



Compensation  
Advisory Partners

# Say on Pay Vote Results (S&P 500)

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# Table of Contents

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|   |    |
|---|----|
| Executive Summary .....                               | 3  |
| 2017 Say-on-Pay Results – S&P 500 .....               | 4  |
| ISS Vote Recommendations – S&P 500 .....              | 5  |
| Failed Say on Pay Votes (2011-2016) .....             | 6  |
| Proxy Advisors.....                                   | 7  |
| Say on Frequency .....                                | 10 |
| 2017 Failed Say on Pay Votes – Russell 3000.....      | 11 |
| 2017 Triennial Say on Frequency Votes – S&P 500 ..... | 13 |

# Executive Summary

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## SAY ON PAY

**Most proposals receive over 90% support and failed votes are rare among companies in the S&P 500. In 2017, 7 S&P 500 companies failed to receive majority shareholder support.**

- Median level of shareholder support was 95%, consistent with prior years
- Among the Russell 3000, 27 additional companies failed to received majority support

**Influence of proxy advisors – ISS and Glass Lewis – continues to be strong.**

- Obtaining an ISS vote recommendation “For” Say on Pay practically assures majority support
- Generally, an ISS or Glass Lewis “Against” vote recommendation reduces shareholder support for Say on Pay by 20-30% and 5-15%, respectively, depending on a company’s shareholder base
- Percent of companies receiving an “Against” Say on Pay vote recommendation from ISS decreased among the S&P 500, from 14% in 2012 to 10% in 2017
- Percent of companies receiving an “Against” Say on Pay vote recommendation from Glass Lewis increased from 16% in 2012 to 18% in 2016

**“Against” votes most often relate to a poor pay versus performance relationship; rigor of goals has been getting more attention, and the focus on this topic will continue.**

- Companies now often seek direct feedback from investors on a proactive basis during the year

**The bar for success is high; a result below 90% is bottom quartile, indicating material shareholder pushback.**

## SAY ON PAY VOTE FREQUENCY

**In general, Say on Frequency votes took place in 2011. As this vote must occur at least once every six years, most companies had a Say on Frequency vote at their 2017 annual meeting.**

- In 2011, nearly 30% of S&P 500 companies initially recommended a biennial or triennial vote frequency; however, a majority of shareholder votes were cast in support of an annual vote frequency at nearly 90% of companies
- Through November 20, 2017, 448 companies held a Say on Frequency vote: 422 companies (94%) recommended and approved an annual vote frequency, 17 companies (4%) recommended and approved a triennial vote frequency, 6 companies (1%) did not make a recommendation but shareholders approved an annual vote, and 3 companies (1%) recommended a triennial vote but shareholders approved an annual vote

**Companies will continue to primarily hold annual Say on Pay votes.**

# 2017 Say-on-Pay Results - S&P 500

Through November 20, 2017, 484 S&P 500 companies released Say on Pay vote results. Seven companies (Bed Bath & Beyond Inc., ConocoPhillips, McKesson Corporation, Mylan N.V., Oracle Corporation, SL Green Realty Corp., and Western Digital Corporation) failed to receive majority shareholder support.

| % in Favor – 2017 | # of Companies<br>(n = 484) | % of<br>Companies |
|-------------------|-----------------------------|-------------------|
| 95 - 100%         | 248                         | 51%               |
| 90 - 94%          | 142                         | 30%               |
| 70 - 89%          | 63                          | 13%               |
| 50 - 69%          | 24                          | 5%                |
| Below 50%         | 7                           | 1%                |

| Percentile Rank  | % in Favor – 2017 | % in Favor – 2016 | % in Favor – 2015 |
|------------------|-------------------|-------------------|-------------------|
| 90 <sup>th</sup> | 98%               | 98%               | 98%               |
| 75 <sup>th</sup> | 97%               | 97%               | 98%               |
| 50 <sup>th</sup> | 95%               | 95%               | 96%               |
| 25 <sup>th</sup> | 93%               | 92%               | 92%               |
| 10 <sup>th</sup> | 82%               | 81%               | 82%               |

# ISS Vote Recommendations - S&P 500

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In 2017, ISS has recommended “Against” Say on Pay at 10% (n=49) of companies that released vote results; seven companies failed to receive majority shareholder support.

| ISS Vote Recommendation | % of Companies Passed | % of Companies Failed |
|-------------------------|-----------------------|-----------------------|
| For (n=435)<br>90%      | 100%                  | 0%                    |
| Against (n=49)<br>10%   | 86%                   | 14%                   |
| Total (n=484)           | 99%                   | 1%                    |

ISS’ most common themes behind Say on Pay problems (excluding “pay for performance disconnect”) include:

- Unresponsive / ineffective Compensation Committee
- Discretionary awards
- Construction of incentive programs
- Performance metric selection and disclosure
- Lack of rigor on performance goals
- Escalatory pay benchmarking practices
- Employment agreement / leadership transition issues

# Failed Say on Pay Votes (2011-2016)

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Companies that have failed Say on Pay have generally improved their vote result the year following a failed vote.

| Year | Number of S&P 500 Failures | Average Support in Year of Failure | Average Support in Year Following Failure | Year-over-Year SOP Result Change |
|------|----------------------------|------------------------------------|---|----------------------------------|
| 2016 | 6                          | 40%                                | 72%                                       | +32%                             |
| 2015 | 4                          | 44%                                | 59%                                       | +15%                             |
| 2014 | 6                          | 41%                                | 72%                                       | +31%                             |
| 2013 | 7                          | 29%                                | 75%                                       | +46%                             |
| 2012 | 12                         | 35%                                | 66%                                       | +31%                             |
| 2011 | 7                          | 44%                                | 74%                                       | +30%                             |

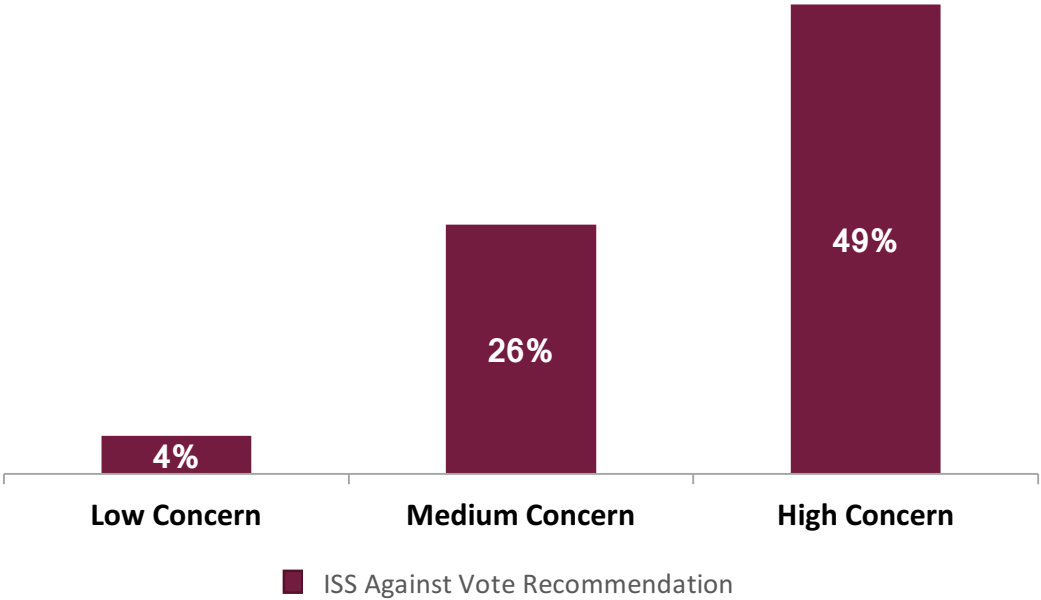
The increase in shareholder support is typically the result of improved company performance, shareholder outreach, changes to executive compensation program, or a combination thereof.

# Proxy Advisors

To determine their vote recommendation for Say on Pay proposals, ISS and Glass Lewis conduct both a quantitative and qualitative review to assess if pay and performance are aligned. The results of the quantitative pay versus performance test significantly influences Say on Pay vote recommendation.

## ISS

Say on Pay Vote Recommendation vs. Quantitative Pay vs. Performance Test



*Note: Pay for performance test based solely on CEO pay*

ISS' quantitative pay vs. performance test can result in three levels of concern: Low, Medium, or High. Most companies receive Low concern (76%), while approximately one in four companies receive Medium (10%) or High (14%) concern. The Multiple of Medium test is most correlated with “Against” ISS vote recommendations.

Source: ISS Corporate Solutions (2017), 2017: Proxy Season Review Compensation.

## GLASS-LEWIS

### Say on Pay Vote Recommendation vs. Quantitative Pay vs. Performance Test Grade

| Grade      | Against Recommendation<br><i>(all companies)</i> |
|------------|--|
| A          | 4%   |
| B          | 4%   |
| C          | 7%   |
| D          | 34%  |
| F          | 75%  |
| All Grades | 18%  |

*Note: Pay for performance test based on Top 5 Pay*

In 2016, Glass Lewis recommended "Against" Say on Pay at approximately 17% of S&P 500 companies and 18% of Russell 3000 companies. It is highly unlikely to receive an "Against" Say on Pay vote recommendation from Glass Lewis with a pay-for-performance score of "C" or better. A "C" pay-for-performance grade from Glass Lewis indicates alignment of pay and performance. An "A" or "B" grade indicates relative performance exceeds pay levels, and a "D" or "F" grade indicates relative pay levels exceed relative performance.

Source: Glass Lewis & Co. (2016)



ISS and Glass Lewis have both established Say on Pay vote result thresholds, below which a minimum level of Board response is expected.

### ***ISS – Say on Pay Result of 70% or Less***

May recommend a vote “Against” Compensation Committee members (or in rare cases full Board) and current Say on Pay proposal if company’s prior year Say on Pay resolution received less than 70% of votes cast.

- Takes into account company’s response, including: disclosure of engagement efforts with major institutional investors regarding compensation issue(s); specific actions taken to address the issue(s) that appear to have caused the opposition; number of shareholders contacted; and recent compensation actions
- Also considers whether the issues raised are recurring or isolated, as well as the company’s ownership structure
- If support was less than 50%, higher degree of responsiveness is expected

### ***Glass Lewis – Say on Pay Result of 75% or Less***

May recommend a vote Against the Chairman of the Compensation Committee, or the entire Committee, and current Say on Pay proposal if company’s prior year Say on Pay resolution received less than 75% of votes cast.

- Takes into account shareholder engagement efforts and the level of response, as well as related disclosure. Areas of focus generally includes:
  - Any modifications made to the design and structure of the company’s compensation program
  - An assessment of the company’s engagement with shareholders on compensation issues as discussed in the CD&A

# Say on Frequency

The tables below reflect Say on Pay frequency proposals and corresponding vote results among S&P 500 companies for 2017; more companies (board recommendations) shifted from triennial to annual Say on Pay frequency support in 2017 compared to 2011.

## Board Recommendation

| Board Recommendation for Vote Frequency | % of Companies |              |
|---|----------------|--------------|
|   | 2017 Results   | 2011 Results |
| Annual                                  | 94%            | 70%          |
| Biennial                                | 0%             | 3%           |
| Triennial                               | 5%             | 23%          |
| No Recommendation                       | 1%             | 4%           |

## Voting Results

| Frequency Receiving Majority Shareholder Support | % of Companies |              |
|--|----------------|--------------|
|  | 2017 Results   | 2011 Results |
| Annual   | 96%            | 94%          |
| Biennial   | 0%             | 0%           |
| Triennial <sup>1</sup>                           | 4%             | 5%           |
| None (only plurality) <sup>2</sup>               | 0%             | 1%           |

All companies that received majority support for triennial, also received majority support for triennial in 2011 and no company shifted from an annual to biennial or triennial Say on Pay vote.

- 1) See page 13 for a list of S&P 500 companies who have received majority shareholder support for triennial Say on Pay vote.
- 2) None of the three frequency options (annual, biennial, or triennial) received majority shareholder support (greater than 50%).

## 2017 Failed Say on Pay Votes - Russell 3000

| Company (n=34)                               | Fiscal Year End | S&P 500 ("X" = Yes) | Sales FYE (\$mm) | Mkt Cap FYE (\$mm) | TSR FYE |         | SoP Vote Result % in Favor |      | Number of Failures |
|--|-----------------|---------------------|------------------|--------------------|---------|---------|----------------------------|------|--------------------|
|  |                 |                     |                  |                    | 1 -Year | 3 -Year | 2017                       | 2016 |                    |
| McKesson Corporation                         | Mar-17          | X                   | \$198,533        | \$31,439           | -5%     | -15%    | 27%                        | 80%  | 2                  |
| Oracle Corporation                           | May-17          | X                   | \$37,728         | \$166,824          | -7%     | 24%     | 49%                        | 45%  | 6                  |
| ConocoPhillips                               | Dec-16          | X                   | \$23,745         | \$62,125           | 10%     | -21%    | 32%                        | 84%  | 1                  |
| Western Digital Corporation                  | Jun-17          | X                   | \$19,093         | \$25,804           | 93%     | 4%      | 42%                        | 93%  | 1                  |
| Bed Bath & Beyond Inc.                       | Feb-17          | X                   | \$12,216         | \$6,169            | 10%     | -38%    | 44%                        | 23%  | 3                  |
| Mylan N.V.                                   | Dec-16          | X                   | \$11,077         | \$20,414           | -29%    | -12%    | 16%                        | 65%  | 2                  |
| Tutor Perini Corporation                     | Dec-16          |                     | \$4,973          | \$1,378            | -29%    | 6%      | 42%                        | 42%  | 7                  |
| Sprouts Farmers Market, Inc.                 | Jan-17          |                     | \$4,046          | \$2,693            | -16%    | -51%    | 43%                        | 73%  | 1                  |
| American Axle & Manufacturing Holdings, Inc. | Dec-16          |                     | \$3,948          | \$1,476            | 2%      | -6%     | 39%                        | 97%  | 1                  |
| Nabors Industries Ltd.                       | Dec-16          |                     | \$2,228          | \$4,648            | -29%    | 2%      | 44%                        | 36%  | 6                  |
| Hospitality Properties Trust                 | Dec-16          |                     | \$2,047          | \$5,214            | 67%     | 46%     | 48%                        | 61%  | 1                  |
| Nuance Communications, Inc.                  | Sep-16          |                     | \$1,949          | \$4,056            | -11%    | -22%    | 34%                        | 33%  | 4                  |
| Atlas Air Worldwide Holdings, Inc.           | Dec-16          |                     | \$1,840          | \$1,304            | 26%     | 27%     | 32%                        | 50%  | 3                  |
| FleetCor Technologies, Inc.                  | Dec-16          |                     | \$1,832          | \$13,132           | 31%     | 21%     | 37%                        | n/a  | 2                  |
| Microsemi Corporation                        | Oct-16          |                     | \$1,655          | \$4,752            | 27%     | 71%     | 45%                        | 83%  | 1                  |
| SL Green Realty Corp.                        | Dec-16          | X                   | \$1,746          | \$10,897           | -2%     | 25%     | 43%                        | 55%  | 1                  |
| New York Community Bancorp, Inc.             | Dec-16          |                     | \$1,429          | \$7,749            | 2%      | 12%     | 50%                        | n/a  | 2                  |
| SeaWorld Entertainment, Inc.                 | Dec-16          |                     | \$1,344          | \$1,684            | 0%      | -26%    | 43%                        | 82%  | 1                  |
| Senior Housing Properties Trust              | Dec-16          |                     | \$1,058          | \$4,497            | 39%     | 9%      | 46%                        | 47%  | 2                  |
| NII Holdings, Inc.                           | Dec-16          |                     | \$985            | \$217              | -57%    | n/a     | 23%                        | 58%  | 1                  |

**Note:** "Number of Failures" reflects the number of years the company has failed to receive majority shareholder support on their Say-on-Pay vote since 2011.

## 2017 Failed Say on Pay Votes - Russell 3000

| Company (n=34)                        | Fiscal Year End | S&P 500 ("X" = Yes) | Sales FYE (\$mm) | Mkt Cap FYE (\$mm) | TSR FYE |         | SoP Vote Result % in Favor |      | Number of Failures |
|---------------------------------------|-----------------|---------------------|------------------|--------------------|---------|---------|----------------------------|------|--------------------|
|                                       |                 |                     |                  |                    | 1 -Year | 3 -Year | 2017                       | 2016 |                    |
| PHH Corporation                       | Dec-16          |                     | \$860            | \$813              | -6%     | -38%    | 36%                        | 71%  | 1                  |
| Virtusa Corporation                   | Mar-17          |                     | \$859            | \$905              | -19%    | -10%    | 37%                        | 100% | 1                  |
| Universal Insurance Holdings, Inc.    | Dec-16          |                     | \$685            | \$995              | 27%     | 116%    | 47%                        | n/a  | 1                  |
| Argan, Inc.                           | Jan-17          |                     | \$675            | \$1,129            | 146%    | 175%    | 45%                        | 64%  | 2                  |
| Sanchez Energy Corporation            | Dec-16          |                     | \$431            | \$535              | 110%    | -63%    | 47%                        | 56%  | 1                  |
| SandRidge Energy, Inc. <sup>(1)</sup> | Dec-16          |                     | \$384            | \$485              | n/a     | n/a     | 43%                        | n/a  | 1                  |
| IMAX Corporation                      | Dec-16          |                     | \$376            | \$2,098            | -12%    | 7%      | 30%                        | n/a  | 1                  |
| BofI Holdings, Inc.                   | Jun-17          |                     | \$370            | \$34               | 34%     | 29%     | 46%                        | n/a  | 1                  |
| Medifast, Inc.                        | Dec-16          |                     | \$275            | \$493              | 41%     | 66%     | 42%                        | n/a  | 2                  |
| Endologix, Inc.                       | Dec-16          |                     | \$193            | \$473              | -42%    | -67%    | 40%                        | 85%  | 1                  |
| Spectrum Pharmaceuticals, Inc.        | Dec-16          |                     | \$146            | \$352              | -27%    | -50%    | 44%                        | 60%  | 4                  |
| Whitestone REIT                       | Dec-16          |                     | \$104            | \$421              | 31%     | 39%     | 43%                        | n/a  | 1                  |
| Rockwell Medical, Inc.                | Dec-16          |                     | \$53             | \$338              | -36%    | -37%    | 26%                        | n/a  | 1                  |
| Immunomedics, Inc.                    | Jun-17          |                     | \$3              | \$974              | 281%    | 142%    | 38%                        | n/a  | 1                  |

(1) Company includes abstentions in calculating their Say-on-Pay result and, therefore, failed with 42.8% support.

**Note:** "Number of Failures" reflects the number of years the company has failed to receive majority shareholder support on their Say-on-Pay vote since 2011.

## 2017 Triennial Say on Frequency Votes - S&P 500

| Company (n=18)                  | Fiscal Year End | Sales FYE (\$mm) | Market Cap FYE (\$mm) | SoP Vote Result % in Favor |      | Previous Say On Frequency |
|---------------------------------|-----------------|------------------|-----------------------|----------------------------|------|---------------------------|
|                                 |                 |                  |                       | 2017                       | 2014 |                           |
| Berkshire Hathaway Inc.         | Dec-16          | \$214,596        | \$400,505             | 100%                       | 100% | Triennial                 |
| Alphabet Inc.                   | Dec-16          | \$90,272         | \$539,070             | 75%                        | 92%  | Triennial                 |
| United Parcel Service, Inc.     | Dec-16          | \$60,906         | \$100,041             | 92%                        | 89%  | Triennial                 |
| Tyson Foods, Inc.               | Oct-16          | \$36,881         | \$28,528              | 98%                        | 99%  | Triennial                 |
| Charter Communications, Inc.    | Dec-16          | \$29,003         | \$42,735              | 70%                        | 99%  | Triennial                 |
| AutoNation, Inc.                | Dec-16          | \$21,609         | \$4,916               | 98%                        | 98%  | Triennial                 |
| PACCAR Inc.                     | Dec-16          | \$17,033         | \$22,399              | 95%                        | 98%  | Triennial                 |
| DISH Network Corporation        | Dec-16          | \$15,095         | \$42,735              | 100%                       | 99%  | Triennial                 |
| CBS Corporation                 | Dec-16          | \$13,166         | \$22,744              | 99%                        | 89%  | Triennial                 |
| Viacom, Inc.                    | Sep-16          | \$12,488         | \$15,346              | 96%                        | 99%  | Triennial                 |
| Universal Health Services, Inc. | Dec-16          | \$9,766          | \$10,314              | 96%                        | 100% | Triennial                 |
| Expedia, Inc.                   | Dec-16          | \$8,774          | \$16,995              | 79%                        | 94%  | Triennial                 |
| Franklin Resources, Inc.        | Sep-16          | \$6,618          | \$20,493              | 97%                        | 99%  | Triennial                 |
| Discovery Communications, Inc.  | Dec-16          | \$6,497          | \$15,095              | 69%                        | 59%  | Triennial                 |
| IQVIA Holdings Inc.             | Dec-16          | \$5,364          | \$5,364               | 88%                        | 81%  | Triennial                 |
| Regeneron Pharmaceuticals, Inc. | Dec-16          | \$4,860          | \$39,394              | 67%                        | 62%  | Triennial                 |
| Wynn Resorts, Limited           | Dec-16          | \$4,466          | \$8,802               | 100%                       | 91%  | Triennial                 |
| Brown-Forman Corporation        | Apr-17          | \$2,994          | \$60,906              | 99%                        | 97%  | Triennial                 |