

Chemical Industry Pay Update

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Meridian recently completed a pulse survey of chemical industry companies to preliminarily understand expected pay actions for 2021 and go-forward decisions for 2022. The results provide insights into pay information that is not yet available in publicly disclosed filings. We will update this analysis when proxies are filed in the coming months.

Key Findings:

- Each participating company reported an anticipated bonus payout for 2021 performance at or above target, with a median payout of ~150% of target; no companies expect to use adjustments or apply discretion.
 - Bonus outcomes for 2021 were dramatically higher than 2020; the median chemical industry bonus payout in 2020 was ~100% of target. Approximately half of companies paid below target for 2020 performance and a substantial portion of companies made adjustments or exercised discretion to fund payouts in light of COVID-19.
- Expected executive base salary increases for 2022 range from 3 – 6% or higher, with an average increase of ~3.6%, higher than historical norms for the chemical industry that have hovered around 2.9 – 3.0% but aligned with broader market trends toward increased budgets for 2022.
- Approximately half of survey respondents are making changes to their 2022 annual bonus programs; this compares to ~25% of companies that reported changes in 2021.
 - The most common changes for 2022 include (a) increases to the proportion of awards that are qualitative/discretionary, (b) introduction of new ESG metrics, and / or (c) addition / changing weight on financial / operational metrics.
- Half of the survey respondents reported increases to 2022 LTI grant values of around 5 – 15%, with the other half indicating that grant values will generally be flat compared to 2021.
 - For context, we expect a fairly wide range of individual outcomes; we have anecdotally experienced an incredibly “hot talent market” with some instances of increases far beyond these levels, as companies struggle to retain current talent and attract new talent to fill gaps.
- Similar to 2021, all respondents include performance-based LTI in their 2022 executive program, always in combination with either time-based full value shares and / or stock options.
- Also similar to 2021, about one third of companies are making changes to their 2022 metrics for performance-based LTI, most often adding and / or changing weight on a financial and returns metrics.

Implications and Next Steps

As shown below, chemical companies performed substantially better in 2021 than in 2020 (consistent with broader market norms), both in terms of financial results and total shareholder return.

Company (n=48)	1-Year TSR		Revenue Growth		EBIT Growth	
	2020	2021	2020	Trailing 12-Month (Feb. 2022)	2020	Trailing 12-Month (Feb. 2022)
Summary Statistics						
75th Percentile	20.1%	43.6%	-0.4%	35.4%	8.5%	135.7%
Median	9.0%	23.5%	-6.9%	21.5%	-8.2%	50.9%
25th Percentile	-3.0%	5.2%	-10.8%	10.1%	-28.9%	8.8%

We note however that 2021 incentive goals were set early in the year when the financial outlook was bleak and the impact of the pandemic prompted conservative expectations. As the impact of the pandemic softened later in 2021, many organizations achieved strong performance outcomes, which when combined with conservative goals, are driving the highest bonus payouts we have seen in many years.

Additionally, most chemical companies are being more aggressive with 2022 base salary increase budgets and 2022 LTI grant values as we face the “Great Resignation,” forcing organizations to enhance retention holding power to keep their teams in place. However, 2022 remains uncertain, and many believe the pace of increases in pay and turnover may not continue. With companies struggling to find stability in 2022, we expect wider incentive curves, more targeted use of equity grants with greater individual differentiation, refinements to incentive plan metrics to reflect current company circumstances, and more aggressive performance targets requiring growth from 2021. As chemical industry companies file proxy statements in the coming months, stay tuned for our more fulsome assessment of the 2021 compensation season and further dialogue around forward-looking pay expectations.