CAP REPORT

CAP Compensation Advisory Partners INDUSTRY REPORT | JUNE 2016

CONSUMER PRODUCTS

2015/2016 INDUSTRY REPORT

CAP is a leading independent consulting firm specializing in executive and director compensation and related corporate governance matters. Our consultants have served as independent adviser to Boards and senior management at many leading companies in the areas of compensation strategy, program design and in promoting sound corporate governance principles.

Independence. Client-Focus. Expertise.
1133 Avenue of the Americas | New York, NY 10036 | Phone: (212) 921-9350 | Fax: (212) 921-9227 | capartners.com

CAP's industry report is based on an examination of 19 companies in the Consumer Products industry with median 2015 revenue and market cap of approximately $18B and $46B, respectively.

The Consumer Products sector faced its challenges in 2015; 1-year Revenue and EBITDA growth were down slightly at median, while the S&P 500 as a whole experienced modest growth. Many of the Consumer Products companies operate in countries outside the U.S. and were impacted by the relative strengthening of the U.S. dollar in 2015. Despite the slight declines in financial performance, 1-year Total Shareholder Return ("TSR") for companies in the Consumer Products industry was very strong (+17%) and significantly outpaced the S&P 500 which was flat overall (+0.6%). Strong TSR performance signals that the market may be more influenced by a Consumer Products company's strategic direction and product innovation than short-term financial performance which can be impacted by macro-economic factors including a potential rebound in certain global markets compared to expectations at the end of 2014.

INDUSTRY GROUP	1-YEAR MEDIAN GROWTH			
	REVENUE GROWTH	EPS GROWTH	EBITDA GROWTH	TSR (12/31/15)
Consumer Products	-2.2% ↓	-0.3%	-1.9% ↓	↑ 17.0%
S&P 500 Cos	0.9%	↑ 3.1%	↑ 3.7%	0.6%

Financial Data Source: Standard and Poor's Capital IQ Database.

While Gross Profit Margins for the Consumer Products industry are in line with the companies in the S&P 500, Return on Invested Capital (where capital is defined as Total Debt plus Total Equity) for this industry is generally at the high end of the S&P 500. The higher level of Return on Invested Capital in the Consumer Product sector, compared to the S&P 500, supports a company's focus on growth as any incremental revenue generated delivers a higher return for shareholders. The higher levels of returns in this industry are attributable to the lower levels of capital when compared to other industries.

INDUSTRY GROUP	1-YEAR MEDIAN RESULTS		
	GROSS MARGIN	OP MARGIN	ROIC
Consumer Products	43.6%	15.9%	21.9%
S&P 500 Cos	41.8%	16.5%	14.6%

Financial Data Source: Standard and Poor's Capital IQ Database.

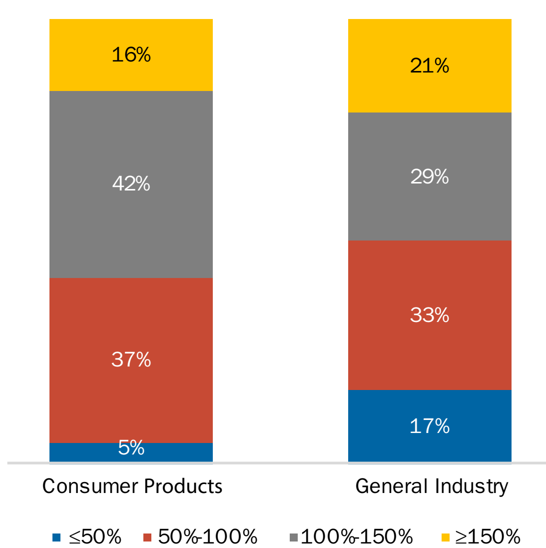
2015 CEO Pay-for-Performance: Annual incentive payout as a percentage of target for the Consumer Products industry was slightly above target (107%) in 2015

A majority of these Consumer Products companies (58%) received an annual incentive payout above target despite somewhat weaker 2015 GAAP financial performance vs. prior year. 2015 results for the companies studied are generally consistent with the findings of CAP's Early Filers research (See CAPFlash "2016 Proxy Season - Early Trends: 2015 CEO pay increased despite lower annual incentive payouts" for more details).

> Despite slight declines in financial performance due to a challenging global economy and volatile currencies, total sharehohlder return was up 17% and bonuses paid out slightly above target.

A company's annual incentive payout may not align with GAAP financial results for many reasons, including the process used to set goals, definition of metrics, and the use of non-financial metrics in the plan design. Furthermore, companies may adjust GAAP results for incentive plan purposes to exclude the impact of currency fluctuation, unusual or one-time events (such as an acquisition or divestiture) or items outside of management's control (such as a legal settlement)

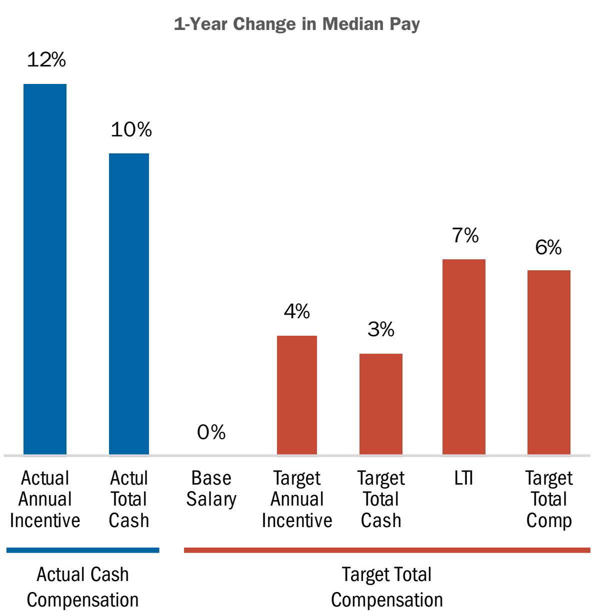
2015 Annual Incentive Payout as a Percentage of Target



SUMMARY STATISTICS	2015 ANNUAL INCENTIVE PAYOUT AS A % OF TARGET	
	CONSUMER PRODUCTS	EARLY FILERS
75th Percentile	139%	133%
Median	107%	101%
25th Percentile	85%	76%

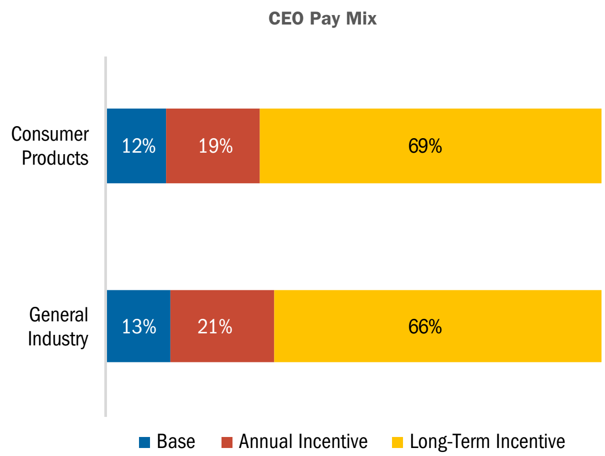
2015 CEO Pay Levels: Overall, target total pay for CEOs in the Consumer Product industry increased modestly year over year due to increases in incentive compensation

2015 actual total cash compensation increased by approximately 10% as a result of slightly above target bonus payout in 2015. Overall, CEO's in the companies studied did not receive a salary increase in 2015. Instead, pay increases were delivered in the form of variable pay which will align a greater portion of CEO compensation to company performance and, ultimately, shareholders.



Incentive Plan Design: Companies in the Consumer Products sector commonly focus on top-line growth and bottom-line performance in the annual and long-term incentive plans

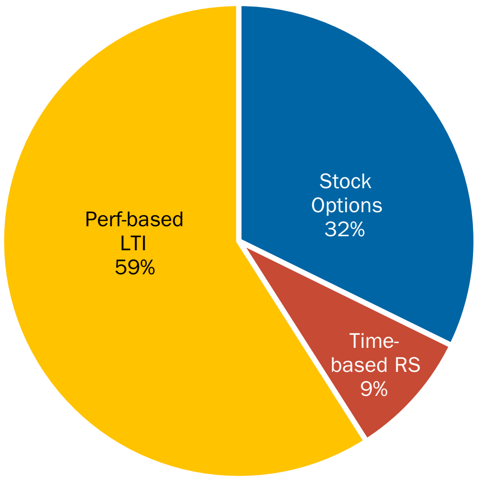
Variable compensation (i.e., annual and long-term incentives) for CEOs at large U.S.-based companies typically comprises approximately 85% to 90% of total compensation. Similar to the general market practice, Consumer Products companies place a significant emphasis on variable compensation for the most senior executives.



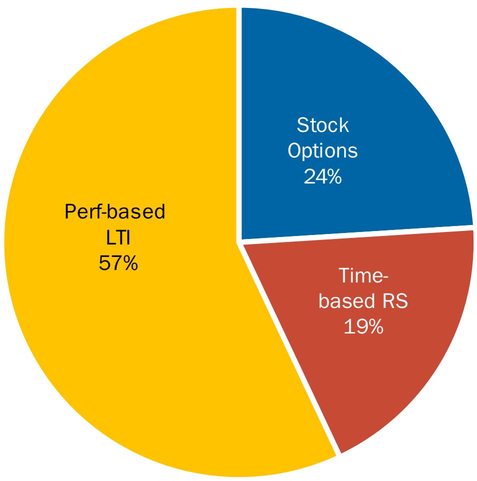
The annual incentive opportunity reflects approximately 20% of total compensation for CEOs in the Consumer Products industry, similar to general industry. Annual incentive compensation is typically designed to align executives with the company's business plan and strategy. Nearly every company in our study uses a profit measure (e.g., operating/net income, EPS, etc.) in their bonus plan, with EPS as the single most prevalent profit-based metric. These companies also place greater emphasis on top-line growth and strategic objectives (e.g., innovation in current/new product lines, cost reductions, etc.) compared to other industries. Approximately 40% of Consumer Products companies use strategic measures to address the competitive environment of the industry where success is strongly tied to consumers' view of their brands and keeping the product line fresh. As consumers are increasingly becoming savvier in their everyday product choices, companies in the industry need to ensure their brands are recognizable, offer product selection, and have the best value.

The largest portion of total compensation for senior executives is delivered in long-term incentive, either equity- or cash-based. For CEOs in our study, close to 70% of their total compensation is in form of long-term incentives. The Consumer Products companies place somewhat less emphasis on time-based restricted stock awards and more on stock options than general industry.

Consumer Products Industry LTI Mix



General Industry LTI Mix



Performance-based LTI is typically the largest portion of an executive's LTI pay. The payout for this component, similar to annual incentive plans, fluctuates based on the company's performance over a fixed performance period, most commonly three years. The typical upside payout potential for these plans is 200% of the target award, which is similar to the broader market. When a performance-based LTI plan is well designed, this component will have a significant impact on the relationship between company performance and actual pay realized.

Among the companies in our study, the most prevalent metrics in long-term incentive plans include top-line growth and profits. The focus on top-line growth in the long-term plan is more common among Consumer Products companies than many other sectors (aside from the Pharmaceutical sector, which is also consumer-focused). Additionally, TSR is used by approximately half of the companies in their long-term incentive plans, comparable to general industry practice. Consumer Products companies in our study most often use three metrics in their long-term performance plans; in the broader market, the use of two metrics is more common.

Conclusion

Competition for market share, customers and brand recognition are increasingly important to companies in the Consumer Products industry. As such, these companies typically place more emphasis on strategic objectives combined with both top-line growth and bottom-line performance. The market also recognizes the importance of a company's brand and product innovation which is likely reflected in last year's significant shareholder returns (which far outpaced the S&P 500) even in a year with weaker GAAP financial performance.

Consumer products companies continue to reinforce the emphasis on pay and performance. Given the increases in target compensation, we recommend a robust discussion of how the goals are set, especially if they are lower than prior year, as this is becoming an increased focus of ISS and some shareholders.

For questions or to obtain more information please contact:

Dan Laddin
Partner
daniel.laddin@capartners.com
212-921-9359

Lauren Peek
Principal
lauren.peek@capartners.com
212-921-9374

Roman Beleuta
Associate
roman.beleuta@capartners.com
646-532-5932

Exhibit 1.

CONSUMER PRODUCT COMPANIES

3M
Altria Group Inc.
Avon Products Inc.
Campbell Soup Company
Clorox Company
Coca-Cola Co
Colgate Palmolive Co.
ConAgra Foods Inc.
Estée Lauder Companies Inc.
General Mills
J.M. Smucker Co
Kellogg
Kimberly Clark Corp.
Mondelēz International
Newell Brands Inc.
Nike Inc.
PepsiCo Inc.
Procter & Gamble Co
Starbucks Corp