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COMPENSATION PARTNERS, LLC

2020 Study of Executive Change-in-Control Arrangements Executive Summary

About Meridian Compensation Partners, LLC

Meridian Compensation Partners, LLC ("Meridian") is one of the largest independent executive compensation and corporate governance consulting firms in North America. Meridian currently serves over 700 large publicly and privately held clients, including over 15% of the S&P 500®.

Meridian consultants advise Boards of Directors and senior management on the full range of executive compensation issues that confront them. Whether the subject is compensation philosophy, pay-for-performance, incentive plan design, shareholder initiatives, change-in-control severance protections, mergers and acquisitions or Board governance, we have the expertise, experience and resources to help. We guide Compensation Committees as they make often difficult, but informed, decisions on executive pay. Our decades of experience provide context for our clients to make sound business judgments.

Meridian Compensation Partners, LLC
100 N. Field Drive
Suite 300
Lake Forest, Illinois 60045
Phone: (847) 235-3600
www.meridiancp.com

Questions or comments regarding this publication should be directed to Donald Kalfen at dkalfen@meridiancp.com or 847-235-3605.

Contents

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Report Scope and Study Group Characteristics

Meridian's *2020 Study of Executive Change-in-Control Arrangements* ("2020 Study") provides current information and data on change-in-control (CIC) severance practices at 200 large U.S. public companies ("Study Group"). For information on severance benefits payable outside the context of a CIC, please refer to Meridian's *2018 Study of Executive Severance Arrangements Not Related to a Change in Control*[1].

Study Group Characteristics

Each of the 200 companies in the Study Group was a component company of the Standard & Poor's 500® Index[2] ("S&P 500®") as of December 31, 2019 (see Appendix A for list of Study Group companies). The Study Group companies cover each major industrial sector of the S&P 500®, with median revenues and market capitalization that fall within a reasonable range of the median revenues and market capitalization of the S&P 500® (see table below). **Given that, we believe the 2020 Study results are representative of executive CIC severance practices across the S&P 500®**.

The table below compares revenue and market capitalization statistics for the Study Group and the S&P 500®.

	FY 2019 Revenues ($ Millions)		Market Capitalization December 31, 2019 ($ Millions)	
	Study Group	S&P 500®	Study Group	S&P 500®
25th Percentile	$5,741	$4,912	$15,173	$13,774
Median	$14,969	$10,164	$29,863	$24,122
75th Percentile	$39,146	$22,260	$71,549	$52,216

Report Scope

The 2020 Study reports on the prevalence of executive CIC severance arrangements that cover named executive officers ("NEOs"). In addition, the 2020 Study reports on the prevalence of the following types of executive severance benefits payable to NEOs in connection with a CIC:

- Cash severance benefits
- Payment of current year bonus/annual incentive
- Continuation of health care benefits
- Vesting and settlement of equity awards
- Approach for addressing the potential imposition of golden parachute excise tax

The 2020 Study also reports on the types of qualifying events that trigger the payment of CIC benefits.

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1 Available at www.meridiancp.com or by emailing Donald Kalfen at dkalfen@meridiancp.com.
2 The S&P 500® Index is a registered trademark of S&P Dow Jones Indices LLC, a division of S&P Global, Inc.

Importantly, the 2020 Study does not (i) report on benefits that may be payable to an NEO upon a termination of employment not in connection with a CIC or (ii) capture potential enhancements in, or modifications to, severance benefits that may be negotiated upon actual termination of employment in connection with a corporate transaction.

Development of Study Group Statistics

We derived data and information primarily from the definitive proxy statements filed by each Study Group company with the Securities and Exchange Commission (“SEC”). As necessary, we reviewed underlying employment agreements, severance plans or policies, equity incentive plans and award agreements covering NEOs of the Study Group companies disclosed in SEC filings.

To obtain the most current data, we examined proxy statements filed primarily in calendar year 2020 that cover executive CIC severance arrangements.

Generally, the 2020 Study shows prevalence statistics relating to the chief executive officer (“CEO”) position and average prevalence statistics for the other NEO positions.

Overview of Change-in-Control (CIC) Arrangements

CIC arrangements are a common practice among large public companies. Typically, these arrangements cover at least a company's top executive officers and provide, at a minimum, cash severance benefits upon a triggering event. However, many public companies cover a broader range of executives. Other frequently provided CIC-related benefits include continuation of health care benefits, payment of current year bonus, enhancement to retirement benefits and outplacement services. The payment of these benefits and cash severance are nearly universally triggered upon an executive officer's qualifying termination of employment (i.e., termination without "cause" or termination for "good reason") that occurs within a specified period (typically 24 months) following a CIC (i.e., "double-trigger").

Generally, CIC arrangements (or other documents such as award agreements and equity plans) also provide for the accelerated vesting and settlement of outstanding non-vested equity awards in connection with a CIC. The near universal market practice is to vest and settle these awards upon a double-trigger or upon a CIC if a successor entity fails to assume or adequately replace the award.

Lastly, CIC arrangements typically address the potential imposition of the 20% golden parachute excise tax through a "best net" provision rather than tax gross-up provisions, which have become a small minority practice.

Purpose of CIC Arrangements

Generally, CIC arrangements cover executive officers for the following reasons:

- ***Keep the Executive Neutral to Job Loss.*** The primary purpose of CIC arrangements is to keep senior executives focused on pursuing all corporate transaction opportunities that are in the best interests of shareholders, regardless of whether those transactions may result in their own job loss.
- ***Retain Key Talent*.** Corporate transaction activity may create uncertainty for critical executive talent. This uncertainty may create significant retention risk for a company. An executive with sufficient severance protection may be less likely to leave voluntarily to seek other employment in the face of transaction-related uncertainty.
- ***Maintain Competitive CIC Severance Benefits*.** A majority of large public U.S. companies provide their senior executives with some level of CIC protection. Thus, companies provide CIC protection to attract and retain the top talent, especially in industry sectors undergoing substantial change and/or consolidation.

Forms of CIC Arrangements

CIC arrangements generally take the form of either a single CIC severance plan or policy that provides CIC protection to a group of executives, or individual employment contracts or severance agreements. The use of a single CIC severance plan or policy is increasing in prevalence for a number of reasons. Typically, companies find a single CIC severance plan easier to administer, revise and communicate than individual agreements. Further, a single plan approach ensures uniformity of terms and provisions for all covered executives, which is not always the case with individual agreements (often unintentionally).

CIC arrangements do not always cover the treatment of equity awards in connection with a CIC. Companies sometimes address equity treatment in the underlying equity incentive plan or applicable award agreements.

Executives Covered Under CIC Arrangements

Generally*,* a CIC arrangement covers senior executives directly involved in seeking out and implementing strategic corporate transactions and, to a lesser extent, other key executives that may be at particular risk of job loss in the event of a CIC. Based on our experience, typical CIC arrangements cover a company's CEO and the CEO's direct reports, and are generally limited to between 5 and 20 executives. However, equity plans or award agreements that provide CIC benefits (e.g., vesting or conversion of equity awards upon a CIC) typically cover all plan participants.

Comparison to General Severance Benefits

To have a complete understanding of CIC arrangements, it is important to recognize the similarities and differences between such arrangements and general severance arrangements. General severance and CIC arrangements are broadly similar, as both provide NEOs with severance benefits upon the occurrence of a payment trigger. In addition, both arrangements may include restrictive covenants and condition the payment of benefits upon the execution of a release and waiver of claims. Typically, these arrangements coordinate the payment of benefits so that an executive may not draw benefits under both arrangements.

Despite the foregoing similarities, CIC arrangements and general severance arrangements differ in many material respects. For example, the benefits provided under CIC arrangements are typically greater than the benefits provided under a general severance arrangement. In addition, the payment of general severance benefits is commonly triggered solely upon an executive's qualifying termination of employment (e.g., involuntary termination without cause), while payment of most CIC benefits requires the occurrence of a CIC and an NEO's qualifying termination of employment following the CIC.

Another important distinction between CIC arrangements and general severance arrangements relates to the protection that the former provides to an NEO. ***At a minimum, CIC arrangements protect an NEO's CIC severance benefits from diminution during a specified period following a CIC.*** In contrast, an NEO's general severance benefits may be at risk of reduction or termination following a CIC.

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Key Findings

Summarized below are the 2020 Study's key findings:

CIC-Related Cash Severance and Related Benefits

- Approximately 75% of Study Group companies provide CIC-related cash severance (and other related benefits) to one or more of their NEOs.

Triggering Events for Cash Severance and Related Benefits

- Nearly all Study Group companies that provide CIC-related cash severance condition the payment of the cash severance upon the occurrence of a "double-trigger" event.

- Generally, companies define double-trigger as a qualifying termination of employment that occurs within a specified period following a CIC (i.e., "protection period"). A minority of companies define the protection period to begin prior to a CIC (e.g., the protection period begins 3 months prior to a CIC and ends 24 months after the CIC).

  — 100% of these companies define a qualifying termination of employment to mean a termination of employment without "cause" or for "good reason".

  — 76% of companies define the protection period as the 24-month period following a CIC (17% of companies use a shorter period and 8% of companies use a longer period).

  — The three most prevalent events defined as a CIC: (i) acquisition of a specified threshold percentage of company stock (99% of companies), with 30% and 50% or more the most commonly used threshold percentages, (ii) significant change in board composition (95% of companies), and (iii) certain defined corporate transactions (94% of companies). A less prevalent but still majority practice (75% of companies) is for the definition of CIC to include shareholder approval of a company's dissolution or liquidation.

Determination of CIC-Related Cash Severance Benefits

- Nearly all companies determine cash severance based on a multiple of the sum of an NEO's base salary and "annual bonus", with annual bonus defined as "target bonus" by a slight majority of companies (56%).

- Cash severance multiples are trending down for all NEOs.

  — For CEOs, a 3× cash severance multiple remains the majority practice, but a 2× multiple is growing in prevalence.

  — For all NEOs (other than the CEO), a 2× cash severance multiple is the majority practice.

Other CIC Related Benefits

- 76% of companies provide for the payment of a "stub year" bonus, of which 95% pay the bonus on a pro rata basis (typically based on target).

- 71% of companies continue health care benefits over a specified continuation period, while 22% of companies pay a lump sum amount, in lieu of continuation of health care benefits.

- 50% of companies provide at least one perquisite or personal benefit, of which 86% provide outplacement services (the most common perquisite provided).

- 77% of companies address the potential imposition of the golden parachute excise tax through a "best net" provision, while only 5% of companies address this issue through an excise tax gross-up provision. However, some companies revisit the use of an excise tax provision during an actual CIC.

Vesting and Payout of Equity Awards in Connection with a CIC

- 95% of companies vest time-based stock option awards and restricted stock/RSU awards either upon a double-trigger or upon a CIC to the extent that a successor entity fails to assume or replace such awards. In contrast, only 5% of companies automatically vest these awards immediately upon a CIC, down from 17% for stock options and 20% for restricted/RSUs in 2017.

- 96% of companies vest performance-based equity awards either upon a double-trigger or upon a CIC to the extent that a successor entity fails to assume or replace such awards. In contrast, only 4% of companies vest these awards upon a CIC, down from 18% in 2017.

  — Upon a vesting event, the dominant but declining practice is to vest performance-based equity awards based on assumed target performance (42%).

  — An emerging practice is to vest performance share awards based on the greater of actual performance or target (27%).

  — 80% of companies pay vested performance-based awards in full, with 20% of companies paying vested performance-based awards on a pro rata basis.

Key Administrative Provisions

- 65% of companies conditioned the payment of cash severance benefits (and other CIC benefits paid under the same arrangement) upon the timely execution of a release and waiver of claims agreement.

- 62% of companies included one or more restrictive covenants in their CIC arrangements.