IPO remuneration guide

A guide for companies listing on the FTSE All-Share

Ellason LLP
www.ellasonllp.com

Introduction

Welcome to the Ellason 2025 IPO remuneration guide for FTSE Main Market listings

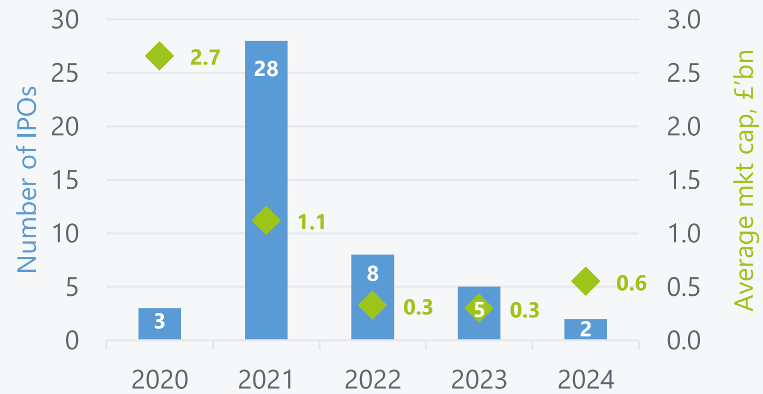
- Joining a public market is one of the biggest decisions a business can make and brings significant changes to remuneration and governance. We have developed this guide to help companies navigate the remuneration implications of the IPO process and provide an insight into executive reward practices in the listed company environment.
- Do not hesitate to share this report with colleagues and/or contact the Ellason team if you have any questions on this report or have any other remuneration matters you would like to discuss.
- The Ellason library also includes detailed pay trend reports for the FTSE100, FTSE250, FTSE SmallCap and AIM 100 – please contact one of the team if you would like a copy.

Steps to a successful remuneration policy at IPO:

1. Agreeing the remuneration philosophy
2. Designing the post-IPO package
3. Transitional and other arrangements
4. Wider governance agenda

Snapshot of the UK IPO Market

Listings on the Main Market*



Following a large jump in the number of FTSE listings 2021, there has been a significant fall in the number of Main Market IPOs*, reflecting ongoing economic uncertainty and the general concern over the competitiveness of the UK market. In 2024 changes to the UK listing regime were bought in to make it more flexible and competitive with other major markets

Email our senior consultants:

peter.smith@ellasonllp.com
stuart.harrison@ellasonllp.com
ed.mottley@ellasonllp.com
jenni.blyton@ellasonllp.com
lorna.dodson@ellasonllp.com
andrew.brown@ellasonllp.com
jude.levy@ellasonllp.com

** Data in this survey is based on 46 companies listing on the Main Market between January 2020 and December 2024 (see Appendix for a full list). Companies without at least one full-time executive director disclosed in the Prospectus are excluded.*

Steps to a successful remuneration policy at IPO

Agreeing the remuneration philosophy upfront will help set the framework and principles for the detailed design phase. Key considerations include:

1. **FTSE and sector practice –** many newly-listed companies adopt relatively conventional remuneration packages, to minimise the risk of any 'governance discount' being applied to the listing valuation. Identifying relevant size and sector peers can provide a useful guide to accepted market norms.

2. **Company culture –** notwithstanding FTSE norms, to be effective, the pay policy will need to motivate, attract and retain talent; to do so, the policy should also reflect the company's culture and market for talent.

3. **Business strategy –** the policy should support the strategy. Strategy will guide aspects such as the appropriate balance between fixed and variable pay, the time horizon for performance periods and relevant performance metrics.

4. **Risk appetite –** the risk appetite of management will influence the potential stretch in the packages (e.g. high risk, high reward); while the risk appetite of the Board and shareholders (current and future) will impact on the appetite to deviate from generally-accepted practices (e.g. if low votes on pay are to be avoided at future AGMs).

5. **Time horizon for existing executives –** depending on the wealth creation opportunities created through the listing, one-off arrangements may be required to support retention and motivation over appropriate timeframes. If executives are also major shareholders, this may also influence the pay philosophy and design.

The governance landscape for remuneration in a listed company

- An IPO is often the first time that a company's remuneration practices are made public through the listing documents and subsequent annual reporting; investors will often use the pay disclosures as a lens through which to assess the governance and strategy of the newly-listed company.
- UK-incorporated companies listing on the Main Market are required to seek binding shareholder approval of the Board director remuneration policy at the first AGM post-listing, and an advisory vote on its implementation annually.
- Proper planning, a well-designed framework and good execution can help a company decide upon, and implement, a remuneration policy that can withstand this external scrutiny, support the strategy and motivate, reward and retain key talent.

Designing the post-IPO package

Getting the building blocks of fixed pay right

1. **Base salaries –** it can be challenging to make significant upwards adjustments to salaries post-listing, therefore most companies seek to **align salaries to the market** rate at IPO. In many cases, this can result in a **significant uplift to the pre-IPO salary,** with median salary increases of c.55% for both CEO and FDs at IPO. Post-listing, salary increases for executive directors are generally expected to be no higher than the average workforce increase; where companies have awarded larger-than-usual increases to their employees over the past year due to high inflation, institutional shareholders have advised that executive increases should be lower (in % salary terms) in recognition of the higher variable pay opportunity available to them.

2. **Benefits –** benefits typically comprise life assurance, medical benefits and group income protection. Some companies also provide a company car (or cash allowance in lieu). Shareholders expect any relocation benefits to be provided for a limited time period only.

3. **Pension –** the UK Corporate Governance Code recommends that pension rates for executive directors, or payments in lieu, should be **aligned with those available to the workforce**. The median pension rate for companies listing since 2020 is 5% of salary (typical range 3-9%). Around half of these companies disclosed that their executive pension rate is aligned with that of the wider workforce.

Typical salary levels in the FTSE
(all listed companies; source Ellason 2024 FTSE surveys)

Chief Executive	Lower Quartile	Median	Upper Quartile
FTSE 100	£840k	£990k	£1,234k
FTSE 250	£580k	£666k	£765k
FTSE SmallCap	£429k	£500k	£577k

Finance Director	Lower Quartile	Median	Upper Quartile
FTSE 100	£534k	£616k	£761k
FTSE 250	£400k	£449k	£498k
FTSE SmallCap	£300k	£342k	£400k

There is a strong correlation between base salary levels and company size, and broad consistency in the ratio between CEO and FD salaries (the FD salary being typically set at c.67% of the CEO's)

Designing the post-IPO package

Aligning pay with performance: annual bonus

Typical annual bonus opportunity in the FTSE
(all listed companies, maximum as % salary; Source: Ellason 2024 FTSE surveys)

Chief Executive	Lower Quartile	Median	Upper Quartile
FTSE 100	175%	200%	210%
FTSE 250	150%	150%	200%
FTSE SmallCap	100%	125%	150%

Finance Director	Lower Quartile	Median	Upper Quartile
FTSE 100	150%	190%	200%
FTSE 250	125%	150%	150%
FTSE SmallCap	100%	125%	150%

ISS, one of the most influential investor advisor agencies, recommends that the target bonus should be no more than 50% of the maximum opportunity

4. **Bonus opportunity –** listed companies are expected to specify a maximum amount (typically expressed as a percentage of salary) that can be paid out based on in-year performance. Around half of companies listing in recent years have specified the **maximum annual bonus opportunity** in the listing Prospectus, with the median CEO and CFO opportunities at around 140% of salary (typical range 100-150% of salary). Around 20% of recently listed companies who disclose the maximum opportunities for both executives **have a lower maximum for the Finance Director**. Where the FD does have a lower bonus opportunity, it is typically set at around 80% of the CEO maximum. Across the broader FTSE we also see variation in award opportunity by company size and, in some cases, sector.

   Bonus deferral – the Investment Association sets out broad expectations around bonus deferral and expects companies to **set a deferral policy that aligns with the risk profile and time horizon of the business**. Mandatory bonus deferral is required at >95% FTSE350 and FTSE Small Cap companies and nearly 60% of companies recently listing disclosed their deferral policy in the Prospectus. The most common approach was to defer 33-50% of any bonus paid for three years.

   Bonus measures – disclosure on bonus metrics in Prospectuses is mixed, but across the broader FTSE**, financial measures typically account for 70-80% of the bonus**. The balance of the opportunity is based on non-financial measures, typically set around strategic, ESG-related or personal metrics. **Full retrospective disclosure of targets is expected** to justify any pay-outs made.

Designing the post-IPO package

Aligning pay with performance: long-term incentives

5. **Plan type –** the most common long-term incentive vehicle is a **performance share plan** ('PSP', under which shares vest subject to the achievement of performance targets); of the surveyed companies who disclosed their policy on post-IPO long-term incentives, 79% introduced a performance share plan. Whilst they remain minority practice, other plans used in the FTSE include **restricted shares** (shares which vest subject to continued employment only) and **value creation plans** (whereby participants share in the upside growth in value of the company).

   Performance and holding periods – all companies specified a **3-year performance period**. 91% of companies also disclosed applying a **2-year post-vesting holding requirement**, meaning that any shares vesting cannot be sold (other than for tax) until the fifth anniversary of grant. This design feature aligns with the recommendations set out in the UK Corporate Governance Code and wider FTSE practice. 67% of companies who disclose a grant date indicated that the first awards would be made on or shortly after IPO, with around 30% indicating that the first awards would be made at a later date.

Typical LTI award levels in the FTSE
(all listed companies, max. face value as % salary source: Ellason FTSE 2024 surveys)

Chief Executive	Lower Quartile	Median	Upper Quartile
FTSE 100	250%	300%	400%
FTSE 250	185%	200%	260%
FTSE SmallCap	125%	150%	200%

Finance Director	Lower Quartile	Median	Upper Quartile
FTSE 100	200%	250%	320%
FTSE 250	150%	195%	235%
FTSE SmallCap	120%	150%	175%

Award levels – the **median award level was 200% of salary** for both CEOs and FDs, albeit just over 20% of companies disclosed a lower award level for the FD than the CEO (where this was the case, the FD typically received 75% of the CEO's opportunity). As with annual bonuses, award levels generally differ according to company size and, in some cases, sector. Executives who are also founders and/or major shareholders may not participate in their company's LTIP or receive only a modest opportunity in recognition of the fact that there is already a substantial overlap between their interests and those of shareholders.

Performance measures – most companies use **either one or two performance measures**; among those who disclose their metrics, 58% use **relative total shareholder return** and 50% use **earnings per share**. This differs from the wider FTSE, where the number of measures used has increased in recent years (median 3). Few companies disclose the performance targets in the Prospectus, but shareholders will expect them to be included in the first annual report. LTIP targets are normally **disclosed on a forward-looking basis** at the start of the performance period.

Designing the post-IPO package

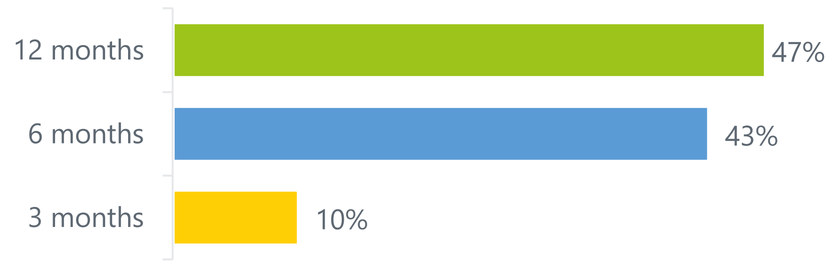
Other aspects of the post-IPO remuneration policy

6. **In-post shareholding guidelines –** the significant majority of listed companies have minimum shareholding requirements for executive directors while in post. Among the companies surveyed, this ranged from 150% to 800% of salary, with the **typical requirement set at 200% of salary** (the minimum level recommended by ISS, the proxy advisory body). This is similar to levels seen across the FTSE generally, where there is a general trend to align the shareholding requirement (as a % of salary) with the annual LTI award opportunity (face value). With the **median CEO shareholding worth £8.1m** immediately post-IPO (£2.2m for FDs), **achievement of the guideline holding requirement will not be an issue** for many executives in newly-listed companies.

7. **Ex-post shareholding requirements –** the UK Corporate Governance Code recommends extending the in-post holding requirements for a period post-termination of employment. Guidance from the Investment Association is that the holding requirement should extend for a period of 2 years post-termination at the lower of the in-post holding requirement or the executive's actual holding on departure. **All of the companies** listing in the period that disclosed an in-post holding requirement in their Prospectus, also **disclosed extending the requirement post-termination** (with most following the Investment Association's guidance).

6. **Notice periods –** summary details of the executive directors' service contracts, including **notice periods**, should be disclosed in the Prospectus and the directors' remuneration policy should include details of how the policy will be applied in the event of a director's departure. Typical practice would be the payment of salary and benefits for the duration of the notice period (typically 6 or 12 months). **Entitlement to any variable pay would generally be forfeited** unless the individual meets the definition of a 'good leaver'.

Notice periods for CEOs
(% companies listing since 2020)



Transitional and other arrangements

Consideration will also need to be given as to the treatment of existing arrangements

1. **Treatment of existing equity plans –** what happens to existing pre-IPO incentive awards will depend on the terms on which they were granted. **Practice is mixed at the companies surveyed. Among those that disclosed this information, 50% crystallised the value of previous awards at IPO**, with the shares either vesting immediately (41%) or released in tranches over a period (9%). At 41% of companies, the awards converted into shares in the newly-listed entity and continued to vest on the original timescale. One company extended the exercise period for outstanding options to three years post-IPO; another set a share price hurdle to be met before selling outstanding phantom shares.
2. **One-off awards at IPO to executives –** around 35% of the companies surveyed reported making **one-off awards to the directors or senior management team** either immediately prior to or at Admission. These comprised a mix of equity-based and cash awards. Reasons included **rewarding performance to IPO** (particularly where previous equity ownership had not been evenly distributed), to **assist with retention and incentivisation** in the immediate period post-IPO and to **bridge the gap** until awards vest under the post-IPO remuneration policy.
3. **Selling down shares –** an IPO often provides the opportunity for management to realise value from their existing ownership. The **median value of shares sold at IPO was £14.1m for CEOs and £3.2m for FDs.**

   Immediately after Admission, the **median aggregate shareholding held by the directors and senior management team was 8.8% of the issued share capital**; with 3.7% of issued shares being held by CEOs and 0.6% by Finance Directors (compared to 29.4%, 7.2% and 0.9% respectively immediately prior to Admission).
4. **Lock-up periods –** the selling shareholders and senior management team are typically subject to a lock-up period immediately post-IPO which prohibits further shares sales for a minimum period. **Nearly 70% of the companies surveyed specified a 12-month lock-up period** (11% had a shorter period; 20% longer).

Example of a one-off award at IPO (2024)

- **Raspberry Pi:** The CEO and CFO received market value options of equivalent to c.330% and 430% of salary respectively, based on the share price on IPO. These become exercisable three years post-IPO subject to continued employment only, i.e. they are not subject to further performance. The awards are not subject to a post-holding vesting period.

Transitional and other arrangements

All-employee arrangements should also be considered

5. **All-employee share plans –** 35% of the companies surveyed mentioned **introducing all-employee share plans** at IPO. The most common form of plan was a **Share Incentive Plan** (SIP) (31% of companies), closely followed by **Save As You Earn** (SAYE) (25%), with 38% of companies who disclosed this information introducing both.

   A SIP is an HMRC-approved share plan, under which employees can be granted free shares, acquire partnership shares (out of their pre-tax salary), receive matching shares for each partnership share acquired, and buy more shares with the dividends received from free, partnership or matching shares. No income tax or national insurance is payable if the shares are held in the plan for five years.

   A SAYE scheme provides employees with an option to buy shares at a discounted price. No income tax or national insurance is payable when the option is exercised. Two companies mentioned introducing an Employee Stock Purchase Plan (ESPP), the US equivalent to an SAYE scheme.

5. **One-off awards at IPO to all employees –** 13% of the companies surveyed disclosed making one-off awards to all employees at IPO to **aid retention and celebrate the success of the IPO**. Examples include:

Baltic Classifieds (2021)

- Qualifying employees received awards of free shares, with values ranging from €3,000 - €15,000

Pod Point (2021)

- Qualifying employees received a cash bonus on Admission, with the value based on length of tenure. The aggregate value of the awards was £1.69m

Procook (2021)

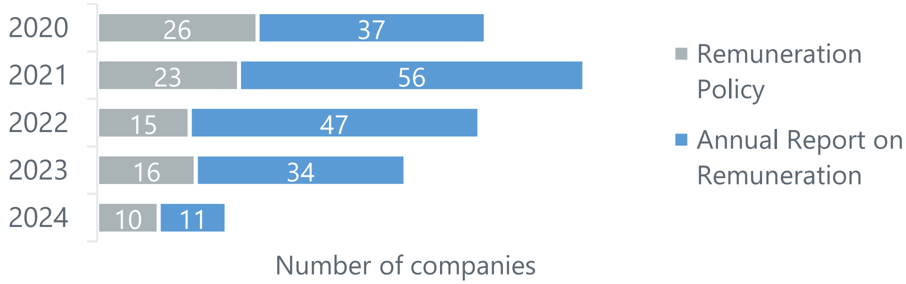
- All employees in employment to receive an award linked to salary, vesting in three equal tranches on the 12th month anniversary of grant with an exercise price set at 30% of the offer price for tranche 1, 20% of the offer price for tranche 2 and 10% of the offer price for tranche 3

The wider governance agenda

Insights from the 2024 AGM season and key influencers on voting

- Whilst only a simple majority (>50%) is needed to pass a remuneration resolution at a company's AGM, a vote of 20% or more against requires the company's name to be listed on the Investment Association's public register and for the company to respond formally on the voting outcome.

FTSE companies receiving <80% support on remuneration



- Reasons for recent votes against remuneration *policies*: significant increases in annual bonus and/or long-term incentive opportunity; unusual incentive structures such as hybrid (awarding both performance and restricted shares under a long-term plan);.
- Reasons for recent votes against remuneration *reports*: significant salary increases; remuneration arrangements for joiners and leavers; concern in the degree of stretch in incentive targets.
- Getting the right remuneration structures and policies in place ahead of the IPO can help minimise the risk of pay becoming a voting issue in future years.

The proxy advisory bodies

In addition to complying with the UK Corporate Governance Code, companies listing on the Main Market are advised to comply with the guidelines issued by the main proxy advisory bodies if they want to be assured of strong shareholder support on the remuneration resolutions at their first AGM. The key influencers are:

- **The Investment Association**: represents UK insurers and asset managers and highlights areas of concern to members through amber and red flags attached to its reports. Its *Principles of Remuneration* are generally accepted as best practice for listed companies on the Main Market
- **ISS:** represents global investment managers and asset owners, runs a subscription service reporting to its clients on corporate governance practices, including remuneration. Provides voting recommendations on resolutions being proposed to shareholders and can be highly influential if a *vote against* recommendation is issued
- **Glass Lewis:** established proxy adviser in the US and gaining market share in Europe. Represents investment mangers and asset owners and competes with ISS. Moderate but growing influence

Appendix

Appendix

Companies listing on the Main Market since 2020

Company	IPO Date	Sector	Market cap at IPO (£m)
Calisen	Feb-2020	Support Services	1,318
THG Holdings	Sept-2020	General Industrials	5,824
Bytes Technology Group	Dec-2020	Software and Computer	835
DR. Martens	Feb-2021	Personal Goods	4,540
Moonpig Group	Feb-2021	Retailers	1,488
Foresight Group Holdings	Feb-2021	Invest. Banking and Brokerage	488
Auction Technology Group	Feb-2021	Software and Computer	818
Cellular Goods	Feb-2021	Pharmaceuticals	101
Caerus Mineral Resources	Mar-2021	Industrial Metals & Mining	6
Trustpilot Group	Mar-2021	Software and Computer	1,103
Deliveroo Holdings	Mar-2021	Software and Computer	4,852
Mast Energy Developments	Apr-2021	Electricity	28
Pensionbee Group	Apr-2021	Invest. Banking and Brokerage	373
Darktrace	May-2021	Software and Computer	2,232
Alphawave Group	May-2021	Technology Hardware and Equip.	2,474
Oxford Cannabinod Tech.	May-2021	Pharmaceuticals	72
Taylor Maritime Invest.	May-2021	Industrial Transportation	180
African Pioneer	Jun-2021	Industrial Metals & Mining	8
Imperial X	Jun-2021	Invest. Banking and Brokerage	20
Made.com	Jun-2021	H'hold Goods & Home Const.	772
Baltic Classifieds Group	Jul-2021	Software and Computer	1,000
Seraphine Group	Jul-2021	Personal Goods	143
Bridgepoint Group	Jul-2021	Invest. Banking and Brokerage	3,985

Company	IPO Date	Sector	Market cap at IPO (£m)
Citius Resources	Aug-2021	Misc. Investment Vehicles	2
Oxford Nanopore	Oct-2021	Pharmaceuticals	4,753.74
W.A.G. Payment Solutions	Oct-2021	Industrial Support	930
Pod Point Group Holdings	Nov-2021	Alternative Energy	344
Stelrad Group	Nov-2021	Construction and Materials	290
Procook Group	Nov-2021	H'hold Goods & Home Const.	174
Technology Minerals	Nov-2021	Industrial Metals & Mining	32
Hambro Perks Acquisition	Nov-2021	Misc. Investment Vehicles	144
Graft Polymer UK	Jan-2022	Chemicals	23
Electric Guitar	Jan-2022	Misc. Investment Vehicles	2
Genflow Biosciences	Jan-2022	Pharmaceuticals	27
URA Holdings	Mar-2022	Industrial Metals and Mining	4
RC365 Holding	Mar-2022	Industrial Support Services	8
First Tin	Apr-2022	Industrial Metals and Mining	86
Ithaca Energy	Nov-2022	Oil, Gas and Coal	2,413
Hellenic Dynamics	Dec-2022	Misc. Investment Vehicles	38
Dar Global	Feb-2023	Real Estate Invest. and Services	536
World Chess	Apr-2023	Travel and Leisure	40
Amiccorp FS (UK)	Jun-2023	Invest. Banking and Brokerage	144
Altaona Rare Earths	Jun-2023	Oil, Gas and Coal	5
CAB Payments Holdings	Jul-2023	Invest. Banking and Brokerage	770
Raspberry Pi Holdings	Jun-2024	Technology Hardware and Equip.	745
Applied Nutrition	Oct-2024	Food Producers	359

ELLASON LLP