AIM DIRECTORS' REMUNERATION REPORT

BDO

AIM DIRECTORS' REMUNERATION REPORT

EXECUTIVE **SUMMARY**

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HAS THE SUBJECT OF DIRECTORS' PAY EVER BEEN MORE TOPICAL THAN IT IS TODAY?

While FTSE100 groups can benefit from the widespread availability of detailed benchmarking information on director remuneration levels, there is limited equivalent information accessible for the AIM market.

Director remuneration is complex, and where both macro-economic and company-specific factors will result in very different remuneration strategies across the market, in particular due to the dynamic and diverse nature of AIM. This report, along with BDO's knowledge gained from working with a significant number of AIM companies[1] can help AIM listed companies to understand general trends and benchmark where they sit compared to their peers based on size and industry sector.

Whilst we acknowledge that any benchmarking exercise can only provide a snapshot of the average remuneration levels of the market, it does provide a platform for a comparison of your business to other similar organisations. As a result, the averages used throughout this report reflect the median unless otherwise stated as the mean.

Certain generally held views about remuneration were confirmed to a surprising level of accuracy by the detailed findings of our research. For example:

- Assumption - the average CEO earns about £300k (the mean is actually £311k while the median is £241k)
- Assumption - the CFO will earn 75% of the CEO package (it is actually 70%)
- Assumption - NEDs earn about £30k (it is actually £33k).

However the sector and size of the company (measured by revenue, profit and market capitalisation) are very important determinants that significantly flex these generally held views. These averages therefore only create a benchmark rate for the role before taking into account specific company performance criteria.

We published our 'Board Review Report' early in 2016 and noted that increasing levels of public scrutiny is driving the need for greater director diversity and reduction in expected tenure in line with Corporate Governance Code recommendations. We expect to see similar increases in remuneration transparency, in particular on the breakdown of the variable elements of executive pay.

In 1998 the ratio of average FTSE100 CEO pay to the average pay of full-time employees in the UK was 47:1 but this ratio increased to 128:1 by 2015[2]. There is no similar analysis of AIM listed companies but we would expect them to have followed a similar trend. Of course this has generated considerable media coverage and fury from some shareholders, the Government and the general public.

Perhaps partially in response to this, The Department for Business, Energy & Industrial Strategy (BEIS) issued a green paper, consulting on measures to strengthen corporate governance, in December 2016.

Whatever the outcome of this green paper, there has been a trend of increasing investor activity at annual general meetings, in particular with questions being asked about director remuneration levels and strategy. This has been well publicised for large blue-chip companies but this trend has extended beyond the FTSE100 and into the AIM sector as well and we are sure that it will continue. Investors feel it is important that companies set and formalise director pay with a clear strategy incorporating both fixed and variable elements.

1. BDO audits 143 AIM listed companies as of December 2016 and has been the number one reporting accountant for IPOs on AIM every year since 2010.
2. BEIS green paper issued in December 2016

WHAT YOU SHOULD BE CONSIDERING

The FRC's Corporate Governance Code (the "Code") recommends that companies covered by the Code should establish a remuneration committee made up of at least three, or in the case of smaller companies two, independent Non-Executive Directors. Its role is to ensure that remuneration arrangements support the strategic aims of a business and has delegated authority to carry out this role for the main company board.

We expect the majority of remuneration committees and boards to give the green paper due consideration at forthcoming meetings and also to respond to it. In any event, we also believe that there will be a greater focus by shareholders on the company remuneration policies in the forthcoming reporting season and ensuring it rewards underlying performance.

This report shows there are often considerable differences in the remuneration earned by executive directors based on company performance and the sector they operate in. For example retail and financial services have the highest earning CEOs and interestingly, both these sectors provide some of the highest proportion of performance related bonuses. Similar patterns arise in the CFO role but Non-Executive Directors are far more consistent in their levels of pay across all sectors.

We hope you find this report a useful read and encourage you to discuss any remuneration or general board issues you may have with us.

CEO **REMUNERATION**

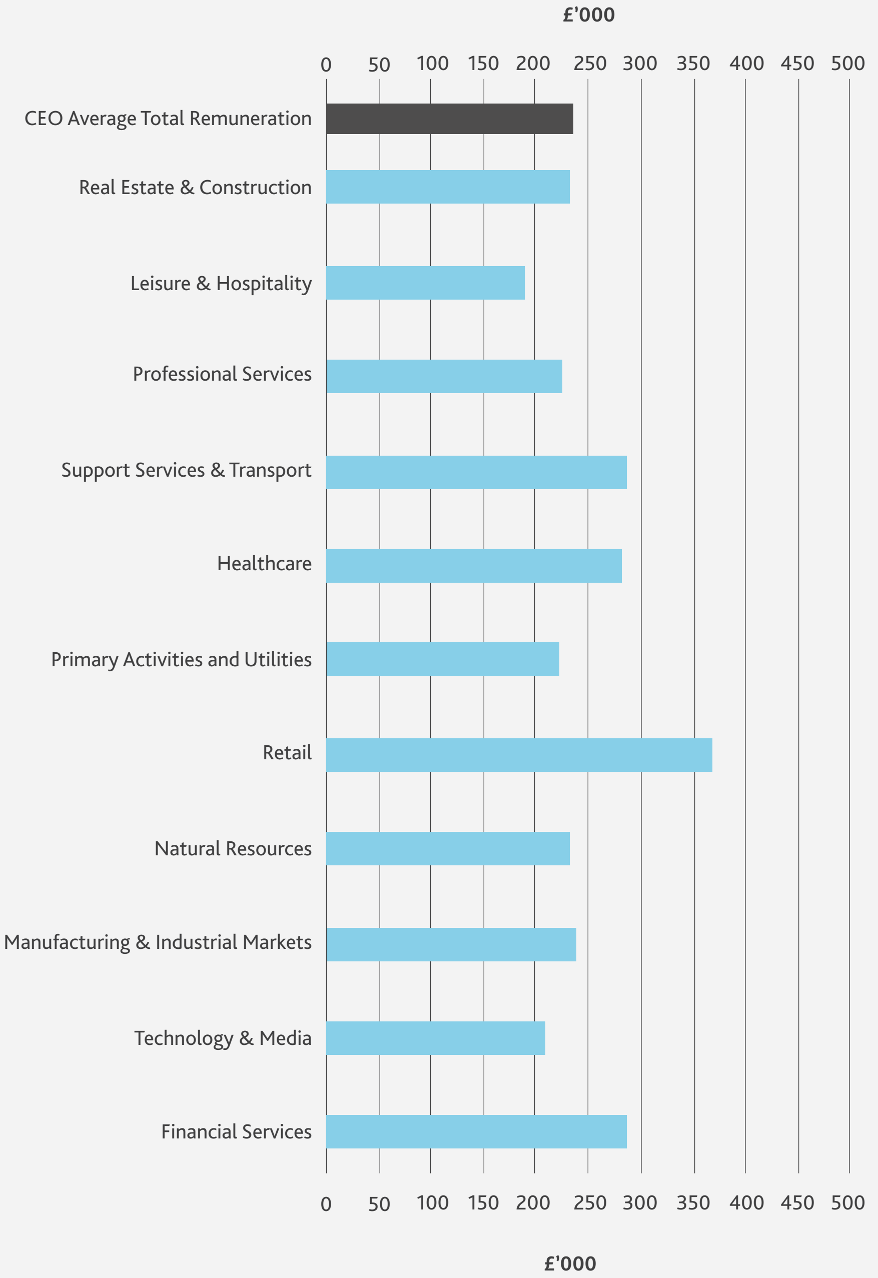
TOTAL REMUNERATION FOR CEOs

The debate around executive remuneration is essentially about CEO remuneration, with other board members effectively being priced off of this starting point. The model of remuneration for AIM constituents will generally be taken from the UK Corporate Governance Code. However, the diverse range of companies in terms of size, sector, strategic objectives and stage of growth, combined with the lighter regulatory environment that attracted many constituents to list on AIM in the first place, produces a dynamic environment where remuneration strategies widely differ.

Just as strategies for remuneration are diverse, so the total salaries for CEOs of those AIM constituents we have reviewed vary widely. In this sample of AIM constituents, the average total remuneration for CEOs was £311k, while the median average was £241k, a comparison that reveals a 23% disparity. Meanwhile the upper quartile was £382k compared to £164k for the lower quartile, a more pronounced disparity of 57%.

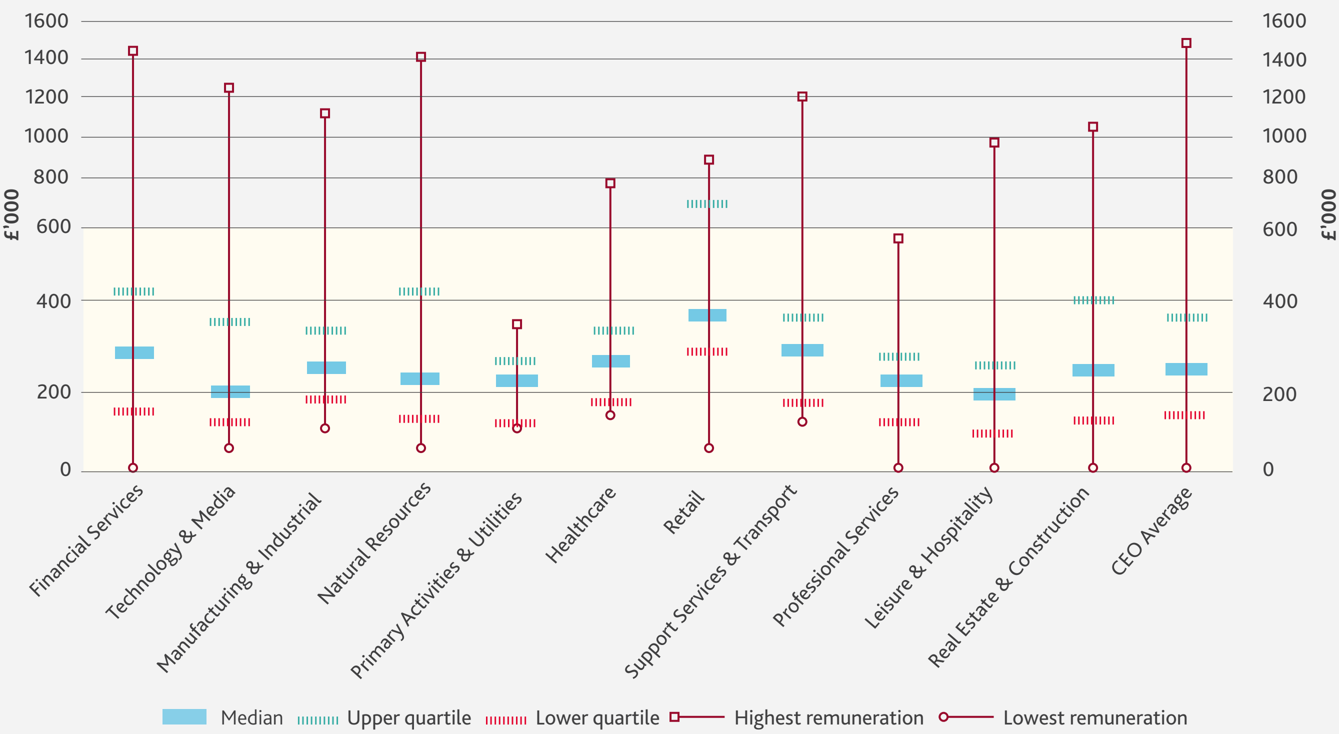
This analysis shows the significant impact of company specific factors when setting director pay while there is, as would be expected, greater consistency when CEO remuneration is analysed within the same industry sector. In most measures, retail and financial services top the list of the best paid executives on AIM.

CEO MEDIAN REMUNERATION BY INDUSTRY SECTOR



CEO **REMUNERATION**
CONTINUED

CEO REMUNERATION AVERAGES BY INDUSTRY SECTOR



ANALYSIS OF INDUSTRY SECTOR VARIATIONS

One factor that any scrutiny of remuneration should take into account is industry sector variations. The analysis of the sample of AIM constituents under review found significant differences in remuneration (and remuneration structure) between sectors.

Retail had the highest average mean CEO remuneration at £450k, followed by financial services (£362k), and natural resources (£326k). However, the lowest average CEO remuneration packages were for primary activities & utilities (£215k), leisure & hospitality (£222k) and professional services (£229k). The average total CEO remuneration package for these sectors was therefore only half that of the retail sector.

The top paying sectors in terms of the median average were retail (£370k), support services & transport (£279k) and financial services (£280k). The lowest paying sectors in terms of median average total remuneration were leisure & hospitality (£185k), technology & media (£207k) and primary activities & utilities (£223k). The median average for leisure & hospitality was 50% less than retail.

COMPARISONS WITH THE SIZE OF COMPANIES (REVENUE, PROFIT & MARKET CAPITALISATION)

Within sectors significant differences exist between the median remuneration levels for CEOs depending on the size of company. In terms of turnover, the average CEO salary for companies with a turnover over £100m were highest for retail (£804k), leisure & hospitality (£506k) and natural resources (£425k). For companies with a turnover between £20m and £100m, retail (£358k) and healthcare (£323k) topped the billing. Companies with a turnover below £20m that had the highest median director remuneration were in retail (£323k) and real estate & construction (£285k).

Companies with profit of more than £10m with the highest median CEO remuneration were real estate & construction (£677k), financial services (£595k) and manufacturing & industrial (£608k). For companies with a profit of between £5m and £10m the highest earners were from retail (£805k), financial services (£536k) and healthcare (£580k). Those companies with profit below £5m saw the highest median CEO remuneration levels

for retail (£301k), support services (£230k) and manufacturing & industrial markets (£230k).

The median CEO salary for companies with a market capitalisation of over £100m were highest for natural resources (£642k), financial services (£593k) and real estate & construction (£532k). For companies with market capitalisation of between £50m and £100m, retail (£507k), financial services (£363k) and technology & media (£330k) topped the billing. The highest median CEO remuneration for companies with a market capitalisation below £50m were from retail (£268k), manufacturing & industrials (£229k) and primary activities & utilities (£245k).

It is no real surprise that CEOs from larger and more profitable companies tend to earn the most, with retail and natural resources being particularly good at rewarding CEOs at successful businesses.

COMMENTARY ON EXCEPTIONS

Of course, outside of the averages some dramatic exceptions exist across the sample. For example, financial services, professional services, healthcare, leisure & hospitality, natural resources, technology & media, and manufacturing & industrial markets, all had instances of CEOs receiving more than £1m.

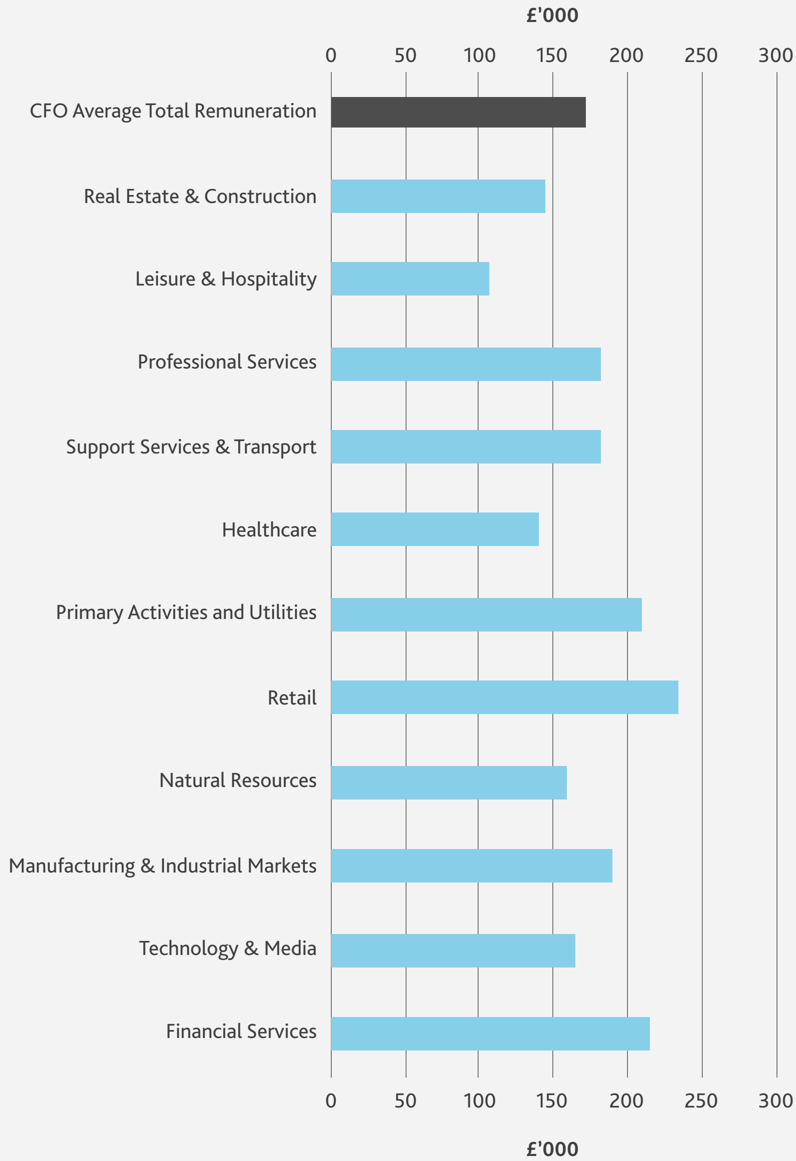
CFO **REMUNERATION**

TOTAL REMUNERATION FOR CFOs

In our sample of AIM constituents, the mean average total remuneration for CFOs was £216k, while the median average was £173k, a comparison that reveals a 20% disparity. Meanwhile the upper quartile was £278k, which compares to £115k for the lower quartile, a divergence of 59% and consistent with that seen for CEOs.

The total remuneration for the role of CFO is running at 70% of mean average of total CEO remuneration. This is also comparable to the median average and upper and lower quartiles for CFO remuneration as compared to their CEOs being 73%, 75% and 72% respectively.

CFO MEDIAN REMUNERATION BY INDUSTRY SECTOR



CFO **REMUNERATION**
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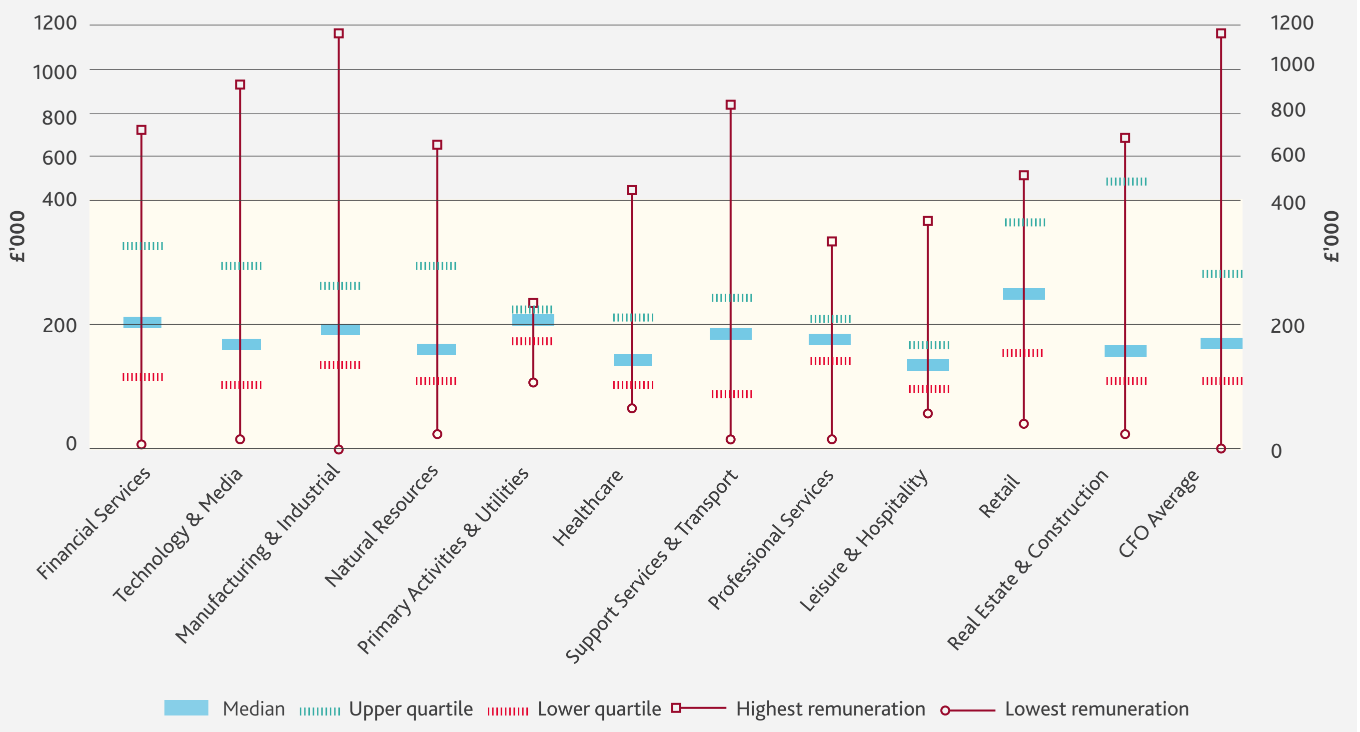
CFO REMUNERATION AVERAGES BY INDUSTRY SECTOR



ANALYSIS OF INDUSTRY SECTOR VARIATIONS

Just as for CEOs, the retail sector had the highest median remuneration level for CFOs at £234k. While CEOs saw the second and third highest industry sector average remuneration for financial services and support services & transport, for CFOs financial services held the second spot with £214k, and primary activities & utilities had the third highest average remuneration at £212k.

Median CFO remuneration packages were lowest for leisure & hospitality (£118k), healthcare (£143k) and real estate & construction (£148k), whereas for CEOs the lowest remuneration packages had been for leisure & hospitality, technology & media and primary activities & utilities. The average total CFO remuneration package in the highest paid sector was nearly double that of the least paid sectors, which is a very similar position to CEOs.

COMMENTARY ON INDUSTRY SECTOR VARIATIONS

Two drivers for sector variation for CFO remuneration are the evolving scope of the role and the skills required of CFOs by companies depending on the sector they operate in. For example, some sectors are prone to significant amounts of R&D, a fast pace of technological change, or are seeking to grow through a strategy of mergers and acquisitions - for these scenarios a CFO with transactional and strategic experience would require a different premium than a CFO for a more stable industry where financial expertise is the primary concern.

For CFOs, those sectors with the highest average remuneration levels were also those with the largest average bonuses. As in large part for CEOs, it is unsurprising that high risk / high return and heavily target driven industries (such as financial services, retail and real estate & construction) had the highest average salary level and the highest average bonus level.

Retail, the highest average remunerating sector for CFOs (in the sample under

review), is a case in point. The speed of change seen in this industry over the past ten years has brought about seismic shifts in strategies, including the rise of online purchasing as a result of a tech savvy consumer base. As retailers look to successfully navigate the divide between traditional in-store and non-store sales, the need for up-to-the minute financial, commercial and analytical data has increased.

As with CEOs, if government rumblings concerning closer scrutiny of executive pay come to fruition, then proper analysis of the primary drivers at a sector level will surely be needed to have an informed debate. However, we see shareholder activism having a much greater influence on changes to the allocation, level and reporting of executive pay between fixed and variable elements than the recently published green paper. If this is indeed the case, then companies (who have seen increasing levels of internal and external scrutiny over remuneration from investors in recent years) are likely to have to reconsider their policies and reporting around remuneration.

COMMENTARY ON EXCEPTIONS

Just as for CEOs, significant exceptions for CFOs exist across the sample. Here, for example, professional services markets had an instance of a CFO earning more than £1m, natural resources an instance of over £900k, and technology & media and retail an instance of over £700k. While these may be seen as exceptions, they do reflect the wide range of company sizes, industries and profitability on AIM.

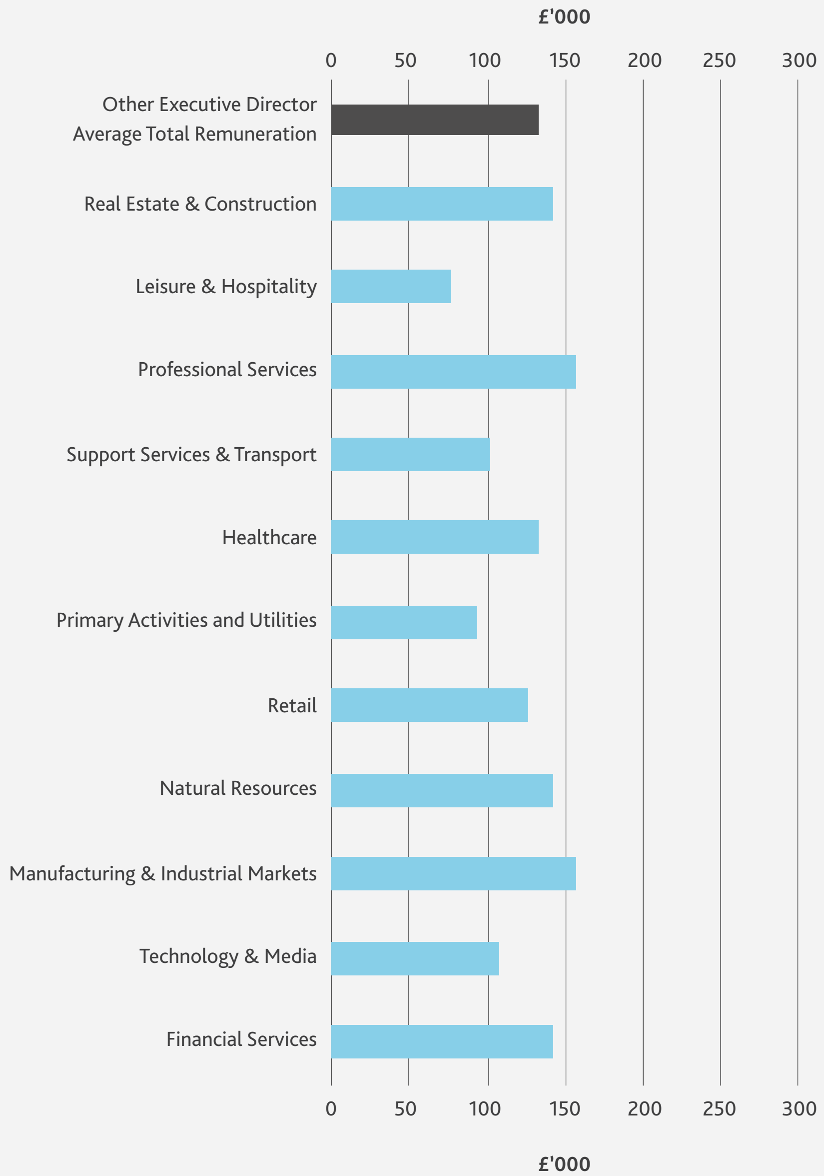
OTHER EXECUTIVE DIRECTOR **REMUNERATION**

The BDO Board Review Report 2016 shows that a typical AIM board comprises a CEO, CFO, two NEDs and a chairman. The average board size is 5.3 people including 2.2 executives and 3.1 NEDs, however in certain sectors it is common to have additional executive directors, in particular in technology, retail and financial services.

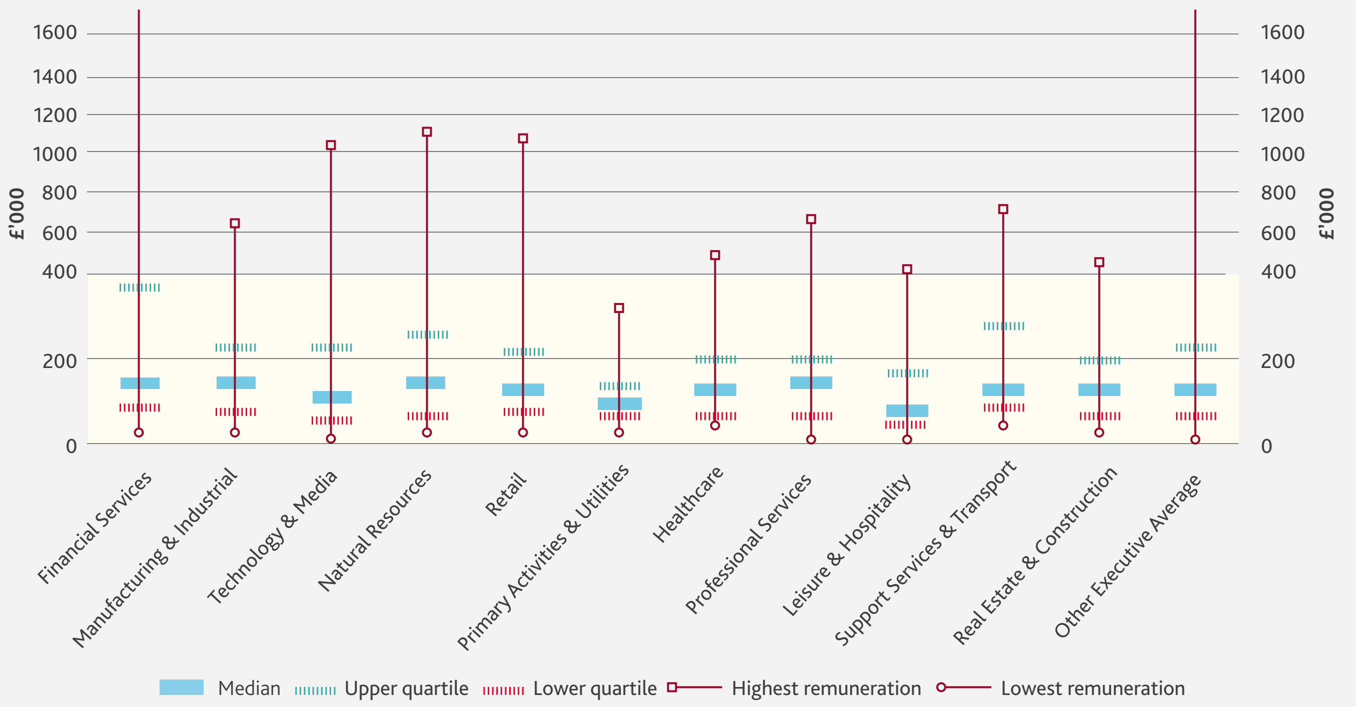
Other executives commanded mean average total remuneration of £188k, which constitutes 38% less than the average of £311k for CEOs. The other executives' median average was £131k, 46% less than the £241k median average for CEOs. Meanwhile the range of pay for other executive directors varied far more than for CEOs, reflecting the far-reaching role requirements of an AIM board.

On a sector basis, remuneration for other executive directors for each sector was within 20% of the median for the entire population with the exception of the leisure & hospitality sector which was markedly lower. However, there was greater variation seen in the core population than for CEOs as the lower quartile was only 28% of the upper quartile.

OTHER EXECUTIVE DIRECTOR MEDIAN REMUNERATION BY INDUSTRY SECTOR



OTHER EXECUTIVE DIRECTOR REMUNERATION AVERAGES BY INDUSTRY SECTOR



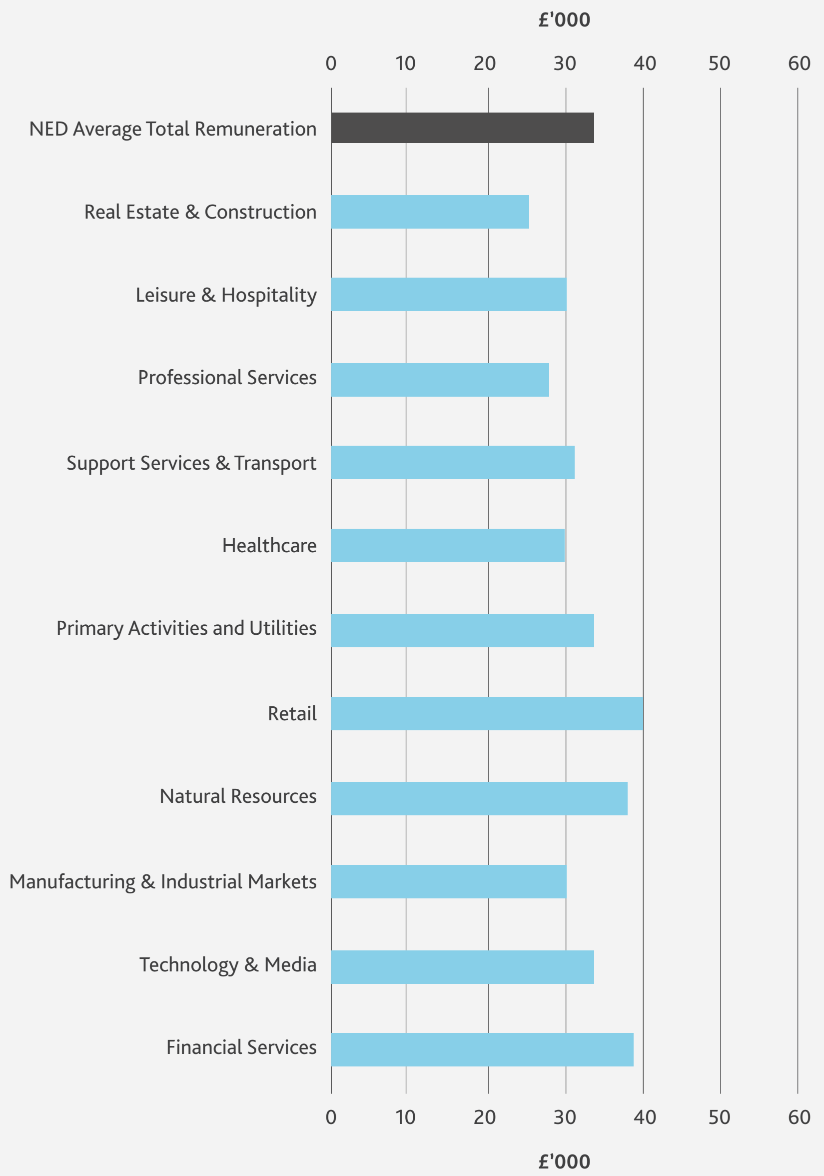
Top paying sectors for other executives in terms of the median average, were professional services (£155k) and manufacturing & industrial markets (£156k). At the lower end of the median remuneration by sector for other executives, were leisure & hospitality (£73k), primary activities & utilities (£91k) and support services & transport (£104k). The differential between the median average remuneration for professional services and leisure & hospitality was 52%.

NON-EXECUTIVE DIRECTOR **REMUNERATION**

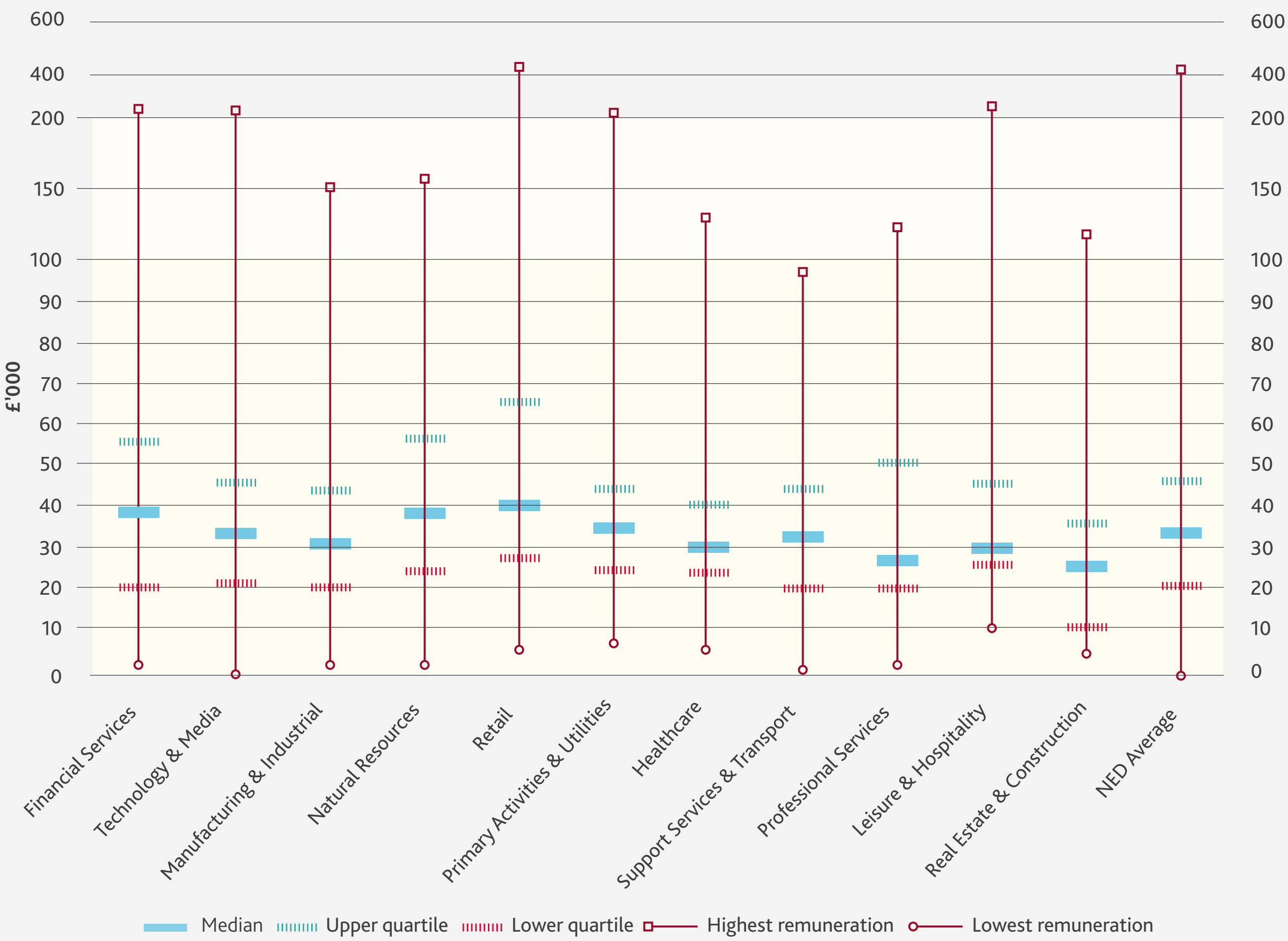
The disparity between Non-Executive Director (NED) remuneration was, as expected, much narrower across the population. The mean average total remuneration was £39k (skewed by some noticeable outliers), with the median average of £33k (close to the £30k 'rule of thumb' that has been used for many years), the upper quartile totalling £46k, and the lower quartile £20k.

However exceptions do exist for NEDs, with instances of some individuals receiving significantly higher total remuneration, although some, of what appear to be the very highest earners, have moved from an executive to non-executive director role during the year analysed. Industry sectors which consistently pay NEDs at the higher end of the scale are financial services, technology & media, manufacturing & industrial markets and natural resources. This is unsurprising as in most cases these are high risk, target or R&D driven sectors which require individuals with specific skills that will come at a premium. While such a wide range for NEDs would not be expected in blue-chip companies, the AIM market still sees founding shareholder influence through board representation and therefore the NED role is at times not as formally independent a role or as clearly defined as at the blue-chips.

NED MEDIAN REMUNERATION BY INDUSTRY SECTOR



NON-EXECUTIVE DIRECTOR REMUNERATION AVERAGES BY INDUSTRY SECTORS



THE COMPOSITION OF **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. We have analysed the composition of remuneration using the mean, as the majority of directors at all grades did not receive meaningful bonuses or other remuneration.

COMPOSITION OF CEO REMUNERATION

The average basic salary, perhaps unsurprisingly, constituted the greatest proportion at 68% of CEO average remuneration with the average bonus being 18% of the total package. Pension and 'other' remuneration constituted 4% and 10% of the average CEO packages respectively.

We found that bonuses were not the norm across AIM companies with 60% of CEOs reported as receiving no bonuses at all while the largest bonus was found to be nearly four times the basic salary. Where bonuses were paid, we found that the median payout was 46% of basic salary with fewer than ten CEOs receiving bonuses in excess of 150% of basic salary.

COMPOSITION OF CFO REMUNERATION

The average basic salary constituted the greatest proportion at 66% of CFO average remuneration with the average bonus being 18% of the total package. The average basic salary constituted the greatest proportion at 66% of CFO average remuneration with the average bonus being 18% of the total package. This reflects a similar focus on the bonus than for CEOs. Pensions accounted for 4% of the CFOs remuneration, again consistent with that of the CEOs.

Similar to the CEO, 56% of CFOs did not receive a bonus while the largest bonus was also four times the basic salary. Where bonuses were paid, we found that the median payout was 39% of the CFO's basic salary which is marginally lower than the CEO, reflecting the greater responsibilities associated with the CEO role. Similarly, fewer than ten CFOs received bonuses representing more than 150% of their basic salary.

COMPOSITION OF OTHER DIRECTOR REMUNERATION

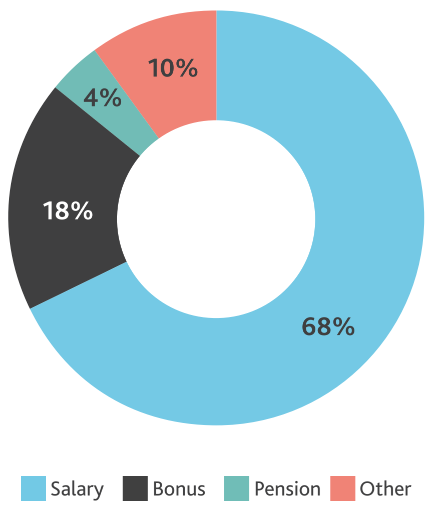
Other directors received 69% of their total remuneration through basic salary reflecting the lower relative bonus levels within the other executive package of 17% as compared to their CEOs. Other components of other executive pay were found to be in line with the CFO package.

As would be expected, other executives were less likely to receive a bonus than both their CEO and CFO with only 26% of our sample reported as receiving a bonus. There were fewer than five such executives receiving bonuses in excess of 150% of their basic salary though some were paid over five times the basic salary.

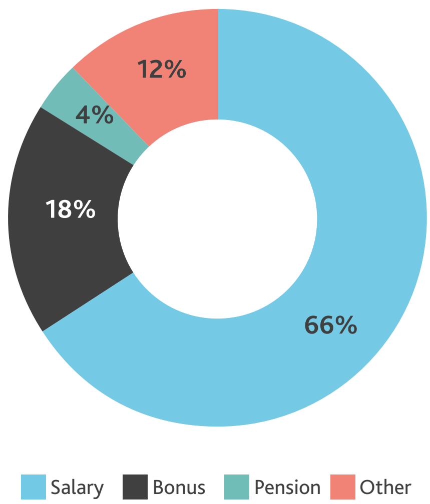
Where bonuses were paid, we found that the median payout was 33% of basic salary which is below the level seen by both the CEO and CFO.

Less than 1% of Non-Executive Directors

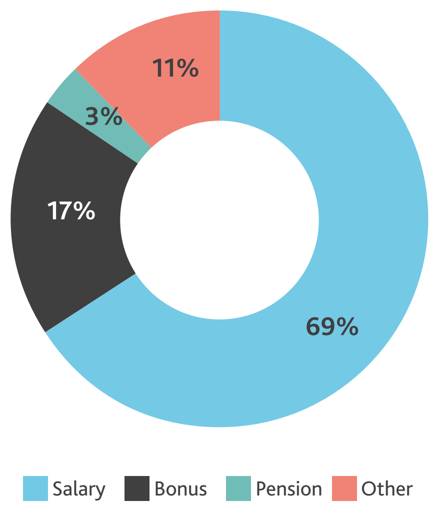
CEO REMUNERATION COMPOSITION



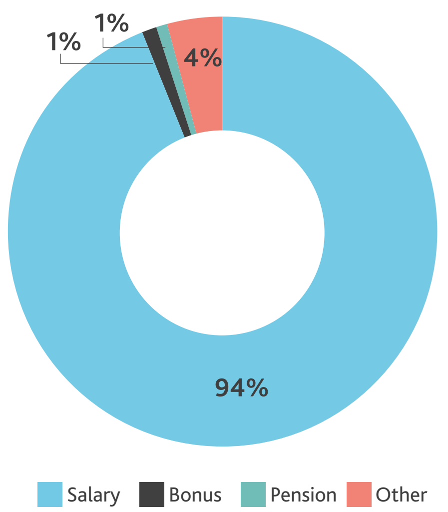
CFO REMUNERATION COMPOSITION



OTHER DIRECTOR REMUNERATION COMPOSITION



NON EXECUTIVE DIRECTOR REMUNERATION COMPOSITION



received any bonus and 94% of remuneration was basic salary as would be expected.

FUTURE CHANGES TO COMPOSITION OF REMUNERATION

The recent green paper setting out the Government's determination to "build an economy that works for everyone, not just the privileged few", cited a desire to restore public confidence in the corporate community. The report said that "the behaviour of a limited few" had "damaged the reputation of the many", and as such the green paper was focused in part "on ensuring that executive pay is properly aligned to long term performance". While we acknowledge this green paper, we firmly believe that shareholder activism will have greater influence on remuneration committees and what constitutes a fair reward for the performance.

As the 'other' portion of total average remuneration accounts for only 10% of the total CEO pay, the question is whether the Government will try and increase the level of share based, or longer term incentive remuneration, to more intricately tie reward for CEOs into company performance. Currently, institutional shareholders require companies to set the most appropriate remuneration policy for the company and then explain the rationale. However, there are rumblings that the Government may look at the option of further increasing shareholder influence over executive pay. Any such measures will likely have more immediate and far reaching impact for fully listed companies, but as ever, the trickle-down effect will mean that AIM companies will surely follow best practice.

OVERALL BOARD REMUNERATION **COSTS**

The median total board remuneration cost across all industry sectors is £643k with significant differences based on the profitability of the company.

Companies with an annual profit of over £10m have a total average board cost of £1410k whereas those with a profit of £5m to £10m have a total average board cost of £764k and companies with a profit of less than £5m have a cost of £533k.

Again there is significant variation across industry sectors with retail (£997k) and healthcare (£805k) having the most expensive boards whereas real estate & construction (£507k) and leisure & hospitality (£518k) have the least expensive.

	Company Profit			
Industry Sector	>£10m	£5m-£10m	<£5m	Average
Financial Services	£1680k	£640k	£544k	£799k
Healthcare	£1277k	£939k	£738k	£805k
Leisure & Hospitality	-	£554k	£518k	£518k
Manufacturing & Industrial Markets	£1892k	£752k	£606k	£684k
Natural Resources	£1284k	£777k	£539k	£617k
Primary Activities & Utilities	-	£633k	£549k	£591k
Professional Services	£1206k	£684k	£592k	£661k
Real Estate & Construction	£1819k	£542k	£277k	£507k
Retail	£1176k	£1659k	£408k	£997k
Support Services & Transport	£1708k	£619k	£545k	£619k
Technology & Media	£1445k	£829k	£464k	£624K
AVERAGE ALL SECTORS	£1410k	£764k	£533k	£643K

There are many similar trends when we look at the total average board cost based on the revenue level of the company.

However the differences between revenue bands and board costs are less pronounced than when looking at different profit bands. This would indicate that boards are being rewarded for profitability rather than revenue which is surely a good thing.

Company Revenue				
Industry Sector	>£100m	£50m-£100m	<£5m	Average
Financial Services	£865k	£721k	£660k	£799k
Healthcare	£534k	£898k	£799k	£805k
Leisure & Hospitality	£496k	£569k	£502k	£518k
Manufacturing & Industrial Markets	£618k	£802k	£672k	£684k
Natural Resources	£670k	£532k	£688k	£617k
Primary Activities & Utilities	£329k	£591k	£731k	£591k
Professional Services	£996k	£689k	£592k	£661k
Real Estate & Construction	£277k	£483k	£559k	£507k
Retail	£1473k	£864k	£717k	£997k
Support Services & Transport	£493k	£851k	£619k	£619k
Technology & Media	£523k	£643k	£561k	£624k
AVERAGE ALL SECTORS	£606k	£656k	£629k	£643k

Market Capitalisation				
Industry Sector	>£100m	£50-100m	<£50m	Average
Financial Services	£1680k	£1192k	£393k	£799k
Healthcare	£1277k	£659k	£615k	£805k
Leisure & Hospitality	£320k	£681k	£446k	£518k
Manufacturing & Industrial Markets	£1377k	£710k	£490k	£684k
Natural Resources	£1240k	£1136k	£473k	£617k
Primary Activities & Utilities	£329k	£633k	£731k	£591k
Professional Services	£1206k	£700k	£604k	£661k
Real Estate & Construction	£1784k	£542k	£336k	£507k
Retail	£1291k	£1353k	£408k	£997k
Support Services & Transport	£1366k	£742k	£569k	£619k
Technology & Media	£1428k	£811k	£391k	£624k
AVERAGE ALL SECTORS	£1330k	£796k	£458k	£643k

METHODOLOGY

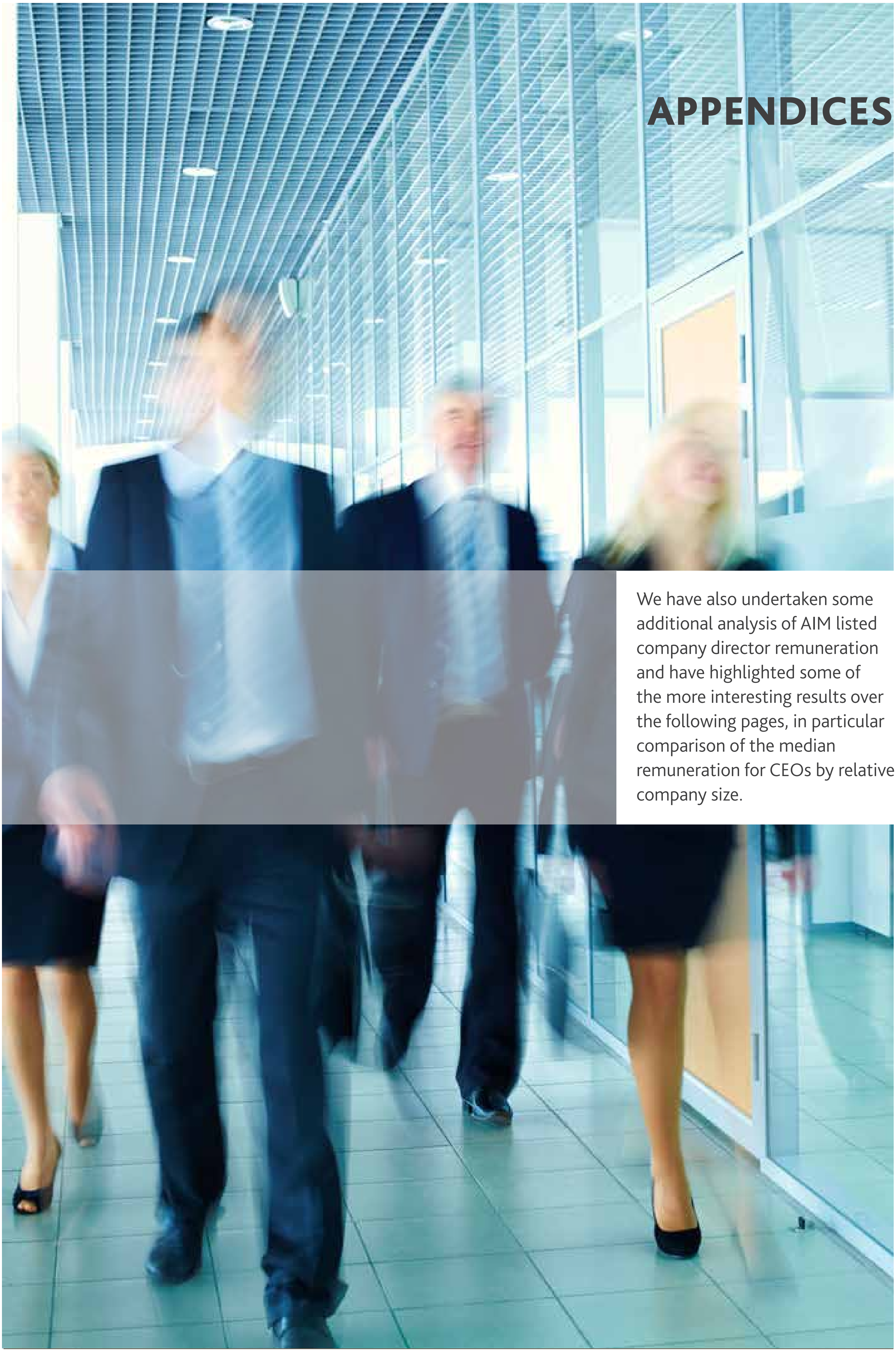
Using financial data from Bureau Van Dyke and last published Annual Reports we analysed the remuneration of directors of companies on the AIM Market as of 28 October 2016. We looked at 460 AIM listed companies across 11 industry sectors.

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

Industry Sector	Number of Companies
Financial Services	49
Healthcare	20
Leisure & Hospitality	23
Manufacturing & Industrial	78
Natural Resources	71
Primary Activities & Utilities	10
Professional Services	22
Real Estate & Construction	21
Retail	28
Support Services & Transport	24
Technology & Media	114
TOTAL	460

Total population of AIM listed companies as of 28 October 2016	999
Percentage of population analysed	46.1%

APPENDICES



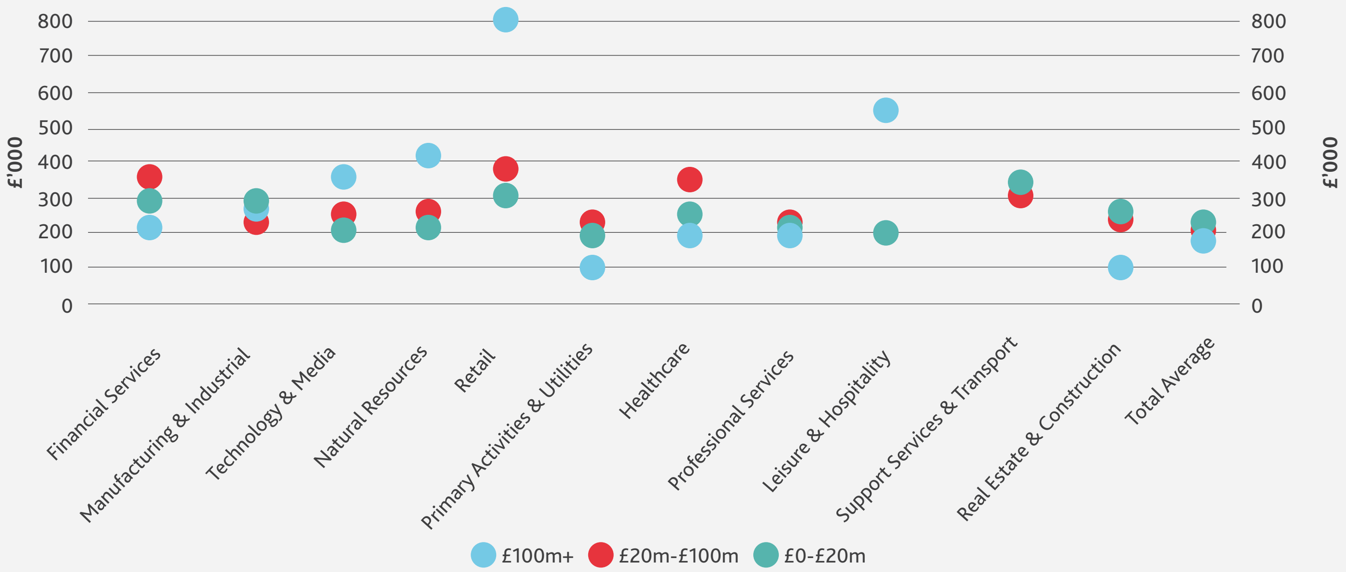
We have also undertaken some additional analysis of AIM listed company director remuneration and have highlighted some of the more interesting results over the following pages, in particular comparison of the median remuneration for CEOs by relative company size.

APPENDIX

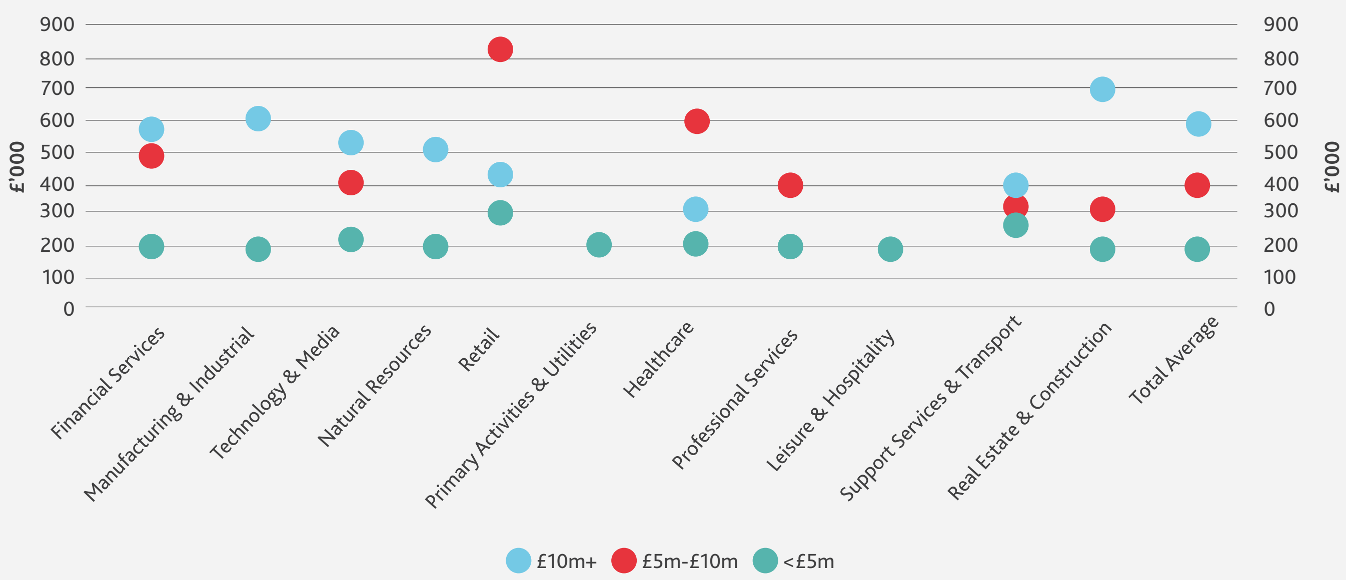
CEO REMUNERATION BY COMPANY SIZE

CEO REMUNERATION BY SIZE - MARKET CAPITALISATION

CEO REMUNERATION BY SIZE - REVENUE



CEO REMUNERATION BY SIZE - PROFIT

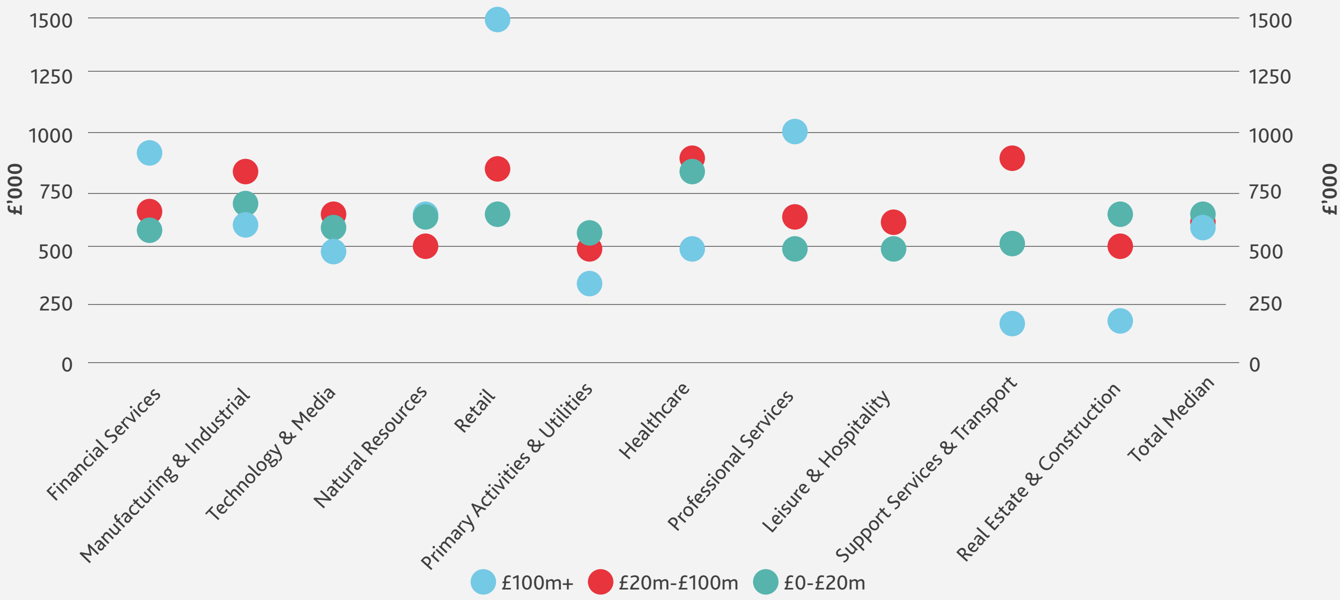


APPENDIX

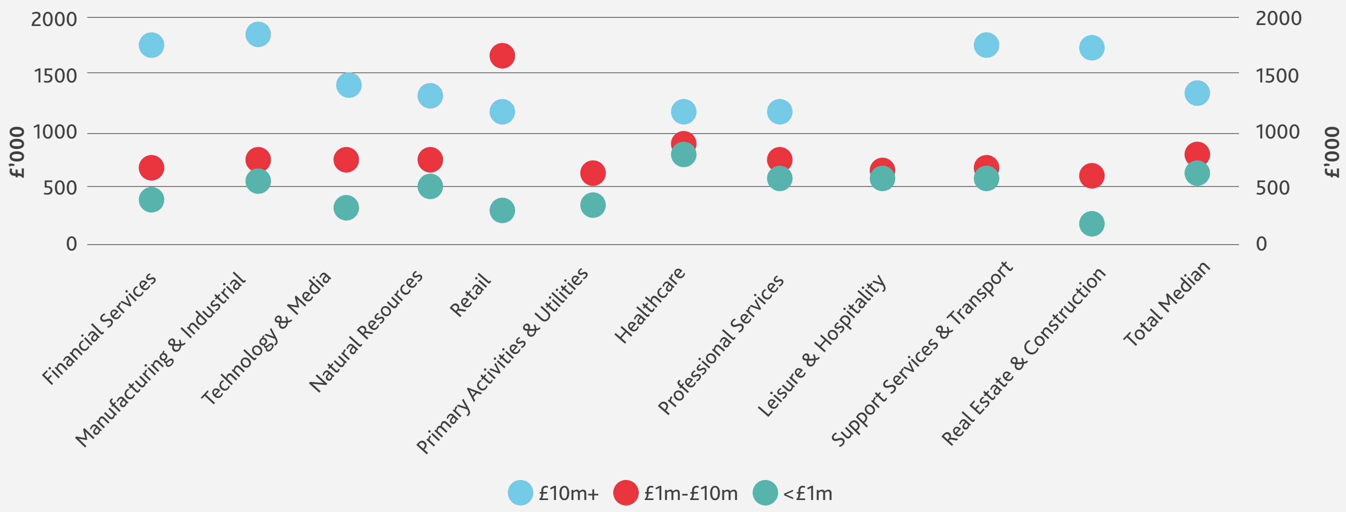
TOTAL BOARD REMUNERATION BY COMPANY SIZE

AVERAGE TOTAL BOARD REMUNERATION COST BY SIZE — MARKET CAPITALISATION

AVERAGE TOTAL BOARD REMUNERATION COST BY SIZE — REVENUE



AVERAGE TOTAL BOARD REMUNERATION COST BY SIZE — PROFIT



FOR MORE INFORMATION

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