

TIMKEN CO
Form DEF 14A
March 22, 2019
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

SCHEDULE 14A INFORMATION

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 Pursuant to §240.14a-12

The Timken Company

(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.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- (1) Title of each class of securities to which transaction applies:

- (2) Aggregate number of securities to which transaction applies:

- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

- (4) Proposed maximum aggregate value of transaction:

- (5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

Table of Contents

Table of Contents

John M. Timken, Jr.

Chairman Board of
Directors

The Timken Company

4500 Mt. Pleasant Street
NW

North Canton, OH 44720

March 22, 2019

Dear Fellow Timken Shareholder:

The 2019 Annual Meeting of Shareholders of The Timken Company will be held on Friday, May 10, 2019, at 10:00 a.m. local time at the corporate offices of the company in North Canton, Ohio.

This year, you are being asked to act upon five matters. Four of these matters (Proposals Nos. 1-4) have been unanimously recommended by your Board of Directors. One of these matters (Proposal No. 5) is a shareholder proposal that is not supported by your Board of Directors. Details of these matters, along with the recommendations of your Board of Directors, are contained in the accompanying Notice of 2019 Annual Meeting of Shareholders and Proxy Statement.

Please read the enclosed information carefully before voting your shares. Voting your shares as soon as possible will ensure your representation at the meeting, whether or not you plan to attend.

I appreciate the strong participation and support of our shareholders over the years and look forward to a similar vote of support at the 2019 Annual Meeting of Shareholders.

Sincerely,

John M. Timken, Jr.

Chairman Board of Directors

Engineered Bearings | Mechanical Power Transmission Products | Industrial Services

Table of Contents

THE TIMKEN COMPANY

North Canton, Ohio

NOTICE OF 2019 ANNUAL MEETING OF SHAREHOLDERS

The 2019 Annual Meeting of Shareholders of The Timken Company will be held on Friday, May 10, 2019, at 10:00 a.m. local time, at 4500 Mt. Pleasant Street NW, North Canton, Ohio 44720, for the following purposes:

1. Election of 11 Directors to serve for a term of one year;
2. Approval, on an advisory basis, of our named executive officer compensation;
3. Ratification of the appointment of Ernst & Young LLP as our independent auditor for the fiscal year ending December 31, 2019;
4. Approval of The Timken Company 2019 Equity and Incentive Compensation Plan;
5. Consideration of a shareholder proposal asking our Board of Directors to adopt a policy, or otherwise take the steps necessary, to require that the Chair of the Board of Directors be independent, if properly presented; and
6. Consideration of such other business as may properly come before the meeting.

Shareholders of record of common shares of The Timken Company at the close of business on February 20, 2019 are the shareholders entitled to notice of and to vote at the meeting.

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE 2019 ANNUAL MEETING OF SHAREHOLDERS, PLEASE SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT IN THE POSTAGE-PAID ENVELOPE PROVIDED OR VOTE YOUR SHARES ELECTRONICALLY THROUGH THE INTERNET OR BY TELEPHONE. VOTING INSTRUCTIONS ARE PROVIDED ON THE ENCLOSED PROXY CARD.

Effect of Not Casting Your Vote. Under New York Stock Exchange rules, if you hold your shares in street name through a brokerage account, your broker will NOT be able to vote your shares for you on most of the matters being considered at the 2019 Annual Meeting of Shareholders, including the election of Directors, unless you have given instructions to your broker prior to the meeting.

Thank you for your continued support of The Timken Company.

Hansal N. Patel

Corporate Secretary

March 22, 2019

Important Notice Regarding the Availability of Proxy Materials for the 2019 Annual Meeting of Shareholders to be held on May 10, 2019: This Proxy Statement and our 2018 Annual Report to Shareholders are available on the Investors section of our website <http://investors.timken.com>. For directions to the 2019 Annual Meeting of Shareholders, you may call 234-262-3000.

Table of Contents

TABLE OF CONTENTS

Notice of 2019 Annual Meeting of Shareholders and Proxy Statement

	<u>Chairman s Letter</u>
	<u>Notice of Annual Meeting</u>
	Table of Contents
1	<u>Proxy Summary</u>
8	<u>Proxy Statement</u>
8	<u>Proposal No. 1: Election of Directors</u>
9	<u>Nominees</u>
14	<u>Independence Determinations</u>
15	<u>Related Party Transactions Approval Policy</u>
15	<u>Board and Committee Meetings</u>
15	<u>Board Leadership Structure</u>
16	<u>Director Compensation</u>
18	<u>Board Committees</u>
18	<u>Audit Committee</u>
18	<u>Compensation Committee</u>
20	<u>Nominating and Corporate Governance Committee</u>
22	<u>Risk Oversight</u>
22	<u>Shareholder Communications</u>
23	<u>Beneficial Ownership of Common Shares</u>
26	<u>Proposal No. 2: Shareholder Advisory Vote to Approve Our Named Executive Officer Compensation</u>
27	<u>Compensation Discussion and Analysis</u>

49	<u>Executive Compensation</u>
60	<u>CEO Pay Ratio</u>
61	<u>Proposal No. 3: Ratification of Appointment of Independent Auditor</u>
62	<u>Auditor</u>
62	<u>Audit Committee Report</u>
63	<u>Proposal No. 4: Approval of The Timken Company 2019 Equity and Incentive Compensation Plan</u>
74	<u>Proposal No. 5: Shareholder Proposal Independent Board Chairman</u>
76	<u>Other Information</u>
76	<u>Admission to the Annual Meeting</u>
76	<u>Proxy Solicitation</u>
76	<u>How Proxies Will be Voted</u>
77	<u>Voting at the Meeting</u>
77	<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>
77	<u>Submission of Shareholder Proposals</u>
78	<u>General</u>
A-1	<u>Appendix A</u>
B-1	<u>Appendix B</u>

Table of Contents**PROXY SUMMARY**

This summary highlights certain information contained in the Proxy Statement. This summary does not contain all of the information that you should consider, and you should read the entire Proxy Statement before voting.

2019 Annual Meeting of Shareholders

Date and Time: Friday, May 10, 2019, at 10:00 a.m. local time

Location: The Timken Company, 4500 Mt. Pleasant Street NW, North Canton, Ohio 44720

Record Date: February 20, 2019

Mail Date: The approximate date our Proxy Statement and proxy card will be first sent or given to our shareholders is March 22, 2019.

Voting Matters and Board Voting Recommendations

Proposal	Board Recommendation	Page Reference
1. Election of 11 Directors to serve for a term of one year.	FOR	8
2. Approval, on an advisory basis, of our named executive officer compensation.	FOR	26
3. Ratification of the appointment of Ernst & Young LLP as our independent auditor for the fiscal year ending December 31, 2019.	FOR	61
4. Approval of The Timken Company 2019 Equity and Incentive Compensation Plan.	FOR	63
	×	74

5. A shareholder proposal asking our Board of Directors to adopt a policy, or otherwise take the steps necessary, to require that the Chair of the Board of Directors be independent, if properly presented.

AGAINST

Table of Contents**Director Nominees**

See Proposal No. 1 on page 8 of the Proxy Statement for more details on the 11 nominees for Director. The following information describes relevant information about each nominee as of March 1, 2019.

Committee Memberships							
Name and Title	Age	Director since	Independent	Audit	Compensation	Nominating & Corporate Governance	Other Public Boards
Maria A. Crowe	59	2014				*	
Retired President of Manufacturing Operations, Eli Lilly and Company							
Elizabeth A. Harrell	65	2017					
Retired Major General, U.S. Air Force							
Richard G. Kyle	53	2013					1
President and Chief Executive Officer, The Timken Company							
John A. Luke, Jr.	70	1999				*	1

Chairman, WestRock
Company

Christopher L. Mapes	57	2014		1
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Chairman, President and
Chief Executive Officer,
Lincoln Electric Holdings,
Inc.

James F. Palmer	69	2015	*	
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Retired Corporate Vice
President and Chief Financial
Officer, Northrop Grumman
Corporation

Ajita G. Rajendra	67	2014		2
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Executive Chairman, A. O.
Smith Corporation

Frank C. Sullivan	58	2003		1
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Chairman and Chief
Executive Officer, RPM
International Inc.

John M. Timken, Jr.	67	1986	**	
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Chairman, Board of Directors,
The Timken Company

Ward J. Timken, Jr.	51	2002		1
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Chairman, Chief Executive
Officer and President,
TimkenSteel Corporation

Jacqueline F. Woods	71	2000		1
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Retired President, AT&T
Ohio

* Denotes committee chair

** Denotes Independent Chairman of the Board

Table of Contents

Corporate Governance Highlights

The Timken Company is committed to strong corporate governance as evidenced by the following practices. See page 21 of the Proxy Statement for more details.

Board	9 of 11 Director nominees are independent
Independence	Independent Chairman of the Board

Commitment to Board refreshment and diversity 5 new independent Directors added since 2014

All standing committee members are independent

Director Elections Declassified Board with annual Board elections

Directors are elected by a majority of votes cast and our Majority Voting Policy requires any Director who fails to receive a majority of the votes cast in favor of his or her election to submit his or her resignation to the Board

Board Practices	Share ownership requirements for nonemployee Directors (5x cash retainer)
	At each Board meeting, the independent Directors have the opportunity to conduct executive sessions
	Annual Board, committee and Director evaluations
	Over-boarding policy limits the number of public company boards a Director can serve on

Shareholder Shareholder proxy access with 3/3/20/20 parameters

Rights

Special meetings may be called by shareholders holding 25% of the Company's common shares

Other Best

Annual advisory vote on our named executive officer compensation

Practices

Code of Conduct for Directors, officers and employees

Table of Contents**2018 Performance Highlights**

2018 was an outstanding year for Timken on a number of fronts, with strong operating and financial performance both year-over-year and as compared against industrial peers. We profitably grew the Company in 2018, increasing revenue approximately 19% to \$3.58 billion, net income approximately 49% to \$302.8 million and adjusted earnings before interest and taxes (EBIT) by approximately 52% to \$500.5 million. We achieved strong earnings per diluted share (EPS) of \$3.86 and record adjusted EPS of \$4.18, up approximately 50% and 59%, respectively, from the prior year. The adjusted EPS for 2018 was 37% higher than any previous year in the Company's history. In addition, we generated return on invested capital (ROIC) of 12.8% in 2018, an improvement of 230 basis points from the prior year. We have continued to create significant shareholder value by delivering total shareholder return (TSR) of 12.2%, 1.5% and 12.8% over the past three-, five- and ten-year periods, respectively. Our three-year TSR, which reflects the execution of our new strategy following the Spinoff (as defined below), outpaced both our compensation peers and the S&P 500 index, while our five-year TSR outpaced our compensation peers, in each case over the same respective timeframes. Our ten-year TSR, which reflects the alignment of our strategy with long-term shareholder value creation, was slightly below both the S&P 500 index and our compensation peers over the same timeframe. Additionally, we increased and paid out our 386th consecutive quarterly dividend, continuing one of the longest active streaks on the New York Stock Exchange (the NYSE) and making 2018 the fifth consecutive year of annual dividend increases.

We achieved these results through the disciplined execution of our strategy, which is focused on driving organic growth in our core business by leading in product technology, innovation and service; improving our business performance and expanding margins through operational excellence initiatives; and deploying our cash flow and capital to drive strong returns for our investors.

In 2018, we strengthened our global leadership position in tapered roller bearings and grew our offering in industrial bearings. We also allocated approximately \$831² million towards three acquisitions that significantly expanded our power transmission portfolio and geographic reach (Cone Drive - a leader in precision drives, Rollon - a leader in engineered linear motion products, and ABC Bearings - which strengthened our position in the growing India bearing market).

See page 28 of the Proxy Statement for more details on the Company's 2018 performance.

¹ See [Appendix A](#) for reconciliations of adjusted EBIT, adjusted EPS, and ROIC to their most directly comparable GAAP financial measures. ROIC is calculated as adjusted net operating profit after taxes divided by average invested capital. These performance metrics used for external reporting may not correlate exactly to their corresponding compensation adjusted metrics due to slightly different adjustments (see pages 40, 42 and 43 for more details on how the compensation adjusted metrics are calculated).

² ABC Bearings was acquired using shares of the Company's majority-owned subsidiary, Timken India Limited, and the target value of those shares is included in the \$831 million.

Table of Contents

Return to Shareholders

*Total Shareholder Return for the Company was calculated on an annualized basis, assumes quarterly reinvestment of dividends and takes into account the value of TimkenSteel Corporation (TimkenSteel) common shares distributed in the spinoff of TimkenSteel from the Company that was completed on June 30, 2014 (the Spinoff).

**See page 35 of the Proxy Statement for the companies that are included in the compensation peer group for 2018.

2018 Executive Compensation Practices

We design our executive compensation plans and program to help us attract, motivate, reward and retain highly qualified executives who are capable of creating and sustaining value for our shareholders over the long term. See page 27 of the Proxy Statement for more details.

Our executive compensation program is designed to:

Align the interests of our executives and shareholders

Objectives

Reward for sustained, strong business results

Attract, retain and motivate the best talent

Philosophy

Our executive compensation philosophy is built on the following principles:

Recognizing that people are our most important asset

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Rewarding results linked to both short- and long-term performance (pay-for-performance)

Positioning our pay to be competitive in the marketplace

Focusing on increasing shareholder value

Table of Contents

What We Do		What We Do Not Do
Share ownership requirements for executives (5x base salary for CEO and 3x for the other named executive officers)	×	We do not allow hedging or pledging of our shares
Clawback policy permits clawback of executive compensation if an executive engages in conduct that is detrimental to the Company	×	We do not provide excise tax gross-ups on perquisites or in named executive officer severance agreements
Shareholder-approved short-term and long-term incentive plans	×	We do not re-price stock options and do not issue discounted stock options
Use of targeted performance metrics to align pay with performance	×	We do not provide excessive perquisites
Different metrics are used for short-term and long-term incentive plans	×	We do not have employment agreements for our named executive officers
	×	We do not have single-trigger vesting

Pay-for-Performance

Our compensation program is designed to link pay and performance, which we believe has been demonstrated by the strong level of shareholder support we have received for our compensation program over the last few years. A significant portion of the compensation of our named executive officers is equity based, which we believe aligns our executives' interests with the interests of our shareholders.

Shareholder Support of Named Executive Officer Compensation

2018	97%
2017	97%
2016	96%

The Company's incentive compensation program for executives is designed to link compensation with key financial and operational goals, some of which are short term, while others take several years or more to achieve. The Company uses a balance of short-term and long-term incentives, as well as cash and non-cash compensation, to meet these objectives:

Table of Contents

Our incentive compensation program payouts for plan years ending in 2018 were aligned with performance:

There was a 175.5% payout under the annual cash incentive plan, reflecting strong performance for 2018; and There was a 114% payout for 2016-2018 performance-based restricted stock units, which reflects improved performance over the cycle, particularly in 2017 and 2018.

2018 Annual Cash Incentive Plan Payout

2016-2018 Performance-Based RSU Cycle

See pages 38 to 44 of the Proxy Statement for more details on the annual cash incentive plan and the 2016-2018 performance-based restricted stock units.

Table of Contents

THE TIMKEN COMPANY

PROXY STATEMENT

The enclosed proxy is solicited by the Board of Directors (also referred to as the Board) of The Timken Company, an Ohio corporation (the Company, we, or us), in connection with the 2019 Annual Meeting of Shareholders to be held on May 10, 2019, at 10:00 a.m. local time at 4500 Mt. Pleasant Street NW, North Canton, Ohio 44720, and at any adjournments and postponements thereof, for the purpose of considering and acting upon the matters specified in the foregoing Notice. The approximate date this Proxy Statement and proxy card will be first sent or given to our shareholders is March 22, 2019.

The Board of Directors is not aware of matters other than those specified in the foregoing Notice that will be brought before the meeting for action. However, if any such matters should be properly brought before the meeting, the persons appointed as proxies may vote or act upon such matters according to their judgment.

PROPOSAL NO. 1: ELECTION OF DIRECTORS

We currently have 12 Directors. Pursuant to our Amended Regulations, all nominees for Director will stand for election for a one-year term to expire at the 2020 Annual Meeting of Shareholders. Candidates for Director receiving the greatest number of votes will be elected. Abstentions and broker non-votes (where a broker, other record holder, or nominee indicates on a proxy card that it does not have authority to vote certain shares on a particular matter) will not be counted in the election of Directors and will not have any effect on the result of the vote.

Pursuant to the Majority Voting Policy of the Board of Directors, any Director who fails to receive a majority of the votes cast in his or her election will submit his or her resignation to the Board of Directors promptly after the certification of the election results. The Board of Directors and the Nominating and Corporate Governance Committee will then consider the resignation in light of any factors they consider appropriate, including the Director's qualifications and service record, as well as any reasons given by shareholders as to why they withheld votes from the Director. The Board of Directors is required to determine whether to accept or reject the tendered resignation within 90 days following the election and to disclose on a Current Report on Form 8-K its decision, as well as the reasons for rejecting any tendered resignation, if applicable.

Joseph W. Ralston, a Director of the Company since 2003 and our independent Lead Director since 2011, is retiring from the Board effective as of the 2019 Annual Meeting of Shareholders. In connection with Mr. Ralston's retirement, at its meeting on February 6, 2019, the Board approved a resolution decreasing the size of the Board from 12 to 11 Directors effective as of the 2019 Annual Meeting of Shareholders. We thank Mr. Ralston for his significant contributions to the Company during his service on the Board.

At its meeting on February 6, 2019, the Board also approved a resolution, based on the recommendation of the Nominating and Corporate Governance Committee, nominating the 11 individuals set forth below to be elected Directors at the 2019 Annual Meeting of Shareholders to serve for a term of one year expiring at the 2020 Annual Meeting of Shareholders (or until their respective successors are elected and qualified). Each of the nominees previously was elected as a Director by our shareholders. Each of the nominees listed below has consented to serve as a Director if elected.

If any nominee becomes unable, for any reason, to serve as a Director, or should a vacancy occur before the election (which events are not anticipated), the Directors then in office may substitute another person as a nominee or may reduce the number of nominees as they deem advisable. Unless otherwise

Table of Contents

indicated on any proxy card, the persons named as proxies on the enclosed proxy card intend to vote the shares covered by such proxy card in favor of the nominees below.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR EACH OF THE NOMINEES BELOW.

Nominees

The following information, obtained in part from the respective nominee and in part from our records, describes the background and select experience of each nominee as of March 1, 2019:

Business Experience

Maria A. Crowe

Age: 59

Director since 2014

Ms. Crowe served as President of Manufacturing Operations for Eli Lilly and Company, a global manufacturer of pharmaceutical products, a position she held from 2012 until her retirement in December 2017. Ms. Crowe joined Eli Lilly and Company in 1982, and previously served as its Senior Vice President of Global Drug Products from 2009 to 2012.

Qualifications

Ms. Crowe provides the Board with extensive experience in manufacturing, sourcing and procurement for a global manufacturing company. Ms. Crowe also brings valuable experience on production capacity expansion and innovation efforts.

Ms. Crowe chairs our Nominating and Corporate Governance Committee and is a member of our Audit Committee.

Business Experience

**Elizabeth A.
Harrell**

Age: 65

Director since 2017

General Harrell retired as a Major General in October 2006, serving more than 30 years with the U.S. Air Force. During her military career, she held a wide range of positions in the United States, Germany and South Korea, specializing in aircraft fleet maintenance and sustainment. After her retirement from the U.S. Air Force, General Harrell was a consultant with The Spectrum Group until 2009 and a consultant to Northrop Grumman Corporation, a global security company and a provider of products, systems and solutions in the fields of aerospace, electronics, information systems, and technical services, until 2012.

Qualifications

General Harrell's extensive knowledge of aerospace technology, global supply chain management and government relations strongly align with the Company's growth priorities and are valuable to her service as a member of the Board.

General Harrell is a member of our Compensation Committee and Nominating and Corporate Governance Committee.

Table of Contents**Business Experience****Richard G. Kyle**

Age: 53

Director since 2013

Mr. Kyle was appointed President and Chief Executive Officer of The Timken Company in 2014. Mr. Kyle joined the Company in 2006 as Vice President of Manufacturing and was named President of the Aerospace and Mobile Industries segments in 2008. In 2012, he was named Group President with responsibility for the Aerospace and Steel segments as well as engineering and technology. In 2013, Mr. Kyle was named Chief Operating Officer, Bearings and Power Transmission.

Since 2015, Mr. Kyle has served as a director of Sonoco Products Company, a global provider of consumer packaging, industrial products, protective solutions, and display and packaging services, and as a member of its Audit, Executive Compensation and Financial Policy Committees.

Qualifications

Mr. Kyle has significant experience in global manufacturing organizations and has demonstrated the ability to lead change and growth. In addition to his role as Chief Executive Officer of the Company, Mr. Kyle's strong engineering and operational background, coupled with his strategic perspective, provide valued skills to the Board.

Business Experience**John A. Luke, Jr.**

Age: 70

Director since 1999

Mr. Luke served as the Chairman and Chief Executive Officer of MeadWestvaco Corporation (MWV), a leading global producer of packaging and specialty chemicals, from the merger of Mead and Westvaco in 2002 until his retirement in 2015. Prior to his retirement, Mr. Luke led the process that resulted in MWV merging with Rock-Tenn Company to form WestRock Company, which created the second largest packaging company in the industry. Mr. Luke has served as a director of The Bank of New York Mellon Corporation from 2007 to 2018, Dominion Midstream GP, LLC from 2017 to 2018, MWV from 2002 to 2015, and WestRock Company since 2015.

Qualifications

Mr. Luke brings deep executive leadership experience to our Board, including expertise in leading large corporate transformations and evaluating and executing inorganic growth opportunities. Mr. Luke brings perspective gained from serving on several corporate boards, including as Non-Executive Chairman of WestRock Company and Chair of the Conflicts Committee of Dominion Midstream GP, LLC.

Mr. Luke chairs our Compensation Committee and is a member of our Nominating and Corporate Governance Committee.

Table of Contents

**Christopher L.
Mapes**