

The 2020 UK CEO Value Index

AUTHORS



Simon Patterson
Managing Director

Published annually since 2012, the UK CEO Value Index aims to provide a unique perspective on pay for performance. Our unique and extensive database allows us to understand how remuneration committees are investing in their top executives, and the returns being made to shareholders.

The UK CEO Value Index measures how much value a CEO adds to their company for every pound they are paid. The Index has a simple methodology which remuneration committees can easily apply to their own companies.



Catherine Chadwick
Vice President

Methodology

Total Remuneration and Total Value Added are calculated over the four years from 2016 through to the end of 2019. (Note: The calculation is applied only to those companies that have added value over the period.)

$$\text{CEO VALUE INDEX} \rightarrow \frac{\text{TOTAL VALUE ADDED OVER 4 YEARS}}{\text{TOTAL REMUNERATION OVER 4 YEARS}}$$

Change in market cap + reinvested dividends + share buybacks

In recent years we have restricted our analysis to the FTSE 100 but this year we extended our analysis to also include the FTSE 250. The 2020 UK CEO Value Index reviewed the FTSE 350 companies as defined on 30 June 2019. For comparative purposes we also prepared backdated analysis for the whole FTSE 350 as follows:

	2018 Index	2019 Index	2020 Index
FTSE 350 as of	30 June 2017	30 June 2018	30 June 2019
Total Value Added Period	Calendar years 2014, 2015, 2016, & 2017	Calendar years 2015, 2016, 2017, & 2018	Calendar years 2016, 2017, 2018, & 2019
Total Remuneration Periods	Four financial years ending between 30 June 2017 & 30 June 2018	Four financial years ending between 30 June 2018 & 30 June 2019	Four financial years ending between 30 June 2019 & 30 June 2020

The following tables shows the top performers in our 2020 Index. These companies had the highest Value Index, or in other words, the CEOs of these companies added the most value per pound they were paid.

FTSE 100

Rank	FTSE 100 Company Name	Sector	CEO Value Index	Previous Year's Rank
1	Glencore plc	Diversified Metals & Mining	5,140	8
2	BHP Group plc	Diversified Metals & Mining	3,994	2
3	Rio Tinto Group	Diversified Metals & Mining	2,940	5
4	Royal Dutch Shell plc	Integrated Oil & Gas	2,913	1
5	HSBC Holdings plc	Banking	2,306	4



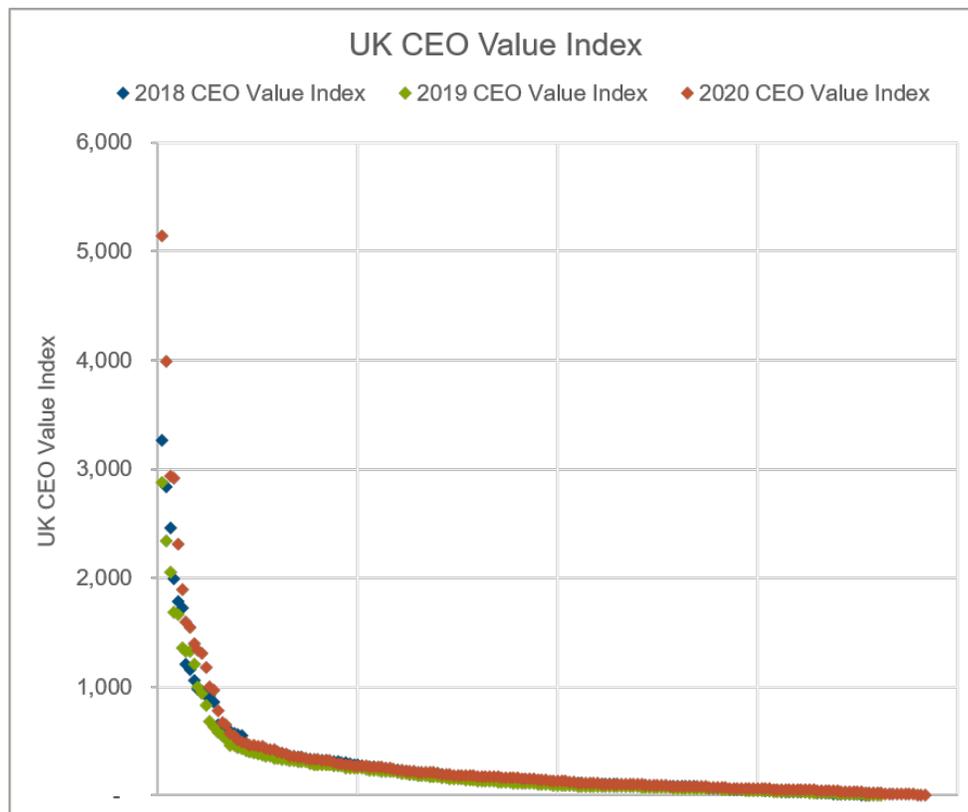
FTSE 250

Rank	FTSE 250 Company Name	Sector	CEO Value Index	Previous Year's Rank
1	Polymetal International plc	Gold	1,546	2
2	Ferrexpo plc	Steel	1,173	1
3	Games Workshop Group plc	Leisure Products	649	5
4	Softcat plc	Software & Services	550	NA
5	Renishaw plc	Electronic Equipment	392	3

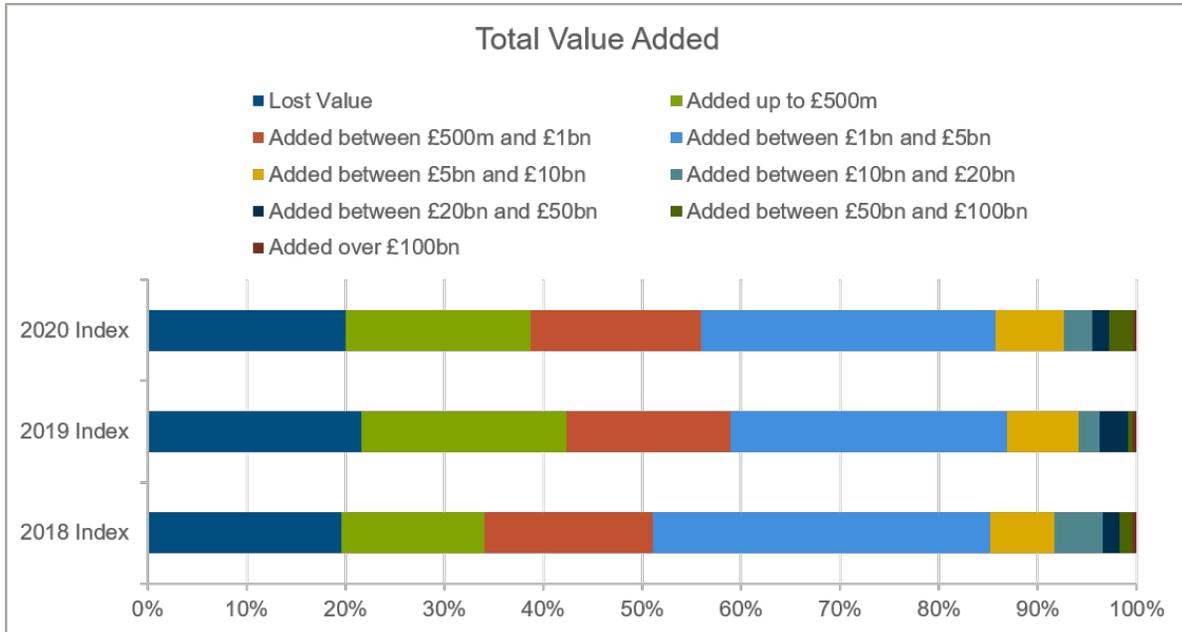
Note: Softcat plc was not listed for the full four-year period of our 2019 Index and so does not have a prior-year ranking.

Key Findings

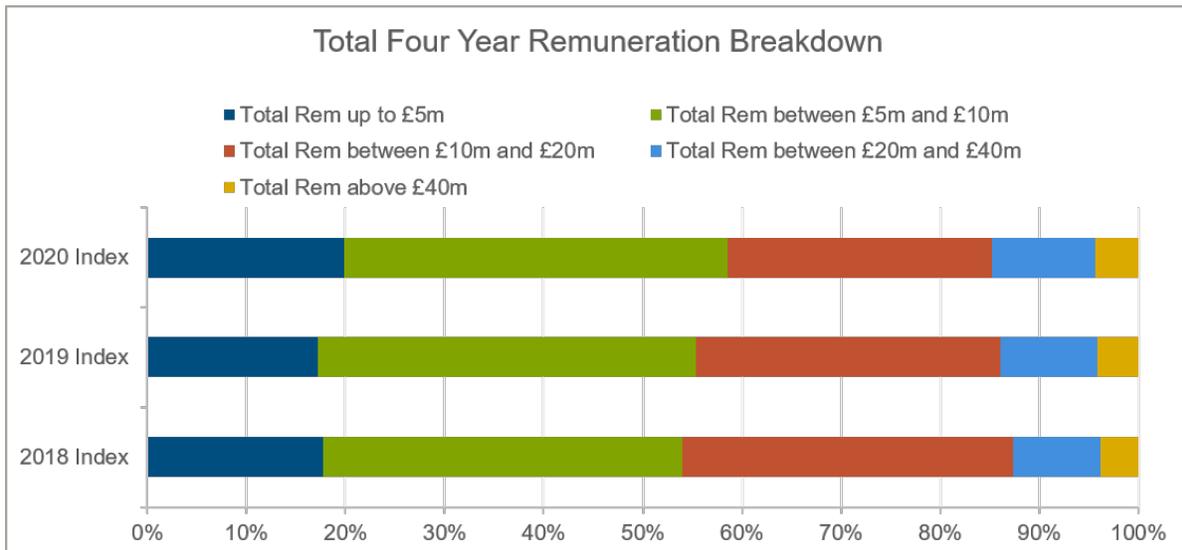
The graph below shows the Value Index scores of all the FTSE 350 companies included in the 2018, 2019, and 2020 Indexes.



Our last three Indexes show that around 20% of FTSE 350 companies consistently lost value over each of the respective periods whilst just over 70% added value of up to £10bn each over each of the four-year periods measured. This leaves a very small minority of companies that delivered returns in excess of £10bn over a four-year period.

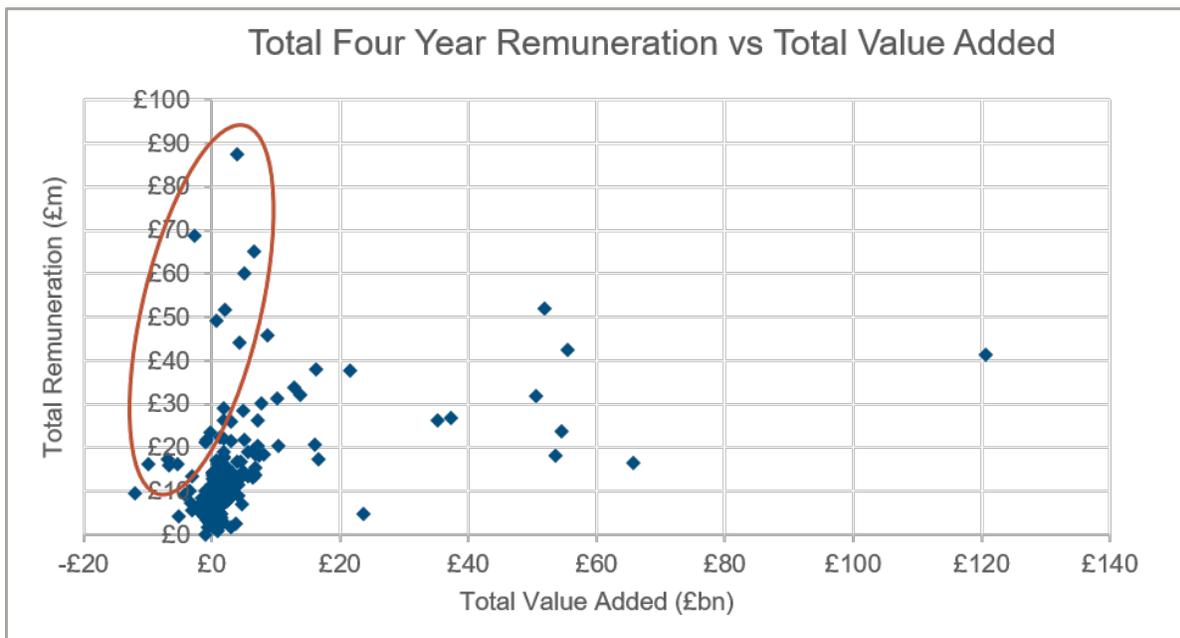


Looking at total four-year remuneration payable across the 2018, 2019, and 2020 Indexes, we see just shy of 20% of companies are paying less than £5m over four years whilst 4% pay in excess of £40m.



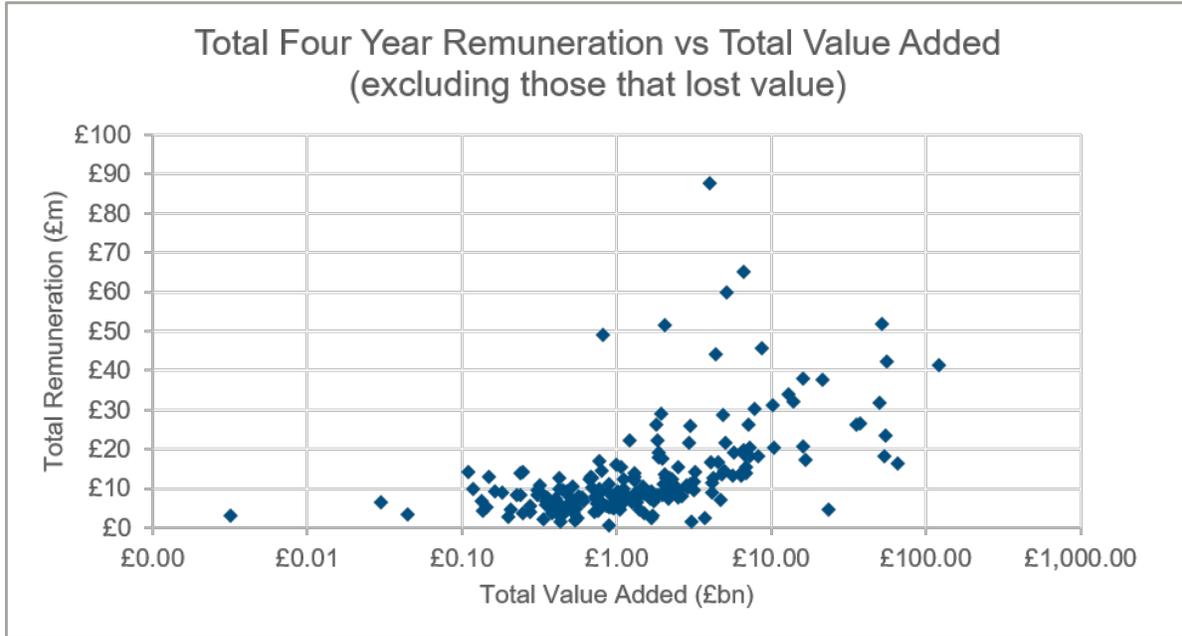
Concerningly, there are a handful of companies—four in the 2018 Index, five in the 2019 Index, and four in the 2020 Index—who are losing value over the four-year period yet paying total remuneration in excess of £20m over four years. That is to say, a small group of companies are essentially in the bottom 20% of companies in terms of total value added, yet are paying in the top 15% of companies.

To illustrate this disparity more clearly, below we plot total four-year remuneration against the value added over the same period.



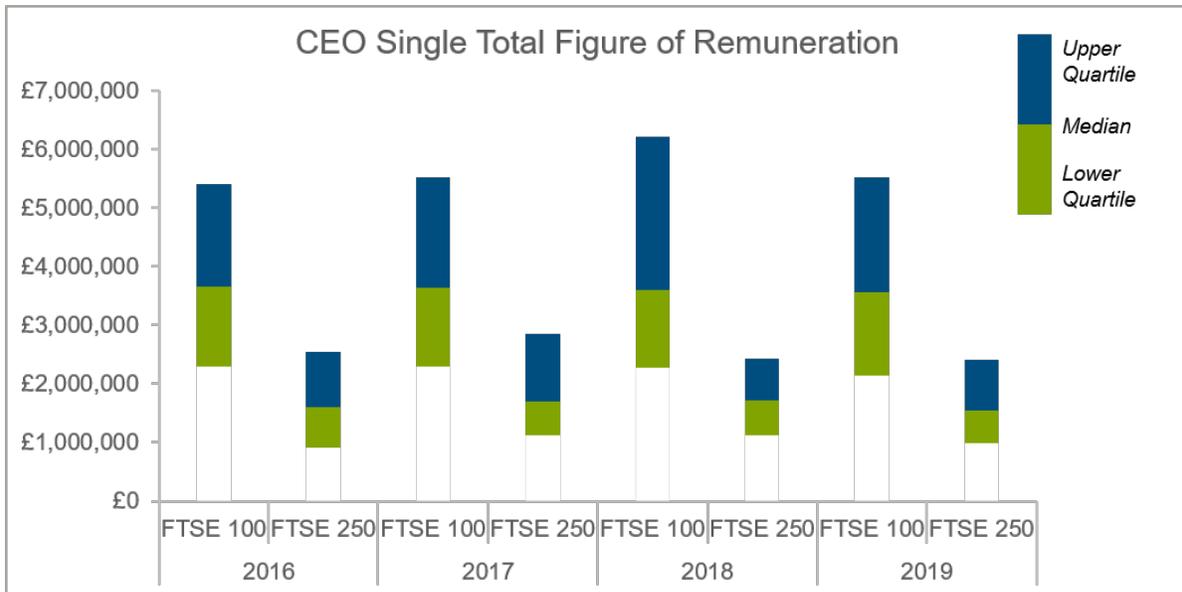
There is a worrying group of companies (circled in red) that are paying very significant sums for very little (or indeed losses) in terms of total value added to shareholders. In these cases, one would hope remuneration committees are taking a serious look at their programmes to ensure that they continue to be fit for purpose.

If we exclude those companies that lost value over the period, then we see a fairly reassuring relationship between value added and pay. (Note: A log scale has been applied to better visualise the data across such a wide range.)



Trends and Looking Ahead

Looking at pay on an annual basis, it has remained relatively consistent year-on-year since 2016. It is very likely that we will see a dip in 2020 as the ongoing pandemic challenges company performance and, in turn, bonus and LTI payouts.



This document is intended to cover only a few headlines from our 2020 work. If you're interested in hearing more about our work or if you would like us to prepare a tailored report for your company, then please don't hesitate to get in contact at london@pearlymeyer.com.

About the Authors

Simon Patterson is a managing director and head of the firm's London office. He is actively engaged as advisor to the remuneration committees of several FTSE 100 companies and consults widely on executive compensation, incentive compensation design, and performance measurement.

Catherine Chadwick is a vice president in Pearl Meyer's London office. Catherine joined Pearl Meyer in 2010 and works closely with remuneration committees and boards helping them to develop and implement effective remuneration strategies. She has extensive analytical experience including pay benchmarking, incentive design, performance metric selection and calibration, and communication.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage. Pearl Meyer's global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500 and FTSE 350. The firm has offices in Atlanta, Baltimore, Boston, Charlotte, Chicago, Houston, London, Los Angeles, New York, Raleigh, and San Jose.



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