

MCDERMOTT INTERNATIONAL INC
Form DEF 14A
August 10, 2018
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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:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- 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):

No fee required.

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- 1) Amount previously paid:
- 2) Form, Schedule or Registration Statement No.:
- 3) Filing Party:
- 4) Date Filed:

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**Notice of Annual Meeting
and
2018 Proxy Statement**

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Forward-Looking Statements

McDermott cautions that the statements in this proxy statement which are forward-looking, and provide other than historical information, involve risks, contingencies and uncertainties that may impact actual results of operations of McDermott. These forward-looking statements include, among other things, statements about backlog, to the extent backlog may be viewed as an indicator of future revenues, and about the expected benefits resulting from McDermott's combination with Chicago Bridge & Iron Company N.V. and McDermott's strategic objectives. Although we believe that the expectations reflected in those forward-looking statements are reasonable, we can give no assurance that those expectations will prove to have been correct. Those statements are made by using various underlying assumptions and are subject to numerous risks, contingencies and uncertainties which may cause actual results to differ materially from the forward-looking statements, including, among others: the possibility that the expected synergies from the combination will not be realized, or will not be realized within the expected time period; difficulties related to the integration of the two companies; the diversion of management time and attention on the post-combination integration efforts; adverse changes in the markets in which McDermott operates or credit markets; our credit ratings; the inability of McDermott to execute on contracts in backlog successfully; changes in project design or schedules; the availability of qualified personnel; changes in the terms, scope or timing of contracts; contract cancellations; change orders and other modifications and actions by customers and other business counterparties of McDermott; changes in industry norms; and adverse outcomes in legal proceedings, regulatory proceedings or enforcement matters. If one or more of these risks materialize, or if underlying assumptions prove incorrect, actual results may vary materially from those expected. You should not place undue reliance on 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, 2017 and subsequent quarterly reports on Form 10-Q. Except to the extent required by applicable law, McDermott undertakes no obligation to update or revise any forward-looking statement.

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LETTER TO STOCKHOLDERS

To My Fellow Stockholders:

2017 was not only a year of continued financial success, but also a year of tremendous strategic and operational significance for McDermott. Most notably, in December 2017, we announced our agreement with Chicago Bridge & Iron Company N.V. (“CB&I”) to combine to create a premier, fully integrated, onshore-offshore company, with a broad engineering, procurement, construction and installation (EPCI) service offering and market leading technology portfolio. Our combination with CB&I closed effective May 10, 2018, which marks a big step toward our goal of being a true global leader in our industry. That transaction, together with our notable 2017 financial results, demonstrates our unwavering dedication to the successful execution of our strategy of maintaining a sustainable, profitable and growth-oriented business with a focus on stockholders, customers and other stakeholders. With the completion of the combination, we have substantially diversified our capabilities and are well-positioned globally in attractive, high-growth markets.

We are pioneering a new kind of company that can work together with our customers to provide integrated, end-to-end solutions—from wellhead to storage tank—that deliver the quality, efficiency and certainty needed to keep their businesses growing. Our strategic objectives are to:

Grow revenue and earnings by leveraging our end-to-end onshore/offshore solutions offerings to global energy customers, steadily expanding our EPC portfolio in petrochemical and refining by capitalizing on pull-through opportunities provided by our technology business, and maximizing the benefit of revenue and cost synergies, with relentless focus on risk management and operating efficiency.

Expand our leadership position in served markets and technology.

Sustain our tier-one safety performance.

Maintain a disciplined capital allocation plan by reducing total debt and maintaining a competitive level of capital investment.

Our 2017 executive compensation programs were thoughtfully structured to align with and drive our operational performance and achieve financial targets. In making compensation decisions for 2017, the Compensation Committee considered our operating strategy, goals and significantly improved operational and financial performance, with appreciation of the prevailing macro oil and gas environment and comments received during stockholder outreach conducted over the past few years.

We also continued our thoughtful, forward-looking and stockholder informed approach to corporate governance in 2017. In line with our belief that an effective Board cannot remain static, Philippe Barril was appointed to the Board as a new independent director in September 2017. Then, with the closing of the combination, in May 2018, we welcomed five new, experienced and qualified members to our Board: Messrs. Forbes I.J. Alexander, L. Richard Flury, W. Craig Kissel and James H. Miller and Ms. Marsha C. Williams. Together, these new directors bring a valuable mix of diverse skill-sets to our Board that will help to support our long term strategy.

“McDermott’s remarkable transformation, which most recently included the strategic and operational milestones achieved in 2017 and the combination with CB&I in 2018, reflects the commitment of our Board, executive management and employees to carrying out our operating strategy in a difficult macro environment.”

Thanks to their efforts, we believe that, today, McDermott has the global reach, integrated technology, engineering expertise and construction experience to design and build the energy infrastructure of the future.

I am pleased to invite you to attend McDermott’s 2018 Annual Meeting of Stockholders. The accompanying Proxy Statement further highlights key activities and accomplishments of 2017 and contains information on the matters for which we are seeking your vote at this year’s Annual Meeting. On behalf of the Board, our executive management team, and the entire McDermott organization, thank you for your continued interest and support, as we seek to leverage the momentum of our recent strategic and operational accomplishments and look to the future.

Sincerely yours,

Gary P. Luquette
Independent Chair of the Board
August 10, 2018

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 2018 ANNUAL MEETING OF STOCKHOLDERS

Time	Location
8:00 a.m., local time, on Wednesday, September 26, 2018	Claridge's Brook Street Mayfair London W1K 4HR United Kingdom

Record Date and Voting

You are entitled to vote if you were a stockholder of record at the close of business on July 30, 2018 (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 180,536,768 shares of our common stock outstanding on the Record Date.

Items of Business

- 1 To elect eleven members to our Board of Directors, each for a term extending until our 2019 Annual Meeting of Stockholders.
- 2 To conduct an advisory vote to approve named executive officer compensation.
To ratify our Audit Committee's appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending
- 3 December 31, 2018.
- 4 To transact such other business that properly comes before the meeting or any adjournment thereof.

Notice and Access

Instead of mailing a printed copy of our proxy materials, including our Annual Report on Form 10-K, 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 August 10, 2018, 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,

John M. Freeman

Corporate Secretary
August 10, 2018

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.

BY INTERNET

www.proxyvote.com

BY TELEPHONE

Toll-free 1-800-690-6903

BY MAIL

Follow instructions on your proxy card

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on September 26, 2018.

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The proxy statement and Annual Report on Form 10-K 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 premier, fully-integrated provider of technology, engineering and construction solutions to the energy industry. For more than a century, customers have trusted McDermott to design and build end-to-end infrastructure and technology solutions—from the wellhead to the storage tank—to transport and transform oil and gas into the products the world needs today. Our proprietary technologies, integrated expertise and comprehensive solutions deliver certainty, innovation and added value to energy projects around the world.

Customers rely on McDermott to deliver certainty to the most complex projects, from concept to commissioning. We call it the “One McDermott Way.”

McDermott at a Glance

Learn more about our strategy and how we are building a new kind of company at <https://www.mcdermott.com/Who-We-Are>

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CORPORATE RESPONSIBILITY

McDermott focuses its corporate responsibility efforts in three main areas:

1. Conducting our global business to the highest ethical standards;
2. Being a good neighbor around the world where our employees live and work through responsible environmental practices and community involvement; and
3. Providing a safe, healthy and hospitable work environment that embraces diversity and offers career development opportunities.

ETHICAL BUSINESS PRACTICES

McDermott is strongly committed to conducting its worldwide business activities in accordance with high ethical standards that are derived from such fundamental values as honesty, integrity, reliability, fairness, mutual respect and trust. We believe this is the right way to operate our businesses. The Board of McDermott has adopted a Code of Ethics and Corporate Governance Guidelines that ensure compliance with applicable laws and regulations and encourage the highest standards of integrity in the conduct of our business.

Good Neighbor Practices

For McDermott, being a good neighbor means protecting the environment at our jobsites and facilities worldwide. It also means improving the quality of life in the communities where our employees live and work through community involvement, work force development initiatives, and using local suppliers when possible.

Community involvement. McDermott employees volunteer their time to health, educational and human service organizations in communities across the globe, and we support social, economic and cultural development initiatives in conjunction with many of our major projects. Local operations identify those with the greatest need and develop partnerships to support the health, safety and well-being of their neighbors. Employees are generous with their time and often volunteer after-hours or on weekends to support the greater good.

Responsible Workplace Practices

McDermott is committed to treating every employee with respect and dignity and providing a safe, hospitable and quality work environment. We recognize that a motivated, well-trained, diverse workforce is a significant competitive advantage.

Health and safety. Safety is a core value at McDermott. It is the responsibility of every employee, and zero incidents is our foremost goal. We implement rigorous controls through every phase of our projects, and our employees receive extensive training on how to perform their jobs safely, properly and in compliance with environmental regulations. We are committed to fostering a culture where open communication about safety by all personnel is considered normal, and accountability for safety performance is applied appropriately.

Respecting diversity. In the course of our more than 125-year history, McDermott has assembled a talented workforce from locations around the world, intermingling employees from all cultures and traditions to best leverage their talent and expose them to career development opportunities. On many of our larger jobs, the project team often comprises individuals of 25 or more different nationalities working together toward a common goal. Many employees who first joined McDermott in their home country subsequently move with us from project to project around the world.

Hospitable workplace. McDermott is firmly committed to a workplace free from discrimination, hostility or harassment. The company has a policy of promoting equal opportunity in employment without discrimination based upon race, color, religion, sex, gender, age, national origin, disability or any other status protected under applicable law. Discrimination or harassment based upon any of these characteristics is prohibited and will not be tolerated.

Employee development. McDermott is committed to providing our employees with a work environment that is conducive to development and career growth. We provide employees with numerous opportunities to improve their skills, further their education and advance within the company.

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PROXY SUMMARY

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 2018 Annual Meeting of Stockholders to our stockholders beginning on August 10, 2018.

ITEM 1

ELECTION OF DIRECTORS

The Board of Directors has nominated eleven candidates, each for a term extending until our 2019 Annual Meeting of Stockholders, and recommends that stockholders vote for each nominee based on their specific background, experience, qualifications, attributes and skills.

The Board recommends a vote **FOR** each director nominee

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Board and Corporate Governance Highlights

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

	Director Since	Committees	Other Current Public Company Boards
Forbes I.J. Alexander , 58 <i>Independent</i> Chief Financial Officer Jabil, Inc.	2018	Audit	None
Philippe Barril , 53 <i>Independent</i> Chief Operating Officer SBM Offshore, N.V.	2017	Audit Transition (Chair)	None
John F. Bookout, III , 64 <i>Independent</i> Partner Apollo Global Management, LLC	2006	Governance	None
David Dickson , 50 President, Chief Executive Officer McDermott	2013	Transition	None
L. Richard Flury , 71 <i>Independent</i> Chief Executive Officer Gas Power and Renewables BP plc (retired)	2018	Compensation Governance (Chair)	Callon Petroleum Corporation
W. Craig Kissel , 67 <i>Independent</i> President, Commercial Systems Trane, Inc. (retired)	2018	Compensation (Chair)	Watts Water Technologies
Gary P. Luquette , 62 <i>Independent</i> President, Chief Executive Officer Frank's International N.V. (retired) Non-Executive Chair of the Board McDermott	2013	Compensation Transition	Southwestern Energy Company Apergy Corporation AES Corporation
James H. Miller , 69 <i>Independent</i> Chairman PPL Corporation (retired)	2018	Governance	Crown Holdings, Inc. Avnet, Inc.
William H. Schumann, III , 68 <i>Independent</i> Executive Vice President FMC Technologies, Inc. (retired)	2012	Audit (Chair) Compensation	Andeavor Wood PLC
Mary L. Shafer-Malicki , 57 <i>Independent</i> Senior Vice President, Chief Executive Officer BP Angola (retired)	2011	Governance	QEP Resources, Inc.
Marsha C. Williams , 67 <i>Independent</i> Senior Vice President, Chief Financial Officer Orbitz Worldwide, Inc. (retired)	2018	Audit	Fifth Third Bancorp Modine Manufacturing Company, Inc.

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CURRENT BOARD SNAPSHOT

BOARD INDEPENDENCE

10 Independent Directors

In accordance with our Corporate Governance Guidelines, **10** of our **11** directors are independent, including the Chair of the Board.

TENURE BALANCE

1
10 years
or more

3
1 to 5
years

2
5 to 10
years

5
less than
1 year

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

RELEVANT SKILLS AND EXPERIENCE

11 Executive Leadership

11 Energy/Oilfield Services

9 Public Company Board

6 Experience with Core Customers

10 International Operations

7 Financial Oversight Responsibilities

10 Corporate Governance

Our directors bring leadership experience in fields relevant to McDermott.

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 13 describes our governance framework, which includes the following:

CURRENT BOARD AND GOVERNANCE INFORMATION

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Size of Board

10
Number of

15
Board Meetings

72
Mandatory

62
Average Age

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Independent Directors

Held in 2017

Retirement Age

of Directors

Separate Chair and CEO
Annual Board and Committee Evaluations
Independent Directors Meet in Executive Sessions
Board Orientation
Succession Planning Oversight
Board Risk Oversight
Code of Conduct for Directors, Officers and Employees
Stock Ownership Guidelines for Directors and Executive Committee, or EXCOM, Members
Anti-Hedging and Pledging Policies
Clawback Policy and Forfeiture Provisions
Stockholder Outreach Program

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ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION

We recommend that you review our Compensation Discussion and Analysis beginning on page 35, which explains in greater detail the philosophy of the Compensation Committee and its actions and decisions in 2017 regarding our compensation programs. While the outcome of this proposal is non-binding, the Board and Compensation Committee will consider the outcome of the vote when making future compensation decisions.

The Board recommends a vote **FOR** this proposal

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2017 OPERATING STRATEGY AND GOALS

Since David Dickson's appointment as Chief Executive Officer in December 2013, McDermott has transformed as a company and positioned itself for the anticipated upturn in the oilfield services industry through a turnaround, stabilization of the business and optimization via cost-reduction initiatives. McDermott has also been focused on sustainability and growth, through strategic asset investment and the combination with Chicago Bridge & Iron Company N.V. ("CB&I") announced in late 2017, which closed effective May 10, 2018.

1**Stabilization**

New leadership took countermeasures to stop multi-year EBIT decline

Stronger relationships with key customers—signaled a transformation of McDermott

2**Optimization**

Undertook cost-reduction programs and business development efforts across existing business lines

Additional measures taken to improve process and asset refreshment

3**Looking Ahead**

Maintain strong focus on strengthening customer relationships

Maintain strong focus on operational and cost effectiveness

In 2017 our operating strategy was to maintain a sustainable, profitable and growth-oriented business, with a focus on stockholders, customers and other stakeholders. In furtherance of this strategy, our 2017 goals were to:

- increase operating income via improved project execution;
- increase cash flow 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.

Solid, consistent operational performance driven by the One McDermott Way, consistent focus on liquidity and strong customer relationships drove the execution of McDermott's strategy and goals in 2017.

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2017 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 align with and 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:

<p>Attracts, motivates and retains high-performing executives</p>	<p>Provides performance-based incentives to reward achievement of short and long-term business goals and strategic objectives while recognizing individual contributions</p>	<p>Aligns the interests of our executives with those of our stockholders</p>
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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.

2017 COMPENSATION PROGRAM

Reflecting this philosophy, our NEO compensation arrangements in 2017 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 2017, 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 2017 stockholder outreach program.

With respect to plan design, the Compensation Committee maintained consistency:

- in the 2017 EICP performance metrics, with the continued use of operating income, free cash flow, order intake and order intake operating margin; and
- in the 2017 LTI performance metric, with the continued use of relative Return on Average Invested Capital, or relative ROAIC, in consideration of McDermott’s transformation from turnaround and stabilization to optimization for future growth.

Performance metrics and performance levels used within elements of annual and long-term compensation are designed to support our strategic and financial goals and drive the creation of stockholder value