TRIVARIATE RESEARCH

DOES IT MATTER HOW CEOS ARE MEASURED AND HOW MUCH MONEY THEY MAKE?

ADAM S. PARKER, Ph.D., FOUNDER

adam@trivariateresearch.com
646-734-7070

CHANG GE, ANALYST

chang@trivariateresearch.com
614-397-0038

MAXWELL ARNOLD, ANALYST

maxwell@trivariateresearch.com
347-514-1234

RYAN MCGOVERN, DIR. OF RESEARCH SALES

ryan@trivariateresearch.com
973-271-8017

COLIN COONEY, HEAD OF SALES

colin@trivariateresearch.com
617-910-7934

BACKGROUND AND RESEARCH SUMMARY

Background: We have long been interested in how management teams at public companies are variably compensated. Our view is that human beings do not do things that purposely destroy their own net worth. Hence, in businesses that are meritocracies, a clear set of metrics that drive C-suite variable compensation, aligned with shareholder incentives, can be valuable.

Methodology: We used the ChatGPT API to extract CEO compensation target variables and their weights from the compensation discussion & analysis section of each companies latest DEF 14A filing. We were able to extract usable information on **604 companies of the top 1,000 US equities**. We studied the returns of various compensation structures by looking at the GICS industry-group relative returns of each stock since the source document was published. For today's research, we focus **only** on the current snapshot of performance from the last year. There are several notable takeaways.

Most common metrics: Boards and compensation committees generally use **seven common** metrics to evaluate CEOs and motivate both long-term and annual compensation. These categories include the stock return itself – CEOs get paid more if their **stock goes up, operational goals (e.g., satisfaction surveys from customers, or perception of safety from employees), earnings per share (EPS), revenue, time-based metrics, margins, and ESG.**

Annual and long-term incentives slightly differ: Among the seven metrics for annual compensation, operational goals are the most frequent, followed by revenue and margins. Stock returns is the most common metric of the seven metrics measuring long-term goals, used by 332 of the 604 companies (55%) we studied.

Weights: Stock return has the highest average target weight for long-term incentives, while EPS goals have the highest weight for annual incentives. ESG targets are typically a small percentage of variable compensation when they are included, on average 20% (long-term) and 13% (annual).

RESEARCH SUMMARY AND CONCLUSIONS

Base salary: In addition to extracting variable compensation data, we asked ChatGPT to extract the base salary of each CEO from the filings. Information Technology ($900,000), Real Estate ($950,000), and Financials ($1.1 million) have the lowest mean base salary. Communication Services ($1.5 million), Energy ($1.3 million), and Consumer Discretionary ($1.3 million) have the highest.

Compensation structure simplicity is best: The more target variables that are used to incentivize CEOs, the worse the subsequent stock returns have been. Companies that use only one variable for their annual CEO incentive structure beat their industry group by 2.5% on average and those that use four variables lag their industry group by an average of 5.1%. We find that the relationship is monotonic with each additional target variable underperforming. The simpler the CEO compensation structure, the better the subsequent stock performance.

Time matters: Time at the firm matters the most of any CEO incentive variable. Interestingly, companies which use margins to motivate CEOs perform the worst. Our judgment is that many of these are lower margin businesses where the CEO might try but not be able to drive material margin expansion. If you make low margin products, there is only so much you can do.

Lower salaries are better: Since their last filings, which averages 88 trading days for the companies in this analysis, we find that generally the lower the base salary of the CEO, the better the stock performance. This is likely because Technology has done well and has the lowest average salary. The highest quintile of CEO base salary (>$1.43M) has underperformed its industry group by 3.6% on average while the lowest quintile of base salary (<$820k) has outperformed by 5.6%.

Biases: There is no doubt that there could be other factors that are explaining returns, given we are only looking at the recent snapshot. We intend to do more long-term research on this topic in the coming weeks. Don't hesitate to reach out to us for any company-specific information.

THERE ARE SEVEN COMMON METRICS BOARDS USE TO ASSESS CEOS

We classified each of the target variables into one of seven buckets: stock return, operational goals, earnings per share (EPS), revenue, time-based, margins, and ESG. We also broke compensation into long-term, and annual categories. The most common target variables for long-term incentives are stock returns, operational goals, and EPS targets. Operational goals, which contain a wide variety of targets from client satisfaction rates to store openings, are the most common target variable for annual incentives, followed by revenue and margins.
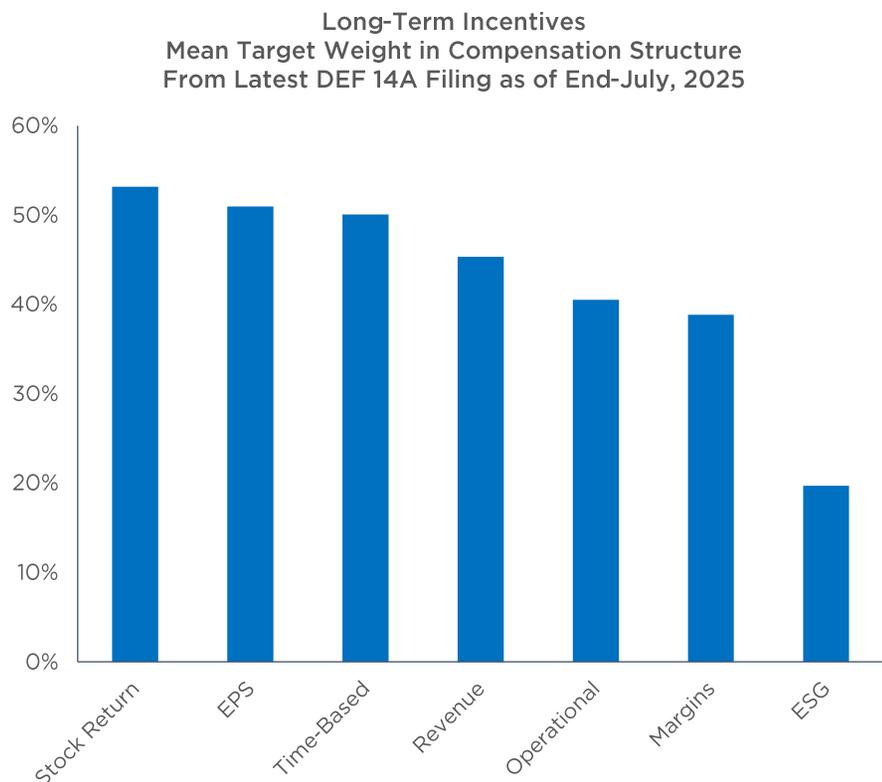
Number of Compensation Target Types
Sample of 604 Companies from Top 1k US Equities
From Latest DEF 14A Filing as of End-July, 2025

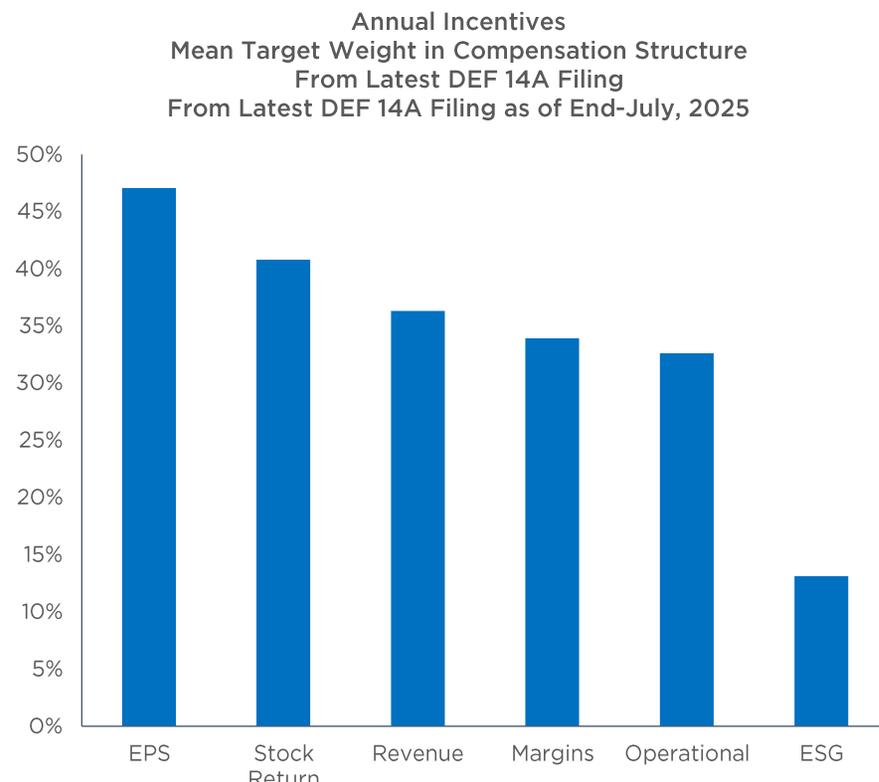■ Long-Term Incentives   ■ Annual Incentives

Source: Trivariate Research
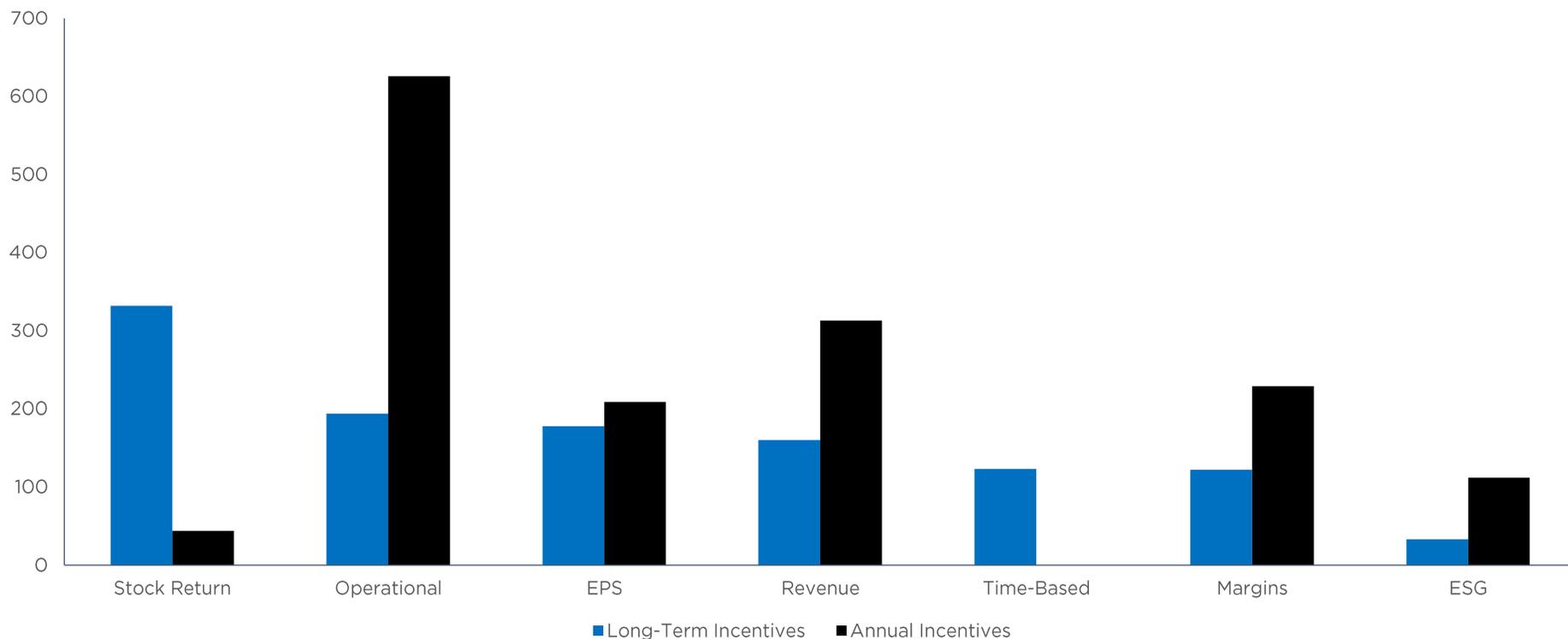
TRIVARIATE RESEARCH

STOCK RETURN AND EPS ARE USUALLY WHAT BOARDS WEIGH MOST

In addition to classifying the target variables, we asked ChatGPT to provide the relative weight of each target if they are provided in the DEF 14A document. <u>Stock return has the highest average target weight for long-term incentives</u> (left), while EPS goals have the highest weight for annual incentives (right). ESG targets are typically a small percentage of variable compensation when they are included, on average 20% if included in long-term incentives and 13% if included in annual incentives.

Long-Term Incentives
Mean Target Weight in Compensation Structure
From Latest DEF 14A Filing as of End-July, 2025

Source: Trivariate Research

Annual Incentives
Mean Target Weight in Compensation Structure
From Latest DEF 14A Filing
From Latest DEF 14A Filing as of End-July, 2025
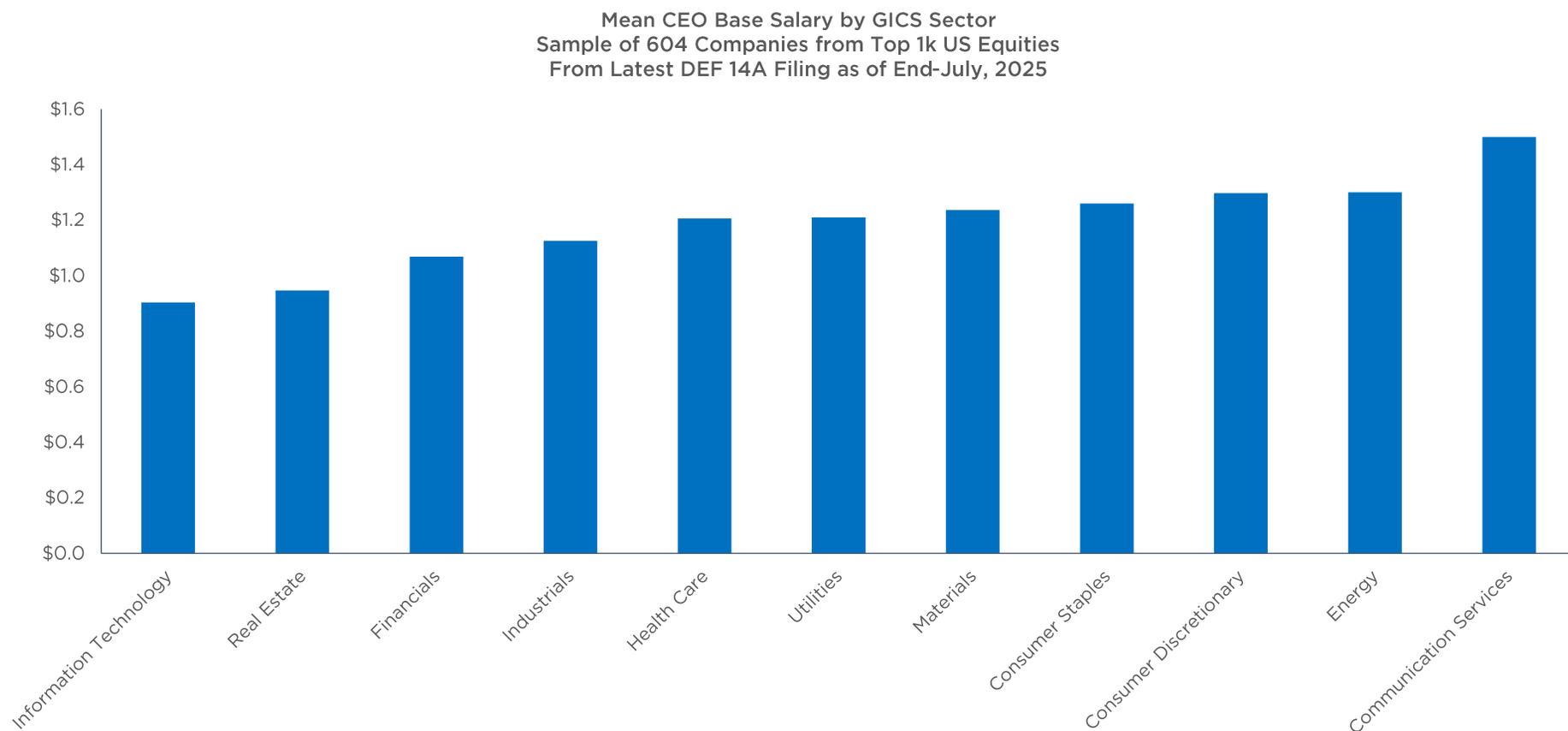
Source: Trivariate Research

TECHNOLOGY HAS LOWEST BASE SALARY, COMM. SERV. THE HIGHEST

In addition to extracting variable compensation data, we asked ChatGPT to extract the base salary of each CEO from the filings. Information Technology, Real Estate, and Financials have the lowest mean base salary. Communication Services, Energy, and Consumer Discretionary have the highest.

Mean CEO Base Salary by GICS Sector
Sample of 604 Companies from Top 1k US Equities
From Latest DEF 14A Filing as of End-July, 2025

Source: Trivariate Research

TRIVARIATE RESEARCH

THE SIMPLER THE COMPENSATION STRUCTURE, THE BETTER

The more target variables that are used to incentivize CEOs, the worse the subsequent stock returns have been. Companies that use only one variable for their annual CEO incentive structure beat their industry group by 2.5% on average and those that use 4 variables lag their industry group by 5.1%. We find that the relationship is monotonic with each additional target variable underperforming. <u>The simpler the CEO compensation structure, the better the stock performance.</u>

Industry-Group Relative Returns Since Last DEF 14A
Descriptive Statistics by Target Timeframe and Number of Targets

Target Timeframe	Number of Target Variables	Number of Companies	Mean	Standard Deviation	Minimum	25th Percentile	Median	75th Percentile	Maximum
Annual Incentives	1	156	2.5%	23.1%	(34.5%)	(11.7%)	(1.0%)	10.2%	139.0%
	2	227	0.7%	27.5%	(51.1%)	(14.7%)	(3.4%)	9.4%	219.6%
	3	154	(3.5%)	19.3%	(38.2%)	(15.1%)	(5.9%)	2.1%	102.6%
	4	37	(5.1%)	15.8%	(45.2%)	(14.5%)	(2.6%)	5.6%	33.0%
Long-Term Incentives	1	188	1.8%	28.6%	(45.4%)	(13.6%)	(2.2%)	8.3%	219.6%
	2	261	(0.3%)	24.5%	(51.1%)	(13.1%)	(4.5%)	6.1%	162.5%
	3	102	(2.2%)	18.8%	(47.2%)	(15.6%)	(3.0%)	7.0%	66.5%

Source: Trivariate Research

TIME-BASED COMPENSATION STRUCTURE BEATS OTHER TARGETS

When analyzing the variables used to evaluate long-term compensation, there is a clear winner with time-based compensation performing best. Incentivizing CEOs over multiple years in and of itself matters more than what the incentives are! This makes sense to us, as giving a CEO a set amount of stock or options a year will reward consistent price appreciation, while other target variables can be "gamified". We are reminded by Goodhart's law, which is the idea that "when a measure becomes a target, it ceases to be a good measure."

Industry-Group Relative Returns Since Last DEF 14A
Descriptive Statistics by Target Variable Type for Long-Term Compensation Incentives
Target Variable is At Least 50% of Long-Term Compensation

Target Variable	Number of Companies	Mean	Standard Deviation	Minimum	25th Percentile	Median	75th Percentile	Maximum
Time	44	4.3%	32.6%	(51.1%)	(9.9%)	1.9%	11.9%	139.0%
EPS	94	0.6%	20.6%	(37.6%)	(12.1%)	(2.7%)	11.4%	88.8%
Stock Return	160	(1.5%)	21.6%	(51.1%)	(14.8%)	(3.8%)	5.8%	139.0%
Revenue	73	(1.8%)	21.2%	(40.0%)	(14.5%)	(4.2%)	7.4%	83.5%
Operational	76	(1.9%)	19.7%	(40.0%)	(13.3%)	(4.9%)	8.0%	96.2%
Margins	44	(2.4%)	13.2%	(32.2%)	(11.9%)	(3.1%)	8.2%	25.7%

Source: Trivariate Research

THE LOWER THE CEO SALARY, THE BETTER THE PERFORMANCE

Some CEOs have no salary (left). Only 20% have a salary below $820,000. Only 20% have a salary above $1.43 million. We find that generally the lower the base salary of the CEO, the better the stock performance (right). The highest quintile of CEO base salary (>$1.43M) has underperformed its industry group by 3.6% on average while the lowest quintile of base salary (<$820k) has outperformed its industry group by 5.6%.

CEO Base Salary ($M) Quintile Boundaries
From Latest DEF 14A Filing as of End-July, 2025

Base Salary Quintile	Minimum ($M)	Median ($M)	Maximum ($M)
High Base Salary	$1.43	$1.54	$8.97
Q2	$1.21	$1.30	$1.42
Q3	$1.03	$1.10	$1.20
Q4	$0.82	$0.96	$1.02
Low Base Salary	$0.00	$0.61	$0.82

Source: Trivariate Research

Mean Industry-Group Relative Returns Since Last DEF 14A by CEO Base Salary Quintile
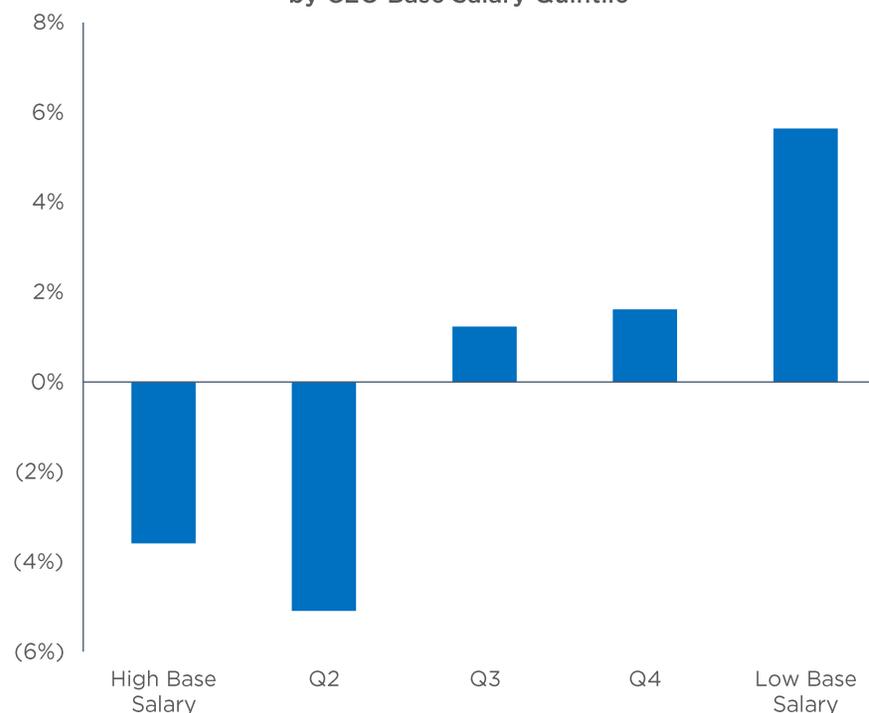
Source: Trivariate Research

DISCLOSURES

Disclaimer

This presentation is confidential and may not be reproduced or distributed without the express prior written permission of Trivariate Research LP and its affiliates (collectively, "**Trivariate**").

The information contained herein reflects the opinions and projections of Trivariate as the date of publication, which are subject to change without notice at any time subsequent to the date of issue. Trivariate does not represent that any opinion or projection expressed herein will be realized. All information provided is for informational and research purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific portfolio investment, security or other asset. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data or other information presented. Information obtained by Trivariate from third party sources in connection with the preparation of this presentation has not been independently verified by Trivariate. Additional information regarding Trivariate is available on request.

Any projections, forecasts, targets or other estimates presented herein constitute "forward-looking statements" that can be identified by the use of forward-looking terminology such as "may," "will," "should," "could," "would," "predicts," "potential," "forecasted," "continue," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," or the negatives thereof or other variations thereon or comparable terminology. Furthermore, any projections, targets, forecasts or other estimates in this presentation are "forward-looking statements" and are based upon certain assumptions that may change. Due to various risks and uncertainties, actual events or results or the actual performance of the funds may differ materially from those reflected or contemplated in such forward-looking statements. Moreover, actual events are difficult to predict and often depend upon factors that are beyond the control of the Trivariate. Nothing herein shall under any circumstances create an implication that the information contained herein is correct as of any time after the earlier of the relevant date specified herein or the date of this presentation. In addition, unless the context otherwise requires, the words "include," "includes," "including" and other words of similar import are meant to be illustrative rather than restrictive. Forward-looking statements and discussions of the business environment included herein (e.g., With respect to financial markets, business opportunities, demand, investment pipeline and other conditions) are subject to the ongoing novel coronavirus outbreak ("**COVID**" or "**COVID-19**"). The full impact of COVID-19 is particularly uncertain and difficult to predict, therefore such forward-looking statements do not reflect its ultimate potential.

This shall not constitute an offer to sell or the solicitation of an offer to buy any interests in any fund, product or account that is or may in the future be advised or managed by, Trivariate or any of its affiliates.

All data sourced from S&P Global, Bloomberg, or our Trivariate estimates. All forward-looking-statements reflect the opinion of Trivariate.