Compensation Advisory Partners

Industry Report // 2019-2020

CAP 120 Company Research

The CAP 120 Company Research consists of companies from ten industries, selected to provide a broad representation of market practice among large U.S. public companies. In this report, CAP reviewed Annual Incentives, Long-Term Incentives, Perquisites, and Stock Ownership Guideline Requirement Provisions of these companies in order to gauge general market practices and trends.

Be sure to check out our interactive tool for industry break-downs at:
capartners.com/capthinking/capintel/cap-120-company-research-interactive-data/

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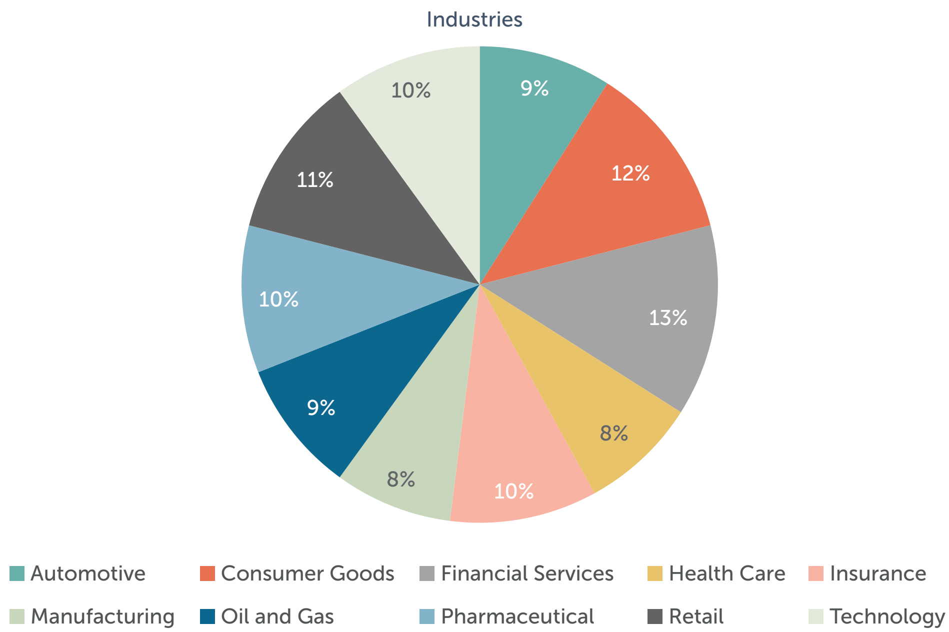
Characteristics of the CAP 120 Company Research Sample

The CAP 120 Research Study consists of companies selected from ten industries intended to provide a broad representation of market practice among large U.S. public companies. The fiscal year revenues of the companies in our sample range from $3 billion to $525 billion (median revenue of $34B) and are summarized in the following exhibits.



Financial Summary ($M)					Cumulative Total Shareholder Return Ending on 12/31/2019		
Percentile	Revenue	Net Income	Assets	Market Cap	1-Year	3-Year	5-Year
75th	$72,813	$6,798	$204,353	$126,261	109%	90%	81%
Median	$33,950	$3,472	$61,855	$51,214	60%	59%	55%
25th	$17,748	$1,693	$28,975	$25,367	40%	40%	36%

Peer Group

Among companies in this year's analysis, 98% disclose using a peer group for pay benchmarking purposes with the median number of companies in a peer group at 18. Only two companies did not disclose a pay benchmarking peer group.

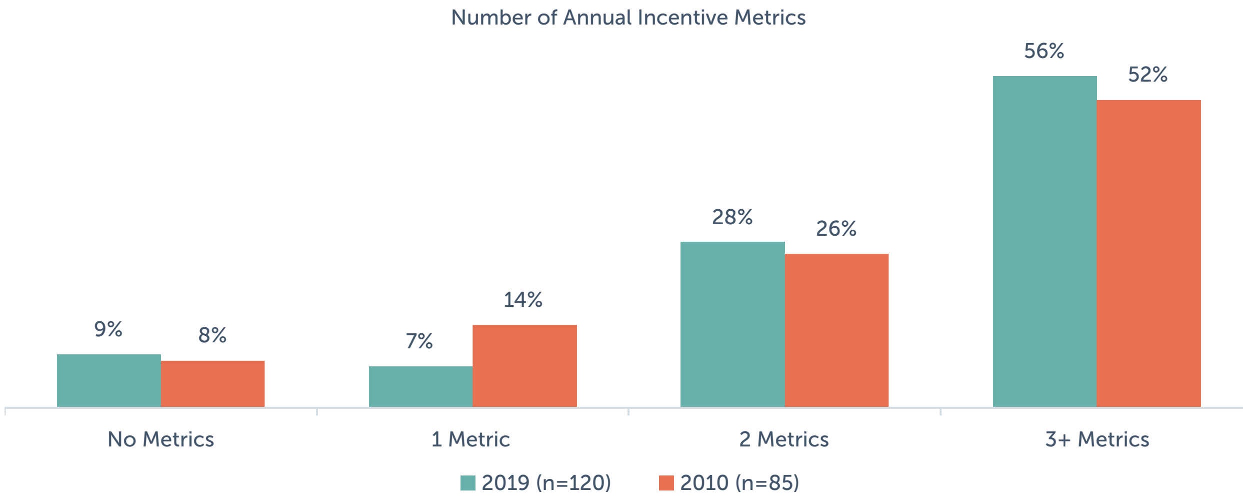
Consistent with prior years, 36% of the companies reviewed have more than one peer group. Typically, one peer group is used for benchmarking within a specific industry, while the second peer group looks at the broader business sector or at general industry companies. Alternatively, the second peer group is used for relative measurement within the LTI plan.

Peer Group		
% of companies with a disclosed peer group	% of companies with more than one peer group	Median # of companies in peer group
98%	36%	18

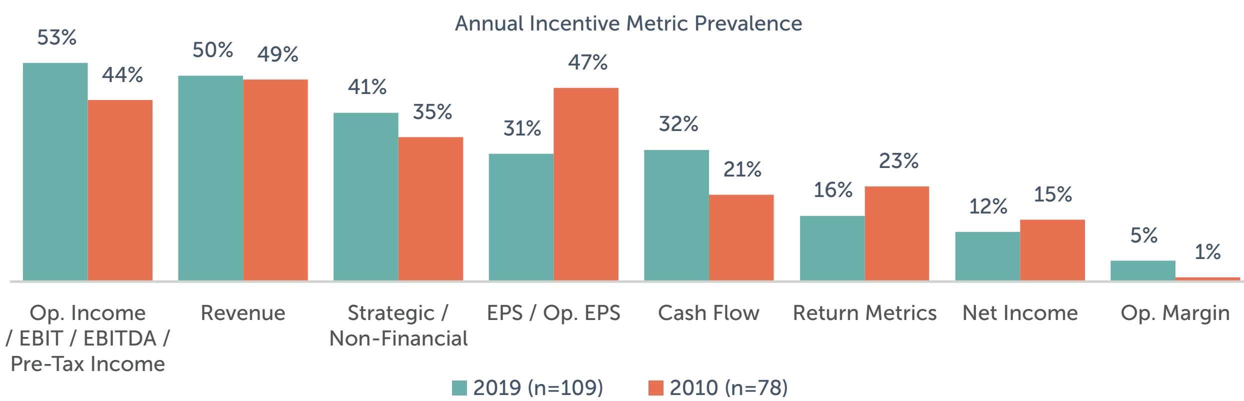
Annual Incentive

Annual Incentive Plan Metrics

The use of multiple metrics to fund annual incentive plans has increased over time. Among the CAP 120 companies, 84% use two or more metrics. Only 7% of companies use a single metric, down from 14% in 2010, as companies try to balance overall plan funding. Annual incentive payouts based on multiple performance metrics ensures a broader view of company performance and mitigates risk within the program.



Operating Income (including EBIT, EBITDA, and Pre-tax Income), Revenue, EPS, and Strategic/Non-Financial Objectives are the most common metrics used in annual incentive plans. Since 2010, the use of Revenue has been generally consistent while use of Operating Income and Cash Flow have increased by approximately 10 percentage points. Over the same period, use of EPS and Return Metrics has decreased (by 16 and 7 percentage points, respectively).



Note: Percentages add to greater than 100% due to multiple responses disclosed by many of the companies. Return measures category is comprised of the following metrics: ROA, ROE Operating ROE, ROCE, ROI and ROIC.

More companies are incorporating non-financial measures in the annual incentive plan to incentivize accomplishments unique to a company's strategy. Overall, 43% of companies in our study use strategic and other non-financial measures, with certain industries (e.g., Health Care, Oil and Gas, and Pharmaceuticals) having more of an emphasis on these measures. An emerging trend is to incorporate ESG (environmental, social and governance) metrics in the annual incentive program.

The chart below shows the three most prevalent metrics by industry in 2019:

Industry	Metrics		
	Metric #1	Metric #2	Metric #3
Automotive (n=11)	Cash Flow (73%)	Op. Income / EBIT / EBITDA (64%)	Strategic / Non-Financial (55%)
Consumer Goods (n=14)	Revenue (86%)	Op. Income / EBIT (57%)	EPS (43%)
Financial Services (n=7)	EPS / Op. EPS (86%)	ROE / Op. ROE (57%)	Revenue (29%) Strategic / Non-Financial (29%)
Health Care (n=10)	Op. Income / Pre-Tax Income (70%)	Strategic / Non-Financial (60%)	EPS (40%)
Insurance (n=12)	Op. Income (58%)	Op. EPS (33%)	Op. ROE (25%)
Manufacturing (n=9)	Cash Flow (67%)	EPS (44%)	Revenue (33%)
Oil and Gas (n=10)	Cash Flow (50%)	Op. Income / EBIT / EBITDA (40%) Strategic / Non-Financial (40%)	EPS (30%) Return Metrics (30%)
Pharmaceutical (n=12)	Revenue (83%)	Pipeline / R&D (75%)	Strategic / Non-Financial (67%)
Retail (n=12)	Op. Income / Pre-Tax Income (75%)	Revenue (67%)	Strategic / Non-Financial (58%)
Technology (n=12)	Revenue (67%)	Op. Income / Pre-Tax Income (58%)	Cash Flow (42%)

Note: Percentages reflect the prevalence of companies disclosing the metric.

Award Leverage

CAP reviewed proxy disclosures to understand how companies establish annual incentive payout ranges (i.e., threshold payout and maximum payout expressed as a percentage of the target award). 53% of companies in our study disclose a threshold annual incentive payout at a defined level other than zero. The most common threshold payout for these companies is 50% of target.

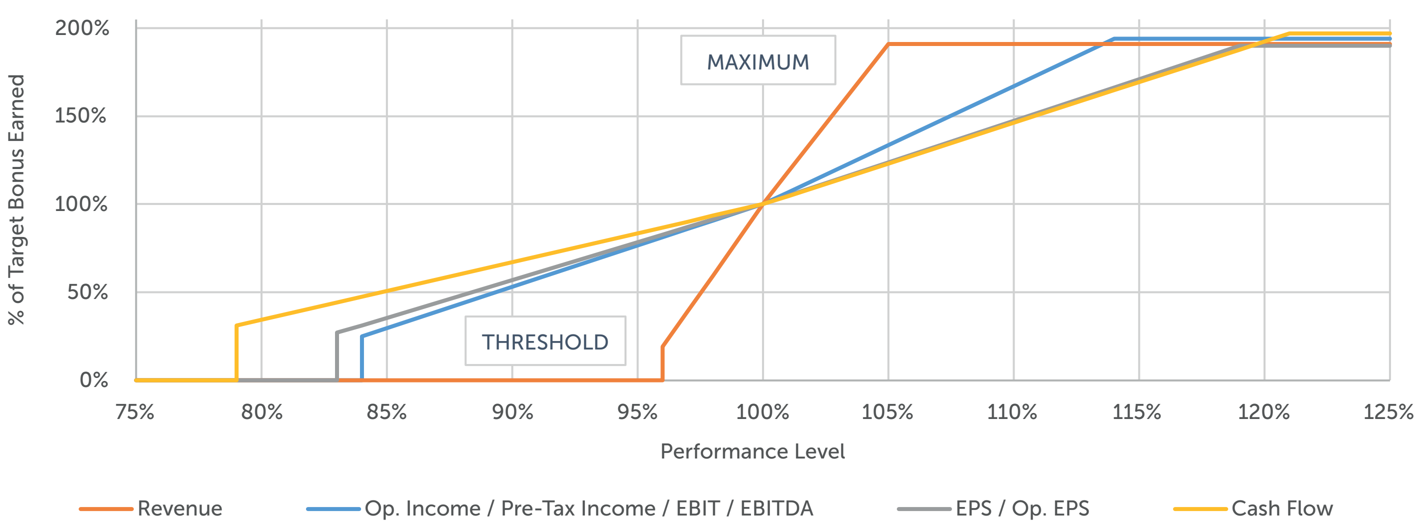
Most companies (89%) disclose a maximum annual incentive opportunity with 74% of these companies utilizing a 200% of target maximum. Only eight companies have a maximum payout above 200% of target with 300% being the highest.

Threshold Payout as a % of Target (n = 63)		
Range	# of Cos.	% of Cos.
< 25%	13	21%
25% to < 50%	21	33%
50%	29	46%

Maximum Payout as a % of Target (n = 107)		
Range	# of Cos.	% of Cos.
> 100% to < 150%	3	3%
150% to < 200%	17	15%
200%	79	74%
> 200% to < 250%	4	4%
250% or more	4	4%

Among four of the most common performance measures in our analysis, the payout leverage chart below demonstrates that the average range of performance goals and payouts varies by performance measure.

Payout Leverage for the 4 Most Common Measures



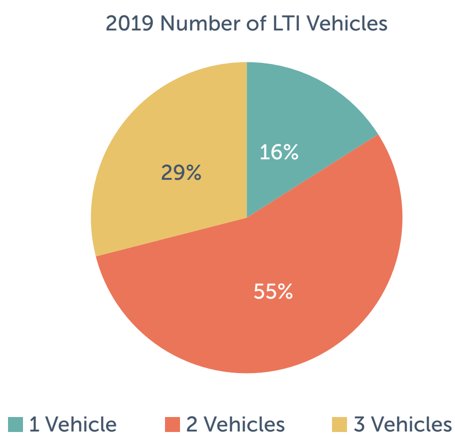
Long-Term Incentives

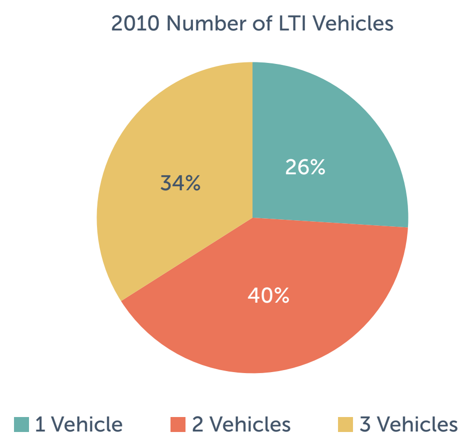
Long-Term Incentive Vehicle Prevalence

A vast majority of companies in our study (84%) use multiple long-term incentive vehicles for the most senior executives, an increase from 74% of companies in 2010. While the use of three long-term incentive vehicles has remained consistent, a noticeable shift to two vehicles from one has occurred since 2010.

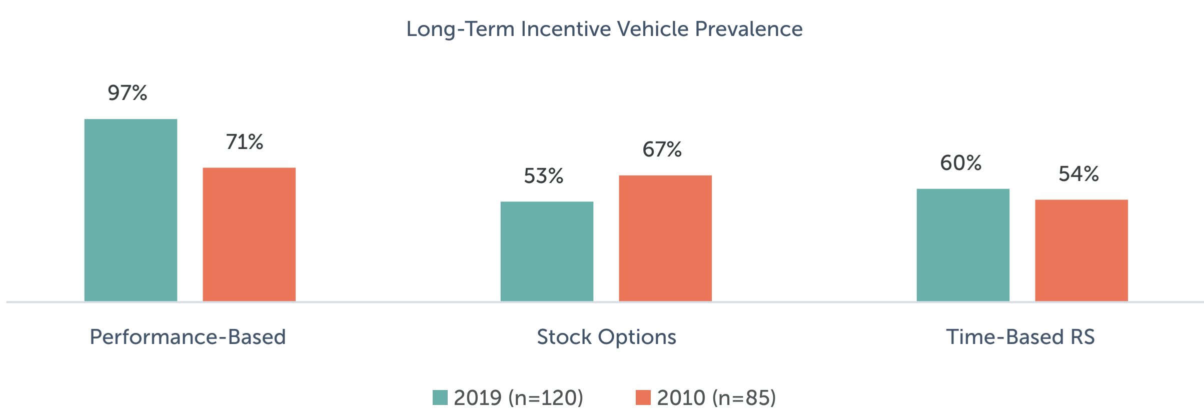
Slightly more than half of the companies (55%) use two long-term incentive vehicles, typically delivered through a long-term performance plan and time-based restricted stock/units, followed by a long-term performance plan and stock options.

The next most common approach is to use three vehicles (29% of companies). A small percentage of companies in our study (16%) use only one vehicle and it is most typically delivered in the form of a long-term performance plan (89%).



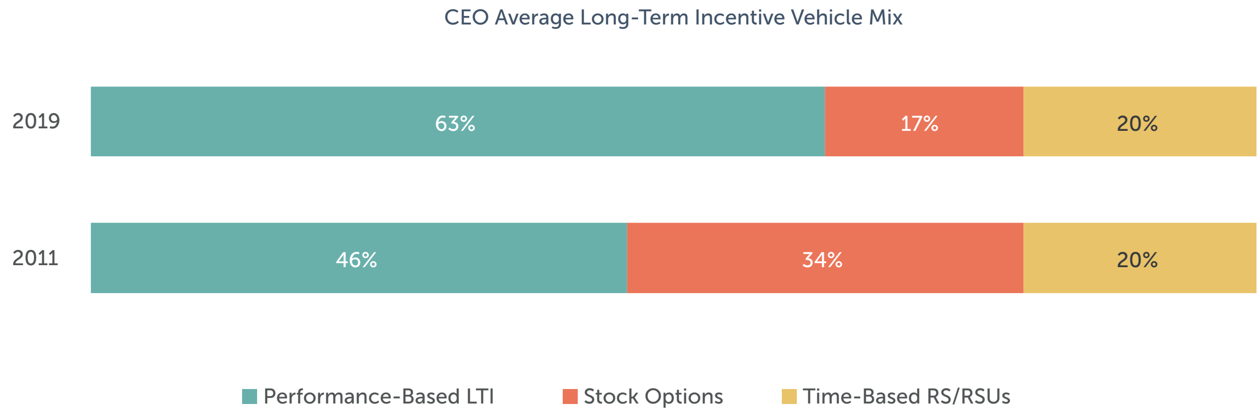


Performance-Based LTI awards for senior executives are used by almost all large cap companies (97%) while the use of stock options has declined to 53% of companies. This is a substantial change from our 2010 study when stock options were used by 67% of companies. The prevalence of time-based restricted stock/units has increased slightly from 54% to 60% over the same time period.



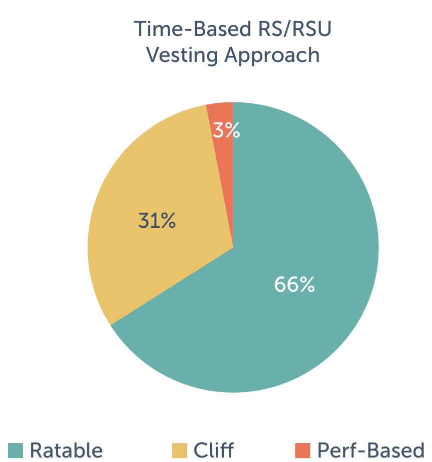
LTI Award Mix

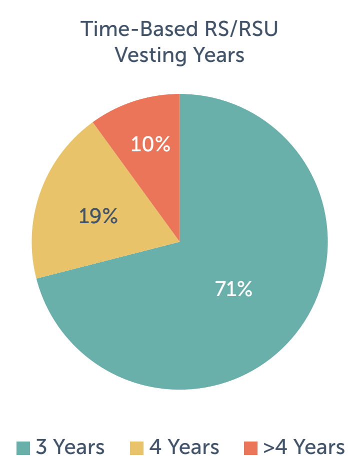
Performance-Based LTI reflects the largest portion of the LTI mix for the CEO and has continued to increase over time. The weighting of stock options has fallen by 50% since 2011. Companies have shifted award value from stock options into performance-based LTI. The refusal of proxy advisors to acknowledge stock options as a performance-based vehicle has undoubtedly contributed to this decline. Meanwhile the emphasis on restricted stock/units has been consistent over the last 10 years representing the true retentive piece of LTI awards.



Restricted Stock / Units (RS/RSU) and Stock Option Provisions

The majority of companies use ratable vesting over a period of three years for time-based RS/RSU awards. Approximately 30% of companies use a vesting schedule of four years or more.





For stock options, most companies use 3-year ratable vesting with a 10-year term.

Stock Options							
Vesting Approach			Vesting (Years)			Term (Years)	
Ratable	Perf-Based	Cliff	3	4	> 4	10	< 10
83%	2%	15%	72%	25%	3%	92%	8%

Performance-Based Award Provisions

The payout curve for performance-based LTI awards with upside and downside leverage mirrors that of annual incentive awards; the most common threshold payout is 50% of target and the most common maximum payout is 200% of target. A larger number of companies (43% for long-term plans vs. 33% for annual incentive plans) disclose a threshold payout between 25% - 50% of the target award, and few LTI plans have award payouts of less than 25% of target (9% for LTI plans vs. 21% for AI plans).

Threshold Payout as a % of Target (n=79)		
Range	# of Cos	% of Cos.
< 25%	7	9%
25% to < 50%	34	43%
50%	37	47%
> 50% to < 100%	1	1%

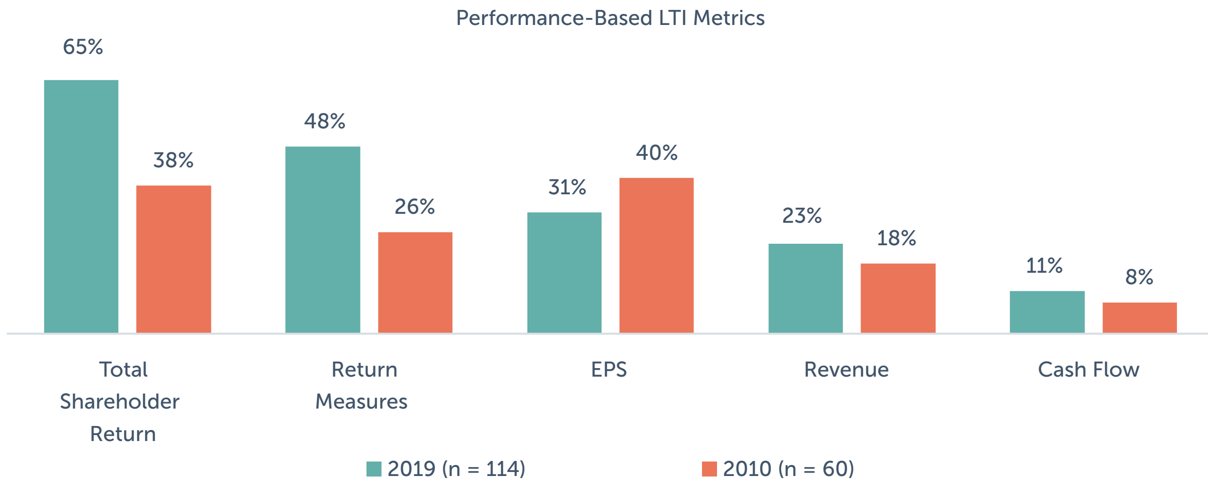
Maximum Payout as a % of Target (n=106)		
Range	# of Cos	% of Cos.
100%	1	1%
> 100% to < 200%	30	28%
200%	70	66%
> 200% to < 250%	2	2%
250% or more	3	3%

Performance Metrics

Total Shareholder Return (TSR) continues to be the most highly used performance metric in long-term performance plans; 65% of companies use it as a measure in the performance-based LTI plan. Return metrics are the second most common measure (48% of companies) followed by EPS (31%) and Revenue (23%).

In CAP's 2010 study, EPS was the most common measure followed by TSR. The rise in the use of TSR can be linked to the influence of proxy advisors who have relied on TSR as a proxy for measuring performance and pay outcomes. Although proxy advisors focus on TSR as a measure of performance, companies often use TSR in conjunction with financial measures for a more holistic view of company performance. In these cases, most companies weight TSR at 50% of the performance-based LTI and approximately 25% use it as an award modifier instead of a weighted metric.

The use of return measures has increased significantly from our 2010 study (48% in 2019 vs. 26% in 2010) as companies are increasingly aligning executive long-term pay with operational efficiency. Return metrics are also often favored by institutional shareholders who prefer the use of more than one measure within a program.

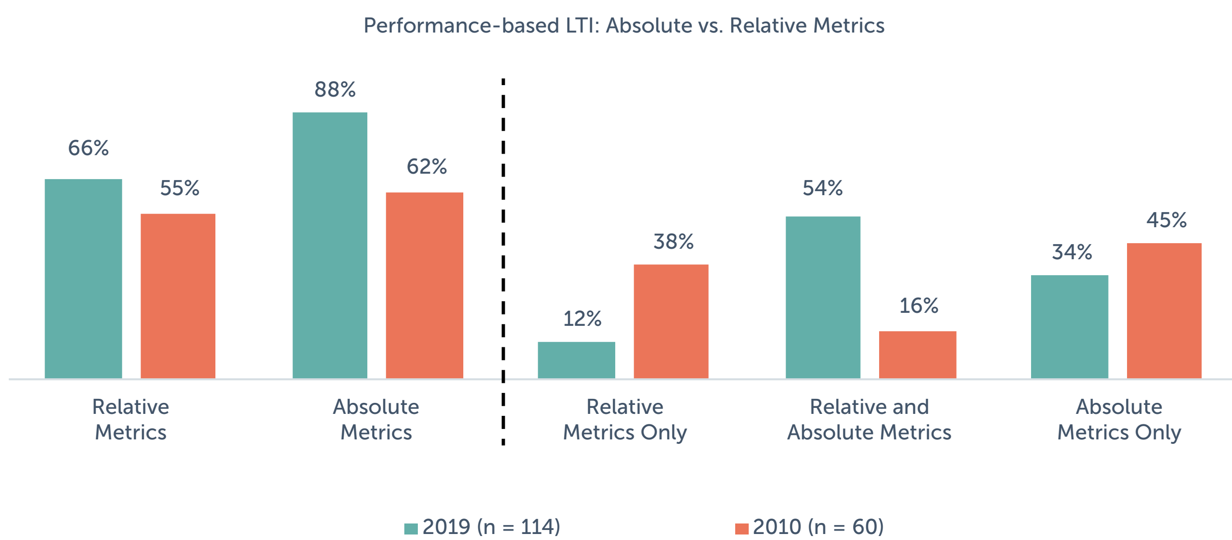


Note: Percentages add to greater than 100% due to multiple responses disclosed by many of the companies. Return measures category is comprised of the following metrics: ROE, ROI, ROIC, and ROA.

Performance Measurement – Absolute vs. Relative

A majority of companies in the study balance absolute financial performance goals with relative metrics. This balanced approach has increased substantially since 2010. Today, more than half (54%) of companies with performance-based LTI use both absolute and relative metrics which is a dramatic increase from just 12% of companies doing so in 2010. This increase is closely tied to the proliferation of relative TSR as a long-term metric.

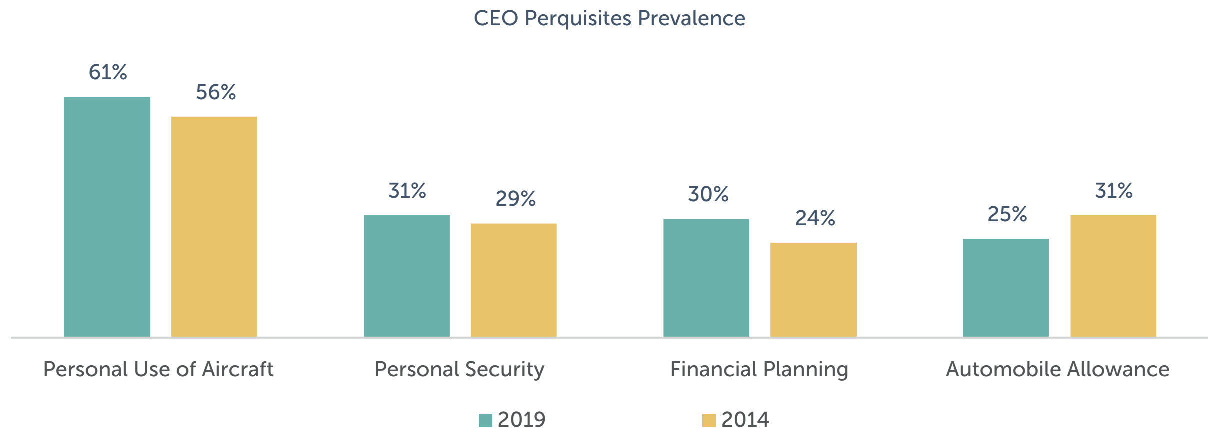
In our most recent study, only 12% of companies rely only on relative performance metrics to determine payouts (down from 38% in 2010) and 34% of companies only use absolute metrics (down from 45% in 2010).



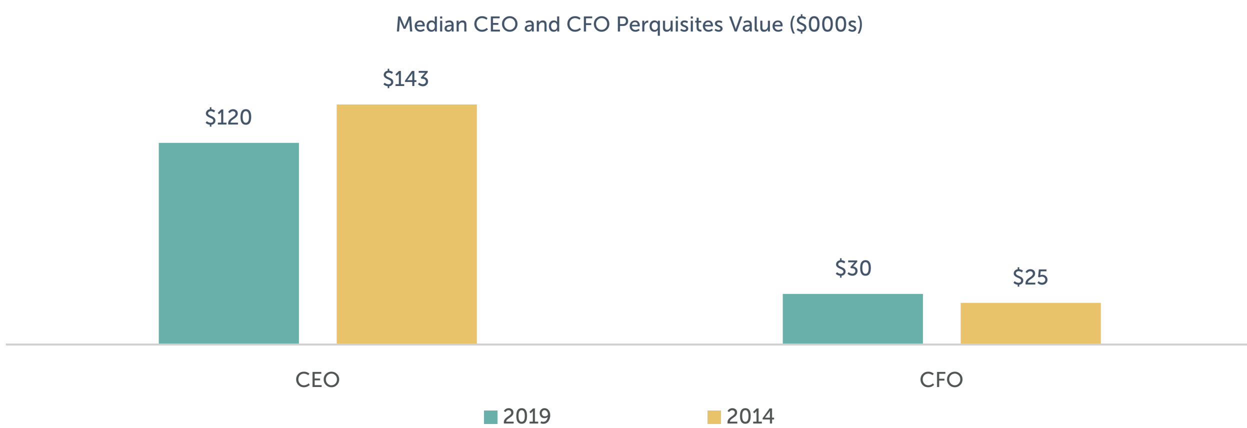
Perquisites

Most companies in our study (90%) provide perquisites to their CEO and slightly fewer companies (80%) also provide perquisites to their CFO. These findings are generally consistent with previous years.

Personal use of aircraft, personal security, financial planning, and automobile allowance continue to be the most common CEO perquisites. There is a slight shift in the prevalence of the four most common perquisites since 2014.



The median value of perquisites delivered to the CEO in 2019 ($120,000) is about 15% lower than five years ago ($143,000). There was a 20% increase ($5,000) however, in the median perquisite value for the CFO in 2019 ($30,000) compared with 2014 ($25,000).



Stock Ownership Requirement Provisions

Stock ownership guidelines in publicly traded companies are a commonly used and favorably viewed form of good corporate governance. Almost all the CAP 120 companies (96%) have requirements in place for the named executive officers (NEOs). The median guideline (expressed as a multiple of base salary) is 6x for the CEO and 3x for the other NEOs.

Stock Ownership Guideline	Median Multiple of Base Salary		
	CEO	CFO	Other NEOs
96%	6x	3x	3x

Many companies (58%) have a stock holding requirement for senior executives in addition to a stock ownership guideline. It continues to be less common for companies to have holding requirements independent of ownership guidelines or holding requirements that apply after achieving the ownership requirement. These holding policies require executives to hold net shares received from equity awards for periods ranging from one year (most common) to post-retirement. Although these are generally viewed as shareholder friendly, the prevalence has remained consistent over the past few years.

Holding Requirement Until SOG is Met	Holding Requirement Separate from or After SOG is Met	Holding Period for Separate/Post-SOG Requirements (n=27)				
		1 Year	2 Years	5 Years	Until Retirement	Post Retirement
58%	23%	48%	4%	4%	22%	22%

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