



NACD-NY Roundtable

April 25, 2018

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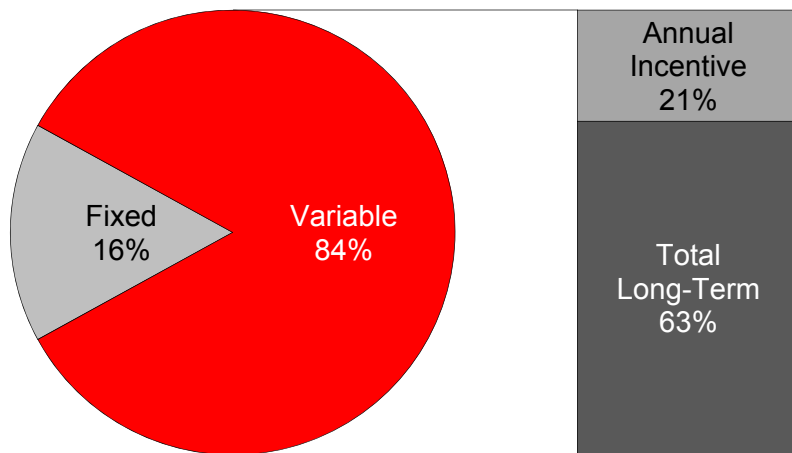


- Recent trends in executive and director compensation
 - Results of SH&P's early filer study of CEO and non-employee director compensation
- CEO pay ratio – what have we seen so far and what do we need to think about going forward
- Recent changes in tax law and their implications on executive compensation
- The latest trends in shareholder engagement
- ISS and Glass Lewis – how have their updated voting guidelines impacted the 2018 proxy season

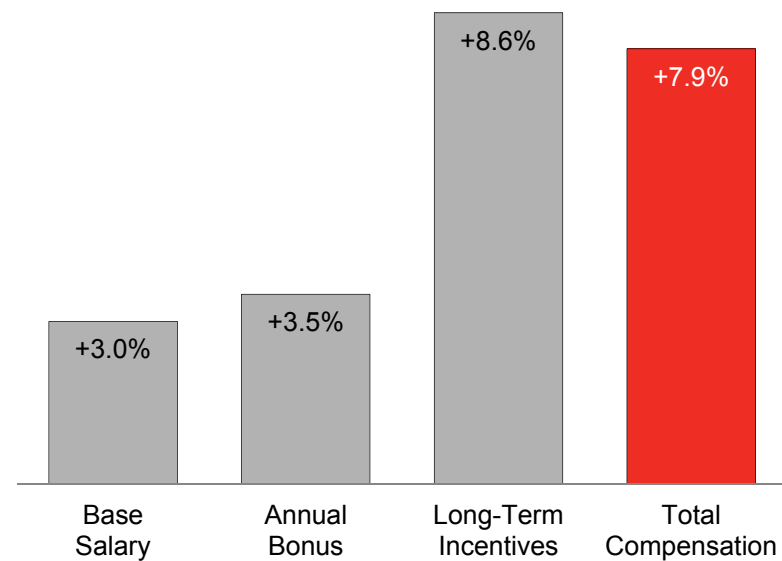
2018 Early Proxy Filer Data

CEO Pay Mix & 1-Year Growth

Average CEO Target Pay Mix

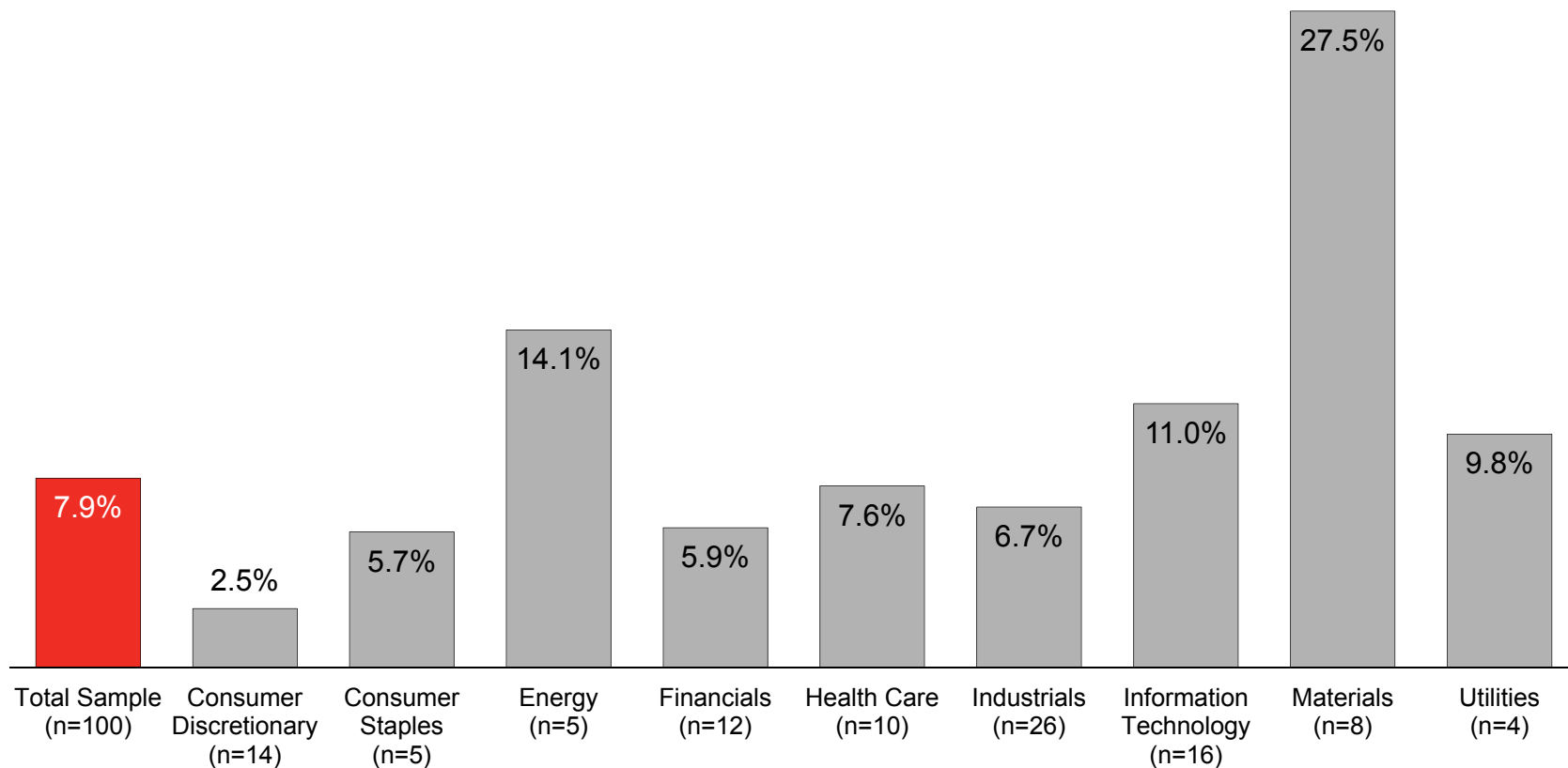


CEO Target Compensation Median 1-Year Growth



2018 Early Proxy Filer Data

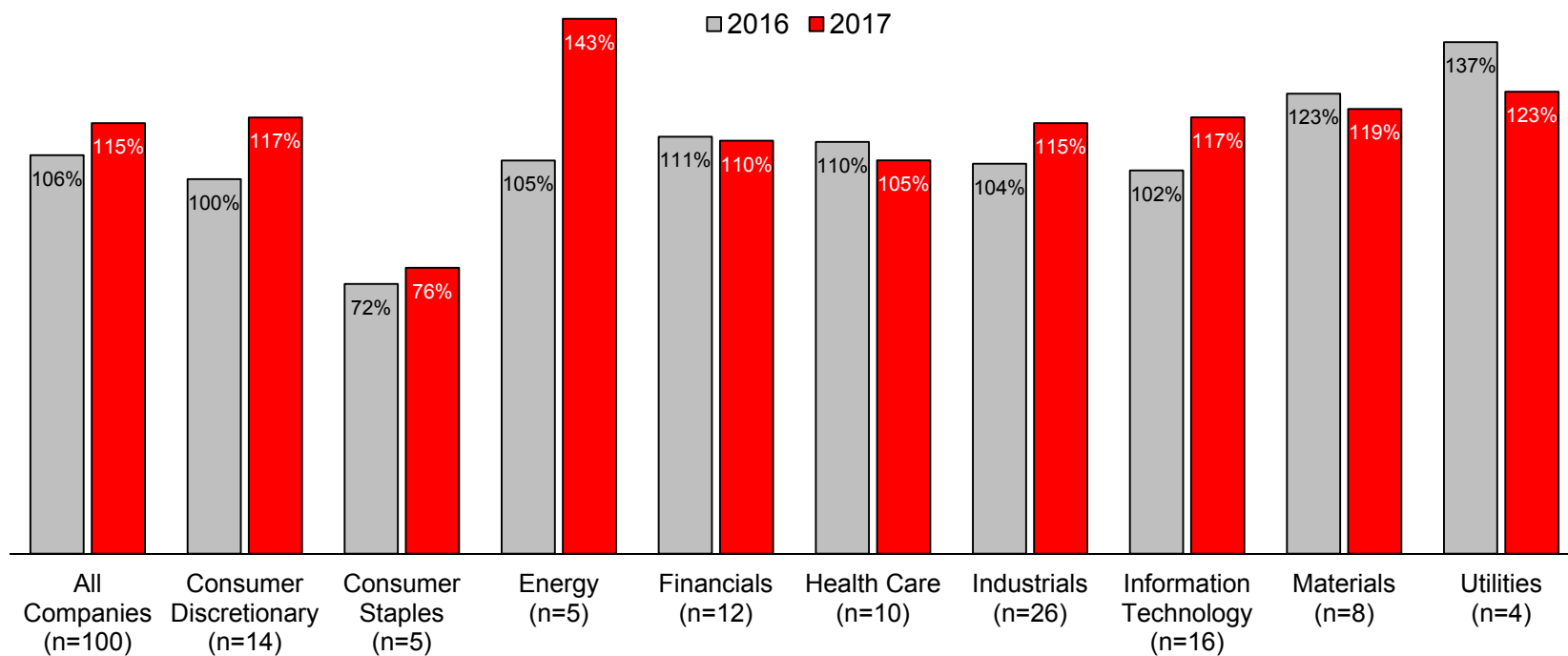
Median 1-Year Change in CEO Total Compensation



2018 Early Proxy Filer Data

Median Bonus Payout (as % of Target)

Median Bonus Pay
(as % of Target)

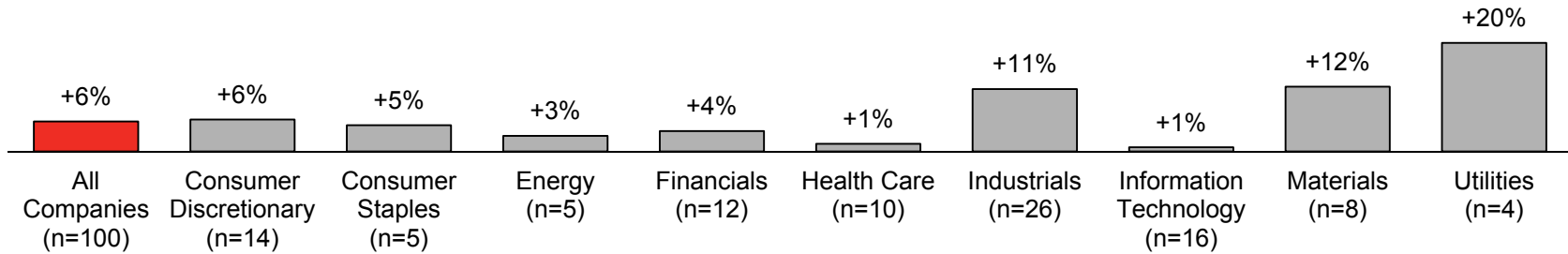




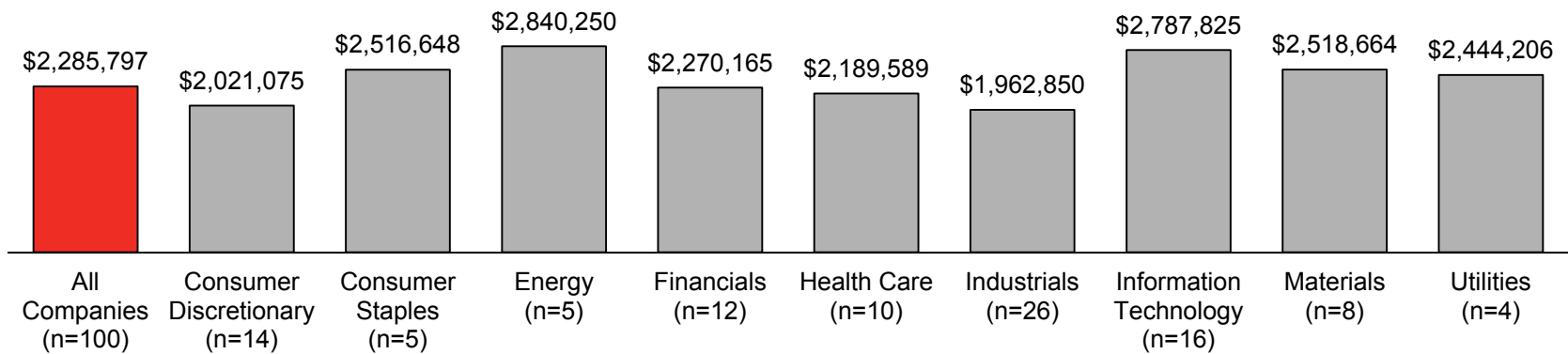
2018 Early Proxy Filer Data

Board of Director Compensation

Median 1-Year Total Board Compensation Growth



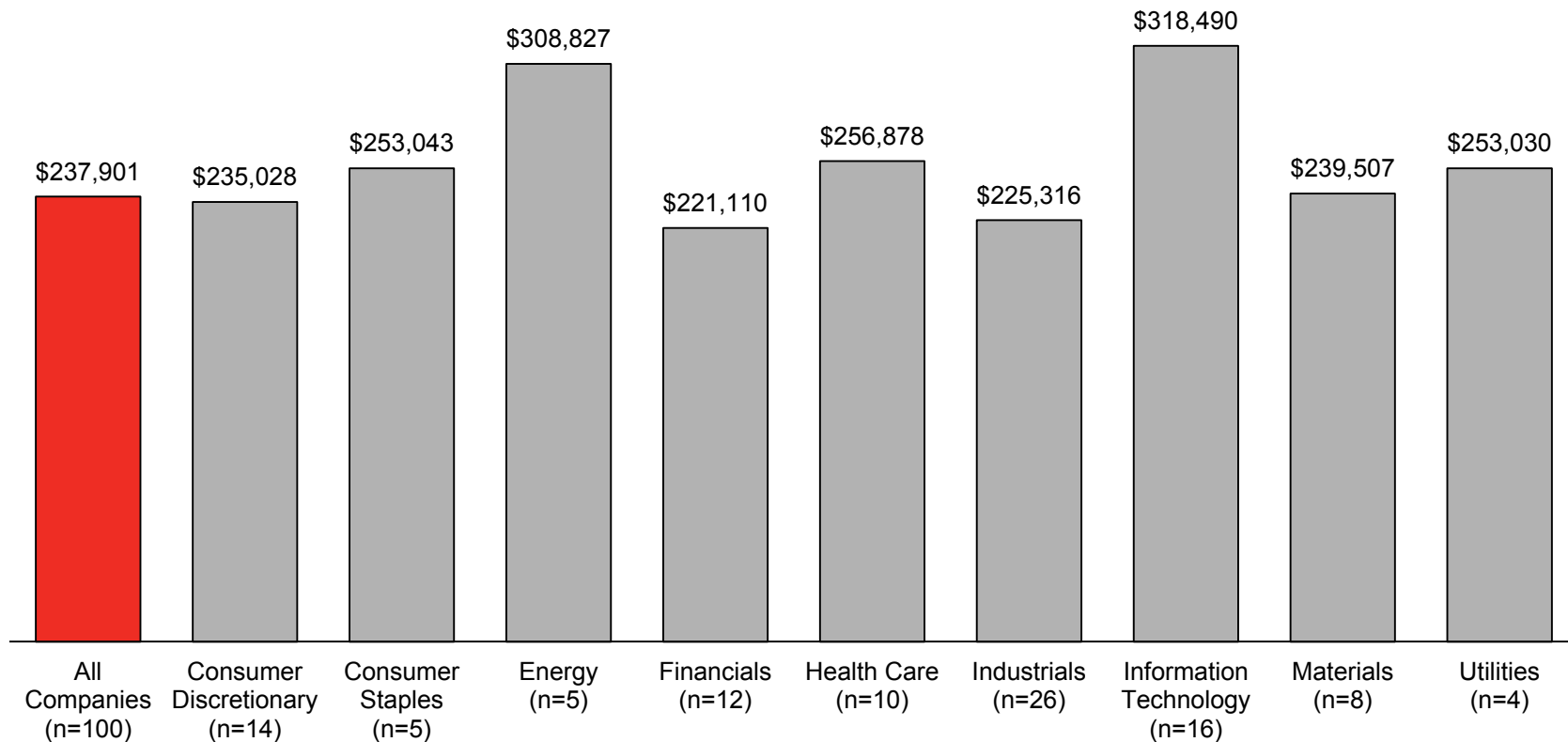
Median Total Board Compensation



2018 Early Proxy Filer Data

Board of Director Compensation

Median Total Compensation per Director





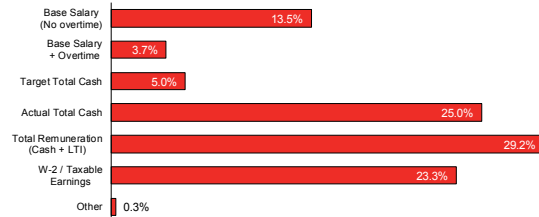
CEO Pay Ratio

CEO PAY RATIO DISCLOSURE RESULTS

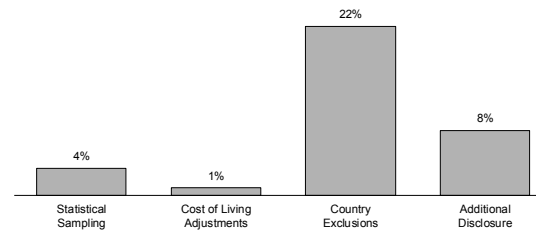
First 1,000 Disclosures (Through March 29, 2018)

	Sample Size	Median Revenue	CEO Pay Ratio			CEO Pay			Median Employee Pay		
			Min	Max	Median	Min	Max	Median	Min	Max	Median
TOTAL SAMPLE	1,000	\$1,339	0.0x	2,526.0x	65.0x	\$0	\$125,519,429	\$4,514,163	\$4,352	\$964,005	\$63,174
S&P 500	218	\$10,270	1.9x	2,526.0x	158.0x	\$100,000	\$42,247,984	\$11,958,036	\$5,237	\$253,015	\$67,668
S&P MidCap 400	159	\$2,156	7.0x	2,483.0x	87.0x	\$339,165	\$20,864,108	\$5,800,260	\$4,828	\$213,063	\$58,292
S&P SmallCap 600	161	\$840	1.8x	828.0x	53.0x	\$108,000	\$16,744,091	\$3,532,735	\$7,198	\$580,335	\$60,607
Russell 3000	843	\$1,446	0.0x	2,526.0x	74.0x	\$0	\$102,210,395	\$4,934,043	\$4,828	\$964,005	\$60,837

Measure Used to Determine Median Employee



Use of Sampling, Adjustments & Additional Disclosure



Revenue	Sample Size	Median Revenue	CEO Pay Ratio			CEO Pay			Median Employee Pay		
			Min	Max	Median	Min	Max	Median	Min	Max	Median
Less than \$1B	433	\$296	0.0x	1,250.0x	32.0x	\$0	\$69,414,472	\$2,184,259	\$5,285	\$580,335	\$59,168
\$1B - \$2B	150	\$1,365	0.8x	1,804.0x	60.3x	\$103,400	\$108,904,413	\$4,627,990	\$8,322	\$964,005	\$75,270
\$2B - \$5B	171	\$2,916	1.0x	1,465.0x	100.0x	\$18,443	\$23,561,505	\$6,443,577	\$4,352	\$249,750	\$63,662
\$5B - \$10B	107	\$6,673	8.0x	1,830.0x	141.0x	\$859,252	\$125,519,429	\$8,838,057	\$5,237	\$265,000	\$63,696
Greater than \$10B	139	\$20,404	0.1x	2,526.0x	208.0x	\$5,926	\$102,210,395	\$14,619,684	\$4,828	\$192,837	\$65,988

GICS Sector	Sample Size	Median Revenue	CEO Pay Ratio			CEO Pay			Median Employee Pay		
			Min	Max	Median	Min	Max	Median	Min	Max	Median
Energy	100	\$1,542	0.1x	935.0x	49.9x	\$5,926	\$23,677,209	\$4,445,374	\$12,455	\$500,000	\$104,074
Materials	70	\$2,602	0.0x	746.0x	87.9x	\$0	\$23,561,505	\$5,545,479	\$12,016	\$426,358	\$72,835
Industrials	151	\$2,262	0.0x	2,483.0x	93.0x	\$0	\$22,866,843	\$5,015,032	\$4,828	\$226,248	\$54,201
Consumer Discretionary	103	\$2,370	0.4x	2,526.0x	134.0x	\$14,272	\$42,247,984	\$4,677,890	\$4,352	\$126,194	\$39,575
Consumer Staples	36	\$4,205	3.1x	1,465.0x	134.0x	\$480,186	\$31,082,648	\$5,897,845	\$5,833	\$267,781	\$46,465
Health Care	88	\$1,352	3.0x	1,250.0x	77.1x	\$305,000	\$38,029,517	\$5,017,845	\$5,285	\$384,528	\$73,273
Financials	247	\$520	1.0x	575.0x	39.0x	\$100,000	\$125,519,429	\$2,433,644	\$21,312	\$580,335	\$59,408
Information Technology	72	\$834	4.9x	2,028.0x	81.5x	\$451,741	\$102,210,395	\$5,486,037	\$7,775	\$155,348	\$67,572
Telecommunication Services	13	\$919	17.0x	366.0x	47.0x	\$1,364,311	\$28,720,720	\$3,223,376	\$56,100	\$136,707	\$79,919
Utilities	47	\$3,357	2.5x	190.0x	53.0x	\$459,905	\$21,415,936	\$6,220,933	\$49,229	\$964,005	\$122,365
Real Estate	73	\$781	3.8x	528.0x	53.0x	\$66,667	\$19,352,127	\$4,765,657	\$11,574	\$317,625	\$91,681



2017 SAY-ON-PAY VOTING RESULTS
As of December 31, 2017

	Sample Size	# of Companies		Fail Rate	Average Vote*			% of Sample by "For" Vote Result*			
		Pass	Fail		For	Against	Abstain	>90%	70% - 90%	50% - 70%	<50%
Total Sample	3,079	3,041	38	1.2%	90.9%	8.0%	1.1%	74%	18%	6%	1%
Passed Say-on-Pay	3,041				92%	7%	1%	75%	18%	6%	0%
Failed Say-on-Pay	38				38%	61%	1%	-	-	-	100%
Revenue											
Less than \$1B	1,747	1,727	20	1%	91%	8%	1%	71%	21%	7%	1%
\$1B - \$2B	391	384	7	2%	92%	8%	1%	78%	14%	6%	2%
\$2B - \$5B	416	412	4	1%	92%	7%	1%	80%	14%	5%	1%
\$5B - \$10B	219	218	1	0%	92%	8%	0%	80%	13%	6%	0%
Greater than \$10B	276	270	6	2%	90%	10%	1%	76%	17%	5%	2%
Market Cap (as of 12/31/2016)											
Less than \$1B	1,383	1,366	17	1%	90%	8%	2%	70%	22%	7%	2%
\$1B - \$2B	420	414	6	1%	92%	8%	1%	80%	12%	7%	1%
\$2B - \$5B	519	514	5	1%	92%	7%	0%	80%	15%	4%	1%
\$5B - \$10B	277	274	3	1%	91%	8%	1%	75%	17%	6%	1%
Greater than \$10B	428	421	7	2%	91%	8%	1%	78%	15%	5%	2%
Industry (GICS Sector)											
Consumer Discretionary	434	430	4	1%	92%	7%	1%	78%	15%	5%	1%
Consumer Staples	122	119	3	2%	90%	9%	1%	72%	20%	6%	2%
Energy	178	175	3	2%	90%	9%	1%	71%	18%	8%	2%
Financials	536	532	4	1%	91%	7%	2%	74%	20%	5%	1%
Health Care	429	420	9	2%	89%	10%	1%	68%	21%	9%	2%
Industrials	433	430	3	1%	92%	7%	1%	79%	14%	7%	1%
Information Technology	484	475	9	2%	90%	9%	1%	73%	19%	7%	2%
Materials	156	156	0	0%	92%	7%	1%	82%	12%	5%	1%
Telecommunication Services	27	26	1	4%	85%	14%	1%	52%	30%	15%	4%
Real Estate	156	154	2	1%	91%	8%	1%	76%	19%	4%	1%
Utilities	81	81	0	0%	93%	6%	1%	79%	20%	1%	0%

* Rounded



2018 SAY-ON-PAY VOTING RESULTS
As of April 20, 2018

	Sample Size	# of Companies		Fail Rate	Average Vote*			% of Sample by "For" Vote Result*			
		Pass	Fail		For	Against	Abstain	>90%	70% - 90%	50% - 70%	<50%
Total Sample	254	249	5	2.0%	90.1%	8.7%	1.2%	74%	17%	7%	2%
Passed Say-on-Pay	249				91%	8%	1%	75%	18%	7%	0%
Failed Say-on-Pay	5				35%	63%	2%	-	-	-	100%
Revenue											
Less than \$1B	125	125	0	0%	91%	7%	2%	72%	22%	6%	0%
\$1B - \$2B	30	29	1	3%	86%	13%	1%	63%	20%	13%	3%
\$2B - \$5B	44	43	1	2%	91%	9%	1%	75%	16%	7%	2%
\$5B - \$10B	22	21	1	5%	92%	7%	1%	86%	9%	0%	5%
Greater than \$10B	33	31	2	6%	88%	12%	1%	79%	6%	9%	6%
Market Cap (as of 12/31/2016)											
Less than \$1B	107	107	0	0%	90%	8%	2%	67%	25%	7%	0%
\$1B - \$2B	20	20	0	0%	92%	7%	1%	85%	5%	10%	0%
\$2B - \$5B	48	45	3	6%	89%	10%	1%	77%	13%	4%	6%
\$5B - \$10B	30	29	1	3%	89%	10%	1%	70%	20%	7%	3%
Greater than \$10B	49	48	1	2%	90%	9%	1%	82%	8%	8%	2%
Industry (GICS Sector)											
Consumer Discretionary	28	27	1	4%	88%	10%	2%	68%	25%	4%	4%
Consumer Staples	16	16	0	0%	94%	5%	1%	81%	19%	0%	0%
Energy	9	9	0	0%	88%	9%	3%	67%	22%	11%	0%
Financials	43	43	0	0%	90%	8%	1%	74%	16%	9%	0%
Health Care	25	25	0	0%	87%	11%	2%	56%	32%	12%	0%
Industrials	58	57	1	2%	92%	6%	1%	81%	10%	7%	2%
Information Technology	48	46	2	4%	89%	10%	1%	73%	19%	4%	4%
Materials	17	16	1	6%	87%	12%	1%	76%	0%	18%	6%
Telecommunication Services	1	1	0	0%	77%	22%	1%	0%	100%	0%	0%
Real Estate	0	0	0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Utilities	9	9	0	0%	94%	5%	1%	89%	11%	0%	0%

* Rounded



Tax Cuts and Jobs Act of 2017

The final tax bill includes these major changes to Section 162(m):

- The performance-based compensation exception has been scrapped
- The CFO has returned to the group of covered employees, as was the case prior to 2008
- Once an executive is a covered employee in any year (starting in the current year, 2017), compensation will be subject to Section 162(m) in all future years, including after termination
- Section 162(m) will now apply to companies with only debt securities registered with the SEC



Tax Cuts and Jobs Act of 2017

What performance-based awards are affected?

- The following will now be subject to the \$1 million cap on deductibility in the same way base salary is currently treated
 - Stock options,
 - SARs
 - Performance-based equity awards, and
 - Annual incentive awards



Tax Cuts and Jobs Act of 2017

How would the changes affect old awards and deferrals that result in compensation in future years?

- The final bill “grandfathers” compensation resulting from a written binding contract that was in effect on November 2, 2017,
 - Provided that the compensation is not materially modified thereafter
- If the grandfathered arrangement qualified as performance-based, it will remain fully deductible, even if performance conditions and vesting requirements are met in 2018 or later
- Similarly, if the grandfathered arrangement does not qualify as performance-based but the payout occurs after the executive’s employment has ended, it will remain deductible without limitation under 162(m)
- Awards subject to “negative discretion,” which permit a company to reduce or eliminate the payout regardless of the level of performance achieved, probably are not grandfathered, because there would have been no legally binding right to the compensation as of November 2, 2017



Tax Cuts and Jobs Act of 2017

What are the implications for executive pay levels?

- Significant changes to senior executive pay levels, either up or down, unlikely to result from new 162(m) requirements
- Companies likely to determine pay levels on same criteria utilized in the past
 - Including individual and corporate performance, roles/responsibilities, retention and other internal concerns, marketplace benchmarking and other external considerations
- While there may be some rebalancing of fixed vs. variable pay overall, we believe that actions taken by Netflix to move all incentive compensation to fixed salary is an outlier
 - We would expect significant pushback from corporate governance advocates, proxy advisors and institutional shareholders if more companies make similar adjustments



Tax Cuts and Jobs Act of 2017

What are the implications for executive compensation programs?

- Freedom and flexibility in incentive plan design
 - Companies have more freedom to design executive compensation programs that address pay for performance without complying with the strict rules to qualify pay as “performance-based” under prior 162(m) rules
 - “ If a Plan is modified, performance-based compensation programs will be able to use any performance metrics the compensation committee deems appropriate, and will not be limited to the shareholder-approved performance goals
 - “ Companies may design performance goals and adjustments without the need to have them be objectively determinable and pre-established
 - “ Companies may retain discretion to adjust payouts upward or downward based on actual performance
 - *Action Item: Review incentive plan to determine if positive discretion is permitted*
- Fewer incentive plans up for shareholder approval so far in 2018



Tax Cuts and Jobs Act of 2017

What are the implications for executive compensation programs?

- Pay-for-performance mantra likely will continue
 - Most companies will still want to maintain performance-based compensation programs in order to appropriately incentivize executives and respond to the demands of pay-for-performance by proxy advisory firms and shareholders
 - Companies that materially reduce pay-for-performance alignment are at risk for poor/failing Say on Pay vote results and additional public scrutiny



Trends in Shareholder Engagement

- Engagement with shareholders continues to increase for a variety of reasons and is vital to ensure support on important proposals
 - Say-on-Pay vote requirement remains a key driver
 - Increased level of shareholder activism
 - Continued high level of activity by governance activists
 - Changing expectations of mainstream institutional investors
 - “ Many are increasingly willing to ignore proxy advisor recommendations and vote based on internally developed criteria
 - Largest investors have a good understanding of pay programs
 - “ Published Say-on-Pay voting guidelines generally available with regard to problematic pay practices
 - Smaller investors may rely more heavily on recommendations of ISS and Glass Lewis
 - Some concerns raised that executive pay programs may be over-weighted on stock price



Trends in Shareholder Engagement

- Shareholder engagement best practices
 - Set a specific agenda and roles for all company participants
 - Provide presentation in advance
 - Off-season engagement may be most successful
 - Involvement of independent directors where appropriate
 - Ensure directors are fully prepared for meeting
 - Regulation FD and proxy solicitation rules are well understood
 - Listen
- Shareholder engagement practices to avoid
 - Focus too much attention on proxy advisory firms' recommendations
 - React too quickly to messages/criticisms
 - Set up a meeting during proxy season unless absolutely necessary
 - Challenge, disagree or contradict information disclosed in public filings
 - Do all the talking
 - Rely on advisors/consultants to run meeting



- Hottest topics for shareholders this proxy season have been in the ESG and diversity arenas including
 - Sustainability / Social responsibility
 - “ Pronouncement by BlackRock that corporations should “serve a social purpose”
 - Board diversification
 - “ Increasing usage of “Director skills matrix” chart and other graphics to highlight diversity
 - Pressure from NYC Pension Fund/Comptroller to increase/improve disclosure
 - Gender pay equity
- Growing number of companies are seeking shareholder ratification of Board pay programs to avoid potential lawsuits alleging excessive director pay



ISS and Glass-Lewis 2018 Updates

2018 ISS and Glass Lewis Policy Update

- Modifications to ISS Pay-for-Performance Methodology
 - For S&P 500 companies, achieving a “Low” concern level on one of the current CEO pay-for-performance tests (Multiple of Median) was made more difficult
 - The calculation of Total Shareholder Return (TSR) was modified to reduce the impact of point-in-time stock price fluctuations
 - A new financial performance analysis was added as a secondary quantitative screen
 - “ Three-year average ROA, ROE, ROIC and EBITDA growth are the primary financial metrics that will be calculated
- Assessment of Non-Employee Director Pay
 - ISS may recommend an Against vote for Directors who are responsible for setting “excessive” Director compensation for two or more consecutive years
 - “ Does not impact Director vote recommendations in 2018
- Compensation-related policy modifications announced by Glass Lewis were minimal



ISS and Glass-Lewis 2018 Updates

2018 ISS and Glass Lewis Policy Update

- ISS recently launched “E&S QualityScore”
 - Environmental and Social scores will appear in ISS’s proxy analyses but will not impact its voting recommendations
 - New system evaluates the quality of companies’ E&S disclosures relative to industry peers based on 380 factors used by certain standard-setters, such as the Global Reporting Initiative, Sustainability Accounting Standards Board, and the Financial Stability Board’s Task Force on Climate-Related Financial Disclosure
 - Rationale for product was to “support growing investor interest” in E&S issues
 - Scoring will be on a relative basis from 1 – 10, similar to current governance QuickScore

ISS and Glass-Lewis 2018 Updates

2018 ISS Say on Pay “For” Vote Recommendations

- As of 4/16, ISS “For” Say on Pay recommendations running at approximately 91% for Russell 3000 companies
 - Slightly higher positive vote compared to past 5 years, where “For” recommendations were in the 87% – 88% range
 - Results of Quantitative pay-for-performance tests strongly predict vote recommendation
 - Companies with “Low” concern level receiving 97% “For” votes compared to “High” concern companies at 46%
 - “Medium” concern at 72% in favor
 - First year of financial performance assessment having limited impact on vote recommendations
 - Companies with “Cautionary Low” level due to relative financial underperformance still receiving a “For” vote at a high rate (94%)



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