Argyle

Pay Ratio

A Look at Early Adopters and Key Presentation Considerations

Introduction

At the time of writing, the long-awaited CEO Pay Ratio rule does not appear to be going away. Companies with reporting cycles beginning on or after January 1, 2017 are required to include the ratio and supporting commentary in the proxy statement, and so this subject will be a focal point for the upcoming proxy season (for the media at least, perhaps less so investors).

EARLY DISCLOSURES

At present, a small handful of US corporations have published some form of pay ratio disclosure. The following table highlights how several have presented the ratio (which may not be intended to comply with the new rule).

Adams Resources & Energy	**Ratio:** 5.7:1 **Currency:** US$ **Presentation:** • Section titled “Determine the Form and Amount of Compensation” • Narrative with table	**Position in Proxy Statement:** • CD&A **Link to filing:** https://www.sec.gov/Archives/edgar/data/2178/000000217817000023/formdef14a.htm
First Real Estate Investment Trust of New Jersey	**Ratio:** 15.04:1 **Currency:** US$ **Presentation:** • Section titled “Chief Executive Officer Compensation and Employee Compensation” • Narrative with explanation	**Position in Proxy Statement:** • CD&A **Link to filing:** https://www.sec.gov/Archives/edgar/data/36840/000117494717000241/def14a-17114_frevs.htm
Gencor Industries	**Ratio:** 13:1 **Currency:** US$ **Presentation:** • Section titled “CEO Pay Ratio” • Brief narrative	**Position in Proxy Statement:** • After SCT **Link to filing:** https://www.sec.gov/Archives/edgar/data/64472/000119312517013736/d295554ddef14a.htm
ITEX	**Ratio:** 3.8:1 **Currency:** US$ **Presentation:** • Listed as “Internal Pay Ratio” in a table of “notable features” about Exec Comp	**Position in Proxy Statement:** • Proxy summary **Link to filing:** https://www.sec.gov/Archives/edgar/data/860518/000114420416130683/v451787_def14a.htm

Noble Energy

noble energy

Ratio: 79:1

Currency: US$

Presentation:

- Subsection titled "CEO Pay Ratio" under "Determining Executive Compensation"
- Narrative with explanation

Position in Proxy Statement:

- CD&A

Link to filing:

https://www.sec.gov/Archives/edgar/data/72207/000007220717000025/nbl-2017proxydef.htm

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NorthWestern Corporation

NorthWestern Energy

Ratio: 22:1

Currency: US$

Presentation:

- Section titled "Alignment of Pay with Shareholder and Customer Interests" within "2016 Executive Pay Overview" in the Proxy Summary
- Considerable narrative with table in the CD&A titled "CEO Pay Ratio and Wealth Accumulation"
- Publish ratio for 2015 and 2016

Position in Proxy Statement:

- Proxy Summary and CD&A

Link to filing:

https://www.sec.gov/Archives/edgar/data/73088/000007308817000070/a2017proxystatement.htm

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NovaGold

NovaGold

Ratio: 13.5:1

Currency: Canadian $ to US$ exchange

Presentation:

- Listed with the table of contents with the ratio
- Subsection titled "CEO Pay Ratio – 13.5:1" with the "Targeted Pay and Competitive Analysis"
- Narrative and bullet points
- Pay Ratio was also listed as an "Educational Topic" for the Compensation Committee

Position in Proxy Statement:

- TOC
- Executive Compensation Tables

Link to filing:

https://www.sec.gov/Archives/edgar/data/1173420/000117184317001728/def14a_032317.htm

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Texas Republic Capital Corporation

TEXAS REPUBLIC CAPITAL CORPORATION

Ratio: 6.07:1

Currency: US$

Presentation:

- Section titled "2016 Compensation Disclosure Ratio of the Median Annual Total Compensation of All Company Employees to the Annual Total Compensation of the Company's Chief Executive Officer"
- Table

Position in Proxy Statement:

- TOC
- After SCT

Link to filing:

https://www.sec.gov/Archives/edgar/data/1560452/000118518517000901/texasrepub-def14a041017.htm

Presenting CEO Pay Ratio in the Proxy Statement and beyond

Whether meaningfully or not, the requirement to publish a CEO Pay Ratio will contribute to the ongoing societal dialogue around executive compensation and pay equity. As such, this SEC requirement concerns preparers of proxy statements *and* HR/PR departments in America's corporations.

As legal departments consider how to comply with this rule, reporters should also consider how to communicate around CEO Pay Ratio in a way that is relevant and informative. By asking – and answering – the right questions, reporters should be able to meet regulatory requirements while publishing disclosure that provides clarity and important context around this sensitive issue.

A meaningful explanation of *your* CEO Pay Ratio

In some cases, presenting a simple ratio will suffice. In others, reporters should consider the merits of providing additional context, and how to communicate supporting facts to investors and a broader group of interested stakeholders, that includes current and prospective employees.

GRAPHICS

From a presentation perspective, a Pay Ratio is simple enough to understand without a graphic – indeed, using a graphic to present the ratio might draw eyes to the figures in isolation, when it is the supporting explanation and narrative that provide essential context.

SUPPORTING NARRATIVES

In some cases, simply providing your stakeholders with the required figures and ratio may not be sufficient. As should be the case with all compensation related disclosures, it is important to make clear the overall alignment of executive (and employee) remuneration with corporate strategy and performance. This context may be critical to mitigate negative attention focused on a ratio judged inappropriate by stakeholders who may or may not be voting investors. Each reporter should consider its unique circumstances to determine a communication strategy that anticipates investor priorities, media focus and employee reactions.

PROACTIVE ENGAGEMENT

Much like to the early years of “Say on Pay” disclosures, it is likely that pay ratio will prompt discussion with a broad range of stakeholders including institutional investors, pension funds, advisory firms, public/media, employees and unions. Getting in front of the dialogue may be a useful allocation of time for some reporters, particularly if the corporation is anticipating an adverse reaction to its CEO Pay Ratio. Early conversations could also inform content decisions, thereby reinforcing and enhancing Pay Ratio disclosures.

In all cases, it is prudent to ensure clear and effective communication of pay for performance alignment to justify the executive compensation strategy and resulting Pay Ratio. The Compensation Committee’s consideration of the ratio and views on pay equity are also relevant topics to be considered for 2018 proxy disclosures.

HIGH RATIOS

Anomalies in a CEO’s reported pay in any given year will have an unusual impact on the presented Pay Ratio; where this is the case, it should be explained clearly. In some cases, it may also be relevant to provide additional background information about the workforce, including where the median employee fits in the overall structure. In most cases, the median employee’s elements of compensation will differ significantly from the CEO. An explanation about why different employee levels are eligible or ineligible to participate in certain incentive programs may help redirect the conversation toward executive performance and resultant compensation.

PAY RATIO VS. PEERS

If there is likely to be scrutiny of Pay Ratio against a group of peers (that may or may not be included in the compensation peer group), consider presenting differentiating workforce characteristics. The ratio of a company with a large number of hourly employees will be significantly different than that of a company comprised primarily of exempt employees and positions requiring academic qualifications or technical skills. Consider peers used for compensation benchmarking, as well as a broader group of companies likely to be considered peers by the general public.

PRESENTING THE MEDIAN EMPLOYEE

Without directly (or indirectly) identifying the individual, there may be benefits to "presenting" your median employee – e.g., providing the position held and location of employment. This information is helpful to understanding his or her compensation arrangement. In addition, an abstract median employee may invite comparisons based on inaccurate assumptions and result in disgruntled employees, particularly for the half of the workforce for whom compensation falls below the disclosed amount.

In any case, to anticipate and address stakeholder questions, it may be appropriate to present the company's broader compensation strategy. How are pay levels determined, and how are they impacted by individual and company performance? What of international considerations and the company's employee structure?

The CEO Pay Ratio supporting narrative could be used to explain why comparing individual compensation (whether the CEO or any other employee) to that of the median employee may not be a useful or illuminating exercise.

BEYOND THE PROXY STATEMENT

At this time, we understand that corporations are focused on assembling the compensation information necessary to comply with the rule. As the focus shifts to what comes next – actually publishing the Pay Ratio, different approaches are emerging.

At Argyle, we recognize that each company has its own unique circumstances. We recommend that proxy drafters consult beyond the corporate secretary's office – with HR, IR and PR and others – to consider potential outcomes across stakeholder groups before the Proxy Statement is published.

In addition, it is important to consider shareholder outreach, internal communications, media statements, union conversations and any other possible public statements as part of a cohesive communication strategy.

In Conclusion

Executive compensation is a sensitive and closely scrutinized subject within Proxy Statements, and will be even more so in 2018 as reporters publish their CEO Pay Ratios.

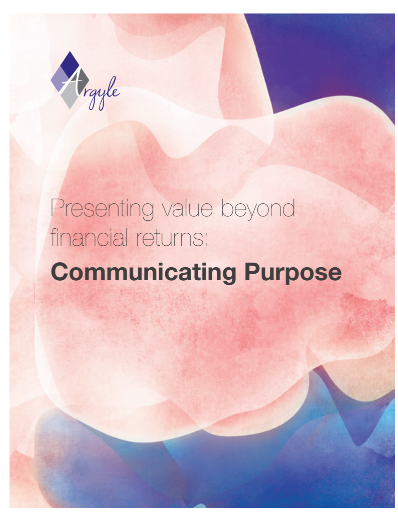
Some corporations will publish no more than the rule requires, while in other cases it may be necessary to provide additional ratios (U.S. employees only for example), or supporting details around methodology or the meaning of the ratio itself.

As with any corporate reporting, all companies should take a step back from the SEC rule to consider what they are required to communicate – and what investors and other stakeholders actually want to know and understand.

The value that companies create beyond financial returns – including how employees are compensated – has become an important component of brand identity, influencing consumers and investors. This being the case, reporters may wish to consider providing insights into how they create durable value for *all* stakeholders. Our recent "Communicating Purpose" Thought Piece explores this topic in greater depth, and in the coming weeks we will be sharing our perspective on how to provide important additional context to pay ratio disclosures.

In the meantime, we are here to help.

To obtain a copy of *Communicating Purpose* email info@argyle.company



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