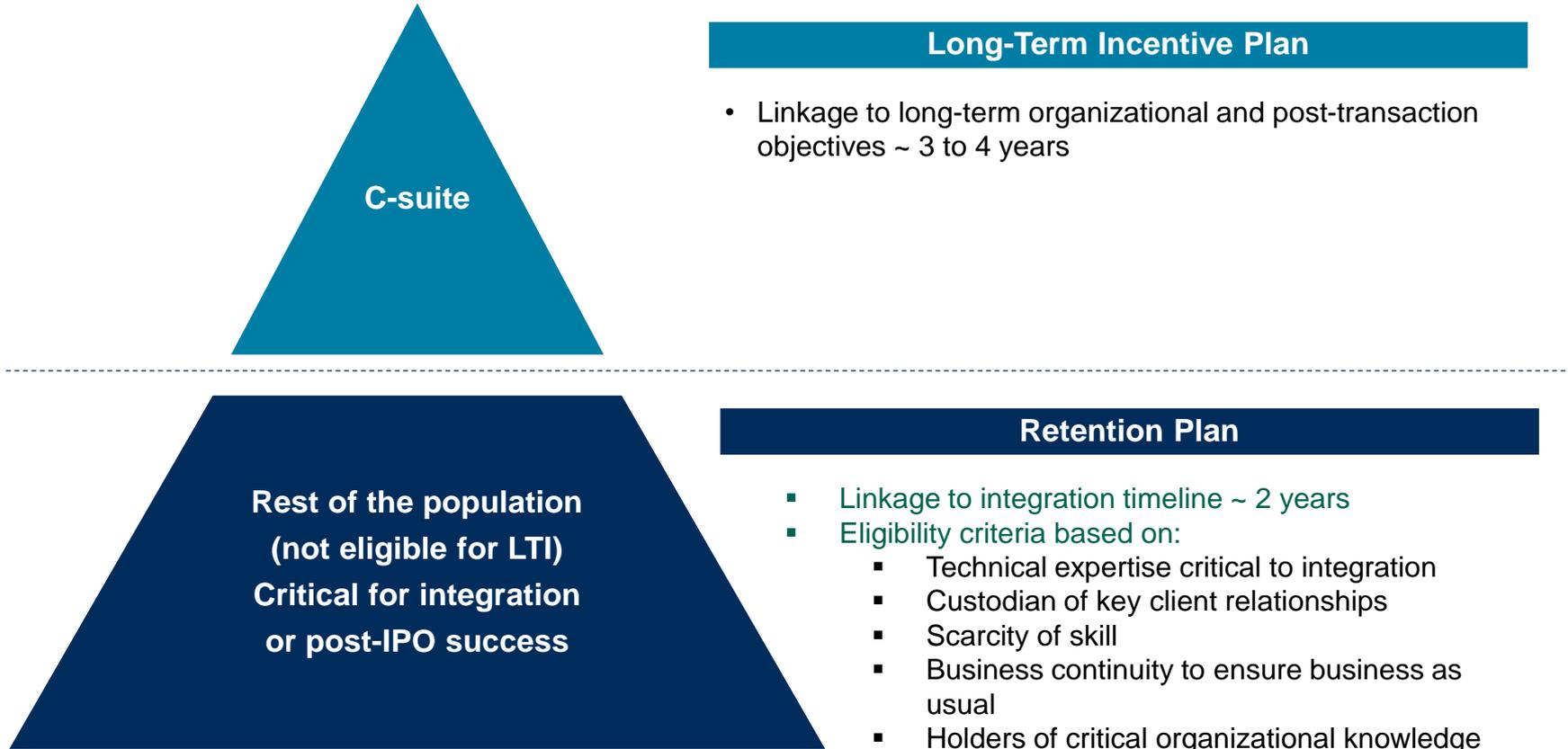
Combination plans - example



**with option to provide \$2.5bn cash consideration alongside consideration shares*

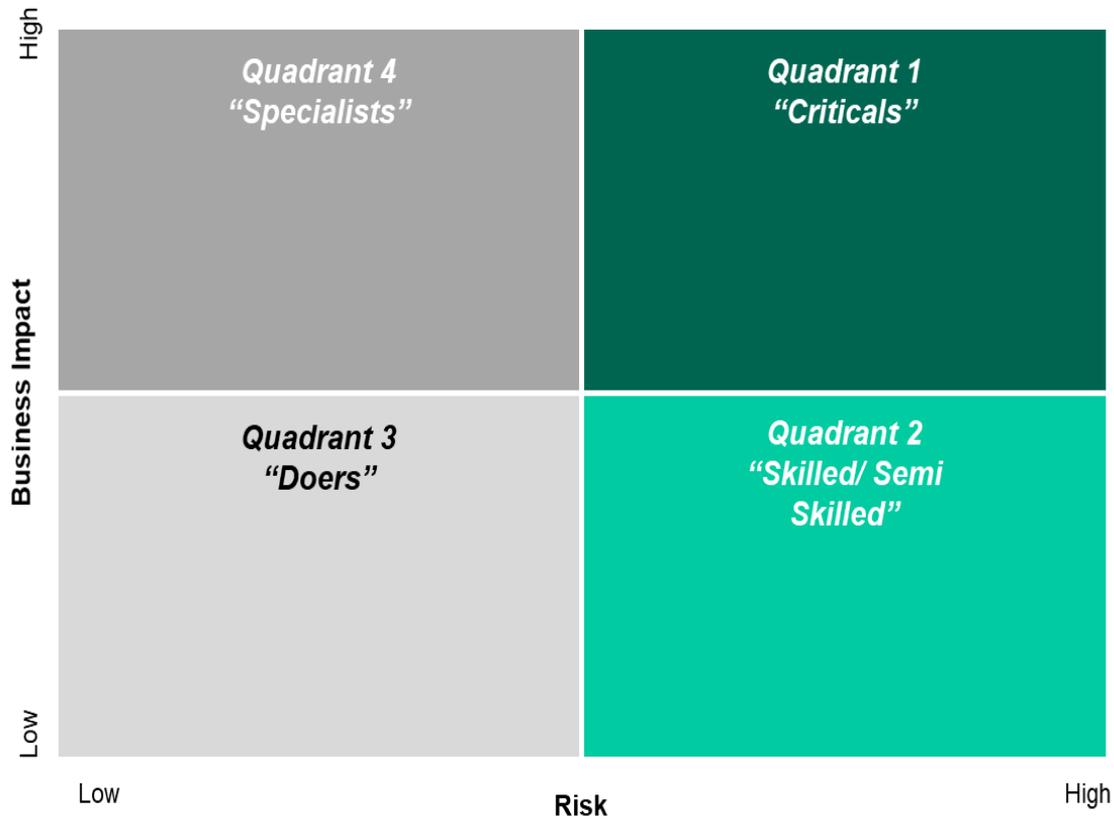
Retention Plans

Who participates



Retention Plans

Award size



Retention plans

Other considerations

- Management/impacted employees may be separately advised.
- Employee communications - buyer will want to review if sent to employees prior to completion.
- Who funds – if the buyer, ensure this is reflected properly in the SPA/closing accounts.
 - Indemnities may be needed.
 - Consider PAYE obligations and cost of employer NICs.
- Public takeovers - take care with any discussion or agreement with the bidder about incentives for the Company's management (see Takeover Code Rules 16 and 21).



About us



Korn Ferry: a global organisational consulting firm

Korn Ferry is a global organisational consulting firm, established in 1969, with over 10,000 employees in 53 countries. The company is listed on the NYSE and operates over five core areas:

(1) Organisation Strategy

(2) Assessment & Succession

(3) Talent Acquisition

(4) Leadership & Professional Development

(5) Total Rewards

GLOBAL REACH

Largest global footprint in the industry – offices in 53 countries



We help clients synchronize strategy and talent to drive superior performance. We work with organizations to design their structures, roles, and responsibilities. We help them hire the right people to bring their strategy to life. And we advise them on how to reward, develop, and motivate their people.

Rewards and Benefits

Our Rewards and Benefits practice comprises four solution areas, of which Executive Pay & Governance is a core part.



EMEA

Countries: 29
Reward specialists: 440



Asia

Countries: 12
Reward Specialists: 360



North America

Countries: 2
Reward specialists: 250



LATAM

Countries: 6
Reward specialists: 100

Executive Pay & Governance

We have specialist EP&G hubs located in:

UK	US
Brazil	Canada
Columbia	Netherlands
China	France
Japan	Germany
Singapore	Spain

Individual specialists, who work across both general reward and executive pay are based in our other Korn Ferry locations.



Our Executive Pay & Governance practice

Korn Ferry's UK Executive Pay & Governance (EP&G) team sits within the Korn Ferry Advisory business and includes five partners and is a fast-growing practice. We have the expertise and capacity to advise on the full range of Remuneration Committee agenda items.

- The team was established in 2016 with four partners moving from Aon (New Bridge Street) and has worked to build a client base of now around **80 PLC Committee appointments** in addition to management and private company work.
- The Korn Ferry approach to advising on executive reward is to act as **trusted advisers in partnership with the Company**, offering innovative thinking, independent advice and practical solutions for our clients. We are typically appointed to advise a remuneration committee for many years and **pride ourselves in bringing rigour of expertise** that is delivered with integrity while challenging our clients' thinking.
- **Our approach to consulting is Partner-led.** Our approach enables us to be **consistently responsive** and timely in delivery of all work, to support you whenever you require and provide **an outstanding service**.
- We are **very experienced in dealing with investors** and proxy advisers with one member of our team being the former head of the ISS UK research team.
- The UK EP&G practice is part of our Global EP&G offering. We work closely with our global colleagues enabling us to provide a seamless service with market practice and data for those markets in which you operate.
- **Korn Ferry is a people business.** Through our general reward colleagues, we can **support the Remuneration Committee and management with market context and design support across the entire organisation** as this becomes increasingly important with the broadening of the Remuneration Committee's remit through the UK Corporate Governance Code.

Extensive experience: circa 80 FTSE All-Share company appointments



Ian Shaw

Partner, EP&G group

Ian advises on the technical aspects of the design, implementation and operation of the full range of share-based incentive plans.

He has nearly twenty years' experience of advising public and private companies, from start-ups to global multi-nationals. After nearly 15 years at Macfarlanes, Ian built and led the UK employee share schemes and incentives practice as a partner at the global law firm Orrick, Herrington & Sutcliffe.

An expert on the share schemes aspects of IPOs, private equity-backed investments, venture capital funding rounds and a broad range of international M&A transactions, Ian also specialises in the tax and trusts issues encountered by the trustees and settlors of employee benefit trusts.

Ian holds an MA in Jurisprudence from St John's College, Oxford. He is a regular speaker at industry events.

Chambers and Partners 2022:

- *"He is technically astute, always commercial and extremely competent in simplifying matters for everyone to understand"*.

Chambers and Partners 2021:

- *"He is a phenomenal lawyer. He's able to explain things in layman's terms and is very timely in his responses"*.
- *"Ian Shaw is known for his knowledge of employee share schemes and incentives. His wide expertise includes the share schemes aspects of IPOs and M&A transactions"*.

Legal 500 2021 (recommended individual):

- *"Ian Shaw's expertise on share schemes and his responsiveness and speed of execution are exceptional. We've brought up emergency issues with him and had him turn them around late at night – really exceptional service"*.
- *"Ian Shaw is very knowledgeable and someone who we have known for a long time and with whom we have a strong relationship"*.
- *"Ian Shaw's knowledge, enthusiasm and practical approach to solutions shine through. A trusted and experienced adviser"*.



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