



## Compensation Trends and Developments Survey Results ■ April 2021



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## Executive Summary

**Meridian's 2021 Trends and Developments in Executive Compensation Survey provides an overview of the current environment and signals the direction in which companies are moving with respect to executive compensation pay practices.**

Meridian recently surveyed over **300** major companies and found the following key results:

### **Short-Term Incentives – COVID Environment**

- Most companies (73%) did not make mid-year changes to 2020 bonus plans
- Over one-third of companies (38%) increased use of discretion in determining 2020 bonus payouts
- Less than one-half (43%) of participants indicated bonus payouts for 2020 performance were above target

### **Short-Term Incentives – 2021 Design**

- Widening the goal range was the most common adjustment to 2021 short-term plan design (37%)
- One-half of participants set 2021 threshold goals for primary earnings-related measures higher than 2020 actual results, similar to prior year
- Most companies (57%) use multiple financial metrics in their annual plan; profit measures remain the most prevalent
- Increasing from 2020, just under 25% of companies included ESG metrics in 2021 design

### **Long-Term Incentives – COVID Environment**

- Performance awards vesting in 2020 most commonly (58%) paid out at or below target
- Majority of companies (91%) did not make adjustments to outstanding performance cycles
- Few companies (15%) granted off-cycle special awards in 2020 – most often to select individuals

### **Long-Term Incentives – 2021 Design**

- Most companies (64%) are preserving current long-term performance metrics and vehicles used
- Consistent with prior year, 65% of companies use multiple metrics in long-term plans
- The use of performance awards has slightly decreased from the prior year (88% vs 95%)
- TSR remained the most prevalent long-term performance measure (consistent with 2020)
- Only 2% of companies included an ESG metric in their 2021 long-term plan design

## Surveyed Participants

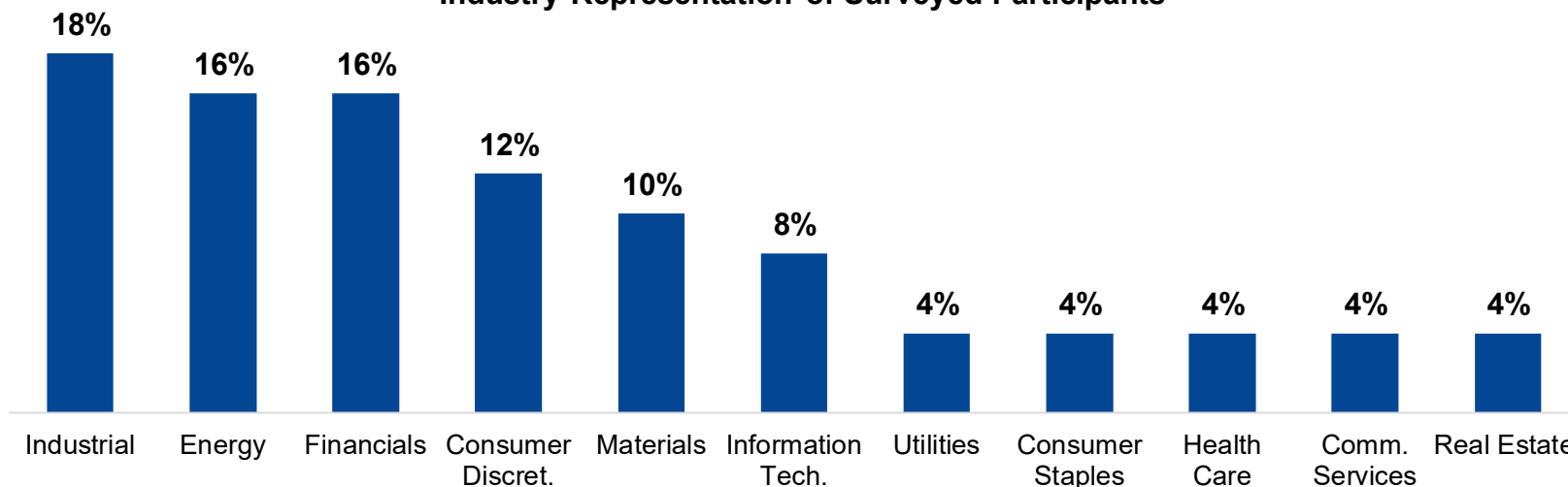
- The industry breakout and financial highlights of the 309 Meridian clients represented in this sample are shown below:

	TTM Revenue (\$Mn)	Market Value (\$Mn)	Enterprise Value (\$Mn)	Number of Employees
25 <sup>th</sup> Percentile	\$638	\$861	\$1,207	1,167
Median	\$1,728	\$3,058	\$4,026	4,200
75 <sup>th</sup> Percentile	\$5,872	\$9,147	\$13,944	12,050

**Source:** Standard & Poor's Capital IQ

Revenue, market value and enterprise value are as of December 31, 2020

### Industry Representation of Surveyed Participants



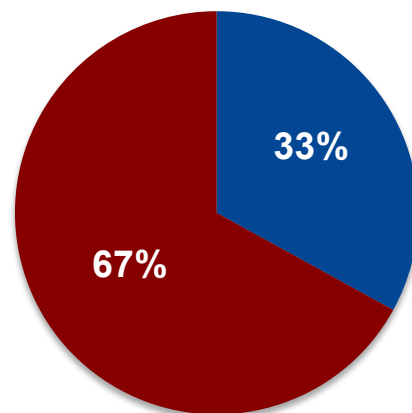
## 2020 Business Impact and Compensation Actions

**COVID-19 caused dramatic shifts in behaviors that led to several business implications, including:**

- Revenue unpredictability and stock price volatility
  - Some businesses witnessed significant drops in revenue, while others experienced unexpectedly high product demand
  - Many companies experienced stock price declines in Q2 that mostly recovered in Q4
- Companies most severely impacted by COVID-19 reduced executive salaries (and board retainers) and/or enacted a significant layoff or furlough of employees
  - For those that reduced salaries, many reinstated prior salary levels later in 2020

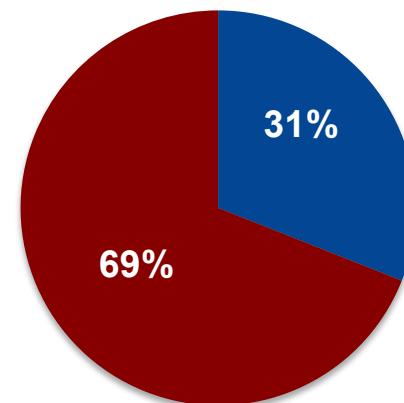
**Reduced Executive Salaries  
(in response to COVID-19)**

■ Yes  
■ No



**Mass Layoff or Furlough  
(in response to COVID-19)**

■ Yes  
■ No



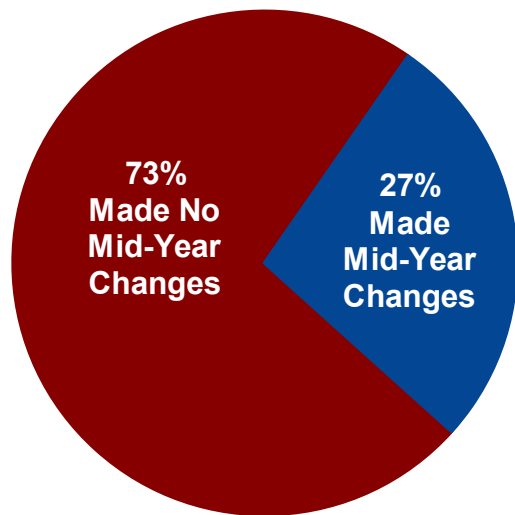
# Short-Term Incentives



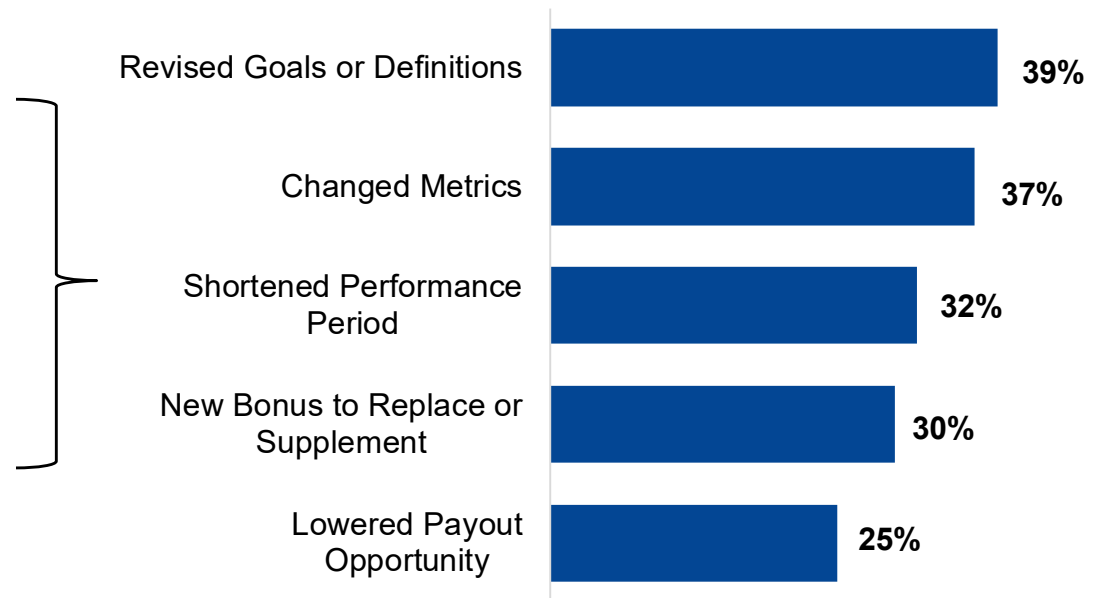
## 2020 Mid-Year Design Changes

- Most companies (73%) did not make mid-year changes to short-term incentive plans
- Of the companies that made adjustments to 2020 bonus plans, the most common approach was to either revise original performance goals (39%) or change performance metrics (37%)

**2020 Mid-Year Changes**



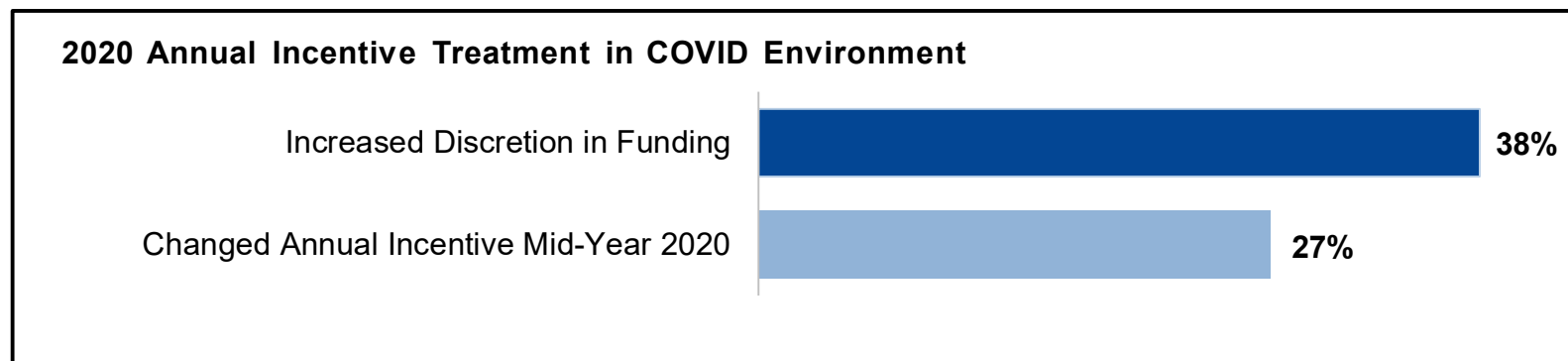
**Most Common Actions Taken**



**Note:** Total exceeds 100% as some companies implemented multiple approaches

## 2020 Use of Discretion

- Many companies (38%) increased the use of discretion in determining 2020 bonus payouts rather than making adjustments to 2020 short-term plan



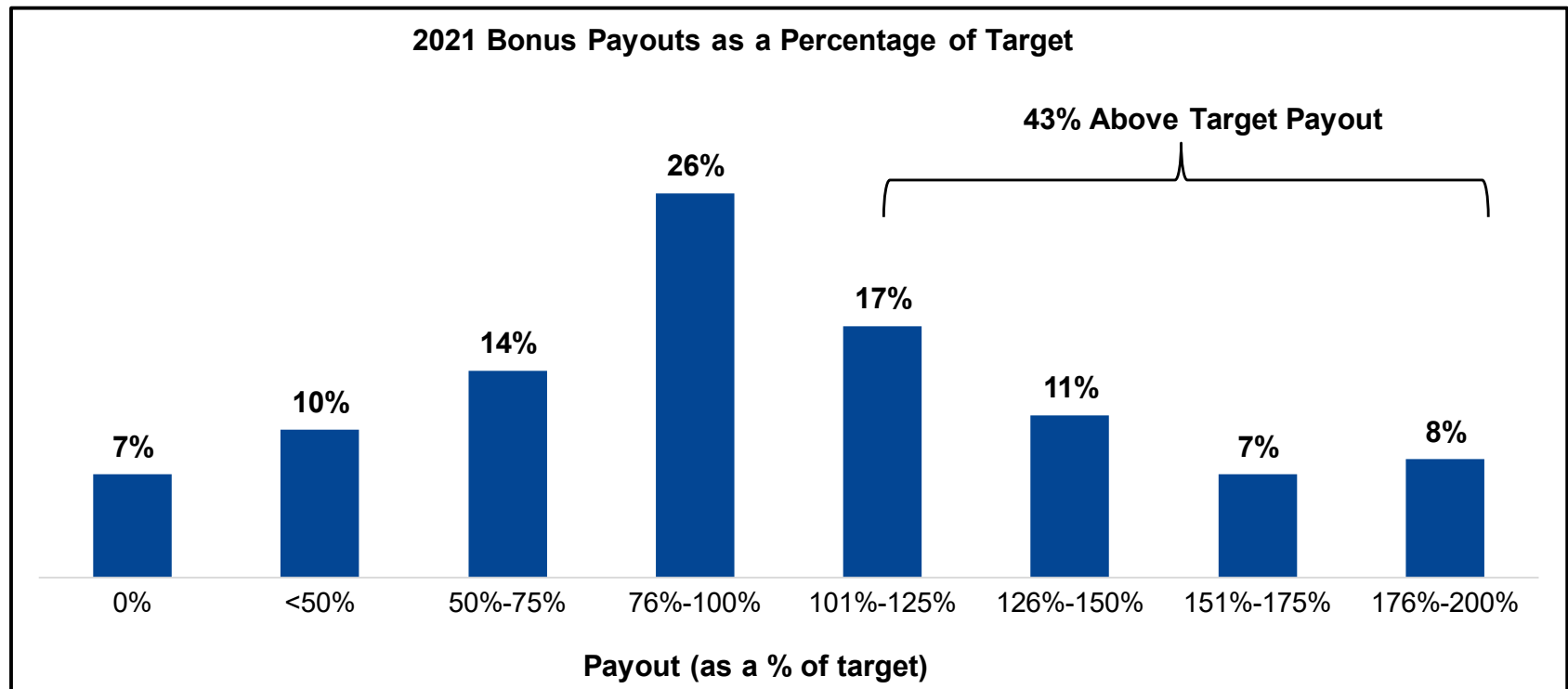
**Note:** Only 7% of surveyed participants changed to a fully discretionary bonus plan in 2020

- A slight majority (54%) that used increased discretion would otherwise have received a low ( $\leq 30\%$ ), or zero, bonus payout without adjustment
  - Only 22% of companies that used increased discretion would have received a pre-adjustment payout above target
- Approximately 10% of companies used increased discretion to **decrease** the bonus payout
- **Note:** Almost one-half (48%) of companies did **not** make any changes to their 2020 short-term plan (i.e., did not make mid-year changes and did not use increased discretion)



## 2020 Bonus Payouts

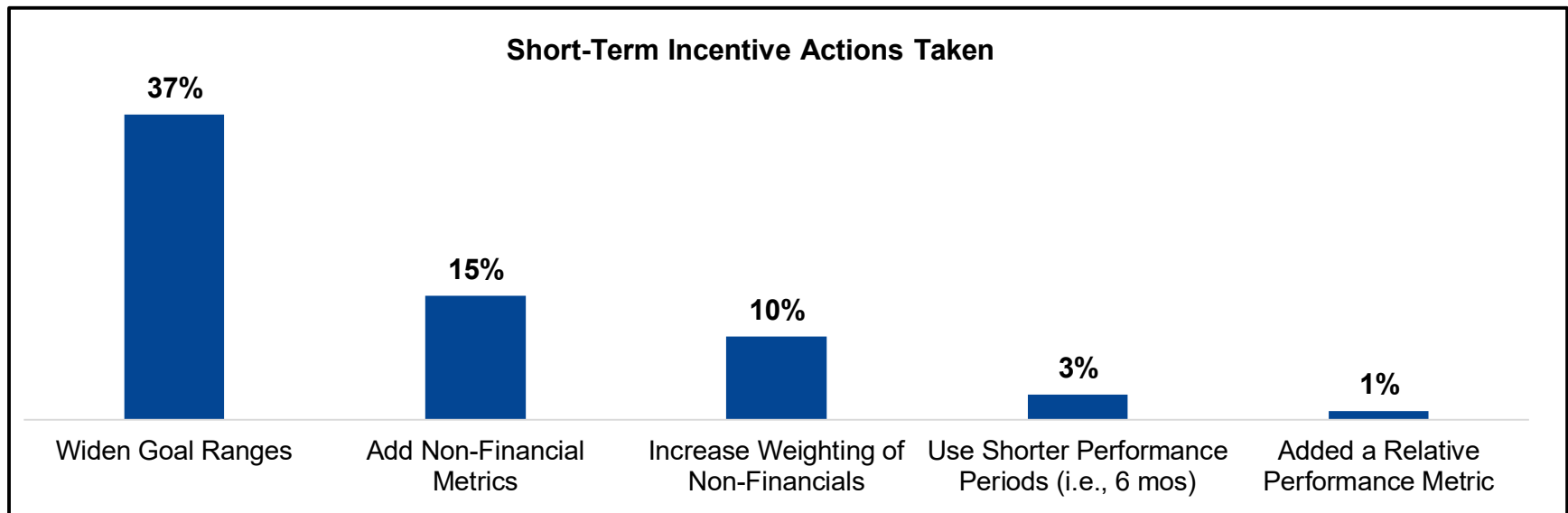
- Less than one-half (43%) of companies indicated that annual incentive payouts for 2020 performance were above target
  - 2021 bonus payouts are generally lower than 2020 when 58% of companies reported above target payouts based on 2019 performance



**Note:** These are final bonus payouts (adjusted for the impact of COVID-19)

## 2021 Short-Term Incentive Actions/Designs

- Given the economic uncertainty in 2021, many companies made or considered making changes to their 2021 annual incentive design or goal-setting approach
- Flattening the short-term performance curve with wider goal ranges was the most common (37%) adjustment to 2021 annual plan design
- One-quarter of companies chose to either add or increase the weightings of non-financial metrics in 2021 (some to incorporate ESG metrics)
- Majority of companies (87%) that shortened their 2020 short-term performance period in response to COVID, reinstated the original performance period in 2021

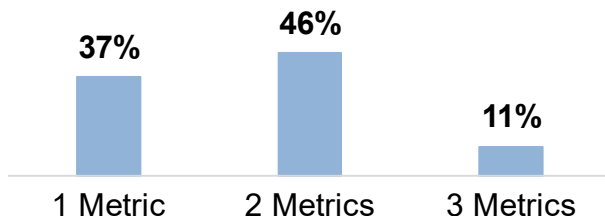


**Note:** Statistics are not additive

## 2021 Plan Design

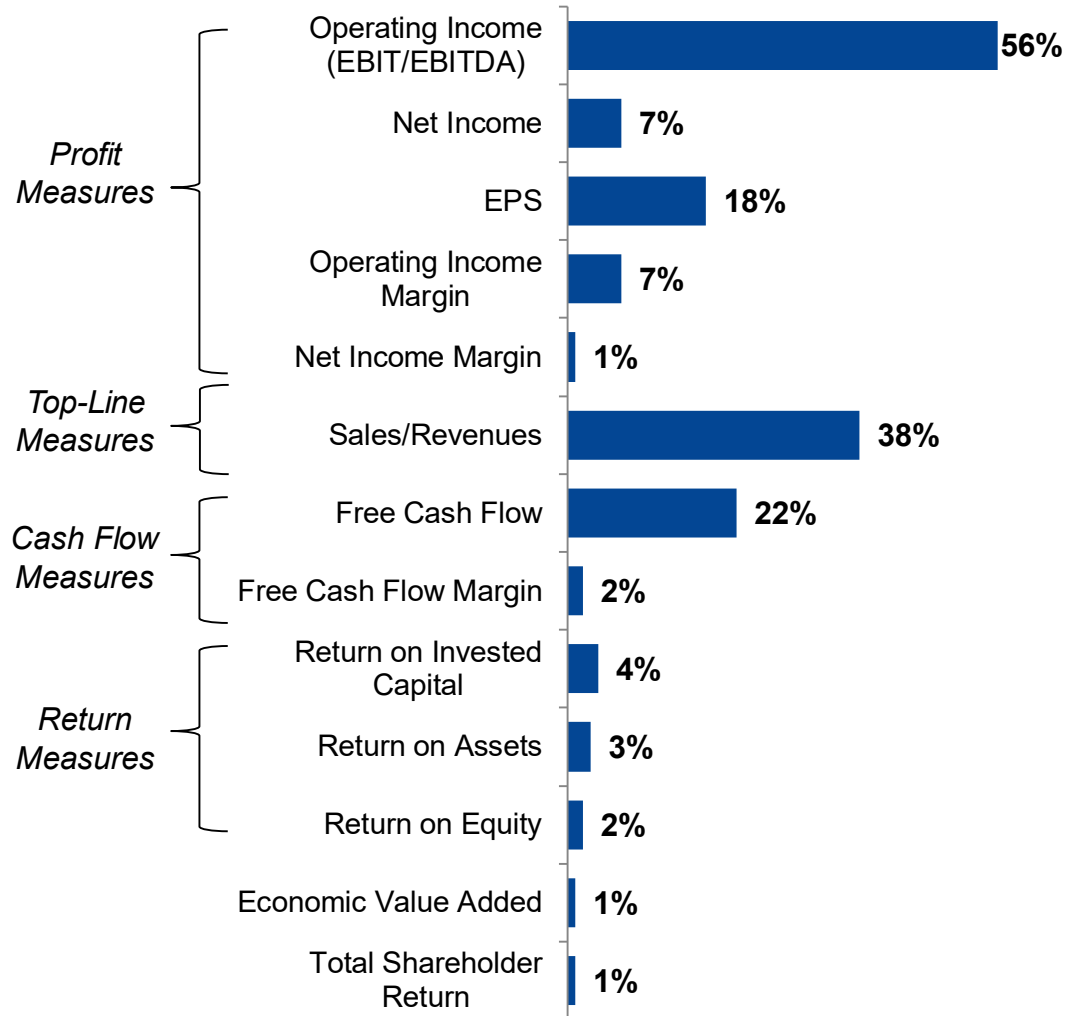
- Consistent with prior years, profit measures are the most common financial performance metrics, used by almost 80% of companies in some form
- In addition, it is common to see either individual or business unit performance goals in annual incentive plan design
- The majority of companies (57%) continue to use multiple financial performance metrics in determining annual incentive payouts

**Number of Financial Performance Metrics Used<sup>1</sup>**



<sup>1</sup>Total is less than 100% because 6% disclosed an annual incentive plan without financial performance metrics

**Most Common Annual Incentive Financial Performance Metrics**



## 2021 Goal Setting

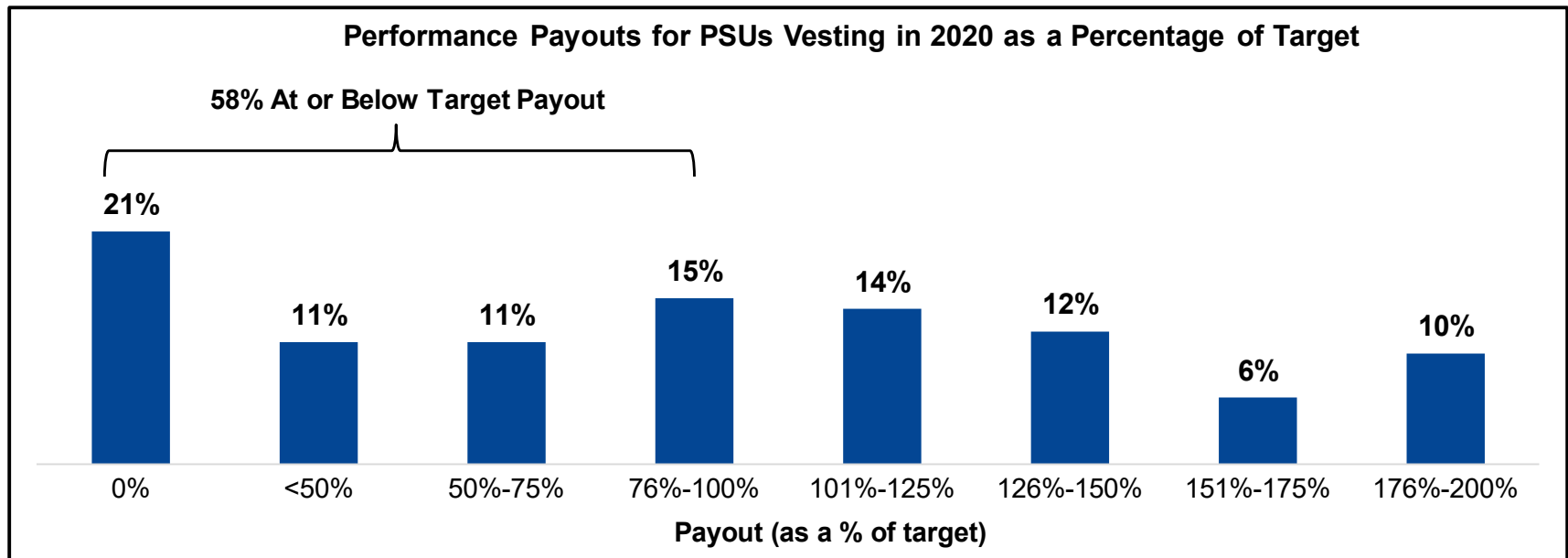
- Despite economic uncertainty, and consistent with the prior year, one-half of surveyed companies set 2021 *threshold* earnings goals above 2020 *actual results*
  - **Perhaps most interestingly, approximately 80% of companies are setting 2021 target goals *above* last year's actuals**

2021 Primary Earnings-Related Goals Compared to 2020 Actual Results	Prevalence
All goals are at or above last year's actual results	50%
Threshold goal is below last year's actual results	29%
Target goal is below last year's actual results	18%
Maximum goal is below last year's actual results	3%

# Long-Term Incentives

## “Pre-COVID” Outstanding PSUs (Treatment and Payout)

- Although COVID-19 had a significant impact on the performance outcomes of outstanding PSUs, the majority of companies (91%) did **not** make adjustments to existing awards
- Of the few that made changes, the most common approach was to exclude the impact of COVID-19 under existing “adjustment provisions”
- Performance payouts for awards vesting in 2020 varied across companies
  - More than one-half (58%) of companies disclosed payouts at or below target

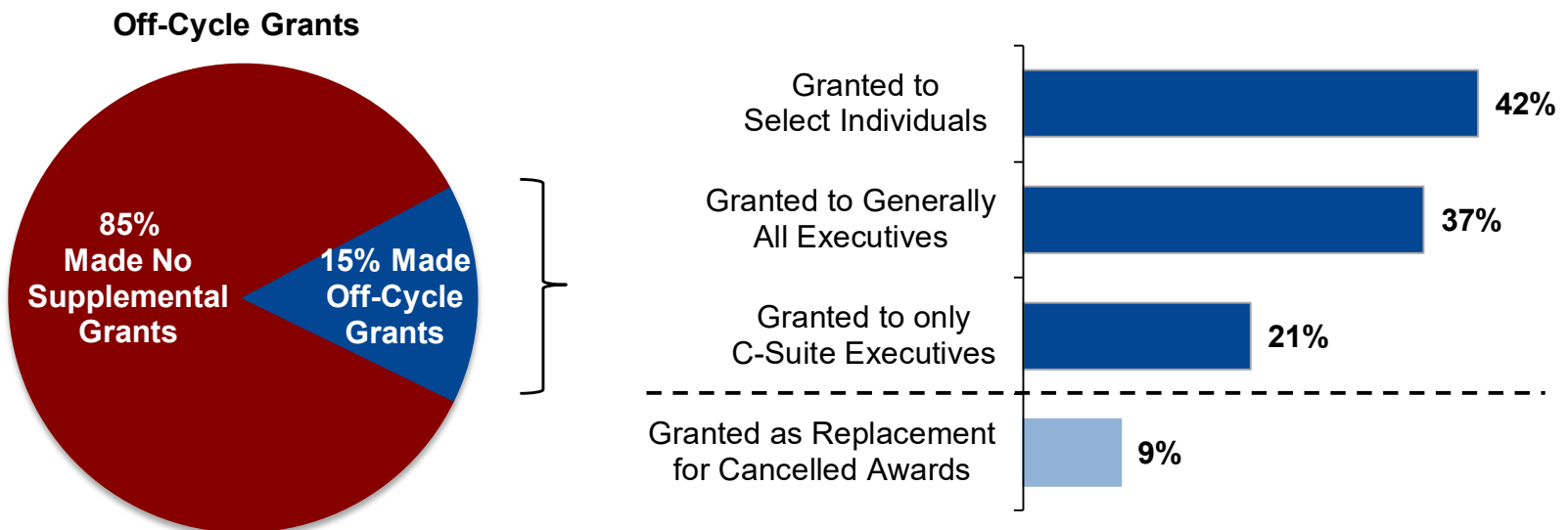


**Note:** These are COVID-adjusted performance payouts and do not reflect value realized due to absolute stock price performance

## Special Awards

In 2020, the majority of companies experienced sharp declines in share price which increased the pressure to motivate and retain executive talent, while also aligning executive and shareholder interests. Some companies (15%) granted special, one-time awards throughout the pandemic.

- Special awards were most often granted to select individuals (42%) rather than broader employee population
- Few grants were made as “replacements” for awards that were forfeited or cancelled
- On average, the value of off-cycle grants was 68% of annual performance awards





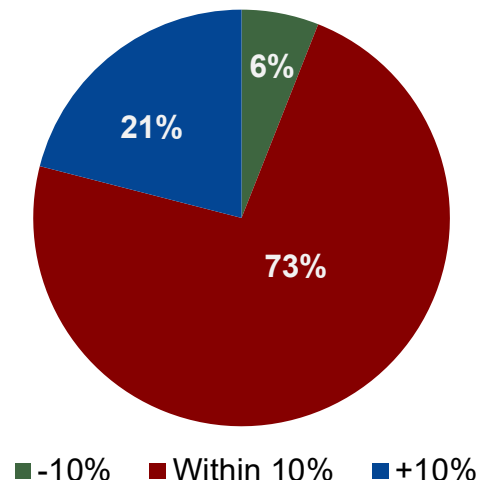
## 2021 Actions/Program Designs

- 73% of companies granted long-term incentive awards in 2021 with similar (+/-10%) targeted economic values as 2020
- Most companies (64%) made no adjustments to 2021 long-term incentive plan design
- Below summarizes 2021 design changes that were reported
  - A new financial metric or an increase in time-based equity are the most common changes being implemented

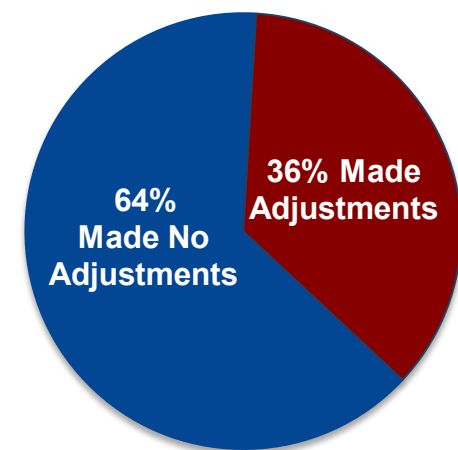
Made Adjustments	
New Financial Performance Metric	17%
More Time-Based Full-Value Awards	12%
New or Increased Weight on Relative TSR	10%
Modified Performance Period	9%
More Weighting in Performance-Based Awards	6%
Adding/Increasing Weight of Stock Options	4%
Shifting Portion to Cash	4%
New Non-Financial Performance Metric	3%

**Note:** Statistics are not additive; some companies used multiple adjustments

2021 LTI Value vs. 2020



Adjusted 2021 Incentive Design



## 2021 Plan Design

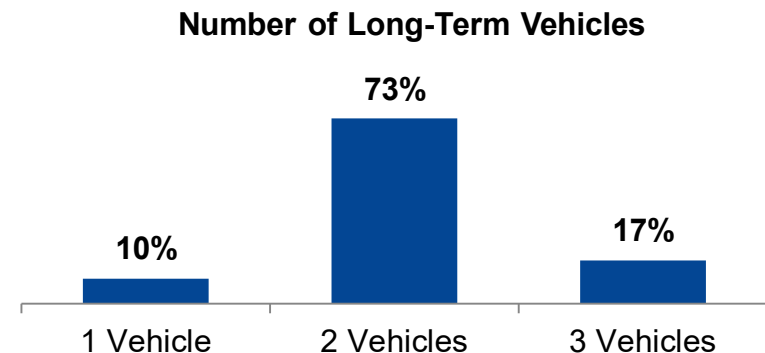
- Most companies (90%) used two or three vehicles to deliver long-term incentives

- In Meridian's experience, companies generally use one LTI vehicle (typically restricted stock or restricted stock units) below the executive level

- Performance awards continue to be the most prevalent vehicle for senior executives (approximately 88%)

— Prevalence declined slightly compared to prior years, most likely caused by the granting of more time-based awards in 2020, given the level of economic uncertainty

- The average weightings of LTI vehicles in 2021 for executives are consistent with recent years



Number of LTI Vehicles	LTI Vehicle Combination	Prevalence	Average Vehicle Weighting		
			Perf. Awards	Stock Options	Restricted Stock
17% use 3 vehicles	Options, RSUs and Perf. Awards	17%	47%	26%	25%
73% use 2 vehicles	RSUs and Perf Awards	57%	59%	-	41%
	Options and Perf. Awards	8%	58%	42%	-
	Options and RSUs	8%	-	55%	45%
10% use 1 vehicle	Perf. Awards Only	6%	100%	-	-
	RSUs only	3%	-	-	100%
	Options Only	1%	-	100%	-

**Overall (averages) - 2021**

**53%**

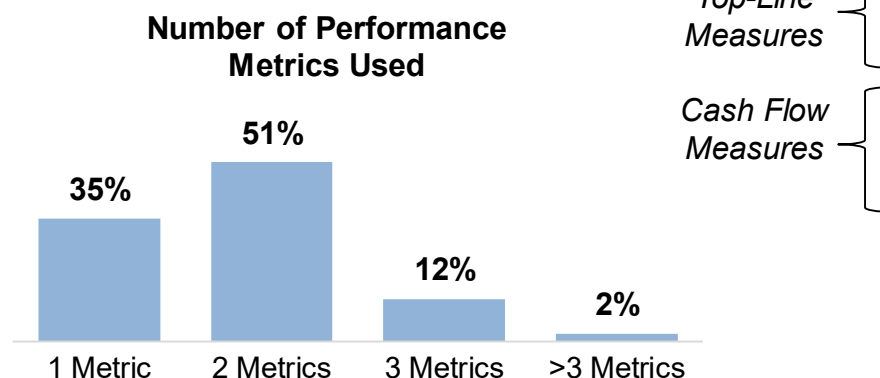
**13%**

**34%**

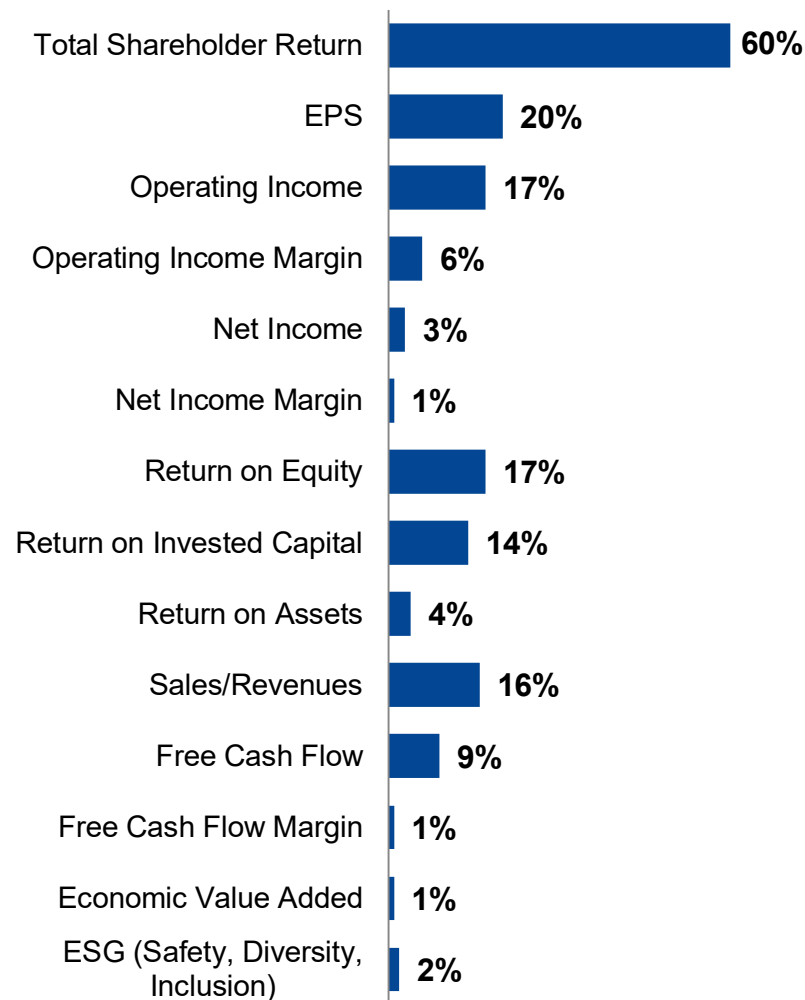
**Note:** Performance awards including performance shares, performance units and long-term performance cash awards

## 2021 Plan Design

- Consistent with prior years, TSR is the most common long-term performance plan metric due to its transparency, alignment with shareholder interests and ease of multi-year goal setting relative to financial and operating metrics
- Profit measures (44%) and other return measures (ROE, ROIC, ROA; 33%) are also common
- The majority of companies used either one or two performance metrics to determine long-term incentive payouts



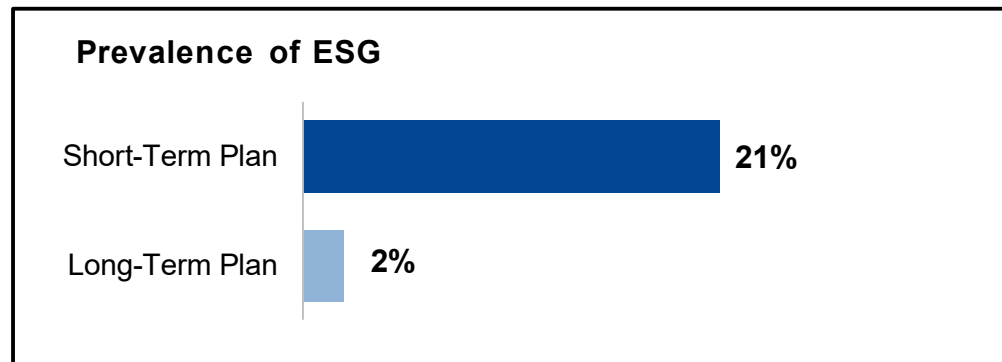
### Most Common Long-Term Incentive Performance Metrics



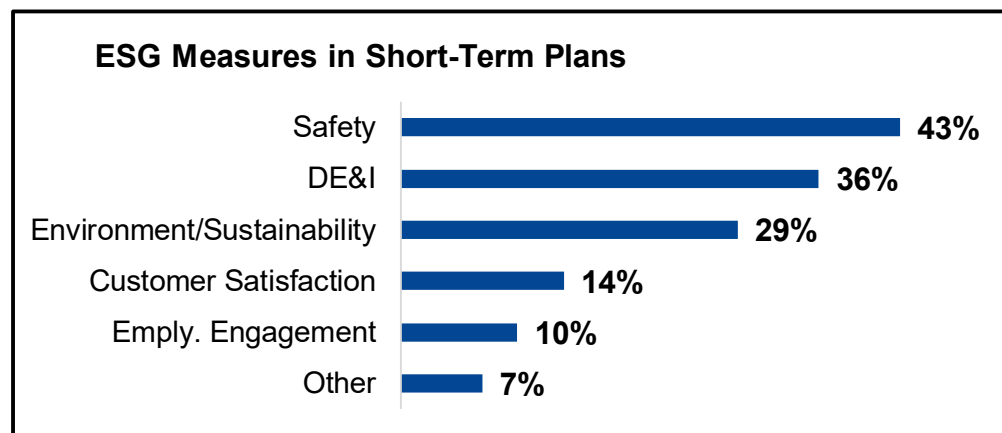
# Environmental, Social and Governance “ESG” Measures

## ESG Measures in Incentive Plans

- External stakeholders such as shareholders, large institutional investors and proxy advisory firms continue their focus on ESG measures
- The prevalence of ESG measures in incentive plan designs increased from the prior year
- Safety and diversity and inclusion metrics are the most prevalent ESG metrics in short-term incentive design
- Diversity, Equity and Inclusion metrics are getting a lot of discussion in the Board room



**Note:** 6% of companies increased the weighting of ESG measures in 2021 short-term plan and 2% increased the weighting of ESG measures in 2021 long-term plan



**Note:** Total exceeds 100% as some companies use multiple ESG metrics

# About Meridian



## About Meridian

**Meridian Compensation Partners, LLC** is the second largest independent executive compensation consulting firm in North America, providing trusted counsel to boards and management at hundreds of large companies. We consult on executive and board compensation and their design, amounts and governance. Our many consultants throughout the U.S. and in Canada have decades of experience in pay solutions that are responsive to shareholders, reflect good governance principles and align pay with performance. Our partners average 25 years of executive compensation experience and collectively serve well over 700 clients. Over 90% of our engagements are at the board level. As a result, our depth of resources, content expertise and boardroom experience are unparalleled.

### Our breadth of services includes:

- Pay philosophy and business strategy alignment
- Total compensation program evaluation and benchmarking
- Short-term incentive plan design
- Long-term incentive plan design
- Performance measure selection and stress testing
- Employment contracts
- Retirement and deferred compensation
- Compensation risk evaluation
- Informed business judgments on executive pay
- Pay-for-performance analyses
- Governance best practices
- Institutional shareholder and ISS voting guidelines/issues
- Senior management and board evaluations
- Change-in-control and/or severance protections
- Committee charter reviews
- Peer group development
- Peer company performance and design comparisons
- Benefits and perquisites design and prevalence
- Senior executive hiring/terminations
- Succession planning
- Outside director pay comparisons
- Clawback and anti-hedging design
- Retention programs and strategies
- ESG and DE&I links to pay programs
- COVID-19 compensation implications



## About Meridian

**With consultants in 10 major metropolitan areas, we are located to serve you.**

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