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Compensation and Human Capital Corporate Actions in Response to COVID-19

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The outbreak of coronavirus (COVID-19) is having a profound impact on every aspect of business and society. CAP has created resource center of announced actions related to compensation and human capital issues that corporations have taken to ensure their short-term and long-term viability while continuing to support their employees, customers, and the community at large.

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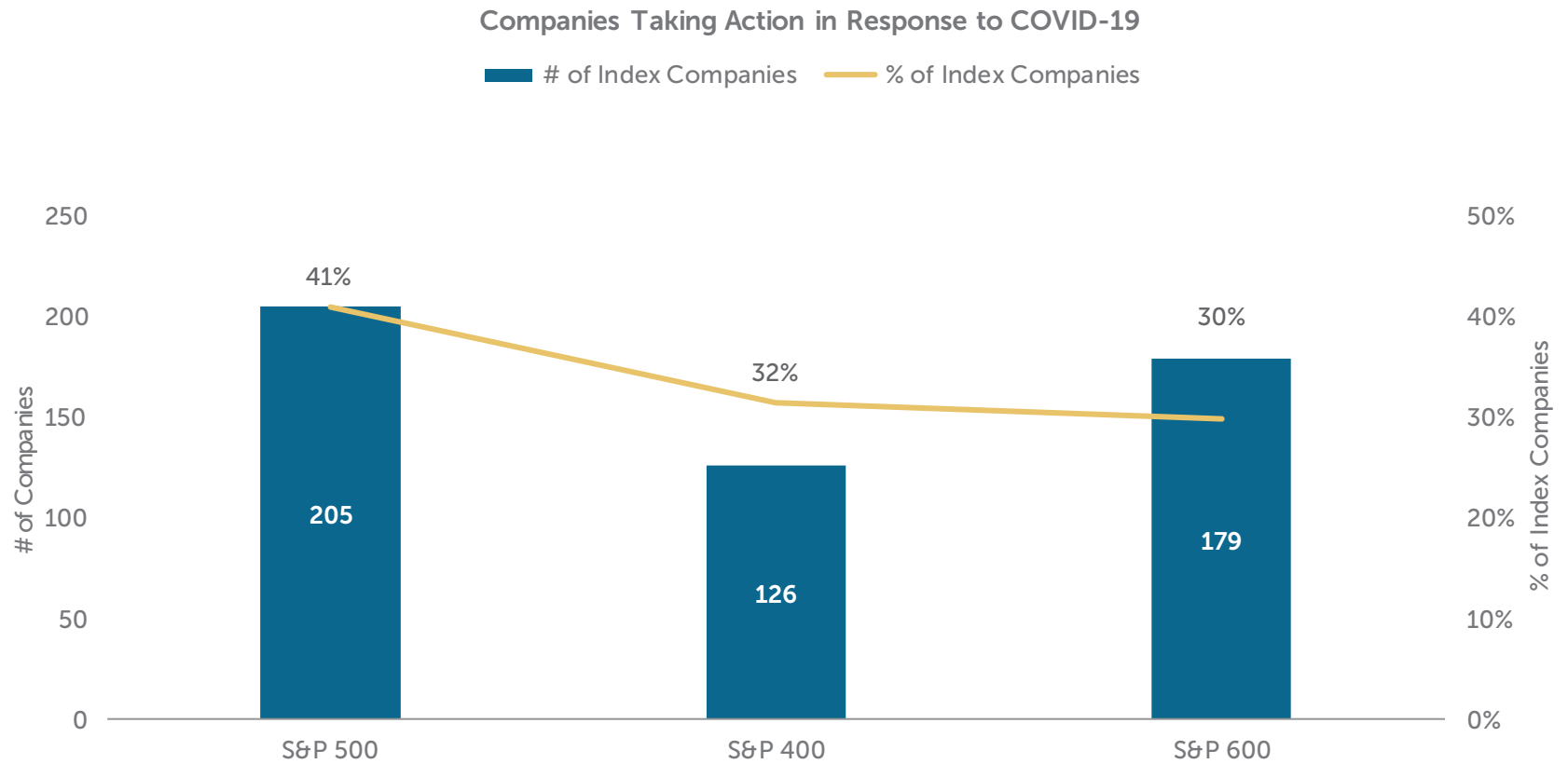
CAP is tracking COVID 19 actions for the S&P 500, S&P MidCap 400 and S&P SmallCap 600

- Compensation Advisory Partners (CAP) is monitoring corporate public announcements to compile a database of pay actions taken in response to the COVID 19 pandemic:
 - Compensation actions for chief executive officers (CEOs), executives, boards of directors and employees
 - Workforce reductions and expansions
 - Changes in dividend policy and share buybacks (not covered in this document)
- These indices were selected to allow for size comparisons and because they compose the S&P Composite 1500 index, which covers approximately 90 percent of the market capitalization of U.S. public companies

S&P 500 Large Cap	S&P 400 Mid Cap	S&P 600 Small Cap	S&P Composite 1500
500 largest U.S. publicly traded companies by market capitalization	400 U.S. publicly traded companies with a market cap of \$2.4 billion to \$8.2 billion at the time of addition to the index	600 U.S. publicly traded companies with a market cap of \$600 million to \$2.4 billion at the time of addition to the index	U.S. publicly traded companies in the S&P 500, 400 and 600 indices
Companies must meet financial viability requirements for inclusion in all indices			

Company details, as well as more than 600 additional U.S. and non U.S. companies, are available on CAP's [website](#).

Across the three indices, 510 companies have announced compensation and human capital actions, with the highest prevalence among large companies

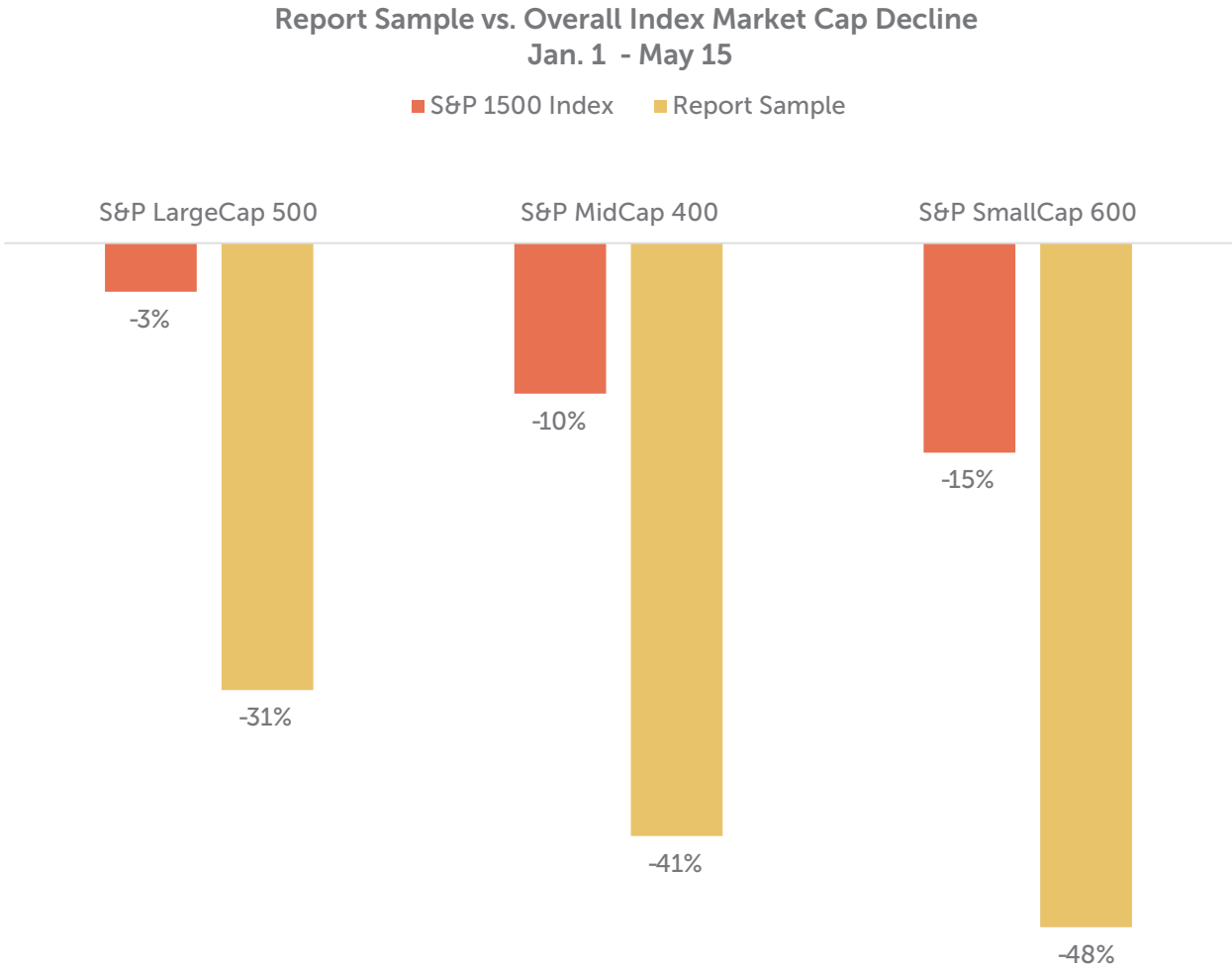


Based on the sample of 510 companies, CAP has identified a number of trends:

Corporate compensation and human capital actions are made for several reasons, depending on each company's situation. The most common reasons are:

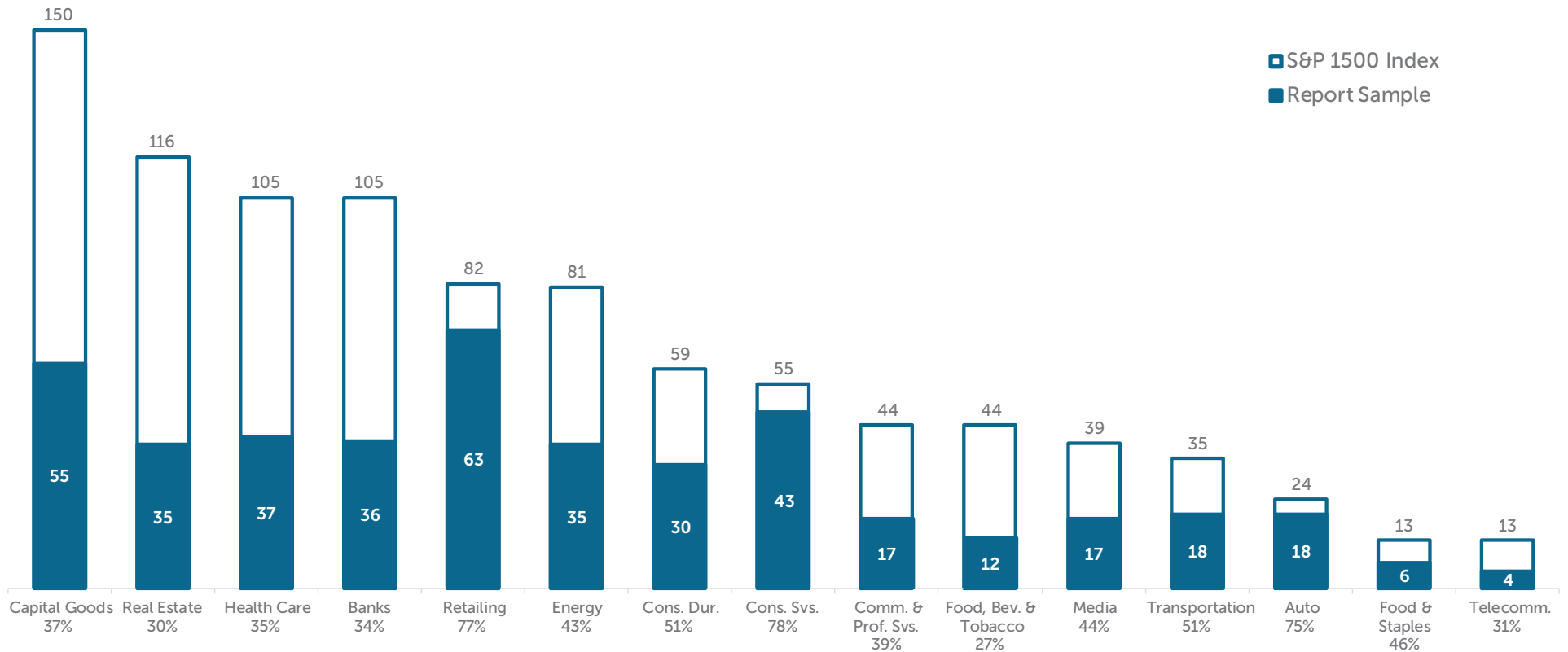
- Help companies conserve cash
 - Ensure employee safety
 - Compensate front line employees for increased risk
 - Meet the changing demand for products and services caused by the pandemic
-
- The industry sectors that are most impacted by the pandemic are retail, consumer services and the automotive industry
 - CEO salary cuts are the most prevalent action, with approximately 20% of companies in the S&P 500, S&P 400 and S&P 600 cutting salaries for top executives
 - CEO salary cuts are often seen in conjunction with other adverse corporate actions, such as executive salary cuts, cuts in the cash retainers paid to the board of directors, and reductions in pay and headcount for the broader employee population
 - Adverse broad based actions are more likely in the S&P SmallCap 600, which illustrates that the economic fallout from the pandemic is having a greater impact on smaller companies and their employees
 - Large companies in the S&P 500 are more likely to take positive broad based actions than smaller peers. Examples of positive actions are workforce expansion and increased compensation, either on an hourly basis or through a one time bonus

The economic impact of the pandemic is greater for smaller companies. The impact is even greater for the companies that reported compensation and human capital actions



Retail, consumer services and automotive firms have been more likely to take compensation and human capital actions in response to COVID-19

Number of Companies Taking Compensation and Human Capital Actions by Industry vs. Number of S&P 1500 Companies in Each Industry

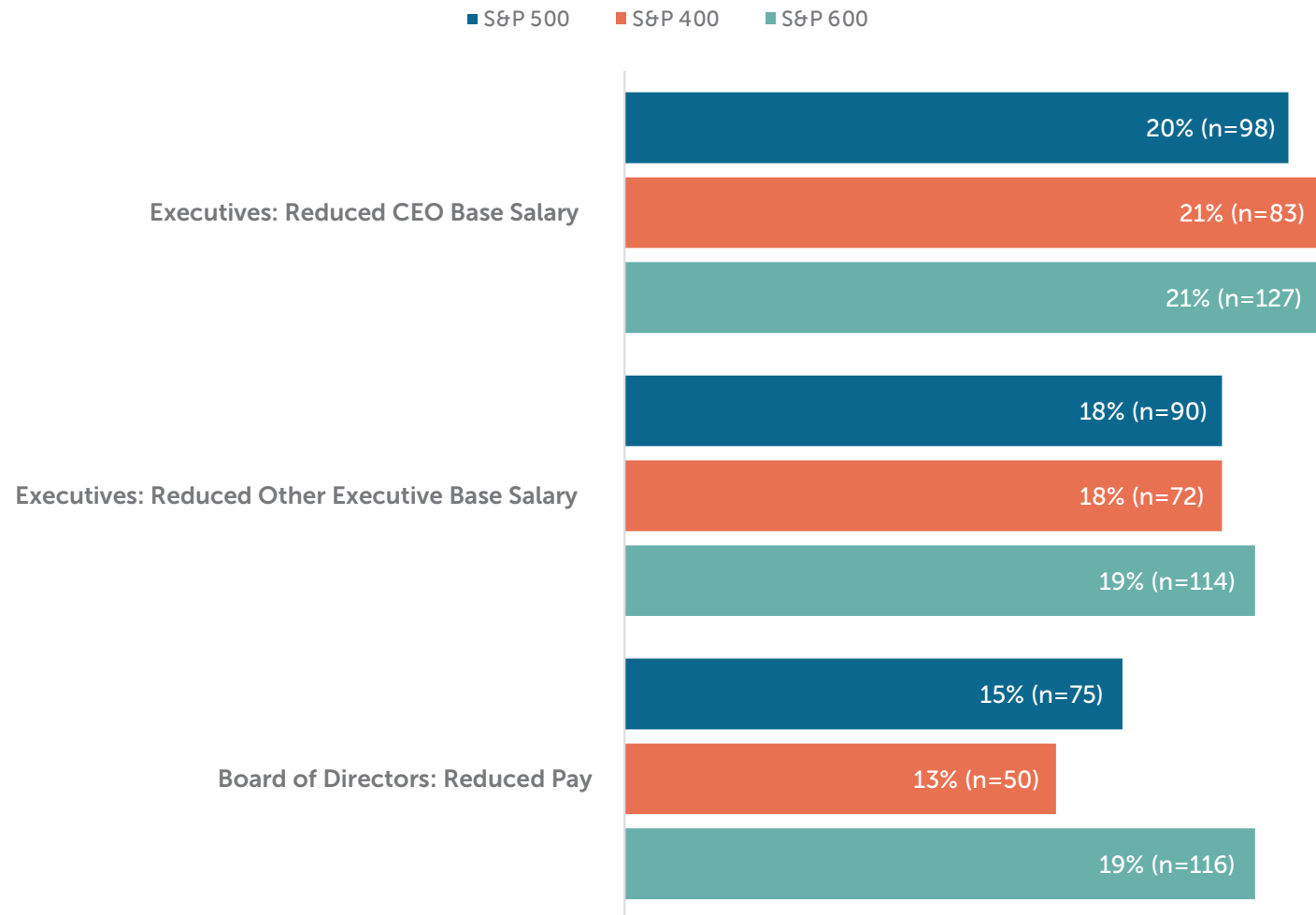


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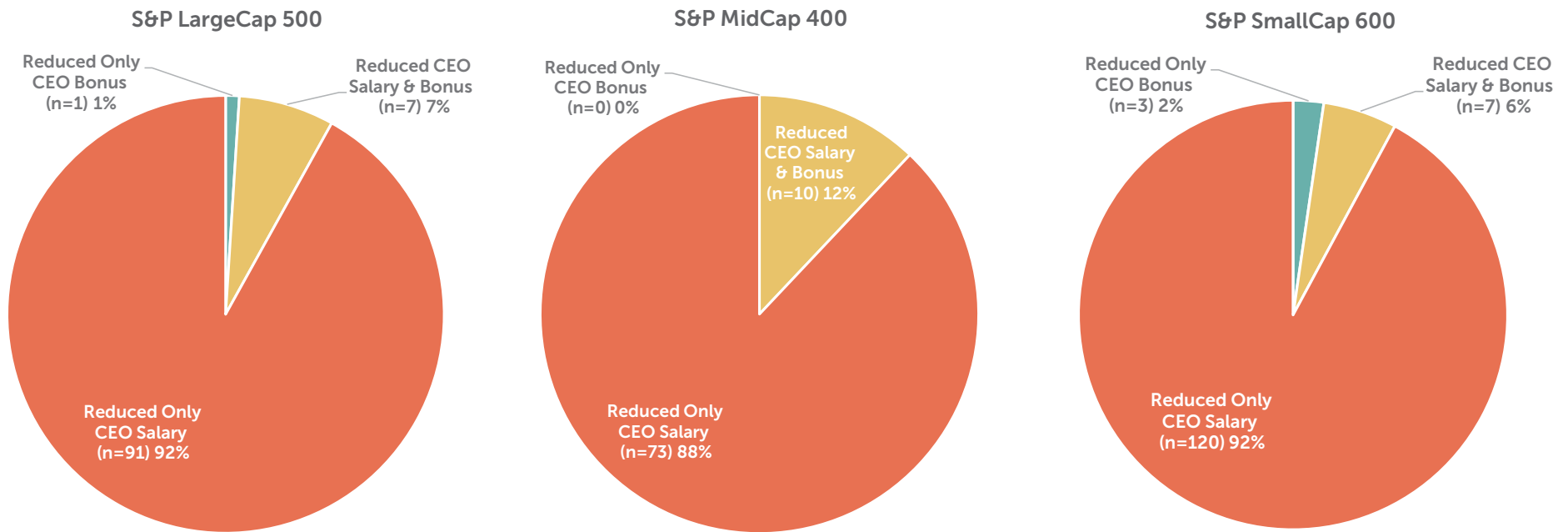
- The capital goods sector, also known as industrials, includes manufacturing, aerospace and defense, engineering and construction. The consumer services sector refers to services sold to individuals as opposed to organizations. Examples include auto maintenance and home security.
- Bar chart excludes industries with fewer compensation and human capital actions in response to COVID-19

CEO, executive and board pay cuts were made by 18% to 21% of firms across the indices. Large- and mid-cap companies have been slightly less likely to cut board pay

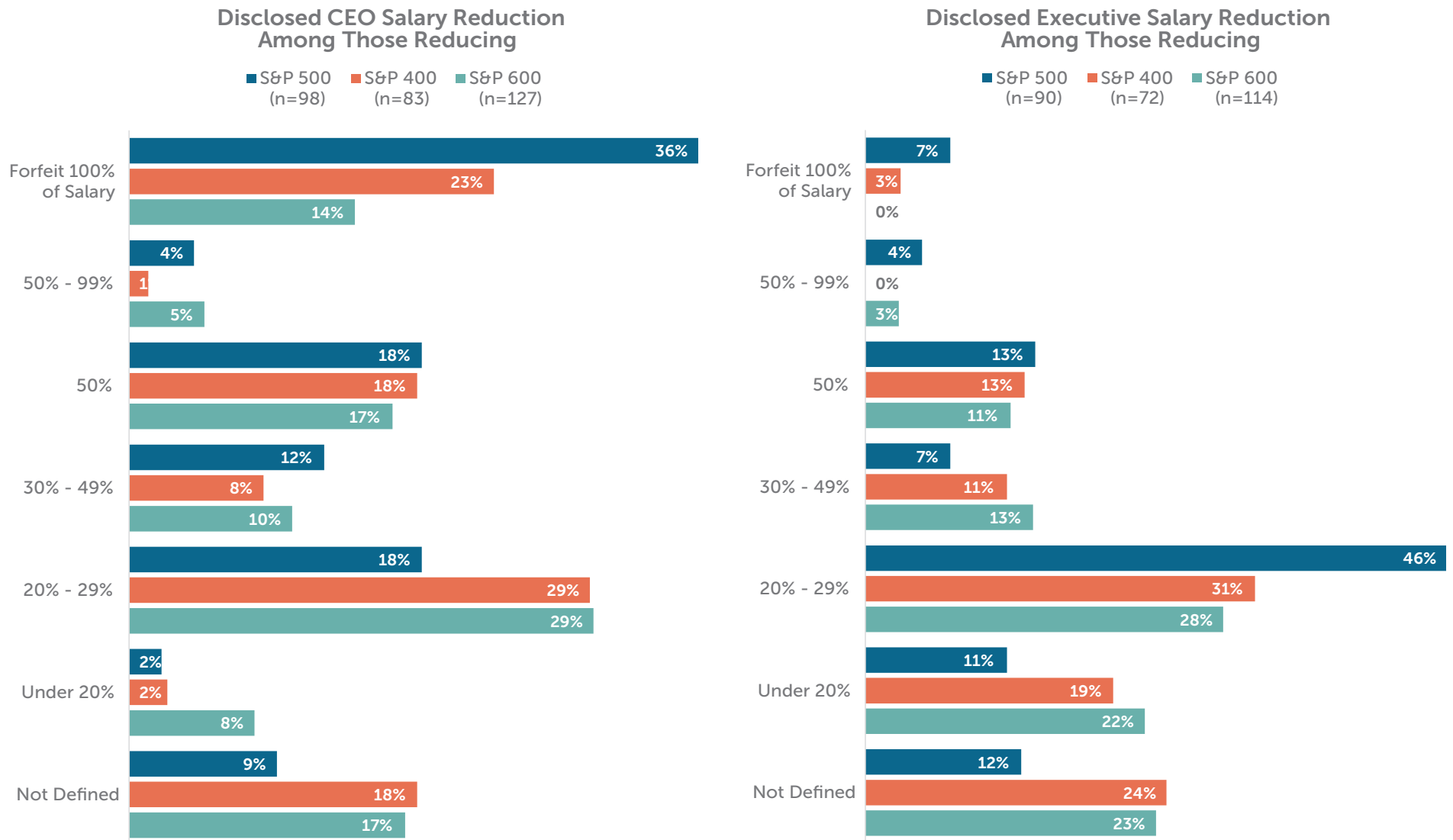
CAP believes that some companies have refrained from cutting board pay because of the increase in the workload for the board and the need for management to have external advice. While S&P 600 companies have been more likely to cut director pay, the size of the pay cuts has been smaller.



CEO salary cuts are more common than bonus actions, but CAP expects many companies not to pay bonuses in 2020 or to increase discretion in bonus decisions



The median salary cut for CEOs is 50% in the S&P 500 and S&P 400, and 33% in the S&P 600. Executive salary cuts are made on a graduated scale, with typical cuts at 20% to 25%



S&P 500 and S&P 400 companies cut director cash retainers by a median of 50%. S&P 600 firms applied a lower, 30% cut to retainers. The duration of cuts is typically not defined

Amount and Duration of Cuts to Board of Director Cash Retainers by Index

Duration	Prevalence	S&P 500 Disclosed Pay Reduction (n=75)				
		100%	50-100%	50%	< 50%	Not Defined
Balance of 2020	20	7	0	4	6	3
4 to 6 Months	12	8	0	0	3	1
1 to 3 Months	14	1	0	4	7	2
Duration of Crisis/Not Defined	29	11	0	3	7	8
Total	75	27	0	11	23	14

Duration	Prevalence	S&P 400 Disclosed Pay Reduction (n=50)				
		100%	50-100%	50%	< 50%	Not Defined
Balance of 2020	12	2	0	5	4	1
4 to 6 Months	1	0	0	0	1	0
1 to 3 Months	13	6	0	0	7	0
Duration of Crisis/Not Defined	24	6	0	3	8	7
Total	50	14	0	8	20	8

Duration	Prevalence	S&P 600 Disclosed Pay Reduction (n=116)				
		100%	50-100%	50%	< 50%	Not Defined
Balance of 2020	16	2	0	0	12	2
4 to 6 Months	5	0	0	1	3	1
1 to 3 Months	14	5	0	3	5	1
Duration of Crisis/Not Defined	81	17	1	11	31	21
Total	116	24	1	15	51	25

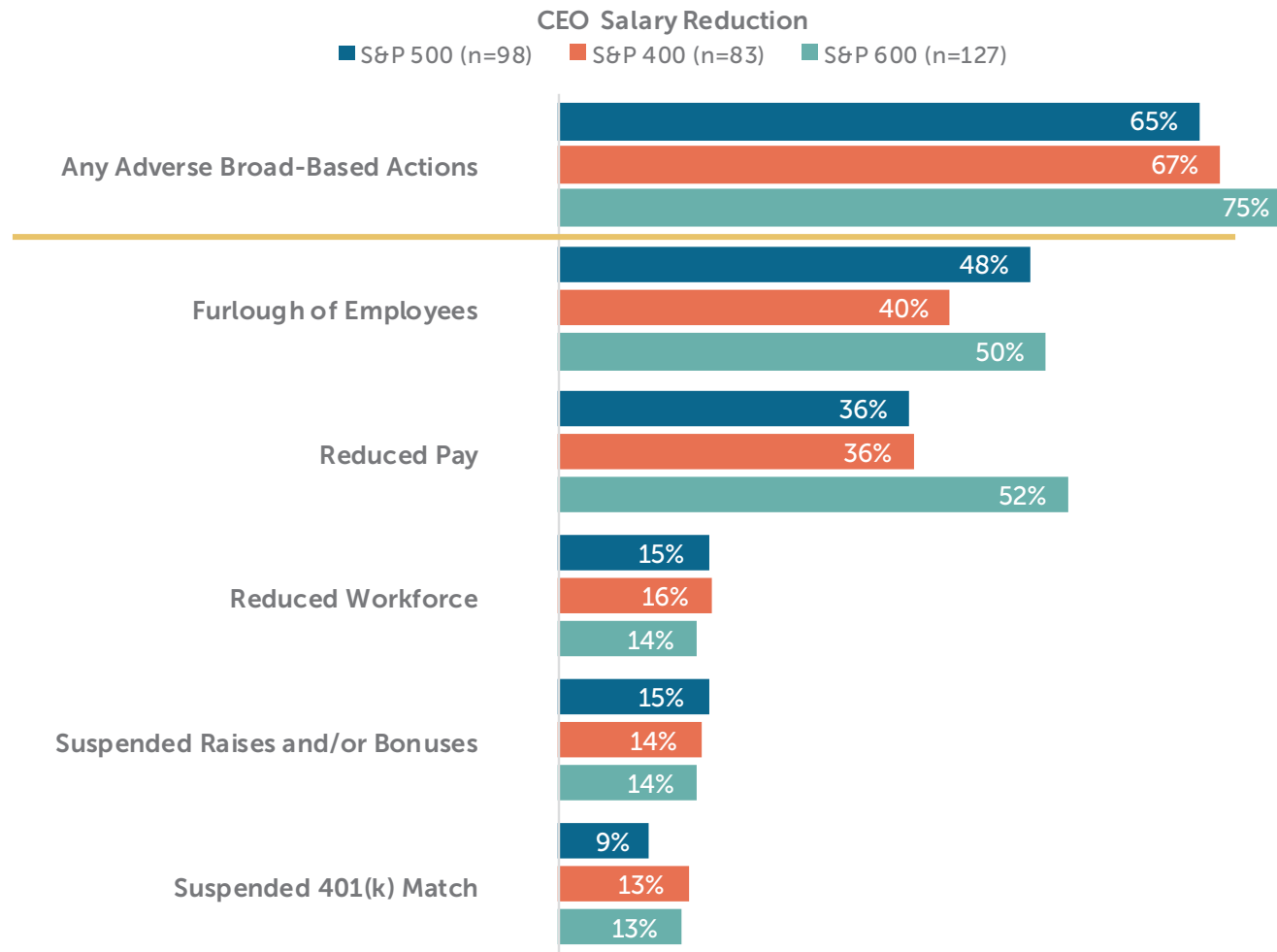
The prevalence of adverse broad-based actions spans the indices but is most common in the S&P SmallCap 600. Employees at smaller companies face furloughs and pay cuts

Broad-Based Adverse Employment Actions Because of COVID-19			
	S&P 500 Large Cap	S&P 400 Mid Cap	S&P 600 Small Cap
Total companies taking negative actions	15% (n = 75)	15% (n = 61)	19% (n = 112)
Furlough of employees	11%	10%	13%
Reduced pay	7%	8%	11%
Reduced workforce	4%	4%	4%
Suspended raises and/or bonuses	3%	3%	4%
Suspended 401(k) match	2%	3%	3%

Note: Furlough refers to a temporary unpaid leave for a certain length of time, while workforce reduction is a permanent action.

A cut in CEO pay is often coupled with actions that adversely affect the broader employee population to communicate that “we are in this together”

Prevalence of Adverse Broad-Based Actions at Companies that Cut CEO Pay



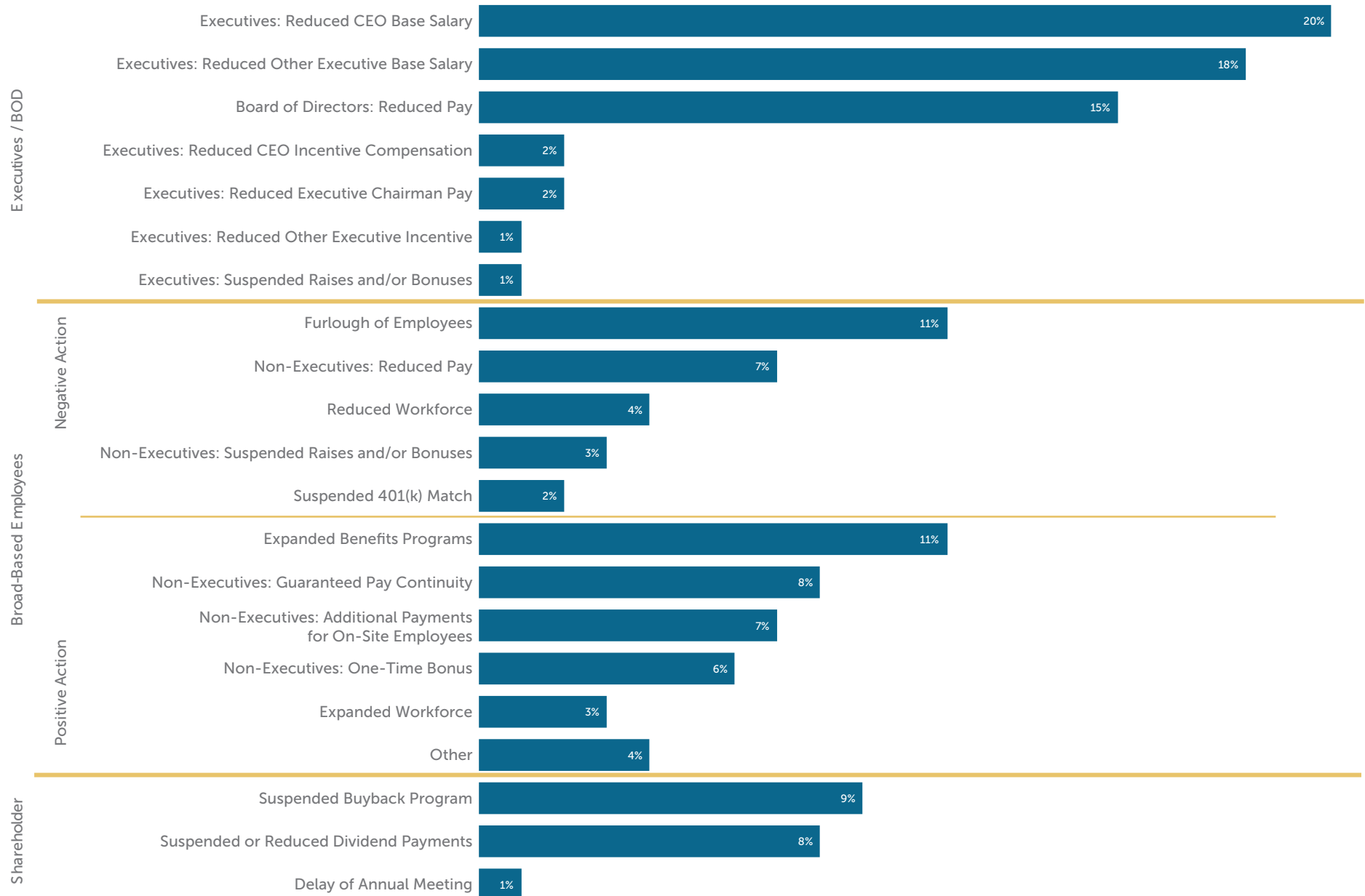
Large firms are much more likely to take positive employee actions than smaller peers

Broad Based Positive Employment Actions Because of COVID-19			
	S&P 500 Large Cap	S&P 400 Mid Cap	S&P 600 Small Cap
Total companies taking positive actions	21% (n = 103)	10% (n = 39)	3% (n = 19)
Expanded benefits programs	11%	5%	2%
Guaranteed pay continuity	8%	4%	1%
Additional pay for on-site employees	7%	2%	1%
One-time bonus	6%	2%	0%
Expanded workforce	3%	1%	0%

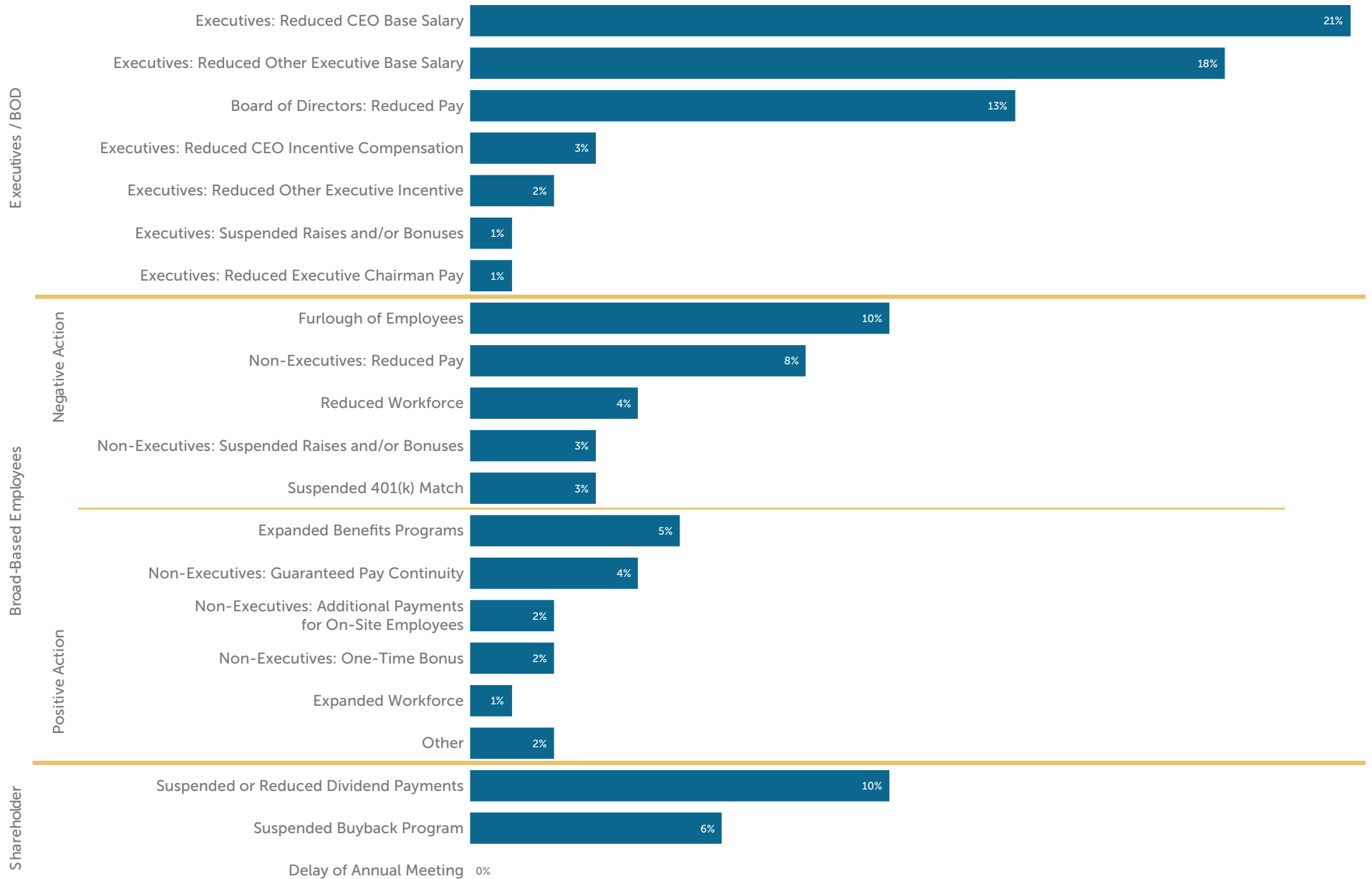
Detailed Findings



What are Companies Doing Right Now? S&P LargeCap (n=500)



What are Companies Doing Right Now? S&P MidCap (n=400)



What are Companies Doing Right Now? S&P SmallCap (n=600)

