

**CEO  
Pay Ratio** | **July 2018**

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*The ClearBridge 100 Report*





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In 2018, proxy statements include for the first time the much-anticipated CEO Pay Ratio disclosure. Under the Dodd-Frank Act, companies are now required to disclose the ratio between the CEO's total compensation and the median employee's total compensation ("CEO Pay Ratio"). In preparing for the CEO Pay Ratio disclosure, companies encountered challenges in gathering and synthesizing data across their varied workforces and faced decisions about defining their employee populations (e.g., statistical sampling, data privacy exemption) and determining their methodologies for identifying the median employee. The first year of proxy disclosure provides insights into companies' approaches in calculating the ratio, as well as the ratios themselves.

This *ClearBridge 100* Report presents findings on the CEO Pay Ratio and its calculation methodologies among the "*ClearBridge 100*." The *ClearBridge 100* is comprised of 100 S&P 500® companies to provide a database representative of compensation practices and trends across the broad U.S. market.

## Key Findings

### Reported CEO Pay Ratios

- The median CEO Pay Ratio is 208 to 1
- 67% of companies disclose a CEO Pay Ratio of  $\leq 250$  to 1 and 15% disclose a CEO Pay Ratio of  $\geq 400$  to 1
- 19% of companies disclose an alternative CEO Pay Ratio in addition to the required CEO Pay Ratio; the median percentage change from the required ratio to the alternative ratio is -25%
- Among the companies that disclose an alternative ratio, the most common rationale is to exclude one-time awards made to the CEO

### Definition of Employee Population

- The majority of companies (94%) use the entire population as the sample for determining the median employee, as opposed to statistical sampling (6%)
- 44% of companies use the de minimis exemption to exclude entire jurisdictions of non-U.S. based employees (may exclude up to 5% of total company workforce)
- 16% of companies use the acquired company exemption to exclude employees of acquired companies
- No companies in the *ClearBridge 100* use the data privacy exemption to exclude a jurisdiction where the company would be unable to collect compensation data due to data privacy laws

### Definition of Pay for Identifying Median Employee

- The consistently applied compensation measure ("CACM") companies apply to identify the median employee varies, with 28% of companies using base salary only, 33% using cash compensation only, and 39% using a total compensation measure
- The majority of companies annualize compensation for new hires (57%)
- Once the median employee has been identified, only 4% of companies substitute the median employee for another similarly compensated employee due to abnormal compensation (per SEC rules)

The following pages present the detailed analyses underlying these key findings.





### Analysis Scope and Methodology

This report analyzes the reported CEO Pay Ratios and how companies determine the median employee, including the employee population and compensation used for identifying the median employee. In addition, this report covers which SEC-permitted exemptions companies choose to use to adjust the employee population and compensation. The results have been aggregated in this report to provide a broad-market view of practices.

Data in this report are either expressed as a percentage of *ClearBridge 100* companies in total, or as a percentage of companies with a particular type of practice. In certain charts and tables, totals may not add up to 100% due to companies that incorporate more than one form of practice. Note that this report captures CEO Pay Ratio data from 97 of the 100 *ClearBridge 100* companies given that three companies have not yet disclosed their CEO Pay Ratio.

### Definitions

Provided below are definitions for terms used throughout the remainder of this report.

- **CEO Pay Ratio** is the annual total compensation of the CEO as a multiple of the annual total compensation of the median employee (excluding the CEO) of the company
- **Alternative CEO Pay Ratio** is a voluntary disclosure of an additional CEO Pay Ratio that does not follow the SEC guidelines for the calculation of the CEO Pay Ratio
- **De Minimis Exemption** allows companies to exclude non-U.S. employees (up to a maximum of 5% of the company's total worldwide workforce) in non-U.S. jurisdictions, provided that the entire non-U.S. jurisdiction is excluded
- **Acquired Companies Exemption** allows companies to exclude employees obtained through an acquisition of another company that becomes effective during the year for which the CEO Pay Ratio is being calculated
- **Data Privacy Exemption** allows companies to exclude non-U.S. employees if procuring the necessary compensation data would result in the company violating data privacy laws
- **Consistently Applied Compensation Measure (“CACM”)** is the method in which companies measure compensation consistently across their sample of employees to identify their median employee (e.g., base salary, W-2 earnings, etc.)
- **Annualizing for New Hires** allows companies to annualize new hires' partial-year compensation data
- **Cost of Living Adjustment** allows companies to adjust the compensation of employees in non-U.S. jurisdictions other than the jurisdiction where the CEO lives to account for differences in compensation between jurisdictions (Note: Company still required to disclose CEO Pay Ratio information without a cost of living adjustment)



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## REPORTED CEO PAY RATIOS





### Reported CEO Pay Ratios

#### Required CEO Pay Ratio Disclosures

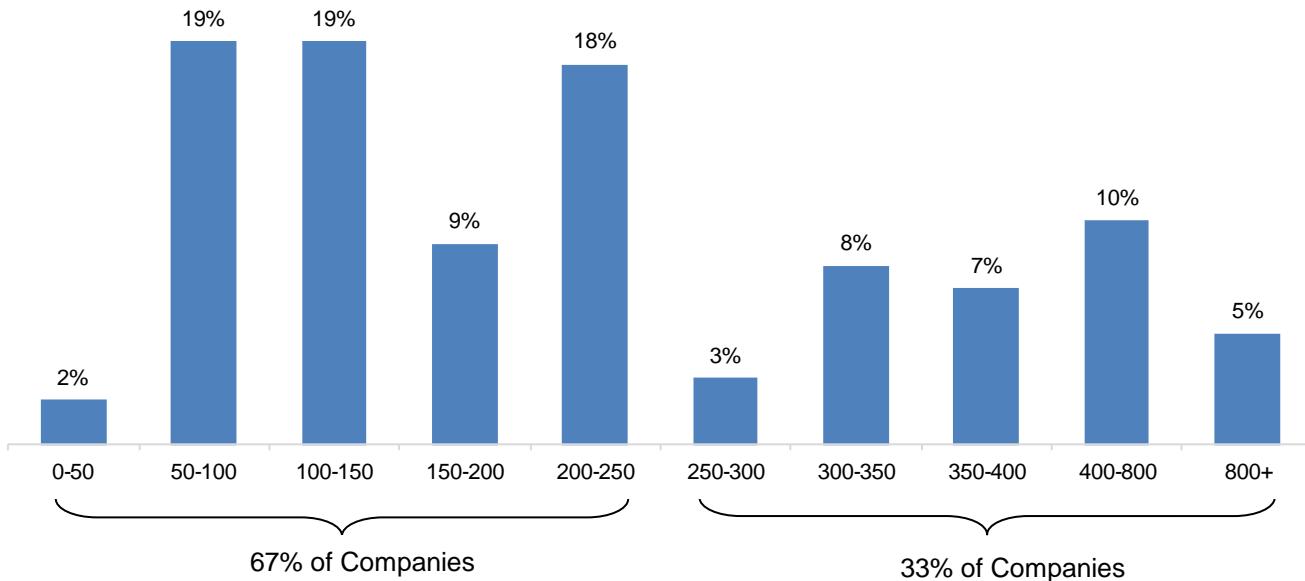
The median CEO Pay Ratio disclosed in this first year of required disclosure is 208 to 1. The median total compensation for the CEO is \$14M and the median total compensation for the median employee is \$71K. Note that the percentiles shown below for the CEO Pay Ratios are calculated independently and do not calculate across.

**CEO Pay Ratio Summary**

Percentile	Total CEO Compensation	Total Median Employee Compensation	CEO Pay Ratio
75th	\$17,110	\$105	327
50th	\$14,086	\$71	208
25th	\$10,875	\$47	113

67% of companies disclose a ratio of under 250 to 1 and 33% of companies have a ratio of over 250 to 1. CEO Pay Ratios most typically fall in the 50-100 range (19%), 100-150 range (19%), or 200-250 range (18%).

**CEO Pay Ratio**





### Alternative CEO Pay Ratio Disclosures

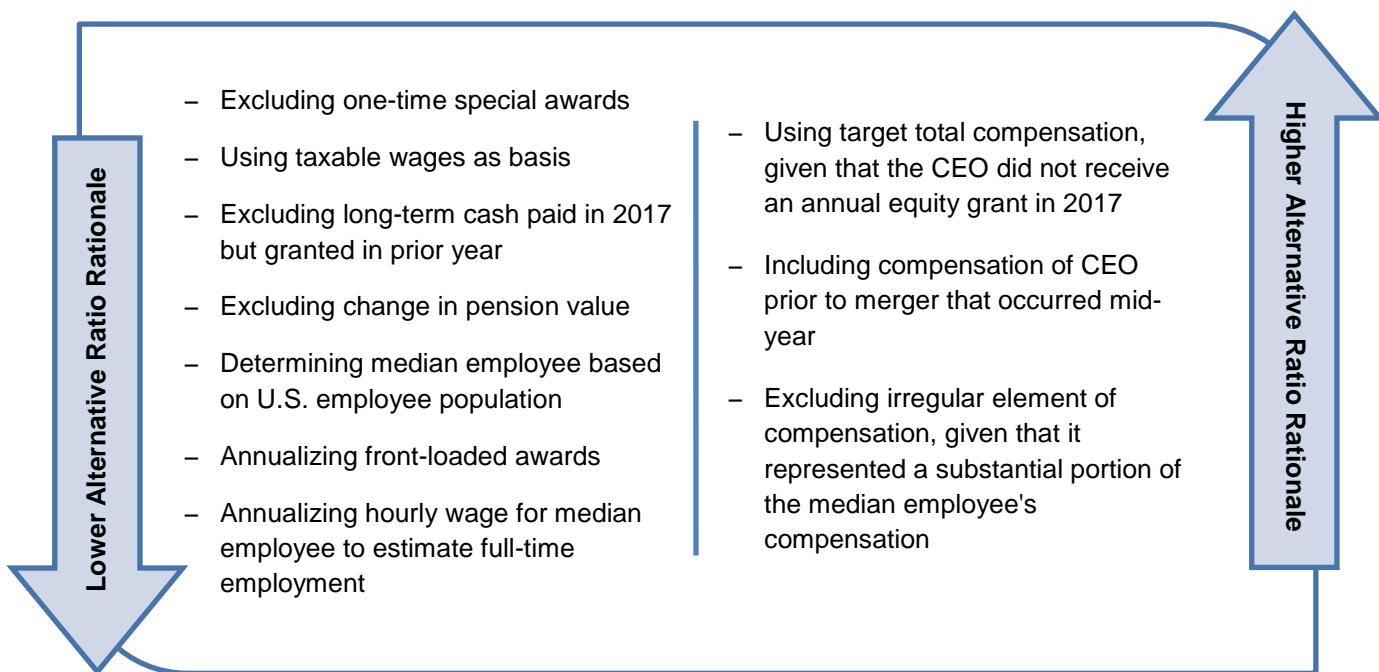
In addition to the required disclosure, 19% of companies disclose an alternative CEO Pay Ratio. The majority of companies that disclose an alternative ratio disclose a lower pay ratio than their required ratio (78%). For all companies that disclose an alternative CEO Pay Ratio, the median percentage change from the required ratio to the alternative ratio is -25%.

#### Companies that Disclose Alternative Ratios:

##### Required CEO Pay Ratios vs. Alternative Ratios

Percentile	Required Ratio	Alternative Ratio
75th	439	426
50th	317	208
25th	153	150

Rationales for disclosing an alternative CEO Pay Ratio vary, but the most common rationale is to exclude one-time awards made to the CEO (e.g., make-whole/sign-on awards, promotion awards, awards made in conjunction with a transaction), resulting in a lower pay ratio that the company believes is more reflective of ongoing CEO compensation. See below for examples of disclosed rationales for providing an alternative ratio.





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## DEFINITION OF EMPLOYEE POPULATION





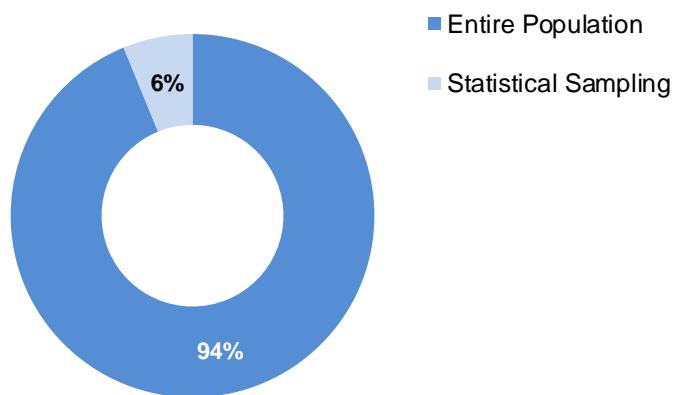
## DEFINITION OF EMPLOYEE POPULATION

### Definition of Employee Population

#### *Employee Population for Identifying Median Employee*

When calculating the CEO Pay Ratio, companies must first determine the employee population to be used as the sample. 94% of companies use the entire employee population as the sample for identifying the median employee while only 6% of companies use statistical sampling.

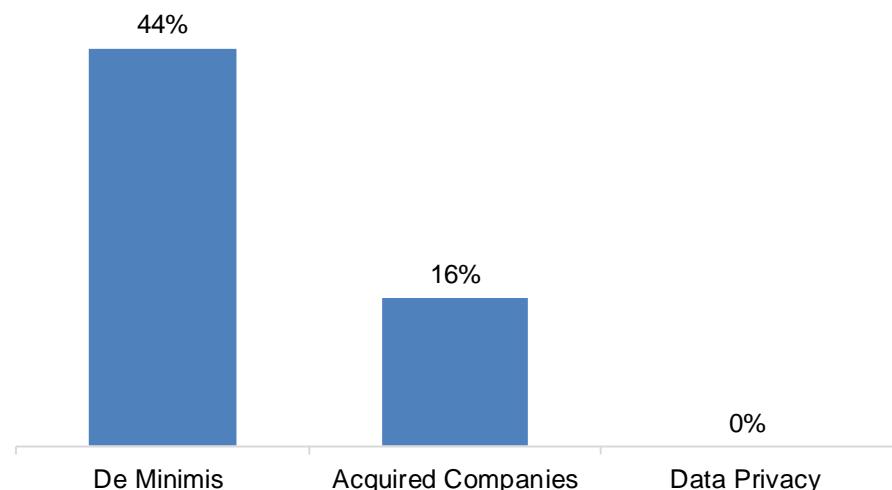
**Prevalence of Population Determination Method**



#### *Use of Exemptions for Identifying Median Employee (as Permitted Under SEC Rules)*

When determining the sample for identifying the median employee, companies are permitted to exempt certain groups of employees. The most prevalent exemption companies use is the de minimis exemption, which 44% of companies apply to exclude non-U.S. employees that comprise up to 5% of their worldwide workforce. Companies are also permitted to exclude employees of newly acquired companies – an exemption that 16% of companies apply when determining their median employee. No companies in the *ClearBridge 100* use the data privacy exemption.

**Prevalence of Use of Exemptions**





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# **DEFINITION OF PAY FOR IDENTIFYING MEDIAN EMPLOYEE**

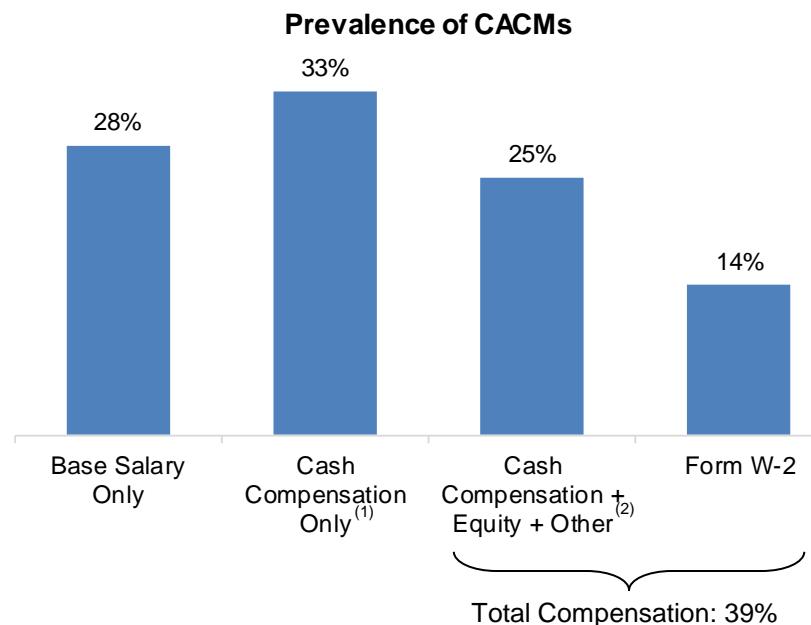




### Definition of Pay for Identifying Median Employee

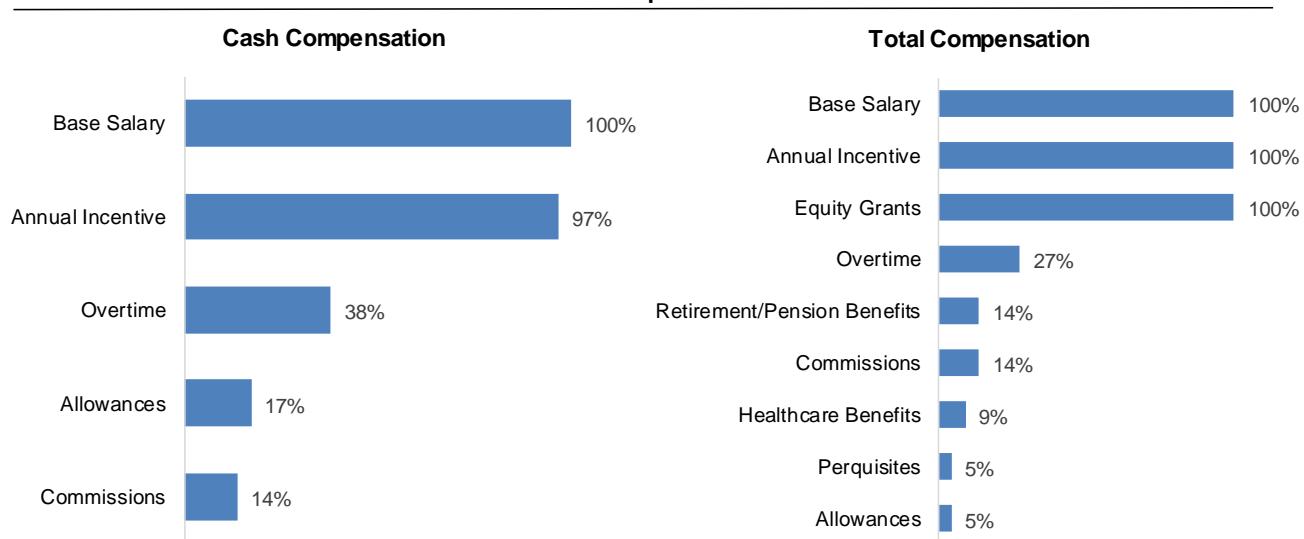
#### Consistently Applied Compensation Measure (“CACM”)

The CACM companies apply to identify the median employee varies, with 28% of companies using base salary only, 33% using cash compensation only, and 39% using a total compensation measure, defined as either cash compensation plus equity and other types of compensation (e.g., perquisites) (25%), or W-2 earnings (14%).



Of the companies that use only cash compensation as their CACM, the most prevalent elements of compensation that companies include after base salary (100%) are annual incentive (97%) and overtime (38%). For the companies that use total compensation as their CACM (excluding companies that use W-2 earnings), 100% of companies include base salary, annual incentive, and equity grants, and 27% include overtime.

#### Prevalence of Compensation Elements



(1) Cash compensation includes, at minimum, base salary and either annual incentive, overtime, allowances, or commission

(2) Cash compensation + equity + other, at minimum, includes base salary, annual incentive, and equity grants (total compensation)

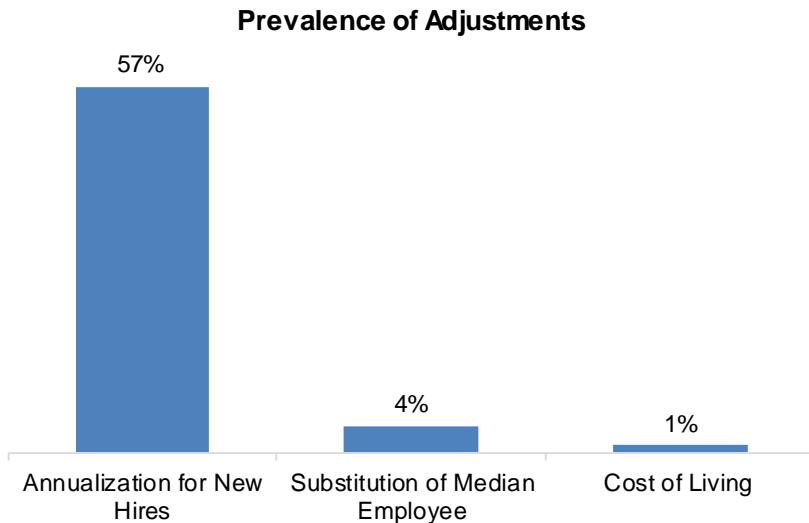




## DEFINITION OF PAY FOR IDENTIFYING MEDIAN EMPLOYEE

### *Use of Adjustments to Compensation (as Permitted Under SEC Rules)*

The majority of companies (57%) annualize the compensation for mid-year new-hires who did not receive compensation for a full year. If the CACM yields a median employee that turns out to have abnormal compensation when taking the employee's total direct compensation into account (e.g., large one-time award), the company is permitted to substitute the median employee with another, similarly-compensated employee. 4% of companies apply this adjustment. Only 1% of companies use the cost of living adjustment.





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## ***CLEARBRIDGE 100 COMPOSITION***





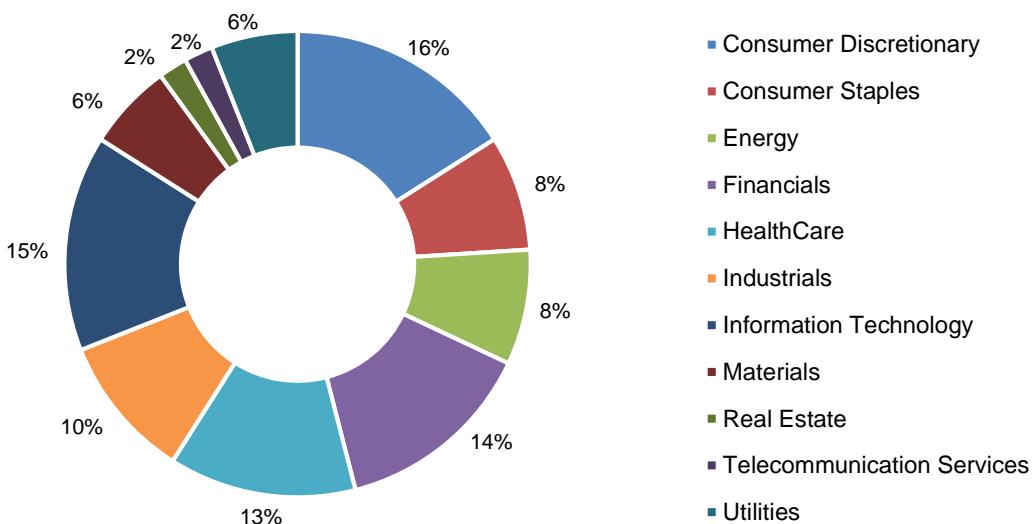
## Overview of the *ClearBridge 100*

The *ClearBridge 100* consists of 100 companies in the S&P 500® Index, selected to roughly approximate the industry composition and size of the S&P 500® in order to provide a representation of the broad US market. See the following pages for a list of the companies included in the analysis.

## Characteristics of *ClearBridge 100*

	FY2017 Revenue (\$ Millions)	Market Value as of 12/31/2017 (\$ Millions)
75 <sup>th</sup> Percentile	\$23,695	\$85,112
Median	\$12,382	\$29,381
25 <sup>th</sup> Percentile	\$6,827	\$14,121

## *ClearBridge 100* Industry Composition





## CLEARBRIDGE 100 COMPOSITION

COMPANY	INDUSTRY
ADOBE SYSTEMS INCORPORATED	INFORMATION TECHNOLOGY
AETNA INC.	HEALTHCARE
AKAMAI TECHNOLOGIES, INC.	INFORMATION TECHNOLOGY
ALLERGAN PLC	HEALTHCARE
ALLIANCE DATA SYSTEMS CORPORATION	INFORMATION TECHNOLOGY
ALPHABET INC.	INFORMATION TECHNOLOGY
AMAZON.COM, INC.	CONSUMER DISCRETIONARY
AMERICAN EXPRESS COMPANY	FINANCIALS
AMERICAN WATER WORKS COMPANY, INC.	UTILITIES
AMGEN INC.	HEALTHCARE
ANADARKO PETROLEUM CORPORATION	ENERGY
AON PLC	FINANCIALS
AT&T INC.	TELECOMMUNICATION SERVICES
BAKER HUGHES INCORPORATED	ENERGY
BALL CORPORATION	MATERIALS
BB&T CORPORATION	FINANCIALS
BIOGEN INC.	HEALTHCARE
BLACKROCK, INC.	FINANCIALS
BORGWARNER INC.	CONSUMER DISCRETIONARY
BOSTON PROPERTIES, INC.	REAL ESTATE
BOSTON SCIENTIFIC CORPORATION	HEALTHCARE
BRISTOL-MYERS SQUIBB COMPANY	HEALTHCARE
CBRE GROUP, INC.	REAL ESTATE
CENTURYLINK, INC.	TELECOMMUNICATION SERVICES
CHUBB LIMITED	FINANCIALS
CINCINNATI FINANCIAL CORPORATION	FINANCIALS
COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION	INFORMATION TECHNOLOGY
COLGATE-PALMOLIVE COMPANY	CONSUMER STAPLES
CONSOLIDATED EDISON, INC.	UTILITIES
CORNING INCORPORATED	INFORMATION TECHNOLOGY
CVS HEALTH CORPORATION	HEALTHCARE
DANAHER CORPORATION	HEALTHCARE
DISCOVERY COMMUNICATIONS, INC.	CONSUMER DISCRETIONARY
DISH NETWORK CORPORATION	CONSUMER DISCRETIONARY
DOMINION ENERGY, INC.	UTILITIES
DR PEPPER SNAPPLE GROUP, INC.	CONSUMER STAPLES
EATON CORPORATION PLC	INDUSTRIALS
EBAY INC.	INFORMATION TECHNOLOGY
ECOLAB INC.	MATERIALS
EQUIFAX INC.	INDUSTRIALS
EXELON CORPORATION	UTILITIES
EXXON MOBIL CORPORATION	ENERGY
GARTNER, INC.	INFORMATION TECHNOLOGY
GENERAL ELECTRIC COMPANY	INDUSTRIALS
HARLEY-DAVIDSON, INC.	CONSUMER DISCRETIONARY
HESS CORPORATION	ENERGY
ILLINOIS TOOL WORKS INC.	INDUSTRIALS
INTEL CORPORATION	INFORMATION TECHNOLOGY
INTERNATIONAL BUSINESS MACHINES CORPORATION	INFORMATION TECHNOLOGY
JPMORGAN CHASE & CO.	FINANCIALS
JUNIPER NETWORKS, INC.	INFORMATION TECHNOLOGY
KELLOGG COMPANY	CONSUMER STAPLES
L BRANDS, INC.	CONSUMER DISCRETIONARY



COMPANY	INDUSTRY
M&T BANK CORPORATION	FINANCIALS
MASCO CORPORATION	INDUSTRIALS
MATTEL, INC.	CONSUMER DISCRETIONARY
MCDONALD'S CORPORATION	CONSUMER DISCRETIONARY
MERCK & CO., INC.	HEALTHCARE
MOODY'S CORPORATION	FINANCIALS
MOTOROLA SOLUTIONS, INC.	INFORMATION TECHNOLOGY
MURPHY OIL CORPORATION	ENERGY
MYLAN N.V.	HEALTHCARE
NASDAQ, INC.	FINANCIALS
NATIONAL OILWELL VARCO, INC.	ENERGY
NEWELL BRANDS INC.	CONSUMER DISCRETIONARY
NEWMONT MINING CORPORATION	MATERIALS
NISOURCE INC.	UTILITIES
NVIDIA CORPORATION	INFORMATION TECHNOLOGY
PACCAR INC	INDUSTRIALS
PENTAIR PLC	INDUSTRIALS
PEPSICO, INC.	CONSUMER STAPLES
PFIZER INC.	HEALTHCARE
PIONEER NATURAL RESOURCES COMPANY	ENERGY
PPL CORPORATION	UTILITIES
QUANTA SERVICES, INC.	INDUSTRIALS
QUEST DIAGNOSTICS INCORPORATED	HEALTHCARE
RANGE RESOURCES CORPORATION	ENERGY
TARGET CORPORATION	CONSUMER DISCRETIONARY
TEXAS INSTRUMENTS INCORPORATED	INFORMATION TECHNOLOGY
THE BANK OF NEW YORK MELLON CORPORATION	FINANCIALS
THE CHARLES SCHWAB CORPORATION	FINANCIALS
THE COCA-COLA COMPANY	CONSUMER STAPLES
THE DOW CHEMICAL COMPANY	MATERIALS
THE GOLDMAN SACHS GROUP, INC.	FINANCIALS
THE HERSHEY COMPANY	CONSUMER STAPLES
THE KRAFT HEINZ COMPANY	CONSUMER STAPLES
THE PRICELINE GROUP INC.	CONSUMER DISCRETIONARY
THE SHERWIN-WILLIAMS COMPANY	MATERIALS
TIFFANY & CO.	CONSUMER DISCRETIONARY
TIME WARNER INC.	CONSUMER DISCRETIONARY
UNITED PARCEL SERVICE, INC.	INDUSTRIALS
UNITED TECHNOLOGIES CORPORATION	INDUSTRIALS
V.F. CORPORATION	CONSUMER DISCRETIONARY
VARIAN MEDICAL SYSTEMS, INC.	HEALTHCARE
WAL-MART STORES, INC.	CONSUMER STAPLES
WESTROCK COMPANY	MATERIALS
WYNDHAM WORLDWIDE CORPORATION	CONSUMER DISCRETIONARY
XEROX CORPORATION	INFORMATION TECHNOLOGY
YUM! BRANDS, INC.	CONSUMER DISCRETIONARY
ZIONS BANCORPORATION	FINANCIALS



**ClearBridge Compensation Group** is an independent consulting firm providing advice to boards and senior management on executive compensation and incentive plan design with a focus on alignment with shareholders, linkage with business strategy, and adherence to strong governance standards.

Our Partners and team of consultants work together to provide sound advice based on each company's unique situation. Companies choose ClearBridge for:

- Our tailored approach and emphasis on advice, not just data
- Our focus on long-term sustainable shareholder value creation
- Our rigorous approach to pay-for-performance
- Our highly-proactive and exceedingly responsive approach

### Our Services

As advisors to Compensation Committees and management, we provide an array of services to meet the individual needs of our clients. A sample of our consulting services includes:

**Total Compensation Review and Design**  
**Annual Incentive Design**  
**Long-term Incentive/Equity Compensation Design**  
**Board of Directors Compensation**  
**Pay-for-Performance Assessment**  
**Say-on-Pay Preparation and Shareholder Engagement**  
**Transactional Compensation Design (e.g., IPOs, M&A)**

### Contact Us

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