

Ensco plc
Form DEFA14A
May 10, 2012

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

Filed by the registrant

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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

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Ensco plc

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Additional Information Concerning the 2012 Annual General Meeting of Shareholders of Ensco plc

to be Held on 22 May 2012

INTRODUCTION

We are writing to ask for your support at the annual general meeting of shareholders by voting FOR our proposal 10 regarding the Non-Binding Advisory Vote to Approve the Compensation of our Named Executive Officers (Say on Pay). Please note that proxy advisory firms Glass Lewis and Egan-Jones have recommended a vote FOR this proposal. Glass Lewis specifically noted in its report that Ensco's compensation programs should be evaluated in comparison to peers with revenues and market capitalizations similar to Ensco's following Ensco's acquisition of Pride International a transaction that nearly doubled our size. Institutional Shareholder Services (ISS), however, has recommended a vote against this proposal, due primarily to its decision to use a peer group with revenues and market capitalizations similar to Ensco's prior to its acquisition of Pride International.

We agree with the Glass Lewis and Egan-Jones recommendations FOR the proposal and strongly disagree with the ISS recommendation.

The ISS recommendation results from its new Pay for Performance methodology, which led it to select a peer group for Ensco that inexplicably omits four of our key competitors and significantly understates Ensco's current business scope and financial size. Specifically, we have the following objection to the methodology employed by ISS in their review:

The ISS peer group is undersized and inappropriate for comparison to Ensco.

The Compensation Discussion and Analysis (CD&A) section starting on page 24 of our proxy statement explains in detail our emphasis on pay for performance and shareholder alignment in our executive compensation program, including the following positive aspects (several of which were highlighted by Glass Lewis in their review):

Performance-based LTI: 50% of target long-term incentive award value for our named executive officers (NEOs) is performance-based.

Emphasis on long-term incentive compensation: 70% of target total compensation for our CEO (63% for our other NEOs) was provided in the form of equity incentive compensation in 2011.

Clawback policy for NEOs: our NEOs are subject to clawback of incentive compensation (including equity incentive awards) in cases of financial restatements or violations of our Code of Business Conduct. In its report, ISS erroneously indicates that we do not have a clawback policy, even though the policy is summarized in our CD&A on page 34.

Share ownership guidelines: our NEOs and our nonemployee directors are subject to share ownership requirements expressed as a multiple of salary or annual retainer.

ISSUE SUMMARY

The ISS evaluation is fundamentally flawed because the peer group is significantly undersized for comparison to Ensco.

ISS's peer selection methodology does not give full effect to Ensco's size following the acquisition of Pride International, which was completed almost a year ago. Against the peer group selected by ISS, Ensco ranks at the:

§ **92nd percentile** in terms of 2011 revenues using pro-forma numbers that include both Pride International and Ensco for a full year; and

§ **97th percentile** in terms of market cap at December 31, 2011.

The ISS peer group does include 5 of the 13 companies in our own executive compensation peer group, but leaves out key drilling industry competitors Noble Corp., Nabors Industries, Rowan Companies, and Transocean.

Executive officer pay opportunities established during 2011 were based upon the post-acquisition size of Ensco, reflecting responsibility for managing a much larger post-acquisition business in terms of financial size, complexity, and global scope. Evaluating our 2011 pay decisions in comparison to a peer group of companies with much smaller and less complex businesses, while excluding key industry-specific competitors, is inappropriate.

ISS SELECTED PEER GROUP

		Revenues Most Recent Fiscal Year (\$MM)	Market Cap 12/31/2011 (\$MM)		
>>	FMC Technologies, Inc.	FTI	5,099	12,445	
	Oil States International, Inc.	OIS	3,479	3,913	<<
	McDermott International, Inc.	MDR	3,445	2,705	
	Diamond Offshore Drilling, Inc.	DO	3,322	7,683	
	Patterson-UTI Energy, Inc.	PTEN	2,566	3,110	
	Helmerich & Payne, Inc.	HP	2,544	6,253	
	Dresser-Rand Group Inc.	DRC	2,312	3,755	
	Oceaneering International, Inc.	OII	2,193	4,984	
	SEACOR Holdings Inc.	CKH	2,142	1,932	
	Superior Energy Services, Inc.	SPN	2,070	2,271	
	Key Energy Services, Inc.	KEG	1,847	2,332	
	Complete Production Services, Inc.	CPX	1,561	2,661	
	Unit Corporation	UNT	1,209	2,234	
	<i>75th Percentile</i>		<i>3,322</i>	<i>4,984</i>	
	<i>MEDIAN</i>		<i>2,312</i>	<i>3,110</i>	
	<i>25th Percentile</i>		<i>2,070</i>	<i>2,332</i>	
>>	Ensco plc (pro-forma 2011)	ESV	3,504	10,821	<<
	<i>Ensco percentile rank</i>		<i>92ndile</i>	<i>97thile</i>	

Companies shaded in gray are also part of Ensco's executive compensation peer group.

ISS EVALUATION USING CORRECTED PEER GROUP

As an alternative to the ISS review, we have prepared an analysis that combines their selected peer group with our own executive compensation peer group, for a total of 21 companies:

13 companies selected as peers by ISS; and

8 additional companies from our compensation peer group who are not already included in the ISS group (companies which also happen to be the next seven largest public companies available in Ensco's GICS Industry Group - Energy Equipment & Services).

As shown in the table, adding these additional peer companies leaves Ensco in the top quartile (75%ile) for year-end market cap, and significantly above the median (65%ile) for revenues relative to the combined group (i.e., Ensco is still large in comparison to the median peer). Nevertheless, as shown in the chart below, by making this one change we find that Ensco falls within the acceptable range in the ISS model.

ISS & ENSCO PEER GROUPS COMBINED

		Revenues Most Recent Fiscal Year (\$MM)	Market Cap 12/31/2011 (\$MM)	
Baker Hughes Inc.	BHI	19,831	21,230	
National Oilwell Varco Inc.	NOV	14,658	28,817	
Weatherford International Ltd.	WFT	12,990	11,040	
Transocean Ltd.	RIG	9,142	14,018	
Cameron International Corp.	CAM	6,959	12,061	
Nabors Industries Ltd.	NBR	6,060	4,986	
>> FMC Technologies, Inc.	FTI	5,099	12,445	<<
Oil States International, Inc.	OIS	3,479	3,913	
McDermott International, Inc.	MDR	3,445	2,705	
Diamond Offshore Drilling, Inc.	DO	3,322	7,683	
Noble Corp	NE	2,696	7,895	
Patterson-UTI Energy, Inc.	PTEN	2,566	3,110	
Helmerich & Payne, Inc.	HP	2,544	6,253	
Dresser-Rand Group Inc.	DRC	2,312	3,755	
Oceaneering International, Inc.	OII	2,193	4,984	
SEACOR Holdings Inc.	CKH	2,142	1,932	
Superior Energy Services, Inc.	SPN	2,070	2,271	
Key Energy Services, Inc.	KEG	1,847	2,332	
Complete Production Services, Inc.	CPX	1,561	2,661	
Unit Corporation	UNT	1,209	2,234	
Rowan Companies, Inc.	RDC	939	3,791	
<i>75th Percentile</i>		<i>6,060</i>	<i>11,040</i>	
<i>MEDIAN</i>		<i>2,696</i>	<i>4,984</i>	
<i>25th Percentile</i>		<i>2,142</i>	<i>2,705</i>	
>> Ensco plc (pro-forma 2011)	ESV	3,504	10,821	<<
<i>Ensco percentile rank</i>		<i>65%ile</i>	<i>75%ile</i>	

Companies shaded in gray are Ensco compensation peers we have added to the group for illustration.

	TSR Pctl Rank [A]	Pay Pctl Rank [B]
1 year (40%)	47%	70%
3 year (60%)	36%	66%
Wtd Avg	40%	67%
SCORE		
([A] - [B])		-27%

LEVEL OF
CONCERN

LOW

- 3 -

CONCLUSION

The ISS approach provides an inaccurate evaluation of relative pay and performance, not only because of clear flaws in their peer group selection, but because of several other shortcomings, the most important of which are:

Evaluation of pay opportunities rather than pay outcomes: ISS is evaluating targeted pay levels reflecting opportunities that can only be fully realized if certain levels of financial, operational or shareholder return performance are achieved.

Mismatch of performance and pay periods: ISS is evaluating pay decisions made at the beginning of a year in light of performance through the end of that year. In addition, depending upon when peer companies file their proxy statement, the ISS review may include 2011 pay data for some companies and 2010 pay data for others.

Despite these other shortcomings, for 2012, ISS would have arrived at the correct recommendation for Ensco had they merely taken a more rigorous and careful approach to peer group selection. We speculate that ISS's decision to forego a more thoughtful evaluation for Ensco may have been based on a need to maintain a rigid approach that they could easily replicate for all companies they evaluate. However, in the case of a transaction like Ensco's acquisition of Pride International, we would have expected ISS to exercise greater judgment in selecting the appropriate inputs to their model.

In considering your vote, we urge you to review the Glass Lewis and Egan-Jones reports as well as our CD&A beginning on page 24 of our proxy statement. This detailed information clearly demonstrates that our Compensation Committee maintains a compensation program that has aligned executive compensation effectively with shareholder interests and that ISS's inappropriate peer group selection has led them to an incorrect conclusion in assessing the relationship between pay and performance for Ensco.

THE BOARD OF DIRECTORS RECOMMENDS THAT

SHAREHOLDERS VOTE FOR PROPOSAL 10:

NON-BINDING ADVISORY VOTE TO APPROVE THE

COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS