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Maximizing the Value of an IPO



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An initial public offering (IPO) is a journey, not a destination—and that journey should begin much earlier than directors may think to maximize the business's valuation.

In our experience, the key to maximizing value is to develop highly effective leaders, incentives, and communication prior to the transition. This demonstrates the company's commitment to scalable, long-term shareholder value creation and thus positively impacts valuation. Board oversight of these three critical paths can maximize the probability of a successful IPO.

The Case for Starting Early

IPO readiness isn't a compliance sprint; it is a leadership, compensation, and communication scaling process. Companies with a successful IPO have built strong leadership teams that are aligned to key objectives through incentives that the organization's stakeholders fully understand. This takes time. An organization's size can double through acquisition in a few months; yet it is much harder to bolster a leader's ability to run a company twice the size on the same timeline.

Compensation committees can also "lift and shift," or quickly adopt, market standard incentives and compensation policies, but it takes longer to fully align incentives with the specific priorities and culture of a company, and to effectively communicate these programs and practices internally and externally.

Therefore, if an IPO is a plausible path for a company in the next three years, boards should consider beginning the process now. If there are other potential paths (e.g., acquisition), it should not deter a board from beginning its IPO readiness journey since rushing to get ready for one rarely works.

Savvy bankers and investors will see through the hype of a quick-turn IPO, and they can usually tell within minutes when the management team isn't up to par, when there are inadequate incentives to drive execution and results, or where disclosures are opaque and uninformative. They know that the success or failure of an IPO hinges on the capabilities of the company's leadership and how engaged they are to drive value. They should be able to quickly assess these areas through management presentations, conversations, and business disclosures.

An Integrated Approach to IPO Success

There are three concurrent workstreams that boards should coordinate during the IPO planning process.

1. Leadership Assessment and Development

Directors should consider the following to ensure management is prepared and can handle the changes that come with an IPO.

Executive upskilling. Can each member of the C-suite credibly run the organization if it was twice its current size? If not, what development or augmentation, including selective external hires, is required, and when will it be needed?

For instance, CEOs and chief financial officers will need to further develop their enterprise communication skills for discussions with investors across roadshows and earnings calls. The market will quickly discern the answer if the board hasn't already done so, and the business will lose the ability to control the process and narrative.

Succession planning. Boards should treat succession planning as a strategic program, not replacement planning. Many IPO-bound companies field a strong executive leadership

team but have thin benches below, which can be a retention and retirement-risk time bomb in the year following an IPO.

Leadership assessment. Leading private equity firms routinely underwrite teams with independent assessments. Therefore, leadership assessments should be backed by both objective and qualitative data that measure the organization's leadership value as perceived by others.

2. Compensation and Incentives

Compensation committees can use the considerations below to align both the C-suite and investors on incentives prior to an IPO.

Equity holding power. The board should map unvested equity by executive and other critical roles. When doing so, directors should ask whether current unvested values "bridge" key people through the IPO and the first few years after. If many are fully vested or close to fully vested by the time the company undergoes an IPO, regardless of the lock-up period, the organization may have a flight-risk problem.

Equity refresh strategy. Compensation committees should consider issuing time and performance-based grants at the time of the IPO to secure pivotal leaders both in the C-suite and below it, with specifics for the latter dependent on the company, until the annual equity program starts rebuilding unvested equity value. Don't let a "barbell" approach, or over-rewarding a few individuals while neglecting others, create avoidable turnover issues.

Compensation benchmarking. The compensation committee should also establish an appropriate peer group supplemented by other relevant market data that appropriately balance where the company is and where it is headed. Some organizations will utilize a "core" peer group of similarly sized businesses that operate in the same or a similar industry, plus a "reference" peer group that is based on another relevant criteria (e.g., high growth or a recent IPO).

Incentive plan designs. The board should ensure incentive metrics and goal calibration echo the investor story and growth trajectory it will tell on the roadshow. Investors will appreciate a balanced portfolio of metrics that are aligned with the business strategy and near-term goals and objectives.

3. Communications and Disclosure

Boards can use the following considerations to guide communications and compliance and to mitigate stakeholder concerns during an IPO.

Public disclosures. The board should prepare the initial Compensation Discussion and Analysis for the US Securities and Exchange Commission Form S-1 and related public filings, focusing on the rationale for current and proposed compensation arrangements and

the overarching story of pay and performance alignment and strong governance practices.

Internal and external communications strategy. The board should ensure management maps out and sequences the delivery of critical messages to key stakeholders, especially employees and investors, through activities and events such as the Form S-1 filing, the roadshow, the day of the IPO, and the first proxy filing, and through a variety of direct communications, such as town halls and emails.

Executive education. Executives should understand the totality of their existing compensation arrangements; the potential impact of the IPO on these arrangements; and any new policies, practices, or procedures that will be established post-IPO, such as lock-up periods, insider trading policies, and stock ownership requirements. A clear understanding of the IPO's impact on executive compensation, including the constraints that are inherent as part of a public company (e.g., clawback provisions, stock ownership requirements, trading restrictions) helps to prevent undesirable turnover or strained management-board relations.

Common Failures and the Board's Role

The following are common failures of the IPO planning process and a look at how effective board oversight can yield improved results and shareholder value:

- Accelerated timing. Although some aspects of IPO timing are based on market conditions, boards should encourage readiness activities well in advance of contemplating an IPO window. Rushing the process often occurs due to an emphasis on compliance, while a thoughtful and strategic planning process leads to better preparation and an increase in near-term and long-term shareholder value.
- An unprepared CFO. A strong, strategic-minded CFO is often critical for an early post-IPO period. Boards should insist on a rigorous assessment and development plan for this role, investing in coaching where needed to ensure presence and storytelling capabilities.
- Limited internal succession candidates. Although boards are often familiar with the executive leadership team, they may not have sufficient visibility into "next level" leaders and internal succession candidates. This can lead to leadership and cultural disruptions if a significant number of key roles need to be filled by external candidates.
- Limited retention strength. As the pre-IPO period comes to an end, key leaders often have substantial equity value that is nearly or fully vested and a limited amount of value beginning to accrue from post-IPO equity awards. This gap can be bridged with "at IPO" grants or plan design choices to enhance near-term retention strength post-IPO.
- "Carry-over" incentive programs. Directors should resist the urge to maintain both annual and long-term executive incentive designs that have worked in the past (i.e., appropriate for a private company) and embrace aligning strategy, growth potential, and human capital capabilities to inform incentive design.

- Inadequate communication strategy. IPO readiness is not just about compliance, finance, and governance; it is also about how the story is told. Boards should ensure management develops a disciplined communication plan that clearly explains executive compensation changes—particularly new equity structures and retention programs—alongside broader messages for employees, investors, analysts, and media. Without early and intentional oversight, companies risk confusion, disengagement, and missed opportunities to reinforce long-term strategy and value creation.

A strategic, well-prepared board can positively impact IPO valuation and post-IPO shareholder value creation by starting early and focusing on the development of highly effective leaders, incentive arrangements, and communication and disclosures.

About the Authors

Sharon brings 25+ years guiding executive and broad-based pay communications and disclosure, helping boards and management manage change and respond to investor and proxy advisor scrutiny.

Aalap specializes in executive compensation strategy—governance, pay-for-performance, and incentives—helping companies align business, people, and compensation strategy for effective programs.

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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.