2020 / 2021

OIL AND GAS OILFIELD SERVICES (OFS) COMPENSATION REPORT

ANALYSIS OF COMPENSATION ARRANGEMENTS AMONG THE LARGEST U.S. OFS COMPANIES

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Table of Contents

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2020 / 2021 Oil and Gas Oilfield Services (OFS) Compensation Report

Analysis of compensation arrangements among the largest U.S. OFS companies

Introduction

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.

***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.

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	\$1.0B
Bottom Quartile	\$196M — \$622M	\$310M

*Enterprise Value as of January 2, 2020.

[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.

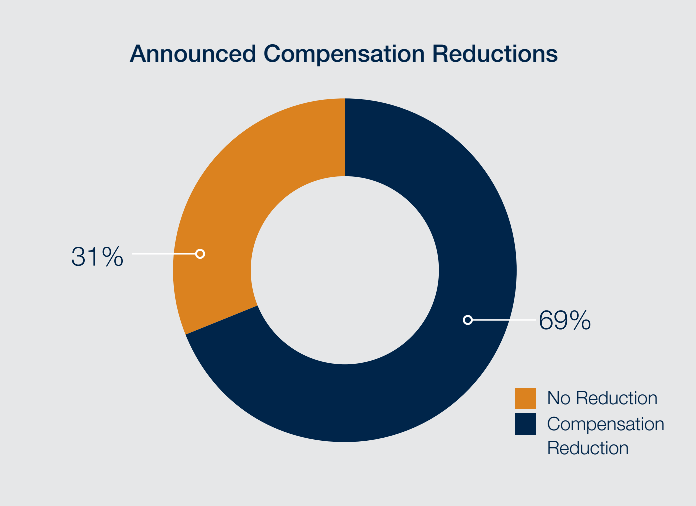
[2] In previous reports, market capitalization was utilized as the metric for measuring size of the organization. Due to uncertain market conditions, A&M has chosen to use enterprise value as a proxy for determining the different sizes of the OFS companies.

Equilar Commentary:

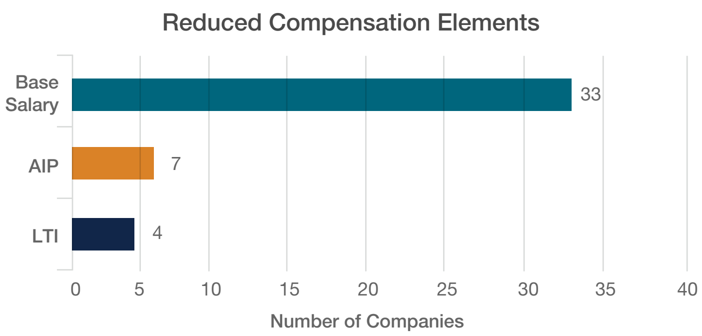
Overall, the salary reductions due to COVID-19 imposed at OFS companies have been smaller than those in other industries, although the percentage of OFS companies making a reduction has been slightly higher. A possible reason for the smaller reductions is that some companies had already taken reductions in 2019 since the OFS sector was struggling prior to the COVID-19 pandemic. OFS companies also had more diminished stock prices going into 2020, which negatively impacted equity award values; therefore, salary reductions would present a greater executive retention risk since other elements of compensation had already been negatively impacted.

COVID-19 and Russia-Saudi Arabia Oil Price War

As a result of plummeting oil prices caused by the COVID-19 pandemic and the Russia-Saudi Arabia oil price war, many oilfield service companies have announced changes to their 2020 executive compensation programs. A&M has monitored compensation changes announced throughout all industries to ensure clients are staying up-to-date in an ever-evolving market. In the OFS sector, numerous companies have announced reductions in executive compensation through the first two quarters of 2020. Among companies analyzed in this study, 36 of the 52 have announced compensation reductions.

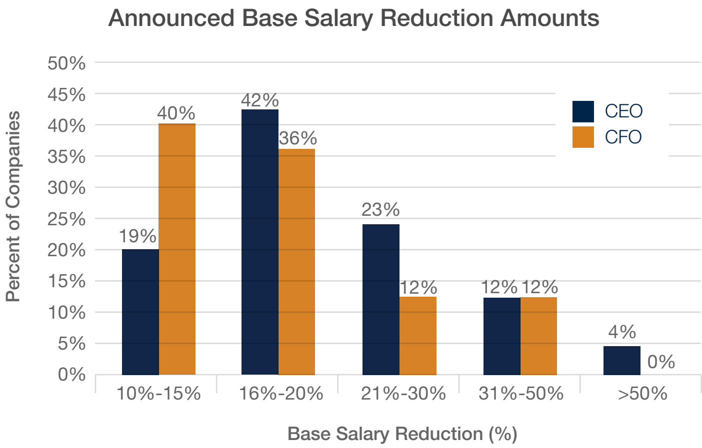


Announced reductions have varied in amounts and elements of compensation addressed. The chart below shows announced reductions for the companies evaluated in this study through the first two quarters of 2020.[1]



In terms of announced base salary reductions, companies either chose an equal reduction across the board for all executives (62 percent of companies) or a greater percent reduction for the CEO (38 percent of companies).

The chart below details the magnitude of announced base salary reductions, by CEO and CFO, for the companies analyzed in this study.



Many of the changes impact base salary and/or annual bonus, which make up a smaller portion of an executive's total compensation than do long-term incentive. This results in some of the percentage reductions, in reality, being smaller than their headline numbers when considered in the context of total direct compensation.

It remains to be seen how long these reductions will continue to be in effect, as well as how these reductions will affect go-forward compensation. A&M is continually monitoring these trends to see how executive compensation will be impacted in the future.

In terms of board of director compensation, 44 percent of the OFS companies analyzed have announced some type of reduction for 2020 (typically to the cash retainer). Similar to executive compensation, it remains to be seen how the COVID-related reductions will impact overall pay practices for boards going forward.

[1] Note: Annual Incentive Plan (AIP) reductions only reflect announced levels of AIP target reductions (a percentage of base salary). This does not include reductions of annual incentive opportunities as a result of a reduction of base salary.

Key Takeaways

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 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.

Annual and Long-Term Incentive Compensation

- On average, incentive compensation — including annual and long-term incentives — comprises approximately 79 percent of a CEO's and 72 percent of a CFO's total compensation package.
- Only 3 percent of companies in the top three quartiles utilize annual incentive plans (AIPs) where payout is determined on a purely discretionary basis, while approximately 33 percent 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 percent). The next three most prevalent metrics are health, safety, and environmental (63 percent); cash flow (30 percent); and cost / cost ratio (15 percent).
- 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 percent and 77 percent of companies, respectively.
- For performance-based LTI awards, relative total shareholder return is the most common performance metric — used by 78 percent of companies. The most common performance period is three years, used by 95 percent of all companies.

Total Compensation

CEO
-5%
Decrease
2020 Average
$5,646,998

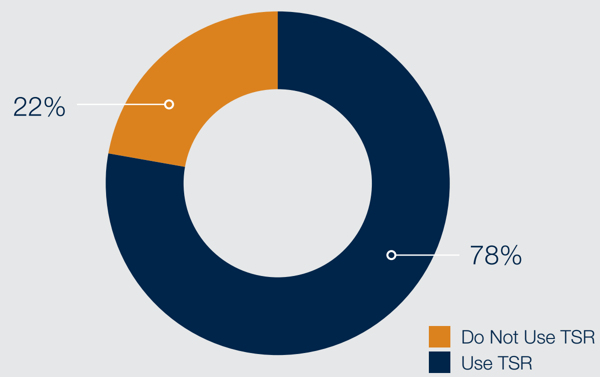
CFO
-7%
Decrease
2020 Average
2,106,836

Incentive Compensation Component

CEO
79%
Of Total Pay

CFO
72%
Of Total Pay

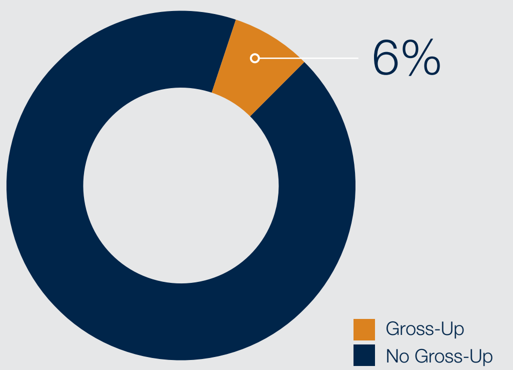
TSR Prevalence



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 percent of the CEOs and 71 percent 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 percent and 51 percent of the total for CEOs and CFOs, respectively.
- Double trigger equity vesting (termination required) is most prevalent (59 percent), while single trigger equity vesting (no termination required) is not as common (37 percent).
- Only 6 percent 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 percent 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.

Only 6% of CEOs and CFOs are entitled to receive excise tax "gross-ups"



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 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.

Equilar Commentary:
Although our 2020 CEO Pay Trends Report reflected that median compensation among Equilar 500 CEOs remained steady at $12.3 million between 2018 and 2019, we also found a decrease in median compensation among Energy sector CEOs as well as CEOs of other sectors including Basic Materials, Communication Services, Consumer Cyclical, Financial Services, Real Estate, and Technology.

Total Compensation

We captured the summary compensation table data disclosed in the 2020 proxy statement for each company. The most prevalent forms of compensation include base salary, AIP, and LTI awards.

The following tables show the average values for each element of compensation broken out by quartile for CEOs and CFOs:

Chief Executive Officer Annual Compensation					
Enterprise Value Rank	**Base Salary**	**Annual Incentives**	**Long-Term Incentives**	**Other Compensation[1]**	**Total**
Top Quartile Average	$1,068,131	$2,243,425	$6,282,503	$1,160,352	$10,754,411
Second Quartile Average	$782,205	$942,141	$3,218,082	$136,066	$5,078,494
Third Quartile Average	$730,429	$523,468	$1,983,186	$26,783	$3,263,866
Bottom Quartile Average	$574,202	$267,393	$2,096,200	$370,106	$3,307,901
2020 – Average	$789,885	$1,003,335	$3,422,675	$431,102	$5,646,998
Year-Over-Year Change[2]					-5%

Chief Financial Officer Annual Compensation					
Enterprise Value Rank	**Base Salary**	**Annual Incentives**	**Long-Term Incentives**	**Other Compensation[1]**	**Total**
Top Quartile Average	$641,642	$767,990	$2,078,676	$519,955	$4,008,263
Second Quartile Average	$413,638	$325,183	$973,617	$45,364	$1,757,802
Third Quartile Average	$345,255	$210,113	$792,100	$24,268	$1,371,737
Bottom Quartile Average	$340,121	$228,697	$739,805	$14,093	$1,322,715
2020 – Average	$434,620	$382,195	$1,141,463	$148,558	$2,106,836
Year-Over-Year Change[2]					-7%

[1]Other Compensation includes: change in pension value, above market earnings, and “all other compensation” as disclosed in each company’s proxy statement.
[2]Includes only executives in both the 2020 and 2020 / 2021 studies. Represents median year-over-year change.

The first quartile represents the highest paying quartile by a wide margin, representing nearly half of all compensation paid to CEOs and CFOs in our report.

Compared to compensation disclosed in 2019, total compensation for both CEOs and CFOs decreased slightly overall. This is a reflection of some of the struggles overall in the industry, even before the COVID-19 and Russia-Saudi Arabia oil price war events of 2020.

Total Compensation

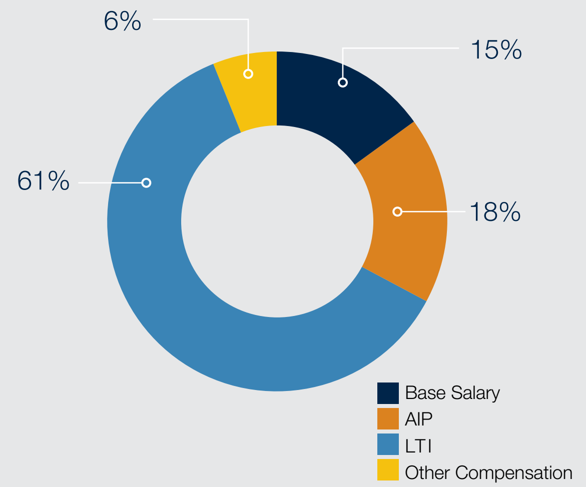
On average, incentive compensation — including annual and long-term incentives — comprises 76 percent of an executive's total compensation package. The charts to the right show the proportion of total direct compensation delivered in base salary, AIP, LTI awards, and other compensation for CEOs and CFOs.

Because incentive compensation is such an integral part of the total compensation package for executives at most companies, we examine annual and long-term incentive programs in greater detail later in this report.

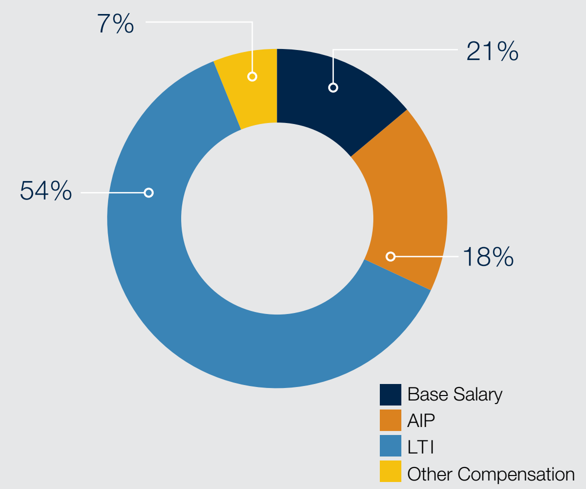
76%

Average portion of an executive's total compensation package derived from incentive compensation

CEO Total Compensation



CFO Total Compensation

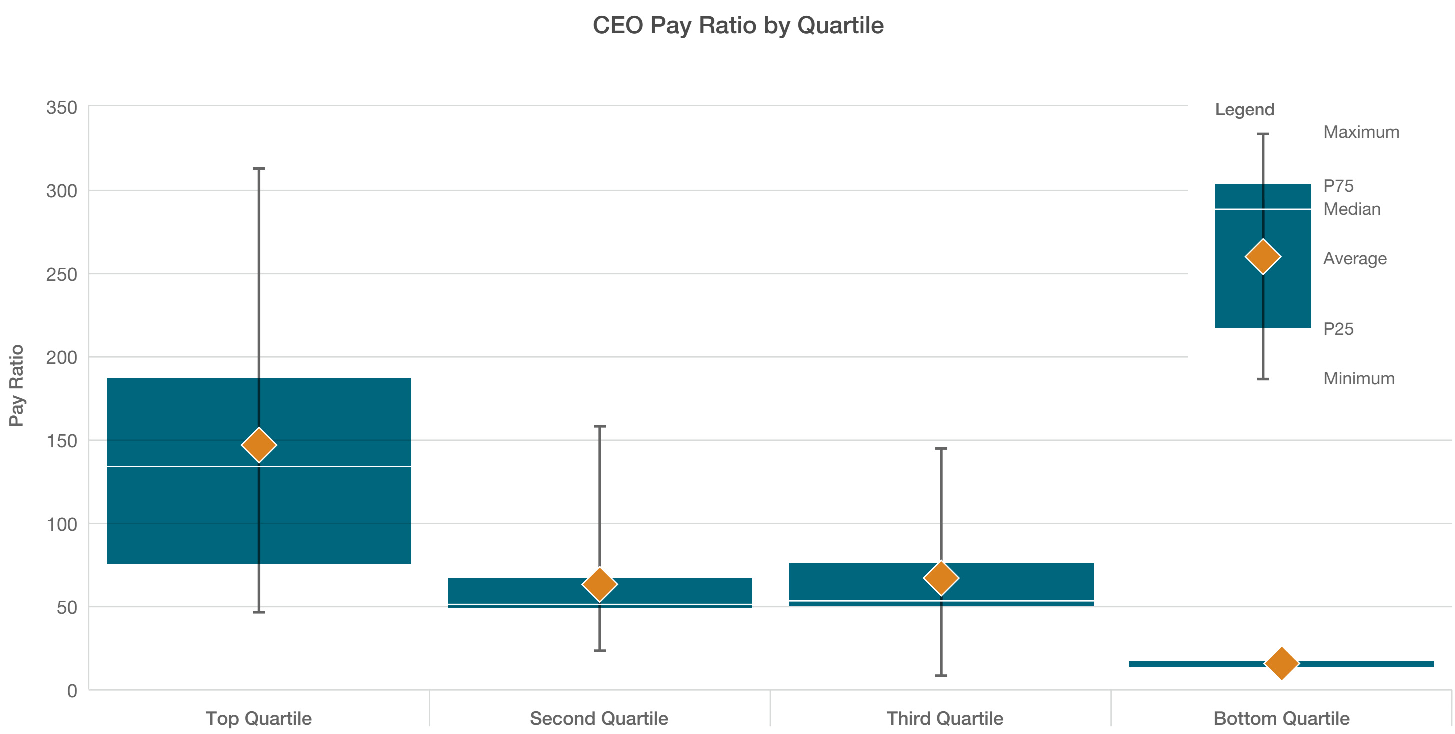


CEO Pay Ratio

The SEC's "CEO Pay Ratio" rule took effect for companies with full fiscal years beginning on or after January 1, 2017. Accordingly, proxy statements filed in 2020 mark the third time that most companies were required to disclose their CEO pay ratios. The CEO pay ratio is calculated as the total compensation of the CEO divided by the total compensation of the "median" employee of a company.

Various methodologies are permitted to calculate the compensation of the CEO and the median employee. Therefore, companies must evaluate which methodologies make the most sense and consider administrative burden, corporate structure, etc., in their decision making.

The chart below shows summary CEO pay ratio statistics within each quartile:



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

> Annual incentives drive executive performance in the short term.

Annual Incentive Plans

As is the case in most industries, companies in the OFS sector generally provide an opportunity for executives to participate in AIPs, also commonly called bonus programs. AIPs utilize performance metrics that are generally measured over a one-year period.

Discretionary vs. Formulaic

For this analysis, we grouped AIPs into the following three categories based on how the AIP payout is determined:

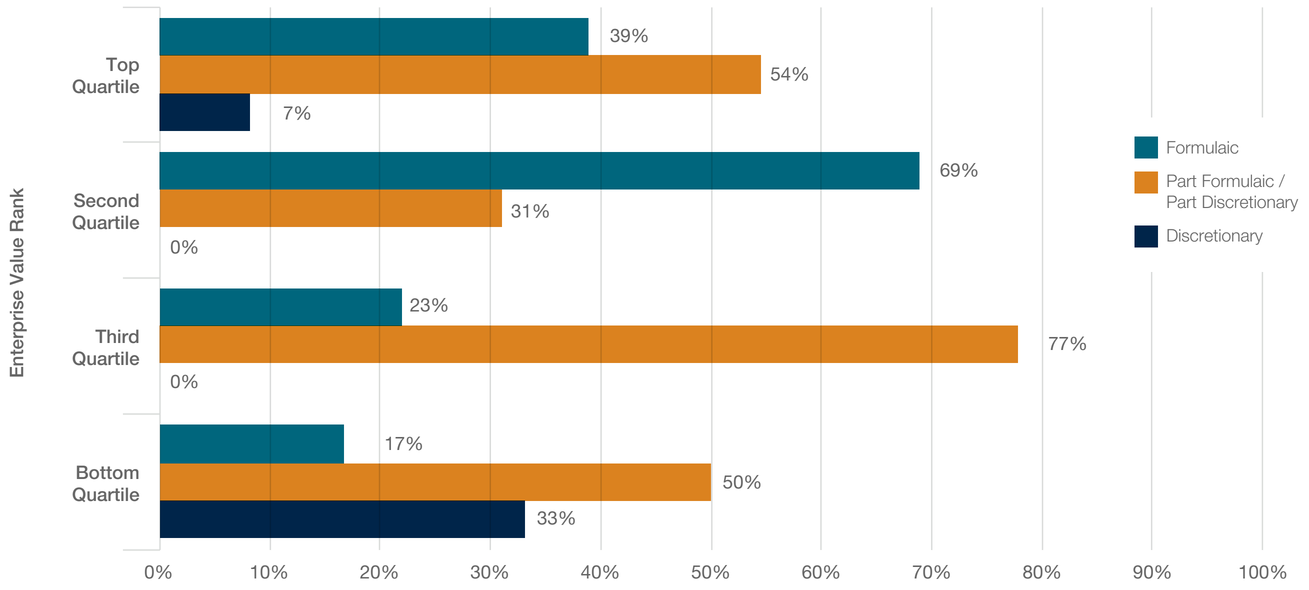
- **Formulaic –** The plan utilizes predetermined performance criteria with established targets that will determine payout, and the compensation committee does not have discretion to adjust payouts (other than negative discretion).
- **Discretionary –** The plan may or may not utilize specific, preestablished performance criteria, but the compensation committee maintains absolute discretion to adjust payout levels upward or downward.
- **Part Formulaic / Part Discretionary –** The plan utilizes certain metrics in which payout is determined formulaically and others in which payout is determined at the discretion of the compensation committee.

As shown in the chart below, 39 percent of OFS companies in the top quartile of our study group maintain a purely formulaic AIP, compared to only 17 percent of companies in the bottom quartile. Notably, only 3 percent of the companies in the top three quartiles used a purely discretionary plan. Similar to last year, 53 percent of all companies utilize a part formulaic / part discretionary plan.

Section 162(m) of the Internal Revenue Code previously required that compensation in excess of $1 million be performance-based in order to be tax deductible. As this performance-based exception has been eliminated, we have not seen noticeable shifts by companies toward discretionary plan designs.

Although there is no longer a tax incentive for performance-based plans, companies are continuing to consider input from shareholder advisory firms, as well as common market practices when structuring AIPs.

Discretionary vs. Formulaic Prevalence



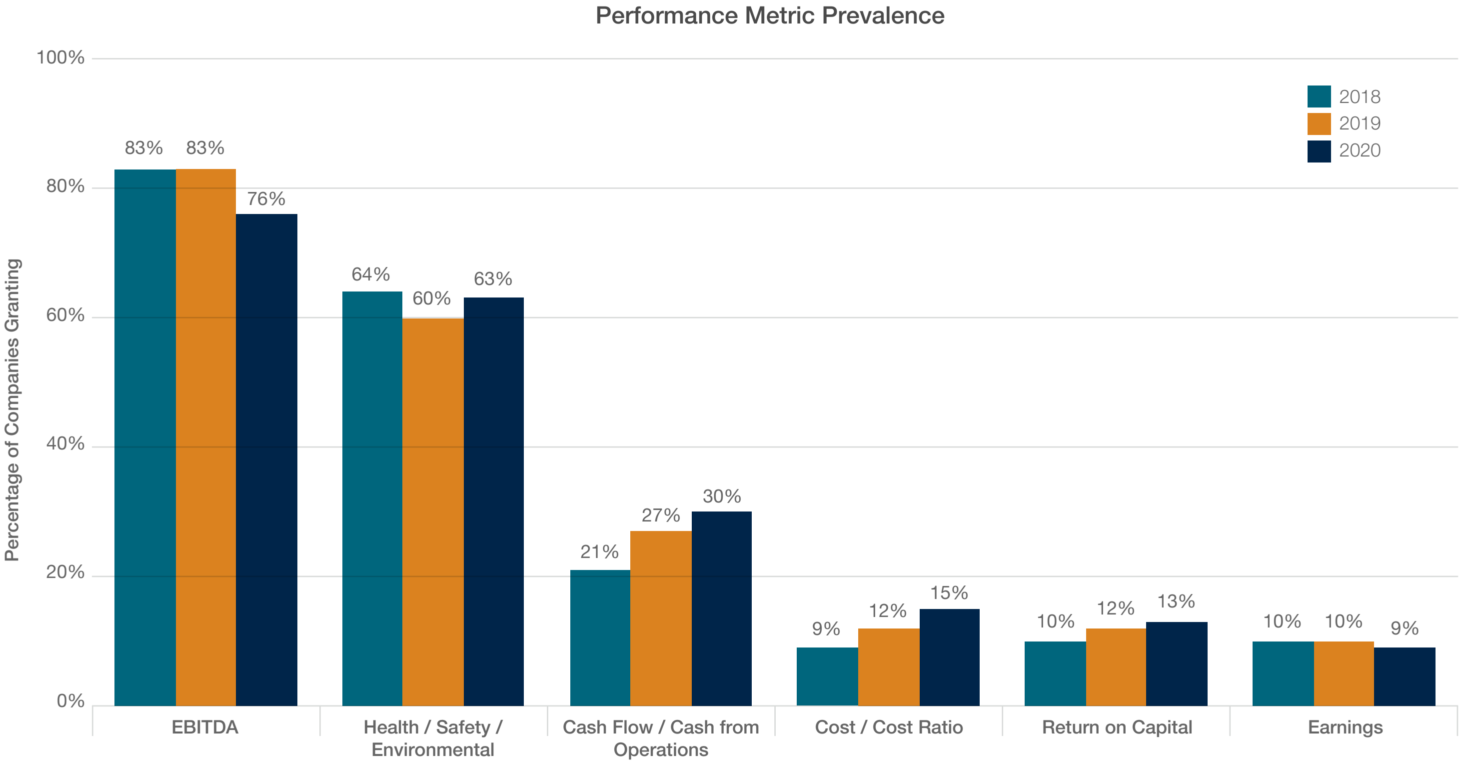
Annual Incentive Plans

Companies utilize formulaic compensation programs to provide clarity to executives and shareholders on how compensation will be determined. Some companies maintain discretion over the payout of AIPs to allow them to adjust the payouts for events that are unforeseen and/or out of the executives' control. Some companies exercise discretion by implementing an AIP with a formulaic trigger (e.g., achieving a certain level of EBITDA or cash flow, etc.) to fund a bonus pool, which can then be allocated at the discretion of the board.

Performance Metrics

Generally, as company size increases, companies have a stronger preference to utilize stated performance metrics. It is important to note that a plan may not necessarily be classified as "formulaic" merely because it utilizes performance metrics. Based on the terms of the plan, it may ultimately be classified as "discretionary" if the board retains full discretion to adjust payouts (higher or lower) under the plan.

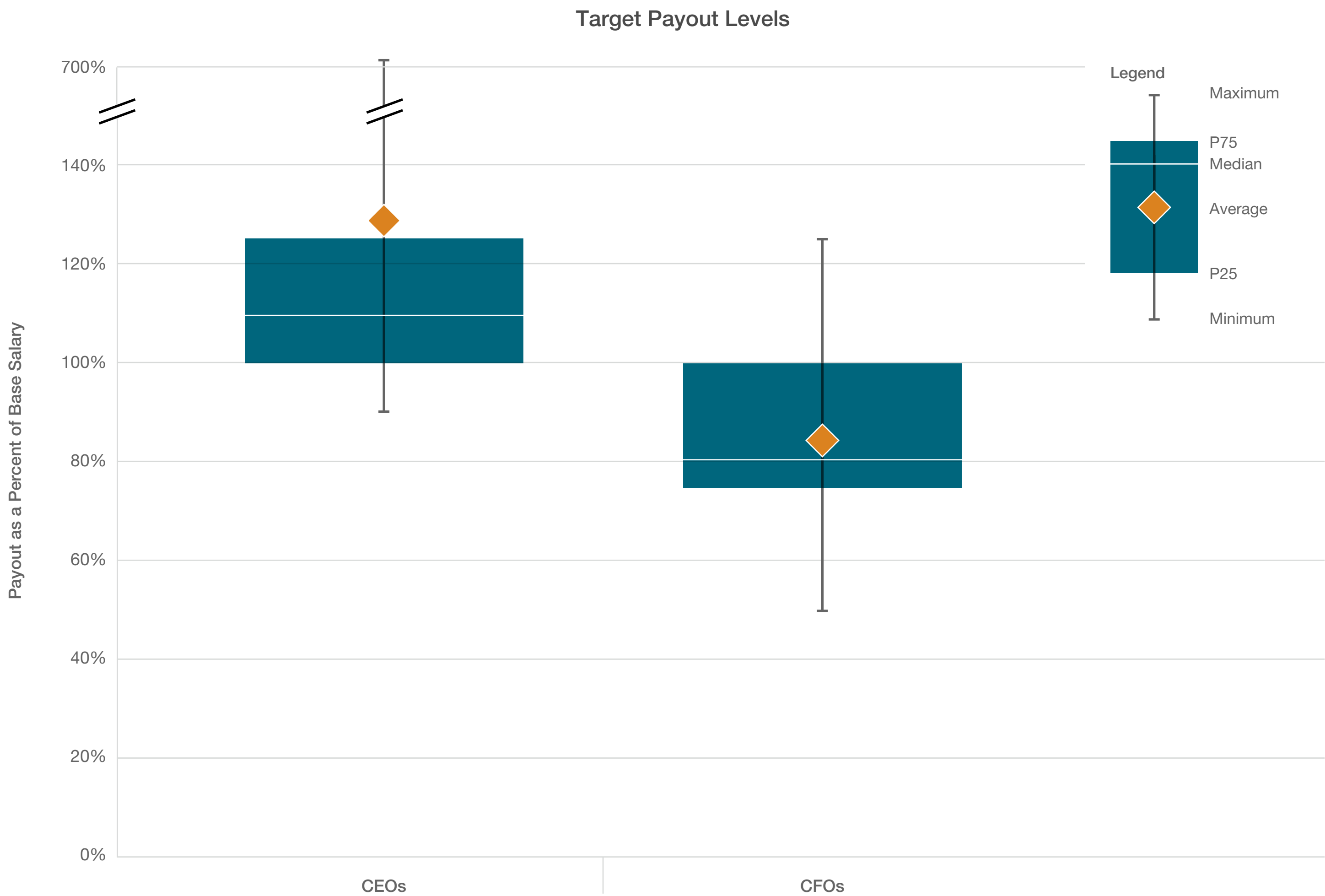
The following chart displays the most prevalent metrics used in AIPs. EBITDA is the most prevalent metric, utilized by 76 percent of companies. Health, safety, and environmental is the next most prevalent metric, utilized by 63 percent of companies, followed by cash flow / cash from operations utilized by 30 percent of companies.



The prevalence of performance metrics generally remained consistent with last year's report, with a slight decrease in the use of EBITDA as a metric and with more focus placed on health, safety, and environmental, cash flow, and cost / cost ratio metrics.

Payout Multiples

The chart below shows the target level of AIPs as a percentage of base salary for CEOs and CFOs. The median target payout is approximately 110 percent of base salary for CEOs and 80 percent of base salary for CFOs. When disclosed, threshold payout generally ranges from 25 percent to 50 percent of the target, and maximum payout is generally 200 percent of the target.

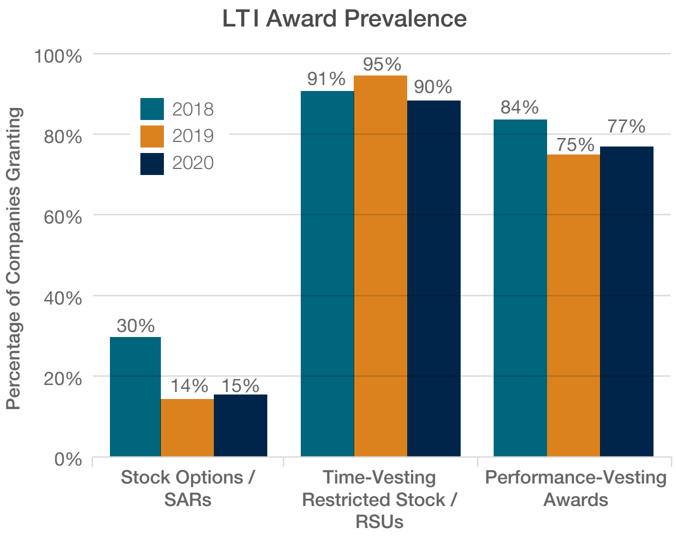


"Long-term incentives make up the largest portion of an executive's compensation package."

Long-Term Incentives

Overview

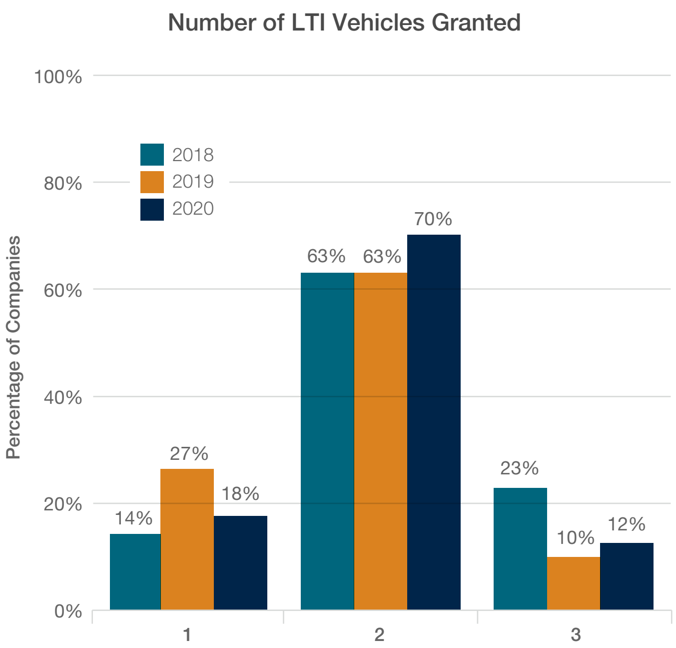
Companies grant LTI to motivate and retain executives and to align the interests of executives and shareholders. Nearly all OFS companies analyzed grant some form of LTI award to executives. LTI generally consists of stock options, stock appreciation rights (SARs), time-vesting restricted stock or restricted stock units (RSUs), and performance-vesting awards (i.e., awards that vest upon satisfaction of some performance criteria rather that solely based on the passage of time). For purposes of this analysis, we grouped awards into three categories: (1) time-vesting stock options and SARs, (2) time-vesting restricted stock and RSUs, and (3) performance-vesting awards.



Award Type Prevalence

The chart in the top right shows the prevalence of stock options / SARs, time-vesting restricted stock / RSUs, and performance-vesting awards for all companies.

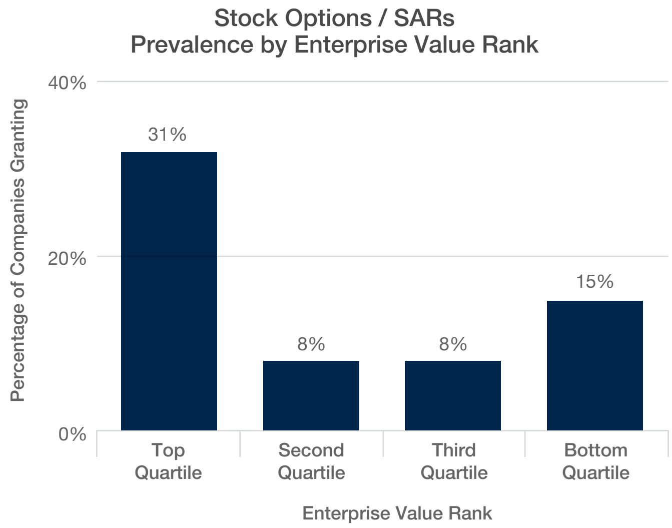
- Time-vesting restricted stock / RSUs and performance-vesting awards remained the most prevalent vehicles year-over-year.
- Stock options / SARs remained the least prevalent LTI vehicle utilized, as they provide little to no value to an executive in a down or flat market, which reduces (or eliminates) the retentive value of this type of award.
- Most companies that utilize performance-vesting awards or stock options also grant time-vesting restricted stock or RSUs to balance out the retentive goal of their LTI program. The chart to the right shows the number of LTI vehicles granted at each company. Consistent with prior years, a majority of companies (82 percent) grant two or more types of LTI vehicles.



Long-Term Incentives

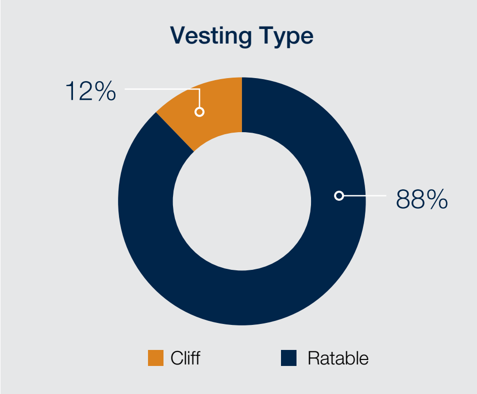
Stock Options / Stock Appreciation Rights

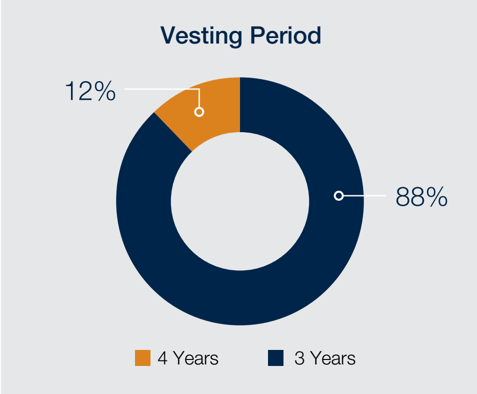
The chart to the right shows the percentage of companies that grant stock options / SARs by enterprise value.

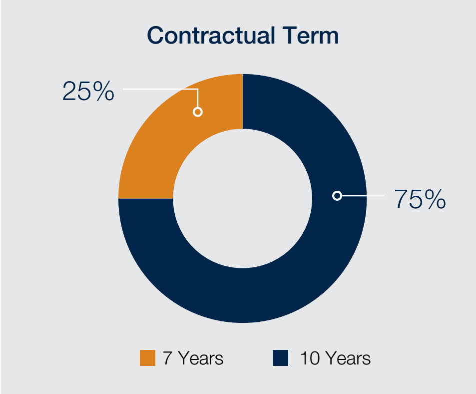


Award Provisions

- Stock option awards predominantly consisted of nonqualified stock options rather than tax-favored incentive stock options.
- The table below shows the prevalence of the following details for companies in our study group that granted stock options:
  - Vesting Type
    - Ratable vesting – a portion of the award vests each year during the vesting period;
    - Cliff vesting – the entire award vests at the end of the vesting period;
  - Vesting Period; and
  - Contractual Term.







- All of these observations are generally consistent with last year's report.

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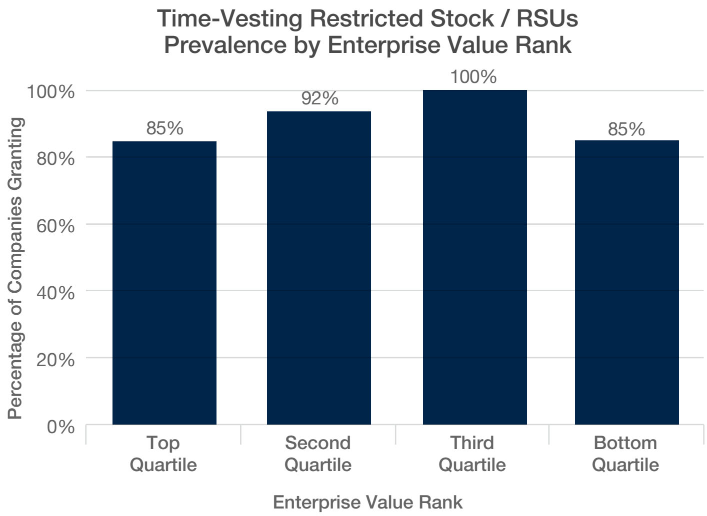
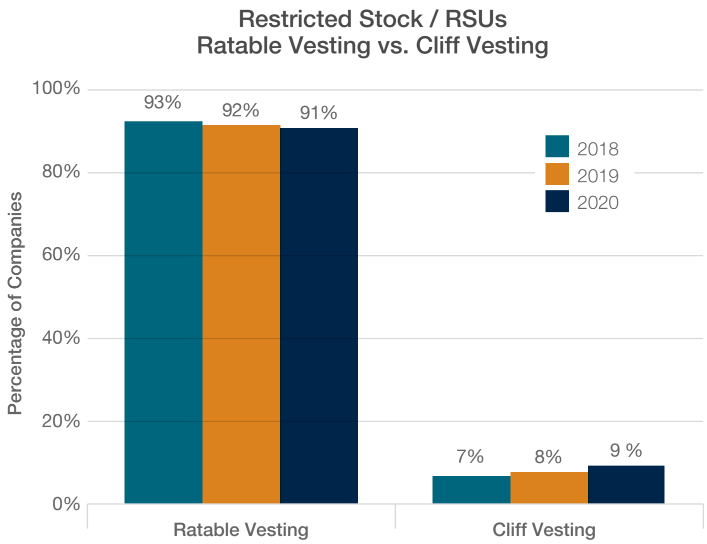
Time-Vesting Restricted Stock / Restricted Stock Units

The chart to the right shows the percentage of companies that grant time-vesting restricted stock / RSUs by enterprise value. The prevalence is fairly high, being at least 85 percent for all sizes of companies.



Award Provisions

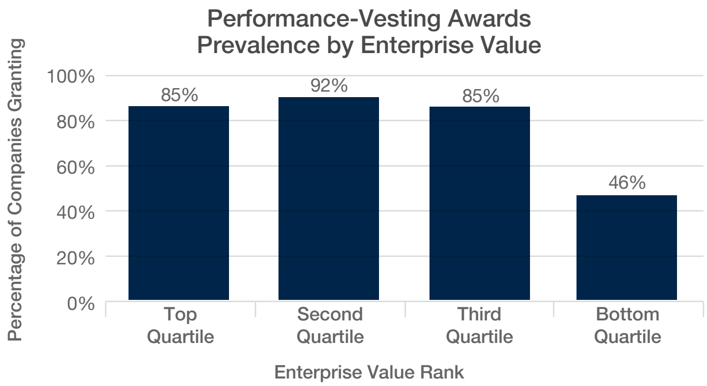
- Of companies that grant time-vesting restricted stock / RSUs, RSUs are almost twice as prevalent than restricted stock. One of the reasons is that RSUs can give executives the ability to defer payout beyond vesting.
- A three-year vesting period is the most common vesting period (utilized by 89 percent of companies).
- As shown in the chart to the right, the vast majority of companies continue to utilize awards that vest ratably rather than cliff vest.



Long-Term Incentives

Performance-Vesting Awards

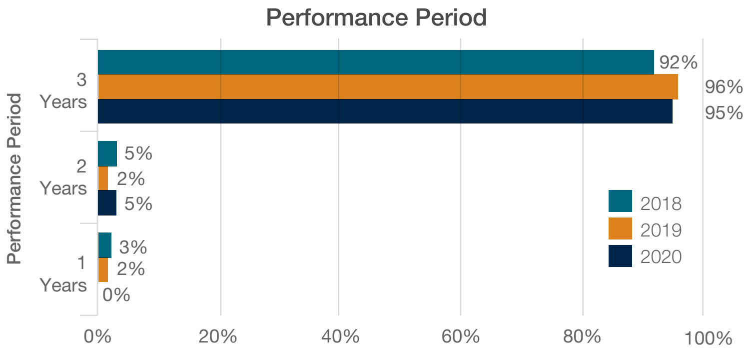
The chart to the right shows the percentage of companies that grant performance-vesting awards by enterprise value. Performance-vesting awards are utilized with regularity across companies of all sizes, with a lower prevalence in the bottom quartile of companies.



Performance Period

The performance period is the duration over which the applicable performance metrics are measured. As shown in the chart to the right, the most prevalent performance period for performance-vesting awards, by a wide margin, remained three years (95 percent of awards).

Most companies use three-year performance periods to promote long-term sustainable growth, rather than shorter periods which tend to focus executives only on short-term performance.

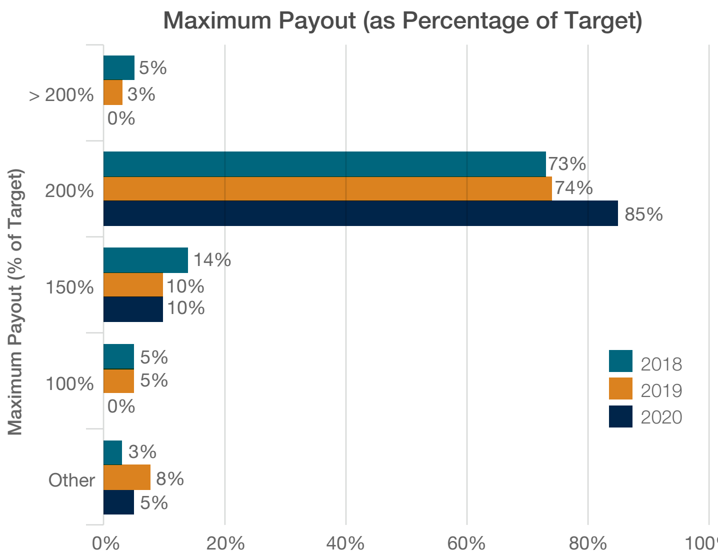


Maximum Payout

Performance-vesting awards often provide for a range of payouts. For example, if the threshold level of performance is achieved, 50 percent of the award will be earned; if the target level of performance is achieved, 100 percent of the award will be earned; and if the maximum level of performance is achieved, 200 percent of the award will be earned.

As shown in the chart to the right, a majority of performance-vesting awards provide for a maximum payout equal to 200 percent of the target.

Although 200 percent of target payout is the most prevalent maximum payout percentage, each company should examine its own circumstances and determine what payout scale would be most effective for the company's unique situation. For example, an established company that does not expect a sharp growth curve may consider granting more awards with a lower maximum payout. This will allow the company to grant additional awards with lower compensation expense, while preserving value for the executives.

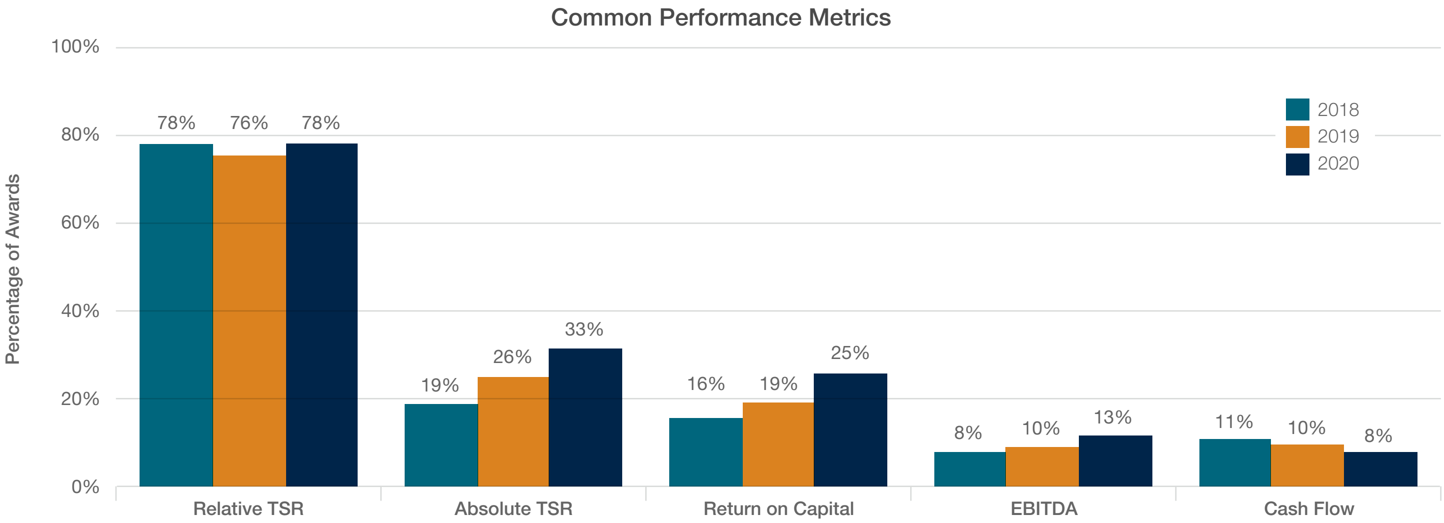


Performance Metrics

The most prevalent metric is total shareholder return (TSR) relative to a peer group, which is used in 78 percent of performance-vesting awards. The next most prevalent performance metrics are absolute TSR (used primarily to cap relative TSR payout if TSR is negative) and return on capital, utilized by 33 percent and 25 percent of companies, respectively.

68 percent of performance-based awards utilize more than one performance metric (absolute TSR is considered a separate metric from relative TSR).

The following chart shows the prevalence of the most common metrics used for performance-vesting awards, which remained consistent with prior years.



Although relative TSR has remained most prevalent, the market continues to search for alternatives (like return on capital and EBITDA, which have seen increased usage over the past few years).

Although the pay-for-performance link for relative TSR awards is fairly straightforward, the valuation of these awards can be somewhat complex. The vesting of relative TSR awards is dependent on future market conditions for both the company and its peer group. Therefore, the valuation of these awards requires sophisticated modeling techniques, such as a Monte Carlo valuation.

Equilar Commentary: *We have seen a steady rise in return on invested capital (ROIC) being used as a performance metric among Equilar 500 companies. In our 2020 Executive Long-Term Incentive Plans Report we found ROIC to be the second most commonly used metric behind relative TSR. In 2015 it was used in LTI plans for 32 percent of Equilar 500 CEOs compared to 37 percent in 2019.*

Among companies in the Equilar 100 with LTI plans we found that TSR caps are used at 19 percent of companies and 31 percent of companies with a weighted relative TSR metric. All of the caps work the same way, requiring absolute TSR to be positive before either the award or the relative TSR component can pay out above target.

“In uncertain circumstances, change in control arrangements help to keep executive talent retained and focused.”

Change in Control Benefits

Overview

In recent years, external forces have continued to advocate for more transparency and change with respect to executive compensation. As a result of the Say-on-Pay advisory vote, shareholders now have a louder voice with which to communicate their satisfaction or displeasure with the company's compensation programs. One area of executive compensation that is often embattled with criticism is change in control provisions.

Typical change in control benefits include severance payments, accelerated vesting of equity awards, enhanced retirement benefits and excise tax protection. The tables below show the average value of change in control benefits for CEOs and CFOs:

Change in Control Benefit Values for CEOs

Enterprise Value Rank	Severance	Annual Bonus	Accelerated LTI	Retirement Benefits	Excise Tax Gross-Up	Other[1]	Average Total Benefit
Top Quartile	$4,848,038	$871,791	$11,832,036	$2,012,412	$356,405	$142,982	$20,063,663
Second Quartile	$3,778,893	$814,926	$7,268,890	$571,927	$1,042,335	$201,547	$13,678,518
Third Quartile	$3,138,157	-	$2,577,413	$4,463	-	$220,808	$5,940,841
Bottom Quartile	$2,415,775	$88,667	$1,274,111	-	-	$4,716	$3,783,269
2020 – Average	$3,575,946	$459,826	$5,890,606	$672,999	$363,672	$143,703	$11,106,753
Year-Over-Year Change[2]							11%

Change in Control Benefit Values for CFOs

Enterprise Value Rank	Severance	Annual Bonus	Accelerated LTI	Retirement Benefits	Excise Tax Gross-Up	Other[1]	Average Total Benefit
Top Quartile	$1,679,742	$389,568	$3,521,761	$640,112	-	$59,285	$6,290,469
Second Quartile	$1,511,347	$348,575	$2,162,431	$189,441	-	$58,939	$4,270,731
Third Quartile	$840,547	-	$947,974	$5,449	-	$64,772	$1,858,742
Bottom Quartile	$1,027,723	$45,477	$593,976	-	-	$47,506	$1,714,681
2020 – Average	$1,281,812	$203,741	$1,840,878	$216,883	-	$57,339	$3,600,652
Year-Over-Year Change[2]							24%

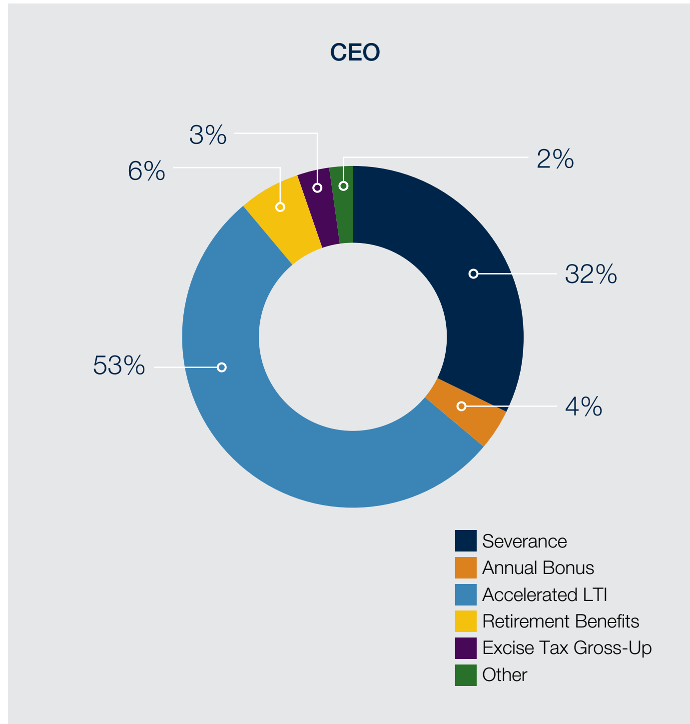
[1]Other includes health & welfare benefit continuation, outplacement services, and other benefits received in connection with a change in control.
[2]Includes only executives in both the 2020 and 2020 / 2021 studies. Represents median year-over-year change.

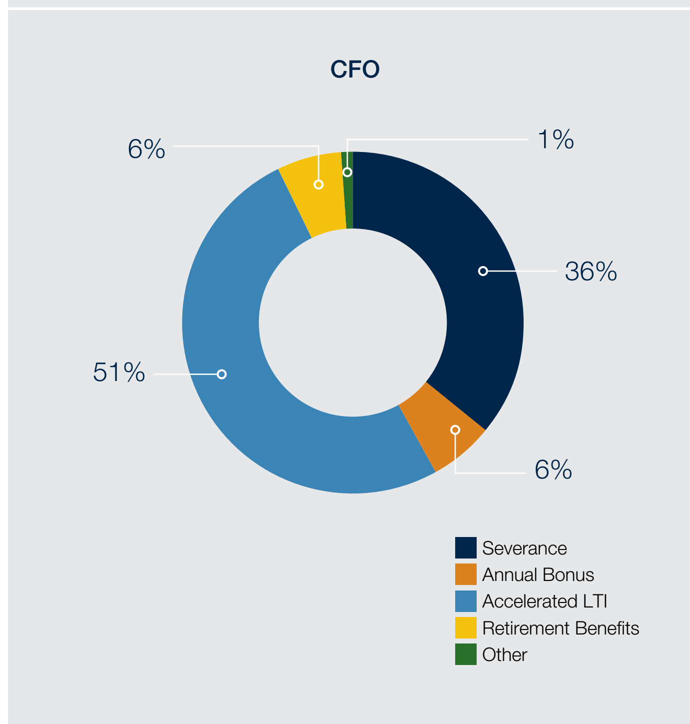
As with compensation in general, the amount of change in control benefits payable to CEOs and CFOs varies dramatically based on company size. The increase in year-over-year CIC benefits payable to CEOs and CFOs is primarily the result of improved stock prices (through the end of 2019), which in turn, has increased the values related to the accelerated vesting of LTI awards.

Change in Control Benefits

The charts to the right illustrate the average value for each type of change in control benefit for CEOs and CFOs. Severance and LTI comprise approximately 85 percent of the total value of change in control benefits for both CEOs and CFOs.

> ***"Severance and accelerated vesting of LTI comprise the most substantial portion of change in control benefits provided to executives."***





Cash Severance Payments

- Most agreements or policies with change in control protection provide for a cash severance payment.
- Severance is usually expressed as a multiple of compensation, which varies at different levels within an organization.
- The definition of compensation used to determine the severance amount varies between companies. The two most prevalent definitions of compensation for this purpose are base salary plus annual bonus and base salary only.

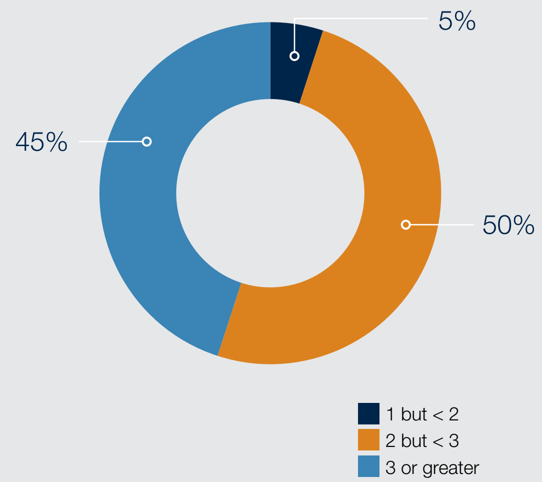
CEOs

- 77 percent of CEOs are entitled to receive a cash severance payment upon termination in connection with a change in control.
- The chart in the top right identifies the most common severance multiples provided to CEOs upon a termination in connection with a change in control.

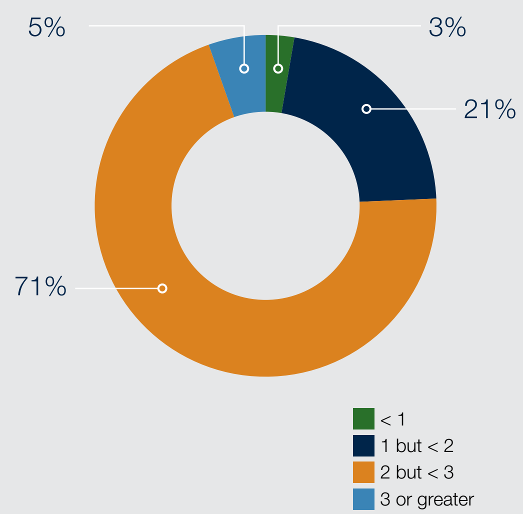
CFOs

- 76 percent of CFOs are entitled to receive a cash severance payment upon termination in connection with a change in control.
- The chart in the bottom right identifies the most common severance multiples provided to CFOs upon a termination in connection with a change in control.

Severance Multiple Prevalence - CEO



Severance Multiple Prevalence - CFO



Change in Control Benefits

Accelerated Vesting of Long-Term Incentives

There are generally three types of change in control payout triggers for equity awards:

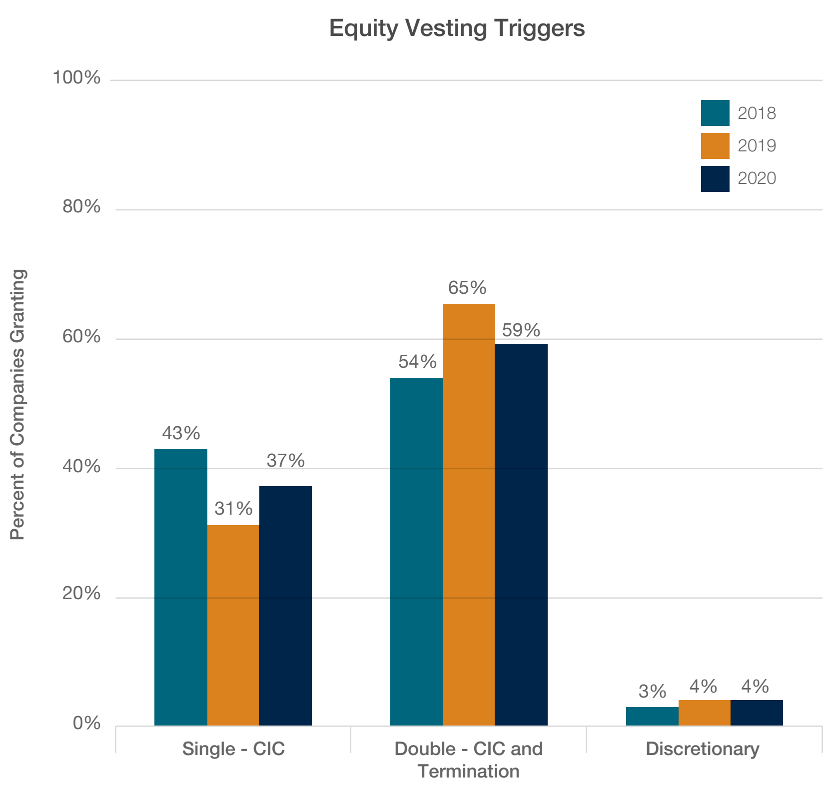
Trigger	Description
Single	Only a change in control must occur for vesting to be accelerated.
Double*	A change in control plus termination without cause or resignation for "good reason" must occur within a certain period after the change in control.
Discretionary	The board has the discretion to trigger the payout of an award after a change in control.

* Sometimes companies allow for single trigger vesting if the acquiring company does not assume the equity awards, but require double trigger vesting if the awards are assumed by the acquirer. For the purposes of this study, this treatment was included in the double trigger vesting category.

The most common trigger found in equity plans is double trigger (59 percent), while only 37 percent of companies have at least some outstanding equity awards with a single trigger. Only 4 percent of companies explicitly provide the board with discretion to accelerate the vesting of outstanding equity awards.

We have observed a general increase in the use of double trigger vesting over the years. We attribute the historic shift toward double trigger vesting to pressure from shareholders and shareholder advisory services. Accordingly, we expect the trend toward double trigger vesting to continue into the future.

The chart to the right shows the prevalence of change in control triggers for outstanding equity awards of CEOs and CFOs:



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Excise Tax Protection

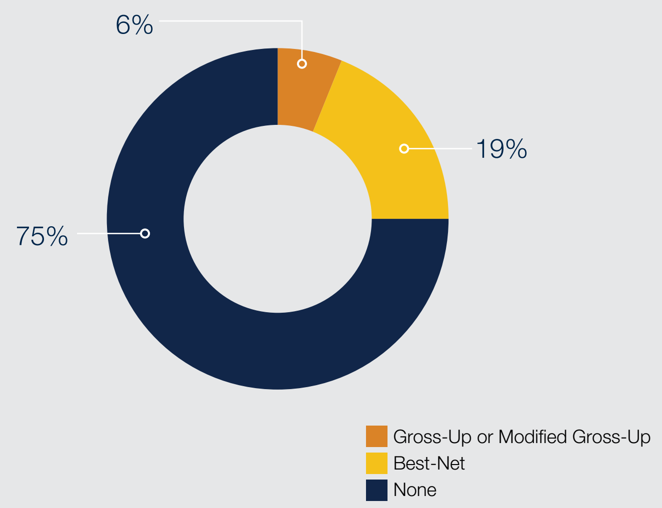
The "Golden Parachute" rules impose a 20 percent excise tax on an executive if the executive receives a parachute payment greater than his or her "safe harbor" limit. Companies may address this excise tax issue in one of the following ways:

Provision	Description
Gross-Up	The company pays the executive the full amount of any excise tax imposed. The gross-up payment thereby makes the executive "whole" on an after-tax basis. The gross-up includes applicable federal, state and local taxes resulting from the payment of the excise tax.
Modified Gross-Up	The company will gross-up the executive if the payments exceed the "safe harbor" limit by a certain amount (e.g., $50,000) or percentage (e.g., 10%). Otherwise, payments are cut back to the "safe harbor" limit to avoid any excise tax.
Cut Back	The company cuts back parachute payments to the "safe harbor" limit to avoid any excise tax.
Best-Net (Valley Provision)	The company cuts back parachute payments to the "safe harbor" limit, if it is more financially advantageous to the executive. Otherwise, the company does not adjust the payments and the executive is responsible for paying the excise tax.
None	Some companies do not address the excise tax; therefore, executives are solely responsible for the excise tax.

6 percent of companies provide a gross-up to their CEOs and CFOs (down from 9 percent in the previous year's study). A majority of companies (75 percent) do not provide any form of excise tax protection.

The prevalence of these provisions for CEOs and CFOs is illustrated in the chart to the right:

Excise Tax Protection Among CEOs and CFOs



Change in Control Benefits

Excise Tax Mitigation Concepts

Since excise tax gross-ups are becoming less common, other excise tax mitigation concepts should be explored. A reasonable compensation analysis is a commonly utilized mitigation concept, whereby a portion of the total parachute payments is attributed to reasonable compensation for services rendered either before or after the CIC. Alternatively, rather than focusing on the value of parachute payments, base amount planning can help increase an executive's safe harbor limit.

- Pre-Change in Control Reasonable Compensation – Section 280G provides that an excess parachute payment is reduced by the portion of the payment established by clear and convincing evidence to be reasonable compensation for personal services rendered before the date of the change in control.
- Post-Change in Control Reasonable Compensation – Section 280G provides that the amount treated as a parachute payment does not include the portion of a payment established by clear and convincing evidence to be reasonable compensation for personal services to be rendered on or after the date of the change in control.
  - A common payment that can be treated as post-change in control reasonable compensation is a payment for a covenant not to compete that is intended to keep an individual from competing with their employer after the change in control. An expert valuation of the covenant not to compete should be performed.
- Base Amount Planning – If it is known far enough in advance that a change in control will occur in a future calendar year, there may be an opportunity for base amount planning. It would be advantageous to include as many payments as possible in a disqualified individual's income in the calendar year prior to the calendar year including the date of the change in control. This will increase the base amount and Section 280G threshold of the disqualified individual, which can lower or completely eliminate any excess parachute payments. Limitations imposed by Section 409A should be considered when accelerating any payments.

Equilar Commentary: *Per the 2019–2020 Executive Change in Control Report, in which Equilar aided A&M, in the general industry, 94 percent of companies that currently provide a gross-up or modified gross-up state they will stop doing so in the future. However, in the report we observed gross-ups being added at the 11th hour during actual deal negotiations in 15 percent of the top 20 deals during 2019.*

“An effective mitigation concept may reduce or eliminate the risk of excise taxes and lost deductions.”

Board of Director Compensation

We captured the director compensation table data disclosed in the 2020 proxy statement for each company. Director compensation at public companies is primarily comprised of fees paid in cash (director retainers, committee retainers, meeting fees, etc.) as well as an annual equity retainer.

The following tables show the average values for each element of compensation broken out by quartile for non-employee Chair and lead directors, and the average for other directors:

Board Chair / Lead Independent Director			
Enterprise Value Rank	**Cash Fees**	**Equity Awards**	**Total Compensation**
Top Quartile Average	$156,761	$197,446	$354,208
Second Quartile Average	$139,820	$151,759	$291,579
Third Quartile Average	$99,523	$115,863	$215,386
Bottom Quartile Average	$80,875	$105,057	$185,932
2020 – Average	$121,315	$144,322	$265,638
Year-Over-Year Change[1]			-1%

Other Directors			
Enterprise Value Rank	**Cash Fees**	**Equity Awards**	**Total Compensation**
Top Quartile Average	$128,990	$164,984	$293,975
Second Quartile Average	$98,591	$126,917	$225,508
Third Quartile Average	$74,600	$94,529	$169,129
Bottom Quartile Average	$76,130	$104,666	$180,796
2020 – Average	$94,939	$123,129	$218,069
Year-Over-Year Change[1]			-1%

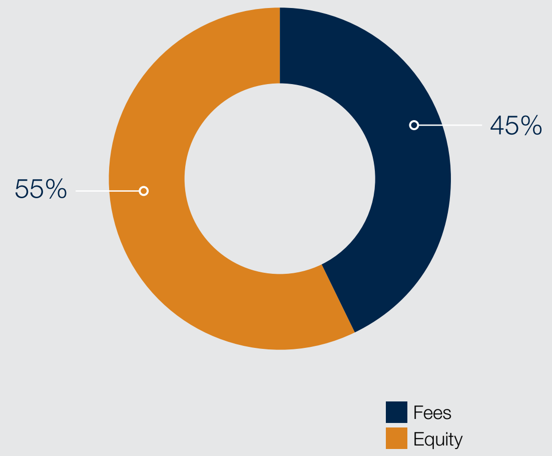
[1]Includes only companies in both the 2020 and 2020 / 2021 studies. Represents median year-over-year change.

On average, director compensation remained relatively flat year-over-year. With many of the changes that have occurred due to the challenging economic conditions in the first half of 2020, it is expected that board compensation could be more negatively affected heading into 2021.

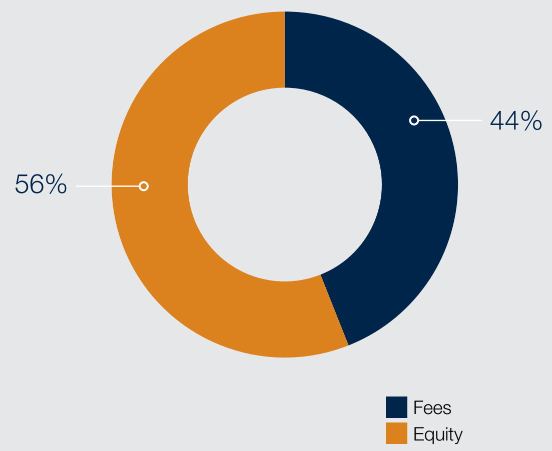
On average, equity comprises 56 percent of a director's total compensation package. The charts to the right show the proportion of compensation delivered in cash fees (board retainers, committee retainers, meeting fees, etc.) and equity for the Chair / lead director and the other directors, respectively.

Equilar Commentary: *General industry director compensation has seen modest increases in board and committee retainers over the last five years, with the growth in equity retainers slightly outpacing the growth in cash retainers, and meeting fees continuing to decline in prevalence. For companies that have implemented COVID-19 related salary reductions, a majority have also implemented director pay reductions, most commonly impacting the cash retainer in the same percentage as the CEO's salary reduction. The reductions are typically expected to last anywhere from 3 to 12 months and generally range from 20 to 30 percent. For companies that made equity grants during the most affected period in the stock market (March and April), many companies chose to mitigate the dilution that would have occurred by referencing an older and higher stock price for determining the grant size.*

Board Chair / Lead Independent Director Total Compensation



Other Directors Total Compensation



Compensation in Distressed Times

Distressed Companies

The current economic environment presents significant challenges to companies from an executive compensation standpoint. While many companies will survive the downturn, for others, it will push them into a restructuring and perhaps into bankruptcy. Even for companies that survive, the current environment will make it difficult to motivate and retain their best executive talent.

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.

Some items that should be considered in distressed times are listed in the chart below.

Annual Incentives	Long-Term Incentives	Retention Awards
▪ Adjust existing incentive metrics to reflect new financial realities to ensure that employees are still motivated to the desired behavior. ▪ Evaluate whether different metrics should be used given the downturn (i.e., more focus on cost reduction efforts, strategic initiatives, etc.). ▪ Consider modifying payment timing from annual to quarterly. ▪ Review the scope of discretion of the Compensation Committee.	▪ Due to depressed share prices, convert long-term incentives to cash-based grants. ▪ Collapse long-term incentive program into the annual incentive program. ▪ Performance period may be adjusted to enhance short-term focus (i.e., instead of an award cliff vesting after three years, consider having three, one-year performance periods). ▪ Consider adjustments to the size of equity awards, but do not forget to factor in the impact on share reserves and burn rates. ▪ Consider less formulaic performance measures and/or relative performance measures, instead of absolute.	▪ Implement retention awards to ensure key employees remain with the company during uncertain times. ▪ The time period for which services must be performed to receive the bonus is typically at least six months, but is sometimes multiple years depending on the company's circumstances. ▪ Payments can be made in installments or in a lump sum. ▪ Amounts are typically paid at the end of the relevant retention period, but may be paid on the front end with a clawback in certain circumstances.

Bankruptcy

If a balance sheet restructuring or bankruptcy filing is on the horizon, there are certain immediate changes to the compensation plans that should be considered to motivate and retain key talent. The company's equity will generally become worthless in the event of a bankruptcy filing. Thus, a common approach is to collapse the AIP and LTI programs into a single cash-based incentive program that pays out over shorter measurement periods based on achieving established performance metrics.

For "non-insiders," companies often utilize Key Employee Retention Plans (KERPs), which pay out retention bonuses based on the employees remaining employed through a certain date. The Bankruptcy Code greatly restricts a debtor's ability to include "insiders" in a KERP. Therefore, many companies implement key employee incentive plans (KEIPs) for insiders — performance-based plans that are essentially designed to fall outside of the Bankruptcy Code's restrictions on the use of KERPs.

Bankruptcy Performance Metrics

In the event of a bankruptcy filing, AIP / KEIP performance metrics must be carefully chosen and structured to be sufficiently challenging. The metrics should also coincide with the company's business plan or objectives. The amount of potential payout is also a consideration, as it should be sufficiently motivating, but should be reasonable when compared to other similar payments made in bankruptcy.

Equilar Commentary:
A recent analysis compiled by Equilar noted an uptick in corporate bankruptcy filings, in particular in the energy sector, since the beginning of shelter-in-place orders in March 2020. Bankruptcy compensation is designed to incentivize performance and retain executives through the petition process until its conclusion, whether that is a sale of the company, a liquidation of assets or a debt restructuring that leaves the company intact with new ownership. In the new pandemic era of executive compensation, companies may be subject to more scrutiny than ever before, particularly when employee layoffs and zeroed out shareholders are in close proximity to large retention / incentive awards and emergence equity grants that typically catch media attention. With that said, companies that hope to remain intact have to face the reality of executive retention at a critical time.

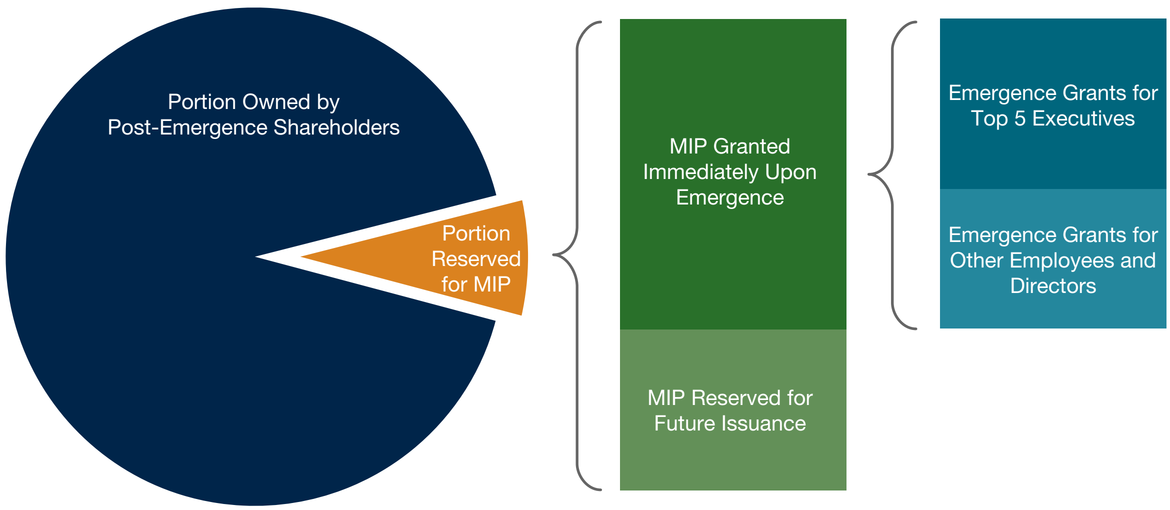
Compensation During Recovery

Post-Emergence Incentive and Retention

When emerging from bankruptcy equity awards held by employees pre-bankruptcy generally have no value. Lack of meaningful equity ownership in the go-forward entity, coupled with an uncertain company future, lead to difficulties retaining and motivating key executives post-emergence. Consequently, 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.

Some key decision points include the type of equity vehicle(s) to utilize as well as the amounts as illustrated in the chart below.

Post-Emergence Equity Value of Company



Initial Public Offering

The market for IPOs has significantly softened in 2019 and into 2020; however, we may see the number of IPOs increase as commodity prices improve. Preparing for an IPO involves many different facets of an organization's business including legal, regulatory, financial, and operational considerations. Public companies face additional regulations and greater disclosure requirements than private companies, particularly regarding the transparency of a company's executive compensation programs. Because of the additional requirements, executive compensation has become a relatively complex aspect of preparing for an IPO.

However, by forming an IPO roadmap, a company can ensure that its executive compensation programs and policies are:

- Competitive with the market;
- Within industry norms;
- Compliant with various governance requirements; and
- Aligned with executive and shareholder interests.

Companies Analyzed

Archrock, Inc.
Baker Hughes Company
Basic Energy Services, Inc.
Cactus, Inc.
ChampionX Corporation**
Core Laboratories N.V.
CSI Compressco LP
Diamond Offshore Drilling, Inc.
DMC Global, Inc.*
Dril-Quip, Inc.
Enerpac Tool Group Corp.**
Exterran Corporation
Forum Energy Technologies, Inc.
Frank's International N.V.
FTS International, Inc.
Halliburton Company
Helix Energy Solutions Group, Inc.
Helmerich & Payne, Inc.
Independence Contract Drilling, Inc.
ION Geophysical Corporation
Key Energy Services, Inc.
KLX Energy Services Holdings, Inc.*
Liberty Oilfield Services Inc.
Mammoth Energy Services, Inc.
Nabors Industries Ltd.
National Energy Services Reunited Corp.*
National Oilwell Varco, Inc.
Newpark Resources, Inc.
NexTier Oilfield Solutions Inc.**
Nine Energy Service, Inc.
Noble Corporation plc
NOW Inc.*
Oceaneering International, Inc.
Oil States International, Inc.
Pacific Drilling S.A.*
Parker Drilling Company*
Patterson-UTI Energy, Inc.
Ranger Energy Services, Inc.
RPC, Inc.
Schlumberger Limited
Select Energy Services, Inc.
Solaris Oilfield Infrastructure, Inc.*
Superior Energy Services, Inc.
TechnipFMC plc*
TETRA Technologies, Inc.
Tidewater Inc.*
Transocean Ltd.
U.S. Well Services, Inc.
Unit Corporation
USA Compression Partners, LP
Valaris plc**
Weatherford International plc

*Companies added to 2020 / 2021 OFS study.

**Companies formerly in OFS study, but renamed.

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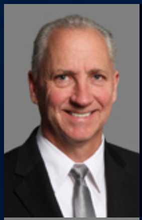
  - Executive compensation design
  - Golden parachute analysis (Section 280G)
  - Due diligence of welfare / pension considerations
  - Severance / retention planning

BANKRUPTCY

- Bankruptcy-related compensation, including:
  - Design of key employee incentive plans, retention plans and severance plans
  - Expert witness testimony
  - Post-emergence management incentive plans

CONTACT



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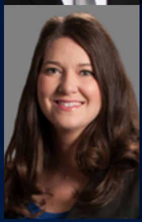

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ACKNOWLEDGMENTS

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