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

The 2019 outlook for the manufacturing industry is bullish, due in part to the Tax Cuts and Jobs Act, which served as the catalyst for expansion and hiring in 2018, as well as strong economic fundamentals that have maintained high levels of demand for U.S. goods domestically. Continued global market volatility and uncertainty, however, may dampen expansion and reduce demand for U.S. goods abroad in 2019.

Strong industry performance has not necessarily correlated with CEO pay, however, according to the 2018 BDO 600 Compensation Study. In terms of actual 2017 compensation levels, total direct compensation (TDC) for CEOs in the manufacturing industry decreased by 7.5 percent between 2016 and 2017, whereas TDC for CFOs experienced a marginal increase of 1.4 percent.

The decrease in compensation levels for CEOs and the marginal increase among CFOs is likely attributable to a marked decrease in the amount of compensation paid as bonus and annual incentives (-24.3 percent and -16.7 percent, respectively). This decline in bonus and annual incentive amounts is likely the result of market volatility in 2016 and does not reflect a significant change in the compensation mix for either position.

It is also worth noting that manufacturing CEOs and CFOs continue to experience an increase in the amount of compensation paid as long-term incentives (2 percent and 3 percent, respectively) compared to salary and bonus/annual incentives. The uptick in long-term incentives reflects broader market trends, including shareholder demands for transparency into executive compensation. To this end, we have observed greater use of long-term incentives tied to value creation (e.g., total shareholder return) and financial performance metrics, such as EBITDA, net income and free cash flow.

In this year's BDO 600 Compensation Study, we also examined the relationship between CEO "at-risk" pay and company financial performance. Our findings indicate that higher levels of "at-risk" pay for manufacturing CEOs is correlated with higher three-year total shareholder returns, and most pronounced among small and midsized companies.

Key takeaways and trends to watch

Industry experts are predicting a talent shortage for manufacturing executives in the coming years as Industry 4.0 adoption matures in the U.S. While there are sufficient workers to fill executive vacancies, experts cite a general lack of critical leadership competencies in the manufacturing industry, including digital literacy, the ability to lead virtual teams, and intellectual and cultural curiosity. Boards may wish to incorporate these leadership competencies into their standard executive evaluation criteria.

Planning for the future

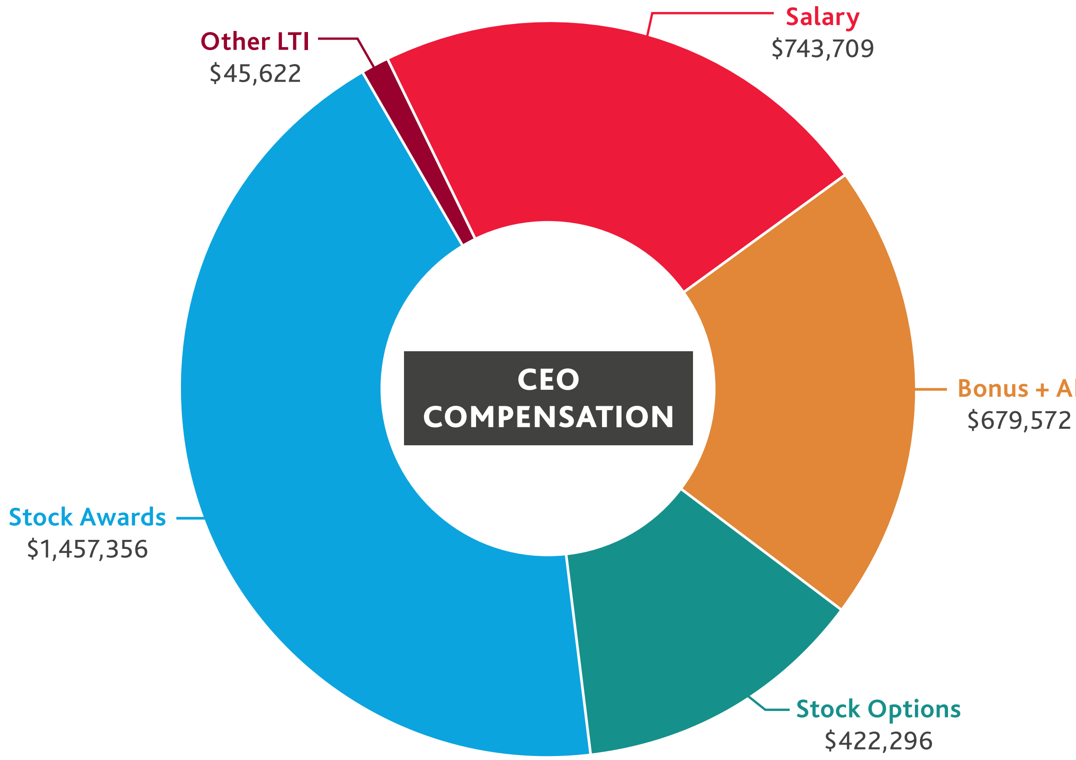
The impending talent shortage underscores the need for manufacturing organizations and boards to consider strategic compensation issues including:

- Executive succession planning: Ensure that potential leaders possess the skills, abilities and competencies required for manufacturing companies to compete in an Industry 4.0 world.
- Cyber threats: Ensure that infrastructure is in place to combat cyber-attacks, while balancing the need for security with the need to innovate.

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 Manufacturing Industry - CEO



The average total direct compensation paid to manufacturing CEOs for fiscal years 2017 and 2016 is listed below. Manufacturing was the only industry in which CEOs experienced a decrease in pay in 2017 as compared to 2016.

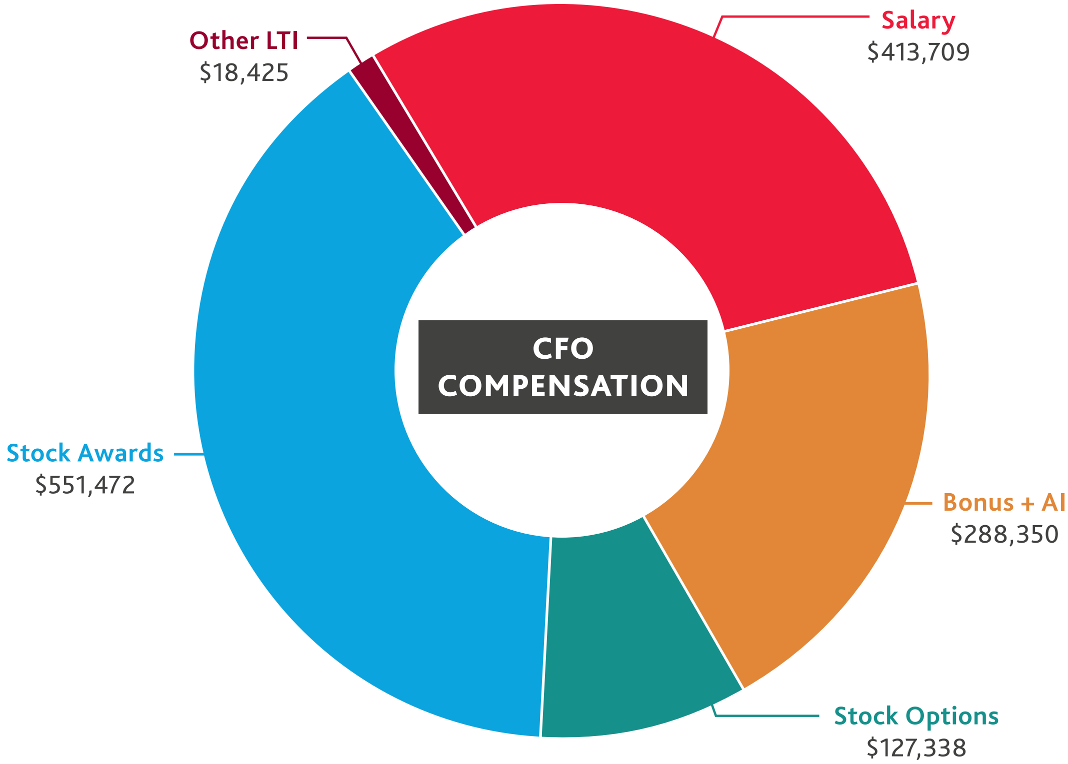
Positions	Average Salary	Bonus and Annual Incentives	Stock Options	Full -Value Stock Awards	Other LTI	TDC
CEO 2017	**$743,709**	**$679,572**	**$422,296**	**$1,457,356**	**$45,622**	**$3,348,555**
CEO 2016	$720,309	$897,999	$501,099	$1,427,493	$73,859	$3,620,759
Change Over Prior Year	3.2%	-24.3%	-15.7%	2.1%	N/A*	-7.5%

(*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**	**43%**	**57%**	**100%**
	2016	45%	55%	100%

BDO 600 Study Results in the Manufacturing Industry - CFO



The average total direct compensation paid to manufacturing CFOs for fiscal years 2017 and 2016 is listed below. CFOs experienced a modest 1 percent increase in total direct compensation; while there was a year-over-year increase in the use of long-term incentives and equity, the gains were negated by a significant drop in annual incentive payouts.

Positions	Average Salary	Bonus and Annual Incentives	Stock Options	Full -Value Stock Awards	Other LTI	TDC
CFO 2017	**$413,709**	**$288,350**	**$127,338**	**$551,472**	**$18,425**	**$1,399,294**
CFO 2016	$391,180	$345,989	$119,923	$510,158	$13,128	$1,380,378
Change Over Prior Year	5.8%	-16.7%	6.2%	8.1%	N/A*	1.4%

(*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**	**50%**	**50%**	**100%**
	2016	53%	47%	100%

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