LENS ON:

2022 pay decisions (all companies)

May 2022

With the 2022 AGM season well underway, this Ellason lens provides a summary of key remuneration trends from companies with December year-ends reporting so far in the FTSE350.

Most companies have awarded salary increases to executives in line with the workforce increase

The majority of companies (78%) have returned to awarding salary increases to their Executive Directors for 2022; with median increases of 2.9% for Chief Executives and 3.0% for Finance Directors.

Most companies (62%) awarded the same increase to their Chief Executive as to the general workforce; with companies (many of whom had finalised their pay budgets in late 2021) reporting increases for the workforce of between 2.5% and 4.0% for 2022 (median 3.0%), notwithstanding rising levels of inflation.

Following a period of salary freezes and voluntary reductions last year, several companies have sought to make correctional increases to base salaries this year, with 14% awarding higher (than workforce average) increases to their Chief Executives and 24% giving higher increases to their Finance Directors. Eight companies reported giving increases in excess of 10% of salary.

Annual bonus pay-outs are generally high with pressure remaining for Remuneration Committees to justify outcomes in the stakeholder context

With companies better able to reflect the impact of the covid-19 pandemic in their target setting for 2021 and strong in-year performance, many companies have had strong bonus pay-outs. The median bonus out-turn was 85% of maximum in the FTSE100 companies analysed and 80% for the FTSE250 companies (compared to 43% and 19% of maximum for the same companies in 2020). Only 9% of the companies reported paying no bonus for 2021.

However, there remains pressure on Committees to ensure that bonus pay-outs are appropriate in the context of the wider stakeholder experience, and 13% of companies reported using discretion to reduce the bonus pay-out (e.g. at **Centrica** where the bonus was reduced to reflect the tailwind of higher commodity prices and where the CEO also voluntarily waived his bonus in solidarity with consumers who face economic headwinds).

LTIP vesting outcomes remain muted, with the pandemic having a significant impact on 2019-2021 performance cycles

Whilst in-year performance has generally been strong, the pandemic continues to have an influence on the ability of companies to meet LTIP targets set pre-Covid. LTIP outcomes remain typically below pre-pandemic levels, with a median vesting level of 42% of maximum in the FTSE100 and 40% in the FTSE250 (compared to c.50% vesting observed over the longer term). Just over a third of all companies reported zero vesting, with 9% of companies reporting maximum vesting.

As with the annual bonus, Committees are expected to justify the formulaic outturn of long-term incentive awards in the context of the broader stakeholder experience. Eight companies reported exercising discretion on either the vesting outcome or targets set, typically to adjust for the impact of the pandemic, e.g.:

- At **Coca-Cola HBC**, the EPS and ROIC LTIP targets were reset (as the original targets, set pre-pandemic, delivered zero vesting) resulting in 90% vesting which was subsequently capped at 75% of maximum;
- **Intercontinental Hotels Group**'s Remuneration Committee exercised discretion to override the formulaic outturn (of zero vesting across all measures) and allow the cash-flow element of the LTIP (20% weighting) to vest in full to reflect the positive actions taken by management in protecting the business through the pandemic.

Looking ahead, the operation of a performance share plan (PSP) remains the predominant long-term incentive vehicle (80% of companies) in 2022; however, **Centrica** and **TP ICAP Group** joined those 35 other FTSE350 companies who now use a restricted stock plan for executive directors. For those companies with PSPs, a sizeable minority (just over 20%) have increased award levels for 2022 (either within existing policy limits or as part of a policy renewal). The prevalence of ESG metrics in long-term incentive plans also continues to increase, with nearly 50% of the companies analysed including an ESG metric in their PSP; practice is slightly more prevalent in the FTSE100, with 60% of companies compared to 48% in the FTSE250 companies analysed.

Ellason commentary

With rising levels of inflation and cost of living constraints, high levels of executive pay are likely to dominate press headlines again this AGM season. Indeed, in France, President Macron called for executive pay caps to be introduced across EU member states in his pre-election campaigning, something which has been threatened before for UK companies. With strong pay-outs under annual bonus plans and a number of FTSE companies seeking to increase incentive opportunities, there will remain pressure on Committees to explain how pay policies (and payments made under them) support the business strategy and align with the broader employee experience.

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