Vistry Group

AGM - 20 May 2020

Q&A

Remuneration Report

Background and context

What remuneration resolutions are shareholders being asked to vote on at the 2020 Annual General Meeting?

Following the approval of the executive remuneration policy at Vistry Group PLC's (**the Group's**) general meeting held in December 2019, the Remuneration Committee (we) looked at the newly approved policy and decided on its implementation for the Group's Executive Directors for 2020. The Remuneration Committee also decided on incentive pay outturns based on the achievement of financial and non-financial metrics for the performance period to December 2019.

The Remuneration Committee made its decisions on 2019 performance pay outturns for the Group's Directors in February 2020. Shareholders are being asked for a non-binding advisory vote on the Group's Remuneration Report as set out in pages 90-106 of our 2019 Annual Report & Accounts.

What were the remuneration resolutions tabled at the 2019 General Meeting?

The Group sought shareholder approval to acquire the housing business comprising the Linden Homes and Partnerships and Regeneration businesses (the "**Housing Business**") of Galliford Try plc ("**Galliford Try**"). Further, in anticipation of the acquisition, the Remuneration Committee asked shareholders to approve a new remuneration policy given the increased size and complexity, and market positioning that would result. The remuneration policy was approved by shareholders at the meeting, albeit with a significant vote against.

We have taken into careful consideration the views expressed to us by shareholders, both before and after the vote.

What has the Company done in response to the vote?

The impact of the acquisition of the Galliford Try businesses, which more than doubled the size of the business, represents a major strategic opportunity for the Group but also brings substantial integration risk. The Board considers that it is imperative that the revised remuneration policy is applied to reflect these factors and to support the delivery of value, and the minimization of risk from the acquisition.

In the light of the Committee's deliberations on these and other matters, we adapted the implementation of the policy for 2020 in the following ways:

<u>Directors' Pensions</u>

The employer pension contributions of the Chief Executive and the Chief Financial Officer will be progressively reduced so that they are in line with those of the general workforce by 1 January 2023. Those of the Chief Executive will reduce from 20% at present to 17% in 2021, 12% in 2022 and in line with workforce contributions in 2023 which are currently 7%. Those of the Chief Financial Officer, which are 15% at present, will be 13% and 10% respectively and in line with the workforce rate in 2023. Those of the Chief Operating Officer are currently 7% - already in line with workforce contribution levels.

Annual Incentive Scheme Deferral

Recognising the increase in the potential maximum reward under the annual incentive scheme, one third of any bonus payable will be deferred into shares for a period of two years. This will result in strengthening the alignment of Executive Directors with shareholder interests and further incentivise the achievement of sustainable performance.

What steps has the Company taken in response to the COVID 19 pandemic?

As mentioned above, the Remuneration Committee made its decisions on 2019 performance pay outturns for the Group's Directors in February 2020. Since this time, much has changed.

On March 25, 2020, the Group announced the second interim dividend payment would be postponed in light of the effects of the COVID-19 pandemic and the resulting need for liquidity. This action was taken so that the executive leadership team is fully focused on managing the business to balance the protection of profitability and preservation of operating cash flow with the long-term needs of the Group and is identifying and implementing specific measures that will increase cash generation and reduce cash outflow.

On April 23, 2020, the Group announced that the Executive and Non-Executive Directors have volunteered to take a 20% reduction in base salary and fees, effective April 1, 2020.

Key changes

What are the key points for Policy implementation for this year?

As mentioned, the Group intends to implement the Policy for 2020 as approved, save for the implementation points above. The current Policy contained the following material changes from the previous iteration:

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Pension for new appointees to be in line with wider workforce;

STI:

Increase in opportunity (100% → 150% of base salary);

Introduction of deferral provisions;

LTI: Increase in opportunity (150% → 200% of base salary);

Shareholding requirement for all executives aligned with CEO (200% of base salary); and

Introduction of a post-employment shareholding guideline which will be the lower of 1x the shareholding guideline (200 per cent. of salary) and the actual shareholding at cessation.

In addition, the following changes have also been implemented:

The employer pension contributions of the Chief Executive and the Finance Director will be progressively reduced so that they are in line with those of the general work force by 1 January 2023; and

Bonus deferral - one third of any bonus payable will be deferred into shares for a period of two years.

As we have highlighted in the DRR and also in consultation with shareholders, the Committee has set stretching performance conditions under the annual bonus and LTIP so that any additional variable remuneration will only be realised if the additional value is created for shareholders from the transaction.

What did each executive director earn in respect of 2019?

This information is presented on p.90 of our Annual Report & Accounts (and in more detail on subsequent pages, however it can be summarised as follows:

Component	Greg Fitzgerald – CEO	Earl Sibley - CFO	Graham Prothero – COO
Single figure totals for 2019	£2,804k	£1,303k	n/a
Annual bonus payments for 2019	100% of maximum	100% of maximum	n/a
LTIP awards vesting in respect of 2019	81.6%	81.6%	n/a
LTIP awards granted in 2019 (vesting in 2021)	150% of basic salary	125% of basic salary	n/a

What can each executive director earn in respect of 2020?

The proposed implementation of Policy for 2020 is presented on p.90 of our Annual Report & Accounts (and in more detail on subsequent pages, however it can be summarised as follows:

Component	Greg Fitzgerald – CEO	Earl Sibley - CFO	Graham Prothero – COO
Base salary	£696,565 (+2.5%)	£395,000 (+18.0%)	£500,000
Annual bonus opportunity for 2020 as % of salary	150%	150%	150%
LTIP award opportunity for 2020 as % of salary	200%	200%	200%

As we have highlighted in the DRR and also in consultation with shareholders, the Committee has set stretching performance conditions under the annual bonus and LTIP so that any additional variable remuneration will only be realised if the additional value is created for shareholders from the transaction.

<u>Components of pay</u>

Base salary

No increase to the base salary has been applied for the CEO beyond the general increase applied to the wider workforce.

The increase in our CFO's base salary is 18% on prior year levels. We are happy to confirm that the Vistry Group's CFO base pay is fully in line with the median of peer UK Listed house builders. His total remuneration including incentives is almost exactly median as well.

At the time of Earl Sibley's appointment in 2015, the committee took the conscious decision to initially set the salary level below market rate and increase it progressively over a three-year period. This was disclosed fully to shareholders and gained their support. At that time, we announced a plan to make phased performance conditional increases over the next three years and implemented these in 2016, 2017 and 2018. In 2019, a smaller rise, in line with the overall workforce, was also awarded; but the end position (as our disclosures made clear) was still a position at Lower Quartile compared to the market.

Our CFO has therefore been patient for some years as we have addressed his low market position, while at all times remaining a high performer. Indeed, his contribution to the important Galliford Try partnerships and Linden Homes transaction, and his ongoing role in the success of this important corporate transaction are both vital and impressive.

The impact of the last base pay change is to bring our CFO exactly into line with median of peer UK listed house builders, and his total package almost exactly in line with median too. This market positioning is fully deserved and justified in terms of a fully competent high value contributing CFO. In-deed, if we had to recruit a fully competent CFO in the market, we would expect to pay as a mini-mum a salary at the median of our peer group, which now applies to Earl Sibley.

Graham Prothero was appointed to the Board with a base salary of £500,000 representing a discount to the salary levels at his previous role as CEO of Galliford Try.

Annual Bonus

As stated in our Annual Report & Accounts, the maximum opportunity for the Chief Executive and Chief Financial Officer for the year ended 31 December 2019 was 100% of salary.

Pre-tax-profit for 2019 was £188.2 million, exceeding the target set for stretch performance, and a pay-out of 100% against the 60% allocated to this measure was achieved. Operating margin finished at 17.0%, reaching the maximum target of 17.0% and a full pay-out of the 20% of allocated to this measure was delivered. The average capital employed measure was also met in full, with a result 3% above Budget, resulting in 100% of the 20% allocated to this measure being achieved. There was no discretion exercised in arriving at the 2019 bonus outcome for the executive directors, representing a total pay-out of 100% of the bonus opportunity.

For 2020, it is proposed that the Annual Bonus is measured against the following metrics:

Profit before tax: 55% weighting

Period end capital employed: 25% weighting

Delivery of synergies: 20% weighting

Customer satisfaction: Acts as threshold to bonus

Long-Term Incentive Plan (LTIP)

Awards vesting in respect of 2019

The LTIP awards made in 2017 were measured over the three-year period to 31 December 2019 and will vest to the extent of 81.6%.

Awards granted in 2019

An award of 90,529 shares was made to Greg Fitzgerald at 150% of basic salary on 4 March 2019, calculated based on a share price of £11.26 on 1 March 2019.

An award of 37,161 shares was made to Earl Sibley at 125% of basic salary on 4 March 2019, calculated based on a share price of £11.26 on 1 March 2019.

The performance measures for all 2019 awards are TSR (33.3%), EPS (33.3%) and ROCE (33.3%). Achieving threshold performance for the financial and share price performance measures would result in 25.0% of the total award vesting.

The performance targets are:

TSR – threshold performance equal to the annualised median of the index and maximum performance equal to the annualised median of the index, plus 7.5%.

EPS – threshold performance at cumulative EPS of 320 pence and maximum performance at cumulative EPS of 353 pence.

ROCE – threshold performance at 22.0% and maximum performance at 25.0%, both as measured in the third year of the performance period (2021)

You have disclosed performance targets for the 2019 bonus scheme. Why have you not disclosed performance targets for the 2020 bonus scheme?

Performance targets have not been disclosed for the 2020 annual bonus as they are considered commercially sensitive. They will be reported in the 2020 Annual Report. The Remuneration Committee will keep reporting best practice under review.

What is the ratio of CEO pay compared to average employee pay?

The ratio of CEO pay to median employee pay as at the end of December 2019 was 56:1.

What is your gender pay gap?

The publication of our 2019 gender pay gap report has been delayed due to the ongoing coronavirus (Covid-19) pandemic. The 2018 general pay gap report showed a mean gender pay gap of 19.6% as at 5th April 2018. As a housebuilder, we have an employee base that is predominantly male and this is more pronounced at senior levels. We have taken a number of actions which have contributed to a reduction in our Gender Pay Gap, including engagement with our People Forum (made up of a cross section of our employees) to understand how we can make Vistry Group the best place to work.

Do you support the Living Wage?

We comply with the principles of the Construction Industry Joint Council Handbook, despite not formally recognising them, which ensures payment of National Minimum Wage and, in some cases, above National Minimum Wage.

Board composition

Do you consider the diversity of the Board to be appropriate?

Boardroom diversity, including gender, is an important consideration as part of the objective criteria used in assessing a candidate's ability to contribute to and complement the abilities of a balanced Board.

Our Board appointments will always be made on merit against objective criteria, and this will continue to be the priority, rather than aiming to achieve an externally prescribed diversity target.

Viability statement

Why have you chosen a five-year period for your viability statement?

The Board considers the period for the viability statement in light of the Group's strategy, current performance and principal risks and has decided that five years is appropriate. The average life cycle of our housing developments falls within this period and this timeframe aligns with that used for our annual strategic review exercise. It is also in line with the Group's financing arrangements.

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Share capital

Your authority to allot allows you to issue up to 66% of the issued share capital?

The standard allotment authority provides the directors with the ability to allot up to one third of the issued share capital. The additional one third can only be used for a pre-emptive rights issue. This resolution is in accordance with IA guidelines. The Board has no present intention to exercise the authority, other than in connection with employee share schemes, but would like the flexibility to do so should it be desirable.

Why are you seeking authority to disapply pre-emption rights?

The disapplication of pre-emptions rights provides flexibility to the Board should a suitable opportunity arise. The authority is limited to 5% of the issued share capital and to providing the flexibility required in the event of a rights issue. The Board has no present intention to exercise this authority.

Why did you exceed the 2019 authority to disapply pre-emption rights by the placing of shares in November 2019?

The Company utilised a cash box placing as it only had an existing authority to disapply pre-emption rights of up to 5% of its issued share capital, but needed to raise a minimum of £140 million through equity in order to fund the cash element of the consideration for the acquisition of the Linden Homes and Partnerships & Regeneration businesses of Galliford Try plc (the "Transaction"). In addition, seeking additional shareholder authorities would not have been appropriate as it would have introduced further execution and market risks to the Placing and the Transaction.

The Company announced its intention on 10 September 2019 to carry out an accelerated bookbuild of 9.99%, but only executed the Placing two months later on 7 November 2019. In the period between announcing the proposed structure of the Placing and actually executing it, the Company did not receive any indications from shareholders that they were opposed to the proposed structure of the Placing.

In line with the Pre-emption Group's current Statement of Principles, the non-pre-emptive Placing was for less than 10% of the Company's issued share capital and the funds were used in connection with the Transaction. At the time of the Company's 2019 AGM, the Transaction was not anticipated and so the additional 5% authority to dis-apply pre-emption rights was not sought.

The use of the Placing to finance the Transaction was clearly communicated to shareholders and, in line with the Pre-emption Group's current Statement of Principles, during the wall crossing process and roadshow, Numis (as corporate broker to the Company) consulted the Company's major shareholders with regards to the Placing and looked to observe informal pre-emption as far as practically possible when allocating the shares issued pursuant to the Placing.

The Company complied with the Pre-emption Group's Appendix of Best Practice in Engagement and Disclosure and a statement in respect of the Placing on page 115 of its 2019 Annual Report and Accounts.

Why are you seeking authority to purchase your own shares?

The market purchase authority provides flexibility to the Board should a suitable opportunity arise. The authority is limited to 10% of the issued share capital. No purchases would be made unless the Board believe that the effect would be to increase the earnings per share of the remaining shareholders and the directors consider the purchases to promote the success of the Company for the benefit of shareholders as a whole. Any shares purchased would be cancelled. The directors have no present intention of exercising the authority but would like to have the flexibility of considering purchases in the future.

Why do you want authority to call general meetings (other than AGMs) on not less than 14 days' clear notice?

The regulation that implemented 2009 Shareholder Rights Directive increased the notice period for general meetings under the Companies Act 2006 to 21 days. Companies were previously allowed to call general meetings (other than AGMs) on 14 days' notice and this resolution allows that position to continue.