



Post #3: Announced Retail Executive and Outside Director Pay Reductions

From Quinn Gooch and Grace Ko, Meridian Retail Industry Team Members

Since the onset of the COVID-19 pandemic in the U.S., Meridian has monitored the unprecedented actions taken by retailers to enhance financial flexibility and offset the substantial impact to operations associated with prolonged store closures. These actions have included eliminating non-essential capital expenditures, drawing down revolving lines of credit, suspending dividends and share buybacks, eliminating store opening/remodels, and significant cuts to other G&A expenses.

In order to preserve cash and manage costs, many retailers have taken actions that have impacted corporate, operations, and store employees, including layoffs, furloughs, and in some cases reductions in pay and benefits.

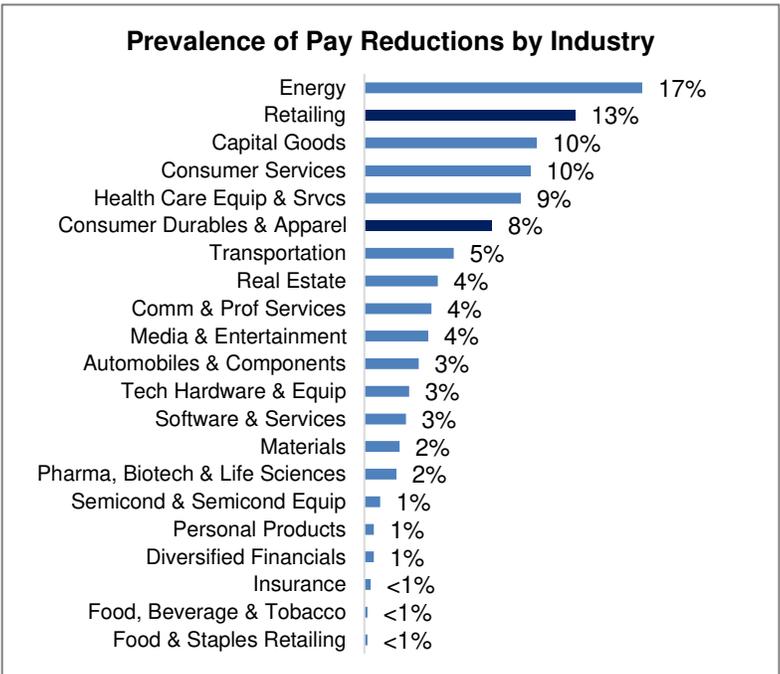
As a result of all of these actions, many retailers have taken the additional steps of reducing executives' base salaries and outside director cash compensation. As we highlighted in our last blog [post](#), these reductions are generally not the source of meaningful cuts to G&A, but rather a show of alignment with the sacrifices made by the broader workforce.

Meridian has tracked announced executive and outside director pay reductions at 106 retail and related organizations through April 30, 2020. Summarized below are our high-level observations.

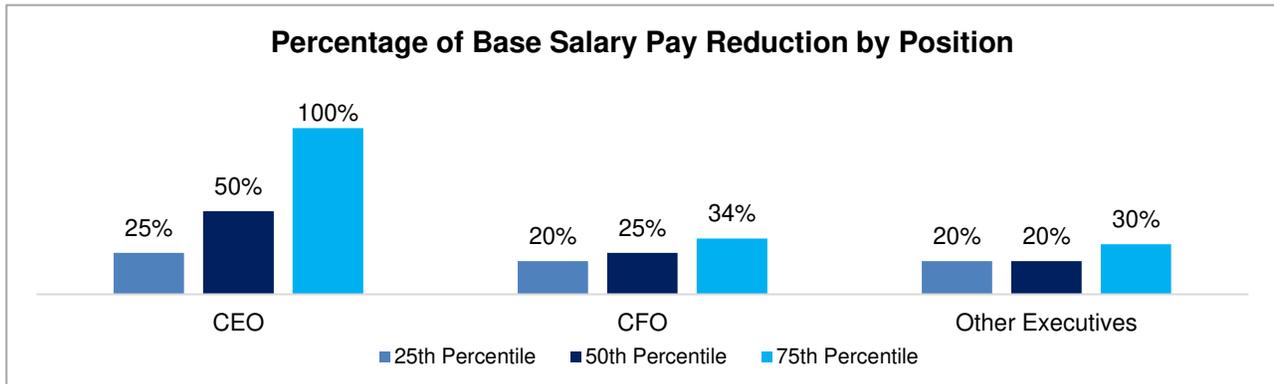
Executive Base Salary Reductions

To understand the impact of COVID-19 on pay among retailers, Meridian has been collecting pay decisions at over 500 public companies across 20 industries, representing approximately 13% of the Russell 3000.

- Retailing and Consumer Durables and Apparel industries account for a combined 21% of the announcements to date.
- Within these industries, pay reductions are most often observed in the following sub-industries:
 - Specialty Retail
 - Textiles, Apparel & Luxury
 - Household Durables



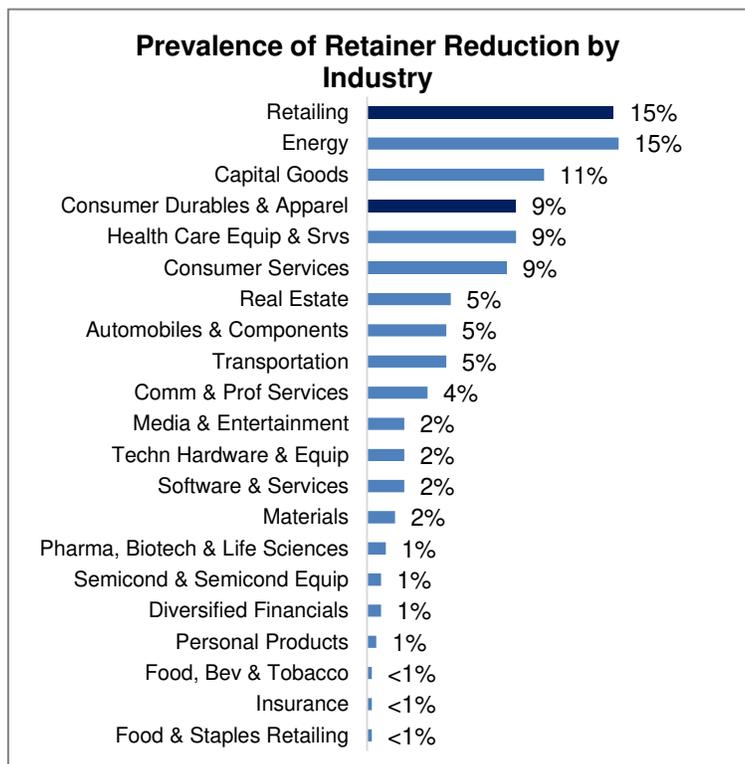
- For Retailing and Consumer Durables and Apparel industries, the median CEO base salary reduction is 50%.
- CFOs have generally taken a 25% base salary reduction while salaries for Other Executives have been reduced by 20%.
- A few companies have announced the deferral of some portion of executives' cash compensation in lieu of reductions.



- Due to the uncertainty surrounding the current situation, most retailers have not disclosed the duration of temporary pay reductions.
 - Those retailers that have disclosed a duration generally state that the reductions will be in effect until the duration of the crisis or until the end of the fiscal year.

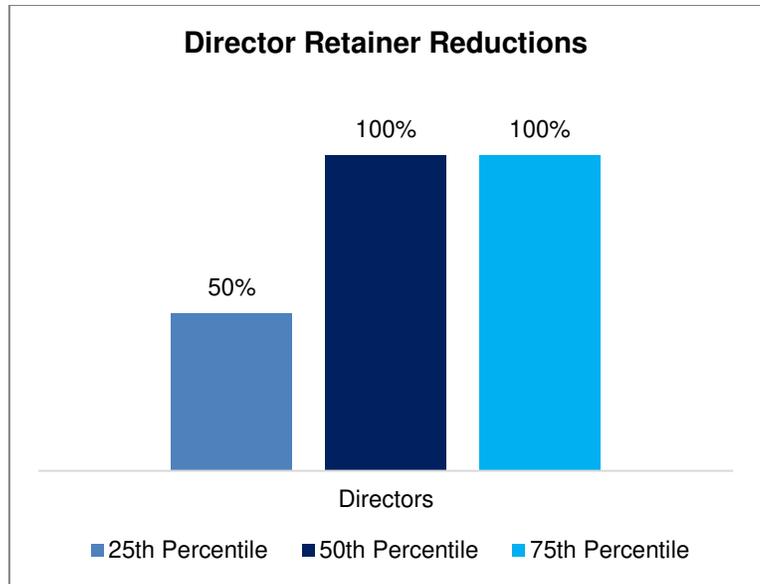
Outside Director Cash Compensation Reductions

- Similar to trends observed for executive salary reductions, a number of Retailing and Consumer Durables and Apparel companies have announced cash compensation reductions for outside directors.
- Retailing and Consumer Durables and Apparel industries account for a combined 24% of the announcements to date.
- Of those retailers that have announced executive pay reductions, 81% have also reduced outside director pay, allowing them to share in the sacrifices made by executives and the broader employee population.
- Nearly all of the outside director pay reductions have been focused on the annual cash retainer, with the median reduction being 50%.



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As stores start to reopen in coming weeks and months, we may see fewer announcements of pay cuts by retailers; however, the intense pressure on retailers to preserve cash and reduce costs is likely to be present for the foreseeable future.



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