Pearl Meyer & Partners
Comprehensive Compensation®

ON POINT

TIMELY, ACCURATE, INSIGHTFUL

PM&P On Point:
Looking Ahead to Executive Pay Practices in 2015

Executive Summary

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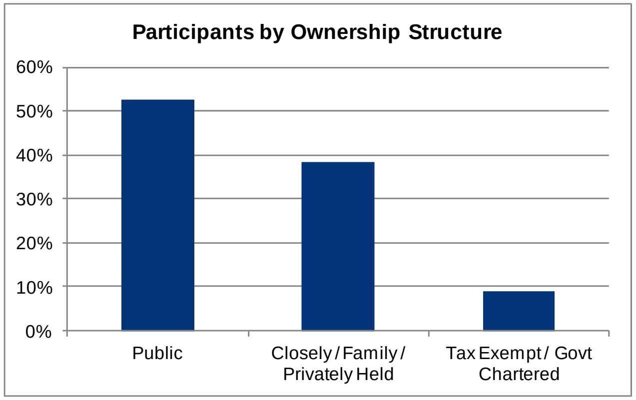
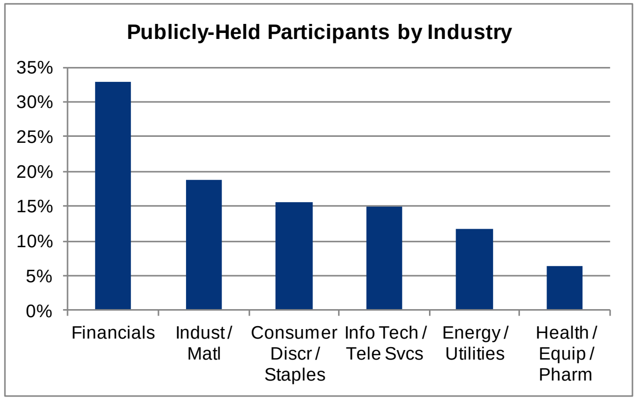
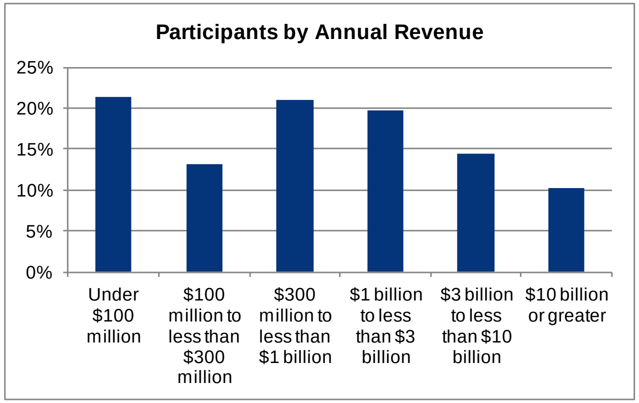
Introduction

- Pearl Meyer & Partners' annual survey "On Point: Looking Ahead to Executive Pay Practices" provides current insights to executive compensation program design and practices.
- The survey was conducted between August 5, 2014 and September 22, 2014.
- The 298 participants were nearly evenly divided between publicly traded companies and non-public entities, representing a range of industries and organizational size.
- The complete survey results are available for purchase at www.pearlmeyer.com/orderlookingaheadtoexecpayin2015.
- Please contact Beth Florin to discuss any aspect of these findings at beth.florin@pearlmeyer.com or 508.630.1480.







The Current Environment for Executive Pay Decision-Making

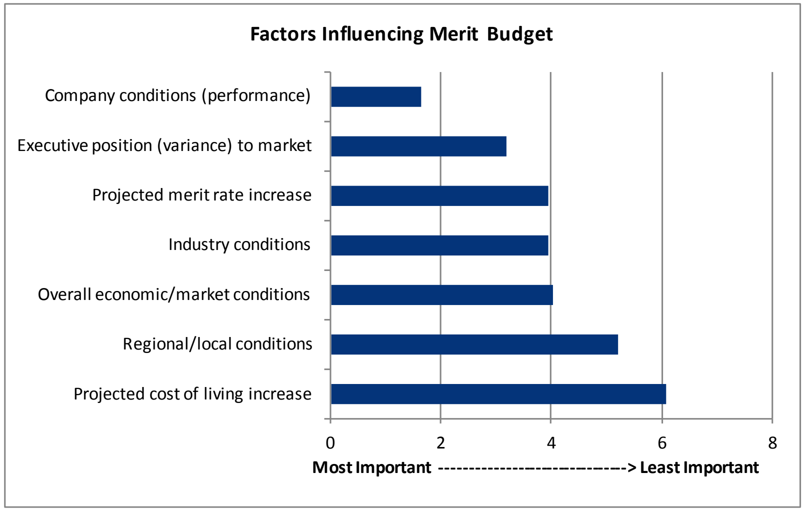
- **Creating alignment of compensation plans with business strategy and performance**
  - Alignment is cited by survey respondents as a top concern, and this focus is reflected in base salary increases that are significantly influenced by company performance, annual incentives that are based on challenging goals tied to company budgets, long-term incentives (LTI) tied to future company performance, and a limited offering of executive perquisites.

- **Focusing on programs that support recruitment and retention**
  - Attracting and retaining talented executives to develop and carry out the strategic plan is also top of mind for participants. In support of this, compensation packages are often market-competitive or better, and differentiate internally based on performance. The combination of annual and long-term incentives, combined with a portfolio approach to LTI, helps reinforce immediate and longer-term engagement and retention.

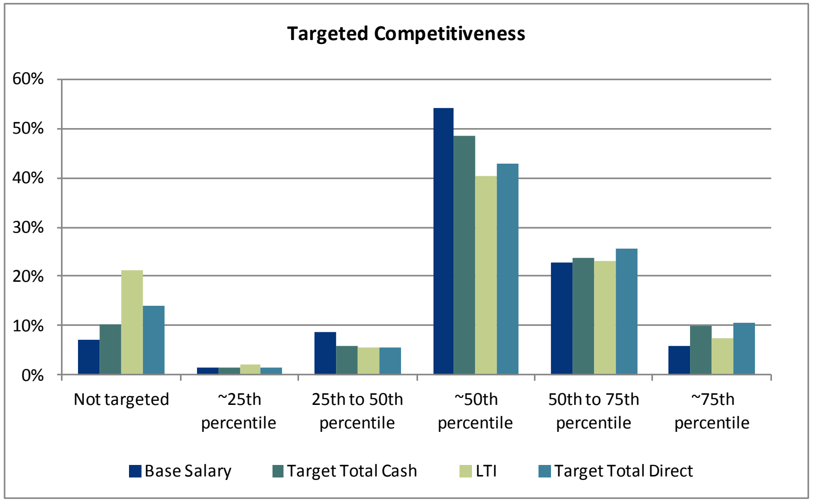
- **Developing a culture of rigorous goal setting**
  - Goal setting is closely tied to business plans with a focus on year-over-year improvement, further reinforcing the emphasis on alignment between business strategy and successful execution against that strategy.

Report Findings:
Factors in Executive Pay Decisions

- Company performance is, by far, noted as the most important factor in determining merit increase budgets for executives.
  - This ranking holds true across nearly all industries, forms of ownership and entity size.
- Pay competitiveness of executives is consistently the second most important consideration.

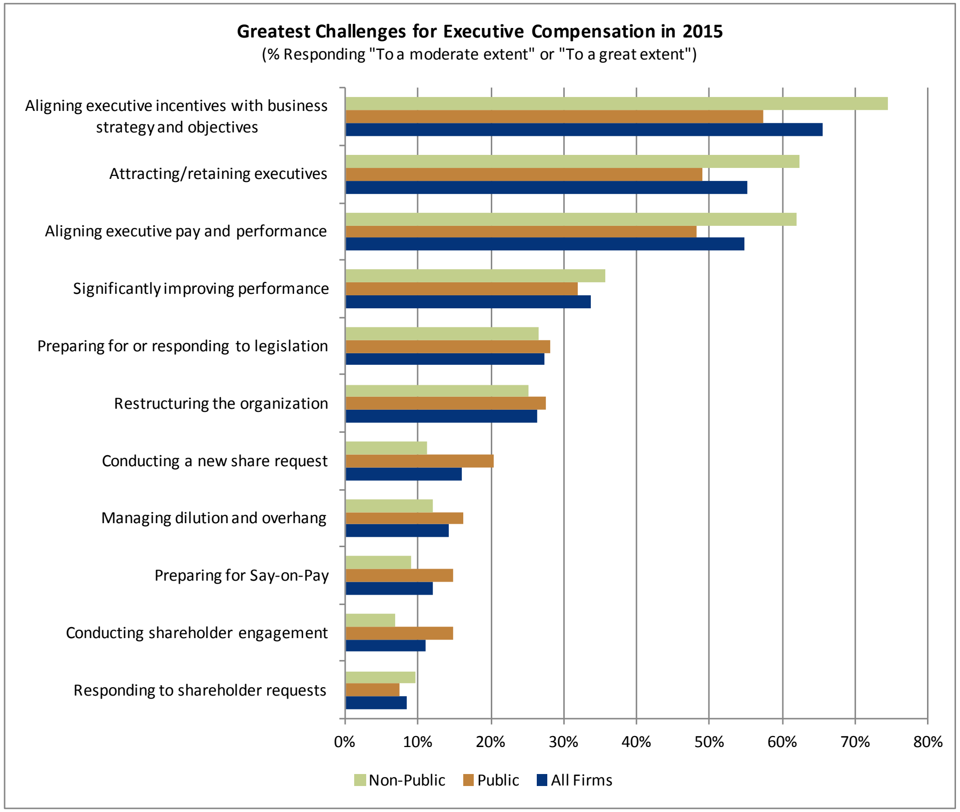


- Most participants target pay to be around or above the median.
  - Non-public participants are less likely to target competitiveness for any element of pay; this delta increases for LTI and target total direct compensation.
  - Participants with higher annual revenues are more likely to target the 50th percentile than smaller companies.



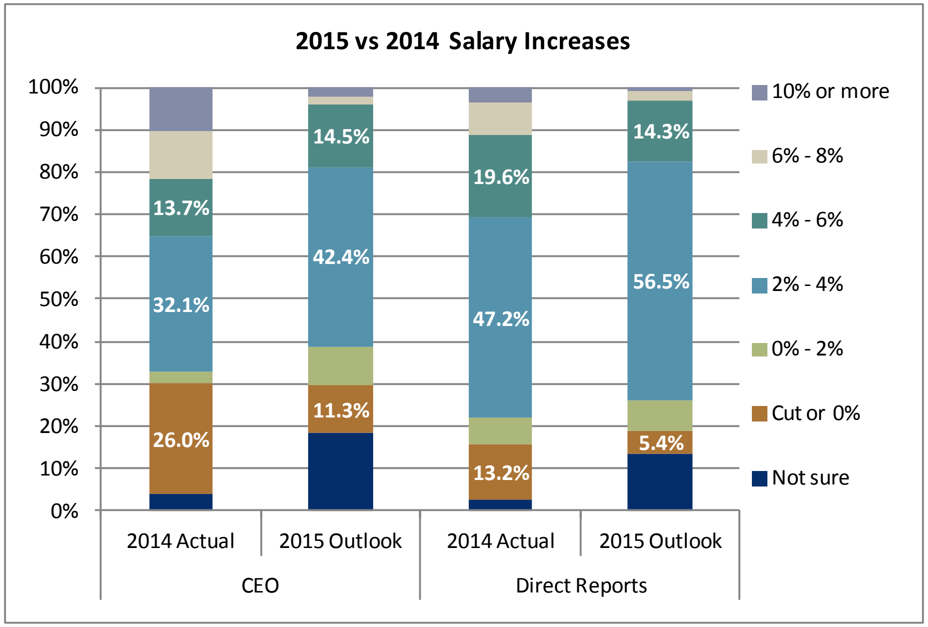
Top Challenges Related to Executive Pay

- Participants were asked about the current challenges their organizations face related to executive pay.
  - Two of the top three issues relate to alignment among executive pay, business strategy and performance.
  - The other top challenge is in attracting and retaining executives.
- While the top challenges are consistent between non-public and public entities, they are more highly ranked for non-public participants.



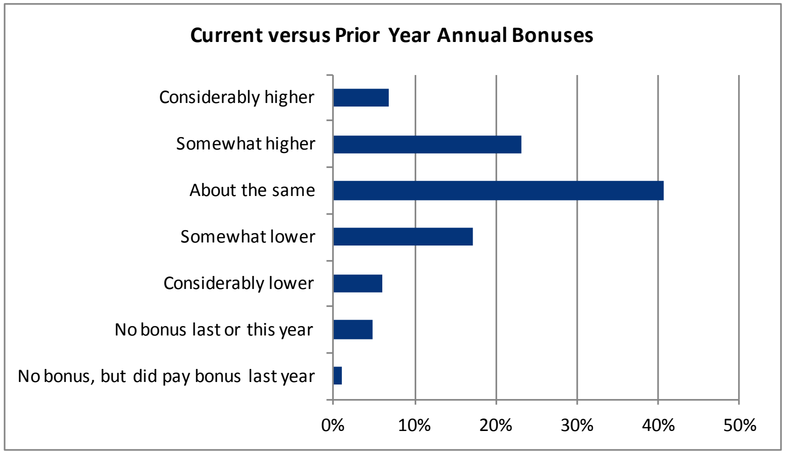
Executive Base Salary Changes

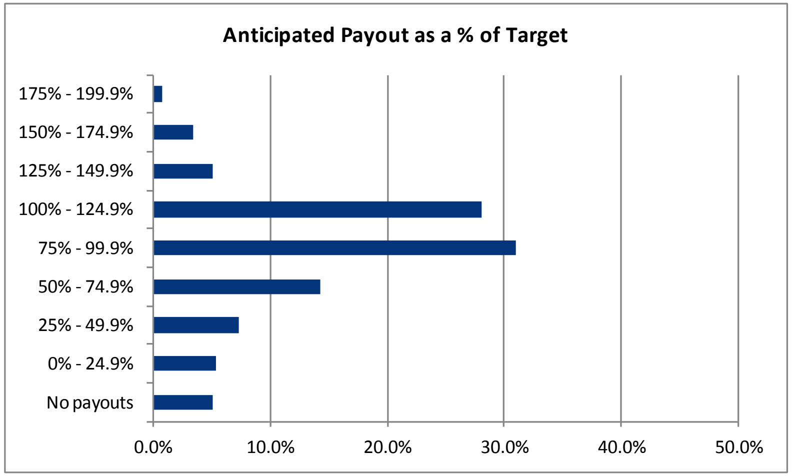
- Merit increase percentages for 2015, where forecast, are projected to be primarily in the 2-4% range.
  - At this early date, a fairly small proportion of respondents expect that merit increases for executives will be above 4%.
  - CEOs are somewhat more likely to have base salary cuts or freezes than their direct reports, both in 2014 and projected for 2015.
  - However, we note that actual reductions and freezes are typically higher than the initial projections suggest.



Annual Incentive Program Payout Levels

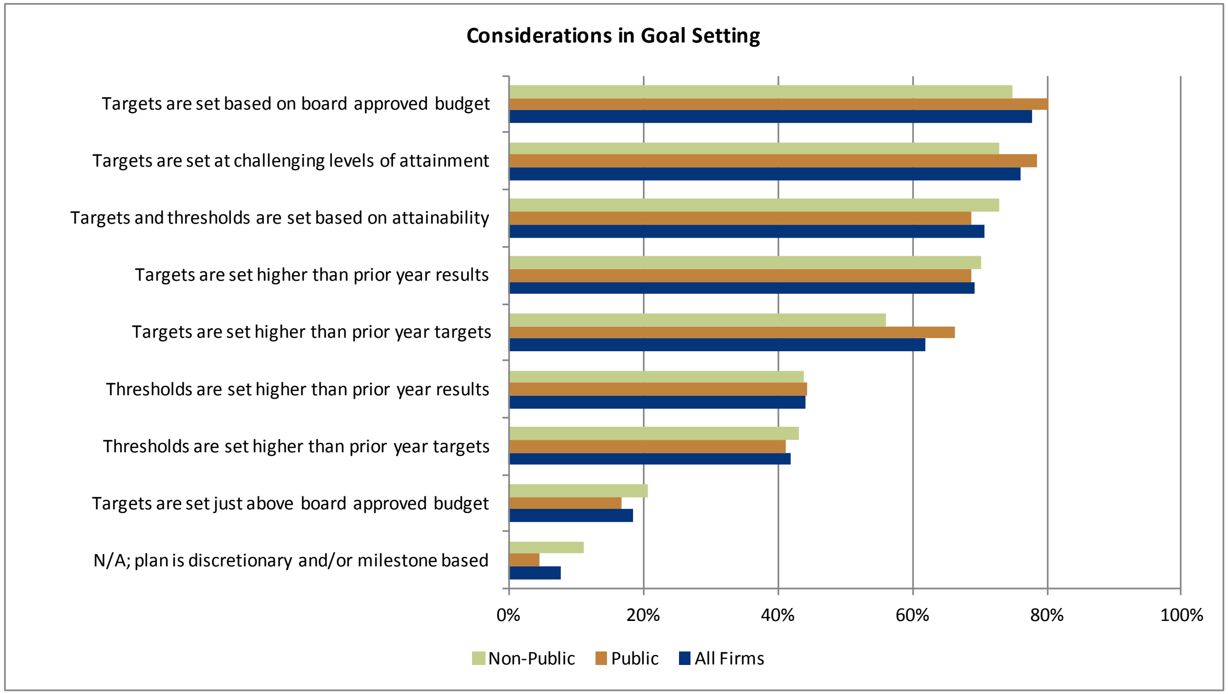
- Just over 40% of respondents expect current year bonuses to be comparable to last year.
- About the same proportion of respondents expect current year bonuses to be higher than last year as those that expect bonuses to be lower.
- 37% of respondents expect bonuses will exceed target.





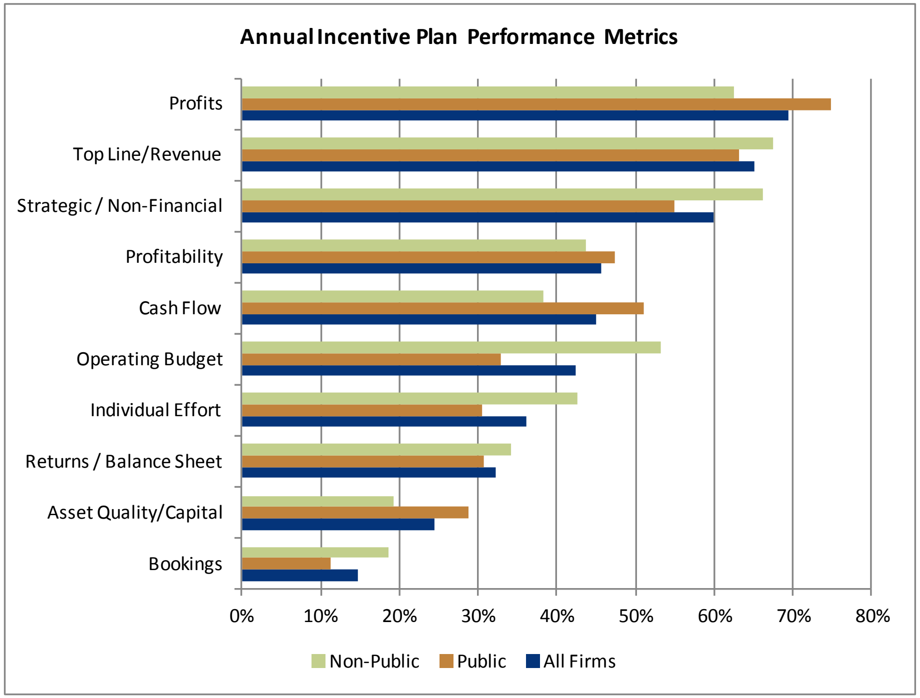
Annual Incentive Program Goal Setting

- In setting incentive goals, respondents indicate a balance among multiple considerations, including approved budget levels, degree of challenge, and attainability.
- Very few respondents set performance levels for incentive plans above the board-approved budgets.



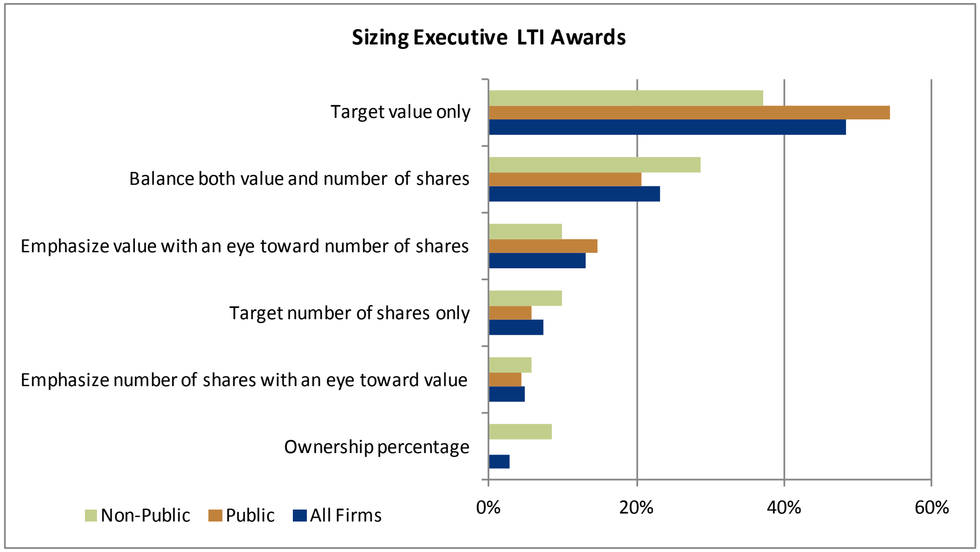
Annual Incentive Program Performance Metrics

- Most respondents use multiple performance measures in their annual incentive programs.
- Profit-based metrics and revenue are the most common metrics; strategic and non-financial metrics are also common, often to "round out" the performance perspective.
- Other metrics are often selected to support the specific stage or business in which a company operates.

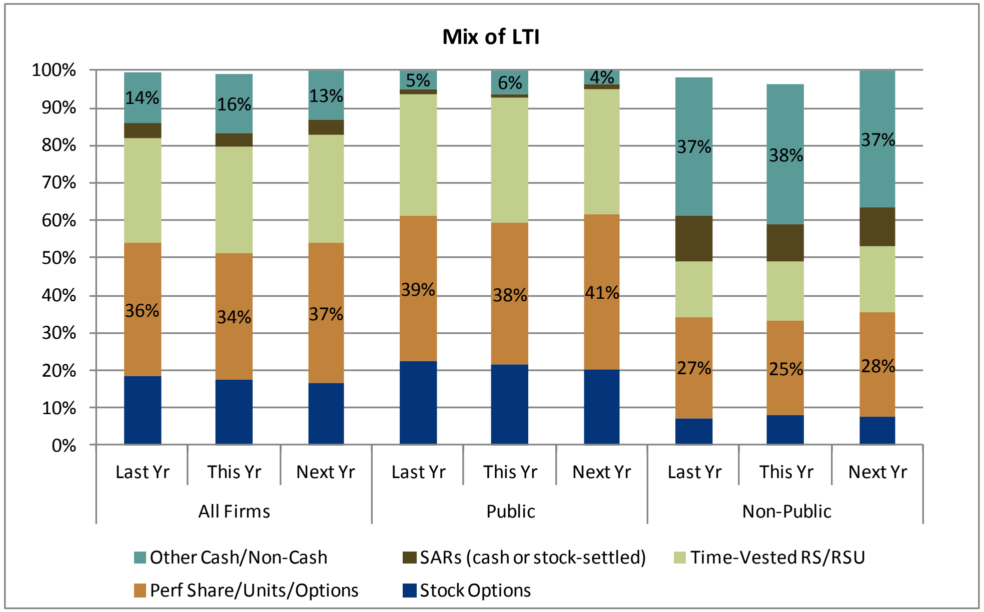


Long-Term Incentives

- Target value – as a standalone criteria – is the primary consideration in sizing executive grants.
- However, considering value and number of shares (with the priority to either one or the other) is also highly prevalent.
- Ownership percentage is a consideration only among non-public respondents.

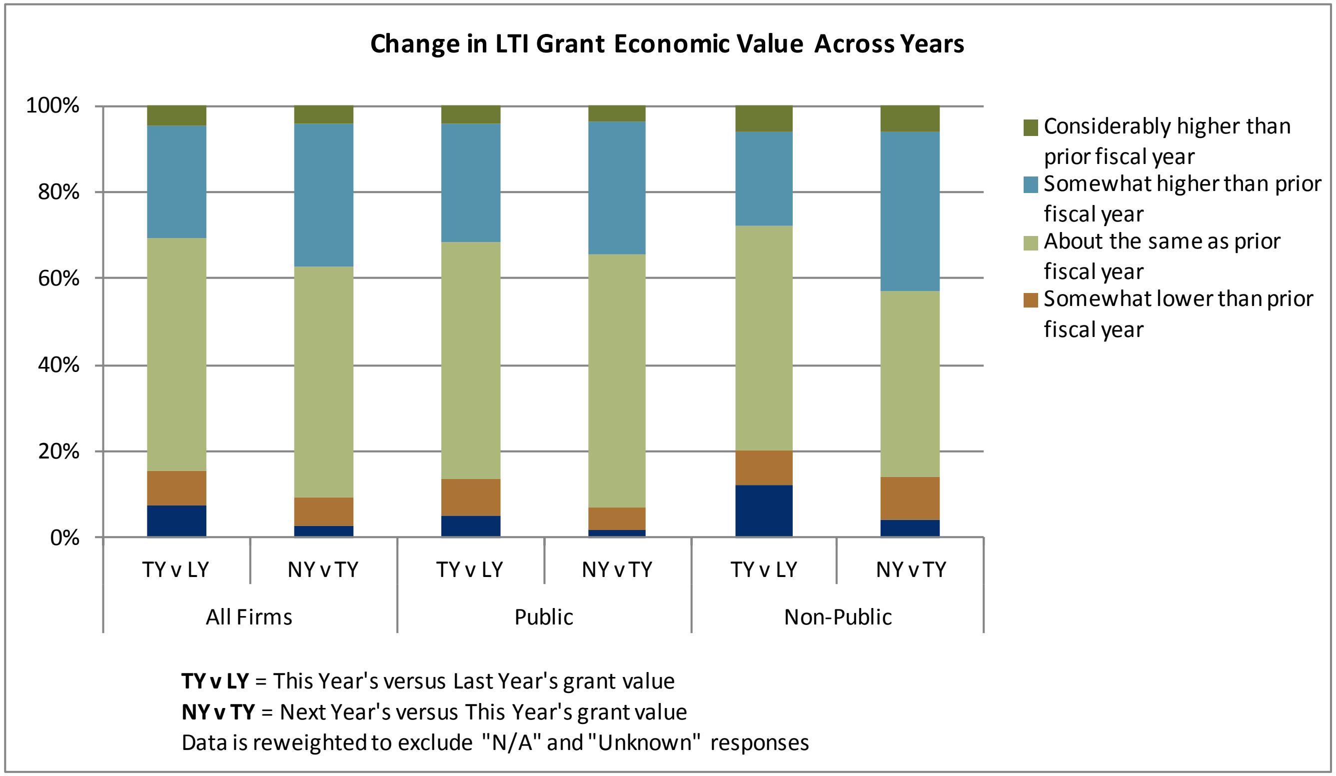


- The mix of LTI is shifting only modestly over the three-year timeframe shown at right.
- Time-vested stock options are holding steady at less than ¼ of the total mix.
- The combination of stock and non-stock entities in the "non-public" group contributes to the low mix of options and high mix of "other" LTI awards for this category.
- Performance-based LTI remains at or below 40% of the mix, depending on perspective.



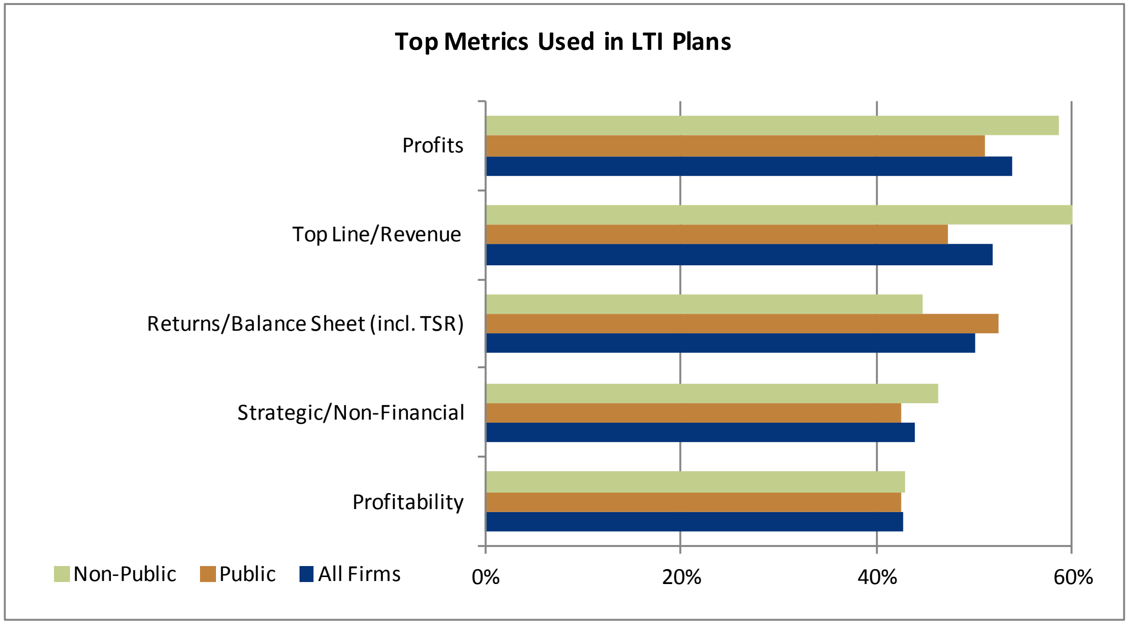
Long-Term Incentive Values

- Most respondents expect the economic value of next year's LTI grants to be comparable to those awarded during this fiscal year.
  - This is consistent with the actual practice this year compared to last year.
- Non-public respondents were more likely to report that values had or are expected to vary from year to year, and have more prevalence of "considerably lower" values than public firms.



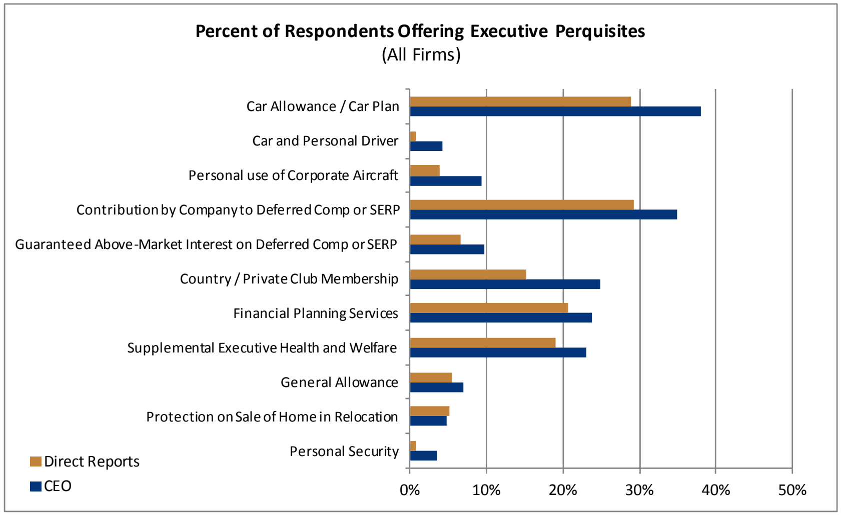
Long-Term Incentive Metrics

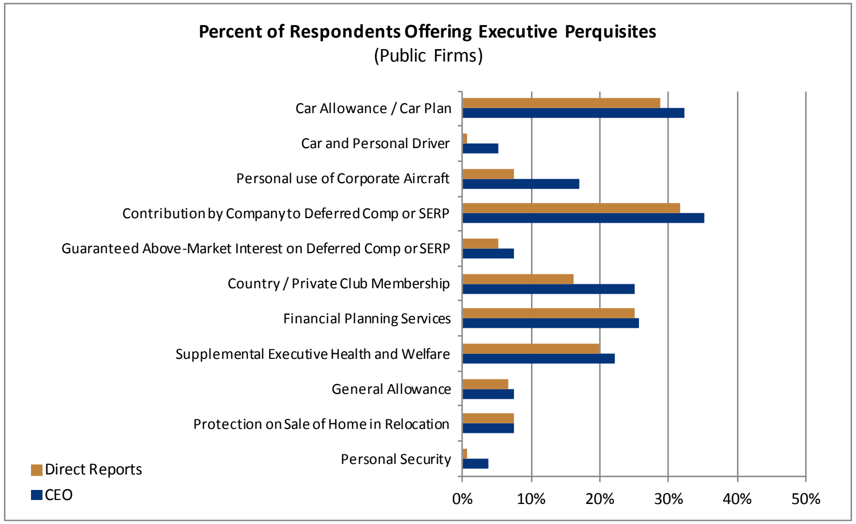
- While profits and revenue are the most prevalent LTI metrics across respondents, public respondents have a slightly higher use of returns and balance sheet metrics.
- Multiple metrics are a common feature of performance LTI, as reflected in the combined prevalence of these top metrics.

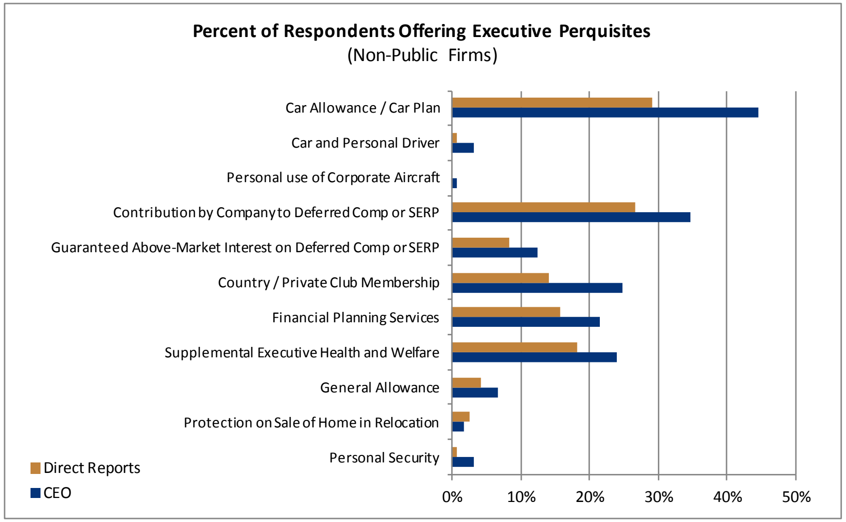


Perquisites and Retirement/Savings

- Among the remaining perquisites, car allowances/plans and company contributions to deferred comp plans/SERPs remain most prevalent.
- There are some differences by firm ownership, particularly in the very limited personal use of corporate aircraft among non-public firms.







About Pearl Meyer & Partners

For 25 years, Pearl Meyer & Partners (www.pearlmeyer.com) has served as a trusted independent advisor to Boards and their senior management in the areas of compensation governance, strategy and program design. The firm provides comprehensive solutions to complex compensation challenges for multinational companies ranging from the Fortune 500 to not-for-profits as well as emerging high-growth companies. These organizations rely on Pearl Meyer & Partners to develop global programs that align rewards with long-term business goals to create long-term value for all stakeholders: shareholders, executives and employees. The firm maintains offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston, Los Angeles, San Francisco and San Jose, as well as an office in London.

Contact Us

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