



# Capita Share Plan Services – 6<sup>th</sup> Share Plan Summit

## Innovative Share Plans

Coping with Corporate and Organisational Change

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# Agenda

- Innovative Share Plans
  - Supporting corporate strategy and objectives
  - Performance measures
  - Design
- Coping with Corporate and Organisational Change
  - Making an acquisition or disposal that changes your financial position
  - Adjusting performance targets
  - Introducing new plans
  - Obtaining shareholder consent



# What are measures and goals?

## Measures

### Examples:

Revenue growth

Economic value

Customer satisfaction

New product development

## Goals

The level of performance for which an company or individual strives

Examples: 15%

£900MM

Complete by July 2008

Top quartile

# Selecting measures and goals: critical



## Examples

- Exceed median peer TSR
- Double value in 5 years
- Penetrate markets
- Develop new products
- Revenue Growth
- Return on Invested Capital (ROIC)
- Economic Value
- Incentive determination process
- Working capital
- Customer Retention
- Revenue from New Products

Strategic Remuneration



# Overview of LTI Plans

LTI Vehicle	Concept	Other
Share options	Right (but not obligation) to acquire shares at a fixed price for a given period of time. Price is generally set at the market value on the grant date.	Share appreciation rights (SARs) – same as options except employee does not pay the exercise price but rather receives the amount of the increase in share price above exercise price
Performance Shares (Restricted Shares)	Grant of shares with restrictions on transferability, typically lapsing over a period of time, e.g., 3 years of continued employment with a corporate performance target required for vesting	Performance share units (PSUs) – same as performance shares except actual shares are not awarded until targets satisfied restrictions lapse – without target they are Restricted Shares
Phantom stock	Promise to pay the equivalent of either the value of shares or the increase in that value over a period of time; shares can be measured based on the entire company or any business unit using fair value, book value or a formula valuation	Used when real equity is not available for compensation purposes; provides significant design flexibility; one of the key challenges is deciding upon an acceptable share valuation methodology
Employee stock purchase plan	Employees may elect to purchase shares at a discounted price by contributing to the plan through payroll deductions	Typically broad-based participation and used to reinforce a company ownership culture. Recent HMRC research shows that SAYE scheme boosts output by 4.1% a year
SIP	Tax approved share plan allowing £7,500 a year of tax free share awards	Needs to be applied to all employees
Shared ownership Plans	Sophisticated plans that share or split ownership of shares between trust and employee	CGT treatment from day 1

# LTI Strategic Objectives

## Degree of Achievement by LTI Plan\*:

Align employees with shareholders

Low  High

RS PhS PS SO

Reward for specific performance achievement

SO RS PS PhS

Retain talent

SO PhS PS RS

Conserve cash

PhS PS RS SO

Conserve shares

SO RS PS PhS

**SO – Share options**

**RS – Restricted shares**

**PS – Performance shares**

**PhS – Phantom Shares**

\* Degree of achievement of the strategic objective varies based on factors such as share price performance and difficulty achieving performance goals



# Design innovations

- Luxembourg – Dexia uses stock options – large grants of over three times salary face value were awarded to CEO in 2006. In addition, provides all employee stock purchase plan with a 20% discount. This can be leveraged so that each share purchased conveys a SAR over ten further shares.
- Sainsbury and C&W approach
  - Give executives incentives similar to private equity
- Let executive choose type of instrument at given cost to company – Options or Performance Shares



# Coping with Corporate and Organisational Change

- Old Mutual plc launched a bid for Skandia
- The financial circumstances of each company were different and the acquisition would have a significant impact on the performance hurdles of Old Mutual's subsisting LTIP awards.
  - the background to this corporate governance issue
  - how shareholders were approached and why a separate resolution was put to shareholders to approve adjustments to performance targets



# Shareholder consultation

- Prior meetings with ABI and RREV, the NAPF/ISS joint venture
- Explanations of issues arising
- Methodology for adjustments to recalibrate targets fairly
- Attendance at meetings by investment banking advisers
  - Presentations on different business stages of companies
- Adjustments after the event subject to audit
- Consent to changes sought and obtained from UK Inland Revenue in respect of approved option grants



# A major acquisition – shareholder consent required

- Separate resolutions put to shareholders
- **Ordinary Resolutions**
- Resolution 1 To approve the offer for, and acquisition of, Försäkringsaktiebolaget Skandia (publ) (92.42%)
- Resolution 2 To authorise the Remuneration Committee to amend the performance conditions applicable to certain long-term incentive arrangements granted by the Company (92.25%)
- Resolution 3 To increase the authorised share capital of the Company (92.65%)
- Resolution 4 To grant the Directors authority to allot relevant securities in connection with the acquisition of Skandia (91.88%)



# British Land acquires Pillar Properties

- By acquiring a company British Land also acquired a property fund management business running external unit trusts
- Executives at Pillar had a specific LTIP called CRISP linked to fund outperformance
- British Land introduced a specific new LTIP to replace CRISP – allocated conventional LTIP awards to participants but 80% of the value of the LTIP will be offset against the CRISP type incentives when paid



# Northern Foods refocuses on attractive market segments

- January 2007 disposal of five businesses representing 40% of revenues
- Remaining portfolio five focused businesses
- New Chief Executive – Remuneration Committee undertook review of incentive arrangements for senior executives
- New Performance Share Plan approved by shareholders at July 2007 AGM
  - Annual awards of 150% salary (200% possible)
  - 3 year vesting – half on ROIC and other half on absolute TSR
- Award of matching shares to Chief Executive – 100% invested with potential 3 – 1 match



# Recent data from HMRC Oxera report

- Tax-advantaged employee share schemes: analysis of productivity effects – August 2007
- Results from any tax advantage scheme – productivity effect +2.5%
- Results from SAYE +4.1%
- Results from CSOP and SAYE +4.4%



# Summary

- There are innovative plans about
- It is important to support the business strategy
- Shareholder support is essential
- SAYE may be the unsung hero of productivity growth