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WP90X – Executive Compensation: The Aspect of Business You Cannot Afford to Miss

Agenda & Reminders

- Introductions
- Executive Compensation Overview
  - Base Pay
  - Annual Incentive Planning
  - Long-Term Incentive Plan (LTIP)
  - Employee Perks
- Funding Strategies
- What Not to Do with Executive Compensation
- Compensation Governance
- Case Studies – Executive Compensation Examples
- Q&A

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  - Name
  - Type of CE needed
  - License number

- What is Executive Compensation?
  - Executive compensation is composed of both the financial compensation and other non-financial benefits received by an executive in return for their employment and service

- Why is Executive Compensation important?
  - Compensation drives behavior – behavior drives results – results drive value
  - Companies should create a compensation plan for executives that is aligned to their corporate goals, initiatives and objectives
    - Increase operational efficiencies
    - Increase sales/revenue
    - Maximize profit
    - Increase productivity
    - Enhance culture
    - Personal growth and development
  - The amount and type of compensation are extremely important for companies to attract the right talent and personnel
  - As entrepreneurs continue to navigate 'the great resignation' and the associated staffing challenges, compensation practices must be vetted to ensure that your business(es) offer market competitive compensation packages

Public Company Executive Compensation Examples (Fiscal 2022)

CEO	Company	Salary	Equity Awards	Non-Equity Incentive	Other Comp (Benefits, etc.)	Total Comp
Tim Cook	Apple	$3,000,000	$82,994,164	$12,000,000	$1,425,933	**$99,420,097**
Don Horton	D.R. Horton	$1,000,000	$21,987,160	$7,000,138	$112,636	**$30,583,692**
Elon Musk	Tesla	$0	$0	$0	$0	**$0**
Sundar Pichai	Alphabet	$2,000,000	$0	$0	$4,322,599	**$6,322,599**
Satya Nadella	Microsoft	$2,500,000	$42,269,560	$10,066,500	$110,250	**$54,946,310**

- Public company compensation is:
  - Heavily regulated as a result of the Dodd-Frank Act – a series of federal regulations passed following the 2008 financial crisis as a measure to prevent future financial crises
  - Focus on pay-versus-performance through variable ('at-risk') compensation
  - Majority of compensation paid through equity-based vehicles (stock options, time-vested restricted stock units, and/or performance vested stock units)
  - Standard vesting schedule of 3+ years

Year	Salary	Option Awards	Non-Equity Incentive	Other Comp (Benefits, etc.)	Total Comp
2022	$0	$0	$0	$0	**$0**
2021	$0	$0	$0	$0	**$0**
2020	$0	$0	$0	$0	**$0**
2019	$23,760	$0	$0	$0	**$23,760**
2018	$56,380	**$2,283,988,504**	$0	$0	**$2,284,044,884**
5-Year Average Annual Total Compensation: $456,808,976 (4.5x of Tim Cook)					

- In 2018, Tesla shareholders voted to approve a 10-year compensation plan for Elon Musk, primarily comprised of a single $2.83 billion "block" grant tied to specific performance metrics.
- A primary performance metric for Musk's grant to fully vest was Tesla reaching a $650 billion market valuation within 10-years (an astronomical target).
  - In late October 2021, Tesla's market cap reached $1 trillion. Tesla's current market cap is near $640 billion.
- Tesla's stock price has increased by 14,323% since 2018
- Although an extreme example, Elon Musk's compensation plan speaks to the creativity provided within compensation plans and the benefits received by all parties.

Elements of Compensation

- Base Pay
- Annual Incentive
  - Referred to as Short-term or Non-equity Incentive
- Long-term Incentive Plan (LTIP)
- Perks and Benefits

Base Pay & Annual Incentive Plans

Base Pay / Salary

- Salary is the most common and simplistic form of compensation
  - An executive is paid $X for their role and responsibilities
  - Provides a stable and pre-determined amount of income for the executive to live on
  - Base pay is not 'at-risk' or variable (base pay is earned regardless of performance)
- Defining a competitive base pay is challenging, but should be determined through analysis of market competitive amounts
  - Market competitive pay is determined through factors such as position, revenue size, industry, experience, tenure, ownership type, and region.
- Ownership types include:
  - Sole proprietorship
  - Partnership
  - Family owned
  - Employee owned
  - Venture capital owned
  - Private equity owned
  - Other investor owned

- Annual Incentive provides for an upside when pre-defined short-term (annual) company goals are met or exceeded
- Commonly set as a percentage of base pay/salary
- There are several different structures to annual incentive plans
  - Profit pool – defined by a percentage of company profit to share with employees
  - Performance-based (position specific)
    - Payment made based on how well the employee performed in their position as compared to pre-determined company targets
      - The employee only earns this compensation through their efforts and personal development
- Two types of performance metrics:
  - Quantitative: Typically measured by company financial performance. The most common and heavily weighted metric(s)
  - Qualitative: Earned based on the quality of work provided. Typically accounts for the smallest portion of an annual incentive
    - Eliminates variables outside of the executive's control, such as economic impact to an industry or business

Annual Incentive – Items to Consider

- Annual incentive plans should be self-funded (bonus pool grows as company performance increases)
- There are several factors to consider when structuring an annual incentive plan, including:
  - Cap or no cap
  - Performance metrics
  - Quantitative vs. qualitative metrics
  - Allocation of bonus
  - Performance hurdles
- Performance hurdles include
  - Threshold: Performance achieved at a percentage under the target set within the annual incentive plan. This level of performance is slightly below the business plan target, but is still considered to have benefited the company enough to compensate the executive
  - Target: Incentive is paid at 100% based on reaching the pre-determined performance target(s)
  - Maximum: Performance target(s) exceeded to a level in which the company feels that a higher payout to the executive is appropriate
- Threshold, target, and maximum may be applied to each performance metric, resulting in a blended payout percentage

Annual Incentive Design Example

- Assumes:
  - Company EBITDA: $8,000,000
  - Executive/Employee Salary: $200,000
  - Executive/Employee Target Bonus: 50% of Salary
- Incentive Plan Performance Metrics:

Performance Metric	Weighting	Threshold (90% of Target)	Target (100%)	Maximum (110% of Target)
Adjusted EBITDA	80%	$9,000,000	$10,000,000	$11,000,000
Individual Goals	20%	Good	Great	Excellent

- Executive/Employee Opportunity Level

Metric Type	Weighting	Threshold (80% Payout)	Target (100% Payout)	Maximum (120% Payout)
Financial Target(s)	80%	$64,000	$80,000	$96,000
Individual Target(s)	20%	$16,000	$20,000	$24,000
TOTAL BONUS OPPORTUNITY		**$80,000**	**$100,000**	**$120,000**

Long-Term Incentive Plans

LONG-TERM INCENTIVE PLAN (LTIP) SPECIFICS

- Long-term incentive plans are tied to performance metrics based on long-term company goals (commonly 3-year performance periods)
- Most common types of compensation used in long-term incentive plans include:
  - Equity
    - Performance Stock Units (PSUs)
    - Restricted Stock Units (RSUs)
    - Stock Options
  - Cash
- Performance Stock Units (PSUs) are designed to provide a payout in the form of equity based on the achievement of pre-determined performance metrics
  - For example, an executive might earn 100 shares at target performance, 50 shares at threshold performance, and 200 shares at maximum performance
  - PSUs are popular in most industries because they are tied to increased financial performance
    - PSUs afford the opportunity to earn significant shares for significant performance
- Restricted Stock Units (RSUs) are awarded based on a time-vesting schedule
  - Example: If the employee remains with the company for 5 years, they will be awarded X number of shares
- Stock Options (SOs) are granted based on either performance or time and can allow the executive to purchase shares at a pre-determined price

Long-Term Incentive (LTI) Specifics

- An incentive vehicle that has an extended time horizon (generally greater than one year) and that can be a strategic compensation vehicle to promote long-term retention and alignment with company goals.
- A great incentive vehicle to aid employees in retirement and/or long-term wealth creation
- Used in the majority of public companies but vastly underutilized in private companies.
- Most common LTI vehicles include:
  - Stock/Equity-based: Payout is delivered in shares of the company stock and is tied to achievement of performance goals or service over a period of time.
    - Some companies may grant "phantom shares" which track the movement of value of the underlying shares but pay out in cash.
  - Appreciation-based (stock options/stock appreciation rights): Payout is delivered based on the increase in the company's underlying value, which, in the case of a public company, is reflected in share price.
  - Cash-based: Employees will receive a cash payout based on service, achievement of performance goals, or both.
- Long-term incentives are most commonly tied to vesting schedules

Types of Stock Units

- Performance Stock Units (PSUs): Performance Incentive
  - Payout dependent upon achievement of pre-defined performance metrics
  - Grants made in units of stock equivalent to a defined dollar amount (grant date fair value)
  - Grant date fair value: the value of a unit of stock on the grant date multiplied by the number of shares granted
    - Example: 100 shares valued at $10/share = $1,000 grant date fair value
  - Grants are made at the beginning of the performance period (typically 3 – 5 years)
  - Payout value is determined by two factors:
    - Performance level achieved, if applicable (# of shares received at threshold, target, or max)
    - Share price at the end of the performance period (may be higher or lower than the grant date value)

- Restricted Stock Units (RSUs): Retention Incentive
  - Payout dependent upon continued service throughout vesting period
  - Grants made in units of stock equivalent to a defined dollar amount (grant date fair value)
  - Grant date fair value: the value of a unit of stock on the grant date multiplied by the number of shares granted
    - Example: 100 shares valued at $10/share = $1,000 grant date fair value
  - Payout value is determined by share price upon vesting (may be higher or lower than the grant date value)

LTIP EXAMPLE – PUBLIC COMPANY PSU GRANT

- The following charts illustrate an example of a public company PSU grant with a 3-year performance period
  - Performance period: 2020 - 2022
  - Performance metric: Share Value Increase (expressed as a percentage)
- Payout chart:

Performance Level	Share Value Increase	PSUs Earned as % of Target
Maximum	+50%	200%
	+40%	150%
Target	**+30%**	**100%**
	+20%	50%
Threshold	+10%	25%

- Actual 2020 grant PSUs earned by participant based on performance achieved:

Starting Share Price (1/1/20)	# of PSUs Granted at Target	Grant Date Fair Value	Ending Share Price (12/31/22)	Increase in Share Value through Period	Number of PSUs Actually Earned	Dollar Value of PSUs Earned*
$10.00	10,000	$100,000	$12.00	+20%	5,000	$60,000

*Dollar value of PSUs actually earned: 5,000 shares x $12.00/share = $60,000

LTIP Example – Public Company PSU Grant (Cont'd)

- LTI value based on all performance outcomes:

Starting Share Price (1/1/20)	# of PSUs Granted at Target	Grant Date Fair Value	Ending Share Price (12/31/22)	Increase in Share Value through Period	Number of PSUs Actually Earned	Dollar Value of PSUs Earned*
$10.00	10,000	$100,000	$15.00	+50%	20,000	$300,000
			$14.00	+40%	15,000	$210,000
			$13.00	+30%	10,000	$130,000
			$12.00	+20%	5,000	$60,000
			$11.00	+10%	2,500	$27,500
			$10.00	0%	0	$0

- NOTE: PSUs also serve as a retention tool ("golden handcuffs"), as often times PSUs are forfeited if the participant is not with the company through the end of the performance period. Annual grants result in overlapping performance periods, which creates an evergreen incentive and retention vehicle.

Perks & Benefits

Perks & Benefits

- Companies can also offer various perks and benefits in addition to or in lieu of direct monetary compensation
  - Medical/Dental/Vision coverage (cover all or most of their medical plans)
  - Company car/car allowance
  - Gas card
  - Cell phone allowance
  - Discretionary expense account
  - PTO

Other Compensation Thoughts

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

- SERP = Supplemental Executive Retirement Plan
- Provides an annual cash flow benefit for executive(s) for a defined period of time
  - It's a promise to pay at some point in the future
  - Payments can be for "life only" or for a certain number of years
    - Survivor benefits can be made available
  - Payments could increase with inflation
  - Funded out of the company's future cash flows
- Allows the participants to use the funds as part of their retirement package
- Present value of SERP benefits will be accelerated upon change of control
- Payroll taxes accelerated when SERP is executed due to special timing rule

Stock Appreciation Rights (SAR) Plan

SAR Plan Example 2022 - 2024			
Baseline EBITDA	$ 7,507,000	Future EBITDA	$ 8,745,000
Multiple	5x	Multiple	5x
Baseline Value	$ 37,535,000	Future Value	$43,725,000
Participant Percentage	7%		
Growth in Value	$ 6,190,000		
SAR Plan Payout	**$ 433,300**		

- Equity-like compensation consists of plans that pay out based on the future growth of the value of the business
- Stock-Appreciation Rights (SAR) Plans
  - Payment made based on how much growth has occurred in the value of the business
  - Items to define:
    - Valuation formula
    - Vesting schedule
    - Participant payout percentage
      - Percentages could be tiered based on role/responsibilities
    - Timing (annually, 3 years, 5 years, etc.)
    - Payout schedule

Alternative: Real Equity Considerations

- Companies could choose to allocate actual equity to a select group of key leaders outside of PSUs and RSUs
- Stock could be granted to employees at fair market value
  - Value would be discounted to reflect minority interest and lack of marketability
  - Stock grant represents taxable income to the employees
    - Treated as compensation – the company receives a tax deduction for it
  - Employee may be subject to a vesting schedule
- Funds could be loaned to the employee(s) to pay for the tax owed on the equity grant
  - Employees will repay the company with future cash flows via distributions
- Shareholder Agreement would need to be updated to reflect new, minority owners
  - Need to create a buyout mechanism to allow employee-owners to monetize their shares at certain triggering events
  - Create put and call options to facilitate these future transactions

Triggering Event	Purchase Price	Terms
Death	100% Fair Market Value (FMV)	100% cash (if funded by insurance) or short-term note
Disability	100% FMV	100% cash (if funded by insurance) or short-term note
Voluntary Leave (pre-retirement age)	70% FMV	Minimal cash down (5%) with long-term promissory note
Voluntary Leave (post-retirement age)	100% FMV	25% cash down with mid-term promissory note
N/A – Put Option*	70% FMV	Minimal cash down (5%) with long-term promissory note
N/A – Call Option*	100% FMV	50% cash down with short-term promissory note

- Options above illustrate how a minority shareholder could monetize their shares at various triggering events

What Not to Do with Executive Compensation

- Do not constantly change your incentive plans
  - Can lead to mistrust and confusion for your top executives

- Do not be cheap when paying your executives
  - Investing in an A player will yield 3X – 10X in return
  - If you don't pay your executives, they will find somebody who will!

- Be mindful of benchmarking compensation against your industry versus your company
  - If an executive adds tremendous value for your company, don't be afraid to pay them substantially more than market wage

- Perception vs. Reality
  - Companies should be mindful of what they perceive as a competitive benefit versus how the benefit is actually received by the executive
    - Example: Sizeable 401(k) matches
      - The benefit does work but 1) most companies have a low participation rate and 2) the employee has to contribute to the plan to receive the benefit

- Long-term Incentive Plans can create a significant cash outflow in the future for the company if certain metrics are achieved
  - The company must plan for these future payments
  - A properly designed LTIP should pay for itself
    - The achievement of the various metrics should create the cash flow to pay the additional compensation
    - However, in some situations, the benefit to the employee may be higher initially than the cash flow from the achievement
- Companies have various ways to pay for the LTIP payouts
  - Fund out of future cash flows
  - Fund via stock compensation
  - Create a sinking fund
    - Allocate cash today to an account to fund a future payout
  - Utilize an investment account or life insurance
    - Life insurance is a unique asset to fund these types of plans
      - Funds can be generated tax-free to the company and then used for the benefit
      - Results in tax arbitrage for the company

- A properly designed compensation plan should also factor in the governance needed to monitor and administer these plans
- Consider engaging a compensation consulting firm to help ensure that your company is providing market competitive compensation, structuring innovative incentive designs, assessing immediate and/or future changes to current compensation, and advising the Board on compensation related matters
- A Compensation Committee should be created to support good governance best practices
  - Comp. Committee would oversee all aspects of the compensation plans for its executives
    - Provide clarity to the Board/Company on its compensation practices and strategies
    - Help balance executive retention, short and long-term fiscal rewards and transparency with the company's overall financial performance
    - Establish the company's compensation philosophy and key performance metrics/indicators (KPI's)
    - Create an annual review process to ensure the compensation plan is in alignment with the company's executives and initiatives

Case Studies

Know your story.

Executive Compensation Report

AZ Homes Co., Inc.

October 28, 2020

Executive Pay – Methodology and General Observations

- WealthPoint constructed a peer group of public and private companies to benchmark pay for the top six Company executives.
- The peer group, peer group financial data, and market pay data appear in the pages of this Report which follow the narrative.
- For the peer group, the material in this report shows that the Company is at the 36th percentile in revenue size. Company revenue size is assumed to be $500 million for the purposes of this Report. This is in keeping with its recent past history and planned near-term growth.
- Our market observations and recommendations are that Company executives should be paid at or above the 25th percentile of the market, absent a compelling reason for lower pay. To the extent executives fall short of this mark, our recommendation is that adjustments be made within a reasonable period of time.
- Our observations and recommendations also take into account the particular nature of the homebuilding industry at the time this report is being prepared:
  - Despite the COVID-19 pandemic, the industry is having a record year in terms of new home sales.
  - Competition for top talent has been fierce, and is expected to continue to be strong, even if industry performance softens in 2021.
  - Ownership structure of homebuilders does not affect the robust pay for top talent, except for the CFO as discussed later. Publicly traded homebuilders tend to provide more current cash, and private equity owned homebuilders tend to offer higher equity upside. The Company has both factors to contend with.

Executive Pay – Methodology and General Observations (cont'd)

- We note that some peers utilize discretionary bonuses. We have excluded these in deriving the actual incentive medians from the peer group because since they are discretionary, they are not considered reliable market data. This has the effect of somewhat depressing the median annual incentive amount for each position.
- We have determined market pay for the top six executives with reference to the peer group and the pay of the top five executives in the peer group.
- We have determined market pay for the top six Company executives by reference to two data sources:
  - The 2020 SEC proxy filings of public company peers.
  - Internal WealthPoint reporting of executive compensation data of private company peers.

Relevant Background Factors

- The Company is a new portfolio company of AZ Homes Co. Ltd., Japan's largest homebuilder.
- As such, it is a private company, although it competes for talent with multiple publicly traded U.S. homebuilders.
- WealthPoint believes that in the homebuilding space the form of share ownership does not affect the value of executive jobs, except for the CFO position. Private ownership makes that job somewhat less complex than public ownership, although some private homebuilder CFO positions can evolve in complexity over time.
- In other industries, private versus public ownership affects the value of the CEO job, but we do not find a material difference in the homebuilding space.
- The existence of co-CEOs is uncommon in many industries, but not in the homebuilding space. The WealthPoint team has served two public companies which have actual co-CEOs (ABC Corp.) or virtual co-CEOs (the CEO and COO of XYZ Co. have been paid the same for more than two decades). In our many years of serving these companies we have not applied a "haircut" to the position because of multiple incumbents.
- As is often the case immediately after a transaction, there is no long-term incentive in place. Nevertheless, a long- term incentive is a critical tool for shareholders who invest substantial capital in a new portfolio company and who plan on very significant growth in exchange for that capital.

RELEVANT BACKGROUND FACTORS (CONT'D)

- In our view, design and implementation of a long-term incentive plan is important for the Company. This is not only because implementation of such a plan would be a market competitive best practice, but also because it would help drive the achievement of the Company's very significant growth goals.
- Three important points to note:
  - It is not necessary to use actual equity as currency for payment under a long-term incentive, if equity is not available.
  - The long-term incentive "costs" nothing now, and only has a future cost if the executive team has been successful.
  - If long-term incentive opportunity is sufficiently robust, cash compensation somewhat below market is acceptable.

- Although the co-CEO compensation is above the market median for base salary and target incentive, total direct compensation is significantly below the market median. The primary reason is the lack of equity-based awards and long-term incentive compensation.
- The top three non-chief officer executives are somewhat below, or significantly below the market median. The primary reason is the lack of a meaningful long-term incentive plan in their total direct compensation.
- The CFO compensation is significantly below market across all compensation categories reported, ranking in the zero percentile when compared to peer group data. Additionally, the CFO compensation remains significantly below market when compared to all other executive positions reflected in this Report.
- A cautionary note for the six executives is the structure of the short-term incentive plan. It should be noted that it is uncommon in the market to offer a deferred incentive structure. Although this at times incentivizes extended tenure, it may also result in the perception of lower value to the executive.

- Summary of the top six executives relative to market:

Category	Observations[1]
Base salary	Competitive, except for Messrs. [redacted]
Short-term incentive[2][3]	Target levels are competitive, except for Messrs. [redacted]
Long-term incentive[4]	A headline observation in this Report is the lack of a long-term incentive plan for the top six executives. While base salary and short-term incentive is competitive for four of the top six executives, total direct compensation is below market for all six executives due to the lack of long-term incentive.
Total direct compensation	Below market for all six executives.

(1) Based on peer group data.
(2) Gross bonus earned plus non-equity incentive.
(3) Estimated target incentive calculation for Messrs. [redacted] is based on the calculation: 1.5% of average forecasted net income before taxes in years 2021 – 2023.
(4) Stock awards, plus option awards, plus formula-based awards.

- Recommendations for Messrs. [redacted] are as follows:

Category	Recommendations
Base salary	No change – recent bargained for contractual amount.
Short-term incentive[1][2]	No change – recent bargained for contractual amount.
Long-term incentive[3]	A long-term incentive plan should be included in Messrs. [redacted]' compensation package in order to reward performance with future upside. We understand that the retained equity stake of the co-CEO's may be viewed as long-term incentive of sorts. Nevertheless, market practice among private equity funds would be to grant Messrs. [redacted] a long-term performance-based incentive award.
Total direct compensation	The result of these recommendations would place Messrs. [redacted] within the 30th to 40th percentile of peer group CEO compensation. This is aligned with company revenue which is in the 36th percentile of peer group data.

(1) Gross bonus earned plus non-equity incentive.

(2) Estimated target incentive calculation for Messrs. [redacted] is based on the calculation: 1.5% of average forecasted net income before taxes in years 2021 - 2023.

(3) Stock awards, plus option awards, plus formula-based awards.

- Most prevalent metrics for homebuilders(1)

Short Term Incentive	Long Term Incentive(2)
EBITDA	Pre-Tax Income
Pre-Tax Income	EPS
Gross Margin	Return on Assets
Return on Assets	ROIC
Return on Inventory	Return on Investment
SG&A Percentage/Trend	Revenue Gain
New Communities	SG&A
New Orders Net of Cancellations	Gross Margin
Actual Closings	EBITDA/Debt Multiple
Customer Satisfaction	Total Shareholder Return

(1) Based on the top 20 largest publicly traded homebuilders.

(2) Three-year performance.

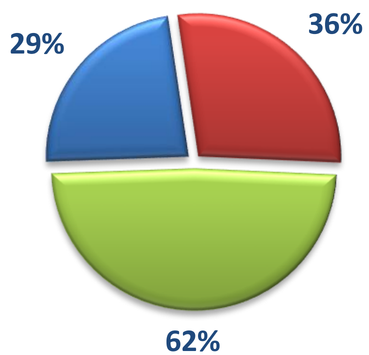
- Percentage of Total Compensation by Category [1]

Position	Percentile [2][3]	Base Salary	Short-Term Incentive	Long-Term Incentive
CEO	75%	32%	50%	58%
	50%	26%	33%	63%
	36%	29%	36%	62%
	25%	29%	39%	58%
SECOND HIGHEST PAID	75%	28%	29%	65%
	50%	38%	34%	60%
	36%	40%	31%	58%
	25%	44%	28%	54%
THIRD HIGHEST PAID	75%	33%	42%	45%
	50%	44%	40%	44%
	36%	43%	34%	46%
	25%	43%	29%	49%
FOURTH HIGHEST PAID	75%	32%	31%	48%
	50%	46%	41%	50%
	36%	46%	42%	44%
	25%	46%	33%	42%
FIFTH HIGHEST PAID	75%	37%	45%	53%
	50%	32%	34%	46%
	36%	37%	33%	41%
	25%	46%	41%	49%
CFO	75%	28%	28%	68%
	50%	39%	27%	59%
	36%	44%	26%	58%
	25%	46%	26%	52%

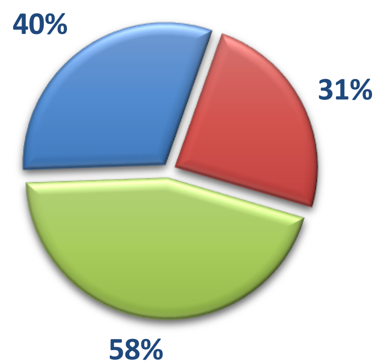
(1) Based on peer group data.
(2) Percentile of compensation by position based on peer group data.
(3) The 36th percentile is based on the Company's assumed revenue of $500 million.

- Percentage of Total Compensation by Category (Cont'd) [1]

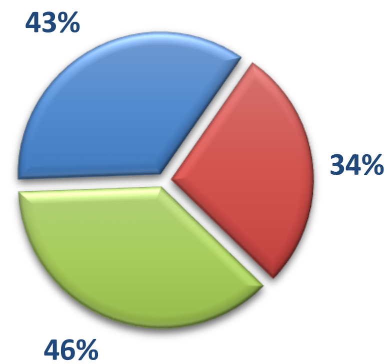
CEO



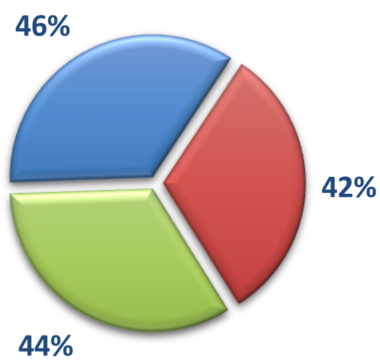
SECOND HIGHEST PAID



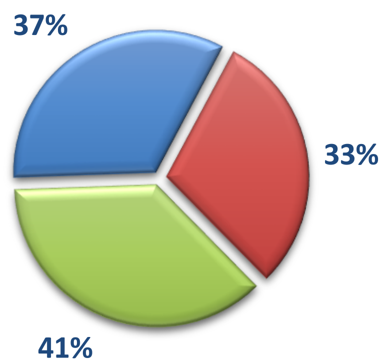
THIRD HIGHEST PAID



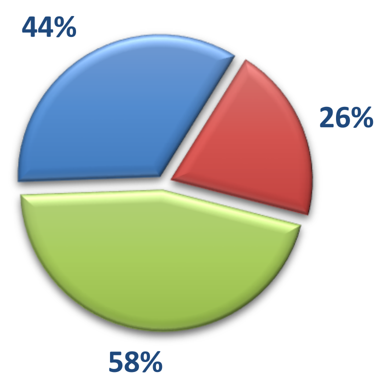
FOURTH HIGHEST PAID



FIFTH HIGHEST PAID



CFO



Base Salary · Short-Term Incentive · Long-Term Incentive

[1] Based on the 36th percentile of peer group data.

[redacted], INC. PEER GROUP			
Company	**2019 Revenue (Millions)**[1]	**Ticker**	**Description**[1]
Skyline Champion	$1,369	SKY	Skyline Champion Corporation operates as a factory-built housing company in North America.
Howard Hughes	$1,301	HHC	The Howard Hughes Corporation owns, manages, and develops commercial, residential, and hospitality operating properties in the United States.
Cavco Industries	$1,062	CVCO	Cavco Industries, Inc. designs, produces, and retails manufactured homes primarily in the United States.
Green Brick Partners	$792	GRBK	Green Brick Partners, Inc. operates as a homebuilding and land development company in the United States. It operates in three segments: Builder operations Central, Builder operations Southeast, and Land development.
The New Home Company	$670	NWHM	The New Home Company, Inc. designs, constructs, and sells homes. The company operates through three segments: Arizona Homebuilding, California Homebuilding, and Fee Building.
Private Co #1	$650	-	Private Company #1 designs, constructs and sells homes in three geographic regions. Wholly owned subsidiary of a much larger company.
Private Co #2	$550	-	Private Company #2 designs, constructs and sells homes in two geographic regions. Wholly owned subsidiary of a Fortune 100 company.
Forestar Group	$428	FOR	Forestar Group, Inc. operates as a real estate lot development company.
Armada Hoffler	$257	AHH	Armada Hoffler Properties, Inc. is a vertically-integrated, self-managed real estate investment trust ("REIT") with four decades of experience developing, building, acquiring, and managing high-quality, institutional-grade office, retail, and multifamily properties located primarily in the Mid-Atlantic and Southeastern United States.
St. Joe Companies	$127	JOE	The St. Joe Company, together with its subsidiaries, operates as a real estate development, asset management, and operating company in Northwest Florida, the United States.
Stratus Properties	$30	STRS	Stratus Properties, Inc., a real estate company, engages in the acquisition, entitlement, development, management, operation, and sale of commercial, and multi-and single-family residential real estate properties primarily in Austin, Texas.
75th percentile	$927		
50th percentile	$650		
25th percentile	$343		
[redacted]	$500		
Percentile Rank	36%		

[1] Source: Yahoo Finance platform

CEO									
Company	**2019 Revenue (Millions)**	**Name**	**Base Salary**	**Short-Term Incentive[1]**	**Stock Award**	**Option Award**	**All Other Comp**	**Total Direct Compensation**
Skyline Champion	$1,369	Mark Yost	$561,538	$675,936	$1,703,059	$717,767	$8,794	$3,667,094
Howard Hughes	$1,301	David Weinreb[2]	$1,000,000	$1,466,615	-	-	$14,000	$2,480,615
Cavco Industries	$1,062	William Boor	$793,269	$1,784,067	$702,276	$1,095,393	$33,872	$4,408,877
Green Brick Partners	$792	James Brickman	$1,416,667	$750,137	$700,000	-	$10,400	$2,877,204
The New Home Company	$670	Leonard Miller	$557,692	$225,000	$542,495	$182,284	$12,348	$1,519,819
Private Co #1	$650	CEO[3]	$650,000	$1,303,000	-	-	$40,555	$1,993,555
Private Co #2	$550	CEO[3]	$318,000	$2,215,000	-	-	$89,858	$2,622,858
Forestar Group	$428	Daniel Bartok	$300,000	$600,000	$338,008	-	$10,252	$1,248,260
Armada Hoffler	$257	Louis Haddad	$939,735	$482,500	$618,898	-	$88,049	$2,129,182
St. Joe Companies	$127	Jorge Gonzalez	$400,000	$585,000	-	-	$56,626	$1,041,626
Stratus Properties	$30	William Armstrong III	$500,000	$700,000	$278,880	-	$69,518	$1,548,398
75th percentile	$927	-	$866,502	$1,384,808	$701,138	$906,580	$63,072	$2,750,031
50th percentile	$650	-	$561,538	$700,000	$618,898	$717,767	$33,872	$2,129,182
25th percentile	$343	-	$450,000	$592,500	$440,252	$450,026	$11,374	$1,534,109
[redacted]	$500	Gregg [redacted][5]	$700,000	$802,243	-	-	-	$1,502,243
		Mike [redacted][5]	$700,000	$802,243	-	-	-	$1,502,243
	Percentile Rank		63%	61%	-	-	-	19%

(1) Gross bonus earned plus non-equity incentive.

(2) [redacted] is the former Chief Executive Officer. Compensation used is based on [redacted] role as CEO through the majority of 2019. Excludes severance pay.

(3) Names of Private Company Executives have been ommitted due to confidentiality requirements.

(4) Co-CEO.

(5) Estimated target incentive calculation: 1.5% of average forecasted net income before taxes in years 2021 - 2023.

Name	Base Salary	Short-Term Incentive[1]	Stock Award	Option Award	Total Direct Compensation
CO-CEO/CEO					
Gregg [redacted]	$700,000	$802,243	-	-	$1,502,243
Mike [redacted]	$700,000	$802,243	-	-	$1,502,243
Market Percentile/CEO	63%	61%	-	-	19%
DIVISION PRESIDENT / SECOND HIGHEST					
Tony [redacted]	$340,000	$310,000	-	-	$650,000
Market Percentile/Second Highest	16%	38%	-	-	5%
DIVISION PRESIDENT / THIRD HIGHEST					
Richard [redacted]	$325,000	$266,000	-	-	$591,000
Market Percentile/Third Highest	37%	38%	-	-	15%
GENERAL COUNSEL / FOURTH HIGHEST					
John [redacted]	$310,000	$120,000	-	-	$430,000
Market Percentile/Fourth Highest	33%	16%	-	-	7%
CFO / FIFTH HIGHEST					
Eric [redacted]	$250,000	$114,000	-	-	$364,000
Market Percentile/Fifth Highest	40%	9%	-	-	16%
CFO / CFO					
Eric [redacted]	$250,000	$114,000	-	-	$364,000
Market Percentile/CFO	0%	0%	-	-	0%

[1] Gross bonus earned plus non-equity incentive.
[2] Base salary in year 2020. Estimated target incentive calculation for Messrs [redacted] an[redacted] is based on the calculation: 1.5% of average forecasted net income before taxes in years 2021 – 2023.

SUMMARY OF RECOMMENDED CHANGES

Name	Base Salary	Short-Term Incentive[1]	Long-Term Incentive[2]	All Other Comp	Total Cash Compensation	Total Direct Compensation
[redacted] Actual Pay[3][4]	$ 700,000	$ 802,243	$ -	$ -	$ 1,502,243	$ 1,502,243
[redacted] Recommended Pay	$ 700,000	$ 802,243	$ 500,748	$ -	$ 1,502,243	$ 2,002,991
[redacted] Actual Pay[3][4]	$ 700,000	$ 802,243	$ -	$ -	$ 1,502,243	$ 1,502,243
[redacted] Recommended Pay	$ 700,000	$ 802,243	$ 500,748	$ -	$ 1,502,243	$ 2,002,991
[redacted] - Actual Pay	$ 340,000	$ 310,000	$ -	$ -	$ 650,000	$ 650,000
[redacted] - Recommended Pay	$ 370,000	$ 310,000	$ 226,667	$ -	$ 680,000	$ 906,667
[redacted] - Actual Pay	$ 325,000	$ 266,000	$ -	$ -	$ 591,000	$ 591,000
[redacted] - Recommended Pay	$ 325,000	$ 266,000	$ 197,000	$ -	$ 591,000	$ 788,000
[redacted] Actual Pay	$ 310,000	$ 120,000	$ -	$ -	$ 430,000	$ 430,000
[redacted] Recommended Pay	$ 310,000	$ 270,000	$ 193,333	$ -	$ 580,000	$ 773,333
[redacted] - Actual Pay	$ 250,000	$ 114,000	$ -	$ -	$ 364,000	$ 364,000
[redacted] - Recommended Pay	$ 360,000	$ 200,000	$ 186,667	$ -	$ 560,000	$ 746,667

(1) Gross bonus earned plus non-equity incentive.
(2) Stock awards, plus option awards, plus formula-based awards.
(3) Co-CEO base salary is reflective of year 2020 salary.
(4) Co-CEO estimated target incentive calculation for Messrs. [redacted] based on the calculation: 1.5% of average forecasted net income before taxes in years 2021 - 2023.
(5) The numbers in the long-term incentive column represent amounts which are not tied to the market data. The market data represents the long-term incentive ***grant values*** reported in the peer group. The peer group is primarily made up of more mature companies. Because the peers are more mature, their equity likely has less potential for growth. The Company has greater upside potential than most peers; e.g. a grant of 1,000 stock options could have the same reported value as the stock options granted by peers, but a much higher upside potential. The paradox is that the Company's executives could garner much more potential long-term incentive wealth than their public peers, even though the grant values of the Company's long term incentive may be lower. WealthPoint will be prepared to discuss this, as well as how other high potential companies deal with it, with both management and the Board.

[redacted]					
Data Set	**Revenue**	**Title / Name**	**Base Salary**	**Target Bonus**	**Total Cash Compensation(1)**
Current Compensation & Title	$40,000,000	COO/GM	$250,000	$0	$250,000
Percentile Rank to Market Data	$40,000,000	COO	38th%	0%	15%
		CEO	14th%	0%	<10th%

WealthPoint Internal Reporting & Private Company Survey Data					
Chief Operating Officer (Current Title)	Building Construction Revenue: $40,000,000 Location: Reno, NV	90th Percentile	$473,270	$241,626	$714,896
		75th Percentile	$385,331	$196,217	$581,548
		Mean	$289,145	$146,808	$435,953
		25th Percentile	$209,615	$106,453	$316,068
		10th Percentile	$142,473	$72,272	$214,745
Chief Executive Officer (Perspective Title)	Building Construction Revenue: $40,000,000 Location: Reno, NV	90th Percentile	$672,411	$422,547	$1,094,958
		75th Percentile	$545,546	$343,243	$888,789
		Mean	$406,947	$255,329	$662,276
		25th Percentile	$292,893	$183,368	$476,261
		10th Percentile	$196,441	$122,836	$319,277

(1) Excludes owner distributions and employee benefits.

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