Pearl Meyer

On Point

TIMELY, ACCURATE, INSIGHTFUL

Looking Ahead to Executive Pay Practices in 2024

Executive Summary

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Introduction

Pearl Meyer's "Looking Ahead to Executive Pay Practices" is an annual, online survey and valuable compensation planning tool. This year's survey was conducted in August and September of 2023, with total participation of 304 companies, including 148 publicly traded, 110 private-for-profit, and 46 not-for-profit (NFP) organizations. As with prior surveys, responses are broken out separately by respondent role (board member vs. employee), ownership type, industry, and company revenue size.

This year's survey addresses key topics associated with the current environment, including the expanding role for compensation committees with broader human capital oversight, actions taken to address incentive plan goal-setting challenges, and the potential impact of recent regulatory developments on executive pay practices at publicly traded companies. As with prior surveys, it also covers subjects such as compensation philosophy, expected pay outcomes for Fiscal 2023, projected salary increase levels for 2024, recent or anticipated incentive plan design changes and use of discretion for cycles ending in 2023, and long-term incentive award prevalence and participation.

Introduction (cont.)

This year's survey includes the following eight industry groups:

- Business/Other Services
- Consumer
- Energy/Utilities
- Financial/Insurance
- Healthcare/Life Sciences
- Industrials/Materials/Transportation
- Real Estate/Construction
- Technology

Certain industry categories in the online questionnaire were combined to allow for more meaningful sample sizes. Statistics are based on the number of responses for each question, and sample sizes vary. We believe this information will serve as a useful tool as your organization prepares for year-end pay determinations and Fiscal 2024 compensation planning.

Please feel free to contact me with any questions.

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Key Highlights

While macroeconomic conditions remain challenging and volatile, most respondents expect overall company performance for 2023 to be at or above last year's results, with approximately 45% of for-profit and 36% of NFP companies projecting year-over-year (YOY) improvements. Overall, performance forecasts are slightly less optimistic vs. last year's survey, where 55% of all respondents were projecting YOY improvements. Most respondents expect at least some payout for incentive performance cycles ending in 2023, generally at or above target among those providing forecasts (i.e., excluding "don't know" and "too early to tell" responses), with below-target projections by approximately 40% for short-term incentives and 33% for performance-based long-term incentives. Most companies do not currently plan on exercising discretion for incentive plan payouts or are taking a "wait and see" approach.

Similar to prior surveys, most respondents target executive compensation at or near the market 50th percentile, especially in the case of publicly traded companies. While most respondents did not recently change or anticipate changes to their executive compensation philosophy, nearly 20% across the entire sample (and 33% in the NFP sector) increased or plan to increase competitive positioning for one or more pay components, suggesting that labor markets remain somewhat tight, at least within certain sectors.

Compensation committees continue to address a variety of topics beyond executive and non-employee director compensation, with many respondents starting to become more involved with broader human capital oversight. This is especially true among publicly traded companies, where 20% of respondents have already changed or plan to change the name of their compensation committee to reflect this expanded role.

Key Highlights (cont.)

Salary increase projections for 2024 are moderating vs. 2023 levels while remaining above historical norms. Across the entire sample, 50th percentile or median increase projections equal 3.0% for CEOs and 3.5% for other senior executives and employees, below last year's median forecast of 4.0% across all employee categories. While two-thirds of all respondents expect somewhat similar YOY percentage increases, only 9% are forecasting higher levels with 24% anticipating lower percentages. This is a stark contrast from last year's findings, where 40% were planning higher percentage increases and only 6% expecting lower levels.

Nearly 40% of all respondents took one or more actions this year to address incentive plan goal-setting challenges, including delaying the timing for finalizing goals, widening performance range spreads, and adding or increasing the emphasis on relative (vs. absolute) or qualitative (vs. quantitative) measures. Slightly more than half of all respondents described current-year incentive plan performance goals as having similar degrees of stretch compared with 2022, with nearly 28% citing more aggressive hurdles.

Most respondents do not anticipate making changes to short-term and long-term incentive designs for 2024. Among those that do, the most commonly cited change is to add new performance metrics. Compared with prior surveys, anticipated prevalence of adding new environmental, social, and/or governance (ESG) metrics within short-term incentive plans declined, perhaps in response to the recent Supreme Court ruling against race-based affirmative action admission practices at certain universities and the growing ESG backlash.

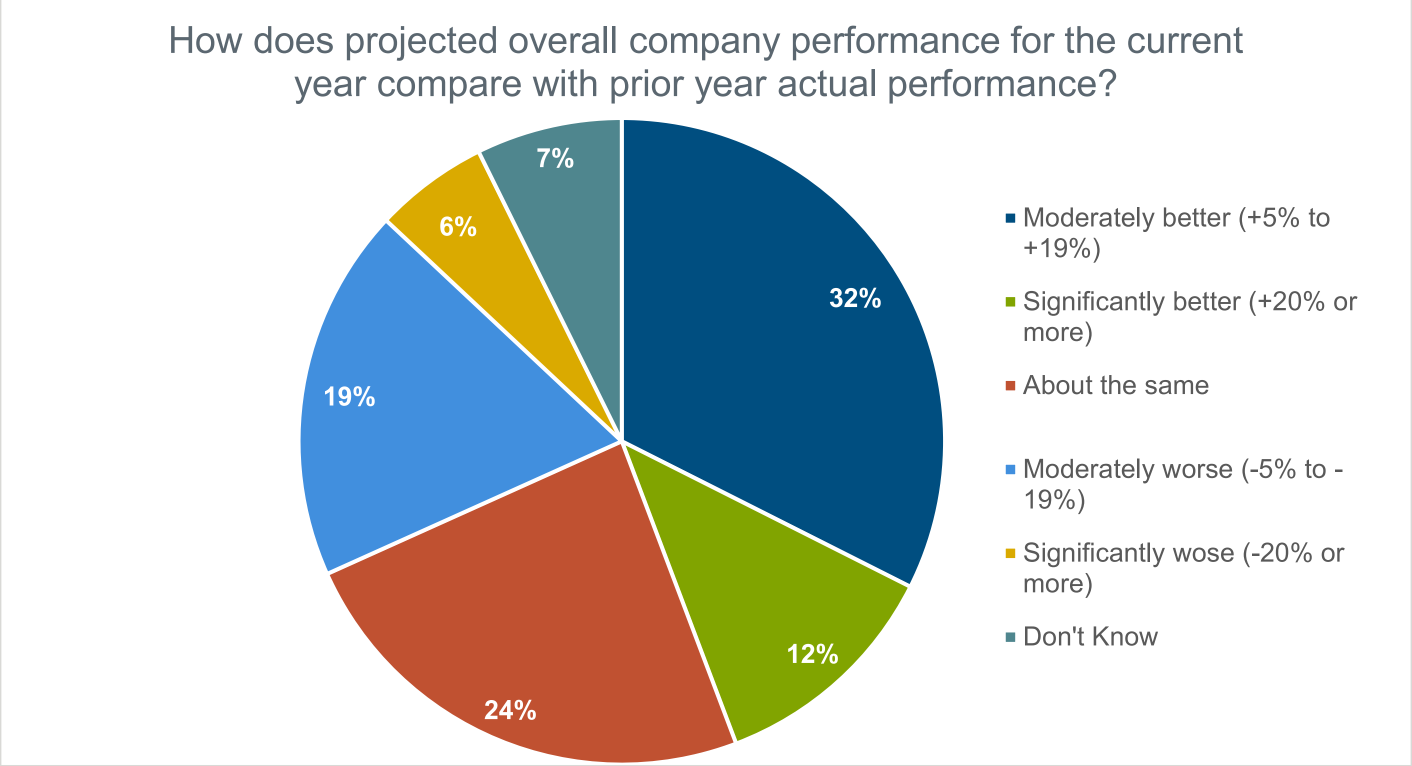
Key Highlights (cont.)

Among respondents with long-term incentive plans, nearly 20% increased long-term incentive participation levels in 2023, either for executives and/or other employees, with higher prevalence for private vs. publicly traded companies. This is yet another signal that labor markets remain tight as companies look to further enhance retention. Publicly traded companies continue to make awards deeper within the organization than other ownership types that typically limit grants to executives only. Virtually no respondents indicated plans to change equity grant practices in response to market volatility, with only a small percentage (less than 5%) reporting any type of fixed cap in terms of aggregate annual grant levels.

Most public company respondents state that the new “pay versus performance” disclosure requirement has not had a significant impact on executive compensation designs or practices, with many viewing it as a compliance exercise. As of the time of survey launch, approximately half of all public company respondents had not yet begun to modify their clawback policy (or adopt a policy) to comply with new SEC and stock exchange listing requirements, which become effective as of December 1, 2023. While most respondents plan to exactly mirror the new requirements within their new or revised clawback policy, nearly 25% expect to either establish a broader policy (e.g., in terms of covered participants and/or recoupment triggers) or maintain multiple plans. These and other key survey findings are addressed in more detail on the following pages.

Overall Company Performance Projections vs. Prior Year

- Most respondents anticipate year over year (YOY) improvements in financial performance, with 32% projecting moderately better results (+5% to +19%) and 12% expecting significantly better outcomes (+20% or more); approximately 25% expect YOY reductions
  - Prevalence of anticipated YOY improvement is higher among for-profit vs. NFP respondents (46% vs. 36%)
  - By industry, forecasts for YOY improvements were highest for the business/other services sector (nearly 70% of respondents) and lowest for the financial/insurance sector (26%)



Targeted Executive Pay Positioning

- Nearly half of all respondents target executive compensation at the market 50th percentile, with prevalence higher for base salary than variable pay (STI and LTI)
  - Public company respondents are much more likely to target executive pay at the 50th percentile (or median) compared with private organizations, as are larger-sized companies, reflecting the impact of greater external scrutiny
  - Private organizations are less likely than publicly traded companies to have any targeted pay positioning, especially for LTI (none reported by approximately 34% of private for-profit and 54% of NFP respondents), which some companies may not be factoring into their evaluation of total compensation

Pay Component	Targeted Pay Positioning (% of All Respondents)			
	Below 50^{th} Percentile	At 50^{th} Percentile	Above 50^{th} Percentile	No Positioning
Base Salary	12%	53%	29%	6%
Short-Term Incentives (STI)	8%	47%	27%	17%
Long-Term Incentives (LTI)	8%	40%	28%	24%
Total Direct Compensation	8%	45%	36%	11%

- While most respondents have not changed (or plan to change) their executive compensation philosophy, 19% increased targeted pay positioning vs. market and 15% increased the emphasis on variable pay (STI and/or LTI)
  - By industry, prevalence of increased targeted pay positioning was highest for the consumer, financial/insurance, and healthcare/life sciences sectors (each slightly more than 20%), while 20% or more within the technology and life sciences/healthcare sectors planned to increase the emphasis on variable pay

Compensation Committee Oversight Roles

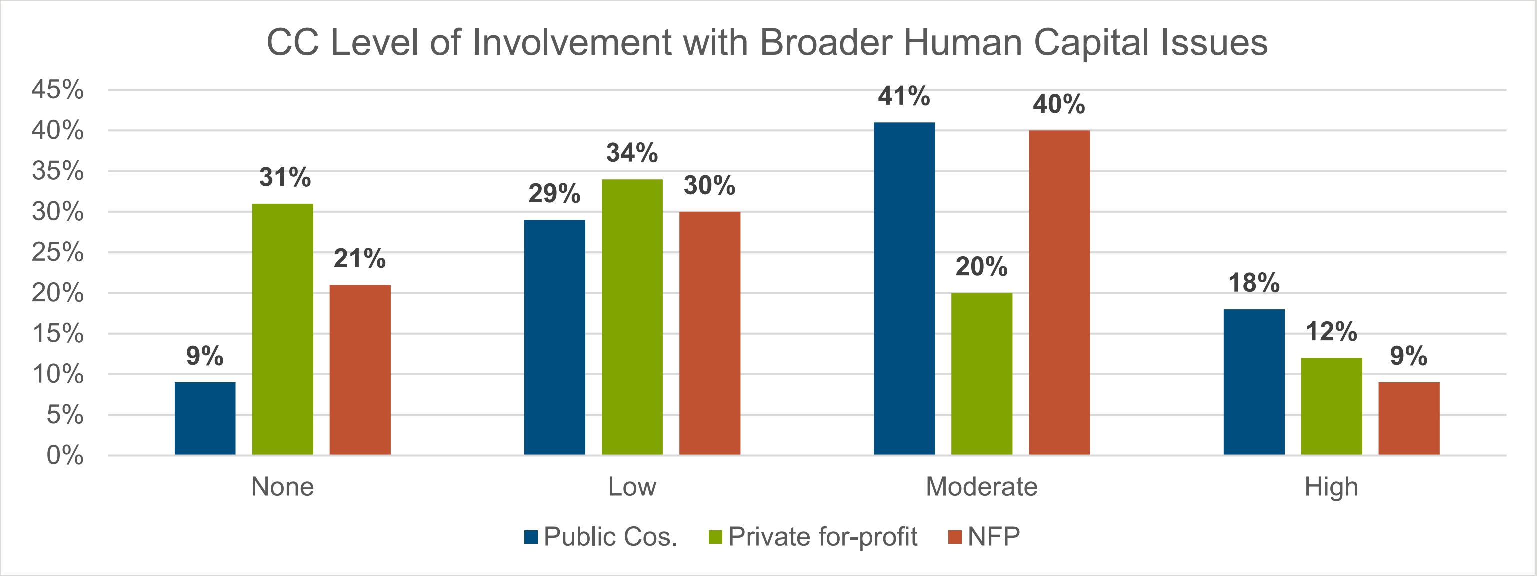
- In addition to executive pay, most compensation committees are also responsible for executive succession planning across all ownership types and for non-employee director compensation at for-profit organizations
  - Approximately 8% of all respondents increased compensation committee oversight within the past year, typically as relates to DE&I and other broader human capital-related topics
  - Compensation committee oversight roles were viewed more broadly by outside director vs. employee respondents, as were YOY increases in responsibilities (16% for outside directors vs. 7% for employee respondents)

Oversight Category	Compensation Committee Oversight Prevalence		
	Publicly Traded	Private (For-Profit)	Private (NFP)
Board of Director Pay	84%	62%	39%
Executive Succession Planning	61%	59%	57%
Leadership/Talent Development	39%	24%	27%
Diversity & Inclusion (D&I)	35%	18%	27%
Employee Engagement	24%	18%	18%
Culture	23%	18%	23%

- Compensation oversight responsibilities vary by ownership type; approximately 75% of NFP and 55% to 60% of for-profit respondents do not review pay below the CEO direct report level
  - Approximately one-third of for-profit respondents (both publicly traded and privately held) extend compensation oversight down to the corporate officer or VP/SVP level

Compensation Committee Oversight Roles (cont.)

- Compensation committees at publicly traded companies are typically more involved with broader human capital issues vs. other ownership types, although very few currently have an active oversight role
  - While most respondents across all ownership types have not changed or considered changing the name of the compensation committee (CC) to reflect a more active role with broader human capital oversight, 20% of public companies already have or plan to do so
  - Prevalence of moderate to high involvement levels tends to correlate with company size, with active oversight reported by 31% of respondents in the largest size category (sales or assets >$10B)



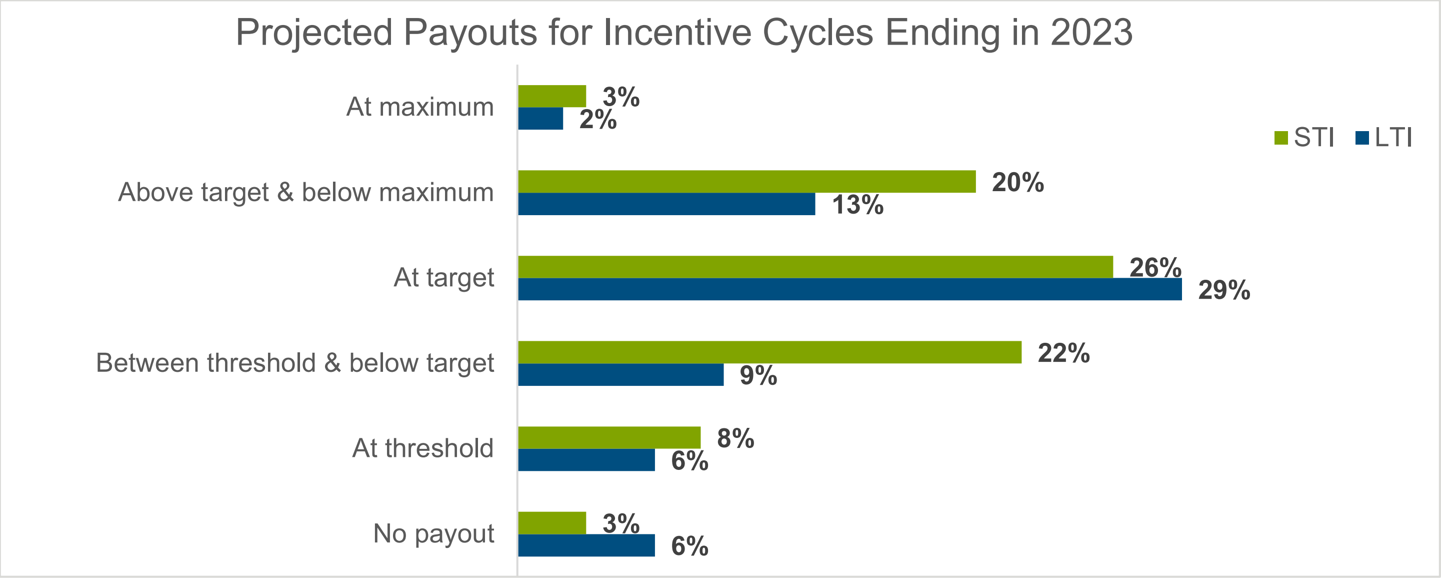
- We expect many compensation committees will take a more active role going forward given the ongoing tight labor market, hybrid work arrangements for many organizations, and high levels of employee mobility, especially among younger employees

Pay Projections

- Salary increase projections for 2024 are moderating vs. 2023 but remain above longer-term historical levels, with 50th percentile overall values equal to 3.5% for executives and 3.7% for other employees
  - 86% of all respondents expect increases for senior executives and 97% for other employees
  - Average projections are generally lower for publicly traded respondents than for privately held organizations

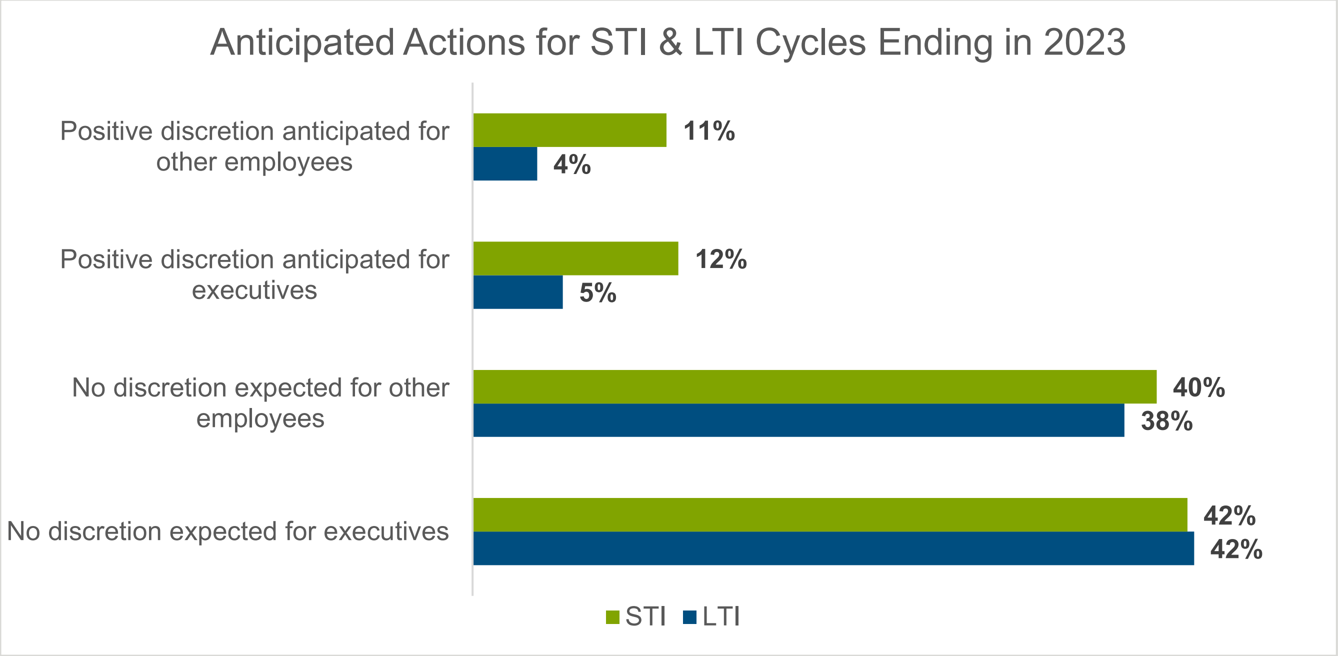
Employee Category	Average %	50th Percentile %	75th Percentile %
CEO	3.6%	**3.5%**	5.0%
CEO Direct Reports	3.6%	**3.5%**	4.0%
Other Employees	3.7%	**3.7%**	4.0%

- Nearly half of all respondents (including those answering "don't know" or "not applicable") expect payouts for incentive cycles ending in 2023 to be at or above target, with only 3% forecasting no payouts for STI and 6% for LTI



Anticipated Use of Discretion for Incentive Cycles Ending in 2023

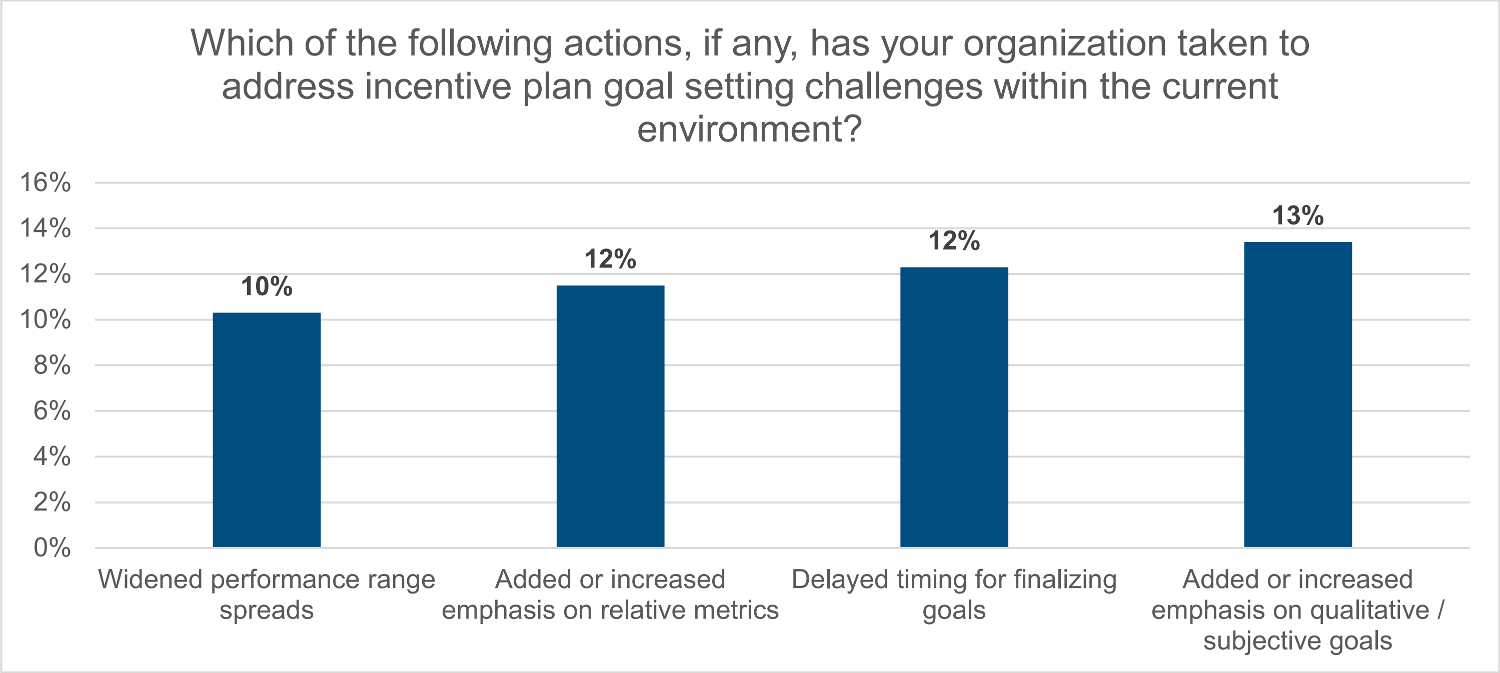
- Most respondents do not currently expect to exercise discretion for incentive cycles ending in 2023, although many are taking a “wait and see” approach
  - Virtually no respondents (less than 3%) currently expect to apply negative discretion, and many (34% for STI and nearly 25% for LTI) say its too early to tell whether discretion will be applied for cycles ending in 2023
  - Anticipated use of positive discretion is lower for publicly traded and larger-size respondents vs. others, and highest as relates to 2023 executive STI awards for those in the business/other services (19% of respondents) and financial/insurance (17%) sectors



- Among respondents anticipating adjustments, the most commonly cited potential triggers include unanticipated transactions (17%), extraordinary changes in interest rates (15%), and restructuring charges (10%), with a notable decline for the COVID-19 pandemic (5% vs. 14% in last year’s survey)

Actions Taken to Address Incentive Plan Goal-Setting Challenges

- Nearly 40% of all respondents took one or more actions to address incentive plan goal-setting challenges within the current environment, with the most commonly cited actions shown below
  - Prevalence of companies taking action was highest for respondents in the smallest size category (sales or assets < $100 million, 58% of respondents) and lowest for those in the largest size category (29%)



- Slightly more than half of all respondents state that current performance hurdles have a similar degree of stretch vs. the prior year, with 28% using more aggressive and 7% less aggressive goals (others are uncertain or responded “not applicable”)

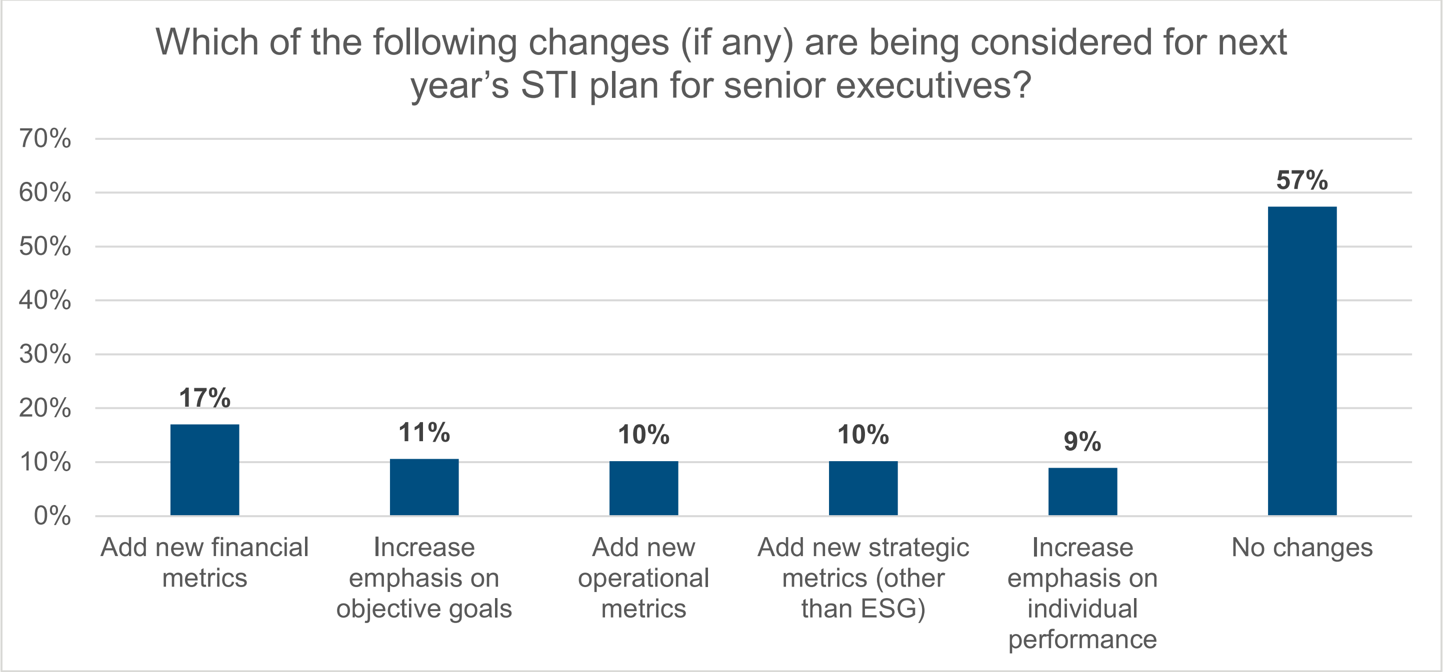
STI Performance Mix Projections for 2024

- Most respondents (70% of full sample and 84% of public companies) have formulaic STI plan designs, with pre-defined weightings for metrics and award opportunities
- The anticipated performance mix for 2024 is very similar to 2023, with a primary emphasis on objective corporate/business unit financial goals; approximately 20% to 40% of respondents also plan to also use operational, ESG, strategic, and/or individual goals, with median weightings ranging from 10% to 25%
  - Approximately three-fourths of respondents use multiple performance metric categories
  - Prevalence of ESG as a stand-alone metric remains at or near 20%, similar to last year's survey; while not explicitly stated, many other companies may include ESG-related criteria within individual or discretionary metric categories

Performance Metric Category	2024 STI Performance Mix: CEO		2024 STI Performance Mix: Direct Reports	
	Prevalence	Median Weighting (when provided)	Prevalence	Median Weighting (when provided)
Financial	94%	80%	96%	75%
Operational	35%	25%	41%	25%
ESG	21%	10%	19%	10%
Strategic	21%	20%	21%	20%
Individual	28%	20%	35%	25%
Discretionary	12%	20%	11%	20%

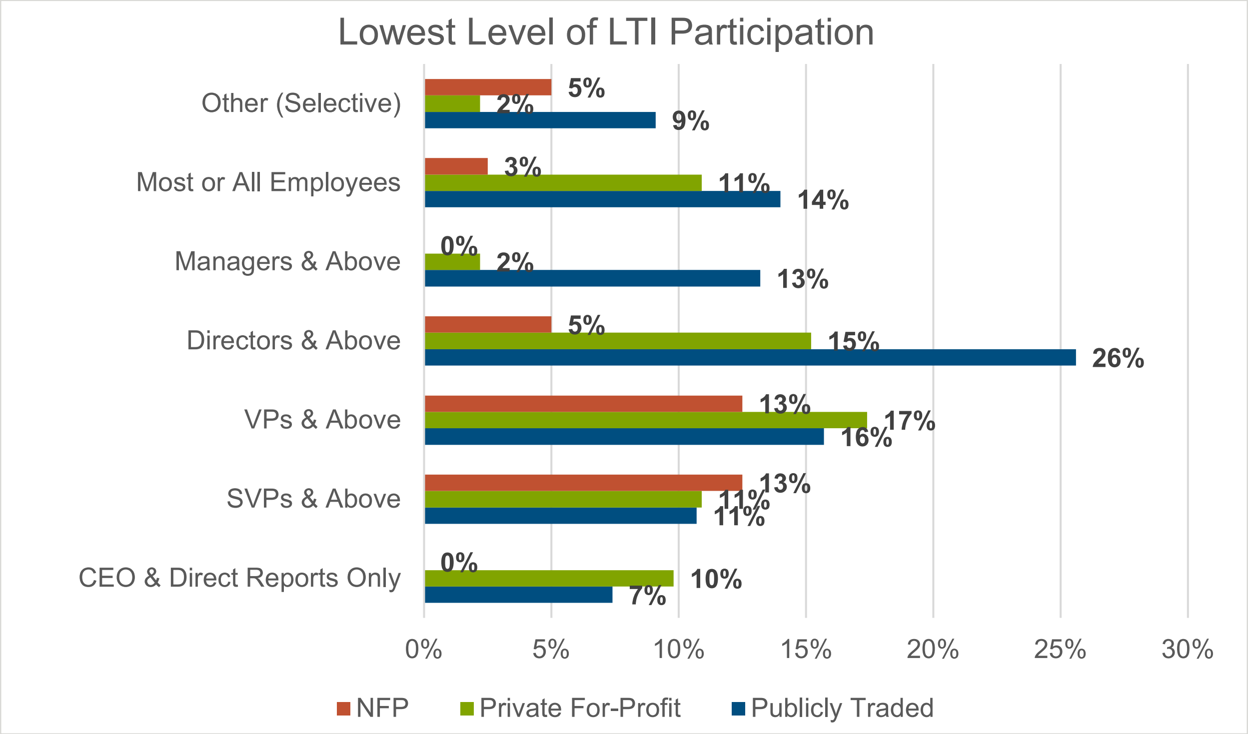
STI Plan Design Changes for 2024

- Slightly more than 40% of all respondents are considering making changes to senior executive STI designs for 2024, with the most common actions (expressed as a percentage of all responses, not just for those making changes) shown below
  - Prevalence for adding new ESG metrics declined to 5% of all respondents and 7% of publicly traded companies, down from 12% and 18%, respectively, in last year's survey
  - NFP respondents are more likely to make changes vs. for-profit companies (57% vs. approximately 40%)
  - Prevalence of anticipated changes was highest within the financial/insurance, healthcare/life sciences, and industrials/materials/transportation sectors (approximately 50% of respondents) and lowest within the real estate/construction sector (22%)



LTI Prevalence and Participation Levels

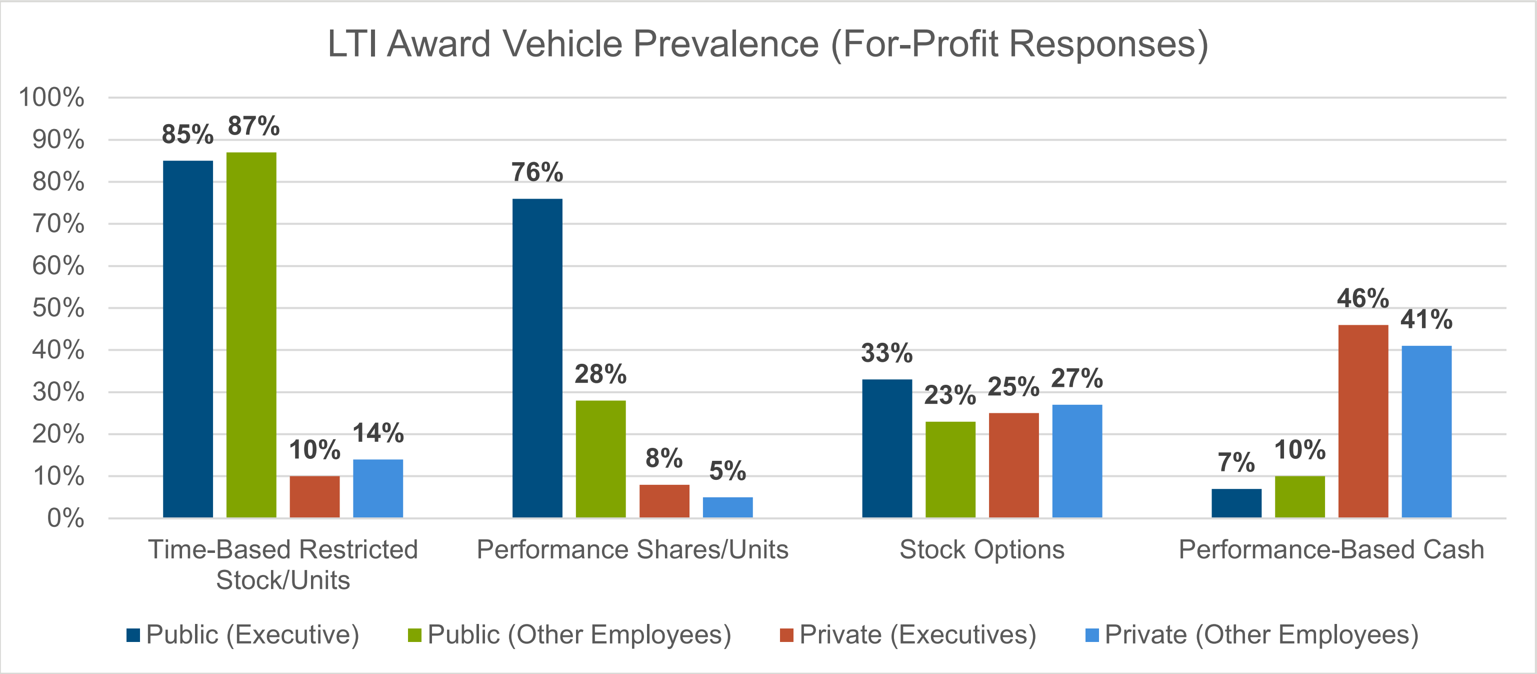
- Nearly all (97%) publicly traded and 68% of private for-profit respondents grant LTI awards to senior executives; 47% of NFP respondents grant LTI (prevalence may be impacted by low sample size)
  - Across the entire sample, 10% of respondents increased participation levels and 3% decreased participation
- Most respondents do not grant LTI below the employee director level, with publicly traded companies having broader participation than privately held organizations.
  - Approximately 53% of public company respondents make at least some grants below the vice president (VP) level vs. 28% of private for-profit and 8% of NFP organizations
  - Broad based grants to most or all employees were most prevalent for respondents in the technology (35% of respondents) and healthcare/life sciences (26%) sectors



Note: "Other" refers to other non-specified categories (e.g., EVPs and above, senior managers and above, or some other combination of roles

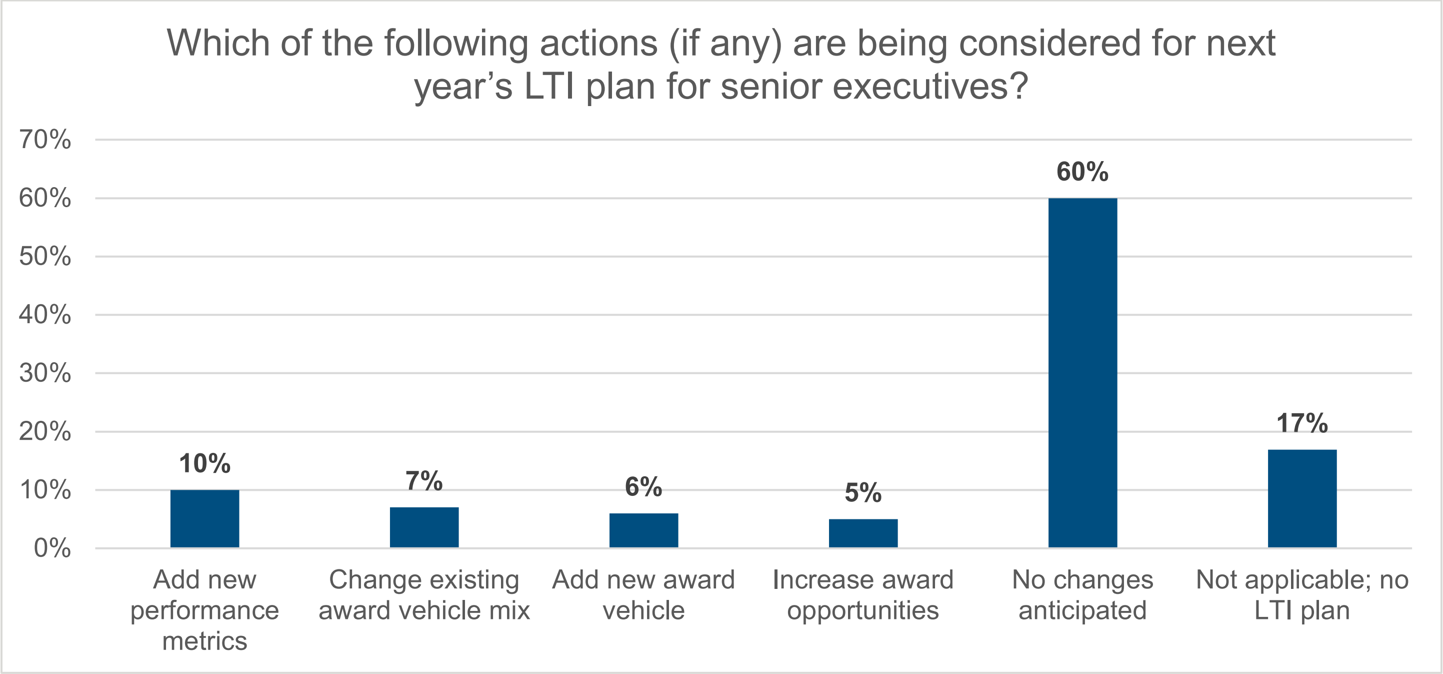
Target LTI Value Mix Projections for 2024

- Most publicly traded respondents grant time-based and performance-based equity to executives, while private companies rely more heavily on performance-based cash (cash LTIP)
  - Most respondents expect little or no YOY change in award vehicle prevalence, with a modest increase in performance shares/units for public company senior executives (76% vs. 71% in 2023)
  - Most public company respondents (84%) grant multiple types of award vehicles to senior executives vs. only 8% of private for-profit companies with LTI plans
  - Approximately 40% of private for-profit respondents with LTI plans grant equity awards to executives; most NFP respondents do not grant LTI; those that do typically provide cash LTIP (83% of respondents)
  - Most public companies (83%) express LTI award opportunities as percentages of salary or fixed target values; when provided, average weightings for senior executives equal 55% for performance shares and 49% for restricted stock, while the average restricted stock weighting for non-executives equals 77%



LTI Plan Design Changes for 2024

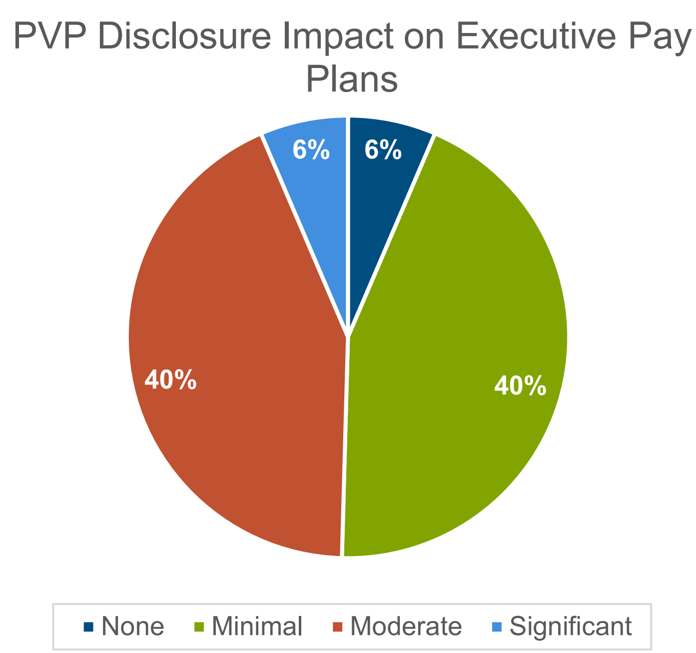
- Slightly less than 25% of all respondents currently anticipate making one or more LTI plan design changes for 2024, with the most common actions (expressed as a percentage of all responses including "not applicable") shown below
  - Prevalence of potentially adding new performance metrics is highest for the consumer sector (27% of respondents), the industrials/materials/transportation sector is most likely to change the existing LTI award vehicle mix (18%), and the real estate/construction sector is most likely to add new award vehicles (11%)



- Virtually none (less than 5%) of respondents currently anticipate making any change in LTI grant practices for 2024 or have any pre-established annual cap for aggregate grants
  - The average maximum annual share usage cap disclosed was equal to 2.7% of common shares outstanding

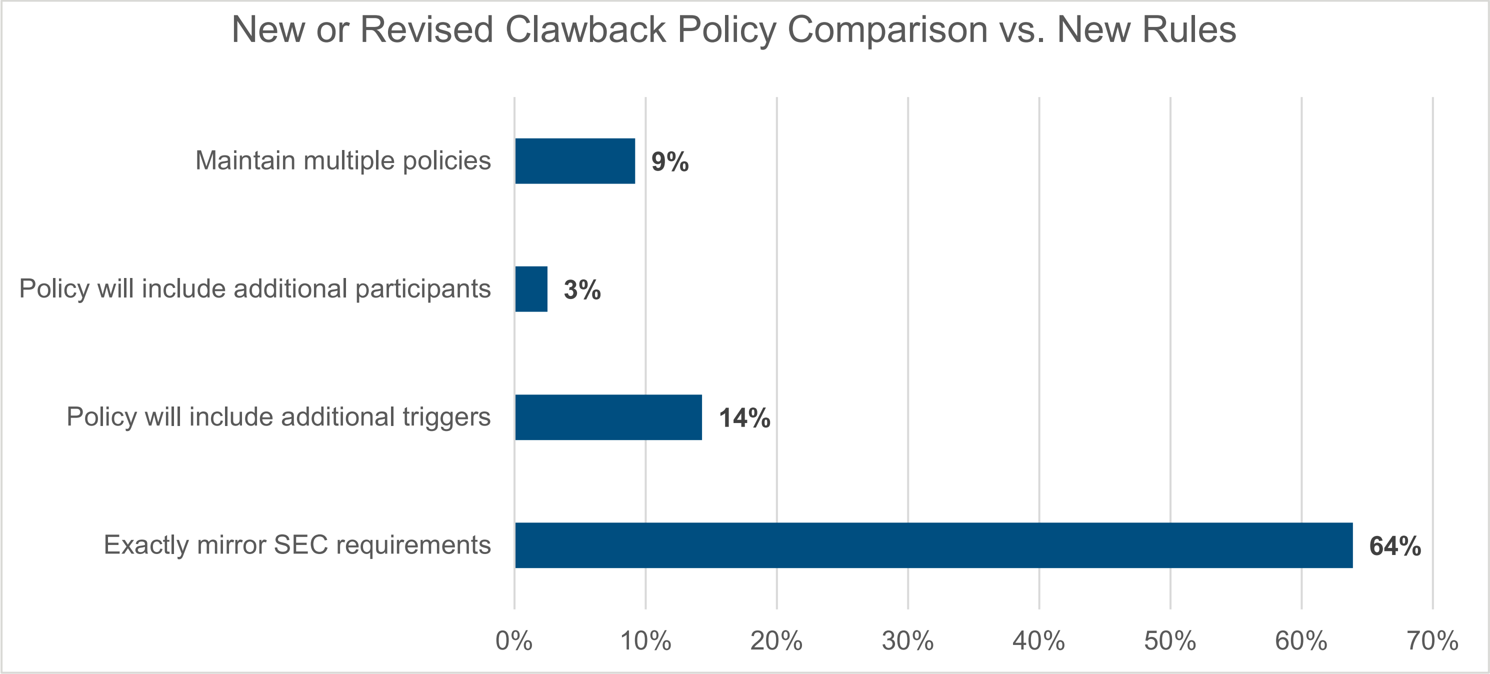
Impact of Recent/Pending Regulatory Developments on Public Company Executive Pay Practices: Pay vs. Performance Disclosure

- Most public company respondents say the "pay versus performance" (PVP) proxy disclosure requirements, which became effective this year, have not significantly impacted their organization's executive compensation design or pay practices
  - Only 6% of respondents said the new PVP disclosure requirement will materially impact plan design or practices, with most others citing either a minimal impact (i.e., primarily viewed as a compliance exercise: 40% of respondents) or a moderate impact (i.e., primarily used for comparison versus peer group disclosures: 40%)
  - 8% of respondents (not shown in the chart below) either are not currently subject to PVP requirements or are still trying to determine their impact

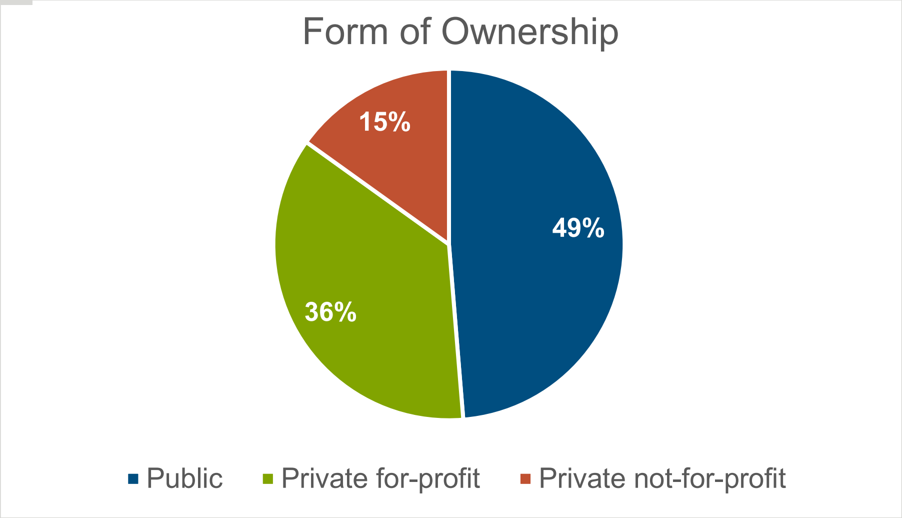


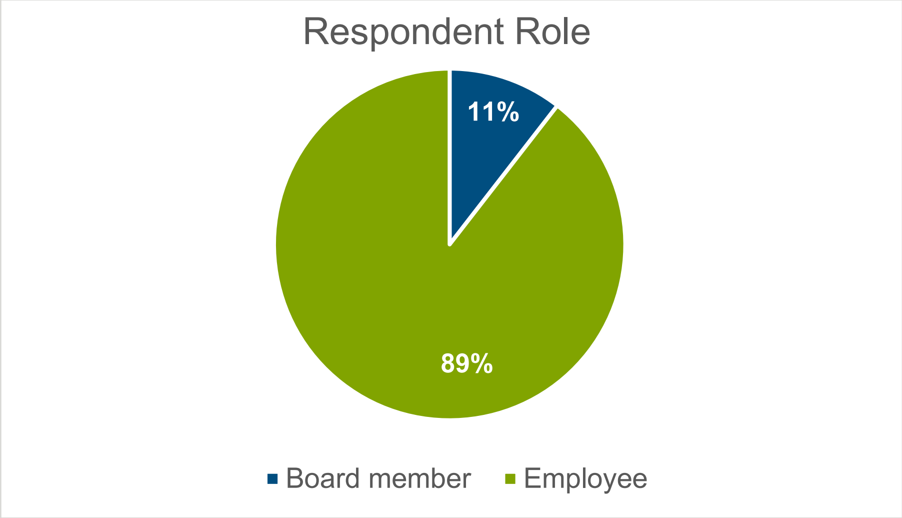
Impact of Recent/Pending Regulatory Developments on Public Company Executive Pay Practices: New Clawback Rules

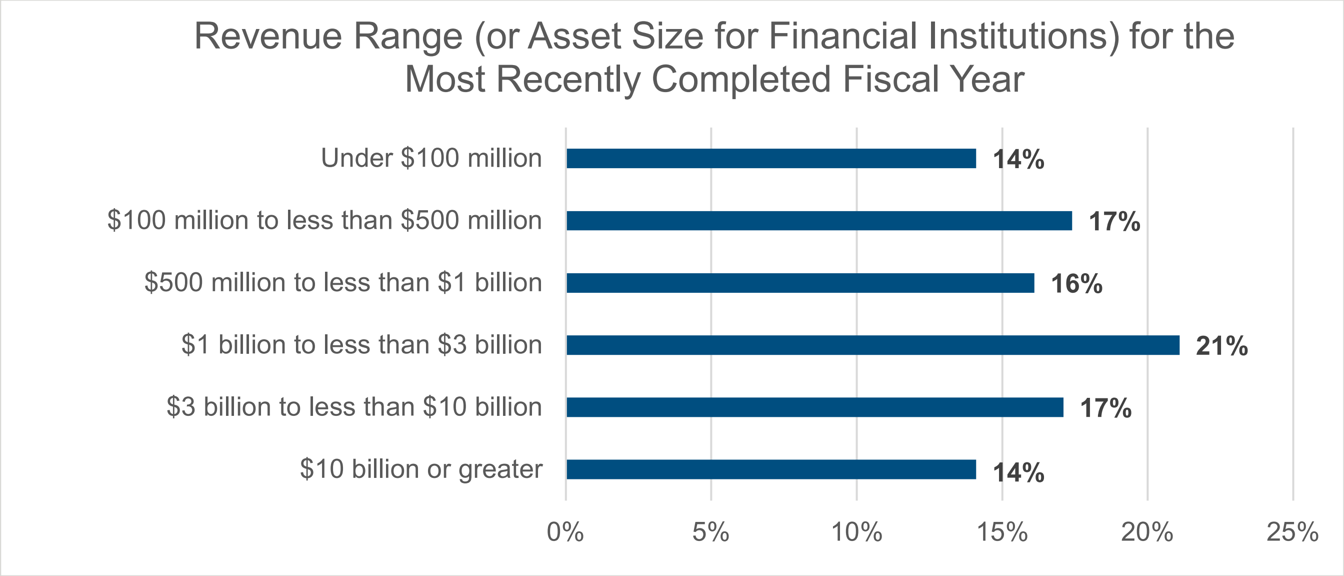
- Most public company respondents plan to exactly mirror the SEC clawback requirements within their new or revised plans while approximately 25% will either include broader parameters in terms of recoupment triggers (e.g., also include fraud/misconduct even if no restatement) and/or covered participants (i.e., beyond executive officers) or will also maintain a separate broader policy
  - As of the time of the survey launch (August 2023), approximately half of public company respondents had not yet revised or adopted a clawback policy to comply with new SEC and stock exchange listing requirements
  - Statistics exclude approximately 10% of respondents still evaluating what potential action to take
  - Some companies with multiple clawback policies may maintain board discretion under the non-compliant policy



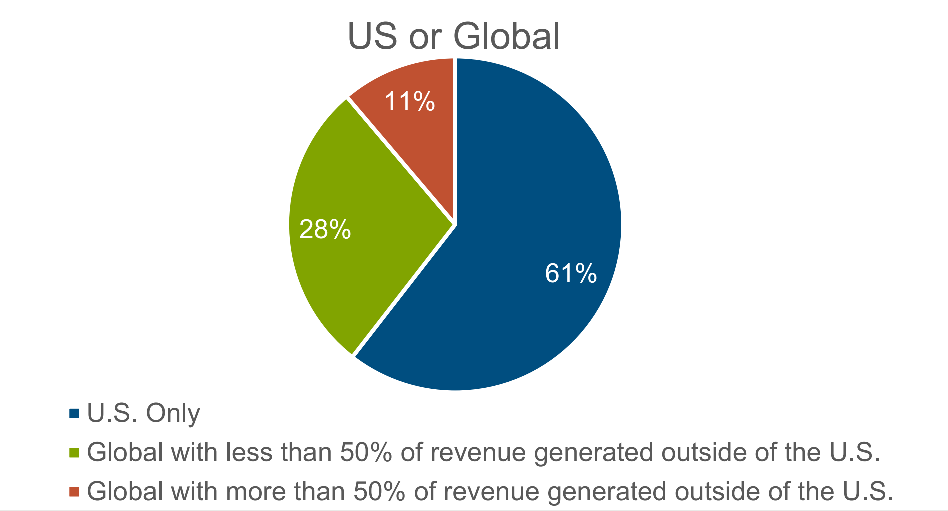
Participant Demographics

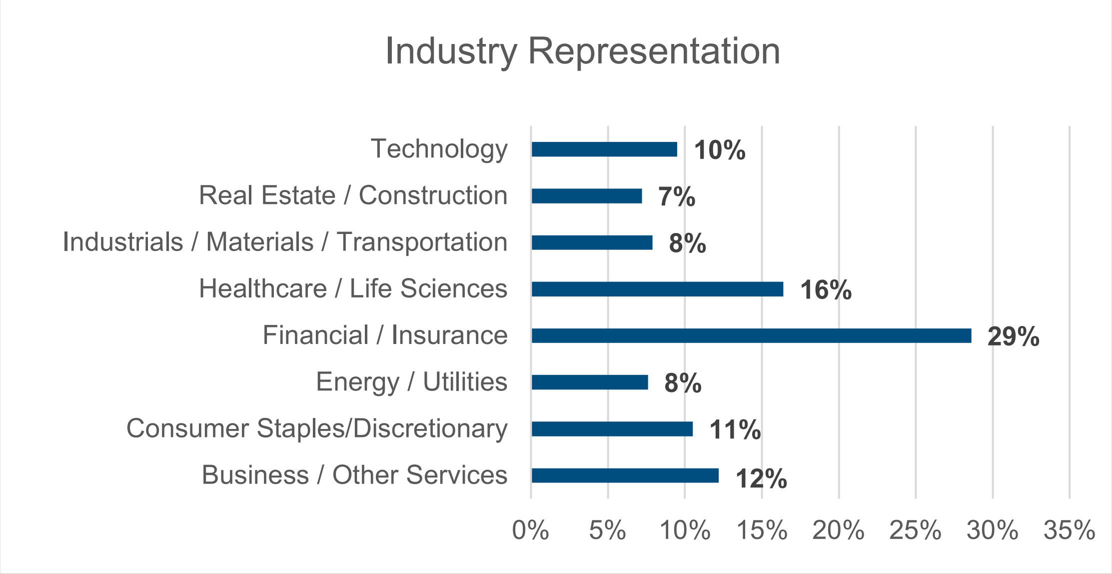






Participant Demographics (cont.)





About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage. Pearl Meyer's global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500. The firm has offices in Atlanta, Boston, Charlotte, Chicago, Houston, Los Angeles, New York, and San Jose.

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