

Pay Strategies that Increase Shareholder Value



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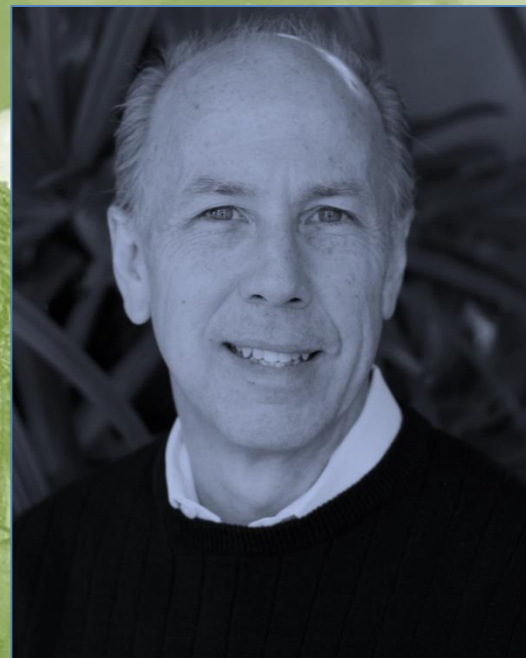
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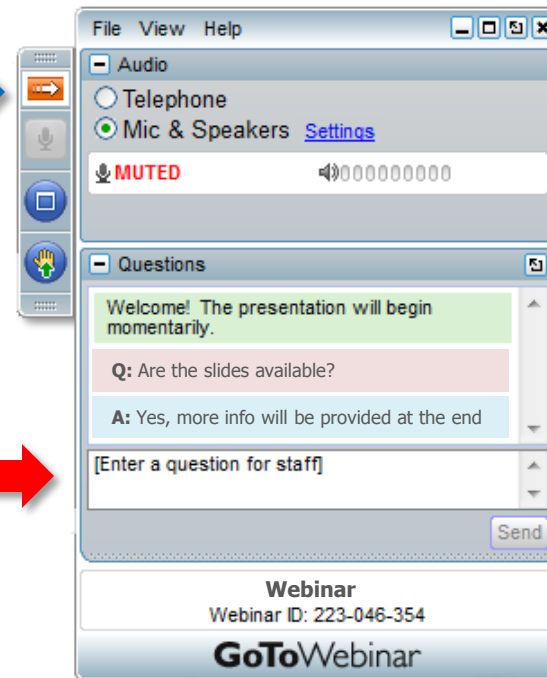
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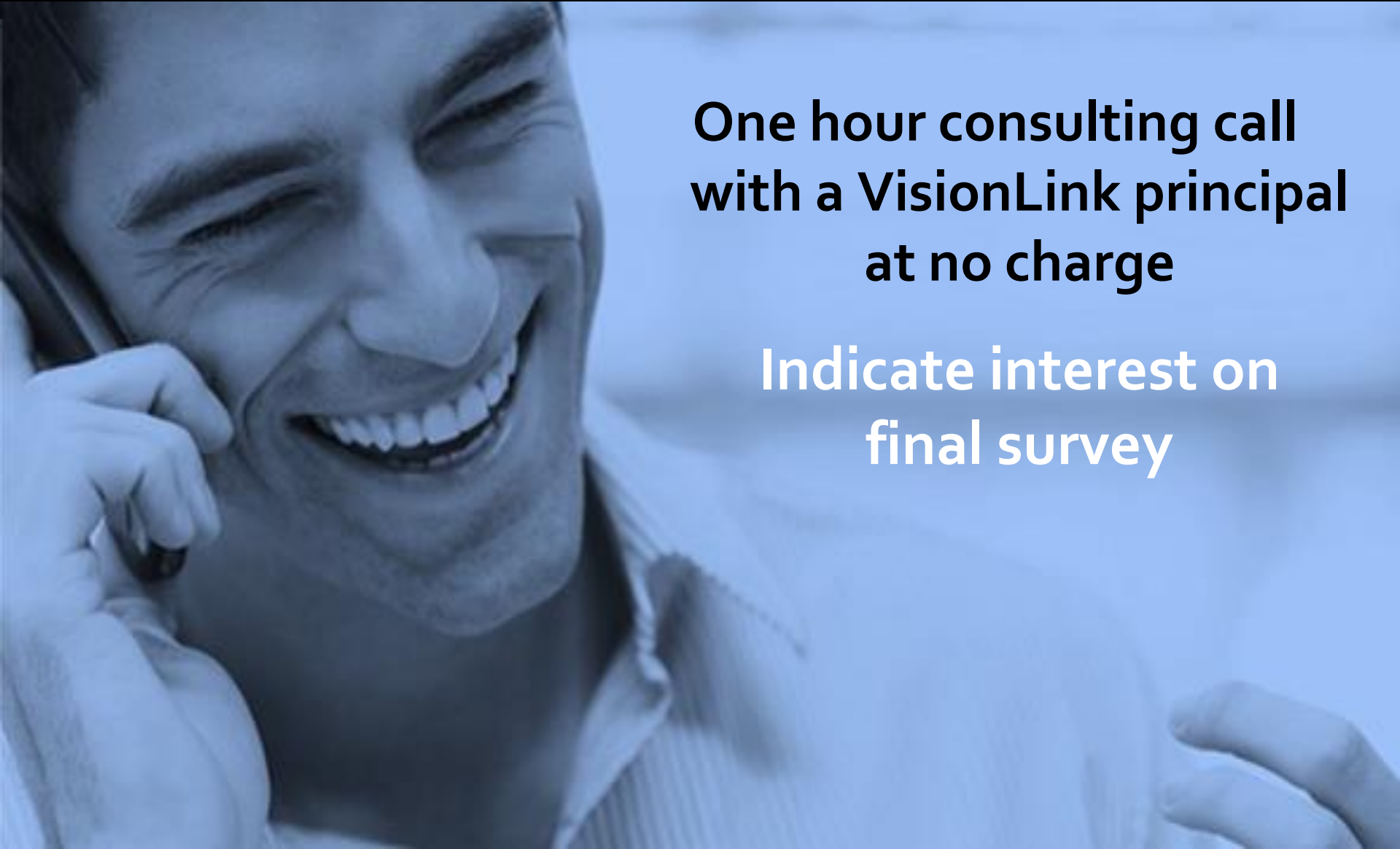
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**Indicate interest on
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PREVIEW AT END OF BROADCAST



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- Founded in 1996
- Over 450 Clients in North America
- Focus: Compensation design and management that drives growth

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Vision: Help You Become a Wealth Multiplier Organization

Transform the way you use
compensation to share value with
employees.



If you do that...

- Quality of talent will improve.
- Employee engagement will expand.
- Performance will be magnified.
- Business growth will be accelerated.
- Shareholder value will increase.



Shareholder Pain Points



- Growth goals not being reached.
- Static profits.
- Costs are up.
- Lack of performance.
- Inadequate stewardship and accountability.
- Fear of disruption.
- Little to no increase in shareholder value.

Shareholder Considerations



- Do I have the right people?
- What is our pay strategy producing?
- Is a performance culture attainable?
- How do I get greater employee buy-in and commitment?
- Where is innovation and leveraged growth going to come from?
- Do I liquidate (sell) or do I forge on?

Pay Implications



- Pay must produce a return.
- Pay must reinforce accountability.
- Pay must facilitate a performance culture.
- Pay must reward innovation.
- Pay must attract premier and retain premier talent.
- Pay must improve shareholder value.

The 6 Criteria

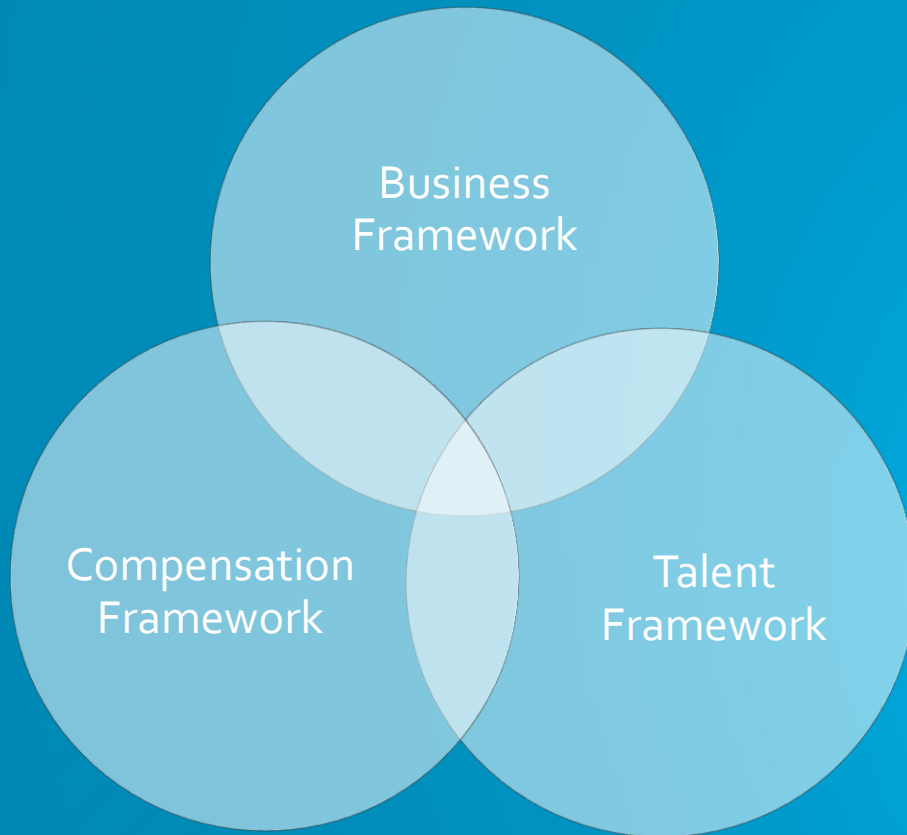


1. Supports the Performance Framework
2. Attracts Premier Talent
3. Creates a Stewardship Mindset
4. Contributes to a Performance Culture
5. Generates a Measurable Return
6. Reflects a Wealth Multiplier Philosophy

1. Supports the Performance Framework



What is a Performance Framework?



Business Framework

Business Framework

Phase One

- Define Growth Expectations (Vision)
 - Key outcomes that must be achieved
- Define Business Model and Strategy
 - Performance Engine
 - How the company will compete
 - Where are growth opportunities?
- Identify Roles and Expectations
 - Establish Performance Criteria
 - Define "Success"



Compensation Framework

Compensation
Framework

Phase Two

- Establish a pay philosophy
 - Expansive vs. Selective—or Hybrid
 - Define what the company is willing to pay for
- Engineer a pay strategy
 - Structure
 - Mindset
- Adopt a “Total Rewards” Approach



Talent Framework

Talent Framework

Phase Three

- Identify Key Producers
 - Meeting "success" standards
- Identify Talent "Gaps"
 - Recruiting Strategy
- Communicate Expectations
 - Define success
- Communicate Rewards
 - Philosophy
 - Programs
 - Value Statement



2. Attracts Premier Talent



The Issue

One of the biggest headaches for CEOs is making sure that the organization has the right people to cope with what lies ahead. There's the basic question of planning for the skills that are needed now and in the future: Which roles will be automated? What new roles will be needed to manage and run emerging technology? What skills should the company be looking for, and training their people for? Where will we find the people we need?

PwC's 18th Annual Global CEO Survey



But more importantly, CEOs need to be sure that the business is fit to react quickly to whatever the future may throw at it – and that means filling it with adaptable, creative people, working in a culture where energy fizzes and ideas spark into life. If they can't be found, they must be created.

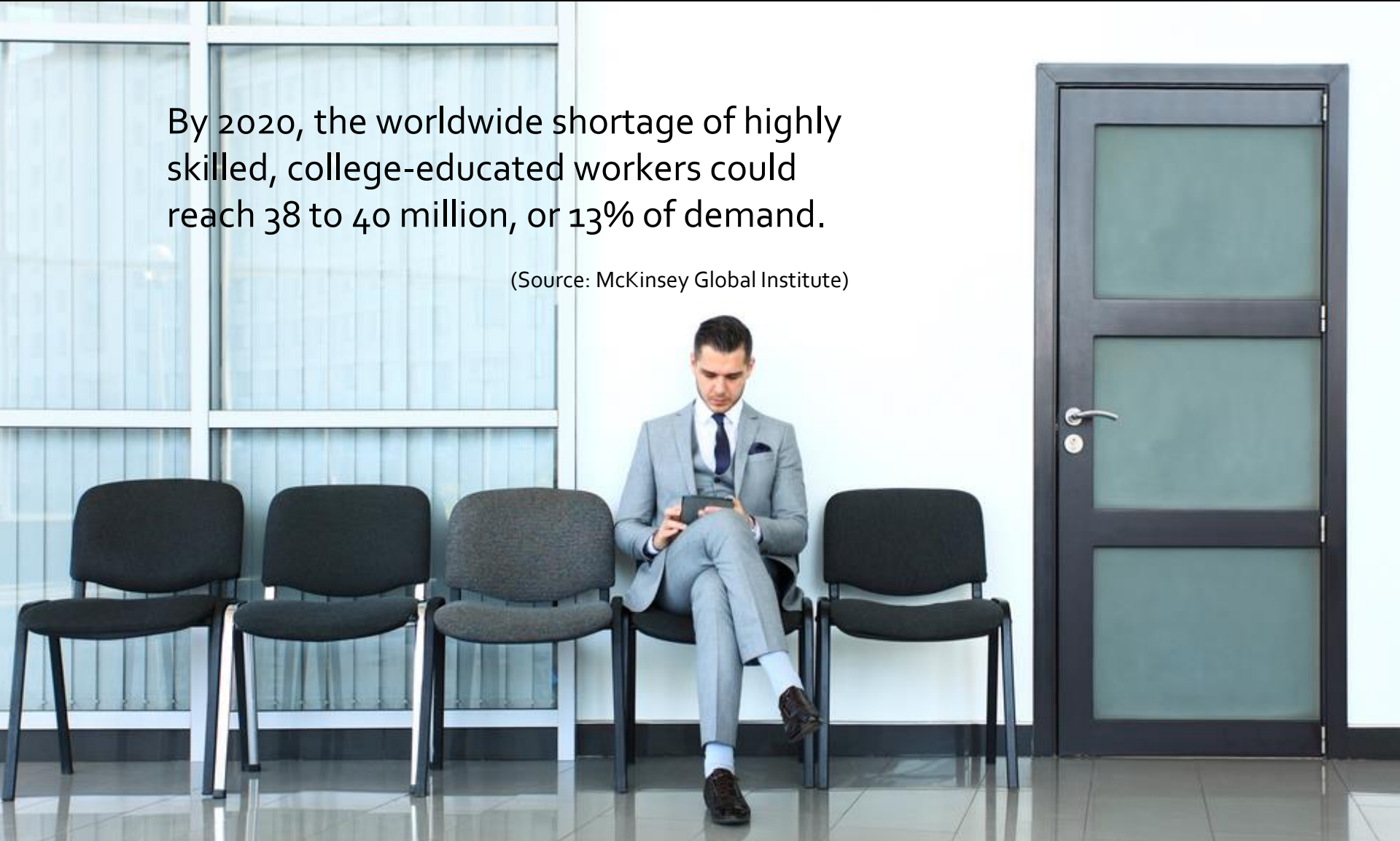
PwC's 18th Annual Global CEO Survey (continued)



Key Talent Trend

By 2020, the worldwide shortage of highly skilled, college-educated workers could reach 38 to 40 million, or 13% of demand.

(Source: McKinsey Global Institute)



Where Business is Headed

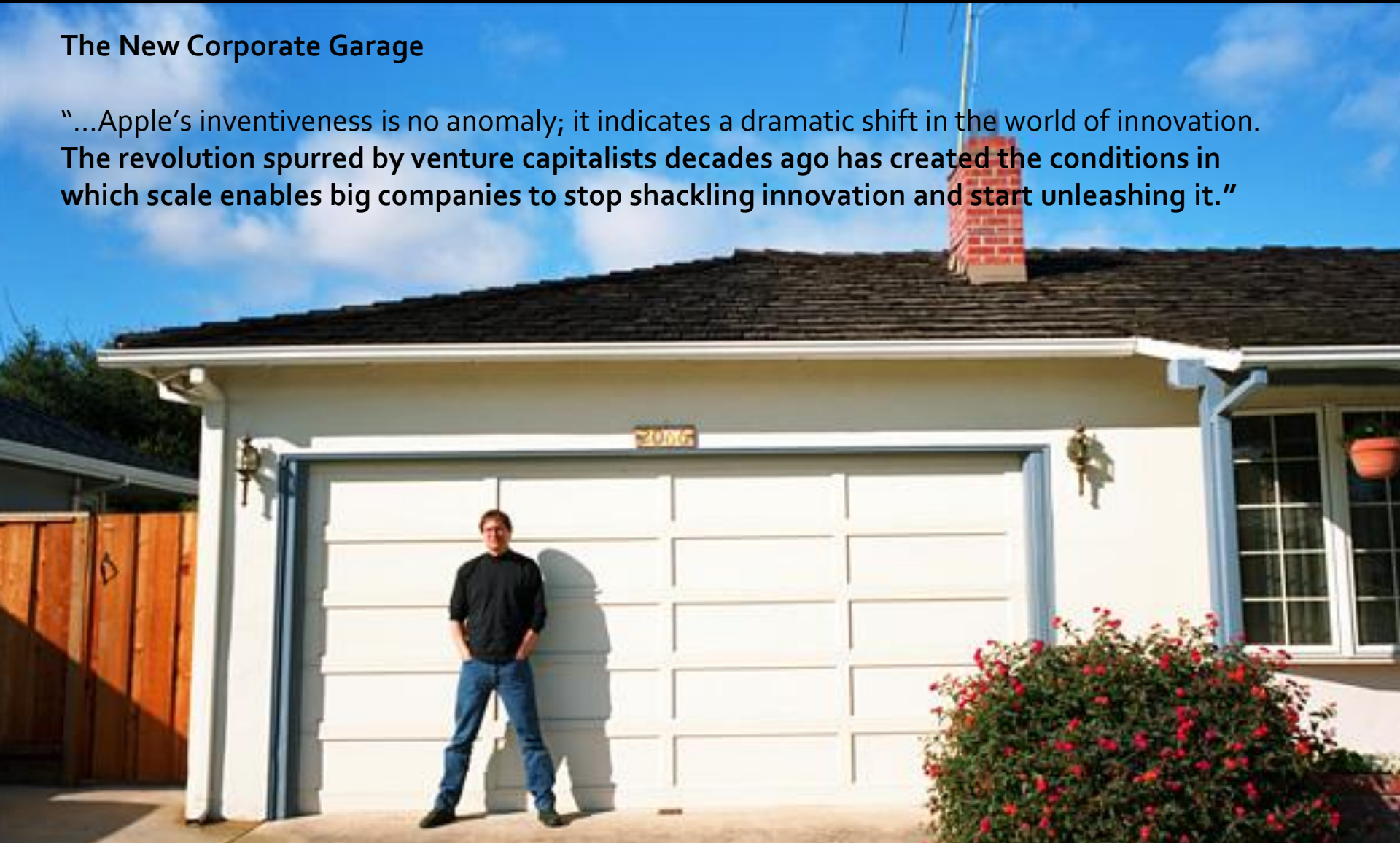
**Innovation
Transformation**



The Emergence of Catalysts

The New Corporate Garage

“...Apple’s inventiveness is no anomaly; it indicates a dramatic shift in the world of innovation. The revolution spurred by venture capitalists decades ago has created the conditions in which scale enables big companies to stop shackling innovation and start unleashing it.”



Catalysts Change Growth Trajectory

“...entrepreneurial individuals, or ‘catalysts,’ within big companies are using those companies’ resources, scale, and growing agility to develop solutions to global challenges in ways that few others...” (Harvard Business Review, September 2012)



Jony Ive

Catalysts

- Into their late 30s or early 40s
- Have gained meaningful experience and possess unique abilities.
- Able to affect significant (positive) change in an organization
- Companies are competing for their talents.
- They have leverage and are in a position to negotiate.



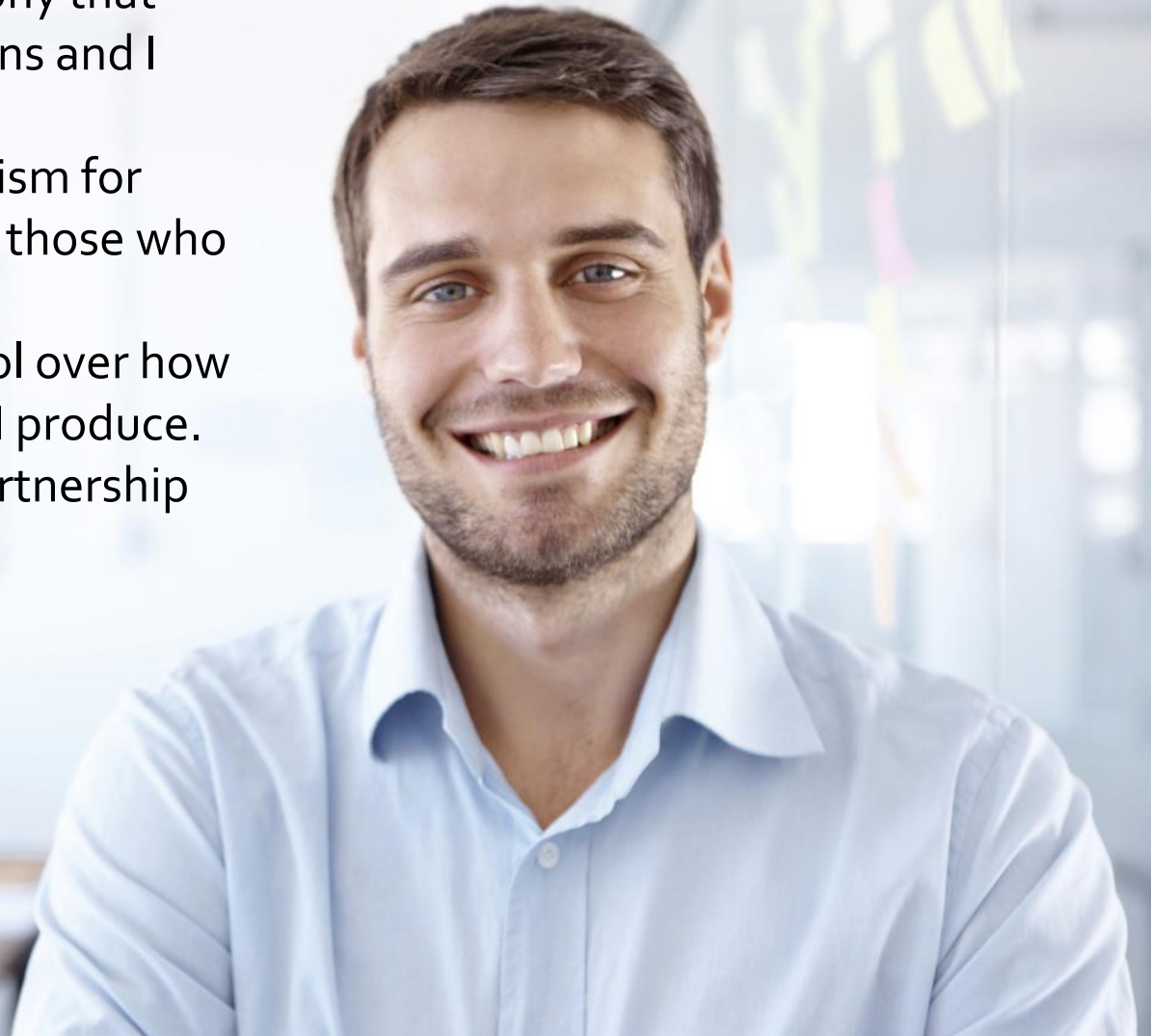
Brian Chesney, Airbnb

What it Means

- 
- Companies will need catalysts
 - Catalysts must focus on areas of strategic impact
 - Scarcity of high impact talent
 - Shrinking talent pool creates competition
 - Competition demands a unique value proposition

What Catalysts Want

- There is a philosophy that guides pay decisions and I relate to it.
- There is a mechanism for sharing value with those who help produce it.
- I have some control over how much I can earn if I produce.
- I feel a sense of partnership with ownership.



Future Trends for Defining a Financial Partnership

- Performance Agreements
- Opt-In Plans
- Internal Venture Capital
- Long-Term Value Sharing Plans



Performance Agreements

A photograph showing two people in business attire sitting at a table, signing documents. The person on the left is wearing a blue striped shirt and a tie, holding a blue pen. The person on the right is wearing a white sweater, holding a black pen. The background is a bright window with a view of a city skyline.

Prominent Media Company

- High performers excluded from profit sharing-type incentive plan
- Annual negotiated “deal”
- “Deal sheet”
- Quarterly self-evaluation

Performance Agreement



Outcomes

- High performance threshold
- Small or even \$0 payouts can occur
- High-risk, high-upside
- Mentoring environment
- Ownership mindset
- High retention

Opt-In Plans

Most Ideal in Start-Up Environment

- Opt for:
 - “Higher” salary plus modest incentives
 - “Low” or no salary and high upside through short and long-term value sharing
- Tied to a revenue or profit-sharing formula
- Volatility: payments lowered &/or deferred
- Opt-In periods may differ



Opt-In Plans

Outcomes

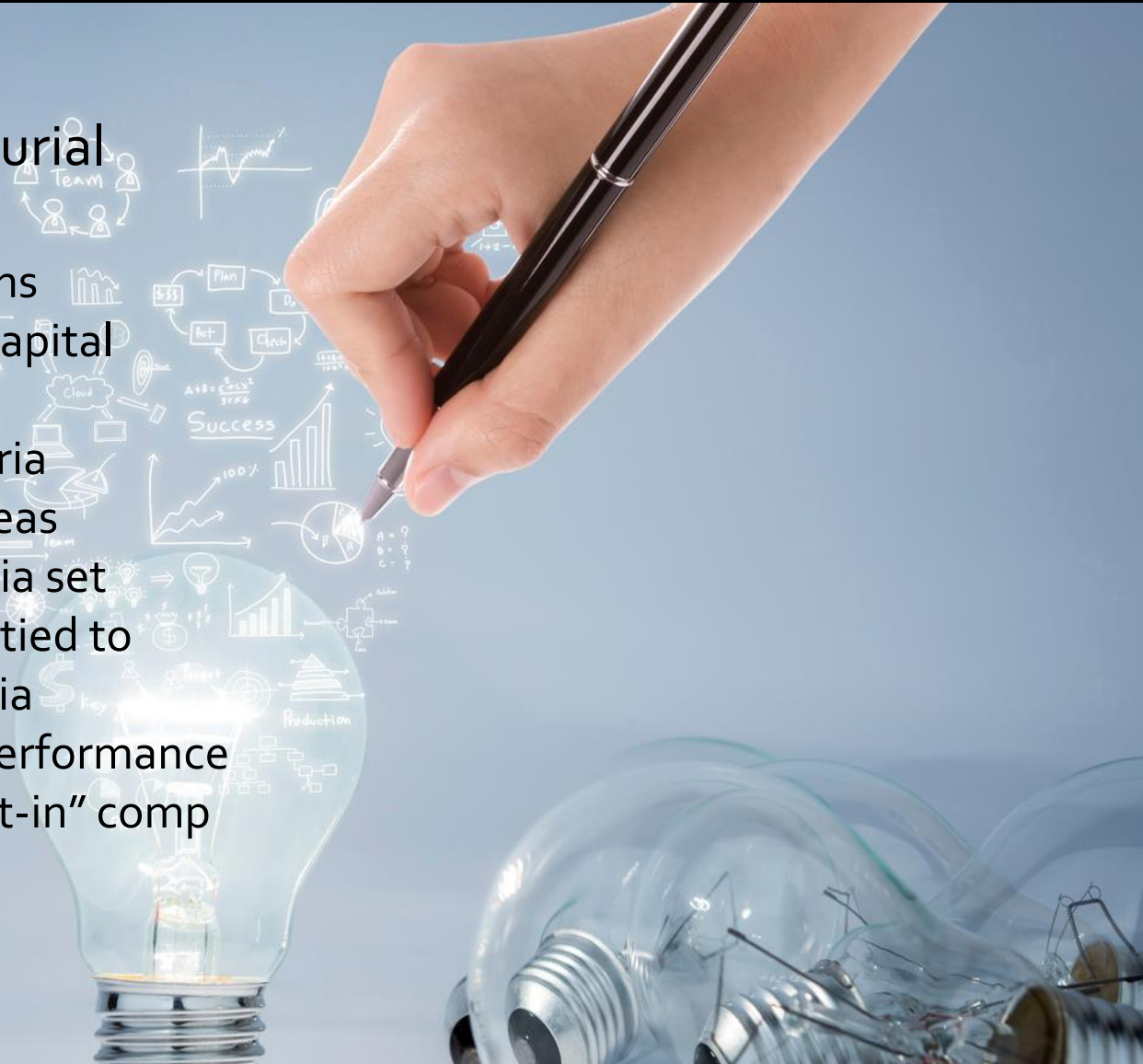
- Employees feel in control
- Owners limit exposure
- Highly flexible
- “Shared” entrepreneurial experience
- Promotes an ownership mindset
- “Self-identifies” key performers



Internal Venture Capital

Highly Entrepreneurial Approach

- Larger organizations
- Establish venture capital account
- Define access criteria
- Fund innovative ideas
- Performance criteria set
- Value sharing plan tied to performance criteria
- Accompanied by performance agreements or “opt-in” comp plans



Internal Venture Capital

Outcomes

- Accelerate innovation
- Attract catalysts
- Share risk
- Identify potential future leaders and owners

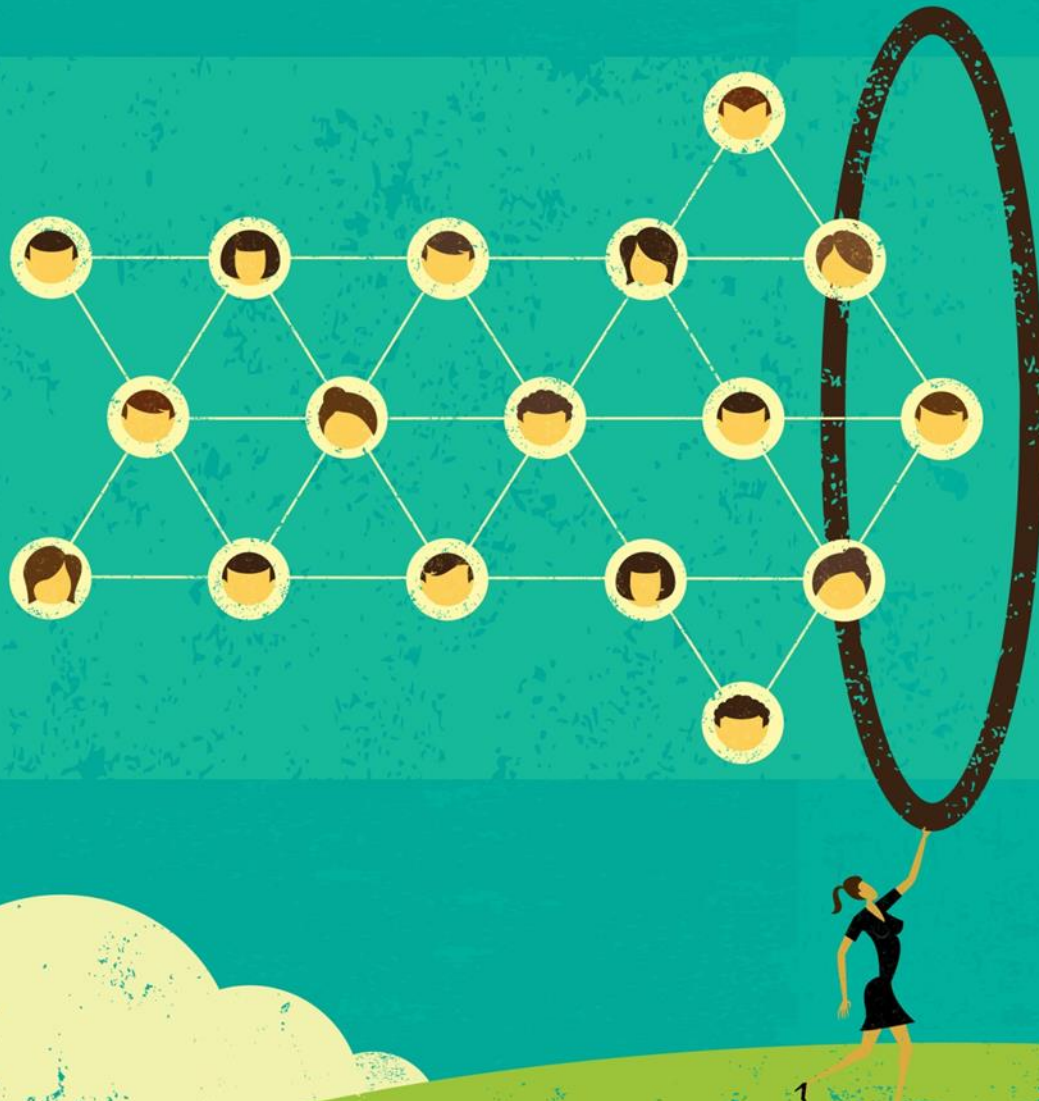


Value Sharing Instead of “Incentives”

Incentives imply a “carrot and stick” approach while value-sharing is about reinforcing outcomes and forging a financial partnership.



Long-Term Value Sharing Plans



Broad Application

- Any size organization
- Can be tied to any of previous approaches
- Creates “wealth multiplier” mindset
- Links employees to company vision and business plan

Select the Right Plan Type

Restricted Stock

Phantom Stock

Profit Pool

Performance Shares

**Performance
Phantom Stock**

Performance Unit

Stock Option

**Phantom Stock
Option**

**Strategic Deferred
Compensation**



3. Creates a Stewardship Mindset



The Stewardship Evolution

Know

Believe

Do

Be



The Stewardship Evolution

Know

**Role &
Expectations**

Believe

Partnership

Do

**Own
Outcomes**

Be

Stewards

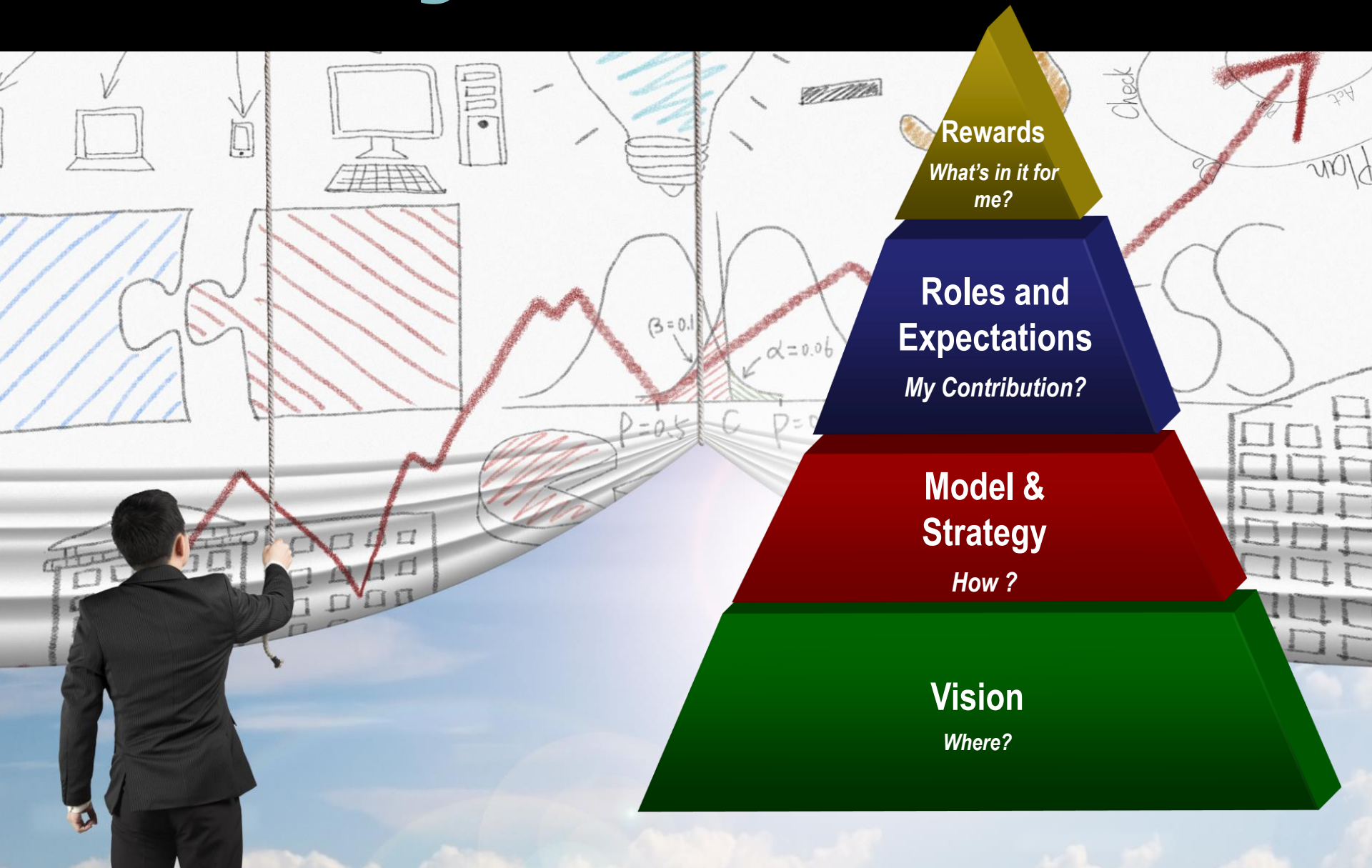


Focus on Pay Plan Alignment

Pay should turn employees into growth partners.



Line of Sight



Eight Components of Pay

Benefits

- Core benefits
- Executive benefits
- Qualified retirement plans
- Supplemental retirement plans

Compensation

- Salary
- Performance incentives
- Sales incentives
- Growth incentives

Incentives should be in the form of value sharing.



An Aligned Compensation Strategy

Salaries

Competitive with market standards?
Tied to strong performance management process (merit)?
Managed within a flexible but effective structure?

Performance Incentives

Tied to productivity gains?
Clear, achievable and meaningful?
Self-financing?

Sales Incentives

Challenging yet achievable?
Reinforcing the right behaviors?
Differentiating your offering?

Growth Incentives

Linked to a compelling future?
Supporting an ownership mentality?
Securing premier talent?

Core Benefits

Responsive to today's employee marketplace?
Allocating resources where most needed?
Evaluated to eliminate unnecessary expense?

Executive Benefits

Flexible enough to address varying circumstances?
Communicating a unique relationship?
Reducing employee tax expense?

Qualified Retirement Plans

Giving employees an opportunity to optimize retirement values?
Operated with comprehensive fiduciary accountability?
Avoiding conflicts and minimizing expenses?

Nonqualified Retirement Plans

Optimizing tax-deferral opportunities?
Aligning long-term interests of employees with shareholders?
Structured to receive best possible P&L impact?



Form of Pay	Purpose	Standard	Investment	ROI
Salaries	Provide for the current cash needs of our executives	40-50th percentile for peer group	\$500,000	Achieve ROA standard of 0.75%
Short-term Incentives	Enhance current cash payments to executives for achieving top and bottom line annual goals	30-40% of base salary	\$168,000 (Target)	15% revenue growth and 12% margin
Long-term Incentives (Cash)	Retain execs; focus them on long-term earnings growth; align with shareholder interests; meet wealth accumulation needs	15-20% of base salary	\$84,000 (Target)	Long-term growth in earnings (double earnings = share 13% of new value)
Long-term Incentives (Equity)	Retain execs; focus them on long-term earnings growth; align with shareholder interests; meet wealth accumulation needs	15-20% of base salary	\$84,000 (Target)	Long-term growth in earnings (double earnings = share 13% of new value)
Core Benefits	Meet basic security needs of the executives	50th percentile for peer group	\$25,500	ROA of 0.75%
Executive Benefits	Enhance basic security needs and meet market standards for perquisites	50th percentile for peer group	\$24,000	ROA of 0.75%
Qualified Retirement	Provide wealth accumulation opportunity for executives	40th percentile (3% of salary)	\$15,000	ROA of 0.75%
Supplemental Retirement	Strengthen rewards value proposition to help recruit and retain executives; meet wealth accumulation needs	30th percentile compared to banks that have plans	\$135,000	ROA of 0.9%

The Ultimate Purpose of Pay

Create a Unified Financial Vision for Growing the Business



Total Rewards Approach

Compelling Future

Positive Work Environment

Opportunities for
Personal and
Professional Growth

Financial Rewards

Total Rewards Approach

Compelling Future
Purpose

Opportunities for
Personal and
Professional Growth
Mastery & Purpose

Positive Work
Environment
Autonomy

Financial Rewards
Partnership

4. Contributes to a Performance Culture



What is a Performance Culture?

- Focus
- Execution
- Sustained Success
- Patterns
- Consistent “Wins”
- Confidence



Rewards to Results

RESULTS



FOCUS

Rewards



What Results?

Value Creation




Performance instead of What?

Entitlement



Signs of an Entitlement Mentality

- 
- Value creation not understood
 - Expectations of salary increases
 - Requests for equity participation
 - Bonus payments without performance
 - Tenured mentality

What kind of Pay?



Accountable Pay

5. Generate a Measurable Return



How Do You Measure ROI on Pay?

Calculate Your
Productivity Profit



ROTRI™ Example:

Item	Amount
Capital Account	\$20,000,000
Cost of Capital	12%
Capital Charge	\$2,400,000
Operating Income	\$10,000,000
Productivity Profit	\$7,600,000
Total Rewards Investment	\$25,000,000
ROTRI™	30.4%

(ROTRI™ = Productivity Profit/Total Rewards Investment)



ROTRI™ Example:

Item	Figure
Capital Account	\$20,000,000
Cost of Capital	12%
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***Variable Pay Plans (Value Sharing) are financed from Productivity Profit**

(ROTRI™ = Productivity Profit/Total Rewards Investment)

Shareholder Value

Current Equity Value	EOY	10% GR (Threshold)	11% GR	12% GR	13% GR	14% GR	15% GR
25,000,000	1	27,500,000	27,750,000	28,000,000	28,250,000	28,500,000	28,750,000
	15	104,431,204	119,614,737	136,839,144	156,356,759	178,448,449	203,426,541
	Incremental increase in value		15,183,533	17,224,407	19,517,615	22,091,690	24,978,091
	Cum Value Increase Above Threshold		15,183,533	32,407,940	51,925,555	74,017,245	98,995,336
	% Shared		10%	15%	20%	25%	30%
	\$ Shared		1,518,353	4,861,191	10,385,111	18,504,311	29,698,601
	Net Increase for SH		13,665,180	27,546,749	41,540,444	55,512,934	69,296,736
	New SH Value		118,096,384	131,977,953	145,971,648	159,944,138	173,727,940
	IRR		10.9%	11.7%	12.5%	13.2%	13.8%

6. Reflects a Wealth Multiplier Philosophy



Wealth Multipliers vs. Wealth Creators

Wealth Creators

- Profitability focus
- Recruit to skills and experience
- Pay is an expense to be managed
- Salaries and total pay should be “at market”
- “Pay-for-performance”



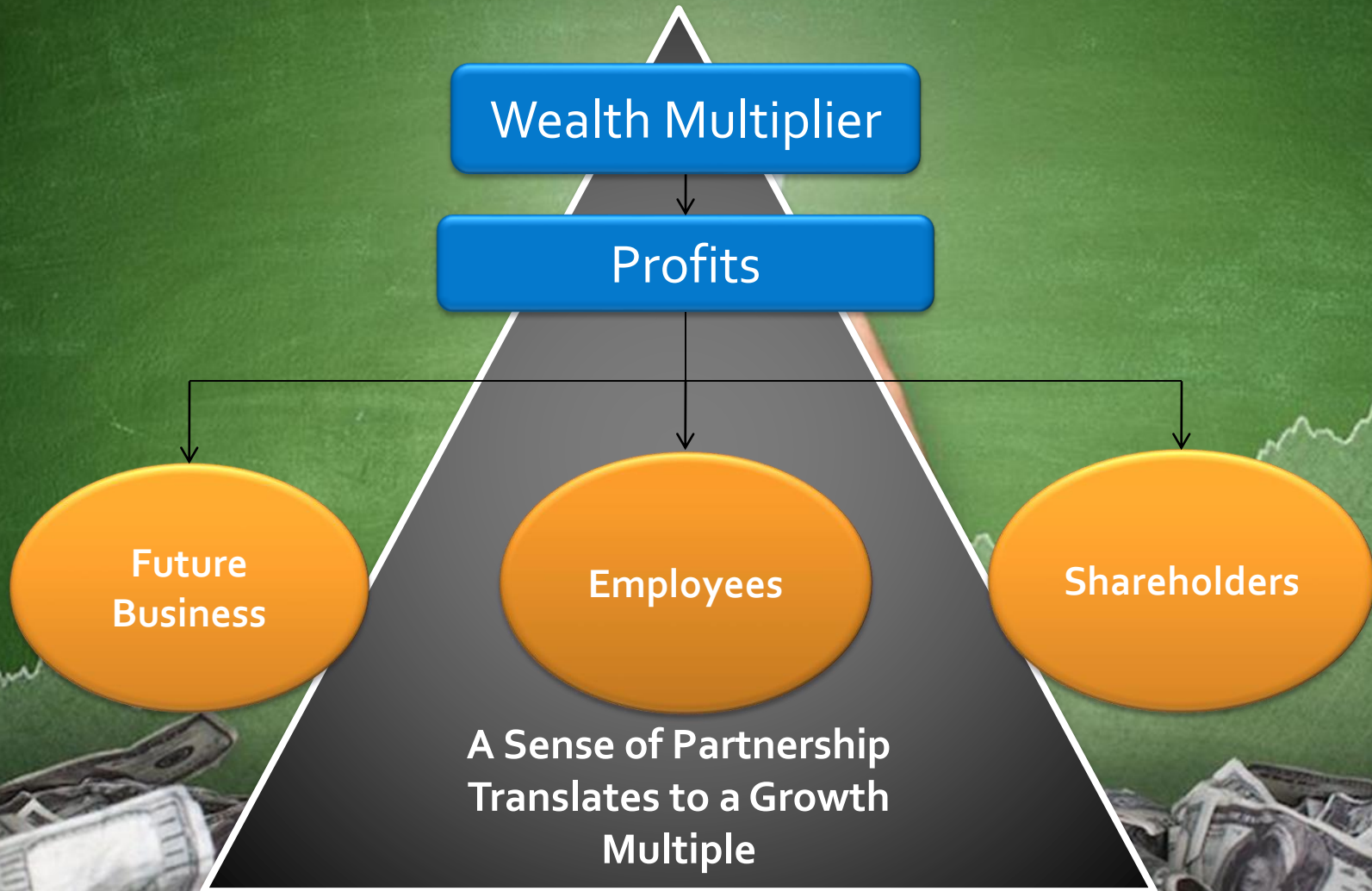
Wealth Multipliers

- Accelerate value creation
- Recruit premier talent that fits performance framework
- Pay is an investment that should produce a growing return
- Market pay for benchmarking but pay philosophy drive comp strategy
- Sharing value with value creators

The Value of Profit



The Value of Profit



Case Study



Keith Williams

- Assumed leadership of UL in 2005
- Company carrying considerable debt
- Losing market share
- Low employee morale
- UL had become bureaucratic and “siloed”



Core Changes

Shift from “Incentives” to “Value Sharing”

- Took away local measurements driving management incentive plans—all paid on same metrics
 - “We live together and we die together”
- Aligned everyone behind company success
 - “I call it ‘pay the company first.’ ”



Pay the Company First

“Basically, up to the company’s operating profit target, all of the profits go to the company; and only after that target is met, do we start funding the incentive pool.”

Example: If UL’s target is \$80 million--

- 100% of first \$80 in profit goes to company
- The next \$20 million goes to the incentive pool
- From there on, 50/50 between company & incentive pool

Pay the Company First

Once value creation is defined, compensation can follow a formula for sharing value in a way that aligns key producers with shareholder priorities.



The 6 Criteria



1. Supports the Performance Framework
2. Attracts Premier Talent
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Who Benefits?

Shareholders

- Magnet for premier talent
- Perpetuate growth
- Increased business value
- Legacy of opportunity
- Accelerated wealth accumulation

Stakeholders

- Associated with a winner
- Positive work environment
- Personal and professional development
- Financial rewards

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PREVIEW!

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The Curriculum

Comprehensive— 10 Course Series

- Building a Performance Structure
- Defining a Pay Philosophy
- Examining Market Pay Data
- Establishing Salary Grades
- Building a Total Compensation Structure
- Balancing Short and Long-Term Value Sharing
- Building the Right Financial Model
- Creating an Effective Annual Incentive Plan
- Determining Which LTIP is Right
- Communicating Your Compensation Strategy



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The Curriculum

Modular— Single Course, 2-5 Sessions

- How to Use Market Pay Data
- How to Build a Total Compensation Structure
- How to Build an Effective Bonus Plan
- How to Build a Phantom Stock Plan
- How to Build a Profit Pool
- How to Build a Performance Unit Plan
- How to Measure Your Return on Compensation

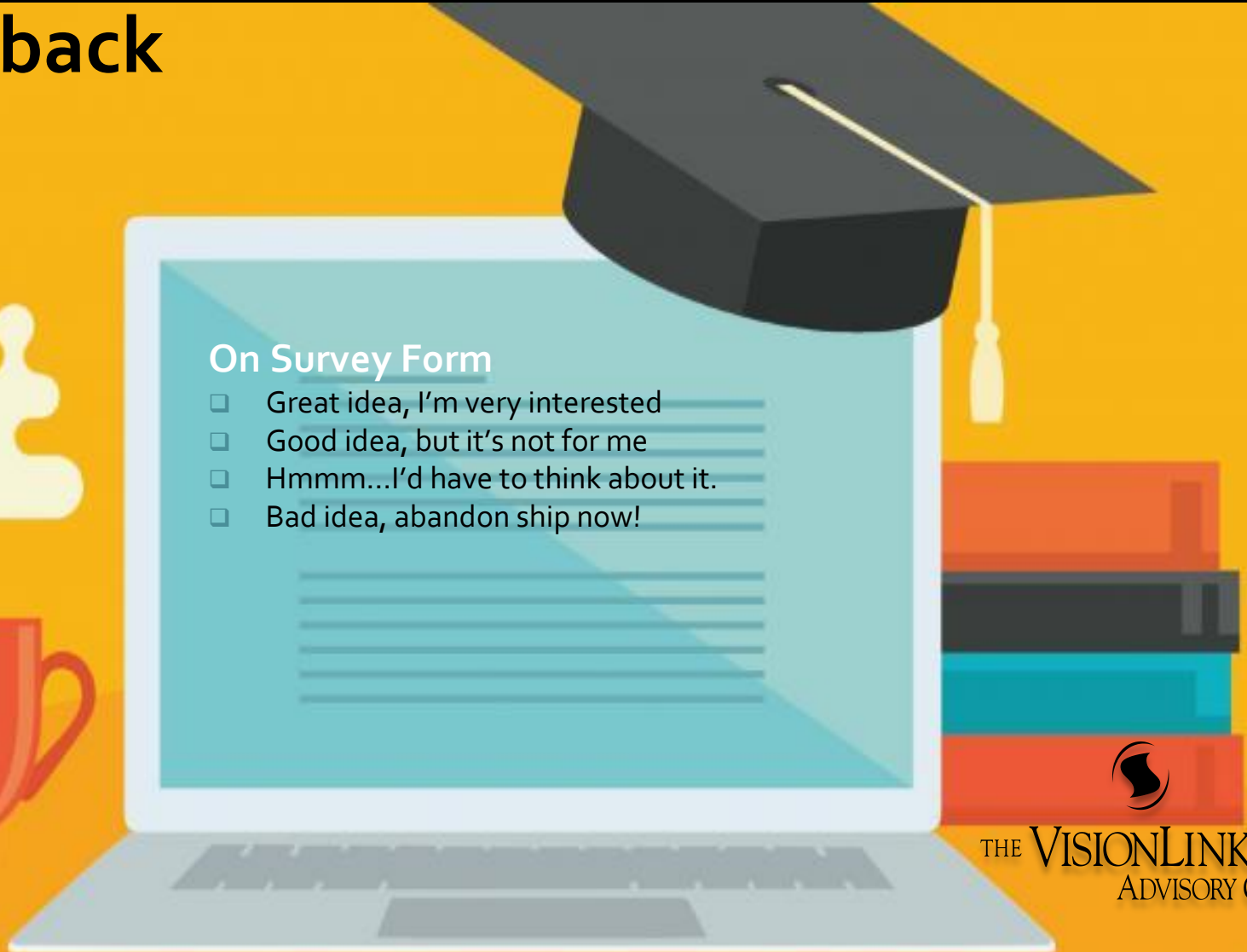


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On Survey Form

- Great idea, I'm very interested
- Good idea, but it's not for me
- Hmm...I'd have to think about it.
- Bad idea, abandon ship now!



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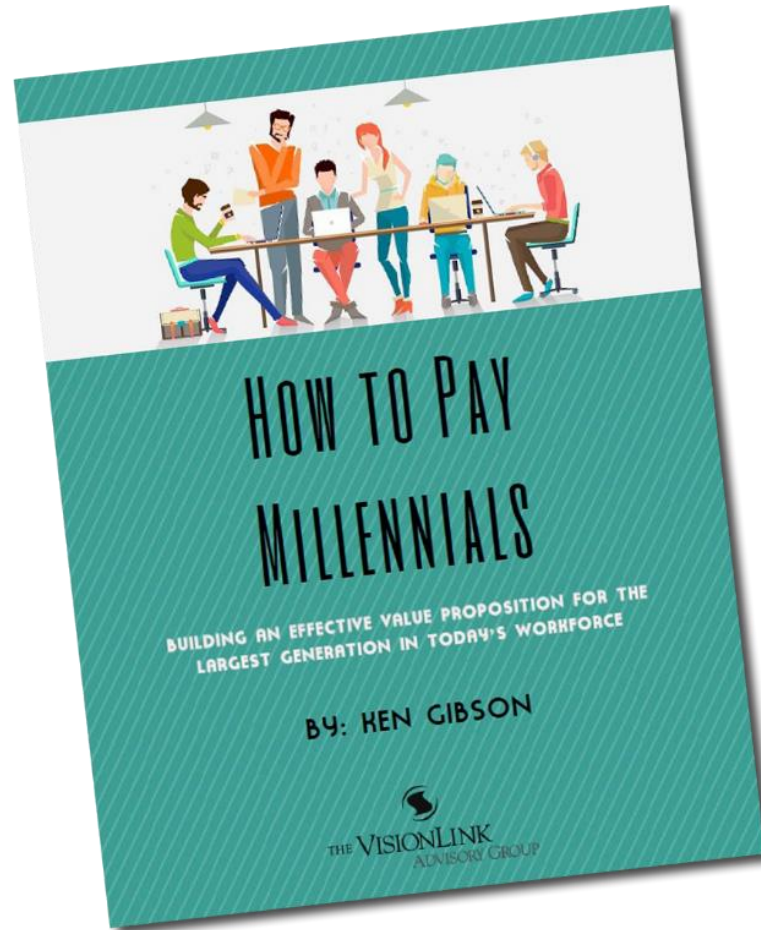
Does Pay Impact Employee Engagement?	January 24th
How Do I Ensure Competitive Base Salaries? <i>(HR Specific Webinar)</i>	February 14th
What is Phantom Stock & Why Do I Keep Hearing About It?	February 28th
How to Balance Short and Long-Term Incentives	March 28th
Pay and the Demise of Performance Management	April 25th
Millennial Pay – What Works & What Doesn't?	May 23rd
How to Transform Entitlement into Stewardship	June 27th

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Q&A



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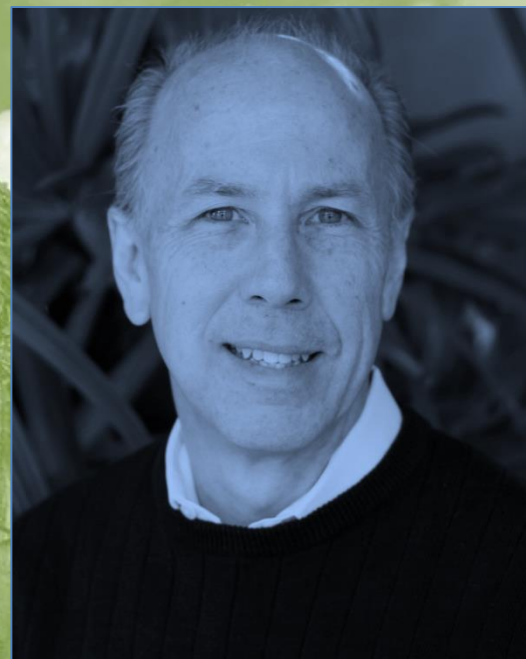
THANK YOU!

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