



**Pearl Meyer**



**WomenCorporateDirectors**  
*A Foundation Inspiring Visionary Boards Worldwide*

## Executive Compensation in the Time of COVID-19

A WCDirect webinar presented by Pearl Meyer and WCD  
April 16, 2020



# Meet the Presenters



**Susan C. Keating**  
Chief Executive Officer  
WomenCorporateDirectors  
(WCD) Foundation



**Deborah Ellinger**  
Co-Chair, WCD Tampa  
Chapter and Director,  
iRobot and Coventrus



**Jannice Koors**  
Senior Managing Director  
and Western Region  
President, Pearl Meyer



**Jane Park**  
Principal, Pearl Meyer



**Lianne Richardson**  
Principal, Pearl Meyer



## Helpful Tips



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This webinar is being recorded. The replay will be available via the:

- WCD Connect mobile app
- WCDirect [website](#)
- [pearlmeyer.com/executive-compensation-in-the-time-of-Covid-19](http://pearlmeyer.com/executive-compensation-in-the-time-of-Covid-19)



See additional Pearl Meyer insights on the impact of COVID-19 on compensation at [www.pearlmeyer.com/coronavirus](http://www.pearlmeyer.com/coronavirus)



# Agenda

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- Great uncertainty
- Different impacts and responses by industry
- Considerations for core pay elements
  - Base salary
  - Annual incentive plans
  - Long-term incentive plans
- Considerations for non-employee director programs
- CAREs Act
- ISS and Glass Lewis policy guidance

# This is a Period of Great Uncertainty for Compensation Committees

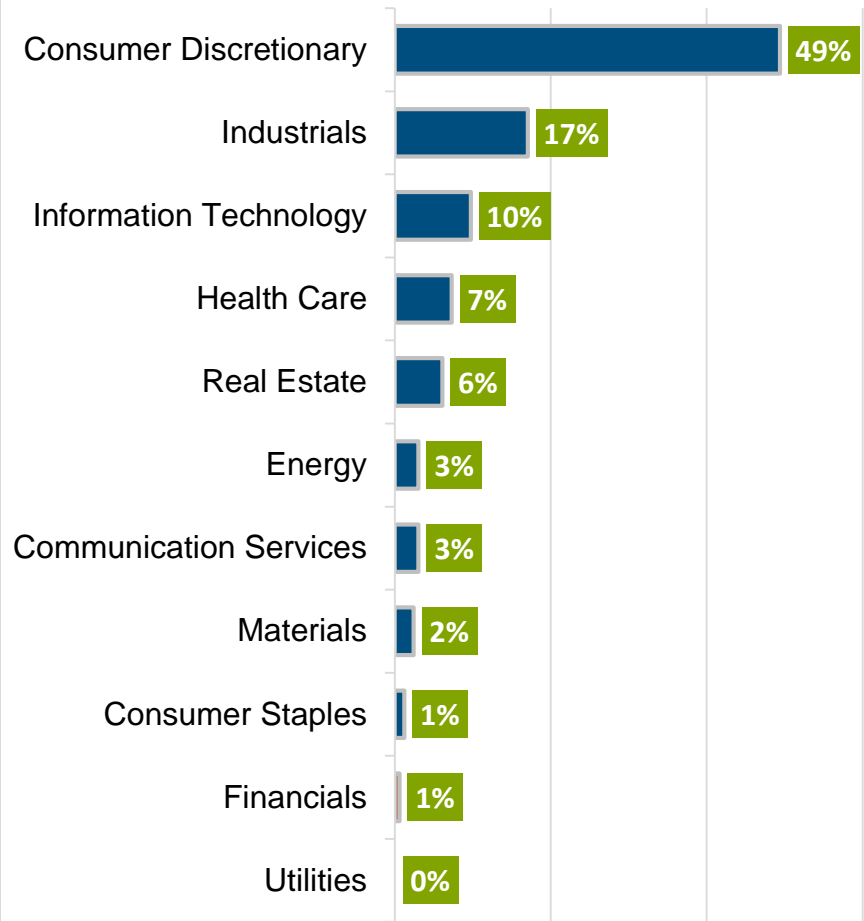
- Unlike 2008/2009, all industries are impacted
- Great uncertainty so long as we are socially distancing
- Balance sheet and cash management are priorities
- To date, company approaches vary by impact

Severely Negatively Impacted	Moderately Negatively Impacted	Positively Impacted
<ul style="list-style-type: none"><li>▪ Layoffs/Furloughs</li><li>▪ Executive/Board Pay Reductions</li><li>▪ CAREs Act Review</li></ul>	<ul style="list-style-type: none"><li>▪ “Wait and See”</li><li>▪ Merit Freezes</li><li>▪ Equity Burn Rate</li><li>▪ Incentive Goals Outdated</li></ul>	<ul style="list-style-type: none"><li>▪ Active Recruitment</li><li>▪ Retention Risk</li><li>▪ Sensitivity to Optics (profits and payouts)</li></ul>

## We are collecting disclosures of compensation actions in real time, as they are filed in 8-Ks

- As of April 9, 164 companies have disclosed pay actions for executives and/or board members
- Consumer discretionary and industrials sectors have taken the most action
- While other sectors have also taken action, the magnitude of action is higher among hardest hit industries

### Filings by Sector in Database



# Near-Term Actions Need to be Commensurate with Business Impact

Companies	Organizational Context	Potential Compensation Action Items
<p><b>Severely Negatively Impacted Companies</b></p> <p>(e.g., restaurants, hotels, airlines, cruise lines, gaming, movie theatres, etc.)</p>	<ul style="list-style-type: none"> <li>▪ Sudden, severe decline in revenue</li> <li>▪ Cash flow concerns</li> <li>▪ Significant increase in borrowing</li> <li>▪ Substantial spending reduction</li> <li>▪ Reduced/eliminated dividends and/or stock buybacks</li> <li>▪ Reduced hiring/hiring freeze</li> <li>▪ Workforce reductions/furloughs</li> <li>▪ Consider CARES Act assistance</li> </ul>	<ol style="list-style-type: none"> <li>1. CEO pay reduction</li> <li>2. Executive pay reductions</li> <li>3. Broad-based salary freeze/reductions</li> <li>4. Non-employee director pay reductions</li> <li>5. Re-set bonus plans when visibility improves</li> <li>6. Modify/replace outstanding equity awards</li> <li>7. Non-traditional methodologies for setting equity grant levels</li> <li>8. Use discretion at the end of performance periods</li> </ol>
<p><b>Moderately Negatively Impacted Companies</b></p> <p>(e.g., most companies)</p>	<ul style="list-style-type: none"> <li>▪ Modest revenue decline</li> <li>▪ Some supply chain disruptions</li> <li>▪ Right-size investments for potential economic recession</li> <li>▪ Evaluate capital allocation strategies</li> <li>▪ Reduced hiring/hiring freeze</li> </ul>	<ol style="list-style-type: none"> <li>1. Broad-based salary freeze</li> <li>2. Assess bonus plan design/goals impact</li> <li>3. Assess impact on outstanding LTI awards</li> <li>4. Review/modify NED equity grants (May/June)</li> <li>5. Anticipate discretion at the end of performance periods</li> <li>6. Begin considering plan design changes for 2021</li> </ol>
<p><b>Positively Impacted Companies</b></p> <p>(e.g., grocery stores, food delivery services, streaming video services, etc.)</p>	<ul style="list-style-type: none"> <li>▪ Modest/noticeable revenue increase</li> <li>▪ Right-size investments for potential opportunities</li> <li>▪ Add employees</li> <li>▪ Some supply chain disruptions</li> <li>▪ Potential targets of labor action/union strikes</li> </ul>	<ol style="list-style-type: none"> <li>1. Special incentive programs</li> <li>2. Retention awards</li> <li>3. “Corporate citizen” programs</li> </ol>

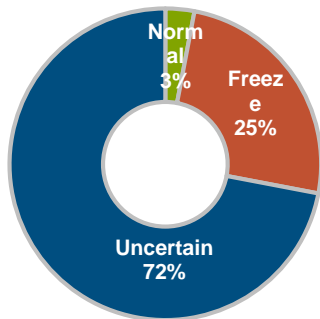
# Impacted Companies are Reducing CEO and Executive Salaries

## What We Heard

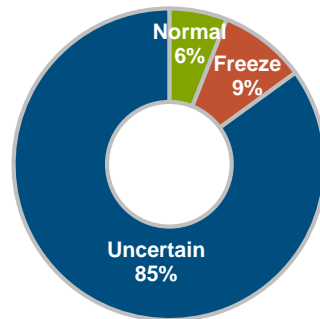
According to Pearl Meyer's Quick Poll Survey released on March 30<sup>th</sup>, the majority of companies indicated that they were still uncertain of the impact that COVID-19 would have on their merit cycles:

Pearl Meyer  
Quick Poll

Approach to Exec Salary Increases For April/May Cycles



Approach to Exec Salary Increases For June/July Cycles



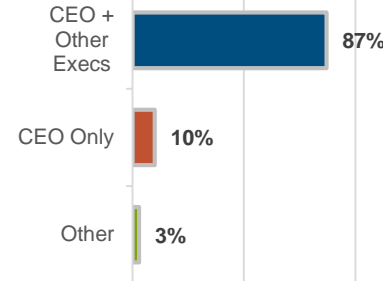
For those companies that had not yet made 2020 executive salary increases (49% of respondents), most remained uncertain as to whether they would provide salary increases or freeze salary levels

## What We See

- Many have now taken action at the executive level to reduce salaries
- Of the 113 companies included in our database compiled from public disclosures as of April 9<sup>th</sup>:



Base Salary Adjustment Prevalence from Public Disclosure



- Majority reporting salary reductions have reduced the CEO's and the Other Executive's salaries
- 10% of companies have only reduced CEO compensation
- Other practices include salary deferral rather than reduction or a cash for stock swap

- On average, CEO salary reductions are approximately 1.7x that of the other executives and over one-third of CEOs have elected to forgo 100% of base salary
- The majority have stated that reductions will remain in effect for the duration of the pandemic crisis and will be reassessed, but have not stated an end date



# Most Companies are Evaluating Short-Term Incentive Plans

## What We Heard

**According to Pearl Meyer's Quick Poll Survey released on March 30<sup>th</sup> :**

Pearl Meyer  
Quick Poll

- 39% of companies set goals and will revisit them later this year if necessary
- 19% of companies set goals and agreed to consider excluding the coronavirus impact when evaluating performance
- For those committees that discussed the impact of the coronavirus on performance, 31% are ready to use discretion to determine payouts. 50% have not agreed to use discretion, but they may consider it later this year
- 35% of companies have started tracking the impact of coronavirus on financial results, while 20% said it was not possible to break out the full impact

## What You Should Do

**If you have already set your goals:**

- Be prepared to apply discretion at the end of the period using adjusted financials to estimate the impact of the crisis
- Plan to re-set bonus plans when visibility improves, assuming this happens by mid-year
- Introduce a special incentive program while allowing the annual program to continue

**If your plan has not been approved yet:**

- Consider moving away from financial metrics toward strategic metrics on a temporary basis
- Consider widening the performance range to increase the possibility for participants to “get in the game”
- Split your annual plan into a semi-annual plan with payout delayed until year-end



# It's Too Early to Modify Long-Term Incentives

Outstanding Awards	Key Considerations
PSUs Ending in 2020	<ul style="list-style-type: none"> <li>▪ Understand earning level thru latest completed year (2019)</li> <li>▪ Understand potential impact of 2020 on final payout level</li> <li>▪ Understand the (a) ability to use and (b) potential consequences of applying discretion to the earning level at the end of the performance period</li> <li>▪ Evaluate truncating the performance period, locking in the earning level, while preserving the full period vesting schedule</li> </ul>
PSUs Ending in 2021 and 2022	<ul style="list-style-type: none"> <li>▪ Same as above, but more time to assess and resolve</li> <li>▪ Could eventually re-set performance goals once forecasting visibility is restored</li> </ul>
Underwater Stock Options	<ul style="list-style-type: none"> <li>▪ In most cases, no action necessary (given term) or advisable (given constraints on option re-pricing and exchanges)</li> </ul>
New 2020 Awards	Key Considerations
Options and RSUs with Time-Based Vesting	<ul style="list-style-type: none"> <li>▪ Proceed with grants under normal methodology</li> <li>▪ Proceed with grants under “modified” methodology (e.g., switch from \$ value to # of shares, adopt/lengthen average trading days, switch to quarterly grant practice, etc.)</li> <li>▪ Delay grants until stock price recovers</li> </ul>
PSUs with Performance-Based Vesting	<ul style="list-style-type: none"> <li>▪ Same as above, plus additional considerations</li> <li>▪ Consider changing metrics away from financial and toward operational/strategic</li> <li>▪ Consider greater use of relative metrics, including rTSR</li> <li>▪ Revise pay mix: eliminate PSUs and grant RSUs/options</li> </ul>

# Non-Employee Director Compensation Decisions Are Quickly Approaching

## What We See

- Of the 113 companies included in our database compiled from public disclosures as of April 9<sup>th</sup>:
  - The most common approach is a percentage reduction in the annual cash retainer (e.g., 25%-100%)
- Approximately 60% of companies that have reduced CEO and/or executive pay have also reduced Non-Employee Director (NED) pay
- Many companies make NED compensation decisions effective as of their annual shareholders meeting, which is quickly approaching for calendar year companies
- Even if a compensation reduction is not deemed necessary, depressed stock prices may require unique approaches to determining equity grant levels for NEDs



## What You Should Do

### Cash Compensation Decisions

- Remain at current levels
- Temporarily reduced

### Equity Compensation Decisions

- Make grants following standard methodology
- Delay grants until stock price recovers
- Make grants under a unique methodology in recognition of unique circumstances
  - Grant the same number of shares as last year
  - Convert value into a number of shares using:
    - *A pre pandemic stock price*
    - *The stock price used for executive grants in Q1*
    - *An average stock price (30, 60, 90 days, etc.)*
- Convert value into a number of shares using the grant date stock price, but subject to a maximum grant level, perhaps based on a percent of CSO for aggregate share usage for NED awards

# Severely Impacted Companies Need to Study the CARES Act

The Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”) provides \$2 trillion in emergency relief to various individuals and businesses impacted by the COVID-19 global pandemic. To receive COVID-19 aid, eligible companies must agree to the following:

Recommended Action Steps	Terms of Aid
<p><b>Companies that are considering taking aid should:</b></p> <ul style="list-style-type: none"> <li>Identify which employees or officers earned in excess of \$425,000 and/or \$3M in 2019.</li> <li>Review all employment, change in control, or other contractual commitments with employees who earned over \$425,000.</li> <li>Consider whether any employees have already received compensation in 2020 that exceeds limits.</li> <li>Communicate implication of taking aid with those that may be most impacted and consider retention risks of critical talent.</li> </ul>	<p><b>Compensation and Severance Limits</b></p>
	<p><b><u>Employees and Officers:</u></b></p> <ul style="list-style-type: none"> <li>Who received between \$425,000 and \$3M in total compensation in 2019 cannot receive more than what they made in 2019 during any 12-month period;</li> <li>Who received more than \$3M in total compensation in 2019 cannot receive total compensation during any 12 months period in excess of \$3M + 50% of excess over \$3M earned in 2019 (e.g., an executive who received \$6M in compensation in 2019 cannot receive more than \$4.5M); and</li> <li>No severance in an amount more than 2x their 2019 total compensation.</li> </ul>
	<p><b>Duration of Limitations</b></p>
	<ul style="list-style-type: none"> <li>Restrictions are in place from time company accepts loan until 1<sup>st</sup> anniversary of date the loan is no longer outstanding.</li> <li>For airline carriers and contractors, the restrictions are in place for the two-year period ending on 3/24/2022.</li> </ul>
	<p><b>Other Governance and Workforce Restrictions</b></p>
	<ul style="list-style-type: none"> <li>There will be no payment of dividends and no stock buybacks until 1 year following loan payoff (or until 9/30/2021 for airline carriers or contractors).</li> <li>Airline carriers and contractors are prohibited from conducting involuntary furloughs or reducing pay rates and benefits until 9/30/2020.</li> </ul>

An additional \$500 billion will be allotted to provide loans, loan guarantees, and other investments, to be overseen by a Treasury Department inspector general. These loans will not exceed five years and cannot be forgiven. Airlines will receive \$50 billion (of the \$500 billion) for passenger air carriers, and \$8 billion for cargo air carriers. No payments will be due on the loans for six months, and the interest rate will be 2%.

# ISS Policy Guidance

Topic	Guidance
<b>Annual Bonus</b>	<ul style="list-style-type: none"> <li>Any changes to metrics/measures should be contemporaneously disclosed</li> </ul>
<b>LTI</b>	<ul style="list-style-type: none"> <li>Case-by-case review but generally not supportive of changes to in-flight awards; will be reviewed for appropriate director discretion and adequate disclosure</li> </ul>
<b>Repricing</b>	<ul style="list-style-type: none"> <li>No relief; will be assessed under current standards which recommend against repricing that occurs within one year of precipitous drop</li> </ul>
<b>Attendance</b>	<ul style="list-style-type: none"> <li>Alternative forms of attendance at meetings should be disclosed</li> </ul>
<b>Changes to Board</b>	<ul style="list-style-type: none"> <li>May be some relief on independence, overboarding, and diversity standards if companies need to fill critical vacancies due to death, disability, incapacity, etc.</li> </ul>
<b>Postponement of Annual Meeting</b>	<ul style="list-style-type: none"> <li>Preference for companies to use some form of communication to engage with shareholders, even if annual meetings are delayed</li> </ul>
<b>Virtual-Only Meetings</b>	<ul style="list-style-type: none"> <li>If you hold one, explain why</li> </ul>
<b>Dividends</b>	<ul style="list-style-type: none"> <li>Support broad discretion to set payout ratios</li> </ul>
<b>Share Repurchases</b>	<ul style="list-style-type: none"> <li>ISS will monitor to see if directors managed risks in responsible fashion</li> </ul>

# Glass Lewis Policy Guidance

Topic	Guidance
<b>Compensation</b>	<ul style="list-style-type: none"> <li>▪ Peremptory warning that executive compensation should not be protected at the expense of employees and shareholders               <ul style="list-style-type: none"> <li>• Open invitation for activists and lawsuits onto a company’s back for years to come</li> <li>• Even those who project a “business as usual” approach to executive pay will face opposition if employees and shareholders see their own paychecks cut</li> </ul> </li> <li>▪ Expect a marked increase in shareholder concerns on repricing, dilution, burn rates, hurdle adjustments, changes to vesting periods, caps and cuts on incentives, and the quality of disclosure concerning the limits and exercise of board discretion</li> <li>▪ Responsible companies hit hard by the crisis should take early and decisive action to roll back planned salary increases or above-target bonus outcomes</li> </ul>
<b>Disclosure</b>	<ul style="list-style-type: none"> <li>▪ Effective disclosure and rationales will be critical to assess whether their actions are justified and address material shareholder concerns</li> <li>▪ Expects boards to proactively seek changes that align with employee and shareholder experiences, recognizing that executives might need to take a pay cut</li> <li>▪ Companies that have a good track record on governance, performance, and the use of board discretion prior to the pandemic will be afforded more discretion in their analysis than those that do not</li> </ul>
<b>Virtual-Only Meetings</b>	<ul style="list-style-type: none"> <li>▪ For companies opting to hold a virtual-only shareholder meeting due to COVID-19 between March 1, 2020 and June 30, 2020, GL will generally refrain from recommending to vote against members of the governance committee on this basis, provided that the company discloses, at a minimum, its rationale for doing so, including citing COVID-19</li> </ul>



## Recap

- This crisis is different from all others – We are all impacted
- Most critically impacted industries are taking more immediate action
- Moderately and critically impacted industries will likely exercise discretion in annual incentive plans
- Too early for action on outstanding equity awards
- Monitor retention issues arising from underwater/lower realizable value awards and those impacted by CARES Act
- Manage burn rate for future equity awards
- Review non-employee director compensation and upcoming grants
- Other issues to monitor:
  - Emergency and on-going succession planning
  - Communication and overall messaging
  - Disclosures and shareholder outreach
  - Individual limits in equity plans



Submit questions using the “**Ask a Question Box**” located on the lower left side of the screen, directly below the speaker photo.



## Contact Us



Jannice Koors is a senior managing director in Pearl Meyer's Chicago office and president of the firm's Western region. She has more than 25 years of experience in executive compensation and governance, and has consulted to companies of all sizes and industries.

Phone: (312) 242-3052

Email: [Jannice.Koors@pearlmeyer.com](mailto:Jannice.Koors@pearlmeyer.com)



Jane Park is a principal in Pearl Meyer's New York office and joined Pearl Meyer in 2005. With more than 10 years of experience, Jane advises public and privately-held clients on executive and non-employee director compensation issues.

Phone: (212) 407-9541

Email: [Jane.Park@pearlmeyer.com](mailto:Jane.Park@pearlmeyer.com)



Lianne Richardson is a principal in Pearl Meyer's New York office and joined the firm in 2002. With over 15 years of experience, Ms. Richardson specializes in providing compensation consulting services to public and privately-held clients.

Phone: (212) 407-9513

Email: [Lianne.Richardson@pearlmeyer.com](mailto:Lianne.Richardson@pearlmeyer.com)

## Don't Miss Upcoming WCDirect Webinars



**Thursday, April 23, 2020**  
**12:00 p.m. to 1:00 p.m. (U.S. EDT)**



**Tuesday, May 5, 2020**  
**12:00 p.m. to 1:00 p.m. (U.S. EDT)**  
Leadership in a Time of Crisis- a Live Conversation with **Connie Collingsworth**, COO of the Bill & Melinda Gates Foundation (WCD member)



**Tuesday, April 28, 2020**  
**12:00 p.m. to 1:00 p.m. (U.S. EDT)**  
Starting Over...Going Back to Square One- A Live Conversation with **Edie Weiner**, President and CEO, The Future Hunters, one of the world's leading futurist consulting firms (WCD member)



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