



Compensation
Advisory Partners

Industry Report // 2025-2026

Materials and Industrial Sector

The Materials and Industrial 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 given the breadth of their reach. These companies have been weathering the storm of uncertainty over the past six years. To understand how these companies have designed annual and long-term incentive programs to address these changes, CAP analyzed 65 S&P 500 Materials and Industrial companies with revenues greater than \$5B (median revenue \$16B).

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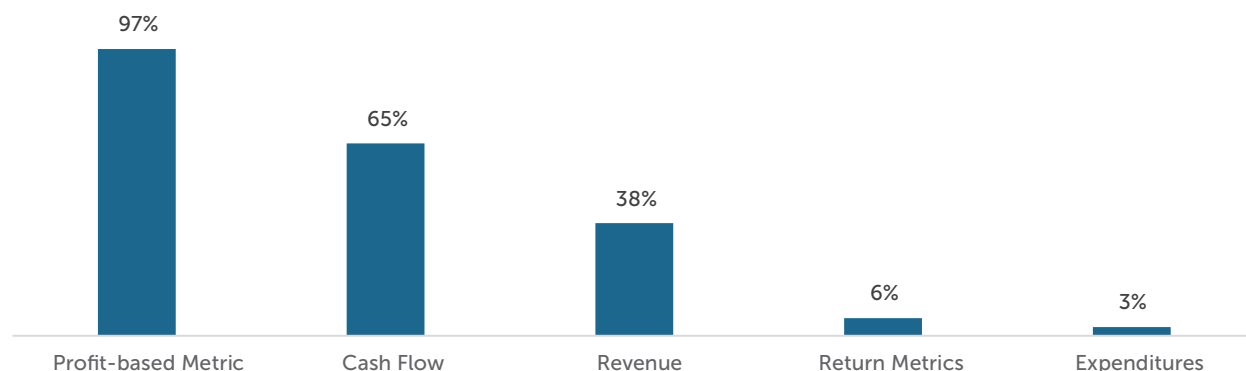
Annual Incentive Plan

Performance Metrics

Most public companies set pre-defined threshold, target and maximum goals (otherwise known as a goal attainment plan) to provide annual incentive payouts to executives. For Materials and Industrial companies, this approach is nearly universal. Among companies reviewed in our study, nearly all use a goal attainment approach while only one company funds a pool based on a percentage of income.

The most prevalent annual incentive measures are profit-based metrics, cash flow and revenue. These are key measures of the financial health of a company within the sector. Companies must ensure that they can grow, profitably, while effectively managing cash both in a capital-intensive environment and to make targeted investments through M&A.

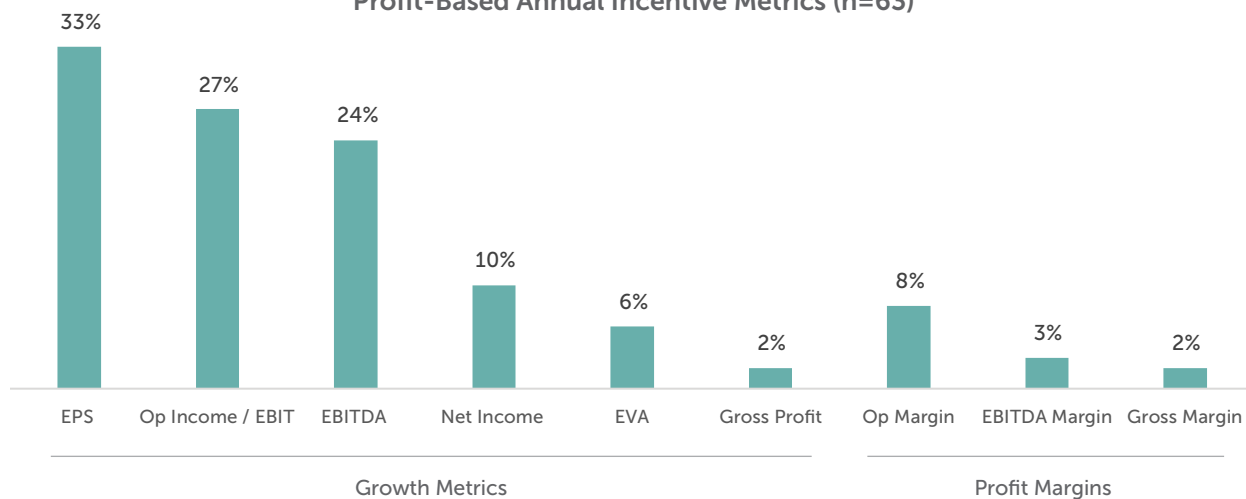
Annual Incentive Financial Metrics



Source: Equilar database of 65 Materials and Industrial companies.

Among companies using a profit-based measure, EPS is the single most prevalent metric followed by Operating Income/EBIT and EBITDA. Several companies also include a profit-based margin metric in their plan design. Approximately 15% of companies reviewed use more than one profit-based metric in their plan.

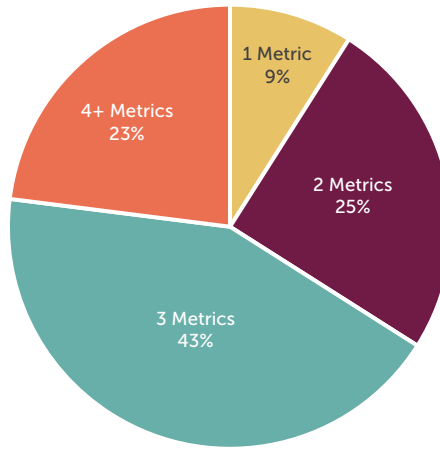
Profit-Based Annual Incentive Metrics (n=63)



Source: Equilar database of 65 Materials and Industrial companies. Note: Nine companies use more than one profit-based measure.

Approximately 70% of companies use 2 or 3 weighted performance measures in their plan while only 10% of companies use a single metric. For those using a single metric, it is always a profit-linked measure.

Number of Performance Metrics in the Annual Incentive Plan



Around half of the companies (55%) we studied include a non-financial operating measure in their annual incentive plan. These measures reflect operational or strategic goals such as customer satisfaction, safety, Environmental, Social and Governance measures (ESG) that are typically linked to sustainability, or industry-specific metrics. Companies may include these as a weighted metric in the plan or as a modifier that can adjust financial results.

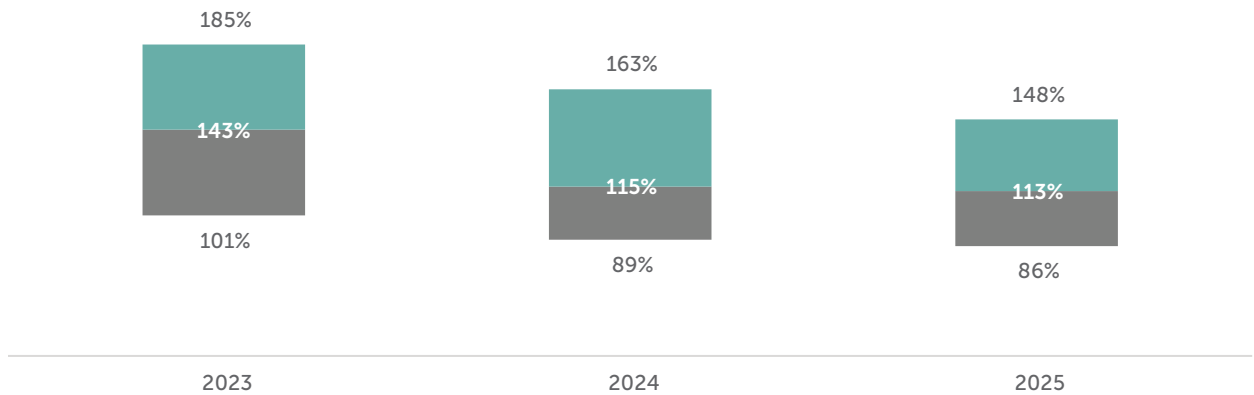
Use of a non-financial operating measure can provide a holistic understanding of overall company performance and align annual incentive pay for executives with the organization’s short- and long-term strategic goals.

Annual Incentive Payouts

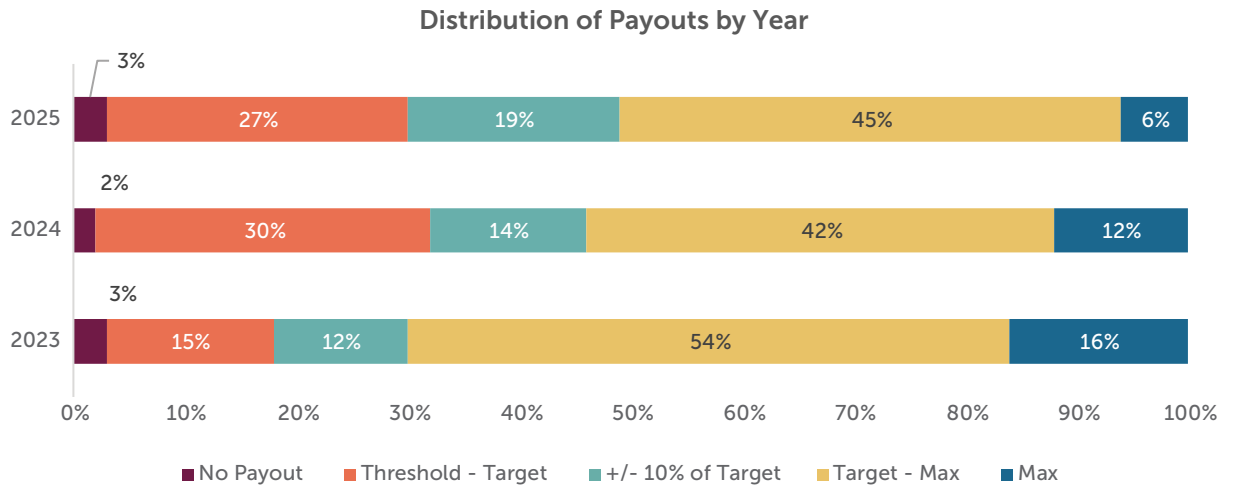
Annual incentive payouts for this sector continue to be strong. Median payouts have been above target in each of the last three years (2023, 2024 and 2025). In 2024 and 2025, median target payout was 115% and 113% of target, respectively, while 2023’s median payout was significantly higher (143% of target).

While performance across the industry was strong in 2025 and 2024, performance in 2023 was very strong; revenue in 2023 grew by 6% at median and EPS and cash flow each grew by double digits which supported above target payout. In fact, financial performance was so strong in 2023 that the 25th percentile payout was at target (101%) and the 75th percentile was 185% of target.

2023-2025 Annual Incentive Payout as a Percentage of Target



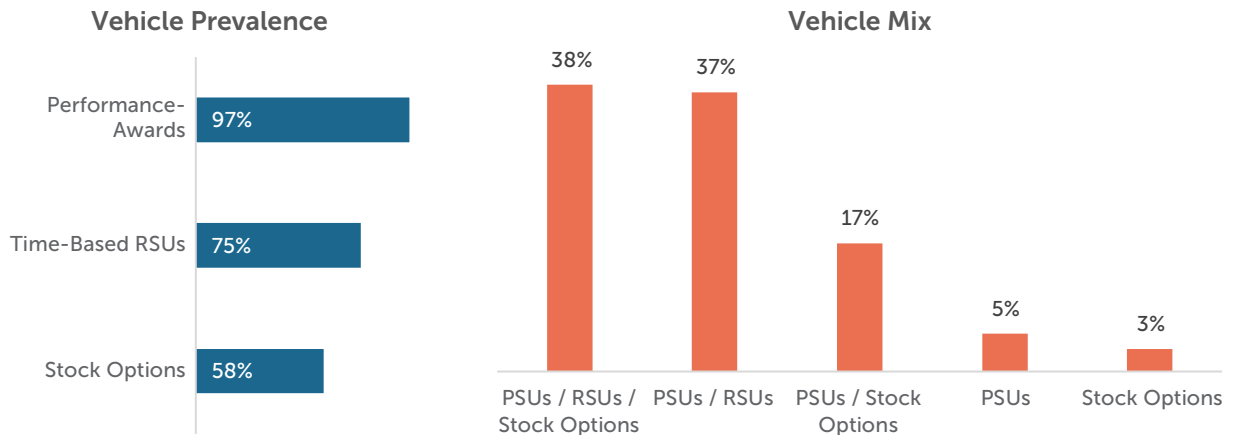
For the past two years, distribution of payouts was generally similar, with approximately 50% of companies providing an above target payout and one-third providing a below target payout. In 2023, however, 70% of companies in our sample had an above target payout, reflective of the strong financial performance. Over the last three years, only a handful of companies had no payouts.



Long-Term Incentive (LTI) Plan Design

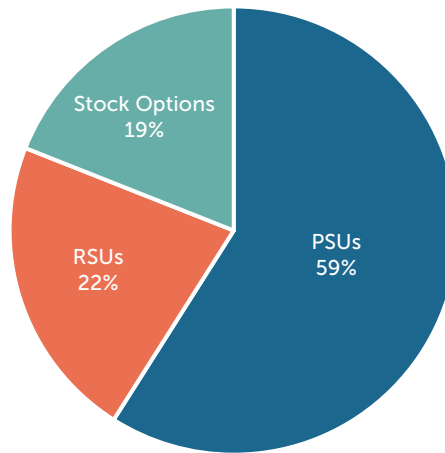
Vehicles and LTI Mix

Nearly all companies reviewed (97%) in the sector include performance shares (or PSUs) in the LTI design. This aligns with broader market trends. Among companies in this sample, most either use all three vehicles in the plan design or use PSUs and time-based restricted stock units (RSUs). Only 5% of companies in our sample use only performance-based equity awards.



PSUs reflect the largest portion of the LTI mix to the CEO. On average, 60% of the LTI award is delivered in the form of PSUs. Although nearly all companies use time-based RSUs and/or stock options in the LTI award, these vehicles each reflect, on average, 20% of the total award to the CEO.

CEO LTI Mix



PSU Metrics

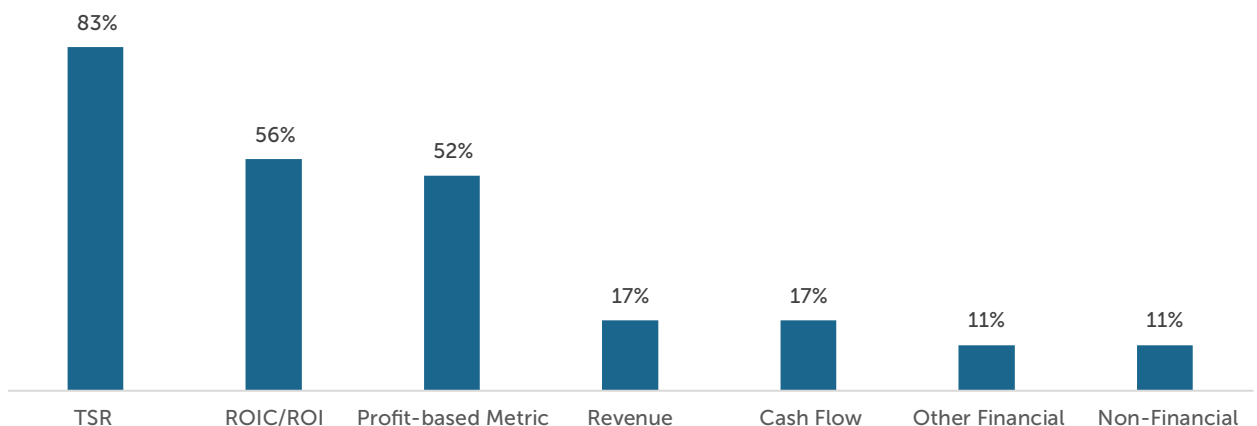
Total Shareholder Return (TSR) is the single most common metric in LTI plans among the Materials and Industrial sector, consistent with broader market practice. TSR is typically a weighted metric and, on average, is 50% of the metric mix. There are a handful of companies that use TSR as a sole metric which can alleviate the goal-setting process.

Most companies using TSR compare performance relative to a performance peer group (that is different than the compensation peer group), a broad index (like the S&P 500) or a sector or subset of a broad index (such as the S&P 500 Industrial index).

ROIC and profitability are also common measures in performance plans. ROIC is especially important for Materials and Industrial companies because it indicates long-term financial health and how effectively companies deploy capital.

Unlike the annual incentive plan, profitability, revenue and cash flow are not as widely used as measures in the long-term plans. Only 50% of companies use a profitability measure in LTI plans while the use of revenue and cash flow is approximately 20% each. This is partly due to companies using different metrics in the annual and long-term plans (and not rewarding twice for the same performance) and highlighting the difficulties in setting multi-year goals (particularly for cash flow which can be volatile over a multi-year performance period).

LTI Performance Metrics



Conclusions and Expectations for 2026

Companies in the Materials and Industrial sector are not only impacted by broader macroeconomic cycles but also affected by external issues such as supply chain disruptions, geopolitical activity, and local or segment-specific regulatory and economic pressures. Since 2020, these sectors have experienced significant outside forces.

We are not seeing much relief for this sector in 2026 given the war in Iran (and the impact to the supply chain), interest rates continue to be high, the rise of AI and concerns about inflation all of which can impact consumer spending.

Given the continued economic uncertainty and the effect of a prolonged war in Iran, we would expect 2026 incentives to likely pay out lower than 2025 overall. Though it should be noted that because of six years of unpredictability, many companies have taken steps to mitigate the uncertainty for the annual incentive payouts such as widening the incentive plan performance curves or incorporating some discretion to ensure payouts align with overall company performance and shareholder experience. Additionally, they have added time-based RSUs to the long-term incentive mix to include a retentive long-term vehicle for executives as a part of the annual program.

We do not anticipate companies making wholesale changes to the incentive plan design for 2026. Companies will choose performance measures that will drive performance and/or support the strategic plan. We expect that stock options will continue to be a part of the compensation program at these organizations given the continued focus on growth though the percentage of the mix will continue to contract and its use limited to senior executives.

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