



EXECUTIVE COMPENSATION SERVICES

# 2026 BONUS AND LTIP TARGET SETTING TOOLKIT

JANUARY 2026

**ALVAREZ & MARSAL**  
LEADERSHIP. ACTION. RESULTS.™

# INTRODUCTION

Welcome to the fourth edition of our target-setting toolkit.



Setting performance targets, for both short and long-term incentives is a key activity in the remuneration committee's annual cycle. Striking a fair balance between the interests of all stakeholders is a complex task. Targets must be sufficiently stretching to satisfy shareholder expectations while remaining fair and achievable for management. This challenge has intensified amid prolonged geo-political and macroeconomic uncertainty.

As with any remuneration committee decision, targets should reflect the specific circumstances and needs of the business rather than simply following market norms. At the same time, it is natural for remuneration committees to ask, "How does this compare to what others do?" Providing relevant market reference points can help inform judgment when target-setting.

The purpose of our annual 'toolkit' is to support remuneration committees and reward teams by providing a range of market reference points for profit-based performance targets within both the annual bonus and the long-term incentive across the FTSE 100, 250 and Small Cap.

The data in this report are sourced from our A&M incentive targets database based on the latest publicly available disclosures from companies with year-ends up to 30 June 2025.

**Should you wish to discuss any aspect of the data, its implications for your business, or request specific data cuts or analysis, please reach out to your A&M contact or contact one of us directly.**



**DAVID TUCH**  
**MANAGING DIRECTOR**

+44 794 916 9944  
dtuch@alvarezandmarsal.com



**JAMES HARRIS**  
**MANAGING DIRECTOR**

+44 786 129 4374  
james.harris@alvarezandmarsal.com



**JEREMY ORBELL**  
**PRINCIPAL**

+44 734 148 6140  
jorbell@alvarezandmarsal.com



**ALEX GARDNER**  
**SENIOR DIRECTOR**

+44 7393 397 996  
alex.gardner@alvarezandmarsal.com

# OVERVIEW OF A GOOD TARGET-SETTING PROCESS

Effective target-setting starts with process. While this report is focused on targets for financial metrics, the principles below are relevant for **any** type of performance measure used in incentives, both short and long-term.

## BOARD



The forum to **discuss, scrutinise, challenge, and agree the plan** for company performance. This might include:

- **Non-executive scrutiny:**  
What can the business reasonably be expected to deliver?
- **Sensitivity/scenario analysis:**  
What are the upside/downside opportunities & risks?
- **Relativity to market expectations:**  
How will we guide the market, how do plans compare to current and expected analyst consensus, what is the external messaging?

## AGREED BUDGET / PLAN



As an output from the board, the agreed business plan can then be used as an input into RemCo decision making on incentive targets. Ideally, there should be a shared understanding of:

- **The achievability of the plan;** and
- **The upside / downside risks**

## REMCO



The forum to **calibrate the incentive targets using the agreed plan as a reference** point. It is not good practice to re-open the board's discussion on the plan itself. Good process can include:

- Effective committee papers with relevant data and reference points readily available, and with clear references to the related board papers and decisions
- Ensuring due consideration of the targets each year, rather than a simple 'rollover' from prior years
- 'Two bites at the cherry' – an initial meeting to provide input on draft targets, with a second meeting for final approval
- Considering relativity of targets to guidance and market expectations

# CALIBRATING INCENTIVE TARGETS: MAKING AN INFORMED JUDGEMENT

In the context of the board's plan, the remuneration committee must then calibrate the performance target ranges. There is unlikely to be a 'formulaic' answer to this exercise and therefore judgement is required.

In making an informed judgement on the calibration of performance ranges, a variety of factors and references points may be relevant.



While not providing 'the answer', market data can offer useful supporting reference points when considering some of these issues (with data potentially provided for the whole market, a specific industry, and/or a bespoke peer group).

This 'toolkit' therefore provides data on the following aspects of market practice for bonus and LTIP target calibration:

- **Structure of pay-out / vesting schedule**  
How many points are in the schedule? What level of pay-out at each point?
- **'Shape' of performance ranges**  
How 'symmetrical' are typical bonus ranges around the Target point?
- **Implied profit growth in target ranges**  
What level of growth is required for Threshold, Target and Maximum pay-out?
- **Profit ranges relative to market consensus**  
What is the usual level of payout for a company performing in line with market expectations?

# KEY FINDINGS

## ANNUAL BONUS

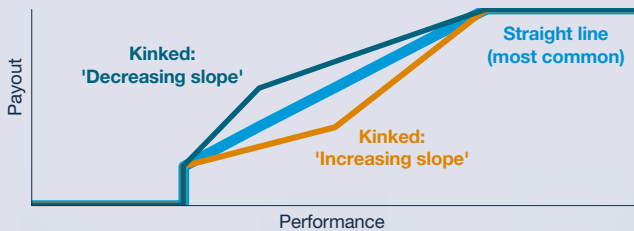
**1 Use of 3-point schedules:** Three quarters (76%) of companies use a 3-point schedule with Threshold, Target, and Maximum points. The typical payout at Threshold is either 0% or 25%, while 50% is commonly paid at Target.

### Three-point bonus schedule



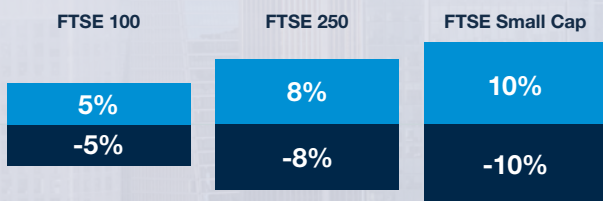
**2 Payout schedule shape:** Over half of the companies use a 'straight line' payout schedule, where a constant incremental payout is delivered for performance in between Threshold and Maximum points. However, a significant minority use 'kinked' payout schedules, most often using a schedule with an 'increasing slope', delivering a higher incremental payout for levels of performance above Target than for levels of performance below Target.

### Different payout schedule shapes



**3 Narrowing profit target ranges:** During the year, there was a trend towards narrower profit target ranges in FTSE 100 companies. This trend was less pronounced in the FTSE 250 and Small Cap.

### Median profit range width vs. Target:



**4 Symmetry of target ranges:** Symmetrical target ranges remain the most common approach. However, just under half the market employ a 'skewed' approach, with targets often skewed towards the maximum end of the range.

### Symmetrical target ranges used by >50% of the FTSE All Share

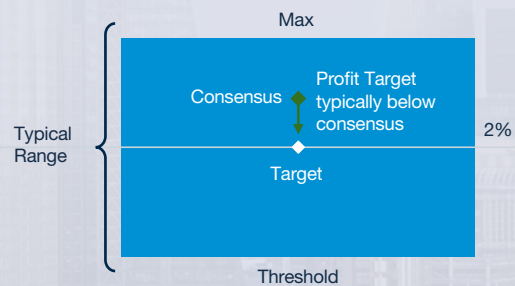


**5 Implied profit growth levels:** As one would expect, there is a wide range of practice on the level of implied profit growth in target ranges. Smaller companies typically require greater levels of growth.

### Median level of profit growth to achieve Target

	Current year	Prior year
FTSE 100	3%	3%
FTSE 250	7%	2%
FTSE Small Cap	9%	10%

**6 Market consensus:** Most companies (62%) set the Profit Target below the market consensus. The median pay-out for performance in line with consensus is 67% of max. The assumptions and caveats to this data should be noted.

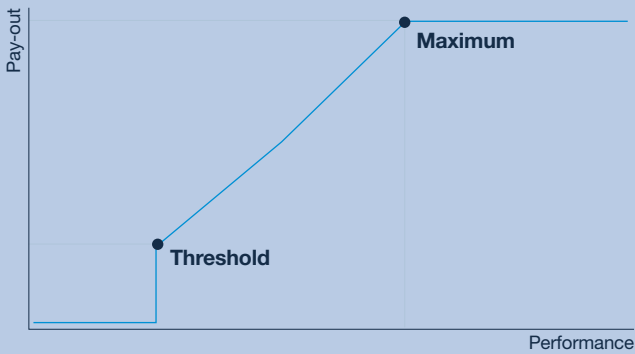


# KEY FINDINGS

## LTIP

**1 Use of 2-point schedules:** Most companies (85%) use a 2-point schedule with Threshold and Maximum points. The Threshold payout is commonly 25% of maximum.

### Two point LTIP schedule



**2 Range disclosure practices:** In the FTSE 100, most companies continue to disclose ranges as percentage growth targets. In smaller companies, it is more common to calibrate EPS targets as absolute amounts (e.g., pence per share), sometimes on a cumulative basis over the performance period.

#### FTSE 100

Disclose ranges as percentage growth targets

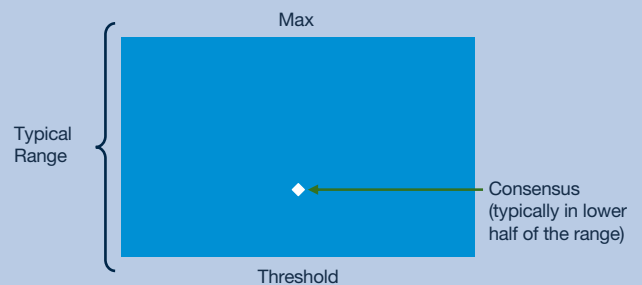
#### Smaller companies

Calibrate EPS targets as absolute amounts (pence per share)

**3 Growth levels for vesting:** The median levels of growth required for Maximum vesting have remained similar year-on-year in the FTSE 100, 250 and Small Cap (11%, 12% and 15% respectively). The median growth required for Threshold vesting reduced slightly from 5% to 4% in the FTSE 100, but increased by 1% in the FTSE 250 (4% to 5%) and FTSE Small Cap (5% to 6%).

	Median growth required for Threshold vesting	Median growth required for Maximum vesting
FTSE 100	4%	11%
FTSE 250	5%	12%
FTSE Small Cap	6%	15%

**4 Market consensus:** Most companies (57%) had consensus positioned within the target range. The median level of payout for achieving the profit consensus at the time targets were set was 56% of maximum, which suggests that consensus is usually positioned in the lower half of the target range. The assumptions and caveats to this data should be noted.



Target setting practices can vary by location. For example, there are a number of differences between target setting practice in the US and UK as set out in our 2025 toolkit.



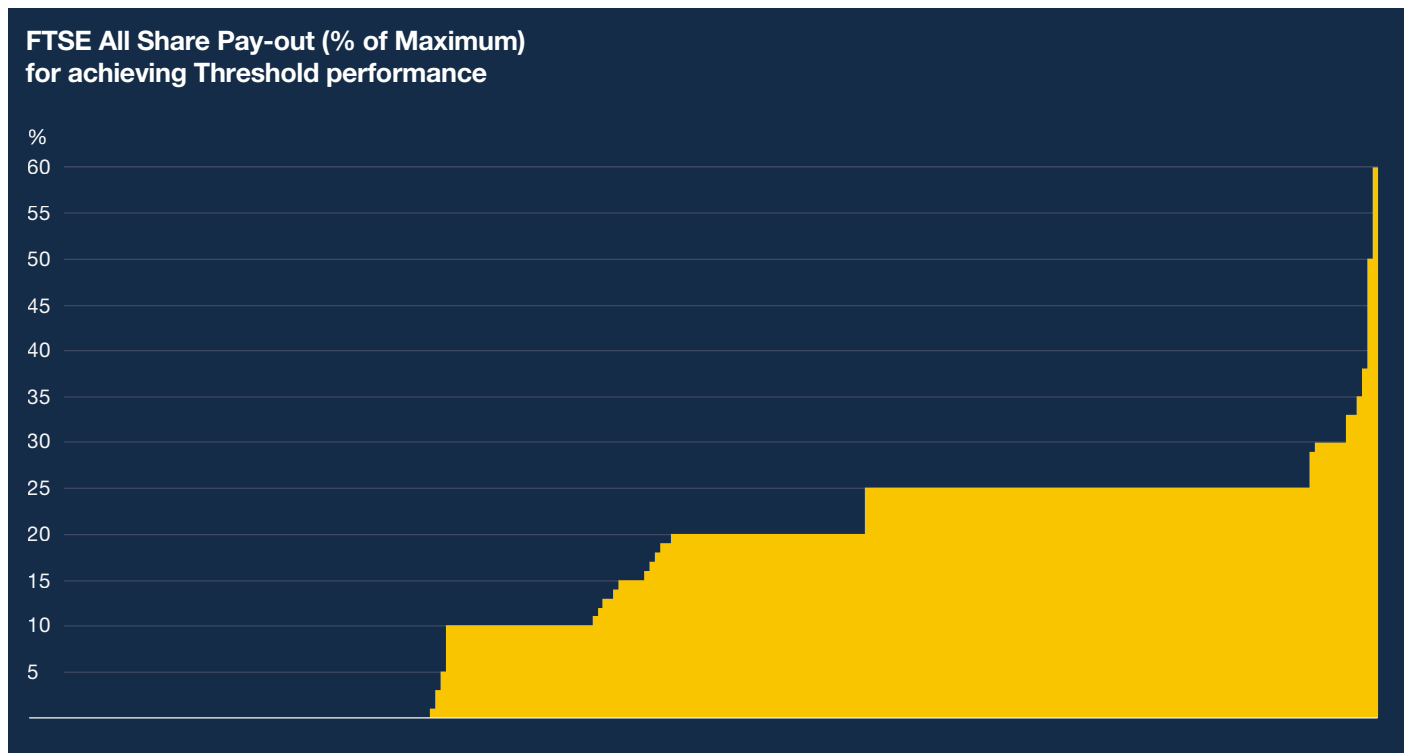
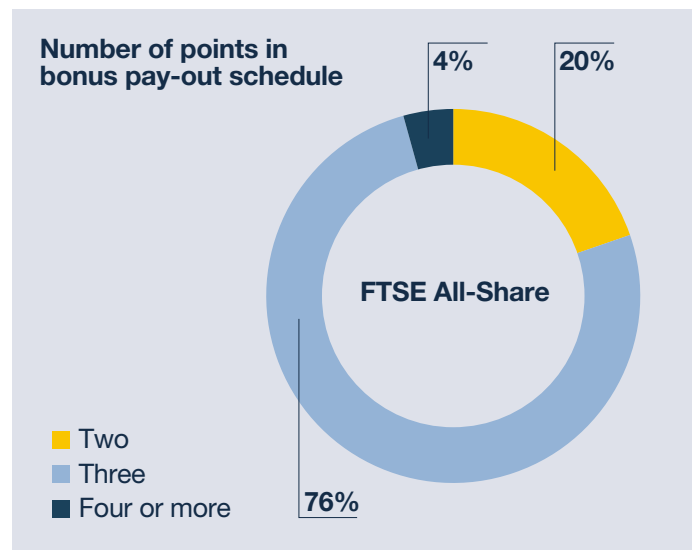
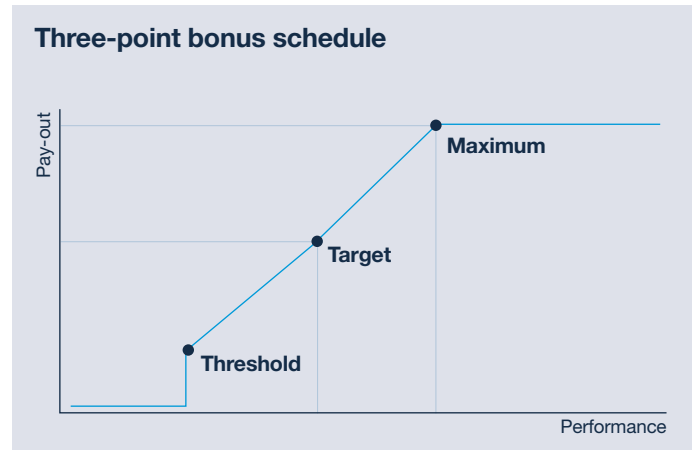
# ANNUAL BONUS

## PAYOUT STRUCTURE

Most companies (around 80%) in the FTSE All Share continue to disclose the use of a 3-point schedule, with payouts for Threshold, Target and Maximum performance levels (although these may sometimes be labelled differently). Typically, payouts are calculated on a straight-line basis between those points. One fifth (20%) of the market disclose a 2-point schedule, which includes only Threshold and Maximum points.

There is significant variation in payout levels for achieving Threshold performance, as shown in the chart below (with each bar representing one company across the full market). The median payout is 20% of maximum, although the two most common approaches remain 0% and 25% of Maximum.

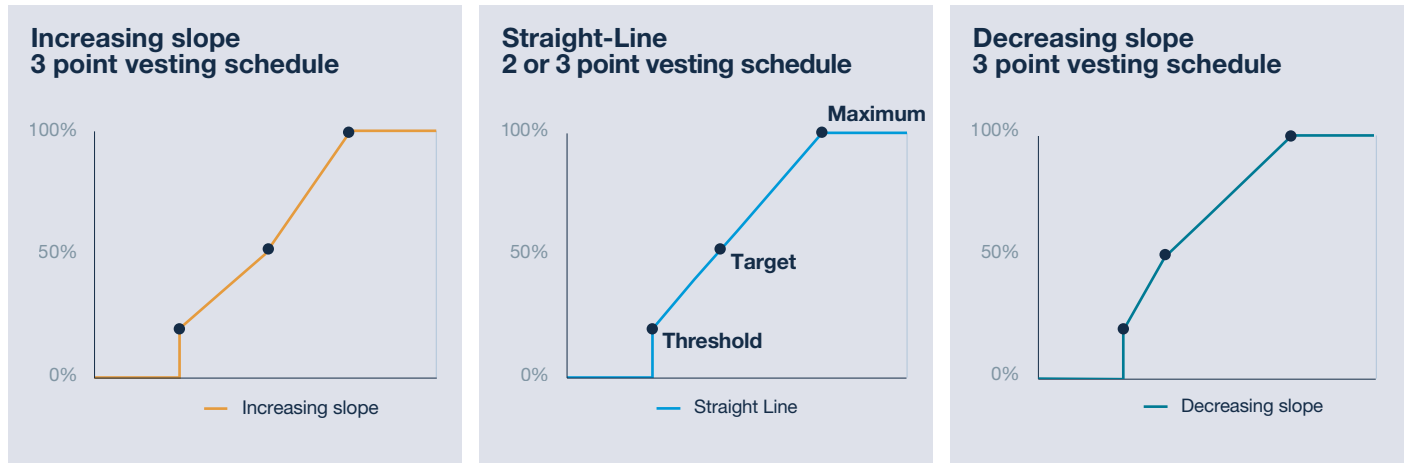
During the year, around one fifth of the market (21%) made a change to the amount payable for Threshold performance. These changes were split broadly equally between companies increasing and decreasing the payout level.



# ANNUAL BONUS PAYOUT STRUCTURE

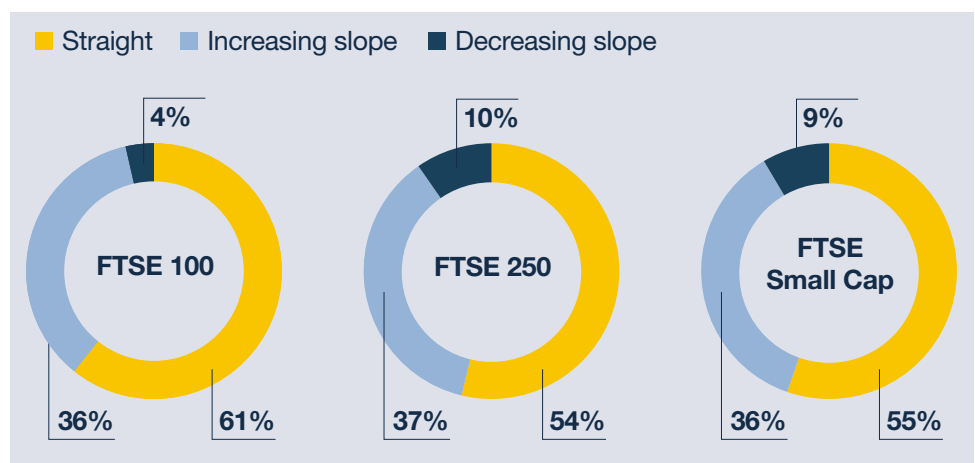
For achieving Target performance, the majority of companies pay out 50% of the maximum, in line with shareholder guidance. However, a handful of companies have retained a higher level of payout.

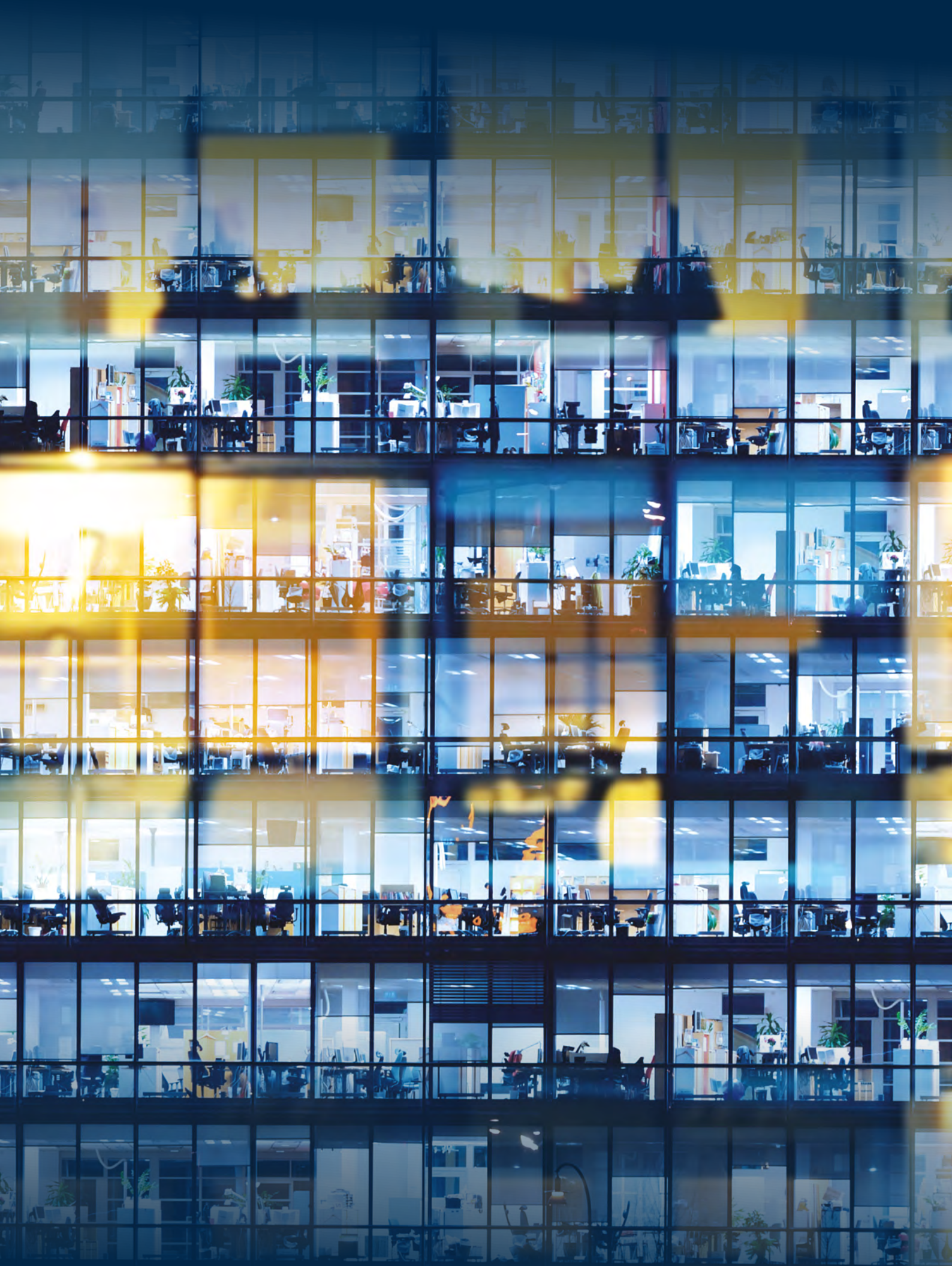
Another area of variation is in the design of the payout schedule. In general, there are three approaches as set out below:



Increasing slope	Straight-line	Decreasing slope
<p>The payout schedule is steeper after Target than before Target.</p> <p>This approach delivers a higher incremental payout for higher levels of performance. This can be relevant when, for example, Target is considered to be relatively challenging.</p>	<p>The payout for Target sits on a straight line between the Threshold and Max payout levels.</p> <p>This approach delivers a constant payout for incremental profit performance between Threshold and Max.</p>	<p>The payout schedule is steeper before Target than after Target.</p> <p>This approach gives a lower payout for incremental performance above Target. This can be relevant when, for example, Target is considered to be relatively achievable.</p>

Straight-line payout schedules are the most common approach in the FTSE All Share, with increasing slope schedules being the second most common approach. Decreasing slope schedules are significantly less common than the other two approaches. The slope of the curve is influenced by the symmetry of the profit range, which is discussed further on page 13.



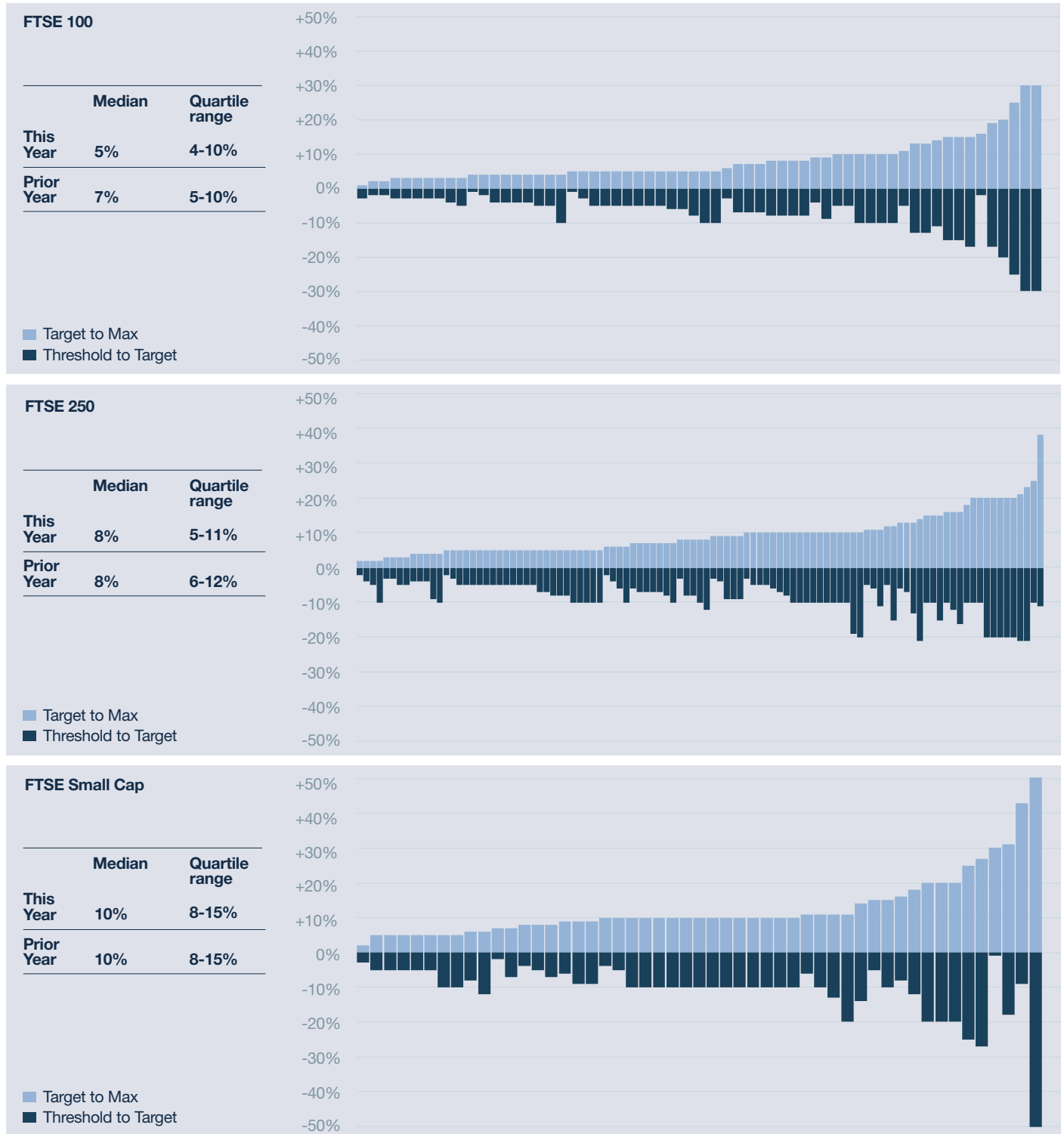


# ANNUAL BONUS

## WIDTH OF PROFIT RANGES

For companies using a 3-point schedule, the charts below illustrate market practice for the range of Threshold and Maximum around the Target point (with each bar representing one company)<sup>1</sup>.

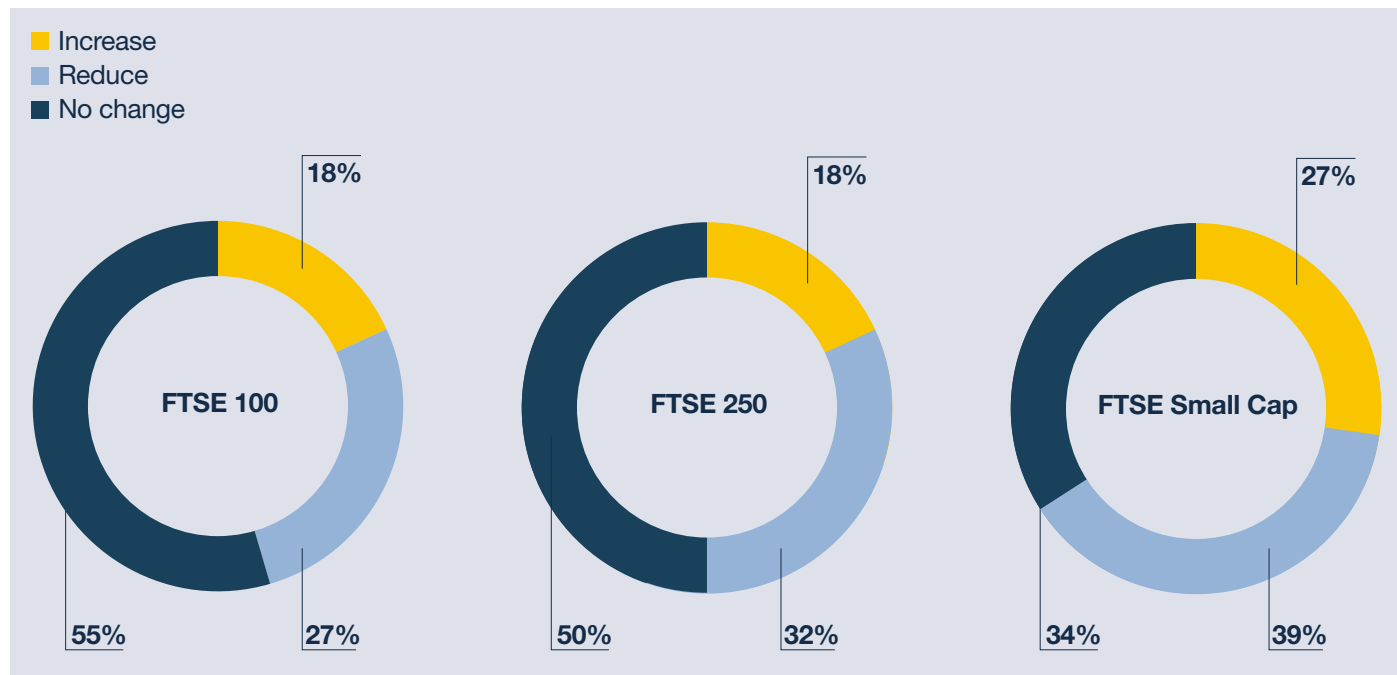
As expected, there is a wide range of practice, reflecting different levels of uncertainty and volatility across businesses and sectors. Larger companies tend to have narrower ranges compared to smaller companies, as shown in the charts.



<sup>1</sup> For example, if a bar shows a +10% above the axis and a -10% below the axis, then the Maximum is 10% above Target, and the Threshold is 10% below Target.

# ANNUAL BONUS WIDTH OF PROFIT RANGES

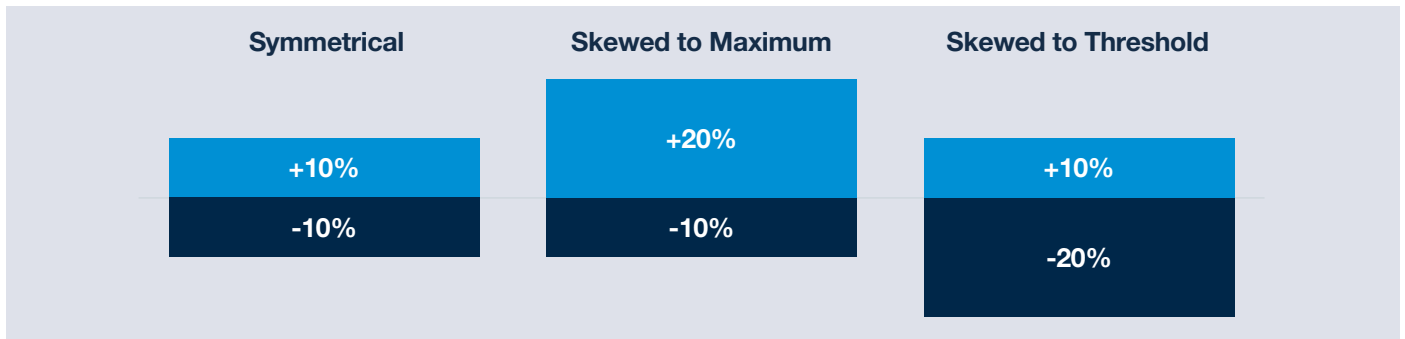
In the previous year, the number of companies increasing or reducing the profit range width was broadly similar. However, during the current year, fewer companies have increased their range width in the FTSE 100 and 250, with more companies reducing range width in the FTSE Small Cap.



# ANNUAL BONUS

## 'SYMMETRY' OF PROFIT RANGES

As shown in the previous charts, companies adopt different approaches to the 'symmetry' of profit ranges around the Target point. There are three main alternatives:

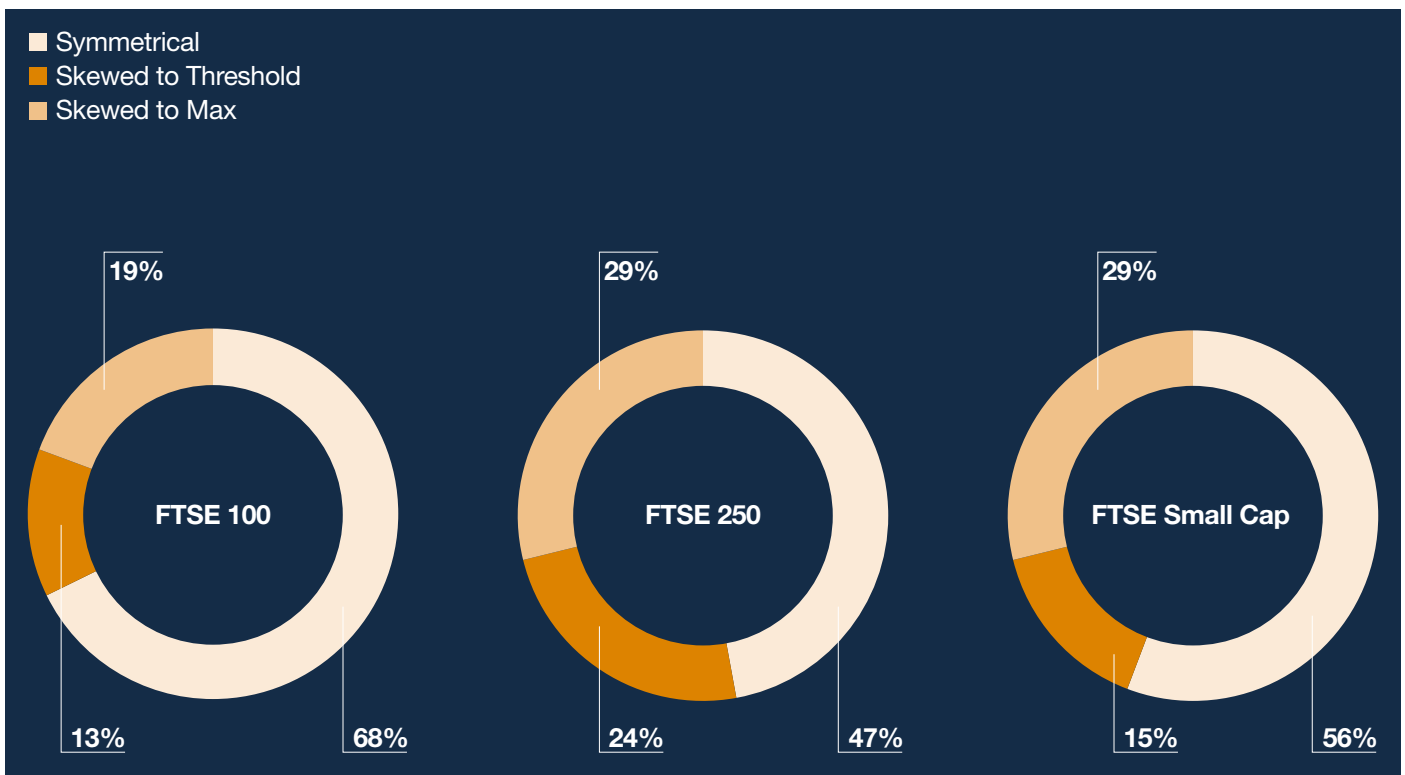


The rationale behind these different range designs often depends on various factors specific to the given year. For example:

- The perceived level of stretch in the Target level, which is normally, but not always, directly linked to the company's agreed budget.
- The extent of upside and downside risks to expected performance.

As the charts below show, a simple symmetrical range remains the most common. However, a significant proportion of the market employs a 'skewed' approach, with the targets most commonly skewed towards the maximum end of the range.

In the case of skewed ranges, it is relatively common for the skew to appear to follow a 'rule of thumb' in the calibration process. For example, the upside skew may be calibrated to be exactly double (or half) the downside value.



# ANNUAL BONUS

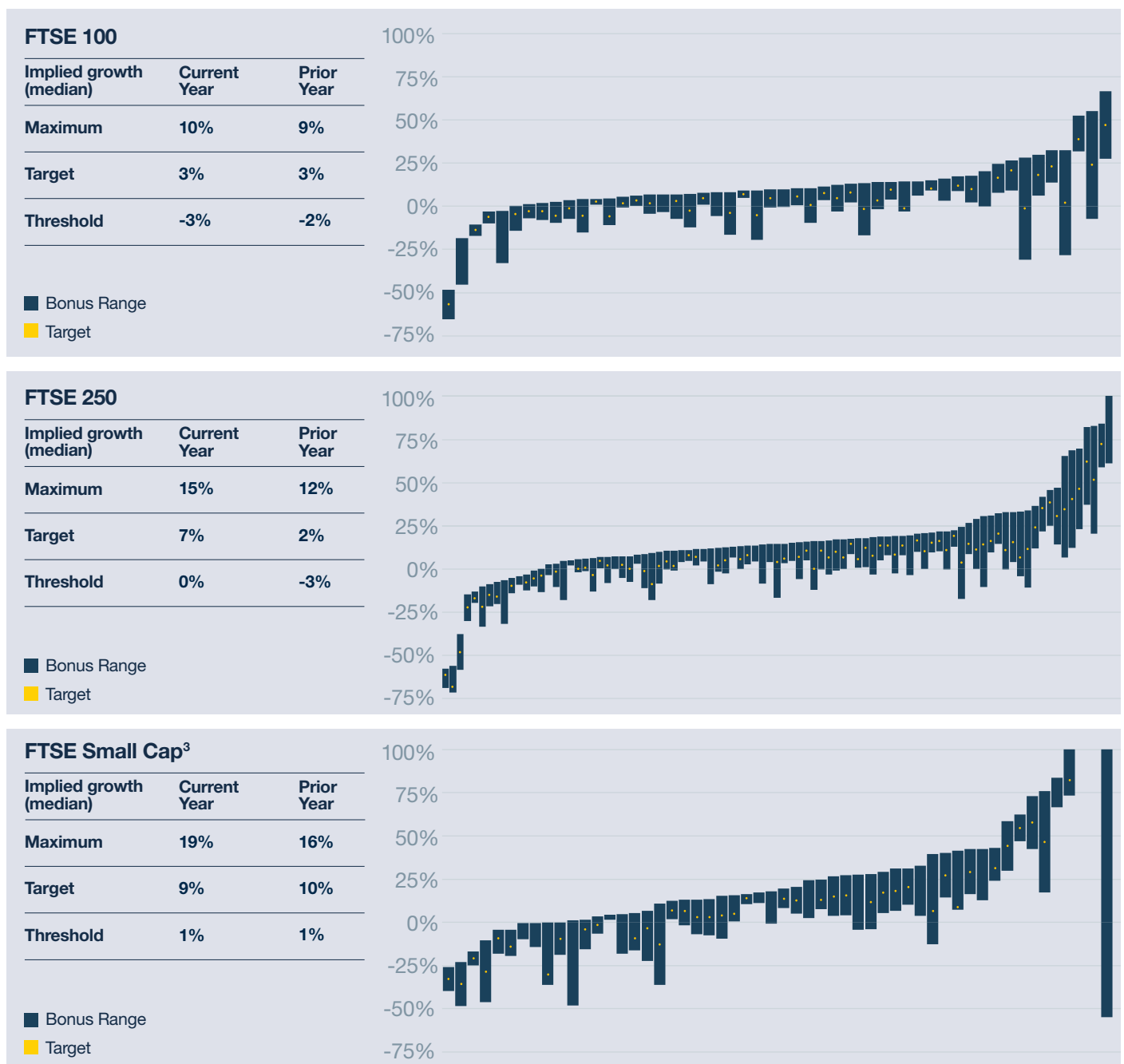
## IMPLIED LEVEL OF GROWTH IN PROFIT RANGES

Most profit targets are disclosed as monetary values, but these can be converted into an implied percentage growth rate from the prior year's actual performance. These growth rates are illustrated in the charts, with each bar representing the target range (from Threshold to Maximum) for one company. The caveats to this data should be noted <sup>2</sup>.

There is a wide range of implied growth levels in the market data, which is to be expected given different sectoral exposures to growth and/or company specific factors for any given year. Implied growth levels were in general similar to prior year in the FTSE 100 and Small Cap, although the

FTSE 250 target range has increased, potentially reflecting a more optimistic view in the middle of the market. As in prior years, it can still be seen that greater levels of growth are generally required in smaller companies.

Many companies will often consider positioning the Threshold above the prior year actual (i.e. to ensure some year-on-year growth is delivered before bonus starts to accrue.) However, the data show a sizeable portion of the market set Threshold (and in some cases even Target and Max) below the prior year actual.



<sup>2</sup> End Note 1 at the back of the report has caveats listed

<sup>3</sup> Some companies with very high implied growth rates cannot be displayed on the charts given the scale of the y-axis

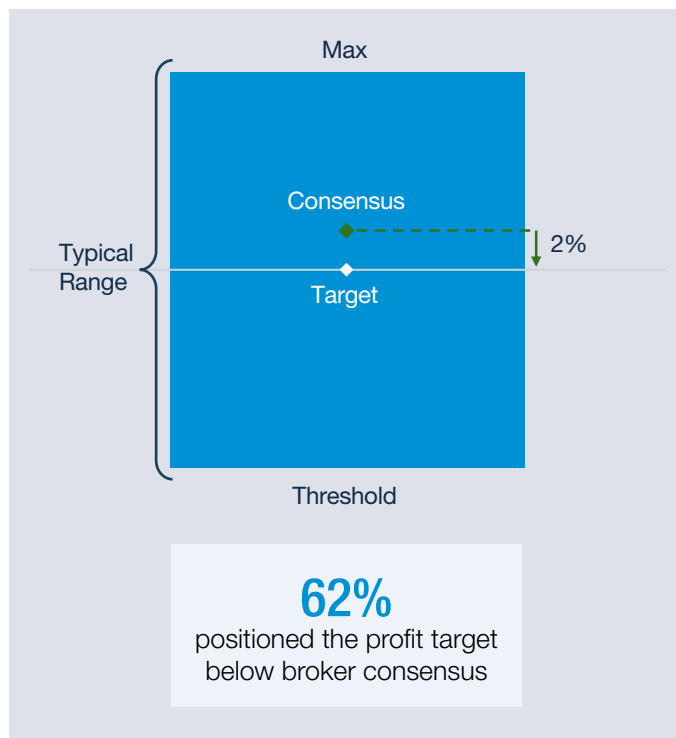
# ANNUAL BONUS RELATIVITY TO CONSENSUS

When calibrating bonus targets, market expectations for the company's performance will normally be an important reference point. Remuneration committees will therefore often consider how ranges compare against 'Consensus' (i.e. the average estimate from the company's sell-side equity analysts).

For companies from across the FTSE 100, 250 and Small Cap, most companies (62%) set the bonus target below consensus, with the typical profit target being set 2% below consensus (although practice varies widely).

As a result, the median level of bonus pay-out on the profit metric (as % of maximum), for performance in line with consensus at the time the targets were set, is above target at around 67% of maximum.

The market data is based on a number of assumptions and caveats which should be noted<sup>4</sup>.



<sup>4</sup> End Note 1 and End Note 2 at the back of the report have caveats listed.

# LTIP

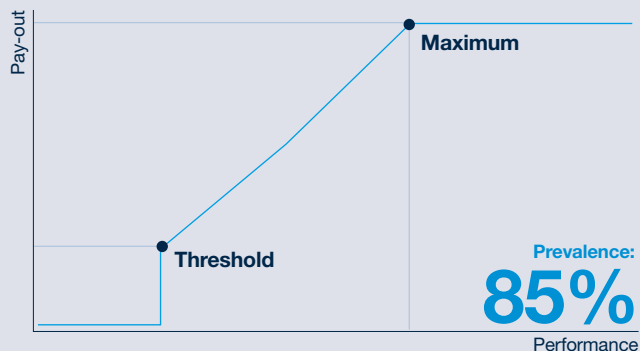
## VESTING SCHEDULE

In contrast to the annual bonus, most companies use a 2-point vesting schedule for Long Term Incentive Plan (LTIP) awards. This schedule includes defined parameters for Threshold and Maximum, with straight-line vesting between these points. A minority of companies operate a schedule with one (or more) additional points, often including a Target.

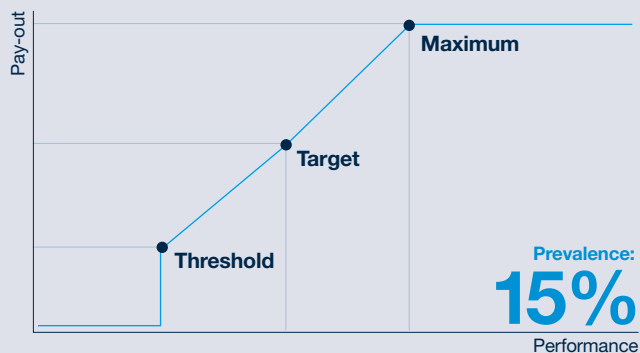
For meeting Threshold performance, it is very common for 25% of the maximum award to vest, with nearly three quarters (70%) of the market adopting this approach.

Some companies use a lower vesting amount, often 15% or 20% of the maximum. However, unlike the annual bonus, vesting of 0% of the maximum at Threshold is relatively unusual, observed in only 7% of the market.

### Two point LTIP schedule



### Three (or more) point LTIP schedule



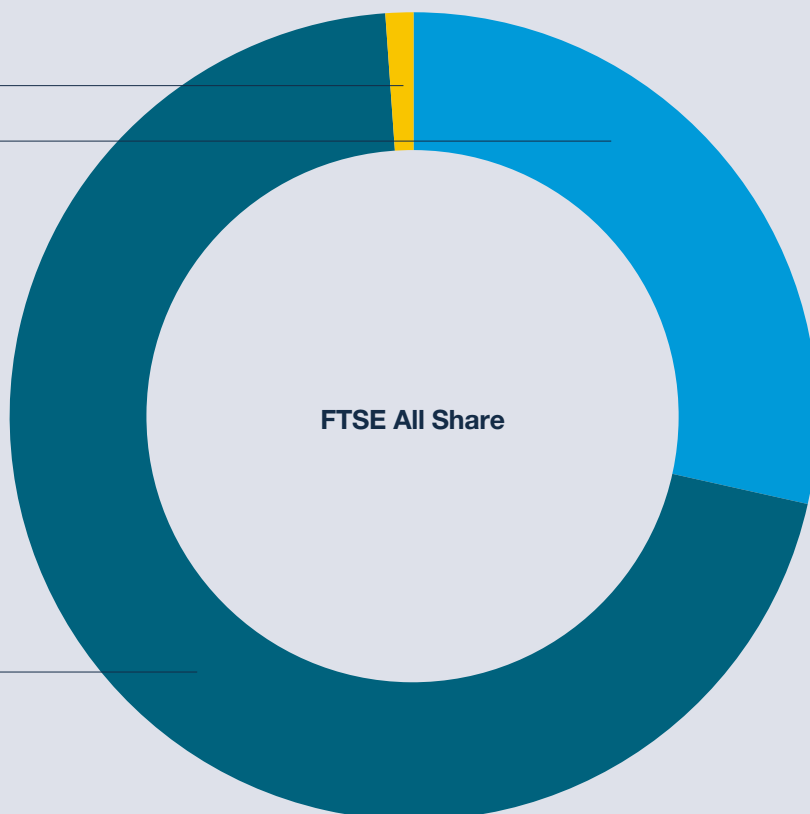
### LTIP Threshold Payout

1%

28%

70%

- Less than 25%
- 25% Vesting
- Greater than 25%



# LTIP

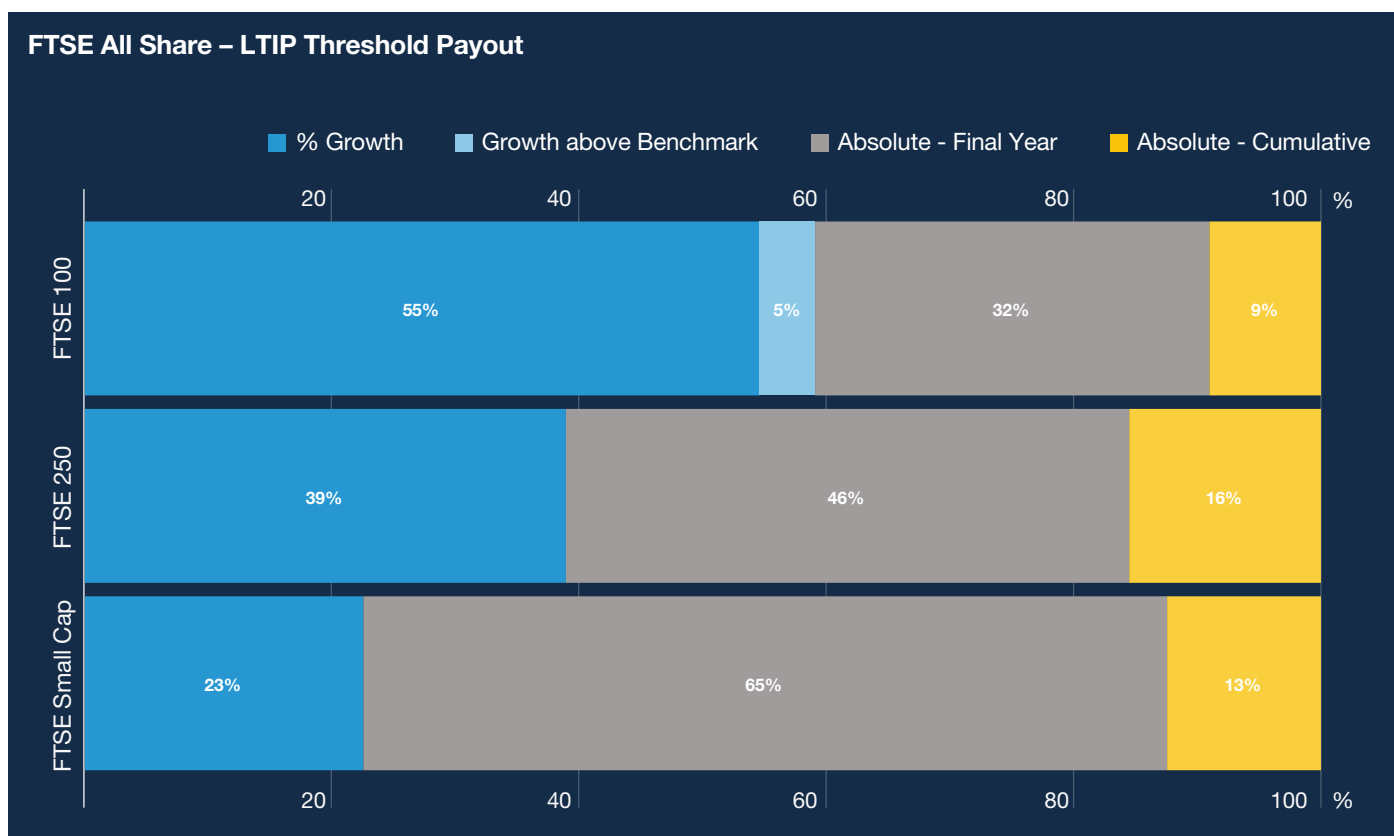
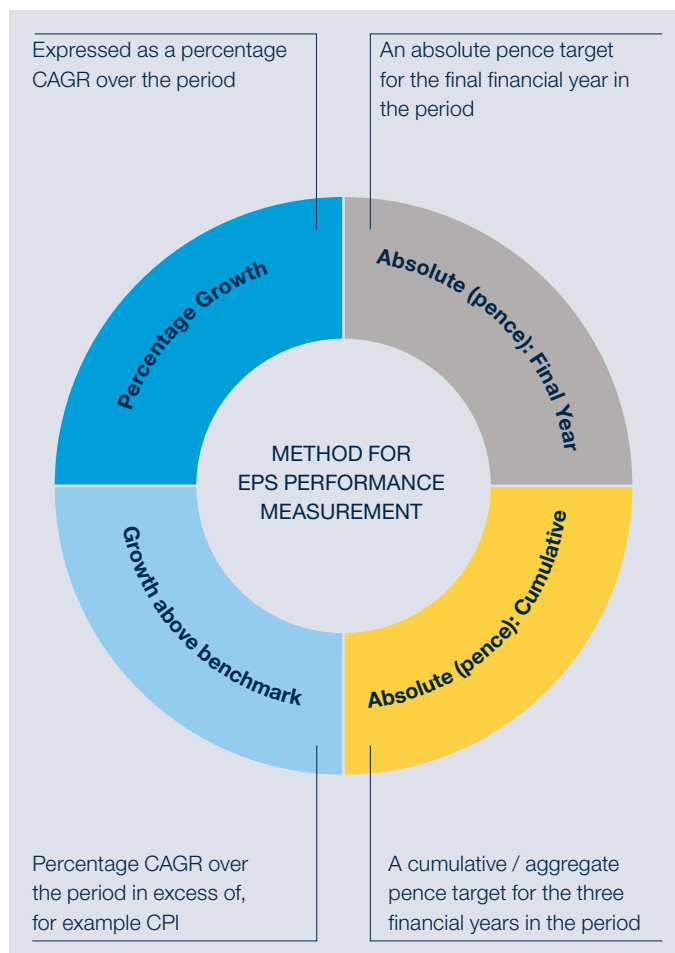
## BASIS FOR MEASURING EPS PERFORMANCE

For profit targets within the LTIP, around 90% of companies use Earnings Per Share (EPS) as the primary profit metric.

There are different approaches for calibrating and disclosing the targets, with very mixed market practice, as shown in the charts.

### Key observations:

- The previously 'conventional' approach of disclosing targets as a percentage growth rate remains the most common approach in the FTSE 100, but is now a minority practice in the FTSE 250 and Small Cap. This approach reduced significantly in Small Cap companies during the year with the number of companies using this approach reducing from 36% to 23%.
- Measuring growth relative to a benchmark (such as CPI or RPI) is now very unusual, particularly in smaller companies. The only change year on year is due to a company moving from the FTSE 250 to the FTSE 100.
- In the FTSE 250 and Small Cap, it is more common for targets to be expressed on an absolute (pence) basis.



Percentages do not add to 100% because of rounding.

# LTIP

## PROFIT TARGET RANGES (CAGR %)

The charts illustrate the range of market practices for profit target ranges in LTIP awards, with each bar representing the target range (from Threshold to Maximum) for one company. Assumptions and caveats related to this data should be noted<sup>5</sup>.

There is a wide range of targeted growth levels in the market data, which is to be expected given different sectoral exposures to growth and/or company specific factors for any given year.

The median growth level required for Threshold vesting (i.e. 4-6%) is broadly consistent across all three market segments (FTSE 100, 250 and Small Cap). The target growth % remains largely unchanged compared to last year, however both the lower and upper quartiles have increased slightly across all market segments. This indicates that some companies are increasing the toughness of their LTIP target ranges.

In the Small Cap segment, there is a broader range of expected performance, with Maximum performance levels continuing to be set higher compared to those in the FTSE 100 and 250.



<sup>5</sup> End Note 1 and End Note 3 at the back of the report have caveats listed

<sup>6</sup> Some companies with very high implied growth rates cannot be displayed on the charts given the scale of the y-axis

# LTIP

## RELATIVITY TO CONSENSUS

When calibrating LTIP targets, market expectations for the company's long-term performance will often be an important reference point. Remuneration committees may consider how ranges compare against 'Consensus' (i.e. the average estimate from the company's sell-side equity analysts).

For companies from across the FTSE 100, 250 and Small Cap, most companies had consensus positioned within the target range.

The median level of payout for achieving the profit consensus at the time targets were set was 56% of maximum, which suggests that consensus is usually positioned in the lower half of the target range.

As with the annual bonus, the market data are based on a number of assumptions and caveats which should be noted<sup>7</sup>. Indeed, consensus expectations for long-term performance can be expected to be more uncertain and volatile than for the annual bonus.

Typical level of vesting for achieving consensus:

**56% of max**



<sup>7</sup> End Note 1 and End Note 3 at the back of the report have caveats listed

# ABOUT A&M

## YOUR STRATEGIC PARTNER FOR EXECUTIVE COMPENSATION

Our growing Executive Compensation Services advisory practice comprises four senior practitioners with over 100 years' combined experience, supported by a team of both experienced professionals and graduates.

We can provide a full suite of services, advice and support to Remuneration Committees and HR or reward teams as shown below.

We can provide full support through all stages of the preparation and review of the DRR, ensuring both technical compliance and effective commercial communication.

Our objective is to support the design of a reward strategy and policy framework that is tailored to the business rather than an 'off-the-shelf' solution.

We can provide market data and insights for non-executive directors and executive directors in the U.K.



Our integrated practice provides access to share plan and tax experts to provide full support through the implementation phase.

We have a wealth of experience in supporting companies in this increasingly challenging area – from developing a tailored strategy and preparing materials to interpreting feedback.

We can support businesses in all aspects of incentive plan design and implementation, including determining performance measures, calibrating targets, and assessing outcomes.

# ABOUT A&M

## YOUR STRATEGIC PARTNER FOR EXECUTIVE COMPENSATION

One of our market differentiators is that we are a 'senior practitioner-led' practice, meaning that our lead consultants take a more 'hands-on' and visible role in client relationships than is often the case in other consulting practices. As a strategic partner to the business, our approach is as follows:

### BESPOKE ADVICE, TAILORED TO THE BUSINESS



Our objective is to help clients design and implement remuneration that is tailored for their business, rather than market standard that 'ticks the boxes.'

### COLLABORATIVE...



As a strategic partner, we aim to work closely in partnership with management teams to understand key objectives, priorities and constraints, which inform our ability to provide tailored and balanced advice.

### ...BUT INDEPENDENT AND TRANSPARENT



At the same time, we always recognise our ultimate accountability to provide an independent and objective view to the remuneration committee. At all times, we act with integrity and transparency in our interactions with stakeholders.

### FACILITATE STRATEGIC DECISION-MAKING



We help the committee assess options strategically in the context of the board's 'risk appetite,' and are recognised for a pragmatic and commercial approach that balances key stakeholder perspectives.

### OPTIMISE OUTCOMES



Once decisions are made, we provide effective support to optimise stakeholder outcomes. We add value through all stages of the shareholder engagement process – developing strategy, creating effective materials, and interpreting feedback.



# END NOTES

## 1 Implied growth rate calculation

Calculating an implied growth rate requires comparing the disclosed bonus targets with the disclosed prior year actuals for the same performance measure. However, these figures are often not directly comparable for several reasons, including:

- Currency or price adjustments.
- Mergers and acquisitions (M&A).
- Specific adjustments for bonus plan purposes.

Every effort has been made to ensure the figures used are as comparable as reasonably possible. Instances where data is considered insufficiently reliable have been excluded.

## 2 Comparison with consensus

The Comparison with consensus is based on:

- The implied growth rate in the company's bonus range (see note 1 above).
- The implied growth rate in prevailing consensus estimates.

Consensus data is sourced from Datastream, taken approximately three months into the company's relevant financial year (assumed to be broadly consistent with when bonus targets are set). The Consensus data is matched to the company's profit metric used in the bonus calculation.

A number of exclusions have been made for reasons such as:

- Lack of available data.
- Mismatch between metrics.
- Significant anomalies or outliers.

## 3 LTIP targets

The most recently disclosed LTIP targets are used, typically based on prospective disclosures for the forthcoming LTIP awards. If this is unavailable, data from the LTIP awards made during the year are used. All profit targets are included.

- For absolute (pence) values, an implied growth rate is calculated using a base year. Similar to note 2, figures may not be directly comparable due to adjustments like M&A, inflation, or market changes.
- If targets are disclosed as cumulative pence values, the implied growth rate reflects the constant rate of growth required to achieve the cumulative targets over the performance period.
- Where EPS targets are set relative to a benchmark (e.g., inflation or market growth), these have been converted to absolute growth using a simplified assumption of 3% per annum.

Every care has been taken to ensure comparability, and data deemed insufficiently reliable have been excluded.



**DAVID TUCH**  
MANAGING DIRECTOR

+44 794 916 9944  
dtuch@alvarezandmarsal.com



**JAMES HARRIS**  
MANAGING DIRECTOR

+44 786 129 4374  
james.harris@alvarezandmarsal.com



**JEREMY ORBELL**  
PRINCIPAL

+44 734 148 6140  
jorbell@alvarezandmarsal.com



**ALEX GARDNER**  
SENIOR DIRECTOR

+44 7393 397 996  
alex.gardner@alvarezandmarsal.com



### ABOUT ALVAREZ & MARSAL

Founded in 1983, Alvarez & Marsal is a leading global professional services firm. Renowned for its leadership, action and results, Alvarez & Marsal provides advisory, business performance improvement and turnaround management services, delivering practical solutions to address clients' unique challenges. With a world-wide network of experienced operators, world-class consultants, former regulators and industry authorities, Alvarez & Marsal helps corporates, boards, private equity firms, law firms and government agencies drive transformation, mitigate risk and unlock value at every stage of growth.

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