

## Executive Compensation

### Compensation Discussion and Analysis

The purpose of this compensation discussion and analysis (CD&A) is to provide a narrative for understanding our pay philosophy, the program's objectives and the factors we consider in structuring the executive compensation program and making pay decisions each year. The actual compensation paid is set forth in the summary compensation table (on page 6) for our NEOs.

This section describes fiscal year 2020 executive compensation for the Named Executive Officers (NEOs). REI's NEOs for 2020 are:

- President & CEO: Eric Artz
- EVP Chief Customer Officer: Ben Steele
- EVP Technology & Operations: Christine Putur
- SVP Chief Financial Officer: Kelley Hall
- SVP Merchandising: Susan Viscon

### Executive Compensation Program Goals and Pay Philosophy

The primary goals for our executive compensation program are:

- Attracting, motivating and retaining a high-caliber executive team to provide leadership for our success in a dynamic, competitive market. We design our executive compensation program to position REI competitively among the companies against which we recruit and compete for talent.
- Ensuring that compensation opportunities and results for executives are tied to the short-term and long-term performance of the cooperative and aligned with REI's mission and values.
- Paying for performance. NEO compensation is heavily weighted toward "at-risk" compensation in the form of annual and longer term variable cash compensation that is paid out only upon achievement of pre-determined financial and strategic operating performance goals that are critical to REI's long-term growth and success.

### How We Determine Executive Compensation

#### ***Role of Our Compensation committee, Independent Consultant and Management***

The Compensation committee (the "committee"), consisting of independent directors, reviews and approves the compensation that we pay to NEOs and has oversight responsibility for all of REI's employee compensation and benefit programs. This review and approval include the compensation of the President & CEO, all officer pay changes, merit budgets, incentive and retirement plans payments, changes to current year incentive plans, performance goals for incentive plans, methodology used in executive compensation analysis, peer group selection, and certifying incentive plan results.

Beginning in August 2018, the committee engaged Meridian Compensation Partners, LLC, as its independent compensation consultant. Meridian does not provide any other services to the co-op. Meridian reports directly to the committee, advising on all material matters relating to executive and non-employee director compensation. Meridian takes its direction from the committee chair and coordinated with the President & CEO and the Finance and Human Resources departments, as needed, to understand management proposals and financial objectives and to obtain compensation data that management gathered for our peer group of companies to support the committee in 2020.

The committee, working directly with the independent compensation consultant and input from the Chairman of the Board (without the presence of the President & CEO), deliberates and makes decisions about the salary and variable incentive compensation opportunity to be awarded to the President & CEO for the new fiscal year and performance-based compensation payouts for the prior fiscal year. In setting compensation for NEOs (other than the President & CEO), the committee solicits the input of the President & CEO, who recommends the salary and target variable incentive compensation to be awarded to the other NEOs for the new fiscal year. The committee is solely responsible for making the final decisions on compensation for all NEOs. No NEO is present during discussions of his or her compensation package or participates in approving the amount of any portion of his or her own compensation package.

***Role of Market Data and Peer Group***

The committee reviews relevant market pay data from both a custom retail industry peer group as well as published surveys. This market pay data is assembled by Meridian and includes summary statistics for the 25<sup>th</sup>, 50<sup>th</sup> and 75<sup>th</sup> percentiles for base salary, target bonus, target total cash, long-term incentive opportunities and target total pay.

As further discussed below, market data is just one reference point the committee and management use when determining NEO pay.

The 2020 peer group includes companies that generally meet the following criteria:

- Compete with for executive talent;
- Maintain a similar market presence and complexity ; and
- Demonstrate similar size to us as measured by revenue, product mix, private label brand offerings, on-line and retail stores, number of stores, geographic footprint and sustained financial performance.

The peer group for fiscal year 2020 included 16 companies. In 2017, management and the board adopted a two-year review cadence specific to the evaluation of peer companies.

|                           |                      |
|---------------------------|----------------------|
| American Eagle Outfitters | Hibbett Sports       |
| Big Five Sports           | Lululemon Athletica  |
| Carter’s                  | Restoration Hardware |
| Chico’s                   | Skechers U.S.A.      |
| Columbia Sportswear       | Under Armour         |
| Deckers                   | Urban Outfitters     |
| Dick’s Sporting Goods     | Williams-Sonoma      |
| DSW                       | Wolverine World Wide |
| Express                   | Zumiez               |

***Factors Used in Determining Executive Compensation***

In any given year, when establishing the elements of executive compensation, the committee may take into consideration one or more of the following factors. The relative weight, if any, given to each of the factors below varies by individual NEO and with respect to each element of compensation at the sole discretion of the committee.

In conducting its analysis and determining compensation, the committee considers these factors where relevant:

- Business and talent strategies
- The nature of each NEO’s role
- REI’s purpose, values and co-op structure

- Individual performance (based on specific financial and operating objectives for each NEO and leadership behaviors);
- Compensation history, including at former employers in the case of new hires;
- Future potential contributions by the NEO;
- Internal comparisons to other executives;
- Comparisons of the value and nature of each compensation element to each other and in total;
- REI's performance results and business outlook; and
- Retention risk.

## COMPENSATION ACTIONS AND ACHIEVEMENT FOR FISCAL 2020

### ***Special Compensation Elements***

The impacts of the novel coronavirus during 2020 were significant, including the closure of all our stores in April and a gradual ramp up of store operations. The unpredictability of the virus spread, the resulting economic and consumer environment, and the financial pressure to the co-op required action. The decisions made during that time were focused on serving our customers, maintain our baseline operations, protecting the health and safety of our employees and stewarding the co-op's financial health.

REI took the following compensation actions, effective in 2020:

- Eric Artz, President & CEO, forfeited 100% of his base salary for six months and all his incentive eligibility for 2020 *(meaning: ineligible for the 2020 Summit Incentive Plan. For the 2018-2020 Long Term Incentive Plan tranche, the year 2020 was calculated as 0%.)*
- All of REI's board of directors forfeited their board fees for six months
- All senior leadership team member (vice presidents and above) took a 20% base salary reduction for six months and forfeited all incentive plan eligibility for 2020. *(meaning: ineligible for the 2020 Summit Incentive Plan. For the 2018-2020 Long Term Incentive Plan tranche, the year 2020 was calculated as 0%.)*
- Headquarters' employees took a 10% base salary reduction for six months.

Thanks to the hard work across the co-op, and the support of our members, we ended the year strong with a stabilized business and no debt. Because of this, the co-op was able to make the following incremental decisions:

- The quarterly Summit short term incentive plan was replaced with a guaranteed flat-rate bonus for hourly, field employees (in recognition and appreciation of our field teams during 2020)
- Annual Summit Plan eligible employees up to the Vice President level received a special 3% of target bonus payout in recognition of their performance and commitment to the co-op.
- Employees (including impacted executives) who experienced base salary reductions were retroactively repaid
- The REI board of directors was retroactively repaid.

### ***Elements of Compensation***

REI compensates its executive officers by providing four key elements of pay, including:

- Base salary;

- Annual cash incentive bonus (Summit Incentive Plan) contingent on REI’s annual results;
- Long-term cash incentive plan (LTIP) linked to performance on two key measurements of success, return on capital and revenue growth, measured over multi-year periods; and
- Retirement plan that applies to all employees and has two components, a retirement contribution of 5% of eligible pay and a profit sharing contribution of up to 10% of eligible pay based on co-op performance.

We have chosen these elements because we believe each supports achievement of one or more of our compensation objectives, and that together they have been and will continue to be effective in this regard. Additional distributions are made as required and consistent with management agreements. We also provide our executives with the same health and welfare benefits that are available to a broader group of employees.

The use and weight of each compensation element is based on the judgment of the committee about the importance of each compensation objective in supporting our business and talent strategies and the structure of these elements for executives at other companies. To emphasize the importance of performance-based compensation, base salary and benefits represent less than half of each REI executive’s potential compensation at target performance levels.

**Total Target Compensation Approach**

In making fiscal 2020 compensation decisions, for each NEO the committee reviewed the total target cash opportunity (base salary plus variable performance-based cash compensation) for similarly situated executives of our peer companies as well as relevant survey results, as described previously. The committee considered the factors discussed in *Factors Used in Determining Executive Compensation* above, the specific compensation objectives for Fiscal 2020 and, for NEOs other than the President & CEO, the President & CEO’s recommendation. The committee did not use a formula or assign a particular weight to any one factor in determining each NEO’s target pay. Rather, the determination of the total target compensation and mix between fixed base pay and “at-risk” variable pay opportunities was subjective for each NEO and was a function of the committee’s overall objectives for total pay positioning and balancing the pay mix. Resulting total target compensation for the NEOs was generally between the 25<sup>th</sup> and 50<sup>th</sup> percentile of the market data for fiscal 2020. In approving this pay structure, the committee was mindful of the executive pay philosophy, REI’s mission, core values and co-op structure.

**Base Salary**

Base salaries are set at a level that the committee believes will effectively attract and retain top talent, considering the factors described above under *Factors Used in Determining Executive Compensation*. In addition, the committee considers the impact of base salary changes on other compensation components where applicable.

**Annual Cash Incentive – Summit Incentive Plan**

The REI Summit Incentive Plan (the “Summit Plan”) is an annual program that rewards employees based on company and divisional performance (for NEOs, performance is measured at the company level). The plan covers all employees, including full-time, part-time and seasonal employees and includes eligibility requirements defined within the Summit Plan.

Each year, the committee reviews and approves the Summit Plan, which includes performance metrics, metric weightings, and financial and operating goals. The company’s annual operating plan, which is reviewed and approved by the board, is used to help establish the performance metrics and target goals. In addition, the committee approves the annual results and related payouts under the Summit Plan shortly after completion of the fiscal year.

The 2020 performance metrics for participants assigned to headquarters jobs were: total company sales weighted at 35%, total company membership acquisition at 5% and total company operating profit weighted at 60% each. Each metric has a threshold, target and maximum performance level.

The award payout levels (as a percent of target award) associated with each performance level is 25% (threshold), 100% (target) and 200% (maximum) and actual results are interpolated between these points on a straight-line basis for performance falling within the range.

The Summit Plan funds when the company has reached the total company operating profit threshold or minimum performance level after paying members a dividend of 10% of their eligible purchases. This is the Summit Plan’s funding trigger and it must be met before any awards will be paid out.

For 2020, no metric achieved threshold, including total company operating profit. As a result, the funding trigger did not occur, and the 2020 Summit Incentive Plan did not payout.

**Long Term Cash Incentive – Long-Term Incentive Plan**

The REI Long-Term Incentive Plan (the “LTIP”) is an incentive program designed to reward participants for the company’s profitable growth over a three-year performance period. The LTIP’s objectives are to provide a competitive pay package to attract and retain high-performing leaders, link pay to sustained long-term REI performance, and foster a pay-for-performance culture. The LTIP covers a select group of key management employees (including all NEOs).

Annually, the committee reviews and approves the performance metrics, metric weightings, and financial goals at the beginning of a new LTIP performance cycle. The company’s long-term strategic plan, which is reviewed and approved by the board, is used to help set metrics and related goals in addition to consideration of general retail market expectations. The committee also approves the three-year results and related payouts under the LTIP following the completion of a performance cycle.

The LTIP is measured over a three-year performance period with a new performance cycle starting each year. This results in overlapping performance cycles and creates a sustained performance focus, maximizes our ability to motivate and retain participants and facilitates review and changes, as appropriate, in eligibility or the performance goals. Payouts typically occur in March following the conclusion of each respective performance period.

Each year, REI’s financial and strategic goals are taken into consideration when determining the LTIP’s performance metrics and goals. The 2018-2020 performance metrics were return on capital and revenue growth equally weighted at 50% each. We believe that a balanced focus on the efficient use of capital and revenue growth provides a strong indicator for REI’s long-term success and sustained performance.

Each metric has a threshold, target, and maximum performance level. Each year of the three-year performance tranche is calculated independently based on single-year goals. The final 3-year performance outcome is calculated on a pure 3-year average. The performance outcomes for each year, and the final 3-year performance outcome is detailed in the table below. The award payout levels (as a percent of target) associated with the threshold, target and maximum performance levels were 25% (threshold), 100% (target) and 200% (maximum) and actual results are interpolated between these points on a straight-line basis for performance falling within the range.

The performance metrics are evaluated separately and if actual performance in a single year on either metric falls below threshold, that full year will be calculated as zero in the pure three-year average.

For the 2020 plan year both metrics did not meet threshold. As a result, the 2020 performance year was calculated as 0% of target in the 3-year average used to determine the final 2018-2020 tranche performance payout.

**The Long-Term Incentive Payout was determined based on the following results:**

| Metric Description  | Metric Weighting | 2018 Performance | 2019 Performance | 2020 Performance |
|---|------------------|------------------|------------------|------------------|
| Return on Capital   | 50%              | 144.72%          | 92.91%           | 0.00%            |
| Revenue Growth  | 50%              | 136.35%          | 127.63%          | 0.00%            |
| <b>Performance Year Performance Result</b>                              |                  | <b>140.54%</b>   | <b>110.27%</b>   | <b>0.00%</b>     |
| <b>2018-2020 Tranche Performance Payout Result (three-year average)</b> |                  |                  |                  | <b>83.60%</b>    |

***Retirement and Profit Sharing Plan***

The REI Retirement and Profit Sharing Plan (the “RPS Plan”) is a qualified plan governed under ERISA and is intended to provide all eligible employees with the opportunity to save for retirement through the RPS Plan on a voluntary basis. There are specific eligibility requirements for participation in the RPS Plan. Under this plan, REI provides a retirement contribution equal to 5% of a participant’s eligible earnings, plus an additional profit sharing contribution of up to 10% of eligible earnings based on the company’s performance. These two components are funded 100% by REI. For the 2020 fiscal year, REI funded a total of 5% of eligible employee earnings into the RPS Plan (5% retirement and 0% profit sharing). The annual profit sharing component is reviewed at the conclusion of the fiscal year by the committee and approved by the board of directors. In addition, all employees are eligible to defer a portion of their Summit Plan payout to the RPS Plan in accordance with IRS annual limits.

***Compensation Recovery Policy***

In November 2016, our board adopted a compensation recovery policy effective January 1, 2017, which covers our executives at the Vice President or above levels. Under this policy, if we are required to prepare an accounting restatement to correct an accounting error on an annual audited financial statement due to material noncompliance with any financial reporting requirement, or a restatement, and if the board or a committee of independent directors concludes that our CEO, CFO or any other executive officer received a variable compensation payment under our annual Summit Plan or LTIP that would not have been payable if the original annual financial statements reflected the restatement, then under the compensation recovery policy our CEO, CFO and other executive officers will be required to disgorge the net after-tax amount of that portion of the variable compensation payment that would not have been payable if the original annual financial statements reflected the restatement.

**REI's HIGHEST COMPENSATED EXECUTIVES <sup>1</sup>**  
**Year Ending December 31, 2020**

| Name and Title  | Year | Base Pay <sup>2</sup> | Annual Incentive Plan <sup>3</sup> | Long-Term Incentive Plan <sup>4</sup> | REI Retirement & Profit Sharing Plan <sup>5</sup> | Deferred Compensation Plan of 1990 <sup>5</sup> | Other Allowances <sup>6</sup> | Total       |
|---|------|-----------------------|------------------------------------|---------------------------------------|---|---|-------------------------------|-------------|
| Eric Artz <sup>7</sup><br>President & CEO   | 2020 | \$850,000             | \$0                                | \$1,046,974                           | \$14,250  | \$28,250  | \$5,640                       | \$1,945,114 |
|   | 2019 | \$823,473             | \$1,073,726                        | \$1,307,638                           | \$25,200  | \$48,913  | \$5,640                       | \$3,284,590 |
|   | 2018 | \$620,100             | \$590,336                          | \$340,457                             | \$24,750  | \$31,059  | \$5,640                       | \$1,612,342 |
| Ben Steele <sup>8</sup><br>Executive Vice President<br>Chief Customer Officer         | 2020 | \$525,000             | \$0                                | \$302,432                             | \$14,250  | \$12,000  | \$6,360                       | \$860,042   |
|   | 2019 | \$494,231             | \$346,999                          | \$425,848                             | \$25,200  | \$19,281  | \$6,360                       | \$1,317,919 |
|   | 2018 | \$426,909             | \$305,500                          | \$147,849                             | \$24,750  | \$13,672  | \$6,360                       | \$925,040   |
| Christine Putur <sup>9</sup><br>Executive Vice President<br>Technology and Operations | 2020 | \$475,892             | \$0                                | \$248,592                             | \$14,250  | \$9,545   | \$5,640                       | \$753,919   |
|   | 2019 | \$440,846             | \$297,875                          | \$284,122                             | \$25,200  | \$14,476  | \$5,640                       | \$1,068,159 |
|   | 2018 | \$400,000             | \$238,000                          | \$54,746                              | \$24,750  | \$11,250  | \$5,640                       | \$734,386   |
| Kelley Hall <sup>10</sup><br>Senior Vice President<br>Chief Financial Officer         | 2020 | \$500,000             | \$0                                | \$85,476                              | \$14,250  | \$10,750  | \$5,640                       | \$616,116   |
|   | 2019 | \$57,692              | \$0                                | \$15,844                              | \$0   | \$5,192   | \$0                           | \$78,728    |
| Susan Viscon<br>Senior Vice President<br>Merchandising                                | 2020 | \$430,000             | \$0                                | \$194,008                             | \$14,250  | \$7,250   | \$5,640                       | \$651,148   |
|   | 2019 | \$426,516             | \$235,287                          | \$337,242                             | \$25,200  | \$13,186  | \$5,640                       | \$1,043,071 |
|   | 2018 | \$405,822             | \$265,610                          | \$140,435                             | \$24,750  | \$11,774  | \$5,640                       | \$854,031   |

<sup>1</sup> This summary reflects the pay of the co-op's President & CEO, two Executive Vice Presidents, and two Senior Vice Presidents during the calendar years shown. Information reported in this table includes all base pay, annual incentive awards, long-term incentive awards and other cash compensation paid to each of the named officers.

<sup>2</sup> Base pay reflects actual employee earnings from regular base salary and vacation, sick, holiday and sabbatical pay during the calendar years shown including any special base pay stipends paid during the three year period. Annual salary increases include merit and market adjustments. 2020, 2019 and 2018 included 26 paychecks within the calendar year.

<sup>3</sup> The annual incentive plan (Summit Incentive Plan), is a performance based plan which includes sales and operating profit performance metrics. Targets in the Summit Incentive Plan are consistent with the Company's pay-for-performance philosophy and focus the leadership team on the Company's short-term or annual performance. The awards for 2020, 2019, and 2018 reflect the Company's annual performance over those periods.

<sup>4</sup> 2020 values for the Long-Term Incentive Plan reflect awards for the 2018 - 2020 performance period. Payouts represent on target performance in three-year return on capital and above target performance in three-year revenue growth for the period from January 2018 through December 2020. Targets in the Long-Term Incentive Plan are consistent with the Company's pay-for-performance philosophy and focus the leadership team on the Company's long-term performance. The awards for the 2017 - 2019 and 2016 - 2018 three-year cycles reflect the Company's performance over those three-year periods.

<sup>5</sup> For 2020, a 5% contribution was awarded for all eligible employees under the Retirement and Profit Sharing Plan. The Plan allows for up to a 15% contribution of eligible earnings, based on Company profitability. A 9% contribution was awarded in 2019 and a 9% contribution was awarded in 2018. IRS Compensation Limits for contributions to the Retirement and Profit Sharing Plan are observed for all employees. These limits cap the amount the Company can contribute to the Retirement and Profit Sharing Plan for certain officers. For an officer with base salary earnings in excess of the IRS Compensation Limits, the Company applies the Retirement and Profit Sharing contribution percentage to the earnings above the IRS Compensation Limits and contributes the resulting amount to an account in the officer's name under the Company's Deferred Compensation Plan of 1990. The combination of Company contributions to an officer's Retirement and Profit Sharing Plan account and Deferred Compensation Plan of 1990 account results in the same percentage contribution provided to any eligible employee who is not affected by IRS Compensation Limits.

<sup>6</sup> Other Allowances consist of a monthly allowance for car expenses and a communication device.

<sup>7</sup> In May 2019, Mr. Artz was named President and CEO after serving as Interim President and CEO since February 2019.

<sup>8</sup> In September 2018, Mr. Steele received a promotion to Executive Vice President, Chief Customer Officer.

<sup>9</sup> In July 2019, Ms. Putur was promoted to Executive Vice President, Technology & Operations retroactive to March 2019. Before her promotion, Ms. Putur joined the co-op as Senior Vice President, Chief Information Officer in October 2017. In addition, Ms. Putur received two installments of a sign-on bonus, \$100,00 in 2017 and \$75,000 in 2018, as part of her offer letter not shown in the table.

<sup>10</sup> Ms. Hall joined the co-op as Senior Vice President, Chief Financial Officer in November 2019. Her annualized base salary for 2019 was \$500,000. Ms. Hall was not eligible for the 2019 Summit Incentive due to eligibility requirements as defined in the Plan. The 2019 amount included under Long-Term Incentive Plan was pro-rated to reflect Ms. Hall's service as Chief Financial Officer in accordance with plan rules. Ms. Hall was not eligible for a contribution under the Retirement and Profit Sharing Plan in 2019, but a contribution to the Deferred Compensation Plan of 1990 was made on her behalf in 2019. In addition, Ms. Hall received sign-on bonuses of \$100,000 in 2020 and \$200,000 in 2019 as part of her offer letter not shown in the table.