

Does Performance Matter?

CEO Pay Differences Between High and Low Performing Technology Firms

- **Overview & Background**
- **Results of Study**
- **Summary of Observations**
- **Implications for Executive Pay Strategy**

■ Objective

- **Identify high and low performers**
- **Determine pay differences**
- **Consider source of difference**

■ Do high and low performers differ in...

- **Pay levels?**
- **Pay mix?**
- **Variability over time?**
- **Long-term incentive instrument choice?**

- **If there are clear differences in pay...**

...implications for benchmarking

...implications for pay strategy

- **S&P 1500**
- **Constant Sample – same CEO for past 3 years**
- **“Information Technology” sector**
 - Software & Services (n = 64)
 - Technology Hardware & Equipment (n = 79)
 - Semiconductors & Semi. Equipment (n = 40)
 - Total sample of 183 firms
- **Segregate by Revenue**

■ Performance Measures

- **EBITDA / Revenue**
- **Revenue growth**
- **EPS growth**
- **Total shareholder return**

Each measured over three year period

High & Low Performers

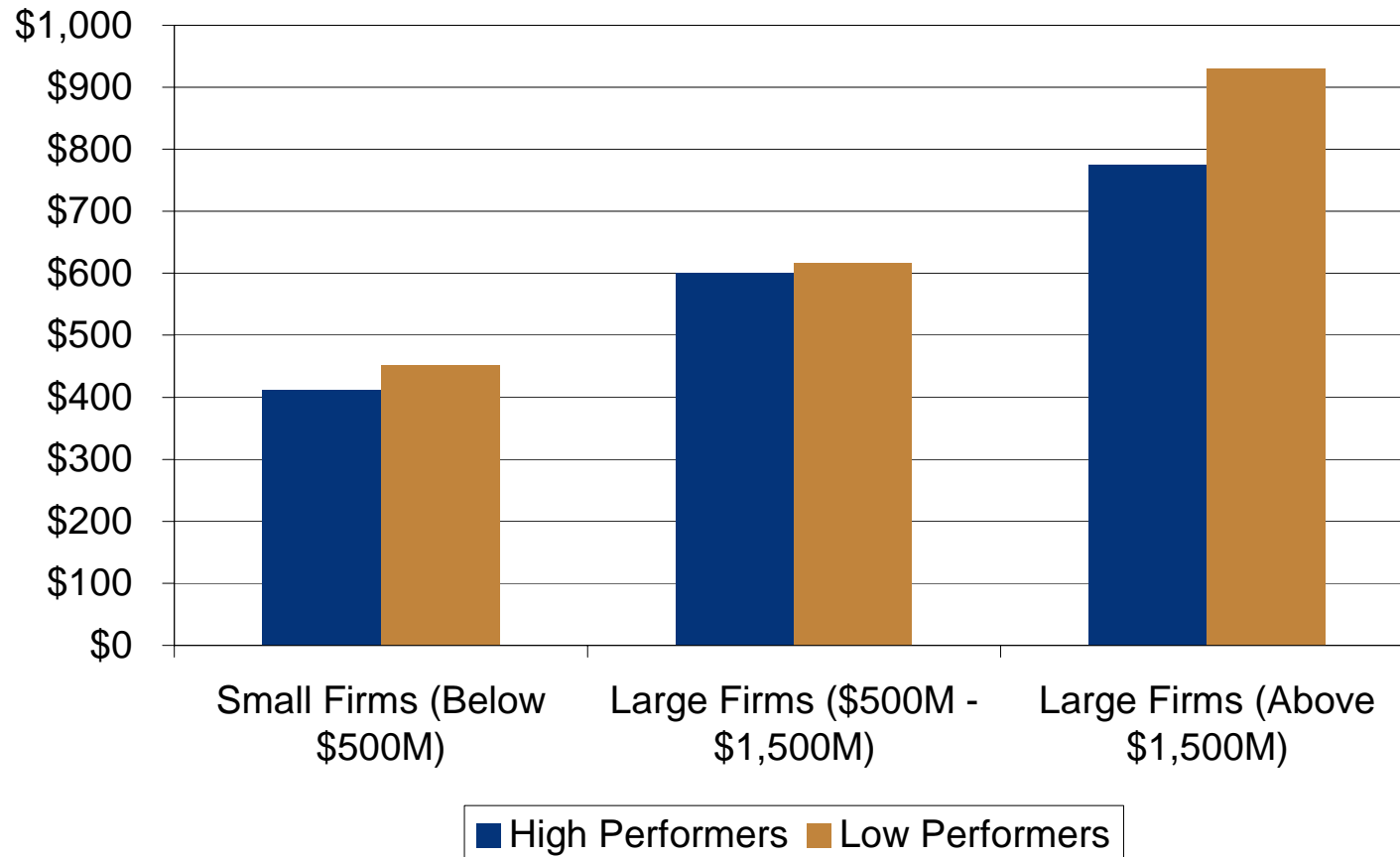
- Blended performance score
- Top 1/3 and bottom 1/3

Industry	Performance Grouping	EBITDA/ Revenue	Revenue Growth	EPS Growth	TSR
SW	High	26%	85%	206%	40%
	Low	13%	18%	22%	10%
HW	High	17%	74%	176%	25%
	Low	10%	32%	11%	2%
Semi	High	27%	63%	417%	22%
	Low	9%	26%	96%	2%

■ Identify Pay Practices by Performance

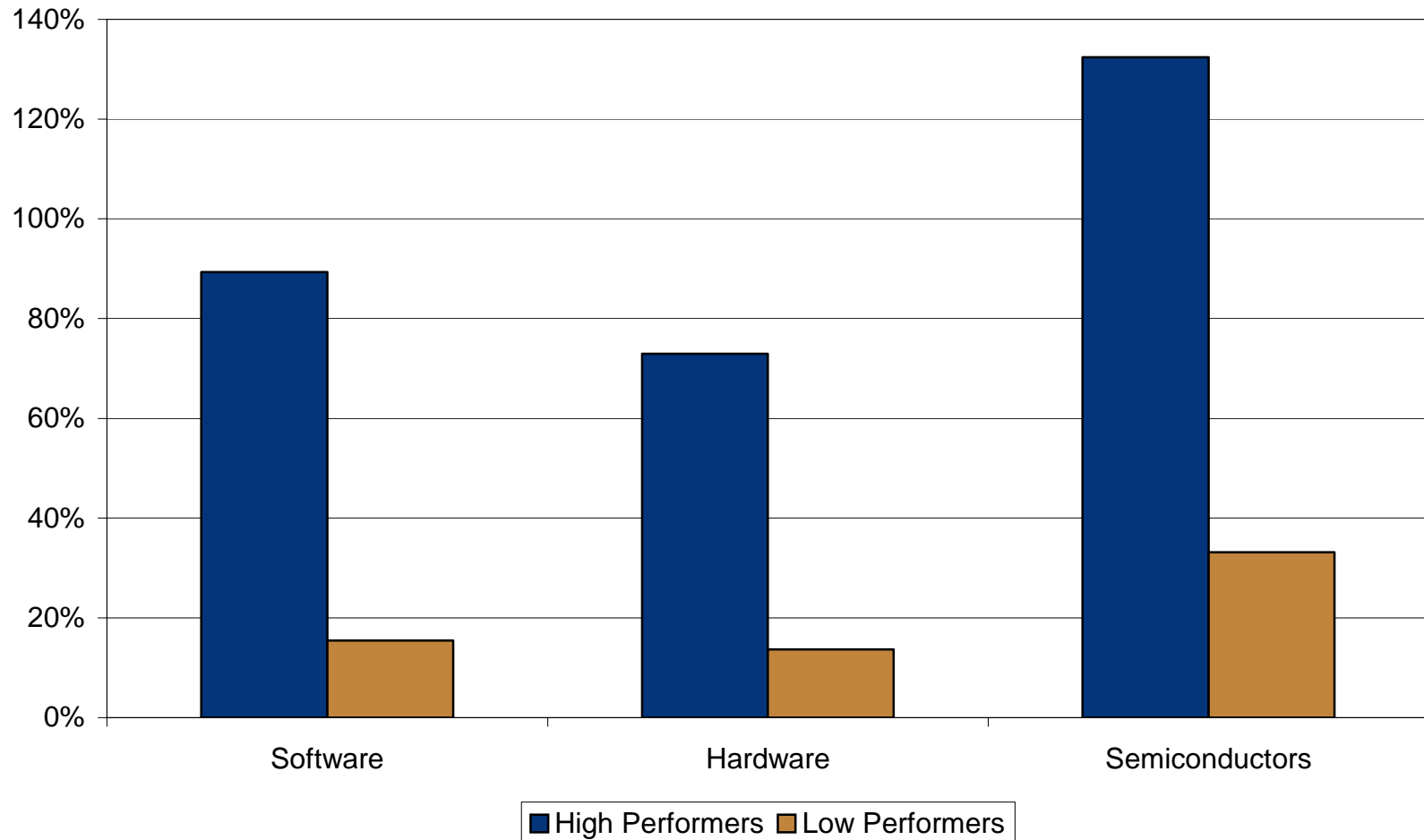
- 1. Base salary levels**
- 2. Bonus variability**
- 3. Aggregate pay levels**
- 4. Pay mix**
- 5. LTI mix**
- 6. LTI trends**

1. Base Salary Levels



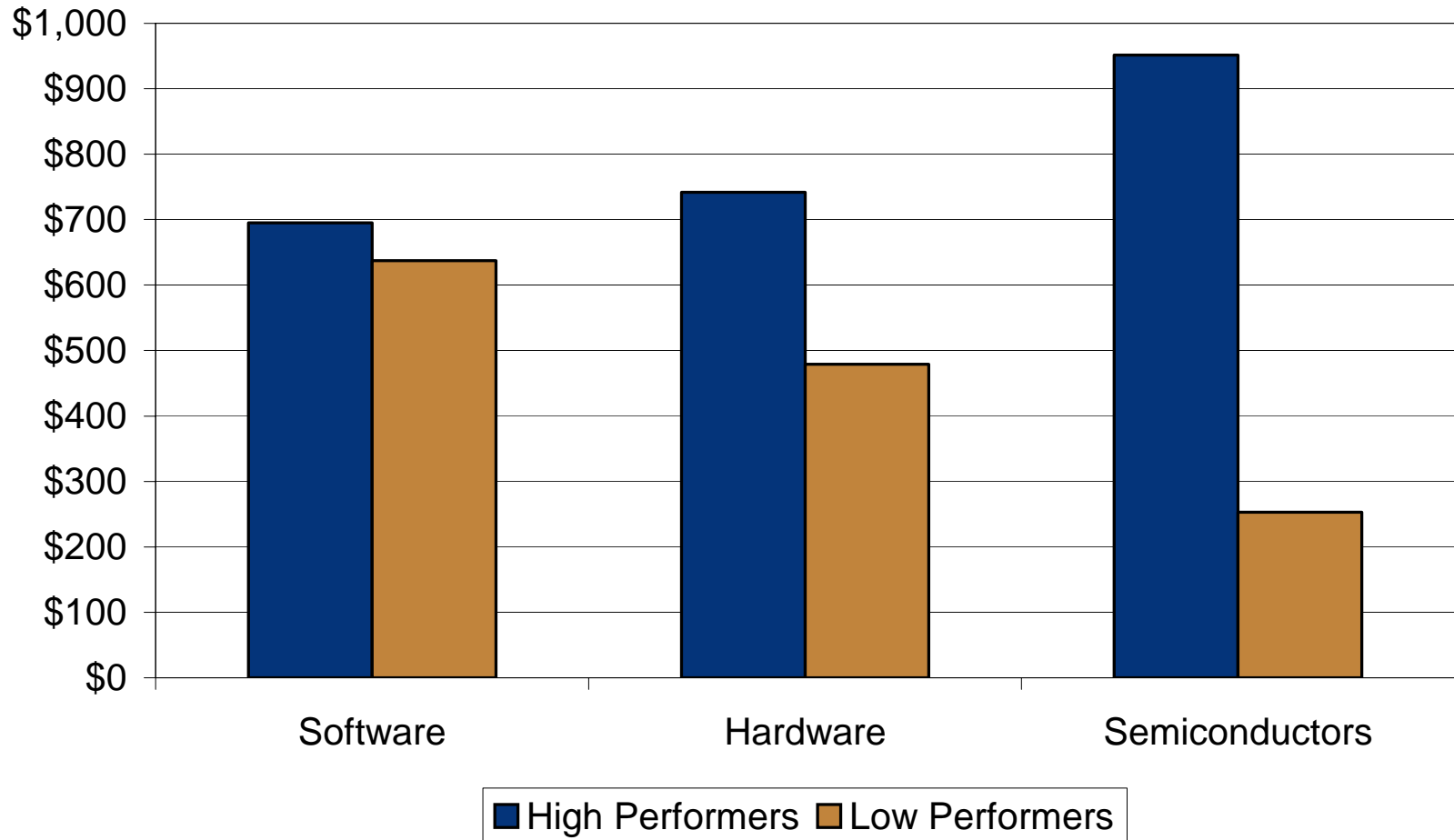
2. Bonus Variability

Average Performance



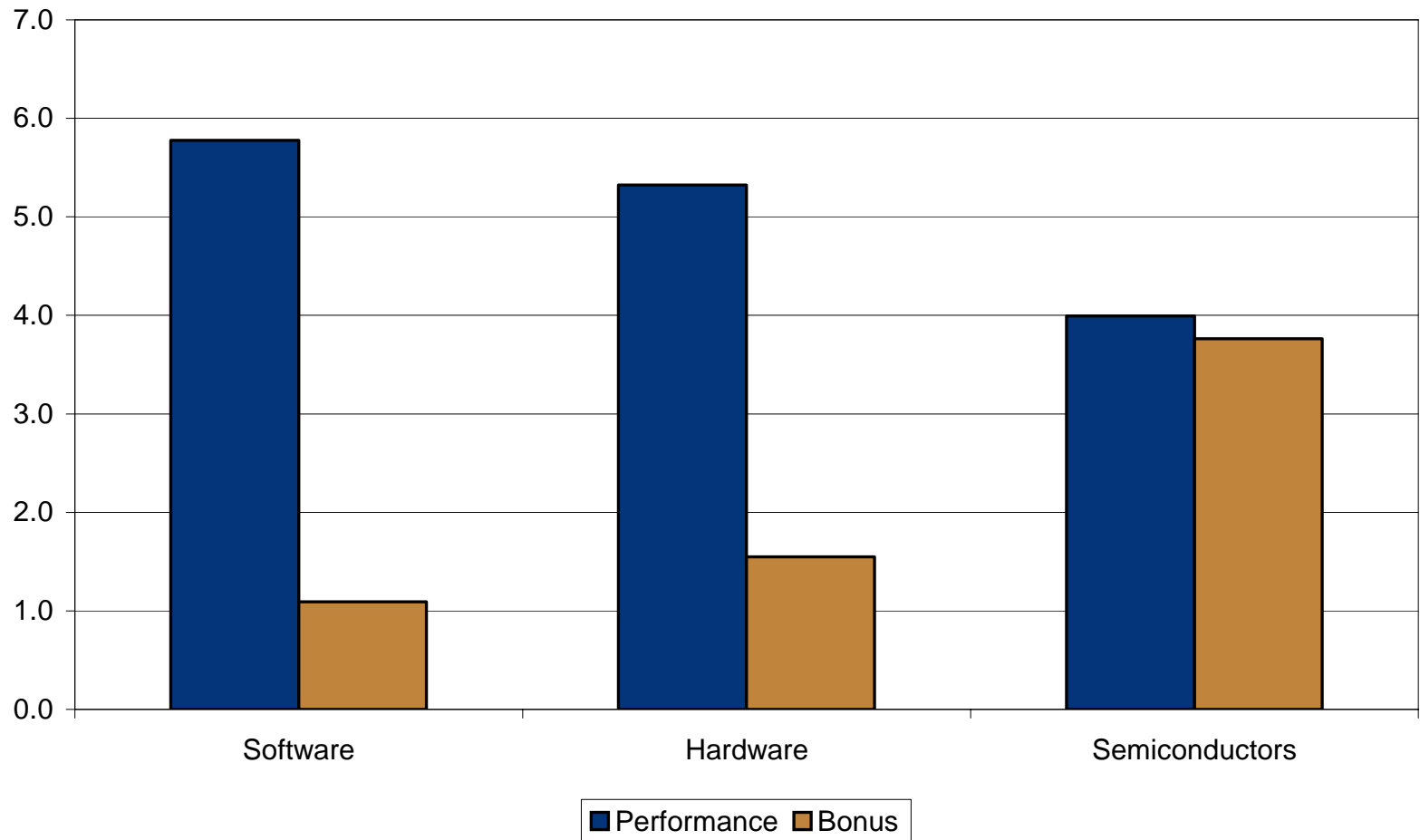
2. Bonus Variability

Average Bonus

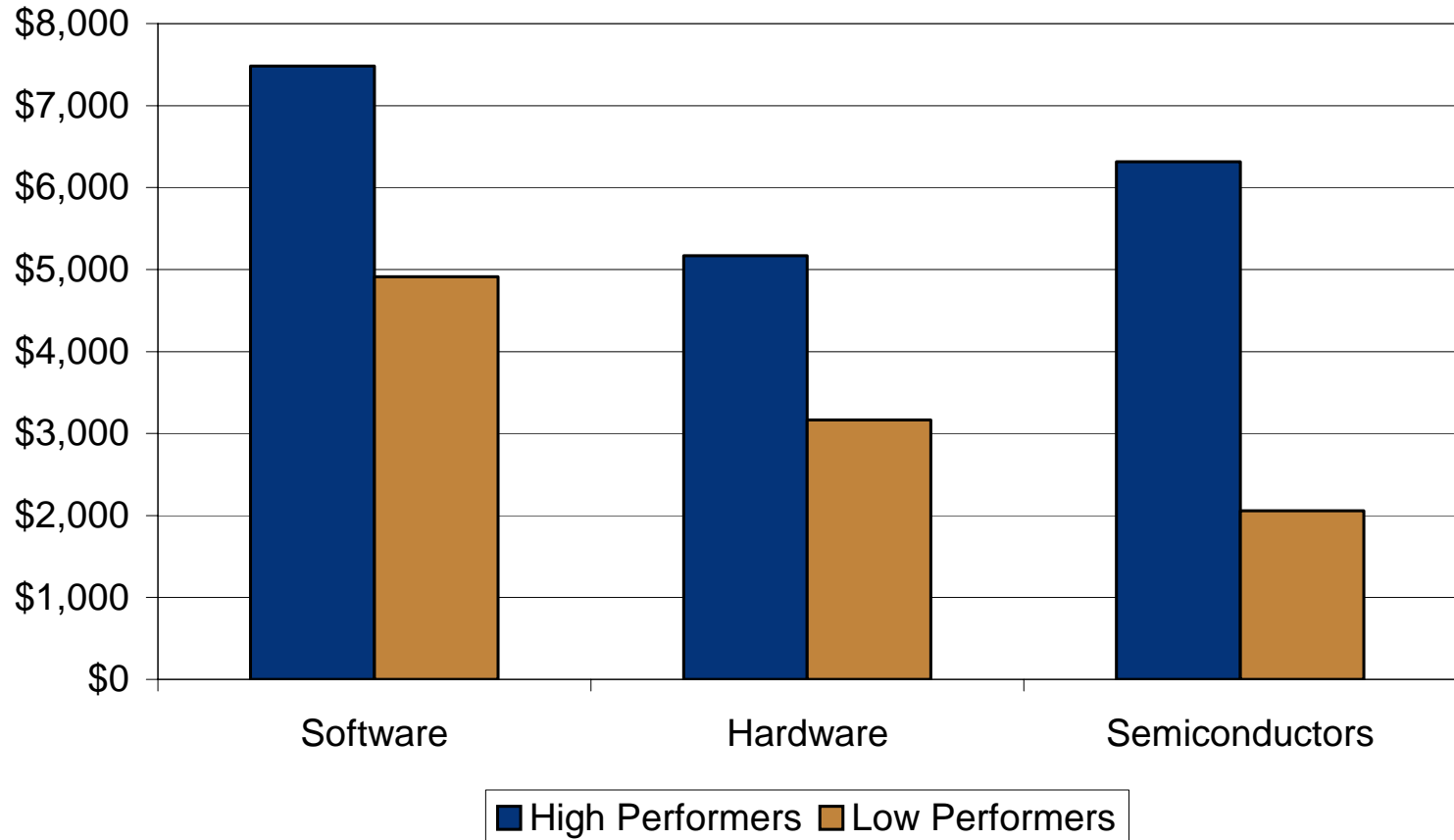


2. Bonus Variability

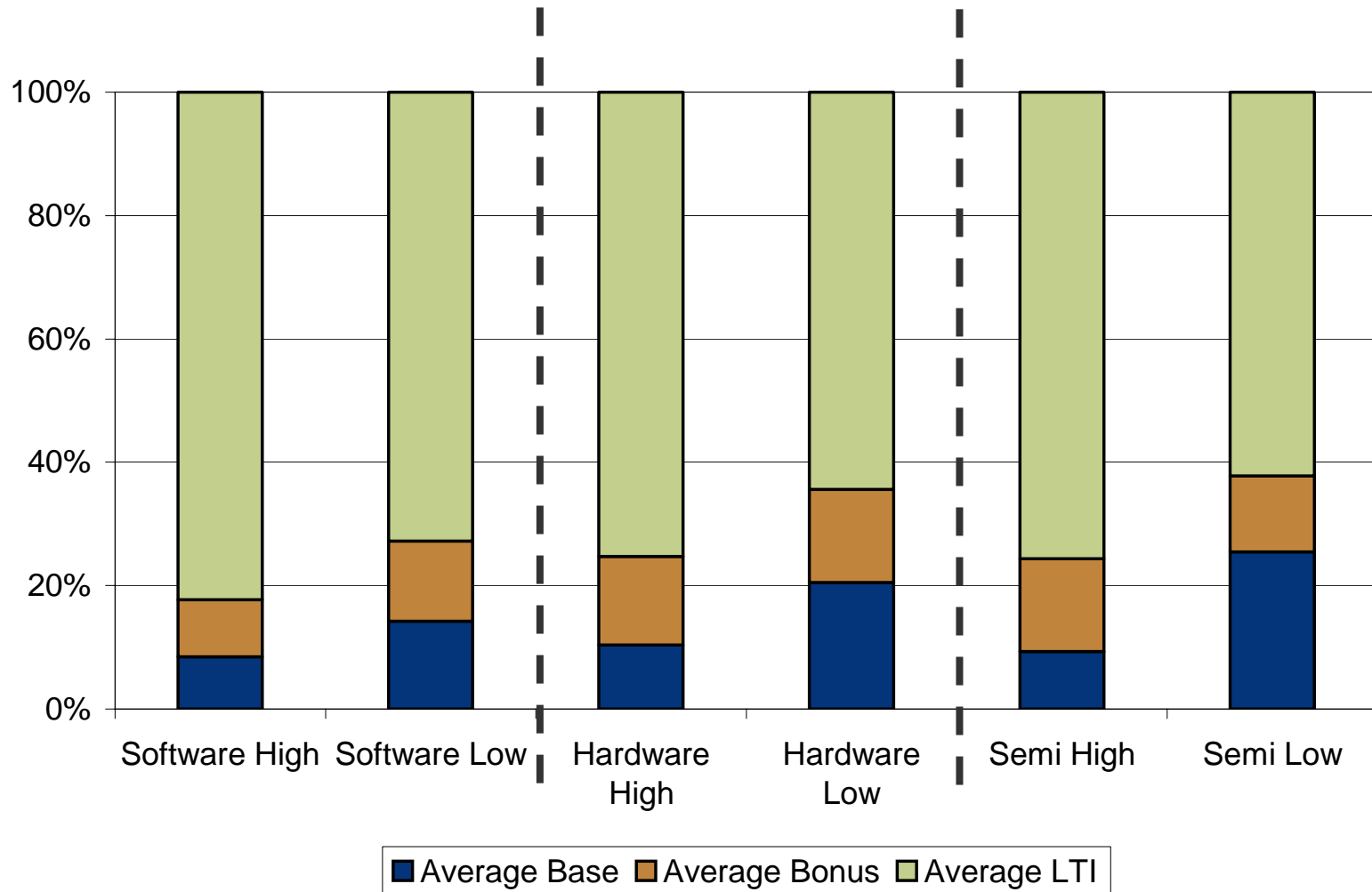
High Performers as Multiple of Low Performers



3. Aggregate Pay Levels

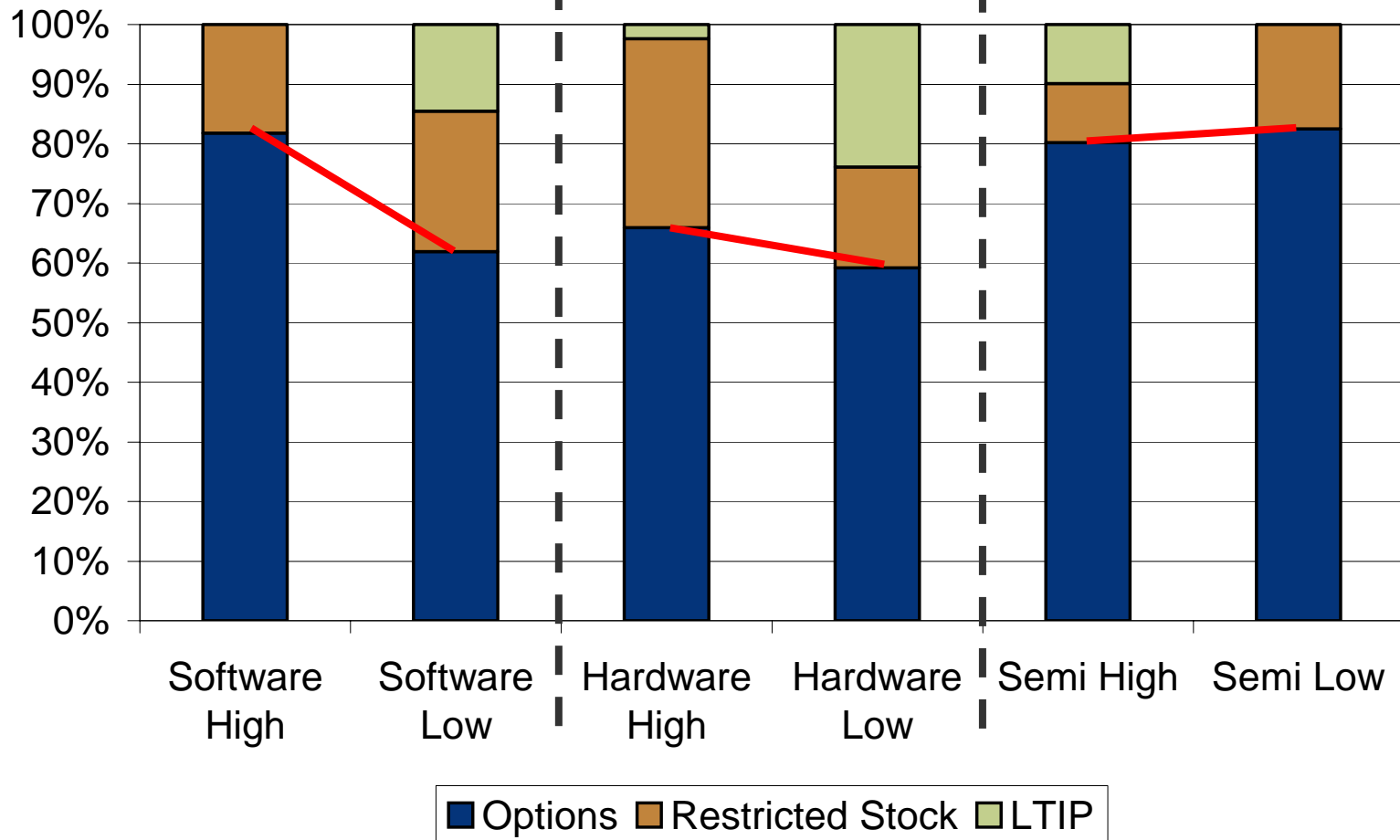


4. Pay Mix



5. LTI Mix

Value Mix



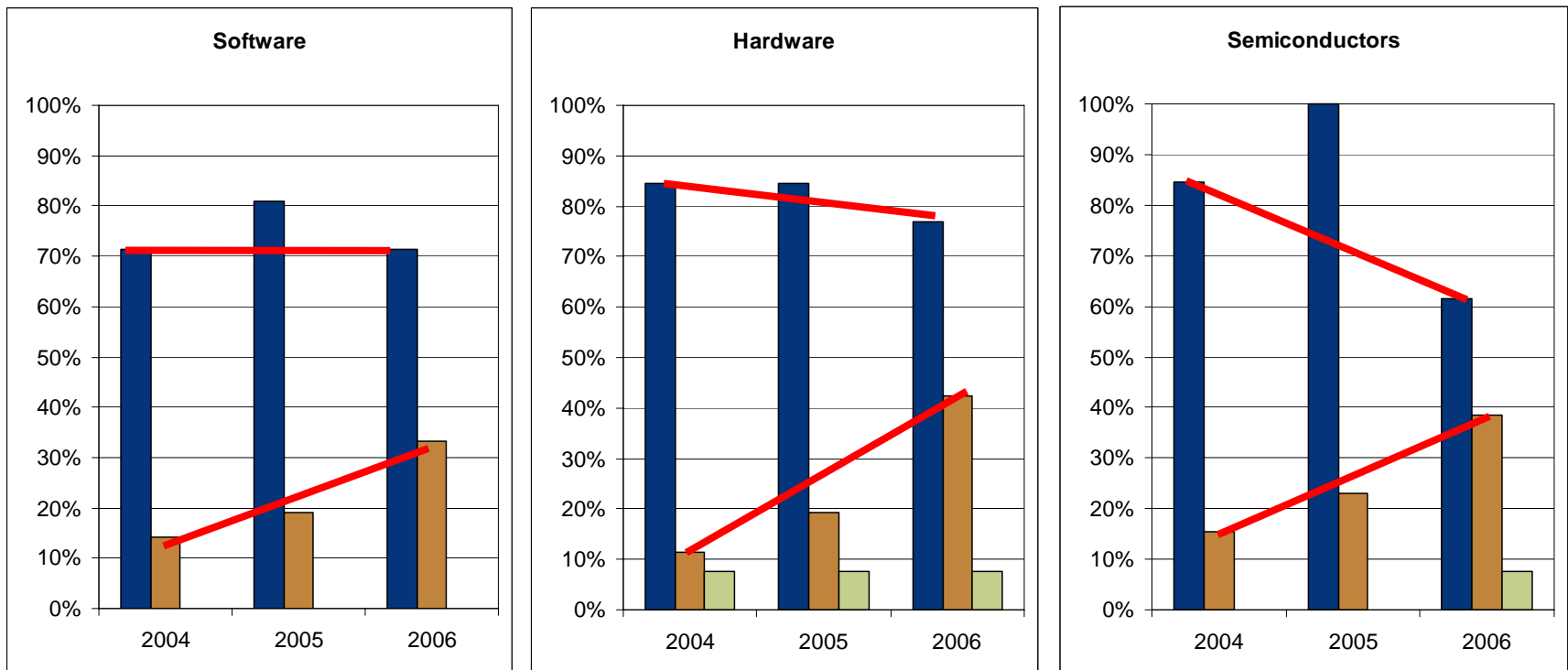
5. LTI Mix

Why options?

Performance	Demand	Supply
High	Execs desire	Plenty available
Low	Execs skittish	Managing dilution

6. LTI Trends

Instrument Prevalence Among High Performers

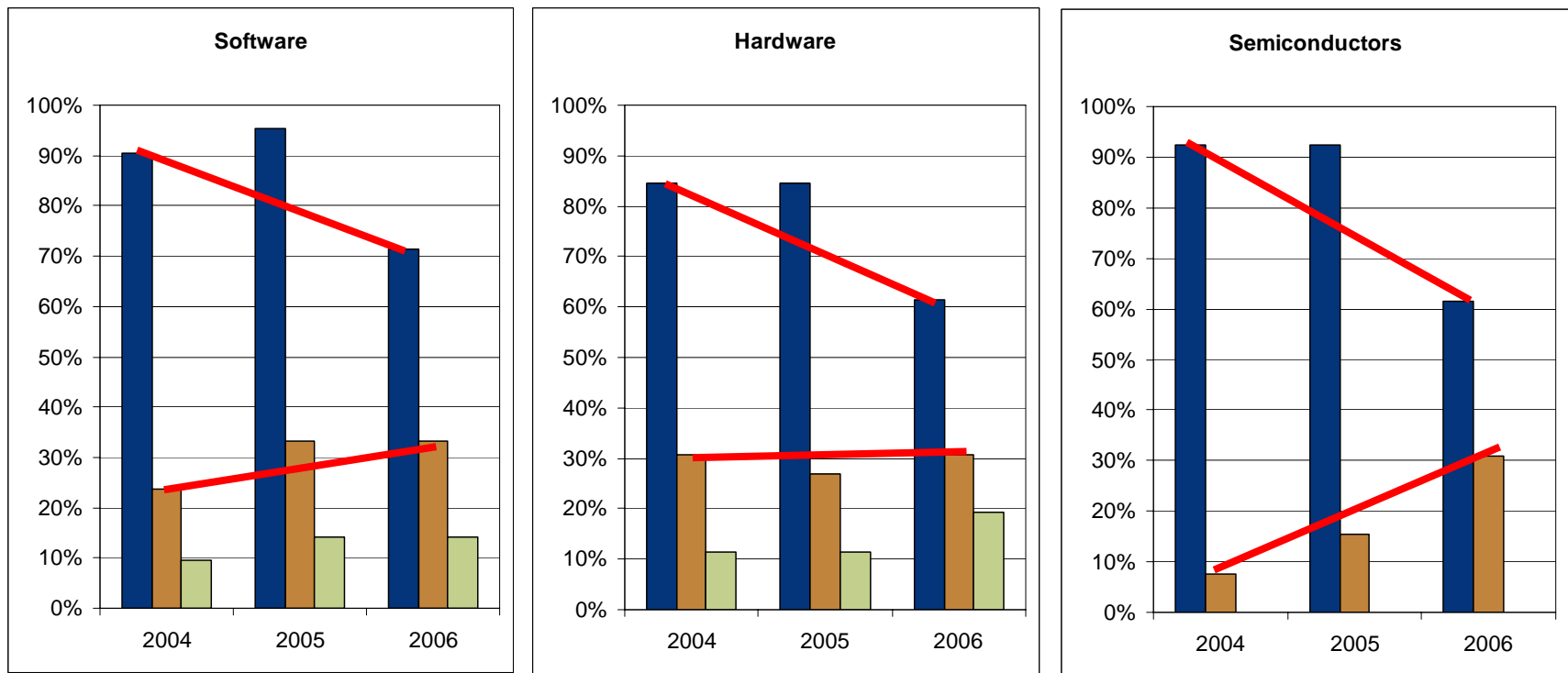


Options Restricted Stock LTIP

Restricted stock supplements options

6. LTI Trends

Instrument Prevalence Among Low Performers

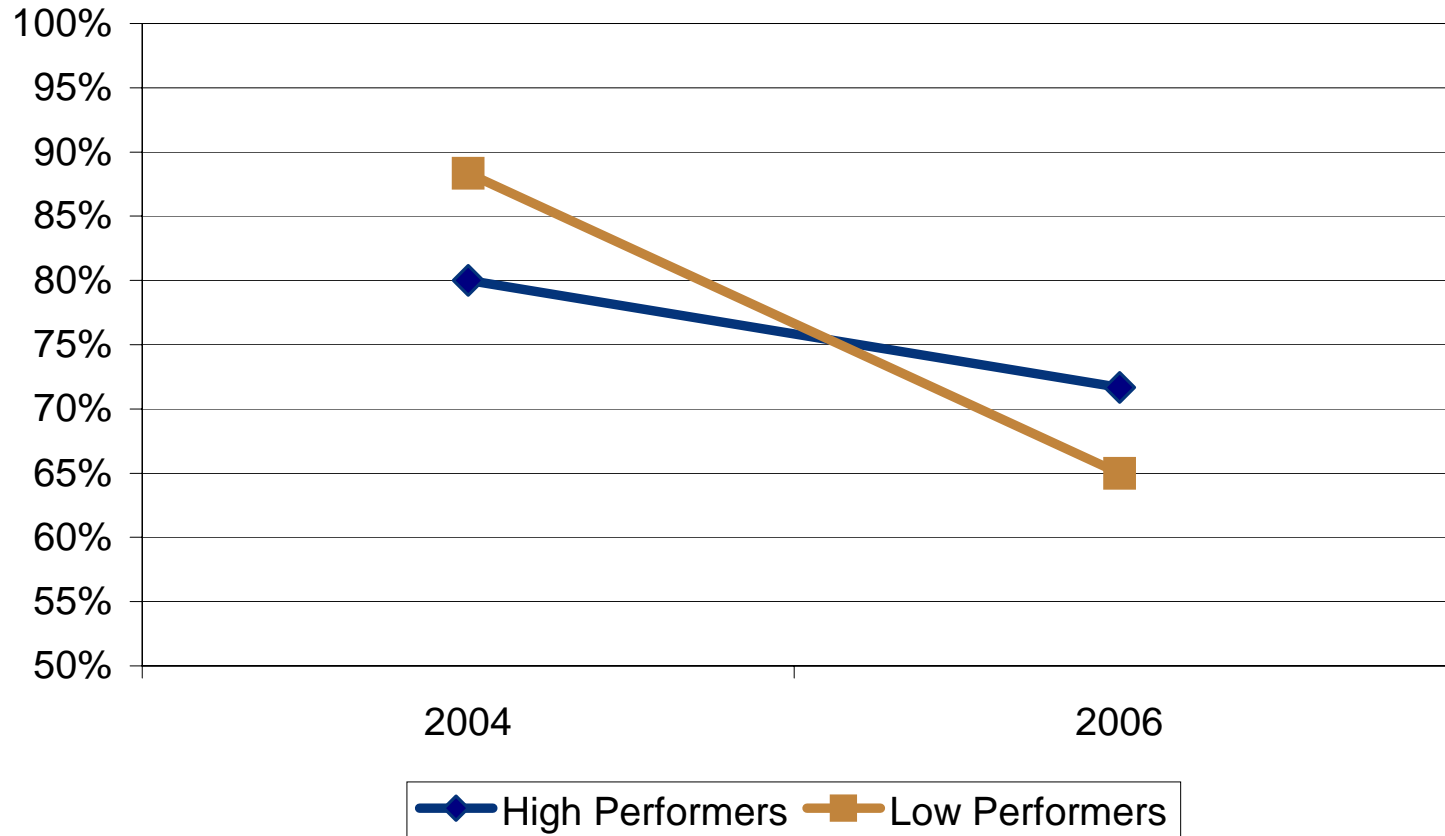


Options Restricted Stock LTIP

Restricted stock replaces options

6. LTI Trends

Prevalence of Options – All Firms



■ Summary of Observations

- 1. Base salary levels – no difference**
- 2. Bonus variability – different, but less than warranted**
- 3. Aggregate pay levels – much higher at high performers**
- 4. Pay mix – high performers have more at risk (LTI driven)**
- 5. LTI mix – high performers have more options**
- 6. LTI trends – high performers are now more likely to grant options**

■ Implications for Executive Pay Strategy

- **Why worry about base?**
- **Why cap bonus?**
- **Know your Peer Group's history**
- **What are your LTI constraints?**
- **Pay attracts – not drives – performance**
- **Unless (*maybe*) rewards are substantially different**



Questions