Pearl Meyer

Quick Poll

Trends in Granting Equity

Executive Summary

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Introduction

Our Quick Poll survey series provides organizations with information on emerging topics and is designed to provide context for discussion and decision-making around executive pay and governance. In a normal year, equity grants are fairly straightforward. However, retention concerns, stock market volatility, inflation, and a host of other external pressures are converging and upending normal "best practices."

This Quick Poll *"Trends in Granting Equity"* was designed to assess if and how organizations are changing their usual equity practices and to what degree. We received responses from 187 companies and the data indicate some companies have moved to granting equity deeper in the organization and many are enhancing the equity grants for new hires. Not surprisingly, some companies are also reporting increased equity burn rates. The data indicate an increased use of restricted stock, reflecting a volatile 2021. However, certain design changes like shorter performance periods and vesting periods were generally not adopted despite being more employee-friendly in a tight labor market. And finally, we learned that only one-third of companies take unvested totals into account when granting additional equity. Although not a prevalent practice today, we see this as an emerging tool to manage compensation.

We hope you find this information useful in your planning and assessing your position against various emerging market trends. If you have any questions or are interested in discussing these findings, please contact:

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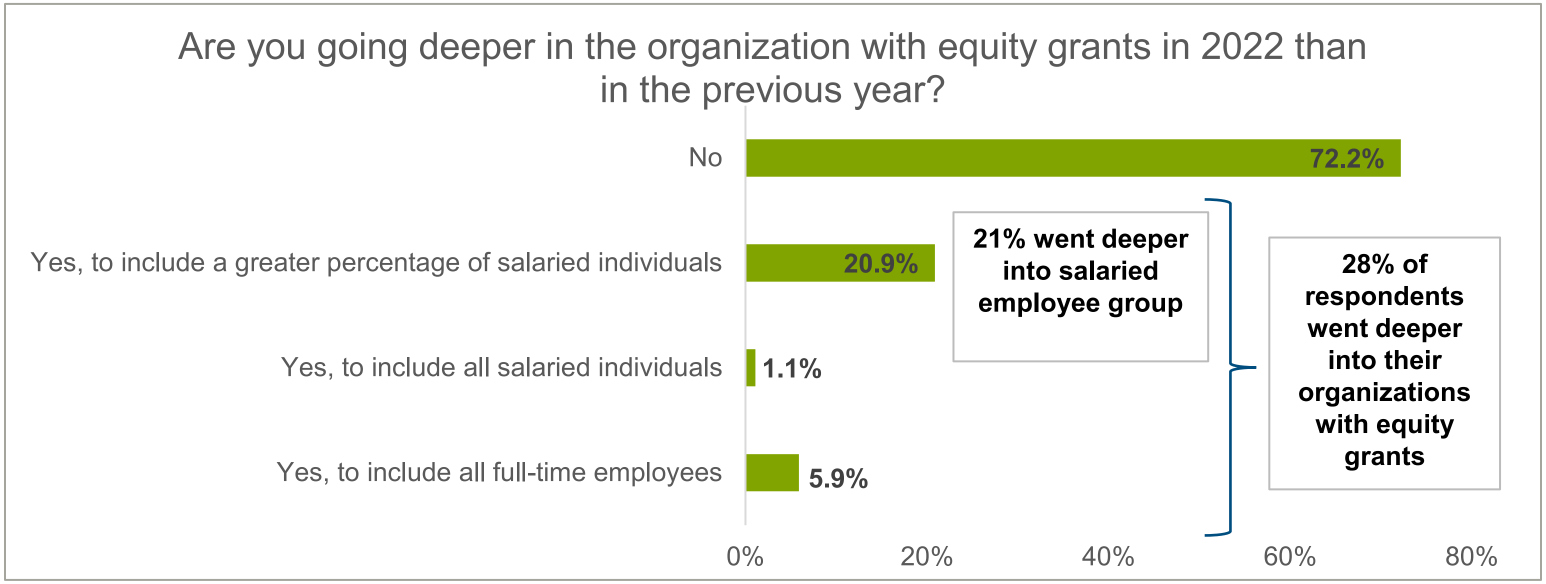
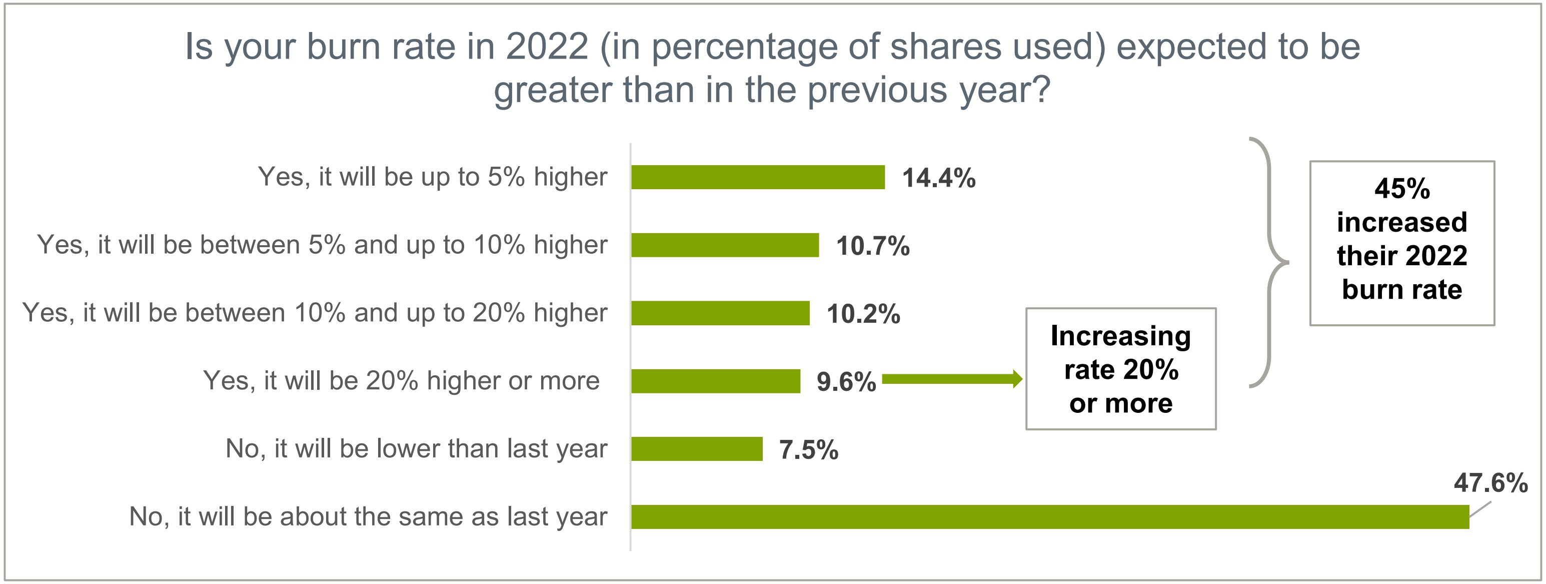
Equity Plan Eligibility

- About 28% of respondents went deeper into their organizations with equity grants while almost 21% went deeper into the salaried employee group.
- This outcome is not surprising. Many compensation committees and management teams discussed the need to broaden equity eligibility for competitive reasons; however, overall share usage and shareholder sentiment continues to be a pressing concern.
- It is not yet possible to predict if broadening equity eligibility was a one-time action or if this outcome is the beginning of a trend.



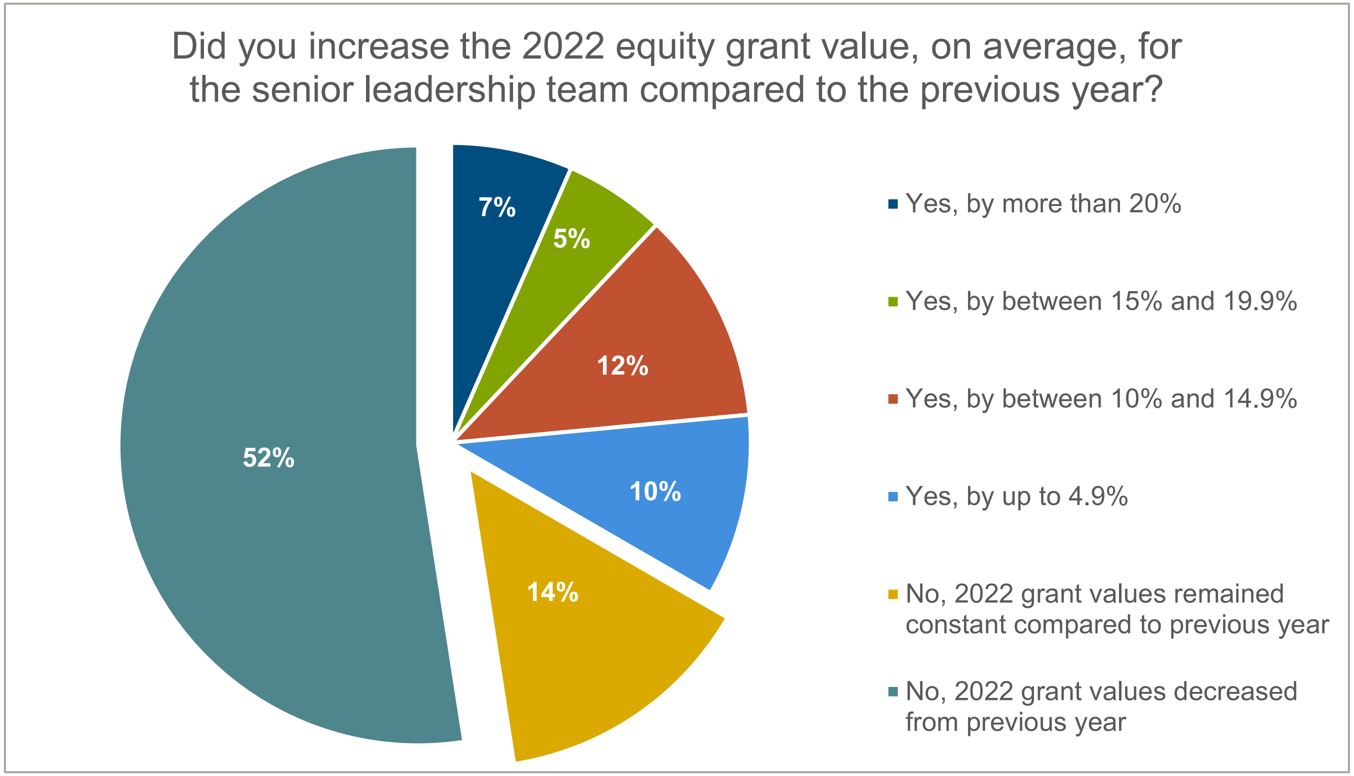
2022 Equity Burn Rate Changes

- Almost 45% increased their 2022 burn rate, with almost 10% increasing this rate 20% or more.
- Although most organizations did not go deeper with their equity grants, many have higher burn rates due to depressed stock prices and increasing competition for talent.
- It will be interesting to see what impact 2022 equity burn rate decisions will have on the ISS 2023 burn rate tables. With the more aggressive 2022 equity granting decisions, combined with inflation rates we haven't seen in decades, it is possible overall equity usage may increase over the next few years.



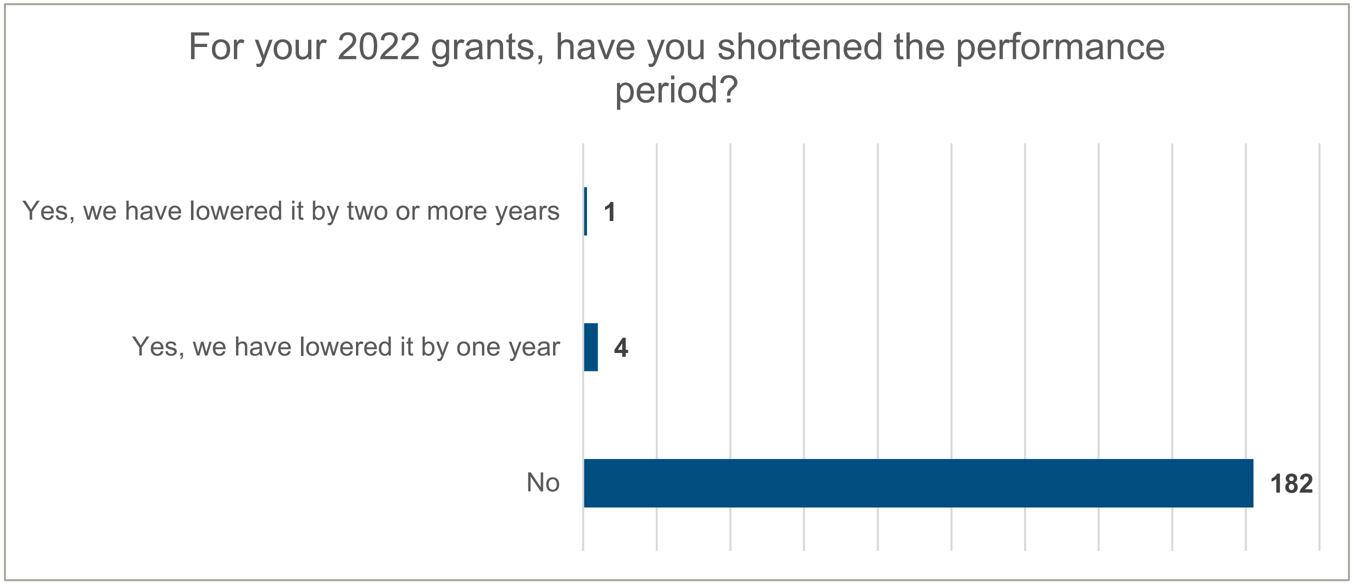
Senior Leadership Team Equity Burn Rate Changes

- Of the approximately 48% that increased senior leadership team equity values, the increases were spread out somewhat evenly from up to 5% to 20% or more.
- Although these actions won't have a material impact on senior leader team pay mix, it may be difficult for compensation committees to grant lower equity values in 2023.



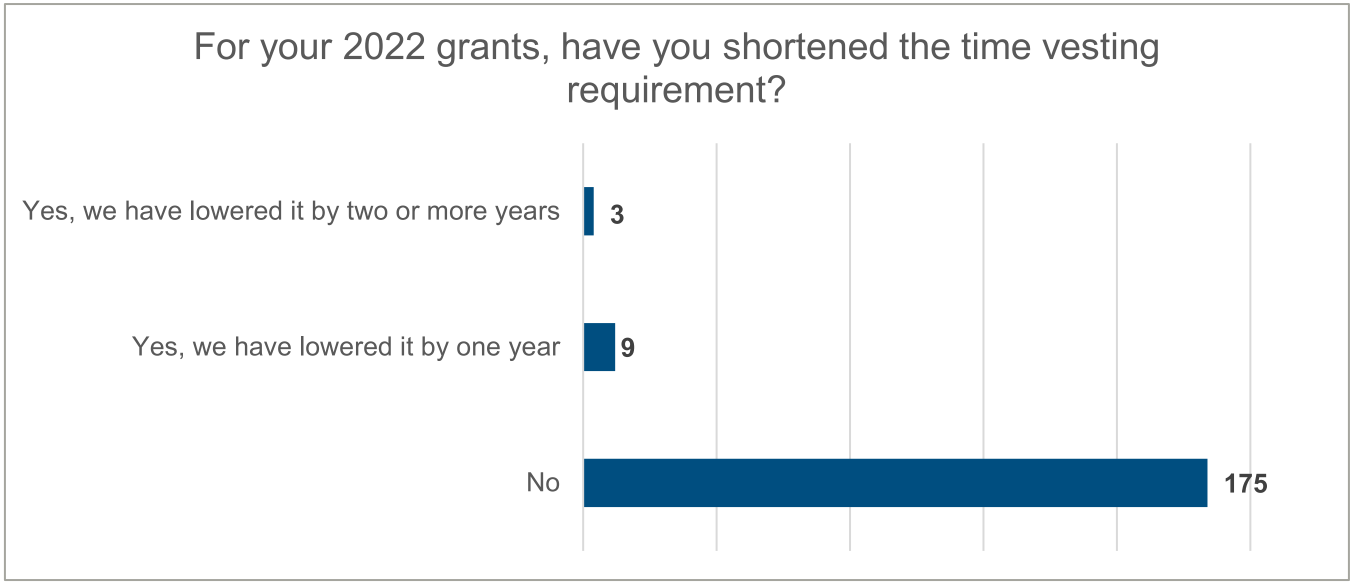
2022 Performance Period Changes

- Of the 187 respondents, only a handful of firms shortened the incentive plans performance period, suggesting the economic conditions did not raise material concerns about the ability to set goals.



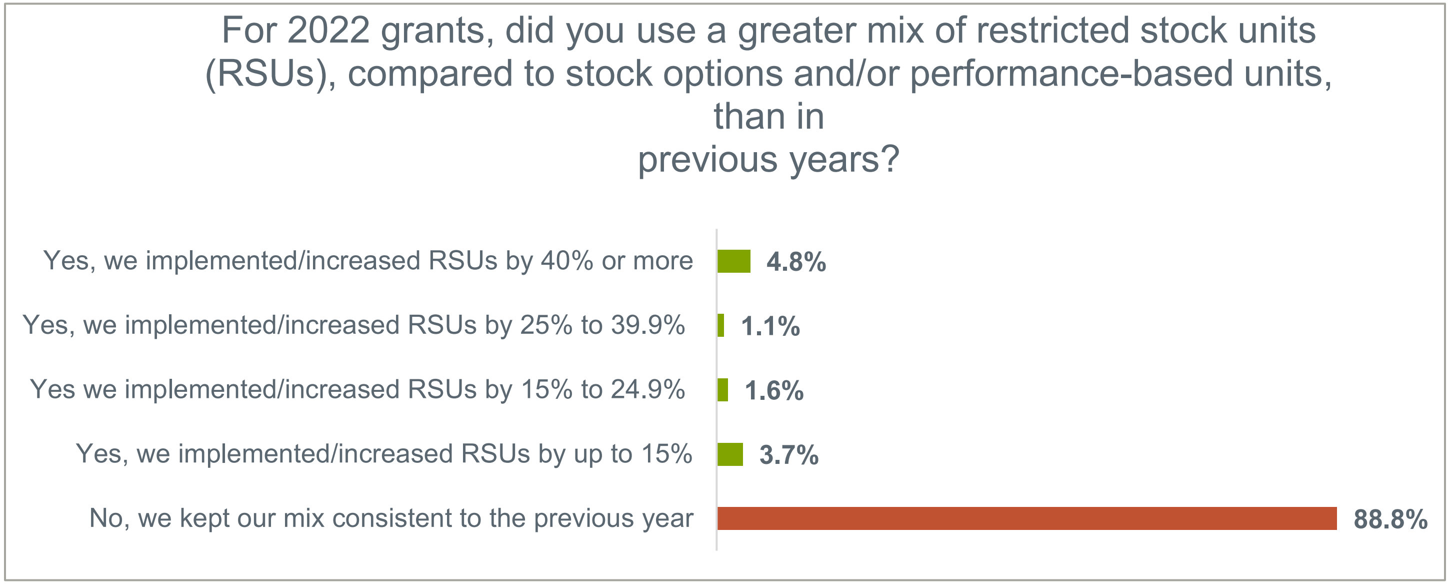
2022 Time-Vesting Schedule Changes

- Similar to the responses on shortening performance periods, very few companies felt it was necessary or desirable to shorten the time-vesting equity schedule.



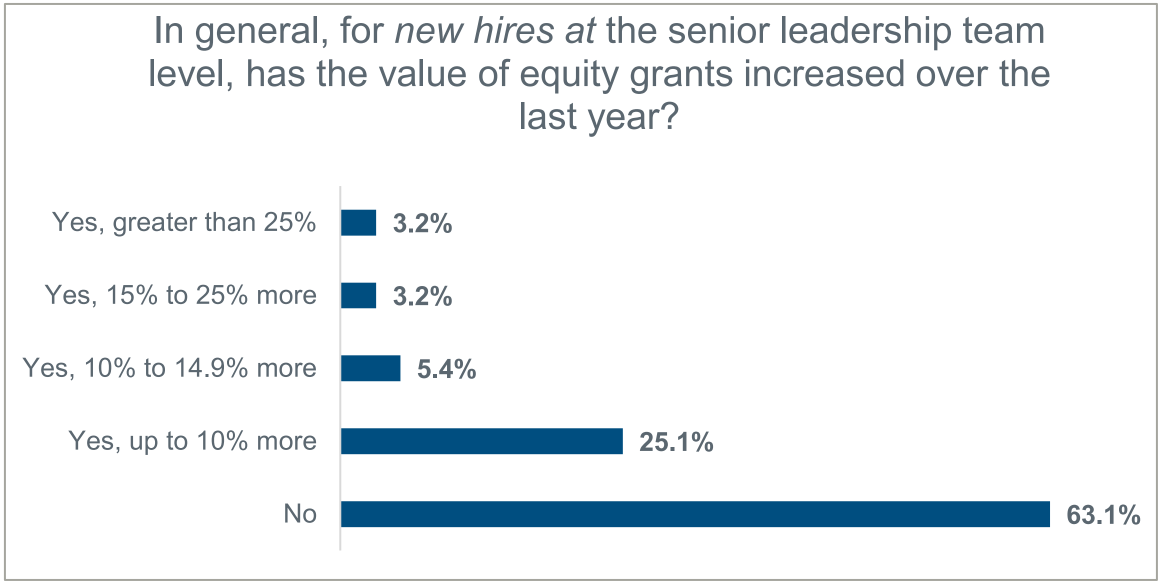
Equity Mix Changes

- About 10% increased the use of restricted by 15% or more, which is a meaningful change. Interestingly, of the companies that indicated making a change, 52% increased by >=25%.
- Although we did not capture the reasons for the equity mix changes, stock prices exhibited far more volatility in 2021, which may have motivated companies to put less weight on stock options and performance share plans.



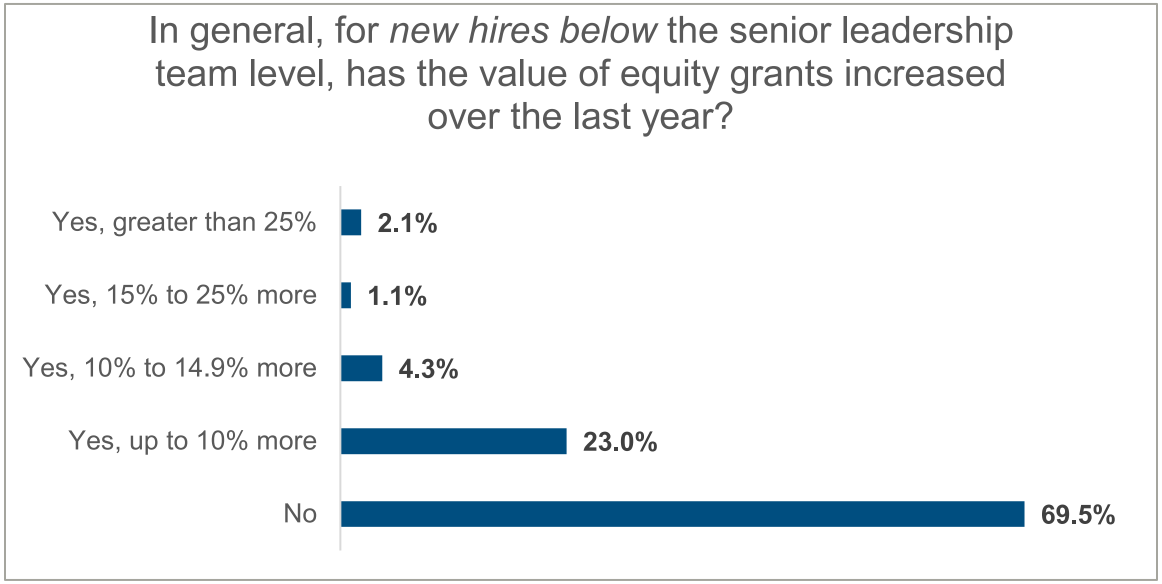
New Hire Equity Granting Changes

- A little more than a third of companies raised the value of equity grants for new hires, an outcome we expected to see. Similar to the increase in grant values to existing members of senior leadership, many organizations did increase the value provided to new hires in order to compete for talent.
- 25% raised the equity value by up to 10%, and a small number of companies raised equity grant values by more than 25%. No doubt the demand for highly specialized and diverse talent put companies under significant pressure to offer very aggressive compensation packages in some cases.



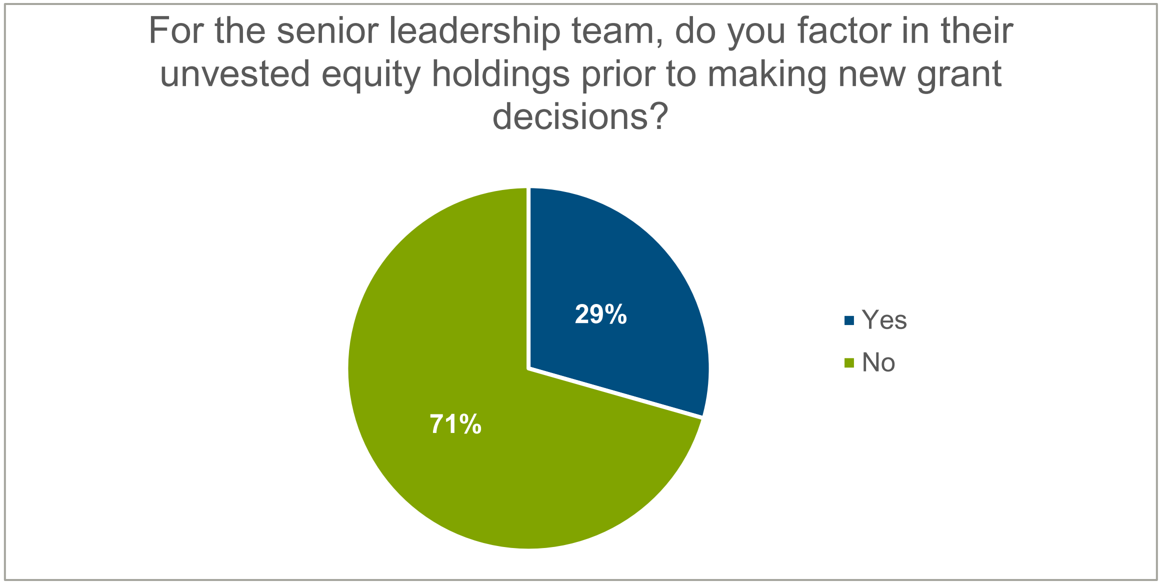
New Hire Equity Changes below the Senior Leadership Team

- Companies that raised equity grant values for new hires below the senior leadership team did so consistently with the approach taken for senior leadership hires.
- 23% raised equity values by up to 10%.



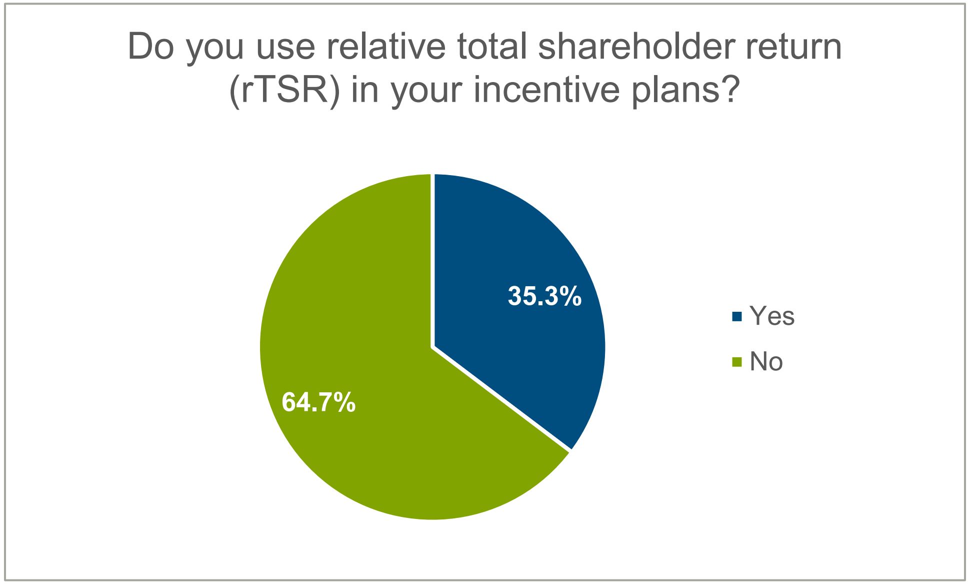
Unvested Equity Impact on New Grant Decisions

- A little less than a third of companies take into account the unvested equity holdings prior to making new grant decisions. Historically, many companies adhered close to their target LTI levels when making annual grants. We expect the pressure to retain executives put more focus on the retentive power of the unvested equity.
- Reviewing an individual's unvested equity value allows companies to put contemplated pay actions within the context of "flight risk." It is becoming an important tool to manage compensation costs.



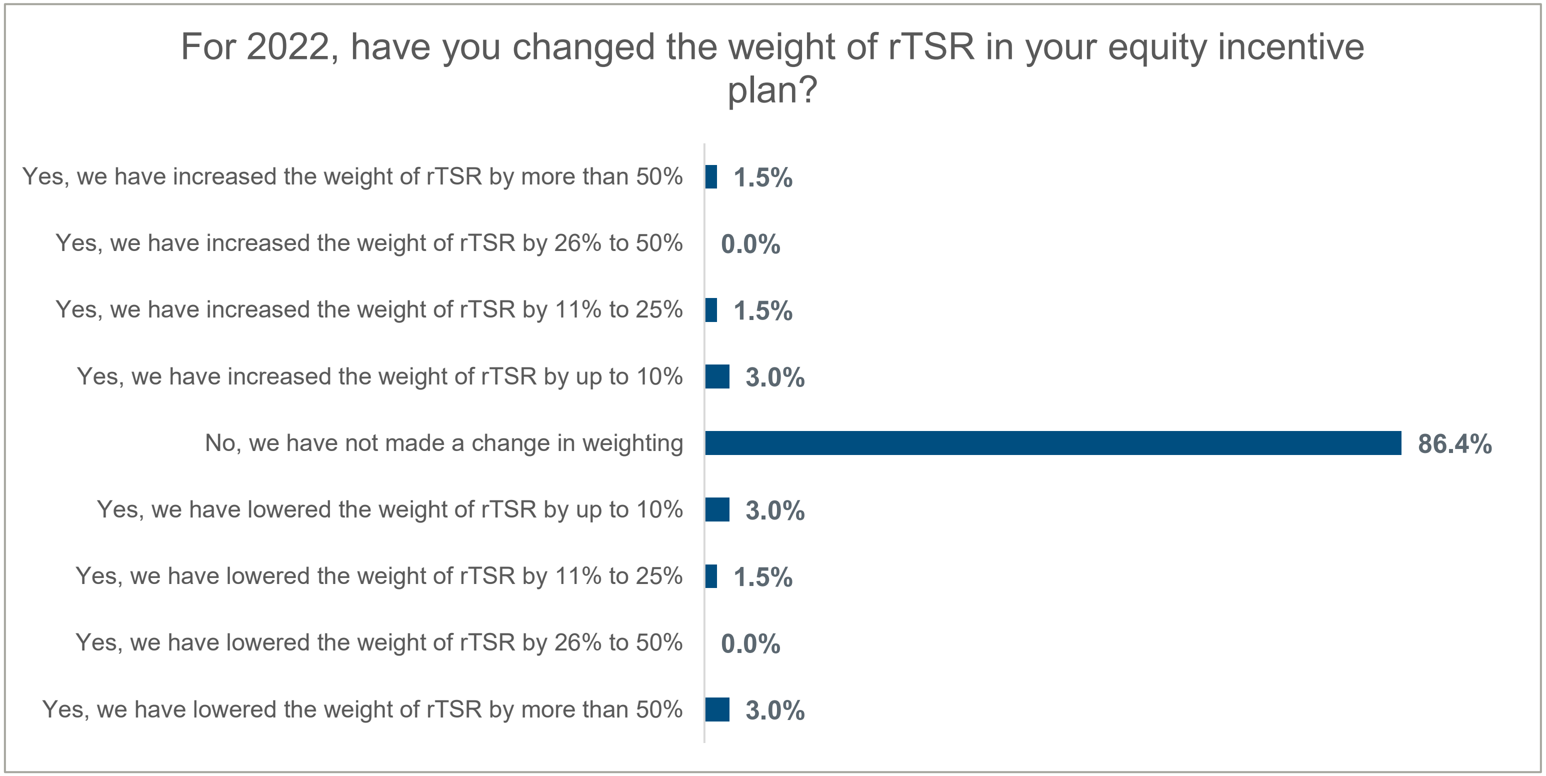
Relative Total Shareholder Return Metric Prevalence

- A little less than two thirds (64.7%) of companies do not use rTSR in their incentive plans. We expected the results to show 50% or less.
- The prevalence of rTSR in incentive plans varies based on the size of companies studied and the length of time they've been public. These survey results may have been influenced by the types of companies that responded rather than a general trend away from using rTSR as an incentive plan metric.



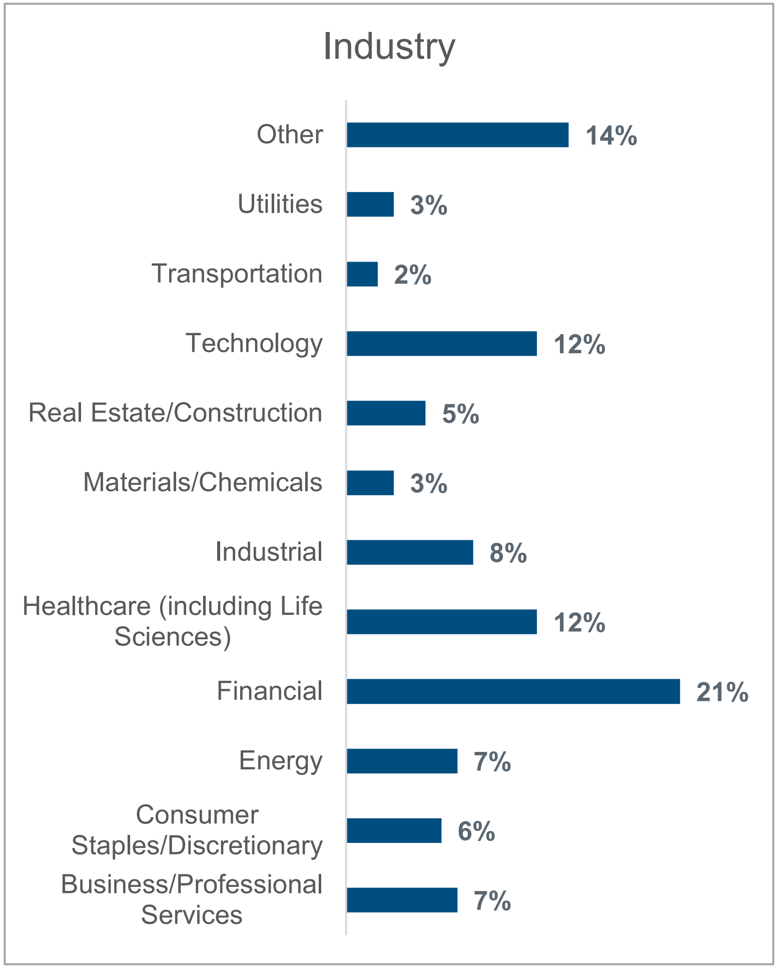
Relative Total Shareholder Return Metric Weight

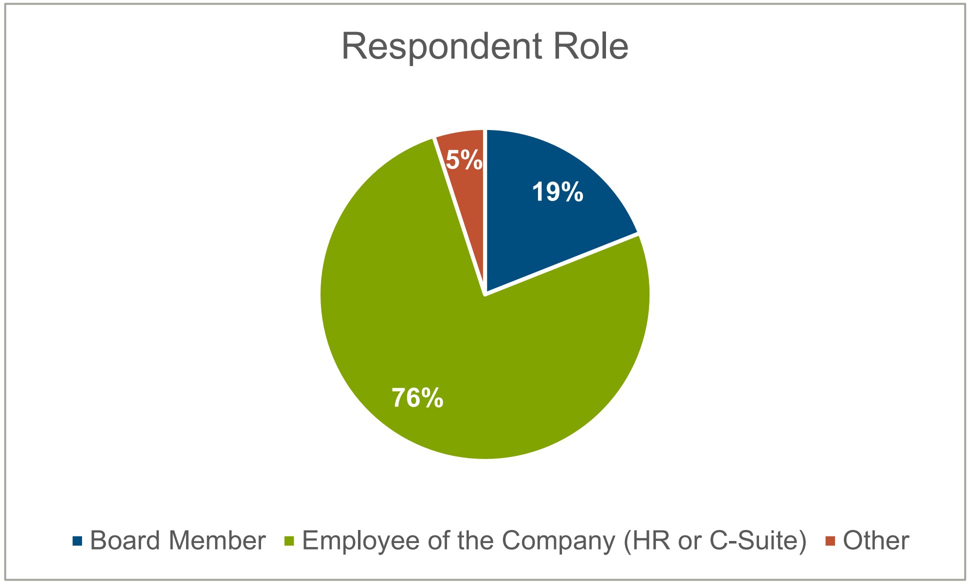
- The vast majority of companies did not change their rTSR metric weight.
- The survey also shows companies continue to tinker with their rTSR weight by lowering or increasing it based on varying issues facing each company.

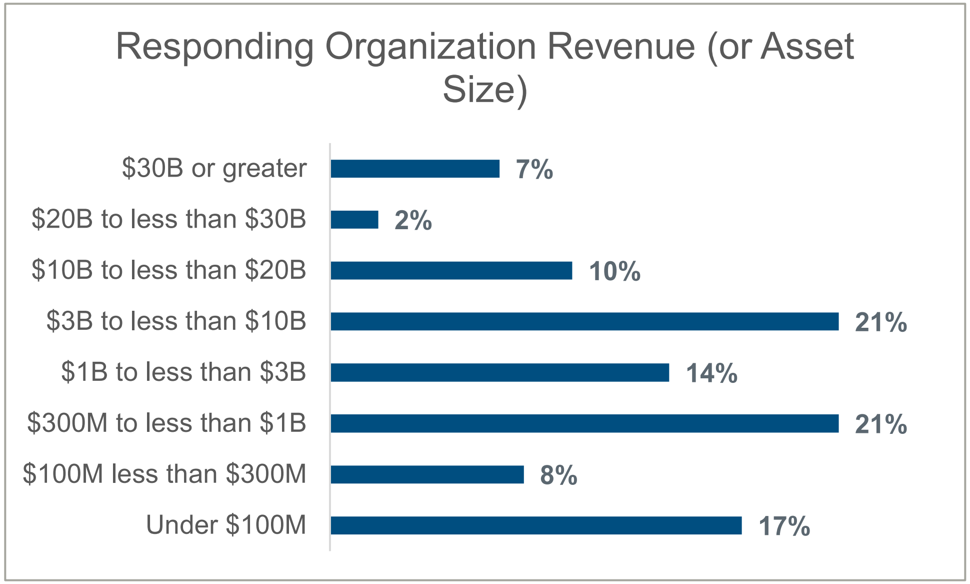


Demographics

- This online survey was conducted between 3/16/22 and 3/25/22
- Data is from 187 responding organizations







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 and FTSE 350. The firm has offices in Atlanta, Boston, Charlotte, Chicago, Houston, London, Los Angeles, New York, Rochester, and San Jose.

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