A CHIEF EXECUTIVE RESEARCH REPORT

CFO Compensation in the Wake of Covid-19: What Should You Expect?

Chief Executive's CEO and Senior Executive Compensation survey of more than 1,400 private U.S. companies finds median CFO base salary on the rise—especially in private equity-owned companies.

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This past year was a time of unprecedented events. Many executives saw their salaries and bonuses cut by deep margins as a strategy to keep their businesses afloat. The trend, however, is changing in 2021, according to preliminary data collected from nearly 1,500 companies as part of our annual CEO & senior executive compensation research for private companies.

An early analysis indicates that C-Suite salaries have, for the most part, already returned to pre-Covid levels. For CFOs more specifically, preliminary data shows that base salaries are expected to be up 2.8 percent on average, year-over-year, while bonuses are projected to rise by 4 percent compared to 2020. That increase is even more pronounced when looking at sectors most hard-hit by the crisis. (Detailed analyses of compensation across sectors will be included in the new edition of the report, expected to be released in early fall. Visit Compreport.ChiefExecutive.net for all the details.)

That's welcome news considering that, according to *Chief Executive*'s 2020-21 CEO and Senior Executive Compensation Report for Private Companies, CFOs reported the largest Covid-related cuts to their median base salary in 2020, compared to other C-Suite roles (other than CEOs and presidents). This is most likely because behind CEOs and presidents, CFOs are the highest compensated role in the C-Suite and therefore form a larger pool to pull from when cuts are warranted. But the expected increases in median CFO compensation for 2021 may be an indication that the cuts experienced in 2020 are officially behind us and that the trends observed prior to the crisis are picking up again.

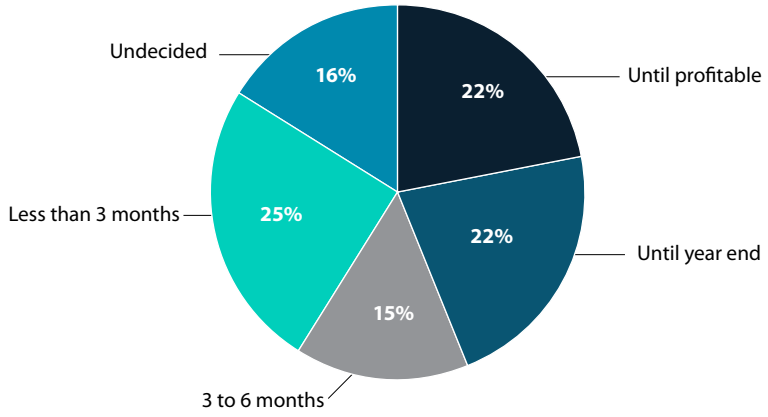
Between 2018 and 2019, salaries for CFOs increased across the board. And the fact that these increases had little variation across industries, company sizes and ownership types speaks to the growing importance of the CFO function in all companies and a desire to retain skilled talent in that role. The increasingly complex, strategic nature of the CFO job, coupled with the potential for a large number of post-Covid retirements among experienced finance leaders, will undoubtedly continue to fuel the war for top talent by raising salaries and total compensation across the C-Suite—and for CFOs in particular.

THE COVID EFFECT

Among the private companies we polled in Q2 of 2020, over one-third (34 percent) reported making temporary cuts to their CFO's salary in 2020 in response to the Covid crisis—the majority reducing it less than 30 percent, with a weighted average reduction of 23.5 percent.

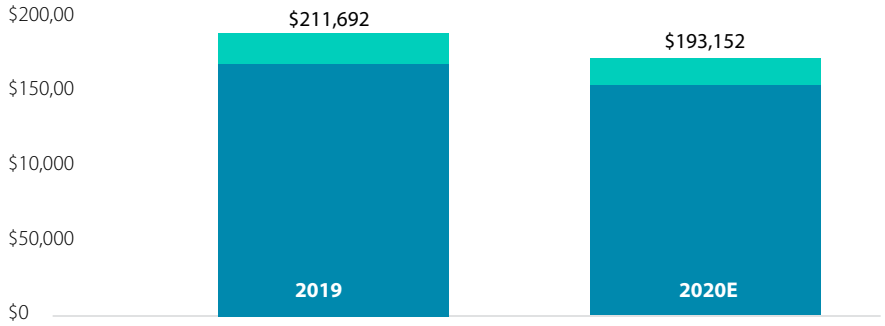
Of the companies that reduced their CFO's salary, the median reduction on an annualized basis, taking into account the planned duration of these cuts, was 4.7 percent. This is on par with other functions of the C-Suite, such as COOs and heads of HR, whose annualized base salaries declined by 4.2 and 4.0 percent, respectively, due to the effects of Covid-19.

Duration of CFO Base Salary Reductions in Response to Covid-19



In addition to those cuts, the overall median CFO bonus was also expected to decline in 2020. Bonus awards were projected to be down a full third from their 2019 value, bringing CFOs' median total expected cash compensation for 2020 to $193,152, down nearly 9 percent from 2019 when they earned $211,692. However, preliminary results from our 2021 survey reveal that the actual bonus reductions for 2020 weren't quite as dramatic as had been anticipated in Q2 of last year.

Expected CFO Cash Compensation in 2020 vs. Cash Compensation in 2019

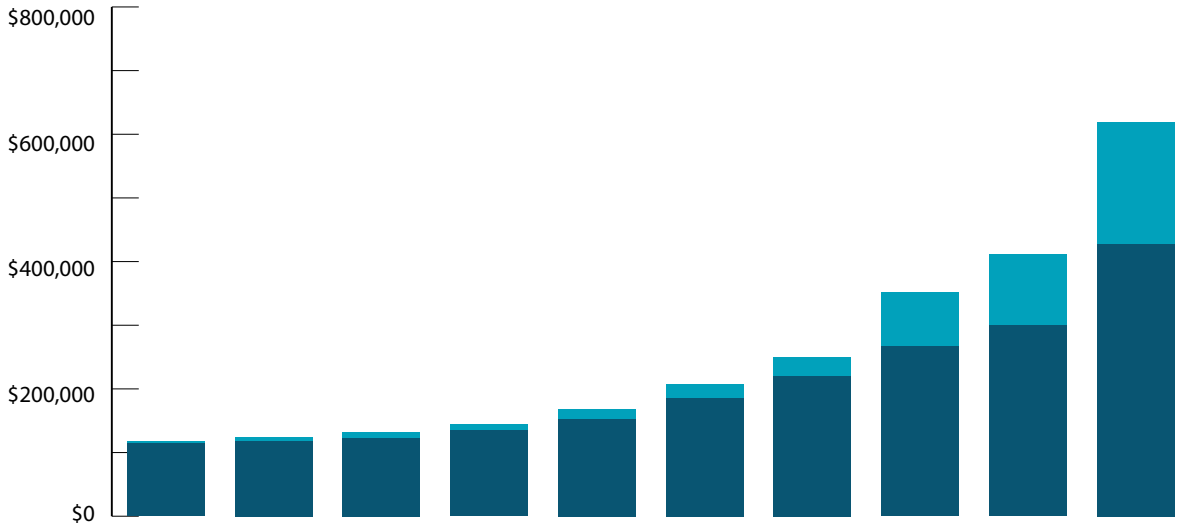


	2019	2020E
BONUS	$30,000	$20,000
BASE SALARY	$181,692	$173,152
TOTAL	$211,692	$193,152

COMPANY SIZE

Company size—as defined by annual revenues—is the most significant factor in determining CFO compensation packages. Not surprisingly, large companies tend to pay more than their smaller peers on average. They have the benefit of scale and more sophisticated financial requirements and needs. In addition, larger companies tend to have more cash on their books and available bank lines of credits, so it isn't surprising that pandemic-related cuts were the smallest among CFOs in companies with $1 billion+ in annual revenues. Those same companies were among the least affected by the Covid crisis in general, and many even saw increases in demand for their products or services, boosting revenue and profitability.

Expected Median CFO Cash Compensation in 2020 by Annual Revenues

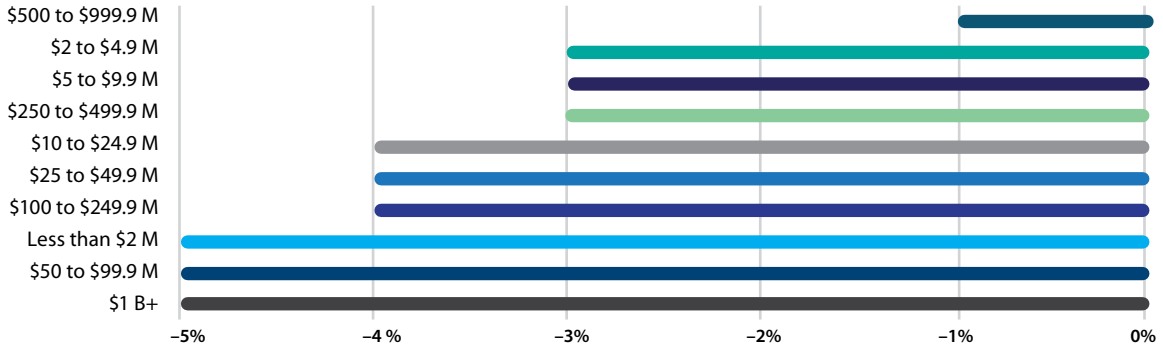


	<$2M	$2 to $4.9 M	$5 to $9.9 M	$10 to $24.9 M	$25 to $49.9 M	$50 to $99.9 M	$100 to $249.9 M	$250 to $499.9 M	$500 to $999.9 M	$1B+
BONUS	$2,500	$6,000	$9,270	$10,000	$15,000	$21,000	$30,000	$85,000	$112,000	$190,667
BASE SALARY	$114,596	$118,218	$122,936	$135,000	$152,960	$186,000	$220,000	$266,200	$300,000	$427,950
TOTAL	$117,096	$124,218	$132,206	$145,000	$167,960	$207,000	$250,000	$351,200	$412,000	$618,617

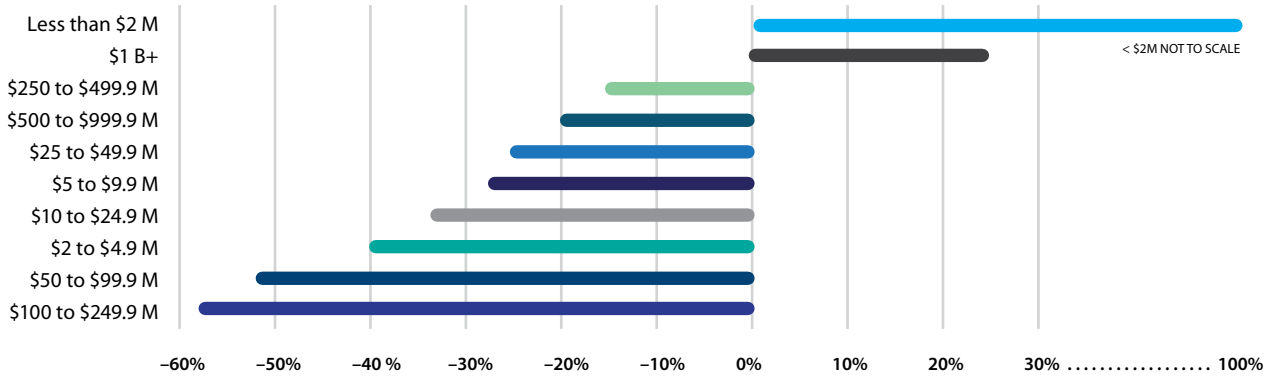
Although the majority of companies projected making cuts to both the salary and bonus of their CFO in 2020, companies with $1 billion+ or less than $2 million in revenues planned to increase the CFO bonus amount in 2020 to offset the large cuts to the base salary. This is largely due to the fact that many companies with revenues of $1 billion+ posted a better year than expected, due to a combination of PPP loans and an increase in demand for goods.

CFOs in companies with revenues between $50 and $99.9 million and $100 to $249.9 million, however, expected significant cuts to both their base salary—down 5 and 4 percent respectively—and bonus award—53 and 57 percent.

Average Change in Median CFO Base Salary by Annual Company Revenues (2019-2020)



Average Change in Median CFO Bonus by Annual Company Revenues (2019-2020)



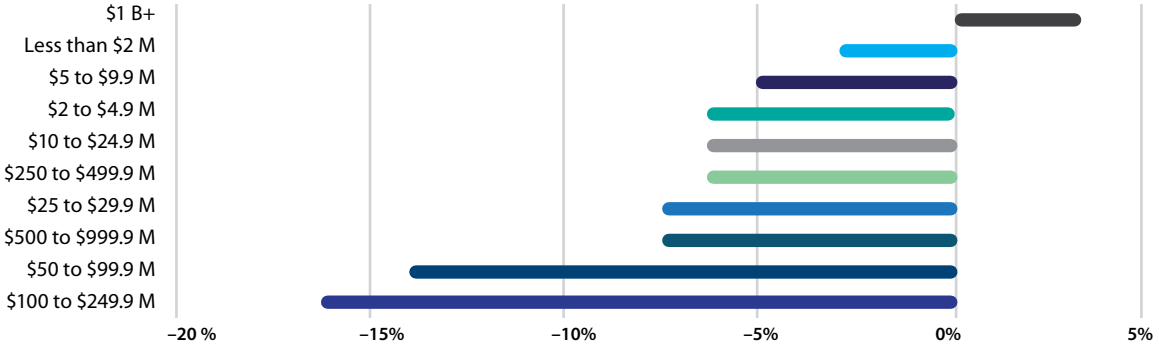
The large variations in median total cash compensation that were expected for CFOs across company sizes can be attributed mainly to cuts in bonuses, because salary cuts were expected to remain within 1 to 5 percent. For instance, the median total cash comp of CFOs in companies with annual revenues between $50 to $99.9 million and $100 to $249.9 million was expected to decline by 14 and 16 percent, respectively, but their base salaries were cut by no more than 5 percent.

CFOs in smaller companies (less than $2 million in annual revenues) were expected to experience the smallest cut to their total cash compensation, with a weighted average decline of 3 percent compared to 2019. Those with $5 to $9.9 million in revenues forecasted a 5 percent decrease, and similarly, those with $2 to $4.9 million in revenues projected a 6 percent decrease.

The relatively small reduction in CFO cash compensation in companies with under $10 million in annual revenues is likely due to the critical role finance executives at smaller companies played in helping navigate their companies through the crisis by securing PPP loans and keeping their company's cash solvent. And preliminary data from the 2021-22 CEO and Senior Executive Compensation Report shows that those reductions were not as deep as many companies had originally planned.

CFOs in companies with $1 billion+ in revenues were more fortunate, as their total cash compensation was projected to increase by 3 percent in the wake of Covid—an increase that can be attributed to their large expected bonuses.

Average Change in Median CFO Cash Compensation by Annual Company Revenues (2019-2020)



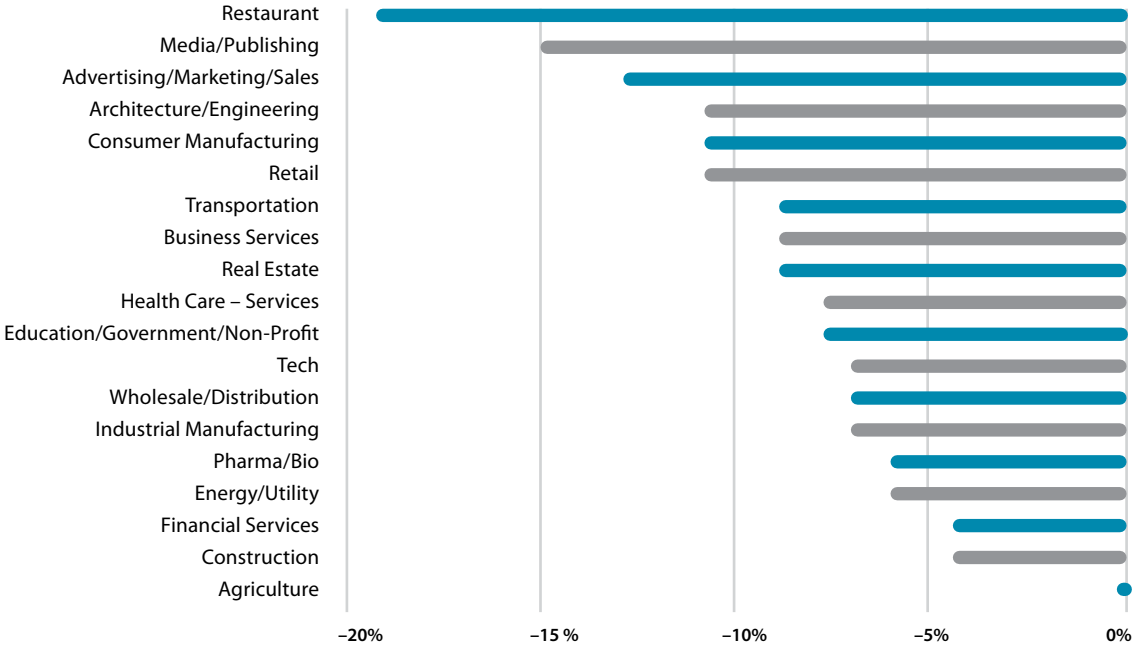
INDUSTRY

Covid-19 has affected all industries differently. In turn, the cuts made to CFO base salaries in response to new regulations and practices in 2020 varied widely. As one might expect, CFOs in the restaurant industry experienced the largest cuts to their base salary specifically due to the effects of Covid-19; their salary decreased by 18 percent, on average, and was expected to be $162,350 in 2020.

Those in media and publishing, as well as those in advertising, also forecasted large decreases to their base salary due to Covid-19— 15 and 13 percent on average, respectively.

The CFOs whose base salaries were least affected by Covid-19 were those in the agriculture industry, where no change in base salary was forecasted. Those in construction and financial services also experienced minimal cuts, at 4 percent each, bringing in an expected median salary of $185,000 and $200,000 in 2020, respectively.

Planned Salary Reductions in 2020 Due to the Effects of Covid-19
(Survey of over 1,400 U.S. private companies from April 27 to July 6, 2020)

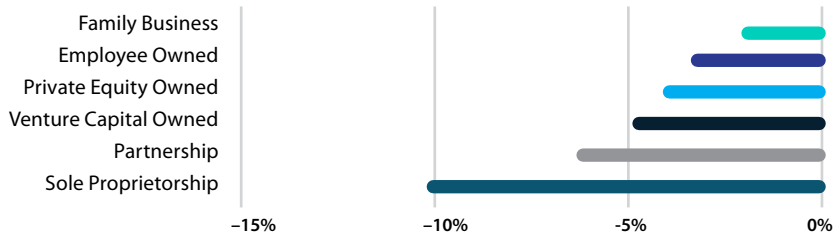


OWNERSHIP STRUCTURE

While there are large variations in the amount CFOs are compensated based on their company's ownership type (e.g., CFOs of PE- and VC- backed companies tend to be the most highly renumerated), changes to their compensation in 2020 weren't as pronounced across ownership structures.

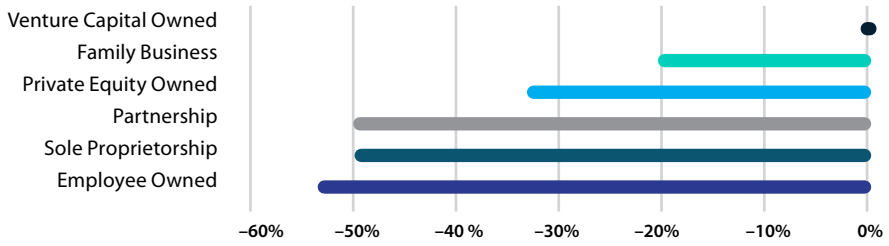
CFOs in sole proprietorships were expected to experience the largest cut to their median base salary in 2020, down 10 percent from 2019. Those working at partnerships also projected a hefty slash to their salaries, -7 percent in the wake of Covid. The least affected CFOs by ownership type were those working at family businesses, where base salaries were only expected to be cut by 2 percent between 2019 and 2020, for an expected median salary of $172,025.

Average Change in Median CFO Base Salary by Ownership Type (2019-2020)



The largest cuts to CFO bonuses in 2020 were forecasted among employee-owned companies and sole proprietorships, at 52 and 50 percent, respectively. Most CFOs in VC-backed firms dodged the bullet and saw only modest declines in salaries and no change in their bonuses, contributing to a modest 4 percent cut to their expected median total cash compensation in 2020.

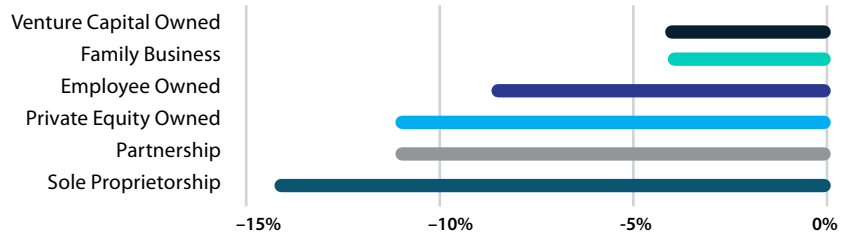
Average Change in Median CFO Bonus by Ownership Type (2019-2020)



CFOs in sole proprietorships expected the largest decline in their median total cash compensation, down 14 percent in 2020 from 2019. Those working for partnerships or in companies owned by private equity firms projected an 11 percent decrease each in their median total cash compensation. Those in both VC-backed and family-owned businesses expected their total cash compensation down 4 percent.

For CFOs in VC-backed firms, this cut was to be taken solely out of their salary, while at family businesses, the majority was projected to be taken from the bonus.

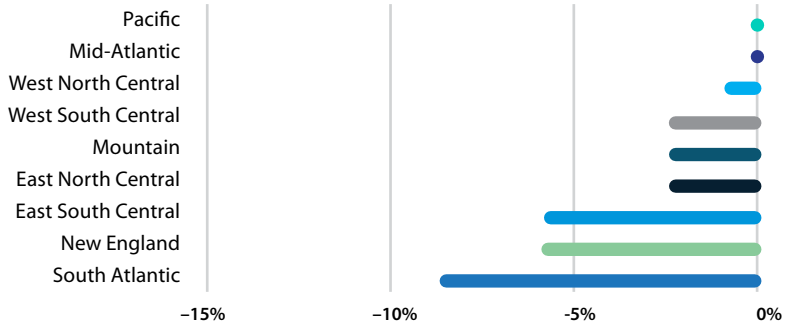
Average Change in Median CFO Cash Compensation by Ownership Type (2019-2020)



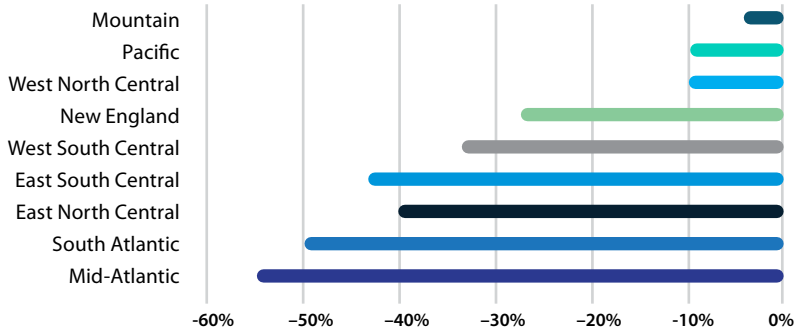
REGION

Given the varying impact of the Covid-19 pandemic across states, region was a considerable factor in how the crisis affected CFO compensation. CFOs in regions such as the South Atlantic (including Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida) reported a decline of 8 percent in their median base salary and expected their bonuses to be cut in half, resulting in a 14-percent decline in their total cash compensation from 2019 to 2020, to $194,209. CFOs in the Pacific and Mid-Atlantic regions forecasted no decrease in their median base salaries due to Covid but expected reductions in bonuses.

Average Change in Median CFO Base Salary by Region (2019-2020)



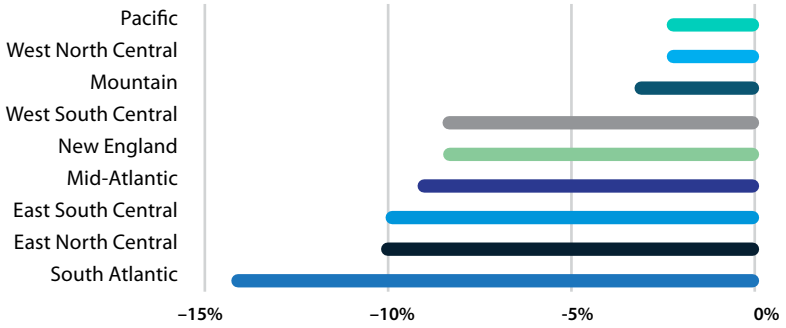
Average Change in Median CFO Bonus by Region (2019-2020)



When comparing the expected median change in total cash compensation, CFOs in the Pacific region, where many tech companies reside, declined the least, at 2 percent. Their bonus was expected to decline by 10 percent in 2020 from 2019, while their base salary was not expected to change, bringing their total median cash compensation to $236,000 in 2020 compared to $240,000 in 2019.

CFOs working for companies based in the Mid-Atlantic region expected a 9 percent decrease in their median total cash compensation, attributed solely to bonus reductions, similar to the cuts experienced by CFOs in the Pacific region.

Average Change in Median CFO Cash Compensation by Region (2019-2020)

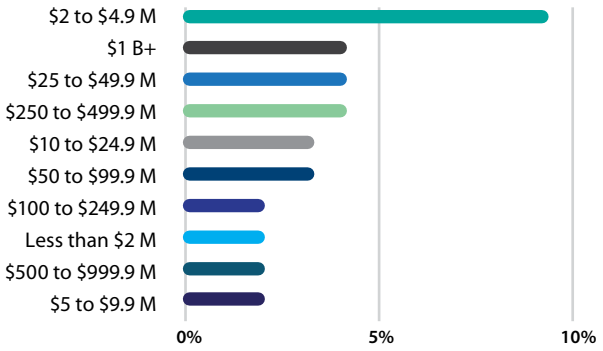


PREVIOUS TRENDS

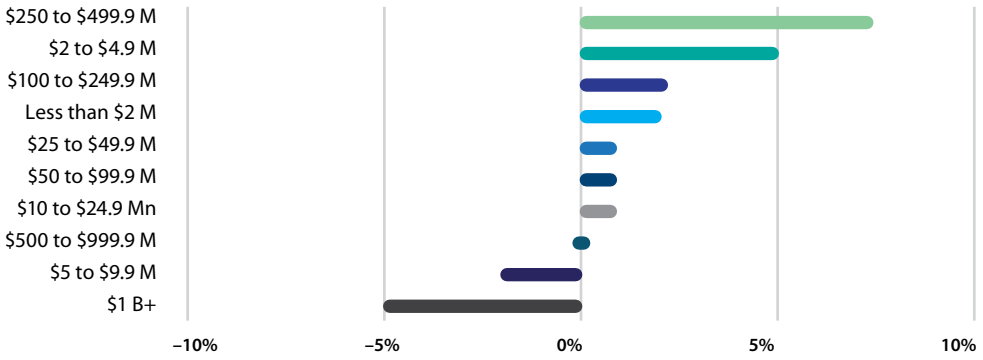
Salary cuts implemented to help weather the 2020 pandemic were intended, for the most part, to be paid back once the crisis ended, so looking at data from previous years can help us better assess trends in CFO compensation. Data shows that the overall median CFO base salary and bonus increased 3 percent each from 2018 to 2019, when their respective values were $181,692 and $30,000 for a median total cash compensation value of $211,692 in 2019.

There was a moderate amount of variation in CFO salary and bonus changes from 2018-2019 based on company size. Base salary increased by the largest margin at companies with $2 to $4.9 million in annual revenues, with an increase of 9 percent year over year. This is significantly higher than the 4-percent increase we saw at companies with $1 billion+ in annual revenues. Although larger companies' overall compensation packages are more substantial than those of the smaller companies, there is no correlation between company size and base salary change year over year.

Average Change in Median CFO Base Salary by Annual Company Revenues (2018-2019)



Change in Median CFO Cash Compensation by Region (2018-2019)

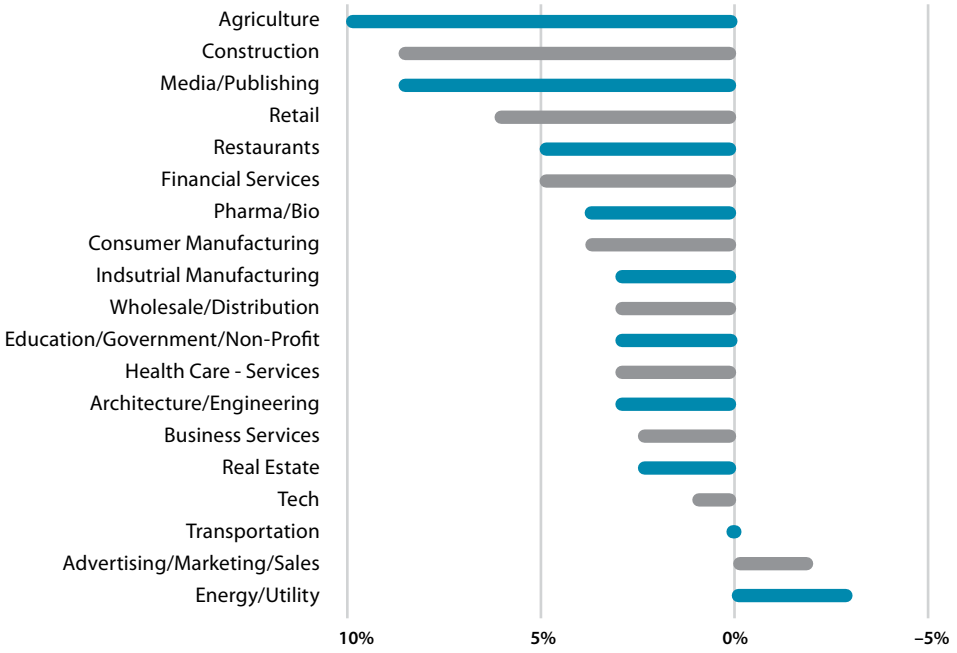


Bonus awards were also mixed in 2019. Among the largest companies ($1 billion+ in annual revenues), there was a 5 percent drop in CFOs' median bonus, although this was probably because some of the largest companies were in industries that were negatively impacted by trade tariff changes.

The median CFO bonus at smaller companies (those with $2 to $4.9 million in revenues and those with less than $2 million in revenues) increased by 5 and 2 percent, respectively, between 2018 and 2019, while mid-sized companies with $250 to $499.9 million in annual revenues increased bonuses by the largest margin, 7 percent during the same period.

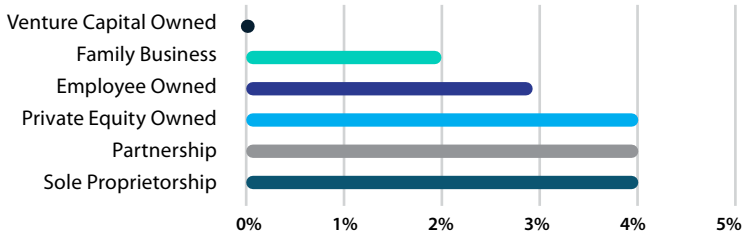
Across industries, there were some notable trends pre-Covid. Most CFOs saw increases of 1 to 8 percent between 2018 and 2019. Only two industries—advertising and energy— decreased their CFOs' base salary—2 and 3 percent, respectively. CFOs in agriculture enjoyed a median 10 percent raise in 2019, the highest industry percentage.

Average Change in Median Base Salary by Industry (2018-2019)



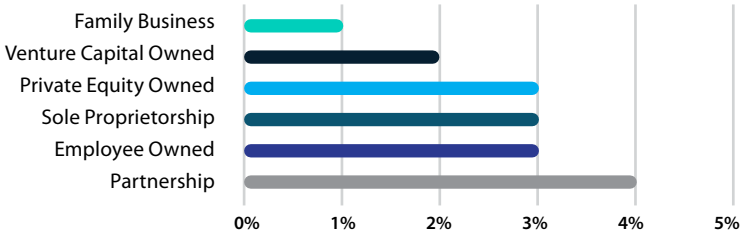
CFOs in the restaurant, media and retail industries, who projected the largest cuts to their salaries in 2020 in response to Covid-19, had enjoyed some of the largest increases, as a percentage of their salaries, in 2019: up 5 percent for restaurant industry CFOs, up 8 percent for media CFOs and up 6 percent for retail CFOs.

Average Change in Median CFO Base Salary by Ownership Type (2018-2019)



There is less variation in year-over-year CFO compensation by ownership type, however. Base salary and bonus changes between 2018 and 2019 all were between 0 and 4 percent.

Average Change in Median CFO Bonus by Ownership Type (2018-2019)



An interesting finding, however, is that CFOs in family businesses saw their base salary increase by the highest percentage between 2018 and 2019, at just over 4 percent, but they increased their bonuses by the least, at a meager 1 percent.

Instead, CFOs at partnerships experienced the highest raise in bonus, as a percentage of salary, at 4 percent.

CONCLUSION

Despite the events of the past year, most U.S. companies have found a way to persevere. With the successful rollout of vaccines, the end of the Covid-19 crisis is in sight, and with it comes expectations for compensation to return to pre-crisis levels. Attracting—and retaining—top talent has become more difficult than ever, and companies should ensure that their cash compensation plans are at least on par with the median of their peer group and, ideally, skewed toward the top quartile. Visit CompReport.ChiefExecutive.net to access the full 2020-21 report and pre-order the 2021-22 edition coming out in the fall.

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