



December 2022

# 2022 TOP 250 REPORT 50th EDITION



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## Table of Contents

<b>Executive Summary</b>	<b>1</b>
<b>Introduction</b>	<b>2</b>
<b>Executive Long-term Incentive Grant Types and Prevalence</b>	<b>5</b>
Which Long-term Incentive Vehicles Are Most Prevalent?	5
What Are the Predominate Performance-Based LTI Metrics?	7
How is Performance Measured?	8
What Are Typical Performance Goal Width Ranges?	10
<b>Appendix</b>	<b>11</b>
Supplemental Detail	11
Companies Studied	14
<b>Company Profile &amp; Authors</b>	<b>17</b>

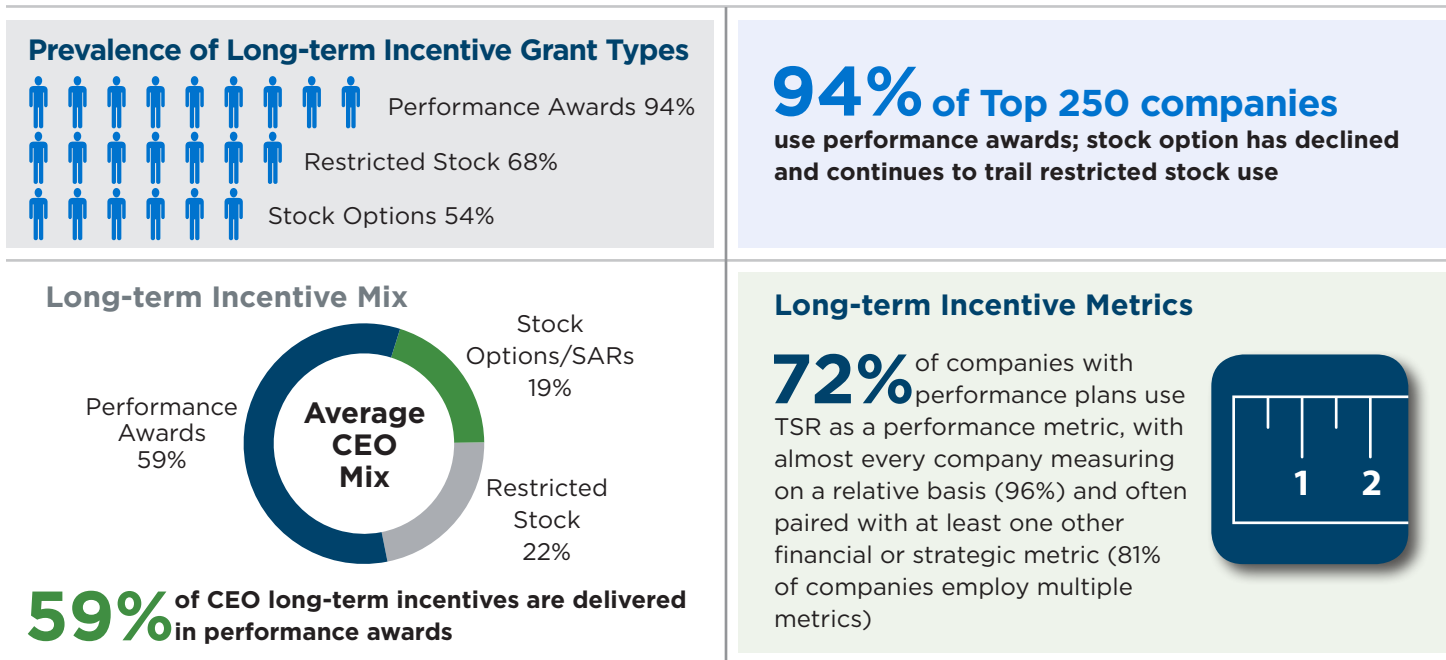
# EXECUTIVE SUMMARY

The 50th annual FW Cook Top 250 Report details long-term incentive practices and trends of the 250 largest companies in the S&P 500 by market capitalization. This study focuses on understanding how long-term incentive (“LTI”) programs are currently designed and how they have evolved since the release of FW Cook’s 2021 report.

Long-term incentive practices generally reflect a continuation of trends observed over the past several years.

## Key Takeaways

- **Long-term incentive mix** continues to be strongly oriented towards performance awards, which represent 59% of total long-term incentives.
- **Total Shareholder Return (“TSR”)** continues to increase in prevalence – now used by 72% of companies vs. 60% in 2017 – and remains the most common performance metric among the Top 250 companies, with 96% of companies using relative TSR (“rTSR”).
- **Performance goals** remained relatively similar to the prior year, though threshold goals for absolute and relative top-line metrics increased in prevalence.
- **Above-median rTSR target setting** became more widespread with sustained pressure from proxy advisory firms requesting above-median performance achievement for target payouts.



Note that additional statistics are provided in the Appendix of this report.

# INTRODUCTION

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## Overview and Background

Since 1973, FW Cook has published annual reports on long-term incentive grant practices for executives. This report, our 50th edition, presents information on long-term incentives granted to executives at the 250 largest U.S. companies in the S&P 500 Index. It is intended to inform boards of directors and compensation professionals in designing and implementing effective long-term incentive programs that promote continued success for their companies by supporting strategic objectives and aligning pay delivery with performance.

## Survey Scope

The report covers the following topics:

- Executive long-term incentive grant vehicle prevalence
- CEO long-term incentive grant value mix
- Key performance plan characteristics, including performance metrics, performance periods, performance/funding slope leverage, and measurement approaches

The Appendix includes information on equity vesting, additional performance award detail, and LTI statistics by industry.

## Source of Data

All information was obtained from public documents filed with the Securities and Exchange Commission (“SEC”), including proxy statements and 10-K and 8-K filings.

## Top 250 Company Selection

The Top 250 companies, limited to those granting long-term incentives, are selected annually based on market capitalization (share price multiplied by basic common shares outstanding). The sample was determined using market capitalization as of April 30, 2022 (as reported by S&P’s Capital IQ). See the Appendix for a list of companies reviewed.

Volatility in the equity markets, corporate transactions, and fluctuating corporate fortunes result in changes in market capitalization and therefore turnover in the survey sample. Of the Top 250 companies in 2022, 15 companies (6%) are new to this year’s report. The majority of the changes are due to fluctuations in market capitalization between March 31, 2021 and April 30, 2022 (the dates used to determine the 2021 and 2022 Top 250 companies lists).

The following table profiles the industry sectors represented in the Top 250 for 2022, defined by S&P Dow Jones and Morgan Stanley Capital International (“MSCI”)’s Global Industrial Classification System (“GICS”).

# INTRODUCTION

Industry Sector (# of companies)	Percent of 2022 Top 250	Median Market Data					
		(\$Bil)		(6/30/22)	TSR <sup>(1)</sup>		
		Net Sales	Net Income	Market Capital.	Year-to-Date	1-Year	5-Year CAGR <sup>(2)</sup>
Information Technology (40)	16%	\$16.47	\$3.06	\$77.54	-23%	-14%	18%
Health Care (38)	15%	\$26.64	\$2.64	\$71.16	-12%	-1%	15%
Financials (32)	13%	\$22.61	\$5.56	\$57.93	-20%	-15%	10%
Industrials (31)	12%	\$18.24	\$1.85	\$56.76	-16%	-12%	13%
Consumer Staples (22)	9%	\$30.06	\$2.51	\$47.32	-3%	5%	11%
Consumer Discretionary (21)	8%	\$23.22	\$2.40	\$44.74	-28%	-16%	13%
Energy (16)	6%	\$21.72	\$2.00	\$44.09	28%	42%	8%
Real Estate (14)	6%	\$4.58	\$1.21	\$37.17	-18%	-3%	8%
Utilities (13)	5%	\$13.68	\$1.60	\$44.42	5%	13%	12%
Materials (12)	5%	\$16.73	\$1.98	\$38.38	-20%	-16%	10%
Communication Services (11)	4%	\$67.42	\$4.65	\$150.05	-21%	-35%	3%
<b>Total Top 250 - Median</b>	<b>—</b>	<b>\$18.70</b>	<b>\$2.55</b>	<b>\$53.65</b>	<b>-16%</b>	<b>-5%</b>	<b>12%</b>

Source: S&P Capital IQ (net sales and net income represents 10-K results; all other data measured as of 6/30/2022)

<sup>(1)</sup> TSR = Total Shareholder Return, a measure of stock price and dividend performance; calculated through 6/30/2022.

<sup>(2)</sup> CAGR = Compounded Annual Growth Rate

## Definition of Long-term Incentive

This report presents the most recently disclosed long-term incentive grant types in use at the Top 250 companies as of mid-2022. A grant type is considered in use at a company if grants were made in the current or prior year and there is no evidence the grant practice has been discontinued, or if the company indicates the grant type will be awarded in the future.

To be considered a long-term incentive for purposes of this report, a grant must reward performance and/or continued service for a period of one year or more and cannot be limited by both scope and frequency.

- A grant with limited scope is awarded to only one executive or to a very small or select group of executives.
- A grant with limited frequency is not part of a company's regular grant practice. For example, a grant made as a hiring incentive, replacement of compensation forfeited from a prior employer, or a promotional award is not considered a long-term incentive for this report.
- A grant with limited scope but without limited frequency (e.g., annual grants of performance shares made only to the CEO) may be considered a long-term incentive, and vice versa (e.g., one-time grants made to all executives).



# INTRODUCTION

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## Definitions

### Award Vehicles

Long-term incentive award vehicles include, but are not limited to, the following:

- Stock options/Stock Appreciation Rights (“SARs”), which are derivative securities with value dependent upon stock price appreciation; stock options are rights to purchase company stock at a specified exercise price over a stated term, while SARs are rights to receive the increase between the grant price and the market price of a share of stock at exercise
- Restricted stock, which includes actual shares or share units that are earned for continued employment and are often referred to as time-based awards
- Performance awards, which consist of stock-denominated shares or share units (“performance shares”) and grants of cash or dollar-denominated units (“performance units”) earned based on performance against predetermined objectives over a defined period of more than one year, including long-term incentives with one-year performance periods and additional time-vesting requirements

### Types of Metrics

Performance metric categories include, but are not limited to, the following:

- Total Shareholder Return: Stock Price Appreciation Plus Dividends
- Profit: EPS, Net Income, EBIT, EBITDA, Operating/Pretax Profit
- Capital Efficiency: Return on Equity, Return on Assets, Return on Capital
- Revenue: Sales, Organic Revenue
- Cash Flow: Cash Flow, Operating Cash Flow, Free Cash Flow
- Other: Safety, Quality Assurance, New Business, Individual Performance

# EXECUTIVE LONG-TERM INCENTIVE GRANT TYPES AND PREVALENCE

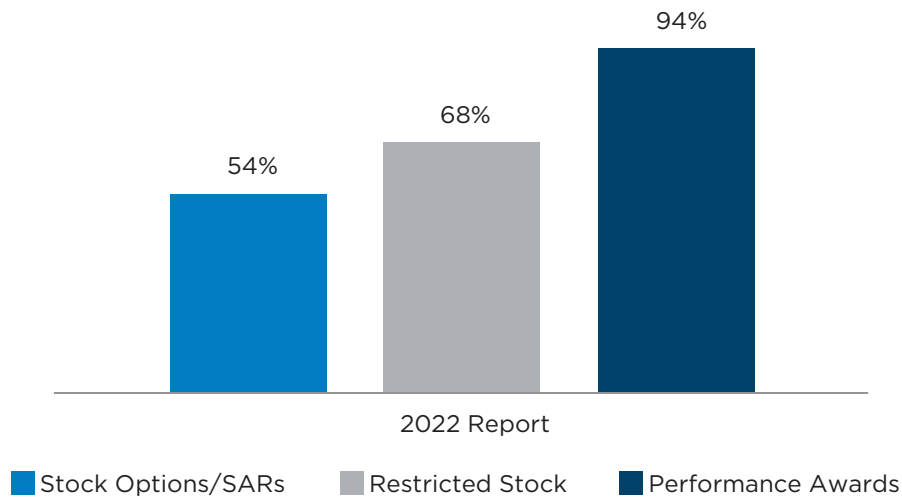
## Which Long-term Incentive Vehicles Are Most Prevalent?

Most companies continue to employ a balanced portfolio approach of multiple LTI vehicles, with a focus on performance-based equity. Overall, 87% of companies use multiple grant types (an increase of 4% from last year, which saw a reduction due to companies employing temporary modifications in response to COVID-19).

The use of performance-based and time-vested full-value awards has remained relatively consistent, while stock option/SAR usage continues to decline:

- **Performance awards** continue to be used by 94% of companies.
- **Restricted stock** use has generally remained consistent over the past 5 years (68% of companies).
- **Stock options/SARs** are used by just over half of participants (54% of companies).

Executive Long-term Incentive Grant Type Usage



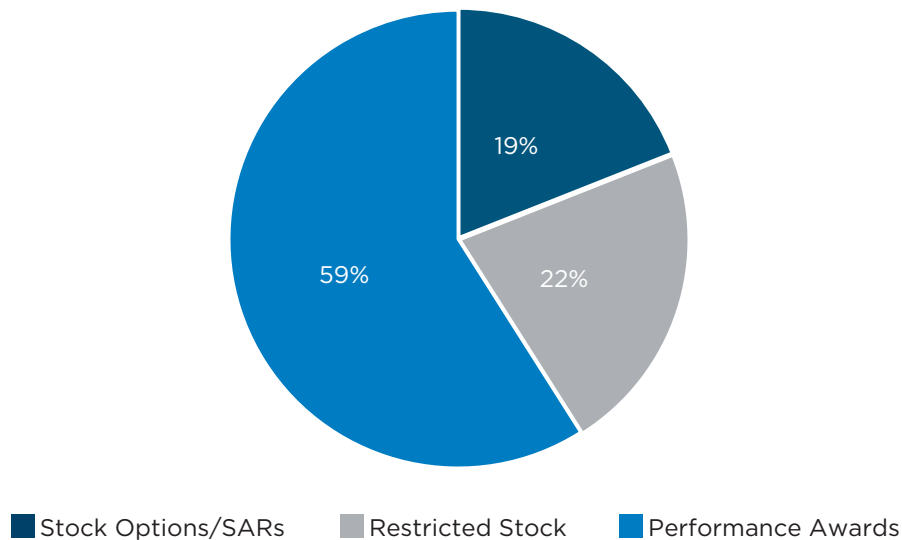
# EXECUTIVE LONG-TERM INCENTIVE GRANT TYPES AND PREVALENCE

## CEO LTI Mix Remains Performance-Focused

Performance awards remain the largest component of CEO LTI mix. Investors' and proxy advisory firms' continued focus on pay-for-performance has influenced the prevalence of performance-based LTI.

- Stock option/SAR usage has declined in prevalence and weighting, in part due to proxy advisory firm policies that view stock options as time-based rather than performance-based awards (e.g., at minimum, stock options must have a 10% premium on their exercise price to be considered performance-based under ISS' guidelines). Additionally, the heightened risk profile, accounting inefficiencies, and higher potential dilution create additional complications for option use.
- Popularity of stock options/SARs is generally greater within the healthcare, industrials, and technology sectors, where high-growth companies are more prevalent.

Average Top 250 CEO LTI Mix





# EXECUTIVE LONG-TERM INCENTIVE GRANT TYPES AND PREVALENCE

## What Are the Predominate Performance-Based LTI Metrics?

**Performance-based LTI design remains consistent with a focus on the following:**

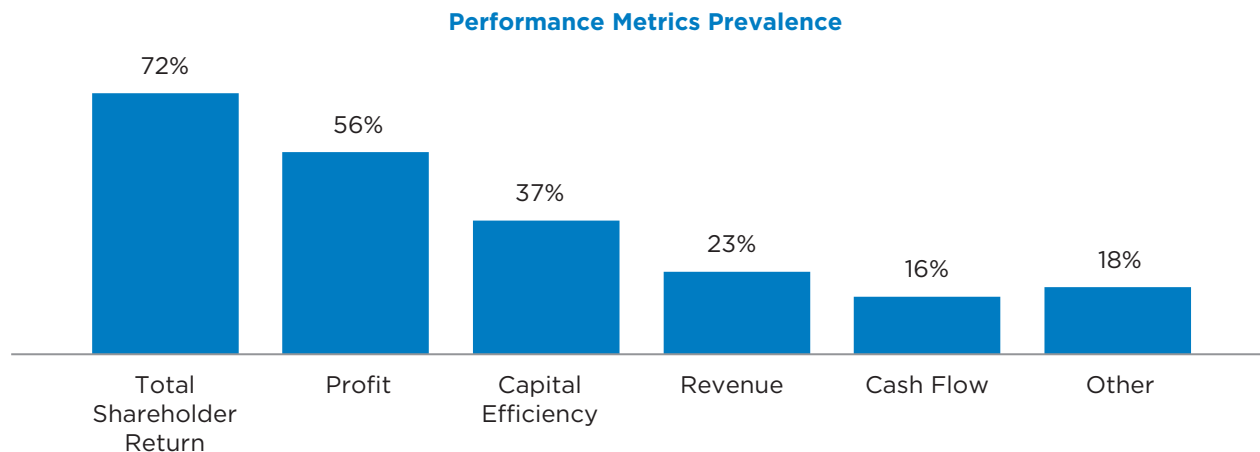
- Using one or two performance-metrics
- Measuring performance over a 3-year performance period
- Providing for a maximum payout opportunity of 200% of target

While utilization of broader financial metrics has remained relatively flat, TSR continues to grow in use and remains the most widely-used metric.

- TSR is most often used on a relative basis.
- 72% of companies that grant performance awards use TSR.
- TSR is more commonly used as a separately weighted metric, often paired with at least one financial or strategic metric (81% of companies use multiple metrics).

TSR's effectiveness in incentivizing core company performance remains a subject of debate. TSR provides simplicity, creates shareholder alignment, and is accepted and understood by proxy advisors and investors alike. However, it draws criticism for poor line of sight, as executives may not feel that they can influence performance outcomes. Additionally, some investors do not believe that it drives specific behavior on performance metrics. As a result, there has been an increase in companies using TSR as a performance modifier (35% of companies in 2022 compared to 33% in 2021 and 28% in 2020), rather than a stand-alone metric.

In terms of financial metrics, profit measures remain the most common, used by 56% of companies.

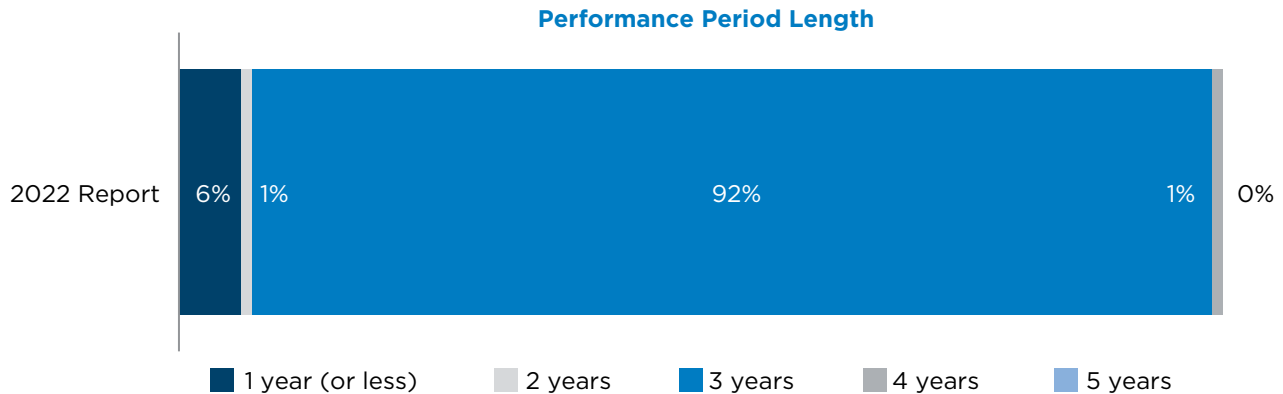


# EXECUTIVE LONG-TERM INCENTIVE GRANT TYPES AND PREVALENCE

## How Is Performance Measured?

### Performance Period Length

The majority of companies (92% in 2022) continue to measure performance-based LTI over three years, in tandem with the awards' vesting periods. The practice of measuring performance over sub-periods (e.g., averaging performance over three separate 1-year periods as opposed to measurement over a single 3-year period) continues to decline, with 11% of companies utilizing this approach in 2022 compared to 16% in 2021. This decrease is in part due to criticism from proxy advisors, who claim that the structure does not promote long-term value creation.

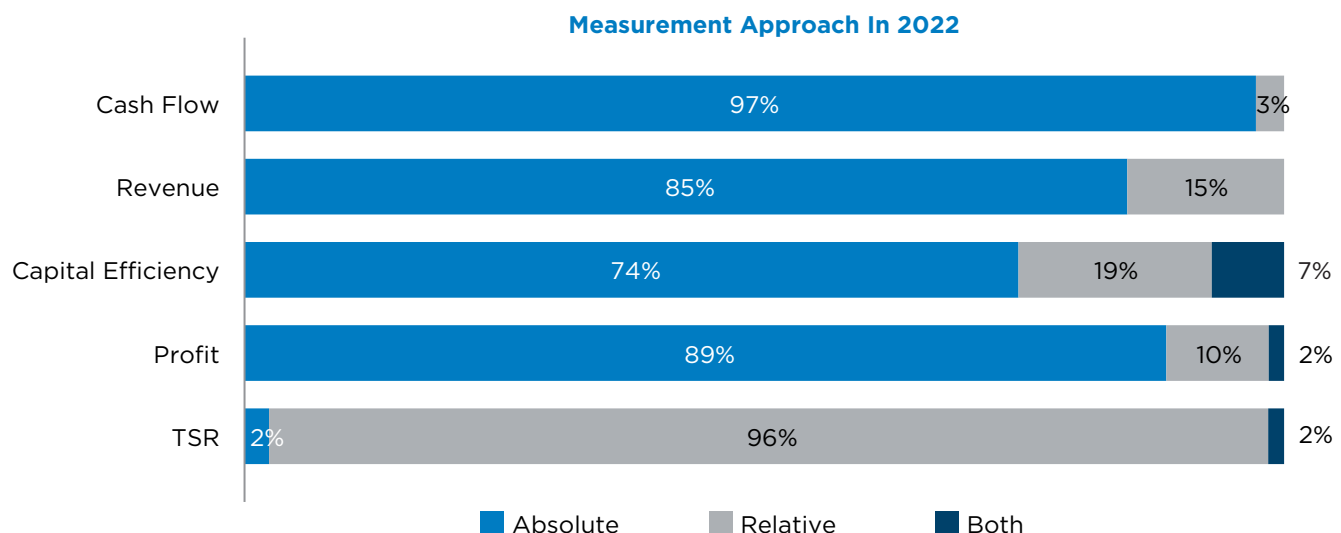


### Measurement Approach

Measurement of performance on a relative basis continues to increase:

- 96% of performance plans using TSR use relative TSR
- Relative measurement of cash flow, revenues, and capital efficiency metrics increased (such metrics are measured on a relative basis between 5% and 15% of the time).

In the current environment of high market volatility and increased difficulty in setting longer-term goals, measuring performance on a relative basis has become increasingly popular. However, relative financial and operational metrics present some challenges due to limited disclosure around non-GAAP metric definitions among companies.



# EXECUTIVE LONG-TERM INCENTIVE GRANT TYPES AND PREVALENCE

When measuring performance on a relative basis, a company should select an appropriate comparator group against which its performance will be measured. Common comparator group approaches are listed below:

- **Index (most prevalent approach):** using broad indices like the S&P 500 or industry-focused indices such as the Dow Jones US Medical Equipment
- **Compensation peers:** using the group used for benchmarking compensation
- **Custom:** using companies often selected from executive compensation peers, companies from relevant sector indices, or companies with similar industry classifications
- **Combination:** using any combination of the above



## Some key considerations for determining appropriate comparator groups:

- Larger comparator groups are often preferred, as tracking performance against a broader group may help withstand M&A activity.
- Inclusion of an index increases the incentive to exceed performance of direct competitors and the broader market. Index use in underperforming industries that are competing for investor capital against broader, higher-performing companies (as is the case within the energy industry) has been seen as a positive by investors.

# EXECUTIVE LONG-TERM INCENTIVE GRANT TYPES AND PREVALENCE

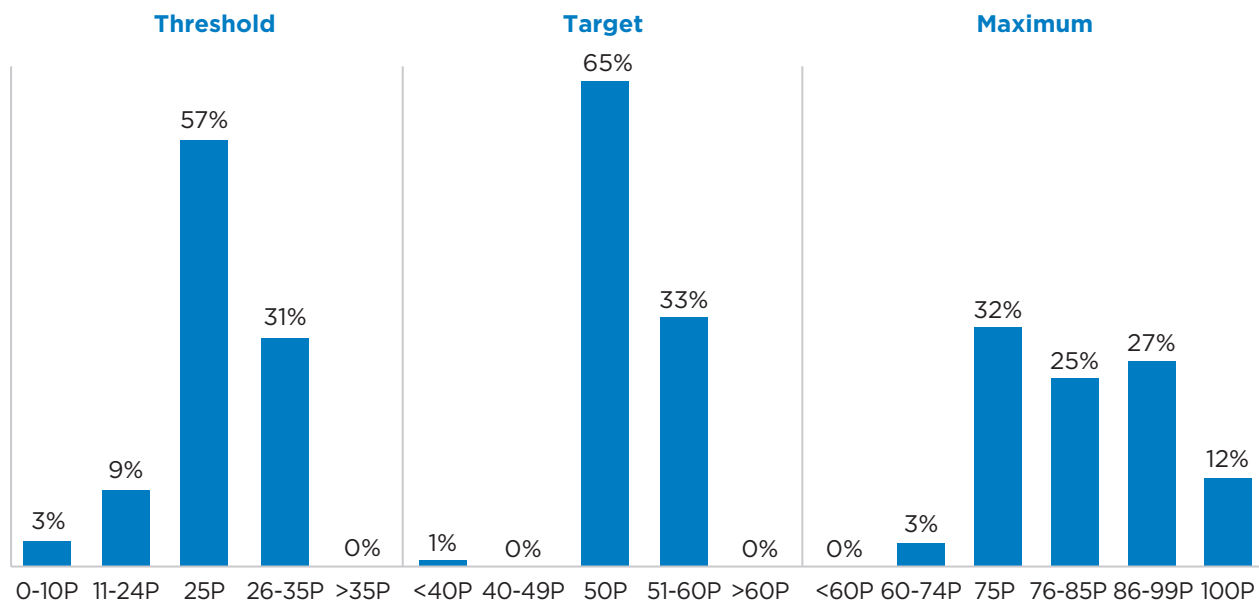
## Goal Width Range

Although market practice is informative, goal setting is more commonly tailored to a number of internal and external factors, such as company budget and performance expectations, historical performance, investor expectations, pay philosophy, and macroeconomic climate.

Threshold defines the minimum acceptable performance that warrants any payout at all, while maximum defines what level of performance is exceptional. The performance range of relative measures is determined by calculating the threshold and maximum ranking as a percentage of target.

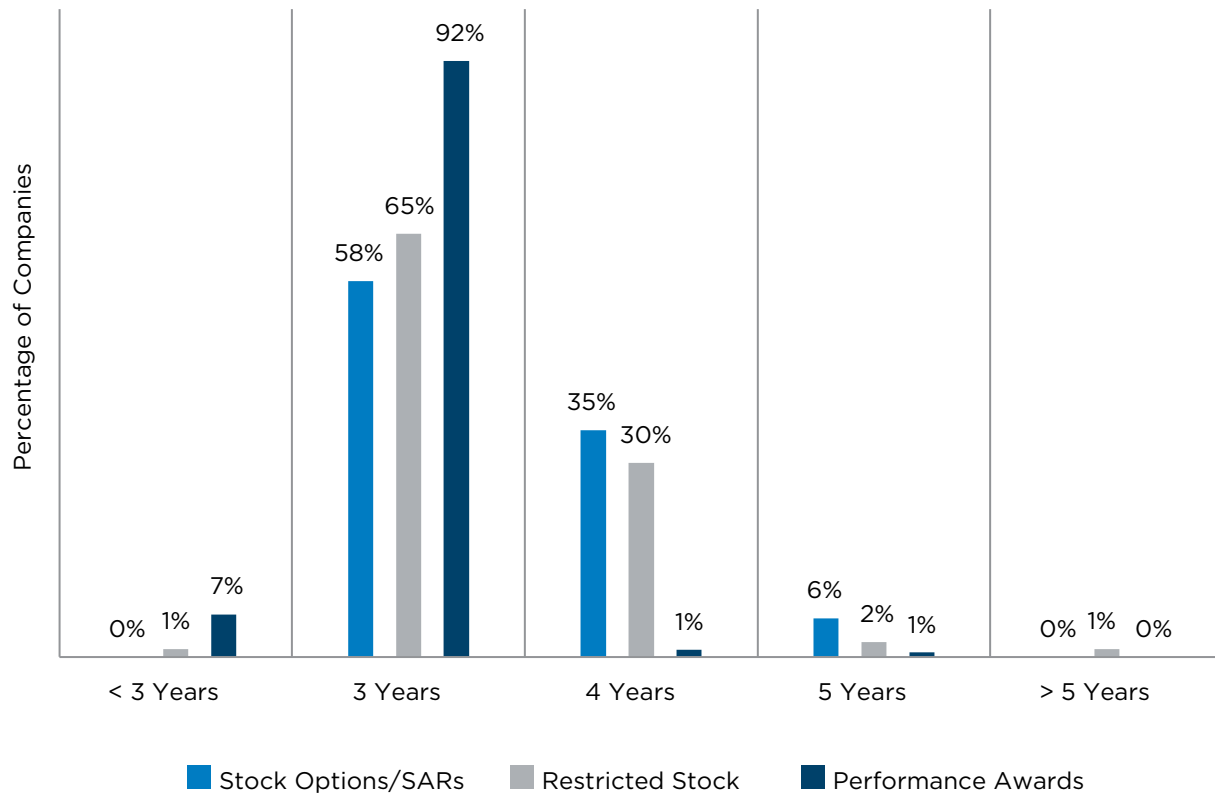
Overall, relative ranges between top-line metrics (e.g., revenues) and bottom-line metrics (e.g., EPS, EBITDA) continue to be similar. For companies measuring relative TSR performance, the most prevalent performance level combination continues to be the 25th percentile, 50th percentile (median), and 75th percentile of the comparator group to receive threshold, target, and maximum payouts, respectively. Above-median target setting is growing in prevalence as proxy advisors express concern over target payouts for performance achievement at the median (33% target the 51st to 60th percentile, up from 29% in 2021 and 23% in 2019).

Companies incorporating an absolute TSR cap (e.g., capping payout at 100% if absolute TSR is negative) rose to 30% in 2022 vs. 24% in 2021, creating stronger alignment with the shareholder experience.

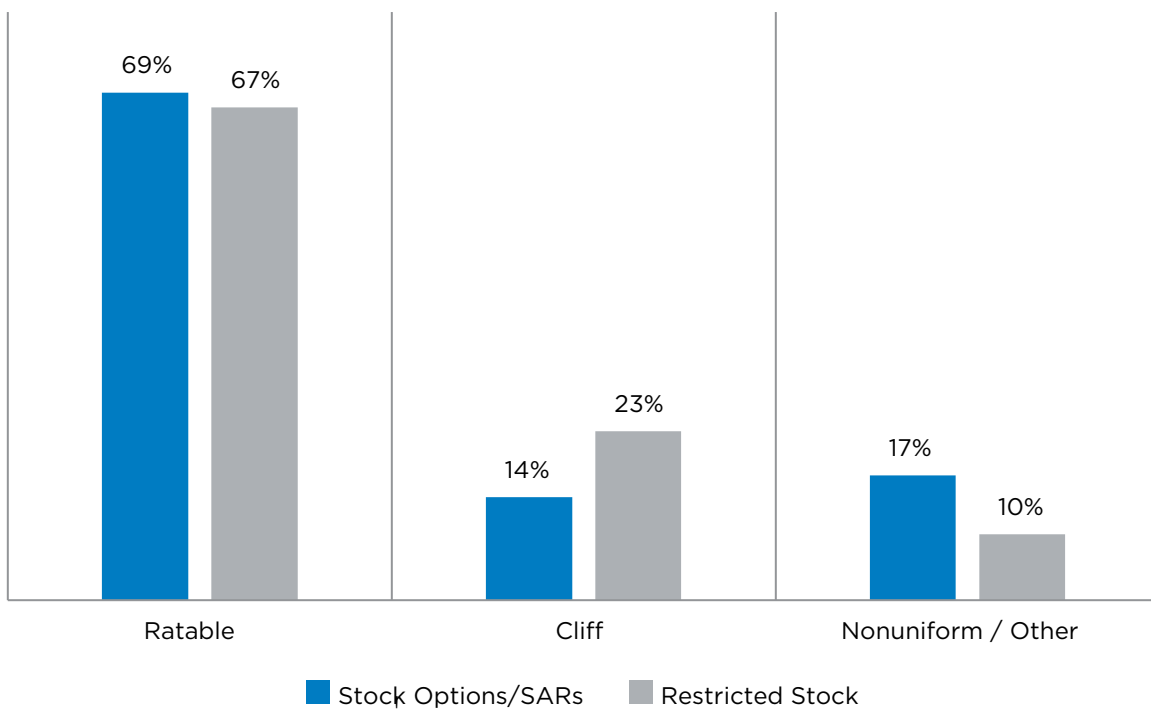


# APPENDIX – SUPPLEMENTAL DETAIL

## Vesting Period of Award Types

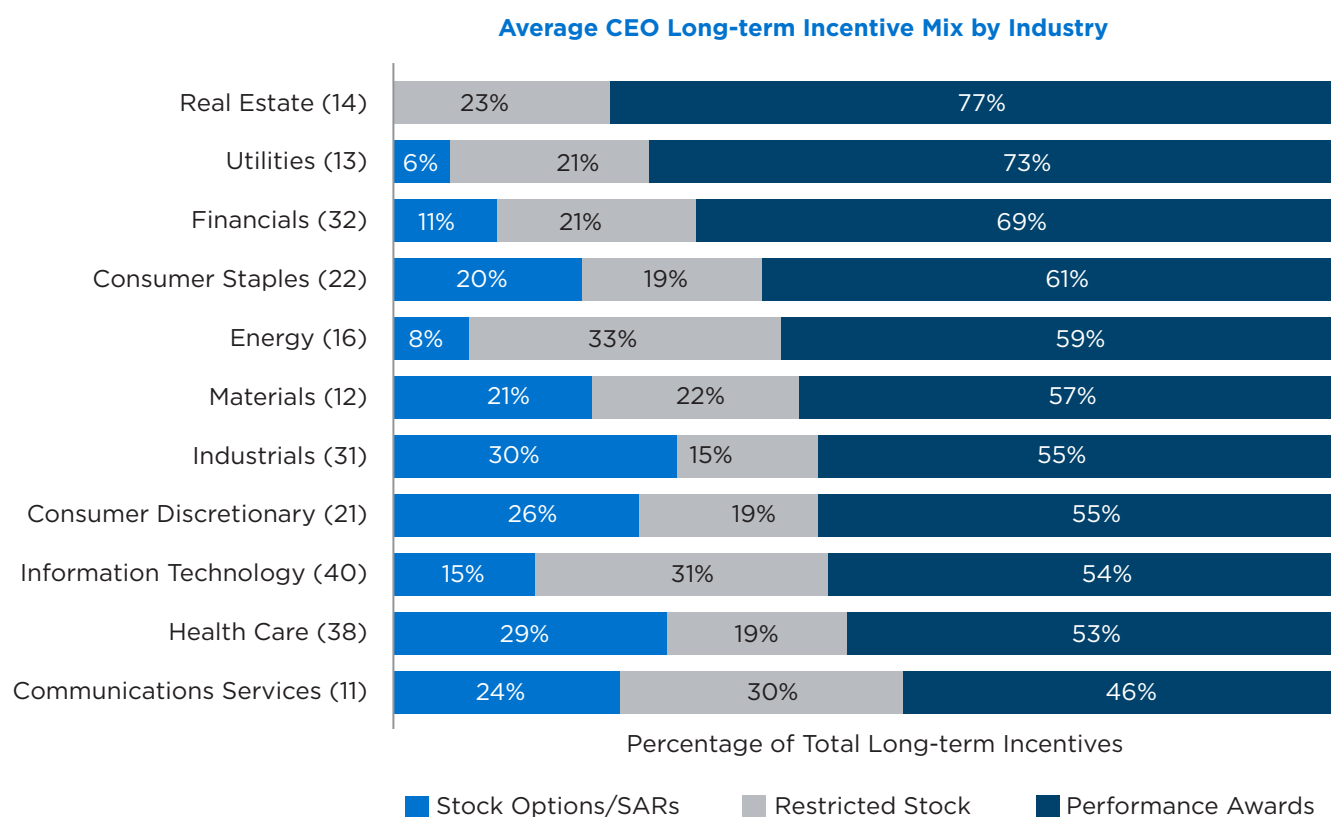


## Time-Based LTI Vesting



# APPENDIX – SUPPLEMENTAL DETAIL

## CEO Long-term Incentive Mix by Industry

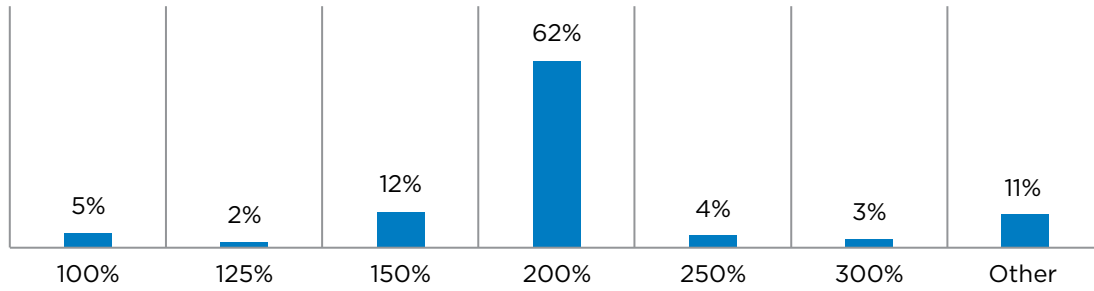


## Grant Types by Sector

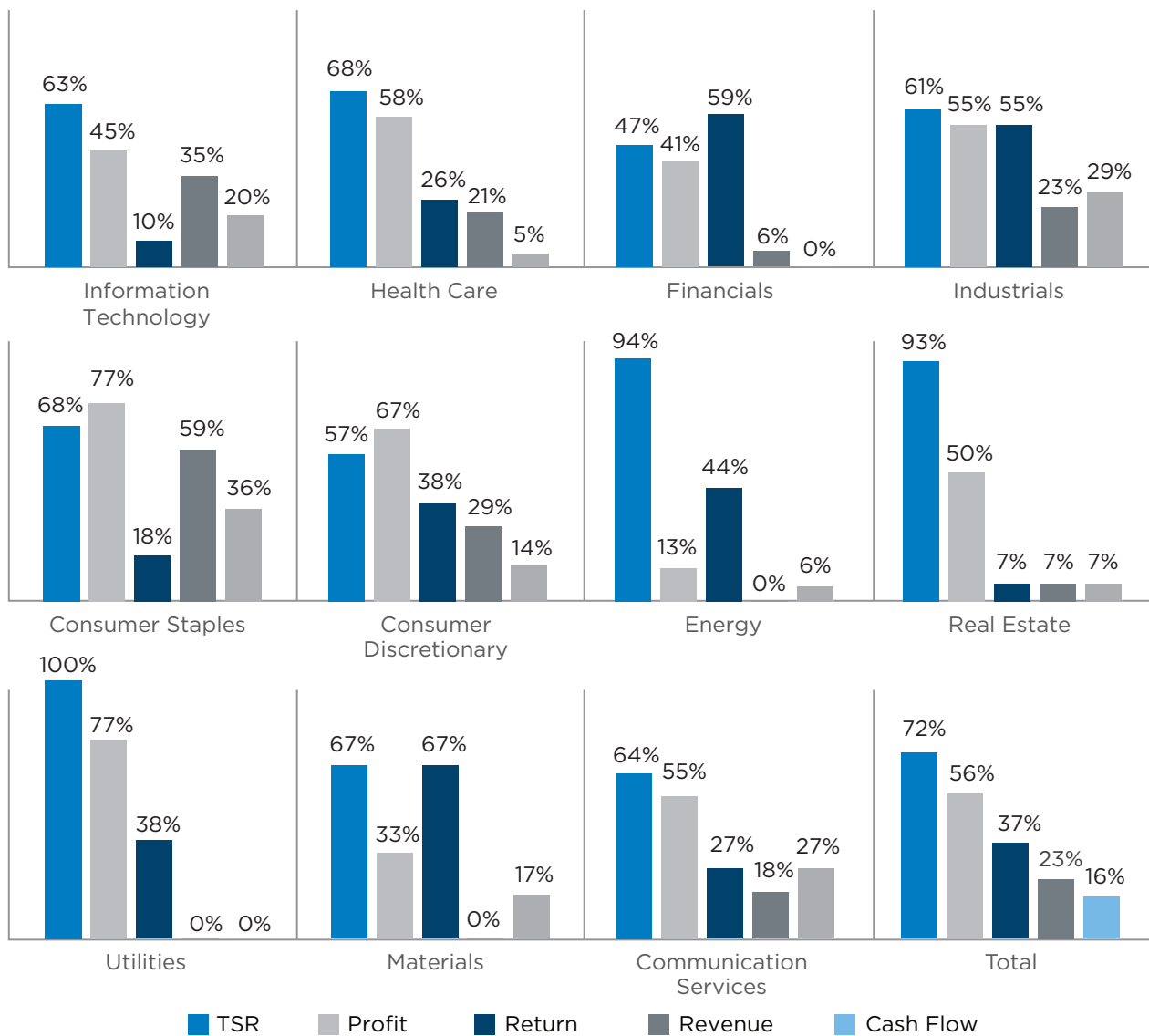
Industry Sector (# of companies)	Grant Types by Sector			
	1 Type	2 Types	3 Types	4 Types
Information Technology (40)	13%	55%	33%	0%
Health Care (38)	8%	53%	39%	0%
Financials (32)	13%	72%	16%	0%
Industrials (31)	13%	39%	45%	3%
Consumer Staples (22)	5%	41%	55%	0%
Consumer Discretionary (21)	19%	57%	24%	0%
Energy (16)	19%	56%	25%	0%
Real Estate (14)	29%	71%	0%	0%
Utilities (13)	15%	77%	8%	0%
Materials (12)	0%	42%	58%	0%
Communication Services (11)	36%	55%	9%	0%

# APPENDIX – SUPPLEMENTAL DETAIL

## Performance Award Maximum



## Performance Metric Prevalence by Industry





# APPENDIX – COMPANIES STUDIED

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## Communication Services (11 Companies)

AT&T Inc.	Meta Platforms	Twitter, Inc.
Charter Communications, Inc.	Netflix, Inc.	Verizon Communications Inc.
Comcast Corporation	The Walt Disney Company	Warner Bros Discovery
Electronic Arts Inc.	T-Mobile US, Inc.	

## Consumer Discretionary (21 Companies)

AutoZone, Inc.	Ford Motor Company	O'Reilly Automotive, Inc.
Booking Holdings Inc.	General Motors Company	Ross Stores, Inc.
Chipotle Mexican Grill, Inc.	Hilton Worldwide Holdings Inc.	Starbucks Corporation
Dollar General Corporation	Lowe's Companies, Inc.	Target Corporation
Dollar Tree, Inc.	Marriott International, Inc.	The Home Depot, Inc.
eBay Inc.	McDonald's Corporation	The TJX Companies, Inc.
Expedia*	NIKE, Inc.	Yum! Brands, Inc.

## Consumer Staples (22 Companies)

Altria Group, Inc.	Kimberly-Clark Corporation	The Estée Lauder Cos.
Archer-Daniels-Midland	Mondelez International, Inc.	The Hershey Company
Brown-Forman Corporation	Monster Beverage Corporation	The Kroger Co.
Colgate-Palmolive Company	PepsiCo, Inc.	The Procter & Gamble Co.
Constellation Brands, Inc.	Philip Morris International Inc.	Tyson Foods, Inc.
Costco Wholesale Corporation	Sysco Corporation	Walgreens Boots Alliance, Inc.
General Mills, Inc.	The Coca-Cola Company	Walmart Inc.
Hormel Foods		

## Energy (16 Companies)

Baker Hughes Company*	Halliburton Company*	Phillips 66
Chevron Corporation	Hess Corporation*	Pioneer Natural Resources
Devon Energy Corporation*	Marathon Petroleum Corporation	Schlumberger Limited
ConocoPhillips	Occidental Petroleum*	The Williams Companies, Inc.
EOG Resources, Inc.	ONEOK, Inc.*	Valero Energy Corporation
Exxon Mobil Corporation		

(\*Denotes new company in 2022 Top 250)

# APPENDIX – COMPANIES STUDIED

## Financials (32 Companies)

Aflac Incorporated	Intercontinental Exchange, Inc.	The Allstate Corporation
American Express Company	JPMorgan Chase & Co.	The Bank of New York Mellon
American International Group	Marsh & McLennan Companies	The Charles Schwab Corp.
Ameriprise Financial, Inc.	MetLife, Inc.	The Goldman Sachs Group
Arthur J. Gallagher & Co.*	Moody's Corporation	The PNC Financial Services
Bank of America Corporation	Morgan Stanley	The Progressive Corporation
BlackRock, Inc.	MSCI Inc.	The Travelers Companies
Capital One Financial	Prudential Financial, Inc.	Truist Financial Corporation
Citigroup Inc.	S&P Global Inc.	U.S. Bancorp
CME Group Inc.	SVB Financial Group	Wells Fargo & Company
Discover Financial Services	T. Rowe Price Group, Inc.	

## Health Care (38 Companies)

Abbott Laboratories	Danaher Corporation	McKesson Corporation
AbbVie Inc.	DexCom, Inc.	Merck & Co., Inc.
Agilent Technologies, Inc.	Edwards Lifesciences Corporation	Mettler-Toledo International
AmerisourceBergen*	Elevance Health Inc.	Moderna*
Amgen Inc.	Eli Lilly and Company	Pfizer Inc.
Baxter International Inc.	Gilead Sciences, Inc.	Regeneron Pharmaceuticals, Inc.
Becton, Dickinson and Company	HCA Healthcare, Inc.	ResMed Inc.
Biogen Inc.	Humana Inc.	Stryker Corporation
Boston Scientific Corporation	IDEXX Laboratories, Inc.	Thermo Fisher Scientific Inc.
Bristol-Myers Squibb Company	Illumina, Inc.	UnitedHealth Group Incorporated
Centene Corporation	Intuitive Surgical, Inc.	Vertex Pharmaceuticals Inc.
Cigna Corporation	IQVIA Holdings Inc.	Zoetis Inc.
CVS Health Corporation	Johnson & Johnson	

## Industrials (31 Companies)

3M Company	General Electric Company	Parker-Hannifin Corporation
AMETEK, Inc.	Honeywell International Inc.	Raytheon Technologies
Carrier Global Corporation	Illinois Tool Works Inc.	Republic Services, Inc.
Caterpillar Inc.	L3Harris Technologies, Inc.	Rockwell Automation, Inc.
Cintas Corporation	Lockheed Martin Corporation	The Boeing Company
CSX Corporation	Norfolk Southern Corporation	TransDigm Group Incorporated
Deere & Company	Northrop Grumman Corporation	Union Pacific Corporation
Emerson Electric Co.	Old Dominion Freight Line, Inc.	United Parcel Service, Inc.
Fastenal Company	Otis Worldwide Corporation	Verisk Analytics, Inc.
FedEx Corporation	PACCAR Inc	Waste Management, Inc.
General Dynamics Corporation		

(\*Denotes new company in 2022 Top 250)

# APPENDIX – COMPANIES STUDIED

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## Information Technology (40 Companies)

Adobe Inc.	Fidelity National Information Services, Inc.	Motorola Solutions, Inc.
Advanced Micro Devices, Inc.	Fiserv, Inc.	NVIDIA Corporation
Amphenol Corporation	Fortinet, Inc.	Oracle Corporation
Analog Devices, Inc.	Global Payments Inc.	Paychex, Inc.
Apple Inc.	HP Inc.	PayPal Holdings, Inc.
Applied Materials, Inc.	Intel Corporation	QUALCOMM Incorporated
Arista Networks*	International Business Machines	Roper Technologies
Autodesk, Inc.	Intuit Inc.	salesforce.com, inc.
Automatic Data Processing, Inc.	KLA Corporation	ServiceNow, Inc.
Broadcom Inc.	Lam Research Corporation	Synopsys, Inc.
Cadence Design Systems, Inc.	Mastercard Incorporated	Texas Instruments Incorporated
Cisco Systems, Inc.	Microchip Technology Incorporated	Visa Inc.
Cognizant Technology Solutions	Micron Technology, Inc.	
Corning Incorporated	Microsoft Corporation	

## Materials (12 Companies)

Air Products and Chemicals, Inc.	Ecolab Inc.	Newmont Corporation
Corteva, Inc.	Freeport-McMoRan Inc.	Nucor Corporation*
Dow Inc.	International Flavors & Fragrances Inc.	PPG Industries, Inc.
DuPont de Nemours, Inc.	LyondellBasell Industries N.V.	The Sherwin-Williams Company

## Real Estate (14 Companies)

Alexandria Real Estate Equities*	Equity Residential	SBA Communications Corporation
American Tower Corporation	Equinix, Inc.	Simon Property Group, Inc.
AvalonBay Communities	Prologis, Inc.	Welltower Inc.
Crown Castle International Corp.	Public Storage	Weyerhaeuser Company
Digital Realty Trust, Inc	Realty Income Corp.*	

## Utilities (13 Companies)

American Electric Power Company, Inc.	Eversource Energy	Sempra
American Water Works Company, Inc.	Exelon Corporation	The Southern Company
Consolidated Edison*	NextEra Energy, Inc.	WEC Energy Group, Inc.
Dominion Energy, Inc.	Public Service Enterprise Group	Xcel Energy Inc.
Duke Energy Corporation		

(\*Denotes new company in 2022 Top 250)

# FW COOK PROFILE

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**FW Cook** is an independent consulting firm specializing in executive and director compensation and related corporate governance matters. Formed in 1973, our firm has served more than 3,000 companies of divergent size and business focus from our offices in New York, Chicago, Los Angeles, San Francisco, Atlanta, Houston and Boston. We currently serve as the independent advisor to the compensation committees at a substantial number of the most prominent companies in the United States.

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