



THE 2018 BDO 600 CEO AND CFO COMPENSATION TRENDS IN THE RETAIL INDUSTRY

The retail industry has directly benefited from improvements in the U.S. economy, including an increase in consumer confidence and a decrease in the national unemployment rate, which has created more opportunity for discretionary good purchases. Retail sales grew 4.8 percent year-over-year in the first half of 2018, according to the National Retail Federation (NRF).

As one would expect, an increase in sales and improvements in financial performance are directly correlated with CEO pay, particularly in the retail industry. However, as competition escalates, and many retailers reassess their physical footprint and overall business strategy, the retail industry continues to be focused on performance incentives.

This year's BDO 600 Compensation Study indicated that average base salaries are remaining flat for both CEOs and CFOs, with an increase of 1.0 percent and 2.6 percent, respectively. This is not surprising as national salary budget data indicates an increase of 2 to 3 percent for the executive level.

In terms of annual incentive plans, the national trend is towards performance-based plans, while discretionary plans are declining in prevalence. This is supported by the BDO 600 Compensation Study data for retail industry CFOs, who realized an increase of 21 percent in actual payout value over the previous year.

When it comes to long-term incentives (LTI), there has been a shift in emphasis related to award type, with more organizations granting full-value awards (often in the form of restricted stock) as opposed to stock options. This, too, is supported by the BDO 600 Compensation Study findings, particularly when examining the CFO compensation mix for those who received an increase of nearly 4 percent in full-value awards and a decrease of approximately 17 percent for stock options.

Finally, when examining the overall mix of pay, CEOs receive about 25 percent of total direct compensation (TDC) in the form of base pay with the remaining 75 percent in the form of annual or long-term incentives, whereas CFOs receive approximately 40 percent of their compensation in base pay and 60 percent from annual and long-term incentives. This is consistent with general industry norms, which place greater emphasis on variable pay, or the portion of compensation that is "at risk" of not being earned if specified performance goals are not achieved.

Key takeaways and trends to watch

The retail industry is undergoing a disruptive evolution in consumer expectations and the way people shop. These changes are heavily influenced by digital transformation and advancements in data analytics, but also changing demographics and preferences. Innovative CEOs and CFOs who make strategic investment, financial and operational choices to guide their organization's transformation will be best-positioned to thrive, even in weaker markets.

Planning for the future

Moving forward, the key factors that CEOs and board members within the retail industry should consider with regard to compensation are as follows:

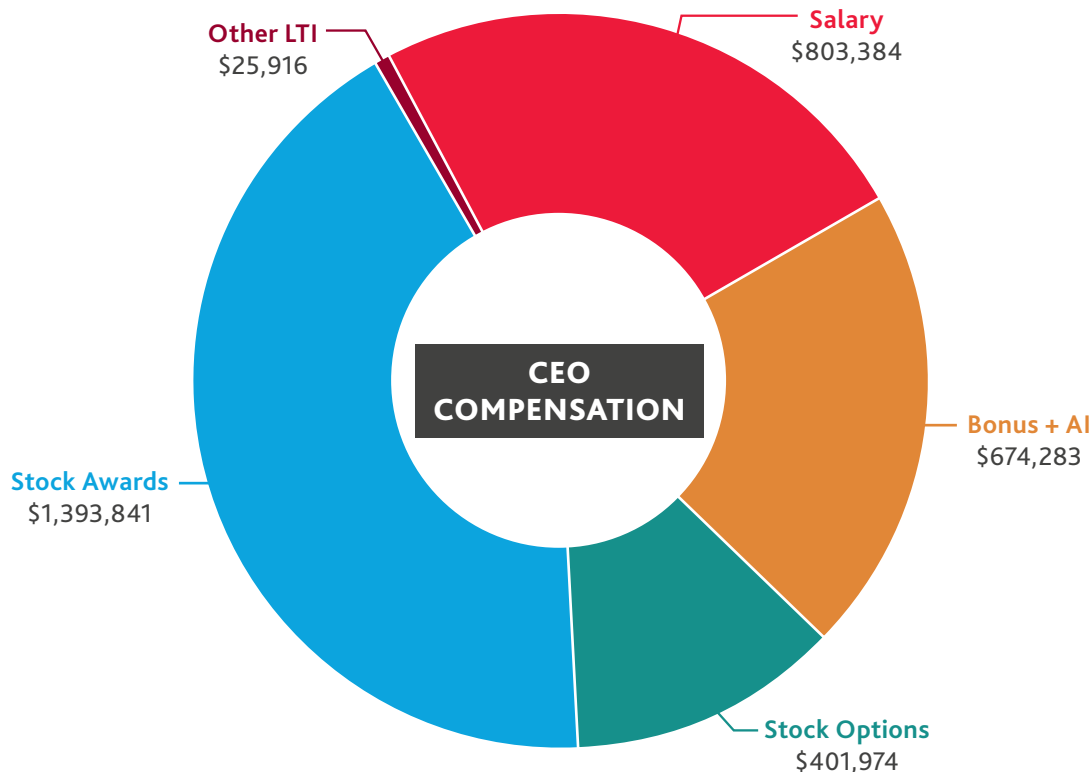
- ▶ **Strategic planning:** Ensure the strategic plan clearly defines how the organization will position itself in response to both economic trends and changes within the retail industry, especially in relation to digital transformation, emerging technology, supply chain and inventory.
- ▶ **Incentive plan design (annual and long-term):** Select performance metrics that are directly linked to the strategic plan and that reward the achievement of the most critical goals.
- ▶ **IT positions:** Carefully identify the most critical IT positions to recruit for and the IT functions that should be outsourced. Gather market data to ensure compensation levels are externally competitive, as well as internally equitable and reflective of the organization's compensation strategy and long-term strategic goals.

ABOUT THE BDO 600 STUDY

The BDO 600 Study examines CEO and CFO compensation plans of 600 middle market public companies, reviewing the key components of pay packages and providing comparisons by title, company size and industry. Companies in the six non-financial services industries have annual revenues between \$100 million and \$3 billion. Companies in the two financial services industries have assets between \$100 million and \$6 billion. Data in our 2018 study were extracted from proxy statements that were filed between April 2017 and March 2018. Consolidated proxy data were provided by Salary.com.



BDO 600 Study Results in the Retail Industry - CEO



The average total direct compensation paid to retail industry CEOs for fiscal years 2017 and 2016 is listed below. The compensation mix for retail industry CEOs was more equity-focused in 2017, with a bigger share of compensation paid via stock options and full-value stock awards.

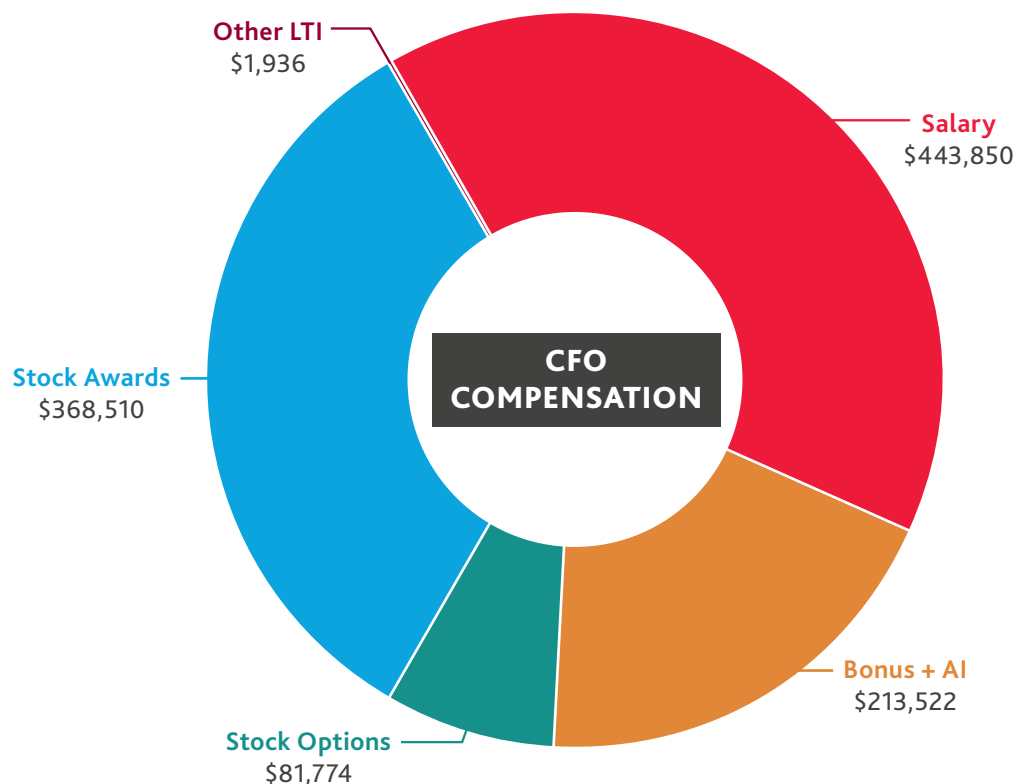
| Positions | Average Salary | Bonus and Annual Incentives | Stock Options | Full -Value Stock Awards | Other LTI | TDC |
|-------------------------------|----------------|-----------------------------|---------------|--------------------------|-----------|-------------|
| CEO 2017 | \$803,384 | \$674,283 | \$401,974 | \$1,393,841 | \$25,916 | \$3,299,398 |
| CEO 2016 | \$795,354 | \$644,423 | \$348,198 | \$1,218,374 | \$36,753 | \$3,043,102 |
| Change Over Prior Year | 1.0% | 4.6% | 15.4% | 14.4% | N/A* | 8.4% |

(*Because not all CEOs received annual LTI payments, year-over-year comparisons may not accurately indicate market trends.)

The resulting 2017 compensation mix is listed below.

| Position | Year | Annual Cash | LTI | Total |
|----------|------|-------------|-----|-------|
| CEO | 2017 | 45% | 55% | 100% |
| | 2016 | 47% | 53% | 100% |

BDO 600 Study Results in the Retail Industry - CFO



The average total direct compensation paid to retail industry CFOs for fiscal years 2017 and 2016 is listed below.

| Positions | Average Salary | Bonus and Annual Incentives | Stock Options | Full -Value Stock Awards | Other LTI | TDC |
|-------------------------------|----------------|-----------------------------|---------------|--------------------------|-----------|-------------|
| CFO 2017 | \$443,850 | \$213,522 | \$81,774 | \$368,510 | \$1,936 | \$1,109,592 |
| CFO 2016 | \$432,698 | \$176,475 | \$98,922 | \$354,993 | \$9,592 | \$1,072,680 |
| Change Over Prior Year | 2.6% | 21.0% | -17.3% | 3.8% | N/A* | 3.4% |

(*Because not all CFOs received annual LTI payments, year-over-year comparisons may not accurately indicate market trends.)

The resulting 2017 compensation mix is listed below.

| Position | Year | Annual Cash | LTI | Total |
|----------|------|-------------|-----|-------|
| CFO | 2017 | 59% | 41% | 100% |
| | 2016 | 57% | 43% | 100% |

Read the full BDO 600 CEO/CFO study: www.bdo.com/2018-bdo-600-ceo-cfo

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, and advisory services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 60 offices and over 650 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of more than 73,800 people working out of 1,500 offices across 162 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: www.bdo.com.

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your needs.

© 2019 BDO USA, LLP. All rights reserved.