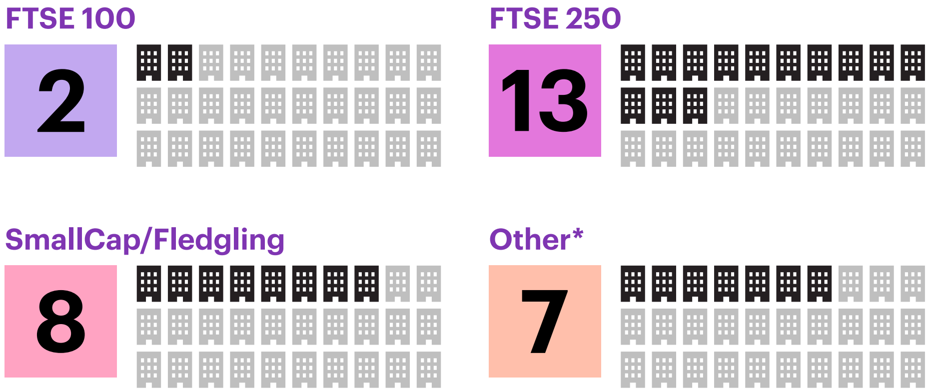
UK IPO Executive Compensation trends – September 2023

Recent geopolitical and macro-economic conditions have created uncertainty for companies looking to IPO. With investors eyeing the return of IPO activity in the latter part of 2023 and 2024, we take a look back at recent UK IPO Executive Compensation trends to understand what's market when it comes to incentivising the executive team on IPO and beyond.

Through our research on companies that listed on the UK Main Market between January 2019 to December 2022, we make some interesting observations on legacy and one-off awards, and ongoing incentive plan design for Executive Directors on IPO.

A range of market capitalisation



*Standard listing or less than 25% of shares in public hands

We have reviewed publicly available disclosures in listing prospectuses on admission for the 30 companies in our sample listing on the UK Main Market (Premium, Standard and High Growth) in the last four years.

The 30 companies covered a wide range of market capitalisations with the majority having market caps that saw them enter the FTSE 250 on admission. Only 2 companies in our sample had market caps large enough to enter the FTSE 100. The remainder of our sample was split across those companies entering the FTSE SmallCap or Fledgling indices, seeking Standard Listings or looking to list less than 25% of their shares in public hands. We also observed a range of ownership structures across our sample.

Of the 30 companies:

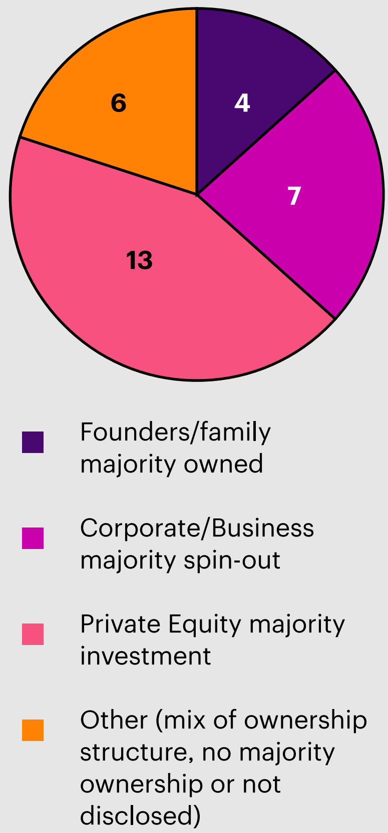
- 4 were majority owned by founding shareholders;
- 7 were spin-outs by majority corporate holdings;
- 13 were majority owned by private equity investors; and
- 6 had a mix of ownership with no single majority holding.

In terms of incentivising executive directors on IPO, in our review of listing prospectuses, we observed legacy, contingent awards and "plug the gap" incentive awards.

We define:

- legacy incentives as those which were granted prior to, but vested and paid-out after, IPO and were not contingent on IPO;
- contingent awards are incentives which were granted prior to IPO but where vesting/payout was contingent on IPO; and
- "plug the gap" incentives as those that bridged the gap between pre-IPO, legacy plans and post-IPO, future-state remuneration arrangements.

A range of ownership structures



In our sample,

- One-third of companies disclosed details of legacy incentives;
- One third of companies disclosed details of contingent awards; and
- Nearly half of companies disclosed details of one-off or “plug the gap” incentives to one or more Executive Directors.

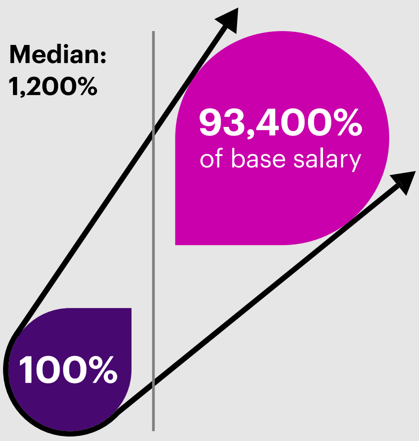
Of those companies that disclosed details of one-off awards to Executive Directors, 64% (i.e., 30% of the full sample) made awards to CEOs. Award levels varied significantly with the median at 1,200% of base salary and performance shares as the most common vehicle. This marks a change of practice from WTW’s previous IPO Executive Compensation study in 2017, where median awards levels were 315% of salary and restricted stock the most common vehicle for awards.

Typical vesting periods remained at 3 years, for both the 2017 and current study, with the majority of awards in the current sample being subject to phased vesting rather than cliff-edge vesting.

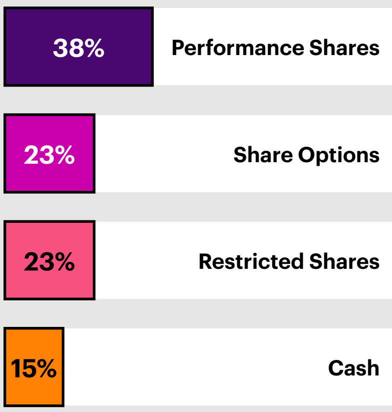
Where performance conditions applied to one-off awards, we observed a range of both internal financial metrics and external market measures. The business rationale for the one-off awards was predominantly focussed on ongoing retention and recognition for past service.

30% of companies made one-off awards to CEOs on IPO

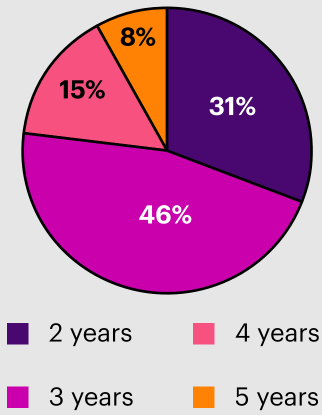
Award quantum (% of base)
Award levels ranged significantly, with the median at 1,200% of base salary



Award vehicle
Performance shares were the most common vehicle for a one-off award, followed by restricted shares/share options



Vesting schedule
Vesting schedule was typically 3 years. The majority of one-off awards were subject to phased vesting (over 60%), with the rest cliff-based.



What were the awards subject to?...	and why were they awarded?...
Continued employment/ time-based (**3 plans**)	“Ensure retention ... and to compensate for restructuring costs”
Conditional on Admission and employment/time-based (**3 plans**)	“Recognition of services ... and to ensure ongoing incentivisation”
Revenue, profit or other internal financial metrics (**5 plans**)	“Recognition ... and transition to post-IPO remuneration arrangements”
Market measures, e.g., TSR or share price growth from date of admission (**4 plans**)	“Ongoing retention and ... maximising shareholder value”

Where one-off awards were granted, a negative voting outcome didn’t necessarily follow at the first AGM following admission. Where proxy agencies made note of the presence of a one-off award, they flagged awards of “significant” size and those that were not subject to performance conditions but only subject to continued employment. Where an ISS vote against recommendation was received, this was likely to be in conjunction with other remuneration policy factors e.g., a lack of post-cessation shareholding requirements.

External perspective: a one-off award did not automatically result in a negative voting outcome

Company (date of policy)	**Award as a % of base salary**	**One-off award cited by ISS**	**ISS recommendation**	**Shareholder policy vote**
Watches of Switzerland Group (2019)	1,200%	✓	FOR	100%
Airtel Africa (2020)	100%	✓	AGAINST	93.5%
Endeavour Mining (2022)	625%	✓	FOR	90.5%

Equally the size of a one-off award did not correlate with negative voting outcomes: with Moonpig Group (2020) granting an award of 1,435% of base salary and receiving a 99.4% shareholder policy vote.

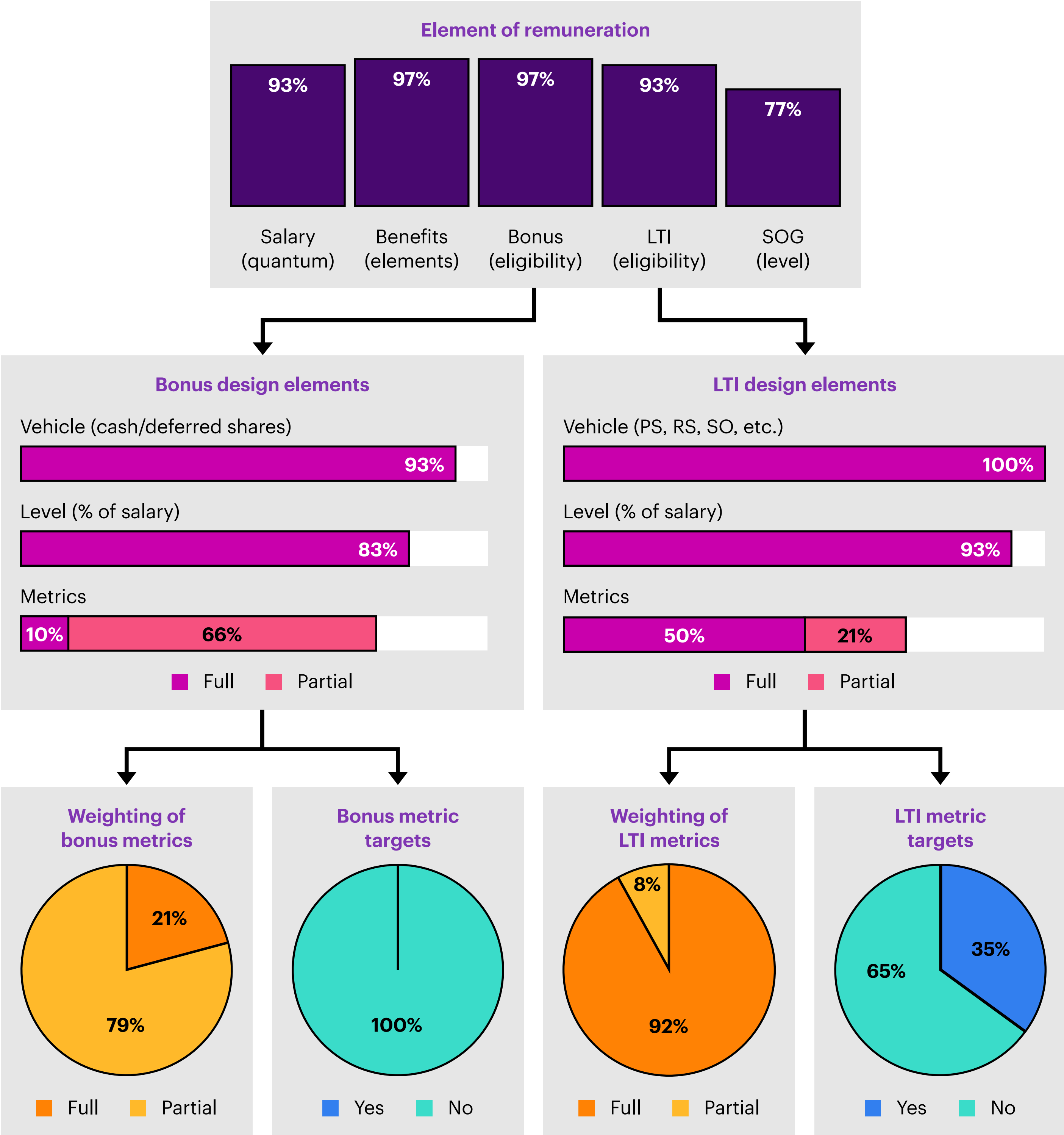
Looking beyond IPO related awards, on-going, post-IPO, remuneration disclosure was fairly comprehensively included in prospectus disclosures, with details across all elements of remuneration and incentive design.

We observed high levels of disclosure (90% plus) for both quantum of salary and elements of benefits as well as bonus and long term incentive eligibility. Executive Director share ownership guidelines (SOG) were less comprehensively disclosed with only 77% of our sample disclosing levels in their forward looking remuneration disclosures.

Of those companies that included bonus disclosures, we also observed comprehensive detail (80% plus) on bonus design elements across award vehicle and levels as a percentage of salary. As expected, annual bonus metric disclosure was more limited with only 10% providing full disclosure and 66% partial disclosure. Of those companies in our sample that made bonus metric disclosures, 21% disclosed the weighting for their bonus metrics in full and 79% provided only partial disclosure. As expected, no companies disclosed bonus metric targets.

Looking at long term incentives, again we observed high levels of disclosure (90% plus) on LTI design elements with 100% of those companies in our sample that made LTI disclosures providing detail of award vehicle/plan type and 93% providing levels as a percentage of salary. Again, there was a lower level of disclosure for LTI metrics with 50% disclosing metrics in full and a further 21% providing partial disclosure. Of those companies in our sample that made LTI metric disclosures, 92% provided full details of the metric weightings and 35% disclosed metric targets.

How much forward-looking ED remuneration is disclosed?

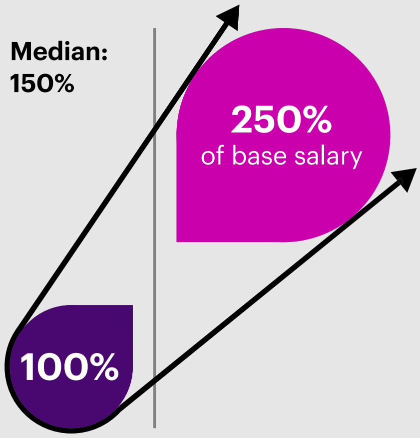


We also reviewed ongoing variable pay arrangements – practice and design. Companies in our sample tended to be fairly conservative in their ongoing incentive design post-IPO with practice in line with FTSE norms. We observed annual bonus award quantum at the median to be in line with that of the FTSE 250. Where annual bonus details were disclosed, 79% of executives' bonuses were subject to compulsory deferral with the most common deferral period being 3 years, in line with FTSE 250 norms. At 33.3%, the percentage deferred was slightly lower than the median deferral of 40% for the FTSE 250. Although bonus metric disclosure was limited, where information was provided it was predominantly limited to financial metrics and most commonly profit-based.

What do annual bonus plans typically look like upon listing?

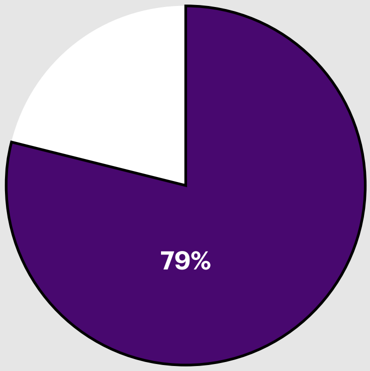
Award quantum (% of base)

The median normal maximum bonus level is in line with that of the FTSE 250.



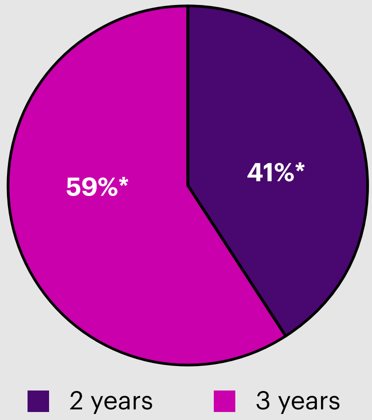
Bonus deferral

Over three-quarters of executives' bonuses are subject to compulsory deferral.



Deferral period

The deferral period is most commonly 3 years, in line with both the FTSE 100 and FTSE 250.



Proportion deferred

33.3% is both the median and mode proportion deferred; this is in line with the FTSE 100 and FTSE 250 modes, albeit lower than their medians (50% and 40% respectively).

Performance metrics

Profit/income

24%

Revenue

10%

Other

10%

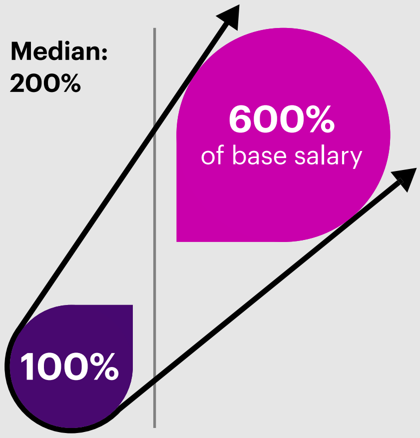
Disclosure of forward-looking performance measurement is very limited, with nearly two-thirds of companies not disclosing any specific metrics. Where some/all metrics are disclosed, these are typically financial and most commonly profit-based.

* Percentage of cases disclosed

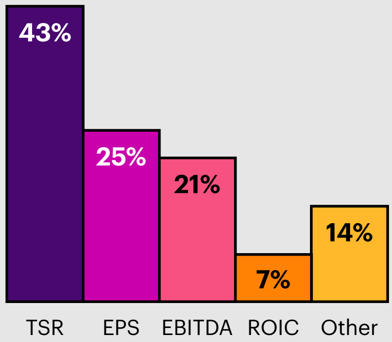
Turning to LTI plan disclosure, we observed performance share plans as the most common arrangements for executives, with 89% of companies in our sample which disclosed details of the LTI plans post listing introducing these types of arrangements. We also observed that, where disclosed, nearly all companies introduced a 2 year holding period post vesting. Disclosures in relation to award levels and performance metrics again tracked FTSE norms with median award levels at 200%, in line with that of the FTSE 250, and Total Shareholder Return (TSR) being the most prevalent performance measure disclosed.

What do long-term incentive plans typically look like upon listing?

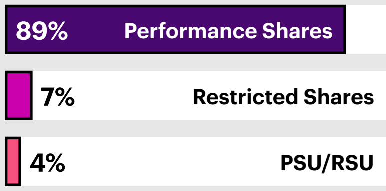
Award quantum (% of base)
The median normal maximum LTIP award level is in line with that of the FTSE 250.



Performance metrics
TSR[1] is the most prevalent individual measure, although it would be overtaken by Profit/Income measures if EPS and EBITDA were combined.



Incentive vehicle
Performance shares are most commonly used as a vehicle for LTIPs.



Holding Period
96% of companies* have a 2-year holding period.

[1] Relative TSR measures commonly refer to company-relevant indices (e.g., FTSE 250, FTSE 350 or FTSE SmallCap) typically excluding investment trusts; only 1 company referenced a bespoke peer group
* Where disclosed

Final Thoughts

As the IPO market picks up in 2023 and 2024, we can expect to see increasing numbers of companies joining the UK Main Market. We anticipate that, while ongoing variable pay design practices remain consistent with FTSE norms, we will continue to see valuable legacy, contingent awards and "plug the gap" incentive awards in the hands of executive directors, particularly where there has been pent-up IPO demand waiting for a more stable IPO market window.

Companies in our sample: FTSE main market listing IPOs 2019-2022

Airtel Africa plc
Alphawave IP Group plc*
Auction Technology Group plc
Baltic Classifieds Group PLC
Bridgepoint Group plc
Bytes Technology Group plc
Darktrace plc
Deliveroo Holdings plc*
Dr. Martens plc
DWF Group plc
Endeavour Mining plc
Helios Towers plc
Hostmore Group plc
Ithaca Energy plc
Made.com Group Plc
Moonpig Group plc
Network International Holdings Ltd.
Ninety One plc
Oxford Nanopore Technologies plc*
PensionBee Group plc**
Pod Point Group Holdings plc
ProCook Group Limited
Seraphine Group plc
Stelrad Group PLC
THG Holdings plc*
Trainline plc
Trustpilot Group plc
W.A.G payment solutions plc
Watches of Switzerland Group PLC
Wise plc*

* Standard listing
** High growth listing

Further information

For more information on our clients-first approach to executive compensation consulting, visit wtwco.com or contact your local WTW consultant. Our Executive Compensation and Board Advisory practice have extensive experience of advising Remuneration Committees ranging from large FTSE 100 multinationals to smaller, but equally fascinating, FTSE Small Cap clients. We would be delighted to hear from you.

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