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Meridian Client Update

Executive and Director Pay Reductions

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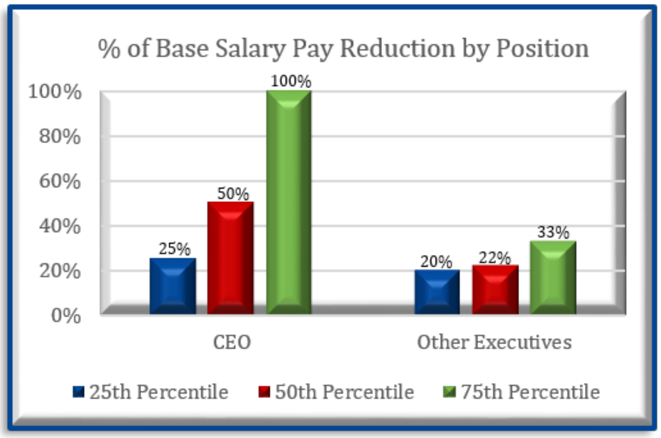
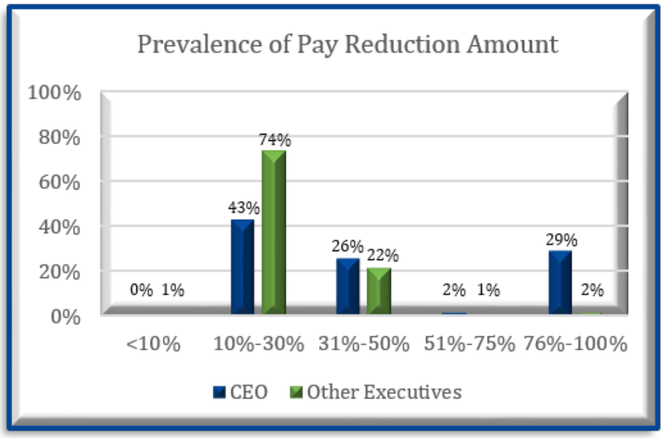
Over the last several weeks, as the global economy shut down, we have seen a steady stream of U.S. companies announcing store and facility closures, reduced hours for workers, layoffs and furloughs. In addition, in response to cash preservation needs, a desire to "share the pain" and to align with the shareholder experience, a number of companies have announced executive, and in many cases director, pay reductions. These reductions tend to be concentrated primarily in the hardest-hit industries, at least for now, and represent approximately 13% of the Russell 3000.

This is one in a series of Meridian market updates on the impact of COVID-19. You will find additional materials on developing COVID-19-related compensation trends and legislative developments affecting executive compensation on our website. (Visit www.meridiancp.com/insights for client alerts, blogs and other posts on a range of COVID-19 topics and developments.)

Executive Pay Reductions

As of May 1, 2020, 370 Russell 3000 companies have announced executive pay reductions, with a significant majority of those announcements being in the hardest-hit industries, such as in the retail, airline, energy, hospitality and other consumer services sectors. Some of the announced pay reductions have a specific end date (e.g., 90 days or remainder of 2020), but other pay reductions are less specific in duration and indicate that reductions will remain in place "until the end of the COVID-19 crisis." Not surprising, the magnitude of the pay reductions is greater for CEOs than for other executives, with the hardest-hit industries imposing the largest cuts on average.





Industry	# Reporting Values		Average Salary Reduction	
	CEO	Other Execs	CEO	Other Execs
Retailing	48	31	67%	32%
Consumer Services	37	27	60%	30%
Capital Goods	41	32	43%	22%
Health Care Equipment and Services	32	28	50%	30%
Energy	27	21	31%	28%
Consumer Durables and Apparel	30	21	57%	28%
Real Estate	21	11	54%	32%
Commercial and Professional Services	15	12	50%	28%
Transportation	14	8	63%	30%
Media and Entertainment	13	11	61%	28%
Automobiles and Components	8	7	47%	28%
Technology Hardware and Equipment	8	6	44%	19%
Software and Services	8	4	68%	25%
Materials	7	5	29%	19%
Pharmaceuticals, Biotechnology and Life Sciences	6	5	37%	20%
Semiconductors and Semiconductor Equipment	3	3	30%	25%
Household and Personal Products	2	2	38%	28%
Diversified Financials	2	2	28%	20%
Food, Beverage and Tobacco	1	1	15%	15%
Insurance	1	1	50%	50%
Food and Staples Retailing	1	1	30%	15%
Banks	0	0	N/A	N/A
Telecommunication Services	0	0	N/A	N/A
Utilities	0	0	N/A	N/A

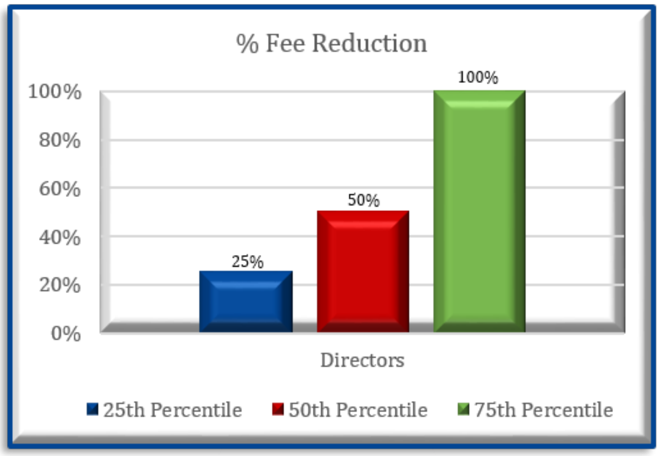
Companies considering salary reductions should take care to identify other areas that might be impacted and, if deemed appropriate, take action to preserve original or intended salary-based benefits or policy provisions. Potential areas impacted might include:

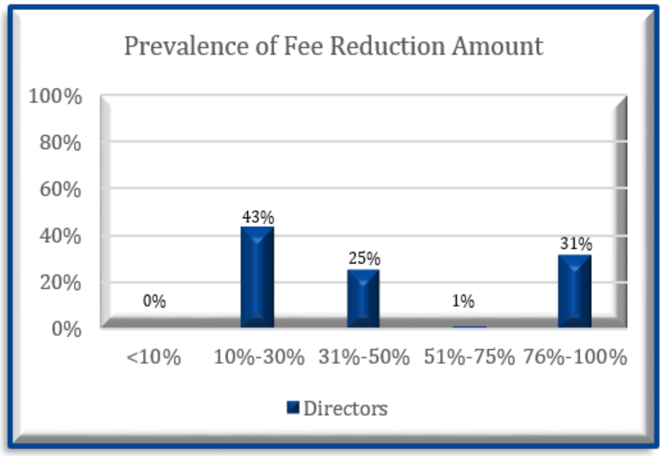
- Bonus and long-term incentive amount determinations;
- Retirement, health and welfare benefit and contribution levels;
- Insurance levels (life, disability, etc.);
- Severance/CIC multiples;
- Executive contractual issues and “Good Reason” triggers; and
- Stock ownership guidelines.

Companies should review with counsel any potential tax issues raised by adjusting benefit arrangements to reflect pre-reduction salary levels.

Director Pay Reductions

In addition, approximately 65% of companies reporting executive salary reductions have also reported director compensation reductions, generally through a temporary decrease in cash retainers, many times with the percentage aligned with the CEO's pay reduction:





Industry	# Reporting Values Directors	Average Fee Reduction Directors
Retailing	36	76%
Capital Goods	31	39%
Health Care Equipment and Services	25	51%
Consumer Services	25	64%
Consumer Durables and Apparel	24	69%
Real Estate	15	42%
Energy	13	26%
Commercial and Professional Services	11	45%
Transportation	9	59%
Automobiles and Components	9	34%
Media and Entertainment	6	52%
Materials	5	23%
Software and Services	5	57%
Technology Hardware and Equipment	5	20%
Pharmaceuticals, Biotechnology and Life Sciences	2	65%
Semiconductors and Semiconductor Equipment	2	20%
Household and Personal Products	2	63%
Diversified Financials	2	28%
Food, Beverage and Tobacco	1	25%
Insurance	1	50%
Food and Staples Retailing	1	100%
Banks	0	N/A
Telecommunication Services	0	N/A
Utilities	0	N/A

While only a few companies applied director pay reductions beyond cash into equity compensation, we expect to see a number of adjustments to director equity compensation over the coming weeks as many companies make their annual director equity awards. Where stock price has been significantly impacted, boards may directly or indirectly reduce the size of their equity grants by any number of means, such as:

- Reducing equity value by a specific percentage;
- Using the same (higher) stock price used to size executive equity grants earlier in the year to determine the number of shares to grant directors, resulting in a reduction in the reported value of director awards;
- Using an average stock price to determine the number of shares to grant directors, resulting in a reduction in the reported value; or
- Granting the same number of shares as granted last year, also likely resulting in a reduction in the reported value.

Looking Ahead

To date, the pay actions described here have generally been at companies that have had to take actions negatively impacting employees, such as reducing hours, furloughs and layoffs. Executives, and in many cases directors, are attempting to align themselves with the impact on their employees through their own pay reductions. Depending on the duration and severity of the economic impact of the pandemic, we may also see pay actions at companies that have been less impacted to date, to align with broader societal expectations. Finally, we expect that in early 2021 Compensation Committees will evaluate compensation holistically, taking into account any actions taken during 2020 as well as the ultimate impact on annual incentives and outstanding long-term awards.

Many companies find themselves in uncharted territory as they manage through the crisis, but we will continue to keep our clients informed on market trends and help them to use their pay programs effectively to weather the storm.

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The ***Client Update*** is prepared by Meridian Compensation Partners. Questions regarding this Client Update may be directed to Charles Grace at cgrace@meridiancp.com.