CAP REPORT

CAP Compensation Advisory Partners INDUSTRY REPORT | DECEMBER 2016

CAP 100 Company Research

2015/2016 INDUSTRY REPORT

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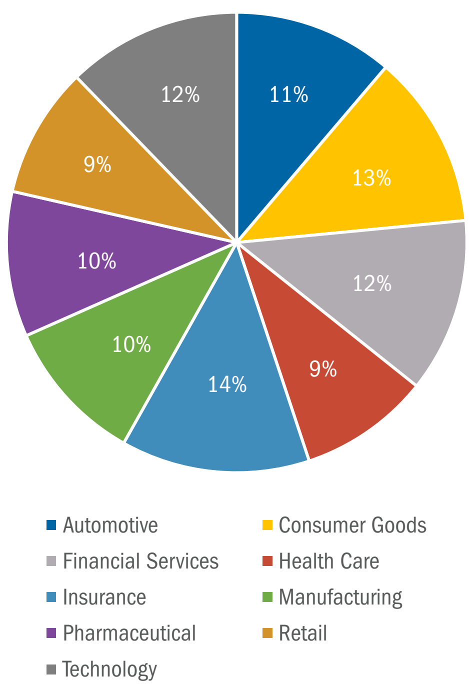
Characteristics of the CAP 100 Company Research Sample

The CAP 100 Company Research Study consists of 100 companies from 9 industries, selected to provide a broad representation of market practice among large U.S. public companies. The revenue size of the companies in our sample ranges from $18 billion at the 25th percentile to $70 billion at the 75th percentile.



Percentile Rank	Revenue	Net Income	Assets	Market Cap	Cumulative TSR for Periods ending on 12/31/2015		
					1-Year	3-Year	5-Year
75th	$69,766	$6,105	$171,842	$114,446	12%	103%	144%
Median	$32,639	$2,560	$57,948	$49,789	1%	64%	78%
25th	$18,326	$1,392	$28,666	$25,574	-10%	31%	24%

PAY STRATEGY

Among companies in CAP's 100 Company Research, 99% use a peer group of public companies for pay benchmarking purposes. Approximately one quarter of those companies with a disclosed peer group (27%) use more than one peer group. The median number of companies in a peer group is approximately 17 companies.

Peer Group		
% of companies with a disclosed peer group	% of companies with more than one peer group (among companies with a peer group)	Median # of companies in peer group
99%	27%	17

Approximately half of the companies (55%) disclosed a target pay philosophy for total compensation. The vast majority of these companies (81%) use median as a benchmark, while 19% of companies' target compensation above median.

Pay Philosophy					
Element	Base	Bonus	Cash	Long-Term Incentive	Total Compensation
% Disclosing	38%	25%	24%	26%	**55%**
% Median	92%	96%	92%	89%	**81%**
% Above Median	5%	4%	8%	8%	**19%**

ANNUAL INCENTIVE

Award Leverage

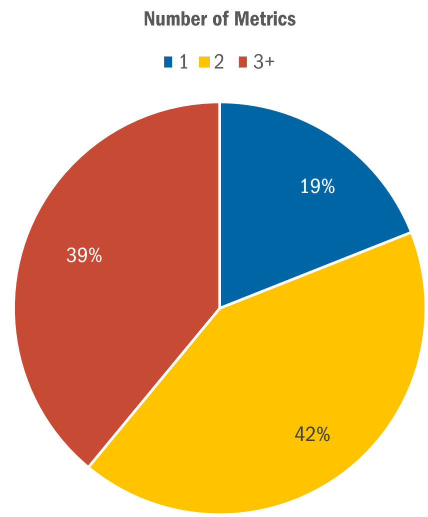
CAP reviewed proxy disclosure to understand how companies are establishing the annual incentive payout ranges (i.e., the threshold payout and the maximum payout expressed as a percentage of the target payout) for annual incentives. Most companies that we reviewed identify the minimum payout as zero and do not separately disclose a threshold level of performance. For the 38 companies that did disclose a threshold bonus payout other than zero, a payout of 50% of target is the most common percentage. Sixteen (16) companies disclose a minimum bonus payout of less than 50% of target which scales down to 25% or lower.

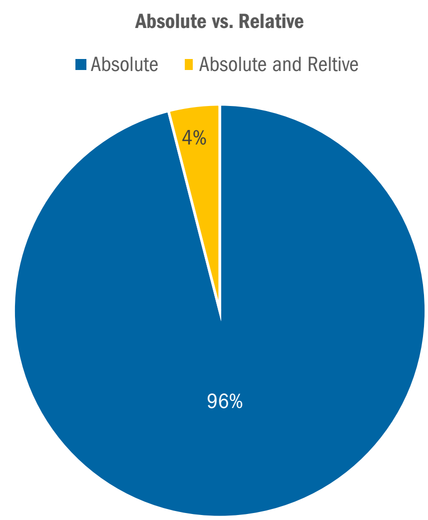
Annual Incentive Plan Payout Range					
Threshold Payout as a % of Target (n = 38)			Maximum Payout as a % of Target (n = 80)		
Range	# of Cos.	% of Cos.	Range	# of Cos.	% of Cos.
<25%	6	16%	> 125% < 150%	3	4%
> 25% < 50%	10	26%	> 150% < 200%	10	13%
50%	21	55%	200%	58	73%
> 75% < 100%	1	3%	> 200% < 250%	4	5%
			> 250%	5	6%

80 companies disclosed a maximum bonus opportunity. A majority of companies in our sample (73%) have a maximum bonus opportunity of 200% of target bonus. Five (5) companies have a maximum bonus of 250% of target or higher. Most of these companies are in the Technology industry.

Annual Incentive Plan Metrics

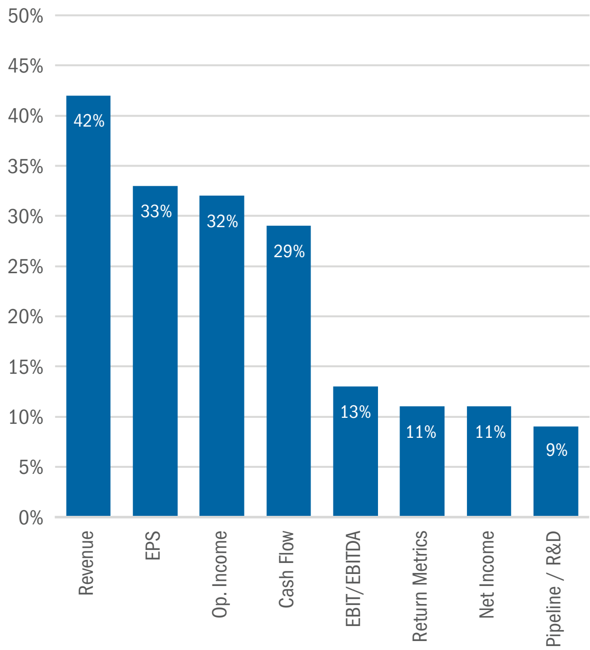
Revenue, EPS, Operating Income, and Cash Flow are the most common metrics used in annual incentive plans. Most companies use two or three performance metrics in their annual incentive plans. Absolute financial targets based on budgets or other goals are predominately used, with relative metrics used infrequently in annual incentive plans.





The use of multiple performance metrics allows for annual incentive payouts to be tied more closely to overall company performance in a balanced fashion. For example, companies using bottom-line measures in the annual incentive plan will often also include top-line measures for balance.

Annual Incentive Metric Prevalence



The use of revenue as an annual incentive metric is prevalent across most industries, along with a profit metrics (e.g. operating income, net income, EPS, etc.) and cash flow.

The chart below shows the three (3) most common metrics by industry in 2015:

2015 Actual Bonus Payouts

Overall, the median CEO bonus payout for 2015 performance was 104% of target. Across industries, bonuses for Pharmaceutical CEOs exceeded target by the greatest amount (155% of target, at median). Only two of the 9 industries CAP surveyed had a median bonus payout of less than 100%: Technology and Consumer Goods.

Median CEO bonus payouts for 2015 compared to 2014

Industry	CEO Bonus Payout at a Percent of Target					
	75th Percentile		Median		25th Percentile	
	2015	2014	2015	2014	2015	2014
Automotive	163%	146%	100%	122%	75%	103%
Consumer Goods	146%	148%	98%	92%	71%	33%
Financial Services	124%	124%	113%	112%	91%	97%
Health Care	156%	149%	138%	124%	117%	108%
Insurance	117%	139%	102%	132%	82%	110%
Manufacturing	108%	155%	102%	115%	96%	98%
Pharmaceutical	165%	173%	155%	146%	113%	118%
Retail	153%	100%	102%	82%	84%	75%
Technology	105%	127%	94%	95%	81%	86%
Total Sample	**152%**	**145%**	**104%**	**114%**	**84%**	**95%**

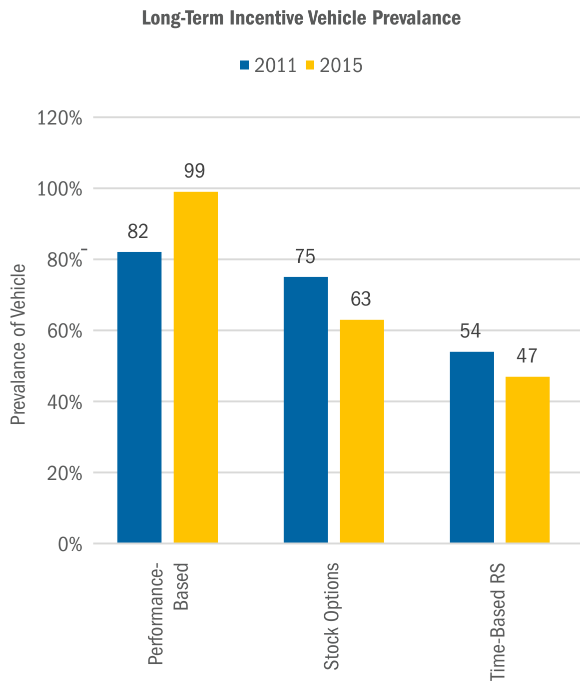
Note: Most companies in the Financial Services industry do not disclose a target bonus for the CEO. For these companies, 3-year average actual bonus was used as a substitute for target.

Industry	Metrics		
	Metric #1	Metric #2	Metric #3
Automotive	Cash Flow (45%)	EBIT/EBITDA (36%)	ROA (27%)
Consumer Goods	Revenue (67%)	EPS (67%)	Cash Flow (25%)
Financial Services	EPS (25%)	n.m.	n.m.
Health Care	Op. Income (44%)	EPS/Op. EPS (44%)	Revenue (30%)
Insurance	Net Income/Op. Income (46%)	EPS/Op. EPS (39%)	Op. ROE (31%)
Manufacturing	Cash Flow (40%)	Net Income/Op. Income (46%)	EPS/Op. EPS (30%)
Pharmaceuticals	Pipeline / R&D (89%)	Revenue (70%)	EPS (70%)
Retail	Revenue (60%)	Net Income/Op. Income (60%)	EBIT (30%)
Technology	Revenue (58%)	Cash Flow (58%)	Net Income/Op. Income (50%)

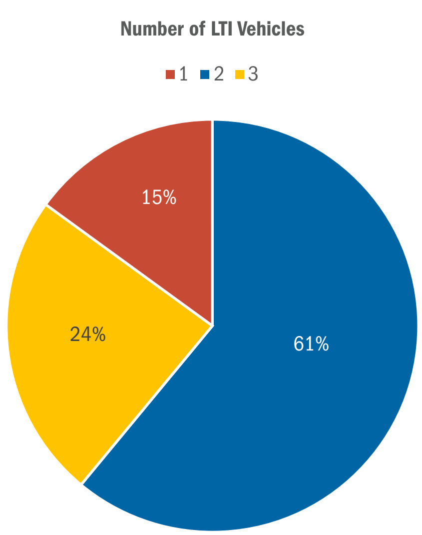
Note: Percentages reflect the prevalence of companies disclosing the metric.

LONG-TERM INCENTIVES

Over the past five years, the percentage of companies using stock options declined by 12 percentage points to 63%. The prevalence of time-based restricted stock/ units declined by 7 percentage points. Performance-based vehicles replaced stock options and time-based restricted stock/units over the last 5 years.

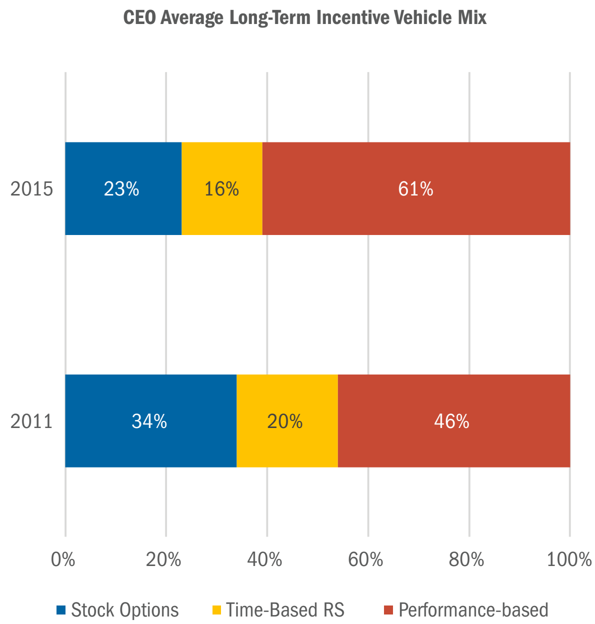


The majority of companies (61%) use two vehicles to deliver long-term incentives. Of these companies, most use a combination of a long-term performance plan and stock options (64%). The next most common approach is to use three vehicles (24% of companies), and the least common approach is to use only one vehicle (15% of companies). Among companies only using one vehicle, all but one use a long-term performance plan.



LTI Award Mix

Since 2011, there has been a significant shift away from the use of stock options and time-based RS/ RSUs, with a movement towards the use of perfor-mance-based awards.

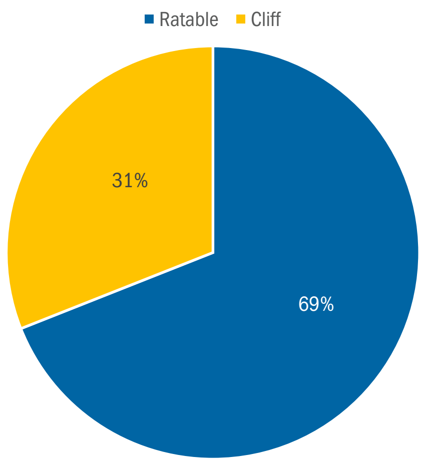


Restricted Stock / Units (RS/RSU)

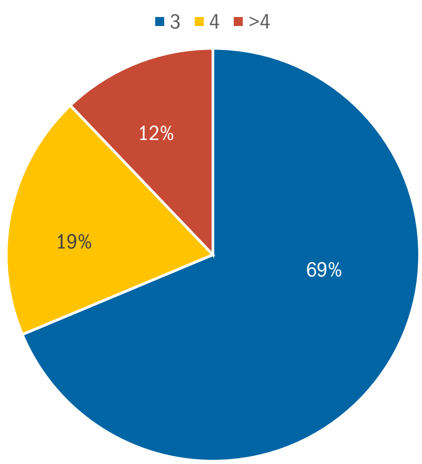
The majority of companies use ratable vesting over a period of 3 years for time-based RS/RSU awards. 31% of companies use a vesting schedule of 4 years or more.

Ratable Vesting	Cliff Vesting	Vesting (years)		
		3	4	>4
69%	31%	68%	19%	12%

Ratable vs. Cliff Vesting



Vesting (years)

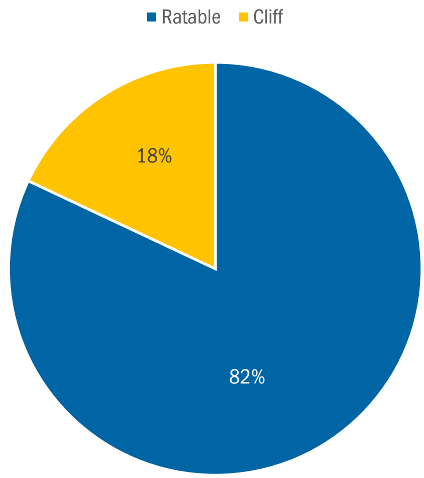


Options

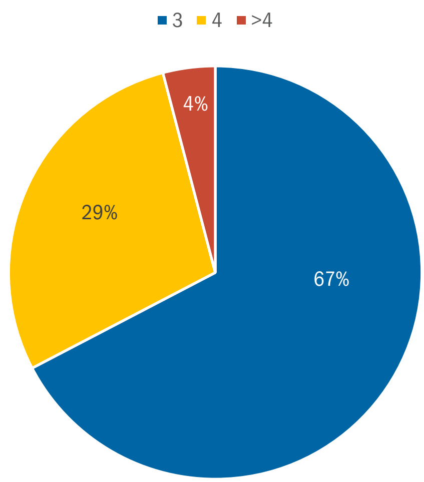
Similar to time-based full value awards, the majority of companies use a 3-year ratable vesting schedule for stock options. An option term of 10 years is most common.

Option Term	Ratable Vesting	Cliff Vesting	Vesting (years)		
			3	4	>4
90% 10 yrs.	82%	18%	66%	28%	4%

Ratable vs. Cliff Vesting



Vesting (years)



Performance Based Awards

Among companies that grant performance-based awards with downside leverage, 100% of companies defined threshold as 50% of target or less. At maximum, the most common payout opportunity is 200% of target and a large minority of companies provide a payout opportunity greater than 100% of target, but less than 200% of target. Only 5% of companies provide payout opportunities greater than 200%

Threshold Payout as a % of Target		Maximum Payout as a % of Target	
Range	% of Cos.	Range	% of Cos.
0%	33%	100%	3%
> 0 < 50%	32%	> 100 < 200%	39%
50%	35%	200%	52%
		> 200%	5%

Performance Metrics

Among companies in our study, Total Shareholder Return (TSR) is the most prevalent performance metric in long-term performance plans. Most companies (94%) that use TSR as a performance metric measure TSR on a relative basis, while only a small portion (6%) of companies measure TSR on an absolute basis against pre-established goals. In general, relative TSR is viewed as a shareholder friendly design feature. It also provides a credible way for companies to measure multi-year success, while avoiding challenges with setting multi-year financial or operational goals.

On the other hand, TSR has short-comings. It is an outcome of business strategy, rather than a driver of performance. Relative TSR can also be heavily influenced by a company's position in the cycle. For example, a period of lower performance can be followed by a sharp upswing or vice versa.

Return measures are second most prevalent (47% of companies) type of performance metric, followed by EPS (31%) and Revenue (26%). Companies use these metrics – often in combination – in long-term performance plans to support operational efficiency and/or profitable growth.

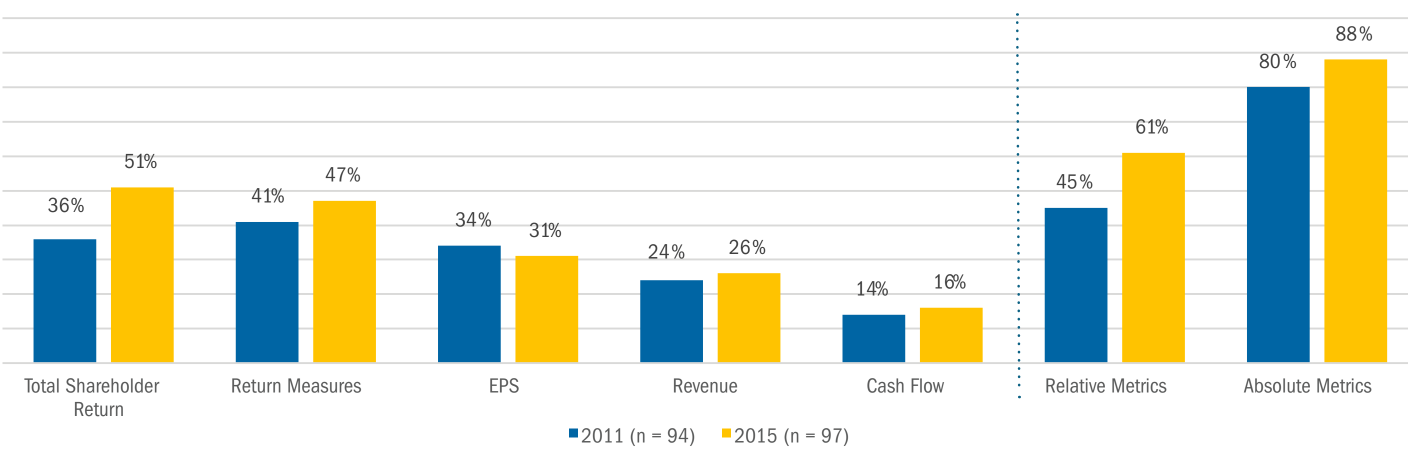
When selecting specific performance metrics – and adjustments, if any – companies should consider metrics that support long-term value creation in their industry. For example, many companies in the Technology industry use TSR as a metric. Companies in this industry want to motivate executives to drive success through the development of new products. As successes in new product development impact a company's stock price before impacting its financial statements, TSR is a good indicator of future growth and profitability and aligns executives' interests with those of shareholders.

Performance Measurement – Absolute vs. Relative

Among the companies in our study, 48% use a combination of absolute and relative performance goals in their long-term performance plans, up from 42% in the prior year. This approach motivates executives to achieve the company's internal financial goals, while also balancing results relative to comparable companies. When goals are relative, goal setting is also, typically, substantially simplified.

Performance Measurement Period

Among companies that use a long-term performance plan (stock/units or cash), 90% use a three-year performance measurement period.

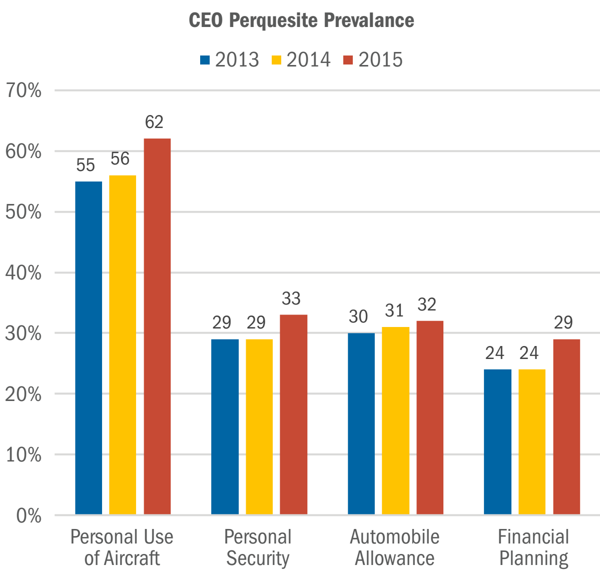


Note: Percentages add to greater than 100% due to multiple responses. Return measures reflect ROE, ROI, ROIC, and ROA.

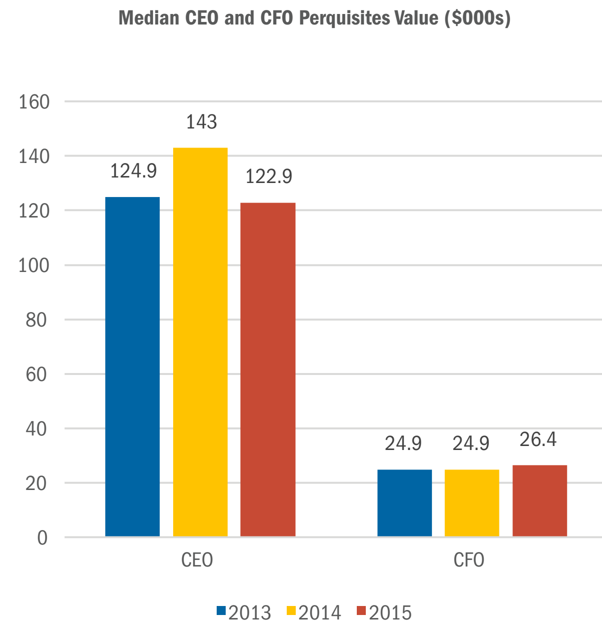
PERQUISITES

The percentage of companies in our research sample providing perquisites to their CEO generally remained constant at 82-83% from 2013 to 2015. The percentage of companies providing perquisites to CFOs was 74% in 2015.

In 2015, the four most common CEO perquisites were: personal use of corporate aircraft (62%), personal security (33%), automobile allowance (32%) and financial planning (29%).



Although the prevalence of major perquisites provided to CEOs remained steady in 2015 compared to 2014, the median total value of CEO perquisites decreased 14% to $123,000. This value has ranged from $123,000 to $143,000 over the last three years. In contrast, the median value of perquisites for CFOs was relatively flat year-over-year, and has only ranged from $25,000 to $26,000 since 2013.



SHAREHOLDER FRIENDLY PROVISIONS

Stock ownership guidelines (SOG), hedging, pledging, and clawback policies are becoming a "must" for publicly traded companies due to the pressures of legislation/rules, proxy advisory companies, and shareholders alike. As a result, these policies are very common.

Stock Ownership Guideline	Hedging	Pledging	Clawback
95%	97%	84%	98%

In addition to stock ownership guidelines, many companies have instituted stock holding policies. Of companies that have a stock ownership guideline, 57% have an associated holding policy. Among these companies, 85% require holding until the stock ownership guideline is met and 37% have a holding policy that continues even after the guideline is met. Independent of stock ownership guidelines, a small number of companies (11%) have instituted a "stand-alone" holding requirement, or a retention ratio that applies until employment terminates.

Holding Policy in Relation to SOG	If there is a holding policy in relation to SOG		Holding requirement, independent of SOG
	Until Guideline Met	After Guideline met	
57%	85%	37%	11%

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