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Navigating the COVID-19 Crisis



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Addressing compensation during the COVID-19 crisis requires strong leadership and continued good governance

COVID-19 Compensation Decision Timeline



Now

- Determine business issues and responses
- Ensure employees are safe
- Determine external and internal impacts of immediate decisions
- Determine response to government stimulus programs



During the Year

- Let incentive plans play out
 - Understand plan parameters
- Forecast performance and incentive plan payouts
- Gather information on investors' point of view
- Scan peer landscape
- Develop and discuss your "playbook"



End of the Year

- Determine treatment (e.g., adjustments, discretion, etc.) of programs maturing in 2020 and potentially beyond
- Pressure test incentive plan designs and determine whether changes are warranted
- Discuss disclosures, taking broader stakeholder perspectives into account

*Farient's opinion is that **good governance** and **thoughtful communications** are imperative*



Companies are making immediate compensation decisions to manage the impact of COVID-19 on their businesses

Near-term Discussions

Potential Responses

- Many executives and Boards are voluntarily reducing or forgoing their compensation to align with employee sacrifices
 - Reducing management salaries (e.g., 20% to 50%)
 - Limiting Board cash retainers
- Delaying scheduled annual salary increases or bonus payouts
- Furloughing and/or lay off employees, if needed
- Companies looking for reversible actions

Discussion Questions

- What provisions has your company made to protect the health of your employees?
- What steps has your company taken to protect the health of the company?
- What are the short- and long-term implications of these actions (e.g., impacts on morale, PR, IR, etc.)?
- What expectations, if any, should be set?

Immediate compensation decisions should be thoughtfully communicated to stakeholders



Over the course of the year, companies should begin to collect relevant data and forecast year-end outcomes

Mid-year Discussions

Potential Issues

- Assessment of COVID-19 on the business
- Assessment of COVID-19 on incentive plans
- Competitive and investor data
- Ability / desire to make adjustments/ use discretion in incentive plans
- Retention issues
- Potential impact on share usage, availability, and dilution
- Development of a “playbook”
 - Likely executive, employee, investor, and public reactions to each play

Discussion Questions

- Can the impact of COVID-19 on the business be estimated?
- Is your company considering taking any pre-emptive actions to mitigate potential issues?
- What actions should be on the table? Off the table? Why?
- How much “guidance” should we take from what others are doing? What investors are saying? What proxy advisors are saying?

To what extent should early decisions be telegraphed to stakeholders?



At the end of the year, companies will need to make key decisions and be able to explain and defend their pay actions

End of Year Discussions

Key Decisions

- Treatment of incentive plans maturing in 2020 and potentially beyond
 - Impact on payouts
 - Potential adjustments
 - Use of discretion
- Pressure test and determine whether changes to incentive plans are warranted on a go-forward basis
 - Financial vs. non-financial measures
 - Use of discretion
 - Allowance of adjustments
 - Goal ranges
 - Share usage
- Determine impact (up or down) on pay quantum (e.g., LTI)

Discussion Questions

- What do you expect to learn from this crisis?
- How much change do you anticipate to your plans and/or pay practices?
- Under the circumstances, how much should normal standards of good governance apply?
- How will your company balance fairness to executives, employees, and investors?

Decisions should be guided by standards of good governance and fairness



There are a number of other issues to consider as we navigate this crisis

- Shareholders will require companies to improve ESG reporting and disclosure. This crisis will prove to be a pressure test on governance structures
- Activist investors are backing off for now. However, renewed activism can be anticipated after the crisis
- Companies that accept government subsidies will be required to navigate executive pay, stock buybacks, and other issues



Farient recommends companies consider the following as they navigate the remainder of 2020:

Communicate with all stakeholders: no one likes surprises

Anticipate investor concerns: no one likes to lose money

Align executive and stakeholder interests: show good faith in all aspects of corporate governance

Recognize that this is a challenging time for everyone: this too shall pass