

FTSE 100 mid season AGM update 2021



Executive pay snapshot
April 2021



Introduction

This report sets out a summary of the key executive remuneration trends from the first 50 FTSE 100 remuneration reports for the 2021 AGM season.

As anticipated, the theme of the 2021 AGM season thus far is one of restraint:

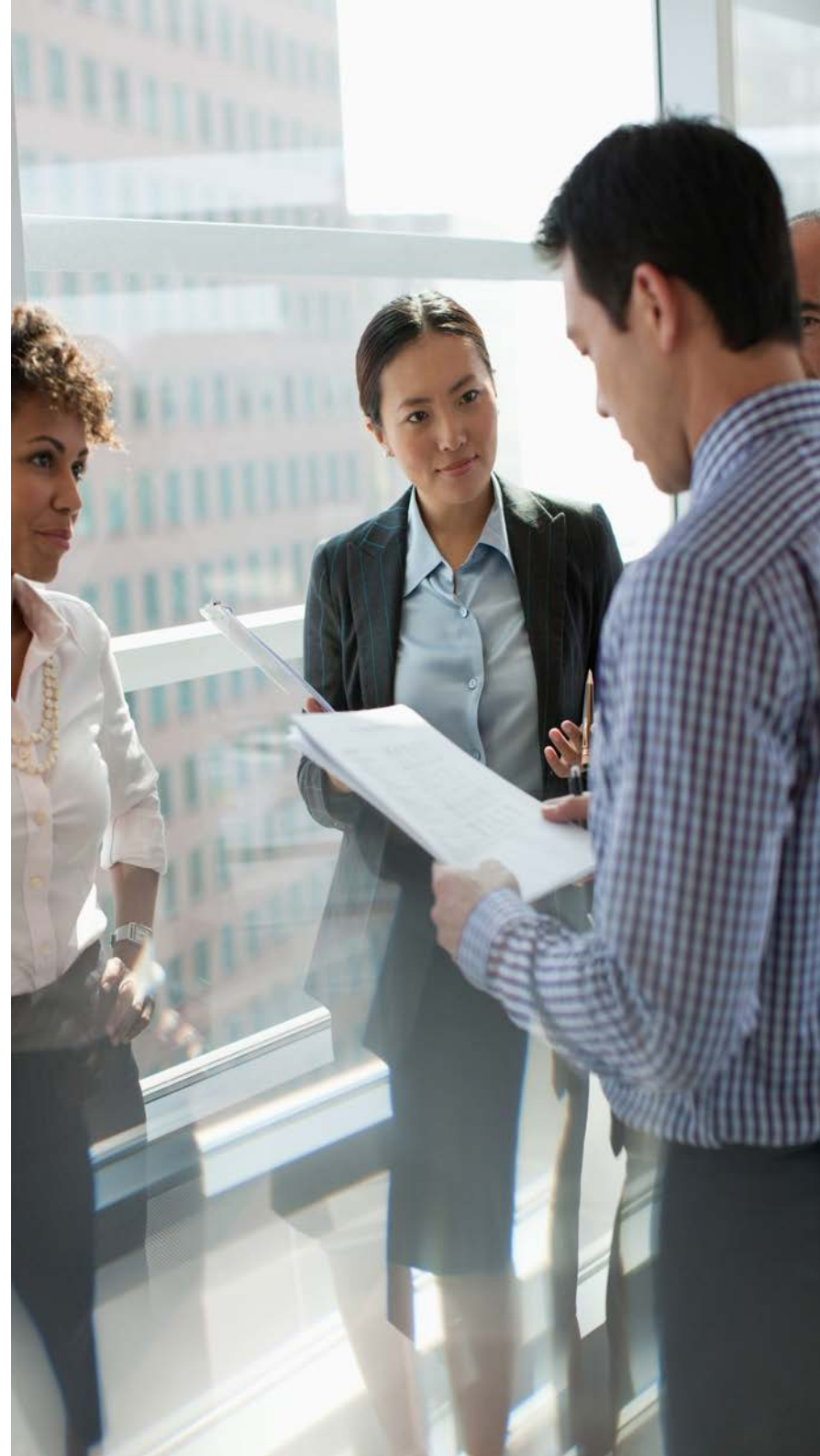
- Single total figure of remuneration delivered to CEOs is down 22%;
- Annual bonus and long term incentive outcomes are down 20%;
- Bonuses were cancelled, waived or reduced to zero through discretion at 31% of companies;
- 53% of CEOs have had their salaries frozen for 2021; and
- CEO salary increases where given are 2.75% at median.

This is a direct result of the pandemic and the impact it has had on the financial performance of businesses, as well as impacting the level of discretion remuneration committees are applying to reduce payouts to reflect the use of government support, the cancellation of dividends, and broader employee conditions.

Proxy advisory agencies, particularly the Investment Association, were very clear on their expectations of companies in the run up to the AGM season and it would seem that a majority of remuneration committees have taken that on board when determining their year end outcomes and implementation of pay for 2021.

There are a minority (24%) of new policies being presented for shareholder vote this AGM season. A number of these companies are seeking to increase quantum and we have already seen shareholder challenge in respect of this. This challenge would likely have existed before the context of the pandemic, but the current environment means that there is even greater sensitivity to pay quantum than there would normally have been.

As the 2021 AGM season continues we expect to see continued restraint with a minority of companies coming under quite significant scrutiny and challenge where their pay outcomes do not appropriately reflect the context of the pandemic from the perspective of shareholders.



Introduction

This mid season update takes the first 50 FTSE 100 annual reports published for the 2021 AGM season and reports on the key trends emerging in the area of executive pay.

2020 and 2021 showing to be a period of significant restraint for executive pay

- a. **Significant decrease in single total figure of pay for CEOs and CFOs** (median decrease in single figure of pay is c.22% for both).
- b. **Reduction driven by lower incentive outcomes under annual bonuses and long term incentive plans (LTIPs)** - both down by c.20% at median.
- c. **Significant downward discretion has been applied to annual bonuses in the context of the pandemic** (31% of companies waived, cancelled or applied downward discretion to 2020 bonus outcomes).
- d. **Restraint in awarding salary increases for 2021** (53% of CEOs and 52% of CFOs have had salaries frozen for 2021. Increases were given were 2.75% at median for CEOs and 2% for CFOs).
- e. **Moderation of LTIP grants for 2021 in the context of the broader economic environment** (45% of companies have adjusted LTIP grants for 2021 by either waiving LTIPs, adjusting grant sizes, changing targets, delaying grants or committing to review any windfall gains at the point of vest).

At the time of writing, with one exception, AGM results have been positive to date despite some negative proxy recommendations (but it is still early in the season)

- Only 11 companies have held an AGM to date. With one exception, the companies that have held AGMs to date have achieved 90% or greater support for remuneration report resolutions.
- The company which received a 60% vote did so due to incoming CEO pay levels and demonstrates the high level of sensitivity shareholders have to executive pay levels in the current environment.
- Only three companies with AGMs have had remuneration policy votes, all achieving above 90%.

Corporate Governance Code

There has been widespread alignment with the provisions of the Corporate Governance Code:

- a. 92% of companies now have a post employment shareholding requirement, 78% of those have a structure in line with Investment Association (IA) guidelines;
- b. 100% of companies have aligned pensions for new hires with the workforce; and
- c. By the end of 2022 incumbent pensions will align with the workforce at over 82% of companies, in line with IA guidance.

Mid season AGM update 2021

FTSE-100 executive pay snapshot

All figures set out in the summary table below are the medians of the sample. Note that the 2019 figures may differ from those presented in the 2020 PwC mid season AGM update report due to differences in the sample of companies.

Remuneration element		CEO		CFO	
Remuneration outcomes		2020	2019	2020	2019
Single figure amount (£)*	↓	3,481	4,289	↓ 1,713	2,211
Annual bonus payout (% of maximum)	↓	41%	64%	↓ 43%	65%
LTIP vesting (% of maximum)	↓	50%	70%	↓ 44%	69%
Remuneration policy implementation		2021	2020	2021	2020
Salary increase (excluding freezes)	↑	2.75%	2.60%	↓ 2.00%	2.50%
Annual bonus policy maximum (% of salary)	=	200%	200%	= 175%	175%
2020 LTIP face value (% of salary)	↑	300%	275%	↑ 245%	238%
Shareholding Requirement (% of salary)	↑	350%	300%	= 250%	250%
Pension - Incumbent Executive (% of salary)	=	15%	15%	= 13%	13%
Pension - New Executives (% of salary)	↓	10%	11%	↓ 10%	11%

*Note that these number includes buy out awards. Numbers excluding buyout awards are £3,472k for CEOs in 2020 and £4,289 in 2019. The median single figure does not change for the CFO in 2020 or 2019 when buyout awards are excluded.

Mid season AGM update 2021

PwC

1

- The median decrease in single total figures for CEOs and CFO that have not changed role during 2020 is c.22% (note that the change in the median single total figures of pay is down 19% from the prior year for CEOs and down 22.5% for CFOs).

2

- The proportion of CEOs with salary freezes has increased in 2021 (53% vs 35%).
- Median salary increases remain moderate at 2.75% for CEOs and 2.0% for CFOs.
- For CFOs the proportion of salary freezes has also increased from 30% to 52%.

3

- Incumbent pension levels for CEOs remain at 15% of salary and 13% of salary for CFOs
- New hire pension rates have decreased to 10% of salary for both CEOs and CFOs.
- 82% of companies will have incumbent pension levels aligned to the wider workforce by the end of 2022.

4

- 24% of companies are bringing new policies to vote at 2021 AGMs, three companies are proposing increases to bonus opportunity and an additional two are proposing increases to LTIP quantum. Four companies are decreasing quantum for LTIPs.
- Two companies have proposed to implement a "non-standard" LTIP structure.

Median 2020 CEO bonus and LTIP outcomes are down significantly on the prior year

1

Median bonus and LTIP payouts (as a % of maximum opportunity) have decreased on prior year for CEOs and CFOs.

This is due to:

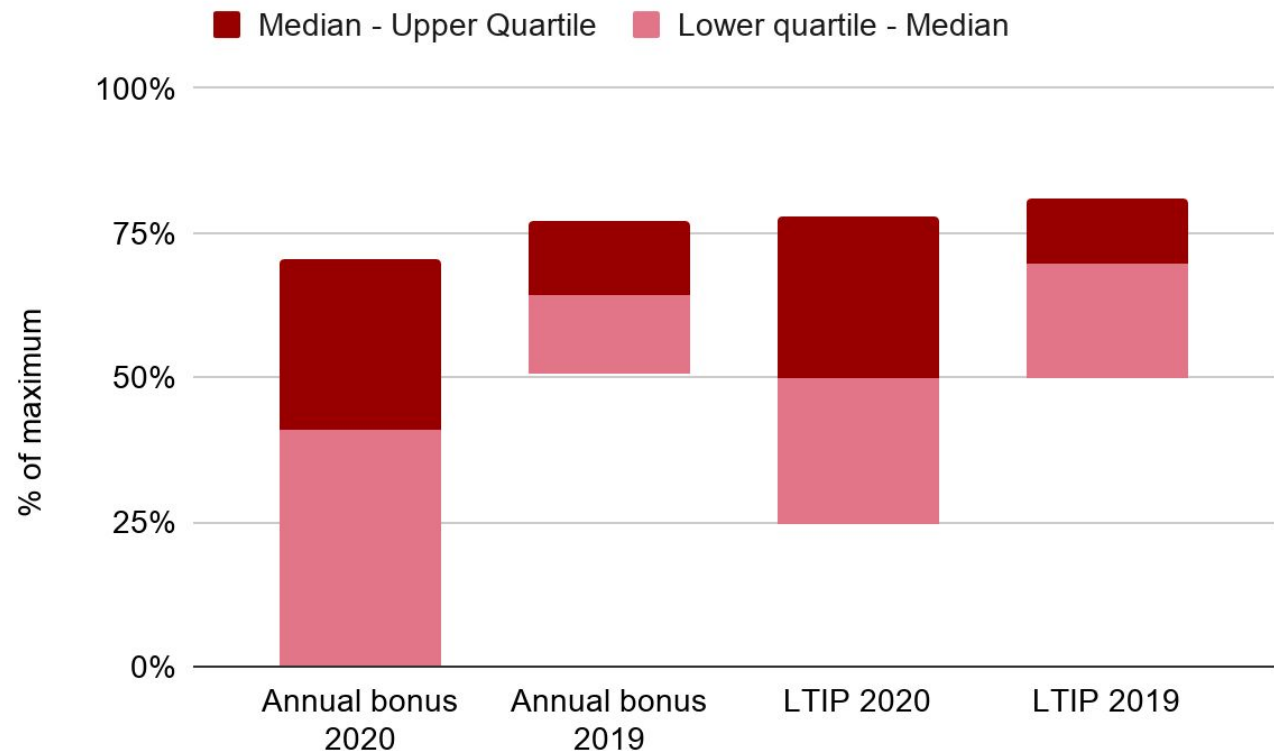
- Challenging underlying performance directly impacting the outcomes of incentives (annual and long term).
- Bonuses being cancelled either during or at the end of the year given the impact of the pandemic on the business (31% of companies waived, cancelled and applied downward discretion to bonus outcomes).

2

There was an increase in zero payouts for incentives for 2020:

- 30% of CEO bonuses compared to 11% for 2019;
- 30% of CFO bonuses compared to 7% for 2019;
- 16% of CEO LTIPs compared to 5% for 2019; and
- 15% of CFO LTIPs compared to 7% for 2019.

Figure 1: CEO Incentive payouts as a % of maximum in 2019 and 2020



Continued restraint in the implementation of pay for 2021, including companies with new policies

Figure 2: 2020 and 2021 CEO and CFO salary increases (excluding salary freezes)

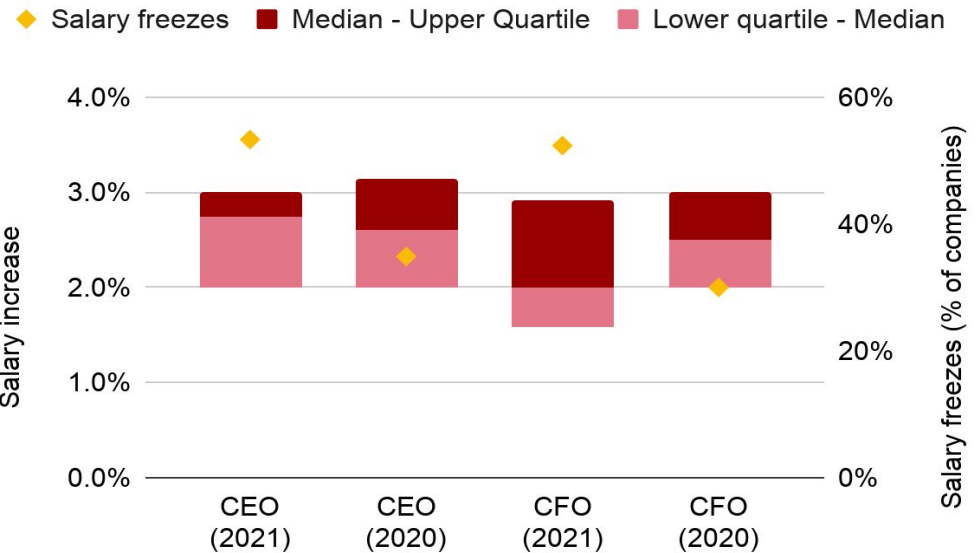
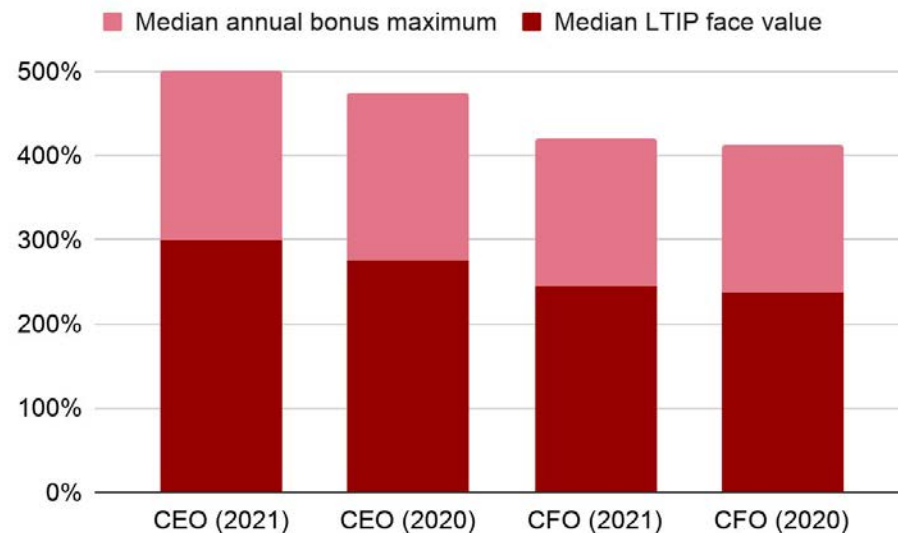


Figure 3: Median CEO and CFO annual bonus maximum and LTIP face value for 2020 and 2021



1 53% of CEOs and 52% of CFOs received a salary freeze - a significant increase on 2020. The median salary increase (excluding freezes) for 2021 was 2.75% for CEOs and 2.0% for CFOs, broadly in line with the prior year for the CEO but 0.5% lower for the CFO.

2 Median bonus opportunity in 2021 is 200% of salary for the CEO and 175% of salary for the CFO. There was no change from 2020.

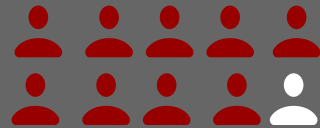
3 25% of companies (three) taking a new policy to vote have increased CEO maximum bonus opportunity - the increase was 50% of salary for two companies. The remaining company only increased quantum marginally by 10% of salary.

4 Median LTIP face value for 2021 is 300% of salary for CEOs and 245% for CFOs.

5 Two of the companies taking a policy to vote have increased CEO LTIP face values for 2021. The increases are 50% and 100% of salary. A further four companies have reduced LTIP face values by 38% - 225% of salary. The largest decrease was accompanied with movement to a non-standard model from a PSP.

The majority of companies now have a post employment shareholding requirement in line with IA guidance

92%



- of companies have a post employment shareholding requirement.
- Of those companies that do not, most state their intention to review this during their next policy review.

78%



- of companies with a requirement have implemented a 100% shareholding requirement for 2 years in line with the Investment Association's preferred approach.
- The majority of the remaining requirements are structure either as 100% shareholding requirement for 1 year, 50% for the second year or 100% shareholding requirement for 1 year only.

25%



- of companies (three companies) taking a new policy to vote have increased shareholding requirements. Two of those companies also increased the LTIP maximum.
- The median shareholding requirement for CEOs has increased from 300% in 2020 to 350% for 2021 onwards. The CFO median shareholding requirement has not changed.



Pensions have decreased slightly for new joiners in 2021

Pension levels

- The median pension rate for incumbents in 2021 is 15% of salary for CEOs and 13% of salary for CFOs. This is aligned to the median rate in 2020.
- This rate is set to decrease over time as the median rate for new hires in 2021 is 10% of salary, previously 11% in 2020.

Figure 4: 2020 and 2021 CEO incumbent and new hire pension levels

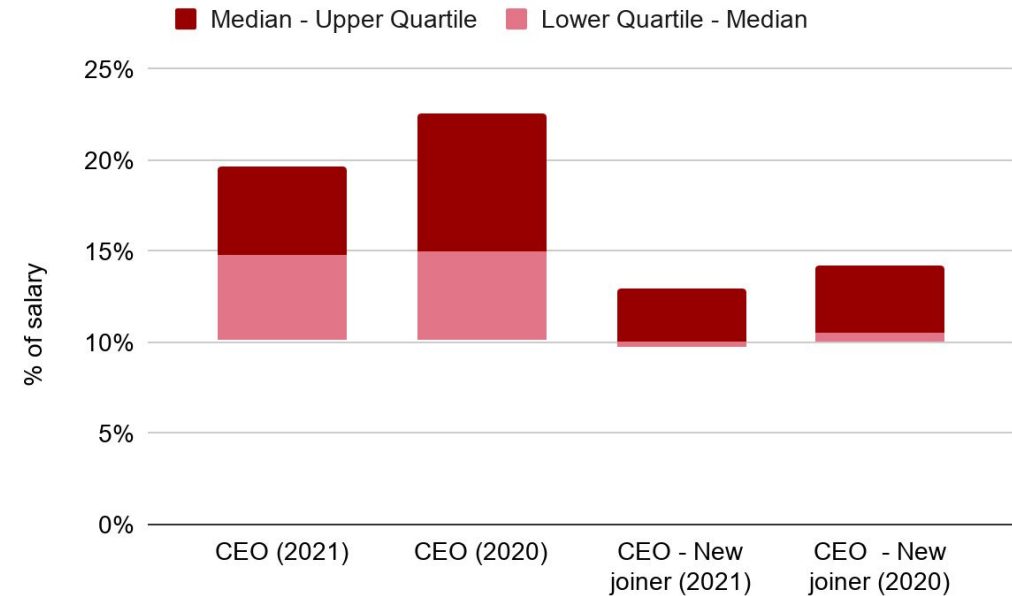
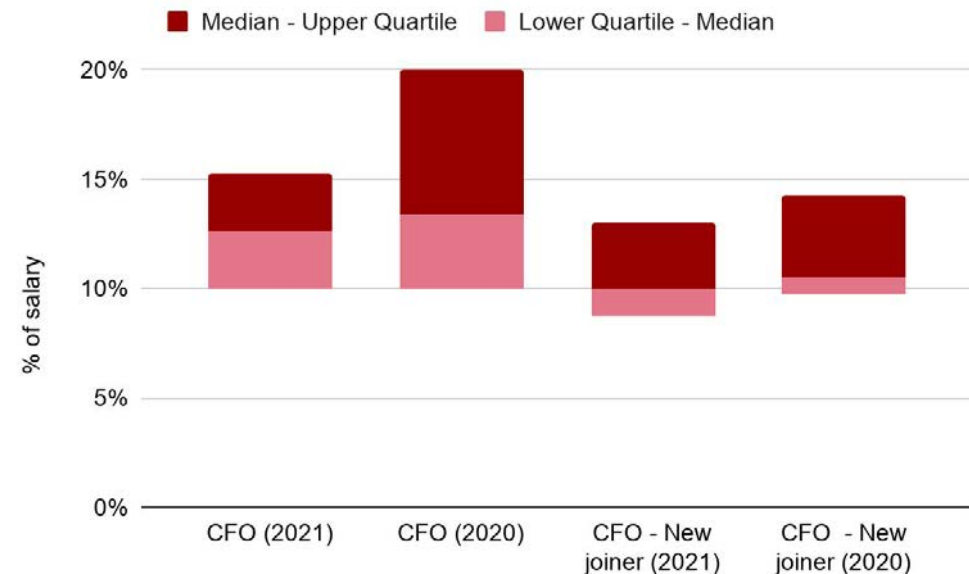


Figure 5: 2020 and 2021 CFO incumbent and new hire pension levels



Alignment to workforce

Incumbents



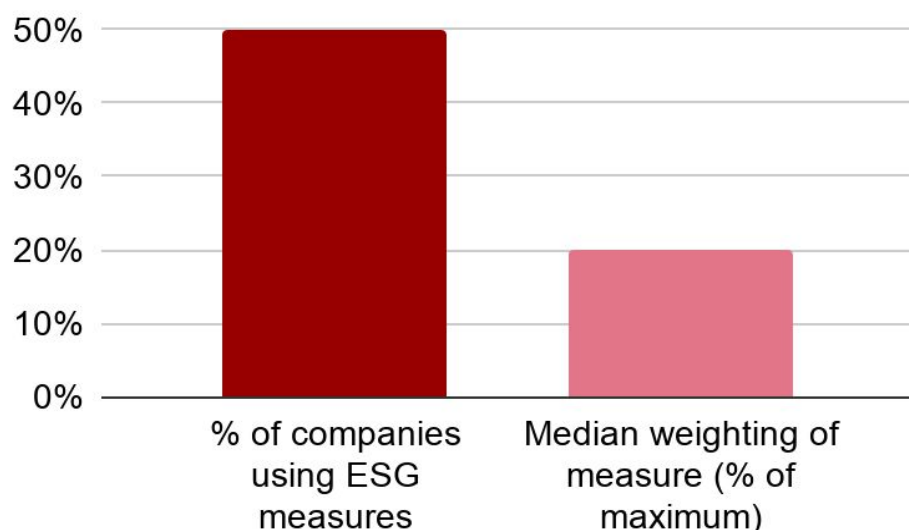
- **62%** of companies have pensions for incumbents aligned to the wider workforce by the end of 2021.
- **82%** of companies will have incumbents aligned to the wider workforce by the end of 2022.
- The remaining companies either do not currently intend to lower the rate to that of the wider workforce or have set out a timeframe beyond 2022.

New hires

- **100%** of companies now have new joiner pension rates aligned to their wider workforce.
- **9%** of companies made decreases in 2021 to ensure alignment.

There has been limited change to incentive structures but increased use of ESG performance measures

Figure 6: **Annual bonus** - percentage of companies using ESG measures and median weighting (as % of maximum award)

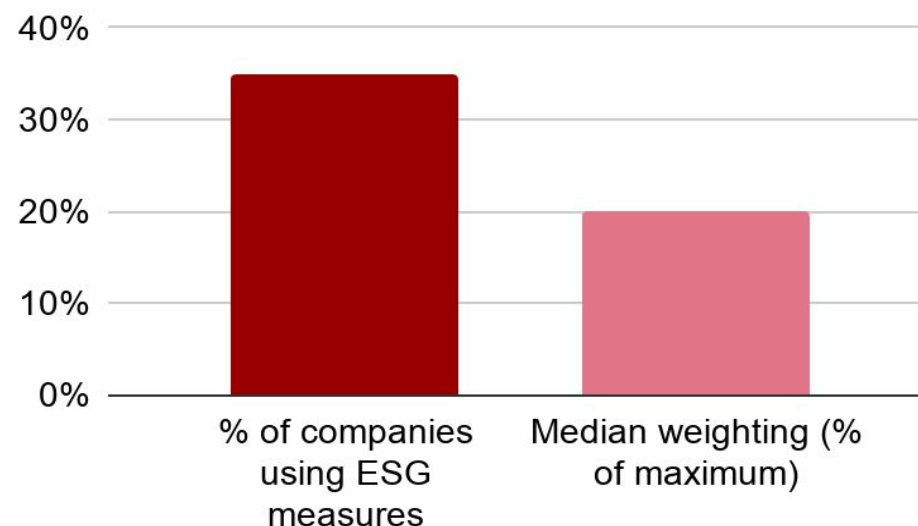


Annual bonus

- There is evidence for an increase in the use of ESG measures with 50% of companies using them in the bonus in 2021 compared to 42% in 2020.
- The median weighting of such measure is 20%.
- Most ESG metrics continue to be industry focussed, such as health and safety metrics in the basic materials sector, or risk and governance metrics in financial services.



Figure 7: **LTIP** - percentage of companies using ESG measures and median weighting (as % of maximum award)



LTIP

- 35% of companies have included an ESG measure in the 2021 LTIP, a significant increase from 21% in 2020. 22.5% of companies used ESG measures in both 2021 and 2020.
- The weighting is typically the same as in the annual bonus at 20%.
- Compared to the annual bonus, there is a greater focus on environmental targets. All companies with ESG included environmental targets, a small number also used risk or diversity targets.



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

For further details on using ESG performance measures see PwC reports "Paying well by paying for good" -

<https://www.pwc.co.uk/services/human-resource-services/insights/environmental-social-governance-exec-pay-report.html>

Pay ratio - the median CEO:50th percentile ratio for 2020 was 55:1

Option A was the most common methodology, used by 73% of companies in 2020, 70% of companies in 2019 and 67% of companies who voluntarily disclosed in 2018.

Option C continues to be the least common methodology used (7% of companies used this methodology in 2020).

In 2018 a small number of companies used their own voluntary methodology.

Over three quarters of companies who were not required to disclose chose to do so on a voluntary basis.

The median CEO:50th percentile pay ratio for 2020 was 55:1 (73:1 for 2019 and 85:1 for 2018).

This is a significant fall in the medium ratio and aligns to fall in the single figure for CEOs in 2020.

33% of companies have disclosed additional information to provide context:

- 6% disclosed ratios for different populations of individuals. This included CFO pay ratios or pay ratios for various grades.
- 27% of companies disclosed a ratio using an alternative methodology such as a salary only ratio, ratios excluding large LTIP payouts for the CEO or for target remuneration.

Figure 8: Methodologies used by companies required to disclose CEO:employee pay ratios

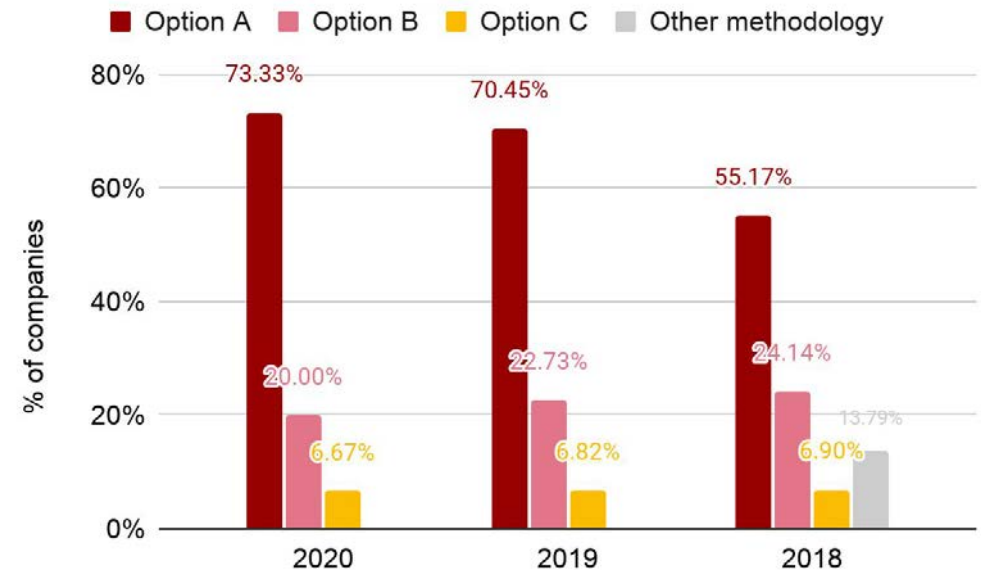
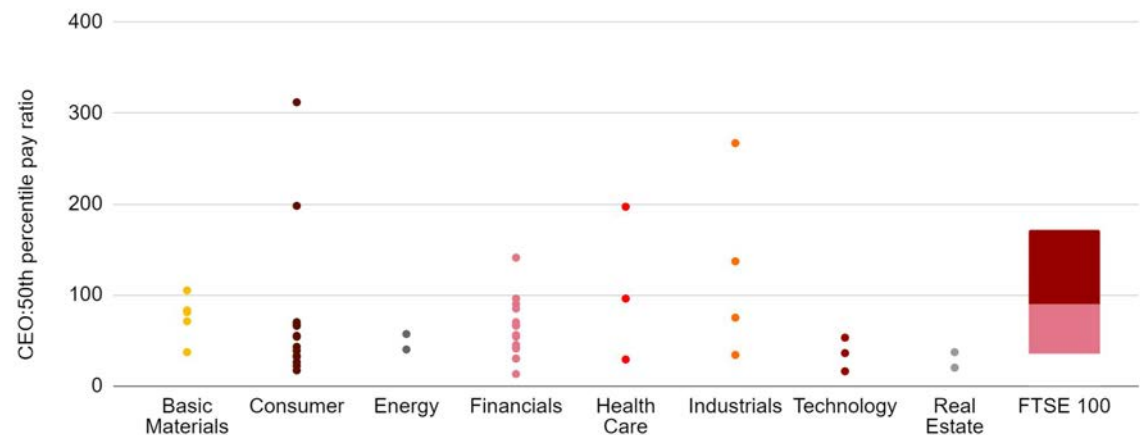


Figure 9: CEO: 50th percentile pay ratios for individual companies by sector and the lower quartile to upper quartile range for the FTSE 100 companies in the relevant dataset



31% of companies in the sample adjusted their bonus outcomes downwards in the context of the pandemic

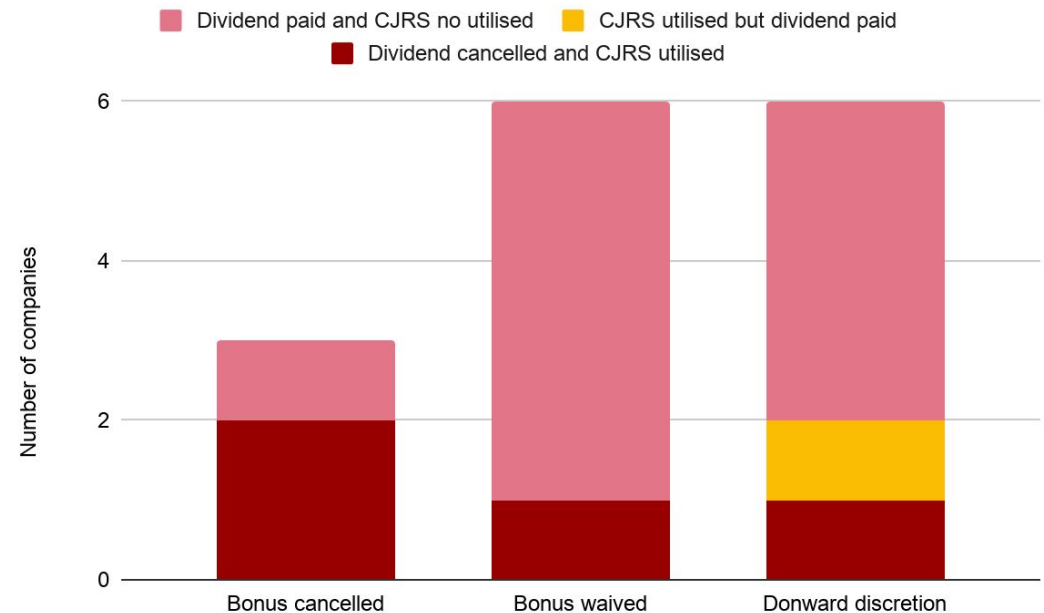
2020 Salary recap

- **17%** of companies cancelled 2020 salary increases that had previously been communicated. Two of those companies have utilised the CJRS scheme and cancelled dividends.
- **36%** of CEOs took a temporary salary reduction or donated salary to charity during 2020.
- The median salary reduction was **25%** with time period ranging from 3 months to 9 months.

2020 bonuses in the context of the pandemic

- **Three** companies cancelled 2020 bonuses. Two of these companies had cancelled dividends and utilised CJRS.
- **At six** companies executives waived either all or part of their bonus for 2020. Only one of these companies had cancelled their dividend and utilised CJRS.
- **Six** companies have applied downward discretion to 2020 bonus outcomes:
 - Three companies applied discretion to 0%.
 - Three companies used discretion to partially reduce payouts.
 - Four of these companies had not used CJRS or cancelled dividends.
 - One company had cancelled their dividend and utilised (but repaid) CJRS. Another company had utilised CJRS (not repaid) but paid their dividend.

Figure 10: Companies which have adjusted 2020 bonus outcomes



2021 bonuses

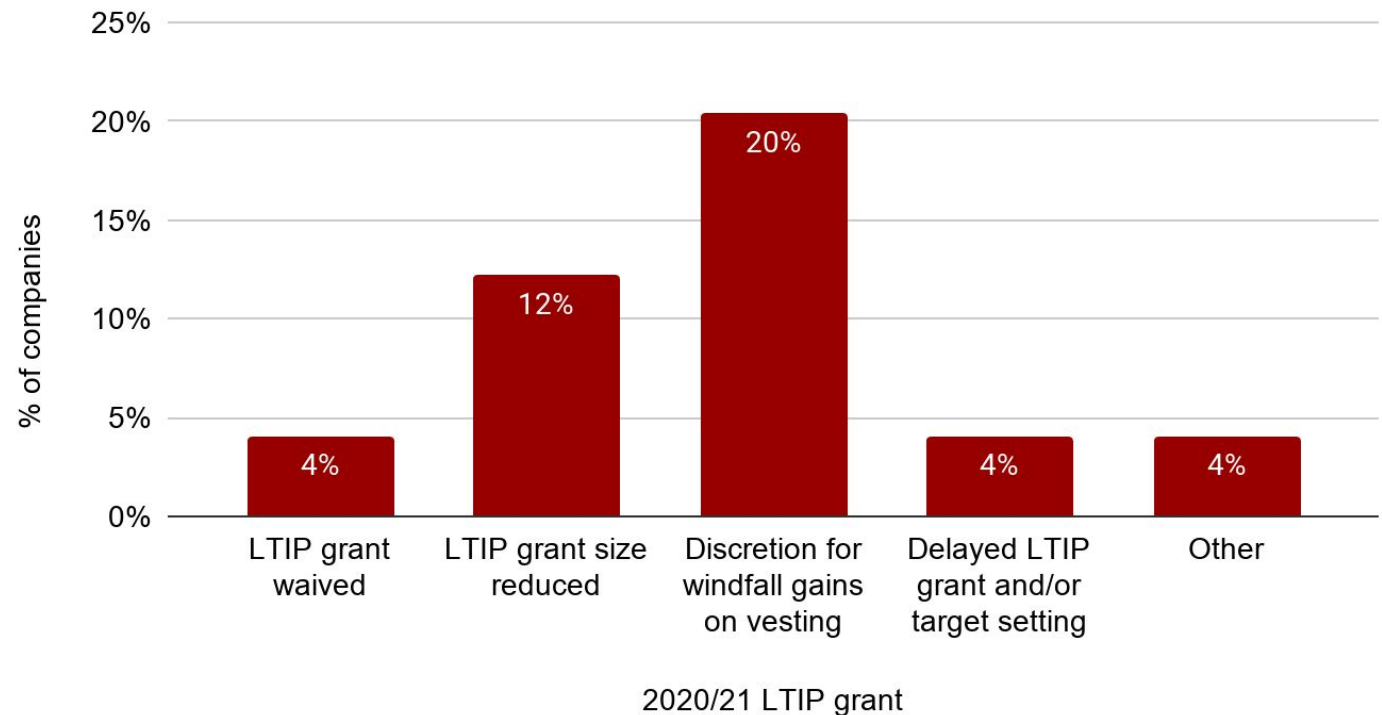
- Only four companies explicitly disclosed a change in approach to target setting for the 2021 bonus.
- Three of the above are making changes to target ranges, the remaining company is setting two sets of targets of two 6 months periods.
- Three of these companies have utilised CJRS and two had also cancelled their dividend (and this would indicate their businesses have been materially impacted by the pandemic).

45% of companies made changes to their 2021 LTIP grant

2021 LTIP grants

- 45% of companies have made changes to the grants of their 2021 LTIP, typically to address issues that are linked to the impact of the pandemic.
- Companies have made a variety of changes, the most common of which is to commit to reviewing any windfall gains under the awards at the point of vesting (this is now an expectation amongst most shareholders where there has been a fall in share price in the run up to the grant).
- Reducing the grant size of the award is another way to address this. A number of the companies that reduced their award size had also cancelled their dividend and taken CJRS.
- The rationale for waiving LTIP award for one company was that the grant value would instead be donated to charity.
- A small number of companies delayed awards so that targets could be set when there was more clarity on the external environment.
- Other includes two companies who explicitly stated that they would be making changes to performance targets which included changes to definitions of measures and changes to target ranges so that they reflect post-pandemic market conditions.

Figure 11: Types of changes made by 45% of companies which changed the 2021 LTIP grants



Summary of 2021 AGM season to date

1

It is still relatively early in the 2021 AGM season, with only 11 companies in the sample having had their AGM.

Thus far the IA have been issuing red tops at a lower level to prior year for remuneration reports and ISS issuing against recommendations at a higher level than the prior year.

The current environment and impact of the pandemic is making shareholders additionally sensitive to executive pay levels and companies will have to take extra care to navigate wider stakeholder sentiment through the 2021 AGM season.

2

Overall, the general comments being raised by ISS and the IA are consistent with prior years but they have an overlay of additional sensitivity in the context of the pandemic. Key areas of focus are:

- Salary increases in excess of that for the wider workforce;
- Incentive outcomes that are not aligned with underlying performance of the business and/or do not take into consideration the business's approach to dividends and/or government support.
- Discretion being applied to incentive outcomes.

3

Only one company in the first 50 reports has received a remuneration policy red top **and** against recommendation from the IA and ISS to date. The AGM is yet to be held.

No companies have received a red top **and** against vote for the remuneration report in the first 50 reports highlighting the differences between the IA and ISS voting guidelines (although we are now aware of one company who has subsequently received both an ISS against recommendation and IA red top in respect of discretion applied to an incentive outcome).

4

To date, 22% of companies have had their AGM votes.

All but one of those companies achieved votes of 90% or above for the remuneration report and policy.

This company received a vote of 60% and also received an against recommendation from ISS due to the incoming CEOs salary level which was higher than the predecessors.



Start a conversation

To discuss any of the findings in this report, please contact our Reward and Employment team, or your usual PwC contact.

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