

# Incentive Design Changes in Response to Covid-19

*Russell 3000*

SEMLER BROSSY REPORT IN PARTNERSHIP WITH  
ESGAUGE AND THE CONFERENCE BOARD

AS OF DECEMBER 18, 2020

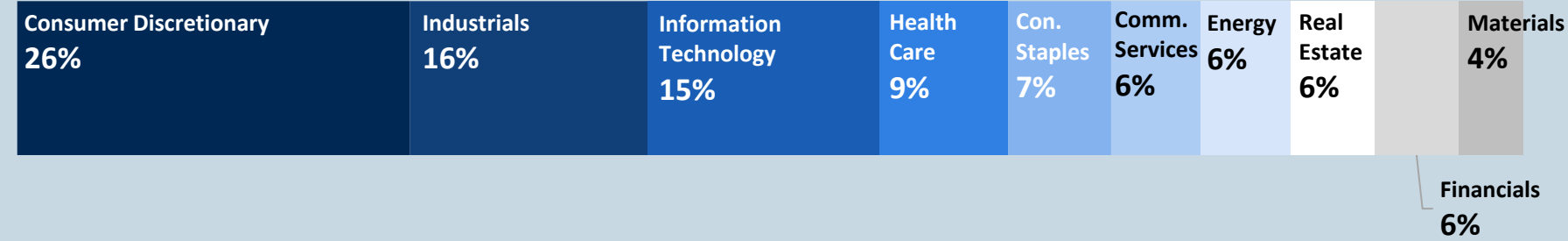
For live interactive data, visualizations, and additional company detail, visit:  
<https://conferenceboard.esgauge.org/covid-19/incentivechanges>

*NOTE: Semler Brossy Consulting Group does not provide tax, legal or accounting advice and does not provide regulatory guidance in the jurisdictions being considered. The Company should consult its respective experts in those fields on such matters, as appropriate.*

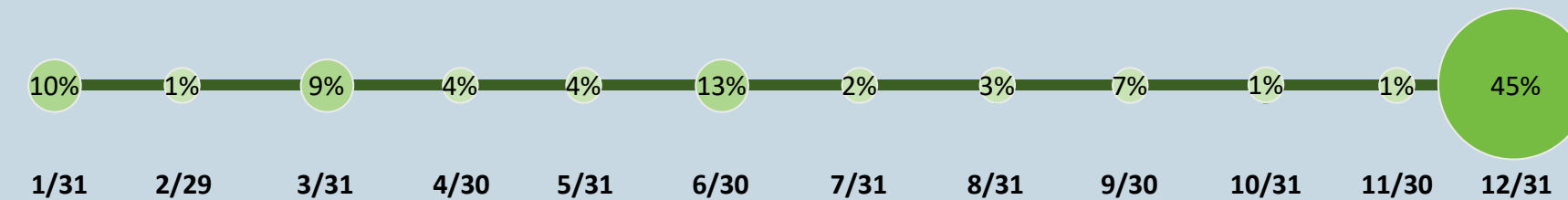
# Sample Overview

N = 234 RUSSELL 3000 COMPANIES

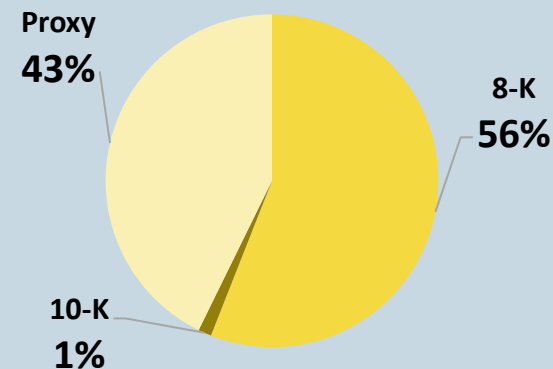
## SECTOR BREAKDOWN



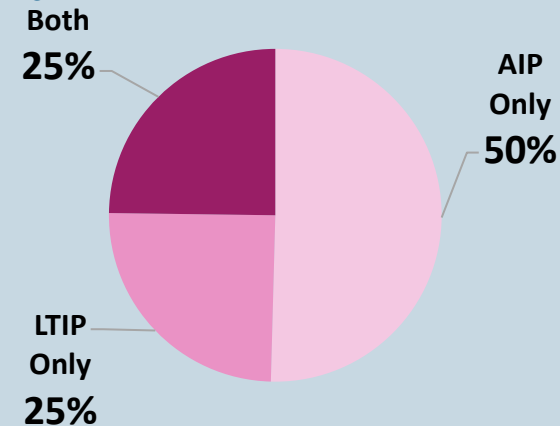
## FYE DATE BREAKDOWN



## FILING BREAKDOWN



## ACTIONS TAKEN



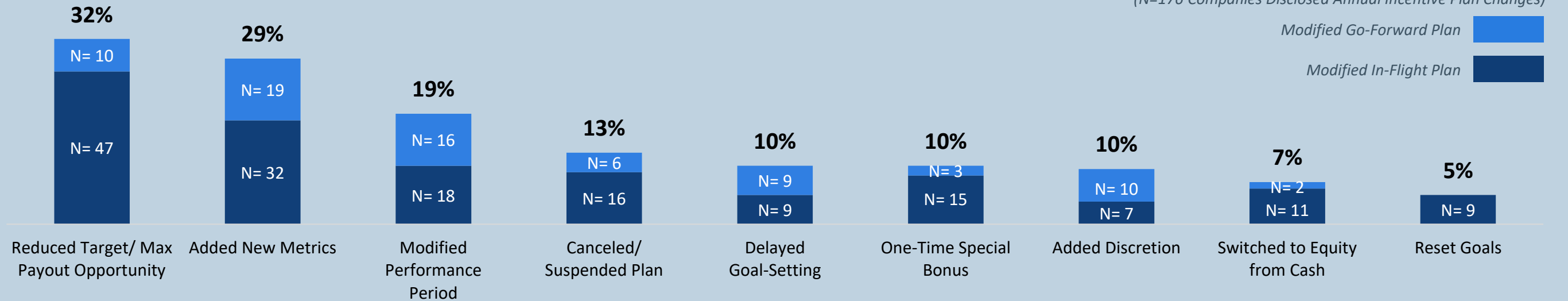
## Observations

- From March 1<sup>st</sup> to December 18<sup>th</sup>, 234 Russell 3000 companies announced structural changes to their in-flight and/ or go-forward incentive plans:
  - In-flight changes cover any structural changes to an ongoing plan, and go-forward changes cover any forward-looking structural changes to a recently started or upcoming plan
  - All but four of the 234 companies explicitly disclosed that such changes were in response to economic distress caused by Covid-19
  - Consumer Discretionary (26%), Industrials (16%), and Information Technology (15%) companies make up slightly more than half the sample; Consumer Discretionary and Industrials representation in the sample is higher than the broader Russell 3000 index
  - Half of the sample announced changes to the annual incentive plan only, 25% announced changes to the long-term incentive plan only, and 25% announced changes to both plans
- 43% of companies in the sample previously announced temporary reductions to executive base salaries as an immediate response to Covid-19
- An additional 48 Russell 3000 companies disclosed only payout suspension, adjustments, or deferrals for a recently completed plan; these companies are excluded from the analysis of structural changes

# Annual Incentive Plan Changes

COVERS IN-FLIGHT AND GO-FORWARD PLANS

(N=176 Companies Disclosed Annual Incentive Plan Changes)



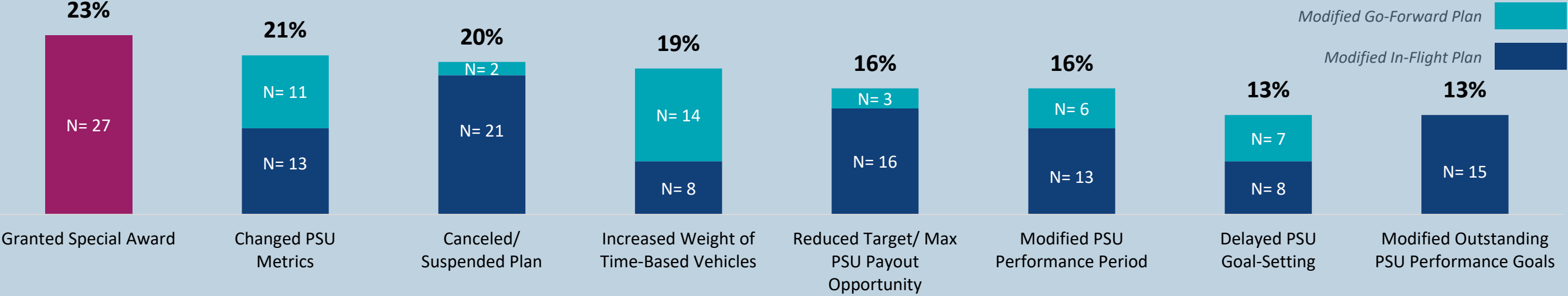
## Observations (N=176; N=119 companies disclosed in-flight changes only, N=51 disclosed go-forward changes only, N=6 disclosed both)

- The most common structural annual incentive plan change has been to reduce the target and/ or max payout opportunity (32%, n=57); this change has commonly been applied in concert with changes to re-calibrate the annual incentive plan with revised performance projections and operational priorities (e.g., add new metrics and reset goals)
- The second most common change has been to add new metrics (29%, n=51); commonly added metrics are focused on operating income, liquidity, or strategic measures in the context of the pandemic and several companies disclosed that such changes may be temporary as they will re-evaluate the metrics for the following fiscal year at a later time
- 34 companies modified the annual incentive plan performance period, typically to measure partial year performance or separate the year into halves
- 22 companies canceled or suspended the annual incentive plan entirely, and 13 companies switched to paying the annual incentive plan in equity instead of cash
- 18 companies delayed goal-setting to later in the fiscal year; although we recognize this practice may be more prevalent among companies that have not disclosed such actions
- 17 companies proactively added Committee discretion to determine payouts (although, this approach may be more prevalent in practice given the qualitative measurement of certain additional metrics); 67 companies have already disclosed the application of Committee discretion to adjust, suspend, or defer the payout for the recently completed annual incentive plan: of those of 67 companies, 54 only disclosed the payout modification, and the other 13 companies also disclosed additional structural AIP changes

# Long-Term Incentive Plan Changes

COVERS IN-FLIGHT AND GO-FORWARD PLANS

(N=116 Companies Disclosed Long-Term Incentive Plan Changes)



**Observations** (N=116; N=79 companies disclosed in-flight changes only; N=32 disclosed go-forward changes only, N=5 disclosed both)

- 27 companies granted special awards to one or more NEOs (awards have typically been equivalent to less than one-year annual grant value and were granted with varying rationale), and 23 companies elected to cancel outstanding LTI grants and/or suspend granting new awards; five companies from these groups applied both actions together
- 24 companies switched PSU metrics, typically to metrics that are (i) more focused on operational health (e.g., cost reduction); (ii) more easily forecasted; and/or (iii) relative metrics
- 22 companies adjusted the long-term incentive vehicle mix to a higher weighting of time-based vehicles (i.e., RSUs or stock options); half of these companies switched to 100% time-vesting RSU and/or stock option awards
- 19 companies reduced the PSU target and/or max payout opportunity, and 19 companies modified the PSU performance period; four companies from these groups applied both actions together
- 15 companies delayed goal-setting for PSUs and 15 companies disclosed modifications to in-flight PSU awards' performance goals
- Additionally, seven companies applied discretion to adjust the PSU/Cash LTIP payout for the performance period that just ended (not shown or included in this sample)

# Case Studies

WE HIGHLIGHT NINE COMPANIES WITH MORE EXTENSIVE ACTIONS — PAGE 1 OF 3

COMPANY **Coty**

FILING **9/24/20**

FYE DATE **6/30**

INDUSTRY **Consumer Discretionary**

## Annual Incentive Plan

- Suspended the Annual Incentive Plan for the fiscal year started in July 2020
  - The Annual Incentive Plan historically measured key financial metrics including Gross Margin, Adjusted Operating Income, and Free Cash Flow

## Long-Term Incentive Plan

- Granted only RSUs (with the option to receive as a restricted cash award) for the fiscal year started in July 2020
  - Awards granted to the NEOs reflect a 20% reduction from previous fiscal year levels
  - Vesting will occur over three years rather than five years
- Coty has historically granted primarily time-vesting equity in the past

COMPANY **Sterling Bancorp**

FILING **9/23/20**

FYE DATE **12/31**

INDUSTRY **Financials**

## Annual Incentive Plan

- Established an alternative opportunity to earn the 2020 Annual Incentive Plan payout based on two additional metrics with a reduced maximum payout opportunity; participants will be able to earn the annual cash incentive payout based on either:
  - Original plan metrics: 50% EPS and 50% Return on Average Tangible Assets (ROATA) up to a 150% payout at max); or
  - Modified plan metrics: 50% Pre-Provision Net Revenue (PPNR) and 50% PPNR ROATA up to 100% payout at max

## Long-Term Incentive Plan

- Granted 25% of the long-term incentive award scheduled to be granted in Q1 2021 early in October 2020; award was granted in performance-vesting PSUs for Senior Executives and time-vesting RSUs for other recipients; the early grant is mean to retain and motivate

COMPANY **Dentsply Sirona**

FILING **9/9/20**

FYE DATE **12/31**

INDUSTRY **Health Care**

## Annual Incentive Plan

- Adopted a revised incentive plan to replace the 2020 Annual Incentive Plan; the revised plan:
  - Measures 2020 Q3 and Q4 performance
  - Established EBITDA as the single performance metric (with a minimum EBITDA requirement for funding) and added Committee discretion based on an evaluation of progress toward strategic objectives
  - The maximum potential payout was set at 125% of target (prorated 50% to a effective 62.5% of target maximum opportunity for the half-year period)
- The Annual Incentive Plan previously measured Internal Sales Growth (35%), Adjusted Income (35%), Adjusted Free Cash Flow (10%), and Strategic Objectives (20%)
  - Payout leverage was set at 50% of target for threshold achievement and 200% of target for max achievement

# Case Studies

WE HIGHLIGHT NINE COMPANIES WITH MORE EXTENSIVE ACTIONS — PAGE 2 OF 3

COMPANY **Henry Schein**

FILING **8/12/20**

FYE DATE **12/31**

INDUSTRY **Health Care**

## Annual Incentive Plan

- Suspended the FY20 Henry Schein Performance Incentive Plan (“PIP”) and canceled all corresponding PIP awards
- Adopted 2020 Recovery Performance Plan (“RPP”) designed to reward employees, including NEOs, for contributions to the company’s business recovery strategy
- Individual target bonus amounts for NEOs under the RPP are expected to be materially less than target amounts set under the PIP
- Established performance goals based on a performance period commencing July 1, 2020 and ending December 26, 2020, that include measurement of:
  - Company-wide profitability goals
  - Functional area/business unit-level operating income and expense management goals
  - Individual performance goals designed to drive toward and support business recovery efforts

COMPANY **Wynn Resorts**

FILING **8/20/20**

FYE DATE **12/31**

INDUSTRY **Consumer Discretionary**

## Annual Incentive Plan

- Established second-half 2020 goals focused on cash generation and preservation in US operations and market share in the Company’s Macau operations

## Long-Term Incentive Plan

- Intend to reset long-term performance targets for named executive officers as business conditions become clearer throughout the remainder of 2020 and early 2021

## Additional Actions

- Approved one-time grant of RSUs for approximately 240 top leaders, including NEOs, which will vest on the 1-year anniversary of the grant date; award value was ~33% of CEO’s and ~70% of CFO and GC’s annual equity grants
- At CEO’s request, canceled 140,000 PSUs previously granted to him based on performance metrics that are no longer relevant in light of Covid-19 to partially reduce equity dilution associated with Retention Award

COMPANY **Pinnacle Financial Partners**

FILING **8/17/20**

FYE DATE **12/31**

INDUSTRY **Financials**

## Annual Incentive Plan

- Established alternative performance measurement under the 2020 Annual Cash Incentive Plan based on an additional metric with a reduced payout opportunity:
  - The additional performance metric is tied to the Company’s pre-tax, pre-provision net revenue for the year ending December 31, 2020
- Participants will be able to earn a cash incentive payout based on the larger of:
  - Original plan metrics: 80% diluted EPS and 20% deposit volume and rate goals (100% and 125% payouts at target and maximum, respectively); or
  - Modified plan metrics: 15% pre-tax, pre-provision net revenue and 20% deposit volume and rate goals (35% and 50% payouts at target and maximum, respectively) and the remaining 65% of the opportunity is eliminated



# Case Studies

WE HIGHLIGHT NINE COMPANIES WITH MORE EXTENSIVE ACTIONS — PAGE 3 OF 3

COMPANY **Nike**

FILING **7/24/20**

FYE DATE **5/31**

INDUSTRY **Consumer Discretionary**

## Annual & Long-Term Incentive Plans

- Adjusted non-executive payouts based on annual incentive plan performance through 3 quarters and long-term cash performance through 11 quarters; the 2020 annual incentive and 2018-2020 Cash LTIP would have both paid 0% but were adjusted to pay out at 100% and 75% of target, respectively
- Granted discretionary cash bonuses to executives to approximate adjusted incentive payouts received by all other eligible employees (CEO's portion was \$6.8M)
- Adjusted their 2020-2022 Cash LTIP metrics to 100% relative TSR (from 50% Revenue and 50% EPS)

## Say on Pay Proposal

- Nike's Say on Pay proposal received 54% shareholder support
- ISS recommended that shareholders vote "Against" Nike's Say on Pay proposal and cited concerns about the company's discretionary bonuses to the NEOs

COMPANY **Capri Holdings**

FILING **7/22/20**

FYE DATE **3/31**

INDUSTRY **Consumer Discretionary**

## Annual Incentive Plan

- Suspended the upcoming fiscal 2021 annual incentive plan; the Committee will use discretion to determine whether any cash bonus payments outside the plan are appropriate or warranted based on actual performance for fiscal 2021
- The company approved the following changes for when the plan is reinstated post-fiscal 2021:
  - Measure the same financial metrics for the CEO and all NEOs and eliminate the individual performance metric
  - Widen the performance ranges by tying to the threshold, target, and max goals to the Company's operating budget
  - Use linear interpolation to determine payouts rather than paying out based on achievement of hurdles

## Long-Term Incentive Plan

- Fiscal 2021 equity awards were granted 100% in RSUs due to the difficulty in setting performance targets
- The CEO's fiscal 2021 grant was reduced by 20%

COMPANY **WEX**

FILING **6/29/20**

FYE DATE **12/31**

INDUSTRY **Information Technology**

## Annual Incentive Plan

- Introduced new metrics: 40% on CAPEX, 40% on Cost Containment, and 20% on Operating Income of Health business replaced Revenue and Operating Income metrics
- Shifted the performance period to the second half of 2020, ignoring first half performance
- Reduced maximum payout to 150% from 200%, and established positive Operating income as a threshold hurdle

## Long-Term Incentive Plan

- Changed metrics from 60% Net Income Earnings per Share and 40% Compensation Revenue to 100% relative TSR vs. the S&P 400 Index

## Additional Actions

- Made an additional "Business Continuity Grant" in the form of 75% performance-vesting PSUs based on relative TSR and 25% time-vesting RSUs to the NEOs and other select employees

**LOS ANGELES OFFICE**

11755 Wilshire Blvd. 10th Floor  
Los Angeles, CA 90025

**312.481.0180**

**Greg Arnold**, Managing Director

310.295.3646

[garnold@semlerbrossy.com](mailto:garnold@semlerbrossy.com)

**NEW YORK OFFICE**

350 Fifth Avenue, Suite 4700  
New York, NY 10118

**212.393.4000**

**Blair Jones**, Managing Director

212.388.9776

[bjones@semlerbrossy.com](mailto:bjones@semlerbrossy.com)

**Justin Beck**, Consultant

646.969.2316

[jbeck@semlerbrossy.com](mailto:jbeck@semlerbrossy.com)

**Felipe Rubio**, Senior Associate

646.969.2337

[frubio@semlerbrossy.com](mailto:frubio@semlerbrossy.com)

For more information, visit us at  
**SEMLERBROSSY.COM**

For additional considerations and up-to-date analysis of the impact of Covid-19 on executive compensation, see our other Covid-19 resources at <https://www.semalerbrossy.com/covid-19/>

For a live interactive database visualizations and company detail, visit the Conference Board website at <https://conferenceboard.esgauge.org/covid-19/incentivechanges>