



Compensation
Advisory Partners

Industry Report // 2018-2019

CAP 120 Company Research

The CAP 120 Company Research consists of companies from ten industries, selected to provide a broad representation of market practice among large U.S. public companies. In this report, CAP reviewed Pay Strategies, Annual Incentives, Long-Term Incentives, Perquisites, and Stock Ownership Guideline Requirement Provisions of these companies in order to gauge general market practices and trends.



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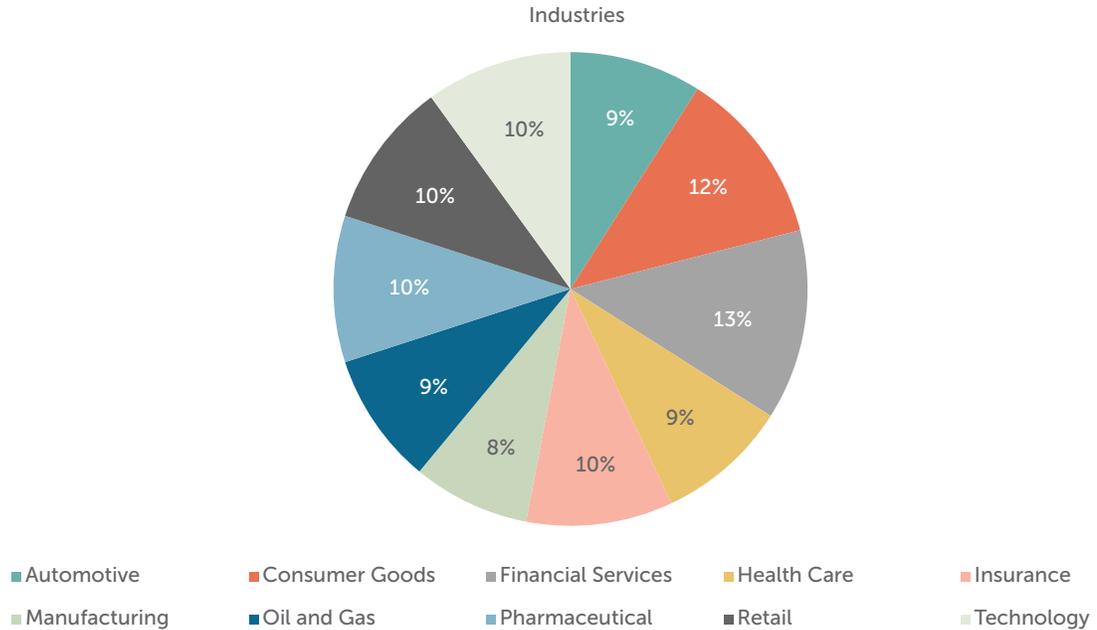
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Characteristics of the CAP 120 Company Research Sample

The CAP 120 Research Study consists of companies selected from ten industries intended to provide a broad representation of market practice among large U.S. public companies. The fiscal year revenues of the companies in our sample range from approximately \$3 billion to \$500 billion (median revenue of \$32.7B) and are summarized in the following exhibits.



Financial Summary (\$M)					Cumulative Total Shareholder Return Ending on 12/31/2018		
Percentile	Revenue	Net Income	Assets	Market Cap	1-Year	3-Year	5-Year
75 th	\$67,103	\$6,804	\$172,979	\$99,181	4%	50%	73%
Median	\$32,716	\$3,183	\$61,495	\$43,956	-12%	21%	33%
25 th	\$18,762	\$1,654	\$25,487	\$21,535	-23%	-4%	1%

Pay Strategy

Among companies in CAP's 120 Research, 97% disclose using a peer group for pay benchmarking purposes. The median number of companies in a peer group is 18.

Consistent with last year, approximately one-third (31%) of the companies with a peer group use more than one peer group. Companies with multiple peer groups either use two peer groups for pay benchmarking (e.g., an industry specific peer group and a general industry peer group) or use one peer group for pay benchmarking and another peer group for relative performance comparisons.

Peer Group (n = 116)		
% of companies with a disclosed peer group	% of companies with more than one peer group (among companies with a peer group)	Median # of companies in peer group
97%	31%	18

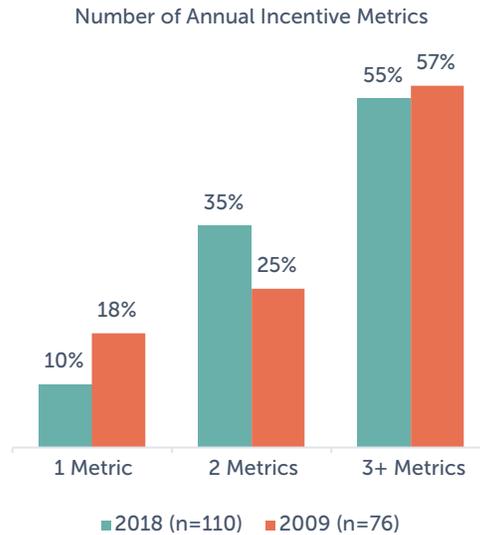
While use of a peer group is almost universal among large cap companies, many use a peer group as a reference point when setting pay and do not disclose targeting a specific pay position relative to market. Only half of the companies in our study disclose a target pay philosophy for total compensation. Of these companies, only 7% target total compensation above median.

Target Pay Philosophy (n = 56)					
Element	Base	Bonus	Cash	Long-Term Incentives	Total Compensation
% Disclosing	32%	22%	22%	24%	47%
% Target Below Median Pay	8%	-	-	-	-
% Target Median Pay	87%	96%	96%	97%	93%
% Target Above Median Pay	5%	4%	4%	3%	7%

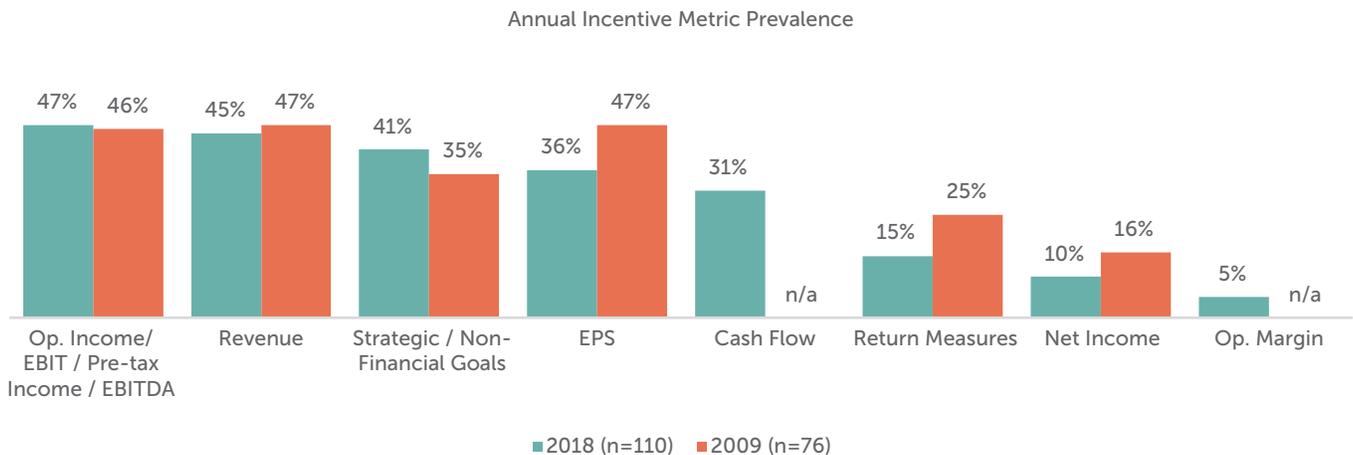
Annual Incentive

Annual Incentive Plan Metrics

A majority of CAP 120 companies (90%) fund their annual incentive plans using two or more metrics. Only 10% of companies use 1 metric, reflecting a decrease from 2009, as companies try to balance overall plan funding. Use of multiple performance metrics allows for annual incentive payouts to be reflective of broader company performance.



Operating Income (including EBIT, Pre-tax Income and EBITDA), Revenue, EPS, and Cash Flow are the most common metrics used in annual incentive plans. Since our first study, the use of Operating Income and Revenue has been generally consistent. Over this period, the use of EPS, Return Metrics and Net Income has decreased (by 11, 10 and 6 percentage points, respectively).



Note: In the chart above, n/a = not available. Percentages add to greater than 100% due to multiple responses disclosed by many of the companies. Return measures category is comprised of the following metrics: ROE, ROI, ROIC, and ROA.

More companies are incorporating non-financial measures in the annual incentive plan as they are unique to a company's strategy. Overall, approximately 40% of companies in our study use strategic and other non-financial measures, with certain industries (e.g., Health Care and Oil and Gas) having more of an emphasis on these measures. An emerging trend is to incorporate ESG (environmental, social and governance) metrics in the annual incentive program. Overall, 14 companies (12%) in our study disclosed such measures; environmental measures are most prevalent (8 companies) followed by diversity and inclusion (6 companies).

The chart below shows the three most common metrics by industry in 2018:

Industry	Metrics		
	Metric #1	Metric #2	Metric #3
Automotive (n=11)	Cash Flow (73%)	Op. income / EBIT / EBITDA (64%)	Revenue (36%)
Consumer Goods (n=14)	Revenue (71%)	EPS (57%)	Op. income / EBIT (50%)
Financial Services (n=7)	EPS (68%)	Return Metrics (43%)	Strategic Goals (43%)
Health Care (n=11)	Strategic Goals (64%)	Op. income / Pre-tax Income (55%)	EPS (45%)
Insurance (n=12)	Op. Income (58%)	Op. EPS (33%)	Op. ROE (25%)
Manufacturing (n=10)	Cash Flow (60%)	EPS (50%)	Op. Income (20%)
Oil and Gas (n=11)	Strategic Goals (64%)	Op. Income / EBITDA (55%)	ROIC (36%)
Pharmaceuticals (n=11)	Revenue (73%)	Pipeline / R&D (73%)	EPS (64%)
Retail (n=11)	Revenue (82%)	Op. Income / EBIT / Pre-tax Income (82%)	Strategic Goals (27%)
Technology (n=12)	Revenue (67%)	Cash Flow (50%)	Op. income / Pre-tax Income (50%)

Note: Percentages reflect the prevalence of companies disclosing the metric.

Award Leverage

CAP reviewed proxy disclosures to understand how companies establish annual incentive payout ranges (i.e., threshold payout and maximum payout expressed as a percentage of the target award). 45% of companies in our study disclose a threshold annual incentive payout at a defined level other than zero. The most common threshold payout for these companies is 50% of target. Other companies start at a 0% payout for threshold performance with payout levels progressing to target.

A majority of companies (84%) disclose a maximum annual incentive opportunity. Most of these companies (74%) have a maximum bonus opportunity of 200% of the target award; only a handful of companies (7) have a maximum payout above 200% of target. We continue to see a decline in the number of companies with a maximum payout above 200% of target (8 companies in 2017 and 11 companies in 2016).

Threshold Payout as a % of Target (n = 54)	
Range	% of Cos.
< 25%	24%
25% to < 50%	26%
50%	48%
> 50% to < 100%	2%

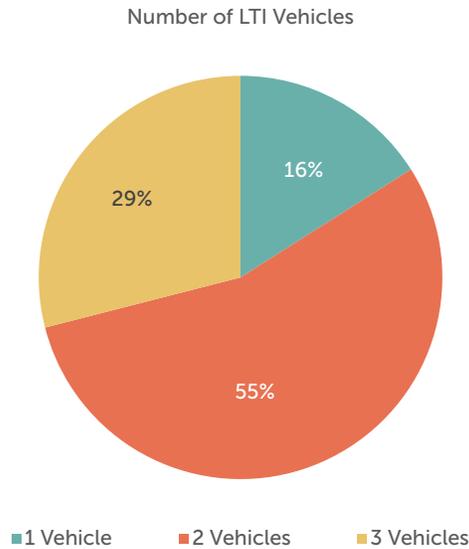
Maximum Payout as a % of Target (n = 101)	
Range	% of Cos.
> 100% to < 150%	5%
150% to < 200%	14%
200%	74%
> 200% to < 250%	6%
250% or more	1%

Long-Term Incentives

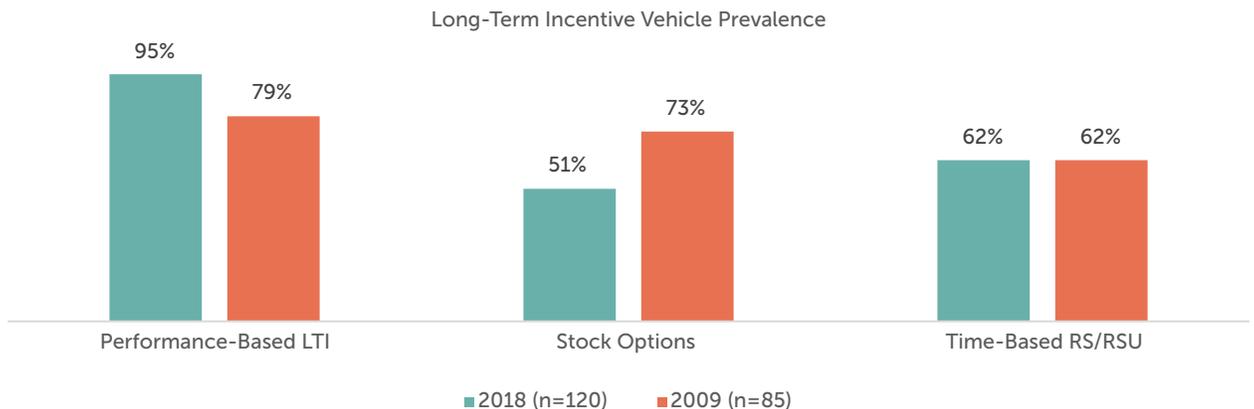
Long-Term Incentive Vehicle Prevalence

A vast majority of companies in our study (84%) use multiple long-term incentive vehicles for the most senior executives. Slightly more than half of the companies (55%) use two long-term incentive vehicles, typically delivered through either a long-term performance plan and time-based restricted stock/units (an uptick this year to 58%) or a long-term performance plan and stock options.

The next most common approach is to use three vehicles (29% of companies). A small percentage of companies in our study (16%) use only one vehicle and it is most typically delivered in the form of a long-term performance plan (84%).



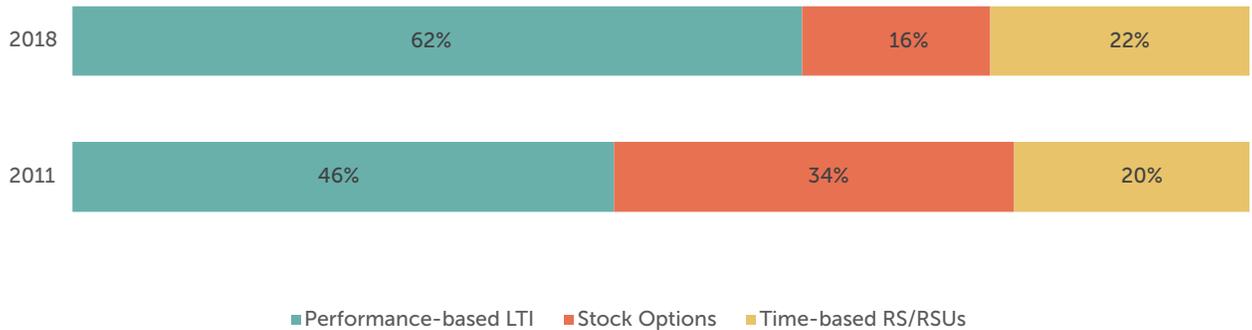
Performance-based LTI awards for senior executives is used nearly universally among large cap companies (95%) and the use of stock options has declined to 51% of companies. This contrasts our first study when the use of stock options and performance-based LTI was fairly balanced (79% used performance-based LTI and 73% used stock options). The prevalence of time-based restricted stock/units has remained flat.



LTI Award Mix

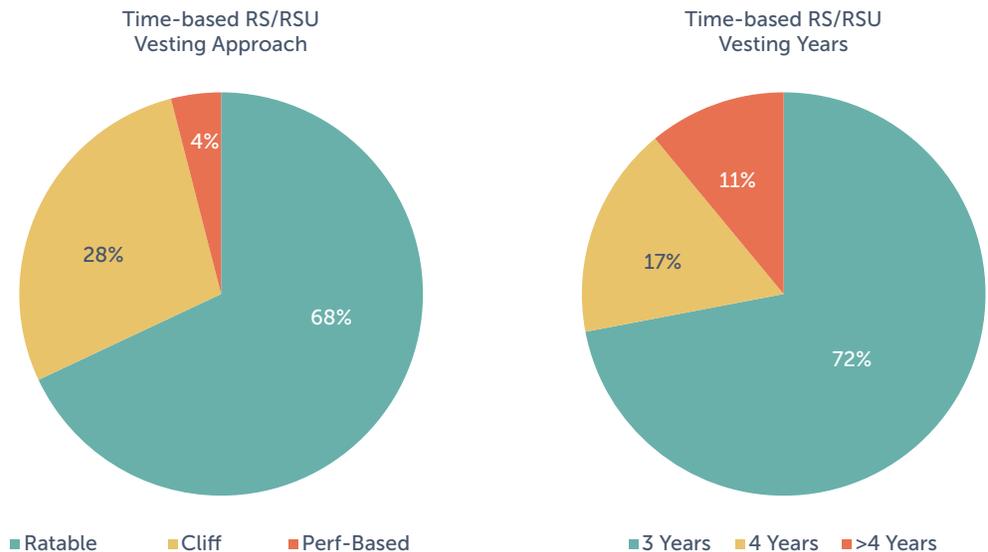
Performance-based LTI reflects the largest portion of the LTI mix for the CEO. For the first time in our large cap company study, time-based restricted stock reflects a larger portion of the total LTI mix than stock options. The decrease in the value delivered in stock options has shifted to performance-based LTI in the overall LTI mix. The value delivered in time-based restricted stock/units has been generally flat since 2011.

CEO Average Long-Term Incentive Vehicle Mix



Restricted Stock / Units (RS/RSU) and Stock Option Provisions

The majority of companies use ratable vesting over a period of three years for time-based RS/RSU awards. Approximately 30% of companies use a vesting schedule of four years or more.



For stock options, most companies use 3-year ratable vesting with a 10-year term.

Stock Options							
Vesting Approach			Vesting (Years)			Term (Years)	
Ratable	Perf-Based	Cliff	3	4	> 4	10	< 10
82%	2%	16%	69%	26%	5%	92%	8%

Performance-Based Award Provisions

The payout curve for performance-based LTI awards with upside and downside leverage mirrors the payout curve for annual incentive awards; the most common threshold payout is 50% of target and the most common maximum payout is 200% of target. Unlike annual incentive awards, a large number of companies (41% for long-term plans vs. 26% for annual incentive plans) disclose a threshold payout between 25% - 50% of the target award.

Threshold Payout as a % of Target (n=74)	
Range	% of Cos.
< 25%	11%
25% to < 50%	41%
50%	46%
> 50% to < 100%	3%

Maximum Payout as a % of Target (n=106)	
Range	% of Cos.
100%	1%
> 100% to < 200%	32%
200%	62%
> 200% to < 250%	1%
250% or more	4%

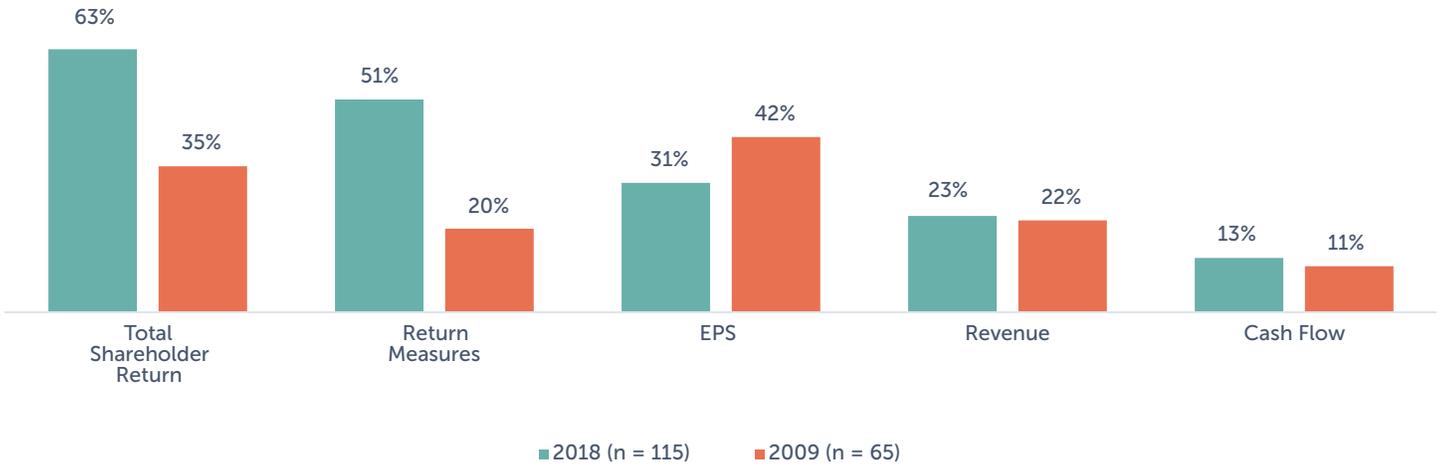
Performance Metrics

Total Shareholder Return (TSR) continues to be the most prevalent performance metric in long-term performance plans; 63% of companies use it as a measure in the performance-based LTI plan. Return metrics are the second most common measure (51% of companies) followed by EPS (31%) and Revenue (23%).

In CAP's first study, EPS was the most common measure followed by TSR. The rise in the use of TSR can be linked to the influence of proxy advisors who have increasingly used TSR as a proxy for performance since our first study (conducted prior to the adoption of the Dodd-Frank Wall Street Reform and Consumer Protection Act which mandated the shareholder Say on Pay vote). Of the companies that use TSR, approximately 30% disclose using it as an award modifier instead of a weighted metric.

The decline in the use of EPS in performance-based LTI plans is consistent with the decline of EPS use in annual incentive plans. Interestingly, the use of return measures has increased significantly from our first study (51% in 2018 vs. 20% in 2009) as companies are aligning executive long-term pay with profitable growth and operational efficiency. Return metrics are also often favored by institutional shareholders.

Performance-based LTI Metrics



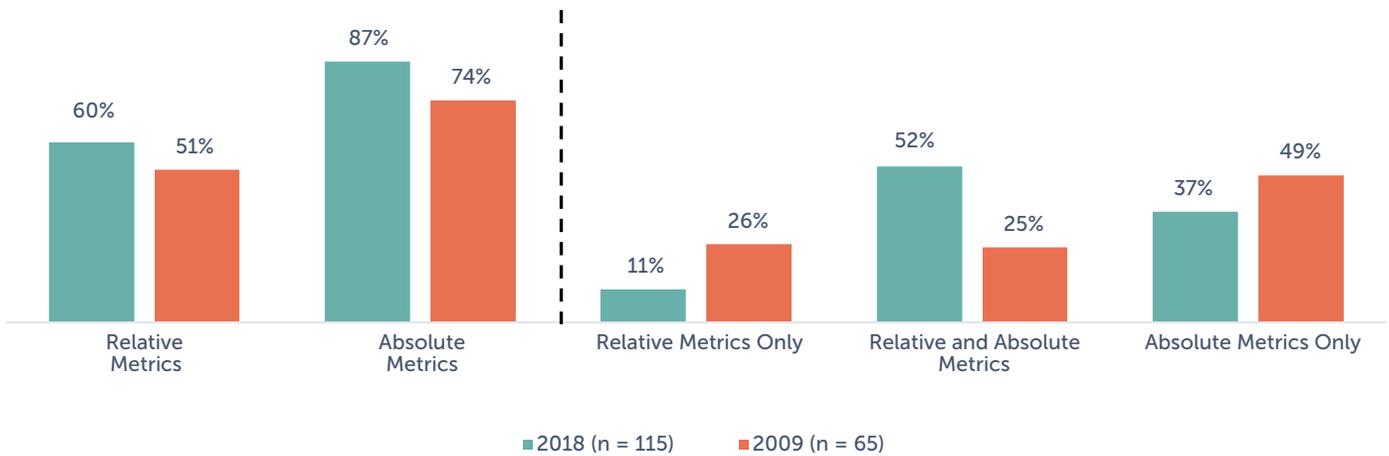
Note: Percentages add to greater than 100% due to multiple responses disclosed by many of the companies. Return measures category is comprised of the following metrics: ROE, ROI, ROIC, and ROA.

Performance Measurement – Absolute vs. Relative

A majority of companies in our study balance absolute financial performance goals (based on budget) with relative metrics. This balanced approach has increased substantially since our first study. Today, 52% of companies use both absolute and relative metrics vs. 25% of companies in 2009. This increase is tied to the increase use of relative TSR as a long-term metric.

In our most recent study, only 11% of companies use relative performance metrics only (down from 26% in 2009) and 37% of companies use absolute metrics only (down from 49% in 2009).

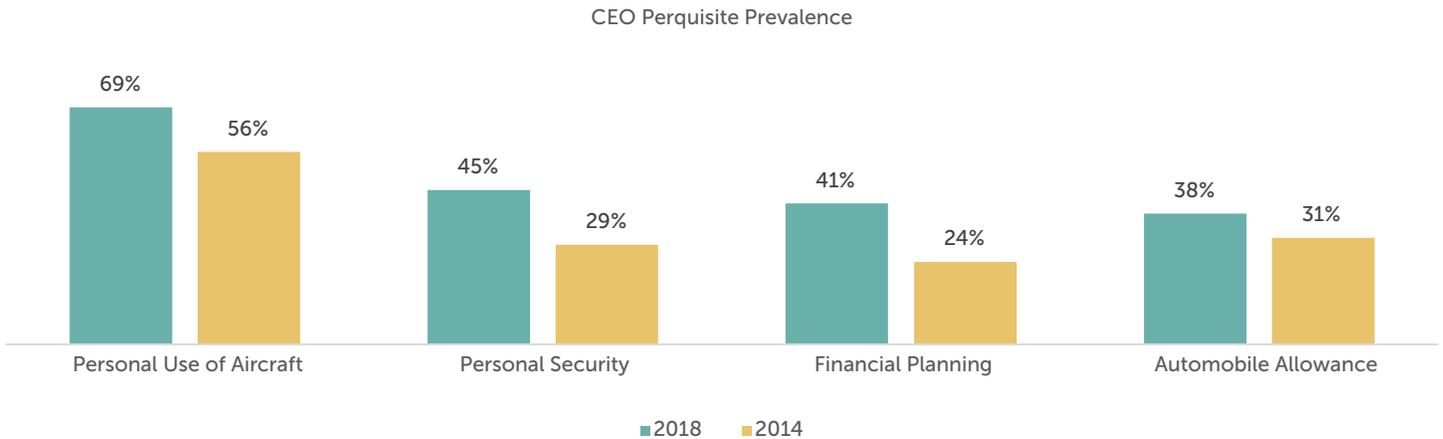
Performance-based LTI: Absolute vs. Relative Metrics



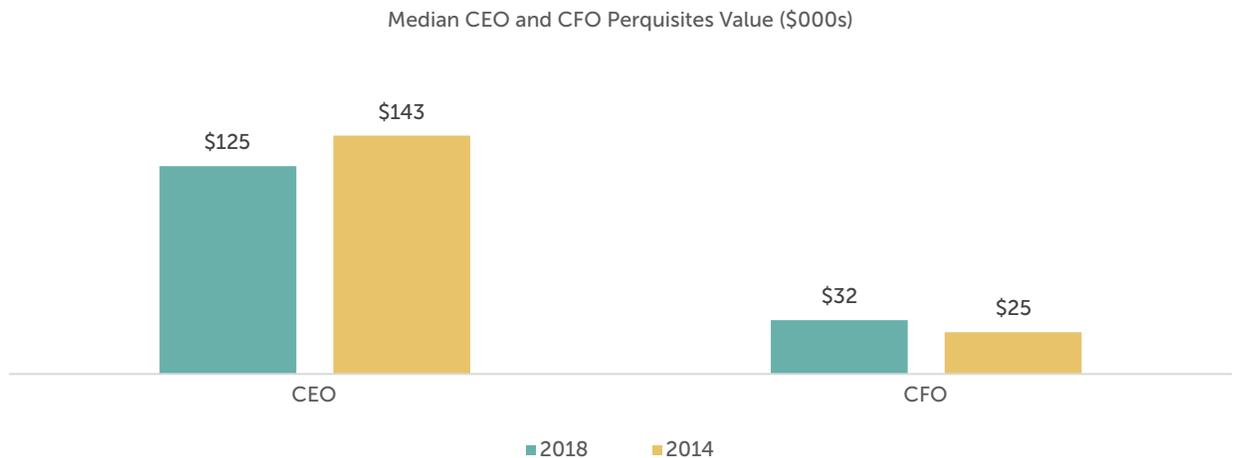
Perquisites

A majority of companies in our study (87%) provide perquisites to their CEO. Most companies (69%) also provide perquisites to the CFO. These findings are consistent with our study last year.

Personal use of aircraft, personal security, financial planning and automobile allowance continue to be the most common CEO perquisites. Even though the percentage of companies providing perquisites to the CEO has been relatively flat, the percentage of companies providing the most common perks has increased suggesting that when companies are providing perks to their CEO, it is likely a combination of the four most common categories.



The median value of perquisites delivered to the CEO in 2018 (\$125,000) is lower than the value five years ago (\$143,000). There was nearly a 30% increase however, in the median perquisite value for the CFO in 2018 (\$32,000) compared with 2014 (\$25,000).



Stock Ownership Requirement Provisions

Stock ownership guidelines are very common in publicly traded companies and are viewed favorably from a governance perspective. 95% of companies in our sample have requirements in place for the NEOs. For the CEO, the median guideline (expressed as a multiple of base salary) is 6x and for other NEOs it is 3x.

Stock Ownership Guideline	Median Multiple of Base Salary		
	CEO	CFO	Other NEO
95%	6x	3x	3x

Many companies (52%) have a stock holding requirement in place in addition to the stock ownership guideline requirement for senior executives. It continues to be less common for companies to have stock holding policies that are independent of stock ownership guidelines, or that apply after the ownership requirement has been achieved. These holding policies require executives to hold net shares received from equity awards for periods ranging from one year (most common) to post-retirement. These are generally viewed as shareholder friendly, yet their prevalence has remained fairly consistent over the past few years.

Holding Requirement Until SOG is Met	Holding Requirement Separate from or After SOG is Met	Holding Period for Separate/Post-SOG Requirements (n=26)			
		1 Year	5 Years	Until Retirement	Post Retirement
52%	22%	54%	4%	23%	19%

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