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EXEQUITY

Independent Board and Management Advisors

Client Alert

How COVID-19 Is Impacting Pay

While it is safe to say every economic crisis is different, it does not seem fair to compare this crisis to any other. The global impact of the COVID-19 pandemic is unprecedented in modern times. In response, governments around the world have restricted travel, and closed public spaces, restaurants, theaters, and "non-essential" businesses. About 75% of the U.S. population is currently subject to stay-at-home orders. Millions are suddenly furloughed or unemployed.

This is different.

As consultants to boards and management teams, Exequity is providing advice on compensation matters to many severely impacted companies. All the while, we have been closely monitoring public disclosures for what other companies are doing, and how they are responding. To that end, the balance of this *Client Alert* centers on how pay programs are changing at companies as they respond to the COVID-19 pandemic. The figures herein are based on publicly disclosed information. We will continue to update this dataset throughout the pandemic as companies respond, at https://www.exqty.com/newsroom/.

Companies Responding With Pay Reductions

The great majority of publicly disclosed pay-related responses at this point have focused on cash cost containment, largely through salary reductions. We expect to continue to see cash cost reductions representing the bulk of early action in the compensation arena, with potential revisions to bonus and long-term incentive programs being considered later in 2020.

Many companies in industries hardest hit by the pandemic are taking significant actions to reduce costs. The unfortunate truth is that the swiftest way to reduce costs is to reduce headcount and salary. Note that this *Client Alert* is focused on publicly disclosed corporate actions to mitigate compensation program costs, so while we provide information on pay program changes, we do not include data on furloughs and other job cuts in this report.

To date, Exequity has identified 148 companies disclosing compensation program actions taken, the majority (82%) of which are salary reductions. Companies in the travel and hospitality industries,[1] which have generally experienced the most immediate and significant impact, represent a large percentage of the early salary reductions. Discretionary retailers[2] are close behind. Companies in other industries are increasingly being impacted, though as of the date of this publication, fewer have reduced pay.

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[1] Includes airlines, hotels, restaurants, cruise lines, and other travel-related companies.
[2] Includes clothing stores, department stores, and other "non-essential" retailers.

The median salary reduction for CEOs across all industries is 50%. In the travel industry, the median CEO salary reduction is 100%, likely a reflection of the severity of the business impact. Most of the 121 companies disclosing CEO pay reductions also disclose reductions for named executive officers (NEOs), with the median salary reduction for NEOs other than the CEO being 28%. A minority of these companies have disclosed reductions for other executives or employee populations, with median salary reductions of 23% and 20%, respectively. Many boards of directors are also reducing their cash compensation, with 43% of those companies disclosing executive pay reductions also disclosing reductions to director cash retainers, with a median decrease of 60%.

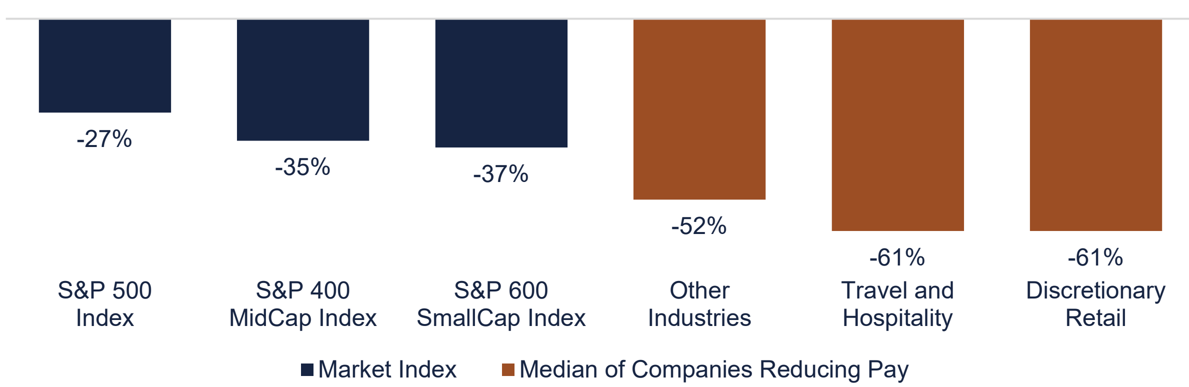
The table below provides summary statistics for the data gathered as of April 1, 2020.

Salary Reductions at Median

	Percent of Total	CEO	NEOs	Other Executives	Other Employees	Non-Employee Director Cash Retainer
Executives Included in Pay Reductions Among Companies Reporting Pay Decreases	N/A	100%	86%	45%	27%	43%
Median Reduction Among Companies Reporting Reductions						
All Companies (n=121)	**100%**	**50%**	**28%**	**23%**	**20%**	**60%**
Travel and Hospitality	*29%*	*100%*	*50%*	*50%*	*23%*	*50%*
Discretionary Retail	*19%*	*50%*	*29%*	*20%*	*15%*	*100%*
Other Industries	*52%*	*40%*	*25%*	*20%*	*20%*	*45%*

Companies disclosing pay reductions are generally those most severely and most immediately impacted by the economic impact of the COVID-19 pandemic. In fact, stock price performance at companies decreasing pay is in almost all cases lower than broad market indices since the market highs on February 19, 2020. Companies reducing pay the most (travel and hospitality, discretionary retail) have suffered stock price decreases that are significantly more severe than companies in other industries.

TSR, February 19, 2020 to April 1, 2020



Alternative Responses—Pay Deferrals, Replacements

While most early adopters have sought to contain cost through reductions in cash-based components of pay, a small number of companies are implementing alternative approaches. An approach used by some companies is to defer salary. This has the advantage of avoiding cuts in pay, but delivering a portion of base salaries at a point in the future when the company expects to have improved cash flow. Most companies are leaving the timing of this delivery somewhat open-ended, but the earliest dates specified to this point have fallen within the third or fourth calendar quarters of 2020. One disadvantage to this approach is that if companies are reducing pay or eliminating jobs for any portion of their workforces, the optics of pay deferrals for top executives or directors may be poor.

A few companies are conserving cash by granting stock (or disclosing the intent to do so) in lieu of all or a portion of an executive's remaining 2020 base salary. As with deferrals this preserves cash, but may be perceived as opportunistic, depending on how the stock awards are structured.[3] This is particularly true in the case of stock options, due to their high leverage.

Increased Hiring, One-Time Bonuses

A small number of companies are experiencing *increased* demand, and they are responding by awarding one-time bonuses, increasing hourly wages, or enhancing overtime pay to targeted employee groups. These companies include several leading pharmacies and general merchandise retailers. Of the companies disclosing pay increases, roughly half are businesses that provide essential products (supermarkets, pharmacies, and banks, among others) and the remaining half provide other services (ranging from logistics to technology). Employees receiving increased pay are often referred to as "front line" employees who are regularly interfacing with the public. These one-time bonuses range in value from $150 to $1,500 and almost universally focus on front-line employees.

Final Thoughts

At this early stage, the great majority of publicly traded companies are taking a "wait and see" approach to near-term pay adjustments. Short of a rapid turnaround in the spread of COVID-19, we expect more companies will make pay adjustments for employees at all levels to reflect business conditions. As such, we will continue to update this compilation of company responses throughout the pandemic. You can find the updated list of responses at https://www.exqty.com/newsroom/.

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[3] In addition, if the vesting period is short (e.g., less than one year), there may not be a substantial risk of forfeiture, which could have unanticipated tax and accounting consequences.

If you have any questions about this ***Client Alert***, please contact Ben Burney ((847) 996-3970 or Ben.Burney@exqty.com) or Chris Wood ((847) 996-3964 or Chris.Wood@exqty.com), or any of the following:

Steven Dolan	(949) 748-6132	Steven.Dolan@exqty.com
Chris Fischer	(847) 996-3972	Chris.Fischer@exqty.com
Robbi Fox	(847) 996-3978	Robbi.Fox@exqty.com
Mark Gordon	(925) 478-8294	Mark.Gordon@exqty.com
Ed Hauder	(847) 996-3990	Edward.Hauder@exqty.com
Jeff Hyman	(203) 210-7046	Jeff.Hyman@exqty.com
Lynn Joy	(847) 996-3963	Lynn.Joy@exqty.com
Stacey Joy	(847) 996-3969	Stacey.Joy@exqty.com
Chad Mitchell	(949) 748-6169	Chad.Mitchell@exqty.com
Jeff Pullen	(847) 996-3967	Jeff.Pullen@exqty.com
Dianna Purcell	(718) 273-7444	Dianna.Purcell@exqty.com
Bob Reilley	(856) 206-9852	Bob.Reilley@exqty.com
Mike Sorensen	(847) 996-3996	Mike.Sorensen@exqty.com
Jim Woodrum	(847) 996-3971	Jim.Woodrum@exqty.com
Ross Zimmerman	(847) 996-3999	Ross.Zimmerman@exqty.com

Headquarters – 1870 West Winchester Road, Suite 141 ● Libertyville, IL 60048
East Region – 309 Fellowship Road, Suite 200 ● Mt. Laurel, NJ 08054
West Region – 2 Park Plaza, Suite 820 ● Irvine, CA 92614
www.exqty.com

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