Pearl Meyer

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The Price of Progress: Compensation Considerations in Life Sciences Transactions



Robert James

MANAGING DIRECTOR

The life sciences industry is experiencing a wave of consolidation as pharmaceutical companies and investors seek proven technologies to strengthen their pipelines. This deal-making climate is further supported by the anticipation of a regulatory environment that could be more favorable to mergers and acquisitions (M&A).

M&A transactions bring both opportunity and disruption. Whether a deal involves a change-in-control (CIC), merger, spin-off, or acquisition, structuring compensation effectively is critical to maintaining stability, maximizing deal success, and aligning with shareholder interests.

When thinking about the role of the management team in M&A, many believe that executing transactions is part of an executive's role and some will argue that it does not warrant special compensation. While that can be an interesting philosophical discussion, the fact is incentives may be necessary to retain key employees through the uncertainty and heavy workload of a deal, particularly when integration and continuity risks are high.

Transaction compensation goes beyond deal-driven cash bonuses for closing a transaction. It also includes retention awards, equity incentives, and severance payments, and may be necessary below the c-suite. However, each of these four elements must be considered holistically and carefully structured based on the deal context. Is this a high-value exit where additional compensation may be easier to justify? Or is this a distressed sale or restructuring where compensation outside of the normal course could be viewed as excessive or misaligned with shareholders? There are numerous contextual factors that will go into determining the most effective compensation structure for each unique deal.

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Transaction Bonuses: Rewarding Deal Execution

Transaction bonuses compensate executives and employees for their role in driving a deal to completion. While transaction bonuses can be essential motivators, they must be evaluated in relation to existing CIC and severance arrangements to prevent excessive payouts that misalign with shareholder interests. These incentives can be structured in different ways:

- Management Carve-Outs: A percentage of the deal value (e.g., 3–5% of net proceeds) is allocated to key executives and employees, ensuring they share in the transaction's success
- Fixed Transaction Bonuses: A set dollar amount paid at deal close, such as a CFO receiving $250K upon deal completion
- Variable Cash Incentives: A percentage of an executive's annual salary or bonus is tied to the deal's success, sometimes extending to all employees (e.g., 1× the annual bonus opportunity)

Whatever the structure, the outcome is the same in that cash is put into the hands of a group of employees based on their ability to executive and close the deal with payouts often being made when the deal closes. Deal context matters in structuring these bonuses where it's often easier to justify payments to recognize work that's "above and beyond" normal duties and when extraordinary value has been created for shareholders. Transactions bonuses paid following a restructuring or in a wind-down are more difficult to defend or may not be permissible under the law.

Retention Bonuses: Keeping Key Talent Through the Transition

Retention bonuses help ensure business continuity before, during, and after by keeping key employees engaged throughout the transaction and integration phases. They are separate from transaction bonuses and focus on continued employment rather than just deal execution. Retention bonuses may be particularly valuable for non-executives, who don't always have CIC severance protections in their contract.

A common structure is to design a retention program around cash paid in two installments, such as 50% at closing and 50% after six to 12 months, encouraging employees to stay beyond the deal completion. Bonuses may be targeted at key employees whose sudden departure at close could materially impact business continuity and research and development (R&D) progress. Employees on either side of the transaction will experience disruption, and some may be needed up to the transaction close while others may be needed beyond close. In either case retention bonuses reinforce stability, prevent key talent from leaving prematurely, and can help preserve the value of the resulting entity.

Equity Compensation: Aligning Employees with Long-Term Success

In a transaction scenario, equity compensation is typically used to align employees' interests with those of the post-deal company, although the grant timing and mechanism to achieve this differs based on the type of transaction being considered.

- Spin-Offs: Employees transitioning to the newly created entity often receive fresh equity grants in the spin-off company, aligning their incentives with the go-forward business. These awards are usually granted at deal close. Existing unvested equity is either converted into equivalent awards in the new entity or adjusted on a prorated basis in line with the shareholder distribution ratio. Employees remaining with the original company post-spin may also receive new equity grants to recalibrate incentives and reflect the strategic shift in the business. The extent of these adjustments depends on how the spin impacts the legacy company's structure and long-term goals.
- Mergers of Equals: For employees remaining post-merger, existing equity awards are typically rolled into the combined company's equity plan. If the merger does not trigger a CIC, unvested equity generally continues under the new entity's plan, often with adjustments for conversion ratios. However, if the deal does qualify as a CIC, unvested equity may accelerate for departing employees. Additionally, mergers of equals often present an opportunity to issue performance-based equity to executives from both sides to align leadership with integration success and long-term value creation.
- Acquisitions/Sales: In an outright sale, where one company acquires another, the treatment of equity depends on whether employees remain post-transaction. If an employee is not retained, unvested equity usually accelerates and is cashed out. If the employee continues with the acquiring company, unvested awards may be converted into acquirer stock (if the acquirer is public) or may be cashed out (if the acquirer is private and does not have a tradable equity market). In some cases, to retain key talent, the acquirer may offer new equity grants post-close, particularly if legacy awards were fully cashed out and the goal is to create long-term alignment with the new organization.

Severance Payments: Providing Protection for Displaced Employees

Severance is an important but often overlooked component of transaction compensation, especially when a deal triggers a CIC. Executives typically have employment agreements that specifically provide enhanced benefits upon a qualifying termination—these benefits effectively reward executives for pursuing a transaction even if it results in their own job loss.

Although formal severance policies for non-executive employees are less common, they remain a valuable part of transaction planning, providing employees critical security and peace of mind during periods of uncertainty. Severance payments represent tangible transaction costs that must be considered in deal pricing. Companies should thoughtfully structure severance plans that appropriately compensate employees for instability,

increased workloads, and potential job displacement, without creating excessive obligations that might discourage a transaction partner.

Conclusion

Transaction compensation planning is a critical, nuanced component of life sciences transactions. While some may argue that closing transactions is inherent to an executive's role, in practice, effectively structured incentives can significantly impact deal success by maintaining stability, reducing uncertainty, and motivating key talent during critical transition periods.

Whether structuring transaction bonuses, retention awards, equity grants, or severance payments, it's essential to consider the broader transaction context. A successful, high-value exit typically warrants robust compensation mechanisms to secure talent and leadership continuity. Conversely, distressed sales or restructuring scenarios require a balanced approach to avoid excessive or misaligned incentives, reflecting fairness to shareholders.

Ultimately, aligning transaction compensation thoughtfully with business context ensures companies protect and engage their most valuable asset—their people—and positions the combined or newly formed organization for long-term success.

About the Author

Rob has 15 years experience in executive compensation and finance, specializing in life sciences and technology—especially emerging, high-growth companies navigating M&A and IPOs.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.