



Compensation
Advisory Partners

Alert // March 8, 2021

Say on Pay: 10-Year Landscape and 2021 Expectations

■ By Stefanie Kushner and Ryan Colucci

Say on Pay arrived in 2011, born out of the SEC's rule-making efforts to reform corporate governance under Dodd-Frank after the financial crisis. This non-binding advisory vote, which is an annual event at most companies, allows shareholders to cast votes for or against Named Executive Officer (NEO) compensation. While earning simple majority support is technically a passing result, most companies strive for and achieve significantly higher levels of support. Investor support of compensation programs is influenced by many factors, which primarily include magnitude of pay, pay practices, and stock price performance.

NEW YORK
1133 Avenue of the Americas
New York, NY 10036
Phone: +1 (212) 921-9350
www.capartners.com

HOUSTON
840 Gessner
Suite 375
Houston, TX 77024
Phone: +1 (713) 559-2715

CHICAGO
200 S Wacker Drive
Suite 3100
Chicago, IL 60606
Phone: +1 (312) 462-4500

LOS ANGELES
400 Continental Blvd
6th Floor
El Segundo, CA 90245
Phone: +1 (310) 426-2340

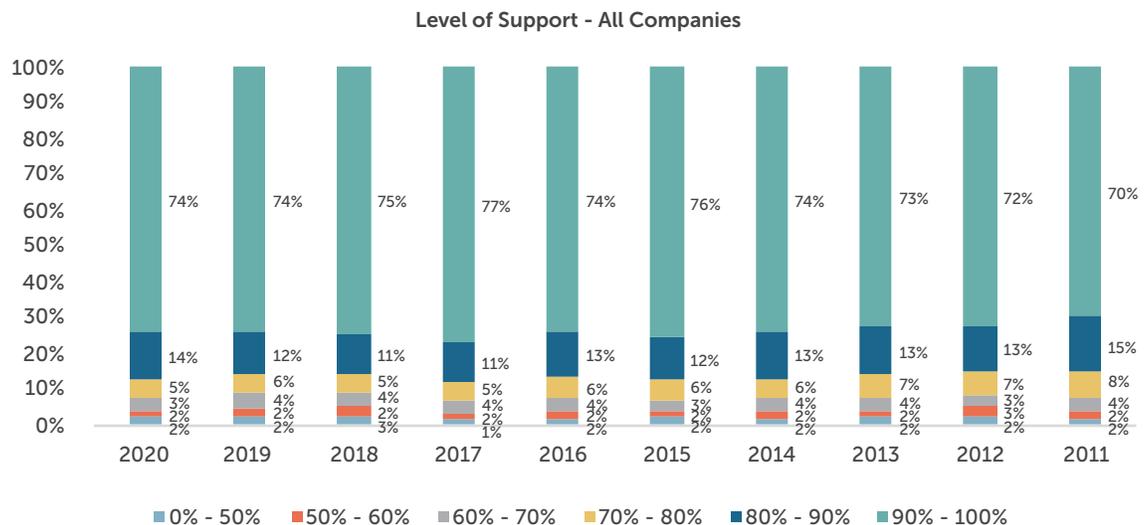
In 2020, COVID-19 significantly disrupted the global economy, causing many companies to re-evaluate their compensation programs. Proxy statements filed in 2021, which will discuss compensation during the COVID pandemic year, will depart from previous norms. In anticipation of these filings, CAP has reviewed Say on Pay voting results at Russell 3000 companies in 2020, and since inception, to gauge the current landscape with an eye on what may occur with 2021 Say on Pay results.

Say on Pay Overview

Russell 3000 Historic Results

2020 marked the 10th year of Say on Pay voting. To date, voting results have generally been very consistent over time. Median support among Russell 3000 companies has been approximately 95% in each of the past 10 years. Most companies receive support from over 90% of shareholders, with an average of 74% of companies receiving support in the 90-100% range. Consistent vote outcomes are seen at the top and the bottom end of the range. The percentage of companies falling in each range shown below has been consistent throughout the 10-year history of Say on Pay voting.

All Companies	2020	2011 - 2020	
		Average	Range
Median Level of Support	94.9%	95.2%	94.7% - 95.6%
>90% Support	74.0%	73.8%	70.0% - 76.8%



Only 2.2% of companies failed to receive majority support for Say on Pay votes in 2020. The number of companies that have failed the Say on Pay vote has also been very consistent over the 10-year period, with an average of 2.0% of companies failing over the past 10 years. For companies that failed in 2020, the median level of support was approximately 38%, mirroring historical results.

All Companies - Failed Say on Pay Vote	2020	2011 - 2020	
		Average	Range
% of Companies Failing	2.2%	2.0%	1.4% - 2.4%
Median Level of Support	38.2%	39.2%	33.1% - 42.7%

Proxy Advisor Impact

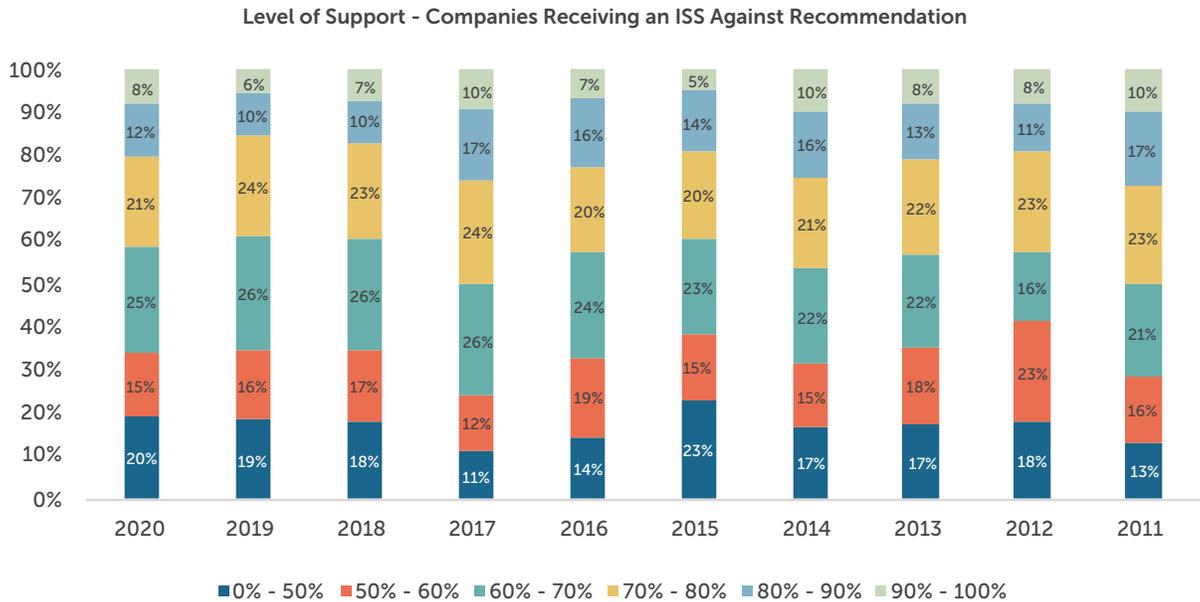
Proxy advisors have a substantial impact on the Say on Pay vote for companies. The most influential proxy advisory firm is Institutional Shareholder Services (“ISS”) which grades companies on a pay-for-performance scale to determine if, in their view, CEO pay and company performance are well-aligned. ISS will then issue a recommendation “For” or “Against” the NEO compensation program, ISS’ vote recommendation often has a substantial impact on the vote result, as outlined below.

The two main inputs that ISS looks at are CEO compensation and Total Shareholder Return compared to an ISS-defined peer group based on company size and industry. Companies will then receive a “Low”, “Medium” or “High” concern level that determines whether ISS performs a qualitative evaluation of the compensation program. The overall concern level drives ISS’ ultimate recommendation For or Against the Say on Pay resolution. Historically, approximately 95% of companies with a Low concern receive support from ISS, compared to about two-thirds of companies rated Medium concern and roughly half of the High concern companies. Often, shareholders will reference the ISS recommendation (i.e., For or Against) when casting their vote on Say on Pay; however, many institutional investors have their own proprietary tests to evaluate compensation programs at companies.

ISS has consistently recommended Against Say on Pay for approximately 12% of companies per year, over the last decade. Among companies that have failed Say on Pay, the vast majority, 96% on average, have received an Against recommendation from ISS. In 2020, roughly 20% of companies that received an ISS Against recommendation ultimately failed the vote and for all companies with an Against recommendation from ISS, the median level of support was only 67%.

ISS Against Recommendation Impact	2020	2011 - 2020	
		Average	Range
% of Companies with ISS Against Recommendation	10.4%	11.6%	10.0% - 13.5%
% of Companies with ISS Against Recommendation Failing Say on Pay	19.5%	16.3%	10.6% - 21.5%
Median Level of Support	67.0%	67.4%	65.1% - 70.4%

As shown below, the percentage of companies with an ISS Against recommendation, at each support level range, has been generally consistent since the Say on Pay vote was established.



Expectations for 2021

Institutional Shareholder and Proxy Advisor Commentary

2021 proxy statement disclosures will reflect the impact of COVID-19 on company performance which influenced both executive compensation in 2020 and the development of 2021 incentive programs. While the degree of impact will vary by industry and company, many more companies than usual will disclose adjustments to their compensation programs than in past years. During 2020, shareholders and proxy advisors provided some general guidance on how they will be assessing and evaluating these unique circumstances.

Institutional shareholders and proxy advisors have both stated that they recognize that 2020 was a more challenging year than most due to the impact of COVID-19. Because of this, they will review companies on a case-by-case basis, evaluating the facts and circumstances that went into any adjustments that were made. Guidance has generally encouraged proactive, enhanced disclosure that clearly explains the situation and rationale for COVID-related changes as opposed to generic descriptions of a challenging year, which may be viewed as insufficient.

How shareholders and proxy advisors interpret and assess the COVID-related disclosures and adjustments will ultimately influence Say on Pay votes and recommendations. While ISS and Glass Lewis did not make wholesale changes to their pay-for-performance evaluations for 2021, ISS did call out key disclosure items that would help investors evaluate COVID-related changes. This indicates that there may be more discretion and flexibility applied for companies with more robust disclosure. Even with greater flexibility in the qualitative evaluations, pay-for-performance misalignment will continue to be the main driver for Against recommendations from ISS in the broader market.

CAP Expectations

Since pay-for-performance is expected to remain the primary driver for proxy advisor recommendations, Say on Pay results will continue to depend on the magnitude of pay, pay practices and stock price performance. For companies that may have a pay and performance misalignment, we expect reduced shareholder support if a company has not provided sufficient rationale for the following actions:

- Annual and long-term incentive plan adjustments
- Major employee actions (e.g., layoffs)
- Performance that is dramatically below investor expectations
- Low relative financial performance
- Above-target discretionary adjustments to payouts that previously missed threshold performance
- Awarding one-time special cash/equity grants

Shareholder outreach will be more important in 2021 as companies can use these discussions to supplement their required disclosures. Proactive outreach may help to prevent a significant impact on the Say on Pay result even if proxy advisors recommend Against a company's compensation program. There will also likely be more disclosure on go-forward incentive programs, as the impact of COVID-19 lingers into 2021.

Say on Pay results in 2021 will likely depart from prior norms. Even if the percentages of Against recommendations and companies passing remains relatively consistent with historic levels, we expect to see a downward shift in the median level of support and in the percentage of companies receiving at least 90% support. For companies that do receive an Against recommendation from proxy advisors, the level of support may decline compared to historic norms if disclosures do not sufficiently justify the actions taken.

Conclusion

2021 Say on Pay results will likely test the "steady state" seen over the previous 10 years. While the full picture will not be clear until later this year, CAP has begun to look at companies with fiscal years ended in late 2020 to get [an early read](#). We will continue to monitor Say on Pay results throughout the year to see how the COVID-19 pandemic shapes these results.



Compensation
Advisory Partners

Please contact us at (212) 921-9350 if you have any questions about the issues discussed above or would like to discuss your own executive compensation issues. You can access our website at www.capartners.com for more information on executive compensation.