July 2023

Compensation Study for Executives in Switzerland

hcm.com

SPI COMPANIES AT A GLANCE

Review of the year

The following is the summary of the main trends in executive compensation we witnessed during the 2023 AGM season. Details of actual pay quantum, pay structure, and variable pay design are presented in this report.

Pay quantum

Looking back at 2022, the median total direct compensation of chief executives at SPI companies decreased by 6% to CHF 1.18m (CHF 1.25m in 2021). The median total direct compensation for other executives on average decreased by 11% to CHF 0.58m (CHF 0.65m in 2021).

Among SPI Large companies, the median total direct compensation for the chief executive increased by 7% year on year (CHF 7.50m in 2022 compared to CHF 7.01m in 2021). The total direct compensation of other executives at SPI Large companies for 2022 was CHF 2.48m (CHF 2.68m in 2021).

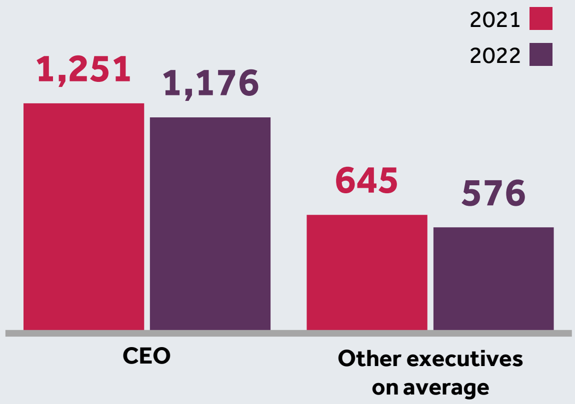
Around half of total direct compensation for chief executive consisted of fixed base salary and half of variable pay. The compensation package of other executives on average has shifted towards fixed pay (58% of total direct compensation).

ESG performance in compensation decisions

46% of SPI companies have included ESG performance metrics in their incentive programs, with the majority including ESG metrics in their annual incentive programs.

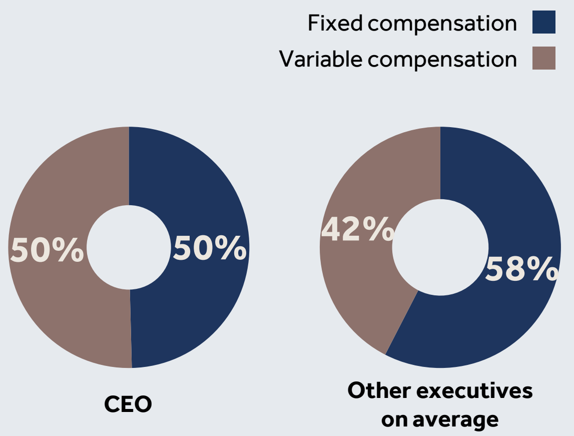
Pay quantum

(median total direct compensation, CHFk)



Pay structure

(% of total direct compensation on average)



ESG performance in compensation

Use of ESG performance metrics
(% of companies)

Annual incentive programs (AIP)

Bonus opportunities generally remained unchanged.

A blend of financial (with a clear emphasis) and non-financial metrics remained common market practice.

Overall, the level of detail regarding the achievement of the targets set at the beginning of the compensation cycle has improved, even though performance targets per se were generally not disclosed.

Long-term incentive plans (LTIP)

Award levels typically remained the same as for the prior year.

Almost half of the companies (46%) operated a Performance Share Units (PSUs) plan as their sole long-term incentive.

With regard to performance conditions:

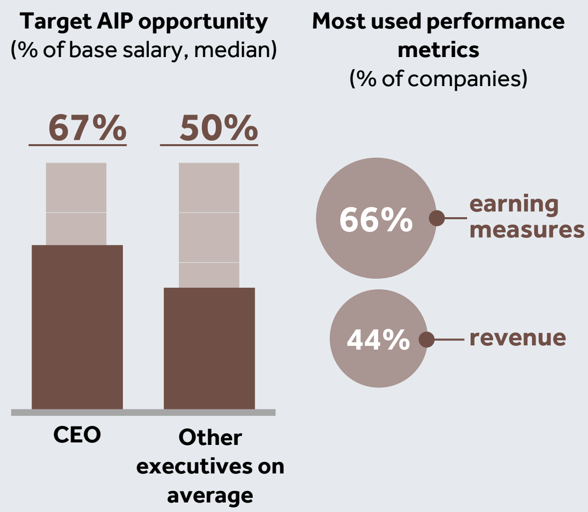
- The performance period remained three years in almost 90% of cases.
- A combination of two or three measures tends to be used.
- TSR combined with operating financial performance remains the most prevalent KPI, with earnings per share (EPS) or return metrics (e.g., ROCE) being the most commonly used operational metrics.

Post-vesting holding periods, which prohibit the sale of shares received under PSU plans for a further two to three years, were implemented by 13 SPI companies (19% of PSU plans).

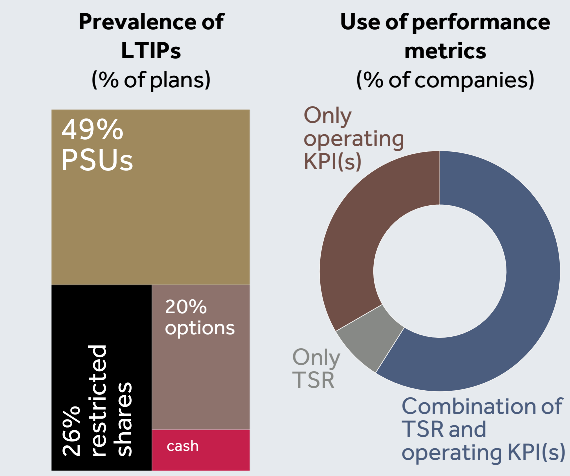
Share ownership guidelines

Approximately one fourth (26%) of SPI companies articulated share ownership guidelines for their executives. Target share ownership levels were commonly set at 300% of base salary for chief executives and 150% of base salary for other executives, with a five-year timeframe to meet the guideline being most common.

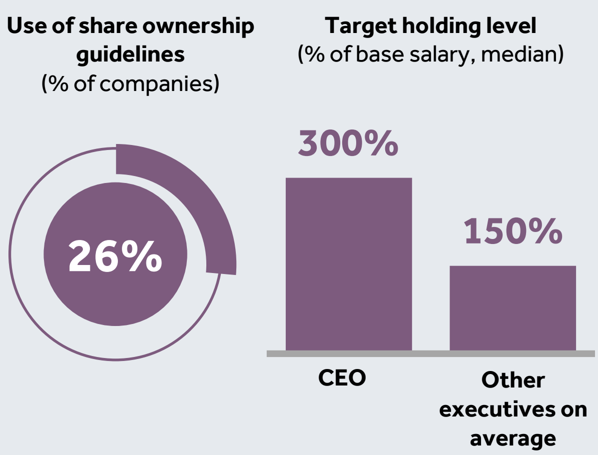
Annual incentive program (AIP)



Long-term incentive plans (LTIP)



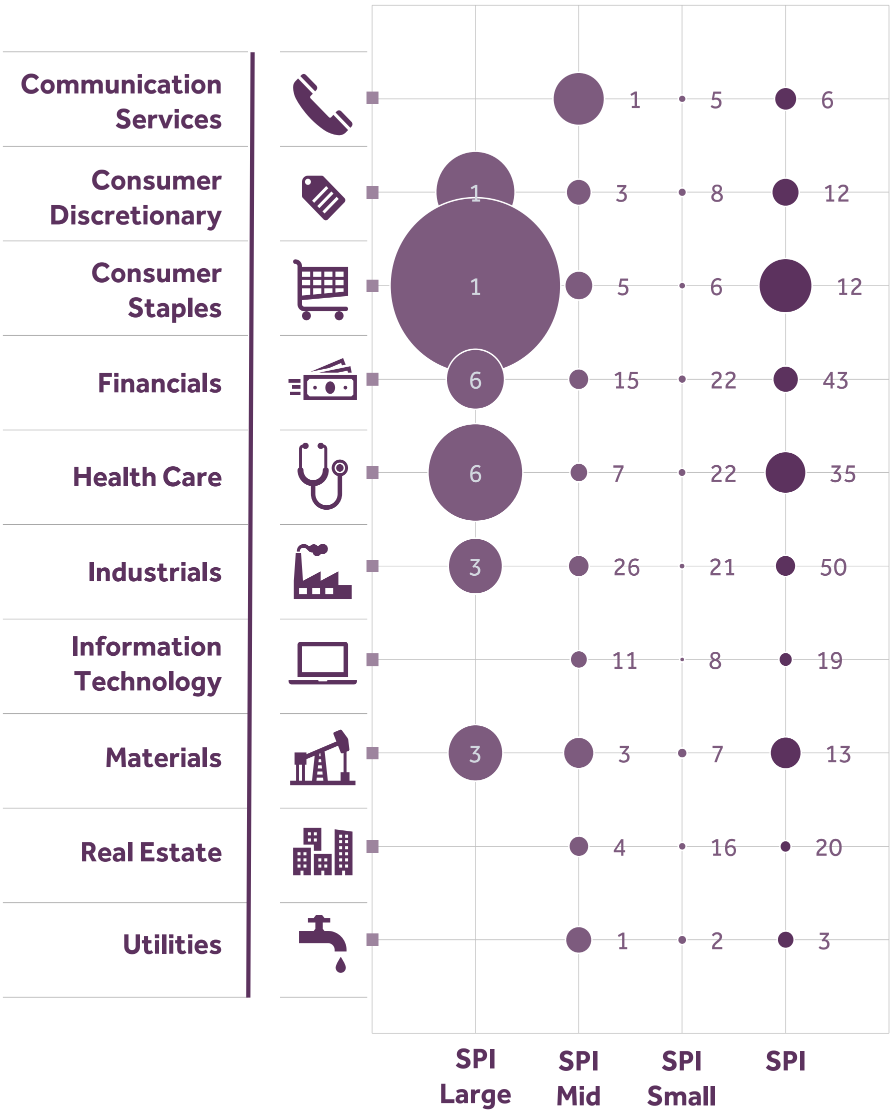
Share ownership guidelines



DATA SAMPLE

This study is based on a sample of 213 Swiss Performance Index companies[1] as of December 31, 2022 divided into small-, mid-, and large-cap size segments following the methodology applied by SIX Stock Exchange and further classified into ten sectors: Materials, Industrials, Health Care, Financials, Consumer Discretionary, Consumer Staples, Information Technology, Real Estate, Communication Services, and Utilities based on Standard & Poor's Global Industry Classification Standard ("GICS") codes. Market capitalization as of December 31, 2022 is summarized below:

Sample of companies by industry and size



Bubble size corresponds to the average market capitalization, number corresponds to the number of companies in an industry-size group.

1: Out of 213 SPI companies 201 have published their annual reports as of June 6, 2023, and are included in the analysis.

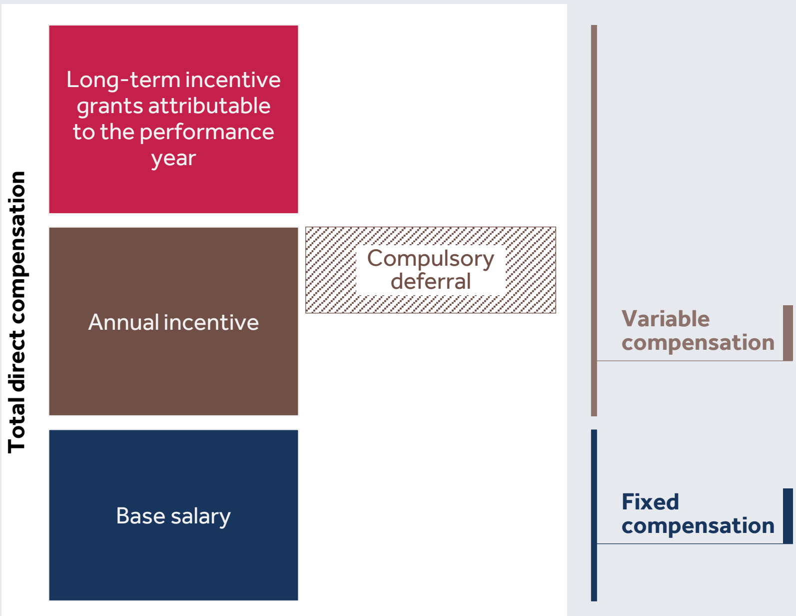
METHODOLOGY

While the compensation of the chief executive (or specifically, the highest-paid executive member) is disclosed separately, lump-sum disclosure in relation to the compensation of other executives is prevailing market practice and reflects the level of detail required by law in Switzerland. Therefore, compensation packages are analyzed individually for CEOs and on average for other executives. To ensure comparability, CEOs not in office for the full year are excluded from any trend analysis.

The scope of this study is limited to the components of total direct compensation: base salary, annual incentives earned for the performance year under review, and long-term incentives granted in the performance year under review. Where possible, long-term incentive awards are valued at their fair value at grant. Social securities, pensions, other benefits, replacement awards, and gains from share purchase programs are omitted from the analyses.

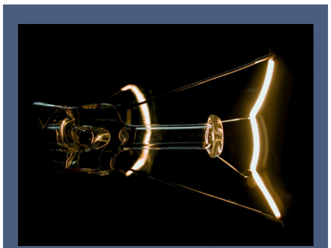
All absolute values are reported in Swiss Franc (CHF) amounts, converted at the respective year-end exchange rates where needed.

Components of total direct compensation



PAY QUANTUM AND STRUCTURE

Total direct compensation levels continued to be driven by company size. At median, large-cap companies provided total direct compensation of CHF 7.50m per chief executive (CHF 2.48m per other executive on average) versus CHF 1.38m at mid-cap companies (CHF 0.76m per other executive on average) and CHF 0.87m at small-cap companies (CHF 0.47m per other executive on average).



TOTAL DIRECT COMPENSATION ("TDC") is the sum of base salary, annual incentive, and long-term incentive grants attributable to the performance year.

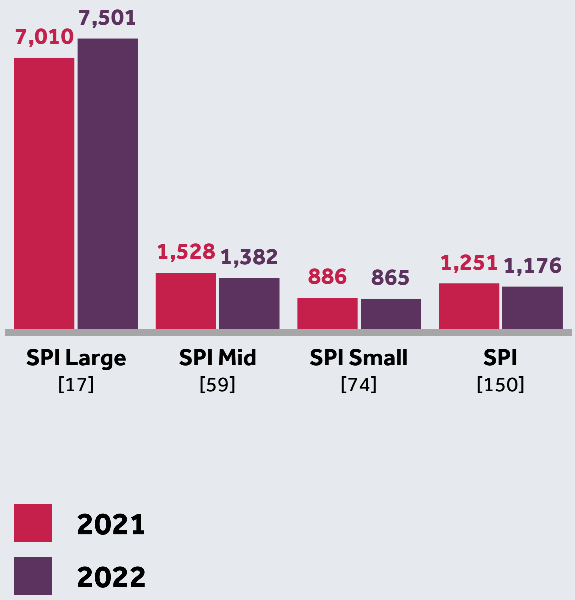
Year-over-year, total direct compensation levels decreased in a range from 2% to 10%. Increases of median total direct compensation were observed for chief executives at large-cap companies (+7%) and for other executives on average at small-cap companies (+5%).

Consumer Discretionary companies continued to provide the highest median total direct compensation (CHF 1.97m) per chief executive compared to other sectors. Utilities companies provided the lowest median total pay (CHF 0.64m) per chief executive and the highest median total pay (CHF 0.84m) per other executive officer on average.

Year-over-year changes were more varied at the industry level, e.g., Information Technology companies had the largest median decrease in total direct compensation (-6.5% for chief executive and -18.4% for other executive officer on average). Consumer Discretionary companies had the largest increase (+1.7%) in CEO pay while Communication Services companies had the largest increases (+4.0%) in other executive officer pay.

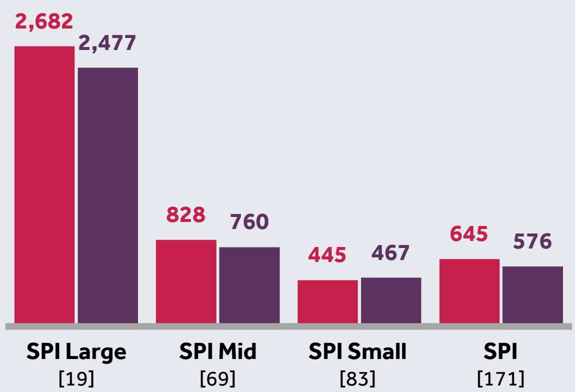
Chief executive officer

(median, CHFk)



Other executives on average

(median, CHFk)



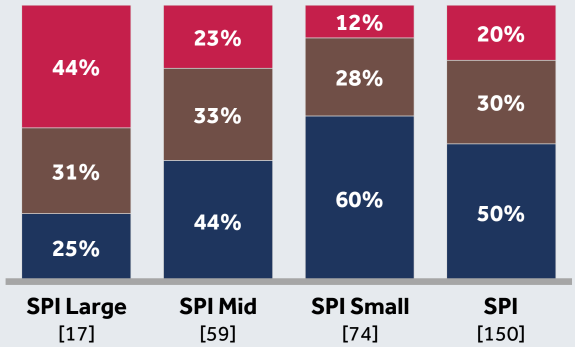
Across all size segments, companies paid out at least a quarter of total direct compensation in base salary on average, with the weighting of variable pay and in particular long-term incentive awards increasing as company size and total direct compensation increase. Thereby, variable pay made up a big part of compensation packages at large-cap companies and reached 75% of total direct compensation for chief executives and 65% for other executives on average.

In general, compensation packages for other executives were more conservative, i.e. less exposed to risk, than those of chief executives with a smaller portion of variable compensation and a larger share of base salary.

Health Care, Materials, and Information Technology companies tended to place a greater weighting on longer-term oriented pay, providing 26% to 35% of total direct compensation for chief executives and 21% to 26% of total direct compensation for other executives on average in the form of long-term incentive awards. Communication Services, Real Estate, and Utilities companies placed the lowest emphasis on long-term incentive awards, on average paying approximately up to 9% of total direct compensation in the form of longer-term incentive awards.

Chief executive officer

(% of total direct compensation on average)



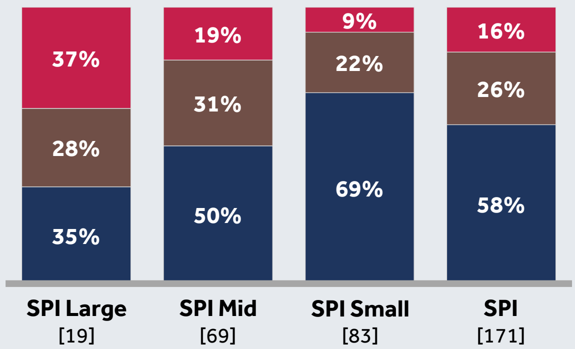
Base salary

Annual incentive

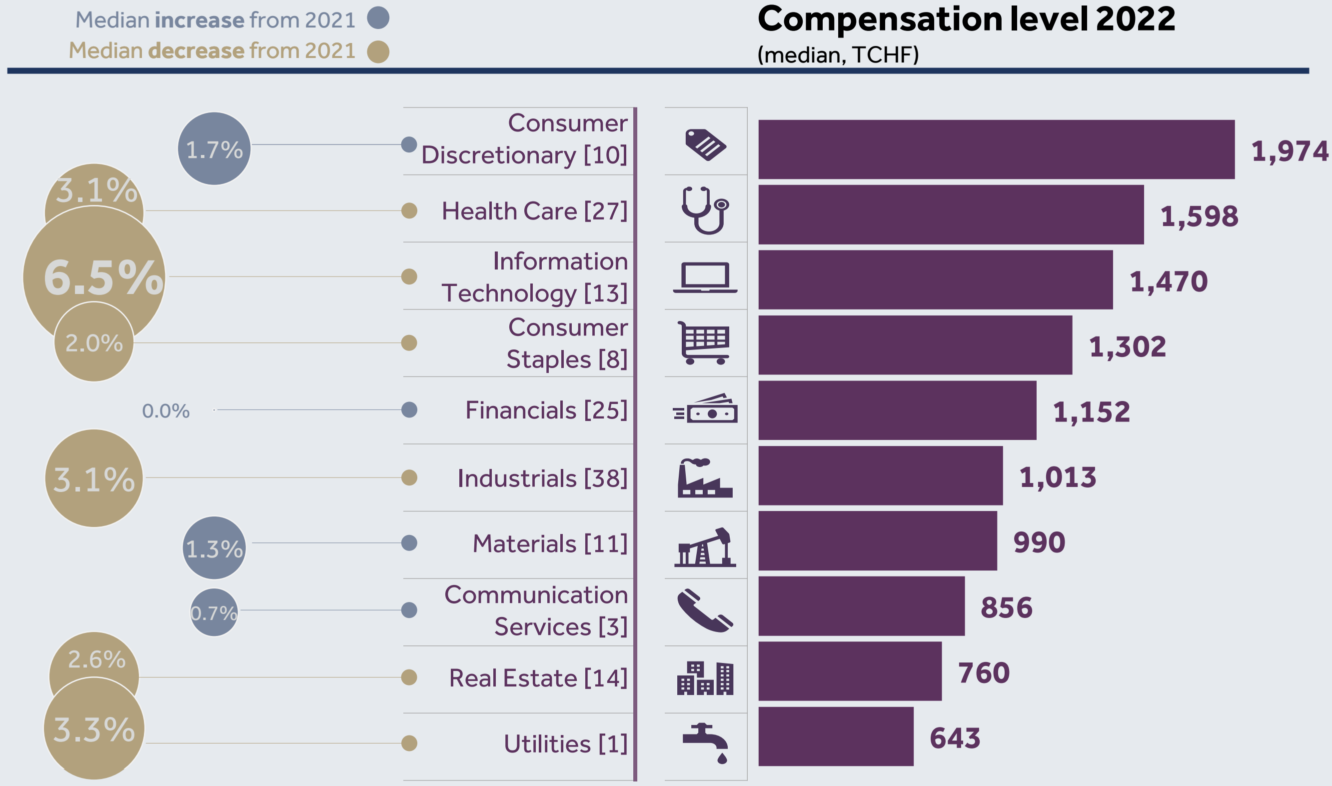
Long-term incentive grants attributable to the performance year

Other executives on average

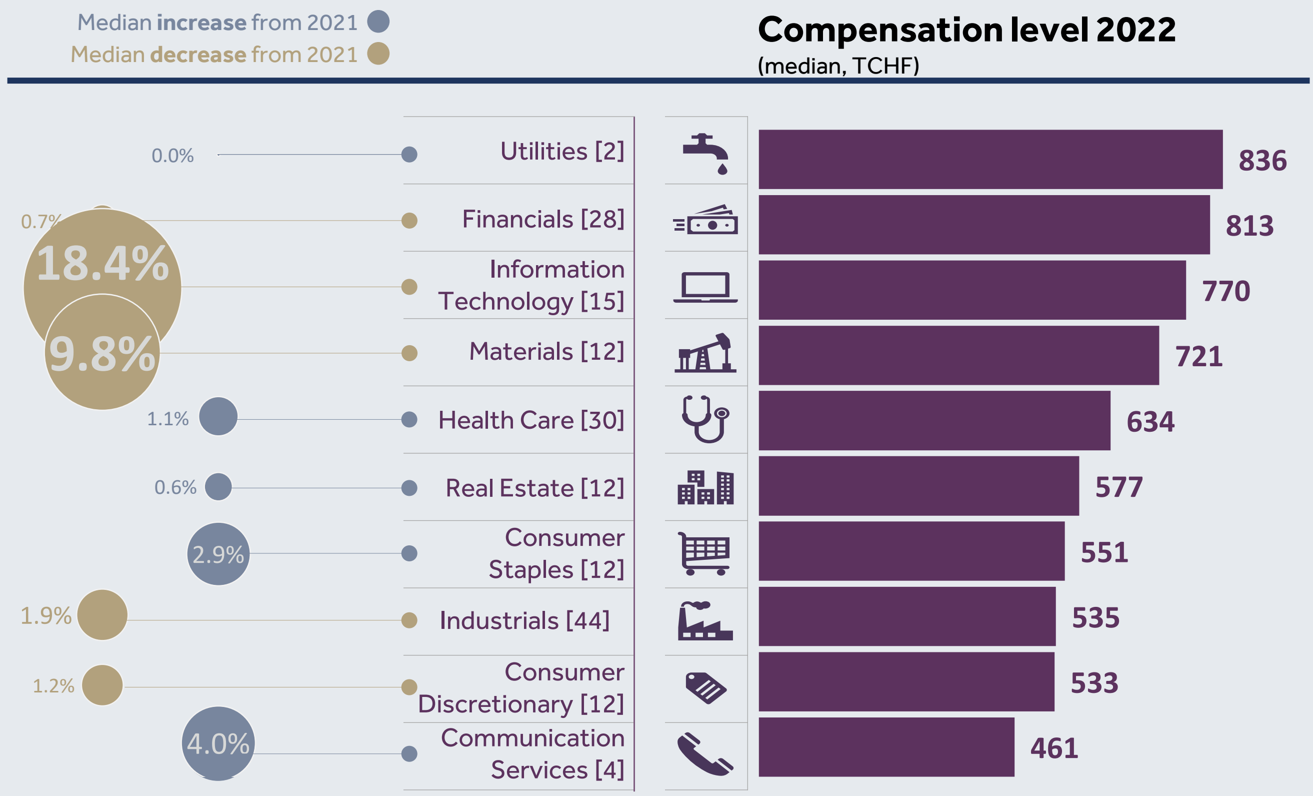
(% of total direct compensation on average)



Chief executive officer



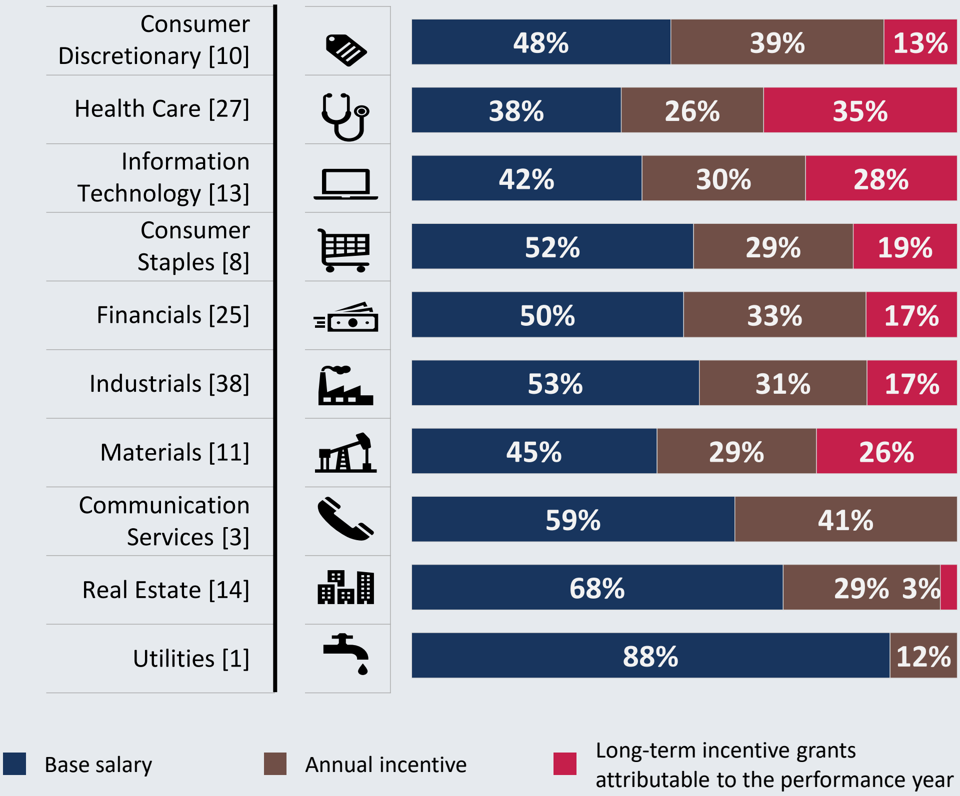
Other executives on average



Chief executive officer

Compensation pay mix 2022

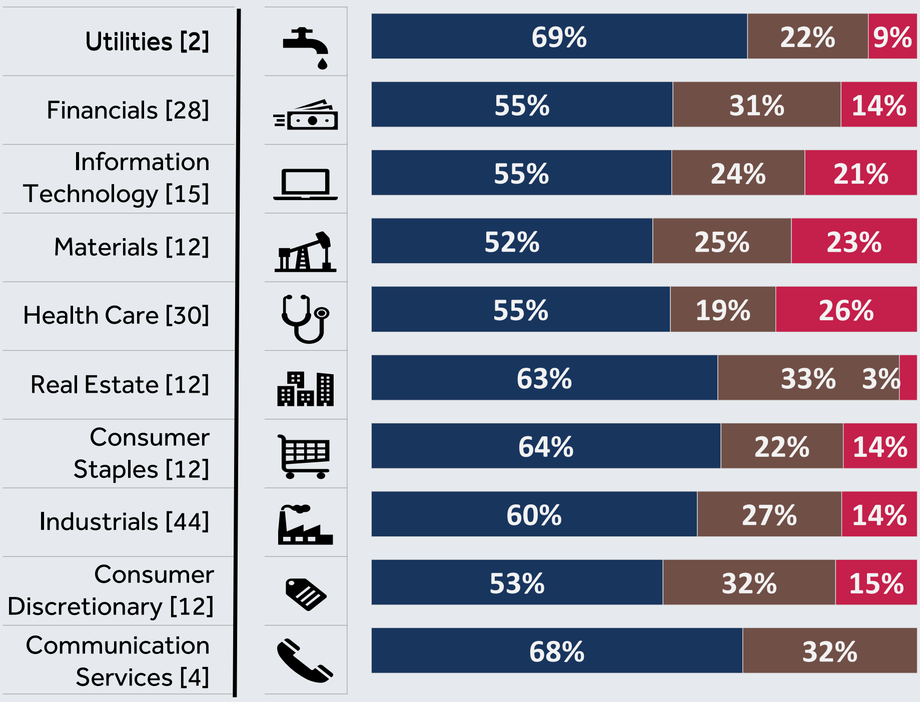
(% of total direct compensation on average)



Other executives on average

Compensation pay mix 2022

(% of total direct compensation on average)

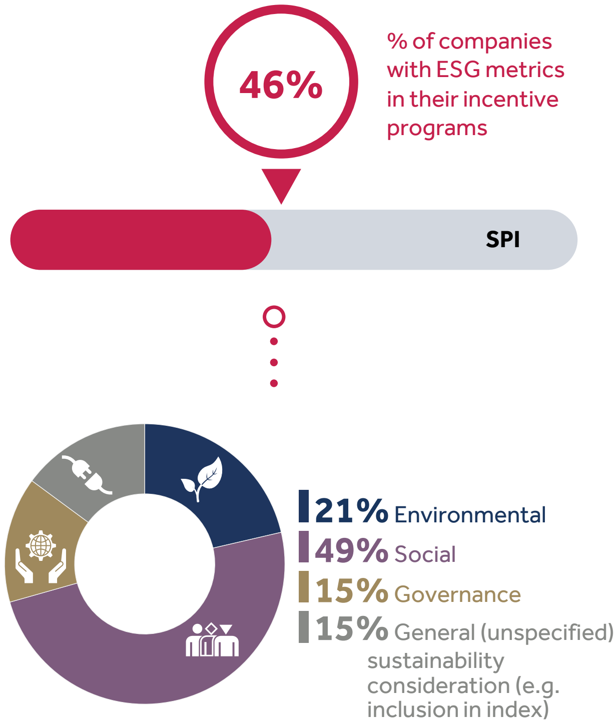


ESG PERFORMANCE IN COMPENSATION DECISIONS

Environmental, social, and governance (ESG) factors were increasingly embedded in executive compensation arrangements with 46% of SPI companies having included ESG performance metrics in their incentive programs.

Use of ESG metrics in executive incentive plans was more prevalent in Materials and Financials companies. Amongst the companies that used ESG metrics in executive incentive plans, most had one or more metrics and focus on social aspects of ESG. Specifically, the most prevalent category was People and People Development, which included metrics related to leadership, talent development, employee engagement, and company culture.

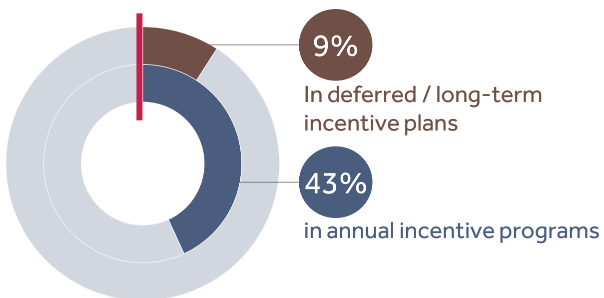
Prevalence of ESG metrics in executive compensation



There were also some noticeable differences in the usage of environmental and governance metrics. Materials companies were more likely to link environmental categories to executive compensation decisions, while Financials companies rather focused on governance.

Overall, most of the companies including ESG metrics in executive compensation were using them in annual incentive programs.

Types of ESG measures used in executive compensation



ANNUAL INCENTIVE PROGRAMS

Bonus opportunities generally remained unchanged. Median on-target bonus opportunities in 2022 ranged from 50% to 100% of base salary for chief executives and from 40% to 78% for other executive officers, increasing with company size and total direct compensation. The possibility to reach 1.5 times (to double for SPI Large) the on-target bonus amount in case of outperformance remained a common market practice.

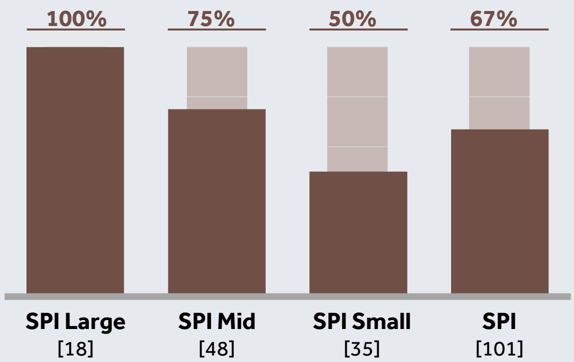
The most commonly used annual incentive measure continued to be profit. There are different definitions of profit that are used, ranging from EBITDA (earnings before interest, tax, depreciation, and amortization), EBIT (earnings before interest and tax), PBT (profit before tax), and PAT (profit after tax).

The use of non-financial measures has increased compared to the last year, with almost half of companies (49%) considering these in their bonus decisions. Further, there has been an increased use of ESG metrics, which are now incorporated into roughly 43% of annual incentive programs.

Local and international proxy advisors have continued to emphasize in their guidelines transparent disclosure of variable incentive targets and actual performance against those targets. However, in line with current Swiss regulations, which focus on the disclosure of performance measures and their weighting, performance targets have generally not been disclosed. Nonetheless, communication of performance achievements in relation to set targets (also with regard to non-financial measures) has become more widespread.

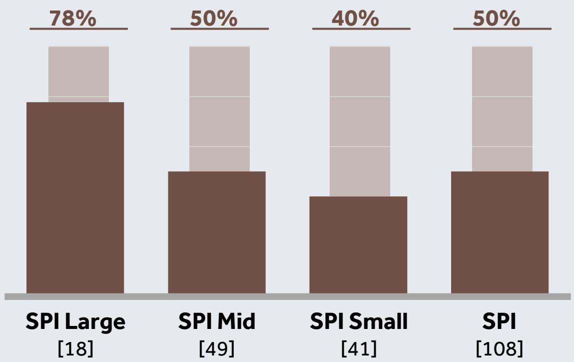
Chief executive officer

(bonus opportunity in % base salary, median)

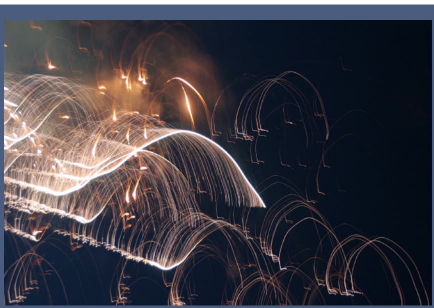


Other executives on average

(bonus opportunity in % base salary, median)



Overall, actual payouts were lower compared to the prior year. For example, chief executives' bonus payouts were above the on-target level at almost 57% of the companies (78% in 2021) with disclosed on-target opportunities in 2022. The median achievement rate for SPI Large CEOs was 112%.



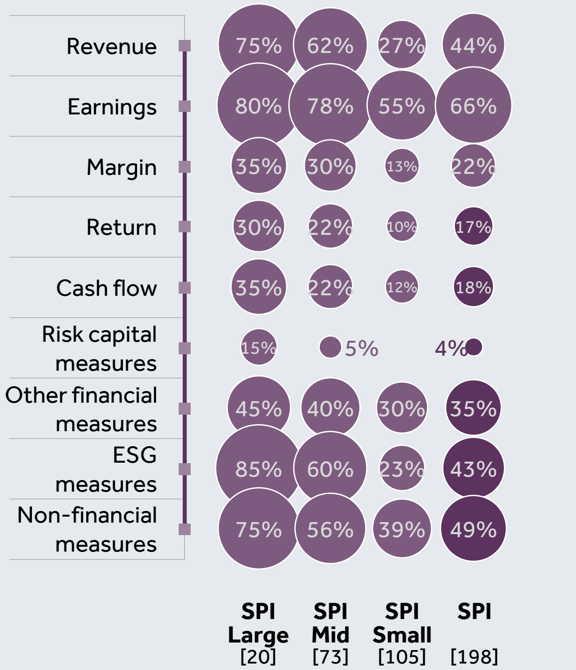
COMPULSORY DEFERRAL
requires a portion of the annual bonus to be deferred with payout occurring at a later date (subject to continued employment and, in some cases, additional performance condition).

Bonus deferrals were in place at around 31% of the SPI constituents. Next to companies with a compulsory deferral rate, 20 companies (33% of SPI companies using bonus deferrals in their compensation schemes to executive) encouraged executives to voluntarily defer an additional portion of annual bonuses earned (mostly supported by preferential access to company shares).

Most frequently, the portion of the annual incentive to be deferred was converted into fully taxed but restricted for sale shares, to be released after three (60%) or five years (16%). With the exception of Financials companies, no additional performance condition was generally required under the deferral agreements.

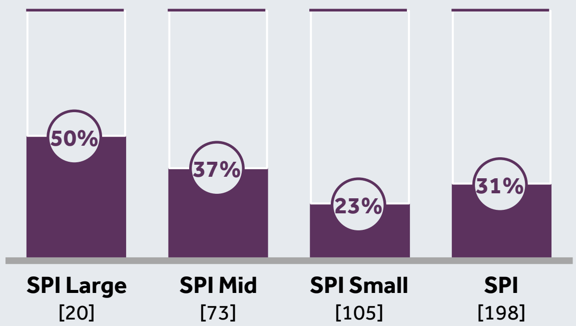
Performance measures

(% of companies)



Companies with bonus deferral

(% of companies)



LONG-TERM INCENTIVE PLANS

38% of SPI companies chose not to have an LTIP and either opted for compulsory deferrals to strengthen the alignment of variable compensation with shareholders' interests or relied solely on AIP.

RESTRICTED SHARES are (contingent) shares that are subject to a restriction on sale or vest only upon continued employment (i.e., without performance conditions).

PERFORMANCE SHARE UNITS ("PSU") are contingent rights to shares (or their cash equivalent) with the vesting subject to continued employment and the achievement of performance conditions.

(PERFORMANCE) STOCK OPTIONS are contingent rights to buy shares at a specified price for a finite period of time with the vesting subject to continued employment (and the achievement of performance conditions).

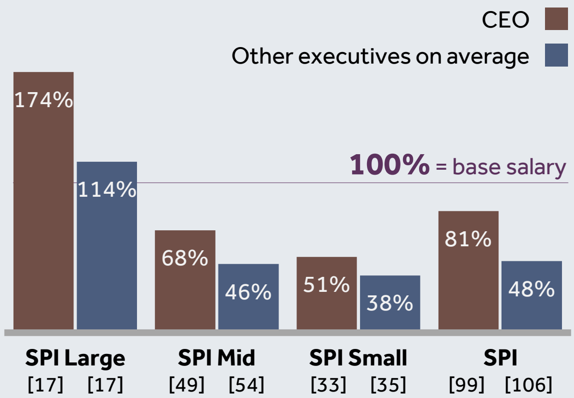
(PERFORMANCE) CASH LTIs reflect contingent rights to cash payments with the vesting subject to continued employment (and the achievement of performance conditions).

The median annual grant level for chief executives in SPI has largely remained the same as last year at approximately 80% of base salary. For other executive officers on average, the median grant policy has remained at approximately half of base salary.

The use of a PSU plan remained the norm, while 44% of companies operated an alternative structure without PSUs.

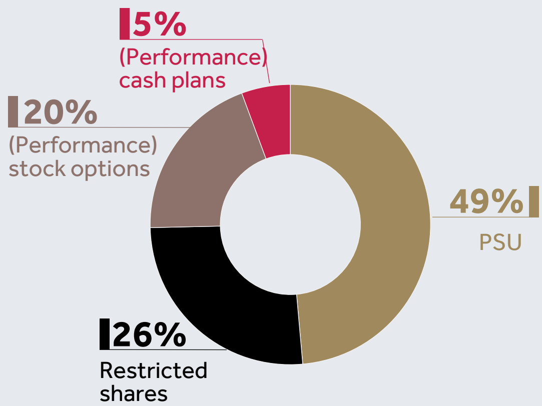
Almost 87% of LTIPs with performance conditions (i.e., PSUs, performance stock options, and/or performance cash plans) used multiple performance measures and about 47% used three or more performance measures. TSR (67% of companies), EPS (24% of companies), and ROCE/ROIC (22% of companies) remained the most common measures. Further there has been an increased use of ESG metrics, which were incorporated into roughly 14% of long-term incentive plans.

Grant policy (% of base salary, median)



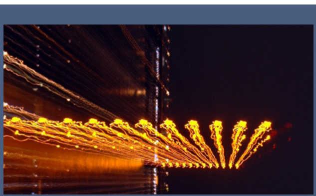
Prevalence of long-term incentive plans (% of plans)

SPI [142]



Where TSR was used, it was usually measured on a relative basis, with just 19% of LTIPs measuring TSR on an absolute basis or both (relative and absolute). Where TSR was measured on a relative basis, in 58% of plans it was measured against a group of companies (e.g., a bespoke group of performance peers or constituents of an index) and 42% against an index (industry or general market).

Overall, vesting periods (typically corresponds to performance measurement period) were three years in 90% of LTIPs with performance conditions. In relation to those using a different schedule, vesting typically occurred over four (4%) or five (5%) years.



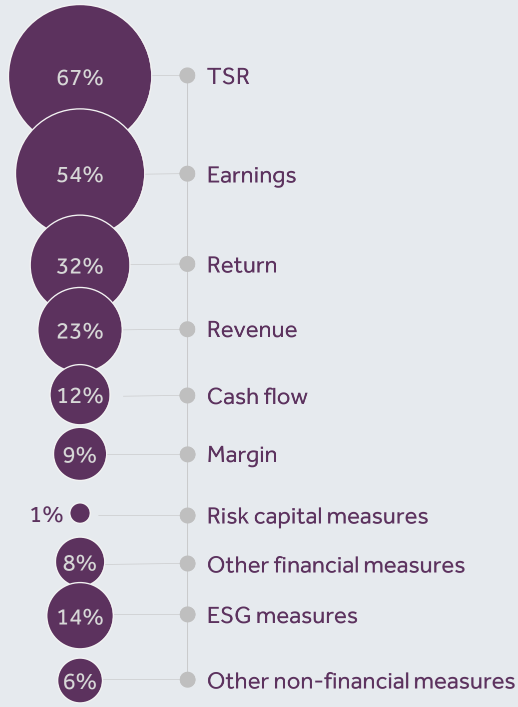
POST-VESTING HOLDING requires executives to retain shares for a period after they vest.

The duration of 19% of PSU plans in 2022 was extended by applying post-vesting holding periods. The majority of companies (62%) practicing such post-vesting holding periods required shares to be held for two additional years.

Recognition of outperformance through additional award units at vesting remained a common market practice. Almost half of companies (49%) set the maximum performance factor (expressed as a multiple of the number of awards granted) at 200%. Unchanged to previous years, only a few companies have additionally limited LTIP leverage due to share price increases by means of a CHF cap on the LTIP payout.

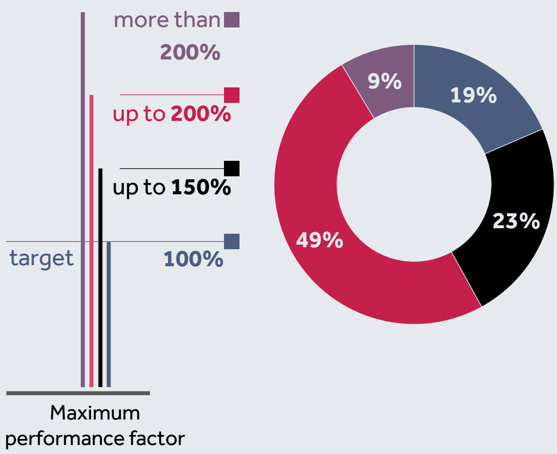
Performance measures (% of companies)

SPI [78 companies]



Prevalence of maximum performance factors (opportunity in % granted awards)

SPI [81 plans]



SHARE OWNERSHIP GUIDELINES

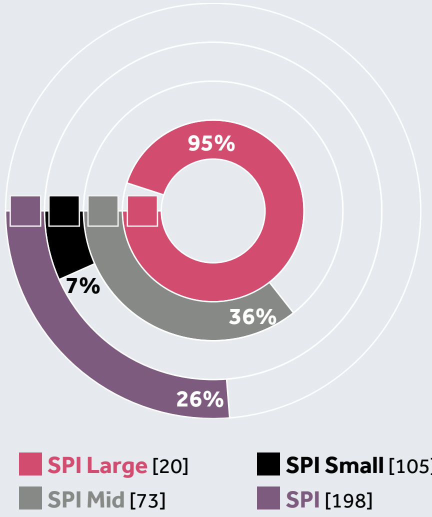
26% of SPI companies disclosed details on their share ownership guidelines for executives in their Compensation Reports 2022.

Share ownership guidelines were most often expressed (88% of companies) as a multiple of the executive's compensation or fixed monetary amount. The remaining 12% of SPI companies required a certain fixed number of shares to be held.

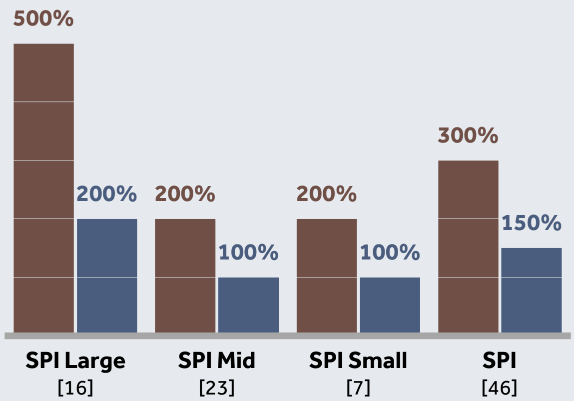
Target share ownership levels were commonly set at 300% of base salary for the chief executive and 150% of base salary for other executives on average.

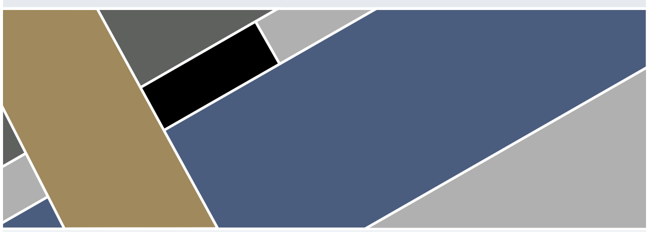
The maximum timeframe within which the required level has to be built is typically a five-year period (73% of companies).

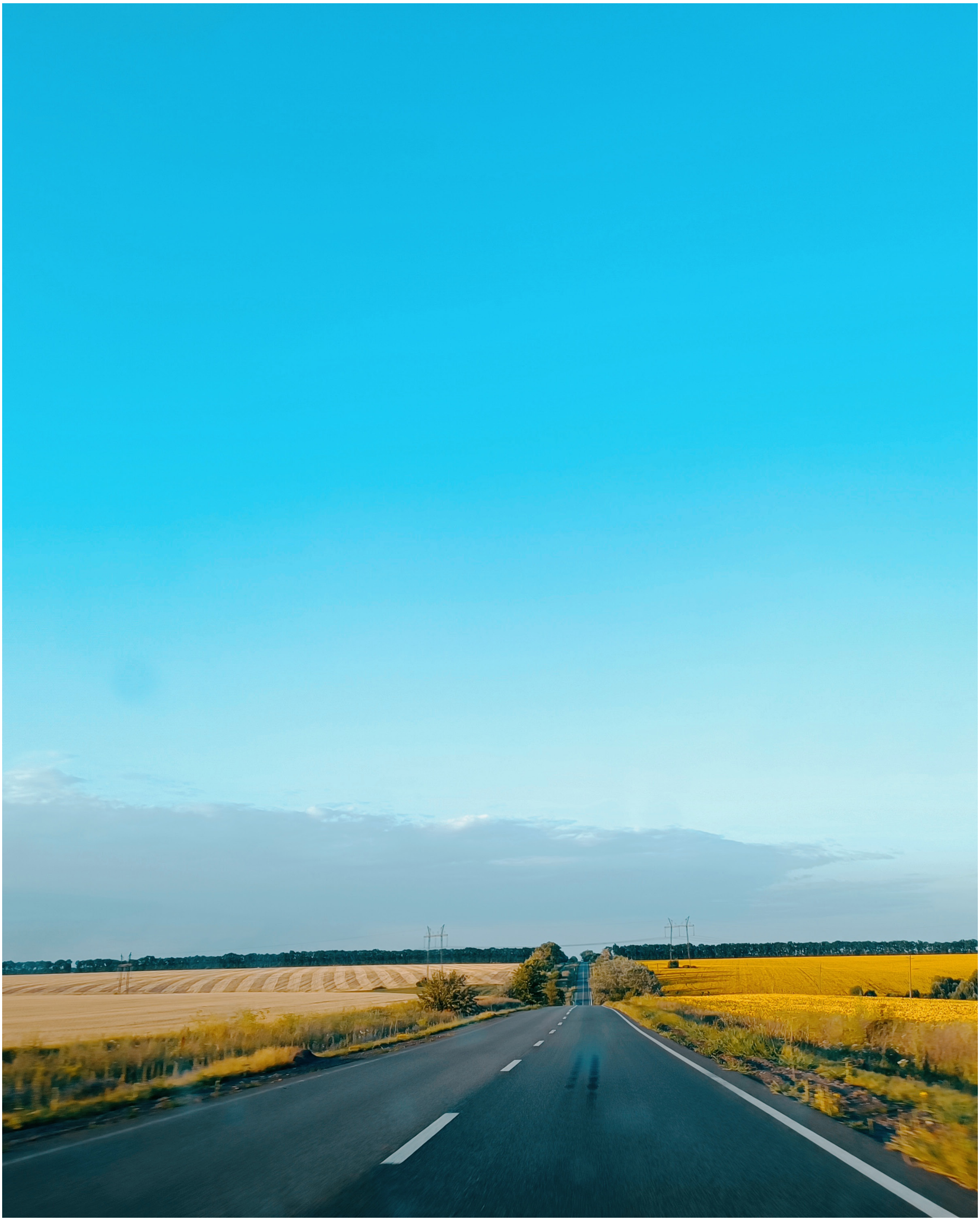
Disclosure of share ownership guidelines (% of companies)



Share ownership guidelines
(% of base salary, median)







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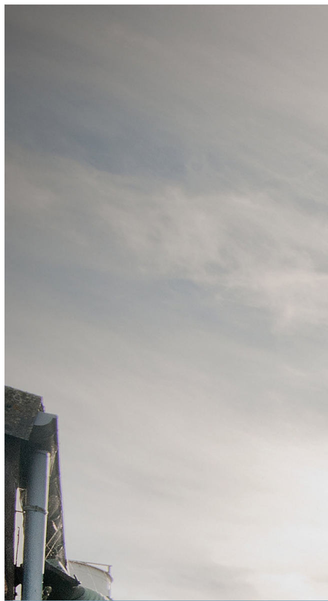

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