# Microsoft

## Executive Summary

**Performance-Based Executive Compensation Approach**

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 140 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of August 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary**: Microsoft’s CEO’s pay mix is 4% base salary, 13% cash incentives, and 83% performance stock, while the average mix of its other named executive officers (NEOs) is 6% base salary, 13% cash incentives, 40% performance stock, and 41% time-based stock. The CEO’s cash incentive plan is based 70% on financial metrics (Revenue and Operating Income), while the other NEOs’ cash incentive plans are based 50% on financial metrics. The remaining portions of the cash incentive plans are based on discretionary assessments of individual executives’ performance on 3 non-financial metrics, Product & Strategy; Customers & Stakeholders; and Culture, Diversity, & Sustainability. The performance stock plan contains 6 metrics that are focused on growth (e.g., revenue and users) for specific business lines, as well as a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(13% of compensation for CEO and NEOs)

* Adjusted Revenue (35% for CEO, 25% for NEOs)
* Adjusted Operating Income (35% for CEO, 25% for NEOs)
* Product & Strategy (10% for CEO, 17% for NEOs)
* Customers & Stakeholders (10% for CEO, 17% for NEOs)
* Culture, Diversity, & Sustainability (10% for CEO, 17% for NEOs)

**Performance Stock**(83% of compensation for CEO, 40% for NEOs)

* Microsoft Cloud Revenue, annual targets over 3Y (30%)
* Microsoft Cloud Subscribers Growth, annual targets over 3Y (20%)
* Teams Monthly Active Usage Growth, annual targets over 3Y (20%)
* Xbox Content and Services Revenue Growth, annual targets over 3Y (10%)
* Windows 10/11 Monthly Active Devices Growth, annual targets over 3Y (10%)
* LinkedIn Sessions Growth, annual targets over 3Y (10%)
* -25% to 50% modification based on 3Y Relative TSR compared to S&P 500; payouts are capped at 100% of target if 3Y Absolute TSR is negative

**Comments**

* Microsoft, Tesla, and NVIDIA are the only members of the Magnificent 7 to include financial measures in their performance stock plans. NVIDIA’s performance stock payouts are based on 1Y Operating Income and 3Y Relative TSR (each weighted 50%), as well as a Gross Margin modifier. Elon Musk’s one-time stock option award at Tesla included Revenue, EBITDA, and Market Cap hurdles. Apple and Alphabet’s (only for non-CEO NEOs) performance stock vests based on Relative TSR and Meta (only for non-CEO NEOs) and Amazon solely award time-based stock.
* Microsoft targets the 40th-60th percentile of the S&P 500 for its Relative TSR modifier, while most other companies we reviewed target the 50th percentile

**Financial Metric Adjustments**

* Adjusted Revenue excludes net impact of revenue deferrals, credits and incentives, and the impact of foreign currency fluctuations
* Adjusted Operating Income and all performance stock metrics exclude the impacts of foreign currency fluctuations

**Additional Detail on Metrics**

* Product & Strategy qualitatively measures individual performance related to Efficiency & Productivity; Innovation; Product Development & Strategic Roadmap Implementation; Quality; and Revenue, Consumption, & Market Share
* Customers & Stakeholders qualitatively measures individual performance related to Customer and Partner Engagement and Outreach, Customer Satisfaction, and Developer Engagement
* Culture, Diversity, & Sustainability qualitatively measures individual performance related to Compliance and Integrity, Culture, Diversity and Inclusion, Organizational Health, and Sustainability and Carbon Reduction

**FY23 Performance**

* Cash Incentives (85% of target payout for CEO, 85-95% for NEOs)
  + Revenue: 5% below target, but grew 11% YoY
  + Operating Income: 6% below target, but grew 13% YoY
  + Non-Financial Metrics: 137% of target payout for CEO, 107-127% for NEOs
* FY21-FY23 Performance Stock (146% of target payout)
  + Growth Metrics: exceeded Teams and LinkedIn PSU targets, fell short in other metrics
  + Relative TSR: 72nd percentile of S&P 500
* For FY23, Microsoft’s 1Y TSR was 33.9%, and its 3Y TSR CAGR was 19.8%

# Broadcom

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 140 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Broadcom's CEO’s pay mix is 4% base salary and 96% performance stock. The President of the Semiconductor Solutions Group’s pay mix is 7% base salary, 7% cash incentives, and 87% performance stock, while the average mix of the other named executive officers (NEOs) is 3% base salary, 3% cash incentives, 47% performance stock, and 47% time-based stock. In October 2022, Broadcom’s CEO and the President of the Semiconductor Solutions Group (SSG) received one-time performance stock awards that cliff vest in October 2027 based on stock price performance. These awards are designed to cover multiple years of incentive compensation. All NEOs other than the CEO receive cash incentives tied to Revenue, Operating Margin, and Division Financial and Strategic Goals, as well as a modifier for individual performance. Payouts for other NEOs’ performance stock awards are based on Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(0% of compensation for CEO, 7% for President of SSG, 3% for other NEOs)

* Revenue (50% for President of SSG, 33% for others NEOs)
* Adjusted Operating Margin (50% for President of SSG, 33% for other NEOs)
* Division Financial and Strategic Goals (0% for President of SSG, 33% for other NEOs)
* Individual Performance Factor multiplier (0-150%)

**Performance Stock**(96% of compensation for CEO, 87% for President of SSG, and 47% for other NEOs)

* CEO and President of SSG’s One-Time Awards
  + 33% of shares earned at $825 stock price hurdle ($82.50 post-stock split), additional 33% of shares earned at $950 ($95 post-stock split), and additional 33% of shares (100% of total shares) earned at $1,125 ($112.50 post-stock split)
  + For award tranches to vest, Broadcom’s stock price needs to equal or exceed the respective stock price hurdles for at least 20 consecutive trading days
  + As of August 2024, Broadcom’s stock price has already eclipsed the maximum hurdle
  + The awards cliff vest on October 31, 2027 and are eligible to be earned beginning on October 31, 2025
* Other NEOs’ Annual Awards
  + Relative TSR compared to the S&P 500, measured over four 1-4Y overlapping periods (100%)
  + A maximum of 25% of target shares can be earned each year over the first 3 years, while in the aggregate, up to 200% of target shares can be earned at the conclusion of the 4Y performance period
  + Payouts capped at 100% of target if 4Y Absolute TSR is negative

**Comments**

* At grant date, Broadcom’s CEO’s performance stock award was valued at $160.5M, while the President of the Semiconductor Solutions Group’s award was valued at $48.2M. The values of the grants at full vesting (based on the final share price hurdle) are $1.1B and $338M respectively.
* The CEO’s one-time performance stock award is designed to cover 5 annual short-term and long-term incentive grants, while the President of the Semiconductor Solutions Group’s award is designed to cover 5 annual long-term incentive grants
* ServiceNow, Tesla, Airbnb, Cloudflare, and DoorDash have granted similar one-time awards to their CEOs. Please see each company’s performance-based compensation write-ups for additional information on the respective awards.
* Broadcom excludes stock-based compensation from its Operating Margin incentive metric

**Financial Metric Adjustments**

* Adjusted Operating Margin excludes stock-based compensation, amortization of acquisition-related intangibles, restructuring costs, acquisition-related costs, and provisions or accruals for anticipated payouts under cash incentive plan

**Additional Detail on Metrics**

* Broadcom does not disclose its Division Financial and Strategic goals, which are relevant for the 2 NEOs with divisional responsibilities

**Promotion Awards**

* The CFO received a promotion performance stock award in December 2020 that is tied to Relative TSR performance over 4 overlapping performance periods, the last of which ends in 2024. The Chief Legal and Corporate Affairs Officer received a similar award in April 2021 with the final performance period ending in 2025.

**FY23 Performance**

* Cash Incentives (108% of target payout for President of SSG, 121-126% for other NEOs)
  + Revenue: 95% of target payout
  + Operating Margin: 86% of target payout
  + CFO’s Division: 112% of target payout
  + Chief Legal and Corporate Affairs Officer's Division: 120% of target payout
  + Individual Performance Factor: 120% for all
* FY19-FY23 Performance Stock (200% of target payout)
* For FY23, Broadcom’s 1Y TSR was 82%, and its 3Y TSR CAGR was 37.1%

**Notes**

* The CEO and President of SSG’s pay mixes reflect the annualization of their one-time awards over the 5Y performance period
* Percentages may not sum to 100% because of rounding

# Meta

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 140 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Meta’s CEO receives a $1 base salary and no cash incentives or equity awards, while the average pay mix of its other named executive officers (NEOs) is 4% base salary, 3% cash incentives, and 93% time-based stock. Meta’s 4 unweighted, discretionary cash incentive metrics are Build Awesome Things, Make Our Business Successful, Make Progress on Societal Issues Related to Our Business, and Go Out and Tell Our Story.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(0% of compensation for CEO, 3% of compensation for NEOs)

* Build Awesome Things
* Make Our Business Successful
* Make Progress on Societal Issues Related to Our Business
* Go Out and Tell Our Story

**Comments**

* Meta provides limited details on its 4 cash incentive determinants, suggesting the payouts are highly discretionary
* Mark Zuckerberg is one of a few CEOs of the tech companies we reviewed that does not receive a salary. Airbnb, Shopify, and Tesla also do not pay their founder CEOs a base salary, but unlike Meta, grant their executives equity in the form of annual, one-time, or multi-year awards. In FY23, Mark Zuckerberg received $24.4M in other compensation, consisting of costs related to personal security and personal usage of private aircraft.
* Compared to the other members of the Magnificent 7, Meta (only for non-CEO NEOs) and Amazon are the only companies with long-term incentive compensation consisting entirely of time-based stock. Alphabet’s CEO receives exclusively time-based stock for his long-term incentive compensation, but Alphabet’s other NEOs receive 26% of their total compensation in performance stock that vests based on Relative TSR. Microsoft’s performance stock vests based on performance on a series of growth-related metrics and Relative TSR; NVIDIA’s performance stock payouts are based on Operating Income, Relative TSR, and a Gross Margin modifier; Apple’s performance stock vests based on Relative TSR; and Elon Musk’s one-time stock option award at Tesla included Revenue, EBITDA, and Market Cap hurdles.
* Meta holds a say on pay vote every 3 years, compared to annual votes at most other companies we reviewed. Alphabet and Charter also hold say on pay votes every 3 years.

**FY23 Performance**

* Cash Incentives (150% of target payout)
* For FY23, Meta’s 1Y TSR was 194.1%, and its 3Y TSR CAGR was 9%

# Amazon

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 140 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Amazon’s CEO’s pay mix is 1% base salary and 99% time-based stock, while the average mix of its other named executive officers (NEOs) is 3% base salary and 97% time-based stock. Amazon’s CEO received no stock grants in FY23 after a $212M multi-year equity grant in FY21, while its other NEOs received no stock awards in FY23 after receiving 2Y awards in FY22 valued at $18M-$43M.

**Comments**

* Amazon includes a lengthy explanation in its proxy filing for why it eschews performance-based pay. It believes its approach allows executives to best focus on the long-term and not pursue short-term gains at the expense of long-term value creation. Amazon’s performance-centric culture also may embed performance criteria into the grant amounts.
* Amazon’s time-based stock grants have unique elements. They vest quarterly over 5+ years, compared to the 3-4Y vesting periods at most other US companies we examined. Additionally, in valuing potential realizable compensation, Amazon assumes a fixed annual increase in the stock price, reducing executives’ compensation if the stock price is flat or declines.
* Compared to the other members of the Magnificent 7, Amazon and Meta (only for non-CEO NEOs) are the only companies with long-term incentive compensation consisting entirely of time-based stock. Alphabet’s CEO receives exclusively time-based stock for his long-term incentive compensation, but Alphabet’s other NEOs receive 26% of their total compensation in performance stock that vests based on Relative TSR. Microsoft’s performance stock vests based on performance on a series of growth-related metrics and Relative TSR; NVIDIA’s performance stock payouts are based on Operating Income, Relative TSR, and a Gross Margin modifier; Apple’s performance stock vests based on Relative TSR; and Elon Musk’s one-time stock option award at Tesla included Revenue, EBITDA, and Market Cap hurdles.

**Notes**

* We calculate the pay mixes using the amount of stock that vested in FY23

# Alphabet

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 140 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Alphabet’s CEO’s pay mix is 3% base salary and 97% time-based stock, while the average mix of its other named executive officers (NEOs) is 3% base salary, 5% cash incentives, 26% performance stock, and 66% time-based stock.  Alphabet’s CEO received no stock awards in FY23 after receiving a 3Y award in FY22. The NEOs’ cash incentives are based on the company’s performance against its environmental and social goals, while the performance stock awards vest based on Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(0% of compensation for CEO, 5% for NEOs)

* Payouts based on contributions to the company’s performance against its environmental and social goals, with the environmental and social portions weighted equally

**Performance Stock**(0% of compensation for CEO, 26% for NEOs)

* 3Y Relative TSR compared to S&P 100 (100%)

**Comments**

* Alphabet’s CEO’s compensation is similar to Amazon’s CEO’s compensation, which consists of a base salary and a multi-year time-based equity grant. Meta’s CEO receives a $1 base salary and no equity compensation, while its other NEOs receive a base salary, cash incentives, and time-based stock. The other members of the Magnificent 7, Microsoft, NVIDIA, Apple, and Tesla grant their CEOs performance-based equity compensation. Microsoft’s performance stock vests based on performance on a series of growth-related metrics and Relative TSR; NVIDIA’s performance stock payouts are based on Operating Income, Relative TSR, and a Gross Margin modifier; Apple’s performance stock vests based on Relative TSR; and Elon Musk’s one-time stock option award at Tesla included Revenue, EBITDA, and Market Cap hurdles.
* Alphabet holds a say on pay vote every 3 years, compared to annual votes at most other companies we reviewed. Meta and Charter also hold say on pay votes every 3 years.

**Additional Detail on Metrics**

* In its proxy filing, Alphabet provides limited information on the metrics that inform the Compensation Committees’ cash incentive decisions and directs investors to read its impact reports

**FY23 Performance**

* Cash Incentives ($1.5M/$2M maximum payout)
* Performance Stock (200% of target payout, maximum)
  + Relative TSR: above the 75th percentile of S&P 100
* For FY23, Alphabet’s 1Y TSR was 58.3%, and its 3Y TSR CAGR was 16.8%

**Notes**

* We annualized the CEO’s 3Y time-based stock award to arrive at his compensation mix for FY23
* The NEOs’ pay mix reflects the actual size of their ESG cash incentive payments since Alphabet does not disclose the target levels

# Eli Lilly

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 140 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Eli Lilly’s CEO’s pay mix is 8% base salary, 11% cash incentives, and 81% performance stock, while the average mix of its other named executive officers (NEOs) is 17% base salary, 17% cash incentives, and 66% performance stock. The cash incentive metrics are EPS, Revenue, and Pipeline Progress, while the performance stock metrics are Stock Price, Relative TSR, and EPS.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(11% of compensation for CEO, 17% for NEOs)

* Adjusted EPS (50%)
* Adjusted Revenue (25%)
* Pipeline Progress (25%)

**Performance Stock**(81% of compensation for CEO, 66% for NEOs)

* Stock Price in 3Y (35%); no payout if 3Y Absolute TSR is flat or negative
* 3Y Relative TSR compared to peer group (35%)
  + Peer group includes AbbVie, Amgen, AstraZeneca, Biogen, Bristol-Myers Squibb, GlaxoSmithKline, Johnson & Johnson, Merck, Novartis, Novo Nordisk, Pfizer, Roche, Sanofi, and Takeda
* 2Y Adjusted EPS (30%); vests 1Y after conclusion of performance period
* Stock Price and Relative TSR awards have a 1Y holding period requirement after vesting

**Comments**

* Compared to other large biopharma companies with pipeline metrics in their short-term incentive plans, Eli Lilly’s 25% pipeline weighting is similar to the 20-30% weightings we have seen at other companies (e.g., AstraZeneca, Amgen, BMS, and Gilead). Regeneron and Vertex take different approaches to their short-term incentive plans. Vertex bases 90% of payouts on non-financial metrics (mostly pipeline and operations metrics) and Regeneron has one broad corporate performance metric that incorporates pipeline performance.
* Eli Lilly is unique in having a 2Y performance period for its EPS performance stock metric. Most companies use 3Y performance periods for all performance stock metrics.

**Financial Metric Adjustments**

* Financial metrics adjust for divestitures of products, amortization of intangibles, asset impairments, restructuring charges, special charges, net gains and losses on equity investments, and acquired in-process R&D charges

**Additional Detail on Metrics**

* Pipeline Progress examines new drug Phase 3 starts, potential new drug Phase 1 starts, potential new indication or line extension Phase 3 starts, development speed, strategic objective alignment, and the frequency of game changer scientific events

**FY23 Changes**

* In FY23, the CEO’s long-term incentive award increased 10%, while the 4 other NEOs’ awards increased 17-29%. The CEO’s base salary increased 10%, while the 4 other NEOs’ base salaries increased 8-13%.

**FY23 Performance**

* Cash Incentives (181% of target payout)
  + Revenue: exceeded target by 5%
  + EPS: exceeded target by 7%
  + Pipeline Progress: 186% of target payout
* FY21-FY23 Performance Stock (159% of target payout)
  + Stock Price: exceeded target by 226%
  + EPS: exceeded target by 6%
  + Relative TSR: outperformed peer group TSR median by 284 pp
* For FY23, Eli Lilly’s 1Y TSR was 60.9%, and its 3Y TSR CAGR was 53.2%

**Notes**

* Performance stock is likely performance-based restricted stock units, but the company does not specify this in its proxy filing

# Philip Morris International

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 140 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Philip Morris International’s CEO’s pay mix is 11% base salary, 22% cash incentives, 40% performance stock, and 27% time-based stock, while the average mix of its other named executive officers (NEOs) is 25% base salary, 28% cash incentives, 27% performance stock, and 19% time-based stock. The cash incentive plan is based 85% on financial metrics (Revenue, Operating Cash Flow, Market Share, Smoke-Free Shipment Volume, and Operating Income) and 15% on Strategic Initiatives. It also includes modifiers for individual performance and Swedish Match shipments. Long-term equity grant sizes depend on executives’ individual performance ratings for the prior year, while the performance stock vests based 40% on Relative TSR, 30% on EPS, and 30% on Product and Operational Sustainability.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(22% of compensation for CEO, 28% for NEOs)

* Adjusted Revenue Growth (20%)
* Operating Cash Flow (20%)
* Market Share in Top 30 Operating Income Markets (15%)
* Smoke-Free Shipment Volume (15%)
* Adjusted Operating Income Growth (15%)
* Strategic Initiatives (15%)
* Up to 10 pp of modification based on Swedish Match shipments
* Individual Performance Factor multiplier (0-150%)

**Performance Stock**(40% of compensation for CEO, 27% for NEOs)

* Grant sizes depend on prior year’s individual performance ratings
* 3Y Relative TSR compared to peer group (40%)
  + Peer group includes Altria, Anheuser-Busch InBev, British American Tobacco, Coca-Cola, Colgate-Palmolive, Diageo, Heineken, Imperial Brands, Japan Tobacco, Johnson & Johnson, Kimberly Clark, Kraft Heinz, McDonald’s, Mondelez International, Nestle, PepsiCo, Procter & Gamble, Roche, and Unilever
* 3Y Adjusted Diluted EPS CAGR (30%)
* Product Sustainability (20%)
* Operational Sustainability (10%)
* Awards are capped at 100% of target if 3Y Absolute TSR is negative

**Time-Based Stock**(27% of compensation for CEO, 19% for NEOs)

* Grant sizes depend on prior year’s individual performance ratings

**Comments**

* Philip Morris International, Altria, and British American Tobacco have similar short-term incentive metrics. All three have Cash Flow and Operating Income metrics. Altria and PM both have Individual Performance Factors and Strategic Initiative metrics, while PM and BATS both have Market Share measures.
* PM lacks a cash conversion metric in its long-term incentive plan, which Altria and British American Tobacco’s plans both include
* PM’s use of individual performance ratings to determine equity grant sizes is similar to the approaches taken at Abbott and Caterpillar. However, Abbott and Caterpillar differ from PM by having longer lookback periods for their individual performance assessments, incorporating Relative TSR into their grant size determinations, and basing their performance stock vesting on the achievement of Return on Equity hurdles.
* PM’s non-CEO NEOs receive 53% of their compensation from base salary and cash incentives, which is much higher than the 32% average across all US companies we reviewed and the 39% average across Consumer Staples companies

**Financial Metric Adjustments**

* Adjusted financial metrics exclude currency fluctuations (all financial metrics other than Operating Cash Flow), asset impairment and exit costs, intangible impairments and amortization, the impacts of acquisitions and divestitures, and other unusual items

**Additional Detail on Metrics**

* Market Share in Top 30 Operating Income Markets measures the number of markets in which the total share of heated tobacco units and cigarettes is growing or stable
* The Strategic Initiatives metric qualitatively measures the company’s progress in creating a positive social and environmental impact, building a winning team culture, securing its leadership in combustibles, accelerating conversion through superior smoke-free inhalable and oral products, and scaling differentiated wellness and healthcare solutions
* Product Sustainability quantitatively measures the company’s progress in maximizing the benefits of smoke-free products, purposefully phasing out cigarettes, and reducing post-consumer waste. More information on subcomponents can be found in the company’s Integrated Report.
* Operational Sustainability quantitatively measures the company’s progress in tackling climate change, preserving nature, improving the quality of life of people in its supply chain, and fostering an empowered and inclusive workplace. More information on subcomponents can be found in the company’s Integrated Report.

**FY24 Changes**

* For FY24, Philip Morris International expanded the Smoke-Free Shipment Volume metric to include other forms of smoke-free products they commercialize, such as nicotine pouches and e-vapor pods
* PM also changed its Operating Cash Flow metric to include currency impacts and to target a specific dollar amount, rather than YoY growth

**FY23 Performance**

* Cash Incentives (127% of target payout for CEO, 121-132% for NEOs)
  + Revenue: target performance
  + Operating Cash Flow Growth: target performance
  + Market Share: exceeded target of 15-17 markets by 2 markets
  + Operating Income Growth: fell short of target by 40 bps
  + Strategic Initiatives: 110% of target payout
  + Swedish Match Modifier: maximum performance (10 pp of modification)
  + The Board exercised its discretion to reduce the company performance rating from 112% of target to 110% of target to account for its failure to achieve its Operating Income target and exceed its Operating Cash Flow target
  + Individual Performance Factors: payouts not disclosed but can be backed out as 115% of target for CEO and 110-120% for other NEOs
* FY21-FY23 Performance Stock (170% of target payout)
  + Relative TSR: 80th percentile of peer group
  + EPS CAGR: exceeded target by 410 bps
  + Transformation Performance Metric (prior metric): fell short of target by 50 bps
    - No modifiers applied
  + The Board rounded the performance rating of 169% across all 3 metrics to 170% based on strong Adjusted EPS performance
* For FY23, Philip Morris’s 1Y TSR was (1.9%), and its 3Y TSR CAGR was 10%

# UnitedHealth

## Executive Summary

**Performance-Based Executive Compensation Approach**

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**Summary:**UnitedHealth’s CEO’s pay mix is 6% base salary, 12% cash incentives, 40% performance stock, 21% time-based stock, and 21% stock options, while the average mix of its other named executive officers (NEOs) is 8% base salary, 16% cash incentives, 38% performance stock, 19% time-based stock, and 19% stock options. United’s cash incentive plan is based 75% on financial metrics (Revenue, Operating Income, and Operating Cash Flow) and 25% on Stewardship. Its performance stock plan includes 2 equally weighted metrics, EPS and Return on Equity.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(12% of compensation for CEO, 16% for NEOs)

* Adjusted Revenue (30%)
* Adjusted Operating Income (30%)
* Stewardship (25%)
* Adjusted Operating Cash Flow (15%)
* The Board can make discretionary adjustments based on individual performance

**Performance Stock**(40% of compensation for CEO, 38% for NEOs)

* 3Y Cumulative Adjusted EPS (50%)
* 3Y Average Return on Equity (50%)

**Comments**

* Compared to the other Health Care Providers and Services companies we examined (Molina and CVS), UnitedHealth’s cash incentive plan has a similar weighting for non-financial metrics (25% vs 20% at CVS and 30% at Molina)
* UnitedHealth excludes repurchases above or below pre-planned levels from its EPS metric

**Financial Metric Adjustments**

* Adjusted financial metrics exclude changes in accounting principles, extraordinary items, and unusual or non-recurring gains and losses
* Adjusted EPS excludes any repurchase activity not contemplated when performance targets were set

**Additional Detail on Metrics**

* Stewardship sub-components include the company’s Net Provider Score (NPS), NPS performance vs peers, and Employee Experience Index (EXI) score

**FY23 Performance**

* Cash Incentives (60% of target payout)
  + Revenue: exceeded target by 2%
  + Operating Income: fell short of target by 2%
  + Operating Cash Flow: exceeded target by 4%
  + Stewardship: fell below Absolute NPS target by 1.3 points, Relative NPS target by 1 point, and EXI target by 5.4 points
* FY21-FY23 Performance Stock (127% of target payout)
  + EPS: exceeded target by 1%
  + ROE: exceeded target by 90 bps
* For FY23, UnitedHealth’s 1Y TSR was 0.8%, and its 3Y TSR CAGR was 16.1%

**Notes**

* The CEO and NEOs receive 50% of their long-term incentives in the form of performance stock. The lower percentage for the CEO in the summary compensation mix reflects rounding to the nearest whole percentage point.

# Apple

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 140 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Apple’s CEO’s pay mix is 6% base salary, 12% cash incentives, 61% performance stock, and 20% time-based stock, while the average mix of its other named executive officers (NEOs) is 4% base salary, 9% cash incentives, 43% performance stock, and 43% time-based stock. Its cash incentive plan is based on 2 equally weighted metrics, Net Sales and Operating Income, and contains an Assessment of Values and Community Initiatives modifier. Apple's performance stock plan is based entirely on Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(12% of compensation for CEO, 9% for NEOs)

* Net Sales (50%)
* Operating Income (50%)
* Up to 10% of modification based on Assessment of Values and Community Initiatives

**Performance Stock**(61% of compensation for CEO, 43% for NEOs)

* 3Y Relative TSR compared to S&P 500 (100%)
* Awards are capped at 100% of target if 3Y Absolute TSR is negative

**Comments**

* Unlike the other companies we reviewed, Apple does not adjust the financial metrics in its incentive plans
* Apple is the only company in the Magnificent 7 whose CEO receives performance stock that vests entirely based on Relative TSR. Alphabet’s CEO receives exclusively time-based stock for his long-term incentive compensation, but Alphabet’s other NEOs receive 26% of their total compensation in performance stock that vests based on Relative TSR. Amazon and Meta (only for non-CEO NEOs) grant their executives only time-based stock. Microsoft’s performance stock vests based on performance on a series of growth-related metrics and Relative TSR; NVIDIA’s performance stock payouts are based on Operating Income, Relative TSR, and a Gross Margin modifier; and Elon Musk’s one-time stock option award at Tesla included Revenue, EBITDA, and Market Cap hurdles.
* Apple’s time-based stock awards vest after 4.5Y, which is longer than the 3-4Y vesting periods at most other US companies we reviewed
* Apple targets the 55th percentile for its Relative TSR metric, which is higher than the 50th percentile targets of most companies we reviewed

**Additional Detail on Metrics**

* The Assessment of Values and Community Initiatives modifier measures Apple’s performance on accessibility, education, environment, inclusion & diversity, privacy, racial equity & justice initiatives, supplier responsibility, and key community initiatives

**FY23 Performance**

* Cash Incentives (179% of target payout)
  + Revenue: exceeded target by 4%
  + Operating Income: exceeded target by 10%
  + Assessment of Values and Community Initiatives: 7.5% out of possible 10% modification
* FY20-FY22 Performance Stock (200% of target payout); FY21-FY23 payouts not disclosed
  + Relative TSR: 98th percentile of peer group
* For FY23, Apple’s 1Y TSR was 24.6%, and its 3Y TSR CAGR was 14.3%

**Notes**

* Pay mix numbers do not sum to 100% because of rounding
* Performance stock is performance-based RSUs

# JPMorgan Chase

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 140 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**JPMorgan’s CEO’s pay mix is 4% base salary, 14% cash incentives, and 82% performance stock. The COO’s pay mix is 5% base salary, 17% cash incentives, and 78% performance stock, while the average mix of its other named executive officers (NEOs) is 4% base salary, 38% cash incentives, 29% performance stock, and 29% time-based stock. Variable compensation amounts (cash incentives, performance stock, and time-based stock) are based 50% on Business Results and 50% on Qualitative Considerations, while the performance stock vests entirely based on Absolute and Relative Return on Tangible Common Equity (ROTCE).

**Detailed Description of Performance-Based Compensation Approach**

**Variable Compensation**(96% of compensation for CEO, 95% for COO, 96% for other NEOs)

* Business Results (50%)
* Qualitative Considerations (50%)

**Performance Stock**(82% of compensation for CEO, 78% for COO, 29% for other NEOs)

* 3Y Absolute and Relative Average ROTCE compared to peers (100%)
  + JPM uses Relative ROTCE as the sole payout determinant if 3Y Average Absolute ROTCE falls between the threshold and maximum of its range (6-18% in FY23)
  + Peer group includes Bank of America, Barclays, Capital One, Citigroup, Deutsche Bank, Goldman Sachs, HSBC, Morgan Stanley, UBS, and Wells Fargo
* If the CET1 ratio falls below a certain level (8% in FY23), then up to 1/3 of unvested PSUs will be subject to downward adjustment for each year in the 3Y performance period
* Performance stock awards have a required 2Y holding period after vesting

**One-Time Awards**

* In FY21, the CEO and COO received one-time stock appreciation rights awards valued at $52M and $28M respectively. The awards are designed to incentivize both individuals to stay at the company. The stock appreciation rights vest over 5Y, and the shares delivered through the awards must be held through the 10th anniversary of the grant date.

**Comments**

* Compared to Goldman Sachs, Morgan Stanley, and Wells Fargo's CEOs, JPM’s CEO receives a much lower proportion of his total compensation in base salary and cash incentives (18% vs 31% average). JPM is also unique in having a CET1 cap for its performance stock, which is only replicated at PNC amongst the US banks we reviewed.
* JPM follows the practice of all other US banks we reviewed in terms of having discretionary assessments determine variable compensation amounts. Like at other US banks, JPM divides its variable compensation into cash incentives and equity grants.

**Additional Detail on Metrics**

* For Business Results, components include adjusted revenue, pre-tax income, pre-tax income ex. loan loss reserves, net income, EPS, book value per share, tangible book value per share, return on equity, return on tangible common equity, and progress against strategic framework (market shares and other strategic initiatives). The metrics differ for each NEO, weights and targets are not disclosed, and the primary adjustment is including fully taxable equivalents.
* For Qualitative Considerations, the categories for each NEO are risk, controls & conduct, client/customer/stakeholder, and teamwork & leadership

**FY24 Changes**

* The Board approved salary increases for US-based Operating Committee members, excluding the CEO and COO, of $250K

**FY23 Performance**

* In FY23, the CEO’s total compensation increased 4% YoY, driven by a 5% increase in the performance stock grant size, while NEOs’ total compensation increased 5-25%, driven by increases in cash incentives and performance stock
* For FY23, JPM’s 1Y TSR was 30.6%, and its 3Y TSR CAGR was 13.4%

**Notes**

* The above pay mix excludes the CEO and COO's one-time awards

# Mastercard

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 140 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Mastercard’s CEO’s pay mix is 5% base salary, 11% cash incentives, 50% performance stock, 17% time-based stock, and 17% stock options, while the average mix of its other named executive officers (NEOs) is 9% base salary, 12% cash incentives, 47% performance stock, 16% time-based stock, and 16% stock options. Mastercard’s cash incentive plan is based primarily on Net Income and secondarily on Revenue and includes Individual Performance, ESG, and Strategic Performance Assessment modifiers. Its performance stock plan includes 2 equally weighted metrics, EPS and Revenue, as well as a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(11% of compensation for CEO, 12% for NEOs)

* Adjusted Net Income (67%)
* Adjusted Revenue (33%)
* -10 to 10 pp modifier based on ESG Assessment
* -20 to 10 pp modifier based on Strategic Performance Assessment
* Individual Performance Factor multiplier
* Individual cash incentive payouts are capped at 250% of target, while aggregate cash incentive payouts are capped at 200% of target

**Performance Stock**(50% of compensation for CEO, 47% for NEOs)

* 3Y Average Adjusted EPS Growth (50%)
* 3Y Average Adjusted Revenue Growth (50%)
* -50% to 50% modification based on 3Y Relative TSR compared to S&P 500
* Performance stock awards have a required 1Y holding period after vesting

**Comments**

* Mastercard takes a different approach to performance metrics than Visa. Mastercard’s cash incentive compensation is primarily tied to financial metrics, compared to Visa’s plan, which contains unweighted financial, operations, talent, and ESG goals. Visa's cash incentive sub-metrics, however, do have quantitative targets. Unlike Visa’s plan, Mastercard’s cash incentive plan also includes an individual performance multiplier. 100% of Visa’s performance stock is tied to EPS, compared to only 50% at Mastercard.
* Mastercard’s Relative TSR modifier (-50% to 50%) is larger than Relative TSR modifiers at most other companies we reviewed, which tend to modify payouts by 20-30% in either direction

**Financial Metric Adjustments**

* Adjusted financial metrics exclude the impacts of acquisitions, gains and losses on equity investments, foreign exchange fluctuations, and non-GAAP special items

**Additional Detail on Metrics**

* ESG Assessment components include Financial Inclusion (35%), Closing of Gender Pay Gap (35%), Greenhouse Gas Emissions Reduction (15%), and Supplier Decarbonization Efforts (15%)
* Strategic Performance Assessment measures progress on performance initiatives including expanding payments, extending services, embracing new network opportunities, and enabling a key set of activities

**FY23 Performance**

* Cash Incentives (162% of target payout for CEO, 127-154% for NEOs)
  + Net Income: exceeded target by 2%
  + Revenue: exceeded target by 0.2%
  + ESG Assessment: +5 pp of modification
  + Strategic Performance Assessment: -3 pp of modification
  + Individual Performance Factors: payouts not disclosed but can be backed out as 140% of target for CEO and 109-133% for other NEOs
* Since Mastercard did not start using its current performance stock metrics until FY22, there are no performance results to evaluate
* For FY23, Mastercard’s 1Y TSR was 23.4%, and its 3Y TSR CAGR was 6.7%

# RTX

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 140 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**RTX’s CEO’s pay mix is 12% base salary, 19% cash incentives, 41% performance stock, and 28% stock appreciation rights, while the average mix of its other named executive officers (NEOs) is 12% base salary, 13% cash incentives, 45% performance stock, and 30% stock appreciation rights. The cash incentive plan is based 80% on financial metrics (Net Income and Free Cash Flow) and 20% on non-financial metrics (People & Culture and Sustainability) and includes an individual performance modifier. The performance stock metrics are EPS, ROIC, and Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(19% of compensation for CEO, 13% for NEOs)

* Adjusted Net Income (40%)
* Adjusted Free Cash Flow (40%)
* People & Culture (10%)
* Sustainability Criteria Achievement (10%)
* Individual Performance Factor modifier (-100% to 30%)
* The Board has discretion to further reduce payouts

**Performance Stock**(41% of compensation for CEO, 45% for NEOs)

* 3Y Adjusted EPS Growth (35%)
* 3Y Average Adjusted ROIC (35%)
* 3Y Relative TSR compared to aerospace and defense peers (15%)
  + Peer group includes Airbus, Boeing, General Electric, General Dynamics, Honeywell, L3Harris, Lockheed Martin, Northrop Grumman, and Safran
* 3Y Relative TSR compared to S&P 500 (15%)
* Awards are capped at 100% of target if 3Y Absolute TSR is negative

**Comments**

* RTX is one of a few companies we reviewed where the Board used its discretion to negatively reduce payouts. In FY23, the Board reduced RTX’s cash incentive company performance factor by 5 pp and further reduced the CEO and COO’s awards because of an issue with Pratt & Whitney engine parts.
* Compared to the short-term incentive plans at other US-listed aerospace and defense companies we examined (TransDigm, GE Aerospace, Northrop Grumman, Boeing, and L3Harris), RTX’s short-term incentive plan has a higher weighting of non-financial metrics (20%) than all except for Boeing (25%). RTX’s non-financial metrics are related to sustainability, DE&I, and employee retention, while Boeing’s non-financial metrics are 10% climate and DE&I and 15% safety and production stability and quality. RTX, like Boeing, also includes an individual performance modifier in its short-term incentive plan.
* RTX excludes repurchases above or below pre-planned levels from its Adjusted EPS metric

**Financial Metric Adjustments**

* Adjusted financial metrics exclude changes in tax laws and accounting rules, restructuring costs, impacts of acquisitions and divestitures, and significant and/or non-recurring items
* Adjusted EPS further excludes repurchases that deviate from pre-planned levels

**Additional Detail on Metrics**

* For the cash incentives of business unit executives, the financial metrics are split 50-50 between company-wide performance and business unit performance
* People & Culture measures total representation and employee retention rate (equally weighted), while Sustainability Criteria Achievement measures greenhouse gas emissions and water usage (equally weighted)

**FY23 Performance**

* Cash Incentives (83% of target payout for CEO, 93-94% for other NEOs)
  + Net Income: exceeded target by 0.2%
  + Free Cash Flow: exceeded target by 0.1%
  + People & Culture: 124% of target payout
  + Sustainability: 101% of target payout
  + Business Unit Performance: 79-106% of target payouts
  + Compensation Committee used its discretion to reduce RTX’s cash incentive performance factor by 5 pp and further reduced the CEO and COO’s awards because of an issue with Pratt & Whitney engine parts
* FY21-FY23 Performance Stock (143% of target payout)
  + EPS: exceeded target by 20%
  + ROIC: exceeded target by 84 bps
  + Relative TSR: 55th percentile of S&P 500 and 33rd percentile of peer group
* For FY23, RTX’s 1Y TSR was (14.4%), and its 3Y TSR CAGR was 8.2%

# Abbott Laboratories

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 140 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Abbott’s CEO’s pay mix is 9% base salary, 15% cash incentives, 38% performance stock, and 38% stock options. Abbott’s CFO’s pay mix is 29% base salary, 26% cash incentives, 23% performance stock, and 23% stock options, while the average mix of its other named executive officers (NEOs) is 15% base salary, 17% cash incentives, 34% performance stock, and 34% stock options. The CEO’s cash incentive plan is based 90% on financial metrics (e.g., Revenue, EPS, ROA, and FCF) and 10% on Human Capital Metrics. Non-CEO NEOs’ cash incentive plans are weighted more heavily toward non-financial metrics, as 1/3 of their cash incentive payout is determined by their Strategic Metrics assessment. Abbott’s long-term incentive (performance stock and stock options) grant sizes are determined based on Relative TSR and individual performance assessments. Performance stock vests based on annual achievements of Return on Equity hurdles.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(15% of compensation for CEO, 26% for CFO, 17% for other NEOs)

* Adjusted Revenue (25% for CEO, 14% for NEOs)
* Adjusted Diluted EPS (25% for CEO, 12% for NEOs)
* Adjusted Return on Assets (10% for CEO, 0% for NEOs)
* Free Cash Flow (10% for CEO, 8% for NEOs)
* Diabetes Care Sales Growth (10% for CEO, 0% for NEOs)
* Key Cardiometabolic Product Sales Growth (10% for CEO, 0% for NEOs)
* Human Capital Metrics (10% for CEO, 13% for NEOs)
* Adjusted Gross Margin (0% for CEO, 4% for NEOs)
* Adjusted Operating Margin (0% for CEO, 8% for NEOs)
* Market Share (0% for CEO, 4% for NEOs)
* Non-Disclosed Financial Returns (0% for CEO, 2% for NEOs)
* Cash Conversion Cycle (0% for CEO, 2% for NEOs)
* Strategic Metrics (0% for CEO, 33% for NEOs)

**Long-Term Incentives**(76% of compensation for CEO,46% for CFO, 68% for other NEOs)

* 1Y, 3Y, and 5Y Relative TSR compared to peer group and Individual Performance Assessments (previous 3Y) determine long-term incentive grant sizes
  + Peer group includes 3M, Becton Dickinson, Boeing, Boston Scientific, Bristol-Myers Squibb, Cisco Systems, Coca-Cola, Danaher Corporation, Honeywell International, Johnson & Johnson, Medtronic, Merck, Nike, PepsiCo, Pfizer, Procter & Gamble, Reckitt Benckiser, Stryker, and Thermo Fisher Scientific
* Performance stock vests annually over 3Y period based on annual achievement of 14% Adjusted ROE hurdle

**Comments**

* Abbott’s use of Relative TSR and individual performance assessments to inform its long-term incentive grant sizes is similar to Caterpillar’s approach. Once they determine grant sizes, both companies’ performance stock vests based on the achievement of ROE hurdles.
* Abbot’s 5Y average unadjusted ROE is 16.1%, though it reported ROEs below 14% from FY13-FY20
* Compared to the Health Care Equipment and Supplies peers we examined (GEHC, ISRG, SYK, and DXCM), Abbott is the only one that has ROE as the sole determinant of long-term incentive payouts. The others’ plans contain a mix of Revenue, Relative TSR, and EPS measures.

**Financial Metric Adjustments**

* Adjusted financial metrics exclude foreign exchange fluctuations, intangible amortization expense, and restructuring and acquisition costs
* Adjusted Return on Assets further excludes interest expense

**Additional Detail on Metrics**

* The Human Capital Metric measures the extent to which an executive met talent, succession planning, and diversity targets
* The Strategic Metrics differ for NEOs and include goals related to supply chain management, capital structure targets, risk mitigation, acquisition integration, systems implementation/rollout, and commercialization progress
* Abbott has high variation of cash incentive metric weightings across its NEOs. The above weights represent an average, rather than any specific NEO’s weighting.
* The General Counsel’s cash incentive plan is the only plan to include Non-Disclosed Financial Returns, while the Group President, Established Pharmaceuticals and Nutritional Products’ cash incentive plan is the only plan to include a Cash Conversion Cycle metric
* Adjusted Gross Margin and Operating Margin are only included in division executives' plans, and Adjusted Revenue and Free Cash Flow are measured on a division basis for these NEOs

**FY23 Performance**

* Cash Incentives (112% of target payout for CEO, 97-108% of target payout for NEOs)
  + Revenue: exceeded target by 0.5%
  + EPS: exceeded target by 0.9%
  + Free Cash Flow: exceeded target by 2%
  + ROA: exceeded target by 20 bps
  + Collectively, Abbott's CEO and NEOs met most other performance goals, though some executives did fall short on a few division financial goals and strategic objectives
* FY20-FY22 Long-Term Incentive Individual Performance Assessment: 110% of target for CEO, 100-125% for NEOs
* FY21-FY23 performance stock payouts are not disclosed
* For FY23, Abbot’s 1Y TSR was 2.3%, and its 3Y TSR CAGR was 1.9%

**Notes**

* Pay mix numbers may not sum to 100% because of rounding
* Performance stock is performance-based restricted stock

# TransDigm

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 140 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Executive Summary:**TransDigm’s CEO’s pay mix is 6% base salary, 10% cash incentives, and 85% performance stock options, while the average mix of its other named executive officers (NEOs) is 10% base salary, 10% cash incentives, and 81% performance stock options. TransDigm’s cash incentive plan has 2 equally weighted components, EBITDA Margin and EBITDA. Its performance stock option payouts are entirely determined by Annual Operating Performance, which is an internally calculated stock price.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(10% of compensation for CEO and NEOs)

* Adjusted EBITDA Margin (50%)
* Adjusted EBITDA (50%)
* The Board has the discretion to increase or decrease payouts by up to 20% based on individual performance

**Performance Stock Options**(85% of compensation for CEO, 81% for NEOs)

* Annual Operating Performance (AOP) (100%) – Defined as (pro-forma EBITDA \* acquisition-weighted market multiple – net debt)/diluted weighted average shares outstanding
  + For CEO, options vest 100% based on AOP in 5Y (maximum target of 17.5% growth per year)
  + For other NEOs, options vest 50% based on AOP in 4Y and 50% based on AOP in 5Y
* In the case of a dividend, TransDigm pays its option holders a dividend equivalent payment in cash to cover the stock price drop that would result from that dividend. TransDigm makes the payments on unvested and vested options. However, option holders do not receive the payments until vesting.
* If TransDigm exceeds the AOP maximum target in a given vesting year, the excess achievement may be used to make up for any shortfalls in the two vesting years before or after that year (without duplication); a maximum of $100 of AOP per year can be carried forward or backward

**Comments**

* TransDigm appears to exclude stock-based compensation from its Adjusted EBITDA metrics, as it adds back non-cash compensation charges incurred in connection with its stock incentive or deferred compensation plans
* TransDigm’s compensation plan has several unique aspects. One, it features an internally generated IRR performance metric and different performance stock option vesting/performance periods for the CEO and NEOs. Two, its performance stock options have a carry forward/back feature that allows for outperformance in one year to compensate for poor performance in surrounding years. Three, its performance stock options have longer performance and vesting periods than peers, which tend to have 3Y performance periods and 3-4Y vesting periods.
* TransDigm’s Say on Pay votes have hovered at ~50% the last few years because of investors’ concerns over the carry forward/back provision, its use of discretion for short-term incentive awards, its previous lack of a clawback policy, and the absence of a relative metric in its long-term incentive plan

**Financial Metric Adjustments**

* Adjusted EBITDA excludes non-cash compensation charges incurred in connection with its stock incentive or deferred compensation plans, foreign currency fluctuations, impacts of acquisitions and divestitures, and refinancing expenses
* Annual Operating Performance is further adjusted for special dividends and share repurchases

**FY23 Performance**

* Cash Incentives (maximum performance, 130% of target payout)
  + EBITDA Margin: exceeded target by 2 pp
  + EBITDA: exceeded target by 11%
  + The Board exercised its discretion to increase the CFO and co-COO (Reiss)’s payouts by 15% in recognition of what it perceived to be their outperformance
* Performance Stock (payouts not disclosed against maximum target of 17.5% CAGR)
* For FY23, TransDigm's 1Y TSR was 60.7%, and its 3Y TSR CAGR was 22.2%

**One-Time Awards**

* In FY23, the CEO and 4 other NEOs received one-time performance stock option grants as rewards for their stewardship of the company during COVID. The CEO’s award was valued at $6.4M, while the NEOs’ awards ranged from $591K-$3M. These awards have the same vesting conditions as the normal performance stock option grants.
* In FY23, the newly promoted General Counsel received a one-time performance stock option award valued at $10.1M. The award vests equally over 5Y based on AOP performance and accounted for her entire stock option compensation in FY23.

**Notes**

* Pay mix numbers do not sum to 100% because of rounding

# Carrier Global

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Carrier's CEO’s pay mix is 9% base salary, 16% cash incentives, 38% performance stock, and 38% stock appreciation rights, while the average mix of its other named executive officers (NEOs) is 20% base salary, 19% cash incentives, 31% performance stock, and 31% stock appreciation rights. Carrier’s cash incentive plan includes 3 equally weighted metrics, Revenue, Operating Income, and Free Cash Flow, as well as an individual performance modifier. Its performance stock plan contains 2 equally weighted metrics, EPS and Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(16% of compensation for CEO, 19% for NEOs)

* Adjusted Revenue (33%)
* Adjusted Operating Income (33%)
* Adjusted Free Cash Flow (33%)
* Individual Performance Factor multiplier (unspecified size, but total cash incentive payouts are capped at 200% of target)

**Performance Stock**(38% of compensation for CEO, 31% for NEOs)

* 3Y Adjusted EPS CAGR (50%)
* 3Y Relative TSR compared to S&P 500 Industrials Index (50%)

**One-Time Awards**

* In January 2024, the CEO and CFO received retention awards that are valued at $61M and $6.1M respectively. The awards are 59% stock appreciation rights and 41% performance stock. The performance stock awards are tied to Adjusted EPS growth over 3Y and ratably vest over 3Y beginning in 2027. The stock appreciation rights cliff vest in January 2029.
* In May 2020, the CEO and a few other NEOs received one-time equity grants that were combinations of stock appreciation rights and performance stock, which vested in May 2023. In FY20, the CEO’s award was valued at ~$3M, while the NEOs’ awards ranged from ~$1.5M-$4M.
* The performance stock portion was based on 3Y Relative TSR compared to a subset of industrial companies in the S&P 500 Index and paid out at 200% of target based on Carrier’s 100th percentile performance

**Comments**

* Long-term incentive metrics vary across the 13 capital goods companies we reviewed. Like Carrier, 8 of the other capital goods companies include Relative TSR metrics or modifiers in their performance stock plan and 5 include EPS metrics. Unlike Carrier however, 9 of the remaining 12 capital goods companies include return measures (e.g., ROCE, ROIC, and ROE) and 6 include Free Cash Flow measures in their long-term incentive plans. Carrier includes Free Cash Flow in its cash incentive plan.

**Financial Metric Adjustments**

* Adjusted financial metrics exclude foreign exchange fluctuations and the impacts of acquisitions and divestitures

**Additional Detail on Metrics**

* For business segment executives, cash incentive metrics are based half on business segment performance and half on corporate performance

**FY23 Performance**

* Cash Incentives (143% of target payout for CEO, 105-143% for other NEOs)
  + Revenue: exceeded target by 1%
  + Operating Income: exceeded target by 4%
  + Free Cash Flow: exceeded target by 14%
  + The President of Refrigeration fell short on Refrigeration targets, leading to a lower payout for him
  + Individual Performance Factors: 100% for CEO and other NEOs
* FY21-FY23 Performance Stock (186% of target payout)
  + EPS CAGR: exceeded target by 13 pp
  + Relative TSR: 68th percentile of S&P 500 Industrials Index
* For FY23, Carrier’s 1Y TSR was 41.5%, and its 3Y TSR CAGR was 16.7%

**Notes**

* Pay mix numbers exclude one-time awards and may not sum to 100% because of rounding

# Netflix

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Netflix’s co-CEOs’ pay mix is 8% base salary, 15% cash incentives, 39% performance stock, and 39% time-based stock, while the average mix of its other named executive officers (NEOs) is 11% base salary, 22% cash incentives, 33% performance stock, and 33% time-based stock. Netflix’s cash incentive metrics are Operating Margin (65%) and Revenue (35%), while its performance stock payouts are entirely determined by Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(15% of compensation for co-CEOs, 22% for NEOs)

* Adjusted Operating Margin (65%)
* Adjusted Revenue (35%)

**Performance Stock**(39% of compensation for co-CEOs, 33% for NEOs)

* 3Y Relative TSR compared to S&P 500 (100%)

**Comments**

* Netflix’s Relative TSR target is the 55th percentile of the S&P 500, which is higher than the 50th percentile targets of most other companies we reviewed
* Netflix’s compensation structure reflects its increasing focus on profitability. For FY24, it increased the weighting of Adjusted Operating Margin in its cash incentive plan from 50% to 65%.

**Financial Metric Adjustments**

* Adjusted financial metrics exclude foreign exchange fluctuations

**FY24 Changes**

* The above information reflects Netflix’s proposed executive compensation for FY24. In prior years, the company gave NEOs the choice of how to allocate compensation between cash salary and stock options. Additionally, starting in FY24, time-based stock awards will vest over 3Y, compared to the previous 1Y vesting period.
* In its cash incentive plan, Netflix also increased the weighting for Adjusted Operating Margin from 50% to 65% and decreased the weighting for Adjusted Revenue from 50% to 35%

**FY23 Performance**

* Cash Incentives (97% of target payout)
  + Operating Margin: exceeded target by 90 bps
  + Revenue: fell short of target by 1%
* Performance Stock (payouts not disclosed because program was recently implemented)
* For FY23, Netflix’s 1Y TSR was 65.1%, and its 3Y TSR CAGR was -3.4%

**Notes**

* Pay mixes may not sum to 100% because of rounding

# AbbVie

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**AbbVie’s CEO’s pay mix is 7% base salary, 16% cash incentives, 62% performance stock, and 15% stock options, while the average mix of its other named executive officers (NEOs) is 13% base salary, 27% cash incentives, 48% performance stock, and 12% stock options. AbbVie determines aggregate cash incentive payout levels based on a matrix of Revenue and Pre-Tax Income and then awards individual cash incentives based on discretionary individual performance assessments and executives’ performance against weighted performance metrics. These metrics include Pre-Tax Income, Revenue, Operating Income, Return on Assets, ESG, and R&D/Innovation. The CEO’s cash incentive plan is weighted 80% towards financial metrics, while the average NEO’s plan is weighted 65% towards financial metrics. The performance stock plan contains 2 equally weighted metrics, EPS and Relative ROIC, as well as a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(16% of compensation for CEO, 27% for NEOs)

* A payout matrix of Platform Revenue and Pre-Tax Income determines if award payouts will be capped at or below the plan maximum of 200% of target. The CEO and other NEO’s performances on the weighted metrics below then determine their initial awards, which are capped at 100% of target. The Board determines final payouts through discretionary assessments of individual performance.
* Adjusted Pre-Tax Income (20% for CEO and NEOs)
* Platform Revenue (20% for CEO, 15% for NEOs)
* Adjusted Operating Income (20% for CEO, 15% for NEOs)
* Adjusted Return on Assets (20% for CEO, 15% for NEOs)
* R&D/Innovation (10% for CEO, 3% for NEOs)
* ESG (10% for CEO and NEOs)
* Strategic and Leadership Goals (0% for CEO, 20% for NEOs)
* Business Development (0% for CEO, 3% for NEOs)

**Performance Stock**(62% of compensation for CEO, 48% for NEOs)

* 1Y Adjusted EPS (50%)
  + -25% to 25% modification based on 3Y Relative TSR compared to peers
    - Peer group includes a group of companies that are either in the S&P Pharmaceutical, Biotech, and Life Science Index or the NYSE Arca Pharmaceutical Index
* Relative ROIC compared to peers, annual targets over 3Y (50%)
  + Same peers as above

**Comments**

* Like many other large biopharma companies we reviewed, AbbVie’s short-term incentive plan includes a combination of profitability, revenue, and pipeline metrics. Its pipeline metric, R&D/Innovation, has a lower weighting (10%) than the 20-30% weights at most peers. By contrast, Regeneron and Vertex take different approaches to their short-term incentive plans. Vertex bases 90% of payouts on non-financial metrics (mostly pipeline and operations metrics), while Regeneron has a broad corporate performance metric that considers pipeline performance amongst other factors.
* AbbVie is one of only 3 of the 13 biopharma companies we reviewed that includes a return measure (e.g., ROA or ROIC) in its performance metrics, the others being Amgen and Daiichi Sankyo. AbbVie stands out by having a return metric in both its short-term and long-term incentive plans and by having a relative return metric in its long-term incentive plan.
* AbbVie has a 1Y performance period for the EPS metric in its performance stock plan, which is shorter than most other companies’ 3Y performance periods
* AbbVie’s Relative ROIC metric has a target range of the 50th to 65th percentile. Most other companies we reviewed target the 50th percentile for their relative performance metrics.

**Financial Metric Adjustments and Calculations**

* Platform Revenue is calculated as Net Revenue, excluding Humira sales and foreign exchange fluctuations
* Other financial metrics exclude foreign exchange fluctuations, intangible asset amortization, acquisition and integration-related costs, acquired in-process research and development and milestone expenses, changes in fair value of contingent consideration, intangible asset impairment, and other unusual and non-recurring items
* Adjusted EPS and ROIC exclude upfront and milestone payments because of timing uncertainties

**Additional Detail on Metrics**

* AbbVie’s executives have different areas of focus for the ESG goal. Example achievements include emissions reduction, fostering a diverse workforce, strengthening community, and delivering medicine at no cost through the patient assistance program.
* AbbVie has significant variation in cash incentive metrics across NEOs. The above weights reflect the average of all NEOs.
* The only NEO paid on R&D/Innovation is the Chief Operations Officer, who has a 10% weight on that metric. The only NEO paid on Business Development is the Chief Operating Officer, who has a 10% weight on that metric.
* AbbVie does not disclose the components of its R&D/Innovation metric, but it seems to be pipeline-based
* Strategic Initiatives (referred to as Other in the proxy filing) differs for each NEO and is not well-defined. Judging from the proxy filing, it collectively pertains to pipeline enhancements, investments, strategic initiatives and integrations, and commercialization and R&D milestones.

**FY23 Changes**

* For the performance stock plan, the payout curve associated with EPS, which was anticipated to be impacted by U.S. Humira Loss of Exclusivity, was reset so that achievement of target performance results in a payout of 90% of target (instead of 100%)

**FY23 Performance**

* Cash Incentives (125% of target payout for CEO, 148-168% for NEOs)
  + Pre-Tax Income: exceeded target by 6%
  + Revenue: exceeded target by 3%
  + Operating Income: exceeded target by 4%
  + Return on Assets: exceeded target by 120 bps
  + The Board exercised downward discretion to reduce the FY23 maximum cap on payouts from 190% of target (determined by the payout matrix of Platform Revenue and Pre-Tax Income) to 170% because of lower actual results compared to FY22
* Performance Stock (undisclosed total payout)
  + FY23 EPS: exceeded target by 5%
  + Relative ROIC: 92nd-93rd percentiles of peer group over 3Y period
  + 3Y Relative TSR: exceeded peer group average by 24.5 pp
* For FY23, AbbVie’s 1Y TSR was -0.2%, and its 3Y TSR CAGR was 17.9%

**Notes**

* Percentages may not sum to 100% because of rounding
* Performance stock includes performance stock units and performance-based RSUs

# Home Depot

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Home Depot’s CEO’s pay mix is 10% base salary, 19% cash incentives, 36% performance stock, 21% time-based stock, and 14% stock options, while the average mix of its other named executive officers (NEOs) is 20% base salary, 21% cash incentives, 29% performance stock, 18% time-based stock, and 12% stock options. The cash incentive plan contains only financial metrics (Revenue, Operating Income, and Inventory Turnover), while the performance stock plan contains 2 equally weighted metrics, ROIC and Operating Income. Time-based stock is granted only if an Operating Income threshold is met.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(19% of compensation for CEO, 21% for NEOs)

* Adjusted Revenue (45%)
* Adjusted Operating Income (45%)
* Inventory Turnover (10%)

**Performance Stock**(36% of compensation for CEO, 29% for NEOs)

* 3Y Average Adjusted ROIC (50%)
* 3Y Average Adjusted Operating Income (50%)

**Time-Based Stock**(21% of compensation for CEO, 18% for NEOs)

* No grant if at least 90% of cash incentive plan’s Adjusted Operating Income target is not met in year of grant
* Awards vest over subsequent 4Y if hurdle is met

**Comments**

* Home Depot’s threshold for its time-based stock is uncommon, as performance conditions are not often attached to time-based stock
* Unlike most other companies we examined, Home Depot’s performance compensation does not include any non-financial metrics
* The 5Y combined performance and vesting period for Home Depot’s restricted stock is longer than the 3-4Y periods at most other companies we reviewed. Home Depot’s stock option awards also vest over 5Y.

**Financial Metric Adjustments**

* Adjusted financial metrics exclude the impacts of acquisitions and divestitures with annualized sales of $1B or more, accounting changes, foreign exchange fluctuations, restructuring charges, and other non-recurring items

**FY23 Performance**

* Cash Incentives (82% of target payout)
  + Revenue: fell short of target by 3%
  + Operating Income: fell short of target by 5%
  + Inventory Turnover: exceeded target by 0.5%
* FY21-FY23 Performance Stock (200% of target payout)
  + ROIC: exceeded target by 780 bps
  + Operating Income: exceeded target by 27%
* Time-Based Stock (exceeded threshold for Adjusted Operating Profit, leading to full grant)
* For FY23, Home Depot’s 1Y TSR was 15.3%, and its 3Y TSR CAGR was 11.2%

# Linde

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Linde’s CEO’s pay mix is 8% base salary, 19% cash incentives, 39% performance stock, 21% stock options, and 13% time-based stock, while the average mix of its other named executive officers (NEOs) is 17% base salary, 18% cash incentives, 33% performance stock, 20% stock options, and 13% time-based stock. Linde’s cash incentive plan is based 75% on financial metrics (Net Income, Operating Cash Flow, and Revenue) and 25% on non-financial metrics (Core Values, GHG Emissions, and Relative Performance and Strategic Positioning) and contains an individual performance modifier. Its performance stock plan is based 60% on Return on Capital and 40% on Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(19% of compensation for CEO, 18% for NEOs)

* Adjusted Net Income (41%)
* Adjusted Operating Cash Flow (19%)
* Adjusted Revenue (15%)
* Core Values (15%)
* Reducing Greenhouse Gas Emissions (5%)
* Relative Performance and Strategic Positioning (5%)
* Individual Performance Factor multiplier; only negative or neutral adjustment for CEO, positive or negative adjustment for NEOs (0-125%)

**Performance Stock**(39% of compensation for CEO, 33% for NEOs)

* 3Y Average Adjusted Return on Capital (60%)
* 3Y Relative TSR compared to S&P 500, excluding financial sector, as well as companies designated as EuroFirst 300 (40%)

**Comments**

* Compared to the short-term incentive plans at other chemicals companies we examined, Air Products and Celanese, Linde’s plan has a slightly higher weighting toward non-financial metrics (25% vs 20% at Celanese and a 20% ESG modifier at Air Products). Celanese's non-financial metrics are related to the environment, product quality, and safety, while Air Products’ ESG modifier measures its performance on emissions intensity, capital investment in energy transition projects, diversity, and safety.
* Linde’s performance stock plan has overlapping metrics with Air Products and Celanese’s plans. Air Products’ performance stock vests based on Relative TSR, while Celanese’s performance stock plan is tied to EPS and Return on Capital Employed and contains a Relative TSR modifier.

**Financial Metric Adjustments**

* Adjusted financial metrics exclude foreign exchange fluctuations and raw materials price changes, as well as extraordinary, non-recurring factors
* 3Y Average Adjusted Return on Capital excludes the after-tax impacts of any acquisitions that occurred during the three-year period that were not known at the time goals were set

**Additional Detail on Metrics**

* Core Values includes safety, compliance, sustainability, and inclusion
* Relative Performance and Strategic Positioning measures the company’s progress on positioning the business for the long-term, decarbonization, AI and digitalization initiatives, winning share of high-quality projects and outperforming peers, enhancing organizational capabilities, and commercializing new applications and use cases
* For business unit NEOs, 75% of their cash incentive financial metrics are based on business unit performance and 25% are based on corporate performance

**FY23 Performance**

* Cash Incentives (154% of target payout for company performance)
  + Net Income: exceeded target by 9%
  + Operating Cash Flow:exceeded target by 2%
  + Revenue: fell short of target by 0.2%
  + Core Values: 180% of target payout
  + Reducing Greenhouse Gas Emissions: outperformed (fell below) target by 2%
  + Relative Performance and Strategic Positioning: 180% of target payout
* FY21-FY23 Performance Stock (200% of target payout)
  + Return on Capital: exceeded target by 7 pp
  + Relative TSR: 86th percentile of peer group
* For FY23, Linde’s 1Y TSR was 27.7%, and its 3Y TSR CAGR was 17.6%

**Notes**

* Pay mix numbers may not sum to 100% because of rounding
* Linde does not disclose target cash incentive plan amounts for NEOs other than the CEO, so target cash incentives for other NEOs were estimated by dividing actual cash incentives paid by 1.543, the company performance factor for 2023. The estimates may be elevated because they do not account for the individual performance factor.

# Vertex Pharmaceuticals

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Vertex’s CEO’s pay mix is 7% base salary, 17% cash incentives, 38% performance stock, and 38% time-based stock, while the average mix of its other named executive officers (NEOs) is 10% base salary, 18% cash incentives, 36% performance stock, and 36% time-based stock. Vertex’s cash incentive plan is based primarily on pipeline-related metrics and only 10% on financial metrics and includes an individual performance modifier. Its performance stock awards are equally split into 1Y awards (100% Cystic Fibrosis Revenue) and 3Y awards (100% Non-Financial Metrics). Executives’ equity grant sizes depend on individual performance assessments.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(17% of compensation for CEO, 18% for NEOs)

* Pipeline Growth (38%)
* Marketed and Late-Stage Products (33%)
* Manufacturing, Innovation, Quality, and Operations (10%)
* Financial Strength (10%)
* Organizational Development and Capability (9%)
* -10 to 10 pp company-wide discretionary modifier
* Individual Performance Factor multiplier (0-150%)

**Performance Stock**(38% of compensation for CEO, 36% for NEOs)

* 1Y Adjusted Cystic Fibrosis Revenue (100% of 1Y awards, 50% of total performance stock)
* 3Y Non-Financial Metrics (100% of 3Y awards, 50% of total performance stock)
* Grant sizes depend on Individual Performance Assessments (0-150% multipliers applied to target grant size)

**Time-Based Stock**(38% of compensation for CEO, 36% for NEOs)

* Grant sizes depend on Individual Performance Assessments (0-150% multipliers applied to target grant size)

**Comments**

* Compared to peers, Vertex has much higher weights on non-financial metrics in its incentive plans. However, these non-financial metrics have disclosed targets and are related to financial performance, as they pertain to strategy, manufacturing, and pipeline development.
* Vertex excludes stock-based compensation from its calculation of Adjusted EBITDA for Financial Strength
* Vertex has a 1Y performance period for Cystic Fibrosis Revenue in its performance stock plan, which differs from the 3Y performance periods used by most of the other companies we examined. The 1Y awards have an additional 2Y of vesting, bringing total vesting to 3Y.

**Financial Metric Adjustments**

* Adjusted financials exclude acquired in-process research and development, as well as stock-based compensation, intangible asset amortization expenses, gains or losses related to equity investments, increases or decreases in fair value of contingent consideration, acquisition-related costs, and other non-recurring items
* Adjusted Cystic Fibrosis Revenue excludes foreign exchange fluctuations

**Additional Detail on Metrics**

* In FY23, Pipeline Growth measured whether the company completed the Phase 3 trial for the vanzacaftor triple, obtained marketing approval for CASGEVY, and advanced other programs
* In FY23 Marketed and Late-Stage Products measured the extent to which the company achieved its cystic fibrosis revenue goals and other qualitative goals with commercialized products
* In FY23, Manufacturing, Innovation, Quality, and Operations measured the extent to which the company completed various commercial manufacturing readiness processes for the CASGEVY launch, bolstered supply chain resiliency, and advanced manufacturing plans and capabilities
* In FY23, Financial Strength assessed the extent to which the company prudently managed financial resources and achieved financial targets, including Adjusted EBITDA and Net Income
* In FY23, Organizational Development and Capability measured the company’s progress in building its organization, fostering an inclusive and equitable culture, advancing enterprise risk management and data strategy initiatives, and enhancing communications and outreach
* In FY23, 3Y Non-Financial Metrics evaluated the company’s progress on cystic fibrosis and non-cystic fibrosis development milestones

**FY24 Changes**

* The cash incentives metric weightings reflect proposed weightings for FY24, which are the same as FY23, except for a small increase to the weighting of Manufacturing, Innovation, Quality, and Operations and a small decrease to the weighting of Pipeline Growth

**FY23 Performance**

* Cash Incentives (225% of target payout for CEO, 218-225% of target for NEOs)
  + Pipeline Growth: 3.5 points below maximum score
  + Marketed and Late-Stage Products: 0.5 points below maximum score
  + Manufacturing, Innovation, Quality, and Operations: maximum performance
  + Financial Strength: maximum performance
  + Organizational Development: 0.5 points below maximum score
  + Individual Performance Factor: 150% (maximum) for CEO, 145%-150% for NEOs
* FY21-FY23 Performance Stock
  + Cystic Fibrosis Revenue: exceeded target by 5%; 200% of target payout
  + Non-Financial Metrics: achieved 2 of 3 milestones; 100% payout
* For FY23, Vertex’s 1Y TSR was 40.9%, and its 3Y TSR CAGR was 19.9%

# Visa

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Visa’s CEO’s pay mix is 7% base salary, 16% cash incentives, 39% performance stock, 19% time-based stock, and 19% stock options, while the average mix of its other named executive officers (NEOs) is 9% base salary, 16% cash incentives, 38% performance stock, 19% time-based stock, and 19% stock options. Visa’s cash incentive plan contains unweighted financial and non-financial metrics, while its performance stock plan is based 100% on EPS and contains a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(16% of compensation for CEO and NEOs; metrics are not weighted)

* Financial, Clients, and Foundational Goals
* Operational Excellence, Talent, and ESG Goals
* The Compensation Committee can make discretionary adjustments based on individual performance

**Performance Stock**(39% of compensation for CEO, 38% for NEOs)

* Adjusted EPS, measured annually over 3Y (100%); payout is average of 3Y performance against targets
* -25 to 25 pp modifier based on 3Y Relative TSR compared to S&P 500

**Comments**

* Visa takes a different approach to performance compensation than Mastercard. Visa’s cash incentive payouts are tied to non-formulaic assessments of company performance, while Mastercard leans more heavily on formulaic payouts tied to financial metrics. Despite not having formulaic payouts, Visa’s cash incentive metrics have quantitative targets. Moreover, 100% of Visa’s performance stock is tied to EPS, compared to 50% at Mastercard (other 50% is Revenue). Both Visa and Mastercard have Relative TSR modifiers.

**Financial Metric Adjustments**

* Adjusted EPS excludes gains and losses on equity investments, foreign exchange fluctuations, amortization of acquired intangible assets, impacts of acquisitions, litigation provisions, and other non-recurring items, as well as repurchases that significantly deviate from the business plan

**Additional Detail on Metrics**

* Financial, Clients, and Foundational Goals includes quantitative targets for adjusted net revenue growth, adjusted net income growth, adjusted EPS growth, payment transaction growth, constant-dollar payments volume growth, constant-dollar cross-border volume growth, and net new acceptance locations excluding China
* Operational Excellence, Talent, and ESG goals includes goals related to cybersecurity, risk management, technology, acquisition integration, digital enablement, sustainability, diversity, employee experience, and charitable activities

**FY23 Performance**

* Cash Incentives (150% of target payout)
  + Financial, Clients, and Foundational Goals
    - Exceeded net revenue, net income, and EPS growth targets by 210 bps, 560 bps, and 560 bps respectively; exceeded net new acceptance locations target
    - Fell short by 40 bps and 200 bps on payment transactions and volume growth goals
    - Met constant-dollar cross-border volume target
  + Operational Excellence, Talent, and ESG Goals: exceeded targets for 5 of the 9 goals, met expectations for other 4
* FY21-FY23 Performance Stock (187% of target payout)
  + 3Y EPS Average Payouts: 185% of target payout
  + Relative TSR: 51st percentile of S&P 500
* For FY23, Visa’s 1Y TSR was 30.5%, and its 3Y TSR CAGR was 5.5%

**One-Time Awards**

* Over the past few years, Visa has awarded large one-time equity grants to its CEO and other NEOs following their assumption of new responsibilities. These grants vary in composition and can include stock options, restricted stock units, and performance stock units. The CEO’s FY23 award totaled $3M, while the NEOs’ awards have ranged in size from $3M-$5M.

**Notes**

* Pay mix numbers may not sum to 100% because of rounding

# Thermo Fisher Scientific

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Thermo Fisher’s CEO’s pay mix is 9% base salary, 18% cash incentives, 37% performance stock, and 37% stock options, while the average mix of its other named executive officers (NEOs) is 16% base salary, 16% cash incentives, 27% performance stock, 27% stock options, and 14% time-based stock. Thermo Fisher’s cash incentive plan is weighted 70% towards financial metrics (Revenue Growth, Net Income, and Free Cash Flow) and 30% towards non-financial performance (ESG and Strategy), while its performance stock plan contains 2 equally weighted 1Y metrics, Revenue Growth and EPS, as well as a 3Y Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(18% of compensation for CEO, 16% for NEOs)

* Adjusted Revenue Growth (35%)
* Adjusted Net Income (30%)
* Non-Financial Performance (30%)
* Free Cash Flow (5%)

**Performance Stock**(37% of compensation for CEO, 27% for NEOs)

* 1Y Adjusted Revenue Growth (50%)
* 1Y Adjusted EPS (50%)
* Modification to final distribution (3rd tranche) and total earned shares based on 3Y Relative TSR compared to peer group; only applied if Revenue Growth or EPS thresholds are met
  + Relative TSR in top quartile: + 30% modification to final distribution, + 10% modification to total earned shares
  + Relative TSR in second quartile: + 15% modification to final distribution, +5% modification to total earned shares
  + Relative TSR in third quartile: -15% modification to final distribution, -5% modification to total earned shares
  + Relative TSR in bottom quartile: -30% modification to final distribution, -10% modification to total earned shares
  + Peer group includes 3M, Abbott Laboratories, AbbVie, Amgen, AstraZeneca, Automatic Data Processing, Becton Dickinson, Biogen, Boeing, Boston Scientific, Bristol-Myers Squibb, Cigna, Cisco Systems, CSX Corporation, Danaher Corporation, Eaton Corporation, Eli Lilly, Gilead Sciences, Honeywell International, Illinois Tool Works, Johnson & Johnson, Medtronic, Merck & Co, Merck KGaA, Nike, Pfizer, PNC Financial Services Group, Stryker, and Texas Instruments

**Comments**

* Thermo Fisher’s cash incentive plan has a high weighting towards discretionary non-financial metrics, but these metrics appear to be closely tied to financial performance (e.g., positioning company for revenue growth and margin expansion and execution of capital deployment strategy). For each non-financial sub-metric, Thermo Fisher specifies qualitative and quantitative targets.
* Thermo Fisher’s 1Y performance period for its performance stock metrics is uncommon, as most of the companies we reviewed have 3Y performance periods
* Thermo Fisher’s Relative TSR modifier construction is unique, as most other companies we reviewed with Relative TSR modifiers will adjust only the total earned shares, target the 50th percentile of their peer group, and make modifications based on the linear interpolation of Relative TSR performance between the threshold and maximum targets

**Financial Metric Adjustments**

* Adjusted financial metrics exclude foreign currency fluctuations, inventory sales charges, certain third-party expenses, restructuring costs, impairment of long-lived assets, litigation costs, net gains/losses on equity investments, and impacts of acquisitions and divestitures

**Additional Detail on Metrics**

* Non-Financial Performance measures the company’s progress on ESG priorities, positioning itself for accelerated revenue growth, driving margin expansion over the mid-term, and executing its capital deployment strategy

**FY24 Changes**

* The above compensation mix reflects the FY24 compensation plan. In FY24, the Board eliminated time-based stock grants from the CEO’s compensation package and divided his long-term incentive compensation equally between performance stock and stock options.

**FY23 Performance**

* Cash Incentives (72% of target payout)
  + Revenue Growth: fell short of target by 460 bps
  + Net Income: fell short of target by 11%
  + Non-Financial Performance: maximum payout (200%)
  + Free Cash Flow: fell short of target by 10%
* FY21-FY23 Performance Stock (166% of target payout)
  + FY21 Financial Metrics: 175% of target payout
  + Board adjusted payout down 10% due to 3Y Relative TSR falling in 41st percentile of peer group
* For FY23, Thermo Fisher’s 1Y TSR was -3.4%, and its 3Y TSR CAGR was 4.7%

**One-Time Awards**

* In FY20, Thermo Fisher’s CEO and other NEOs received one-time performance stock option grants ranging from $406K to $4.9M in size
* The full amounts of these grants vested in FY23 after the company’s TSR ranked among the top ten TSRs of its peer group in all performance periods under the plan. The full payout of this award contrasts with the downward application of the Relative TSR modifier in the performance stock plan, possibly due to timing differences.

**Notes**

* Pay mix numbers may not sum to 100% because of rounding
* Performance stock is performance-based RSUs

# Comcast

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Comcast’s CEO’s pay mix is 7% base salary, 24% cash incentives, 52% performance stock, and 17% stock options, while the average mix of its other named executive officers (NEOs) is 13% base salary, 34% cash incentives, 40% performance stock, and 13% stock options. Comcast’s cash incentive plan is 70% based on financial metrics (EBITDA, Free Cash Flow, and Revenue) and 30% based on non-financial metrics (Operating Performance and Stakeholder & Sustainability Initiatives). Its performance stock plan has 2 equally weighted components, ROIC and Relative EPS Growth, and contains a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(24% of compensation for CEO, 34% for NEOs)

* Adjusted EBITDA (35%)
* Free Cash Flow (28%)
* Operating Performance (15%)
* Stakeholder and Sustainability Initiatives (15%)
* Revenue (7%)

**Performance Stock**(52% of compensation for CEO, 40% for NEOs)

* 3Y Average ROIC (50%)
* 3Y Relative Adjusted EPS Growth compared to S&P 100 (50%)
* -25% to 25% modification based on 3Y Relative TSR compared to S&P 100; modifier capped at 100% of target if 3Y Absolute TSR is negative

**Comments**

* Compared to Charter’s short-term incentive plan, Comcast’s plan has a higher weighting toward non-financial metrics (30% vs 20% for Charter). Comcast’s long-term incentive plan contains a mixture of capital allocation (ROIC) and profitability (EPS) measures, as well as a Relative TSR modifier, while Charter’s multi-year equity grants (cover 5Y) are solely based on stock price appreciation.
* Comcast’s stock option awards vest over 5Y, which is longer than the 3-4Y vesting periods at most other US-listed companies we reviewed

**Adjusted Financial Metrics**

* Adjusted financial metrics exclude impairment charges and other non-recurring items, such as legal settlements and gains/losses on asset sales

**Additional Detail on Metrics**

* Operating Performance measures achievement against long-range plans and organizational collaboration
* Stakeholder and Sustainability Initiatives measures progress on advancing digital equity, pursuing environmental sustainability, and improving company culture

**FY24 Changes**

* The percentages of performance stock and stock options in the CEO and NEO pay mixes reflect the proposed equity compensation mix for FY24 (75% PSUs, 25% stock options). In FY23, the equity compensation mix was 60% PSUs, 40% stock options.

**FY23 Performance**

* Cash Incentives (114% of target payout)
  + EBITDA: exceeded target by 7%
  + Free Cash Flow: exceeded target by 4%
  + Operating Performance: 150% of target payout
  + Stakeholder and Sustainability Initiatives: 100% of target payout
  + Revenue: exceeded target by 20%
* FY21-FY23 Performance Stock (131% of target payout)
  + ROIC: maximum performance
  + Relative EPS Growth: 62nd percentile of S&P 100
  + Relative TSR: 15th percentile of S&P 100
  + For FY23, Comcast’s 1Y TSR was 29.1%, and its 3Y TSR CAGR was -3.4%

# Caterpillar

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Caterpillar’s CEO’s pay mix is 9% base salary, 16% cash incentives, 38% performance stock, and 38% stock options, while the average mix of its other named executive officers (NEOs) is 16% base salary, 17% cash incentives, 34% performance stock, and 34% stock options. Caterpillar’s cash incentive plan is primarily based on financial metrics (Services Revenue, Operating Income, and Operating Income After Capital Charge) and contains 2 modifiers for Individual Performance and ESG Strategy. Relative TSR and individual performance determine performance stock and stock option grant sizes, while performance stock vesting depends entirely on the achievement of an ROE hurdle.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(16% of compensation for CEO, 17% for NEOs)

* Adjusted Services Revenue (34% for CEO and 3 NEOs, 35% for Group President of Resource Industries)
* Adjusted Operating Income (33% for CEO and 3 NEOs, 20% for Group President)
* Adjusted Operating Income after Capital Charge (33% for CEO and 3 NEOs, 45% for Group President)
* -20% to 20% Individual Performance Modifier based on contributions to Services Growth and ESG Strategy (-10% to 10% adjustment for each)
* If forecasted Adjusted Operating Income is below the prior year’s results, payouts are capped at 100% of target instead of the 200% maximum

**Performance Stock**(38% of compensation for CEO, 34% for NEOs)

* 1Y, 3Y, and 5Y Relative TSR comparisons against competitor peer group, compensation peer group, and S&P 500 Industrials Index determine grant sizes
* Compensation committee also can make further adjustments to grant sizes based on their assessments of operating performance and strategic execution
* Vesting depends on achievement of 3Y Average Adjusted Return on Equity hurdle (18% for FY21-FY23)

**Stock Options**(38% of compensation for CEO, 34% for NEOs)

* Grant sizes depend on same Relative TSR and operating performance and strategic execution assessments as performance stock

**Comments**

* Caterpillar’s cap of cash incentive payouts at 100% of target when forecasted Adjusted Operating Income is negative is unique. It is effectively a prospective version of the 100% of target cap companies use in their performance stock plans when Absolute TSR is negative.
* Caterpillar’s use of Relative TSR and individual performance assessments to inform performance stock and stock option grant sizes is similar to the approach taken by Abbott. Once they determine grant sizes, both companies’ performance stock vests based on the achievement of an ROE hurdle.

**Financial Metric Adjustments**

* Adjusted Operating Income and Adjusted Operating Income after Capital Charge (OPACC) exclude restructuring charges. Caterpillar assumes a 13% capital charge rate for OPACC.
* Adjusted Services Revenue includes aftermarket parts and other service-related revenues and excludes most financial products’ revenues, discontinued products, and captive dealer services
* Adjusted Return on Equity excludes restructuring charges, OPEB mark-to-market gains/losses, deferred tax valuation allowance adjustments, and goodwill impairment

**Additional Detail on Metrics**

* 3 of the 4 other NEOs follow the CEO’s weightings for cash incentive metrics. In addition to the other executive officers’ metrics, the Group President of Resource Industries is evaluated on 2 segment-based metrics (Services Revenue and Adjusted Operating Income After Capital Charges).

**FY23 Performance**

* Cash Incentives (178% of target payout for CEO, 171-174% for NEOs)
  + Operating Income: exceeded target by 32%
  + Operating Income After Capital Charge: exceeded target by 45%
  + Segment Financial Metrics: exceeded Operating Income After Capital Charge targets and achieved 100% and 101% payouts for Resource Industries Services Revenue and Energy & Transportation Services Revenue respectively
  + Modifiers: Services Growth modifiers ranged from 5-9% and ESG Strategy modifiers ranged from +5-8%
* FY21-FY23 Performance Stock (100% of target payout)
  + ROE: exceeded threshold by 30 pp
* For FY23, Caterpillar’s 1Y TSR was 25.9%, and its 3Y TSR CAGR was 20.1%

**Notes**

* Pay mix numbers may not sum to 100% because of rounding
* Performance stock is performance-based restricted stock units

# Tesla

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Tesla compensates its CEO and other named executive officers (NEOs) primarily through stock options. Tesla’s CEO has not received a base salary since 2019 and does not receive a cash bonus. His 2018 one-time performance stock option grant, which is tied up in the Delaware court system, was earned based on the achievement of Market Capitalization, Revenue, and Adjusted EBITDA hurdles. Tesla irregularly grants equity compensation to its other NEOs, but equity grants, when they occur, primarily consist of multi-year option awards and secondarily restricted stock.

**Detailed Description of Performance-Based Compensation Approach**

Tesla compensates its CEO and other NEOs primarily through stock options. Tesla’s CEO has not received a base salary since 2019 and does not receive a cash bonus. His 2018 performance award, which gives him the option to purchase an amount of stock (~$56B as of 2024 Def 14A Filing) equivalent to 12% of Tesla’s outstanding shares as of the time of the award grant, vested in 12 equal installments following the achievement of several performance targets. For each tranche to vest, Tesla’s CEO needed to achieve a market capitalization target, coupled with either a revenue or adjusted EBITDA target. The market capitalization hurdles started at $100B and then increased in $50B increments up to $650B. The revenue targets ranged from $20B to $175B, and the adjusted EBITDA targets ranged from $1.5B to $14B.

Elon Musk’s 2018 performance award is tied up in the Delaware court system after a judge ruled in January 2024 that the Board of Directors breached its fiduciary duty to shareholders by approving the award. Shareholders re-approved the award in the 2024 proxy vote. Elon Musk has not yet exercised the option award, and Tesla is still awaiting a decision from the Delaware Chancery Court on whether it can follow through with the award.

Only 2 of Tesla’s 4 other NEOs are still employed at the company and received respective salaries of $275K and $381K in 2023. Tesla’s SVP, Automotive received a $31.6M option award grant following his promotion to this current role in 2023, but Tesla did not award any other stock or option grants for NEOs in 2023. The award vests in 4Y. Tesla discloses that NEOs’ typical long-term incentive pay consists primarily of multi-year option awards, as well as restricted stock grants, but prior to the one-time grant, Tesla had not granted equity to any NEOs since 2020.

**Comments**

* Tesla does not disclose the performance metrics (if there are any) it uses to determine option vesting for non-CEOs
* Press commentators and investors have expressed concern about the dilutive impact of Elon Musk’s award (estimated at 9%), as well as the Board’s independence. The Board contains Musk’s brother and close friends, and a significant portion of Board Members’ wealth is tied to their Tesla stock holdings.
* For FY23, Tesla’s 1Y TSR was 101.7%, and its 3Y TSR CAGR was 1.8%

**Financial Metric Adjustments**

* Adjusted EBITDA for the CEO’s performance stock award excludes stock-based compensation

# EOG Resources

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**EOG Resources’ CEO’s pay mix is 9% base salary, 14% cash incentives, 46% performance stock, and 31% time-based stock while the average mix of its other named executive officers (NEOs) is 15% base salary, 14% cash incentives, 43% performance stock, and 28% time-based stock. EOG Resources’ cash incentive payouts are discretionarily determined based on the company’s performance against quantitative targets for Operational and Organizational Execution, Return on Total Capital Expenditures, Return on Capital Employed (ROCE), Free Cash Flow, and Unit Costs (80%); Relative TSR and Forward-Year Cash Flow Multiple (5%), and non-financial metrics pertaining to safety and environmental performance (15%). Vesting for its performance stock plan depends on Relative TSR, as well as a 70% ROCE modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(14% of compensation for CEO and NEOs)

* Operational and Organizational Execution (30%)
* Adjusted All-In After-Tax Rate of Return on Total Capital Expenditures (15%)
* Adjusted Return on Capital Employed (15%)
* Adjusted Free Cash Flow (15%)
* Total Recordable Incident Rate (7.5%)
* Continued Commitment to Strong Environmental Record (7.5%)
* Relative TSR and Forward-Year Cash Flow Multiple compared to peer group (5%)
  + Peer group includes APA Corporation, Coterra Energy, ConocoPhillips, Devon Energy, Diamondback Energy, Marathon Oil, Occidental Petroleum, Ovintiv, and S&P 500 Index
* Unit Cost Targets (5%)

**Performance Stock**(46% of compensation for CEO, 43% for NEOs)

* 3Y Relative TSR compared to peer group (100%); awards are capped at 100% of target if 3Y Absolute TSR is negative
  + Same peer group as above
* -70% to 70% modification based on 3Y Average Adjusted Return on Capital Employed

**Comments**

* EOG Resources has 4 metrics with weights lower than 10% in its cash incentive plan
* EOG’s cash incentive plan is similar to Chevron and ConocoPhillips’ plans. The final payout determination is discretionary, but the Board's holistic assessment is informed by the company’s performance against quantitative targets
* EOG’s 30% weight on Operational and Organizational Execution in its cash incentive plan is similar to the 30% weight on Operations in ConocoPhillips’ cash incentive plan
* The 70% ROCE modifier is much larger than the 25-30% range we have seen for most other companies’ performance stock modifiers

**Financial Metric Adjustments**

* Adjusted Net Income and other financial metrics exclude gains/losses on derivatives, gains/losses on asset dispositions, impairments, restructuring costs, and other extraordinary items
* Adjusted Free Cash Flow adds back changes in working capital and other assets and liabilities to Operating Cash Flow and incorporates changes in the components of working capital associated with investing activities to get Cash Flow from Operations Before Changes in Working Capital. Total capital expenditures used in the calculation exclude asset retirement costs, non-cash acquisition costs of unproved properties, non-cash development drilling, acquisition costs of proved properties, acquisition cost of other PP&E, and exploration costs.

**Additional Detail on Metrics**

* Operational and Organizational Execution measures the company’s execution on FY23 goals, including drilling 80% of premium wells, capturing of >55 net acres with premium resource potential, production targets, peer leadership in product marketing, minimizing well cost increases, and improving safety culture
* Adjusted All-In After-Tax Rate of Return on Total Capital Expenditures is based on the internal premium price deck of flat $40/Bbl WTI oil and $2.50/Mcf HH natural gas prices. It also relies on the company’s estimates for net recoverable reserves for particular wells or plays, the net present value of the future net cash flows from such reserves, and direct net costs incurred in drilling or acquiring such wells.
* Continued Commitment to Strong Environmental Record measures oil spill rate, oil recovery rate, methane emissions intensity, greenhouse gas emissions intensity, flaring intensity, and wellhead gas capture rate
* Unit Cost Targets includes capital efficiency per thousand barrels of oil equivalent per day; depreciation, depletion, and amortization for barrel of oil equivalent; barrels of oil equivalent controllable cash operating costs (LOE, G&A, transportation, and G&P expenses), and specified all-in finding cost per barrel of oil equivalent

**FY23 Performance**

* Cash Incentives (140% of target payout)
  + Operational and Organizational Execution: exceeded target
  + All-In After-Tax Rate of Return on Total Capital: achieved target with 23% rate of return
  + Return on Capital Employed: significantly exceeded target
  + Free Cash Flow: exceeded target
  + Recordable Incident Rate: exceeded target
  + Environmental Record: exceeded target
  + Relative TSR and Forward-Year Cash Flow Multiple: median TSR performance, exceeded median for forward-year cash flow multiple
  + Unit Cost Targets: achieved targets
* FY21-FY23 Performance Stock (25% of target payout)
  + TSR rank: 8th out of 10 in peer group
* For FY23, EOG’s 1Y TSR was -2%, and its 3Y TSR CAGR was 42.6%

**One-Time Awards**

* In FY23, the new COO received a one-time promotion award, valued at $1.2M. The award is weighted 60% towards performance units with the same conditions as typically granted performance stock and 40% towards time-based stock.

# Royal Caribbean

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Royal Caribbean’s CEO’s pay mix is 8% base salary, 16% cash incentives, 45% performance stock, and 30% time-based stock while the average mix of its other named executive officers (NEOs) is 17% base salary, 20% cash incentives, 38% performance stock, and 25% time-based stock. Royal Caribbean’s CEO’s cash incentive plan is 77% weighted towards financial metrics (primarily EPS, secondarily Net Yield and Net Cruise Costs Excluding Fuel), and 23% weighted towards non-financial metrics (Guest Satisfaction, ESG, Safety, and Employee Engagement). Other NEOs’ cash incentive plans include an Individual Performance Assessment and are less weighted towards financial metrics. Royal Caribbean's performance stock plan is based 90% on financial metrics (equally weighted EBITDA Per APCD, EPS, and ROIC) and 10% on Carbon Intensity Reduction.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(16% of compensation for CEO, 20% for NEOs)

* Adjusted EPS (65% for CEO, 43% for corporate NEOs, 22% for brand presidents)
* Adjusted Net Yield (6% for CEO, 4% for all NEOs)
* Adjusted Net Cruise Costs, Excluding Fuel (6% for CEO, 4% for all NEOs)
* Net Promoter Score/Guest Satisfaction (6% for CEO, 4% for all NEOs)
* Safety, Environment, Security, and Health (6% for CEO, 4% for all NEOs)
* Employee Engagement (6% for CEO, 4% for all NEOs)
* ESG Composite Index (5% for CEO, 3% for all NEOs)
* Individual Performance Assessment (0% for CEO, 33% for all NEOs)
* Brand Adjusted Operating Income (0% for CEO and corporate NEOs, 22% for brand presidents)

**Performance Stock**(45% of compensation for CEO, 38% for NEOs)

* Adjusted EBITDA Per Available Passenger Cruise Days (APCD) (30%)
* Adjusted EPS (30%)
* Adjusted ROIC (30%)
* Carbon Intensity Reduction (10%)
* Metrics are measured over a 3Y period with 25% weighting for the first year, 25% for the second year, and 50% for the third year

**Comments**

* Royal Caribbean has many metrics with minimal weights in its cash incentive plan. For the CEO, all metrics other than Adjusted EPS have weights below 7%.
* Royal Caribbean has a slightly different structure for its performance stock plan than other companies who measure metrics annually over a 3Y period. Royal Caribbean places greater weight (50%) on year 3 performance, compared to the common practice of equal weighting across each year. All vesting occurs after the close of the 3Y period.

**Financial Metric Adjustments**

* Adjusted EPS, EBITDA, and other financial metrics exclude loss on extinguishment of debt, gains/losses on sales of noncontrolling interests, deferred tax liability release, impairment and credit losses, restructuring charges, equity investment gains and losses, and amortization of acquired intangible assets. In addition to having the same adjustments as Adjusted EPS under the cash incentive plan, Adjusted EPS for performance stock excludes the dilutive impact of outstanding convertible notes.
* Adjusted Net Yield isadjusted for payroll and related expenses, food, fuel, other operating expenses, and depreciation and amortization expenses
* Adjusted Net Cruise Costs excludes foreign currency fluctuations, as well as the aforementioned adjustments

**Additional Detail on Metrics**

* Adjusted Net Yield is measured versus 2019 and represents Adjusted Gross Margin per Available Passenger Cruise Days
* Net Cruise Costs are gross cruise costs excluding commissions, transportation and other expenses, onboard and other expenses, and fuel expenses
* Net Promoter Score/Guest Satisfaction measures customer satisfaction with their most recent cruise, intent to cruise again on the company’s cruise lines, and willingness to recommend the cruise to others
* Safety, Environment, Security, and Health is comprised of safety incident frequency and severity; audit and compliance scores; and other safety, security, environmental, and health measures
* Employee Engagement is based on biannual pulse survey results
* The ESG Composite Index is a composite of 3 equally weighted quantitative ESG metrics that measure the company's progress on improving its cybersecurity maturity rating from the National Institute of Standards and Technology (NIST), carrying out programs related to global employee pay equity, and reducing carbon intensity
* Carbon Intensity Reduction is evaluated versus 2019 and represents Well-to-Wake (upstream + downstream) grams of carbon dioxide equivalent emissions divided by the product of gross tonnage and nautical miles traveled

**FY23 Performance**

* Cash Incentives (171% of target payout for CEO, 139-164% for NEOs)
  + EPS: exceeded target by 105%
  + Other Financial Metrics: exceeded Net Cruise Costs target, averaged 100% payout on other financial metrics
  + Non-Financial Metrics: average of 109% of target payout, due to exceeding targets for Employee Engagement and Safety and Security
  + ESG Composite Index: 174% of target payout
  + Individual Performance Assessments: all were at least 135% of target
* FY21-FY23 Performance Stock (125% of target payout)
  + EPS: exceeded target by 28%
  + ROIC: exceeded target by 270 bps
  + Leverage Ratio: outperformed (fell below) target by 0.7x
* For FY23, Royal Caribbean’s 1Y TSR was 162%, and its 3Y TSR CAGR was 20.1%

**One-Time Awards**

* In 2021, Royal Caribbean granted 3 NEOs special equity awards, which were 50% time-based stock and 50% performance stock. These awards earned 125% of the target payout.

**FY23 Changes**

* The CEO’s salary increased 4%, while NEO salary increases ranged from 3% for 2 NEOs to 18.5% for the CFO
* The CEO of RCI’s cash incentive target increased from 140% to 145% of base salary
* The CEO’s long-term incentive target increased 54%, while NEO long-term incentive increases ranged from 19% to 80% for the CFO

**Notes**

* Percentages may not sum to 100% because of rounding
* Performance stock is performance-based restricted stock units

# General Electric

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**This write-up relies on information from GE’s March 14, 2024 proxy statement, which was filed a few weeks before GE split into GE Vernova and GE Aerospace. The information in the proxy filing may not be indicative of the executive compensation plan investors can expect from the 2 spin-offs. However, the proxy statement indicated that GE Aerospace’s incentive plan should closely mirror the plan below. Before the split, GE’s CEO’s pay mix was 12% base salary, 18% cash incentives, and 70% performance stock, while the average mix of its other named executive officers (NEOs) was 17% base salary, 23% cash incentives, 30% performance stock, 18% stock options, and 12% time-based stock. The cash incentive plan was based on Pre-Tax Income, Free Cash Flow, and Revenue Growth and included a modifier for Safety Performance. The performance stock plan contained 2 equally weighted measures, EPS and Free Cash Flow, as well as a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(18% of compensation for CEO, 23% for NEOs)

* Adjusted Pre-Tax Income (40%)
* Adjusted Free Cash Flow (40%)
* Adjusted Revenue Growth (20%)
* -10 pp to 10 pp modifier based on Safety Performance

**Performance Stock**(70% of compensation for CEO, 30% for NEOs)

* Adjusted EPS (50%); payout based on 3Y average of performance against annual targets
* Adjusted Free Cash Flow (50%); payout based on 3Y average of performance against annual targets
* -20% to 20% modifier based on 3Y Relative TSR compared to S&P 500 Industrials Index

**Comments**

* GE targets the 55th percentile for its Relative TSR modifier, compared to the 50th percentile targets of most other companies we reviewed
* GE does not include a return metric (e.g., ROIC or ROE) in its long-term incentive plan, while 5 of the 8 other aerospace and defense companies we reviewed do. Like GE, 5 of the 8 other aerospace and defense companies include Relative TSR metrics or modifiers in their long-term incentive plans, 4 include Free Cash Flow, and 4 include EPS.

**Financial Metric Adjustments**

* Adjusted Pre-Tax Income (referred to as Adjusted Profit) excludes insurance revenues and expenses, interest and other financial charges, non-operating benefits or costs, gains and losses on asset sales and equity investments, restructuring costs, debt extinguishment costs, separation costs, impairment charges, noncontrolling interests, and other extraordinary items
* Adjusted Free Cash Flow excludes insurance cash flow from operations, separation cash expenditures, restructuring cash expenditures, and taxes related to business sales
* Adjusted Revenue Growth excludes insurance revenues, impacts of acquisitions and business dispositions, and foreign currency fluctuations

**Additional Detail on Metrics**

* The Safety Performance modifier is determined based on an assessment of GE’s performance against targets related to injury and illness rates, serious incidents, fatalities, and overall safety culture and progress
* All financial metrics for the cash incentive plan include segment metrics for segment NEOs. For GE Aerospace in FY24, executive officers who lead business segments will have their cash incentives weighted 70% towards business segment performance and 30% towards total company performance.

**FY23 Performance**

* Cash Incentives
  + Company-Wide (150% of target payout, maximum); payouts to CEO and other corporate executives
    - Pre-Tax Income: exceeded target by 20%
    - Free Cash Flow:exceeded target by 36%
    - Revenue Growth: exceeded target by 660 bps
  + Aerospace (147% of target payout)
    - Pre-Tax Income: exceeded target by 10%
    - Free Cash Flow: exceeded target by 8%
    - Revenue Growth: exceeded target by 490 bps
  + Commercial Engine & Services within Aerospace (149% of target payout); undisclosed targets
    - Pre-Tax Income: 150% of target payout
    - Free Cash Flow: 149% payout
    - Revenue Growth: 135% payout
* FY21-FY23 Performance Stock (163% of target payout)
  + EPS: exceeded target by 26%
  + Free Cash Flow: exceeded target by 41%
  + Relative TSR: below target performance based on pre-GE HealthCare spin-off performance and performance post-spinoff

# Gilead Sciences

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Gilead’s CEO’s pay mix is 9% base salary, 14% cash incentives, 39% performance stock, 19% time-based stock, and 19% stock options, while the average mix of its other named executive officers (NEOs) is 16% base salary, 16% cash incentives, 34% performance stock, 17% time-based stock, and 17% stock options. Gilead’s cash incentive plan is weighted 50% towards financial metrics (Net Product Revenue and Operating Income) and 50% towards non-financial metrics (Pipeline, Product, and People). It also contains modifiers for individual performance (only for non-CEO NEOs) and Veklury performance. Gilead's performance stock plan is based 50% on Relative TSR and 50% on Net Product Revenue.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(14% of compensation for CEO, 16% for NEOs)

* Adjusted Net Product Revenue (30%)
* Pipeline (25%)
* Adjusted Operating Income (20%)
* Product (15%)
* People (10%)
* Individual Performance Factor multiplier (0-150% for NEOs other than CEO)
* -25% to 25% modification based on Veklury performance

**Performance Stock**(39% of compensation for CEO, 34% for NEOs)

* 3Y Relative TSR compared to S&P Healthcare Sub-Index (50%); awards are capped at 100% of target if 3Y Absolute TSR is negative
* Net Product Revenue (50%); annual targets for 3 years

**Comments**

* Compared to other large biopharma companies with pipeline metrics in their short-term incentive plans, Gilead’s 25% weighting is similar to the 20-30% weightings we have seen at other companies (e.g., Eli Lilly, AstraZeneca, Amgen, and Merck). Pfizer has a 25% pipeline modifier. Regeneron and Vertex take different approaches to their short-term incentive plans. Vertex bases 90% of payouts on non-financial metrics (mostly pipeline and operations metrics) and Regeneron has one broad corporate performance metric that considers pipeline performance amongst other factors.
* Gilead’s compensation plans also do not include a return metric (e.g., ROIC), which could measure acquisition performance. Only 3 biopharma companies we reviewed (AbbVie, Daiichi Sankyo, and Amgen) include return metrics in their performance metrics.

**Financial Metric Adjustments**

* Adjusted Net Product Revenue excludes revenue received from Veklury
* Adjusted Operating Income excludes Veklury sales, upfront payments related to collaboration agreements, and other adjustments for unusual or non-representative income

**Additional Detail on Metrics**

* Pipeline includes 2 metrics: 15% for key pipeline milestones and 10% for introducing new molecular entities into the development portfolio
* Products measures achievement of commercial milestones
* People measures employee engagement and advancement of inclusion and diversity objectives
* The Veklury modifier was introduced in FY22 and continued in FY23 due to the unpredictable nature of COVID-19 infection rates. The Veklury modifier appears to be assessed in a non-formulaic way based on the Board’s discretionary assessment of Veklury performance.

**FY23 Performance**

* Cash Incentives (124% of target Corporate Performance Factor)
  + Revenue: exceeded target by 1%
  + Pipeline: exceeded target through introducing 10 new molecular entities against a target of 8 and outperforming on its key pipeline milestones
  + Product: 143% of target payout
  + People: 125% of target payout
  + Operating Income: fell short of target by 1%
  + Veklury Modifier: no modification
  + Individual Performance Factors: 124% for CEO (set equal to corporate performance) and 110-130% for NEOs
* FY21-FY23 Performance Stock (200% of target payout for Relative TSR-based awards and 179% for revenue-based awards)
  + Relative TSR: 83rd percentile of S&P Healthcare Sub-Index
  + Revenue: exceeded all 3 annual targets by at least 2%
* For FY23, Gilead’s 1Y TSR was -2%, and its 3Y TSR CAGR was 16.3%

**Notes**

* Pay mixes may not sum to 100% because of rounding

# Applied Materials

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Applied Materials’ CEO’s pay mix is 4% base salary, 7% cash incentives, 67% performance stock, and 22% time-based stock, while the average mix of its other named executive officers (NEOs) is 12% base salary, 15% cash incentives, 37% performance stock, and 37% time-based stock. Applied Materials’ cash incentive plan is based on performance against several financial, market, operational, and strategic goals, as well as an individual performance modifier, while its performance stock plan contains 2 equally weighted performance metrics, Relative TSR and Operating Margin.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(7% of compensation for CEO, 15% for NEOs)

* Products and Growth (30% for CEO and NEOs)
* Services and Subscription (10% for CEO, 11% for NEOs)
* Wafer Fabrication Equipment Market Share (10% for CEO, 9% for NEOs)
* Adjusted Gross Margin and Related Initiatives (10% for CEO and NEOs)
* Adjusted Operating Margin and Days Inventory Outstanding (10% for CEO and NEOs)
* Relative TSR compared to S&P 500 (8% for CEO and NEOs)
* Improving Operational, Quality, and Employee Health and Safety Performance (8% for CEO and NEOs)
* Customers and Markets (5% for CEO, 4% for NEOs)
* People and Organization (5% for CEO and NEOs)
* Talent, Productivity, and Employee Engagement (3% for CEO and NEOs)
* Services Core Revenue Growth (2% for CEO, 3% for NEOs)
* Adjusted EPS hurdle ($6 in FY23) must be achieved before any cash bonuses are paid
* Individual Performance Factor multiplier (0-150%)

**Performance Stock**(67% of compensation for CEO, 37% for NEOs)

* 3Y Relative TSR compared to S&P 500 (50%)
* 3Y Average Adjusted Operating Margin (50%)

**Comments**

* Applied Materials’ cash incentive plan has a corporate scorecard that is 50% based on financial and market performance and 50% based on measurable operational and strategic goals. The volume of metrics included in the scorecard leads to several metrics having weights below 10%.
* Applied Materials targets the top quartile of its benchmark for employee engagement

**Financial Metric Adjustments**

* Adjusted Gross Margin excludes acquisition-related items
* Adjusted Operating Margin excludes acquisition-related items, restructuring charges, and other extraordinary items
* Adjusted EPS includes the same adjustments as Adjusted Operating Margin, as well as losses and gains on equity investments, impairments, and losses on debt extinguishments

**Additional Detail on Metrics**

* The cash incentive metric weights reflect an average of the NEOs. The CFO and President of the Semiconductor Products Group have the same metric weights as the CEO. The CTO has greater weight on Products and Growth, lower weight on Services and Subscription, and no weight on Customers and Markets. The Group Vice President of Applied Global Services has greater weight on Products and Growth, Services and Subscription, and Services Core Revenue Growth and less weight on Wafer Fabrication Equipment Market Share.
* Applied Materials does not specify sub-metrics for Improving Operational, Quality, and Employee Health and Safety Performance or for Talent, Productivity, and Employee Engagement
* Products and Growth includes sub-metrics related to milestones for Semiconductor, Display, and Integrated Materials Solution businesses; AI applications; and new and adjacent market growth. The weights for these sub-metrics differ across executives.
* Services and Subscription includes sub-metrics related to general Services Business performance and subscription revenue growth for Services Business. The weights for these sub-metrics differ across executives.
* Wafer Fabrication Equipment Market Share is measured by VLSI Research
* Customers and Markets has 2 equally weighted sub-metrics: engagements at leading customers and accounts and enhancing customer trust
* People and Organization has 2 equally weighted sub-metrics that evaluate progress towards increasing representation and long-term sustainability goals

**FY23 Performance**

* Cash Incentives (150% of target payout for CEO, 120-135% for NEOs)
  + Exceeded targets for Wafer Fabrication Equipment Market Share, Relative TSR, and Customers and Markets
  + Met targets for Improving Operational, Quality, and Employee Health and Safety and People and Organization
  + Underperformed targets for Services and Subscription, Gross Margin and Related Initiatives, Operating Margin and Days Inventory Outstanding, and Services Core Revenue Growth
* FY21-FY23 Performance Stock (200% of target payout)
  + Operating Margin: exceeded target by 310 bps
  + Relative TSR: 92nd percentile of S&P 500
* For FY23, Applied Materials’ 1Y TSR was 47.7%, and its 3Y TSR CAGR was 31.3%

**Notes**

* Percentages may not sum to 100% because of rounding
* The compensation mix numbers differ from what is reported in the DEF 14A because we use target rather than actual numbers

# Exxon Mobil

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Exxon Mobil’s CEO’s pay mix is 6% base salary, 16% cash incentives, and 78% performance stock, while the average mix of its other named executive officers is 7% base salary, 19% cash incentives, and 74% performance stock. Payouts for Exxon’s cash incentive plan are tied to the prior year’s bonus, the YoY change in Net Income, and the Board’s assessment of individual performance. Its performance stock payouts are tied to an executive’s grade and discretionary corporate and individual performance assessments.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(16% of compensation for CEO, 19% for NEOs)

* Size of target bonus is determined by formula of (2/3 \* % change in net income \* previous year’s bonus)
* Each individual receives a different bonus depending on the Compensation Committee’s assessment of their performance against the company’s strategic objectives

**Performance Stock**(78% of compensation for CEO, 74% for NEOs)

* Individual and corporate performance assessments covering an unspecified number of years and an executive’s grade determine grant sizes

**Comments**

* Exxon modifies cash bonuses by 2/3 of the YoY change in net income to mitigate the impact of commodity price swings on the earnings that determine executive compensation. Other oil and gas companies we examined (EOG, Chevron, ConocoPhillips, Canadian Natural Resources, and Total) weight individual performance less heavily in their performance compensation plans and have more quantitative targets for their incentive metrics.
* 50% of Exxon’s performance stock vests after 5 years and 50% vests after 10 years. Most other companies we reviewed have 3-4Y vesting periods. Exxon believes its longer vesting periods allow for greater management focus on long-term performance. Its performance stock awards are similar to time-based stock awards, as they do not have performance conditions. However, since individual and corporate performance assessments determine grant sizes, Exxon refers to the equity grants as performance stock.
* Exxon’s use of a multi-year lookback period to determine equity grants is similar to Abbott’s approach

**Additional Detail on Compensation Plan**

* When determining the target bonus for its cash incentive program, Exxon estimates year-end net income in November to allow for payment of bonuses within the calendar year
* In determining individual cash incentive and performance stock awards, the Compensation Committee evaluates individual executive officers’ performance against the following 4 unweighted strategic objectives (sub-metrics and goals identified under each objective):
  + Operations Performance
    - Safety (Tier 1 Process Safety Events, Personnel Safety Performance)
    - Emissions, Environmental (Greenhouse Gas Emissions, Spills)
    - Reliability (Capacity Loss)
  + Deliver industry-leading earnings and cash flow growth
    - Adjusted Return on Average Capital Employed
    - Cash Flow from Operations and Asset Sales
    - Relative TSR compared to peer group
      * Peer group includes BP, Chevron, Shell, and TotalEnergies
    - Structural Cost Savings
    - Capex Discipline
    - Debt-to-Capital Ratio
    - Shareholder Returns (Dividends and Repurchases)
  + Lead industry in reducing emissions in hard-to-decarbonize sectors
    - Greenhouse Gas Emissions
    - Lower-Emission Investments
  + Optimize existing business portfolio and make it resilient to a transitioning energy system
    - Upstream: Prioritize resilient, high-return investments
    - Product Solutions: Lower cost of supply, grow high-value products, improve portfolio value, lead in sustainability
    - Low Carbon Solutions: Develop pipeline of advantaged opportunities and establish Low Carbon Solutions as industry leader

**Financial Metric Calculations and Adjustments**

* Cash Flow from Operations and Asset Sales adds proceeds associated with sales of subsidiaries, PP&E, and sales and returns of investments to CFO
* Capital Employed is sum of debt and equity, excluding noncontrolling interests share of total debt and including Exxon’s share of equity company debt
* Adjusted Return on Average Capital Employed (ROCE) subtracts financing costs from net income

**FY23 Performance**

* In FY23, Exxon delivered strong performance across its strategic objectives, but awarded lower aggregate cash incentive and performance stock grants to its executive officers because of lower earnings compared to the prior year
* For FY23, Exxon’s 1Y TSR was -6.3%, and its 3Y TSR CAGR was 40.4%

# Micron Technology

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Micron’s CEO’s pay mix is 5% base salary, 11% cash incentives, 55% performance stock, and 29% time-based stock, while the average mix of its other named executive officers (NEOs) is 8% base salary, 9% cash incentives, 42% performance stock, and 42% time-based stock. Micron’s cash incentive plan is based 50% on financial metrics (Net Income and Operating Margin) and 50% on non-financial or discretionary metrics (Technology & Products, Cost & Efficiency, Customers, Business, and ESG). Its cash incentive plan also includes an individual performance modifier. Micron's performance stock plan is based 50% on Relative TSR and 50% on DRAM Revenue and NAND Shipments and contains modifiers for High Bandwidth Memory Products and Computer Express Link-Related Products.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(11% of compensation for CEO, 9% for NEOs)

* Adjusted Net Income and Adjusted Operating Margin (50%)
* Technology & Products (10%)
* Cost & Efficiency (10%)
* Customers (10%)
* Business (10%)
* ESG (10%)
* Individual Performance Factor multiplier (unspecified percentage)
* Cash incentives not paid out if company does not meet Adjusted Net Income and Adjusted Operating Margin targets

**Performance Stock**(55% of compensation for CEO, 42% for NEOs)

* Relative TSR CAGR compared to PHLX Semiconductor Sector Index (50%); payout capped at 100% of target if Absolute TSR is negative
* DRAM Revenue from High-Growth, Stable Segment (25%)
* NAND Bits Shipped into Data Center Segment (25%)
* Up to 16.5% of modification based on High Bandwidth Memory Products and Associated Revenue
* Up to 16.5% of modification based on Compute Express Link-Related Products
* All awards are measured against targets at the end of the 2nd and 3rd years of the 3Y performance period; 50% of the awards banked in the 2nd year vest immediately at the end of the 2nd year

**Comments**

* Micron excludes stock-based compensation from its Adjusted Net Income and Operating Margin metrics
* For its 3Y Relative TSR CAGR, Micron targets the 55th percentile of its peer group, compared to the 50th percentile targets of most other companies we reviewed

**Financial Metric Adjustments**

* Adjusted Net Income excludes stock-based compensation, restructuring costs, impairment charges, gains and losses from settlements and patent license charges, gains and losses on debt repurchases and conversions, initial impact of FIFO inventory change, and other extraordinary items Adjusted Operating Margin likely excludes a subset of these items

**Additional Detail on Metrics**

* Technology and Products includes goals related to delivery of leading-edge technology and key market segment product milestones
* Cost & Efficiency includes goals focused on leading-edge DRAM and NAND product cumulative yields, process and system project implementation, product cost reductions, and Fab and assembly and test manufacturing cost reductions
* Customers includes metrics, such as customer business review scores, customer quality ranking compared to customers’ other suppliers, and customer delivery performance
* Business includes goals focused on revenue from more stable end markets and commercial channel, DRAM and NAND leading node shipments, and NAND product mix
* ESG includes goals related to greenhouse gas emissions, representation of underrepresented groups, pay equity, and supplier diversity
* Operational goals for performance stock change year to year, and Micron provides little disclosure on the 2 modifiers for performance stock, which also change each year. The 2 modifiers are meant to have difficult to achieve targets (stretch targets).

**Recent Changes**

* The pay mix numbers are based on FY24 proposals, which increased the performance stock weighting in the CEO’s long-term incentive mix from 50% to 65%
* In February 2023, Micron decided to reduce its CEO’s base salary by 20% and its NEOs’ salaries by 15% for the remainder of the year (August FYE) due to the challenging industry environment

**FY23 Performance**

* Cash Incentives (0% of target payout)
  + In FY23, Micron did not distribute any cash incentives to its executives because it did not achieve its Adjusted Net Income and Adjusted Operating Margin targets
* FY21-FY23 Performance Stock Grants
  + High-Value NAND: 200% of target payout
  + Relative TSR CAGR: 93% of target payout
* For FY23, Micron’s 1Y TSR was 24.8%, and its 3Y TSR CAGR was 15.9%

**Notes**

* Pay mix numbers may not sum to 100% because of rounding
* Performance stock is performance-based RSUs

# Marsh & McLennan

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Marsh & McLennan’s CEO’s pay mix is 8% base salary, 19% cash incentives, 37% performance stock, and 37% stock options, while the average mix of its other named executive officers (NEOs) is 17% base salary, 37% cash incentives, 23% performance stock, and 23% stock options. Marsh & McLennan’s cash incentive plan is based primarily on Operating Income and secondarily on Individual Performance Assessments and contains an EPS modifier. Its performance stock plan is 100% based on EPS and includes a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(19% of compensation for CEO, 37% for NEOs)

* Adjusted Operating Income (80% for CEO and business unit CEOs, 70% for CFO)
* Individual Performance Assessment (20% for CEO and business unit CEOs, 30% for CFO)
* -30% to 30% modification based on Adjusted EPS Growth
* The Compensation Committee retains the ability to make discretionary adjustments to cash incentive payouts based on their analysis of historical performance and the company’s comparison to peers in terms of TSR, financial metrics, and compensation packages

**Performance Stock**(37% of compensation for CEO, 23% for NEOs)

* 3Y Adjusted EPS CAGR (100%)
* -25% to 25% modification based on 3Y Relative TSR compared to S&P 500; modification is capped at 0% if 3Y Absolute TSR is negative

**Comments**

* Marsh & McLennan has a similar performance-based compensation plan to Aon. Aon’s short-term incentive plan is 80% based on Operating Income Growth and 20% on People & Culture, while its performance stock plan is 100% based on EPS.
* Marsh & McLennan stands out with its high short-term compensation (cash incentives and base salary) for NEOs. Base salary and short-term incentives combine for 54% of NEOs’ compensation, compared to an average of 40% at other financial companies we reviewed.

**Financial Metric Adjustments**

* Adjusted EPS excludes currency fluctuations, other net benefit credit (cost) related to pension plans, investment income primarily from Marsh & McLennan Risk Capital Holdings, and the impact of OECD global tax framework implementation
* Adjusted Operating Income excludes restructuring charges, changes in fair value of contingent consideration, legal settlement, intangible amortization, currency fluctuations, the impacts of acquisitions/dispositions, and other extraordinary items

**Additional Detail on Metrics**

* Adjusted Operating Income is measured at the business unit level for business unit NEOs

**FY23 Performance**

* Cash Incentives (171% of target payout for CEO, 174-197% for NEOs)
  + Company-Wide Operating Income: exceeded target by 5%
  + Segment Operating Income: exceeded targets by 2-12%
  + EPS: exceeded target by 10.8 pp, maximum performance
* Performance Stock (200% of target payout)
  + EPS CAGR: exceeded target by 10.9 pp
  + Relative TSR: 85th percentile of S&P 500, modifier not applied because awards are capped at 200% of target
* For FY23, Marsh & McLennan’s 1Y TSR was 16.1%, and its 3Y TSR CAGR was 19.1%

**Notes**

* Percentages may not sum to 100% because of rounding

# Regeneron Pharmaceuticals

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Regeneron’s CEO and CSO’s pay mixes are 6% base salary, 13% cash incentives, and 81% performance stock, while the average pay mix of the other two named executive officers (NEOs) is 10% base salary, 7% cash incentives, 50% stock options, and 34% time-based stock. The cash incentives are based 100% on corporate performance for the CEO and CSO and 60% on corporate performance and 40% on individual performance for the other NEOs. Regeneron’s CEO and CSO/President received 5Y performance stock awards in December 2020 that were valued at $130M. The performance stock mix contributions reflect the annualization of these awards, whose vesting depends on Absolute TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(13% of compensation for CEO and CSO, 7% for other 2 NEOs)

* Corporate Performance (100% for CEO and CSO, 60% for other 2 NEOs)
* Individual Performance Assessment (0% for CEO and CSO, 40% for other 2 NEOs)
* The Compensation Committee can exercise its discretion to increase the Corporate Performance Assessment for transformational achievements and decrease it for underperformance against objectives

**CEO and CSO's Performance Stock Awards**(81% of compensation for CEO and CSO)

* Absolute TSR (100%)
  + Awards have a 5Y performance period with payout levels based on the company's achievement of Absolute TSR hurdles  
    - Payouts are interpolated for performance that falls between the hurdles
  + The CEO and CSO became eligible to earn the awards on the 3rd anniversary of the grant date (December 31, 2023)
  + The awards vest in full if the company achieves a stock price of $1,150 (19.2% 5Y TSR CAGR, excluding dividends or shareholder distributions)
* As of December 31, 2023, 128% of the target number of 2020 PSUs had been earned
* Awards are eligible to vest in December 2025
* Vested awards will remain subject to an additional 3Y deferral and holding period until December 2028

**Comments**

* Regeneron’s cash incentive plan structure differs from those of other biopharma companies we examined. These other companies have a mixture of pipeline, profitability, return, and ESG metrics in their plans and less weighting towards discretionary assessments. Regeneron does specify its milestones but does not provide a formula behind its determination of payout percentages. Regeneron takes a similar approach to Vertex, whose cash incentive plan also prominently features discretionary, non-financial metrics.

**Additional Detail on Metrics**

* The Compensation Committee assess Corporate Performance primarily by examining the company’s achievement of specified product, pipeline, revenue, and development milestones but also considers finance and operations and talent, culture, and corporate responsibility as secondary factors.

**FY23 Performance**

* Cash Incentives
  + Corporate Performance: 190% of target payout
  + Individual Performance Assessment: 150% of target payout for 2 NEOs
* For FY23, Regeneron’s 1Y TSR was 21.7%, and its 3Y TSR CAGR was 22%

# NVIDIA

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**NVIDIA’s CEO’s pay mix is 4% base salary, 8% cash incentives, and 88% performance stock, while the average mix of its other named executive officers (NEOs) is 8% base salary, 3% cash incentives, 53% performance stock, and 35% time-based stock. NVIDIA’s cash incentive plan is 100% based on Revenue, while its performance stock plan contains 2 equally weighted components, Operating Income and Relative TSR, as well as a Gross Margin modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(8% of compensation for CEO, 3% for NEOs)

* Revenue (100%)

**Performance Stock** (88% of compensation for CEO, 53% for NEOs)

* 1Y Adjusted Operating Income (50% for CEO, 92% for NEOs)
  + Up to 50% of modification based on Adjusted Gross Margin if the company achieves the Operating Income target
* 3Y Relative TSR compared to S&P 500 (50% for CEO, 8% for NEOs)

**Comments**

* NVIDIA has a 1Y performance period for the Adjusted Operating Income and Gross Margin metrics in its performance plan, which is shorter than the typical 3Y performance period. Of the companies we examined, others with 1Y performance periods for select performance stock metrics include Dollar General, AbbVie, and Thermo Fisher**.**NVIDIA’s 1Y awards have an additional 2Y of vesting, leading to a 3Y total vesting period.
* NVIDIA excludes stock-based compensation from its adjusted financial incentive metrics
* NVIDIA and Tesla are the only companies in the Magnificent 7 whose CEOs' equity awards vest partially based on profitability metrics. Elon Musk’s one-time stock option award included Revenue, EBITDA, and Market Cap hurdles. Alphabet’s CEO receives exclusively time-based stock for his long-term incentive compensation, but Alphabet’s other NEOs receive 26% of their total compensation in performance stock that vests based on Relative TSR. Apple’s performance stock vests based on Relative TSR; Amazon and Meta (only for non-CEO NEOs) grant their executives only time-based stock; and Microsoft’s performance stock vests based on performance on a series of growth-related metrics and Relative TSR.

**Financial Metric Adjustments**

* Adjusted Operating Income excludes stock-based compensation, acquisition-related costs, IP-related costs, restructuring costs, acquisition termination costs, and other extraordinary items. Adjusted Gross Margin excludes a relevant subset of these items.

**FY24 Performance**

* Cash Incentives (200% of target payout, maximum performance)
  + Revenue: exceeded target by 295%
* Performance Stock (maximum performance)
  + Operating Income: exceeded target by 134%
  + Gross Margin: exceeded target by 530 bps
  + Relative TSR: 99th percentile of S&P 500
* For FY24, NVIDIA’s 1Y TSR was 199.8%, and its 3Y TSR CAGR was 67.4%

**Notes**

* Pay mixes may not sum to 100% because of rounding

# Salesforce

## Executive Summary

**erformance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Salesforce's CEO’s pay mix is 3% base salary, 7% cash incentives, 54% performance stock, and 36% stock options, while the average mix of its other named executive officers (NEOs) is 7% base salary, 10% cash incentives, 41% performance stock, 33% time-based stock, and 10% stock options. Salesforce’s cash incentive plan is based 90% on financial metrics (Revenue, Operating Cash Flow, and Operating Income) and 10% on ESG-related metrics (Equality and Sustainability) and contains a modifier for individual performance. Its performance stock plan is based 50% on Operating Margin and 50% on Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(7% of compensation for CEO, 10% for NEOs)

* Adjusted Revenue (30%)
* Operating Cash Flow (30%)
* Adjusted Operating Income (30%)
* Equality (5%)
* Sustainability (5%)
* Individual Performance Factor modifier (can increase or decrease final payout up to maximum of 125% of target payout)

**Performance Stock**(54% of compensation for CEO, 41% for NEOs)

* Adjusted Operating Margin (50%); annual targets for 3 years; payouts are average of performance against annual targets
* 3Y Relative TSR compared to Nasdaq-100 Index Group (50%); awards are capped at 100% of target if 3Y Absolute TSR is negative

**Comments**

* Salesforce excludes stock-based compensation from Adjusted Operating Income
* Salesforce’s Relative TSR target is the 60th percentile of the Nasdaq-100 Index Group, which is much higher than the 50th percentile target of most other companies we reviewed
* In FY24, Salesforce initially set its CEO’s long-term incentive target grant size at $15M following its FY23 financial performance and prevailing business conditions at the start of FY24, but it revised the award up to $35M near the end of the fiscal year in light of strong FY24 performance

**Financial Metric Adjustments**

* Adjusted Revenue excludes the impacts of certain acquisitions
* Adjusted Operating Income excludes stock-based compensation, the impacts of acquisitions, amortization of acquisition-related intangible assets, and restructuring charges

**Additional Detail on Metrics**

* Equality is composed of 2 equally weighted measures: percentage of US employees that are underrepresented minorities & women and percentage of global employees who are women
* Sustainability is composed of 2 equally weighted measures: air travel emissions intensity relative to FY20 levels and percentage of supplier spending with suppliers who have signed an agreement with a Salesforce Supplier Sustainability Exhibit

**Recent Changes**

* The above compensation mixes reflect the proposed compensation for FY25
* In FY25, the CEO’s base salary will remain the same, while other NEOs’ salaries will increase 0-22%. The CEO’s target cash incentive payout will increase from 200% of base salary to 225% of base salary, while NEOs’ targets will increase from 100% of base salary to 125-175% of base salary. The CEO’s long-term incentive target payouts will increase 24%, while the Chief Legal Officer’s long-term incentive target payout will decrease 9% and other NEOs’ targets will increase 5-36%.
* In FY24, to reflect its performance in FY23, Salesforce reduced the total target values of the long-term equity incentives for all NEOs (other than as contractually required) by approximately 21%.

**FY24 Performance**

* Cash Incentives (100% of target payout)
  + Revenue: exceeded target by 0.4%
  + Operating Cash Flow: exceeded target by 23%
  + Operating Income: exceeded target by 14%
  + Equality: underperformed targets
  + Sustainability: exceeded targets
* April 2020-April 2023 Performance Stock (0% of target payout)
  + Relative TSR: 21st percentile of Nasdaq-100 Index Group
* For FY24, Salesforce’s 1Y TSR was 67.3%, and its 3Y TSR CAGR was 7.6%

**One-Time Awards**

* In FY24, the President received a $2.5M cash payment as part of a $10M retention bonus agreed to in February 2021. The cash award pays out in 4 equal annual installments.
* In FY24, the new Chief Legal Officer received a new hire award consisting of a $3M cash payment that vests over 2Y, a $5.5M performance stock grant that vests over 3Y and contains the same performance criteria as normal awards, and a $5.5M time-based stock grant that vests over 4Y

**Notes**

* Only the CEO and President receive stock options as part of their compensation package in FY24. The President receives the options as part of their retention agreement, while other NEOs received a long-term incentive compensation mix of 50% performance stock and 50% time-based stock.
* Pay mixes may not sum to 100% because of rounding
* Performance stock is performance-based restricted stock
* The Compensation Committee typically approves performance goals during the first quarter of the fiscal year and pays 25% of the full target bonus in the first quarter and distributes any remaining amount earned after the end of the fiscal year

# BlackRock

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**BlackRock’s CEO’s pay mix is 5% base salary, 47% short-term incentives (60% in cash and 40% in deferred equity that vests over 3Y), and 48% performance stock, while the average mix of its other named executive officers (NEOs) is 5% base salary, 46% short-term incentives (60% in cash and 40% in deferred equity), and 49% performance stock. The sizes of the short-term incentive and performance stock grants are determined based on discretionary assessments of individual performance in 3 categories, Financial Performance, Business Strength, and Organizational Strength. The performance stock’s vesting depends on Revenue Growth and Operating Margin.

**Detailed Description of Performance-Based Compensation Approach**

**Variable Compensation**(95% of compensation for CEO and NEOs)

* Financial Performance (50%)
* Business Strength (25%)
* Organizational Strength (25%)
* The Management Development and Compensation Committee’s assessments of the CEO and NEOs’ performance on the 3 components of incentive compensation determine the size of the current year’s incentive grants compared to those of the previous year (0-125% range)

**Performance Stock**(48% of compensation for CEO, 49% for NEOs)

* Payout determined using a matrix of performance on 2 metrics:
  + 3Y Average Adjusted Revenue Growth
  + 3Y Average Adjusted Operating Margin
* No shares will be earned in the event of flat or negative Average Revenue Growth and a below threshold Average Operating Margin (35.5% in FY24)

**One-Time Stock Option Grants**

* In May 2023, in addition to their performance stock and time-based stock grants, 4 of BlackRock’s 6 NEOs (excluding the CEO and President but including the retiring CFO) received performance-based stock option grants ranging from $2M to $8.5M that vest based on the achievement of 2 conditions:
  + Achievement of 30% absolute stock price appreciation over grant price of $673.58
    - For the hurdle to be achieved, BlackRock’s stock price needs to equal or exceed the hurdle for at least 60 consecutive calendar days within the 4Y performance period
    - As of the end of August 2024, BlackRock’s current stock price exceeds the hurdle ($875.65)
  + Achievement of positive Adjusted Revenue Growth over 3 years

**Comments**

* BlackRock takes a similar approach to banks and Chubb in determining its incentive compensation. It discretionarily determines payouts by holistically assessing individual and corporate performance without enumerating targets for the measures it considers. Like banks and Chubb, it then divides total incentive compensation into annual bonuses and long-term incentive compensation.
* BlackRock’s division of its short-term incentive plan into cash and equity components is replicated at several other companies we reviewed, including United Rentals and DR Horton. However, BlackRock’s equity vests ratably over 3Y, while United Rentals and DR Horton’s shares vest immediately. DR Horton’s equity must then be held for 2 additional years.

**Additional Detail on Metrics**

* Financial Performance includes measures, such as Adjusted Revenue Growth, Shareholder Return, Net New Base Fee Growth, Adjusted Operating Income, Adjusted Operating Margin, P/E, and Adjusted EPS for the CEO and President and more qualitative measures for other NEOs
* Business Strength includes the following categories for the CEO and President: Commitment to Clients, Growing with Clients’ Needs and Evolving to Serve Them, Leading in a Changing World, and Delivering Sustainable Solutions to Meet Client Demand. Other NEOs are measured using similar qualitative criteria.
* Organizational Strength includes the following categories for the CEO and President: Talent; Diversity, Equity, & Inclusion; Purpose & Culture; and Corporate Sustainability. Other NEOs are measured using similar qualitative criteria.
* Adjusted Revenue Growth measures BlackRock’s total net new business in a given year, including net new technology services revenue

**Financial Metric Adjustments**

* Adjusted Revenue Growth excludes the impact of market appreciation/depreciation and foreign exchange fluctuations
* Adjusted Operating Income excludes compensation related to appreciation/depreciation on deferred cash compensation plans, amortization of intangible assets, acquisition-related costs, restructuring charges, and other extraordinary costs. Adjusted EPS excludes similar items.
* Adjusted Operating Margin also excludes distribution fees and investment advisory fees

**FY23 Performance**

* Short-Term Incentives
  + The CEO and all other NEOs met or exceeded their targets on all determinants of incentive compensation
* FY21-FY23 Performance Stock (73% of target)
  + Revenue: 18% below target
  + Operating Margin: 210 bps below target
* For FY23, BlackRock’s 1Y TSR was 17.9%, and its 3Y TSR CAGR was 6.7%

**President’s Leadership Retention Award**

* BlackRock’s President and Co-Founder, Robert Kapito, upon retirement, will receive an undisclosed percentage of the profits (referred to as percentage points) from some of BlackRock’s private market funds in an arrangement similar to a private equity fund manager’s carried interest compensation. The value of the arrangement as of December 31, 2023 was $20.3M.

**Notes**

* We calculate the compensation mix using actual compensation because BlackRock does not disclose target amounts for each NEO, as short-term incentive pay is determined as a percentage of previous year incentive pay
* Performance stock is performance-based RSUs

# Constellation Energy

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Constellation Energy’s CEO’s pay mix is 9% base salary, 14% cash incentives, 52% performance stock, and 25% time-based stock, while the average mix of its other named executive officers (NEOs) is 21% base salary, 19% cash incentives, 40% performance stock, and 20% time-based stock. Constellation’s cash incentive plan is 70% based on Operating Income and 30% on Nuclear Fleetwide Capacity, Power Customer Satisfaction, Power Dispatch Match, and Renewable Energy Capture. Its performance stock plan is based 2/3 on Free Cash Flow Before Growth and 1/3 on Relative TSR and contains a Credit Rating Downgrade modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(14% of compensation for CEO, 19% for NEOs)

* Adjusted Operating Income (70%)
* Nuclear Fleetwide Capacity Factor (10%)
* Power Customer Satisfaction (10%)
* Power Dispatch Match (7%)
* Renewable Energy Capture (3%)

**Performance Stock**(52% of compensation for CEO, 40% for NEOs)

* Adjusted Free Cash Flow Before Growth (67%)
* 3Y Relative TSR compared to peer group (33%)
  + Starting in FY24, the peer group will consist of companies in similar industries and markets, with screening criteria, including market cap, capital intensity, long-lived assets, and sensitivity to commodity prices
* -25% to 0% modification based on Credit Rating Downgrade

**Comments**

* Constellation’s Credit Rating Downgrade modifier in its performance stock plan is unique amongst the companies we reviewed, as is the Free Cash Flow Before Growth metric

**Financial Metric Adjustments**

* Adjusted Operating Income excludes hedging losses/gains, decommission-related activity, asset impairments, divestiture-related costs, restructuring expenses, and retirement-related credits
* Adjusted Free Cash Flow Before Growth excludes non-recurring Capex, growth Capex, collateral, and impacts of changes in working capital
* The Credit Rating Downgrade modifier reduces the performance stock payout by 25% if both Moody’s and S&P downgrade CEG below investment grade, 10% if Moody’s and S&P downgrade CEG to low BBB equivalent, and 5% if one of the two agencies downgrades CEG to low BBB equivalent

**Additional Detail on Metrics**

* Power Customer Satisfaction contains 2 equally weighted components, Net Promoter Score (Commercial and Industrial Customer Loyalty) and CSAT (Residential Customer Satisfaction)

**FY24 Changes**

* The listed cash incentive and performance stock determinants reflect Constellation Energy’s compensation plans for FY24. Previously, Adjusted EBITDA accounted for 70% of the cash incentive plan payout, while Free Cash Flow Before Growth accounted for 100% of the performance stock payout.

**FY23 Performance**

* Cash Incentives (188% of target payout)
  + EBITDA: exceeded target by 30%
  + Nuclear Fleetwide Capacity Factor: exceeded target by 34 bps
  + Power Dispatch Match: exceeded target by 270 bps
  + Renewable Energy Capture: exceeded target by 10 bps
  + Power Customer Satisfaction: maximum payout
* FY21-FY23 Performance Stock (200% of target payout)
  + Free Cash Flow Before Growth: exceeded target by 35%
* For FY23, Constellation’s 1Y TSR was 37.2%

# Northrop Grumman

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Northrop Grumman’s CEO’s pay mix is 8% base salary, 16% cash incentives, 53% performance stock rights, and 23% time-based stock rights, while the average mix of its other named executive officers (NEOs) is 17% base salary, 17% cash incentives, 46% performance stock rights, and 20% time-based stock rights. Northrop Grumman’s cash incentive plan is based 90% on financial metrics (Operating Cash Flow, Operating Income, and Operating Margin), while its performance stock rights are based on 3 equally weighted metrics, Relative TSR, Free Cash Flow, and ROIC.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(16% of compensation for CEO, 17% for NEOs)

* Adjusted Operating Cash Flow (35%)
* Adjusted Operating Income (35%)
* Adjusted Operating Margin (20%)
* Non-Financial Metrics (10%)

**Performance Stock Rights**(53% of compensation for CEO, 46% for NEOs)

* 3Y Relative TSR; half compared to peer group and half to S&P Industrials (33%); awards are capped at 100% of target if 3Y Absolute TSR is negative
  + Peer group includes BAE Systems, Boeing, General Dynamics, Huntington Ingalls Industries, L3Harris Technologies, Leidos Holdings, Leonardo, Lockheed Martin, RTX Corporation, and Thales Group
* 3Y Cumulative Adjusted Free Cash Flow (33%)
* 3Y Average Adjusted ROIC (33%)

**Comments**

* Northrop Grumman’s compensation plans include similar metrics to L3Harris’ plans, with both companies including Operating Income and Operating Margin and a cash flow metric (L3Harris includes Free Cash Flow) in their cash incentive plans and Relative TSR and ROIC in their performance stock plans.
* Northrop Grumman does not include a safety metric, modifier, or threshold in its compensation plans, a variant of which is included in plans at Boeing, GE Aerospace, BAE, and Airbus

**Financial Metric Adjustments and Calculations**

* Adjusted financial metrics exclude impacts of asset sales and divestitures, after-tax impacts of discretionary pension contributions, intangible asset amortization, PP&E step-up depreciation, and other extraordinary items.
* Adjusted Operating Income measures segment operating income and excludes unallocated corporate expense, as well as intersegment sales

**Additional Detail on Metrics**

* Non-Financial Metrics measures the company’s performance on People (Diversity and Employee Experience), Environmental Sustainability, and Customer (Quality and Customer Satisfaction)

**FY23 Performance**

* Cash Incentives (157% of target payout)
  + Operating Cash Flow: exceeded target by 13%
  + Operating Income: exceeded target by 5%
  + Operating Margin: below target by 20 bps
  + Non-Financial Metrics: exceeded all targets except Customer Satisfaction
* FY21-FY23 Performance Stock (141% of target payout)
  + Free Cash Flow: exceeded target by 11%
  + ROIC: exceeded target by 20 bps
  + Relative TSR: 85th percentile of peer group, 70th percentile of S&P Industrials
* For FY23, Northrop Grumman’s 1Y TSR was -12.8%, and its 3Y TSR CAGR was 17.3%

**Notes**

* Percentages may not sum to 100% because of rounding
* Performance stock rights are restricted performance-based stock rights, and time-based stock rights are restricted stock rights. Earned restricted performance stock rights and restricted stock rights can be paid in shares, cash, or a combination of the two.

# Danaher Corporation

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Danaher’s CEO’s pay mix is 6% base salary, 17% cash incentives, 40% performance stock, and 37% stock options, while the average mix of its other named executive officers (NEOs) is 13% base salary, 20% cash incentives, 35% performance stock, and 33% stock options. Danaher’s cash incentive plan is based 60% on financial metrics (EPS, Free Cash Flow to Net Income Ratio, and Revenue Growth) and 40% on Individual Performance Assessments. Its performance stock plan is 100% based on Relative TSR and contains a ROIC modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(17% of compensation for CEO, 20% for NEOs)

* Individual Performance Assessment (40%)
* Adjusted EPS (36%)
* Adjusted Free Cash Flow to Net Income Ratio (12%)
* Adjusted Revenue Growth (12%)

**Performance Stock**(40% of compensation for CEO, 35% for NEOs)

* 3Y Relative TSR compared to S&P 500 (100%); awards are capped at 100% of target if 3Y Absolute TSR is negative
* -10% to 10% modification based on 3Y Average ROIC Change Compared to Base Year
  + + 10% if change ≥ 200 bps
  + 0 modification if 0 < change < 200 bps
  + -10% if change ≤ 0 bps
* Performance stock awards have a required 2Y holding period after vesting

**Comments**

* The only other Life Sciences Tools and Services company we examined, Thermo Fisher, has a 30% weighting on non-financial metrics in its cash incentive plan, with components related to strategic poisoning, ESG, and capital deployment
* Danaher targets the 55th percentile of the S&P 500 for its Relative TSR metric, which is higher than the 50th percentile targets of most other companies we reviewed. However, 25% of the performance stock award is guaranteed to vest if 3Y Absolute TSR is positive.

**Financial Metric Adjustments**

* Adjusted EPS and Free Cash Flow exclude amortization of acquisition-related intangibles, fair value net losses on investments, the impacts of acquisitions, impairments, litigation gains, and other extraordinary items
* Adjusted Revenue Growth excludes the impacts of acquisitions and currency fluctuations

**FY23 Performance**

* Cash Incentives (122% of target payout for CEO, 118% for average NEO)
  + Individual Performance Assessments: 165% rating for CEO, average rating of 156% for other NEOs
  + EPS: below target by 0.3%
  + Revenue Growth: below target by 1 pp
  + Free Cash Flow to Net Income: exceeded target by 1 pp
* FY21-FY23 Performance Stock (66% of target payout)
  + Relative TSR: 39th percentile of S&P 500
  + ROIC: exceeded base year ROIC by 519 bps
* For FY23, Danaher’s 1Y TSR was -1.2%, and its 3Y TSR CAGR was 5.9%

**One-Time Awards**

* In FY23, the SVP of Human Resources and Chief Science Officer received one-time special equity awards that are half restricted stock and half stock options

**Notes**

* Pay mixes may not sum to 100% because of rounding
* We calculate the compensation mix using actual compensation because Danaher does not disclose target amounts
* The performance stock and stock option weights in the CEO and NEOs’ pay mixes should be equal but are not likely because of the use of the Black-Scholes model to compute option value
* The NEO pay mix excludes the special equity awards 2 NEOs received in 2023

# CME Group

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**CME’s CEO’s pay mix is 11% base salary, 22% cash incentives, 33% performance stock, and 33% time-based stock, while the average mix of its other named executive officers (NEOs) is 20% base salary, 20% cash incentives, 30% performance stock, and 30% stock options. CME’s cash incentive plan is 100% based on Cash Earnings, while its performance stock plan contains 2 equally weighted metrics, Relative TSR and Net Profit Margin.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(22% of compensation for CEO, 20% for NEOs)

* Adjusted Cash Earnings (100%)
* Option for discretionary adjustment based on individual and company performance

**Performance Stock**(33% of compensation for CEO, 30% for NEOs)

* 3Y Relative TSR compared to S&P 500 (50%); awards are capped at 100% of target if 3Y Absolute TSR is negative
* 3Y Adjusted Net Profit Margin (50%)

**Comments**

* While Cash Earnings excludes stock-based compensation, CME does not exclude stock-based compensation from its calculation of Net Profit Margin. Cash Earnings can be regarded as a similar metric to Free Cash Flow, as it subtracts out capital expenditures.
* CME differs from its closest peer in the companies we reviewed, S&P Global, by not having non-financial metrics. S&P Global’s short-term incentive plan is 50% non-financial metrics, with the non-financial metrics pertaining to technology, operations, customer satisfaction, and growth.

**Financial Metric Adjustments and Calculations**

* Adjusted Cash Earnings start with net income and add back depreciation, stock-based compensation, amortization on purchased intangibles, and net interest expense and subtract out capital expenditures
* Adjusted Net Profit Margin excludes collateral income, licensing and other fee agreements, and custody income

**FY23 Changes**

* In FY23, CME added Net Profit Margin as a performance stock metric. Previously, the only metric was Relative TSR.

**FY23 Performance**

* Cash Incentives (198% of target payout)
  + Cash Earnings: exceeded target by 20%
* Performance Stock (169% of target payout)
  + Relative TSR: 67th percentile of S&P 500
* For FY23, CME’s 1Y TSR was 31.3%, and its 3Y TSR CAGR was 9.4%

**Notes**

* Pay mixes may not sum to 100% because of rounding

# MercadoLibre

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**MercadoLibre’s CEO’s pay mix is 4% base salary, 1% annual cash incentives, and 94% long-term cash incentives, while the average mix of its other named executive officers (NEOs) is 16% base salary, 4% annual cash incentives, and 81% long-term cash incentives. The annual cash incentive plan is based on Revenue, Operating Income, NPS, and Payment Volume and contains an individual performance modifier. The long-term cash incentives are equally split into time-based and stock price-linked components.

**Detailed Description of Performance-Based Compensation Approach**

**Annual Cash Incentives**(1% of compensation for CEO, 4% for NEOs)

* Adjusted Revenue (40%)
* Adjusted Operating Income (35%)
* Competitive Net Promoter Score (15%)
* Adjusted Total Payment Volume (10%)
* Individual Performance Factor multiplier (50-150%)

**Long-Term Cash Incentives**(94% of compensation for CEO, 81% for NEOs)

* Performance-based portion (50%): annual cash payments over 6Y performance period based on the quotient of the applicable year’s stock price and the stock price the year prior to the award grant. Both stock prices are determined based on the average of the last 60 trading days of the applicable year.
* Time-based portion (50%): equal annual cash payments over 6Y vesting period

**Comments**

* MercadoLibre’s long-term cash incentives are relatively uncommon amongst the companies we reviewed. Halliburton, Altria, and FedEx have long-term cash incentive programs but also award their executives equity in the form of performance stock, time-based stock, or stock options. MercadoLibre is unique in not distributing any equity to its executives. However, half of its long-term cash incentives are linked to stock price changes.
* MercadoLibre’s 6Y vesting period for its time-based cash incentive payments is longer than the 3-4Y vesting periods for equity compensation at most other companies we examined

**Financial Metric Adjustments**

* Financial metrics exclude Venezuela revenues and currency fluctuations

**Additional Detail on Metrics**

* Total Payment Volume measures the number of on platform, online payments aggregator, wallet, point, credit card, and prepaid transactions on Mercado Pago
* Competitive Net Promoter Score is measured by external surveys

**FY23 Performance**

* Annual Cash Incentives (110% of target company performance)
  + Revenue: exceeded target by 6%
  + Operating Income: exceeded target by 20%
  + Payment Volume: exceeded target by 16%
  + NPS: 250 bps below target
  + Individual Performance Factors: 150% for CEO, 100-150% for NEOs
  + For the 2 NEOs located in Argentina, the Compensation Committee approved a 36.5% increase in the bonus payout to minimize the income loss due to high inflation in the country
* For FY23, MercadoLibre’s 1Y TSR was 85.7%, and its 3Y TSR CAGR was -2.1%

**Notes**

* Pay mixes may not sum to 100% because of rounding

# Chubb

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Chubb’s CEO’s pay mix is 6% base salary, 32% cash incentives, and 62% performance stock, while the average mix of its other named executive officers (NEOs) is 13% base salary, 30% cash incentives, 51% performance stock, 3% stock options, and 2% time-based stock. The CEO’s variable compensation (cash incentives and long-term equity) is tied to the prior year’s compensation and based 75% on Financial Results and 25% on Operational and Strategic Goals, with modification based on Relative and Absolute TSR. NEOs’ total variable compensation is determined by unweighted, discretionary individual, company, and operating unit performance assessments. The performance stock vests primarily based on Book Value Per Share Growth and secondarily on Combined Ratio, with modification based on Relative TSR if performance metrics exceed the 75th percentile of the peer group.

**Detailed Description of Performance-Based Compensation Approach**

**Variable Compensation**(94% of compensation for CEO, 86% for NEOs)

* CEO Determinants
  + Financial Results (75%)
  + Operational and Strategic Goals (25%)
  + Modification based on 1Y and 3Y Relative and Absolute TSR (unspecified amount)
    - Relative TSR is compared to a peer group that includes Allstate, AIG, CNA Financial Corporation, The Hartford Financial Services Group, The Travelers Companies, and Zurich Insurance Group
* NEO Determinants (unweighted, discretionary)
  + Individual Performance Assessment
  + Company and Operating Unit Performance Assessment

**Performance Stock**(62% of compensation for CEO, 51% for NEOs)

* 3Y Relative Tangible Book Value Per Share Growth, compared to peers (75%)
  + Same peer group as above, other than Zurich Insurance Group
* 3Y Relative Property & Casualty Combined Ratio, compared to peers (25%)
  + Same peer group as above, other than Zurich Insurance Group
* Unspecified positive modification based on 3Y Relative TSR compared to peers if relative performance metrics exceed 75th percentile
  + Same peer group as in variable compensation

**Comments**

* Chubb takes a similar approach to BlackRock and Exxon in tying incentive pay to previous year compensation. However, unlike the other 2 companies, Chubb focuses entirely on relative performance for its performance stock vesting.
* Chubb provides limited disclosure on targets for its variable compensation determinants
* The Relative TSR modifier has a threshold (level below which no modification is made) of the 55th percentile, which is higher than the 50th percentile targets at most other companies we reviewed

**Additional Detail on Metrics**

* Financial Results includes Adjusted Operating Income, Adjusted Operating Return on Equity, Adjusted Return on Tangible Equity, Property and Casualty Ratio, and Tangible Book Value Per Share Growth and is evaluated on an absolute and relative (vs peers) basis
* Operational and Strategic Goals includes Execution of Growth Initiatives, Acquisitions and Integrations, Business Transformation, ESG, Digital Technology and Data Analytics, and Underwriting Portfolio Management Actions
* The determinants of NEOs’ variable compensation are similar to those of the CEO

**Financial Metric Adjustments**

* Adjusted Operating Income excludes net realized gains and losses, market risk benefit gains and losses, Cigna integration expenses, amortization of fair value adjustment of acquired invested assets, impacts of acquisitions and dispositions, and long-term debt related to certain acquisitions
* Adjusted Operating Return on Equity and Adjusted Return on Tangible Equity exclude the same items as Adjusted Operating Income, in addition to unrealized gains and losses on investments, current discount rate on future policy benefits, and instrument-specific credit risk on market risk benefits. Goodwill and other intangible assets also are excluded from Adjusted Return on Tangible Equity.
* The Property and Casualty Combined Ratio excludes the Life Insurance segment but includes the impact of realized gains and losses on crop derivatives

**FY23 Performance**

* In FY23, the CEO's variable compensation increased 12.7% YoY, while other NEOs' variable compensation increased 7-16%
* For FY23, Chubb’s 1Y TSR was 4.2%, and its 3Y TSR CAGR was 15.6%

**Notes**

* Pay mixes may not sum to 100% because of rounding
* Performance stock includes performance stock units and performance stock awards, while time-based stock includes restricted stock units and restricted stock awards

# Texas Instruments

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Texas Instruments’ CEO’s pay mix is 5% base salary, 12% cash incentives, 1% profit-sharing cash bonus, 41% stock options, and 41% time-based stock, while the average mix of its other named executive officers (NEOs) is 11% base salary, 18% cash incentives, 2% profit-sharing cash bonus, 35% stock options, and 35% time-based stock. The cash incentive plan is based on the Board’s discretionary assessments of corporate and individual performance across a range of financial and strategic factors. The profit-sharing bonus is paid out as a proportion of an executive officer’s base salary and is determined by Operating Margin.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(12% of compensation for CEO, 18% for NEOs)

* The Compensation Committee determines the YoY change in CEO and NEOs’ cash incentive bonuses based on a holistic assessment of the following components:
  + 1Y and 3Y Absolute and Relative Revenue Growth compared to semiconductor peers
  + 1Y and 3Y Absolute and Relative Operating Margin compared to semiconductor peers
  + 1Y and 3Y Absolute and Relative TSR compared to semiconductor peers
  + Strategic Performance Assessment
  + Individual Performance Assessment

**Profit-Sharing Cash Bonus**(1% of compensation for CEO, 2% for NEOs)

* Operating Margin (100%)
  + Operating Margin <10%: no profit sharing
  + Operating Margin at 10%: payout of 2% of base salary
  + Operating Margin > 10%: increase by 0.5% of base salary for each percentage point between 10% and 24% and by 1% of base salary for each percentage point above 24%; maximum payout is 20% of base salary

**Comments**

* Texas Instruments and TSMC both have profit-sharing cash bonuses. However, they are structured differently. Texas Instruments’ plan is based entirely on Operating Margin and can total up to 20% of base salary, while TSMC is required under its plan to pay a profit-sharing bonus that is on aggregate, at least 1% of annual profits (likely Net Income).
* Texas Instruments targets net annual dilution from equity compensation under 2%. Equity awards granted in 2023 resulted in 0.5% net annual dilution.
* Texas Instruments' holistic approach for its cash incentive plan is similar to the holistic performance assessments banks use to determine variable compensation grants

**Additional Detail on Metrics**

* Strategic Performance Assessment assesses the company’s strategic positioning (includes primary goal of free cash flow per share growth and ESG considerations), operating performance, revenue growth, competitiveness in key markets, and strength of relationships with customers

**FY23 Performance**

* Cash Incentives (CEO and NEO bonuses reduced 10%)
  + In FY23, the Compensation Committee decided to reduce the CEO and NEOs’ cash incentive bonuses by 10% because the company fell below the median of its peer group for Revenue Growth and TSR and above the median for Operating Profit Margin
* Profit-Sharing Cash Bonus (maximum payout of 20% of base salary)
  + Operating Margin of 41.8% far exceeded the threshold of 10%
* For FY23, Texas Instruments’ 1Y TSR was 6.4%, and its 3Y TSR CAGR was 4.1%

**Notes**

* Pay mixes may not sum to 100% because of rounding
* We calculate the compensation mix using actual compensation because Texas Instruments does not provide target amounts, as it uses a lookback approach for its cash incentive plan

# United Rentals

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**United Rentals’ CEO’s pay mix is 11% base salary, 17% short-term incentives (57% in cash, 43% in vested shares), 58% performance stock, and 14% time-based stock, while the average mix of its other named executive officers (NEOs) is 23% base salary, 20% short-term incentives (57% in cash, 43% in vested shares), 40% performance stock, and 17% time-based stock. The short-term incentive plan contains 2 equally weighted metrics, EBITDA and Economic Profit Improvement, as well as a Strategic Factors Assessment modifier. The performance stock plan is based on 2 equally weighted metrics, Revenue and ROIC.

**Detailed Description of Performance-Based Compensation Approach**

**Short-Term Incentives**(17% of compensation for CEO, 20% for NEOs)

* Adjusted EBITDA (50%)
* Adjusted Economic Profit Improvement (50%)
* -10% to 10% modification based on Strategic Factors Assessment

**Performance Stock**(58% of compensation for CEO, 40% for NEOs)

* Adjusted Revenue (50%), annual targets for 3 years
* Adjusted ROIC (50%), annual targets for 3 years

**Comments**

* United Rentals' division of its short-term incentive plan into cash and equity components is replicated at several other companies we reviewed, including BlackRock and DR Horton. BlackRock’s equity vests over 3Y, while United Rentals and DR Horton’s shares vest immediately. DR Horton’s equity must then be held for 2 additional years.
* Adjusted EBITDA excludes stock-based compensation

**Financial Metric Adjustments**

* Adjusted EBITDA excludes stock-based compensation, currency fluctuations, merger-related costs, restructuring charges, and the impact of fair value mark-ups of acquired fleet
* Adjusted Economic Profit Improvement, ROIC, and Revenue exclude currency fluctuations

**Additional Detail on Metrics**

* Adjusted Economic Profit Improvement measures the YoY spread between ROIC and the weighted cost of capital (assumed to be 10%)
* Strategic Factors Assessment measures the company’s performance across 3 categories (Environment, Customer Sustainability, and Social Measures). Environment includes greenhouse gas emissions intensity reduction; Customer Sustainability includes Net Promoter Score and Customer Digital Adoption; and Social Measures includes Employee Safety, Diversity, and Employee Retention. Strategic Factors Assessment also includes an individual performance assessment.

**FY23 Performance**

* Short-Term Incentives (105% of target payout)
  + EBITDA: exceeded target by 0.5%
  + Economic Profit Improvement: exceeded target by 8%
  + Strategic Factors Assessment: 280 bps downward modification
* FY23 Performance Stock (112% of target payout)
  + Revenue: exceeded target by 0.8%
  + ROIC: exceeded target by 8 bps
* For FY23, United Rentals’ 1Y TSR was 63.6%, and its 3Y TSR CAGR was 35.9%

# Chevron

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Chevron’s CEO’s pay mix is 8% base salary, 14% cash incentives, 39% performance stock, 20% time-based stock, and 20% stock options, while the average mix of its other named executive officers (NEOs) is 15% base salary, 18% cash incentives, 34% performance stock, 17% time-based stock, and 17% stock options. Chevron’s discretionary cash incentive payouts are tied to quantitative targets related to Financial Results, Capital & Cost Management, Operating & Safety Performance, and Lower Carbon, as well as an Individual Performance Modifier. Its performance stock plan is based primarily on Relative TSR and secondarily on Relative Return on Capital Employed (ROCE). Performance stock payouts can be reduced if 3Y Absolute TSR is negative.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(14% of compensation for CEO, 18% for NEOs)

* Financial Results (35%), unweighted components, but targets for each
  + Adjusted Return on Capital Employed
  + Free Cash Flow, Excluding Working Capital
  + 3Y Average Relative Adjusted EPS compared to peer group
    - Peer group includes BP, Exxon Mobil, Shell, and TotalEnergies
* Capital & Cost Management (30%), unweighted components
  + Operating Expenses, Excluding Fuel and Transportation
  + Organic Capital Expenditures
  + Future Growth Project Milestone
* Operating & Safety Performance (25%), unweighted components
  + Personal Safety (Fatalities and Serious Injuries)
  + Process Safety
  + Adjusted Net Production, Excluding Asset Sales
  + Refinery Operational Availability
* Lower Carbon (10%), unweighted components
  + Greenhouse Gas Management
  + Equity Renewable Fuels Production
  + Hydrogen Project Progress
  + Carbon Capture, Utilization, & Storage
* Individual Performance multiplier (75-125%)

**Performance Stock**(39% of compensation for CEO, 34% for NEOs)

* 3Y Relative TSR compared to S&P 500 Index and peers (70%)
  + Same peer group as above
* 3Y Relative Adjusted ROCE compared to peers (30%)
  + Same peer group as above
* 20% downward modification in event of negative 3Y Absolute TSR

**Comments**

* While Chevron’s cash incentive categories appear discretionary and resemble the approach taken at other cyclical companies, Chevron has quantitative targets for its sub-metrics and assigns raw score ranges to each category. ConocoPhillips takes a similar approach to Chevron. It discretionarily determines payouts for most sub-metrics based on performance against pre-established quantitative targets and employs a formula to calculate payouts for its ROCE metric.
* Chevron has a different negative Absolute TSR modifier/threshold design than other companies, which tend to cap payouts at 100% of target if Absolute TSR is negative. Instead, Chevron reduces performance stock payouts by 20% in the event of negative Absolute TSR.
* Chevron’s time-based stock vests over 3Y, and vested stock is subject to an additional 2Y holding period

**Financial Metric Adjustments**

* Adjusted ROCE excludes impacts of divestitures, impairments, asset sales, and foreign currency fluctuations. Adjusted EPS excludes the same items, except for foreign currency fluctuations.
* Organic Capital Expenditures excludes acquisition costs, but includes investments in assets post-acquisition
* Adjusted Net Production is price-adjusted

**Additional Detail on Metrics**

* The FY23 Future Growth Project Milestone was completion of a scope for the Wellhead Pressure Management Project at Chevron’s 50% owned affiliate, Tengizchevroil

**FY23 Changes**

* In FY23, Chevron changed its long-term incentive plan by adding a negative Absolute TSR modifier to the performance stock plan and settling time-based awards in equity rather than cash as was done in prior years. It also changed the time-based stock vesting from 5Y cliff vesting to 3Y ratable vesting and added a 2Y holding period requirement.

**FY23 Performance**

* Cash Incentives (95% of target payout for company performance)
  + ROCE: below target by 540 bps
  + Free Cash Flow: below target by 33%
  + Operating Expenses: outperformed target by 3%
  + Future Growth Project Milestone: achieved target
  + Organic Capital Expenditures: underperformed target by 9%
  + Operating & Safety Performance: target performance
  + Lower Carbon: exceeded target
  + Individual Performance Modifiers: -10% for CEO, -15% to 5% for NEOs
* FY21-FY23 Performance Stock (79% of target payout)
  + Relative TSR: 4th out of 5 in oil peer group and 4th out of 6 in oil peer group with S&P 500 included
  + Relative ROCE: 4th out of 5 in oil peer group
* For FY23, Chevron’s 1Y TSR was -13.6%, and its 3Y TSR CAGR was 26%

**Notes**

* Pay mixes may not sum to 100% because of rounding

# CVS Health

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**CVS’ CEO’s pay mix is 8% base salary, 15% cash incentives, 46% performance stock, 15% time-based stock, and 15% stock options, while the average mix of its other named executive officers (NEOs) is 13% base salary, 20% cash incentives, 40% performance stock, 13% time-based stock, and 13% stock options. CVS’ cash incentive plan is based 80% on Operating Income and 20% on Net Promoter Score and contains Workforce and Individual Performance modifiers. CVS’ performance stock plan is based 70% on EPS and 30% on Strategic Initiatives Progress and contains a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(15% of compensation for CEO, 20% for NEOs)

* Adjusted Operating Income (80%)
* Net Promoter Score (20%)
* Individual Performance Factor multiplier (0-120%)
* At most 10% of downward modification based on Workforce Modifier

**Performance Stock**(46% of compensation for CEO, 40% for NEOs)

* 3Y Cumulative Adjusted EPS (70%)
* Strategic Initiatives Progress (30%)
* -25% to 25% modification based on 3Y Relative TSR compared to S&P 500 Health Care Index; no upward modification if 3Y Absolute TSR is negative
* Performance stock awards have a required 2Y holding period after vesting

**Comments**

* Compared to the other Health Care Providers and Services companies we examined (Molina and UnitedHealth), CVS’ cash incentive plan has a similar weighting for non-financial metrics (20% vs 25% at UnitedHealth and 30% at Molina)
* CVS’s ESG modifier is unique in that most companies with ESG modifiers (e.g., United Rentals and Mastercard) will have opportunities for positive and downward modification. CVS’ modifier is only downward.

**Financial Metric Adjustments**

* Adjusted Operating Income and Cumulative Adjusted EPS exclude the impact of amortization of intangible assets, acquisition-related transaction and integration costs, impacts of acquisitions, restructuring charges, gains/losses on sales, opioid litigation charges, divestiture-related costs, and other extraordinary items

**Additional Detail on Metrics**

* The Individual Performance Factor multiplier evaluates executives on Leadership, Business Results (primarily financial for CEO and CFO), and People
* The Workforce Modifier measures progress on senior leader diversity
* The Strategic Initiatives Progress metric will be evaluated over 3 years and pertains to strategic initiatives discussed at the December 2023 Investor Day

**FY24 Changes**

* The above information reflects CVS’ proposed executive compensation for FY24. In prior years, Adjusted EPS accounted for 100% of performance stock vesting, and performance stock and stock options comprised 75% and 25% respectively of long-term incentive pay.

**FY23 Performance**

* Cash Incentives (100% of target payout for CEO, 83-100% for NEOs)
  + Operating Income: below target by 3%
  + Net Promoter Score: exceeded target by 1%
  + Workforce Modifier not applied
  + Individual Performance Factors: 120% for CEO, 100-110% for NEOs
* FY21-FY23 Performance Stock (103% of target payout)
  + EPS: achieved target
  + Relative TSR: 53rd percentile of S&P 500 Health Care Index
* For FY23, CVS’ 1Y TSR was -12.5%, and its 3Y TSR CAGR was 7.8%

**Notes**

* Pay mixes may not sum to 100% because of rounding

# Freeport-McMoRan

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Freeport’s CEO’s pay mix is 10% base salary, 18% cash incentives, 54% performance stock, and 18% time-based stock, while the average mix of its other named executive officers (NEOs) is 16% base salary, 22% cash incentives, 34% performance stock, and 28% time-based stock. Freeport’s cash incentive plan is based 75% on financial metrics (EBITDA, Copper and Gold Sales, and Unit Cash Costs) and 25% on Safety, Sustainability, and Smelter Project Construction Progress. Its performance stock plan is 100% based on Return on Investment and contains a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(18% of compensation for CEO, 22% for NEOs)

* Adjusted EBITDA (30%)
* Copper Sales (billions of pounds) (20%)
* Total Recordable Incident Rate (15%)
* Sustainability Scorecard (10%)
* Adjusted Consolidated Unit Net Cash Costs in $/pound (10%)
* Gold Sales (millions of ounces) (7.5%)
* Smelter Project Construction Progress (7.5%)
* The Board can make discretionary adjustments to payouts based on corporate performance

**Performance Stock**(54% of compensation for CEO, 34% for NEOs)

* 3Y Average Adjusted Return on Investment (100%)
* -25% to 25% of modification based on 3Y Relative TSR compared to peer group
  + Relative TSR ranked 1st-3rd out of 9: + 25% modification
  + Relative TSR ranked 4th-6th out of 9: no modification
  + Relative TSR ranked 7th-9th out of 9: -25% modification
  + Peer group includes Anglo American, Antofagasta, BHP Group, Glencore, Rio Tinto, Southern Copper Corporation, Teck Resources, and Vale

**Comments**

* Freeport is one of a few companies we reviewed where the Board used its discretion to reduce incentive payouts. In FY23, it reduced cash incentive payouts by 12% due to high-risk incidents and product challenges that impacted bonus payments for non-executives.
* Adjusted financial metrics exclude stock-based compensation
* Freeport takes a different approach to incentive compensation than Glencore, the only other metals and mining company we reviewed. Freeport awards its executives cash incentives, performance stock, and time-based stock and enumerates targets for each of its performance metrics. Starting in FY25, Glencore’s CEO will receive a base salary and career shares, which will cliff vest in 3Y based on the Board’s discretionary assessment of the company’s performance on several financial, strategic, and ESG metrics over the past 3 years. Glencore’s holistic approach resembles the approaches of oil and gas companies, such as EOG Resources, Chevron, and ConocoPhillips, who discretionarily determine cash incentive compensation. However, these companies enumerate targets for their cash incentive metrics and employ formulaic payouts for their performance stock plans.

**Financial Metric Adjustments and Calculations**

* Adjusted EBITDA excludes stock-based compensation, commodity hedges, early extinguishment of debt, litigation expenses, impairment charges, and other extraordinary items
* Adjusted Consolidated Unit Net Cash Costs excludes stock-based compensation, impairment costs, idle facility costs, feasibility and optimization study costs, restructuring expenses, and other unusual expenses
* Adjusted Return on Investment is calculated as Managed Income (after-tax income before non-controlling interests, adjusted for after-tax interest and nonrecurring items) divided by total invested capital adjusted for invested capital on major projects not in service

**Additional Detail on Metrics**

* Sustainability Scorecard includes the following categories: Copper Mark and Molybdenum Mark, Climate, Tailings Management, Workforce, and Human Rights
* Smelter Project Construction Progress measures the percentage of total construction the company has completed on its Manyar smelter project in Indonesia

**FY23 Performance**

* Cash Incentives (100% of target payout)
  + EBITDA: 3% below target
  + Copper Sales: 2% below target
  + Gold Sales: achieved target
  + Recordable Incident Rate: exceeded target by 11%
  + Sustainability Scorecard: exceeded target by 105 bps
  + Total Recordable Incident Rate: outperformed (fell below) target by 11 pp
  + Unit Net Cash Costs: exceeded target by 0.6%
  + Smelter Project Construction Progress: exceeded target by 50 bps
  + The Compensation Committee decided to reduce cash incentive payments from 112% of target to 100% based on high-risk incidents and production challenges that impacted bonus payments for non-executives
* FY21-FY23 Performance Stock (202% of target payout)
  + ROI: exceeded target by 770 bps
  + Relative TSR: 3rd out of 9 in peer group
* For FY23, Freeport-McMoRan’s 1Y TSR was 13.7%, and its 3Y TSR CAGR was 19.4%

**Notes**

* Percentages may not sum to 100% because of rounding

# Chipotle Mexican Grill

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Chipotle’s CEO’s pay mix is 7% base salary, 13% cash incentives, 48% performance stock, and 32% stock appreciation rights, while the average mix of its other named executive officers (NEOs) is 12% base salary, 12% cash incentives, 46% performance stock, 23% stock appreciation rights, and 8% time-based stock. Chipotle’s cash incentive plan is tied 75% to growth and profitability metrics (Comparable Restaurant Sales Growth, Restaurant Cash Flow Margin, and Site Assessment Requests) and 25% to Individual Performance Assessments. The cash incentive plan also contains modifiers for Brand Purpose and Food Safety. Chipotle's performance stock plan is based 90% on Restaurant Cash Flow and 10% on Net New Restaurants. Performance stock awards are capped at 100% of target if 3Y Relative TSR is below the 25th percentile of the S&P 500.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(13% of compensation for CEO, 12% for NEOs)

* Comparable Restaurant Sales Growth (30%)
* Restaurant Cash Flow Margin (30%)
* Individual Performance Assessment (25%)
* Site Assessment Requests (15%)
* -15% to 15% modification based on Brand Purpose Modifier
* -20% to 0% modification based on Food Safety Modifier

**Performance Stock**(48% of compensation for CEO, 46% for NEOs)

* 3Y Cumulative Adjusted Restaurant Cash Flow (90%)
* 3Y Cumulative Net New Restaurants (10%)
* Awards at capped at 100% of target if 3Y Relative TSR is below the 25th percentile of the S&P 500

**Comments**

* Chipotle grants its executives restricted stock units when short-term incentive payouts exceed 200% of target. The restricted stock units then vest over 3Y.
* While poor Relative TSR performance caps payouts for Chipotle’s performance stock at 100% of target, the other 3 restaurant chains we reviewed (McDonald’s, Restaurant Brands International, and Yum) include Relative TSR measures more directly in their performance stock plans. McDonald's and Yum have 25% Relative TSR modifiers, while Restaurant Brands International bases 100% of performance stock vesting on Relative TSR.

**Financial Metric Adjustments**

* Cumulative Adjusted Restaurant Cash Flow excludes cash flow from restaurants opened after the start of the year to address unpredictable timelines for restaurant openings

**Additional Detail on Metrics and Compensation Plan**

* Site Assessment Requests is a measure of inventory for new restaurants over the next 18-24 months
* Brand Purpose Modifier contains 3 equally weighted components: Food & Animals (Pounds of Local Produce Purchased), People (Turnover of Diverse Employees Compared to Non-Diverse Employees), and Environment (Number of Restaurants Composting)
* Chipotle gives its CEO and NEO the choice of restricted stock units or stock appreciation rights for 20% of their long-term equity grants. 2 NEOs opted for restricted stock units, decreasing stock appreciation rights’ share of total compensation for the average NEO.

**FY23 Performance**

* Cash Incentives (223% of target payout for CEO, 216-220% for NEOs)
  + Comparable Restaurant Sales Growth: exceeded target by 500 bps
  + Restaurant Cash Flow Margin: exceeded target by 150 bps
  + Site Assessment Requests: exceeded target by 7%
  + Individual Performance Assessments: 225% for CEO, 200-215% for NEOs
  + Brand Purpose Modifier: + 5% due to outperformance in Food & Animals
  + Food Safety Modifier: no modification
* FY21-FY23 Performance Stock (278% of target payout)
  + Determined based on matrix of 3Y Comparable Restaurant Sales Growth and 2Y Average Restaurant Cash Flow Margin
* For FY23, Chipotle's1Y TSR was 64.8%, and its 3Y TSR CAGR was 18.1%

**Notes**

* Pay mixes may not sum to 100% because of rounding
* In calculating compensation mixes, we exclude restricted stock awarded in cases where short-term incentive compensation exceeds 200% of target because it does not represent the target mix

# Booking Holdings

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Booking’s CEO’s pay mix is 3% base salary, 7% cash incentives, 54% performance stock, and 36% time-based stock, while the average mix of its other named executive officers (NEOs) is 6% base salary, 11% cash incentives, 50% performance stock, and 33% time-based stock. Booking’s cash incentive plan contains 2 equally weighted metrics, EBITDA, and Revenue, while its performance stock plan contains 3Y cumulative versions of the same 2 metrics, as well as a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(7% of compensation for CEO, 11% for NEOs)

* Adjusted EBITDA Growth (50%)
* Adjusted Revenue Growth (50%)
* The Board can make discretionary adjustments to payouts based on individual and corporate performance

**Performance Stock**(54% of compensation for CEO, 50% for NEOs)

* 3Y Cumulative Adjusted EBITDA (50%)
* 3Y Cumulative Adjusted Revenue (50%)
* -25% to 25% of modification based on 3Y Relative TSR compared to peers
  + Peer group includes 34 companies in the travel industry, including Airbnb, Avis Budget Group, Expedia, Hilton Worldwide Holdings, Royal Caribbean, and United Airlines
* Payouts capped at 100% of target if 3Y Absolute TSR is negative

**Comments**

* Booking excludes stock-based compensation from its Adjusted EBITDA metric. In FY23, according to Booking’s proxy filing, its stock-based compensation resulted in less than 0.7% of stockholder dilution, positioning them in the bottom quartile of their peers.
* Booking’s Adjusted EBITDA metric is similar to a free cash flow metric, as it includes capital expenditures
* In FY24, after the Talent and Compensation Committee exercised its discretion to increase FY23 cash incentive payouts by ~70% based on its assessment of strong individual performance, Booking decided that, going forward, the Board will not be able to adjust cash incentives above 200% of target
* Booking has a wider Relative TSR target than most other companies we reviewed (40th-60th percentile vs typical 50th percentile)

**Financial Metric Adjustments**

* Adjusted EBITDA excludes stock-based compensation expenses, impacts of acquisitions, and foreign exchange fluctuations and treats all capital expenditures as expenses
* Adjusted Revenue excludes acquisition-related revenue and foreign exchange fluctuations

**FY24 Changes**

* The above information reflects Booking’s proposed executive compensation for FY24. In FY24, Booking changed the long-term incentive compensation mix from 75% performance stock and 25% time-based stock to 60% performance stock and 40% time-based stock.

**FY23 Performance**

* Cash Incentives (270% of target payout)
  + Revenue Growth: exceeded target by 12 pp
  + EBITDA: exceeded target by 19 pp
  + The Talent and Compensation Committee exercised its discretion to increase cash incentive payouts by ~70% based on its assessment of strong individual performance
* Performance Stock (200% of target payout for FY23 tranche of FY21 and FY22 awards)
* For FY23, Booking’s 1Y TSR was 76%, and its 3Y TSR CAGR was 16.8%

# Keurig Dr Pepper

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Keurig Dr Pepper’s CEO’s pay mix is 18% base salary, 27% cash incentives, and 56% time-based stock, while the average mix of its other named executive officers (NEOs) is 27% base salary, 21% cash incentives, and 52% time-based stock. Keurig Dr Pepper’s cash incentive plan is primarily based on Operating Income and secondarily on Revenue and Free Cash Flow.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(27% of compensation for CEO, 21% for NEOs)

* Adjusted Operating Income (60%)
* Adjusted Revenue (30%)
* Free Cash Flow (10%)

**Matching Share Program**

* In addition to the above compensation components, each executive officer is eligible to receive additional, matching time-based stock grants for share purchases once the executive officer acquires enough shares to meet their respective minimum commitment amount
* In FY20, Keurig Dr Pepper’s CEO received a $25M matching grant. 75% of the shares have performance vesting conditions pertaining to the company’s 1Y, 2Y, and 3Y Relative TSR compared to the S&P 500. Two other NEOs received $11M and $5M matching RSU grants after they purchased equivalent share amounts under the matching program.
* For the CEO’s award, half of the tranche that is contingent on the 2Y Relative TSR vested, while the remaining performance-based shares did not vest because the company’s TSRs were below the S&P 500 median.

**Comments**

* Keurig Dr Pepper excludes stock-based compensation from Adjusted Operating Income
* Keurig Dr Pepper’s executives receive a much higher proportion of their compensation in cash and short-term incentives than peers. Base salary and short-term incentives account for 45% of KDP’s CEO’s compensation, compared to a 24% average for the other US companies we reviewed.
* Keurig Dr Pepper’s time-based stock vests 60% after 3Y and 20% in years 4 and 5, compared to the 3-4Y vesting periods at most other US companies we examined

**Financial Metric Adjustments**

* Adjusted Operating Income excludes stock-based compensation, currency fluctuations, impacts of cash incentives, mark to market losses/gains, amortization of intangibles, amortization of deferred financing costs, restructuring costs, productivity expenses, impairment charges, transaction costs, and other extraordinary items
* Adjusted Revenue excludes currency fluctuations

**Additional Detail on Metrics**

* For business unit executives, their cash incentives metrics are weighted 75% for enterprise-wide performance and 25% for business unit performance

**FY23 Performance**

* Cash Incentives (78% of target payout)
  + Operating Income: 3% below target
  + Revenue: 0.1% below target
  + Free Cash Flow: 62% below target
* For FY23, Keurig Dr Pepper’s 1Y TSR was -4.2%, and its 3Y TSR CAGR was 3.6%

**One-Time Awards**

* In recent years, Dr Pepper has granted large, one-time stock awards to executive officers who were recently promoted or hired into the role from another company. In FY20, it gave a $15M RSU award and a $5.5M cash bonus to its new President of Coffee and a $5M RSU award to its newly promoted President of Cold Beverages.

**Notes**

* Pay mixes may not sum to 100% because of rounding
* The CEO’s compensation mix does not reflect the one-time award he received in FY20

# Union Pacific

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Union Pacific’s CEO’s pay mix is 8% base salary, 15% cash incentives, 46% performance stock, and 31% stock options, while the average mix of its other named executive officers (NEOs) is 15% base salary, 19% cash incentives, 40% performance stock, and 26% stock options. Union Pacific’s cash incentive plan is based 70% on financial metrics (Operating Income and Operating Ratio) and 30% on discretionary non-financial metrics (Strategic Scorecard and Individual Performance Assessment). Its performance stock plan is 2/3 based on ROIC and 1/3 on Relative Operating Income Growth.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(15% of compensation for CEO, 19% for NEOs)

* Operating Income (35%)
* Adjusted Operating Ratio (35%)
* Strategic Scorecard (20%)
* Individual Performance Assessment (10%)

**Performance Stock**(46% of compensation for CEO, 40% for NEOs)

* 3Y Average Adjusted ROIC (67%)
* 3Y Relative Operating Income Growth compared to S&P 100 Industrials Index and Class I railroads (33%)

**Comments**

* In contrast to most other companies we have examined that have broad non-financial metrics, Union Pacific has quantitative targets for its Strategic Scorecard components. However, Union Pacific determines payouts for this metric on a discretionary basis.
* FedEx is the closest peer to UNP that we reviewed. Its short-term incentive plan is entirely based on Operating Income, while its long-term performance compensation is based 50% on EPS, 25% on ROIC, and 25% on Relative TSR.

**Financial Metric Adjustments**

* Adjusted Operating Ratio is measured based on the fuels prices assumed in the approved financial plan to mitigate the impact of fuel price fluctuations
* Adjusted ROIC excludes gains on sales of real estate, tax adjustments, accounting changes, reclassifications, and other non-recurring items

**Additional Detail on Metrics**

* Strategic Scorecard evaluates the company’s performance on its strategic goals in areas, such as Safety, Customer Service, Trip Plan Compliance, Market Share, Employee Engagement, and Renewable Fuel Blend

**FY24 Changes**

* In FY24, the CEO’s base salary increased 8%, while other NEOs’ base salaries increased 6-10%

**FY23 Performance**

* Cash Incentives (40% of target payout)
  + Operating Income: 11% below target
  + Operating Ratio: 250 bps below target
  + Strategic Scorecard: 80% of target payout
  + Individual Performance Assessments: 100% for CEO and NEOs
* FY21-FY23 Performance Stock (126% of target payout)
  + ROIC: exceeded target by 110 bps
  + Operating Income Growth: 48th percentile of peer group
* For FY23, Union Pacific’s 1Y TSR was 21.6%, and its 3Y TSR CAGR was 8%

**Notes**

* Pay mixes may not sum to 100% because of rounding
* The CEO pay mix reflects the compensation for the previous CEO who was in the position until August 14, 2023. The new CEO appears to have a similar compensation mix.

# Boeing

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**The following information reflects the compensation plan of Boeing’s previous CEO, Dave Calhoun. Boeing’s CEO’s pay mix is 6% base salary, 11% cash incentives, 46% performance stock, and 37% time-based stock, while the average mix of its other named executive officers (NEOs) is 11% base salary, 13% cash incentives, 42% performance stock, and 34% time-based stock. Boeing’s cash incentive plan is based 75% on Financial Performance (Free Cash Flow, Revenue, EPS, and Operating Income at corporate and business unit levels) and 25% on non-financial metrics, such as Production Stability and Quality, Employee Safety, Climate, and DE&I. The cash incentive plan also includes an individual performance modifier. Boeing’s performance stock plan is 100% based on Free Cash Flow and contains a Product Safety Modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(11% of compensation for CEO, 13% for NEOs)

* Financial Performance (75%)
  + Company Performance (67%)
    - Free Cash Flow (75%)
    - Revenue (12.5%)
    - Adjusted EPS (12.5%)
  + Business Unit Performance (33%)
    - 50% Revenue
    - 50% Operating Income
* Production Stability (5%)
* Production Quality (5%)
* Employee Safety (5%)
* Climate (5%)
* Equity, Diversity, & Inclusion (5%)
* Individual Performance Factor multiplier (0-120%)

**Performance Stock**(46% of compensation for CEO, 42% for NEOs)

* 3Y Cumulative Free Cash Flow (100%)
* -25% to 0% modification based on Product Safety Modifier
* Executives must complete the Safety Management System training during the grant year for the awards to vest

**Comments**

* Boeing’s former CEO, Dave Calhoun, declined his cash incentive payout for FY23 because of the Alaska Airlines incident
* In FY24, the Compensation Committee decided to reduce each executive’s long-term incentive award by the percentage decline in Boeing’s stock price between the Alaska Airlines incident and the grant date (22%)
* Like Boeing, GE, BAE, and Airbus also include safety metrics or modifiers in their short-term incentive plans
* Boeing does not include a return metric (e.g., ROIC and ROE) in its long-term incentive plan, while 5 of the 8 other aerospace and defense companies we reviewed do. Like Boeing, 4 of the 8 other aerospace and defense companies include Free Cash Flow in their long-term incentive plans.

**Financial Metric Adjustments**

* Adjusted EPS adjusts for pension and postretirement accounting costs

**Additional Detail on Metrics**

* For executive officers, including the CEO and CFO, who are not aligned to a specific business unit, business unit performance is calculated as the average of Boeing’s 3 business units
* Production Stability measures the percentage improvement in delivery performance against plan. It is the only non-financial metric that is measured on a business unit level.
* Product Quality measures the percentage reduction in rework
* Employee Safety measures the percentage reduction in OSHA recordable case rate
* Climate measures the percentage reduction in energy consumption compared to the most recent full production year
* Equity, Diversity, & Inclusion measures the percentage of managers and executives that are diverse.
* The Product Safety Modifier assesses the company’s progress on 2 goals over the next 3 years: the design and deployment of employee climate survey aimed at assessing the inculcation of a Safety Management System in the culture and the development and implementation of operational control limits for several programs
* For 2023, individual performance against product safety metrics was a component of the individual performance assessment

**Recent Changes**

* The above metrics reflect the FY24 proposed compensation plan. In FY24, Boeing added a downward Product Safety Modifier to its performance stock plan.
* In FY23, Boeing eliminated stock options from its compensation mix

**FY23 Performance**

* Cash Incentives (CEO declined award, 8-18% of target payout)
  + Free Cash Flow: 12% below target
  + EPS: underperformed payout threshold
  + Revenue: 3% below target
  + Commercial Airplanes: underperformed targets
  + Defense, Space, & Security: underperformed targets
  + Global Services: exceeded targets
  + Operational Performance Metrics: 136% of target payout, maximum for Employee Safety; Climate, and Equity, Diversity, & Inclusion; below threshold for Product Quality and below targets for Product Stability
* FY21-FY23 Long-Term Incentive Awards
  + Premium-priced stock options were issued with an exercise price that was 120% of grant date fair market value; no exercisable value on vesting date
* For FY23, Boeing’s 1Y TSR was 36.8%, and its 3Y TSR CAGR was 6.8%

**Matching Awards**

* In FY23, Boeing’s former CEO received a special matching award of more than $5.4M in RSUs to match the number of shares he had purchased on the open market. Keurig Dr. Pepper has a similar matching program.

**Notes**

* Performance stock is performance-based restricted stock
* Boeing’s CEO’s compensation mix does not include the matching RSU award the former CEO received in FY23

# Celanese

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Celanese’s CEO’s pay mix is 10% base salary, 14% cash incentives, 53% performance stock, and 23% stock options, while the average mix of its other named executive officers (NEOs) is 29% base salary, 22% cash incentives, 35% performance stock, and 15% stock options. Celanese’s cash incentive plan is based 80% on financial metrics (primarily EBITDA, secondarily Free Cash Flow) and 20%on 4 equally weighted non-financial metrics, Occupational Safety, Process Safety, Environment, and Quality. NEOs’ cash incentive plans also include an Individual Performance modifier. Celanese’s performance stock plan is based 70% on EPS and 30% on Return on Capital Employed (ROCE) and contains a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(14% of compensation for CEO, 22% for NEOs)

* Adjusted EBITDA (60%)
* Adjusted Free Cash Flow (20%)
* Occupational Safety (5%)
* Process Safety (5%)
* Environment (5%)
* Quality (5%)
* Individual Performance Factor multiplier (not for CEO, only for other NEOs, 0-150%)

**Performance Stock**(53% of compensation for CEO, 35% for NEOs)

* 3Y Cumulative Adjusted EPS (70%)
* 3Y Average Adjusted Return on Capital Employed (30%)
* -20% to 20% modification based on 3Y Relative TSR compared to Dow Jones US Chemical Industry Index
  + -20% modification if 3Y Relative TSR is in the bottom quartile
  + 20% modification if 3Y Relative TSR is in the top quartile

**Comments**

* Compared to the short-term incentive plans at other chemicals companies we examined, Air Products and Linde, Celanese’s plan has a similar weighting towards non-financial metrics (20% vs 25% at Linde and -20% to 20% ESG modifier at Air Products). Air Products’ ESG modifier measures its performance on emissions intensity, capital investment in energy transition projects, diversity, and safety, while Linde’s non-financial measures include Core Values, GHG Emissions Reduction, and Relative Performance and Strategic Positioning.
* Celanese’s performance stock plan has overlapping metrics with Air Products and Linde’s plans. Air Products’ performance stock vests based on Relative TSR, while Linde’s performance stock plan is tied to Return on Capital and Relative TSR.

**Financial Metric Adjustments**

* Adjusted EBITDA, Adjusted EPS, and Adjusted Return on Capital Employed exclude refinancing expense; earnings and losses from discontinued operations; divestiture-related gains and losses; impairment costs; actuarial gains and losses; litigation costs; exit and shutdown costs; impacts from plant incidents and natural disasters; and items related to mergers, acquisitions, and dispositions
* Adjusted Free Cash Flow adjusts for contributions from or distributions to noncontrolling joint ventures
* The performance stock metrics were further adjusted to account for impacts of acquisitions

**Additional Detail on Metrics**

* Occupational Safety measures the total recordable incident rate
* Process Safety measures the number of incidents of significant unplanned or uncontrolled release of primary contaminants
* Environment measures the number of significant and major chemical releases into the environment
* Quality measures the number of high-severity product quality incidents

**FY23 Performance**

* Cash Incentives (Aggregate Business Performance Rating of 112% of target)
  + EBITDA: 15% below target
  + Free Cash Flow: exceeded target by 32%
  + Achieved maximum performance level for Occupational Safety, Process Safety, Environment, and Quality
  + The Compensation and Management Development Committee decided to cap the individual performance factor at 100% of company performance rather than 150% because of the company’s lower than expected earnings
* FY21-FY23 Performance Stock (200% of target payout)
  + EPS: exceeded target by 28%
  + ROCE: exceeded target by 740 bps
* For FY23, Celanese’s 1Y TSR was 55.7%, and its 3Y TSR CAGR was 8.5%

**Notes**

* Pay mixes may not sum to 100% because of rounding
* For NEOs other than the CEO, the average pay mix is calculated using actual figures in the summary compensation table
* Performance stock is performance-based restricted stock

# Yum Brands

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Yum’s CEO’s pay mix is 8% base salary, 17% cash incentives, 37% performance stock, 19% stock appreciation rights, and 19% time-based stock, while the average mix of its other named executive officers (NEOs) is 20% base salary, 23% cash incentives, 29% performance stock, 14% stock appreciation rights, and 14% time-based stock. Yum’s cash incentive plan is primarily based on Operating Income and secondarily on Same Store Sales Growth and Net New Restaurants. Its cash incentive plan also includes an individual performance multiplier. Yum's performance stock plan contains 2 equally weighted metrics, Revenue and Operating Income, as well as a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(17% of compensation for CEO, 23% for NEOs)

* Adjusted Operating Income (50%)
* Adjusted Same Store Sales Growth (25%)
* Net New Restaurants (25%)
* Individual Performance Factor multiplier (0-150%)

**Performance Stock**(37% of compensation for CEO, 29% for NEOs)

* 3Y Revenue CAGR (50%)
* 3Y Adjusted Operating Income CAGR (50%)
* -25% to 25% modification based on 3Y Relative TSR compared to S&P 500 Consumer Discretionary Index

**Comments**

* Compared to other restaurant chains we reviewed (McDonald’s, Restaurant Brands International, and Chipotle), Yum’s NEOs receive a higher proportion of their compensation in base salary and cash incentives (43% vs 34% average)
* Long-term incentive metrics differ widely across the restaurant chains we reviewed. Restaurant Brands International’s performance stock plan is based 100% on Relative TSR; Chipotle’s performance stock vests based on Restaurant Cash Flow and Net New Restaurants; and McDonald’s performance stock vests based on EPS, ROIC, and a Relative TSR modifier.

**Financial Metric Adjustments**

* Adjusted Operating Profit excludes currency fluctuations, gains and losses associated with market-wide refranchising, divestiture-related items, restructuring charges, and other non-recurring expenses
* Adjusted Same Store Sales Growth excludes currency fluctuations

**Additional Detail on Metrics**

* The cash incentive determinants include division metrics for division NEOs. For the division NEOs, 75% of the respective financial metric comes from division performance and 25% from company-wide performance.

**FY23 Performance**

* Cash Incentives (181% of target payout for CEO)
  + Operating Income: exceeded target by 3%
  + Same Store Sales Growth: exceeded target by 120 bps
  + Net New Restaurants: exceeded target by 3%
  + KFC: exceeded all financial metric targets
  + Pizza Hut: fell short on all 3 metrics
  + Individual Performance Factors: 125% for CEO, 110-130% for NEOs
* Performance Stock (performance not disclosed)
* For FY23, Yum’s 1Y TSR was 3.9%, and its 3Y TSR CAGR was 8.3%

# ConocoPhillips

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**ConocoPhillips’ CEO’s pay mix is 9% base salary, 14% cash incentives, 50% performance stock, and 27% time-based stock, while the average mix of its other named executive officers (NEOs) is 19% base salary, 18% cash incentives, 42% performance stock, and 21% time-based stock. ConocoPhillips’ cash incentive plan is based 30% on Absolute and Relative Return on Capital Employed (ROCE), 30% on Operations (production totals, operating and overhead costs, capital expenditures, and operational milestones) and 40% on ESG and strategic metrics. Its performance stock plan is based 60% on Relative TSR and 40% on Absolute and Relative Return on Capital Employed (ROCE).

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(14% of compensation for CEO, 18% for NEOs)

* Operations (30%)
* Absolute and Relative Adjusted Return on Capital Employed compared to peers (30%)
  + Peer group includes APA Corporation, Chevron, Devon Energy, Diamondback Energy, EOG Resources, Exxon Mobil, and Occidental Petroleum
* Absolute and Relative Health, Safety, and Environmental Performance compared to peers (20%)
  + Same peers as above
* Strategic Milestones (10%)
* Energy Transition Milestones (10%)
* The Board can exercise its discretion to reduce payouts based on individual performance

**Performance Stock** (50% of compensation for CEO, 42% for NEOs)

* 3Y Relative TSR compared to peers (60%)
  + Same peers as above, as well as S&P 500 Total Return Index
* 3Y Absolute and Relative Adjusted Return on Capital Employed (40%)
  + Same peers as in cash incentive plan

**Comments**

* Similar to Chevron’s short-term incentive plan, ConocoPhillips’ broad financial category (Operations) contains quantitative targets for sub-metrics (production, capital, and operating and overhead costs). The Operations category also includes specified milestones. ConocoPhillips' Energy Transition Milestones, Strategic Milestones, and Health, Safety, and Environmental metrics contain a mixture of qualitative and quantitative targets, while it uses a formulaic approach to determine payouts for its ROCE metric.

**Additional Detail on Metrics**

* Operations includes Production, Capital, Adjusted Operating and Overhead Costs, and Operational Milestones.
* Health, Safety, and Environmental Performance includes Total Recordable Injury Rate and Process Safety Events
* Strategic Milestones assesses the company’s progress on new projects, action plans for risks, and DE&I strategy
* Energy Transition Milestones measures the company’s progress on Greenhouse Gas Emissions, its Net Zero Energy Transition Plan, and other carbon-related initiatives

**Financial Metric Adjustments**

* Adjusted Operating and Overhead Costs exclude the impacts of acquisitions, dispositions, foreign currency fluctuations, and other items beyond management’s control
* Adjusted Return on Capital Employed excludes impairment charges, gains and losses on dispositions and asset sales, gains and losses on currency derivatives, and other non-recurring items

**Recent Changes**

* The above information reflects ConocoPhillips’ proposed executive compensation for FY24. In FY24, it will add an absolute component to the Adjusted Return on Capital Employed metric used in the cash incentive and performance stock plans.
* In FY23, Conoco Phillips eliminated Relative TSR as a cash incentive metric and increased the weighting of its ROCE and Operations metrics. It also added an Energy Transition Milestones metric.

**FY23 Performance**

* Cash Incentives (130% of target payout)
  + Relative ROCE: 58th percentile of peer group
  + Operations: 125% of target payout
  + Strategic Milestones: 200% of target payout
  + Energy Transition Milestones: 190% of target payout
  + Health, Safety, and Environmental Performance: 85% of target payout
* FY21-FY23 Performance Stock (151% of target payout)
  + Relative TSR: 71st percentile of peer group
  + Relative ROCE: 63rd percentile of peer group
* For FY23, ConocoPhillips’ 1Y TSR was 2%, and its 3Y TSR CAGR was 48.4%

# Halliburton

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Halliburton’s CEO’s pay mix is 11% base salary, 17% annual cash incentives, 50% performance-based long-term incentives (50% in cash, 50% in stock), and 22% time-based stock, while the average mix of its other named executive officers (NEOs) is 17% base salary, 18% annual cash incentives, 46% performance-based long-term incentives (50% in cash, 50% in stock), and 19% time-based stock. Halliburton’s annual cash incentive plan is based 80% on financial metrics (primarily NOPAT, secondarily Asset Turnover) and 20% on ESG-related metrics. Its long-term incentive plan is based 100% on Relative Return on Capital Employed (ROCE) and contains a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Annual Cash Incentives**(17% of compensation for CEO, 18% for NEOs)

* Adjusted NOPAT (60%)
* Adjusted Asset Turnover (20%)
* Greenhouse Gas Emissions Reduction (10%)
* Diversity and Inclusion (10%)

**Long-Term Incentives**(50% of compensation for CEO, 46% for NEOs)

* 3Y Relative Average Return on Capital Employed compared to peer group (100%); payout capped at 100% if 3Y Average ROCE is negative
  + Peer group includes Apache, Baker Hughes, Chesapeake Energy, Devon Energy, Hess Corporation, Marathon Oil, Murphy Oil, Nabors Industries, NOV, SLB, TechnipFMC, Transocean, Weatherford International, and The Williams Companies
* -25% to 25% modification based on 3Y Relative TSR compared to PHLX Oil Service Sector (OSX) constituents; no upward modification is 3Y Absolute TSR is negative
  + -25% modification if Relative TSR is in bottom quartile
  + 25% modification if Relative TSR is in top quartile

**Comments**

* Of the 8 energy companies we reviewed, Halliburton is the only one with a long-term incentive plan that is partly paid in cash. Other companies with long-term cash incentive compensation include Altria, MercadoLibre, and FedEx.
* Halliburton has a 55th percentile target for its Relative ROCE metric, which is higher than the 50th percentile targets of most other companies we reviewed with relative metrics. Prior to FY23, Halliburton had a 50th percentile target.
* Unlike Schlumberger, the only other energy equipment and services company we examined, Halliburton includes no cash flow metrics in its compensation plan. Schlumberger includes free cash flow metrics in its short-term and long-term incentive plans.
* Halliburton’s time-based stock awards vest over 5Y, compared to the 3-4Y vesting periods at most other US companies we reviewed

**Financial Metric Adjustments**

* Adjusted NOPAT excludes currency fluctuations and unusual items (unspecified) and adds back non-operating income
* Adjusted Asset Turnover excludes cash and marketable investments, deferred tax assets, debt (including finance lease liabilities), and non-current deferred income tax liabilities

**FY23 Performance**

* Annual Cash Incentives (84% of target payout)
  + NOPAT: 3% below target
  + Asset Turnover: 0.6% below target
  + Greenhouse Gas Emissions Reduction: achieved target
  + Diversity and Inclusion: achieved target
* Long-Term Incentives (200% of target payout)
  + Relative ROCE: above 75th percentile of peer group
* For FY23, Halliburton’s 1Y TSR was -6.5%, and its 3Y TSR CAGR was 25.8%

# Wells Fargo

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Wells Fargo’s CEO’s pay mix is 9% base salary, 23% cash incentives, 45% performance stock, and 24% time-based share rights, while the average mix of its other named executive officers (NEOs) is 14% base salary, 26% cash incentives, 30% performance stock, and 30% time-based share rights. For the CEO, variable incentive compensation (cash incentives, performance stock, and time-based share rights) is primarily based on company performance and secondarily on individual performance, while for the other NEOs, payouts are based equally on company and individual performance. Wells Fargo’s performance stock plan is based 75% on Absolute Return on Tangible Common Equity (ROTCE) and 25% on Relative ROTCE and includes a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Variable Incentive Compensation**(92% of compensation for CEO, 86% for NEOs)

* Company Performance (65% for CEO, 50% for NEOs)
* Individual Performance Assessment (35% for CEO, 50% for NEOs)

**Performance Stock**(45% of compensation for CEO, 30% for NEOs)

* 3Y Average Adjusted Return on Tangible Common Equity (ROTCE) (75%)
* 3Y Relative Average Adjusted ROTCE compared to peer group (25%)
  + Peer group includes JPMorgan Chase, Bank of America, HSBC, BNP Paribas, Citigroup, Banco Santander, Barclays, UBS, Goldman Sachs, Royal Bank of Canada, Morgan Stanley, BNY Mellon, and State Street
* -20% to 20% modification based on 3Y Relative TSR compared to peer group
  + No upward adjustment if 3Y Absolute TSR is negative
  + -20% modification if 3Y Relative TSR is in the bottom quartile
  + 20% modification if 3Y Relative TSR is in the top quartile
  + Same peer group as above
* The target award is reduced by a third for any year in the 3Y performance period that the company incurs a net operating loss

**Comments**

* Like other banks, Wells Fargo takes a discretionary approach to determining variable incentive compensation with limited quantitative targets for the financial metrics it uses. It also is similar to other banks in terms of determining total variable compensation before then dividing it into cash incentives and equity grants.
* At least 75% of the CEO’s variable compensation must be in long-term equity, while at least 70% of the other NEOs’ variable compensation must be in long-term equity
* Wells Fargo is a one of a few companies we reviewed, where the Board exercised negative discretion on cash incentive payouts. At the CEO's request, the Board reduced the CEO's cash incentive award by $1.3M in recognition of the additional work that needs to be done on his transformation initiatives.
* Wells Fargo has the same Relative TSR modifier construction as Tractor Supply Company, Celanese, and Procter & Gamble, which allows for a wider target range than the 50th percentile targets of most other companies we reviewed

**Financial Metric Adjustments**

* For all NEOs, adjusted metrics adjust for reversals of credit loss reserves taken in 2020, operating losses in the third and fourth quarters of 2022 due to litigation and customer remediation matters, and the FDIC special assessment in 2023
* For the CEO, ROTCE also excludes the impact of any penalties or other charges related to litigation or investigations of Wells Fargo’s retail practices

**Additional Detail on Metrics**

* The Board uses the following categories to evaluate company performance: Risk, Regulatory, & Control; Financial; Operational Excellence; Technology & Innovation; ESG; and Talent & Leadership
* Unweighted financial metrics include Revenue, Adjusted Noninterest Expense, Adjusted Pre-Tax Provision Profit, Adjusted Net Income, Adjusted Diluted EPS, Adjusted Return on Equity, Adjusted ROTCE, Common Equity Tier 1 Capital Ratio, and Adjusted Efficiency Ratio
* The Board measures individual performance using the following categories: Risk, Regulatory, & Control; Financial; Strategy, Technology, & innovation; and Talent, Leadership, & Culture (including DE&I)
* For business line executives, company performance includes enterprise-level performance (30%) and business line performance (20%)

**FY23 Performance**

* Cash Incentives
  + Company Performance: 110% of target payout
  + Individual Performance Assessments: 120% for CEO, 100-130% for NEOs
  + The CEO asked the Board to exercise $1.3M of negative discretion on his cash incentive payout in recognition of the additional work that needs to be done on his transformation initiatives
* FY21-FY23 Performance Stock (137% of target payout)
  + Absolute ROTCE: exceeded maximum performance target
  + Relative TSR: above peer group median
* For FY23, Wells Fargo’s 1Y TSR was 22.9%, and its 3Y TSR CAGR was 20.4%

**Notes**

* Performance stock is performance stock awards, and time-based share rights are restricted share rights

# Schlumberger

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Schlumberger’s CEO’s pay mix is 10% base salary, 15% cash incentives, 56% performance stock, and 19% time-based stock, while the average mix of its other named executive officers (NEOs) is 16% base salary, 16% cash incentives, 51% performance stock, and 17% time-based stock. Schlumberger’s cash incentive plan is based 70% on financial metrics (EBITDA and Free Cash Flow) and 30% on non-financial metrics (Individual Performance Assessments and ESG). Its performance stock plan contains 3 equally weighted metrics, Free Cash Flow Margin, Relative Return on Capital Employed (ROCE), and Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(15% of compensation for CEO, 16% for NEOs)

* Adjusted EBITDA (35%)
* Free Cash Flow (35%)
* Individual Performance Assessment (20%)
* ESG (10%)

**Performance Stock**(56% of compensation for CEO, 51% for NEOs)

* 3Y Free Cash Flow Margin (33%)
* 3Y Relative Average Return on Capital Employed (33%)
  + Peer group includes Baker Hughes, Halliburton, NOV, and TechnipFMC
* 3Y Relative TSR compared to peer group and S&P Global 1200 Energy Index (33%)
  + Same peer group as above
* The Compensation Committee has discretion to cap payouts on the ROCE awards at 100% of target in the event of material asset impairments

**Comments**

* Schlumberger targets the 60th percentile of its peer group for its Relative TSR metric, which is higher than the 50th percentile targets of most other companies we reviewed
* Compared to Halliburton, the only other energy equipment and services company we examined, Schlumberger focuses more on free cash flow in its compensation plan. Halliburton has no cash flow metrics.

**Financial Metric Adjustments and Calculations**

* Adjusted EBITDA excludes the impacts of asset impairments, losses/gains on sales, goodwill, Asset Performance Solution investments, restructurings, divestitures, unrealized gains on marketable securities, and intangible assets
* Free Cash Flow and Free Cash Flow Margin include Asset Performance Solutions investments and capitalize exploration data

**Additional Detail on Metrics**

* ESG measures the company’s emissions intensity reduction and gender diversity

**FY23 Performance**

* Cash Incentives (151% of target payout for CEO, 151-152% for NEOs)
  + EBITDA: exceeded target by 1.3%
  + Free Cash Flow: exceeded target by 35%
  + ESG: 100% of target payout
  + Individual Performance Assessments: 95% for CEO, 96-100% for NEOs
* FY21-FY23 Performance Stock
  + Free Cash Flow Margin Award: 100% payout
  + Relative ROCE Award: 250% payout, 477 bps above peer group average
  + Relative TSR: 59% payout, 41st percentile of peer group and S&P Global 1200 Energy Index
* For FY23, Schlumberger’s 1Y TSR was -0.8%, and its 3Y TSR CAGR was 35.9%

**Notes**

* Percentages may not sum to 100% because of rounding

# ServiceNow

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**ServiceNow’s CEO’s pay mix is 4% base salary, 8% cash incentives, 53% performance stock, and 35% time-based stock, while the average mix of its other named executive officers (NEOs) is 6% base salary, 6% cash incentives, 53% performance stock, and 35% time-based stock.  ServiceNow’s cash incentive plan is 70% based on Net New Annual Contract Value (NNACV) and 30% on Operating Margin and contains a Non-Financial Goals modifier. Its performance stock plan is 100% based on Subscription Revenues and includes a Relative TSR modifier. In late 2021, Service Now's CEO and other NEOs received large one-time performance stock option awards that vest based on the achievement of Subscription Revenue and Stock Price hurdles over a 5Y performance period.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(8% of compensation for CEO, 6% for NEOs)

* Adjusted Net New Annual Contract Value (70%); no cash incentive payout unless company achieves 85% of target Adjusted NNACV
* Adjusted Operating Margin (30%)
* -25% to 0% of modification based on individual performance against Non-Financial Goals

**Performance Stock**(53% of compensation for CEO and NEOs)

* 3Y Adjusted Subscription Revenues (100%)
* -20% to 20% of modification based on 3Y Relative TSR compared to S&P 500

**One-Time Awards**

* In October 2021, ServiceNow granted its CEO a large one-time performance stock option award valued at $139M. NEOs received similar awards in December 2021 that were valued at $7M-$38M.
* The option awards consist of 8 traches that can only be earned upon meeting both Subscription Revenue and Stock Price targets over a 5Y performance period. The awards were not eligible to vest until 2Y after the grant date and exercised shares must be held for 5Y.
* As of the most recent Def 14A filing, ServiceNow has met 3 of the 8 annual subscription revenue targets ($6.1B, $7.1B, and $8.3B) but none of the stock appreciation targets, leading to no vesting of any of the options. ServiceNow notes that the subscription revenue targets are more aggressive than its long-term financial plan targets.
* To fully earn the award, ServiceNow would need to exceed $15B in subscription revenues in a consecutive 4Q period and exceed and sustain a share price of $1,452 for 6 consecutive months. ServiceNow does not disclose the other vesting hurdles because it fears that such disclosure would cause competitive harm.

**Comments**

* ServiceNow excludes stock-based compensation in its Adjusted Operating Margin metric
* ServiceNow significantly restructured its compensation plan for FY24 after a 41% say on pay vote in FY23. It lengthened the performance period for its performance stock metrics to 3Y, eliminated metric overlap between its short-term and long-term incentive plans, removed the free cash flow metric in its performance stock plan, and provided more disclosure on the large one-time awards it awarded to its CEO and NEOs in FY21. It also changed its long-term equity mix from 80% performance stock/20% time-based stock to 60% performance stock/40% time-based stock. The above information reflects ServiceNow’s FY24 executive compensation plan.
* ServiceNow targets the 55th percentile of the S&P 500 for its 3Y Relative TSR modifier, compared to the 50th percentile targets of most other companies we reviewed

**Financial Metric Adjustments**

* Adjusted NNACV excludes the impact of currency fluctuations
* Adjusted Operating Margin excludes stock-based compensation, amortization of purchased intangibles, legal settlements, business combination and other related costs, and the impacts of currency fluctuations

**Additional Detail on Metrics**

* Adjusted NNACV is calculated as the annual value of all new contracts minus the annual value of all contracts that have expired and the reduction in annual value from contracts reduced in size or scope
* For FY23, Non-Financial Goals included Customer Experience & Value Realization, New Logos, Product Quality, and People & Culture

**FY23 Performance**

* Cash Incentives (119% of target payout)
  + NNACV: exceeded target by 13%
  + Subscription Revenues: exceeded target by 32%
  + Operating Margin: exceeded target by 25%
  + Non-Financial Goals Modifier: no modification, as most targets were exceeded
* FY23 Performance Stock (109% of target payout before 3Y Relative TSR modifier determined in FY25)
  + NNACV: exceeded target by 13%
  + Free Cash Flow Margin: met target
* For FY23, ServiceNow’s 1Y TSR was 82%, and its 3Y TSR CAGR was 8.7%

**Notes**

* Performance stock is performance restricted share units
* The above compensation mixes exclude the CEO and NEOs’ one-time awards

# Capital One Financial Corporation

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Capital One’s CEO’s pay mix is 9% base salary (restricted stock that vests in 3Y and is cash settled at the end of vesting), 17% cash incentives, 58% performance stock, and 16% time-based stock, while the average mix of its other named executive officers (NEOs) is 20% base salary, 25% cash incentives, 30% performance stock, and 25% time-based stock. The variable compensation (cash incentives and long-term equity grants) is determined through discretionary assessments of company and individual performance, while the CEO's performance stock plan is tied to Relative Dividends + Tangible Book Value Per Share, Relative Return on Tangible Common Equity, and Relative TSR. The NEOs' performance stock plans do not include Relative TSR. Performance stock awards can be reduced if Return on Tangible Common Equity (ROTCE) is negative for any of the years in the performance period.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(17% of compensation for CEO, 25% for NEOs) and **Long-Term Equity Grants**(74% of compensation for CEO, 55% for NEOs)

* Company Performance Factors and Individual Performance Assessment determine the size of cash incentive and long-term equity grants
* The CEO and NEOs forfeit 50% of one-year of vesting of their time-based shares if Adjusted Net Income is not positive for any fiscal year in the vesting period
  + The Compensation Committee also can discretionarily adjust the other portion of the time-based stock depending on its assessment of each NEO’s culpability in the outcome

**Performance Stock**(58% of compensation for CEO, 30% for NEOs)

* 3Y Relative Dividends + Tangible Book Value Per Share (D + TBV) compared to KBW Bank Index (50% for CEO, 67% for NEOs)
* 3Y Relative Adjusted Return on Tangible Common Equity (ROTCE) compared to KBW Bank Index (25% for CEO, 33% for NEOs)
* 3Y Relative TSR compared to KBW Bank Index (25% for CEO)
* Downward modification if Adjusted ROTCE is negative for any year in 3Y performance period
  + Negative for 1Y: reduction of award by 1/6
  + Negative for 2Y: reduction of award by 1/3
  + Negative for 3Y: forfeiture of entire award

**Comments**

* Capital One’s CEO’s compensation plan is unique for a few reasons. One, all of his compensation is deferred 3Y. Two, he does not receive a cash salary but instead receives deferred equity. Three, all of the CEO’s time-based stock grants are cash settled, while the NEOs’ time-based grants are stock-settled.
* Like many other banks we reviewed, Capital One takes a holistic approach to determining variable compensation, which is then divided into cash incentives and long-term equity grants. It discloses YoY performance for the financial metrics it examines but does not specify quantitative targets for these metrics.
* Capital One targets the 55th percentile of the KBW Bank Index for its relative performance metrics, which is higher than the 50th percentile targets of most other companies we reviewed

**Additional Detail on Metrics**

* Company Performance Factors assesses the company’s performance based on the following categories: Financial and Operating Performance, Governance and Risk Management, Strategic Performance, and Winning with Our Customers and Associates.
* The financial measures examined include Revenue, Pre-Provision Earnings, Adjusted Diluted EPS, Return on Assets, ROTCE, 1Y TSR, and Adjusted Operating Efficiency Ratio.

**Financial Metric Adjustments**

* The adjusted metrics exclude restructuring charges, FDIC special assessments, insurance recoveries, and legal reserve activity
* Adjusted Net Income excludes impacts from the impairment or amortization of goodwill and intangible assets and the build or release of reserves, while Adjusted ROTCE excludes the impacts of impairment, amortization, and re-measurement of intangible assets

**FY23 Performance**

* Cash Incentives (150% of target payout for NEOs, excluding CEO)
* FY21-FY23 Performance Stock (131% of target payout for non-TSR awards)
  + Relative D+ TBV: 67th percentile of KBW Bank Index
  + Relative ROTCE: 94th percentile of KBW Bank Index
  + Relative TSR: 89th percentile of KBW Bank Index
* For FY23, Capital One’s 1Y TSR was 44.3%, and its 3Y TSR CAGR was 12.1%

**Notes**

* The CEO’s compensation mix is based on actual compensation since target figures were not disclosed. The NEOs’ compensation mix is based on target figures.

# GE HealthCare Technologies

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**GE HealthCare Technologies’ CEO’s pay mix is 8% base salary, 12% cash incentives, 40% performance stock, 20% stock options, and 20% time-based stock, while the average mix of its other named executive officers (NEOs) is 16% base salary, 16% cash incentives, 34% performance stock, 17% stock options, and 17% time-based stock. GE HealthCare’s cash incentive plan is 100% based on financial metrics (primarily Revenue, secondarily Operating Income and Free Cash Flow) and includes modifiers for New Product Introductions, Injury and Illness Rates, and Individual Performance. Its performance stock plan is based on 2 equally weighted metrics, Revenue and EPS, and contains a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(12% of compensation for CEO, 16% for NEOs)

* Adjusted Revenue (50% for CEO and NEOs)
* Adjusted Operating Income (30% for CEO and NEOs)
* Adjusted Free Cash Flow (20% for CEO and 3 NEOs, 8% for Imaging CEO)
* Inventory Turnover (0% for CEO and 3 NEOs, 12% for Imaging CEO)
* -5% to 5% modification based on New Product Introductions
* -5% to 5% modification based on Injury and Illness Rate
* Individual Performance Factor multiplier (0-150%)

**Performance Stock**(40% of compensation for CEO, 34% for NEOs)

* Adjusted Revenue in 3Y (50%)
* 3Y Cumulative Adjusted EPS (50%)
* -20% to 20% modification based on 3Y Relative TSR compared to peer group; no modification if thresholds are not met for Revenue and EPS
  + Peer group includes Abbott Laboratories, Agilent Technologies, Baxter International, Becton Dickinson, Boston Scientific, Danaher Corporation, Edwards Lifesciences, Hologic, Intuitive Surgical, Koninklijke Philips, Medtronic, Quest Diagnostics, Siemens Healthineers, Stryker, and Thermo Fisher Scientific

**Comments**

* GE HealthCare includes similar metrics to Stryker in its compensation plan. Stryker’s cash incentive metrics are Revenue, Operating Income, Operating Margin, and Free Cash Flow, while its long-term metrics are EPS and Revenue.

**One-Time Awards**

* In FY23, the CEO and other NEOs received one-time Founders Grants (time-based stock and stock options) equivalent to ~50% of their annual long-term incentive targets.
* In FY22, the CEO received a one-time new-hire performance stock grant.
* The performance stock has a 3Y performance period and includes the following metrics: Adjusted Revenue (50%), Adjusted Operating Income (30%), and Adjusted Free Cash Flow (20%), as well as the same 2 modifiers in the cash incentive plan.

**Financial Metric Adjustments**

* Adjusted Revenue excludes the impacts of currency fluctuations and impacts of acquisitions and dispositions with less than a full year of comparable net sales
* Adjusted Operating Income excludes income/loss from discontinued operations and acquisitions, restructuring costs, acquisition and disposition-related charges, spin-off and separation costs, gains/losses on business and asset dispositions, amortization of acquisition-related intangible assets, and investment revaluation gains/loss
* Adjusted EPS excludes similar items, as well as non-operating benefit (income) costs.
* Adjusted Free Cash Flow includes additions to internal-use software, as well as the impacts of dispositions of PP&E and the impact of factoring programs

**Additional Detail on Metrics**

* The CEO of Imaging’s cash incentives are based 60% on his segment (Imaging) performance and 40% on company-wide performance. The metrics for segment performance are Adjusted Revenue (50%), Adjusted Operating Income (30%), and Inventory Turnover (20%).
* New Product Introductions focuses on Precision Care and is measured as the percentage of orders attributed to new product introductions over 5Q period

**FY24 Changes**

* The performance stock metrics reflect GE HealthCare Technologies’ proposed executive compensation for 2024. In prior years, the company used 3Y Cumulative Adjusted Operating Income, rather than 3Y Cumulative EPS, as a performance stock metric.

**FY23 Performance**

* Cash Incentives (125% of target payout for Corporate Performance)
  + Revenue: exceeded target by 1%
  + Free Cash Flow: exceeded target by 16%
  + Operating Income: 4% below target
  + Imaging Segment: exceeded revenue target, fell short of Operating Income and Inventory Turnover targets
  + New Product Innovations: exceeded target by 2%
  + Injury and Illness Rate: achieved target
  + Individual Performance Factors: 100-105%
* For FY23, GE HealthCare’s 1Y TSR was 32.6%

# Uber Technologies

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Uber’s CEO’s pay mix is 5% base salary, 9% cash incentives, 43% performance stock, 22% stock options, and 22% time-based stock, while the average mix of its other named executive officers (NEOs) is 8% base salary, 10% cash incentives, 27% performance stock, and 55% time-based stock. Uber’s cash incentive plan is based primarily on Strategic and Operational Priorities and EBTIDA and secondarily on Gross Bookings. The cash incentive plan also includes a modifier for individual performance. Uber's performance stock plan is based 80% on financial metrics (EBITDA Margin and Gross Bookings) and 20% on non-financial metrics related to DE&I and Safety. The performance stock plan also contains a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(9% of compensation for CEO, 10% for NEOs)

* Strategic and Operational Priorities (40%)
* Gross Bookings (20%)
* Adjusted EBITDA (20%)
* Adjusted EBITDA Excluding Stock-Based Compensation (20%)
* Individual Performance Factor multiplier (50-150%)

**Performance Stock**(43% of compensation for CEO, 27% for NEOs)

* Adjusted EBITDA Margin, annual targets over 3 years (40%)
* 3Y Average Gross Bookings Growth (40%)
* 3Y Diversity, Equity, and Inclusion (10%)
* 3Y Safety Improvement (10%)
* -30% to 30% modification based on 3Y Relative TSR compared to S&P 500, modification capped at 0% if 3Y Absolute TSR is negative

**Comments**

* Uber is unique in having 2 Adjusted EBITDA metrics, one excluding Stock-Based Compensation and one including it
* Uber has quantitative targets for its non-financial metrics

**Financial Metric Adjustments and Calculations**

* Adjusted EBITDA excludes legal, tax, and regulatory reserve changes and settlements; goodwill and asset impairments; gains/losses on sales of assets; acquisition, financing, and divestiture-related expenses; restructuring charges; and other extraordinary items
* Adjusted EBITDA Margin is measured as a percentage of gross booking

**Additional Detail on Metrics**

* Strategic and Operational Priorities includes 5 equally weighted sub-components: Mobility and Delivery Membership Count; Mobility and Delivery Category Positions Across Countries; Cultural Survey Results; Zero-Emissions Vehicles as % of Miles; and Monthly Active Drivers and Couriers
* Diversity, Equity, and Inclusion includes 2 metrics: percentage of managers that are women and percentage of senior analysts and above who come from US underrepresented groups
* Safety Improvement measures percent reduction in critical sexual assault and motor vehicle crash fatalities

**FY23 Performance**

* Cash Incentives (159% of target payout)
  + Gross Bookings: exceeded target by 4%
  + EBITDA: exceeded target by 38%
  + EBITDA Excluding Stock-Based Compensation: exceeded target by 11%
  + Strategic and Operational Priorities: 100% of target payout, overperformance in 3 components offset underperformance in Cultural Survey Results and Zero-Emissions Vehicles as % of Miles
* FY21-FY23 Performance Stock (121% of target payout)
  + EBITDA Margin: exceed all annual targets
  + Revenue Growth: exceeded target by 22.1 pp
  + DE&I: 103% of target payout
  + Safety Improvement: 74% of target payout, 0% achievement for Motor Vehicle Crash Fatalities
  + Relative TSR: 44th percentile
* For FY23, Uber’s 1Y TSR was 149%, and its 3Y TSR CAGR was 6.5%

**One-Time Awards**

* In FY23, Uber’s new CFO received a new hire award consisting of $1M in cash, $4M in stock options, $4M in performance stock, and $6M in time-based stock. The performance stock is subject to the same vesting conditions as Uber’s typical performance stock awards.

**Notes**

* Pay mixes may not sum to 100% because of rounding
* Performance stock is performance-based restricted stock

# Dollar General

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Dollar General’s CEO’s pay mix is 12% base salary, 18% cash incentives, 35% performance stock, and 35% stock options, while the average mix of its other named executive officers (NEOs) is 23% base salary, 18% cash incentives, 30% performance stock, and 30% time-based stock. Dollar General’s cash incentive plan is based 100% on Operating Income, while its performance stock plan is based 50% on 1Y EBITDA and 50% on 3Y Average ROIC.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(18% of compensation for CEO and NEOs)

* Adjusted Operating Income (100%)

**Performance Stock**(35% of compensation for CEO, 30% for NEOs)

* 1Y Adjusted EBITDA (50%); lack of disclosure on vesting terms
* 3Y Average Adjusted ROIC (50%)

**Comments**

* Dollar General stands out for having only one metric in its cash incentive plan and a 1Y performance period for its EBITDA performance stock metric, as most companies use 3Y performance periods. Costco also has a 1Y performance period for its performance stock measures.

**One-Time Awards**

* In FY23, Dollar General awarded a one-time grant of 250K stock options (valued at $8M( to its CEO upon his re-appointment to the position. The stock options vest over 4Y.

**Financial Metric Adjustments**

* Adjusted Operating Income, EBITDA, and ROIC exclude the impacts of costs, fees, and expenses related to transactions that result in Change in Control or securities offering; disaster-related charges; LIFO provisions or benefits; unusual items; and unplanned losses or gains

**FY23 Performance**

* Cash Incentives (0% payout)
  + Operating Income: 28% below target, underperformed threshold
* FY21-FY23 Performance Stock
  + EBITDA Awards: 0% payout, underperformed target by 22%
  + ROIC Awards: 287% of target payout, exceeded target by 93 bps
* For FY23, Dollar General’s 1Y TSR was -40.2%, and its 3Y TSR CAGR was -10.4%

**Notes**

* Pay mixes may not sum to 100% because of rounding
* The CEO compensation mix reflects an average of the compensation mixes of the current CEO and his predecessor who departed in 2023

# Mondelez International

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Mondelez’s CEO’s pay mix is 9% base salary, 16% cash incentives, 56% performance stock, and 19% stock options, while the average mix of its other named executive officers (NEOs) is 17% base salary, 18% cash incentives, 49% performance stock, and 16% stock options. Mondelez’s cash incentive plan is based 90% on financial metrics that encompass growth, cash flow, and profitability measures and 10% on ESG. Its cash incentive plan also includes a modifier for Market Share Change. Mondelez's performance stock plan is based 50% on Relative TSR and 50% on EPS and Revenue.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(16% of compensation for CEO, 18% for NEOs)

* Adjusted Gross Profit Growth (28%)
* Free Cash Flow Growth (16%)
* Adjusted Revenue Growth (12%)
* Adjusted Volume Growth (12%)
* Adjusted Operating Income Growth (12%)
* Snacks Leadership (10%)
* ESG (10%)
* -24 pp to 24 pp of modification based on Market Share Change

**Performance Stock**(56% of compensation for CEO, 49% for NEOs)

* 3Y Relative TSR compared to peer group (50%); awards are capped at 100% of target if 3Y Absolute TSR is negative
  + Peer group includes Campbell Soup Company, Coca-Cola, Colgate-Palmolive, Danone, General Mills, The Hershey Company, Kellanova, Kraft Heinz, Nestle, PepsiCo, Procter & Gamble, and Unilever
* 3Y Adjusted EPS Growth (25%)
* 3Y Adjusted Revenue Growth (25%)

**Comments**

* Compared to the other food products companies we reviewed (Nestle and General Mills), Mondelez has less weighting towards non-financial metrics in its cash incentive plan (10% vs 20% at General Mills and 15% at Nestle) and a greater weighting of Relative TSR in its performance stock plan (50% vs 25% modifier at General Mills and 20% metric weighting at Nestle).
* Mondelez’s Relative TSR target is the 55th percentile of its peer group, which is higher than the 50th percentile targets of most other companies we examined
* Vested performance stock awards and exercised stock options have a required 1Y holding period. Most other US-listed companies we reviewed do not have required holding periods.

**Financial Metric Adjustments**

* Adjusted Revenue Growth excludes currency fluctuations, as well as the impacts of acquisitions, divestitures, and short-term distributor agreements
* The other adjusted financial metrics exclude restructuring charges, goodwill and intangible asset impairment, the impacts of acquisitions, gains/losses on asset sales and equity method investments, and other extraordinary items.

**Additional Detail on Metrics**

* Adjusted Gross Profit Growth, Free Cash Flow Growth, Adjusted Revenue Growth, Adjusted Volume Growth, and Adjusted Operating Income Growth comprise the financial metrics that determine 80% of the cash incentive compensation.
* Market Share Change is a -30 pp to 30 pp modifier for the financial metrics category (80% of total cash incentive metrics) and is based on revenue weighted across key markets.
* Snacks Leadership and ESG are the two components of Strategic Progress Indicators, which account for 20% of the cash incentive compensation.
* Snacks Leadership examines the company’s growth in multiple snacking categories, while ESG includes 3 components: Sustainability, Mindful Snacking, and Colleagues
* For the 2 regional NEOs, the cash incentive metrics are weighted 80% towards regional performance and 20% towards company-wide performance

**FY23 Performance**

* Cash Incentives (150% of target payout for CEO, 133-151% for NEOs)
  + Gross Profit Growth: exceeded target by 12.1 pp
  + Revenue Growth: exceeded target by 7 pp
  + Operating Income Growth: exceeded target by 18.3 pp
  + Free Cash Flow: exceeded target by 6%
  + Volume Growth: 190 bps below target
  + Market Share Change: 10 bps below 0% target, leading to -5 pp modification
  + Regional Performance: exceeded targets
* FY21-FY23 Performance (200% of target payout)
  + EPS Growth: exceeded target by 700 bps
  + Revenue Growth: exceeded target by 570 bps
  + Relative TSR: 100th percentile of peer group
* For FY23, Mondelez’s 1Y TSR was 11.2%, and its 3Y TSR CAGR was 9.9%

**Notes**

* Pay mixes may not sum to 100% because of rounding

# Restaurant Brands International

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Restaurant Brands International’s CEO’s pay mix is 6% base salary, 14% cash incentives, 65% performance stock, and 15% time-based stock, while the average mix of its other named executive officers (NEOs) is 10% base salary, 13% cash incentives, 62% performance stock, and 15% time-based stock. QSR’s cash incentive plan is based 75% on financial-related metrics (Operating Income, Comparable Restaurant Sales, Net New Restaurants, Net New Restaurants, and Franchisee Profitability) and 25% on individual performance. Its performance stock plan is 100% based on Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(14% of compensation for CEO, 13% for NEOs)

* Adjusted Operating Income (30% for CEO, 31% for NEOs)
* Individual Performance Assessment (25% for CEO and NEOs)
* Comparable Restaurant Sales Growth (20% for CEO, 21% for NEOs)
* Net New Restaurants (15% for CEO and NEOs)
* Franchisee Profitability (10% for CEO, 8% for NEOs)
* -20% to 20% discretionary modification based on Corporate and Individual Performance
* No payouts if Individual Performance Assessment and Adjusted Operating Income are below 50% of target
* Downward adjustment if certain expense targets or compliance requirements (undisclosed) are not met

**Performance Stock**(65% of compensation for CEO, 62% for NEOs)

* 3Y Relative TSR compared to S&P 500 (100%)
* Awards capped at 100% of target if 3Y Absolute TSR is negative

**One-Time Awards**

* In February 2023, QSR’s CEO received a one-time performance stock award of 300K PSUs upon his assumption of  the role. The award is entirely based on QSR’s share price, has a target share price of $97.87, and cliff vests after 5Y. The total value of the award is $26M. He did not receive any additional PSUs in FY23 but is expected to receive PSUs for FY24 with a target value of $9M.
* In November 2022, QSR’s new Executive Chairman received a one-time performance stock award of 750K PSUs that cliff vests after 5.5Y, 2M options that cliff vest after 5Y, and 500K matching RSUs that vest ratably over 5Y. It has the same conditions as the CEO’s performance stock award. The total value of the award was $117M.

**Comments**

* In 2023, the CEO and other NEOs elected to use the maximum percentage of their cash incentives (50%) to purchase the company’s stock. In return, they received RSUs equal to (50% of bonus \* 2.25)/stock price. The RSUs vest over 4Y. Keurig Dr Pepper also has a matching RSU program. Its CEO and NEOs are required to participate in the program, which awards, on a 1-to-1 basis, RSU that cliff vest in 5Y for each share of stock executives purchase up to the commitment amount ($25M for CEO, $2-$12.5M for NEOs).
* Long-term incentive metrics differ widely across the restaurant chains we reviewed. Yum’s performance stock vests based on Revenue, Operating Income, and a Relative TSR modifier; Chipotle’s performance stock vests based on Restaurant Cash Flow and Net New Restaurants; and McDonald’s performance stock vests based on EPS, ROIC, and a Relative TSR modifier.

**Financial Metric Adjustments**

* Adjusted Operating Income excludes franchise agreement amortization as a result of acquisition accounting, gains/losses from equity method investments, other operating expenses, acquisition-related items, restructuring costs, and other extraordinary items

**Additional Detail on Metrics**

* QSR has some variation in cash incentive metric weightings across NEOs. For the 3 NEOs who run business units, their performance on Adjusted Operating Income reflects a combination of business unit performance and company-level performance, while their other cash incentive metrics appear to solely reflect business unit performance.
* For company-level executives, Franchisee Profitability is a weighted average of business unit performance. The President of International is not paid on Franchisee Profitability.

**FY24 Changes**

* The listed cash incentive and performance stock determinants reflect QSR’s compensation plans for FY24. In FY24, Adjusted Operating Income replaced Adjusted EBITDA as a cash incentive metric, and QSR added the 3Y Absolute TSR cap for performance stock.

**FY23 Performance**

* Cash Incentives (114% of target payout for CEO, 95-136% for NEOs)
  + EBITDA: 120% of target payout
  + Comparable Restaurant Sales Growth: 140% payout
  + Franchise Profitability: 198% of target payout
  + Net New Restaurants: 55% of target payout
  + Business Units: all fell short of Net New Restaurants targets but exceeded other 3 financial targets
  + Individual Performance Assessment: 88% for CEO, 86-98% for NEOs
* For FY23, QSR’s 1Y TSR was 24.6%, and its 3Y TSR CAGR was 12.3%

**Notes**

* In its FY24 proxy filing, QSR noted that the CEO’s FY23 performance stock award is larger than the amount that should be expected going forward

# Ingersoll Rand

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Ingersoll Rand’s CEO’s pay mix is 12% base salary, 17% cash incentives, 35% performance stock, 18% stock options, and 18% time-based stock while the average mix of its other named executive officers (NEOs) is 24% base salary, 19% cash incentives, 29% performance stock, 14% stock options, and 14% time-based stock. Ingersoll Rand’s cash incentive plan is based 75% on EPS and 25% on Free Cash Flow, while its performance stock plan is 100% based on Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(17% of compensation for CEO, 19% for NEOs)

* Adjusted EPS (75% for CEO and 3 NEOs, 0% for SVP and GM ITS Americas)
* Free Cash Flow (25% for CEO and 3 NEOs, 0% for SVP and GM ITS Americas)
* ITS Americas Adjusted EBITDA (0% for CEO and 3 NEOs, 75% for SVP and GM ITS Americas)
* ITS Americas Operating Cash Flow (0% for CEO and 3 NEOs, 25% for SVP and GM ITS Americas)

**Performance Stock**(35% of compensation for CEO, 29% for NEOs)

* 3Y Relative TSR compared to S&P 500 Industrials Index (100%)
* Awards capped at 100% of target if 3Y Absolute TSR is negative

**One-Time Awards**

* In FY22, the CEO received a one-time award of 1M PSUs and up to 100K stock options each year contingent on the achievement of performance targets over a 5Y period. The PSUs were valued at more than $50M in FY22, while the annual option grants were valued at ~$2.7M in FY23. The determinants of the performance stock and performance stock options are below:
  + Performance Stock
    - 5Y Adjusted EPS CAGR (75%)
    - 5Y Absolute TSR (25%)
  + Performance Stock Options
    - Annual Adjusted EPS Growth hurdle must be met each year for stock options to vest (12%)

**Comments**

* Ingersoll Rand excludes stock-based compensation from its adjusted financial metrics
* Ingersoll Rand’s Relative TSR target is the 55th percentile, which is higher than the 50th percentile targets of most of the other companies we reviewed

**Financial Metric Adjustments**

* Adjusted EBITDA and Adjusted EPS exclude stock-based compensation, restructuring costs, acquisition-related expenses, foreign currency transaction gains, gains/losses on equity investments, loss on extinguishment of debt, adjustments to LIFO inventories, and other extraordinary items

**FY23 Performance**

* Cash Incentives (200% of target payout)
  + EPS: exceeded target by 17%
  + Free Cash Flow: exceeded target by 23%
  + ITS Americas Segment: exceeded EBITDA and Operating Cash Flow targets by 19% and 9% respectively
* FY21-FY23 Performance Stock (200% of target payout)
  + Relative TSR: 77th percentile of S&P 500
* CEO’s FY22 Award: full amount of annual stock options vested, as ~20% EPS growth exceeded 12% hurdle
* For FY23, Ingersoll Rand’s 1Y TSR was 48.2%, and its 3Y TSR CAGR was 19.4%

**Notes**

* The calculated pay mixes exclude the one-time performance award the CEO received in FY22

# Airbnb

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Airbnb’s CEO’s pay mix is 100% performance stock, while the average mix of its other named executive officers (NEOs) is 6% base salary, 4% cash incentives, 50% stock options, and 40% time-based stock. Airbnb’s cash incentive plan is based on 5 discretionary metrics evaluating all aspects of business performance. The CEO’s performance stock, which consists of a large one-time award he received in FY20, is based 100% on stock performance.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(0% of compensation for CEO, 4% for NEOs)

* Business Performance (30%)
* The Roadmap (20%)
* Other Foundation (20%)
* Operations (15%)
* Technology (15%)

**CEO One-Time Award**

* In November 2020, Airbnb’s CEO received a one-time retention award consisting of 12M PSUs valued by Airbnb at $120M using pre-IPO assumptions and at $1.68B based on the IPO price
* The PSUs vest each year over a 10Y performance period depending on the achievement of stock price hurdles; shares underlying the earned PSUs will not be issued until 2Y after PSUs vest
* To earn every award tranche, the CEO will need the stock to reach 7x its IPO price or 13x its price at the time of the grant

**Comments**

* Airbnb’s CEO receives a $1 annual salary. He is one of a few CEOs of the tech companies we covered that does not receive a salary. Shopify, Meta, and Tesla’s CEOs are other examples. However, Shopify and Tesla grant their CEOs significant equity, while Meta’s CEO does not receive any equity compensation.
* Like Meta, Airbnb’s cash incentive metrics are discretionarily determined and holistic in nature. However, Airbnb provides more disclose than Meta on the sub-components of its metrics.

**Additional Detail on Metrics**

* Business Performance includes sub-components, such as Deliver Business Plan and Make Hosting Mainstream
* The Roadmap contains sub-components, such as Product Releases
* Other Foundation includes sub-components, such as Fixed Cost Management, Employee Experience, and Public Actions to Serve Stakeholders
* Operations includes sub-components, such as Community Support Interactions and Variable Costs
* Technology contains sub-components, such as Efficient Use of Infrastructure

**FY23 Performance**

* Cash Incentives (96% of target payout)
  + Business Performance: 96% of target payout
  + Roadmap: 92% payout
  + Other Foundation: 96% payout
  + Operations: 97% payout
  + Technology: 100% payout
* CEO Award:2 of the CEO’s 10 RSU tranches have vested since the award’s commencement. Shares for the first tranche were delivered in November 2023 and shares for the second tranche will not be delivered until November 2024.
* For FY23, Airbnb’s 1Y TSR was 59.2%, and its 3Y TSR CAGR was -2.5%

**Notes**

* The non-CEO NEOs should receive half of their equity awards in stock options and the other half in time-based stock, but the disclosed figures do not reflect that mix, possibly as a result of option pricing

# Morgan Stanley

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Morgan Stanley’s CEO’s pay mix is 4% base salary, 24% cash incentives, 58% performance stock, and 14% time-based stock, while the average mix of its other named executive officers (NEOs) is 5% base salary, 38% cash incentives, 29% performance stock, and 28% time-based stock. Morgan Stanley’s variable incentive compensation (cash incentives, performance stock, and time-based stock) is based on the Board’s discretionary assessments of company and individual performance. The performance stock vests based on 2 equally weighted performance metrics, Absolute Return on Tangible Common Equity (ROTCE) and Relative ROTCE.

**Detailed Description of Performance-Based Compensation Approach**

**Variable Incentive Compensation**(96% of compensation for CEO, 95% for NEOs), unweighted components

* Quantitative Company Performance Factors
  + Financial Performance (e.g., Revenue, Net Income, Pre-Tax Profit, Client Assets, AUM)
  + Capital and Liquidity Strength (e.g., CET1 Ratio, Dividends)
  + Business Segment Performance
  + Efficiency Ratio
  + Return on Tangible Common Equity (ROTCE)
  + TSR
* Qualitative Company Performance Factors
  + Effective Risk and Control Framework
  + Culture, Leadership, Strategy, Resilience, Reputation, and Deepening of MUFG Alliance
  + Global Regulatory Standing
  + Workforce Resilience and Diversity
  + Credit Rating
* Individual Performance Assessment

**Performance Stock**(58% of compensation for CEO, 29% for NEOs)

* 3Y Absolute ROTCE (50%)
* 3Y Relative ROTCE compared to peer group (50%)
  + Peer group includes Bank of America, Barclays, Citigroup, Deutsche Bank, Goldman Sachs, JPMorgan Chase, UBS Group, and Wells Fargo

**One-Time Awards**

* In 2023, 3 NEOs received one-time $20M staking awards connected with the CEO succession. The staking awards consist of 60% performance stock and 40% time-based stock. The performance stock vesting conditions are the same as the company’s routine performance stock grants.

**Comments**

* Morgan Stanley’s discretionary approach to determining executives’ payouts is similar to the approaches taken at other GSIBs, as well as Capital One, BlackRock, and Chubb. These companies also do not have quantitative targets for their broad assessments of company performance.
* Morgan Stanley’s approach of setting total compensation targets for its CEO ($20M-$40M range in FY23) and adjusting compensation based on current-year performance is similar to the approaches at other banks. Like at other banks, Morgan Stanley’s executives’ variable compensation is determined based on current-year performance and then is divided into cash incentives and long-term equity.
* The CEO is required to retain 75% of equity awards granted and acquired prior to and including the 5th year of covered service and 50% of equity awards for performance years following the 5th year of covered service. Other NEOs must retain 50% of equity awards granted and acquired prior to and including the 5th year of covered service and 33% of equity awards for performance years following the 5th year of covered service.
* Morgan Stanley targets the 55th percentile of its peer group for its Relative ROTCE metric, which is higher than the 50th percentile targets of most other companies we reviewed with relative metrics

**FY23 Performance**

* Morgan Stanley’s CEO received total compensation of $37M in 2023, and every NEO’s cash incentive compensation increased, signifying strong performance
* The performance stock payout was 142% of target, compared to a 12Y average of 110% payouts
* For FY23, Morgan Stanley’s 1Y TSR was 13.9%, and its 3Y TSR CAGR was 14.4%

**Notes**

* We calculate the compensation mix using actual compensation because Morgan Stanley does not disclose target amounts for each NEO
* The above compensation mixes reflect pay mixes before the CEO transition and exclude the aforementioned staking awards

# Aon

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Aon’s CEO’s pay mix is 6% base salary, 15% annual incentive payments, and 79% long-term performance stock grants, while the average mix of its other named executive officers is 16% base salary, 24% annual incentive payments, and 60% long-term performance stock grants. The annual incentive payments, the majority of which are delivered in the form of performance stock, are based primarily on Operating Income Growth and secondarily on People and Culture. The performance stock vests based on EPS.

**Detailed Description of Performance-Based Compensation Approach**

**Annual Incentive Payments**(15% of compensation for CEO, 24% for NEOs)

* Adjusted Operating Income Growth (80%); no payout if Adjusted Operating Income is below certain threshold (70% of 2022 Adjusted Operating Income in 2023)
* People and Culture (20%)
* Compensation Committee can make discretionary adjustments, and the CEO can propose -20% to 10% modification for NEOs (upward modifications must be approved by Compensation Committee)

**Long-Term Performance Stock**(79% of compensation for CEO, 60% for NEOs)

* 3Y Cumulative Adjusted EPS (100%)

**Comments**

* Aon’s annual incentive structure is unique. In FY23, Aon’s CEO and 3 of the 4 other NEOs received the entirety of their annual incentive payments in performance stock. The General Counsel received a portion of his annual incentive payment in cash. The annual incentive performance stock units have the same vesting conditions as the other performance stock grants and also include an undisclosed stock price hurdle.
* Aon is one of a few companies we reviewed where the Board applied negative discretion to reduce short-term incentive payouts. In FY23, the Board reduced the CEO and 3 NEOs’ incentive payouts from 109% of target to 68% because the CEO felt that the company had not fully delivered on its high expectations.

**One-Time Awards**

* In FY23, the CFO and President received one-time grants of 50K PSUs valued at $17M. The PSUs vest over 5Y based on the achievement of stock price hurdles (target is $500 and maximum is $550).

**Financial Metric Adjustments**

* Adjusted Operating Income Growth excludes amortization and impairment of intangible assets, restructuring costs, legal settlement expenses, and other extraordinary items
* Adjusted EPS excludes the same items and was also adjusted in 2023 to exclude incremental growth in fiduciary investment income over the past year

**Additional Detail on Metrics**

* People and Culture includes qualitative goals related to recruitment, promotion, education, and representation

**FY23 Performance**

* Cash Incentives (68% of target payout for CEO and 3 NEOs, 96% for General Counsel)
  + Operating Income Growth: exceeded hurdle by 8 pp
  + People and Culture: 113% of target payout
  + The CEO proposed to the Compensation Committee that it lower annual incentive payments because he felt that the company had not fully delivered on its high expectations, leading to a reduction of the incentive payout from 109% of target to 68% for the CEO and 3 NEOs
* FY21-FY23 Performance Stock (200% of target payout)
  + EPS: exceeded target by 19%
* For FY23, Aon’s 1Y TSR was -2.3%, and its 3Y TSR CAGR was 12.1%

**Notes**

* The compensation mixes reflect target annual incentive payments and grant date fair value of long-term performance stock units assuming probable outcomes

# Synopsys

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Synopsys’ CEO’s pay mix is 6% base salary, 12% cash incentives, 41% performance stock, 21% stock options, and 21% time-based stock, while the average mix of its other named executive officers (NEOs) is 9% base salary, 12% cash incentives, 39% performance stock, 20% stock options, and 20% time-based stock. Synopsys’s cash incentive plan is based primarily on financial metrics (Revenue, Operating Margin, and Revenue Backlog) and contains modifiers for non-financial metrics related to employee engagement and retention and DE&I. Its performance stock plan is 100% based on Revenue and contains a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(12% of compensation for CEO and NEOs)

* Revenue (60%)
* Adjusted Operating Margin (40%)
* 85-150% multiplier based on FY+1 Revenue Backlog
* 100-110% multiplier based on FY+2 Revenue Backlog
* 0-10 pp of possible modification based on Organizational Performance Goals; subcomponents below
  + Retain Talent (40%)
  + Increase Representation (30%)
    - Global Women Representation (50%)
    - Global Women Leaders (25%)
    - Underrepresented US Minority Representation (25%)
  + Employee Engagement Score (30%)
  + Only applied if weighted average performance on Organizational Performance Goals is 75% of target or better and if weighted average performance on Revenue and Operating Margin metrics is 95% of target or better; 8 pp of modification for 75% of Organizational Performance Goals target achievement, 10 pp of modification for 90% of target or higher Organizational Performance Goals achievement
* No payout if Adjusted Operating Margin threshold is not achieved (70% of target in 2023)
* The Board has the discretion to modify payouts based on individual performance

**Performance Stock**(41% of compensation for CEO, 39% for NEOs)

* 3Y Adjusted Revenue CAGR (100%)
* -25% to 25% modification based on 3Y Relative TSR compared to S&P 500
* No payout if Adjusted Revenue CAGR or Relative TSR fall below threshold

**One-Time Awards**

* In FY23, the new CEO received a one-time PSU grant of $8M, likely with the same performance conditions as the normal program
* In FY23, Synopsys’ new CFO received a one-time grant of $2.5M in stock options, $2.5M in performance stock (same vesting conditions as normal program), $5M in RSUs that ratably vest over 4Y, and $2M in immediately vesting RSUs

**Comments**

* Synopsys’s cash incentive plan’s multiplier approach is different than the additive approach of most other short-term incentive plans and could lead to higher payouts, though payouts were modest in FY23 and are capped at 225% of target
* Synopsys excludes stock-based compensation from its Operating Margin metric
* In FY23, Synopsys’s Board applied discretion to reduce the CEO and General Counsel’s cash incentive payouts by 3.5% and 7% respectively and increase the other NEOs’ cash incentive payouts by 4-11%

**Financial Metric Adjustments**

* Adjusted Operating Margin excludes stock-based compensation, amortization of intangible assets, acquisition-related items, restructuring charges, and non-qualified deferred compensation plan
* 3Y Adjusted Revenue CAGR adds back unreimbursed lost revenue incurred as a result of unusual or non-recurring transactions or events, lost revenue as a result of changes in trade or public policies, and significant incremental impact resulted from new accounting guidance or standards. It also excludes the impacts of acquisitions or divestitures.

**Additional Detail on Metrics**

* Retain Talent is evaluated based on undesired turnover percentage, which measures exits by high-performing employees who exit for other opportunities

**Recent Changes**

* In FY24, the new CEO’s compensation increased from $625K to $840K, his cash incentive target remained at 200% of base salary, and the target value of his annual equity grants was increased from $7.5M to $15M
* The CFO and Chief Revenue Officer’s target equity compensation increased by 33% and 20% respectively
* In FY23, Synopsys changed its performance stock performance period from 2Y to 3Y
* In FY23, Synopsys reduced the outgoing CEO’s cash incentive target from 240% of salary to 200%, increased the Chief Revenue Officer’s target from 125% to 150% of target and increased the General Counsel’s target from 75% to 80% of target

**FY23 Performance**

* Cash Incentives (140% of target payout before discretionary modifications mentioned in comments)
  + Revenue: exceeded target by 0.05%
  + Operating Margin: exceeded target by 90 bps
  + FY24 Revenue Backlog: exceeded target by 1%
  + FY25 Revenue Backlog: exceeded target by 21%
  + Operational Performance Goals: exceeded target by 33%
* FY22-FY23 Performance Stock (150% of target payout)
  + Revenue CAGR: exceeded target by 38%
  + TSR: 95th percentile of S&P 500
* For FY23, Synopsys’ 1Y TSR was 60.5%, and its 3Y TSR CAGR was 30%

**Notes**

* The above compensation mix reflects the outgoing CEO’s compensation in FY23. He departed his position in January 2024.
* Pay mixes may not sum to 100% because of rounding
* Performance stock is performance-based restricted stock units

# Sempra

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Sempra’s CEO’s pay mix is 10% base salary, 17% cash incentives, 49% performance stock, and 24% stock options, while the average mix of its other named executive officers (NEOs) is 24% base salary, 17% cash incentives, 40% performance stock, 12% stock options, and 7% time-based stock. Sempra’s cash incentive plan is based 80% on Net Income and 20% on Safety and ESG metrics, while its performance stock plan contains 2 equally weighted metrics, Relative TSR and Relative EPS.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(17% of compensation for CEO and NEOs)

* Adjusted Net Income (80%)
* Safety (12%)
  + Public Safety (50%)
  + Employee and Contractor Safety (50%)
* Environmental, Cultural, and Governance (8%)
  + Environmental (33%)
  + Culture (33%)
  + Governance (33%)

**Performance Stock**(49% of compensation for CEO, 40% for NEOs)

* 3Y Relative TSR (50%)
  + Compared to S&P 500 Utilities (50%)
  + Compared to S&P 500 (50%)
* 3Y Relative Adjusted EPS CAGR compared to S&P 500 Utilities (50%)

**Comments**

* Sempra excludes share repurchases not contemplated in financial plans publicly communicated prior to the grant date from its EPS calculation
* Compared to the other multi-utilities we reviewed, Sempra has a similar performance stock metric mix to CenterPoint and DTE, while DTE has a much higher weighting for non-financial metrics in its cash incentive plan (60% vs 8% at Sempra and 0% at CenterPoint; CenterPoint has a 7% carbon emissions weighting in its performance stock plan and a 5% DE&I modifier in its cash incentive plan). DTE's non-financial metrics are Utility Operating Excellence Index, Safety & Engagement, and Customer Satisfaction.
* Sempra is one of the few companies we examined that discloses several years of historical payouts. In the last 10 years across all of its performance pay metrics, Sempra has averaged payouts of ~100% of target, as recent outperformance has offset poor performance in the mid-2010s.

**Financial Metric Adjustments**

* Adjusted Net Income and EPS exclude currency fluctuations, impacts of acquisitions and divestitures, unrealized mark-to-market gains/losses on derivatives, unplanned pension returns, impairments, litigation charges, and other extraordinary items
* Adjusted EPS also excludes share repurchases not contemplated in financial plans publicly communication prior to grant date of awards

**Additional Detail on Metrics and Compensation Structure**

* Public Safety includes components, such as damage prevention and responses to gas leaks and power shutoffs, while Employee and Contractor Safety examines incident rates
* Environmental includes components such as strategic energy transition projects and carbon dioxide emission reductions
* Culture includes components such as employee engagement, diversity and inclusion, and employee training
* Governance includes components such as cybersecurity, compliance, and third-party training on governance
* The average NEO long-term equity mix reflects how some NEOs’ long-term equity awards are 2/3 performance stock and 1/3 time-based stock, while others' mixes are 2/3 performance stock and 1/3 stock options

**FY23 Performance**

* Cash Incentives (176% of target payout)
  + Net Income: exceeded target by 7%
  + Safety: 127% of target payout
  + Environmental, Culture, and Governance: 150% of target
* FY21-FY23 Performance Stock
  + Relative TSR Compared to S&P 500 Utilities: 68th percentile, leading to 145% payout
  + Relative TSR Compared to S&P 500: 54th percentile, leading to 109% payout
  + EPS CAGR: 200% payout
* For FY23, Sempra’s 1Y TSR was -0.1%, and its 3Y TSR CAGR was 8.9%

**Notes**

* Percentages may not sum to 100% because of rounding
* Performance stock is performance-based restricted stock

# Hilton Worldwide Holdings

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 140 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Hilton Worldwide Holdings’ CEO’s pay mix is 5% base salary, 8% cash incentives, 44% performance stock, 22% stock options, and 22% time-based stock, while the average mix of its other named executive officers (NEOs) is 15% base salary, 15% cash incentives, 35% performance stock, 18% stock options, and 18% time-based stock. Hilton’s CEO's cash incentive plan is based 50% on EBITDA and 50% on discretionary individual performance metrics (Business Area Performance and Organizational Strength). Hilton's other NEOs' cash incentive plans are weighted 60% towards discretionary individual performance metrics. Hilton's  performance stock plan is based on 4 equally weighted metrics, Free Cash Flow Per Share, EBITDA, Net Unit Growth, and RevPar Index Growth.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(8% of compensation for CEO, 15% for NEOs)

* Adjusted EBITDA (50% for CEO, 40% for 3 NEOs, 20% for Former Chief Brand Officer)
* Business Area Performance (25% for CEO, 40% for all NEOs)
* Organizational Strength (25% for CEO, 20% for all NEOs)
* Franchise Fees (0% for CEO and 3 NEOs, 20% for Former Chief Brand Officer)

**Performance Stock**(44% of compensation for CEO, 35% for NEOs)

* Adjusted Free Cash Flow Per Share in 3Y (25%)
* Adjusted EBITDA in 3Y (25%)
* 3Y Adjusted Net Unit Growth CAGR (25%)
* RevPar Index Growth in 3Y (25%)

**Comments**

* Hilton excludes stock-based compensation from its Adjusted EBITDA metric
* The proxy filing notes that quantitative metrics account for approximately 80% of the annual cash incentive payout, implying that Business Area Performance and Organizational Strength contain several quantitative sub-components. However, the remaining qualitative components and the lack of explicitly defined targets for the aforementioned quantitative sub-components allow for significant Board discretion in determining individual payout amounts.
* Hilton’s time-based stock awards vest over 2Y, compared to the 3-4Y vesting periods at most other US companies we reviewed

**Financial Metric Adjustments**

* Adjusted EBITDA excludes stock-based compensation, gains/losses associated with asset dispositions, impacts of debt restructurings and retirements, restructuring costs, non-cash impairment costs, amortization of contract acquisition costs, reimbursement revenues and expenses included in other revenues and expenses from managed and franchised properties, and other non-recurring items
* Adjusted Free Cash Flow excludes the same items as Adjusted EBITDA, as well as the net impact from loyalty program advanced point sales
* Adjusted Net Unit Growth CAGR excludes the impact from any portfolio acquisition or disposition

**Additional Detail on Metric Components**

* The CEO’s cash incentive plan contains weights of 50% for Adjusted EBITDA and 50% for Business Area Performance and Organizational Strength. We assume that Business Area Performance and Organizational Strength is weighted equally between the two categories.
* Hilton does not disclose the Franchise Fees metric it uses for the former Chief Brand Officer's pay. It is reasonable to assume that the metric is franchise fee revenues.
* Business Area Performance and Organizational Strength are evaluated individually for each NEO
* Business Area Performance includes Win with Our Customers (e.g., Hilton Honors Enrollment and Digital and Online Travel Agency Channel Mix Change), Enhance Our Network Effect (e.g., Net Unit Growth and Progress on Approved Deals through Construction Starts), and Maximize our Performance (e.g., Adjusted EBITDA, Real Estate Adjusted EBITDA, and RevPar Index Growth)
* Organizational Strength includes Lead with Our Culture (e.g., Progress Toward Travel with Purpose 2030 Goals, Global Team Member Engagement Survey) and Maximize Customer Experience

**FY23 Compensation Changes**

* Hilton increased the CEO’s long-term performance incentive (performance stock, stock options, and time-based stock) target by 19% in recognition of his 16-year tenure as CEO and the Board's assessment of his exceptional performance. Hilton increased its NEOs’ long-term performance incentive target by 17%.

**FY23 Performance**

* Cash Incentives (142% of target payout for CEO, 139-146% for NEOs)
  + EBITDA: exceeded target by 8%
  + Business Area and Organizational Strength: 144% of target for CEO, 138-150% for NEOs
* FY21-FY23 Performance Stock (200% of target payout)
* For FY23, Hilton’s 1Y TSR was 44.7%, and its 3Y TSR CAGR was 18.2%

**Notes**

* Pay mixes may not sum to 100% because of rounding

# Motorola Solutions

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Motorola Solutions’ CEO’s pay mix is 6% base salary, 12% cash incentives, 54% performance-based long-term incentives (50% in performance stock and 50% in performance stock options), and 27% market stock units, while the average mix of its other named executive officers (NEOs) is 15% base salary, 18% cash incentives, 44% performance-based long-term incentives (50% in performance stock and 50% in performance stock options), and 22% market stock units. Motorola’s cash incentive plan is based 65% on Operating Income and 35% on Free Cash Flow. It also contains an individual performance modifier. Motorola's performance-based long-term incentives are based 100% on Relative TSR, while the market stock units (MSUs) vest based on stock price appreciation.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(12% of compensation for CEO, 18% for NEOs)

* Adjusted Operating Income (65%)
* Free Cash Flow (35%)
* Individual Performance Factor multiplier (0-140%)

**Performance-Based Long-Term Incentives**(54% of compensation for CEO, 44% for NEOs)

* 3Y Relative TSR compared to S&P 500 (100%)
* Compensation and Leadership Committee has discretion to reduce grants if 3Y Absolute TSR is negative

**Market Stock Units**(27% of compensation for CEO, 22% for NEOs)

* Vesting depends on stock performance, each 1% increase in stock price over performance period leads to 1% increase in number of MSUs earned
* Maximum payout of 100% increase
* No MSUs earned if stock price decreases by 40% or more
* Vest in equal installments over overlapping 1Y, 2Y, and 3Y performance periods

**Comments**

* Bristol-Myers Squibb and Pfizer also have MSUs. The MSUs function as a way to tie compensation to stock performance without specifying an Absolute TSR target.
* Motorola excludes stock-based compensation from Adjusted Operating Income
* Motorola pays out 110% of target for Relative TSR performance that falls between the 55th and 60th percentiles of the S&P 500 and 90% of target for Relative TSR performance that falls between the 50th and 55th percentiles. This payout structure is different than the structures employed by most of the other companies we reviewed. Most companies target the 50th percentile for their Relative TSR measures.

**Financial Metric Adjustments**

* Adjusted Operating Income excludes share-based compensation, reorganization of business charges, intangible assets amortization expenses, tangible and intangible asset impairments, certain non-cash pension adjustments, legal settlements and other contingencies, gains and losses on investments and asset sales, gains and losses on extinguishment of debt, and other extraordinary items

**Additional Detail on Metrics**

* The Individual Performance Factor evaluates executives’ performance on financial, operational, long-term strategic, and people goals

**FY23 Performance**

* Cash Incentives (153% of target payout)
  + Operating Income: exceeded target by 1%
  + Free Cash Flow: exceeded target by 10%
  + Individual Performance Factors: 140% for CEO and other NEOs
* Performance-Based Long-Term Incentives (200% of target payout, maximum is 250%)
  + Relative TSR: 89th percentile of peer group
* Market Stock Units
  + 152% of target payout for FY20, 147% for FY21, and 121% for FY22
* For FY23, Motorola’s 1Y TSR was 23%, and its 3Y TSR CAGR was 24.2%

**Notes**

* Pay mixes may not sum to 100% because of rounding

# Accenture

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Accenture’s CEO’s pay mix is 6% base salary, 15% cash incentives, 58% performance stock, and 20% time-based stock, while the average mix of its other named executive officers (NEOs) is 13% base salary, 23% cash incentives, 47% performance stock, and 16% time-based stock. Accenture’s cash incentive payouts are based on the Board’s discretionary assessments of company and individual performance. Performance stock grant sizes depend on Absolute TSR and the Board’s assessment of the company’s performance during the prior fiscal year. The performance stock vests based 75% on Operating Income and 25% on Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(15% of compensation for CEO, 23% for NEOs), unweighted components

* Company Scorecard (unweighted components)
  + Financial Objectives
  + People Objectives
  + Clients and Ecosystem Partners Objectives
  + Strategic Objectives
  + Sustainability Objectives
* Individual Performance Assessment

**Performance Stock**(58% of compensation for CEO, 47% for NEOs)

* 3Y Cumulative Adjusted Operating Income (75%)
* 3Y Relative TSR compared to peer group and S&P 500 Total Return Index (25%)
  + Peer group includes Aon, Capgemini, Cisco Systems, Cognizant Technology Solutions, DXC Technology, General Dynamics, Infosys, Intel, IBM, Marsh & McLennan Companies, Microsoft, Oracle, Salesforce, SAP, and Visa
* Grant sizes can be modified -15% to 15% based on 1Y and 3Y Absolute TSR and overall assessment of prior fiscal year. The modifier is capped at 0% if 2Y Relative TSR compared to peer group is below the 55th percentile.

**Comments**

* Each executive officer is eligible to devote up to 30% of their cash incentive compensation toward share repurchases and then receive a 50% matching time-based stock grant for each share they purchase. The CEO and 3 of the other 4 NEOs opted to participate in the matching program. This matching grant will generally vest in full two years from the date of the grant. The matching program is similar to programs at Restaurant Brands International (QSR) and Keurig Dr Pepper (KDP). However, Accenture’s program appears to grant fewer shares than the other programs, as it does a 1 for 2 match (1 matching share for 2 purchased shares), rather than 1 for 1 at KDP and 2.25 for 1 at QSR.
* Accenture’s discretionary approach to determining cash incentive compensation is similar to the approaches taken by Chubb and BlackRock, as well as many banks. Accenture’s use of corporate performance assessments and Absolute TSR to determine performance stock grant sizes is similar to the approaches taken at Abbott and Caterpillar, where individual performance and Relative TSR determine long-term equity grant sizes.
* Accenture targets the 60th percentile of its peer group for its Relative TSR metric, which is higher than the 50th percentile targets at most other companies we examined
* Accenture has a 3Y vesting schedule for its time-based stock, but the vesting period is shortened for executives over 50 years old. The CEO’s RSU awards vest over a 1Y period.

**Additional Detail on Metrics**

* Financial Objectives include revenue growth, new bookings, operating margin, EPS, and free cash flow
* People Objectives include diversity and inclusion goals and investing in employees’ wellbeing
* Clients and Ecosystems Partners Objectives include maintaining #1 position for leading ecosystem partners
* Strategic Objectives include increasing brand leadership position and growth initiatives
* Sustainability Objectives include environmental goals and continuing commitment to communities

**FY23 Performance**

* Cash Incentives
  + Despite determining that Accenture met expectations on a corporate level and the CEO met expectations on an individual level, the Board,  possibly as a result of a slight YoY drop in Net Income, decided to decrease the CEO and average NEO's cash incentives by 44% and 35% respectively compared to FY22
* Target Size Modifier: FY23 performance stock grants were reduced by 5%
* FY21-FY23 Performance Stock (106% of target payout)
* For FY23, Accenture’s 1Y TSR was 14.1%, and its 3Y TSR CAGR was 12%

# DR Horton

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**DR Horton’s CEO’s pay mix is 2% base salary, 40% short-term incentives (50% in cash and 50% in equity), 50% performance stock, and 8% time-based stock, while the average mix of its other named executive officers (NEOs) is 4% base salary, 44% short-term incentives (50% in cash and 50% in equity), 44% performance stock, and 9% time-based stock. The CEO and other NEOs’ short-term incentive payouts are based on a fixed percentage of Pre-Tax Income, while their performance stock vests based on 4 equally weighted metrics, Relative TSR, Relative Return on Investment, Relative SG&A as a % of Revenue, and Relative Homebuilding Segment Gross Margin.

**Detailed Description of Performance-Based Compensation Approach**

**Short-Term Incentives**(40% of compensation for CEO, 44% for NEOs)

* Executive officers receive a fixed percentage of Pre-Tax Income each year, ranging from 0.10-0.20%
* The Compensation Committee has the discretion to make downward adjustments to incentive grants
* Short-Term Incentive pay is capped at different levels for each executive officer, ranging from $10M to $14M

**Performance Stock**(50% of compensation for CEO, 44% for NEOs)

* 3Y Relative TSR compared to S&P 500 Index TSR (25%)
* 3Y Relative Return on Investment (ROI) compared to peer group (25%)
  + Peer group includes KB Home, Lennar, MDC Holdings, Meritage Homes, NVR, PulteGroup, Taylor Morrison Home, Toll Brothers, and Tri Pointe Homes
* 3Y Relative SG&A as % of Revenue compared to peers (25%)
  + Same peer group as above
* 3Y Relative Homebuilding Segment Gross Margin compared to peers (25%)
  + Same peer group as above

**Comments**

* DR Horton’s short-term incentive pay structure is unique. The plan lacks a threshold, other than positive pre-tax income, which the company has enjoyed every year since FY09. DR Horton does not refer to this program as a profit-sharing program, but its structure seems similar to profit sharing programs at Texas Instruments and TSMC. The short-term incentive equity shares vest immediately and must be held for an additional 2 years.
* DR Horton has high thresholds and targets for its performance stock financial metrics (6th out of 10 for threshold and 3rd out of 10 for target). Its Relative TSR metric has a target of equal performance to the S&P 500 Index TSR.
* The Chairman and Vice Chairman’s time-based awards vest over 3Y, while other NEOs’ awards, including the CEO’s awards, vest over 5Y. Most other US companies we examined have vesting periods of 3-4Y.

**Financial Metric Calculations**

* Homebuilding Segment Gross Margin is calculated as (Homebuilding Revenue-Cost of Sales-Inventory and Land Option Charges)/Homebuilding Revenue
* ROI is pre-tax income divided by average total assets

**FY24 Changes**

* The above information reflects DR Horton’s proposed executive compensation for FY24. In prior years, one NEO was not part of the short-term incentive plan and other NEOs received all of their short-term incentive compensation in cash. In FY24, all NEOs will participate in the short-term incentive plan and receive half of their compensation in cash and half in deferred equity.

**FY23 Performance**

* FY21-FY23 Performance Stock (169% of target payout)
  + Relative TSR: 12.8 pp above the S&P 500 Index
  + Relative ROI: 2nd out of 10 in peer group
  + SG&A as % of Revenues: 2nd out of 10 in peer group
  + Homebuilding Segment Gross Margin: 4thout of 10 in peer group
* For FY23, DR Horton’s 1Y TSR was 61.1%, and its 3Y TSR CAGR was 13.6%

**Notes**

* Pay mixes may not sum to 100% because of rounding
* We calculate the compensation mix using actual compensation because DR Horton does not disclose target amounts for each NEO, and the cash incentive is not tied to a target but instead functions more like a profit-sharing program
* DR Horton’s co-founder and chairman had the largest compensation package in FY23 ($32.6M), but given his move to a non-executive chairman role in FY24, he is excluded from the compensation mixes presented above

# Arthur J. Gallagher

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Arthur J. Gallagher’s CEO’s pay mix is 11% base salary, 24% cash incentives, 35% performance stock, 12% stock options, and 19% deferred equity grants, while the average mix of its other named executive officers (NEOs) is 21% base salary, 27% cash incentives, 19% performance stock, 13% stock options, and 20% deferred equity grants. AJG’s cash incentive plan is based on Revenue and EBITDAC Growth, while its performance stock plan is based on EBITDAC Per Share Growth.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(24% of compensation for CEO, 27% for NEOs)

* Payout determined using a performance matrix of:
  + Adjusted Revenue Growth for Combined Brokerage & Risk Management
  + Adjusted EBITDAC Growth for Combined Brokerage & Risk Management
* The Board has the discretion to adjust payouts

**Performance Stock**(35% of compensation for CEO, 19% for NEOs)

* 3Y Average Adjusted EBITDAC Per Share Growth for Combined Brokerage & Risk Management (100%)

**Comments**

* AJG has a unique vesting structure for its deferred equity grants. The grants only vest if the executive officer remains employed at the company at 62, which is different than the time-based (typically 3-4Y) vesting most other companies use.
* The cash incentive payout matrix has equal target and threshold levels of 0% growth. By contrast, 3Y Average Adjusted EBITDAC Per Share Growth has a threshold of 4%, below which no performance stock vests.
* Compared to the other insurance brokers we reviewed (Aon and Marsh & McLennan), Aon and Marsh & McLennan’s compensation plans focus more on earnings (only financial metrics are EPS and Operating Income), while AJG’s plans include Revenue and EBITDAC growth. Aon and Marsh McLennan’s short-term incentive plans also include a 20% weighted non-financial metric, while AJG’s plans are entirely based on financial performance.
* AJG’s stock option awards vest over 5Y. Most other US companies we examined have 3-4Y vesting periods.

**Financial Metric Adjustments and Calculation**

* Adjusted Revenue Growth excludes gains/losses on divestitures and foreign currency fluctuations, but does not seem to exclude revenue from acquisitions
* Adjusted EBITDAC excludes the change in estimated acquisition earnout payables, as well as gains on sales of books of business, restructuring charges, and foreign currency fluctuations. It does not exclude acquisition integration costs other than a small amount captured in restructuring charges.

**FY23 Changes**

* In FY23, the CEO’s long-term incentive target increased from 360% of base salary to 435%

**FY23 Performance**

* Cash Incentives (200% of target payout)
* Performance Stock (194% of target payout)
  + EBITDAC Growth: exceeded target by 740 bps
* For FY23, AJG’s 1Y TSR was 20.5%, and its 3Y TSR CAGR was 23.5%

**Notes**

* Pay mixes may not sum to 100% because of rounding

# Amgen

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Amgen’s CEO’s pay mix is 9% base salary, 13% cash incentives, 39% performance stock, 23% stock options, and 16% time-based stock, while the average mix of its other named executive officers (NEOs) is 17% base salary, 16% cash incentives, 34% performance stock, 20% stock options, and 13% time-based stock. Amgen’s cash incentive plan is 60% based on financial metrics (Revenue and Net Income) and 40% on non-financial metrics (primarily Pipeline, secondarily ESG and Integrations and Collaborations). Its performance stock plan contains 2 equally weighted metrics, EPS and ROIC, as well as a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(13% of compensation for CEO, 16% for NEOs)

* Revenue (30%)
* Adjusted Net Income (30%)
* Execution of Key Clinical Studies and Regulatory Filings (20%)
* Advancement of Early Pipeline (10%)
* ESG (5%)
* Success of Integrations and Collaborations (5%)

**Performance Stock**(39% of compensation for CEO, 34% for NEOs)

* Adjusted EPS, annual targets over 3Y (50%)
* Adjusted ROIC, annual targets over 3Y (50%)
* -30% to 30% modification based on 3Y Relative TSR compared to S&P 500; modifier capped at 0% if 3Y Absolute TSR is negative

**Comments**

* Amgen is one of only 3 of the 13 biopharma companies we reviewed that includes a return measure (e.g., ROIC or ROE) amongst its performance metrics, the others being AbbVie and Daiichi Sankyo
* Amgen’s 30% weighting of pipeline metrics in its cash incentive plan is line with the 20-30% weightings we saw at most of the other large biopharma companies we examined (AbbVie is an exception with a 10% weighting). Regeneron and Vertex take different approaches to their short-term incentive plans. Vertex bases 90% of payouts on non-financial metrics (mostly pipeline and operations metrics), and Regeneron has one broad corporate performance metric that considers pipeline performance amongst other factors.

**Financial Metric Adjustments**

* Adjusted Net Income, EPS, and ROIC exclude the impacts of acquisitions and licensing-related expenses and restructuring costs

**Additional Detail on Metrics and Compensation Structure**

* Advancement of Early Pipeline is measured by metrics, such as number of new product teams, IND approvals, and new human studies
* ESG focuses on environmental sustainability, diversity of clinical trials, and diversion and inclusion at the management level
* Success of Integrations and Collaborations evaluates the company’s integration of its acquisitions and licenses, with metrics centered on growth and employee retention
* The CEO’s cash incentive award is capped at 0.125% of Adjusted Net Income, while other NEOs’ awards are capped at 0.075% of Adjusted Net Income

**FY23 Performance**

* Cash Incentives (159% of target payout)
  + Revenue: exceeded target by 6%
  + Net Income: exceeded target by 5%
  + Advancement of Early Pipeline: 100% of target payout
  + Execution of Key Clinical Studies and Regulatory Filings: 92% payout
  + Success of Integration and Collaborations: 225% payout
  + ESG: 197% payout
* FY21-FY23 Performance Stock (120% of target payout)
  + EPS Growth: 115% average annual payout
  + ROIC: 75% average annual payout
  + TSR: 71st percentile of S&P 500, leading to 25% modification
* For FY23, Amgen’s 1Y TSR was 13.5%, and its 3Y TSR CAGR was 11.3%

# Altria Group

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Altria’s CEO’s pay mix is 10% base salary, 17% annual cash incentives, 27% long-term cash incentives, 23% performance stock, and 23% time-based stock, while the average mix of its other named executive officers (NEOs) is 19% base salary, 18% annual cash incentives, 25% long-term cash incentives, 23% time-based stock, and 15% performance stock. Altria’s annual cash incentive plan is based 85% on financial metrics (EPS, Operating Companies Income, and Discretionary Cash Flow) and 15% on Strategic Initiatives. It also contains an individual performance modifier. Half of Altria's long-term cash incentive plan and all of its performance stock plan are based on financial and market metrics (EPS Growth, Cash Conversion, and Relative TSR modifier), while the other half of its long-term cash incentives plan is based on non-financial, strategic considerations. The long-term cash incentive plan also contains an individual performance modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Annual Cash Incentives**(18% of compensation for CEO, 18% for NEOs)

* Adjusted EPS (30%)
* Adjusted Operating Companies Income (30%)
* Adjusted Discretionary Cash Flow (25%)
* Strategic Initiatives (15%)
* Individual Performance Factor multiplier (0-175% for CEO, 0-150% for NEOs)

**Long-Term Cash Incentives**(28% of compensation for CEO, 25% for NEOs)

* Business Performance (50%)
  + 3Y Adjusted EPS Growth (75%)
  + 3Y Adjusted Cash Conversion (25%)
  + -20% to 20% modification based on 3Y Relative TSR compared to S&P 500 Food, Beverage, and Tobacco Index
* Strategic Initiatives/Other Considerations (50%)
* Individual Performance Factor multiplier (0-150%)
* The Compensation and Talent Development Committee can use its discretion to adjust awards up or down

**Performance Stock**(22% of compensation for CEO, 15% for NEOs)

* 3Y Adjusted EPS Growth (75%)
* 3Y Adjusted Cash Conversion (25%)
* -20% to 20% modification based on 3Y Relative TSR compared to S&P 500 Food, Beverage, and Tobacco Index

**Comments**

* Philip Morris International (PMI) and Altria have similar cash incentive metrics. Both have Strategic Initiatives, Cash Flow and Operating Income metrics, as well as Individual Performance Factors.
* Other companies with long-term cash incentive plans include Halliburton, MercadoLibre, and FedEx. Except for MercadoLibre, these companies also distribute long-term equity compensation to their executives.

**Financial Metric Adjustments and Calculations**

* Adjusted EPS excludes adjusted items related to non-participating manufacturers in master settlement; acquisition, disposition, and integrated-related items; tobacco, health, and other litigation items; loss on disposition of JUUL equity securities; AB InBev-related items; Cronos-related items; and other extraordinary items
* Adjusted Operating Companies Income starts with Operating Income and excludes the amortization of intangibles and general corporate expenses. It also excludes the operating item subset of the Adjusted EPS adjustments.
* Adjusted Discretionary Cash Flow starts with the total change in cash, cash equivalents, and restricted cash and adds back dividends, share repurchases, net long-term debt payments, proceeds from asset sales and acquisition expenses, and the net tax benefit associated with JUUL related losses
* Adjusted Cash Conversion is the portion of adjusted net income that is converted to adjusted discretionary cash flow

**Additional Detail on Metrics**

* Strategic Initiatives includes initiatives related to talent; the long-term profitability of smokeless tobacco; increasing customer engagement and productivity with data and technology; moving toward smoke-free future through products, science, and advocacy; and exploring consumer-centric adjacency growth systems
* The Individual Performance Factor for Annual Cash Incentives includes a DE&I assessment. An executive officer must receive a rating of Advocate or Ally to receive the highest Individual Performance Factor.
* 3 of 4 of the NEOs are in Compensation Band B, while 1 NEO is in Compensation Band C. Compensation Band C has proportionally more short-term compensation, impacting the average NEO compensation mix.
* Altria does not disclose the initiatives under Strategic Initiatives/Other Considerations for performance stock due to competitive reasons

**FY23 Changes**

* In FY23, Altria adjusted the split of long-term equity compensation for its CEO from 60% performance stock and 40% time-based stock to 50% performance stock and 50% time-based stock

**FY23 Performance**

* Annual Cash Incentives (123% of target payout for CEO, 113-127% for NEOs)
  + EPS: achieved target
  + Discretionary Cash Flow: exceeded target by 4%
  + Operating Companies Income: 1% below target
  + Strategic Initiatives: exceeded target by 10%
  + Individual Performance Factors: 125% for CEO, 115-130% for NEOs
* FY21-FY23 Performance Stock (93% of target payout)
  + EPS Growth: 90 bps below target
  + Cash Conversion: exceeded target by 130 bps
  + Relative TSR: 55th percentile of S&P 500 Food, Beverage, and Tobacco Index
* FY21-FY23 Long-Term Cash Incentives (104% of target payout)
  + Strategic Initiatives/Other Considerations: 115% of target payout
  + Individual Performance Assessments: 100% for all executives
* For FY23, Altria’s 1Y TSR was -3.7%, and its 3Y TSR CAGR was 7.7%

# Target

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Target’s CEO’s pay mix is 8% base salary, 15% cash incentives, 46% performance stock units, and 31% performance-based restricted stock units, while the average mix of its other named executive officers is 16% base salary, 16% cash incentives, 41% performance stock units, and 27% performance-based restricted stock units. The cash incentive plan is based 2/3 on financial metrics (Revenue and Operating Income) and 1/3 on a discretionary assessment of corporate performance. The performance stock units vest based on 3 equally weighted relative metrics, Revenue, EPS, and ROIC, while the performance-based restricted stock units vest based on Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(15% of compensation for CEO, 16% for NEOs)

* Financial Component (67%)
  + Revenue (50%)
  + Adjusted Operating Income (50%)
* Team Scorecard (33%)

**Performance Stock Units**(46% of compensation for CEO, 41% for NEOs)

* 3Y Relative Adjusted Revenue CAGR compared to peer group (33%)
  + Peer group includes Albertsons Companies, Amazon, Best Buy, BJ’s Wholesale Holdings, Costco Wholesale, CVS Health, Dollar General, Dollar Tree, The Gap, The Home Depot, Kohl’s Corporation, The Kroger Companies, Lowe’s Companies, Macy’s, Nordstrom, Rite Aid, Ross Stores, The TJX Companies, Walgreens Boosts Alliance, and Walmart
* 3Y Relative EPS CAGR compared to peer group (33%)
  + Same peer group as above
* 3Y Relative Adjusted ROIC compared to peer group (33%)
  + Same peer group as above

**Performance-Based Restricted Stock Units**(31% of compensation for CEO, 27% for NEOs)

* 3Y Relative TSR compared to peer group (100%)
  + Same peer group as above

**Comments**

* Compared to the other Consumer Staples Distribution and Retail companies we reviewed, Target has a much higher weighting for non-financial metrics in its cash incentive plan (33% vs 0% at DG, 17% at Costco, and 0% at DLTR).
* The performance-based restricted stock units have a lower maximum payout percentage (125% of target) than the other two performance plans (200%) and also do not have a cap on payouts if Absolute TSR is negative over the 3Y performance period
* The target performance for the performance stock units relative metrics is the 55th percentile, while the Relative TSR target for the performance-based restricted stock units is 8th-14th out of 21

**Financial Metric Adjustments**

* Adjusted Operating Income excludes cash incentive plan expenses
* Adjusted Revenue excludes sales from divested assets and the 53rd week
* Adjusted ROIC excludes discontinued operations

**Additional Detail on Metrics**

* The Compensation and Human Capital Management Team determines the Team Scorecard score by assessing executives’ progress toward strategic priorities, including inventory turnover, team engagement, equity and inclusion, sales plans for new and remodeled stores, and market share at category and enterprise level

**FY23 Performance**

* Cash Incentives (93% of target payout)
  + Operating Income: exceeded target by 7%
  + Revenue: 3% below target
  + Team Scorecard: 90% of target payout
* FY21-FY23 Performance Stock Units (118% of target payout)
  + Relative Revenue CAGR: 6th out of 21 in peer group
  + Relative EPS CAGR: 10th out of 21 in peer group
  + Relative ROIC: 7th out of 21 in peer group
* FY21-FY23 Performance-Based Restricted Stock Units (75% of target payout)
  + Relative TSR: 15th out of 20 in peer group
* For FY23, Target’s 1Y TSR was -15.0%, and its 3Y TSR CAGR was -5.6%

**Notes**

* Percentages may not sum to 100% because of rounding

# Intel

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Intel’s CEO’s pay mix is 5% base salary, 13% cash incentives, 66% performance stock, and 16% time-based stock, while the average mix of its other named executive officers (NEOs) is 7% base salary, 12% cash incentives, 49% performance stock, and 32% time-based stock. Intel’s CEO’s cash incentive plan is based on 4 equally weighted metrics (Revenue, Gross Margin, Operating Income, and Operational Goals), while its NEOs’ cash incentive plan also includes an Individual Performance Assessment. Intel's performance stock plan is based primarily on Revenue Growth and secondarily on Operating Cash Flow and includes Relative TSR and Revenue modifiers.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(13% of compensation for CEO, 12% for NEOs)

* Adjusted Revenue (25% for CEO, 20% for NEOs)
* Adjusted Gross Margin (25% for CEO, 20% for NEOs)
* Adjusted Operating Income (25% for CEO, 20% for NEOs)
* One Intel Operational Goals (25% for CEO, 20% for NEOs)
  + Product Leadership (25%)
  + Process Leadership (22.5%)
  + Financial Stability (20%)
  + Scale Growth Engines (20%)
  + Culture (12.5%)
  + Up to 20% modification based on RISE 2030-related goals; only applied if Adjusted Revenue and Adjusted Gross Margin are at or above target levels
* Individual Performance Assessment (0% for CEO, 20% for NEOs)
* The Compensation Committee can make discretionary adjustments

**Performance Stock**(66% of compensation for CEO, 49% for NEOs)

* Adjusted Revenue Growth, annual targets over 3Y (60%)
* Operating Cash Flow, annual targets over 3Y (40%)
* -12.5% to 12.5% modification based on 3Y Relative TSR compared to S&P 500
* -12.5% to 12.5% modification based on 3Y Revenue CAGR
* Capped at 100% of target if 3Y Absolute TSR is negative

**One-Time Awards**

* In FY21, Intel’s CEO received a $110M target value new-hire award, consisting of $60M in PSUs, $20M in performance stock options, $10M in time-based RSUs, and $10M in matching RSUs (to offset the CEO’s $10M share purchase)
* 1/3 of the PSUs are tied to Relative TSR compared to the S&P 500 IT Index (median target), 1/3 are tied to absolute stock price appreciation (target of 50% stock price growth during 5Y period, price needs to be held for 30 consecutive days), and 1/3 are tied to absolute stock price outperformance (only vests if stock price appreciates 200% or more and price holds for 30 consecutive days within 5Y performance period)
* The performance stock options vest if Intel’s stock price appreciates 30% or more and price holds for 30 consecutive days within 4Y performance period)
* The CEO has not earned any of the performance-based awards, and the vesting period for the Relative TSR PSUs has ended

**Comments**

* The pay mixes reflect the originally proposed, FY23 target compensation levels before the Compensation Committee exercised its authority to implement Austerity Measures, which reduced the CEO and other NEOs’ base salaries by 25% and 15% respectively and their target cash incentives by 14.6% and 10.5% respectively. Following the Austerity Measures, the Compensation Committee made one-time $220K RSU grants to all NEOs, other than the CEO.
* Intel has some quantitative targets for its One Intel Operational Goals metric, but it is difficult to assess how discretionary the payouts are because Intel provides limited disclosure due to competitive concerns
* Intel excludes stock-based compensation from its Adjusted Gross Margin metric and likely from the Adjusted Operating Margin metric it will start using in FY24
* Intel targets above median performance for its Relative TSR modifier, while most other companies we reviewed target median (50th percentile) performance for their Relative TSR measures

**Financial Metric Adjustments**

* Adjusted Gross Margin excludes share-based compensation, acquisition-related items, patent settlement costs, impairment charges, and divestiture impacts. Adjusted Operating Income likely excludes the same items, as well as restructuring charges.
* Adjusted Revenue excludes the impact of significant divestitures

**Additional Detail on Metrics**

* In FY23, Product Leadership measured the company’s progress on expanding leadership client products with top tier user experiences, enabling data centers of the future with leadership products and platform differentiation, engineering efficiency and execution, and transforming Intel’s Go-To-Market Model
* In FY23, Process Leadership measured the company’s progress in achieving five nodes in four years with unquestioned leadership, achieving manufacturing leadership for IDM and Foundry, and becoming the leading systems foundry with leading and mature node offerings
* In FY23, Financial Stability measured the company’s progress on executing IDM 2.0 Acceleration Office; driving operational efficiencies and structural cost savings with benchmarking; and delivering smart capital offsets, value creation for owners, and capital returns
* In FY23, Scale Growth Engines measured the company’s progress on transforming network into software and driving leadership at the edge; executing its AI strategy; ramping up the discrete graphics business; and building a SaaS business and driving OneAPI, Dev Cloud, and developer engage
* In FY23, Culture measured the company’s progress on restoring employee performance management to drive accountability, living their values to win with customers as One Intel, and promoting their reputation
* Rise 2030 Goals pertain to employee health, safety, and wellness; supply chain human rights; workforce inclusion; supplier diversity; climate and energy; net positive water; zero waste/circular economy; and community impact

**FY24 Changes**

* The metric weightings reflect proposed weightings for FY24. In FY24, Adjusted Operating Income (measured at the group level for group level executives) replaced Spend Reduction. While Intel has not specified the exact measurement of Adjusted Operating Income, we can assume that it will be measured on an adjusted basis because Intel uses adjusted metrics for revenue and gross margin.
* Intel reduced the size of its two performance stock modifiers from 25% to 12.5% and added a requirement to its cash incentive plan that the Rise 2030-related modifier can be applied only if Adjusted Revenue and Adjusted Gross Margin are at or above target levels

**FY23 Performance**

* Cash Incentives (98% of target payout for CEO, 99-106% for NEOs)
  + Revenue: 1.5% below target
  + Gross Margin: 140 bps below target
  + Spend Reduction: 100% of target payout
  + One Intel Operational Goals: 118% of target payout
  + Individual Performance Assessments: 100-135% of target
* FY21-FY23 Performance Stock (0% payout)
  + Relative TSR: 64.5 pp) below S&P 500 IT Index
  + EPS Growth: -34.5% growth (decline) fell below 1.1% threshold
* For FY23, Intel’s 1Y TSR was 94.6%, and its 3Y TSR CAGR was 4%

**Notes**

* The pay mixes do not reflect the one-time RSU awards NEOs received after the Austerity Measures because they were one-time in nature

# VICI Properties

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**VICI Properties’ CEO’s pay mix is 11% base salary, 22% cash incentives, 41% performance stock, and 27% time-based stock, while the average mix of its other named executive officers (NEOs) is 22% base salary, 35% cash incentives, 32% performance stock, and 21% time-based stock. VICI’s cash incentive plan is based on 2Y AFFO Per Share Growth, while its performance stock plan is based on 2 equally weighted metrics, Absolute TSR and Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(22% of compensation for CEO, 35% for NEOs)

* 2Y Adjusted Funds from Operations (AFFO) Per Share Growth (100%)

**Performance Stock**(41% of compensation for CEO, 32% for NEOs)

* 3Y Absolute TSR (50%)
* 3Y Relative TSR compared to MSCI US REIT Index (50%)

**Comments**

* VICI’s 2Y performance period for its cash incentive plan is unique, as most other companies have 1Y performance periods
* VICI excludes stock-based compensation from its AFFO metric
* VICI targets the 55th percentile of the MSCI US REIT Index for its Relative TSR metric, which is higher than the 50th percentile targets of most other companies we examined

**Financial Metric Adjustments**

* AFFO adds to/subtracts from Funds from Operations stock-based compensation expense, non-cash leasing and financing adjustments, non-cash changes in allowance for credit losses, amortization of debt issuance costs, transaction costs, capital expenditures, non-real estate depreciation, impairment charges, gains/losses on debt extinguishment and interest rate swap settlements, and other extraordinary items

**FY23 Performance**

* Cash Incentives (200% of target payout)
  + AFFO Per Share: exceeded target by 8%
* FY21-FY23 Performance Stock (200% of target payout)
  + Absolute TSR: 220 bps above target CAGR
  + Relative TSR: 83rd percentile of MSCI US REIT Index
* For FY23, VICI’s 1Y TSR was 3.6%, and its 3Y TSR CAGR was 13.2%

**Notes**

* Pay mixes may not sum to 100% because of rounding
* Performance stock is performance-based restricted stock

# Costco

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Costco’s CEO’s pay mix is 7% base salary, 4% cash incentives, and 90% performance stock, while the average mix of its other named executive officers (NEOs) is 14% base salary, 4% cash incentives, and 82% performance stock. Costco’s cash incentive plan is primarily based on financial metrics (Pre-Tax Income and Revenue) and secondarily on ESG metrics. Its performance stock grants vest over 4Y if Costco achieves 1Y Revenue and Pre-Tax Income Growth thresholds.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(4% of compensation for CEO and NEOs)

* Adjusted Pre-Tax Income (42% for CEO, 40% for NEOs)
* Adjusted Revenue (42% for CEO, 40% for NEOs)
* ESG (17% for CEO, 20% for NEOs)

**Performance Stock**(90% of compensation for CEO, 82% for NEOs)

* Vests as time-based stock over 4Y if Costco achieves 1Y Adjusted Revenue Growth (3% in FY23) or 1Y Adjusted Pre-Tax Income Growth (2% in FY23) thresholds

**Comments**

* Costco has less disclosure on executive compensation and a much shorter compensation report than most of the other companies we reviewed. Costco does not disclose the actual values it uses to evaluate whether it achieved its cash incentives or performance stock metric targets and provides little disclosure on cash incentive targets.
* Costco’s 1Y performance period for its performance stock is shorter than most other companies’ 3Y performance periods
* Executive officers’ vesting periods depend on the duration of their service with the company, with the typical vesting period being 5Y and accelerated vesting beginning with executives who have attained 25Y of service

**Financial Metric Adjustments**

* Adjusted financial metrics exclude foreign currency fluctuations and the extra week in FY23
* Adjusted Pre-Tax Income adjusts for the discontinuation of charter shipping activities

**Additional Detail on Metrics**

* ESG components include undisclosed DE&I, resource consumption, and other environmental metrics

**FY23 Performance**

* Cash Incentives (60% of target payout)
  + Pre-Tax Income: exceeded target by 2%
  + Revenue: 2% below target, no payout
  + ESG: 100% of target payout
* FY21-FY23 Performance Stock (100% of target payout)
* For FY23, Costco’s 1Y TSR was 5.6%, and its 3Y TSR CAGR was 17.9%

**Notes**

* Percentages may not sum to 100% because of rounding
* Performance stock is performance-based restricted stock
* In our calculations for compensation mix, we use the sum of the metric component payouts, rather than the listed target cash incentive amounts

# KLA Corporation

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**KLA’s CEO’s pay mix is 6% base salary, 9% cash incentives, 51% performance stock, and 34% time-based stock, while the average mix of its other named executive officers (NEOs) is 15% base salary, 13% cash incentives, 36% performance stock, and 36% time-based stock. KLA’s cash incentive plan is based on a matrix of Operating Income and a company performance scorecard. It also contains an individual performance modifier. KLA's performance stock plan is 100% based on Relative Free Cash Flow Margin.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(9% of compensation for CEO, 13% for NEOs)

* Payout determined using matrix of:
  + Adjusted Operating Income
  + Balanced Scorecard (equally weighted components)
    - Revenue
    - Market Leadership
    - Product Differentiation
    - Productivity
    - Human Capital
* -20% to 20% modification based on Individual Performance Factor

**Performance Stock**(51% of compensation for CEO, 36% for NEOs)

* 3Y Relative Free Cash Flow Margin compared to peers (100%)
  + Peer group includes Advanced Micro Devices, Analog Devices, Applied Materials, Broadcom, Corning Incorporated, Keysight Technologies, Lam Research, Marvell Technology, Microchip Technology, Micron Technology, MKS Instruments, NVIDIA, ON Semiconductor, Qorvo, Skyworks Solutions, Teradyne, Texas Instruments, and Xilinx
* 50% of earned awards do not vest until one year after conclusion of performance period

**Comments**

* KLA does not have quantitative targets for its Balanced Scorecard, making the measure discretionary. However, it does evaluate performance on the scorecard sub-components compared to the prior year.
* KLA targets the 55th percentile of its peer group for its Relative Free Cash Flow Margin, which is higher than the 50th percentile targets of most other companies we reviewed with relative measures

**One-Time Awards**

* In FY23, the CEO and other NEOs received one-performance stock awards, ranging in size from $2M-$7.5M
* The awards vest based on Adjusted EPS performance and contain 3 tranches covering 3 different performance periods (FY23-25, FY23-26, and FY23-27)

**Financial Metric Adjustments**

* Financial Metrics exclude the impacts of acquisitions and mergers, goodwill impairment, and restructuring

**Additional Detail on Metrics**

* For the Balance Scorecard metric, Market Leadership is measured by market share; Product Differentiation is measured by adjusted gross margin; Productivity is measured by adjusted operating margin; and Human Capital is measured by employee engagement, retention rate, and female representation.

**FY22 Performance**

* Cash Incentives (118% of target corporate assessment); payouts based on calendar year, rather than fiscal year performance
  + Operating Income: exceeded target by 7%
  + Balanced Scorecard: 4/5 ratings for all components, except for 3+ in Production Differentiation
  + Individual Performance Factors: 95-120% (120% for CEO)
* FY20-FY22 Performance Stock (150% of target payout)
  + Relative Free Cash Flow Margin: 75th percentile of peer group
* For FY22, KLAC’s 1Y TSR was -0.4%, and its 3Y TSR CAGR was 41.3%

**Notes**

* Performance stock is performance-based restricted stock
* The compensation mixes do not reflect the one-time performance stock award the CEO and other NEOs received in FY23

# Arista Networks

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Arista Networks’ CEO’s pay mix is 2% base salary, 2% cash incentives, and 95% performance stock, while the average mix of its other named executive officers (NEOs) is 7% base salary, 4% cash incentives, 45% performance stock, and 45% time-based stock. The bonus pool for Arista’s cash incentives is first determined based on Revenue and Operating Income. The Board discretionarily determines individual payouts based on its assessments of corporate and individual performance. Arista's performance stock plan is based on Revenue, Operating Income, and Gross Margin.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(2% of compensation for CEO, 4% for NEOs)

* The Compensation Committee determines the size of the overall bonus pool by measuring the company’s performance against Revenue and Adjusted Operating Income targets (undisclosed weights)
* Then, the Compensation Committee discretionarily determines the total incentive paid to each officer based on their assessment of corporate and individual performance
* Arista must achieve 85% of the Revenue target before cash incentives are paid

**Performance Stock**(95% compensation for CEO, 45% for NEOs)

* Revenue (40% for CEO, 50% for NEOs); 1Y target for CEO and annual targets over 3Y for NEOs
* Adjusted Operating Income (40% for CEO, 50% for NEOs); 1Y target for CEO and annual targets over 3Y for NEOs
* 2Y Adjusted Gross Margin (20% for CEO, 0% for NEOs)

**Comments**

* In contrast to most of the other companies we reviewed, Arista does not disclose any caps on short-term incentive payouts
* Adjusted financial metrics exclude stock-based compensation
* Arista is unique in having shorter performance periods for its CEO’s performance stock metrics than for the other NEOs’ metrics. The CEO’s 1Y awards subsequently time-vest over 3Y, while the 2Y awards time-vest 50% in the first quarter after the performance achievement and 50% a year later.

**Financial Metric Adjustments**

* Adjusted Operating Income excludes stock-based compensation, intangible amortization, acquisition-related costs, and other non-recurring items. Adjusted Gross Margin excludes stock-based compensation and intangible asset amortization.

**FY23 Performance**

* Cash Incentives (73% funded) and FY23 Performance Stock (still in progress)
  + Revenue: 0.7% below target
  + Operating Income: 5% below target
* For FY23, Arista’s 1Y TSR was 94.1%, and its 3Y TSR CAGR was 48%

**Notes**

* Pay mixes may not sum to 100% because of rounding
* Performance stock is performance-based restricted stock

# Bristol-Myers Squibb

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Bristol-Myers Squibb’s CEO’s pay mix is 15% base salary, 19% cash incentives, 40% performance stock, and 25% market stock units (MSUs), while the average mix of its other named executive officers (NEOs) is 20% base salary, 19% cash incentives, 38% performance stock, and 23% MSUs. BMS’ cash incentives are based 65% on financial metrics (Growth Portfolio Revenue and Operating Income) and 35% on non-financial metrics (primarily Pipeline, secondarily ESG Scorecard). For executives other than the CEO, the performance stock and MSU grant sizes are based on individual performance assessments. The performance stock vests based on Growth Portfolio Revenue, Relative TSR, and Operating Margin.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(19% of compensation for CEO and NEOs)

* Adjusted Growth Portfolio Revenue (35%)
* Operating Income (30%)
* Pipeline (25%)
* ESG Scorecard (10%)

**Performance Stock**(40% of compensation for CEO, 38% for NEOs)

* 3Y Cumulative Adjusted Growth Portfolio Revenue (40%)
* 3Y Relative TSR CAGR compared to peers (35%)
  + Peer group includes AbbVie, Amgen, AstraZeneca, Biogen, Eli Lilly, Gilead Sciences, GlaxoSmithKline, Johnson & Johnson, Merck, Novartis, Roche Holding, Pfizer, and Sanofi
* 3Y Cumulative Adjusted Operating Margin (25%)
* For non-CEO NEOs, Individual Performance Factor ratings (0-150%) determine initial size of grants

**Market Stock Units**(25% of compensation for CEO, 23% for NEOs)

* Vesting size depends on 1Y, 2Y, 3Y, and 4Y TSR performance (25% weighting on each)
* For non-CEO NEOs, Individual Performance Factor ratings determine initial size of grants
* MSUs only vest if stock is 80% of grant date price at end of respective performance period (1Y, 2Y, 4Y, and 4Y performance periods)
* Payout capped at 225% of initial grant size

**Comments**

* Compared to other large biopharma companies with pipeline metrics in their short-term incentive plans, BMS’s 25% weighting is similar to the 20-30% weightings we have seen at other companies (e.g., Eli Lilly, AstraZeneca, Amgen, and Gilead). Pfizer has a 25% pipeline modifier. Regeneron and Vertex take different approaches to their short-term incentive plans. Vertex bases 90% of payouts on non-financial metrics (mostly pipeline and operations metrics), and Regeneron has one broad corporate performance metric that considers pipeline performance amongst other factors.
* Other companies with MSUs include Motorola and Pfizer. The MSUs function as a way to tie compensation to stock performance without specifying a TSR target.

**Financial Metric Adjustments**

* Growth Portfolio Revenue is likely adjusted to exclude foreign currency fluctuations, judging from BMS’ previous compensation plans
* Adjusted Operating Margin excludes the amortization of acquired intangible assets, impacts of acquisitions and integrations, restructuring costs, divestiture gains or losses, stock compensation resulting from acquisition-related equity awards, and other extraordinary items

**Additional Detail on Metrics**

* Pipeline has 2 equally weighted components: Near-Term Value (e.g., regulatory submissions and approvals) and Long-Term Growth Potential (e.g., early-to-late stage development transition and investigational new drugs), as well as a qualitative overlay from the Science and Technology and Compensation and Management Development Committees.
* ESG Scorecard includes components related to greenhouse gas emissions, supplier diversity, clinical trial diversity, and employee engagement

**FY24 Changes**

* The above information reflects BMS’ proposed executive compensation metrics for FY24
* For FY24, BMS added Adjusted Growth Portfolio Revenue as a cash incentive metric, replacing Adjusted In-Line and New Product Revenue, which was a 20% component
* In its cash incentive design, it also replaced Adjusted EPS with Operating Income and eliminated Adjusted New Product Portfolio Revenue and Individual Performance Factor
* For its performance stock metrics, BMS replaced Adjusted Total Revenue with Adjusted Growth Portfolio Revenue

**FY23 Performance**

* Cash Incentives (98% of target payout)
  + EPS: 4% below target
  + In-Line and New Product Revenue: 4% below target
  + New Product Portfolio Revenue: 10% below target
  + Pipeline: 144% of target payout
  + ESG: 100% payout
* FY20-FY22 Performance Stock (112% of target payout)
  + Revenue: exceeded target by 2%
  + Operating Margin: exceeded target 20 bps
  + Relative TSR: 60th percentile of peer group
* For FY23, BMS’ 1Y TSR was -26.1%, and its 3Y TSR CAGR was -3.3%

# Equifax

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Equifax’s CEO’s pay mix is 11% base salary, 13% cash incentives, 45% performance stock, 15% stock options, and 15% time-based stock, while the average mix of its other named executive officers (NEOs) is 15% base salary, 15% cash incentives, 35% performance stock, 18% stock options, and 18% time-based stock. The CEO’s cash incentive plan is based entirely on financial metrics (EPS and Revenue), while the NEOs’ cash incentive plans contain an Individual Performance Assessment. Equifax’s performance stock plan contains 2 equally weighted components, Relative TSR and EBITDA. The CEO’s stock options have exercise prices above the grant date stock price, while the NEOs’ options have exercise prices equal to the grant date stock price.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(13% of compensation for CEO, 15% for NEOs)

* Adjusted EPS (81% for CEO, 65% for corporate NEOs, 30% for business unit presidents)
* Adjusted Revenue (19% for CEO, 15% for corporate NEOs, 30% for business unit presidents)
* Business Unit Operating Income (0% for CEO and corporate NEOs, 20% for business unit presidents)
* Individual Performance Assessment (0% for CEO, 20% for NEOs)
* The Compensation Committee can exercise discretion to adjust awards downwards
* Individual awards are capped at $5M

**Performance Stock**(45% of compensation for CEO, 35% for NEOs)

* 3Y Relative TSR compared to S&P 500 (50%); payout capped at target if 3Y Absolute TSR is negative
* Adjusted EBITDA, annual targets over 3Y (50%); final payout based on average payouts for each year
* No payouts if Adjusted EBITDA threshold not met for 1Y in 3Y performance period
* Performance stock awards have a required 1Y holding period after vesting

**One-Time Awards**

* In FY23, the new President of US Information Solutions received a one-time make-whole grant of $2M in RSUs and $2M in Relative TSR-linked performance share
* In FY22, the CEO received a one-time retention award with a target value of $25M. 60% of the award is Relative TSR-linked performance shares, 20% is premium-priced options, and 20% is RSUs.

**Comments**

* The CEO's stock options vest in two equal tranches and are premium-priced with respective exercise prices set at 110% and 120% of the stock price at the time of the grant. The other NEOs' stock options’ exercise prices are the same as the price at the time of the grant, which is typical for the stock option plans we have seen at other companies.
* Follow its 43% Say on Pay Vote in 2023, Equifax made a commitment, absent extraordinary circumstances, to not grant any future one-time awards to the CEO or other NEOs outside of the process of hiring new executives

**Financial Metric Adjustments**

* Adjusted EPS excludes the impacts of acquisitions, accrual for legal and regulatory matters related to the 2017 cybersecurity incident, restructuring costs, pension adjustments, and other extraordinary items. Adjusted EBITDA excludes similar items.
* Adjusted Revenue excludes foreign currency fluctuations and the impacts of acquisitions

**Additional Detail on Metrics**

* Business Unit NEOs’ cash incentive payouts are determined based on Corporate Adjusted EPS (30%), Business Unit Adjusted Revenue (30%), Business Unit Operating Income (20%), and Individual Performance Assessment (20%).

**FY23 Performance**

* Cash Incentives (53% of target payout for CEO, 52-112% for NEOs)
  + EPS: 6% below target
  + Revenue: 2% below target
  + US Information Services: 0.9% above Revenue target, 0.3% below Operating Income target
  + Workforce Solutions: 6% below Revenue target, 10% below Operating Income target
* FY21-FY23 Performance Stock (103% of target payout)
  + Award based on average of Relative TSR over last 4Y quarters in 3Y performance period
* For FY23, Equifax’s 1Y TSR was 28.2%, and its 3Y TSR CAGR was 9.4%

**Notes**

* Percentages may not sum to 100% because of rounding
* The compensation mixes do not reflect the President of US Information Solutions’ FY23 one-time award and the CEO’s FY22 retention award

# PNC Financial Services

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**PNC’s CEO’s pay mix is 7% base salary, 23% cash incentives, 42% performance stock, and 28% time-based stock, while the average mix of its other named executive officers (NEOs) is 11% base salary, 34% cash incentives, 33% performance stock, and 22% time-based stock. The Human Resources Committee determines the total size of PNC’s executives’ variable incentive compensation (cash incentives and long-term equity grants) based on its discretionary assessments of corporate and individual performance. The performance stock vests based on Relative EPS Growth and Return on Equity.

**Detailed Description of Performance-Based Compensation Approach**

**Variable Incentive Compensation**(93% of compensation for CEO, 89% for NEOs), unweighted components relative to prior year, current year expectations, and PNC’s peers

* Financial Performance
* Capital, Risk, and Expense Management
* Business Growth
* 1Y, 3Y, and 5Y Absolute and Relative TSR compared to peers
  + Peer group includes Bank of America, Capital One, Citizens Financial Group, Fifth Third Bancorp, JPMorgan Chase, KeyCorp, M&T Bank, Regions Financial Corporation, US Bancorp, Wells Fargo, and S&P Banking Index
* Individual Performance Assessment
* The Human Resources Committee has limited discretion to further adjust incentive awards following their assessment of the company and individual’s performance
* Equity awards must account for at least 50% of total compensation

**Performance Stock**(42% of compensation for CEO, 33% for NEOs)

* Payout determined using a matrix of:
  + 3Y Relative Average Adjusted EPS Growth compared to peers
    - Same peer group as above, other than S&P Banking Index
  + 3Y Average Adjusted Return on Equity
* For each year during the 3Y performance period that PNC fails to meet a CET1 threshold (7% in FY23), 1/3 of the target number of PSUs will be eligible for forfeiture. The same condition applies to RSUs.

**Comments**

* PNC takes a similar approach to many other banks, as well as BlackRock and Chubb, in determining its incentive payouts. It includes quantitative measures in its corporate assessment but does not identify targets for those measures and ultimately makes a discretionary assessment. Like the others, it also determines total variable compensation before dividing it into short-term incentives and long-term equity grants.

**Additional Detail on Metrics**

* Financial Performance includes metrics such as Net Interest Income, Adjusted Noninterest Income, Adjusted EPS, Adjusted Return on Assets, Adjusted Return on Equity, and Risk-Adjusted Efficiency Ratio
* Capital, Risk, and Expense Management includes metrics such as CET1 Ratio, Tangible Book Value, asset quality metrics, and Adjusted Noninterest Expense
* Business Growth includes metrics such as Average Loan Balances, Allowance for Loan and Lease Losses, Assets Under Administration, and Average Noninterest-Bearing Deposits Mix

**Financial Metric Adjustments**

* Adjusted financial metrics adjust for acquisition and merger integration costs, discontinued operations, special assessment charges, reserve build/release, restructuring costs, and other extraordinary items

**FY23 Performance**

* Total Incentive Compensation (111% of target for CEO, 100-106% for NEOs)
* FY21-FY23 Performance Stock (105% of target payout)
* For FY23, PNC’s 1Y TSR was 2.7%, and its 3Y TSR CAGR was 4.9%

**One-Time Awards**

* Upon her promotion to NEO status in FY23, the Head of Enterprise Technology and Security received a one-time $2M RSU grant with a 5Y vesting period

# S&P Global

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**S&P Global’s CEO’s pay mix is 6% base salary, 16% annual cash incentives, 54% performance stock, and 23% time-based stock. S&P Dow Jones Indices’ CEO’s pay mix is 18% base salary, 27% annual cash incentives, 33% long-term cash incentives, 15% performance stock, and 7% time-based stock. The average mix of S&P's other named executive officers (NEOs) is 13% base salary, 25% annual cash incentives, 44% performance stock, and 19% time-based stock. S&P Global’s cash incentive plan is based 70% on business performance (primarily Revenue Growth and EBITA Margin and secondarily non-financial metrics) and 30% on Individual Performance Assessments. Its performance stock plan is based on EPS, while the S&P Dow Jones Indices’ CEO’s long-term cash incentive plan is based on Division EBITA growth.

**Detailed Description of Performance-Based Compensation Approach**

**Annual Cash Incentives**(16% of compensation for CEO, 27% for NEOs)

* Business Performance (70%)
  + Adjusted Revenue Growth (35%)
  + Adjusted EBITA Margin (35%)
  + Growth & Innovation (6%)
  + Customer at the Core (6%)
  + Data & Technology (6%)
  + Lead & Inspire (6%)
  + Execute & Deliver (6%)
* Individual Performance Assessment (30%)

**Performance Stock**(54% of compensation for CEO, 44% for 2 NEOs)

* Adjusted EPS, annual targets over 3Y, which are summed to arrive at cumulative performance (100%)

**Long-Term Cash Incentives**(33% of compensation for CEO of S&P Dow Jones Indices)

* 3Y Division Adjusted EBITA Growth (100%)

**Comments**

* S&P Global is the only company we examined that includes EBITA as a performance metric
* S&P Global differs from its closest peer in the companies we reviewed, CME, by having non-financial metrics in its cash incentive plan. CME's cash incentive plan is 100% based on Cash Earnings.

**Financial Metric Adjustments**

* Adjusted Revenue excludes foreign exchange fluctuations and the impacts of acquisitions and divestitures
* Adjusted EBITA and EPS exclude merger-related costs, unspent investment funds, restructuring charges, pension-related charges, foreign exchange fluctuations, asset impairments, the impacts of acquisitions and divestitures, and other extraordinary items

**Additional Detail on Metrics**

* The 5 subcomponents weighted at 6% in the Business Performance metric for the annual cash incentive plan are the pillars of S&P’s strategy. The company does not disclose its targets for each of the pillars.
* For division-level executives, the Business Performance metrics are weighted at 50% division-level performance and 50% corporate-level performance

**FY24 Changes**

* The above information reflects S&P’s proposed compensation plan for FY24. Previously, performance stock vesting was conditioned on 3Y Adjusted EPS CAGR.
* For FY24, the CEO’s long-term incentive increased from 10.2x base salary to 12.4x base salary, while the other NEOs’ long-term incentives increased from 4.3x base salary to 5x base salary
* The Dow Jones Indices’ CEO’s long-term incentive target remained the same

**FY23 Performance**

* Cash Incentives (111% of target payout for CEO, 104-114% of target for NEOs)
  + Revenue Growth: exceeded target by 90 bps
  + EBITA Margin: 10 bps below target
  + Growth & Innovation: 100% of target payout
  + Customer at the Core: 150% of target
  + Data & Technology: 150% of target
  + Lead & Inspire: 100% of target
  + Execute & Deliver: 125% of target
  + Ratings Division Financial Metrics: 115% of target
  + Market Intelligence Division Financial Metrics: 88% of target
  + Dow Jones Indices Division Financial Metrics: 134% of target
* Performance Stock (64% of target payout)
  + EPS CAGR: 260 bps below target
* Long-Term Cash Incentive (174% of target)
  + Dow Jones Indices EBITDA Growth: exceeded target by 300 bps
* For FY23, SPGI’s 1Y TSR was 32.8%, and its 3Y TSR CAGR was 11.2%

**Notes**

* The above percentages may not sum to 100% because of rounding

# Welltower

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Welltower’s CEO’s pay mix is 9% base salary, 21% cash incentives, 49% performance stock, and 21% time-based stock. Its COO’s pay mix is 16% base salary, 22% cash incentives, 43% performance stock, 9% time-based stock, and 9% stock options, while the average mix of its other named executive officers (NEOs) is 16% base salary, 22% cash incentives, 43% performance stock, and 19% time-based stock. Welltower’s cash incentive plan is based 65% on financial metrics (Normalized FFO Per Share, Fixed Charge Coverage, and G&A Expense Controls) and 35% on non-financial metrics (ESG Measures and Individual Performance Assessment). Its performance stock plan is based 80% on Relative TSR and 20% on Financial Leverage.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(21% of compensation for CEO, 22% for NEOs)

* Normalized Funds from Operations (FFO) Per Share (35%)
* Adjusted Fixed Charge Coverage (15%)
* General and Administrative Expense Controls (15%)
* ESG Measures (10%)
* Individual Performance Assessment (25%)

**Performance Stock**(49% of compensation for CEO, 43% for NEOs)

* 3Y Relative TSR compared to FTSE Nareit Equity Health Care Index (40%)
* 3Y Relative TSR compared to MSCI US REIT Index (40%)
* (Net Debt + Preferred)/Annualized Adjusted EBITDA (20%)
* Performance stock awards have a required 2Y holding period after vesting

**One-Time Awards**

* In FY22, the CEO and 4 other NEOs received one-time performance stock awards valued at $2.5M-$24.2M under the FY22-FY25 Outperformance Plan
* The awards have a 4Y performance period and will vest only if Welltower achieves the 2 necessary preconditions (normalized FFO CAGR of 9% and Absolute TSR CAGR of 5%)
* Payouts are based 50% on Relative TSR compared to the FTSE Nareit Equity Health Care Index and 50% on Relative TSR compared to the MSCI US REIT Index
* The threshold performance for the Relative TSR metrics is 100% of the respective Indices' TSRs
* The Compensation Committee has committed to not implement a similar program for the duration of the existing, outstanding program

**Comments**

* Compared to the other REITs we reviewed (VICI, EXR, and EQIX), WELL is the only REIT to include ESG Measures in its cash incentive plan. In their cash incentive plans, EXR includes Core FFO/Share, while VICI and EQIX use AFFO/Share. EQIX and EXR include Revenue and Corporate/Individual Performance Assessment (mixture of quantitative financial metrics and qualitative assessments) respectively. All of the REITs include a Relative TSR metric in their long-term incentive plans, while EQIX and EXR also include AFFO/Share and Core FFO/Share respectively. Welltower is the only REIT we examined that includes a leverage metric.
* Welltower excludes stock-based compensation from its EBITDA calculation, but not from its Normalized FFO calculation
* Welltower has some quantitative targets for its ESG Measures, such as maintaining an employee engagement score 5% higher than administrator’s client benchmarks and increasing energy data coverage by 5% and plans to add additional quantitative targets for this metric in FY24

**Financial Metric Adjustments and Calculations**

* Normalized FFO Per Share excludes gains/losses from sales of real estate, impairments of depreciable assets, real estate depreciation and amortization, net gains/losses on derivatives and financial instruments, losses on extinguishment of debt, provision for loan losses, and normalizing items relating to unconsolidated entities/non-controlling interests
* Adjusted Fixed Charge Coverage is the ratio of fixed charges (total interest and secured debt principal amortization) to Adjusted EBITDA.
* Adjusted EBITDA excludes stock-based compensation, provision for loan losses, gains/losses on extinguishment of debt, gains/losses/impairments on properties, gains/losses on derivatives and other financial instruments, net casualty losses, and other non-recurring expenses.

**Additional Detail on Metrics and Compensation Structure**

* Welltower’s executive officers have a choice of whether to take the non-performance-based portion of their long-term incentive plan in the form of time-based stock or stock options. The CEO and 2 NEOs elected for 100% time-based stock, while the COO chose to receive 50% in stock options and 50% in time-based stock.
* ESG Measures includes metrics, such as overall ESG rating, greenhouse gas emissions reduction, employee engagement, and energy data coverage

**Recent Changes**

* The above information reflects Welltower’s proposed metrics for FY24. For its FY24 plan, Welltower increased the weight of Normalized FFO Per Share from 30% to 35% and reduced the weighting of Individual Performance Assessment from 30% to 25%.
* In FY23, the CEO’s salary increased 4%, while the other NEOs’ salaries increased 3-4%

**FY23 Performance**

* Cash Incentives (160% of target payout for CEO, 159-160% for NEOs)
  + Normalized FFO Per Share: exceeded target by 6%
  + Fixed Charge Coverage Ratio: exceeded target by 23%
  + G&A Expense Control: 5% below target
  + ESG Measures: 100% of target payout
  + Individual Performance Assessments: “High” rating for each executive, other than COO, who received “Near High” rating
* FY21-FY23 Performance Stock (150% of target, maximum payout)
  + Relative TSR: exceeded the FTSE Nareit Equity Health Care Index and MSCI US REIT index by 22 pp and 8.8 pp respectively
  + Net Debt Ratio: exceeded target by 22%
* For FY23, Welltower’s 1Y TSR was 41.8%, while its 3Y TSR CAGR was 15.3%

**Notes**

* Pay mixes may not sum to 100% because of rounding

# Paychex

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Paychex’s CEO’s pay mix is 13% base salary, 13% cash incentives, 37% performance stock, 22% stock options, and 15% time-based stock, while the average mix of its other named executive officers (NEOs) is 20% base salary, 20% cash incentives, 30% performance stock, 18% stock options, and 12% time-based stock. Paychex’s cash incentive plan is based primarily on financial metrics (Annualized New Business Revenue, Operating Income, and Service Revenue) and secondarily on Individual Performance Assessments. Its performance stock plan contains 2 unweighted metrics, Service Revenue and Operating Income.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(13% of compensation for CEO, 20% for NEOs)

* Annualized New Business Revenue (37% for CEO, 29% for NEOs)
* Adjusted Operating Income (25% for CEO, 33% for NEOs)
* Service Revenue (25% for CEO, 28% for NEOs)
* Individual Performance Assessment (13% for CEO, 11% for NEOs)

**Performance Stock**(37% of compensation for CEO, 30% for NEOs); weights are not disclosed

* 2Y Adjusted Service Revenue
* 2Y Adjusted Operating Income

**Comments**

* Paychex’s 2Y performance period for its performance stock metrics is shorter than the typical 3Y period. Awards subsequently time-vest over 1Y after the performance period concludes.
* For Adjusted Service Revenue, Paychex allows for 2% of total service revenue to be delivered from acquisitions
* For the performance stock metrics, threshold performance is 95% of target, while maximum performance is 103% of target

**Financial Metric Adjustments**

* Annualized New Business Revenue is the approximate amount of revenue earned from the sale of solutions to new clients and new product sales to existing clients
* Adjusted Operating Income excludes restructuring charges and interest on funds held for clients
* 2Y Adjusted Service Revenue allows for 2% of total service revenue to be delivered from acquisitions
* 2Y Adjusted Operating Income excludes the impacts of acquisitions and other unusual items

**Additional Detail on Metrics**

* Each NEO has different metric percentages depending on their responsibilities

**FY23 Performance**

* Cash Incentives (134% of target payout for CEO, 131-137% for NEOs)
  + Annualized New Business Revenue: exceeded target by 4%
  + Service Revenue: exceeded target by 0.9%
  + Operating Income: exceeded target by 1%
  + Individual Performance Assessment: 102% of target payout for CEO, 100% for other NEOs
* FY21-FY23 Performance Stock (150% of target payout)
  + Service Revenue: exceeded target by 7%
  + Operating Income: exceeded target by 13%
* For FY23, Paychex’s 1Y TSR was -12.9%, and its 3Y TSR CAGR was 16.3%

**Notes**

* Percentages may not sum to 100% because of rounding
* Performance stock is performance-based restricted stock
* The proxy filing does not disclose the performance stock metric weights
* The cash incentive metrics are presented in the proxy filing as percentages of base salary, leading to non-conventional percentages when they are expressed in terms of total annual cash incentive compensation.
* The new CEO’s cash incentive metric percentages may differ from what is presented above since his metric percentages are a pro-rated combination of the metric percentages for his portions of the year as COO and then CEO/President. For reference, the previous CEO’s cash incentive metric percentages were: Adjusted Operating Income (37%), Service Revenue (25%), Annualized New Business Revenue (25%), and Individual Performance Assessment (13%).

# Procter & Gamble

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Procter & Gamble’s CEO’s pay mix is 8% base salary, 23% short-term incentives, 35% performance stock, 17% stock options, and 17% time-based stock, while the average mix of its other named executive officers (NEOs) is 14% base salary, 24% cash incentives, 31% performance stock, 21% stock options, and 10% time-based stock. P&G’s cash incentive plan is based 70% on Business Unit Performance (primarily financial metrics) and 30% on Total Company Performance (Revenue and EPS Growth, as well as an ESG modifier). Its performance stock plan is based on Relative Revenue, EPS, Operating Income, and Free Cash Flow Conversion. The performance stock plan also includes a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Short-Term Incentives**(23% of compensation for CEO, 24% for NEOs)

* Business Unit Performance Factor (70%); unweighted components
  + Revenue Growth
  + Operating Income Growth
  + Adjusted Free Cash Flow Productivity
  + Market Share
  + Business Unit TSR
  + Internal Controls
* Total Company Performance Factor (30%)
  + Adjusted Revenue Growth (50%)
  + Adjusted EPS Growth (50%)
  + -20 to 20% modification based on ESG Factor
* The Compensation and Leadership Development Committee has discretion over the final payout levels

**Performance Stock**(35% of compensation for CEO, 31% for NEOs)

* 3Y Relative Adjusted Revenue CAGR compared to peers (30%)
  + Peer group includes Beiersdorf, Church & Dwight, Clorox, Colgate-Palmolive, Edgewell, Essity, Henkel, Johnson & Johnson, Kao, Kimberly-Clark, L’Oreal, Reckitt Benckiser, Unicharm, and Unilever
* 3Y Adjusted EPS CAGR (30%)
* 3Y Adjusted Operating Income CAGR (20%)
* 3Y Adjusted Free Cash Flow Productivity (20%)
* -25% or 25% modification based on 3Y Relative TSR compared to peers
  + -25% modification if Relative TSR ≤ 25th percentile
  + 25% modification if Relative TSR ≥ 75th percentile

**Equity & Inclusion Bonus**

* The CEO may recommend NEOs to receive Equality & Inclusion Bonuses, payable in the form of long-term stock options or restricted stock. The CEO of Beauty received such an award in FY23.

**Comments**

* For its Business Unit Performance Factor, the only quantitative targets appear to be Revenue Growth and Operating Income Growth, making the payout metric largely discretionary and non-formulaic
* Like Chipotle and Welltower, P&G allows its executive officers to choose how much of their time-based equity grant they would like to take in the form of restricted stock vs stock options. The CEO and CFO opted for a 50-50 split, while the other 2 NEOs chose 100-0 and 75-25 stock options/restricted stock mixes respectively. P&G also gives its executive officers the choice over much of their short-term incentives to take in the form of cash vs options. The CEO and 4 NEOs received their awards in cash, while the CEO of Beauty received her award 25% in cash and 75% in stock options.
* P&G has the same Relative TSR modifier construction as Wells Fargo, Celanese, and Tractor Supply Company

**Financial Metric Adjustments and Calculations**

* Adjusted Revenue Growth excludes the impacts of acquisitions, divestitures, and foreign exchange fluctuations
* Adjusted Operating Income Growth excludes foreign exchange fluctuations and restructuring charges
* Adjusted EPS Growth excludes restructuring charges and costs associated with the early extinguishment of debt
* Adjusted Free Cash Flow Productivity is the ratio of Adjusted Free Cash Flow (excludes tax payments related to transitional taxes from the US Tax Act) to Adjusted Net Income (excludes losses related to the early extinguishment of debt)

**Additional Detail on Metrics**

* P&G does not disclose targets for its Business Unit Performance Factor subcomponents. It likely makes the same adjustments to these metrics as with the corporate-level metrics in the cash incentive and performance stock plans.
* The Compensation and Leadership Development Committee (CLDC) determines the Business Unit Performance Factor for each business unit following its consideration of recommendations from the CEO, CFO, and COO. For corporate-level executives, the Business Unit Performance Factor is a weighted average of the scores of each business unit
* ESG Factor measures P&G’s progress on key goals, such as greenhouse gas emission reduction, sustainable packaging, water restoration, responsible input sourcing, and diversity & inclusion

**FY23 Performance**

* Cash Incentives (147% of target payout for CEO, 114-176% for NEOs)
  + Business Unit Performance Factor: 142% of target payout for CEO, 95-183% for NEOs
  + Revenue Growth: exceeded target by 290 bps
  + EPS Growth: 50 bps below target
  + ESG: 10% of possible 20% modification
* FY23 Performance Stock (150% of target payout)
  + EPS CAGR: 150 bps below target
  + Operating Income CAGR: 140 bps above target
  + Free Cash Flow Productivity: 800 bps above target
  + Relative TSR: top quartile of peer group, leading to +25% modification
* For FY23, P&G’s 1Y TSR was 8.3%, and its 3Y TSR CAGR was 11%

**Notes**

* Rounding distorts the fact that stock options and time-based stock add up to the same percentage of total compensation as performance stock. NEOs, other than the CEO, can elect to receive all or a portion of their time-vesting awards in the form of time-based stock or stock options.

# American International Group

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**AIG’s CEO’s pay mix is 8% base salary, 23% cash incentives, 53% performance stock, and 18% stock options, while the average mix of its other named executive officers (NEOs) is 18% base salary, 35% cash incentives, 24% performance stock, 12% stock options, and 12% time-based stock. AIG’s cash incentive plan is based on 4 equally weighted metrics (Accident Year Combined Ratio, After-Tax Income Attributable to Common Shareholders (AATI) Per Share, Return on Common Equity, and Parent Exit-Run-Rate General Operating Expenses). The cash incentive plan also contains an individual performance multiplier. AIG's performance stock plan is based on Accident Year Combined Ratio, AATI Per Share, Parent Exit-Run-Rate General Operating Expenses, and Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(23% of compensation for CEO, 35% for NEOs)

* Adjusted After-Tax Income Attributable to Common Shareholder Per Share (25%)
* Adjusted EPS (25%)
* Adjusted Return on Common Equity (25%)
* Achievement of AIG Parent Exit-Run-Rate General Operating Expense Targets (25%)
* Individual Performance Factor multiplier (0-150%)

**Performance Stock**(53% of compensation for CEO, 24% for NEOs)

* Adjusted Accident Year Combined Ratio, annual targets over 3Y (25%)
* AIG Parent Exit-Run-Rate General Operating Expense Targets, calculated as consecutive annual improvement each year over 3Y (25%)
* Adjusted AATI Per Share, calculated as consecutive annual improvement each year over 3Y (25%)
* 3Y Relative TSR compared to peer group (25%)
  + Peer group includes AXA, Chubb, CNA Financial Corporation, The Hartford Financial Services Group, Markel, Tokio Marine Holdings, The Travelers Corporation, and W. R. Berkley Corporation

**One-Time Awards**

* In FY22, as part of a renewed Employment Agreement, the CEO received a one-time grant of $50M RSUs that cliff vest in November 2027

**Comments**

* AIG stands out with its high short-term compensation (cash incentives and base salary) for non-CEO NEOs. Base salary and short-term incentives combine for 53% of NEOs’ compensation, compared to an average of 40% at other US financials companies we reviewed.
* AIG has high overlap between its cash incentives and performance stock metrics, many of which are measured annually over a 3Y performance period

**Financial Metric Adjustments**

* Adjusted AATI Per Share, excludes, among other items, changes in the fair value of hedging securities, differences between actual and expected catastrophe losses, differences between actual and expected alternative asset returns, derivative gains/losses, and returns on business transactions
* Adjusted Return on Common Equity adjusts for changes in the fair value of available for sale securities, foreign currency translation adjustments, and other non-recurring items, as well as the same adjustments as Adjusted EPS
* Adjusted Accident Year Combined Ratio (Adjusted AYCR) excludes catastrophe losses and related reinstatement premiums, prior year developments, and the impact of reserve discounting

**FY24 Changes**

* The information above reflects AIG’s proposed executive compensation for FY24. AIG’s new cash incentive plan is more simplified than the prior system, which had different metrics and weightings for its two business units (General Insurance and Corebridge), as well as separate metrics for corporate-level executives. The General Insurance metrics included Adjusted Accident Year Combined Ratio (40%), Calendar Year Combined Ratio (30%), and Diluted Normalized Adjusted Net Income Per Share (30%), while the Corebridge metrics included Adjusted Return on Average Equity (40%), General Operating Expenses (30%), and Adjusted After-Tax Operating Income Per Share (30%).
* AIG also adjusted the weightings of performance stock metrics by decreasing the EPS weighting and increasing the Relative TSR weighting

**FY23 Performance**

* Cash Incentives (200% of target payout for CEO, 144-170% for NEOs)
  + EPS: exceeded target by 30%
  + General Operating Expense: overperformed target by 8%
  + Return on Common Equity: exceeded target by 189 bps
  + General Insurance: 150% of target payout
  + Corebridge: 139% of target payout
  + Individual Performance: 150% for CEO, 104-114% for NEOs
* FY21-FY23 Performance Stock (200% of target payout)
  + Relative Tangible Book Value Per Common Share: 168% of target payout
  + Separation of Life and Retirement Goals: 150% of target payout
  + Relative TSR: top quartile of peer group, leading to 25% modification
* For FY23, AIG’s 1Y TSR was 9.8%, and its 3Y TSR CAGR was 24.3%

**Notes**

* Pay mixes may not sum to 100% because of rounding
* The CEO's pay mix excludes the one-time RSU award he received in FY22

# Intuitive Surgical

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Intuitive Surgical’s CEO’s pay mix is 8% base salary, 12% cash incentives, 40% performance stock, and 40% time-based stock, while the average mix of its other named executive officers (NEOs) is 11% base salary, 9% cash incentives, 40% performance stock, and 40% time-based stock. Intuitive’s cash incentive plan is based 50% on Operating Income and 50% on discretionarily assessed Corporate Performance Goals, while its performance stock plan contains 3 equally weighted metrics, Relative TSR, 2Y Combined Da Vinci and Ion Procedure Count Growth, and 3Y Combined Procedure Count Growth.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(12% of compensation for CEO, 9% for NEOs)

* Adjusted Operating Income (50%); also determines total size of incentive pool
* Corporate Performance Goals (50%); unweighted components:
  + Support Our Customers
  + Innovation & Operational Excellence
  + Quality & Regulatory
  + Financial

**Performance Stock**(40% of compensation for CEO and NEOs)

* 3Y Relative TSR compared to S&P Healthcare Equipment Select Index (33%)
* 2Y Combined Da Vinci and Ion Procedure Count Growth (33%)
* 3Y Combined Da Vinci and Ion Procedure Count Growth (33%)
* Earned awards vest at the conclusion of the 3Y performance period

**Comments**

* Intuitive provides no disclosure on its targets for its Corporate Performance Goals because of competitive concerns, which makes it difficult to assess whether the seemingly discretionarily determined payouts are appropriate
* Intuitive excludes stock-based compensation from Adjusted Operating Income

**Financial Metric Adjustments**

* Adjusted Operating Income excludes share-based compensation, cash incentive plan and long-term incentive plan expenses, non-cash amortization of intangible assets, facilities asset abandonment charges, litigation charges, contributions to the Intuitive Foundation, and other non-recurring items

**FY24 Changes**

* The above information reflects Intuitive’s proposed compensation plan for FY24. Previously, Intuitive granted its CEO and NEOs time-based stock options, which comprised 20% of their total target compensation. Starting in FY24, with no stock options granted, time-based stock’s share of total compensation has increased from 20% to 40%.

**FY23 Performance**

* Cash Incentives (107% of target payout)
  + Operating Income: exceeded target by 7%
  + Company Performance Goals: 108% of target payout
* PSU program was instituted in FY22, so payout information is not available, other than 1/3 of PSUs vested at the maximum attainment level due to YoY Da Vinci procedure growth of 21.9%
* For FY23, Intuitive’s 1Y TSR was 27.1%, and its 3Y TSR CAGR was 7.4%

**One-Time Awards**

* In FY23, Intuitive’s President received a one-time promotion award consisting of $2.4M in performance stock, $1.7M in RSUs, and $1.4M in stock options. The performance stock has the same vesting conditions as the normal performance stock grants, while the RSUs and stock options both vest over 4Y.

**Notes**

* Percentages may not sum to 100% because of rounding

# Stryker

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Stryker’s CEO’s pay mix is 8% base salary, 11% cash incentives, 36% performance stock, and 45% stock options, while the average mix of its other named executive officers (NEOs) is 12% base salary, 10% cash incentives, 35% performance stock, and 43% time-based stock. Stryker’s cash incentive plan is based primarily on Revenue and secondarily on Operating Income, Operating Margin, and Free Cash Flow and contains an ESG modifier. Its performance stock plan is based on 2 equally weighted metrics, EPS Growth and Relative Revenue Growth.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(11% of compensation for CEO, 10% for NEOs)

* Core Bonus
  + Adjusted Revenue (40%)
  + Adjusted Operating Income (20%)
  + Adjusted Operating Margin (20%)
  + Adjusted Free Cash Flow (20%)
* Overachievement Bonus (triggered after exceeding Core Bonus target ranges)
  + Adjusted Revenue (30%)
  + Adjusted EPS (30%)
  + Adjusted Operating Income (20%)
  + Adjusted Free Cash Flow (20%)
* -10 pp to 10 pp modification based on Commitments Focused on Carbon Emissions and DE&I
* No payout if Adjusted Operating Income is below 80% of target
* The Compensation and Human Capital Committee can make downward adjustments

**Performance Stock**(36% of compensation for CEO, 35% for NEOs)

* 3Y Average Adjusted EPS Growth (50%)
* 3Y Relative Average Revenue Growth compared to peer group (50%)
  + Peer group includes Abbott Laboratories, Agilent Technologies, Baxter International, Becton Dickinson, Boston Scientific, Danaher Corporation, Fresenius Medical Care, GE HealthCare Technologies, Johnson & Johnson (MedTech Segment), Laboratory Corporation of America, Medtronic, Quest Diagnostics, Royal Philips, Siemens Healthineers, Smith & Nephew, Thermo Fisher, Zimmer Biomet Holdings, and 3M Company (Healthcare Segment)
* No payout if 3Y Average Adjusted EPS Growth is below undisclosed threshold

**Comments**

* Unlike most other companies, Stryker’s cash incentive plan has different metrics for target and above target performance. It is interesting to note that Stryker reduces the weighting of Adjusted Revenue in its overachievement plan and adds Adjusted EPS as a metric, suggesting once a threshold of revenue growth has been achieved, the company may want to award executives more for profitability.
* Stryker is one of the few companies we reviewed where the Board exercised its discretion to reduce cash incentive payouts. In FY23, the Board reduced the CEO and NEOs' cash incentive payouts by 10 pp to more closely align the payouts to the average bonus payouts for the company’s other bonus eligible employees.
* In FY23, Stryker allowed for executives to receive target payouts for Adjusted Operating Income and Adjusted Free Cash Flow if performance was 1% above or below the performance level. It cited the uncertain macro environment as its rationale. These performance bands did not have an impact on payouts because Stryker far exceeded its targets.
* Stryker’s stock option awards vest over 5Y, which is longer than the 3-4Y vesting periods at most other US companies we examined

**Financial Metric Adjustments**

* Adjusted Operating Income and Operating Margin exclude the impacts of acquisitions and integration-related expenses, amortization of purchased intangible assets, restructuring charges, medical device regulation costs, recall-related matters, litigation costs, and currency fluctuations
* Adjusted EPS is not currency-adjusted but excludes the same other items as Adjusted Operating Income, as well as impairment costs

**Additional Detail on Metrics**

* For group-level executives, Adjusted Revenue and Operating Income are weighted as half group performance and half consolidated performance

**FY24 Changes**

* As of FY24, Stryker’s CEO and NEOs’ performance stock grants will be larger than their stock options grants

**FY23 Performance**

* Cash Incentives (180% of target payout)
  + Revenue: exceeded target by 4%
  + Operating Income: exceeded target by 4%
  + Free Cash Flow: exceeded target by 15%
  + Operating Margin: exceeded target by 32 bps
  + EPS: exceeded target by 3%
  + MedSurg and Neurotechnology Group: maximum performance
  + Orthopedics and Spine Group: maximum performance for Revenue, 1% below Operating Income target
  + Commitments Focused on Carbon Emissions and DE&I: met expectations
  + The Compensation and Human Capital Committee exercised its discretion to lower the CEO and NEOs' cash incentives payouts from ~190% of target to 180% of target to more closely align the payouts to the average bonus payout for the company’s other bonus eligible employees
* FY21-FY23 Performance Stock (148% of target payout )
  + EPS Growth: 40 bps below target
  + Relative Revenue: 94th percentile of peer group
* For FY23, Stryker’s 1Y TSR was 23.8%, and its 3Y TSR CAGR was 8.1%

**Notes**

* We used the CEO and NEO’s cash incentive targets and the grant date fair values of performance stock and stock options grants to compute the compensation mixes

# Molina Healthcare

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Molina Healthcare’s CEO’s pay mix is 7% base salary, 21% cash incentives, 43% performance stock, and 29% time-based stock, while the average mix of its other named executive officers (NEOs) is 16% base salary, 18% cash incentives, 38% performance stock, and 28% time-based stock. Molina’s cash incentive plan is based 70% on EPS and 30% on Individual Performance Assessments, while its performance stock plan is based entirely on EPS.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(21% of compensation for CEO, 18% for NEOs)

* Adjusted EPS (70%)
* Individual Performance Assessment (30%)

**Performance Stock**(43% of compensation for CEO, 38% for NEOs)

* 3Y Cumulative Adjusted EPS (100%)

**Comments**

* Molina’s FY23 Adjusted EPS target was $0.50 above its guidance
* Compared to the other Health Care Providers and Services companies we examined (UnitedHealth and CVS), Molina’s cash incentive plan has a similar weighting for non-financial metrics (30% vs 20% at CVS and 25% at UnitedHealth)

**Financial Metric Adjustments**

* Adjusted EPS excludes the amortization of intangible assets, acquisition-related expenses, and other unspecified non-recurring items (seem to be related to litigation costs, gains/losses on asset disposals)

**Additional Detail on Metrics and Compensation Structure**

* The Compensation Committee determines the CEO and NEOs’ Individual Performance Assessment by assessing their performance on growth (e.g., winning new contracts and re-procuring existing contracts), M&A, market share and organic growth, operational improvements, ESG, workforce talent, and other factors. 5% of the Individual Performance Assessment is tied to a Clinical Performance Metric centered on reducing the preterm birth rate for black mothers who are members of the Illinois health plan.
* The CEO and 3 of the 4 other NEOs receive 60% of their long-term equity compensation in the form of performance stock and 40% in the form of time-based stock. The Chief Accounting Officer has a 50-50 performance stock and time-based stock mix, distorting the average percentages for the NEOs.

**FY23 Performance**

* Cash Incentives (147% of target payout for CEO, 147-175% for NEOs)
  + EPS: exceeded target by 3%
  + Individual Performance: 175% for CEO, 175% for all NEOs, except for Chief Accounting Officer, who received a 271% rating
* FY21-FY23 Performance Stock (170% of target payout)
  + Average of payouts of Adjusted EPS against annual targets
* For FY23, Molina’s 1Y TSR was 9.4%, and its 3Y TSR CAGR was 19.3%

# Charter Communications

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Charter Communications’ CEO’s pay mix is 5% base salary, 12% cash incentives, 33% performance stock options, 4% performance stock, and 47% time-based stock options, while the average mix of its other named executive officers (NEOs) is 9% base salary, 12% cash incentives, 31% performance stock options, 3% performance stock, 39% time-based stock options, and 4% time-based stock. Charter’s cash incentive plan is based 80% on financial metrics (primarily EBITDA, secondarily Revenue) and 20% on a discretionary assessment of progress on strategic objectives. Its performance stock and stock options vest entirely based on Stock Price Appreciation.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(12% of compensation for CEO and NEOs)

* Adjusted EBITDA (60%)
* Adjusted Revenue (20%)
* Strategic Objectives (20%)
* The Compensation and Benefits Committee can exercise discretion to adjust final payout levels

**Performance Stock Options and Performance Stock**(37% of compensation for CEO, 34% for NEOs)

* 5Y front-loaded awards (designed to cover 5Y of long-term incentive compensation), whose vesting levels are dependent on the achievement of 6 stock price hurdles (5-20% CAGRs)
* The stock option awards have 18 tranches, while the stock awards have 12 tranches, which are a combination of time-based vesting requirements (3-5 years) and the stock price hurdles

**Comments**

* For both the CEO and NEOs, time-based equity awards comprise a larger proportion of total compensation than performance-based awards
* Charter excludes stock-based compensation from its Adjusted EBITDA metric
* Charter’s cash incentive plan requires executives to exceed the Adjusted Revenue and EBITDA targets by 1% and 2% to receive the maximum payout
* Compared to Comcast’s short-term incentive plan, Charter’s plan has a lower weighting toward non-financial metrics (20% vs 30% for Comcast). Comcast's cash incentive plan's financial metrics are EBITDA, Free Cash Flow, and Revenue. Comcast’s long-term incentive plan contains a mixture of capital allocation (ROIC) and profitability (EPS) measures, as well as a TSR modifier, while Charter’s plan solely is based on stock price appreciation.
* Like Meta and Alphabet, Charter holds say on pay votes once every 3Y, compared to the 1Y frequency at most other companies we reviewed

**Financial Metric Adjustments**

* Adjusted EBITDA excludes stock-based compensation, other income, gains/losses on retirement of assets, and mobile device-related revenue or expenses
* Adjusted Revenue excludes mobile device-related revenue

**Additional Detail on Metrics**

* Strategic Objectives is a discretionary measure with 2 equally weighted subcomponents, Execution of Network Evolution and Expansion Initiatives and Management of Capital and Free Cash Flow

**FY23 Performance**

* Cash Incentives (82% of target payout)
  + EBITDA: 2% below target
  + Revenue: 2% below target
  + Strategic Objectives: 130% of target payout
* For FY23, Charter’s 1Y TSR was 14.6%, and its 3Y TSR CAGR was -16.2%

**Notes**

* Pay mixes may not sum to 100% because of rounding
* Performance stock is performance-based restricted stock
* We arrive at the above pay mixes by annualizing the 5-year performance equity grants the CEO and NEOs received in 2023
* The above information excludes the compensation package of Charter’s Chairman, who previously was its CEO

# McDonald’s

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**McDonald’s CEO’s pay mix is 8% base salary, 16% cash incentives, 38% performance stock, and 38% stock options, while the average mix of its other named executive officers (NEOs) is 17% base salary, 19% cash incentives, 32% performance stock, and 32% stock options.  McDonald’s cash incentive plan is based 85% on financially related metrics (Operating Income Growth, Systemwide Sales Growth, and New Restaurant Openings) and 15% on a likely discretionary Strategic Scorecard. Its performance stock plan is based primarily on EPS and secondarily on ROIC. It also contains a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(16% of compensation for CEO, 19% for NEOs)

* Adjusted Operating Income Growth (40%)
* Systemwide Sales Growth (30%)
* New Restaurant Openings (15%)
* Strategic Scorecard (15%)
* -15 pp to 15 pp modification based on Conversion of Registered Franchise Applicants Into New Restaurant Owners and Diversity of Such New Restaurant Owners
  + Only applicable for Presidents of McDonald’s USA and International Operated Markets (IOM)

**Performance Stock**(38% of compensation for CEO, 32% for NEOs)

* 3Y Adjusted EPS CAGR (75%)
* 3Y Average Adjusted ROIC (25%)
* -25% to 25% modification based on 3Y Relative TSR compared to S&P 500
* Payouts capped at 100% if 3Y Absolute TSR is negative

**Comments**

* McDonald’s threshold for a payout on its 3Y Adjusted EPS CAGR metric is 0% growth
* Strategic Scorecard is likely discretionarily determined, but we cannot confirm that since it is a new metric for FY24
* Long-term incentive metrics differ widely across the restaurant chains we reviewed. Yum’s performance stock vests based on Revenue, Operating Income, and a Relative TSR modifier; Chipotle’s performance stock vests based on Restaurant Cash Flow and Net New Restaurants; and Restaurant Brands International’s performance stock vests based on Relative TSR.

**Financial Metric Adjustments**

* Adjusted Operating Income Growth, EPS, and ROIC exclude foreign currency fluctuations, asset impairment costs, gains/losses related to strategic initiatives, and extraordinary items

**Additional Detail on Metrics**

* Strategic Scorecard measures management’s progress on key strategic initiatives, including franchising strategy, employee engagement, and established DE&I ambitions
* For business unit executives, 75% of the cash incentive financial metrics is attributable to business unit performance and 25% to aggregate corporate performance

**FY24 Changes**

* The cash incentive metrics reflect McDonald’s proposed FY24 executive compensation plan. In FY24, McDonald’s replaced Human Capital Metrics with a broader metric, Strategic Scorecard.

**FY23 Performance**

* Cash Incentives (141% of target payout for CEO, 134-163% for NEOs)
  + Operating Income Growth: exceeded target by 650 bps
  + Systemwide Sales Growth: exceeded target by 290 bps
  + New Restaurant Openings: 9% below target
  + US and International Segment performed similarly to consolidated business
  + Human Capital Metrics: 93% of target payout
  + Conversion of Registered Franchise Applicants: +4.4 pp of modification for President of IOM and -6.4 pp of modification for President of McDonald’s US
* FY21-FY23 Performance Stock (188% of target payout)
  + Maximum payouts for EPS and ROIC
  + Relative TSR: 67th percentile of S&P 500
* For FY23, McDonald’s 1Y TSR was 15.1%, and its 3Y TSR CAGR was 13.9%

**One-Time Awards**

* McDonald’s awarded new hire equity grants to the President of International Operated Markets and the Chief Global Impact Officer, valued at $3.8M and $3.5M respectively. These awards consist primarily of time-based stock grants, as well as some performance stock. The performance stock is subject to the same vesting conditions mentioned above.

**Notes**

* Performance stock is performance-based restricted stock

# Merck

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Merck’s CEO’s pay mix is 8% base salary, 12% cash incentives, 56% performance stock, and 24% stock options, while the average mix of its other named executive officers (NEOs) is 18% base salary, 18% cash incentives, 46% performance stock, and 20% stock options. Merck’s cash incentive plan is based 70% on financial metrics (Revenue and Pre-Tax Income) and 30% on non-financial metrics (primarily Pipeline, secondarily Sustainability). Its performance stock plan is based on 2 equally weighted metrics, EPS and Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(12% of compensation for CEO, 18% for NEOs)

* Adjusted Revenue (35%)
* Adjusted Pre-Tax Income (35%)
* Pipeline (20%)
  + Discovery & Early Development (38%)
  + Global Development (20%)
  + Approvals (20%)
  + Filings (18%)
  + Health Technology Assessment (5%)
* Sustainability (10%)
  + Access to Health (60%)
  + Inclusion of Employees (40%)

**Performance Stock**(56% of compensation for CEO, 46% for NEOs)

* 3Y Cumulative Adjusted EPS (50%)
* 3Y Relative Average TSR compared to peer group (50%); payout capped at 100% of target if 3Y Average Absolute TSR is negative
  + Peer group includes AbbVie, Amgen, AstraZeneca, Bristol-Myers Squibb, Eli Lilly, Gilead Sciences, GlaxoSmithKline, Johnson & Johnson, Novartis, Pfizer, Roche, and Sanofi

**Comments**

* Merck excludes some share repurchases above or below pre-planned levels from its EPS performance metric
* Compared to other large biopharma companies with pipeline metrics in their short-term incentive plans, Merck’s 20% weighting is similar to the 20-30% weightings we have seen at other companies (e.g., Eli Lilly, AstraZeneca, BMS, Amgen, and Gilead). Pfizer has a 25% pipeline modifier. Regeneron and Vertex take different approaches to their short-term incentive plans. Vertex bases 90% of payouts on non-financial metrics (mostly pipeline and operations metrics), and Regeneron has one broad corporate performance metric that considers pipeline performance amongst other factors.
* Merck’s pipeline sub-metrics appear to mostly have quantitative targets, but it is difficult to confirm that is the case because of a lack of disclosure

**Financial Metric Adjustments**

* Adjusted Revenue excludes the impacts of acquisitions or divestitures, foreign currency fluctuations, associated impact of hyperinflation in certain markets, and other extraordinary items
* Adjusted Pre-Tax Income excludes the same items, as well as the effect of certain business development transactions, restructurings, merger-related costs, and other extraordinary items
* Adjusted EPS excludes the same items as Adjusted Pre-Tax Income, as well as the impact of share repurchases above or below planned levels and gains/losses arising from equity investments

**FY24 Changes**

* The compensation mixes reflect Merck’s proposed FY24 executive compensation. For the FY24 executive compensation plan, Merck marginally increased the weighting of long-term equity awards for the CEO and cash compensation (base salary and cash incentives) for the other NEOs.

**FY23 Performance**

* Cash Incentives (148% of target payout)
  + Revenue: exceeded target by 4%
  + Pre-Tax Income: exceeded target by 6%
  + Pipeline: exceeded all targets, except for Health Technology Assessment (at target)
  + Sustainability: 100% of target payout
* FY21-FY23 Performance Stock (161% of target payout)
  + EPS: exceeded target by 9%
  + Relative TSR: 11.3 pp above peer group median
* For FY23, its 1Y TSR was 1%, and its 3Y TSR CAGR was 15.4%

**Notes**

* Percentages may not sum to 100% because of rounding

# Extra Space Storage

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Extra Space Storage’s CEO’s pay mix is 8% base salary, 14% cash incentives, 62% performance stock, and 16% stock options, while the average mix of its other named executive officers (NEOs) is 14% base salary, 15% cash incentives, 57% performance stock, and 15% stock options. EXR’s cash incentive plan is based 50% on Core Funds from Operations (FFO) Per Share and 50% on corporate and individual performance, while its performance stock plan is based 50% on Relative TSR and 50% on Core FFO Per Share.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(14% of compensation for CEO, 15% for NEOs)

* Core Funds from Operations Per Share (50%)
* Management Goals (50%)

**Performance Stock**(62% of compensation for CEO, 57% for NEOs)

* 3Y Relative TSR compared to MSCI US REIT Index (50%)
* 3Y Cumulative Core Funds from Operations Per Share (50%)

**Comments**

* For Management Goals, EXR has specified some quantitative financial targets, which stands out from the more qualitative approaches at other companies we reviewed. This metric also includes qualitative strategic assessments.
* Extra Space Storage is the only REIT we examined that does not exclude stock-based compensation from its financial metrics
* Compared to the other REITs we examined (VICI, WELL, and EQIX), EXR has a relatively similar metric mix. VICI and EQIX include AFFO/Share in their short-term incentive plans, while WELL includes Normalized FFO/Share. All REITs we examined include Relative TSR in their long-term plans. EXR is the only REIT to include a holistic corporate and individual performance assessment in its short-term incentive plan, while WELL is the only REIT to include ESG Measures. All of the REITs include a Relative TSR metric in their long-term incentive plans, while EQIX and EXR both include AFFO/share. Welltower is the only REIT we reviewed that includes a leverage metric, though Extra Space Storage does include an unweighted leverage component in its Management Goals metric.

**Financial Metric Adjustments**

* Core Funds from Operations Per Share adjusts for real estate depreciation, amortization of intangibles, unconsolidated joint venture real estate depreciation and amortization, distributions paid on Series A Preferred Operating Partnership units, noncontrolling interests’ income, and Life Storage merger costs

**Additional Detail on Metrics**

* The corporate metrics for Management Goals include same store operating income growth, G&A budget, gross investments, third-party management platform expansion, Life Storage acquisition integration, and executing public bond deals with goal of increasing leverage

**FY23 Performance**

* Cash Incentives (89% of target payout)
  + Core FFO Per Share: 4% below revised target
    - Target revised lower to account for short-term dilution from Life Storage acquisition
  + Management Goals: 98% of target payout for CEO and NEOs
* FY21-FY23 Performance Stock (200% of target payout)
  + AFFO Per Share: exceeded target by 25%
  + Relative TSR: 88th percentile of MSCI US REIT Index
* For FY23, EXR’s 1Y TSR was 13.9%, and its 3Y TSR CAGR was 15.4%

**Notes**

* Pay mixes may not sum to 100% because of rounding
* We calculated the CEO and NEOs’ compensation mixes using target cash incentives and grant-date equity fair values. The use of grant-date equity fair values likely increases the share of total compensation that comes from performance stock. The performance stock/time-based stock mix should be closer to 75-25% rather than the 80-20% mix above.

# FirstEnergy Corp

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**FirstEnergy’s CEO’s pay mix is 11% base salary, 16% cash incentives, and 73% performance stock (2/3 settled in stock, 1/3 settled in cash), while the average mix of its other named executive officers (NEOs) is 23% base salary, 18% cash incentives, and 59% performance stock (2/3 settled in stock and 1/3 settled in cash). FirstEnergy’s annual cash incentive plan is based 60% on financial metrics (Net Income and Baseline Operations and Maintenance) and 40% on non-financial metrics (Operations, Safety, and DE&I). Its long-term incentive plan is based 65% on EPS Growth and 35% on Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(16% of compensation for CEO, 18% for NEOs)

* Adjusted Net Income (35%)
* Baseline Operations and Maintenance (25%)
* Operations Index (15%)
  + System Average Interruption Duration Index (20%)
  + Transmission Outage Frequency (20%)
  + Engaged Customer Relationship Score (20%)
  + Environmental Excursions and Notices of Violations (20%)
  + Reg Gen EFOR (20%)
* Safety (15%)
  + Systemwide Days Away, Restricted, or Transferred (DART) (50%)
  + Life Changing Events (50%)
  + No payout in event of a fatality where the company is at fault
* DE&I Index (10%)
  + Diverse Supplier Spend (50%)
  + Diverse Hiring (50%)
* The size of the cash incentives pool is based on the company’s achievement of the midpoint of its Adjusted Net Income guidance, with payouts as earned if Adjusted Net Income is at or exceeds the midpoint, reductions to payouts if Adjusted Net Income is between the target and threshold amounts, and no payouts if Adjusted Net Income falls below the threshold amount (~97% of target in 2023)
* -100% to 0% of modification based on Compensation Committee’s assessments of individuals’ Ethics and Compliance
* The Compensation Committee has the authority to make further discretionary adjustments

**Performance Stock**(73% of compensation for CEO, 59% for NEOs)

* 3Y Cumulative Adjusted EPS Growth (65%)
* 3Y Relative TSR compared to S&P 500 Utilities Index (35%)
* Payout capped at 100% of target if 3Y Absolute TSR is negative

**Comments**

* Compared to the other utilities we reviewed, FirstEnergy has a higher weighting on Safety in its short-term incentive plan (15% vs 0% at CEG and CNP, 12% at SRE, and 10% at DTE). SRE and CNP also have DE&I and employee engagement-related metrics/modifiers in their cash incentive plans, with FirstEnergy having the highest weighting (10% vs 3% metric weighting at SRE and 5% modifier at CNP).

**Financial Metric Adjustments**

* Adjusted Net Income (referred to as Operating Earnings) and EPS exclude restructuring costs, investigation and other related costs, regulatory charges, and strategic transaction charges, pension fair value adjustments, divestitures, and debt extinguishment costs, as well as the impact of unforeseen accounting, legislative, or regulatory changes.
* Baseline O&M measures R&D and certain corporate and other-than-labor expenses that directly impact Adjusted Net Income, are non-deferrable, and do not have a regulatory means of recovery via riders or trackers

**Additional Detail on Metrics**

* Reg Gen EFOR refers to the percentage of generation that was not available compared to the amount of time a unit was requested to be online

**Recent Changes**

* In FY24, the Life Changing Events (LCE) sub-metric will have a payout of 200% for zero LCEs and no payout if one LCE occurs.
* In FY24, FirstEnergy eliminated Employee Engagement Survey Inclusion Index as a DE&I sub-metric due to the absence of a survey this year
* In FY24, it granted the Compensation Committee greater flexibility to adjust the target amounts of executives’ long-term incentive plan compensation
* In FY23, FirstEnergy replaced Free Cash Flow as an annual incentive plan metric with Baseline Operations and Maintenance (O&M), increased the weighting of Operations from 10% to 15%, and decreased the weighting of DE&I from 15% to 10%

**FY23 Performance**

* Cash Incentives (119% of target payout)
  + Net Income: exceeded target by 7%
  + Baseline O&M: exceeded target by 5%
  + Operations Index: below target by 2.28 points
  + DART: below threshold
  + Life Changing Events: achieved maximum
  + DE&I Index: 1.5 points below target
* FY21-FY23 Performance (200% of target)
  + EPS: exceeded target by 5%
  + Capital Effectiveness (discontinued metric that was a ratio of Adjusted Net Income to Net Plants in Service plus Construction Work in Progress): exceeded target by 20 bps
  + Relative TSR: 93rd percentile of S&P 500 Utilities Index
* For FY23, its 1Y TSR was -8.9%, and its 3Y TSR CAGR was 10.6%

**One-Time Awards**

* In FY23, the new CEO received a one-time make-whole new hire award consisting of $1.5M in cash and $5M in restricted stock, as well as a pro-rated amount of annual and long-term incentive compensation. In FY22, the Interim CEO and President received a one-time award of $3.1M in restricted stock.
* In FY23, the President of First Energy Utilities received a one-time make-whole new hire award consisting of $1.5M in cash and $3.5M in restricted stock, as well as a pro-rated amount of annual and long-term incentive compensation
* In FY23, the CFO received a $2M retention award consisting entirely of restricted stock
* In FY23, the COO received a one-time make-whole new hire award consisting of $250K in cash, and $300K in restricted stock, as well as a pro-rated amount of annual and long-term incentive compensation

# General Mills

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**General Mills’ CEO’s pay mix is 10% base salary, 18% cash incentives, 36% performance stock, 18% time-based stock, and 18% stock options, while the average mix of its other named executive officers (NEOs) is 22% base salary, 20% cash incentives, 29% performance stock, 14% time-based stock, and 14% stock options. General Mills’ cash incentive plan is based 80% on financial metrics (Revenue and Operating Income) and 20% on Individual Performance Assessments. Its performance stock plan contains 2 equally weighted metrics, Revenue and Operating Cash Flow, and contains a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(18% of compensation for CEO, 20% for NEOs)

* Adjusted Revenue Growth (40%)
* Adjusted Operating Income Growth (40%)
* Individual Performance Assessment (20%)

**Performance Stock**(36% of compensation for CEO, 29% for NEOs)

* 3Y Adjusted Revenue CAGR (50%)
* 3Y Cumulative Operating Cash Flow (50%)
* -25% to 25% modification based on 3Y Relative TSR compared to peers
  + Peer group includes Campbell Soup Company, Clorox, Coca-Cola, Colgate-Palmolive, Conagra Brands, Danone, The Hershey Company, The JM Smucker Company, Kellogg, Kimberly-Clark, Kraft Heinz, Keurig Dr Pepper, Mondelez International, Nestle, PepsiCo, Procter & Gamble, Reckitt Benckiser Group, and Unilever
* Earned performance stock awards subsequently time-vest over an additional year and payouts are capped at 200% of target

**Comments**

* General Mills provides very limited disclosure on how it arrived at its CEO’s individual performance rating and no disclosure on NEO ratings
* Compared to the other food products companies we reviewed (Nestle and Mondelez), General Mills has greater weighting towards non-financial metrics in its cash incentive plan (20% at General Mills vs 15% at Nestle and 10% at Mondelez). Nestle and Mondelez's non-financial measures both pertain to to ESG objectives.

**Financial Metric Adjustments**

* Adjusted Revenue excludes foreign currency fluctuations, revenue from a 53rd week,  the impacts of acquisitions and divestitures, and unspecified corporate adjustments
* Adjusted Operating Income excludes foreign exchange fluctuations, restructuring charges, mark-to-market gains/losses in commodity positions, valuation adjustments and losses on sale of corporate investments, the impacts of acquisitions and divestitures, and product recall costs

**FY23 Performance**

* Cash Incentives (170% of target payout for business performance)
  + Revenue Growth: exceeded target by 580 bps
  + Operating Income Growth: exceeded target by 650 bps
  + Individual Performance Assessment: 125% of target payout for CEO
* FY21-FY23 Performance Stock (173% of target payout)
  + Revenue CAGR: exceeded target by 430 bps
  + Free Cash Flow: exceeded target by 14%
* For FY23, General Mills’ 1Y TSR was 23.7%, and its 3Y TSR CAGR was 14.2%

**Notes**

* Pay mixes may not sum to 100% because of rounding

# Alnylam Pharmaceuticals

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Alnylam’s CEO’s pay mix is 6% base salary, 7% cash incentives, 43% performance stock, 22% time-based stock, and 22% stock options, while the average mix of its other named executive officers (NEOs) is 13% base salary, 7% cash incentives, 40% performance stock, 20% time-based stock, and 20% stock options. Alnylam’s cash incentive plan is based on its Board’s assessment of its progress on 3 metrics, Commercial Objectives, Pipeline and Development, and Advance Culture. Its performance stock vests based on financial, commercial, and pipeline goals that change each year.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(7% of compensation for CEO, 8% for NEOs)

* Commercial Objectives (40%)
* Pipeline and Development (40%)
* Advance Culture (20%)
* The People, Culture, and Compensation Committee has the authority to make discretionary adjustments to payouts

**Performance Stock**(43% of compensation for CEO, 39% for NEOs)

* Performance goals change year-to-year, FY23 goals are below:
  + Achievement of Adjusted Operating Income in FY25 (40%)
  + FDA Acceptance of an NDA for a Therapeutic to Treat ATTR Amyloidosis with Cardiomyopathy, After Receipt of Positive Result on Clinical Outcomes Endpoint from Phase 3 Clinical Study (30%)
  + Achievement of Human Proof of Concept for Investigational RNAi Therapeutic Directed to an Extrahepatic, non-CNS Target (30%)

**Comments**

* For its non-financial performance goals, which lack specified performance periods, the company has 10Y to achieve the performance goal. Earned awards may not vest earlier than 1Y after the grant date. Most other companies we reviewed have 3Y performance periods. The companies with longer periods tend to be those who award their executives multi-year performance stock awards that vest based on the achievement of stock price hurdles.
* In FY23, Alnylam’s Board exercised its discretion to increase cash incentive payouts by 5 pp to all executive officers to reflect the strategic collaboration with Roche and the closure of legal investigations
* Alnylam excludes stock-based compensation from Adjusted Operating Income
* Alnylam appears to have targets for the financial and TSR metrics within Commercial Objectives but does not disclose these targets, and payouts for this metric appear to be discretionary
* Alnylam’s Adjusted Operating Income profitability goal for its FY23 PSUs is the same as a goal under its FY21 PSUs. Two separate revenue goals also overlapped between PSU years, likely leading to payouts in both years.

**Financial Metric Adjustments**

* Adjusted Operating Income excludes stock-based compensation and realized and unrealized losses on marketable equity securities

**Additional Detail on Metrics**

* Commercial Objectives measures Alnylam’s execution of its medical strategy; the commercial success of ONPATTRO, AMVUTTRA, GIVLAARI, and OXLUMO; and the company’s achievement of its financial targets (include net product revenue, combined R&D and SG&A operating expenses, 1Y Relative TSR compared to peers, and COGS as a percentage of net product revenue)
  + Peer group includes BeiGene, Biogen, BioMarin, Exact Sciences, Exelixis, Incyte, Ionis Pharmaceuticals, Jazz Pharmaceuticals, Moderna, Neurocrine Biosciences, Sarepta Therapeutics, United Therapeutics, and Vertex Pharmaceuticals
* Pipeline and Development measures Alnylam’s progress on its early pipeline and platform efforts
* Advance Culture measures Alnylam’s ability to ensure organizational growth and scale while cultivating its desired culture and advancing a culture of integrity, quality, and employee safety

**FY23 Performance**

* Cash Incentives (105% of target payout)
  + Commercial Objectives: 95% of target payout
  + Pipeline and Development: 93% payout
  + Advance Culture: 125% payout
  + The People, Culture, and Compensation Committee allocated an additional 5 pp to all executive officers’ payout in recognition of the company’s entry into a strategic collaboration with Roche for the joint development and commercialization of zilebesiran and the successful closure of investigations by the DOJ and US Attorney’s Office for the District of Massachusetts related to the marketing and promotion of ONPATTRO
* FY22 Performance Stock (2/3 targets achieved)
  + Achieved the Human Proof of Concept for an Investigational RNAi Therapeutic Directed to an Extrahepatic Target and its First $1.5B in Annual Total Revenues
  + Not yet achieved a Positive, Statistically Significant Result on Clinical Outcomes Endpoint from a Phase 3 Clinical Study in ATTR Amyloidosis Patients with Cardiomyopathy
* For FY23, Alnylam’s 1Y TSR was -19.5%, and its 3Y TSR CAGR was 13.8%

**FY23 Changes**

* The CEO’s compensation increased 18%, while NEO salary increases ranged from 3-8%

**Notes**

* Pay mixes may not sum to 100% because of rounding

# Tractor Supply Company

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Tractor Supply’s CEO’s pay mix is 11% base salary, 16% cash incentives, 37% performance stock, 18% time-based stock, and 18% stock options, while the average mix of its other named executive officers (NEOs) is 30% base salary, 23% cash incentives, 24% performance stock, 12% time-based stock, and 12% stock options. Tractor Supply’s cash incentive plan is based 75% on Net Income and 25% on a discretionary assessment of the company’s progress on its strategic objectives. The performance stock plan is contains 2 equally weighted metrics, Revenue and EPS, as well as a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(16% of compensation for CEO, 23% for NEOs)

* Net Income (75%)
* Strategic Objectives (25%)
  + Lead with Legendary Service (20%)
  + Differentiate Neighbor’s Club Experience (20%)
  + Advance Omni Fulfillment (20%)
  + Grow with Orscheln (20%)
  + Fusion and Garden Center Cost Efficiency (10%)
  + Fusion and Garden Center Sales Lift (10%)
* The Compensation and Human Committee has the discretion to adjust payouts for individual executive performance, non-recurring factors, and strategic long-term decisions

**Performance Stock**(37% of compensation for CEO, 24% for NEOs)

* Revenue in 3Y (50%)
* EPS in 3Y (50%)
* -25% or 25% modification based on 3Y Relative TSR compared to S&P 500
  + -25% modification if Relative TSR ≤ 25th percentile
  + 25% modification if Relative TSR ≥ 75th percentile

**Comments**

* TSCO has a unique Relative TSR construction. Most other companies we reviewed with Relative TSR measures will target the 50th percentiles of their peer group and linearly interpolate payouts for performance between the 25th and 75th percentiles. Wells Fargo, Celanese, and Procter & Gamble have the same Relative TSR modifier constructions.
* Tractor Supply’s NEOs derive a higher proportion of total compensation from base salary than most other companies we reviewed (30% vs 15% average for all US companies we examined and 14% for Consumer Discretionary companies)
* Tractor Supply considers share repurchases when determining payouts for its EPS performance metric

**FY23 Performance**

* Cash Incentives (82% of target payout)
  + Net Income: 5% below target
  + Strategic Objectives: 130% of target payout
* FY21-FY23 Performance Stock (250% of target payout)
  + Revenue: exceeded target by 17%
  + EPS: exceeded target by 25%
  + Relative TSR: above 75th percentile of S&P 500
* For FY23, Tractor Supply’s 1Y TSR was -2.6%, and its 3Y TSR CAGR was 16.5%

**Notes**

* Pay mixes may not sum to 100% because of rounding
* The Compensation and Human Capital Committee has the ability to adjust Net Income for extraordinary or unusual items but made no adjustments in 2023

# Fiserv

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Fiserv’s CEO’s pay mix is 6% base salary, 10% cash incentives, 50% performance stock, and 34% time-based stock, while the average mix of its other named executive officers (NEOs) is 12% base salary, 12% cash incentives, 38% performance stock, and 38% time-based stock. Fiserv’s cash incentive plan is based on 2 equally weighted metrics, Revenue and Operating Income, while its performance stock plan is based on Relative TSR, Revenue Growth, and EPS.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(10% of compensation for CEO, 12% for NEOs)

* Adjusted Revenue (50%)
* Adjusted Operating Income (50%)
* The Talent and Compensation Committee has the discretion to adjust payouts

**Performance Stock**(50% of compensation for CEO, 38% for NEOs)

* 3Y Relative TSR compared to S&P 500 (40%); capped at 100% of target if 3Y Absolute TSR is negative
* Adjusted Revenue Growth, annual targets over 3Y (40%)
* Adjusted EPS, annual targets over 3Y (20%)

**Comments**

* Fiserv is one of the few companies we reviewed where the Board applied downward discretion to reduce cash incentive payouts. In FY23, the Board reduced payouts from 176% to 120% of target because Fiserv benefitted from unanticipatedly higher interest rates and inflation.
* Fiserv targets the 55th percentile of the S&P 500 for its 3Y Relative TSR metric, which is higher than the 50th percentile targets of most other companies we reviewed

**Financial Metric Adjustments**

* Adjusted Revenue for the cash incentive plan excludes Output Solutions postage reimbursements, deferred revenue purchase accounting adjustments, and the impacts of acquisitions and divestitures. Adjusted Revenue for the performance stock plan excludes the same items, as well as foreign currency fluctuations.
* Adjusted Operating Income excludes merger and integration costs, severance costs, amortization of acquisition-related intangible assets, net gains/losses on sales of businesses and assets, and the impact of the Canadian tax law change
* Adjusted EPS excludes the same items, as well as non-wholly-owned entity activities and the impact of the Argentina peso devaluation

**FY23 Performance**

* Cash Incentives (120% of target payout)
  + Revenue: exceeded target by 1.5%
  + Operating Income: exceeded target by 2.7%
  + The Talent and Compensation Committee adjusted down the cash incentive payout from 176% to 120% of target because Fiserv benefitted from unanticipated business conditions, such as higher interest rates and inflation
* FY21-FY23 Performance Stock (140% of target payout)
  + Revenue Growth: 190% of target payout
  + Operating Income Growth: 142% payout
  + EPS: 163% payout
  + Relative TSR: 77% payout
* For FY23, Fiserv’s 1Y TSR was 31.4%, and its 3Y TSR CAGR was 5.3%

# Progressive Corporation

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Progressive’s CEO’s pay mix is 7% base salary, 19% cash incentives, 67% performance stock, and 7% time-based stock. The average pay mix of its 2 corporate named executive officers (NEOs) is 16% base salary, 24% cash incentives, 44% performance stock, and 16% time-based stock, while the average mix of its business line presidents is 22% base salary, 22% cash incentives, 33% performance stock, and 22% time-based stock. Progressive’s cash incentive plan is based on Number of Policies in Force and Combined Ratio, while its performance stock plan is based on Business Line Growth for all executive officers and Fixed Income Investment Results as well for the CEO and CFO.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(19% of compensation for CEO, 23% for NEOs)

* Weighted average of each business line’s performance factor, which is calculated based on a matrix of the following two components:
  + Average Number of Policies in Force
  + Combined Ratio
* The Compensation and Talent Committee has the discretion to adjust payouts

**Performance Stock**(67% of compensation for CEO, 39% for NEOs)

* 3Y Relative Business Line Growth compared to overall market excluding Progressive (89% for CEO, 84% for CFO, 100% for other NEOs)
  + For payouts to be made, business lines must have a combined ratio of 96% or better over the most recent 12M period when the awards’ vesting is determined
* 3Y Relative Fixed Income Investment Results compared to peers (11% for CEO, 16% for CFO)
  + Peer group includes undisclosed comparable firms
* The Compensation and Talent Committee has the discretion to adjust payouts

**Comments**

* Nearly all Progressive employees participate in its cash incentive program, which it calls Gainshare
* In FY23, Progressive targeted business line growth rates of 2 pp above the market and established a performance stock payout threshold of equal growth to the market. It balances this growth target with a combined ratio threshold its business lines must achieve before performance stock payouts are made.
* Progressive’s time-based awards vest over 5Y, which is longer than the 3-4Y vesting periods at most other US companies we reviewed
* Fixed Income Investment Results are included as a financial metric, but equity results are not, because fixed income represents 95% of the company’s investment portfolio and the CIO and investment professionals do not actively manage the equity investments.

**Additional Detail on Metrics and Plan Design**

* For the cash incentives award, Progressive evaluates the performance of the following business units: Agency Auto, Direct Auto, Specialty Lines, Commercial Lines, Property Lines (states with less catastrophe exposure), and Property Lines (states with more catastrophe exposure)
* The Compensation and Talent Committee determines the weights for each business unit in the cash incentives plan based on each business unit’s relative contribution to overall net premiums earned
* For the 3Y Relative Business Line Growth metric, the Compensation and Talent Committee compares the growth rate of the Private Passenger Auto and Commercial Auto business lines to the market as a whole, with the weighting in the final metric based on the business lines’ relative contribution to net premiums earned
* The 3Y Relative Fixed Income Performance portion of the performance stock award is based on the performance of the fixed income portfolio on a fully taxable equivalent total return basis
* Progressive does not disclose its performance targets because of competitive concerns

**FY24 Changes**

* In FY24, Progressive increased the CEO and other NEOs’ salaries by 4-6% and the Commercial Lines President’s cash incentive target from 100% of base salary to 125%
* It also increased the maximum payout for the 3Y Relative Fixed Income Investment Results portion of the performance stock award from 2x of target to 2.5x and increased the maximum payout threshold to the 90th percentile of peers in order to more greatly incentivize the CEO and CFO to achieve superior investment results.

**FY23 Performance**

* Cash Incentives (178% of target payout)
  + In the 31Y history of its cash incentive program, payouts have ranged from 0-200%
  + Over the last 5Y, payouts have averaged 162% of target.
* For FY23, Progressive’s 1Y TSR was 23.2%, and its 3Y TSR CAGR was 20.1%

**Notes**

* Performance stock is performance-based restricted stock
* We calculated the pay mixes using FY23 figures because of a lack of disclosure on exact salary increases for FY24

# CenterPoint Energy

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**CenterPoint’s CEO’s pay mix is 14% base salary, 17% cash incentives, 52% performance stock, and 17% time-based stock, while the average mix of its other named executive officers (NEOs) is 23% base salary, 19% cash incentives, 44% performance stock, and 15% time-based stock. CenterPoint’s cash incentive plan is based 100% on EPS and contains a DE&I downward modifier, while its performance stock plan is based primarily on Relative TSR and EPS and secondarily on Carbon Emission Reduction. Its performance stock plan also includes a P/E modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(17% of compensation for CEO, 19% for NEOs)

* Adjusted EPS (100%)
* -5% to 0% modification based on DE&I
* The Compensation Committee has the discretion to reduce the payout for executive officers to align their payouts with the achievement of non-financial metrics applicable to the short-term incentive plans of non-executives (e.g., Safety and Cybersecurity, Managed O&M, and Managed Capital)

**Performance Stock**(52% of compensation for CEO, 44% for NEOs)

* 3Y Relative TSR compared to peers (47%)
  + If P/E is in the top quartile of the peer group over the 3Y performance period, the P/E modifier will provide for a minimum 75% payout level regardless of the level earned based on Relative TSR
  + Peer group includes Alliant Energy, Ameren Corporation, American Electric Power Company, Atmos Energy, Avangrid, CMS Energy, Consolidated Edison, DTE Energy, Edison International, Entergy, Evergy, Eversource Energy, NiSource, Pinnacle West Capital, Public Service Enterprise Group, Sempra Energy, WEC Energy, and Xcel Energy
* 3Y Cumulative Adjusted EPS (47%)
* 3Y Cumulative Carbon Emissions Reduction (7%)
  + Reduction of Scope 1 and Scope 2 Emissions (75%)
  + Reduction of Scope 3 Emissions (25%)

**Comments**

* CenterPoint is the only company we have reviewed that includes a valuation modifier (P/E) in its compensation plan
* CenterPoint is one of the few companies we examined where the Board exercised its discretion to reduce cash incentive payouts. In FY23, it adjusted down the cash incentive payout from 200% of target to 175% based on the company’s underperformance with respect to safety and certain reliability metrics.

**Financial Metric Adjustments**

* Adjusted EPS includes net income from Electric and Natural Gas segments, as well as after-tax corporate and other operating income and an allocation of corporate overhead. It excludes gains/losses on equity securities and indexed debt securities, as well as the impacts of mergers and divestitures.

**FY24 Changes**

* The above information reflects the CenterPoint’s proposed FY24 executive compensation plan. In FY24, it added a P/E modifier to the Relative TSR portion of the performance stock award.
* The CEO’s compensation mix reflects the new CEO’s compensation plan, which is weighted 2 pp more towards base salary than the previous CEO’s plan
* CenterPoint appears to pay out 125% of target for target performance on its Adjusted EPS metric

**FY23 Performance**

* Cash Incentives (175% of target payout)
  + EPS: 200% of target payout
  + DE&I Modifier: 0 pp modification, exceeded targets for applicant and supplier diversity
  + The Compensation Committee adjusted down the cash incentive payout from 200% of target to 175% based on the company’s underperformance with respect to safety and certain reliability metrics
* FY21-FY23 Performance Stock (180% of target payout)
  + Relative TSR: 2nd in peer group of 19
  + EPS: exceeded target by 3%
* For FY23, CenterPoint’s 1Y TSR was -2.1%, and its 3Y TSR CAGR was 12.6%

**One-Time Awards**

* In FY23, the EVP, Regulatory Services and Government Affairs received a one-time award consisting of $200K in cash, $413K in performance stock, and $138K in restricted stock. The performance stock and restricted stock have the same vesting terms and conditions as the company’s long-term incentive grants.
* In FY23, CenterPoint’s CFO received a one-time new hire award (make-whole) of $3.9M in restricted stock

**Notes**

* Percentages may not sum to 100% because of rounding

# General Motors

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**General Motor’s CEO’s pay mix is 8% base salary, 16% cash incentives, 57% performance stock, and 19% time-based stock, while the average mix of its other named executive officers (NEOs) is 9% base salary, 11% cash incentives, 60% performance stock, and 20% time-based stock. GM’s cash incentive plan is based 60% on financial metrics (Operating Income and Automotive Free Cash Flow) and 40% on non-financial strategic goals. It also includes a modifier for individual performance. GM's performance stock plan is based primarily on Automotive Operating Cash Flow and Relative TSR and secondarily on Operating Margin.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(16% of compensation for CEO, 11% for NEOs)

* Adjusted Operating Income (35%)
* Adjusted Automotive Free Cash Flow (25%)
* Electric Vehicle Strategic Goals (25%)
* Software and Services Strategic Goals (10%)
* Autonomous Vehicle Strategic Goals (5%)
* Individual Performance Factor multiplier (cannot exceed 110%)
* The payout for strategic goals performance occurs only if threshold performance of at least one financial measure is met

**Performance Stock**(57% of compensation for CEO, 60% for NEOs)

* 3Y Cumulative Adjusted Automotive Operating Cash Flow (40%)
* 3Y Relative TSR compared to peers (40%); payout is capped at 100% of target if 3Y Absolute TSR is negative
  + Peer group includes BMW, Ford, Honda, Hyundai, Kia, Mercedes-Benz, Nissan, Renault, Stellantis, Subaru, Suzuki, Tesla, Toyota, and Volkswagen
* 3Y Adjusted Operating Margin (20%)

**Comments**

* Unlike most other companies we reviewed, GM’s CEO receives a higher proportion of her compensation in cash than the NEOs. However, this dynamic is not concerning because equity grants still account for 76% of her total pay.
* Since it just added the strategic goals metrics in FY24, GM has not disclosed its goals or much detail on the metrics yet. In the FY23 performance stock metrics, the EV goals pertained to volume, launch time, and launch quality.

**Financial Metric Adjustments**

* Adjusted Operating Income excludes restructuring costs (voluntary wage separation program, Buick dealer transitions to EVs, Cruise restructuring), GM Korea wage litigation, and India asset sales
* Adjusted Automotive Free Cash Flow excludes the same items, as well as recall-related expenses attributable to events occurring in 2014

**FY24 Changes**

* The above information reflects GM’s proposed FY24 executive compensation plan. Previously, GM awarded its executives stock options rather than time-based stock.
* The FY24 cash incentive plan replaces the Individual Performance Assessment with an Individual Performance Factor multiplier, which is capped at 110% and cannot amplify the total payout above 200% of target. It also adds strategic goals for electric vehicles, autonomous vehicles, and software and services.
* The FY24 performance stock plan eliminates the EV Measures metric and adds an Automotive Operating Cash Flow metric

**FY23 Performance**

* Cash Incentives (125-135% of target payouts)
  + Operating Income: exceeded target by 33%
  + Automotive Free Cash Flow: exceeded target by 33%
  + Individual Performance Assessments (Strategic Goals): 100-140%
* FY21-FY23 Performance Stock (74% of target payout)
  + Relative ROIC: 79th percentile of peer group
  + Relative TSR: below 25th percentile of peer group
* For FY23, GM’s 1Y TSR was 7.9%, and its 3Y TSR CAGR was -4.3%

# L3Harris

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**L3Harris’ CEO’s pay mix is 8% base salary, 16% cash incentives, 38% performance stock, 19% time-based stock, and 19% stock options, while the average mix of its other named executive officers  (NEOs) is 18% base salary, 18% cash incentives, 32% performance stock, 16% time-based stock, and 16% stock options. L3Harris’ cash incentive plan is based primarily on Free Cash Flow and secondarily on Operating Income, Operating Margin, Revenue, and LHX NeXt Synergy Savings. Its performance stock plan contains 3 equally weighted metrics, Relative TSR, EPS, and ROIC, as well as an Operating Margin modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(16% of compensation for CEO, 18% for NEOs)

* Adjusted Free Cash Flow (50%)
* Adjusted Operating Income (20%)
* Adjusted Operating Margin (10%)
* Adjusted Revenue (10%)
* LHX NeXt Synergy Savings Targets (10%)
* The Compensation Committee has the discretion to adjust payout amounts

**Performance Stock**(38% of compensation for CEO, 32% for NEOs)

* 3Y Relative TSR compared to S&P 500 and peer group (33%)
* 3Y Cumulative Adjusted EPS (33%)
* 3Y Average Adjusted ROIC (33%)
* -25% to 25% modification based on Adjusted Operating Margin in 3Y

**Comments**

* L3Harris’ compensation plans include similar metrics to Northrop Grumman’s plans, with both companies including Operating Income and Margin and a cash flow metric in their cash incentive plans and Relative TSR and ROIC in their performance stock plans. However, unlike Northrop Grumman and 5 of the other 7 aerospace and defense companies we reviewed, L3Harris does not include a Free Cash Flow metric in its performance stock plan.

**Financial Metric Adjustments**

* Adjusted Revenue and Adjusted Free Cash Flow exclude impacts of acquisitions, mergers, and divestitures
* Adjusted Operating Income, Operating Margin, and ROIC further exclude the impacts of acquisitions, amortization of acquisition-related intangibles, gains/losses on divestitures and sales, impairment charges, gains/losses on asset sales, and restructuring costs.
* Adjusted EPS excludes the same items, as well as the company’s use of divestiture proceeds for share repurchases

**Additional Detail on Metrics**

* For segment executives, their cash incentive payouts are based 50% on segment results and 50% on consolidated results

**FY24 Changes**

* The above information reflects L3Harris’ proposed FY24 executive compensation plan. In FY24, L3Harris reduced the weights of Adjusted Revenue and Adjusted Operating Income by 10 pp and added Segment Operating Margin (Adjusted Operating Margin) and LHX NeXt Synergy Savings Targets as metrics.
* Segment Operating Margin is likely measured at the consolidated level for the CEO and other NEOs and at the segment level for segment NEOs. The metric is likely adjusted, judging from L3Harris’ prior practices.
* For the performance stock plan, L3Harris added Relative TSR as a metric after it had previously been a modifier and reduced the weights of Adjusted EPS and Adjusted ROIC from 50% to 33%. It also added the Adjusted Operating Margin modifier.

**FY23 Performance**

* Cash Incentives (121% of target payout for CEO, 121-156% for NEOs)
  + Free Cash Flow: exceeded target by 0.8%
  + Operating Income: exceeded target by 4%
  + Revenue: exceeded target by 5%
  + Exceeded all financial targets at segment levels
* FY21-FY23 Performance Stock (105% of target payout)
  + ROIC: exceeded target by 440 bps
  + EPS: 4% below target
  + Relative TSR: 42nd percentile of S&P 500
* For FY23, LHX’s 1Y TSR was 4.4%, and its 3Y TSR CAGR was 6.4%

**One-Time Awards**

* In FY24, the new CFO will receive a one-time award of 45K 3Y cliff-vesting stock options. He received a one-time cash payment of $200K in FY23.
* In FY23, the new President of Communication Systems received a one-time cash payment of $850K and new hire (make-whole) equity awards of $4M in restricted stock and $750K in stock options.

**Notes**

* Percentages may not sum to 100% because of rounding

# Goldman Sachs

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Goldman Sachs’ CEO’s pay mix is 6% base salary, 28% cash incentives, and 65% performance stock, while the average mix of its other named executive officers (NEOs) is 9% base salary, 36% cash incentives, and 55% performance stock. The Board determines the total size of executives’ incentive compensation (cash incentives and performance stock) based on its discretionary assessments of corporate and individual performance. The performance stock vests based on Relative and Absolute Return on Equity.

**Detailed Description of Performance-Based Compensation Approach**

**Total Incentive Compensation**(93% of compensation for CEO, 90% for NEOs), unweighted components

* Financial Performance
* Strategic Priorities & Clients
* Risk Management & Controls
* People
* Individual Performance Assessment

**Performance Stock**(65% of compensation for CEO, 55% for NEOs)

* 3Y Average Absolute and Relative Return on Equity (ROE) compared to peers
  + Relative ROE is used to determine payouts if 3Y Absolute ROE is between the threshold and maximum amounts
  + Peer group includes Bank of America, Bank of New York Mellon, Citigroup, JPMorgan Chase, Morgan Stanley, and Wells Fargo

**One-Time Awards**

* In FY21 and FY22, Goldman Sachs’ CEO and NEOs received one-time shareholder value creation awards consisting of $5.9M-$30M in performance stock. Half of the award is based on 5Y Relative TSR compared to peers and half is based on 5Y Absolute TSR. The Relative TSR awards have a target of the 65th percentile of the peer group, while the Absolute TSR awards have a cumulative target of 60% appreciation.

**Comments**

* Goldman Sachs takes a similar approach to many other banks, as well as BlackRock and Chubb, in determining its incentive payouts. It includes quantitative measures in its corporate assessment but does not identify targets for those measures and ultimately makes a discretionary assessment. Its approach of determining total incentive compensation before dividing it into short-term and long-term compensation also is similar to the approaches taken at the other firms.
* Goldman Sachs caps cash incentive compensation at no more than 40% of total annual variable compensation, leading to cash incentives accounting for a larger portion of total compensation than at peers (28% of total compensation for Goldman Sachs’ CEO, compared to 14% at JPMorgan, 23% at Wells Fargo, and 24% at Morgan Stanley)

**Additional Detail on Metrics**

* Financial Performance metrics include Adjusted ROE, Adjusted ROTE, TSR, efficiency ratio, Adjusted pre-tax earnings, Adjusted EPS, Adjusted BVPS growth, and CET1 ratio
* Strategic Priorities & Clients measures client feedback, share of addressable market, progress toward sustainable finance commitments, and other factors
* Risk Management & Controls measures reputational risk, risk management, internal audit findings, and compliance, among other factors
* People measures DE&I progress, attrition, and leadership pipeline health, among other factors

**Financial Metric Adjustments**

* Adjusted metrics exclude items related to Asset and Wealth Management’s transition to a less capital intensive business, revenues and costs resulting from the sales of the Marcus and GreenSky point-of-sale loans portfolios, gains from the Personal Financial Management sale, the FDIC Special Assessment Fee, and a reserve reduction for the GM Card related to the transfer of the GM Card portfolio to held for sale.

**FY23 Performance**

* Goldman Sachs’ CEO received $31M in total compensation in FY23, a 24% increase from FY22. The other NEOs received $10-$30M in compensation, with YoY increases ranging from 18-33%.
* For FY23, GS’s 1Y TSR was 15.9%, and its 3Y TSR CAGR was 16.4%

**Notes**

* Pay mixes may not sum to 100% because of rounding
* We calculated the compensation mixes using actual grant amounts since Goldman Sachs does not have target cash incentive amounts

# Air Products & Chemicals

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Air Products’ CEO’s pay mix is 9% base salary, 13% cash incentives, 47% performance stock, and 31% time-based stock, while the average mix of its other named executive officers (NEOs) is 20% base salary, 21% cash incentives, 35% performance stock, and 24% time-based stock. Air Products’ cash incentive plan is 100% based on EPS and includes an ESG modifier. Its performance stock plan is 100% based on Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(13% of compensation for CEO, 21% for NEOs)

* Adjusted EPS (100%)
* -20% to 20% modification based on ESG Modifier

**Performance Stock**(47% of compensation for CEO, 35% for NEOs)

* 3Y Relative TSR compared to S&P 500 (100%)
* -15% to 15% of possible modification based on Compensation Committee’s discretionary assessment regarding performance not reflected in relative TSR

**Comments**

* Unlike Linde and Celanese, the other 2 chemical companies we reviewed, Air Products does not include a cash flow or return on capital metric in its compensation plans. Linde includes Operating Cash Flow in its cash incentive plan and Return on Capital in its performance stock plan, while Celanese includes Free Cash Flow in its cash incentive plan and Return on Capital Expenditures in its performance stock plan.
* Linde and Celanese both include Relative TSR as a metric or modifier in their performance stock plans but do not weight it as highly as Air Products. Linde weights Relative TSR at 40% of the total payout, while Celanese’s Relative TSR modifier can affect payouts by 20%.

**Financial Metric Adjustments**

* Adjusted EPS excludes the impact of non-service-related components of net periodic benefit/cost for defined benefit pension plans, equity method investment impairment charges, and business and asset actions (assumed to be acquisitions, divestitures, restructuring costs, and gains/losses on asset sales)

**Additional Detail on Metrics**

* The ESG Modifier focuses on emissions intensity reductions, capital investment in energy transition projects, diversity, and safety

**FY23 Performance**

* Cash Incentives (160% of target payout)
  + EPS: exceeded target by 2%
  + ESG Modifier: 0 modification, indicating target performance
* FY21-FY23 Performance Stock (0% payout)
  + Relative TSR: 7th percentile of peer group
* For FY23, Air Products’ 1Y TSR was 24.7%, and its 3Y TSR CAGR was 0.7%

# Pfizer

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Pfizer’s CEO’s pay mix is 8% base salary, 15% cash incentives, 39% total shareholder return stock units (TRSUs), and 39% performance stock, while the average mix of its other named executive officers (NEOs) is 19% base salary, 18% cash incentives, 32% TRSUs, and 32% performance stock. Pfizer’s cash incentive plan is primarily based on financial metrics (Revenue, EPS, and Operating Cash Flow) and includes Pipeline Achievement and ESG Scorecard modifiers. Its performance stock plan is based on Net Income and includes a Relative TSR modifier.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(15% of compensation for CEO, 18% for NEOs)

* Adjusted Revenue (40%)
* Adjusted EPS (40%)
* Adjusted Operating Cash Flow (20%)
* -25% to 25% modification based on Pipeline Achievement
* -5% to 5% modification based on ESG Scorecard
* The Compensation Committee has the discretion to adjust payouts

**Total Shareholder Return Stock Units**(39% of compensation for CEO, 32% for NEOs)

* 5Y TSR (50%)
* 7Y TSR (50%)
* The number of shares earned is equal to the TSR between the grant and settlement dates (5Y or 7Y in future); no value if TSR is negative over performance period

**Performance Stock**(39% of compensation for CEO, 32% for NEOs)

* Adjusted Net Income, annual targets over 3Y (100%)
* Modification based on 3Y Relative TSR compared to NYSE Arca Pharmaceutical Index (DRG Index)
  + +/- 1.5x first 20 pp differential between Pfizer’s TSR and DRG Index TSR
  + +/- 2.0x differential over 20 pp
* Payout capped at 100% of target if 3Y Absolute TSR is negative

**Comments**

* Pfizer’s TSRUs are similar to the market stock units (MSUs) issued by BMS and Motorola. Pfizer’s TRSUs stand out with their longer performance periods (5Y and 7Y vs 1-4Y at other companies). The MSUs and TRSUs function as a way to tie compensation to stock performance without specifying a TSR target.
* Pfizer’s 25% pipeline modifier in its cash incentive plan is line with the 20-30% pipeline metric weightings we saw at most of the other large biopharma companies we examined (AbbVie is an exception with a 10% weighting). Regeneron and Vertex take different approaches to their short-term incentive plans. Vertex bases 90% of payouts on non-financial metrics (mostly pipeline and operations metrics), and Regeneron has one broad corporate performance metric that considers pipeline performance amongst other factors.
* Pfizer is one of the few companies we reviewed where the Board exercised its discretion to lower cash incentive payouts. In FY23, the Board reduced payouts to 0% because of the company’s disappointing performance.
* Pfizer excludes share repurchases above pre-planned levels from its EPS metric

**Financial Metric Adjustments**

* Adjusted Revenue excludes foreign currency fluctuations and unspecified non-recurring items
* Adjusted EPS and Net Income exclude foreign currency fluctuations, in-process research and development expenses, amortization of intangible assets, acquisition-related items, restructuring charges, acquisition-related items, asset impairments, gains/losses on equity securities, and the impacts of divestitures and discontinued operations
* Adjusted Operating Cash Flow excludes certain discretionary timing items for compensation purposes

**Additional Detail on Metrics**

* Pipeline Achievement includes 4 undisclosed metrics, spanning signs of clinical activity to product approvals measured by projected peak year revenues
* ESG Scorecard metrics include Percentage of Vice President and Higher Roles Held by Women and Minorities and Greenhouse Gas Emissions

**FY23 Performance**

* Cash Incentives (0% payouts for CEO and NEOs)
  + Revenue: 8% below threshold
  + EPS: 36% below threshold
  + Operating Cash Flow: 12% below target
  + Pipeline and ESG Modifiers: positive modification
  + The Compensation Committee exercised its discretion following the company’s disappointing performance to reduce payouts to 0%
* FY21-FY23 Performance Stock (0% of target payout)
  + Net Income: exceeded FY21 and FY22 targets by 39% and 6% respectively but fell short of FY23 threshold by 38%
  + Relative TSR: 57.9 pp below DRG Index TSR
* For FY23, Pfizer’s 1Y TSR was -41.3%, and its 3Y TSR CAGR was -4.3%

**Notes**

* Pay mixes may not sum to 100% because of rounding
* Performance stock is performance stock awards

# DoorDash

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**DoorDash’s CEO’s pay mix is 100% base salary, while the average mix of its other named executive officers (NEOs) is 4% base salary and 96% time-based stock. In November 2020, the CEO received a one-time performance stock award whose vesting is tied to stock price appreciation. As of the writing of this review, none of the award tranches have vested.

**Detailed Description of Performance-Based Compensation Approach**

**CEO One-Time Award**

* In November 2020, DoorDash’s CEO received a one-time performance stock award, valued originally at $413M, which is tied to the achievement of stock price hurdles. The award’s performance period began in June 2022 (1.5Y after grant date) and concludes in November 2027.
* The award is divided into 9 tranches with vesting based on the average of the stock price over a consecutive 180-day period during the performance period. The stock price hurdle for the first tranche is $187.60/share and the maximum vesting occurs at a stock price of $501. None of the tranches have been earned thus far.
* The CEO must retain any shares issued to him as a result of the award for at least 2Y following the vesting of those shares

**Comments**

* Since 2021, DoorDash has not provided a cash bonus or short-term incentive compensation to its executive officers. Amazon and Shopify follow similar approaches.
* The Leadership Development, Inclusion, and Compensation Committee adjusts annual equity awards for its NEOs each year based on individual and company performance. Based on FY22 performance, it reduced the value of planned annual equity grants for FY23 by 20%.

**Additional Information on Vesting**

* In FY23, DoorDash awarded its NEOs a mix of 4Y and 2Y vesting time-based stock grants; with its CFO receiving a 4Y vesting stock award valued at $12.3M following his promotion to CFO in FY23. Its 3 other NEOs had grant mixtures of 26-45% 2Y vesting stock and 55-74% 4Y vesting stock.

**FY23 Performance**

* For FY23, DoorDash’s 1Y TSR was 102.6%, and its 3Y TSR CAGR was -11.5%

# FedEx

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary**FedEx’s CEO’s pay mix is 8% base salary, 13% annual cash incentives, 34% long-term cash incentives, 23% stock options, and 22% time-based stock, while the average mix of its other named executive officers (NEOs) is 13% base salary, 16% annual cash incentives, 28% long-term cash incentives, 23% time-based stock, and 20% stock options. FedEx’s annual cash incentive plan is based on Operating Income, while its long-term cash incentive plan is based primarily on EPS and secondarily on ROIC and Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Annual Cash Incentives**(13% of compensation for CEO, 16% for NEOs)

* Adjusted Operating Income (100%)
* The CEO has the discretion to adjust the NEOs’ payouts based on the achievement of individual performance objectives
* The Compensation and Human Resources Committee has the discretion to adjust the CEO’s payout based on individual and corporate performance

**Long-Term Cash Incentives**(34% of compensation for CEO, 28% for NEOs)

* 3Y Cumulative Adjusted EPS (50%)
* 3Y Average Adjusted ROIC (25%)
* 3Y Relative TSR compared to the S&P 500 (25%)

**Comments**

* Like FedEx, Halliburton, Altria, and MercadoLibre also grant their executives long-term cash incentive compensation. MercadoLibre is the only company in that list to not additionally award their executives long-term equity.
* For its EPS calculation, FedEx excludes share repurchases in excess of the amount that offsets dilution from equity awards.
* FedEx often will provide one-time equity grants to executive officers who are newly hired or promoted, and in rare cases, will provide these awards for exceptional performance. The CEO received a $250K cash bonuses upon his recent promotion.
* FedEx provides tax reimbursement payments for its restricted stock awards, leading to less dilution than if the entire award were awarded in stock

**Financial Metric Adjustments**

* Adjusted Operating Income excludes restructuring costs
* Adjusted EPS and likely Adjusted ROIC (since this measure is new for FY24, adjustment information is not available) exclude restructuring costs, as well as mark-to-market retirement plan accounting adjustments, integration-related items, and share repurchases in excess of the amount that offsets dilution from equity awards

**FY24 Changes**

* The long-term cash incentive metrics reflect the proposed plan for FY24. ROIC will replace Capex/Revenue.
* The above compensation mix reflects FY23 target amounts because FedEx has not disclosed target amounts for FY24 time-based stock, long-term cash incentive, and stock option compensation

**FY23 Performance**

* Cash Incentives (0% payout)
  + Operating Income: 32% below threshold
* FY21-FY23 Performance Stock (137% of target payout)
  + EPS: exceeded target by 60%
  + Capex/Revenue: 3 bps below target
* For FY23, FedEx’s 1Y TSR was -0.7%, and its 3Y TSR CAGR was 20.5%

# Dayforce

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Dayforce’s CEO’s pay mix is 6% base salary, 6% short-term incentives (50% in cash, 50% in performance stock), 51% performance stock, and 37% time-based stock, while the average mix of its other named executive officers (NEOs) is 14% base salary, 5% short-term incentives (50% in cash and 50% in performance stock for all NEOs except Chief Revenue Officer), 46% performance stock, and 35% time-based stock. Dayforce’s short-term incentive plan is based on 3 equally weighted financial metrics for the CEO (Cloud Revenue, EBITDA, and Sales Per Employee Per Month Annual Contract Value (Sales PEPM ACV)). The short-term incentive plans for NEOs other than the CEO and Chief Revenue Officer also include an Individual Performance Assessment. 75% of the Chief Revenue Officer's cash incentive compensation comes from a Sales Incentive Plan, which is based 100% on Sales PEPM ACV. Dayforce's performance stock plan includes a financial portion, which is based on Cloud Recurring Revenue, Cloud Recurring Gross Margin, and Sales PEPM ACV, and a market portion, which is based on Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Short-Term Incentives**(6% of compensation for CEO, 11% for NEOs)

* Adjusted Cloud Revenue (33% for CEO and Chief Revenue Officer, 21% for other NEOs)
* Adjusted EBITDA (33% for CEO and Chief Revenue Officer, 21% for other NEOs)
* Sales Per Employee Per Month Annual Contract Value (Sales PEPM ACV) (33% for CEO and Chief Revenue Officer, 38% for other NEOs)
  + Sales PEPM ACV is the sole component of the Chief Revenue Officer’s Sales Incentive Plan, which has no cap on payouts and accounts for 75% of his total cash incentive compensation
* Individual Performance Assessment (0% for CEO and Chief Revenue Officer, 21% for other NEOs)
* The Compensation Committee has the discretion to adjust payouts

**Financial-Based Performance Stock**(36% of compensation for CEO, 35% for NEOs)

* Cloud Recurring Revenue (33%), annual targets over 3Y
* Adjusted Cloud Recurring Gross Margin (33%), annual targets over 3Y
* Sales PEPM ACV (33%), annual targets over 3Y
* The Compensation Committee has the discretion to adjust payouts

**Market-Based Performance Stock**(15% of compensation for CEO, 11% for NEOs)

* 3Y Relative TSR compared to S&P 1500 Application Software Index

**One-Time Awards**

* Dayforce typically offers its new hires one-time bonuses. In FY23, its Chief Revenue Officer received a one-time cash bonus of $250K, as well as a one-time restricted stock grant of $5M upon his assumption of the role.
* In FY23, the President, Customer and Revenue Operations received a one-time performance stock grant of $850K upon his assumption of the role. The performance stock was tied to FY23 Sales PEPM ACV and did not vest, as Sales PEPM ACV was below threshold.

**Comments**

* Dayforce excludes stock-based compensation from its EBITDA and Cloud Recurring Gross Margin metrics
* Paychex, the closest Dayforce competitor we reviewed, includes a mixture of growth (Service Revenue and Annualized New Business Revenue) and profitability (Operating Income) metrics in its compensation plan. Unlike Dayforce, it does not include a Relative TSR metric in its performance stock plan. Instead, Paychex's performance stock vests based on Revenue and Operating Income.
* Dayforce does not specify the vesting criteria for the performance stock granted under the short-term incentive plan. Like Dayforce, Aon also grants its executives performance stock through its short-term incentive plan. For Aon, performance stock accounts for the entire short-term incentive payout, compared to 50% at Dayforce.

**Financial Metric Adjustments**

* Adjusted Cloud Revenue and EBITDA include float revenue and are adjusted to reflect expected interest rate impacts to float revenues, as well as foreign currency impacts to all revenue items
* Adjusted EBITDA further excludes share-based compensation, restructuring charges, foreign currency fluctuations, and other items
* Adjusted Cloud Recurring Gross Margin excludes share-based compensation.

**Additional Detail on Metrics**

* Dayforce's NEOs have wide variation in their short-term incentive metric weights . The Chief Revenue Officer has the same structure as the CEO for the normal short-term incentive plan, the CFO has weights of 25% for each metric, and the COO and President, Customer and Revenue Operations has a 44% Sales PEPM ACV weight and 19% weights in the other 3 categories.

**FY23 Performance**

* Cash Incentives (84% of target payout for CEO, 68-88% for NEOs)
  + Cloud Revenue: 0.3% below target
  + EBITDA: 6% above target
  + Sales PEPM ACV: short of target, but target not disclosed because of competitive concerns
  + Chief Revenue Officer’s Sales Incentive Plan: 73% payout
* FY23 Financial-Based Performance Stock Tranche (81% of target payout)
  + Cloud Recurring Revenue: 1% above target
  + Cloud Recurring Gross Margin: 90 bps above target
  + PEPM ACV: below target, but target not disclosed because of competitive concerns
* For FY23, Dayforce’s 1Y TSR was 4.6%, and its 3Y TSR CAGR was -14.3%

**Notes**

* Performance stock is performance-based restricted stock
* The above compensation mix reflects FY23 actual figures since Dayforce does not disclose target amounts for FY23
* The CEO pay mix could change in FY24 because the company has transitioned from a co-CEO structure to a sole CEO structure

# DexCom

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**DexCom’s CEO’s pay mix is 8% base salary, 10% cash incentives, 41% performance stock, and 41% time-based stock, while the average mix of its other named executive officers (NEOs) is 14% base salary, 10% cash incentives, 23% performance stock, and 53% time-based stock. DexCom’s cash incentive plan is based primarily on Revenue and secondarily on Operating Margin and Individual Performance. Its performance stock plan is based on Revenue and Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(10% of compensation for CEO and NEOs)

* Adjusted Revenue (unweighted, referred to as primary component of company performance)
* Adjusted Operating Margin (unweighted, referred to as secondary component of company performance)
* CEO Strategic Initiative Component (20% for CEO, 0% for NEOs)
* Individual Performance Factor multiplier (only for NEOs, can increase final payout up to 200% of target or reduce it to 0%)
* The Compensation Committee has the discretion to adjust payouts

**Performance Stock**(41% of compensation for CEO, 23% for NEOs)

* 1Y Adjusted Revenue (100%)
  + 160% of target payout maximum
* 0-125% 3Y Relative TSR Multiplier, compared to Nasdaq Composite Index

**Comments**

* DexCom’s 1Y performance period for the Revenue metric in its performance stock plan is shorter than the 3Y performance periods of most other companies' performance stock metrics. The 1Y Revenue metric also overlaps with the cash incentive plan.
* Dexcom targets the 60th percentile of the Nasdaq Composite Index for its Relative TSR multiplier, which is higher than the 50th percentile targets of most of other companies we reviewed

**Financial Metric Adjustments**

* Adjusted Revenue excludes the impacts of acquisitions/dispositions and foreign currency fluctuations
* Adjusted Operating Margin excludes the amortization of acquired intangible assets, restructuring costs, and intellectual property litigation costs

**Additional Detail on Metrics**

* The CEO Strategic Initiative Component measures the CEO’s progress on organizational structure improvements, product development, and product roadmap. If all milestones are achieved, the CEO Financial Performance Multiplier is equal to the Company Financial Performance Multiplier. In the event that milestones are not 100% achieved, the Financial Performance Multiplier may be less due to partial achievement.

**FY24 Changes**

* The above compensation mix reflects the proposed FY24 pay mix for NEOs. In 2024, NEOs will receive 70% of their long-term incentive pay in time-based stock and 30% in performance stock. In prior years, NEOs received an 80-20 mix of time-based stock and performance stock.

**FY23 Performance**

* Cash Incentives (140% of target payout for CEO, 140-161% for NEOs)
  + Revenue: exceeded target by 7%
  + Operating Margin: exceeded target by 330 bps
  + CEO Strategic Initiative Component: achieved target
* Performance Stock (payouts not disclosed)
  + Revenue: exceeded target by 7%, 157% payout
* For FY23, DexCom’s 1Y TSR was 9.6%, and its 3Y TSR CAGR was 10.3%

**One-Time Awards**

* In FY23, the Chief Commercial Officer received a new hire award of $100K in cash and $5M in restricted stock that vests annually over 4Y

**Notes**

* The NEO pay mix average excludes the recently hired Chief Commercial Officer since she did not participate in the long-term incentive plan in 2023

# DTE Energy

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**DTE Energy’s CEO’s pay mix is 13% base salary, 18% cash incentives, 48% performance stock, and 21% time-based stock, while the average mix of its other named executive officers (NEOs) is 26% base salary, 20% cash incentives, 38% performance stock, and 21% time-based stock. DTE Energy’s cash incentive plan is based 40% on financial metrics (EPS and Operating Cash Flow) and 60% on non-financial metrics (Utility Operating Excellence Index, Customer Satisfaction, and Safety & Engagement). Its performance stock plan is based 80% on Relative TSR and 20% on EPS. The CEO of DTE Vantage’s cash incentive and performance stock plans are more closely tied to DTE Vantage earnings and growth.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(18% of compensation for CEO, 20% for NEOs)

* Utility Operating Excellence Index (25% for CEO and 3 NEOs, 0% for DTE Vantage CEO)
* Adjusted EPS (20% for CEO and 3 NEOs, 10% for DTE Vantage CEO)
* Operating Cash Flow (20% for CEO and 3 NEOs, 5% for DTE Vantage CEO)
* Customer Satisfaction (20% for CEO and 3 NEOs, 0% for DTE Vantage CEO)
* Safety & Engagement (15% for CEO and all NEOs)
* DTE Vantage Adjusted Operating Income (0% for CEO and 3 NEOs, 35% for DTE Vantage CEO)
* DTE Vantage Business Development (0% for CEO and 3 NEOs, 35% for DTE Vantage CEO)
* The Organization and Compensation Committee has the discretion to adjust payouts

**Performance Stock**(48% of compensation for CEO, 38% for NEOs)

* 3Y Relative TSR compared to peers (80% for CEO and 3 NEOs, 40% for DTE Vantage CEO)
  + Peer group includes Alliant Energy, Ameren, American Electric Power Company, CenterPoint Energy, CMS Energy, Consolidated Edison, Dominion Energy, Duke Energy, Edison International, Entergy, Evergy, Eversource Energy, FirstEnergy, NiSource, PG&E, Pinnacle West Capital, Public Service Enterprise Group, Sempra Energy, Southern Company, WEC Energy Group, and Xcel Energy
* 3Y Cumulative Adjusted EPS (20% for CEO and 3 NEOs, 10% for DTE Vantage CEO)
* DTE Vantage Projects Long-Range Earnings Growth (0% for CEO and 3 NEOs, 50% for DTE Vantage CEO)

**Comments**

* Compared to the other multi-utilities we reviewed, DTE has a similar performance stock metric mix to CenterPoint and Sempra but has a much higher weighting for non-financial metrics in its cash incentive plan (60% vs 8% at Sempra and 0% at CenterPoint; CenterPoint has a 7% carbon emissions weighting in its performance stock plan and a 5% DE&I modifier in its cash incentive plan)
* DTE Energy targets the 55th percentile of its peer group for its 3Y Relative TSR metric, which is above the 50th percentile targets of most other companies we reviewed

**Financial Metric Adjustments**

* Adjusted EPS and Adjusted Operating Income adjust for the Michigan Public Service Commission disallowance of certain capital project costs previously recorded and certain mark-to-market transactions

**Additional Detail on Metrics**

* Utility Operating Excellence Index contains 4 components: Nuclear On-Line Reliability Loss (40%); System Average Interruption Duration Index, excluding Major Event Days (20%); Percentage of Customers Experiencing 4 or More Interruptions in a Year (20%); and High Consequence Area Miles Assessable by In Line Inspection (20%)
* Customer Satisfaction contains 2 components: Net Promoter Score (60%) and Customer Complaints (40%)
* Safety & Engagement contains 3 equally weighted components: OSHA Recordable Incident Rate, High Energy Serious Injury or Fatality, and Employee Engagement
* Business Development contains 2 components: DTE Vantage Long-Range Earnings Growth (71%) and New Project NPV (29%). Long-Range Earnings Growth is progress towards 2027 earnings from new projects. New Projects include acquisitions, new builds, expansions, and contract extensions.

**FY Performance**

* Cash Incentives (50% of target payout for CEO and 3 NEOs, 156% payout for DTE Vantage CEO)
  + EPS: 6% below threshold
  + Operating Cash Flow: exceeded target by 4%
  + Customer Satisfaction: below threshold
  + Utility Operating Excellence Index: 57% of target payout
  + DTE Vantage Metrics: maximum payouts on financial metrics and business development, 42% payout on Safety & Engagement
* FY21-FY23 Performance Stock
  + DTE Energy Awards for 3 NEOs (190% of target payout)
    - Relative TSR: 73rd percentile of peer group
    - FFO/Debt: 80 bps above target
  + DTE Vantage Awards (195% of target payout)
    - DTE Long-Range Earnings Growth: maximum payout
* For FY23, DTE Energy’s 1Y TSR was -2.8%, and its 3Y TSR CAGR was 5.5%

**Notes**

* Percentages may not sum to 100% because of rounding
* We calculated the compensation mix using target cash incentive amounts we derived from the disclosed payouts

# Cloudflare

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Cloudflare’s CEO and President’s pay mixes are 4% base salary and 96% time-based stock, while the average mix of its other named executive officers (NEOs) is 13% base salary and 87% time-based stock. In FY21 and FY22, the CEO and NEOs also received large performance option awards that are tied to stock price appreciation.

**Comments**

* At full vesting, Cloudflare’s CEO and President’s one-time performance stock option awards (granted in December 2021) give each of them the right to purchase 3.96M shares of stock (valued at $331M at grant date). They are tied to the sustained achievement of stock price hurdles over a 90-day period within the 10Y performance period ($979/share is the highest hurdle). The lowest tranche for the awards is $156/share, and it does not appear that any tranches have vested.
* The CEO and President's one-time performance stock option awards are similar to Elon Musk’s performance stock option award at Tesla, Hock Tan’s performance stock award at Broadcom, Brian Chesky’s performance stock award at Airbnb, and Bill McDermott’s performance stock option award at ServiceNow. Please see each company's compensation write-up for more information on the awards.
* In response to recent share price decline, Cloudflare amended the terms of the FY22 stock option awards its 2 non-co-founder NEOs received. The awards previously had the same structure as the co-founders’ awards. Cloudflare added 3 lower stock price hurdles to increase the probability of the awards vesting and reduced the exercise price per share of the options.

**Additional Detail on Vesting**

* The standard equity awards for the 2 co-founders (CEO and President) vest over 4Y, while the other 2 NEOs’ awards vest over 3Y

**FY23 Performance**

* For FY23, Cloudflare’s 1Y TSR was 84.2%, and its 3Y TSR CAGR was 3.1%

**Notes**

* To calculate the above pay mixes, we annualize the FY23, multi-year time-based stock grants, over a 2Y period. The 2 co-founders received their last equity award in FY21, and the equity grant amount for the NEOs in FY23 appears to be 2-3x the size of previous grants.
* We exclude the one-time performance stock option awards from our compensation mix calculations

# Dollar Tree

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Dollar Tree’s CEO’s pay mix is 4% base salary, 8% cash incentives, and 88% stock options, while the average mix of its other named executive officers (NEOs) is 21% base salary, 21% cash incentives, 29% performance stock, 17% time-based stock, and 12% stock options. Dollar Tree’s cash incentive plan is based 60% on Operating Income and 40% on Revenue. Its performance stock plan, which the CEO does not participate in, is based 60% on EPS and 40% on Revenue and contains a Relative TSR modifier. The CEO’s entire long-term incentive compensation consists of a one-time stock option award he received in FY22.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(8% of compensation for CEO, 21% for NEOs)

* Adjusted Operating Income (60%)
* Adjusted Revenue (40%)
* No payout if Adjusted Operating Income is below a threshold amount ($1.5B in FY23)
* The Compensation Committee has the discretion to adjust payouts

**Performance Stock**(0% of compensation for CEO, 29% for NEOs)

* 3Y Cumulative Adjusted EPS (60%)
* 3Y Cumulative Adjusted Revenue (40%)
* -25% to 25% modification based on 3Y Relative TSR compared to peers
  + Peer group includes Albertsons Companies, AutoZone, BJ’s Wholesale Club Holdings, Burlington Stores, Dollar General, Lowe’s Companies, Macy’s, Nordstrom, Rite Aid, Ross Stores, Target, The Gap, The Kroger Company, TJX Companies, Tractor Supply Company, and Walgreens Boots Alliance

**One-Time Award**

* In FY22, Dollar Tree’s new Executive Chairman and current CEO received a $136M stock option award that vests ratably over 5Y

**Comments**

* Only 8% of the CEO’s compensation is tied to performance metrics, compared to an average of 63% at the other Consumer Staples companies we reviewed. His receipt of a large one-time stock option award in FY22 precludes him from receiving additional equity compensation and thus keeps the performance component of his total compensation at a low level.
* By comparison, Dollar General's cash incentive plan is 100% based on Operating Income, while its performance stock vests based on EBITDA and ROIC.

**Financial Metric Adjustments**

* Adjusted Revenue excludes foreign currency fluctuations and the impacts of acquisitions, mergers, and integrations
* Adjusted Operating Income excludes foreign currency fluctuations; the impacts of acquisitions, mergers, and integrations; impairment charges, restructuring costs, legal costs, and other extraordinary items

**FY23 Changes**

* In FY23, Dollar Tree changed its cash incentive metrics from 100% Adjusted Operating Income to the current mix of 60% Adjusted Operating Income and 40% Adjusted Revenue

**FY23 Performance**

* Cash Incentives (82% of target payout)
  + Revenue: exceeded target by 1%
  + Operating Income: 13% below target
* FY21-FY23 Performance Stock (105% of target payout)
  + Revenue: exceeded target by 5%
* For FY23, DLTR’s 1Y TSR was -7.5%, and its 3Y TSR CAGR was 9.7%

**Notes**

* The CEO’s pay mix reflects the annualization over 5Y of his $136M FY22 new hire stock option award, as he is precluded from receiving additional equity compensation. We annualize the award over 5Y because it has a 5Y vesting period and vests ratably.

# Equinix

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Equinix’s CEO’s pay mix is 5% base salary, 7% annual performance-based equity grants, 53% long-term performance stock, and 35% long-term time-based stock, while the average mix of its other named executive officers is 8% base salary, 7% annual performance-based equity grants, 51% long-term performance stock, and 34% long-term time-based stock. Equinix’s annual performance-based equity plan contains 2 equally metrics, Revenue and Adjusted Funds from Operations (AFFO) Per Share, as well as a Strategic Modifier. Its long-term performance stock plan is based on Relative TSR, Revenue, and AFFO Per Share.

**Detailed Description of Performance-Based Compensation Approach**

**Annual Performance-Based Equity Grants** (7% of compensation for CEO and NEOs)

* Adjusted Revenue (50%)
* Adjusted Funds from Operations (AFFO) Per Share (50%)
* -10% to 10% modification based on Strategic Modifier
* The Adjusted Revenue and AFFO Per Share thresholds (95% of target) must be met before any payout is made

**Long-Term Performance Stock**(53% of compensation for CEO, 51% for NEOs)

* 1Y Adjusted Revenue (33.5%)
* 1Y AFFO Per Share (33.5%)
* 3Y Relative TSR compared to Russell 1000 (33%)

**Comments**

* Equinix’s annual performance-based equity grants are restricted stock that vests immediately and is conditioned on the performance metrics described above. BlackRock, United Rentals, and DR Horton award their executives equity as part of their short-term incentive plans, but unlike Equinix, also award cash incentive compensation. Like Equinix’s shares, United Rentals’ and DR Horton’s shares immediately vest, while BlackRock’s shares vest over 3Y. DR Horton’s shares must then be held for 2 additional years.
* Equinix excludes stock-based compensation from its calculation of AFFO Per Share. Extra Space Storage is the only REIT out of 4 REITs we reviewed that does not exclude stock-based compensation from its financial incentive metrics.
* Equinix’s 1Y performance period for its long-term incentive financial metrics is shorter than the 3Y performance periods of most other companies we reviewed. The 1Y awards vest over an additional 2Y to bring total vesting to 3Y.
* For Equinix’s cash incentive plan, the revenue metric payout is capped at 100% of target to ensure a teamwide focus on near-term profitability

**Financial Metric Adjustments**

* Adjusted Revenue excludes foreign currency fluctuations, capital market activity, lease conversion impacts, integration-related items, sales allowance impacts, and other extraordinary items
* AFFO Per Share excludes the same items, as well as stock-based compensation, depreciation and amortization expense on non-real estate assets, accretion, stock-based charitable contributions, restructuring charges, impairment charges, transaction costs, rent expense and contract cost adjustments, amortization of deferred financial costs and debt discounts and premiums, gains/losses on debt extinguishment, recurring capital expenditures, impacts of divestitures, and other extraordinary items

**Additional Detail on Metrics**

* The Strategic Modifier is 50% Digital Services Revenue, 25% Social Aspirational Goals (related to workforce representation), and 25% Environmental Targets (related to Energy Efficiency, Long-Term Climate Target, Renewable Energy, and Water Usage)

**FY24 Changes**

* In FY24, Equinix removed Digital Services Revenue as a performance stock metric. It does not specify how Digital Services Revenue’s weight will be distributed between Revenue and AFFO Per Share, but based on the two metrics’ equal weightings in both the short-term incentive plan and the FY23 long-term incentive plan, we can assume that they will be weighting equally in the FY24 long-term incentive plan.

**FY23 Performance**

* Cash Incentives (101% of target payout)
  + Revenue: 0.9% below target
  + AFFO/Share: 2% above target
  + Strategic Modifier: 3% downward modification
* FY23 Financial Incentive Performance Stock (82% of target payout)
  + Revenue: 0.9% below target
  + AFFO/Share: 2% above target
  + Digital Services Revenue: 6.8% below target
* FY21 Relative TSR Performance Stock (84% of target payout)
  + Relative TSR: 7.78 pp below Russell 1000 TSR
* For FY23, Equinix’s 1Y TSR was 25.4%, and its 3Y TSR CAGR was 6%

**Notes**

* Pay mixes may not sum to 100% because of rounding

# Taiwan Semiconductor Manufacturing Company

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent 20-F filing for potential changes since this review.

**Summary:**TSMC’s CEO’s pay mix is 3% base salary, 42% cash incentives, 40% profit-sharing, and 16% performance stock, while the average mix of its other named executive officers (NEOs) is 6% base salary, 42% cash incentives, 38% profit-sharing, and 14% performance stock. TSMC’s cash incentive and profit-sharing plans are likely based on Net Income. Its performance stock vests based on Relative TSR, as well as an ESG modifier, which is determined individually.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives and Profit Sharing**(82% of compensation for CEO, 80% for NEOs)

* In its 20-F report, TSMC states that its cash incentive bonuses are based on quarterly business results
* Judging by the fact that, on aggregate, total cash incentive payouts have equaled total profit-sharing payouts the last few years, cash incentive payouts appear to be based on quarterly profits, while profit-sharing payments are distributed based on annual profits. However, we cannot confirm this arrangement since NEOs’ cash incentive and profit-sharing payments are not equal.
* The profits are likely net income, judging from the language in the 20-F filing, but TSMC does not specify how it defines profits

**Performance Stock**(16% of compensation for CEO, 14% for NEOs)

* Relative TSR compared to S&P 500 IT Index (100%), measured annually over 3Y
  + 50% payout if TSR equals the index
  + 50% +/- 2.5\*pp deviation payout if TSR is above or below index
* -10 to 10 pp of modification based on ESG Achievements (judged individually)

**Comments**

* Since cash incentive and profit-sharing payouts appear to be linked to net income, net income accounts for 82% of the CEO’s compensation and 80% of NEOs’ compensation. For TSMC’s employees who receive performance stock awards but are not executive officers of the company or its subsidiaries, their performance stock vests based on 3 equally weighted indicators: Revenue Growth, Gross Margin, and ROE.
* According to TSMC’s Articles of Incorporation, TSMC must pay a profit-sharing bonus to employees that is, on aggregate, at least 1% of annual profits
* TSMC’s profit-sharing and cash incentive plans are similar to DR Horton and Texas Instruments’ programs. Texas Instruments’ plan is based entirely on operating margin and can total up to 20% of base salary, while DR Horton’s plan allows for executive officers to receive a fixed percentage (0.10-0.20%) of pre-tax income each year.

**Additional Detail on Metrics**

* ESG Achievements include operational goals and ESG achievements in focus areas: Drive Green Manufacturing, Build a Sustainable Supply Chain, Create a Diverse and Inclusive Workplace, Develop Talent, and Care for the Disadvantaged

**FY23 Performance**

* In its 20-F, TSMC provides no disclosure on performance stock payouts
* For FY23, TSMC’s 1Y TSR was 35%, and its 3Y TSR CAGR was 5.9%

**Notes**

* Performance stock is performance-based restricted stock awards
* We calculated pay mixes using actual payouts since TSMC does not disclose targets

# Novo Nordisk

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent remuneration report for potential changes since this review.

**Summary:**Novo Nordisk’s CEO’s pay mix is 31% base salary, 15% cash incentives, and 54% performance stock, while the average mix of its other named executive officers (NEOs) is 36% base salary, 18% cash incentives, and 47% performance stock. Novo Nordisk’s cash incentive plan is based 50% on financial metrics (Revenue and Operating Income) and 50% on non-financial metrics (ESG, Pipeline, and Individual Assessments), while its performance stock plan is based on 3 equally weighted metrics, Revenue, Operating Income, and Non-Financial Performance (ESG and Pipeline).

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(15% of compensation for CEO, 18% for NEOs)

* Adjusted Revenue Growth (25%)
* Adjusted Operating Income Growth (25%)
* Non-Financial Performance (25%)
* Individual Performance Assessment (25%)

**Performance Stock**(54% of compensation for CEO, 47% for NEOs)

* 3Y Average Adjusted Revenue Growth (33%)
* 3Y Average Adjusted Operating Income Growth (33%)
* 3Y Non-Financial Performance (33%)
* Executives must hold 40% of earned performance stock awards for 2Y after vesting

**Comments**

* Novo Nordisk is one of only 5 of the 13 biopharma companies we examined that measures pipeline performance in their long-term incentive plans. The others are Alnylam, AstraZeneca, Vertex, and Daiichi Sankyo. Unlike 9 of the other biopharma companies we reviewed, Novo Nordisk does not include a Relative TSR modifier or metric in its long-term incentive plan.
* Novo Nordisk has almost full overlap between its cash incentive and performance stock metrics
* The sub-metrics for Non-Financial Performance have specified, measurable targets

**Financial Metric Adjustments**

* Adjusted Revenue and Operating Income exclude currency fluctuations

**Additional Detail on Metrics**

* Non-Financial Performance has 2 components: Purpose & Sustainability (subcomponents are Social Responsibility, Environmental Responsibility, Sustainable Employer, and Sustainable Supply Chain) and Innovation and Therapeutic Focus (subcomponents are Diabetes Care, Obesity Care, Rare Disease, and Other Serious Chronic Diseases)
* The 1Y and 3Y Non-Financial Performance measures evaluate similar components

**FY24 Changes**

* The above information reflects Novo Nordisk’s proposed FY24 compensation plan. In FY24, the company increased the maximum payouts for the cash incentive and performance stock plans for EVPs and the CEO and extended the performance period for Non-Financial Performance in the performance stock plan from 1Y to 3Y.

**FY23 Performance**

* Cash Incentives (96% of maximum payout for CEO)
  + Revenue Growth: exceeded target by 20.5 pp
  + Operating Income Growth: exceeded target by 30 pp
  + Innovation & Therapeutic Focus: achieved 12 of 13 initiatives
  + CEO Individual Performance Assessment: 100% of maximum payout
* FY21-FY23 Performance Stock (86% of maximum payout)
  + Revenue Growth: exceeded target by 15 pp
  + Operating Income: exceeded target by 17.5 pp
  + Non-Financial Performance: 61% of maximum payout
* For FY23, Novo Nordisk’s 1Y TSR was 50.7%, and its 3Y TSR CAGR was 50.8%

**Notes**

* Percentages may not sum to 100% because of rounding
* The above compensation mixes exclude the 74 RSUs executives received individually as part of the 100-year anniversary share program offered to all employees
* Based on typical practices at European companies, we calculate the pay mix by assuming that the target performance stock and cash incentive payouts are 50% of the maximum payout

# Canadian Natural Resources

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Canadian Natural Resources' CEO’s pay mix is 9% base salary, 10% cash incentives, 35% performance stock, and 46% stock options, while the average mix of its other named executive officers (NEOs) is 15% base salary, 10% cash incentives, 32% performance stock, and 44% stock options. Canadian Natural Resources’ cash incentive plan is based on the Board’s discretionary assessments of Strategic Capital Allocation; Financial Performance; Operational Performance; and Safety, Asset Integrity, and Environmental Performance. The cash incentive payouts determine the size of the performance stock bonus pool (performance stock grants are 3-4x cash incentive payouts), and the vesting of the performance stock depends on Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(10% of compensation for CEO and NEOs)

* Strategic Capital Allocation (30%)
* Financial Performance (25%)
* Operational Performance (25%)
* Safety, Asset Integrity, and Environmental Performance (20%)

**Performance Stock**(35% of compensation for CEO, 32% for NEOs)

* Cash incentive payouts determine performance stock grant sizes, vesting depends on:
  + 3Y Relative TSR compared to Canadian peers (67%)
    - Canadian peers include Cenovus Energy, Enbridge, Suncor Energy, and TC Energy
  + 3Y Relative TSR compared to American and Canadian peers (33%)
    - Same Canadian peers as above; American peers include Apache, Devon Energy, EOG Resources, Marathon Oil, and Ovintiv

**Comments**

* For senior management, CNQ’s performance stock plan is cash settled based on the stock price at the time of vesting and the achievement level of the performance stock metrics. The stock option plan gives holders the choice of whether to receive 50% of the allotted option award as options or as common shares. Outside of the retiring CEO, who was allowed to retain 100% of the allocated option award as common shares, all NEOs elected to receive the award in stock options.
* Like ConocoPhillips, CNQ has a mixture of quantitative and qualitative targets for its cash incentive sub-metrics. Specifically, CNQ has quantitative targets but not formulaic payouts for all of its Financial; Operational; and Safety, Asset Integrity, and Environmental Performance sub-metrics.
* CNQ excludes stock-based compensation from its financial metrics
* CNQ’s stock option awards vest over 5Y, while the share election awards vest over 3Y. The 5Y vesting period is longer than the 3-4Y vesting periods at most other companies we reviewed.

**Additional Detail on Metrics**

* Strategic Capital Allocation incudes unweighted metrics related to Deleveraging Balance Sheet, Opportunistic Acquisition/Disposition, Dividends, and Share Repurchases
* Financial Performance includes unweighted metrics related to Balance Sheet Strength, Capital Expenditures, ROE, ROIC, and Adjusted Fund Flow per Share
* Operational Performance includes unweighted metrics related to Barrel of Oil Equivalent Production and Operating Costs
* Safety, Asset Integrity, and Environmental includes metrics related to Greenhouse Gas Emission Intensity, Recordable Injury Frequency, Pipeline Leaks, and Wells Abandoned

**Financial Metric Adjustments**

* For Strategic Capital Allocation and Financial Performance, adjusted financial metrics, including Adjusted EBITDA, exclude share-based compensation, unrealized risk management activities gains/losses, asset retirement obligation accretion, foreign exchange fluctuations, abandonment expenditures and gains/losses on acquisitions and investments

**FY23 Performance**

* Cash Incentives (127% of target Corporate Performance, 168% payout)
  + Financial Performance: 135% of target payout, outperformance on Debt-to-Book and Adjusted Funds Flow
  + Strategic Capital Allocation: 117% of target payout, outperformance on dividends
  + Operational Performance: 94% of target payout
  + Safety, Asset Integrity, and Environmental Performance: 173% of target payout, outperformance on 5 of 7 sub-metrics
* FY21-FY23 Performance Stock (150% of target payout)
  + Relative TSR: outperformed 6 of 9 Canadian and American peers
* For FY23, CNQ’s 1Y TSR was 21.1%, and its 3Y TSR CAGR was 49%

**Notes**

* Percentages may not sum to 100% because of rounding
* The CEO pay mix is based on the former CEO and current Vice Chairman’s 2023 compensation. The NEO pay mix does not reflect the pay of the Executive Chairman, who receives 11% of his pay from cash incentives, 43% from performance stock, and 47% from stock options. The CEO mix reflects that option grants are typically received in options, rather than common shares.

# AstraZeneca

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent remuneration report for potential changes since this review.

**Summary:**AstraZeneca’s CEO’s pay mix is 15% base salary, 22% short-term incentives (50% in cash and 50% in deferred equity vesting in 3Y), and 63% performance stock, while the CFO’s pay mix is 21% base salary, 21% short-term incentives (50% in cash and 50% in deferred equity), and 58% performance stock. AstraZeneca’s short-term incentive plan is based 70% on financial metrics (Revenue, Free Cash Flow, and EPS) and 30% on Pipeline (Regulatory and Pipeline Progression Events). Its performance stock plan is based 40% on financial metrics (Revenue and Free Cash Flow), 20% on Relative TSR, 30% on Pipeline (Regulatory Events and NME Phase III/Registration Volume), and 10% on Carbon Emissions.

**Detailed Description of Performance-Based Compensation Approach**

**Short-Term Incentives**(22% of compensation for CEO and 21% for CFO)

* Adjusted Revenue (30%)
* Adjusted Free Cash Flow (20%)
* Adjusted EPS (20%)
* Regulatory Events (15%)
* Pipeline Progression Events (15%)

**Performance Stock**(63% of compensation for CEO, 58% for CFO)

* 3Y Cumulative Adjusted Revenue (20%)
* 3Y Cumulative Adjusted Free Cash Flow (20%)
* 3Y Relative TSR compared to peers (20%)
  + Peer group includes AbbVie, Amgen, Astellas, Bristol-Myers Squibb, Daiichi Sankyo, Eli Lilly, Gilead Sciences, GlaxoSmithKline, Johnson & Johnson, Merck KGaA, MSD, Novartis, Novo Nordisk, Pfizer, Roche, Sanofi, and Takeda
* 3Y Regulatory Events (18%)
* 3Y New Molecular Entity (NME) Phase III/Registration Volume (12%)
* 3Y Progress on Ambition Zero Carbon (10%)
* Performance stock awards have a required 2Y holding period after vesting

**Comments**

* Compared to other large biopharma companies with pipeline metrics in their short-term incentive plans, AstraZeneca’s 30% weighting is similar to the 20-30% weightings we have seen at other companies (e.g., Eli Lilly, Gilead, Amgen, and Merck). Pfizer has a 25% pipeline modifier. Regeneron and Vertex take different approaches to their short-term incentive plans. Vertex bases 90% of payouts on non-financial metrics (mostly pipeline and operations metrics) and Regeneron has one broad corporate performance metric that considers pipeline performance amongst other factors.
* AstraZeneca is one of only 5 of the 13 biotech/pharmaceutical companies we examined that measures pipeline performance in their long-term incentive plans. The others are Alnylam, Novo Nordisk, Vertex, and Daiichi Sankyo.
* AstraZeneca’s Relative TSR threshold (the amount below which no payouts are earned) is the median of its peer group. Its Relative TSR maximum target is the upper quartile. Most other companies with Relative TSR measures target the median of their peer group for 100% vesting.

**Financial Metric Adjustments and Calculations**

* Adjusted Revenue, Free Cash Flow, and EPS exclude foreign currency fluctuations
* Adjusted EPS further excludes restructuring costs, intangible asset amortization and impairments, and other undisclosed extraordinary items
* Adjusted Free Cash Flow (referred to as Net Cash Flow) starts with Operating Cash Flow, subtracts out capital expenditures, and adds back proceeds from disposals of intangible assets

**Additional Detail on Metrics**

* Regulatory Events include NME and major life-cycle management regional submissions and approvals
* Pipeline Progression Events include Phase II starts and progression and NME and life-cycle management positive Phase III investment decisions
* 3Y Progress on Ambition Zero Carbon focuses on Scope 1 and Scope 2 GHG emissions reductions vs a 2015 baseline

**FY24 Changes**

* The above compensation mix reflects AstraZeneca’s FY24 compensation plan. In FY24, AstraZeneca increased the CEO’s target short-term incentive target payout from 125% of base salary to 150%, the CEO’s performance stock maximum payout from 650% to 850% of base salary, and the CFO’s performance stock maximum payout from 450% to 550% of base salary.

**FY23 Performance**

* Short-Term Incentives (80% of maximum payout)
  + Revenue: exceeded target by 2%
  + Free Cash Flow: exceeded target by 2%
  + EPS: exceeded target by 3%
  + Pipeline Progress Events: exceeded target by 5 events
  + Pipeline Regulatory Events: exceeded target by 11 events
* FY21-FY23 Performance Stock (88% of maximum payout)
  + 3Y Regulatory Events: 2 events below maximum
  + 3Y NME Phase III/Registration Volume: 2 events below maximum
  + 3Y Progress on Ambition Zero Carbon: maximum payout
  + Relative TSR: 6th out of 17 companies (including AstraZeneca) in peer group
* For FY23, AZN’s 1Y TSR was -3.5%, and its 3Y TSR CAGR was 15.8%

**Notes**

* Based on typical practices at European companies and the fact that AstraZeneca’s cash incentive target is half of its maximum, we calculate the pay mix by assuming that the target performance stock payout is 50% of the maximum payout
* AstraZeneca discloses the compensation of only 2 executive officers, its CEO and CFO

# ASML

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent remuneration report for potential changes since this review.

**Summary:**ASML’s CEO's pay mix is 24% base salary, 29% cash incentives, and 48% performance stock, while the average mix of its other named executive officers (NEOs) is 26% base salary, 26% cash incentives, and 47% performance stock. ASML’s cash incentive plan is based 60% on Operating Margin and 40% on non-financial metrics (Customer Orientation and Technology Leadership Index). Its performance stock plan is based primarily on Relative TSR and ROIC and secondarily on ESG Measures and Technology Leadership.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(29% of compensation for CEO, 26% for NEOs)

* Operating Margin (60%)
* Customer Orientation (20%)
* Technology Leadership Index (20%)

**Performance Stock**(48% of compensation for CEO, 47% for NEOs)

* 3Y Relative TSR compared to PHLX Semiconductor Sector Index (30%)
* 3Y Adjusted Return on Average Invested Capital (30%)
* 3Y ESG Measures (20%)
* 3Y Average Technology Leadership Index (20%)
* Performance stock awards have a required 2Y holding period after vesting

**Comments**

* ASML appears to have specific targets for its Customer Orientation and Technology Leadership Index but does not disclose them out of competitive concerns. Its approach to its non-financial metrics is more formulaic and quantitatively driven than the more discretionary approaches at many other companies we reviewed.

**Financial Metric Adjustments**

* Adjusted Return on Average Invested Capital excludes the impacts of acquisitions and mergers and R&D that deviates from target

**Additional Detail on Metrics**

* Customer Orientation contains the following sub-metrics: Half ASML Customer Trust Survey (50%), Applications: Adoption of Multi Beam (12.5%), DUV Costs and Competitiveness (12.5%), EUV Low NA Maturity (12.5%), and EUV High NA Performance (12.5%)
* Technology Leadership Index measures ASML’s performance on a set of internal targets related to progress on product and technology roadmaps. For the cash incentive metric, it evaluates progress on 19 key projects in Applications, DUV, and EUV for 2023.
* 3Y ESG Measures contains 3 equally weighted subcomponents: Commitment of Top-80% Suppliers to Reduce CO2 Emissions Footprint by 2030, Employee Engagement, and Total and Senior Employee Inflow of Women

**FY24 Changes**

* In FY24, ASML increased the CEO's target cash incentive payout from 105% to 120% of base salary and his target performance stock payout from 170% to 200% of base salary
* ASML increase other NEOs’ target cash incentive payouts from 95% to 100% of base salary and their target performance stock payouts from 170% to 180% of base salary
* For its performance stock plan, ASML replaced 3Y Average Adjusted Cash Conversion Rate with 3Y Adjusted Return on Average Invested Capital
* The above information reflects the FY24 changes

**FY23 Performance**

* Cash Incentives (128% of target payout)
  + Operating Margin: exceeded target by 180 bps
  + Customer Orientation: 128% of target payout
  + Technology Leadership Index: 123% of target payout
* FY21-FY23 Performance Stock (158% of target payout)
  + ROIC: exceeded target by 35.8 pp
  + Relative TSR: 11 pp above PHLX Semiconductor Sector Index
  + Technology Leadership Index: 156% of target payout
  + Sustainability: ranked 6 out of 347 companies in Dow Jones Sustainability Index, but deviated too much from industry leader to earn a payout
* For FY23, ASML’s 1Y TSR was 36.7%, and its 3Y TSR CAGR was 20.8%

**Notes**

* The CEO's pay mix reflects the compensation mix for ASML’s 2 outgoing co-presidents, in conjunction with proposed changes to compensation in FY24
* Pay mixes may not sum to 100% of rounding
* The Supervisory Committee made no adjustments to Operating Margin in 2023 but retains the discretion to adjust target levels

# Airbus

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent remuneration report for potential changes since this review.

**Summary:**Airbus’ CEO’s pay mix is 33% base salary, 33% cash incentives, and 33% performance stock. Airbus does not disclose the pay mixes for its other executive officers. The CEO’s incentive plan is based 50% on company performance (primarily Operating Income and Free Cash Flow, secondarily CO2 Emissions and Lost Time Injury Frequency Rate) and 50% on Individual Performance. The performance stock plan is based 75% on EPS and 25% on Free Cash Flow. 50% of performance stock automatically vests if 3Y Cumulative Operating Income is positive.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(33% of compensation)

* Company Performance (50%)
  + Adjusted Operating Income (40%)
  + Adjusted Free Cash Flow (40%)
  + CO2 Emissions (10%)
  + Lost Time Injury Frequency Rate (10%)
* Individual Performance Assessment (50%)
  + CEO Individual Objectives (60%)
  + Top Company Objectives (30%)
  + Behavior (10%)
* The Board has the discretion to adjust payouts

**Performance Stock**(33% of compensation)

* 3Y Average EPS (75%)
* 3Y Cumulative Free Cash Flow (25%)
* 3Y Cumulative Operating Income needs to be positive for shares to vest. If Cumulative Operating Income is positive, at least 50% of shares vest. However, if Cumulative Operating Income is negative, the Board of Directors can still allow for up to 50% of shares to vest in the event of extraordinary circumstances.
* The Board has the discretion to adjust payouts

**Comments**

* Airbus allows its Board to award 50% of performance stock in the event of extraordinary circumstances where the Cumulative Operating Income threshold is not met, but it has not applied downward discretion to reduce payouts for its FY21-FY23 performance stock awards. These awards benefitted from lower targets due to management’s underestimation of the post-COVID recovery. The awards vest in FY24, providing additional opportunity for the Board to apply downward discretion.
* Compared to the 8 other aerospace and defense companies we examined, Airbus has a much higher weighting towards non-financial metrics in its short-term incentive plan (60% vs 14% average). RTX and Boeing have individual performance modifiers, while GE Aerospace has a safety modifier. However, the impacts of these modifiers on payouts are much lower than the effect of Airbus’ non-financial metrics. Safran weights non-financial metrics (Individual Performance Assessment) at 33% of cash incentive payouts.
* For FY25, Airbus is socializing changes that would increase the CEO’s performance stock target grant from 100% to 150% of base salary. It also is considering adding Relative TSR and Sustainability and Climate metrics (weighted at 25% each) to its performance stock plan. Furthermore, it plans to add more quantitative metrics to its CEO’s individual objectives.
* Airbus caps the value of its performance stock at vesting to 250% of grant date value, with the value resulting from share price increases capped at 200% of share price at the date of grant

**Financial Metric Adjustments**

* Adjusted Operating Income and Free Cash Flow exclude certain, material foreign exchange fluctuations and impacts of acquisitions and mergers
* Adjusted Free Cash Flow further excludes changes of securities, contributions to plan assets for pension schemes, realized treasury swaps, and bank activities
* Airbus does not specify adjustments for its performance stock metrics, but, judging from its treatment of its cash incentive metrics, it likely adjusts its performance stock metrics

**Additional Detail on Metrics**

* In FY23, the CEO’s Individual Objectives had the following components, which sum to 60%: Market Position in Commercial Aviation (15%), Major European Defense Programs (10%), ESG Topics (10%), Digital Initiatives (10%), Leadership Team Development and Portfolio Management (10%), and Operational Performance (5%)
* Top Company Objectives are communicated to all employees of the company and shared with executives and managers
* Behavior refers to the way the CEO achieved results and focuses particularly on ethics, compliance, quality, and sustainability

**Recent Changes**

* Prior to FY22, Airbus offered its executives a combination of equity and cash-settled long-term incentive pay

**FY23 Performance**

* Cash Incentives (129% of target payout)
  + Operating Income: 80% of target payout
  + Free Cash Flow: 166% of target payout
  + CO2 Emissions: 200% of target payout
  + Lost Time Injury Frequency Rate: 43% of target payout
  + Individual Performance Assessment: 135% of target payout
* FY21-FY23 Performance Stock (150% of target payout, maximum payout)
  + EPS: 106% above target
  + Free Cash Flow: 501% above target
* For FY23, Airbus’s 1Y TSR was 27.7%, and its 3Y TSR CAGR was 17%

**Notes**

* Pay mixes may not sum to 100% because of rounding

# Safran

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent universal registration document for potential changes since this review.

**Summary:**Safran’s CEO’s pay mix is 32% base salary, 38% cash incentives, and 30% performance stock. Safran does not disclose the pay mixes for its other executive officers, other than its Chairman who receives only a fixed salary.  Safran’s cash incentive plan is based 67% on Financial Performance (primarily Recurring Operating Income, secondarily Free Cash Flow, Inventories, and Accounts Receivable) and 33% on the Board’s assessment of individual performance. Its performance stock plan is based 50% on Financial Performance (Recurring Operating Income and Free Cash Flow), 30% on Relative TSR, and 20% on Non-Financial Conditions (Corporate and Social Responsibility and Sustainable Development Objectives).

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(38% of compensation)

* Financial Performance (67%)
  + Adjusted Recurring Operating Income (60%)
  + Free Cash Flow (25%)
  + Inventories (10%)
  + Accounts Receivable (5%)
* Individual Objectives (33%)
* The Board has the discretion to adjust payout amounts

**Performance Stock**(30% of compensation)

* Financial Performance (50%)
  + 3Y Average Adjusted Recurring Operating Income (50%)
  + 3Y Average Free Cash Flow (50%)
* 3Y Relative TSR compared to peers (30%)
  + The Board can adjust the weighting of this metric to no less than 20% if it determines it would rather weight the other metrics higher
  + No vesting below median performance
  + Peer group is a composite index comprising 3 indices (each accounting for one third of total payout): STOXX Europe TMI Aerospace & Defense, S&P Aerospace & Defense Industry Select, and CAC 40
* 3Y Non-Financial Conditions (20%)
* The Board has the discretion to adjust payout amounts
* Performance stock awards have a required 1Y holding period after vesting

**Comments**

* Safran includes sub-metric weightings in Individual Objectives, some of which include quantitative targets, but the payout determination appears to be discretionary and non-formulaic
* Safran’s 33% weighting of non-financial metrics in its short-term incentive plan is less than Airbus’ 60% weighting, but much higher than the weightings at the other 7 aerospace and defense companies we examined (11% average). RTX and Boeing have individual performance modifiers, while GE Aerospace has a safety modifier. However, the impacts of these modifiers on payouts are much lower than the effects of Safran’s non-financial metrics.
* The maximum payout for Safran’s cash incentive plan is 150% of annual fixed compensation, which is higher than the 120% cap for performance stock pay. Typically, long-term performance stock plans will feature higher compensation amounts than short-term cash incentive plans. Safran assigns less weight to performance stock in the total compensation mix than other European companies we reviewed, which already grant less performance stock than their US peers.
* Safran has a more aggressive Relative TSR target than most other companies we reviewed, which tend to target the median of their peer groups. Its target is 8 pp higher than peers’ median TSR, rather than the median TSR of its peer group. The median TSR is its threshold, below which no payouts are made.

**Financial Metric Adjustments**

* Adjusted Recurring Operating Income is adjusted for re-measurement of foreign currency-denominated revenues at the hedged rate, impacts of acquisitions and divestitures, currency hedging gains/losses, and amortization of acquisition-related intangible assets

**Additional Detail on Metric Components**

* Individual Objectives is a mix of quantitative and qualitative metrics that change each year. In FY24, it includes the following components:
  + Technological Transition (20%)
  + Technological and Industrial Evolution of the Aircraft Interiors Business (15%)
  + Expand and Strengthen Strategic Partnerships (10%)
  + Communication Plan for Financial Pathway (10%)
  + Digital/Cybersecurity (10%); subcomponents related to Gen AI adoption, cybersecurity, and offshore centers of excellence
  + Corporate Social Responsibility (CSR) and Human Capital (35%); subcomponents related to safety, climate, disclosure, and diversity & inclusion
* Non-Financial Conditions includes quantitative Corporate and Social Responsibility and Sustainable Development Objectives. Previously, the company has used metrics related to safety, environmental and climate issues, and gender inequality.

**FY23 Performance**

* Cash Incentives (99% of target payout)
  + Recurring Operating Income: exceeded target by 6%
  + Free Cash Flow: exceeded target by 18%
  + Inventory Turnover: 23% below target
  + Accounts Receivable Turnover: 97% of target payout
  + Individual Objectives: 95% of target payout
* Performance Stock (performance not disclosed)
* For FY23, Safran’s 1Y TSR was 37.7%, and its 3Y TSR CAGR was 11.9%

**FY24 Changes**

* In FY24, Safran’s CEO’s fixed compensation increased 13% to €950K

**Notes**

* In its Universal Registration Document, Safran notes that the target payouts for the performance stock metrics are 80% of total shares, leading us to assume that the overall target payout is 80% of the performance stock grant size

# LVMH

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent universal registration document for potential changes since this review.

**Summary:**LVMH’s CEO’s pay mix is 16% base salary, 20% cash incentives, and 64% performance stock, while its Group Managing Director’s pay mix is 42% base salary, 32% cash incentives, and 26% performance stock. The CEO’s cash incentive plan is based 50% on financial metrics (Revenue Growth, Operating Income, and Cash Flow Relative to Budget) and 50% on non-financial metrics (primarily Strategy and secondarily ESG Measures), while the Group Managing Director’s cash incentive plan is based 65% on financial metrics and 35% on non-financial metrics. The performance stock payouts are determined 85% by improvement in one of 3 financial metrics (Profit from Recurring Operations, Operating Free Cash Flow, and Operating Margin), and 15% by Environmental and Social Responsibility.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(20% of compensation for CEO, 32% for Group Managing Director)

* Strategy (40% for CEO, 20% for Group Managing Director)
* Revenue Growth (17% for CEO, 22% for Group Managing Director)
* Operating Income (17% for CEO, 22% for Group Managing Director)
* Cash Flow Relative to Budget (17% for CEO, 22% for Group Managing Director)
* ESG Measures (10% for CEO, 15% for Group Managing Director)

**Performance Stock**(64% of compensation for CEO, 26% for Group Managing Director)

* Financial Performance (85%)
  + Payout depends on whether there are positive YoY changes for each year in 2Y performance period for any of the following metrics: Profit from Recurring Operations, Operating Free Cash Flow, and Operating Margin
* Environmental and Social Responsibility (15%)
* Performance stock vests over 3Y

**Comments**

* Unlike most other companies we reviewed, LVMH provides no information on its financial metric targets and limited disclosure on its Environmental and Social Responsibility measures
* The CEO and Group Managing Director have a higher probability of achieving a full payout of the Financial Performance portion of the performance stock award than executives at other companies since they need to achieve improvement on only 1 of 3 financial metrics (Profit from Recurring Operations, Operating Free Cash Flow, and Operating Margin). The metrics also have a 2Y performance period compared to the typical 3Y performance periods at most other companies we reviewed.
* The Group Managing Director receives more in total compensation than the CEO (€7.7M vs €7M for the CEO)

**Financial Metric Calculations**

* Operating Free Cash Flow is Operating Cash Flow, excluding operating investments and repayment of lease liabilities
* We presume Cash Flow Relative to Budget is Free Cash Flow, but LVMH provides insufficient disclosure to confirm this notion

**Additional Detail on Metric Components**

* In FY23, the qualitative metrics in the CEO’s cash incentive plan pertained to the reinvention of Tiffany, supporting management transitions at Christian Dior Couture and Louis Vuitton, ramping up the implementation of the LIFE 360 program, increasing Group-wide awareness of ethics and compliance issues, and renewing operational and corporate executives
* In FY23, the qualitative metrics in the Group Managing Director’s cash incentive plan pertained to strengthening supply chains and maintaining expertise, ramping up the implementation of the LIFE 360 program, revising the Code of Conduct and key principles on ethics and compliance, and finalizing the Group’s reorganization into divisions with additional focus on IT and digital functions

**FY24 Changes**

* The cash incentive metric weights reflect FY24 changes to the compensation plan. In FY24, LVMH reduced the weight of financial metrics from 60% to 50% for the CEO and 67% to 65% for Group Managing Director, increased the weight of nonfinancial metrics accordingly, and removed the management metric.

**FY23 Performance**

* Cash Incentives
  + The CEO received a payout of 193% of base salary compared to a maximum possible payout of 250%
  + The Group Managing received a payout of 89% of base salary compared to a maximum possible payout of 150%
* Performance Stock (no disclosure on payouts)
* For FY23, LVMH’s 1Y TSR was 9.6%, and its 3Y TSR CAGR was 14.5%

**Notes**

* Percentages may not sum to 100% because of rounding
* LVMH does not provide sufficient disclosure on the pay of executives outside of the CEO and Group Managing Director for them to be included in this write-up
* Based on typical practices at European companies, we calculate the pay mix by assuming that the target cash incentive payout is 50% of the maximum payout

# Nestle

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent compensation report for potential changes since this review.

**Summary:**The following information reflects the compensation of Nestle's previous CEO, Mark Schneider. Nestle’s CEO’s pay mix is 25% base salary, 38% short-term incentives (50% in cash and 50% in deferred equity that vests in 3Y), and 38% performance stock, while the average mix of its executive vice presidents (EVPs) is 33% base salary, 33% short-term incentives, and 33% performance stock. Nestle’s short-term incentive plan is based 85% on financial metrics (primarily Revenue and secondarily Operating Income) and 15% on ESG Objectives. Its performance stock plan is based 40% on EPS and 60% on 3 equally weighted metrics, Relative TSR, ROIC, and Greenhouse Gas Emissions.

**Detailed Description of Performance-Based Compensation Approach**

**Short-Term Incentives**(38% of compensation for CEO, 33% for EVPs)

* Adjusted Revenue Growth (51%)
* Adjusted Operating Income (34%)
* ESG Objectives (15%)

**Performance Stock**(38% of compensation for CEO, 33% for EVPs)

* 3Y Average Adjusted EPS Growth (40%)
* 3Y Relative TSR compared to STOXX Global 1800 Food & Beverage Gross Return Index (20%)
* 3Y Adjusted ROIC Improvement (20%)
* 3Y Reduction in Greenhouse Gas Emissions (20%)
* Performance stock awards have a required 2Y holding period after vesting

**Comments**

* Compared to short-term incentive plans at other food products companies we reviewed (General Mills and Mondelez), Nestle’s plan has a higher weighting of non-financial metrics than Mondelez (15% vs 10% at Mondelez) and lower than General Mills (20%). Mondelez’s non-financial metric is ESG, which pertains to Sustainability, Mindful Snacking, and Colleagues, while General Mills’ non-financial metric is an Individual Performance Assessment.
* Nestle has poor disclosure on its short-term incentive financial targets, ESG targets, and EVPs’ unit-level financial targets
* The CEO must receive at least 50% of his short-term incentive compensation in the form of equity. EVPs can elect to receive a portion or all of their short-term incentive compensation in the form of stock that vests in 3 years.

**Financial Metric Adjustments**

* Nestle refers to Adjusted Revenue Growth as Organic Growth. This metric excludes the impacts of acquisitions and divestitures, other changes in the Group’s scope of activity, foreign currency fluctuations, and hyperinflation impacts in select markets.
* Nestle refers to Adjusted Operating Income to as Underlying Trading Operating Profit. This metric excludes restructuring costs, impairment charges, litigation and onerous contract expenses, the impacts of acquisitions and divestitures, and other operating income and expenses.
* Adjusted EPS excludes currency fluctuations
* For Adjusted ROIC Improvement, ROIC’s numerator excludes litigation and miscellaneous trading income/expenses, while its denominator excludes financing, tax, and cash-management activities. Adjusted ROIC appears to also remove goodwill and intangible assets from the invested capital calculation, but there is insufficient disclosure to confirm.

**Additional Detail on Metric Components**

* ESG Objectives includes 5 equally weighted components: Affordable Nutrition with Micronutrients, Reduction of Greenhouse Gas Emissions, Plastic Packaging Designed for Recycling, Reduction of Water Use in Factories, and Management Positions Held by Women

**Additional Detail on EVPs’ Compensation Plans**

* For the short-term incentive plan, the CFO’s metric weighting is the same as that of the CEO, 85% company-wide financial metrics and 15% ESG Objectives. For Function Heads, the weighting is 50% functional group financial metrics, 35% company-wide financial metrics, and 15% ESG Objectives. For Zone or Business Heads, the weighting is 60% business unit financial metrics, 25% company-wide financial metrics, and 15% ESG Objectives.
* For the Head of Nestle Health Science, the long-term incentive grant is split between the main performance stock plan (30%) and the Nestle Health Science phantom performance share plan tied to the performance of that unit’s long-term development. The Head of Zone North America derives 75% of his total incentive compensation from the US short-term and long-term incentive plans. The US long-term incentive plan is a phantom performance share plan and has a target value of 250% of base salary compared to 100% for Nestle’s EVPs’ main performance stock plan. The phantom shares are performance shares that settle in cash.

**FY23 Performance**

* Short-Term Incentives (118% of target payout)
  + Financial Objectives: 125% of target payout
    - Over the past 5Y, Financial Objectives payouts have averaged 114% of target and have not fallen below 100%
  + ESG: 113% of target payout
* FY21-FY23 Performance Stock (92% of target payout)
  + EPS: 128% of target payout
  + Relative TSR: 92% of target payout
  + ROIC: 0% payout
* For FY23, Nestle’s 1Y TSR was -6.6%, and its 3Y TSR CAGR was 0.2%

**Notes**

* The above information reflects the previous CEO’s compensation before he left his post in August 2024

# Shopify

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Shopify’s CEO’s pay mix is 75% stock options and 25% time-based stock, while the COO’s pay mix is 3% base salary, 49% stock options, and 49% time-based stock. The average mix of its other named executive officers (NEOs) is 12% base salary, 55% time-based stock, and 33% stock options. In the last 2 years, Shopify’s CEO and COO have received large multi-year equity awards consisting of time-based stock and stock options, while the CFO received a large new hire equity award in FY22.

**Detailed Description of Performance-Based Compensation Approach**

**Multi-Year Stock Awards**

* In FY24, the CEO received a multi-year equity award totaling $150M, which is composed of 75% stock options and 25% time-based stock. The stock options vest ratably each quarter over a 5Y period, while the time-based stock vests ratably each quarter over a 3Y period. The equity award is ~7.5x the size of the CEO’s previous annual equity grants, which were composed entirely of stock options.
* In FY23, the COO received a multi-year equity award totaling $75M, which is composed of 50% time-based stock and 50% stock options. As a result of the award, the COO will not receive any equity award in FY24. The time-based stock vests over 3Y, with 20% vesting the first year, 35% vesting the second year, and 45% vesting the third year. The stock options vest over 5Y, with 50% vesting in the fourth year and 50% in the fifth year.
* In FY22, the CFO received a new hire equity award totaling ~$8M, which is composed of 50% time-based stock and 50% stock options. As a result of the new hire equity award, the CFO did not receive any equity award in FY23.

**Comments**

* Shopify takes the Amazon approach to executive compensation. It believes time-based equity grants incentivize executives to execute long-term strategic initiatives and build shareholder value.
* Shopify’s CEO receives a $1 annual salary.  He is one of a few CEOs of the tech companies we covered that does not receive a salary. Airbnb, Meta, and Tesla’s CEOs are other examples. However, Shopify, Tesla, and Airbnb have granted their CEOs significant equity through one-time and annual long-term incentive awards, while Meta’s CEO does not receive any equity compensation.
* Each NEO’s base salary totals $1M, and NEOs can choose to allocate any portion they choose to cash, restricted stock units, and stock options. The restricted stock units and stock options vest ratably each month over a 3Y period. In FY23, cash allocations ranged from 72-100% of base salary.

**Stock Performance**

* For FY23, Shopify’s 1Y TSR was 124.4%, and its 3Y TSR CAGR was -11.7%

**Notes**

* Time-based stock/stock option mixes differ across NEOs. The COO and CFO have an equal split between RSUs and options, while the General Counsel and President have a ~75-25 split.
* Without disclosure on how many years the COO’s equity award covers, we assume that it covers 2Y of equity compensation. Shopify mentions the award satisfies his annual equity award for FY24.

# Constellation Brands

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Constellation Brands’ CEO’s pay mix is 10% base salary, 16% cash incentives, 37% performance stock, 22% time-based stock, and 15% stock options, while the average mix of its other named executive officers (NEOs) is 20% base salary, 19% cash incentives, 31% performance stock, 18% time-based stock, and 12% stock options. Constellation’s cash incentive plan is based primarily on Revenue and Operating Income and secondarily on Free Cash Flow, while its performance stock plan is based on 2 equally weighted metrics, Relative TSR and Revenue.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(16% of compensation for CEO, 19% for NEOs)

* Adjusted Revenue (40%)
* Adjusted Operating Income (40%)
* Free Cash Flow (20%)
* The Board has the discretion to adjust payout amounts

**Performance Stock**(37% of compensation for CEO, 31% for NEOs)

* 3Y Relative TSR compared to S&P 500 Food, Beverage, and Tobacco Index (50%); payout capped at 100% of target if 3Y Absolute TSR is negative
* 3Y Adjusted Revenue CAGR (50%)

**Comments**

* Constellation has a similar financial metric mix to the other food products and beverages companies we reviewed (KDP, MDLZ, GIS, and NESN). All companies include profitability and revenue metrics in their incentive plans. KDP is the only company to not include a Relative TSR metric, while NESN is the only company to not include a cash flow metric.

**Financial Metric Adjustments**

* Adjusted Revenue adjusts for the impacts of acquisitions, divestitures, and joint ventures
* Adjusted Operating Income adds operating income attributable to noncontrolling interests and adjusts for foreign currency fluctuations, equity losses and related activities, Canopy EIE, gains/losses on sales of businesses, restructuring costs, inventory step-ups, asset impairments, derivative contracts, insurance recoveries, and gains/losses from unconsolidated investments

**Additional Detail on Metrics**

* For division executives (e.g., the Presidents of the Wine & Spirits and Beer Divisions), their Adjusted Revenue and Operating Income payouts are composed of 50% division performance and 50% company-wide performance

**FY24 Changes**

* The above information reflects Constellation's planned compensation for FY24
* In FY24, Constellation added 3Y Adjusted Revenue CAGR as a performance stock metric and increasing the weight of the performance portion of the long-term incentive from 25% to 50% of total long-term incentives
* The CEO’s cash incentive target payout increased from 150% to 160% of his base salary
* The CFO, Chief Legal Officer, and President of Beer Division experienced salary increases ranging from 4-14%, while the Chief Legal Officer and President of Beer Division also benefitted from higher cash incentive target payouts as a percentage of their base salaries

**FY24 Performance**

* Cash Incentives (127% of target payout for CEO, 80-147% for NEOs)
  + Revenue target: 0.1% below target
  + Operating Income target: 2% above target
  + Free Cash Flow: 13% above target
  + Wine & Spirits Division: below thresholds for Revenue and Operating Income
  + Beer Division: exceeded Revenue and Operating Income targets by 2% and 4% respectively
* Performance Stock (69% of target payout)
  + Relative TSR: 40th percentile of S&P 500
* For FY24, STZ’s 1Y TSR was 12.7%, and its 3Y TSR CAGR was 6.5%

# AIA Group

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent annual report for potential changes since this review.

**Summary:**AIA’s CEO’s pay mix is 14% base salary, 30% cash incentives, and 56% long-term equity grants. AIA does not disclose sufficient information to allow us to calculate the compensation mix for AIA’s other key management personnel. AIA’s cash incentive plan is based primarily on Value of New Business and secondarily on Operating Profit After Tax and Underlying Free Surplus Generation, while its performance stock plan is based on 3 equally weighted components, Value of New Business, Equity Measured on an Embedded Value Basis, and Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(30% of compensation)

* Value of New Business (60%)
* Operating Profit After Tax (25%)
* Underlying Free Surplus Generation (15%)

**Performance Stock**(estimated at 41% of compensation)

* 3Y Value of New Business (33%)
* 3Y Equity Measured on Embedded Value Basis (33%)
* 3Y Relative TSR compared to Peer Group (33%)
  + Peer group includes 19 life and health or multi-line insurance companies identified within the Dow Jones Insurance Titans 30 Index

**Comments**

* AIA lacks disclosure on performance targets and payouts and the mix between performance stock and stock options in the long-term incentive plan

**Additional Detail on Metrics**

* Value of New Business is defined as the present value, measured at point of sale, of projected after-tax statutory profits emerging from new business sold in the period less the cost of holding required capital in excess of regulatory reserves to support the business
* Underlying Free Surplus Generation is the free surplus generated from in-force business, adjusted for non-specified nonrecurring items and before the free surplus is used to fund new business, unallocated Group Office expenses, finance costs, investment return variances, and other non-operating items
* Equity Measured on Embedded Value Basis is the total of embedded value, goodwill, and other intangible assets attributable to shareholders after allowing for taxes. It is an estimate of the economic value of the in-force life insurance business, including the net worth on the balance sheet but excluding any economic value attributable to future new business.
* For business unit executives, the cash incentive metrics may differ and include a weighting for strategic initiatives

**FY23 Performance**

* The cash incentive plan paid out at ~200% of target, judging from the size of the CEO’s cash incentive payout compared to the target payout. AIA does not provide sufficient disclosure in its annual report to estimate long-term incentive payouts.
* For FY23, AIA’s 1Y TSR was -20%, and its 3Y TSR CAGR was -8.9%

**Notes**

* While AIA does not disclose the breakdown between performance stock (performance-based restricted stock) and stock options in the long-term equity grants, we estimate that 74% of the long-term equity grant is performance stock and 26% is restricted stock by using stated fair values and an average USD/HKD exchange rate for 2023
* Percentages may not sum to 100% because of rounding

# Samsung

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent annual report for potential changes since this review.

**Summary:**Samsung’s Co-CEO’s average pay mix is 40% base salary and 60% bonus (divided into short-term and long-term bonuses with undisclosed weights), while the average mix of its other named executive officers (NEOs) is 31% base salary and 69% bonus. The short-term bonus is based on financial metrics measured at a division level, such as Revenue, Operating Income, Profit After Tax, and Cost of Capital, while the long-term bonus is based on ROE, Stock Performance, and Operating Margin.

**Detailed Description of Performance-Based Compensation Approach**

**Short-Term Bonus**

* Target Achievement Initiative (0-200% of monthly wage)
  + Payout based on division performance, which is measured in Revenue and Operating Income
* Performance Incentive (0-50% of salary)
  + Payout based on financial factors, such as Profit After Tax and Cost of Capital by business unit
  + Payout is adjusted for individual performance

**Long-Term Bonus**(average salary for 3Y)

* Payout based on 3Y ROE, Stock Performance, and Operating Margin

**Comments**

* Samsung provides limited disclosure on the breakdown of the bonus between short-term and long-term incentives, target payouts, the metric weighting for long-term incentives, and metric targets. The long-term bonus is likely a much larger component of total compensation, as its grant size is the average salary for 3Y, compared to the short-term incentive, which is at most 2/3 of the annual salary.
* The short-term bonus is almost certainly cash, while the long-term bonus is likely cash, judging from the 2023 annual report. The long-term bonus is paid out over the course of 3Y.
* Executive officers have a wide range of base salary/bonus splits. The 2 co-CEOs have splits of 23-77% and 56-44% base salary/bonus, while the splits for the other 3 NEOs are 22-42% base salary/58-78% bonus.

**FY23**

* In FY23, the co-CEO’s bonuses appear to have increased 65% and 70% YoY respectively
* For FY23, Samsung’s 1Y TSR CAGR was 44.9%, and its 3Y TSR CAGR was 1.1%

**Notes**

* We assume that the traditional holiday bonus of 100% of monthly wage is part of the base salary since it is guaranteed
* Since Samsung does not disclose target amounts, we calculate the compensation mix with actual payouts

# Daiichi Sankyo

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent annual report for potential changes since this review.

**Summary:**Daiichi Sankyo’s CEO’s pay mix is 40% base salary, 30% cash incentives, 15% performance stock, and 15% time-based stock. Daiichi Sankyo does not disclose sufficient information for us to calculate the compensation mixes of its other executive officers. Daiichi's cash incentive plan is based 80% on Net Income, 10% on Operating Margin, and 10% on Revenue and includes an individual performance multiplier. Its performance stock plan is based on Revenue, Operating Margin Before R&D Expenses, Return on Equity, R&D Progress, Relative TSR, and ESG Indicators.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(30% of compensation)

* Net Income (80%)
* Adjusted Operating Margin (10%)
* Revenue (10%)
* Individual Performance Factor (50-150% multiplier for CEO and 80-120% for other executives)

**Performance Stock**(15% of compensation), unspecified performance period other than metrics are tied to FY21-FY25 5-year business plan

* Revenue (20%)
* Adjusted Operating Margin Before R&D Expenses (20%)
* Return on Equity (20%)
* R&D Progress (15%)
* Relative TSR compared to the TOPIX (15%)
* ESG Indicators (10%)

**Comments**

* Daiichi has limited disclosure on the performance period for its long-term metrics
* Daiichi is one of 5 of the 13 biopharma companies we reviewed that measures pipeline performance in its long-term incentive plans. The others are Alnylam, Novo Nordisk, Vertex, and AstraZeneca.
* Daiichi is one of only 3 biopharma companies we reviewed that includes a return measure in its performance metrics (e.g., ROIC or ROE), the others being Amgen and AbbVie

**Financial Metric Adjustments**

* Adjusted Operating Margin excludes gains/losses on asset sales, restructuring costs, impairment losses, and other non-recurring costs

**Additional Detail on Metrics**

* R&D Progress measures achievements, such as number of new indications for 3ADC on the market and pipeline values in early and late stages
* ESG Indicators are based on Dow Jones Sustainability Indices, FTSE Russell ESG scores, or Access to Medicine Index

**FY23 Performance**

* Cash Incentives (200% of target payout)
  + Net Income: exceeded target by 75%
  + Revenue: exceeded target by 10%
  + Operating Margin: exceeded target by 250 bps
* Performance Stock (payouts not disclosed)
* For FY23, Daiichi Sankyo’s 1Y TSR was 0.2%, and its 3Y TSR CAGR was 15.1%

# British American Tobacco

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent remuneration report for potential changes since this review.

**Summary:**BAT’s CEO’s pay mix is 21% base salary, 26% short-term incentives (50% in cash and 50% in deferred equity that vests in 3Y), and 53% performance stock, while its CFO’s mix is 25% base salary, 24% short-term incentives (50% in cash and 50% in deferred equity that vests in 3Y), and 51% performance stock. BAT’s short-term incentive plan is based on Operating Cash Flow, Operating Income, New Categories Contribution, and Volume Share Growth, while its performance stock plan is based on EPS, Relative TSR, Operating Cash Flow Conversion, Revenue, and New Categories Revenue.

**Detailed Description of Performance-Based Compensation Approach**

**Short-Term Incentives**(26% of compensation for CEO, 24% for CFO)

* Adjusted Operating Cash Flow (30%)
* Adjusted Operating Income Growth (25%)
* New Categories Contribution to Adjusted Operating Income (20%)
* Adjusted New Categories Revenue (15%)
* Volume Share Growth (10%)
* The Board has the discretion to adjust payouts

**Performance Stock**(53% of compensation for CEO, 51% for CFO)

* 3Y Adjusted EPS CAGR (30%)
* 3Y Relative TSR compared to peers (20%)
  + Peer group includes Altria, Anheuser-Busch InBev, Campbell Soup, Carlsberg, Coca-Cola, Colgate-Palmolive, Danone, Diageo, Heineken, Imperial Brands, Japan Tobacco, Johnson & Johnson, Kellogg, Kimberly-Clark, LVMH, Mondelez International, Nestle, PepsiCo, Pernod Ricard, Philip Morris International, Procter & Gamble, Reckitt Benckiser, and Unilever
* 3Y Adjusted Operating Cash Flow Conversion Ratio (20%)
* 3Y Revenue CAGR (15%)
* 3Y New Categories Revenue CAGR (15%)
* The Board has the discretion to adjust payouts
* Performance stock awards have a required 2Y holding period after vesting

**Comments**

* Like Safran and BAE, BATS’ threshold for its Relative TSR metric (the value below which no payout is made) is the median of its peer group. Most other companies will make median performance their target.
* For its FY24 performance stock plan, BATS raised its Operating Cash Flow Conversion Ratio range by 2.5 pp but revised down its New Categories Revenue and EPS CAGR ranges by 5 pp and 4 pp respectively. The company rationalized these two downward revisions as better reflecting the company’s business environment.
* BATS has similar short-term incentive metrics to Philip Morris and Altria, the 2 other tobacco companies we reviewed. All three have cash flow and operating income metrics. Altria and PM both have Individual Performance Factors and Strategic Initiative metrics, while PM and BATS both have Market Share measures. Like Altria, BATS' long-term incentive plan includes a cash conversion metric.

**Financial Metric Adjustments**

* All metrics exclude foreign currency fluctuations and the impacts of acquisitions and divestitures
* Adjusted Operating Cash Flow further excludes net finance costs, dividends from associates and dividends paid
* Adjusted Operating Income Growth and EPS further exclude restructuring and integration costs, the amortization and impairment of intangibles, and goodwill impairment charges

**Additional Detail on Metrics**

* New Categories include Vapour, HP, and Modern Oral
* Volume Share Growth measures BATS’ share of key markets, including HP performance for all major markets

**FY23 Performance**

* Short-Term Incentives (61% of maximum payout)
  + Operating Cash Flow: exceeded maximum by 7%
  + Operating Income Growth: 150 bps below maximum
  + New Categories Contribution to Operating Income: exceeded maximum by 45%
  + New Categories Revenue Growth: 9 pp below maximum
  + Volume Share Growth: 10 bps below threshold
* FY21-FY23 Performance Stock (38% of maximum payout)
  + Current Currency EPS CAGR: 30 bps below threshold
  + Constant Currency Adjusted EPS CAGRs: 410 bps below the maximum
  + Relative TSR: 13th out of 25 in peer group
  + Revenue CAGR: 90 bps below maximum
  + Operating Cash Flow Conversion Ratio: exceeded maximum by 560 bps
* For FY23, BATS’ 1Y TSR was -23.5%, and its 3Y TSR CAGR was 2.3%

**One-Time Awards**

* In FY24, the CFO received a one-time, make-whole award of £450K in cash, £248K in immediately vesting restricted stock, and £1.55M in restricted stock that will vest in FY25 and FY26.

**Notes**

* The new CFO received one-time cash and time-based stock awards upon her appointment to the position
* Based on typical practices at European companies, we calculate the pay mix by assuming that the target performance stock and cash incentive payouts are 50% of the maximum payout

# SAP

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent compensation report for potential changes since this review.

**Summary:**SAP’s CEO’s pay mix is 13% base salary, 22% short-term incentives, 43% performance stock, and 22% time-based stock, while the average mix of its other named executive officers (NEOs) is 17% base salary, 27% short-term incentives, 37% performance stock, and 19% time-based stock. SAP’s short-term incentive plan is based 80% on financial metrics (Current Cloud Backlog, Cloud and Software Revenue, and Operating Margin) and 20% on non-financial metrics (Net Promoter Score, Employee Engagement, and Greenhouse Gas Emissions). Its performance stock plan is based 50% on Relative TSR and 50% on 3 equally weighted financial metrics, Cloud Revenue, Total Revenue, and Operating Income.

**Detailed Description of Performance-Based Compensation Approach**

**Short-Term Incentives**(22% of compensation for CEO, 27% for NEOs)

* Adjusted Current Cloud Backlog (30%)
* Adjusted Cloud and Software Revenue Growth (25%)
* Adjusted Operating Margin Improvement (25%)
* Customer Net Promoter Score (7%)
* Employee Engagement Index (7%)
* Greenhouse Gas Emissions (7%)
* SAP must achieve a weighted performance of 50% of target across all metrics before payouts occur
* The supervisory board has discretion to adjust awards by no more than 20% in either direction in the case of unforeseeable events

**Financial-Based Performance Stock**(22% of compensation for CEO, 19% for NEOs)

* 3Y Cumulative Adjusted Cloud Revenue (33%)
* 3Y Cumulative Adjusted Total Revenue (33%)
* 3Y Cumulative Adjusted Operating Income (33%)
* The supervisory board has discretion to adjust awards by no more than 10% in either direction in the case of unforeseeable events
* Awards vest over 4Y

**Market-Based Performance Stock**(22% of compensation for CEO, 19% for NEOs)

* 3Y Relative TSR compared to Nasdaq 100 (100%)
* Awards vest over 4Y

**Comments**

* SAP requires its executives to devote at least 5% of their short-term incentive payouts to purchasing share units that vest in 3Y
* All granted stock units are phantom shares, meaning they do not confer ownership of the company, are cash settled, and not dilutive

**Financial Metric Adjustments**

* Adjusted metrics exclude foreign currency fluctuations and the impacts of acquisitions and divestitures
* In FY23, Adjusted Operating Margin and Income excluded extraordinary compliance expenses related to the behavior of previous management personnel

**FY23 Performance**

* Short-Term Incentives (115% of target payout vs 78.4% 5Y Average)
  + Current Cloud Backlog: exceeded target by 2%
  + Cloud and Software Revenue Growth: exceeded target by 190 bps
  + Operating Margin Improvement: exceeded target by 70 bps
  + Customer Net Promoter Score: 100% payout
  + Employee Engagement Index: exceeded target by 2 pp,
  + Net Carbon Emissions: 100% payout
* FY21-FY23 Performance Stock (58% of target payout for Financial Performance, 0% for Market Performance)
  + Cloud Revenue: 8% below target
  + Revenue: 8% below target
  + Operating Income: 21% below target
  + Relative TSR: 85th in Nasdaq-100
* For FY23, SAP’s 1Y TSR was 47.2%, and its 3Y TSR CAGR was 11.4%

**Notes**

* Percentages may not sum to 100% because of rounding

# TotalEnergies

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent universal registration document for potential changes since this review.

**Summary:**TotalEnergies’ CEO’s pay mix is 17% base salary, 16% cash incentives, and 67% performance stock. Total does not disclose the pay mixes of its other executives. Total’s cash incentive plan is based 61% on financial metrics (ROE, Pre-Dividend Organic Cash Breakeven, Organic Gearing, Relative Return on Average Capital Employed, and Integrated Power Segment Operating Cash Flow) and 39% on non-financial metrics (Individual Performance, Safety, and Greenhouse Gas Emissions). Its performance stock plan is based 70% on financial and market metrics (Relative TSR, Relative Variation in Net Cash Flow Per Share, and Pre-Dividend Organic Cash Breakeven) and 30% on environmental metrics (Lifecycle Carbon Intensity of Energy Products Sold and Methane Emissions).

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(16% of compensation)

* Individual Performance Assessment (22%)
* Adjusted Return on Equity (17%)
* Pre-Dividend Organic Cash Breakeven (17%)
* Organic Gearing (11%)
* Relative Adjusted Return on Average Capital Employed (ROACE) compared to peers (11%)
  + Peer group includes BP, Chevron, Exxon Mobil, and Shell
* Safety (11%)
* Integrated Power Segment Operating Cash Flow (6%)
* Scope 1 + 2 Greenhouse Gas (GHG) Emissions (6%)
* The Board has the discretion to adjust the calculation of financial metrics to exclude extraordinary items and to adjust final payouts

**Performance Stock**(67% of compensation)

* Relative TSR compared to peers, measured annually over 3Y (25%)
  + Same peer group as above
* Relative Variation in Net Cash Flow Per Share compared to peers, measured annually over 3Y (25%)
  + Same peer group as above
* Pre-Dividend Organic Cash Breakeven, measured annually over 3Y (20%)
* 3Y Reduction in Lifecycle Carbon Intensity of Energy Products Sold to Customers (15%)
* 3Y Methane Emissions Reduction (15%)
* The Board has the discretion to adjust the calculation of financial metrics to exclude extraordinary items and to adjust final payouts

**Comments**

* Individual Performance Assessment contains qualitative targets, but payout percentages for each target appear to be discretionarily determined
* Total places much greater weight on environmental metrics (30%) in its performance stock plan than peers, who tend to have ~10% weighting for environmental metrics if they decide to include these metrics

**Financial Metric Adjustments**

* Adjusted Return on Equity and Adjusted ROCE exclude gains/losses on asset sales, asset impairments, changes in inventory fair value, and other extraordinary items

**FY24 Changes**

* Total increased the CEO’s performance stock grant from 110K shares to 140K shares in FY24 after increasing the performance stock allotment from 100K to 110K shares in FY23
* The metrics above reflect the executive compensation design for FY24. In FY24, in its cash incentive plan, Total replaced Underlying Cash Flow Growth with Organic Gearing and Integrated Power Segment Operating Cash Flow. In its performance stock plan, it replaced Evolution of GHG Emissions of Operated Facilities with Reduction in Lifecycle Carbon Intensity.

**Additional Detail on Metrics**

* ROACE is equal to the Adjusted Net Operating Income divided by the average of the capital employed (at replacement costs, net of deferred income tax and noncurrent liabilities). Adjusted Net Operating Income refers to Net Income before net cost of net debt, i.e., cost of net debt net of its tax effects, less adjustment items. The adjustment items are the same as for Adjusted Return on Equity.
* Individual Performance Assessment has the following components: Steering Toward Carbon Neutrality (38%), Corporate Social Responsibility Performance focused on climate and diversity efforts (38%), and Profitable Growth in Renewables and Electricity (25%)
* Safety has the following components: Total Number of Tier 1 + 2 Incidents (40%), Total Recordable Incident Rate (30%), and Fatality Incident Rate (30%)
* Pre-Dividend Organic Cash Breakeven is defined as the Brent price for which the operating cash flow before working capital change covers the organic investments

**FY23 Performance**

* Cash Incentives (98% of maximum payout)
  + Financial Metrics: maximum payout
  + Safety: 85% of maximum payout due to 2 fatalities
  + GHG Emissions: maximum payout
    - Total’s GHG emissions were 13% below the maximum (minimum) target, leading to a maximum payout
  + Individual Performance: maximum payout
* Performance Stock (92% of maximum payout vs 78% average over last 8 performance periods)
  + Relative TSR: 70% of maximum payout
  + Relative Annual Variation of Net Cash Flow Per Share: maximum payout
  + Pre-Dividend Organic Cash Breakeven: maximum payout
  + Change in GHG Emissions in Europe (Scope 3): 97% of maximum payout
  + Change in GHG Emissions from Operated Facilities: maximum payout
* For FY23, Total’s 1Y TSR was 10.4%, and its 3Y TSR CAGR was 28.4%

**Notes**

* Based on typical practices at European companies, we calculate the pay mix by assuming that the target cash incentive payout is 50% of the maximum payout
* To calculate the performance stock grant size, we assume an 80% award rate at the end of the vesting period (in line with the company’s previous practice) and use the stock price associated with the date of the report’s publication (March 27, 2024)
* Percentages may not sum to 100% because of rounding

# Glencore

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent remuneration report for potential changes since this review.

**Summary:**Glencore’s CEO’s pay mix is 22% base salary and 78% career shares. The career shares cliff vest at the end of 3Y but must be held until 2 years after the CEO retires. Glencore does not disclose the pay mixes of its other executives. Career share payouts depend on the Board’s holistic assessment of 1Y and 3Y corporate performance.

**Detailed Description of Performance-Based Compensation Approach**

**Career Shares**(78% of compensation for CEO)

* The Board determines performance share payouts on a holistic basis, relying on a mix of financial, ESG, and strategic metrics, measured on an annual and 3Y basis, including the components below:
  + Adjusted EBITDA
  + Adjusted Funds from Operations
  + Production Relative to Market Conditions and Market Inventories
  + Commodity Prices
  + Safety Metrics (e.g., fatality and injury rates)
  + Major Projects Relative to Timeline and Budget
  + M&A Aligned to Strategic Priorities
  + CO2e Industrials Emissions Reduction
  + Capex Relative to Budget
  + Corporate Controls and Desired Compliance Culture
  + Distribution to Shareholders
* The Board has the discretion to reduce payouts in the event of shareholders not receiving the minimum distribution required under the distribution policy, unsatisfactory progress on ESG initiatives, and unsatisfactory business performance
* The career share awards have a holding requirement of 2Y post-vesting or 2Y post-employment, whichever is longer

**Comments**

* In FY24, Glencore switched away from a compensation plan with short-term and long-term incentives to an approach where executives receive just a base salary and performance shares with holistically determined payouts. Glencore’s rationale for its change in approach is that its new structure reduces the impact of commodity cyclicality on executive compensation and incentivizes the CEO to focus on long-term value creation. The first awards under the career shares plan will be made in FY25.
* Glencore’s new approach contrasts with Freeport’s plan where the CEO receives 18% of his compensation from short-term cash incentives, with the payout tied to quantitative targets for Adjusted EBITDA, Revenue, Safety, Sustainability, Strategic Initiatives, and Costs. However, Glencore’s holistic approach to determining incentive payouts is similar to approaches taken at US oil companies and banks.

**Financial Metric Adjustments**

* Adjusted EBITDA excludes impairment charges, the impacts of divestitures, gains/losses on asset sales, mark-to-market gains on equity investments and derivative positions, legal costs, foreign exchange fluctuations, closed site rehabilitation costs, and tax settlements
* Adjusted Funds from Operations likely excludes the same cash-based costs that are excluded from Adjusted EBITDA

**FY24 Changes**

* In FY24, the Board will increase the CEO’s base salary by 8%
* In FY23, before Glencore adopted its career shares approach, the CEO’s compensation mix was 22% base salary, 28% short-term incentives (50% in cash and 50% in deferred equity that vests in 3Y), and 50% time-based stock. The short-term incentive determinants were Adjusted Funds from Operations (30%), Net Debt (15%), Industrial Capex (15%), Safety (15%), Progress Toward CO2 Targets (15%), and Personal Objectives (15%)

**FY23 Performance**

* Short-Term Incentives (83% of maximum payout vs 94% the previous two years)
  + Funds from Operations: 2.5% above target
  + Net Debt: 51% below maximum (overperformance)
  + Industrial Capex: 5% below maximum level
  + Safety: 90% of maximum payout
  + Progress Towards CO2: 100% of maximum payout
  + Personal Objectives: 100% of maximum payout
* For FY23, Glencore’s 1Y TSR was -6.1%, and its 3Y TSR CAGR was 35%

# Flutter Entertainment

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Flutter Entertainment’s CEO’s pay mix is 18% base salary, 34% short-term incentives (50% in cash and 50% in deferred stock), and 48% performance stock, while its CFO’s pay mix is 21% base salary, 37% short-term incentives (50% in cash and 50% in deferred stock), and 42% performance stock. Flutter does not disclose the pay mixes of its other executives. In FY23, the CEO and CFO received large performance stock awards that are designed to cover 4Y of awards and contain 4 tranches with successive 3Y performance periods. Flutter’s short-term incentive plan is based 80% on financial metrics (Revenue, Operating Income, and FanDuel Operating Income) and 20% on gambling safety metrics. Its performance stock plan is based on Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Short-Term Incentives**(34% of compensation for CEO, 37% for CFO)

* Group Revenue (30%)
* Adjusted Operating Income (25%)
* FanDuel Adjusted Operating Income (25%)
* Safer Gambling (20%)
* Deferred stock only vests if average annual revenue growth over the deferral period is at least 2%
  + Half of the deferred stock vests in 3Y, while the other half vests in 4Y
* The Board has discretion to adjust payouts

**Performance Stock**(48% of compensation for CEO, 42% for CFO)

* 3Y Relative TSR compared to S&P 500 (100%)
* The Board has discretion to adjust payouts if it believes the awards do not accurately reflect the company’s performance or the company has failed in its sustainability objectives, including its measures to promote safer gambling

**Comments**

* Flutter’s compensation plan will likely include more stock-based compensation in future years. For all US companies we reviewed, long-term compensation accounts for more than 50% of an executive’s total pay, with the average being 77%. In FY23, only 48% of Flutter’s CEO’s compensation came from long-term incentives.
* Flutter requires its CEO and CFO to hold shares acquired through the one-time performance stock awards for at least 6Y from the grant date. Several other European companies we examined have holding requirements (typically 1-2Y), which appear to be rarer in the US.
* Like Safran, BAE, and BATS, Flutter’s threshold for its Relative TSR metric (the value below which no payout is made) is the median of its peer group. Most other companies will make median performance their target.

**Financial Metric Adjustments**

* All financial metrics are adjusted for changes in legislation in US states that results in unexpected revenue streams or additional investments
* Adjusted Operating Income further excludes transaction fees and associated costs, restructuring and integration costs, and costs related to legal settlements and disputes

**Additional Details on Metrics**

* Safer Gambling represents an aggregate of divisional performance, with different measures for the UKI, Sportsbet, International, and FanDuel divisions:
  + UKI: percentage of revenues from customers who self-exclude in the year as a proportion of total revenue (67%), percentage of customers who use at least one safer gambling tool (33%)
  + Sportsbet: percentage of net revenue from customers with a deposit limit
  + International: percentage of customers using at least one safer gambling tool
  + FanDuel: percentage of customers using at least one safer gambling tool

**FY24 Changes**

* The above information reflects the FY24 compensation plan
* In FY24, FanDuel Adjusted Operating Income will replace US Adjusted EBITDA as a cash incentive metric
* 3Y Relative TSR will be compared to the S&P 500, rather than the FTSE 100 (excluding REITs and Closed End Investment Trusts)
* All Executive Directors will receive a salary increase of 3.5%

**FY23 Performance**

* Short-Term Incentives (139% of target payout)
  + Group Revenue: exceeded target by 2%
  + Group Operating Income: exceeded target by 5%
  + US EBITDA: exceeded target by 14x
  + Safer Gambling: 144% of target payout
  + The Board adjusted the payout to reflect its unanticipated opening in Kentucky, which resulted in an increase in the overall payout by 9.5% of target that was distributed across the financial metrics
* FY21 Long-Term Incentives (0% of target payout)
  + Relative TSR: below the peer group median
* For FY23, Flutter’s 1Y TSR was 23.5%, and its 3Y TSR CAGR was -2.7%

**Notes**

* Pay mixes may not sum to 100% because of rounding
* To calculate the pay mixes, we assume that the target opportunity is 2/3 of the maximum opportunity for both the short-term and long-term incentive awards since Flutter's payout summary shows that the maximum payout is 150% of target
* Performance stock is nil-cost performance stock options

# BAE Systems

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent remuneration report for potential changes since this review.

**Summary:**BAE Systems’ CEO’s pay mix is 25% base salary, 28% short-term incentives (67% in cash and 33% in deferred equity vesting in 3Y), and 47% performance stock. The CFO’s pay mix is 27% base salary, 27% short-term incentives (67% in cash and 33% in deferred equity), and 46% performance stock, while the CEO of the US division’s pay mix is 17% base salary, 19% short-term incentives (67% in cash and 33% in deferred equity), 38% performance stock, and 26% time-based stock. BAE’s short-term incentive plan is based 75% on financial metrics (EPS, Free Cash Flow, and Order Intake for the CEO and CFO; primarily Operating Income for CEO Of US division) and 25% on Individual Performance Assessments. The cash incentive plan also contains a Safety and DE&I underpin. BAE's performance stock plan is based primarily on EPS and Cash Flow and secondarily on ROCE, Relative TSR, and ESG Metrics.

**Detailed Description of Performance-Based Compensation Approach**

**Short-Term Incentives**(28% of compensation for CEO, 27% for CFO, and 19% for US division CEO)

* Adjusted EPS (45% for CEO and CFO, 15% for CEO of US division)
* Individual Performance Assessment (25%)
* Free Cash Flow (22.5%)
* Order Intake (7.5%)
* Adjusted US Division Operating Income (0% for CEO and CFO, 30% for US division CEO)
* -25% of possible downward modification based on Safety and DE&I Underpin
* The Board has the discretion to adjust payouts

**Performance Stock**(47% of compensation for CEO, 46% for CFO, and 38% for US division CEO)

* 3Y Adjusted EPS CAGR (30%)
* 3Y Cumulative Cash Flow (30%)
  + Free Cash Flow for CEO and CFO, US Division Operating Cash Flow for CEO of US division
* 3Y Return on Capital Employed (ROCE) Improvement (15%)
* 3Y Relative TSR compared to FTSE 100 (15%)
* 3Y ESG Metrics (10%)
* The Board has the discretion to adjust payouts

**Comments**

* The CEO of the US division receives higher total compensation (36% more) and more stock-based compensation than the UK-based CEO and CFO. American companies tend to pay their executives more with a greater emphasis on time-based and performance stock grants.
* Like BATS, Flutter, and Safran, BAE has a threshold (level below which no payout is made) of median performance (50th percentile of peer group) for its Relative TSR metric, while most other companies we reviewed target median performance
* The CEO and CFO’s performance stock awards vest over 5Y, while the CEO of the US division’s awards vest in 3 equal tranches on the 3rd, 4th, and 5th anniversaries of the grant. The CEO of the US division’s time-based stock awards have a required 2Y holding period after vesting.

**Financial Metric Adjustments**

* Adjusted EPS and Operating Income exclude foreign currency fluctuations; amortization of program, customer-related, and other intangible assets; intangible asset impairment charges; net finance income and tax expense of equity accounted investments; gains/sales on divestitures, acquisition-related costs, and gains/losses related to pensions

**Additional Detail on Metrics**

* For CEO of the US division, the financial metrics are weighted 67% towards the performance of US division and 33% towards company-wide performance
* Safety and DE&I Underpin assesses the company’s recordable accident rate, gender diversity, and ethnic diversity
* ESG Metrics pertain to Scope 1 and 2 Greenhouse Gas Emissions
* Order Intake refers to funded orders received from customers including the company’s share of order intake of equity accounted investments

**Recent Changes**

* In FY24, BAE increased its executive officers’ salaries by 4.5%
* In FY24, BAE added Free Cash Flow as a short-term incentive metric, replacing Net Cash/Debt
* In FY23, BAE added ROCE to its performance stock plan and specific ESG goals to its short-term incentive plan

**FY23 Performance**

* Short-Term Incentives (196% of target payout)
  + EPS: exceeded target by 11%
  + Net Cash/Debt: exceeded target by 56%
  + Order Intake: exceeded target by 79%
  + Individual Performance Assessment: 184% of target for US Division CEO, 185% for CFO, and 187% for CEO
  + No application of underpin
* Performance Stock (196% of target payout)
  + EPS CAGR: exceeded target by 830 bps
  + 3Y TSR: exceeded 80th percentile
  + Free Cash Flow: exceeded target by 55%
  + US Division Operating Cash Flow: exceeded target by 25%
  + Strategic Progress Metrics: maximum payouts for On-Time Delivery and ROCE, 150% payout for Advance Technology
* For FY23, BAE’s 1Y TSR was 33.3%, and its 3Y TSR CAGR was 36.1%

**Notes**

* We calculate the pay mixes using the target performance stock amount (50% of the maximum opportunity, judging from the FY23 payout table)
* Percentages may not sum to 100% because of rounding
* UK executive directors receive performance shares in the form of nil cost options. For the CEO of the US division, he receives his performance shares as conditional share awards.

# Honeywell International

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent proxy statement for potential changes since this review.

**Summary:**Honeywell’s CEO’s pay mix is 9% base salary, 15% cash incentives, 38% performance stock, 19% stock options, and 19% time-based stock, while the average mix of its other named executive officers (NEOs) is 14% base salary, 14% cash incentives, 36% performance stock, 18% stock options, and 18% time-based stock. Honeywell’s cash incentive plan is based 80% on financial metrics (EPS and Free Cash Flow; Business Unit Income Contribution only for business unit NEOs), and 20% on non-financial metrics (Individual Performance Assessments and ESG). Its performance stock plan is based on 4 equally weighted metrics, Revenue, Segment Operating Margin, Return on Investment, and Relative TSR.

**Detailed Description of Performance-Based Compensation Approach**

**Cash Incentives**(15% of compensation for CEO, 14% for NEOs)

* Adjusted EPS (40% for CEO and corporate NEOs, 20% for business unit NEOs)
* Free Cash Flow (40% for CEO and other NEOs)
* Individual Performance Assessment (15% for CEO and other NEOs)
* ESG (5% for CEO and other NEOs)
* Business Unit Income Contribution (0% for CEO and corporate NEOs, 20% for business unit NEOs)

**Performance Stock**(38% of compensation for CEO, 36% for NEOs)

* 3Y Cumulative Adjusted Revenue (25%)
* 3Y Average Adjusted Segment Operating Margin (25%)
* 3Y Average Adjusted Return on Investment (ROI) (25%)
* 3Y Relative TSR compared to peer group (25%)
  + Peer group includes 3M Company, Boeing, Caterpillar, Deer & Company, Dow, Dupont de Nemours, Eaton Corporation, Emerson Electric, General Dynamics, General Electric, Illinois Tool Works, Johnson Controls, Lockheed Martin, Phillips 66, RTX, and Schlumberger
* Earned performance stock will be distributed 50% in common stock, subject to a minimum one year holding period, and 50% in cash based on the fair market value of the PSUs on the last day of the performance period

**Comments**

* Honeywell excludes stock-based compensation from its Adjusted Segment Operating Margin incentive metric
* Performance stock metrics vary across capital goods companies. United Rentals is the only other capital goods company we reviewed that has a revenue metric. 9 of the 13 capital goods companies we reviewed (including Honeywell) have return measures (e.g., ROCE, ROIC, and ROE), 8 have Relative TSR metrics or modifiers, 8 have earnings measures (most are EPS), and 6 have Free Cash Flow measures.

**Financial Metric Adjustments and Calculations**

* Adjusted EPS excludes pension mark-to-market expenses, separated related tax adjustments, changes in fair value for Garrett equity securities, gains on sale, expenses related to Universal Oil Product matters, Russia-related charges, impacts of divestitures, and impacts of pension headwinds
* Honeywell does not define Business Unit Income Contribution. The contribution amounts listed in the FY23 proxy filing are lower than the segment operating income amounts listed in the 10-K, suggesting income contribution may refer to NOPAT, net income, or pre-tax income per segment. Judging from Honeywell’s adjustments of other financial incentive metrics, it is likely that this metric is also adjusted.
* Cumulative Adjusted Revenue excludes the impacts of acquisitions and divestitures and foreign currency fluctuations
* Adjusted Segment Margin Rate is operating margin at the segment-level excluding stock-based compensation; repositioning expenses, asbestos expenses, environmental expenses, equity income adjustments, and other charges; pension and other postretirement service costs; and the impacts of acquisitions and divestitures. It does not adjust for foreign currency fluctuations.
* Adjusted ROI excludes the impacts of acquisitions, divestitures, and pensions, but includes foreign currency fluctuations. It is calculated as Adjusted Net Income Before Interest/(Total Shareholder Equity + Net Debt + Deferred Income Tax Assets – Deferred Income Tax Liabilities)

**Additional Detail on Metrics**

* For business unit NEOs, business unit contribution to overall free cash flow accounts for 50% of their free cash flow performance metric
* ESG includes targets related to greenhouse gas emissions, renewable energy projects, certification to ISO’s 50001 Energy Management Standard, interview candidate diversity, and employees completing Code of Business Conduct certification and related training

**FY23 Performance**

* Cash Incentives (121% of target payout for incoming and outgoing CEOs, 116%-127% for other NEOs)
  + EPS: exceeded target by 2%
  + Free Cash Flow: exceeded target by 5%
    - The Free Cash Flow target was lower than the FY22 target because of the impact of a $1.2B one-time charge to settle legacy legal matters
  + Performance Materials and Technology Business Unit: exceeded Income Contribution target by 7% and Free Cash Flow target by 0.8%
  + AERO Business Unit: exceeded Income Contribution target by 6%, fell short of Free Cash Flow target by 6%
  + Individual Performance Assessment: 100% for incoming and outgoing CEOs, 75-150% for NEOs
  + ESG: 150% of target payout
* FY21-FY23 Performance Stock (145% of target payout)
  + Revenue: exceeded target by 3%
  + Segment Operating Margin: exceeded target by 70 bps
  + ROI: exceeded target by 180 bps
  + Relative TSR: 11th percentile of peer group
* Honeywell’s 1Y TSR was 0%, and its 3Y TSR CAGR was 1.5%

# BBVA

## Executive Summary

**Performance-Based Executive Compensation Approach**

As part of a CAP project co-sponsored by WNK and DACM, I reviewed the performance-based management compensation practices of 142 of CG’s largest holdings. Unless otherwise noted, compensation mixes reflect target incentive payouts. The following information is as of the end of July 2024. Compensation plans can change, so please look to the most recent remuneration report for potential changes since this review.

**Summary:**BBVA’s CEO’s pay mix is 45% base salary, 35% short-term incentives, and 20% performance stock. In FY24, BBVA’s Executive Chairman will receive €6.5M in total target compensation compared to €4.9M for the CEO and will have the same pay mix as the CEO. BBVA does not disclose the pay mixes for its other executive officers. Short-term incentives are paid out in a mixture of cash, stock options, and shares (~57% options/stock and 43% cash), over a period of 6Y, and payouts are based 60% on financial metrics (Net Attributable Profit, Return on Regulatory Capital, and Efficiency Ratio) and 40% on non-financial metrics (Net Promoter Score, Customer Growth and Retention, and Channeling of Sustainable Business). BBVA's performance stock plan is based primarily on Tangible Book Value Per Share and Relative TSR and secondarily on Decarbonization and Percentage of Women in Management Positions.

**Detailed Description of Performance-Based Compensation Approach**

**Short-Term Incentives**(35% of compensation for CEO and Executive Chairman)

* Adjusted Net Attributable Profit (20%)
* Adjusted Return on Regulatory Capital (20%)
* Efficiency Ratio (20%)
* Net Promoter Score (NPS) (15%)
* Target Customers (15%)
* Channeling of Sustainable Business (10%)
* Payouts are made only if undisclosed thresholds for Net Attributable Profit and Capital Ratio are met
* 40% of short-term incentives (50% in cash and 50% in immediately vested shares) are paid out in the year following the performance period; the remainder is paid out equally over 5 years with a mix of 60% stock/stock options and 40% cash. The deferred amounts are subject to adjustment based on the company’s annual achievement of fully loaded CET1 and Liquidity Coverage Ratio thresholds. Deferred equity instruments must be held for at least 1 year after vesting.

**Performance Stock**(20% of compensation for CEO and Executive Chairman)

* 4Y Adjusted Tangible Book Value (TBV) Per Share CAGR (40%)
* 4Y Relative TSR compared to Euro Stoxx Banks Index (40%)
* 4Y Decarbonization of Portfolio (15%)
* Percentage of Women in Management Positions in 4Y (5%)
* Payouts are made only if undisclosed thresholds for Net Attributable Profit and Capital Ratio are met
* Vested performance stock is subject to a 1Y holding period

**Comments**

* The deferral structure for BBVA’s short-term incentive plan is unique, as typically, short-term incentive plans with deferral structures will pay out at least 50% in cash immediately and at most 50% in shares in 3Y. BBVA defers both cash and equity, and executives do not receive their entire payouts until 6Y after the performance period. BBVA’s 4Y performance period for its performance stock also is longer than the 3Y periods at most other companies we reviewed.
* BBVA differs from the US banks we analyzed by having formulaic payouts and specified targets for its short-term incentive plan. The US banks we reviewed all determine short-term incentive payouts based on discretionary assessments of corporate and individual performance.
* BBVA’s CEO receives a higher proportion of his total compensation in base salary (40%) than his peers at the other European companies we reviewed (average of 22%, maximum of 32% at Safran)
* BBVA’s Relative TSR target is 2% above the Euro Stoxx Banks Index, which is higher than the 50th percentile targets of most other companies we examined

**Financial Metric Adjustments and Calculations**

* Adjusted Net Attributable Profit is calculated as the sum of consolidated net profit from consolidated operations and profit after tax from discontinued operations. It excludes non-recurring results (e.g., purchase of offices in Spain in FY22 and restructuring costs in FY21).
* Adjusted Return on Regulatory Capital’s numerator is Adjusted Net Attributable Profit. Its denominator is risk-weighted assets \* target fully loaded CET1 + regulatory deductions + differences in equity between regulatory and accounting views – solvency minority interests.
* Efficiency Ratio is calculated as Operating Expenses/Gross Margin. Operating Expenses include administration costs and depreciation. Gross Margin is the sum of net interest income, net fees and commissions, net trading income, dividend income, gains/losses from equity investments, and other operating income and operating expenses, and income and expenses under insurance and reinsurance contracts.
* Adjusted Tangible Book Value Per Share is calculated as (Shareholders’ Funds + AOCI – Intangible Assets)/(Shares Outstanding – Treasury Shares). It excludes non-recurring transactions, as well as share premiums and interim dividends issued to shareholders. Shareholders’ Funds are adjusted to account for the execution of the dividend option, while the denominator is adjusted to include the capital increase resulting from the execution of the dividend option.

**Additional Detail on Metrics**

* Net Promoter Score (NPS) considers relative and absolute results. Achievement at the group level represents the weighted average (based on net income) of each country’s achievement levels.
* Target Customers is loosely defined as the growth of a group of significant clients in each country. Similarly to NPS, achievement at the group level represents the weighted average (based on net income) of each country’s achievement levels.
* Channeling of Sustainable Business (previously named Mobilization of Sustainable Financing) measures the aggregate cash flows the bank channels into sustainable business lines. It determines these amounts using internal criteria, as well as information from clients and third parties.
* Decarbonization of Portfolio measures the degree to which the bank has complied with decarbonization targets for specific sectors in which it has set targets (oil & gas, power, auto, steel, cement, and coal)

**FY23 Changes**

* In FY23, BBVA eliminated individual performance assessments from the short-term incentive plan

**FY23 Performance**

* Short-Term Incentives (126% of target payout)
  + Net Attributable Profit: exceeded target by 13%
  + Return on Regulatory Capital: exceeded target by 150 bps
  + Efficiency Ratio: outperformed target by 250 bps
  + NPS: 109% of target payout
  + Target Customers: 98% of target payout
  + Channeling of Sustainable Financing: exceeded target by 24%
* Performance stock (no payouts disclosed)
* For FY23, BBVA’s 1Y TSR was 13.6%, and its 3Y TSR CAGR was 8.6%