



Compensation
Advisory Partners

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The Materials & Industrials Sector: Trends in Executive Compensation Annual Incentive Payouts & Design

■ By Dan Laddin, Lauren Peek, and Grace Tan

The Materials and Industrials sectors encompass some of the largest companies across a wide range of industries in the United States. These sectors are sensitive to geopolitical uncertainty, supply chain disruptions and other macroeconomic issues. As such, annual incentive payouts can be impacted in different ways each year and it is important for a company's plan design to be reflective of overall performance. To understand the implications of annual incentive plan design in these sectors, CAP analyzed 48 S&P 500 Materials and Industrials companies with revenues greater than \$5B.

NEW YORK

1180 Avenue of the Americas
New York, NY 10036
+1 (212) 921-9350
www.capartners.com

CHICAGO

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

LOS ANGELES

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

SEATTLE

500 108th Ave NE
Unit 1100
Bellevue, WA 98004
+1 (646) 532-5932

Below is a snapshot of the companies in our study:

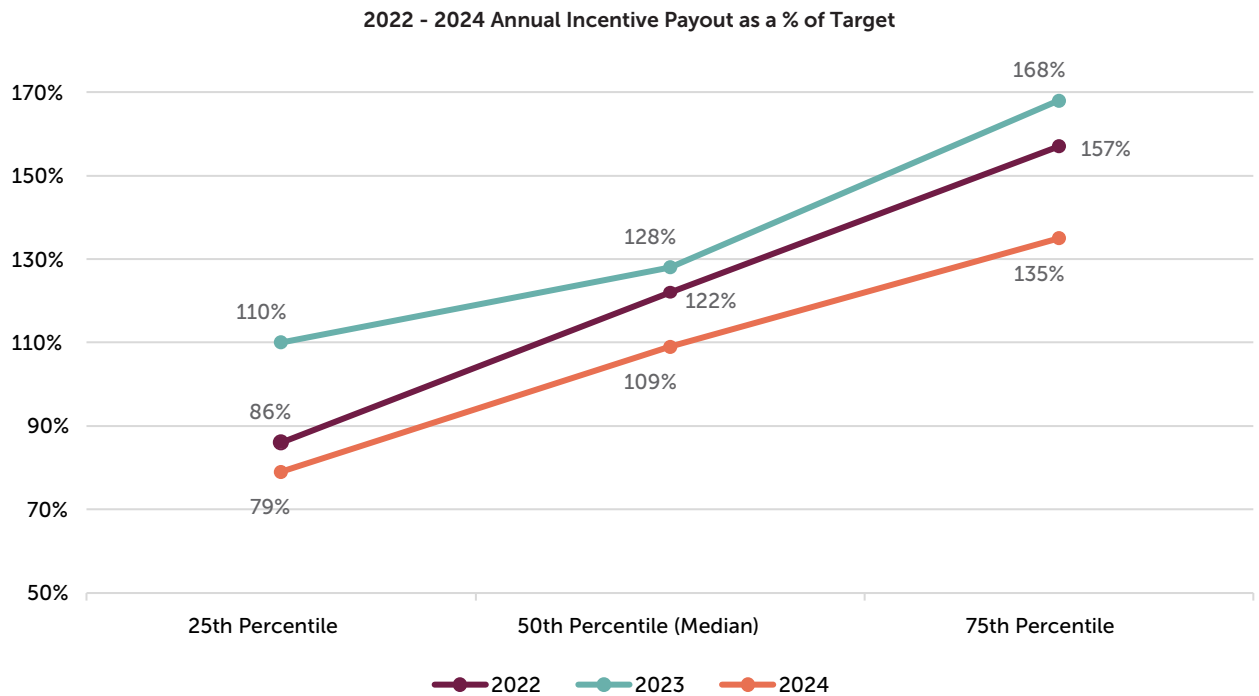
	Fiscal 2024 Revenue	1-Yr Avg. Market Cap as of 5/1/2025
75th Percentile	\$33,170	\$71,621
Median	\$15,820	\$41,259
25th Percentile	\$7,912	\$25,886

Source: S&P Capital IQ Database

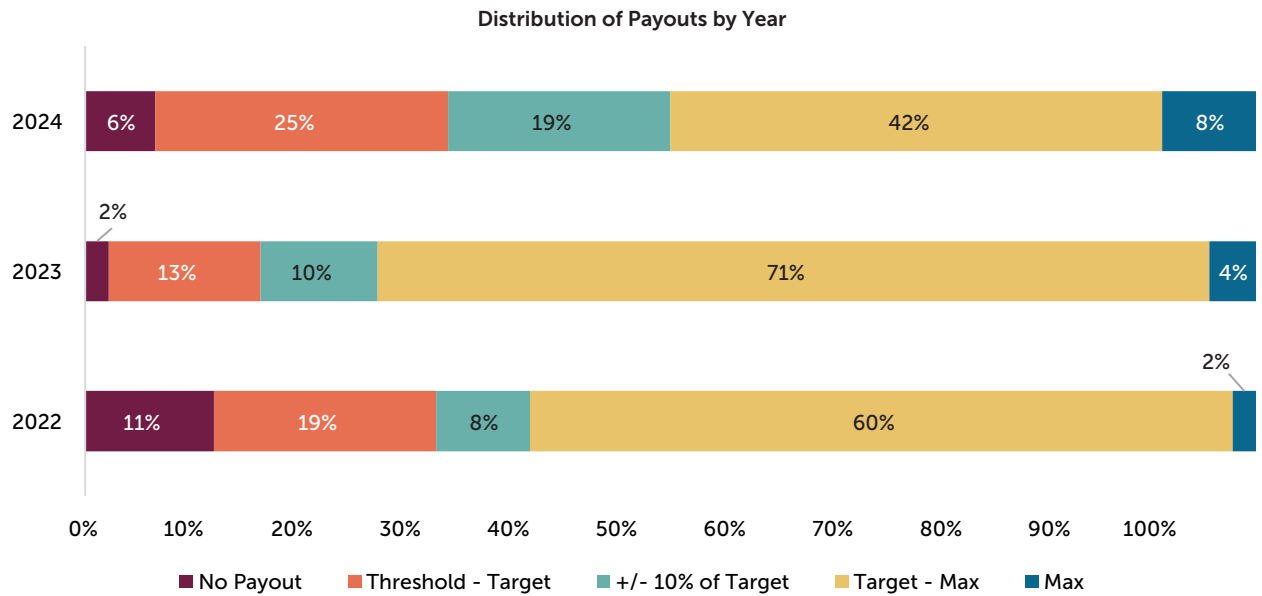
Our sample includes companies from the following industries: aerospace and defense, building products, construction, electrical equipment, industrial machinery and supplies, and specialty chemicals.

Incentive Payouts

Annual incentive payouts for the Materials and Industrial sectors have been above target (at median) in each of the last three years (2022, 2023 and 2024). Overall, 2024 had the lowest median payout as a percentage of target (109%) whereas 2022 and 2023 were both around 125% of target at median. In fact, 25th percentile payout for 2023 (110% of target) was similar to the median payout in 2024.



Historically, bonus payouts tended to have a normalized distribution. However, 2023 saw a significant number of companies in our sample (75%) have a payout that was above 110% of target. By contrast, in 2024, 50% of companies had a well above target payout (above 110% of target) which is closer to historical norms.



Since the Materials and Industrial sectors are influenced by macroeconomic issues, the annual incentive payout each year can be impacted by numerous factors, resulting in more conservative or aggressive goals set for the performance period. For example, supply chain disruptions and inflation, both of which arose in the aftermath of the COVID-19 pandemic, were factors companies considered when goals were set for the 2022 and 2023 performance periods and may have resulted in more conservative targets.

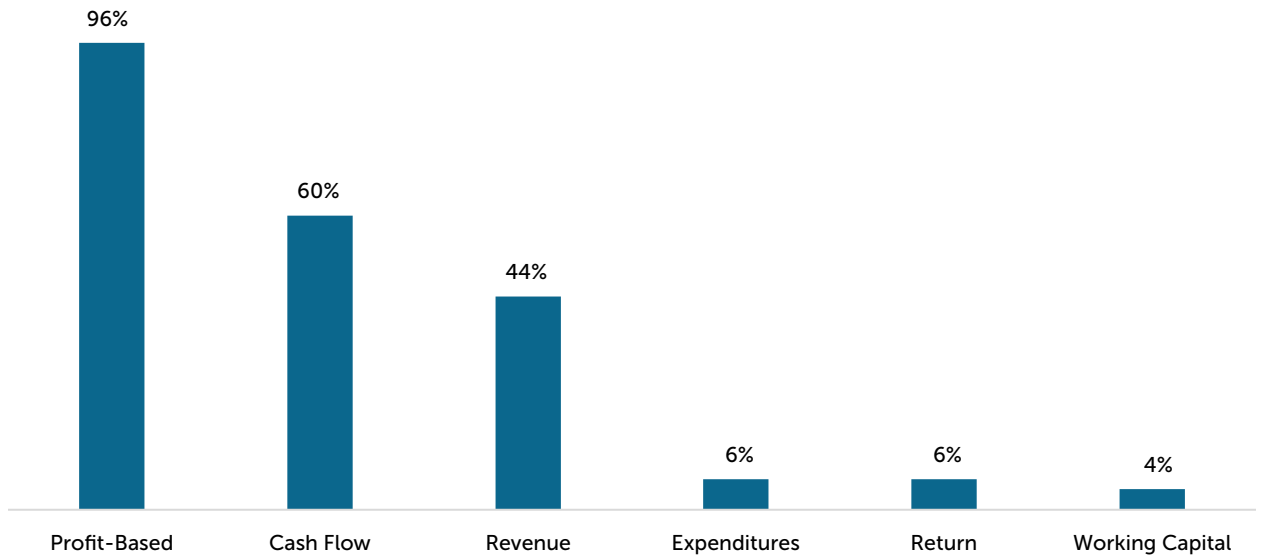
While supply chain issues, inflation, and geopolitical unrest were factors when 2024 targets were set, companies had somewhat better insight plus two years of performance to guide their goal-setting process, which may have led to more aggressive goals.

2024 Incentive Plan Design

Use of a goal attainment annual incentive plan, characterized by pre-defined targets, is almost universal. Approximately half of companies use a mix of financial and non-financial metrics.

Among financial metrics, profit-based metrics were the most prevalent, with 96% of the group using at least one profitability metric. The next most prevalent measures were cash flow and revenue. In this sector, managing cash flow is key given the importance of effectively and efficiently managing cash in a capital-intensive environment. Despite the macroeconomic challenges the companies have faced, incentive plan metrics are largely unchanged over the last three years.

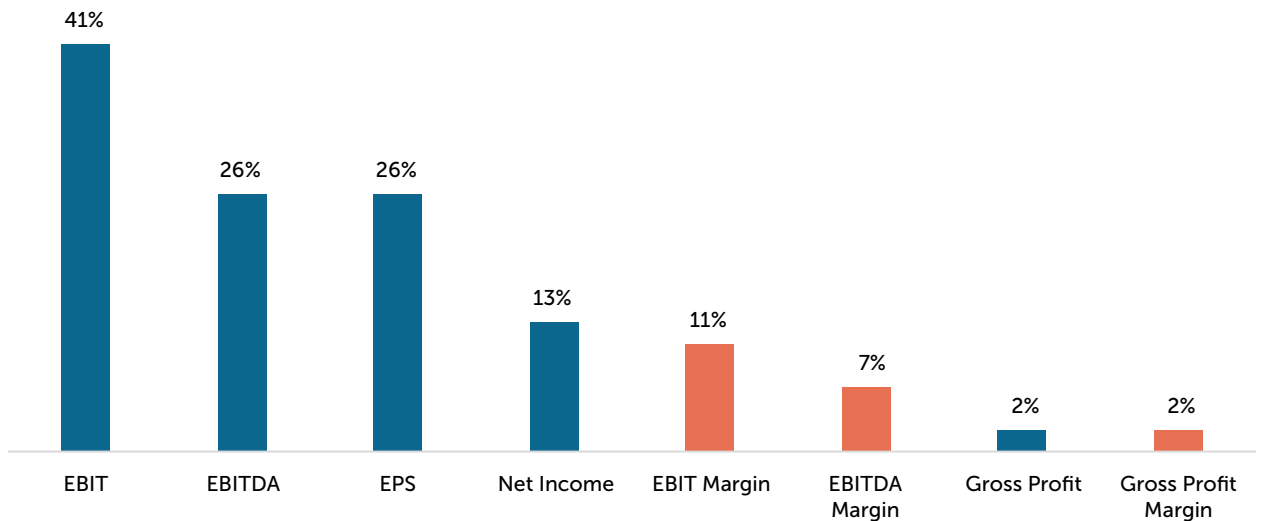
Prevalence of Financial Metrics (n=48)



Other financial metrics observed include EVA, Bookings, and other ratios.

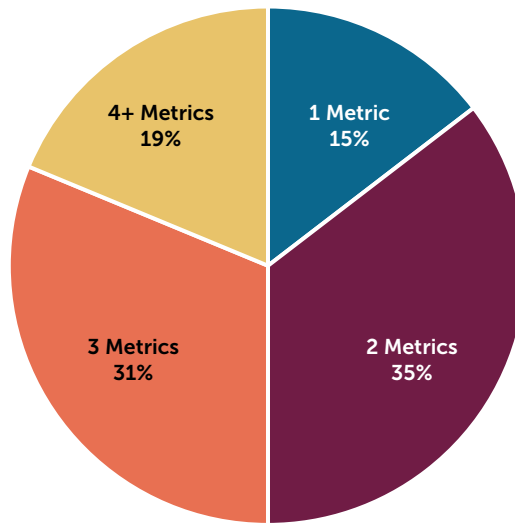
Among companies using a profit-based metric, EBIT/Operating Profit is the single most common profitability measure followed by EBITDA, EPS and Net Income. Several companies also include a profit-based margin metric in their plan design. Most companies (72%) use just one profitability metric, while 28% use 2 or more.

Profit-Based Annual Incentive Metrics (n=46)



Among the companies reviewed, it was most common to use 2 or 3 financial metrics in the annual incentive plan.

Number of Annual Incentive Plan Financial Metrics



Nearly half of the companies (48%) we studied include a non-financial operating measure in their annual incentive plan, a slight decrease from 52% in 2023. These measures reflect operational or strategic goals such as customer satisfaction, quality, ESG (environmental, social, and governance), or industry-specific metrics. Use of a non-financial operating measure can provide a holistic understanding of overall company performance and align annual incentive pay for executives with the organization’s short- and long-term strategic goals.

The use of ESG metrics has declined since 2023. While we do not anticipate ESG measures going away, we do expect companies to focus on metrics that best align with the overall company culture and strategy.

Conclusions and Expectations for 2025

The Materials and Industrials sectors are cyclical as these companies are not only impacted by broader macroeconomic cycles, but also smaller cycles of extended and retracted demand based on trends in supply chain, geopolitical activity, and more local or segment-specific regulatory and economic pressures. Since 2020, these sectors have experienced significant outside forces which, in turn, has impacted goal-setting and annual incentive payouts.

There continues to be turbulence ahead for these sectors given the continuation of higher interest rates, tariffs, the end of the post-pandemic investment boom, and concerns about macroeconomic factors weighing on consumer spending. Annual incentive payouts may contract in 2025.

Given the economic uncertainty, 2025 may be the first time in several years where the payout for at least half of the companies is not well above target. We may also see a difference in payouts between calendar year companies and those whose fiscal years began after March. Calendar year companies set their goals in Q1 when the extent and scope of tariffs were largely unknown. For companies with a later fiscal year start, there was somewhat more visibility as to potential economic headwinds, and these companies may have built those factors into their business plans and goals. We would expect to see that some companies will have widened the wings of their annual incentive plan targets to offset some of the economic uncertainty. We anticipate compensation committees will spend time to ensure that the annual incentive payout for executives aligns with overall company performance and the shareholder experience.

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