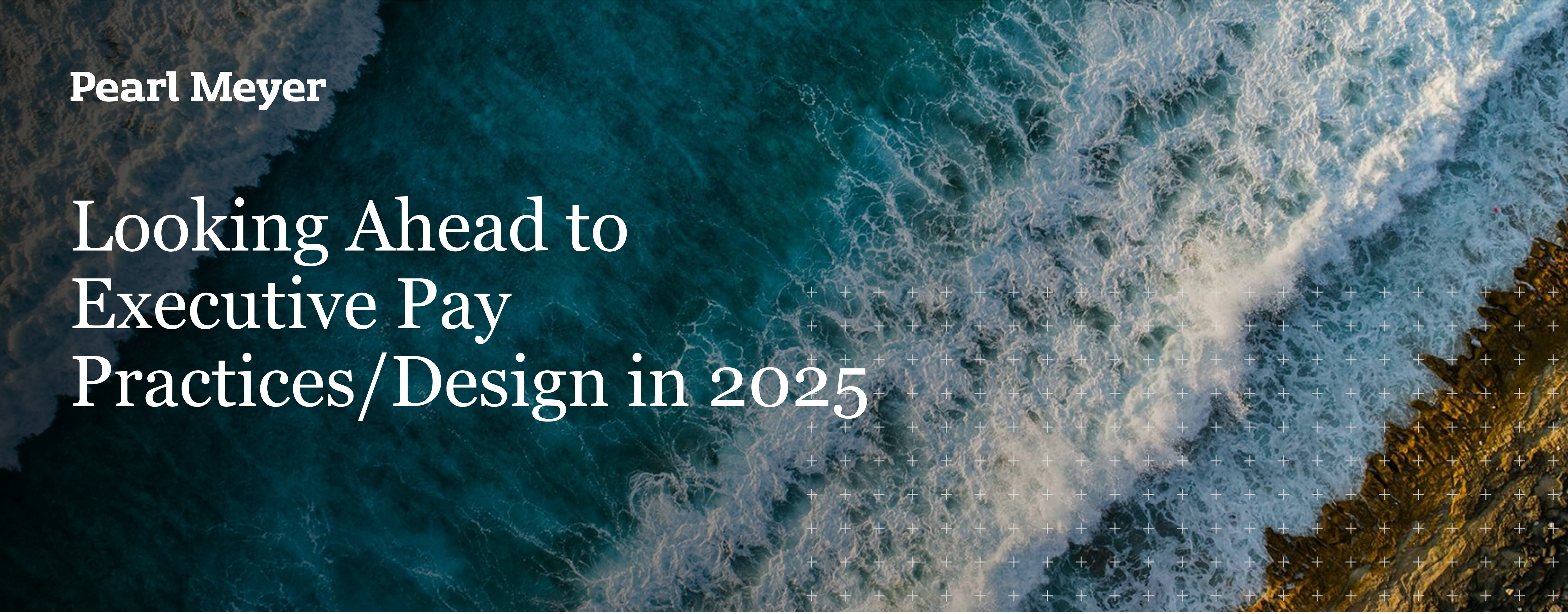

Pearl Meyer

Looking Ahead to Executive Pay Practices/Design in 2025

Executive Summary

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Introduction

Pearl Meyer's "Looking Ahead to Executive Pay Practices" is an annual, online survey and valuable compensation planning tool. This year, it has been separated into two separate surveys, with the first "Practices/Design" focused primarily on compensation philosophy and plan design, and the second "Pay Projections" focused on 2024 year-end and 2025 pay projections. Data and analysis for "Practices/Design" is covered here, while the "Pay Projections" survey will launch in mid-September.

This year's plan design survey was conducted in August of 2024, with total participation from 211 companies, including 93 publicly traded, 88 private for-profit, and 30 not-for-profit (NFP) organizations. As with prior surveys, responses are broken out separately by respondent role (board member vs. employee), ownership type, industry, and company size.

The plan design survey addresses key topics associated with the current environment, including factors impacting peer group development, the expanding role for compensation committees with broader human capital oversight, actions taken to address incentive plan goal-setting challenges, and the potential impact of artificial intelligence (AI) on financial results and executive compensation plan designs. It also covers subjects such as compensation philosophy, recent or anticipated incentive plan design changes, and long-term incentive award prevalence and participation.

Introduction (cont.)

This year's survey includes the following eight industry groups:

+ Business/Other Services
+ Consumer
+ Energy/Utilities
+ Financial/Insurance
+ Healthcare/Life Sciences
+ Industrials/Materials/Transportation
+ Real Estate/Construction
+ Technology

Certain industry categories in the online questionnaire were combined to allow for more meaningful sample sizes. Statistics are based on the number of responses for each question, and sample sizes vary. We believe this information will serve as a useful tool as your organization prepares for Fiscal 2025 compensation planning.

Please feel free to contact me with any questions.

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Key Highlights

+ Most respondents target executive compensation at or near the market 50th percentile, although nearly one-third use a higher target, citing use of stretch performance goals and/or tight labor markets. While most organizations did not recently change or anticipate changes to their executive compensation philosophy, almost one-fourth increased either targeted pay positioning (11%) or the emphasis on variable pay (12%), suggesting that demand for talent remains strong (at least for some sectors) as does scrutiny on alignment between executive pay and company performance. Most respondents headquartered outside the US follow a US pay philosophy for local executives as do nearly half of those headquartered here for non-US segments.

+ Compensation committees continue to address a variety of topics beyond executive and non-employee director compensation, with nearly half of all respondents (and a majority of publicly traded companies) describing their level of broader human capital oversight as either moderate or high. One third of publicly traded respondents (up from 20% in last year's survey) have already changed or plan to change the name of their compensation committee to reflect this expanded human capital oversight role.

+ Similar to last year's findings, approximately 40% of all respondents took one or more actions this year to address incentive plan goal-setting challenges, including delaying the timing for finalizing goals, widening performance range spreads, and adding or increasing the emphasis on relative (vs. absolute) or qualitative (vs. quantitative) measures. Across the entire sample, 60% of respondents described current-year incentive plan performance goals as having similar degrees of stretch vs. the prior year, with nearly 22% citing more aggressive hurdles, especially among privately held and NFP organizations.

Key Highlights (cont.)

+ Most respondents do not anticipate making changes to short-term and long-term incentive designs for 2024. Among those that do, the most commonly cited change is to add new performance metrics, especially financial metrics, with very few (less than 5%) adding environmental, social, and/or governance (ESG) metrics or changing their weightings.
+ Among respondents with long-term incentive plans, nearly 15% increased long-term incentive participation levels in 2024, either for executives and/or other employees. Publicly traded companies continue to make awards deeper within the organization than other ownership types that typically limit grants to executives only, with 13% increasing non-executive participation vs. 6% of private for-profit respondents. Despite ongoing and significant market volatility, virtually no respondents (less than 10%) plan to change LTI grant practices in 2025 or impose any type of fixed cap in terms of aggregate annual grant levels.
+ Most respondents have not made significant AI investments although nearly half are discussing the potential financial impact of future capital or human resource investments relating to AI. To date, most respondents do not plan on adding AI-related executive compensation goals, although approximately 10% plan to address this topic in upcoming meetings.

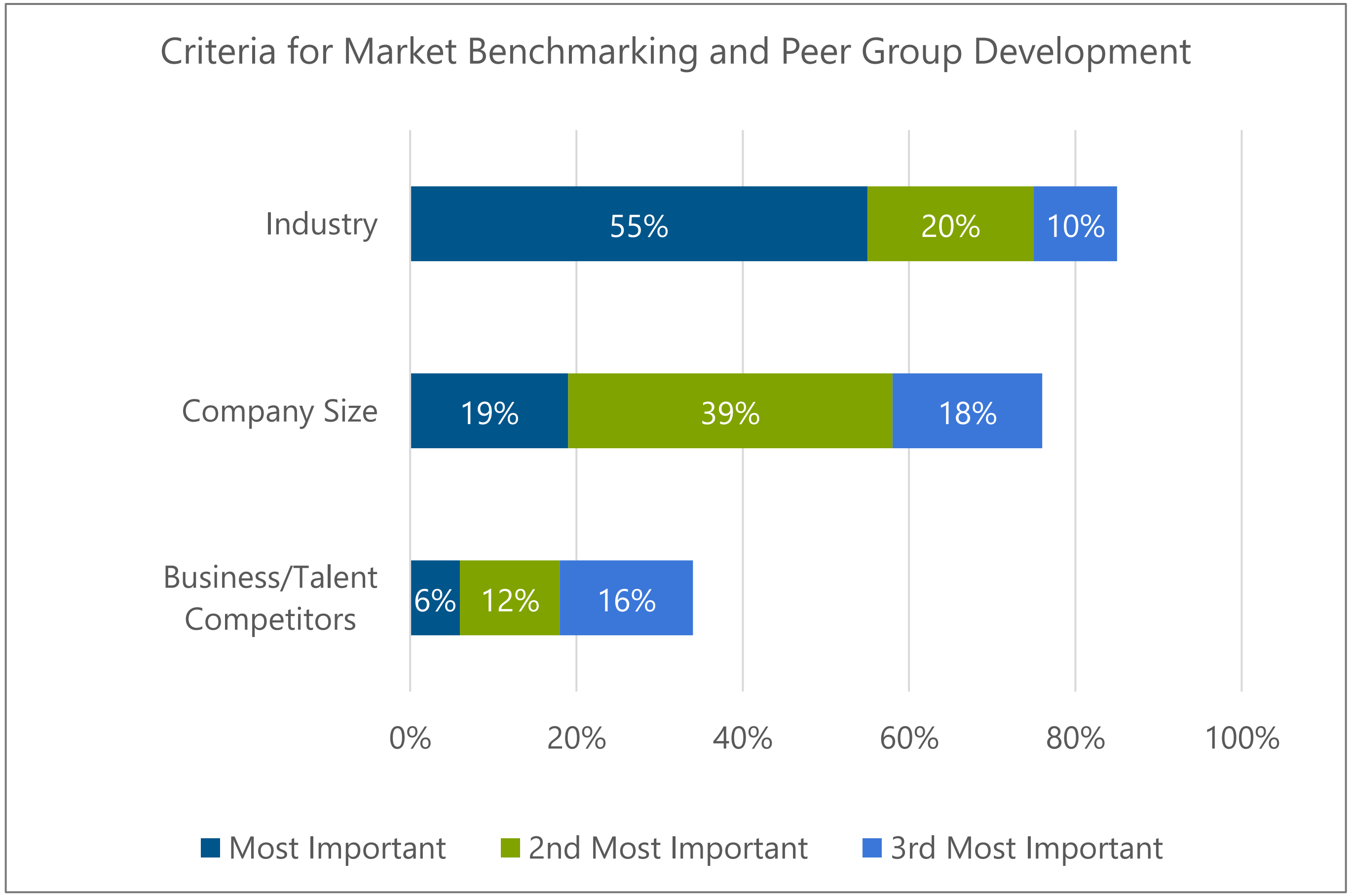
Targeted Executive Pay Positioning

- Slightly more than half of all respondents target executive compensation at the market 50th percentile, with prevalence higher for base salary than variable pay (STI and LTI)
  - Public company respondents are much more likely to target executive pay at the 50th percentile compared with private organizations, as are larger-sized companies, reflecting the impact of greater external scrutiny
  - Private organizations are less likely than publicly traded companies to have any targeted pay positioning, especially for LTI (none reported by approximately 30% of private for-profit and 53% of NFP respondents)
  - Most respondents targeting executive pay above the 50th percentile cite use of stretch goals (43%) or tight labor markets (27%) as the reason for doing so
- Nearly 70% of respondents have not changed their compensation philosophy, while 11% increased targeted pay positioning and 12% increased the emphasis on STI and/or LTI
- Most (57%) respondents headquartered abroad use a US pay philosophy for locally-based executives as do 47% of those headquartered here for executives in non-US segments

Pay Component	Targeted Pay Positioning (% of All Respondents)			
	Below 50th Percentile	At 50th Percentile	Above 50th Percentile	No Positioning
Base Salary	10%	60%	25%	5%
Short-Term Incentives (STI)	8%	52%	25%	15%
Long-Term Incentives (LTI)	7%	46%	22%	25%
Total Direct Compensation	7%	52%	32%	9%

Criteria for Market Benchmarking and Peer Group Development

- More than 75% of respondents cite industry and company size among their top three criteria used for market benchmarking and peer group development
  - One-third of respondents also selected competitors for business and/or executive talent, even if not within a comparable size range, among the top three criteria
  - The least commonly cited criteria (less than 10% prevalence) were peer groups determined by external parties and business life-cycle stage
  - Less than 25% of respondents included ownership type among their top three criteria, suggesting that most companies compete across all ownership types for business and executive talent



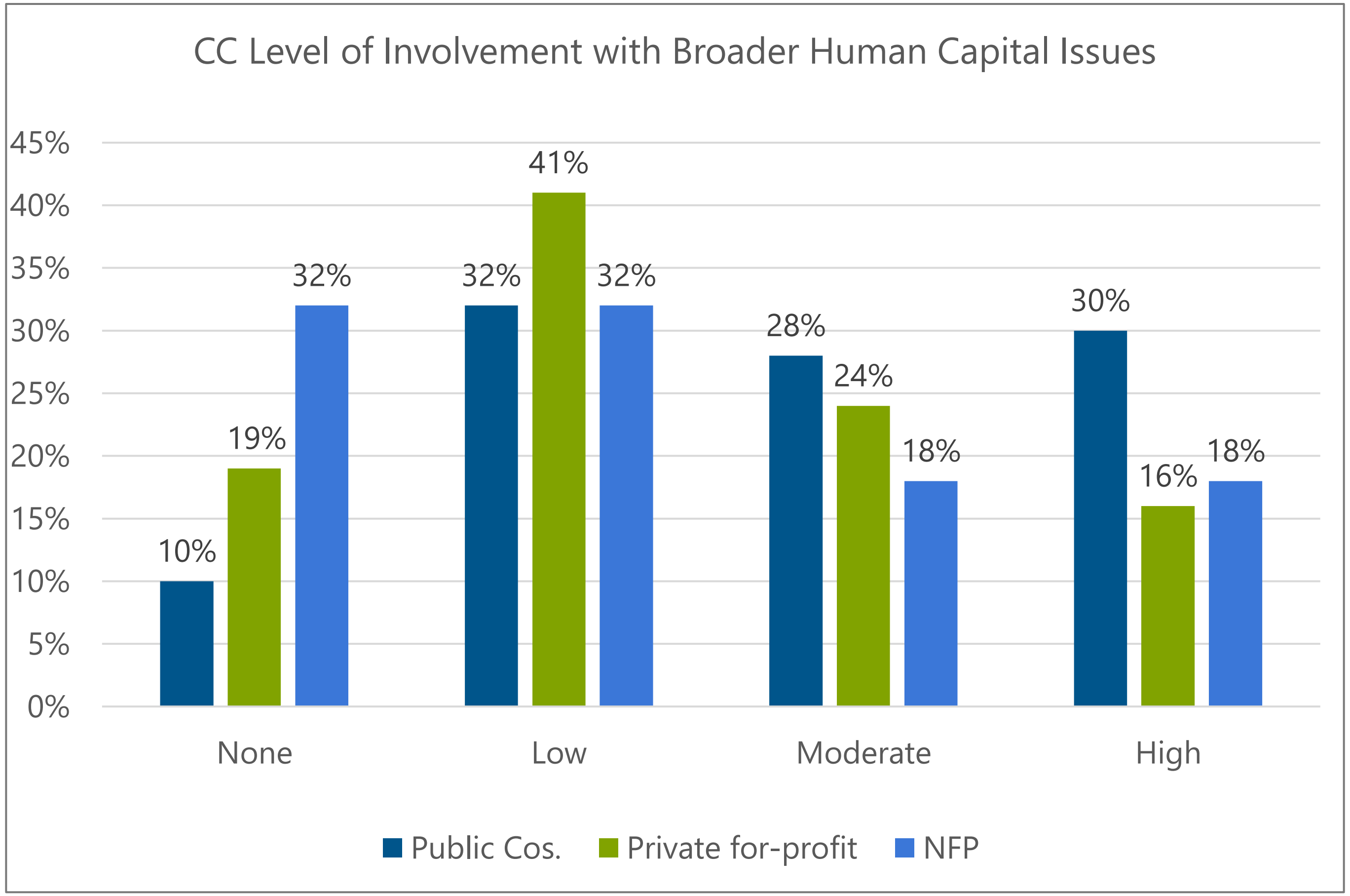
Compensation Committee Oversight Roles

- Compensation committees at most for-profit respondents oversee non-employee director compensation and executive succession planning, and one-third or more at publicly traded companies also have oversight responsibilities for talent development, DE&I, employee engagement, and culture
  - Compared with last year's survey, prevalence was higher across most categories, with statistics in **bold** reflecting year-over-year increases of ten percentage points or more
  - Approximately 10% of companies increased compensation committee oversight responsibilities within the past year, typically for broader human capital topics such as DE&I, engagement, and culture
- Across all ownership types, approximately 60% to 65% of respondents say compensation committees do not review pay below the CEO direct report level
  - One-third of NFP respondents limit compensation committee oversight to the CEO role
  - 35% of publicly traded and 20% of private respondents extend oversight down to the corporate officer or VP/SVP level

Oversight Category	Compensation Committee Oversight		
	Publicly Traded	Private, For-Profit	Private NFP
Board of Directors Pay	83%	65%	46%
Executive Succession Planning	66%	64%	64%
Leadership/Talent Development	43%	**40%**	27%
Diversity, Equity, and Inclusion	44%	25%	**39%**
Employee Engagement	**35%**	22%	**36%**
Culture	**33%**	**29%**	25%

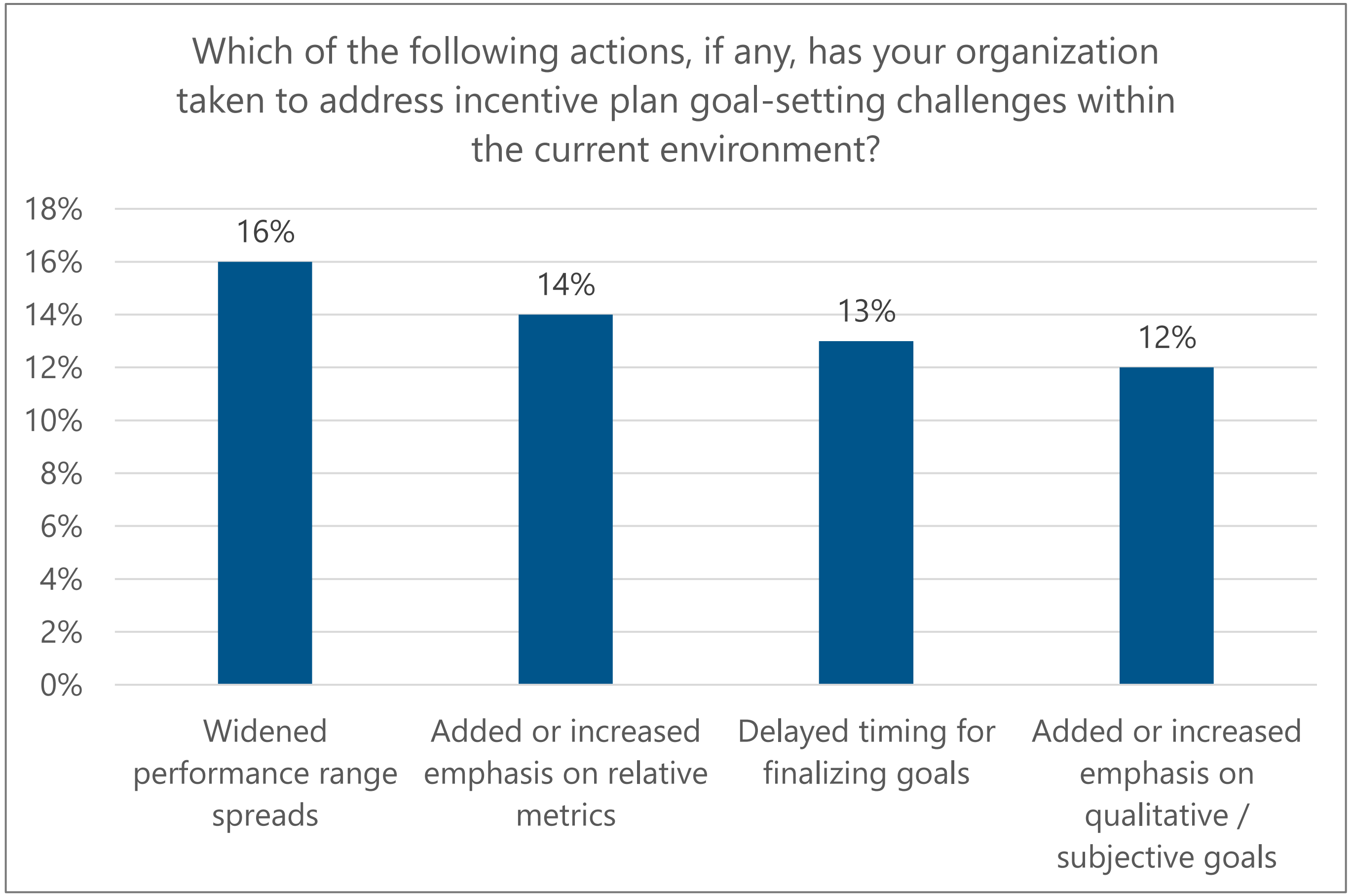
Compensation Committee Oversight Roles (cont.)

+ Compensation committees at publicly traded companies continue to be more involved with broader human capital issues vs. other ownership types, with more than half citing moderate or high levels of involvement
  - Compared with last year's survey, prevalence of high involvement levels increased across all ownership types, and we expect this trend to continue
  - One-third of publicly traded respondents have already changed or plan to change the name of their compensation committee (CC) to reflect a more active oversight role
  - Prevalence of moderate to high involvement levels tends to correlate with company size, with active oversight reported by 41% of respondents in the largest size category (sales or assets >$10B)
  - Active oversight levels were reported by nearly 20% or more of respondents within each industry sector other than real estate/construction and energy/utilities



Actions Taken to Address Incentive Plan Goal-Setting Challenges

+ Similar to last year's findings, nearly 40% of all respondents took one or more actions to address incentive plan goal-setting challenges within the current environment, with the most commonly cited actions shown to the right
  - By industry, the consumer sector had the highest prevalence (67%) for taking one or more actions while the business/other services had the lowest prevalence (36%)
+ Nearly 60% of all respondents estimate a similar degree of performance hurdle stretch vs. the prior year, with 22% using more aggressive and 6% using less aggressive goals
  - One-fourth of all respondents formally test the degree of difficulty for performance hurdles, typically through comparisons of current vs. historical budgets or historical peer group performance



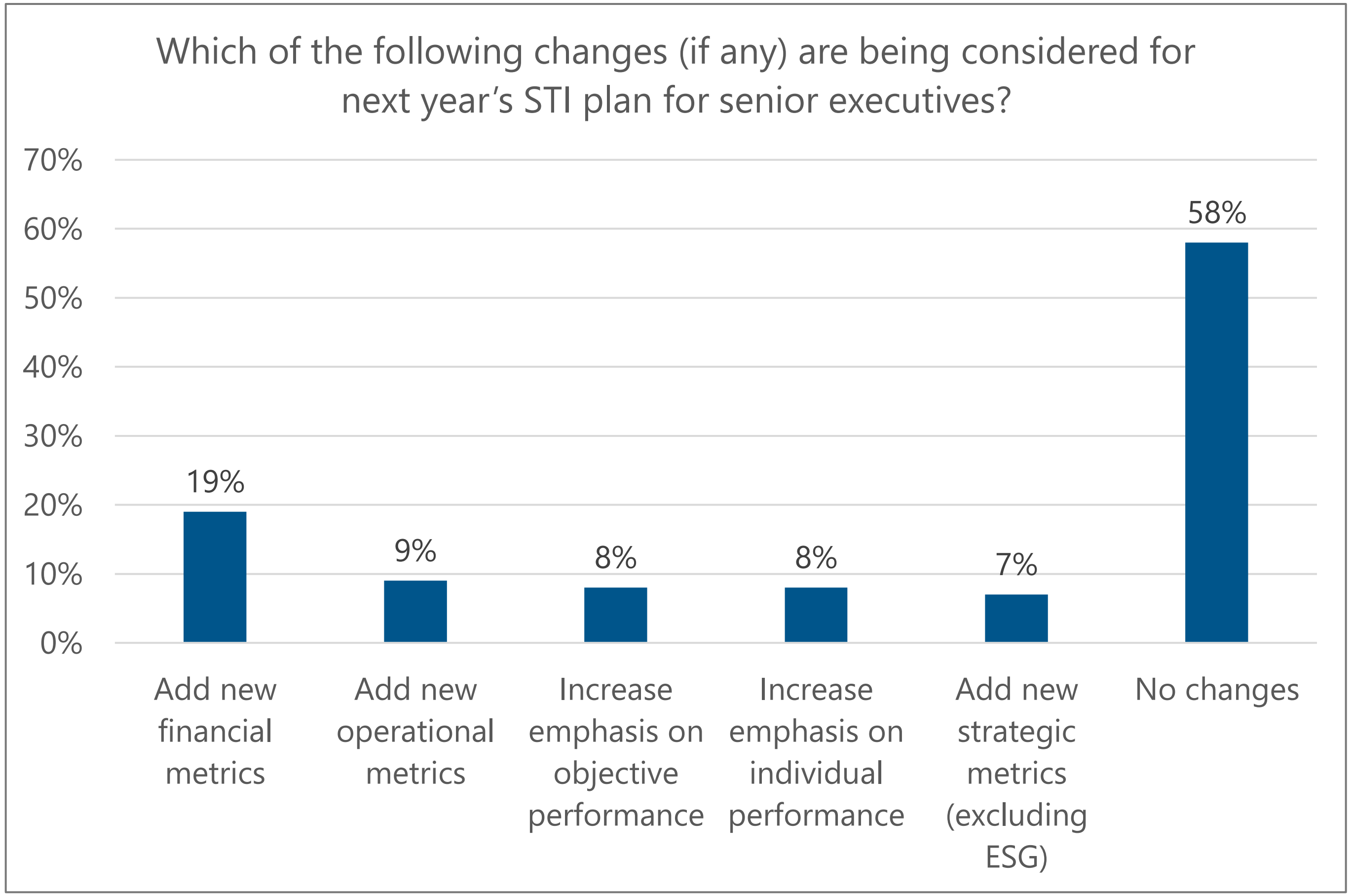
STI Performance Mix Projections for 2025

- Most respondents (71% of full sample and 85% of public companies) have formulaic STI plan designs, with pre-defined weightings for metrics and award opportunities
- The anticipated performance mix for 2025 is very similar to 2024, with a primary emphasis on objective corporate/business unit financial goals; approximately 15% to 25% of respondents also plan to also use operational, ESG, strategic, and/or individual goals, with median weightings ranging from 10% to 30%
  - Most respondents place greater emphasis on corporate vs. business unit financial metrics, even for business unit senior executives
  - Most respondents use multiple performance metric categories

Performance Metric Category	2025 STI Performance Mix: CEO		2025 STI Mix: CEO Direct Reports (Corporate)		2025 STI Mix: CEO Direct Reports (Business Unit)	
	Prevalence	Median Weighting (when provided)	Prevalence	Median Weighting (when provided)	Prevalence	Median Weighting (when provided)
Financial (Corporate)	97%	90%	97%	85%	89%	70%
Financial (Business Unit)	4%	30%	7%	25%	36%	55%
Operational	16%	25%	17%	30%	15%	25%
ESG	13%	10%	11%	10%	10%	10%
Strategic	21%	20%	21%	23%	21%	20%
Individual	17%	20%	24%	25%	27%	23%
Discretionary	10%	15%	7%	13%	8%	18%

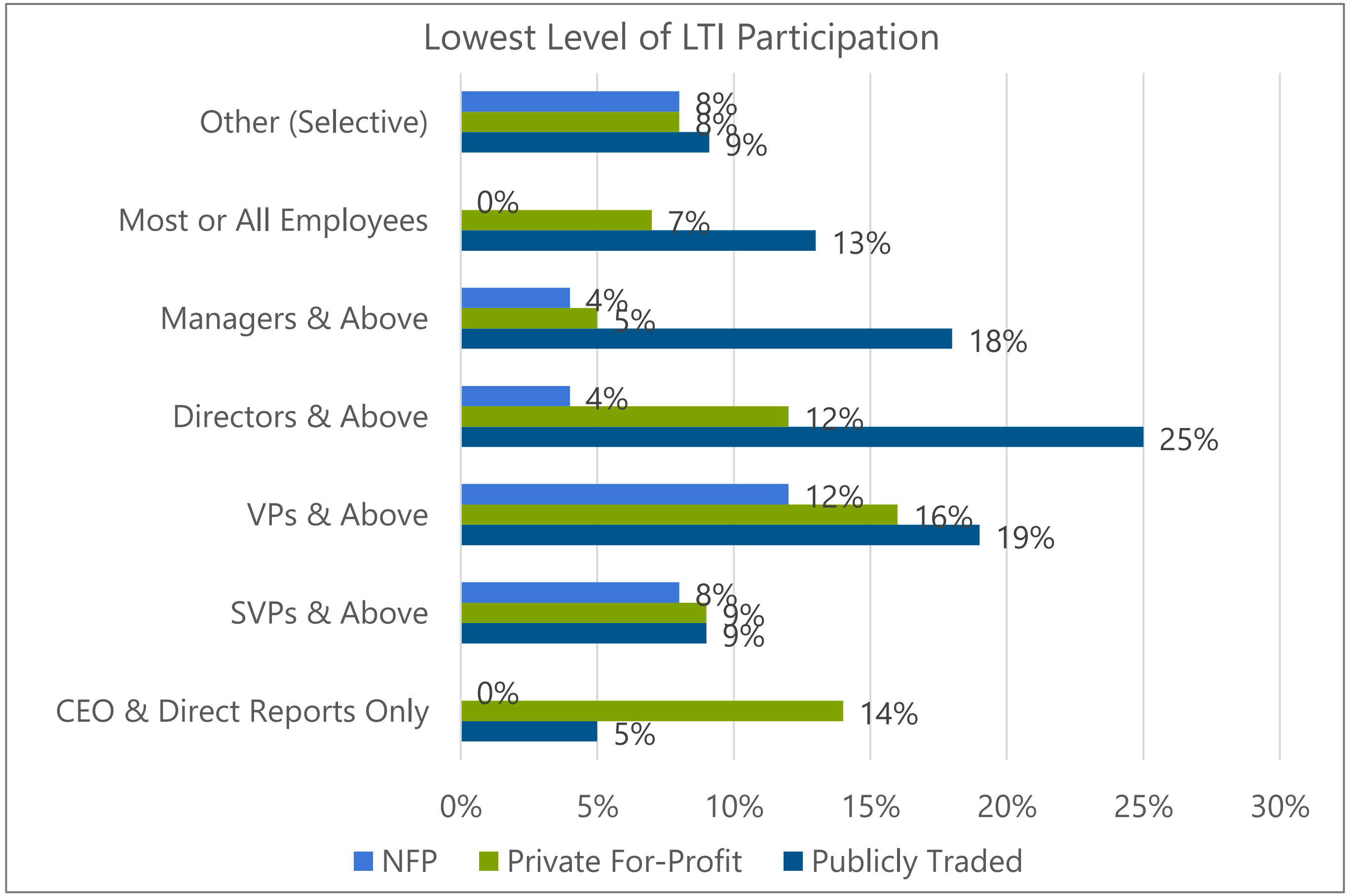
STI Plan Design Changes for 2025

+ Slightly more than 40% of all respondents are considering making changes to senior executive STI designs for 2025, with the most common actions (expressed as a percentage of all responses, not just for those making changes) shown to the right
  - Anticipated changes typically include adding new performance metrics with higher prevalence for private respondents vs. publicly traded companies
  - Only 4% of respondents plan to add new ESG metrics, with none removing them and virtually none changing their weightings
  - By sector, respondents in the real estate/construction sector were most likely to add new financial or operations metrics (44% and 19% prevalence, respectively) while those in the financial/insurance sector were least likely to make any changes (69% did not make or plan to make any design changes)



LTI Prevalence and Participation Levels

- Nearly all (98%) publicly-traded and 70% of private for-profit respondents grant LTI awards to senior executives; 35% of NFP respondents grant LTI (prevalence may be impacted by low sample size)
  - Across the entire sample, participation levels increased by 7% for executives and by 8% for other employees
- More than half (56%) of public company respondents make at least some grants below the Vice President (VP) level vs. 24% of private for-profit and 8% of NFP organizations.
  - Broad based grants to most or all employees were most prevalent for respondents in the healthcare/life sciences (44% of respondents) and technology (18%) sectors
- *Note: In the chart to the right, "Other" refers to other non-specified categories (e.g., senior managers and above, or some other combination of roles)*



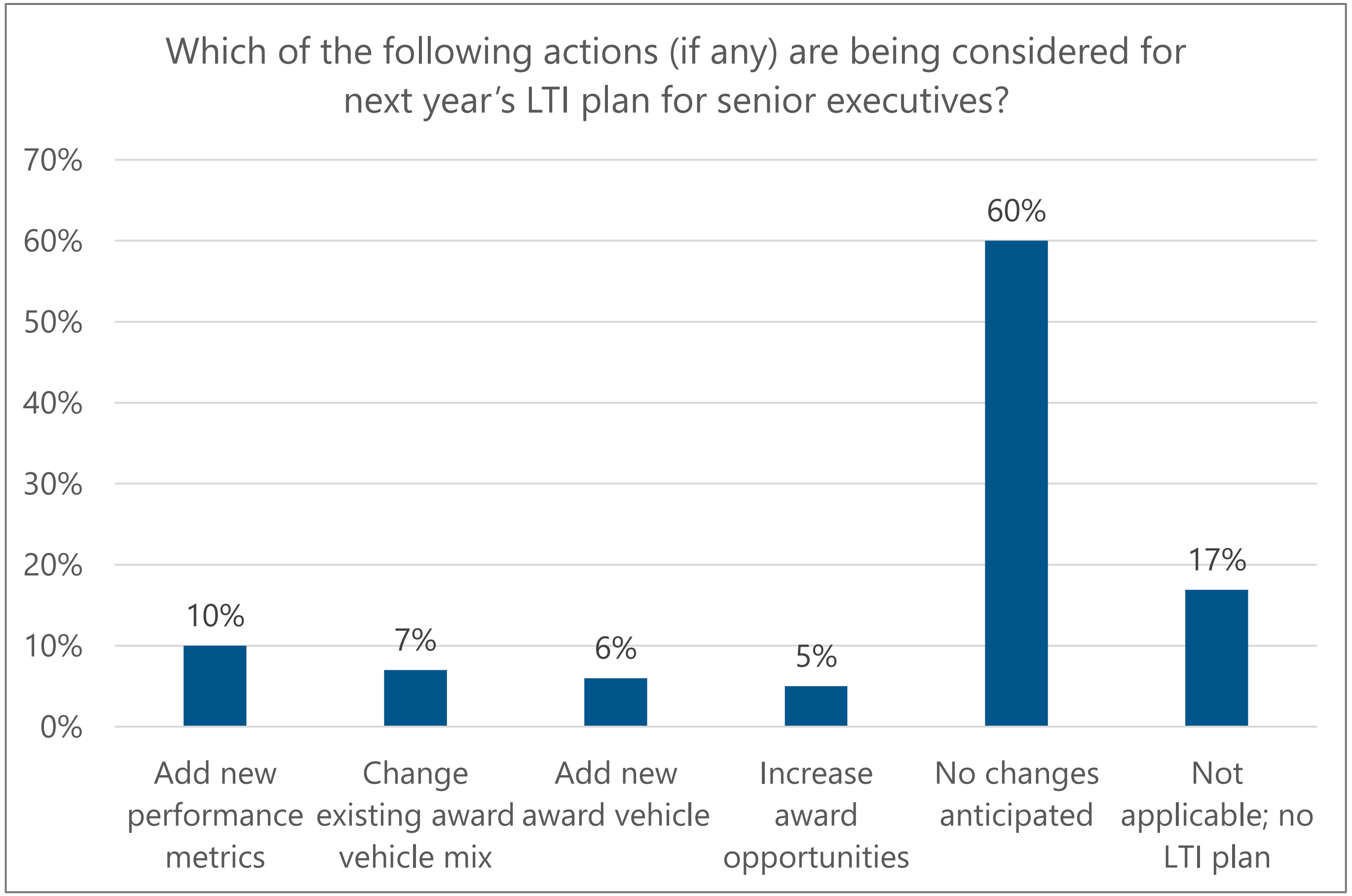
Target LTI Value Mix Projections for 2025

- Most publicly-traded respondents grant performance shares/units (PSUs) and time-based restricted stock/units (RSUs) to executives with a primary emphasis on RSUs for other employees
  - Most public companies (79%) express LTI award opportunities as percentages of salary or fixed target values; when provided, average weightings for senior executives equal 55% for PSUs and 45% for RSUs, while the average RSU weighting for non-executives equals 77%, with 54% using a 100% weighting
  - Most respondents expect little or no year-over-year change in award vehicle prevalence, with 79% of public company respondents granting multiple types of awards to executives and 42% providing multiple awards to other employees
- Among private for-profit respondents with LTI plans, the most prevalent award vehicle for executives is performance-based cash (cash LTIP, 47%), with approximately 40% granting stock-based awards
  - Slightly less than half (45%) of respondents express LTI award opportunities as percentages of salary or fixed target values; only 14% provide multiple types of awards which is why average weightings are typically at or near 100%
- Most NFP respondents do not grant LTI; those that do only provide cash LTIP

Target Value Weight (when provided)	**Public Company CEO Direct Reports**				**Public Company Non-Executives**			
	RSUs	PSUs	Stock Options	Cash LTIP	RSUs	PSUs	Stock Options	Cash LTIP
1% - 49%	51%	14%	61%	86%	18%	57%	50%	67%
50%	38%	45%	9%	14%	14%	28%	17%	0%
51%-99%	2%	33%	9%	0%	14%	5%	0%	33%
100%	9%	8%	21%	0%	54%	10%	33%	0%
Prevalence	83%	77%	35%	11%	91%	32%	18%	9%

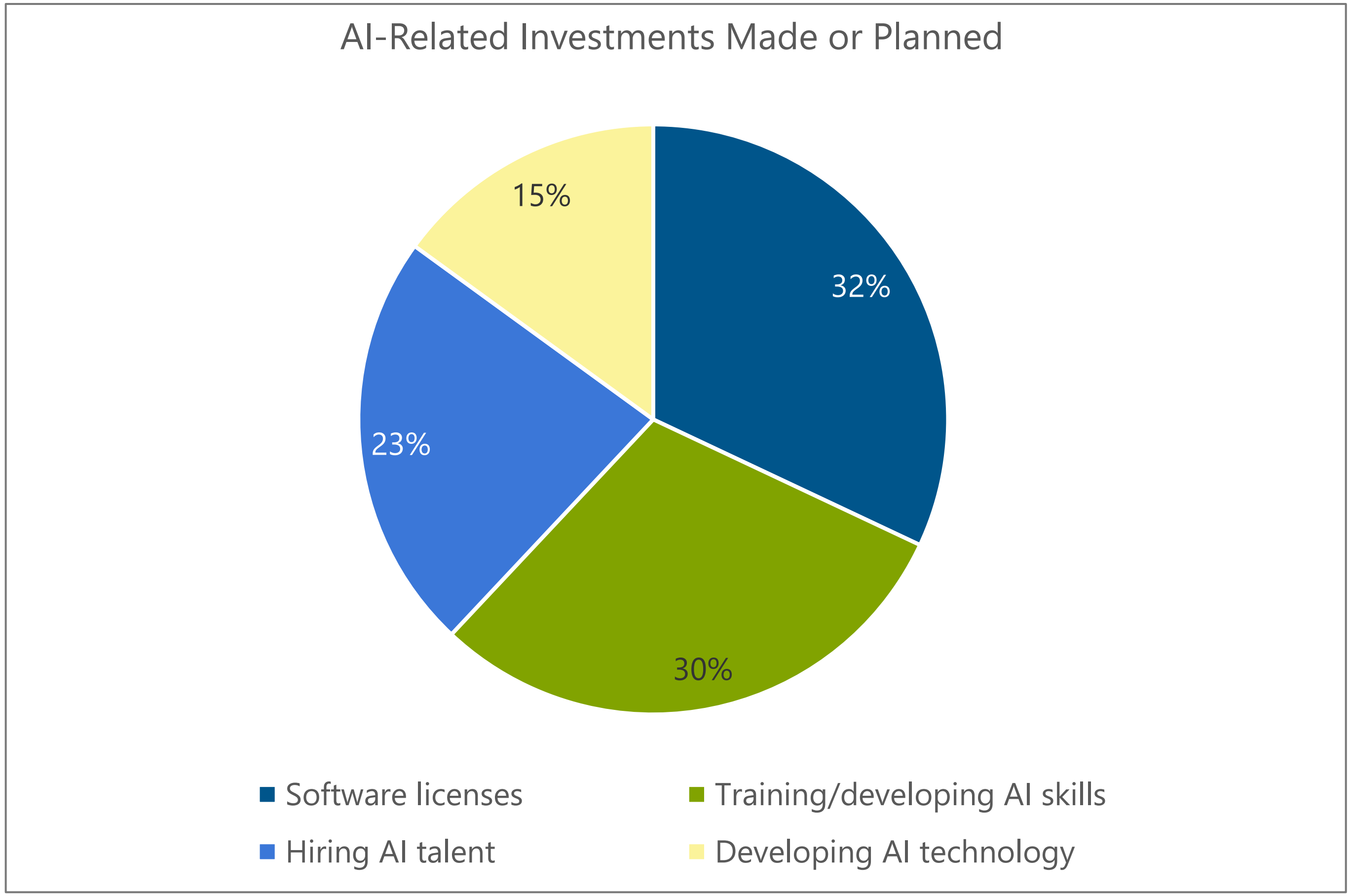
LTI Plan Design Changes for 2025

- Less than 20% of all respondents currently anticipate making one or more LTI plan design changes for 2025, with the most common actions (expressed as a percentage of all responses including "not applicable") shown to the right
  - Prevalence of potentially adding new performance metrics is highest for the industrials/materials/transportation sector (16% of respondents) while the business/other services sector is most likely to increase LTI award opportunities (13% of respondents)
- Similar to last year, less than 5% of respondents currently anticipate making any change in LTI grant practices for 2025 or have any pre-established annual cap for aggregate grants

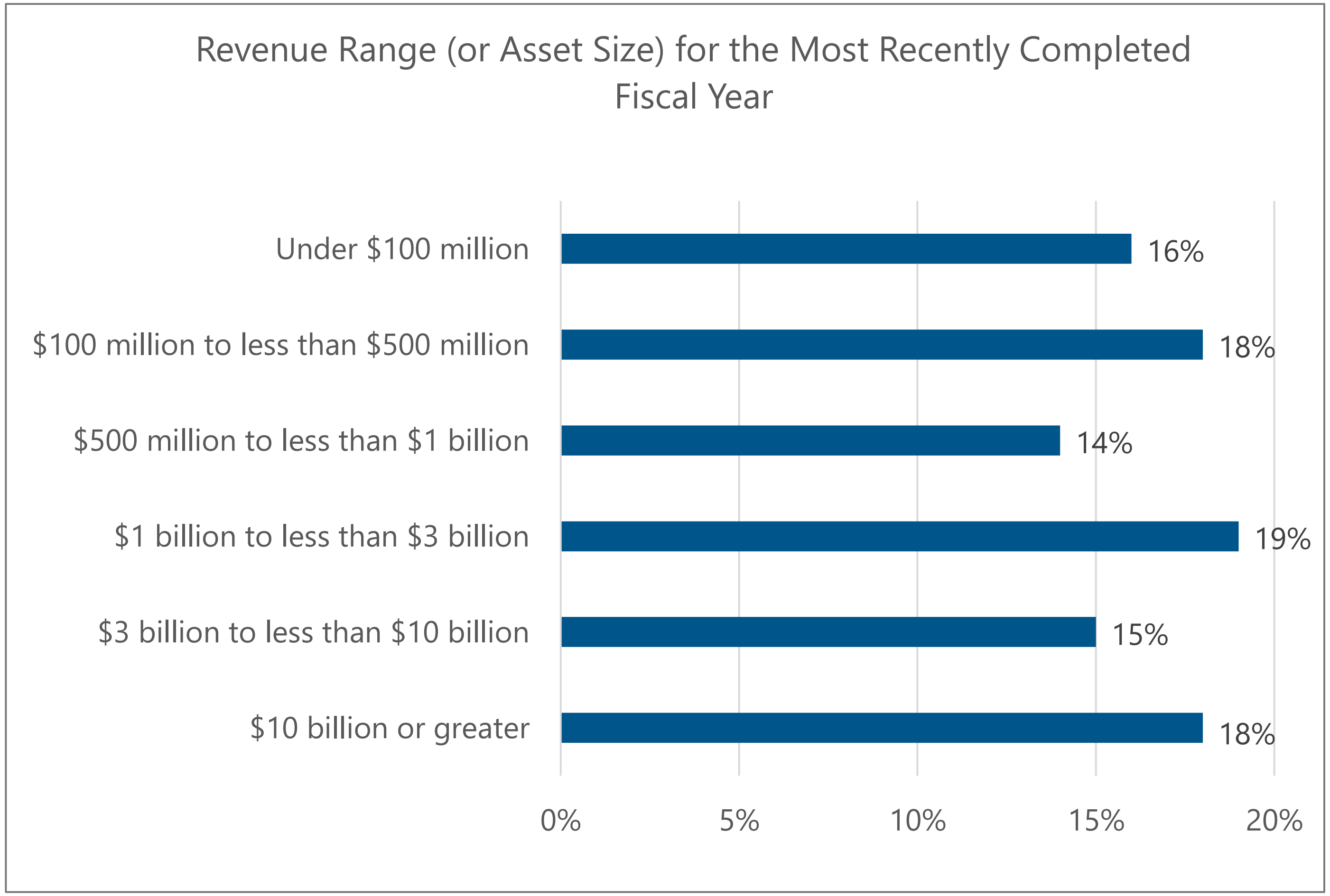


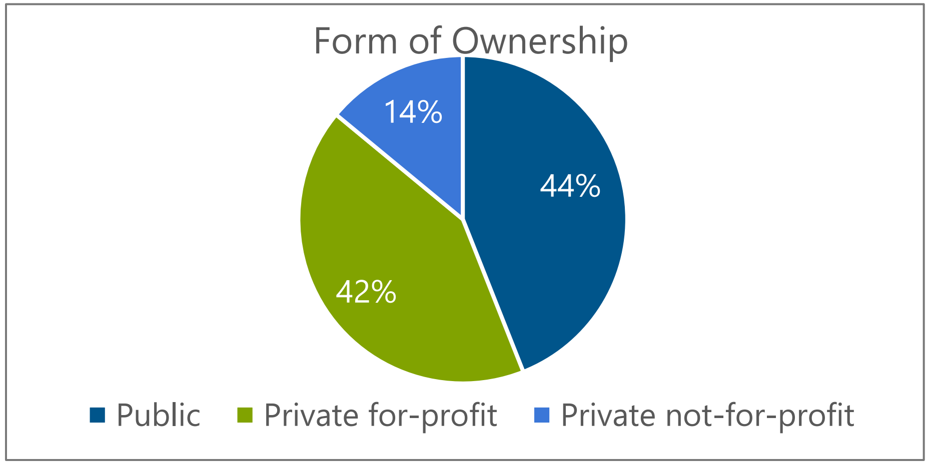
Impact of Artificial Intelligence (AI) on Company Performance and Executive Compensation

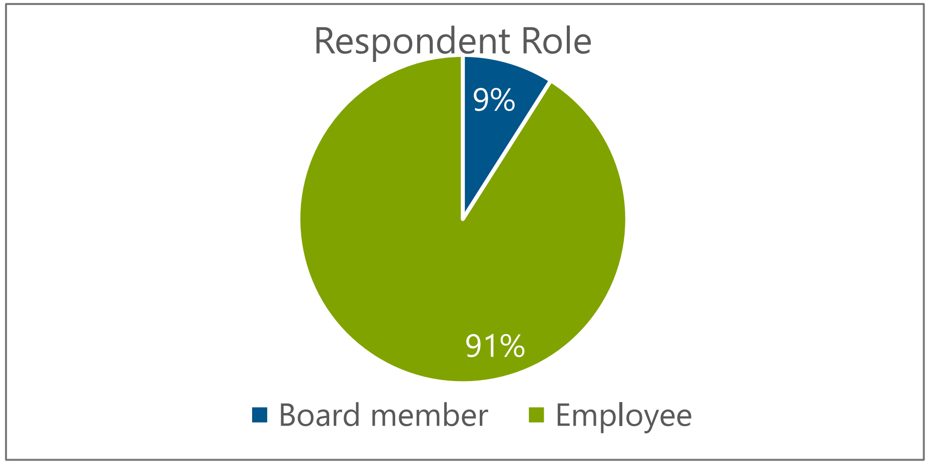
- Approximately 30% of respondents are already making or planning to make significant AI investments; when made, these typically include acquiring software licenses and hiring or developing AI talent/skills as shown in the chart to the right (some respondents make multiple types of investments)
  - To date, 43% of respondents have discussed the financial impact of these AI investments
- Less than 2% of respondents have already discussed the possibility of incorporating AI-related goals into executive compensation plans while approximately 10% expect to begin addressing this subject during upcoming meetings
  - Among respondents that have already begun to address this topic, opinions are evenly split between including AI goals within STI plans vs. both STI and LTI plans and whether to measure at the corporate vs. individual level



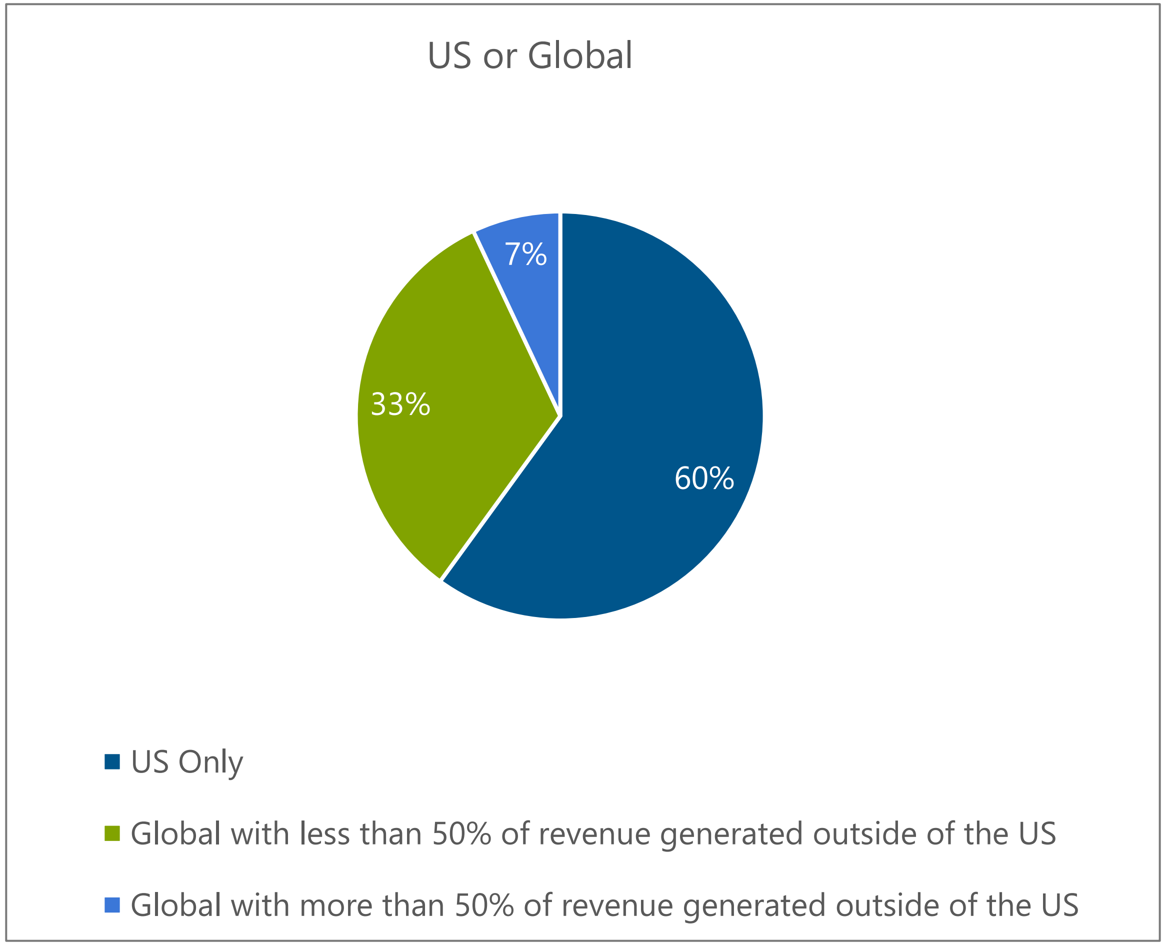
Demographics

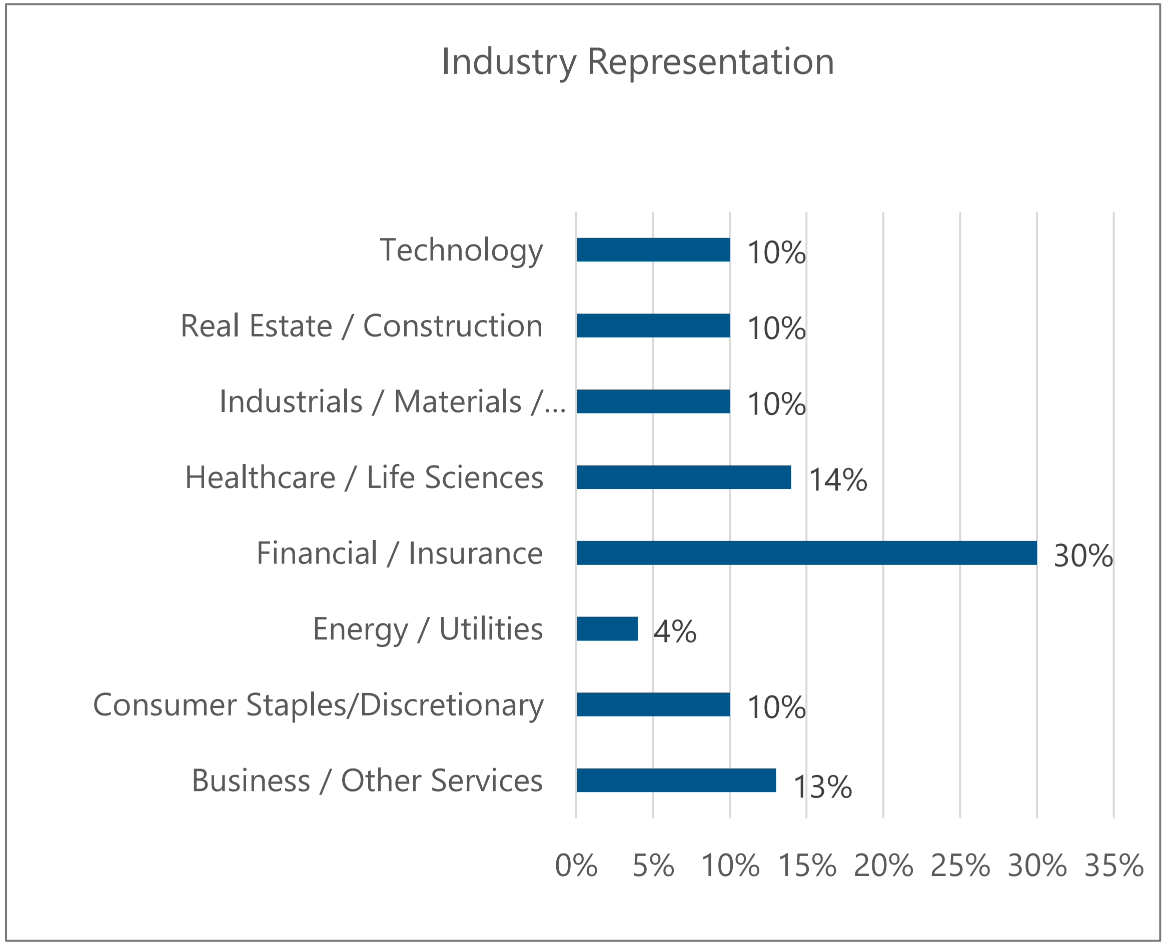






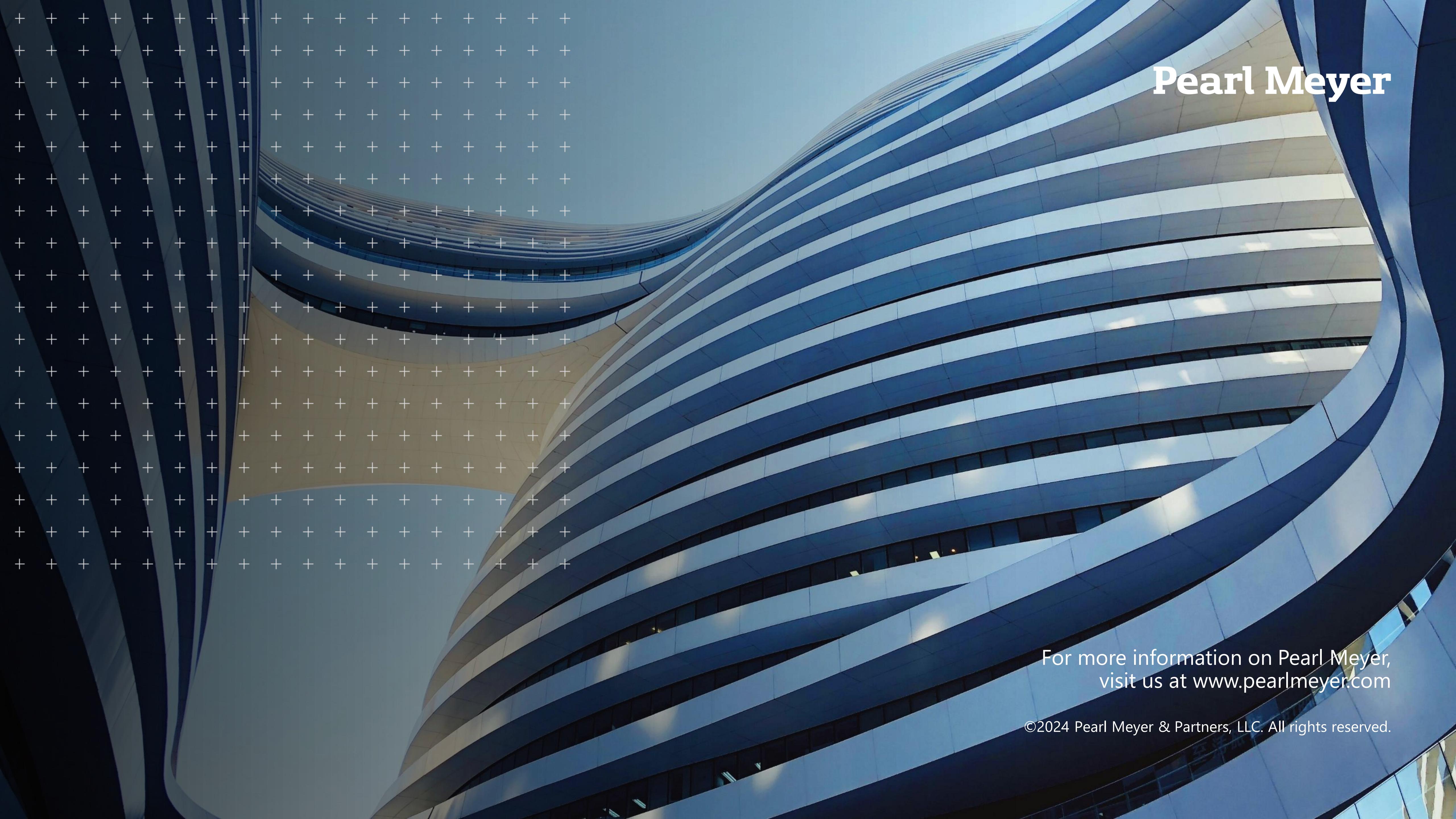
Demographics (cont.)





About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.



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