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COMPENSATION PARTNERS, LLC

Houston Compensation and Benefits ■ October 12, 2017

Current Trends in Executive Compensation (or, Why Didn't the Compensation Committee Approve What We Recommended?)

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Introduction

MERIDIAN
COMPENSATION PARTNERS, LLC

One of the largest independent executive compensation and corporate governance consulting firms.

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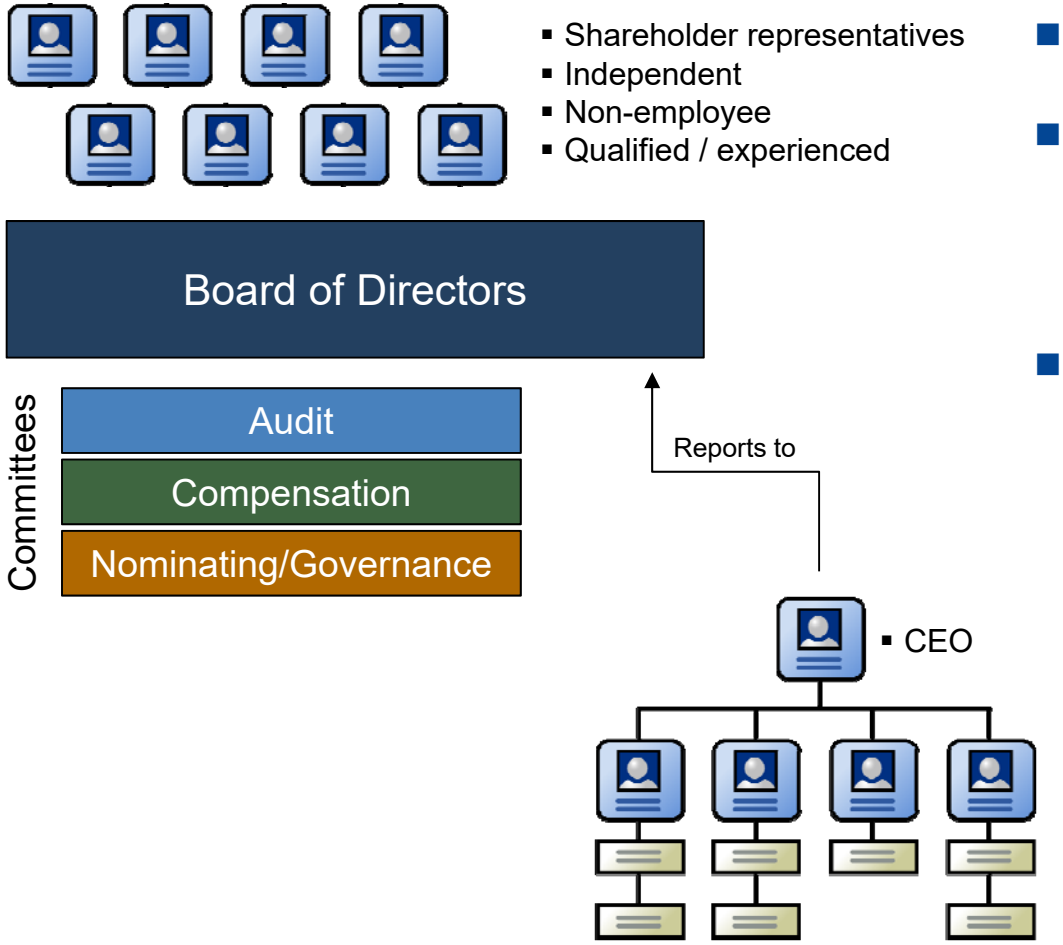


Thanks for inviting us!

Objectives today:

- Interesting trends in executive compensation
- Relevant for all compensation professionals
- Timely for the upcoming compensation cycle

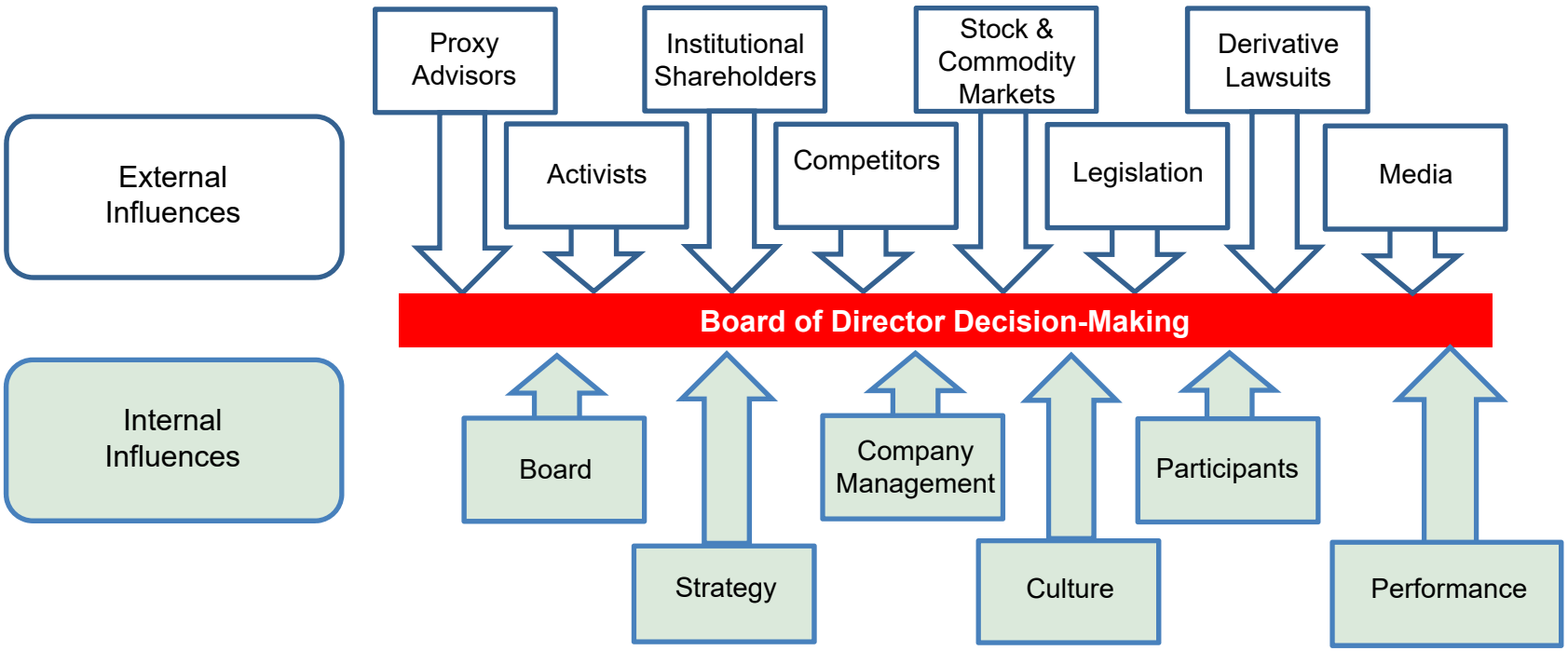
Role of the Board: Who Are These People?



- Board's role: govern, but not manage
- Process:
  1. Management proposes
  2. Board evaluates
  3. Board says yes or no
- Desired outcomes
  - Compliance
  - Governance
  - Results for shareholders

Board Influences: Increasing

Boards face a number of internal and external influences when making compensation decisions



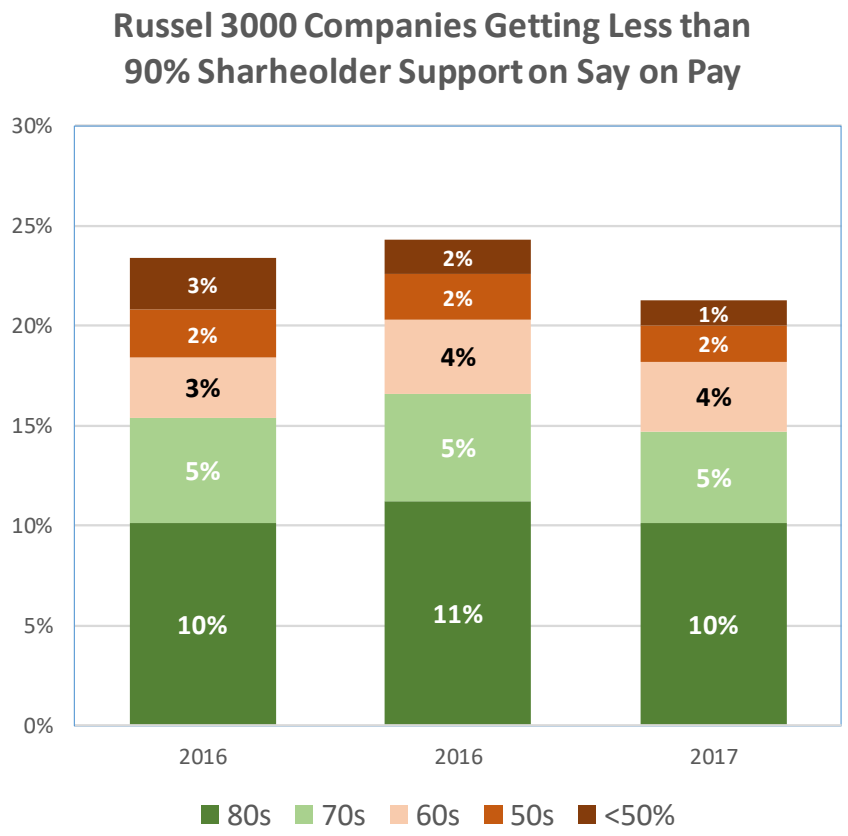
Example #1: Say on Pay

Since 2011, US publicly traded companies must submit their executive compensation programs to a non-binding shareholder vote of approval

Expected outcome for most companies:
Greater than 90% support

Things that that might jeopardize a good Say on Pay vote:

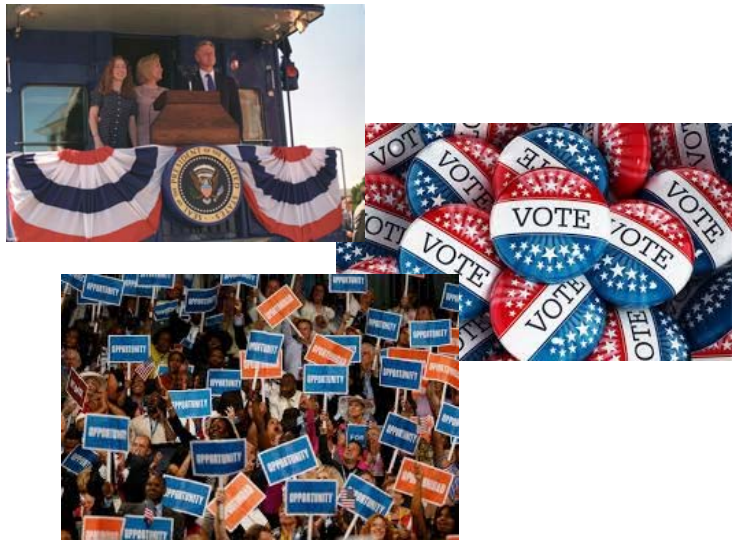
- Poor stock price performance
- High/rising pay (relatively)
- Discretionary bonuses
- Pay not aligned with performance



Example #2: Shareholder engagement

- To win votes, companies now campaign to shareholders
- Who does the campaigning?
  - IR, HR, and sometimes board members
- Not just telling, but listening:
  - "More options!"
  - "Less discretion!"
  - "More information!"
  - "Different metrics!"

Engagement feedback can factor heavily into the next cycle's pay actions and design.



The Voters

Vanguard
BLACKROCK
CAPITAL GROUP
J.P.Morgan
BNY MELLON
Invesco
STATE STREET
Fidelity INVESTMENTS
Goldman Sachs
WELLINGTON MANAGEMENT

Example #3: Activists



Icahn	Ackman	Loeb	Peltz
Icahn Ent.	Pershing Sq.	Third Point	Trian

Source: Fortune Magazine

Nightmare email for a board member:

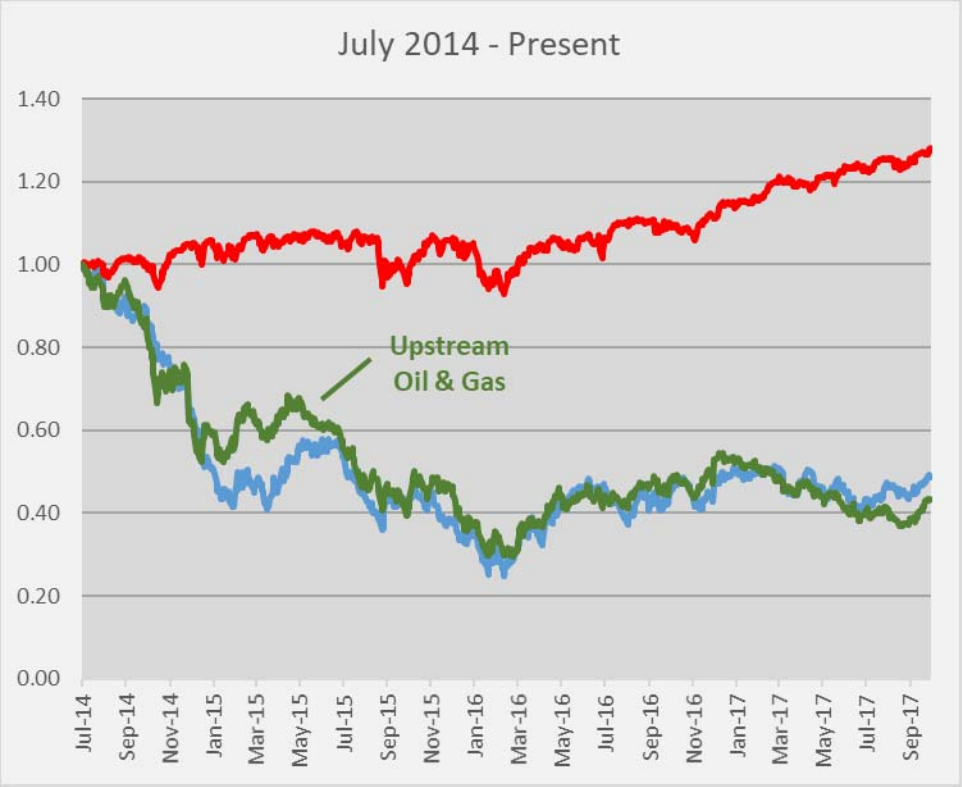
"Carl Icahn has taken a position in our company"

- Typical activist objectives and tactics – very disruptive
- Activists demand board seats – they shift the board role from "governing" to "managing"
- Compensation can attract an activist:
  - — If pay does not align well with company performance
  - — If a company has granted supplemental compensation (e.g. retention awards)
- Compensation "stokes the fire" to help get other investors on their side

Example #4: Economic cycles

- In leaner times, boards feel compelled to offer value-losing shareholders a visible response, despite employees perhaps working as hard as ever
  - No salary increases
  - Low or no bonuses
  - Lower stock grants
- Approved compensation actions may not align with survey trends
- Board optimism and pessimism around economic cycles can move compensation sharply

Indexed Stock and Oil Prices



CEO to Median Employee Pay Ratio

CEO Pay



÷

Median Employee Pay



=

CEO to Median Employee Pay Ratio

New for 2018 proxy statements!

- x Value to shareholders
- x Relevant to company performance
- ✓ Administrative hassle
- ✓ Potentially disruptive (internally)

Recent focus has shifted from concern around the magnitude of the CEO's multiple to the internal visibility of the median employee's compensation.

- *"Why am I paid under the median?"*
- *"Our competitor's median is higher"*

Conclusion

- The profession continues to change
- The influences on compensation continue to broaden
- Take a tip from the directors

Thanks!

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