

Pay Credibility Assessment

Testing the pay-performance relationship

Introduction

Ellason's Pay Credibility Assessment helps to identify the strength of the relationship between executive pay and performance

- The Ellason Pay Credibility Assessment ('PCA') conducts a number of tests to validate the strength of the relationship between executive pay and company performance
- The tests in this PCA focus on CEO pay and company performance over the last 5 years ending in FY20, and compares [CLIENT] with FTSE100 companies
- Financial and share price data is sourced from Bloomberg; inevitably, some financial comparisons will not be perfect given the potential for different year-ends and assessments of exceptional items. However, our use of 100 companies in the benchmark will help to reduce the sensitivity of the findings to any imperfect comparisons
- Pay data is sourced from Ellason's proprietary databases. The CEO pay data is that reported in each company's annual report and is based on the total pay realised for the CEO role
- **Our assessment is summarised on page 3, with the detailed analyses covered over the following pages**

Summary

[CLIENT]'s CEO's average pay rank is behind that of its ranking in returns to shareholders and financial performance



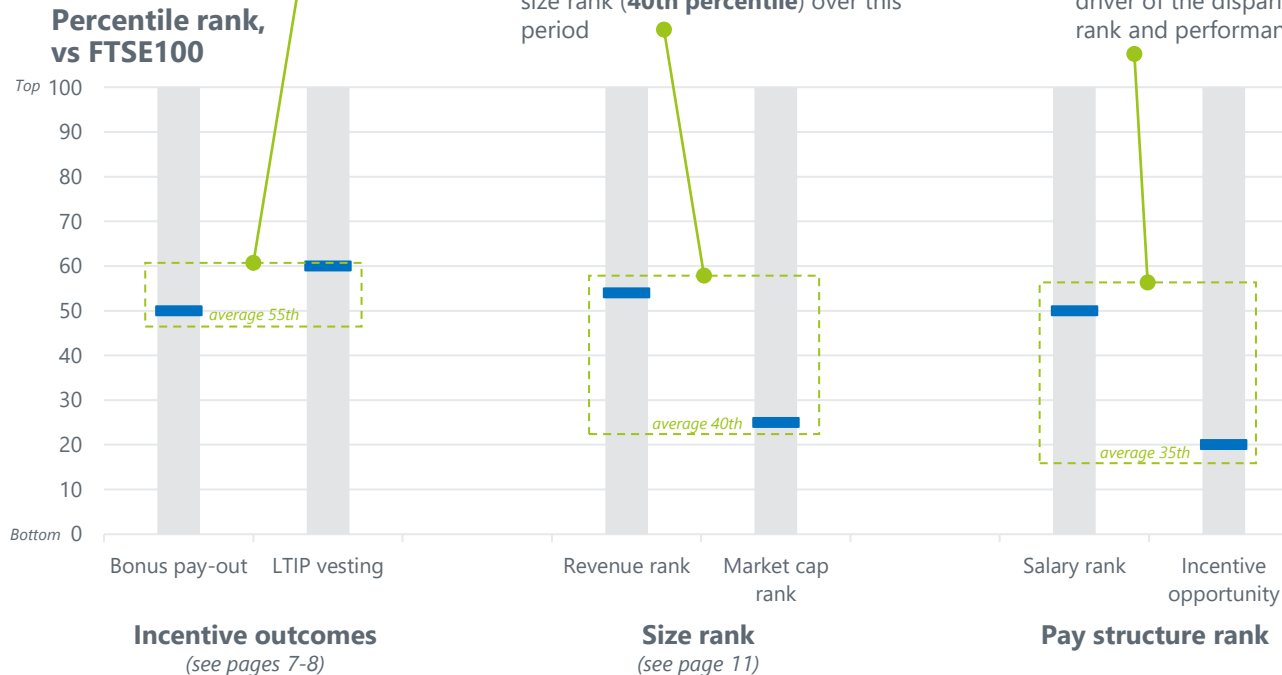
Summary

Ellason's view is that the CEO's pay rank has been lower than the overall performance rank due to the relatively low variable pay opportunity

The pay-outs under the Bonus and LTIP have been broadly consistent (at the **55th percentile**) with company financial performance

The lower remuneration rank can be partly explained by [CLIENT]'s relative size rank (**40th percentile**) over this period

... but it is the lower variable pay opportunity at [CLIENT] which is likely to be the main driver of the disparity between overall pay rank and performance rank

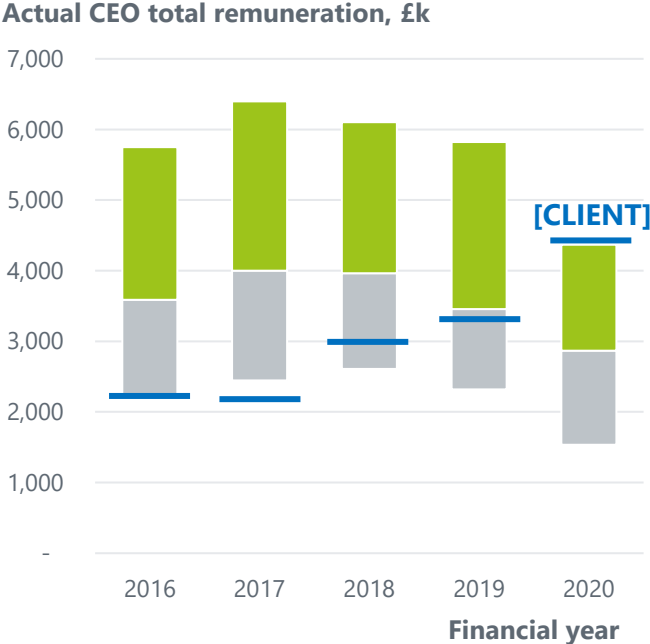


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Remuneration outcomes – total pay

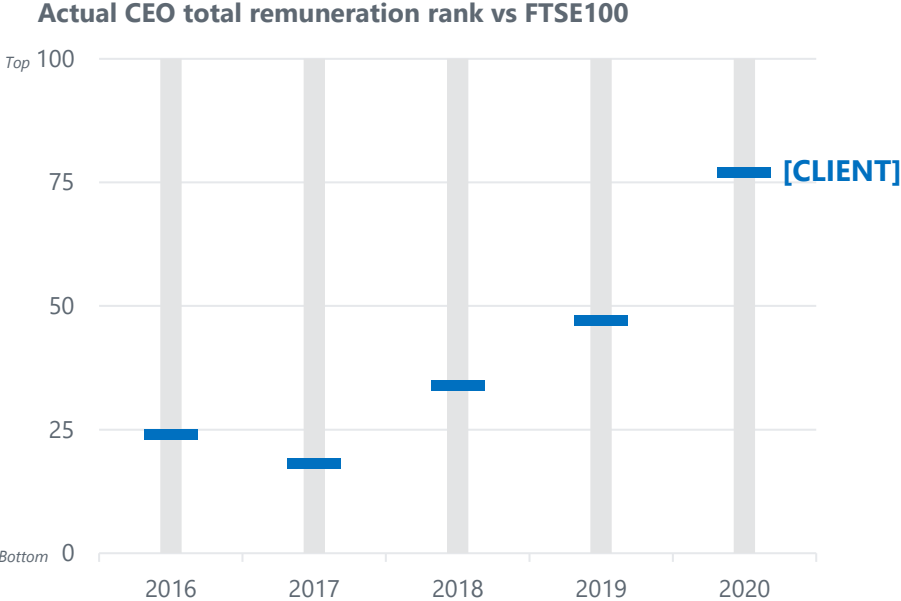
The CEO's total actual remuneration has ranked 40th percentile on average versus the FTSE100



FTSE100

- 75th percentile
- Median
- 25th percentile

Average CEO remuneration, last 5 years	
FTSE100	£●k
[CLIENT]	£●k

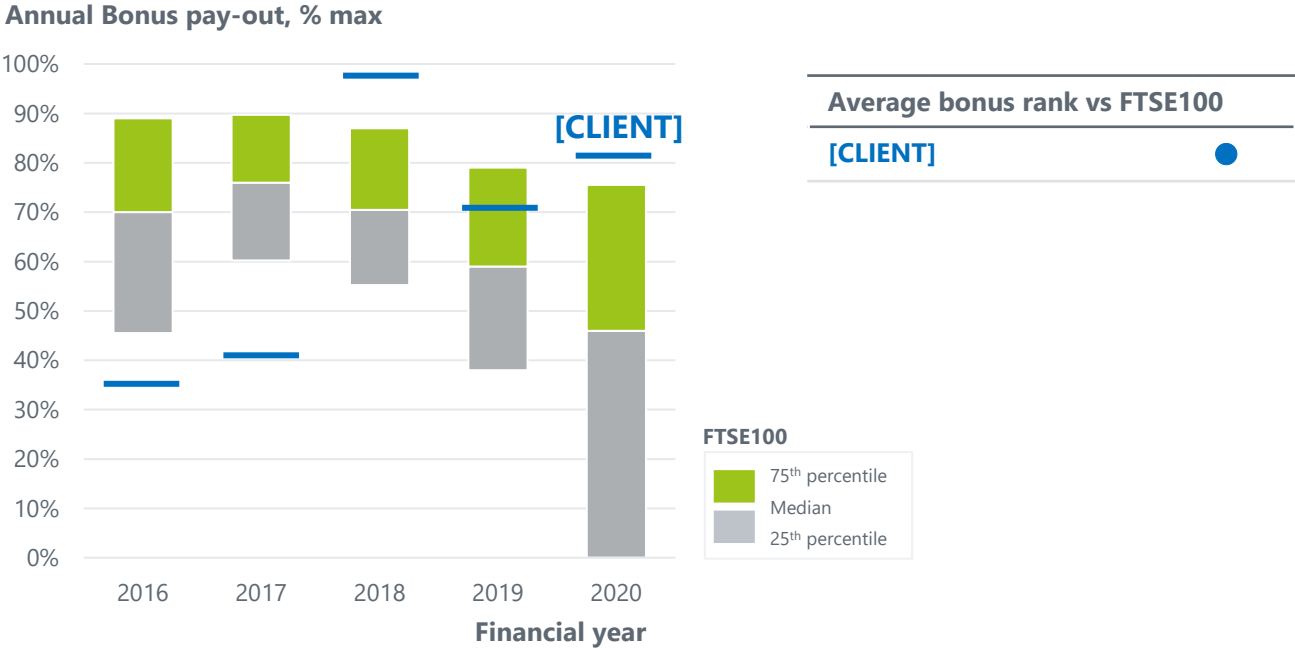


Average remuneration rank vs FTSE100	
[CLIENT]	●

Average remuneration rank weights 2016 and 2017 by 74% and 87% respectively in the averaging (i.e. not 100% each) to match better the 5-year time period of the performance assessment (on the basis that typically c.40% of a CEO's target total remuneration is comprised of a 3-year LTIP)

Remuneration outcomes – bonus pay-out

The bonus has paid out at around the same level on average as those across the FTSE100...

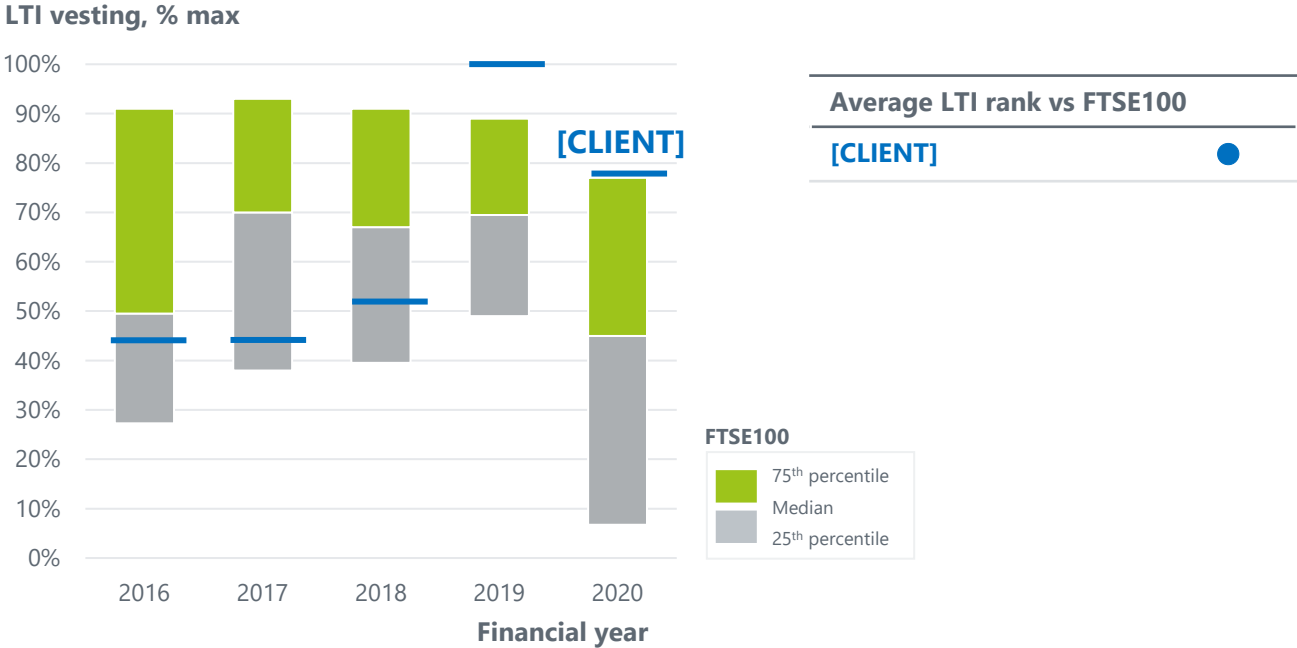


Average bonus rank vs FTSE100	
[CLIENT]	●

Average pay-out, last 5 years	
[CLIENT]	●%
FTSE100	61%

Remuneration outcomes – LTIP vesting

...but the LTI has paid out more strongly than the typical FTSE100 LTI



Average LTI rank vs FTSE100	
[CLIENT]	●

FTSE100

- 75th percentile
- Median
- 25th percentile

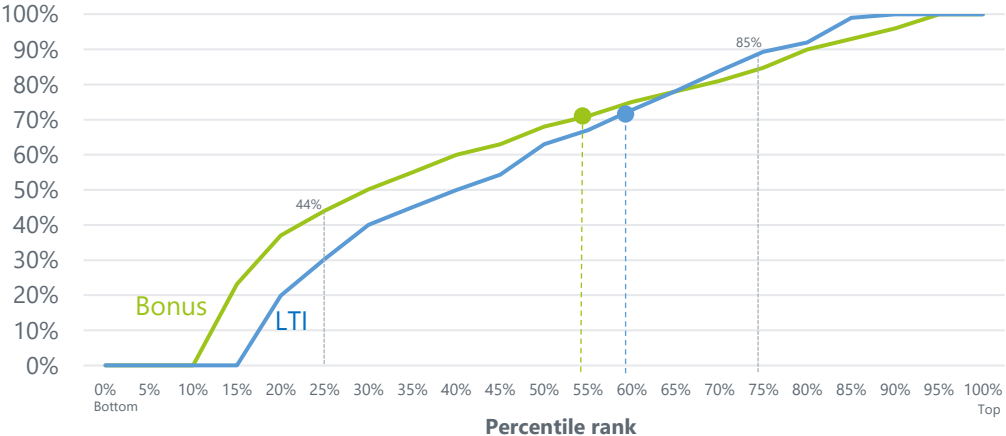
Average vesting, last 5 years	
[CLIENT]	●%
FTSE100	57%

Remuneration outcomes – incentive outcomes

[CLIENT]’s incentives paid out at slightly lower levels to those we would have expected at the typical FTSE100 company with the same financial and TSR performance

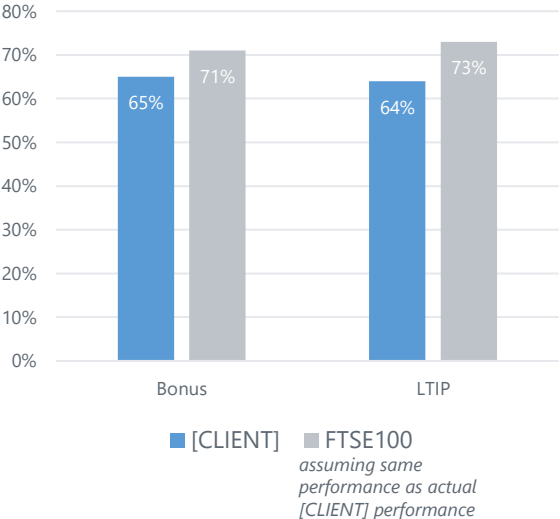
- The chart below left indicates the FTSE100 CEO bonus and LTIP pay-outs over the last 5 years by percentile rank; for example, a 25th percentile bonus pay-out was 44% of max, whilst an 75th percentile bonus pay-out was 85%
- Using this analysis, we can determine the level of bonus pay-out and LTIP vesting which a typical FTSE100 company might have delivered for performing at the same level as [CLIENT] over the last 5 years. Using a simplifying assumption that FTSE bonuses are linked only to financial performance, and assuming a direct link between company performance and incentive outcomes, then a company performing at a 55th percentile on financial performance (as per [CLIENT] over the last 5 years) would have delivered a bonus pay-out of 71% of max compared with 65% average bonus pay-out at [CLIENT] over this period
- A FTSE company performing at the 55th percentile on financial performance and 75th percentile on TSR (as per [CLIENT] over the last 5 years) would have delivered an LTIP vest of 73% of max compared with 64% average LTIP pay-out at [CLIENT] over this period

FTSE100 historical bonus and LTIP vesting over last 5 years (% max)



1. Analysis is based on the simplifying assumptions that all FTSE100 bonuses are based only on financial performance and LTIP measures reflect that observed across the FTSE100, whereby 27% of companies link vesting entirely to financial/strategic performance, and 73% link vesting to Relative TSR, typically weighted at 33% (and so LTIP vesting is driven 76% by financial performance and 24% by TSR)

5-year average Bonus and LTIP vesting (% max)



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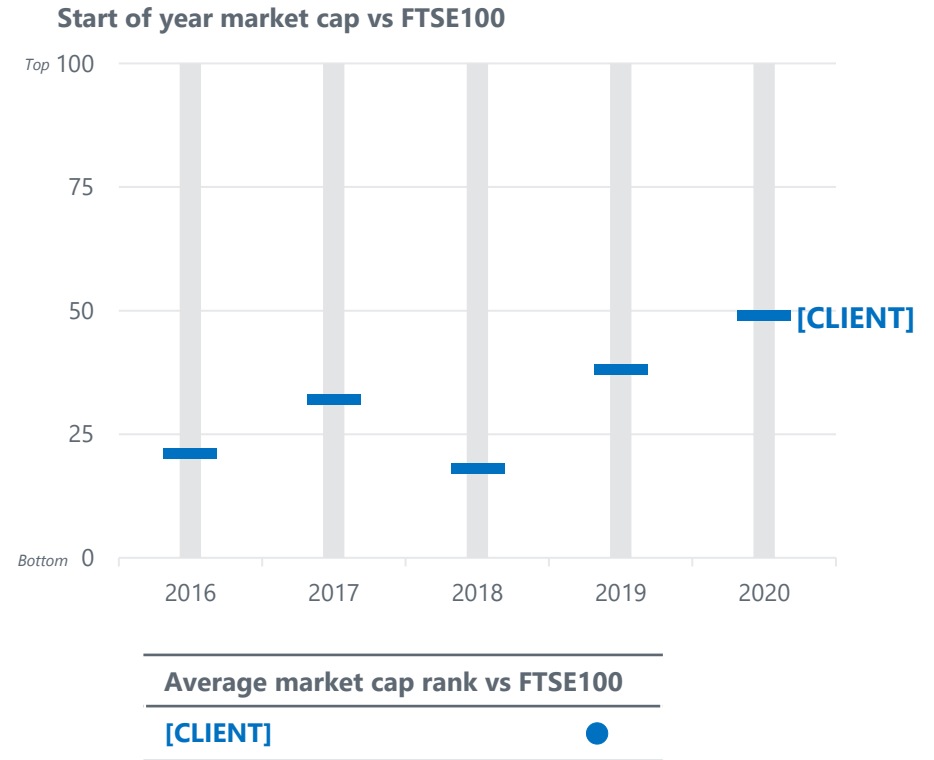
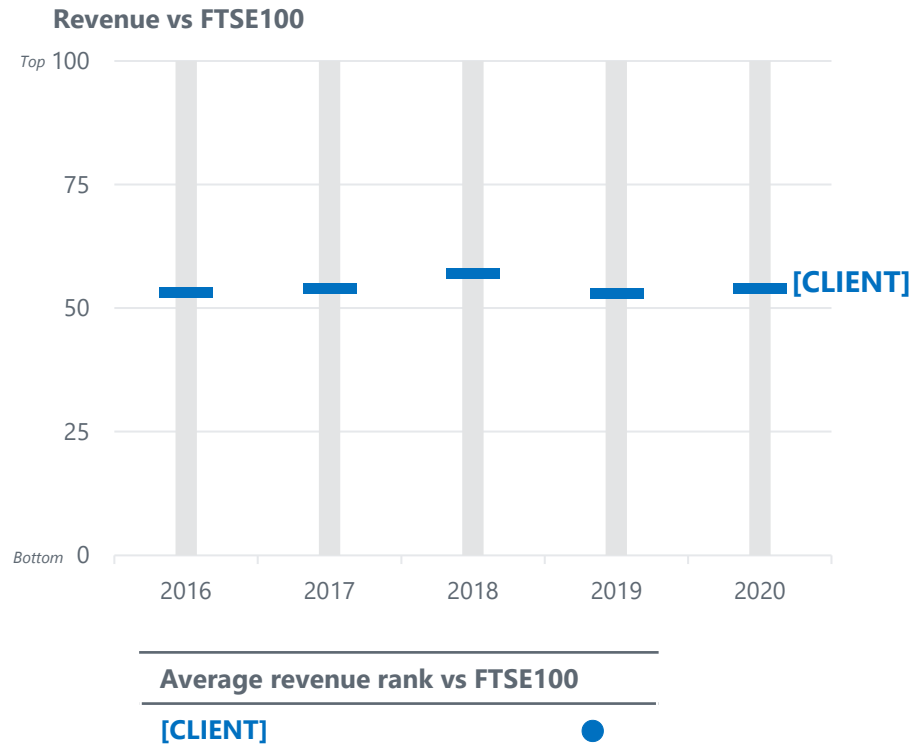
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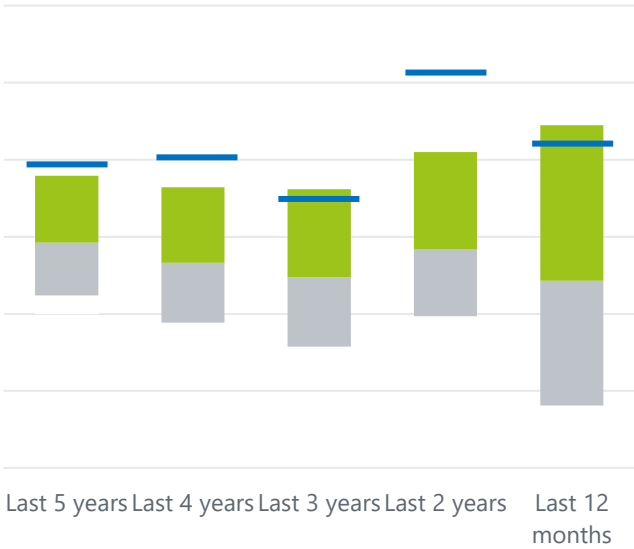
Size assessment

Over the last 5 years [CLIENT] has generated revenue around the 55th percentile of the FTSE100, and its market cap has been around the 30th percentile

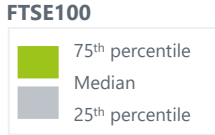


Performance assessment – shareholder experience

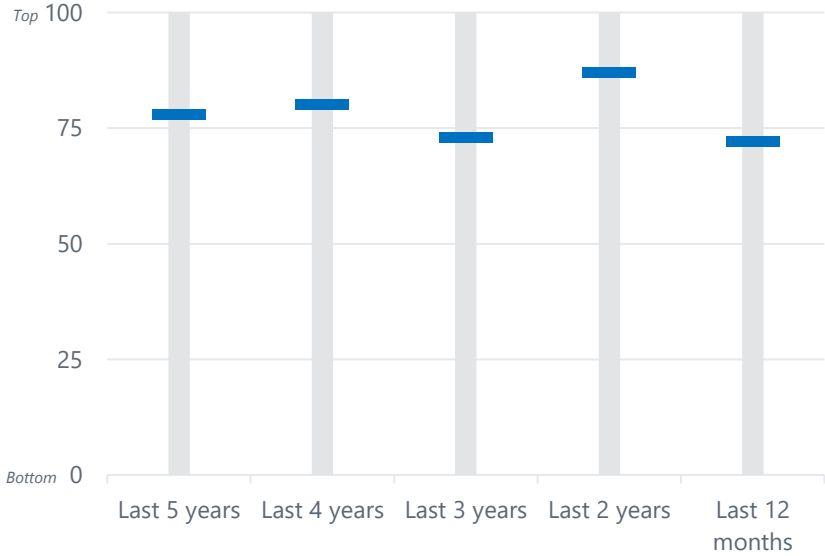
TSR % over last 1-5 years (p.a.)



Period over which TSR is measured, to end Dec20



TSR % rank vs FTSE100



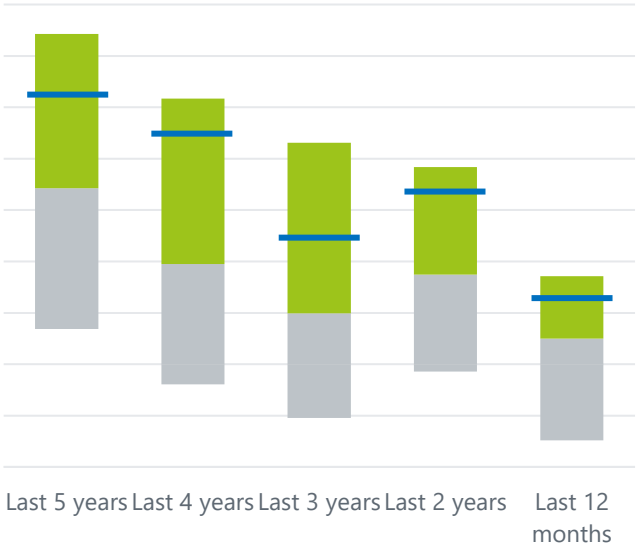
Average TSR % rank vs FTSE100

[CLIENT] ●

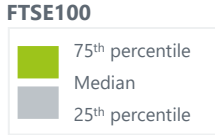
TSR % is based on the change in share price plus reinvested dividends over the relevant period, with all periods ending 31 Dec 2020

Performance assessment – shareholder experience

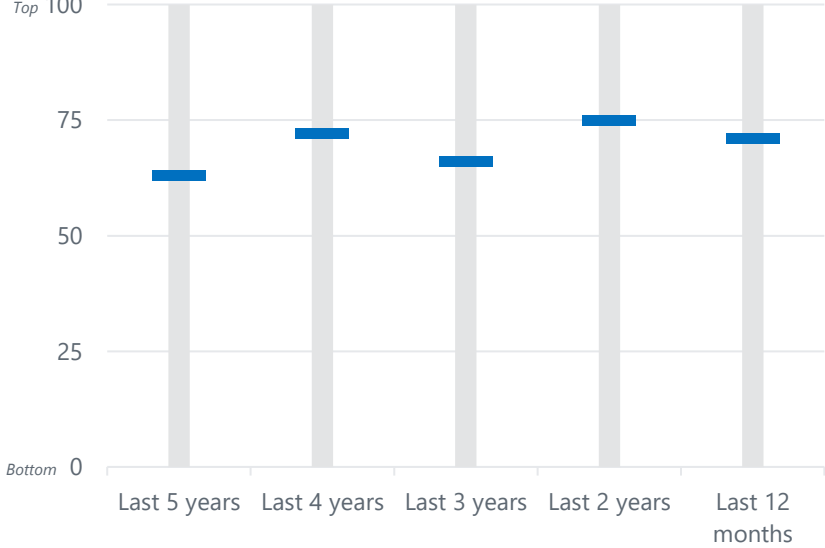
TSR £m over last 1-5 years



Period over which TSR is measured, to end Dec20



TSR £m rank vs FTSE100



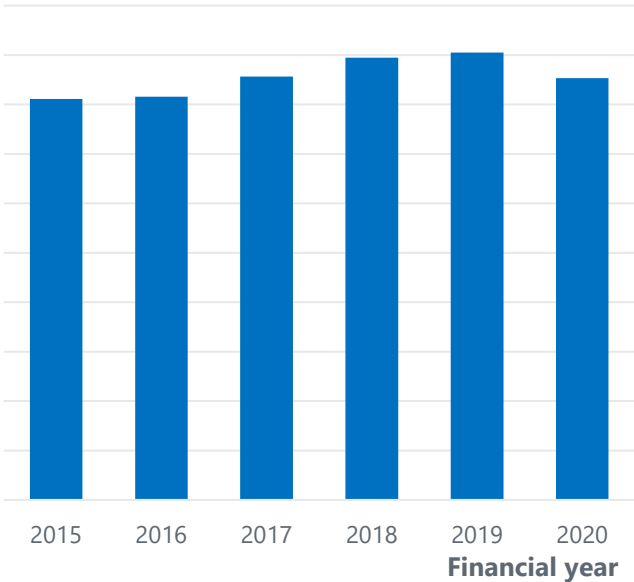
Average TSR £m rank vs FTSE100

[CLIENT] ●

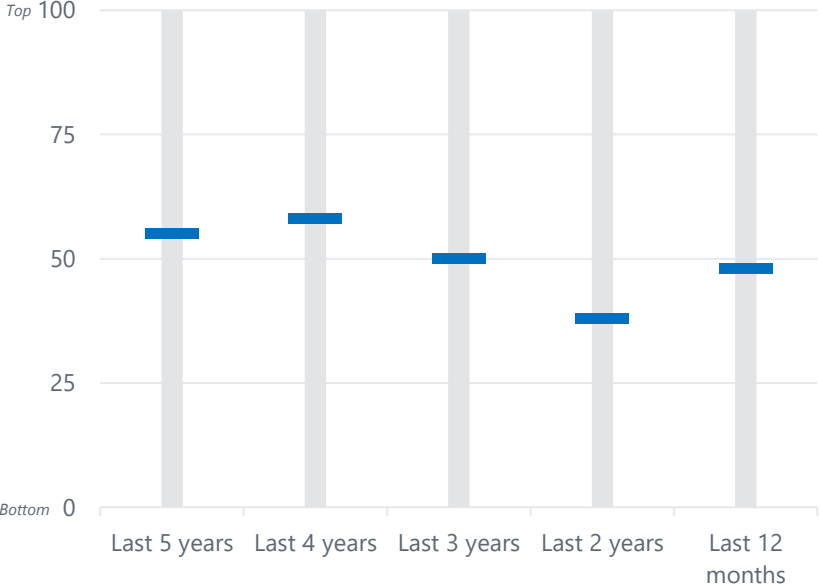
TSR £m is based on the change in market cap price plus dividends over the relevant period, with all periods ending 31 Dec 2020

Performance assessment – top-line performance

[CLIENT] Revenue £m



Revenue growth rank vs FTSE100

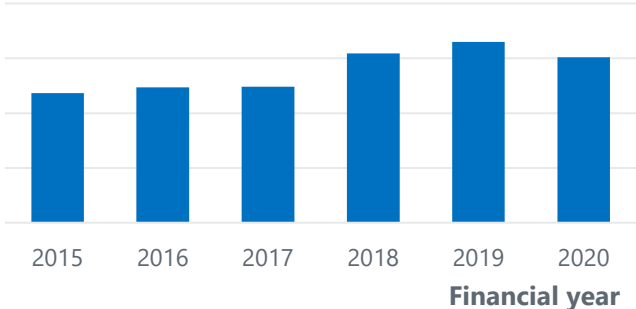


Revenue growth is measured to the end of 2020 from each of the last 5 years

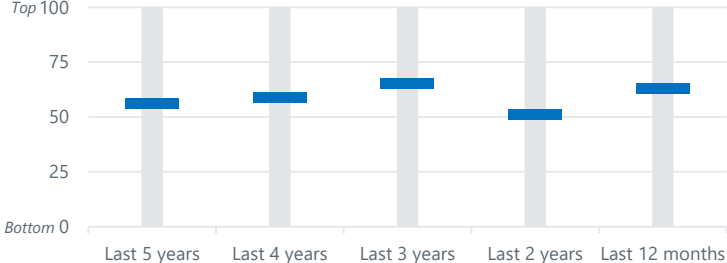
Average Revenue growth rank vs FTSE100	
[CLIENT]	●

Performance assessment – profit performance

[CLIENT] EBITDA £m



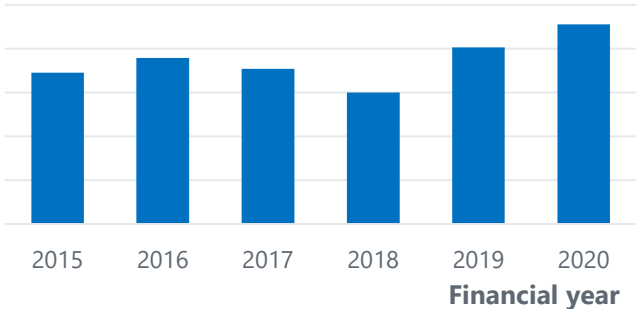
EBITDA growth rank vs FTSE100



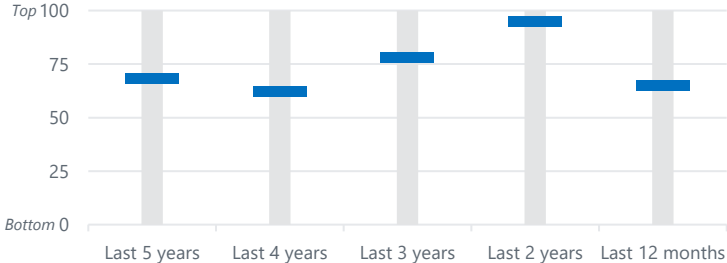
EBITDA growth is measured to the end of 2020 from each of the last 5 years

Average EBITDA growth rank vs FTSE100	
[CLIENT]	●

[CLIENT] Basic EPS, pence



Basic EPS growth rank vs FTSE100

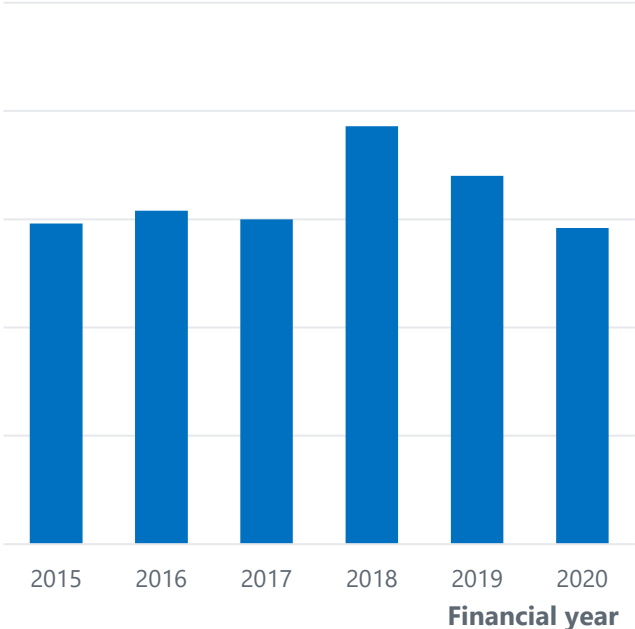


EPS growth is measured to the end of 2020 from each of the last 5 years

Average EPS growth rank vs FTSE100	
[CLIENT]	●

Performance assessment – capital efficiency

[CLIENT] ROCE



ROCE rank vs FTSE100

