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COMPENSATION PARTNERS

2017 Trends and Developments in Executive Compensation

Executive Summary

As detailed in Meridian's prior Trends and Developments in Executive Compensation Survey (2015 through early 2016), several factors were driving change in the executive compensation landscape in the U.S. These factors included market volatility, turmoil in commodity prices and political pressure for executive compensation reform in the final year of the Obama Administration. Through the balance of 2016 and into early 2017, several of these factors have been at least partially mitigated by increased macroeconomic stability, widespread share price appreciation in U.S. markets and the signaled directional changes under the Trump Administration. In regards to the latter, the status of pending Dodd-Frank mandates (e.g., clawback policies and pay-for-performance disclosure) are at a standstill, potentially reversing the tide in demand for increased corporate disclosure and regulation. In addition, the SEC has signaled a desire to solicit additional feedback on the controversial CEO Pay Ratio disclosure requirements that are due out next spring for calendar-year issuers.

Accordingly, Meridian's 2017 Trends and Developments in Executive Compensation Survey and its results are intended to provide an overview of the current environment and signal the direction in which companies are moving with respect to executive compensation and corporate governance practices. This survey features responses from 118 companies across a diverse range of industries, covering topics such as annual and long-term incentive plan designs, Say on Pay, the CEO pay ratio, and more.

Highlights and key findings of the survey include:

Say on Pay and CEO Pay Ratio

- Nearly 60% of responding companies indicated that they directly engaged with institutional shareholders and/or proxy advisory firms (e.g., ISS and Glass Lewis) in preparation for their Say on Pay vote.
- Well over one-half of participating companies engaged in shareholder outreach in 2016. Investor Relations led over 60% of these efforts, while the rest were led by a combination of individuals (e.g., Compensation Committee Chair, Head of HR, Corporate Secretary, CEO, CFO, etc.).
- In response to shareholder feedback, approximately one-half of participants have made a change to their annual and/or long-term incentive plans since the adoption of Say on Pay.
- Approximately one-half of participating companies have calculated the preliminary CEO Pay Ratio. Roughly 50% of these ratios fall at or below 150:1, indicating an inflection point near this ratio among survey participants. However, this ratio is highly dependent on company characteristics including global workforce, industry sector and company size.

2017 Merit Increase Budgets

Consistent with recent years, median merit increases for CEOs, executives and non-executives continue to approximate 3%. However, slightly less than half of respondents reported holding CEO base salaries flat for 2017 (approximately 25% for other executives). This indicates that many companies may no longer be providing annual base pay increases to CEOs and, instead, are making more periodic adjustments based on significant market movements or other factors.

Annual Incentives

- Respondents generally consider multiple factors in the goal-setting process (e.g., approved annual budgets, company and peer historical performance, street guidance, sharing ratios, etc.).
- Nearly two-thirds of survey participants reported that annual incentive payouts for 2016 performance were at or above target levels.
- As a likely indication of a positive economic outlook, approximately one-half of respondents set a 2017 primary earnings-related *threshold* goal higher than 2016 *actual* results.

Long-Term Incentives

Identical to last year, 46% of survey participants reported that 2017 target long-term incentive grant values approximated 2016 levels, while 43% reported target grant value increases for 2017 and 11% reported target value decreases for 2017. Both for those increasing and those decreasing grant values, the average change was 14%.

Contents

Background and Financial Information

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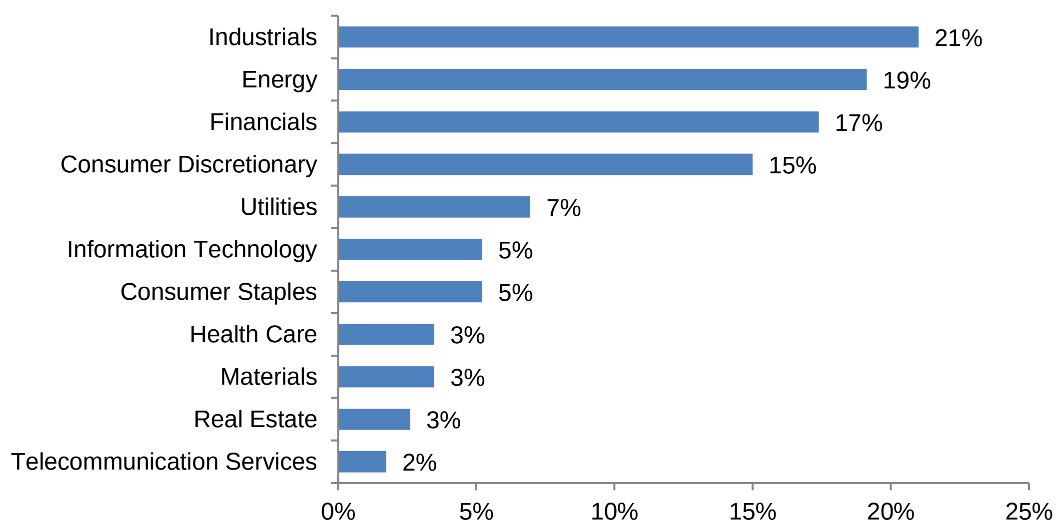
Participating Organizations

The survey includes responses from 118 companies. These organizations are listed in the Appendix. Financial highlights for the participating organizations are presented in the table below.

	FY 2016 Revenue ($ Mn)	Market Value ($ Mn)	Enterprise Value ($ Mn)	Number of Employees
25th percentile	$1,090	$1,172	$1,742	2,500
Median	$2,451	$4,514	$5,899	6,550
75th percentile	$8,485	$14,271	$20,723	21,300

Source: Standard & Poor's Compustat Database
Market value and enterprise value are as of December 31, 2016

2017 Participants by Industry Sector



Performance Summary of Participants

	1-Year Operating Margin	1-Year EPS Growth	1-Year TSR	3-Year TSR
25th percentile	3.3%	-36.7%	11.2%	-3.2%
Median	12.0%	7.6%	23.2%	4.4%
75th percentile	21.9%	38.6%	43.7%	16.1%

Source: Standard & Poor's Compustat Database
Operating margin and EPS growth represent FY 2016
TSR as of December 31, 2016

Say on Pay and the CEO Pay Ratio

Say on Pay

Say on Pay (SOP) is now in its seventh year of existence. Accordingly, companies have had ample time to develop sound pay program designs and address concerns expressed by shareholders and proxy advisory firms. As such, 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 2017 Say on Pay Vote

Despite consistently high levels of shareholder support on SOP, a significant number of companies take numerous steps in preparation of the vote. The most prevalent step taken is to directly engage with institutional shareholders and/or proxy advisory firms (i.e., ISS and Glass Lewis). 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. Many of these supplemental disclosures exceed proxy disclosure requirements; thus, they are a useful tool to more effectively communicate overall pay program design and performance alignment to shareholders.

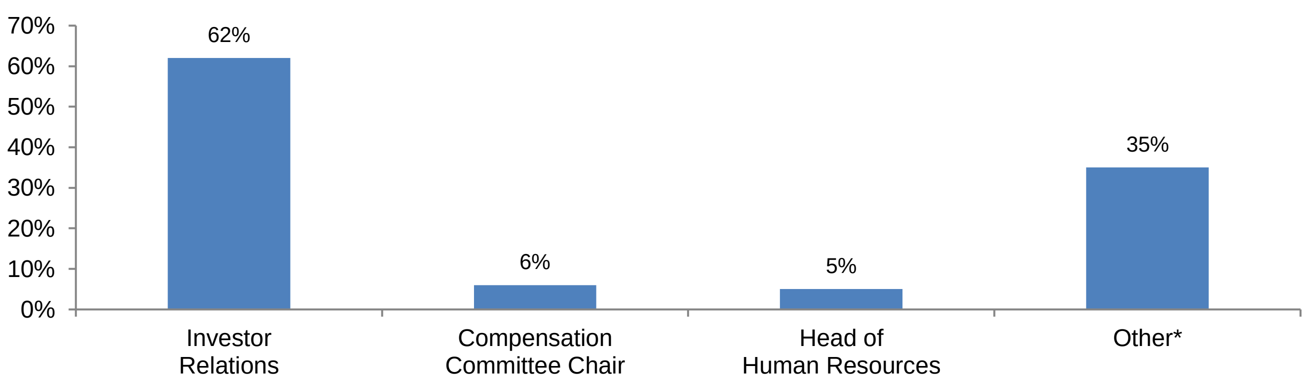
Steps Taken to Prepare for SOP Vote	Prevalence
Engage institutional shareholders directly	60%
Engage ISS and/or Glass Lewis directly	46%
Materially modifying disclosure and/or adding to the Compensation Discussion and Analysis	43%
Changing some significant aspect of the executive compensation program in direct response to 2016 Say on Pay vote outcome	20%
No significant steps taken	11%

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

Shareholder Engagement in 2016

Among survey participants, more than half disclosed attempts at shareholder engagement in 2016. Most of these efforts (approximately 60%) were led by Investor Relations personnel, however, the rest were led by a wide variety of individuals. Participant response seems to indicate that company-specific circumstances likely dictate which individuals lead these efforts.

Prevalence of Respsonsibility for Leading 2016 Shareholder Engagement



*Includes Corporate Secretary, CEO, CFO, Head of Compensation, as well as Finance and Legal functions

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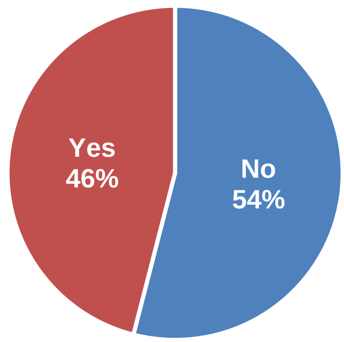
Incentive Plan Design Changes in Response to Shareholder Feedback

To attempt to quantify SOP's impact on driving change, Meridian asked participants if their organization has made modifications to annual or long-term incentive plan metrics/design in direct response to shareholder feedback. Slightly less than half of participants have made such a change since the adoption of SOP.

Percentage of Companies Making Incentive Plan Changes Based on Shareholder Feedback (Since Adoption of SOP)



CEO Pay Ratio

The SEC adopted the final rule on the CEO Pay Ratio in August of 2015. While still subject to review under the Trump Administration, the initial CEO Pay Ratio is scheduled for the first reporting period beginning on or after January 1, 2017 (i.e., 2018 proxy) and will cover compensation for fiscal year 2017. While the vast majority of companies have not made any voluntary disclosures, approximately 50% of participating companies have calculated a preliminary ratio. As shown below:

- Thirty percent (30%) have a ratio below 100:1.
- One-half of these preliminary ratios fall at or below 150:1, indicating an inflection point near this ratio.
- The companies at the higher end of the range (i.e., greater than 500:1) fall into a few industries: Consumer Discretionary, Consumer Staples and Retail.

Preliminary Modeling of the Ratio Between CEO Pay and the Pay of the "Median" Employee

Up to 100	101 to 150	151 to 200	201 to 250	251 to 300	301 to 350	351 to 400	401 to 450	451 to 500	500 to 1000	> 1,000
30%	20%	11%	11%	9%	9%	4%	0%	0%	5%	2%

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2017 U.S. Merit Increase Budgets

2017 U.S. Merit Increase Budgets

U.S. Merit Budget Increases for CEOs and Other Senior Executives

2017 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 movements. This continues a long-term trend of merit increases between 2.5% and 3.5%. However, for the second year in a row, a larger portion of participants reported holding CEO and executive base salaries flat (i.e., 0% merit increase) for 2017. This indicates that many companies may no longer be providing annual base pay increases to CEOs and other senior executives and, instead, are making more periodic adjustments based on significant market movements, promotions or other factors.

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

Approximately 55% of responding companies increased base salaries between 2.5% and 3.5% for salaried employees. In contrast to CEO and Executive merit increases, less than 10% of participants reported holding base salaries flat for salaried non-exempt employees.

2017 Merit Budget Increase Range

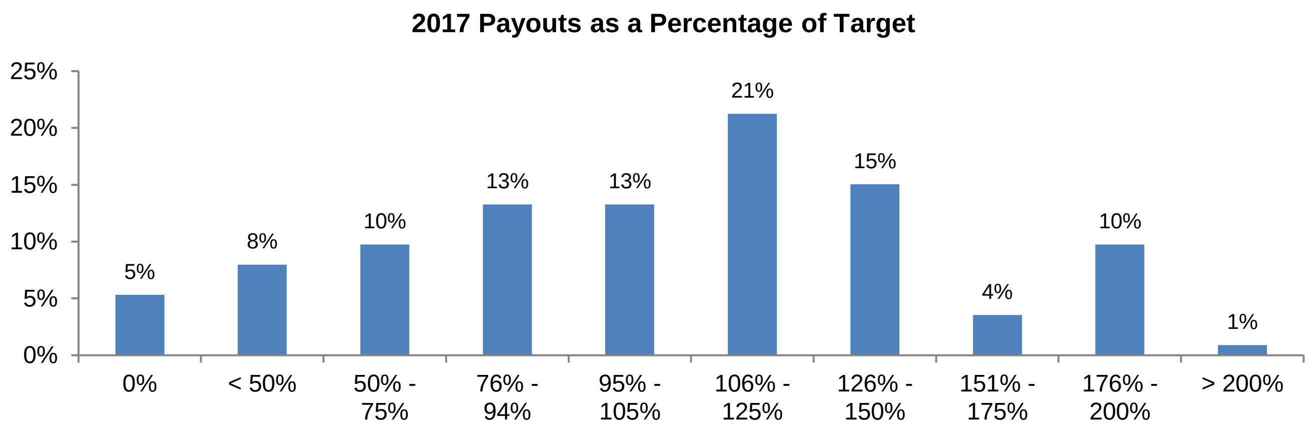
Increase Range	Prevalence CEO	Prevalence Executives	Prevalence Salaried Non-Exempt Employees
0% (no merit increase for 2017)	45%	27%	9%
< 2.0%	1%	3%	7%
2.0% - 2.49%	3%	10%	16%
2.5% - 2.99%	7%	9%	16%
3.0% - 3.49%	14%	22%	41%
3.5% - 3.99%	1%	0%	2%
4.0% - 4.49%	2%	3%	0%
4.5% - 5%	2%	2%	1%
> 5.0%	5%	6%	3%
No Fixed Budget for 2017	21%	18%	6%

Annual Incentives

Annual Incentives

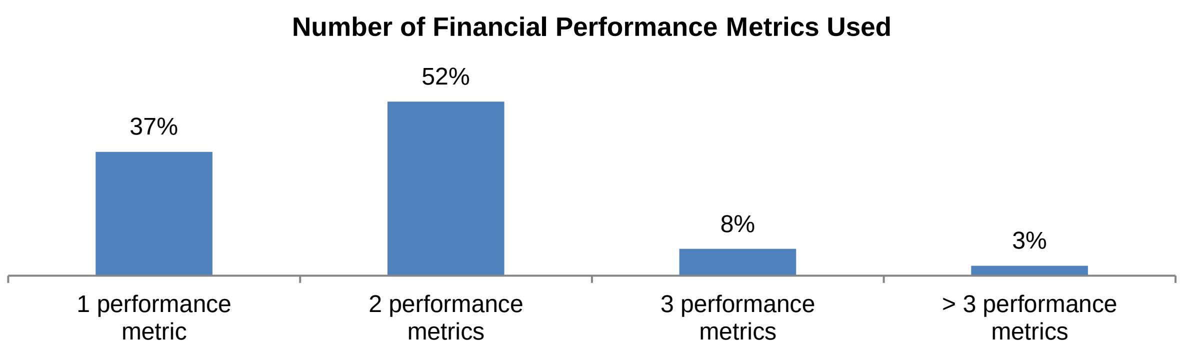
2017 Annual Incentive Payouts for 2016 Performance

Approximately 65% of responding companies indicated that their annual incentive payouts for 2016 performance were at or above target.



Number of Annual Incentive Performance Metrics

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



Among those using one performance metric, the vast majority use a profit measure (e.g., operating income, net income, EPS, etc.).

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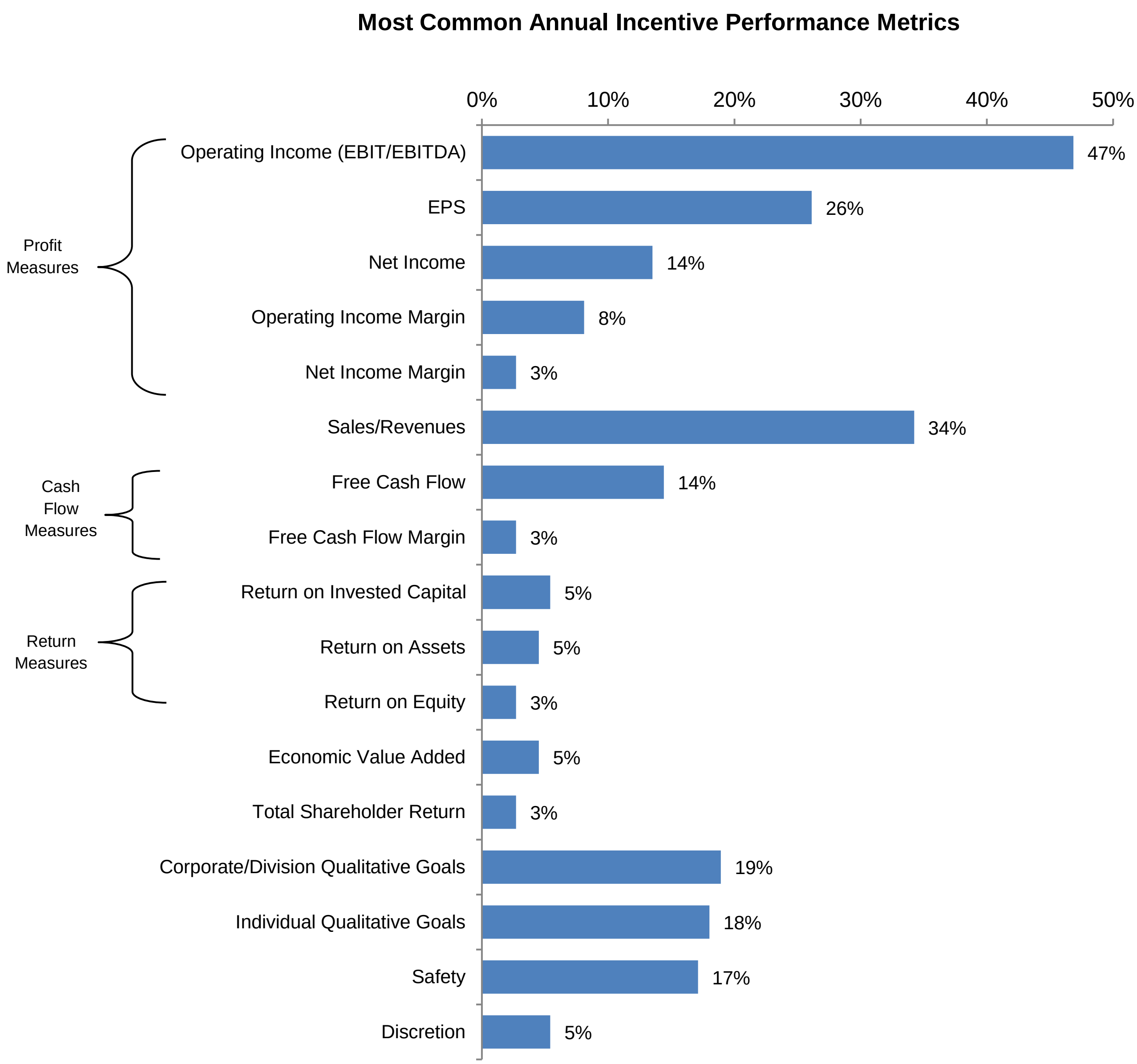
Types of Corporate Performance Metrics for Annual Incentive Plans

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, net income, and EPS) remain the most common. Note, many metrics are industry specific, and some are unique to individual companies. In stark contrast to long-term incentive plans, the use of either absolute or relative TSR remains very low for annual incentive plans.



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Primary Earnings Measures

Similar to last year, a majority of companies (58%) set their annual incentive performance *goals* higher in 2017 than in 2016, indicating increased expectations as the broader economy stabilizes. For many participants (42%), the performance goal increase was more than 5% higher than 2016 levels.

2017 Primary Earnings-Related Goal Compared to 2016 *Goals*	
Lower than 2016 *goal*	26%
Same as 2016 *goal*	17%
Higher than 2016 *goal* by 5% or less	16%
Higher than 2016 *goal* by more than 5%	42%

Also similar to last year, approximately one-half of companies (51%) also set 2017 *threshold* earnings goals above 2016 *actual* results (i.e., all 2017 *goals* – threshold, target, and maximum – are above 2016 *actuals*).

2017 Primary Earnings-Related Goal Compared to 2016 *Actual Results*	
All goals are at or above last year's actual *results*	51%
Threshold goal is below last year's actual *results*	20%
Target goal is below last year's actual *results*	24%
Maximum goal is below last year's actual *results*	5%

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. Sharing ratios are the least prevalent, however, nearly one-fifth of participating companies still consider them when setting annual incentive goals. 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	97%
Historical company performance	61%
Historical industry/peer performance	33%
External guidance	30%
Analyst expectations	28%
Sharing ratios	17%

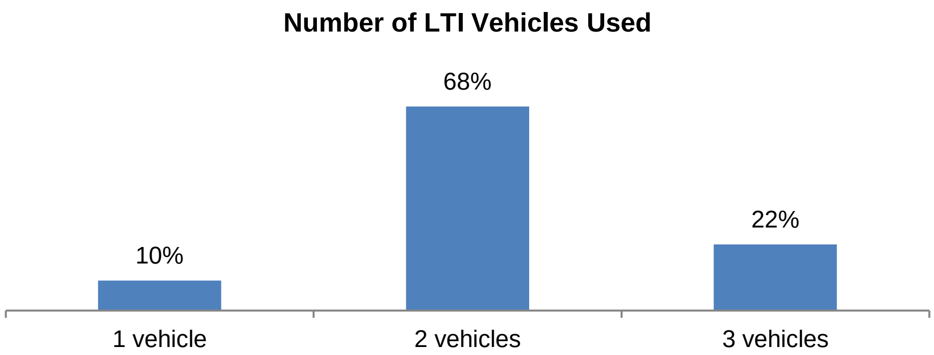
Note*: Total exceeds 100% as many companies use multiple approaches.*

Long-Term Incentives

Long-Term Incentives

Long-Term Incentive (LTI) Vehicles Used

Consistent with last year, 90% of sampled companies use two or three LTI vehicles for senior executives. However, 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 for senior executives. 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 2017 is consistent with average weightings in 2016 and 2015.

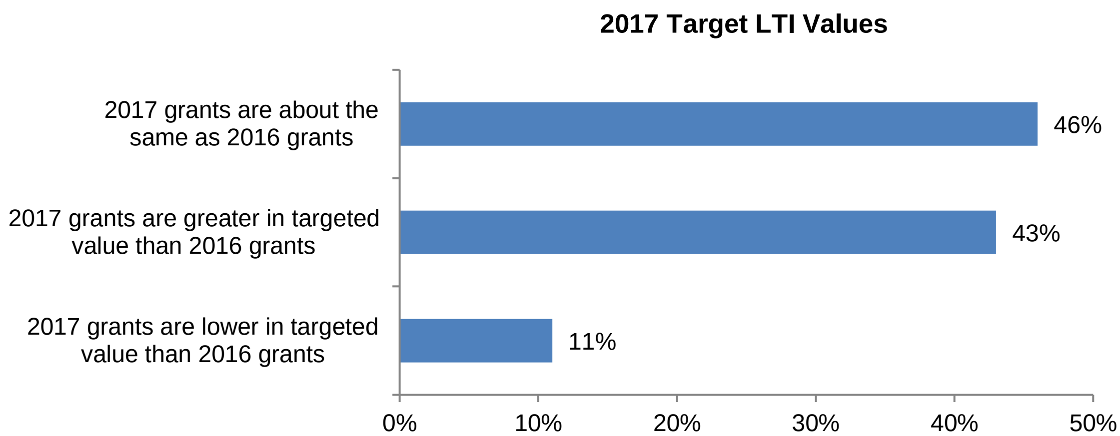
Prevalence and Weights of LTI Vehicles for Executives

		Weight of Vehicle in Total LTI Value Opportunity		
Vehicles	**Prevalence**	**Performance Awards**	**Stock Options**	**Restricted Stock**
3 Vehicles (22% of respondents)				
Performance awards, stock options and restricted stock	22%	44%	27%	29%
2 Vehicles (68% of respondents)				
Performance awards and restricted stock	55%	58%	—	42%
Performance awards and stock options	11%	51%	49%	—
Stock options and restricted stock	2%	—	28%	72%
1 Vehicle (10% of respondents)				
Performance awards only	8%	100%	—	—
Restricted stock only	0%	—	—	100%
Stock options only	2%	—	100%	--
Overall (averages) – 2017	**100%**	**56%**	**13%**	**31%**
Reference				
Overall (averages) – 2016	*100%*	*55%*	*16%*	*29%*

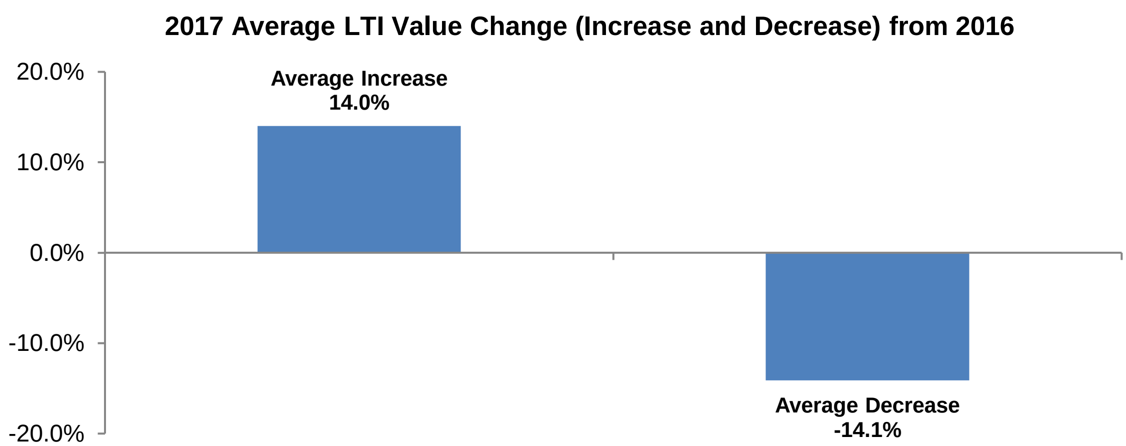
Note: *Performance awards include performance shares, performance units and long-term cash awards*

LTI Target Values

The results below are identical to last year with practice evenly split between equal or greater target LTI values in 2017 compared to 2016.



Interestingly, for both those increasing LTI values and those decreasing LTI values, the percentage change was approximately 14%.



Long-Term Performance Benchmark

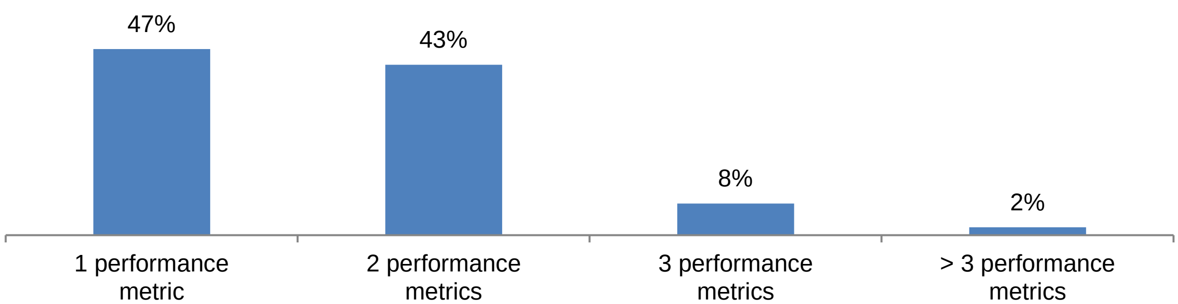
Similar to last year, for reporting companies granting performance-based awards, the vast majority (70%) measure performance relative to an external benchmark for some portion of their performance grant. Approximately 90% of these relative plans are measured based on TSR.

Performance Benchmark	Prevalence
Use an External Benchmark	**70%**
▪ Custom peer group	41%
▪ Externally selected peer set (e.g., S&P 500)	29%
Solely Use Internal (Absolute) Metrics	**30%**

Number of Long-Term Incentive Performance Metrics

Similar to annual incentive plans, the vast majority of companies use one or two performance metrics to determine long-term incentive payouts.

Number of Financial Performance Metrics Used



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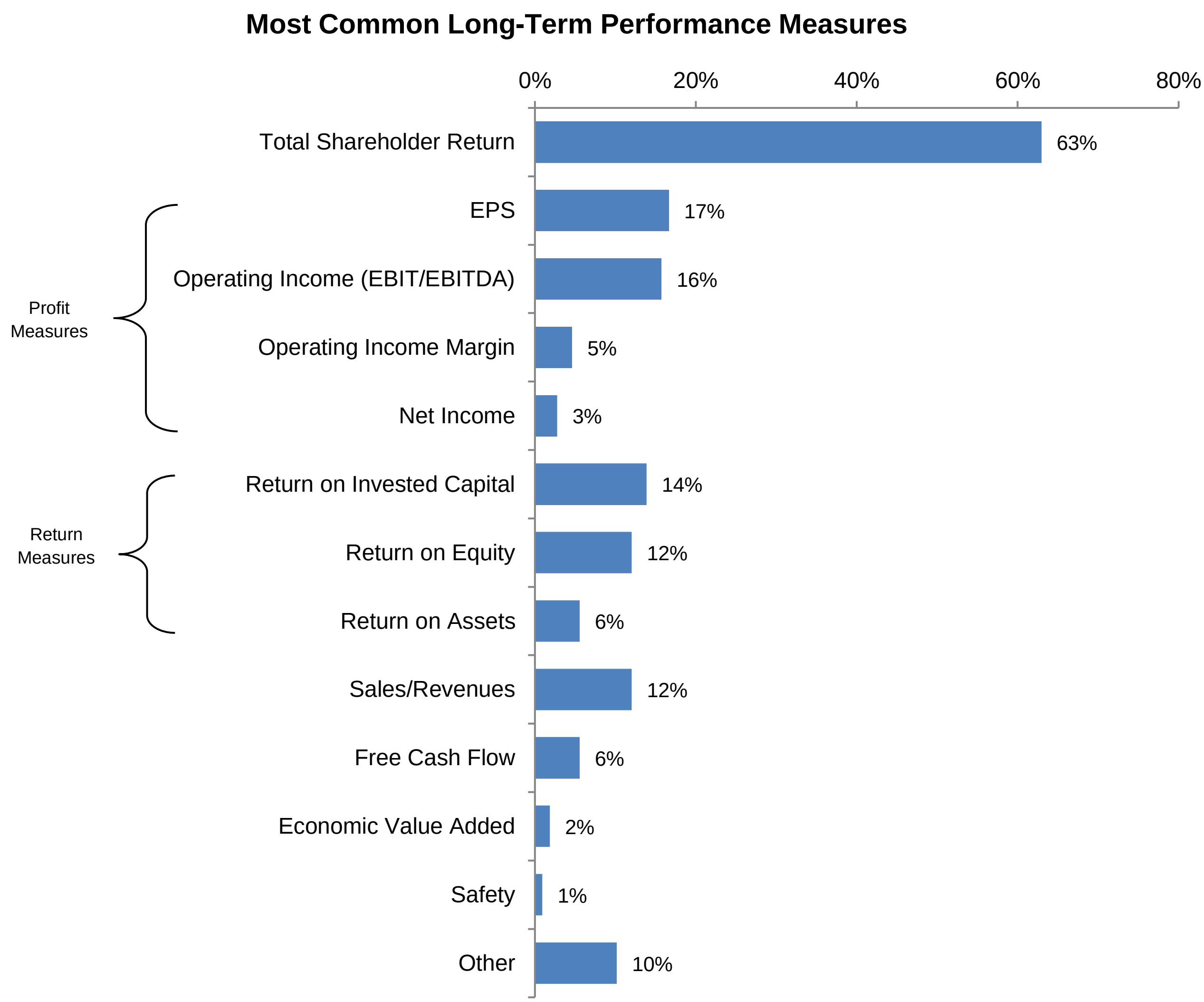
Types of Corporate Performance Metrics for Long-Term Performance Plans

Consistent with recent years, 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. When TSR is used, the average weighting within the plan is 73%. Further, approximately half (48%) of companies using TSR as a long-term incentive metric use it as the sole metric within the plan. In addition, some companies are using TSR only as a modifier to results based on other financial metrics (e.g., +/-25%).



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

Appendix: Participating Companies

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Consumer Discretionary

American Axle & Manufacturing Holdings, Inc.
Carriage Services, Inc.
Gannett Co., Inc.
Haverty Furniture Companies, Inc.
Horizon Global Corporation
The Interpublic Group of Companies, Inc.
J. C. Penney Company, Inc.
Leggett & Platt, Incorporated
LGI Homes, Inc.
Magna International Inc.
National Vision, Inc.
Signet Jewelers Limited
Sonic Corp.
Tegna Inc.
Tenneco Inc.
Time Inc.
West Marine, Inc.
Yum! Brands, Inc.

Consumer Staples

Cargill, Inc.
The Coca-Cola Company
Herbalife Ltd.
The Procter & Gamble Company
Reynolds American Inc.
US Foods Holding Corp.

Energy

Anadarko Petroleum Corporation
Arch Coal, Inc.
Bill Barrett Corporation
California Resources Corporation
Callon Petroleum Company
Cheniere Energy, Inc.
Concho Resources Inc.
Contango Oil & Gas Company
Dril-Quip, Inc.
Eclipse Resources Corporation
Enlink Midstream Partners, LP
Frank's International N.V.
Helix Energy Solutions Group, Inc.
Marathon Oil Corporation
Matrix Service Company
National Oilwell Varco, Inc.
Newfield Exploration Company
Oceaneering International, Inc.
Phillips 66
SM Energy Company
TechnipFMC plc
Tidewater Inc.

Financials

BB&T Corporation
Berkshire Bancorp, Inc.
CBOE Holdings, Inc.
CME Group Inc.
Dime Community Bancshares, Inc.
The Hartford Financial Services Group, Inc.
The Hartford Insurance Group, Inc.
Hilltop Holdings Inc.
MB Financial, Inc.
MetLife, Inc.
The PNC Financial Services Group, Inc.
Popular, Inc.
Sandy Spring Bancorp, Inc.
State Street Corporation
Sterling Bancorp
SVB Financial Group
Synovus Financial Corp.
United Financial Bancorp, Inc.
Wintrust Financial Corporation
XL Group Ltd

Health Care

Abbott Laboratories
Aetna Inc.
Albany Molecular Research Inc.
Baxter International Inc.
Blue Cross Blue Shield of Arizona

Industrials

ArcBest Corporation
Barnes Group Inc.
BlueLinx Holdings Inc.
Briggs & Stratton Corporation
Caterpillar Inc.
CECO Environmental Corp.

Commercial Vehicle Group, Inc.
Delta Air Lines, Inc.
The Dun & Bradstreet Corporation
Eaton Corporation plc
Equifax Inc.
Fortune Brands Home & Security, Inc.
Franklin Electric Co.
Kansas City Southern
Lockheed Martin Corporation
The Middleby Corporation
MRC Global Inc.
Mueller Water Products, Inc.
TransUnion
TriMas Corporation
Trinity Industries, Inc.
Veritiv Corporation
Wabash National Corporation
West Corporation

Information Technology

Akamai Technologies, Inc.
Avnet, Inc.
Cardtronics plc
Fiserv, Inc.
Maxwell Technologies, Inc.
Micron Technology, Inc.

Materials

Domtar Corporation
Koppers Holdings Inc.
P. H. Glatfelter Company
TimkenSteel Corporation

Real Estate

Agree Realty Corporation
American Tower Corporation
Crown Castle International Corp.

Telecommunication Services

CenturyLink, Inc.
Vonage Holdings Corp.

Utilities

The AES Corporation
Ameren Corporation
Avista Corporation
Exelon Corporation
FirstEnergy Corp.
One Gas, Inc.
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. Approximately 90% 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

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