Compensation IN CONTEXT NEWSLETTER

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What Is a CEO's Pay Actually Worth?

Companies for first time must tell how much stock awards soar or shrink; for one CEO, a $24 million difference

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Thanks to Theo Francis

For the first time, public companies are revealing how much compensation their CEOs are actually poised to get, by tabulating gains and losses in the stock awards that make up much of their pay packages.

For Olivier Le Peuch, chief executive of oil-field-services company Schlumberger Ltd., the new disclosure shows the value of his pay jumped nearly $24 million during the course of last year, driven by a sharp rise in the company's share price. At nuts-and-bolts-maker Fastenal Co., equity awards for CEO Daniel Florness lost nearly half their value in 2022.

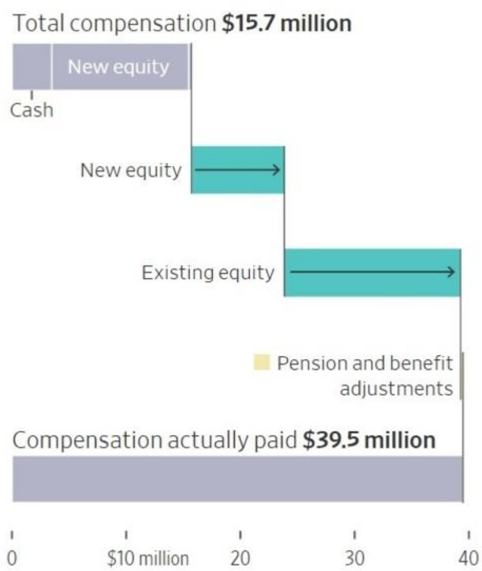
The new measure of compensation, dubbed "compensation actually paid" under Securities and Exchange Commission rules, is designed to move executive-pay disclosure beyond the moment-in-time snapshots that investors have considered for years.

The old approach, still in use, requires companies to show pay for top executives as it was valued when they received it. Stock options and restricted stock are valued as of the day of grant, often a year or more before it is disclosed and several years before it vests, or becomes fully the

executive's property. Companies generally haven't detailed how award values change during that period.

Now, alongside the old measure—typically in annual proxy statements—companies are revealing changes in value over the course of the year, starting with fiscal years ending in late December 2022. At least 65 companies had disclosed the new measure through Friday evening, including 23 in the S&P 500.

How increases in equity value and other changes affect 2022 pay calculations for Schlumberger CEO Olivier Le Peuch



Note: Cash includes salary and bonuses; equity includes stock options and restricted stock. Total compensation values as of date awarded; actual-pay equity changes as of vesting in 2022, or through year-end if unvested. Both totals also include values for 2022 perks and other compensation.
Source: the company
Nate Rattner/THE WALL STREET JOURNAL

The resulting "compensation actually paid" is listed for the most-recent three years, alongside company performance measures, including total shareholder return and net income. Similar pay figures for other top executives are also averaged for each year. Policy makers' goal is to help investors understand how well executive pay tracks company performance.

Critics of the rule, which was adopted in August, argued that the disclosure would be costly and unnecessarily complicated. Pay-industry professionals and corporate-governance analysts have long calculated similar numbers themselves, and agree it can be complex, but many are watching the new disclosures closely.

"It puts it right in front of the investor—it puts everyone's calculations apples-to-apples," said Terry Adamson, a partner at Infinite Equity, a consulting firm specializing in stock-based pay. "I think poor pay practices will really stand out."

Institutional Shareholder Services, the proxy advisory firm, has said it won't use the new numbers when scoring pay-for-performance practices at public companies this year. But analysts may take the new disclosures into account when assessing individual pay packages, said Rachel Hedrick, ISS's associate director of U.S. executive compensation research.

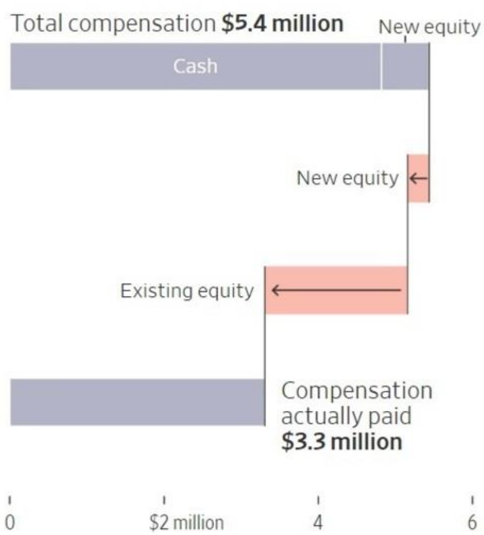
"Most of our institutional clients are hoping that the disclosure can provide some insight into how the boards are thinking about pay and performance," she said. "I wouldn't say that we've seen it yet."

In a proxy filed in late February, Eli Lilly & Co. disclosed total 2022 pay of $21.4 million for CEO David Ricks under the traditional calculation, including $4.2 million in cash and $17 million of restricted stock awards. The new compensation-actually-paid measure for Mr. Ricks reached $64.1 million, largely because of a $59 million valuation the company put on new equity awards and changes during 2022 in the value of awards Mr. Ricks received in past years.

Eli Lilly said in its filing that $100 invested in company shares would have left shareholders with $292 after three years, compared with about $134 for an investment in a group of companies it

considers peers. The company also reported 2022 net income of $6.2 billion, up from $5.6 billion a year earlier.

How decreases in equity value affect 2022 pay calculations for Fastenal CEO Daniel Florness



Note: Cash includes salary and bonuses; equity includes stock options. Total compensation values as of date awarded; actual-pay equity changes as of vesting in 2022, or through year-end if unvested. Both totals also include values for other 2022 compensation.
Source: the company
Nate Rattner/THE WALL STREET JOURNAL

An Eli Lilly spokesman said Mr. Ricks's equity award values reported by the company reflect projections of probable outcomes of performance conditions.

Huggies maker Kimberly-Clark Corp. reported compensation actually paid of $23.4 million for CEO Michael Hsu and total compensation, the old measure, of $14.6 million.

Much of the difference lay in new stock and option awards Mr. Hsu received last year, which also increased in value by year's end.

Kimberly-Clark said $100 invested in the company would have returned about $109 after three years, compared with about $131 for funds invested in a group of similar companies, and reported net income of $1.9 billion, up about 6.6% from 2021.

The new measure of pay "fluctuates due to stock price and levels of projected and actual achievement of performance goals," a Kimberly-Clark spokesman said.

For Schlumberger's Mr. Le Peuch, the difference largely came down to growth in the value of stock he had received in prior years, which rose in value by $15.4 million during the year. New equity awards, valued at $12 million when made in January 2022, rose in value by about $8.1 million during the year.

The prior equity awards include grants made in 2019 when Mr. Le Peuch became the oil-services firm's CEO, a spokesman said. The rise in his equity pay's value during 2022 reflects both market movement, as Schlumberger's share price rose by more than 70% during the year, and adjustments as a result of meeting performance targets, the spokesman added.

Share price and the new compensation measure don't always move in tandem. Owens Corning, which makes insulation and roofing materials, reported total compensation of $11 million for CEO Brian Chambers, including $4.35 million in cash and restricted-stock awards valued at $6.4 million in February last year. His compensation actually paid was $14.1 million, according to the latest proxy statement from the company.

Mr. Chambers's 2022 stock awards rose to a valuation of $7.2 million by year's end, while stock awards he received in prior years also rose in value, by about $2.4 million. Owens Corning's share price fell during the year, and the company reported a total shareholder return for 2022 of roughly minus 5.5%.

Mr. Chambers's equity awards increased in value while the stock fell because the company met or exceeded performance targets, including by recording total shareholder return that beat the broader market and a group of peer companies, an Owens Corning spokesman said. Incentives for meeting or beating those targets "more than offset the decrease in value driven by the decline in stock price," he said.

The equity component of Mr. Chambers's actual-pay figure includes the company's estimate of year-end values, not a measure of realized market gains, the spokesman added, and 60% of the 2022 awards are tied to company performance measures.

Fastenal said equity awards declined in value overall for its CEO, Mr. Florness, by $1.5 million, mostly because of a decline in value from unvested equity awards from past years. New option awards made during 2022 declined in value to about $334,000 by year's end, from about $617,800 when made in early January 2022.

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