

The 10-Year Anniversary

2023 CEO Value Index

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Introduction

This is the 10th anniversary of the CEO Value Index – the CEO Value Index has been published annually since 2012, and aims to provide a unique insight into pay-for-performance.

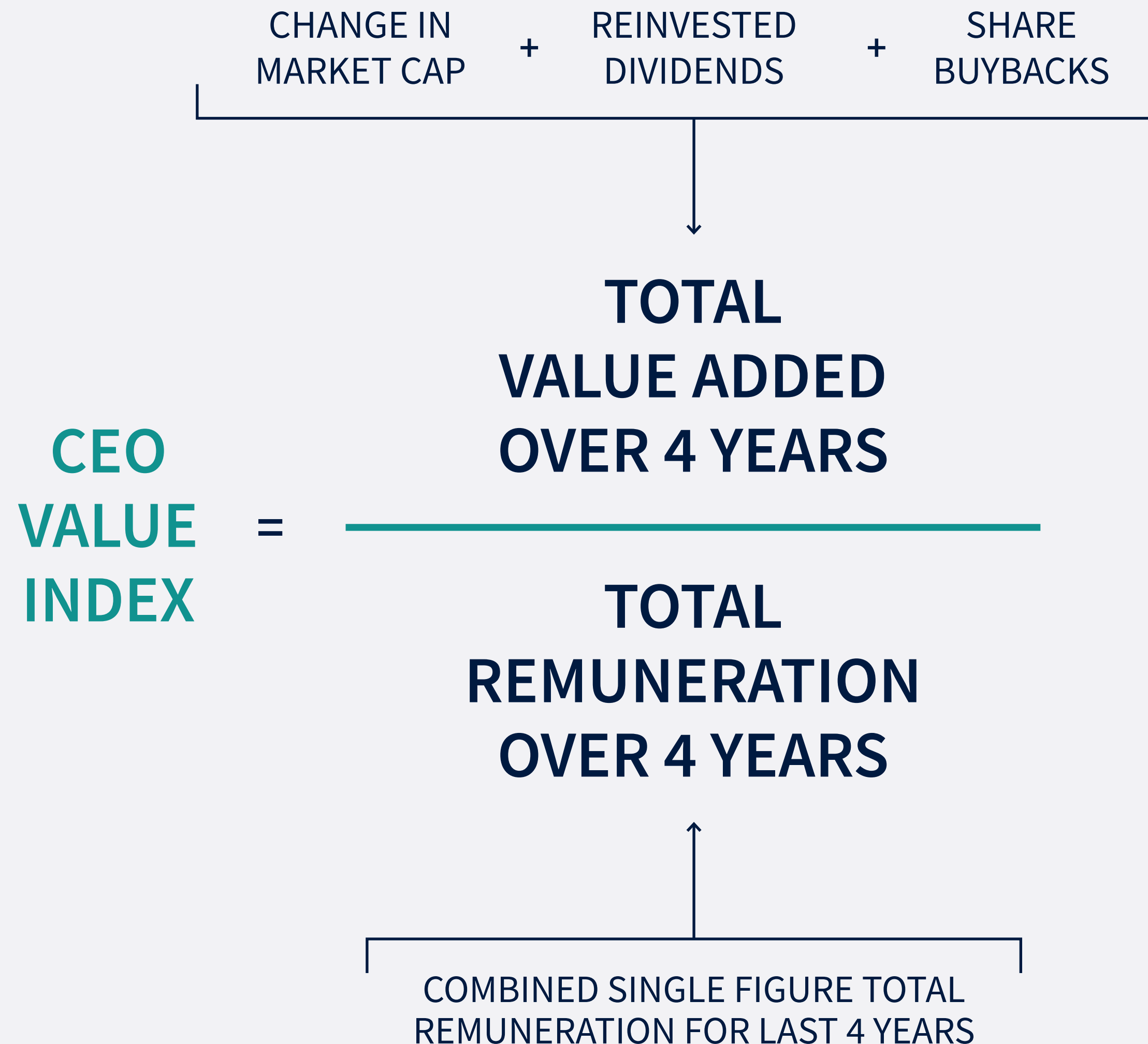
Our database allows us to understand how Remuneration Committees invest in their top executives, and the lessons learned – on pay levels, and performance levels.

As a reminder: the CEO Value Index measures how much value a CEO adds to a company for every pound or dollar they are paid. The Index is a sophisticated methodology, but simple to understand. It can easily be applied by Remuneration Committees to their own decision-making.

Total Remuneration and Total Value Added are calculated over a four-year period. For the 2023 index, Total Remuneration takes the latest 4 year remuneration available. For Total Value Added the 2023 index looks at company data from June 2019 through to June 2023. *(Note: The calculation only applies to those companies which have added value over the period)*

Over the following pages we take a brief look at some of this year's key findings. If you would like to learn more about the Index or request a tailored report for your company then please don't hesitate to get in touch with us at info@remunerationassociates.com

Note All remuneration data is sourced from eReward Database and Annual reports, financial information from S&P Capital IQ



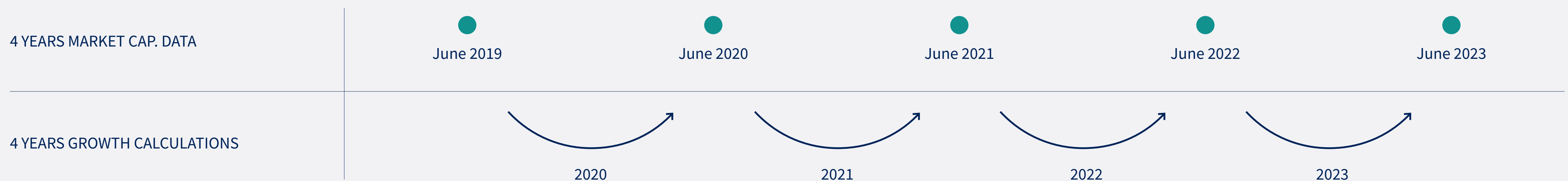
How we calculate the CEO Value Index

Total Remuneration and Total Value Added are calculated over the four years from 2019 through to 2023. (Note: The calculation is applied only to those companies that have added value over the period). The exact time periods that define the Index are summarised in the table below:

	2021 Index	2022 (Sup) Index	2023 Index
FTSE 100 as of	30 June 2021	30 June 2022	30 June 2023
Total Value-Added Period	From June 2017 to June 2021	From June 2018 to June 2022	From June 2019 to June 2023
Total Remuneration Period	Latest 4-year remuneration available (depending on when annual report is published)	Latest 4-year remuneration available (depending on when annual report is published)	Latest 4-year remuneration available (depending on when annual report is published)

For illustrative purposes we have also shown how the total value added over four years is calculated below:

How Total Value Add is Calculated - Four-year value-added period:



2023 CEO Value Index Top 10

The 2023 CEO Value Index reviewed the FTSE 100 companies as defined at 30th June 2023. Of those reviewed, 27% lost value over the period and 6% delivered more than £1,000 for every £1 paid to the CEO. The following table shows the top performers of the 2023 Index period, i.e. the companies with the highest CEO Value Index, 'the best value CEOs'.

2023 RANK	COMPANY NAME	INDUSTRY SECTOR	2023 CEO VALUE INDEX	CHANGE IN CVI RANK	FTSE 100 RANK	COMMENTARY
1	Rio Tinto plc	Materials	3,690	=	10	<ul style="list-style-type: none"> Ranked 1st in terms of CEO Value Index for two years in a row. Significant dividend payments over last four years which led to a very high total value added.
2	Glencore plc	Materials	2,920	↓	9	<ul style="list-style-type: none"> Market cap growth of more than 50% over the four year reporting period - but this has subsequently tailed off as coal profits have been impacted by energy crisis, sparked by Russia vs Ukraine war. LTIP did not pay out once over four years due to performance reasons and a CEO change in 2021 so relatively low total remuneration in comparison with other FTSE 100 CEO total rem packages.
3	Legal & General Group plc	Financials	2,075	↑	33	<ul style="list-style-type: none"> Negative change in market cap over the four year period which should really result in a negative CEO Value Index but as a result of significantly high dividend payments Legal & General have got a large total value add, with a lower total remuneration in comparison to other FTSE 100 CEOs. This is slightly misleading.
4	AstraZeneca plc	Health Care	1,625	↓	1	<ul style="list-style-type: none"> Consistently in the top 5 for CEO Value Index. Has the largest market cap growth of FTSE 100 - over 115% over four years.
5	London Stock Exchange Group plc	Financials	1,454	↓	15	<ul style="list-style-type: none"> Frequently in the top 10 for CEO Value Index. High value added reflective of large percentage increase in market cap (more than 190% over four years).
6	Diageo plc	Consumer Staples	1,082	↓	6	<ul style="list-style-type: none"> Consistently in the top 10 CEO Value Index. Very strong market cap growth throughout the pandemic and beyond.
7	Unilever plc	Consumer Staples	921	↑	4	<ul style="list-style-type: none"> Negative change in market cap over the four year period which should really result in a negative CVI but as a result of significantly high dividend payments and share buybacks. This is slightly misleading.
8	British American Tobacco plc	Consumer Staples	902	↓	7	<ul style="list-style-type: none"> Significant dividend payments over four year period which has resulted in a high value add. In recent months, BAT has experienced little to no earnings growth, large market cap decline as well as diversification efforts in the face of looming smoking ban and new regulations on vaping so we expect to see BAT fall significantly in terms of CEO Value Index next year.
9	SSE plc	Utilities	856	↓	25	<ul style="list-style-type: none"> Consistently in the top 10 CEO Value Index. Relatively modest total remuneration over four year period due to moderate LTIP payouts over the period.
10	Compass Group plc	Consumer Discretionary	737	↑	13	<ul style="list-style-type: none"> Robust market cap performance with growth over last four years. Total remuneration over the period is lower than peers due to no LTIP payout in the last three years as performance conditions not met.

Note: Companies missing from the 2023 Top 10: Flutter Entertainment plc (#11) and Ashtead Group plc (#12)

Overview of 2023 CEO Value Index by FTSE Rank

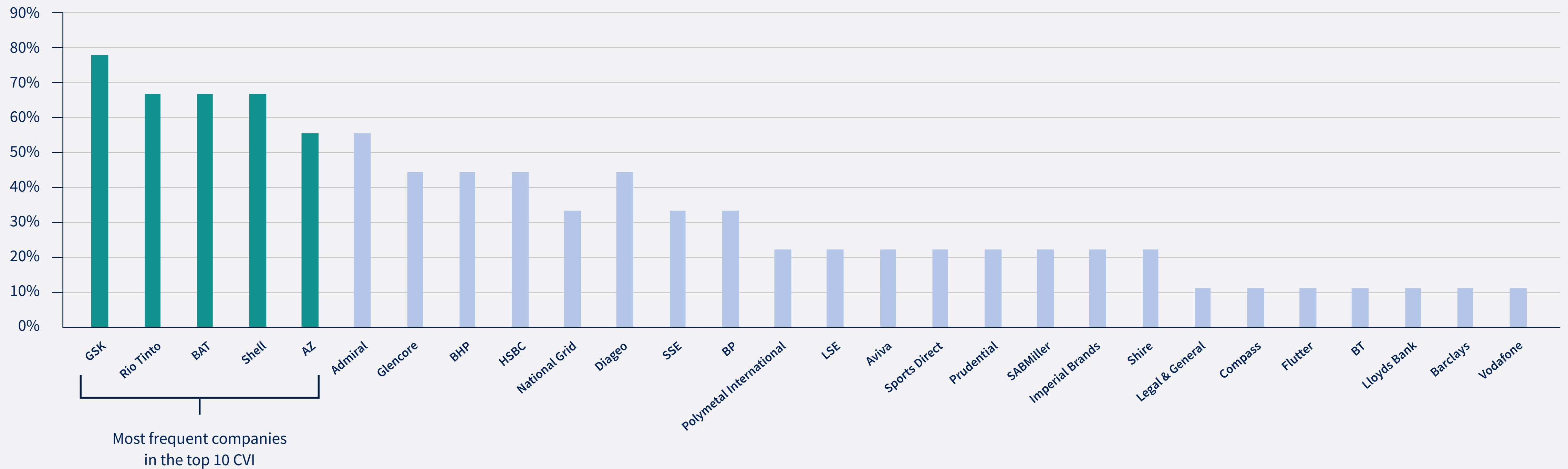
CEO Value Index by FTSE Rank



Top 10 appearances in the CVI over the last 10 years

Over the last 10 years, GlaxoSmithKline ('GSK') is the company which has appeared most in the CEO Value Index top 10 – featuring in top 10 in all but 2 years. This is followed by Rio Tinto, British American Tobacco ('BAT'), Shell and AstraZeneca ('AZ').

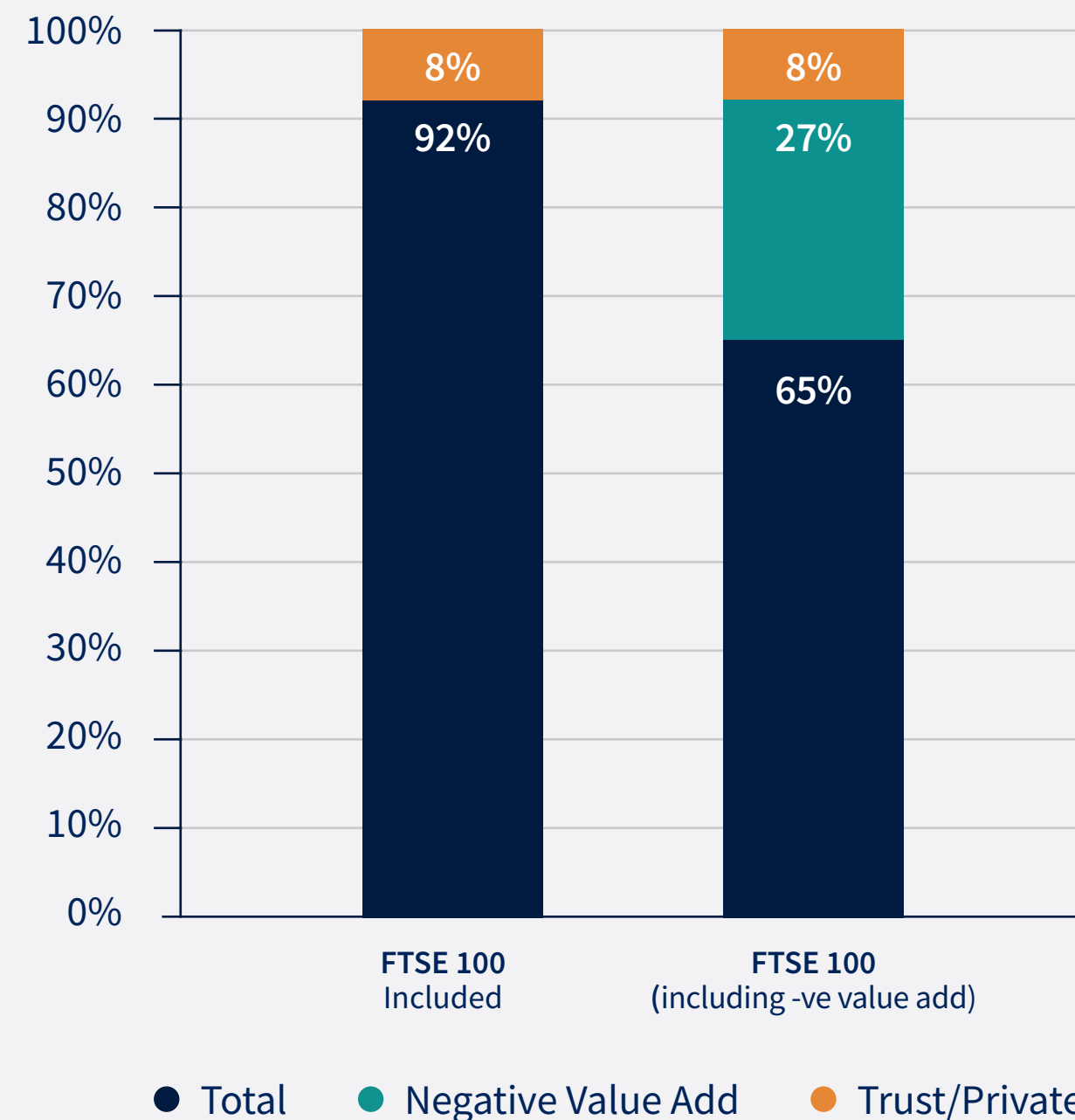
No. of times a company has appeared in the top 10 of the CEO Value Index over the last 10 years



Eligibility for Inclusion and FTSE 100 Industry split

Not all listed companies are eligible for the CEO Value Index (see exclusion list below). 92% of FTSE 100 companies were included in the CEO Value Index calculation, and 27% had a negative Value Add. Therefore, a total of 65% of FTSE 100 companies were included in the CEO Value Index rankings and analysis. This is higher than previous years – in 2022 21% of companies had a negative value add, 25% in 2021 and only 17% in 2020 suggesting FTSE 100 company performance (in terms of total value added to shareholders) has decreased in the last 3 years.

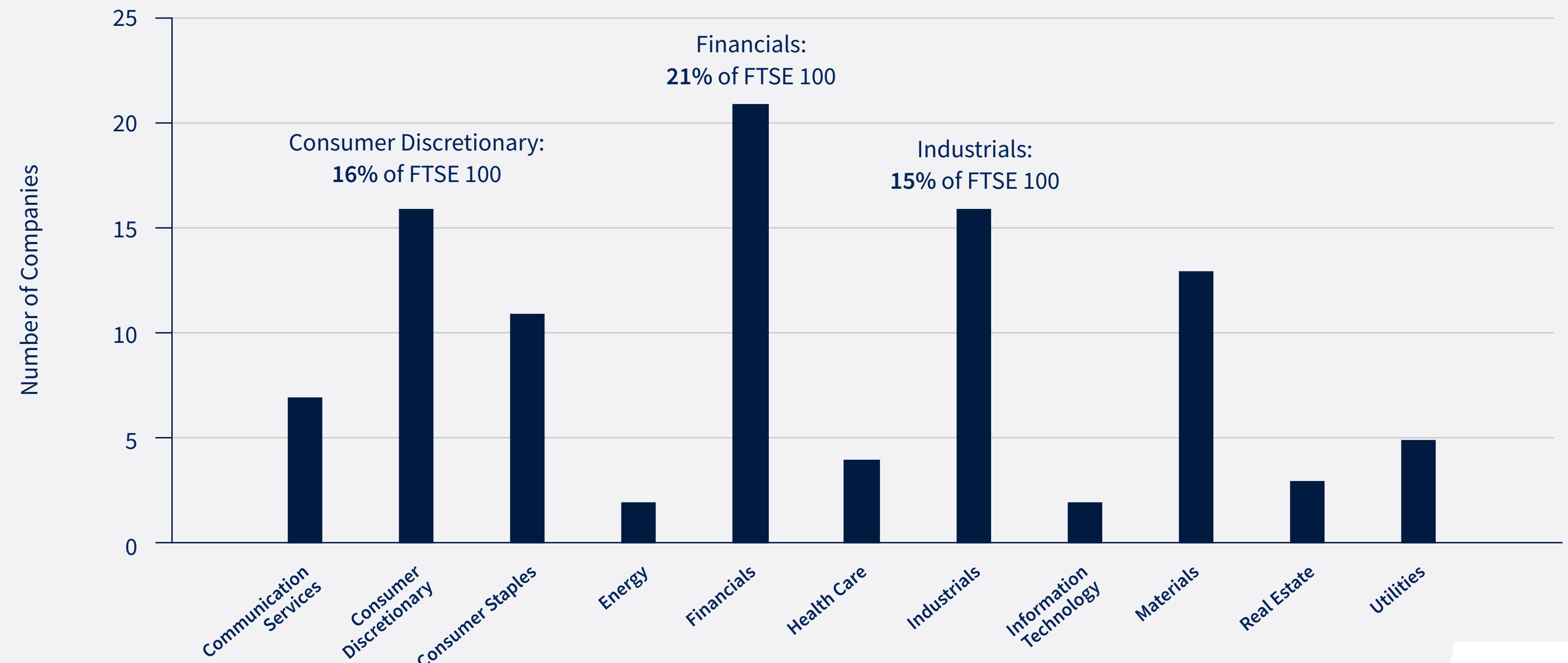
% of FTSE 100 Listed Companies included in CEO Value Index Calculations



The other graph shows the split of the FTSE 100 by industry to demonstrate which industries are most prevalent within the FTSE 100. The top industries represented within the FTSE 100 are Financials (21%), Consumer Discretionary (16%) and Industrials (15%).

Exclusions: The CEO Value Index cannot be calculated for companies if they are a Trust, recently Private, recently acquired, newly public (less than 4 years) and/or have no publicly disclosed CEO remuneration data.

FTSE 100 Companies by Industry

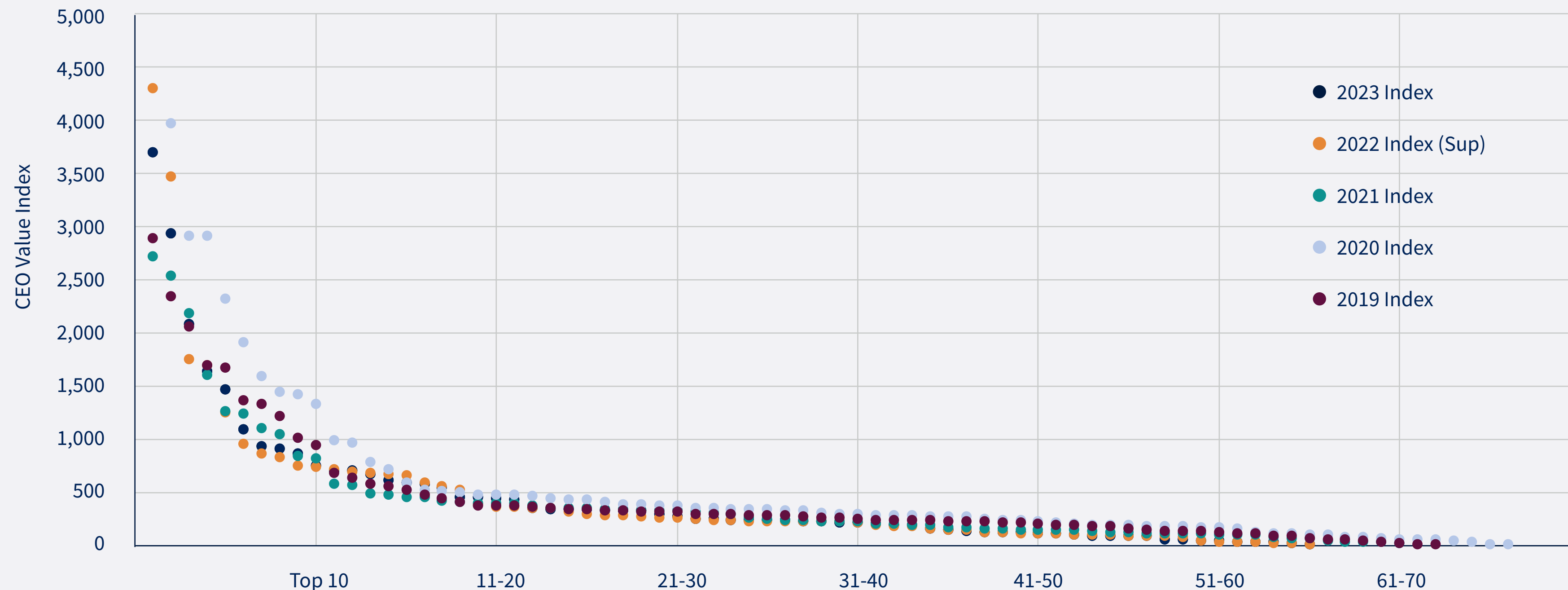


CEO Value Index performance over the years

The CEO Value Index over the years: 5-year performance

The graph below shows how each company in the FTSE 100 has performed in terms of CEO Value Index score over the last five years (note this only includes companies with a positive CVI as per the exclusions list on page 7). It is noted that the 2023 index has decreased slightly at the top (below that of 2022 and 2020). The “mid-pack” companies also follow this trend below that of 2020, however in line with the 2022 performance. As such the median CEO value index for 2023 is relatively consistent with that of 2022, and slightly down on 2021 and before.

FTSE 100 CEO Value Index - Last 5 years



Commentary

A small subset of companies tends to outperform ‘the pack’ each year. What sets these companies apart is their value added over the four years – significant market cap growth with substantial dividends and/or share buybacks. In addition, these top companies, whilst they pay their CEOs significant sums of money, they are in fact ‘worth it’ – remuneration is pegged to performance of the company. The majority of these top performers have long-term incentive plans which are aligned with the companies’ financial performance and only pay out when certain performance conditions are met. Therefore the pay is “justified” – AstraZeneca is a good example, the CEO has received a significant total rem of £62m over the last 4 years, but has delivered the most value add at £101bn.

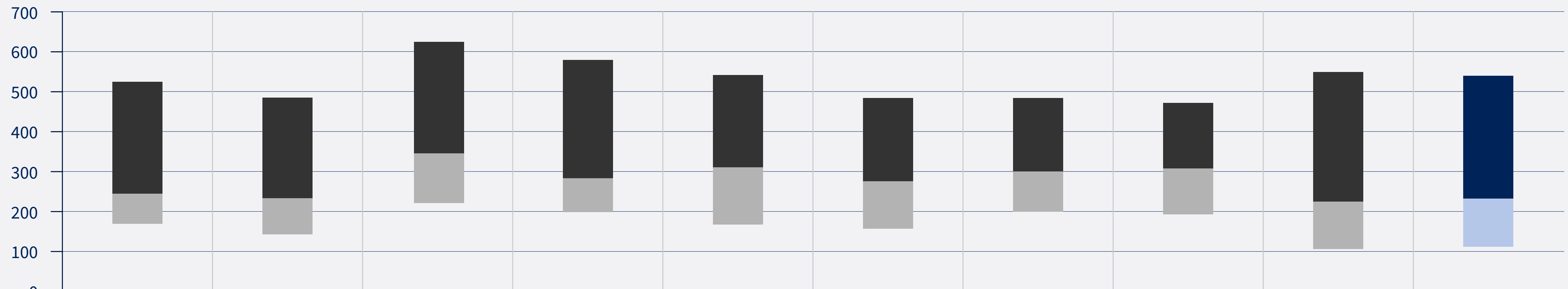
The CEO Value Index over the years: 10-year performance demonstrates the consistency of the Index

This graph shows the interquartile range of the CEO Value Index over the last 10 years. This demonstrates the consistency of the CEO Value Index over the last 10 years and whilst there has been changes (with 2016 still at the highest CEO Value Index), these changes have not been significant and have produced a fairly consistent CVI even through the pandemic.

FTSE 100 CEO Value Index: Quartile Analysis

KEY

- Upper Quartile
- Median
- Lower Quartile



	2014 Index	2015 Index	2016 Index	2017 Index	2018 Index	2019 Index	2020 Index	2021 Index	2022 Index (Sup)	2023 Index
UPPER QUARTILE	525	488	628	585	546	488	489	475	552	542
MEDIAN	249	238	348	289	314	279	305	313	228	235
LOWER QUARTILE	170	146	225	200	169	160	204	196	108	113

Remuneration + Total Value Add

Breakdown of 2023 CEO Value Index by FTSE Rank

Note that in order to achieve the highest CEO Value Index score, companies need to have added at least £20bn in terms of value added. For the companies in the top 10, this results in between £15m to £20m total remuneration over the last few years. There are of course outliers (such as AstraZeneca who are above both the value add and total rem mentioned above), but this is a ball park companies should aim for if they want to have a chance of being in the top 10 for the CEO Value Index.

		FTSE 30	FTSE 31-100	FTSE 100
CEO Value Index	Upper Quartile	£890	£208	£542
	Median	£576	£114	£235
	Lower Quartile	£338	£68	£113
<i>£ of value to all shareholders for every £1 CEO take home pay</i>	Upper Quartile	£27.0m	£18.9m	£21.8m
	Median	£16.5m	£13.0m	£14.2m
	Lower Quartile	£11.6m	£11.0m	£11.5m
4-Year Total Remuneration (£m)	Upper Quartile	£27.0m	£18.9m	£21.8m
	Median	£16.5m	£13.0m	£14.2m
	Lower Quartile	£11.6m	£11.0m	£11.5m

Note: Excludes any companies with negative Value Add and hence negative CEO Value Index.

FTSE 100 Remuneration Breakdown 2023 vs 2022

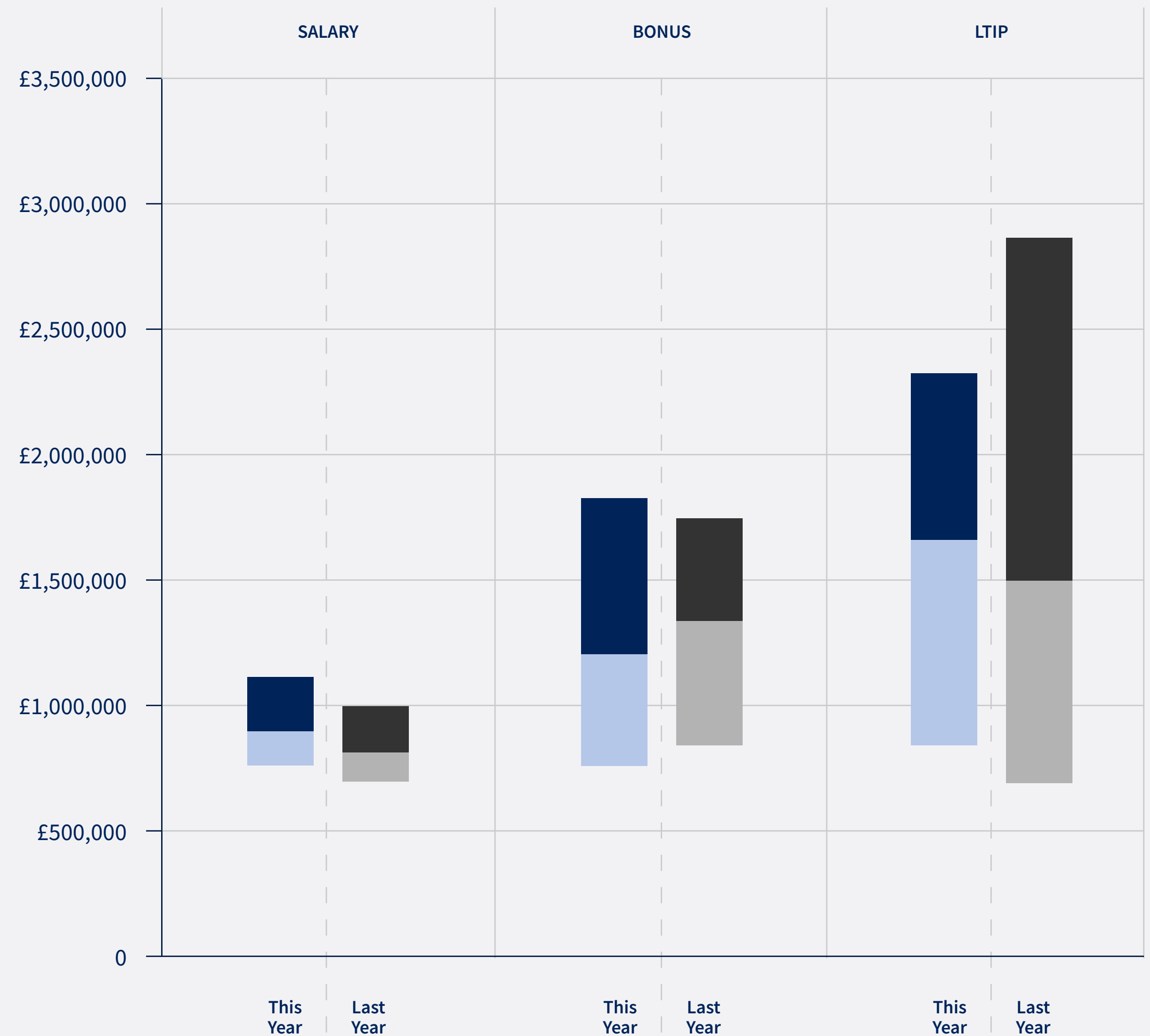
Looking at pay of FTSE 100 CEOs in 2023 relative to 2022, we can see an increase in salaries offered and bonuses paid.

Although the median LTIP vesting has increased marginally from last year, the top end of LTIP vesting (upper quartile) is still below that of last year. This is partly due to the fact that formulaic LTI outcomes were reduced this year due to windfall gains.

KEY

- Upper Quartile
- Median
- Lower Quartile

FTSE 100 Remuneration Breakdown for 2023 and 2022



How does the Remuneration of CEOs in Companies that lost value compare?

This graph highlights the level of pay being awarded at FTSE 100 companies that have gained and lost value over the four-year period. It demonstrates a **strong pay-performance alignment for 2023** – this differs from 2022 where there was a weaker pay-performance relationship.

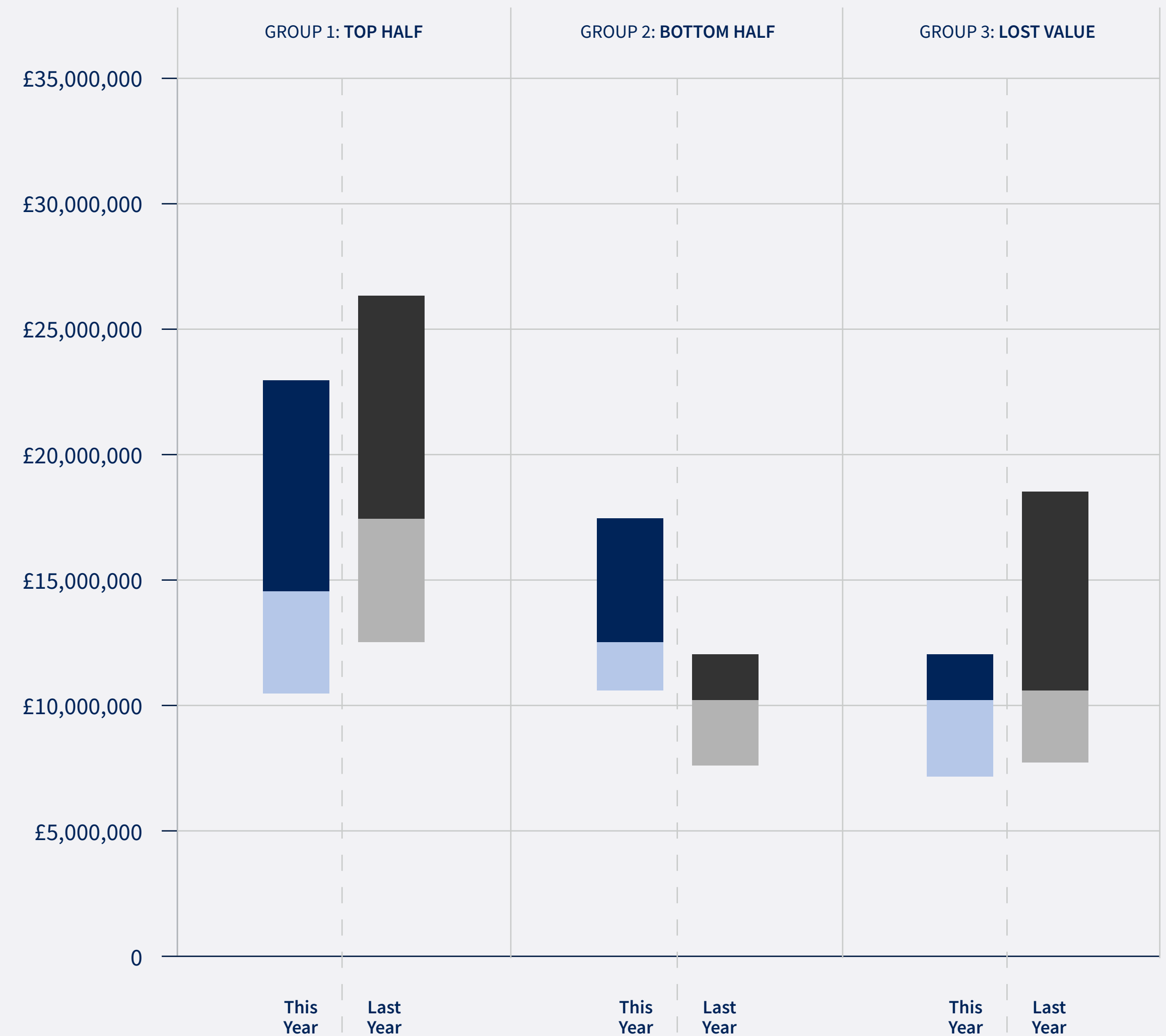
We have split the FTSE 100 into three groups. Groups 1 and 2 divide those companies that added value, with Group 1 being comprised of those companies that added the most value, and Group 2 those that added the least value. Group 3 is comprised of those companies that lost value over the period. The graph below sets out the remuneration paid to each of these three groups.

Group 1 companies have the highest total remuneration at the upper quartile and median. Strong **pay-performance alignment** is evident in the systematic decreases in upper quartile and median total remuneration from Group 1 down to Group 3 – this varies from 2022 where Group 3, the companies that had lost value had higher total remuneration from median to upper quartile.

KEY

- Upper Quartile
- Median
- Lower Quartile

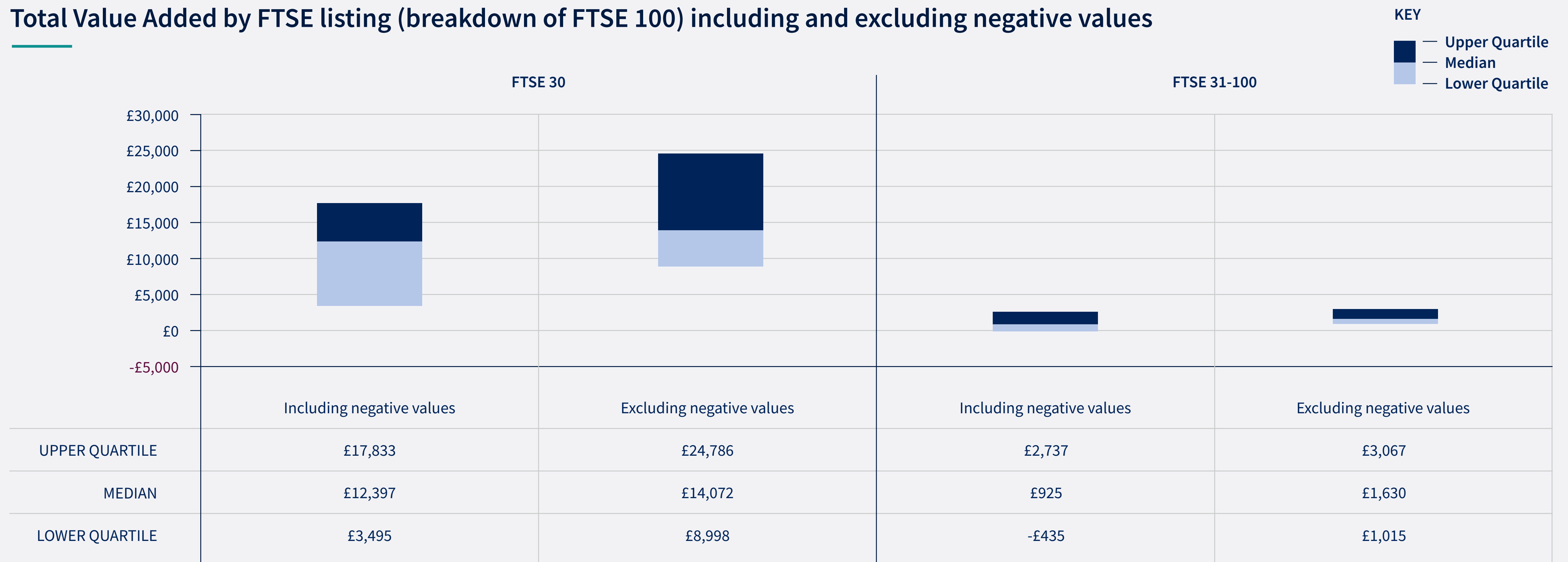
FTSE 100 Total Remuneration Broken Down by Total Value Added



Median total value added for breakdown of FTSE 100 companies

As expected, the total value add is significantly larger for FTSE 30 companies as opposed to companies ranked FTSE 31 to 100.

Total Value Added by FTSE listing (breakdown of FTSE 100) including and excluding negative values



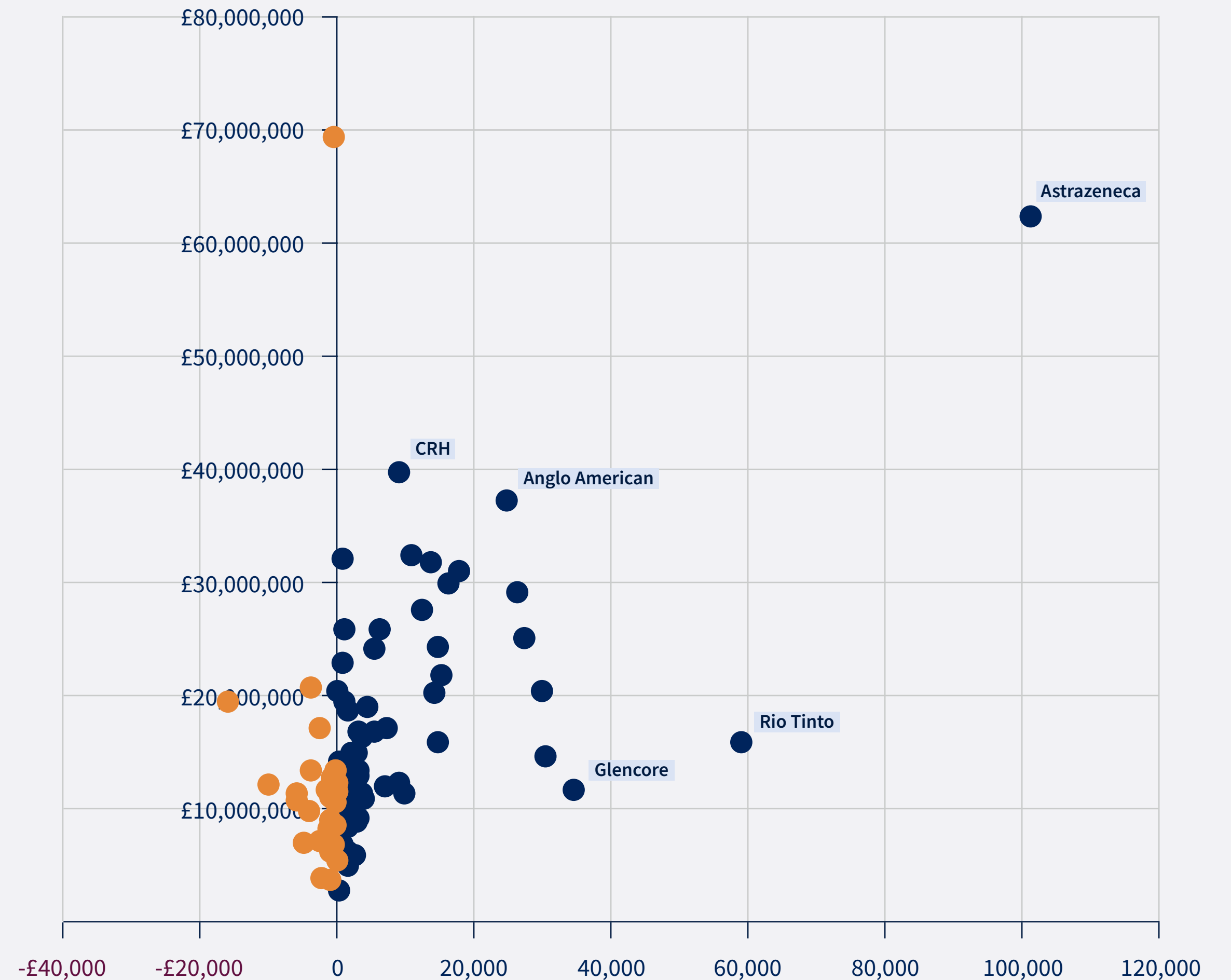
The cost of a CEO does not tell us whether they are good value

– looking at Value Add against Remuneration

The largest cluster of companies added a relatively small amount of value and paid out relatively low pay.

A significant number of outliers paid out large remuneration but added little value. Interestingly however, whilst AstraZeneca paid out large remuneration to their CEO, they delivered the most value added significantly suggesting the CEO is definitely “worth it”.

FTSE 100 - Total Remuneration and Value Added over 4 years



Summary of our findings

1

The CEO Value Index has demonstrated remarkable consistency over the past 10 years.

...With GSK featuring in the top 10 more than any other company.

2

The ratio between CEO pay and value delivered for top performing companies has fallen marginally from the levels observed in 2022.

...however, mid-pack companies are largely aligned with the levels observed in 2022.

3

More FTSE 100 companies are delivering less value to shareholders at the median level in comparison with previous years.

... and the collective performance of all, in terms of 'value for money', as shown by the Index – remains considerably below levels observed in 2016 and 2017.

4

Total Value Add is considerably higher among FTSE 30 constituents.

...with Materials and Healthcare emerging once again as the highest value-added sectors.

5

This year's index shows strong pay-performance alignment in comparison with 2022 results – suggesting that company performance is more aligned with a CEO's pay.

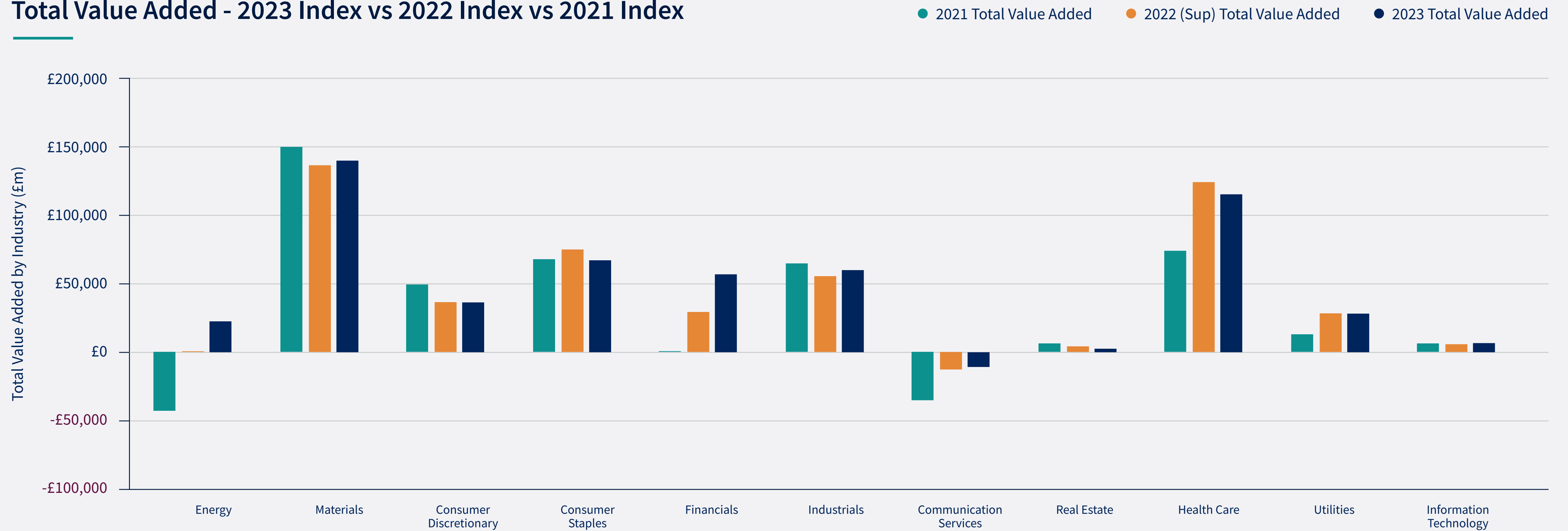
... AstraZeneca stands out, paying very high remuneration whilst delivering the most value added, suggesting justified CEO pay.

Appendix

Total Value Add by Industry Sector

The highest total value-added industries for 2023 were Materials and Healthcare – this is consistent with 2022 and 2021. Consumer Staples has remained steady over the last three years.

Total Value Added - 2023 Index vs 2022 Index vs 2021 Index



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