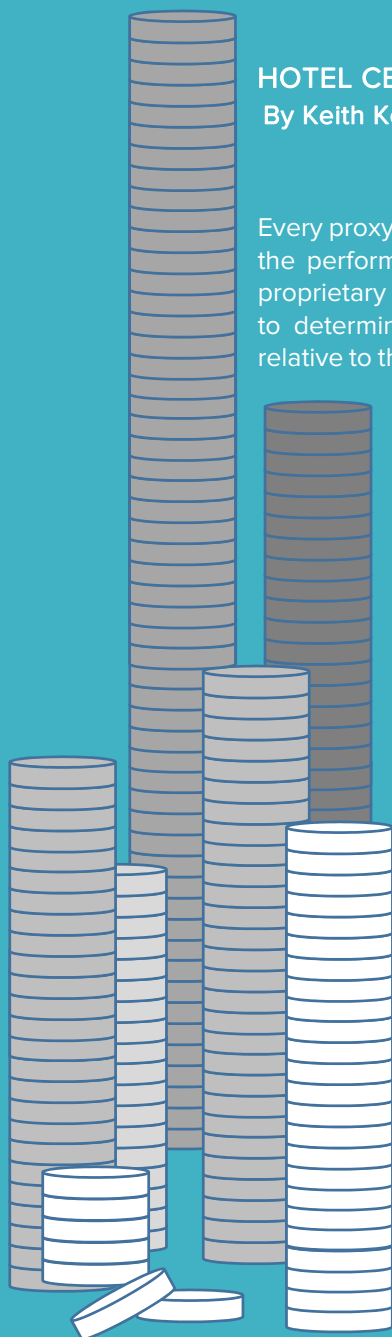


## HOTEL CEO PAY

By Keith Kefgen, Managing Director & CEO

Every proxy season for the past 20 years I have evaluated the performance of CEOs in the hotel industry using a proprietary pay-for-performance model. My goal has been to determine whether a CEO deserves his or her pay relative to their industry peers. I don't really care about the size of someone's paycheck as long as they earn it. After all, we do live in a capitalist society. I believe the salient issue is value creation and for public companies that corresponds to shareholder return. That is why CEOs such as Bob Iger at Disney, Jeff Boyd at Priceline and Stephen Holmes at Wyndham can demand multi-million dollar paychecks and be worth every penny. I would rather have owned shares in any of the above companies than in Supertel or Red Lion, regardless of how little Kelly Walters and John Eliassen were paid.

The AETHOS Pay-for-Performance Model looks at key financial metrics such as company size, stock appreciation, EBITDA growth, and total direct compensation within a defined peer group. The peer group for this study included thirty-six hospitality CEOs. The market capitalization of the group ranged from a massive \$147B (Disney) to a micro \$7M (Supertel). One might ask how I can compare Bob Iger to Kelly Walters. In fact, that is precisely what the model is intended to do. Interestingly, the analysis illustrates that Mr. Iger was worth more than his \$34M paycheck, while Walters struggled to earn his \$290K salary.



## HOTEL CEO PAY

As expected, the highest paid CEOs in the industry were dominated by the large cap companies. Bob Iger topped the list with his previously stated pay package of \$34M, while Boyd and Holmes made near \$15M last year. Other double digit millionaires were Frits van Paasschen at Starwood, Jon Bortz at Pebblebrook and Arne Sorenson at Marriott.

Although these pay packages were significant, all of these CEOs had an AETHOS Value Index (AVI) near 100, signifying that they earned their large paychecks. The average CEO paycheck for the group went down nearly \$500K from \$5.7M in 2012 to \$5.2M in 2013, representing an 8.7% decrease. The decrease was primarily in the bonus and other compensation components.

THE 2013 HOTEL INDUSTRY CEO SURVEY  
CEOs ranked by total compensation [in thousands and US\$]

CEO	COMPANY	Salary	Incentive S-T	L-T	Other	Total	AVI Index	Ownership	
1	R.A. Iger	Walt Disney	\$2,500	\$13,570	\$17,283	\$969	\$34,321	100.3	\$151,041
2	J. Boyd*	Priceline.com	550	6,500	8,000	8	15,058	149.5	214,333
3	S. Holmes	Wyndham Worldwide	1,452	2,975	7,000	818	13,539	126.6	125,950
4	F. v. Paasschen	Starwood Hotels & Resorts	1,250	2,529	7,056	79	10,914	98.1	31,741
5	J. Bortz	Pebblebrook Hotel Trust	650	780	7,878	44	9,352	99.4	18,516
6	A. Sorenson	Marriott International	1,200	1,910	5,860	189	9,159	98.3	55,608
7	M. Hoplamazian	Hyatt Hotels	1,015	1,306	4,500	38	6,858	97.6	19,092
8	R.D. Fain	Royal Caribbean	1,000	2,084	3,372	378	6,833	92.6	81,709
9	E. Walter	Host Hotels & Resorts	850	1,711	3,328	176	6,066	96.6	28,545
10	J. Francis	Chesapeake Lodging	700	888	4,437	25	6,050	107.6	11,093
11	R.A. Katz	Vail Resorts	799	255	3,785	34	4,872	100.1	72,693
12	M. Arison*	Carnival	906	0	3,457	440	4,803	88.4	6,702,289
13	T. Baltimore	RLJ Hospitality Trust	816	1,249	2,650	30	4,745	100.3	33,758
14	S. Joyce	Choice Hotels Int.	929	1,010	2,500	228	4,667	97.7	41,457
15	R.A. Smith	Felcor Lodging Trust	743	1,077	2,717	38	4,574	89.0	12,615
16	M. Barnello	LaSalle Hotel Properties	780	1,460	2,034	224	4,498	101.3	6,836
17	M. Brugger	DiamondRock	725	1,000	2,400	34	4,159	93.5	10,444
18	M. Bennett	Ashford Hospitality	800	1,600	1,757	0	4,157	89.3	50,575
19	J.M. Tisch**	Loews Hotels	975	2,650	404	67	4,096	96.0	429,926
20	S. Weisz	Marriott Vacation	764	1,350	1,900	38	4,052	207.8	6,944
21	C.V. Reed	Ryman Hospitality Prop.	670	1,000	2,056	60	3,787	94.0	49,677
22	K.E. Cruse	Sunstone Hotel Inv.	614	924	2,025	102	3,664	94.3	11,001
23	M. Gross*	Morgans Hotel Group	527	0	2,003	500	3,029	82.6	4,128
24	J. Shah	Hersha Hospitality	680	867	1,085	5	2,638	84.0	24,790
25	R. Gellein, Jr	Strategic Hotels & Resorts	800	1,455	0	65	2,320	113.3	3,310
26	J. Fisher	Chatham Lodging Trust	450	900	918	0	2,268	88.4	13,257
27	D.J. LaRue	Forest City	554	0	1,409	78	2,041	71.7	8,542
28	D. Hansen	Summit Hotel Properties	400	325	1,074	0	1,799	88.7	3,405
29	B. Park	St Joe Company	750	800	0	13	1,563	162.4	573
30	G. Marcus	Marcus Corporation	558	317	334	342	1,552	93.8	4,025
31	A. Sims	Sotherly Hotels	422	2,291	61	32	618	200.2	7,815
32	J. Eliassen*	Red Lion Hotels	263	0	240	0	503	16.5	609
33	W. Haruki	MauiLand & Pineapple	250	135	0	0	385	158.7	1,170
34	K. Walters	Supertel Hospitality	290	0	0	10	300	0.0	100
35	J. Murray	Hospitality Prop. Trust	0	0	206	19	225	206.1	1,808
36	J. Wirth	InnSuites Hosp. Trust	86	2	0	1	88	159.8	8,449

Stock market data garnered from Market Watch and based on years ending Dec 31, 2010-2013

\* No longer CEO \*\* Office of the Chairman

All data in USD

In regards to pay-for-performance, Stephen Weisz of Marriott Vacation and John Murray at Hospitality Property Trust topped this year's list of best performing CEOs. Weisz had an AVI of 207, while Murray had an AVI of 206.

Each could have earned more than double their 2013 compensation package. Andrew Sims, Brady Park and James Wirth rounded out the top five P-F-P CEOs.

Figure 1: Top performing CEOs Stephen Weisz and John Murray received less than half their value to the company in compensation

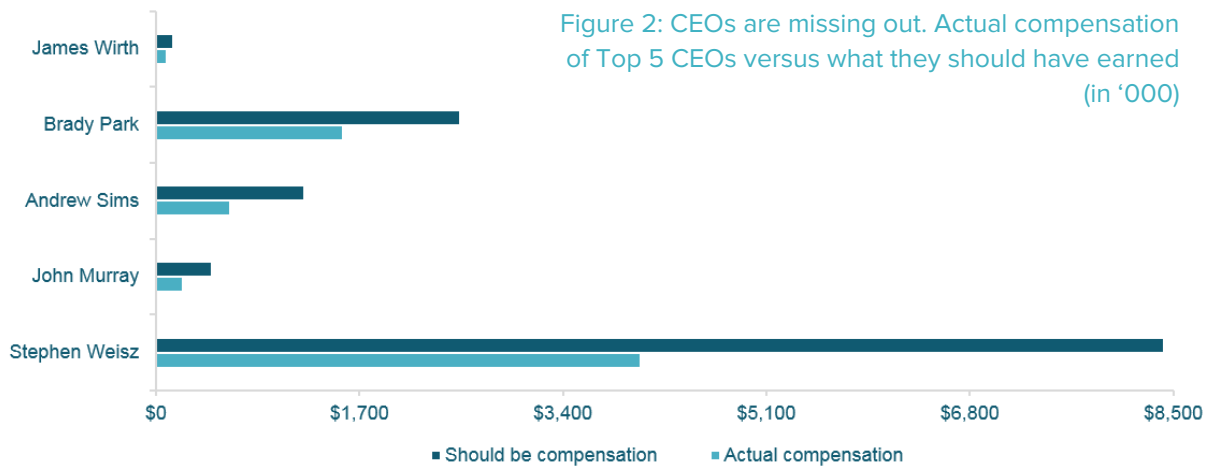
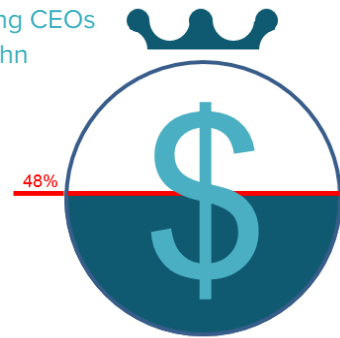


Figure 2: CEOs are missing out. Actual compensation of Top 5 CEOs versus what they should have earned (in '000)

The top salaries in the hospitality industry ranged from Bob Iger's \$2.5M to Mark Hoplamazian's \$1M. Rounding out the group were most of the big hotel CEOs including Holmes, van Paasschen and Sorenson. The average CEO salary went up by approximately \$25K, a modest 3.2%.

Figure 3: Highest paid CEO receives \$2.5 million in annual salary



Figure 4: CEOs – annual salaries (in '000)

Many of the same players had the largest bonuses with Iger pulling down \$13.6M. The other largest bonuses were paid to Boyd (\$6.5M), Holmes (\$4.2M), Jonathan Tisch (\$3M) and van Paasschen at \$2.5M. The average CEO bonus decreased almost \$500K to \$1.5M, which represents a 25% decline from 2012 numbers.

Figure 5: Largest bonus awarded stands at \$13.6M

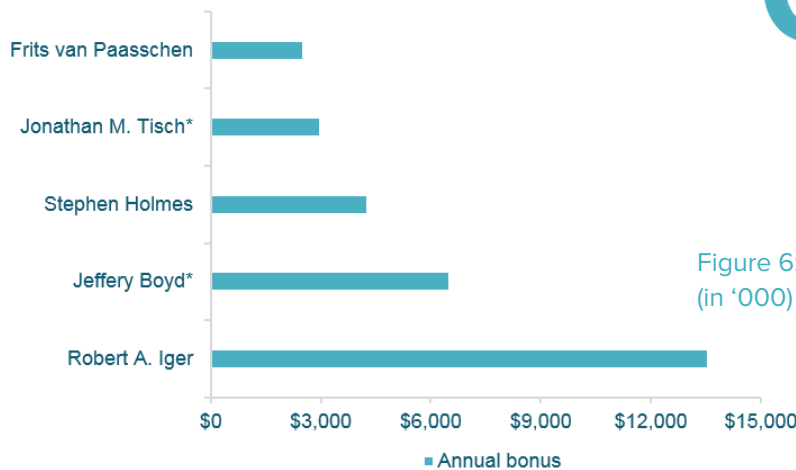
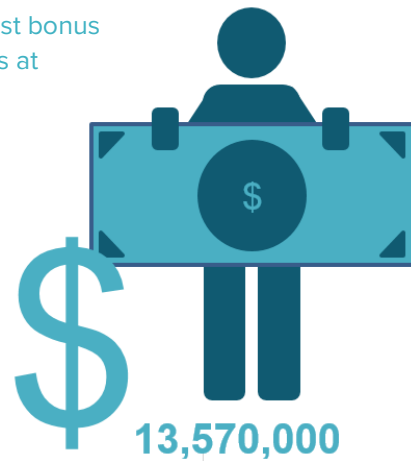


Figure 6: CEOs – actual bonus payouts (in '000)

Slightly larger long-term incentives were granted to hospitality CEOs in 2013. The largest grants went to Iger again (\$17.3M) and Boyd (\$8M). Ten other CEOs received a grant of over \$3M. The average LTIP value went up by \$100K to \$1.8M, a 3.7% increase over last year's tally.

Figure 7: Largest LTIP granted stands at \$17.3M

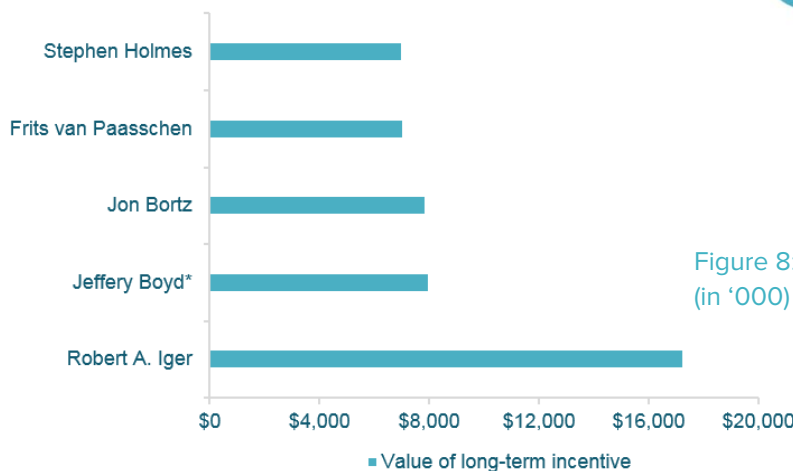
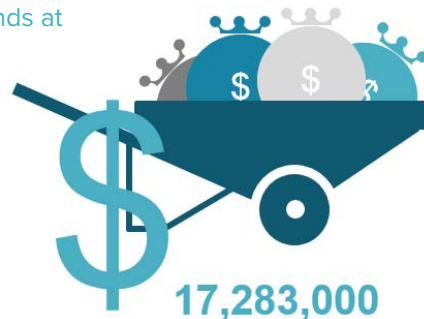


Figure 8: CEOs – value of LTIP payouts (in '000)

By the definition (value of common shares owned), the richest CEO in the hospitality industry is now Mickey Arison at Carnival with an ownership interest worth over \$6B. Mr. Arison will come off the list next year as he gave up the CEO reigns at Carnival to Arnold Donald. Interestingly, two other “well to do” CEOs gave up the CEO seat in Jonathan Tisch at Loews Hotels and Jeff Boyd at Priceline.



CEO	Company	Ownership
M. Arison*	Carnival	\$6,702,288,820
J.M. Tisch*	Loews Hotels	429,926,361
J. Boyd*	Priceline.com	214,332,611
R.A. Iger	Walt Disney	151,041,196
S. Holmes	Wyndham Worldwide	125,949,695

It was encouraging to see increased transparency in shareholder disclosures this year. I continue to press for more transparency in annual and proxy filings so that shareholders can clearly determine if executives are being paid appropriately in relation to the company’s financial performance. I also believe that SEC regulations such as “Say on Pay” are just window dressing for the real issue; “do CEOs really earn their large paychecks”. I encourage shareholders to do more homework on pay related issues before they canonize or crucify their leader.

# AETHOS CONSULTING GROUP

About the author: **Keith Kefgen** is, with nearly 30 years of experience in the hospitality industry, a career hospitality executive. Having graduated from the Cornell University Hotel School, he went on to work at Waldorf=Astoria Hotel before embarking upon a career in hospitality executive search. He was the CEO & founder of a global executive search firm before joining AETHOS Consulting Group.



A frequent lecturer on industry related issues, Keith has written more than 100 articles on the topics of executive selection, pay-for-performance, corporate governance and executive leadership and he is currently writing his first book, “The Loneliness of Leadership”.

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About us: **AETHOS Consulting Group** is a hospitality consulting firm specializing in executive search, compensation consulting, business strategies and transformation as well as psychometric testing and talent management.

We are a group of hospitality experts that value and embody:

- Global citizenship in our perspective and recommendations
- Honesty and transparency in our communications
- Open-mindedness and flexibility in our thoughts and conclusions
- Resiliency in difficult times and situations
- Humility and servant leadership in our dealings with others
- Collaboration and the collective wisdom of groups
- Innovation in helping our clients become market leaders
- Hospitality in our lives and actions
- Sustainability in our personal and professional endeavours
- Optimizing every interaction with each other, our clients and communities

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