C-SUITE

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Seeking a Brighter Outlook

HCM, ESG and diversity to dominate the governance landscape in 2021

Tracking trends in proxy disclosure for 2021

The rise and influence of the CHRO

CFO pay over the past decade

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Understanding Energy Compensation

An excerpt from Alvarez & Marsal's *2020 / 2021 Oil and Gas Oilfield Services Compensation Report*

Effective compensation programs are critical to attract, retain and drive performance of executives. Companies should ensure that their executive compensation programs are aligned with the market throughout each potential phase of a company's life cycle, including initial public offering (IPO), transaction/merger, steady state and bankruptcy.

To understand compensation practices in the energy sector, specifically for oilfield services (OFS) companies, the Compensation and Benefits Practice of Alvarez & Marsal (A&M) examined the 2020 proxy statements of the largest OFS companies in the U.S.

Where possible, this analysis only includes companies with revenue derived primarily from OFS activities (i.e., not primarily exploration, production, refining, etc.).[1] The report excludes companies that did not disclose sufficient data on their compensation programs, such as companies that recently went through an IPO or companies that have recently undergone a restructuring or bankruptcy.

The data presents the plan structures disclosed by these companies. Where warranted, current data is compared to data collected in our prior studies.

Company Statistics

The 52 companies analyzed in this report are diverse in terms of size. For comparison purposes, we grouped the companies into quartiles based on enterprise value[2] as shown below:

QUARTILE	ENTERPRISE VALUE RANGE*	MEDIAN
Top Quartile	$3.4B–$70.4B	$7.5B
Second Quartile	$1.2B–$3.2B	$1.7B
Third Quartile	$685M–$1.2B	$1B
Bottom Quartile	$196M–$622M	$310M

**Enterprise Value as of Jan. 2, 2020.*

Total Compensation

Compared to last year, the average total compensation for CEOs and CFOs decreased slightly, primarily due to the value of LTI granted. In the current commodity price environment and with the already disclosed reductions for current compensation, A&M expects a slight downward

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movement in compensation levels to persist through the coming year.

While it remains unclear what constitutes a "good" CEO pay ratio, the data indicates that a ratio of 50x–200x is most prevalent.

Total Compensation

	CEO	CFO
	-5% Decrease	-7% Decrease
2020 Average	$5,646,998	$2,106,836

Annual and Long-term Incentive Compensation

On average, incentive compensation—including annual and long-term incentives—comprises approximately 79% of a CEO's and 72% of a CFO's total compensation package.

Only 3% of companies in the top three quartiles utilize annual incentive plans (AIPs) where payout is determined on a purely discretionary basis, while approximately 33% of companies in the bottom quartile utilize totally discretionary performance metrics.

The types of AIP metrics utilized within the sector are varied and diverse. EBITDA is the most prevalent performance metric (76%). The next three most prevalent metrics are health, safety and environmental (63%); cash flow (30%); and cost/cost ratio (15%).

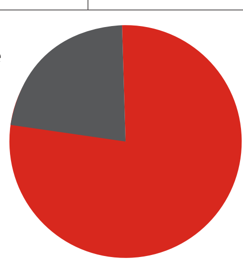
The prevalence of LTI awards varies by company size, but time-vesting restricted stock/restricted stock units and performance-vesting awards are most common, utilized by 90% and 77% of companies, respectively.

For performance-based LTI awards, relative total shareholder return is the most common performance metric—used by 78% of companies. The most common performance period is three years, used by 95% of all companies.

Incentive Compensation Component

CEO	CFO
79% of Total Pay	72% of Total Pay

TSR Prevalence



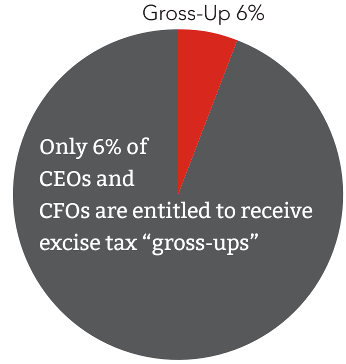
Change in Control Benefits

The most common cash severance multiple for CEOs and CFOs is between 2 and 2.99 times compensation (utilized by 50% of the CEOs and 71% of the CFOs in this report).

The most valuable benefit received in connection with a change in control is accelerated vesting and payout of LTI, making up 53% and 51% of the total for CEOs and CFOs, respectively.

Double trigger equity vesting (termination required) is most prevalent (59%), while single trigger equity vesting (no termination required) is not as common (37%).

Only 6% of CEOs and CFOs are entitled to receive excise tax "gross-up" payments—meaning the company pays the executive the amount of any excise tax imposed, thereby making the executive "whole" on an after-tax basis.



Although excise tax gross-ups have waned in existing employment arrangements, we observed gross-ups being added at the 11th hour during actual deal negotiations in 15% of the top 20 deals during 2019. It will be interesting to see if this trend continues and if any repercussions are felt by those who implement such last minute arrangements. In situations where existing or newly added gross-ups are not present, other mitigation concepts should be explored, such as a reasonable compensation analysis, to ease the excise tax burden to the extent possible.

210+

OFS companies in the U.S. have filed for bankruptcy since 2015

Compensation in Distressed Times

More than 210 OFS companies in the U.S. have filed for bankruptcy since 2015. This number will most likely increase for the remainder of 2020 and into 2021 due to the oil price environment that has existed in the first half of 2020. Even if companies are able to avoid a bankruptcy filing, many will face significant challenges from an executive compensation standpoint during this time of distress.

Companies experiencing financial distress must carefully consider whether and how to modify their compensation programs to ensure that executives stay engaged and motivated through uncertain times, including:

- If and how to adjust annual incentives,
- What to do with existing long-term incentives including multi-year performance metrics that may no longer be achievable, and
- Whether to implement retention awards for certain key employees who are a flight risk.

Incentive programs, when properly structured, can help bridge the compensation gap, and retain executive talent, between the onset of financial hardship and a healthy go-forward restructuring.

Compensation During Recovery

When emerging from bankruptcy, equity awards held by employees pre-bankruptcy generally have no value. Lack of meaningful equity ownership in

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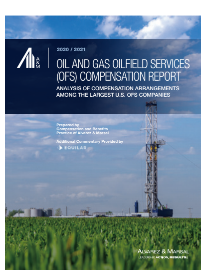

Alvarez & Marsal's Compensation and Benefits Practice has partnered with Equilar and is pleased to provide this latest edition of our study on OFS Compensation.

Our mission is to assist companies in understanding the current environment surrounding compensation in the OFS Sector.

Read the full report at **alvarezandmarsal.com**.

the go-forward entity, coupled with an uncertain company future, leads to difficulties retaining and motivating key executives post-emergence.

Emergence equity grants (sometimes referred to as a Management Incentive Plan (MIP)) are a way to ensure that companies retain motivated personnel who are vital to a successful post-emergence entity.

Due to the oil price environment that has existed in the first half of 2020 the market for IPOs in the OFS sector will continue to be slow. However, as prices improve and opportunities arise, we would expect to see more private energy companies looking to go public. Addressing compensation-related issues is crucial when preparing for an IPO.

[1] *For an analysis of the top oil and gas exploration companies, please see our 2020 / 2021 Oil and Gas Exploration & Production (E&P) Compensation Report.*

[2] *In previous reports, market capitalization was utilized as the metric for measuring size of the organization. Due to uncertain market conditions, A&M has chosen to use enterprise value as a proxy for determining the different sizes of the OFS companies.*