JANUARY 2017

2016 EXECUTIVE COMPENSATION REPORT

RETAIL INDUSTRY ANNUAL AND LONG-TERM INCENTIVE PRACTICES

ANNUAL AND LONG-TERM INCENTIVE PRACTICES FOR
EXECUTIVES AT THE TOP 30 MULTILINE AND SPECIALTY RETAILERS

EXPERTS WITH IMPACT

Table of Contents

Methodology

The FTI Consulting, Inc. Retail Industry Annual and Long-Term Incentive report provides an overview of annual incentive plan ("AIP") and long-term incentive ("LTI") compensation practices at the top 30 multiline and specialty retailers. We believe that the top 30 multiline and specialty retailers provide the best insight into current and emerging compensation trends in the broader retail industry, and accordingly, our report concentrates on these companies. Any reference in this report to "retailer(s)" only denotes the top 30 multiline and specialty retailers included in the study, with "multiline" retailers defined as owners and operators of department stores and stores offering diversified general merchandise (excluding hypermarkets and large-scale super centers, which excludes Wal-Mart) and "specialty" retailers defined as owners and operators of apparel retail, computer & electronic retail, home improvement retail, automotive retail, specialty, and homefurnishing stores, which excludes online retailers. The top 30 multiline and specialty retailers were determined based on December 31, 2015 enterprise values.

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 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 by retailers.

Executive Summary and Key Findings

Key findings from our study include:

Annual Incentive Plans

- The majority (93%) of multiline and specialty retailers use a form of formulaic AIP, with payouts determined based on pre-established performance goals. Only one retailer uses a discretionary plan and one multiline and specialty retailer does not pay annual cash bonuses.
- Most annual incentive plans use two performance metrics.
- Operating Income (or Earnings Before Interest and Taxes) is the most commonly used AIP performance measure.
- AIP performance is typically measured on an absolute basis.

Long-Term Incentive Plans

- All 30 multiline and specialty retailers included in the study grant long-term incentives to their NEOs.
- Performance shares and stock options/SARs are the most common equity vehicle, with 77% of multiline and specialty retailers granting each award for 2015.
- A significant number (60%) of multiline and specialty retailers also utilized time-vested shares.
- Vesting periods based on the passage of time are generally three years for time-vested shares, while stock options/SARs generally use a period of four years.
- Three years is the most prevalent performance period used by multiline and specialty retailers and generally represents a cumulative (or aggregate) three-year period.
- Profitability metrics such as operating income and EPS are the most prevalent performance measures and are utilized by 83% of multiline and specialty retailers.
- An executive compensation peer group is the most common relative performance benchmark.

Annual Incentive Plan Design Features

Twenty-nine (29) of the top 30 multiline and specialty retailers included in the study utilized an annual incentive plan in 2015 to reward and motivate their executives. The following section highlights the key design feature of these plans.

Description of Annual Incentive Plan Types

Formulaic Plans: Formulaic plans consist exclusively of corporate performance metrics, (i.e., Operating Income, Net Income, Net Sales, etc.). Such plans do not incorporate any discretionary or subjective components.

Discretionary Plans: Discretionary plans, in contrast, 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.

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, 80% allocation based on formulaic corporate measures and 20% based on subjective measures was the most prevalent allocation.

AIP Type	% of Retailers
Formulaic Plan	80%
Discretionary Plan	3%
Formulaic with a Subjective Component	17%

Number of AIP Performance Metrics

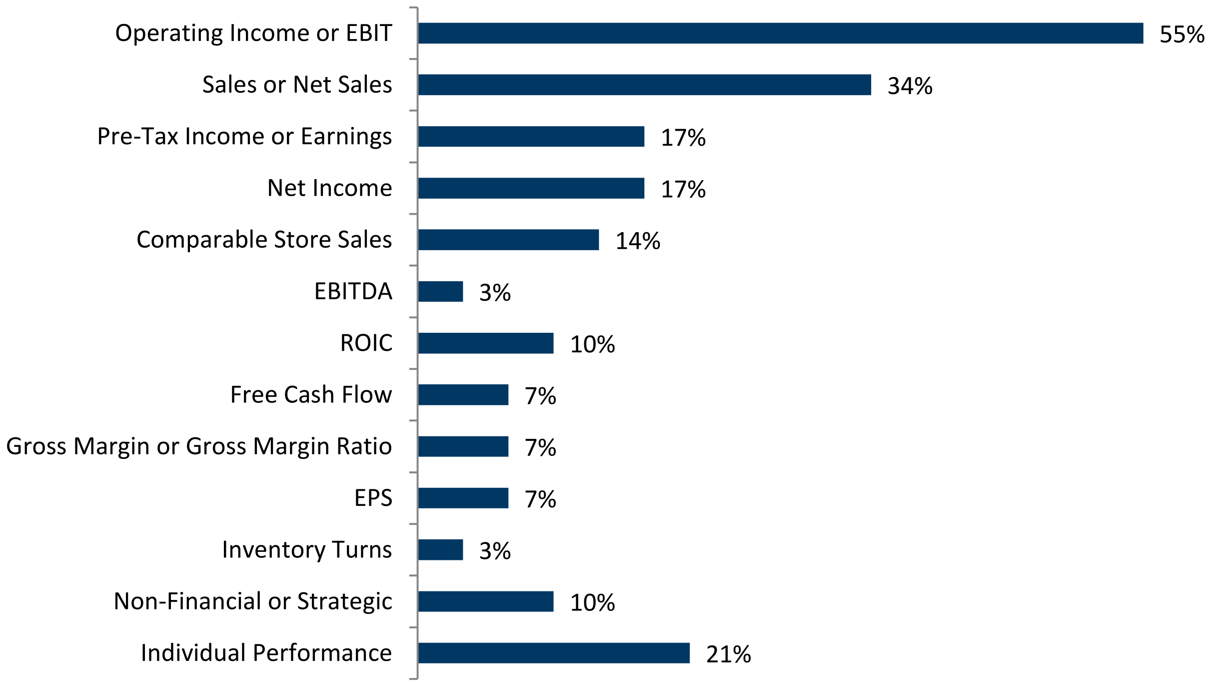
The most common approach is to use two metrics in the AIP, with 94% of multiline and specialty retailers using between one and three measures.

Number of Metrics	1	2	3	4	5
% of Retailers	28%	45%	21%	3%	3%

Types of Performance Metrics

Operating income is by far the most prevalent AIP performance metric with 16 companies (55%) using this measure. Sales or net sales, pre-tax income and net income are also frequently utilized. Additionally, 21% of the retailers include individual performance as a factor in setting cash bonus payouts. A detailed breakdown is shown in the chart below.

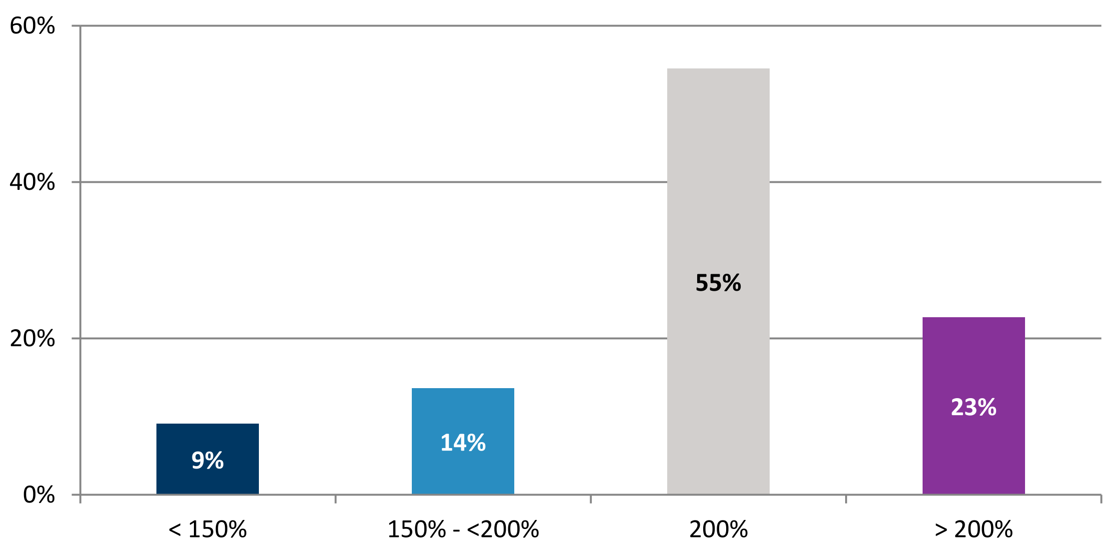
AIP Performance Metrics: % of Retailers



Payout Leverage

Each retailer with an AIP has a clearly stated AIP opportunity. The median target bonus for CEOs was 150% of base salary. Among those with stated percentages, the vast majority (55%) set the maximum payout percentage at 200% of the target payout. A detailed breakdown is shown in the graph below.

AIP Maximum Payout as % of Target Payout



Long-Term Incentive Vehicles and Utilization

Description of Long-Term Incentive Vehicles

Stock Options/Stock Appreciation Rights ("SARs"): Represent the right to purchase shares of company stock at a specified price (generally the stock price on the date of grant) 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 and are the most commonly utilized equity vehicle in the retail industry.

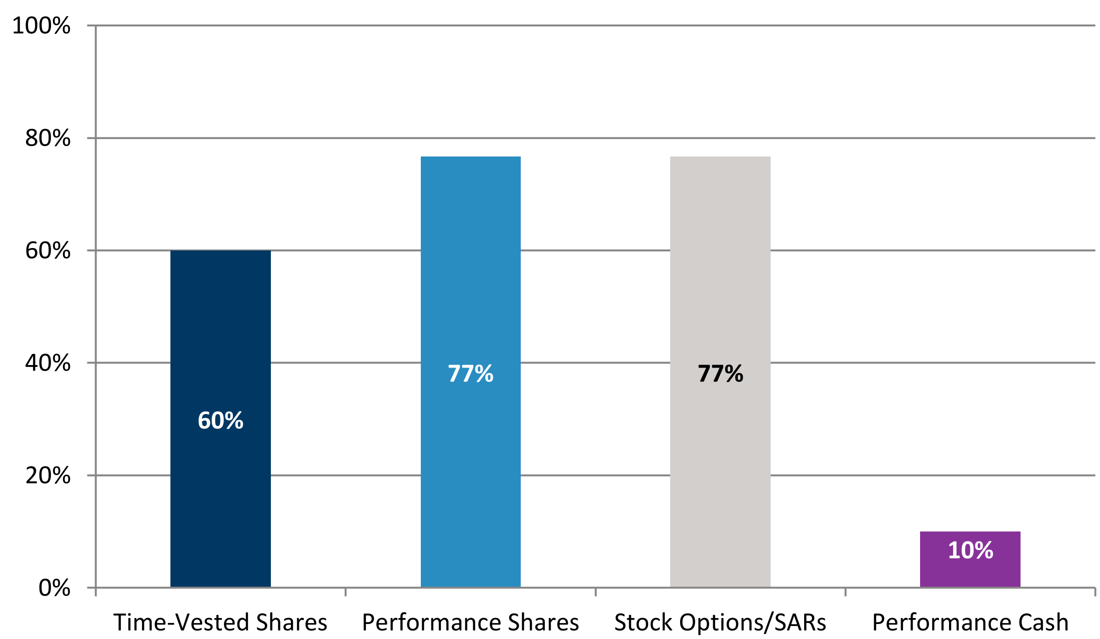
Performance Shares: Represent shares or units of stock that may be earned based on the achievement of specified performance hurdles over a pre-determined time period (performance period or measurement period). Any shares that are not earned are forfeited by the recipient. Performance shares are generally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

Performance Units/Cash: Grants of cash or dollar-denominated "units" that are earned based on performance against predetermined objectives over a pre-defined period and settled in cash.

Utilization by Long-Term Incentive Vehicle

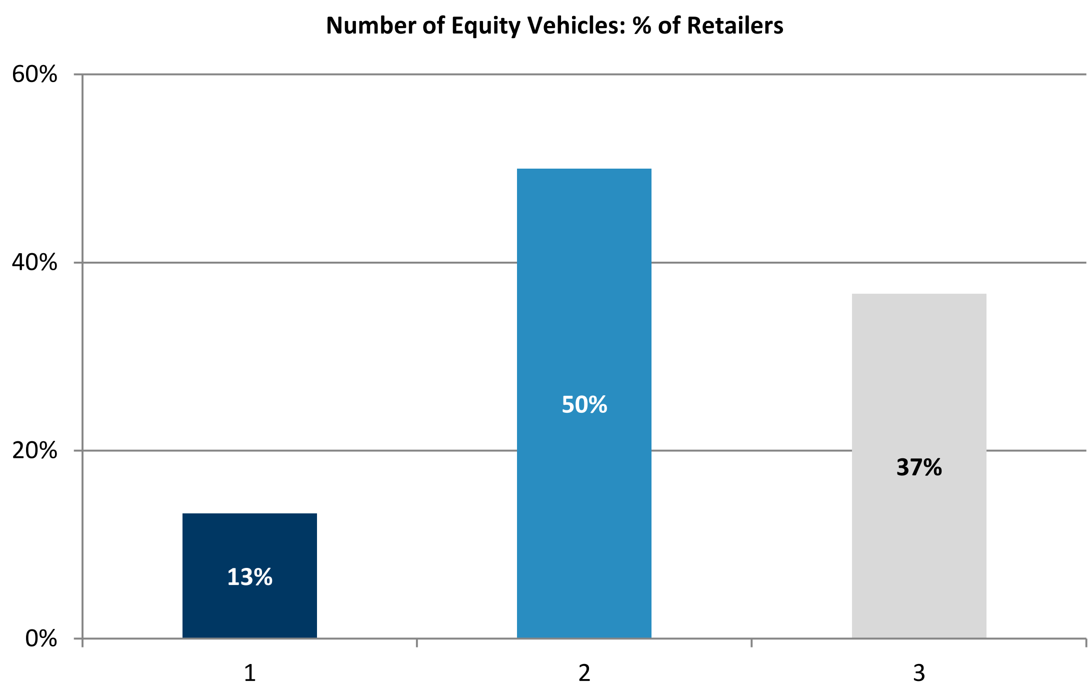
Performance shares and stock options/SARs are the most predominant LTI vehicle used by multiline and specialty retailers and represent a focus on pay-for-performance. Additionally, the utilization of a performance-based equity element is preferred by investors and proxy advisory groups. Time-vested shares are also popular as they provide shoulder-to-shoulder alignment between management and shareholders, as management is then subject to the same fluctuations in the company's stock.

Long-term Incentive Vehicle Utilization: % of Companies



Number of Long-Term Incentive Vehicles Granted

The majority of multiline and specialty retailers employ a balanced LTI approach that includes two equity vehicles in their LTI program, with a sizeable minority (37%) electing to use three vehicles.



Time-Vested Long-Term Incentives

Vesting Period

Three years is the most common vesting period for time-vested shares used by multiline and specialty retailers at 50%, while stock options/SARs generally have a longer vesting period with the vast majority (73%) at four years or more. No retailer grants any LTI award that vests in less than three years.

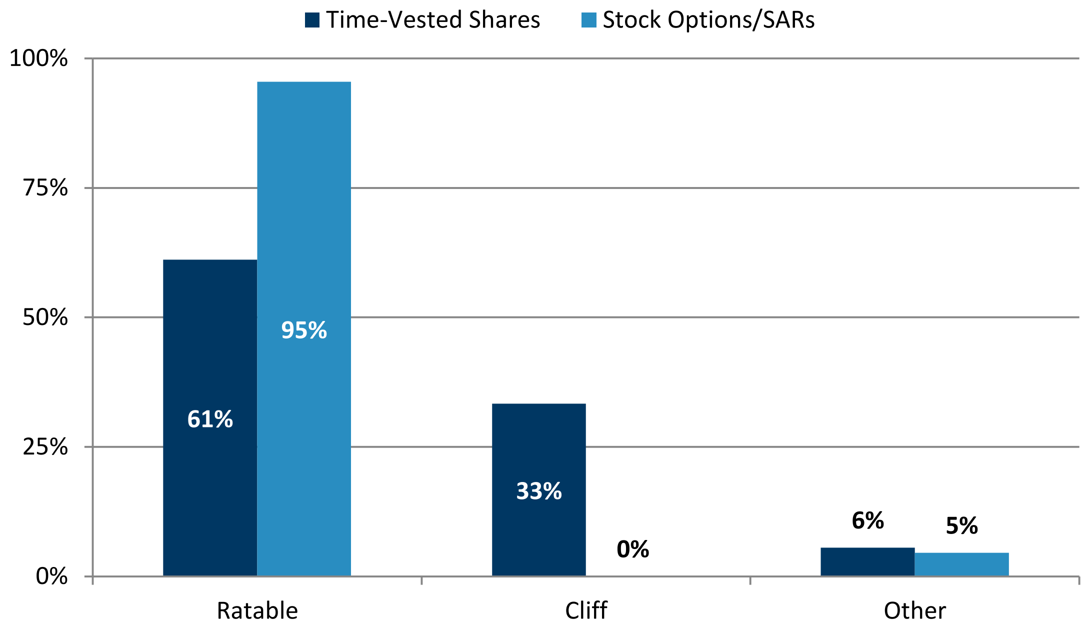
Vehicle Type	2 Years or Less	3 Years	4 Years	5 Years
Time-Vested Shares	6%	50%	33%	11%
Stock Options/SARs	0%	27%	59%	14%

Vesting Schedule

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 (i.e., 25% in year 1, 25% in year 2 and 50% in year 3).

Ratable vesting schedules are the most predominant for multiline and specialty retailers.



Performance Shares

Performance Period

Three years is by far the most common performance (or measurement) period used by multiline and specialty retailers.

Performance Period*	1 Year or Less	2 Years	3 Years	4 Years or More
% of Retailers	13%	8%	71%	8%

*Bed Bath & Beyond Inc. measures 50% of its performance shares over 1 year and the other 50% over 3 years

Vesting Tail Following the Performance Period

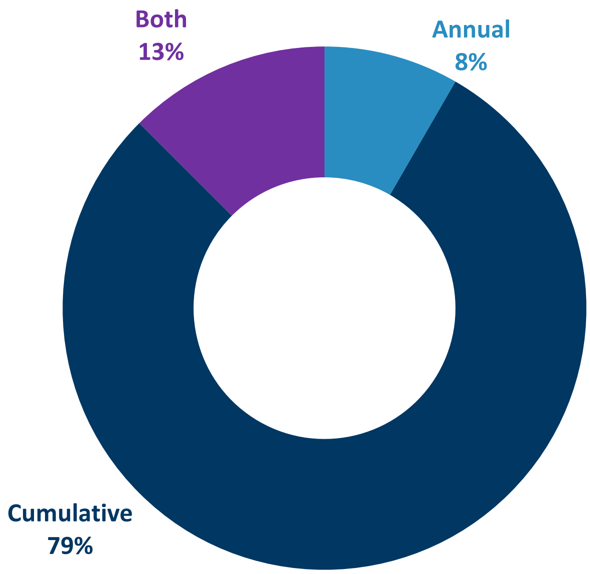
The vast majority of multiline and specialty retailers granting performance shares do not stipulate a vesting tail (or additional time-based vesting requirement after the performance period).

Vesting Tail (Years)*	None	1 Year	2 Years	3 Years or More
% of Retailers	75%	17%	13%	0%

*Bed Bath & Beyond Inc. uses a one-year vesting tail for 50% of its performance shares and a two-year vesting tail for the other half

Annual and Cumulative Performance Periods

In 2015, the substantial majority of multiline and specialty retailers (92%) applied a cumulative performance period to some extent, with 14% combining the annual and cumulative 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 Measures

Types of Performance Measures

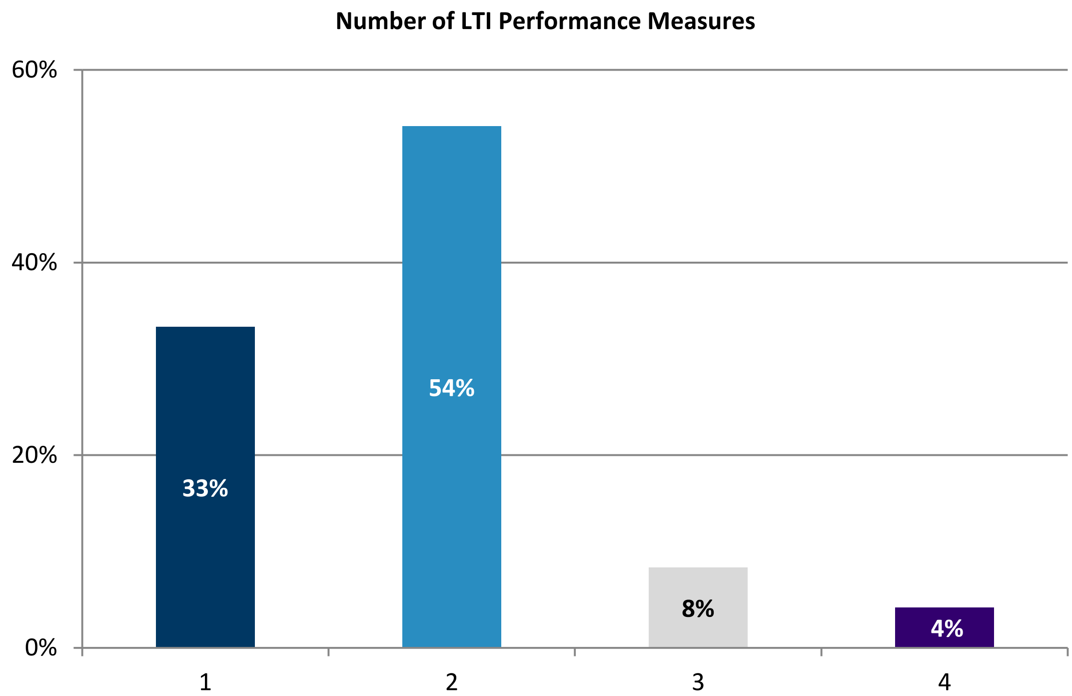
Profitability measures, such as pre-tax income and operating income, are the predominant performance measures in the retail industry. Capital efficiency and revenue metrics such as ROIC and sales growth are also widely utilized. Multiline and specialty retailers use Total Shareholder Return (TSR) less frequently than most other industries (who generally incorporate a TSR measure due to its favorable accounting treatment).

Performance Measure	Performance Shares*
Profitability (Pre-tax Income, Operating Income, etc.)	83%
Capital Efficiency (Return on Assets/Equity/Invested Capital)	43%
Revenue	35%
Total Shareholder Return (TSR)	30%

*Some plans include more than one performance metric.

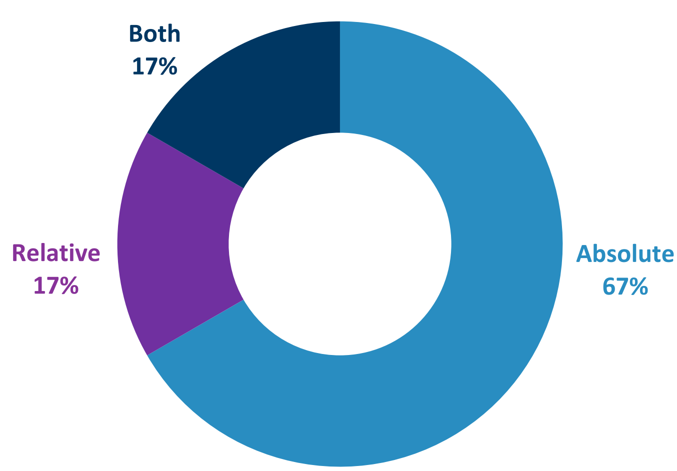
Number of LTI Performance Measures

The retail industry generally uses only one to two measures to determine if performance shares have been earned.



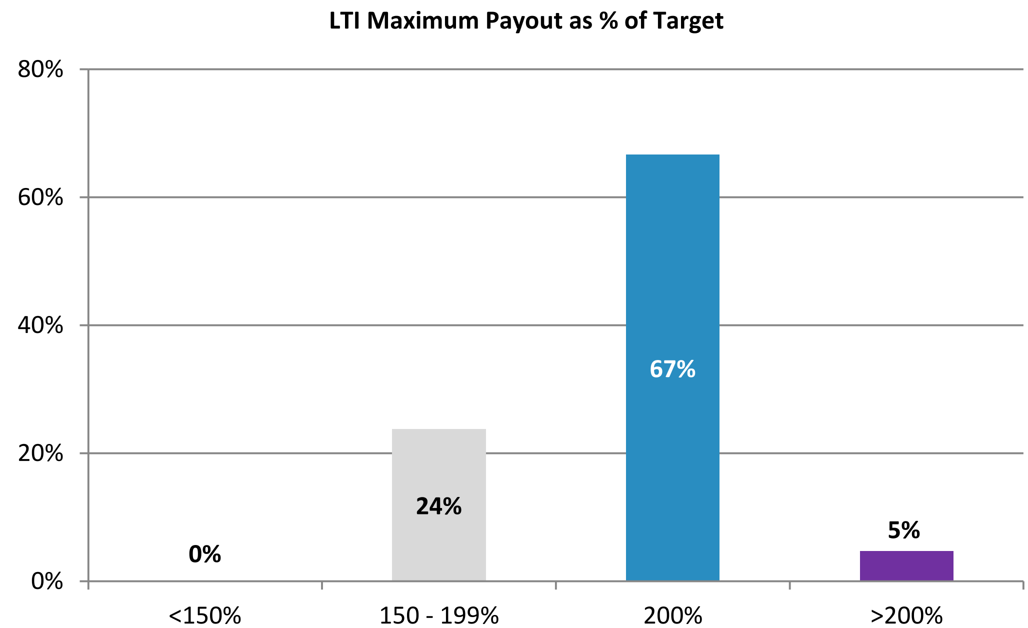
Absolute or Relative Performance Hurdles

Performance measures may be based on an absolute hurdle, relative hurdle, or a combination of both. The majority of multiline and specialty retailers (67%) measure their performance with absolute hurdles only.



Performance Share Payout Leverage

The majority of multiline and specialty retailers award between 0% and 50% of target performance shares (normalized to 100%) at the threshold level. Maximum awards are primarily paid out at 200% of target as seen below. 88% of the multiline and specialty retailers that award performance shares have such shares interpolated on a linear basis for in-between performance.



Relative Performance Benchmarks

Over 30% of multiline and specialty retailers use performance shares that are earned based upon the achievement of pre-determined relative benchmarks as follows:

- Most multiline and specialty retailers utilize the executive compensation peer group with a sizeable minority using indices.
- No multiline and specialty retailer evaluated its performance with both a peer group ranking and an index performance.

A detailed breakdown is shown in the table below.

Relative Benchmarks	% of Retailers
Executive Compensation Peer Group	67%
S&P 500 Index	22%
S&P Retailing Industry Index	11%

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 1 to 3 years). Many companies adopt post vesting holding periods in consideration of the following factors:

- Proxy advisory firms (such as Institutional Shareholder Services) 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 and also 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.

The FTI Consulting, Inc. Retail Industry Annual and Long-Term Incentive Practices report presents a summary of the practices and trends of AIP and LTI plans at the top 30 multiline and specialty retailers to provide an overview of incentive design trends as investors and proxy advisory groups continue to scrutinize pay-for-performance structures.

List of the Top 30 Multiline and Specialty Retailers

- Advance Auto Parts Inc.
- AutoNation, Inc.
- AutoZone, Inc.
- Bed Bath & Beyond Inc.
- Best Buy Co., Inc.
- Burlington Store, Inc.
- CarMax Inc.
- Dick's Sporting Goods Inc.
- Dollar General Corporation
- Dollar Tree, Inc.
- Foot Locker, Inc.
- Kohl's Corp.
- L Brands, Inc.
- Lowe's Companies, Inc.
- Macy's Inc.
- Nordstrom Inc.
- O'Reilly Automotive Inc.
- Ross Stores Inc.
- Sally Beauty Holdings Inc.
- Staples, Inc.
- Target Corp.
- The Gap, Inc.
- The Home Depot, Inc.
- The Michaels Companies, Inc.
- The TJX Companies, Inc.
- Tiffany & Co.
- Tractor Supply Company
- ULTA Salon, Cosmetics & Fragrance, Inc.
- Urban Outfitters Inc.
- William-Sonoma Inc.

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FTI Consulting Executive Compensation and Corporate Governance Solutions provides objective and strong 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 while 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 have served as the compensation consultants and corporate governance advisors to over 100 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	▪ Corporate governance policy review
▪ Annual bonus program design	▪ Compensation-related risk assessments
▪ Long-term compensation program design	▪ Board and executive performance evaluations
▪ Employment Agreement review and analyses	▪ Succession planning guidance
▪ Proxy drafting and shareholder outreach support	
▪ Equity incentive plan review and upsizing	
▪ Compensation tax and accounting consulting services	

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