



## 2019 BOARD PAY OUTLOOK FOR MID-CAP COMPANIES - ARE YOU PREPARED?

December 2019

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## With You Today



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## Learning Objectives

- ▶ Recognize current trends in pay levels and structures for board members for further discussion between boards and executives
- ▶ Identify key issues or pending regulatory matters to be alert to when designing and disclosing pay practices
- ▶ Discuss relevant trends within your organization's industry and how your organization compares

## Agenda

- ▶ Overview of 2019 BDO 600 Board Survey
- ▶ Overview of Board Compensation
- ▶ Industry Comparisons
- ▶ Planning For 2020

## Overview of 2019 BDO 600 Surveys

### Board Compensation Practices

#### Background

- ▶ Thirteenth year of the BDO 600 Surveys
- ▶ Two separate publications: Director and CEO/CFO Pay Practices
- ▶ Surveys are complimentary and sharing with current/prospective clients is encouraged

#### Methodology

- ▶ Director and CEO/CFO pay data were collected from the most recent proxy statements and other company filings for each "BDO 600" company
- ▶ Director and CEO/CFO pay data for each survey are categorized by company size and industry

## Overview of 2019 BDO 600 Surveys

### Company Size

Size Category	Revenue Range	Asset Range (Financial Services)
Group A	\$100 million – \$500 million	\$100 million – \$1.25 billion
Group B	\$500 million – \$1.25 billion	\$1.25 billion – \$2.5 billion
Group C	\$1.25 billion – \$3 billion	\$2.5 billion – \$6 billion

### Industry Groups

- ▶ Energy
- ▶ Financial Services - Banking
- ▶ Financial Services - Nonbanking
- ▶ Healthcare
- ▶ Manufacturing
- ▶ Real Estate
- ▶ Retail
- ▶ Technology

## BDO 600 Board Compensation

## Board Compensation

In addition to Board compensation levels and compensation structures, we also reviewed various features and requirements of the Board as follows:

- ▶ Board Compensation - Overview
- ▶ Chairperson Compensation
- ▶ Lead Director Compensation
- ▶ Director Stock Ownership Guidelines
- ▶ Board Compensation Expense
- ▶ Director Compensation by Company Size

## Overview of Board Compensation

### Observations

- ▶ 2018 total compensation increased by 3% compared to 2017.
- ▶ Total compensation averaged \$170,310 for the 600 companies.
- ▶ Compensation paid in the form of annual board fees and retainers experienced a 4% increase.
- ▶ The use of full-value stock awards increased by 4% in 2018 whereas utilization of stock options decreased by 2%, which is consistent with industry trends.

Fiscal Year	Board Retainers & Fees	Committee Retainers & Fees	Total Equity Pay	Total Compensation
2018	\$70,925	\$7,950	\$91,435	\$170,310
2017	\$67,924	\$8,459	\$89,226	\$165,609
Change	4%	-6%	2%	3%

## Board Compensation Practices

### Board Chairperson and Lead Directors

- ▶ Board Chairpersons are paid approximately 30% more than regular board members
- ▶ Lead Directors are only paid about 10% more than regular board members
- ▶ In cases where there is both a Chairperson and Lead Director, the Chairperson earns 17% more than the Lead Director

## Board Compensation Practices

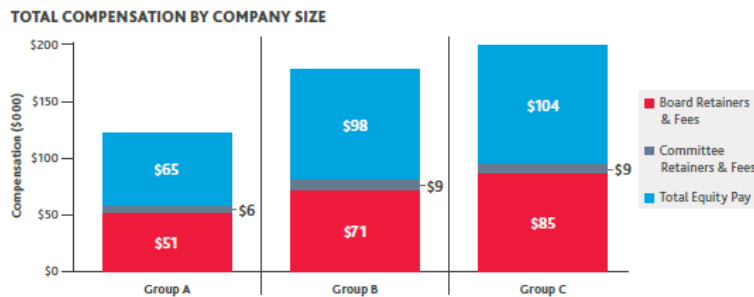
### Director Stock Ownership Guidelines

- ▶ Sixty-nine percent (69%) of all companies (irrespective of industry) maintain stock ownership guidelines for Directors
- ▶ Average ownership guideline target is about \$330,000
- ▶ Energy companies have the highest guideline at \$435,542
- ▶ Banking is the lowest at \$132,693

## Board Compensation Practices

### Director Compensation by Company Size

- ▶ There is a positive correlation between average total compensation and company size, which is consistent with our findings from prior reports



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## Board Compensation Practices

### Board Compensation Expense

- ▶ The median total cost to the company for board fees is \$1.3 million
- ▶ There is a positive correlation between company size and Board compensation expense levels
- ▶ Energy had the highest total cost at \$1.8 million whereas Non-Banking Financials was the lowest at \$554K

	Total Board Fees - Median
Overall	\$1,295,027
Group A	\$827,981
Group B	\$1,323,843
Group C	\$1,747,849
Energy	\$1,826,730
Healthcare	\$1,729,346
Manufacturing	\$1,434,044
Real Estate	\$1,404,783
Retail	\$1,316,766
Technology	\$1,248,747
Banking	\$1,138,475
Nonbanking	\$554,256

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## Board Structure

In addition to Board compensation levels and compensation structures, we also reviewed various features and requirements of the Board as follows:

- ▶ Term limits and retirement
- ▶ Committee and Board Structure
- ▶ Representation of Women on Boards

## Board Structure

### Overview

The Committee structure can impact the remuneration for Directors based on the number of committees maintained by the company and the ratio of committees to the number of Directors.

### Average Number of Directors

- ▶ On average, boards have nine members, 81 percent of whom are independent directors.
- ▶ The lowest number of board members was three; the highest was 19.

### Committee Structure

- ▶ Virtually all companies have audit, nominating/governance and compensation committees.
- ▶ The most prevalent additional committees include executive (21 percent), finance (11 percent), and risk (10 percent).
- ▶ Other committees include strategic planning, technology, and regulatory. It should be noted that cybersecurity/IT committees are on the rise.
- ▶ It is noteworthy that 34 percent of banks have an executive committee, which is likely due to monthly loan approvals required by the board.



## Board Structure

### Board Term Limits and Retirement

- ▶ Among the 59 percent of companies that disclosed term limit data, only 3 percent report having term limits.
- ▶ The average term limit among all companies is 13.5 years.
- ▶ None of the companies in our banking industry sample reported having board term limits.
- ▶ Thirty-two percent of companies reported a mandatory retirement age.
- ▶ The average retirement age among all companies is 73.3 years.
- ▶ Company size and industry appear to have little impact on the average retirement age.

## Board Structure

### Representation of Women on Boards

- ▶ On an aggregate basis, only 19% of companies report having female Directors; however, this is an increase from 15% last year
- ▶ Retail companies have a slightly higher representation of female Directors at 24%
- ▶ Energy companies have the lowest representation of female Directors at 13%

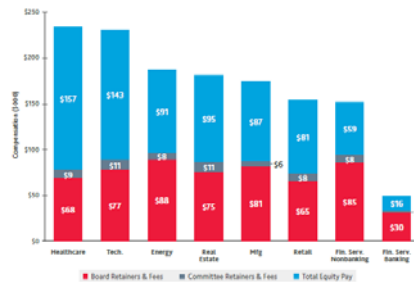
# Industry Comparisons

## Board Compensation Industry Review

### Director Compensation

- ▶ Consistent with last year's findings, Directors in the Healthcare, Technology and Energy industries are paid the highest
- ▶ With the notable exception of Banking, which is the lowest, director pay in other industries is relatively consistent

TOTAL DIRECTOR COMPENSATION BY INDUSTRY



# Planning for 2020

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# Planning for 2020



## Executive Compensation Trends

- ▶ Demonstrating a bona fide link between executive pay and performance
- ▶ Establishing the right annual and long-term incentive programs/metrics
- ▶ The evolving role of the Compensation Committee
- ▶ Increased use of RSUs and performance-based equity grants
- ▶ Impact of career stage issues on executive compensation programs

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## Special Topics - "In the News"

- ▶ Disclosure Issues
  - Committee reports that raise red flags:
    - Stated pay-for-performance philosophy when plans have large discretionary components
    - Companies announce adjusted earnings that were higher than their GAAP income
    - Excluding external events beyond management's control
    - Excluding nonrecurring expenses (e.g., legal expenses)
- ▶ Clawbacks
- ▶ Realizable pay
- ▶ TSR controversy
- ▶ Shareholder concerns
  - Board Diversity
  - Possible 2020 Recession
  - Succession Planning

## BDO 600 Applications

### How to use the data

- ▶ Trend analysis
- ▶ Industry comparisons
- ▶ Structure of compensation (equity versus cash)
- ▶ Using proxy information

[Click here for the Board Survey Report](#)

# Questions?

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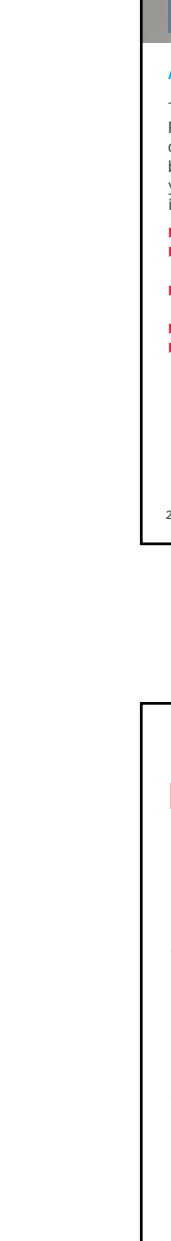


# Resources

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## The BDO Center for Corporate Governance and Financial Reporting

A dynamic and searchable on-line resource for board of directors and financial executives

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- ▶ Technical updates and insights on emerging business issues
- ▶ Three-pronged evolving curriculum consisting of upcoming webinars and archived self-study content
- ▶ Opportunities to engage with BDO thought leaders
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For more information about BDO's Center for Corporate Governance, please go to [www.bdo.com/resource-centers/governance](http://www.bdo.com/resource-centers/governance)



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Please indicate whether you would like to be subscribed to *BDO's Center for Corporate Governance and Financial Reporting* in order to directly receive publications (such as those previously referenced) when available, as well as invitations to webinars and other events.

1. Yes, please email me with information so I can manage my subscription
2. I already subscribe to [www.bdo.com](http://www.bdo.com)
3. No thank you, not at this time
4. N/A - BDO, BDO Alliance, BDO International

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## Evaluation

We continually work to improve our programming and appreciate constructive feedback. As you print your CPE certificate, please consider responding to a brief evaluation.

Following the program, we will send a thank you e-mail containing additional resources for your consideration.

Thank you in advance for your participation.



## Conclusion

Certificate Availability - If you participated the entire time and responded to at least 75% of the polling questions, click the [Participation tab](#) to access the Print Certificate button.

Please exit the interface by clicking the red "X" in the upper right hand corner of your screen.

# Presenter Bios



## LoriAnn Lowery-Biggers CEO - Bella Vaughan, Inc.

LoriAnn is the CEO and co-founder of BellaVaughan, Inc., an award winning global diamond, design and manufacturing company with collections exclusively distributed worldwide through BlueNile, Inc., a Bain Capital Company.

LoriAnn has over 25 years of experience in the global finance and insurance industry, notably as President of Lloyd's of London for North America. In executive roles at The Navigators Group, Inc (Nasdaq: NAVG) where she served in various capacities as President of Navigators Commercial Insurance Company, President of Field Operations and CMO. She has previously held positions as the Managing Director and National Practice Leader for Risk Management and Financial Products for Wells Fargo, Inc. and served as Vice-Chairman of Wells Fargo Captive Management, and as the Managing Director and Practice Leader for Enterprise Risk Management, Alternative Risk Finance and Advanced Risk Solutions at Marsh and McLennan, Inc.

She served as the Chairperson of the PCI Underwriting and Marketing Committee and on the PCI Executive Roundtable. She is a director on the corporate board and Chairperson of the Finance and Investment committee of Copper Point Mutual Insurance Holding Company, she is Lead Independent Director of Brown & Riding Insurance, Inc., and she serves as a non-executive director and Deputy Chair of Nominating and Governance of Protective Insurance, Inc (NASDAQ: PTVCB) and she is Lead Independent Director of Courtroom Sciences, Inc. She is on the board of advisors of The Legacy Fund. She serves on the boards of the A21 Campaign, a 2017 Mother Teresa Harmony award recipient. She is on the board of NYAC College Center for Global Studies. She sits on the Counsel on Litigation Management and is a Member of Global YPO. LoriAnn has served on the national board of Prevent Child Abuse America for 10 years, Global Advance, and was previously on the advisory board of St. John's University and the Robert Morris College MBA School.

LoriAnn served on the 2008-2009 P&C Global CEO Roundtable. She co-hosts "The Leader's Panel" podcast with renowned author, Dr. Henry Cloud. LoriAnn was chosen as a 2012 Reactions Magazine "12 Insurance Leaders to Watch" and 2015, 2014, 2013 and 2010 Reactions Magazine "Rising Star" award recipient. She is a 2008 Business Insurance Magazine "Woman to Watch" and a BI Magazine "Top 40 under 40 Executives".

LoriAnn was speaker at the Society of Actuaries Conference, the national Rims/ALB CEO's View From The Top. She has been a speaker and panelist at multiple national Rims conventions, the Society of Actuaries, IICF, an APIW keynote speaker, FEI national keynote speaker, the keynote of IICF Global Conference, the keynote speaker at Pink Inc., She has been a panelist and keynote speaker at multiple conferences and events to include: National Association of Securities Dealers, multiple state rims events, financial executives conferences throughout the country, AM Best, CFCU, NY Economics Club, British American Business, Napslo, ALB, AAMGA, Prima and ABA. LoriAnn has been the subject of feature articles in the Wall Street Journal, Financial Times, Business Insurance, National Underwriter, Leader's Edge, Reactions Magazine, Focus Magazine, and twice as the cover of Best Weekly. She is a contributor to the Harvard curriculum "How Star Women Succeed".

LoriAnn's community service activities of giving back are of paramount importance to her. Over the recent years, LoriAnn has made trips to Lebanon, Singapore, Thailand, Japan, South Africa, Israel, Iraq, Greece, Spain, Peru, Brazil, Malaysia, Portugal, Italy, Sweden, Guatemala and Mexico, to name a few, on trips that have involved protection of civil liberties and the protection of abused and exploited women and children as well as teaching ethical business practices to business leaders and entrepreneurs in those countries. She is passionate about her work with the A21 Campaign which works to abolish human trafficking globally and her work to train leaders and equip them for excellence.

LoriAnn, a sixth generation Texan, moved back to Dallas from New York in 2008 where she resides with her husband.







**Richard V. Smith**  
STS GES Managing Director

**EXPERIENCE**

As the STS GES Managing Director at BDO, Rick serves clients throughout the US with offices in Houston and Phoenix, AZ. Rick is an independent advisor to compensation committees and management of public and private companies, as well as family owned businesses. He has extensive experience providing competitive market analysis for senior level executives and designing and implementing performance based reward strategies that define the proper mix of annual and long-term incentives as appropriate to the organization and its culture. Rick works closely with boards of trustees of colleges and universities, as well as national and global charitable organizations, health care systems, performing arts and other 501(C)(3) and (C)(4) organizations assisting with determining reasonable compensation. Rick also provides expert witness testimony and litigation support in family law, companies entering and/or emerging from bankruptcy reorganization, M & A and shareholder disputes.

Rick is experienced in structuring executive employment contracts in light of current practices and individual situations, recommending appropriate compensation for independent Directors and advising boards and management on succession planning and strengthening governance. He is experienced in structuring compensation plans for companies in pre and post IPO and M & A positions both domestic and international.

Rick's consulting experience includes many assignments to the energy industry, financial services industry, including retail banking both national and regional, and to the manufacturing, retail, aerospace and pharmaceutical industries among others. Rick has 27 years of experience, previously as the southwest regional executive compensation lead for Willis Towers Watson, National Executive Compensation and Governance Practice leader for Sibson Consulting located in their New York and Phoenix offices. Director and Executive Compensation Practice leader at a Big Four Firm in NY and a Senior Consultant at The Hay Group, NY and Mercer, NY. Rick's assignments have been located throughout the United States, Europe, Canada, the Middle East and Hong Kong.

Rick has spoken before several professional organizations including 2015 23rd annual NASPP conference, "Audit Guideline & Executive Compensation", Synergy 2015, WorldatWork 2013 and 2014 national conferences. Other conference speaking engagements include the New York Society of Securities Analyst, The New York Hospital Forum and the Share Holder Forum that studies the impact of say on pay. His articles on "The Role of the Board and the CEO", "Rational for Remuneration in Higher Education" and "Succession Management in Corporate America". Rick has been published in several journals including "Financial Executive", "WorkSpan", and "Business Officer" plus his most recent article "A Holistic Approach to Rewarding the Method of Stock Appreciation" also published in WorkSpan Magazine.

**PROFESSIONAL AFFILIATIONS**

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**Amy Rojik**  
National Assurance Partner

**EXPERIENCE**

Amy has spent over 14 years with BDO as part of the National Assurance practice office. She founded and directs BDO's [Center for Corporate Governance and Financial Reporting](#), designed for financial executives and those charged with governance of both public and private companies. She is responsible for the development and presentation of a significant volume of BDO's continuing professional education (CPE)-worthy webinar and self-study programs and thought leadership pieces on a variety of matters related to corporate governance, including cybersecurity, fraud, succession planning, and audit quality. In collaboration with various leaders within BDO, she has published BDO's Effective Audit Committees in the Ever Changing Marketplace and related practices aids. Amy further develops certain of our firm's board of director forums as well as participates in external events for corporate directors.

She also participates in the development and implementation of BDO's national strategies and initiatives that support industry, business, technical, and client service goals. She is responsible for publication and issuance of BDO's annual voluntary Audit Quality Reports.

Amy currently serves as BDO's Policy Lead to and participates on the Center for Audit Quality's (CAQ) Advisory Committee and assists in CAQ initiatives, including audit committee communications and audit quality indicators. She has participated in the American Institute of Certified Public Accountants (AICPA)'s EDMAX forum for accounting firm learning specialists to share knowledge/practices on learning methods. She fully supports BDO initiatives aimed at flexibility, development, and career progression, and serves on the BDO's Women's Inclusion initiative and the Virtual Parenting Network.

Amy has a combined 11 years of prior Big Four firm public accounting experience serving manufacturing and high technology companies as well as private companies, primarily in the wholesale distribution and biotechnology markets. Such experience included assisting clients with public debt offerings and acquisition transactions.

**PROFESSIONAL AFFILIATIONS**

American Institute of Certified Public Accountants  
Massachusetts Society of Certified Public Accountants  
National Association of Corporate Directors - Governance Fellow

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