

The ClearBridge 200 Report

Annual Incentive Plan Practices and Trends



ClearBridge
Compensation Group

December

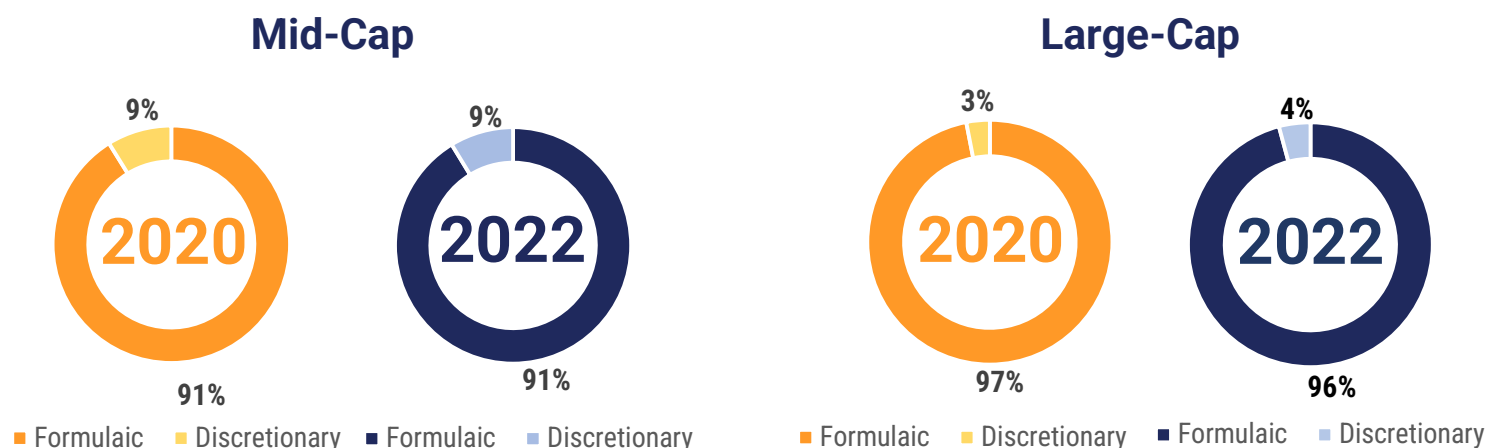
2022

Overview

Annual incentive compensation is a critical element of attracting and retaining executives, while motivating these executives to achieve the company's key short-term business objectives. In 2022, annual incentive plans ("AIPs") continued to be predominately formulaic, with few examples of discretionary plans in the market. This material examines the design details of these programs.

Type of Annual Incentive Plan

In both 2020 and 2022, almost all companies that provided short-term incentive compensation used formulaic bonus plans, as opposed to discretionary bonus plans.



The financial services industry was the industry with the most discretionary bonus plans (roughly one-third of the financial services companies in the CB200 had discretionary plans).

Number of Performance Measures

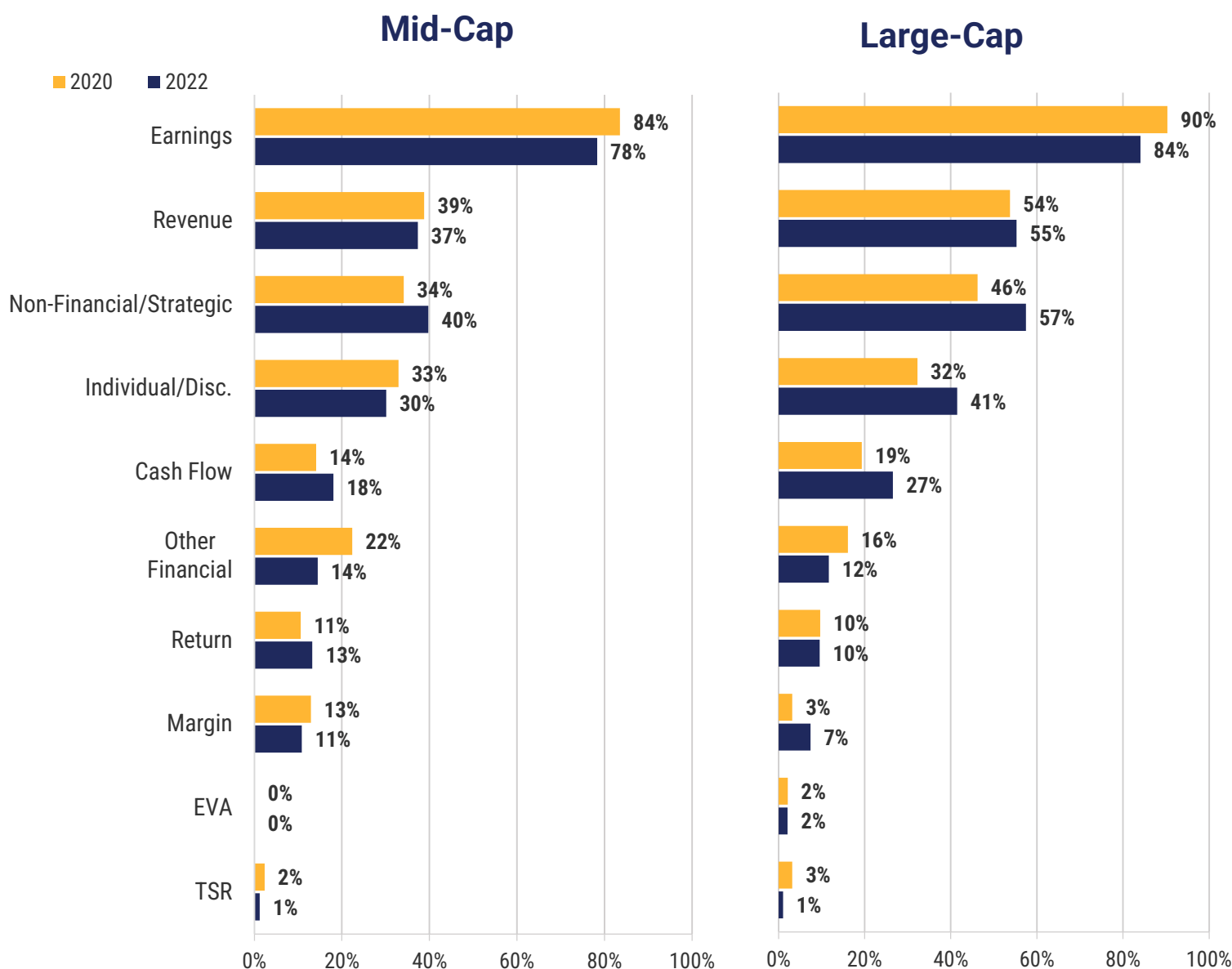
The vast majority of companies used more than one performance measure in their annual plan, with detail by mid-cap and large-cap shown below (see next page for types of performance measures).

Mid-Cap	Number of AIP Performance Measures					
	Year	1	2	3	4	5+
	2020	15%	40%	26%	15%	4%
Large-Cap	2022	16%	41%	30%	11%	2%
	Number of AIP Performance Measures					
	Year	1	2	3	4	5+
	2020	11%	29%	40%	14%	6%
	2022	8%	26%	39%	15%	12%

Large-cap companies tended to use more metrics as part of their annual incentive plan (~66% used 3 or more measures), whereas ~57% of mid-cap companies used 2 or less measures.

Performance Measures

Type of Performance Measures



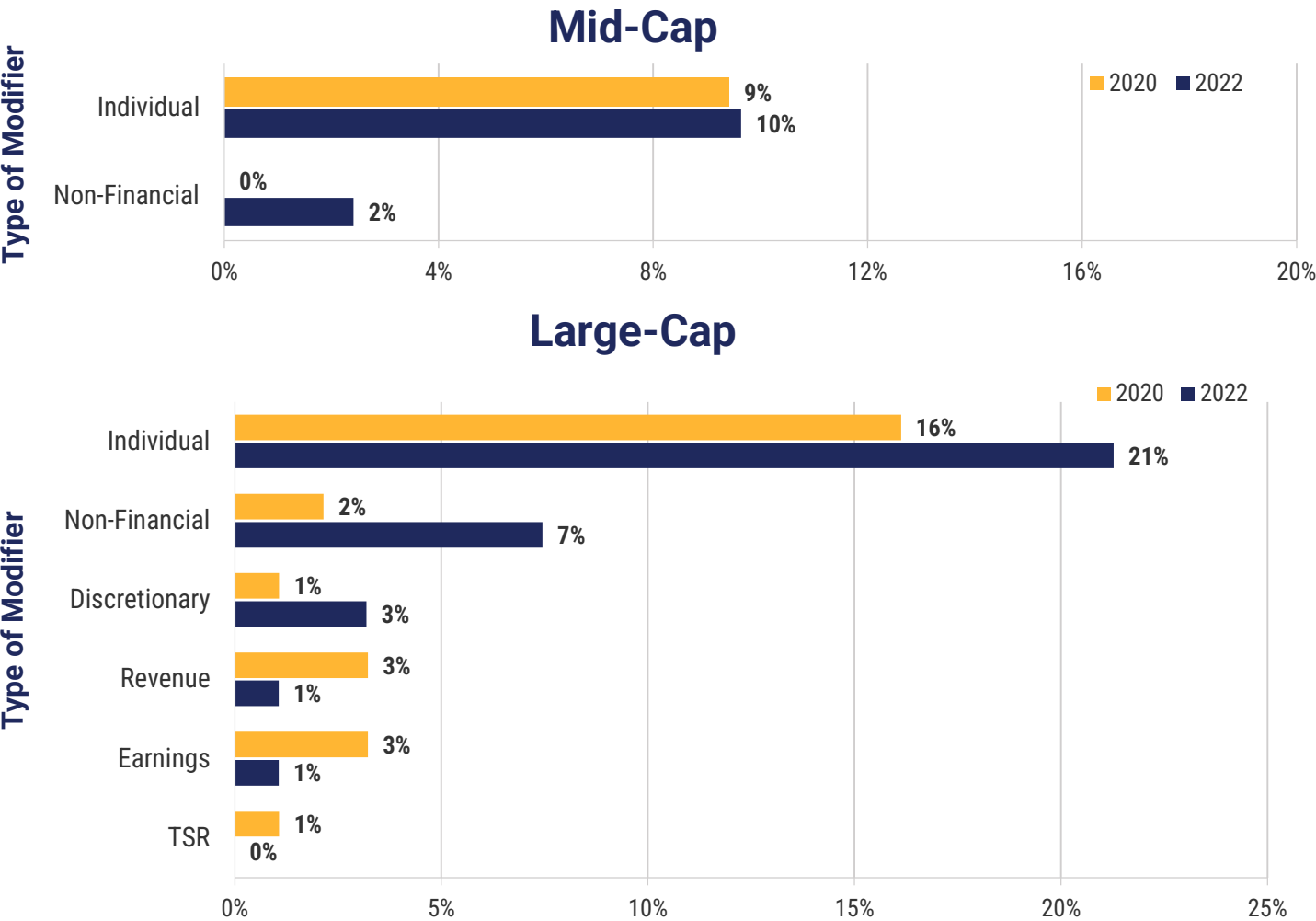
Key Takeaways

- While earnings metrics continued to be most prevalent, there has been a decline, with earnings metrics sometimes replaced by other measures important to shareholders / company success
- For example, there has been an increased use of cash flow as a measure as companies have prioritized cash flow in times of uncertainty due to shareholder focus and various recent macroeconomic factors (COVID, inflation, supply chain issues, etc.)
- In addition, the use of non-financial goals (strategic and/or individual) has also increased, with companies prioritizing strategic goals (such as ESG objectives, which were utilized by over one-third of companies using non-financial/strategic measures) or responding to challenges with goal-setting for financial objectives in an environment of heightened volatility and uncertainty

Performance Modifiers / CEO Metric Weighting

Modifier Metrics

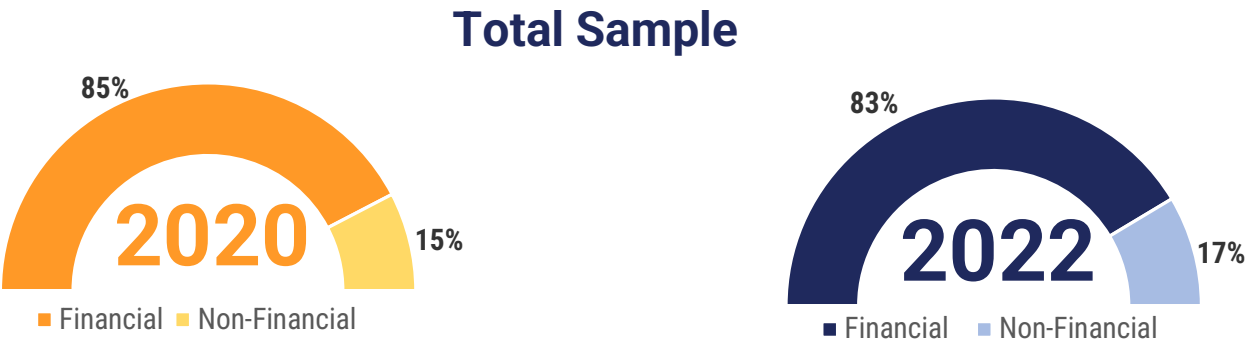
AIP modifiers allow companies to reward (or penalize) executives for overperformance (or underperformance) that may not have been specifically accounted for in the primary bonus plan design. Among both mid-cap and large-cap companies, we have seen increased use of modifiers in annual incentive plans.



CEO Metric Weighting

CEO performance measure weightings shifted slightly towards an increase in non-financial metrics (15% in 2020 vs. 17% in 2022) highlighting the increased importance of strategic/individual metrics the past several years.

Note: Total sample shown given similarity of findings between mid-cap and large-cap companies.



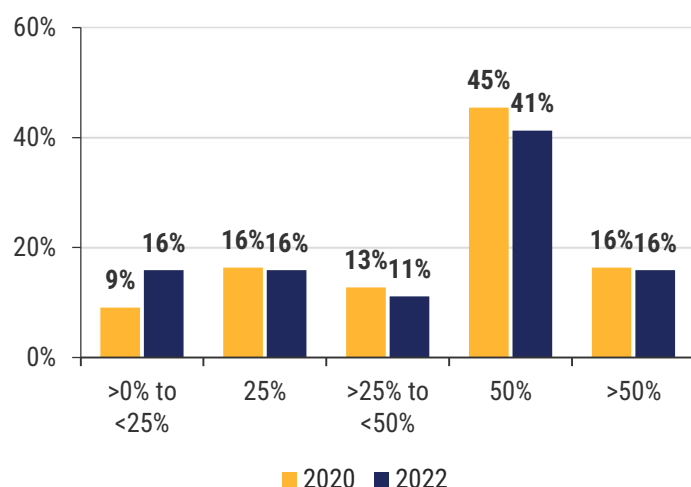
Payout Leverage

Bonus plan payout leverage allows companies to strengthen pay-for-performance linkage by aligning payouts with underperformance and overperformance vs. target.

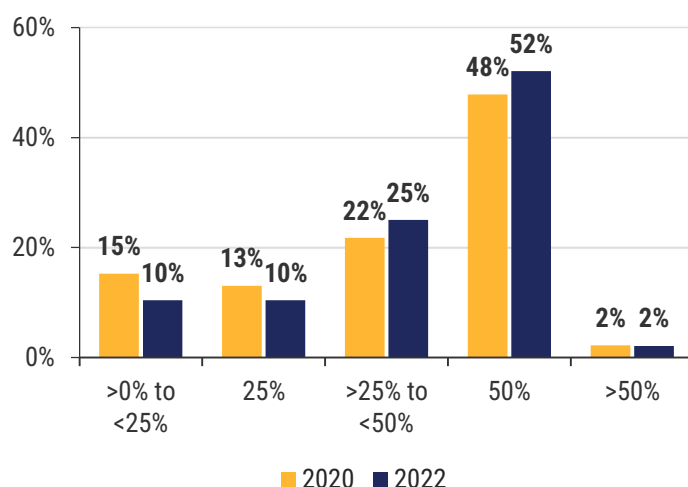
Threshold Payout Leverage (% of Target)

The most common threshold payout opportunity continued to be 50% of target. Large-cap companies continued to shift towards a 50% threshold payout, while mid-cap companies shifted slightly towards thresholds below 50%, likely to provide more downside protection with the volatility and uncertainty of the past couple years.

Mid-Cap



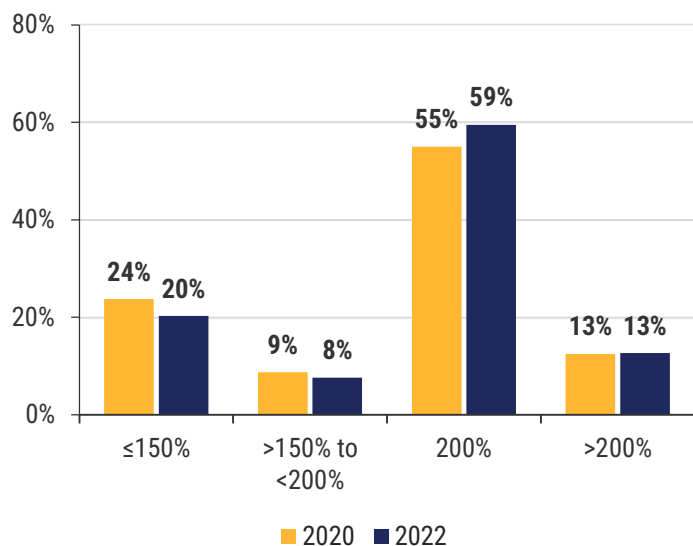
Large-Cap



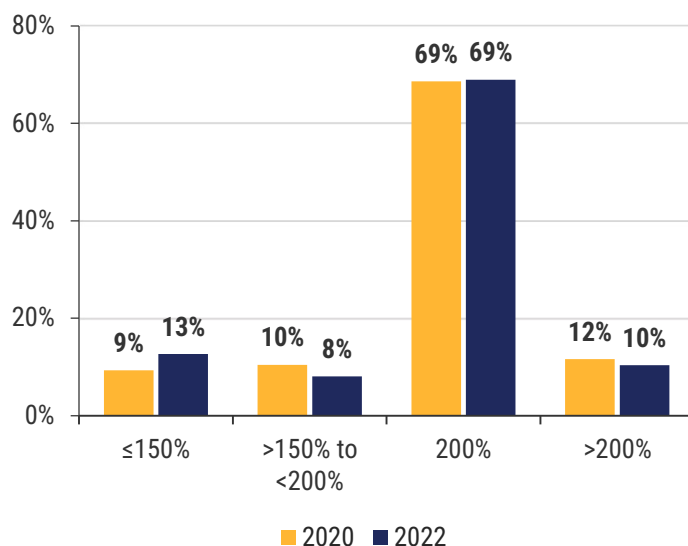
Maximum Payout Leverage (% of Target)

The most common maximum payout opportunity was 200% of target. Mid-cap companies were more likely than large-cap companies to have maximum payouts equal to or less than 150% of target but they continue to shift towards 200% over time.

Mid-Cap



Large-Cap



Additional Information

Methodology and Composition of CB200

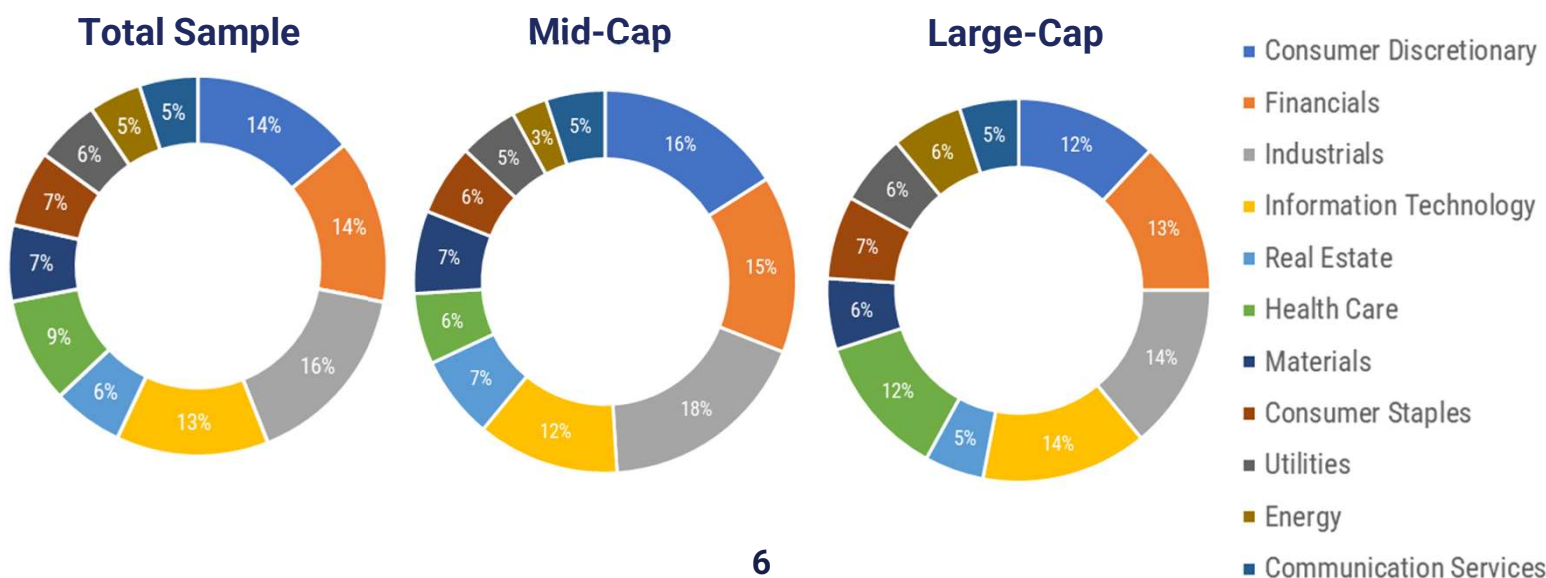
The design features of each incentive award were reviewed based on proxy statement disclosure for each of the *ClearBridge 200* companies; 2020 and 2022 refer to proxy statements filed in 2020 and 2022, respectively. Design features in this report are either expressed as a percentage of *ClearBridge 200* companies in total, or as a percentage of companies with a particular type of practice. In certain charts and tables, **totals may not add up to 100%** due to companies that incorporate more than one form of practice.

The *ClearBridge 200* consists of 100 companies in the S&P MidCap 400® Index and 100 companies in the S&P 500® Index in order to provide a representation of the full U.S. market.

Characteristics of the *ClearBridge 200*

(\$ Millions)	Fiscal Year Revenue		Market Cap as of	
	2019	2021	12/31/2019	12/31/2021
Total Sample				
75th Percentile	\$12,225	\$14,085	\$27,546	\$38,525
Median	\$4,860	\$5,357	\$8,493	\$11,641
25th Percentile	\$1,955	\$2,152	\$4,707	\$5,781
Mid-Cap				
75th Percentile	\$4,058	\$4,704	\$6,385	\$8,346
Median	\$2,172	\$2,398	\$4,698	\$5,777
25th Percentile	\$1,319	\$1,459	\$3,597	\$4,070
Large-Cap				
75th Percentile	\$23,852	\$25,995	\$83,688	\$121,579
Median	\$11,489	\$13,328	\$27,609	\$38,969
25th Percentile	\$5,500	\$6,022	\$14,274	\$18,267

Composition of the *ClearBridge 200*



About ClearBridge

ClearBridge Compensation Group is an independent consulting firm providing advice to boards of directors and senior management on executive and board compensation and incentive plan design with a focus on alignment with shareholders, linkage with business strategy, and adherence to strong governance standards.

Our Partners and team of consultants work together to provide sound advice based on each company's unique situation. Companies choose ClearBridge for:



Our tailored approach and emphasis on advice, not just data



Our focus on long-term sustainable shareholder value creation



Our rigorous approach to pay-for-performance



Our highly collaborative and exceedingly responsive approach

Our Services

As advisors to Compensation Committees and management, we provide an array of services to meet the individual needs of our clients. A sample of our consulting services includes:

Total Compensation Review & Design

Annual Incentive Design

Long-Term Incentive/Equity Compensation Design

Board of Directors Compensation

Pay-for-Performance Assessment

Proxy/CD&A Disclosure

Say-on-Pay Preparation & Shareholder Engagement

Employment Agreements, Severance, & Change-in-Control Arrangements

Transactional Compensation Design (e.g., IPOs, M&A)

Contact Us

This report was authored by **Eric Labourdette** and **Ashley Zoeckler**. For questions specific to this *ClearBridge 200* Report, or for more information on ClearBridge Compensation Group or any of our services, please visit our [website](#) or call us at 212-886-1022.

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