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Building the Standalone Company: Executive Compensation Lessons from Industrial Spin-Offs and Separations

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Spin-offs create a unique set of executive compensation challenges. Companies must retain key talent and maintain focus through a complex transaction while simultaneously preparing a leadership team, compensation programs and governance structure for a business that may look very different as a standalone public company.

These decisions do not all need to be made at the same time. Some, including leadership selection, initial pay levels and Board recruitment, often need to be addressed well before separation. Other areas, such as incentive plan design or peer group development, may evolve as the new company establishes a trading history and the standalone Compensation Committee develops its own perspective.

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To better understand how companies have approached this transition, Compensation Advisory Partners reviewed 19 major industrial and manufacturing spin-offs and related separation transactions, representing 29 resulting-company observations. Our analysis focused on executive leadership and compensation, peer groups, annual and long-term incentive design, treatment of outstanding equity, transaction-related special awards and select Board practices.

Several consistent themes emerged from the sample. Companies generally do not wait until Day 1 (i.e., the separation or transaction close) to begin the compensation transition, nor do they rebuild every element of the program at once. Instead, companies tend to preserve practices that continue to work, reset those that no longer fit the standalone business and use temporary arrangements where the ultimate design is not yet practical.

Key Takeaways:

- Leadership and compensation planning frequently begin before separation: Most SpinCo CEOs came from within the organization, while companies were more likely to recruit externally for certain public-company functional roles
- Standalone pay and market references often require meaningful recalibration: Increases in long-term incentive opportunities were generally a larger driver of executive pay resets than salary increases, while SpinCo peer groups typically changed substantially
- Incentive programs are more often modified than completely redesigned: Companies frequently changed the performance measures used while retaining familiar plan structures, payout leverage and core long-term incentive vehicles
- Performance equity may require a transition period: Several companies simplified or temporarily suspended performance-based equity before or around the spin, then returned to a more traditional performance share units ("PSUs") structure once long-term goal setting became more practical
- Transaction-related special awards are common and often customized: Most SpinCos used a core transaction or launch award program, often combining multiple vehicles and varying award size by executive role

Study scope: The analysis is based primarily on publicly available Form 10 filings, proxy statements, transaction filings and related compensation disclosures. The research focuses on newly separated companies and also includes retained or combined businesses where the transaction materially reconstituted the legacy company. Sample sizes vary by analysis based on available disclosure.

The transactions involved companies of significant scale, with median revenue of approximately \$11.8 billion for the parent/pre-transaction companies and \$5.2 billion for the resulting companies.

See Appendix A for the transactions and resulting companies included in the study.

Building the Standalone Company Often Starts Before Day 1

The period between announcing a separation and reaching Day 1 can be lengthy, but still compressed relative to the amount of work required. Across the 19 transaction programs, the median period from announcement to Day 1 was approximately 13 months, with roughly half of the transactions falling between approximately 10 and 17 months. This window requires companies to make a wide range of leadership, compensation and governance decisions while the business is still operating within the legacy organization.

One of the first decisions is who will lead the new company, and in most cases, companies favored continuity at the most senior roles.

Among the 19 separated companies in our sample, 15 of 19 CEOs (79%) were internal executives, often business presidents who were already responsible for the operations being separated. The pattern was similar for operating leaders below the CEO: 14 of 17 business or operating executives identified in our analysis came from within the legacy organization.

The CFO role differed in that 11 of 19 SpinCo CFOs (58%) were external hires, suggesting that companies were more willing to go outside the organization for finance leadership as the business prepared to operate independently. Legal leadership was approximately evenly split between internal and external executives, while HR leadership was more often internal.

Leadership Source at SpinCos		
Role	Internal	External
CEO (n=19)	79%	21%
CFO (n=19)	42%	58%
Business / Operating Leader (n=17)	82%	18%
Legal (n=17)	53%	47%
HR / People (n=12)	67%	33%

These findings suggest that companies generally sought to preserve business and operating knowledge while selectively adding public-company capabilities. An existing business leader may already understand the customers, operations and strategy of the future company, while a newly independent organization may need additional experience in areas such as public-company finance, investor relations, capital markets or governance.

Importantly, these decisions were generally not deferred until closing. Across the SpinCo CEO and CFO observations reviewed, approximately three-quarters had compensation established before the separation or through a staged process that began pre-close.

Recruiting outside talent can also create additional one-time costs. Several companies used cash and/or equity sign-on awards to recruit future standalone CFOs and other functional leaders, separate from the core transaction / launch awards discussed later.

The Board was also frequently taking shape before the company became independent. The median initial SpinCo Board in our sample was approximately 60% newly recruited, and 12 of 19 SpinCos began with a majority of directors who were not affiliated with the legacy parent. Compensation Committee leadership showed an even stronger emphasis on fresh perspectives with 13 of 19 initial SpinCo Compensation Committee Chairs being newly recruited directors.

This creates an interesting governance balance as the parent company often needs to make many of the decisions required to stand up the company, but a largely new Board and Compensation Committee may soon inherit those decisions and determine whether further changes are appropriate.

The broader point is that Day 1 is often the end of the first phase of the compensation transition, rather than the beginning of it.

Standalone Roles and Market References Often Require Recalibration

Keeping the same executive does not necessarily mean keeping the same compensation package.

A business-unit president becoming CEO of a public company takes on responsibilities that may not have existed in the prior role, including direct accountability to a Board and shareholders, investor relations, capital allocation and enterprise-wide strategy. Similar changes can occur for CFOs and functional leaders whose responsibilities expand with the creation of a standalone organization.

Among SpinCo executives with comparable pre- and post-transaction pay data, these changes frequently resulted in higher compensation. For CEOs, the median base salary increase was approximately 25%, compared with an approximate 70% increase in annual long-term incentive ("LTI") opportunity. Target total pay increased by roughly 57% at median.

The pattern was similar for CFOs as salaries were increased but much more modestly than CEO counterparts and increases in long-term incentive opportunity were generally larger.

Median Change in Target Compensation at SpinCos		
Pay Element	CEO	CFO
Base Salary	+25%	+11%
Target Total Cash	+32%	+27%
Annual LTI	+71%	+102%
Target Total Pay	+57%	+66%

Note: Sample sizes vary by pay element based on availability of comparable pre-transaction compensation.

The same general pattern appears, although less consistently, below the CEO and CFO levels. Base salary increases for operating and functional leaders were generally more modest, while larger changes could occur in annual LTI where the standalone role carried greater scope or public-company responsibility.

As is generally seen in the market for public company executives, LTI is often the primary tool used to recognize the increase in role scope, rather than relying only on large salary and/or target bonus adjustments.

Individual examples demonstrate how significant the change can be. For example, the future Honeywell Aerospace CEO's target LTI increased from approximately \$4 million under Honeywell to \$13 million for the standalone company. At Versigent, the future CEO's LTI opportunity increased from \$4.3 million at Aptiv to \$9.0 million. These are among the larger examples in the sample, but they illustrate why evaluating the new role, rather than simply carrying forward the incumbent's prior pay, is important.

Additionally, comparing the peer groups of the parent and the resulting companies shows that these market reference points frequently require a more complete reset.

Among 17 SpinCos with custom peer groups, median overlap with the legacy parent's peer group was only 13%, with 12 of the 17 retaining fewer than one-quarter of the parent's peers, while 15 retained fewer than half. By comparison, RemainCos in our sample retained approximately 43% of legacy peers at median.

This difference is intuitive as the newly separated businesses are often a significantly different size, also with different business mix, valuation profile and talent market than the former parent company. The RemainCo may become smaller or more focused, but it often retains more of the legacy company's organizational and market identity.

Peer-group development also tended to begin early: 13 of 17 SpinCos (76%) established or began developing the standalone peer group before close or through a staged process spanning the transaction.

Median Legacy Peer Overlap	
SpinCo	13%
RemainCo	43%
CombinedCo	62%

For SpinCos Specifically:
71% retained <25% of legacy peers
88% retained <50% of legacy peers
76% completed peer work pre-close or through a staged process

Taken together, the pay and peer-group findings reinforce the same point: companies often retain the key leaders with knowledge of the business while substantially resetting the market framework used to compensate them.

Incentive Plans More Often Evolve Than Start Over

Spin-offs create an opportunity to rethink incentive plan design, but our analysis suggests that companies most often make targeted changes rather than replace the entire program.

Among 26 resulting-company observations where a normal-course annual incentive plan ("AIP") could be evaluated:

- 58% modified the plan
- 23% largely maintained it
- 19% redesigned it

The long-term incentive results were similar:

- 54% modified the plan
- 15% largely maintained it
- 31% redesigned it

Looking more closely at what changed, performance measures tended to change more often than plan mechanics.

Annual incentive performance-measure categories changed in 64% of comparable observations. For example, a company might replace or rebalance earnings, revenue, cash flow or strategic measures to better reflect the economics of the standalone company; however, the number of quantitative measures changed in only 30% of observations.

Our findings show that companies frequently changed what executives were measured on without materially changing how complicated the plan was.

The same pattern emerged in long-term incentives, where the performance measures used in PSUs changed in 58% of comparable observations, while LTI vehicle types changed in 50%. Yet the number of vehicles remained unchanged in approximately 62% of observations.

Payout leverage was much more stable, with only 2 of 21 comparable annual incentive plans changing their threshold-to-maximum payout leverage, with the same result for long-term performance awards.

What Changed in Incentive Design?	
Design Feature	% Changed
AIP Performance Measure Categories	64%
PSU Performance Measure Categories	58%
LTI Vehicle Types	50%
AIP Number of Quantitative Measures	30%
AIP Payout Leverage	10%
LTI Payout Leverage	10%

The sample also demonstrated clear directional patterns within the changes.

Profit and earnings measures were particularly persistent, being retained in all 21 comparable programs where they were previously used and introduced in one additional program. Strategic or nonfinancial measures were one of the more common additions as standalone companies sought to introduce objectives tied to priorities such as transformation, culture or safety.

Within LTI programs, performance equity was retained in 23 comparable observations and introduced in three more; and, as expected, this was not permanently eliminated in any determinable steady-state case as performance-based equity is a standard practice at public companies of scale. Options/Stock Appreciation Rights ("SARs") moved in the opposite direction, as they were removed at seven companies and added in only one.

These results suggest that the transaction often serves as a reason to tailor an existing framework to the standalone business rather than abandon familiar compensation structures.

The period immediately surrounding a spin represents a different challenge for new annual performance-equity grants, which may require temporary bridge treatment. Establishing credible three-year financial goals can be difficult when a company is simultaneously separating systems, developing standalone forecasts, changing its capital structure or redefining its strategy. Several companies addressed this problem by temporarily simplifying or suspending performance equity awards.

Across 17 transactions with sufficient disclosure to evaluate the transition, 5 used a broad performance-equity simplification or temporary suspension. Timing of this is also important, with 4 of those 5 approaches beginning before legal separation.

The approaches varied: some companies used time-based equity in place of PSUs, while others shortened performance periods or used interim measurement approaches. Once the business had greater visibility, traditional multi-year performance equity generally returned.

Qnity provides a clean example. DuPont shifted the future Qnity executives' 2025 annual equity grants to 100% RSUs ahead of the spin. Qnity then established its 2026 recurring program at 60% PSUs and 40% RSUs.

Honeywell is another useful example on the RemainCo side. During its broader portfolio transformation, Honeywell temporarily moved to 50% options / 50% RSUs with no PSUs for 2026, citing the difficulty of establishing three-year performance goals, while indicating that performance equity was expected to return.

These examples highlight that a transition-year LTI design should not automatically be viewed as the company's long-term compensation philosophy.

Legacy Equity Usually Preserves Value, While Performance Awards Require More Judgment

Outstanding equity presents a separate set of decisions.

For time-based equity and options, all 29 resulting-company observations adjusted or converted outstanding awards in a manner intended to preserve economic value. The primary difference was where that value was delivered.

In approximately 69% of resulting-company observations, awards were generally concentrated in the stock of the employee's post-transaction employer. Another 28% used a hybrid approach, combining employer-company awards with other treatments for certain awards or participants, including in some cases exposure to multiple successor companies. A broad shareholder-style approach, where awards were split across multiple successor companies, was rare.

Performance awards are more complicated because the company must also determine how much performance has been earned and what should happen to the remaining performance period.

The approaches in our sample generally fell into three categories: 1) measuring or fixing performance at or around the transaction and converting the resulting award to time-based equity, 2) using different treatments based on the award cycle, employee group or timing within the transaction, and 3) continuing or resetting the original performance conditions after separation.

Treatment of Outstanding Performance Equity	
Treatment	Prevalence
Measure performance / convert remaining award to time-based equity	46%
Different treatment by cycle, role or transaction stage	36%
Continue or reset performance after separation	18%

Within these approaches, companies used a combination of actual results, target performance, forecasts and the amount of the performance period already completed.

PHINIA illustrates this logic, as BorgWarner's older performance-award cycles were converted using forecast performance through the original performance period, while the newest cycle converted at target because less than one year of performance had elapsed. The resulting value was then delivered through time-based PHINIA equity, generally retaining the original vesting schedule.

The objective is to balance several considerations: preserve value already earned, avoid providing credit for performance that has not occurred and eliminate performance conditions that may no longer be relevant or measurable after the transaction.

This is another area where early planning can simplify the eventual outcome. Companies that adjust grant practices before separation may have fewer outstanding performance awards requiring modified treatment at closing, although timing may not always allow for this.

Transaction Awards Are Common and Often Tailored by Role

One-time transaction-related awards were one of the most prevalent practices in the study.

We identified a core transaction or launch award in 24 of 29 resulting-company observations (83%). Prevalence was somewhat higher among separated or newly created successor companies, with 19 of 22 (86%) using an identifiable core special award, compared with 5 of 7 retained or continuing companies (71%).

The most common stated rationales for these special awards were:

- 75% referenced retention or continuity
- 46% used Founder or launch-related awards
- 42% referenced transaction execution or completion
- 25% used recognition-oriented awards

These categories overlap, which reflects how the awards were often designed. An award labeled a "Founder Grant," for example, may simultaneously create ownership, promote retention and recognize the work required to launch the standalone company.

Special awards were also not limited to a single form of compensation, as use of multiple vehicles was common. Among the 24 companies with identified specials:

- 79% used time-based equity
- 42% used cash
- 42% used options or SARs
- 25% used performance equity

Importantly, 16 of 24 companies (67%) used more than one award vehicle in the core special-award program.

Special-award design also frequently varied among executives at the same company. Among 21 companies with multiple core-special recipients, approximately half used different vehicle combinations for at least one recipient. Award sizing was more frequently differentiated: among 18 companies with at least two individually identifiable non-CEO recipients, 15 varied award amounts across those executives.

This suggests that companies often established an overall transaction-award philosophy but tailored award size, and in some cases vehicle mix, based on an executive's role, existing compensation, retention needs or transaction responsibilities.

A CEO might receive a Founder award combining options and performance equity, while another executive receives time-based equity or a cash bonus tied more directly to retention through the separation.

Award sizing also varies by executive level and looking across individual executives with comparable compensation data, the median special award represented approximately:

- 0.66x annual LTI
- 1.85x base salary
- 0.37x target total pay

However, the relationship differed meaningfully by executive level:

Median Transaction Award Sizing			
Special Awards	CEO	CFO	Other Executive
Dollar Value	~\$3.0M	~\$1.0M	~\$1.0M
Special Award as Multiple of Annual LTI	~0.5x	~0.5x	~0.8x
Special Award as Multiple of Base Salary	~3.1x	~1.5x	~1.6x
Special Award as Multiple of Target Total Pay	~0.34x	~0.30x	~0.38x

CEOs continued to receive the largest core transaction awards in absolute dollars, although award size relative to recurring compensation was more balanced across executive levels. At median, CEO and CFO awards represented approximately one-half of annual LTI, while awards for other executives represented approximately 0.8x annual LTI.

This reinforces the importance of evaluating award size relative to the executive's normal compensation opportunity rather than relying on dollar value alone.

While our primary analysis focused on executive compensation, transaction-related awards can extend beyond the NEO team. Carrier Global and GE Vernova, for example, disclosed launch-related equity awards for select executives or business leaders beyond the NEO group. Other transactions referenced targeted or broader cash retention payments to employees.

Special compensation for directors was much less common. Only 2 of the 19 transaction programs had clearly identifiable transaction-related director pay. Rexnord provided incremental RSU awards to transaction-committee members, totaling approximately \$338,000, while Jacobs paid approximately \$313,000 of special meeting fees in FY2024 under its standing policy and specifically linked elevated Board and Audit Committee activity to the separation. Several other companies maintained general additional-meeting fee policies, but reviewed disclosures did not directly attribute those payments to the transaction.

Planning for the Transition, Not Just the Separation Date

The transactions reviewed in our study demonstrate that compensation planning for a spin-off is rarely a single Day 1 exercise.

Leadership and initial pay are often established well before closing. Peer groups and Boards can also be built in advance. Incentive programs may continue in familiar form but use different performance measures, while long-term incentive design may temporarily simplify until multi-year goal setting becomes more reliable. Outstanding equity must be converted, and special awards may be needed to retain key talent or establish ownership in the new company.

Several considerations emerge for companies preparing for a separation:

Start early. Leadership selection, benchmarking, Board recruitment and treatment of outstanding equity can all require significant lead time. Many of the companies in our study began this work well before the legal separation.

Differentiate between transition and steady-state design. Not every Day 1 decision needs to become a permanent practice. Temporary equity structures or inherited incentive frameworks can provide an effective bridge while the standalone company develops greater visibility.

Reassess the role before reassessing the individual. Existing leaders may continue with the business, but the standalone role may have materially different responsibilities and market value. Benchmarking should reflect the future job rather than simply carrying forward legacy compensation.

Establish principles for outstanding performance awards early. The specific treatment may differ by award cycle, but agreeing in advance on how to balance performance achieved, service and future measurement can reduce the need for late-stage decisions.

Evaluate retention needs by role and circumstance. Core transaction awards do not need to be uniform, and separate sign-on economics may also be needed when recruiting external talent.

Ultimately, the objective is not to redesign compensation simply because a transaction is occurring. It is to determine which elements of the legacy program still fit the standalone company, which need to change and which may require a temporary solution until the new organization reaches a more stable state.

How CAP Can Help

CAP works with Boards and management teams preparing for spin-offs, separations and other complex transactions. Our support can include:

- Executive and Board compensation benchmarking
- Development of standalone peer groups and compensation philosophy
- CEO and executive-team pay structure and positioning
- Transition and steady-state annual and long-term incentive design
- Treatment of outstanding equity awards
- Retention, Founder and other transaction-related award design and sizing
- Compensation Committee planning, governance and disclosure support

Early consideration of these issues can help companies enter Day 1 with a compensation program that supports the transaction while providing the new Board with a sound foundation for the standalone company.

Appendix A — Study Sample

Summary Statistics	Approximate Annual Revenue At / Around Transaction (\$mm)	
	Initial / Parent Companies (n=19)	Resulting Companies (n=29)
Maximum	\$75,833	\$64,388
75th Percentile	\$24,412	\$14,393
Median	\$11,803	\$5,218
25th Percentile	\$4,358	\$2,991
Minimum	\$2,907	\$1,282

Revenue figures are approximate and generally reflect fiscal-year revenue immediately preceding the transaction announcement for parent/pre-transaction companies and the most relevant first full-year, standalone or pro forma revenue available at or around Day 1 for resulting companies. Measurement timing therefore varies by transaction.

Transaction (Approximate Revenue)	Timeline (Announcement → Day 1)	Resulting Companies (Approximate Revenue At / Around Day 1)
United Technologies separation / Raytheon combination (\$59.8B)	November 1, 2018 → April 3, 2020 November 1, 2018 → April 3, 2020 June 9, 2019 → April 3, 2020	Carrier Global (\$20.6B) Otis Worldwide (\$14.3B) RTX Corporation (\$64.4B)
Arconic separation (\$14.0B)	February 8, 2019 → April 1, 2020	Arconic Corporation (\$7.5B) Howmet Aerospace (\$5.0B)
Ingersoll-Rand Industrials / Gardner Denver transaction (\$12.3B)	April 30, 2019 → February 29, 2020	Ingersoll Rand (\$5.2B) Trane Technologies (\$14.1B)
Fortive / Vontier (\$3.8B)	September 4, 2019 → October 9, 2020	Vontier (\$3.0B)
Rexnord / Regal Beloit transaction (\$2.9B)	February 16, 2021 → October 4, 2021	Regal Rexnord (\$5.2B) Zurn Water Solutions (\$1.3B)
Colfax / ESAB (\$3.3B)	March 4, 2021 → April 4, 2022	ESAB Corporation (\$2.8B)
Fortune Brands / MasterBrand (\$4.8B)	April 28, 2022 → December 14, 2022	MasterBrand (\$2.7B)
General Electric breakup (\$75.8B)	November 9, 2021 → January 3, 2023 November 9, 2021 → April 2, 2024 November 9, 2021 → April 2, 2024	GE HealthCare (\$19.7B) GE Vernova (\$38.1B) GE Aerospace (\$45.9B)
Crane separation (\$2.9B)	March 30, 2022 → April 3, 2023	Crane Company (\$2.1B) Crane NXT (\$1.5B)
BorgWarner / PHINIA (\$11.8B)	December 6, 2022 → July 3, 2023	PHINIA (\$3.4B)
Danaher / Veralto (\$24.8B)	September 14, 2022 → September 30, 2023	Veralto (\$5.2B)
Worthington Industries / Worthington Steel (\$5.2B)	September 29, 2022 → December 1, 2023	Worthington Steel (\$3.4B)
Cummins / Atmus (\$24.0B)	April 21, 2022 → March 18, 2024	Atmus (\$1.8B)
3M / Solventum (\$35.4B)	July 26, 2022 → April 1, 2024	Solventum (\$8.3B)
Jacobs / Amentum (\$9.8B)	November 20, 2023 → September 27, 2024	Amentum (\$14.4B)
Fortive / Ralliant (\$3.9B)	September 4, 2024 → June 28, 2025	Ralliant (\$2.3B)
Honeywell breakup (\$34.7B)	October 8, 2024 → October 30, 2025 February 6, 2025 → June 29, 2026 February 6, 2025 → June 29, 2026	Solstice Advanced Materials (\$4.2B) Honeywell Aerospace (\$18.3B) Honeywell International (\$20.1B)
DuPont / Qnity (\$6.6B)	May 22, 2024 → November 1, 2025	Qnity (\$5.6B)
Aptiv / Versigent (\$19.7B)	January 22, 2025 → April 1, 2026	Versigent (\$9.5B)