

Incentive Design Changes in Response to Covid-19

Russell 3000

SEMLER BROSSY REPORT IN PARTNERSHIP WITH
ESGAUGE AND THE CONFERENCE BOARD

AS OF FEBRUARY 13, 2021

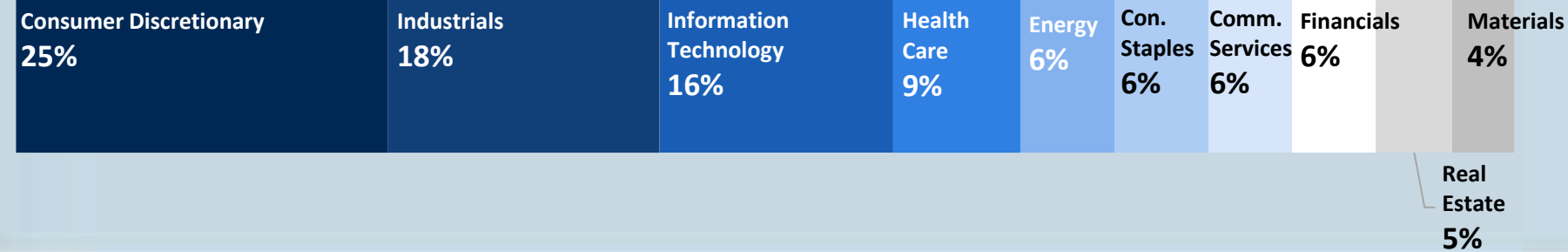
For live interactive data, visualizations, and additional company detail, visit:
<https://conferenceboard.esgauge.org/covid-19/incentivechanges>

NOTE: Semler Brossy Consulting Group does not provide tax, legal or accounting advice and does not provide regulatory guidance in the jurisdictions being considered. The Company should consult its respective experts in those fields on such matters, as appropriate.

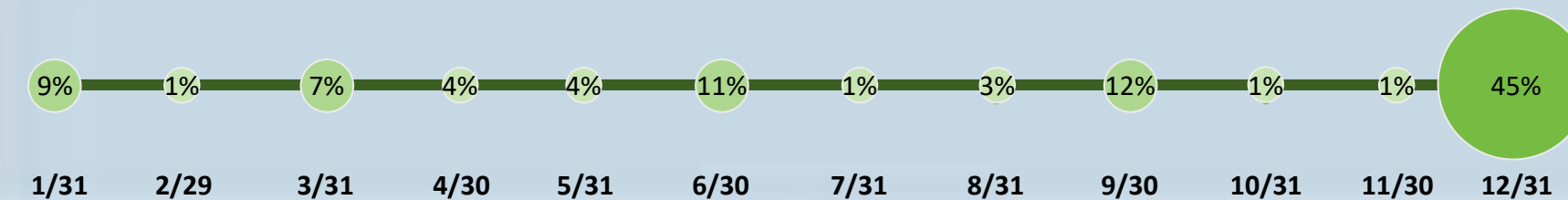
Sample Overview

N = 270 RUSSELL 3000 COMPANIES

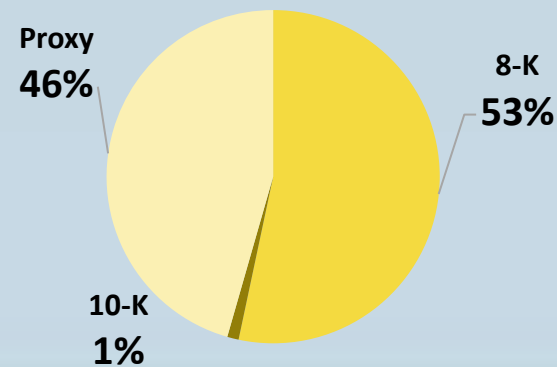
SECTOR BREAKDOWN



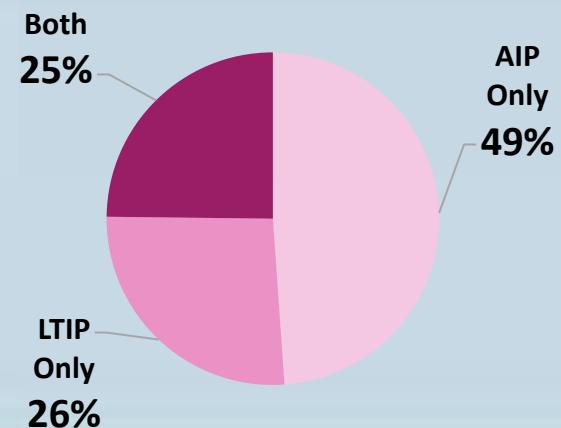
FYE DATE BREAKDOWN



FILING BREAKDOWN



ACTIONS TAKEN



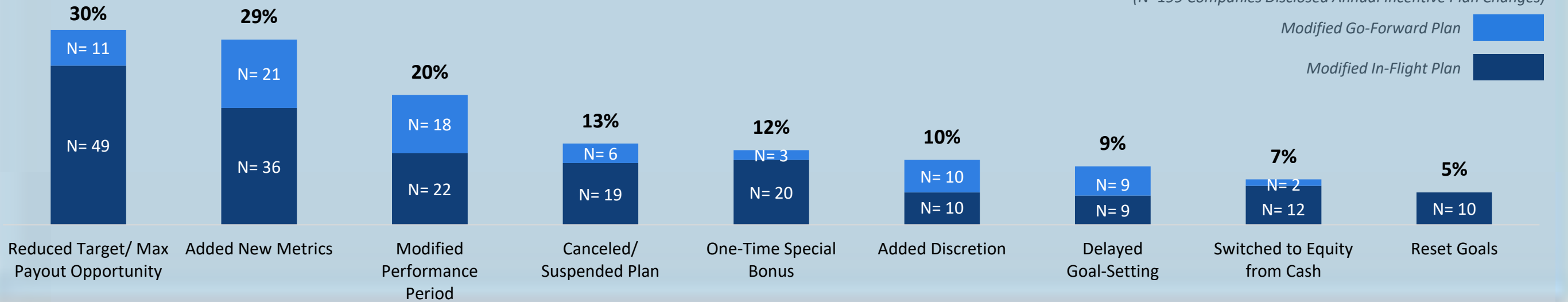
Observations

- From March 1, 2020 to February 13, 2021, 270 Russell 3000 companies announced structural changes to their in-flight and/ or go-forward incentive plans:
 - In-flight changes cover any structural changes to an ongoing plan, and go-forward changes cover any forward-looking structural changes to a recently started or upcoming plan
 - Consumer Discretionary (25%), Industrials (18%), and Information Technology (16%) companies make up slightly more than half the sample; Consumer Discretionary and Industrials representation in the sample is higher than the broader Russell 3000 index
 - About half of the sample announced changes to the annual incentive plan only, 26% announced changes to the long-term incentive plan only, and 25% announced changes to both plans
- 43% of companies in the sample previously announced temporary reductions to executive base salaries as an immediate response to Covid-19
- An additional 64 Russell 3000 companies disclosed only payout suspension, adjustments, or deferrals for a recently completed plan; these companies are excluded from the analysis of structural changes

Annual Incentive Plan Changes

COVERS IN-FLIGHT AND GO-FORWARD PLANS

(N=199 Companies Disclosed Annual Incentive Plan Changes)



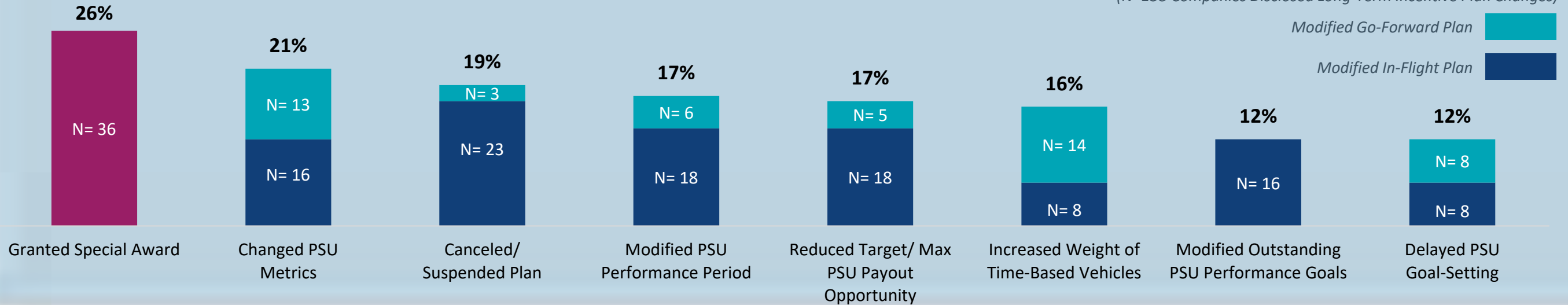
Observations (N=199; N=138 companies disclosed in-flight changes only, N=54 disclosed go-forward changes only, N=7 disclosed both)

- The most common structural annual incentive plan change has been to reduce the target and/ or max payout opportunity (30%, n=60); this change has commonly been applied in concert with changes to re-calibrate the annual incentive plan with revised performance projections and operational priorities (e.g., adding new metrics and modifying the performance period)
- The second most common change has been to add new metrics (29%, n=57); commonly added metrics are focused on operating income, liquidity, or strategic measures in the context of the pandemic and several companies disclosed that such changes may be temporary as they will re-evaluate the metrics for the following fiscal year at a later time
- 40 companies modified the annual incentive plan performance period, typically to measure partial year performance or separate the year into halves
- 25 companies canceled or suspended the annual incentive plan entirely, and 14 companies switched to paying the annual incentive plan in equity instead of cash
- 18 companies delayed goal-setting to later in the fiscal year; although we recognize this practice may have been more prevalent among companies that did not disclosed such actions
- 20 companies proactively added Committee discretion to determine payouts (although, this approach may be more prevalent in practice given the qualitative measurement of certain additional metrics); 84 companies have already disclosed the application of Committee discretion to adjust, suspend, or defer the payout for the recently completed annual incentive plan: of those of 84 companies, 70 only disclosed the payout modification, and the other 14 companies also disclosed additional structural AIP changes

Long-Term Incentive Plan Changes

COVERS IN-FLIGHT AND GO-FORWARD PLANS

(N=138 Companies Disclosed Long-Term Incentive Plan Changes)



Observations (N=138; N=92 companies disclosed in-flight changes only; N=38 disclosed go-forward changes only, N=8 disclosed both)

- 36 companies granted special awards to one or more NEOs (awards have typically been equivalent to less than one-year annual grant value and were granted with varying rationale), and 26 companies elected to cancel outstanding LTI grants and/or suspend granting new awards; six companies from these groups applied both actions together
- 29 companies switched PSU metrics, typically to metrics that are (i) more focused on operational health (e.g., cost reduction); (ii) more easily forecasted; and/or (iii) relative metrics
- 24 companies modified the PSU performance period, and 23 companies reduced the PSU target and/or max payout opportunity; five companies from these groups applied both actions together
- 22 companies adjusted the long-term incentive vehicle mix to a higher weighting of time-based vehicles (i.e., RSUs or stock options); ten of these companies switched to 100% time-vesting RSU and/or stock option awards
- 16 companies disclosed modifications to in-flight PSU awards' performance goals and 16 companies delayed goal-setting for PSUs
- Additionally, ten companies applied discretion to adjust the PSU/Cash LTIP payout for the performance period that just ended (not shown or included in this sample)

Case Studies

WE HIGHLIGHT NINE COMPANIES WITH MORE EXTENSIVE ACTIONS — PAGE 1 OF 3

COMPANY **Coty**

FILING **9/24/20**

FYE DATE **6/30**

INDUSTRY **Consumer Discretionary**

Annual Incentive Plan

- Suspended the Annual Incentive Plan for the fiscal year started in July 2020
 - The Annual Incentive Plan historically measured key financial metrics including Gross Margin, Adjusted Operating Income, and Free Cash Flow

Long-Term Incentive Plan

- Granted only RSUs (with the option to receive as a restricted cash award) for the fiscal year started in July 2020
 - Awards granted to the NEOs reflect a 20% reduction from previous fiscal year levels
 - Vesting will occur over three years rather than five years
- Coty has historically granted primarily time-vesting equity in the past

COMPANY **Sterling Bancorp**

FILING **9/23/20**

FYE DATE **12/31**

INDUSTRY **Financials**

Annual Incentive Plan

- Established an alternative opportunity to earn the 2020 Annual Incentive Plan payout based on two additional metrics with a reduced maximum payout opportunity; participants will be able to earn the annual cash incentive payout based on either:
 - Original plan metrics: 50% EPS and 50% Return on Average Tangible Assets (ROATA) up to a 150% payout at max); or
 - Modified plan metrics: 50% Pre-Provision Net Revenue (PPNR) and 50% PPNR ROATA up to 100% payout at max

Long-Term Incentive Plan

- Granted 25% of the long-term incentive award scheduled to be granted in Q1 2021 early in October 2020; award was granted in performance-vesting PSUs for Senior Executives and time-vesting RSUs for other recipients; the early grant is mean to retain and motivate

COMPANY **Dentsply Sirona**

FILING **9/9/20**

FYE DATE **12/31**

INDUSTRY **Health Care**

Annual Incentive Plan

- Adopted a revised incentive plan to replace the 2020 Annual Incentive Plan; the revised plan:
 - Measures 2020 Q3 and Q4 performance
 - Established EBITDA as the single performance metric (with a minimum EBITDA requirement for funding) and added Committee discretion based on an evaluation of progress toward strategic objectives
 - The maximum potential payout was set at 125% of target (prorated 50% to a effective 62.5% of target maximum opportunity for the half-year period)
- The Annual Incentive Plan previously measured Internal Sales Growth (35%), Adjusted Income (35%), Adjusted Free Cash Flow (10%), and Strategic Objectives (20%)
 - Payout leverage was set at 50% of target for threshold achievement and 200% of target for max achievement

Case Studies

WE HIGHLIGHT NINE COMPANIES WITH MORE EXTENSIVE ACTIONS — PAGE 2 OF 3

COMPANY **Henry Schein**

FILING **8/12/20**

FYE DATE **12/31**

INDUSTRY **Health Care**

Annual Incentive Plan

- Suspended the FY20 Henry Schein Performance Incentive Plan (“PIP”) and canceled all corresponding PIP awards
- Adopted 2020 Recovery Performance Plan (“RPP”) designed to reward employees, including NEOs, for contributions to the company’s business recovery strategy
- Individual target bonus amounts for NEOs under the RPP are expected to be materially less than target amounts set under the PIP
- Established performance goals based on a performance period commencing July 1, 2020 and ending December 26, 2020, that include measurement of:
 - Company-wide profitability goals
 - Functional area/business unit-level operating income and expense management goals
 - Individual performance goals designed to drive toward and support business recovery efforts

COMPANY **Wynn Resorts**

FILING **8/20/20**

FYE DATE **12/31**

INDUSTRY **Consumer Discretionary**

Annual Incentive Plan

- Established second-half 2020 goals focused on cash generation and preservation in US operations and market share in the Company’s Macau operations

Long-Term Incentive Plan

- Intend to reset long-term performance targets for named executive officers as business conditions become clearer throughout the remainder of 2020 and early 2021

Additional Actions

- Approved one-time grant of RSUs for approximately 240 top leaders, including NEOs, which will vest on the 1-year anniversary of the grant date; award value was ~33% of CEO’s and ~70% of CFO and GC’s annual equity grants
- At CEO’s request, canceled 140,000 PSUs previously granted to him based on performance metrics that are no longer relevant in light of Covid-19 to partially reduce equity dilution associated with Retention Award

COMPANY **Pinnacle Financial Partners**

FILING **8/17/20**

FYE DATE **12/31**

INDUSTRY **Financials**

Annual Incentive Plan

- Established alternative performance measurement under the 2020 Annual Cash Incentive Plan based on an additional metric with a reduced payout opportunity:
 - The additional performance metric is tied to the Company’s pre-tax, pre-provision net revenue for the year ending December 31, 2020
- Participants will be able to earn a cash incentive payout based on the larger of:
 - Original plan metrics: 80% diluted EPS and 20% deposit volume and rate goals (100% and 125% payouts at target and maximum, respectively); or
 - Modified plan metrics: 15% pre-tax, pre-provision net revenue and 20% deposit volume and rate goals (35% and 50% payouts at target and maximum, respectively) and the remaining 65% of the opportunity is eliminated

Case Studies

WE HIGHLIGHT NINE COMPANIES WITH MORE EXTENSIVE ACTIONS — PAGE 3 OF 3

COMPANY **Nike**

FILING **7/24/20**

FYE DATE **5/31**

INDUSTRY **Consumer Discretionary**

Annual & Long-Term Incentive Plans

- Adjusted non-executive payouts based on annual incentive plan performance through 3 quarters and long-term cash performance through 11 quarters; the 2020 annual incentive and 2018-2020 Cash LTIP would have both paid 0% but were adjusted to pay out at 100% and 75% of target, respectively
- Granted discretionary cash bonuses to executives to approximate adjusted incentive payouts received by all other eligible employees (CEO's portion was \$6.8M)
- Adjusted their 2020-2022 Cash LTIP metrics to 100% relative TSR (from 50% Revenue and 50% EPS)

Say on Pay Proposal

- Nike's Say on Pay proposal received 54% shareholder support
- ISS recommended that shareholders vote "Against" Nike's Say on Pay proposal and cited concerns about the company's discretionary bonuses to the NEOs

COMPANY **Capri Holdings**

FILING **7/22/20**

FYE DATE **3/31**

INDUSTRY **Consumer Discretionary**

Annual Incentive Plan

- Suspended the upcoming fiscal 2021 annual incentive plan; the Committee will use discretion to determine whether any cash bonus payments outside the plan are appropriate or warranted based on actual performance for fiscal 2021
- The company approved the following changes for when the plan is reinstated post-fiscal 2021:
 - Measure the same financial metrics for the CEO and all NEOs and eliminate the individual performance metric
 - Widen the performance ranges by tying to the threshold, target, and max goals to the Company's operating budget
 - Use linear interpolation to determine payouts rather than paying out based on achievement of hurdles

Long-Term Incentive Plan

- Fiscal 2021 equity awards were granted 100% in RSUs due to the difficulty in setting performance targets
- The CEO's fiscal 2021 grant was reduced by 20%

COMPANY **WEX**

FILING **6/29/20**

FYE DATE **12/31**

INDUSTRY **Information Technology**

Annual Incentive Plan

- Introduced new metrics: 40% on CAPEX, 40% on Cost Containment, and 20% on Operating Income of Health business replaced Revenue and Operating Income metrics
- Shifted the performance period to the second half of 2020, ignoring first half performance
- Reduced maximum payout to 150% from 200%, and established positive Operating income as a threshold hurdle

Long-Term Incentive Plan

- Changed metrics from 60% Net Income Earnings per Share and 40% Compensation Revenue to 100% relative TSR vs. the S&P 400 Index

Additional Actions

- Made an additional "Business Continuity Grant" in the form of 75% performance-vesting PSUs based on relative TSR and 25% time-vesting RSUs to the NEOs and other select employees

Modifications to In-Flight PSUs

COMPANY-BY-COMPANY DETAIL (N= 16)

Company	Sector	Fiscal Year End	Revenue (\$MMs) ↓	Filing	Description	Modified Awards			ISS Rec.	Say on Pay Vote Result	1-yr TSR	
						FY18	FY19	FY20				
NIKE, Inc.	Consumer Discretionary	5/31/20	\$38,254	Proxy	Replaced 2020 LTIP revenue and EPS goals with relative TSR vs. S&P 500; also granted discretionary cash bonuses to NEOs approximating revenue and EPS performance through 11 quarters under the 2018 LTIP			●	AGAINST	54%	+29%	
Ross Stores, Inc.	Consumer Discretionary	1/31/20	\$12,532	8K	Adopted key business priorities that will be considered by the Committee as alternative performance criteria in determining 2020 bonus and PSU payout levels and reduced maximum payout opportunities; key business priorities include health and safety of associates/customers, liquidity/expense management, and positioning the company for long-term success			●	TBD	TBD	+23%	
Meritor, Inc.	Industrials	9/30/20	\$3,032	8K	Lowered 2019-2021 PSU threshold payout targets from >10.5% EBITDA margin and >\$1.85 EPS to >8% EBITDA margin and >\$0.75 EPS, respectively and lowered targets for payouts between threshold and 100% of target			●	FOR	99%	+13%	
Hilton Worldwide Holdings Inc	Consumer Discretionary	12/31/20	\$1,600	8K	Certified performance for 2/3 of 2018 PSUs at 200% and for 1/3 at 0%; certified performance for 1/3 of 2019 PSUs at 138% and established 4 new performance goals for the remaining 2/3 (FCF, EBITDA, net unit growth, and revenue per available room); established 4 new performance goals for 2020 PSUs (FCF, EBITDA, net unit growth, and revenue per available room)			●	●	TBD	TBD	+0%
WEX Inc.	Information Technology	12/31/20	\$1,553	8K	Changed performance goals for the 2020 PSU award from revenue and EPS to TSR relative to the S&P 400			●	TBD	TBD	-3%	
PTC Inc.	Information Technology	9/30/20	\$1,531	8K	Adjusted 2021 free cash flow and 2021-2022 ARR goals under 2019 and 2020 PSUs; removed catch-up provisions for these awards given the adjustments to the performance measures. Certified performance for the final tranche of 2018 PSUs at 58% based on forecasted achievement as of the end of the five-month period preceding the pandemic			●	●	AGAINST	50%	+21%
Verso Corp	Materials	12/31/20	\$1,359	Proxy	Waived 5% compounded annual TSR requirement; 2019 PSUs originally based on relative TSR with a performance hurdle requiring 5% compound TSR growth before any shares could be earned in 2022			●	FOR	95%	-14%	

Modifications to In-Flight PSUs

COMPANY-BY-COMPANY DETAIL (N= 16)

Company	Sector	Fiscal Year End	Revenue (\$MMs) ↓	Filing	Description	Modified Awards			ISS Rec.	Say on Pay Vote Result	1-yr TSR
						FY18	FY19	FY20			
Sabre Corp.	Information Technology	12/31/20	\$1,334	8K	Updated metrics for March 2020 performance cash awards, no further detail provided; awards originally based on key strategic initiatives that were affected by COVID			●	TBD	TBD	-45%
UDR, Inc.	Real Estate	12/31/20	\$1,260	8K	Replaced 1-year FFO metric under 2020 LTIP with 2-year FFO growth relative to peers			●	TBD	TBD	-15%
Merit Medical Systems, Inc.	Health Care	12/31/20	\$964	8K	Reduced FY20 PSU awards' one-year free cash flow performance threshold and target goals by \$5M and capped free cash flow payouts at target regardless of any potential outperformance			●	TBD	TBD	+78%
Essent Group	Financials	12/31/20	\$955	8K	Amended the terms of the PSUs granted in March 2019 and February 2020 to provide that such awards will no longer be subject to the achievement of compounded annual book value per share growth metrics and will be subject to only service-based vesting		●	●	TBD	TBD	-16%
CorVel Corporation	Health Care	3/31/20	\$554	8K	Adjusted EPS targets downward for 2018 and 2019 performance options	●	●		TBD	TBD	-16%
Culp, Inc.	Consumer Discretionary	4/30/20	\$268	8K	Applied a TSR moderator due to bottom quartile TSR performance, reducing payouts under 2018 PSUs by 25%	●			FOR	99%	-64%
Madison Square Garden Entertainment Corp. ¹	Communication Services	6/30/20	\$228	8K	Established new revenue and AOI goals for the 2019 and 2020 PSUs following the spin-off from MSG Sports Corp. and to reflect the impact of COVID		●	●	FOR	98%	-15%
Franklin Covey Co.	Industrials	8/31/20	\$188	Proxy	Extended performance period of 2020 LTIP by two years and increased EBITDA threshold, target and maximum by \$2M each			●	FOR	91%	-46%
Madison Square Garden Sports Corp. ²	Communication Services	6/30/20	\$31	8K	Established new revenue and AOI goals for the 2019 and 2020 PSUs following the MSG Entertainment Corp. spin-off and to reflect the impact of COVID		●	●	N/A	N/A	+86%

¹ Reflects TSR since the distribution of MSG Entertainment stock to MSG Sports stockholders in April 2020 through fiscal year-end on June 30, 2020.

² Madison Square Garden Sports Corp. holds a triennial Say on Pay vote; the most recent vote was held in 2019.

For additional considerations and up-to-date analysis of the impact of Covid-19 on executive compensation, see our other Covid-19 resources at <https://www.semlerbrossy.com/covid-19/>

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LOS ANGELES OFFICE

11755 Wilshire Blvd. 10th Floor
Los Angeles, CA 90025

312.481.0180

Greg Arnold, Managing Director

310.295.3646

garnold@semmlerbrossy.com

NEW YORK OFFICE

350 Fifth Avenue, Suite 4700
New York, NY 10118

212.393.4000

Blair Jones, Managing Director

212.388.9776

bjones@semmlerbrossy.com

Justin Beck, Consultant

646.969.2316

jbeck@semmlerbrossy.com

Felipe Rubio, Senior Associate

646.969.2337

frubio@semmlerbrossy.com

For more information, visit us at
SEMLERBROSSY.COM