



Talent Management

Session #6

Stuart Cable + Lisa Haddad

August 24, 2021



Agenda

1. Speed Read: Board's Role in Talent Management

2. In the Boardroom: Setting CEO Compensation

3. Champions Corner:

- Sara Martinez Tucker
 - Director at American Electric Power, Cornerstone OnDemand, Nationwide and Service Corporation International
 - Previously served on the Boards of Sprint and Xerox
 - Serves on Notre Dame's Board of Trustees and formerly chaired the University of Texas System Board of Regents
 - Served as CEO of the National Math + Science Initiative
- Aubrey Bout
 - Managing Partner in the Boston office of Pay Governance

SPEED READ

Board's Role in Talent Management



The CEO

- One of the most important jobs of the Board of Directors (if not THE most important job) is to select the CEO of the company, which includes:
 - Evaluating the CEO
 - Informally during executive session
 - Formally at least once a year
 - Determining when a CEO change is appropriate
 - Responding when a CEO decides to retire/resign
 - CEO succession planning

CEO Searches

- May establish a search committee of the Board or use the Nominating & Governance Committee to shepherd the process
- Decision points:
 - Internal vs. external searches
 - Use of third-party search firms
 - Development of search criteria
 - Public announcement vs. conducting a private search while trying to avoid a leak
 - Timing
- Use of interim CEOs / Executive Chairs / other arrangements

Remaining Talent

- **Other Members of Management:** Job of the CEO to assemble the remainder of the management team, BUT:
 - Directors should get to know the other members of the management team through Board/committee service and office visits
 - Board should provide constructive feedback on management to the CEO
 - Board should understand the management organizational structure and review management succession planning with the CEO on at least an annual basis
- **Employees Generally:** Historically the purview of the management team, BUT:
 - Board becoming more involved in overall talent management, including human capital strategy, recruiting and retaining talent, and diversity, inclusion and belonging

Compensation Committee

Who is on the committee?

- Minimum of 2 members, but generally 3-4 directors due to the workload
- Must be “independent” under stock exchange requirements
- Board also must consider all factors specifically relevant to determining whether a director has a relationship to the company which is material to that director's ability to be independent from management
- No “interlocks” among executive officers of other companies

Compensation Committee

What does the committee do?

- Recommends to Board/approves CEO compensation
 - CEO may not be present during deliberations regarding his/her compensation
- Approves compensation of other executive officers
- Administers equity incentive plans
- Recommends director compensation program for approval by Board
- Reviews proxy statement (including Compensation Discussion & Analysis) and provides Compensation Committee Report

Compensation Committee

How does the committee do its work?

- Selects and retains independent compensation consultant
- Obtains input from the CEO and the company's HR team
- Receives advice from outside counsel
- Reviews market data and assembles a peer group for benchmarking purposes
- Uses tally sheets to keep track of current and future compensation (including vesting schedules for previously issued equity awards)
- Keeps abreast of new compensation design elements, changing shareholder sentiments in executive compensation, and SEC disclosure requirements

Hot Topics in Executive Compensation

- Equity compensation to align with stockholders
 - Stock options vs. full-value awards
- Pay-for-performance
 - Operating metrics vs. stock price (TSR)
 - Performance periods (short-term vs. long-term)
 - Time-based vesting vs. performance-based vesting for equity awards
 - Changes to awards that are inflight
- Treatment of compensation upon a change-in-control
- Tax gross-ups
- Limits on perks
- Stock ownership guidelines
- Clawbacks
- CEO pay ratio
- No hedging/pledging of company stock
- Say-on-pay votes
- Equity plan overhangs and burn rates

Sample Disclosure – Summary Compensation Table

NAME AND TITLE	Year	Salary (\$)*	Bonus (\$)	Stock awards (\$)	Non-equity incentive plan compensation (\$)	All other compensation (\$)	Total (\$)
President and CEO	2020	1,000,000		18,685,309	2,417,400	493,789	22,596,498
	2019	1,000,000	—	11,482,590	1,474,500	556,766	14,513,856
	2018	1,000,00	—	15,648,049	2,458,726	151,327	19,258,102
Chief Financial Officer	2020	575,000	500,000	5,590,607	926,670	270,880	7,863,157
	2019	179,688	—	6,000,050	176,536	78,773	6,435,047
Chief Operating Officer	2020	500,000		7,370,063	725,220	178,138	8,773,421
	2019	500,000	—	3,909,690	442,350	194,487	5,046,527
	2018	492,500	—	4,865,259	728,134	73,062	6,158,955
Executive Vice President, Sales	2020	509,750		7,297,497	739,388	252,764	8,799,399
	2019	487,500	—	3,909,690	431,443	368,720	5,197,353
	2018	445,000	—	4,865,259	684,720	237,050	6,232,029
Chief Technology Officer	2020	41,667	400,000	8,433,871	61,426	23,608	8,960,572

Sample Disclosure – Director Compensation Table

Name	Fees earned or paid in cash (\$)	Stock awards (\$)	All other compensation (\$)	Total (\$)
Chair of the Board	170,000	261,266	40,877	472,143
Lead Independent Director	150,000	261,266	66,209	477,475
Director #1	34,252	—	18,870	53,122
Director #2	115,403	261,266	80,040	456,709
Director #3	101,933	261,266	1,599	364,798
Director #4	102,500	261,266	37,478	401,244
Director #5	93,265	261,266	21,599	376,130
Director #6	115,512	261,266	1,599	378,377
Director #7	16,721	152,878	20,468	190,067
Director #8	112,500	261,266	38,453	412,219
Director #9	72,439	353,377	21,226	447,042

IN THE BOARDROOM

Setting CEO Compensation



Background

- In June, the company announced new long-term financial targets for 2024
- The targets, if achieved, represent significant growth and profitability for the business
- CEO has discussed with the Chair the level of focus that will be required from him to achieve the public targets
- CEO is an industry veteran who has been with the company for over a decade and has made comments to the Chair and other directors about “finishing out his career”
- In his conversations with the Chair, CEO suggested that the Compensation Committee consider a special equity grant to the management team that is aligned with the new financial targets and provides incentive for achievement of the new goals
- Annual equity incentive grants were made to the executive team in the first quarter of the year in accordance with the company’s regular practice

Proposal

- HR team at the company provides a potential framework to the Compensation Committee for a special equity grant for management
- Proposal includes a long-term, performance-based grant of restricted stock units (RSUs) to key members of management, including the CEO
- RSUs become eligible to vest in 2024 if and to the extent that the new long-term financial targets are achieved
- Portion of the RSUs may be earned at threshold performance of 50%, with a maximum payout of 150% upon overachievement
- Target value of the RSUs for the CEO on the date of grant is \$30M, which is 3x the value of his annual grant earlier in the year
 - Intended to align with the three years in the performance period

Proxy Statement Disclosure

Given the significant contributions of management in driving our current performance and achievements to date, we believed it was important to motivate our executives to execute our new long-term targets. In accordance with our pay for performance philosophy and preference to weight compensation toward equity incentives to further align our executives' interests with those of our stockholders, we made a long-term performance-based RSU grant to each of our executives. We selected these targets as the performance measures under the grants as they align to our long-range plan and are expected to result in stockholder value creation.

Year	Salary (\$)*	Bonus (\$)	Stock awards (\$)	Non-equity incentive plan compensation (\$)	All other compensation (\$)	Total (\$)
2021	1,000,000		40,000,000	950,000	25,000	41,975,000
2020	1,000,000	—	9,000,000	1,000,000	25,000	11,025,000
2019	1,000,000	—	8,000,000	1,200,000	25,000	10,225,000

Say-on-Pay Voting Results

Advisory Vote to Approve the Compensation of Our Named Executive Officers (Say-on-Pay):

For	Against	Abstain	Broker Non-Votes
55,000,000	60,000,000	50,000	4,000,000

CHAMPIONS CORNER



**Sara Martinez
Tucker**



Aubrey Bout

Next Session:

In the Headlines

**Thursday, September 9th, 7:30 pm ET /
4:30 pm PT**

Thank You!