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Market Practices in M&A Retention/Transaction Award Pools

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When managing a merger or acquisition, companies must maintain continuity among key employees from deal announcement through closing and into post-closing integration. To supplement existing compensation programs, companies frequently establish retention and/or transaction award pools to lock in critical talent, support deal execution, and encourage effective integration after the transaction is completed. In CAP's experience advising companies through M&A transactions, these programs require thoughtful calibration of both the aggregate pool size and the terms of individual awards to achieve these objectives without creating unnecessary compensation expense or transaction value leakage.

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To develop a practical, market-based framework for sizing and designing retention/transaction award pools, CAP reviewed 100 North American M&A transactions announced in 2020 or later in which the publicly traded target company disclosed a structured retention/transaction award pool (CAP's M&A Sample).

Unless otherwise noted, retention/transaction award pools reflect amounts disclosed in target-company SEC filings, and prevalence statistics reflect companies or award pools with sufficient disclosure for the relevant design feature.

The summary characteristics of CAP's M&A Sample are shown below:

CAP's M&A Sample (n=100)

Summary Statistic	Transaction Value	Months from Deal Announcement to Closing	Target Company (as of deal announcement)		
			Revenue	EBITDA	Headcount
75th Percentile	\$8.0B	7.2	\$2,830M	\$546M	6,140
Median	\$3.9B	4.2	\$1,109M	\$219M	1,770
25th Percentile	\$2.1B	3.0	\$377M	\$46M	607

Note: Throughout CAP's report, transaction value refers to gross transaction value as reported by S&P Capital IQ.

Sizing Retention/Transaction Award Pools

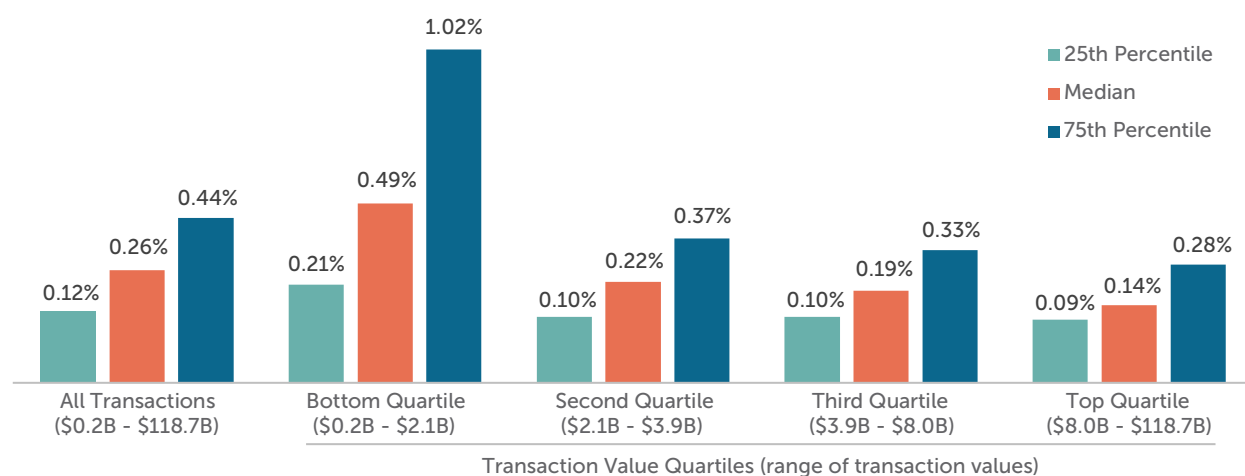
Retention/transaction award pools are often benchmarked as a percentage of transaction value, and across CAP's M&A Sample, the median is 0.26%. However, because the range of values is wide – the 75th percentile (0.44%) is nearly four times the 25th percentile (0.12%) – broad-market benchmarks alone may provide only limited guidance in determining an appropriate pool size.

Retention/Transaction Award Pools Among CAP's M&A Sample (n=100)

Summary Statistic	Retention/Transaction Award Pool	Award Pool as % of Transaction Value
75th Percentile	\$20.0M	0.44%
Median	\$10.0M	0.26%
25th Percentile	\$5.0M	0.12%

One important factor driving this variation in the broad market is transaction value itself. When CAP's M&A Sample is assessed by transaction-value quartile, a clear pattern emerges – larger transactions tend to allocate a smaller percent of transaction value to retention/transaction award pools than smaller transactions.

Retention/Transaction Award Pools as a % of Transaction Value Among CAP's M&A Sample (n=100)



We see this pattern because many of the costs associated with retaining critical employees behave more like fixed costs than variable costs. The amount required to retain a key leadership team or specialized employee group does not necessarily increase in proportion to transaction value. As a result, while retention/transaction award pools often increase in absolute dollar terms as deal size grows, they tend to represent a smaller percentage of overall transaction value.

Transaction value explains a meaningful, but incomplete, portion of the variation in pool sizing across CAP's M&A Sample. A regression using transaction value as the explanatory variable produces an R^2 of 0.3312, indicating that transaction value explains approximately one-third of the observed variation in retention/transaction award pool as a percent of transaction value. The remaining variation reflects other transaction-specific factors that may influence the size of a retention/transaction award pool, including:

Factor	Potential Impact on Retention/Transaction Award Pool
Pool participants	Pools intended to cover a larger number of participants and pools that include senior executives generally require greater aggregate funding.
Existing retention/incentive value	Significant unvested equity compensation, change-in-control protections, or severance arrangements may reduce the need for retention/transaction awards.
Business model and talent dependency	Companies that rely heavily on specialized talent, critical customer relationships, deep institutional knowledge, or unique intellectual capital may require larger pools than businesses where enterprise value is more heavily tied to physical assets.
Vesting/payment schedule	Longer post-closing vesting periods may require larger individual awards to maintain retentive value over time, which may increase the aggregate pool.
Expected announcement-to-closing timeline	Longer or more uncertain periods between announcement and closing may increase retention risk and transaction-related workload, potentially supporting more generous awards and, therefore, a larger pool.
Transaction and integration complexity	Transactions requiring significant deal execution, regulatory approvals, systems integration, customer transition, organizational redesign, or other post-closing efforts may require larger pools with more broadly distributed awards.
Buyer's post-closing talent strategy	If transaction success depends on retaining target-company employees through an extended post-closing integration period, a larger or more retention-oriented pool may be appropriate.

Accordingly, transaction value provides an important market reference point, but it should not be viewed as a formulaic answer. Companies should treat transaction-value benchmarks as a starting point, adjusting from there for the specific facts and circumstances of the transaction at hand.

Designing Retention/Transaction Award Pools

In securing critical talent, supporting transaction execution, and preserving integration momentum, the design of retention/transaction awards can be as important as the size of the pool. Companies must make a series of key design decisions, including who should participate in the program, how awards should be communicated and positioned, whether awards should be delivered in cash or equity, when awards should vest or be paid, and how employee terminations should be treated. The section below summarizes the disclosed design features of the retention/transaction award pools included in CAP's M&A Sample.

Program Terminology

Companies use diverse terminology for their retention/transaction awards. The terminology selected to frame the program to employees and shareholders commonly reflects the program's specific objectives:

- "Retention" Awards (59% of all pools): The most common terminology among CAP's M&A Sample. Generally focused on the objective of securing critical talent.
- "Transaction" Awards (21%): The second most common terminology. Generally focused on supporting transaction execution and rewarding employees for efforts associated with completing the transaction.
- Blended "Retention & Transaction" Awards (8%): A hybrid terminology indicating that awards are meant to support multiple objectives at the same time.
- Alternative Terminology (12%): Examples include "Recognition," "Integration," or "Appreciation" awards.

Award Vesting/Payment

Analysis of the relationship between program terminology and award vesting indicates that, while general tendencies exist, terminology does not dictate plan design. Awards described as "retention" awards are more likely to require some form of post-closing service, while awards described as "transaction" awards are more likely to vest 100% at closing. However, these differences are not absolute.

As shown below, there is meaningful overlap between the two approaches. Among the 68 retention/transaction award pools in CAP's M&A Sample that disclosed vesting/payment terms, nearly one-fifth (19%) of awards described as "retention" awards vest 100% at closing, while more than one-quarter (28%) of awards described as "transaction" awards require some form of post-closing service. This suggests that companies frequently blend retention and transaction-execution objectives within a single award pool, regardless of the terminology used to describe the program.

Retention/Transaction Award Vesting/Payment Among CAP's M&A Sample

Award Vesting/Payment	% of All Retention/ Transaction Awards (n=68)	% of Awards Described as "Retention" Awards (n=36)	% of Awards Described as "Transaction" Awards (n=18)
100% at closing	43%	19%	72%
Partial at closing, partial after	38%	51%	17%
100% after closing	13%	19%	11%
Multiple	6%	11%	0%

Note: "Multiple" indicates that more than one vesting/payment schedule was disclosed for the same retention/transaction award pool. For example, a company may disclose that certain awards vest/pay 100% at closing, while other awards vest/pay 50% at closing and 50% six months after closing.

Among awards that provide for partial vesting at closing with the remainder vesting after closing, a 50% / 50% structure is by far the most common approach. As shown below, 81% of retention/transaction awards with "split" vesting schedules provide for 50% of the award to vest at closing, suggesting that many companies intend to place equal emphasis on transaction execution and post-closing retention objectives.

Percent of Retention/Transaction Award Vested/Paid at Closing Among CAP's M&A Sample

% of Award Vested/Paid at Closing	% of All Retention/Transaction Awards (n=68)	% of Awards with Vesting/Payment Partially at Closing, Partially After Closing (n=26)
0%	13%	0%
25%	3%	8%
33%	3%	8%
50%	31%	81%
75%	1%	3%
100%	43%	0%
Multiple	6%	0%

Note: "Multiple" indicates that more than one vesting/payment schedule was disclosed for the same retention/transaction award pool. For example, a company may disclose that certain awards vest/pay 100% at closing, while other awards vest/pay 50% at closing and 50% six months after closing.

Among awards that are not 100% vested at closing, the most common vesting endpoint is six months after closing. As shown below, 38% of retention/transaction awards with split vesting schedules and 45% of awards that vest entirely after closing are fully vested six months after the closing date. Together with the prevalence of 50% / 50% split-payment structures discussed above, this suggests that many companies view a six-month post-closing period as sufficient to support integration objectives without creating unnecessarily long retention requirements.

Timing of Full Retention/Transaction Award Vesting/Payment Among CAP's M&A Sample

Award is Fully Vested/Paid	% of All Retention/Transaction Awards (n=68)	% of Awards with Vesting/Payment Partially at Closing, Partially After Closing (n=26)	% of Awards with Vesting/Payment 100% After Closing (n=9)
At closing	43%	0%	0%
60 days after closing	1%	0%	11%
90 days / 3 months after closing	12%	31%	0%
6 months after closing	21%	38%	45%
12 months after closing	12%	19%	33%
18 months after closing	1%	4%	0%
2 years after closing	1%	0%	11%
Specific date	3%	8%	0%
Multiple	6%	0%	0%

Note: "Multiple" indicates that more than one vesting/payment schedule was disclosed for the same retention/transaction award pool. For example, a company may disclose that certain awards vest/pay 100% at closing, while other awards vest/pay 50% at closing and 50% six months after closing.

Termination Provisions

When retention/transaction awards require continued service post-closing, recipients are often provided with some degree of protection in the event of a qualifying termination. As shown below, accelerated vesting provisions are substantially more common among awards with post-closing service requirements than among awards that vest 100% at closing. Specifically, 92% of awards with split vesting schedules and 67% of awards that vest 100% after closing provide for some form of accelerated vesting upon a qualifying termination, compared to just 17% of pools that vest/pay 100% at closing.

This finding reflects the fact that former target-company employees face greater employment uncertainty during the post-close integration period. To address this, many companies provide for accelerated vesting of retention/transaction awards if recipients are terminated without cause (or, less commonly, resign for good reason) before satisfying the vesting conditions.

Accelerated Vesting/Payment Upon a Qualifying Termination Among CAP's M&A Sample

Accelerated Vesting/Payment for Qualifying Termination	% of All Retention/Transaction Awards (n=68)	% of Awards with Vesting/Payment 100% at Closing (n=29)	% of Awards with Vesting/Payment Partially at Closing, Partially After Closing (n=26)	% of Awards with Vesting/Payment 100% After Closing (n=9)
Yes	37%	17%	50%	56%
Yes, but only after closing	19%	N/A	42%	11%
No	44%	83%	8%	33%

Award Vehicles

Retention/transaction awards are overwhelmingly delivered in cash. Across CAP's M&A Sample, 93% of awards are exclusively cash-based, 1% are exclusively equity-based (generally consisting of restricted shares or units), and 6% use both cash and equity.

Companies favor cash primarily because of its simplicity: it's easier to administer than equity, gives participants a fixed, predictable payout, and allows the company to avoid share-usage, valuation, and accounting issues that come with equity grants during an ongoing change-in-control process.

Executive Participation in Retention/Transaction Award Pools

Approaches vary considerably in the extent to which executive officers participate in retention/transaction award pools. Some companies include senior executives alongside more junior employees, while others reserve the pool primarily for employees below the executive level – often to limit institutional investor and proxy advisor scrutiny – and address executive retention through separate compensation arrangements.

Among CAP's M&A Sample, 32% of pools explicitly excluded the CEO, and 20% explicitly excluded one or more non-CEO executive officers. The true share is likely higher, since some companies may have excluded executives without disclosing it.

On the other hand, 31% of companies in CAP's M&A Sample publicly disclosed individual award values for one or more executive officers. Among the companies that disclosed executive award values, CEOs, CFOs, and General Counsels/Chief Legal Officers (GCs/CLOs) were the most commonly disclosed recipients. The prominence of CFOs and GCs/CLOs is not surprising given their central roles in M&A execution. The CFO usually owns transaction accounting, financing, and audit, along with the financial side of integration; the GC or CLO handles deal documentation, regulatory approvals, governance, and the legal pieces of integration.

While CEOs tend to receive the largest awards in terms of both dollar value and percentage of the overall pool (\$1.0 million and 11.9% of the pool at median), the median award value for CEOs, CFOs, and GCs/CLOs is consistently 100% of base salary. This suggests that base salary is often an important reference point when determining retention/transaction award values for executives and lower-level participants.

Retention/Transaction Awards for Common Executive Participants Among CAP's M&A Sample

Executive Position	Retention/Transaction Awards as a % of Base Salary			Median Award Value	Median Award Value as % of Pool	Median Award Value as % of CEO
	25th %ile	Median	75th %ile			
CEO (n=13)	81%	100%	256%	\$1,000,000	11.9%	N/A
CFO (n=24)	68%	100%	181%	\$420,000	3.8%	53%
GC / CLO (n=20)	70%	100%	186%	\$410,000	3.7%	32%

A Practical Approach to Retention/Transaction Award Pools

1. Assess Existing Retention Incentives

Before establishing a new retention/transaction award pool, examine what's already holding the target company's people in place. Significant unvested equity compensation, change-in-control protections, or severance arrangements may reduce the need for new awards — especially for more senior employees.

2. Review Market Benchmarks

Study benchmarks to understand how retention/transaction award pools have been sized in similar deals. For example, a \$5 billion transaction would fall in the third transaction-value quartile of CAP's M&A Sample, where the median pool is 0.19% of transaction value, the 25th percentile is 0.10%, and the 75th percentile is 0.33%. Benchmarking can provide one or more initial market reference points before transaction-specific factors are considered.

3. Consider Factors Specific to the Transaction

With the relevant benchmarks established, evaluate factors specific to the transaction that may warrant sizing the pool above or below the market range – for example, the anticipated time from signing to closing, the degree of regulatory risk, the breadth and depth of employee participation, and the extent to which the transaction's success depends on retaining key talent through integration.

4. Design the Award Structure

Finally, determine how awards will be structured and delivered. CAP's analysis shows that many companies balance transaction-execution and retention objectives through a combination of at-closing and post-closing vesting requirements. Among companies in CAP's M&A Sample with split vesting schedules, a 50% / 50% structure is by far the most common design, with six months post-closing as the most common vesting endpoint. Companies should tailor vesting schedules and other design features to the specific circumstances and objectives of their transaction.

How CAP Can Help

Retention/transaction award pool sizing and design depend on deal-specific facts and circumstances, many of which aren't publicly disclosed. CAP regularly helps compensation committees and management teams address these decisions – benchmarking, participant selection, award sizing, vesting terms, and the governance and disclosure issues around executive participation. If you'd like assistance benchmarking or designing an award pool for a specific transaction, please contact CAP.

Appendix: Disclosure Case Studies

Case Study #1 – FLIR Systems, Inc. acquired by Teledyne Technologies Incorporated

From FLIR's Form DEFM14A filed April 12, 2021

Retention Program

Under the Merger Agreement, FLIR may establish and implement a cash-based retention program (the "Cash Retention Program") in the aggregate amount of approximately \$5 million to promote retention and incentivize efforts to consummate the Mergers and to ensure a successful and efficient integration process. Allocations from the Cash Retention Program may be made to employees of FLIR who are not (i) directors of FLIR, (ii) officers of FLIR who are subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to FLIR or (iii) executives of FLIR who have a "change of control" agreement or participate in the FLIR CiC Plan. The terms of any such retention awards will provide that one-third of the cash amount will be paid to the applicable recipient at the closing of the Mergers and the remaining two-thirds of such cash amount will be paid to the applicable recipient on the one-year anniversary of the closing of the Mergers. As of the date of this joint proxy statement/prospectus, no decisions have been made nor any awards granted under the Cash Retention Program.

Case Study #2 – Prometheus Biosciences, Inc. acquired by Merck & Co., Inc.

From Prometheus's Form DEFM14A filed May 16, 2023

Transaction and Retention Bonus Pool

The Board has approved a cash transaction and retention bonus pool (the "Retention Pool") in an aggregate amount not to exceed \$10.0 million, pursuant to which certain employees of Prometheus (including executive officers) may be allocated awards to recognize and reward extraordinary efforts related to the consummation of the Merger, which will be payable no earlier than the closing of the Merger. As of the date of this proxy statement, no awards under the Retention Pool have been allocated to any Prometheus employees (including any executive officers).

Case Study #3 – Marathon Oil Corporation acquired by ConocoPhillips

From Marathon's Form DEFM14A filed July 29, 2024

Retention Program

Under the merger agreement, Marathon Oil may establish a cash-based retention program in the aggregate amount of up to \$60 million to promote retention and to incentivize efforts to consummate the merger and to ensure a successful and efficient integration process. Allocations from this program may be made to any employee of Marathon Oil (including the executive officers). Any allocation from this program to an executive officer will be determined by the compensation committee of the Marathon Oil board in consultation with the ConocoPhillips CEO and the terms of such awards will provide for vesting and payment no earlier than the closing date, subject to continued service with Marathon Oil through such date. As of the date of this proxy statement/prospectus, there are no agreements or arrangements regarding allocation of awards from the retention program to any of the executive officers.

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Please contact us at (212) 921-9350 if you have any questions about the issues discussed above or would like to discuss your own executive compensation issues. You can access our website at www.capartners.com for more information on executive compensation.