

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

Filed by a Party other than the Registrant

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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- No fee required.
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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

4  
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

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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

8  
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

