Pearl Meyer

On Point

TIMELY, ACCURATE, INSIGHTFUL

The Next Stage of the Coronavirus Impact

Survey of Compensation-Related Actions and Considerations

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Introduction

Earlier this year, Pearl Meyer conducted a series of brief "Quick Poll" online surveys on COVID-19-related compensation topics. This follow-up survey incorporates a variety of questions from the earlier surveys as well as additional topics to gauge actions and perspectives in response to the pandemic. The survey was conducted in late May, with a total of 285 responses, including 154 publicly-traded companies, 90 privately-held for-profit companies, and 41 privately-held, not-for-profit (NFP) organizations. Responses were received from a total of 214 employees and 71 board members across 11 industry categories (see Appendix for participant demographics).

COVID-19 poses significant health risks and challenges for companies and employees, and social distancing requirements may wind up fundamentally changing the way business is conducted. From a financial perspective, most respondents have been adversely impacted, with only 4% citing improved performance. This unprecedented pandemic has also created significant uncertainty within the current environment, as the country begins the process of reopening the economy.

Environmental, social, and governance (EGS) issues, such as pay and internal equity, racial and gender diversity, and sustainability, have become key focal points for investors, the media, and the general public. The scrutiny on executive compensation continues to intensify, with an expectation for fairness and shared sacrifice relative to the COVID-19 impact on employees, shareholders, and other stakeholders.

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Introduction (Continued)

While respondents have taken various defensive actions to preserve capital, most continue to take a “wait and see” approach with regard to compensation program designs, goal setting, and potential use of discretion in response to COVID-19.

We encourage companies to proactively begin discussing and considering these topics to help ensure programs reinforce current business priorities and to help facilitate upcoming year-end compensation decisions. Timely and thorough disclosure will also be critical to explain the rationale for any actions taken, as stakeholders are likely to carefully monitor the magnitude and use of discretion, changes to incentive arrangements, and the perceived alignment of executive pay with performance and outcomes for other employees.

We hope you find this information useful as you make compensation-related decisions in response to COVID-19, year-end results, and the coming year. If you have any questions or are interested in discussing survey findings, please contact:

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Key Highlights

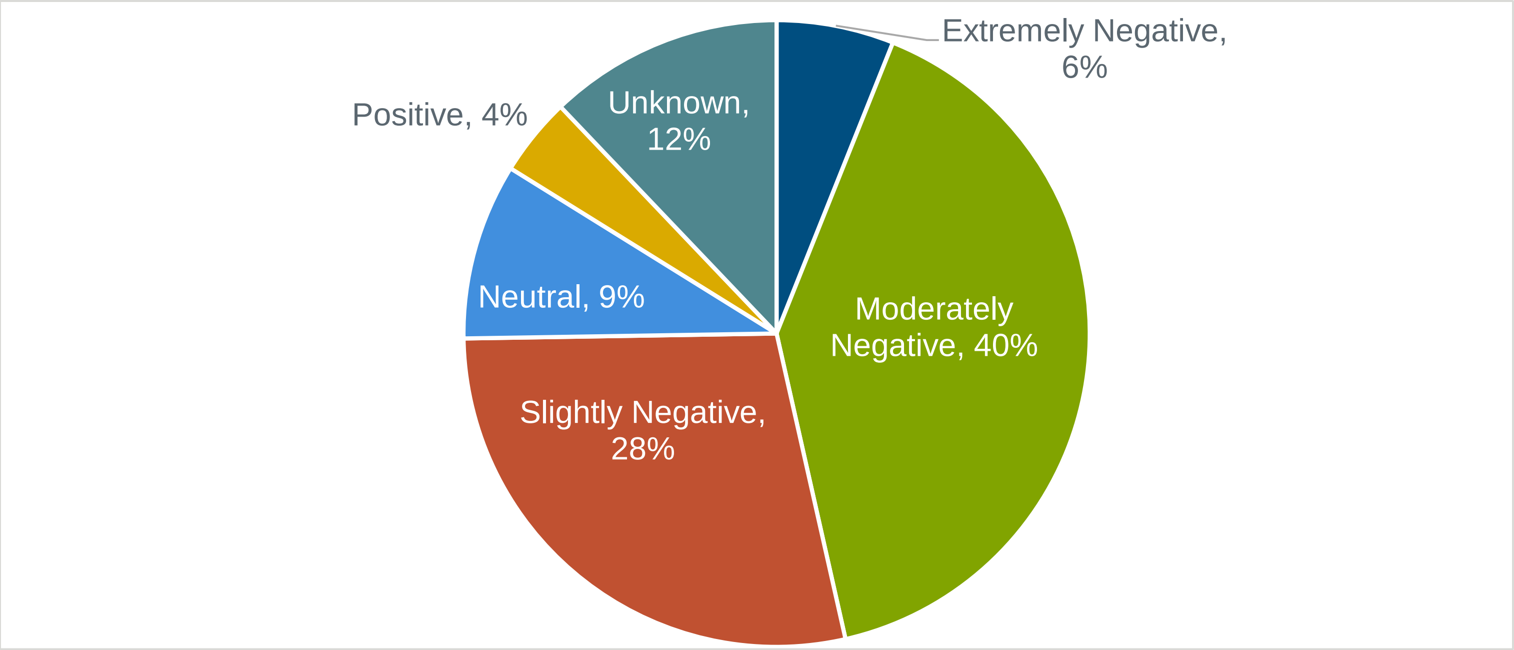
- COVID-19 has adversely impacted financial performance for most respondents, with two-thirds citing a slightly negative (< 15%) or moderately negative (15% - 49%) impact
- Workforce and compensation actions taken in response to the pandemic vary by impact, with those citing moderate or extremely adverse impact most likely to furlough/layoff employees, temporarily cut base salaries, and take other cost saving measures
- Among all respondents, hiring freezes have been the most common workforce action to date; most are not contemplating freezes or staff reductions going forward
- Most respondents have not made changes to incentive plan performance goals (63%) or metrics (88%)
  - Actions taken to date (by 13% collectively) include establishing discretionary plans, new performance goals for the second half of the year, or changes to original goals; an additional 15% either delayed goal setting or agreed to consider excluding the COVID-19 impact from plan results
  - 9% of respondents changed metrics and 3% modified weightings or performance and funding ranges
- Among respondents able to provide forecasts, most expect below-target or no payouts for incentive cycles ending in 2020; there is greater uncertainty for long-term incentive than for short-term incentive outcomes
- More than 75% of respondents have not yet discussed the possible use of discretion for incentive cycles ending in 2020; most have not determined any award funding caps or timing of disclosure for any actions taken

Key Highlights (Continued)

- More than 40% of respondents made routine base pay adjustments prior to COVID-19; 19% have temporarily reduced executive salaries with up to an additional 10% considering cuts, and 16% froze or expect to freeze executive salaries
  - Cuts are typically less than 25% of original salaries, with no planned make-ups
  - Expected duration varies (typically less than one year, with 36% unknown), with approximately 75% of respondents disclosing cuts (primarily for executive officers)
- Salary cut prevalence is lower below the executive level; 9% of respondents reduced base pay for other salaried employees and 4% reduced hourly employee rates
- Approximately two-thirds of respondents have not made or contemplated changes to incentive plan award opportunities and designs or retirement programs
  - Cost-saving actions taken to date include reduction or elimination of bonus pools and/or company contributions to retirement plans
  - Nearly 15% provided special bonuses (e.g., hazard pay) to certain employees
- Half of respondents that previously set non-employee director pay are undecided on whether to make any changes in response to COVID-19; 13% temporarily cut pay (typically board cash retainers) with another 5% considering cuts
  - Cuts typically range between 10% - 50% of original pay, with expected durations of up to 12 months
  - Most respondents have not changed equity grant methodologies or are undecided on future action
- To date, only 2% of respondents made changes to director succession plans or processes, with another 5% holding initial discussions

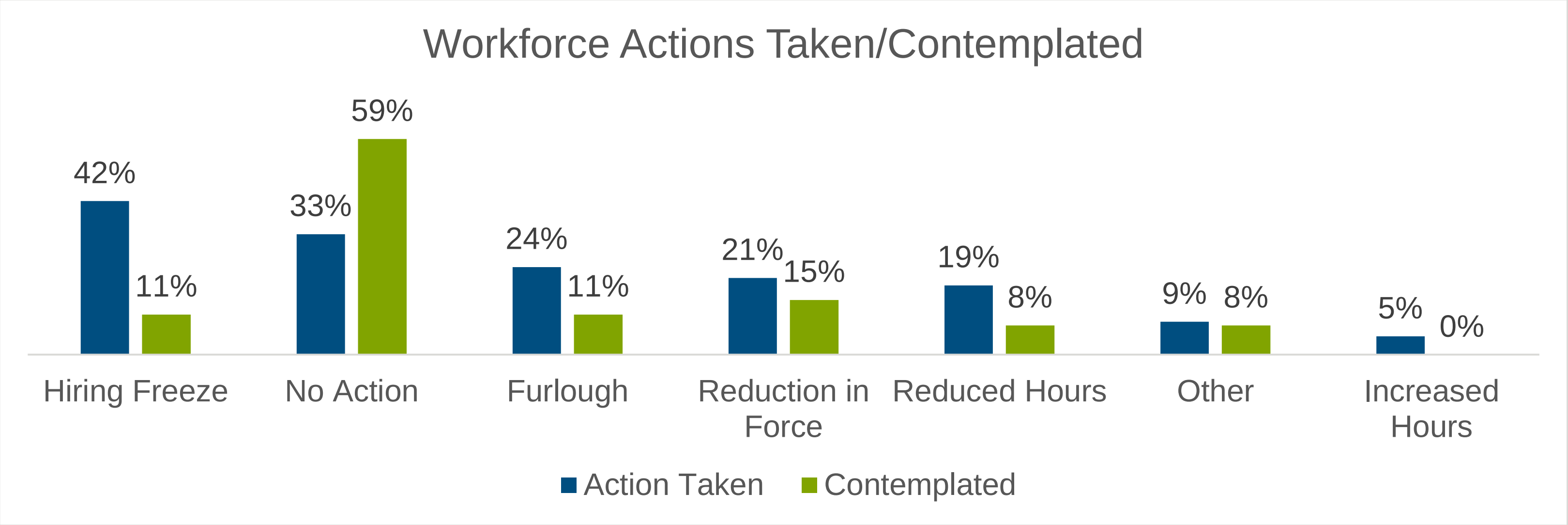
COVID-19 Perceived Financial Impact

- Two-thirds of respondents cite a moderate or slightly negative financial impact from the pandemic, while only 4% cite a positive impact
  - The survey definition for degree of impact was 50%+ for extreme, 15% - 49% for moderate, and < 15% for slight
  - Only 2% of respondents cited a moderately positive impact, with another 2% citing a slightly positive impact; only 1 respondent cited an extremely positive impact
  - Industry representation within each impact category was generally less than 25%, except for moderately negative (32% of respondents are in the financial sector)



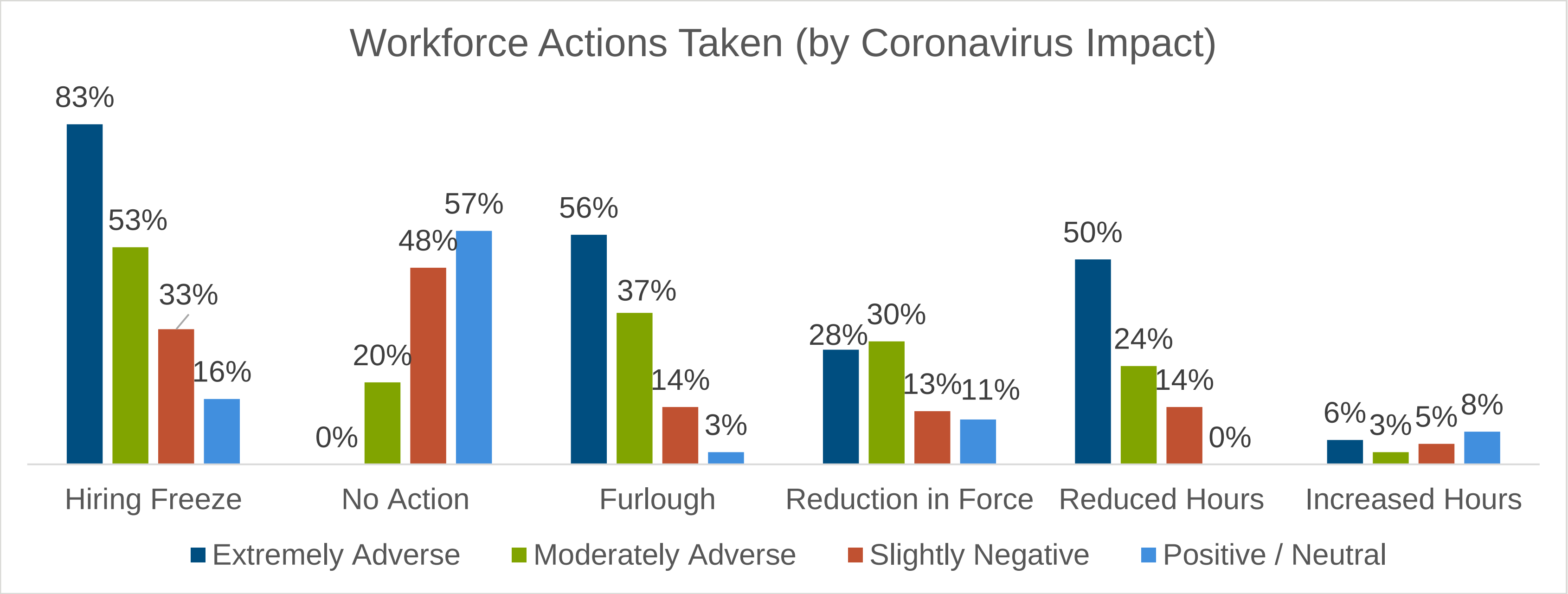
Workforce Actions Taken/Contemplated (All Respondents)

- Two-thirds of respondents have already taken one or more workforce actions, with hiring freezes most common
  - Prevalence of furloughs is slightly higher than reductions in force for those taking action, while slightly more respondents are considering future reductions in force (vs. furloughs)
  - “Other” generally refers to selective hiring, partial freezes, and/or staffing re-allocations
  - Workforce actions vary based on degree of impact from the pandemic (see next page)
- Compared with an earlier Pearl Meyer survey from early April, a higher percentage of respondents have taken workforce actions
  - Only 22% of respondents in the April 2020 survey had taken action, with 10% reporting furloughs and 7% reductions in force; an additional 31% were considering future actions



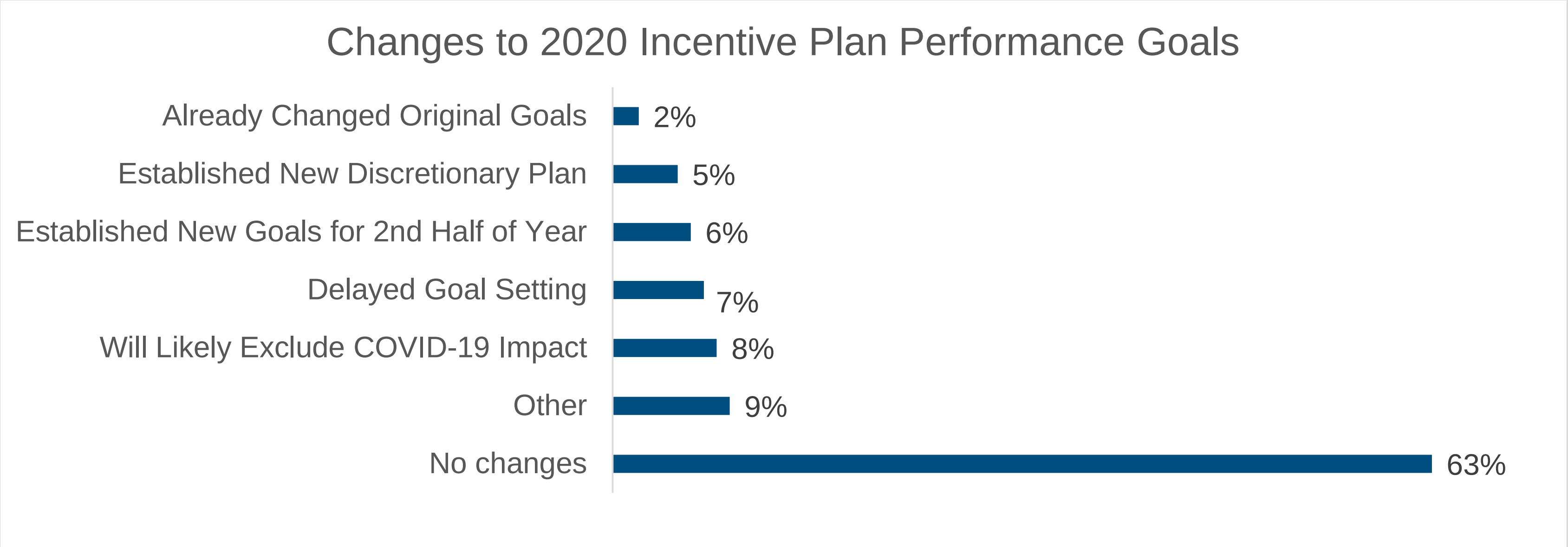
Workforce Actions Taken (by COVID-19 Impact)

- As expected, prevalence and types of workforce actions taken varies based on perceived COVID-19 impact
  - All respondents citing an extremely adverse negative impact took action while more than half of those with a positive or neutral impact did not
  - Half or more of those respondents most adversely impacted implemented hiring freezes, furloughs, and reduced hours (for hourly employees), while less than 20% in the positive/neutral impact category did so



Changes to 2020 Incentive Plan Goal-Setting

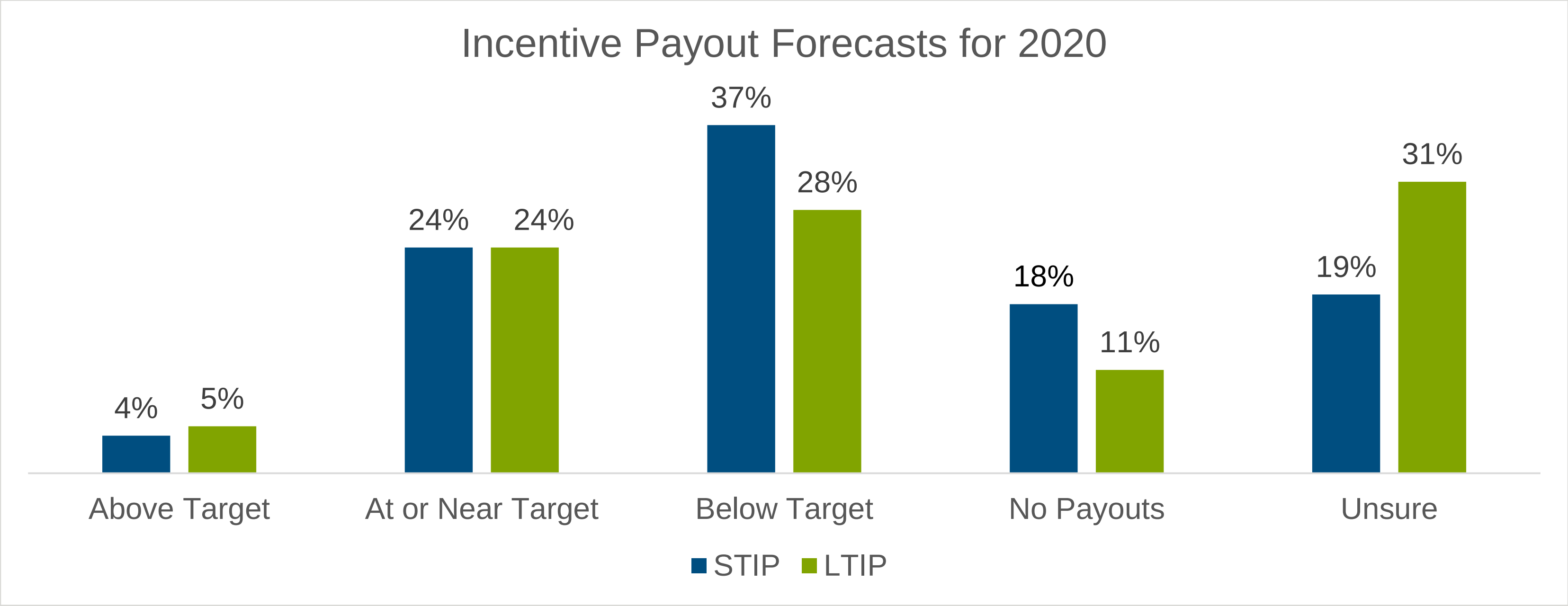
- Most respondents have not yet made changes to 2020 incentive plan goals
  - 11% have either established new goals for the second half of the year or moved to a purely discretion plan; only 2% have already changed original goals
  - Another 8% have agreed to consider excluding the COVID-19 impact when evaluating year-end performance results
  - "Other" responses include evaluating alternatives, including discretion, with no action taken to date
  - Prevalence was fairly consistent across ownership types and by COVID-19 impact



- Most respondents (88%) have not changed performance metrics or ranges
  - 9% changed metrics, either adding non-financial (4%), financial (3%), or relative (2%) components
  - 3% changed weightings on existing metrics and/or performance and award funding ranges

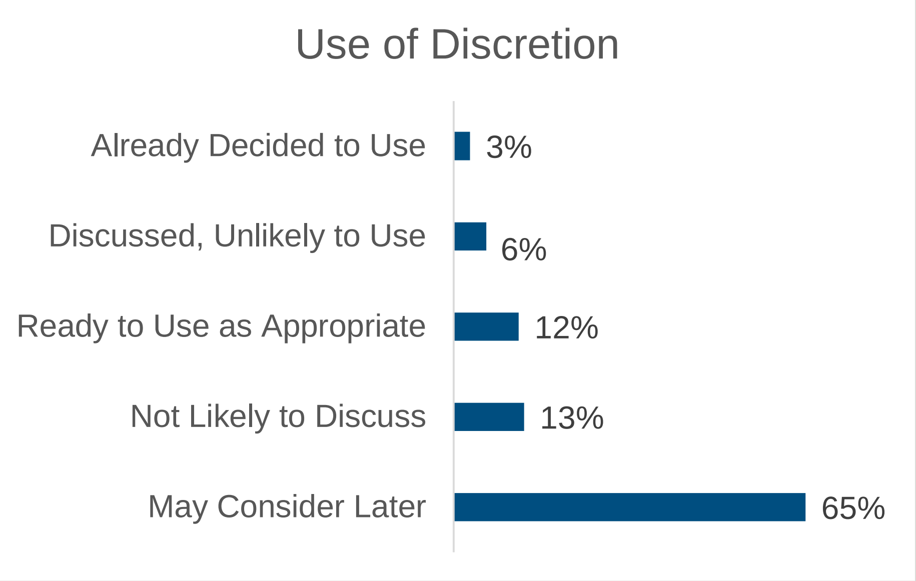
2020 Incentive Award Forecasts

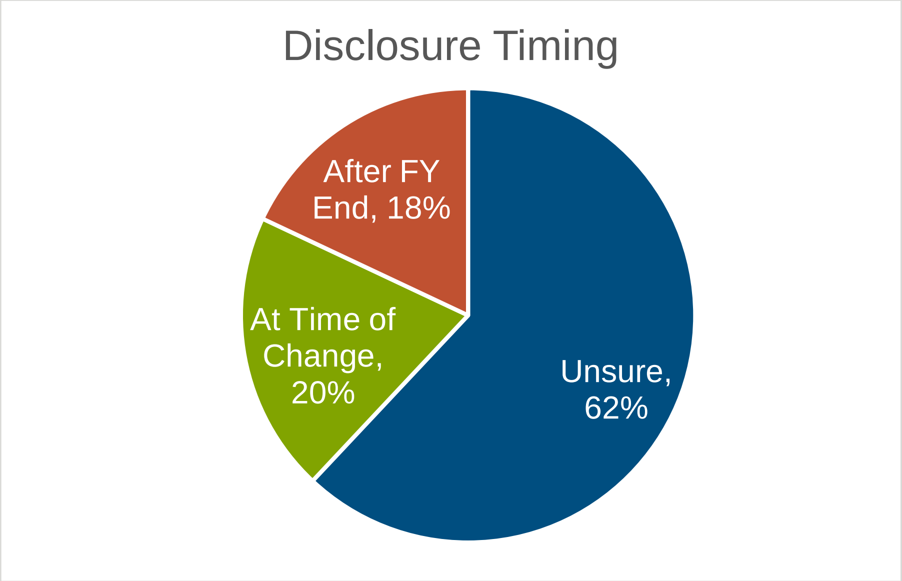
- Among respondents able to forecast results, most expect below-target or no awards for short-term incentive plan (STIP) and long-term incentive (LTIP) cycles ending in 2020
  - By industry, STIP forecasts were most favorable for the technology and business/professional services sectors (38% at or above target) and least favorable, with no expected payouts, for the industrial (45%) and consumer (33%) sectors
  - For LTIP cycles ending in 2020, forecast were most favorable for the energy (44% at or above target) and technology sectors (38%) and least favorable, with no or below-target payouts expected for the industrial (58%) and consumer (55%) sectors
  - Uncertainty with award funding outcomes was higher for LTIP cycles (31% of respondents responded with "unsure") than for STIP (19%)



Use and Magnitude of Discretion and Disclosure Timing

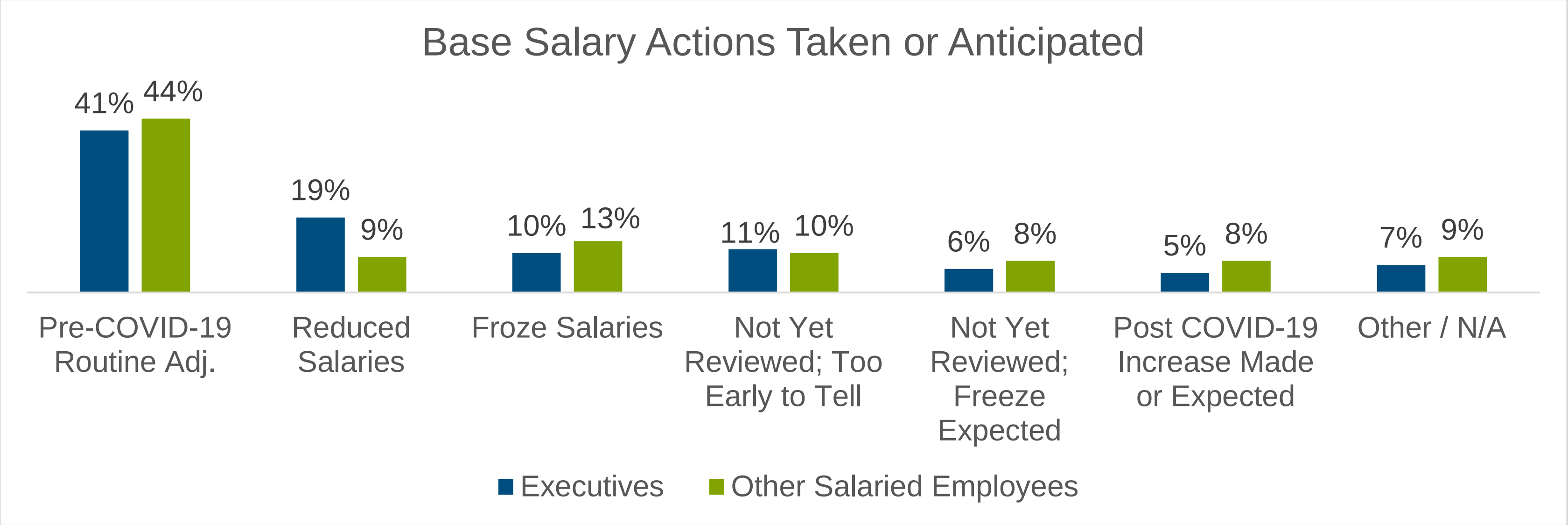
- More than three quarters of respondents have not yet discussed the use of discretion for incentive award cycles ending in 2020
  - Most expressed a willingness to consider applying discretion, while nearly 20% are unlikely to either discuss (13% of respondents) or use (6%)
  - Most respondents have not yet considered discretion caps; 4% will cap any awards at target, 4% will extend (lower) performance ranges and award funding thresholds, 2% will limit impact to +/- 25% (vs. unadjusted awards), and 1% will cap at threshold
- Most respondents are unsure of when they would disclose any changes to incentive plan goals, with the remainder evenly balanced between real-time and delayed (after fiscal year end) disclosure





Base Salary Actions (All Respondents)

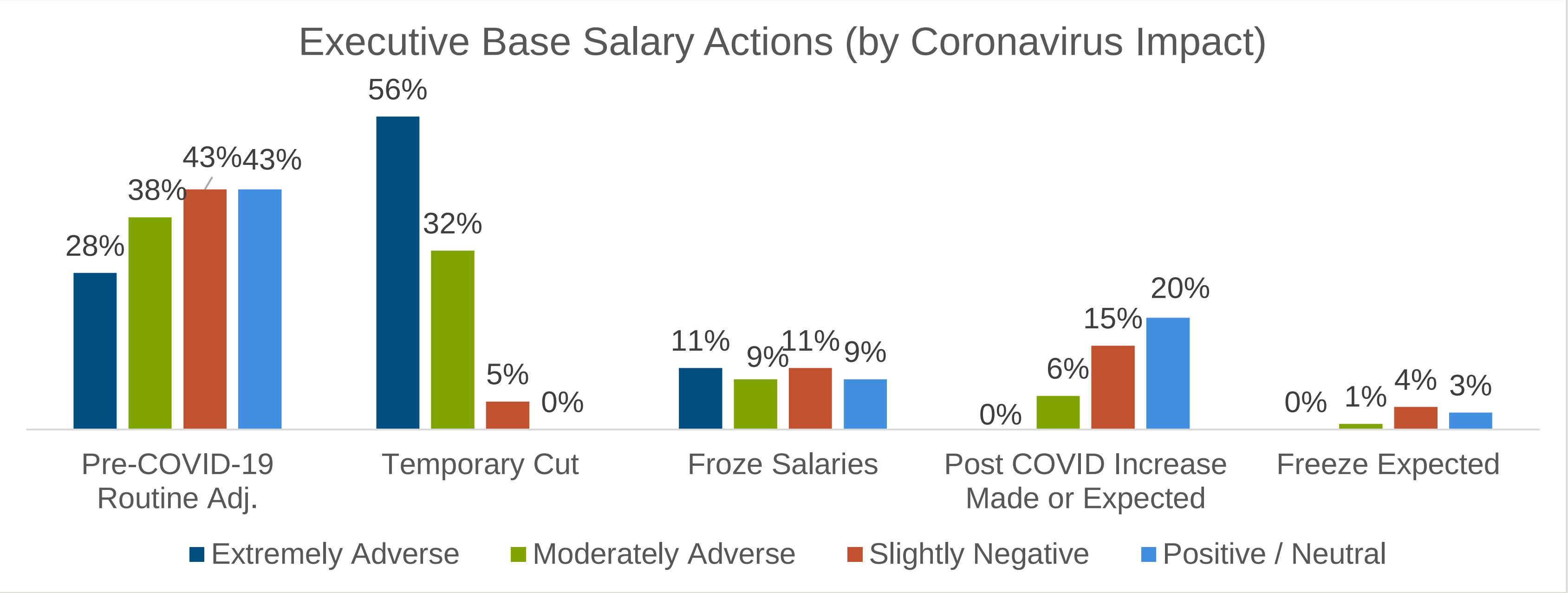
- More than 40% of respondents made routine base salary adjustments before the pandemic; temporary salary cuts are primarily limited to executives while freezes are slightly more prevalent for non-executive salaried employees
  - Nearly 30% of respondents temporarily cut or froze executive salaries; some others that provided routine (pre-COVID-19) increases are also considering temporary cuts
  - Approximately 20% of all respondents have not yet conducted annual salary reviews, with many uncertain as to future actions; "Other" primarily pertains to merit increase delays
  - Salary cut prevalence is higher for public companies (25% for executives, 12% other salaried employees) than for private for-profit companies (14% executives, 7% other employees)



- For hourly employees, 22% increased, 4% reduced, and 14% froze hourly rates
  - 13% provided temporary increases to a subset of targeted employees in customer-facing or other critical roles ("hazard" pay)

Base Salary Actions (by Impact Level)

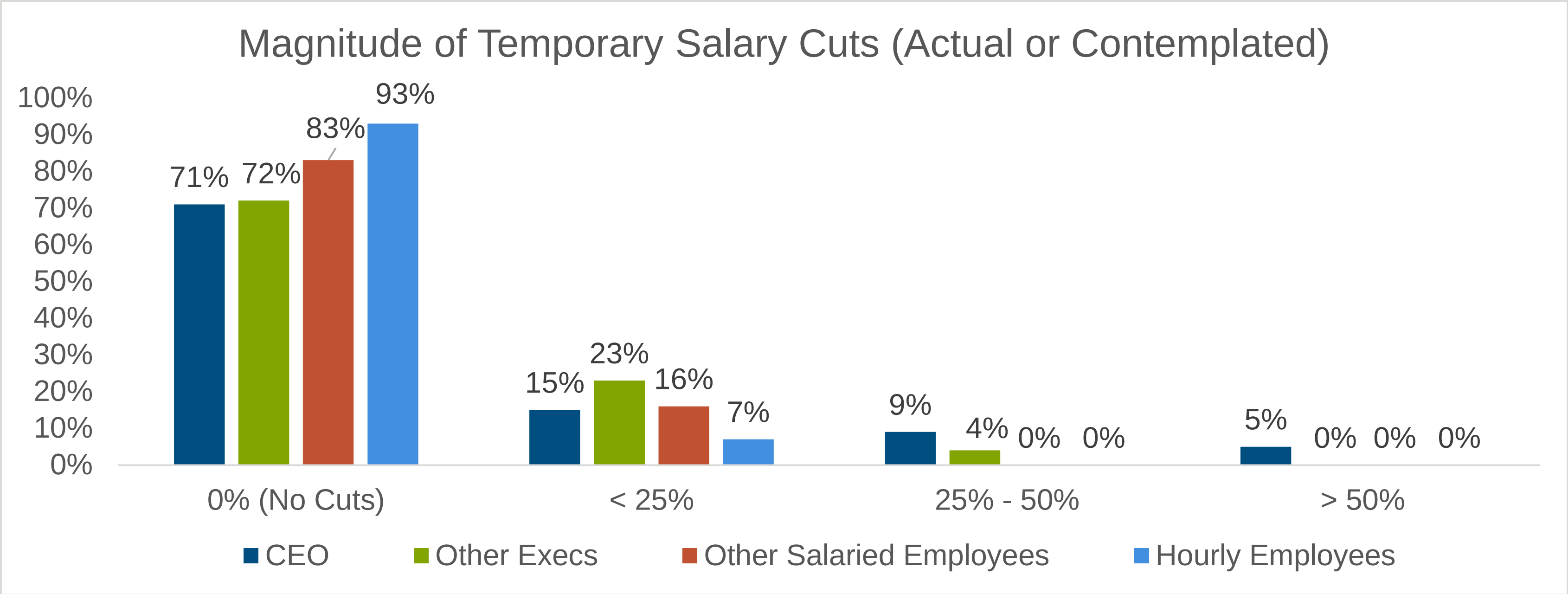
- As expected, temporary salary cuts for executives are primarily limited to respondents citing moderate or extreme adverse COVID-19 impact
  - Approximately 10% of respondents across each impact category froze executive salaries
  - Salary cut prevalence for non-executive employees by impact level was 29% (extremely adverse), 16% (moderately adverse), 3% (slightly negative), and 0% (neutral or positive)



- Across all respondents, prevalence of actual salary cuts for executives (19%) is identical to findings from a Pearl Meyer survey conducted in mid-April; however, when factoring in those also considering cuts, combined prevalence increases to 29% (up from 22% in the prior survey)

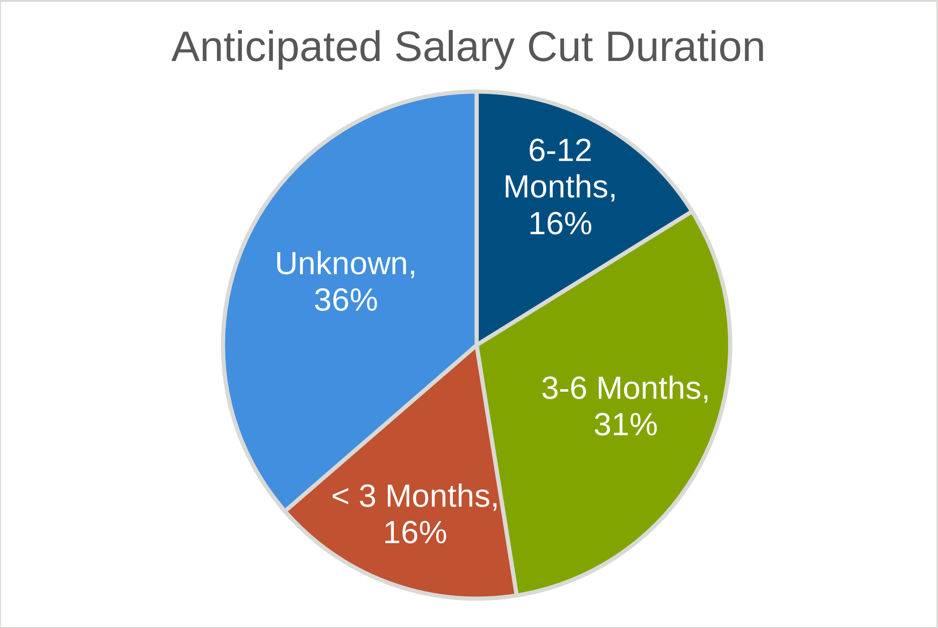
Base Salary Actions: Prevalence & Magnitude of Pay Cuts

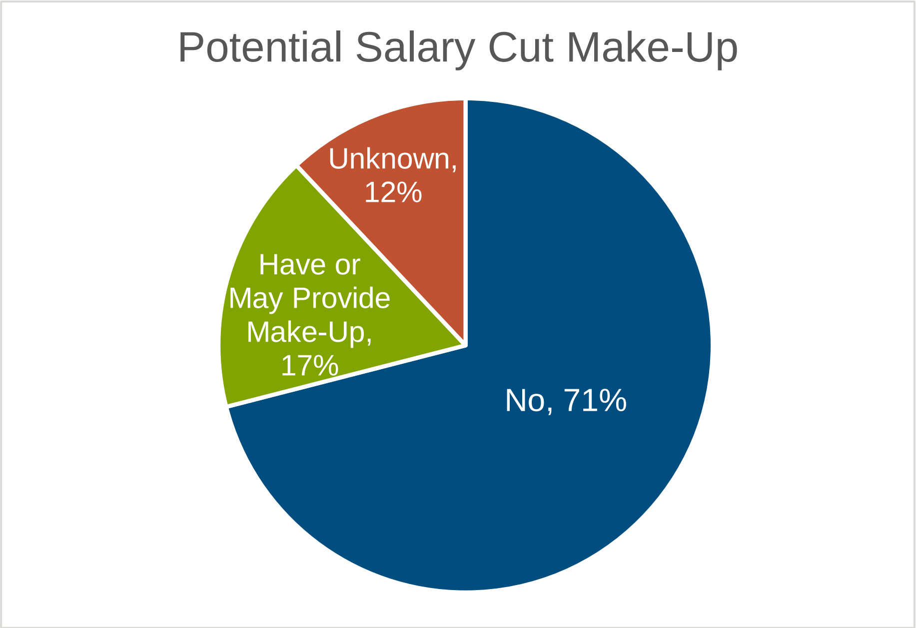
- When implemented or planned, salary cut percentages are typically less than 25%
  - Salary cut prevalence includes respondents making or considering cuts
  - All cuts below the executive level were for less than 25% (typically between 10% - 25%)
  - By industry, prevalence of actual or contemplated CEO salary cuts was highest in the industrial (68%), consumer (50%), and energy (50%) sectors, and lowest in the financial (10%), technology (21%) and real estate (23%) sectors



Base Salary Cuts: Duration, Disclosure, and Potential Offsets

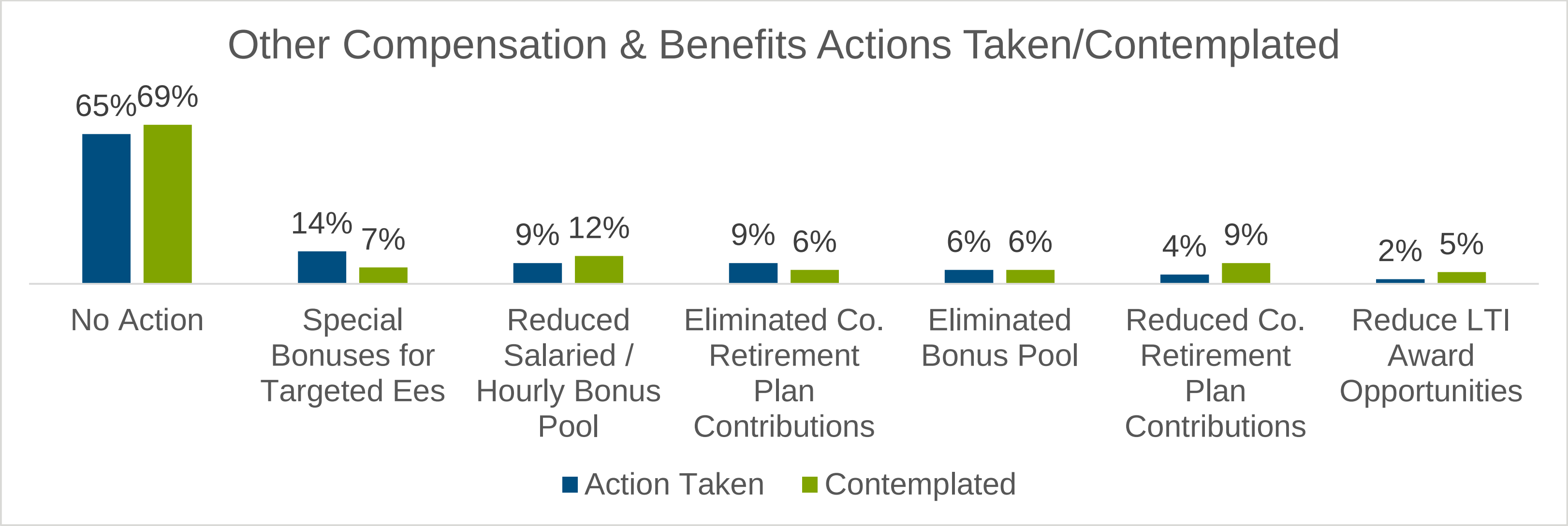
- Among respondents making or considering executive salary cuts, approximately two-thirds cited expected durations, with three to six months most common; in most cases, no make-up or offset (e.g., additional equity grants or cash incentives) is anticipated for temporary base pay reductions
  - When calculating incentive awards, 36% of respondents plan to use actual salaries (reflecting pay cuts), 28% plan to use pre-cut annual salaries, and 36% are undecided
  - 74% of respondents making temporary base salary cuts disclosed them (most commonly for executive officers) and 26% did not





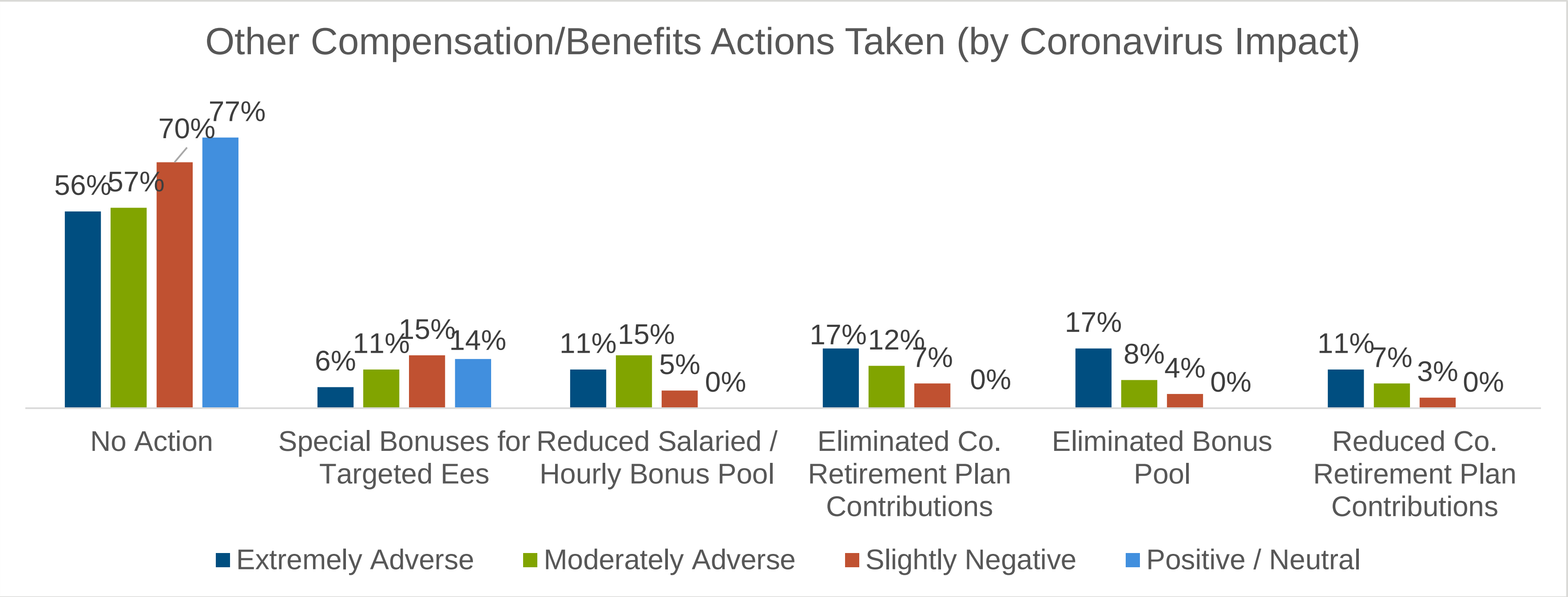
Other Compensation & Benefits Actions Taken/Contemplated (All Respondents)

- Most respondents have not made or contemplated changes to incentive plan award opportunities and designs or retirement programs
  - Among those taking action, special bonuses for targeted employees groups (such as “hazard” pay) and reductions to or elimination of bonus pools and retirement plan company contributions were most common
  - Other cost-saving actions cited include delaying retirement plan company contributions, delaying promotions, encouraging use of vacation and voluntary furloughs, and temporarily suspending tuition reimbursement programs
- Prevalence of actions taken was similar to Pearl Meyer’s early April survey, with slightly more participants in the current survey reducing or eliminating retirement plan contributions (a combined 13% of respondents) vs. the earlier survey (a combined 6%)



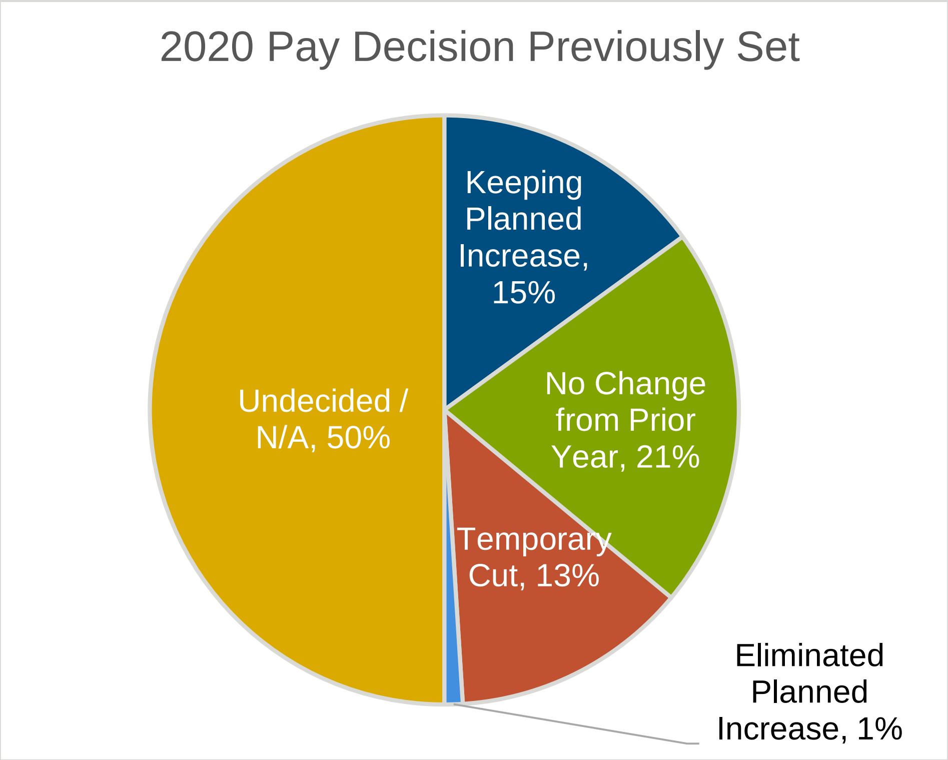
Other Compensation & Benefits Actions Taken (by COVID-19 Impact)

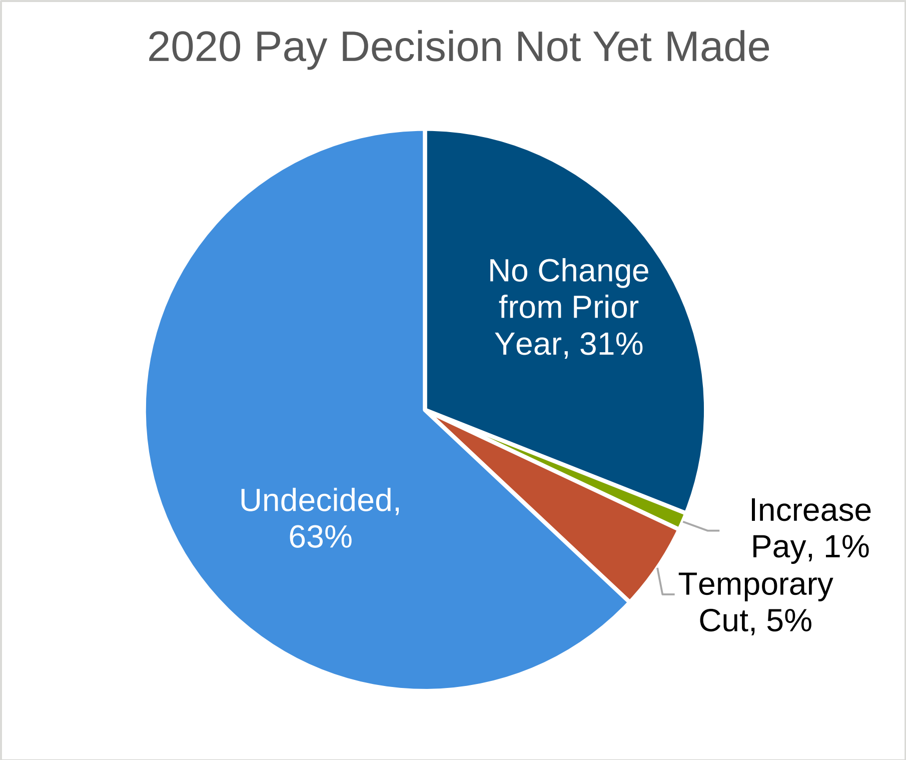
- Moderately and extremely adversely impacted respondents were more likely to reduce bonus pools and company retirement plan contributions than those with little or no negative impact
  - Prevalence of special bonuses for targeted employees (e.g., hazard pay) was higher for respondents less adversely impacted by COVID-19
  - Respondents reducing base salaries were more likely to also reduce bonus pools/retirement plan company contributions (48% took some type of action)
  - The only industry sectors where the majority of respondents took some form of action were consumer (60%) and healthcare (51%)



Non-Employee Director Compensation Actions

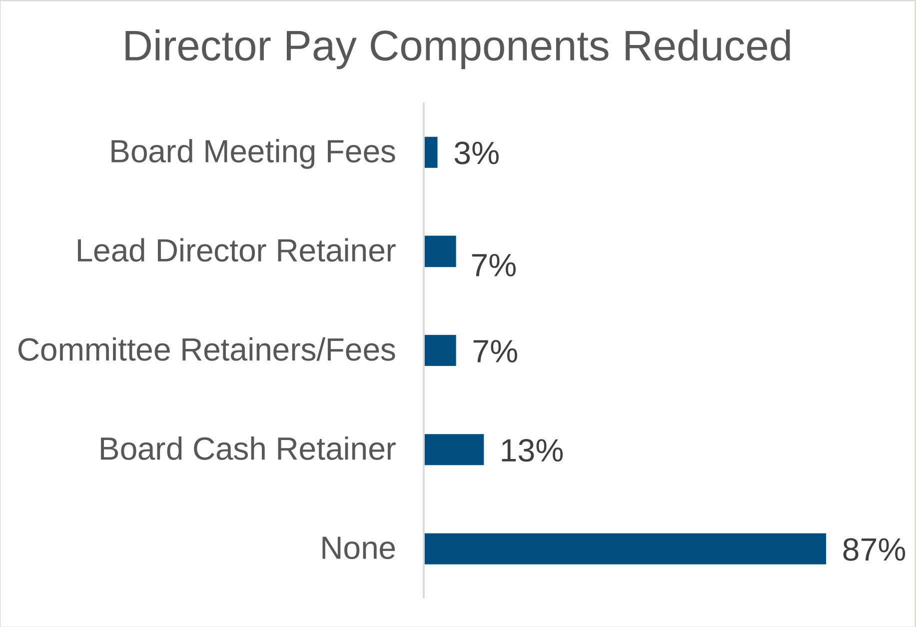
- Among respondents that previously set director pay for 2020, half have not yet decided whether to make any changes
  - 15% will keep previously approved increases; 14% will reduce pay or roll back planned increase
  - Among respondents that cut or are considering cutting CEO salaries, 43% also reduced director pay
- Most respondents that did not previously set director pay are undecided as to whether to make any changes; only 5% anticipate cuts and virtually none expect increases

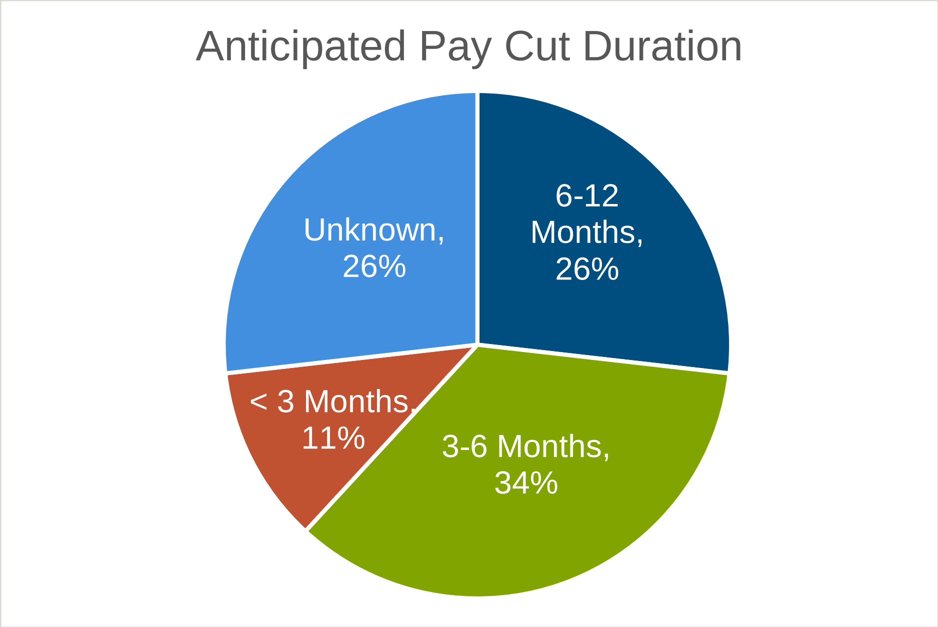




Magnitude and Duration of Non-Employee Director Pay Cuts

- When applicable, director pay cuts typically apply for board cash retainers, followed by retainers/fees for committee service and lead directors
  - Among respondents reducing board cash retainer, cuts typically range from 10% - 25% (46%) or 25% - 50% (37%)
  - The anticipated duration of cuts typically ranges between three to six months or six to 12 months
  - 88% of respondents that temporarily cut director pay also reduced CEO base salaries





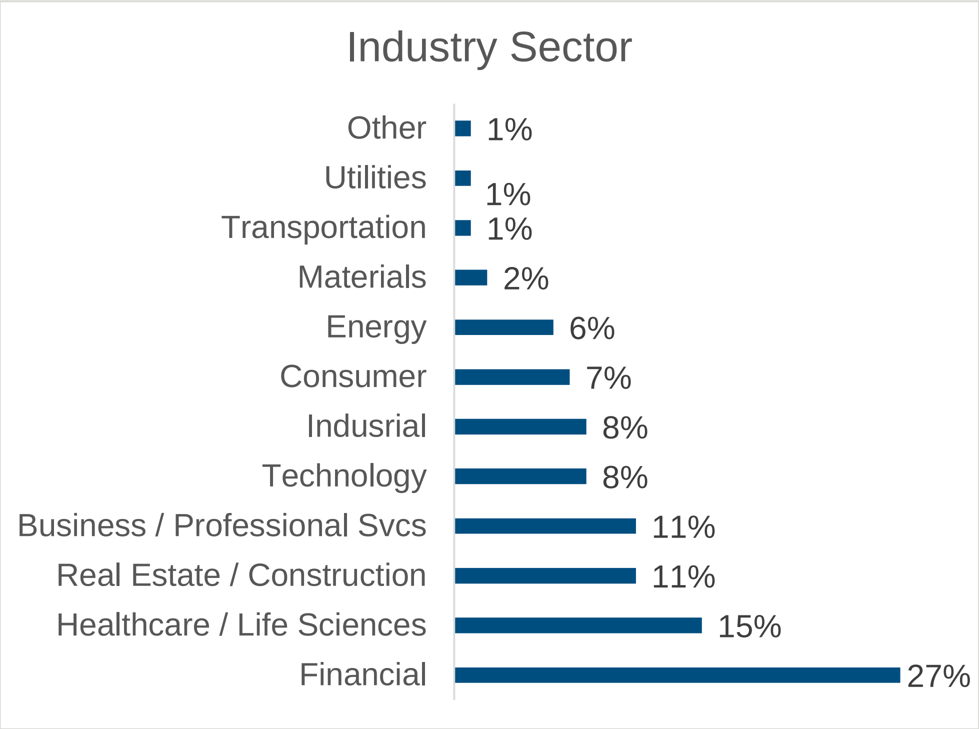
- With regard to director equity grants, most respondents either do not plan to change the grant methodology (45%) or are undecided on approach (48%)
  - Only 7% of respondents cited changes, either granting the same number of shares as the prior year, using an average stock price for grants, or reducing target award values

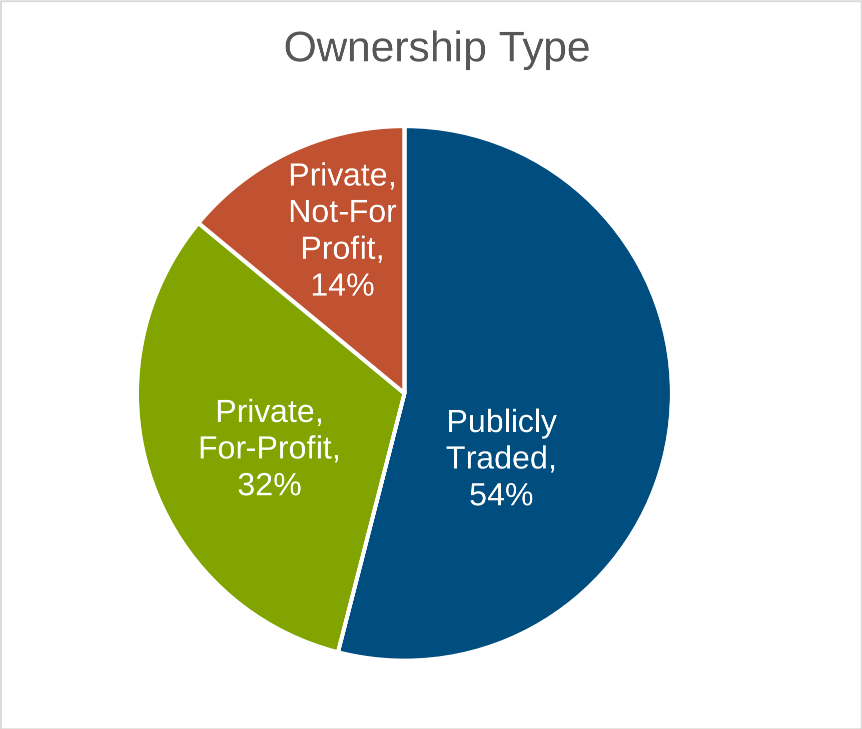
Appendix

Survey Demographics

Participant Demographics

- A total of 285 responses were received, including 214 from employees and 71 from non-employee board members across 11 industry sectors
- Most respondents (80%) described their organizations as essential businesses, with 13% not considered essential and 7% uncertain as to status
- Slightly more than half (54%) of respondents are from publicly traded companies





About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage. Pearl Meyer's global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500 and FTSE 350. The firm has offices in Atlanta, Boston, Charlotte, Chicago, Houston, London, Los Angeles, New York, Raleigh, and San Jose.

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