



No Company Anticipated COVID-19, So What are They Doing Now?

Insights from Special Main Data Group Analysis

In the past few weeks, US companies that were not explicitly exempted under law have been shuttered due to the coronavirus-induced pandemic, abruptly pitching into recession an economy that only a few months earlier boasted the lowest unemployment figure in generations and the highest stock market valuation in history.

During the first quarter of 2020, companies set base compensation rates and performance goals for the year's annual incentive plan (AIP), without full knowledge of COVID-19's potential impact. As major parts of the economy sputtered to a standstill, many companies in affected industries developed "Plan Bs" to deal with the fallout.

Our analysis of these new plans covers 283 disclosures¹ in the crucial March 18, 2020 to April 14, 2020 period.

Tactics

Companies are addressing the disruption of COVID-19 in a variety of ways:

Delay: Defer 2019 AIP payouts and decisions about 2020 merit pay or 2020 AIP goals until the economic picture becomes clearer.

Companies that had not completed planning for the current year when the pandemic hit disclose that they intend to base 2020 bonus decisions on circumstances rather than a structured incentive or set AIP goals later than they typically would. Payouts for 2019 performance are deferred to a later date.

Exercise discretion: Adjust AIP payouts to reflect the impact of COVID-19 on the business.

Many companies indicate that they will reduce AIP payouts for 2019, in light of uncertainty about COVID-19's disruption of current operations. These cutbacks appear to be nonnegotiable and permanent; the disclosures do not suggest a catch-up payment after the dust settles.

Make mandatory and voluntary changes to pay or payment terms: Negotiate changes to base pay and AIP opportunities.

Some companies have imposed freezes or reductions in base pay on senior executives and mandatory or discretionary reductions in AIP (currently payable or for the upcoming year); at other companies, senior executives voluntarily have offered to forego or reduce salary or AIP. The enforcement period for these restrictions varies from two to 12 months. In most instances, the sunset clauses can be extended if

¹ Some companies submitted multiple disclosures.

circumstances warrant. A few companies require that payment of AIP will be in common stock rather than cash.

Board actions: Reduce board pay for a stated time period and make changes in governance.

A few boards have imposed cuts to their retainers as a sign of shared sacrifice, and one company has made the exceptional decision to eliminate two board positions altogether. The pay cuts range from \$3,750 for one quarter to 30% of all compensation for two quarters.

Case Studies

Many companies are taking a multi-prong approach to compensation management regarding COVID-19. Some examples include:

Company	Tactics *
Burlington Stores, Inc.	<ul style="list-style-type: none"> • Delay decisions about 2019 AIP and 2020 merit pay to later in fiscal year • May apply negative discretion on AIP
Invacare Corp.	<ul style="list-style-type: none"> • May apply negative discretion on AIP • Voluntary deferral of 20% of base salaries beginning April 1, 2020 (expected to apply for six months) • Voluntary deferral of 100% of AIP earned in 2019 (expected to apply for six months) • Voluntary deferral of 2020 merit pay (expected to apply for six months)
Mistras Group, Inc.	<ul style="list-style-type: none"> • Voluntary base salary reductions of 25-45% for second quarter of 2020 • Voluntary reduction of director retainer by \$3,750 for second quarter of 2020
Carters Inc.	<ul style="list-style-type: none"> • Temporary reductions in base salaries • Furlough and reductions of office-based employees • Suspension of merit pay increases, incentive compensation, and 401(k) matching contributions
Woodward, Inc.	<ul style="list-style-type: none"> • Hiring freeze • Layoffs and furloughs • Reductions in base salary for officers and elimination of AIP for officer and non-officers • Wage freeze
Simon Property Group, Inc.	<ul style="list-style-type: none"> • Applied negative discretion on 2019 AIP • Voluntary delay in payment of CEO's 2019 AIP to a date of the compensation committee's choosing (but no later than March 31, 2021)
Pebblebrook Hotel Trust	<ul style="list-style-type: none"> • Voluntary reduction in 2020 AIP targets; payout (if any) to be in common shares instead of cash • Mandatory reduction of base salaries through December 2020 (CEO's salary reduced 100%; other NEOs' salaries reduced 30%)
Container Store Group, Inc.	<ul style="list-style-type: none"> • Base salaries of senior management and certain salaried employees temporarily reduced • Payment of 2019 AIP temporarily deferred • Furloughs • Directors forego quarterly retainer fees for second quarter

* Some of these companies may have added more tactics and amended others since our cutoff date of April 14, 2020.

Contact Us

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About Main Data Group

Main Data Group is a provider of executive compensation benchmarking and corporate governance analytics. Its mission is to empower executive compensation professionals with comprehensive total rewards and corporate governance information in an affordable, easy-to-use online service. For more information contact us at info@maindatagroup.com or by filling out our contact form on www.maindatagroup.com.