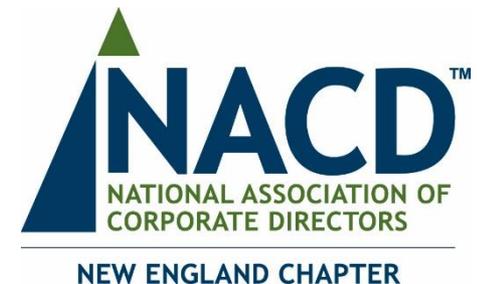




Incentive Programs in the Age of Rapid Business Change

April 26, 2017

Pearl Meyer



Upcoming Programs

- **May 9th - Crisis Management: What Do We Do Now?**
- **May 17th - The Experienced Directors Boot Camp**
- **June 8th - Boot Camp for Aspiring Public Company Directors**
- **June 13th - An Activist on the Doorstep: An Activist on the Board**

For more information and to register go to:
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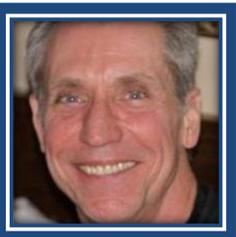
Meet The Presenters



Ellen Richstone currently serves on the boards of four public companies: eMagin Corporation, Superior Industries International, BioAmber Inc., and Orion Energy Systems Inc. Ellen is also on the Board of the National Association of Corporate Directors New England Chapter; and was the recipient of the first Annual Distinguished Director Award from the ACCD (American College of Corporate Directors).



Karyn Barsa is a member of the Board of Directors of Deckers Outdoor Corporation (NYSE: DECK) where she serves on both the Audit and Compensation committees. Karyn also chaired the Compensation Committee and served on the Risk Committee of the board of Performance Sports Group (NYSE: PSG) from 2014 until the company was sold in 2017.



Martin Van Walsum is Vice President, Executive Compensation for Thermo Fisher Scientific, a \$17 billion global company, and the world leader in serving science. Mr. Van Walsum serves as the top functional executive responsible for global leadership of all executive compensation matters. He has over 25 years' experience working with senior corporate and business unit executives, and board compensation committees designing innovative programs that drive strategic business results.



Matt Molberger is a vice president with Pearl Meyer in the Boston office. He consults primarily to companies in the technology and life sciences sectors. Matt works with clients to develop comprehensive executive compensation programs that support long-term business objectives.

Housekeeping

- The slides are available for download at www.pearlmeier.com/incentive-programs-rapid-business-change
- If you're listening through your computer speakers, a secure Internet connection will provide the best quality audio.
- For a wireless connection, it's recommended that you mute your speakers and dial into the audio portion at 888-299-7210 participant passcode 930857.
- The webcast will be recorded and all lines will be muted during the presentation. If you need technical help, dial star-zero.

Housekeeping

- Questions may be submitted at anytime and will be answered as time permits at the conclusion of the event.
- To view slides in full screen mode; click the full screen icon to the right above the slides.

Submit your questions in the box located on the **left side** of your screen



Overview

What are compensation committees doing to prepare to handle expected and unexpected change?

- Companies are continuously evolving and face constant change
- Two types of change:

Change You Control	Change You Don't Control
<ul style="list-style-type: none"> • M&A • Divestitures • Business model transformations (e.g. License Software to SaaS) • New products / verticals / geographies 	<ul style="list-style-type: none"> • Macroeconomic variabilities • Foreign currency fluctuations • Regulation / legislation • Litigation

Today: A panel discussion on administering incentive compensation programs in an age of change

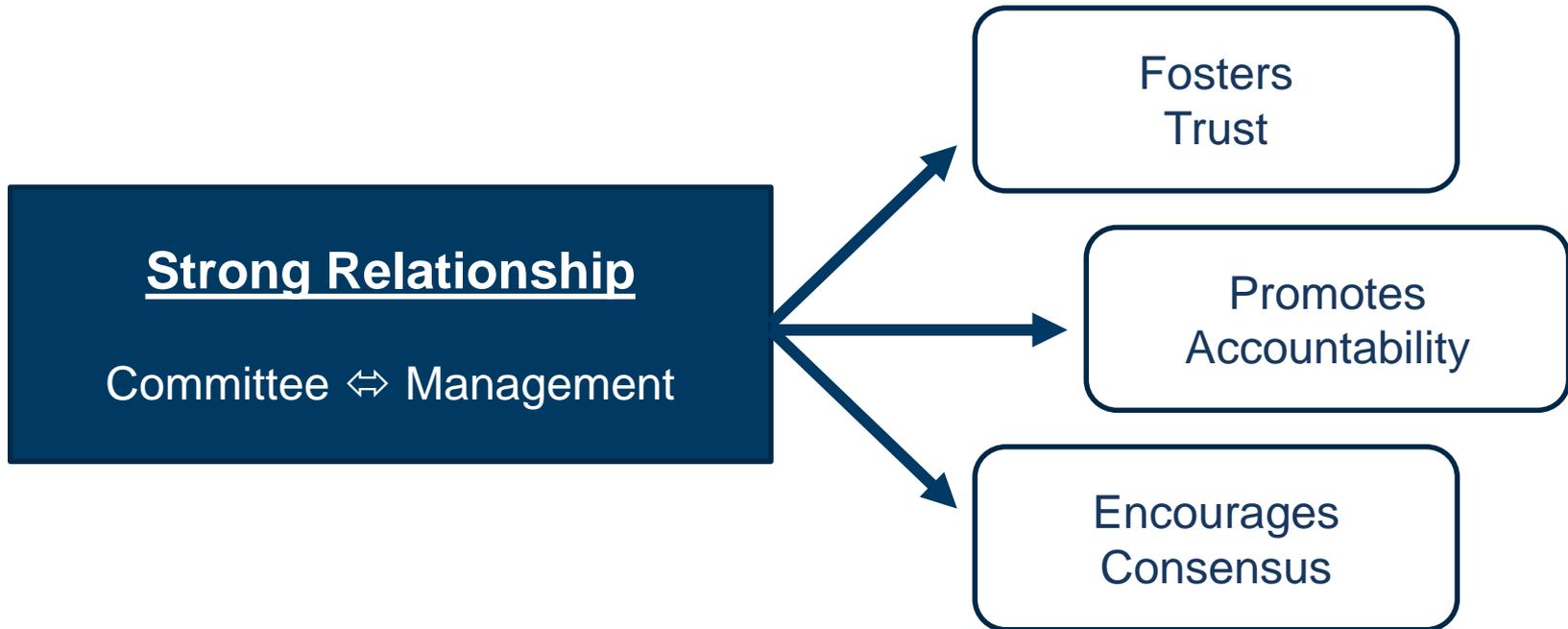
Agenda

- I. Planning for Change**
- II. Handling Unexpected Change**
- III. Planning for Future Unexpected Change**
- IV. Questions**
- V. Key Takeaways**

Planning for Change

Working Together: Compensation Committee and Management

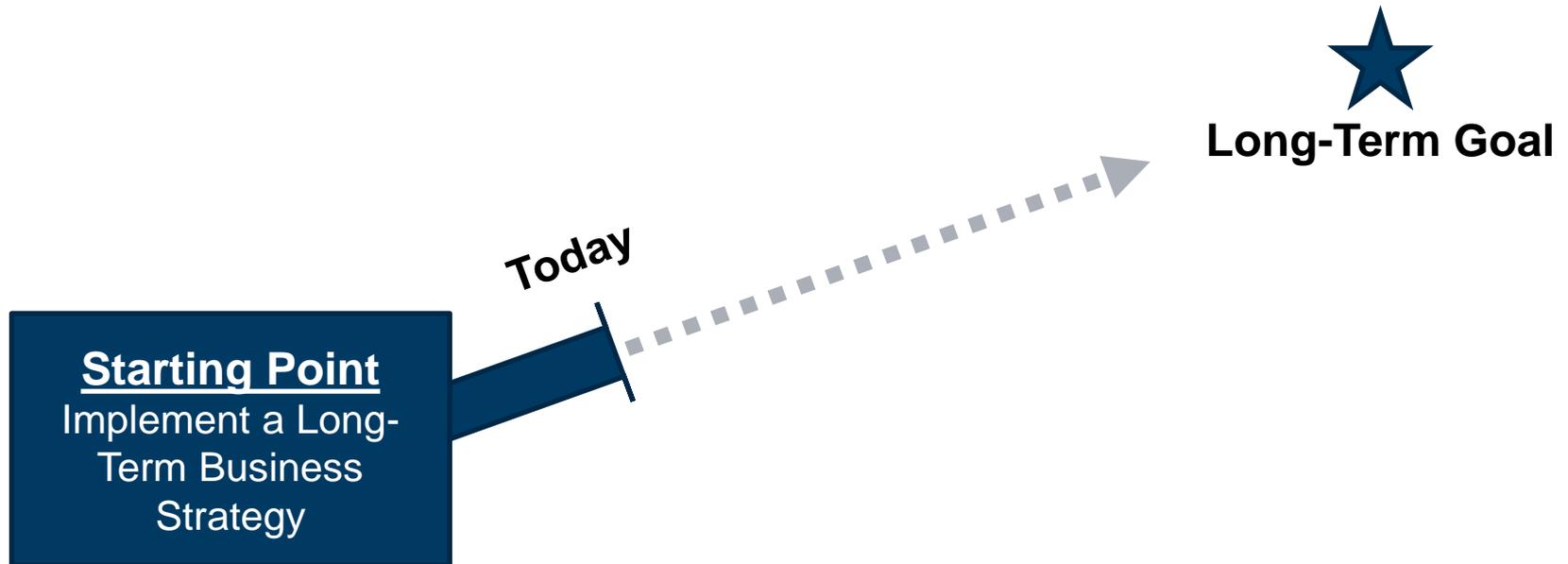
- Role of committee continues to expand
- Strong partnership facilitates facing change together



Planning for Change

Building a Plan for Change Around Business Strategy

- Thinking about change in the context of the long-term business strategy



Planning for Change

Implications for Incentive Plan Design

- Anticipating change influences incentive compensation program design

Annual Bonus Plans

- Metric selection
- Performance measurement period
- Individual and/or corporate strategic goals
- Use of discretion

Long-Term Incentives

- Equity instrument mix
- Performance equity plan design
 - Metric selection
 - Absolute vs. relative metrics
 - Performance measurement period

Case Study #1: Integrating an Acquisition

Context: *In Q2 company announces major acquisition expected to close in early Q3*

Scenario: *Annual bonus plan is based on revenue and EPS; performance shares based on 3-year average ROIC and rTSR*

1-year growth goals are now gimmies, but acquisition will weigh heavily on ROIC in near-term

Plan for Short-Term Incentives

- **Maintain Intent:** *Strip out results from acquisition for current year (was not budgeted or anticipated)*

Plan for Long-Term Incentives

- **Be Fair:** *Adjust ROIC goal for current year*
- **Hold Team Accountable:** *Maintain all other annual goals*
- **Be Balanced:** *rTSR component to provide reward for ultimate business strategy success*

Handling Unexpected Change

Apply Evaluation Guidelines

Consider:	
Timing	<ul style="list-style-type: none"> At what point during performance measurement period did event occur?
Materiality	<ul style="list-style-type: none"> How material is the event on quantitative incentive metrics?
Accountability	<ul style="list-style-type: none"> To what degree should management be held accountable for the event?
Plan Integrity	<ul style="list-style-type: none"> What action best maintains the original intent of the plan?
Precedence	<ul style="list-style-type: none"> How has Committee treated past similar events?



Examine in Context of:
<ul style="list-style-type: none"> Motivational value Pay and performance Shareholder advisory concerns 162(m)

- Evaluate treatment alternatives on a case-by-case basis
 - “Let it ride”
 - Adjust metric calculations
 - Adjust goals
 - Exercise upward/downward discretion
 - Provide subsequent makeup opportunity



Case Study #2: Business Transformation

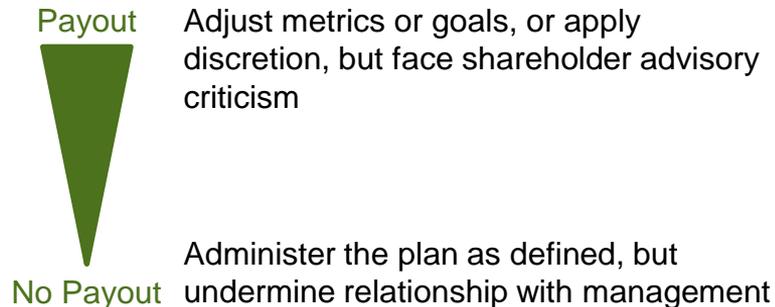
Context: *Software company is transitioning from traditional license model to SaaS subscriptions – conversions occur quicker than expected*

Scenario: *Management misses revenue and EBITDA thresholds in bonus plan given differing accounting treatment*

Bonus funding outcome of 0% doesn't reflect company's progress toward long-term goal that is in shareholders' best interests

Handling Unexpected Change

- Range of alternatives:



Planning for the Future

- Change the performance metrics
- Include a corporate strategic goal component
- Implement a 162(m) “umbrella” plan
- Educate Wall Street

Planning for Future Unexpected Change

- ✓ **Have a Plan**
 - ✓ Ensure committee and management are aligned
 - ✓ Adopt guidelines to evaluate treatment alternatives

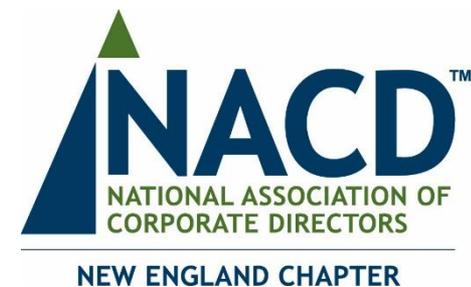
- ✓ **Implement Balanced and Complementary Programs**
 - ✓ Use multiple performance metrics
 - ✓ Use different types of performance metrics (growth vs. profitability vs. returns)
 - ✓ Grant a portfolio of equity instruments

- ✓ **Preserve Flexibility in Incentive Program Design**
 - ✓ Use non-GAAP metrics
 - ✓ Include strategic goals – individual or corporate



Questions?

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Key Takeaways

- ✓ A strong relationship between the board and management is key to managing the impact of change on incentive programs
- ✓ Actions addressing change must be in shareholders' best interests
- ✓ Planning for expected change prepares the committee to handle unexpected change

Replay the Webcast

**Copy of the slides and a replay of the presentation
will be available at:**

www.pearlmeyer.com/incentive-programs-rapid-business-change

Interested in becoming a member?

**Contact Julie Conroy at
julie@nacdne.org**

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Thank You

