MERIDIAN
COMPENSATION PARTNERS

2018

Trends and Developments in Executive Compensation

Executive Summary

In the past year, several factors have driven change in the executive compensation landscape in the U.S. Share price volatility in the stock market has increased after several years of low volatility levels. With the enactment of the Tax Cuts and Jobs Act ("Tax Act"), companies are faced with a new tax environment and are adjusting strategies and policies accordingly. After years of delays, the Dodd-Frank mandated CEO Pay Ratio is now a required disclosure for the 2018 proxy filings, driving increased external scrutiny of pay programs and communications to both internal and external audiences.

Accordingly, Meridian's 2018 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 127 companies across a diverse range of industries, covering topics such as annual and long-term incentive plan designs, Say on Pay (SOP), the CEO pay ratio, tax reform and more.

Highlights and key findings of the survey include:

Say on Pay

- Over four-fifths (81%) of respondents took steps related to their compensation programs and/or public disclosures to prepare for their 2018 SOP vote. The most common step taken was shareholder outreach.
- Investor Relations was involved in 85% of shareholder outreach efforts, while involvement of other parties was dependent upon the specific circumstances (e.g., Compensation Committee Chair, General Counsel, CEO, CFO, etc.).

CEO Pay Ratio

- Of CEO Pay Ratio disclosures among respondents, roughly 50% of the ratios fell at or below 100:1, indicating an inflection point near this ratio among survey respondents. However, this ratio is highly dependent on company characteristics including global workforce, industry sector and company size.
- Respondents reporting ratios greater than 500:1 were generally in the Consumer Discretionary and Retail Industries.
- One-half of respondents reported compensation of the "Median" employee between $25,000 and $75,000, with an overall median of $65,000.

Tax Reform

- As expected, the action most commonly considered in response to the Tax Act was the elimination of structures in annual and long-term incentive plans designed to qualify for the now-repealed performance-based exemption under IRC Section 162(m).

2018 Merit Increase Budgets

- Consistent with recent years, median merit increases for CEOs, executives and non-executives continue to approximate 3%. However, 42% of respondents reported holding CEO base salaries flat for 2018 (17% 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 considered multiple factors in the goal-setting process (e.g., approved annual budgets, company and peer historical performance, street guidance, sharing ratios, etc.)

- The majority of respondents indicated that their annual incentive payouts for 2017 performance were at or above target.

- As a likely indication of a positive economic outlook, approximately 60% of respondents set a 2018 primary earnings-related *threshold* goal higher than 2017 *actual* results.

- A modest decline in the use of an EPS metric was observed, often coupled with a movement to profit metrics not measured on a per share basis.

Long-Term Incentives (LTI)

- Unlike last year, when the majority of respondents reported maintaining LTI grant values from the prior year, this year a majority of survey respondents (54%) reported that 2018 target long-term incentive grant values were greater than 2017 values.

- For those respondents increasing grant values from the prior year (54%), the median increase was 9%

- Similar to 2017, the vast majority of respondents (81%) utilized one or two financial metrics in long-term performance plans.

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Background and Financial Information

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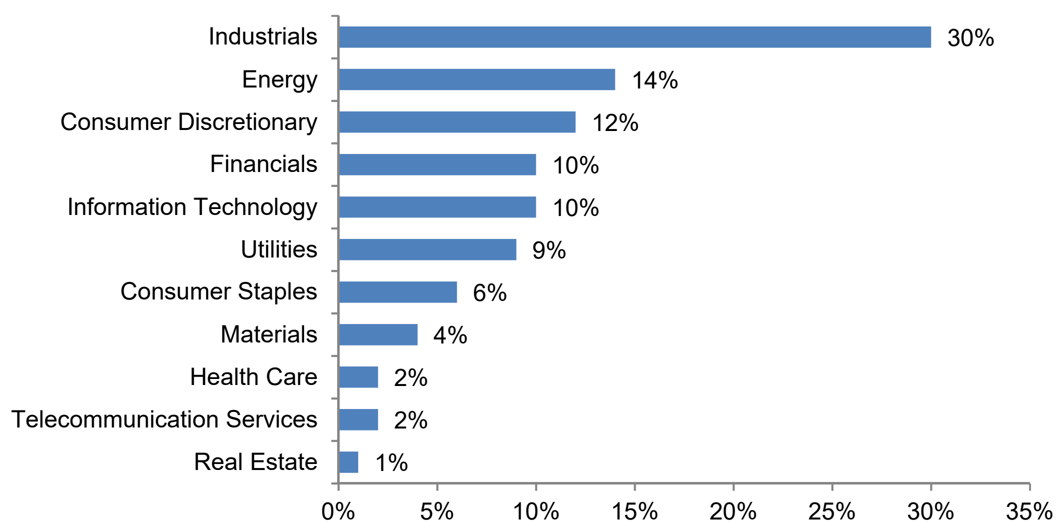
Responding Organizations

The survey is based on the responses from 127 companies. These companies are listed in the Appendix. Financial highlights for the responding companies are presented in the table below.

	FY 2017 Revenue ($ Mn)	Market Value ($ Mn)	Enterprise Value ($ Mn)	Number of Employees
25th percentile	$1,662	$1,800	$1,768	4,019
Median	$4,099	$5,708	$5,991	8,294
75th percentile	$11,258	$21,336	$29,174	24,005

Source: Standard & Poor's Capital IQ
Market value and enterprise value are as of December 31, 2017

2018 Respondents by Industry Sector



Performance Summary of Respondents

	1-Year Operating Margin	1-Year EPS Growth	1-Year TSR	3-Year TSR
25th percentile	5.6%	-18.1%	-8.0%	-10.5%
Median	11.9%	17.8%	10.3%	21.5%
75th percentile	19.1%	91.6%	25.9%	56.0%

Source: Standard & Poor's Capital IQ
Operating margin and EPS growth represent FY 2017
TSR as of December 31, 2017

Say on Pay

Say on Pay

Say on Pay (SOP) is now in its eighth year of existence. Accordingly, companies have had ample time to evaluate pay program designs and address concerns expressed by major shareholders and proxy advisory firms. As such, shareholder support of executive pay programs remains very high, most often with over 90% of shareholders voting in favor of SOP proposals.

Steps Taken to Prepare for 2018 Say on Pay Vote

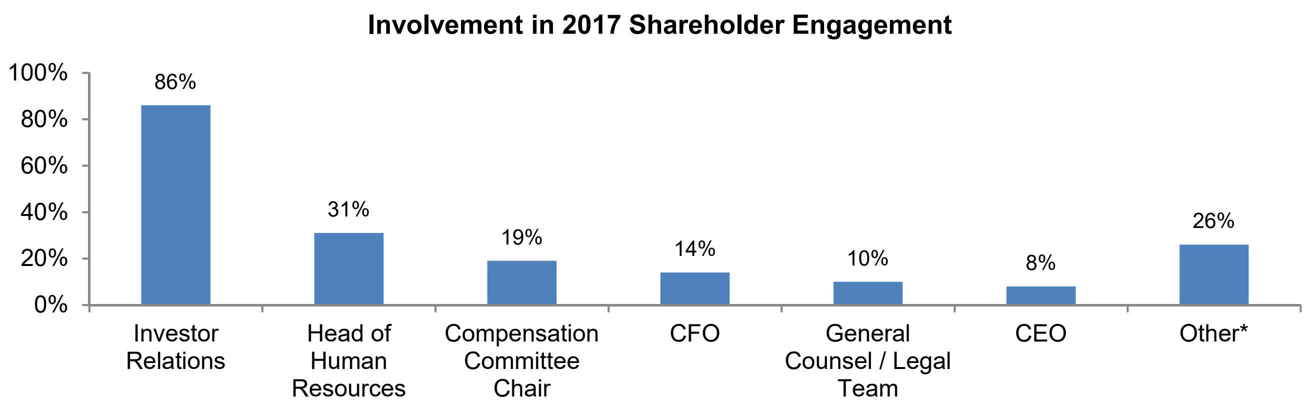
While shareholders continue to provide high levels of support of SOP proposals, over three-fourths (81%) of respondents took steps related to their compensation programs and/or public disclosures to prepare for the vote. The most prevalent step taken was to directly engage with institutional shareholders, followed by engagement with proxy advisory firms (e.g., ISS and Glass Lewis). Further, companies continue to enhance the quality of their Compensation Discussion and Analysis (CD&A) through the use of executive summaries, tables, charts and graphs. Such supplemental disclosures are used to enhance communication of overall pay program alignment to shareholders, despite generally exceeding specific disclosure requirements.

Steps Taken to Prepare for SOP Vote	Prevalence
Engage institutional shareholders directly	66%
Engage ISS and/or Glass Lewis directly	40%
Materially modifying disclosure and/or adding to the Compensation Discussion and Analysis	35%
Changing some significant aspect of the executive compensation program in direct response to 2017 Say on Pay vote outcome	11%
No significant steps taken this past year	18%

***Note 1**: Total exceeds 100% as many respondents used multiple approaches.*
***Note 2:** Actions taken are significantly more common when a company has received low support.*

Shareholder Engagement in 2017

Among respondents, approximately two-thirds disclosed shareholder engagement programs in 2017, which most often included Investor Relations personnel (86%). However, other executive positions partook in this campaign as well, including the Head of HR, Compensation Committee Chair and other top executives (e.g., General Counsel, CEO and CFO). Participant responses seem to indicate that company-specific circumstances likely dictated which individuals were involved in these efforts. Based on shareholder feedback, nearly half (45%) of respondents have modified incentive plan designs since the inception of SOP.



** Includes Corporate Secretary and various other functions*

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CEO Pay Ratio

CEO Pay Ratio

Computation

In August 2015, the Securities and Exchange Commission (SEC) adopted the final rule on the CEO Pay Ratio to be effective for the first reporting year beginning on or after January 1, 2017 (2018 proxy statement covering compensation for fiscal year 2017). As such, 2018 proxy statement filings have marked the inaugural disclosure for calendar year companies. Shown below are key statistics derived from respondents:

- Nearly one-half (47%) had a ratio below 100:1, indicating an inflection point near this ratio.
- Over three-quarters (76%) had a ratio below 200:1.
- The respondents at the higher end of the range (i.e., greater than 500:1) generally fell into two industries: Consumer Discretionary and Retail.
- One-half (50%) reported compensation of the "Median" employee as between $25,000 and $75,000 with "Median" employee pay among respondents of $65,000.

Ratio Between CEO Compensation and the Compensation of the "Median" Paid Employee										
Up to 50	51 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
9%	38%	17%	12%	10%	4%	2%	0%	2%	1%	5%

Compensation of the "Median" Paid Employee								
Up to $10,000	$10,000 to $25,000	$25,001 to $50,000	$50,001 to $75,000	$75,001 to $100,000	$100,001 to $125,000	$125,001 to $150,000	$150,001 to $175000	> $175,000
2%	7%	20%	30%	17%	14%	6%	3%	1%

Addressing the CEO Pay Ratio

In anticipation of their first CEO Pay Ratio disclosure, a minority of respondents (14%) took proactive measures to address potential employee questions or concerns, other than prepping the managers and business.

Response to CEO Pay Ratio Disclosure	
No response; will react if necessary	86%
Providing explanatory materials to employees	9%
Providing a question and answer session for employees	4%
Providing a communication campaign broader than providing answers to likely employee questions	3%

***Note**: Total exceeds 100% as some repondents used multiple approaches.*

Tax Reform

Tax Reform

Background

In late 2017, Congress enacted the most far-reaching tax reform bill in recent times with the passage of the Tax Cuts and Jobs Act ("Tax Act"). The Tax Act went into effect for taxable years after December 31, 2017. Thus, most companies are already impacted by the new legislation.

Compensation Program Updates in Response to Tax Reform

As expected, the most noteworthy change pertaining to executive compensation was the removal of the performance-based exemption to IRC Section 162(m). Section 162(m) limits the amount of tax deductible compensation paid to each Named Executive Officer to $1 million. However, prior to the enactment of the Tax Act, performance-based compensation was exempted from this limitation and many companies designed compensation programs to qualify for this exemption. The Tax Act effectively eliminated the performance-based compensation exception on any payments made after December 31, 2017, subject to certain "grandfathering" provisions. As detailed below, in light of the implications of the Tax Act, companies have considered potential near-term and long-term changes to their respective pay programs.

Potential Changes Considered	
Eliminating structures in annual and long-term incentive plans designed to qualify for the former performance-based exemption	75%
Adjusting financial metrics of outstanding awards for perceived economic changes due to the Tax Act	37%
Setting performance goals over a shorter period given additional market uncertainty	8%
Adding more subjective performance goals	8%
Other changes*	11%
No substantial changes	10%

***** *Includes acceleration of incentive payouts to 2017 for better tax treatment*
***Note**: Total exceeds 100% as many respondents discussed multiple potential changes.*

2018 U.S. Merit Increase Budgets

2018 U.S. Merit Increase Budgets

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

2018 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 past several years, a large portion of respondents reported holding CEO and executive base salaries flat (i.e., 0% merit increase). 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-Executive Employees

Approximately 70% of respondents increased base salaries between 2.5% and 3.5% for salaried employees. In contrast to CEO and executive merit increases, only 5% of respondents reported holding base salaries flat for salaried non-exempt employees.

2018 Merit Budget Increase Range

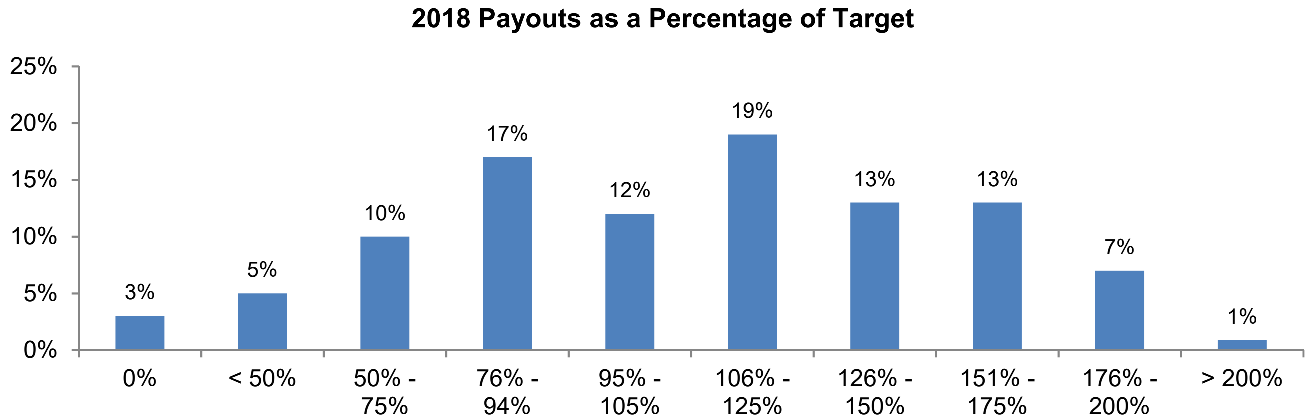
Increase Range	Prevalence CEO	Prevalence Executives	Prevalence Salaried Non-Exempt Employees
0% (no merit increase for 2018)	42%	17%	5%
< 2.0%	0%	4%	4%
2.0% - 2.49%	8%	8%	14%
2.5% - 2.99%	5%	11%	24%
3.0% - 3.49%	12%	21%	38%
3.5% - 3.99%	0%	3%	7%
4.0% - 4.49%	2%	5%	6%
4.5% - 5%	2%	1%	0%
> 5.0%	4%	4%	0%
No Fixed Budget for 2018	25%	26%	2%

Annual Incentives

Annual Incentives

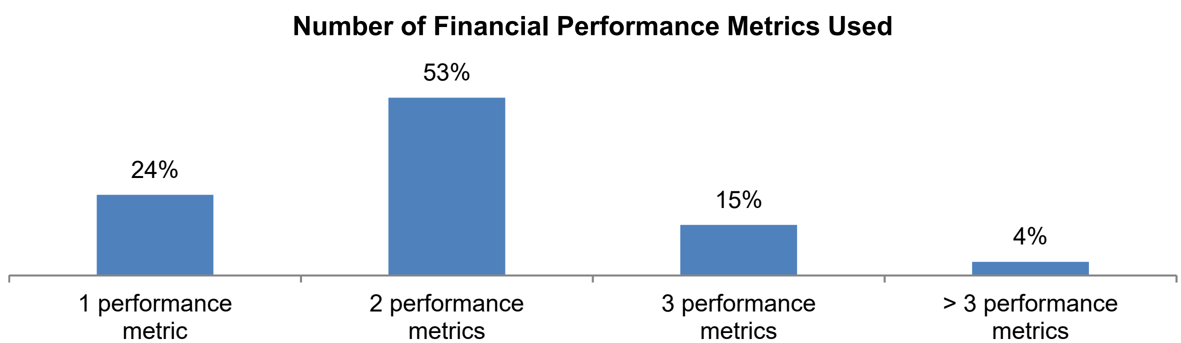
2018 Annual Incentive Payouts for 2017 Performance

A slight majority of respondents indicated that their annual incentive payouts for 2017 performance were at or above target.



Number of Annual Incentive Performance Metrics

Consistent with prior years, respondents continued to use multiple financial performance metrics in determining annual incentive payouts.

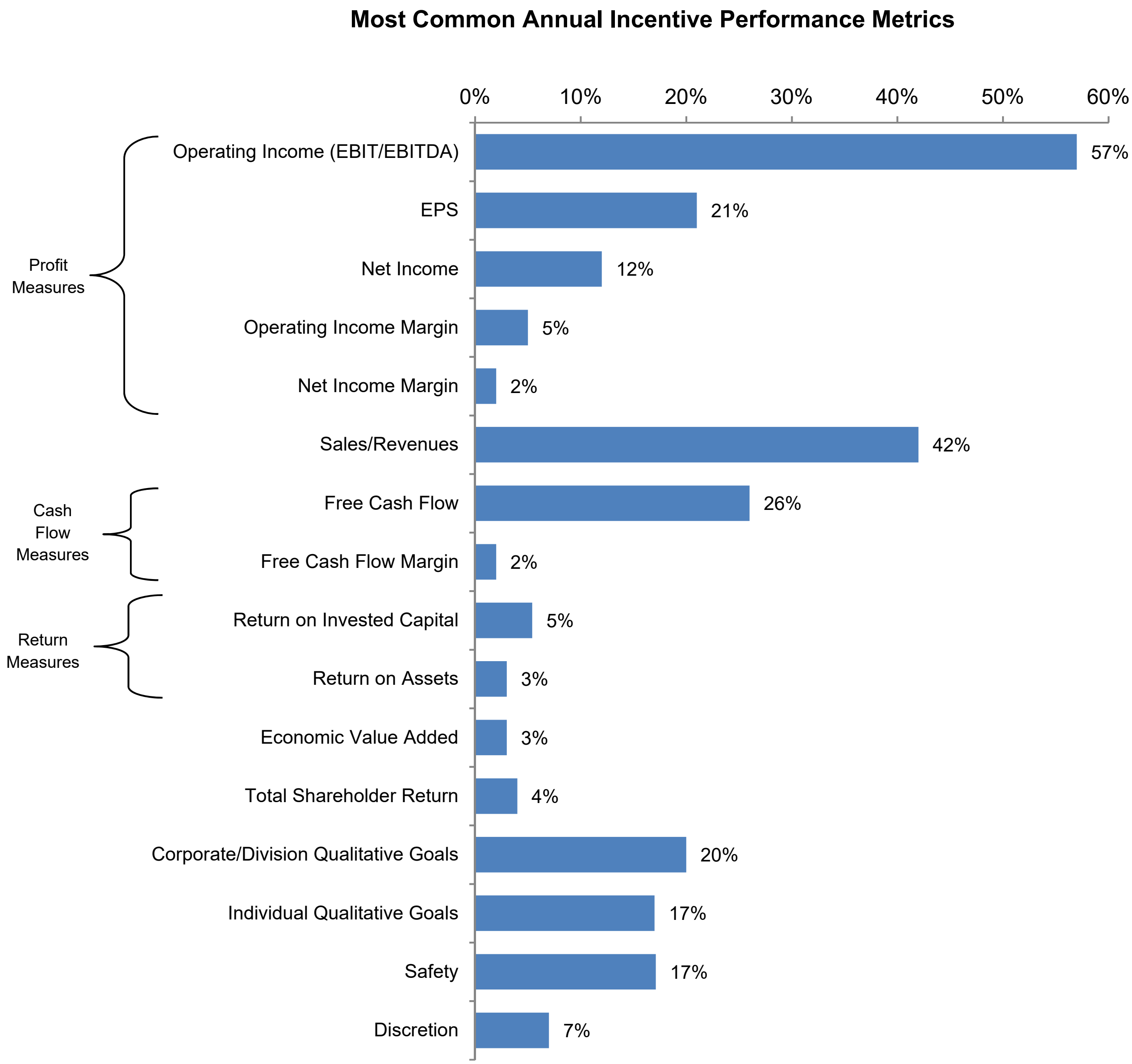


Note: *Total is less than 100% because 4% of respondents disclosed a fully discretionary annual incentive plan.*

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

Types of Corporate Performance Metrics for Annual Incentive Plans

The chart below details the prevalence of performance metrics used by respondents for determining annual incentive payouts. As expected, profit measures (e.g., operating income, net income and EPS) remained the most commonly used performance metric. Further, a modest decline in the EPS metric was observed, often coupled with a movement to profit metrics not measured on a per share basis. 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 remained very low for annual incentive plans (4%).



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Primary Earnings Measures

Seventy percent (70%) of respondents set their annual incentive performance *goals* higher in 2018 than in 2017, indicating increased expectations from a strengthening economy. For many respondents (44%), the performance goal increase was more than 5% higher than 2017 levels.

2018 Primary Earnings-Related Goal Compared to 2017 *Goals*	
Lower than 2017 *goal*	18%
Same as 2017 *goal*	12%
Higher than 2017 *goal* by 5% or less	26%
Higher than 2017 *goal* by more than 5%	44%

A majority of respondents (59%) set 2018 *threshold* earnings goals above 2017 *actual* results (i.e., all 2018 *goals* – threshold, target and maximum – are above 2017 *actuals*).

2018 Primary Earnings-Related Goal Compared to 2017 *Actual Results*	
All goals are at or above last year's actual *results*	59%
Threshold goal is below last year's actual *results*	25%
Target goal is below last year's actual *results*	13%
Maximum goal is below last year's actual *results*	3%

Goal-Setting Considerations

Consistent with prior years, annual budget/plan and historical results were the two most commonly reported factors evaluated when setting annual goals, while sharing ratios were the least prevalent. Less than one-fifth of respondents still consider sharing ratios when setting annual incentive goals. Note, data on sharing ratios was 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	91%
Historical company performance	71%
Historical industry/peer performance	40%
External guidance	35%
Analyst expectations	31%
Sharing ratios	19%

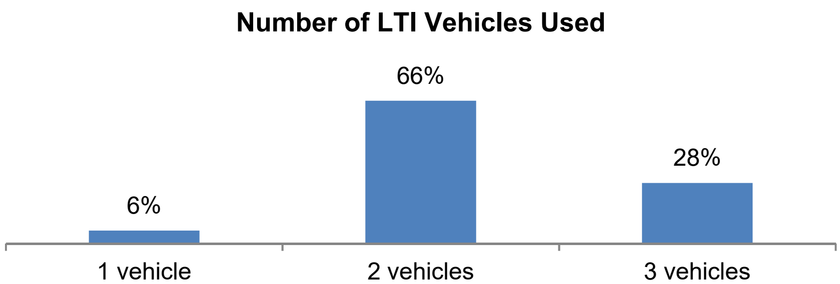
***Note**: Total exceeds 100% as many respondents used multiple approaches.*

Long-Term Incentives

Long-Term Incentives

Long-Term Incentive (LTI) Vehicles Used

Consistent with last year, over 90% of respondents used 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 were used by nearly all respondents (98%) as an LTI vehicle for senior executives. Interestingly, 42% of respondents still used stock options, though the vehicle has seen a general decline in prevalence over the last several years. In the table below, the prevalence column represents the percentage of respondents that granted 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 2018 was consistent with average weightings in the past several years.

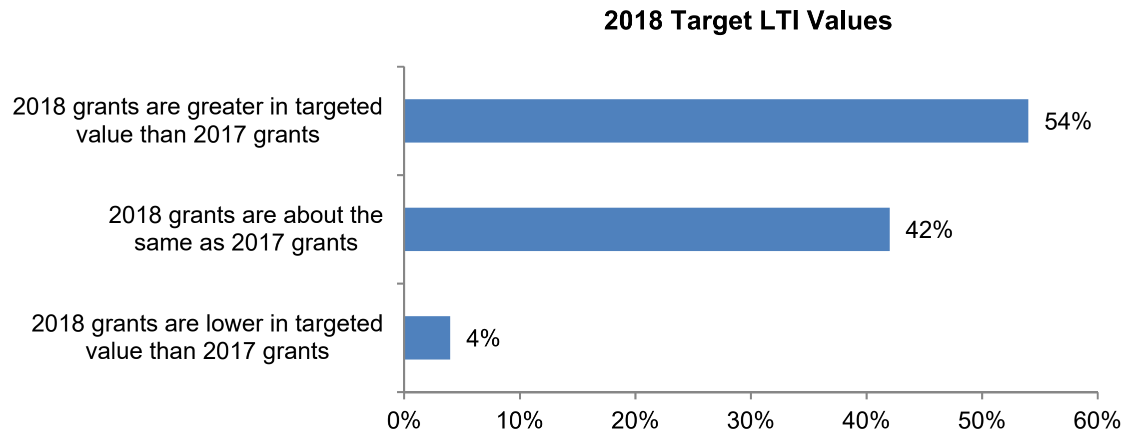
Prevalence and Weights of LTI Vehicles for Executives

Vehicles	Prevalence	Weight of Vehicle in Total LTI Value Opportunity		
		Performance Awards	Stock Options	Restricted Stock
3 Vehicles (28% of respondents)				
Performance awards, stock options and restricted stock	28%	42%	29%	29%
2 Vehicles (65% of respondents)				
Performance awards and restricted stock	51%	60%	—	40%
Performance awards and stock options	13%	55%	45%	—
Stock options and restricted stock	1%	—	30%	70%
1 Vehicle (7% of respondents)				
Performance awards only	6%	—	—	—
Restricted stock only	1%	—	—	—
Stock options only	0%	—	—	—
Overall (averages) – 2018	**100%**	**56%**	**14%**	**30%**
Reference				
Overall (averages) – 2017	*100%*	*56%*	*13%*	*31%*

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

LTI Target Values

The majority of respondents (54%) granted LTI awards in 2018 of greater targeted value than the prior year. This percentage increased from last year, when 46% of respondents reported LTI target values were greater than the prior year.



The majority of respondents (54%) increased targeted LTI values by a median of approximately 9%.

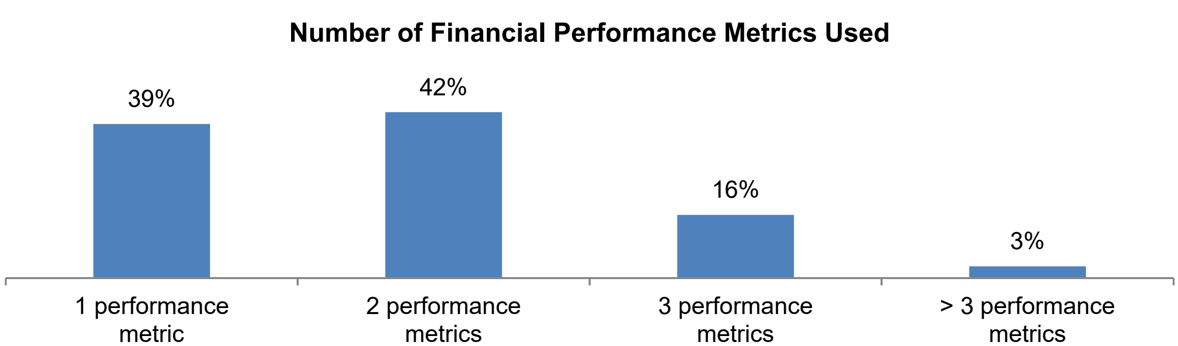
Long-Term Performance Benchmark

Similar to last year, for respondents granting performance-based awards, the majority (61%) measured performance relative to an external benchmark for at least some portion of the award. Approximately 85% of these relative plans were measured based on TSR.

Performance Benchmark	Prevalence
Use an External Benchmark	**61%**
▪ Custom peer group	36%
▪ Externally selected peer set (e.g., S&P 500)	25%
Solely Use Internal (Absolute) Metrics	**39%**

Number of Long-Term Incentive Performance Metrics

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



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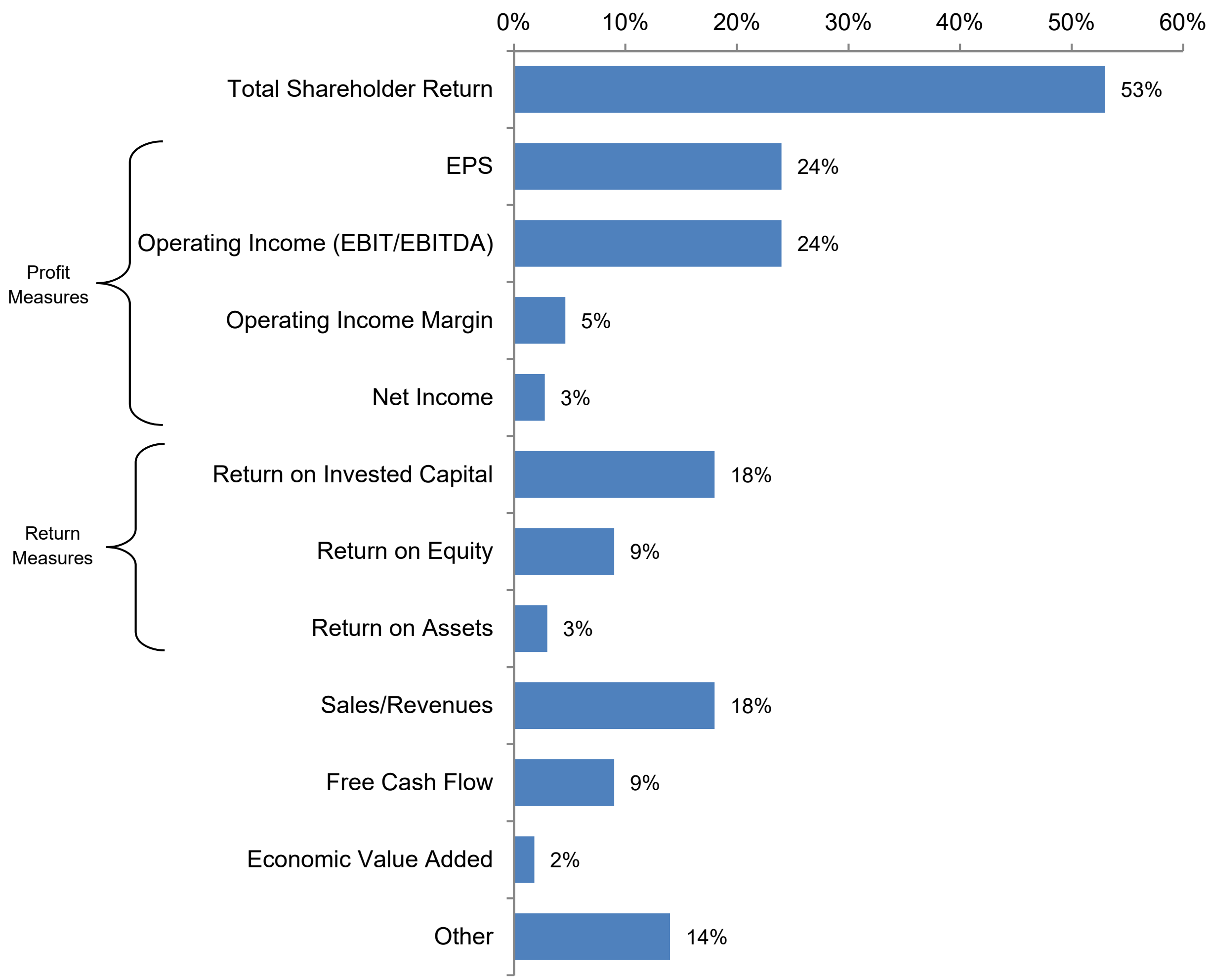
Types of Corporate Performance Metrics for Long-Term Performance Plans

Consistent with recent years, TSR remained 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 was used, the average weighting within the plan was 66%, down from 73% in 2017. Further, 39% of respondents used TSR as the sole metric within the plan, down from 48% in the prior year. In addition, some respondents used TSR only as a modifier to results based on other financial metrics (e.g., +/-25%).

Most Common Long-Term Performance Measures



Please email Tony Meyer (tmeyer@meridiancp.com) or call 847-235-3651
with any questions or comments.

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Appendix: Responding Companies

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Consumer Discretionary
American Axle & Manufacturing Holdings, Inc.
Academy Sports + Outdoors
Aimia Inc.
Brinker International, Inc.
Caleres, Inc.
Gannett Co., Inc.
Garmin Ltd.
Harley-Davidson, Inc.
J. C. Penney Company, Inc.
Leggett & Platt, Incorporated
McDonald's Corporation
Red Robin Gourmet Burgers, Inc.
Signet Jewelers Limited
Sonic Corp.
Tenneco Inc.
YUM! Brands, Inc.

Consumer Staples
Cargill, Incorporated
The Coca-Cola Company
Edgewell Personal Care Company
Farmer Bros. Company
Herbalife Ltd.
Mondelēz International, Inc.
The Procter & Gamble Company
Supervalu Inc.

Energy
Anadarko Petroleum Corporation
Arch Coal, Inc.
Callon Petroleum Company
Concho Resources Inc.
Devon Energy Corporation
Dril-Quip, Inc.
Eclipse Resources Corporation
Enlink Midstream Partners, LP
Enterprise Products Partners L.P.
EOG Resources, Inc.
Frank's International N.V.
Marathon Oil Corporation
McDermott International, Inc.
National Oilwell Varco, Inc.
Oceaneering International, Inc.
PDC Energy, Inc.
Southwestern Energy Company
Weatherford International plc

Financials
BB&T Corporation
Cboe Global Markets, Inc.
The Hartford Financial Services Group, Inc.
MB Financial, Inc.
MetLife, Inc.
Moody's Corporation
The PNC Financial Services Group, Inc.
State Street Corporation
Synovus Financial Corp.
U.S. Bancorp
Westwood Holdings Group, Inc.
Wintrust Financial Corporation
XL Group Ltd

Health Care
Abbott Laboratories
Blue Cross Blue Shield of Kansas City

Industrials
ACCO Brands Corporation
ArcBest Corporation
Barnes Group Inc.
The Boeing Company
Brady Corporation
Briggs & Stratton Corporation
Caterpillar Inc.
Chart Industries, Inc.
Continental Structural Plastics Inc.
CSX Corporation
Delta Air Lines, Inc.
The Dun & Bradstreet Corporation
Eaton Corporation plc
Equifax Inc.
Essendant Inc.
Fortune Brands Home & Security, Inc.
Franklin Electric Co., Inc.
General Dynamics Corporation
Herc Holdings Inc.
John Bean Technologies Corporation

Kansas City Southern
KBR, Inc.
Lindsay Corporation
LMI Aerospace, Inc.
Lockheed Martin Corporation
Lydall, Inc.
The Middleby Corporation
MRC Global Inc.
Mueller Water Products, Inc.
Nielsen Holdings plc
Owens Corning
Tetra Tech, Inc.
TransUnion
TriMas Corporation
Trinity Industries, Inc.
Veritiv Corporation
Wabash National Corporation
WESCO International, Inc.

Information Technology

Akamai Technologies, Inc.
Alliance Data Systems Corporation
Avnet, Inc.
Cabot Microelectronics Corporation
Cardtronics plc
Fiserv, Inc.
Methode Electronics, Inc.
Micron Technology, Inc.
Total System Services, Inc.
VASCO Data Security International, Inc.
Visa Inc.
The Western Union Company
Worldpay, Inc.

Materials

A. Schulman, Inc.
Koppers Holdings Inc.
P. H. Glatfelter Company
TimkenSteel Corporation
Vulcan Materials Company

Real Estate

American Tower Corporation

Telecommunication Services

CenturyLink, Inc.
Vonage Holdings Corp.

Utilities

The AES Corporation
Ameren Corporation
American Electric Power Company, Inc.
CenterPoint Energy, Inc.
DTE Energy Company
Exelon Corporation
FirstEnergy Corp.
NiSource Inc.
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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