

# First 50 DRRs

April 2024

ALVAREZ & MARSAL



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# 'First 50' DRRs – Initial Trends from 2024 AGM Season



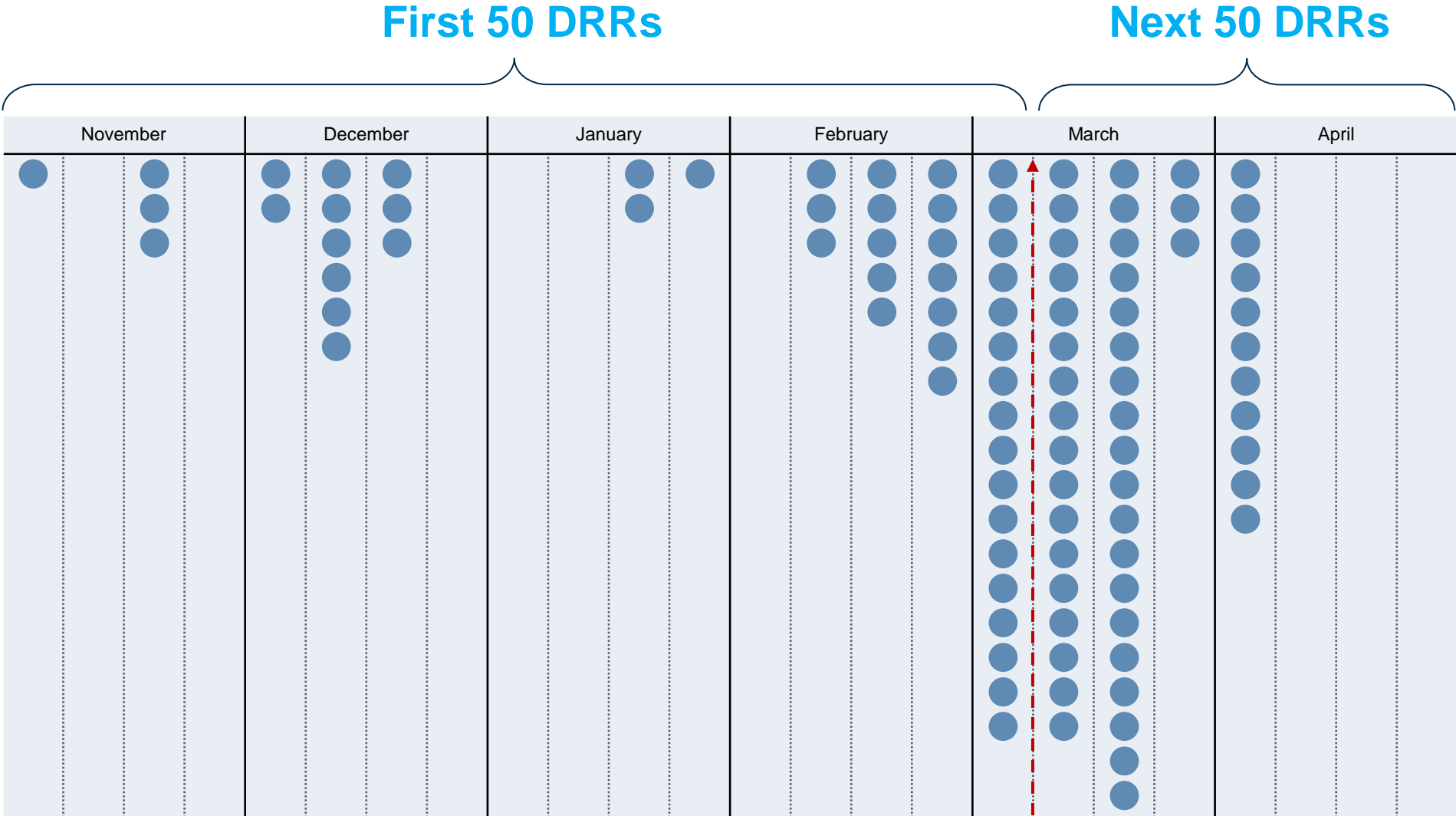
**James Harris**  
Managing Director



**Alex Gardner**  
Senior Director



# 'First 50' becomes 'First 100' DRRs (FTSE 350)

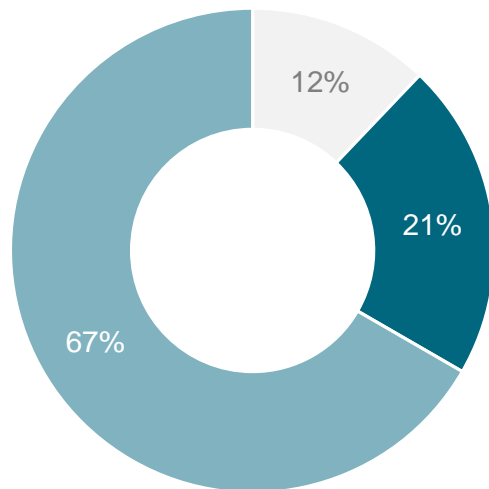


# Base salary

## Average employee increase

- For most companies, the average employee rate is lower than last year

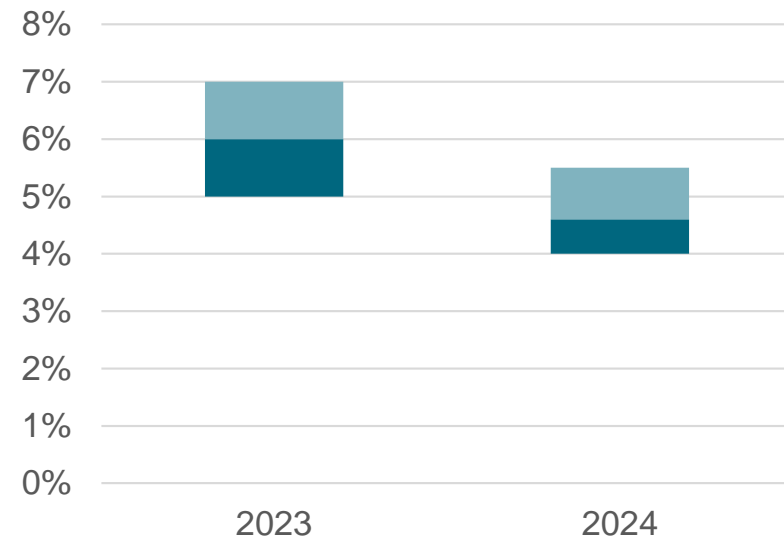
Change in the disclosed average employee salary increase from last year



■ No change ■ Higher ■ Lower

- Despite this, the market range remains above the previous long-term average of c.2-3%

Average employee increase 2024 vs. 2023



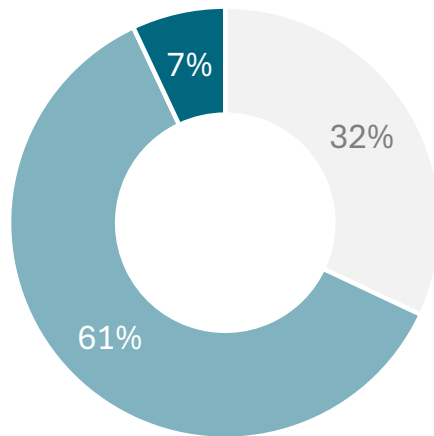
■ Lower quartile to median ■ Median to upper quartile

# Base salary

## Executive director relativity to employees

- ▶ *“Discounting” remains the most common approach, although more companies are aligning*

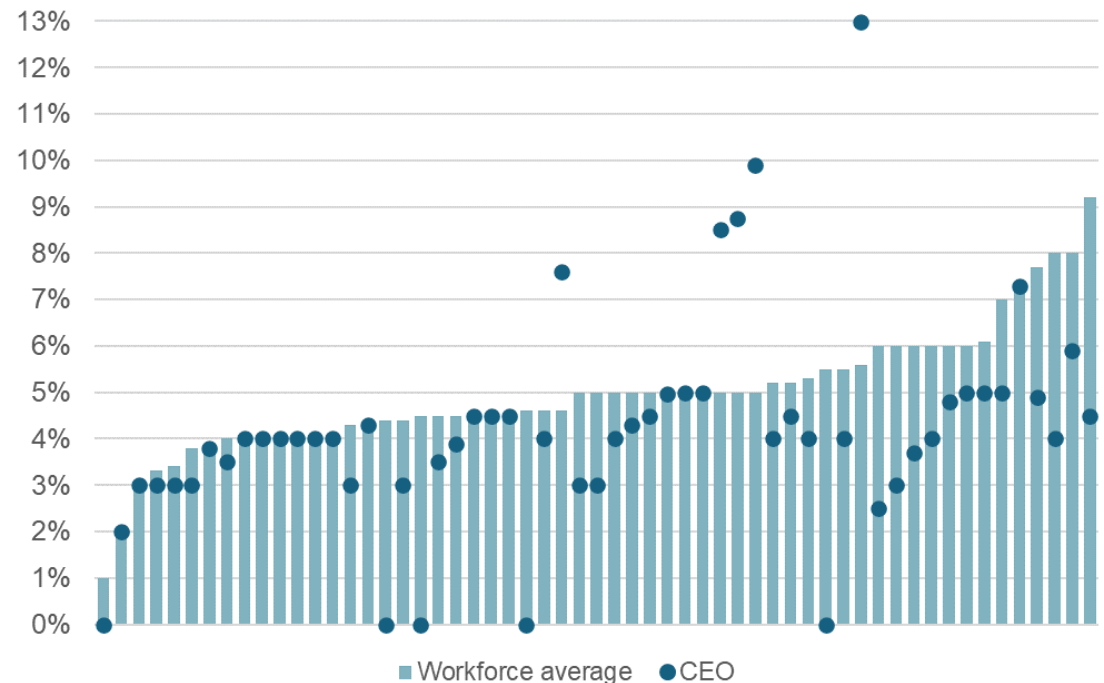
CEO – salary change relative to workforce



■ In-line ■ Below workforce ■ Above workforce

- ▶ *Companies more likely to align where the employee increase is lower*

First 100 – CEO and workforce salary change

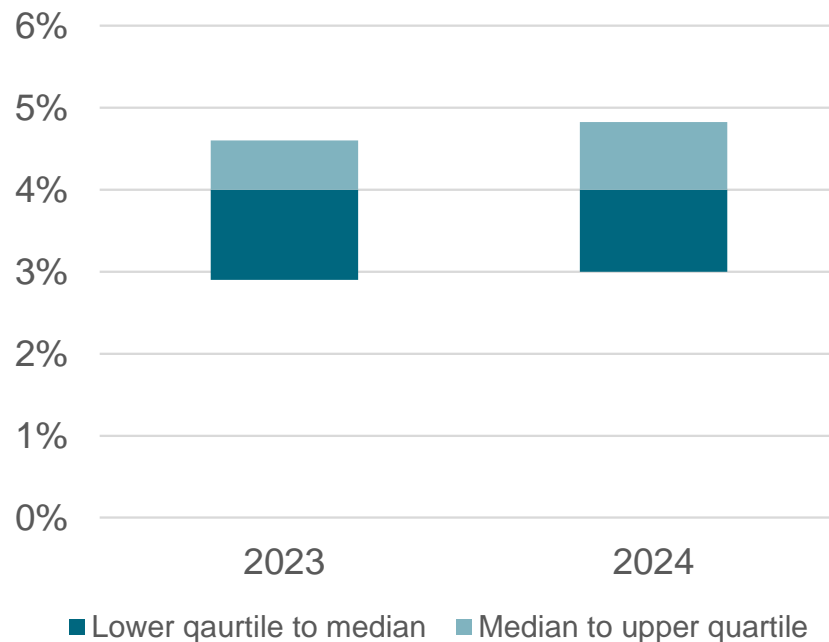




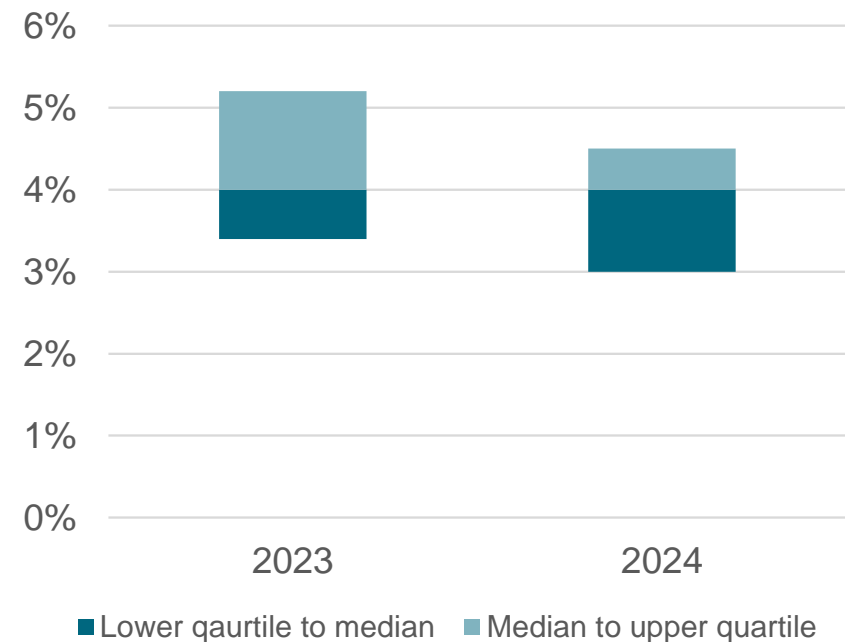
# Base salary

*Executive director market range broadly unchanged*

CEO base salary increases 2024 vs. 2023






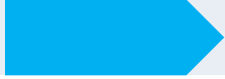
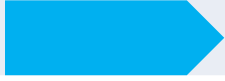
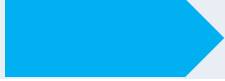


CFO base salary increases 2024 vs. 2023



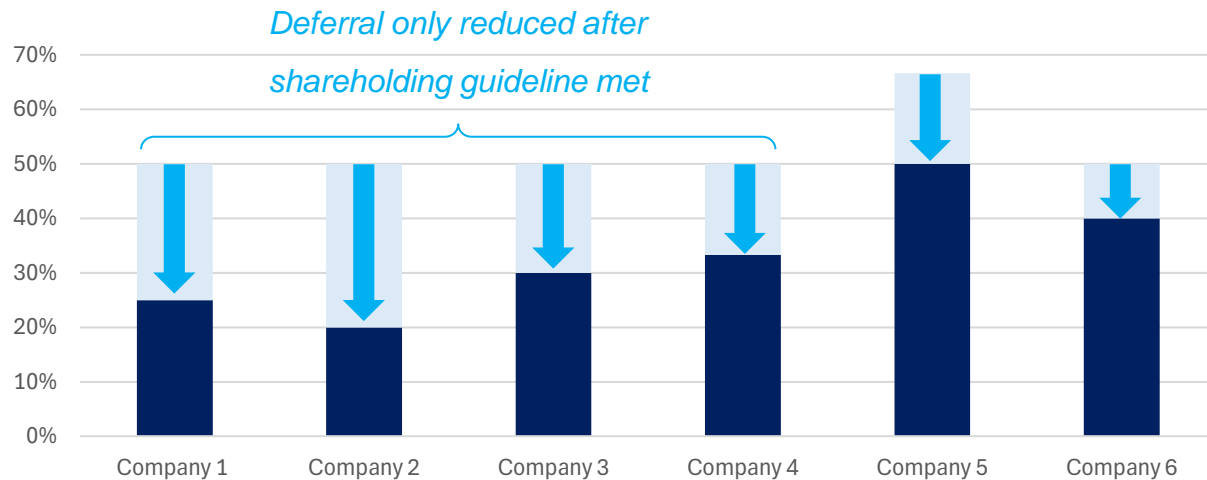
# Remuneration Policies

*Around one quarter of new Policies changed incentive structure*

Previous structure		New structure	ISS rec.
RSUs		PSP	<i>For</i>
Single Incentive		PSP	<i>For</i>
Value Creation Plan		PSP	<i>Against</i>
Value Creation Plan		PSP	<i>For</i>
PSP		Hybrid (PSP + RSU)	<i>Against</i>
PSP		Hybrid (PSP + RSU)	<i>Against</i>
PSP		Single Incentive	<i>TBC</i>
RSUs		Single Incentive	<i>TBC</i>

# Remuneration Policies

*Around 25% softened the approach to bonus deferral*



► *Recent IA view:*

*“...perceived impact  
on the value of  
remuneration received  
is disproportionate...”*

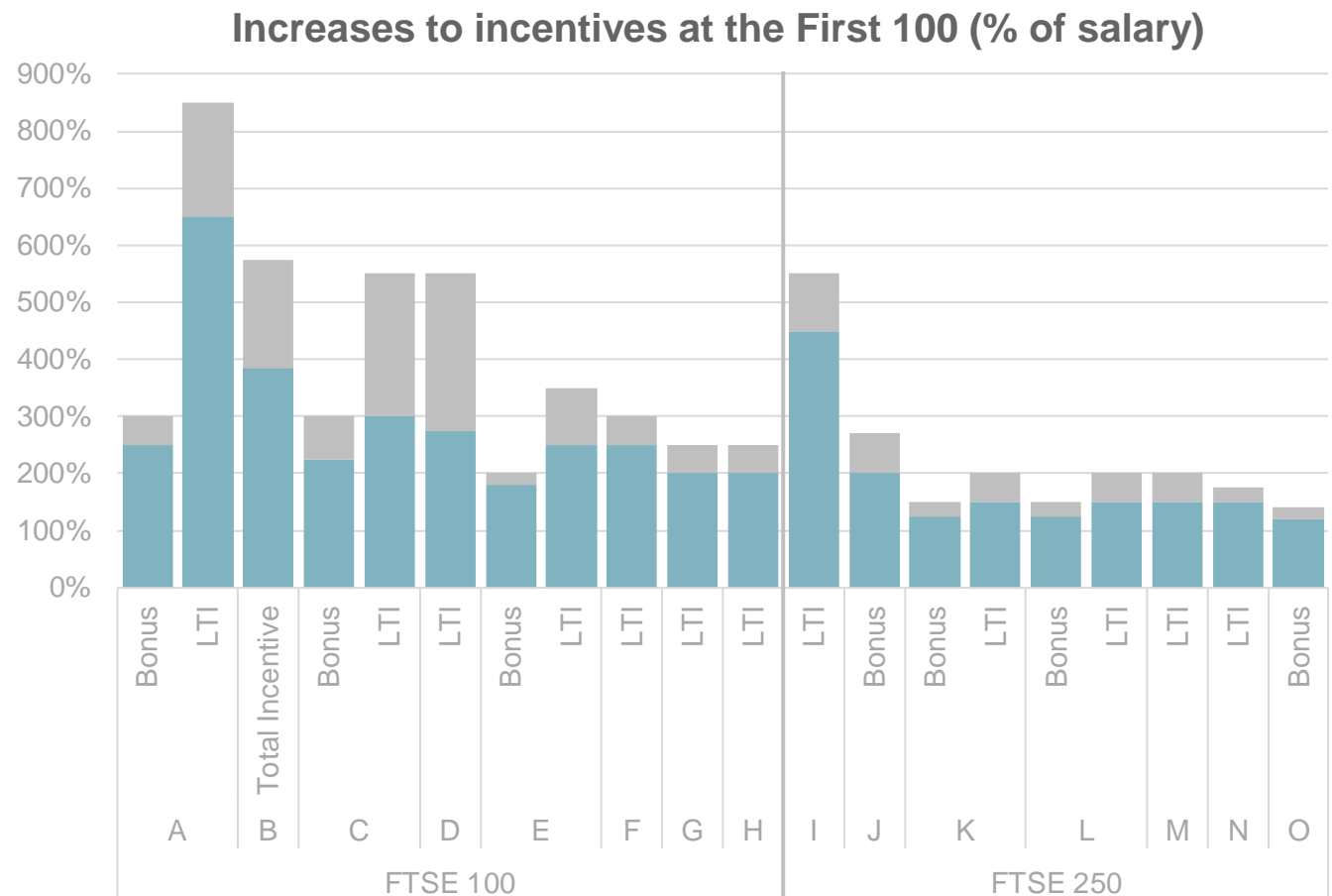
Company 7	softened leaver terms on deferred bonus awards
Company 8	no longer required element of salary to be delivered in deferred shares



# Increases to incentive opportunities

*15% of the sample are increasing bonus or LTI opportunities*

- ▶ *Some via existing 'headroom' and some with new Policy*
- ▶ *Most commonly via LTI*
- ▶ *Most increases in range of 25-50% of salary*
- ▶ *Common rationale: business performance, alignment to strategy and market positioning (including US / global)*



# Increases to incentive opportunities

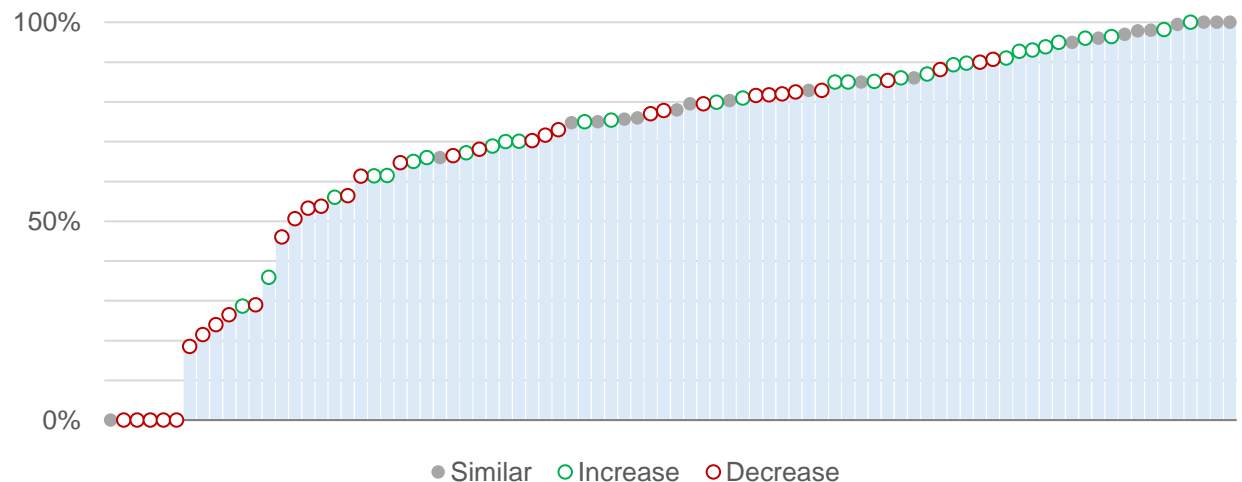
## ISS reaction to larger increases

	Smith & Nephew	AstraZeneca	LSE Group
<i>Proposed increase</i>	PSP 275% → 300% + RSU 125%	Bonus 250% → 300% PSP 650% → 850%	Bonus 225% → 300% PSP 300% → 550% (Salary + 37.5%)
<i>Strong performance story recognised by ISS</i>	✗ "share price is currently lower than the 2019 levels and has since been on a general decline"	✓ "has consistently outperformed its global, European, and FTSE 100 peers"	✓ "the Company's rationale is well made ... and underlines the transformation ...to a truly global technology and data driven organisation"
<i>Alignment to UK market structure</i>	✗ "The addition of quasi-guaranteed pay in the form of RSP... fundamentally diverges from good UK market practice"	✓ "acknowledged that the Company is not seeking to move away from performance-based pay"	✓ "pay arrangements keep to UK practices... rather than adopting additional layers to the pay package which would add further complexity"
<i>Benchmarking and market positioning</i>	✗ "the companies in the peer group used by the Company are not publicly disclosed"	✗ "However, the new maximum pay opportunities diverge from other companies in the FTSE 10 by a very considerable margin"	✓ "The Company's peer group itself can be found [in] the annual report and consists largely of US technology and data companies"
<i>ISS recommendation</i>	<b>AGAINST</b>	<b>AGAINST</b>	<b>FOR</b>
<i>AGM vote</i>	TBD	64%	TBD

# Incentive outcomes

## Annual bonus

- ▶ *Bonus outcomes broadly unchanged year-on-year*
- ▶ *Median bonus outcome of 77% of max (78% in 2023)*



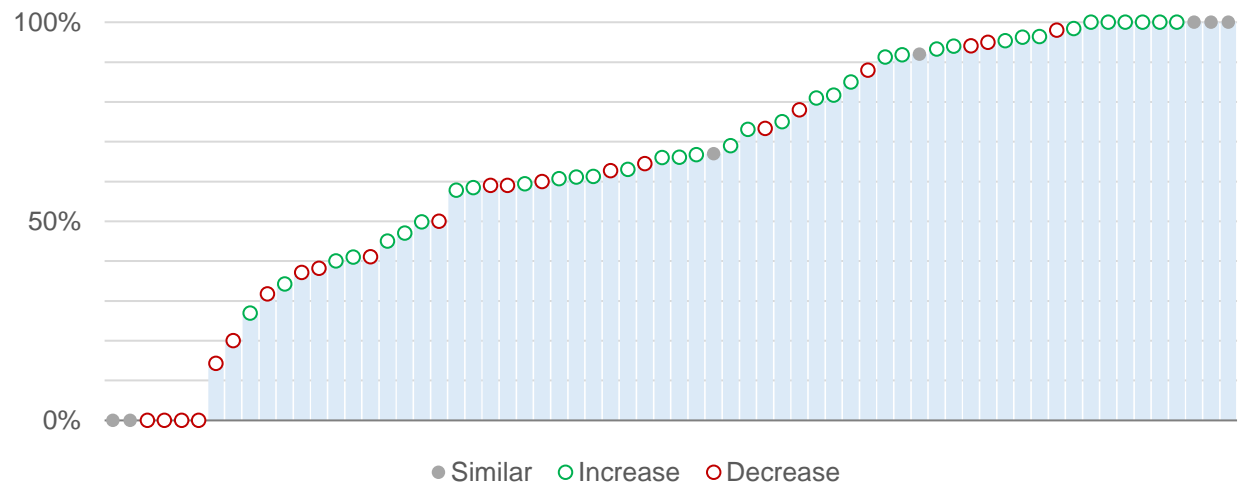
### Discretion

- ▶ *15% of companies exercised discretion to adjust the bonus outcome*
- ▶ *Most instances were in cases of poor financial or safety performance*
- ▶ *Only 1 company used discretion to increase the bonus*

# Incentive outcomes

## LTI – Performance Share Plans

- ▶ *PSP vesting outcomes increased at c. 60% of companies*
- ▶ *Median vesting of 67% of max (+8% vs. 2023)*



### **Discretion**

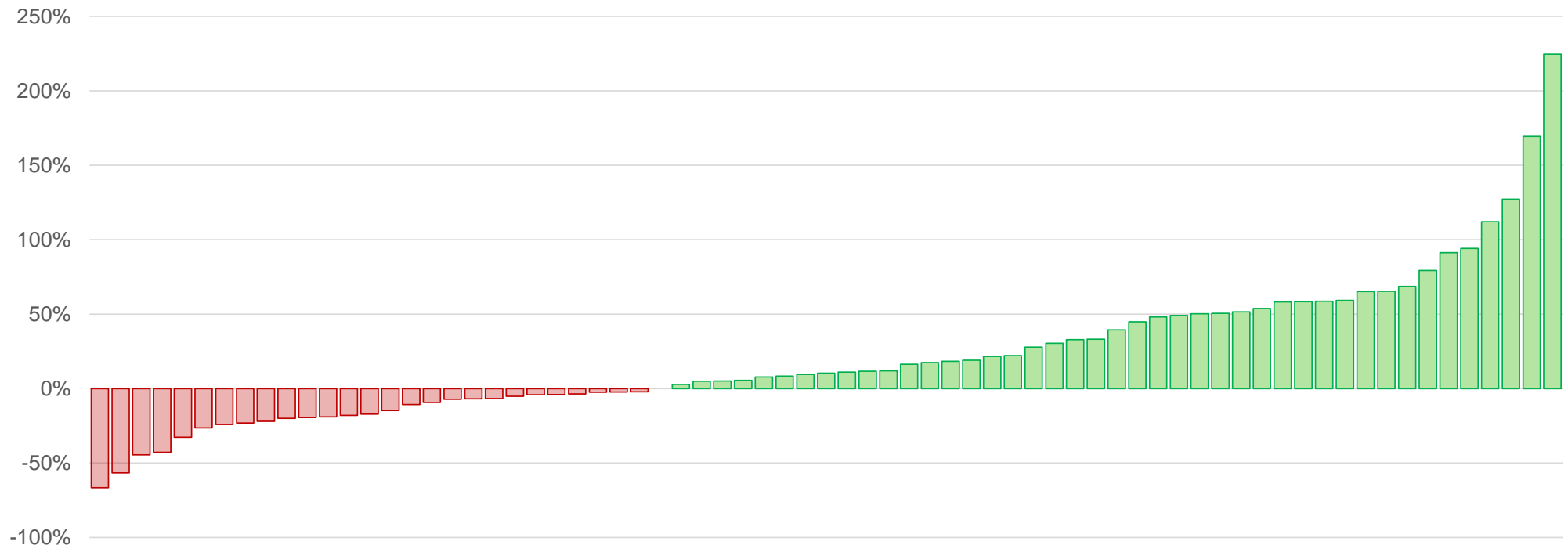
- ▶ *Less common in LTIPs than in bonus (only 2 companies)*
- ▶ *Reasons were related to windfall gains and EVA performance*

# Incentive outcomes

## Single Figure

- Higher LTI vesting outcomes are contributing to a year-on-year increase in the CEO single figure (median increase of +10%)

% change in CEO single figure

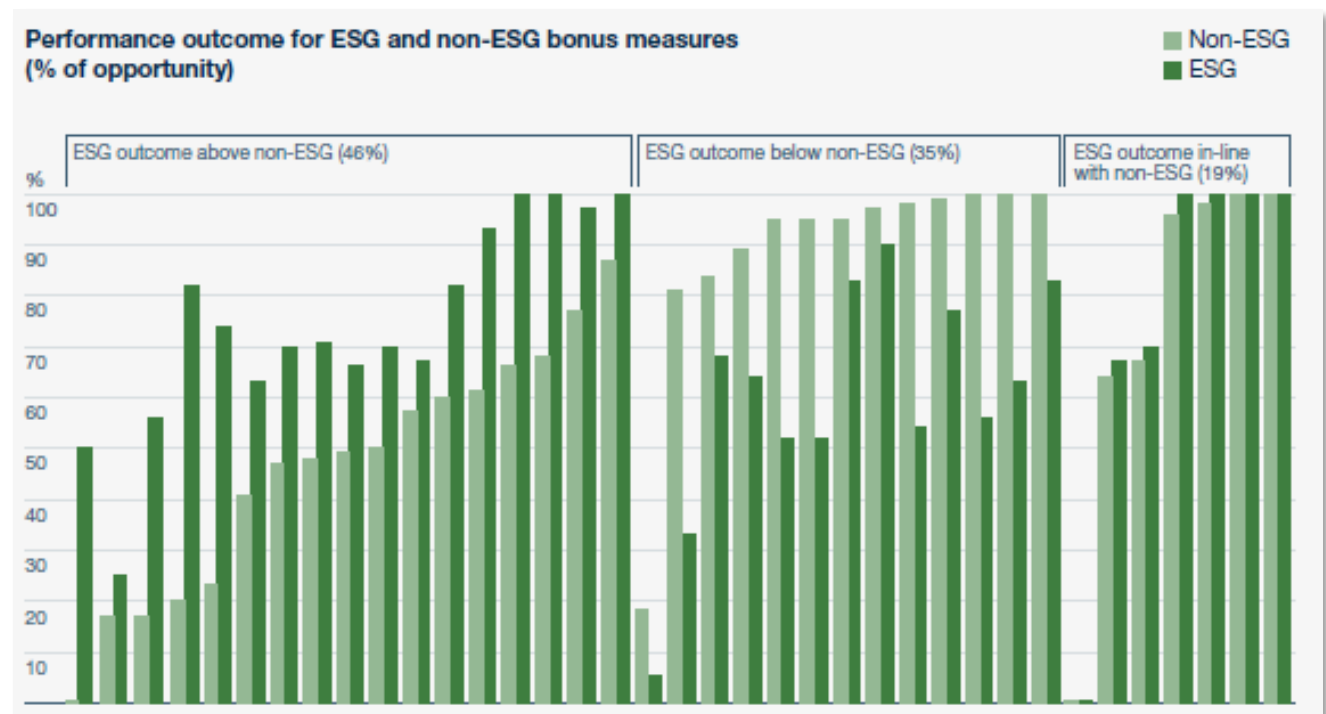


# ESG

## Continued increase in ESG adoption

- ▶ >80% of the sample include ESG in the annual bonus....
- ▶ ... and >60% now include ESG in the PSP

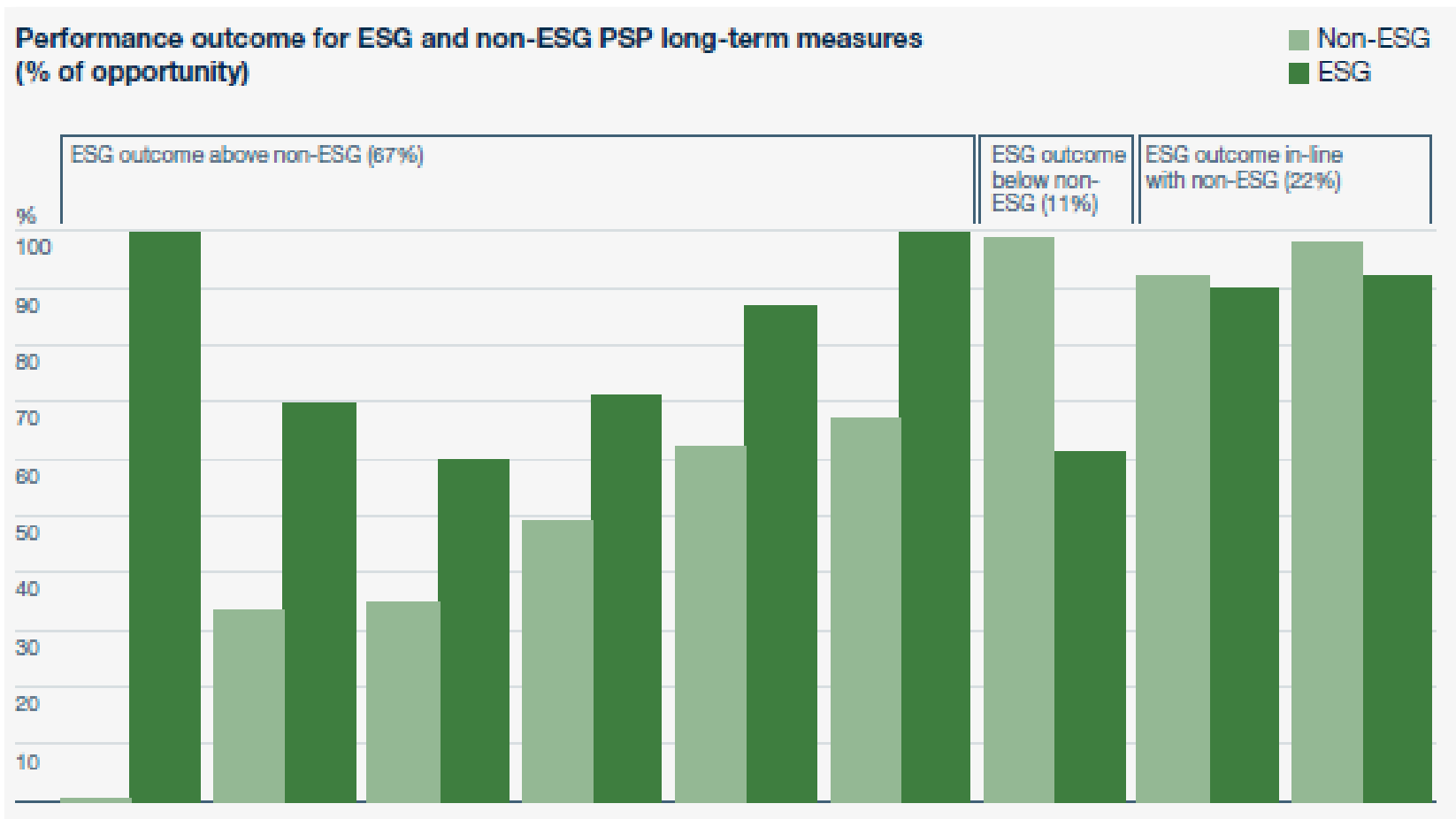
### Greater adoption allows more focus on ESG outcomes





# ESG

*In the PSP, ESG outcomes tend to be higher than other metrics*

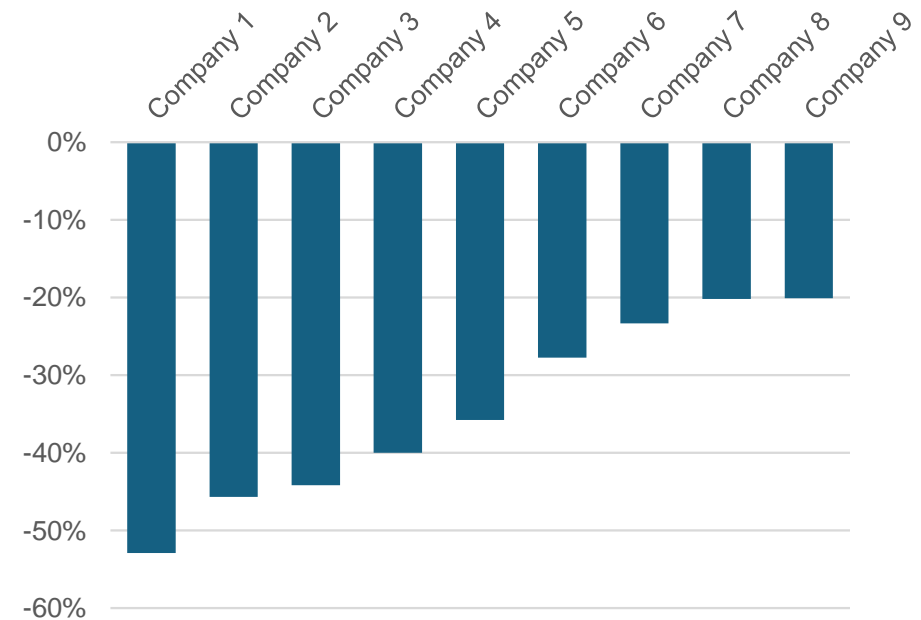


# Windfall Gains

*Very few examples of companies adjusting awards*

- ▶ *Key area of focus in recent years*
- ▶ *In our First 50 sample, no companies made an adjustment to the size of award granted during the year (2023) to reflect windfall gains risk*
- ▶ *For 2024 awards, two companies have committed to reduce award size*

**This includes in nine companies that had experienced a year-on-year share price fall in excess of 20%**

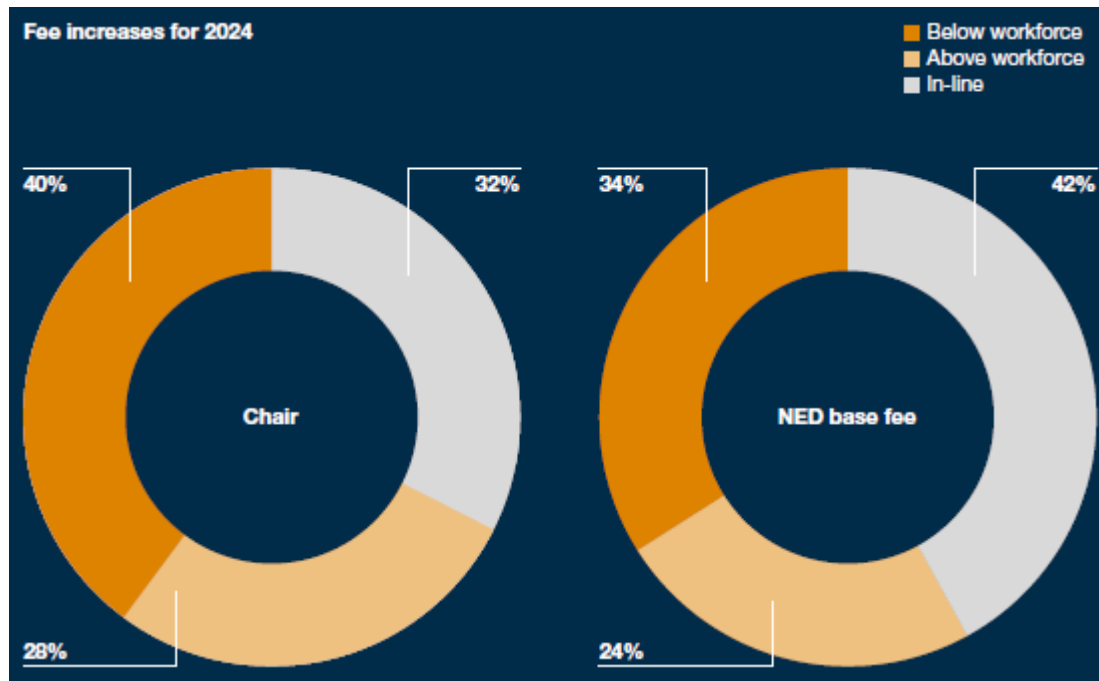


# NED fees

*78% of the First 50 increased NED fees for year ahead*

► *A substantial portion still set increases below employee rate, although more balanced than EDs*

► *Fee increases typically fall within a c.4-6% range*



## Fee increases for 2024 (%)

	Board Chair	NED base fee
Upper quartile	6.6%	5.5%
Median	4.0%	4.3%
Lower quartile	3.9%	4.0%

# Q&A

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



# About A&M

## Distinctive thought leadership – a selection of our publications

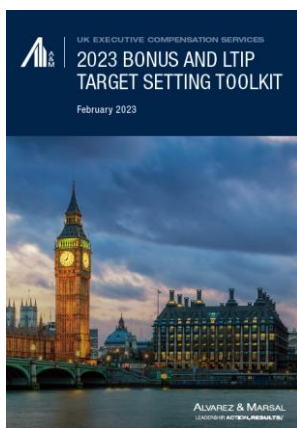
### Windfall gains

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



### 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 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?*



### 2024 target setting toolkit

*The 2024 update to our comprehensive research into profit targets across the FTSE, with new analysis in respect of the relativity to Consensus projections*



### First 50 DRRs

*Analysis of initial trends from the 2024 AGM season in respect of base salary, new Remuneration Policies, and incentive award levels and outcomes*

