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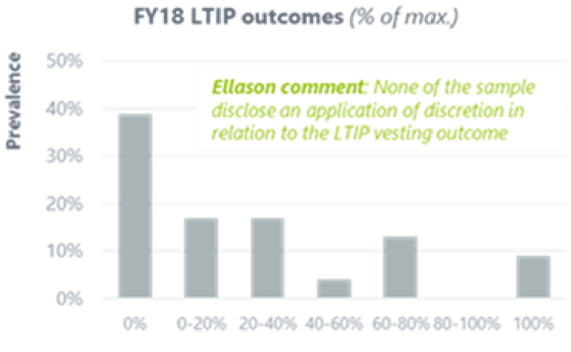
2020 pay decisions

January 2021

It may be a new year, but tough decisions remain for many companies around pay decisions relating to the 2020 financial year. The Ellason team has reviewed disclosures by 23 FTSE companies with September year ends who so far have reported for the 2020 financial year, to highlight any emerging trends of note.

As a reminder, the onset of the Covid-19 pandemic in Q1 2020 has had material consequences (negative for most companies) for employees and shareholders. Initial corporate reactions centred on temporary salary and fee reductions for Board directors, generally aligned with pay cuts for employees (if furloughed) or the taxpayer (if government financial support used). Several companies reduced Board director pay simply in solidarity with customers or general society. More recently, we are observing the impact on incentive outcomes in this period.

The proportion of companies paying zero bonus to senior executives for 2020 has increased significantly – 48% of companies with September year ends are in this category, compared with a 'normal' year of only 5%-10% of companies (as observed across FTSE100 and FTSE250 companies over the last 5 years). The impact of the pandemic on LTIP outcomes for periods ending in FY20 has been less dramatic, as you might expect given the 3-year performance period was impacted only in its final months; with just short of 40% of LTIPs vesting at zero, compared with a 'normal' year of 15%-25% of companies.



There are several key considerations when determining incentive outcomes for senior executives this year. Perhaps the most prominent of these are alignment with the workforce and with the taxpayer; even if incentive scorecards warrant a payout, the final decision requires an overlay of the conditions experienced by the workforce over 2020, and whether government support has been used. The shareholder experience is another key input – those companies continuing to defer dividend payments will need to consider carefully the validity of cash bonuses for senior executives, and whether these should be paid at all, or deferred until such time as dividends are resumed.