

# Vaccine Roll-Out Boosts Recovery Optimism in U.S. Boardrooms

*Our December Director Confidence Index shows half of public company board members now forecast a return to pre-crisis profitability in 2021; Support for board diversity mandates growing.*

With the presidential election now certified and a Covid-19 vaccine beginning to roll out across the country, public company board members report growing optimism in both current and future business conditions, with three-quarters of them forecasting increases in revenues and profits for the year ahead.

But when it comes two of the issues shaping up to be among the most controversial of 2021—requiring Covid vaccination for employees and diversity mandates for boards—directors are deeply divided, though opposition to diversity requirements appears to be shrinking in the wake of this year’s social unrest.

Those are the key findings from our December Director Confidence Index, conducted in collaboration between Corporate Board Member and Diligent Institute. The survey of 138 corporate directors at U.S. public companies, conducted December 8-13, shows director sentiment about the current economy at a 5.6 on our 10-point scale, up 7 percent since the end of September, when we last polled directors.

When asked about their outlook for the economy 12 months from now, directors scored it 6.9 out of 10, also up from the prior quarter (+4 percent). Sixty-five percent of them rated their outlook as “Very Good” or “Excellent” (7/10 and above), and only 20 percent rated it below 5.

Asked to explain their optimism, Covid-19 vaccines unsurprisingly topped the list for nearly all respondents. But directors also listed market liquidity, pent-up consumer demand, low interest rates, supply chain improvements, savings waiting to be deployed back into the economy and continued hope for a large stimulus government bill among the reasons for their positive forecast.

“Economy will rebound with stimulus and consumer spending, given the mitigating effect in 2021 of the Covid-19 vaccine,” said the lead director of a materials company, echoing many others who participated in the flash poll.

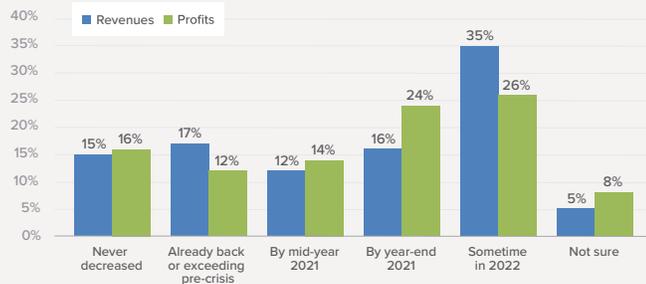
Not everyone agrees. Some directors anticipate the recovery will be slow and that there could be some setbacks from the business-friendly policies of the Republican administration.

“Fundamental businesses will suffer from poor economic conditions due to continued Covid recovery issues, increased Federal assistance and debt levels, [and] increased corporate tax under new administration,” said Elizabeth Nickels, a director with food distributor and grocery store SpartanNash and former committee chair at Spectrum Health Systems, Charlotte Russe and PetSmart.

## Growth Forecast

The majority of board members polled anticipate their companies’ revenues and profits will return to pre-crisis levels in the coming months, and 77 and 75 percent now say they are expecting revenues and profits to increase over the next 12 months, respectively—an increase of 26 and 25 percent from our September survey. Among those whose revenues and profits were affected by the crisis, 20 and 14 percent report having already returned to their pre-pandemic levels, respectively.

**“When do you expect your revenues and profitability to return to pre-crisis levels?”**



\* Survey of 138 public company directors at U.S. corporations; Profitability measured by EBITDA

That is more optimistic than their CEO peers, whom we polled December 1-2. Of the 256 CEOs participating in our monthly CEO Confidence Index—which includes both public and private-company CEOs, 73 percent forecasted revenue growth in 2021, and 65 percent said they expected profitability to increase over the same period.

Another indication of growing confidence among public company boards is the fact that 38 percent of directors say their companies are planning to increase capital expenditures in 2021, up from 27 percent last September—with 20 percent expecting to take on additional debt (private company CEOs take the lead in this one, with 48 percent planning to increase capex in 2021.)

**“Over the next 12 months, what changes do you forecast for your firm compared to the past 12 months?”**



\* Survey of Approximately 138 public company directors, December 8-13, 2020

**A Sector View**

As one might expect, our survey found significant variances in optimism by sector, with Technology directors reporting a decline in their positive forecast for 2021—perhaps due to the expected removal of lockdowns and an eventual return to a less virtual environment.

At the other end of the spectrum are directors operating in the Materials sector, who say overall market liquidity, consumer demand and improved supply chains are bolstering their outlook.

**Director Confidence in Future Business Conditions**

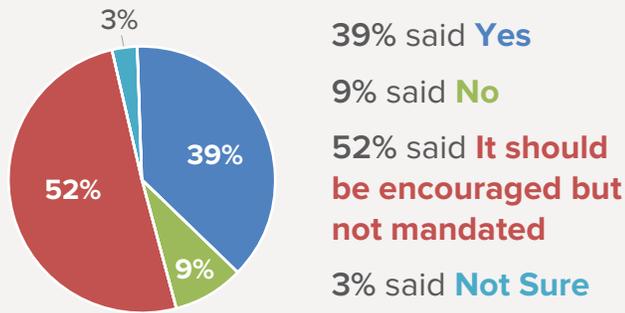
QoQ variations by industry

| Sector                 | 3Q20 | 4Q20 | % +/- |
|------------------------|------|------|-------|
| Consumer Discretionary | 7.2  | 7.0  | -3%   |
| Consumer Staples       | 7.3  | 6.9  | -5%   |
| Energy                 | 6.7  | 7.1  | 6%    |
| Financials             | 6.4  | 7.0  | 8%    |
| Health Care            | 6.1  | 6.8  | 11%   |
| Industrials            | 6.4  | 6.6  | 4%    |
| Materials              | 6.0  | 7.5  | 24%   |
| REIT                   | 6.7  | 6.8  | 1%    |
| Technology             | 7.1  | 6.5  | -8%   |

**Vaccination of Employees?**

We also asked directors to weigh in on whether companies should require their employees to get vaccinated for Covid—when the vaccine was widely available—before returning to the workplace. The majority—52 percent—said vaccination should be encouraged, not mandated. But a sizable minority—39 percent—said a vaccine should be required; 9 percent said they did not believe companies should require vaccination.

**“Do you believe companies should require that employees receive the vaccine before returning to work?”**



“Getting a vaccine is a very personal decision. It needs to be decided for the workers themselves,” said Kim Box, an independent director at American River Bank and a member of the comp and audit committees at McGrath Rentcorp.

Those who believe it should be mandated say it’s a matter of public safety and liability. “This is a patriotic and social duty,” said Gen. (Ret.) Scott Wallace, a director of CACI International.

“Until the democratic leadership on congress pass protection against predatory litigation,” said the committee chair of a mid-cap diversified financials company, “companies have no choice but to protect their employees and customers.”

**Directors Weigh in on Board Diversity Mandates**

After California passed dual laws requiring publicly held companies headquartered in the state to include at least one woman and a member of an underrepresented community to their board, Nasdaq also filed a proposal, in December, with the SEC that would require listed companies to have at least one woman and one member of an underrepresented group on their boards.

Nearly half (46 percent) of those polled in December say they are in favor of diversity mandates, arguing that it’s becoming clear that without them, many companies are not “doing the right thing.” Just 38 percent said they

opposed mandates; 16 percent said they were not sure or “it depends.”

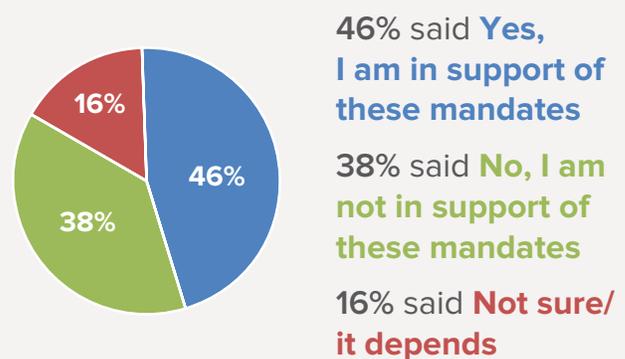
That’s a sea change from earlier Corporate Board Member polls. In early 2019, for instance, CBM asked directors whether they approved of California Senate Bill 826, which required gender diversity in the boardroom for all public companies headquartered in the state. Of directors polled, 66 percent opposed the measure, and just 24 percent approved of it.

It is “always better if progress is made voluntarily,” said Kathleen Ligocki, nom/gov chair and member of the comp committee at Fortune 500 Lear Corp, “but given the slow pace of change at some companies, a mandate will accelerate the needed diversification of public governance.”

“Throughout 2020, directors have been accelerating efforts to address the lack of diversity in boardrooms,” says Dottie Schindlinger, executive director of the Diligent Institute.

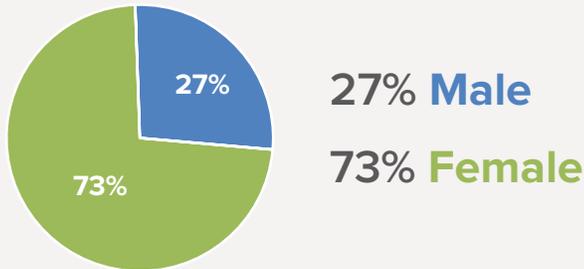
“Seeing 46 percent of respondents in favor of diversity mandates supports that we might finally have reached the tipping point on diversity being a top a priority for boards moving forward.”

**Percentage of Public Company Board Members in Favor of Diversity Mandates**



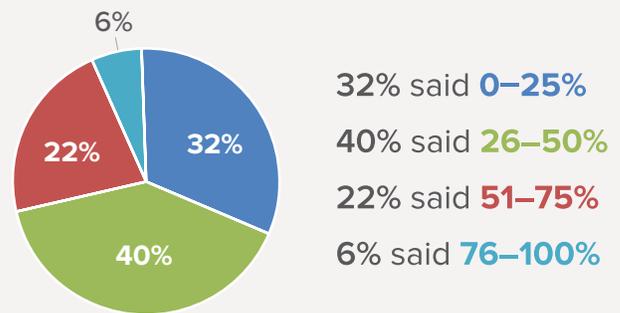
Our analysis of those polled found that of directors in favor of diversity mandates, the majority (73 percent) are females.

### Gender Split for Directors in Favor of Board Diversity Mandates



\* Survey of 138 public company board members, Dec. 8-13, 2020

### Percentage of Board Activity Expected to Remain Virtual Online Post-Vaccine



Of the directors (male and female alike) who said they oppose mandates, most said they support a diverse representation on their boards—but don't believe quotas should guide their composition.

"I don't believe in mandates," said James Lafond, chair of audit and nom/gov at VSE corp and a director at AltaGas's WGL Holdings subsidiary. "This will be another reason for companies to consider the costs of being public vs private. Diversity is important and valuable. Most companies are quickly realizing this and moving on their own."

### Meetings Stay Virtual

One area that may change quickly for directors is remote board meetings. Just 28 percent of those polled said they expected the majority of their board activities to remain virtual in a post-vaccine environment, though 40 percent expected somewhere between a quarter and half of their activities to remain virtual, as companies reassess some of the costs incurred by on-site, in-person meetings.

"Virtual meetings will be more prevalent until the end of 2022, but even thereafter there will be such meetings for cost-saving purposes," said the lead director of a small-cap consumer discretionary company.

### About the Director Confidence Index

The Director Confidence Index is a quarterly survey of public company board members on the state of the overall economy, the outlook for corporate finances and other topical issues impacting public companies. Conducted in collaboration between Corporate Board Member and Diligent Institute, the Index benchmarks confidence among the governance community and is a forward-looking indicator of market movements and corporate strategies. The Q4 survey was fielded from December 8 through 13, 2020.

### About Corporate Board Member

Corporate Board Member, a division of Chief Executive Group, has been the market leader in board education for 20 years. The quarterly publication provides public company board members, CEOs, general counsel and corporate secretaries decision-making tools to address the wide range of corporate governance, risk oversight and shareholder engagement issues facing their boards. Corporate Board Member further extends its thought leadership through online resources, webinars, timely research, conferences and peer-driven roundtables. The company maintains the most comprehensive database of directors and officers of publicly traded companies listed with NYSE, NYSE Amex and Nasdaq. Learn more at BoardMember.com.

### About the Diligent Institute

Diligent Institute is the corporate governance research arm and think tank of Diligent Corporation. The Institute produces publicly available cutting-edge research on corporate governance practices by directors, for directors, with a global perspective. Learn more at diligeninstitute.com.