

SHORT TAKES



CEO PAY UP +9% FOR EARLY FILERS: INCENTIVE PROGRAMS CONTINUE TO DEMONSTRATE PAY FOR PERFORMANCE

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CEO total compensation among 100 early proxy filers grew +9% in 2014 to a median \$6.4 million, driven primarily by increases in short- and long-term incentive pay. These increases tracked generally strong corporate performance, with median revenues up +7%, median net income up +11% and median total shareholder return was +10%. The findings are based on a study of 100 companies with revenues greater than \$1 billion.

Early Proxy Filer CEO Compensation (\$000)				
	Base Salary	Annual Incentive	Long-Term Incentive	Total Comp.
Median 1-Yr Growth	+3%	+8%	+5%	+9%
Median Pay	\$960	\$1,360	\$3,975	\$6,363

Among the 100 CEOs in the study group, median

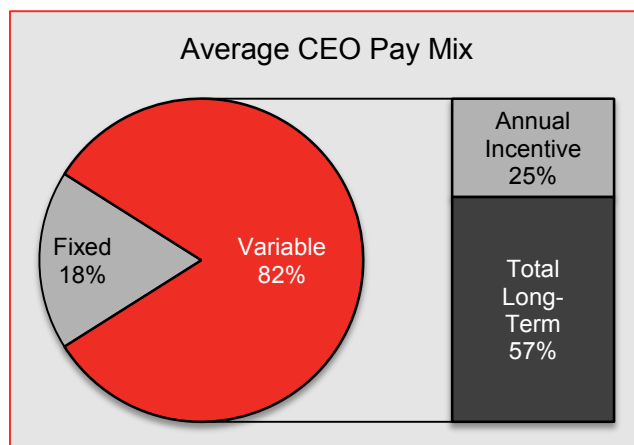
- Salaries increased +3% to \$960,000
- Bonuses increased +8% to \$1.4 million
- Long-term incentives (equity awards and long-term cash incentive payouts) increased by +5% to \$4.0 million
- Total compensation increased +9% to \$6.4 million

Pay Mix

The majority of CEO compensation continues to be delivered through incentive-based pay, comprising 82% of total compensation, with long-term awards and short-term bonuses representing 57% and 25%, respectively. Base salaries accounted for only 18% of CEOs' total compensation in 2014.

Average CEO pay mix was relatively consistent in 2014 versus the prior year. As a percentage of total pay,

- Salary represents 18%
- Annual incentives represent 25%
- Long-term incentives represent 57%

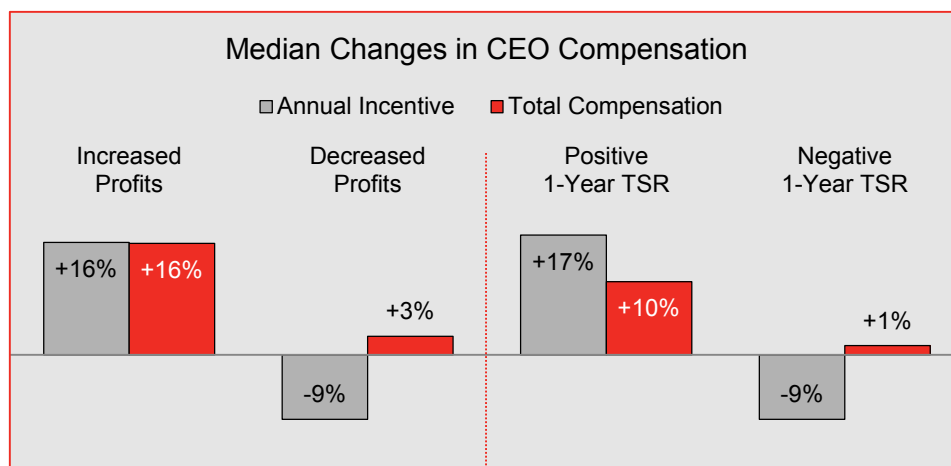


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Pay for Performance

When the sample of 100 companies is bifurcated based on performance, clear differences in incentive payouts arise. Amongst companies where profits in 2014 increased over 2013 levels, total compensation was up +16%, driven by annual incentive increases of +16%. In stark contrast, total compensation was up +3% at companies where profits decreased year-over-year, reflecting the fact that bonus payouts were down -9%. While bonus payments were clearly differentiated based upon performance at these companies, decisions regarding base salary increases and long-term incentive awards are traditionally made at the beginning of the year, and are therefore not linked to 2014 performance results.



Observed pay levels for CEOs were also differentiated based on company TSR performance. Those companies in the sample with positive TSR in 2014 saw total compensation increases of +10%, fueled by bonus increases of +17%. The companies with negative 2014 TSR had bonuses decrease by -9%, resulting in total pay increases of only +1%.

Year-over-year changes in long-term incentive values, which include stock options, restricted stock, performance shares, and long-term cash incentive payouts, were not directly correlated with annual changes in profitability or shareholder return. The increases remained between +4% and +6%, regardless of whether companies experienced increased or decreased profits, or positive or negative total shareholder return (TSR).

Our View

These early results reinforce the fact that Compensation Committees continue to differentiate pay based on performance. When determining bonus awards, Compensation Committees are clearly holding CEOs accountable for declines in profits. We also see this accountability and focus on enhanced year-over-year performance injected into boardroom discussions on the rigor of performance targets required to achieve incentive payouts.

While annual incentive payouts are demonstrably linked with past performance and are awarded at the end of the year, long-term incentive grants are more of a forward-looking tool designed to incentivize, motivate and retain executives over the longer term and are traditionally made at the beginning of the year. Ultimate gains realized from the awards reflected in this study won't be known for several years, and payouts will fluctuate based on future performance.

2015 Early Filer CEO Compensation
Median Financials (\$ millions) & CEO Compensation (\$000)

	1 Year TSR	2014 Revenue		2014 Net Income		Base Salary		Annual Incentive		Total Long Term		Total Compensation		Average Pay Mix *		
		\$	vs 2013	\$	vs 2013	\$	vs 2013	\$	vs 2013	\$	vs 2013	\$	vs 2013	Base Salary	Bonus	Long Term
ALL COMPANIES (100)	+10%	\$2,957	+7%	\$269	+11%	\$960	+3%	\$1,360	+8%	\$3,975	+5%	\$6,363	+9%	18%	25%	57%
PERFORMANCE BASED STATISTICS																
Increased Profits (68 Companies)	+11%	\$2,967	+9%	\$264	+22%	\$925	+3%	\$1,370	+16%	\$3,734	+6%	\$6,232	+16%	19%	28%	53%
Decreased Profits (32 Companies)	-0%	\$2,732	+3%	\$270	-20%	\$992	+3%	\$1,145	-9%	\$4,473	+4%	\$6,600	+3%	16%	19%	65%
Positive 1-Year TSR (68 Companies)	+21%	\$3,690	+7%	\$269	+12%	\$972	+3%	\$1,420	+17%	\$4,127	+5%	\$6,547	+10%	18%	26%	56%
Negative 1-Year TSR (32 Companies)	-13%	\$2,308	+6%	\$276	-3%	\$940	+2%	\$1,061	-9%	\$3,559	+4%	\$5,839	+1%	18%	22%	60%
SELECTED INDUSTRY STATISTICS (shown for industries with 5+ companies)																
Consumer Discretionary (12 Companies)	-0%	\$8,488	+9%	\$675	+21%	\$1,092	+0%	\$2,938	+8%	\$6,016	+13%	\$10,184	+19%	14%	38%	49%
Consumer Staples (7 Companies)	+11%	\$4,243	+3%	\$249	+9%	\$983	+3%	\$1,106	+48%	\$2,133	+8%	\$5,484	+9%	20%	23%	57%
Energy (6 Companies)	-18%	\$2,387	+20%	\$364	-2%	\$808	+2%	\$1,095	-5%	\$4,456	-12%	\$6,887	-10%	14%	19%	67%
Financials (11 Companies)	+10%	\$3,334	+6%	\$787	+17%	\$975	+1%	\$2,023	+1%	\$3,238	+2%	\$7,065	+2%	17%	29%	54%
Health Care (8 Companies)	+28%	\$2,184	+4%	\$273	-20%	\$1,003	+3%	\$1,508	+37%	\$5,402	+4%	\$7,466	+9%	14%	16%	71%
Industrials (25 Companies)	+6%	\$2,327	+6%	\$158	+12%	\$900	+3%	\$1,252	+11%	\$2,725	+12%	\$4,628	+16%	23%	26%	51%
Information Technology (17 Companies)	+25%	\$4,147	+7%	\$268	+12%	\$813	+3%	\$1,983	+18%	\$4,968	+4%	\$8,140	+11%	16%	23%	61%
Materials (10 Companies)	+9%	\$3,943	+5%	\$130	-11%	\$985	+3%	\$963	-16%	\$3,889	+3%	\$5,990	+0%	19%	18%	63%

About the Study

The study analyzed compensation data as disclosed in proxy statements filed in 2015 for 100 companies with revenues greater than \$1 billion who had CEOs with a minimum tenure of two years. For additional details regarding the study please contact Steven Hall Jr. at 212-488-5400 or sehall@shallpartners.com.

* Percentages may not add to 100% due to rounding.