LENS ON:

Shareholder dissent during the 2021 AGM season

March 2021

Although we are still in the early stages of the 2021 AGM season, the majority of companies have so far continued to garner strong shareholder support for their remuneration proposals. The median vote across all remuneration resolutions to date has been 96%, and is comparable to previous years.

However, average (mean) support currently sits at just under 88%, indicating a not-insignificant 'tail' of companies receiving low votes. Indeed, of the 29 FTSE All-Share companies to have held their AGMs since December 2020, around 1 in 4 has received less than 80% support for at least one of their remuneration resolutions - and has therefore been added to the Investment Association's Public Register.

Below we summarise the reasons for shareholder dissent at three companies achieving some of the lowest votes to date:

- **Hollywood Bowl** (SmallCap, 47.7% vote against **due to discretion on LTIP vesting**)

  Shareholders expressed concerns around the alignment of Executive Director pay with the experience of stakeholders ahead of the January 2021 AGM. Hollywood Bowl had been particularly impacted by the pandemic: closing its centres, suspending dividends and furloughing c.99% of its workforce with £8.2m government support received through the Coronavirus Job Retention Scheme (CJRS).

  Hollywood Bowl's 2018 LTIP cycle was originally due to vest based on 3-year performance to end-September 2020, with the eventual EPS outturn of 0.9p significantly below the threshold target of 13.4p. However, as a result of the pandemic, the Committee used its discretion to curtail the performance period to February 2020 (i.e. the last full month prior to pandemic-related closures) which resulted in a vesting outcome of 100%. As a *quid pro quo* for the upwards discretion, vested awards were pro-rated to reflect the shorter period and made subject to a mandatory 2-year holding period (with release dependent on resumption of dividends) which would not otherwise have applied.

Ellason commentary

The very significant vote against the remuneration report serves as a reminder of the sensitivity around executive pay at this time. A number of shareholders have voiced their opposition to companies making retrospective adjustments to in-flight incentive cycles as a result of the pandemic (see our recent Ellason Lens on FY21 IA Guidance, for example). Applying positive discretion is challenging at the best of times and so it is perhaps unsurprising that the upward discretion at Hollywood Bowl attracted significant dissent in this instance given the economic backdrop, particularly the impact on employees.

- **Carr's Group** (SmallCap, 45.5% vote against **due to bonus outcomes and salary increases**)

  The Group's new Remuneration Policy was approved with 99.7% support, in sharp contrast to the significant vote against its Annual Report on Remuneration. Shareholder concern appears to have focussed on two main areas: annual bonus outcomes and Executive Director salaries.

  The FY20 annual bonus was based 80% on PBT and 20% on strategic objectives. Carr's FY20 PBT of £14.9m was c.15% below threshold resulting in no payout under the financial element. In respect of the strategic element, the Committee's assessment resulted in outcomes of 75% to 90% for that element. Overall bonus payments to Executive Directors were 15% to 18% of salary, which was considered appropriate taking into account strong strategic progress and the management team's response to the pandemic. For context, the Group furloughed c.5% of its employees under the CJRS for a limited period, undertook a small number of redundancies (c.2% of employees) and deferred (but ultimately paid) its first interim dividend until later in the financial year.

  On salaries, in addition to a 1% increase aligned with the broader workforce, the CFO was awarded a further 17.5% increase reflecting his significant contribution in recent years and his integral role in ensuring a smooth CEO transition during FY21, with his resulting salary considered to be within the market range (but below median). The Company also disclosed that the salary of the incoming CEO will be c.17% higher than his predecessor (albeit with fixed pay only 5-6% higher as a result of the alignment of his pension with the workforce).

Ellason commentary

The payment of annual bonuses for non-financial performance, where financial targets have been significantly missed, is not a new issue for shareholders and has been flagged by IVIS in its commentary for a number of years. Although in this instance the resulting payouts are relatively low in % of salary terms, the likely key concern was around whether allowing such payments created a misalignment between the experience of executives and shareholders. Over 50% of companies reporting so far this year have paid zero bonuses (compared to 10% of companies in a 'normal' year), with a number of committees applying discretion to reduce non-financial outcomes where financial targets have been missed.

Executive salary increases are a common area of shareholder scrutiny, and will likely remain so in a year where many companies are cutting workforce pay budgets. Salary increases are typically supported where they follow a material increase in responsibilities or complexity, provided this rationale is clearly articulated. Shareholders generally have a preference for significant increases to be phased in over a number of years, although many committees are wary of this giving rise to successive low AGM votes.

- **Imperial Brands** (FTSE100, 40.3% vote against **due to new CEO salary and LTIP awards**)

  Imperial Brands' new Remuneration Policy was approved with 95% support, despite the dissent registered on its Annual Report on Remuneration. In this instance, shareholder concern focussed on the salary of the new CEO and LTIP awards made during the year.

  Imperial Brands appointed a new CEO in 2020, on a starting salary c.13% higher than his predecessor. In addition, the CFO was granted an LTIP award worth 250% of salary in 2020, equating to 102,739 shares, compared with a 2019 award over only 69,868 shares, as a result of a decline in the share price between 2019 and 2020 grants.

Ellason commentary

The starting salary for new Executive Directors can attract scrutiny; many shareholders expect any new hires to receive less than their predecessor and for any subsequent increases to be phased in over a number of years as the individual gains experience in role. Companies looking to make experienced hires at higher levels of base salary may, therefore, need to accept a moderate level of shareholder dissent.

On LTIP awards, shareholders expect that any material fall in share price between grants is taken into account through a reduction in award level. There is no rule around what level of share price fall should trigger this review (we consider 20-25% to be a broad 'rule of thumb'), nor the reduction to award levels which should be applied (market practice is for a reduction equal to half of the share price decline). With the market-wide share price collapse as a result of the onset of the pandemic, many shareholders treated last year as an exception to this rule, provided that committees referenced their intention to review vesting outcomes to eliminate windfall gains from a post-pandemic market recovery. Recent IA guidance suggests that this 'grace period' is now over and that companies with still-depressed share prices should consider reductions at grant, rather than rely on discretion at the end of the vesting period.

Please do not hesitate to contact any of the Ellason team should you wish to discuss this issue further.