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As the Pandemic Continues, so do Executive Pay Actions

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Compensation Advisory Partners (CAP) has been tracking executive compensation, employment and shareholder actions announced by U.S. companies in response to the COVID-19 pandemic since March 2020. Initial executive compensation actions, such as chief executive officer (CEO), other executive and board of director pay reductions, were common, and aimed at conserving cash and demonstrating shared sacrifice with employees and shareholders. As the pandemic continues, some companies are announcing updates to earlier salary actions, and changes to annual and long-term incentive plans. Not all companies are disclosing such actions, so a better picture of COVID-19's impact on executive compensation will not be known until the 2021 proxy season. However, the actions that are being announced provide a glimpse into decisions being made by compensation committees across corporate America.

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Salary Actions

CAP found that approximately 25 percent of companies in the S&P 500, S&P MidCap 400, and S&P SmallCap 600 had reduced pay for CEOs and/or other executives by mid-July. When these announcements were made, some companies provided the duration for the pay cuts, while others left the duration more open ended. As the pandemic continues, some companies have announced actions to restore all or a portion of salaries, extend salary cuts or make up lost compensation.

Recent Salary Actions

Restored Salaries

Aon	Restored employee salaries; employees will be repaid for the two-month, 20% salary decrease plus receive an additional 5% of the withheld amount; executive salary cuts remain in place
Darden Restaurants	Restored named executive officer (NEO) salaries after two-month, 50% to 100% salary cuts
Flexsteel Industries *	Restored salaries of three NEOs (chief information officer and two vice presidents) after two-month, 25% salary cuts
Meritor *	Partially restored executive and employee salaries after two-month cuts; executive salary cuts reduced from 50%-60% to 15%-20%; employee salary cuts first reduced from 40%-50% to 20%-25% and then down to 15%-20%
Thor Industries	Restored salaries after two-month, 100% salary cut for the CEO, and 40% salary cuts for NEOs and other key executives
Ulta Beauty	Restored CEO salary after two-month, 100% salary cut

Extended Duration of Salary Reductions

Flexsteel Industries *	Extended the CEO's and one other NEO's 25% salary reductions from two months to six months
Henry Schein *	CEO extended 100% salary reduction from three months to nine months
Hexcel	Extended CEO salary reduction of 50% from three months to six months
Norwegian Cruise Line	Extended salary reductions of 20% for NEOs from three months to six months
Scientific Games *	Extended salary reductions of 50% for two NEOs from three months to four months

Extended Duration but Decreased the Amount of the Reductions

Henry Schein *	Current 50% salary cut for non-CEO NEOs reduced to 37.5% for an undefined time period; current salary reduction for employees above the VP level of 10%-25% reduced to 7.5%-18.75% for an undefined time period
Invacare	Initially planned to defer executive salaries for at least six months but shifted after one month, to a 10% salary reduction for three months
Meritor *	After two months, decreased CEO salary reduction from 60% to 20%; decreased NEO and executive salary reduction from 50% to 15%; decreased salary reductions for all other salaried employees from 40%-50% to 10%-15%

Scientific Games *	Extended CEO's salary reduction from three months to four months, and decreased his current salary reduction from 100% to 50%
Other Noteworthy Salary Actions	
Meritor	Executives and employees may recoup salary lost during two-month cuts through cash incentives based on the achievement of liquidity and cost-savings goals. (The company announced that executives are unlikely to achieve annual incentive goals because of COVID-19.)
OncoCyte	CEO deferred 30% of salary; deferred salary will earn interest at 10% per year

* Company took multiple salary actions

Annual Incentives

In the early months of the pandemic, only a small percentage of companies in the S&P 500, S&P MidCap 400, and S&P SmallCap 600 announced actions to change their annual incentive plans. At that time, the announcements generally were made in conjunction with salary cuts, and the annual incentive actions were typically cuts and cancellations.

Now that companies have more information about the economic impact and disruption caused by the pandemic, they are announcing changes to their annual incentive plans. The annual incentive actions vary, and include changes to performance measures, reduced opportunities, reduced maximum payouts, plan cancellations, and adjustments to payout timing and measurement periods.

Recent Annual Incentive Changes

Adobe	Adjusted 2020 performance goals and payout ranges
Covia Holdings	Maximum payout of 2020 plan capped at target levels; implemented quarterly payouts
Darden Restaurants	Shortened 2020 performance period by three months (by ending February 23) to exclude the pandemic
IHS Markit	Reduced 2020 incentive target amounts (applied previously approved cash incentive target percentages to salaries reduced in 2020)
MAXIMUS	Maximum payout of 2020 plan capped at target levels
Merit Medical	Adjusted 2020 goals to be based 100% on cost savings and revenue from COVID-19 related product sales; widened performance curve; maximum payout capped at target levels
Newell Brands	Retained 2020 financial performance metrics and added full-year operational targets at the corporate and business unit levels (reduce stock-keeping units, enhance margin); divided plan in half - performance for the first half will be evaluated on original 2020 budget plan and performance for the second half will be evaluated on more recent forecasts; maximum payouts reduced; business unit participants eligible for "kicker" based on the unit's performance relative to the original targets
Oasis Petroleum	Reduced awards by 50%; adjusted 2020 goals for all employees to focus on achievement of quarterly results and retention
OncoCyte	CEO deferred portion of discretionary 2019 bonus; deferred bonus will earn interest at 6% per year

Quest Diagnostics	New additional goals for 2020 to support its pandemic response plan (testing, capacity, deployment, coordination, etc.)
Sabre	Maximum payout of 2020 plan capped at 50% of target; delayed payout
Signet Jewelers	2020 payout delayed; 2021 plan split into two performance periods, and goals for first period focus on liquidity
Vista Outdoor	Added adjustment factor to the 2021 bonus to allow the compensation committee to adjust actual 2021 results for the impact of COVID-19
WestRock	2020 bonuses paid at threshold level and 100% in stock
WEX	Changed 2020 metrics and performance will be measured against goals for second half of 2020
Worthington Industries	Bifurcated 2021 plan with different targets for each six month period

Long-Term Incentives

The pandemic derailed many companies' short- and long-term business plans, and sent many companies into survival mode. COVID-19 also resulted in steep stock price drops for companies and industries most hurt by the pandemic, and in increased stock market volatility overall. As a result, some companies are re-thinking their long-term incentive (LTI) plans based on new business realities. Some of the changes that companies have announced for LTI plans include adjusting performance measures and goals, changing the mix of LTI vehicles, shortening the duration of plans, reducing award opportunities, and shifting away from performance-linked vehicles that require goal-setting toward retention vehicles.

Recent Long-Term Incentive (LTI) Changes

CarMax	Shifted to an equity vehicle tied to stock price for 2021 from a performance equity vehicle based on earnings per share (EPS)
Covia Holdings	Maximum payout capped at target levels; implemented quarterly payouts
Hanger	Shortened performance period of 2017 Special Equity Plan by three months (to 33 months from 36 Months) to omit the impact of the pandemic
IAMGOLD	Changed LTI mix to performance share units (PSUs) based on relative total shareholder return (TSR) and return on invested capital (ROIC) from PSUs and options; adopted 20-day weighted average share price for determining awards to avoid executives benefitting from a depressed stock price
Merit Medical	Reduced performance equity vehicle target and threshold; capped payout at target
Oasis Petroleum	Reduced awards by 50%; adjusted 2020 goals for all employees to focus on the achievement of quarterly results and retention
Sabre	Changed 2020 metrics to reflect changes to the timing of completion of certain aspects of these key strategic initiatives
Scientific Games	Changed LTI mix to 100% time-vested restricted stock units (RSUs) from a mix of PSUs, time-vested RSUs and options; limited units granted to the number that would have been granted at the pre-pandemic stock price

Signet Jewelers	Increased weighting of time-vested restricted stock relative to performance equity; delayed 2021-2023 PSU grant to fall 2020
Sonic Automotive	Shifted to options from a performance equity vehicle based on EPS
Vista Outdoor	Changed 2021 goals to be based on the average achievement level of three, one year goals based on EPS growth and organic sales growth; added TSR modifier to allow the compensation committee to adjust actual results for the impact of COVID-19
WEX	Shortened the performance period for core financial metrics to two years to remove the impact of the pandemic but maintained the original three year performance period by adding in a relative TSR modifier that will be measured until the end of the original performance period; relative TSR is replacing previously established financial metrics for 2020 grant
Xenia Hotels and Resorts	Shifted to a time-vested equity vehicle from a performance equity vehicle based on relative TSR

One-Time Cash and Equity Awards

Prior to the pandemic, unemployment was at record lows, and companies were competing aggressively for top talent. The impact of the pandemic on different companies and industries varies widely: Some companies and industries are in survival mode, while others continue to have strong financial positions or have benefitted from the pandemic. Similarly, stock prices have dropped for companies in survival mode, while stock prices have rebounded for other companies and industries.

Amidst the disruption and unprecedented circumstances, many companies find themselves balancing the need to cut costs and conserve cash with the retention of talented leaders and key employees needed to navigate the crisis. In addition to shifting from cash to equity, and from performance equity to time-vesting equity as discussed above, a few companies have announced retention awards for key executives and employees.

One-Time Cash and Equity Awards

Casey's General Store	One-time performance recognition equity grant to a senior vice president for leading the company's COVID-19 task force
FedEx	One-time stock option grant to the CEO and COO; one-time restricted stock unit (RSU) grant to other executive officers
Fluidigm	One-time RSU award to all executive officers, and to key management and critical employees
Garrett Motion	One-time cash awards to NEOs and key employees, with NEO awards ranging from \$230K to \$1.9M
Sabre	One-time RSU award to all executive officers
WEX	One-time business continuity awards to a broad group of employees: 25% in time-vested RSUs and 75% in PSUs based on relative total shareholder return

Not all annual incentive or LTI actions require immediate disclosure through 8-K current reports with the Securities and Exchange Commission. Only material incentive amendments require disclosure. Companies besides those included in this document have no doubt made changes to annual and LTI plans, but the changes were not considered material and, therefore, were not disclosed.

CAP will continue to track and regularly publish corporate actions in response to the COVID-19 pandemic in CAP's [COVID-19 Resource Center](#), which also includes a searchable database of business actions related to COVID-19.

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