

MCDERMOTT INTERNATIONAL INC
Form DEF 14A
March 24, 2017

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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:

<input type="checkbox"/>	Preliminary Proxy Statement
<input type="checkbox"/>	Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
<input type="checkbox"/>	Definitive Proxy Statement
<input type="checkbox"/>	Definitive Additional Materials
<input type="checkbox"/>	Soliciting Material Under Rule 14a-12

McDermott International, Inc.

(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

PAYMENT OF FILING FEE (CHECK THE APPROPRIATE BOX):

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In early 2017, McDermott acquired the newly built pipelay and construction vessel Amazon to better position the Company for ultradeepwater and subsea, umbilicals, risers and flowlines projects. McDermott plans to upgrade the vessel to address the ultradeepwater market with a state-of-the-art J-lay system outfitted with the latest vessel technology.

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LETTER TO STOCKHOLDERS

Gary P. Luquette
Independent Chair
of the Board

Our 2016 results are the culmination of our three year journey to improve execution in our base business while positioning McDermott for growth.

Dear Fellow Stockholders:

A Year of Strong Financial and Operating Performance

We are pleased to report that 2016 was a year of strong operational and financial performance for McDermott, despite persistent challenges presented by the macro oil and gas market:

120% TSR **\$2.6B** Revenues **\$142.3M** Operating Income **\$4.3B** Backlog

These strong results are a testament to the leadership of McDermott and successfully executing our operational strategy. Continued improvements in project execution, increased focus on cost control and strengthening customer relationships all contributed to our best results in many years, including the strongest total shareholder return among peers for the second consecutive year.

The Culmination of a Three Year Journey

Our 2016 results are the culmination of our three year journey to improve execution in our base business while positioning McDermott for growth. Although 2014 began with the business facing financial difficulty, we took meaningful actions to develop and execute a turnaround plan for our business. These actions resulted in considerably improved financial results for 2015 against the backdrop of deteriorating market conditions. In 2016, we remained highly focused on items within our control and executed our operating strategy to drive sustainable and profitable growth with an increased focus on stockholders, customers and all of our stakeholders.

Continued Alignment of Operating Strategy, Financial Goals and Executive Compensation

Our 2016 results reflect the achievement of our 2016 business objectives, which include driving enhanced profitability through improved project execution, supporting future business through increased backlog, promoting pricing discipline on new bids, prioritizing liquidity needs through cost management and efficiently allocating capital to profitable investments. Key 2016 over-arching initiatives, the One McDermott Way and Taking the Lead, built upon 2015's progress and further drove improvements in project execution and cost management, leading to on-schedule milestone completions in all of our operating areas. Additionally, as part of our commitment to cost containment, we completed our Additional Overhead Reduction program, which generated \$45.8M of additional cash savings in 2016.

Our 2016 executive compensation programs were thoughtfully structured to align with and drive our operational performance and achieve financial targets. Stockholder feedback has been and will continue to be influential in shaping our compensation programs.

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Corporate Governance, Board Oversight and Community

The extensive stockholder outreach program we began in 2015 remained a key priority for our Board in 2016. Members of our Board held discussions with holders of approximately 30% of our outstanding common stock on an array of topics, and based on feedback received we made adjustments to our compensation program, including returning to the use of a relative metric in our long-term incentive plan, and also enhanced governance processes, including placing a limit on the number of boards on which our directors may serve. You will find additional details around these and other changes on pages 11 and 38 of this Proxy Statement.

Ethics, compliance and sustainability are integral to McDermott's long-term success and we are deeply committed to ensuring all our employees, as well as those conducting business on our behalf, adhere to principles of ethical behavior and core values which include a personal commitment to integrity. Likewise, we realize the importance of integrating sustainable and socially responsible practices into our business. We are proud of our industry leading safety culture and the progress we have made this year in reducing our environmental footprint and in supporting the communities in which we operate.

Looking Forward

Thanks to our Board and executive team's success in executing our 2016 operating plan, McDermott has entered 2017 confidently, with over \$3.0 billion of expected 2017 revenues booked in backlog as of 2016 year-end, a strong pipeline of potential new projects and excitement about our ability to continue differentiating ourselves to our global customers for years to come.

I am pleased to invite you to attend the 2017 Annual Meeting of Stockholders and, even if you are not able to attend, encourage you to vote via proxy. The accompanying Proxy Statement highlights many of our key activities and accomplishments in 2016 and contains information on the matters to be acted on at the Annual Meeting.

On behalf of the Board, our executive team, and the entire McDermott organization, thank you for your continued interest and support, as we seek to leverage the momentum of 2016 and look to the future.

Sincerely yours,

Gary P. Luquette
Independent Chair of the Board

March 24, 2017

YOUR VOTE IS IMPORTANT.

Whether or not you plan to attend the meeting, please take a few minutes now to vote your shares.

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McDERMOTT INTERNATIONAL, INC.
757 N. Eldridge Pkwy.
Houston, Texas 77079

NOTICE OF 2017 ANNUAL MEETING OF STOCKHOLDERS

Time and Location

10:00 a.m., local time, on Friday, May 5, 2017
The Westin Houston Hotel
945 Gessner Road
Houston, Texas 77024

Record Date and Voting

You are entitled to vote if you were a stockholder of record at the close of business on March 13, 2017 (the Record Date). Each share of common stock is entitled to one vote for each director nominee and one vote for each of the other proposals to be voted on at the meeting. There were 243,047,477 shares of our common stock outstanding on the Record Date.

Items of Business

1. To elect eight members to our Board of Directors, each for a one year term.
2. To conduct an advisory vote to approve named executive officer compensation.
3. To conduct an advisory vote on the frequency with which to hold advisory votes on named executive officer compensation.
To ratify our Audit Committee's appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the year ending December 31, 2017.
4. December 31, 2017.
5. To transact such other business that properly comes before the meeting or any adjournment thereof.

Proxy Voting

Your vote is important. Please vote via proxy promptly so your shares can be represented, even if you plan to attend the Annual Meeting. You can vote by Internet, by telephone, or by requesting a printed copy of the proxy materials and using the proxy card enclosed with the printed materials.

Notice and Access

Instead of mailing a printed copy of our proxy materials, including our Annual Report, to each stockholder of record, we are providing access to these materials via the Internet. This reduces the amount of paper necessary to produce these materials, as well as the costs associated with mailing these materials to all stockholders. Accordingly, on March 24, 2017, we began mailing a Notice of Internet Availability of Proxy Materials (the Notice) to all stockholders of record as of the Record Date, and posted our proxy materials on the Web site referenced in the Notice (www.proxyvote.com). As more fully described in the Notice, all stockholders may choose to access our proxy materials on the Web site referred to in the Notice and/or may request a printed set of our proxy materials. In addition, the Notice and Web site provide information regarding how you may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis.

Attending the Annual Meeting

See page 71, Questions and Answers About the Annual Meeting and Voting for details.

By Order of the Board of Directors,

Liane K. Hinrichs
Secretary
March 24, 2017

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on May 5, 2017.
The proxy statement and annual report are available on the Internet at www.proxyvote.com.

The following information applicable to the Annual Meeting may be found in the proxy statement and accompanying proxy card:

The date, time and location of the meeting;

A list of the matters intended to be acted on and our recommendations regarding those matters;
Any control/identification numbers that you need to access your proxy card; and
Information about attending the meeting and voting in person.

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ABOUT MCDERMOTT

McDermott is a leading provider of integrated engineering, procurement, construction and installation services for offshore and subsea oil and gas field developments worldwide. We deliver fixed and floating production facilities, pipelines and subsea systems, from concept to commissioning, to customers including national oil companies and international and independent oil companies. McDermott generally has 40 or fewer active contracts at any given time, which typically span a duration of one to three years, are performed in a variety of jurisdictions, and may individually range from less than \$50 million to more than \$2 billion in total contract value.

Engineering	Procurement	Construction	Installation
We design production facilities in multiple phases through increased levels of definition to manage risks and maximize value across all stages of project development.	Certainty of supply requires early and thorough planning, a realistic timetable, reliable expediting, a network of high quality suppliers and subcontractors and understanding of the sourcing market.	Our global fabrication facilities handle multiple, fast-track projects for conventional shallow water structures, deepwater floating platforms and subsea facilities.	Our fleet of vessels can be mobilized safely and efficiently for installation campaigns anywhere in the world, optimizing productivity and mitigating various risks associated with operations offshore.

McDermott at a Glance

New York Stock Exchange:

MDR

Headquarters:

Houston, Texas

Employees:

Approximately 12,400

Operating Areas:

20 countries in oil and gas producing regions worldwide

Vessel Fleet:

12 construction and multi-service vessels

Customers:

National, International and Independent Oil Companies

Financials (as of 12/31/16):

TSR: **120%**

Revenue: **\$2.6B**

Operating Income: **\$142.3M**

Backlog: **\$4.3B**

Forward-Looking Statements

McDermott cautions that the statements in this proxy statement which are forward-looking, and provide other than historical information, including, among other things, statements about backlog, to the extent backlog may be viewed as an indicator of future revenues, and about McDermott's expected 2017 revenues, future performance, bidding pipeline and planned upgrades to the Amazon involve risks, contingencies and uncertainties that may impact McDermott's actual results of operations. Forward-looking

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statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. For a more complete discussion of these and other risk factors, please see McDermott's annual and quarterly filings with the Securities and Exchange Commission, including its annual report on Form 10-K for the year ended December 31, 2016. Except to the extent required by applicable law, McDermott undertakes no obligation to update or revise any forward-looking statement.

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PROXY SUMMARY

This proxy summary highlights information contained elsewhere in this proxy statement, and is divided into four sections:

- I. 2016 Financial Performance Highlights and Strategy;
- II. Executive Compensation Highlights;
- III. Board and Corporate Governance Highlights; and
- IV. Items of Business for the Annual Meeting.

This summary does not contain all of the information that you should consider, and you should read the entire proxy statement carefully. As used in this proxy statement, unless the context otherwise indicates or requires, references to McDermott, we, us, and our mean McDermott International, Inc. and its consolidated subsidiaries. We first sent or provided this proxy statement and the form of proxy for our 2017 Annual Meeting of Stockholders on March 24, 2017.

I. 2016 Financial Performance Highlights and Strategy

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Total shareholder return (TSR) for McDermott was 120% for 2016, as compared to our Proxy Peer Group's median TSR of approximately 12%. McDermott's TSR was higher than the 2016 TSR for any of the companies constituting our Proxy Peer Group. Our operating income also continued to increase, with full year operating income of \$142.3 million compared to 2015 operating income of \$112.7 million and 2014 operating income of \$16.4 million. Order intake (including change orders) was \$2.7 billion in 2016, which, while a decrease from 2015, was considered positively in light of the lower for longer oil and gas market that continued through 2016. Year-end 2016 backlog was slightly up compared to year-end 2015, and provides a strong foundation for 2017 with approximately \$3 billion of expected 2017 revenues already recorded in backlog as of December 31, 2016. In evaluating the performance of David Dickson, our President and Chief Executive Officer, the Board has considered these performance results, as well as other financial and leadership goals detailed further below, and believes that Mr. Dickson has succeeded in positioning McDermott as a stronger, more durable business, particularly during a difficult business cycle and extended challenging macro environment.

2016 Strategy and Goals

Following the appointment of David Dickson as President and Chief Executive Officer in December 2013, and notwithstanding a challenging macro oil and gas environment, over the past three years McDermott has transformed as a company through stabilization of the business, optimization via cost-reduction initiatives and growth through strategic asset investment.

In continuation of McDermott's transformation, our strategy in 2016 was to drive a sustainable, profitable and growth-oriented business, with a focus on stockholders, customers and other stakeholders. In furtherance of this strategy, our 2016 goals were to:

- increase operating income via improved project execution;
- increase cash flows by prioritizing our liquidity needs;
- increase backlog and bookings to support our future business;
- promote pricing discipline on order intake operating margins; and
- efficiently allocate capital to profitable investments to grow our business.

Strong project execution, additional cost management, improved liquidity culture and increased organizational capabilities and competencies drove the execution of McDermott's strategy and goals in 2016.

II. Executive Compensation Highlights

The Compensation Committee is committed to targeting reasonable and competitive total direct compensation for our Named Executive Officers, or NEOs, with a significant portion of that compensation being performance-based. Our compensation programs are designed to drive achievement of our business strategies and provide competitive opportunities. Accordingly, achievement of most of those opportunities depends on the attainment of performance goals and/or stock price performance. McDermott's compensation programs are designed to provide compensation that:



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The Compensation Committee has designed and administered compensation programs aligned with this philosophy and is committed to continued outreach to stockholders to understand and address comments on our compensation programs.

2016 Compensation Program

Reflecting this philosophy, our NEO compensation arrangements in 2016 provided for the continuing use of three elements of target total direct compensation: annual base salary, annual incentive provided under our Executive Incentive Compensation Plan, or EICP, and long-term incentives, or LTI. In making compensation decisions for 2016, the Compensation Committee considered McDermott's operating strategy and goals and significantly improved operational and financial performance, with appreciation of the lower for longer macro oil and gas environment and comments received during the 2016 stockholder outreach program.

With respect to plan design, the Compensation Committee:

maintained consistency in the 2016 EICP performance metrics, with the exception of the elimination of the MPI modifier following completion of the McDermott Profitability Initiative, or MPI, in 2015; and evolved the 2016 LTI performance metric to relative Return on Average Invested Capital, or relative ROAIC, in consideration of McDermott's transformation from turnaround and stabilization to optimization for future growth.

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With respect to levels of compensation, the Compensation Committee generally sought to maintain 2016 NEO compensation consistent with 2015 levels, with the exception of Mr. Dickson, whose 2016 target LTI award was returned to 2014 levels following an increased target LTI award in 2015, Mr. Spence, who received an increase in his 2016 target LTI award to better approximate market range and Mr. Kennefick, who received an increase in his 2016 target LTI award following his promotion in 2015. Accordingly, for 2016 NEO compensation, the Compensation Committee provided:

No increases in annual base salaries.

No increases in target annual incentive.

The same number of LTI units as awarded in 2015, other than for those NEOs whose target LTI awards were adjusted as described above. Due to the decrease in the price of McDermott stock as of the grant date for the 2016 annual LTI awards, as compared to the grant date for the 2015 annual LTI awards, this resulted in a year over year decrease in the grant date fair value of LTI awarded to the NEOs, with the exception of Messrs. Spence and Kennefick, as noted above.

The mix of target total direct compensation for Mr. Dickson for 2016 is shown in the chart below.

CEO TARGET 2016 COMPENSATION

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Impact of 2016 Say on Pay Vote on Executive Compensation and Stockholder Outreach

What we heard	What we have done in response	When effective
Maintain consistency in executive compensation plans	The financial metrics under our EICP – operating income, free cash flow, order intake and order intake operating margin – have remained consistent since 2014, with the exception of the use of the MPI Modifier in 2015, which was not included as a metric for 2016. The Compensation Committee approved the continuing use of these metrics for the 2016 and 2017 EICP awards.	2014, 2015, 2016 and 2017 EICP Awards
Consider returning to a relative metric for LTI plan awards	The Compensation Committee approved the use of Return on Average Invested Capital relative to a competitor peer group as the performance metric for both the 2016 and 2017 Performance Unit awards.	2016 and 2017 Performance Unit Awards
Consider composition of Peer Group	The Compensation Committee added a competitive peer group of both domestic and international peers for determining performance under the 2016 and 2017 Performance Unit awards.	2016 and 2017 Performance Unit Awards
Require double-trigger vesting of equity awards upon a change in control	The 2016 long-term incentive award grant agreements and 2016 McDermott International, Inc. Long-Term Incentive Plan, or the 2016 LTIP, provide for double trigger vesting upon a change in control, except where the awards are not assumed in the transaction.	February 2016 and Approval of 2016 LTIP
Maintain strong corporate governance foundation	The Board adopted limits on the number of boards on which directors may serve. Directors who serve as a CEO or senior executive of a public company generally may serve on no more than two public company boards and other directors may serve on no more than three public company boards (in both instances, including the McDermott Board).	November 2016
Maintain commitment to Board refreshment	The Governance Committee continued its commitment to Board refreshment. Consistent with our By-Laws, Roger A. Brown will retire from our Board at the 2017 Annual Meeting of Stockholders.	Ongoing
Consider periodic usage of an independent third party facilitator for Board and Committee evaluations	McDermott engaged an independent, third party facilitator in connection with the Board of Director and Committee evaluations conducted for 2017.	2017 Board Evaluations
Provide disclosure on McDermott's corporate social responsibility and sustainability activities	We have provided disclosure on McDermott's corporate social responsibility and sustainability activities in this proxy statement, and expect to continue to increase disclosures around these activities in the future.	2017 Proxy Statement
Continue stockholder engagement	The Board has prioritized stockholder engagement and will be continuing its vigorous outreach program going forward.	Ongoing

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We are committed to maintaining the highest standards of corporate governance. The Board has built a strong and effective governance framework, which has been designed to promote the long-term interests of stockholders and support Board and management accountability.

Director Nominees

The Board of Directors has nominated eight candidates, each for a one-year term.

	Age	Director Since	Independent	Committees	Other Current Public Company Boards
John F. Bookout, III Partner, Apollo Global Management, LLC	63	2006		Audit Governance	None
David Dickson President and Chief Executive Officer of McDermott	49	2013		None	None
Stephen G. Hanks President, Chief Executive Officer of Washington Group International, Inc. (retired)	66	2009		Audit Governance (Chair)	Lincoln Electric Holdings, Inc. Babcock & Wilcox Enterprises, Inc.
Erich Kaeser Chief Executive Officer of Siemens Middle East (retired)	61	2016		Audit Compensation	None
Gary P. Luquette President and Chief Executive Officer of Frank's International N.V. (retired)	61	2013		Compensation	Frank's International, N.V.
Non-Executive Chair of the Board of McDermott					
William H. Schumann, III Executive Vice President of FMC Technologies, Inc. (retired)	66	2012		Audit (Chair) Governance	Avnet, Inc. Tesoro Corporation
Mary L. Shafer-Malicki Senior Vice President and Chief Executive Officer of BP Angola (retired)	56	2011		Compensation (Chair) Governance	John Wood Group PLC
David A. Trice Chief Executive Officer of Newfield Exploration Company (retired)	69	2009		Audit Compensation	New Jersey Resources Corporation QEP Resources, Inc.

Current Board Snapshot

Board Independence

Tenure Balance

Relevant Skills and Experience

In accordance with our Corporate Governance Guidelines, 8 of our 9 directors are independent, including the Chair of the Board.

Our Board is appropriately refreshed, and our directors bring a balance of experience and fresh perspectives.

Our directors bring leadership experience in fields relevant to McDermott.

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Corporate Governance Highlights

McDermott's Board has implemented policies and structures that we believe are among best practices in corporate governance. The Corporate Governance section of this proxy statement beginning on page 16 describes our governance framework, which includes the following:

Current Board and Governance Information

Size of Board	9	Board Orientation	Yes
Number of Independent Directors	8	Succession Planning Oversight	Yes
Separate Chair and CEO	Yes	Board Risk Oversight	Yes
		Code of Conduct for Directors, Officers and Employees	Yes
Board Meetings Held in 2016	16	Stock Ownership Guidelines for Directors and Executive Committee, or EXCOM, Members	Yes
Mandatory Retirement Age	72	Anti-Hedging and Pledging Policies	Yes
Average Age of Directors	63	Clawback Policy and Forfeiture Provisions	Yes
Annual Board and Committee Evaluations	Yes	Stockholder Outreach Program	Yes
Independent Directors Meet in Executive Sessions	Yes		

Corporate and Social Responsibility

We are committed to improving the quality of life in the communities where we live and work.

Volunteering	Our employees donate their time and expertise to support charitable programs and outreach initiatives around the world. Local operations identify those in need and develop partnerships to support the health, safety and wellbeing of their neighbors. Employees are generous with their time and often volunteer after-hours or on weekends to support the greater good.
Giving	Donations are made at both the individual and corporate level to support non-profit social service organizations. Giving, in addition to monetary donations, can take the form of canned goods, toys and clothing that directly benefit local food banks, orphanages and shelters. McDermott is also a proud supporter of the American Heart Association, National MS Society and Dubai Centre for Special Needs.