2017 Corporate Governance & Incentive Design Survey

Fall 2017

Contents

Executive Summary

As companies review their executive compensation programs and related corporate governance policies, current market practices and recent trends can provide competitive benchmarks that are helpful in understanding current and future "best practices."

In order to inform these perspectives, Meridian's 2017 Corporate Governance & Incentive Design Survey presents our findings on a variety of executive compensation and corporate governance topics facing companies today. Results are reflective of 200 large publicly traded companies across a variety of industries (the "Meridian 200") with median revenues and market capitalization of $15.8B and $28.0B, respectively.

All information was obtained from publicly disclosed documents. Meridian has conducted a similar analysis annually since 2011. Beginning in 2017, the sample size was reduced from 250 companies to 200 (all of the Meridian 200 companies were part of the 2016 survey group). The reduction in the sample size had a minimal impact on the year-over-year survey results. See Profile of Survey Companies for more information on the survey sample.

Highlights of Meridian's 2017 Corporate Governance & Incentive Design Survey include:

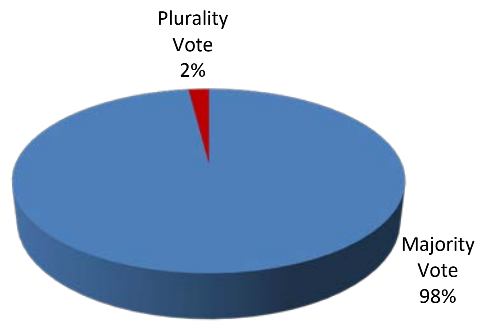
- The great majority of Meridian 200 companies (91%) elect directors annually (i.e., declassified board structure).
- Prevalence of proxy access bylaws among the Meridian 200 (67%) nearly doubled from 2016 to 2017.
- Nearly all of the Meridian 200 (98%) have at least one female board member, however, approximately three-quarters (74%) have a board make-up that is less than 30% female.
- Almost two-thirds of the Meridian 200 (64%) include a summary at the beginning of the proxy statement.
- While CD&A executive summaries and volitional disclosures are nearly universal (95%), such disclosures continue to increase in length, typically spanning three or more pages (70%).
- Three-quarters of the Meridian 200 (75%) disclosed shareholder outreach efforts, with over one-third (35%) providing specific detail on feedback received and/or actions taken.
- For annual incentive plans, the most prevalent performance metrics continue to be Operating Income, Revenue, Cash Flow and Earnings per Share (EPS).
- Nearly all of the Meridian 200 (97%) grant performance-based vehicles as part of their long-term incentive (LTI) plans, with performance-based vehicles, on average, representing nearly 60% of the total LTI plan value for CEOs.
- Relative total shareholder return (TSR) continues to be the most prevalent metric used in performance-based LTI plans (64%), typically being paired with at least one additional performance metric (82%).
- Nearly one-quarter (23%) of the Meridian 200 cap upside payouts of relative TSR plans in periods where shareholders experience negative absolute returns.

Corporate Governance Practices

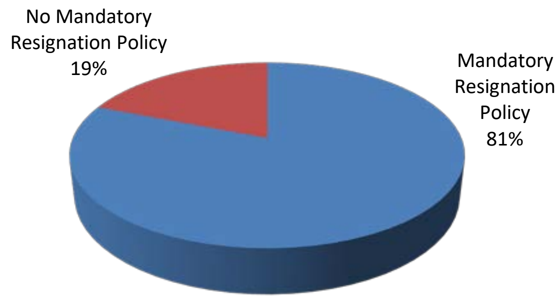
Corporate Governance Practices

Board Structure

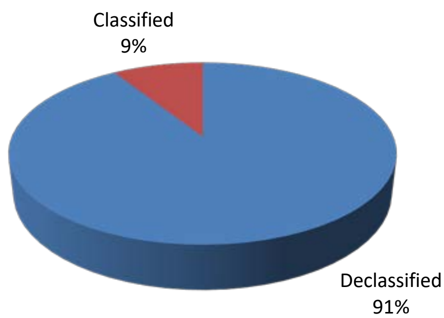
What voting standard does the company employ for uncontested director elections?



Is there a mandatory resignation policy in place if a director fails to receive majority shareholder support? (Results exclude companies that employ a plurality voting standard.)

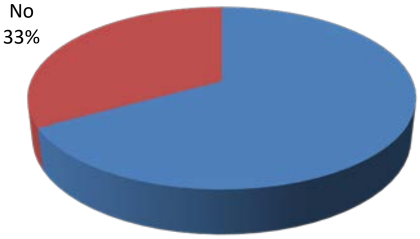


Is the board's structure classified (i.e., director terms are staggered)?



Proxy Access

Does the company disclose the adoption of a proxy access bylaw?



Meridian Comment

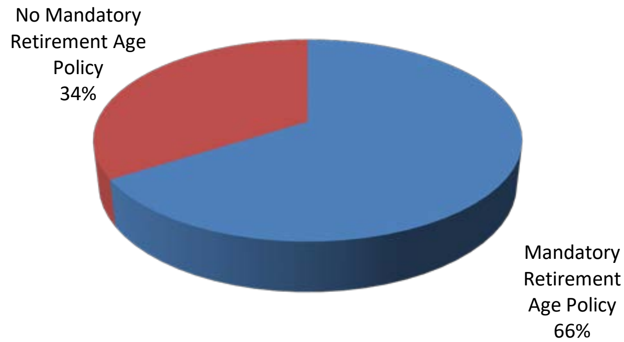
A strong majority of the Meridian 200 continue to employ what many observers consider to be hallmarks of leading corporate governance practices. This includes a majority voting standard for director elections, a mandatory resignation policy if directors fail to receive majority support and a declassified board structure.

Since we began conducting the survey in 2011, the percentage of companies employing a majority voting standard has increased approximately 20 percentage points to 98%. Over the same time period, the percent of companies employing a declassified board structure has risen from 67% to 91%. Shareholders are strong advocates of annual director elections for purposes of accountability and responsiveness, and have propelled the steep decline of classified boards in recent years.

Proxy access is the latest corporate governance practice to gain traction among large cap companies, largely driven by shareholder-led initiatives. The prevalence of proxy access bylaws among Meridian 200 companies nearly doubled this year (38% in 2016 to 67% in 2017), which represents the most significant year-over-year change of any topic in this year's survey. The increase is due, in large part, to companies proactively adopting proxy access bylaws in response to successful campaigns from the New York City Pension Fund and institutional shareholders supporting certain proxy access parameters. Most of these adoptions require a shareholder to own more than 3% of the company for at least three years to take advantage of proxy access.

Mandatory Retirement, Director Tenure and Gender Diversity

Does the company disclose a mandatory retirement age policy for directors (i.e., an age at which directors cannot stand for re-election at the next annual meeting)?



At what age do companies prohibit a director from standing for re-election? (Results only include companies with a mandatory retirement age policy.)

Age	Prevalence
70	2%
71	1%
72	52%
73	5%
74	9%
75	29%
>75	2%

What is the tenure of the Meridian 200 independent directors?

Tenure	Prevalence
0-5 years	44%
6-9 years	20%
10-14 years	22%
> 14 years	14%

What percent of board members are female?

Percent Female	Prevalence
0%	2%
1-9%	2%
10%-19%	29%
20%-29%	41%
30%-39%	22%
40%+	4%

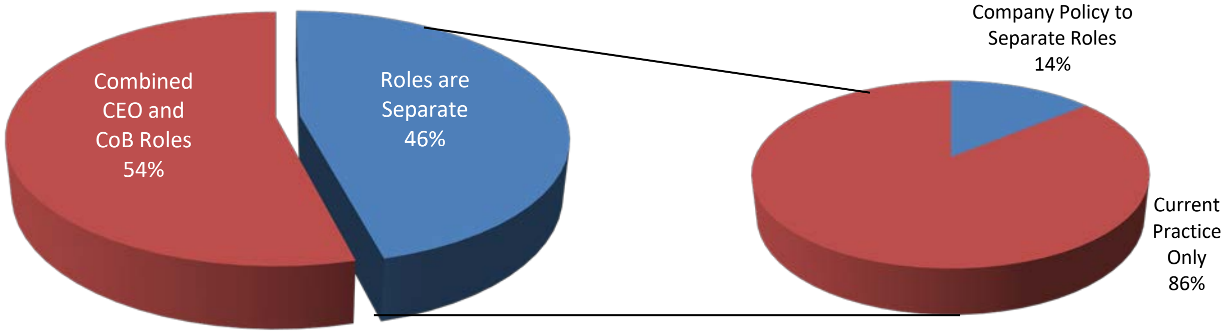
Meridian Comment

A majority (66%) of the Meridian 200 disclose a mandatory retirement policy, up from 47% in 2014. Growing interest in the link between director tenure and independence by governance activists has likely driven the increase over the last three years, as board “refreshment” continues to be a high priority topic. Of the companies with mandatory retirement policies, 95% have selected an age between 72 and 75.

Gender diversity among directors has become a focus for boards as governance activists have increasingly scrutinized companies with few or no female directors. Almost all of the Meridian 200 (98%) currently have at least one female director. Nearly three-quarters of companies (74%) maintain a board make-up that is less than 30% female. We expect gender diversity and board refreshment to continue to be focal points for many large institutional investors and proxy advisors.

Board Leadership

Does the CEO also serve as Board Chair (CoB)? If not, is it the company's policy to *mandate* the separation of the CEO and CoB role?



If the CEO and CoB roles are separate, what is the CoB's relationship to the company?

Non-CEO Board Chair[1]	Prevalence
Independent	60%
Prior CEO	32%
Current Employee (i.e., Executive Chair)	27%
Founder/Founding Family[2]	12%

[1] Incumbents may be included in multiple categories.

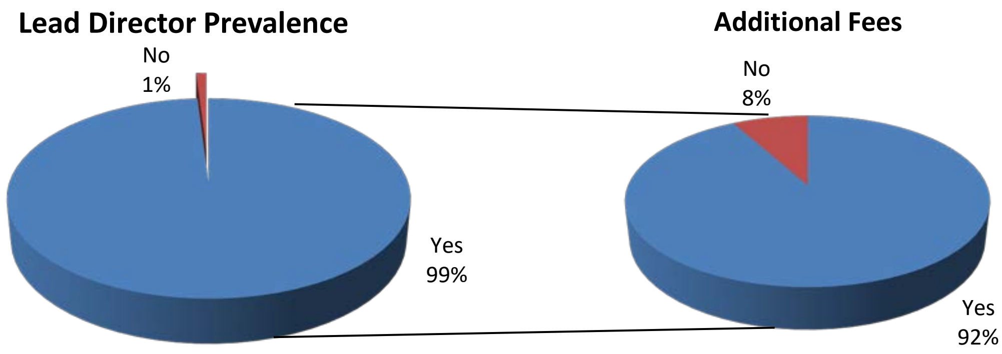
[2] Founding family includes 2nd or 3rd generation members of the original founder.

Meridian Comment

Slightly over one-half of the Meridian 200 (54%) prefer a leadership structure where the CoB and CEO roles are combined, with one voice speaking for the company. However, separating these roles can be advantageous for companies going through a transition period or where a new CEO has little experience in the role and/or limited board experience.

While 46% of companies separate the roles, a great majority of these companies (86%) do not have a formal policy that mandates such separation. In addition, a majority of the companies that separate the roles (60%) have elected a CoB who is an independent director, with no prior executive relationship with the company.

Is a standing (i.e., non-rotating) Lead Director designated? If so, does the Lead Director receive additional fees? (Results exclude companies where the CoB and CEO roles are separated.)



If paid, how much are lead directors paid?

Fees Paid	Prevalence
<$20,000	3%
$20,000-$30,000	60%
$30,001-$50,000	31%
>$50,000	6%

Meridian Comment

It is a near universal practice (99%) to designate a Lead Director if the roles of CoB and CEO are combined. The prevalence of a Lead Director has steadily increased from 88% in 2011, indicating that the establishment of formal board leadership roles has become a best practice. A non-rotating Lead Director role can provide considerable board leadership in the absence of a separate CoB.

A significant majority of the Meridian 200 that designate a Lead Director (92%) provide additional fees to recognize the increased time commitment and responsibility of the role. For a majority of these companies (60%) the additional fee ranges between $20,000 and $30,000 and trending higher.

Proxy Disclosure

Proxy Disclosure

Executive Summary Disclosures

Is an executive summary included at the beginning of the full proxy statement and/or at the front of the CD&A?

Proxy Disclosure	Prevalence
Executive Summary of the CD&A	95%
Proxy Summary[1]	64%

[1] Refers to a summary at the beginning of the proxy statement highlighting the key information throughout the disclosure, including all management and shareholder proposals.

What is the length of the executive summary at the beginning of the CD&A?

Length of CD&A Executive Summary	Prevalence
No CD&A Executive Summary	5%
1-2 Pages in Length	25%
3-4 Pages in Length	41%
5 or More Pages in Length	29%

Meridian Comment

Nearly all of the Meridian 200 provide voluntary disclosures in their proxy statement. The most prevalent is an executive summary to the CD&A (95%), which has emerged as a best practice to articulate the details of compensation programs. Executive summaries typically include an overview of a company's executive compensation program, recent changes to corporate governance or executive pay practices and volitional graphs or charts highlighting NEO pay levels and/or company performance. The increasing prevalence of supplemental disclosures in recent years has resulted in longer executive summaries, often stretching three or more pages in length (70%).

Nearly two-thirds of the Meridian 200 (64%) include a proxy summary, a substantial increase from 2013 (29%) when this topic was first tracked in the survey. Proxy summaries may include a glimpse of the company's business strategy, letters from the CEO, important pay messages, data on financial performance and/or key vote information including disclosure of all management and shareholder proposals.

Over 90% of the Meridian 200 held a Say on Pay vote at their most recent shareholder meeting. Less than 2% of the Meridian 200 failed their Say on Pay vote in 2017, with another 5% only receiving between 50%-70% shareholder support. In a continued effort to achieve high levels of shareholder support (currently averaging around 90%), the Meridian 200 continue to provide comprehensive disclosures to describe and defend their executive compensation practices.

Shareholder Outreach

Did the company provide information on shareholder engagement in the proxy statement?

Shareholder Outreach Disclosures	Prevalence
No specific reference to shareholder outreach in the proxy	25%
Disclosed shareholder outreach, but did not expand on shareholder feedback or specific actions taken by the company	31%
Disclosed shareholder outreach, including shareholder feedback and/or actions taken as a result of the feedback	44%

Where in the proxy is shareholder outreach disclosed?

Proxy Location	Prevalence[1]
Proxy summary	38%
Corporate governance section	56%
CD&A	62%
Say on Pay Proposal	7%

[1] Sum of prevalence percentages exceeds 100% due to companies that disclose shareholder outreach in multiple locations throughout the proxy.

Meridian Comment

Although regular shareholder outreach has historically been a common practice, companies are increasingly disclosing their shareholder engagement process in their proxy statements, highlighting efforts to communicate directly with their larger institutional investors on executive compensation and corporate governance topics throughout the year. Forty-four percent (44%) of the Meridian 200 provided details on the feedback received by shareholders and/or the specific actions the company has taken to address shareholder concerns.

Disclosures vary considerably in terms of detail, content and location with the proxy. Meridian 200 companies most commonly disclosed shareholder outreach efforts in the CD&A (62%) and corporate governance (56%) sections of the proxy. Nearly one-half (45%) of companies disclosing shareholder outreach programs discuss their efforts in more than one location throughout the proxy.

Explaining the communication efforts with institutional investors demonstrates a company's responsiveness to shareholders and can provide a strong rationale for compensation program decisions. As such, we anticipate more companies will discuss their approach to shareholder engagement in future proxy statements, including details on how shareholder feedback, including Say on Pay vote outcomes, helped drive compensation and corporate governance decisions.

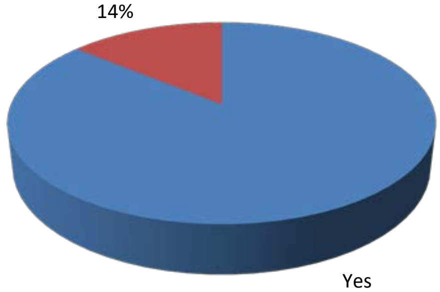
Performance Disclosure

A common practice of the Meridian 200 is to disclose results on company performance. This is distinguished from a comparison of pay and performance, for which prevalence data is provided on the following page. Performance disclosures fall into two categories:

- **Absolute Performance**—a disclosure solely depicting the company's financial performance or stock price (i.e., no relative comparison).
- **Relative Performance**—a disclosure comparing the company's financial performance or stock price to the financial performance or stock price of other companies.

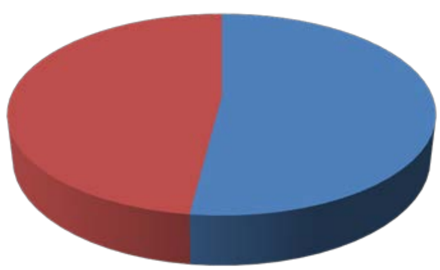
Absolute Performance

Does the company provide a disclosure regarding absolute company performance?



Relative Performance

Does the company provide a disclosure regarding relative company performance?



Meridian Comment

A strong majority of the Meridian 200 (86%) provide absolute company performance disclosures highlighting recent financial results and business achievements. Absolute performance disclosures act as a way to connect a company's progress with compensation decisions.

Relative performance disclosures (52%) have steadily increased in prevalence in recent years. Relative performance disclosures are most often compared to the compensation benchmarking peer group (55%) and/or a broad industry index (54%) such as the S&P 500.

Pay and Performance Disclosure

Over one-fourth of the Meridian 200 (28%) provide additional disclosures comparing NEO pay to company performance in an effort to show alignment.

Does the company compare performance to one of the following forms of pay?

Pay Definition	Prevalence[1]
Realized or Realizable Pay	63%
Summary Compensation Table Pay (Excluding Change in Pension Value/Non-Qualified Deferred Compensation Earnings and/or All Other Compensation)	34%
Total Compensation from Summary Compensation Table	11%
Target Pay	21%

[1] Sum of prevalence percentages exceeds 100% due to companies that show multiple forms of pay in their pay and performance disclosures.

Meridian Comment

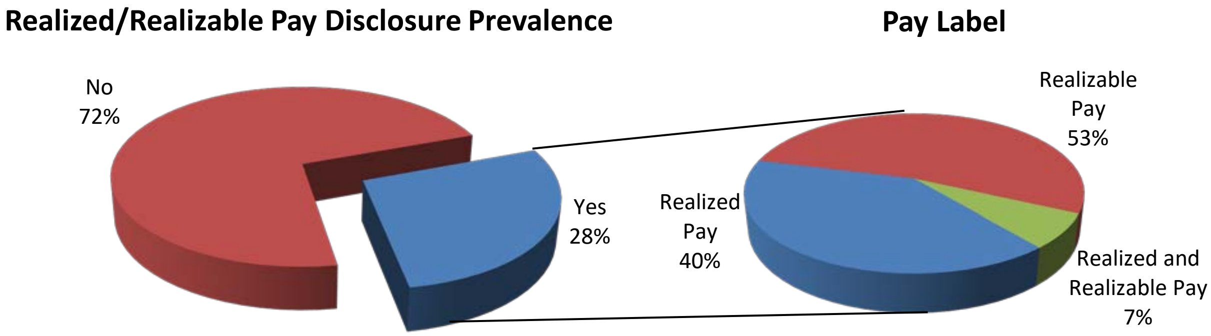
Although the Securities and Exchange Commission (SEC), proposed a rule requiring companies to disclose the relationship between executive pay and company performance, they have yet to issue a final rule as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). The current White House administration has recently shifted the agenda of the SEC, making it unlikely for the proposed rules to be finalized in the near future. Despite the lack of SEC mandate on pay and performance relationship disclosure, just under one-third of the Meridian 200 voluntarily provided a pay and performance disclosure. This is likely a response to pressures from institutional shareholders and their advisors, and the desire to positively influence Say on Pay vote outcomes. While disclosures vary widely, realized/realizable pay continues to be the most prevalent pay definition used by the Meridian 200.

If the SEC's proposed rule is not finalized, it remains uncertain whether pay and performance disclosures will become a predominant practice.

Realized/Realizable Pay Disclosure

Over one-fourth of the Meridian 200 (28%) provide voluntary disclosures with alternative measurements of pay based on earned (realized) or projected (realizable) compensation, up nearly 10% in the last three years (19% in 2014). Note that these pay disclosures differ from the pay and performance disclosures highlighted on the previous page.

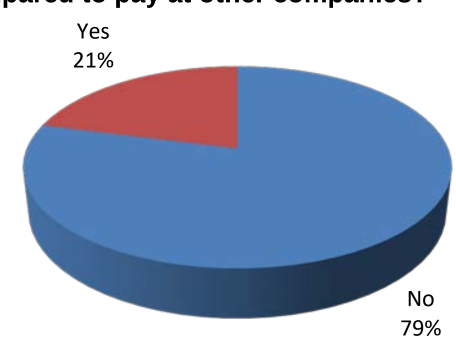
Does the company provide a realized or realizable pay disclosure? If so, how is pay labeled?



Whose pay is included in the realized or realizable pay disclosure?

NEO Pay Included in Disclosure	Prevalence
CEO Only	80%
All Named Executive Officers Depicted Separately	13%
CEO and Average of Other Named Executive Officers	4%
Average of All NEOs	3%

Is realized or realizable pay compared to pay at other companies?



Meridian Comment

Among the Meridian 200, the realized/realizable pay disclosures take various forms and may include comparisons to target pay (50%), Summary Compensation Table pay (25%) and/or executive pay relative to other companies (21%).

We expect both realized and realizable pay disclosures to continue to grow in prevalence, as companies supplement the required disclosure to further distinguish between an executive's target compensation opportunity and pay that has been earned or is projected to be earned.

Company Policies

Company Policies

Executive Equity Holdings

Stock Ownership Guidelines

Nearly all of the Meridian 200 (99%) impose stock ownership guidelines on their NEOs. The tables below detail the different executive stock ownership guideline design components.

Stock Ownership Guidelines Structure	Prevalence
Multiple of Salary	91%
Number of Shares	6%
Combination of Multiple of Salary and Number of Shares[1]	2%
None Disclosed	1%

[1] Guidelines that are expressed as a multiple of salary and a number of shares most often require executives to achieve the lesser of a multiple of salary or a specific number of shares.

For companies using a Multiple of Salary structure, what is the average and the most prevalent multiple of salary among the Meridian 200?

Multiple of Salary Level	CEO	Highest NEO Multiple	Lowest NEO Multiple
Average Multiple of Salary	6.2×	3.6×	3.0×
Most Prevalent Multiple of Salary	6.0×	3.0×	3.0×

Which of the following are defined as "stock" for purposes of achieving stock ownership guideline requirements? (Prevalence only includes companies that disclose a definition of "stock.")

Vehicle	Prevalence
Actual Stock Owned	100%
Unvested Restricted Stock/RSUs	66%
Shares Held in Retirement/Savings Accounts	61%
Unvested Deferred Shares	40%
Vested Stock Options	14%
Unearned Performance Shares/Units	8%

What is the timing requirement to meet ownership guidelines?

Timing	Prevalence
5 Years	66%
1-4 Years	3%
Holding Requirement Only[1]	31%

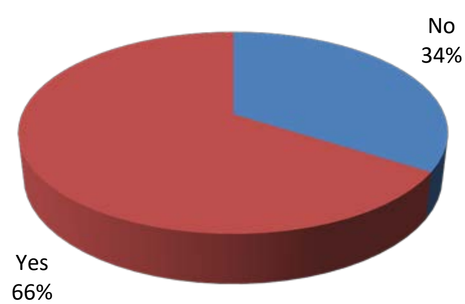
[1] Holding requirement in lieu of specific timing requirement (see next page for further details).

Holding Requirements

The holding requirement structures are defined as:

- **Hold Until Met**—requires an executive to retain a specified percentage of shares received from vested share-based awards or exercised options until ownership guidelines are fully achieved.
- **Holding Requirement Always in Place**—requires an executive to retain a specified percentage of shares received from vested share-based awards or exercised options for a specific period of time regardless of whether ownership guidelines are achieved (e.g., hold for one year post-vesting).
- **Hold Only If In Non-Compliance**—requires an executive to retain a specified percentage of shares received from vested share-based awards or exercised options if the ownership guidelines are not met within the allotted time period or if an executive falls out of compliance.
- **Hold Until Retirement**—requires an executive to retain a specified percentage of shares received from vested share-based awards or exercised options until employment ends.

Does the company disclose the use of a stock holding requirement in addition to or in lieu of a required stock ownership level?



How is the stock holding requirement structured?

Holding Requirement Structure	Prevalence Among the Meridian 200	Prevalence Among Companies with a Holding Requirement[1]
Hold Until Met	48%	72%
Holding Requirement Always in Place	10%	14%
Hold Only If In Non-Compliance	8%	12%
Hold Until Retirement	5%	8%

[1] Sum of prevalence percentages exceeds 100% since companies may have multiple holding requirements.

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Hold Until Met Requirement

The most common stock holding requirement structure is Hold Until Met. The table below illustrates the percentages of "net of tax" shares that must be held by an executive with a Hold Until Met requirement.

Percent Required to be Held	Prevalence
100% of Net Shares	47%
75% of Net Shares	9%
50% of Net Shares	39%
Other	5%

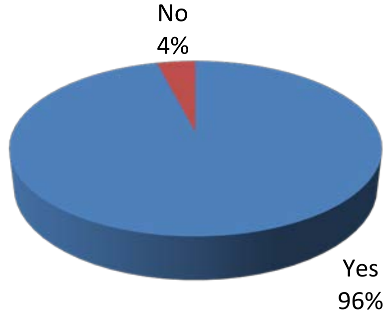
Meridian Comment

The Multiple of Salary approach to executive stock ownership guidelines continues to be the predominant practice across the Meridian 200. The multiple of salary that is required to be held by the CEO has increased modestly since 2011, from 5.4× to 6.2×. The multiple that is required to be held for the Highest Paid NEO and the Lowest Paid NEO has remained relatively constant over the past five years.

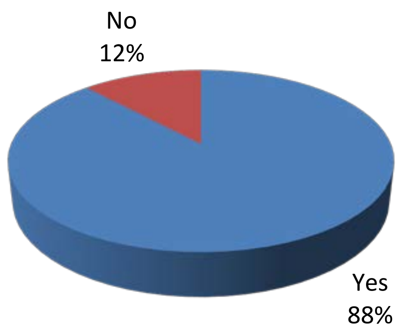
Two-thirds (66%) of the Meridian 200 disclose the use of holding requirements for NEOs. We have seen a steady rise in holding requirement disclosures in recent years, up from 51% in 2013. The Hold Until Retirement design arguably is the preferred practice among corporate governance observers, yet its use remains a small minority practice. Among companies disclosing a holding requirement, a Hold Until Met structure is most prevalent (72%).

Anti-Hedging and Anti-Pledging Policies

Does the company disclose the existence of an anti-hedging policy?



Does the company disclose the existence of an anti-pledging policy?



Meridian Comment

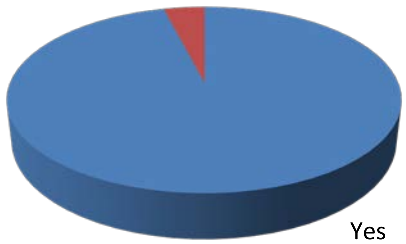
The disclosure of an anti-hedging policy is nearly universal among the Meridian 200 (96%) and has risen from 57% prevalence in 2011. It is unclear whether the prevalence of these disclosures has risen because companies are updating their insider trading policies to incorporate anti-hedging language or because companies are disclosing their previously implemented policies for the first time.

Whether or not the proposed Dodd-Frank rule related to hedging disclosures is finalized, anti-hedging policies are likely to remain a near universal practice, as they are considered a governance best practice and are strongly supported by proxy advisors.

A strong majority of the Meridian 200 (88%) also disclose the existence of an anti-pledging policy, up from 66% in 2014. Of these companies, 82% prohibit all pledging of shares, while the remaining 18% permit pledging of shares subject to approval by the board and/or management or have other restrictions in place.

Recoupment (Clawback) Policies

Does the company disclose the existence of a recoupment/clawback policy (excluding Sarbanes-Oxley requirement)?



Clawbacks are triggered by which of the following?

Triggering Events	Prevalence[1]
Ethical Misconduct Leading to a Financial Restatement	59%
Financial Restatement (regardless of cause), Without Requirement of Ethical Misconduct	42%
Ethical Misconduct (includes criminal, fraudulent and/or illegal misconduct), Without Requirement of Financial Restatement	30%
Violation of Restrictive Covenant(s) (includes non-compete, non-solicitation, non-disclosure, non-disparagement, etc.)	21%
Reputational Risk	6%
Failure to Supervise	5%

[1] Sum of prevalence exceeds 100% since a company's clawback may be triggered by more than one event.

Who is covered under the company's clawback policy?

Roles	Prevalence
Current Key Executives (e.g., section 16 officers)	58%
All Incentive (annual and/or equity) Plan Participants	24%
Current and Former Key Executives (e.g., section 16 officers)	11%
All NEOs (disclosure does not specify whether a larger population is covered)	4%
Current Named Executive Officers Only	3%

Which of the following elements of compensation are covered under the company's clawback policy?

Compensation Element	Prevalence
Cash Incentives	99%
Equity Incentives (generally or by listing specific equity vehicles)	97%

Meridian Comment

The prevalence of recoupment or clawback policy disclosures has continued to rise in recent years. Clawback policies are now disclosed by 96% of the Meridian 200, an increase from 75% in 2011. In addition, disclosure of company clawback policies has become more robust, with companies providing detailed information on clawback triggers, covered employees and applicable compensation elements.

While most clawback policies maintained by the Meridian 200 permit companies to recoup compensation upon a triggering event, the SEC's proposed rule would require recoupment. While companies are unlikely to adopt a mandatory recoupment policy unless the proposed Dodd-Frank rule is finalized, we expect that discretionary clawback policies will remain in place. Companies should consider whether forfeiture of existing compensation opportunities (e.g., unvested RSUs) should also be covered by the clawback policy.

Peer Groups

How many custom "benchmarking" peer groups does the Company use for the NEO population?

Number of Peer Groups	Prevalence
N/A – Company Does Not Disclose Any Benchmarking Peer Groups	3%
One Custom Peer Group	86%
Two Custom Peer Groups	10%
Three Custom Peer Groups	1%

Meridian Comment

Nearly all of the Meridian 200 (97%) disclose the use of at least one custom benchmarking peer group. Companies generally select peer groups based on multiple criteria including: revenues, assets, market capitalization, industry segment, complexity, geographic reach, performance, competitors for talent and investors. Nearly three-quarters (73%) of the companies with at least one peer group have a custom benchmarking peer group comprised of between 14 and 22 companies, with the average peer group size being 19 companies.

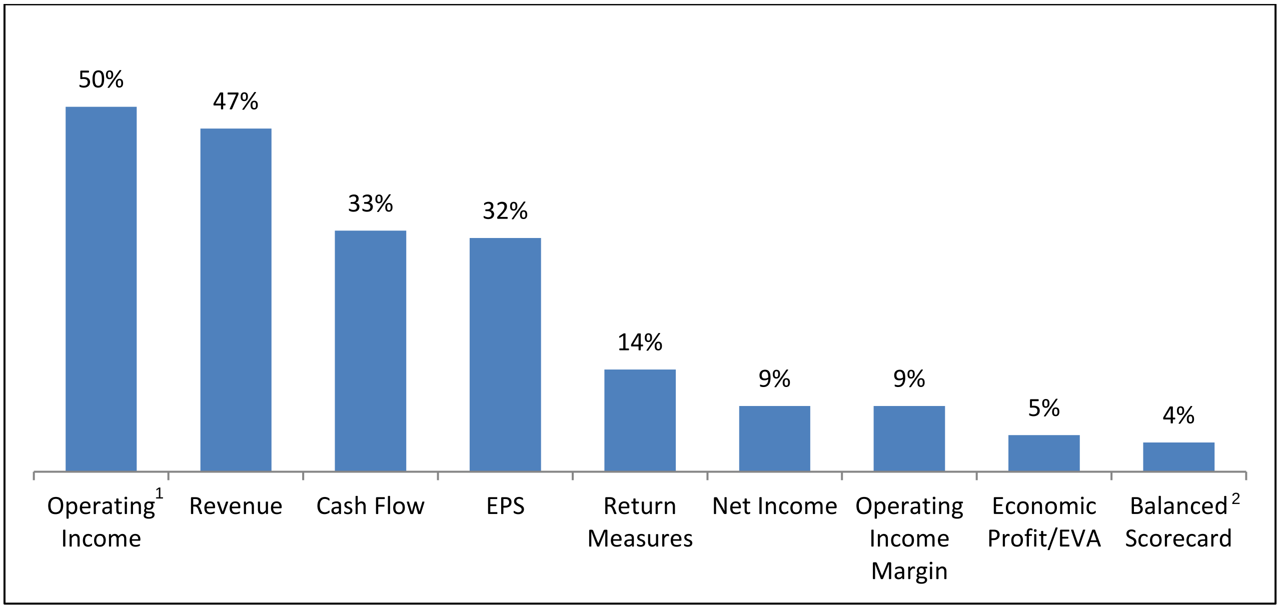
Peer groups are often used for several benchmarking purposes including executive and director pay levels, incentive plan design practices and run-rate and overhang analyses. In addition, many companies use custom peer groups for relative performance comparisons, even if not formally part of incentive plan designs. In recent years, committees and outside observers have increased their focus on peer groups due to the influence benchmarking studies may have on a company's pay practices and compensation levels. We recommend that companies annually evaluate their peer group(s) for continued appropriateness, with an eye on the policies and perspectives of shareholder advisory groups such as ISS and Glass Lewis.

Annual Incentive Plan Design Practices

Annual Incentive Plan Design Practices

Financial Metrics

What corporate financial metrics are used for determining annual incentive plan payouts?



[1] Includes EBIT, EBITDA, Operating Income, Pre-Tax Income, etc.
[2] Represents the prevalence of companies with five or more financial metrics in their annual incentive plan.

Operational and Individual Metrics

A substantial number of companies also incorporate operational/strategic goals and individual performance objectives in their annual incentive plans, typically as supplements to the financial metrics.

Are non-financial metrics used to determine annual incentive plan payouts?

Non-Financial Metrics	Prevalence
Operational/Strategic Corporate Goals	41%
Individual Performance Goals[1]	25%
Individual Performance Modifiers[1]	18%
[1] Performance goals that are established separately for each executive	

Meridian Comment

Consistent with the 2016 results, the most prevalent annual incentive plan metrics used by the Meridian 200 are Operating Income, Revenue, Cash Flow and EPS. The percentage of companies using each financial measure generally remained constant from 2016, with Operating Income and Revenue being the only metrics that exhibited slight increases, given renewed focus on top-line growth.

Overall, earnings-based measures (i.e., Operating Income, EPS or Net Income) are the most prevalent metrics used among the Meridian 200, with over three-fourths of companies (83%) including at least one in their annual incentive plan in 2017.

Performance Curves

If the company uses any of the following metrics, what are the threshold and maximum performance requirements (as a percentage of target)?

Financial Metrics	Threshold Performance Goal as a Percent of Target (Median Values)	Maximum Performance Goal as a Percent of Target (Median Values)
EPS/Net Income	90%	109%
Operating Income	88%	110%
Revenue	96%	104%
Return	72%	123%
Cash Flow	84%	115%

Meridian Comment

Threshold and maximum performance goals as a percentage of target remained relatively constant from 2016, with the exception of return metrics which exhibited a slightly wider range in 2017. In setting threshold and maximum performance goals, the Meridian 200 typically develop a tighter performance range for revenue goals than for other metrics. While market results are informative, the structure of a performance curve is often more strongly influenced by other perspectives such as performance expectations, industry trends and company-specific factors.

Payout Curves (Leverage)

What is the maximum potential payout (as a percent of target) in the annual incentive plan?

Maximum Payout Opportunity	Prevalence
100%-199% of Target	14%
200% of Target	69%
201%-299% of Target	12%
300%+ of Target	5%

What is the threshold payout (as a percent of target) in the annual incentive plan?

Threshold Payout	Threshold Prevalence	Non-Zero Threshold Prevalence
0% of Target[1]	21%	*N/A*
1%-24% of Target	18%	22%
25%-49% of Target	25%	32%
50% of Target	31%	40%
> 50% of Target	5%	6%
[1] Payouts start at $0 for threshold level performance.		

Meridian Comment

The most prevalent approach among the Meridian 200 is to set a maximum payout opportunity of 200% of target (69%) and a threshold payout opportunity of 50% of target (31%). However, 21% of the Meridian 200 discloses setting the annual incentive plan threshold payout at $0 (i.e., a "First Dollar Plan"). First Dollar Plans interpolate payouts on a straight-line basis starting at $1 for performance that exceeds threshold.

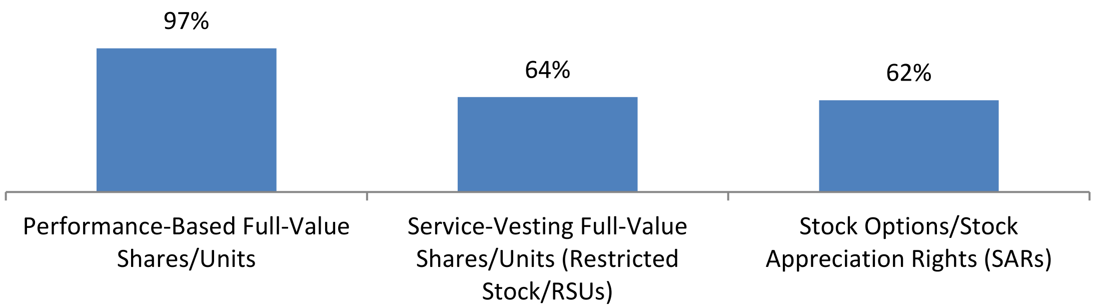
MERIDIAN

Long-Term Incentive Design Practices

Long-Term Incentive Design Practices

Vehicle Use and Mix

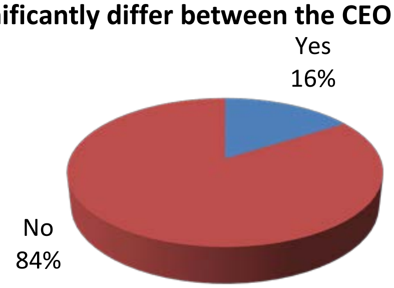
What LTI vehicles do the Meridian 200 use in their LTI mix?



What is the stated LTI mix for the NEOs (based on value)?

LTI Vehicle	Average LTI Mix	
	CEO	Other NEOs
Performance-Based Full-Value Shares/Units	59%	57%
Service-Vesting Full-Value Shares/Units	20%	22%
Stock Options/SARs	21%	21%

Does the stated LTI mix significantly differ between the CEO and other NEOs?



Meridian Comment

Consistent with the results in recent years, the prevalence of each LTI vehicle category indicates strong use of a "portfolio approach." Approximately one-half (49%) of the Meridian 200 use two LTI vehicles and more than one-third (34%) use three or more vehicles.

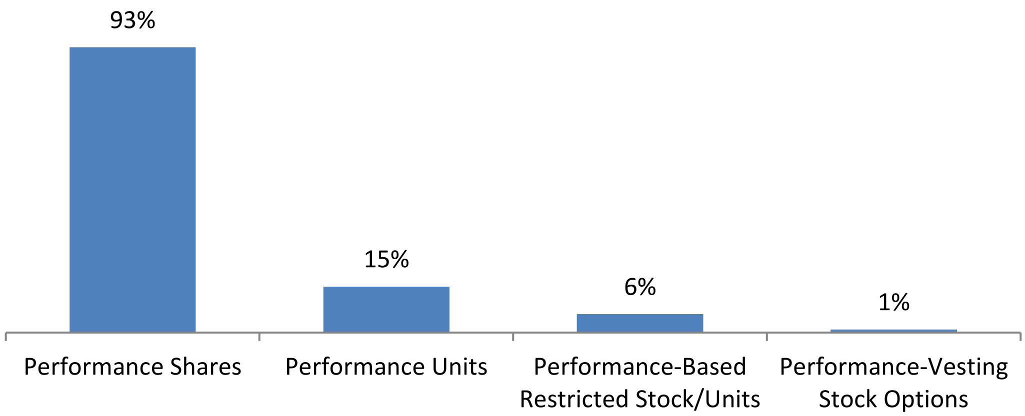
Nearly all companies (97%) use a performance-based vehicle, likely in support of a pay-for-performance approach to executive pay. While service-vesting full-value shares (i.e., restricted stock and restricted stock units) (64%) continue to be slightly more prevalent among the Meridian 200 than stock options/SARs (62%), the use of stock options is still a majority practice.

Since 2012, at least one-half of total LTI value has been granted through performance-based vehicles. The relative value granted through stock options/SARs (21%) and service-vesting full-value shares (22%) remained relatively constant over the same time period.

Performance-Based Long-Term Incentives

Performance-Based Vehicle Use

What performance vehicles do the Meridian 200 use in their LTI mix? (Total exceeds 100% since some companies use more than one type of performance award.)



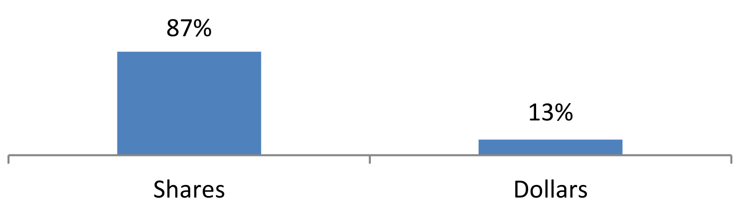
The performance-based vehicles are defined as:

- **Performance Shares**—a performance-based award with the same value as a share of company stock that provides a range of potential payouts depending on achievement against goals.
- **Performance Units**—a performance-based award that assigns a notional value (e.g., $1) to each unit that is not related to the value of a share of company common stock, provides for a range of potential payouts depending on the achievement against goals and is typically paid out in cash.
- **Performance-Based Restricted Stock/Units**—a performance-contingent equity award with no upside payout opportunity (i.e., maximum payout that can be earned is 100% of target).
- **Performance-Vesting Stock Options**—a performance-based stock option award that vests contingent on performance and may offer a range of potential payouts depending on achievement against goals.

***Note:** The remainder of this section refers solely to performance-based full value share/unit awards (i.e., not performance-vesting stock options).*

Denomination

Are the performance-based awards denominated in shares or dollars?



Meridian Comment

A substantial majority of the Meridian 200 (87%) denominate their performance-based vehicles in shares rather than dollars. Companies prefer the use of shares as a currency over cash for a number of reasons including shareholder alignment, additional leverage, compliance with ownership guidelines and non-cash expense.

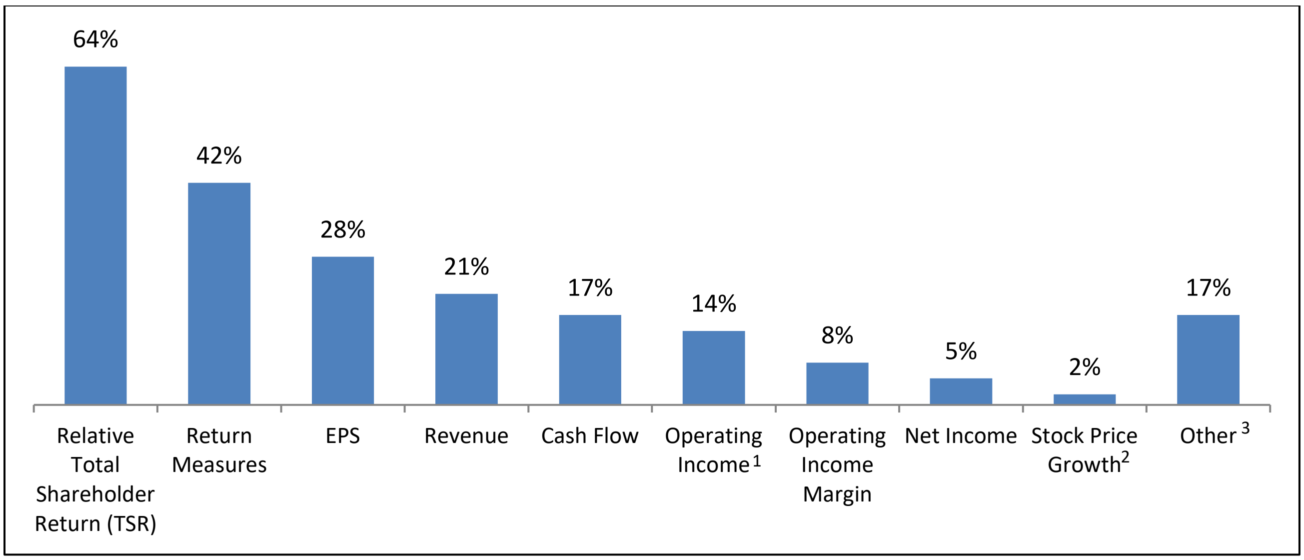
Goal Setting

To determine performance-based award payouts, how does the company set its goals?

Goal Setting Process	Prevalence
Multi-Year Goals (e.g., 3-Year Cumulative TSR or EPS)	89%
Multiple 1-Year Goals Over Performance Period with Goals Set at the Beginning of the Performance Period	4%
Multiple 1-Year Goals Over Performance Period with Goals Set Annually	3%
1-Year Goals With Additional Service Vesting	4%

Metrics

What types of corporate financial metrics are used for determining performance-based award payouts?



[1] Includes EBIT, EBITDA, Operating Income, Pre-Tax Income, etc.

[2] Stock Price Growth includes absolute TSR performance metrics.

[3] "Other" includes metrics such as: Economic Value Added (EVA), Economic Profit, operational goals, etc.

Meridian Comment

Consistent with prior years, the prevalence of companies using relative TSR as a metric (64%) for determining long-term performance-based award payouts remains higher than the overall prevalence of companies using at least one earnings-based metric (i.e., EPS, Operating Income or Net Income) (47%).

Performance Curves

If the company uses any of the following metrics, what are the threshold and maximum performance goals (as a percentage of target)?

Financial Metrics	Threshold Performance Goal as a Percent of Target (Median Values)	Maximum Performance Goal as a Percent of Target (Median Values)
EPS/Net Income	93%	108%
Operating Income	90%	115%
Revenue	97%	103%
Return	89%	111%
Cash Flow	80%	119%

Performance Periods

How long is the performance period (in years)?

Performance Period	Prevalence
1 Year	4%
2 Years	3%
3 Years	91%
> 3 Years	2%

If there is an additional service vesting requirement after the performance period, how long is it?

Additional Service Vesting	Prevalence
No Additional Service Vesting Requirement	88%
1 Year	4%
2 Years	4%
> 2 Years	4%

Meridian Comment

In setting threshold and maximum goals as a percentage of target, the Meridian 200 tend to develop a tighter performance range for revenue goals than for other metrics, with the likely reason being that revenue has less variability. While market results are informative, the structure of a performance curve is influenced by other perspectives, including performance expectations, industry and factors specific to the company.

Only 12% of the Meridian 200 require additional service vesting after the performance period. These companies typically have a performance period of one or two years and stipulate an additional service requirement of one to three years.

Payout Curves (Leverage)

What is the maximum payout opportunity for leveraged performance-based awards?

Maximum Payout Opportunity	Prevalence
101%-149% of Target	3%
150% of Target	15%
151%-199% of Target	7%
200% of Target	69%
201%-299% of Target	4%
300% + of Target	2%

What is the threshold payout for leveraged performance-based awards?

Threshold Payout	Threshold Prevalence	Non-Zero Threshold Prevalence
0% of Target[1]	13%	*N/A*
1%-24% of Target	14%	16%
25% of Target	19%	22%
26%-49% of Target	13%	15%
50% of Target	38%	44%
> 50% of Target	3%	3%

[1] Payouts start at $0 for threshold level performance.

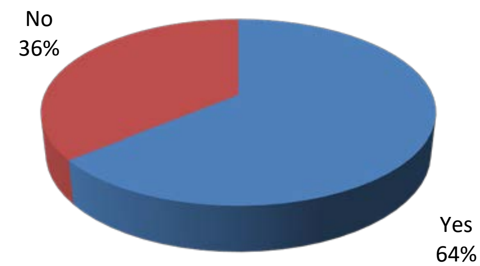
Meridian Comment

The most prevalent approach among the Meridian 200 is to set a maximum payout opportunity of 200% of target (69%) and a threshold payout opportunity 50% of target (38%). Setting a maximum opportunity above 200% of target is not a typical practice and is only observed at a small minority of the Meridian 200 (6%). Although a 50% of target threshold payout is the most common practice, slightly over one-half of the companies (59%) set a threshold opportunity below 50% of target.

The prevalence of companies setting threshold below 50% of target increased five percentage points from 2016. This increase is partially driven by companies disclosing lower entry points to threshold payout for motivational purposes but could also be a sign of more sophisticated, multi-metric program designs allowing for weighted-average threshold payouts, even if one or more metrics miss threshold performance.

Relative TSR Performance Metrics

Does the company use relative TSR as a metric for determining performance-based award payouts (results exclude the use of absolute TSR metrics)?



If relative TSR is used, are additional metrics used for determining long-term performance award payouts?

Long-Term Performance Metrics	Prevalence
Relative TSR is the Sole Performance Metric	18%
Relative TSR is One of Multiple Performance Metrics	82%

If relative TSR is used, what is performance assessed against?

Relative TSR Comparator Group	Prevalence[1]
General Market Index	31%
Compensation Benchmarking Peer Group	27%
Performance Peer Group[2]	26%
Industry Specific Index	20%

[1] Sum of prevalence percentages exceeds 100% due to companies that assess performance against more than one peer group/index.

[2] Represents peer groups that include at least some variation in companies from the compensation benchmarking peer group (i.e., not simply a subset of the compensation benchmarking peer group).

If relative TSR is used, is it used as a performance modifier or a weighted performance metric?

Relative TSR Measure Design	Prevalence
TSR is used as a modifier	22%
TSR is used as a weighted performance metric	78%

Relative TSR Performance Goals

If relative TSR is used, what is the target performance level as a percentile rank relative to the comparator group (excludes relative TSR modifiers)?

Target Performance Level	Prevalence
50th Percentile	70%
51st-60th Percentile	26%
Above 60th Percentile	4%

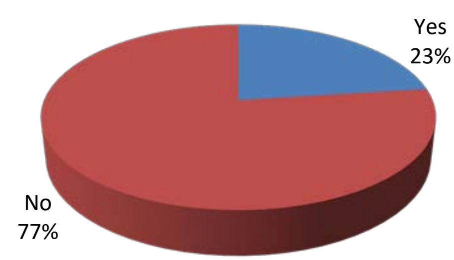
If relative TSR is used, what is the maximum performance level as a percentile rank relative to the comparator group (excludes relative TSR modifiers)?

Maximum Performance Level	Prevalence
Below 75th Percentile	2%
75th Percentile	37%
76th-89th Percentile	16%
90th Percentile	22%
Above 90th Percentile	23%

If relative TSR is used, what is the threshold performance level as a percentile rank relative to the comparator group (excludes relative TSR modifiers)?

Threshold Performance Level	Prevalence
Below 25th Percentile	9%
25th Percentile	48%
26th-30th Percentile	20%
Above 30th Percentile	23%

If relative TSR is used, is there a negative TSR cap in place (i.e., limits payouts in years with negative <u>absolute</u> TSR regardless of relative performance)?



If there is a negative TSR cap in place, how does it limit payouts in years with negative absolute TSR?

Payout Limit	Prevalence
Capped at target	79%
Capped below target	10%
Capped above target	7%
Payouts reduced by set amount	4%

Meridian Comment

Nearly two-thirds (64%) of the Meridian 200 use a relative TSR metric, and of those companies, over three-fourths (82%) pair it with at least one additional performance metric. The most prevalent practice is to assess TSR against a general market index (31%), although comparing company TSR results to compensation benchmarking groups (27%), performance peer groups (26%) or industry-specific indexes (20%) are all reasonably common market practices as well.

For companies that use a relative TSR measure, nearly three-fourths (70%) set target performance at the 50^{th} percentile of the comparator group. The most prevalent threshold and maximum performance levels are the 25^{th} and 75^{th} percentiles, respectively. However, 45% of the companies set a maximum performance goal at or above the 90^{th} percentile, requiring superior performance relative to the comparator group to achieve the maximum level payout.

In recent years, the concept of a negative TSR cap has received increased attention. These caps limit upside payouts of relative TSR-based plans for periods when shareholders experience negative absolute returns. While proxy advisors and some institutional investors favor such TSR payout caps, some companies believe they negate the incentive of out-performing peers in challenging macro-economic conditions. Nearly one-fourth of the Meridian 200 (23%) has a negative TSR cap in place. For those companies with a cap in place, payouts are often capped at target level (79%).

Profile of Survey Companies

Profile of Survey Companies

Methodology

Meridian reviewed the corporate governance and incentive design practices of 200 large publicly traded companies (the "Meridian 200") through the most recently available publicly filed documents (typically proxy statements). Financial highlights of the companies are provided below, followed by a full listing of the companies used in the survey. All figures shown are as of the end of fiscal year 2016.

	Revenues ($M)	Market Value ($M)	Employees	ROIC (3-Year)	Annualized TSR (3-Year)
25th Percentile	$8,840	$13,151	17,985	6.3%	4.0%
Median	$15,806	$28,042	42,734	10.2%	14.1%
75th Percentile	$37,783	$62,486	87,750	16.5%	22.8%

Survey Companies (n = 200)

3M Company
Abbott Laboratories
Accenture plc
Adobe Systems Incorporated
The AES Corporation
Aetna Inc.
Alaska Air Group, Inc.
Alcoa Corporation
Allegheny Technologies Incorporated
Alliance Data Systems Corporation
The Allstate Corporation
American Electric Power Company, Inc.
American Express Company
AmerisourceBergen Corporation
Anadarko Petroleum Corporation
Andeavor
Anthem, Inc.
Apache Corporation
Applied Materials, Inc.
Archer-Daniels-Midland Company
AT&T Inc.
Automatic Data Processing, Inc.
Baker Hughes Incorporated
Ball Corporation
Baxter International Inc.
Becton, Dickinson and Company
Best Buy Co., Inc.
The Boeing Company
BorgWarner Inc.
Boston Scientific Corporation
Briggs & Stratton Corporation
Brown-Forman Corporation
Campbell Soup Company
Cardinal Health, Inc.
Carnival Corporation
Caterpillar Inc.
CBS Corporation
Centene Corporation
CenturyLink, Inc.
Chevron Corporation
Chicago Bridge & Iron Company N.V.
Cigna Corporation
The Clorox Company
The Coca-Cola Company
Colgate-Palmolive Company
Comcast Corporation
ConAgra Brands, Inc.
ConocoPhillips
Consolidated Edison, Inc.
Cooper Tire & Rubber Company
Corning Incorporated
Costco Wholesale Corporation
CSX Corporation
Cummins Inc.
CVS Health Corporation
Danaher Corporation
Deere & Company
Delta Air Lines, Inc.
Devon Energy Corporation
Discover Financial Services
Dollar General Corporation
Domtar Corporation
The Dow Chemical Company
E. I. du Pont de Nemours and Company
Eaton Corporation plc
eBay Inc.
Ecolab Inc.
Eli Lilly and Company
Emerson Electric Co.
Entergy Corporation
EOG Resources, Inc.
The Estée Lauder Companies Inc.
Essendant Inc.
Eversource Energy
Exelon Corporation
Exxon Mobil Corporation
FedEx Corporation
FirstEnergy Corp.
Flowserve Corporation
Fluor Corporation
FMC Corporation
Ford Motor Company
The Gap, Inc.
General Dynamics Corporation

General Electric Company
General Mills, Inc.
The Goldman Sachs Group, Inc.
Halliburton Company
Hanesbrands Inc.
Harley-Davidson, Inc.
The Hartford Financial Services Group, Inc.
Hasbro, Inc.
The Hershey Company
Hess Corporation
The Home Depot, Inc.
Honeywell International Inc.
HP Inc.
Humana Inc.
Ingersoll-Rand Plc
Intel Corporation
The Interpublic Group of Companies, Inc.
International Business Machines Corporation
International Paper Company
Johnson & Johnson
Johnson Controls International plc
Kellogg Company
Kohl's Corporation
The Kraft Heinz Company
The Kroger Co.
Laboratory Corporation of America Holdings
Lockheed Martin Corporation
Lowe's Companies, Inc.
Macy's, Inc.
Marathon Oil Corporation
Marriott International, Inc.
Masco Corporation
Mastercard Incorporated
Mattel, Inc.
McDonald's Corporation
McKesson Corporation
Merck & Co., Inc.
MetLife, Inc.
Microsoft Corporation
Mondelēz International, Inc.
Monsanto Company
Morgan Stanley
Motorola Solutions, Inc.
Murphy Oil Corporation
National Oilwell Varco, Inc.
NCR Corporation
Newell Brands Inc.
News Corporation
NIKE, Inc.
NiSource Inc.
Nordstrom, Inc.
Northrop Grumman Corporation
Old Dominion Freight Line, Inc.
Omnicom Group Inc.
ONEOK, Inc.
Oracle Corporation
Owens Corning
PepsiCo, Inc.
Perrigo Company plc
Pfizer Inc.
PG&E Corporation
Philip Morris International Inc.
PPG Industries, Inc.
Praxair, Inc.
The Procter & Gamble Company
Prudential Financial, Inc.
Public Service Enterprise Group Incorporated
QUALCOMM Incorporated
Quest Diagnostics Incorporated
Raytheon Company
Republic Services, Inc.
Reynolds American Inc.
Rockwell Automation Inc.
Schlumberger Limited
Seagate Technology plc
Sealed Air Corporation
The Sherwin-Williams Company
Southwest Airlines Co.
Sprint Corporation
Stanley Black & Decker, Inc.
Staples, Inc.
Starbucks Corporation
Steelcase Inc.
Sysco Corporation
Target Corporation
Tenneco Inc.
Texas Instruments Incorporated
Thor Industries, Inc.
Time Warner Inc.
The TJX Companies, Inc.
Tower International, Inc.
Transocean Ltd.
The Travelers Companies, Inc.
Tyson Foods, Inc.
Union Pacific Corporation
United Continental Holdings, Inc.
United Parcel Service, Inc.
UnitedHealth Group Incorporated
Valero Energy Corporation
Verizon Communications Inc.
V.F. Corporation
Visa Inc.
VMware, Inc.
W.W. Grainger, Inc.
Walgreens Boots Alliance, Inc.
Wal-Mart Stores, Inc.
The Walt Disney Company
Waste Management, Inc.
WESCO International, Inc.
The Western Union Company
WestRock Company
Whirlpool Corporation
Whole Foods Market, Inc.
The Williams Companies, Inc.
Xerox Corporation
Yum! Brands, Inc.

Meridian Compensation Partners Profile

Meridian Compensation Partners, LLC is an independent executive compensation consulting firm providing trusted counsel to Boards and Management at hundreds of large and mid-sized companies. We consult on executive and board compensation and their design, amounts and corporate 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 corporate 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
- Corporate 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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