



Compensation
Advisory Partners

CAPintel // April 21, 2020

CEO 2019 Total Compensation and 1-year Financial Performance Up Slightly

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Compensation Advisory Partners (CAP) reviewed executive compensation pay levels and trends among 50 companies (Early Filers) that filed their most recent proxy statement between December 2019 and January 2020 (fiscal years end from August 2019 to October 2019; 39 companies had September 30 fiscal year ends). Industry sectors reviewed include: Consumer Discretionary, Consumer Staples, Financials, Health Care, Industrials, Information Technology and Materials. Among these 50 companies, median Revenue was \$8.6B, median Market Capitalization (based on each company's fiscal year end) was \$11.1B and 1-year Total Shareholder Return, or TSR, based on each company's fiscal year end was 3.0%.

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Overall Findings

Performance: 2019 performance (based on Revenue, Pre-tax Income, EPS and 1-year TSR) was flat to modestly higher. Revenue (6% growth), EPS (9% growth) and TSR (3%) were up modestly year over year while Pre-tax Income was flat.

CEO Pay: Median CEO pay increased 1.6% despite annual incentive payouts that were down 5.5% from 2018 payouts.

Annual Incentive Payouts: Median 2019 annual incentive payout was at target (100%).

2019 PERFORMANCE

CAP reviewed Revenue, Pre-tax Income, EPS and TSR performance for the Early Filers and the S&P 500. 2019 performance saw modest growth over prior year (vs. 2018 when we had seen stronger improvement over 2017).

- Median Revenue and EPS growth grew modestly in 2019 (6% and 9%, respectively)
- Median Pre-tax Income growth was flat year over year (0.3%)
- Median TSR was up modestly (3%) from 2018

Median 2019 financial performance among the Early Filers was generally similar to that of the S&P 500.

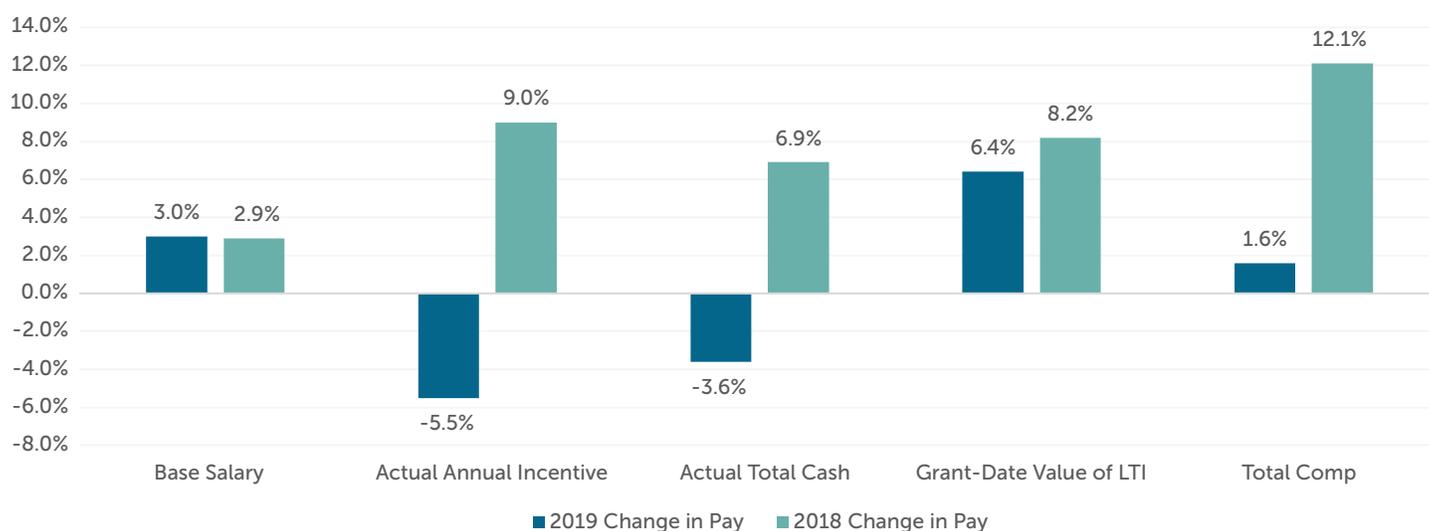
Financial Metric	2018 Median 1-year Performance		2019 Median 1-year Performance	
	S&P 500	Early Filers	S&P 500	Early Filers
Revenue Growth	8.5%	10.8%	4.3%	5.8%
Pre-tax Income Growth	10.9%	11.7%	2.4%	0.3%
EPS Growth	19.1%	29.3%	7.9%	8.7%
TSR	12.3%	8.0%	6.1%	3.0%

Note: Reflects companies in the S&P 500 as of February 2020. For the S&P 500, financial performance and TSR are as of September 30, 2018 and September 30, 2019. For Early Filers, financial performance and TSR are as of each company's fiscal year end.

CEO Actual Total Direct Compensation

CAP reviewed year over year change in CEO pay for Early Filers whose CEOs had been in their role for at least two years (n=44). Median total direct compensation (base plus actual bonus payout plus grant-date value of LTI) was relatively flat in 2019 with just a 1.6% increase. This was driven by a modest increase in base salary (3% at median), lower annual incentive payouts, and LTI grant-date values that were up 6%. The grant-date value of LTI was up for the second year in a row. LTI is typically granted in the first quarter of the fiscal year and increases may be reflective of both strong prior year company performance as well as individual performance.

1-Year Median Change in CEO Compensation



Note: N = 44. Reflects same incumbent CEOs.

Annual Incentive Plan Payout

Annual incentive payouts in 2019 were lower than the prior two years. Median actual annual incentive payout in 2019 was at target vs. above target results in 2018 (110%) and 2017 (113%). Additionally, 25th and 75th percentile payouts were lower in 2019 than the prior two years reflecting that 2019 performance was not as strong as 2018 and 2017.

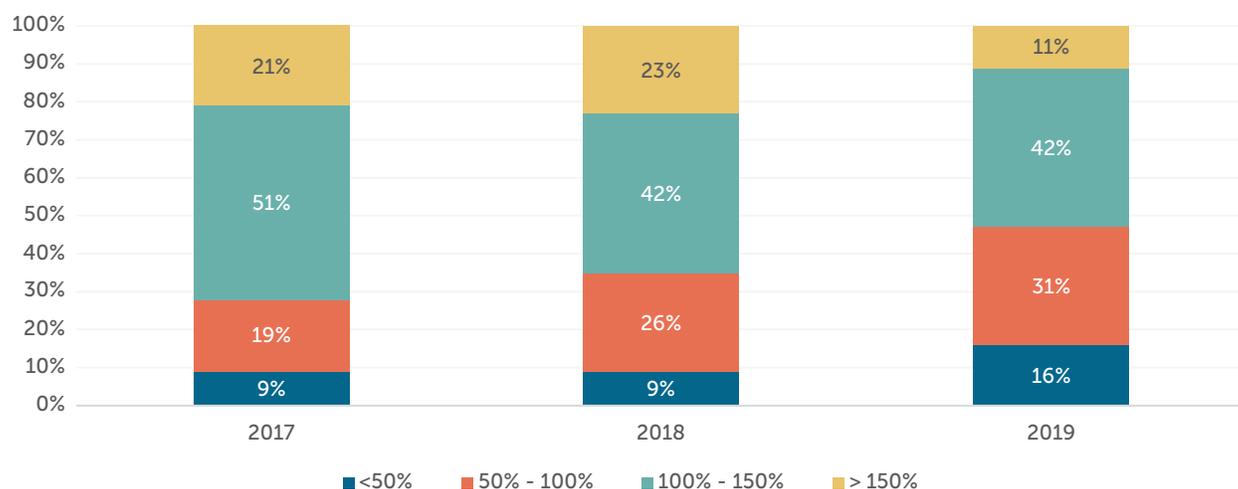
Summary Statistics	Annual Incentive Payout as a % of Target		
	2017	2018	2019
75th Percentile	145%	139%	122%
Median	113%	110%	100%
25th Percentile	96%	81%	69%

Companies with at or above target annual incentive payouts had significantly stronger Revenue, Pre-tax Income and TSR performance than companies with below target payouts. Even so, performance for these companies was not as strong as 2018 performance, though TSR was up double digits for the last two years.

Financial Metric	2018 Median 1-year Performance		2019 Median 1-year Performance	
	Below target payout (n=16)	At/above target payout (n=31)	Below target payout (n=21)	At/above target payout (n=24)
Revenue Growth	8.9%	12.3%	2.8%	8.5%
Pre-tax Income Growth	0.8%	15.2%	(11.4)%	5.8%
TSR	(10.5)%	13.4%	(6.9)%	10.2%

Note: Financial performance and TSR is as of each company's fiscal year end.

In 2019, 53% of Early Filers had an annual incentive payout that was at or above target which is lower than 2018 (65% of companies). The number of companies with a payout significantly above target (i.e., 150% of target and above), was much lower in 2019 (approximately 10% of companies) than in 2018 and 2017 when it was around 20% of companies in each year. Conversely, the number of companies with a payout below 50% of target was higher in 2019 than the prior two years (16% in 2019 vs. 9% in 2018 and 2017).



Note: N = 45. Excludes companies that do not have a target bonus opportunity for the CEO.

Emerging Trend: Environmental, Social And Governance (ESG) Incentive Metrics

Executives and Directors are continuing to discuss Environmental, Social, and Governance (ESG) issues, including an increased focus on diversity in the workforce. The question still remains if (and how) metrics capturing ESG initiatives should be incorporated into incentive plans. We are seeing more companies assess diversity and inclusion efforts in either individual executive performance or overall company strategic goals in the annual incentive plan. Measuring ESG performance in a long-term plan is a limited practice; none of the Early Filers disclosed an ESG metric in a performance plan.

We expect companies will continue to incorporate ESG measures in the annual incentive plan for the near term, mainly through individual and strategic measures as setting objective goals for a formal award component can be challenging.

Looking Ahead

2020 will be a challenging year as the full impact of COVID-19 will not be known for some time. Many companies, including calendar fiscal year companies, approved annual incentive targets prior to the widespread disruption. If the impact to the economy from this pandemic is prolonged, we would expect companies to make discretionary adjustments at the end of the year to determine final payouts. We may even see some discretionary bonus payouts for high performers. However, companies should continue to monitor the situation as it is constantly evolving – updates to key stakeholders will be important but companies should wait until closer to year end to make any formal decisions regarding incentive payouts. Executive compensation actions will need to recognize efforts to stabilize company performance during this period of uncertainty but should not be overly generous, particularly if a company had significant layoff, furloughs or pay cuts.

Companies that have not yet made annual equity grants will face challenges in determining the appropriate number of shares given the volatility in the stock market since the beginning of March. Companies will need

to balance share usage with providing competitive long-term incentive opportunities. Additionally, these companies will face challenges in setting goals in long-term performance plans given the uncertainty the long-term impact COVID-19 will have on the global economy.

Companies should strive to stay the course and remember that adjustments can always be made at a later time given the highly unusual circumstances. All companies are facing challenges to varying degrees. Looking forward, companies should focus on “telling the story” and providing ample disclosure regarding executive compensation decisions made during this trying time.



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