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From Private to Public: How Executive Compensation Changes After an IPO

■ By Joanna Czyzewski, Christopher Callegari, and Bhavika Podduturi

CAP analyzed executive compensation practices at companies with recent IPOs from 2023 to 2025. The data shows a clear public company transition: cash generally increases, formal bonus programs become more prevalent, and equity grants become a larger part of the compensation mix. This report also examines equity share pool design, including pool size and value, other equity practices and the typical allocation to senior executives. Majority of IPOs tend to cluster in a couple of industries. CAP's study is cross-industry, though approximately 80% of the sample represents the technology or biotechnology/pharmaceutical industries (45% and 36% respectively).

NEW YORK

1180 Avenue of the Americas
New York, NY 10036
+1 (212) 921-9350
www.cappartners.com

CHICAGO

200 S Wacker Drive
Suite 3100
Chicago, IL 60606
+1 (312) 462-4500

LOS ANGELES

2945 Townsgate Road
Suite 200
Westlake Village, CA 91361
+1 (310) 426-2340

SEATTLE

500 108th Ave NE
Unit 1100
Bellevue, WA 98004
+1 (646) 532-5932

At a Glance

An IPO changes more than just a company's ownership and capital structure. It also introduces public company governance and shareholder expectations that affect both pay levels and program design. CAP's review shows that the transition from pre-IPO to post-IPO is visible in the changes to cash compensation, equity mix, formalization of incentive programs, and the equity pool design that supports ongoing compensation programs.

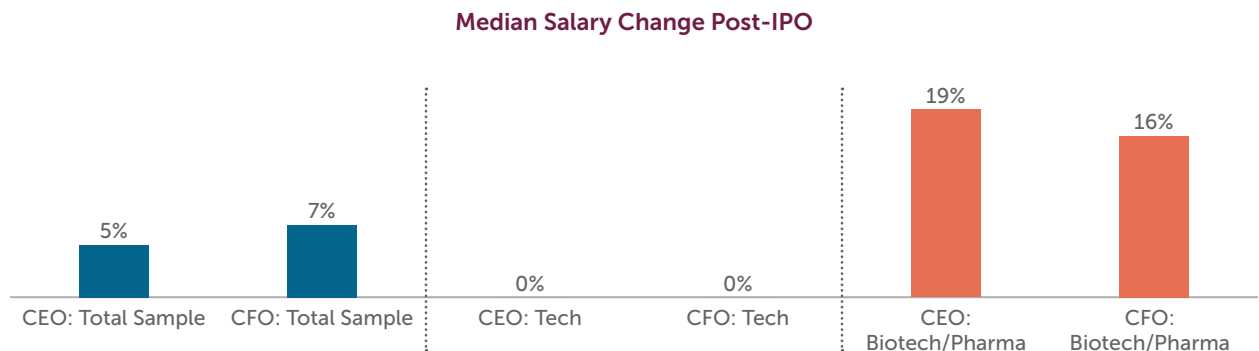
- Pay levels rise. Median base salary for CEOs increases 5% and median CFO salary rises 7%, while long-term incentives triple in value
- Formal annual incentive (or bonus) programs become more prevalent
- Pay mix shifts increasingly toward equity and long-term incentives, increasing to about 50% of mix, from about 35% pre-IPO, on average
- Share pools are a major component of compensation-related IPO planning. The median pool is about 15 million shares; 89% of new plans include an evergreen provision
- 77% of companies implemented an Employee Stock Purchase Plan (ESPP) at time of IPO

How Pay Levels Change after an IPO

The move to public company compensation is accompanied by higher pay, but the magnitude for each element differs across industries.

Base Salary

CEO and CFO base salary increases for the total sample were similar in the mid- to high-single digits. For CEOs, median increase is 5% post-IPO; for CFOs, the median is 7%. Among constant incumbents in the technology sector, at median, base salaries were flat.



Annual Incentive Opportunity

Median bonus opportunity for CEOs nearly doubles post-IPO, while CFOs see a more modest increase in target bonus as a percent of salary. Technology executives tend to have higher opportunities than their counterparts in biotechnology/pharmaceuticals.

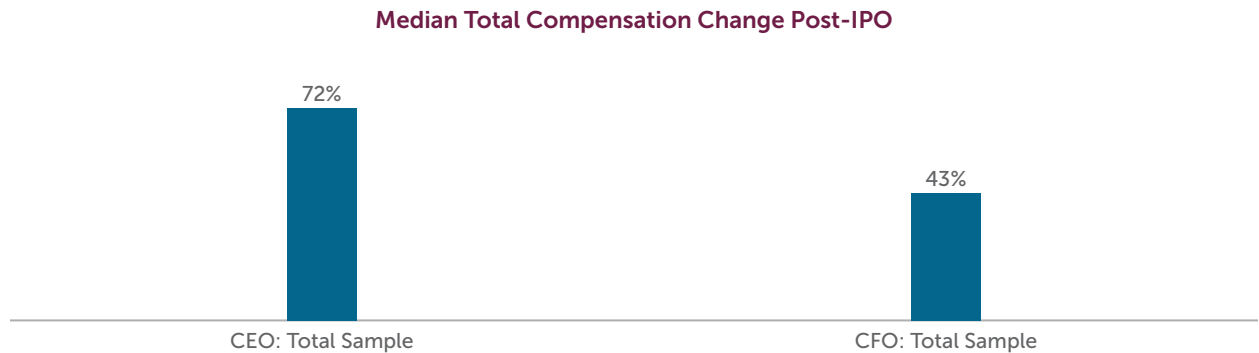
Median Bonus Opportunity	CEO		CFO	
	Pre-IPO	Post-IPO	Pre-IPO	Post-IPO
Total Sample	50%	99%	50%	60%
Technology	96%	100%	60%	75%
Biotechnology/Pharmaceuticals	45%	55%	38%	40%

Long-Term Incentive Opportunity

For CEOs, the median actual long-term incentive values increase by 262% from pre-IPO levels; for CFOs, median increases by slightly less but is still significant (+230%). As public company compensation plans are formalized, long-term incentive values become the largest portion of executive pay as the cost to companies of providing long-term incentives goes down given access to equity.

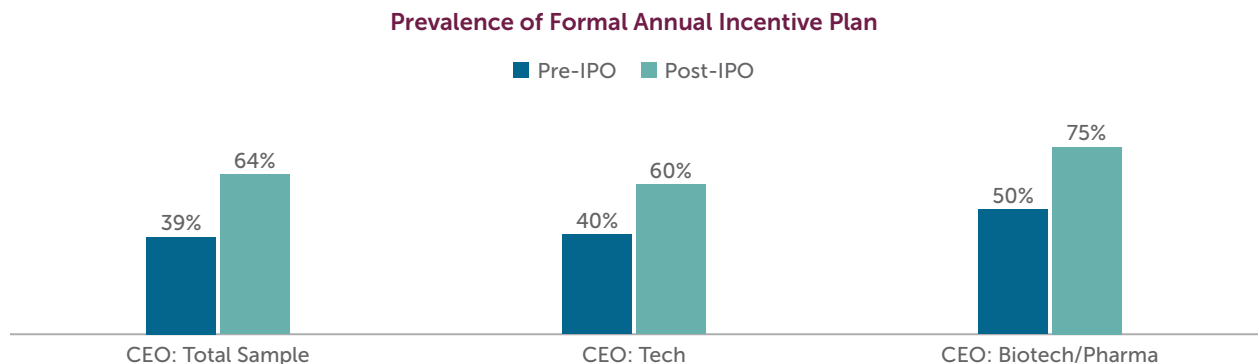
Total Direct Compensation

Overall, when looking at total direct compensation, CEO and CFO compensation significantly increases from pre-IPO levels.



Annual Incentive Programs Become More Defined

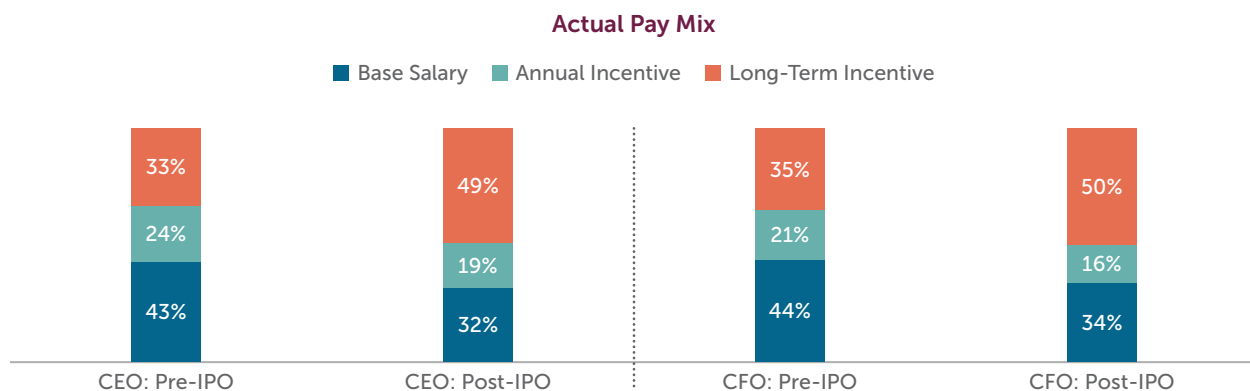
Pre-IPO annual incentive (or bonus) programs are often highly discretionary. They may consider financial performance but often do not have formal metrics or weightings and may be largely determined based on individual performance. As companies evolve towards and through an IPO, we see companies begin to formalize the bonus program. Investor expectations are that bonus programs are tied to financial performance with clear target goals. The first step to formalizing a bonus program is ensuring that participants have individual targets. From there, depending on the ability to forecast and set goals, companies typically start with selecting key financial performance metrics and ultimately evolve to a clearly defined program with threshold, target, and maximum financial goals. About a third of companies in our sample did not have a formal annual incentive program pre-IPO and formalized it in the year after going public.



Corporate performance remains the foundation of formal short-term incentive programs. Post-IPO, all companies in our sample had a corporate component, with about half of them also incorporating individual performance.

Pay Mix Shifts Toward Long-Term Incentives (Equity)

The public company transition changes not only how much executives are paid but also how compensation is delivered. Across the total sample, long-term incentives become a larger portion of actual pay after IPO.



The long-term incentive vehicles used varies across companies. Most recent IPO companies use time-based vehicles, either stock options or time-based restricted stock/stock units (RS/RSUs). This also aligns with the most common vehicles used pre-IPO. As companies continue to evolve into more mature public companies, the expectation from institutional investors and proxy advisors is that a performance-based vehicle is introduced into the mix, balanced with time-based vehicles. Our sample saw limited instances of a performance-based vehicle right after IPO, but that prevalence increases as companies move further away from IPO.

Founder-Led Status Impacts Compensation

About 70% of companies in CAP's sample were led by founders at the time of IPO. Founder ownership levels remained relatively steady pre- and post-IPO, with technology CEOs holding about 30% of outstanding equity. For other industries, ownership is around 10%. Boards and Compensation Committees need to determine philosophically if higher ownership levels should be considered when setting pay. One approach is to minimize equity grants given high existing ownership and alignment with shareholders, while another approach is to set market-competitive pay irrespective of ownership level. We often see mix of pay differ between founders and non-founders, even when total compensation levels on a dollar-basis are similar.

Founder-led companies can have unconventional pay mixes, including exceptionally low annual equity compensation or unusually high concentrations in one pay element. Overall, founder CEOs tend to have a slightly heavier weighting on cash compensation than non-founders, though for both groups, we see about 50% in the long-term incentives on a go-forward basis in our sample.

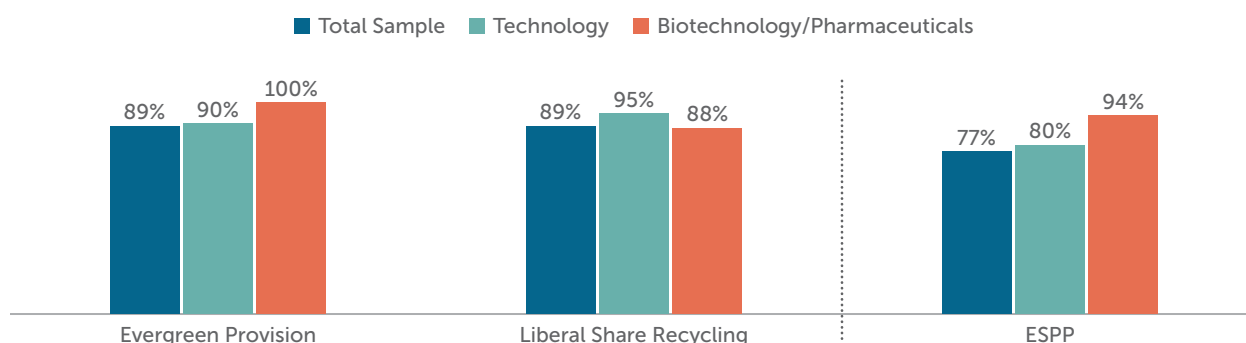
Share Pool Size and Equity Plan Design is One of the Biggest Decision Points

Long-term incentive plan design is one of the biggest compensation decisions made during the IPO process. The size of the equity pool (and related plan features) determines the ability to make initial transition-related grants, support ongoing annual equity programs, and recruit future talent.

The initial share pool, at median, for our sample was around 15 million shares, with median total potential dilution of around 15%. Size of the pool can vary across industries – we see higher initial pools in technology where equity can be an important compensation tool organization-wide, with slightly smaller pools in the biotechnology/pharmaceutical industry. Regardless of the absolute number of shares, we typically see dilution in the range of 10% - 15%+, with more mature companies having lower dilution and earlier-stage companies that rely more heavily on equity as a compensation tool to have dilution ranging up to 20%.

As the first long-term incentive plan is drafted at the time of IPO and therefore is not shareholder approved, we often see less shareholder friendly practices including evergreen provisions and liberal share recycling. It is also common to implement an employee stock purchase plan (ESPP) at the time of IPO.

Prevalence of Equity Features



Once a company goes public, any material changes to the equity plan document, including increasing the total pool, are required to be shareholder approved. Evergreen provisions automatically increase the size of the equity pool each year. The typical evergreen provision is around 5% per year, though boards typically retain the discretion to reduce this amount. Sometimes companies use a “lesser of” approach that considers a fixed absolute number of shares versus a fixed percentage to increase the pool by.

Liberal share recycling is another common pre-public practice that helps conserve the number of shares. While all plans permit returning shares to the pool upon forfeit, liberal share recycling can be when shares withheld for taxes or tendered at an option exercise are returned to the pool. This can lead to further dilution of shareholders without them being aware. We typically see these two provisions removed when a company puts their equity plan up for shareholder approval the first time.

An employee stock purchase plan, or ESPP, allows employees to purchase shares through payroll, often at a discount to the current stock price. This practice supports retention and engagement and broadens equity participation for employees that may not be in the annual equity program.

We often see companies grant initial equity awards to executives right before or in conjunction with the IPO. These awards are often larger than typical annual equity awards and designed to retain executives through the newly public company period. Median CEO grant is around 4% of the total pool, though higher for technology companies and slightly lower for biotechnology/pharmaceutical companies. For CFOs, this is around 1% - 1.5% of the total pool. These awards often can use a large portion of the initial share pool. In our sample, we had few examples of special awards, and those tended to be for other executives given the high prevalence of founders in our sample.

Top Considerations for Companies Preparing to Go Public

Executive compensation when going public is shaped by two primary forces: 1) the additional responsibility and oversight inherent in leading a public company and 2) external expectations from proxy advisors and institutional investors regarding compensation program design. There is an understanding that the transition and evolution of the executive compensation program happens over time, though the time period for this varies based on your investor base. There are several considerations during the transition:

- Establish a core compensation program: Develop a peer group, set executive pay aligned to public company peer group, formalize annual incentive program and determine long-term incentive program
- Make decisions that set the company up for success over a multi-year period: Establish framework for continued evolution and progression toward public company pay and governance, determine size of equity pool needed to support multiple years of grants, and determine how compensation tools such as equity are used throughout the organization
- Assess post-IPO ownership and understand your investor base: If founders still retain significant ownership or there is a controlling shareholder, companies may feel less pressure than other newly public companies to ramp up governance expectations such as stock ownership guidelines or adding a performance-based long-term incentive plan

- Understand your filing status and how that impacts compensation disclosures: The SEC has a proposal outstanding that will greatly simplify disclosure requirements for newly public companies; however, it is not just about a CD&A, there are currently other requirements such as say-on-pay, CEO pay ratio and pay versus performance disclosure. It is important to understand when you will become subject to these, and the phase-in period so that you are prepared come proxy season and are not scrambling
- Understand how decision-making impacts disclosure: It is not just special awards, any and all parts of the decision-making process (setting targets, determining bonus outcomes, etc.) will need to be disclosed. Make sure your board understands disclosure implications of decisions going forward.

Going public is an exciting time for companies, but there are a lot of implications for executive compensation. Beginning to think about the necessary changes 12-18 months ahead of going public will make the transition significantly easier, rather than trying to take care of compensation as an afterthought.

For questions or more information, please contact:

Joanna Czyzewski
Partner
joanna.czyzewski@capartners.com
646-486-9746

Chris Callegari
Senior Associate
chris.callegari@capartners.com
646-486-9747

Bhavika Podduturi provided research assistance for this report.

Research Sample

CAP's analysis covers 44 companies across industries. See below for financial statistics.

Measure (as of 12/31/2025)	25th Percentile	Median	75th Percentile
Revenue	\$25M	\$734M	\$1,243M
Total Assets	\$358M	\$1,386M	\$2,885M
Market Capitalization	\$537M	\$2,172M	\$9,522M



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