

FTSE 350 DIRECTORS:

Remuneration 2014/15

- Remuneration for FTSE 350 directors remains buoyant despite the economy's tentative recovery.
- Single figure total remuneration for FTSE 100 principal directors is £3m at the median.
- In the mid-250, the figure is just over £1.5m.
- Salary rises were relatively muted – median levels for all positions were 2.5% or below.

‘Significant incentive awards have also been made in the latest period. Alongside the more positive economic outlook, this leads to us to conclude that executive pay is likely to continue on its upward path in the next few years.’

FTSE 350 Directors: Remuneration 2014/5

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Head of Executive Remuneration Research: Steve Glenn.

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EXECUTIVE SUMMARY

- Remuneration levels for FTSE 350 directors remain buoyant despite the economy's somewhat tentative recovery.
- Single figure total remuneration now exceeds £3 million (median) for FTSE 100 principal directors, while in the mid-250, the comparable figure is just over £1.5 million.
- These significant single figure amounts are explained largely by the vesting, or expected vesting, of various long-term incentive plan (LTIP) awards.
- *Realised* incentive gains in the latest financial years were also substantial – median LTIP gains for principal directors stood at nearly £2 million, while median share option profits, although less prevalent, passed £1.25 million.
- In contrast, salary growth was relatively muted – median rises for all positions were 2.5% or below.
- Significant incentive awards have also been made in the latest period. Alongside the more positive economic outlook, this leads to us to conclude that executive pay is likely to continue on its upward path in the next few years.

Research from the CBI shows that in the three months to May 2015 UK business activity “cranked up several gears” perhaps giving a boost to the so far tentative recovery. One area that appears to have been immune to the slowdown is FTSE 350 board level remuneration, having maintained cruise control throughout the years of recession.

This is borne out by E-reward's latest analysis of the most recent remuneration data available from company accounts. For instance, the single figure total remuneration for FTSE 100 principal directors stood at over £3 million at the median.

The equivalent amount amongst mid-250 companies was less substantial, but still significant, at over £1.5 million. If the CBI member organisations are correct, any recovery is likely to boost these amounts still further in the future.

LTIPS STILL THE SCHEME OF CHOICE IN FTSE 100

While most staff earnings are dominated by salaries, directors' remuneration is weighted more heavily towards long-term incentive plans (LTIPs). Their use reflects the dominant philosophy of “paying for performance” which dictates almost all executive remuneration packages in FTSE companies. Up until recently this philosophy has gone largely unchallenged. However, a new report by the High Pay Centre, entitled *No Routine Riches: Reform to performance-related pay*, calls for companies to end LTIPs arguing, among other things, that they are ineffective at improving corporate performance.

Despite this criticism, our research illustrates that LTIPs continue to be the scheme of choice with most large companies making awards in the latest period:

- Board members in 71 FTSE 100 companies received 54.2 million performance shares with face values worth £325.9 million in the most recent reporting period.
- Similarly, executives in 149 FTSE mid-250 firms were awarded over 40 million LTIP shares worth £234.9 million.

These amounts are not guaranteed, however, because to become receivable, various performance criteria will need to be achieved over the next few years.

MANY DIRECTORS MEETING TARGETS

Looking back at awards made in previous years that have been performance tested, though, it seems that many companies did achieve past hurdles to some extent or other:

- 168 FTSE 100 directors received vested performance shares worth just under £294.4 million (in their most recent reporting period).
- 475 board members from the mid-250 received total gains worth over £238 million.

Given this, it appears that few directors – for the foreseeable future at least – will be persuaded that LTIPs should not continue be the largest part of their pay packages.

Box 1: Actual salary rate increases 2014/15

Position	FTSE 100			Mid-250		
	No.	Median	Average	No.	Median	Average
Principal directors	63	2.1%	2.8%	108	2.0%	3.6%
Finance directors	60	2.1%	3.1%	100	2.4%	3.8%
Other directors	61	2.4%	2.6%	73	2.5%	3.7%
All directors	184	2.3%	2.9%	281	2.3%	3.7%

Source: Analysis by E-reward.co.uk, June 2015.

SALARY RISES MODEST

With LTIPs dominating executive pay, salaries represent a relatively small proportion of most FTSE 350 directors' remuneration packages. Yet they still play an important role – most incentive awards made each year are expressed as a percentage of base pay. So any salary rises have a knock-on effect on share awards from the various incentive schemes that most directors belong to and can therefore have a strong influence on the overall amount of remuneration received.

In the latest period, directors' salary rises were relatively modest though, ranging from a median 2% for mid-250 principal directors up to 2.5% for mid-250 other directors (box 1). Average levels were higher, reflecting the fact that a few directors were awarded larger increases, often the result of benchmarking or other salary realignment exercises.

One example of such an exercise was **Hikma Pharmaceuticals** whose chairman and chief executive was awarded a 42% salary rise from \$842,265 to \$1,200,000. Hikma provided an explanation for this large rise citing, among other things, that the company's size, as measured by its market capitalisation, had grown by 225% since 2011.

Similarly, the chief financial officer at **Admiral** received a 28% increase from £156,000 to £200,000. The company reported that the director was initially recruited on a below-market amount and was receiving above-inflation rises each year to recognise progression in the role.

In contrast to these individuals, however, there were also just over 30% of directors in both the FTSE 100 and mid-250 whose salary levels were frozen at their latest review.

SINGLE FIGURE LEVELS

Changes to executive pay reporting regulations came into effect in October 2013. UK companies are now required to publish a "single figure" that represents a standardised amount designed to make cross-company comparisons easier and to improve understanding and transparency.

Boxes 2 and 3 provide details of the median and average single figure amounts for principal, finance and other directors who were in post for the full 12 months. These amounts do not represent "realised" total pay levels, however, because one of the characteristics of single figure amounts is that they include estimates of the values of incentive awards that have "largely" vested in the financial year in question rather than amounts actually received. In contrast to the single figure amount, "realised" pay levels are not given in any standardised format so it is necessary to calculate separately any actual gains received in the year.

WPP Group, serves as a useful example to explain the difference between the single figure value and actual realised pay. WPP's chief executive registered the highest amount earned in the FTSE 100 companies we examined with total single figure remuneration that stood at £42,978,000. This

Box 2: Single figure remuneration levels for FTSE 100 directors 2014/15

	Principal director			Finance director			Other director		
	No.	Median £pa	Average £pa	No.	Median £pa	Average £pa	No.	Median £pa	Average £pa
Salary	66	857,500	860,375	54	514,700	547,328	61	447,000	513,198
Benefits	65	41,000	96,330	53	24,697	40,177	59	39,000	91,232
Cash bonus	60	605,496	758,762	53	365,000	430,748	51	340,000	512,313
Deferred bonus	51	539,500	689,894	48	292,750	341,813	46	362,500	526,297
LTIP	47	1,847,115	3,206,729	34	1,312,000	1,633,738	43	1,131,000	1,513,228
Total remuneration	66	3,808,000	5,482,891	54	2,138,214	2,622,974	61	2,060,000	2,783,872

Source: Analysis by E-reward.co.uk, June 2015.

Box 3: Single figure remuneration levels for FTSE mid-250 directors 2014/15

	Principal director			Finance director			Other director		
	No.	Median £pa	Average £pa	No.	Median £pa	Average £pa	No.	Median £pa	Average £pa
Salary	121	512,500	629,393	102	330,000	388,418	77	326,000	362,400
Benefits	117	21,100	35,430	100	16,051	21,875	75	16,467	22,377
Cash bonus	104	420,729	595,548	88	236,000	319,737	68	236,222	365,621
Deferred bonus	52	238,850	401,571	47	123,333	177,734	32	156,667	304,603
LTIP	66	977,760	1,884,141	61	497,000	815,569	47	499,000	583,002
Total remuneration	121	1,587,000	2,562,637	102	1,026,000	1,361,101	77	1,051,000	1,272,507

Source: Analysis by E-reward.co.uk, June 2015.

included an estimate of the value of incentive gains that largely vested in 2014, valued at that time at over £36 million. These awards were not actually received until March 2015, however, after the company's December 2014 financial year end so were not actually realised in the 2014 financial year. By contrast, realised remuneration in 2014 totalled around £28 million which was largely due to a previous incentive award that did vest in the financial year, worth over £22.6 million.

Another striking difference illustrated by boxes 2 and 3 is the gap in amounts earned between FTSE 100 and mid-250 directors. For all elements of pay, amounts in the FTSE 100 far outweigh those in the mid-250. In fact, salaries for mid-250 board members were worth around 60% to 70% of their FTSE 100 counterparts. Once incentives and other emoluments are taken into account, FTSE 100 levels are more than double those in the mid-250.

REALISED INCENTIVE GAINS

A more in-depth indication of the size and prevalence of realised incentive gains for FTSE 100 companies is given in boxes 4 and 5, illustrating that LTIPs dominate remuneration in terms of both size and prevalence:

- Median LTIP gains in the FTSE 100 ranged from £886,957 for other directors up to nearly £2 million for principal directors.

- In the mid-250 the equivalent figures were £339,055 and £954,900.

In the past, share options were the long-term incentive of choice but in the latest year the boxes show that only a handful of individuals exercised options, although some gains were still significant. For example, the median gain for FTSE 100 principal directors stood at over £1.25 million although the equivalent figure for other directors in the same companies was much lower at £134,154. In the mid-250, the median gain for principal directors was also substantial at £410,005.

Another notable aspect of boxes 4 and 5 is the prevalence of deferred bonuses. These amounts represent the value of annual bonuses that were previously deferred into shares in past years that have now vested. Usually such deferred shares do not have any additional performance conditions but are subject to holding periods, usually three years in duration.

Box 4: Actual incentive gains received by FTSE 100 directors 2014/15

Type of incentive scheme	Principal director			Finance director			Other director		
	No.	Median £	Average £	No.	Median £	Average £	No.	Median £	Average £
Deferred bonus scheme gains	25	524,975	922,909	17	465,854	592,149	30	625,405	1,006,127
Matching share scheme gains	8	546,841	3,786,080	9	517,419	1,448,813	8	492,948	754,943
LTIP gains	38	1,979,992	1,986,158	29	1,055,619	1,022,657	36	886,957	1,278,953
Share option gains	9	1,264,552	2,000,679	3	459,700	467,372	6	134,154	400,830
SAYE gains	5	28,964	33,837	4	31,071	30,552	2	15,254	15,254

Source: Analysis by E-reward.co.uk, June 2015

Box 5: Actual incentive gains received by FTSE mid-250 directors 2014/15

Type of incentive scheme	Principal director			Finance director			Other director		
	No.	Median £	Average £	No.	Median £	Average £	No.	Median £	Average £
Deferred bonus scheme gains	25	340,679	578,542	18	157,490	209,191	26	154,395	224,208
Matching share scheme gains	14	717,744	555,417	7	422,031	461,494	5	131,447	373,202
LTIP gains	51	954,900	1,194,157	51	543,544	746,549	57	339,055	353,779
Share option gains	9	410,005	868,803	11	102,755	310,250	9	75,804	712,323
SAYE gains	10	10,322	23,103	6	7,654	21,797	6	6,032	8,541

Source: Analysis by E-reward.co.uk, June 2015

Median values of shares from deferred bonus plans in the FTSE 100 ranged from £625,405 for other directors to £465,854 for finance directors. As would be expected, in the mid-250 amounts were not so significant, ranging from £154,395 for other directors up to £340,679 for principal directors.

LTIPS DOMINATE INCENTIVE AWARDS

As well as looking back at what has been earned in the past our latest analysis examined the amount and value of incentive awards that directors hope will vest in the future. Boxes 6 and 7 provide details of the value of awards from various incentive schemes expressed as a proportion of salary for FTSE 350 firms. It illustrates that LTIPs and deferred bonus awards again dominate:

- At the median, LTIP awards were worth 216.3% of salary for FTSE 100 principal directors while the equivalent amounts for finance and other directors stood at 200.1% and 176.5% respectively.
- Corresponding proportions in the mid-250 were 150%, 150% and 125%.

In contrast, share option grants were a lot less common but were greater in value than LTIP awards. This, however, reflects the fact that there is an option price directors must pay to exercise options whereas most LTIPs can be exercised at nil- or nominal cost. By comparison, the median grant levels relating to deferred bonus shares were all worth between around 40% to 60% of salary across all positions in both the mid-250 and FTSE 100.

Box 6: Share incentive awards made to FTSE 100 directors 2014/15

Incentive scheme award	Principal director			Finance director			Other director		
	No.	Median % of salary	Average % of salary	No.	Median % of salary	Average % of salary	No.	Median % of salary	Average % of salary
Deferred bonus share awards	31	55.0	110.9	26	49.3	61.5	34	59.4	128.3
Matched share awards	9	90.6	112.2	7	43.2	96.3	11	118.2	123.9
LTIP share awarded	52	216.3	282.6	46	200.1	225.5	47	176.5	193.9
Share option grants	6	243.2	586.1	5	225.0	310.7	2	167.7	167.7

Source: Analysis by E-reward.co.uk, June 2015

Box 7: Share incentive awards made to FTSE mid-250 directors 2014/15

Incentive scheme award	Principal director			Finance director			Other director		
	No.	Median % of salary	Average % of salary	No.	Median % of salary	Average % of salary	No.	Median % of salary	Average % of salary
Deferred bonus share awards	40	40.7	66.1	35	42.8	56.2	26	60.5	75.7
Matched share awards	14	129.9	103.5	10	110.0	102.4	3	100.0	92.5
LTIP share awarded	120	150.0	229.8	103	150.0	191.8	76	125.0	132.7
Share option grants	9	100.0	206.4	8	43.2	114.6	6	14.4	17.4

Source: Analysis by E-reward.co.uk, June 2015

ABOUT THE DATA

The E-reward.co.uk analysis is based on information from the latest available remuneration reports stored on our **executive pay database**.

- It draws on data from 71 FTSE 100 companies and 149 from the mid-250.
- Financial year-ends stretched from 31 July 2014 to 26 February 2015.
- Nearly 90% of companies had annual reports published at the end of December 2014 or more recently.
- All pay analysis was based on directors who were in post for a full 12 months.
- Any salary rises excluded directors who were not board members for two full financial years or that had changed roles in the period.

A full report covering the whole of the FTSE 350 will be available in Autumn 2015.

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