

Share Utilization at S&P 500 Companies

Equity compensation practices and trends

Willis Towers Watson's
Global Executive Compensation Analysis Team

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Share Utilization at S&P 500 Companies: 2017 to 2020

Contents

- **Universe overview**
- **GECAT's share utilization focuses on common measurements, including:**
 - Equity compensation mix
 - Overhang
 - Run rate
 - Long-term incentive (LTI) fair value
- **Share utilization issues and forward-looking trends**
 - Stock plan inventory
 - Full-value fungible ratio
 - Look-ahead at fiscal year (FY) 2021 key share utilization statistics
- **Appendix**
 - Industry sector review
 - Definitions



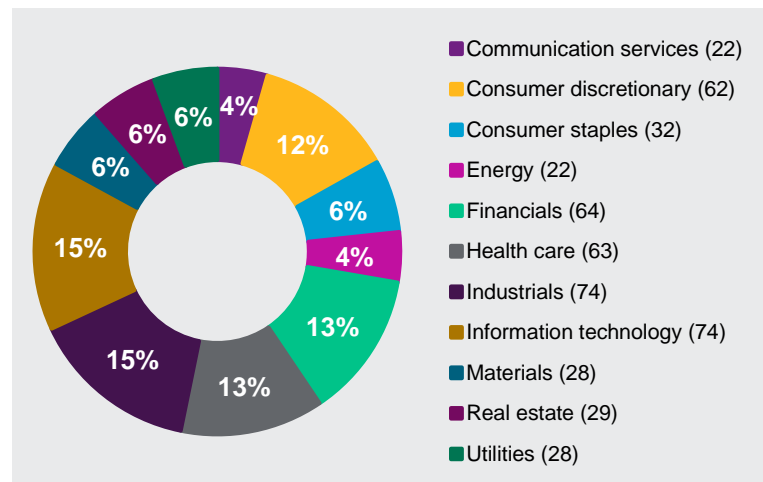
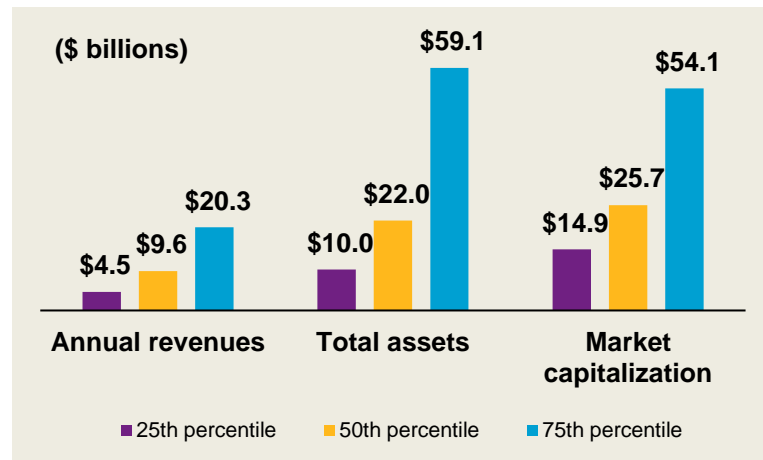
Universe overview

S&P 500 Universe

Overview

Willis Towers Watson's Global Executive Compensation Analysis Team (GECAT) examined the disclosed companywide equity compensation practices and trends from the S&P 500 for FY 2017 – 2020.¹

- The study is based on an analysis of 498 companies²
- FY 2020 financials ranges (all figures in \$ millions)³
 - Annual revenues: \$689 to \$559,151
 - Total assets: \$1,200 to \$3,386,071
 - Market capitalization: \$3,309 to \$1,966,079
- The S&P 500 is composed of 11 industry sectors, based on each company's Global Industry Classification Standard code



¹ 2020 data were disclosed in 2021; therefore, 2020 data are the most currently available data for a full reporting year

² Excludes two companies, one due to limited disclosure and one due to a recent spin-off

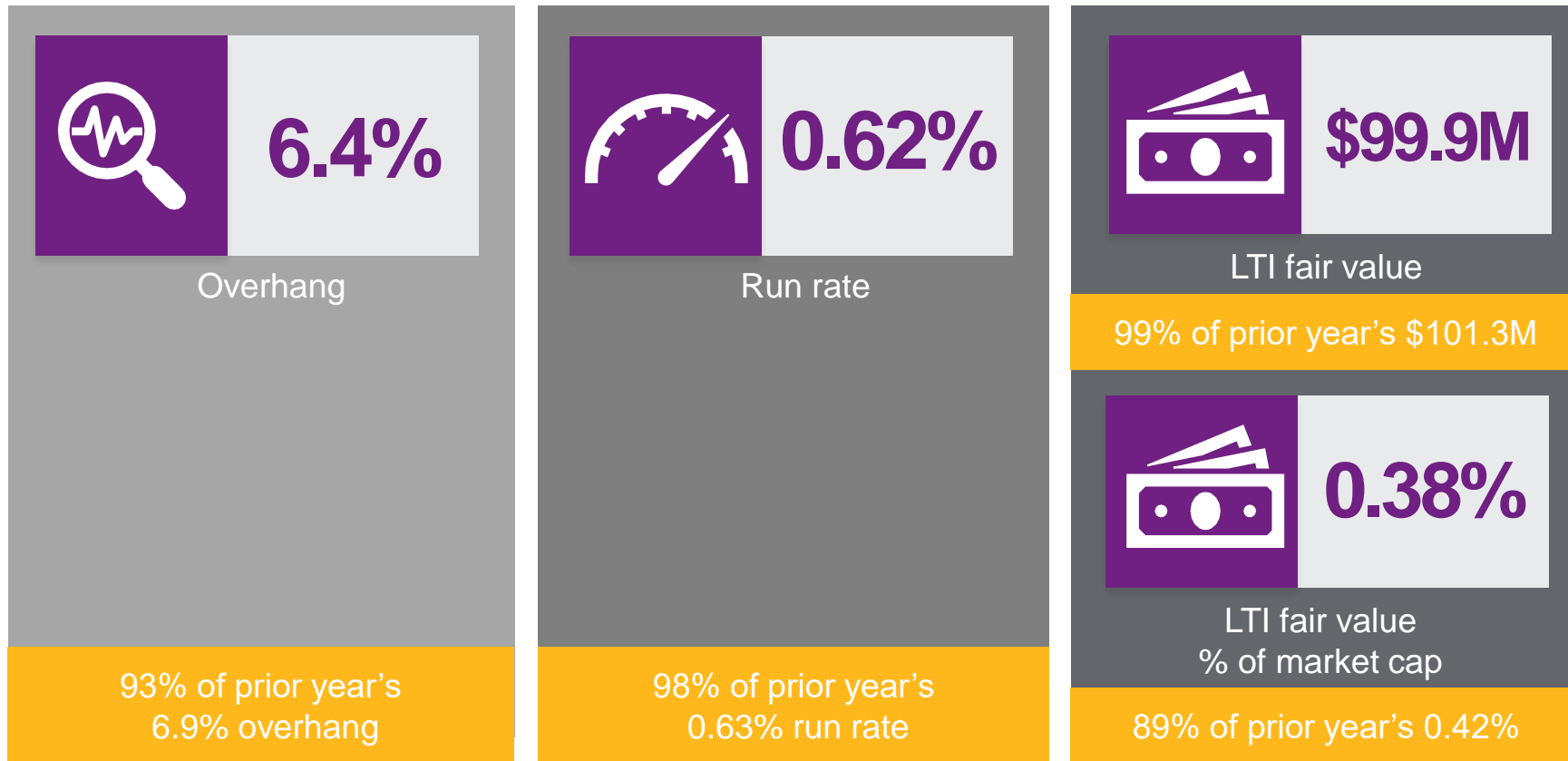
³ FY 2020 = FY ended between 3/31/2020 and 2/28/2021



GECAT's share utilization focuses on common measurements

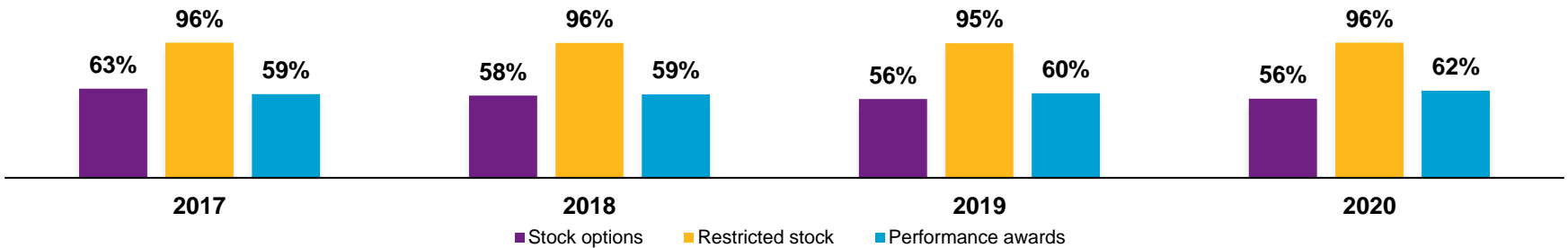


S&P 500 – FY 2020 medians at a glance

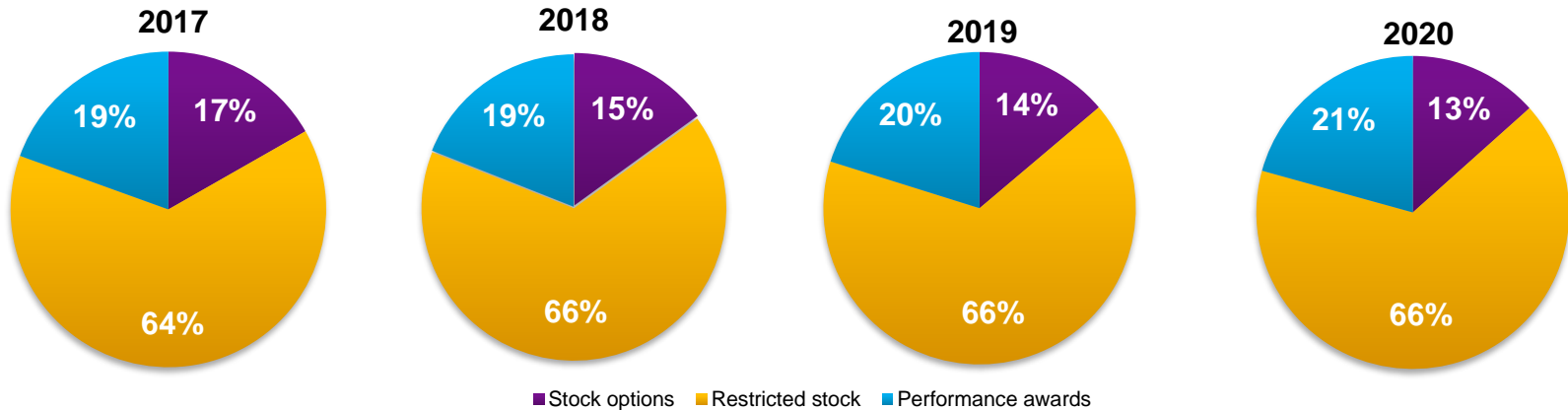


S&P 500 – Total company equity grant prevalence and average LTI mix 2017 to 2020

- The use of options continued to decline, while the use of full-value and performance awards increased.
- Performance award usage increased 2.9%, up from 60% in 2019 to 62% in 2020.



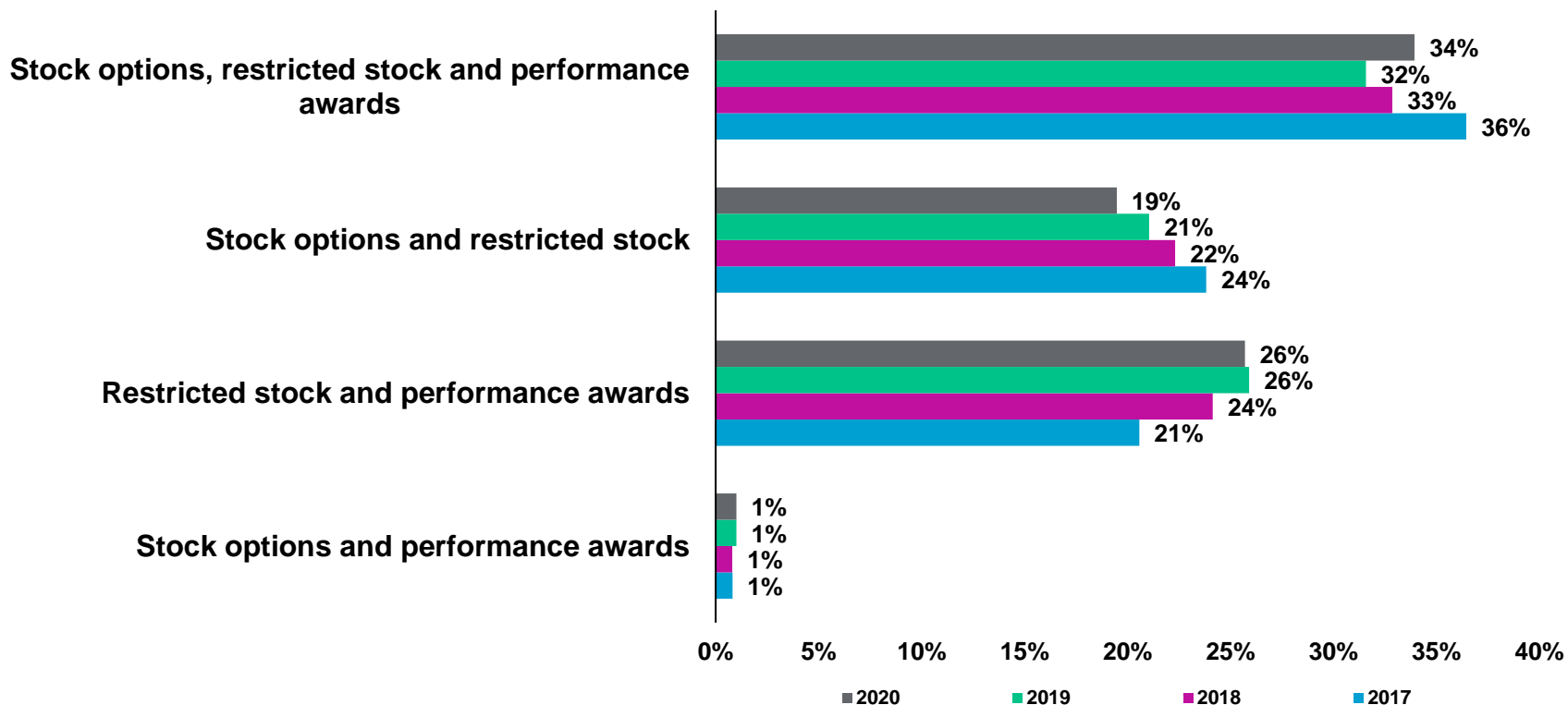
- The average LTI mix indicates a 20% decrease in stock option grants since 2017, while restricted stock and performance awards have increased 3% and 6%, respectively.



S&P 500 – Prevalence of equity grant compensation¹

2017 to 2020

- The combination of stock options, restricted stock and performance awards increased 7.5%, up from 32% in 2019 to 34% in 2020.
- The combination of restricted stock and performance awards continued at 26%.

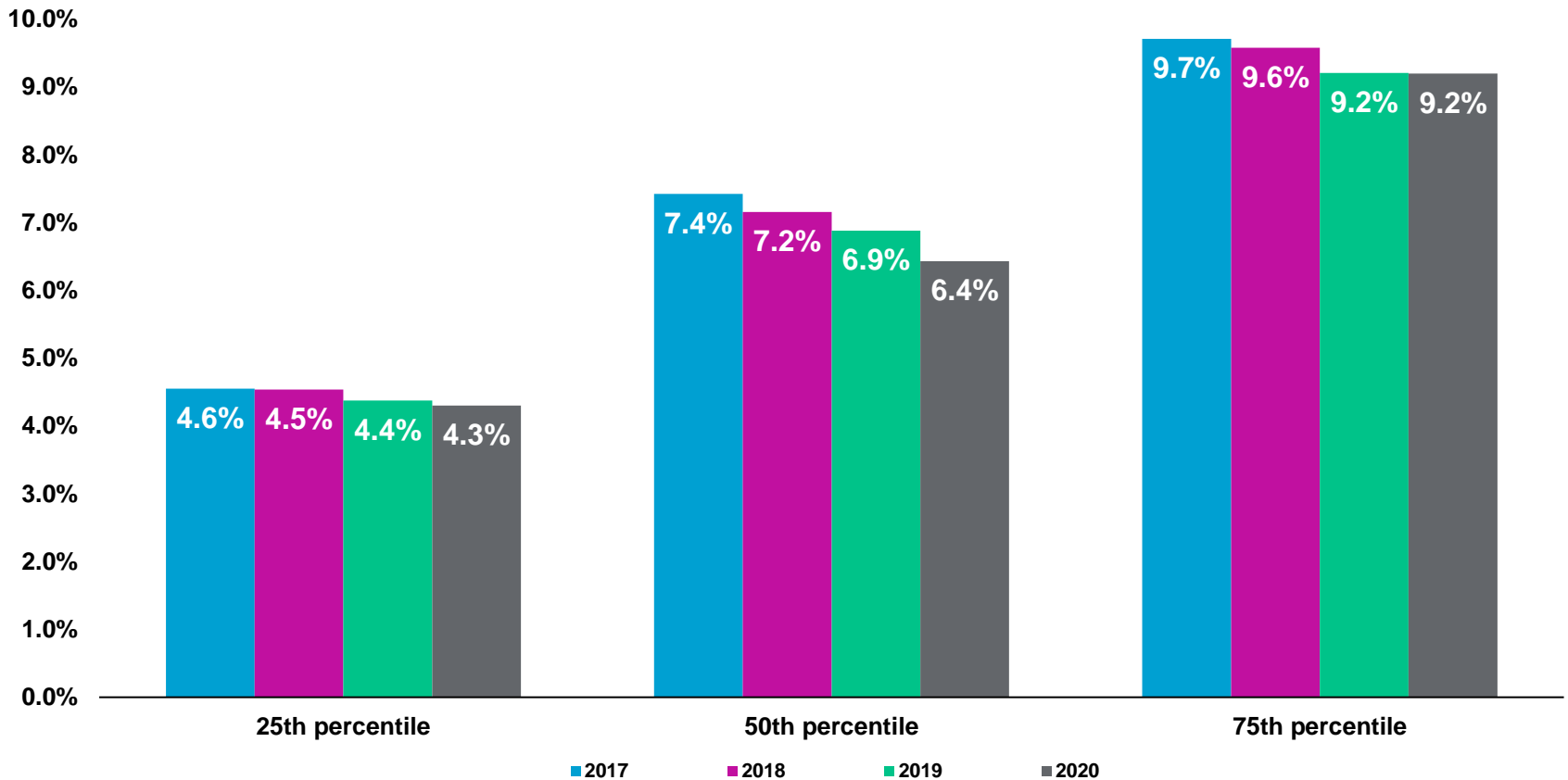


¹ Chart excludes companies that grant only one equity vehicle type. For 2020, 2% granted only options, 16% granted only restricted stock and 1% granted only performance awards. In addition, 0.8% of the S&P 500 companies did not disclose making any equity grants.

S&P 500 – Overhang

2017 to 2020

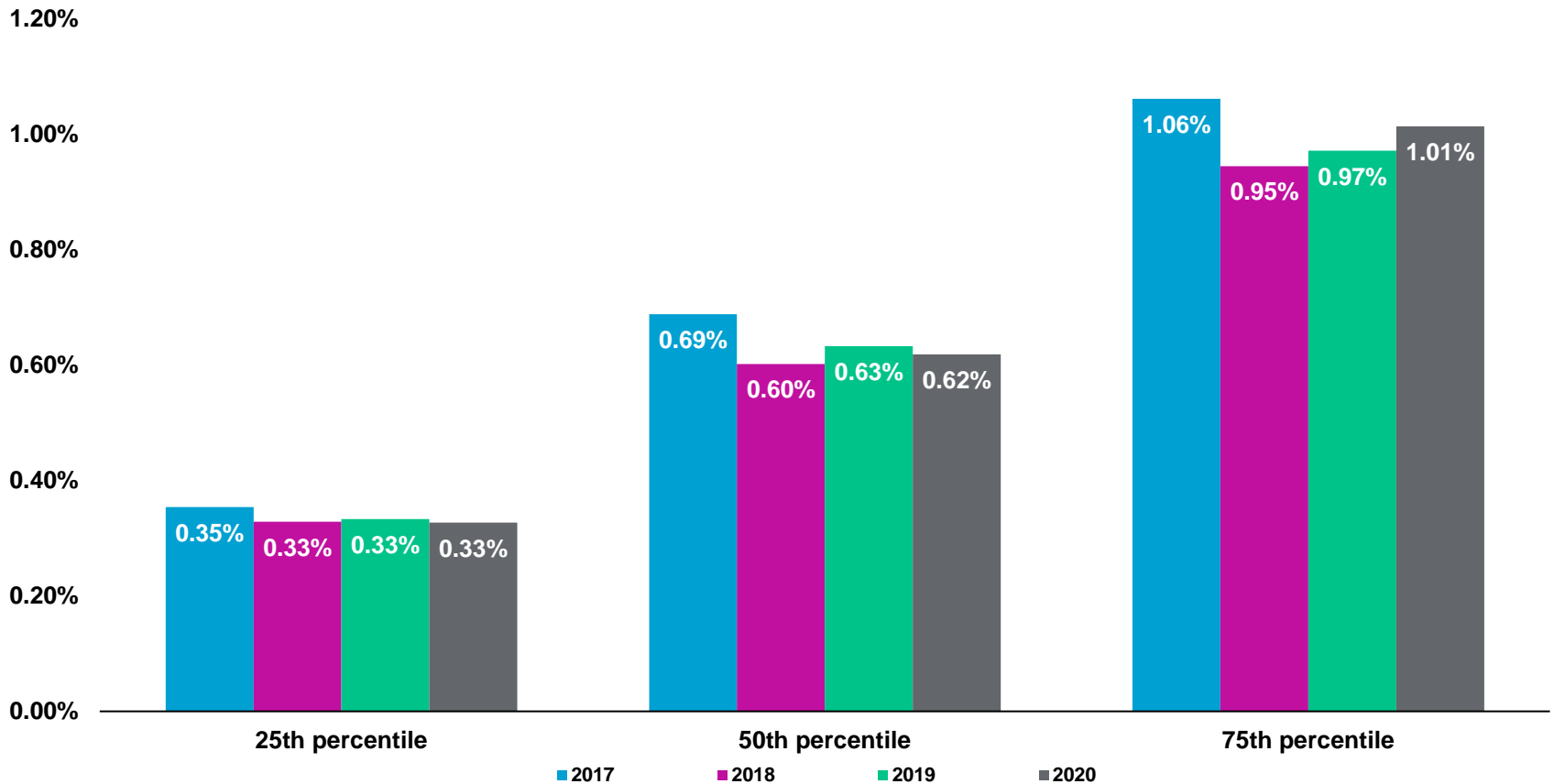
The ongoing trend of delivering larger LTI value while granting relatively fewer full-value awards has resulted in reduced median overhang levels from 7.4% in 2017 to 6.4% in 2020.



S&P 500 – Run rates

2017 to 2020

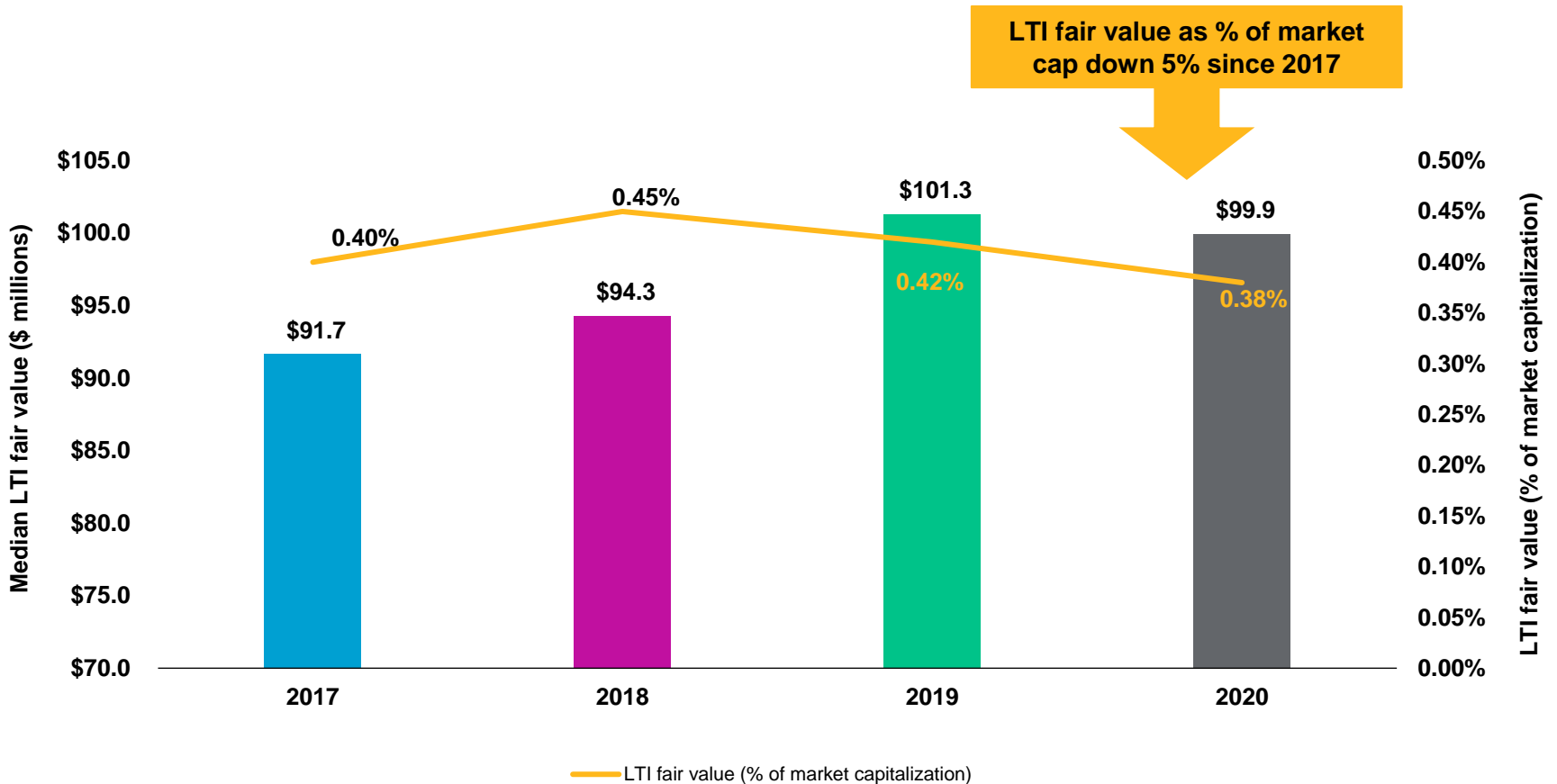
The 2020 median run rates had a 2.3% decrease over 2019 to 0.62% of average common shares outstanding (CSO) continuing the downward trend that has resulted in the median run rate decreasing 10% since 2017.



S&P 500 – Median LTI fair value

2017 to 2020

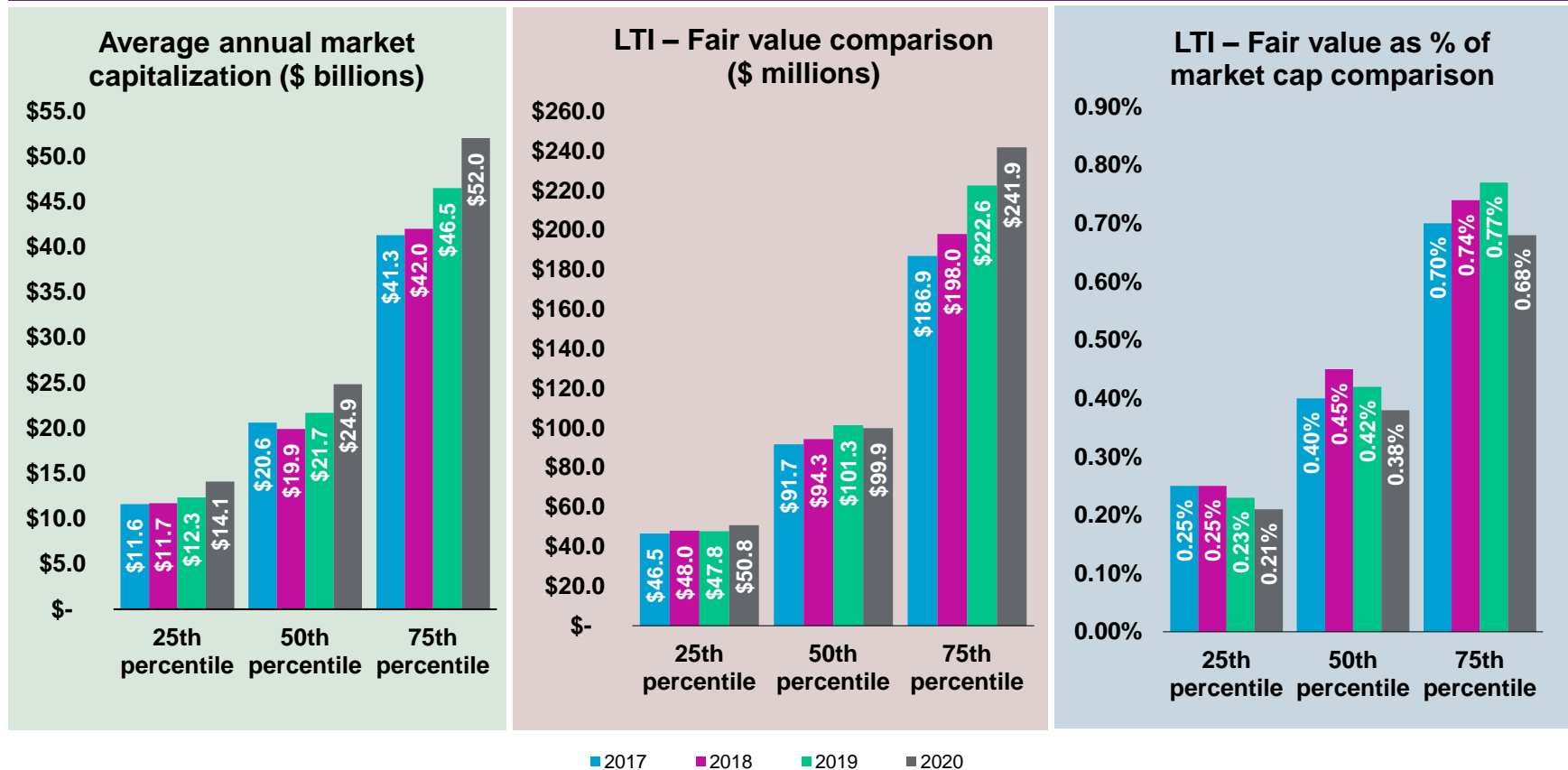
The median LTI fair value was up 9% from 2017 to 2020; it decreased 1.3% in 2020 but is projected to continue its upward trend in 2021.



S&P 500 – LTI fair value

2017 to 2020

At median levels, LTI fair value as a percentage of market capitalization dropped 9.5% compared with 2019, with LTI fair values also decreasing by 1.3%. Average annual market capitalization increased by 15% over 2019.





Share utilization issues and forward-looking trends

S&P 500 – Stock plan inventory

The percentage of S&P 500 companies requesting new shares for their stock plans slightly decreased from 21% in 2019 to 20% in 2020. The average number of shares requested increased from 18.2 million in 2019 to 19.2 million in 2020, while the shares requested on average as a percentage of CSO decreased from 3.5% in 2019 to 3.2% in 2020.



20%

Companies requesting shares as part of a new or amended equity plan slightly decreased to 20% down from 21% in 2019 – although still higher than the 17% in 2018 and 14% in 2017.

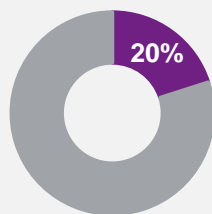


19.2
million

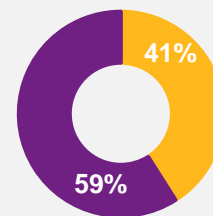
Shares requested on average (3.2% CSO) increased from 18.2 million (3.5% CSO) in 2019 – although still lower than the 23.7 million (3.8% CSO) in 2018 and 22.7 million (3.5% CSO) in 2017.

S&P 500 – Stock plan inventory

The percentage of companies adopting new versus amending existing equity plans in 2020 reverted to 2017 figures. During 2018 and 2019, percentages held steady at 48% adopting new plans and 52% amending existing plans. Companies in the information technology sector accounted for 19% of those that adopted new/amended equity plans in 2020.

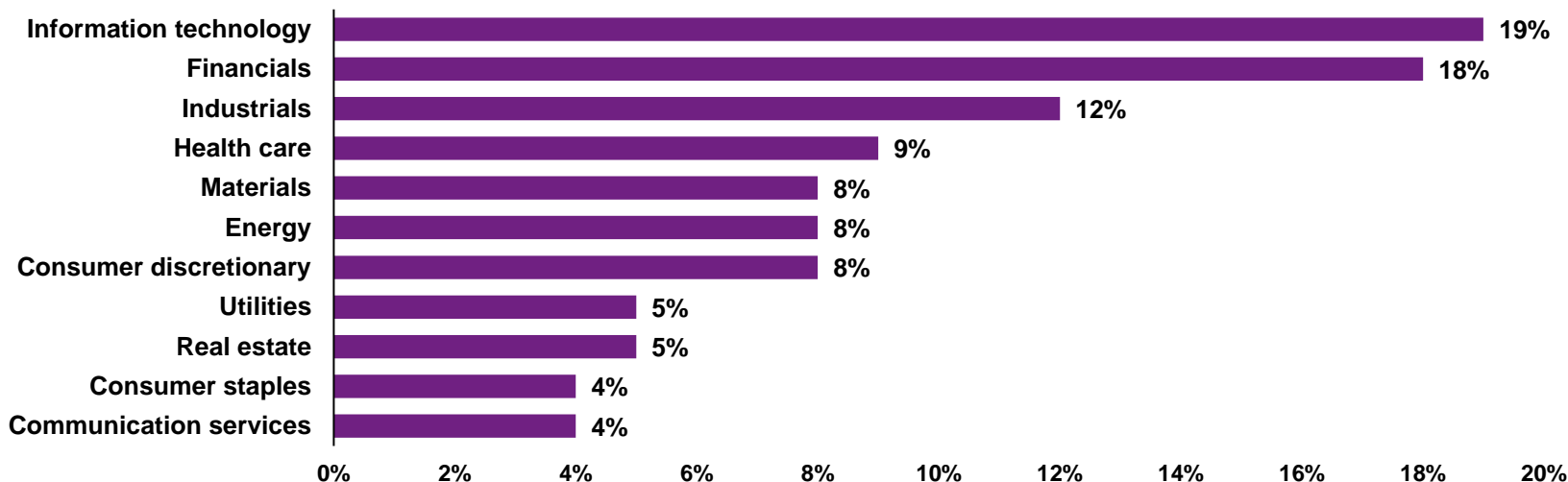


■ Requesting shares as part of a new or amended equity plan



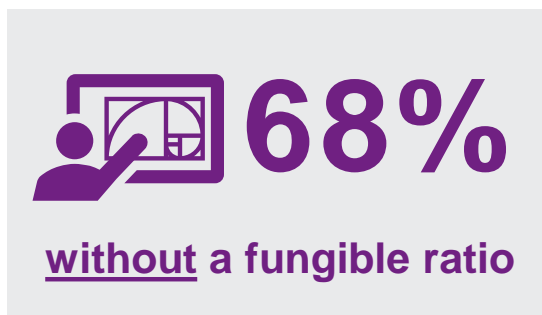
■ Adopting new equity plans

■ Amending existing equity plans

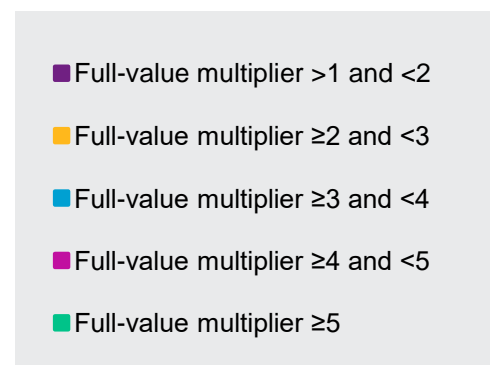
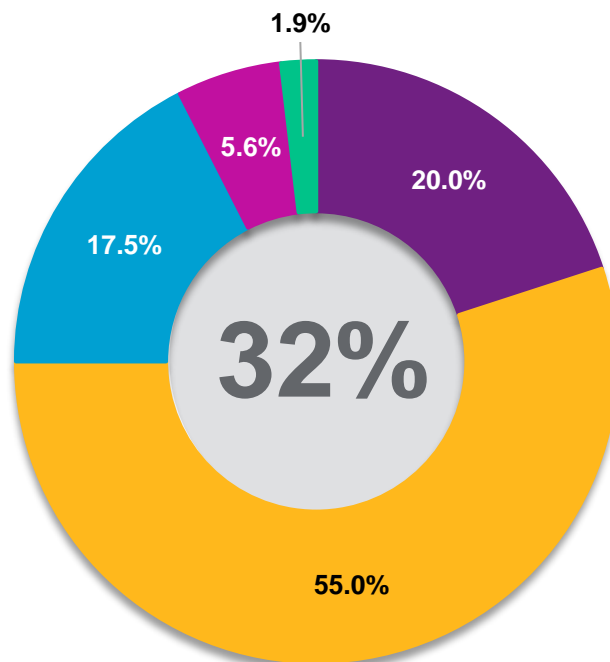


S&P 500 – Full-value fungible ratio

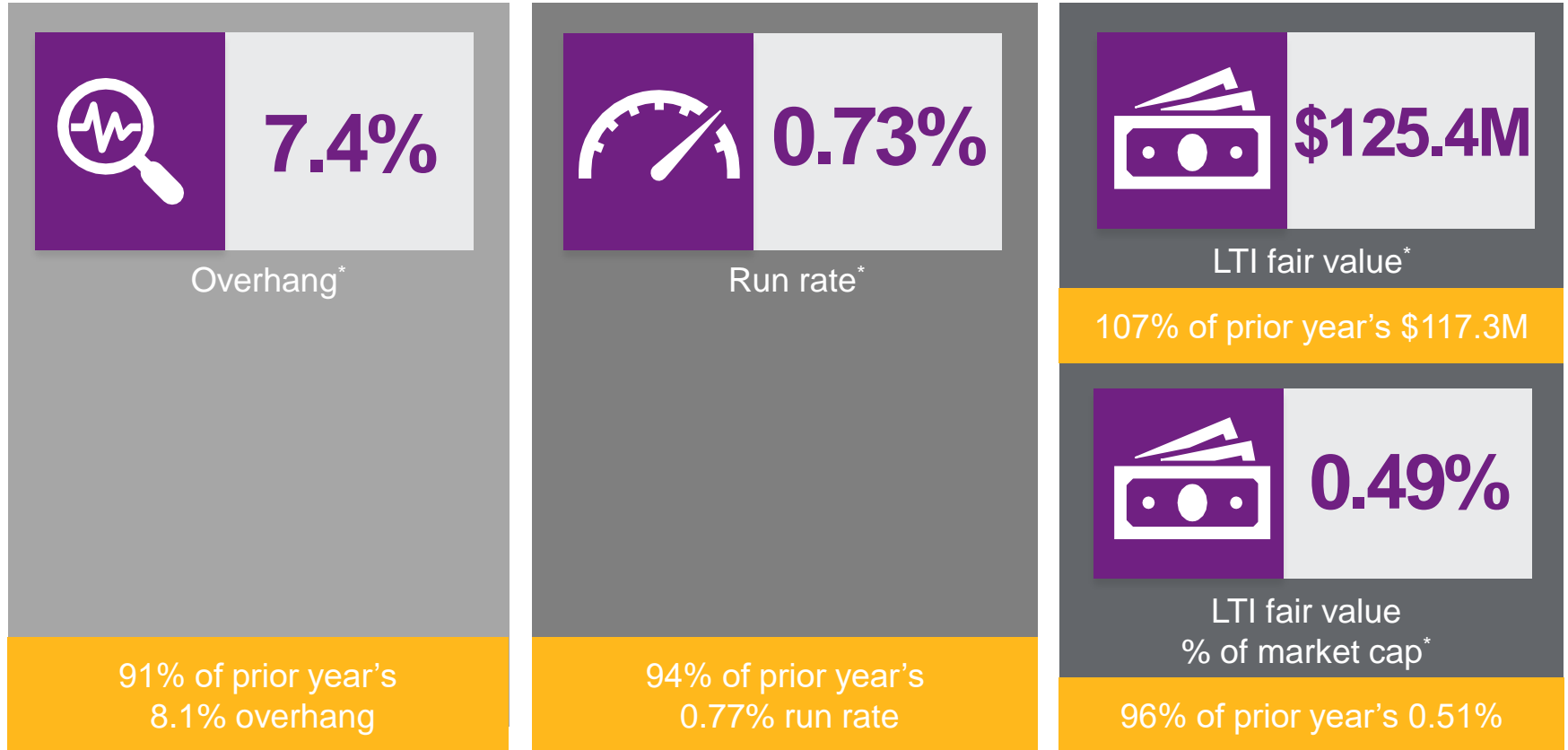
Fungible ratios provide for full-value awards to be counted against the equity plan at a higher rate than stock options. Typically, the ratio ranges between 1.0 to 5.0. Despite 96% of companies granting full-value equity, most companies do not use a full-value ratio or multiplier. When they do, it most commonly ranges from 200% to less than 300%.



The percentages remained the same as in 2019 and 2018, with no significant changes from 2017 (69%/31%)



S&P 500 – A look ahead at FY 2021 key share utilization statistics



* Based on 52 S&P 500 companies that filed FY 2021 annual reports as of 10/08/21, compared with the same set of companies in the prior year.

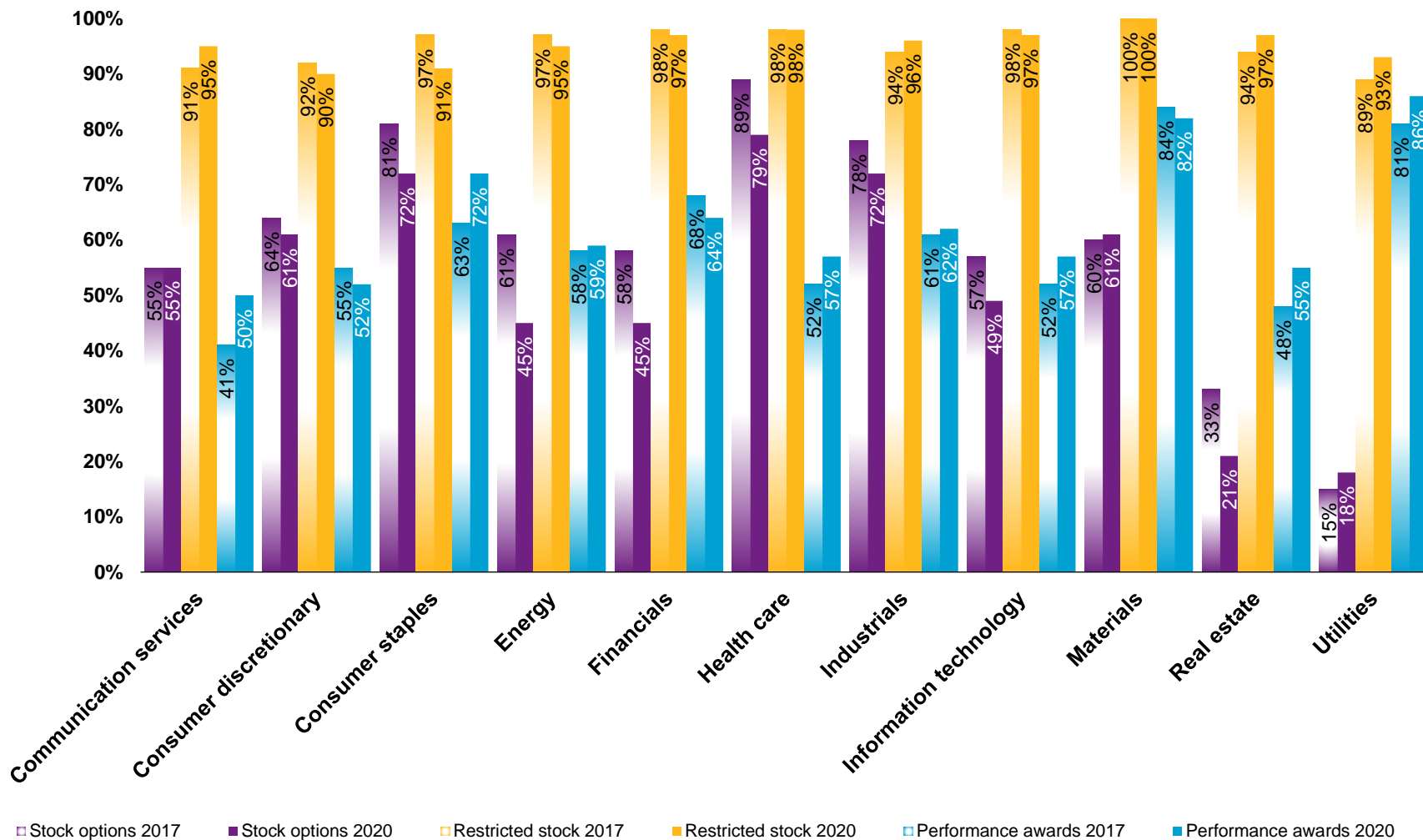
A hand holding a silver pen points to a line graph on a digital screen. The screen displays various financial data, including a line graph with a yellow trend line and several bar charts. The background is dark with blue and green highlights, suggesting a professional or financial setting.

Appendix

Industry sector review and definitions

S&P 500 – Total company equity grant prevalence by sector

2017 vs. 2020



S&P 500 – Total company equity compensation mix by sector

2017 vs. 2020

Each type of equity vehicle was used in the highest concentration by the following sectors in 2017 and 2020:

- **Restricted stock:** Information technology (80%/79% of LTI mix)
- **Performance awards:** Utilities (55%/55% of LTI mix)
- **Stock options:** Industrials (27%/23% of LTI mix)

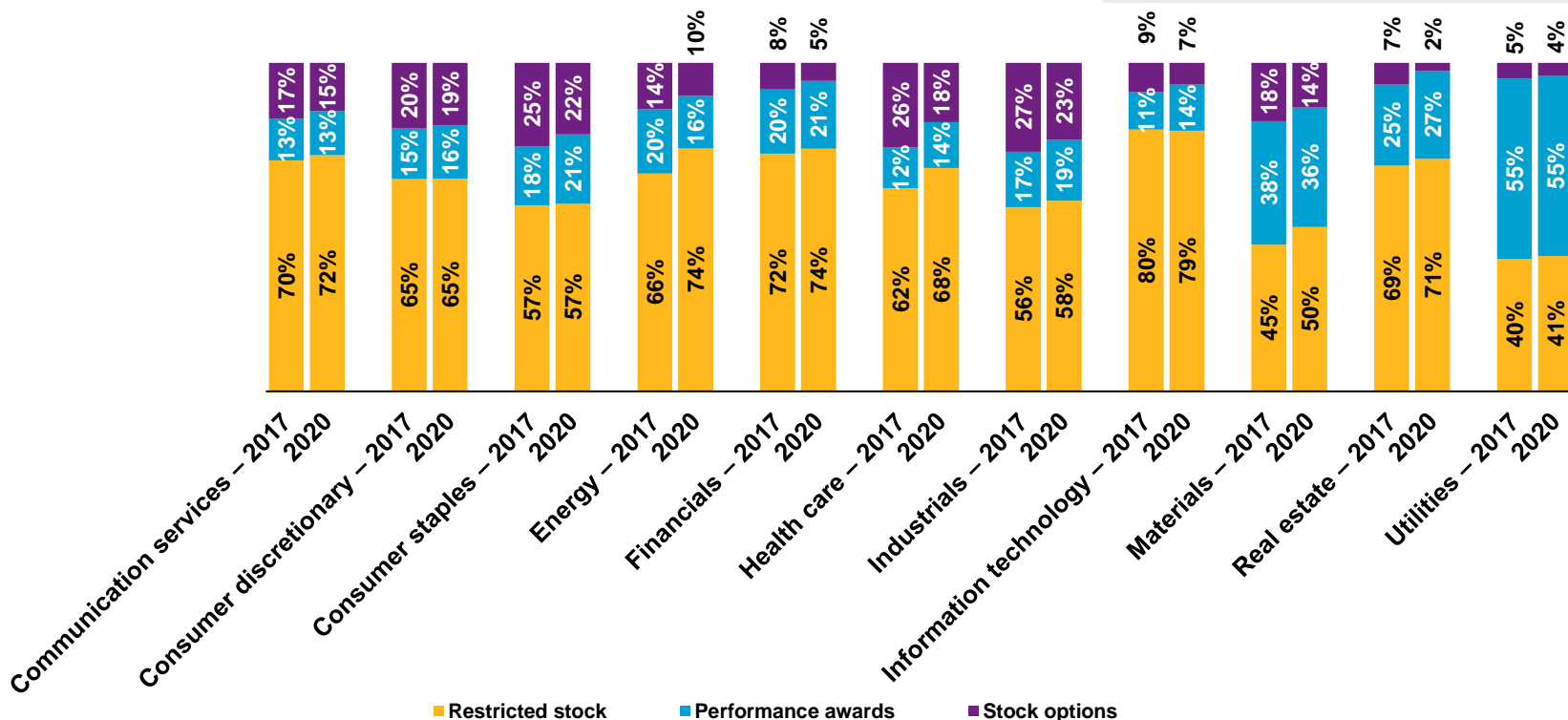
S&P 500

2017/2020

64%/66% Restricted stock

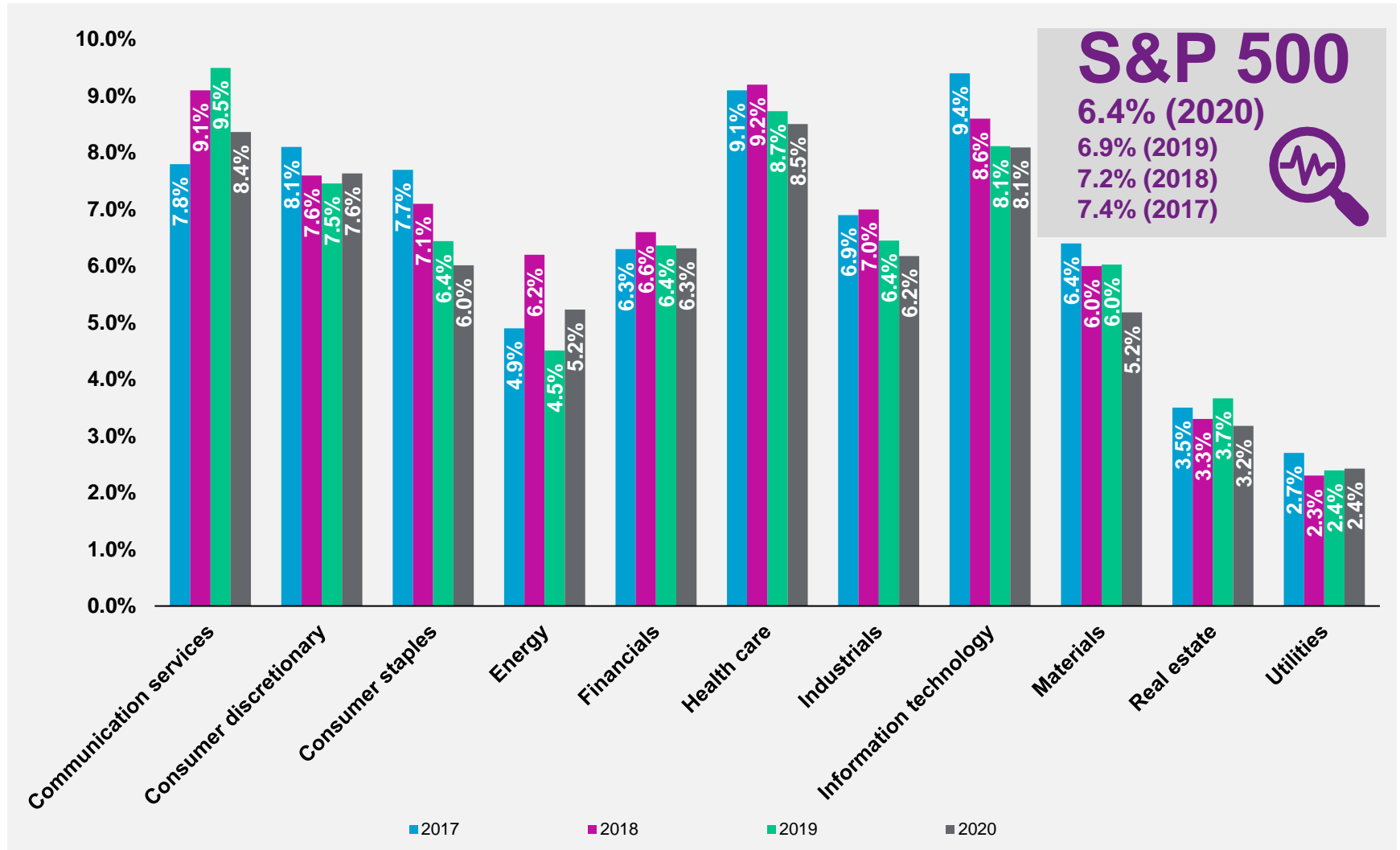
19%/21% Performance awards

17%/13% Stock options



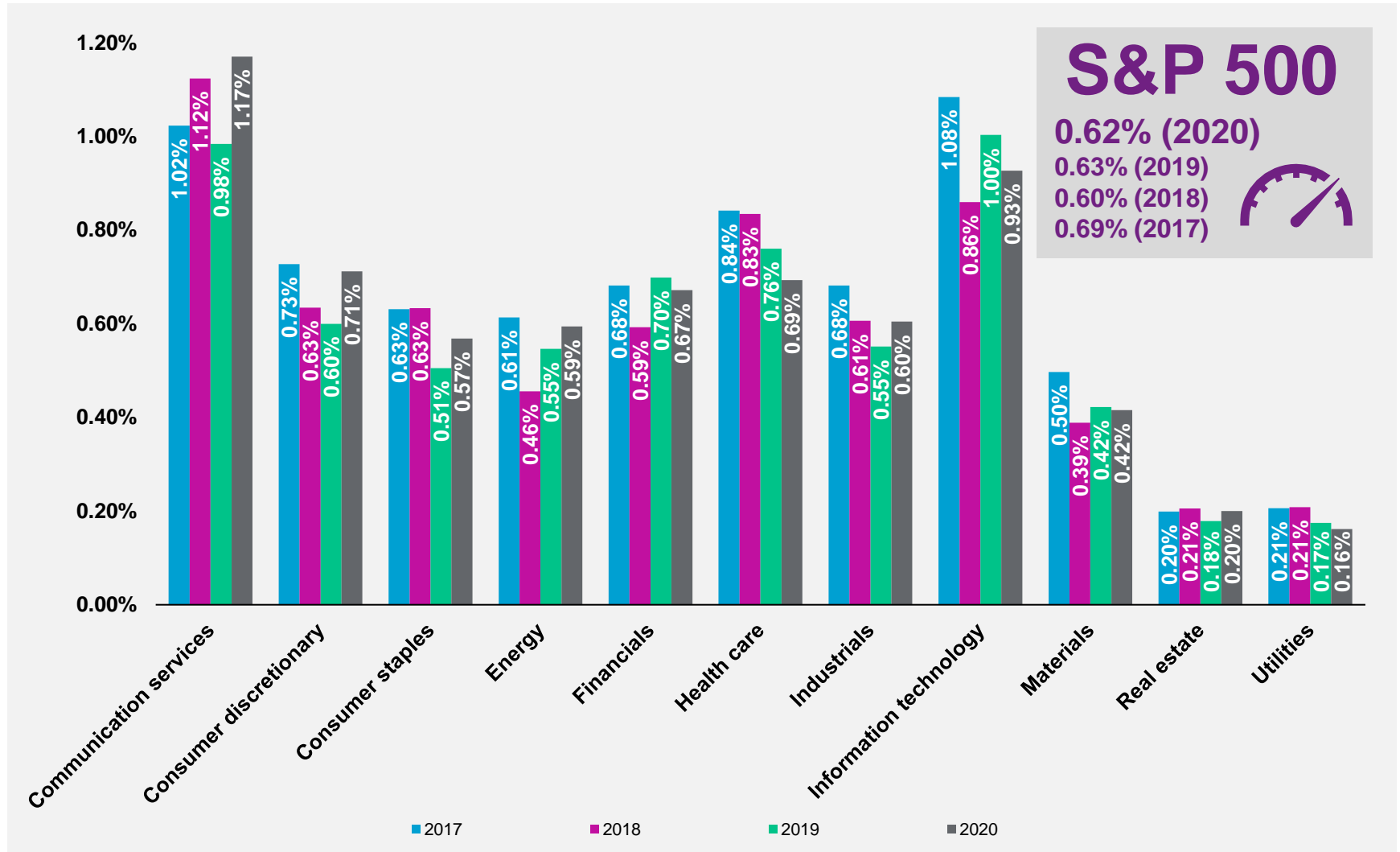
S&P 500 – Median overhang by sector

2017 to 2020



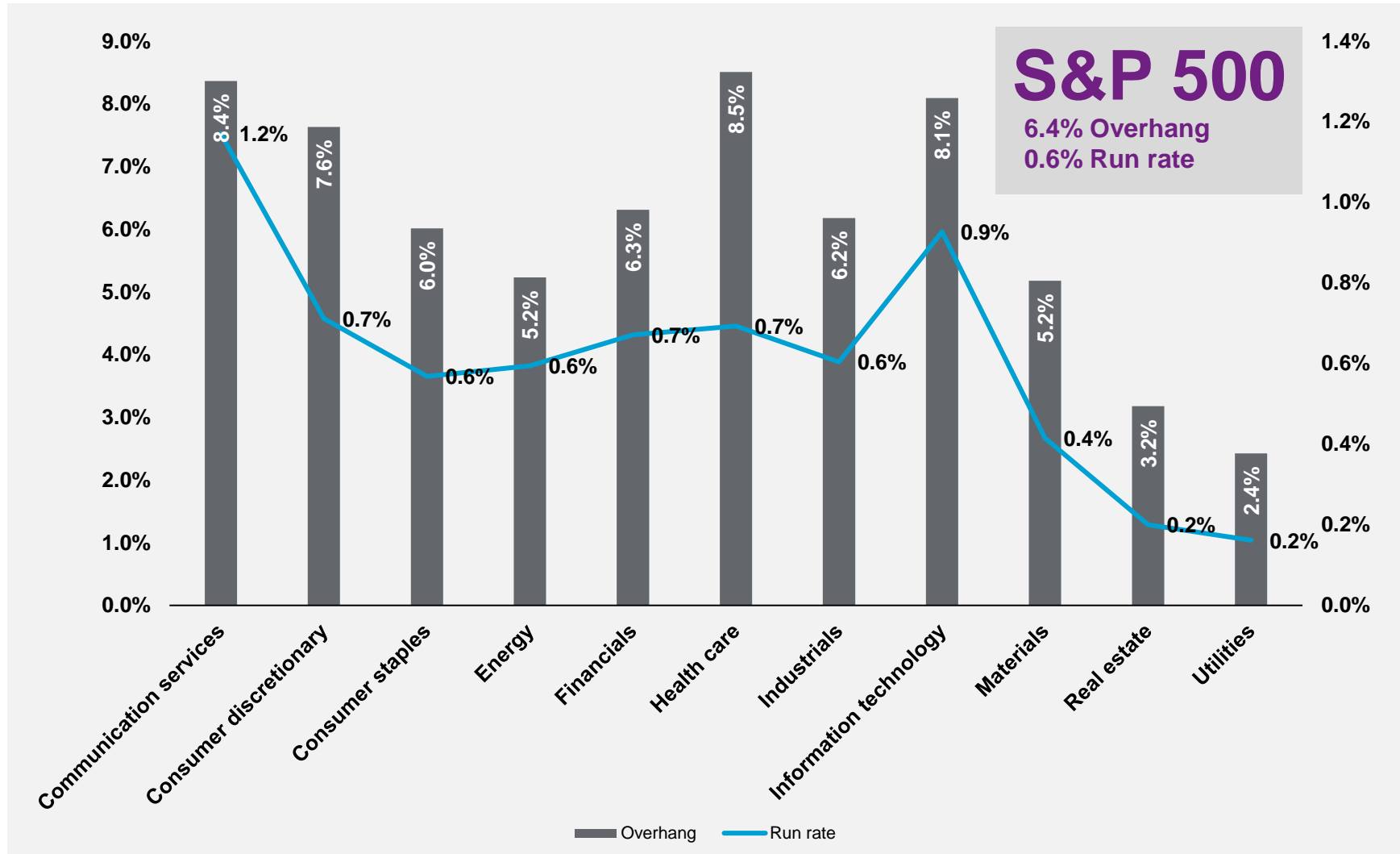
S&P 500 – Median run rates by sector

2017 to 2020



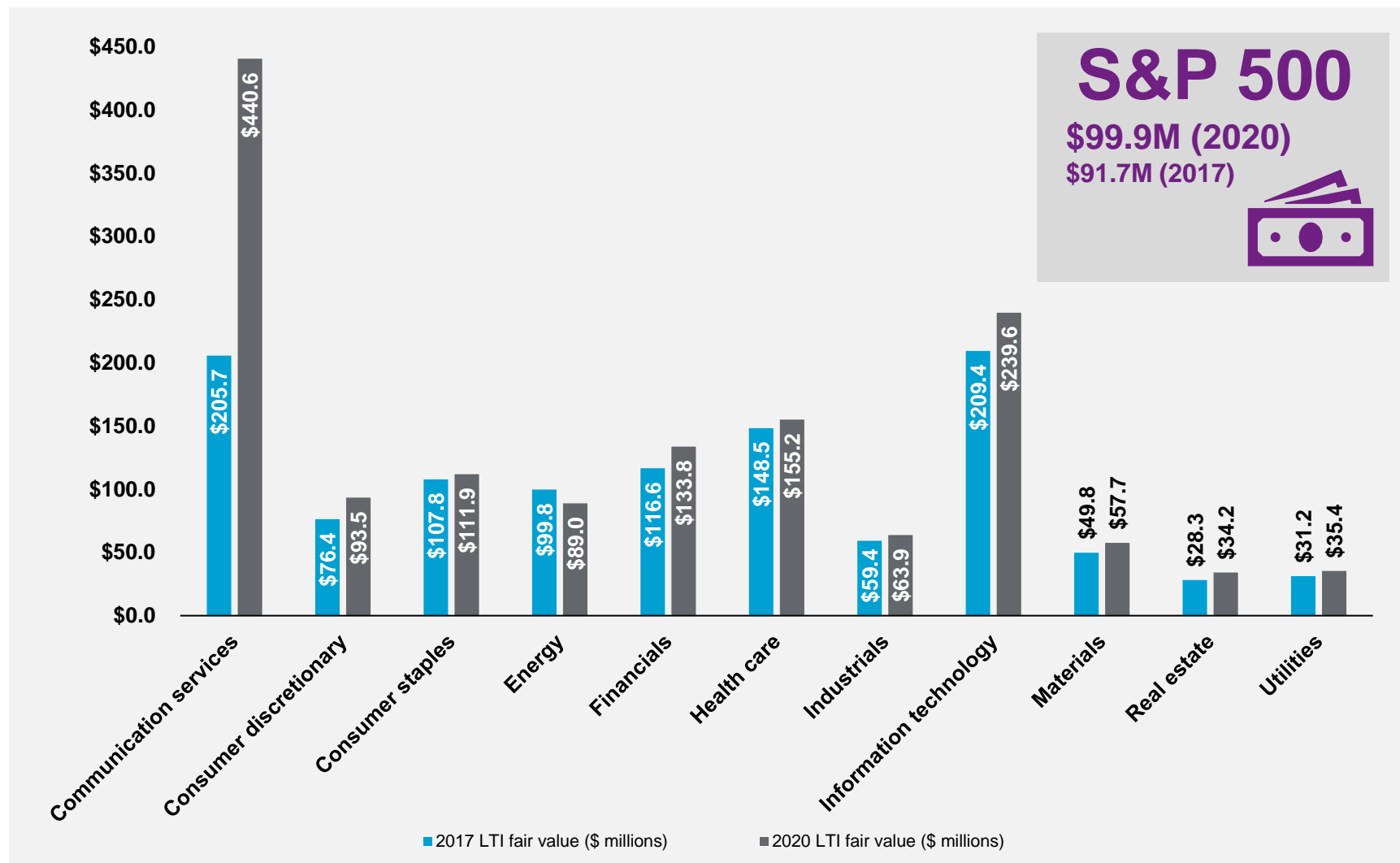
S&P 500 – Median overhang and run rate by sector

2020



S&P 500 – Median LTI fair value by sector

2017 vs. 2020



Share utilization analysis

Definitions

- Our analysis of share utilization focuses on common measurements, including run rate, LTI fair value and overhang. We also provide a market overview of stock plan inventory and fungible ratios.

<p>Run rate: The total number of shares granted under equity compensation plans throughout a company's FY as a percentage of average CSO</p>	$\frac{\text{(stock options granted + full-value awards granted)}}{\text{(average total CSO + all shares listed in the numerator)}}$
<p>LTI fair value: The aggregate fair value of equity awards granted in a year, expressed as a percentage of average market capitalization</p>	$\frac{\text{((stock options granted x weighted-average fair value of options) + (full-value shares awarded x weighted-average fair value of full-value awards))}}{\text{(average of beginning and ending market capitalization for the FY)}}$
<p>Overhang: The total number of shares reserved for outstanding awards and future grants as a percentage of total CSO at the end of a FY</p>	$\frac{\text{(new shares proposed + available shares under stock plans at FY end + outstanding awards)}}{\text{(total CSO + all shares listed in the numerator)}}$
<p>Stock plan inventory: The number of shares available and requested as part of a new or amended stock plan</p>	
<p>Full-value fungible ratio: The number corresponding to the ratio by which available shares are reduced for the grant of full-value awards (usually between 1.0 to 5.0)</p>	

Global Executive Compensation Analysis Team (GECAT)

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