

2024 Target Setting Toolkit

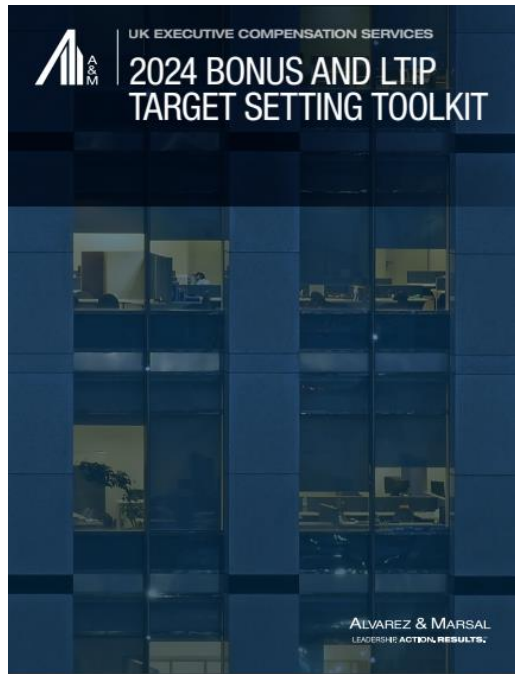
February 2024

ALVAREZ & MARSAL



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2024 Target Setting Toolkit



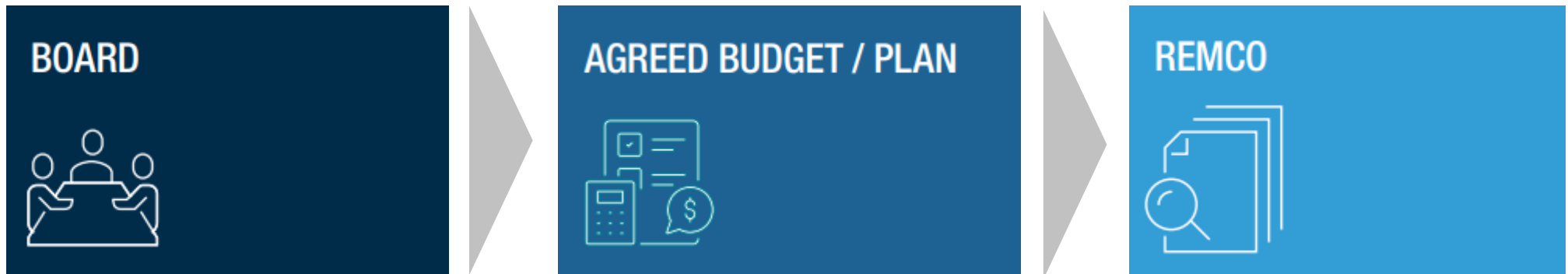
James Harris
Managing Director



Alex Gardner
Senior Director

- ▶ Focus on profit-based performance targets
- ▶ Present market data
- ▶ Q&A

Effective target setting starts with process...



What do other companies do?



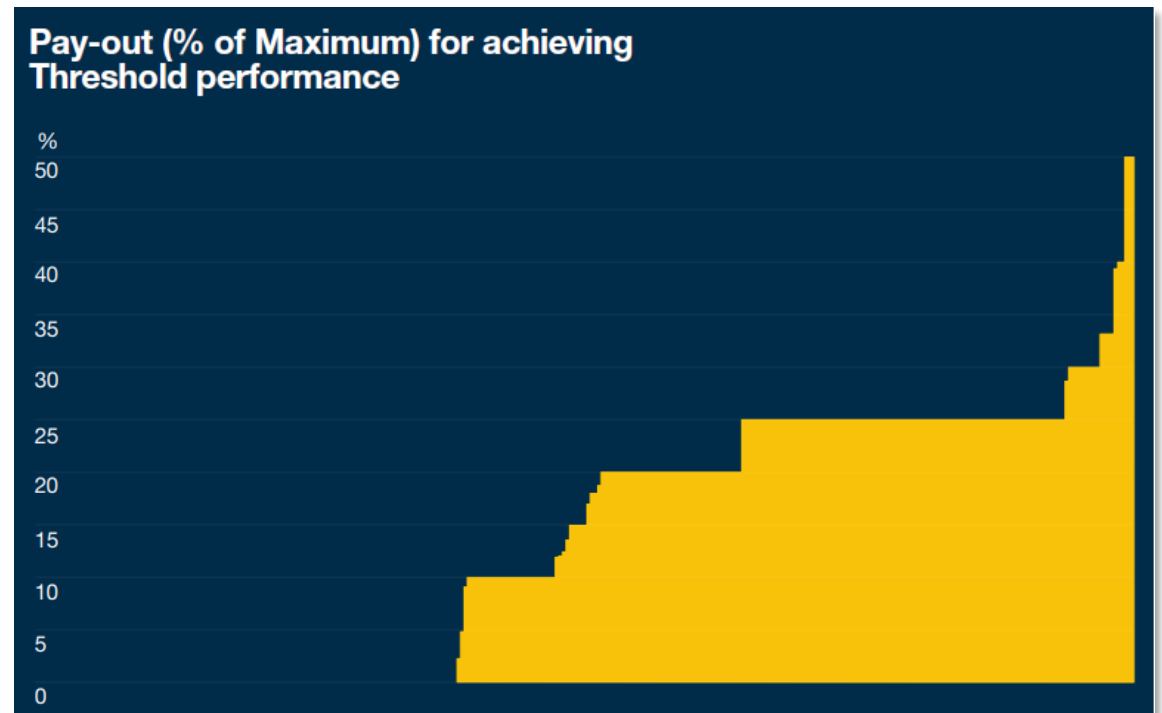
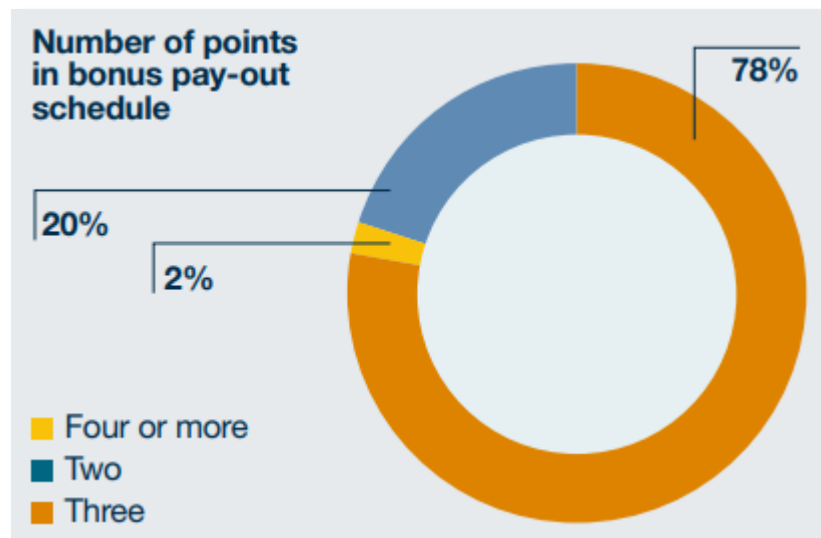
While market data offers a useful supporting reference point, it does not provide 'the answer' and should be considered carefully alongside all other reference points

Annual bonus

Pay-out structure

- ▶ Most companies retain the use of a three-point pay-out schedule (Threshold, Target, Maximum)

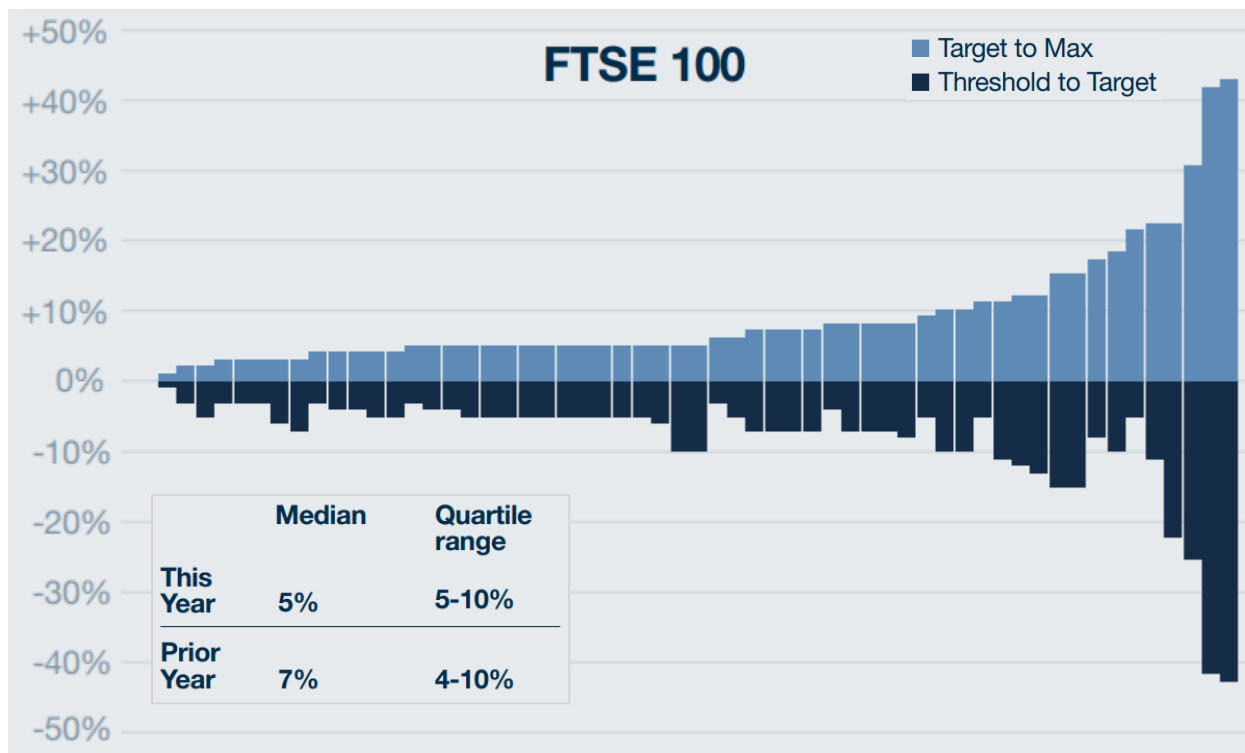
- ▶ And most pay-out either 0% or 25% for Threshold performance



FTSE 100, 250 and Small Cap

Annual bonus

Width of pay-out ranges



- *Range of practice*
- *Wider ranges in smaller companies:*

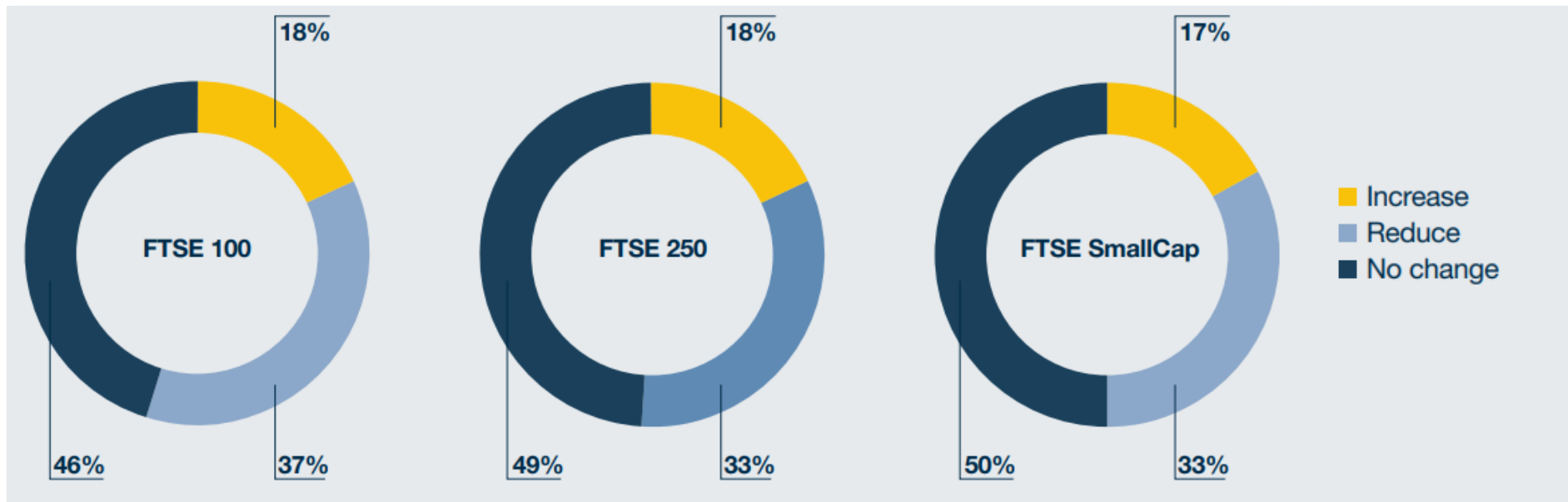
FTSE 250		
	Median	Quartile range
This Year	9%	5-11%
Prior Year	10%	5-13%

FTSE Small Cap		
	Median	Quartile range
This Year	10%	5-16%
Prior Year	10%	6-16%

Annual bonus

Width of pay-out ranges – trends

- ▶ *Observable trend towards narrowing profit target ranges*
- ▶ *Return to 'normal' after widening during COVID?*

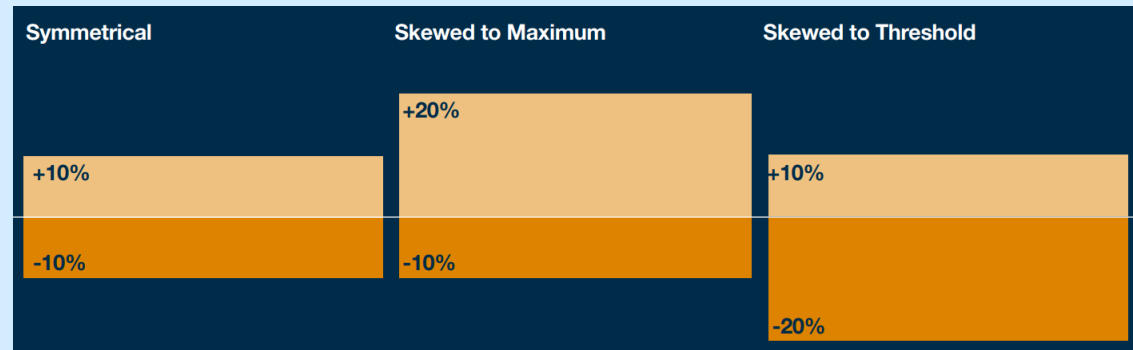


Annual bonus

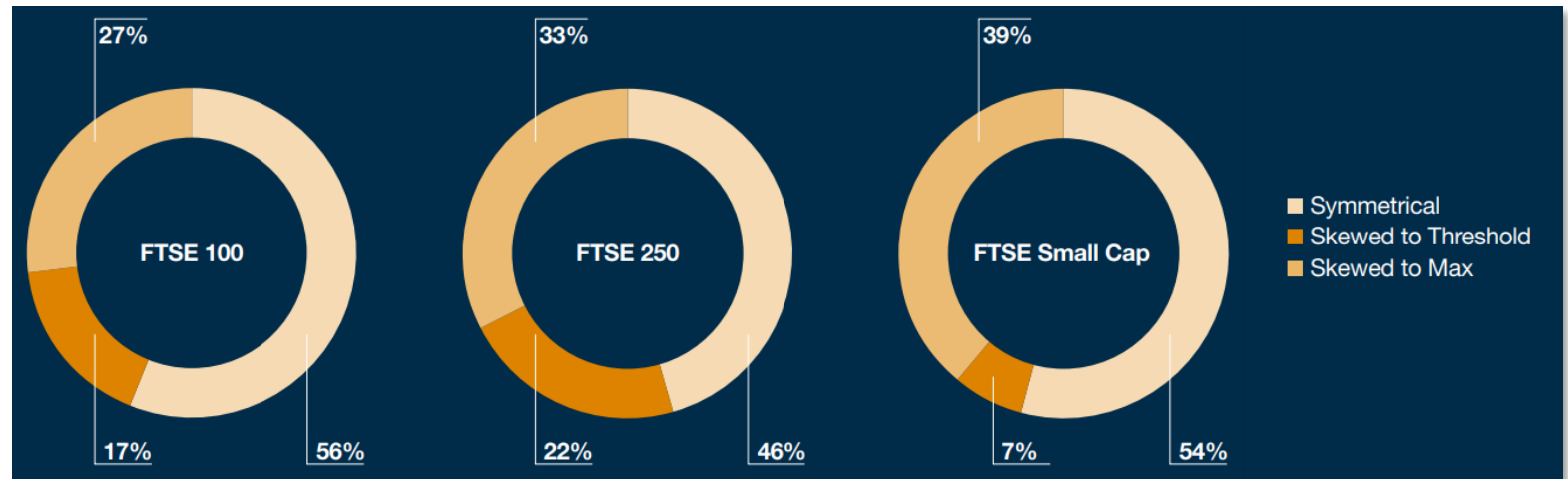
‘Symmetry’ of pay-out ranges

Three types of pay-out range

- *Symmetrical*
- *Skewed to Maximum*
- *Skewed to Threshold*



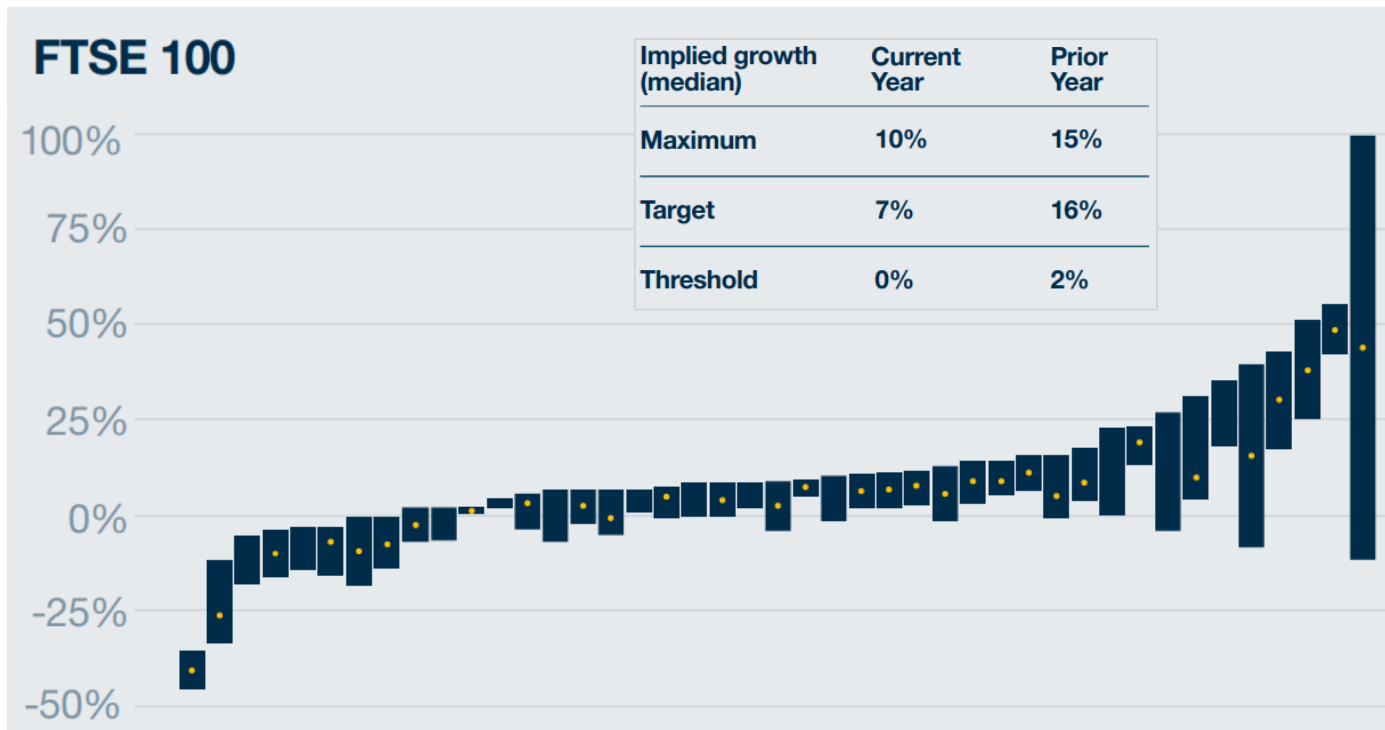
- ▶ *Symmetrical ranges remain most common*
- ▶ *Around half operate a ‘skewed’ approach*



Annual bonus

Implied growth in profit ranges

- ▶ *Range of practice*
- ▶ *Generally, higher levels of growth in smaller companies*



FTSE 250		
Implied growth (median)	Current Year	Prior Year
Maximum	14%	23%
Target	5%	11%
Threshold	0%	3%

FTSE Small Cap		
Implied growth (median)	Current Year	Prior Year
Maximum	18%	27%
Target	7%	20%
Threshold	2%	10%

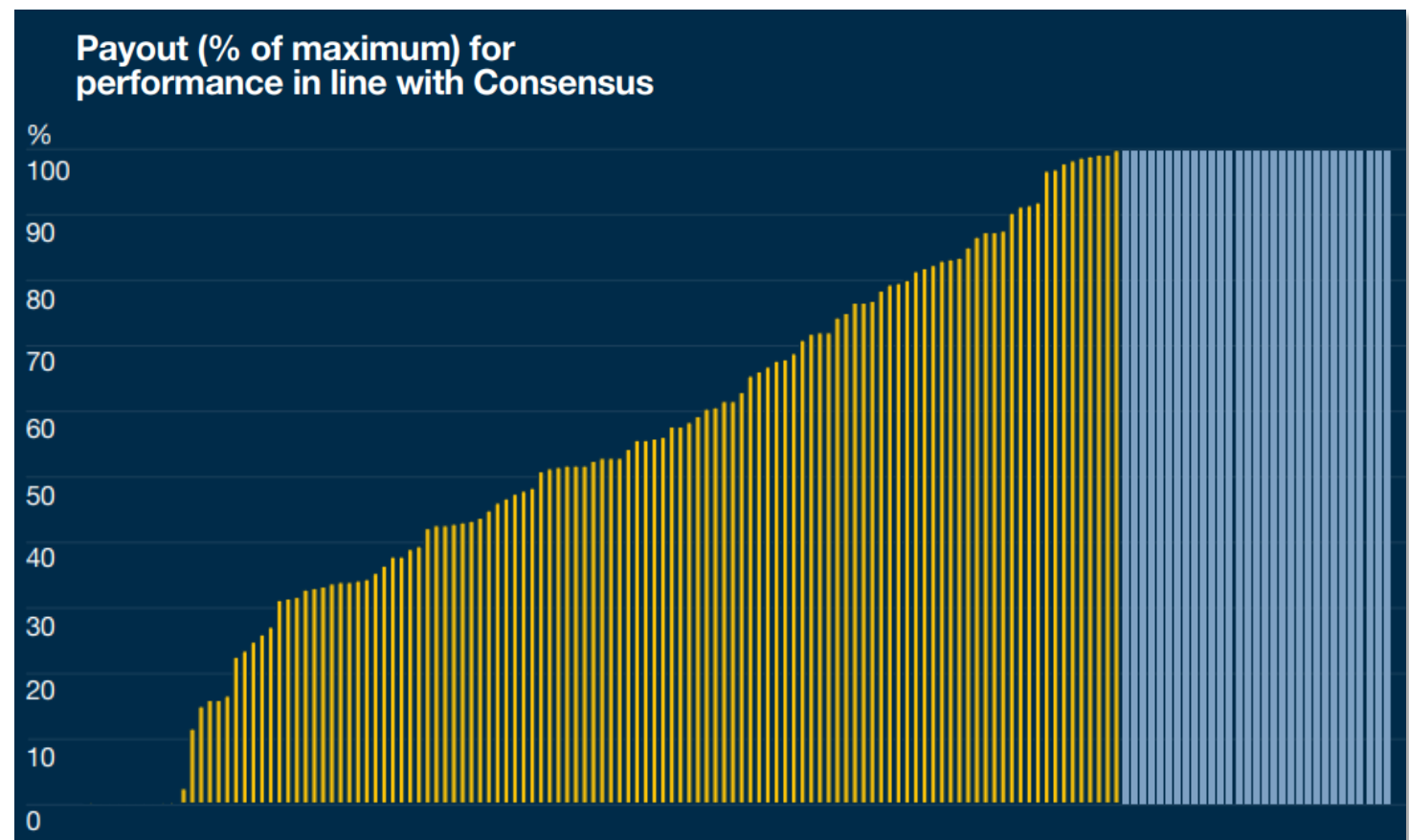
Annual bonus

Relativity to Consensus

- ▶ For **c.75%**, Consensus is positioned in the range
- ▶ **64%** median level of pay-out for hitting Consensus



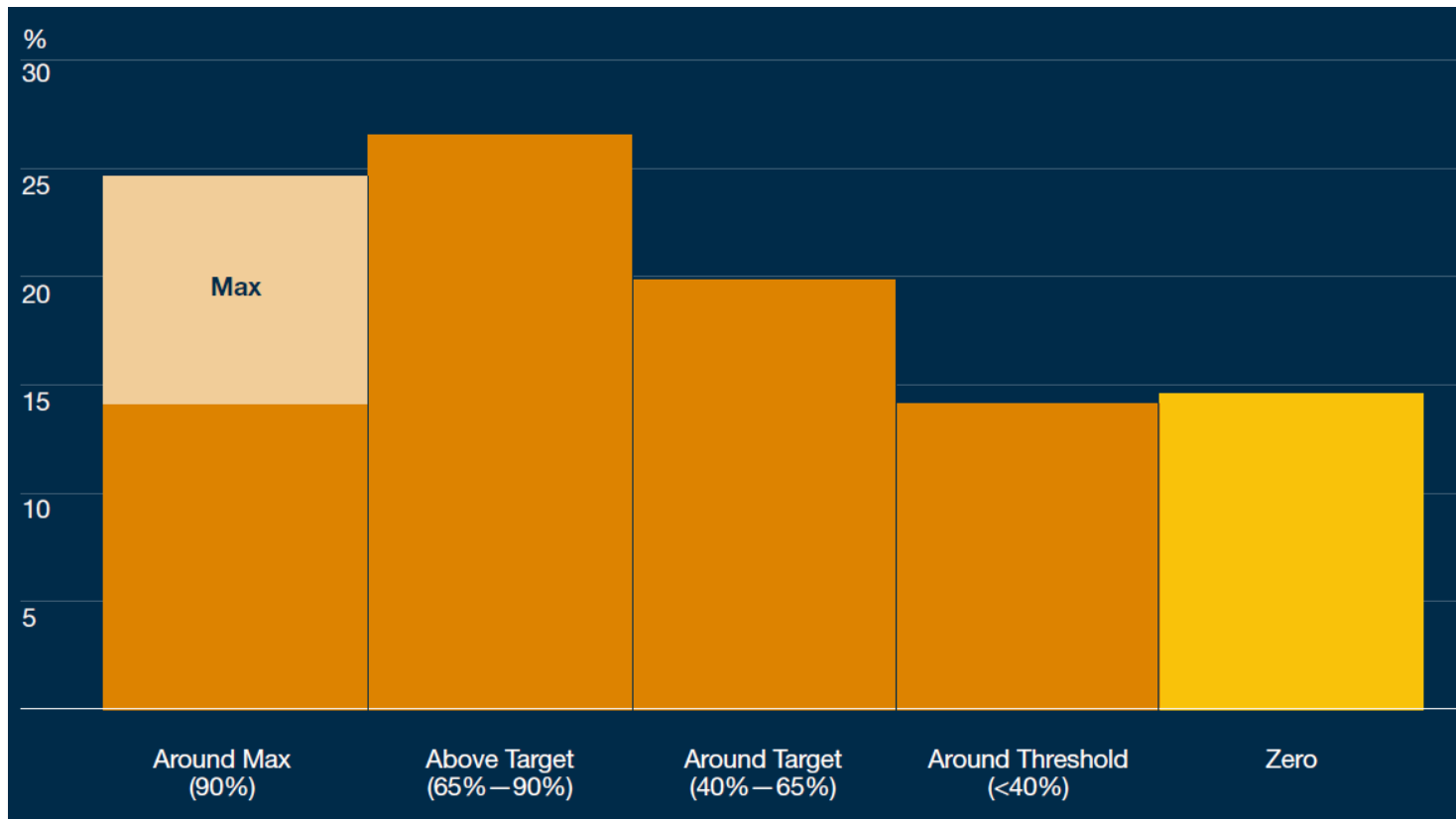
Assumptions and caveats should be noted



FTSE 100, 250 and Small Cap

Annual bonus

Typical levels of pay-out in the market (over 5 years)



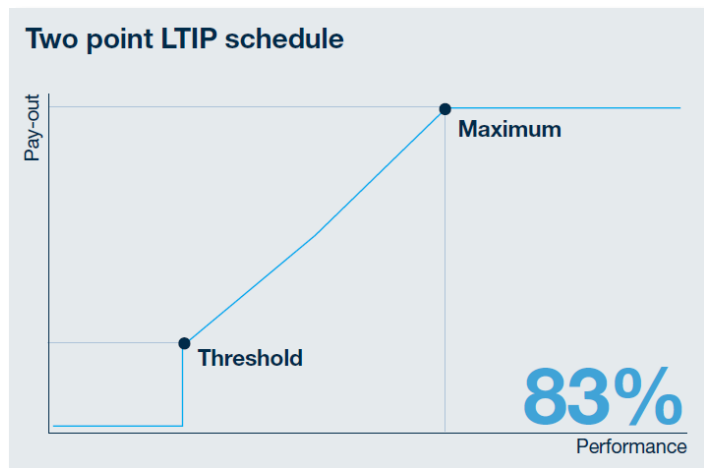
- ▶ *Approx one in four around Max (but not always 100%)*
- ▶ *Average around c.65%*
- ▶ *15% receive zero*

FTSE 100, 250 and Small Cap

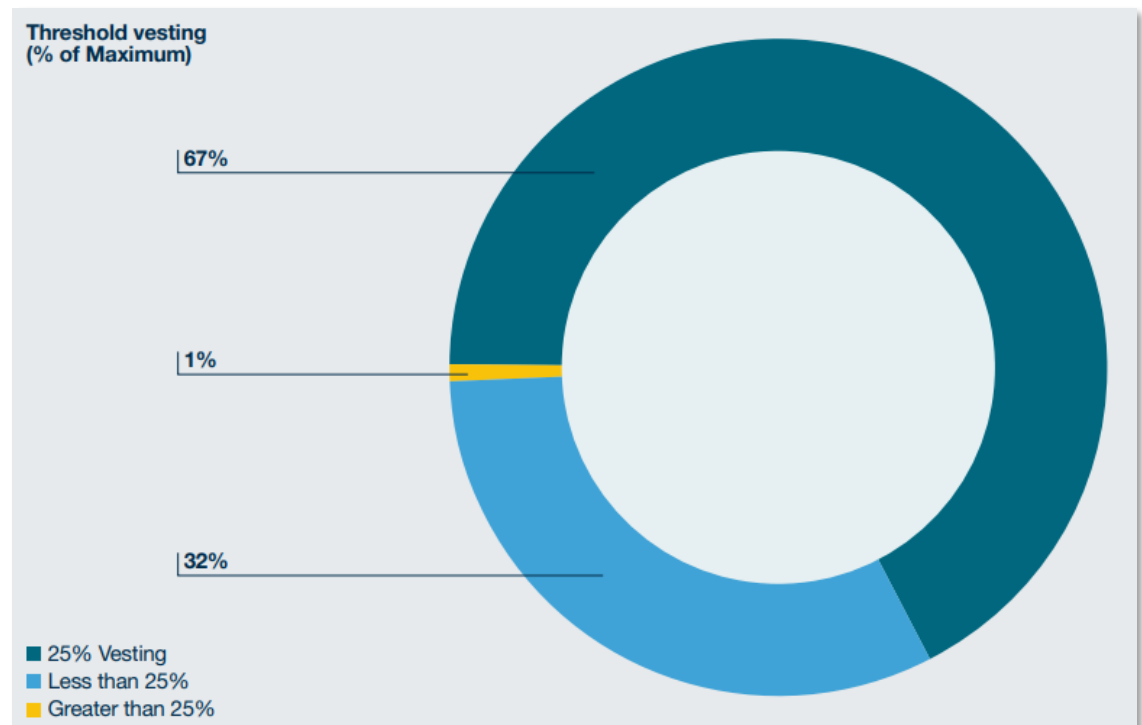
LTIP

Pay-out structure

- ▶ *Most companies continue to use a 2-point schedule*



- ▶ *Vesting at Threshold is very commonly 25%*



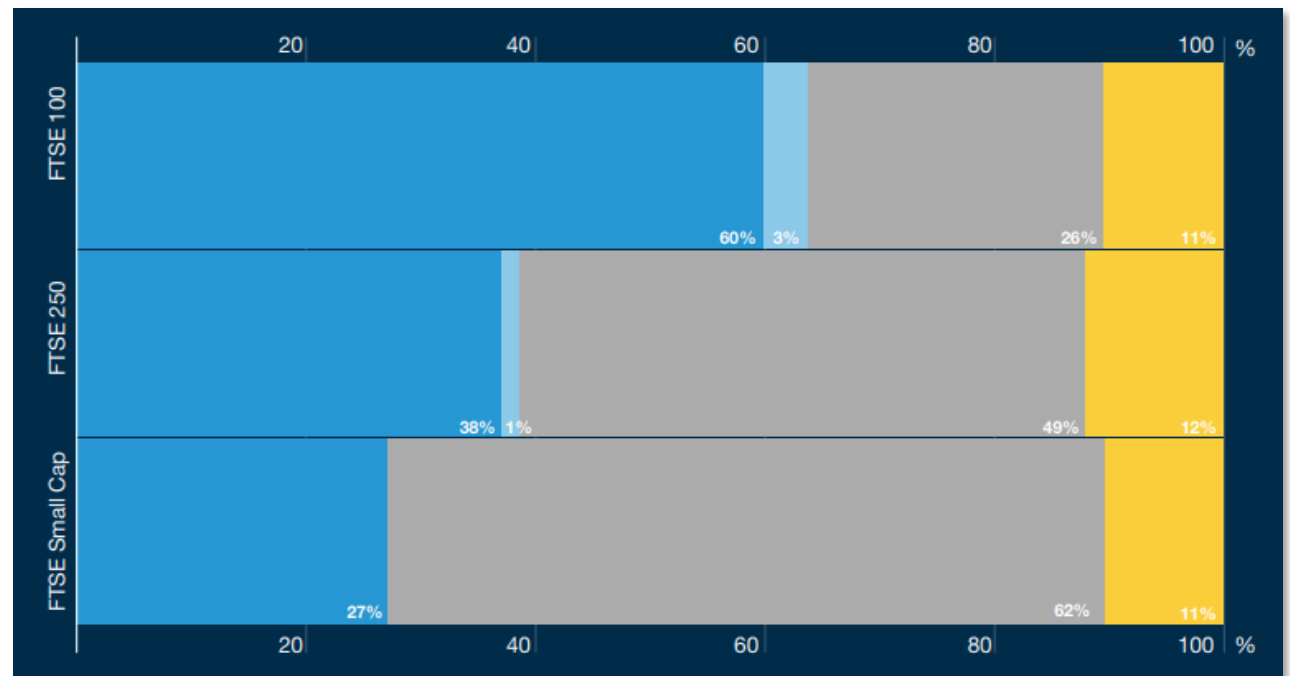
FTSE 100, 250 and Small Cap

LTIP

Calibration of EPS targets

- Range of practice, with the trend away from % growth to absolute pence targets

	% growth
	% growth (above benchmark)
	Absolute pence (final year)
	Absolute pence (cumulative)

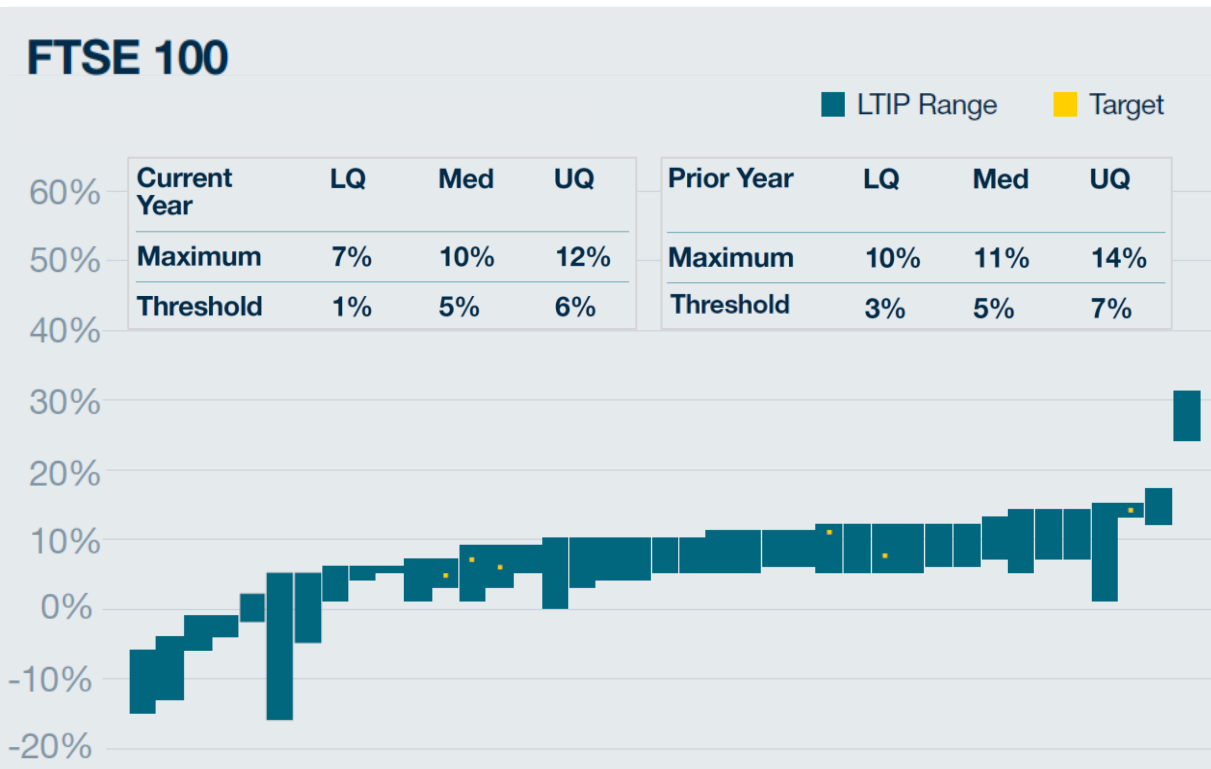


FTSE 100, 250 and Small Cap

LTIP

Level of growth in profit ranges

- ▶ Range of practice
- ▶ Generally, higher levels of growth in smaller companies, particularly Small Cap



FTSE 250

Current Year	LQ	Med	UQ
Maximum	8%	11%	15%
Threshold	1%	5%	7%

Prior Year	LQ	Med	UQ
Maximum	8%	12%	17%
Threshold	3%	5%	8%

FTSE Small Cap

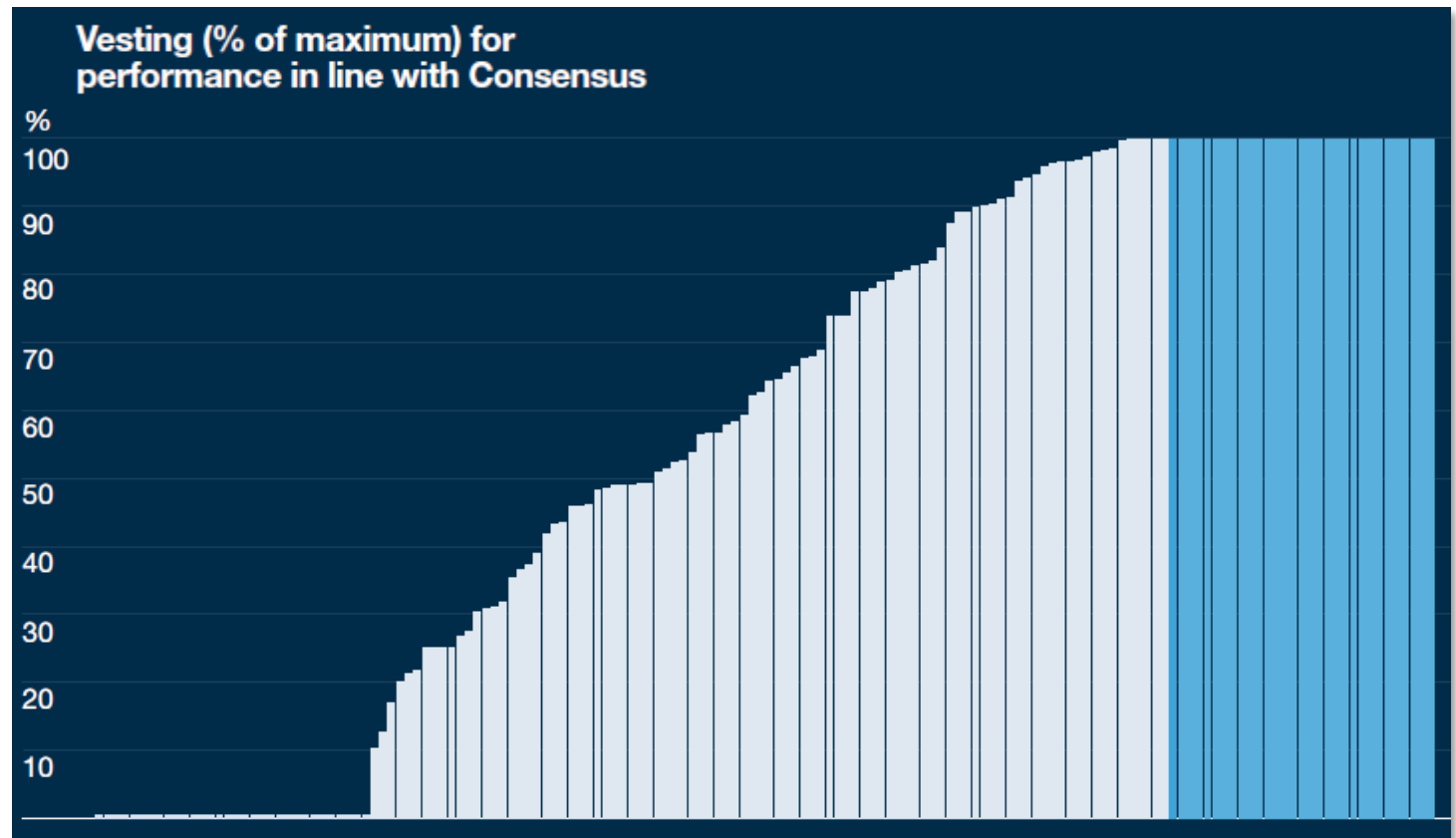
Current Year	LQ	Med	UQ
Maximum	9%	15%	24%
Threshold	3%	5%	19%

Prior Year	LQ	Med	UQ
Maximum	10%	12%	22%
Threshold	3%	5%	11%

LTIP

Relativity to Consensus

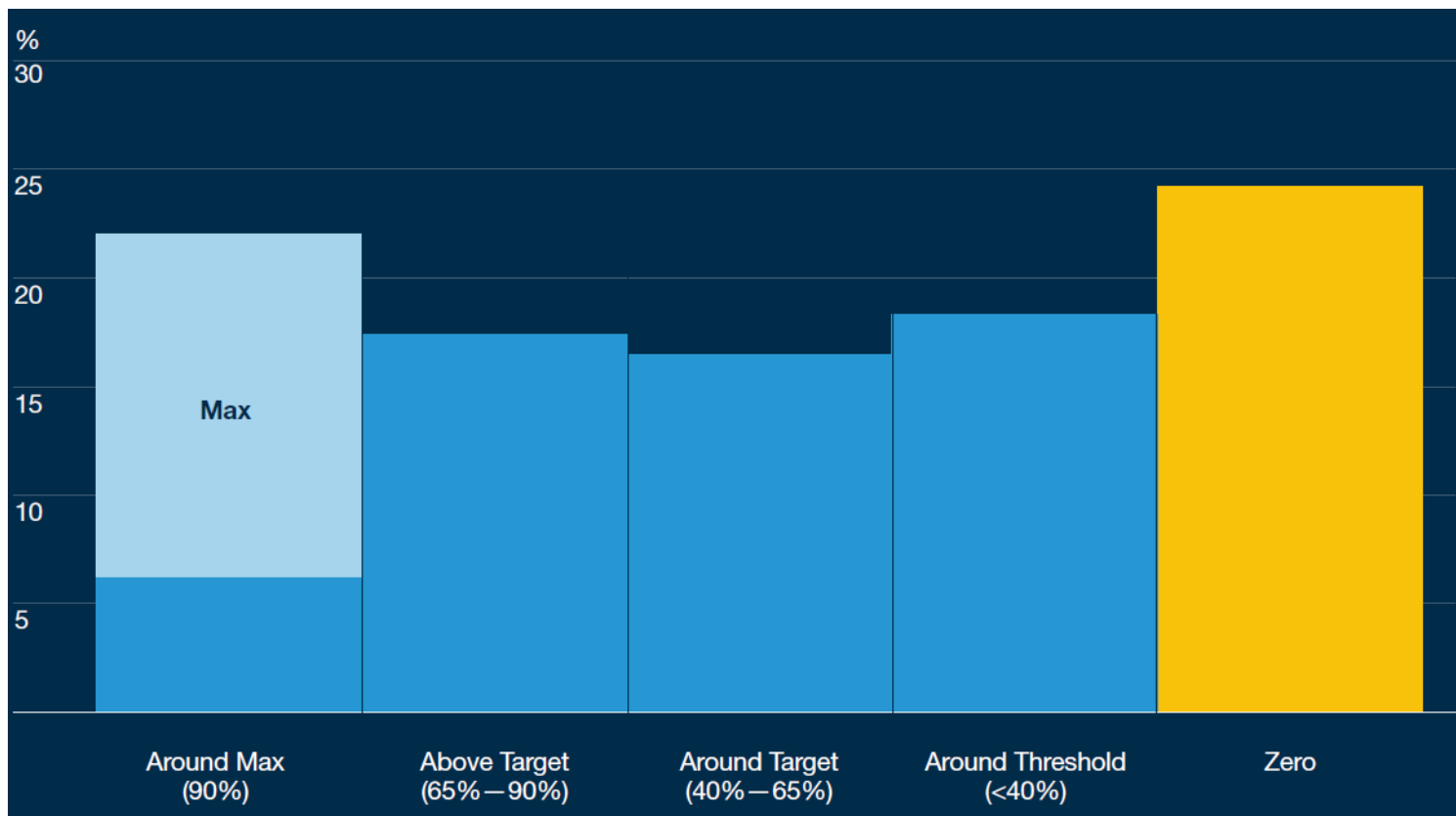
- ▶ For c.60%, Consensus is positioned in the range
- ▶ 63% median level of vesting for hitting Consensus



FTSE 100, 250 and Small Cap

LTIP

Typical levels of vesting in the market (over 5 years)



FTSE 100, 250 and Small Cap

- ▶ *Around one in four around Max*
- ▶ *Average level around 50%*
- ▶ *One quarter receive zero vesting*

Q&A

Follow the link to sign up to receive our future executive compensation updates and thoughtpieces



About A&M

Distinctive thought leadership – recent publications

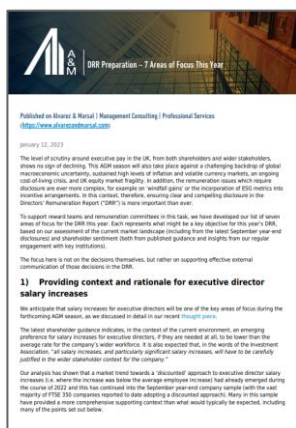
Windfall gains

In early 2023, we published our guide on 'windfall gains', looking at the perspective of all stakeholders and setting out an assessment framework.



DRR preparation this year

We set out our thoughts and practical tips in respect of the preparation of the DRR in the context of key issues for the forthcoming AGM season.



2023 target setting toolkit

Comprehensive study of profit targets in bonus and LTIPs across the FTSE market, to support committees and reward teams in target setting



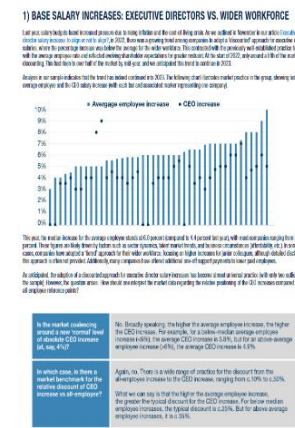
'Big Tent' discussion

Our contribution to the 'big tent' debate on executive pay in the UK – analysis of key trends over the last ten years, and ideas for potential change



2023 AGM season trends

Providing an interim update on key 2023 AGM season trends – salary increases vs employees, 'windfall gains' and bonus target ranges



2023 NED fees report

We take a step back to look at key contextual factors supporting renewed interest in NED fees, and consider whether it is a time for a re-think on the UK's approach?

