



UK Executive Pay & Governance

Total Shareholder Return performance calculations

Total Shareholder Return (“TSR”) is one of the most common performance metrics used by listed companies in their Long-Term Incentive Plans (“LTIPs”). In essence, as the name suggests, Total Shareholder Return is the overall return the holder of a share would receive over a set period on that share taking into account, (i) the change in the share price and (ii) any dividends declared over that period.

TSR is typically used as a relative measure by companies in their LTIPs. For example, a company will compare its TSR over a (typically three year) period from grant of the LTIP award with that of a group of other companies. If the company is ranked below median in TSR terms compared with the rest of the group, the award will lapse. If the company is ranked at median, a portion of the award will vest, with vesting increasing up to a full pay-out for upper quartile TSR performance vs the group.

However, TSR can also be used on an absolute basis in LTIPs (e.g. the company’s TSR has to be, say, 10%p.a. over the period for partial vesting, 15%p.a. for full vesting).

We have a dedicated team of experts that can measure our clients’ performance against TSR conditions. This measurement can be undertaken both at the end of the performance period to determine the final vesting result, and/or during the performance period to provide an estimate of likely vesting (which can be used as a powerful communications tool for participants).

Measurement can be undertaken for both relative and absolute TSR performance conditions, with the results presented in a transparent, easy to understand format (possibly tailored to reflect the client’s in-house communications format (see overleaf). Our team also assists clients in compiling their TSR comparator groups, employing volatility and correlation analysis to ensure that only the most appropriate companies are included (also see overleaf).

Want to know more?

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Figure 1: TSR performance reporting:

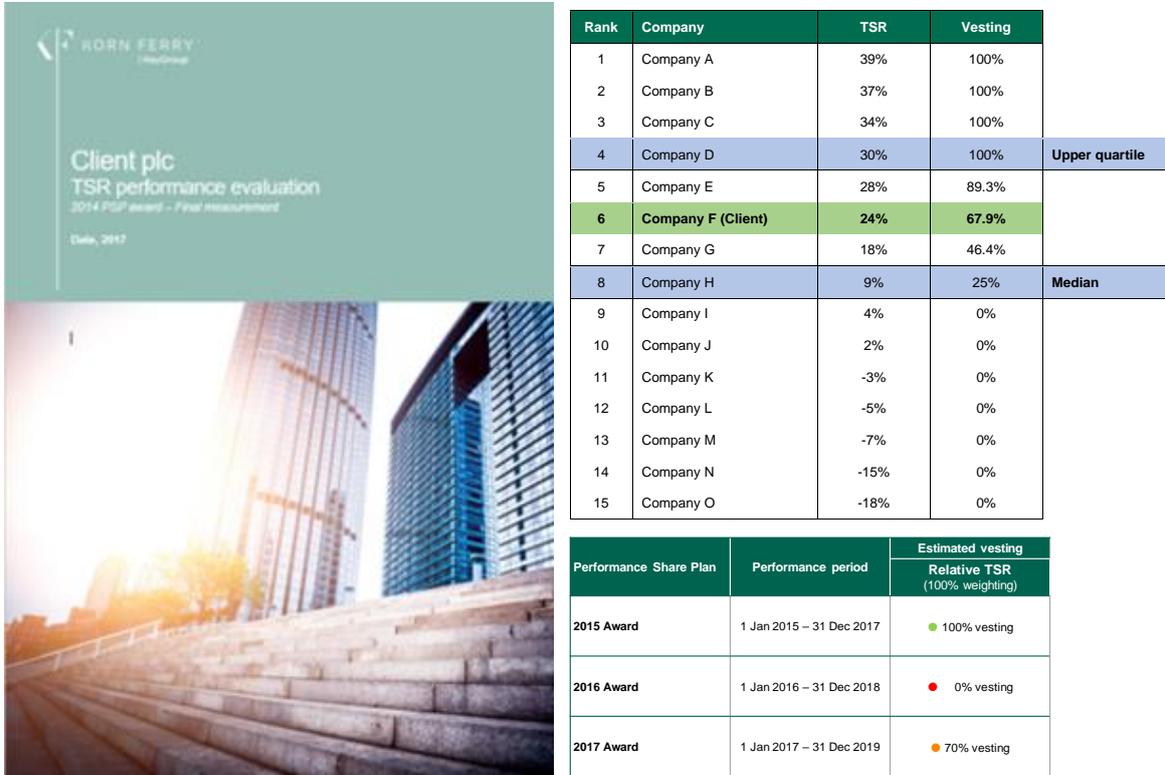


Figure 2: TSR peer group selection

