

Breakout II: Critical Strategies to Retain Talent During M&A

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Deals Rarely are Simple

Sample Merger Situations

- Bank A and Bank B combine as a merger of equals
 - Bank A executives have generous CIC benefits that will trigger at the MOE resulting in huge windfalls and no retention upon merger
 - Bank B executives have double trigger CIC benefits
- Bank A acquires Bank B due in part to its strong lending team; producers have no retention hooks
- Bank A and Bank B have different pay mixes
 - Bank A has median target total direct pay but rich pension/retirement
 - Bank B has high cash pay, moderate LTI and no retirement benefits

Proactive Considerations

- What compensation elements get impacted/triggered due to the CIC? What is the financial cost and how does it affect the different groups within the employee population?
- How do you bring an executive team together that has very different financial benefit outcomes from the merger?
- What executives/employees are critical to retain through transaction? Post transaction?
- How do you resolve different pay philosophies/levels?
- How do you prevent poaching of key talent from competitors?
- How do you ensure integration of teams?

Compensation Issues to Address at Key Stages of the Transaction

1. Prior to Announcement
2. At Announcement
3. After Announcement & Prior to Close
4. After Close

In our experience, many underestimate the work required prior to announcement, especially if it is a large acquisition or merger of equals. Some work can be done without a deal in place, if only conceptually

Prior to the Announcement: The Basic Questions

- What does the acquisition accomplish? How does the acquisition fit with bank strategy?
 - New markets vs. greater market penetration
 - New lines of business vs. greater strength in current lines
 - Higher caliber of talent, better systems, enhanced reputation
- What is the go-forward business strategy?
- What does the go-forward team look like?
 - Executives, critical staff and revenue producers
 - Board members
- Who needs to be in your inner circle to accomplish a smooth announcement?
- What could “go wrong”?
 - Regulatory approval; shareholder support
 - Customer/community perceptions
 - Clash of cultures or power struggles (executive and/or board)
 - Disengagement of employees; other opportunities for revenue producers and critical talent
 - Lack of integration expertise

Prior to Announcement: Assessing Impact and “Bucketing” Employees

Executive / Management Team Going Forward	Key Producers and Critical Staff Going Forward	Critical Staff Needed for Transaction and Integration	Staff Not Going Forward
<ul style="list-style-type: none"> ▪ Review CIC triggers and impact of transaction on pay programs and benefits ▪ Identify potential retention “hooks” or gaps ▪ Consider if additional retention features are needed 	<ul style="list-style-type: none"> ▪ Provide proactive communication about criticality of roles going forward and potential reporting relationships and compensation ▪ Consider retention equity or cash with a vesting schedule; DO NOT wait; competitors likely to target 	<ul style="list-style-type: none"> ▪ Communicate what’s in it for them and benefits for staying to reduce potential turnover risk ▪ Implement retention bonuses (e.g. vest 50% at transaction and 50% 6 months post CIC with acceleration if job loss) ▪ Ensure severance benefits are defined and communicated 	<ul style="list-style-type: none"> ▪ Prepare severance program to address concerns ▪ Develop communication strategy ▪ Prepare Q&A for organization including potential impacted employees

During this step, it is critical to 1) understand the cost of the transaction/total severance costs as they can impact the deal cost; 2) clarify treatment of bonus payouts and long-term/equity vesting on CIC and 3) develop appropriate CIC/severance programs

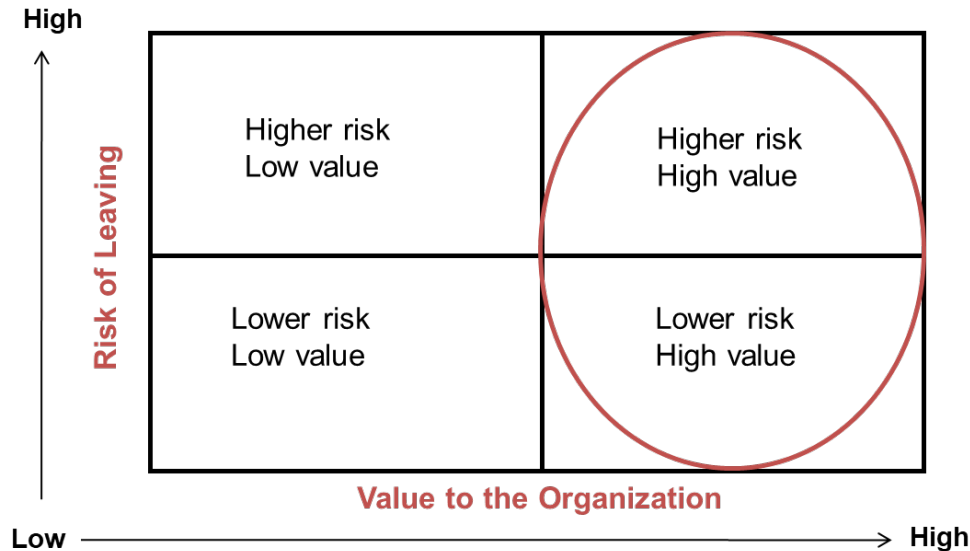
At Announcement: Internally, It's Not About the Acquisition

- Announce to employees – Keep it brief
 - Message should be delivered from CEO
 - Be real; communicate with transparency and empathy
 - High-level details of the acquisition and why it matters
 - How the acquisition is likely to affect the bank and its employees
 - How updates will be provided, how detailed information will be delivered, where answers to questions can be found
- Consider the role managers should play and what knowledge/support they need
- Finalize and communicate to critical employees their role, importance and expectations
- Implement the programs designed prior to the announcement;

Be real, direct, organized and transparent; the faster you provide satisfactory answers the sooner you can get back to business

At Announcement: Addressing Retention Concerns

Conduct Retention Risk Assessment and Determine Retention Award Approach



Determine Retention Approach

- Cash with milestone vesting – for those needed through transaction; lower-level employees
- Cash/Equity awards for those continuing on with larger awards and longer vesting

Focus retention awards on individuals most at risk and critical to success of transaction

After Announcement & Prior to Close: The Devil's in the Details

- Inventory compensation programs and key human capital programs
 - Compensation philosophy
 - Pay mix and pay levels
 - Incentive programs (short and long)
 - Benefits and perquisites
 - Significant “adds” or “take-aways”, even if only emotional
- Identify potential pay disparities between organizations; how and when do they need to be addressed
- Identify and make adjustments if significant disparities to market or peers is found
- Define peer group/market perspective for larger organization
 - Benchmark new pay levels and practices
 - Address executive, employee and director compensation
- Finalize IRC 280G calculations and payments; execute on any compensation actions that are due upon close

After Close: Go-Forward Compensation Programs

- Rethink metrics, programs and practice to ensure they are consistent with shareholder expectations, strategy and practices at the new asset size
- Adjust compensation. Develop timeframe, approach and milestones for adjustments
 - Executive compensation
 - Director compensation
 - Staff salary grade structure
 - Incentive programs
- Consider “going slow” or creating a “best of” approach to transition revenue producers
 - Going slow. Revenue producers are on their existing program for a period of time
 - Best of. Revenue producers get the higher of their existing program or the new program for a period of time
- Continue to communicate; culture is created during this critical time

In Summary

Prepare

- Proactive Planning
- Inventory Pay and Benefit Programs
- Understand Impact (and Cost) of Transaction

Assess

- New Strategy
- Executive Team Roles/Structure
- Legacy Programs
- Peer Group
- Market / Best Practices
- Desired State

Align

- Compensation Philosophy
- Incentive Plan Metrics / Structure
- Pay Opportunities
- Additional Retention Where Needed

Integrate

- Implement Programs
- Monitor Key Dates (e.g. vestings, CIC protection periods)
- Evaluate Effectiveness
- Eliminate Inconsistencies

Questions?