



Compensation  
Advisory Partners

Industry Report // 2018-2020

# Retail Industry Executive Compensation Report

## Highlights:

- The COVID-19 pandemic hit the retail industry hard in 2020, forcing widespread store closures, declining revenues, and pressure on cash flow, with the exception of grocery, drug, and other essential businesses.
- 60% of Specialty retailers in our sample implemented salary reduction plans in 2020 with a median reduction of 50% of salary for CEOs.
- Only 26% of Multi-Line / Big Box retailers reduced executive salaries in 2020, since many of these companies remained open and saw revenues increase during the pandemic.
- The median TSR of our sample was -23.8% from December 31, 2019 through April 30, 2020 compared to median 3-year TSR through 2018 of 4.6% and through 2019 of 1.4%.
- Total compensation reported in 2019 proxy statements increased 7% for Multi-Line / Big Box retail CEOs and 19% for Specialty retailers, with the latter group earning above target bonus payouts, on average.

## Industry Context

### *In 2020*

The COVID-19 pandemic hit the retail industry hard in 2020, forcing widespread store closures, declining revenues and pressure on cash flow, except for grocery, drug and other essential businesses. The median TSR of our sample was -23.8% from December 31 through April 30, 2020. 60% of Specialty retailers in our sample implemented salary reduction plans in 2020 with a median reduction of 50% of salary for CEO. In contrast, only 26% of Multi-Line / Big Box Retailers reduced executive salaries in 2020, since many of these companies remained open and saw revenues increase during the pandemic. Other compensation actions such as the elimination of merit increases and low, or no, annual bonus payments were common among the most impacted companies.

### *Through 2019*

The retail industry continued to face significant challenges, with declining sales, store closures, layoffs, and bankruptcies. The industry was benefiting from favorable macroeconomic factors: consumer confidence index increasing for 9 years in a row with the 2019 index at the highest point in nearly 20 years; continued increases in per capita disposable income; a low interest rate environment; and low unemployment. Yet the downward pressure on revenue and margin deterioration in the industry continued, driven by the intense competition from e-commerce retailers such as Amazon, and lackluster performance of brick and mortar stores. The growth in e-commerce has forced many companies to invest in their online sales channels to compete and grow, while the shift to online sales often forces retailers to provide discounts to attract consumers and at the same time face increasing shipping costs. With this challenging environment as a backdrop, our report will focus on pay versus performance and incentive design among 30 companies.

### *Our Survey Sample*

CAP's Retail Industry Report focuses on two sub-categories in the retail space, including fifteen Multi-Line / Big Box retailers with median revenues of approximately \$40 billion and fifteen Specialty retail companies with revenues of approximately \$4 billion. We have also included 'CAP Total Sample' statistics which represent the entire group of 30 companies.

#### **Multi-Line / Big Box Retail (Median Revenue ~\$40B)**

Best Buy Co., Inc.  
Costco Wholesale Corporation  
CVS Health Corporation  
Dollar General Corporation  
Dollar Tree, Inc.  
The Home Depot, Inc.  
J. C. Penney Company, Inc.  
Kohl's Corporation  
Kroger Co.  
Macy's, Inc.  
Rite Aid Corporation  
Target Corporation  
The TJX Companies, Inc.  
Walgreens Boots Alliance, Inc.  
Walmart Inc.

#### **Specialty Retail (Median Revenue ~\$4B)**

Abercrombie & Fitch Co.  
American Eagle Outfitters, Inc.  
Build-A-Bear Workshop, Inc.  
Designer Brands Inc.  
Express, Inc.  
Foot Locker, Inc.  
The Gap, Inc.  
GNC Holdings, Inc.  
Guess?, Inc.  
L Brands, Inc.  
Shoe Carnival, Inc.  
Tiffany & Co.  
Ulta Beauty, Inc.  
Urban Outfitters, Inc.  
Williams-Sonoma, Inc.

## Financial Results and Total Shareholder Return (TSR)

Among the 30 companies surveyed, median revenue was up 3.8% in 2019, versus the prior year. In 2019 Net Income, Earnings Per Share (EPS) and EBITDA all increased in the total sample by 17.3%, 20.3%, and 1.3%, respectively.

- Multi-Line / Big Box retail revenues were up 2.8% in 2019 while EBITDA increased by 4.2% in 2019. Net income and EPS both saw double digit increases in 2018 of 13% and 16%, respectively; in 2019 both Net Income and EPS increased by 2% and 5%, respectively.
- Specialty retail companies showed declining profitability with net income and EPS both falling by more than 15% in 2018. However, revenue did increase by 2% at median. In a stark recovery for 2019, Specialty retail companies showed double digit increases in both Net Income and EPS (28.3% and 30.1%). Revenue also increased in 2019 by nearly 5%.

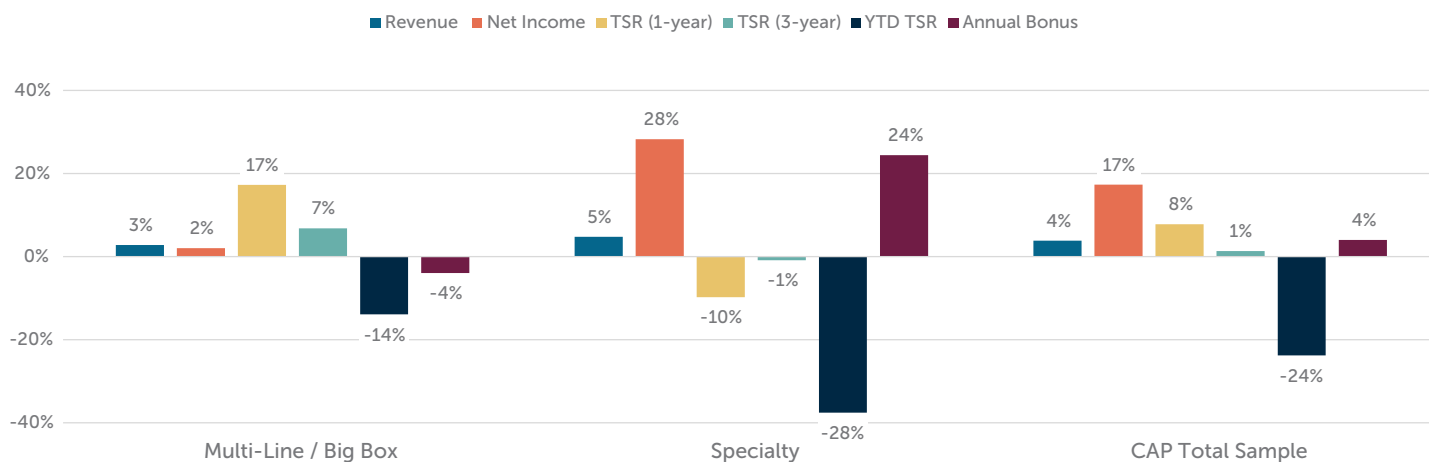
In terms of shareholder returns, half of the companies in the sample experienced stock price declines during 2018. Ten of the 30 companies reviewed, saw stock price declines during 2019, however, during the first part of 2020, **83% (25 of 30 companies) have seen a stock price decline**. In 2019 the retail industry significantly underperformed the companies in the S&P 500, where median TSR was 30%.

- The median TSR of our total sample was -23.8% from December 31 through April 30, 2020 compared to median 3-year TSR through 2018 of 4.6% and through 2019 of 1.4%.
- Multi-Line / Big Box retail companies saw a 17.3% increase in median TSR in 2019, however, since December 31, 2019 have seen a 13.9% decrease in median TSR.
- Specialty retail has seen a continued decrease in median TSR down from 0.6% in 2018 to -9.7% in 2019. That trend has continued through the first part of 2020 with Specialty Retail median TSR currently tracking at -37.6%.

	Revenue (y-o-y)	Net Income (y-o-y)	EPS (y-o-y)	EBITDA (y-o-y)	1-year TSR (FY2019)	3-year TSR ('17-'19)	YTD TSR (April 21, 2020)
Multi-Line / Big Box (n=15)	2.8%	2.0%	5.0%	4.2%	17.3%	6.8%	-13.9%
Specialty (n=15)	4.8%	28.3%	30.1%	-0.7%	-9.7%	-0.8%	-37.6%
<b>CAP Total Sample (n=30)</b>	<b>3.8%</b>	<b>17.3%</b>	<b>20.3%</b>	<b>1.3%</b>	<b>7.8%</b>	<b>1.4%</b>	<b>-23.8%</b>

## CEO Compensation Pay vs. Performance

### Annual Bonus vs. Performance



**Multi-Line / Big Box Retail:** Median annual bonus amounts reported in 2019 were well aligned with financial performance.

**Specialty Retail:** Median annual bonuses reported in 2019 were up 24% and led compared to financial performance.

### Median Change in CEO Compensation (FY 2019 vs. FY 2018)

Actual Total Direct Compensation increased over the total sample by ~12% at the median, with median increases of ~7% and ~19% reported by Multi-Line / Big Box and Specialty retail.

Compensation Element	Multi-Line / Big Box	Specialty	CAP Total Sample
Base Salary	0.0%	0.0%	0.0%
Actual Bonus	-3.9%	24.4%	4.0%
Long Term Incentive	5.4%	4.1%	4.9%
Actual Total Direct Compensation	6.9%	19.2%	12.1%

### Actual Bonuses as a Percentage of Target

Only 5 of the 30 companies surveyed did not pay a bonus for fiscal year 2019 performance. We saw a decrease in median bonus payouts for the Multi Line / Big Box retail companies, down to 95% of target. Specialty retail companies however, saw a sharp increase in bonus payouts as a percent of target over last year, increasing to 102% versus 45% the prior year.

Summary Statistics	Annual Incentive Payout as a % of Target					
	Multi-Line / Big Box		Specialty		CAP Total Sample	
	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019
75th Percentile	141%	166%	106%	123%	127%	152%
<b>Median</b>	<b>113%</b>	<b>95%</b>	<b>45%</b>	<b>102%</b>	<b>83%</b>	<b>99%</b>
25th Percentile	75%	80%	13%	30%	34%	55%

### Target Compensation Mix for CEOs

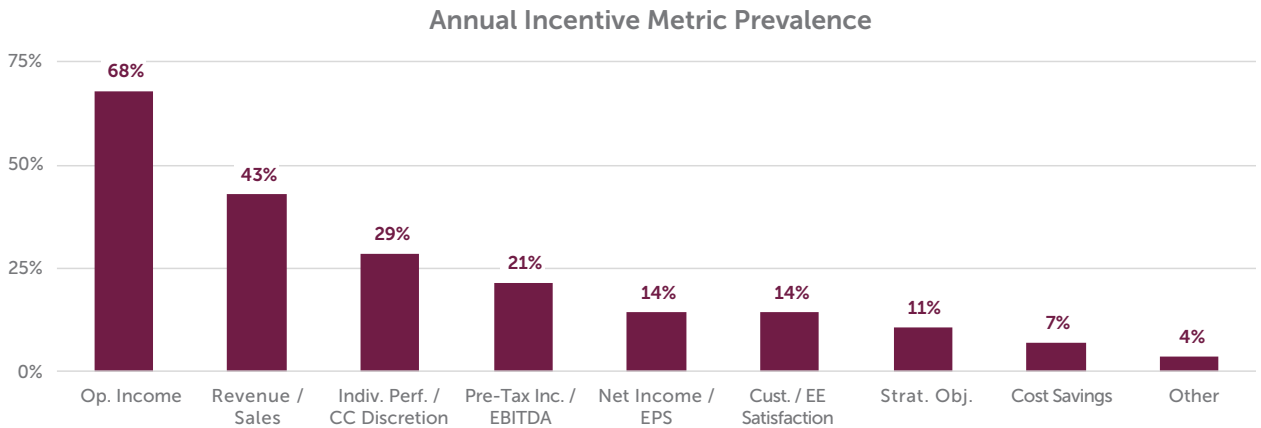
Median target compensation mix for CEOs in our samples is similar, with only small differences seen between Multi-Line / Big Box and Specialty retail.

	Average CEO Target Pay Mix		
	Salary	Target Bonus	LTI
Multi-Line / Big Box (n=15)	14%	26%	60%
Specialty (n=15)	17%	27%	56%
<b>CAP Total Sample (n=30)</b>	<b>16%</b>	<b>26%</b>	<b>58%</b>

## Pay Practices

### Annual Incentive Performance Metrics

Over the entire sample of 30 retail companies, Operating Income and Revenue were the most common financial metrics used in annual incentive plans. Some form of an Individual performance metric and/or discretion was the third most-utilized metric, used by 29% of the companies.

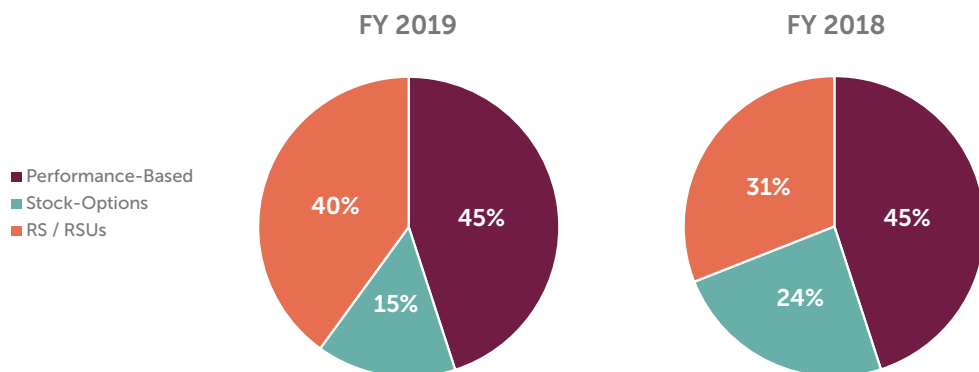


*Other metrics include: Free Cash Flow, Inventory Turnover, and Operating Cash Flow*

### Long-Term Incentive Mix

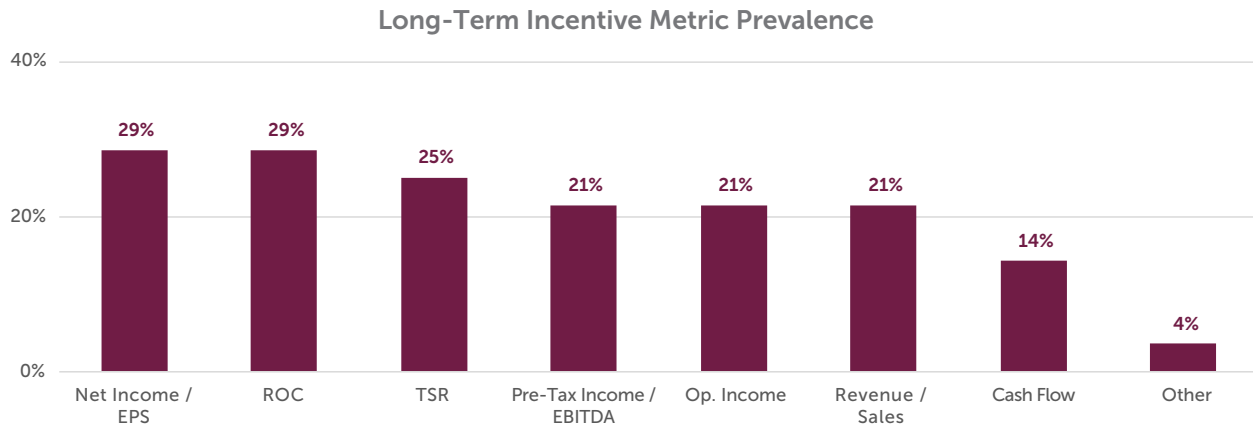
Long-term incentive mix was aligned between both the Multi-Line / Big Box and Specialty retail companies, particularly as we continue to see a reduction in the use of stock options. The total sample shows stock options with a 15% mix of total LTI, which is down over last year at 24%. Restricted shares saw the largest increase over last year, up to 40% from 31%.

	Average CEO LTI Mix		
	Stock Options	RS / RSUs	Performance-Based
Multi-Line / Big Box (n=15)	16%	38%	46%
Specialty (n=15)	14%	41%	45%
<b>CAP Total Sample (n=30)</b>	<b>15%</b>	<b>40%</b>	<b>45%</b>



## Long-Term Incentive Performance Measures

The most prevalent long-term performance metrics were Net Income/EPS and Return on Capital (ROC), followed closely by TSR, which was used as a metric by 25% of the companies. Pre-tax income/EBITDA, Operating Income, and Revenue were all used frequently by the companies surveyed.



*Other measures include: Stock Price and Strategic Objectives*

## Outlook

What's next for compensation in the retail industry? We expect intense competitive pressure to continue, with opportunities for major economic disruption from the COVID-19 pandemic, changing consumer preferences and the continued shift to e-commerce. Strategic transformation will be necessary, and some retailers will not survive these challenges. At the same time, attraction and retention of key executive talent will be even more important going forward.

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