MERIDIAN
COMPENSATION PARTNERS, LLC

2016 Trends and Developments in Executive Compensation

Executive Summary

The landscape of executive compensation and corporate governance is constantly evolving. Each year, Meridian identifies key developments regarding how companies respond to these ever changing conditions. Meridian's 2016 Trends and Developments in Executive Compensation Survey features responses from 143 major companies across a diverse range of industries. This survey and its results are intended to provide an overview of the current environment and signal the direction in which companies are moving when it comes to executive compensation and corporate governance practices. Our latest installment offers a fresh look at market trends and developments with key insights into current hot topics, such as: clawback provisions, planning for required CEO pay ratios, and reactions to commodity price changes and market volatility.

Highlights and key findings of the survey include:

Say on Pay

Nearly 65% of responding companies indicated that they directly engaged with institutional shareholders and/or proxy advisory firms (e.g., ISS and Glass Lewis) in preparation of their Say on Pay vote.

Dodd-Frank

Approximately 40% of responding companies currently have clawback provisions in place that are compliant with the SEC's proposed rules. Similarly, nearly 40% of responding companies have begun the process of calculating the CEO pay ratio (including initial methodologies for identifying the "median" paid employee).

2016 Merit Increase Budgets

Merit increases were modest for CEOs, executives and non-executives alike (median of approximately 3%), a trend that is consistent with recent years and a low inflation environment. However, relative to last year's results, a greater number of participating organizations have decided to hold salaries flat for 2016, which reflects a combination of company performance and macroeconomic trends, especially in the energy sector. Note, some of these companies may freeze salaries or defer the merit increase process until later in 2016 when financial projections are more certain.

Annual Incentives

Relative to last year, responding companies are considering more factors in the goal-setting process (e.g., sharing ratios, company and peer historical performance, etc.). Additionally, approximately 29% of responding companies adjusted 2015 annual incentive payouts to take into account extraordinary, unusual or unplanned events (other than for tax deductibility reasons). This is particularly true for companies exposed to commodity prices, with approximately one-half of the adjustments made by companies in the industrial and energy sectors.

Long-Term Incentives

For 2016, participants generally maintained 2015 long-term incentive (LTI) grant values (46% of respondents) or increased grant values modestly (43% of respondents). Only 11% reported a reduction in 2016 equity grant values as a response to recent substantial changes in commodity prices, market volatility, economic uncertainty, run rate pressures, etc., with one-half of these reductions made by companies in the energy sector.

Contents

Background and Financial Information	3
Say on Pay	5
Dodd-Frank	7
2016 U.S. Merit Increase Budgets	9
Annual Incentives	11
Long-Term Incentives	16
Appendix: Participating Companies	22

Background and Financial Information

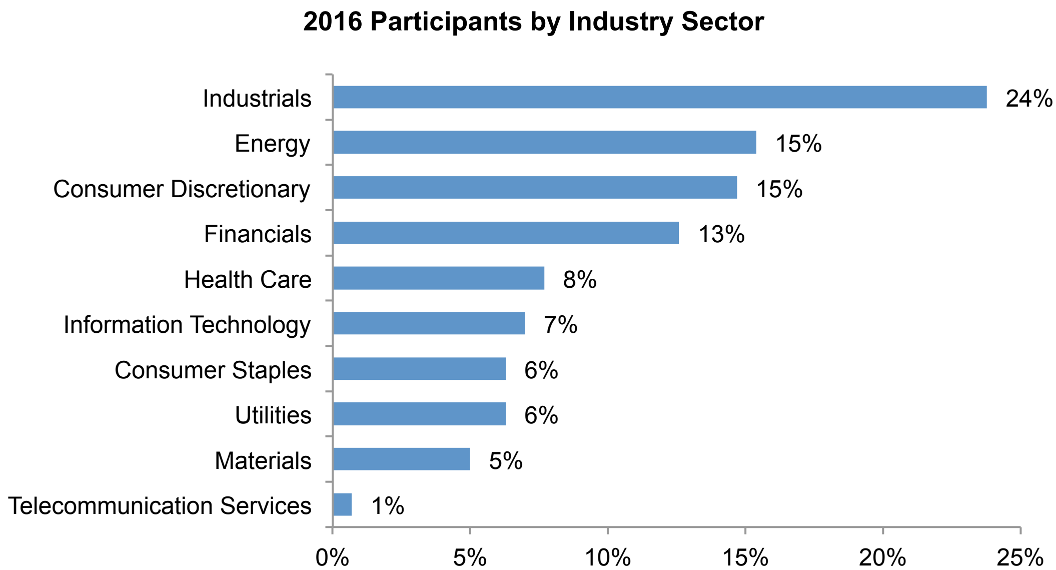
Background and Financial Information

Participating Organizations

The survey includes responses from 143 major companies. These organizations are listed in the Appendix. Financial highlights for the participating organizations are presented in the table below.

	FY 2015 Revenue ($ Mn)	Market Value ($ Mn)	Enterprise Value ($ Mn)	Number of Employees
25th percentile	$1,114	$1,258	$1,591	2,500
Median	$2,648	$3,158	$4,994	6,500
75th percentile	$7,283	$11,388	$14,318	17,400

Source: Standard & Poor's Compustat Database
Market value and enterprise value are as of December 31, 2015



Performance Summary of Participants

	1-Year Operating Margin	1-Year EPS Growth	1-Year TSR	3-Year TSR
25th percentile	6.6%	-49.9%	-25.7%	-2.0%
Median	11.2%	-0.2%	-8.3%	12.3%
75th percentile	19.5%	29.2%	5.4%	20.3%

Source: Standard & Poor's Compustat Database
Operating margin and EPS growth represent FY 2015
TSR as of December 31, 2015

Say on Pay

Say on Pay

Now in the sixth year of Say on Pay, companies have had ample time to establish sound pay program designs. Accordingly, shareholder support of executive pay programs remains very high, most often with over 90% voting in favor of such proposals.

Steps Taken to Prepare for 2016 Say on Pay Vote

Despite consistently high levels of shareholder support on Say on Pay, a significant number of companies directly engage with institutional shareholders and/or proxy advisory firms (i.e., ISS and Glass Lewis) in preparation of the Say on Pay vote. Further, companies continue to improve the quality of their Compensation Discussion and Analysis (CD&A) through the use of executive summaries, tables, charts and graphs. While many of these supplemental disclosures exceed proxy disclosure requirements, they are a useful tool to better communicate overall pay program design and performance alignment to shareholders. Consistent with last year, however, we are not seeing wholesale changes to executive pay designs.

Steps Taken to Prepare for SOP Vote	Prevalence
Engage institutional shareholders directly	52%
Engage ISS and/or Glass Lewis directly	35%
Materially modifying disclosure and/or adding to the Compensation Discussion and Analysis	39%
Changing some significant aspect of the executive compensation program in direct response to 2015 Say on Pay vote outcome	15%
No significant steps taken	20%

***Note**: Total exceeds 100% as many companies use multiple approaches.*

Steps Taken to Prepare for 2016 ISS Evaluation

Institutional Shareholder Services (ISS) continues to wield significant influence over Say on Pay vote results (Glass Lewis also has an impact, although to a much lesser extent). Early returns from the 2016 proxy season indicate that an “Against” recommendation from ISS results in, on average, a 25%-30% decrease in shareholder support, despite major institutions developing their own review models. In preparation of an ISS evaluation, the most common step taken (64%) is to engage an outside compensation consultant to replicate the ISS quantitative test outcome. ISS did not make any major changes to its three-part quantitative pay-for-performance test for the 2016 proxy season.

Steps Taken to Prepare for ISS Evaluation	Prevalence
ISS tests modeled by outside consultant	64%
Paid ISS fee for preliminary test results	19%
Replicated ISS tests internally	11%
ISS tests replicated by proxy solicitor	4%
No specific ISS modeling done	17%

***Note**: Total exceeds 100% as some companies use multiple approaches.*

Dodd-Frank

Dodd-Frank

This section is new to our survey in 2016 and highlights key developments of Dodd-Frank mandated pay disclosures. With the SEC adopting the final rule on the CEO Pay Ratio on August 5, 2015 and an expected final ruling on Mandatory Clawback in 2016, we surveyed companies on the steps they are taking to prepare for these mandated disclosures.

Clawback Provisions

Due to external pressures from institutional shareholders and proxy advisors, many companies have adopted formal clawback policies in recent years. Among responding companies, nearly 40% of these provisions are already compliant with the SEC's proposed rules.

CEO Pay Ratio

The SEC adopted the final rule on the CEO Pay Ratio in August of 2015. The initial CEO Pay Ratio will relate to the first reporting period beginning on or after January 1, 2017 (i.e., 2018 proxy) and will cover compensation for fiscal year 2017. While disclosure is not yet mandatory, approximately 40% of participating companies have either calculated the ratio or have begun the process of calculating the ratio (e.g., attempting to identify the median employee).

Preliminary Modeling of CEO Pay Ratio	Prevalence
Yes, have calculated the ratio	**25%**
▪ Have not publicly disclosed it	24%
▪ Have publicly disclosed it	1%
No, have not calculated the ratio	**75%**
▪ Have not started the process	61%
▪ Have started the process (e.g., determine median employee)	14%

2016 U.S. Merit Increase Budgets

2016 U.S. Merit Increase Budgets

U.S. Merit Budget Increases for CEOs and Executives

2016 merit budget increases for CEOs and executives have remained relatively consistent for several years at approximately 3% (slightly above U.S. inflation rates). Merit budgets outside the U.S. vary greatly, often related to local inflationary trends. This continues a long-term trend of merit increases between 2.5% and 3.5%. However, relative to last year, a larger portion of participants reported holding salaries flat (i.e., 0% merit increase) for 2016. This reflects a combination of individual company performance and macroeconomic trends. Note, some of these companies may freeze salaries or defer the merit increase process until later in 2016 when financial projections are more certain.

U.S. Merit Budget Increases for Salaried Non-Exempt Employees

Approximately two-thirds of responding companies increased base salaries between 2.5% and 3.5% for salaried employees. Although more common at the CEO level, a larger portion (13%) of companies reported holding salaries flat for 2016 compared to 2015 for salaried employees.

2016 Merit Budget Increase Range

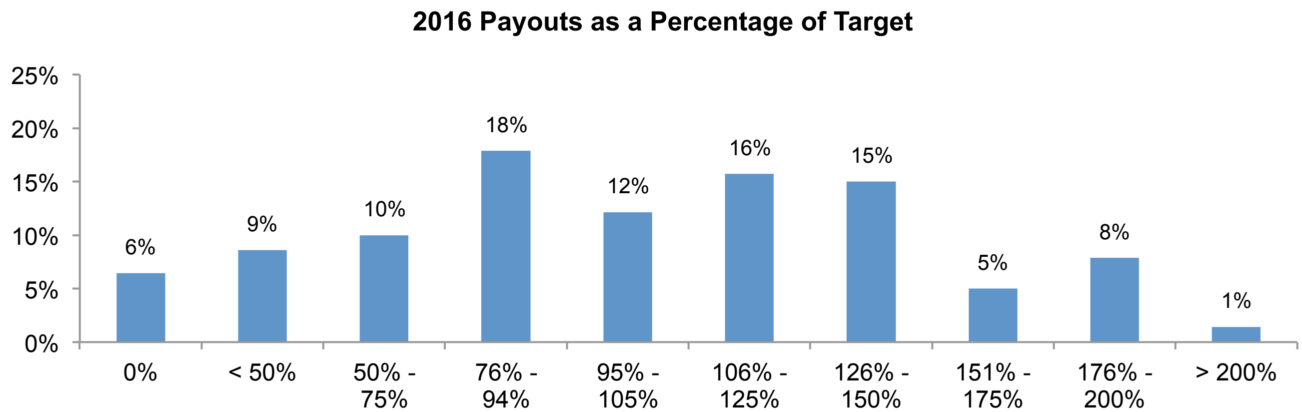
Increase Range	Prevalence CEO	Prevalence Executives	Prevalence Salaried Non-Exempt Employees
0% (no merit increase for 2016)	38%	20%	13%
< 2.0%	1%	4%	3%
2.0% - 2.49%	2%	4%	8%
2.5% - 2.99%	9%	14%	20%
3.0% - 3.49%	20%	28%	47%
3.5% - 3.99%	1%	2%	2%
4.0% - 4.49%	1%	3%	0%
4.5% - 5%	2%	1%	1%
> 5.0%	7%	6%	0%
No Fixed Budget for 2016	18%	17%	4%

Annual Incentives

Annual Incentives

2016 Annual Incentive Payouts for 2015 Performance

Approximately 57% of responding companies indicated that their annual incentive payouts for 2015 performance were at or above target.

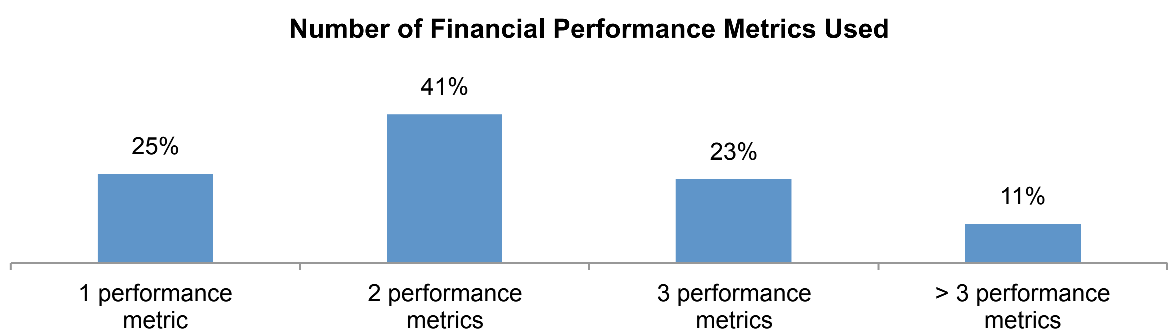


Approximately 29% of responding companies adjusted 2015 results to take into account extraordinary, unusual or unplanned events (other than for tax deductibility reasons), with approximately half of the adjustments made by companies in the industrial and energy sectors.

Adjusted 2015 Performance (other than for tax deductibility reasons)	Prevalence
Yes, adjustment was made	**29%**
▪ Adjusted results upward	17%
▪ Adjusted results downward	12%
No, adjustment was not made	**71%**

Number of Annual Incentive Performance Metrics

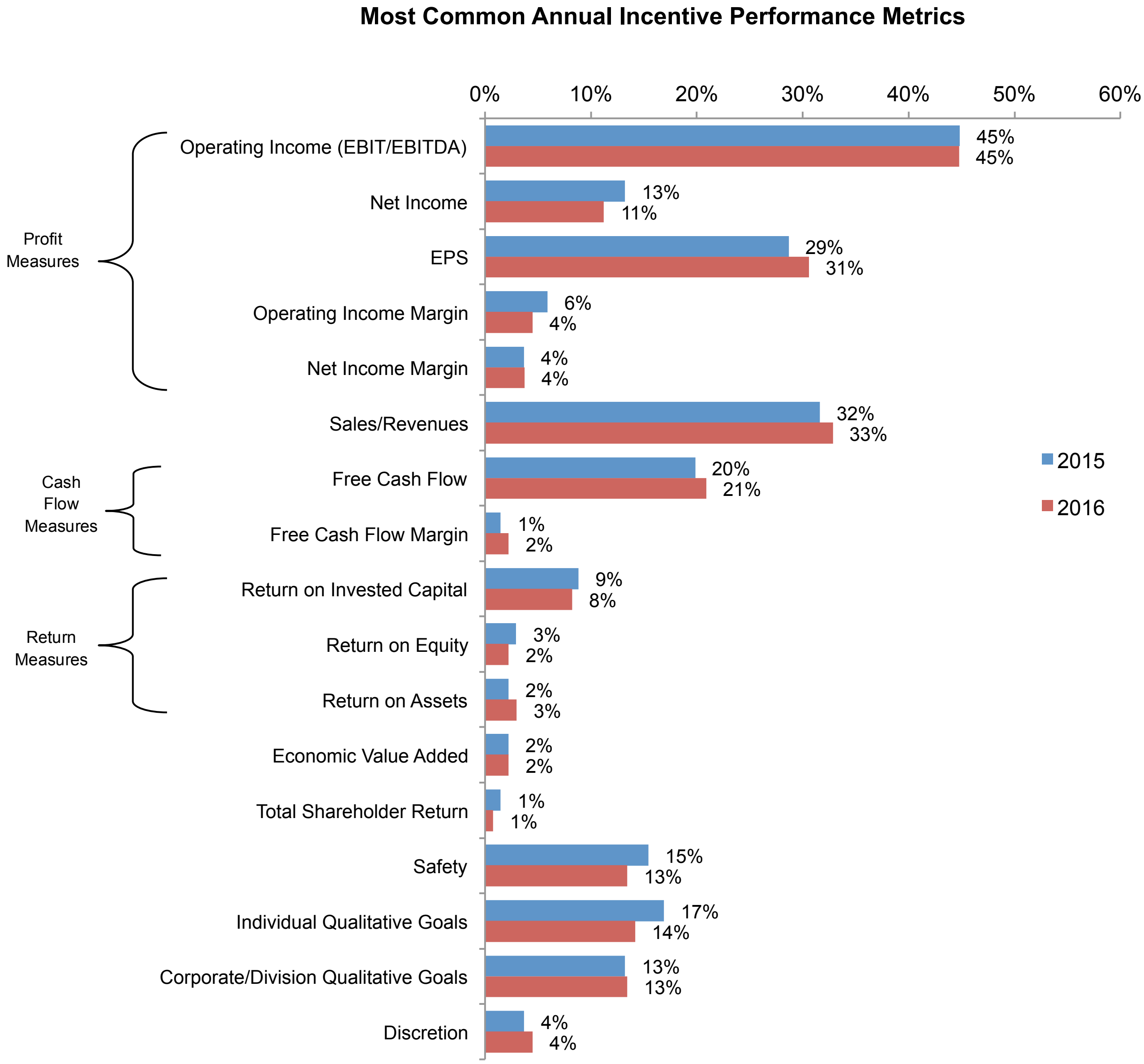
Companies continue to use multiple financial performance metrics in determining annual incentive payouts.



MERIDIAN

Types of Corporate Performance Metrics for Annual Incentive Plans

The chart below details the prevalence of performance metrics used by companies for determining annual incentive payouts. As expected, profit measures (e.g., operating income and EPS) remain the most common. Note, many metrics are industry specific, and some are unique to individual companies.



Primary Earnings Measures

A majority of companies (55%) set their annual incentive performance goals higher in 2016 than in 2015, indicating increased expectations as the broader economy continues its recovery.

2016 Primary Earnings-Related Goal Compared to 2015 *Goals*	
Lower than 2015 *goal*	31%
Same as 2015 *goal*	14%
Higher than 2015 *goal* by 5% or less	22%
Higher than 2015 *goal* by more than 5%	33%

Approximately half of companies (51%) also set 2016 threshold earnings goals above 2015 actual results.

2016 Primary Earnings-Related Goal Compared to 2015 *Actual Results*	
All goals are at or above last year's actual *results*	51%
Threshold goal is below last year's actual *results*	29%
Target goal is below last year's actual *results*	16%
Maximum goal is below last year's actual *results*	4%

Adjustment of Performance Results

With recent fluctuations in currency exchange rates, many organizations were faced with the decision of whether to adjust performance results to "normalize" the impact on incentive plans. As seen below, most consider fluctuations in currency as a "cost of doing business" on a global scale and expect management to take actions to reduce this exposure, and, therefore, did not adjust payouts for this issue.

Adjustment of Performance Results for Changes in Foreign Currency	
No adjustment made	**84%**
Adjustment made	**16%**
▪ Less than 10% adjustment	12%
▪ 10% or greater adjustment	4%

Goal-Setting Considerations

Consistent with prior years, annual budget/plan and historical results are the two most commonly reported factors evaluated when setting annual goals. Interestingly, the prevalence of most factors increased, with an average increase of 5.6% per factor (others remained relatively flat). This indicates that, overall, companies may be considering more factors when setting annual goals. Historical performance, external guidance and sharing ratios saw the biggest increase in prevalence from last year's results. Note, data on sharing ratios is limited and varies due to a number of company-specific factors, including eligibility levels for annual incentive plans. Nonetheless, an internal understanding of the relationship between the annual incentive plan and how dollars are allocated between executives and shareholders (especially between target and maximum payout levels) is an increasingly important aspect of the annual goal-setting process.

Factors Considered in Annual Goal-Setting Process	
Year-end plan/budget	95%
Historical performance	67%
External guidance	43%
Historical industry/peer performance	33%
Analyst expectations	30%
Sharing ratios	18%

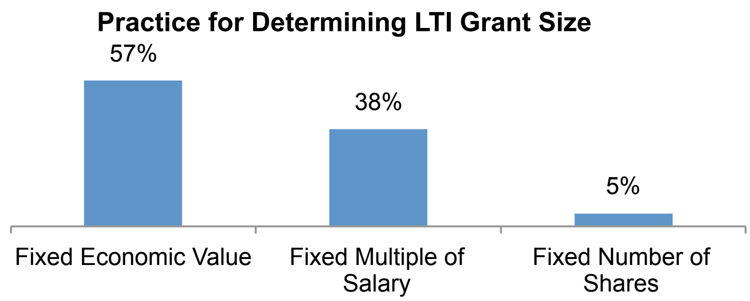
***Note**: Total exceeds 100% as many companies use multiple approaches.*

Long-Term Incentives

Long-Term Incentives

Determining LTI Grant Size

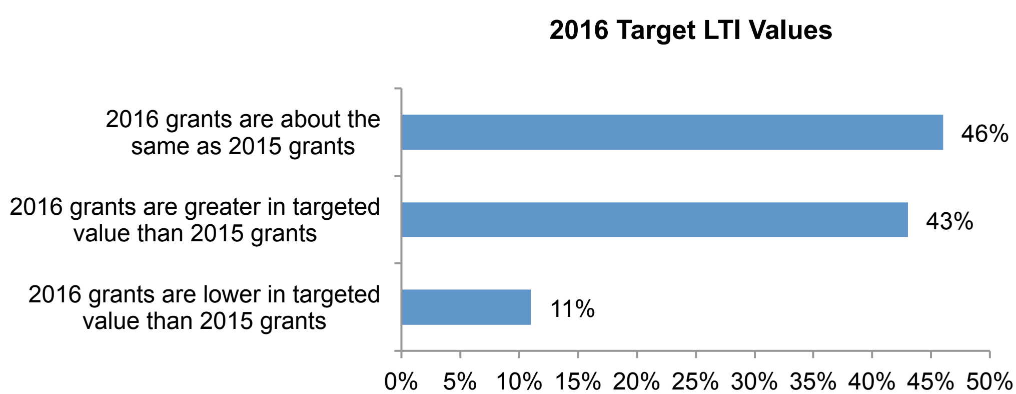
Most reporting organizations determine LTI grant size using a fixed economic value approach; however, using a fixed multiple of salary is still a prevalent practice. Consistent with recent market trends, granting a fixed number of shares (regardless of share price) is a small minority practice as it can result in large swings of grant date value between years.



***Example*:**
Fixed Economic Value: *$100,000 and adjust the number of shares/units to reflect changes in stock price*
Fixed Multiple of Salary: *Value equal to 150% of base salary and adjust the number of shares/units to reflect changes in stock price*
Fixed Number of Shares: *2,500 RSUs irrespective of movements in stock price*

LTI Target Values

Unlike last year where the majority of companies (61%) made grants similar in value to the prior year, practice is more evenly split between an equal or greater target value in 2016. Among the 43% of companies that increased LTI values, the average increase was approximately 13%.



Adjustment of Equity Grants

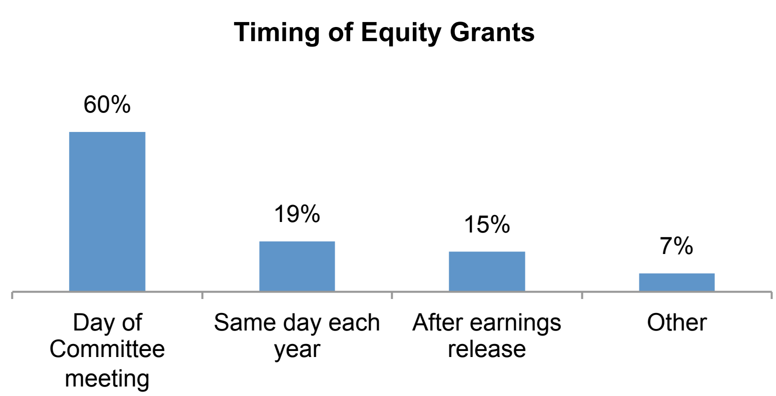
Given the recent substantial changes in commodity prices, market volatility, economic uncertainty, etc., many organizations were faced with the decision of whether to modify (in most cases, to decrease) 2016 equity grant values. Reasons for potential modifications include limited availability of shares (e.g., given the decrease in share prices in early 2016, maintaining prior equity grant date values would require a greater number of shares) and preventing a potential "windfall" to executives if/when share prices recover, among others. The impact of these market changes affect certain industries (especially the energy sector) more than others, however, the vast majority of responding companies did not make modifications to 2016 equity grants.

Modification of 2016 Equity Award	
No adjustment made	89%
Adjustment made	11%

Among organizations that modified 2016 equity awards, the method of modification varied greatly. However, the majority reduced opportunities and/or put a cap on shares. Note, slightly more than half of these modifications were made by companies in the industrial and energy sectors.

Timing of Equity Grants

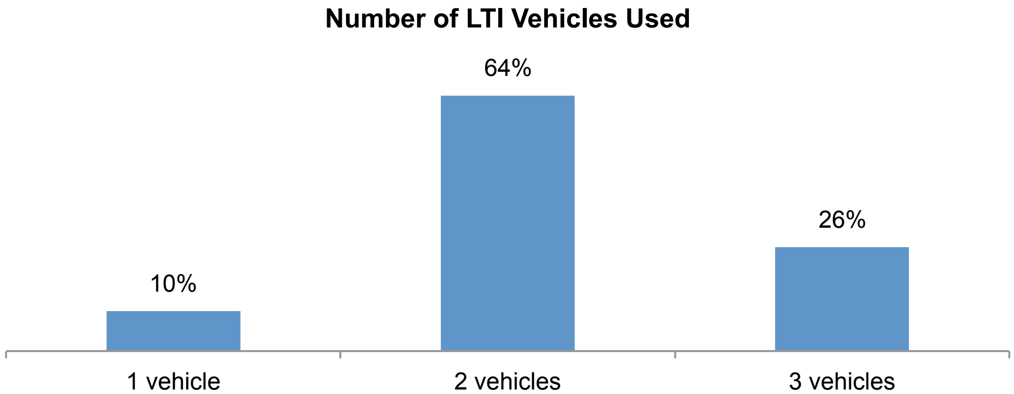
The majority of companies grant annual equity awards on the day of the Committee meeting, however, the decision of when to grant equity is a company-specific decision that depends on a variety of factors.



MERIDIAN

LTI Vehicles Used

Ninety percent (90%) of sampled companies use two or three LTI vehicles for senior executives. In Meridian's experiences, it is most common to grant just one vehicle below the senior executive level, most often restricted stock or restricted stock units (RSUs).



Performance-based stock/unit awards continue to be the most prevalent LTI vehicle. In the table below, the prevalence column represents the percentage of responding companies that grant a particular mix of LTI vehicles. The percentages listed under each vehicle heading represent the dollar weighting of that vehicle of the total LTI opportunity. Overall, the average weighting of LTI vehicles for reporting companies in 2016 is consistent with average weightings in 2015.

Prevalence and Weights of LTI Vehicles for Executives

		Weight of Vehicle in Total LTI Value Opportunity		
Vehicles	**Prevalence**	**Performance Awards**	**Stock Options**	**Restricted Stock**
3 Vehicles (26% of respondents)				
Performance awards, stock options and restricted stock	26%	43%	27%	30%
2 Vehicles (63% of respondents)				
Performance awards and restricted stock	47%	59%	—	41%
Performance awards and stock options	14%	56%	44%	—
Stock options and restricted stock	2%	—	53%	47%
1 Vehicle (11% of respondents)				
Performance awards only	8%	100%	—	—
Restricted stock only	1%	—	—	100%
Stock options only	2%	—	100%	--
Overall (averages) - 2016	**100%**	**55%**	**16%**	**29%**
Reference				
Overall (averages) - 2015	*100%*	*53%*	*16%*	*31%*

Note: *Performance awards include performance shares, performance units and long-term cash awards.*

MERIDIAN

Long-Term Performance Period Length

A three-year performance period continues to be the most prevalent approach in long-term performance plans. A vast majority of companies using a three-year period set cumulative goals once at the beginning of the performance period (80% of total participants and 85% of participants utilizing a 3-year performance period). Companies that struggle with long-term goal setting may prefer to use a three-year performance period in which goals are set annually, or use a relative TSR plan where the performance goals generally do not change from one year to the next. The use of a one- or two-year performance period is a clear minority practice.

Performance Period	Prevalence
1 year	5%
2 years; goals set at beginning of performance period	1%
3 years; goals set at beginning of performance period	80%
3 years; goals set annually	14%
Other	10%

***Note**: Total exceeds 100% as some companies use multiple approaches.*

Long-Term Performance Benchmark

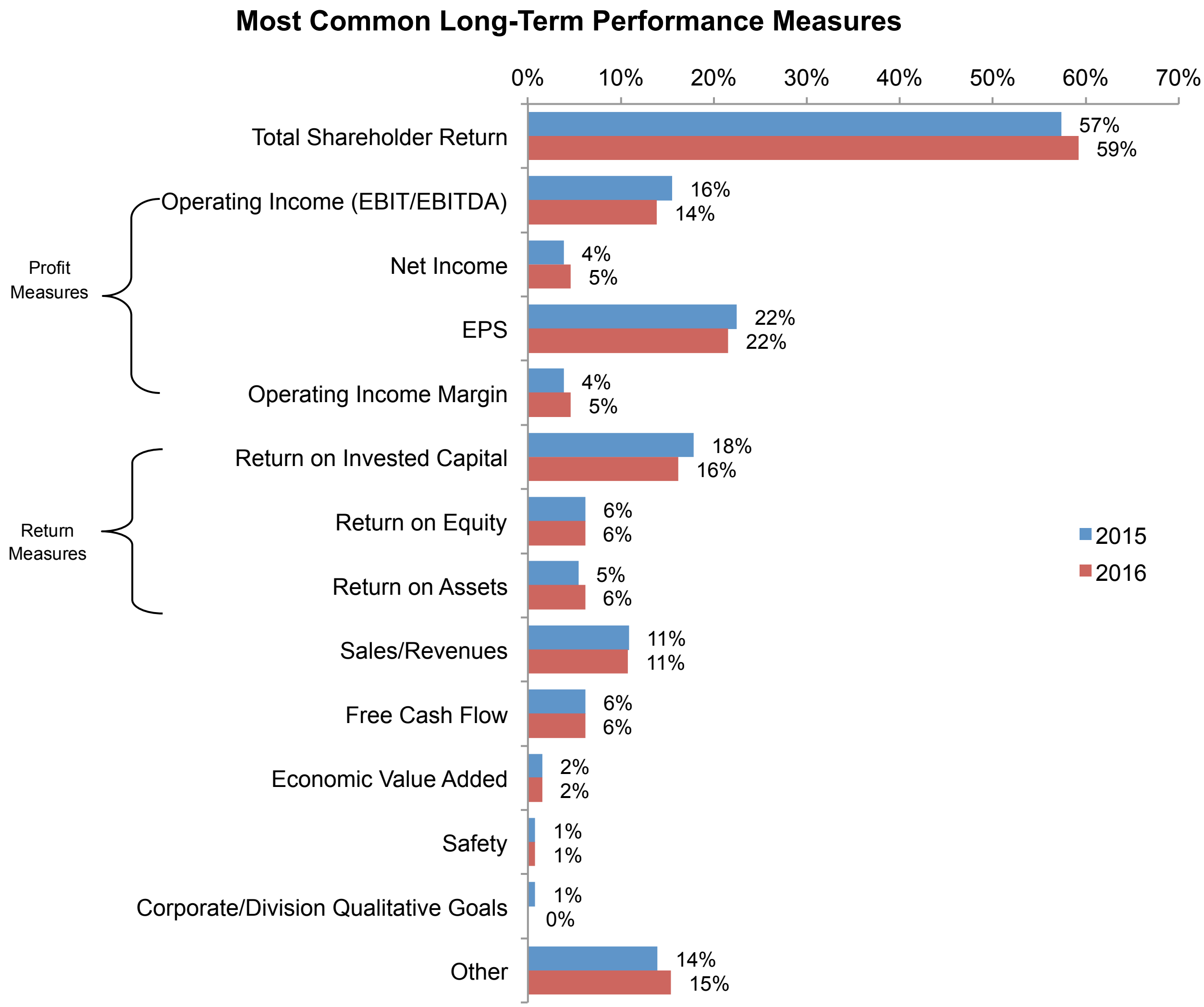
For reporting companies granting performance-based awards, the vast majority (71%) measure performance relative to an external benchmark for some portion of their performance grant. Approximately 90% of these relative plans are measured based on TSR.

Performance Benchmark	Prevalence
Use an External Benchmark	**71%**
▪ Custom peer group	46%
▪ Externally selected peer set (e.g., S&P 500)	25%
Solely Use Internal (Absolute) Metrics	**29%**

***Note**: For companies utilizing relative metrics, on average, the relative component accounts for approximately 80% of the total award value.*

Types of Corporate Performance Metrics for Long-Term Performance Plans

TSR remains the most common long-term performance plan metric due to its transparency, alignment with shareholders and because it eliminates the need to set goals each year. Of the companies using TSR, roughly 53% use one or more additional metrics in their long-term performance plan (earnings-related measures (most often EPS), return metrics (most often ROIC), and revenue are the most prevalent supplemental metrics to TSR).



Please email Mike Rourke (mrourke@meridiancp.com) or call 313-309-2090
with any questions or comments.

Appendix: Participating Companies

Appendix: Participating Companies

Consumer Discretionary
American Axle & Manufacturing Holdings, Inc.
Brinker International, Inc.
Caleres, Inc.
Continental Structural Plastics Inc.
Genuine Parts Company
Harley-Davidson, Inc.
Horizon Global Corporation
JC Penney Company, Inc.
Leggett & Platt, Incorporated
LGI Homes, Inc.
Scripps Networks Interactive, Inc.
Service Corporation International
Signet Jewelers Limited
Sonic Corp.
Starwood Hotels & Resorts Worldwide, Inc.
TEGNA Inc.
Tenneco Inc.
Time Inc.
Tower International, Inc.
Vera Bradley, Inc.
Yum! Brands, Inc.

Consumer Staples
Cargill, Inc.
Edgewell Personal Care Company
Farmer Bros. Co.
Herbalife Ltd.
Mondelēz International, Inc.
The Procter & Gamble Company
The Coca-Cola Company
The WhiteWave Foods Company
TreeHouse Foods, Inc.

Energy
Apache Corporation
Approach Resources Inc.
Bill Barrett Corporation
Callon Petroleum Company
Chevron Corporation
Cobalt International Energy, Inc.
Concho Resources Inc.
Crestwood Equity Partners LP
Devon Energy Corporation
Dril-Quip, Inc.
Eclipse Resources Corporation
Enlink Midstream, LLC
FMC Technologies, Inc.
Frank's International N.V.
Helix Energy Solutions Group, Inc.
Newfield Exploration Company
ONEOK, Inc.
Paragon Offshore plc
Phillips 66
QEP Resources, Inc.
Tidewater Inc.
WPX Energy, Inc.

Financials
Aflac Incorporated
American Tower Corporation
BB&T Corporation
CBOE Holdings, Inc.
Eagle Bancorp, Inc.
Hilltop Holdings, Inc.
LPL Financial Holdings Inc.
MetLife, Inc.
MB Financial, Inc.
Popular, Inc.
Ramco Gershenson Properties
State Street Corp
Sterling Bancorp
Synovus Financial Corp.
The PNC Financial Services Group, Inc.
The Hartford Financial Services Group, Inc.
United Financial Bancorp, Inc.
Washington Trust Bancorp, Inc.

Health Care
Abbott Laboratories
Adeptus Health Inc.
Aetna Inc.
Baxter International Inc.
Blue Cross and Blue Shield of Louisiana
Blue Cross Blue Shield of Arizona
Change Healthcare Holdings, Inc.
Halyard Health, Inc.
Medtronic Plc
Mylan N.V.
Perrigo Company plc

Industrials

Alaska Air Group, Inc.
Allegion plc
ArcBest Corporation
Avis Budget Group, Inc.
Barnes Group Inc.
Briggs & Stratton
Caterpillar Inc.
Chart Industries, Inc.
CSX Corporation
Eaton Corporation plc
Equifax Inc.
Franklin Electric Co., Inc.
Herman Miller, Inc.
John Bean Technologies Corporation
Kansas City Southern
Lindsay Corporation
Lydall, Inc.
MRC Global Inc.
Mueller Water Products, Inc.
Nielsen Holdings plc
Norfolk Southern Corporation
Owens Corning
Sparton Corporation
Standex International Corporation
Tetra Tech, Inc.
The Boeing Company
The Dun & Bradstreet Corporation
TransUnion
TriMas Corporation
Trinity Industries, Inc.
Veritiv Corporation
Wabash National Corporation
WESCO International, Inc.
West Corporation

Information Technology

Akamai Technologies, Inc.
Alliance Data Systems Corporation
Avnet, Inc.
Cardtronics, Inc.
Epiq Systems, Inc.
Maxwell Technologies, Inc.
Methode Electronics, Inc.
Neustar, Inc.
Total System Services, Inc.
Vantiv, Inc.

Materials

Allegheny Technologies Incorporated
Domtar Corporation
FMC Corporation
Graphic Packaging Holding Company
Kaiser Aluminum Corporation
Koppers Holdings, Inc.
P.H. Glatfelter Company
TimkenSteel Corporation

Telecommunication Services

Vonage Holdings Corp.

Utilities

Ameren Corporation
American Electric Power Company, Inc.
Avista Corporation
FirstEnergy Corp.
ONE Gas, Inc.
Questar Corporation
The AES Corporation
Westar Energy, Inc.
Xcel Energy Inc.

Company Profile

Meridian Compensation Partners, LLC is an independent executive compensation consulting firm providing trusted counsel to Boards and Management at hundreds of large companies. We consult on executive and Board compensation and their design, amounts and governance. Our many consultants throughout the U.S. and in Canada have decades of experience in pay solutions that are responsive to shareholders, reflect good governance principles and align pay with performance. Our partners average 25 years of executive compensation experience and collectively serve well over 500 clients. Over 85% of our engagements are at the Board level. As a result, our depth of resources, content expertise and Boardroom experience are unparalleled.

Our breadth of services includes:

- Pay philosophy and business strategy alignment
- Total compensation program evaluation and benchmarking
- Short-term incentive plan design
- Long-term Incentive plan design
- Performance measure selection and stress testing
- Employment contracts
- Retirement and deferred compensation
- Risk evaluation
- Informed business judgments on executive pay
- Pay-for-performance analyses
- Governance best practices
- Institutional shareholder and ISS voting guidelines/issues
- Senior management and board evaluations
- Change-in-control and/or severance protections
- Committee charter reviews
- Peer group development
- Peer company performance and design comparisons
- Benefits and perquisites design and prevalence
- Annual meeting preparation
- Senior executive hiring
- Succession planning
- Outside director pay comparisons
- Clawback and anti-hedging design
- Retention programs and strategies
- Tally sheets

With consultants in ten cities, we are located to serve you.

CHICAGO - LAKE FOREST
847-235-3611
lakeforest@meridiancp.com

ATLANTA
770-504-5942
atlanta@meridiancp.com

BOSTON
781-591-5281
boston@meridiancp.com

DALLAS
972-996-0625
dallas@meridiancp.com

DETROIT
313-309-2088
detroit@meridiancp.com

HOUSTON
281-220-2842
houston@meridiancp.com

LOS ANGELES
213-405-3879
losangeles@meridiancp.com

NEW YORK
646-737-1642
newyork@meridiancp.com

SAN FRANCISCO
415-795-7365
sanfrancisco@meridiancp.com

TORONTO
416-471-8650
toronto@meridiancp.com

Web Site: www.meridiancp.com

This survey was authored by Mike Rourke of Meridian Compensation Partners, LLC. Questions and comments should be directed to Mr. Rourke at mrourke@meridiancp.com or 313-309-2090.