Morgan Stanley
AT WORK

Liquidity Trends

Perspectives From Private Company Leaders

Contents

About the Research

The Liquidity Trends Survey was commissioned by Morgan Stanley at Work and executed in January and February of 2025 in partnership with 8 Acre Perspective, an independent research firm.

The research was conducted with 150 senior leaders at private companies offering equity compensation plans. Participation was limited to company decision-makers involved in managing the day-to-day operations of the equity compensation plan and/or selection of the equity compensation plan provider/ platform. All participating companies have raised venture capital and completed a Series B or higher fundraising round (78% are C+).

Executive Summary

1 Equity compensation continues to be a competitive differentiator; liquidity makes that equity meaningful

Private companies recognize equity compensation as a powerful tool for employee recruitment, recognition, retention and alignment with company goals. In addition, 61% strongly agree that providing liquidity options for employees helps attract and retain talent.

2 Momentum is growing for liquidity events

Equity compensation decision-makers recognize the importance of liquidity opportunities to motivate and retain employees, and most are actively preparing for a liquidity event.

With the average pre-initial public offering (IPO) timeframe lengthening to 12 years*, tender offers are the most common liquidity event as companies stay private longer.

Among those planning a capital raise (while remaining private), more than half (56%) plan to connect a liquidity event to it.

3 Opportunities to improve liquidity event readiness are top of mind

While liquidity planning is top of mind, many feel underprepared (33% not prepared; 43% somewhat prepared), particularly those considering tender offers. Decision-makers stress the importance of planning ahead and engaging with the appropriate internal teams and external partners to help navigate the execution complexities.

*Morgan Stanley Pre-IPO Liquidity, Feb. 2025

1 Equity compensation continues to be a competitive differentiator, especially when paired with liquidity opportunities

Equity compensation acts as a strategic tool private companies can use to support business strategy and drive company performance.

Offering equity with liquidity options equips companies to:

- Compete for talent.
- Retain employees/reduce turnover.

Having a stake in company success leads to a workforce that is:

- More productive.
- Stable.

Employee continuity ensures:

- Operational stability.
- Sustainable growth.

Equity compensation's value is amplified when employees have access to liquidity, turning paper gains into real rewards and reinforcing the impact of equity as a long-term incentive.

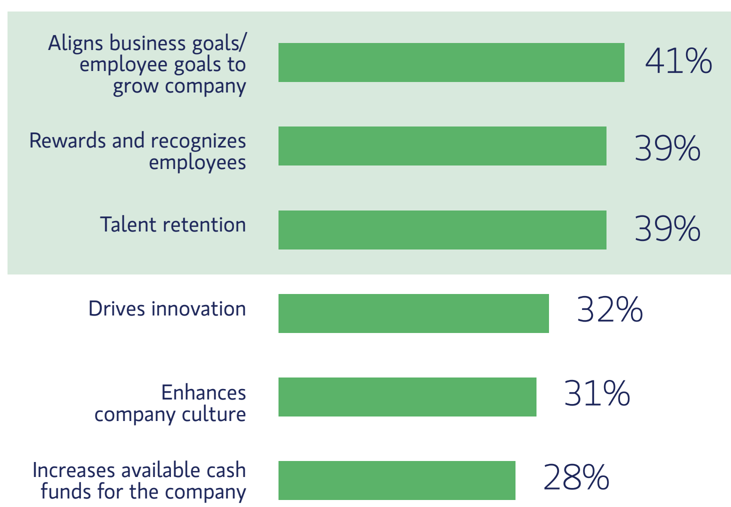
Top reasons for offering equity compensation are rooted in talent retention and goal alignment.

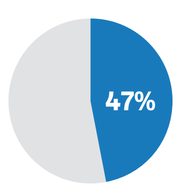
Research with equity compensation decision-makers at private companies underscores equity compensation's role as more than just a financial perk; it is a key strategy for aligning employees with the company's growth goals, recognizing contributions and retaining staff, critical advantages for companies competing for talent.

Equity compensation is a top ranked financial benefit for attracting and retaining talent along with salaries, bonuses and profit-sharing.

Nearly half (47%) of private company equity compensation decision-makers rank equity compensation as a top financial tool for attracting and retaining talent along with traditional options like salaries, bonuses and profit-sharing.[1] Unlike these traditional financial incentives, however, equity compensation also encourages employees to think and act like an owner, fosters retention through vesting and offers long-term wealth potential through equity growth, especially when paired with liquidity opportunities that allow them to realize that value.

TOP REASONS FOR OFFERING EQUITY COMPENSATION[1]



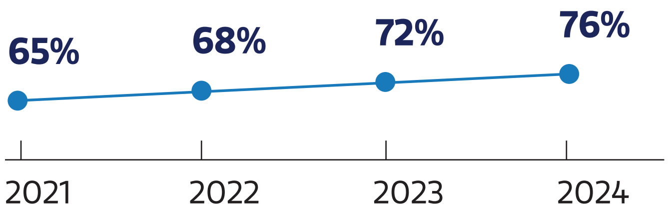


of private company equity compensation decision-makers rank equity compensation as a top financial tool for attracting and retaining talent

Given their strategic value, it is not surprising that the use of equity compensation plans is on the rise.

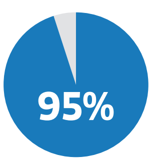
Three-quarters of companies now offer equity compensation plans, up 11% from 2021.[2]

PERCENT OF COMPANIES OFFERING EQUITY COMPENSATION AS AN EMPLOYEE BENEFIT[2]

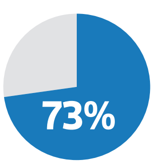


Agree equity compensation will play an increased role in the ability to attract and retain employees over the next five years.[1]

(61% STRONGLY AGREE)



Agree equity compensation and stock ownership is the most effective way to motivate employees and keep them engaged.[2]



Mention equity compensation when recruiting talent.

"I expect the number of employees being granted equity to increase due to a growing emphasis on aligning employee interests with company performance and fostering a culture of ownership and retention in a competitive talent market."

— **Director of Human Resources**, Private Company, Series C, $400–$599 million valuation, 1,000 – 4,999 FTE

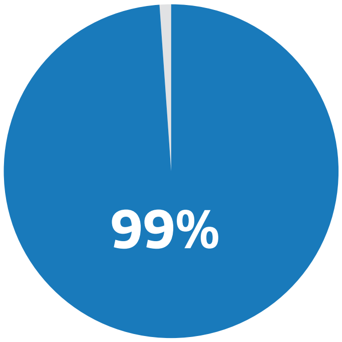
Equity compensation is not just for the C-suite.

Expanding equity compensation beyond senior leadership is common, reflecting a commitment to aligning all employees with the company's success.

Today, a significant number of private companies include non-senior staff in their equity compensation plans with inclusion rates as high as 69% among large companies ($100M+ annual revenue) and 62% for Series C+.

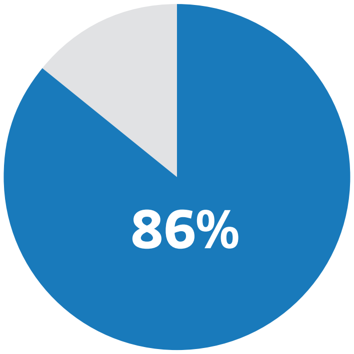
By extending equity ownership more deeply into their organizations, private companies aim to enhance employee engagement, motivation and retention across all levels, fostering a unified commitment to the company's long-term growth and success.

Private companies recognize the important role liquidity plays in enabling equity compensation plan participants to realize the value of their equity.



Agree that providing liquidity options for employees helps attract and retain talent.

(61% STRONGLY AGREE)



Feel it is important to consider a liquidity event in the next 12–24 months.[1]

(37% FEEL IT IS STRONGLY IMPORTANT)

Companies can choose private or corporate liquidity events, with various options for each. Which event is ultimately selected is influenced by a variety of factors including valuation, cash flow and overall business goals. Anticipated plans for liquidity events are covered on the following pages.

Private company liquidity events

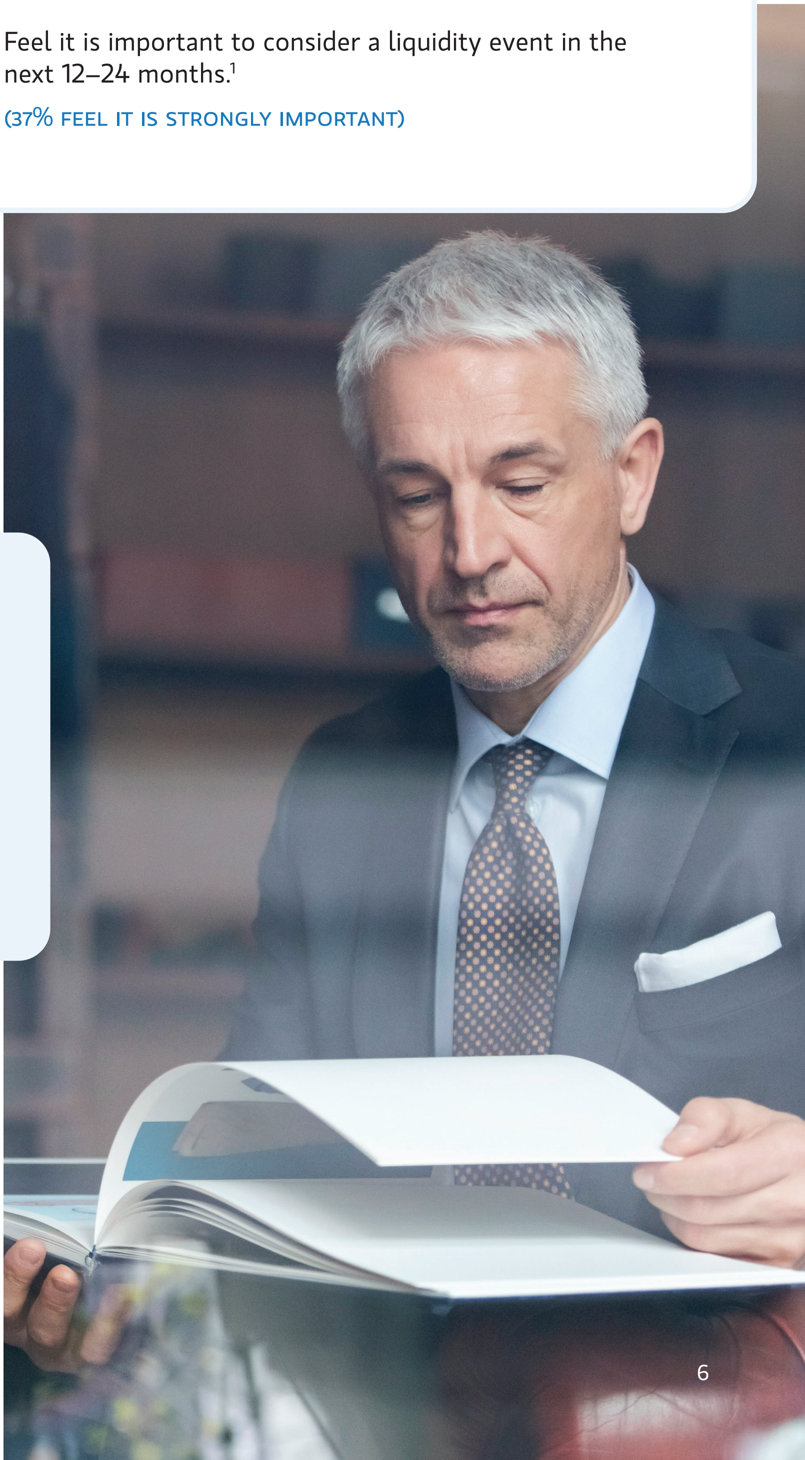
- Tender offer.
- Direct secondary sales.

Corporate liquidity events

- Initial public offerings (IPO).
- Mergers and acquisitions.
- Special purpose acquisition companies (SPAC).
- Direct listings.

"The main reason behind this [tender offer] is to keep our early employees retained and engaged because they have been consistently working with us since inception."

— **CFO**, Series C, 100 – 199 FTEs

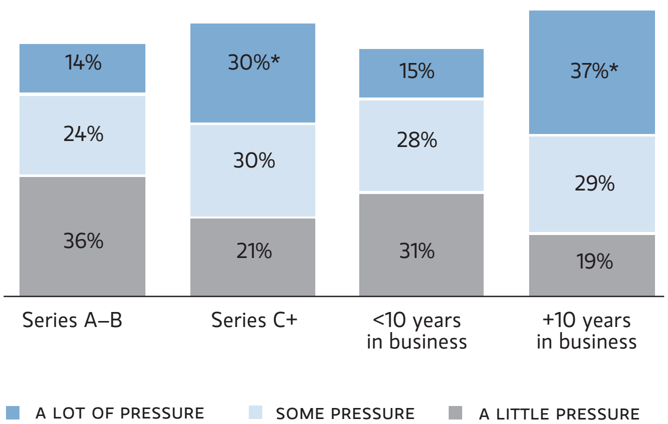


2 Companies are gearing up for liquidity events, in large part to engage employees/other stakeholders and address their requests for liquidity.

Pressure to provide liquidity is more intense among mature companies.

Four out of five equity compensation decision-makers are feeling pressure to facilitate a liquidity event with more than one in four (27%) feeling a lot of pressure. Investors and employee owners are typically the source of this pressure.

TO WHAT EXTENT ARE YOU FEELING PRESSURE TO FACILITATE A LIQUIDITY EVENT?



* Denotes statistical significance ($p < 0.05$)

Mature and late-stage companies (i.e., Series C+) are more likely to be feeling a lot of pressure compared to younger and early-stage companies.

"Acquisition is a lengthy and complicated process; the tender offer allows us space to address employees' short-term financial needs."

— **Vice President of Finance,** Series D, 200 – 499 FTEs

Companies use liquidity events to unlock value for employees and investors while advancing strategic goals like employee retention, cap table management and long-term growth.

The top two factors cited by equity compensation decision-makers for holding a liquidity event are:

- To attract and retain talent (55%).
- Requests or pressure to deliver liquidity to shareholders (51%).

While supporting talent strategies and investor relations are top drivers, private companies may also be considering other strategic reasons for pursuing liquidity events, including:

- Meeting excess investor demand during or alongside a primary fundraising round.
- Streamlining the cap table by reducing the number of smaller, early-stage or former employee shareholders, often in preparation for an IPO.
- Enhancing fundraising appeal by demonstrating a track record of providing liquidity to shareholders.
- Supporting succession planning or founder transitions, especially among more mature companies.

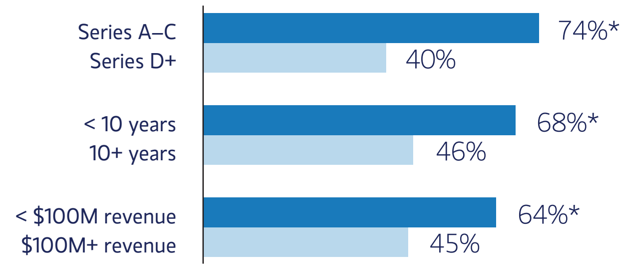
Many private firms, especially those preferring to stay private longer, plan to couple their next capital raise with a liquidity event.

More than half of private companies (56%) plan to raise capital while still private; percentage is higher among:

- Early-stage companies (Series A – C).
- Younger companies (under 10 years).
- Under $100 million annual revenue companies.

For most of these companies (86%), the timeline to raise capital is within the next two years.

PERCENT PLANNING TO RAISE CAPITAL

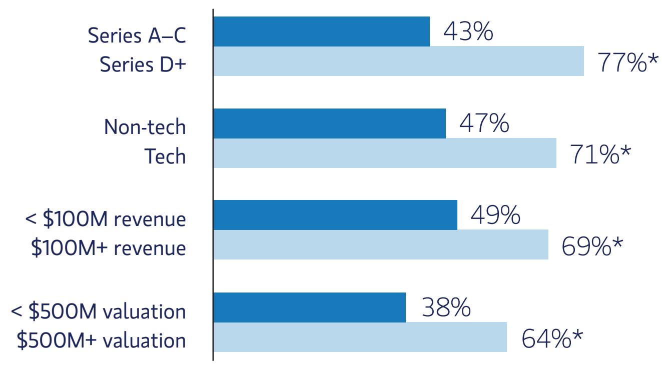


*Denotes statistical significance ($p < 0.05$)

Of those planning a capital raise, more than half (56%) are planning a liquidity event alongside it. Companies most likely to offer employee liquidity during their next fundraising round include:

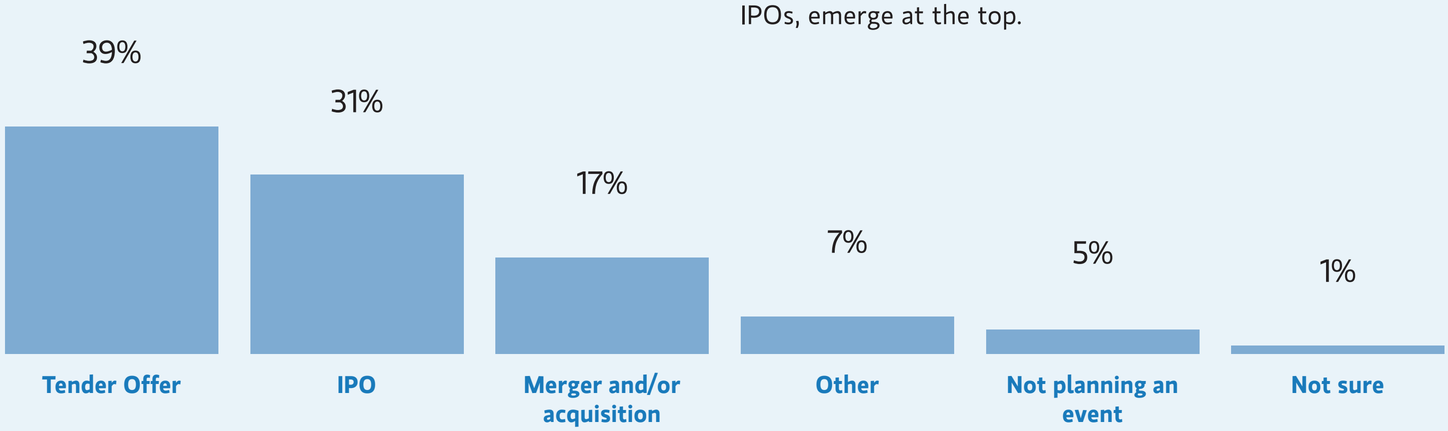
- Late-stage companies (Series D+).
- Technology companies.
- $100M+ annual revenue companies.
- $500M+ valuation companies.

PERCENT TO OFFER EMPLOYEE LIQUIDITY WITH THE RAISE CAPITAL



*Denotes statistical significance ($p < 0.05$)

TYPE OF LIQUIDITY EVENT MOST LIKELY TO DO NEXT

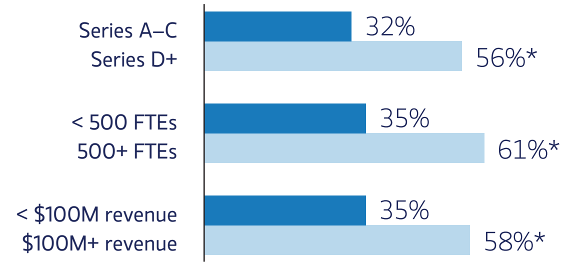


While just 25% have definitively chosen the structure for their next liquidity event, when asked which liquidity event they are most likely to do next, tender offers, followed by IPOs, emerge at the top.

The next anticipated liquidity event notwithstanding, nearly half (45%) of private companies hope for a future IPO.

As of January 2025, most private companies (45%) report that the ultimate goal for their business is an initial public offering, up from 13% in 2023. Larger and late-stage companies are more likely to be aiming for an IPO. IPO goals are most common in tech and healthcare/biotech versus other sectors.

PERCENT SAYING IPO IS ULTIMATE GOAL

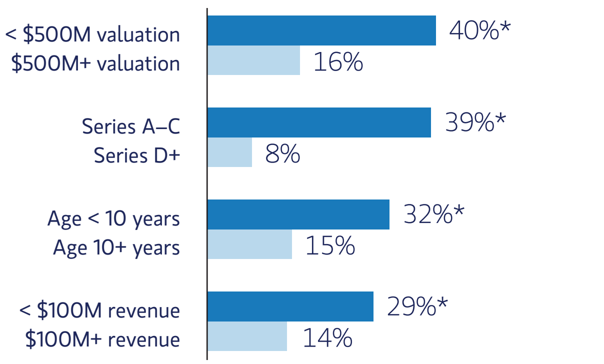


*Denotes statistical significance ($p < 0.05$)

Alongside the rise in firms seeking an IPO, fewer companies now report plans to remain private long-term (23% vs. 37% in 2023).

Not surprisingly, companies in early funding stages and with lower valuations are more inclined to stay private longer.

PERCENT SAYING ULTIMATE GOAL IS TO STAY PRIVATE LONG-TERM



*Denotes statistical significance ($p < 0.05$)

REASONS FOR PLANNING TO STAY PRIVATE LONGER

Tender offers require the involvement of several internal and external parties.

Tender offers are the most commonly used structured liquidity event while a company remains private. 39% of private companies surveyed have had a tender offer, often involving a wide range of stakeholders, including:

- Senior leaders (CEOs/Founders/Presidents).
- CFOs.
- Investors.
- Investment bank.
- Cap table provider.
- Law firm/company's general counsel.

The tender offer team is responsible for key decisions related to the event, such as:

- Setting the share price and offer duration.
- Determining who will be allowed to participate in the event.
- Defining how many shares can be sold.
- Obtaining necessary approvals.
- Ensuring regulatory compliance.

Coordination of multiple internal and external cross-functional parties can add complexity and time to the planning process and risks diverting attention away from day-to-day operations. Companies should explore opportunities to start planning early, lean on experienced partners, leverage technology and maintain clear communication throughout the process (keeping the business focused and stable while delivering a valuable liquidity opportunity to stakeholders).

Company practices to ensure a positive employee experience during a liquidity event include:

- Informational/educational sessions/ webinars.
- Dedicated help desk for employees.
- Access to legal/financial/tax advice.

Liquidity event timing is an important consideration equity compensation decision-makers grapple with, particularly those pursing IPO.

Equity compensation decision-makers weigh multiple factors when determining the optimal timing for their liquidity event, including:

- Fundraising plans/capital needs.
- Revenue/cash flow.
- Availability of cash on the balance sheet to fund the event.
- Pressure from shareholders.
- Business valuations.

Those planning an IPO for their next liquidity event also often assess market/economic conditions while those preparing for a tender offer consider the availability of venture capital funds.

As they weigh the various considerations for when and how to hold a liquidity event, most equity compensation decision-makers recognize that there are risks to waiting too long, especially among those pursuing an IPO. Overall, 83% agree there are risks to waiting too long to hold a liquidity event compared to 91% of those pursuing an IPO as their ultimate goal.

Direct Secondary Sales is another approach private companies use to provide liquidity.

41% of private companies surveyed allow direct secondary sales; more common among:

- $500M+ annual revenue companies (46%).
- Companies with 200+ FTEs (45%).
- Later-stage companies (Series C+; 47%).

Most (85%) restrict who can participate:

- 73% restrict based on share class.
- 32% restrict on valuation criteria.

"Sudden economic downturns or unexpected fluctuations in market conditions can significantly impact the company's valuation and timing decisions."

— **CFO,** Series D, 200-499 FTEs, pursuing an IPO

3 Opportunities to improve liquidity event readiness are top of mind.

Liquidity readiness remains a work in progress for many.

Preparing for a liquidity event requires careful planning and strategic decision-making. Yet just one in four equity compensation decision-makers feel very prepared to facilitate a liquidity event, while one in three feel unprepared. Companies planning for an IPO as their next event feel more prepared than those planning for a tender offer, likely because they are further along in their journey. Preparing for a liquidity event requires careful planning and strategic decision-making. Yet just one in four equity compensation decision-makers feel very prepared to facilitate one, while one in three feel unprepared.

Companies planning for an IPO tend to feel more confident than those planning for a tender offer, likely because they are more established. For example, more of those planning for an IPO:

- Have been in business 10+ years (76% vs. 36% of those planning tender offers).
- Have conducted a liquidity event in the past (46% vs. 36% of those planning tender offers).
- Are closer to achieving their long-term goals (85% vs. 51% of those planning tender offers).

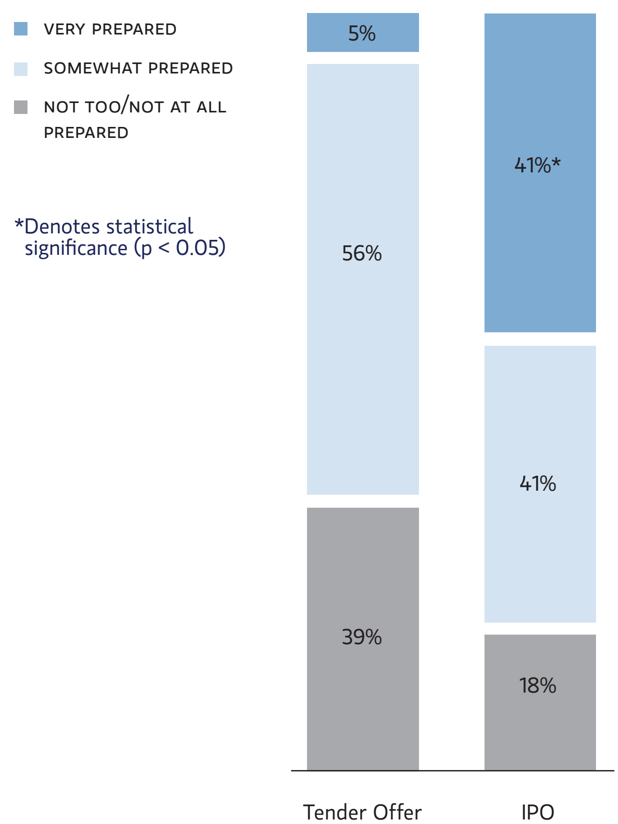
Equity compensation decision-makers' liquidity event concerns span several categories:

- Financial (fair valuation, ability to fund buyback, tax implications, etc.).
- Regulatory (requirements, disclosures, etc.).
- Execution (administration, timing, costs, participation, etc.).
- Employee/shareholder concerns (internal alignment among stakeholders, meeting expectations, etc.).

Though feeling more prepared, those pursuing an IPO express greater concern about valuations, timing risks and failed event/administration risks.

All equity compensation decision-makers have already taken some steps in preparation for a future liquidity event. The most common steps taken by event type are listed below.

HOW PREPARED IS YOUR ORGANIZATION TO FACILITATE A LIQUIDITY EVENT?



*Denotes statistical significance ($p < 0.05$)

The current situation globally can change overnight which means your plans may not go as you expect. So, the biggest question that needs to be addressed before going for an event is are we fully prepared?"

— **CFO**, Series C, 200–499 FTEs, pursuing an IPO

MOST COMMON STEPS TAKEN IN PREPARATION FOR A LIQUIDITY EVENT

(In Rank Order Within Type of Event Most Likely To Do Next)

Tender Offer

1. Engaged external partners with liquidity event experience.
2. Ensured cap table and equity allocations are up-to-date.
3. Defined strategic goals for the event.
4. Audited financial statements for accuracy.

IPO

1. Ensure cap table and equity awards are up to date.
2. Evaluate global compliance readiness.
3. Begin implementing Sarbanes-Oxley controls.
4. Developed policy, communication, and education documents.
5. Engaged external partner with relevant IPO experience.

4 With the right strategy and support, private companies can own their liquidity journey.

Equity compensation is a powerful tool for driving talent strategy, and more companies are expanding its use within their organizations. As equity participation grows, so does the need to offer meaningful liquidity opportunities, especially for employees. Many companies are actively planning for liquidity events, as part of a capital raise in their mission to stay private long-term or while on the path to an IPO. Still, executing a successful event requires careful planning, cross-functional coordination and the right guidance. Specific steps private company decision-makers can take to ensure a successful event include the following:

Assemble a Team of Experienced Advisors	Conduct a Comprehensive Business Valuation	Ensure Financial and Legal Preparedness
• Investment bankers • Attorneys • Tax advisors • Wealth managers	• Foundation for negotiations • Sets realistic expectations	• Accurate and up-to-date financial records (e.g., cap table, option grants)

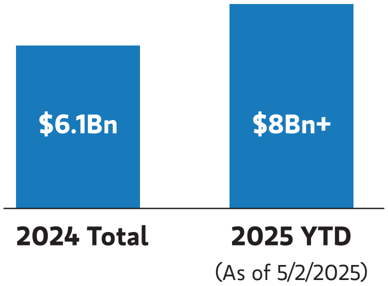
Evaluate Market Conditions	Develop a Clear Communication Strategy	Plan for Post-Liquidity Wealth Management
• Market trends • Economic indicators	• Employees • Investors • Other Stakeholders	• Investment strategies • Tax implications

Morgan Stanley at Work brings the expertise and solutions to help private companies get liquidity right. Our Private Markets team understands the complexities in equity needs that high-growth companies face and the value of a well-structured liquidity event. Our broad suite of technology and financial solutions are designed to help propel private companies through varying development stages – whether it's preparing for the next investment round, continuing private growth or going public. With more transactional choice and improved preparedness, we believe private companies can better navigate and be ready for whatever comes next.

PRIVATE MARKET LIQUIDITY EVENTS: MORGAN STANLEY AT WORK (MSatWORK) STATISTICS

Transactional Volume:

2025 YTD volume on MSatWork platform suggests a significant uptick in private company liquidity transactions.

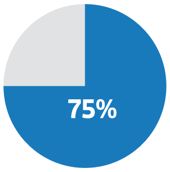


2024 Tender Offers:

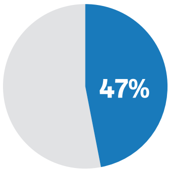
32,494 participants

Consistent with 2023:

Average Subscription Rate



Average Participation Rate



Eligibility:

In the most common scenario, companies are allowing current employees to sell between 20–30% of vested equity.

There is an emergence of companies capping individuals to a specific dollar amount which varies across transactions.

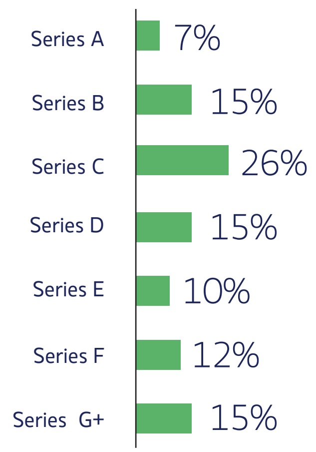
Both current and ex-employees are typically permissioned to sell; however, current employees are favored in an oversubscribed offering.

You have a vision. We have a plan.

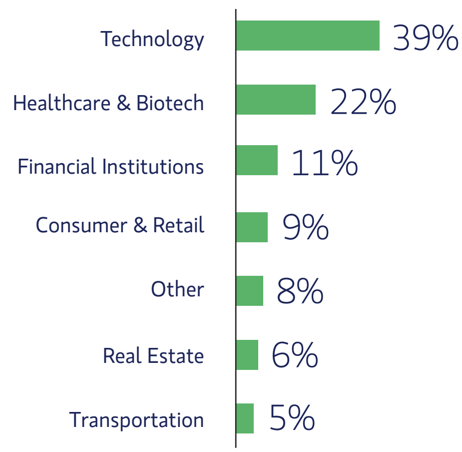
Morgan Stanley at Work is here to support your growth initiatives. To learn more about our Private Market Solutions, please contact us.

Participant Demographics

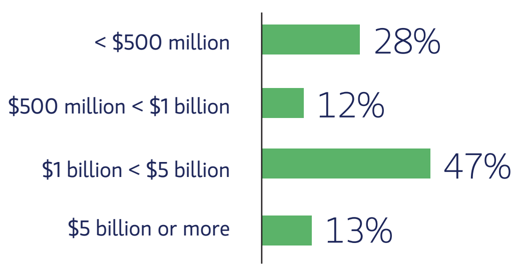
FUNDRAISING STAGE



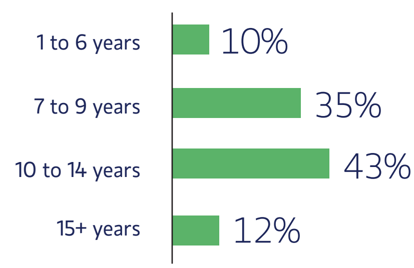
INDUSTRY



COMPANY VALUATION

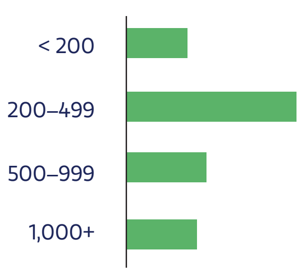


COMPANY AGE



Mean: 11 Years

FULL TIME EMPLOYEES (FTES)



Mean: 794 FTEs

Sources

[1]Morgan Stanley at Work Equity Compensation Plan Research Study, January 2025; private companies only

[2]Morgan Stanley at Work State of the Workplace 2024 Financial Benefits Study, February 2024; survey of 600 HR leaders at public and private companies

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