

# EXECUTIVE SUMMARY 



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## AN EVER-INCREASING FOCUS ON DIRECTORS' PAY

In our first AIM Directors' Remuneration Report we analysed the 2015/16 remuneration of directors of 460 companies on the AIM Market. This identified some fascinating findings around the relative pay of executive and non-executive directors across different industry sectors and companies of different sizes. So 12 months later we selected 238 companies from the population we looked at last year to see if there had been any changes.
Perhaps surprisingly, certain generally held views about remuneration were confirmed in our January 2017 report:

- The average CEO earned a median salary package of $£ 241 \mathrm{k}$ (the mean salary is $£ 311 \mathrm{k}$ )
- The average CFO earned $70 \%$ of the CEO package
- The average NED earned $£ 33 \mathrm{k}$.

We introduced our inaugural report with the question "has the subject of directors' pay ever been more topical than it is today?" It was certainly in the spotlight then and it has remained firmly in the cross-hairs of both the Government and investors

## IN THE GOVERNMENT'S CROSS-HAIRS

In August 2017, the Government announced a package of corporate governance reforms intended to enhance the transparency of big business to shareholders, employees and the public. The Government's response to the green paper consultation undertaken at the end of 2016 was to propose a range of legislative and business-led measures intended to improve corporate governance. The new proposed legislation is wide ranging, but some key aspects include:

- New laws will force all listed companies to reveal the pay ratio between bosses and workers
- All listed companies with significant shareholder opposition to executive pay packages will have their names published on a new public register
- New measures will seek to ensure the employee voice is heard in the boardroom
- The Financial Reporting Council (FRC) responded with proposed revisions to the UK Corporate Governance Code published in December 2017.


## IN THE INVESTORS' FIRING LINE

There have been many well-documented shareholder revolts over executive pay during 2017. Crest Nicholson, one of the largest housebuilders in Britain, was reported as being the first major UK company to have its shareholders vote against executive remuneration because of concerns that the performance targets were too easy. More than 58\% of votes cast by shareholders at Crest Nicholson's annual meeting in March 2017 were against the pay deal.

In April 2017, AstraZeneca suffered another shareholder revolt over executive pay, with two-fifths opposing a $£ 13 \mathrm{~m}$ package for its chief executive. The housebuilding firm Persimmon also suffered a near 10\% protest vote over executive pay. The retail sector was not immune either after a third of Burberry's shareholders failed to back the luxury brand's remuneration report in a protest over high pay in July 2017.

## BOARD PAY STILL OUTSTRIPS THAT OF STAFF

The huge disparity in relative earnings of the board to staff seems to be showing no sign of going away. The ratio of the average FTSE100 CEO pay to the average pay of full-time employees in the UK more than doubled from 47:1 in 1998 to 128:1 by 2015 .

We believe that this trend will continue as CEO earnings continue to rise faster than inflation, whereas earnings for the their employees will lag behind inflation. The Office for National Statistics revealed the Consumer Prices Index 12-month rate for November 2017 had reached 3.1\% though the consensus is that inflation will fall back towards the 2\% target in 2018. Pay levels between executives varied significantly and as a result, our expectations and assumptions were based on the median and not the mean numbers.

## THE 2018 REPORT HIGHLIGHTS

- The median CEO remuneration for 2016/17 was $£ 248$ k, showing an inflationary $2.9 \%$ rise from a year before when they earned $£ 241 \mathrm{k}$. This compares to the average annual UK salary growth of $2.2 \%$ at the third quarter of 2017.
- The median CFO remuneration increased by $25 \%$ to $£ 217 \mathrm{k}$, representing $88 \%$ of the CEO package compared to $70 \%$ the previous year - a significant increase.
- The average NED continued to earn £33k, almost exactly the same as the year before.

The results are interesting in that while CEO pay has been relatively flat, we did see a change in composition with a higher proportion of bonus and other remuneration elements. However, we also saw a significant increase in CFO pay, both relative to their CEOs and in absolute terms. The median total remuneration of CEOs rose in all but five industry sectors, two of which were the least populous sectors. While there were some significant movements across sectors we found that this was consistent with CFOs, where median total remuneration rose in all but three industry sectors.

## CEO REMUNERATION

We expect CEO pay to continue to act as the starting point for setting the pay of other listed company board members. However we would not expect this to be extended to the general staff population.


Unlike the senior market, AIM's entrepreneurial constituents may show a greater level of short term pay volatility that masks broader trends. This is due in part to the diversity of industry sectors on AIM along with maturity, strategic objectives and size of the constituents. For example, there were three companies in our sample with market capitalisation of more than $£ 1$ bn but four under $£ 1 \mathrm{~m}$.

As in our January 2017 report, the total remuneration for CEOs of the AIM constituents we reviewed varied widely. However, the median average total remuneration for the CEOs was $£ 248 \mathrm{k}$ (Jan 2017: $£ 241 \mathrm{k}$ ), an increase of less than $3 \%$ and in line with inflation reported by the Office of National Statistics in November 2017.

The mean total remuneration however did increase to $£ 375$ (Jan 2017: $£ 311 \mathrm{k}$ ), though this was skewed by some large one-off payments in the year. More reflective of the market remuneration for CEOs was that their upper quartile was $£ 401 \mathrm{k}$ (Jan 2017: £382k) and the lower quartile was $£ 169 \mathrm{k}$ (Jan 2017: $£ 164 \mathrm{k}$ ). All of these statistics show that there was relatively little movement in CEO pay for the AIM market in the year.

## INDUSTRY SECTOR VARIATIONS - RETAIL OUT ON ITS OWN

Our analysis shows clear and significant differences in remuneration levels between industry sectors. In our January 2017 report, retail sector CEOs enjoyed by far the largest average median remuneration of $£ 370$. This year retail remains the clear leader in CEO pay, with the median remuneration having risen to $£ 623$ k. We have analysed this further as such a significant rise in median total pay for the sector does look odd.

The retail sector bucks the general trend of broadly similar pay levels across sectors in the previous year and is due to a number of factors. AIM does have a number of large online retailers, such as Asos and boohoo.com which in many cases are outperforming their peers on the high street. While this macrolevel is a factor, a more in-depth analysis shows some interesting trends.

The population of 19 retail companies analysed this year means that the median is more readily skewed and there are two key aspects driving the rise:

- While the bonus sizes were comparable to the prior year, $65 \%$ of retail CEOs received a bonus this year as compared to $50 \%$ in the prior year.
- Some large payments in other remuneration this year were not present last year.

Looking deeper at the remuneration components shows interesting trends for remuneration committees.

- The rise in retail CEOs was not driven by basic salary, as the mean only rose by $7 \%$ from $£ 319 k$ to $£ 341 \mathrm{k}$.
- The rise is not driven by larger bonuses, which remain consistent when paid with the mean bonus for retail CEOs being £267k (Jan 2017: £265k). However proportionately more CEOs were paid a bonus, impacting the averages.
- Two CEOs were awarded significant other benefits related to deal-related payments granted at the time of the Naked Wines acquisition by Majestic Wine and the vesting of long term awards at Asos. The mean other benefits remained relatively low compared to their salary at $£ 72 \mathrm{k}$ (Jan 2017: $£ 34 \mathrm{k}$ ) though doubling from the prior year after excluding these two outlier awards.


## CEO REMUNERATION

While the question of the disparity in average total remuneration within roles may be answered in part at the sector level, the way in which the average total remuneration package is broken down also reveals some interesting trends. The majority of directors at all grades did not receive meaningful bonuses or other remuneration. Retail is the notable exception, so we have analysed the composition of remuneration using the mean.

Basic salary continues to constitute the greatest proportion at 60\% (Jan 2017: $68 \%$ ) of CEO average remuneration with the average bonus being 20\% (Jan 2017: $18 \%$ ) of the total package, pension being 3\% (Jan 2017: 4\%) and 'other' remuneration constituting 17\% (Jan 2017: 10\%). While this could be considered a shift in policy, our analysis suggests that this is actually due to two executives receiving one off payments in excess of $£ 2 \mathrm{~m}$ each.

Responding to the recent Carillion collapse, the head of corporate governance at the Institute of Directors was quoted as saying "the relaxation of clawback conditions for executive bonuses in 2016 appears in retrospect to be highly inappropriate. It does no good to the reputation of UK business

## CEO REMUNERATION COMPOSITION

 2016/17
when top managers appear to benefit in spite of the collapse of the organisations that they are responsible for". This followed a relaxation in 2016 in the criteria by which the company could claw back bonuses.

Linking director pay to long-term business strategy is important and we believe that long-term initiatives are important to ensure directors' interests are aligned with those of shareholders. However, care must be taken in setting and clearly explaining the basis for director pay, including listening to the views of investors. Transparency in this area is of paramount importance.

## CFO REMUNERATION

In our January 2017 report the total remuneration for CFOs was broadly $70 \%$ of the mean and median total remuneration averages for CEOs. Our most recent analysis showed a mean and median total remuneration of $£ 277$ k and $£ 217$ k (Jan 2017: $£ 216$ k and $£ 173$ k), an increase of over 20\% for either metric. As a result, the total remuneration for CFOs increased slightly in the period to $74 \%$ of the mean average of total CEO remuneration.

The upper quartile of $£ 340$ k (Jan 2017: $£ 278 \mathrm{k}$ ) and the lower quartile of $£ 148 \mathrm{k}$ (Jan 2017: $£ 115 k$ ) also increased, bucking the trend of relatively static CEO pay. As such, the median average, upper and lower quartiles for CFO remuneration amounted to $87 \%, 85 \%$ and $88 \%$ respectively (Jan 2017: 73\%, 75\% and 72\%) of their chief executives. This can be partly explained as $32 \%$ of the CFOs sampled had bonuses or other remuneration exceeding $£ 100 k$, a third of which had bonuses of at least the equivalent of their basic salary.

## CEO REMUNERATION COMPOSITION 2015/16



In fact, we found that bonuses still remain the exception across AIM companies with 56\% (Jan 2017: 60\%) of CEOs reported as receiving no bonuses at all. Conversely, the largest bonus was still around four times the basic salary. Similar to the January 2017 report, we found that when bonuses were paid, the median payout was 48\% (Jan 2017: $46 \%$ ) of basic salary with only a handful of CEOs receiving bonuses packages in excess of $150 \%$ of basic salary. Twelve CEOs received packages consisting of bonus plus other remuneration totalling over $150 \%$ of basic salary.

However, the most significant driver behind the rise in total remuneration for CFOs was basic salary. The median basic salary of our sample population was $£ 157 \mathrm{k}$ as compared to $£ 134 \mathrm{k}$ in the prior year. While the CEO's median basic salary rose to $£ 199 \mathrm{k}$ from $£ 184 k$, changes in the other elements of their remuneration resulted in an overall static total median remuneration.

Finally, while two CFOs in our sample had a total remuneration package of more than $£ 1 \mathrm{~m}, 45 \%$ of CFOs did not receive a short term bonus.

## CFO REMUNERATION

The CFOs of AIM listed companies have generally fared better in the last year than the CEOs in terms of total remuneration.


INDUSTRY SECTOR VARIATIONS
Retail CFOs had the highest median total remuneration at $£ 373$ k, an increase of £139k over the prior year though only 60\% of the median for retail CEOs. At $£ 257 \mathrm{k}$, technology and media sector CFOs enjoyed the next highest pay, which was also higher than their CEOs who earned $£ 208 \mathrm{k}$.

## RETAIL - STILL OUT ON ITS OWN, BUT HOW DOES THE CFO PAY COMPARE TO THEIR CEOS?

The retail CFO pay movements since the prior year very much mirrored their CEO counterparts with a significant rise in the total median pay.

- The mean salary for retail CFOs on a like-for-like basis grew to $£ 209 k$ (Jan 2017: $£ 194 \mathrm{k}$ ) showing a rise of $8 \%$ which is comparable to the retail CEOs.
- The CFOs of Majestic and Asos received significant other remuneration.

We found that 80\% of retail CFOs received a bonus in the current year, considerably higher than the $50 \%$ in the prior year. However when paid, the mean bonus of £127k (Jan 2017: £128k) remained in line with the prior year.

## TECHNOLOGY AND MEDIA - ARE CFOS PAID BETTER THAN THEIR CEOS?

At first glance this may seem odd, however not all AIM companies have a CFO on the board and therefore the two medians are not directly comparable. We found that on a like-for-like basis technology and media CFOs received $78 \%$ of their CEOs mean salary and were also paid lower bonuses on average. The below table analyses the pay in 2016/17 for technology and media for those in our sample with board level CFOs.
This disparity in the median total remuneration is due to the lower pay for those CEOs with no board CFO. The mean salary for CEOs when there was no CFO board member was only $£ 160$ k with a $£ 46 \mathrm{k}$ mean bonus when paid, dragging down the broader CEO population results for this sector.

CFO REMUNERATION COMPOSITION 2016/17


CFO REMUNERATION COMPOSITION 2015/16


| $\mathbf{2 0 1 6 / 1 7}$ | CEO | CFO | CFO Percentage of CEO |
| :--- | :--- | :--- | ---: |
| Mean Salary | 221 k | 172 k | $78 \%$ |
| Mean bonus, when paid | 217 k | 116 k | $53 \%$ |

## NON-EXECUTIVE DIRECTORS AND OTHER EXECUTIVE DIRECTORS REMUNERATION

The disparity between Non-Executive Director (NED) remuneration was, as expected, much narrower across the population. The median average total remuneration at $£ 33 k$, the upper quartile totalling $£ 47 \mathrm{k}$, and the lower quartile of $£ 22 k$ are all very much in line with the findings in our January 2017 report. So the age-old 'rule of thumb' for non-executive pay being $£ 30 \mathrm{k}$ continues to hold true.

Other executives commanded a mean average total remuneration of $£ 198 \mathrm{k}$ (Jan 2017: $£ 188 \mathrm{k}$ ), which constitutes $47 \%$ less than the average of $£ 375 \mathrm{k}$ for CEOs (Jan 2017: 38\%). The other executives' median average total remuneration was $£ 140 \mathrm{k}$ (Jan 2017: $£ 131 \mathrm{k}), 44 \%$ less than the $£ 248 \mathrm{k}$ median average for CEOs. These increases of $5 \%$ and $7 \%$ respectively are similar to the movement in CEO remuneration. The range of pay for other executive directors continued to vary greatly, reflecting the role requirements of an AIM board. As we noted in our report last year, pay for other executives varies significantly. As a result, due to the smaller population sample this year we have not reported on the individual sector figures.


METHODOLOGY

Using financial data from Bureau Van Dyke and last published Annual Reports we analysed the remuneration of directors of companies on the AIM Market as of 15 November 2017. We looked at 238 AIM listed companies across 11 industry sectors.

In determining averages, we have excluded the directors for which no remuneration was reported.

| Industry Sector | Number of Companies <br> $\mathbf{2 0 1 5 / 1 6}$ | Number of Companies <br> $\mathbf{2 0 1 6 / 1 7}$ |
| :--- | ---: | ---: |
| Financial Services | 49 | 20 |
| Healthcare | 20 | 14 |
| Leisure \& Hospitality | 23 | 18 |
| Manufacturing \& Industrial | 78 | 35 |
| Natural Resources | 71 | 40 |
| Primary Activities \& Utilities | 10 | 9 |
| Professional Services | 22 | 18 |
| Real Estate \& Construction | 21 | 15 |
| Retail | 28 | 19 |
| Support Services \& Transport | 24 | 14 |
| Technology \& Media | 114 | 36 |
| TOTAL | 460 | 238 |
| Total population of AIM listed | 999 | 958 |
| companies as at research date |  | $24.8 \%$ |
| Percentage of population analysed | $46.1 \%$ | 2 |

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