Pearl Meyer

On Point

TIMELY, ACCURATE, INSIGHTFUL

Looking Ahead to Executive Pay Practices in 2019

Executive Summary

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Introduction

Pearl Meyer's "Looking Ahead to Executive Pay Practices" is an annual online survey and serves as a valuable compensation planning tool.

This year's survey was conducted in August and September of 2018, with input from 279 companies, including 195 publicly traded, 63 private, and 21 not-for-profit (NFP) organizations.

The survey addresses a number of fundamental compensation philosophy issues such as external benchmarking criteria and target pay positioning versus market. Also included are expected pay outcomes for Fiscal 2018 and projected pay opportunities for 2019, incentive plan design, and actions taken or anticipated in response to recent developments such as tax reform, gender pay equity discussions, and #metoo-related issues.

Prevalence of and anticipated actions relating to redundant short-term and long-term incentive plan metrics are also explored.

Introduction (cont.)

This year's survey includes the following seven industry groups: business and other services, consumer discretionary/staples, financial/insurance/real estate, healthcare, industrials/materials, technology, and energy/utilities. (Certain industry categories in the online questionnaire were combined to allow for more meaningful sample sizes.)

The complete report features all responses broken out into dozens of detailed data tables and organized by respondent role (board member or employee) and company ownership type, industry, and revenue size. It is available for purchase here. The following is a summary of some of the key highlights in this year's survey.

Please feel free to contact me with any questions.

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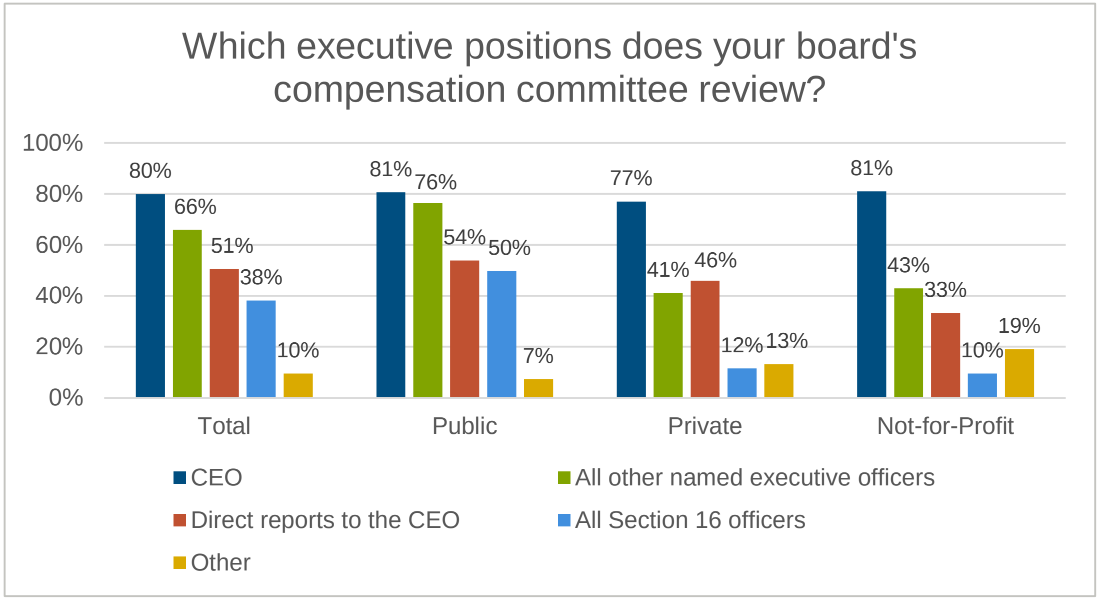
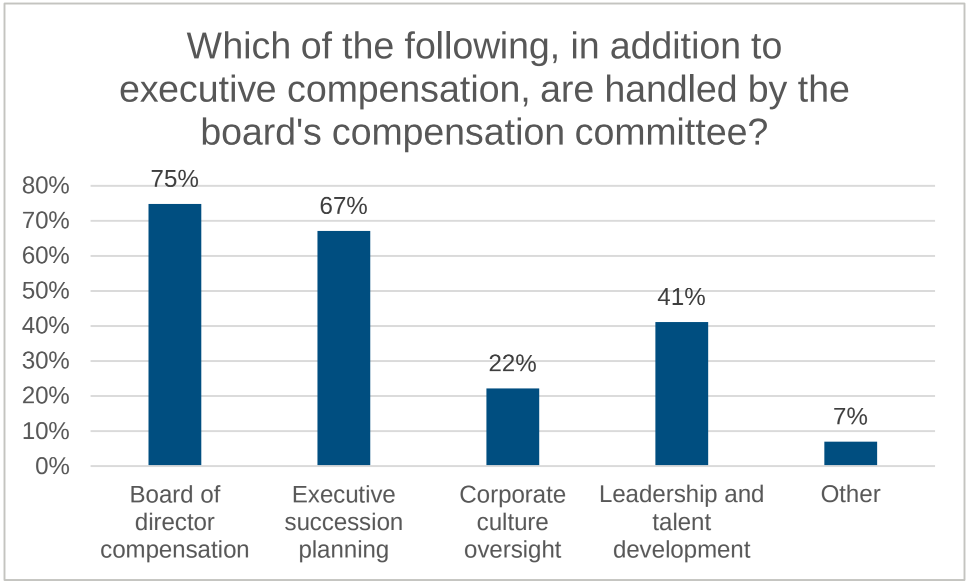
Compensation Committee Oversight Roles

- Compensation committee oversight responsibilities vary by ownership type. Pay is reviewed for all corporate officers by 50% of public company respondents compared with only 12% at private organizations.



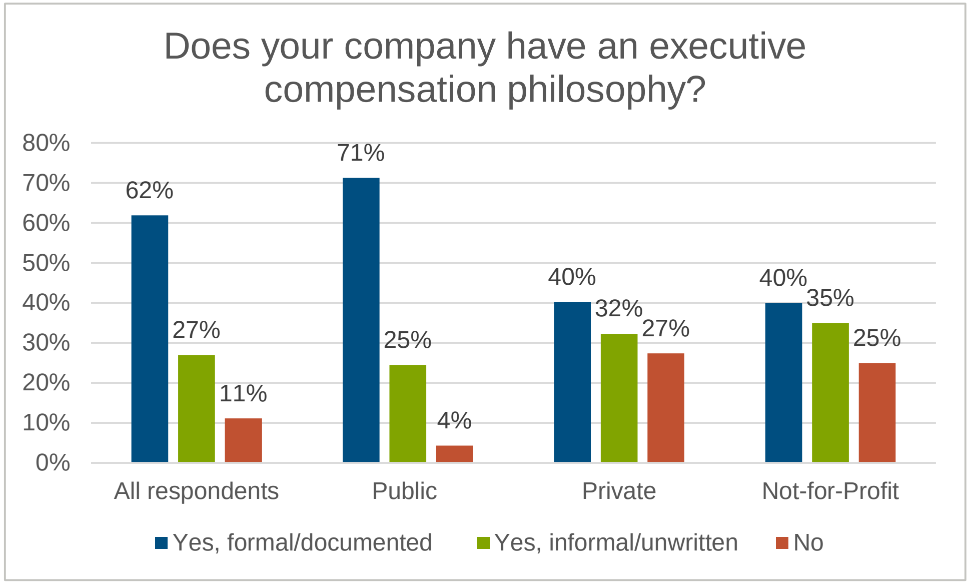
Compensation Committee Oversight Roles (cont.)

- Most committees (75%) are also responsible for non-employee director compensation and executive succession planning (67%), with 41% also overseeing leadership and talent development.
- Only 22% are currently involved in corporate culture oversight. Given the #metoo movement, we expect prevalence in this area to increase going forward.



Executive Compensation Philosophy

- Most respondents (62%) have a formal, written executive compensation philosophy. This prevalence is much higher for public companies (71%) vs. non-public organizations (40%) and increases with company size.
  - Twenty-seven percent of respondents have an informal, undocumented philosophy.
  - Approximately one quarter of non-public respondents (27% private and 25% NFP) do not have *any* compensation philosophy.



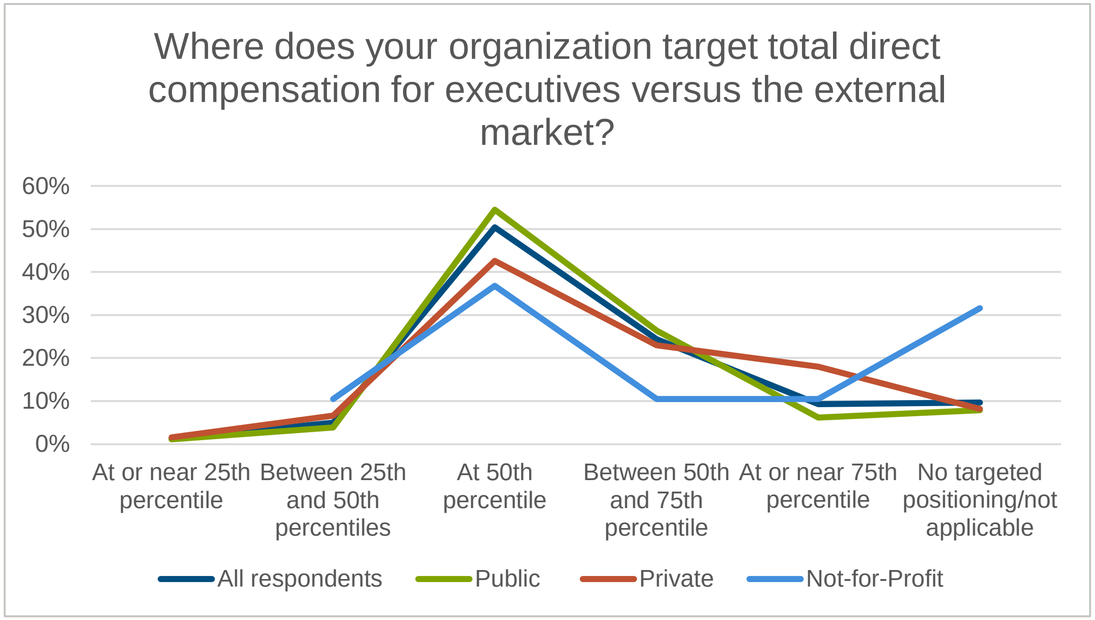
Executive Compensation Philosophy (cont.)

- When asked to rank the top three criteria for determining market benchmarking comparators, the most commonly cited responses in rank order of importance are industry (63%), company size (47%), and advisory group/analyst peers (19%).
  - Only 33% of NFP respondents include ownership type among their top three criteria.

Most Important	Second Most Important	Third Most Important
Industry	Company Size	Advisory Group/Analyst Peers
63%	47%	19%

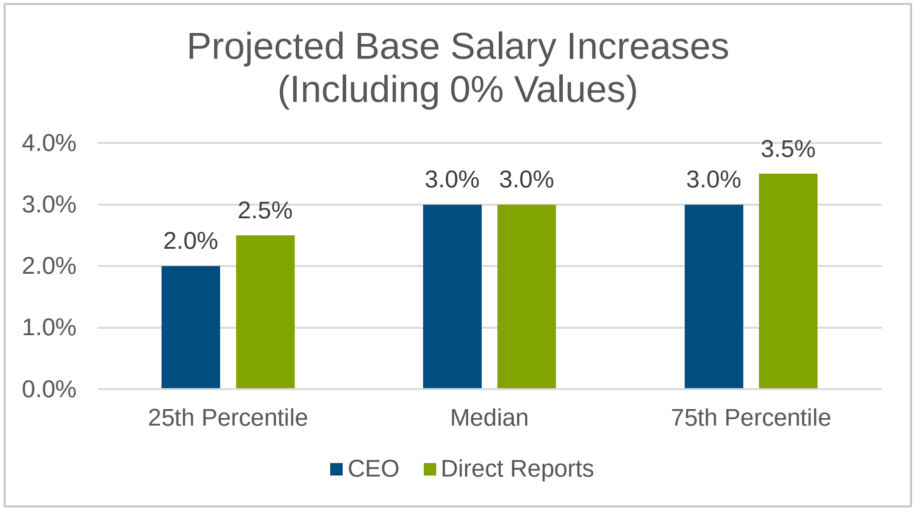
Executive Compensation Philosophy (cont.)

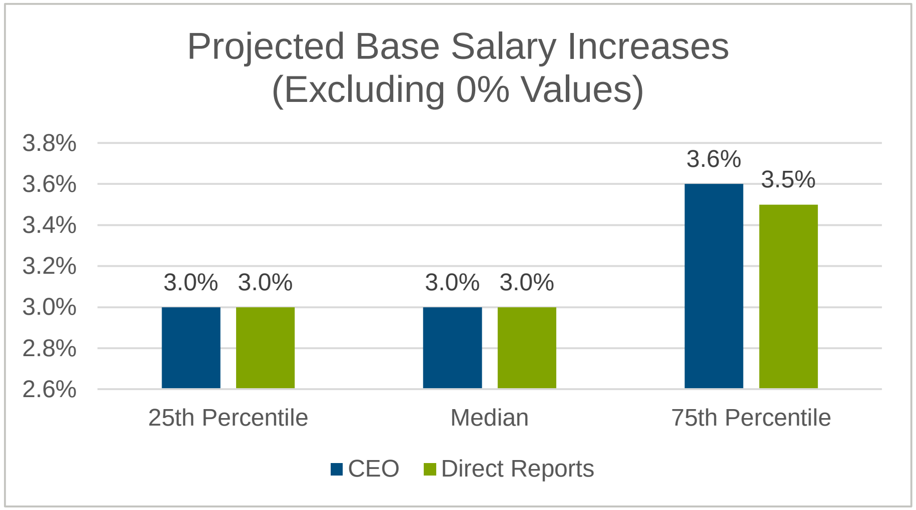
- Public company respondents have a higher prevalence of targeting pay at the 50th percentile than other ownership types, presumably due to greater external scrutiny as well as pay mix differences.
  - Targeted positioning varies by pay component, with companies generally more conservative with base salaries versus short-term and long-term incentives.
- Above median pay positioning is highest for private respondents—41% target total direct compensation above the 50th percentile.



Pay Projections

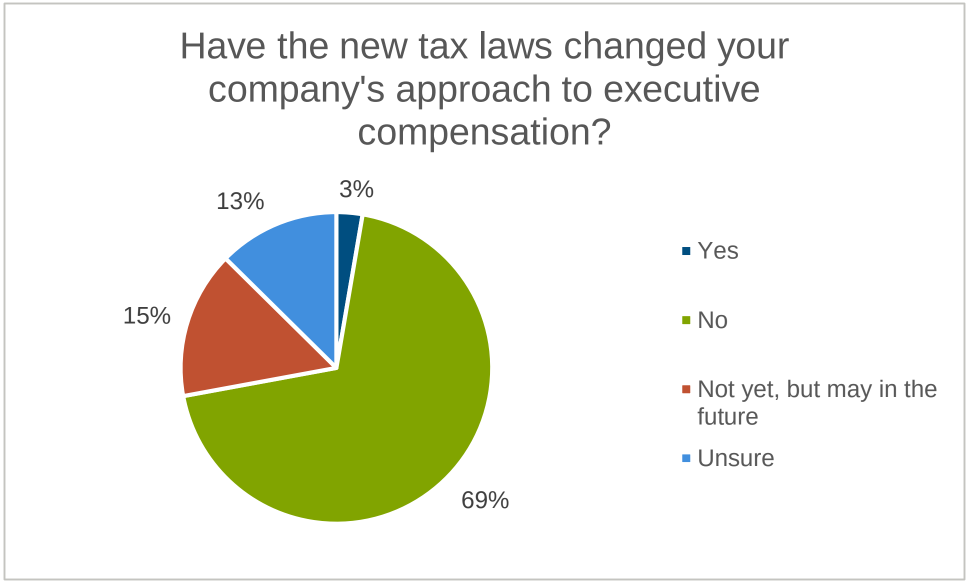
- Most companies are projecting executive salary increases of 3% for the CEO and direct reports.
  - Seventy-seven percent of respondents plan to increase salaries for the CEO and 90% plan to do so for direct reports.





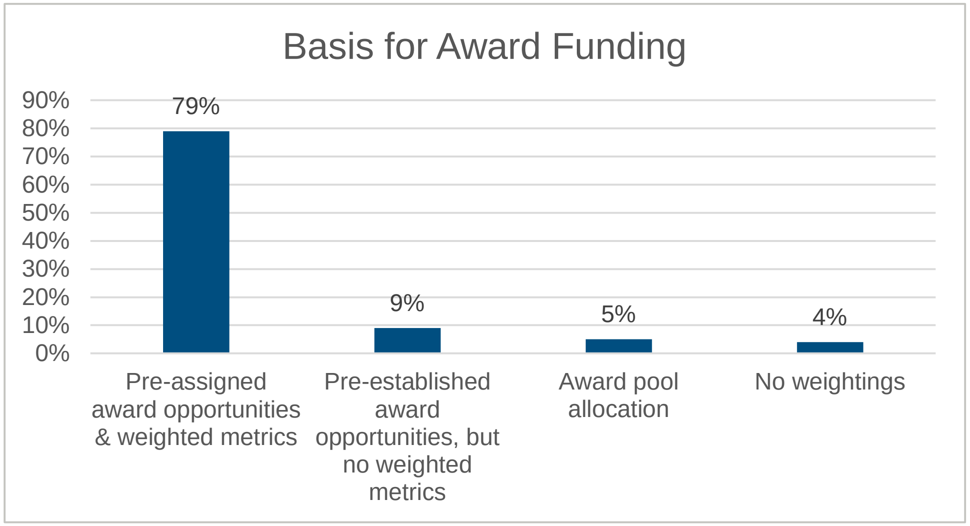
Tax Reform Impact

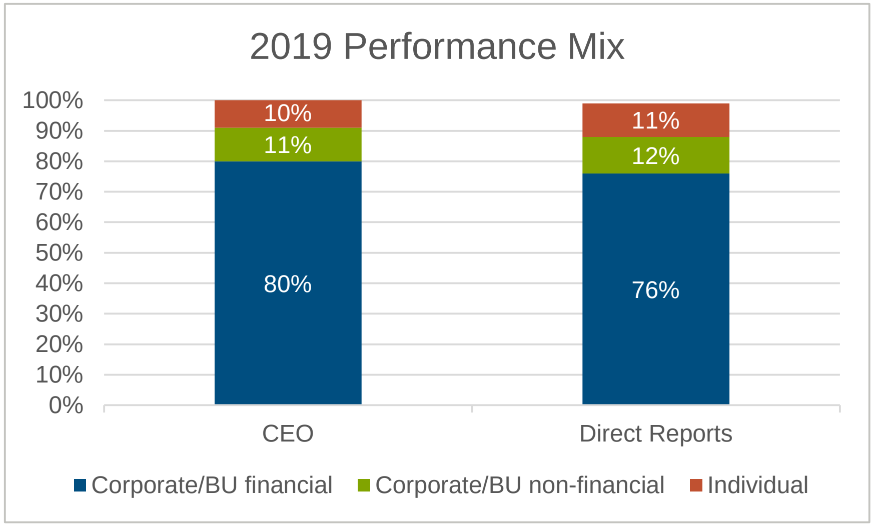
- Tax reform has not had a significant impact on executive compensation design or practices to date, as 69% of respondents are not making or considering any changes, 15% are considering some future action, and only 3% have actually made changes thus far.



Annual Incentives

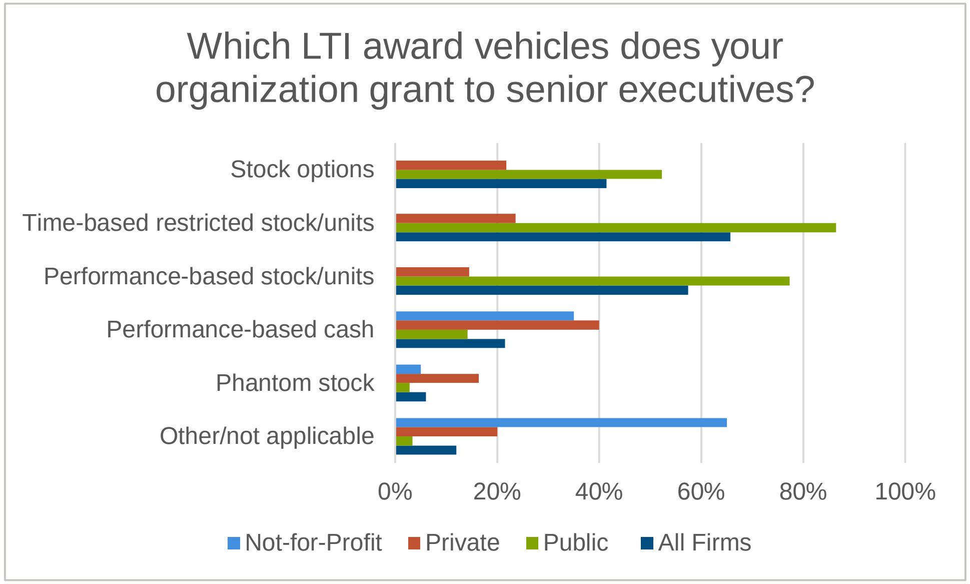
- Most respondents (79%) maintain formal incentive plans with pre-assigned award opportunities and weightings for metrics.
- Awards are tied primarily to objective financial goals at the corporate or business unit level, with the remainder equally allocated between corporate/business unit non-financial and individual components.
- For 2019, approximately half of all respondents have made or are considering annual incentive plan design changes.





Long-Term Incentives (LTI)

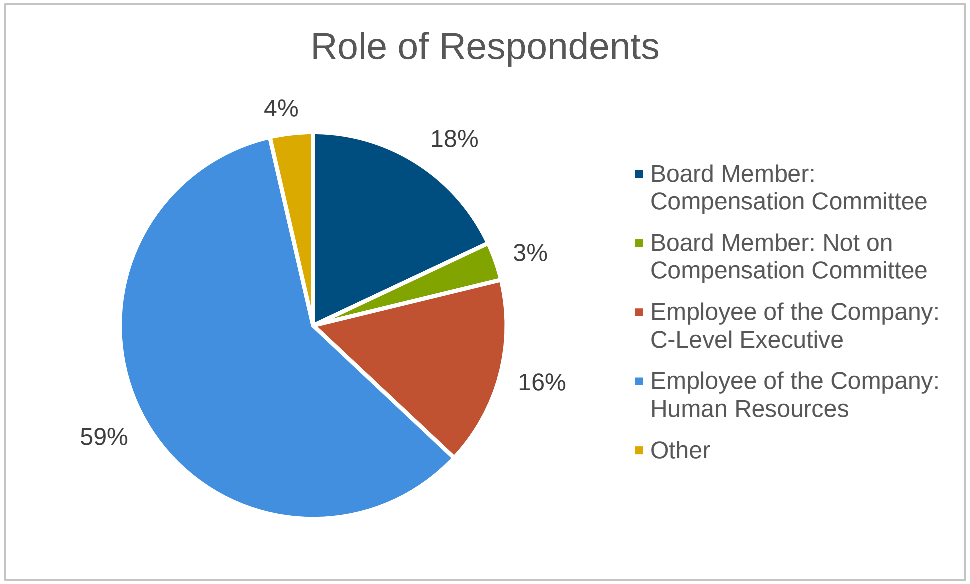
- Most companies grant time-based and performance-based equity to senior executives, although vehicle prevalence varies considerably by ownership type, as does the target value mix.
  - Private companies rely primarily on cash LTIP (40%) or phantom stock (16%).
  - Most NFP respondents do not provide LTI awards to senior executives, with 35% using performance cash.
- About half of organizations with LTI plans are considering one or more modifications for 2019.

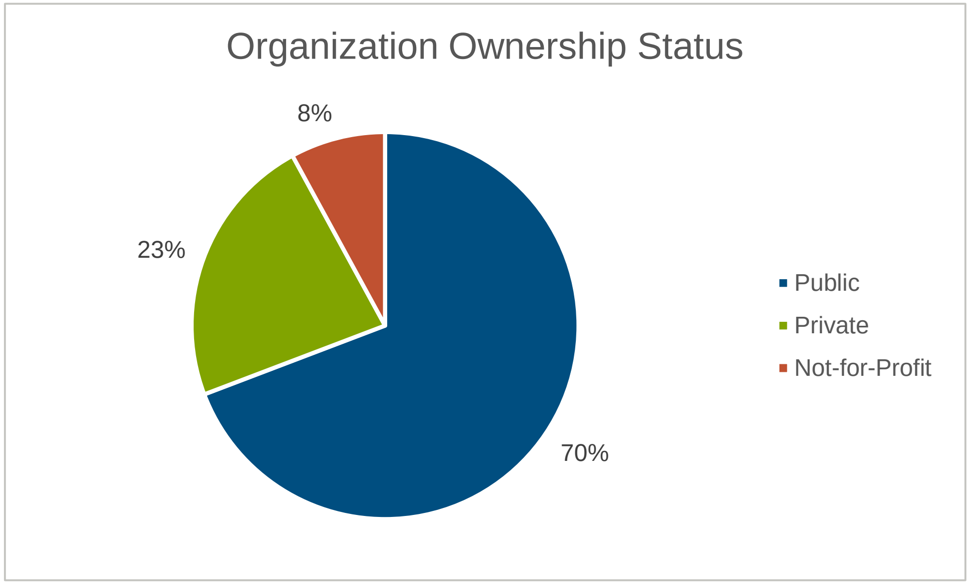


Gender Pay Equity and #MeToo Issues

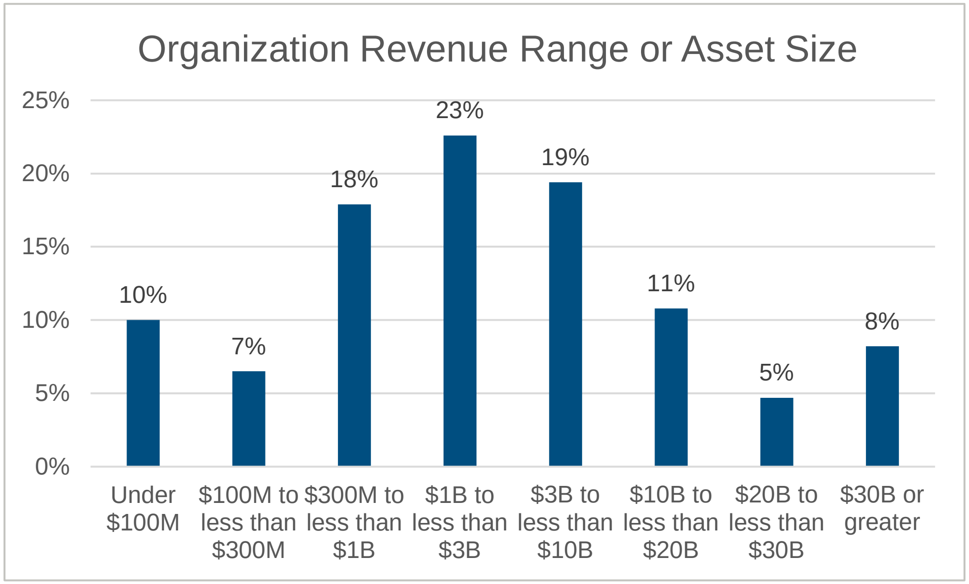
- A majority of respondents plan to conduct a study on gender pay issues, with 36% focusing on the broader employee population and 18% limiting their review to management or senior executives.
- Only 6% of respondents have made or are considering changes to existing policies or agreements in response to the #metoo movement.

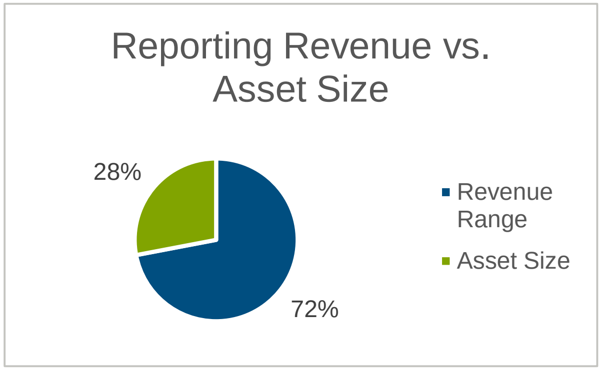
About the Survey





About the Survey (cont.)





About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage. Pearl Meyer's global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500 and FTSE 350. The firm has offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston, London, Los Angeles, and San Jose.

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