

2023 U.S. executive pay votes

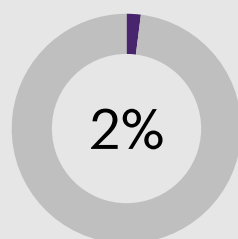
A review of key vote results and trends
during the 2023 proxy season

Executive summary

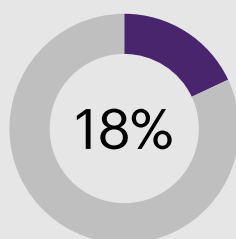
2023 by the numbers

With the bulk of the proxy season behind us, we have new insights into how investors are judging corporate pay programs through the results of say-on-pay, say-on-parachute and equity plan proposals that came to vote during 2023. Our post-season research within the Russell 3000 indicates that while shareholder say-on-pay support remained generally stable at 90% (compared with 89% in 2022 and 91% in 2021 at this time), numbers are lower in comparison with the last two years when it comes to failed say-on-pay votes, particularly among the largest companies. Meanwhile, indicators of opposition to equity plans and golden parachutes have inched upward in the past year. All of this creates an environment where companies should be particularly mindful to shifting areas of concern among investors in the year ahead.

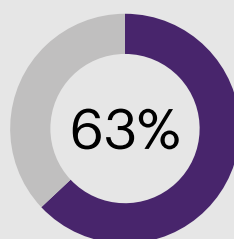
Say-on-pay proposals



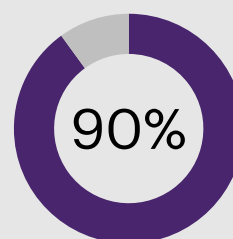
Failure rate, decrease from 4% in 2022



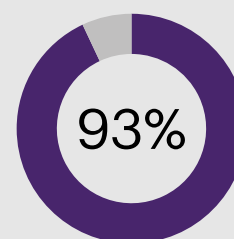
Companies that failed say-on-pay and had negative vote recommendations for compensation committee members



First-time failures



Average support



Companies with support >70%

Say-on-parachute proposals

32% Failure rate

71% Average support

32% Institutional Shareholder Services (ISS) negative recommendations

Equity plan proposals

89% Average support with one failure this year, still stable for equity plans

17% ISS negative vote recommendation rate

Source: WTW Global Executive Compensation Analysis Team. ISS recommendations confirmed using ISS's Governance Analytics.

2023 Russell 3000 say-on-pay snapshot

90%



Average support

2022 = 89%

2%



Failure rate (49 failed votes)

2022 = 4% (based on 86 failed votes)

12%

ISS negative vote recommendations

**Down from
14% in 2022**



27 percentage points

Difference in average support between an ISS “for” and “against” vote recommendation

**Down from
32 in 2022**



73%

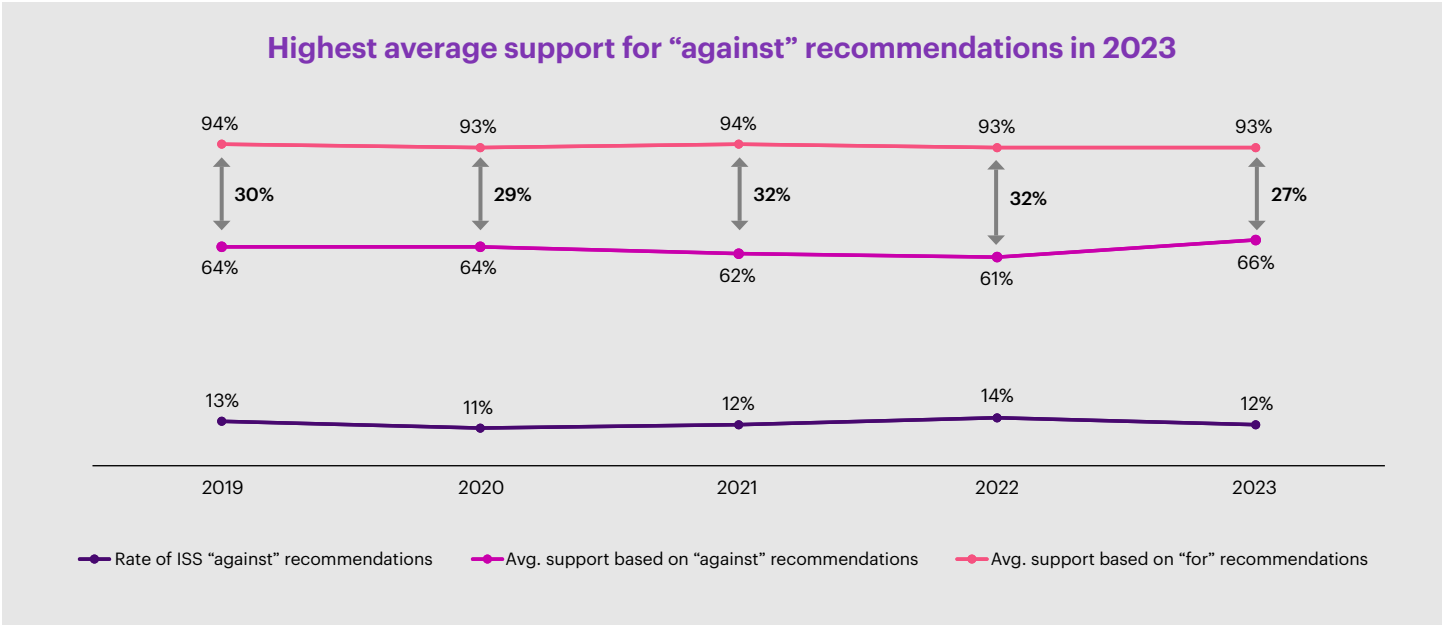
Rate of “high” ISS concerns related to pay for performance among proposals that ultimately received an “against” vote recommendation

**Similar
to 2022**



Source: WTW’s Global Executive Compensation Analysis Team analysis of 2,060 Russell 3000 companies from January 1, 2023 to July 22, 2023, and 2,383 Russell 3000 companies reporting results in 2022. ISS recommendations confirmed using ISS’s Governance Analytics.

Shareholder support and proxy advisor recommendations

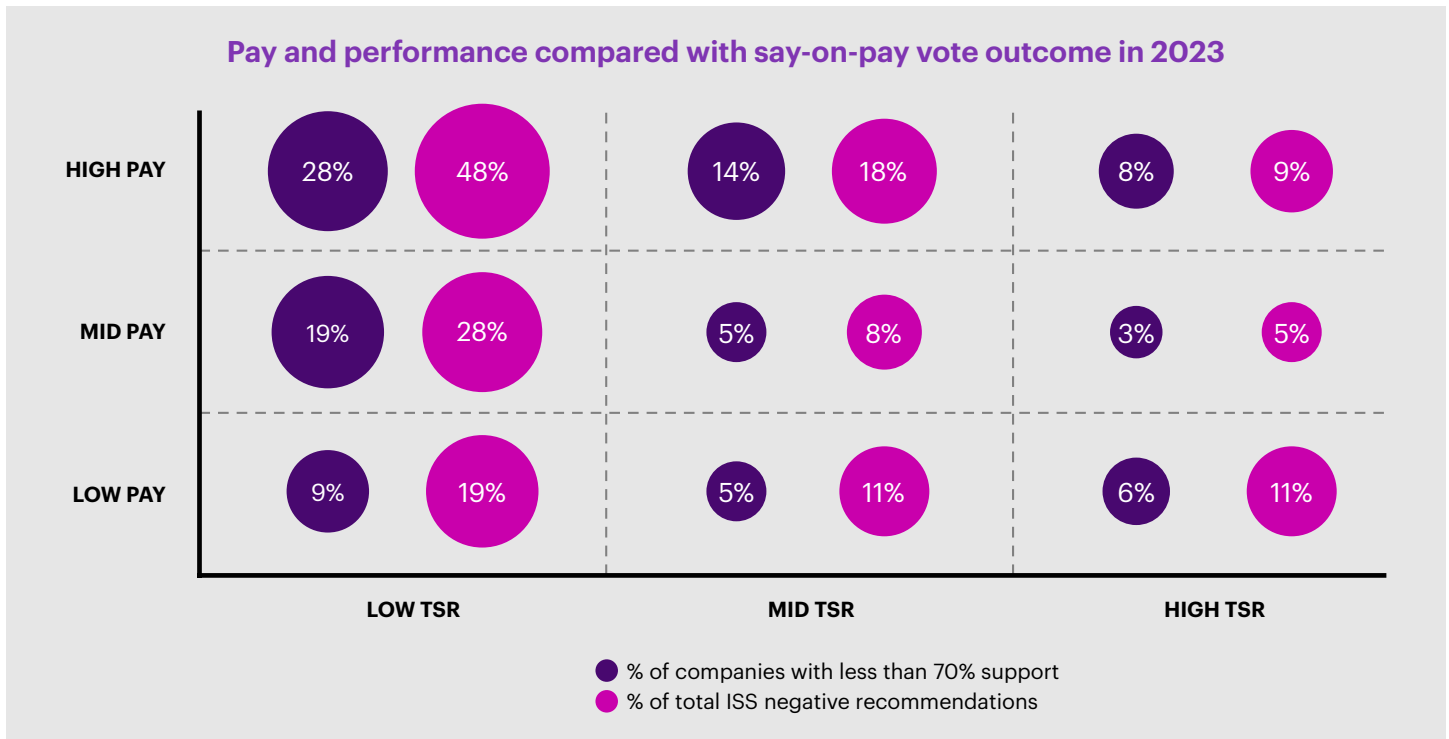


ISS opposition to pay programs moderately lower this year

ISS has typically recommended against 10% to 15% of pay programs in any given year. After gradually trending up over 2021 and 2022, ISS against recommendations have dropped to 12% so far this year. Given that many shareholder clients follow ISS voting recommendations as a matter of course, it is logical that their negative recommendations have a marked impact on say-on-pay vote outcomes; however, the impact of ISS recommendations appears less pronounced this year. Shareholder support at companies where ISS gave a negative recommendations (66%) is the highest this year over our five-year period of review.

Source: WTW’s Global Executive Compensation Analysis Team. ISS recommendations confirmed using ISS’s Governance Analytics.

Pay-for-performance and three-year total shareholder return



Low TSR triggers the most shareholder opposition across all pay levels

Shareholders have cited pay-for-performance disconnects as the primary reason for voting against say-on-pay resolutions. Low total shareholder return (TSR) triggers the most shareholder opposition across all pay levels, as the vote opposition has generally been seen strongest at companies with high pay and low performance; however, strong TSR performance when linked to mid/low pay seems to mitigate the opposition from investors.

Index component say-on-pay snapshot


53%

Remaining Russell 3000 companies account for 53% of 2023 say-on-pay failures, up from 37% in 2022

18%

Average ISS opposition for say-on-pay votes at remaining Russell 3000 companies, similar to 2022

	S&P 500	S&P Mid-Cap	S&P Small-Cap	Remaining Russell 3000
Failure rate	3%	1%	2%	3%
Average support	88%	92%	91%	88%
ISS negative votes	11%	4%	9%	18%

 Highest-rated measure of opposition for each category among the S&P indexes

Source: WTW Global Executive Compensation Analysis Team analysis of 333 S&P 400, 419 S&P 500, 474 S&P 600 and 834 non-S&P 1500 companies from January 1, 2023 to July 22, 2022, and 357 S&P 400, 470 S&P 500, 510 S&P 600 and 1,046 non-S&P 1500 companies reporting results in 2022. ISS recommendations confirmed using ISS's Governance Analytics.

Comparison of say-on-pay failures by company size

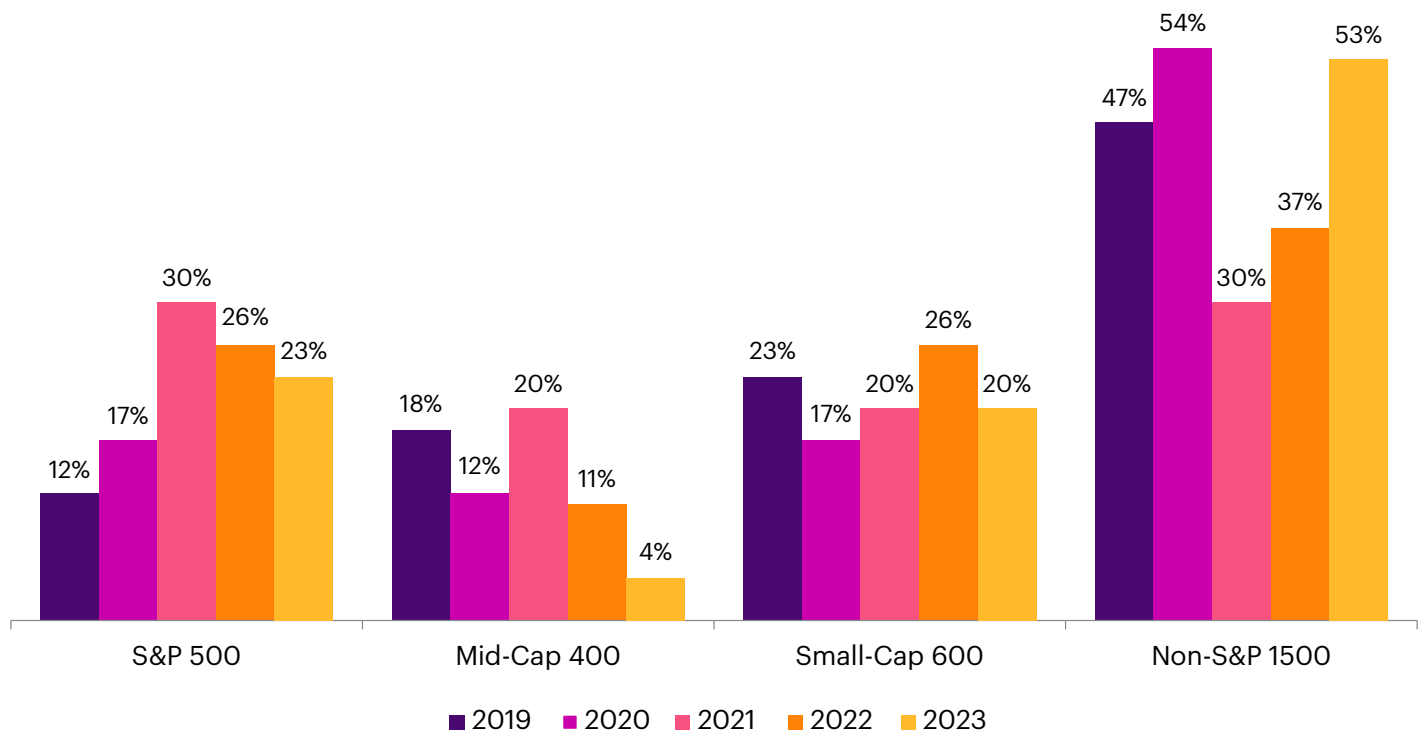
Lowest yearly failure rate for mid-cap companies since 2019

We recorded 49 say-on-pay failures during the proxy season, which is the lowest total at this time for the past three years (69 failures in 2022 and 60 failures in 2021).

Proportionally, the smallest companies as measured by market cap have returned to making up the largest segment of failures (53%) compared with the largest companies in the S&P 500 (23%), reversing a trend of reduced scrutiny since 2020. There was a significant decrease in the proportion of mid-cap failures, dropping to 4% this year from 20% at this time in 2021.

Number of failures					
Index	2023	2022	2021	2020	2019
S&P 500	11	22	21	10	7
Mid-Cap 400	2	10	14	7	10
Small-Cap 600	10	22	15	10	13
All other	26	32	21	32	27

Sharp failure rate increase at non-S&P 1500 companies in 2023*



*Percentage of failures relative to the total number of failures.
Source: WTW's Global Executive Compensation Analysis Team.

2023 S&P 1500 equity plan voting results snapshot

Equity plan results are stable but headwinds may be afoot

Many companies have relied on equity in the face of stiff competition for talent at a time when stock prices were depressed due to various economic, health and geopolitical events around the world. For many this has placed unexpected burdens on their equity share pools.

We have observed some headwinds for equity plan share requests. We have observed one failure within the S&P 1500, similar to last year at this time (two failures at this time in 2021); however, ISS opposition is the highest at 17% compared with 13% at this time in 2022 and 2021. Support is at 89% compared with 91% at this time in 2022 and 2021.

Companies should monitor their investors' voting guideline updates and engage with stakeholders to address proactively any potential issues anticipated ahead of planned stock plan proposals. With talent pressures continuing, companies should manage share pools to avoid unexpected surprises and factor any potential headwinds into their incentive programs.

89%



Average support

2022 = 91%

1%



Failure rate (one failed vote)

2022 = 0.4% (based on one failed vote)

17%

ISS negative vote recommendations

Up from
11% in 2022



24

percentage points

Difference in average support between an ISS "for" and "against" vote recommendation

Up from
21 in 2022



70%

Average support at companies with an "against" vote recommendation

Up from
65% in 2022



Source: WTW Global Executive Compensation Analysis Team analysis of 305 S&P 1500 companies that had a new or materially amended plan with voting results from January 1, 2023, to July 22, 2023, and 283 companies in 2022. ISS recommendations confirmed using ISS's Governance Analytics.

2023 say-on-parachute snapshot

Highest failure rate in the say-on-parachute era

Shareholders often view golden parachute severance agreements with a critical eye, particularly when they contain provisions allowing for perceived large payments to severance recipients or for payouts without a corresponding job termination (i.e., single trigger provisions).

One way shareholders voice displeasure with golden parachute agreements is through say-on-parachute resolutions, usually tied to a corresponding merger agreement. Opposition to these proposals has been climbing in recent years. The failure rate for these proposals was 32% in 2023, the highest rate of opposition since say-on-parachutes were introduced over a decade ago.

Golden parachute terms that allows for the immediate acceleration of equity at the merger close regardless of a corresponding termination and the payment of excise tax gross-ups were the main concerns raised by shareholders at companies that failed say-on-parachute proposals in 2023.

71%



Average support

2022 = 72%

32%



Failure rate (six failed votes)

2022 = 26% (based on 13 failed votes)

32%

ISS negative vote recommendations

Down from
41% in 2022



57 percentage points

Difference in average support between an ISS “for” and “against” vote recommendation

Up from
46 in 2022



32%

Average support at companies with an “against” vote recommendation

Down from
46% in 2022



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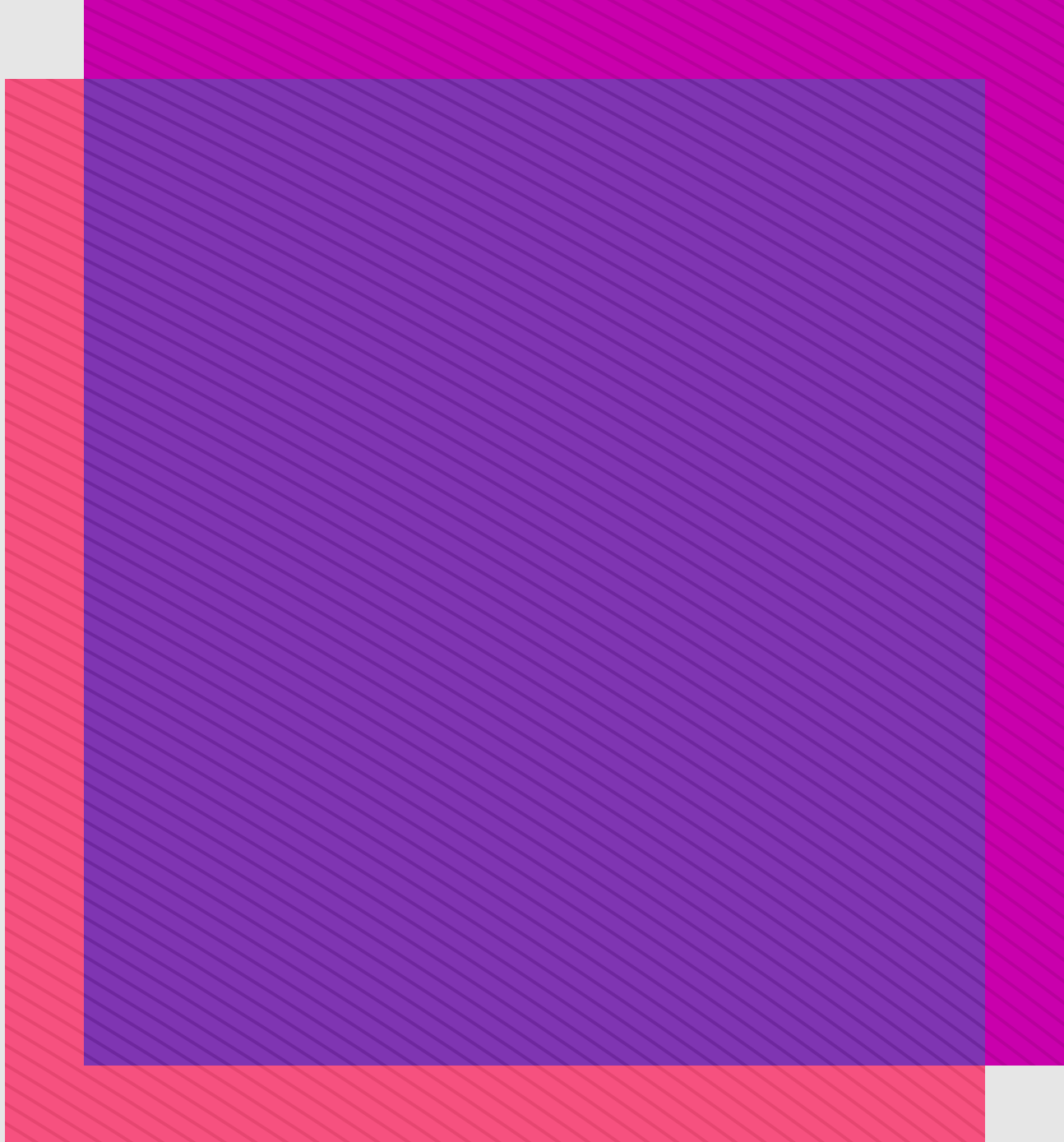
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