Compensation
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2018 PROXY SEASON - EARLY TRENDS:

2017 CEO pay up slightly reflecting strong performance

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Compensation Advisory Partners (CAP) reviewed executive compensation pay levels and trends at 50 companies (Early Filers) that filed their most recent proxy statement between November 2017 and January 2018 (fiscal year ends from July 2017 to October 2017; 35 companies have September 30 fiscal year ends). Industry sectors reviewed include: Consumer Discretionary, Consumer Staples, Financials, Health Care, Industrials, Information Technology and Materials. Among these 50 companies, median Revenue was $7.5B, median Market Capitalization (based on each company's fiscal year-end) was $13.0B and 1-year Total Shareholder Return, or TSR (based on each company's fiscal year-end) was 19.3%.

Overall Findings

Performance: 2017 performance (based on Revenue growth, EBIT growth, EPS growth and 1-year TSR) was strong. Revenue and EBIT grew by approximately 6%, EPS was up 4% and TSR was up nearly 20% vs. prior year.

CEO Pay: Median CEO pay increased slightly by 3.3% mainly driven by actual annual incentive payouts. The grant date value of long-term incentives (LTI) was generally flat.

Annual Incentive Payout: Overall, the median 2017 annual incentive payout was 115% of target, reflective of strong financial performance.

2017 Performance

CAP reviewed Revenue growth, EBIT growth, EPS growth and TSR performance for the Early Filer and the S&P 500 companies. Overall, 2017 median performance for Early Filers was strong. Revenue and EBIT grew approximately 6%, EPS grew around 4% and TSR was up nearly 20%. TSR among the Early Filers showed double-digit growth for the second year in a row; this growth is due to strong financial performance as well as market expectations around tax reform in light of the current political climate.

Financial Metric (1)	2016 Median 1-year Performance		2017 Median 1-year Performance	
	S&P 500	Early Filers	S&P 500	Early Filers
Revenue Growth	2.1%	2.0%	6.3%	5.7%
EBIT Growth	2.2%	7.6%	6.6%	6.0%
EPS Growth	4.2%	5.2%	9.9%	3.9%
TSR	3.3%	18.4%	17.0%	19.3%

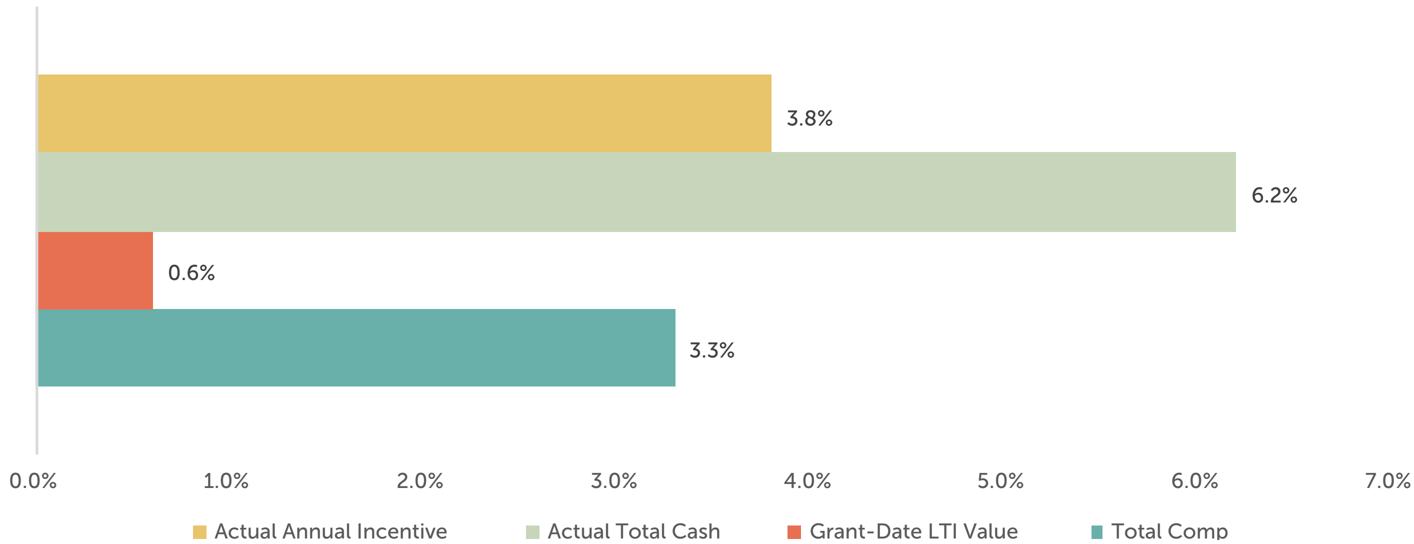
(1) TSR and Financial performance for the S&P 500 is as of September 30, 2016 and September 30, 2017. Financial performance and TSR for Early Filers is as of each company's fiscal year end.

2017 performance was relatively strong, resulting in approximately 75% of companies providing at or above target payout.

CEO Total Direct Compensation

Among Early Filers with CEOs in their role for at least two years (n=39), median total direct compensation increased 3.3%. This increase was mainly due to higher actual annual incentive payouts in 2017; the grant-date value of LTI was generally flat year over year. Actual annual incentive payout was up nearly 4% reflective of strong financial performance while LTI, the largest component of CEO pay, was up only 1%. Median base salary for CEOs in our sample was unchanged from 2016.

1-Year Median Change in CEO Compensation



Annual Incentive Plan Payout

The median actual annual incentive payout in 2017 was 115% of target, higher than the median payout in 2016 of 106% of target. In fact, the 25th percentile bonus payout in 2017 was at target, noticeably higher than last year (86% of target).

Summary Statistics	Annual Incentive Payout as a % of Target		
	2015	2016	2017
75th Percentile	134%	141%	147%
Median	106%	106%	115%
25th Percentile	97%	86%	100%

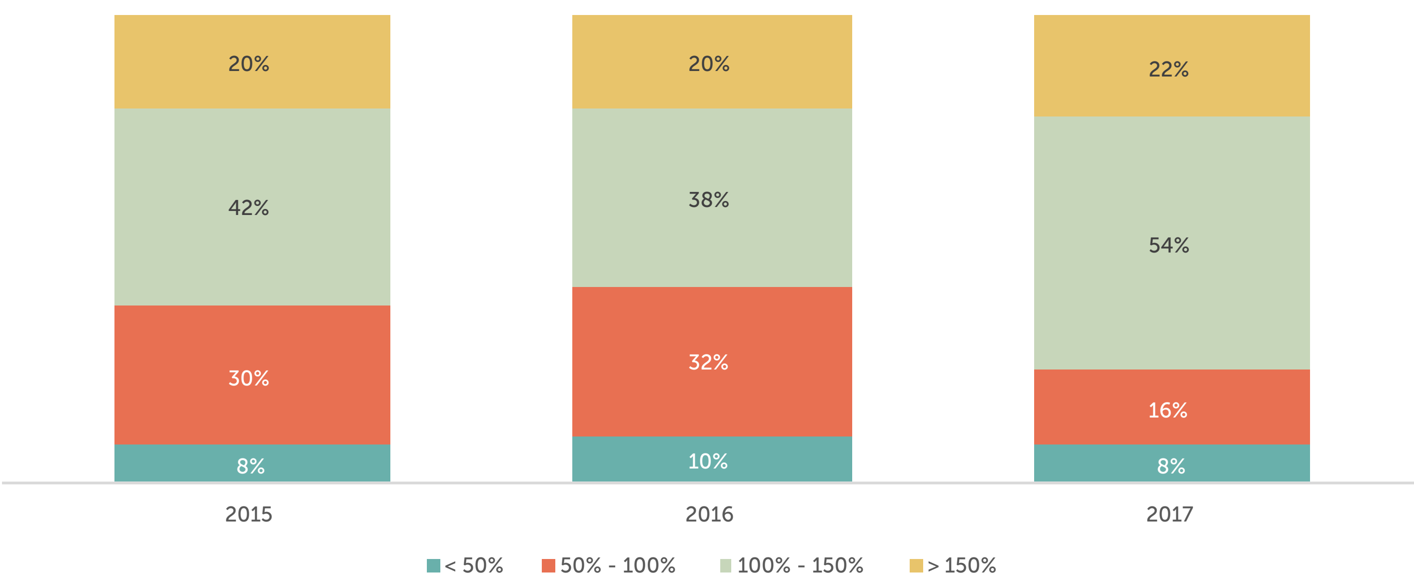
Performance for companies with at or above target annual incentive payouts was substantially stronger than that of companies with below target payouts. Companies with payouts at or above target had strong EPS (10.9%) and TSR (23.2%) growth and solid Revenue (6.3%) and EBIT (7.2%) growth. Performance for companies with below target payouts was flat or declining from prior year.

Financial Metric (1)	2016 Median 1-year Performance		2017 Median 1-year Performance	
	Below target payout (n=21)	At/above target payout (n=29)	Below target payout (n=12)	At/above target payout (n=38)
Revenue Growth	(0.7%)	3.0%	2.1%	6.3%
EBIT Growth	(2.8%)	15.9%	1.0%	7.2%
EPS Growth	(3.9%)	16.9%	(4.3%)	10.9%
TSR	16.9%	19.6%	(3.9%)	23.2%

(1) Financial performance and TSR is as of each company's fiscal year end.

76% of companies in 2017 provided a payout at or above target which is considerably higher than 2016 and 2015 (58% and 62%, respectively). In 2017, significantly more companies provided a payout between 100 – 150% of target than below target. This distribution is more evenly split in prior years. The distribution of payouts in 2017 aligns with stronger overall performance than 2016 and 2015.

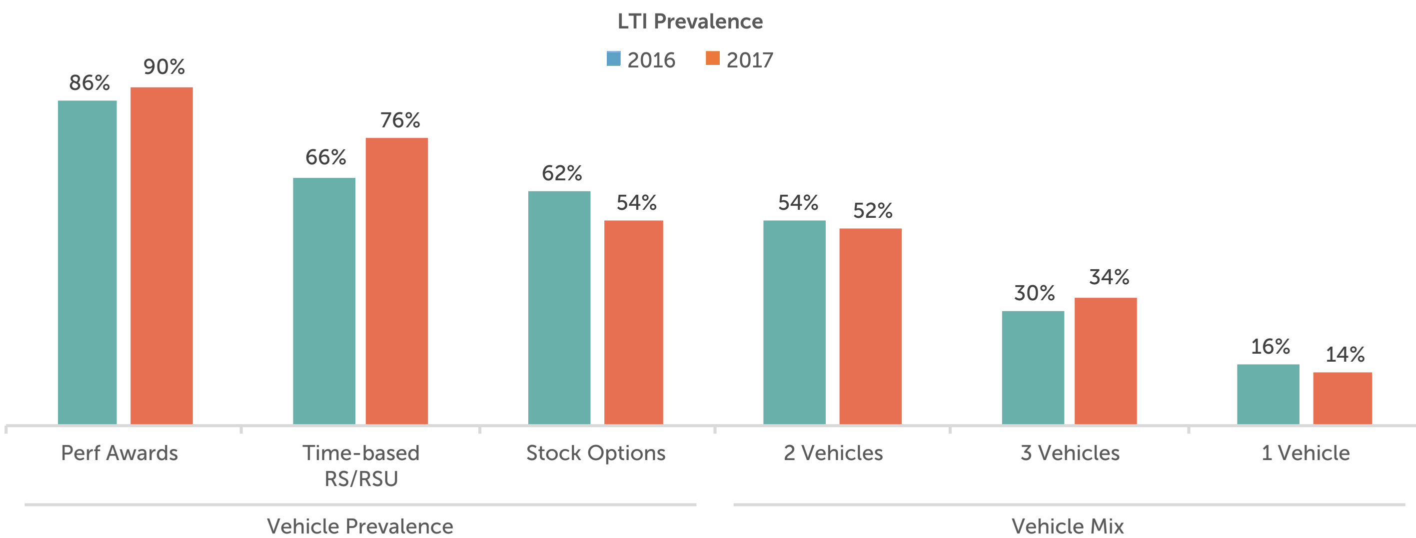
Annual Incentive Payout as a Percentage of Target



Incentive Plan Design

Among Early Filers, 75% of companies use 2 - 3 financial metrics in the annual incentive plan and nearly 83% use 1 – 2 measures in the LTI plan. Metrics in the annual incentive plan typically focus on growth and profitability, while LTI plans are more likely to reward executives based on profits, return measures or stock price performance. A growing number of companies are beginning to use non-financial strategic goals, primarily diversity and inclusion and creating a more engaged workforce, in the annual incentive plan design. With the recent amendment to 162(m) due to the Tax Cuts and Jobs Act, we anticipate more companies will use strategic measures and individual objectives to reward executives in the future.

As performance-based compensation continues to be championed by both shareholders and proxy advisory firms, the use of performance-based LTI continues to be very prevalent. Performance plan usage remains high, at 90% of Early Filers. Option use declined among the Early Filers (54% down from 62%) and shifted to use of restricted stock.



TSR continues to be the most prevalent LTI metric, with approximately 60% of companies using a performance-based plan with this metric. Of the companies that use TSR, 25% use it as a modifier, 50% use it as a stand-alone metric in conjunction with a financial measure and 25% use it as the sole measure. The prevalence of TSR as the sole measure has decreased somewhat over the last several years as companies use a balanced approach to reward executives for long-term financial and stock price results. We anticipate its usage as a sole measure to plateau or continue to decline particularly given ISS' recent shift towards the use of other financial measures in its quantitative pay for performance assessment (ISS and Glass Lewis Policy for the 2018 Proxy Season).

Performance-based LTI remains very prevalent while time-based restricted stock usage increased somewhat as companies try to balance the pay-for-performance relationship and retention of top talent.

Governance Practices

Over the last decade, many companies adopted good governance practices. Increased scrutiny from shareholders and proxy advisory firms has quickened the pace with which companies incorporated clawback, or recoupment, policies as well as hedging and pledging policies. It is no surprise that more than 90% of companies in our sample have a clawback policy in place. 85% of companies also have implemented hedging and pledging policies for their executives.

Nearly all companies (96%) in our sample have stock ownership guidelines in place; these guidelines encourage executives to hold a meaningful equity stake and align with shareholder interests. The guideline is most commonly expressed as a multiple of salary, with a median CEO multiple of 5x base salary and other NEOs with a multiple of 3x base salary. About one-third of companies also require executives to hold stock (typically 50 – 100% of net shares received) until stock ownership guidelines are met. It is less common for companies to require executives to hold shares for a period of time (e.g., 1 year) in lieu of stock ownership guidelines. Good governance practices continue to be a focus of shareholders, and companies are routinely implementing and updating policies as appropriate in the current regulatory environment.

Conclusion

2017 was a year of strong financial performance for the Early Filers, which resulted in above target annual incentive payouts for approximately 75% of companies. CEO actual total cash compensation increased by 6%, and when combined with generally flat LTI award values, total pay increased by 3%.

2018 will be the first performance year after the passage of tax reform. We do not expect companies to unwind their use of performance-based pay and good governance practices, yet we foresee greater use of individual and strategic performance measures, along with increased use of discretionary pay decisions, in moderation.

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