



FTI Consulting Compensation Study Finds Homebuilders' Commitment to Pay-for-Performance Continues to Be Strong

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Challenges Exist in Developing Compensation Programs for Both Up and Down Markets

WASHINGTON, Sept. 19, 2017 (GLOBE NEWSWIRE) -- [FTI Consulting, Inc.](#) (NYSE:FCN) has reported that the structure of executive compensation programs at publicly traded homebuilders continues to be predominantly formulaic and contingent on the achievement of hitting profitability targets. These key findings were revealed in the firm's [2017 Homebuilders Annual and Long-Term Incentive Practices](#) study, which focuses on the pay practices at the nation's 20 publicly traded homebuilders.

Conducted by the [Executive Compensation & Corporate Governance practice](#) at FTI Consulting, the study details compensation structures and provides meaningful insight and commentary into recent homebuilder compensation market trends.

Among the key findings, the study revealed that many homebuilders' compensation committees and management teams have worked to balance their compensation structures by incorporating more financial measures in their annual cash bonus program and performance shares, generally using a profitability metric plus one or two additional key measures. In addition, most homebuilders use two equity vehicles in their Long-Term Incentive ("LTI") programs to balance retention by incorporating time-vested shares and motivation by incorporating performance shares.

"All publicly traded homebuilders received majority shareholder support on 2017 say-on-pay proposals, which is a testament to the pay-for-performance alignment in the industry," said [Katie Gaynor](#), Co-Leader of the Executive Compensation & Corporate Governance practice at FTI Consulting. "Stock prices in the homebuilder industry are up approximately 25 percent in 2017 based on strong fundamentals and a positive industry outlook overall, which always lends itself to strong say-on-pay results and less-complicated discussions in the boardroom around compensation. The challenge is always designing a compensation program that works not only in an up market, but one that will also be effective in retaining, rewarding and motivating key employees during a down market, something that is inevitable given the cyclical nature of the homebuilding industry."

Annual incentive plans (e.g., cash bonus plans) at homebuilders are continuing the trend of being more formulaic based on two to four key measures. In 2016, 30 percent of annual incentive plans incorporated a discretionary or subjective component.

[Larry Portal](#), Co-Leader of the Executive Compensation & Corporate Governance practice, noted that, "Compensation committees are more sensitive to the degree to which discretion is appropriate in annual incentive plans. Setting pre-determined financial measures, while sometimes difficult to forecast, provides a clear link to compensation amounts, to which shareholders have reacted positively. Companies are aiming to balance excessive risk-taking by using fewer metrics and focusing management on critical business objectives."

Additional key findings of the *2017 Homebuilders Annual and Long-Term Incentive Practices* study include:

- 95 percent of homebuilders include a formulaic component as part of the annual incentive plan, with a pre-tax income or earnings before interest, taxes, depreciation and amortization ("EBITDA") metric being used by all homebuilders with a formulaic component.
- The majority of homebuilders (75 percent) have clearly stated target bonus opportunities, with the median target bonus for CEOs at 150 percent of base salary.
- Performance shares with a three-year performance period are the most common equity compensation vehicle, followed closely by time-vested restricted stock.
- While total shareholder return ("TSR") has been the long-term performance metric of choice for homebuilders and proxy advisory firms for many years, operational metrics, particularly a profit metric such as pre-tax income or earnings per share ("EPS"), are becoming more prevalent.

About the *2017 Homebuilders Annual and Long-Term Incentive Practices* Study

In September 2017, FTI Consulting reviewed and analyzed compensation-related disclosure in the 2017 proxy statements for the 20 publicly traded homebuilders. The study focuses on the design and structure of annual incentive plans (or cash bonuses) and long-term equity incentives used by homebuilders based on the most forward-looking information available.

About FTI Consulting

FTI Consulting, Inc. is a global business advisory firm dedicated to helping organizations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. With more than 4,600 employees located in 28 countries, FTI Consulting professionals work closely with clients to anticipate, illuminate and overcome complex business challenges and make the most of opportunities. The Company generated \$1.81 billion in revenues during fiscal year 2016. For more information, visit www.fticonsulting.com and connect with us on [Twitter \(@FTIConsulting\)](#), [Facebook](#) and [LinkedIn](#).

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