"The Top Compensation Consultants Speak"

Thursday, March 19, 2020

Audio Archive

Our annual webcast focusing on what compensation committees should be learning about - and considering - today. Join these experts:

- **Blair Jones**, Managing Principal, Semler Brossy
- **Ira Kay**, Managing Partner, Pay Governance LLC
- **Mike Kesner**, Principal-in-Charge, Human Capital Advisory Services, Deloitte Consulting LLP

John Jenkins, *Editor, CompensationStandards.com*: Hi. This is John Jenkins, Editor of CompensationStandards.com. I'd like to welcome you to today's program, "The Top Compensation Consultants Speak."

If you've listened to our webcast before, you know this is part of the script where I generally give you some propaganda about stuff that's coming up on our sites, but I'm not going to do that today. These are extraordinary times. Before we begin, I want to take a moment on behalf of our panel, myself and all my colleagues at CCRcorp to express our sincere best wishes for the continued health and safety of each of you and your families.

At times like these, it's good to keep in mind the old story about the man who was suffering through many adversities who decided to travel to Jerusalem to seek advice from King Solomon, the wisest man of all. Solomon listened to the man's problems. When he finished, the King sat in silence and then beckoned for the man to come closer and hold out his hand. On one of his fingers, Solomon slipped a ring bearing the inscription, this too shall pass - and so shall this.

In the meanwhile, we've got a lot on our plate. This webcast was originally going to be an annual update on the latest and greatest in executive comp practices, but obviously there's a 500-pound gorilla in the room in the form of the COVID-19 pandemic. One of the many things that it has thrown a monkey wrench into is a whole area of executive compensation.

Today, we're focusing on the compensation implications of this situation. Fortunately, we've got a panel of true experts to provide some insights into the implications of the pandemic for your executive comp programs.

Joining me today are Blair Jones - she's the managing principal at Semler Brossy; Ira Kay, who's managing director at Pay Governance; and Mike Kesner, principal in charge of human capital advisory services Deloitte Consulting.

With that, I'm going to turn it over to Ira to kick off our discussion today.

Ira Kay, *Managing Director, Pay Governance:* Thank you, John and CompensationStandards.com for arranging this. It's great to be back with Blair and Mike. Obviously, we hope you're all well. These are clearly uncertain times personally for all Americans and our companies.

U.S. corporations had been extremely successful over the decades, and it has brought enormous prosperity to our economy. The executive pay model, we certainly believe, has played an important role in that success.

The big question is: what we do now with the massive economic uncertainty and stock market correction created by Coronavirus, and the timing of these events have had or will have major impact on our incentive plays that are already in place, especially the short-term incentive but other factors as well.

This is an evolving process. There is a great deal of uncertainty, but companies will need to most likely make some discretionary judgments at the end of this year. The three of us are going to try to give you some of our thoughts and some of our experiences on that.

It is within this context that Mike, Blair and I will have a discussion about short-term incentives, PSUs, stock grants, quantification and other topics that are relevant. The big question is how do we respond to the economic uncertainty in stock market correction and then what are the key issues and considerations that the compensation committee should be thinking about right now? We're going to have a freeform conversation about this, but I will turn it over to Blair to start.

▲ Key Issues & Considerations for Compensation Committees Now

Blair Jones, *Managing Principal, Semler Brossy:* Thanks, Ira. I also want to thank CompensationStandards.com for setting up this forum again for us and for the ability to collaborate with you and Mike.

As we think about what might be on compensation committees' minds, there is clearly a lot to think about. The conversations we're having this week are different even from the conversations that we were having last week.

At the end of the day, the first thing that needs to be established is a framework and principles for how you think about what you're eventually going to have to do. Those principles include things like at the end of the day being fair to all stakeholders whether they'd be employees who will be clearly very affected by the current state of the market and the current state of businesses as well as the shareholder experience.

We need to make sure from a principle standpoint that we're able to keep people's hearts and minds engaged so that as we get past this crisis that executives and employees can get focused on restoring businesses to health.

From a compensation committee standpoint, it's very unclear how you would fix goals that had been set already right now. What committees can do is to start to track things that will help make discretionary adjustments - as Ira was referring to - in the future.

Right now, it would be great to have the basis for the committees to assess how is the coronavirus impacting sales, how is it impacting access to raw materials, how is it impacting production capability, how is it impacting logistics cost, what's happening to us on a human capital standpoint with the idea that you'd be tracking all of those things and tracking the impact - not necessarily that you would adjust for all of them, but that you have the data so when you get through the end of the year, you can make a discretionary decision that's based on some facts about what the real impact was or has been.

We're suggesting that clients track those, and then as you give updates on the incentive plans that you're talking about those impacts as well. They should fit into the overall framework of a set of adjustment principles that would apply not only to making adjustments about coronavirus impacts but about other business impacts as well.

That line of thinking has to do with what's happening with those who have already set their goals for the year. There is a whole set of companies that have not set their goals for the year, whether they're retail companies who have a little bit later fiscal year end or companies that have fiscal year ends or fiscal year beginnings that happened well within the year.

In those cases, compensation committees can be thinking about a broader set of solutions. For instance, we might see some interest in returning to more of a seasonal type of goal setting for some companies, particularly those that would be involved in travel and leisure types of activities or those in the retail space where you could see a scenario where perhaps you focus the first half of the year on just keeping the wheels on the bus and what do we need to keep the business running, and the second half of the year, hopefully, we're farther out of this crisis and are able to focus on restoring the business to health.

Now, if you go that route, you may want to make decisions for instance about whether you want to have the same kinds of maximums that you might have otherwise. You probably don't want to pay the incentives until the end of the year regardless, and you would want to have some overlay for executives that does align with the lookback on the shareholder and the employee experience.

That's one set of things relative to short-term incentives. I know we're going to talk about long-term incentives later, so I'll stop there and see what Mike might add.

Mike Kesner, *Principal, Deloitte Consulting:* Yes. I would agree that things have changed dramatically. At the beginning of this year, I'd say all my clients were setting targets that included growth, improved margins, so top line, bottom line growth, margin expansion, it's expansion of their market share. And the biggest concern that was being raised at the time was how a tariff is going to affect your business. And now, here we are 2-1/2 months later implementing furloughs, layoffs, closing facilities, having employees work virtually.

The three of us have been through many business cycles. It's important that we recognize that the market has always bounced back - whether it was the '87 market crash, 9/11, the end-run-world-come days, 2008 and 2010 financial crises, Lehman Brothers went bankrupt September 15, 2008.

Staying calm, working through issues and discussing them was really about socializing with the committee. As Blair said, some of the estimated impact of stress testing of our incentive plans, chances are those plans we set for 2020 are not going to work.

I have clients right now that are about to set goals for 2020 and beyond. There is so much uncertainty that it's really hard to say. They're either going to set the goal that they had before this meltdown or they're going to apply a lot of discretion at the back end of the year after they take into account what the effects of the pandemic were on their business, balanced against what's happening with employees.

If you're laying off employees, furloughing, it's going to be pretty hard to hold executives harmless from this. Similarly, if the shareholders are taking a beating, it's going to be pretty hard to hold the executives harmless.

Ordinarily, we adjust for one-time unusual events and incentive calculations. For the most part, some companies have exercised their discretion for years, but this may not be a case where we can really fully do that.

Jones: To that end, I know that BlackRock has introduced its KPIs about how it's going to assess companies going into this proxy season and beyond. One of the things it's going to be looking at closely is how these kinds of decisions are made, and particularly, in the overlay of the stakeholder orientation and broader business purpose, company's abilities to talk about how they made decisions about whether and how to adjust will be very, very important to the investor community as they assess companies.

Kay: That's a great point. On the short-term incentives, maybe I disagree slightly with you, Mike, to make it interesting. I think it's going to be practically impossible to estimate the impact of coronavirus unless you're a retail store where you're really shut. There are many examples of that, but it's certainly worth the try and worth the effort to try to estimate that.

At the end of the year - and these definitely should be check-ins - we need to reset the goals. I think that it will be fine from a shareholder and other perspective, but it definitely has some strings attached. You probably can't really pay out above target. You probably do want to look at your total shareholder return, which for the vast majority of companies will be negative.

You can look at it versus your peer group to see as another factor, did we in fact outperform. That would be impossible of course for stores in the retail industry that would be closed.

It is a holistic kind of thing. You can delay, as long as you're not overly generous, but you do want to reward people for the effort that's been put in and the anxiety and all of that. I think their shareholders are going to understand that.

Kesner: You make a good point. Some of this quantification is going to be near impossible. Right or wrong, we've moved into a formulaic based incentive regime. As a result, there's been pressure to take as much discretion now as possible.

In a situation like this, it seemed to me that you'd want to have full discretion as a committee to evaluate home management, reacted and implemented strategies to address the situation to mitigate the risk and protect the company. Focus on things like putting out fires, supply chain disruptions, connecting with customers, negotiating with vendors and stretching their payments, cash conservation strategies, cost reduction, implementing safe and flexible working conditions.

Those seem a lot more important right now than those goals that we set at the beginning of the year. I'd rather move to a strategic evaluation of our reaction to this as a way of gauging performance, but we can't just pay great bonuses and get stock prices down while the employees are being laid off. On the other hand, I also see that this potentially calls for a different way of evaluating performance than we have traditionally.

Jones: As long as it's not forgiveness, it's again that in the spirit of let's be fair to all stakeholders in the context of what happened and evaluating all the things you just talked about, Mike.

The only point about tracking was rather than waiting till year-end and trying to recreate what happened, why not track what you can track now so that you have facts and data at your disposal both on the dollar impact where you can get to it as well as some of the softer reputational types of impacts that you were highlighting.

Jenkins: That's a good segue to the next big, broad topic that the panel was going to address, and that's what kind of actions should companies be taking now - if it's scenario planning, employee communications, changes in program design, Ira, do you want to kick us off on that?

▲ Actions Companies Should be Taking Now

Kay: Sure. We've covered a little bit of that, and the concept that Blair laid out for principles is a very good one. It's going to be one of those times where you're never going to know what is in fact going to be fair. If you're laying people off and you're shuttered and the stock price has gone down 75% percent, that's a different kind of fare than other companies who have a much better business case.

It's very important to focus on motivation. We've started to get at this a little bit, but to ensure some motivation so that the results are both strategic as Mike said but sort of start rebuilding immediately because the model is very successful. If you tell people they need to fix their supply chain and that we'll reward them, that would be a real alignment of the incentives and the strategy.

The other sort of suggestion I had in this regard is I've already heard two companies talking about retention. I think that that's a bit of mistake because it's probably hard to prove and you don't really need it. I don't think people are going to be changing jobs

right now voluntarily - in large numbers and for the next few months - but we do want to make sure that people are treated fairly and motivated.

Kesner: Engagement is what we really need to focus on and keep people motivated. We don't want to dig ourselves a deeper hole because people could just tune out while they're working for a base salary and don't feel motivated to make that extra effort because their incentives which in many cases is 2/3 of their pay, 50% of their pay is going away. I would agree, Ira, it's more engagement than retention that we should be thinking about.

Jones: Thinking ahead to that engagement, because this will pass as John said at the beginning, so we're ready to know how we want to start to engage people. The kinds of things that will have to get attention and we'll have to see improvement in near term I think will be important.

That said, again, in the spirit or tracking, it is important to understand what the executive team is experiencing not for retention now but for retention later to have a better sense of when you look at the set of equity incentives they have outstanding, what is their experience when we get to the end of the year. How much wealth has been destroyed? What hold do we have on them? Because I think after we get to the end of the year, we'll be focusing on those issues again. You don't want to be blind to that. You want to have that so that you can understand that's part of the psychology of motivation.

It may be that we can't restore that wealth, that it's just gone and it's a shared experience and shared pain because our employees are going to be feeling that pain as well - but understanding that psychology will be important to the overall motivational impact.

Kay: One of the things that a lot of critics of executive compensation ignore, especially the media, is the massive stock ownership that the executives and the employees have. It's unknown; it's probably $500 billion or a trillion dollars or more of stock owned. If it's a trillion dollars, that just went down by $300 billion, so there is definitely alignment having nothing to do with the incentive plans.

In that regard up, just to comment on Mike's dialogue on this that said that we've seen a lot of business cycles. That is definitely true. I remember in 2008, that it was real panic city. Some of the executives were disappointed with their stock brands because they were like "well, what do I want stock for? We're never going to see recovery." I remember several instances of that.

It did come back, roaring back. There were definitely naïve or even idiotic pundits out there who said - "well, they knew it was going to come back. That's why they gave their grants at the bottom," which was completely wrong and cynical and so on.

I thought it was wrong for then, and now who knows. This is different. This could be a bear market. It could last 12 to 18 months.

I don't know what we would do differently from the executive compensation side, but this could be a substantially longer recovery. We do have the greatest economy in the world. We do have very efficient capital markets, so it's highly likely that we'll recover. Whether it will be as quick as it's been in the past, I don't know.

Kesner: That's part of the communications that companies need to have with employees and executives alike in terms of that. First of all, at the beginning of the year, we were a very strong economy. We went into this strong, which is good, and we need to reinforce that.

Some industries are being disproportionately affected, such as hospitality and leisure, oil and gas, automotive. Insurance and airlines are going to get hurt a lot more than consumer goods and life sciences, and the spring back will be different.

Given time, they're all going to be able to recover for the most part. There're some uncertainty about what the government's going to do and how they're going to help certain segments. They are there to help.

We need to have a communication about that. We need to have communications about what other programs we have, reinforce that the biggest part of comp incentives is under water, but we still have a great company to work for. There's still lots of other benefits and opportunities to grow here and companies need to reinforce that in their communications as well.

So far, I haven't had clients do much in the way of outreach and communications because we don't know what to say. We need some decisive communications in reinforcing the culture of the company and the programs and that as we've all said this too shall pass to keep people stable. Stabilizing right now is really important. Fixing the comp, we can clean up later.

Once we understand the impact, we'll have the discretion to clean it up. I do think shareholders will be forgiving as long as we don't go too far. I think the proxy advisory firms will have to come to some perspective that's different than what they've done in the past.

They don't like when you change the goals. They don't like when you use discretion, but these are very unusual circumstances. As long as we do it fairly, shareholders should be okay with it.

Jenkins: A lot of other questions go into the tactical side of this. We can address some of those things such as where you talked about adjustments and basis for those adjustments, implications of delaying or resetting goals, shareholder outreach. We can turn some of those issues into discussions. Blair, would you like to kick that off?

▲ Tactical Questions for Consideration

Jones: Sure. One of the issues that a number of companies are facing right now is dilution issues. All of a sudden, their equity grants have gotten or will get more expensive. The life of their plans is shortening, so some are on the verge of needing new shares immediately or they're hitting individual share limits within their plans for the first time in a long time.

One of the issues that companies are having to deal with is that particular issue. Particularly for those companies that haven't made their grants yet, there has been a lot of discussion about how you approach this year's grant.

For instance, do we set an overall dilution cap and say we aren't going to go over more than 2% of shares outstanding and we just pro-rate grants that way? Do we change

equity grants for those lower in the organization to cash grants, which gives some stability to that population at a time when the stock price is very volatile and also reduces our equity usage? Do we use an average price, a price before the market declined, something else that's perceived as fair to manage our equity usage?

In the past, there really has been an edict that I and others have espoused that you grant it at whatever the price is at the time because sometimes, it's quite high and you aren't giving yourself any extra benefit there. Therefore, you shouldn't penalize yourself when it goes low. These are dramatic changes in the stock market and dramatic changes happening day by day and week by week, so it really warrants a more thoughtful and broader look at how we determine how and when we make our grants.

The other thing we're seeing around this, which is part tied to dilution but part tied to just how you set goals, is again for those companies who haven't already made their grants. Some of them are thinking about making their time-based grants now and then waiting to make their performance-based grants to later in the year, perhaps later in the summer or at the end of the year when they might have a better forward look about where things are going.

With long-term incentives, you have that luxury because you can still have a 24- or 30-month period, which is quite a long period, that you can still be setting goals with. In the spirit of what we were talking about for keeping people's motivation, the thought is that that would be more motivational than setting long-term goals now where the first year may be thrown out the window.

We definitely have companies talking about that as well as cash availability for the lower levels of participation in the equity plan and maybe more time-based to more people and really reserving the performance-based only to a small group.

For those who have already made their equity grants, it's a whole different ballgame. You get into a number of decisions about whether you're going to actually give new grants, reset. Those are decisions that will have to be made down the road. I'll stop with that consideration since there is a whole host of them and see what Mike and Ira would add to that.

Kay: It was over the last couple of weeks that the three of us have seen a lot of grants made, and we did try to raise it. I know you guys did as well. There was a pretty good probability that the short-term incentive and in addition, the PSUs were not going to be earned.

There was a large number because the stock prices already started to decline. In many instances, their goals were already set, and it was agony for the committees. Ultimately, they did proceed and then assume that they would be able to use some discretion at the end without a shareholder revolt.

The issue is about doing research on this still and we recommend this also for you to at least consider. If your stock price goes down by half, you're talking about a doubling in the shares granted. I have one where the CEO went from 500,000 shares to a million shares, and we definitely showed that to the committee. We said, "You could use a 30-day average."

Changing the policy on your stock price should be minimized. It's good analysis; if you're going to sort of do a haircut, do a 10% haircut off the policy of using the stock

price on the date of grant. That is an issue, and then there's all the second guessing I was saying earlier about if there is a recovery, was that cherry picking? Was that picking the lowest stock price and so on.

You want to look at that. What happens if the stock price recovers a lot, let's say 50%, you go from $20 to $10 at the 50% decline. Then you go up $15. That's a 50% increase obviously because of arithmetic; they're different dollars but since you get a big payout at $15 even though you're still below your historical average or something like that.

My personal answer to that is yes because who knows where the efficient market is going to go with the valuation of your company, but those are all considerations that the committee should have as discussion topics.

Kesner: I just want to add a couple of things. When we had the financial crisis, it really bottomed out in the first quarter of 2009. Lehman went bankrupt September 15, 2008, and first quarter of '09 was really where we hit the bottom. The stock really roared back over the years after that - up about 145% from the S&P 500 from that point - 10 years out.

We did learn that if you do use the current price to set the number of shares, there is a chance for you to have a windfall. One of the things some companies did back then and might be wise now is just grant the same number of shares as you granted last year.

I know we don't like to use a fixed share approach. We like to use dollar value, but if we use 3% of shares or a 1.6% of shares last year, let's do the same this year and not double it up. If we need to, we can always do a top-up grant later in there. If we're under water and the market stabilizes, we could always top-up the grant.

That way, you have already put a cap so no more than five times the value of your salary or no more than five times the value of the stock, a time a grant can be paid or three times, whatever it is. You could always do that for grants that have not been made.

I would be uncomfortable using the spot price right now to set the grant because of what we learned from the financial crisis. You know stocks will on that - yes.

The market is whatever the price is today is what you're worth. I understand it. We have an efficient market. Right now, we have a panicked market, so I'm not so sure.

The other thing on the good side is we've moved away from options in some cases totally or in a lot of cases, there may be 25%, a third. We've got a lot of RSUs out there. In the past, when we granted all options or I have some clients that only grant PSUs in options, those equity awards had been wiped out as we look at them today.

The companies that have gone to a balanced portfolio for the executives and then even deeper, more RSUs have it. These got some value in the equity. If the stock springs back, it will automatically go up with the stock market and the stock price increase.

The good news is that we already have a hedge on some of this downside in our long-term program for most of our clients. I don't know about you, but many of my clients are out of the option business altogether or really reduced their emphasis - although

they are 50% PSUs in almost all cases, no less than because that seems to be the conventional wisdom. We got to have at least 50% PSUs.

Kay: You said, and I definitely have experience with this, Mike, that there were definitely companies whose stock prices went down 75% and they did the same number of shares.

I had several clients where that turned out to be extraordinary valuable, and then I had one client where it was the biggest payout they ever had was from that grant. But the executives, when they showed that market data of the following year, they showed them very, very low, which was I thought outrageous.

You could reverse what you said. You could do it the other way with probably a little more discipline.

You use today stock price. Let's say it's around 50%. Maybe, you do a 10 or 20% haircut on the number of shares. Then if it roars back, when you have perfect information, you could tweak it a little bit the following year, another 10 or 20% from the history from the two years prior because I think that the windfall argument that's all over our emails, I don't really buy it.

We need to balance the tension to motivate the executives within shareholder context, but there is a symmetry. If the stock price has doubled, they do get half the number of shares. The executives used to complain a lot about stock options on that, less so now, but they wouldn't have liked to stand on it if they said that I want the same number of shares the prior year.

▲ Proxy Statement Disclosure Considerations

Jenkins: One of the things that makes this sort of a perfect storm - I'm just thinking of this as we're going through this discussion - is for many of the folks listening today, they're sitting there and gazing at what they thought was a completed CD&A for their proxy statement. Obviously, there are lot of constituencies to take into account here.

We've talked about the various impacts on the executives and employees, and we've touched on shareholders a little bit. The whole concept of shareholder outreach and when does that begin and are your clients thinking about saying something about this in the discussion of current year compensation decisions in their CD&A, how are people approaching it? What are your thoughts on that and kind of the broader issue of outreach to shareholders?

Kesner: Most of my clients' proxies have either been sent to the printer or have been filed for the calendar here. At least one of my clients is filing its proxy today, and they do mention that all the uncertainty around the COVID pandemic in passing. They really don't address it in the compensation. They came off a very strong year. As you know, the CD&A is talking about what happened in '19, and there is a section often about what changes are being made for 2020.

While they talk about those changes, they don't talk about it in the context of all this turbulence because there's so much uncertainty. I don't know that the lawyers would really let them say much other than we got shareholder feedback, we made some changes to the plan for 2020, here's what we're focusing on. They haven't gone much beyond that in the CD&A, to answer your question, from what I've seen.

Jones: That would be my experience. What it does highlight is the importance of speaking to the broader human capital management issues and how the company thinks about not only the executive population but also what's being done for that broader population as well.

We were already seeing more disclosures in that regard a little bit last year and more so this year of companies talking about that. As we go forward and particularly as companies enter into shareholder outreach post the proxy season and talk more philosophically, that will have to be a topic that is very high on shareholders' lists as you go through the discussion.

Kesner: Yes. Next year's proxy will be the one where we are going to explain exactly what was done, if adjustments were made, the rationale for it and what the financial impact was on the incentive calculation. That will be where people are focused because what happened in '19 happened in '19.

The fact that we've set some goals for 2020 and then maybe changed them midway or cut the plan off at mid-year and did a second half play on all that. All those decisions would have to be fully disclosed and justified. That will be where it shows up.

Jones: One of those principles that we talked about at the beginning of this discussion will become so important because I think putting those on paper and saying here is the principles by which we operated, that will be very important for investors to be able to understand how the decisions were made and what factors went into driving the ultimate conclusions.

Kesner: One small tactical thing I wanted to mention too, if we do change PSU goals or make adjustments that weren't already preordained in the plan, we could have an accounting modification. I feel obligated to raise this.

When you do a modification of PSUs, it's a complex set of traps. You have to look at whether you were going for them. The modification was a PSU that was dead in the water to one that was in the money. You have to account for it differently than one that was in the money but is now more in the money versus one that was dead in the water and even after the modification was dead in the water.

For those of you with relative TSR, PSUs, you're going to take a charge no matter what. I don't know that you would do any type of modification to those types of programs. Those are kind of on autopilot, but they'll take the charge even if nothing gets earned. I do want to mention that in addition to all the P&L hits we're taking for the COVID pandemic, there would be some accounting charges for any changes you make to the PSUs.

Jones: That's a really important point. It could look an extra grant as well in the disclosures, so that's a pretty important callout.

Kesner: You're right. It does show up in the summary comp table. Any incremental value would show up on the summary comp table as well as that grant, the plan-based awards. You're right, Blair. Obviously, you're giving people a raise when you may not have.

▲ Goal Setting: What to Do?

Kay: One thing I wanted to talk about is what to do; this is part of that future look, but what would we do differently in terms of setting the goals for the PSUs. I had two thoughts on that, and it may be nothing.

I had a client a couple of years ago who set the percentage growth rate - 10% growth in EBITDA. It was based off 3 years, 10%. It was based off a prior-year actual, and now ISS considered that to be a three-year plan. It's a little complicated.

I'd agonized over if could you end up with a big dip in the second year or even the first year and then you end up with 10% growth off of that, 0 for that year, but 10% growth off of that and you end up at a lower amount of EBITDA than you started with.

In any event, it is a mechanism that you could use to work with it. The other one I had was a client that uses the sum of the dollars over the three years, the actual dollars and then the target dollars and then has a lookup table for that. That way, even if you have a bad year, you know you can make up for it.

They do that. I have one that does that, and I have another one that does it where each year is then calculated. It's a pretty interesting approach, not a perfect three-year plan. If you have volatility in your earnings, which we're all going to have now, it's something to think about.

Jones: Have you guys seen people returning to banking with the idea of you do 20% 2020, 20% on 2021, 20% on 2022 and a cumulative over the period using some sort of goals like Ira was saying with the growth year-over-year so that you get a fixed accounting in the beginning? There's been some speculation that that might return as well.

Kesner: I have a couple of clients that do that. They set the three-year goals and measure each year, so 2020 gets measured and whatever shares you earned get banked. Then 2021 gets measured, and the shares are banked. Nothing gets paid out to the third anniversary of the grant, but all the goals were set up front.

I have one client that waited to set the goals until the beginning of each year. They got criticized because basically they show you're just mimicking the annual plan because you haven't really set the goals upfront. You're doing it year-to-year.

The cumulative concept with wider performance goal, if you're using cumulative cash flow or cumulative EBITDA to set the goals and you do 80% threshold, 120% max, you've got a pretty wide goal post to hit. The chance that you'll fall inside of that increases.

If there is going to be continued volatility - similar to flattening the curve with coronavirus - we want to stop the number of infections. I think flattening the performance curve would be in keeping with the current times, and some companies are way too tight. They have a very narrow, very steep performance curve however we want to look at it. Widening the curve has always been the solution for volatile times, and this certainly would qualify.

One idea I'd like to get your thoughts on is how we have a threshold. Let's just say the threshold's 10% and the threshold bonus is 50% the target, and that's two. Why not get rid of that and drop the threshold on a linear basis, so we start funding the bonus at zero. But maybe, it starts at six and you start to accrue the bonus.

Don't change the target goal, but lower the threshold for existing plans for 2020 and for the 2022 PSUs that have already been set. Unless we keep the entry point alive given this uncertainty, it seems that might be something we can do again with hindsight as we get further into the year.

Kay: That's very viable. I have several clients who do that. Worrisome prior to now, their zero started at a negative profit growth. That that wasn't by design, just the arithmetic of the calculations.

I was quite worried that they could have negative growth in profits and get a 50% payout with various other metrics. I think that's a very good idea and should definitely be in the toolkit.

Jones: Agreed. What you might do in return on the upside is you leave the 200% payout as the max. You could also see a scenario where for a couple of years while you're widening the curve, depending on how far you widen it, that you actually say the max can only be 150% or maybe even lower than that because if the numbers that you're getting to aren't even restoring you to where you were then that should be in the considerations as well.

Kesner: Yes, you want symmetry. I agree completely. Either you stretch out the top side of the curve, so it matches the bottom, or you cap the topside. Some companies may not even be thinking about above target payouts. They're just thinking about surviving right now, so stretching up the top is anything more than sleeves off everybody's vest. You'd want it to be symmetrical or somehow account for that downside protection with the upside being limited.

Jones: It's an important part the communication and ethic. From a principle standpoint communicates what you're about at this point in time.

Kay: If we were going to design and somebody calls up and says, "We're going to put at a PSU plan. Now, we know it's volatile times. What would you recommend?"

Kesner: Yes, I would say use cumulative numbers and have a wide performance curve. EBITDA is a good example, which is a pretty stable measure. Or narrowly, you might have a 90 to 110% threshold to max range. You might go to 80, 120, 75 to 125%, so it's not based on just one year. It's not based on a CAGR. It's based on cumulative. That would provide a lot more stability.

If you fall outside of that, that's the way it is. There is going to be some unforeseen event, but at least we're going to start out with a pretty wide curve and a pretty high confidence level that there will be opportunity to get a payout if we perform within a certain range.

Jones: I largely agree with that. A couple of other things to think about. First of all, I'd ask people if they need to grant now because first instinct is, perhaps if it's a smaller population getting PSUs, just wait because you can communicate to that population why you're waiting on your PSU grant. That would be first.

Assuming you're working with this design, there are a couple of other things you could think about. One thing to think about would be are there any strategic long-term goals that could be quantitatively measured that might be relevant. Mike, you were saying

some things earlier in the conversation as we think about restoring businesses, there might be specific areas that we need to go to in order to make that restoration happen.

This could be an interesting time to complement financials, which still should be the majority with some really meaningful long-term strategic goals. The other thing you could think about is whether you want any additional hold after things vest given all the dynamics that are going on.

Jenkins: With that, we're going to conclude today's webcast. I want to thank all our panelists for their insights and their time today. Have a good afternoon.