

SCIENCE AND MOTHER NATURE AS A GUIDEPOST FOR COMPENSATION SETTING

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AGENDA

Section 1: The Peloton

Section 2: The ClearBridge data

Section 3: The E*TRADE data

THE PELOTON

The peloton of organizational hierarchy

With the organizational groupings as summarized below, empirical data on pelotons could suggest that compensation ranges should be bounded by the below. All data is theoretical and implies that the scientific data of wind drag could be indicative of theoretical compensation levels:

CEO Compensation		\$1,000,000		
	Avg. %	Average	Min	Max
1 Below CEO - TIER 2	72.5%	\$724,806	\$686,047	\$779,070
2 Below CEO - TIER 3	25.6%	\$256,105	\$151,163	\$406,977
3 Below CEO - TIER 4	8.6%	\$86,459	\$58,140	\$139,535

Some organizations and business models are flatter in hierarchy, while others are steeper than the traditional peloton:

- Traditional organizational hierarchies (similar to a peloton) need to begin ranging between 100–200 employees. The peloton maximizing energy efficiency includes 121 riders.
- Flatter organizations tend to have fewer employees, lower margins, lower revenue per employee. Instinctively, flatter organizations require smaller reductions.
- Steeper organizations also tend to have fewer employees, higher margins, higher revenue per employee. Steeper organizations should have greater reductions from the CEO.

Engagement Question #1

Will the data sets and case studies align with the peloton structure?

- Yes
- No

THE CLEARBRIDGE DATA

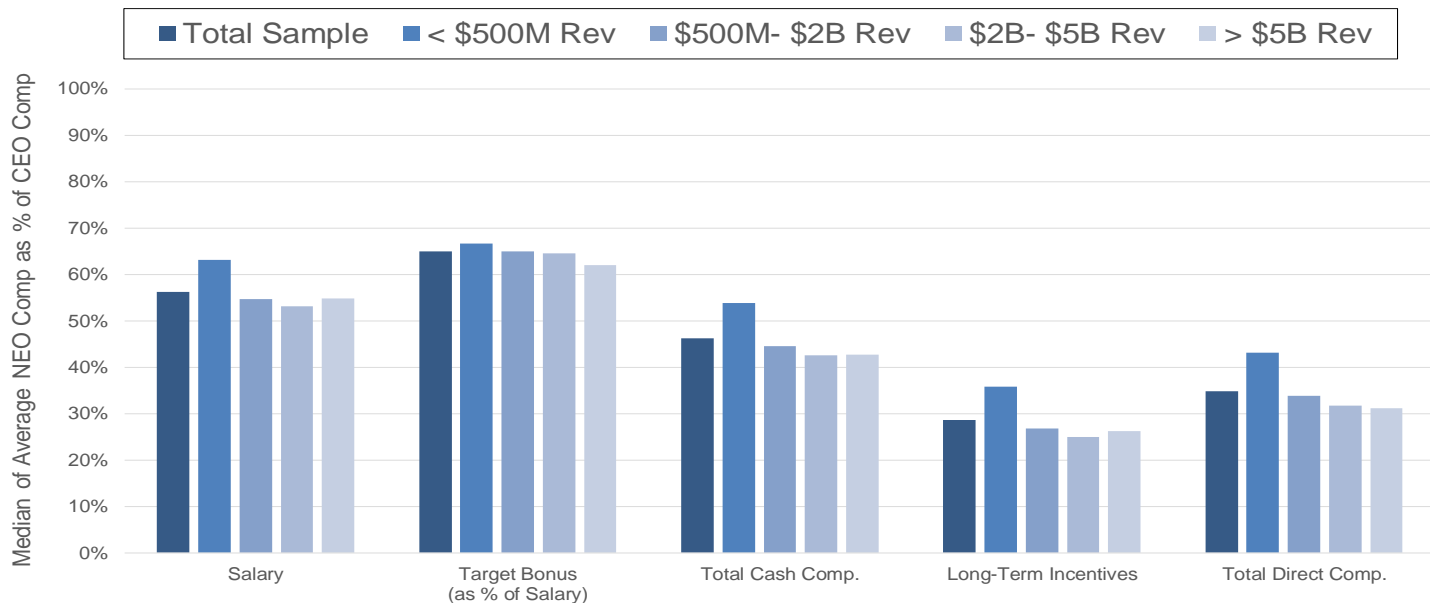
Overview and methodology

In order to assess the relationship between organizational hierarchy and compensation, an analysis was conducted based on broad market pay practices among CEOs and their direct reports. Data represents compensation of Russell 3000 companies' named executive officers (NEOs) per their most recent proxies. The data is sourced from a database of publicly available filings.

The following methodology was used to conduct the analysis:

- Developed a sample of 2,281 companies from the Russell 3000 excluding the following:
 - Companies with atypical CEO pay practices (e.g., CEOs with \$1 base salary, founder CEOs with large equity holdings, etc.)
 - Companies that do not provide either salary, bonus, or long-term incentives to NEOs
- Calculated average compensation, by element, for second–fifth highest paid NEOs as a percentage of CEO compensation
- Defined companies with a “peloton structure” by compensation element as companies with average NEO compensation element between 65% and 85% of CEO

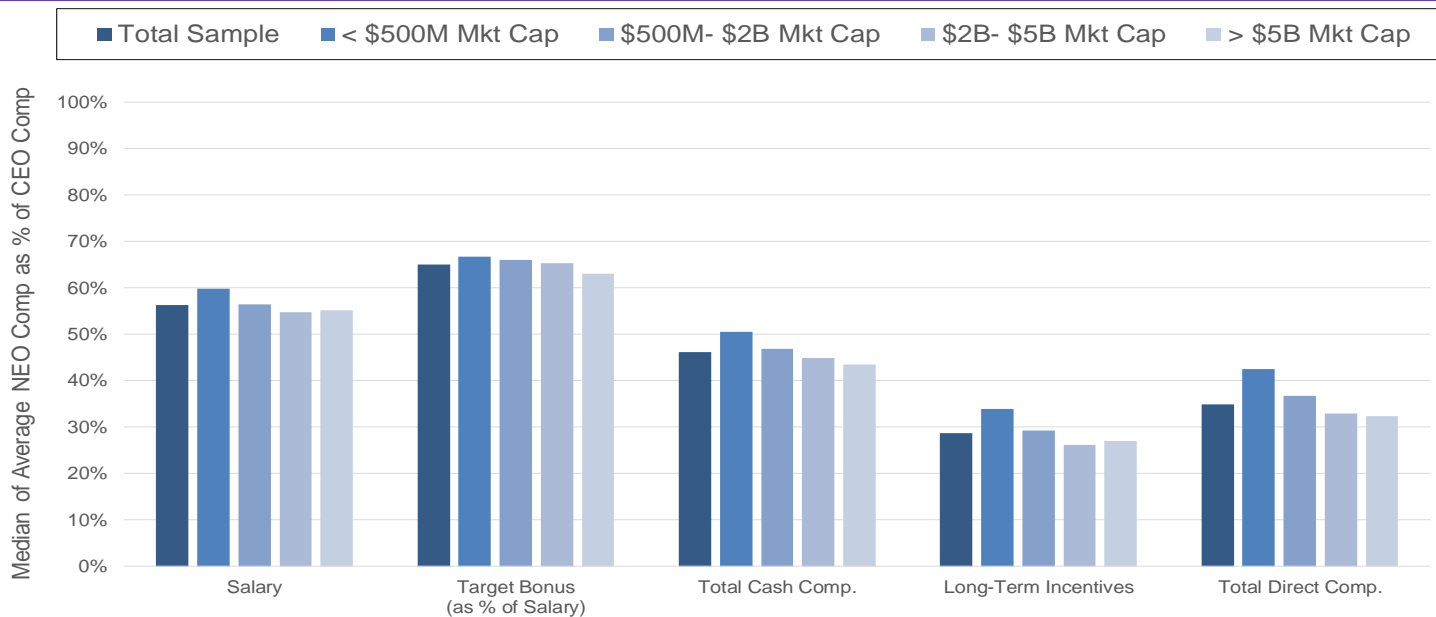
Median of average NEO comp as % of CEO comp (by revenue)



Data sourced from publicly available filings and analyzed by ClearBridge.

Total Sample	56%	65%	46%	29%	35%
< \$500M Revenue	63%	67%	54%	36%	43%
\$500M - \$2B Revenue	55%	65%	45%	27%	34%
\$2B - \$5B Revenue	53%	65%	42%	25%	32%
> \$5B Revenue	55%	62%	43%	26%	31%

Median of average NEO comp as % of CEO comp (by market cap)



Data sourced from publicly available filings and analyzed by ClearBridge.

Market Cap	Salary	Target Bonus (as % of Salary)	Total Cash Comp.	Long-Term Incentives	Total Direct Comp.
Total Sample	56%	65%	46%	29%	35%
< \$500M Market Cap	60%	67%	51%	34%	42%
\$500M - \$2B Market Cap	56%	66%	47%	29%	37%
\$2B - \$5B Market Cap	55%	65%	45%	26%	33%
> \$5B Market Cap	55%	63%	43%	27%	32%

Average cash compensation by element (by industry)

Industry	# of Cos.	Median Financials (\$MM)		Industry	Avg Salary (\$000's)			Industry	Avg Tgt Bonus (as % of Sal)			Industry	Avg Total Cash Comp (\$000's)		
		Rev	Mkt Cap		Avg NEO		Avg NEO		Avg NEO						
					CEO	\$ Val.	% of CEO		CEO	% of Sal.	% of CEO		CEO	\$ Val.	% of CEO
Total Sample	2,281	\$1,214	\$2,171	Health Care	\$747	\$462	62%	Financials	144%	101%	70%	Health Care	\$1,485	\$745	50%
Health Care	394	\$152	\$1,182	Information Technology	\$730	\$439	60%	Real Estate	148%	102%	69%	Financials	\$2,008	\$982	49%
Financials	367	\$582	\$1,425	Communication Services	\$1,135	\$669	59%	Energy	117%	81%	69%	Information Technology	\$1,709	\$803	47%
Industrials	332	\$2,354	\$2,272	Real Estate	\$795	\$451	57%	Industrials	134%	88%	66%	Real Estate	\$1,997	\$930	47%
Information Technology	312	\$1,122	\$3,089	Financials	\$780	\$441	57%	Materials	116%	77%	66%	Total Sample	\$1,994	\$910	46%
Consumer Discretionary	278	\$2,273	\$2,241	Total Sample	\$854	\$481	56%	Total Sample	125%	82%	66%	Consumer Staples	\$2,464	\$1,104	45%
Real Estate	140	\$733	\$3,722	Consumer Discretionary	\$1,004	\$559	56%	Consumer Staples	132%	86%	65%	Energy	\$1,982	\$886	45%
Energy	121	\$1,499	\$1,079	Consumer Staples	\$1,027	\$565	55%	Health Care	86%	55%	64%	Communication Services	\$3,197	\$1,421	44%
Materials	114	\$2,469	\$2,574	Energy	\$892	\$478	54%	Consumer Discretionary	136%	86%	63%	Consumer Discretionary	\$2,458	\$1,069	43%
Consumer Staples	81	\$5,347	\$4,087	Industrials	\$899	\$466	52%	Information Technology	124%	77%	62%	Industrials	\$2,019	\$857	42%
Communication Services	76	\$1,420	\$1,529	Utilities	\$940	\$485	52%	Communication Services	147%	90%	62%	Materials	\$2,154	\$883	41%
Utilities	66	\$2,891	\$7,428	Materials	\$972	\$487	50%	Utilities	104%	63%	60%	Utilities	\$1,992	\$813	41%

Average long-term incentives and total direct compensation (by industry)

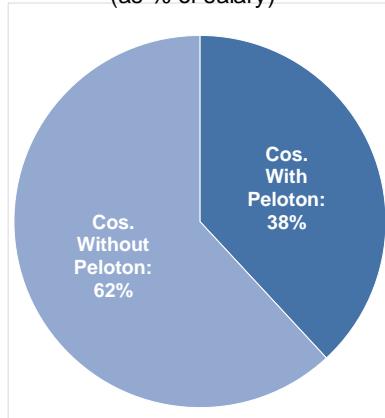
Industry	# of Cos.	Median Financials (\$MM)	
		Rev	Mkt Cap
Total Sample	2,281	\$1,214	\$2,171
Health Care	394	\$152	\$1,182
Financials	367	\$582	\$1,425
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Materials	114	\$2,469	\$2,574
Consumer Staples	81	\$5,347	\$4,087
Communication Services	76	\$1,420	\$1,529
Utilities	66	\$2,891	\$7,428

Industry	Avg Long-Term Incentives (\$000's)		
	CEO	Avg NEO	
		\$ Val.	% of CEO
Information Technology	\$5,610	\$1,867	33%
Health Care	\$4,664	\$1,477	32%
Energy	\$4,910	\$1,513	31%
Financials	\$2,546	\$733	29%
Total Sample	\$4,371	\$1,245	28%
Consumer Staples	\$5,418	\$1,484	27%
Consumer Discretionary	\$4,477	\$1,225	27%
Real Estate	\$3,995	\$1,076	27%
Industrials	\$4,012	\$980	24%
Utilities	\$3,654	\$856	23%
Materials	\$4,101	\$914	22%
Communication Services	\$7,511	\$1,654	22%

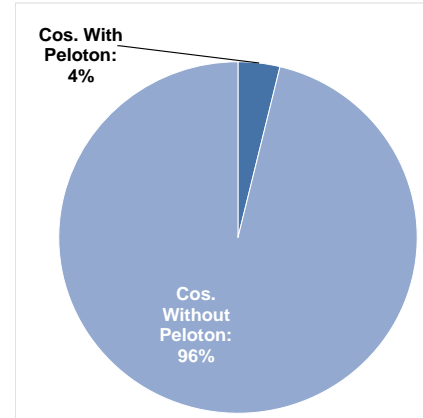
Industry	Avg Total Direct Comp (\$000's)		
	CEO	Avg NEO	
		\$ Val.	% of CEO
Financials	\$4,554	\$1,715	38%
Information Technology	\$7,319	\$2,671	36%
Health Care	\$6,149	\$2,222	36%
Energy	\$6,891	\$2,399	35%
Total Sample	\$6,365	\$2,155	34%
Real Estate	\$5,992	\$2,007	33%
Consumer Discretionary	\$6,935	\$2,294	33%
Consumer Staples	\$7,882	\$2,588	33%
Industrials	\$6,032	\$1,837	30%
Utilities	\$5,646	\$1,669	30%
Materials	\$6,255	\$1,797	29%
Communication Services	\$10,708	\$3,076	29%

Peloton structure company detail (by element)

Peloton structure by target bonus
(as % of salary)



Peloton structure by long-term incentives



Summary Statistics by Peloton Structure based on:

	Salary		Tgt Bonus (% of Sal.)		TCC		LTI		TDC	
	Cos. w/ Peloton Structure	Cos. w/o Peloton Structure	Cos. w/ Peloton Structure	Cos. w/o Peloton Structure	Cos. w/ Peloton Structure	Cos. w/o Peloton Structure	Cos. w/ Peloton Structure	Cos. w/o Peloton Structure	Cos. w/ Peloton Structure	Cos. w/o Peloton Structure
	% of Cos.									
Median Financial Data (\$MM)										
Revenue:	\$356	\$1,488	\$1,142	\$1,257	\$263	\$1,351	\$246	\$1,246	\$364	\$1,250
Market Cap:	\$1,199	\$2,405	\$2,028	\$2,264	\$1,098	\$2,316	\$890	\$2,256	\$1,184	\$2,235
3-Yr TSR:	9.2%	8.0%	7.8%	8.4%	8.8%	8.1%	7.5%	8.2%	12.4%	8.1%

Engagement Question #2

The significant statistical difference in TSR for “peloton structures” is due to:

- Better corporate governance and succession
- Statistical anomaly
- Smaller companies that did better in a bull market
- Bad scientists

THE E*TRADE DATA

Equity grant values as researched by E*TRADE

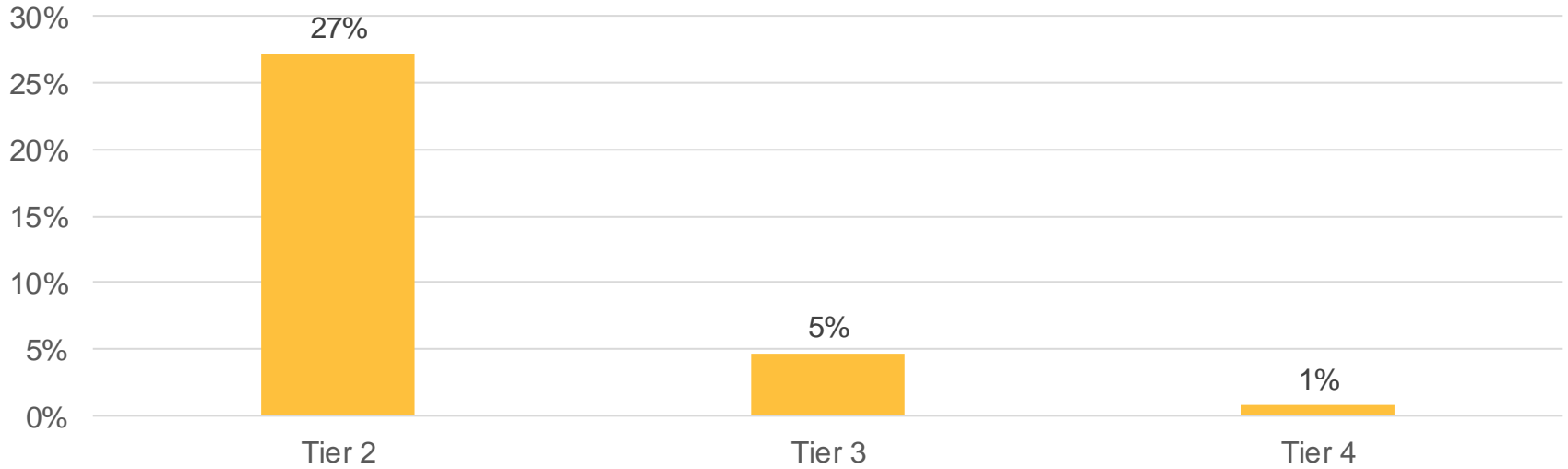
Grant data represents a population of 790 public and private companies' 2018 grants. The data is sourced from grant data as it existed in E*TRADE systems as of January 31, 2020. Analysis includes review overall, by average value, and peloton match by sector and market cap as defined by Nasdaq as of June 2019.

Tiers defined as:

- Grant bands defined by valuation
 - Tier 1 – Highest grant value
 - Tier 2 – Next 10 highest grant values
 - Tier 3 – Next 100 highest grant values
 - Tier 4 – Remaining grant values
- Analysis review of overall population, sector, and market cap
 - Valuation ratio is defined as the average grant value as compared to the Tier 1 value
 - Average valuation amount

Equity grant values as researched by E*TRADE

Overall valuation ratio



Valuation ratio is defined as the average grant value compared to the Tier 1 value.

Market cap

Market cap: Average valuation				
	<\$500M	\$500M–\$2B	\$2B–\$5B	>\$5B
Tier 1	\$ 2,192,795.22	\$ 4,069,846.22	\$ 5,240,416.79	\$ 11,698,071.49
Tier 2	\$ 446,865.05	\$ 839,543.79	\$ 1,149,682.73	\$ 2,813,105.03
Tier 3	\$ 57,448.06	\$ 133,719.13	\$ 168,945.84	\$ 537,180.20
Tier 4	\$ 11,655.47	\$ 23,925.37	\$ 26,178.89	\$ 39,949.08

Market cap: Valuation ratio				
	<\$500M	\$500M–\$2B	\$2B–\$5B	>\$5B
Tier 2	27%	27%	26%	29%
Tier 3	4%	5%	4%	6%
Tier 4	1%	1%	1%	1%

Sector (as defined by Nasdaq)

Sector average valuation				
	Tier 1	Tier 2	Tier 3	Tier 4
Basic Industries	\$ 2,971,191.21	\$ 448,408.72	\$ 73,903.17	\$ 19,418.67
Capital Goods	\$ 4,499,050.04	\$ 1,273,273.73	\$ 283,999.65	\$ 18,292.63
Consumer Non-Durables	\$ 4,163,812.60	\$ 834,489.79	\$ 147,140.29	\$ 25,946.24
Consumer Services	\$ 4,520,573.79	\$ 847,770.11	\$ 124,140.24	\$ 20,806.74
Energy	\$ 7,481,634.92	\$ 1,229,647.83	\$ 132,994.76	\$ 22,407.87
Finance	\$ 5,472,319.88	\$ 1,081,072.96	\$ 221,960.83	\$ 25,247.91
Healthcare	\$ 4,197,566.20	\$ 1,017,160.58	\$ 165,330.28	\$ 31,062.01
Miscellaneous	\$ 5,221,794.55	\$ 1,677,586.21	\$ 264,627.46	\$ 23,290.01
Public Utilities	\$ 6,339,548.36	\$ 1,256,145.82	\$ 209,348.21	\$ 29,418.09
Technology	\$ 8,838,942.96	\$ 2,013,649.58	\$ 366,213.97	\$ 32,193.00
Transportation	\$ 6,118,315.13	\$ 892,595.67	\$ 121,513.33	\$ 17,444.88
Unidentified	\$ 2,188,884.91	\$ 538,200.15	\$ 78,057.73	\$ 16,226.53

Sector (as defined by Nasdaq)

Sector valuation ratio			
	Tier 2	Tier 3	Tier 4
Basic Industries	22%	4%	0%
Capital Goods	22%	4%	1%
Consumer Non-Durables	26%	5%	1%
Consumer Services	27%	4%	1%
Energy	20%	2%	0%
Finance	31%	6%	1%
Healthcare	27%	4%	1%
Miscellaneous	31%	5%	1%
Public Utilities	20%	3%	1%
Technology	30%	6%	1%
Transportation	18%	3%	1%
Unidentified	28%	4%	1%

The peloton comparison

CEO compensation	\$1,000,000*
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Peloton data			
Position	#	Decrease	Average
Tier 2	18	72%	\$724,806
Tier 3	40	26%	\$256,105
Tier 4	62	9%	\$86,459

E*TRADE data			
Position	#	Decrease	Average
Tier 2	10	27%	\$270,000
Tier 3	100	5%	\$50,000
Tier 4	All Else	1%	\$10,000

- Equity grant data does not match peloton structure
- Data methodology applied consistently across all size companies

*Hy pothetical data used for illustration purposes only.

Engagement Question #3

The “peloton” theory for compensation setting best applied for:

- Base pay only
- Base + STI (cash payments)
- Base + STI + LTI (cash + equity)
- It shouldn't be considered

Q&A

THANK YOU

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