Triodos Investment Management

KADANT INC

MEETING DATE	Wed, 16 May 2018 14:30	TYPE	AGM	ISSUE DATE	Fri, 11 May 2018
MEETING LOCATION	One Technology Park Drive, Westford, Massachusetts 01886				
CURRENT INDICES	PIRC Global				
SECTOR	Paper industries machinery				

PROPOSALS	ADVICE

1 **Elect William P. Tully** — **Oppose**

Independent Non-Executive Director. He is the Chairman of the Nomination Committee and no clear target has been set to achieve female representation on the Board. There is no female representation on the Board.
Triodos opposes this resolution.

2 **Advisory Vote on Executive Compensation** — **Oppose**

The Company has submitted a proposal for shareholder ratification of its executive compensation policy and practices. The voting outcome for this resolution reflects the balance of opinion on the adequacy of disclosure, the balance of performance and reward and the terms of executive employment.
For fiscal 2017, annual cash awards were excessive, at 250% of base salary for the CEO. There is no clear maximum policy cap disclosed, which is not considered appropriate. Also, the Company failed to include non-financial metrics into the annual bonus structure. For the equity awards, there are concerns that, to the extent the performance targets are met, earned RSUs are subject to additional time-based vesting, and one-third of the RSUs vest on each anniversary provided the named executive officer remains employed with the Company on each vesting date. A five-year vesting period is considered best practice. The Compensation Committee approved a discretionary bonus of USD 50,000 for the chief financial officer, which is against best practice, as such awards do not link pay to performance.
The clawback policy does not consider cases of misconduct, which is against best practice. The Company provides supplemental retirement benefits payable to the named executive officers under the Retirement and Restoration Plans, which is not in line with best practice.
The compensation rating is: DDD.
Triodos opposes this resolution.

3 **Non-employee Director Stock Plan** — **Oppose**

It is proposed to approve the grant of 2,700 restricted stock units (RSUs) to each of the Company's four non-employee directors under the 2006 amended and restated equity incentive plan. In determining the appropriate size of the RSU awards to non-employee directors, the Compensation Committee will consider, among other factors, the financial performance and recent TSR performance relative to the Russell 3000 Index and the compensation peer group, and accordingly increase or decrease the award based on its assessment of the relevance of those factors.
As performance conditions may be attached to awards at the Committee's discretion, there are concerns that the Committee will have considerable flexibility in the payout of discretionary awards and as a result awards may not be subject to robust enough performance targets, and be insufficiently challenging.
Triodos opposes this resolution.

4 **Appoint the Auditors** — **For**

KPMG proposed. Non-audit fees represented 0.19% of audit fees during the year under review and 0.09% on a three-year aggregate basis. This level of non-audit fees does not raise serious concerns about the independence of the statutory auditor.

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 2 - Advisory Vote on Executive Compensation

Disclosure: D- The Company has achieved a below average level of disclosure. Annual cash incentives are based on growth in adjusted diluted earnings per share (EPS) as compared to the average adjusted diluted EPS for the prior two fiscal years and adjusted return on average stockholders' equity. The Company granted long-term incentives in the form of performance-based restricted stock unit awards and time-based restricted stock unit awards. Performance-based RSUs are based on adjusted EBITDA (adjusted to exclude the effects of restructuring costs and other non-recurring items, results from acquisitions made during the year, depreciation and amortization expenses, and non-cash compensation expenses). The use of 'adjusted' targets is not considered best practice.

Balance: D- For fiscal 2017, annual cash awards were excessive, at 250% of base salary for the CEO. There is no clear maximum policy cap disclosed, which is not considered appropriate. Also, the Company failed to include non-financial metrics into the annual bonus structure. For the equity awards, there are concerns that, to the extent the performance targets are met, earned RSUs are subject to additional time-based vesting, and one-third of the RSUs vest on each anniversary provided the named executive officer remains employed with the Company on each vesting date. A five-year vesting period is considered best practice. The Compensation Committee approved a discretionary bonus of USD 50,000 for the chief financial officer, which is against best practice, as such awards do not link pay to performance.

Contract: D- The clawback policy does not consider cases of misconduct, which is against best practice. The Company provides supplemental retirement benefits payable to the named executive officers under the Retirement and Restoration Plans, which is not in line with best practice.

Researcher: Sika Neckles
Email: pircresearch@pirc.co.uk

Pensions & Investment Research Consultants Limited
8th Floor, Suite 8.02, Exchange Tower
2 Harbour Exchange Square
E14 9GE

Tel: 020 7247 2323
Fax: 020 7247 2457
http://www.pirc.co.uk