

PROS Holdings, Inc.
Form DEF 14A
March 25, 2019

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

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

PROS HOLDINGS, INC.
(Name of Registrant as Specified In Its Charter)

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:
- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:

NOTICE OF 2019 ANNUAL MEETING OF STOCKHOLDERS

DATE Tuesday, May 7, 2019

TIME 8:00 a.m., Central Daylight Time

PLACE 3100 Main Street, 9th Floor, Houston, Texas 77002, +1 (713) 335-5151

AGENDA

- 1 Elect two Class III directors named in the Proxy Statement to the board of directors of PROS Holdings, Inc. (Board of Directors or Board) each to serve a three-year term until our annual meeting of our stockholders to be held in the year 2022 (2022 Annual Meeting);
- 2 Advisory vote on named executive officer compensation;
- 3 Approve proposed amendments to 2017 Equity Incentive Plan;
- 4 Ratification of appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2019; and
- 5 Transaction of other business that may properly come before the Annual Meeting.

RECORD DATE

Only stockholders of record at the close of business on March 15, 2019 (Record Date) will be entitled to receive notice of, and to vote at, the 2019 annual meeting of our stockholders (Annual Meeting).

MATERIALS TO REVIEW

We are mailing to our stockholders a Notice of Internet Availability of Proxy Materials (Notice), instead of a paper copy of this proxy statement (Proxy Statement) and our Annual Report to Stockholders for the Year Ended December 31, 2018 (2018 Annual Report). The Notice contains instructions on how to access those documents over the Internet. The Notice also contains instructions on how to request a paper copy of our proxy materials, including this Proxy Statement, our 2018 Annual Report and a form of proxy card or voting instruction card.

PROXY VOTING

Please vote your shares promptly to ensure the presence of a quorum at the meeting. Voting your shares now via the Internet, by telephone, or by signing, dating, and returning the accompanying proxy card or voting instruction form will save the expenses and extra work of additional solicitation. If you wish to vote by mail, we have enclosed an addressed envelope, postage prepaid if mailed in the United States. Submitting your proxy now will not prevent you from voting your shares at the meeting, as your proxy is revocable at your option.

By Order of the Board of Directors,

/s/ Damian Olthoff
Damian Olthoff
Secretary
Houston, Texas
March 25, 2019

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EXECUTIVE SUMMARY

This summary highlights selected information for PROS Holdings, Inc. (together with its consolidated subsidiaries, PROS, the Company, we, us or our) in this Proxy Statement. You should read this entire Proxy Statement carefully before voting.

Voting Matters

Proposal	Board Vote Recommendation	Page #
Elect two Class III directors	FOR each director nominee	20
Advisory vote on executive compensation	FOR	42
Approve proposed amendments to 2017 Equity Incentive Plan	FOR	43
Ratification of appointment of PricewaterhouseCoopers LLP for fiscal year 2019	FOR	56

Business Highlights

In 2018, PROS reached new milestones in our cloud transformation efforts, while continuing to enable our customers to leverage our AI-powered solutions that optimize selling in the digital economy. The following highlights some of our accomplishments in 2018:

Continued substantial growth:

Subscription revenue increased 57% year-over-year, Recurring Revenue (Subscription + Maintenance Revenue) grew 23% year-over-year, Annual Recurring Revenue (ARR)⁽¹⁾ grew 18% year-over-year, and total revenue grew 17% year-over-year and surpassed pre-cloud transition total revenue in less than four years;

Cash flow provided by operating activities improved over \$30.0 million year-over-year, and Free Cash Flow⁽²⁾ improved \$29.0 million year-over-year;

Total shareholder return grew 19% during 2018, and cumulatively grew 59% from the end of 2017 through March 15, 2019.

Continued to innovate to deliver our solutions faster and with higher gross margins, which in turn drove higher accessibility and faster sales cycles for new customers;

Successfully maintained ISO27001, SOC2 and CSA security certifications, underscoring our commitment to customers by achieving the industry's most rigorous requirements for cloud security and data privacy, governance, and compliance;

Enhanced capital structure and strengthened our balance sheet by completing a follow-on public offering of 4,370,000 primary shares of common stock generating \$142 million in net proceeds; and

Further strengthened our executive team to help us continue scaling our business.

Annual Recurring Revenue ("ARR") is used to assess the trajectory of our cloud business. ARR means, as of a specified date, the contracted recurring revenue, including contracts with a future start date, together with (1) annualized overage fees incurred above contracted minimum transactions, and excluding perpetual and term license agreements recognized as license revenue in accordance with GAAP. ARR should be viewed independently of revenue and any other GAAP measure.

(2)

Free cash flow is a non-GAAP financial measure which is defined as net cash provided by (used in) operating activities, less capital expenditures (excluding expenditures for PROS new headquarters), purchases of other (non-acquisition-related) intangible assets and capitalized internal-use software development costs.

CEO Pay and Company Performance

In 2018, we continued to successfully execute our multi-year cloud transition, delivering subscription revenue growth of over 50% for the second consecutive fiscal year. Our performance (based on our subscription revenue, ARR, recurring revenue, and stock price) was as follows:

Annual Recurring Revenue ("ARR") is used to assess the trajectory of our cloud business. ARR means, as of a specified date, the contracted recurring revenue, including contracts with a future start date, together with (1) annualized overage fees incurred above contracted minimum transactions, and excluding perpetual and term license agreements recognized as license revenue in accordance with GAAP. ARR should be viewed independently of revenue and any other GAAP measure.

CEO pay was set conservatively, just slightly above expected peer CEO median target compensation levels. This was despite the Company's strong financial performance and 23% total shareholder return in 2017.

The Compensation & Leadership Development (CLD) Committee is pleased with the Company's performance and set target pay in line with competitive market practice of similar peer companies to ensure we retain and reward our CEO for continued strong performance going forward.

Growth in shareholder return has outpaced growth in our CEO's target pay. Our CEO's 2018 base salary and target cash incentive remained unchanged from 2017 levels, which is the fourth year in a row with no CEO salary or target cash incentive increase. Our CEO's total target compensation, including base salary, target cash incentive and target value of long-term equity compensation, was set near the median pay level of our peer CEOs that was expected for 2018, which proved true when reviewing peer CEO compensation levels later in 2018.

(1) Target equity compensation (a) for RSUs and MSUs represents total target equity compensation determined by the Compensation and Leadership Development Committee divided by the closing price of the Company's Common Stock reported by the NYSE on the grant date, and differs from the accounting grant date fair value included in the "Grants of Plan Based Awards" table on page 39 of this Proxy Statement; and (b) for PRSUs represents the accounting grant date fair value.

- Our CEO's pay continues to be >50% directly "performance-based" (including annual cash incentive and performance-based equity) and >90% at risk (including time-based RSUs).

We set aggressive performance-based goals, with higher target top line growth required to achieve target payout and significantly higher minimum top line growth required to achieve any payout when compared to our peers' historical averages.

The 2018 annual cash incentive plan resulted in our CEO attaining 138.5% of his annual cash incentive target based strictly on formulaic results vs. predefined targets, with no discretion applied to the outcome.

CEO 2018 Target Compensation

For 2018, our CLD Committee decided to leave Mr. Reiner's base salary and cash incentive target unchanged from 2017, the third year in a row without an increase in target cash compensation. Consistent with the median of our peer group compensation, the CLD Committee decided to increase Mr. Reiner's performance-based pay in the form of equity-based compensation due to Mr. Reiner's impact on the Company's successful operational and financial progress on our cloud transition. As a result, Mr. Reiner's total target compensation increased 9% in 2018-- less than our total shareholder return of 19% in 2018 and 59% cumulative total shareholder return for 2018 through March 15, 2019.

CEO Year-End Compensation Decisions 2019 v. 2018

For 2019, the CLD Committee decided to leave Mr. Reiner's base salary and cash incentive target unchanged from 2018, the fourth year in a row without an increase in target cash compensation. Consistent with the median of our peer group, the CLD Committee decided to increase Mr. Reiner's performance-based pay in the form of equity-based compensation due to Mr. Reiner's continued impact on the Company's successful operational and financial progress on our cloud transition and the 19% growth in shareholder return in 2018.

Governance Highlights

Board Practices

- ü All non-employee directors independent
- ü Independent non-executive chairman Independent Audit, Compensation and Leadership Development, and Nominating and Corporate Governance Committees of the Board (Committees)
- ü Regular executive sessions of non-employee and independent directors. Our non-executive chairman of the Board presides at executive sessions.
- ü Annual Board and Committee evaluations
- ü Regularly attend continuing education related to board governance best practices.
- ü 25% women
- ü 50% under age 60
- ü Risk oversight by full Board and Committees

Shareholder Matters

- ü Active shareholder outreach program
- Engage with shareholders throughout each year, including at earnings conference calls, investor road shows, investor days, as well as at individual shareholder meetings. We also welcome shareholders to attend our annual OutPerform event for customers and prospects.
- ü Annual “Say-on-Pay” advisory vote

Other Best Practices

- ü Anti-hedging, anti-short and anti-pledging policies
- ü Stock ownership guidelines for named executive officers (NEOs)
- “Clawback” policy to recover, under applicable law, incentive bonuses awarded to any NEO as a result of that NEO’s fraud or intentional misconduct.
- ü Director resignation policy requires director nominees who do not receive at least 50% of the stockholder votes “for” re-election to tender their resignation.

Director Nominees

Name	Age	Director Since	Class	Independent	Other Current Public Company Boards
Andres D. Reiner	48	2010	III	No	Paylocity Holding Corporation
Ronald F. Woestemeyer	73	1985	III	Yes	-

Continuing Directors

Name	Age	Director Since	Class	Independent	ACC	CNC	Other Current Public Company Boards
Penelope Herscher	58	2018	II	Yes	M	M	Faurecia SA; Lumentum Holdings, Inc.; Verint Systems, Inc.
Greg B. Petersen	56	2007	I	Yes	M	C	-
Leslie Rechan	57	2015	II	Yes	M	M	MicroStrategy Incorporated; Solace Corp.
William Russell	67	2008	II	Yes	M	C	Accesso Technology Group PLC
Timothy V. Williams	69	2007	I	Yes	C	M	ChannelAdvisor Corporation
Mariette M. Woestemeyer	67	1985	I	Yes			