FTI CONSULTING

DECEMBER 2017

2017 EXECUTIVE COMPENSATION REPORT: HOSPITALITY INDUSTRY ANNUAL AND LONG-TERM INCENTIVE PRACTICES

ANNUAL AND LONG-TERM INCENTIVE PRACTICES FOR EXECUTIVES IN THE HOSPITALITY INDUSTRY

EXPERTS WITH IMPACT ™

Table of Contents

Methodology

The FTI Consulting, Inc. Hospitality Industry Annual and Long-Term Incentive report provides a summary of annual incentive plan (AIP) and long-term incentive (LTI) compensation practices at publicly-traded hospitality companies. Any reference in this report to "hospitality companies" only denotes the 50 publicly traded hospitality companies included in this study.

The following information is based on our extensive review and analysis of compensation-related disclosure obtained through public documents filed with the Securities and Exchange Commission. FTI Consulting has specifically analyzed the most forward-looking annual and long-term incentive information disclosed within the most-recently filed proxy statements. Our goal is to provide the most timely and accurate information available for a more in-depth understanding of the AIP and LTI vehicles used in the hospitality industry.

The 50 publicly traded hospitality companies were determined based on December 31, 2016 total revenue and their scope of operations in the hospitality industry (e.g., hotels, resorts, gaming, cruise lines and leisure facilities).

Executive Summary and Key Findings

Key findings from our study include:

Annual Incentive Plans

- The majority of hospitality companies (90%) include a formulaic component as part of the AIP, with payouts determined based on pre-established goals. Only four companies (8%) use a completely discretionary plan.
- Most hospitality companies (73%) with a formulaic AIP component use two or more metrics to measure performance.
- Absolute profitability measures (excluding profit per share measures) are the most prevalent AIP performance metric, used by 73% of the hospitality companies with a formulaic AIP component.
- Payout leverage is almost universally used by hospitality companies in their AIP; 88% of companies with payout leverage set the maximum payout as a percent of target bonus within a range of 150% to 200%.

Long-Term Incentive Plans

- The majority of hospitality companies (96%) grant equity compensation to their executive officers.
- Time-vested shares are the most commonly utilized LTI vehicle, with 92% of hospitality companies granting such awards.
- Hospitality companies generally implement a balanced LTI program with the majority of companies utilizing a combination of two or more LTI vehicles.
- A significant number of hospitality companies utilize performance shares, with 80% granting such awards.
- Time-based vesting periods are generally three years for time-vested shares, while stock options/stock appreciation rights typically use a four- year vesting period. Ratable vesting of each vehicle is typical practice.
- Three years is by far the most prevalent performance period in the hospitality industry, used by 90% of the companies and generally represents a cumulative (or aggregate) three-year period.
- Total shareholder return (TSR) is the most prevalent performance metric and is utilized by 64% of hospitality companies.
- Nearly all hospitality companies (97%) structure payout leverage into the design of performance-based equity, 54% of companies set the maximum payout as a percent of target at 200%.

Annual Incentive Plan Design Features

All of the publicly-traded hospitality companies included in the study utilized an annual incentive plan to reward and motivate their executives. The following section highlights the key design features of these plans.

Description of Annual Incentive Plan Types

Formulaic Plans: Formulaic plans consist exclusively of corporate performance metrics, (i.e., Pre-tax Income, EBITDA, Return Metrics, etc.). Such plans do not incorporate any discretionary or subjective components.

Formulaic with a Subjective Component: Formulaic plans with a subjective component are similar to a traditional formulaic plan; however, a portion of the bonus is discretionary and tied to a subjective evaluation. For example, 75% allocation based on formulaic corporate metrics and 25% based on subjective metrics was the most prevalent allocation.

Formulaic Bonus Pool: In general, a formulaic bonus pool is designed as a company-wide bonus pool that is calculated using a pre-determined formula (often based on a set percentage of pre-tax income, EBITDA, etc.). Allocations of the bonus pool often are determined on a discretionary basis.

Discretionary Plans: Discretionary plans are based on the discretion of the Compensation Committee of the Board. Some discretionary plans specify certain corporate metrics that influence the discretionary payout; however, the bonus is not tied to specific performance hurdles, but rather, a subjective evaluation. Additionally, a subjective evaluation can be made based on non-disclosed factors or individual executive performance.

A detailed summary of AIP plan types utilized by the hospitality companies is shown below.

Plan Type	% of Companies
Formulaic	36%
Formulaic with a Subjective Component	54%
Formulaic Bonus Pool	2%
Discretionary	8%

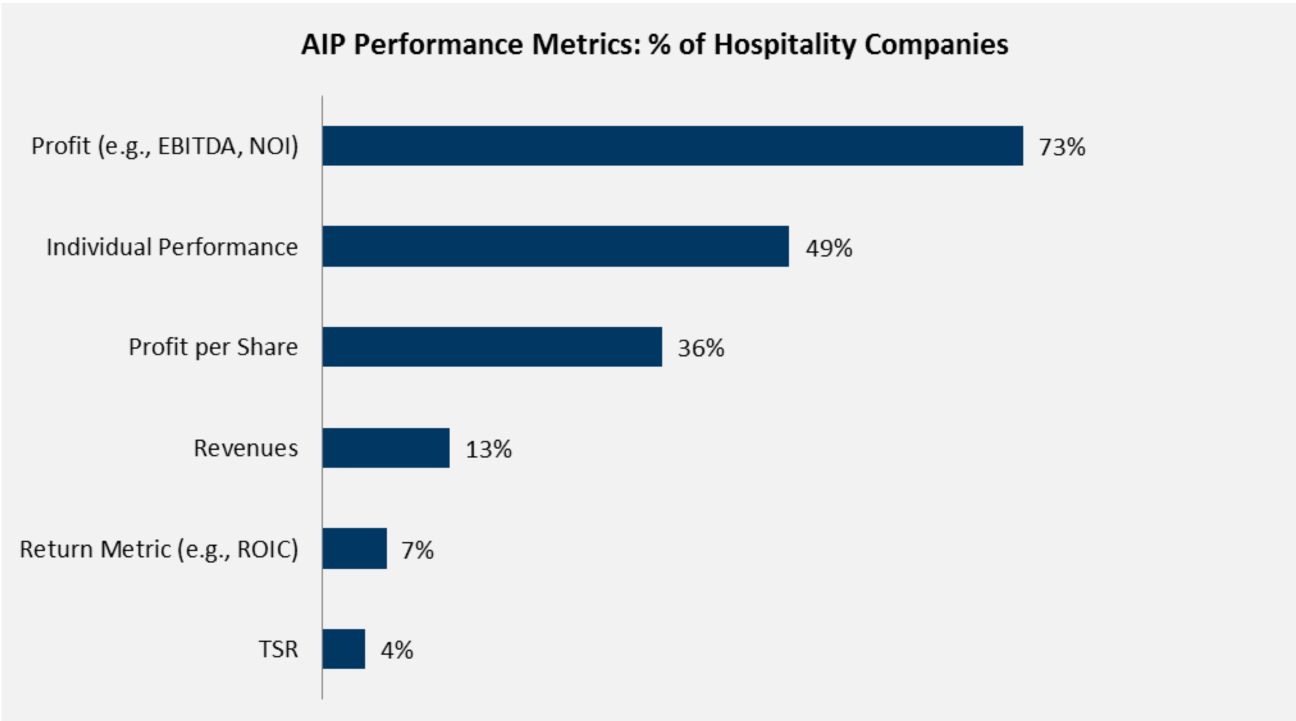
Number of AIP Performance Metrics

Most hospitality companies use multiple metrics to measure performance, with 73% using two or more metrics. The most common approach is to use three metrics (29%), though a significant number of companies (27%) also have elected to use a single metric in their AIP.

Number of Metrics	% of Companies
1	27%
2	22%
3	29%
4+	22%

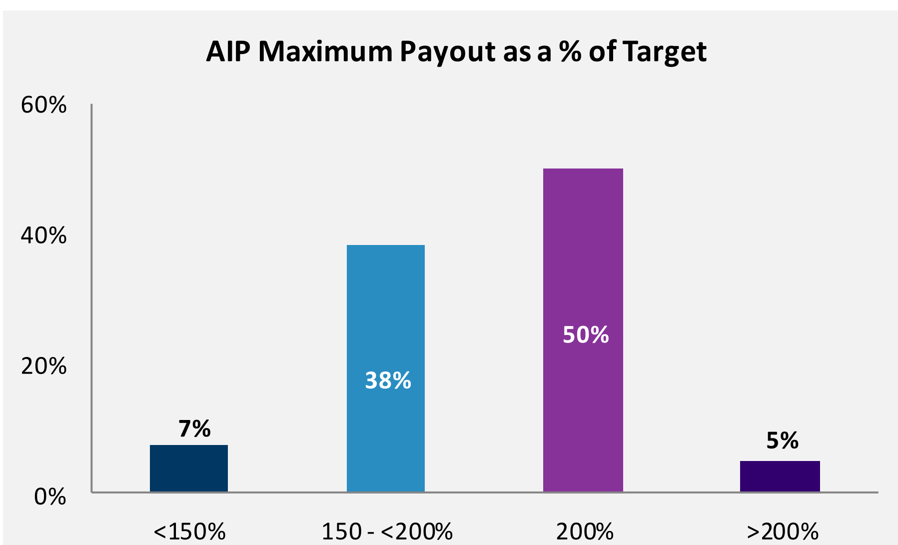
Types of Performance Metrics

Absolute profitability measures (including EBITDA, Net/Operating Income, Pre-tax Income, etc.) are the most common AIP performance metrics, with 73% of companies utilizing them in their AIP. Individual performance is also a significant factor in setting AIP payouts and is used by 49% of hospitality companies. The most commonly used AIP performance metrics for hospitality companies include the following:



Payout Leverage

The majority of hospitality companies (96%) have clearly stated target bonus opportunities, with the median target bonus for CEOs at 135% of base salary. Among those with stated threshold and maximum leverages, the majority (50%) set the maximum payout at 200% of the target payout. A detailed illustration is depicted in the graph below.



Long-Term Incentive Vehicles and Utilization

Description of Long-Term Incentive Vehicles

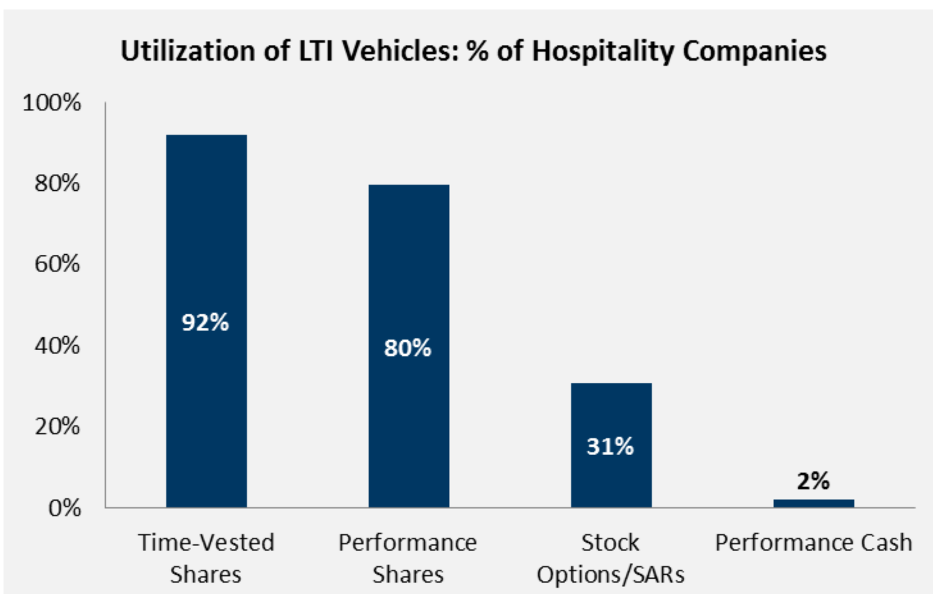
Stock Options/Stock Appreciation Rights (SARs): Represents the right to purchase shares of company stock at a specified price (generally the stock price on the grant date) over a specific period of time (Stock Options) or the right to receive the increase in stock price between the grant date and exercise date (SARs). Dividends or dividend equivalents are generally **not** granted in conjunction with stock options/SARs.

Time-Vested Shares: Grant of an actual share of stock or "unit" that is subject to restrictions and risk of forfeiture until vested over a specified period of time. Time-vested shares are generally entitled to receive dividends or dividend equivalents during the vesting period.

Performance Shares: Represents shares or units of stock that may be earned based on the achievement of specified performance hurdles over a pre-determined time period (performance period or measurement period). Any shares that are not earned are forfeited by the recipient. Performance shares are generally **not** entitled to receive dividend or dividend equivalents during the performance period: rather dividends would accrue during the performance period and would be issued on any earned performance shares.

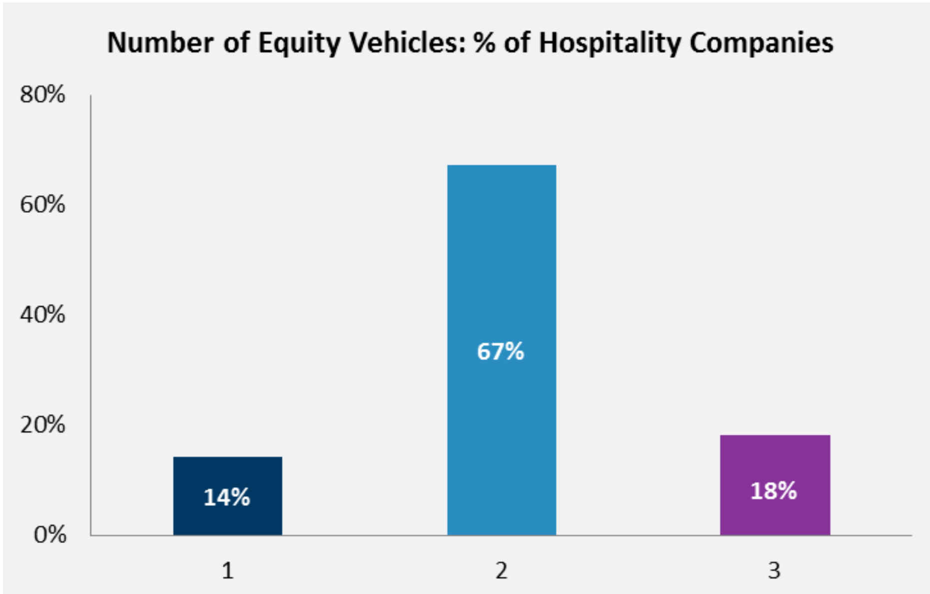
Utilization by Long-Term Incentive Vehicle

Time-vested shares are the most predominant LTI vehicle in the hospitality industry as they help mitigate retention concerns and provide shoulder-to-shoulder alignment between management and shareholders, as management is then subject to the same fluctuations in the company's stock. Performance shares are also popular and are indicative of the focus on a pay-for-performance philosophy. Additionally, the utilization of a performance-based equity element is preferred by investors and proxy advisory groups. Stock options/SARs are less prevalent, with a usage rate of 31%.



Number of Long-Term Incentive Vehicles Granted

The majority (67%) of hospitality companies employ a balanced LTI approach that includes two equity vehicles in their LTI program. Eighteen percent of companies have elected to use all three LTI vehicles while a minority (14%) use only one LTI vehicle. Only two of the 50 hospitality companies included in this study did not grant any LTI compensation.



Time-Vested Long-Term Incentives

Vesting Period

Three years is the most common vesting period for time-vested shares in the hospitality industry at 58%, while stock options/SARs generally have a longer vesting period with 57% utilizing four years and 7% at five years or more. The detailed summary is shown in the chart below.

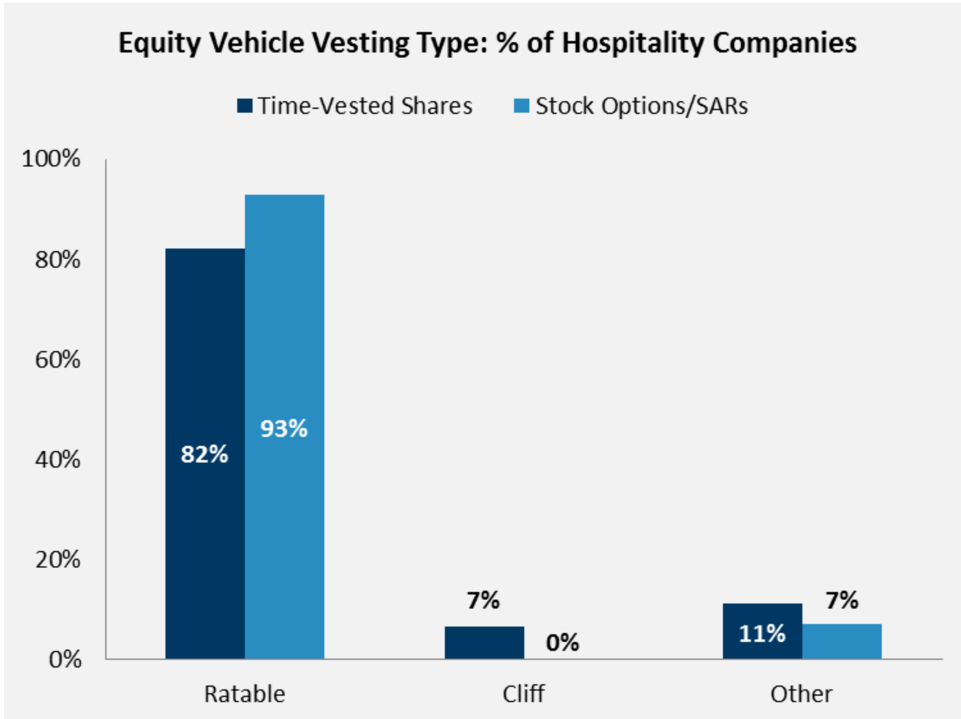
Vehicle Type	Immediate	2 Years	3 Years	4 Years	5 Years or More
Time-Vested Shares	4%	2%	58%	36%	0%
Stock Options/SARs	0%	0%	36%	57%	7%

Vesting Type

Time-vested shares and stock options/SARs generally vest using one of the following schedules:

- Ratable: Vest in equal tranches over a set number of years;
- Cliff: All shares or units vest 100% at the end of the vesting period, or
- Other: Shares or units may vest using an uneven vesting schedule (e.g., 25% in year one, 25% in year two and 50% in year three).

Ratable vesting schedules are the most predominant in the hospitality industry. A detailed summary of the percent of hospitality companies using each LTI vesting type is shown in the graph below.



Performance Shares

Performance Period

Three years is the most common performance (or measurement) period in the hospitality industry.

Performance Period	1 Year or Less	2 Years	3 Years	4 Years or More
% of Hospitality Companies	4%	3%	90%	3%

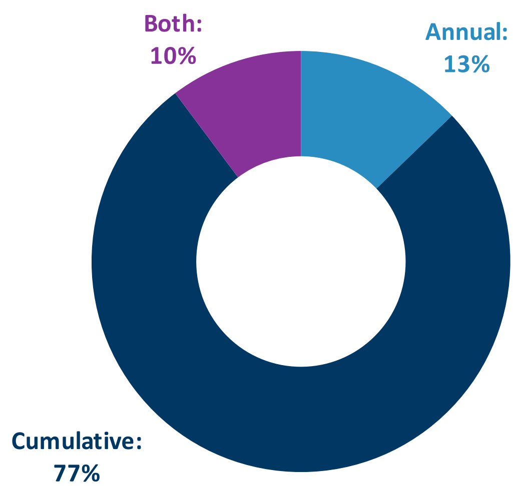
Vesting Tail Following the Performance Period

The vast majority (85%) of hospitality companies grant performance shares without a vesting tail (or additional time-based vesting requirement) after the performance period.

Vesting Tail (Years)	None	1 Year	2 Years
% of Hospitality Companies	85%	5%	10%

Annual and Cumulative Performance Periods

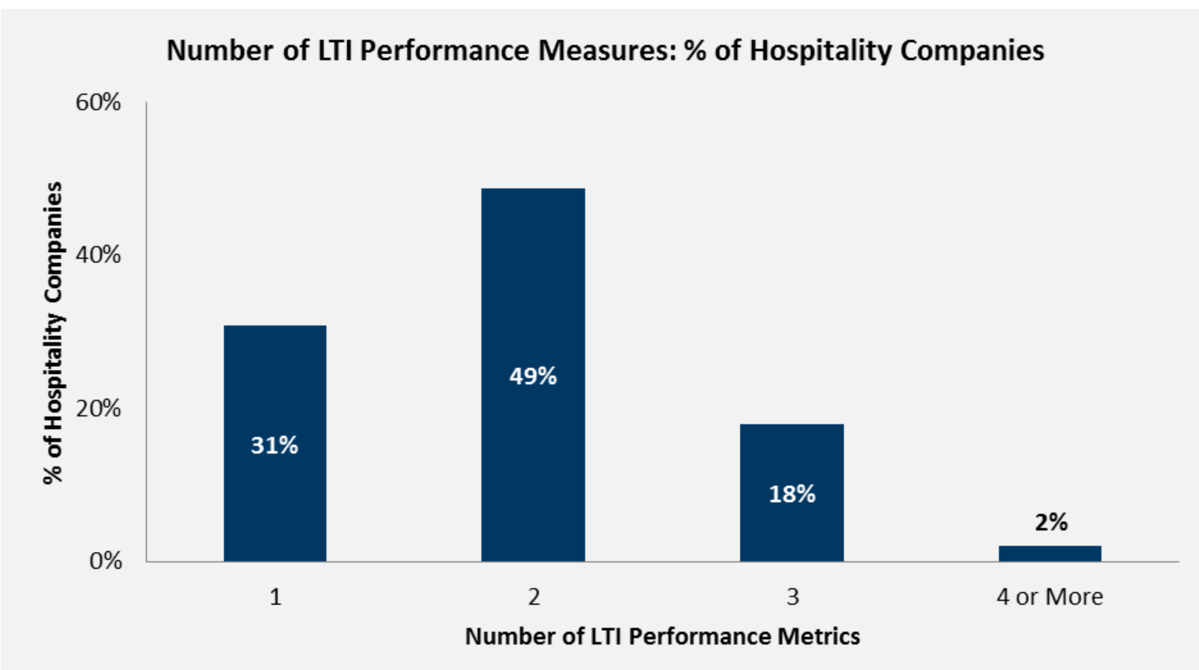
The majority of hospitality companies (77%) utilized a cumulative performance period exclusively, while another 10% combined the annual and cumulative evaluation methods (i.e., cumulative performance period for certain metrics, annual performance period for others). This is likely the result of the increasing influence of proxy advisory firms that have a stated preference for longer performance periods.



Performance Metrics

Number of LTI Performance Metrics

The majority of the hospitality industry (69%) uses two or more metrics to determine if performance shares have been earned. It has become the preference of proxy advisory firms (Glass Lewis, in particular) to use more than one performance metric.



Types of Performance Metrics

Total Shareholder Return (TSR) is the predominant performance metric as a result of the following:

- Provides for fixed equity accounting under ASC 718.
- Directly links management compensation with shareholders' interest.
- Is more easily explained and justified to investors and proxy advisory firms.

Notwithstanding the fact that TSR is heavily utilized, operational metrics, particularly profitability metrics such as EBITDA, EPS, etc., are becoming more prevalent. Operational performance shares provide a more direct line-of-sight for management between company results and payouts.

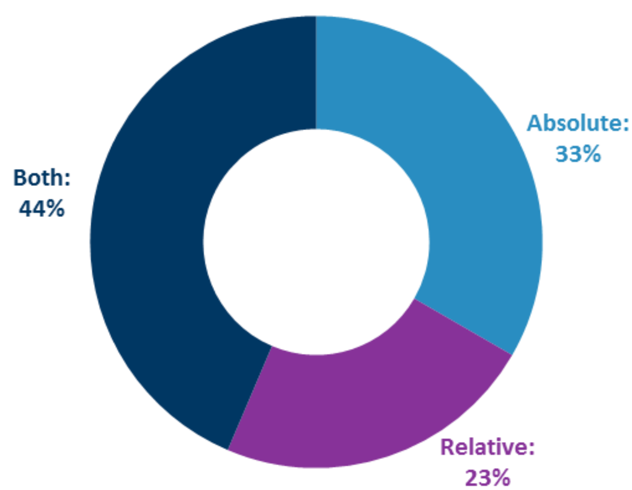
A detailed summary of the LTI performance metrics utilized is as follows:

Performance Measure	% of Hospitality Companies*
TSR (Total Shareholder Return)	64%
Profit (EBITDA, EPS, etc.)	51%
Capital Efficiency (Return on Asset/Equity/Invested Capital)	18%
Revenue	10%
Others	10%

*Most hospitality companies use more than one performance metric.

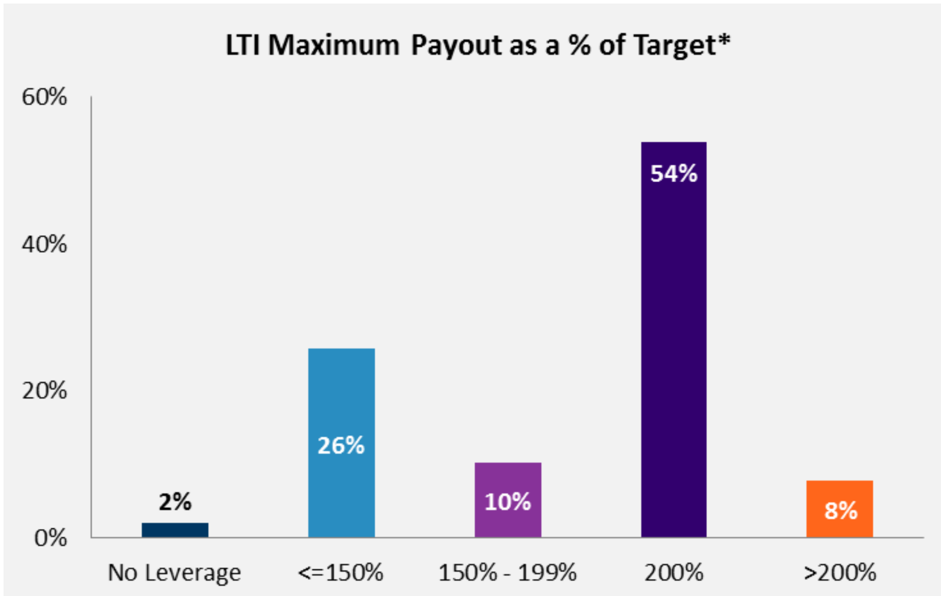
Absolute or Relative Performance Hurdles

Performance metrics may be based on an absolute hurdle, a relative hurdle or a combination of both. The majority of hospitality companies (44%) use a combination of absolute and relative performance metrics, while another 33% use absolute measures alone. This reflects the focus on the utilization of operational metrics, which are more likely to be measured based on an absolute goal. A detailed summary of the percent of hospitality companies using absolute or relative performance hurdles is shown in the graph below.



Performance Share Payout Leverage

The majority of hospitality companies award between 0% and 50% of target performance shares at the threshold level. Maximum awards are primarily paid out at 200% of target as seen below. Typically, hospitality companies that award performance shares utilize linear interpolation for payout measurement between performance points.



*All target payouts have been normalized to 100%.

Relative Performance Benchmarks

A majority of hospitality companies (67%) use performance shares that are earned based upon the achievement of pre-determined relative benchmarks as follows:

- Most hospitality companies (41%) utilize a select group of companies in the hospitality sector as direct comparators, while another almost equally as sizeable group of companies (37%) use the executive compensation peer group.
- Among companies utilizing a Broad Index, the Russell 2000 and the NAREIT Index are used most often.

A detailed summary is shown in the chart below:

Relative Benchmark*	% of Hospitality Companies
Industry Specific Peer Group	41%
Executive Compensation Peer Group	37%
Broad Index Peer Group	22%

*Some plans include more than one performance metric.

Post-Vesting Holding Periods

Over the past couple of years, there has been a marked increase in the number of companies that incorporate a post-vesting holding period (or no-sell provision) that restricts an individual from selling stock awards after the vesting period has elapsed (generally for an additional one to three years). Many companies adopt post-vesting holding periods in consideration of the following factors:

- Proxy advisory firms (such as Institutional Shareholder Services (ISS) have clearly illustrated that the mandatory holding periods are a form of good compensation governance;
- Provides a mechanism for the recoupment of incentive-based compensation if a clawback policy ever needed to be enforced, and
- One of the biggest benefits is that such provisions often result in a 5% to 20% accounting discount under ASC 718. This discount results in a reduction in stock-based compensation expense for the financial statements, as well as reduces the compensation value that will be reported in the Summary Compensation Table and Grants of Plan-Based Awards Table in the annual proxy statement.

Generally, such provisions only apply to restricted shares or performance shares granted to executive officers and in many cases are limited to only the CEO. One of the factors often overlooked in adopting post-vesting holding periods is the tax considerations. Restricted shares are taxed upon vesting (notwithstanding if an 83(b) election was made), while restricted stock units are subject to income tax when the award is distributed (although FICA/FUTA taxes are still due upon vesting). Thus, it is often appropriate to permit individuals to sell stock to cover taxes and only subject the post-tax shares to the additional holding period.

Hospitality Companies Included in the Study

- Apple Hospitality REIT, Inc.
- Boyd Gaming Corporation
- Caesars Entertainment Corporation
- Carnival Corporation
- Century Casinos, Inc.
- Chatham Lodging Trust
- Chesapeake Lodging Trust
- Choice Hotels International, Inc.
- Churchill Downs Incorporated
- ClubCorp Holdings, Inc.
- DiamondRock Hospitality Company
- Eldorado Resorts, Inc.
- EPR Properties
- Extended Stay America, Inc.
- FelCor Lodging Trust Incorporated
- Gaming and Leisure Properties, Inc.
- Hersha Hospitality Trust
- Hilton Grand Vacations Inc.
- Hilton Worldwide Holdings Inc.
- Host Hotels & Resorts, Inc.
- Hyatt Hotels Corporation
- ILG, Inc.
- Intrawest Resorts Holdings, Inc.
- La Quinta Holdings Inc.
- Las Vegas Sands Corp.
- LaSalle Hotel Properties
- Lindblad Expeditions Holdings, Inc.
- Marriott International, Inc.
- Marriott Vacations Worldwide Corporation
- MGM Growth Properties
- MGM Resorts International
- Norwegian Cruise Line Holdings Ltd.
- Park Hotels & Resorts Inc.
- Peak Resorts, Inc.
- Pebblebrook Hotel Trust
- Penn National Gaming, Inc.
- Pinnacle Entertainment, Inc.
- Red Lion Hotels Corporation
- Red Rock Resorts, Inc.
- RLJ Lodging Trust
- Royal Caribbean Cruises Ltd.
- Ryman Hospitality Properties, Inc.
- Summit Hotel Properties, Inc.
- Sunstone Hotel Investors, Inc.
- The Marcus Corporation
- Tropicana Entertainment Inc.
- Vail Resorts, Inc.
- Wyndham Worldwide Corporation
- Wynn Resorts, Limited
- Xenia Hotels & Resorts, Inc.

About FTI Consulting Executive Compensation and Corporate Governance Solutions

FTI Consulting Executive Compensation and Corporate Governance Solutions provides objective advice to design and implement a comprehensive executive compensation program that attracts and retains top talent that effectively rewards and motivates management and employees for the right kind of performance. This results in closely aligning the interests of employees with those of the company's shareholders and investors. Our dedicated team has practical hands-on experience partnering with compensation committees and management teams to design custom-tailored compensation programs around the key drivers and unique dynamics of each client. We serve as the compensation consultants and corporate governance advisors to both public and private companies on a range of compensation and corporate governance related matters, including:

Executive Compensation and Corporate Governance Solutions	
Compensation Plan Design and Implementation Services	Corporate Governance Services
• Annual compensation program and peer group review • Annual bonus program design • Long-term compensation program design • Employment agreement review and analyses • Proxy drafting and shareholder outreach support • Equity incentive plan review and upsizing • Compensation tax and accounting consulting services	• Corporate governance policy review • Compensation-related risk assessments • Board and executive performance evaluations • Succession planning guidance

The views expressed herein are those of the authors and are not necessarily the views of FTI Consulting, Inc., its management, its subsidiaries, affiliates or other professionals.

FTI Consulting, Inc., including its subsidiaries and affiliates, is a consulting firm and is not a certified public accounting firm or a law firm.

Larry Portal
973-852-8147
larry.portal@fticonsulting.com

Katie Gaynor
704-972-4145
katie.gaynor@fticonsulting.com

Jarret Sues
973-852-8109
jarret.sues@fticonsulting.com