

First American Financial Corp
Form DEF 14A
March 30, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

SCHEDULE 14A

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 Under §240.14a-12
FIRST AMERICAN FINANCIAL CORPORATION

(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:

Edgar Filing: First American Financial Corp - Form DEF 14A

(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 fee 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:

(2) Form, Schedule or Registration Statement No.:

(3) Filing party:

(4) Date Filed:

March 30, 2018

Dear Fellow Stockholder,

You are cordially invited to attend our annual meeting of stockholders at 1 p.m. Pacific time on May 8, 2018, at the executive offices of First American Financial Corporation, located at 1 First American Way, Santa Ana, California 92707.

With this letter, we are including the notice for the annual meeting, the proxy statement and the proxy card. We are also including a copy of our 2017 annual report. A map and directions to our executive offices can be found on the inside back cover of the proxy statement.

We have made arrangements for you to vote your proxy over the Internet or by telephone, as well as by mail with the traditional proxy card. The proxy card contains instructions on these methods of voting.

Your vote is important. Whether or not you plan on attending the annual meeting on May 8, 2018, we hope you will vote as soon as possible.

Thank you for your continued support of First American Financial Corporation.

Parker S. Kennedy Dennis J. Gilmore

Chairman of the Board Chief Executive Officer

To be Held on May 8, 2018

The annual meeting of stockholders of First American Financial Corporation, a Delaware corporation (our “Company”), will be held at 1 p.m. Pacific time on May 8, 2018, at the executive offices of the Company, located at 1 First American Way, Santa Ana, California 92707, for the following purposes:

1. To elect the persons named in the accompanying proxy statement to serve as Class II directors on our board of directors for a three year term expiring on the date of the 2021 annual meeting of stockholders;
2. To approve, on an advisory basis, the Company’s executive compensation;
3. To ratify the selection of PricewaterhouseCoopers LLP as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2018; and
4. To transact such other business as may properly come before the meeting or any postponements or adjournments thereof.

Only stockholders of record at the close of business on March 15, 2018 are entitled to notice of the meeting and an opportunity to vote.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on May 8, 2018: First American Financial Corporation’s notice of annual meeting and proxy statement, annual report and other proxy materials are available at www.firstam.com/proxymaterials.

We hope you will attend the meeting to vote in person. However, if you are unable to attend the meeting and vote in person, please submit a proxy as soon as possible, so that your shares can be voted at the meeting in accordance with your instructions. You may submit your proxy (1) over the Internet, (2) by telephone, or (3) by mail. For specific instructions, please refer to the questions and answers commencing on page 61 of the proxy statement and the instructions on the proxy card.

Jeffrey S. Robinson

Vice President and Secretary

Santa Ana, California

March 30, 2018

Table of Contents

	Page
<u>PROXY STATEMENT</u>	1
I. <u>PROPOSALS</u>	2
<u>Item 1. Election of Class II Directors</u>	6
<u>Item 2. Advisory Vote to Approve Executive Compensation</u>	7
<u>Item 3. Ratification of Selection of Independent Auditor</u>	9
II. <u>REQUIRED INFORMATION</u>	10
<u>Security Ownership of Management</u>	10
<u>Board and Committee Meetings</u>	11
<u>Independence of Directors</u>	13
<u>Board Leadership Structure: Meetings of Independent Directors</u>	14
<u>Risk Oversight</u>	14
<u>Director Attendance at Annual Meetings</u>	15
<u>Stockholder and Interested Party Communications with Directors</u>	16
<u>Transactions with Management and Others</u>	16
<u>Executive Officers</u>	16
<u>Executive Compensation</u>	18
<u>Compensation Discussion and Analysis</u>	18
<u>Introduction</u>	18
<u>Executive Summary</u>	18
<u>Executive Compensation Program in Detail</u>	23

<u>Compensation Decision Process</u>	25
<u>Pay Elements</u>	26
<u>Impact of Tax and Accounting</u>	40
<u>Compensation Committee Report</u>	40
<u>Executive Compensation Tables</u>	41
<u>2017 Summary Compensation Table</u>	41
<u>2017 Grants of Plan-Based Awards</u>	42
<u>Outstanding Equity Awards at 2017 Fiscal Year-End</u>	43
<u>2017 Option Exercises and Stock Vested</u>	44
<u>2017 Pension Benefits</u>	44

	Page
<u>2017 Nonqualified Deferred Compensation</u>	46
<u>2017 Potential Payments upon Termination or Change-in-Control</u>	47
<u>Pay Ratio</u>	52
<u>2017 Director Compensation</u>	53
<u>Code of Ethics</u>	55
<u>Corporate Governance Guidelines</u>	55
<u>Compensation Committee Interlocks and Insider Participation</u>	55
<u>Report of the Audit Committee</u>	55
<u>Securities Authorized for Issuance under Equity Compensation Plans</u>	56
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	56
<u>Relationship with Independent Registered Public Accounting Firm</u>	57
<u>Principal Accounting Fees and Services</u>	57
<u>Policy on Audit Committee Pre-approval of Audit and Permissible Nonaudit Services of Independent Auditor</u>	57
<u>Stockholder Proposals</u>	57
<u>Appraisal Rights</u>	58
<u>III. CORPORATE RESPONSIBILITY AND SUSTAINABILITY</u>	59
<u>IV. QUESTIONS AND ANSWERS</u>	61
<u>V. OTHER INFORMATION</u>	67
<u>APPENDIX A Non-GAAP Financial Measures</u>	A-1

PROXY STATEMENT

Solicitation of Proxies by the Board of Directors

Our board of directors (our “Board”) is soliciting proxies from holders of our common stock for use at the annual meeting of our stockholders to be held on May 8, 2018, at 1 p.m. Pacific time. The meeting will be held at the executive offices of First American Financial Corporation, a Delaware corporation (our “Company” or “First American”), located at 1 First American Way, Santa Ana, California 92707. We have included a map and directions to our executive offices on the inside back cover of the proxy statement for your convenience.

We are mailing this proxy statement and the enclosed proxy card, notice of annual meeting, stockholders letter and 2017 annual report to our stockholders on or about March 30, 2018. In lieu of a proxy card, holders of shares held in street name through a bank, broker or other nominee are receiving a voting instruction form from their bank, broker or other nominee. As used herein, references to “proxy” or “proxy card” also refer to the voting instruction form provided to street name holders.

The remainder of this proxy statement has been divided into five sections. You should read all five sections.

- I. Proposals: this section provides information relating to the proposals to be voted on at the stockholders’ meeting.
- II. Required Information: this section contains information that is required by law to be included in this proxy statement and which has not been included in the other sections.
- III. Corporate Responsibility and Sustainability: this section highlights some of our efforts to reduce our environmental impact and to improve the communities in which we operate.
- IV. Questions and Answers: this section provides answers to a number of frequently asked questions.
- V. Other Information: this section provides other information regarding this proxy, including instructions about how to obtain a copy of our annual report.

I. Proposals

Information Regarding the Nominees for Election

The following list provides information with respect to each person nominated and recommended to be elected as a Class II director by our Board, to serve for a three-year term expiring on the date of the 2021 annual meeting of stockholders. Each of the nominees is currently serving as a director of the Company. Virginia M. Ueberroth will retire in connection with the annual meeting. The Company has been conducting a search for a director to fill the vacancy created by Ms. Ueberroth's retirement, and it is anticipated that an appointment will be made to fill that vacancy shortly following the annual meeting, assuming the clearing process has been satisfactorily completed.

DENNIS J. GILMORE

Age: 59

Director since:
2010

Committees:

Executive

Independent:
No

Mr. Gilmore is our chief executive officer and has been a director since we separated from The First American Corporation in 2010. From 2008 until the separation, he served as chief executive officer of The First American Corporation's financial services group. He also served as chief operating officer of The First American Corporation from 2004 to 2008. As the Company's chief executive officer, Mr. Gilmore provides our Board of Directors in-depth insight into the Company's businesses, challenges and opportunities, as well as significant experience in the real estate settlement services industry.

MARGARET M. MCCARTHY

Age: 64

Director since:
2015

Committees:

Governance

Ms. McCarthy has been a director since June 2015. She has served as executive vice president of operations and technology for Aetna, Inc., one of the nation's leading diversified health care benefits companies (NYSE: AET), since 2010. She is responsible for innovation, technology, data security, procurement, real estate and service operations. Prior to joining Aetna in 2003, she served in information technology-related roles at CIGNA Healthcare and Catholic Health Initiatives, among others. Ms. McCarthy also worked in technology consulting at Accenture and was a consulting partner at Ernst & Young. She is a director of vAmour, a data center and cloud security company, and also serves on various advisory boards and councils, including the Financial Services Information Sharing and Analysis Center, Oracle Presidents Council, MIT Center for Information Systems

Independent:
Yes

Research and the Board of Trustees of Providence College. Given her extensive experience managing large groups of employees, complex processes and enterprise-critical technology, Ms. McCarthy brings to the Board valuable insights into areas of critical import to the operations of the Company.

Information Regarding the Other Incumbent Directors

The following lists provide information with respect to the individuals currently serving as Class III directors, whose current term expires at the 2019 annual meeting of stockholders, and Class I directors, whose term expires in 2020, followed by similar information for a retiring director.

Class III Directors—Term Expiring 2019

PARKER S. KENNEDY

Age: 70

Director since:
2010

Committees:

Compensation

Executive
(chair)Independent:
Yes

Mr. Kennedy serves as chairman of the Board and has been a director of the Company since we separated from The First American Corporation in 2010. Mr. Kennedy served as executive chairman of the Company from the separation until his retirement as an employee in February 2012. From 2003 until the separation, he served as The First American Corporation's chairman and chief executive officer. He also served as The First American Corporation's president from 1993 to 2004. He served as a director of The First American Corporation and its successor entity, CoreLogic, Inc., from 1987 to 2011, and was CoreLogic, Inc.'s executive chairman from the separation to 2011. Mr. Kennedy also served on the First Advantage Corporation board until 2009. We believe that Mr. Kennedy, who has worked with us in various capacities for over 40 years, has unparalleled executive experience in our industry. He also brings to the Company an incomparable understanding of our history and culture.

MARK C. OMAN

Age: 63

Director since:
2013

Committees:

Audit

Compensation

Independent:
Yes

Mr. Oman retired from Wells Fargo & Company in 2011, after serving it or its predecessors since 1979. At Wells Fargo he held numerous positions, including senior executive vice president (home and consumer finance) from 2005 until his retirement and group executive vice president (home and consumer finance) from 2002 to 2005. Mr. Oman also served as a director and the chief executive officer of Wachovia Preferred Funding Corp. from 2009 to 2011 and as a director of American Caresource Holdings, Inc. from 2013 to 2017. He is currently involved with several private ventures and serves on a variety of boards and advisory boards. Mr. Oman brings to the Board important insights into the mortgage market and working with large mortgage lenders.

I. Proposals

REGINALD H. GILYARD

Age: 54

Director since: 2017

Committees:

Governance

Independent: Yes

Mr. Gilyard is a senior advisor with The Boston Consulting Group, a global management consulting company. From 2012 to 2017 he was dean of the Argyros School of Business and Economics at Chapman University. From 1996 to 2012, he held various positions with The Boston Consulting Group, including as a partner and managing director. He began his career serving in the United States Air Force. With his in-depth understanding of the complexities of large businesses and keen grasp of customer needs across a variety of industry sectors, Mr. Gilyard brings to the Board a unique perspective on how we can make our operations more efficient and serve our customers better.

Class I Directors—Term Expiring 2020

JAMES L. DOTI

Age: 71

Director since: 2010

Committees:

Audit (chair)

Executive

Independent: Yes

Mr. Doti is president emeritus and the Donald Bren Distinguished Chair of Business and Economics at Chapman University and served as Chapman's president from 1991 to 2016. He has been a director since we separated from The First American Corporation in 2010 and he served as a director of The First American Corporation from 1993 until the separation. He previously served on the boards of Standard Pacific Corp. and Fleetwood Enterprises, Inc. Given his experience as president of Chapman University and with a doctorate in economics from the University of Chicago, Dr. Doti gives our Company insight into the organizational challenges that large companies face and the impact of the economic environment on the Company.

MICHAEL D. MCKEE

Age: 72

Director since: 2011

Committees:

Compensation (chair)

Mr. McKee serves as a principal of The Contrarian Group, a private equity firm. Mr. McKee has announced his retirement this year as a director of HCP, Inc. (NYSE: HCP), a publicly traded real estate investment trust for which he has been a director since 1989. From 2016 to 2018, he served as executive chairman of HCP and, during 2016, he also served as interim chief executive officer and president of HCP. From 2010 to 2016, Mr. McKee was chief executive officer of Bentall Kennedy (U.S.), a registered real estate investment advisor. Mr. McKee also served as the chief executive officer of The Irvine Company, a privately-held

Independent: Yes

real estate development and investment company, from 2007 to 2008, as vice chairman of its board of directors from 1999 to 2008 and as an executive officer of that company since 1994. Prior to that, he was a partner with the law firm of Latham & Watkins LLP from 1986 to 1994. In addition, Mr. McKee is the Chairman of Realty Income Corporation (NYSE: O) and the Tiger Woods Foundation. He previously served as a director of Mandalay Resort Group, Irvine Apartment Communities, Inc. and Oasis Residential Inc. Mr. McKee brings to the Board significant operating and executive management experience. This experience, combined with Mr. McKee's extensive background in the real estate industry, facilitates the Board's oversight of the Company's operations and enhances its ability to assess strategic opportunities.

	THOMAS V. MCKERNAN
Age: 73	
Director since: 2011	Mr. McKernan serves as chairman of the board of AAA—Auto Club Enterprises and the Automobile Club of Southern California (the “Auto Club”). Mr. McKernan served as chief executive officer of the Auto Club from 1991 until his retirement in 2012. Mr. McKernan also serves as a director of Payden & Rygel Investment Group and as a trustee of certain funds associated therewith. Other positions held by Mr. McKernan include directorships with various companies and membership on various advisory councils. In addition, he served as vice chairman of the board of California Physicians Service, Inc., which operates as Blue Shield of California, and its subsidiary, Blue Shield of California Life & Health Insurance Company, until September 2009. Through his operating and executive management experience, much of it gained in the process of transforming the Auto Club into a leader in the California insurance industry, Mr. McKernan brings to the Company valuable insight into the challenges facing an insurance company that is executing on a strategic growth plan. His extensive experience participating in the management of insurance company investment portfolios also has been of significant value to the Company.
Committees:	
Audit	
Executive	
Independent: Yes	

Directors Serving through May 8, 2018

	VIRGINIA M. UEBERROTH
Age: 78	
Director since: 2010	Ms. Ueberroth is chairman of the Ueberroth Family Foundation, a philanthropic organization. She has been a director since we separated from The First American Corporation in 2010 and she served as a director of The First American Corporation from 1988 until the separation. She retired as a director of Hoag Memorial Hospital Presbyterian in 2016. Through Ms. Ueberroth’s experience in philanthropic causes, the Company derives an appreciation for its stakeholders in the community. In connection with the Company’s mandatory retirement policy, Ms. Ueberroth is not standing for reelection and, accordingly, it is anticipated that her service on the Board will be completed on May 8, 2018.
Committees:	
Governance (chair)	
Independent: Yes	

See the section entitled “Security Ownership of Management,” which begins on page 10, for information pertaining to stock ownership of our directors. There are no family relationships among any of the directors or nominees or any of the executive officers of the Company. There are no arrangements or understandings between any director and any other person pursuant to which any director was or is to be selected as a director.

Item 1. Election of Class II Directors

Our certificate of incorporation provides for a classified Board. Each person elected as a Class II director at the annual meeting of stockholders will serve for a three-year term expiring on the date of the 2021 annual meeting and until his or her successor in office is elected and qualified. Our Board has nominated the following individuals for election as Class II directors:

Dennis J. Gilmore

Margaret M. McCarthy

Unless otherwise specified by you in your proxy card, the proxies solicited by our Board will be voted “FOR” the election of the Class II director nominees. If any nominee should become unable or unwilling to serve as a director, the proxies will be voted for such substitute nominee(s) as shall be designated by our Board. Our Board presently has no knowledge that any of the nominees will be unable or unwilling to serve.

Item 2. Advisory Vote to Approve Executive Compensation

Pursuant to Section 14A of the Securities Exchange Act of 1934 and Securities and Exchange Commission (“SEC”) rules, we are seeking the advice of our stockholders on the compensation of our named executive officers as presented in the “Executive Compensation” section of this proxy statement commencing on page 18. Specifically, we are seeking stockholder approval of the following resolution:

“RESOLVED, that the stockholders of First American Financial Corporation approve, on an advisory basis, the compensation of the Company’s named executive officers, as disclosed in the Compensation Discussion and Analysis, the 2017 Summary Compensation Table and the related compensation tables, notes and narrative in the Proxy Statement for the Company’s 2018 annual meeting of stockholders.”

We refer to this proposal as a “Say on Pay” proposal. As part of its process in determining executive compensation levels for 2017, the Compensation Committee has reviewed the results of last year’s Say on Pay proposal, in which approximately 97% of the Company’s shares present and entitled to vote approved 2016 executive compensation. The stockholder support for the prior Say on Pay proposal reinforces the Compensation Committee’s belief that it should continue its practice of implementing and overseeing executive compensation programs that provide for a substantial portion of the executive officer’s total compensation to be related to the Company’s consolidated financial performance. It also reinforces the Compensation Committee’s sense that, for executive officers, the mix of compensation should be weighted heavily toward at-risk pay, in particular, the annual incentive bonus (a portion of which consists of equity vesting over four years) and should include a substantial portion of equity. This is consistent with the overall philosophy of maintaining a pay mix that results fundamentally in a pay-for-performance orientation and a strong alignment between the interests of executive officers and long-term stockholders.

The Compensation Committee believes the Company’s management team achieved excellent results in 2017 and was successful in executing on the Company’s strategic objectives. The Company’s 2017 performance generally improved over a strong 2016, with revenue growing 3.5% to \$5.8 billion and net income increasing from \$343 million to \$422 million. Pretax margin for the title insurance and services segment was 12.1%, the highest in the Company’s history and up 40 basis points over the prior year. Return on equity improved from 11.9% in 2016 to 13.0% in 2017. Both metrics, pretax margin and return on equity, met the Company’s stated long-term objectives. Reflecting its commitment to drive return for its stockholders, during the year the Company increased its cash dividend by 12% from an annual rate of \$1.36 to \$1.52 per share and achieved a one-year total stockholder return of 57.9%.

During the year the Company successfully executed against its long-term strategic goals. Though market share in its United States title insurance business decreased slightly, the Company completed a number of strategic acquisitions designed to grow and strengthen the Company’s core title and settlement business over the long-term. The Company also invested heavily in technology aimed at increasing the efficiency of its operations, reducing risk and enhancing the customer experience. As a complement to its technology investments, the Company also invested heavily in its real property databases, already the most comprehensive of their kind in the United States.

The full results of the 2017 executive compensation program are included in the section entitled “Compensation Discussion and Analysis” below commencing on page 18. Stockholders are urged to read the Compensation Discussion and Analysis as well as the 2017 Summary Compensation Table and related compensation tables and narrative, appearing on pages 41 through 52, in their entirety.

Item 2. Advisory Vote to Approve Executive Compensation

While this vote to approve executive compensation is not binding, the Compensation Committee intends to review the results of the vote in connection with its ongoing analysis of the Company's compensation programs. The Company expects to include a Say on Pay proposal in its proxy materials on an annual basis and, thus, we expect that the next Say on Pay proposal will occur at the Company's 2019 annual meeting.

Item 3. Ratification of Selection of Independent Auditor

The Audit Committee has selected PricewaterhouseCoopers LLP (“PwC”) to serve as our independent registered public accounting firm for the fiscal year ending December 31, 2018. Representatives of PwC are expected to be present at the annual meeting, and, if they do attend the annual meeting, will have an opportunity to make a statement and be available to respond to appropriate questions.

Selection of our independent registered public accounting firm is not required to be submitted for stockholder approval, but the Audit Committee is seeking ratification of its selection of PwC from our stockholders as a matter of good corporate governance. If the stockholders do not ratify this selection, the Audit Committee will reconsider its selection of PwC and will either continue to retain this firm or appoint a new independent registered public accounting firm. Even if the selection is ratified, the Audit Committee may, in its discretion, appoint a different independent registered public accounting firm at any time during the year if it determines that such a change would be in our Company’s best interests and those of its stockholders.

II. Required Information

Security Ownership of Management

The following table sets forth the total number of our shares of common stock beneficially owned and the percentage of the outstanding shares so owned as of the record date by:

- each director (and each nominee for director);
- each executive officer named in the “2017 Summary Compensation Table” on page 41 (each, a “named executive officer”); and
- all directors and executive officers as a group.

Unless otherwise indicated in the notes following the table, the stockholders listed in the table are the beneficial owners of the listed shares with sole voting and investment power (or, in the case of individual stockholders, shared power with such individual’s spouse) over the shares listed. Shares subject to rights exercisable within 60 days after the record date are treated as outstanding when determining the amount and percentage beneficially owned by a person or entity.

	Number of Common Shares	Percent if greater than 1%
Stockholders		
Directors		