

# IMPACT OF COVID-19 ON EXECUTIVE AND DIRECTOR COMPENSATION

RUSSELL 3000

## VOL. 5

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# SUMMARY OF FINDINGS

PAY ACTION ANNOUNCEMENTS

5/18/20

**RUSSELL 3000**  
576 COMPANIES

As things stand in the middle of May, the U.S. is closing in on nearly 40 million Americans filing for unemployment insurance since the domestic spread of the COVID-19 pandemic. These figures display the sweeping actions many businesses are taking to preserve liquidity and remain afloat, including, for many, laying off, furloughing, or reducing the pay of employees. As part of these efforts and in a show of solidarity, many boards and leadership teams of affected companies have reduced their own compensation, usually through cuts to base salaries and cash compensation.

Since early March, Semler Brossy has been tracking Russell 3000 executive and director pay actions announced in response to the COVID-19 pandemic. Through May 16<sup>th</sup>, we've identified 576 such companies, representing 19% of the Russell 3000 and 25% of the S&P 500. Further, this dataset generally only includes explicit pay action announcements contained in an SEC filing, and thus likely understates the true number of companies taking action on executive and director pay.

## STAY UPDATED ON COVID-19

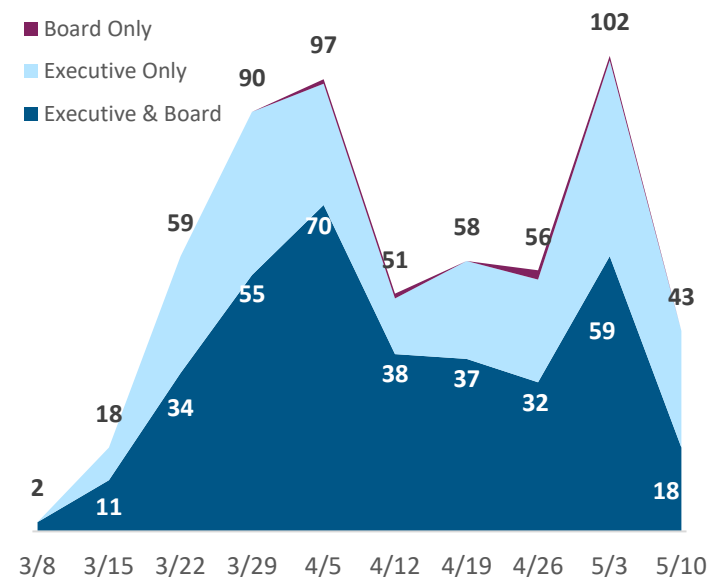
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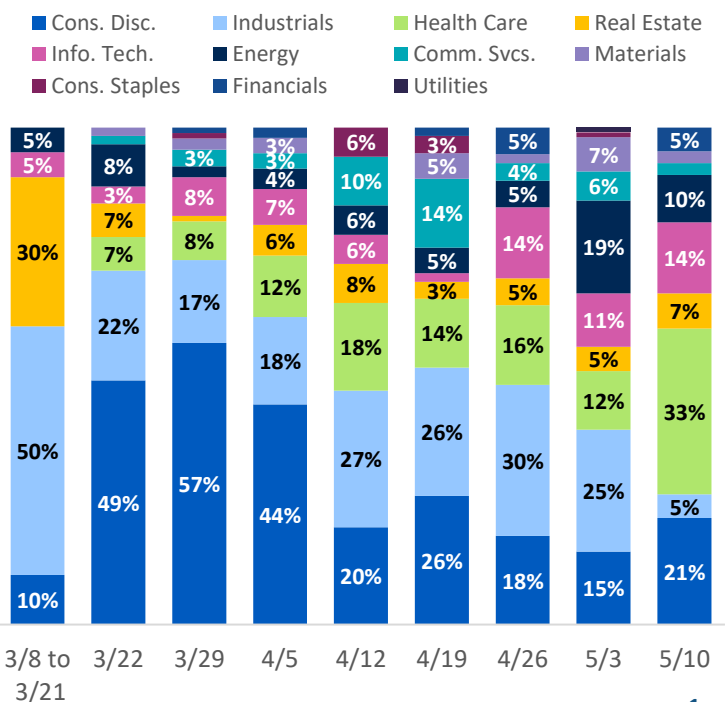
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## TIMING OF PAY ACTION ANNOUNCEMENTS

Announcements spiked through early April, as the first "wave" of hardest-hit companies reacted to immediate business impacts, and slowed through the end of April. We saw a second spike the first week of May, as companies – likely retroactively – disclosed sweeping pay actions taken to control costs in their first quarter 10-Q filings and earnings releases.



Consumer Discretionary companies comprised a large portion of announcements from late March through early April, but declined heading into May, as the proportion of Industrials and Energy companies rose. In the latest week, Health Care companies comprised one-third of the total new announcements as providers of tools and services and small biotechnology firms joined the growing list.

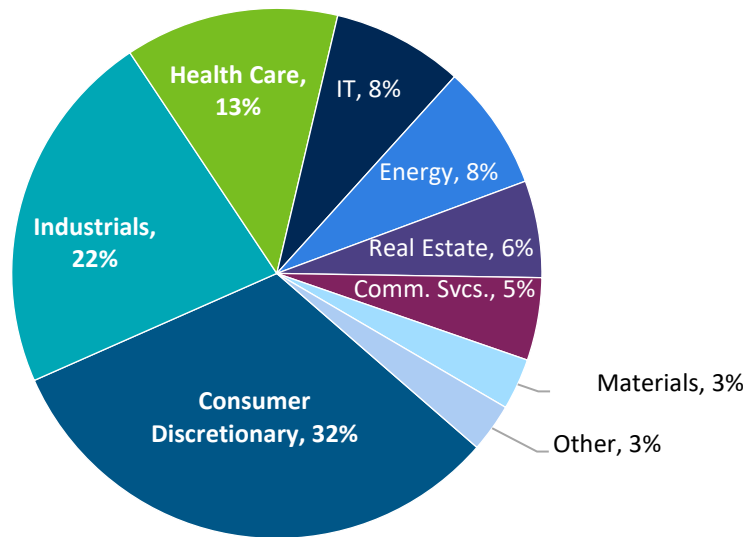


The fifth-largest sector in the Russell 3000, Consumer Discretionary companies continue to comprise the largest portion of the sample. However, the weighting of Consumer Discretionary companies has fallen from comprising half the total sample in mid-April to just under one-third as of mid-May, while Industrials and Health Care companies continue to be the next two most highly represented sectors.

There remain three sectors with little representation within the sample, including Financials, the largest sector within the Russell 3000 by count. An electric utilities provider became the first Utilities company included in the sample when it announced cuts to executive and director compensation in early May.

- Consumer Staples
- Financials
- Utilities

**SECTOR BREAKDOWN OF SAMPLE**

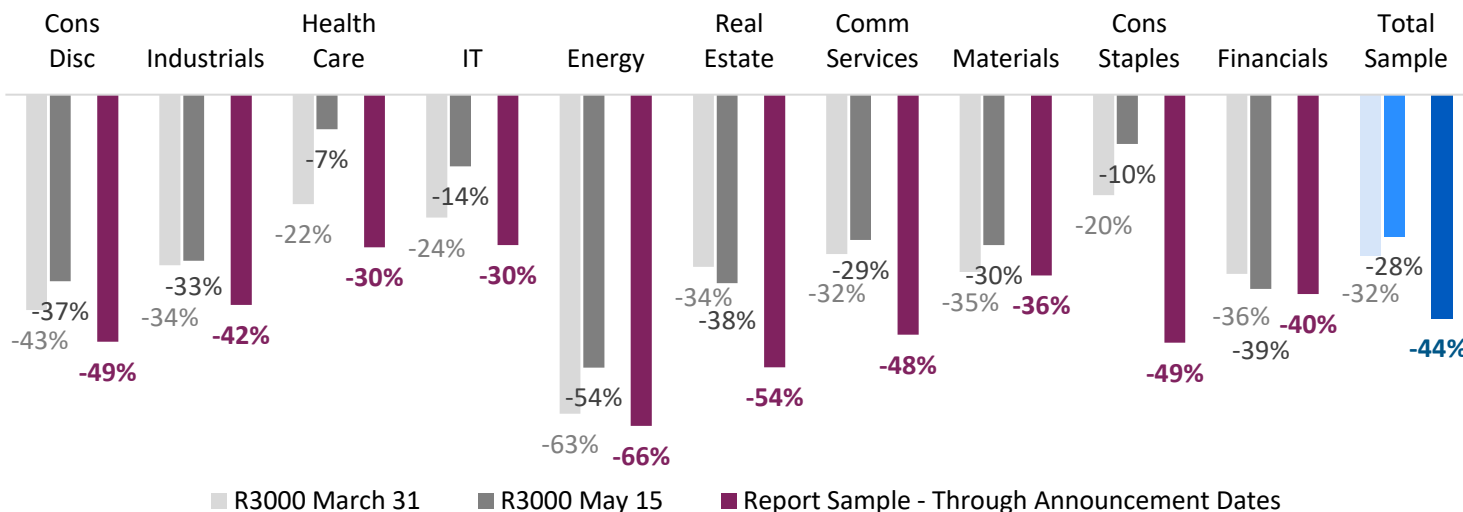


Companies enacting leadership pay changes have experienced larger reductions in market value than the broader index, both by sector (to varying degrees) and in total. As of the dates these companies announced pay actions, they had experienced a median market cap decline of 44% (total sample) from their average trading prices during January 2020, as compared to a median decline of 28% through the middle of May for the broader Russell 3000.

All sectors in the Russell 3000 except for Real Estate and Financials showed some market recoveries between the end of March and the middle of May, with some sectors like Consumer Staples, Health Care, and Information Technology showing larger “rebounds” as the underlying businesses experience fewer severe effects. For these “less impacted” sectors, Companies announcing pay cuts in these sectors generally had far larger median market cap declines than the sector generally, indicating that their businesses have been more severely impacted.

The companies in the sample also tend to have higher median revenue than that of the Russell 3000 as a whole. Many of the index’s smallest constituents are in the Health Care and Financials sectors, which are under-represented in the sample.

**REPORT SAMPLE MARKET CAP DECLINES COMPARED TO RUSSELL 3000**

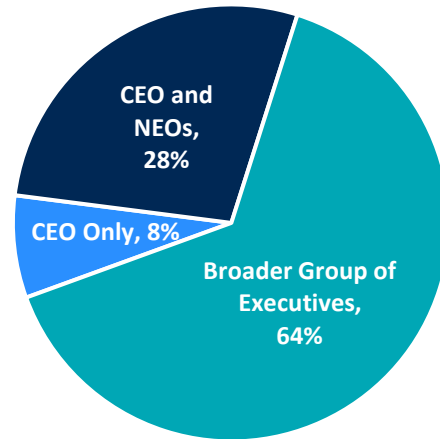


Through May 16<sup>th</sup>, 92% of companies enacting executive pay changes have extended the impact beyond the CEO. A little more than one-quarter of companies are enacting pay changes for only CEOs and other Named Executive Officers (NEOs), but most companies have extended reductions beyond the top five to a broader group of executives for a greater cost impact.

Pay actions continue to center on salary reductions rather than annual and long-term incentive compensation opportunities, due in part to ongoing uncertainty around incentive payouts as well as an aim to conserve cash and reduce immediate operating expenses.

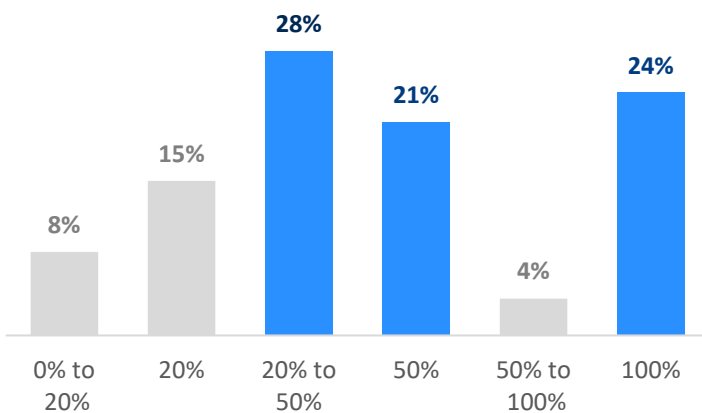
Excluding companies who have not disclosed the magnitude of their pay reductions, salary reductions for CEOs are typically 20% or greater and roughly half of companies have cut their CEO's salary by 50% or more. The median CEO salary reduction for the entire sample is 40%. For other NEOs and executives, most salary reductions are less than 50% and half or more are 20% or less. The median salary reduction for NEOs is 22%.

### IMPACTED EXECUTIVES

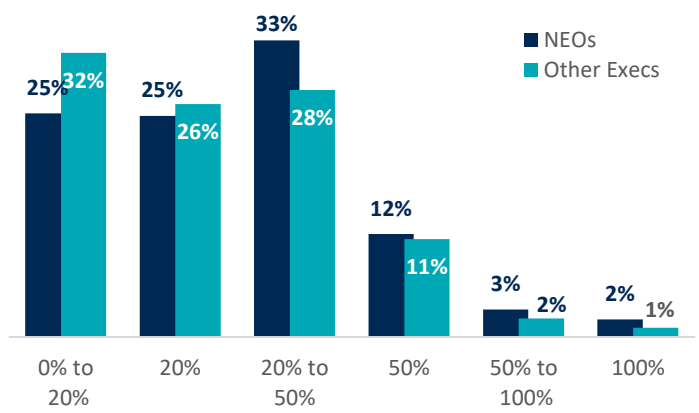


Median CEO salary cuts are highest for Consumer Discretionary, Communication Services, and Real Estate companies, for which median NEO cuts are roughly half those of the CEO. For all other sectors, median CEO salary cuts range from 20% to 33% and cuts for other NEOs are closer to those of the CEO.

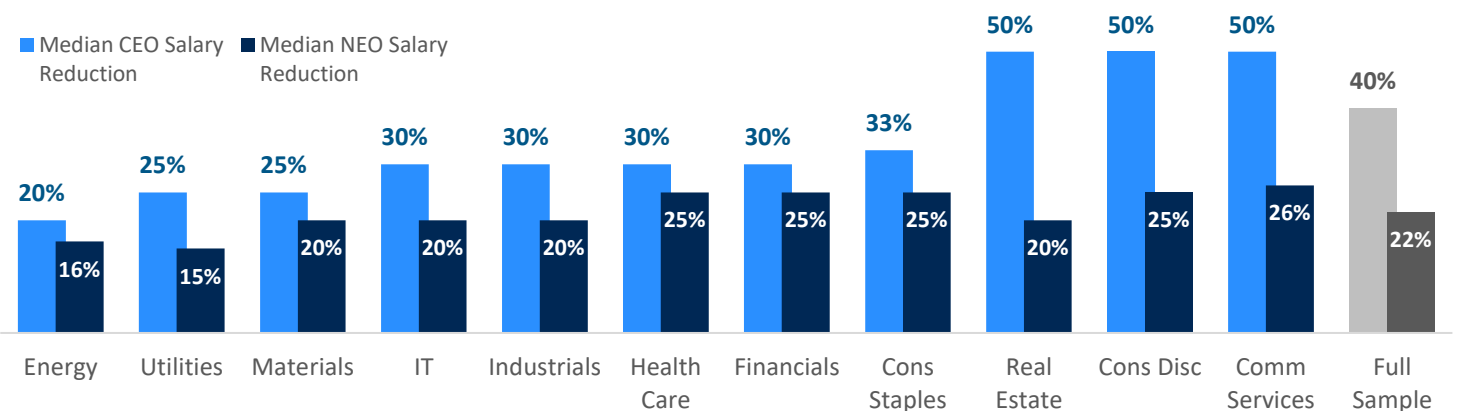
### MAGNITUDE OF CEO BASE SALARY REDUCTIONS



### MAGNITUDE OF NEO AND OTHER EXECUTIVE BASE SALARY REDUCTIONS



### CEO AND OTHER NEO BASE SALARY REDUCTIONS BY SECTOR



Of companies disclosing that they have taken leadership pay actions, a significant minority have not provided full details around the reduction’s magnitude or impacted population. This trend has become particularly pronounced in recent weeks, as companies reference non-specific pay reductions in first quarter 10-Qs and earnings releases as part of a broader list of COVID-19 cost-cutting initiatives. Twenty-one percent of companies disclosing pay actions that impact the CEO do so without specifying magnitude; a full 41% of announcements indicating actions impacting a broader executive population do not do so. These companies are generally excluded from statistics on pay cut magnitudes throughout the report.

A small portion of the sample (35 companies) have disclosed only pay actions other than salary cuts, such as a deferral in the payment of base salary, suspension of incentive plans or payouts, or a conversion of cash compensation into company stock. Deferrals of base salary tend to range from 20% to 50% whereas portions of salary paid in stock skews higher: for CEOs most examples are 50% or 100% of salary. These “other pay actions” have diversified in recent weeks, as a few companies announce suspensions of FY19 bonus payouts or FY20 bonus plans and other adjustments to incentive compensation, and one company even announced a two-week unpaid furlough for several senior executives.

### CEO PAY ACTION DISCLOSURES

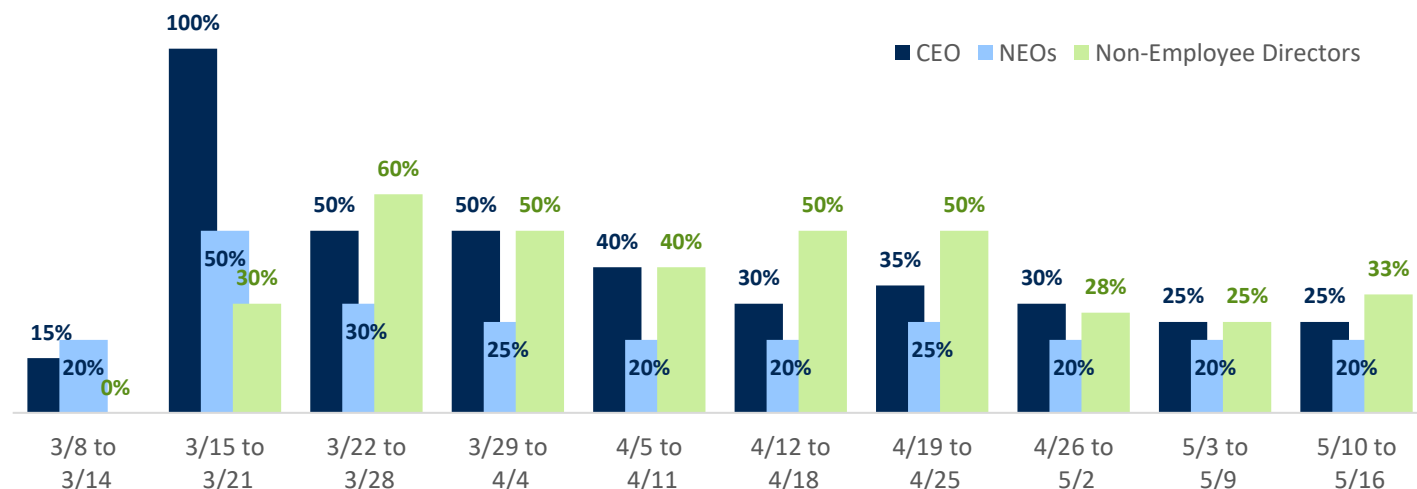


### OTHER EXECUTIVE PAY ACTION DISCLOSURES



Disclosed pay cut magnitudes are trending down over time. Early disclosures were fewer in number and made by the most immediately-impacted companies, for which leadership pay cuts tended to be larger in a bid to preserve cash. At least half of CEO salary cuts announced in March were greater than 50%, whereas recent cuts have tended towards the 20-30% range, only slightly higher than cuts announced for other NEOs. Cuts for non-employee directors have followed a similar – though less distinct – trend, peaking in March and settling to about half of these early levels throughout May to date.

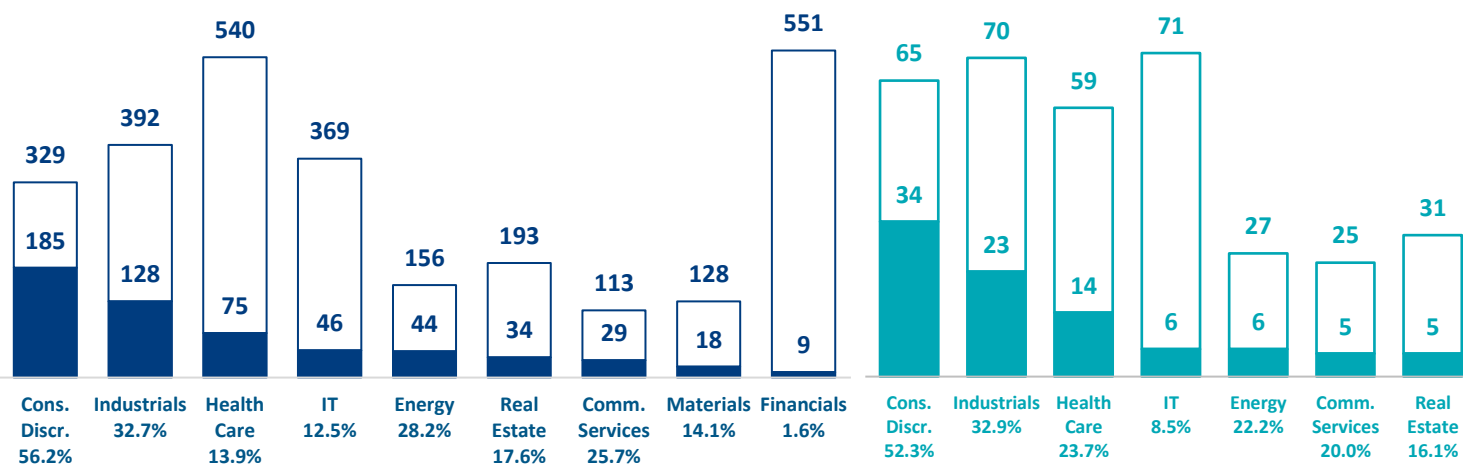
### MEDIAN CEO, NEO, AND BOARD PAY REDUCTIONS BY WEEK



As one of the sectors with the largest declines in market cap, 56% of Consumer Discretionary companies in the Russell 3000 have announced pay actions to date. On the other end of the spectrum, the Utilities and Consumer Staples sectors experienced the lowest median market cap reductions and are underrepresented among the sample. Financials, however, stands out as a sector with similar losses to other hard-hit sectors, but despite composing the largest portion of the Russell 3000 it's one of the least represented sectors in the sample.

One-hundred of the S&P 500 companies have announced pay actions impacting executives and/or directors. S&P 500 sectors generally show similar prevalence rates of pay action announcements as the broader Russell 3000. For both S&P 500 and broader Russell 3000 companies, more than half of Consumer Discretionary companies and approximately one-third of Industrials companies have announced pay actions, with Health Care as the third most-represented sector and a higher representation of the S&P 500 Health Care companies.

### RUSSELL 3000 AND S&P 500 SECTOR REPRESENTATION



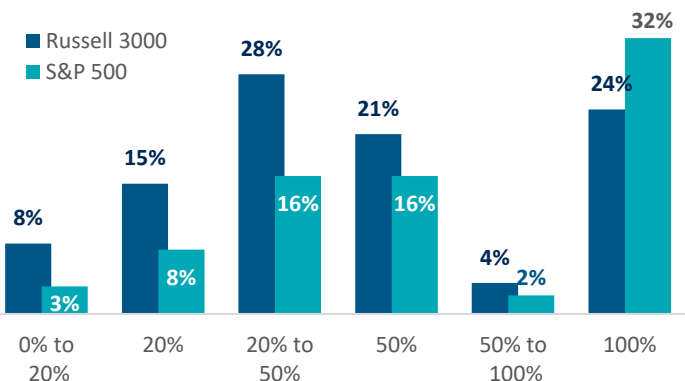
#### Russell 3000

#### S&P 500

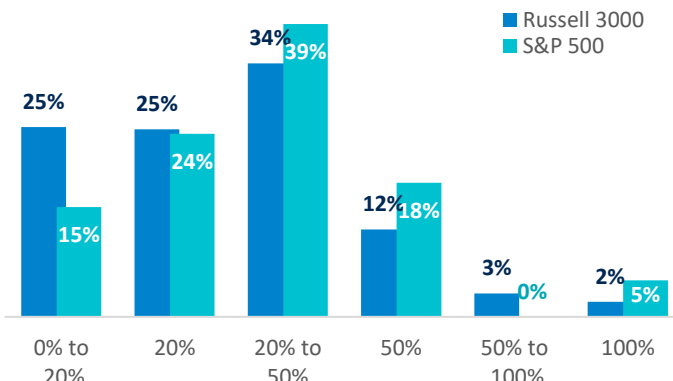
Excludes Russell 3000 sectors with fewer than eight announcements: Cons. Staples (7/ 6.4%), Utilities (1/ 1.4%) and S&P 500 sectors with fewer than five announcements: Materials (4/ 13.8%), Cons. Staples (2/ 6.1%), Financials (1/1.5%).

Pay cuts tend to be more severe at larger companies. S&P 500 CEOs have taken full salary reductions more frequently than CEOs in the full Russell 3000 and have been less likely to experience salary reductions less than 50%. S&P 500 other NEOs more frequently disclose cuts higher than 20%.

### S&P 500 - MAGNITUDE OF CEO BASE SALARY REDUCTIONS



### S&P 500 - MAGNITUDE OF OTHER NEO BASE SALARY REDUCTIONS

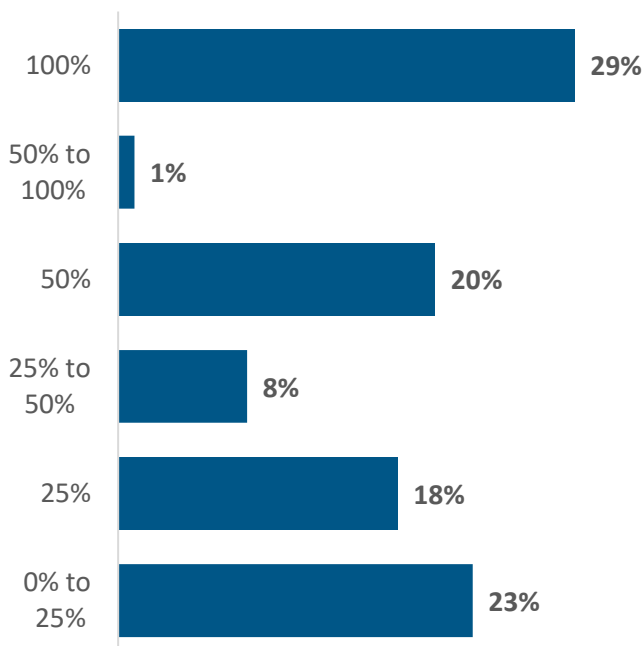


Most companies enacting executive pay changes are also changing pay for the board’s non-employee directors. While 576 companies are changing pay for executives, 360 companies are changing pay for directors, including five companies that are cutting director but not executive pay.

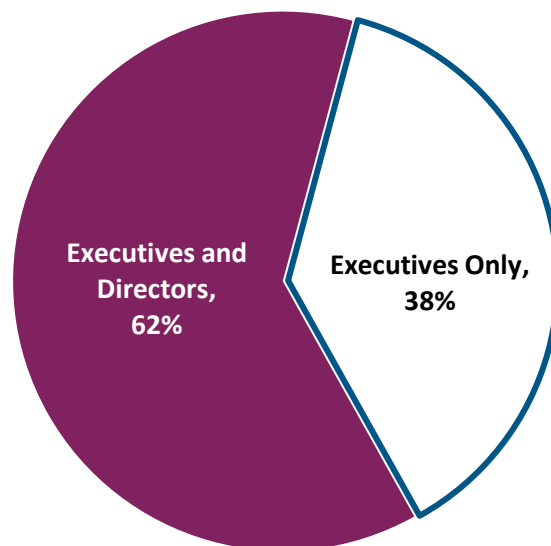
Though the most common director pay action by far – comprising nearly the entire sample – is a reduction of cash fees, eighteen companies have opted instead to delay the payment or change the form of compensation for directors (i.e., stock in lieu of cash).

As it does for executives, equity comprises a large portion of a board’s annual compensation. For a majority of calendar year-end companies, executive equity grants are made in the first quarter of the year. Grant timing for director equity awards, however, typically coincides with the annual shareholder meeting, generally in the second quarter. Very few companies have announced a change in the grant timing or form for their annual equity awards. However, boards may wish to discuss considerations around simply granting a target dollar value at the current share price. Other approaches could include granting the same number of shares as prior year, using the share price for executive equity grants to determine board shares, or delaying the grant date.

**MAGNITUDE OF DIRECTOR CASH PAY REDUCTIONS**

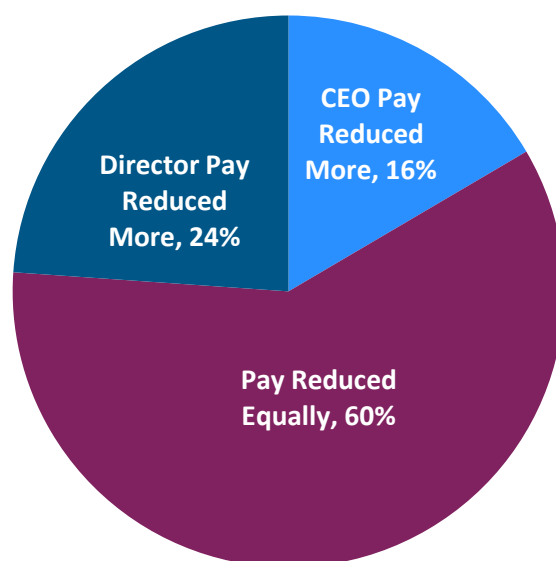


**PROPORTION OF COMPANIES ENACTING DIRECTOR PAY CHANGES**



In most cases, the magnitude of the pay cut for directors is aligned with the reduction in the CEO’s base salary. The most common action on board pay for companies disclosing details is a 100% reduction in cash fees, with ~50% of companies reducing cash compensation by 50% or more. Boards typically receive their fees on a quarterly basis and therefore cuts are naturally being applied to one or more quarterly payments.

**ALIGNMENT OF DIRECTOR AND CEO PAY REDUCTIONS PERCENTAGES**

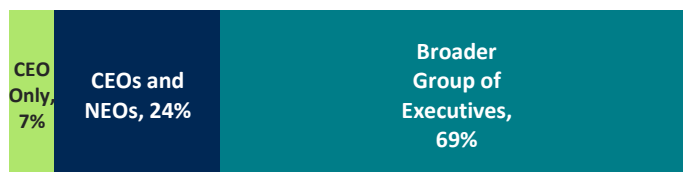


The Consumer Discretionary sector has the largest number of companies in the sample and includes some of the harder hit industries. The sector's median market cap decline through mid-May was -37%, less than the companies in the sample (-49%). Five industries within the sector have had more than half of companies take actions on executive pay: Specialty Retail; Hotels, Restaurants and Leisure; Textiles, Apparel and Luxury Goods; Auto Components; and Automobiles.

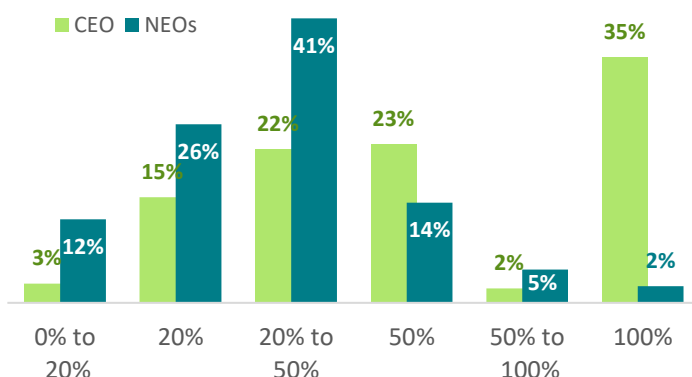
Within the sector, companies are more likely to reduce pay for a relatively broader group of leaders than the total sample, with a higher proportion of cuts extending below the NEO level and to non-employee directors. Cuts also tend to be deeper than the general sample, with more CEOs at a 100% reduction, and NEO cuts more frequently higher than the 20% mark.

The two industries in the sector with the most companies represented have median CEO pay cuts of at least 50%, with Hotels, Restaurants & Leisure companies and Specialty Retailers enacting cuts of 50% at median. The median CEO pay cut for the sector overall is 50%.

### CONSUMER DISCRETIONARY - IMPACTED EXECUTIVES



### CONSUMER DISCRETIONARY - MAGNITUDE OF CEO AND NEO BASE SALARY REDUCTIONS

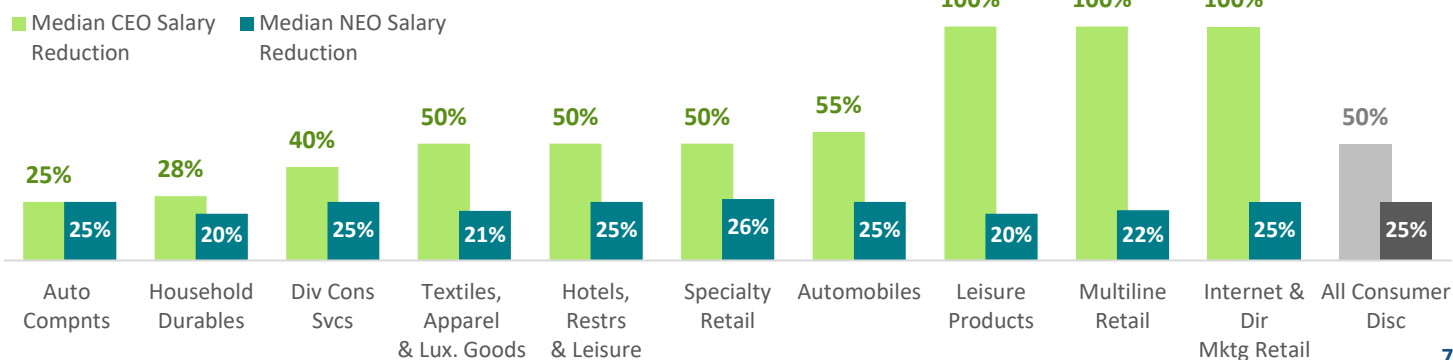


### CONSUMER DISCRETIONARY - SAMPLE COMPOSITION

Report Sample Compared to Russell 3000

Sector	Count	Percent of R3000	Median Market Cap Declines		
			Report Sample		R3000
			Jan - Announcement	Jan-Mar 31	Jan-May 15
<b>Consumer Discretionary</b>	<b>185</b>	<b>56%</b>	<b>-49%</b>	<b>-43%</b>	<b>-37%</b>
Specialty Retail	52	68%	-52%	-44%	-39%
Hotels, Restaurants and Leisure	49	64%	-56%	-53%	-45%
Textiles, Apparel and Luxury Goods	21	72%	-47%	-44%	-50%
Household Durables	18	42%	-43%	-40%	-32%
Auto Components	12	60%	-41%	-41%	-29%
Diversified Consumer Services	9	43%	-45%	-38%	-29%
Internet and Direct Marketing Retail	8	35%	-47%	-35%	-11%
Automobiles	5	83%	-43%	-44%	-22%
Leisure Products	4	25%	-34%	-34%	-21%
Multiline Retail	4	40%	-64%	-48%	-37%
Distributors	3	43%	NS	-28%	-25%
<b>Total Sample</b>	<b>576</b>	<b>20%</b>	<b>-44%</b>	<b>-32%</b>	<b>-28%</b>

### CONSUMER DISCRETIONARY - CEO AND NEO BASE SALARY REDUCTIONS





Industrials companies comprise another sector with some of the hardest hit industries in the Russell 3000 and one-third of them have announced pay actions.

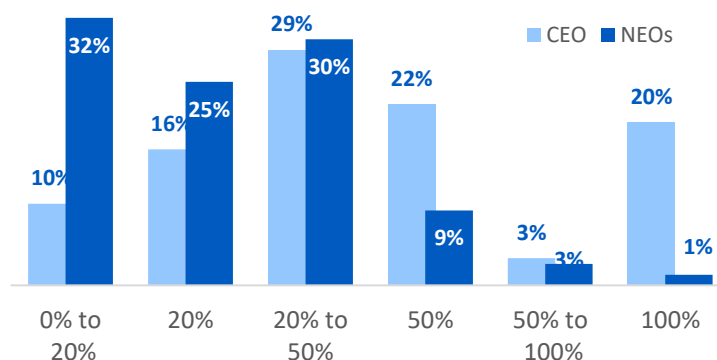
As with the rest of the sample, Industrials companies announcing pay actions tend to be harder hit than the sector overall, with a median market cap decline of -42%, as compared to -33% for the full sector through mid-May. As the hardest hit industry within the sector – with a median market cap decline of 61% for companies in the sector – three-quarters of Airlines companies have announced leadership pay actions to date.

Pay actions at Industrials companies tend to apply more narrowly to executives; these companies less frequently apply cuts to directors than within Consumer Discretionary sector or the full sample. Cuts also tend to be less severe than the general sample, with both CEO and NEO cuts clustering more towards the lower end of the reduction spectrum. The median CEO salary cut for the sector (30%) is less than the total sample.

### INDUSTRIALS - IMPACTED EXECUTIVES



### INDUSTRIALS - MAGNITUDE OF CEO AND NEO BASE SALARY REDUCTIONS

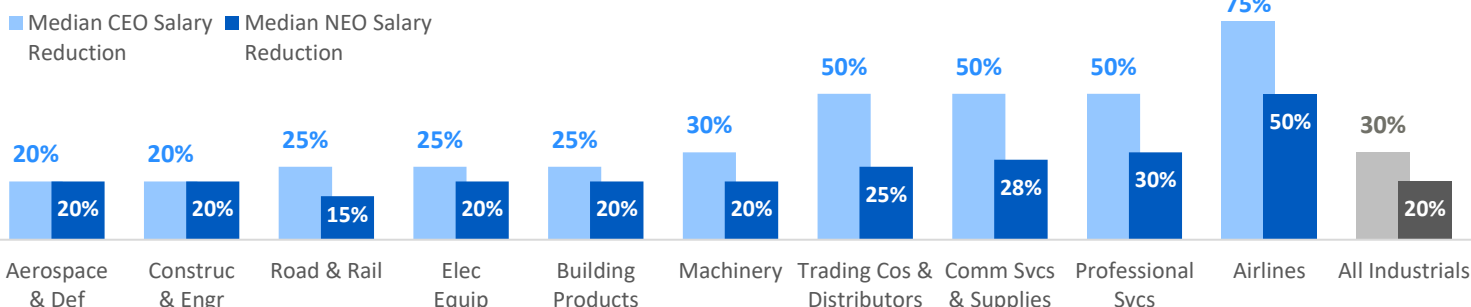


### INDUSTRIALS - SAMPLE COMPOSITION

Report Sample Compared to Russell 3000

Sector	Count	Percent of R3000	Median Market Cap Declines		
			Report Sample		R3000
			Jan - Announcement	Jan-Mar 31	Jan-May 15
<b>Industrials</b>	<b>128</b>	<b>33%</b>	<b>-42%</b>	<b>-34%</b>	<b>-33%</b>
Machinery	33	34%	-36%	-33%	-32%
Commercial Services and Supplies	18	37%	-45%	-35%	-39%
Trading Companies and Distributors	14	40%	-42%	-42%	-38%
Airlines	9	75%	-49%	-55%	-61%
Professional Services	9	26%	-37%	-35%	-33%
Electrical Equipment	9	33%	-28%	-33%	-23%
Building Products	9	30%	-46%	-36%	-28%
Road and Rail	8	30%	-40%	-24%	-20%
Aerospace and Defense	8	25%	-61%	-31%	-32%
Construction and Engineering	5	20%	-41%	-31%	-35%
Air Freight and Logistics	3	27%	NS	-21%	-22%
Industrial Conglomerates	2	33%	NS	-25%	-32%
Marine	1	14%	NS	-51%	-51%
Transportation Infrastructure	0	0%	NS	-45%	-38%
<b>Total Sample</b>	<b>576</b>	<b>20%</b>	<b>-44%</b>	<b>-32%</b>	<b>-28%</b>

### INDUSTRIALS - CEO AND NEO BASE SALARY REDUCTIONS



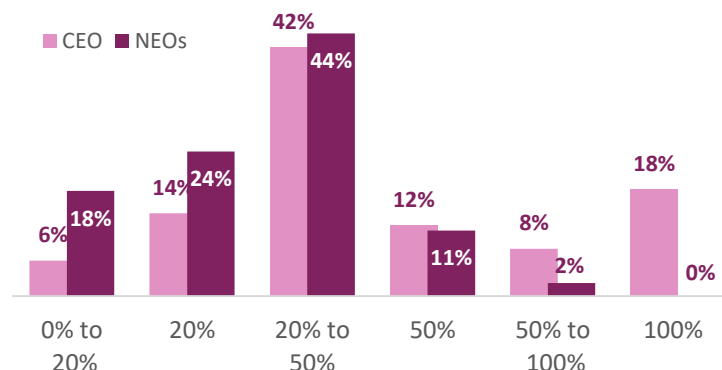
Although it has fared the best of all the sectors with respect to its median decline in market value, the Health Care sector has the third-most companies in the sample, with 14% of the sector announcing pay actions to date. Announcements in the sector show more stark differentiation among constituent industries than other sectors, with a heavy skew towards equipment and supplies and towards providers and services companies, which have seen longer-lasting market cap impacts than other industries as companies deal with reduced demand for healthcare supplies and services outside the scope of COVID-19 care. The sector's pharmaceuticals and biotech companies tend to be far smaller, with larger rebounds in market cap through mid-May, and show far lower prevalence of leadership pay actions.

Cuts extend beyond the CEO more frequently for Health Care companies than the general sample, applying more broadly for all except three companies. The magnitude of cuts for both the CEO and other NEOs skew more towards the mid-range (20% to 50%) than the broader sample.

### HEALTH CARE - IMPACTED EXECUTIVES



### HEALTH CARE - MAGNITUDE OF CEO AND NEO BASE SALARY REDUCTIONS

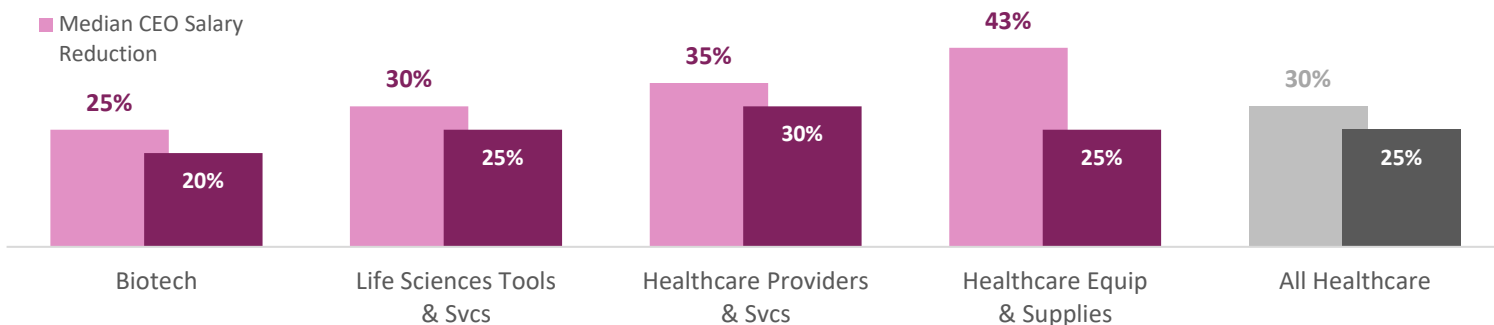


### HEALTH CARE - SAMPLE COMPOSITION

Report Sample Compared to Russell 3000

Sector	Count	Percent of R3000	Median Market Cap Declines		
			Report Sample	R3000	
			Jan - Announcement	Jan-Mar 31	Jan-May 15
Health Care	75	14%	-30%	-22%	-7%
Health Care Equipment and Supplies	40	40%	-29%	-22%	-13%
Health Care Providers and Services	17	27%	-38%	-26%	-17%
Biotechnology	9	4%	-36%	-20%	0%
Life Sciences Tools and Services	5	17%	-22%	-21%	-2%
Pharmaceuticals	2	3%	NS	-25%	-6%
Health Care Technology	2	9%	NS	-19%	-12%
<b>Total Sample</b>	<b>576</b>	<b>20%</b>	<b>-44%</b>	<b>-32%</b>	<b>-28%</b>

### HEALTH CARE - CEO AND NEO BASE SALARY REDUCTIONS





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