U.S. Executive Pay Votes

2019 proxy season review

August 2019

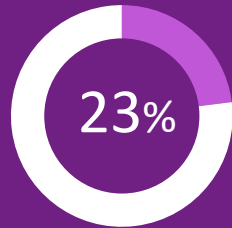**WillisTowersWatson** lıı'lıl

Executive Summary
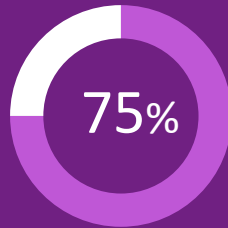
2019 by the numbers so far
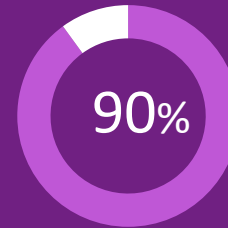
Say-on-pay proposals
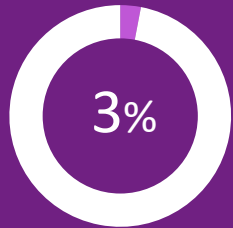
3%
Failures in 2019, Similar to 2018

23%
Companies that failed say on pay and also had negative vote recommendations for compensation committee members

75%
2019 saw the highest percentage of first-time failures since 2015

90%
Average support for say-on-pay proposals in 2019 so far
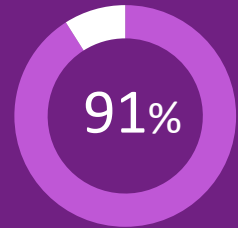
91%
Companies with support above 70%

Say-on-golden parachute proposals

14%
Failure rate

76%
Average support

33%
Institutional Shareholder Services (ISS) negative recommendations

Equity plans proposals

90%
No failures and stable support for equity plans

14%
ISS negative vote recommendation rate

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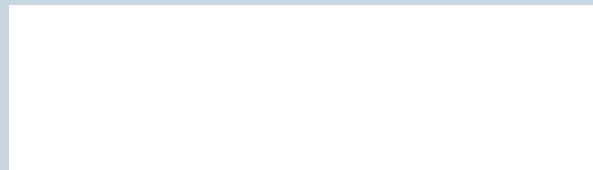# Say-on-pay snapshot

2019 say-on-pay snapshot
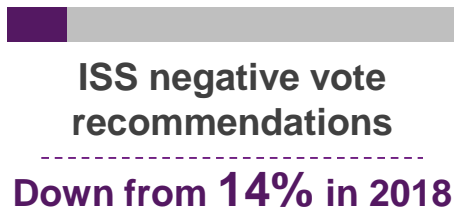
90%
Average support in 2019
2018 = 90%

3%
Failure rate (48 failed votes)
2018 = 3% (based on 56 failed votes)

13%
ISS negative vote recommendations

Down from **14%** in 2018

30%
Difference in average support between an ISS "for" and "against" vote recommendation

Down from **31%** in 2018

82%
Rate of "high" ISS concerns related to pay-for-performance among proposals that ultimately received an "against" vote recommendation

Up from **80%** in 2018
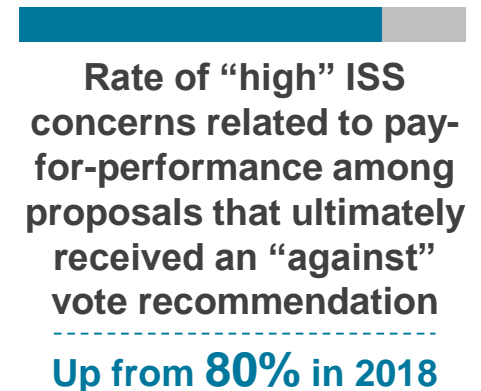
Source: Willis Towers Watson Global Executive Compensation Analysis Team analysis of 1,944 Russell 3000 companies from January 1, 2019 to July 12, 2019 and 2,230 Russell 3000 companies reporting results in 2018. ISS recommendations confirmed using ISS's Governance Analytics.

Perceived pay-for-performance disconnects drive most ISS "against" recommendations

17%

of companies receiving an **"against"** recommendation had a **high level of ISS concern** in more than one category.

Rate of "high" concern cited by ISS for recommendations to vote against **say-on-pay** resolutions
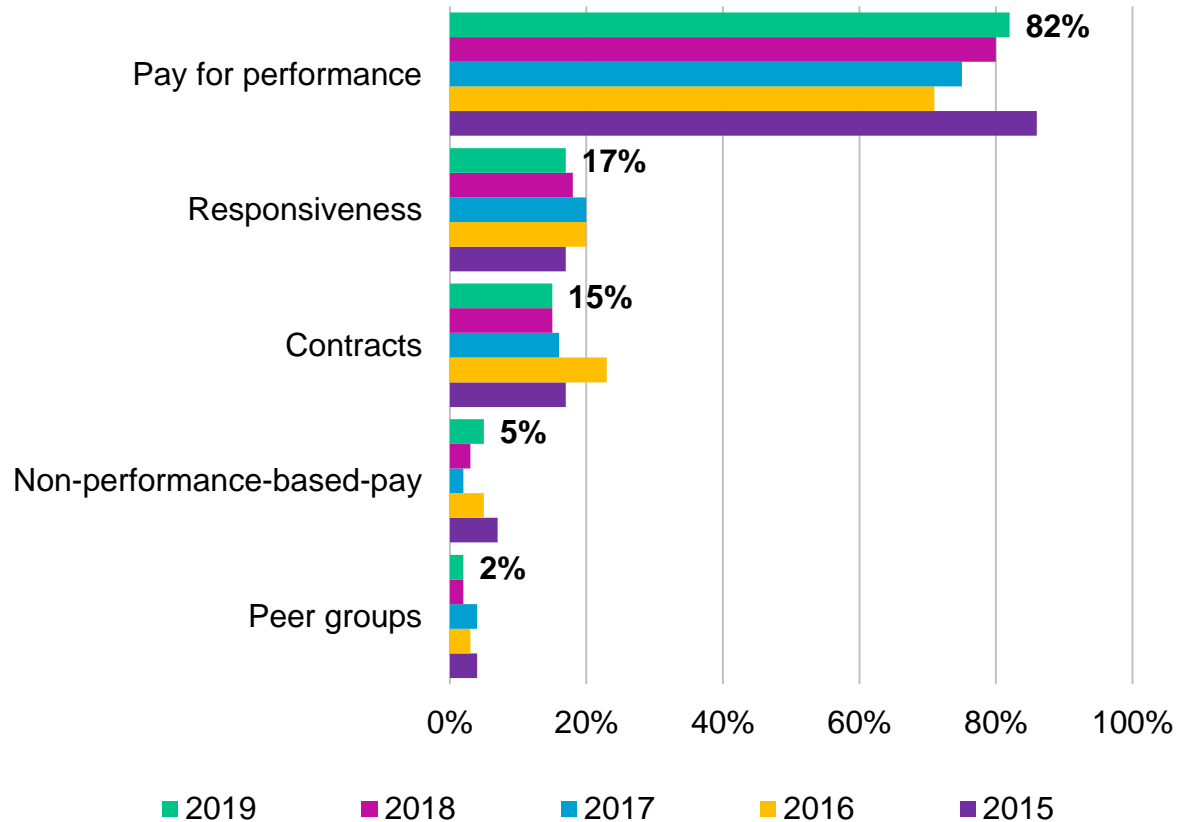
Pay for performance — **82%**
Responsiveness — **17%**
Contracts — **15%**
Non-performance-based-pay — **5%**
Peer groups — **2%**

Legend: ■ 2019 ■ 2018 ■ 2017 ■ 2016 ■ 2015

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Strong shareholder support remains the norm

The trend of 90%+ support continues
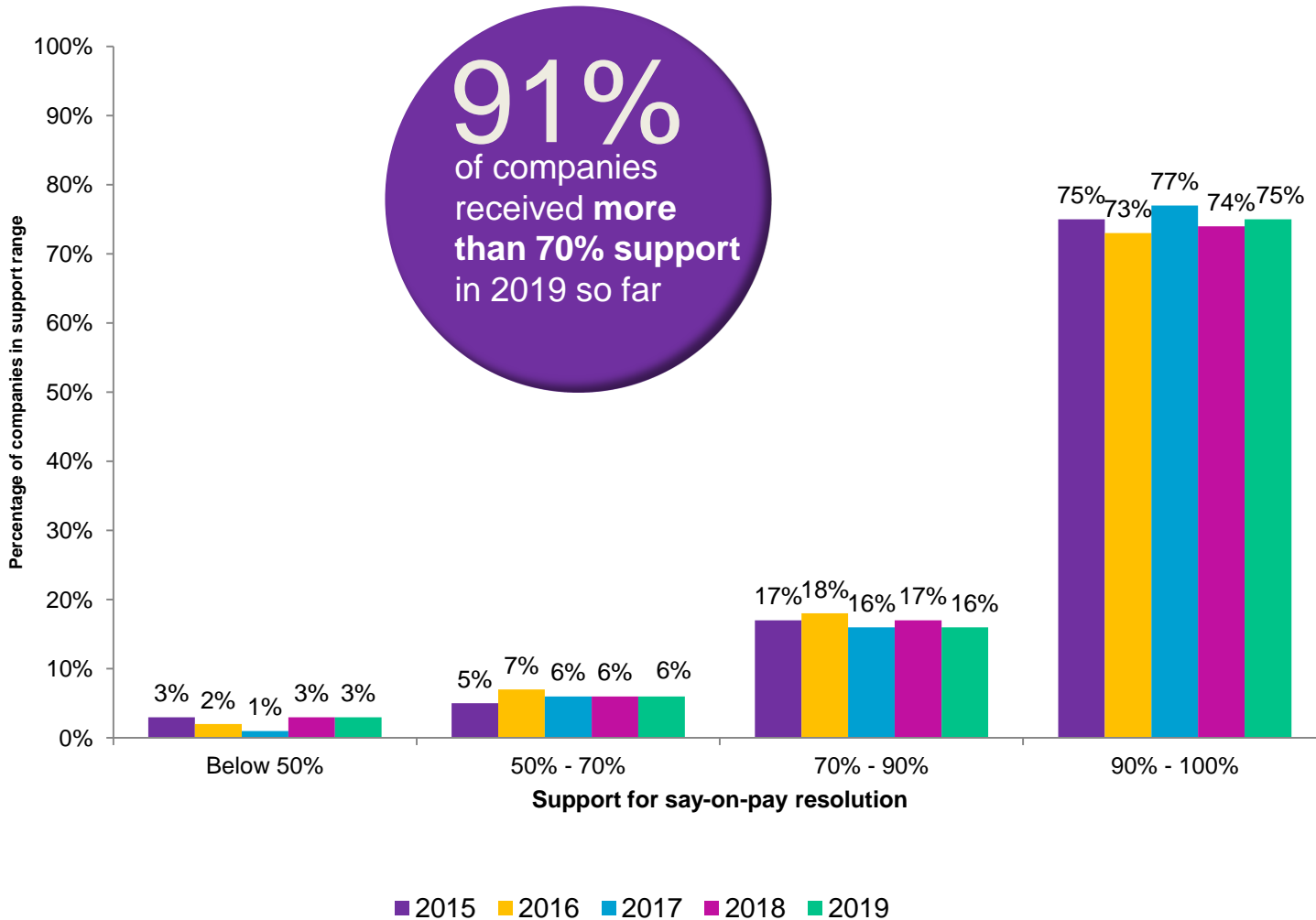
91% of companies received **more than 70% support** in 2019 so far

Percentage of companies in support range

	Below 50%	50% - 70%	70% - 90%	90% - 100%
2015	3%	5%	17%	75%
2016	2%	7%	18%	73%
2017	1%	6%	16%	77%
2018	3%	6%	17%	74%
2019	3%	6%	16%	75%

Support for say-on-pay resolution

■ 2015 ■ 2016 ■ 2017 ■ 2018 ■ 2019

Source: Willis Towers Watson's Global Executive Compensation Analysis Team

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Shareholder support and proxy advisor recommendations

ISS negative recommendations have slightly decreased to 13% in 2019

- Average support based on "For" recommendations: 94% (2015), 94% (2016), 94% (2017), 94% (2018), 94% (2019)
- Average support based on "Against" recommendations: 63% (2015), 66% (2016), 68% (2017), 63% (2018), 64% (2019)
- Rate of ISS "Against" recommendations: 12% (2015), 12% (2016), 12% (2017), 14% (2018), 13% (2019)
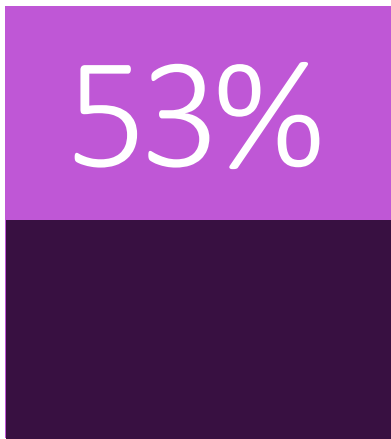- Gap: 31%, 28%, 26%, 31%, 30%
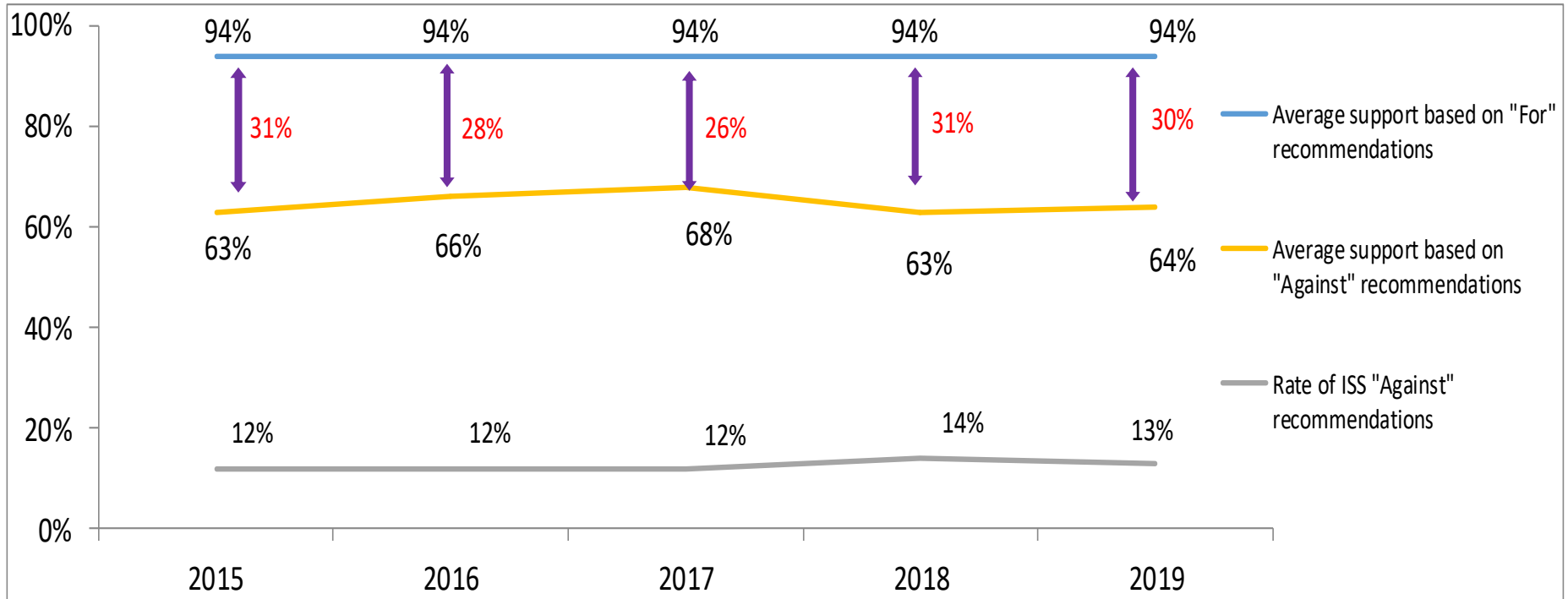
Source: Willis Towers Watson's Global Executive Compensation Analysis Team. ISS recommendations were confirmed using ISS's Governance Analytics.
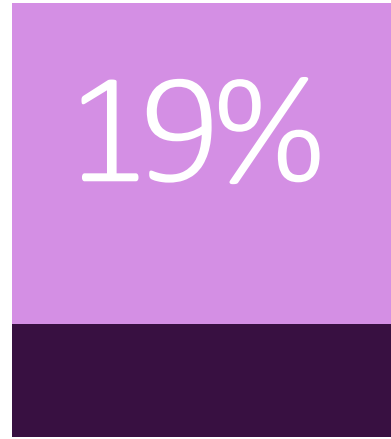
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Opposition to compensation committee members at companies with a negative say-on-pay vote recommendation

14% of companies receiving an against recommendation also had a withhold recommendation against compensation committee members

Main reasons leading to withhold recommendations

53%
Lack of responsiveness to previous say-on-pay vote

19%
Governance failure
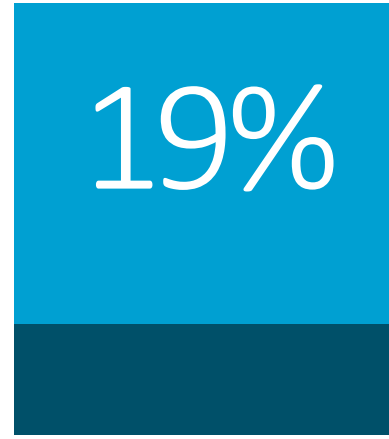
19%
Committee independence concern
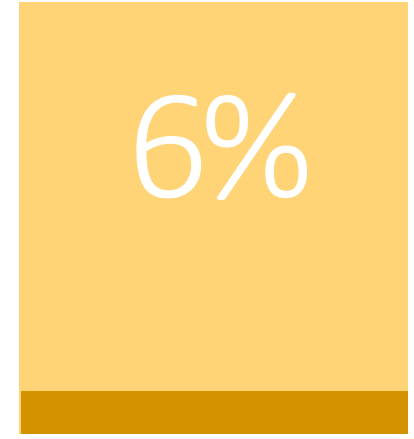
6%
Attendance, poison pill and disclosure

Source: Willis Towers Watson's Global Executive Compensation Analysis Team review of 36 Russell 3000 companies that received a withhold vote against compensation committee members and a negative recommendation for say on pay. ISS areas of concern confirmed using ISS's Governance Analytics.

Opposition to compensation committee members at companies that failed say on pay

23% of compensation committee members at companies that failed say on pay also received a negative vote recommendation

Average support for compensation committee members at companies that failed

53%

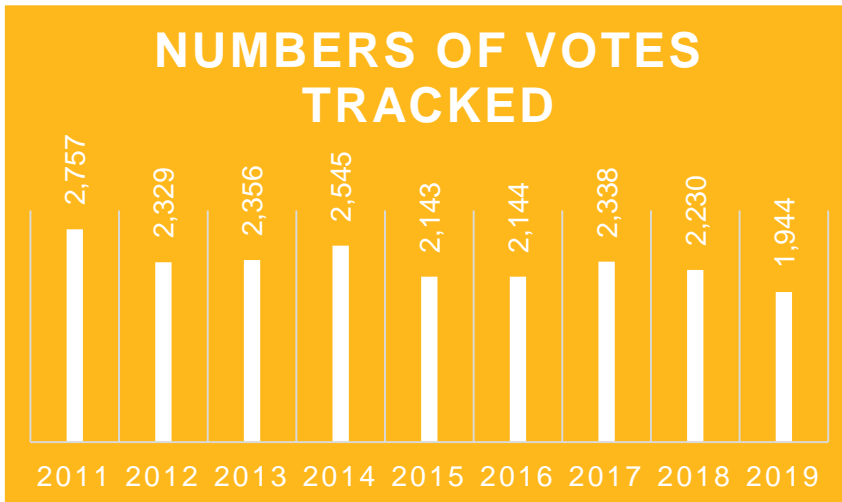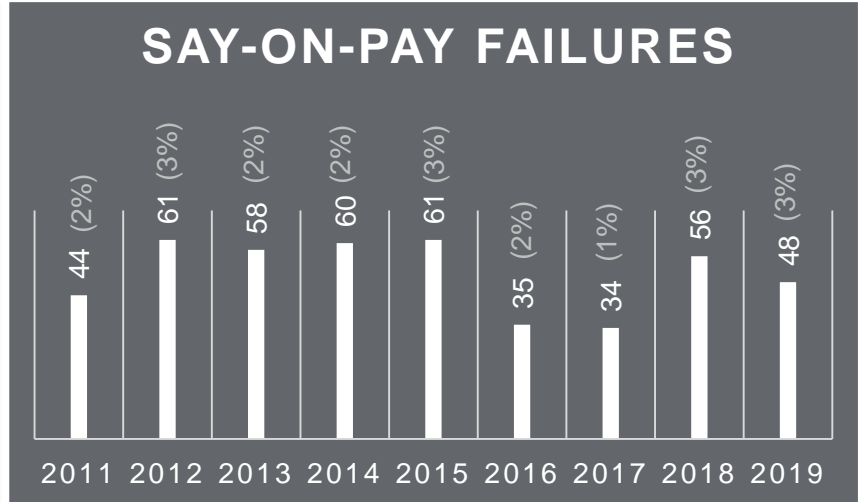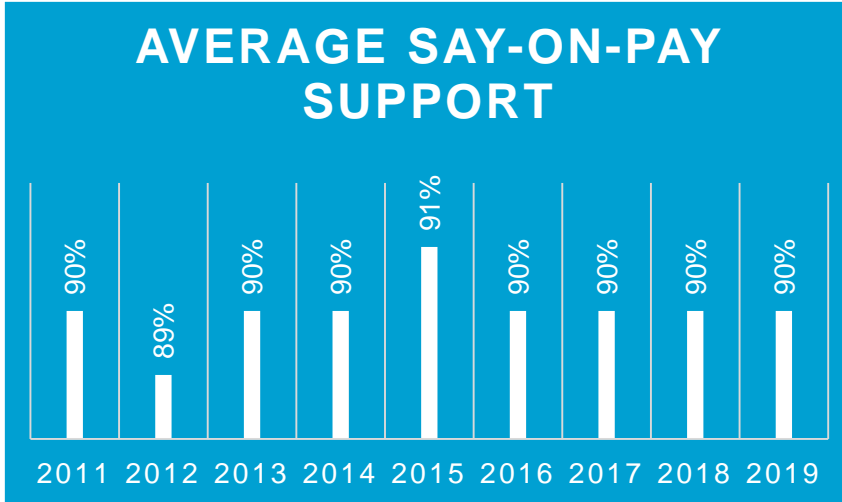Average support for compensation committee members with a withhold recommendation

88%

Average support for compensation committee members with a positive recommendation

Source: Willis Towers Watson's Global Executive Compensation Analysis Team review of 48 companies that failed say on pay as of July 12, 2019.

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Historical say-on-pay snapshot

Nine years of say-on-pay votes

AVERAGE SAY-ON-PAY SUPPORT

2011	2012	2013	2014	2015	2016	2017	2018	2019
90%	89%	90%	90%	91%	90%	90%	90%	90%

SAY-ON-PAY FAILURES

2011	2012	2013	2014	2015	2016	2017	2018	2019
44 (2%)	61 (3%)	58 (2%)	60 (2%)	61 (3%)	35 (2%)	34 (1%)	56 (3%)	48 (3%)

NUMBERS OF VOTES TRACKED

2011	2012	2013	2014	2015	2016	2017	2018	2019
2,757	2,329	2,356	2,545	2,143	2,144	2,338	2,230	1,944

ISS "AGAINST" RECOMMENDATIONS

2011	2012	2013	2014	2015	2016	2017	2018	2019
12%	13%	14%	12%	12%	12%	12%	14%	13%

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Pay for performance

Pay-for-performance concern

44%

of 2019 *failures* to date with high pay-for-performance concern report a substantial compensation increase as an issue.

Substantial compensation increase is a concerning issue among 40% of companies reporting a *high pay-for-performance concern*, up from 39% in 2018.

Common issues for companies with a high pay-for-performance concern

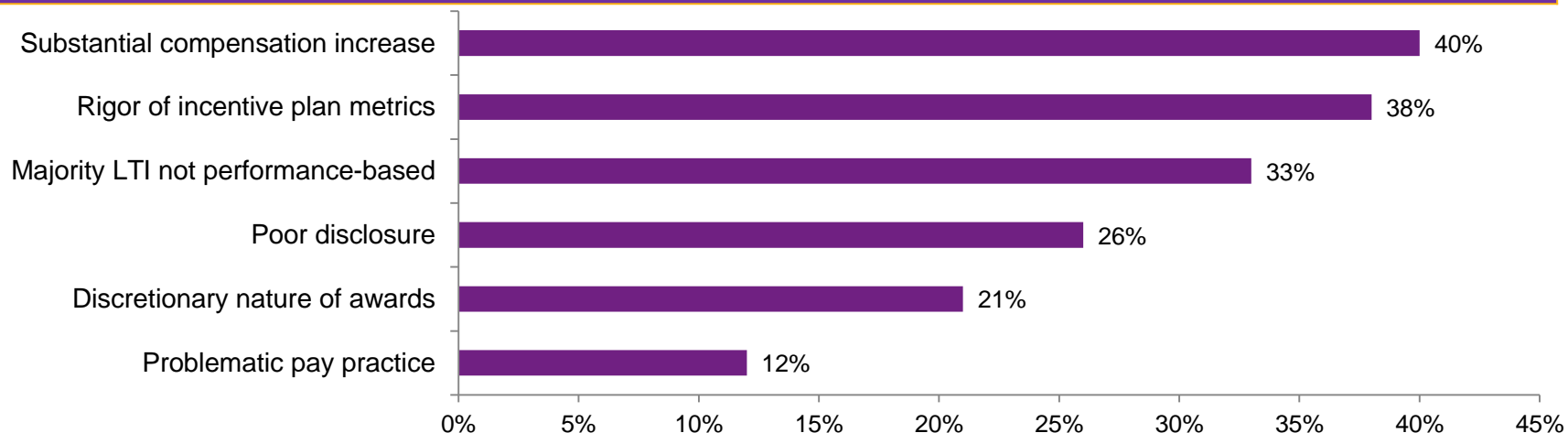| Issue	Percentage
Substantial compensation increase	40%
Rigor of incentive plan metrics	38%
Majority LTI not performance-based	33%
Poor disclosure	26%
Discretionary nature of awards	21%
Problematic pay practice	12%

Source: Willis Towers Watson's Global Executive Compensation Analysis Team review of 227 Russell 3000 companies that received a high concern for pay for performance and a negative recommendation for say on pay (The 227 companies include proposals with pending vote results). Institutional Shareholder Services' (ISS) areas of concern confirmed using ISS's Governance Analytics.

Pay for performance and three-year total shareholder return (TSR)

High pay triggers lower vote support

- Companies with high pay receive more opposition from ISS and less shareholder support
- Magnitude of pay and low TSR appear to be key factors as they drives opposition to say on pay

Pay and performance compared to say-on-pay vote outcome in 2019 so far
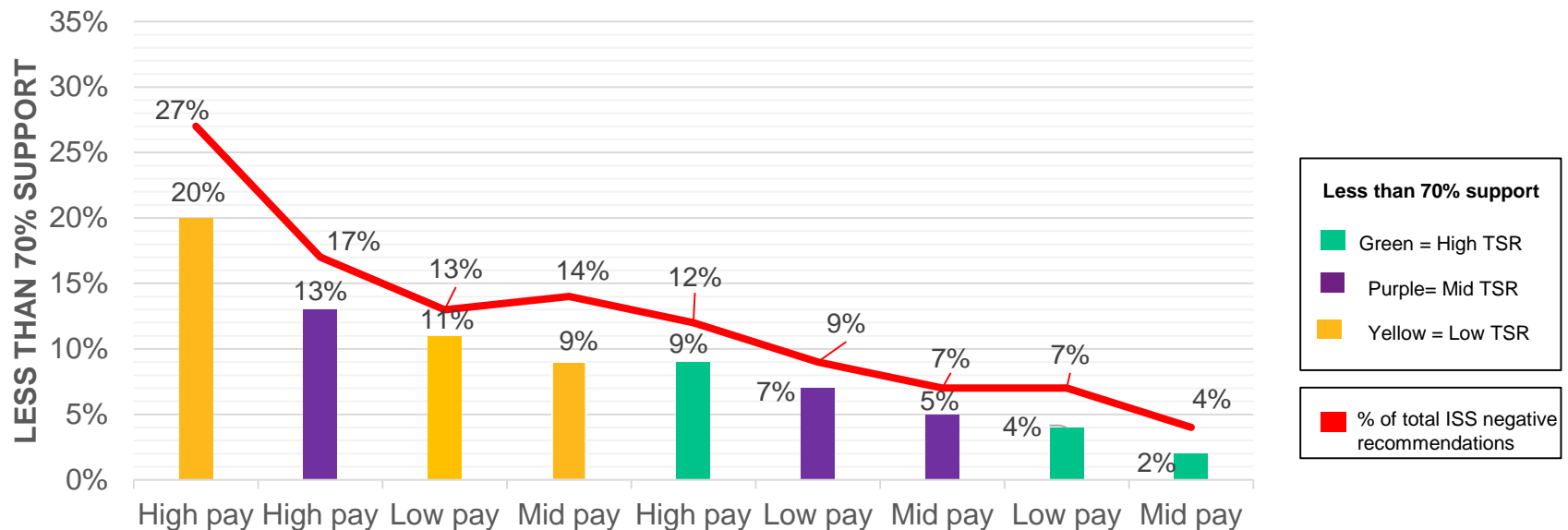
Note: Pay is total CEO pay disclosed in the Summary Compensation Table; performance is total shareholder return (TSR) over the 2016 to 2019 period for each Russell 3000 company. High, mid and low are those in the top third, middle third and lower third in each category.

Source: Willis Towers Watson's Global Executive Compensation Analysis Team. ISS areas of concern confirmed using ISS's Governance Analytics.
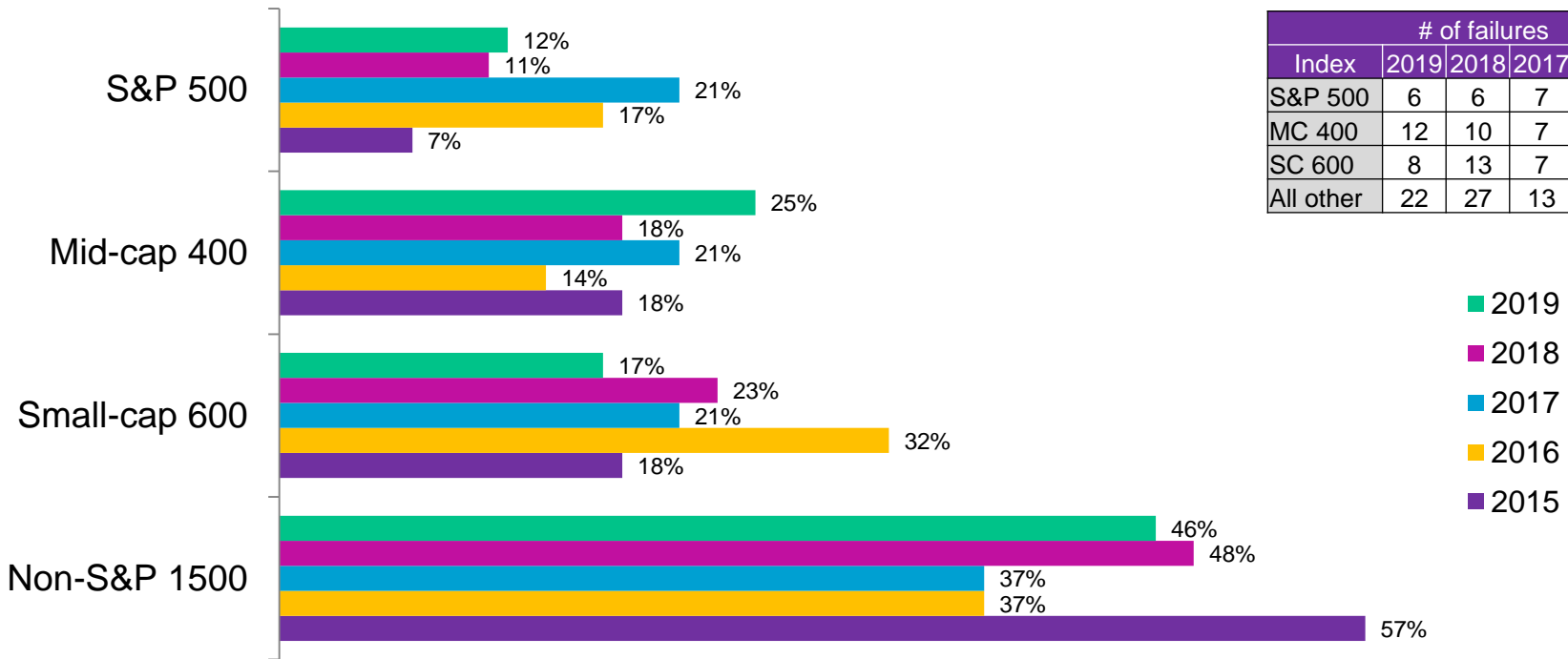
Say-on-pay trends

Comparison of say-on-pay failures by company size

Highest level of failures at mid-cap companies

Lowest level of failures at small-cap companies since 2015

# of failures					
Index	2019	2018	2017	2016	2015
S&P 500	6	6	7	6	4
MC 400	12	10	7	5	11
SC 600	8	13	7	11	11
All other	22	27	13	13	35

S&P 500
- 2019: 12%
- 2018: 11%
- 2017: 21%
- 2016: 17%
- 2015: 7%

Mid-cap 400
- 2019: 25%
- 2018: 18%
- 2017: 21%
- 2016: 14%
- 2015: 18%

Small-cap 600
- 2019: 17%
- 2018: 23%
- 2017: 21%
- 2016: 32%
- 2015: 18%

Non-S&P 1500
- 2019: 46%
- 2018: 48%
- 2017: 37%
- 2016: 37%
- 2015: 57%

Legend: ■ 2019 ■ 2018 ■ 2017 ■ 2016 ■ 2015

*Percentage of failures relative to the total number of failures
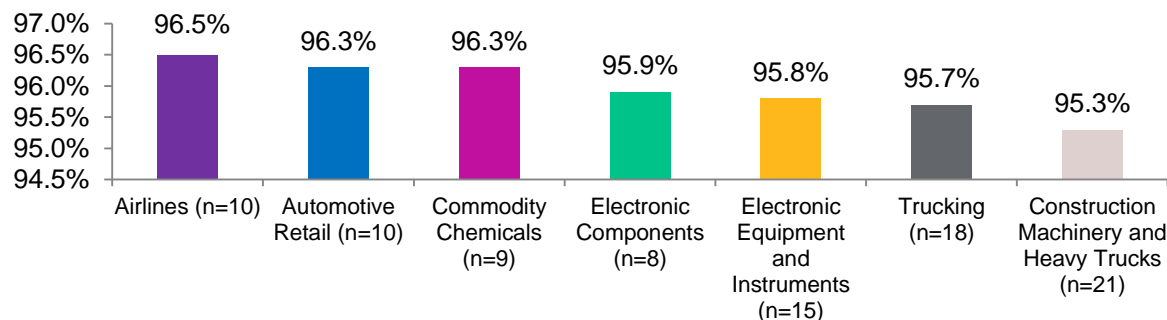
Source: Willis Towers Watson's Global Executive Compensation Analysis Team

Average say-on-pay results by industry in 2019 so far

20%

Percentage of industries in which the average support level was 95% or greater

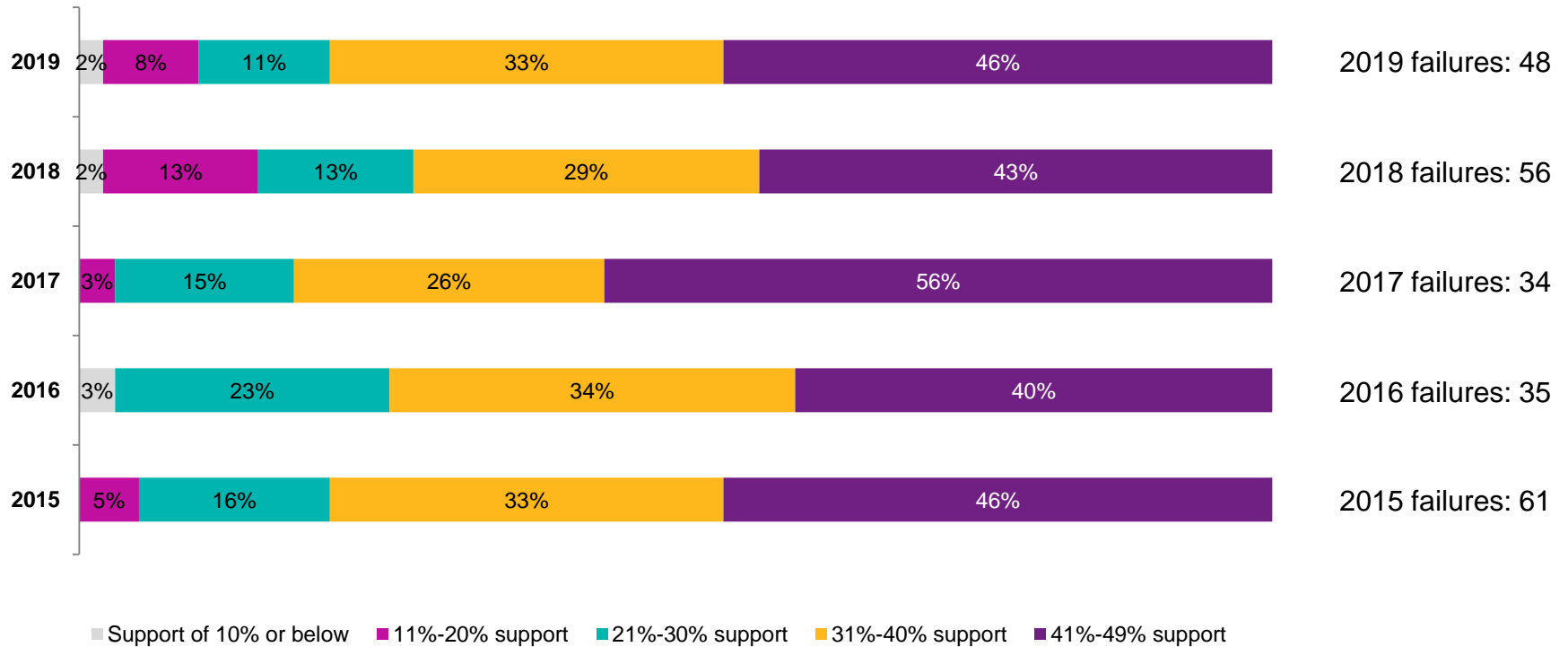### Industries with more than 95% average support

Industry	Average support
Airlines (n=10)	96.5%
Automotive Retail (n=10)	96.3%
Commodity Chemicals (n=9)	96.3%
Electronic Components (n=8)	95.9%
Electronic Equipment and Instruments (n=15)	95.8%
Trucking (n=18)	95.7%
Construction Machinery and Heavy Trucks (n=21)	95.3%

Industries with the lowest average say-on-pay support

GICS primary industry	Average support
Home Furnishing Retail (n=6)	73.5%
Movies and Entertainment (n=6)	73.7%
Technology Hardware, Storage and Peripherals (n=12)	79.5%
Systems Software (n=11)	81.5%
Oil and Gas Storage and Transportation (n=7)	83.8%

Source: Willis Towers Watson's Global Executive Compensation Analysis Team. Industry classifications were based on the Global Industrial Classification System (GICS). Results are included for those industries with six or more companies in the group (n=the number of companies in the industry). For this analysis, all companies with less than 50% support are considered to have failed say on pay..

Say-on-pay failures
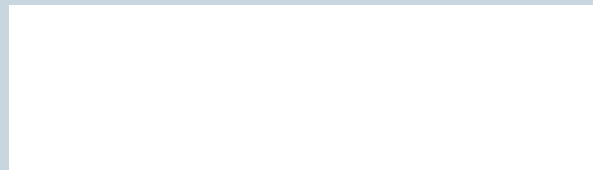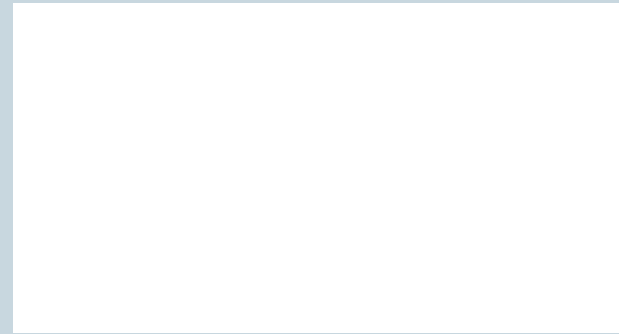
Comparison of say-on-pay support levels at companies that failed say-on-pay votes

2019 2% | 8% | 11% | 33% | 46% — 2019 failures: 48

2018 2% | 13% | 13% | 29% | 43% — 2018 failures: 56

2017 3% | 15% | 26% | 56% — 2017 failures: 34

2016 3% | 23% | 34% | 40% — 2016 failures: 35

2015 5% | 16% | 33% | 46% — 2015 failures: 61

Legend: Support of 10% or below | 11%-20% support | 21%-30% support | 31%-40% support | 41%-49% support

Source: Willis Towers Watson's Executive Compensation Resources. Support levels reflect data for all Russell 3000 companies with 50% or less support in each year.
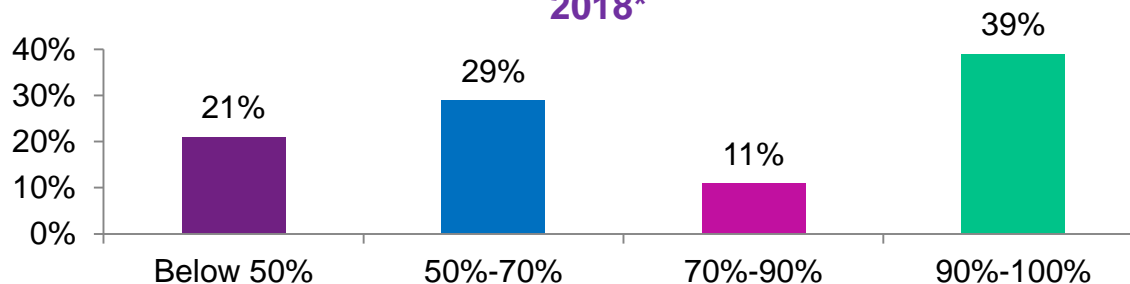
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Most companies that failed in 2018 improved their results in 2019.

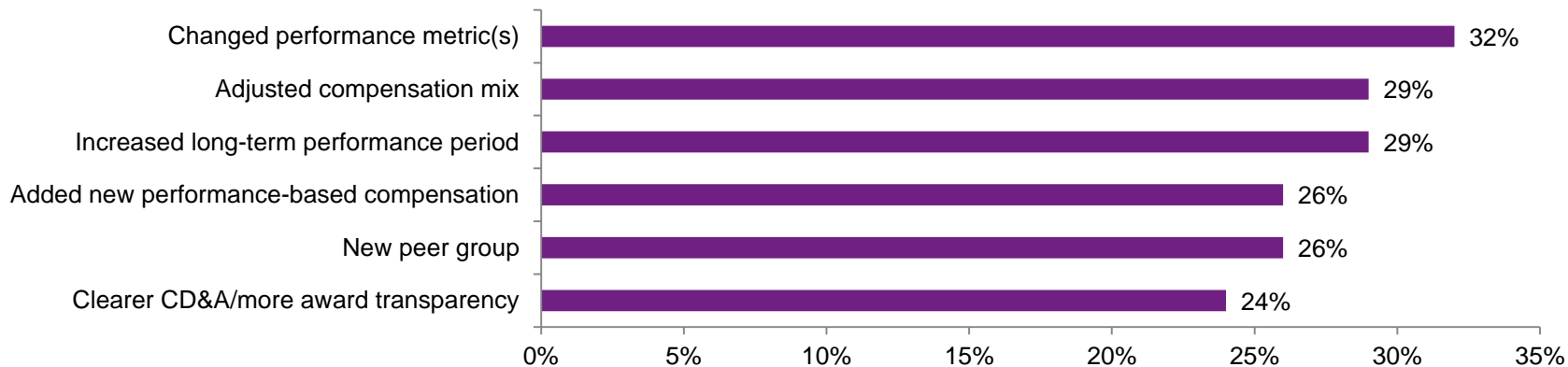More than 75% of companies recovered from last year's say-on-pay failure.

35%
Average year-over-year increase in shareholder support for companies failing in 2018

2019 support level for companies that failed in 2018*

Category	Percentage
Below 50%	21%
50%-70%	29%
70%-90%	11%
90%-100%	39%

Most common compensation program changes disclosed after failed 2018 vote

Change	Percentage
Changed performance metric(s)	32%
Adjusted compensation mix	29%
Increased long-term performance period	29%
Added new performance-based compensation	26%
New peer group	26%
Clearer CD&A/more award transparency	24%

Source: Willis Towers Watson's Global Executive Compensation Analysis Team.

* Based on 38 companies that failed in 2018 and have filed voting results for say on pay in 2019
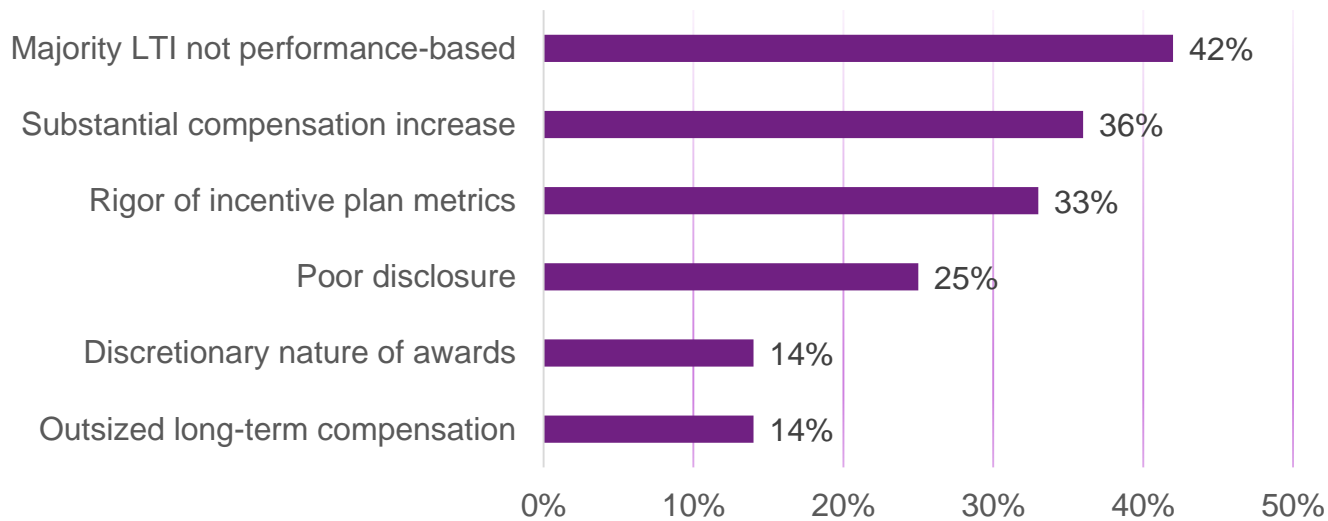
36 companies have failed say on pay for the first time so far in 2019.

75%
Of current failures are *first-timers,* the highest level compared with the last two years so far.
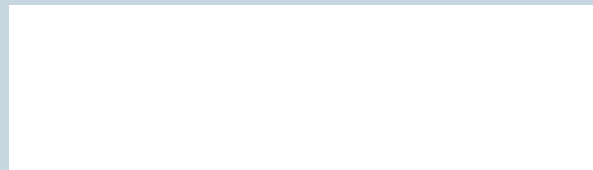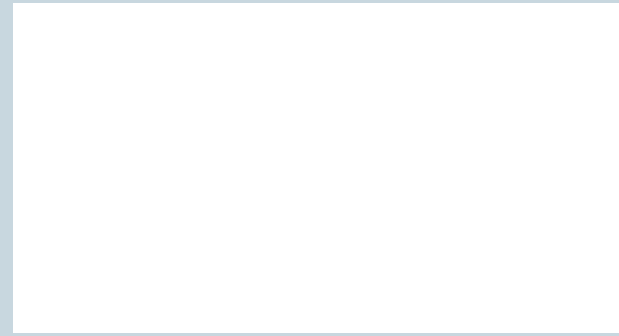
- 33% of first-time failures are from the information technology industry followed by health care (17%) and communication services (14%).

- 42% of first-time failures are non-S&P 1500 companies, and 25% are S&P 400 companies.

Common issues at first-time failures

Issue	Percentage
Majority LTI not performance-based	42%
Substantial compensation increase	36%
Rigor of incentive plan metrics	33%
Poor disclosure	25%
Discretionary nature of awards	14%
Outsized long-term compensation	14%

0%   10%   20%   30%   40%   50%

Equity plans

2019 S&P 1500 equity plan voting results snapshot

90%
Average support in 2019
2018 = 88%

0%
Failure rate (No failed votes)
2018= 0% (based on no failed votes)

14%
ISS negative vote recommendations

Up from **12%** in 2018

18%
Difference in average support between an ISS "for" and "against" vote recommendation

Down from **19%** in 2018
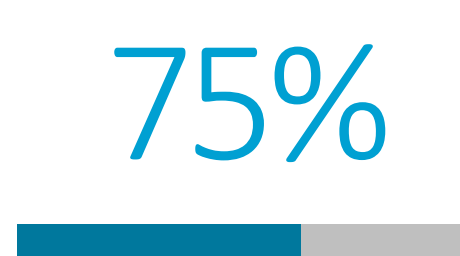
75%
Average support for "against" vote recommendations

Up from **73%** in 2018

Source: Willis Towers Watson Global Executive Compensation Analysis Team analysis of 242 S&P 1500 companies that had a new or materially amended plan with voting results from January 1, 2019 to July 12, 2019 and 279 companies in 2018. Institutional Shareholder Services' (ISS) recommendations confirmed using ISS' Governance Analytics.
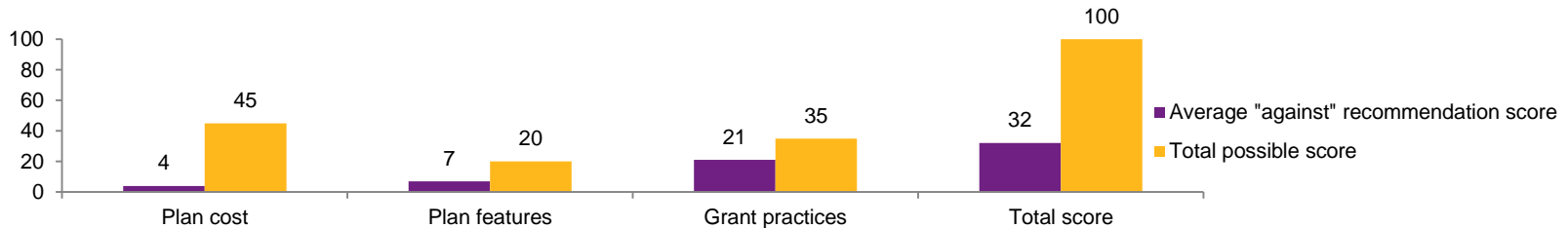
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Spotlight on equity plans

93%

S&P 1500 equity plans with support above 70% so far in 2019, from 95% in 2018

Companies in support range

Support level	2018	2019
Below 50%	0%	0%
50% - 70%	5%	7%
70% - 90%	29%	22%
90% - 100%	66%	71%

Support level for S&P 1500 equity plans
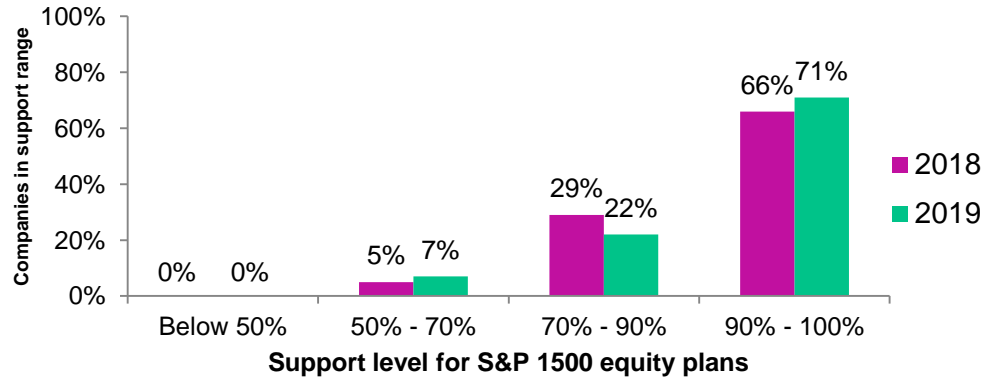
Plan cost is the number one concern for those with "against" recommendations*

	Average "against" recommendation score	Total possible score
Plan cost	4	45
Plan features	7	20
Grant practices	21	35
Total score	32	100

Source: Willis Towers Watson's Global Executive Compensation Analysis Team review of 242 S&P1500 companies that had a new or materially amended plan with voting results from January 1, 2019 to July 12, 2019 and 279 companies in 2018.

*This spotlight highlights 31 S&P 1500 companies with an against recommendation that were evaluated under ISS's Equity Plan Scorecard.

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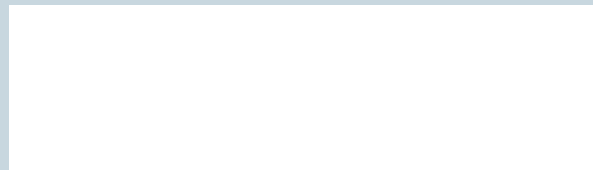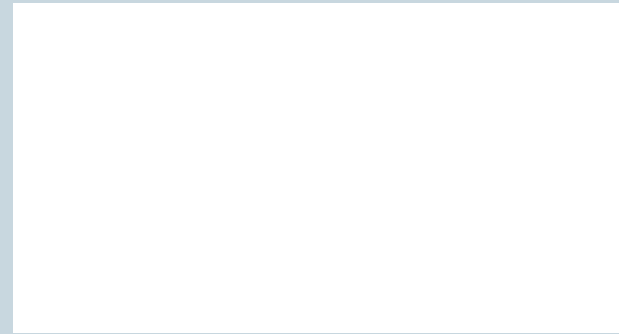
Say on parachutes

2019 say-on-parachute snapshot

76%
Average support in 2019
2018 = 78%

14%
Failure rate (4 failed votes)
2018 = 14% (based on 11 failed votes)

33%

ISS negative vote recommendations

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Up from **32%** in 2018

38%

Difference in average support between an ISS "for" and "against" vote recommendation

- - - - - - - - - - - - - - - - - - - -

Up from **33%** in 2018

50%

Average support for "against" vote recommendation

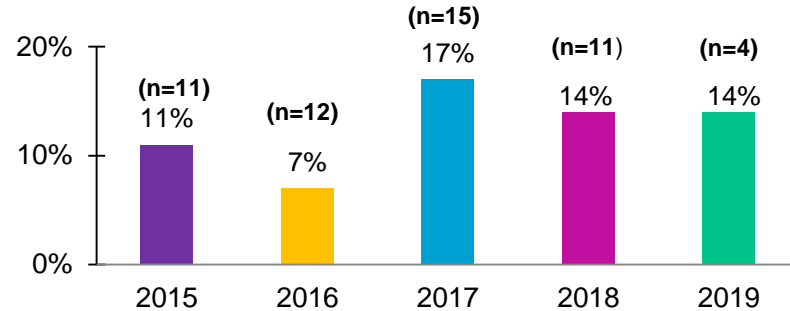Down from **56%** in 2018

- - - - - - - - - - - - - - - - - - - -

Source: Willis Towers Watson Global Executive Compensation Analysis Team analysis of 29 Russell 3000 companies holding a say-on-parachute vote from January 1, 2019 to July 12, 2019 and 81 Russell 3000 companies reporting results in 2018. Institutional Shareholder Services' (ISS) recommendations confirmed using ISS's Governance Analytics
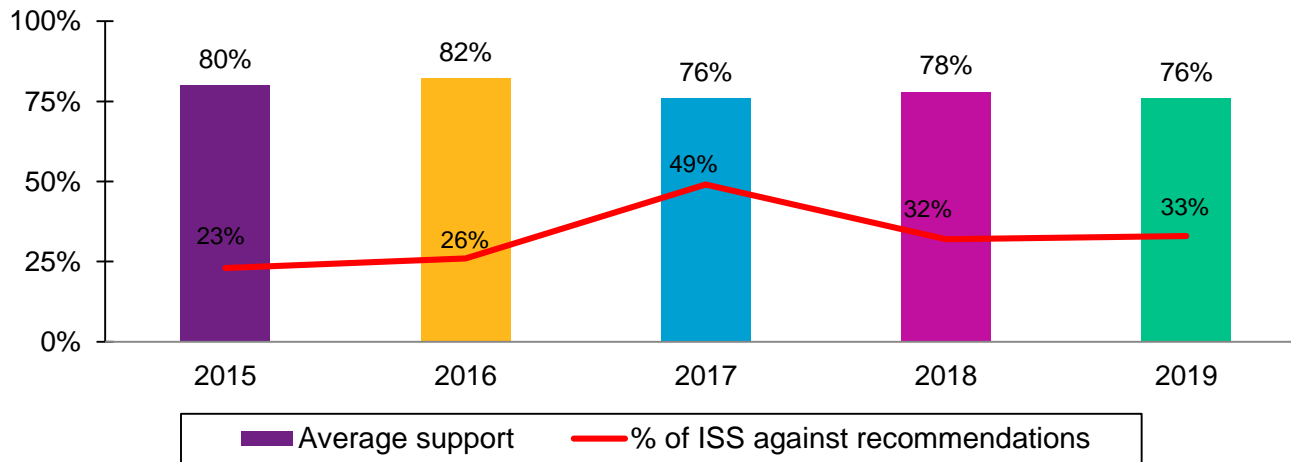
Say-on-parachute overview

79%

Average support for all say-on-parachute votes since the requirement was introduced (average support for related mergers was 97%)

Say-on-parachute failures by year

Year	Value
2015	(n=11) 11%
2016	(n=12) 7%
2017	(n=15) 17%
2018	(n=11) 14%
2019	(n=4) 14%

ISS opposition to say-on-parachute resolutions is stable so far in 2019

Say-on-parachute vote summary

Year	Average support	% of ISS against recommendations
2015	80%	23%
2016	82%	26%
2017	76%	49%
2018	78%	32%
2019	76%	33%

Legend: ■ Average support — % of ISS against recommendations

Source: Willis Towers Watson's Global Executive Compensation Analysis Team analysis of say-on-parachute votes at 488 Russell 3000 companies reporting results since 2015 (with 112 companies reporting in 2015, 174 in 2016, 174 in 2016, 81 in 2018 and 29 in 2019 so far) . ISS recommendations were confirmed using ISS's Governance Analytics.

Say-on-parachute support

ISS impact increases in 2019 so far

Legend:
— Average support based on "For" recommendation
— Average support based on "Against" recommendation

Data points (For recommendation): 88% (2015), 89% (2016), 92% (2017), 89% (2018), 87% (2019)

Data points (Against recommendation): 53% (2015), 61% (2016), 58% (2017), 56% (2018), 50% (2019)

Difference: 35% (2015), 28% (2016), 34% (2017), 33% (2018), 37% (2019)
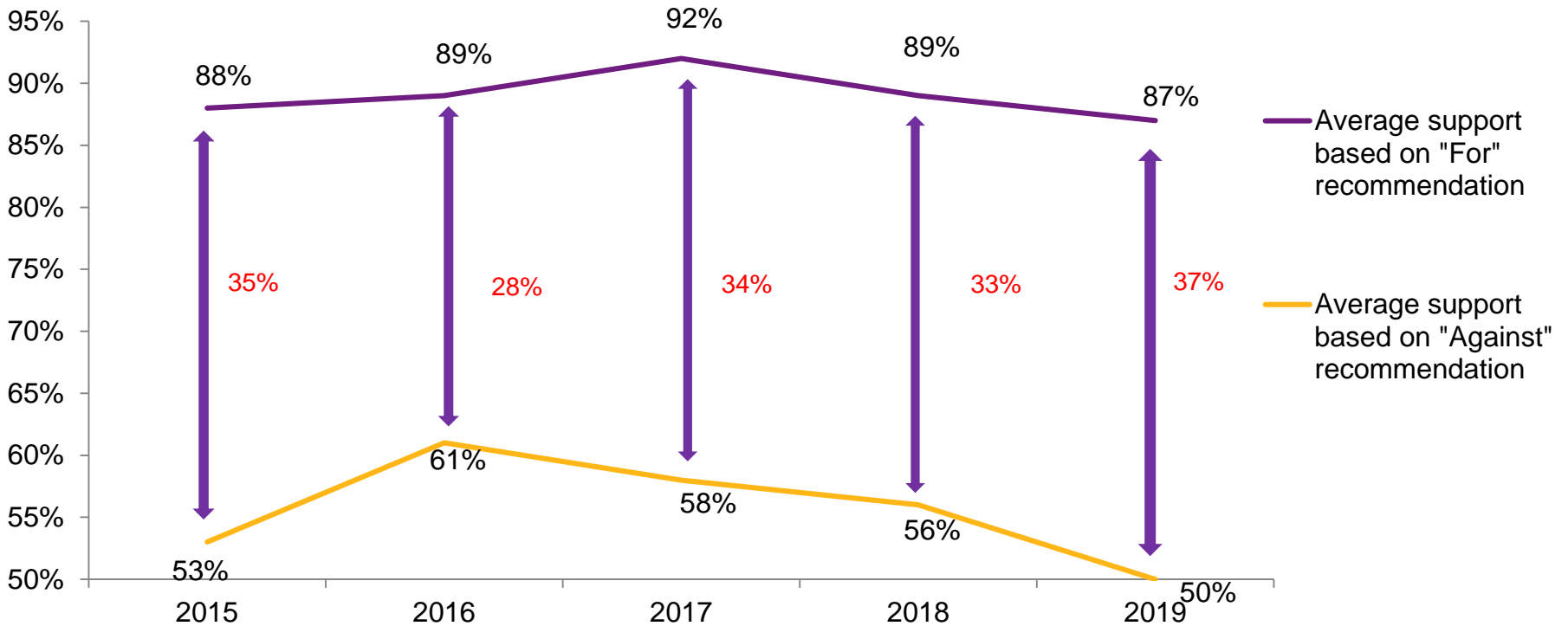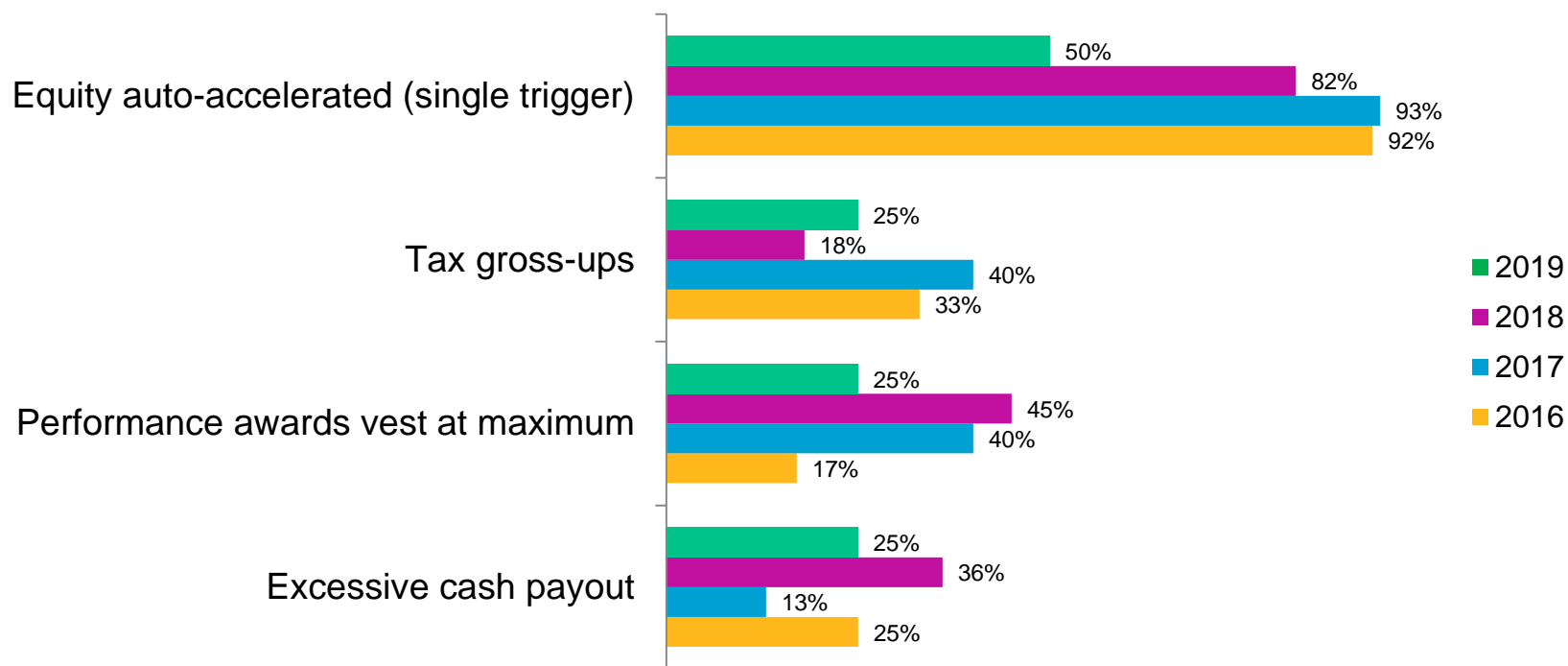
Source: Willis Towers Watson's Global Executive Compensation Analysis Team analysis of say-on-parachute votes at 488 Russell 3000 companies reporting results since 2015 (with 112 companies reporting in 2015, 174 in 2016, 174 in 2016, 81 in 2018 and 29 in 2019 so far) . ISS recommendations were confirmed using ISS's Governance Analytics.

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Areas of concern at failed say-on-parachute resolutions

Single trigger vesting of awards is the main concern

Equity auto-accelerated (single trigger)
- 2019: 50%
- 2018: 82%
- 2017: 93%
- 2016: 92%

Tax gross-ups
- 2019: 25%
- 2018: 18%
- 2017: 40%
- 2016: 33%

Performance awards vest at maximum
- 2019: 25%
- 2018: 45%
- 2017: 40%
- 2016: 17%

Excessive cash payout
- 2019: 25%
- 2018: 36%
- 2017: 13%
- 2016: 25%

Legend: 2019, 2018, 2017, 2016

Source: Willis Towers Watson Global Executive Compensation Analysis Team analysis of 4 Russell 3000 companies that failed say-on-parachute from January 1, 2019 to July 12, 2019 (11 in 2018, 15 in 2017 and 12 in 2016). ISS areas of concern confirmed using ISS's Governance Analytics.

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