

KENNAMETAL INC
Form DEF 14A
September 13, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(Rule 14a-101)
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934

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

KENNAMETAL INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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Table of Contents

KENNAMETAL INC.

600 Grant Street

Suite 5100

Pittsburgh, Pennsylvania 15219

Notice of Annual Meeting of Shareowners

to be held October 25, 2016

Notice of Annual Meeting of Shareowners

Tuesday, October 25, 2016

To the Shareowners of Kennametal Inc.:

The Annual Meeting of Shareowners (Annual Meeting) of Kennametal Inc. (the Company) will be held at the Quentin C. McKenna Technology Center, located at 1600 Technology Way (on Route 981 South), Latrobe, Unity Township, Pennsylvania, on Tuesday, October 25, 2016 at 2:00 p.m. (Eastern Time) to consider and act upon the following matters:

1. The election of four directors to the Third Class for terms to expire in 2017;
2. The ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2017;
3. A non-binding (advisory) vote to approve the compensation paid to the Company s named executive officers, as disclosed in this Proxy Statement;
4. The approval of the Kennametal Inc. Annual Incentive Plan; and
5. The approval of the Kennametal Inc. 2016 Stock and Incentive Plan.

Shareowners also will be asked to consider such other business as may properly come before the meeting. The Board of Directors has fixed Friday, August 26, 2016 as the record date (the Record Date). Only shareowners of record at the close of business on the Record Date are entitled to notice of, and to vote at, the Annual Meeting.

We are utilizing a U.S. Securities and Exchange Commission Rule that allows companies to furnish their proxy materials over the Internet rather than in paper form. We believe that this delivery process will reduce our environmental impact and over time lower the costs of printing and distributing our proxy materials. We believe that we can achieve these benefits with no impact on our shareowners timely access to this important information. If you have received a Notice and you would prefer to receive proxy materials (including a proxy card) in printed form by mail or electronically by email, please follow the instructions contained in the Notice.

If you plan to attend the Annual Meeting, please note that each shareowner *must* present valid picture identification, such as a driver s license or passport. Additionally, shareowners holding stock in brokerage accounts (street name holders) *must* bring a copy of a brokerage statement reflecting stock ownership as of the Record Date to be admitted into the Annual Meeting. No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted in the Annual Meeting.

Whether or not you plan to attend the Annual Meeting, please vote by telephone, via the Internet or complete, date and sign and return a proxy card to ensure your shares are voted at the Annual Meeting.

By Order of the Board of Directors

Michelle R. Keating
*Vice President, Secretary
and Interim General Counsel*

September 13, 2016

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS

FOR THE ANNUAL MEETING OF SHAREOWNERS TO BE HELD

OCTOBER 25, 2016

This Proxy Statement and the 2016 Annual Report are available for viewing at

www.envisionreports.com/KMT

Table of Contents**PROXY SUMMARY****2016 Proxy Summary**

This 2016 Proxy Summary highlights certain information contained elsewhere in this Proxy Statement. This summary does not contain all of the information that you should consider before voting, and we strongly encourage you to carefully read the entire proxy statement before voting.

General Information About the 2016 annual meeting of Shareowners

Date and Time:	Tuesday, October 25, 2016 at 2:00 p.m. (Eastern Time)
Location:	Quentin C. McKenna Technology Center, located at 1600 Technology Way (on Route 981 South), Latrobe, Unity Township, Pennsylvania, 15650
Record Date:	August 26, 2016
Voting:	For all matters, shareowners as of the Record Date have one vote for each share of capital stock held by such person on the Record Date

Proposals to be Considered and Board Recommendations

Proposal	Board Voting Recommendation	Page Reference (for more detail)
Election of Four Directors to the Third Class with Terms Expiring in 2017	FOR EACH DIRECTOR NOMINEE	7
Ratification of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2017	FOR	29
Non-binding (advisory) vote to approve the compensation paid to the Company's named executive officers, as disclosed in this Proxy Statement	FOR	83
Approval of the Kennametal Inc. Annual Incentive Plan	FOR	87
Approval of the Kennametal Inc. 2016 Stock and Incentive Plan	FOR	91

Table of Contents**PROXY SUMMARY****Board Nominees**

Name	Director		Occupation	Independent	Committee Memberships			Other Public Company
	Age	Since			AC	CC	N/CG	Boards
Cindy L. Davis	54	2012	Board of Directors, Buffalo Wild Wings and Kennametal Inc.	Yes	X		X	Buffalo Wild Wings
William M. Lambert	58	2016	Chairman, President and CEO, MSA Safety, Inc.	Yes	X		X	MSA Safety, Inc.
William J. Harvey	65	2011	Retired President, DuPont Packaging & Industrial Polymers (a global business unit of E.I. DuPont de Nemours & Company)	Yes		X	X	
Sagar A. Patel	50	2016	President, Aircraft Turbine Systems (a global business unit of Woodward, Inc.)	Yes				

AC Audit Committee
 CC Compensation Committee
 N/CG Nominating/Corporate Governance Committee

Attendance: In Fiscal 2016, each of our director nominees serving on the Board in that year attended at least 75% of the Board and committee meetings on which he or she sat. Mr. Patel was elected to the Board in Fiscal 2017.

Director Elections: Directors are elected by a majority of votes cast; meaning that the number of votes cast for such director nominee must exceed the number of votes cast against such nominee in order for a director of the Third Class to be elected to that class.

Corporate Governance Highlights

Our Board has a strong commitment to ethical conduct and good corporate governance, which promotes the long-term interests of shareowners, strengthens Board and management accountability and helps build public trust in the Company. The dashboard below provides a snapshot of the Company's current corporate governance policies.

Declassified the Board of Directors At its meeting on July 26, 2016, the Board of Directors (Board) approved an amendment to the Company's By-Laws removing the classification of the Board of Directors. As such, beginning at the Annual Meeting of Shareowners in

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October 2016, each nominated Director will be elected for only one year. The remaining Directors shall serve out their respective terms and upon their next nomination to the Board, if elected, shall serve for a period of one year.

Changed from Plurality Voting to Majority Voting in Director Elections At the Annual Meeting of Shareowners held on October 28, 2014, the shareowners approved a change to the voting standard in director elections from plurality voting to majority voting and to eliminate cumulative voting.

Separation of CEO and Chairman On November 17, 2014, the Board approved the separation of the roles of the Chief Executive Officer and the Chairman of the Board.

Equity Plan Changes Eliminate Single Trigger Vesting Provisions On January 27, 2015, the Compensation Committee of the Board of Directors approved an amendment to the then existing Kennametal Inc. Stock and Incentive Plan of 2010 (as Amended and Restated October 22, 2013) as well as an amendment to the Executive Retirement Plan (ERP) (as amended December 30, 2008). Each of the amendments was to (i) modify the definition of

Table of Contents

PROXY SUMMARY

Change in Control ; and (ii) eliminate single-trigger vesting of future awards under the Stock and Incentive Plan or accrued benefits under the ERP for prospective plan participants. Consistently, the Company's 2016 Stock and Incentive Plan includes a double-trigger vesting provision.

Governance Guidelines The Board has established Corporate Governance Guidelines which provide a framework for the effective governance of the Company. The guidelines address matters such as the Board's mission, a Director's responsibilities, Director qualifications, determination of Director independence, Board committee structure, Chief Executive Officer performance evaluation and management succession. The Board regularly reviews developments in corporate governance and updates the Corporate Governance Guidelines and other governance materials as it deems necessary and appropriate.

Independent Directors Our Board is comprised of all independent directors, other than our President and Chief Executive Officer.

Independent Directors Regularly Meet Our independent directors meet in executive sessions, led by our Chairman of the Board, at each regularly scheduled Board meeting.

Independent Board Committees We have three standing Board committees with only independent directors serving as members.

Annual Board and Committee Self-Evaluation Our Board and Board committees engage in a self-evaluation process annually.

High Rate of Board Attendance Our Board members attended more than 75% of all Board meetings in Fiscal 2016.

No poison pill The Company currently does not have a poison pill in place.

Strong stock ownership guidelines for Directors and Executive Officers We have adopted Stock Ownership Guidelines for directors, executives and key managers to effectively link the interests of management and our shareowners and to promote an ownership culture throughout our organization. We believe that stock should be acquired and held in quantities that encourage management to make decisions and take actions that will enhance Company performance and increase its value.

Anti-hedging, anti-pledging and anti-shorting policy Our insider trading policy prohibits the hedging of Company stock by directors, executives and other key managers without the prior approval and express authorization of the Company's General Counsel. Further, this policy also prohibits the pledging of Company stock by directors, executives and other key managers unless the General Counsel has granted an exception to the individual. An exception to this prohibition may be granted where an individual wishes to pledge Company stock as collateral for a loan (not including margin debt) and clearly demonstrates the financial capacity to repay the loan without resorting to the pledged stock.

Fiscal 2016 Financial Results Summary

The Company achieved the following performance in sales, profitability and returns for Fiscal 2016 (see Appendix A for a reconciliation of these non-GAAP financial measures to the comparable GAAP measures):

Sales of \$2.1 billion for Fiscal 2016, compared with \$2.6 billion in Fiscal 2015.

Reported (loss) earnings per diluted share (EPS) of (\$2.83) (as adjusted to exclude loss on divestiture and related charges, U.S. deferred tax asset valuation allowance, asset impairment charges, restructuring and related charges and operations of divested businesses: \$1.11) for

Table of Contents

PROXY SUMMARY

Fiscal 2016 compared with reported (loss) EPS of (\$4.71) (as adjusted to exclude asset impairment charges, restructuring and related charges and tax expense on cash redeployment and operations of divested businesses: \$2.00) for Fiscal 2015.

Adjusted return on invested capital (ROIC) for Fiscal 2016 was 6.0% compared to ROIC of 7.2% in Fiscal 2015.

Free Operating Cash Flow (FOCF) was at \$115 million for Fiscal 2016 compared to \$267 million in Fiscal 2015.

Compensation Highlights for Fiscal 2016

The following are the highlights of our 2016 compensation program:

Our Compensation Committee has adopted a strong pay-for-performance philosophy which is tested on an annual basis through a realizable pay-for-performance alignment assessment conducted by the Committee's independent consultant.

Compensation is paid in a mix of base salary; annual cash-based incentives under our Prime Bonus plan; and equity-based long-term incentive awards (consisting of stock options, restricted stock and performance share units).

Compensation is tied mainly to Company financial and stock performance, so that a substantial portion of the compensation provided to our executive officers is at risk.

Payment of annual cash-based incentives under the Prime Bonus plan is based on achieving critical measures of Company performance, consistent with our pay-for-performance philosophy. Prime Bonus payments for Fiscal 2016 performance were based on achievement of three corporate performance metrics – FOCF, Sales Revenue and EPS.

Our equity-based long-term incentive program is intended to drive the achievement of critical long-term business objectives, align management's interests with those of our shareowners and foster retention of key executives. In Fiscal 2016, 50% of the target value of each executive's long-term incentive opportunity was granted as performance stock units, 30% was granted as stock options and 20% was granted as restricted stock units (all are settled in stock). This is similar to the 2015 awards.

Vesting of performance units is based on the attainment of two financial performance goals – Adjusted ROIC (60% weight) and Relative Total Shareholder Return (TSR) (40% weight). Performance stock units are subject to an additional continuous service requirement, which provides that award recipients must remain employed by the Company through the payout date in order to receive the payout,

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generally three years after the grant date. Restricted stock units and stock options time vest based on continuous service with the Company.

Our Fiscal 2016 financial performance had the following effects on the performance-based awards held by our NEOs(1):

Component (1) of Ms. Bacchus and Messrs. De Feo, Byrnes, Dragich and van Gaalen 2016 Target Prime Bonus awards as well as 100% of the 2016 Target Prime Bonus award for Ms. Fusco were based on achievement of Kennametal FOCF, Sales Revenue and EPS. Based on the Company's Fiscal 2016 performance results, Mr. De Feo was paid a cash incentive equal to 42.2% of his pro-rated targeted award; Ms. Bacchus and Mr. van Gaalen, were paid cash incentives equal to 33.8% of their targeted awards; Mr. Byrnes was paid a cash incentive equal to 47.2% of his targeted award; and Mr. Dragich a cash incentive equal to 51.9% of his targeted award. Ms. Fusco was paid a cash incentive equal to 43% of her targeted award.

Table of Contents

PROXY SUMMARY

Component (2) of Ms. Bacchus and Messrs. De Feo, Byrnes, Dragich and van Gaalen 2016 Target Prime Bonus awards were based on achievement of certain individual strategic performance goals as determined and approved by the Compensation Committee of the Board of Directors. Based on Mr. De Feo's Fiscal 2016 individual performance results, he was paid a 2016 cash incentive of \$350,000. Ms. Bacchus and Messrs. Byrnes, Dragich and van Gaalen did not receive anything for Component 2 as the established threshold EPS was not achieved.

The first tranche (1/3) of the 2016 performance stock units, the second tranche (1/3) of the 2015 performance stock units, and the third tranche (1/3) of the 2014 performance stock units were forfeited due to the Company failing to achieve the applicable threshold EPS, ROIC and Relative TSR performance goals set for Fiscal 2016.

(1) Mr. Donald A. Nolan, our former President and Chief Executive Officer did not receive performance-based awards in Fiscal 2016.

Table of Contents**Table of Contents**

<u>GENERAL INFORMATION</u>	1
<u>PROPOSAL I. ELECTION OF DIRECTORS</u>	7
<u>ETHICS AND CORPORATE GOVERNANCE</u>	14
Code of Business Ethics and Conduct	14
Corporate Governance	14
The Board's Oversight of Risk Management	20
<u>BOARD OF DIRECTORS AND BOARD COMMITTEES</u>	21
Meeting Information	21
Board Committees	21
Committee Functions	22
Board of Directors Compensation and Benefits	23
<u>AUDIT COMMITTEE REPORT</u>	27
<u>PROPOSAL II. RATIFICATION OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING JUNE 30, 2017</u>	29
<u>EXECUTIVE COMPENSATION</u>	31
<u>COMPENSATION DISCUSSION AND ANALYSIS</u>	31
Fiscal 2016 Summary	31
Compensation Highlights for Fiscal 2016	31
Compensation for New Chief Executive Officer	33
Relationship Between Pay and Performance	34
Design of Our Executive Compensation Program	37
How Compensation Decisions Are Made	41
2017 Executive Compensation Program	53
<u>COMPENSATION COMMITTEE REPORT</u>	58
<u>ANALYSIS OF RISK INHERENT IN OUR COMPENSATION POLICIES AND PRACTICES</u>	59
Executive Compensation Tables	60
2016 Nonqualified Deferred Compensation	68
Retirement Programs	68
<u>EQUITY COMPENSATION PLANS</u>	70
<u>POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL</u>	72
<u>PROPOSAL III. NON-BINDING (ADVISORY) VOTE TO APPROVE THE COMPENSATION PAID TO THE COMPANY'S NAMED EXECUTIVE OFFICERS</u>	83
<u>OWNERSHIP OF CAPITAL STOCK BY DIRECTORS, NOMINEES AND EXECUTIVE OFFICERS</u>	84

Table of Contents

TABLE OF CONTENTS

<u>PRINCIPAL HOLDERS OF VOTING SECURITIES</u>	86
<u>PROPOSAL IV. APPROVAL OF THE KENNAMETAL INC. ANNUAL INCENTIVE PLAN</u>	87
<u>PROPOSAL V. APPROVAL OF THE KENNAMETAL INC. 2016 STOCK AND INCENTIVE PLAN</u>	91
<u>FORM 10-K ANNUAL REPORT</u>	99
<u>OTHER MATTERS</u>	100
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	100
<u>APPENDIX A ADJUSTED EPS, FOCF AND ADJUSTED ROIC RECONCILIATIONS</u>	A-1
<u>APPENDIX B KENNAMETAL INC. ANNUAL INCENTIVE PLAN</u>	B-1
<u>APPENDIX C KENNAMETAL INC. 2016 STOCK AND INCENTIVE PLAN</u>	C-1

Table of Contents

GENERAL INFORMATION

General Information

When and where is the 2016 annual meeting?

The 2016 annual meeting of shareowners (the Annual Meeting) will be held on Tuesday, October 25, 2016 at 2:00 p.m. (Eastern Time) at the Quentin C. McKenna Technology Center, located at 1600 Technology Way (on Route 981 South), Latrobe, Unity Township, Pennsylvania, 15650.

Why did I receive a Notice in the mail regarding the Internet availability of proxy materials instead of a full set paper copy of this Proxy Statement and the 2016 Annual Report?

We are utilizing an SEC rule that allows companies to furnish their proxy materials over the Internet rather than in paper form. This rule allows a company to send some or all of its shareowners a Notice regarding Internet availability of proxy materials (Notice). Instructions on how to access the proxy materials over the Internet or how to request a paper copy of proxy materials may be found in the Notice.

If you have received a Notice and you would prefer to receive proxy materials (including a proxy card) in printed form by mail or electronically by email, please follow the instructions contained in the Notice.

Why didn't I receive a Notice in the mail regarding the Internet availability of proxy materials?

The SEC rules that allow us to furnish our proxy materials over the Internet rather than in paper form do not require us to do so for all shareowners. We may choose to send certain shareowners the Notice, while sending other shareowners a full set paper copy of our Proxy Statement, 2016 Annual Report, Notice and proxy card.

How can I access the proxy materials over the Internet?

The Notice contains instructions on how to view the proxy materials on the Internet, vote

your shares on the Internet and obtain printed or electronic copies of the proxy materials. An electronic copy of this Proxy Statement and the 2016 Annual Report are available at www.envisionreports.com/KMT.

When was the Notice or other proxy materials mailed to shareowners?

The Notice of this Proxy Statement was first mailed to shareowners on or about September 13, 2016. Once the Notice is received, Shareowners have the option of (1) accessing the proxy materials, including instructions on how to vote, online; or (2) requesting that those materials be sent to the Shareowner in paper. Opting to receive your proxy materials online will save the Company the cost of producing and mailing documents to your home or business, and will also give you an electronic link to the proxy voting site.

Why did I receive a Notice or a copy of this Proxy Statement?

The Board of Directors of Kennametal Inc. (we, us, Kennametal or the Company) is soliciting proxies to be voted at the Annual Meeting to be held on October 25, 2016, and at any adjournment of the Annual Meeting. When we ask for your proxy, we must provide you with a proxy statement that contains certain information specified by law.

What will the shareowners vote on at the Annual Meeting?

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The Board of Directors has submitted five proposals for your consideration at this meeting:

The election of four directors to the Third Class for terms to expire in 2017;

The ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2017;

A non-binding (advisory) vote to approve the compensation paid to the Company's named executive officers, as disclosed in this Proxy Statement;

KENNAMETAL INC. 2016 Proxy Statement | 1

Table of Contents

GENERAL INFORMATION

The approval of the Kennametal Inc. Annual Incentive Plan; and

The approval of the Kennametal Inc. 2016 Stock and Incentive Plan.

Will there be any other items of business on the agenda?

We do not expect any other items of business to be presented at the meeting. However, in case there is an unforeseen need, your proxy also gives discretionary authority to the named proxy holders with respect to any other matters that might be brought before the meeting. Those proxy holders intend to vote your proxy on any such matter in accordance with their best judgment.

Who is entitled to vote?

Shareowners as of the close of business on Friday, August 26, 2016 (the Record Date) may vote at the Annual Meeting. For all matters, you have one vote for each share of capital stock you hold on the Record Date, including shares:

held directly in your name as the shareowner of record,

held for you in an account with a broker, bank or other nominee,