

MCDERMOTT INTERNATIONAL INC
Form DEFA14A
March 21, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

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Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
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McDermott International, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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EXPLANATORY NOTE

Beginning on March 21, 2016, the following materials are being provided to certain stockholders of McDermott International, Inc. (the Company) in connection with the solicitation of proxies for the Company s 2016 Annual Meeting of Stockholders to be held on April 29, 2016.

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Investor Presentation:
2016 Annual Meeting of Stockholders

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About McDermott

Leading provider of integrated engineering, procurement, construction and installation services for oil and gas field developments worldwide

At any given time, 40 or fewer active contracts typically spanning a duration of one to three years, performed in a variety of jurisdictions

and each ranging from less than \$50 million to more than \$2 billion in total contract value

Engaged and Highly Qualified Board

Board consists of highly qualified, independent directors with a breadth and variety of experience

Committed to thoughtful Board refreshment process, demonstrated by the recent appointment of a new, independent director with Middle East expertise

Stockholder input is a priority for the Board as evidenced by fall 2015 outreach to approximately 40% of our outstanding common stock, leading to meetings with stockholders representing approximately 30% of our outstanding common stock led by the Chair of our Compensation Committee and the Chair of our Governance Committee

Strong Compensation Practices

Significant emphasis on variable, at risk compensation that aligns pay with performance

Rigorous

financial performance metrics directly linked to Company strategy with disclosed performance goals

Compensation program reflects adherence to strong compensation governance practices

Improved Financial and Operating Performance

TSR for FY 2015 was 15%, as compared to our proxy peer group's TSR of -33%

FY 2015 operating income of \$91.2 million, which exceeded FY 2014 of \$8.6 million and FY 2013 of (\$456.7) million

Order

intake

of

\$3.7

billion

in

FY

2015

exceeded

the

amount

of

order

intake

for

FY

2014

and

FY

2013

combined

and

assisted

in

achieving year-end backlog of \$4.2 billion, a \$600 million increase from 2014

Executive Summary

2

McDermott Today

A vertically integrated offshore and subsea engineering and construction company executing projects from concept to installation
Strategically located fabrication yards and a versatile marine fleet
Strong long-term relationships with leading energy customers globally

Market Cap:

~\$1.0B

2015 Revenue:

\$3B

Headquarters:

Houston, TX

Global Operations: ~20 Locations

Employees:

~10,600

Engineering

Help bring offshore

exploration into

production

Procurement

Ensure quality

materials, right price,

optimal schedule

Construction

Fabricate complex

structures for

delivery worldwide

Installation

Execute installation

campaigns for

success

1

As of March 17, 2016

1

3

Operational Turnaround

Through the turnaround McDermott has remained highly focused on developing and implementing its operating strategy

2015

2013

2014

2015

2016

Mar 2014:

All financial
guidance was

withdrawn and
guidance for the
foreseeable

future was
suspended

Apr 2014:

Refinanced

existing credit

agreement, issued

senior notes and

tangible equity

units representing

\$1.3B

January 2015:

Launched McDermott

Profitability Initiative to

increase organizational

efficiency, centralize various

front-

and back office

functions, and recognize

operational cost initiatives

Mar 2015:

Reinitiated

financial

guidance

following

withdrawal

in March

2014

Dec 2015:

McDermott

Profitability

Initiative

completed with

over \$100M in

savings

Oct

Dec 2013:

David Dickson joined

McDermott in October

2013 and was appointed

President and CEO and

member of the Board in

December

Jan

Aug 2014:

Executive changes:

EVP & CFO

EVP Offshore

EVP Subsea

SVP HR

Regional Vice Presidents

May 2014:

Gary Luquette
assumed role of
independent
Chairman of the
Board

Apr

Nov 2015:

Board engaged in a
stockholder outreach
program to discuss
stockholder perspectives
on governance and
compensation

Dec

2015

Feb

2016:

Board considered and
implemented stockholder
feedback regarding
executive compensation
program and proxy
disclosure

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2015 Significantly Improved Financial
Performance
Despite the deteriorating oil and gas environment, McDermott improved financial performance
and outperformed peers in 2015
(\$ in millions, except as noted)
FY
2015
FY
2014
Y/Y Change
Orders

\$3,701
\$1,100
+ \$2,601
Backlog
\$4,231
\$3,601
+ \$630
Revenue
\$3,070
\$2,301
+ \$769
Profitability Metrics
Gross Profit
\$379
\$188
+ \$191
Gross Profit
Margin
12.3%
8.2%
+ 4.1%
Operating Income
\$91
\$9
+ \$82
OI Margin
Percentage
3.0%
0.4%
+ 2.6%
Diluted EPS
(\$0.08)
(\$0.32)
+ \$0.24
15%
-33%
-31%
MDR
Peer Group
Brent Crude
MDR 2015 TSR
vs. Peers TSR and Oil Price

Erich Kaeser
Retired CEO
Siemens Middle East
Focused and Engaged Board of Directors
Thoughtful Succession Planning Process and Impact on Board Refreshment
Middle East Markets
Energy/Infrastructure Services Industry
Executive Leadership
Financial Oversight
Knowledge of Core Customers
International Operations

Relevant Skills and Experience

3

4

2

3 years or less

4 to 7 years

8 years or more

Tenure Balance

Board

Self-evaluations

Director

Recruitment

Director

Onboarding

Conduct annual

self-evaluations to

determine whether

the Board and its

Committees are

functioning effectively

Use skills matrix to

assess the Board's

effectiveness and

engage a search

firm to recruit top

director talent

Onboarding

program

for new directors

allows each individual

to make meaningful

contributions quickly

New Independent Director Appointed

in February 2016

Board Independence

Independent Directors

Non-independent Directors

5

9

9

9

7

7

5

Executive Leadership

Energy/Oilfield Services

International Operations

Financial Oversight Responsibilities

Public Company Board

Corporate Governance

Experience with Core Customers

8

6
Compensation Program Changes Informed by
Stockholder Engagement with Directors
Outreach in 2015
Reached out to stockholders
representing ~40% of
outstanding
common
stock
and
proxy advisory firms to

understand their perspectives
on a variety of topics including
governance and compensation
Director Participation
Conducted in-person meetings
with stockholders representing
~30% of outstanding common
stock
Meetings were led by
Compensation Committee
Chair or Governance
Committee Chair
Stockholder Feedback
Feedback from these meetings
was collected and ultimately
shared with the full Board
The Board factored this
feedback into its decision
making process as detailed
below
Board Response
The Board is committed to
understanding and addressing
stockholder feedback and
looks
forward
to
continuing
the
dialogue
What
we heard from stockholders
Actions
the Board has taken in response
Enhance
transparency in proxy disclosures
Provided
clarity
and
transparency
in
the
proxy
on
compensation
matters,
including
disclosure
on how compensation is linked to
strategy and specific targets of the programs

Keep
executive compensation plans consistent
Compensation
Committee
approved
continuing
use
of
2014
and
2015
metrics
in
2016
annual
incentive plan
Consider a relative metric for LTIP awards
Compensation
Committee
approved
the
use
of
Return
on
Average
Invested
Capital
relative
to
a
competitor peer group as the performance
metric for the 2016 Performance Unit awards
Require double-trigger vesting of equity awards
upon a change in control
2016
LTIP
provides
for
double-trigger
vesting
upon
a
change
in
control,
except
where
the
awards

are not assumed in the transaction

Consider composition of peer group

Added

a

competitive

peer

group

of

both

domestic

and

international

peers

for

determining

performance

under the 2016 Performance Unit awards

Maintain

strong

corporate

governance

foundation

and commitment to Board refreshment

Demonstrated

commitment

to

Board

refreshment

by

appointing

a

new

independent

director

with experience

in the Middle East

Continue stockholder engagement

Board has prioritized engagement

and will continue its vigorous outreach program

7

13% Annual Base

Fixed cash compensation recognizing an executive officer's experience, skill and performance

13% Annual Incentives

Variable compensation designed to reward achievement of short-term business goals and strategic objectives, while recognizing

individual contributions

74% Long-Term Incentives

Variable compensation

designed to align interests of

executives with those of our

stockholders with a focus on

long-term performance results

Elements of 2015 Direct Compensation

McDermott's 2015 compensation programs utilized metrics that were directly related to the

Company's 2015 strategies and goals

Annual Incentive Components

Long-Term Incentive Components

25% Operating Income: Promotes improved project execution

25% Free Cash Flow: Prioritizes liquidity needs

30% Order Intake: Incentivizes increasing backlog and booking

new work

20% Order Intake Operating Margin: Promotes pricing

discipline on order intake

McDermott Profitability Initiative (MPI) Modifier:

Incentivizes achievement of goals relating to MPI

50% Performance Units: 3-Year Aggregate Consolidated Order

Intake incentivizes increasing backlog and booking new work,

increased to 50% in 2015 from 40% in 2014

50% Restricted Stock Units: The weighting of RSUs decreased

to 50% in 2015 from 60% in 2014

87% At Risk

CEO Target 2015 Compensation

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Strong Tie Between Strategy and
Performance Metrics
Drive profitability via
improved
project execution
Our
operating
strategy

to
drive

a
sustainable,
profitable
and
growth-oriented
business,
with
a
focus
on
stockholders,
customers
and
other
stakeholders

has
contributed
to
the
achievement
of
2015
goals
Prioritize liquidity
needs
Support future business
Promote pricing discipline
on new work
Implement McDermott
Profitability Initiative
(MPI), to increase
profitability and operational
flexibility
2015 Goal
Performance
Metric
Performance
Thresholds
Actual
Result
Operating Income
Free Cash Flow
Order
Intake
Order Intake Operating
Margin
2015 Operating
Income
Savings Attributable to

MPI

Threshold:

Target:

Maximum:

\$40M

\$53M

\$67M

\$91.2M

\$(47.6)M*

\$3,700.7M

7.3%

\$115M

*Actual result for free cash flow was (\$47.6M), which would have resulted in a funding multiple of 2.0x for this metric under the Committee in determining the funding multiple for this metric to (\$250.4M), or a funding multiple of 1.071x, in consideration of construction, the DLV 2000, resulting in delay of our final shipyard payment until 2016.

Threshold:

Target:

Maximum:

\$(320)M

\$(255)M

\$(190)M

Threshold:

Target:

Maximum:

\$3,000M

\$5,900M

\$6,500M

Threshold:

Target:

Maximum:

7%

10%

12%

Threshold:

= Target:

Maximum:

\$30M = 0.67x

\$40M = 1.0x

\$50M = 1.33x

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Significantly Improved Financial Performance

Driven by Compensation Plan Design

Backlog

Free Cash Flow

Order Intake

Operating Income

Operating income implemented as PSU metric in 2014 after 2013 operating loss of (\$456.7M)

Operating income increased to \$8.6M in 2014 and \$91.2M in 2015

Free cash flow used as metric in annual incentive plan in 2014 and 2015 after 2013 free cash flow of (\$540.6M)

Free cash flow increased to (\$314.2M) in 2014 and (\$47.6M) in 2015

Order intake implemented as PSU metric in 2015 after order intake of \$1.1B in 2014, a decrease of more than 50% from 2013

Order intake increased to \$3.7B in 2015 and backlog increased to \$4.2B

Order intake margin implemented as metric in annual incentive plan in 2014 and 2015

Promotes margin bidding discipline in a difficult macro oil and gas environment

Note: figures as of December 31

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Evolution of Compensation Program

Compensation program has evolved to drive company turnaround and growth goals

Annual

Incentive Plan

Long-Term

Incentive Plan

Changes Made in 2014

Changes Made in 2016

Changes Made in 2015

Other

Utilized four financial metrics
(rather than a single metric as
in 2013)
Introduced a corporate
performance goal
Introduced metric based on
individual performance
Included same four financial
plan components as 2014
Eliminated non-financial
corporate and individual goals
introduced in 2014
Introduced McDermott Profit-
ability Initiative (MPI) modifier
Included same four financial plan components
as 2014 and 2015 but eliminated MPI modifier
used only in 2015
Included effects of Accelerated Overhead
Reduction Program in targets
Enhanced disclosure to better communicate
target and actual performance of non-
competitively sensitive metrics
Introduced cumulative order
intake metric
Returned the performance
unit weighting to 50%
Approved use of relative ROAIC
as
performance metric
Added competitive peer group for
determining performance
Provided the same number of units as in 2015
absent any change in target value of LTI Award
Reduced target value of CEO award from \$5
million to \$4 million
Enhanced disclosure to better communicate
target and actual performance
Eliminated options: RSU and
Performance Shares only
Introduced aggregate
consolidated operating
income metric (rather than
ROIC as in 2013)
Reduced Performance Shares
weighting from 50% to 40%
No material changes made to
other compensation elements
in 2014
No material changes made to
other compensation elements

in 2015

Removed single trigger provisions on a go-forward basis

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Strong Corporate Governance and
Compensation Practices Remain a Priority
The Board is actively engaged in shareholder
outreach efforts
Independent Board Chairman
Commitment to director refreshment
Use independent director search firm in
selecting director candidates
Majority voting for director elections
Annual Board and Committee evaluation
process

Succession planning oversight

Board risk oversight

Board and Governance

Long-term incentive compensation is subject to forfeiture

Annual incentive compensation is subject to linear and capped payouts

Use of multiple performance metrics

Significant stock ownership guidelines for directors and executive officers

Double-trigger change-in-control agreements

Annual review of share utilization

Independent compensation consultant

Annual review of peer group

Clawback policy

No repricing of underwater stock options

No excise tax gross-ups

No derivatives trading, hedging or pledging of Company stock

No employment contracts

Compensation Practices

Our Board believes in sound corporate governance and places significant weight on stockholder feedback in making decisions on governance processes and compensation programs

