2021 SHAREHOLDER MEETING AGENDA

BDO

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Introduction

The events of the past year have deeply impacted organizations and industries across the board, forcing management teams to strategically navigate unexpected challenges and new risks. In the boardroom, the need to maintain shareholder confidence remains the top priority, as the world eagerly awaits a return to some sense of economic normalcy.

We anticipate agendas for shareholder meetings to be extensive this year due to the wide-ranging issues organizations—and the world at large—faced over the past 12 months. Pandemic-driven liquidity challenges are of top concern for shareholders, who seek a closer look at how boards and management teams are planning to improve cashflow and drive recovery.

Priorities around a broad array of environmental, social and governance (ESG) matters that were already gaining steam in recent years were brought into greater focus in 2020, including impacts of climate change and the push for diversity, equity and inclusion (DE&I) and racial justice.

Many boards will be facing increased scrutiny in a charged and heavily politicized environment, where expectations are high among all involved. Between proxy advisory organizations updating voting guidelines, heightened shareholder interest in ESG disclosure activity, lingering pandemic impacts and more, boards will need to balance short-term decisions with their long-term visions and provide support for plans that will help the organization prosper beyond the crisis.

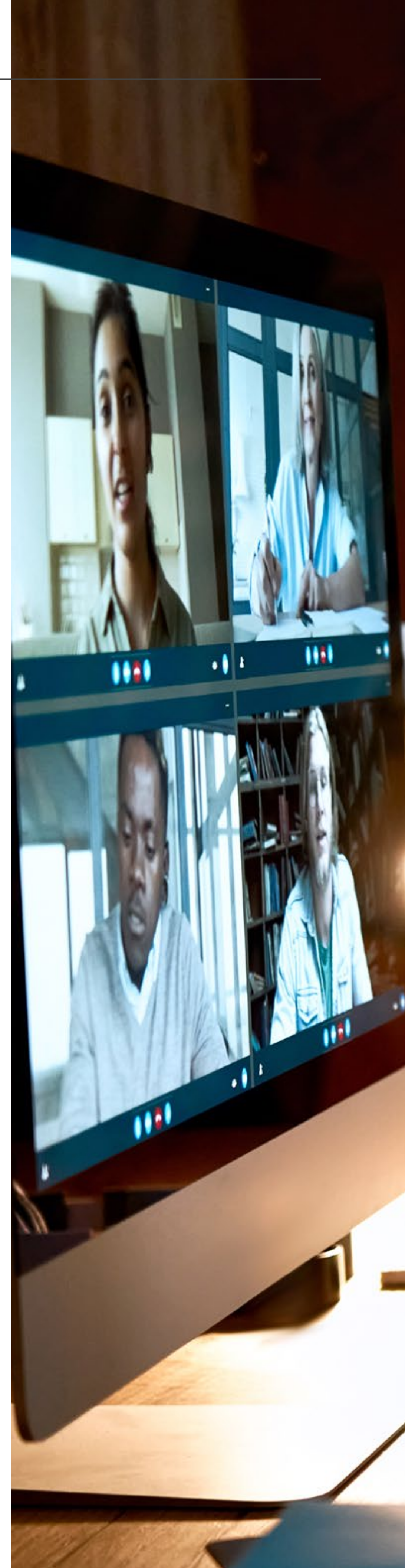
BDO's 2021 Shareholder Meeting Agenda weighs in on a variety of topics that will likely arise at shareholder meetings in the year ahead and provides considerations and insights for boards and management teams offered by professionals within our **Center for Corporate Governance and Financial Reporting**.

A Look Back at 2020 Shareholder Proposals

In 2020, the beginning of proxy season in the U.S. was upended by the onset of the COVID-19 crisis. This caused the need for a somewhat rapid shift to remote annual shareholder meetings for many as they navigated evolving safety guidelines. Despite the season's chaotic start, the proposals put forth by shareholders generally followed predicted trends and were in line with patterns emerging in recent years.

An analysis of various third-party 2020 proxy season reviews, including **Sullivan and Cromwell's**, combined with a thoughtful reflection on major events from the last 12 months, helps paint a picture of what the 2021 season is shaping up to be. ESG was a significant point of discussion with a record number of proposals reaching a vote and passing, with specific emphasis on sustainability and DE&I. Talk about ESG and DE&I no longer suffices—action is expected. The number of governance proposals related to board composition, written consent, access and voting matters continued the downward trend that began in 2015. This has been helped in part by the SEC's no-action process—which may allow companies to request certain proposals be excluded from proxy voting—a reason these proposals may fail to even reach the voting stage. Additionally, increased engagement of boards with shareholders often has significant impact on whether a proposal gets submitted, withdrawn or actually comes to a vote. Furthermore, as shareholders continually look for new ways to hold boards and executives accountable, proposals that support adoption and disclosure of compensation structures tied to environmental and social performance metrics rose in quantity and scope.

Boards should anticipate issues that may not have been as relevant in the 2020 meetings to arise this year. Calls for disclosures have heightened, signaling shareholders' escalating expectations around transparency and access to executives' thought processes. If 2020 is any indicator, the 2021 proxy season will be packed with proposals. Directors who are keeping a close eye on the landscape and stay informed of matters important to their investor base will have a better sense of what's to come and avoid unwanted surprises.



ESG at the Forefront in 2021

ESG remains high on the agenda for many shareholders.

In particular, environmental and social issues continue to be top of mind for shareholders, institutional investors and corporations. In his **annual letter to CEOs**, BlackRock Chairman and CEO Larry Fink focused heavily on the looming threat posed by climate change as well as the opportunities presented to companies as they seek to plan a transition to net-zero emissions. In the letter, Fink stated,

"We know that climate risk is investment risk. But we also believe the climate transition presents a historic investment opportunity."

He also addressed prominent social issues, centering on the need for transparency around DE&I plans and facing racial injustice head-on.

State Street Global Advisors echoed similar sentiments in its **CEO Letter on 2021 Proxy Voting Agenda**, indicating their stewardship priorities for 2021 will be twofold: addressing climate change and its associated risks and proactively fighting for racial and ethnic diversity.

The emphasis on ESG isn't limited to U.S.-based companies. During the World Economic Forum's annual meeting in Davos, some of the world's largest companies pledged to use a uniform set of "**stakeholder capitalism metrics**"—disclosures centered around ESG and a commitment to sustainability as a driver of long-term value creation. The move, which comes not long after the August 2019 Business Roundtable's (BRT) **Statement** on the Purpose of a Corporation, signifies growing support for the idea that corporations are responsible not only for their returns to shareholders but for their impact on society at large.

SUSTAINABLE IS THE NEW STANDARD

As noted in Sullivan and Cromwell's **review** of the 2020 proxy season, environmental proposals saw higher shareholder support and all four environmental proposals that passed in 2020 related to climate change. At the same time, the Biden administration has indicated that climate change will be a major priority, even issuing a **press release** in late January announcing a series of Executive Orders to "follow through on President Biden's promise to take aggressive action to tackle climate change."

New guidance around sustainability reporting and disclosures is also growing in popularity. Expectations from BlackRock, State Street, Vanguard and other institutional investors signal an ongoing need for companies' reporting to align with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB). State Street also reinforced their commitment to their R-Factor tool, which scores companies on their business operations and governance performance as it relates to financially material ESG challenges facing the company's industry. Such measures are not only shared with individual companies to help drive improvement, but also with clients and to construct new ESG indexes to inform the investing community at large. These activities from influential institutional investors leave little room in the conversation for organizations not currently addressing material climate-related and other ESG risks to their business or those with no plans in place to do so.

Sustainability is a priority not only due to genuine concerns about the planet, but also because of its positive impact on returns, as sustainable investments are seen as having greater long-term potential. Both **BlackRock** and **State Street** cite research in their CEO letters that shows companies with better ESG metrics outperform their peers—both in more stable times and during the pandemic. Boards should anticipate more shareholder interest around their plans for transitioning to a net-zero economy or aligning with the **Paris Agreement**, which the U.S. recently rejoined.

Choosing to not prioritize sustainability issues poses a significant risk for board members. ISS recently **updated** their policies to explicitly include poor oversight of ESG issues—namely climate change—in their definition of what constitutes a material failure of risk oversight.

BDO's Take: Companies can no longer put sustainability plans and practices on the back burner. Stakeholders see through approaches aimed at checking the box. Now, they are voicing expectations for boards to be further down the path to connecting long-term sustainable business practices with corporate risk management and strategy, as well as devising performance indicators to drive accountability within the organization.

Boards and management teams should use a clear mandate to view sustainability as an opportunity to closely evaluate the areas of related risk and opportunity within their organizations. These assessments should not just look at the possible impact on business in the present and near term, but also consider ongoing risks and opportunity for the future. Comprehensive risk assessments, outlined plans for mitigating risk and clear KPIs will help boards monitor progress as well as satisfy shareholders. Beyond that, it allows leadership to secure the future of the business by ensuring operations will be able to continue in a landscape that is rapidly evolving from the one we see today.

Our BDO in the Boardroom Podcast episode on "ESG: A Catalyst for Strategic Boardroom Conversations" discusses how to tackle ESG holistically, moving beyond obligatory disclosures and toward innovative opportunities and enhanced reputational benefits.

HUMAN CAPITAL MANAGEMENT HITS NEW HEIGHTS

In 2020, conversations around human rights were in the limelight, especially as the Black Lives Matter movement gained sweeping media attention. These conversations have made their way prominently onto the board's agenda. Racial justice, as well as a company's overall focus on the health and welfare of all employees, are likely to be points of interest this shareholder season as shareholders expect commitment as well as immediate action.

Institutional investors are also dialed into human capital management (HCM) issues, concentrating heavily on workforce diversity. BlackRock, State Street and Vanguard all focused on the topic in their external communications. In Vanguard's 2020 investment stewardship report, former leader of Vanguard's Investment Stewardship program Glenn Booraem said, "Diversity, equity, and inclusion drive long-term value for our investors. We expect boards to understand the potential impacts of social issues in the near and long term…Boards should understand the benefits of getting it right and the risks of getting it wrong." Major corporations like McDonald's are holding themselves to account, making independent commitments to diversifying leadership.

More boards recognize that diversity is key to both maintaining stakeholder satisfaction and meeting performance goals. According to the 2021 BDO Winter Board Pulse Survey, boards are turning efforts toward updating their corporate strategies to make DE&I a priority.

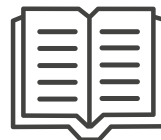
TOP DE&I EFFORTS IN 2021 CORPORATE STRATEGIES

35%

Establishing and tracking DE&I effort metrics

33%

Increasing transparency and disclosure around DE&I progress



33%

Enhancing DE&I education (e.g., unconscious and implicit bias awareness)

15%

Changing hiring strategies

As shareholder pressure around HCM and its material impact on business and investment decisions mounts, regulators are taking action. In August 2020, the SEC **adopted** final amendments under Regulation S-K that updated requirements for HCM disclosures. Organizations now must publicly disclose a description of their human capital resources, including any human capital measures or objectives focused on in managing the business to the extent such disclosures would be material to understanding the business.

BDO's Take: The "S" in ESG gained long-needed prominence in 2020, and scrutiny is only likely to grow moving forward. Diversity cannot simply be discussed as a general concept or a "nice to have," but must be pursued with intention and action. Committing to enhancing DE&I within an organization is an opportunity to invite fresh ideas, challenge traditional thinking and unlock value. Now is the time to assess the company and board's diversity practices to ensure they will produce the results intended and update them if they fall short.

Addressing this issue goes far beyond meeting shareholder demands and should be considered from the broader stakeholder lens of an organization's employees, suppliers, customers and communities. Improving diversity not only at the board and management level, but throughout the organization, will help companies forge a path that increases long-term value and minimizes reputational risk.

Listen to the BDO in the Boardroom Podcast episodes on "**Turning the Board's Focus to the "S" in ESG**" and "**Diversity in Action – Making DE&I Initiatives Successful**" to hear strategic insight from seasoned board members.

COMPENSATION CONSIDERATIONS

Once a major source of shareholder interest, compensation-related shareholder proposals have **been on the decline** in recent years as other areas took center stage and say-on-pay votes have become a more popular approach to evaluate executive compensation. Now, shareholder interest in compensation is shifting toward assessing how corporations are performing from an ESG standpoint. The most common type of compensation-related proposal in 2020 was linking executive compensation to ESG issues, although the practice is yet to be adopted widely. However, the tides may turn in 2021 and a rise in this kind of compensation structure is only anticipated to grow.

Alongside ESG-related metrics, other pay-for-performance compensation models that tie operational risks–e.g., employee safety, data privacy and cybersecurity initiatives–to incentives are becoming more prevalent in order to protect shareholders and penalize poorly performing executives. These compensation models ensure that shareholders benefit alongside executives when the company is doing well while also putting accountability standards in place that impact executive compensation when returns suffer due to decisions made by management.

COVID-19 also had an impact on how closely boards scrutinized changes made to executive payouts as companies scrambled to navigate the pandemic's impact on business operations and financial health. While recognizing that compensation received in 2020 reflected pre-pandemic corporate performance, directors should expect proxy advisory firms to be tracking shifts and identifying altered compensation structures that may benefit executives but shortchange shareholders. Both **Glass Lewis** and **ISS** expect companies to communicate any important pandemic-related or other changes to their compensation practices. Updates on how performance is measured, any changes in performance targets and how this impacts short-and long-term incentive plans should be clearly explained, as well as the reasoning behind such decisions.

Traditional compensation is not the only area under scrutiny. The SEC signaled their commitment to enforcing compensation-related disclosure failures when it **fined** RCI Hospitality Holdings for failure to disclose a total of $615,000 in executive compensation in the form of perquisites in September 2020. The SEC also issued new compliance and disclosure interpretations (C&DI) **guidance** that same day, clarifying how to define benefits provided to executives during COVID-19 as either perquisites or personal benefits. The guidance is up for some interpretation on a case-by-case basis, but the most important factor to consider is whether the "perk" directly assists the executive in conducting their daily, business-related duties in the new environment.

BDO's Take: The compensation landscape is expanding, and responsibilities of the board's compensation committee will continue to be scrutinized to a high degree as shareholders ask for more insight into every aspect of an organization's financials. Directors should plan to address how they are evolving executive compensation to tighten the alignment of pay and performance, between clearly defined KPIs and broader stakeholders' expectations over the short- and long-term. Taking a proactive approach and implementing compensation-performance measures before proposals are brought to the table would be wise, as it allows boards and management to demonstrate action and drive decisions. Read more about approaches to developing rigorous incentive metrics in **BDO's briefing** on the dimensionality of incentive metrics.

COVID-19 also highlighted a need to connect compensation to executive behavior amid claims that some executives prioritized earnings and profits over the safety of employees and the general public. Creating a link will help incentivize executives to ensure all stakeholders are considered in urgent and long-term decision-making. In **BDO's 2020** study of 600 mid-market company CEO and CFO pay practices[1], Form 8-Ks filed between March and June of 2020 revealed a 20% reduction in executive pay levels with 61% extended pay reductions to executives beyond the C-suite. For companies experiencing reduced cash flow, reductions in pay, staff or both have been necessary to keep companies financially viable. Other compensation-related changes have included modifying goals or changing payout schedules and, in some cases, implementing deferral arrangements. Proxy advisory firms have been clear that saving money at the expense of employees should not translate into increased pay levels for executives and will continue to take notice in the current proxy cycle. With the bullish stock market returns during the second half of 2020, many executives had the value of their holdings increase substantively. This should be contrasted against all other employees, and the optics surrounding potential increases in executive pay, and also public disclosures like the CEO Pay Ratio.

The BDO in the Boardroom Podcast episode on "**The Expanding Landscape of Compensation Committees**" provides insight shared by a compensation chair into broader initiatives around human capital and talent management. Specifically, it examines how boards are taking stakeholder expectations around these initiatives into account when incentivizing and rewarding executives for their execution of corporate strategy and further aligning responsibilities of the compensation committee accordingly.

1 Annually, BDO compiles two reports which examine executive and board compensation practices and trends using data gathered from 600 public companies: The **2020 BDO 600 Study of CEO and CFO Compensation Practices** and The **2020 BDO 600 Study of Board Compensation Practices**, which boards and management may reference in considering and benchmarking their own compensation practices against their peers across industries.

DEMAND FOR DISCLOSURE

Demands for transparency around new risks have translated to demands for new disclosures. Currently, there is no universal agreement on how to report on and disclose ESG matters, and there remains a myriad of reporting frameworks and standards used internationally. Hope for collaboration has been **exhibited** by the leading five sustainability and integrated reporting organizations (CDP, CDSB, GRI, IIRC, and SASB) as well as by the **International Financial Reporting Standards (IFRS) Foundation**, as they look to align on a common reporting standard.

Institutional investors are also getting behind the adoption of a single global reporting standard to enable better informed investing decisions, as evidenced by BlackRock's **endorsement**. Washington is also getting more involved with President Biden's **elevation** of Commissioner Allison Herren Lee—an advocate for ESG—as acting chair of the SEC Commission, along with the creation of **a new senior policy advisory role for climate and ESG**. More recently, it was **announced** that the SEC Division of Examinations "is enhancing its focus on climate and ESG-related risks by examining proxy voting policies and practices to ensure voting aligns with investors' best interests and expectations, as well as firms' business continuity plans in light of intensifying physical risks associated with climate change," said Acting Chair Lee. "Through these and other efforts, we are integrating climate and ESG considerations into the agency's broader regulatory framework." The SEC further **announced** the creation of a Climate and ESG Task Force within the Division of Enforcement to develop initiatives to proactively identify ESG-related misconduct. The initial focus will be to identify any gaps or misstatements in issuers' disclosure of climate risk under existing rules. The Task Force intends to use sophisticated data analysis to mine and assess information across registrants. These recent actions provide insight into what may be on the near term political agenda with respect to ESG disclosure.

Corporate political spending disclosures are also in the spotlight, and the topic is likely to be raised and discussed in depth at shareholder meetings this season alongside questions around plans for any upcoming political involvement. After the events at the U.S. Capitol on January 6, **major corporations across the country** paused political contributions and took time to reconsider their role in politics moving forward. Discussions about resuming contributions will undoubtedly arise between shareholders and boards, and disclosures around how an organization's political contributions sync up with the public statements and pledges they have made will be expected.

Pandemic-related disclosures, including non-GAAP measures, will also be a focal point for shareholders this year, and all eyes will be on organizations to ensure transparency around realized as well as forward-looking impacts, capital needs and emerging risks to their business due to COVID-19. Boards have anticipated the need for additional disclosures, and plans to incorporate them are underway. Data from the **2021 BDO Winter Board Pulse Survey** shows that the pandemic will heavily impact the financial reporting process this year, and increasing disclosures is high on the list. More specifically, 18% are increasing disclosure on liquidity matters.

The SEC is taking pandemic-related disclosures seriously, as proven by the agency's December **settlement** with the Cheesecake Factory when the company included misleading disclosures about how COVID-19 impacted the entity's operations and bottom line. The SEC stated that it would *"…continue to scrutinize COVID-19-related disclosures to ensure that investors receive accurate, timely information…,"* a clear sign that proactive communication about impacts and risks should remain a top priority for executives throughout the year.

BDO's Take: As the number of disclosures that boards must make continues to rise, proper communication channels with external and internal auditors will be more important than ever. Keeping up to date with new and evolving SEC requirements, guidance from institutional investors and shareholders alike will help boards in their oversight of management processes and procedures to mitigate risk.

Determining and conveying the most material aspects of a company's business is one of a board's most pressing areas of focus, and decisions should be driven by data. In December 2020, SEC Commissioner Elad Roisman gave a **statement** reminding boards that in order for disclosures to be useful to investors, it must be easy to understand how investors are to benefit from them. He also cautioned against talking about ESG as one concept when the "E," "S" and "G" all represent distinct matters.

It is prudent for boards to consider securities laws and legal liability, especially until a more standardized approach to ESG reporting is developed and embraced. Shareholder trust is easy to lose and difficult to regain—there is a fine line between transparency and risk.

For more on the evolving disclosure landscape, refer to **BDO's 2020 Year End Audit Committee Agenda** and **The Evolving ESG Landscape**.

Navigating Governance in the New Normal

VIRTUAL MEETINGS AND SHAREHOLDER RIGHTS

Once again, the majority of shareholder meetings are expected to be virtual this year to prevent the spread of COVID-19. Before committing to an all-virtual meeting, boards will need to ensure they are in compliance with state guidelines. Most U.S. states allow for virtual-only meetings, but specifics vary across the country.

Boards should take lessons learned from 2020 and apply them to this year's meetings, as well as refer to updated guidance from proxy advisory firms like **Glass Lewis** prior to conducting shareholder meetings in a virtual-only capacity. For any organization holding a meeting virtually, laying out clear guidelines on how attendees can participate is key. Boards must outline steps needed to take part far in advance of the meeting, establish formal rules for engagement and ensure access to all shareholders. Additionally, leaders should establish clear protocols for how they will be aggregating and responding to questions posed by shareholders in a manner that provides the highest level of transparency possible. Attendees will be looking for confirmation that their concerns will be addressed and that they will hear comments and questions from other shareholders in attendance.

Technology can be both a blessing and a curse. Companies are advised to establish action plans with online meeting hosts in advance and be able to respond quickly to connectivity and communication issues that may impact the quality and accessibility of virtual meeting participation.

Recent events have also heightened the need for boards and management to keep an eye on the activity and rights of shareholders broadly. In **January**, large groups of individual investors came together online to raise the share price of companies like GameStop, AMC and BlackBerry, catching Wall Street and hedge funds off-guard and throwing the markets into temporary disarray. This may serve as a reminder to boards and management teams that shareholder proposals are but one mechanism by which shareholders can exercise influence on companies they choose to invest in. Looking ahead, boards may believe that they are somewhat protected by recent amendments to SEC proxy access rules that raise the stake an investor must have before submitting a new or redeliberating a prior proposal. However, these rules do not go into effect until 2022, still leaving room for increased proposal activity in the current year.

BDO's Take: Meaningful shareholder relationships are the foundation of a successful board. Understanding the perspective not only of shareholders as a broad group but also the specific concerns and viewpoints of more niche groups within only increases confidence and leads to more productive communication and response.

Overall, COVID-19 and its impacts brought the importance of shareholder rights and perceptions to the forefront. Better and more transparent relationships with shareholders ultimately lead to higher value for both parties while helping to stave off shareholder activism. Trust should extend beyond simply listening and result in decisive action. Concerned boards can often divert unwanted proxy proposals if the organization can demonstrate appropriate consideration of shareholder concerns and put plans into action before proposals are submitted or come to a vote. The mutually beneficial relationship between shareholder and company functions best when shareholders hold the organization reasonably accountable, and in turn, the organization institutes proactive governance structures and communications that serve the best interests of all stakeholders.

Shareholders—particularly institutional shareholders—often have significant resources and research capabilities at their disposal to inform their investing objectives and observations about individual companies. Boards must consider their own internal resources when engaging with shareholders of all types and sizes, ensuring they have people with the appropriate knowledge to adequately discuss the needs and interests of specific shareholder groups. The same holds true of engaging with proxy advisory firms, who continue to expand and adjust their voting guidelines in response to changing market influences.

BOARD REFRESHMENT

In addition to executive compensation and political lobbying that fall under the "G" in ESG, board composition has long been a conversation at shareholder meetings. The main concerns this year are anticipated to be around board refreshment—particularly advancing diversity and long-term succession planning.

In years past, board diversity was focused primarily on gender diversity, but with the events of the past year bringing increased attention to racial injustice, racial diversity is heavily on the minds of institutional investors. Ahead of the 2021 proxy season, both **Glass Lewis** and **ISS** released new voting guidelines outlining expectations for boards to diversify. Both will continue to recommend voting against all-male boards while also evaluating the racial and ethnic makeup of boards and considering penalties for those that have homogenous boards and cannot communicate plans to change that. The topic has also been raised in some state legislatures, most recently in September when California enacted **a law** requiring any publicly-held organization headquartered in the state to include board members from underrepresented communities. In December of 2020, NASDAQ continued the trend, filing a **proposal** with the SEC that will require listed companies to regularly and publicly disclose board diversity statistics.

Board member tenure and overboarding are also aspects of the refreshment conversation. Glass Lewis and ISS have shifted their approaches on tenure limits, now noting concern when boards have generally been stagnant for an extended period. Overboarding is still an issue for some shareholders but is generally eclipsed in importance by other board composition issues. On top of the refreshment conversation, shareholders are calling on boards to bring new skills to the table to ensure they have the foresight to anticipate new risks and capture opportunities. To gauge the readiness of boards, director skill matrices are an important tool, and some states like **New York** are championing the matter to enhance accountability. The matrices capture individual skills and characteristics of each director and evaluate how they align with enterprise risks, allowing boards and stakeholders to identify gaps in boards' skills.

COVID-19 drove concerns around employee wellness and the ability to maintain operations amid potential physical and mental illness. Prompted by these worries, executive leadership succession plans are set to be in the spotlight this shareholder season to ensure business continuity and preparedness for a crisis—ideally, before it hits. Although many organizations are dedicating more time to succession planning than they have historically, many are still insufficiently prepared for sudden transitions.

BDO's Take: A board is much more likely to bring success to the company they service if individual wants and needs are taken out of play. Boards should be engaging in discussions about and analyzing their composition in a way that reflects the wider needs of the company and its various stakeholders rather than the desires of directors themselves.

Informed boards are less likely to see proposals related to term limits and encounter penalties around a lack of diversity as they are more likely to already be conducting meaningful assessments of the board's composition on a regular basis. Informed directors are also less likely to view a board seat as an appointment for life and recognize when their skillset needs to be enhanced or may no longer be of value to a particular company's board.

Boards must ask: Do our members have the skills needed to guide the company's strategy through long-term changes? Does the makeup of our board reflect the interests of shareholders and stakeholders? Are we adequately exploring the full range of options when seeking a new board member? These critical assessments will naturally and more regularly spur board refreshment and allow for productive dialogue about how the board's makeup serves the best interests of all shareholders.

Business Resilience and Liquidity Amid COVID-19 and Beyond

The COVID-19 pandemic and its related business impacts have put resilience and liquidity concerns near the top of shareholders' lists of concerns. While many organizations turned to short-term cost-cutting measures to remain afloat among the uncertainty, shareholders are keeping a close eye on boards' plans to get back on track and expect continued updates concerning any pandemic-related losses. Our **2021 Winter Board Survey** found that an overwhelming 60% of respondents say resilience of liquidity, revenue streams and operations will be their shareholders' greatest concern in the 2021 proxy season.

It won't come as a shock that the pandemic-diminished budgets left many organizations in need of capital. To maintain positive cash flow and reduce losses, some chose to **suspend or reduce dividend payments** and buy-back programs to shareholders for a period of time. While shareholders may begrudgingly accept this strategy as necessary short-term, boards can anticipate scrutiny and questions around the legitimacy of these liquidity management efforts. Additionally, requests for approximate timelines that determine when routine capital activities will resume will be in high demand.

Even in tough financial times, some organizations were able to pursue growth, looking to expand their revenue streams, enter new markets or capitalize on service expansion opportunities through M&A activity. Data from the **2021 Winter Board Survey** found that pursuing an acquisition strategy is the most-cited corporate strategy for the year ahead, with 48% of directors citing M&A plans in 2021, compared to 21% in the fall of 2020.

The direction of M&A strategies will be dependent on the current state of an organization's health. Companies that need to shore up capital and focus on their fundamental offerings will likely be looking to sell underperforming assets. On the other hand, some businesses will look to acquire new segments or capabilities for a lower price.

BDO's Take: In times of crisis, liquidity needs often trump the many other risks faced by companies. However, this does not usurp the requirement for boards to be transparent with shareholders about the intended use of capital to continue or expand operations, enhance the current financial health of the organization and better prepare for crises in the future. **BDO's Resilience Playbook** provides a roadmap to help companies build resilience into their post-COVID-19 strategies.

Although liquidity concerns are widespread, not all news is bleak: Many organizations, including those in the technology and health care industries, saw increases in demand during the pandemic. The next challenge for these companies will be to sustain this growth while carefully managing shareholders' expectations going forward.

For boards and management teams engaged in M&A activities, proper due diligence and integration of target companies will be critical in managing both business strategy and stakeholder expectations. Identifying targets, examining the synergies to be realized and incorporating them into the existing culture and business environment are no easy tasks. Boards are cautioned to consider the experience and knowledge needed to embark on these transactions prior to doing so. Appropriate resourcing, advice, counsel and communications with stakeholders will be critical in driving successful transactions.

Conclusion

The scope of responsibilities placed upon boards has been increasing in recent years and will only continue to expand. At their core, boards are relied upon to guide an organization's management in such a way that provides the most value to shareholders while also considering the impacts on stakeholders as a wider group. It is critical that board members consider long-term vision while evaluating immediate risk in order to deliver consistent—and favorable—returns.

CONTACT US

AMY ROJIK
National Assurance Partner
617-239-7005 / arojik@bdo.com

ANDY GIBSON
Tax Regional Managing Partner
404-979-7106 / agibson@bdo.com

BILL EISIG
National Assurance Managing Partner
301-354-2532 / weisig@bdo.com

BRANDON LANDAS
National Assurance Partner
312-233-1887 / blandas@bdo.com

CATHERINE MOY
Chief People Officer
617-422-7570 / cmoy@bdo.com

CHRISTOPHER TOWER
National Managing Partner, Audit Quality and Professional Practice
714-668-7320 / ctower@bdo.com

DAWN WILLIFORD
Regional Practice Leader, Risk Advisory Services
713-407-3867 / dwilliford@bdo.com

GREG SCHU
Partner, Governance, Risk and Compliance
612-367-3045 / gschu@bdo.com

JAY DUKE
National Managing Partner Advisory
214-665-0607 / jduke@bdo.com

KAREN BAUM
National Adisory Partner
214-243-2928 / kbaum@bdo.com

KAREN SCHULER
Principal, Data & Information Governance National Leader
703-336-1533 / kschuler@bdo.com

MATT BECKER
Tax National Managing Partner
616-802-3413 / mkbecker@bdo.com

PHILLIP AUSTIN
National Assurance Managing Partner, Auditing
312-730-1273 / paustin@bdo.com

RYAN GUTHIRE
National Practice Leader, Transaction Advisory Services
714-668-7385 / rguthire@bdo.com

TIM KVIZ
National Assurance Managing Partner, SEC Services
703-245-8685 / tkviz@bdo.com

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