



Share utilization at S&P 500 companies: 2017 to 2021

Equity compensation practices and trends

WTW's Global Executive Compensation Analysis Team

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Share utilization at S&P 500 companies: 2017 to 2021

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Universe overview

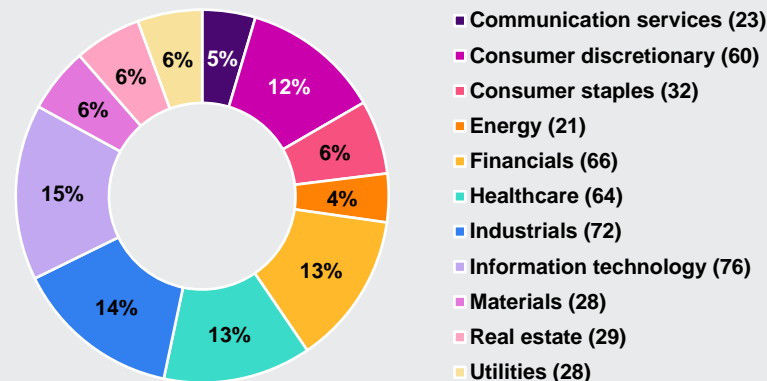
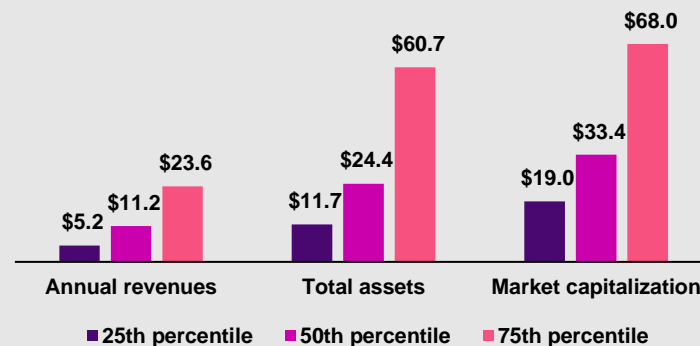
S&P 500 universe

Overview

WTW's Global Executive Compensation Analysis Team (GECAT) examined the disclosed companywide equity compensation practices and trends from the S&P 500 for FY 2017 – 2021.¹

- The study is based on an analysis of 499 companies.^{2,3}
- FY 2021 financials ranges (all figures in \$ millions):⁴
 - Annual revenues: \$648 to \$572,754
 - Total assets: \$1,494 to \$3,743,567
 - Market capitalization: \$6,511 to \$2,324,390
- The S&P 500 is composed of 11 industry sectors, based on each company's Global Industry Classification Standard code.

(\$ billions)

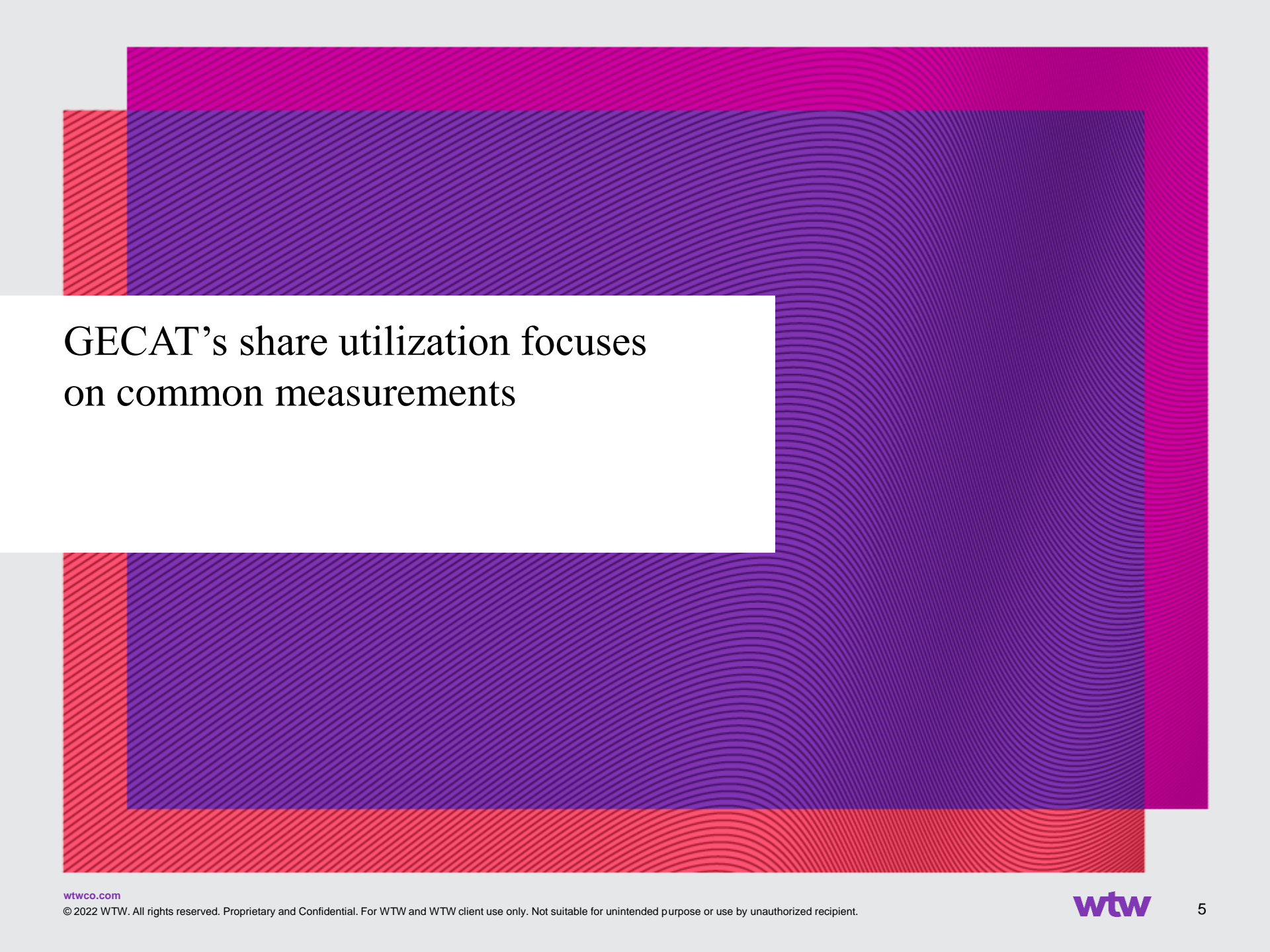


¹ 2021 data were disclosed in 2022; therefore, 2021 data are the most currently available data for a full reporting year

² Excludes one company due to limited disclosure

³ Figures in the analysis represent rounded figures; percentage calculations based on exact figures

⁴ FY 2021 = FY ended between 3/31/2021 and 2/28/2022



GECAT's share utilization focuses
on common measurements

S&P 500 – FY 2021 medians at a glance



6.0%

Overhang

94% of prior year's
6.4% overhang



0.51%

Run rate

83% of prior year's
0.62% run rate



\$109.1M

LTI fair value

109% of prior year's
\$99.9M
LTI fair value



0.40%

**LTI fair value
% of market
capitalization**

105% of prior year's
0.38% LTI fair value
% of market
capitalization

Key findings

Use and mix of full-value awards remained steady

- Restricted stock usage highest in the energy sector (80% of LTI mix)
- Performance-based stock usage highest in the utilities sector (54% of LTI mix)
- Stock option usage highest in the industrials sector (21% of LTI mix)

S&P 500 median run rates have declined 25% since 2017

- Materials sector experienced the most significant run rate decline of 36% since 2017

S&P 500 median overhang continued decline from 7.4% in 2017 to 6.0% in 2021

- Highest overhang: healthcare sector, 8.3%
- Lowest overhang: utilities sector, 2.6%

Median LTI fair values

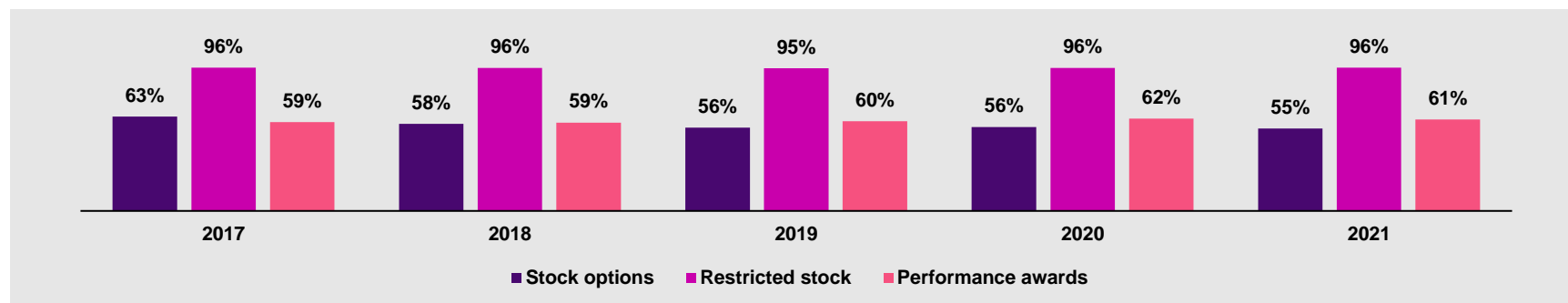
- Highest increase: communication services sector, 122% increase over 2017
- Healthcare and real estate sectors: 21% and a 76% increase over 2017, respectively

Companies requesting shares increased to 16% in the current proxies (up from 14% in 2017)

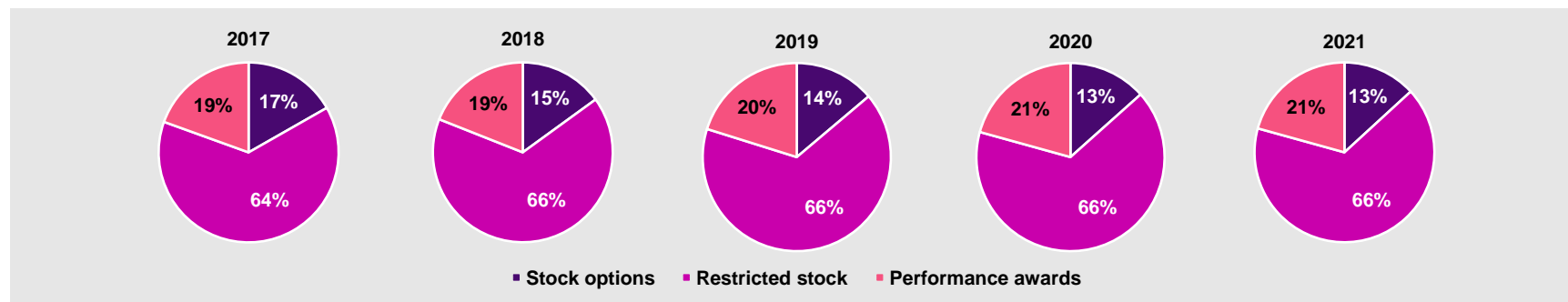
- Average number of shares requested also increased to 3.9% (from 3.5%) of common shares outstanding (CSO)

S&P 500 – Total company equity grant prevalence and average LTI mix 2017 to 2021

- The use of options continued to decline, while the use of full-value awards increased slightly.
- Performance award usage decreased 0.9%, down from 62% in 2020 to 61% in 2021.



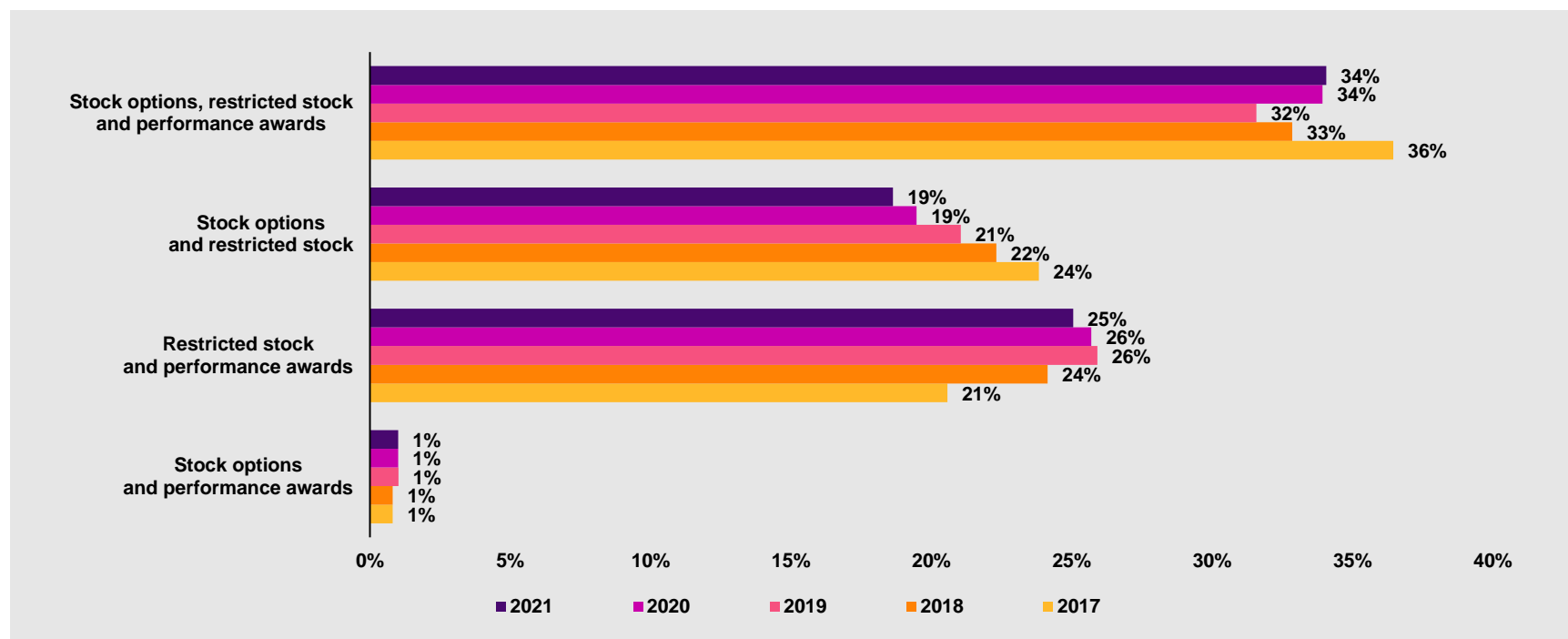
- The average LTI mix remained steady over 2020 figures with a 21% decrease in stock option grants since 2017, while restricted stock and performance awards have increased 4% and 6%, respectively.



S&P 500 – Prevalence of equity grant compensation¹

2017 to 2021

- The combination of stock options, restricted stock and performance awards remained steady over 2020 figures.
- The combination of restricted stock and performance awards decreased 3% from 26% in 2020 to 25% in 2021.

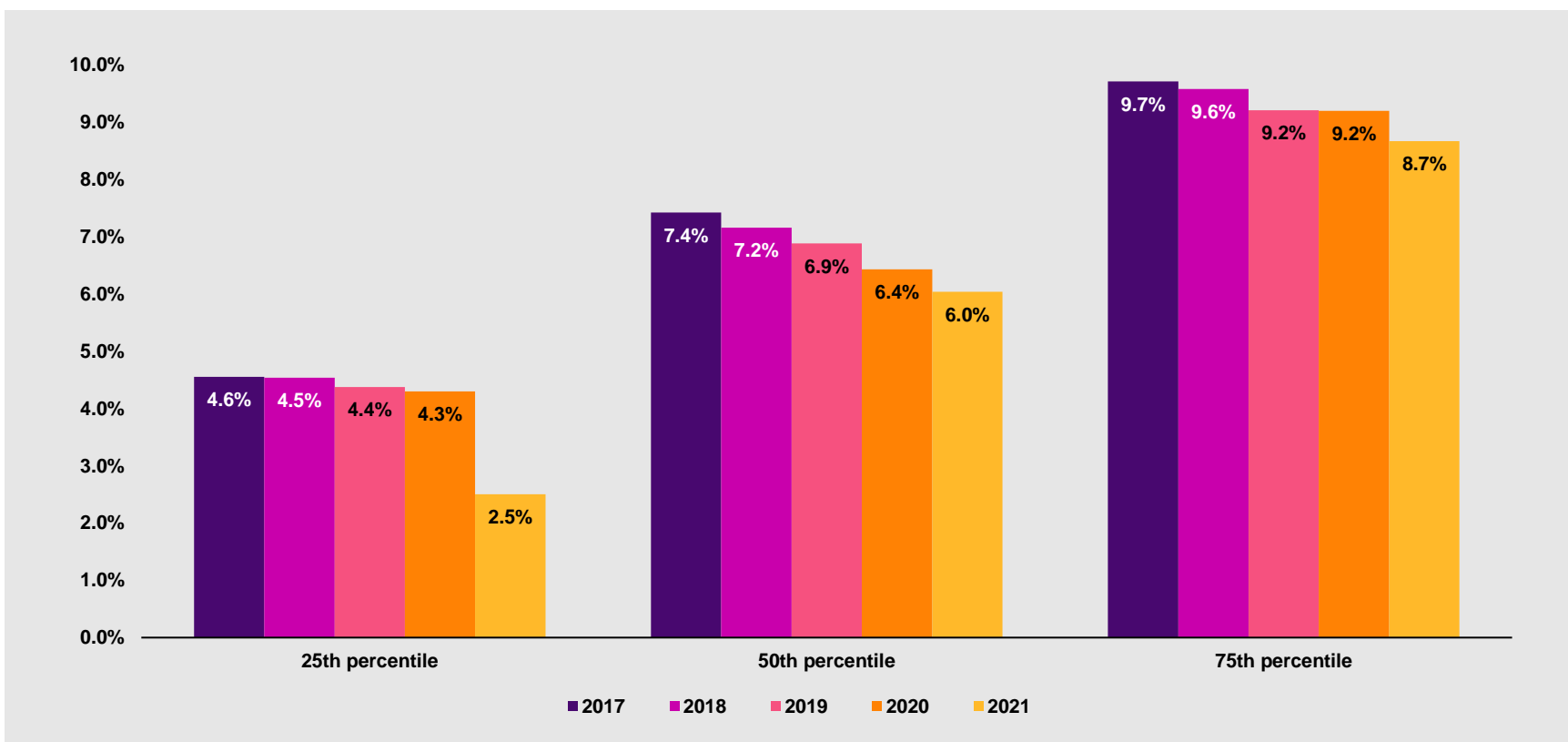


¹ Chart excludes companies that grant only one equity vehicle type. For 2021, 1% granted only options, 18% granted only restricted stock and 1% granted only performance awards. In addition, 0.8% of the S&P 500 companies did not disclose making any equity grants.

S&P 500 – Overhang

2017 to 2021

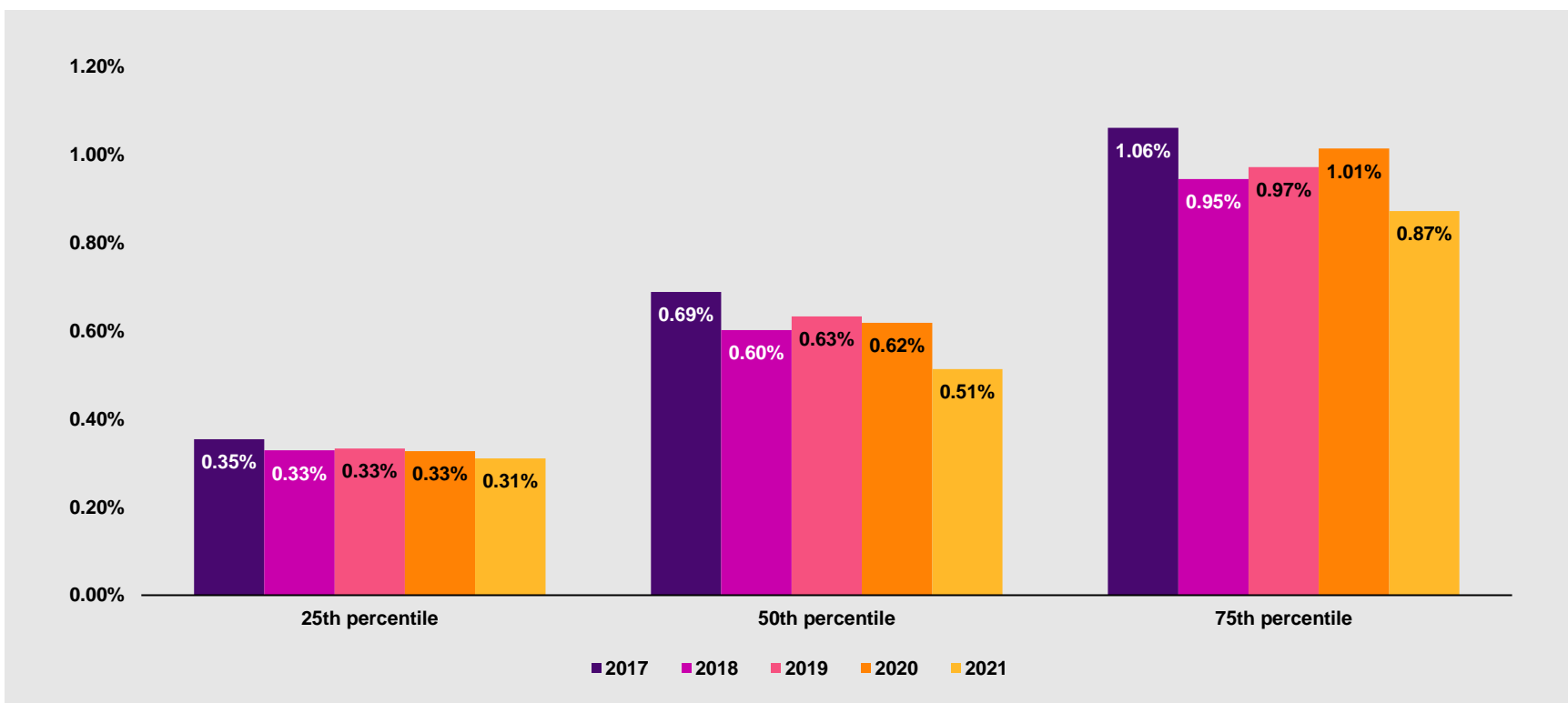
The ongoing trend of delivering larger LTI value while granting relatively fewer full-value awards has resulted in reduced median overhang levels from 7.4% in 2017 to 6.0% in 2021.



S&P 500 – Run rates

2017 to 2021

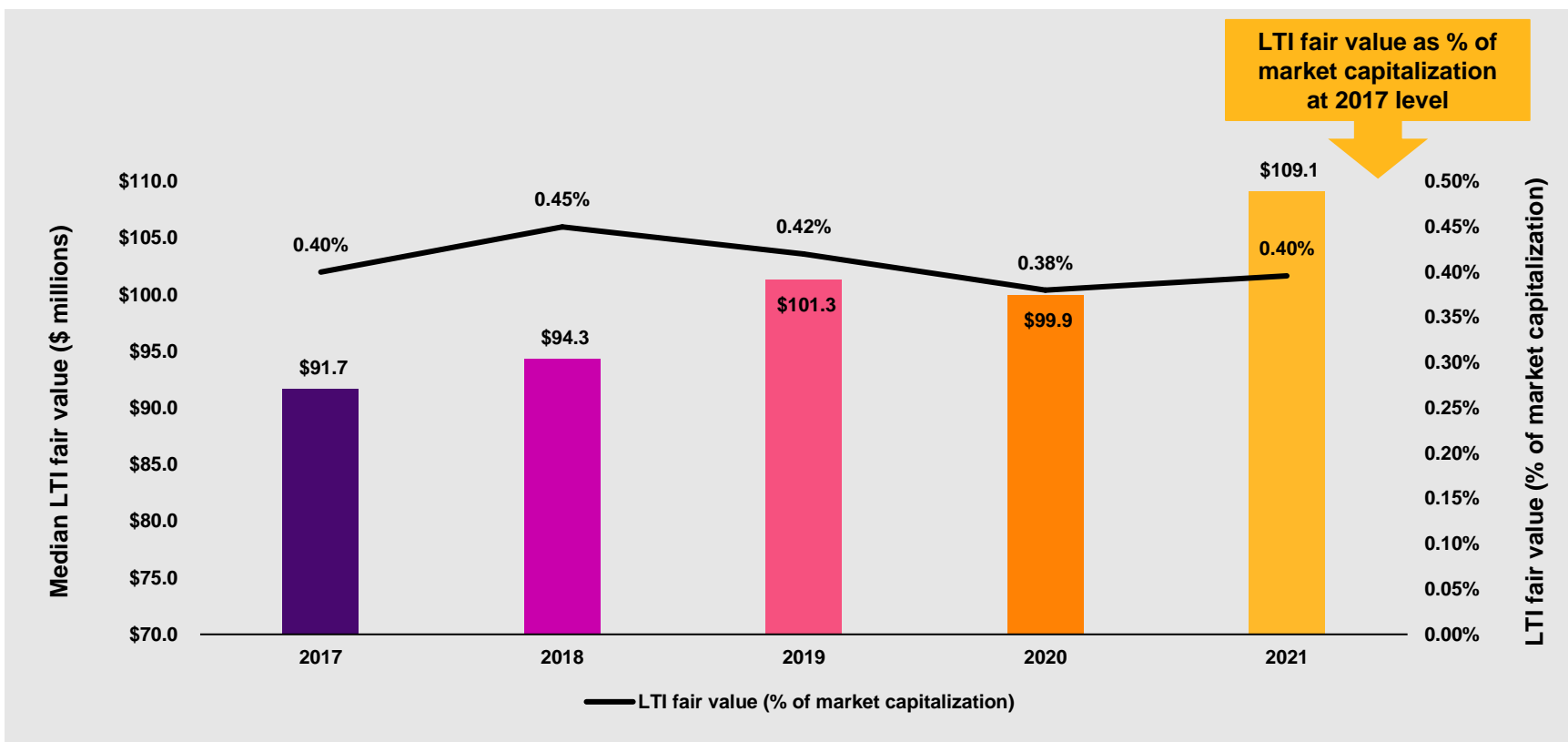
The 2021 median run rates had a 17% decrease over 2020 to 0.51% of average CSO, continuing the downward trend that has resulted in the median run rate decreasing 25% since 2017.



S&P 500 – Median LTI fair value

2017 to 2021

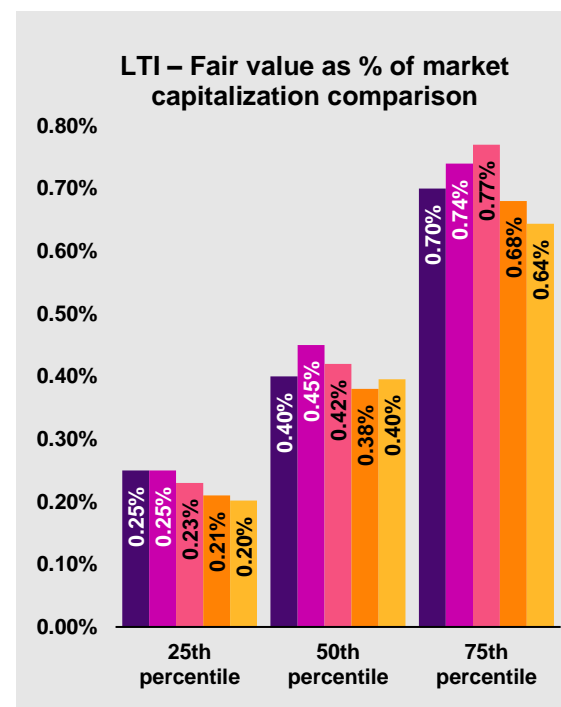
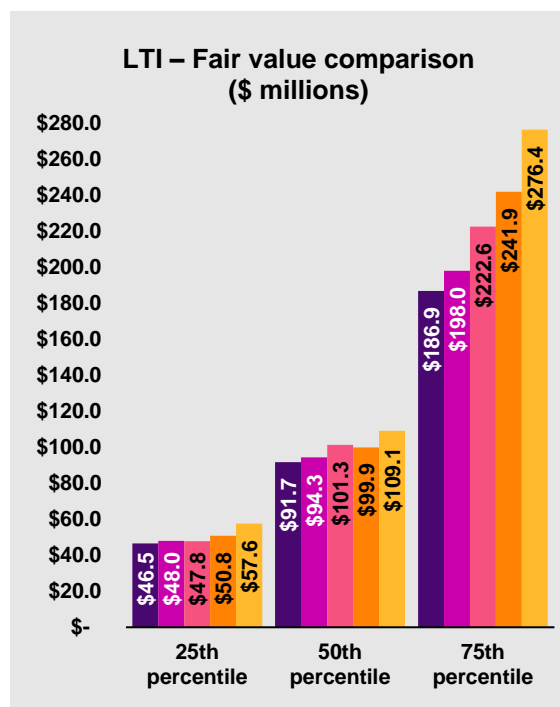
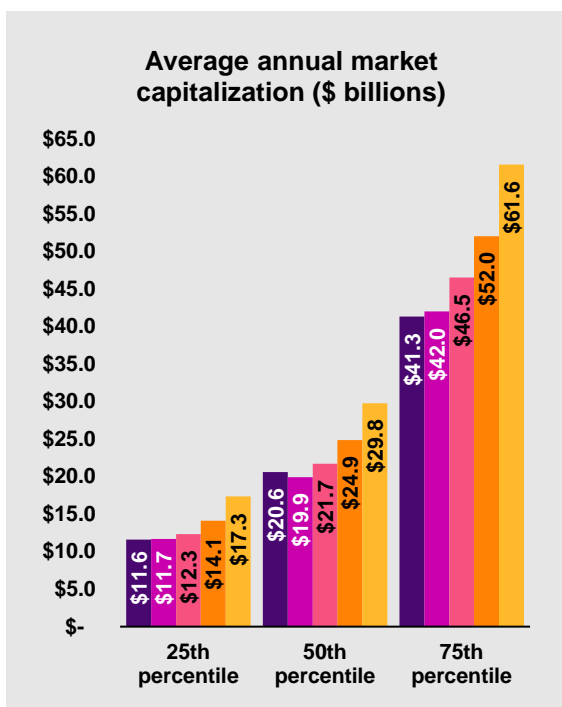
The median LTI fair value was up 19% from 2017 to 2021;
it decreased 1.3% in 2020 but continued its upward trend in 2021.



S&P 500 – LTI fair value

2017 to 2021

At median levels, LTI fair value as a percentage of market capitalization increased 4.1% compared with 2020, with LTI fair values also increasing by 9.2%. Average annual market capitalization increased by 20% over 2020.

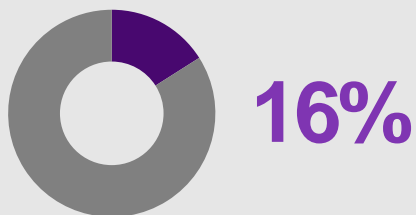


■ 2017 ■ 2018 ■ 2019 ■ 2020 ■ 2021

Share utilization issues

S&P 500 – Stock plan inventory

The percentage of S&P 500 companies requesting new shares for their stock plans continued to decrease from 21% in 2019 to 16%. The average number of shares requested increased from 18.2 million in 2019 to 32.6 million, along with an increase in shares requested on average as a percentage of CSO from 3.5% in 2019 to 3.9%.



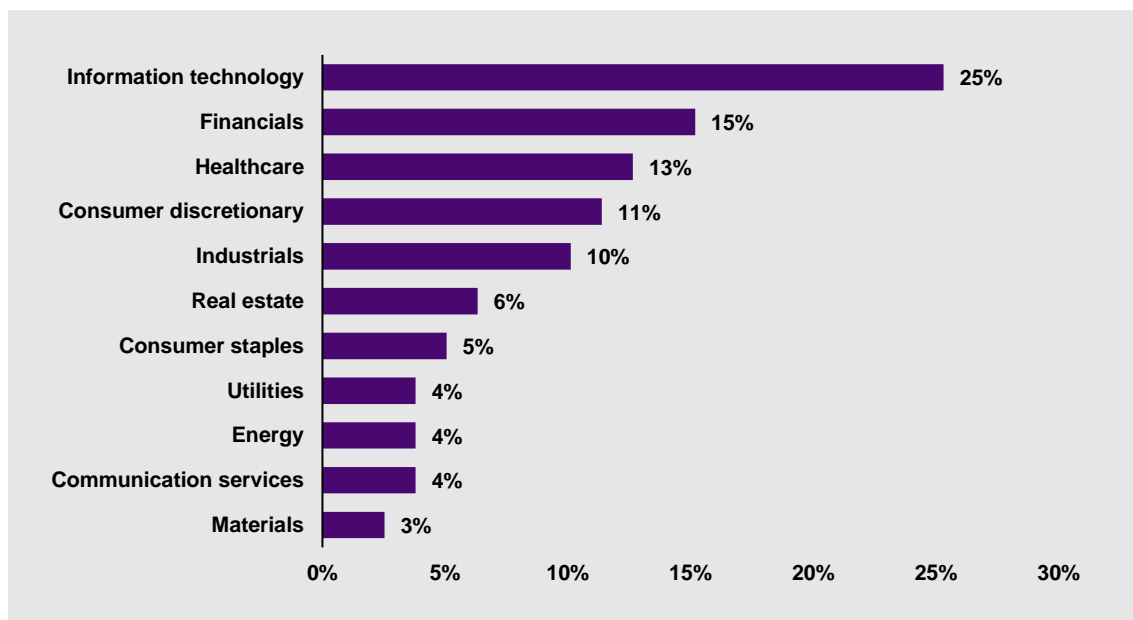
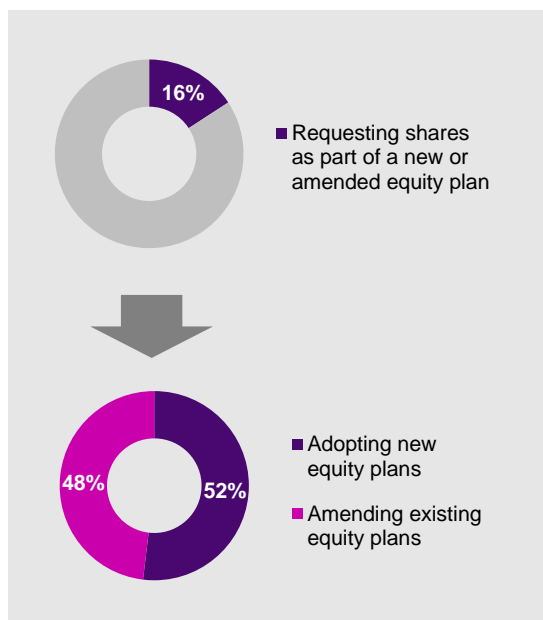
Companies requesting shares as part of a new or amended equity plan decreased to 16% down from 20% in 2020 – lower than the 21% in 2019 and the 17% in 2018 but still higher than the 14% in 2017.



Shares requested on average (3.9% CSO) increased from 19.2 million (3.2% CSO) in 2020 – higher than the 18.2 million (3.5% CSO) in 2019, 23.7 million (3.8% CSO) in 2018 and 22.7 million (3.5% CSO) in 2017.

S&P 500 – Stock plan inventory

Over half of the companies requested shares in connection with the adoption of a new equity plan (52%). Companies in the information technology sector accounted for 25% of those that adopted new/amended equity plans. In 2020, percentages reverted to 2017 figures: 41% adopted new plans and 59% amended existing plans.



S&P 500 – Full-value fungible ratio

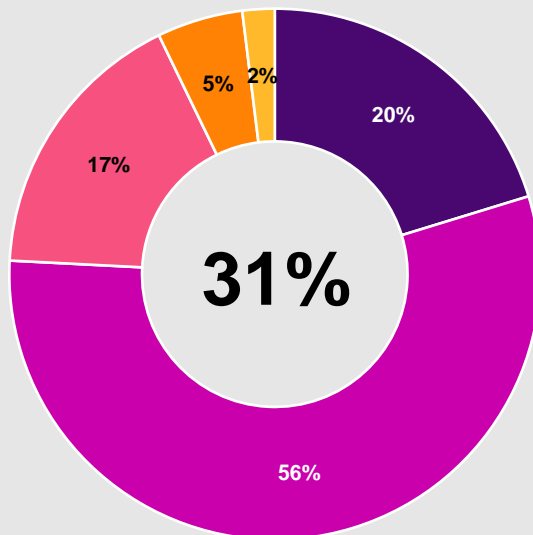
Fungible ratios provide for full-value awards to be counted against the equity plan at a higher rate than stock options. Typically, the ratio ranges between 1.0 to 5.0. Despite 96% of companies granting full-value equity, most companies do not use a full-value ratio or multiplier. When they do, it most commonly ranges from 2.0 to less than 3.0.



69%

without a fungible ratio

The percentages reverted to 2017 figures, with no significant changes from 2020, 2019 and 2018 (68%/32%)



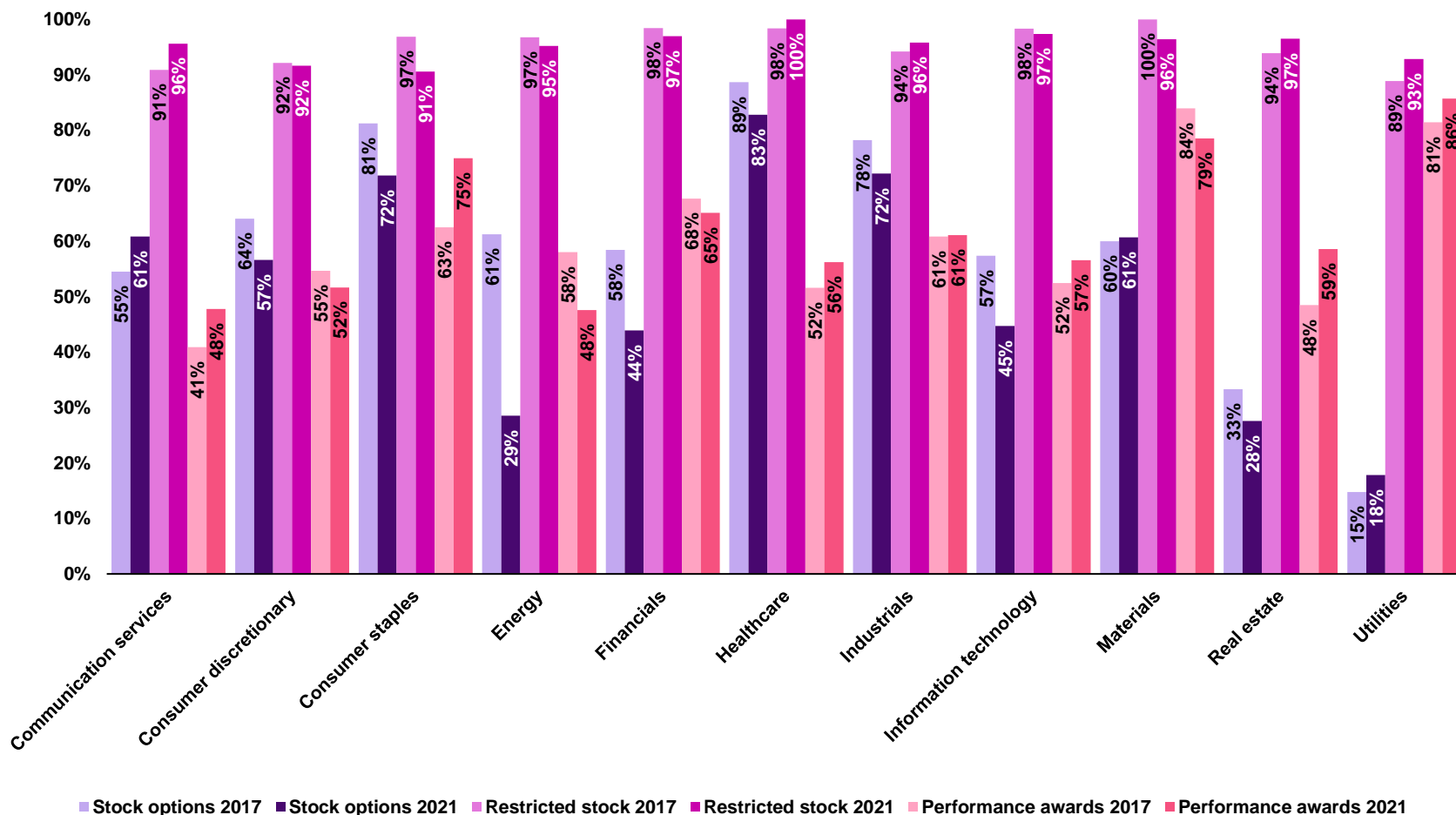
- Full-value multiplier > 1 and < 2
- Full-value multiplier ≥ 2 and < 3
- Full-value multiplier ≥ 3 and < 4
- Full-value multiplier ≥ 4 and < 5
- Full-value multiplier ≥ 5

Appendix

Industry sector review and definitions

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

2017 vs. 2021



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

2017 vs. 2021

Each type of equity vehicle was used in the highest concentration by the following sectors in 2017 and 2021:

- **Restricted stock:** Information technology (80% of LTI mix, 2017)
Energy (80% of LTI mix, 2021)
- **Performance awards:** Utilities (55%/54% of LTI mix)
- **Stock options:** Industrials (27%/21% of LTI mix)

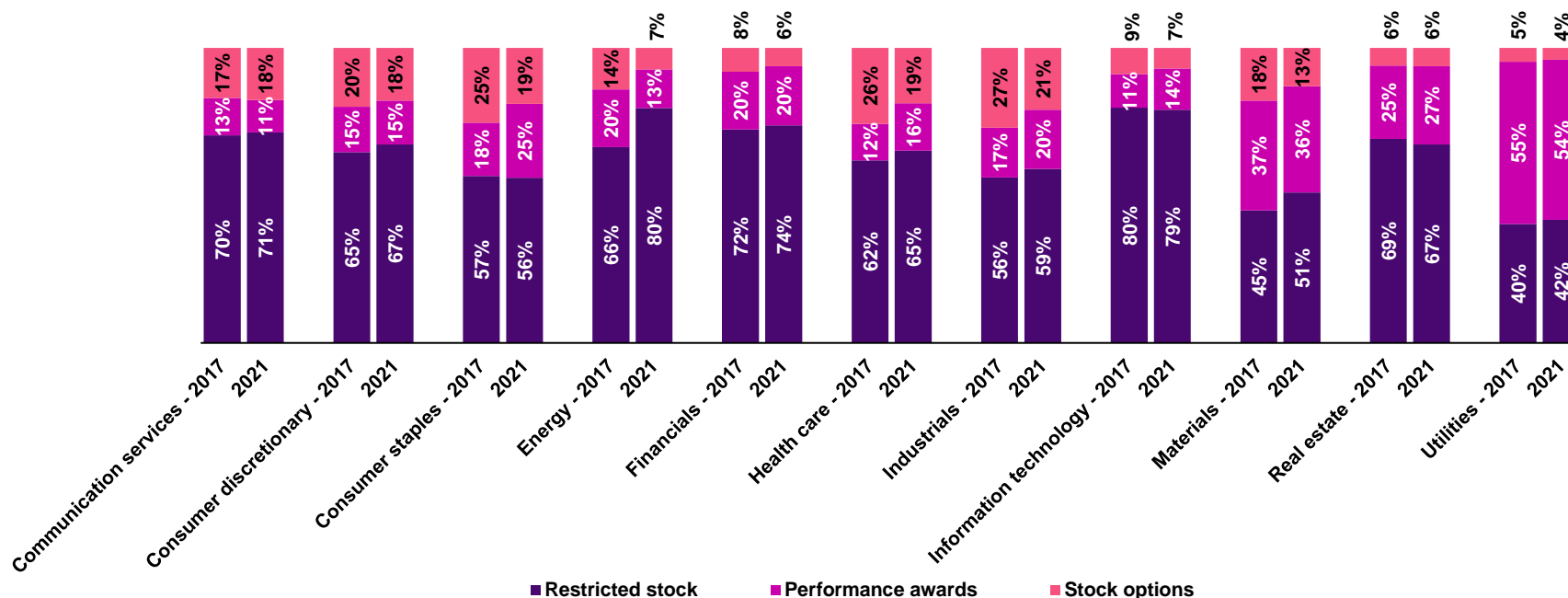
S&P 500

2017/2021

64%/66% Restricted stock

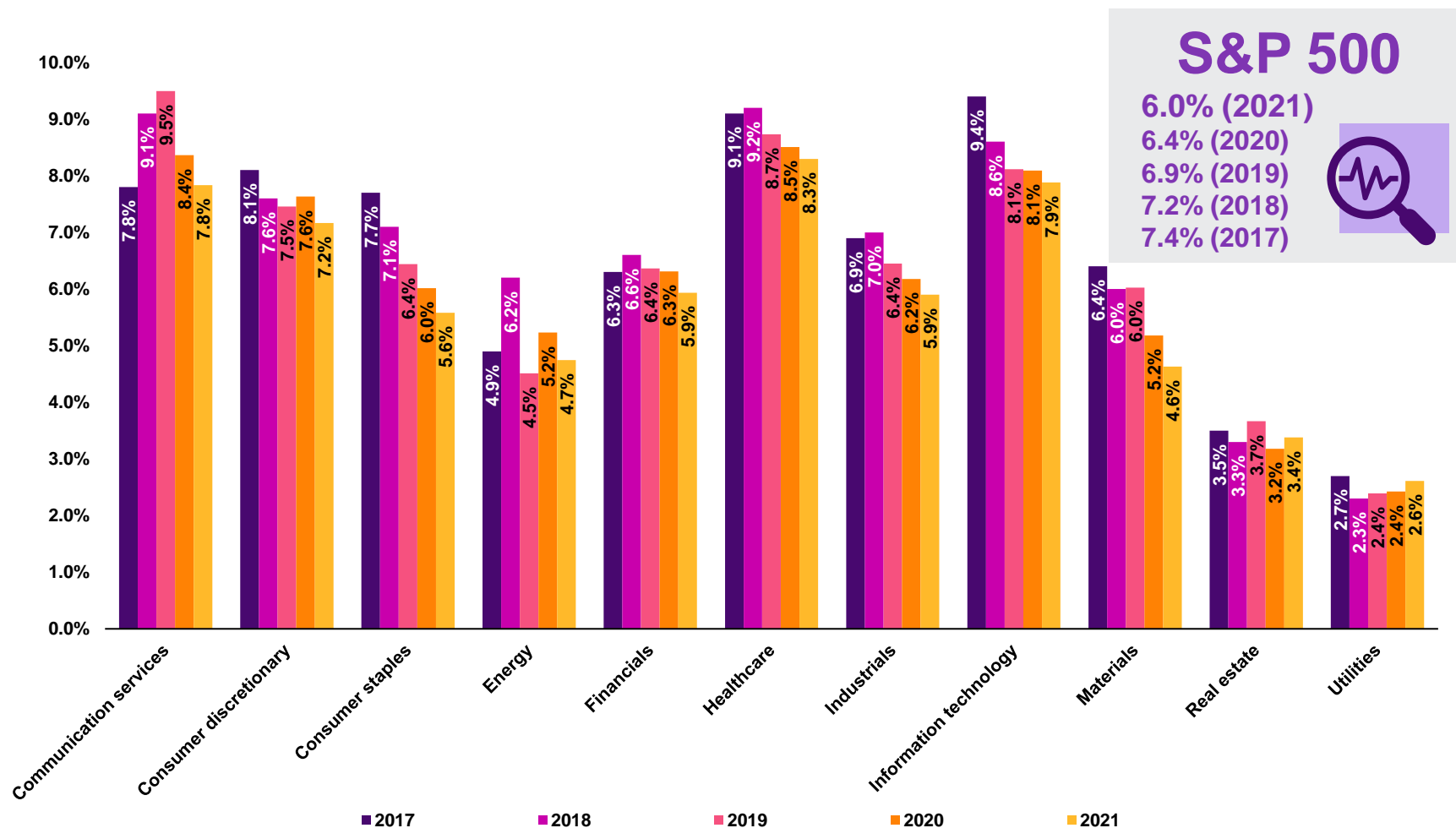
19%/21% Performance awards

17%/13% Stock options



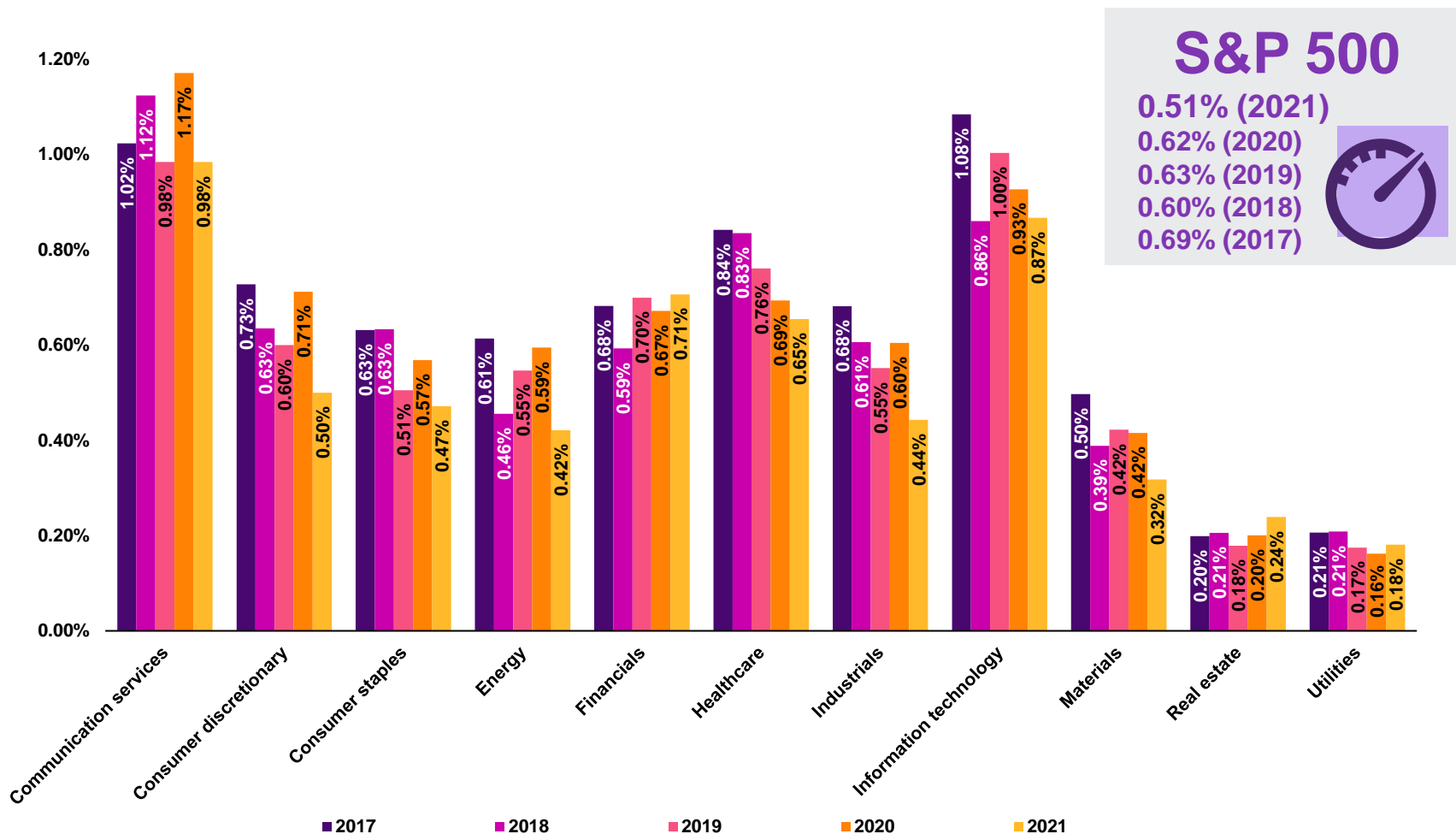
S&P 500 – Median overhang by sector

2017 to 2021



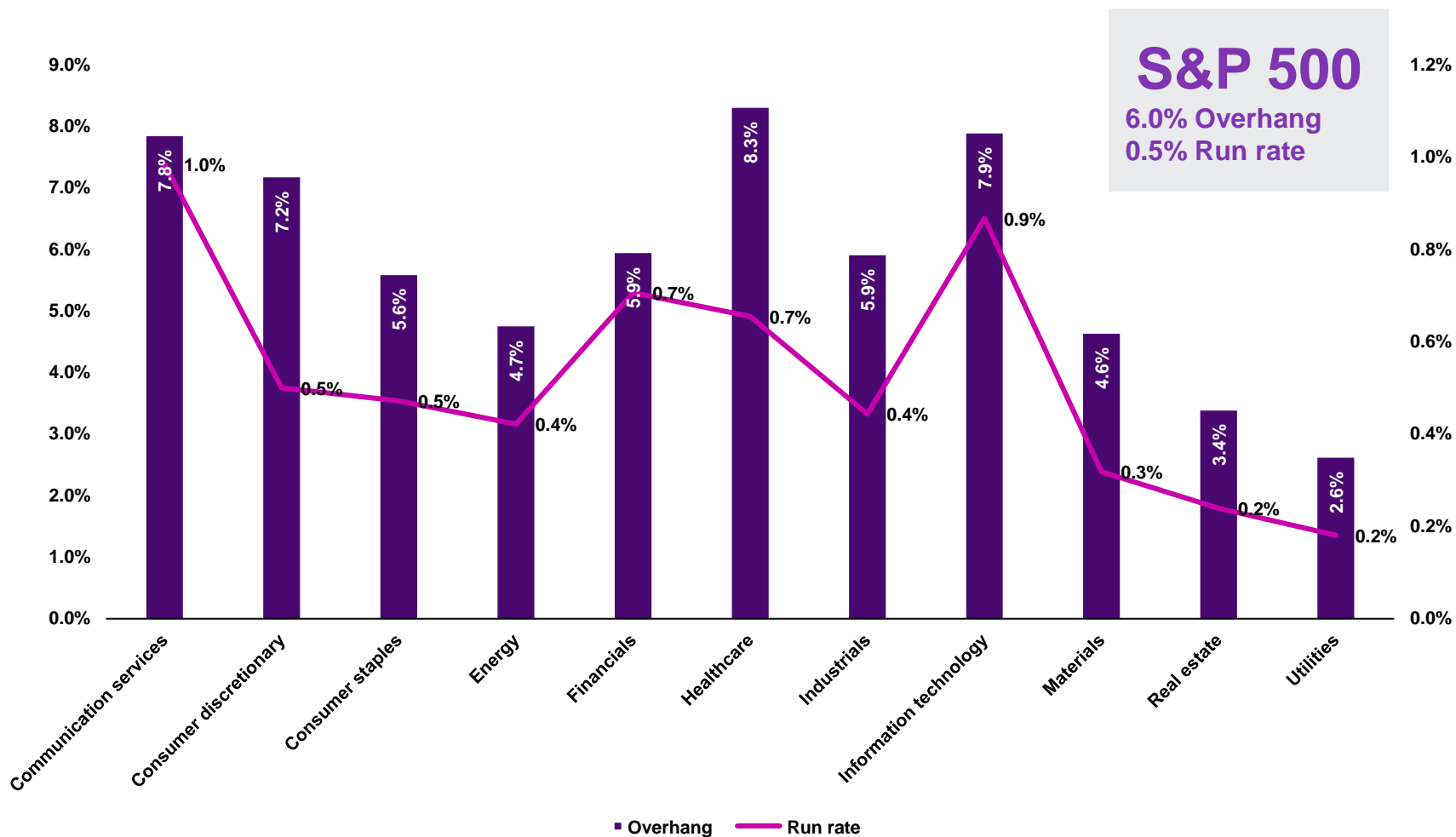
S&P 500 – Median run rates by sector

2017 to 2021



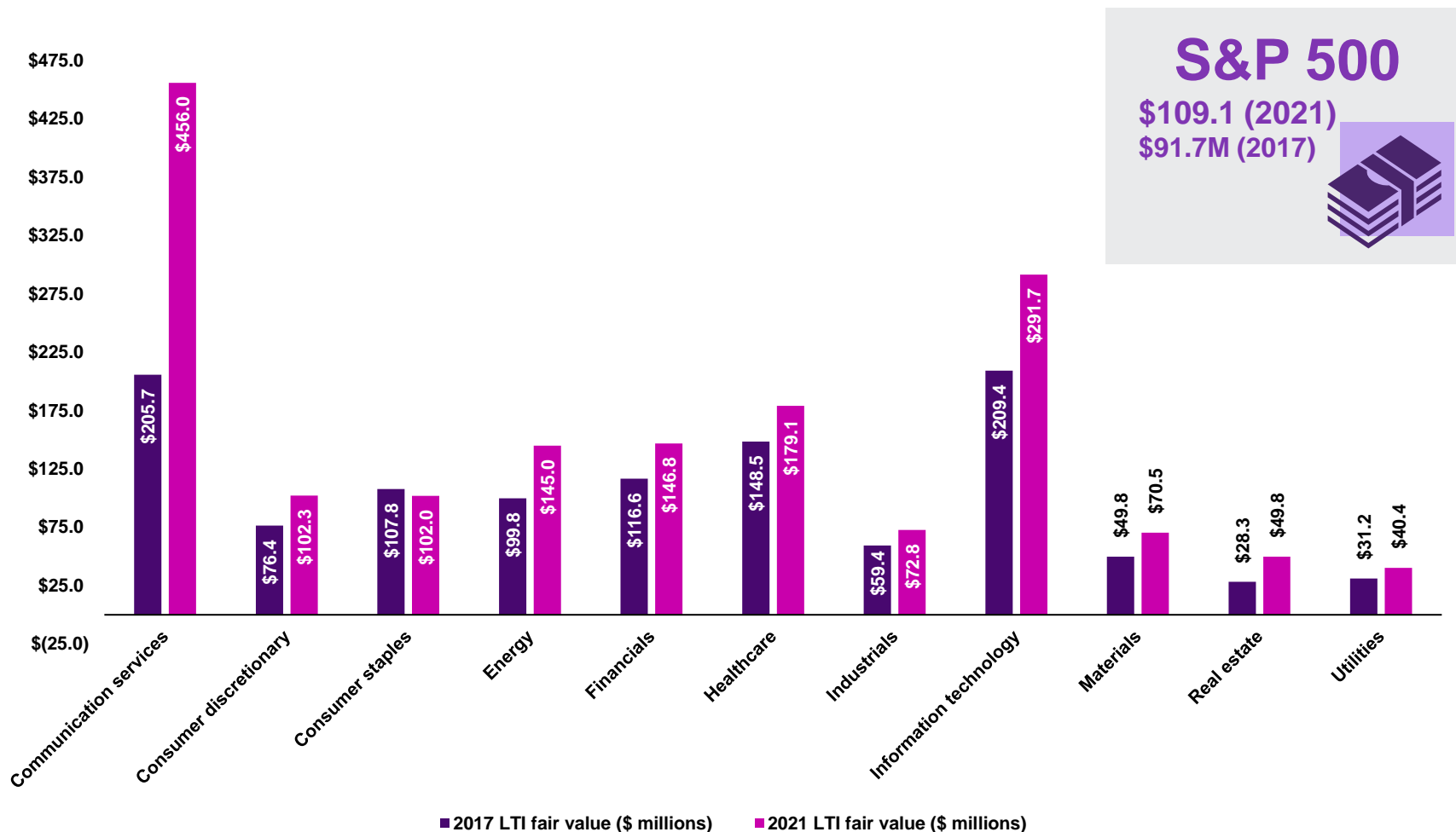
S&P 500 – Median overhang and run rate by sector

2021



S&P 500 – Median LTI fair value by sector

2017 vs. 2021



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.

Run rate: The total number of shares granted under equity compensation plans throughout a company's FY as a percentage of average CSO

$$\frac{(\text{stock options granted} + \text{full-value awards granted})}{(\text{average total CSO} + \text{all shares listed in the numerator})}$$

LTI fair value: The aggregate fair value of equity awards granted in a year, expressed as a percentage of average market capitalization

$$\frac{((\text{stock options granted} \times \text{weighted-average fair value of options}) + (\text{full-value shares awarded} \times \text{weighted-average fair value of full-value awards}))}{(\text{average of beginning and ending market capitalization for the FY})}$$

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

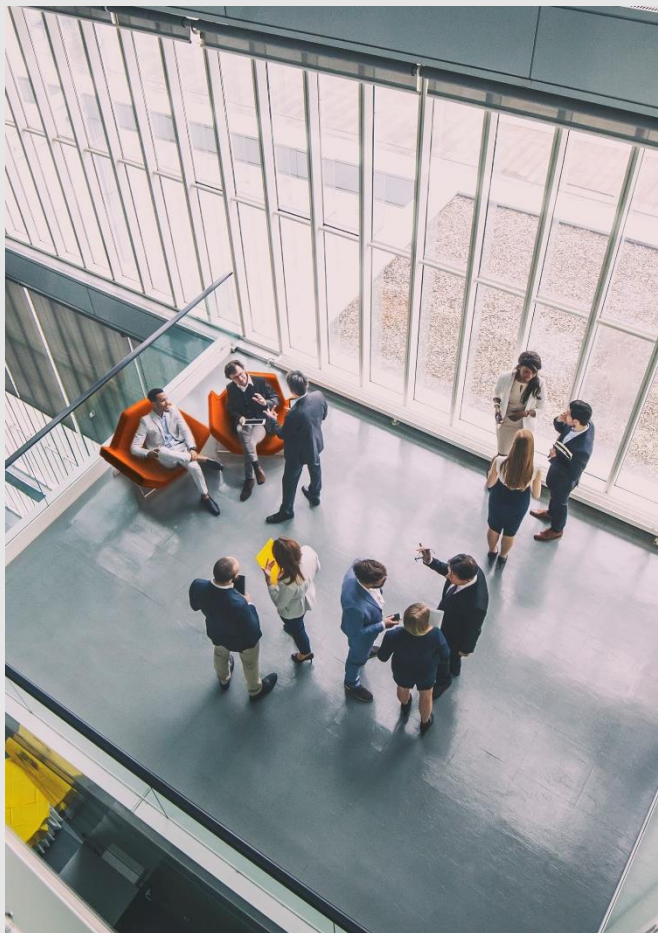
$$\frac{(\text{new shares proposed} + \text{available shares under stock plans at FY end} + \text{outstanding awards})}{(\text{total CSO} + \text{all shares listed in the numerator})}$$

Stock plan inventory: The number of shares available and requested as part of a new or amended stock plan

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)

Global Executive Compensation Analysis Team (GECAT)

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