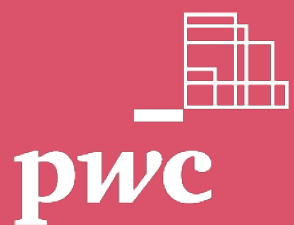


2022 AGM end of season update

FTSE 100

November 2022





Executive pay bounces back after Covid-19 but the year ahead looks challenging

Pay outcomes in the FTSE 100¹ for the 2022 AGM season recovered to pre-pandemic levels in most sectors, with average CEO single figure outcomes increasing by 23% year-on-year. However, the level of increase was in part dependent on the timing of the company's financial year end. September-December 2021 year ends had a higher increase (35%) because the previous year (2020) was the financial year most affected by COVID-19 with performance targets set before the onset of the pandemic.

The rise in single figure outcomes was predominantly driven by high bonus outcomes. An average outcome of 86% of the maximum is significantly above the outcomes in the year most affected by COVID-19 (e.g. less than 50% in 2020 for September to December year ends) and above the typical pre-COVID payout level of 70-75%. However, in general, long term incentive outcomes have not yet fully recovered (58% of maximum for 2021/22 versus 65-70% pre-pandemic).

Stakeholder focus on environmental, social, and governance (ESG) measures continues to drive increased adoption of such measures in incentive plans. 87% of FTSE 100 companies included such measures in at least one of their incentive plans for 2022. The biggest driver of this is the increase in the proportion of companies adopting environmental measures in their long term incentive plans (43%, up from 26% in 2021) reflecting the broader global focus on this area.

Looking ahead to the 2023 AGM season, we expect there to be four key areas for companies to navigate given likely shareholder scrutiny:

- **Salary increases** - shareholders are likely to more closely scrutinise executive salary increases for 2023, particularly where they are high (even if they are aligned with the wider workforce), given the higher monetary impact of such increases compared to other employees. Although shareholders and proxy agencies have not (to date) specified a threshold they deem to be acceptable, increases above 5% are where companies historically started to attract scrutiny.
- **Bonus outcomes** - although high bonus outcomes in the 2022 AGM season attracted less scrutiny than expected, we expect greater focus on outcomes in the 2023 AGM season in light of business performance, the cost of living crisis, and the perceived level of stretch in the performance targets set at the start of the year.
- **Windfall gains** - where companies have experienced significant share price increases since their 2020 long term incentive was granted, shareholders will expect remuneration committees to determine whether there has been a 'windfall' gain and justify their decision making for the vesting level of these awards.
- **ESG** - With the majority of companies now adopting ESG measures in their incentive plans, in many cases forming a meaningful portion of the award, we expect continued adoption of environmental measures, particularly in long term incentives as well as growing scrutiny over the performance targets used, including pressure to seek external assurance over such targets.

1) This report provides a summary of the key FTSE 100 executive remuneration trends from the 2022 AGM season based on the constituents of the FTSE 100 index in September 2021 with year ends in September 2021 to August 2022.

Phillippa O'Connor

E: phillippa.o.connor@pwc.com
T: +44 (0) 7740 968 597

Andrew Page

E: andrew.x.page@pwc.com
T: +44 (0) 7483 362 344

Einar Lindh

E: einar.lindh@pwc.com
T: +44 (0) 7711 589 111

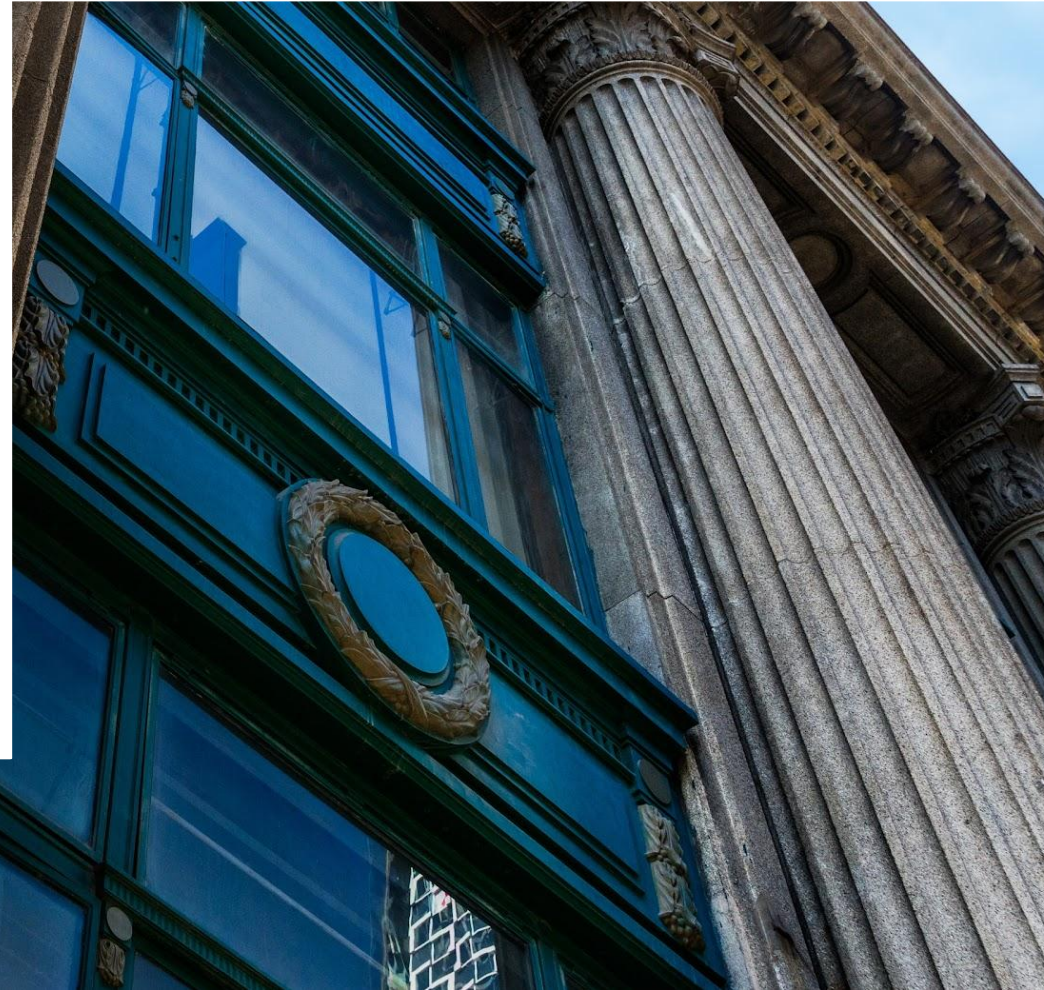
Jason Parr-Morley

E: jason.parr-morley@pwc.com
T: +44 (0) 7802 661 220

Alistair Godley

E: alistair.c.godley@pwc.com
T: +44 (0) 7841 787 230

Remuneration outcomes



FTSE 100 2022 AGM season snapshot

The table sets out a FTSE 100 remuneration outcomes for 2021/22* and implementation for 2022/23 with prior year figures provided for comparison. All figures are medians of the sample.

Financial years ending:	Sep-Dec 2021		Jan-Aug 2022		Overall	
CEO	2020	2021	2021	2022	2020/21	2021/22
Single figure amount (£'000) ¹	3,019	4,072	3,291	3,514	3,177	3,918
Annual bonus payout (% of maximum)	42%	86%	76%	87%	58%	86%
LTIP vesting (% of maximum)	42%	50%	62%	65%	45%	58%
CFO	2020	2021	2021	2022	2020/21	2021/22
Single figure amount (£'000) ¹	1,605	2,576	1,839	2,241	1,788	2,403
Annual bonus payout (% of maximum)	39%	86%	70%	90%	56%	89%
LTIP vesting (% of maximum)	38%	44%	60%	65%	40%	53%

1) Figures are presented including buyout awards and excluding Directors where the incumbent has not been in role for two full financial years.

*Years refer to companies with financial years ending between September and August e.g. 2021/22 represents companies with financial years ending between September 2021 and August 2022.

23% increase in median CEO single figure for 2021/22 (CFO: 34% increase)



Increase in median CEO bonus outcome (86% vs 58% of maximum in 2020/21)

84%

of companies adopting ESG measures in at least one of their 2022/23 incentive plans (2021/22: 67%)



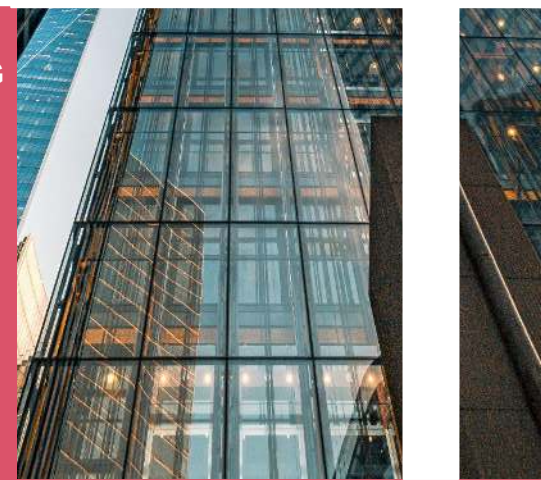
Decrease in proportion of CEOs with salary freezes (15% for 2022/23 vs 43% for 2021)

5%

of CEOs received no bonus for 2021/22 (2020/21: 22%)

96%

median votes in favour of the Remuneration Report when ISS issued a 'For' recommendation (72% where 'Against')



Annual bonus outcomes were a tale of two parts...

The median bonus payout (as a % of maximum opportunity) has increased significantly on prior year for Executive Directors and is above historical pre-COVID levels.

The increase from 2020/21 is particularly pronounced for companies with year ends between September and December 2021. For these companies bonus outcomes for 2020/21 were generally lower as a result of:

- challenging underlying performance against performance targets which in most cases were set prior to the pandemic
- the cancellation of bonus schemes, exercise of downwards discretion by Remuneration Committees and waivers by Executive Directors.

In contrast, 2021/22 outcomes are higher, driven by:

- a post-COVID boom in some sectors since the easing of COVID-19 restrictions leading to increased demand and higher prices
- in some cases strong performance against targets which were set conservatively at the start of 2021/22 to reflect greater market uncertainty.

For companies with January to August 2022 year ends, the increase in bonus outcome for 2021/22 is less significant (although still up on prior year) as bonus outcomes had already partially recovered last year due to the timing of their financial year end versus the onset of the pandemic (such that it was the 2019/20 bonus that was typically most impacted by COVID-19).

The vast majority of companies did not access Government support schemes during the year and have maintained or already reinstated their dividend programmes.

Guidance from shareholders and proxy agencies stated that they were generally opposed to bonus payments for Executive Directors where Government support schemes had been used and/or dividend programmes remained suspended. The small number of companies in this situation received significant external scrutiny.

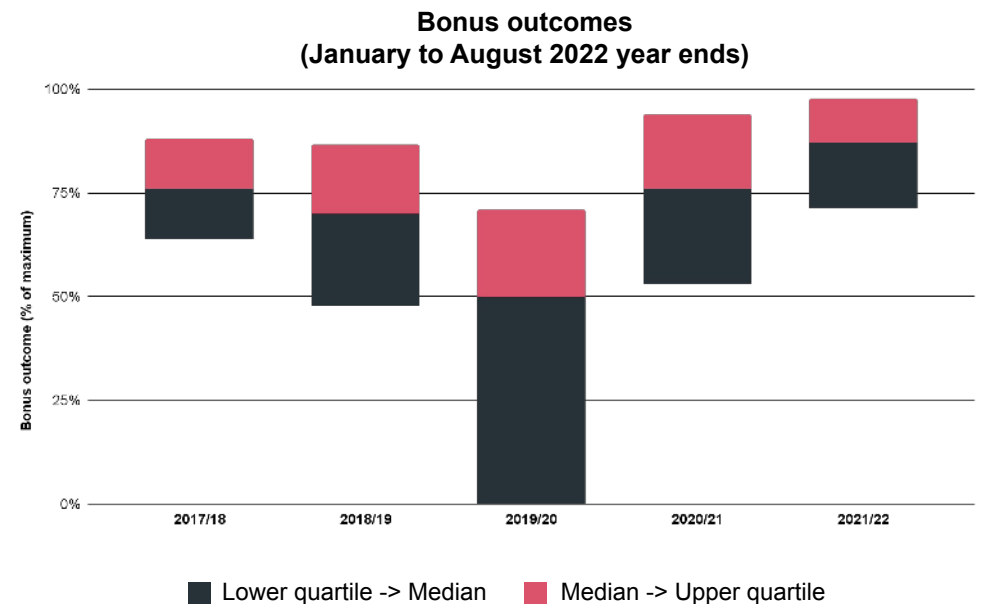
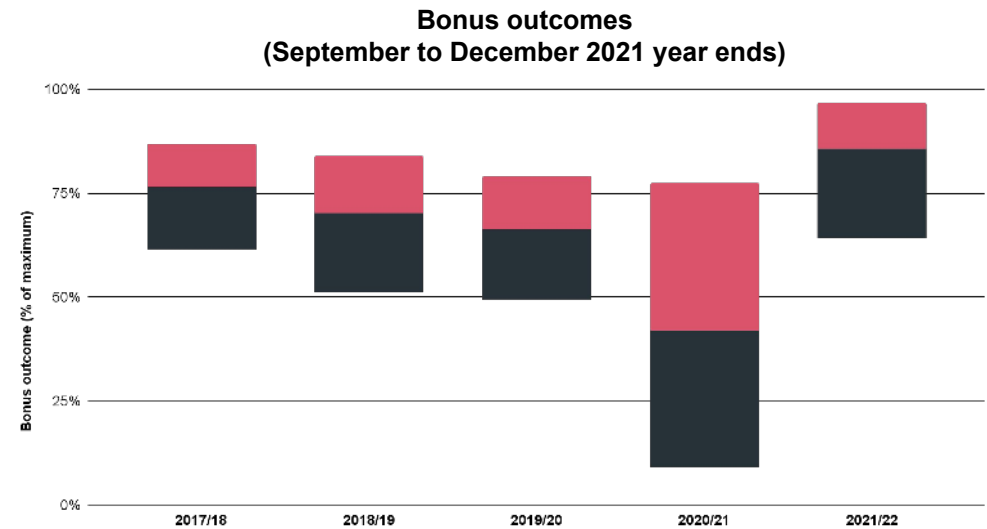


Figure 1: CEO bonus payouts as a % of maximum from 2017/18 to 2021/22

... with some changes to performance targets and ranges

As highlighted on the previous page, our analysis suggests that, in some cases, 2021/22 bonus outcomes were driven by the approach to setting performance targets. We set out below some analysis on profit and revenue targets and actual performance in annual bonus schemes for 2021/22.

Change in target performance level

Figure 2a compares the change in the absolute profit or revenue performance target level with the previous year.

Over half of companies with September to December 2021 year ends reduced their profit or revenue target (in absolute terms) compared to the previous year, reflecting market uncertainty at the start of 2022.

In contrast, performance targets for companies with January to August 2022 year ends appeared to be set less cautiously, with only one company reducing their profit / revenue target in absolute terms year-on-year.

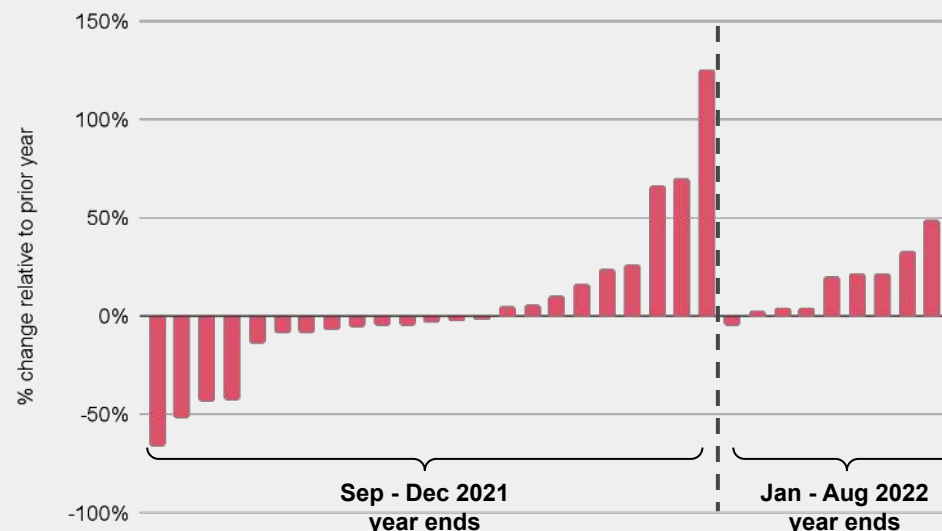


Figure 2a: Change in absolute bonus target figures relative to prior year for companies with like-for-like profit or revenue metrics.

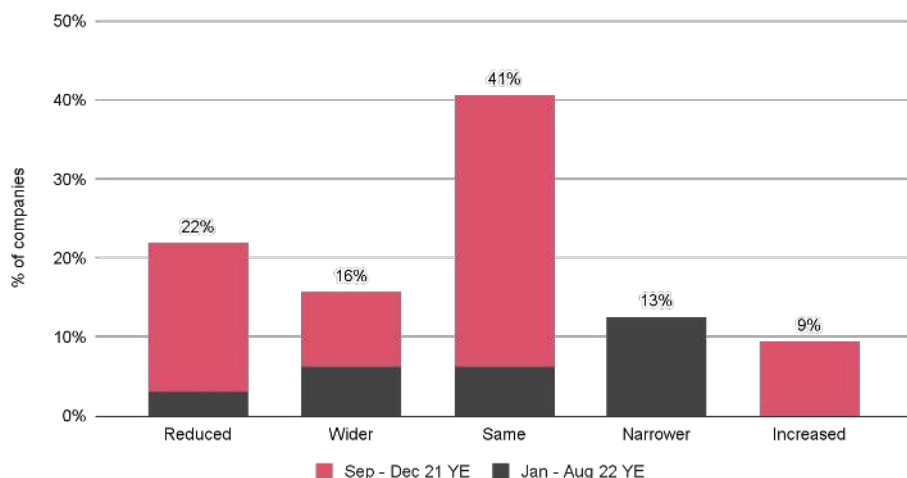


Figure 2b: Change in bonus range (as % of target performance) for companies with a profit or revenue metric.

Change in performance ranges

Figure 2b illustrates the approach taken to the profit or revenue target ranges for 2021/22 compared to the previous year. Overall, 41% of companies maintained the same performance range around the target level (although the absolute targets were lower in some cases - see below). However, 38% of companies either:

- reduced the performance range around the target level (e.g. setting threshold at 90% of target for 2021/22 compared to 95% of target in 2020/21); or
- adopted a wider performance range around the target level (e.g. setting threshold and maximum at 90% to 110% of target in 2021/22 compared to 95% to 105% in 2020/21).

Overall, companies with year ends between September and December 2021 (setting performance targets at the onset of the Omicron variant) appeared to demonstrate greater caution in respect of the performance ranges.

LTIP outcomes have not yet recovered to pre-Covid levels

In contrast to bonuses, the performance outcomes for long term incentive awards have not returned to pre-pandemic levels, although there has been an increase on 2020/21 outcomes.

This reflects the long term nature of the schemes, with outcomes for some companies being low (or zero) because:

- Some performance metrics (such as those measured on a cumulative basis) include weaker performance outcomes in 2020/21 and 2021/22 compared to targets set at the time of grant; and
- Other performance metrics (such as those based on end point performance compared to the start) also reflect weaker performance than expected at grant (even if performance exceeded expectations over 2021/22).

Companies with January to August financial year ends generally experienced less of an impact on LTIP outcomes during the pandemic (although the range of outcomes was broad). This is likely due to the sector make-up of these companies, with the performance outcomes of the Retailers, Utility companies and Construction firms in this group fairing better than some other sectors.

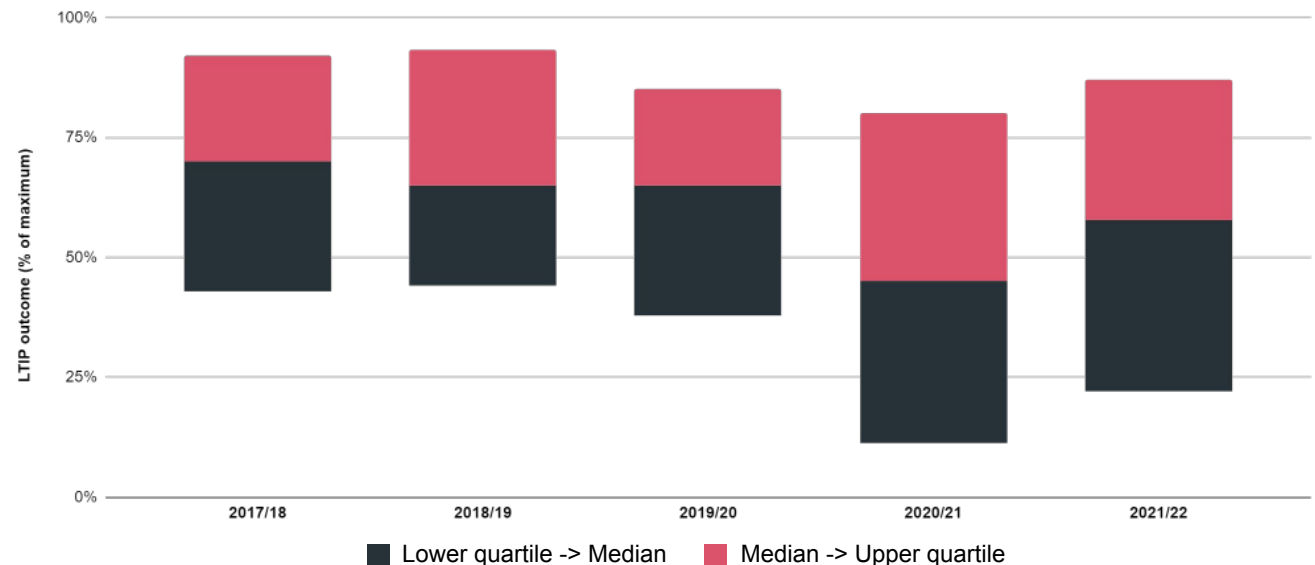


Figure 3: CEO LTIP payouts as a % of maximum from 2017/18 to 2021/22

Majority of Executives received a salary increase for 2022 no higher than the workforce level

There was a significant fall in the proportion of Executive Directors receiving a pay freeze for 2022, with only 15% of CEOs receiving no increase (2021: 43%).

Salary increases (excluding freezes) were slightly higher for CEOs this year (median: 3%) but lower than current inflation levels (CPI has exceeded 5% since January 2022). Our analysis also suggests a continuation of moderate salary increases progressively through 2022 and increases at the upper quartile.

The range of CFO salary increases for 2021 was broad, driven by a number of above workforce level, market related adjustments. The median increase remained stable at 3% for 2022 but the range of increases was much narrower.

Median wider workforce increases (where disclosed) are aligned to both CEO and CFOs at 3%. 56% of companies awarded CEO increases in line with the wider workforce, whereas 38% awarded an increase below that of the wider workforce.

In the context of the cost of living crisis, salary increases are likely to be a key discussion point over the next year. See page 17 for further details.

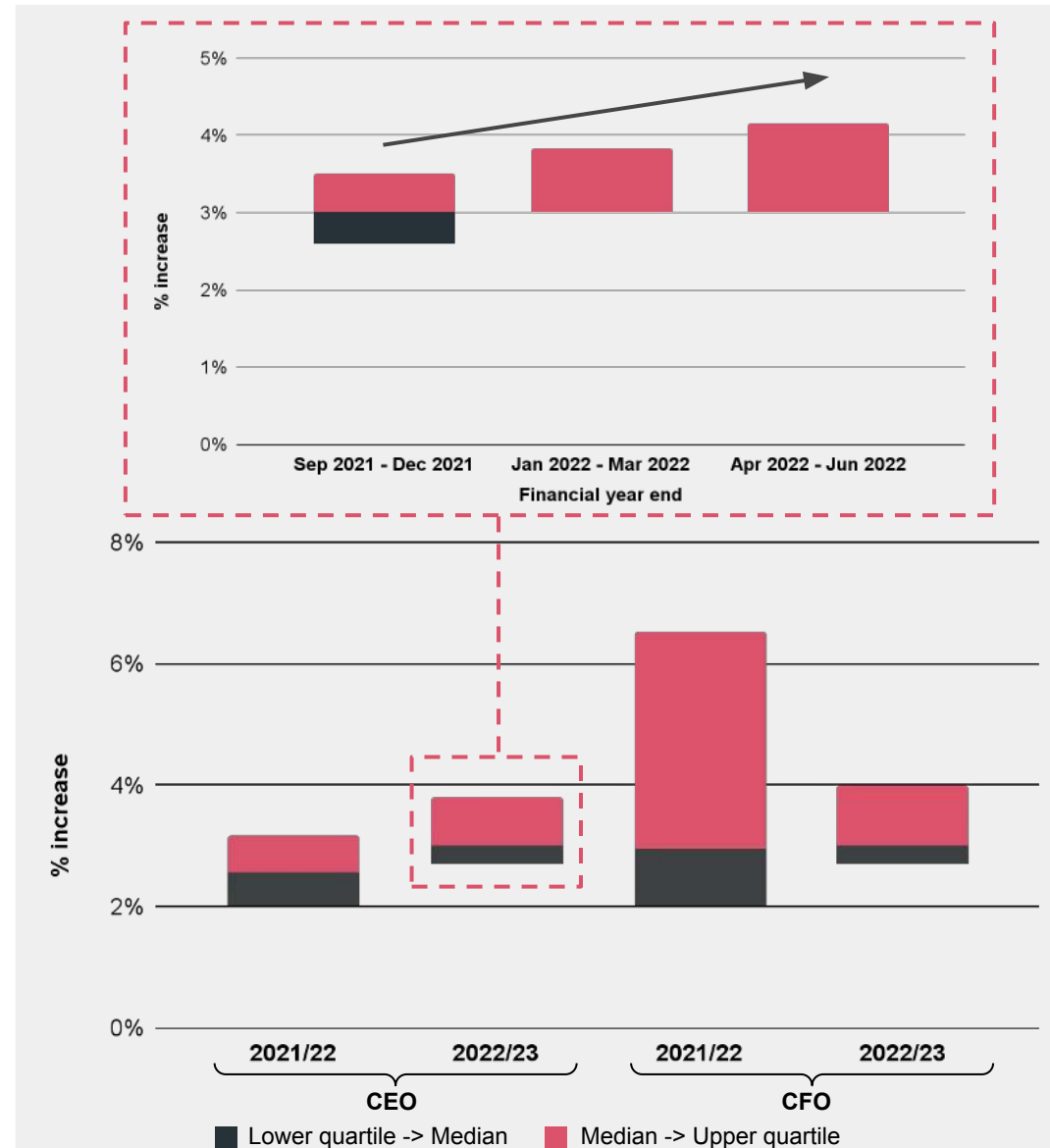


Figure 4: Executive salary increases (%) for 2021/22 and 2022/23

87% of companies use ESG measures in at least one of their 2022 incentive plans

With environmental, social and governance (ESG) issues featuring high on the agenda of Boards, shareholders, and broader stakeholders, the adoption of ESG measures in incentive plans increased for 2022/23. 87%¹ of FTSE 100 companies included E, S or G measures in their annual bonus and/or long term incentive plan for this year (an increase on the 71% that included such measures for 2021).

In particular, there is an increase in the adoption of E and S measures - further details are set out on the next page.

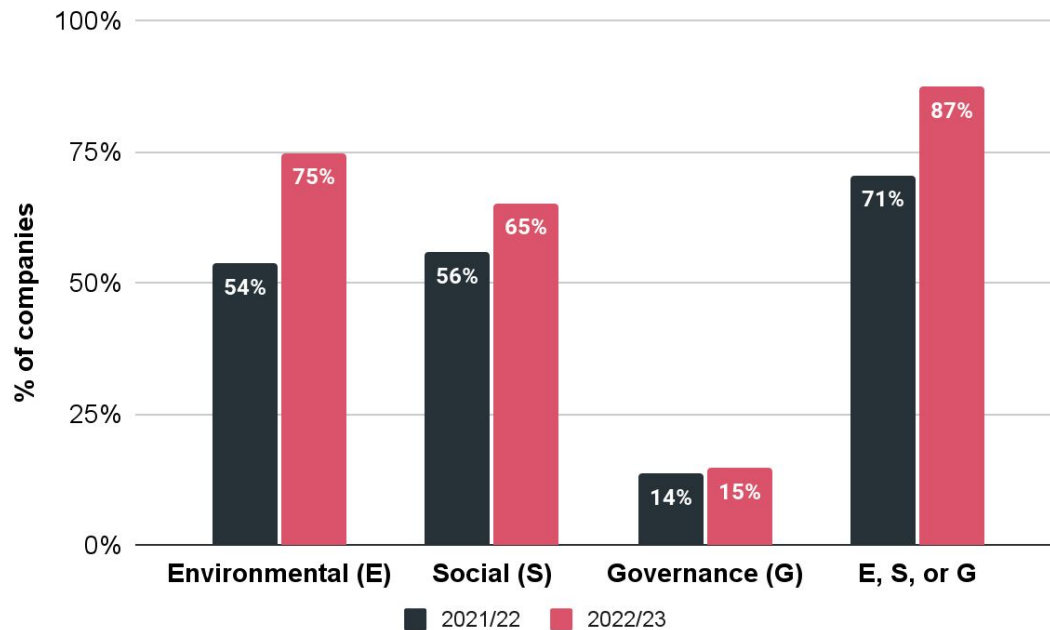
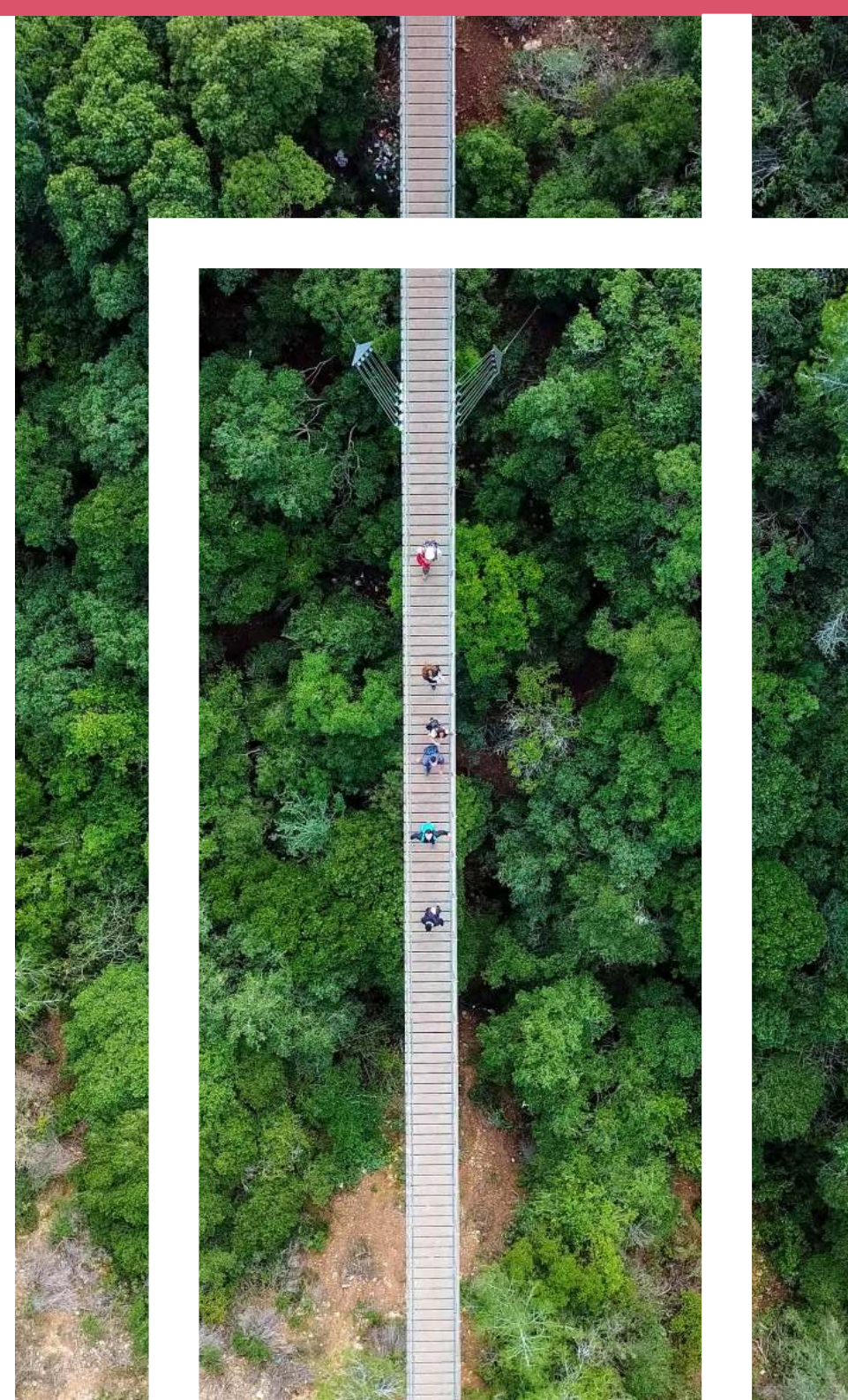


Figure 5: Percentage of companies using ESG measures in 2021/22 and 2022/23 in one of their incentives.

1) Where not prospectively disclosed for annual bonus plans, we assume that companies that adopted ESG measures in 2021/22 will continue to do so in 2022/23.



Increasing adoption of ESG measures driven by increasing use of environmental measures, particularly in LTIPs

Annual Bonus

Although social measures remain the most common ESG metric within annual bonus plans, the primary driver of the increased prevalence in ESG measures for 2022/23 bonus plans was a greater adoption of environmental measures, with emission reduction measures being particularly common.

Social measures in bonus plans continue to be dominated by diversity and inclusion (52%), health and safety (40%), and employee engagement (31%).

Governance measures predominantly relate to risk-related metrics, which are primarily adopted by companies in the Financial Services sector.

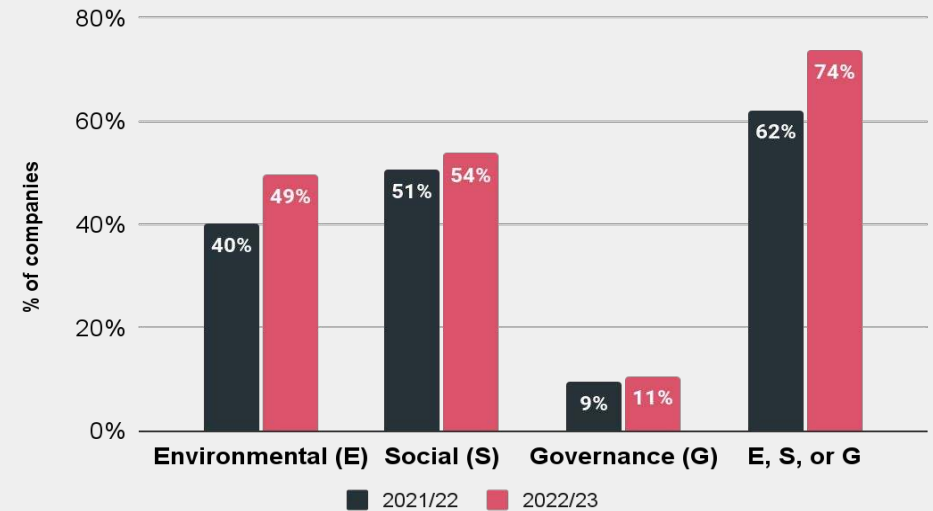


Figure 6a: **Annual bonus** - % of companies using ESG measures in 2021/22 and 2022/23

LTIP

The increase in ESG adoption in long term incentive plans was also driven by growing use of environmental measures, many of which are inherently long term in nature (particularly where related to a net zero commitment in 2030 or beyond). The most common types of environmental measures were those related to decarbonisation or energy reduction.

There was also a slight increase in the use of social measures for 2022/23. Diversity and inclusion were the most common type of social measure. The majority of companies including this measure in the LTIP do not include it in their annual bonus.

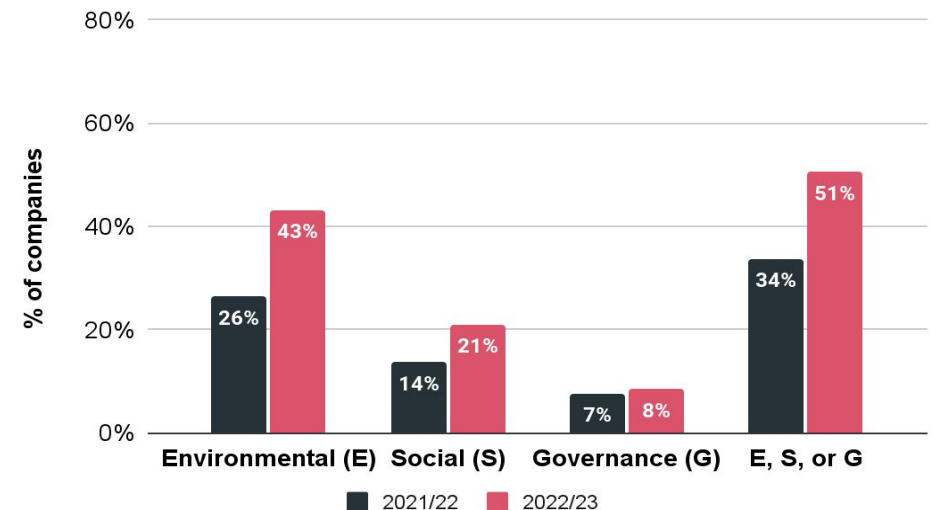


Figure 6b: **LTIP** - % of companies using ESG measures in 2021/22 and 2022/23

Note that ESG measures have been defined as any measure relating to the environment, sustainability, community, employee engagement, diversity, health & safety and risk.

ISS remains highly influential on Remuneration Report voting outcomes

Overall, FTSE 100 Remuneration Report voting outcomes at 2022 AGMs were similar to 2021, with a median voting outcome of 95% (2021: 96%). Only one company lost the vote on their Remuneration Report in the 2022 AGM season (2021: two companies).

Influence of ISS

As the top chart on the right illustrates, the influence of ISS voting recommendations on Remuneration Report voting outcomes remains strong - 80% of companies receiving an 'Against' recommendation experienced a significant vote against their Remuneration Report (less than 80% support).

96% median votes in favour of the Remuneration Report when ISS issued a 'For' recommendation (97% in 2021)

72% median votes in favour of the Remuneration Report when ISS issued a 'Against' recommendation (66% in 2021)

Influence of IVIS

In contrast, the influence of IVIS (part of the Investment Association) is more muted - just 36% of companies receiving a 'Red top' experienced a significant vote against their Remuneration Report (less than 80% support).

However, the Investment Association remain very influential in setting UK executive pay practices, such as expectations on pension alignment, post-cessation shareholding requirements and the minimum criteria to attract support for a restricted share plan.

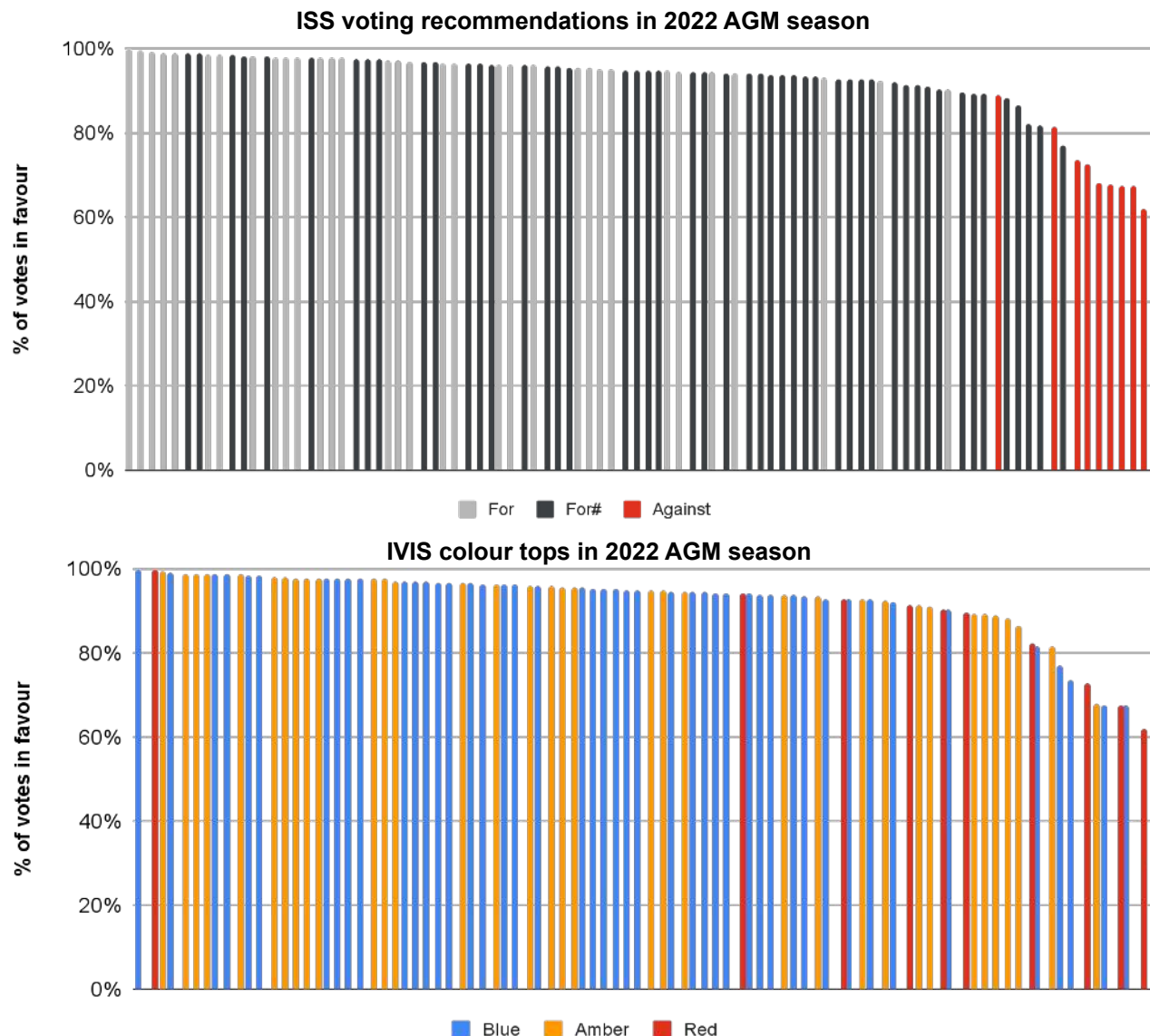
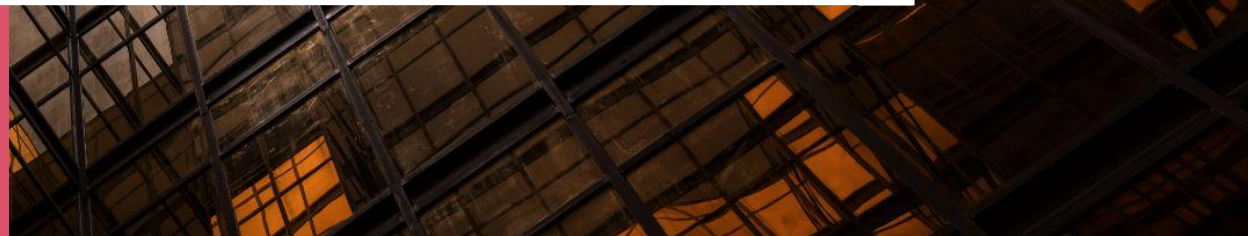


Figure 7: DRR voting outcomes at 2022 AGMs overlaid with ISS voting recommendations (top) and IVIS colour tops (bottom). An ISS 'For#' represents a 'qualified For' recommendation i.e. a recommendation to vote in favour but not without concerns

New Remuneration Policies



Around one third of companies seeking Policy changes increased variable pay

23 companies in the FTSE 100 put forward new Directors' Remuneration Policies for shareholder approval this AGM season, and two companies sought approval for amendments to their existing Policy.

Of these, eight companies (32%) have increased the normal maximum combined incentive opportunity for their CEO, and five companies (20%) have done so for their CFO. Of the eight companies:

- Six companies have increased the normal CEO maximum LTIP opportunity, and three companies have done so for their CFO; and
- Three companies have increased the normal maximum bonus opportunity for their CEO and CFO.

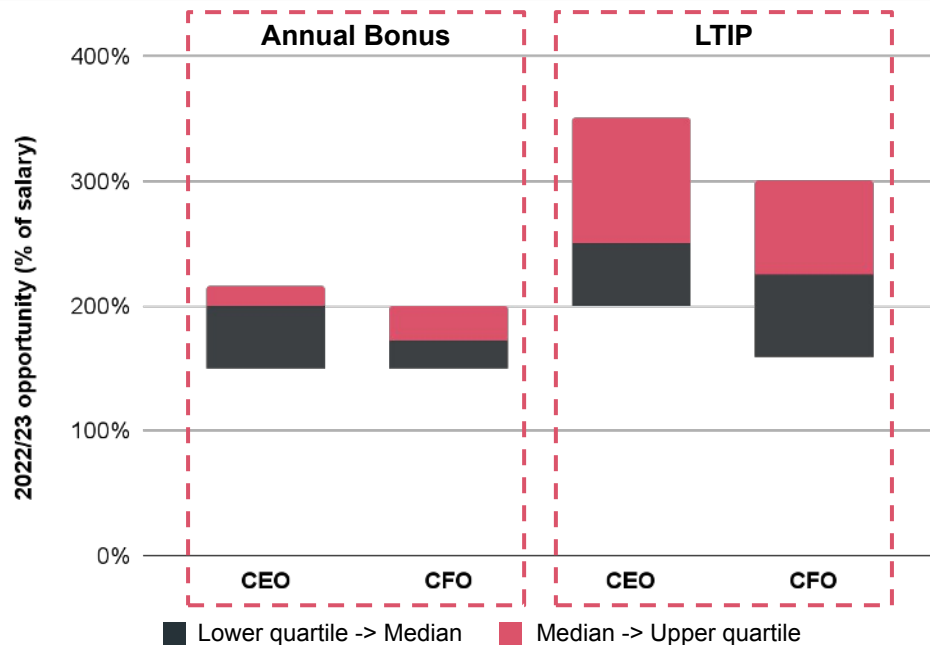


Figure 8: CEO and CFO annual bonus maximum and LTIP opportunities for 2022



Hybrid and multi-incentive models: change continues but the pace is slow

Although there has been a steady increase in the proportion of companies operating restricted share plans in recent years, the majority of companies continue to adopt a traditional performance share plan - overall, few companies operate an incentive plan outside of these two main structures.

This is primarily a feature of shareholder attitudes to incentive plans in the UK - there is a general preference for 'market standard' plans. These are more easily recognisable to shareholders and therefore easier to assess for the purpose of the binding vote on the Directors' Remuneration Policy.

However, shareholder attitudes vary by country. For example, it is common for US executives to receive awards under two or more incentive plans in a given year - performance share plans, restricted share plans, and market value options are all commonly used.

A minority of companies in the FTSE 100 operate incentives outside of a Performance Share Plan or Restricted Share Plan, such as multiple long term incentive plan awards, as outlined below. In an increasingly globalised world with competitive market for talent and challenges in setting robust performance targets, we may see an increase in prevalence of such plans over the next few years.

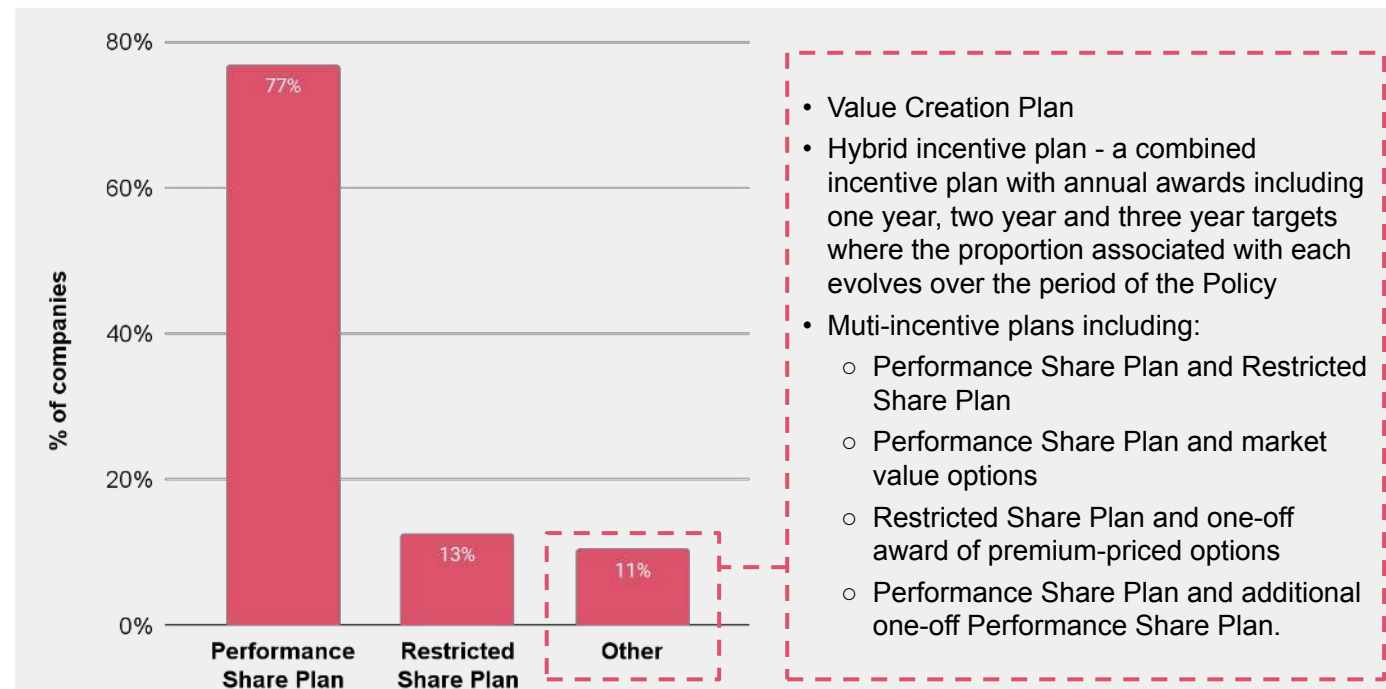


Figure 9: percentage of incentive plans operated by companies

New Remuneration Policies received higher support in 2022

FTSE 100 companies that have put their Directors' Remuneration Policy forward for shareholder approval this year have received stronger support on average, with 76% of companies receiving 80%+ votes in favour this year (2021: 70%).

Influence of ISS

As the top chart on the right illustrates, the influence of ISS voting recommendations on Policy voting outcomes is also strong. All but one of the companies receiving an 'Against' recommendation experienced a significant vote against their Policy (less than 80% support).

28% of companies received an 'Against' recommendation from ISS in respect of their Policy (a decrease on 33% in 2021)

68% median votes in favour of the Policy when ISS issued an 'Against' recommendation (74% in 2021)

96% median votes in favour of the Policy when ISS issued a 'For' recommendation (97% in 2021)

Influence of IVIS

In comparison, IVIS issued fewer 'Red tops' compared to ISS 'Against' recommendations (the same pattern was observed in 2021).

This may be because IVIS is generally less focused on quantum (unless this is considered excessive) and more focused on governance terms in accordance with the Investment Association's Principles of Remuneration. Of the two 'Red tops' issued by IVIS in 2022, one related to the extension of a Value Creation Plan (VCP) and the other related to a 50% increase in the opportunity under a restricted share plan which had been adopted the previous year.

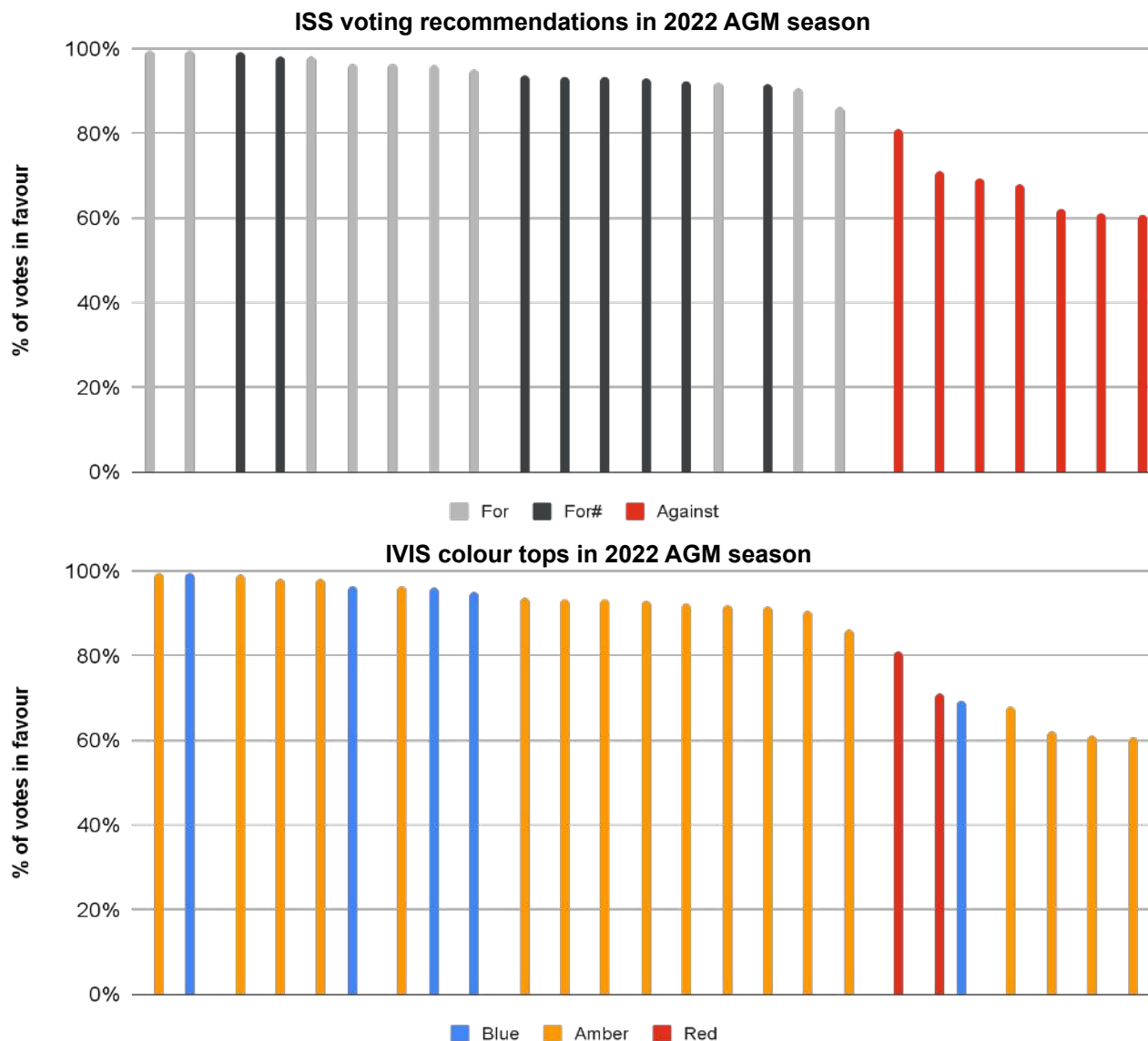
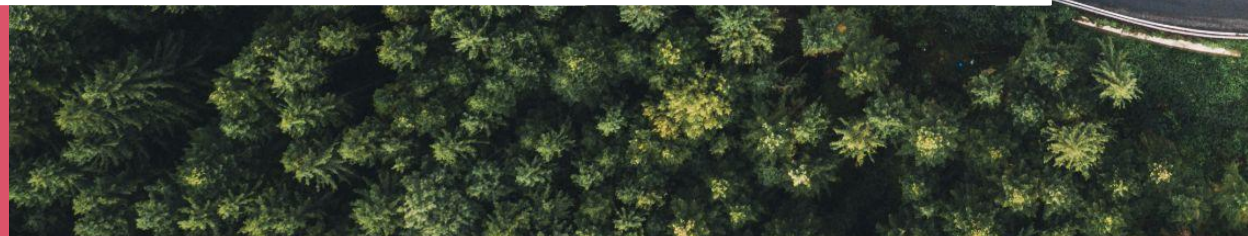
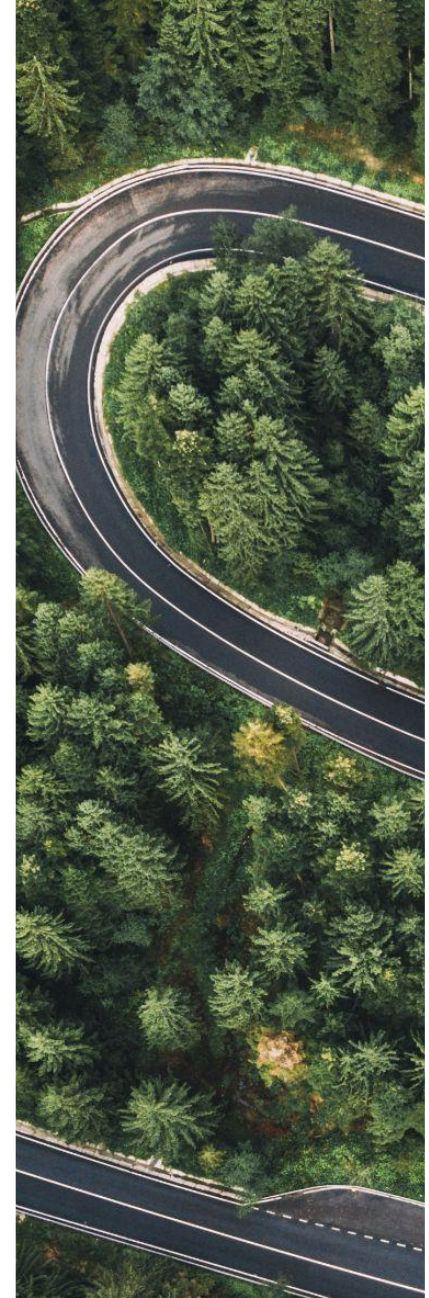


Figure 10: Directors' Remuneration Policy voting outcomes at 2022 AGMs overlaid with ISS voting recommendations (top) and IVIS colour tops (bottom). An ISS 'For#' represents a "qualified For" recommendation i.e. a recommendation to vote in favour but not without concerns

Looking ahead





Our expectations for the 2023 AGM season

1

Salary increases

In the context of the ongoing cost of living crisis, shareholders and proxy agencies are likely to scrutinise executive salary increases more than ever before, given the monetary value of such increases compared to the wider workforce. We expect that, where workforce increases are around 5% or more, there will be pressure for the increase for executives to be lower. Therefore, while the average executive increase is likely to exceed last year (3%), it is unlikely to reach the 5-7% level which companies are forecasting for their wider workforce.

2

Annual bonus outcomes

Bonus targets for 2021/22 were set at a time when the outlook for many companies remained highly uncertain. In the main, shareholders have not queried the outcomes that resulted if trading proved stronger than anticipated. However, we expect greater focus on outcomes in the 2023 AGM season in the context of a general recovery, the cost of living crisis, and the perceived level of stretch in the performance targets set at the start of the year.

3

Windfall gains

Most long term incentives vesting in respect of a final performance year in 2022/23 were granted following a general decline in share prices following the onset of the COVID-19 pandemic. Few companies adjusted award levels and many instead committed to reviewing windfall gains at vesting. This will be an area of focus for shareholders and proxy agencies during the upcoming AGM season.

4

ESG

With the majority of companies now adopting ESG measures in their incentive plans, in many cases forming a meaningful portion of the award, we expect a) increasing adoption of environmental measures, particularly in long term incentives and b) greater scrutiny over the performance targets used, including pressure to seek external assurance.

Start a conversation

For further information, help or support

Fiona Camenzuli

E: fiona.camenzuli@pwc.com
T: +44 (0) 7739 876 723

Dean Farthing

E: dean.farthing@pwc.com
T: +44 (0) 7739 873 164

Daniel Harris

E: daniel.x.harris@pwc.com
T: +44 (0) 7771 974 777

Duncan Nicholls

E: duncan.e.nicholls@pwc.com
T: +44 (0) 7718 865 201

Phillippa O'Connor

E: phillippa.o.connor@pwc.com
T: +44 (0) 7740 968 597

Andrew Page

E: andrew.x.page@pwc.com
T: +44 (0) 7483 362 344

Paul Wolstenholme

E: paul.wolstenholme@pwc.com
T: +44 (0) 7956 464 102

Giovanni Bracco

E: giovanni.bracco@pwc.com
T: +44 (0) 7764 235 336

John Harding

E: john.l.harding@pwc.com
T: +44 (0) 7801 042 607

Kate Harris

E: kate.harris@pwc.com
T: +44 (0) 7718 968 937

Paula Letorey

E: paula.z.letorey@pwc.com
T: +44 (0) 7939 063484

Julian Sansum

E: julian.a.sansum@pwc.com
T: +44 (0) 7919 057 454

Anna Vishnyakov

E: anna.vishnyakov@pwc.com
T: +44 (0) 7808 030 257

Alastair Woods

E: alastair.woods@pwc.com
T: +44 (0) 7834 250 359

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2022 PricewaterhouseCoopers LLP. All rights reserved. PwC refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

