Compensation
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Early Filers: COVID-19 Impact on 2020 Incentive Plan Payouts

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CAP reviewed COVID-19 actions taken by 50 companies with fiscal years ending between August through October 2020 (defined as the Early Filers). Revenues for these companies ranged from $2 billion - $275 billion (median revenues of $8 billion); median fiscal year end market capitalization was $10 billion.

This report focuses on annual and long-term incentive plan actions taken by companies to address the impact of COVID-19 on incentive payouts for 2020. We will address the impact of COVID-19 on 2020 executive pay levels for the Early Filers in a future CAPintel report.

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Key Findings

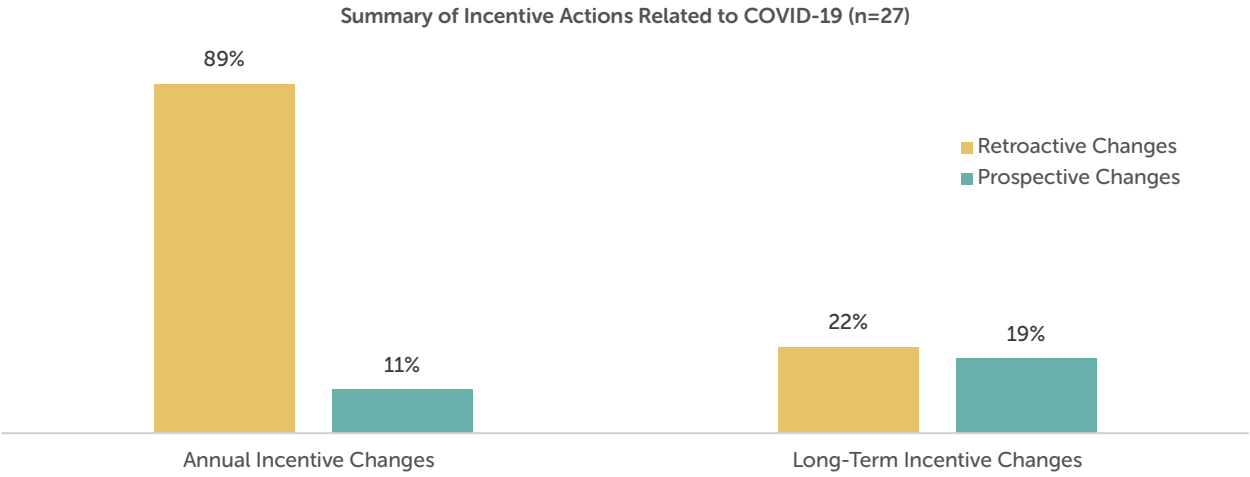
- Approximately 55% of Early Filers made changes to their incentive plan programs due to COVID-19; changes were more likely to be in the annual incentive plan design
- Of companies that disclosed changes, they were typically for the most recently completed performance period vs. prospective changes to the incentive plan design
- Companies were most likely to adjust the final payout for the 2020 annual incentive plan by exercising discretion
- Companies generally made adjustments that increased the final payout, with limited instances of adjustments resulting in a reduction in payment
- Among companies that exercised positive discretion, the payout as a percentage of target, on average, increased from 45% of target to 85% of target

Findings

Among the 50 Early Filers companies, approximately half (27 companies) made retroactive and/or prospective changes to their incentive plan programs due to COVID-19.

	COVID Changes to Incentive Plan	
	Taking Actions	No Actions
Number of Cos	27	23
% of Cos	54%	46%

Of the companies that made changes to their incentive plans, it was more common to make changes to the annual incentive plan (93%) vs. the long-term incentive plan (33%). Overall, companies did not disclose making wholesale changes to their incentive plan design on a prospective basis; companies that did disclose changes to their ongoing incentive plan design were more likely to make changes to the long-term plan.



Note: Companies may have taken multiple actions and therefore percentages may not add up to 100%

For companies that took actions impacting incentive plan payouts for 2020 performance, applying discretion to the final annual incentive payout was most common; four companies adjusted underlying financial performance to remove the impact of COVID-19 when determining annual incentive payouts.

Only six companies disclosed changes to long-term performance plan payouts in 2020 suggesting that companies were more reluctant to make adjustments for longer term performance awards, given the limited timeframe COVID could impact final results (i.e., six months out of a 36-month performance period).

Type of Incentive Actions for 2020 Incentive Plans	Company Prevalence (n=27)			
	Annual Incentive		Long-Term Incentive	
	# of Cos	% of Cos	# of Cos	% of Cos
Exercise discretion to adjust final payout	16	59%	-	-
Adjust underlying financial results	4	15%	2	7%
Change incentive metrics	4	15%	-	-
Adjust performance period	1	4%	3	11%
Revise payout scale	-	-	1	4%
Adjust metric weighting	1	4%	-	-
Provide discretionary equity award	1	4%	-	-
Pay out bonus in equity in lieu of cash	1	4%	-	-

Note: Companies may have taken multiple actions and therefore percentages may not add up to 100%

Incentive Plan Adjustments

Overall, 74% of companies in our study either exercised discretion (positive or negative) or adjusted the underlying financial results.

Exercising Discretion

Among the companies that exercised discretion, most applied a positive adjustment which resulted in an increased final payout. Among companies in our study that exercised positive discretion, the payout as a percentage of target, on average, increased from 45% of target to 85% of target. In very limited circumstances did companies exercise discretion that increased the final annual incentive payout from below target to above target. Most notably, Air Products increased the bonus payout from 58% of target to 152% of target. The company highlighted the impact of COVID on the business, its focus on employee well-being, shareholder value creation during the pandemic, continued company growth, strategic actions taken by the company and making no other changes to the executive compensation program. ISS and Glass Lewis both recommended "For" executive compensation say on pay, showcasing that robust disclosure can be key in effectively communicating company decisions to shareholders.

Only two companies noted the use of negative discretion to reduce the final annual incentive payout for all NEOs.

Company Name	Pre-Adjustment Funding	Final Payout	Company Disclosed Rationale
The Walt Disney Company	21%	0%	While the results against financial performance and other performance factors would have resulted in a bonus for the NEOs, and the Compensation Committee recognized their strong leadership amidst incredible challenges, management and the Compensation Committee believe that in light of circumstances this year, that no bonus should be made to NEOs.
Energizer Holdings	125%	100%	The Committee reached its decision after considering a number of factors, including: • The impact on the Company's business of the COVID-19 pandemic, which resulted in higher than anticipated costs • Fourth quarter earnings per share and adjusted EBITDA that were lower than previously provided guidance, despite strong organic sales growth under challenging global economic conditions • The generation of adjusted free cash flow significantly higher than the stretch goal

Adjusting Underlying Financial Performance

Only a handful of companies disclosed adjusting underlying financial performance. Companies most commonly adjusted profit-based metrics to add back costs related to COVID-19 (such as enhanced cleaning procedures, setting up remote work, etc.) that were unforeseen and outside of management's control. No companies in our sample disclosed adjusting revenue performance due to COVID-19's impact on sales; however, companies were more likely to cite COVID's impact on revenue as a rationale for use of positive discretion on the overall final payout.

One company, Tyson Foods, adjusted operating income for the broad-based annual incentive plan payout but did not provide an annual payout to the named executive officers (NEOs). Instead, the company granted a restricted stock unit award to the NEOs to reflect the extraordinary effort taken during the fiscal year thus bifurcating the company's approach to rewarding its employees.

For the long-term incentive plan, only two companies disclosed removing the impact of COVID-19 from the incentive plan payout calculation. Adjustments were made to profit-based metrics in both cases and were due to unexpected expenses related to COVID-19. One of these companies, Jabil, noted that payout went from below target (90% of target) to above target (108% of target) as a result.

Conclusion

Disclosure from the Early Filers provides insights into how companies are incorporating the impact of COVID-19 into incentive plan payouts. Compensation committees are taking a holistic approach to reviewing overall company performance and removing a portion of the impact of COVID-19 on incentive plan performance. Regardless of if a company made changes to is incentive plan payments, most companies addressed the impact of COVID-19 on the business in their disclosure (including actions taken by the company to address ensuring employee safety or how the organization helped the communities in which they operate).

We would expect to see similar trends in company actions when companies with December 31st fiscal year ends begin to file their proxy statements in the coming weeks. For companies that are planning to exercise positive discretion on final incentive plan payout, having robust and clear disclosure in the proxy statement will be important to communicate with key stakeholders the rationale for company actions.

Whitney Cook and Zaina Jabri provided research assistance for this report

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