



Radford Review:

2013 Say-on-Pay Results and Trends for the US Technology Sector

2013 Say-on-Pay Snapshot

■ Overall Russell 3000 Index Results

- Among Russell 3000 companies with Say-on-Pay votes occurring between September 1, 2012 and June 15, 2013, 2.1% failed to achieve shareholder support levels of 50% or higher
- These results remain relatively unchanged from Say-on-Pay failure rates in 2012, when 2.4% of Russell 3000 companies failed over the same timeframe
- The prevalence of companies passing their Say-on-Pay proposals with shareholder support levels below the Institutional Shareholder Services (ISS) threshold of 70% also dipped lower, with only 5.8% of companies affected over the September 1, 2012 to June 15, 2013 timeframe
- While investor and media interest in Say-on-Pay proposals increased significantly from 2011 to 2012, and remained high in 2013, the vast majority of companies received very high marks from shareholders, with average support levels remaining unchanged from 2012 to 2013 at 90.1%

■ Technology Sector Results

- Among Russell 3000 technology sector companies with Say-on-Pay votes occurring between September 1, 2012 and June 15, 2013, 2.4% failed to achieve shareholder support levels of 50% or higher
- These results represent an increase in failure rates vs. 2012, when 1.6% of technology sector companies failed over the same timeframe
- The prevalence of technology sector companies passing their Say-on-Pay proposals with shareholder support levels below the ISS threshold of 70% was 6.3%, which is higher than the overall Russell 3000 rate of 5.8%
- In general, we find strong alignment between technology sector and general industry results: both the technology sector and overall Russell 3000 index had average shareholder support levels of 90.1%, and failure rates within the two groups were at 2.4% and 2.1% respectively



Key Say-on-Pay Influencers

▪ Institutional Shareholder Services

- 100% of Russell 3000 companies and 100% of technology sector companies with failed Say-on-Pay proposals received a negative recommendation from ISS, highlighting the significant influence ISS reports continue to have on many institutional shareholders
- However, a large majority (81.8%) of technology sector companies with negative recommendations from ISS managed to pass their Say-on-Pay votes; but, usually not without significant downward pressure on shareholder support levels, which could lead to continued scrutiny in future years

▪ Glass Lewis

- Drawing specific conclusions on the impact of Glass Lewis voting recommendations is difficult given the firm's overall lack of transparency, and requires waiting until the firm releases year-end results
- Glass Lewis' Say-on-Pay shareholder support threshold is set at 75%, and 8.9% of technology sector companies passed their Say-on-Pay proposal while falling below the threshold
- Although Glass Lewis policies and voting practices are generally less transparent than ISS, the firm announced key revisions to its peer group development and pay-for-performance modeling in July 2012 and November 2012, which could serve to raise the overall profile of Glass Lewis recommendations

▪ Pay-and-Performance

- Both ISS and Glass Lewis continue to point to perceived disconnects between pay-and-performance as their primary driver for making negative Say-on-Pay recommendations
- Companies with positive TSR performance on an absolute basis are often still targeted, either due to weaker relative performance vs. peers or the continued use of "poor pay practices" (as defined by ISS or Glass Lewis)



Key Say-on-Pay Voting Metrics

- The following table presents summary Say-on-Pay voting results for all sub-industries within the Russell 3000 technology sector
- Generally, Say-on-Pay outcomes in the technology sector align with the overall Russell 3000 index; however, companies in the software and telecommunications sub-industries appeared to face elevated levels of scrutiny in 2013 (as evidenced by a higher prevalence of negative recommendations from ISS and more failed votes)

Industry Groupings	TSR Performance		2013 Voting Results		Prevalence of Poor Outcomes		
	Median 1-Year TSR	Median 3-Year TSR	Average % For	Median % For	ISS Rec. Against	Pass Below 70% Threshold	Below 50% Threshold
Hardware & Equipment	+3.5%	+24.4%	92.4%	96.5%	10.2%	5.1%	1.0%
Semiconductors	+2.0%	+9.9%	92.0%	96.2%	5.6%	4.2%	1.4%
Software & Services	+13.2%	+50.3%	89.8%	96.1%	15.0%	7.9%	3.6%
Telecommunications	+13.2%	+30.5%	89.2%	94.5%	14.8%	7.4%	3.7%
Technology Sector	+8.7%	+30.8%	90.1%	96.2%	13.1%	6.3%	2.4%
Overall Russell 3000	+11.9%	+41.4%	90.1%	96.0%	12.2%	5.8%	2.0%

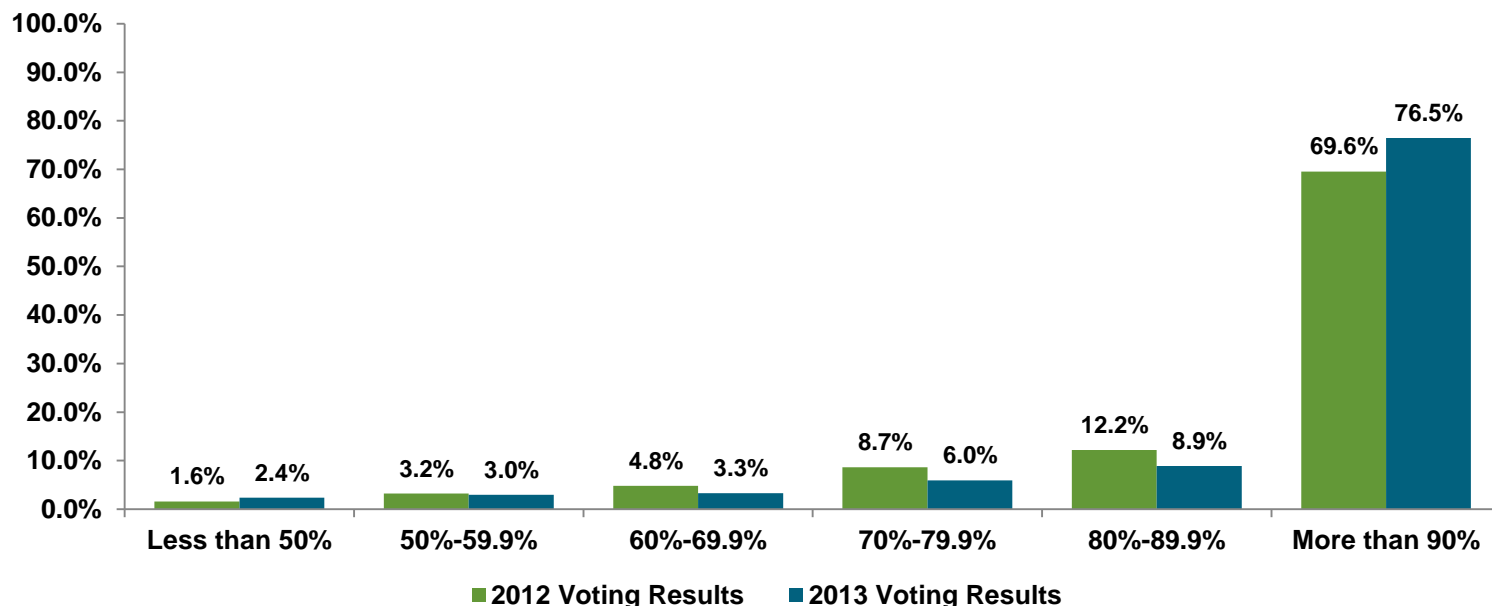
Source: Radford analysis of ISS voting results data.



Year-Over-Year Shareholder Support Levels

- The following chart displays the year-over-year distribution of shareholder support levels for Say-on-Pay proposals at technology sector companies
- Average and median shareholder support levels are strong on an overall basis (90.1% and 96.2%, respectively) for 2013, and this view of Say-on-Pay outcomes illustrates the rising prevalence of proposals receiving shareholder support levels above 90%
- In total, less than 25% of technology sector companies received shareholder approval rates under 90% in 2013, down from approximately 30% of companies in 2012

Distribution of Shareholder Support Levels, 2012 vs. 2013



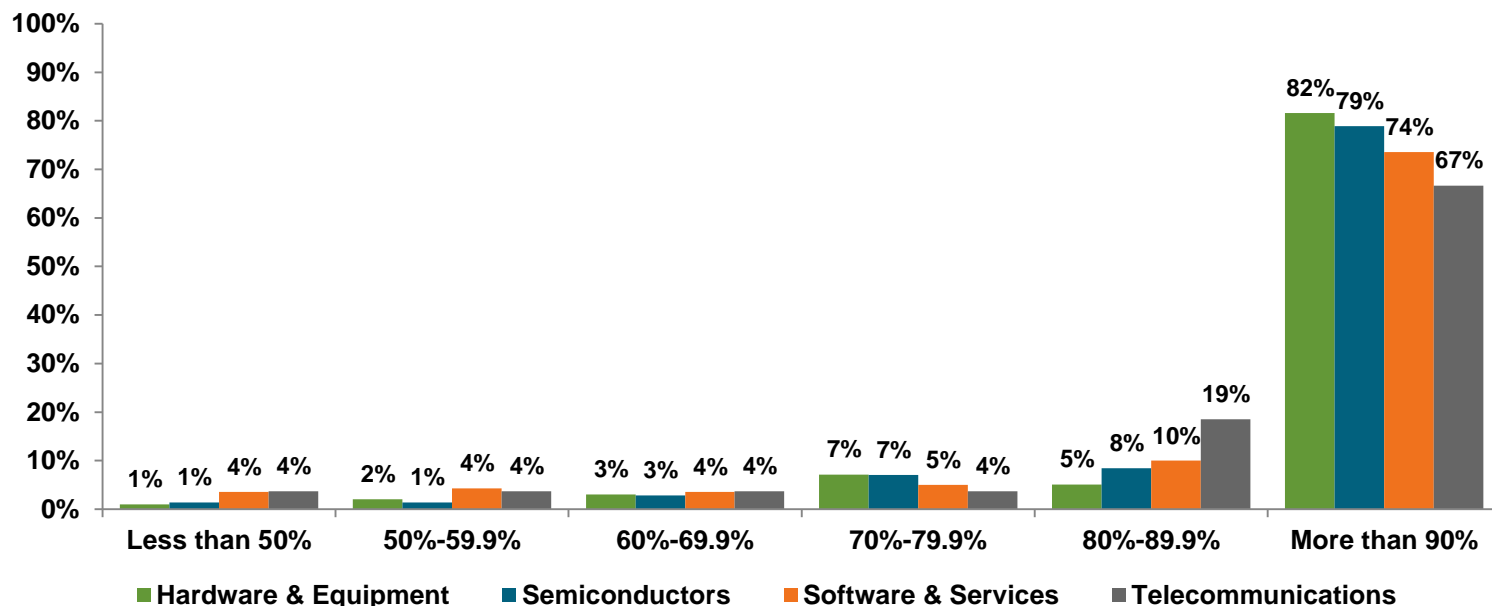
Source: Radford analysis of ISS voting results data.



Shareholder Support Levels by Sub-Industry

- The following chart displays the distribution of 2013 shareholder support levels for Say-on-Pay proposals within each technology sub-industry
- The prevalence of proposals receiving shareholder support levels below 90% has increased across all four sub-industries from 2012 to 2013
- Software and Telecommunications companies saw the greatest downward pressure on Say-on-Pay support levels in 2013, yet both of these sectors had the highest median 1-year TSR results

Distribution of Shareholder Support Levels by Sub-Industry



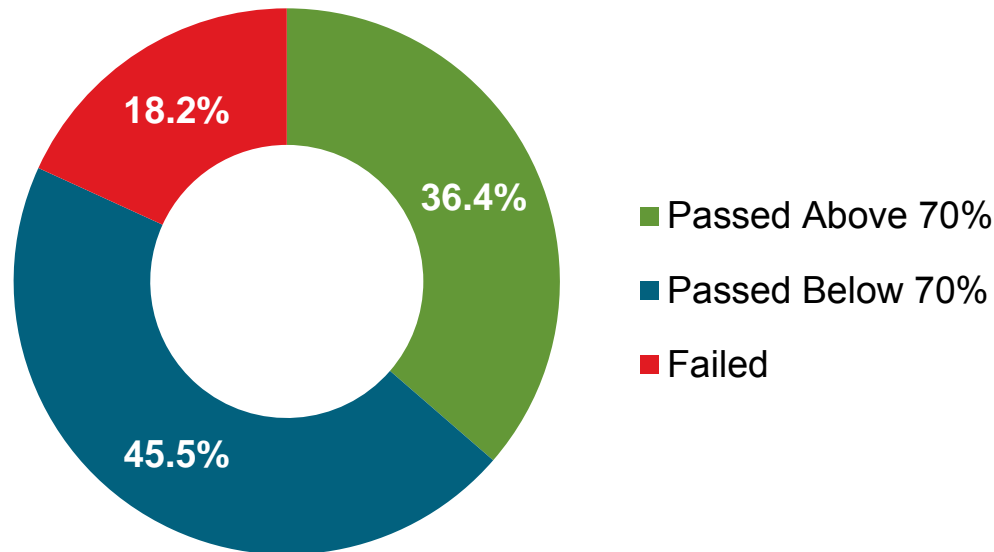
Source: Radford analysis of ISS voting results data.



Evaluating the Impact of ISS in 2013

- Across the entire technology sector, the impact of negative recommendations from ISS was substantial, but only forced outright failure of Say-on-Pay proposals in 18.2% of cases
- 45.5% of companies with negative recommendations from ISS passed their Say-on-Pay vote, but with less than 70% shareholder support, down from 51.2% of companies who passed below 70% in 2012
- Although full Glass Lewis data for 2013 is not yet available, the impact of Glass Lewis recommendations in 2012 was similar to the above findings— the 10% of firms earning an “F” grade from Glass Lewis received average shareholder support levels of 73%, which is below the Glass Lewis threshold of 75%

Impact of ISS Negative Recommendations

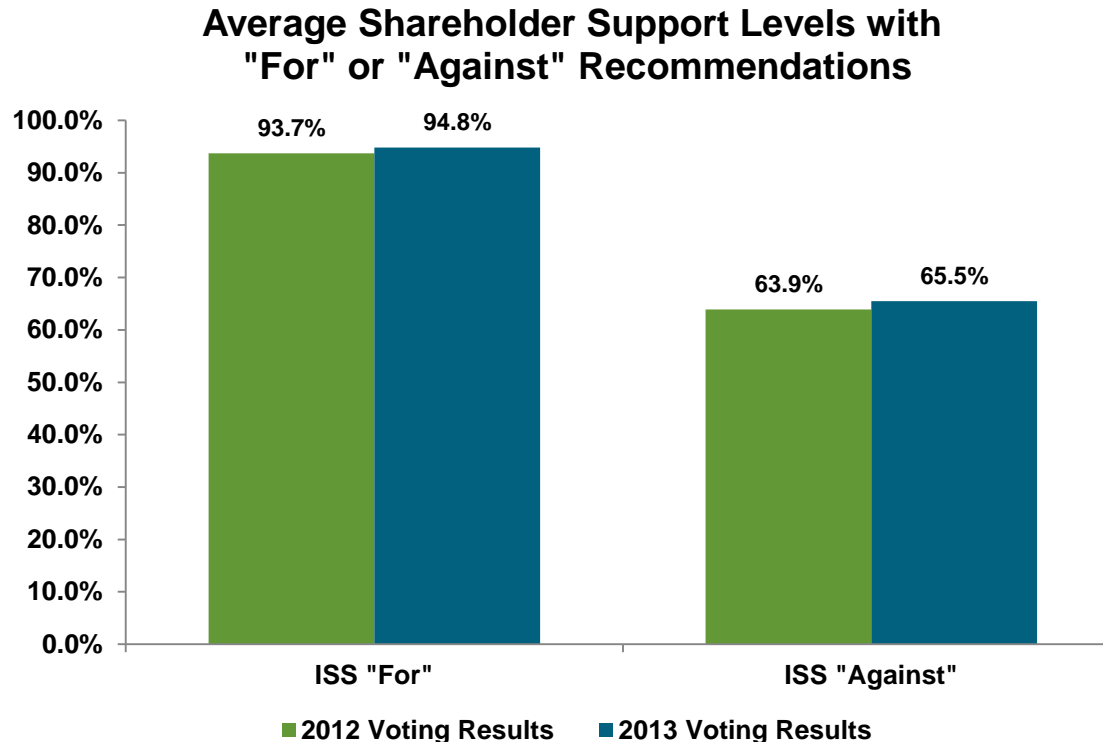


Source: Radford analysis of ISS voting results data.



ISS Impact Stabilizes Year-Over-Year

- ISS adopted revised corporate governance policies at the end of 2011 that introduced a new shareholder support threshold of at least 70% support for Say-on-Pay votes; proposals receiving support below 70% will undergo additional examination from ISS in subsequent years
- On average, technology companies receiving an "Against" recommendation from ISS fall below the 70% threshold, which means these companies will most likely receive extra scrutiny from ISS and shareholders in 2014

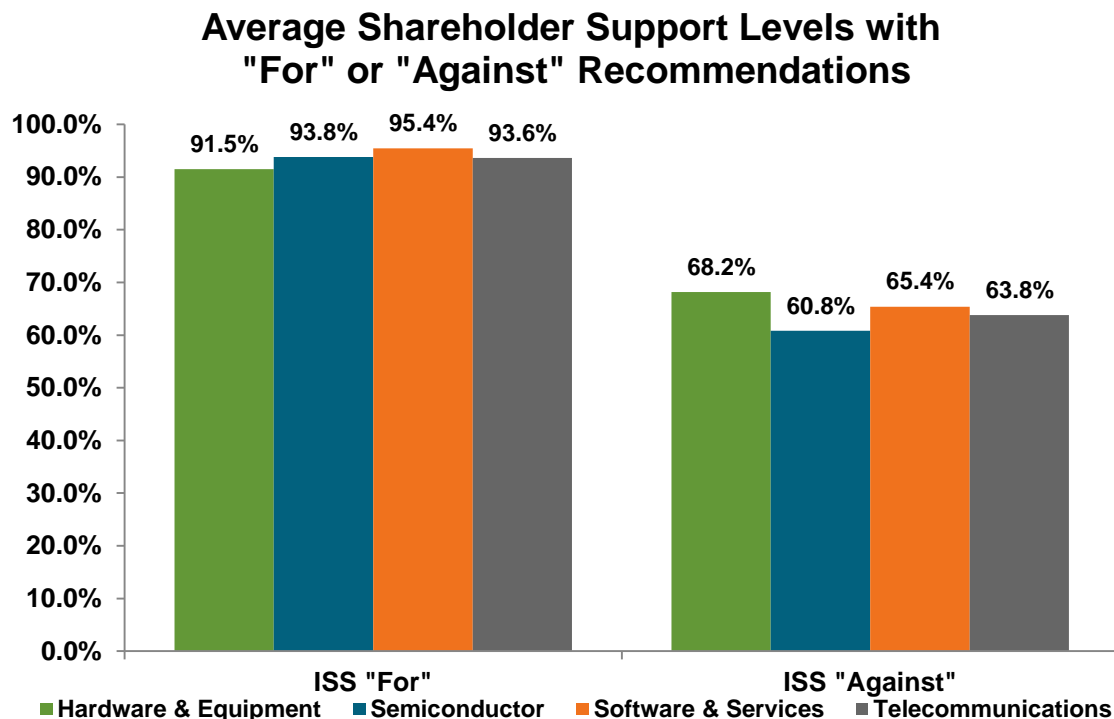


Source: Radford analysis of ISS voting results data.



2013 ISS Impact by Sub-Industry

- When examining the four sub-industries of the technology sector, the impact of ISS “Against” recommendations is still notable, and drives average support levels below the 70% threshold for all four groups
- Hardware & Equipment companies with negative recommendations from ISS performed better than their three counterparts in the other sub-industries and were close to reaching the 70% threshold; meanwhile, Semiconductor companies were almost 10% below the threshold



Source: Radford analysis of ISS voting results data.



About Radford

- Radford, an Aon Hewitt company, is the leading global provider of compensation intelligence and consulting services to the technology and life sciences sectors. Our market-leading surveys, strategic consulting and equity valuation expertise help Compensation Committees and human resources leaders address their toughest challenge: attracting, engaging and retaining talent in innovation-based industries.

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