

## Executive and Board Compensation Reductions in Response to COVID-19 (May 1<sup>st</sup> Update)

JIM DICKINSON, JOSHUA BRIGHT, AND BRYCE GERBOC

*This Viewpoint is one in a series of ongoing articles Pay Governance will be publishing regarding the impact of COVID-19 on compensation programs. All of our Viewpoints can be found on our website at [www.paygovernance.com](http://www.paygovernance.com).*

### Observations as of April 30, 2020

Pay Governance has been tracking the executive and board of director pay reductions implemented by a cross-section of publicly traded companies to provide insight into company responses to the ongoing COVID-19 pandemic. These reductions preserve cash for companies that have been severely impacted by the crisis and demonstrate empathy with employees, suppliers, and communities impacted by the pandemic.

This Viewpoint provides an update to our April 1<sup>st</sup> review, highlighting key observations from our expanded dataset. Since disclosures regarding changes to annual incentive plans and long-term term incentive programs continue to be limited, our analysis focuses on reductions to executive salaries and board of director pay cuts.

### Methodology and Data Sample

While not exhaustive, our research covers over 400 companies that have made executive and/or board of director pay reductions. Data for our analysis were collected from public filings, earnings transcripts, and news releases.

Over the past month, we have captured data on actions taken by almost 300 additional companies:

| Type of Pay Action                        | Number of Companies |           |
|---|---------------------|-----------|
|   | 3/31/2020           | 4/30/2020 |
| Executive Salary Reduction <sup>(1)</sup> | 105                 | 403       |
| Board of Director Pay Reduction           | 50                  | 243       |

(1) Includes base salary reductions or deferrals.

### KEY FINDINGS

- Pay Governance is tracking executive and board of director pay actions as the economic impact and subsequent compensation changes related to COVID-19 continue to unfold.
- While this is not an exhaustive list, as of April 30<sup>th</sup>, we have observed the following:
  - Reductions (10% to 100%) in executive salaries at 400+ companies spread across 40+ industries.
  - Reductions (10% to 100%) in board member compensation at 240+ companies (generally focused on cash retainers).
  - The highest concentration of actions is in the retail, hospitality, health care equipment, and apparel/luxury goods industries.
  - Executive and board pay reductions are correlated with companies that have announced broad-based employee actions (e.g., furloughs, staff reductions, salary reductions) and that have experienced a more significant decline in TSR.
- The majority of companies have stated or implied that these executive salary and/or board compensation reductions were indefinite and would be reevaluated throughout the year.

### PARTNERS

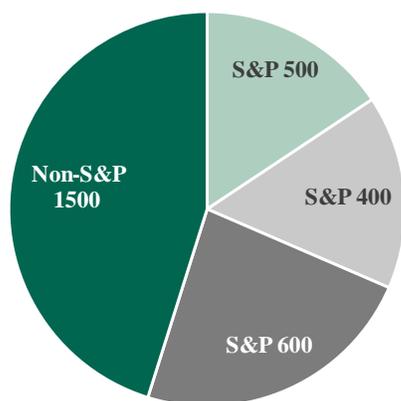
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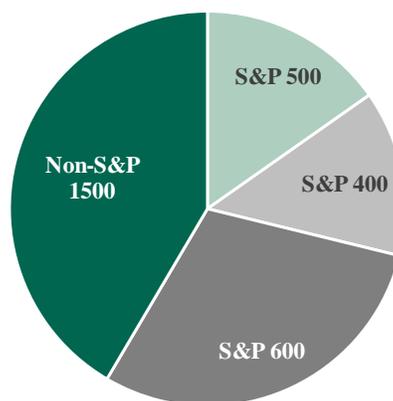
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As shown in the charts below, the majority of the companies included in our data sample are constituents of the Standard & Poor's (S&P) Composite 1500. This broad group includes the combination of the S&P 500 (large cap), S&P 400 (mid cap), and S&P 600 (small cap).

**Executive Pay Reductions Data Sample**



**Board Pay Reductions Data Sample**



Given the market significance of this group, this edition of our Viewpoint tracking executive and board pay actions focuses on companies included in the S&P 1500 (according to S&P, the S&P 1500 captures approximately 90% of U.S. market cap).

## Findings

Before reviewing the data, we note that the majority of companies that have made executive and/or director pay cuts have stated or implied that such reductions were indefinite and would be reevaluated throughout the year.

Among the S&P 1500 companies included in our analysis, reductions are spread across a wide range of industries, with the highest number of total actions in the retail, hospitality, health care equipment, and apparel/luxury goods industries. The 10 industries with the largest number of actions account for approximately 60% of the total number of companies reducing/deferring executive salaries and 65% of the companies reducing director pay (includes reductions in cash retainers and/or equity). To place this into context, there are 68 industry groups in the S&P 1500, including 27 industries where we recorded no actions.

**Exhibit 1: Number of Companies by Industry Disclosing Executive and Board Reductions**

| S&P Industry                                 | Industries Disclosing Pay Reductions |       |           |       |           |       |           |       |
|--|--------------------------------------|-------|-----------|-------|-----------|-------|-----------|-------|
|  | S&P 1500                             |       | S&P 500   |       | S&P 400   |       | S&P 600   |       |
|  | Executive                            | Board | Executive | Board | Executive | Board | Executive | Board |
| Specialty Retail                             | 34                                   | 29    | 7         | 6     | 7         | 6     | 20        | 17    |
| Hotels, Restaurants and Leisure              | 27                                   | 13    | 8         | 2     | 13        | 5     | 6         | 6     |
| Health Care Equipment and Supplies           | 11                                   | 7     | 3         | 3     | 2         | 1     | 6         | 3     |
| Textiles, Apparel and Luxury Goods           | 11                                   | 7     | 6         | 4     | 1         | 0     | 4         | 3     |
| Machinery                                    | 10                                   | 7     | 1         | 1     | 5         | 3     | 4         | 3     |
| Health Care Providers and Services           | 9                                    | 7     | 3         | 3     | 1         | 1     | 5         | 3     |
| Auto Components                              | 9                                    | 7     | 1         | 1     | 5         | 3     | 3         | 3     |
| Household Durables                           | 8                                    | 6     | 1         | 1     | 3         | 2     | 4         | 3     |
| Equity Real Estate Investment Trusts (REITs) | 8                                    | 6     | 1         | 1     | 2         | 1     | 5         | 4     |
| Airlines                                     | 8                                    | 4     | 5         | 3     | 1         | 0     | 2         | 1     |

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To account for differences in the number of companies in each various industry sector, we also analyzed the percentage of companies *within* each industry that have disclosed pay actions. This analysis provides an indication of the depth of impact within a given industry segment. From this perspective, the ranking of impacted sectors changes meaningfully since the analysis looks at the penetration of executive and board compensation reductions within a sector rather than the total number of companies taking action within an industry classification. For example, while 89% of the companies in the airline industry in our analysis reduced executive salaries, airlines represent only a small number of the salary actions taken by companies across the S&P 1500 (since there are only 9 airlines in the S&P 1500).

In addition, we examined year-to-date total shareholder return (TSR) performance for the companies reducing executive salaries and board retainers and found that companies cutting management compensation have median year-to-date TSR that tends to be below their industry as a whole and well below the median TSR for the broader S&P 1500 (down approximately 22% through April 30, 2020, not market cap weighted).

## Exhibit 2: Percentage of Companies by Industry Disclosing Executive and Board Reductions (S&P1500)

| S&P Industry                           | Total Number of Companies | Percent of Companies Reducing Salary/Retainer |       | Median Year-to-Date TSR |                  |
|--|---------------------------|---|-------|-------------------------|------------------|
|  |                           | Executive                                     | Board | Companies Reducing Pay  | Overall Industry |
|  |                           |   |       |                         |                  |
| Automobiles                            | 5                         | 80%   | 40%   | -39%                    | -38%             |
| Hotels, Restaurants and Leisure        | 45                        | 60%   | 29%   | -40%                    | -35%             |
| Specialty Retail                       | 58                        | 59%   | 50%   | -39%                    | -35%             |
| Real Estate Management and Development | 6                         | 50%   | 33%   | -39%                    | -31%             |
| Textiles, Apparel and Luxury Goods     | 22                        | 50%   | 32%   | -52%                    | -43%             |
| Auto Components                        | 19                        | 47%   | 37%   | -34%                    | -28%             |
| Entertainment                          | 10                        | 30%   | 10%   | -37%                    | -13%             |
| Multiline Retail                       | 10                        | 30%   | 20%   | -62%                    | -35%             |
| Personal Products                      | 7                         | 29%   | 29%   | -33%                    | -28%             |

Finally, we looked at the magnitude of executive and board reductions by major index. At the median, the S&P 500 companies included in our dataset have reduced CEO salaries and board member cash compensation by 100%, compared to 50% reductions in the broader S&P 1500. As shown in the table below, salary reductions for other executives did not vary as significantly by major index.

## Exhibit 3: Executive and Board Pay Reductions by Major Index

| S&P Index | Median Base Salary Reduction |                |                  | Board of Directors Cash Reduction |
|-----------|------------------------------|----------------|------------------|-----------------------------------|
|           | CEO                          | Top Executives | Other Executives |                                   |
| S&P 500   | 100%                         | 30%            | 25%              | 100%                              |
| S&P 400   | 50%                          | 25%            | 20%              | 50%                               |
| S&P 600   | 40%                          | 25%            | 20%              | 40%                               |
| S&P 1500  | 50%                          | 25%            | 20%              | 50%                               |

## Considerations

As noted in our April 1<sup>st</sup> Viewpoint, companies and Committees contemplating action similar to those discussed above should be mindful of key considerations before reducing pay levels, including:

- Assessing cash needs of the company, actions taken that impact the broad-based employee population (e.g., furloughs, staffing reductions, pay cuts), industry dynamics, and peer practices.
- Setting a formal check-in date (e.g., Q3 Board Meeting) to determine if the salary reductions should continue or whether prior salaries should be reinstated (including whether reinstatements should be differentiated by executive tier).
- Evaluating whether any other elements of pay and benefits (e.g., annual incentive/bonus opportunity, long-term incentives, cash severance formula, pension contributions) may be impacted by salary reductions and structuring a policy addressing these impacts.
- Examining whether the salary reduction violates any terms of impacted executives' employment agreements and what adjustments should be made in light of such agreements.

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