Deloitte.

CEO Pay Ratio Overview

Deloitte Consulting LLP
December 12, 2018

CEO pay ratio

A brief history

7-1/2 year journey from enactment to implementation has not diminished anxiety or controversy over this disclosure requirement.

July 2010: Disclosure requirement included in Dodd-Frank signed into law

September 2013: SEC issued proposed rules

August 2015: Final rules issued

October 2016: Compliance & Disclosure Interpretations issued

September 2017: Revised guidance issued

Rule effective for fiscal years beginning on or after January 1, 2017

Calendar year corporations to report 2017 CEO pay ratio in 2018 proxy

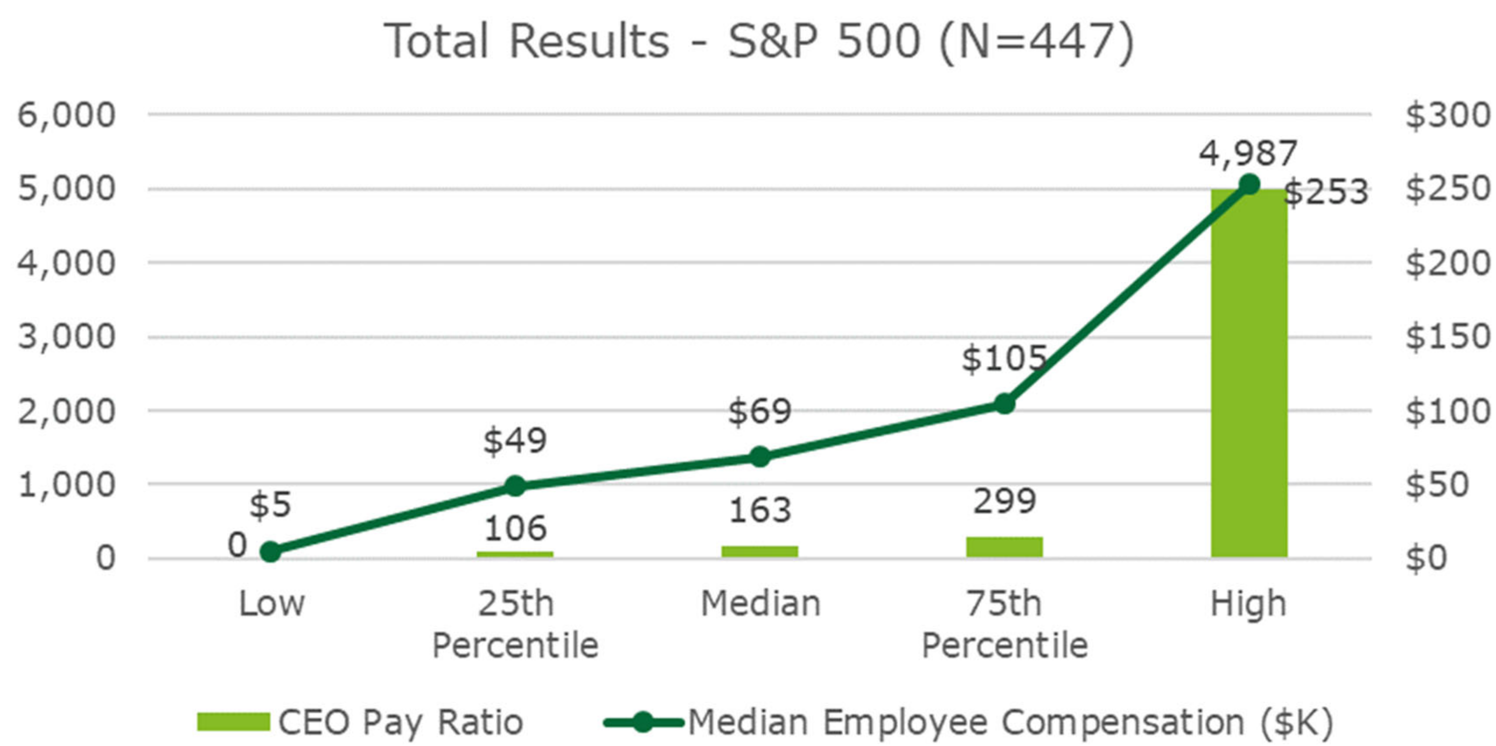
Pay ratio disclosures

Pay ratio disclosures—Summary

- Median pay ratio is 163:1.
- Median employee’s total annual compensation $68,708.
- 22% of companies disclose information about the median employee’s employment status, geographic location, and/or role.
- The pay ratio and median employee’s total annual compensation varied significantly across industries. As expected, consumer discretionary (i.e., “retail”) had the highest median ratio of 458x and lowest median employee compensation at $27,235 while utilities had the lowest median ratio of 94x and second highest median employee compensation at $122,184.
- Larger companies (in terms of revenue) had higher median ratios than smaller companies; however, the median employee’s pay did not correlate with revenue size.
- 53% of companies chose a date other than the fiscal year end as the measurement date.
- The Consistently Applied Compensation Measure (“CACM”) used to identify the median employee varied significantly, with total cash compensation, base pay and wages, total direct compensation, and W-2 wages used by 30%, 21%, 21%, and 20% of companies, respectively.
- Only 8% of companies used statistical sampling.
- Only four companies adjusted pay for the Cost of Living, including one where the CEO lives outside the US.
- 19% of companies added health benefits to total annual compensation.
- 82% of companies placed the CEO Pay Ratio disclosure immediately following the termination tables, while only 4% included it in the CD&A.

Pay ratio disclosures—All companies

- Deloitte analyzed pay ratio disclosures of 447 S&P 500 companies from DEF 14A filings as of October 4, 2018.
- As shown below, the median pay ratio is 163 while the median of median employee compensation is $68,708. However, there is a wide range for both these figures across the S&P 500.



Pay ratio disclosures—Industry

From the analyzed companies, Consumer discretionary and Consumer staples industries have the highest pay ratios while Utilities and Energy have the lowest.

Industry	Count of Companies	Pay Ratio			Median Employee Compensation		
		25th Percentile	Median	75th Percentile	25th Percentile	Median	75th Percentile
Consumer Discretionary	71	255.5	458.0	762.5	$16,361	$27,235	$49,741
Consumer Staples	26	136.0	243.0	365.0	$40,163	$48,773	$60,555
Energy	30	85.2	99.5	138.0	$104,422	$129,550	$146,001
Financials	64	115.0	157.0	229.3	$60,354	$69,033	$96,586
Healthcare	58	118.8	212.0	301.5	$55,240	$68,244	$101,689
Industrials	61	130.0	172.0	250.0	$50,296	$61,684	$78,820
Information Technology	53	87.0	144.0	274.0	$56,557	$89,909	$120,499
Materials	21	126.7	158.0	258.0	$61,031	$73,074	$86,728
Real Estate	32	86.8	119.0	155.6	$57,239	$75,631	$105,313
Telecommunication Services*	3	--	240.0	--	--	$91,437	--
Utilities	28	65.0	93.5	121.8	$112,925	$122,184	$138,566

*Represents an average due to having 3 responses.

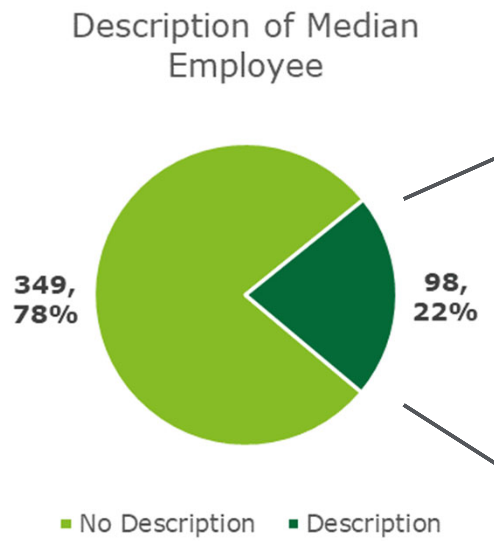
Pay ratio disclosures—Revenue

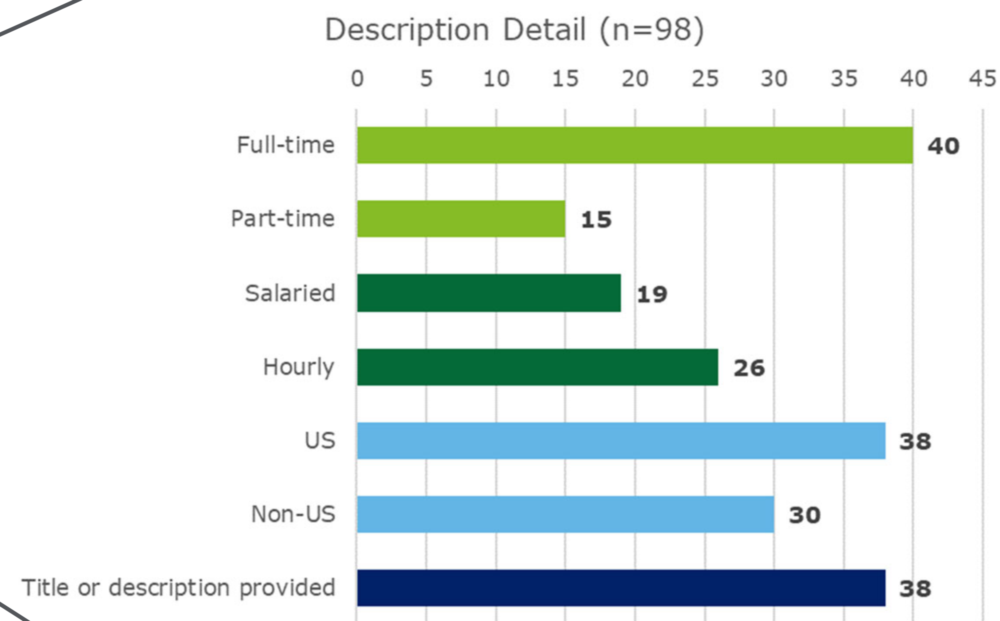
- As expected, there is strong correlation between revenue size and pay ratio.
- However, median employee compensation does not share a similar correlation.
- This leaves CEO compensation as the driver of the strong correlation between revenue size and pay ratio.

Revenue Scope	Count of Companies	Pay Ratio			Median Employee Compensation		
		25th Percentile	Median	75th Percentile	25th Percentile	Median	75th Percentile
0-3B	67	74.0	91.9	150.5	$57,278	$94,802	$123,087
3B-5B	61	93.0	126.7	208.0	$50,195	$63,989	$105,206
5B-10B	107	113.5	155.0	284.0	$41,898	$63,174	$94,998
10B-20B	103	113.5	187.0	336.0	$45,902	$67,756	$105,877
20B-50B	63	151.0	230.0	330.0	$57,222	$75,884	$101,155
50B+	46	202.8	289.0	368.3	$50,371	$63,223	$87,616

Pay ratio disclosures—Median employee

- 22% of companies disclosed a description of their median employee in varying degrees of detail.
- Most companies mentioned either the median employee's employment status, geography, or a combination of both.
- Of the 38 companies that disclosed information on the median employee's role, 25 provided specific titles and 2 provided educational backgrounds.

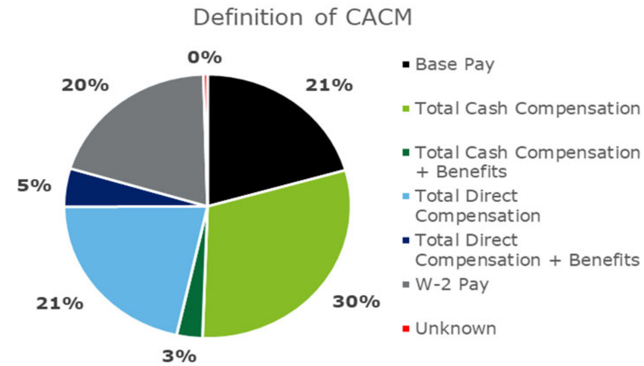




Pay ratio rule details and disclosures

Assumptions	Rule Detail	Disclosures and Deloitte's Observations
Data Privacy Exemption	• May exclude foreign employees if the use or transfer of necessary data, despite using reasonable efforts, would violate local data privacy laws.	• No companies have utilized the data privacy exemption. • It is unlikely any country will be able to meet the rigorous SEC standards for exclusion under the data privacy exemption.
De Minimis Exemption	• If employees located outside the U.S. account for 5% or fewer of the total number of employees, the registrant may exclude all non-U.S. employees. • If employees located outside U.S. account for more than 5% of the total number of employees, the registrant may exclude up to 5% of its total employees that are non-U.S. employees. • However, if excluding any non-U.S. employees in a jurisdiction, must exclude all the non-U.S. employees in that jurisdiction.	• 42% of companies disclosed utilizing the De Minimis Exemption to decrease the number of countries from which they need to obtain data. • The proportion of companies using the De Minimis exception is likely higher than 42%, as some companies do not have non-U.S. employees.
Acquisition Exclusion	• Employees acquired in connection with an acquisition may be excluded in the year of the acquisition.	• 12% of companies have disclosed utilizing the Acquisition Exclusion. • The decision whether to include or exclude recent transactions varies by company. Considerations include: the necessity of performing the calculation again next year, the availability of data, etc.

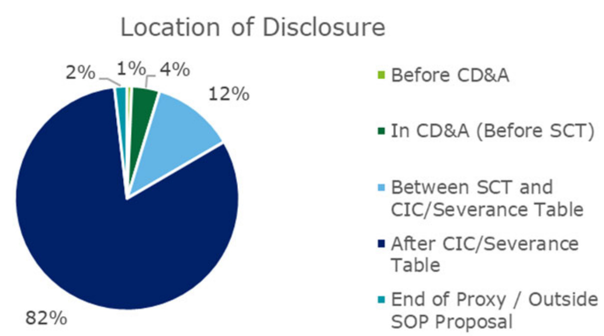
Pay ratio rule details and disclosures

Assumptions	Rule Detail	Disclosures and Deloitte's Observations
Identifying the Median Employee	• Can be based on annual total compensation or any compensation measure applied consistently to all employees included in the calculation (CACM). • Can annualize total compensation for all permanent employees (part-time or full-time) employed for less than the full year. • May not annualize compensation for seasonal or temporary employees and may not make full-time equivalent adjustment for any employee	• 53% of companies chose a date other than the fiscal year end as the measurement date. While rationale on the chosen date was not widely disclosed, a few companies explained that an earlier date was chosen to give ample time to perform the calculation.  • Total Cash Compensation was the most common CACM at 30%, followed by wages/base salary and total direct compensation at 21% each. Another 20% used W-2 wages or their equivalent for employees outside the U.S. as their CACM. • 52% of companies disclosed utilizing an annualization adjustment for permanent employees hired during the year. • 4% of companies disclosed choosing another median employee after identifying an initial median employee with anomalous and unrepresentative compensation characteristics.

Pay ratio rule details and disclosures

Assumptions	Rule Detail	Disclosures and Deloitte's Observations
Statistical Sampling	• May use statistical sampling. • Companies have flexibility to determine an appropriate sampling methodology based on their own facts and circumstances.	• 8% of companies have disclosed utilizing statistical sampling. • We believe a number of companies were reluctant to rely on statistical sampling due concerns about the accuracy of the resulting calculations and possible criticism for 'short-cutting" the process.
Cost of Living Adjustment (COLA)	• In identifying the median employee, companies can adjust (up or down) annual total compensation (or such other measure) for cost of living differentials for employees located in jurisdictions other than the one in which the CEO is located.	• Only four company have utilized COLA. Interestingly enough, one was used was to adjust to the CEO's residence in Switzerland. • If a COLA is applied, companies are required to disclose the median with and without the adjustment; therefore, many companies that we have engaged with are not applying a COLA.
Calculating SCT Total	• Represents annual total compensation for most recently completed fiscal year. • For CEO, use the Summary Compensation Table (SCT) amount. • For the median employee, calculate total compensation applying same rules used to determine SCT amount for "Named Executive Officers".	• 19% of companies have disclosed adding benefits to both the median employee and CEO's total annual compensation for purposes of calculating the pay ratio. This will typically decrease the pay ratio. • Of the 27 companies with a newly appointed CEO during the fiscal year, 2 chose to combine the compensation of CEOs who served during the fiscal year while the remaining 25 chose to annualize the CEO at the time of measurement.

Pay ratio rule details and disclosures

Assumptions	Rule Detail	Disclosures and Deloitte’s Observations
Alternative Ratios	• Company may disclose supplemental or alternative pay ratios as long as they are not misleading and are not more prominently displayed than the required ratio.	• 15% of companies disclosed alternative ratios. The most common reasons include: – Exclusion of compensation (e.g., one time compensation for CEO, pension values, exclusion of certain equity in connection with a redesign of long-term incentives that require “double-counting” disclosure) – Exclusion of employees to determine median employee (i.e., US only, excluding certain subsidiaries) • Interestingly, 14 companies disclosed alternative ratios that were higher than the required ratio. Of the 14 companies, five were related to equity timing adjustments, four were related to the pension values, and three were related to COLA.
Location of Disclosure	• Rules were not definitive on the placement of the disclosure in the DEF 14A.	 • The vast majority of companies (82%) included the disclosure directly after the Potential Payments upon Termination and Change in Control tables.

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