

# 2018 Global Top 250 Compensation Survey

## Compensation of Chief Executives and Chief Financial Officers

# 2018 GLOBAL TOP 250 COMPENSATION SURVEY

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FW Cook and FIT Remuneration Consultants, the largest independent advisors to compensation committees in the United States (US) and United Kingdom (UK), respectively, have worked in association together for nearly a decade and were delighted to formalise their relationships with Pretium Partners Asia Limited (Pretium Partners) last year. The association among the three affiliated firms, based in the US, Europe, and Asia, allows us to provide our clients with a truly global perspective.

We are proud to present our inaugural Global Top 250 Compensation Survey.

# 2018 GLOBAL TOP 250 COMPENSATION SURVEY

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# INTRODUCTION

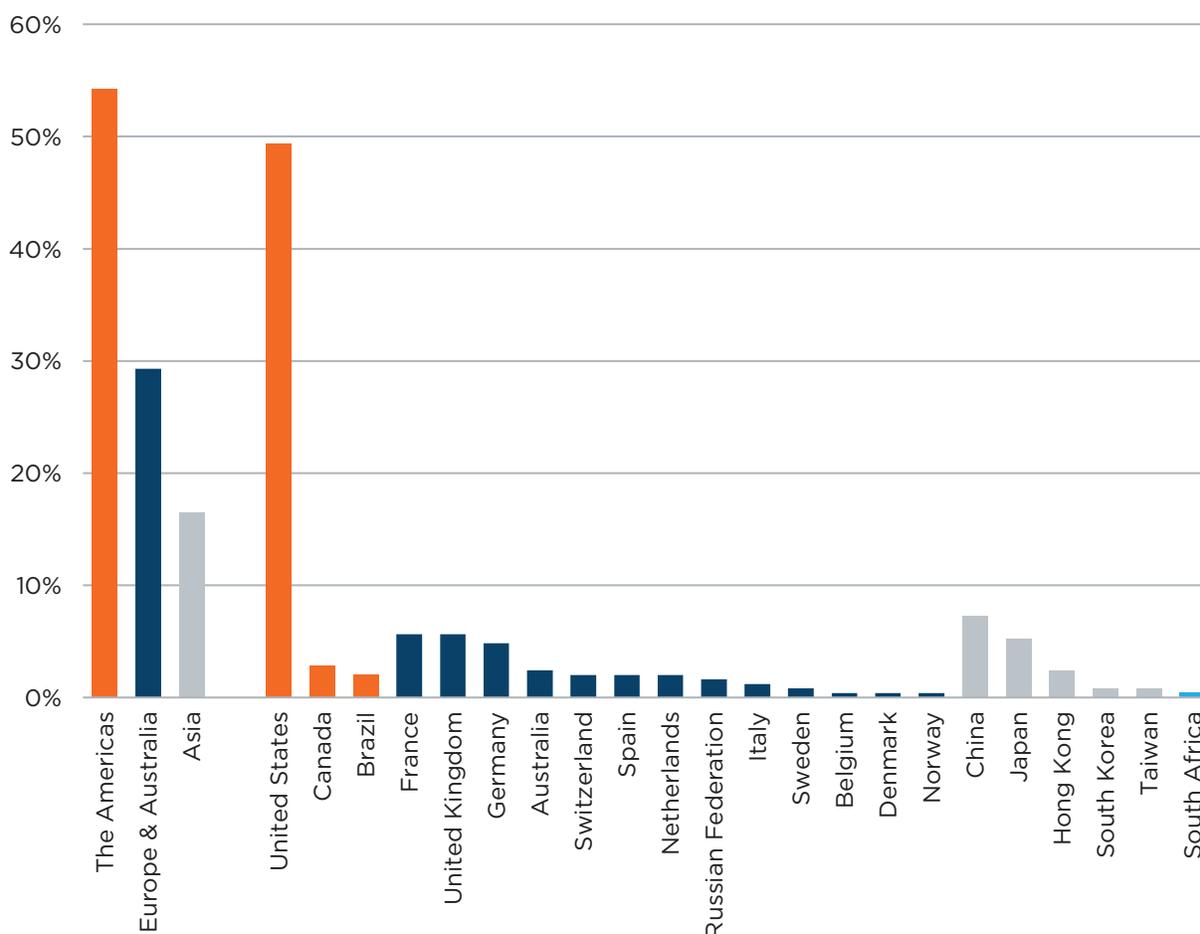
## Welcome to our inaugural Global Top 250 Compensation Survey.

This report presents information on compensation levels for the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) roles, the design of long-term incentives (LTI), and share usage at the 250 largest listed companies globally.

## Constituents of the Global Top 250

The Global Top 250 is composed of the largest 250 publicly traded companies worldwide by market capitalisation (as of December 31, 2017). In determining jurisdiction, companies' primary exchange listings have been used. Based on geographic region, 54% of the constituents are composed of companies from the Americas, 29% from Europe & Australia, and 16% from Asia. There is only one African company (from South Africa) in the group and we have therefore not provided a separate analysis of African companies.

Geographic Breakdown of the Global Top 250



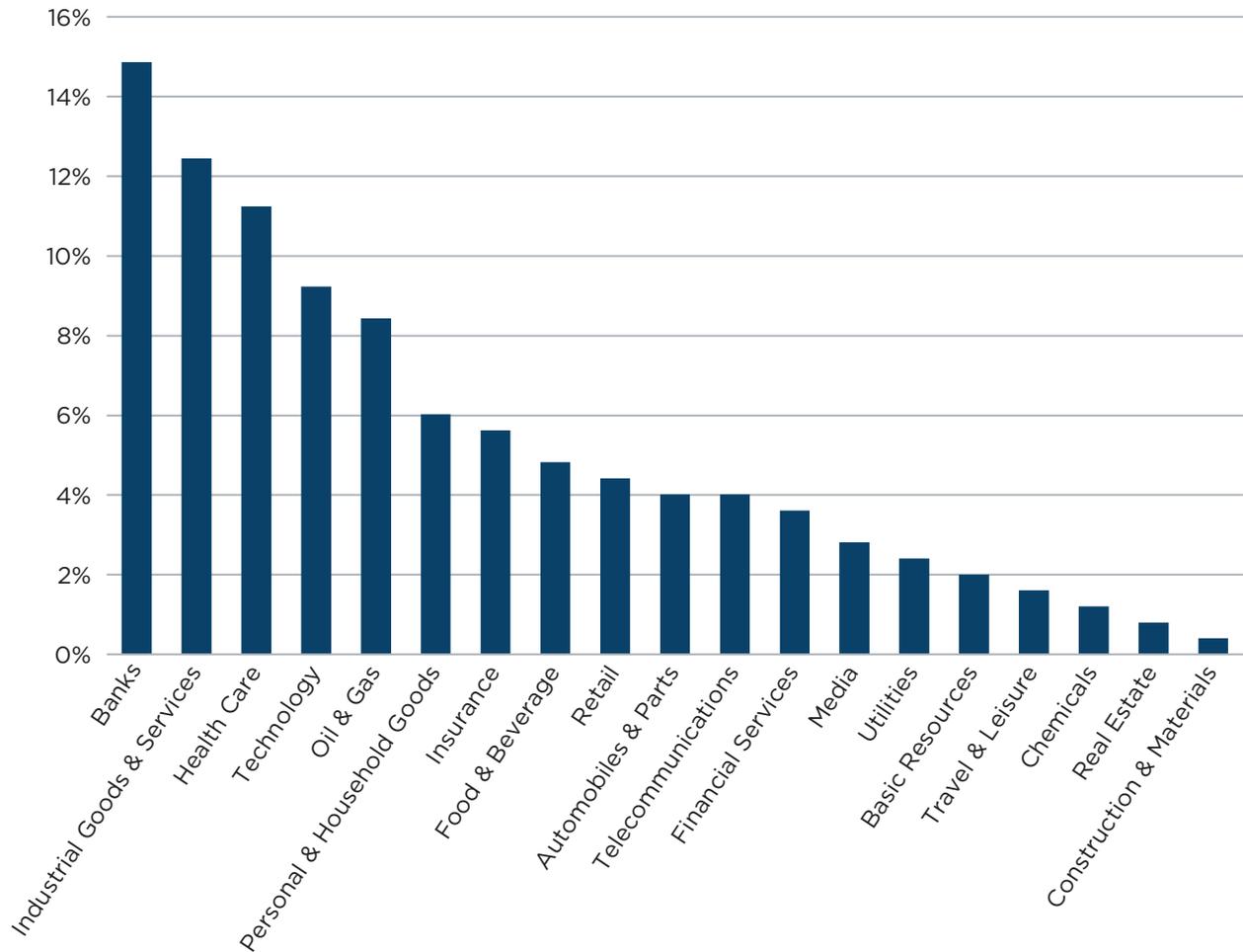
To provide an overview of how compensation practices vary between jurisdictions, we analysed practices and levels between these three regions and provide data on the jurisdictions with the most companies in the group - the US, China, France, the United Kingdom, Japan, Germany, Canada and Hong Kong.

Notably, some companies have not presented the compensation of their CEO and/or CFO in their most recent disclosures, and we have excluded these companies from the analysis where appropriate.

# INTRODUCTION

The following illustration provides a breakdown of the constituents by industry.

Industry Breakdown of the Global 250



# INTRODUCTION

The median market capitalisation of the companies within each region and within the largest jurisdictions are shown below.

## Market capitalisation (\$'m)

	% of Global Top 250 Constituents	Market capitalisation (Median) <sup>1</sup>						
		US Dollar	Chinese Renminbi	Euro	British Pound	Japanese Yen	Canadian Dollar	Hong Kong Dollar
The Americas	54%	\$86,201	¥560,874	€ 71,788	£63,775	¥9,707,285	\$108,102	\$673,548
Europe & Australia	29%	\$75,572	¥491,715	€ 62,936	£55,911	¥8,510,317	\$94,773	\$590,496
Asia	16%	\$64,465	¥419,449	€ 53,687	£47,694	¥7,259,590	\$80,844	\$503,713
United States	49%	\$88,916	¥578,538	€ 74,049	£65,784	¥10,013,007	\$111,507	\$694,761
China	7%	\$109,424	¥711,980	€ 91,128	£80,957	¥12,322,539	\$137,226	\$855,010
France	6%	\$69,020	¥449,087	€ 57,480	£51,064	¥7,772,539	\$86,556	\$539,304
United Kingdom	6%	\$88,199	¥573,877	€ 73,452	£65,254	¥9,932,337	\$110,608	\$689,164
Japan	5%	\$64,410	¥419,094	€ 53,641	£47,654	¥7,253,434	\$80,776	\$503,286
Germany	5%	\$95,991	¥624,577	€ 79,941	£71,019	¥10,809,827	\$120,380	\$750,049
Canada	3%	\$66,195	¥430,707	€ 55,127	£48,974	¥7,454,436	\$83,014	\$517,232
Hong Kong	2%	\$58,820	¥382,718	€ 48,985	£43,518	¥6,623,868	\$73,765	\$459,603

<sup>1</sup> Reflects market capitalisation and currency conversion rates as of December 31, 2017.

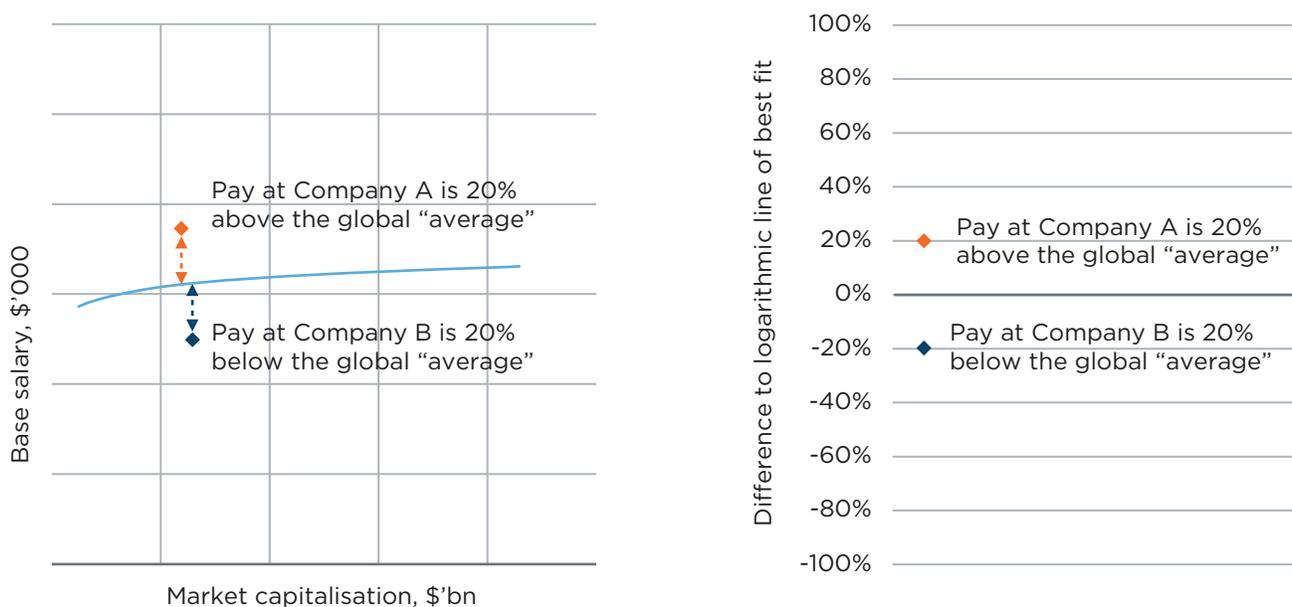
# INTRODUCTION

## Data Presentation

In much of the analysis that follows, we present data by region and jurisdiction on an interquartile basis that illustrates the 25th percentile (lower quartile), 50th percentile (median) and 75th percentile (upper quartile). To ensure statistical accuracy, medians are presented only when at least three data points are available, and the upper and lower quartiles are presented only when there are at least five data points.

Because the companies vary in size, comparing pay levels across different geographies can be misleading. To adjust pay data to reflect scale, we prepared a line of best fit<sup>2</sup> that provides a more comparable and balanced view on compensation differences between jurisdictions.

Data points above the line of best fit represent companies that pay above the global “average” level after adjusting for size and those below the line of best fit represent companies that pay below this level. An illustration follows:



The chart to the above left shows the compensation element (in this case, base salary) regressed against the market capitalisation of each company, along with the size-adjusted line of best fit. The chart to the above right shows the percentage difference between actual compensation paid at each company and the line of best fit.

A line of best fit analysis provides a broad assessment based on the relative size of companies, but additional factors should be considered when analysing market pay levels across geographies. Factors to consider include industry, revenue and profitability, growth trajectory, and other company-specific criteria.

Refer to the “Methodology” section for further details on the data presented in this report.

<sup>2</sup> The “line of best fit” shows the implied compensation level across the range of market capitalisations based on the logarithmic regression trend line that is formed by plotting the compensation and market capitalisation data against each other.

# EXECUTIVE SUMMARY

While pay practices vary significantly between and within regions, we identified certain patterns in the compensation of CEOs and CFOs between the Americas, Europe & Australia, and Asia.

- Pay levels in the Americas are typically higher than in the other regions, although base salaries are more modest relative to Europe & Australia and a significant majority of pay is linked to hitting performance targets over the short- and long-term.
- In general, base salaries in Europe & Australia are higher than in other regions, with total cash compensation (i.e., base salary plus annual bonus) being broadly in line with the Americas. Long-term incentives are more modest in Europe & Australia, and total pay is significantly lower than in the Americas as a result.
- Pay levels and structure among Asian companies in the Global Top 250 are affected by the fact that a number of the largest companies in China and Hong Kong are state-owned enterprises and pay is therefore regulated. As such, base salaries and bonuses at these companies are not market driven and long-term incentives are generally not provided.
- In the Americas, there exists variation in pay structure and pay mix between CEOs and CFOs, with CEOs having greater emphasis on variable pay, particularly long-term incentives. This is reflective of the “star culture” in the US, where the CEO is often considered to be the main driving force behind a company’s strategy and performance and is, therefore, highly incentivised.
- Conversely, pay structure is broadly similar between CEOs and CFOs in Europe & Australia, with base salary levels being the main differentiator. This is partly led by the UK, where the CFO is typically on the Board.
- In Asia, pay is generally similar between CEOs and CFOs in terms of structure, balance, and levels given collective accountability in key decisions. The lack of long-term incentives in Asia is due to the heavy influence of state-owned enterprises in China whereby equity-based incentives are strictly regulated.

Below, we outline key features of CEO and CFO compensation between the three regions.

## The Americas



Base salaries are typically below the global “average” level when adjusting for company size.



Annual bonus levels are higher than in the other regions for the CEO but are in line with Europe & Australia for the CFO.



Total cash compensation is typically in line with the global “average” level when adjusting for company size.



Long-term incentive value is significantly higher for both the CEO and CFO than in other regions and takes the form of Performance Awards, Restricted Stock, and Stock Options.



Total direct compensation is typically above the global “average” level when adjusting for company size.



At median, a CFO’s base salary is 57% of the CEO’s whereas a CFO’s total direct compensation is 34% of the CEO’s due to smaller annual bonus and long-term incentive awards.

Total pay levels are higher in the Americas than in Europe & Australia or Asia, although at median a significant portion of the total package (91% for the CEO and 86% for the CFO) is tied to annual bonus and long-term incentives, with the majority of the package (75% for the CEO and 69% for the CFO) weighted towards long-term incentives.

# EXECUTIVE SUMMARY

## Europe & Australia



Base salaries are typically above the global “average” level when adjusting for company size.



Annual bonus levels are more modest than in the Americas for the CEO but are in line with the Americas for the CFO.



Total cash compensation is typically in line with the global “average” level when adjusting for company size, but slightly behind that in the Americas.



Long-term incentive value is often significantly lower than in the Americas and typically takes the form of Performance Awards.



Total direct compensation is normally below the global “average” level when adjusting for company size.



At median, a CFO’s base salary is 59% of the CEO’s whereas a CFO’s total direct compensation is 51% of the CEO’s due to slightly lower annual bonus and long-term incentive awards.

Total pay levels are lower in Europe & Australia than in the Americas (but higher than those in Asia). At the median, a significant portion of the total package (69% for the CEO and 68% for the CFO) is tied to annual bonus and long-term incentives. This represents a much smaller proportion than is the case in the Americas, with pay at median split almost evenly between base salary, annual bonus and long-term incentives in Europe & Australia.

# EXECUTIVE SUMMARY

## Asia



Base salaries are often significantly below the global “average” level when adjusting for company size due to the state-owned nature of some companies in Asia.



Annual bonus levels are lower than in the other regions for both the CEO and CFO as bonuses are regulated in China and some senior executives in family-run businesses are also major shareholders of the company.



Total cash compensation is usually significantly below the global “average” level when adjusting for company size. The state-owned nature of some Asian companies has led to substantially lower pay levels than their counterparts in the same industry with similar scale. The pay gap between state-owned enterprises and the pure market is more significant at the CEO level.



Long-term incentives are considerably less common in Asia than in the Americas or Europe & Australia as stock-based incentives are regulated among state-owned enterprises. For companies with long-term incentive plans, they are granted less frequently than other regions as long-term incentives are typically awarded in association with strategic events (e.g., pending initial public offering, shift in business strategies, or change of leadership team). Where long-term incentives are granted, they typically take the form of Stock Options.



Total direct compensation is typically significantly below the global “average” level when adjusting for company size due to the aforementioned factors.



At median, a CFO’s base salary is 90% of the CEO’s and a CFO’s total direct compensation is 82% of the CEO’s, largely influenced by the prevalence of state-owned enterprises.

Total pay levels are therefore lower in Asia than in the Americas and Europe & Australia and a minority of the total package (37% for the CEO and 41% for the CFO at median) is linked to performance.

An additional observation is that companies should be wary of the impact of increased disclosure in driving a trend toward “following the market,” which can weaken the alignment between pay and performance as well as minimise the customisation of compensation programs to reflect companies’ specific circumstances. The UK, for example, has among the fullest disclosure requirements on executive pay in the world and also has a narrower range of practice than in many other jurisdictions. Even though pay practices among Asian companies are more diverse due to different ownership structures, there is a tendency for private companies in the region to follow the market as well. Companies need to balance the provision of competitive pay (which is optimally linked to core business strategy) with increasing scrutiny from external stakeholders.

# COMPENSATION LEVELS

Total direct compensation is comprised of base salary and annual bonus (together, total cash compensation) and long-term incentives. The following analysis considers each element of total direct compensation individually and in aggregate.



## Base Salary

Setting the base salary at an appropriate level is crucial, as institutional investors and proxy advisory firms heavily scrutinise perceived unwarranted increases and above-market pay levels. It is important to consider base salary in the context of the compensation package as a whole, as an increase to base salary can often flow through to the annual bonus opportunity and the value of long-term incentive awards as many companies set short- and long-term opportunities as a percentage of base salary.

The table below presents a quartile analysis of base salary, broken down by the three regions and the largest jurisdictions. This data has not been adjusted to reflect the differing market capitalisations.

### Base Salary (\$'000)

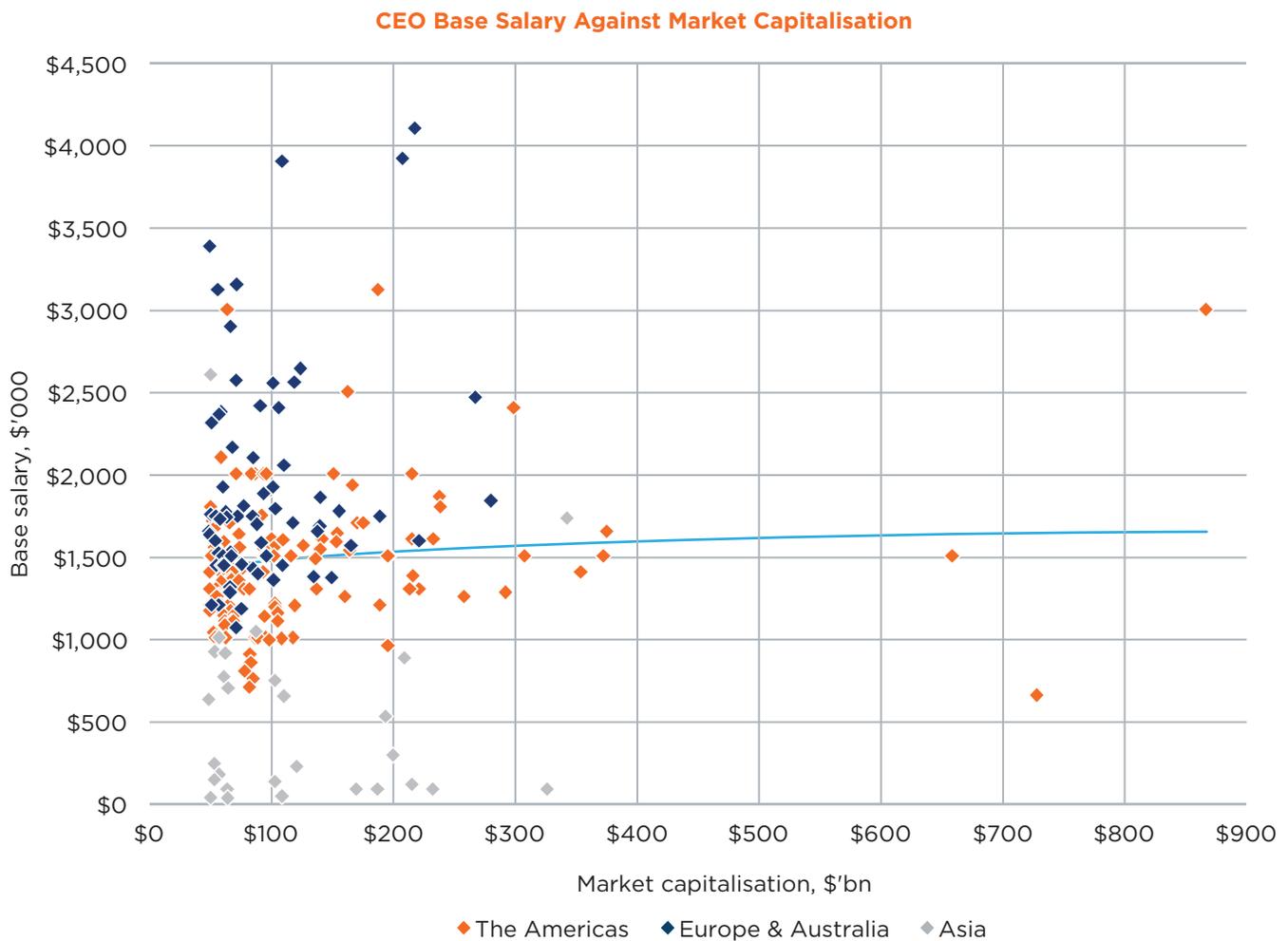
Percentile	CEO			CFO		
	25th	50th	75th	25th	50th	75th
The Americas	\$1,198	\$1,400	\$1,600	\$650	\$800	\$977
Europe & Australia	\$1,499	\$1,741	\$2,235	\$904	\$1,015	\$1,147
Asia	\$80	\$257	\$793	\$152	\$479	\$600
United States	\$1,206	\$1,441	\$1,600	\$675	\$822	\$981
China	\$80	\$80	\$216	\$125	\$152	\$378
France	\$1,387	\$1,478	\$1,726	—	—	—
United Kingdom	\$1,460	\$1,614	\$1,753	\$1,000	\$1,040	\$1,157
Japan	\$757	\$893	\$1,010	—	\$577	—
Germany	\$1,718	\$1,853	\$2,385	\$906	\$997	\$1,173
Canada	\$1,036	\$1,136	\$1,181	\$477	\$498	\$542
Hong Kong	\$127	\$134	\$626	—	—	—

# COMPENSATION LEVELS

The median CEO base salary in Europe & Australia is 24% higher than in the Americas, despite the median market capitalisation being 12% lower. The CEO base salary in Asia is largely driven by those companies in China and Hong Kong that are state-owned. The pay levels of the CEO in state-owned enterprises are regulated by the government and do not fully reflect actual market levels.

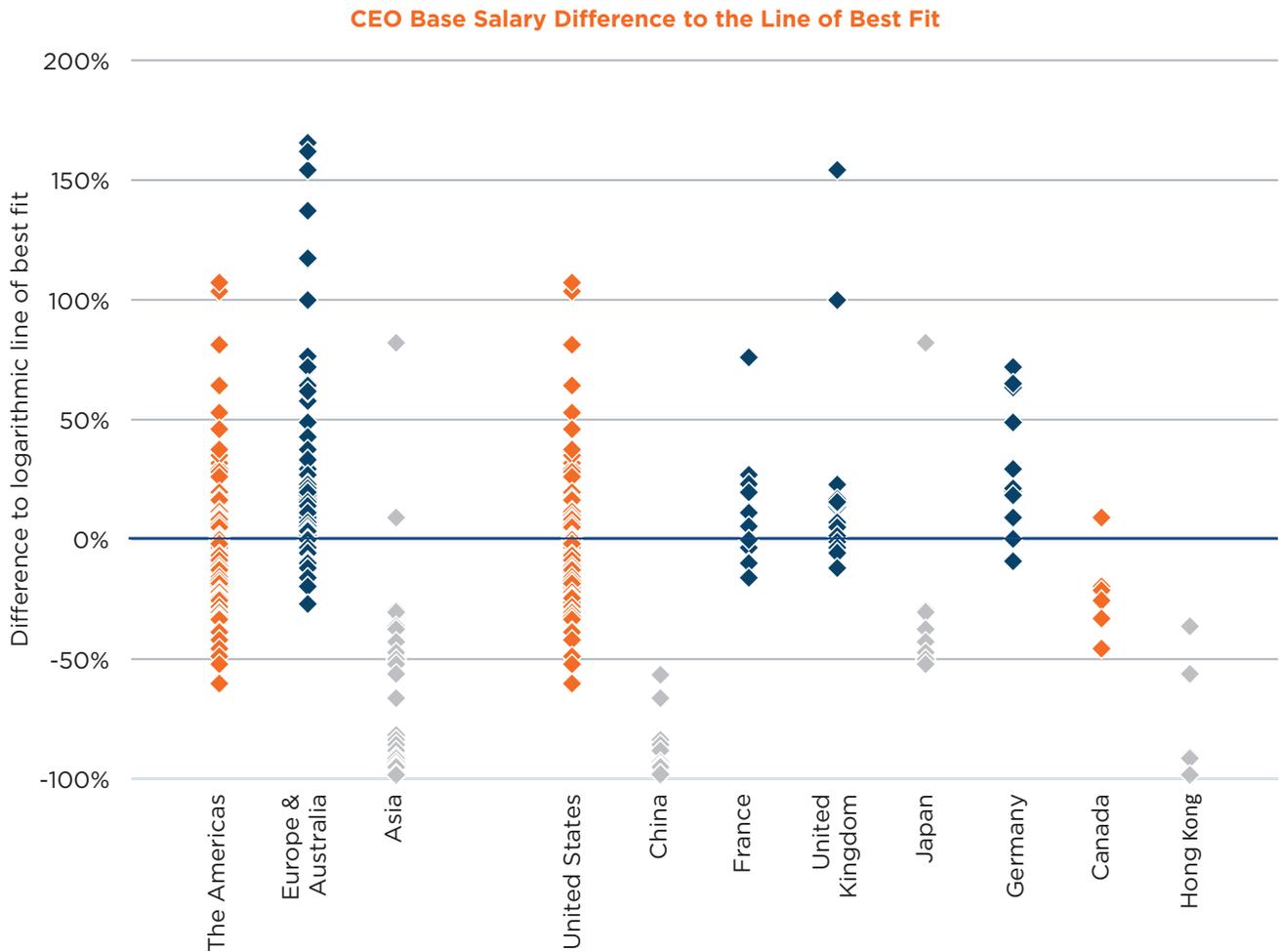
This same pattern is reflected for CFOs, with median base salary for CFOs in Europe & Australia being 27% higher than in the Americas and the median base salary in Asia being lower than the other two regions. The median salary for CFOs in Asia is higher than the median salary for CEOs, reflecting (i) different samples between the two analyses, as some companies do not consistently disclose details of both CEO and CFO compensation; and (ii) state-owned enterprises, where the CFO's salary is close to or even higher than that of the CEO.

The chart below shows the base salary paid to the CEO regressed against the market capitalisation of each company, along with the size-adjusted line of best fit. Data points above the line of best fit represent companies that pay above the global "average" level and those below the line of best fit represent companies that pay below this level.



# COMPENSATION LEVELS

The chart below shows the percentage difference between base salary paid at each company and the line of best fit.



Seventy-eight percent of companies in Europe & Australia pay base salaries that are above the line of best fit, compared with only 43% of companies in the Americas and 7% of companies in Asia. In other words, among the Global Top 250, after adjusting for size, companies in Europe & Australia typically have higher CEO base salaries than companies in the Americas, and companies in Asia typically have lower CEO base salaries than both regions (again, influenced by state-owned enterprises in China).

# COMPENSATION LEVELS

Internal, as well as external, factors play a key role in the setting of compensation levels, with internal relativities being an important input into a compensation review. The following table analyses the relationship between the salary of the CEO and the CFO.

## CFO Base Salary Expressed as a % of CEO Base Salary

Percentile	CFO as % of CEO <sup>3</sup>
	50th
The Americas	57%
Europe & Australia	59%
Asia	90%
United States	58%
China	115%
France	—
United Kingdom	66%
Japan	63%
Germany	51%
Canada	44%
Hong Kong	—

The median relationship is between 55% and 60% in both the Americas and Europe & Australia. In Asia, the median relationship is 90%, driven primarily by China and Hong Kong, partly due to collective accountability for key decisions among Asian companies and that some CFOs recruited from the market may even be paid more than the CEO within state-owned enterprises.

<sup>3</sup> Only companies that disclose data for both the CEO and CFO are included in this analysis.

# COMPENSATION LEVELS

## Annual Bonus

Annual bonus plans are prevalent among companies in the Global Top 250. Most commonly, individuals' bonuses are subject to an annual limit, which is expressed as a percentage of salary. A number of Global Top 250 companies (particularly in Europe & Australia) now defer a portion of annual bonuses into shares, so it is important to look at both the cash and deferred elements when examining annual award levels. Annual bonus deferral remains rare in the Americas and Asia.

The table below shows target annual bonus opportunity for CEOs and CFOs as a percentage of their base salaries, broken down by the three regions and the largest jurisdictions. Where the annual bonus opportunity is not disclosed (as is often the case in Asia), we have taken the average bonus paid over the last three years as a proxy for the target level.

### Target Annual Bonus Opportunity (% of Base Salary)

Percentile	CEO			CFO		
	25th	50th	75th	25th	50th	75th
The Americas	150%	175%	200%	95%	110%	150%
Europe & Australia	97%	100%	142%	90%	100%	124%
Asia	33%	87%	195%	40%	61%	226%
United States	150%	178%	225%	98%	108%	150%
China	5%	66%	125%	—	—	—
France	93%	100%	123%	—	—	—
United Kingdom	100%	100%	120%	90%	100%	113%
Japan	33%	41%	156%	—	36%	—
Germany	100%	119%	203%	100%	103%	159%
Canada	123%	125%	150%	78%	125%	142%
Hong Kong	66%	151%	199%	—	—	—

The highest target bonus levels (as a percentage of base salary) for CEOs and CFOs are seen in the Americas. Median bonus levels are lower in Europe & Australia, although these are typically driven off higher base salaries. In Asia, median bonus levels are more modest, but we see a wider interquartile range of bonuses, with the lower quartile being significantly lower than that in the Americas or Europe & Australia as these mostly reflect state-owned enterprises in China. However, increased globalisation among Asian companies has enhanced international parity at the highest pay levels, as the upper quartile approximates that of the Americas for the CEO. The upper quartile is even higher for the CFO as "target" bonus levels in the region typically reflect actual business performance given low prevalence of true targets (i.e., target bonuses as a percentage of salary).

CFOs' bonuses are distributed differently than those of CEOs, as median levels between the Americas and Europe & Australia are fairly similar (110% of salary and 100% of salary, respectively) while median levels for CFOs in Asia are noticeably lower (61% of base salary).

# COMPENSATION LEVELS

## Total Cash Compensation

Total cash compensation consists of base salary and annual bonus and represents compensation paid during (or soon after) the financial year. The term “cash compensation” has become a misnomer in many jurisdictions, as shareholders and legislators increasingly look to companies to defer a portion of their annual bonus into shares.

The table below presents a quartile analysis of target total cash compensation (i.e., base salary plus either target annual bonus or three-year average bonus where bonus opportunity is not disclosed), broken down by the three regions and the largest jurisdictions. This data has not been adjusted to reflect the differing market capitalisations.

### Target Total Cash Compensation (\$'000)

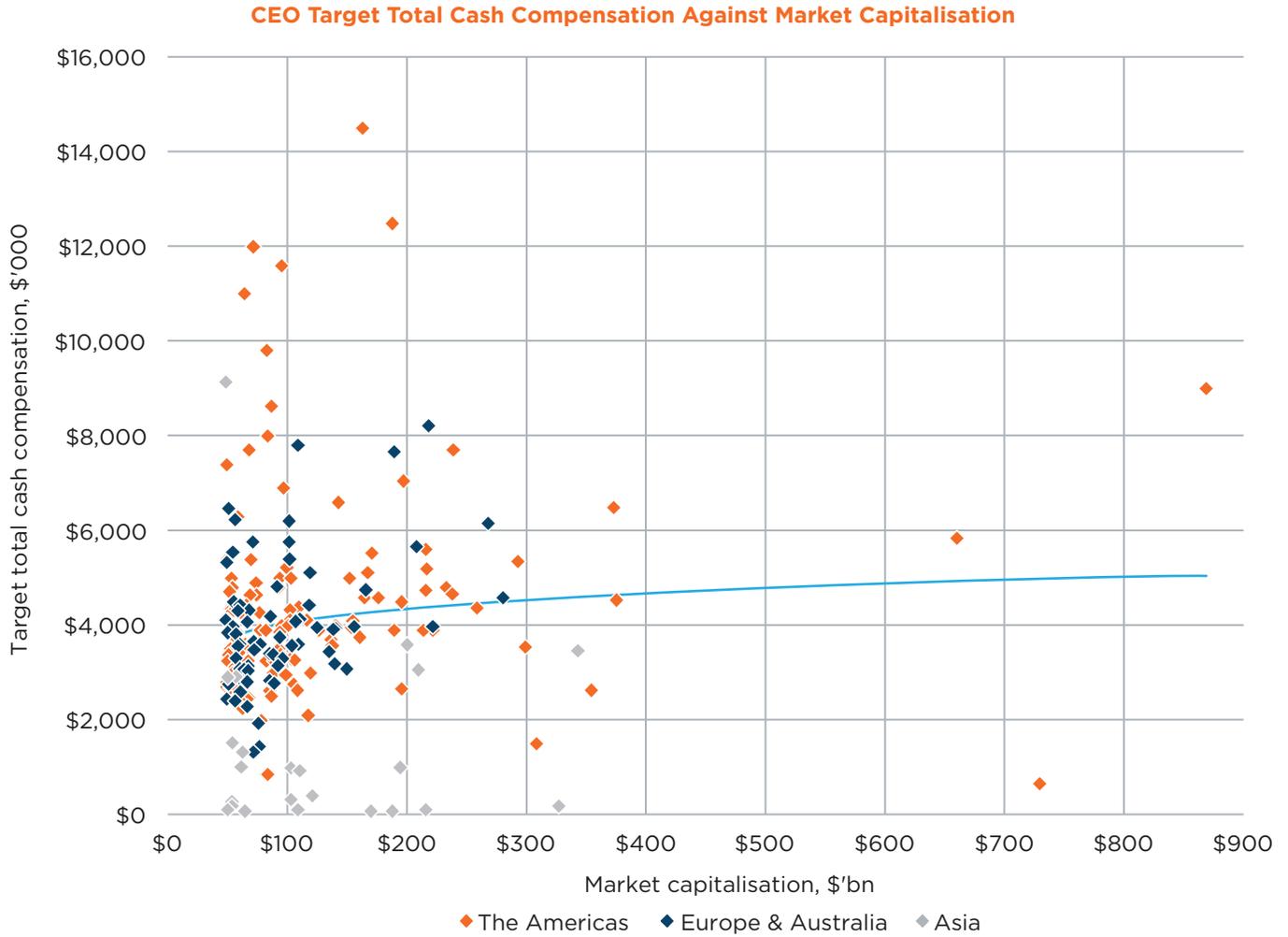
Percentile	CEO			CFO		
	25th	50th	75th	25th	50th	75th
The Americas	\$3,246	\$4,000	\$4,944	\$1,326	\$1,760	\$2,324
Europe & Australia	\$3,150	\$3,852	\$4,543	\$1,827	\$2,089	\$2,579
Asia	\$148	\$931	\$2,213	\$825	\$1,194	\$1,502
United States	\$3,291	\$4,111	\$5,000	\$1,437	\$1,838	\$2,358
China	\$103	\$148	\$372	—	—	—
France	\$2,841	\$3,250	\$3,602	—	—	—
United Kingdom	\$2,890	\$3,341	\$4,052	\$1,908	\$2,226	\$2,435
Japan	\$1,089	\$2,122	\$2,923	—	\$1,054	—
Germany	\$3,838	\$4,663	\$5,439	\$1,945	\$2,416	\$2,935
Canada	\$2,408	\$2,557	\$2,811	\$945	\$1,085	\$1,135
Hong Kong	\$194	\$319	\$1,516	—	—	—

The median CEO target total cash compensation at companies in Europe & Australia is 4% lower than in the Americas; whereas the median base salary was 24% higher among companies in Europe & Australia. In contrast, total cash compensation for the CFO is higher at median in Europe & Australia than in the Americas, which is aligned with higher CFO as a percent of CEO pay in Europe & Australia (as detailed further below).

The median in Asia is significantly lower than in the Americas or Europe & Australia for both the CEO and CFO due to the effect of Chinese state-owned enterprises in China and Hong Kong. The upper quartile of Hong Kong data depicts the companies with total cash levels that are market driven.

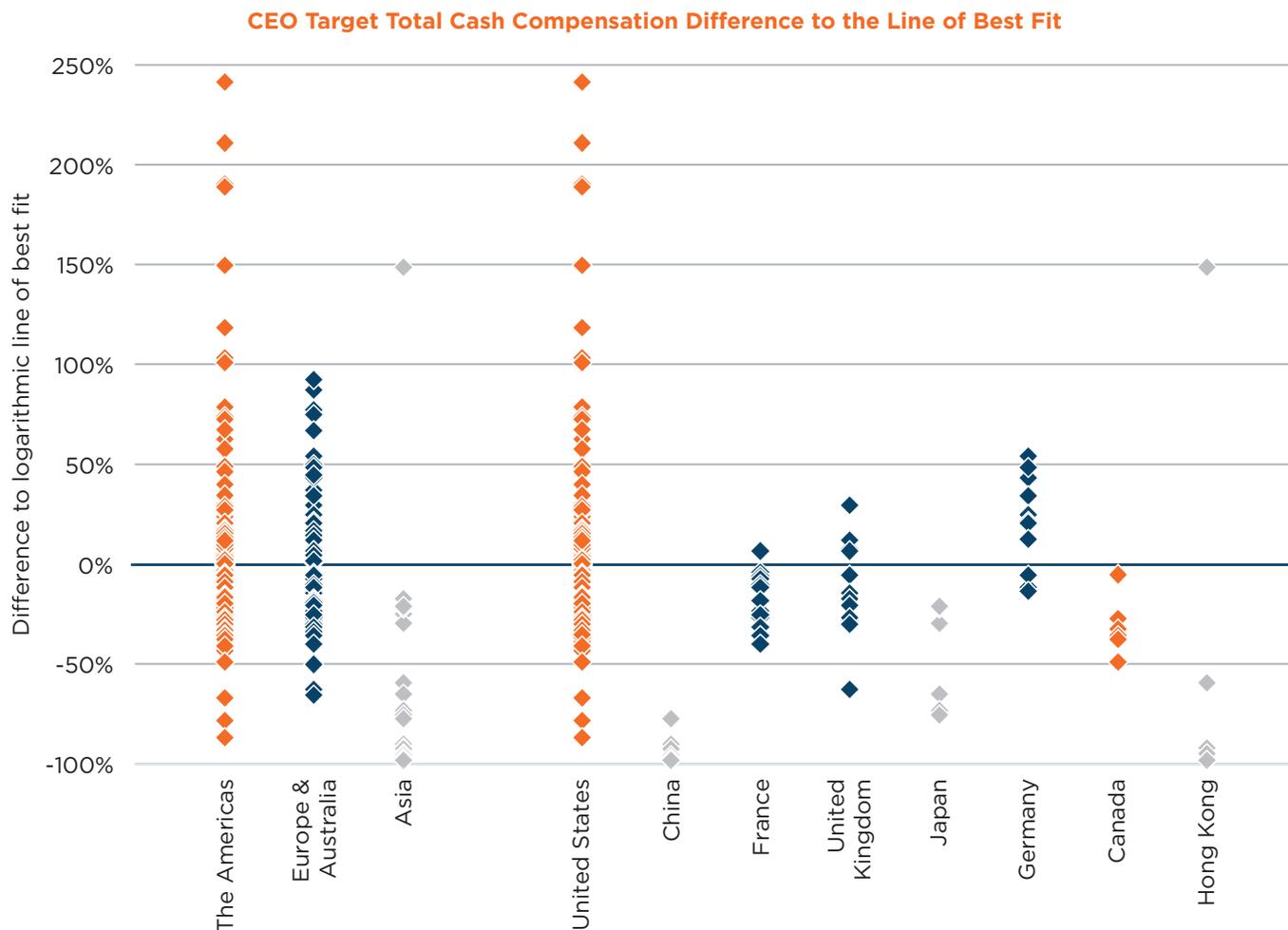
# COMPENSATION LEVELS

The following chart shows the target total cash compensation paid to the CEO regressed against the market capitalisation of each company, along with the line of best fit.



# COMPENSATION LEVELS

The chart below shows the percentage difference between target total cash compensation paid at each company and the line of best fit.



Forty-nine percent of Global Top 250 companies in the Americas have total cash compensation above the line of best fit, compared with 45% of companies in the Europe & Australia and 4% of companies in Asia. In other words, among the Global Top 250, after adjusting for company size, companies in the Americas have target total cash compensation for CEOs which is broadly in line with (although slightly higher than) those of companies in Europe & Australia, and companies in Asia typically have lower CEO total cash compensation than both of the other two regions. When performing the same analysis on base salaries, those in Europe & Australia were highest.

# COMPENSATION LEVELS

The following table analyses the relationship between the target total cash compensation of the CEO and the CFO.

## CFO Target Total Cash Compensation Expressed as a % of CEO Target Total Cash

Percentile	CFO as % of CEO <sup>3</sup>
	50th
The Americas	45%
Europe & Australia	56%
Asia	69%
United States	45%
China	—
France	—
United Kingdom	60%
Japan	54%
Germany	52%
Canada	39%
Hong Kong	—

The median relationship is 45% for companies in the Americas, compared with 57% for base salaries. This is reflective of the material difference in annual bonuses as a percentage of salary between CEOs and CFOs in the Americas (175% of salary at median for CEOs, compared with 110% for CFOs).

In Europe & Australia, the difference is far smaller (56% for total target cash compensation and 59% for base salaries), where median annual bonuses are more similar for CEOs and CFOs (100% of salary for both roles).

In Asia, the median relationship is 69%, compared with 90% for base salary (the median CEO bonus is 87% and the median for CFOs is 61% of salary). Again, this is influenced by the regulated pay levels among state-owned enterprises and collective accountability for key decision-making among some Asian companies.

To some extent, the European data is influenced by the inclusion of UK companies. In the UK, it is typical for the CFO to serve on the Board, which impacts overall pay packages and narrows the ratio between the CEO and CFO compensation.

This suggests that, among companies in Europe & Australia, CEOs and CFOs have structurally more similar cash compensation (with differences primarily driven from base salaries) whereas, in the Americas and in Asia, CEOs receive higher annual bonus levels.

# COMPENSATION LEVELS

## Long-Term Incentives

In addition to annual bonus plans, the majority of companies in the Global Top 250 provide long-term incentives. We separately discuss key LTI design features and performance measures, and how these vary by jurisdiction – see “Long-Term Incentive Design.”

The table below presents a quartile analysis of the value of LTI awards to the CEO and CFO. For consistency in the valuation of LTI awards across regions/jurisdictions, we made the following assumptions:

- Performance-based Stock Options were valued at 20% of the exercise price.
- Time-based Stock Options were valued at 30% of the exercise price.
- Performance Awards were valued at 100% of the target payout. In situations where only the maximum opportunity is disclosed, Performance Awards were valued at 50% of the maximum payout.
- Restricted Stock was valued at 100% of the grant date closing stock price.
- LTI grants were averaged over three years in order to reduce the impact of irregular grant practices.

### Target Value of LTI Awards (% of Base Salary)

Percentile	CEO			CFO		
	25th	50th	75th	25th	50th	75th
The Americas	702%	857%	1133%	369%	467%	641%
Europe & Australia	55%	115%	200%	66%	116%	181%
Asia	0%	0%	0%	0%	0%	8%
United States	707%	873%	1144%	369%	468%	672%
China	0%	0%	0%	-	0%	-
France	70%	122%	148%	-	-	-
United Kingdom	90%	212%	266%	101%	175%	249%
Japan	0%	0%	5%	-	14%	-
Germany	62%	110%	132%	52%	100%	136%
Canada	579%	631%	779%	353%	402%	485%
Hong Kong	0%	0%	0%	-	-	-

# COMPENSATION LEVELS

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In both the Americas and Europe & Australia it is most common to make LTI awards on an annual basis. LTI awards are less common and less frequent in Asia and, when made, are most likely to be awarded sporadically and linked to strategic events such as a pending initial public offering, implementation of a five-year plan, or a change of leadership team.

The highest target values of LTI for CEOs as a percentage of salary are seen in the Americas, with LTI levels significantly higher than annual bonus levels (857% of salary at median, compared with 175% of salary for the annual bonus). In Europe & Australia, the median LTI and median annual bonus are more similar, at 115% of salary and 100% of salary at median, respectively.

The same pattern is seen for CFOs, although the effect is less pronounced as the median for CFOs is approximately half that of CEOs in the Americas. In Europe & Australia, the median LTI fair value as a percentage of salary is nearly the same for CEOs and CFOs.

In Asia, it is less common for companies to disclose the details of an LTI program, with over three quarters of companies not disclosing LTI grant practices. This is due to a substantially lower prevalence of long-term incentive programs in China and Hong Kong where share-based incentives among Chinese state-owned enterprises are regulated.

# COMPENSATION LEVELS

## Total Direct Compensation

Total direct compensation is the aggregate of total cash compensation (base salary and annual bonus) and the value of long-term incentives. When determining the suitability of a compensation package (or any element of a package) it is imperative that the potential level of total compensation is considered. A modest increase in base salary can, in some jurisdictions, result in significant increases in total direct compensation if the annual bonus opportunity and the long-term incentive awards are determined as a percentage of base salary.

Examining the value of all elements of pay in aggregate allows stakeholders to value a compensation package. When calculating total direct compensation, it is important to remember that the targeted values attributed to a package and the actual levels of compensation received are unlikely to be the same. The actual level of total compensation is dependent on performance outcomes for the annual bonus and Performance Awards, and share price movement.

It should be noted that retirement benefits vary considerably between jurisdictions, both in terms of the specific arrangements and value. Further complicating matters is that the costs of such provisions may not be directly borne by the employer, with some countries providing largely uncapped arrangements through government-sponsored programs. Given the differing levels of disclosure, such arrangements have been excluded from the analysis. Companies should be aware of the impact of such arrangements, as it can have a material impact on total compensation levels.

The table below shows a quartile analysis of target total direct compensation, broken down by the three regions and the largest jurisdictions. This data has not been adjusted to reflect the differing market capitalisations.

### Target Total Direct Compensation (\$'000)

Percentile	CEO			CFO		
	25th	50th	75th	25th	50th	75th
The Americas	\$13,333	\$16,664	\$20,248	\$4,208	\$5,881	\$8,239
Europe & Australia	\$4,621	\$6,244	\$7,948	\$2,779	\$3,663	\$4,301
Asia	\$277	\$1,118	\$2,938	\$107	\$840	\$1,326
United States	\$13,835	\$16,875	\$20,592	\$4,537	\$6,161	\$8,427
China	\$134	\$233	\$372	\$100	\$166	\$524
France	\$4,292	\$4,727	\$5,776	—	—	—
United Kingdom	\$6,161	\$7,240	\$7,691	\$3,713	\$4,264	\$4,673
Japan	\$1,123	\$1,284	\$2,919	—	\$1,120	—
Germany	\$5,784	\$6,680	\$7,951	\$3,071	\$3,632	\$3,991
Canada	\$8,817	\$9,625	\$10,362	\$2,868	\$3,269	\$3,547
Hong Kong	\$1,516	\$1,817	\$5,715	—	—	—

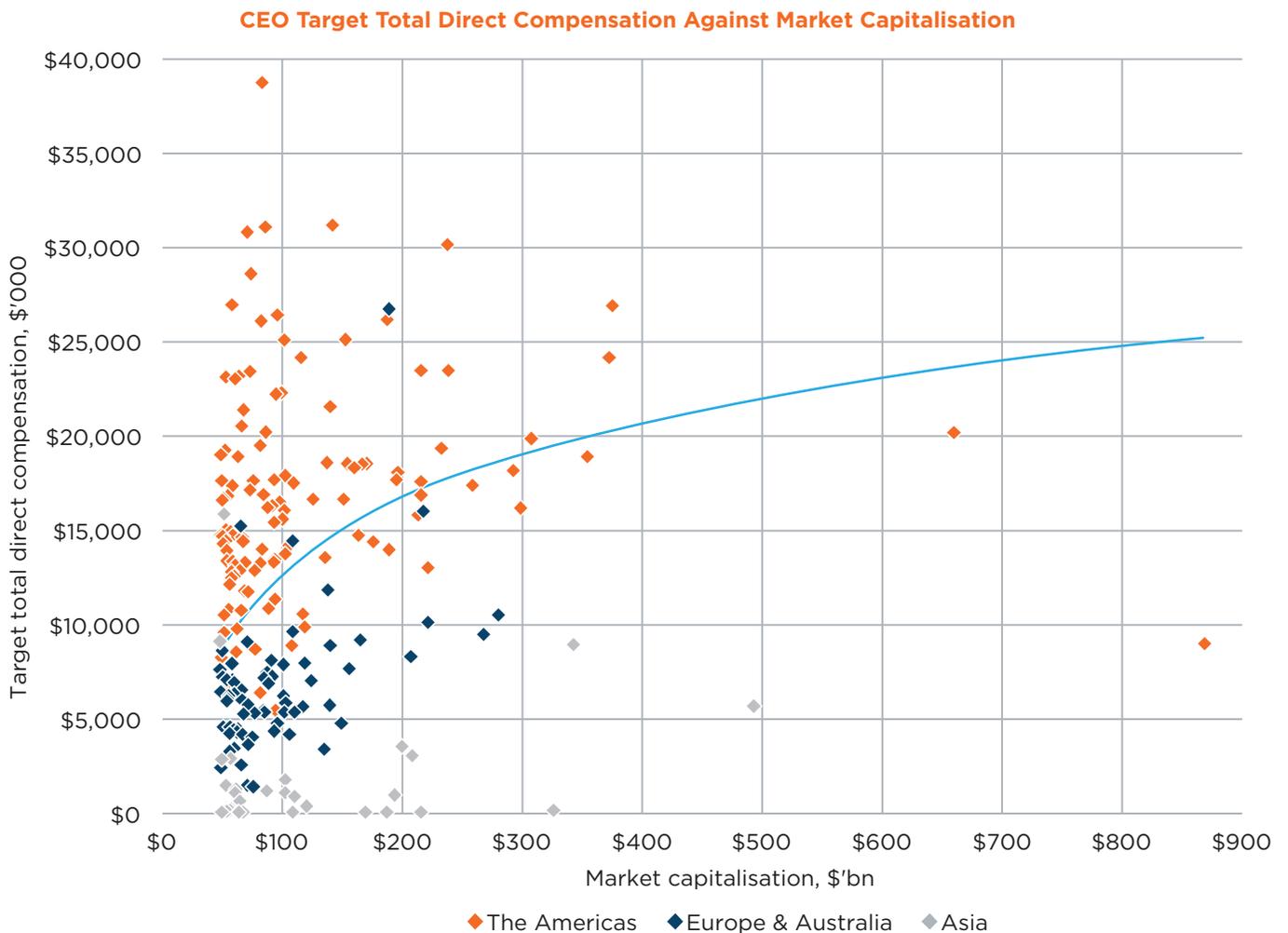
# COMPENSATION LEVELS

The median CEO target total direct compensation in Europe & Australia is 63% lower than in the Americas. By contrast, total cash compensation is 4% lower and base salaries are 24% higher.

The median CFO target total direct compensation in Europe & Australia is 38% lower than in the Americas. Total cash compensation is 19% higher and base salaries are 27% higher.

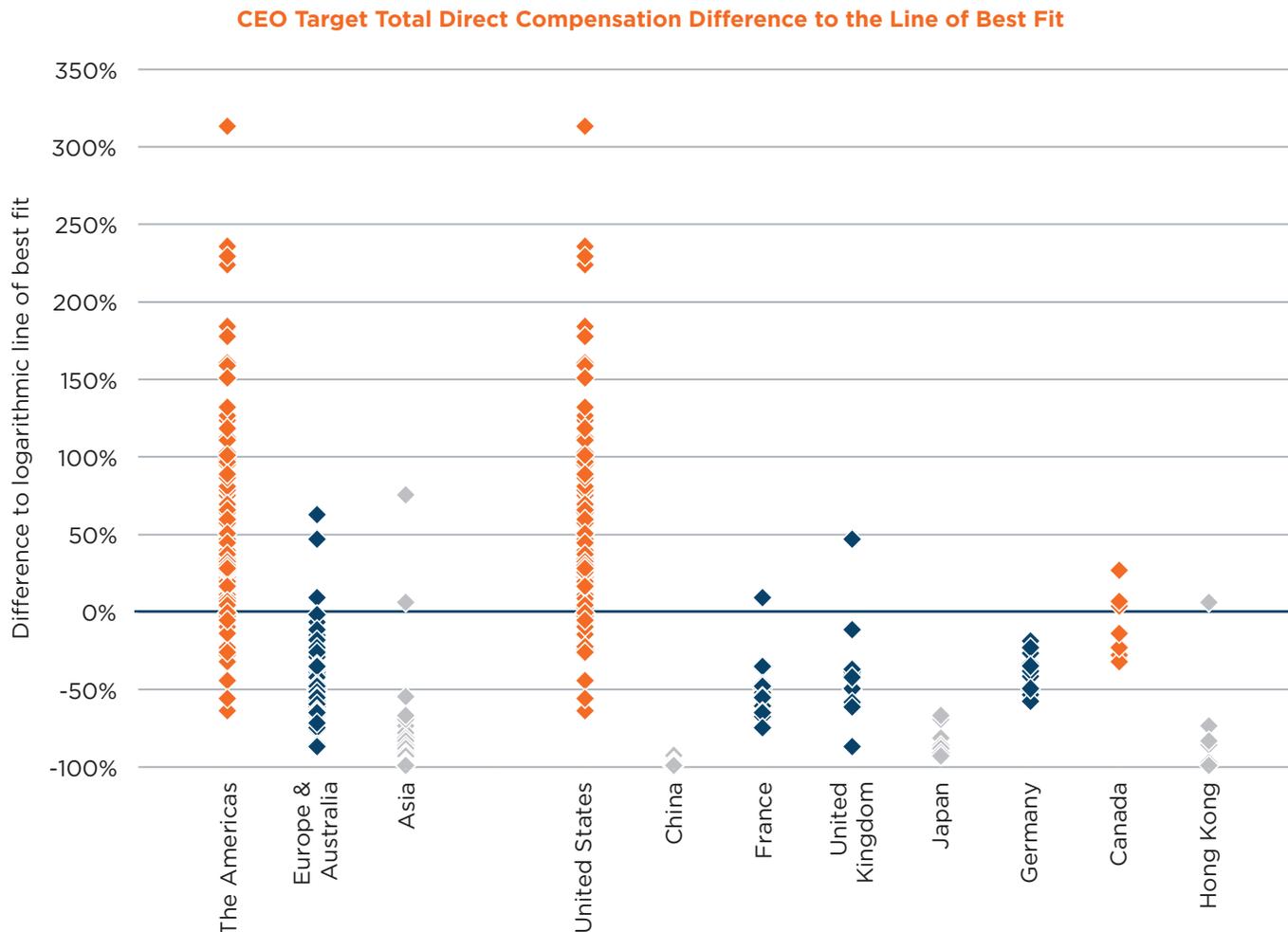
In several jurisdictions, there are companies that disclose total direct compensation but do not provide a breakdown of the individual components of pay. As a result, the total direct compensation data above represents a slightly broader sample than offered in the earlier analysis of total cash compensation and this has caused the median for target total direct compensation in Japan to decrease (by definition, this can be no less than total cash compensation) and for China and Hong Kong to increase significantly, despite only a few examples of long-term incentives disclosed among companies. In all three cases, this movement is driven by a change in sample rather than an underlying pattern in the data.

The chart below shows the target total direct compensation for the CEO regressed against the market capitalisation of each company. We have restricted the axis to show compensation of up to \$40 million, although there are a few isolated examples of companies (all in the Americas) with higher levels of compensation.



# COMPENSATION LEVELS

The chart below shows the percentage difference between total direct compensation at each company and the line of best fit.



Seventy-nine percent of companies in the Americas have packages for the CEO that are above the line of best fit, compared with 4% of companies in Europe & Australia and 6% of companies in Asia. In other words, among the Global Top 250, after adjusting for company size, companies in the Americas have target total direct compensation that is higher than in Europe & Australia and total direct compensation is lower in Asia than in the other regions. This is in contrast to base salaries, where Europe & Australia were highest among the three regions, and target total cash compensation, where the Americas and Europe & Australia were broadly aligned.

# COMPENSATION LEVELS

The following table analyses the relationship between the target total direct compensation of the CEO and the CFO.

## CFO Target Total Direct Compensation Expressed as a % of CEO Target Total

Percentile	CFO as % of CEO <sup>3</sup>
	50th
The Americas	34%
Europe & Australia	51%
Asia	82%
United States	34%
China	93%
France	—
United Kingdom	57%
Japan	64%
Germany	51%
Canada	32%
Hong Kong	—

The median relationship is 34% for companies in the Americas, compared with 45% on total cash compensation and 57% on base salaries. This is reflective of the material difference in the value of LTI as a percentage of salary between CEOs and CFOs in the Americas (857% of salary at median for CEOs, compared with 467% for CFOs).

In Europe & Australia, the difference is far smaller (51% for target total direct compensation, 56% for target total cash compensation and 59% for base salaries), as median values of LTI as a percentage of salary are more similar for CEOs and CFOs (115% of salary and 116% of salary, respectively).

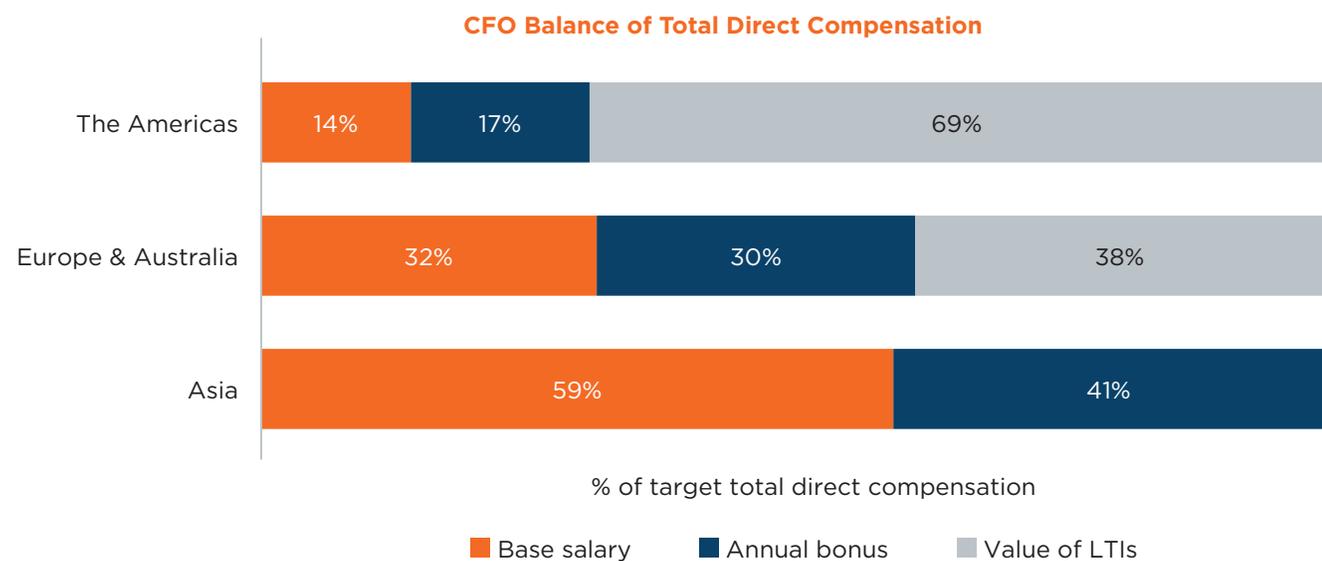
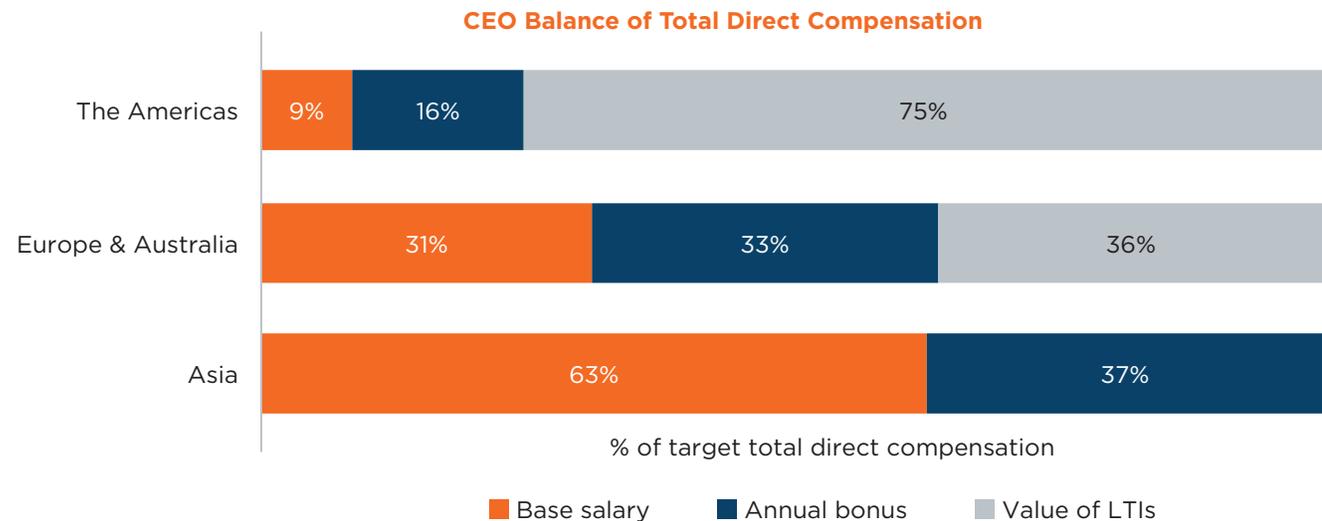
This suggests that, among companies in Europe & Australia, CEOs and CFOs have structurally similar total direct compensation (with differences primarily driven from base salaries) whereas, in the Americas, CEOs receive higher variable pay levels.

The median relationship is 82% for companies in Asia, compared with 69% for target total cash compensation and 90% for base salaries. The volatility in these ratios between base salaries, total cash and total direct compensation is largely due to changes in sample between the three analyses resulting from differing levels of disclosure.

# COMPENSATION LEVELS

## Balance of Total Direct Compensation

The charts below show the median balance of target total direct compensation between base salary, target annual bonus, and the target value of LTI for CEOs and CFOs, broken down into the three regions.



This highlights two key points:

- Compensation is considerably more weighted towards long-term incentives in the Americas, is relatively evenly spread between base salary, annual bonus, and long-term incentives in Europe & Australia, and is split between base salary and annual bonus (weighted more towards base salary) in Asia.
- The structure of compensation does not differ materially between CEOs and CFOs in Europe & Australia or in Asia. Among companies in the Americas, 9% of the total package is base salary for CEOs and 14% is base salary for CFOs. While this difference may not sound large, it is significant as it means that the multiples of salary used for the annual bonus and LTI are considerably lower for CFOs.

# LONG-TERM INCENTIVE DESIGN

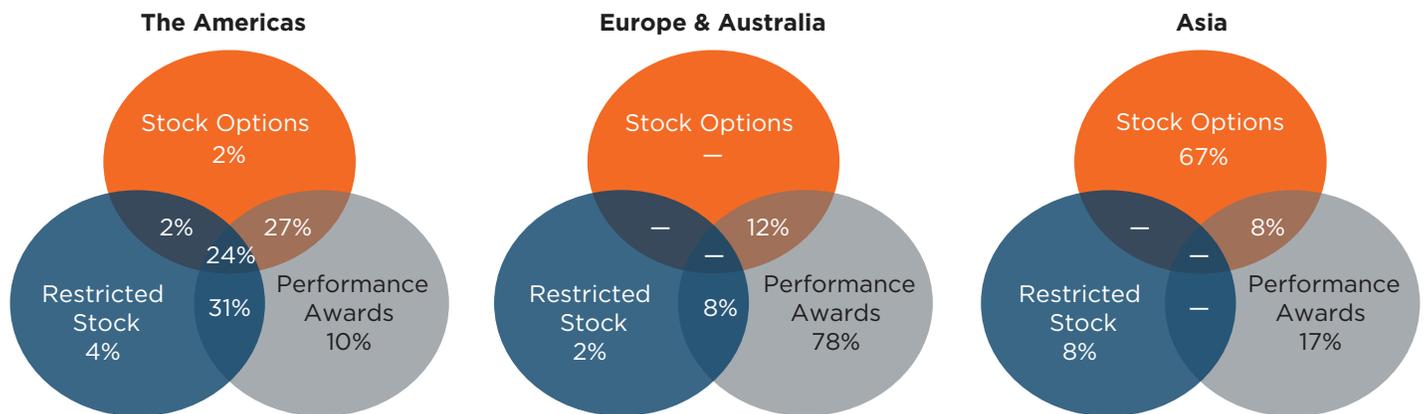
In this section, we discuss key long-term incentive design features and performance measures, and how these vary by region. We categorise the LTI vehicles as follows:

- **Stock Options** – grants of stock options or stock appreciation rights (“SARs”) with the strike price based on the market price at grant; typically not subject to pre-vest performance conditions.
- **Restricted Stock** – grants of free stock or stock units which vest based on time only and are not subject to performance conditions.
- **Performance Awards** – grants of free stock, stock units, or long-term cash which vest based on time and are subject to performance conditions.

A significant proportion of companies in the Global Top 250 operate more than one type of LTI vehicle for their CEO and/or CFO. This is most common in the Americas, where 84% of packages combine at least two of Stock Options, Restricted Stock and, most commonly, Performance Awards. Levels of LTI disclosure vary between (and within) regions and, in certain jurisdictions (such as Brazil, China, and Hong Kong), it is uncommon for companies to disclose the details of their LTI program at all.

The Venn diagrams below show the prevalence of different LTI structures, where an LTI is operated and disclosed, broken down by region. Ninety-six percent of companies in the Americas and 85% of companies in Europe & Australia disclosed the operation of an LTI program, compared with only 29% of companies in Asia.

## Long-Term Incentives Available to the Chief Executive Officer and Chief Financial Officer



In the Americas, Performance Awards are the most common LTI vehicle, with 92% of companies with an LTI program granting awards of performance stock, units, or long-term cash. Restricted Stock is the second most common (61%), followed closely by Stock Options (55%).

In Europe & Australia, it is almost universal practice to grant awards of Performance Awards, with 98% of companies with an LTI program granting such awards. There are only limited examples of Restricted Stock (10%) or Stock Options (12%).

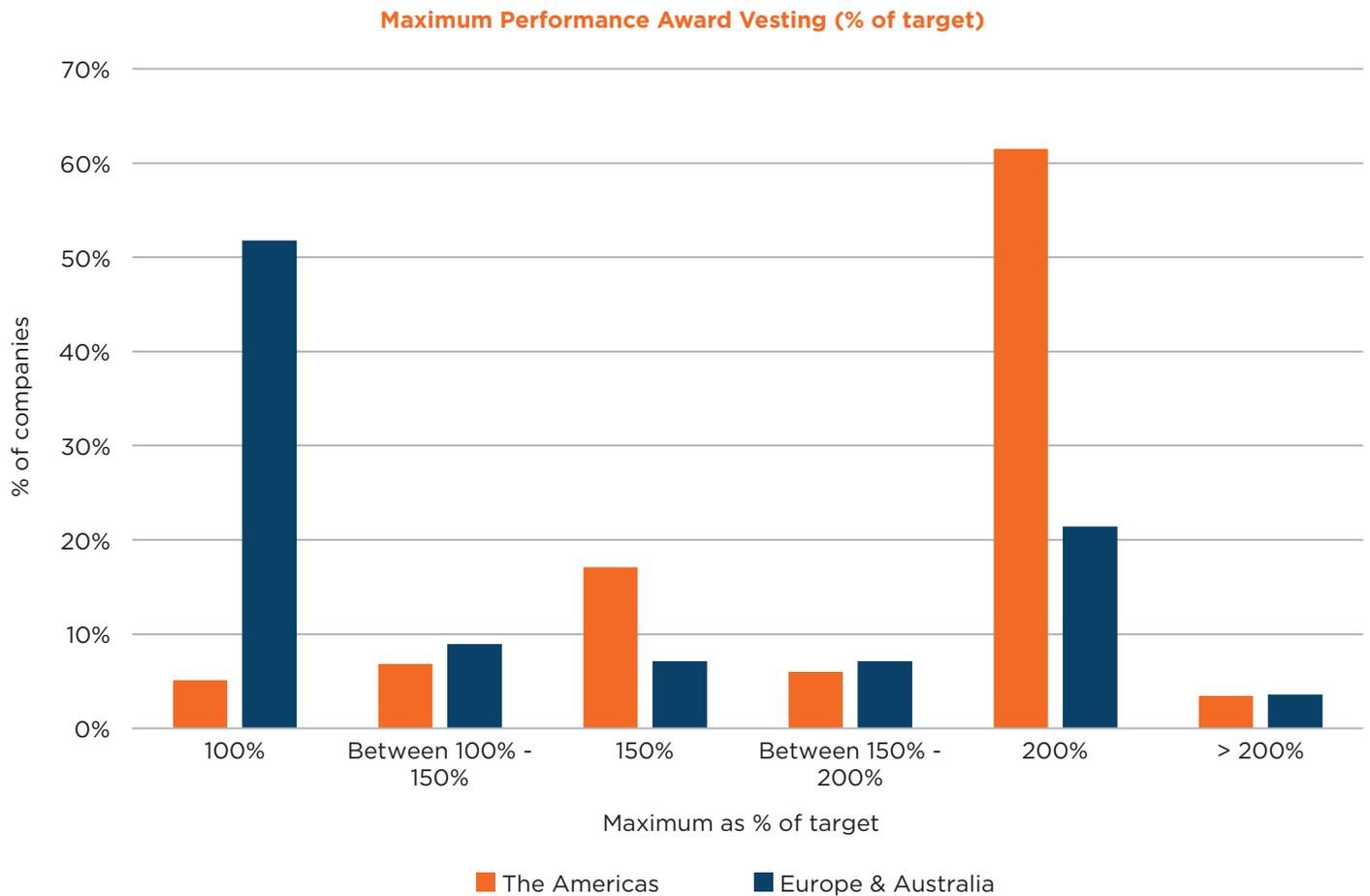
# LONG-TERM INCENTIVE DESIGN

Conversely, in Asia (although we note that the sample is small) 75% of companies with an LTI program grant awards of Stock Options, compared with only 25% granting awards of Performance Awards and 8% granting awards of Restricted Stock.

There has been a movement away from the sole use of time-based awards in the US in recent years, with companies increasingly moving towards LTI structures more directly linked to performance. Conversely, in the UK and Australia, we are seeing the beginnings of a movement in the other direction, away from the perceived high and volatile outcomes associated with Performance Awards and towards more stable Restricted Stock. In Asia, Stock Options are not as popular as a decade ago due to less favourable accounting treatment nowadays. Thus, shareholders are reluctant to see share dilution without any performance conditions.

The way in which companies determine and disclose Performance Award values vary significantly between jurisdictions. In the US, the largest jurisdiction in the Global Top 250, companies typically determine a “target” award level, with a threshold and a maximum defined as a percentage of the target (for example, from 50% of target to 200% of target). In other jurisdictions (e.g., the UK), an award is made over a maximum number of shares with vesting between, for example, 25% and 100% of the maximum value. While the precise wording differences could be dismissed as semantics, this is reflective of a genuine design difference; among UK companies (and many others in Europe) no “target” level is defined.

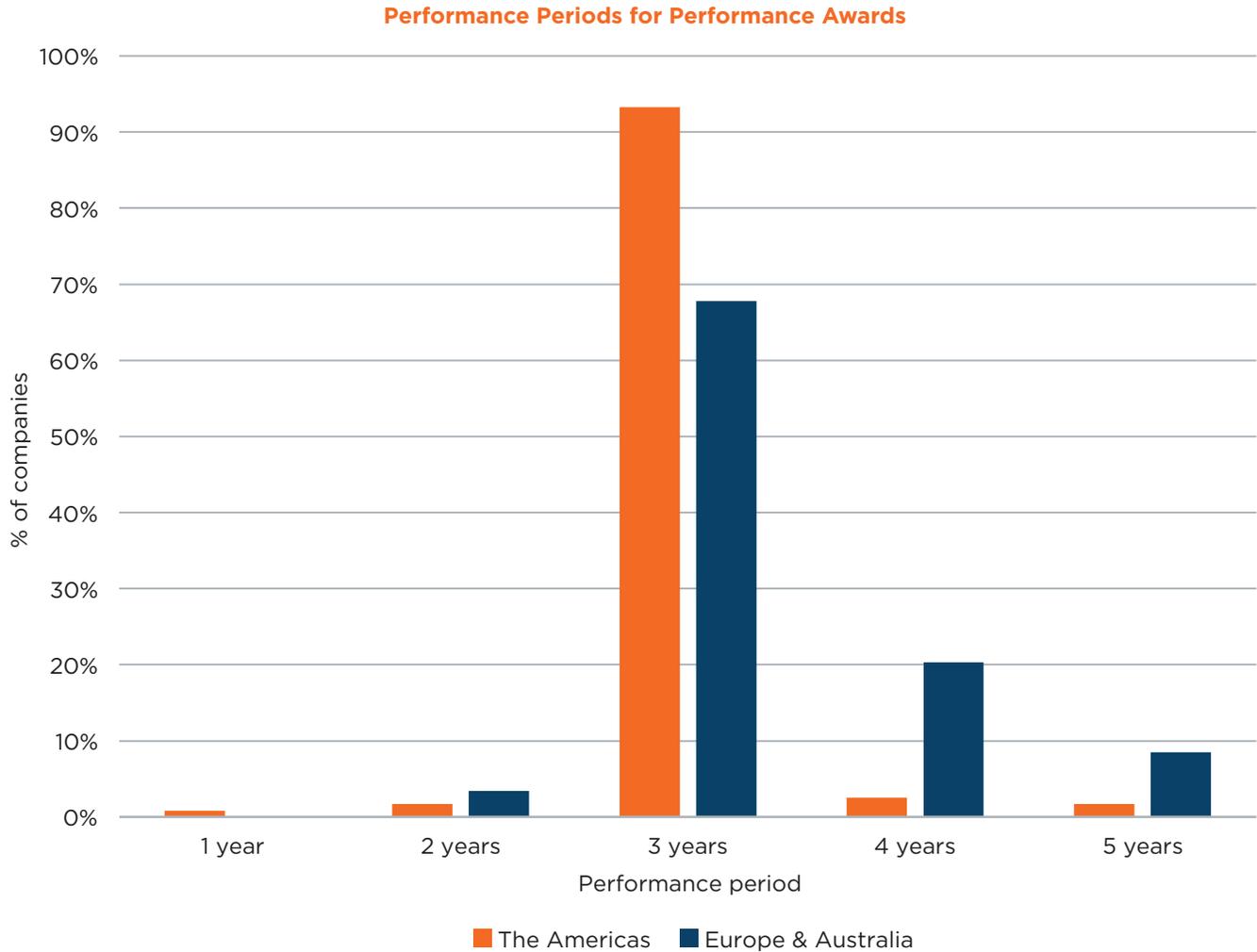
The chart below shows the prevalence of the different maximum payouts of target awards. We have included companies where the award is made over a maximum number of shares with no “target” level defined at 100%. Due to a lack of disclosure, Asia has been excluded from this analysis. In our experience, the maximum LTI vesting ratio is usually capped at 150% in Asia.



# LONG-TERM INCENTIVE DESIGN

## Performance Award Vesting Schedules

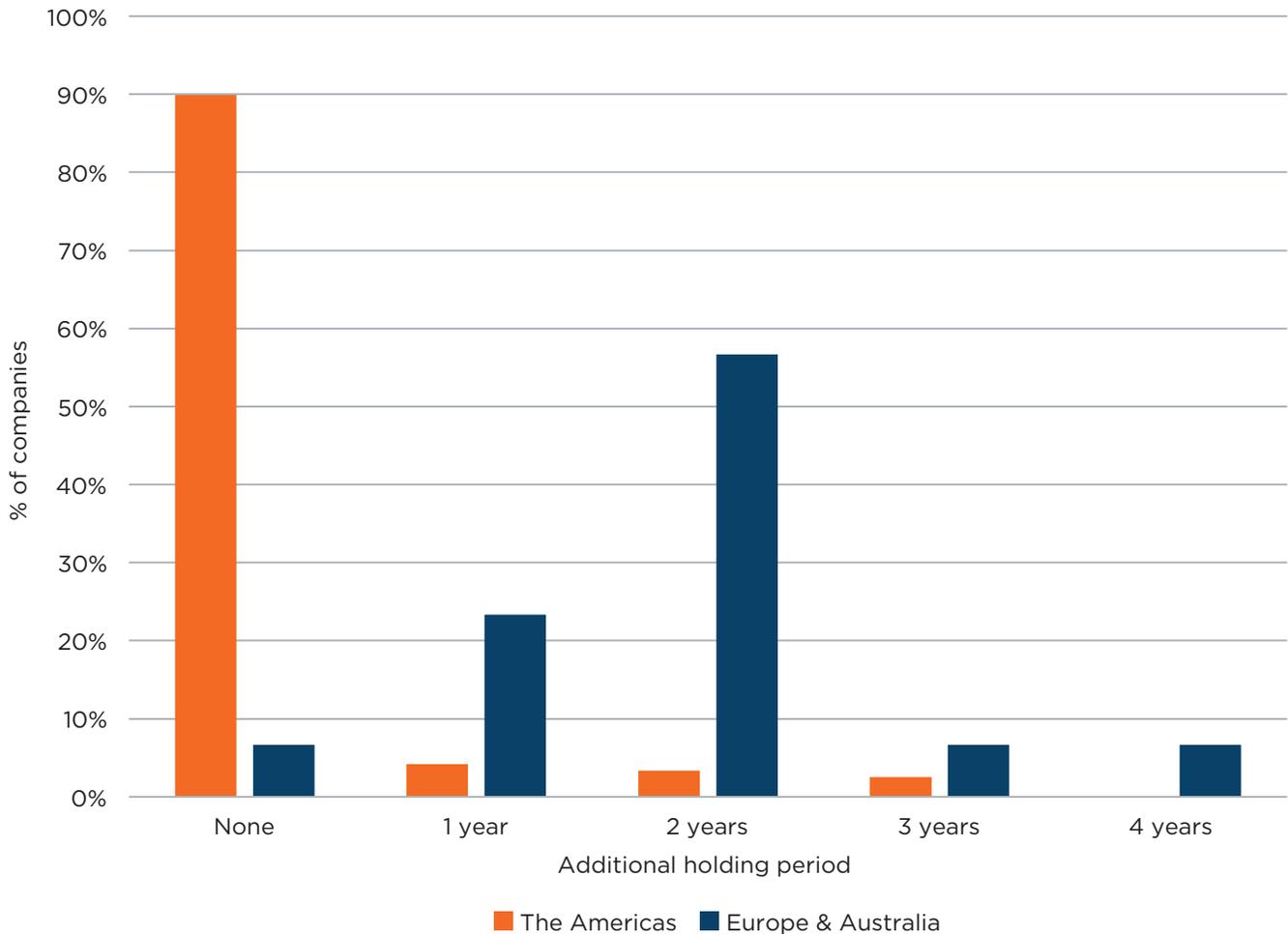
The following chart provides a breakdown of the duration of performance periods for Performance Awards. Performance Awards are considerably more common among companies in the Americas and Europe & Australia than among companies in Asia; accordingly, companies in Asia have been excluded from this analysis.



# LONG-TERM INCENTIVE DESIGN

In addition to the performance periods, a number of companies operate further “holding periods” on Performance Awards, which mean that Performance Awards do not vest, or cannot be sold, for a period after the end of the performance period. This is minority practice in the Americas but is common among companies in Europe & Australia.

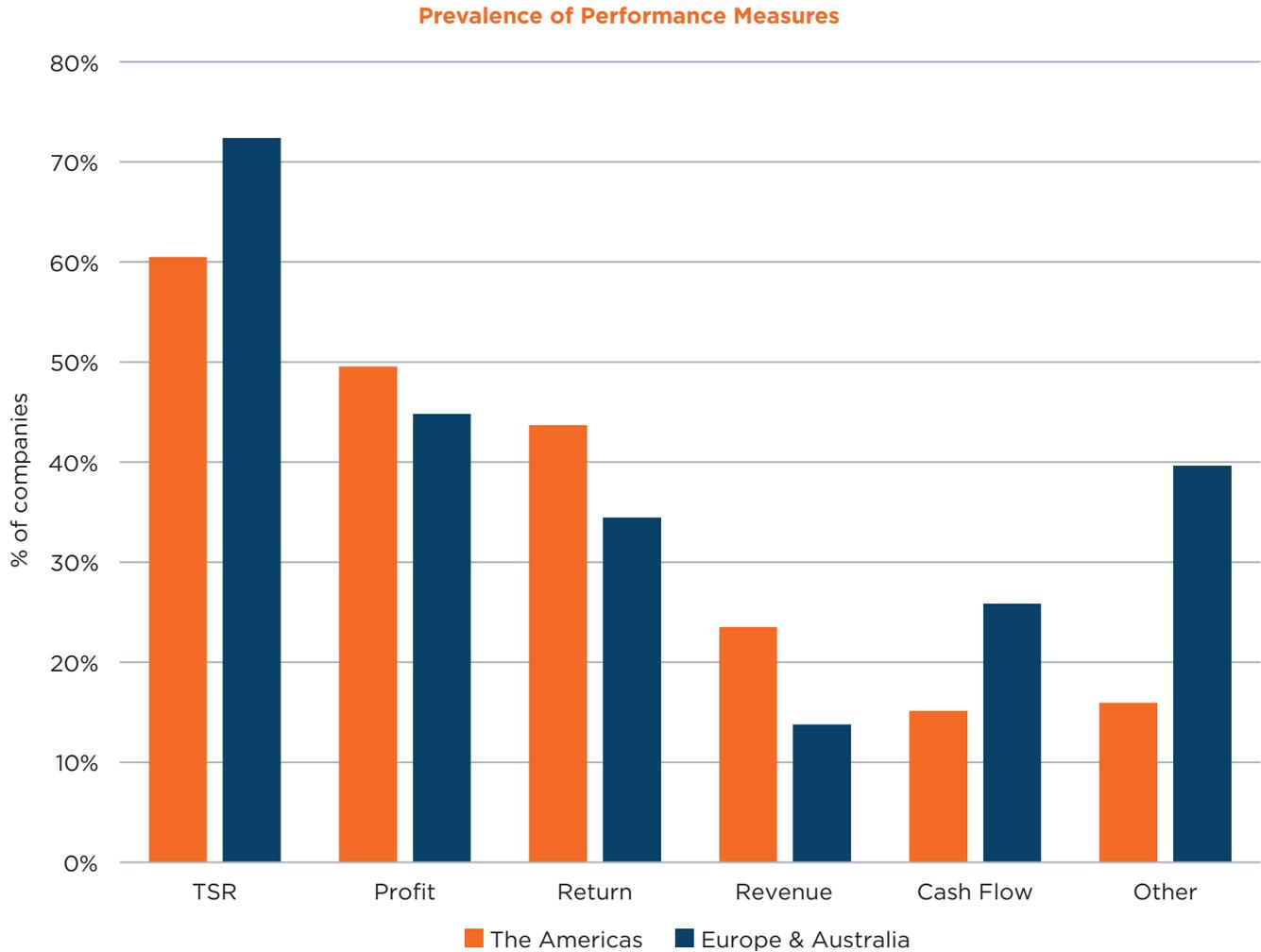
## Additional Holding Periods for Performance Awards



# LONG-TERM INCENTIVE DESIGN

## Measuring Long-Term Performance

Seventy-three percent of companies in the Global Top 250 disclose granting of Performance Awards. The chart below shows the prevalence of performance measures used in these plans. As only a few of these companies are in Asian jurisdictions, we have excluded Asia from this analysis.

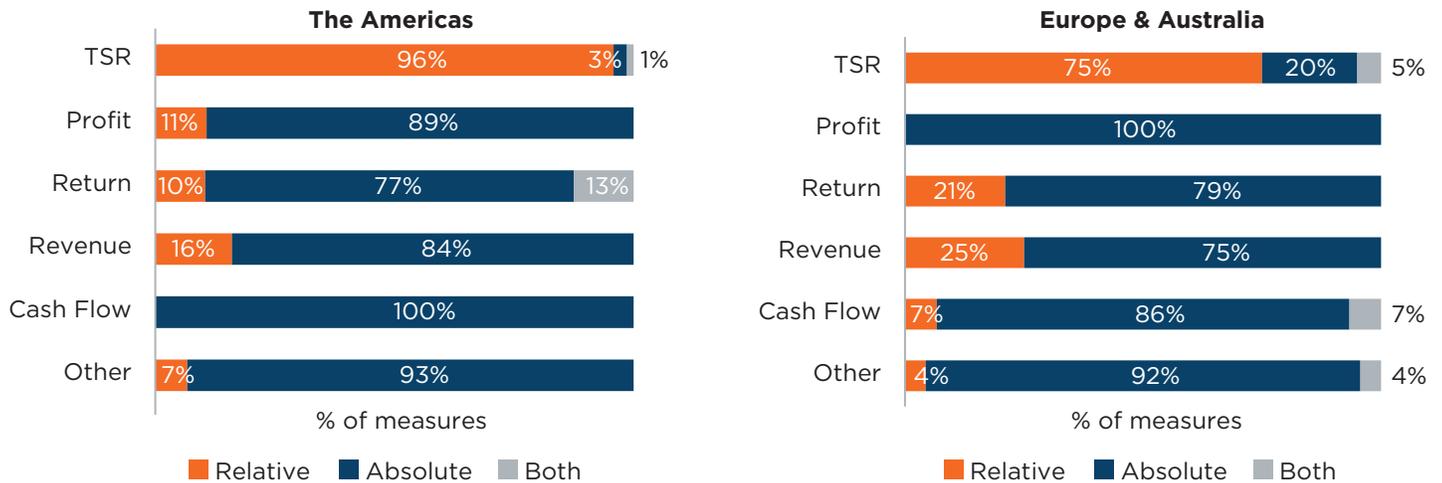


Total Shareholder Return (“TSR”) and profit measures (such as Earnings Per Share) are the most common performance measures in both the Americas and Europe & Australia.

# LONG-TERM INCENTIVE DESIGN

With the exception of TSR, it is most common for companies to measure their performance on an absolute basis. The charts below show the percentage of companies measuring each performance measure on a relative basis, an absolute basis, and on both bases.

**Basis of Performance Measurement**



In the Americas, 96% of companies with a TSR performance measure use only relative measurement, while 3% measure TSR on an absolute basis only and 1% measure TSR on both bases. In Europe & Australia, it is more common (although still minority practice) to measure TSR on an absolute basis, with 75% measuring on a relative basis only, 20% on an absolute basis only, and 5% measuring on both bases.

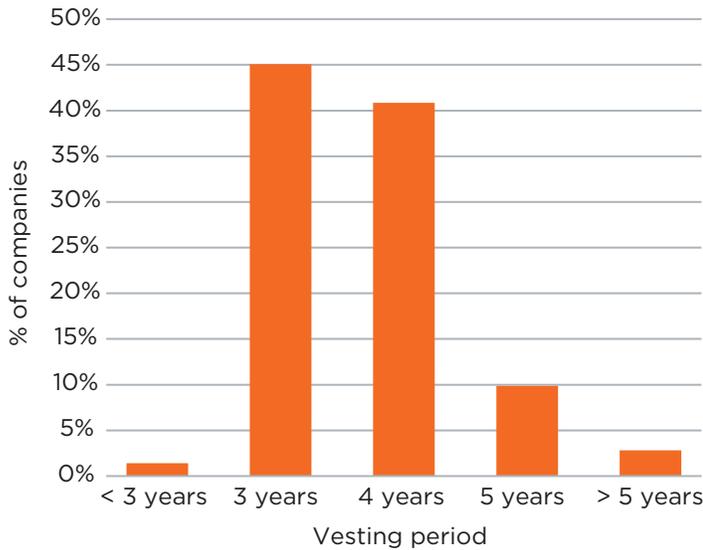
This suggests that relative TSR is the most common measure both in the Americas and in Europe & Australia. However, it should be noted that the same scales do not apply globally. In the US, it would be typical for the performance vesting scale to be wider (with lower quartile being the threshold and upper quartile the maximum against a target payout at median) while, in Europe & Australia, the most common scales are median to upper quartile. Further, the proportion of maximum payable for achieving a median level of performance varies from, typically, 50% in the Americas (and also in Australia) to 25% in much of Europe.

# LONG-TERM INCENTIVE DESIGN

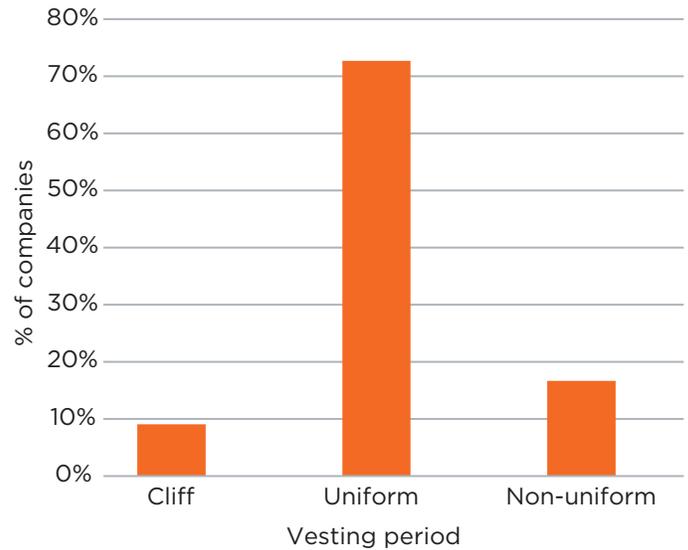
## Stock Options and Restricted Stock Vesting Schedules

The charts below show a breakdown of the vesting periods for Stock Options and whether vesting occurs all at once (“cliff vesting”) or in tranches, either “uniform” (i.e., vesting in equal increments; such as 25% per year over a four-year term) or “non-uniform” (i.e., vesting in non-equal increments; such as 50% after 2 years and 25% after 3 years and 4 years over a four-year term). Due to the lack of Stock Option awards among companies in Europe & Australia and a lack of disclosure among companies in Asia, this analysis is shown only for companies in the Americas.

**Vesting Periods for Stock Options**

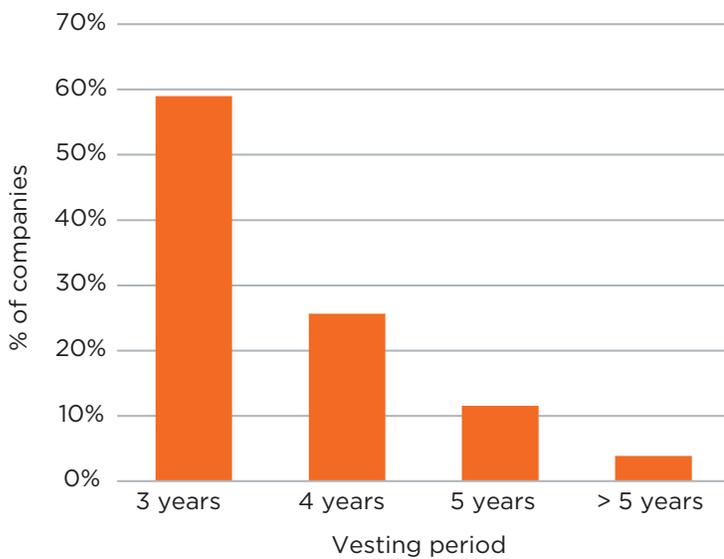


**Type of Vesting for Stock Options**

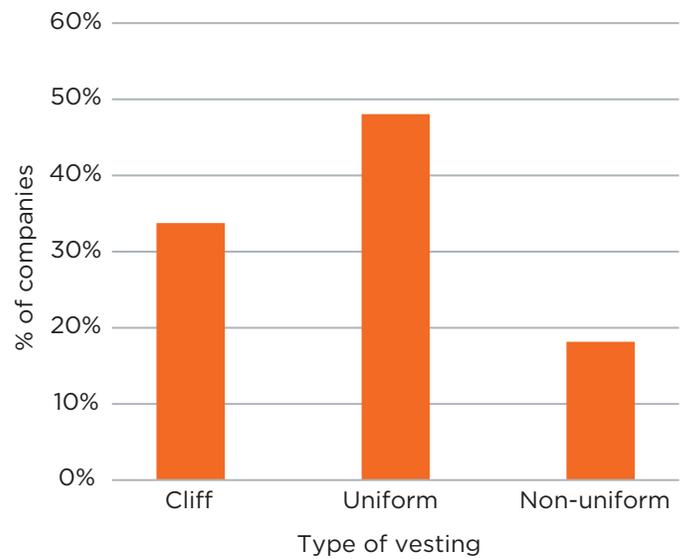


The following charts show a breakdown of the vesting periods for Restricted Stock and whether vesting is cliff or in uniform or non-uniform tranches. Again, due to the lack of Restricted Stock awards among companies in Europe & Australia and Asia, this analysis is shown only for companies in the Americas.

**Vesting Periods for Restricted Stock**



**Type of Vesting for Restricted Stock**



# SHARE USAGE

As well as potentially incurring an accounting charge, shareholders of companies which operate stock plans can also be diluted if new stock is issued in order to settle awards. The amount of stock issued or purchased each year as a percentage of total issued share capital is called the “run rate.” In order to provide a more representative analysis, we have analysed the average run rate over the last three years by region and jurisdiction.

The table below shows a quartile analysis of the three-year run rate (excluding companies where no shares have been disclosed to be issued or purchased), broken down by the three regions and the largest jurisdictions. This data has not been adjusted to reflect the differing market capitalisations.

## Three-Year Average Run Rate (% of total issued share capital)

Percentile	Run Rate		
	25th	50th	75th
The Americas	0.31%	0.68%	1.04%
Europe & Australia	0.09%	0.18%	0.33%
Asia	0.01%	0.08%	0.20%
United States	0.35%	0.70%	1.06%
China	—	—	—
France	0.13%	0.19%	0.33%
United Kingdom	0.11%	0.19%	0.36%
Japan	0.01%	0.08%	0.15%
Germany	0.19%	0.25%	0.30%
Canada	0.14%	0.21%	0.45%
Hong Kong	—	—	—

# SHARE USAGE

The chart below shows the three-year average run rate against the market capitalisation of each company, along with the line of best fit. We have restricted the axis to show a run rate of up to 5% of issued share capital, although there are a few isolated examples of companies with higher run rates.



# METHODOLOGY

Companies in the Global Top 250 have been determined based on market capitalisation as of December 31, 2017. All currencies have been converted to US dollars based on currency conversion rates as of December 31, 2017. Data used in this report has been sourced from publicly-available company filings and disclosures, and we have included publications as of April 30, 2018.

We have obtained data for the following roles:

**Chief Executive Officer** – this is the CEO or closest equivalent; and

**Chief Financial Officer** – this is the CFO or most senior financial executive.

New joiners are included within the analysis when the company provided sufficient information to calculate on-going total direct compensation.

In analysing the data, we have used the following methodology:

Compensation Element	Methodology
<b>Base salary</b>	Reported, unadjusted current salary or salary paid in the prior year.
<b>Target annual bonus</b>	Based on the target level, if disclosed. If the target level is not disclosed, we have used 50% of the maximum. If neither is disclosed, the average actual bonus paid over the last 3 years was assumed to be at the target level.
<b>Target total cash compensation</b>	The aggregate of base salary and the target annual bonus.
<b>Long-term incentives</b>	Long-term incentives reflect a three-year average of actual grants to minimise the impact of irregular grant practices across regions/jurisdictions. Levels have been assumed to be 20% of exercise price for Performance-based Stock Options, 30% of exercise price for Time-based Stock Options, 100% of grant date fair value for target payout of Performance Awards (or 50% of maximum where only a maximum amount has been disclosed) and 100% of the grant date closing price for Restricted Stock.
<b>Target total direct compensation</b>	The aggregate of target total cash compensation and the value of long-term incentives.
<b>Exchange rates</b>	All data in this report are expressed in US\$. Where disclosures are in an alternative currency, the exchange rate as of December 31, 2017 has been used.

*This report is intended to be a summary of key issues but is not comprehensive and does not constitute advice. No legal responsibility is accepted by any of the contributing firms as a result of reliance on the contents of this report.*

# FIRM PROFILES

## FW Cook

FW Cook is an independent consulting firm specializing in executive and director compensation and related corporate governance matters. Formed in 1973, the firm has served more than 3,000 companies of divergent size and business focus from its offices in New York, Chicago, Los Angeles, San Francisco, Atlanta, Houston and Boston. It currently serves as the independent advisor to the compensation committees at a substantial number of the most prominent companies in the U.S.

## FIT Remuneration Consultants

FIT Remuneration Consultants is one of Europe's largest independent remuneration consultancies. The firm was founded in 2011 and is run by its seven partners, each having an average 20 years' experience in executive compensation. FIT advises some of Europe's largest listed companies, mutuals and other organisations from its offices in London.

## Pretium Partners

Pretium Partners is an independent management consulting firm that helps accelerate clients' growth, increase profitability, and transform the company through effective reward, performance, and strategic human resources strategy. Pretium advises Asian clients on the people aspects during transformation, with reference to business needs, the latest market data, corporate governance trends and best practices.

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# COMPANIES IN THE 2018 GLOBAL TOP 250

3M	Bayer	Colgate-Palmolive
ABB Ltd.	BBV Argentaria	Comcast
Abbott Laboratories	Becton Dickinson	Commonwealth Bank of Australia
Abbvie	Berkshire Hathaway	ConocoPhillips
Accenture	BHP Billiton	Continental
Adobe Systems	Biogen	Costco
AETNA	Bank of Nova Scotia	CRRC Corporation
Agricultural Bank of China	BlackRock	CSL
AIA Group	BMW	CSX Corporation
Air Liquide	BNP Paribas	CVS Health
Airbus	Bank of China (Hong Kong)	Daimler
Allergan	Boeing	Danaher
Allianz	Booking Holdings	Danone
Alphabet	BP	Deere & Company
Altria Group	Bristol-Myers Squibb	Deutsche Post
Amazon.com	British American Tobacco	Deutsche Telekom
Ambev S.A.	Broadcom	Diageo
American Express	Canadian National Railway Company	Dominion Energy
American International Group	Canon	DowDuPont
American Tower	Caterpillar	Duke Energy
Amgen	Celgene	Eli Lilly
Anheuser-Busch InBev	Charles Schwab	Enbridge
Anthem	Charter Communications	Enel
Apple	Chevron	Eni
Applied Materials	China Construction Bank	EOG Resources
ASML Holding	China Life Insurance	Equinor
AstraZeneca	China Merchants Bank	ExxonMobil
AT&T	China Mobile	Facebook
Atlas Copco	China National Offshore Oil Corporation	FANUC
Australia and New Zealand Banking Group	China Pacific Insurance (Group)	FedEx
Automatic Data Processing	China Petroleum & Chemical	Ford Motor
AXA	China Shenhua Energy	Gazprom
Baidu	China Yangtze Power	General Dynamics
Banco Bradesco S.A	Christian Dior	General Electric
Banco Santander	Chubb	General Motors
Bank of America	Cigna	Gilead Sciences
Bank of China	Cisco Systems	GlaxoSmithKline
Bank of Communications	Citigroup	Glencore
Bank of Montreal	CK Hutchison Holdings	Goldman Sachs
Bank of New York Mellon	CME Group	Heineken
BASF	Coca-Cola	Henkel
		Hermes Intl.

# COMPANIES IN THE 2018 GLOBAL TOP 250

Home Depot	National Australia Bank	Schneider Electric
Hon Hai Precision Industry	Nestle	Shanghai Pudong Development Bank
Honda Motor	Netflix	Siemens
Honeywell Intl.	NextEra Energy	Simon Property Group
HSBC Holdings	Nike	SK Hynix
Iberdrola	Nippon Telegraph & Telephone	SoftBank Group
IBM	Nordea Bank	Sony
Illinois Tool Works	Northrop Grumman	Starbucks
Inditex	Novartis	Stryker
Industrial & Commercial Bank of China	Novo Nordisk	Sumitomo Mitsui Financial Group
Industrial Bank	NTT DoCoMo	Suncor Energy
ING Groep	Nvidia	Taiwan Semiconductor Manufacturing Corporation
Intel	OC Rosneft	Telefonica
Intesa Sanpaolo	Occidental Petroleum	Tencent Holdings
Itau Unibanco	Oracle	Tesla
Japan Post Holdings	PayPal	Texas Instruments
Japan Tobacco	PepsiCo	Thermo Fisher Scientific
JD.com	PetroChina	Time Warner
Johnson & Johnson	Petroleo Brasileiro	T-Mobile US
JP Morgan Chase & Co.	Pfizer	Toronto-Dominion Bank
KDDI	Philip Morris International	Total
Kering	Phillips 66	Toyota Motor
Kraft Heinz	Ping An Insurance (Group) of China	Twenty-First Century Fox
Kweichow Moutai	PNC Financial Services	UBS Group
Lloyds Banking Group	Procter & Gamble	Unilever
Lockheed Martin	Prudential	Union Pacific
L'Oreal	Prudential Financial	United Parcel Service
Lowe's Companies	Qualcomm	United Technologies
Lukoil	Raytheon	UnitedHealth Group
LVMH	Reckitt Benckiser Group	US Bancorp
Marriott International	RELX Group	VALE S.A.
Mastercard	Rio Tinto	Verizon Communications
McDonald's	Roche Holding	Vinci
Medtronic	Royal Bank of Canada	Visa
Merck & Company	Royal Dutch Shell	Vodafone
Metlife	SAIC Motor	Volkswagen
Microsoft	Salesforce.com	Walgreens Boots Alliance
Mitsubishi UFJ Financial Group	Samsung Electronics	Walmart
Mondelez International	Sanofi	Walt Disney
Monsanto	SAP	Wells Fargo & Company
Morgan Stanley	Sberbank of Russia	Westpac Banking
Naspers	Schlumberger	