

LTI - 2020-2022

# Get your incentive right in a challenging time

Long-term incentive plans in Swedish  
large cap companies 2020 to 2022

Performance-based pay design is one of the most fundamental and, arguably, one of the most important aspects of Executive Compensation. Long-term incentives are essential in aligning the executives' interests with those of the shareholders and it continue receiving attention from shareholders as well as society at large. They encompasses a wide range of considerations - from establishing incentive objectives to selecting incentive vehicles and, ultimately, to determining incentive payouts.

In this report, we provide an overview of the market practice trends in Sweden. We hope that this report can provide a helpful context for decision making. However, while strongly believing that organisations should be aware of market practice, we would also like to recognise that market practice might not be the best fit for each organisation, and should thus not be the primary factor in compensation decisions. In fact, a convergence around prevalent market practice largely eliminates an organisation's compensation program from being a competitive advantage in attracting, motivating and retaining talent.

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# Chapter 1 – Introduction

## Introduction

This report provides an overview of how design of the Long-term incentive (LTI) plans are developing among the largest listed companies in Sweden.

The report analyses trends from 2020 to 2022 based on companies being listed as a large cap company in each year respectively. Non-Swedish companies being listed on the Swedish large cap list have been excluded from the report as these companies typically apply non-Swedish pay practices and would not provide a representative picture of the LTI trends in Sweden.

Are you interested in comparing your LTI plan against a specific comparator group or do you have questions about the report? Give us a call or send an email and we are happy to discuss further with you.

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# Chapter 2

## Executive summary

The number of Swedish large cap companies offering LTI plans has increased the last years and the typical Swedish co-investment plan is no longer the most common plan design type.

### Prevalent LTI types

Stock option plans are the most prevalent plan types in Sweden. A large growth in prevalence, almost exclusively driven by companies new to the large cap constituent list, has caused a change in the most prevalent LTI plan type. The typical Swedish co-investment plan remains popular and is the second most common plan type. Co-investment plan, despite the decline in percentage prevalence, has seen a small increase in actual numbers.

### Prevalent performance metrics

Further, the number of performance measures have increased in 2022. This is mainly driven by companies adding ESG in addition to other measurements. Due to an increase in the number of companies using two performance measures it is now equally common to use as one. We have also observed a change in companies using three and four or more measures. EPS has this year been replaced as the most common performance metrics in favor of Profit, whereas ESG accounted for large growth in 2022 and metric is now second. Looking at TSR we can see that Absolute TSR have increased, while Relative TSR have decreased to the levels that they are close to equally as common.

### Industry specific variations

Moreover, we still observe variations in plan type and performance metrics among different industries. While variations stock option plans are the most prevalent among technology and real estate and financial companies, co-investment plans are still dominating in the industrial sector. Consumer goods companies are mainly operating performance share plans. In terms of performance metrics, profit is commonly used in the consumer goods sector while EPS is most prevalent among industrial companies. Share price related metrics are most common in real estate and financials, together with EPS in the technology sector.

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**While cash plans and stock option plans are the most prevalent among consumer goods companies, co-investment plans are dominating in the industrial sector.**

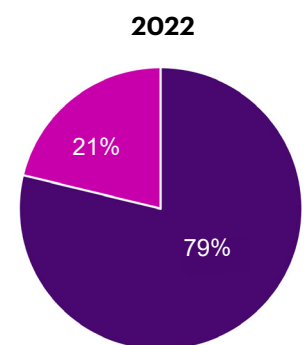
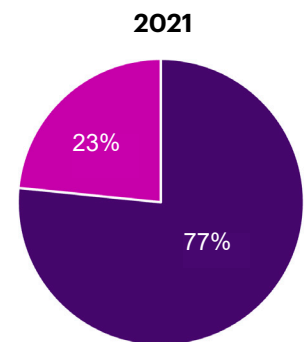
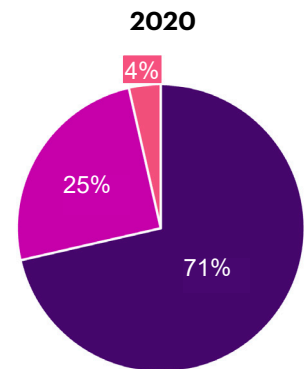
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# Chapter 3

## Prevalence of long-term incentive plans

The prevalence of LTI plans among Swedish large cap companies increased in 2021 and has continued to do so in 2022, although at a slower pace. 79% of the large companies operate an LTI plan where the executive team is eligible. The increase from 2021 is partly driven by sample change in the large cap constituent list, a lot of new companies, but we also observe a few companies implementing new LTI plans in 2022.

**79% of the large companies operate an LTI plan where the executive team is eligible.**



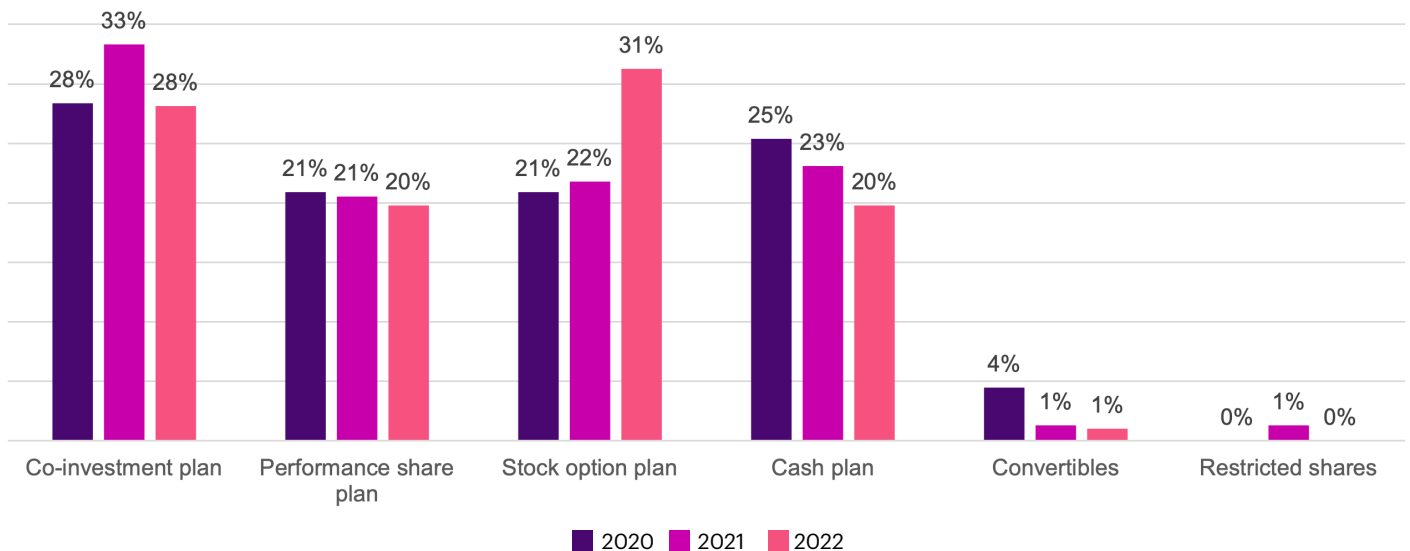
- Companies offering LTI
- Companies not offering LTI
- Companies cancelled LTI d.t. Covid-19

# Chapter 4

## Long-term incentive plan design types

In the past years, co-investment plans have been the most common plan type, pending around 30% in prevalence. +/- a few percentage points. In 2022, the prevalence of co-investment plans has decreased to 2020 levels, simultaneously stock option plans have had a strong increase and now passing co-investment plans as the most common plan type among Swedish large cap listed companies. The increase in stock option plans is mainly driven by companies new to the large cap constituent list. For the other plan designs, we observe a decreased prevalence of cash plans, restricted, and performance shares plans which is driven by a larger selection. In fact, performance share plans show a slight increase in actual numbers.

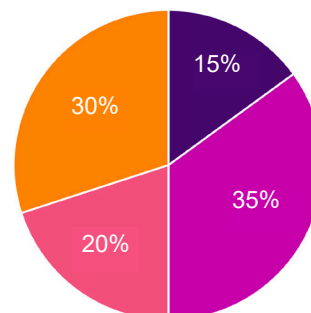
Prevalence of LTI plan types (% of number of LTI plans)



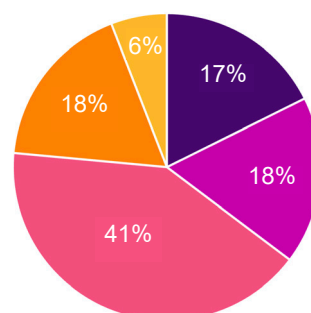
Dividing the Swedish large cap companies into broad industry categories, we observe varying preferences of design type within the different industries. Among consumer goods companies, last years even distribution between the different plan design types now tends to lean in favour of performance share plans where we observe an increase in prevalence at the cost of co-investment plans. Despite a decrease, co-investment plans remain the most prevalent plan type among industrial companies. However, it's worth mentioning the strong increase of stock option plans which have doubled in prevalence in one year.

Furthermore, stock option plans remain the most common among real estate and financial companies. Among technology companies, we observe that stock option plans are the most prevalent plan type. Which is a change from 2021 when performance share plans were more commonly used.

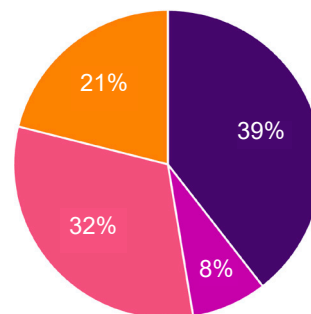
### Consumer goods



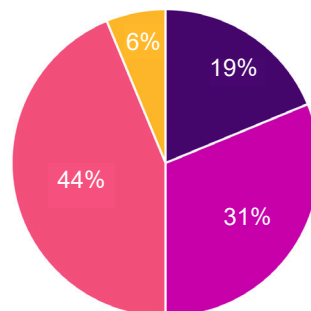
### Real estate and financials



### Industrials



### Technology



- Co-investment plan – requires a pre-grant investment by the participant in company shares ('saving shares'). The company will then match these saving shares with performance shares (subject to fulfilment of predetermined performance criteria) and often also matching shares (only subject to remaining employed through the vesting period).
- Performance share plan – no investment required by the participant, though the participant will receive shares subject to fulfilment of certain predetermined performance criteria.
- Stock option plan – includes employee stock options ("personaloptioner") and financial options ("teckningsoptioner"/"köoptioner").
- Cash plan – incentive plan exceeding one year and paid in cash.
- Convertibles – requires investment by the participant that will either be paid back in cash or converted into shares after the vesting period.

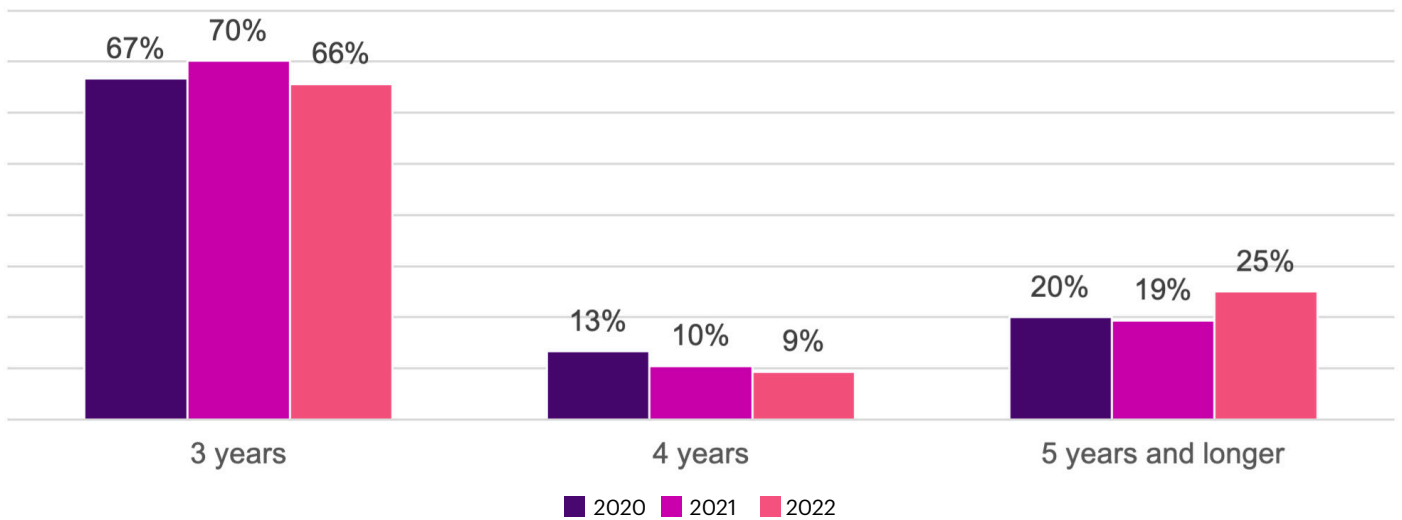


# Chapter 5

## Program length

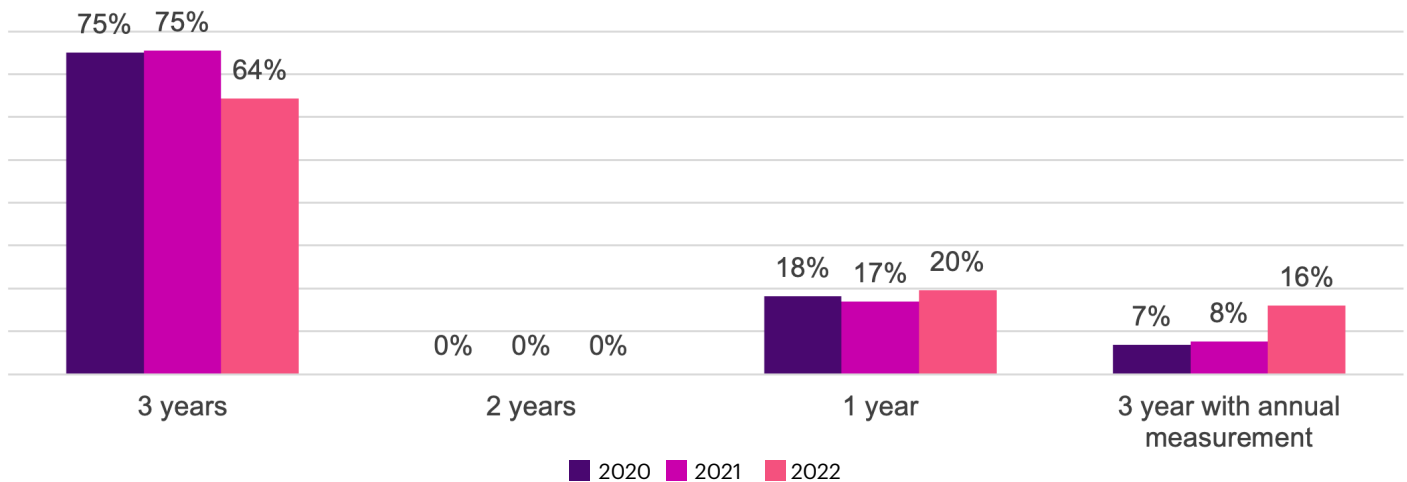
Total program length includes vesting period, exercise period and any holding period if applicable. A total program length of three years remains the most prevalent approach.

**Total program length**  
(% of plans granted each year)



A three-year performance period continues to be dominating among the performance based LTI plans. We observe that the prevalence of three-year performance period with annual measurement has increased from last year's level of around 7-8% to twice as high.

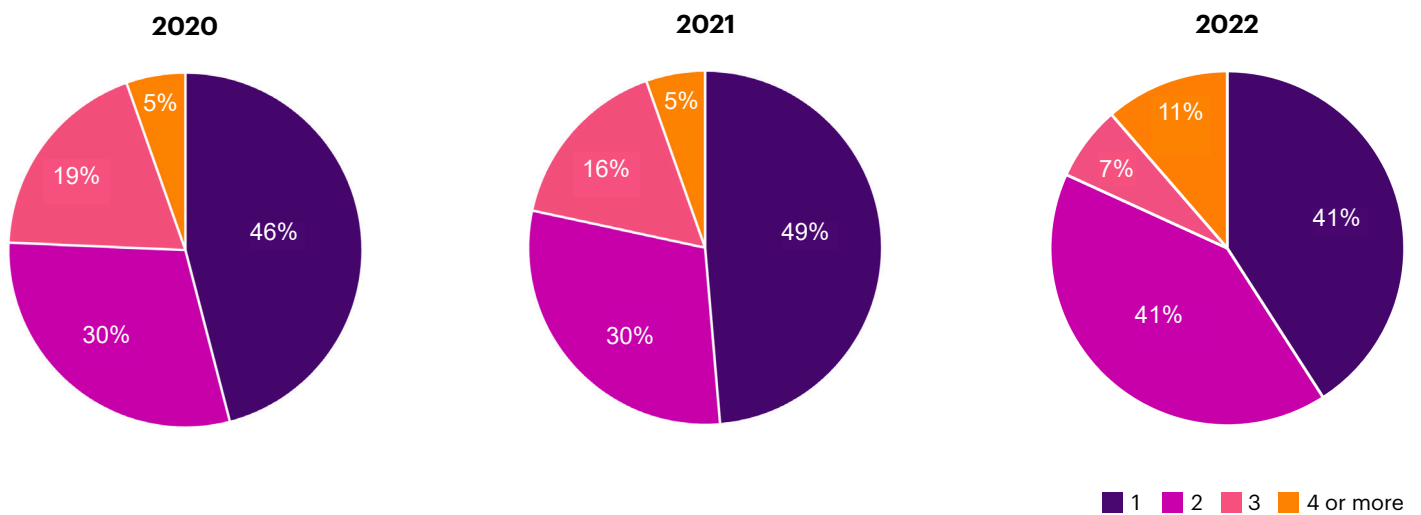
**Performance period**  
(% of performance based plans granted each year)



# Chapter 6

## Performance metrics

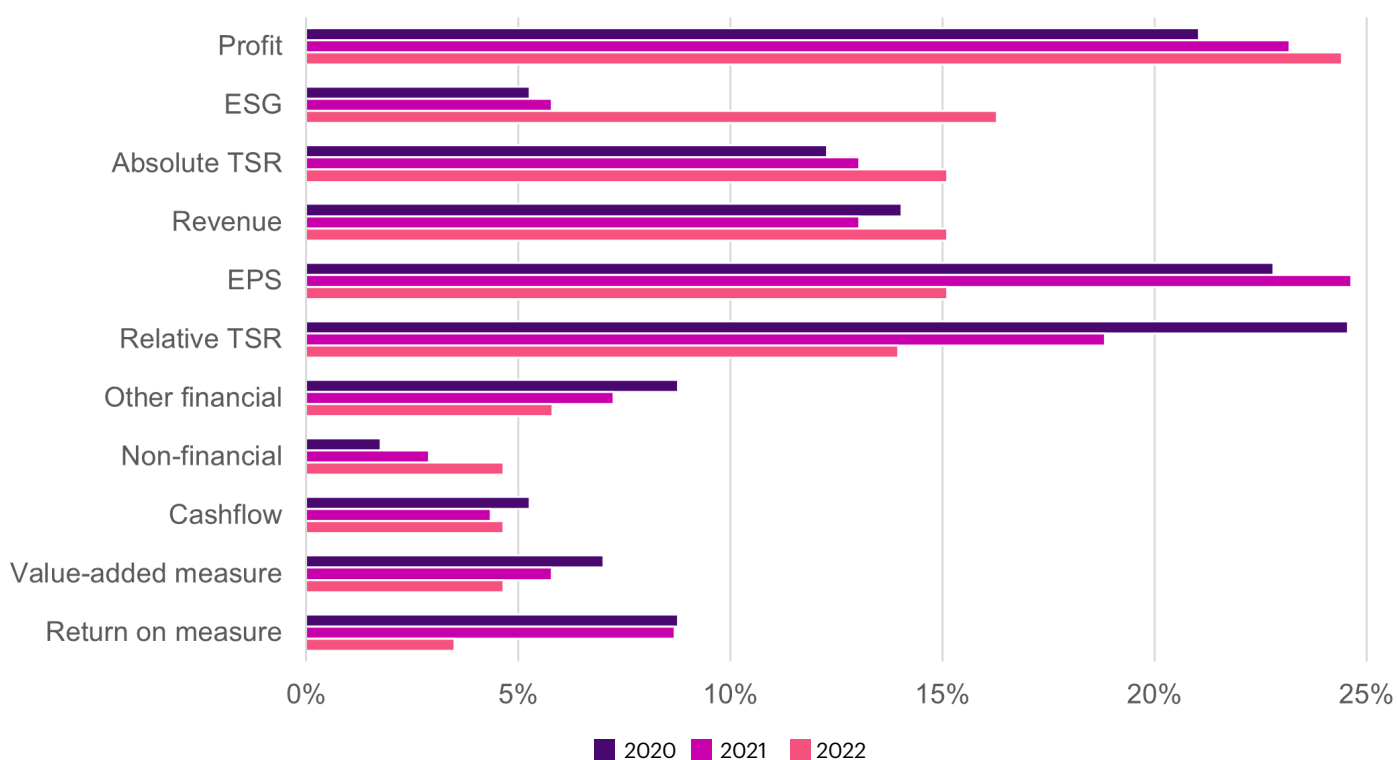
Most large cap companies operate two or more performance metrics. However, despite a decrease this year, we still observe a large proportion of companies using one performance metrics. To capture year-on-year changes the statistics are only covering companies with annual LTI grants over the three-year period and we are also keeping the sample constant, meaning that we only include companies listed on large cap during the whole period.



We observe that profit is the most prevalent performance metric in 2022, followed by ESG then EPS, Revenue, and Absolute TSR. Relative TSR is continuing to decrease in prevalence and is no longer in the top three most common performance metrics. The decreasing prevalence of Relative TSR is mainly caused by a growing selection. Companies using only one performance metric tend to use EPS. Among companies operating more than one performance metric, profit or share-based related metrics tend to be one of the performance metrics.

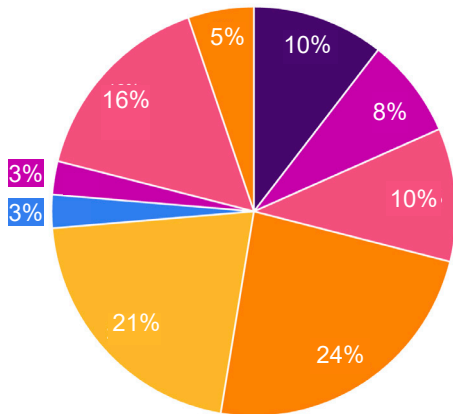
The use of non-financial performance metrics has increased among Swedish large cap companies. Especially when it comes to metrics related to ESG (environmental, social & governance).

**Performance measures**  
 (% of companies granting LTI plans per year)

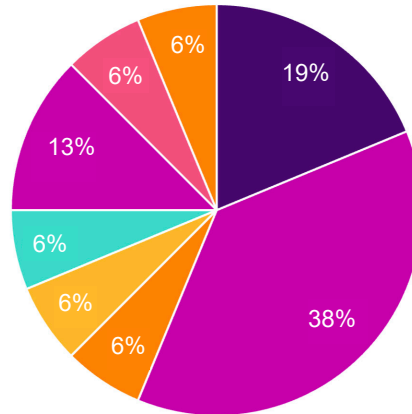


Dividing the Swedish large cap companies into four broad industries, the most prevalent performance metric varies. In consumer goods companies, profit is the most common metric while EPS is the most common in the industrial sector. A majority of companies in the real estate and financial sectors are using TSR related performance metrics. TSR related metrics are also highly prevalent in the technology sector together with EPS and Profit.

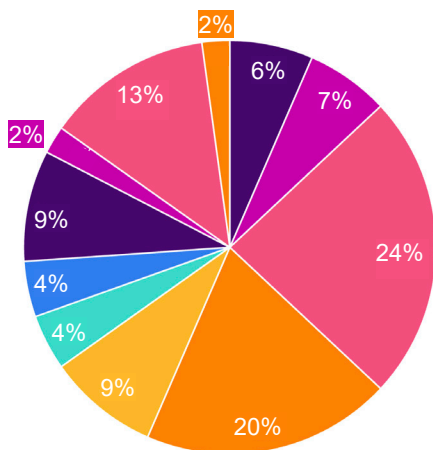
**Consumer goods**



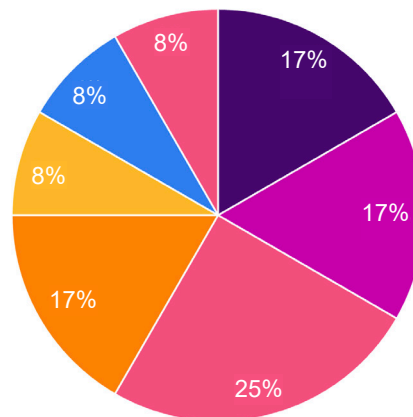
**Real estate and financials**



**Industrials**



**Technology**



- Relative TSR
- Absolute TSR
- EPS
- Profit (pre-tax)
- Revenue
- Return on measure
- Cash flow
- Value added measure
- Other financial
- ESG
- Other non-financial

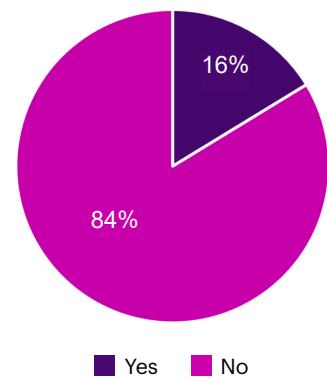
# Chapter 7

## ESG measures

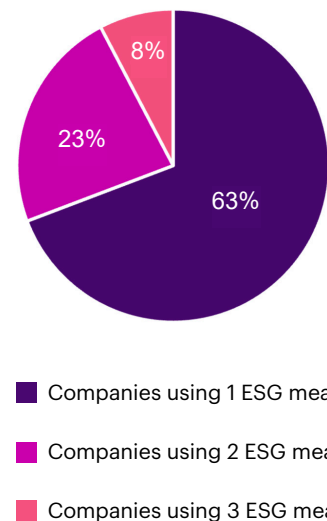
We have observed an increasing prevalence of ESG performance metrics for a couple of years. This trend will likely continue to grow stronger among Swedish large cap companies. 16% of large cap companies are using one or more ESG metrics.

Two thirds of companies using ESG measures are using one metric, but a few companies use up to three. We believe that more and more companies will use more than one ESG measure in the upcoming years

**Companies using ESG measures in 2022**



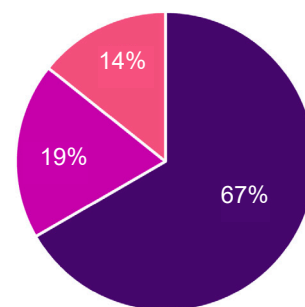
**Prevalence of number of ESG measures used in 2022**





Two thirds of the companies using one or more ESG measure use an environmental one. CO2 reduction is the most commonly used metric. Furthermore, gender equality is the most common social metric. The trend that governance metrics are decreasing in prevalence is driven by the faster increase in environmental and social metrics.

**Types of ESG measures 2022**



- Environmental
- Social
- Governance

We observe the median total weighting of ESG measures in 2022 to be 15%. The highest observed value is 30% while the lowest is equal to the lower quartile, 10%.

Total weighting of ESG measures	2022
Upper quartile	20%
Median	15%
Lower quartile	10%

# Chapter 8

## Eligibility

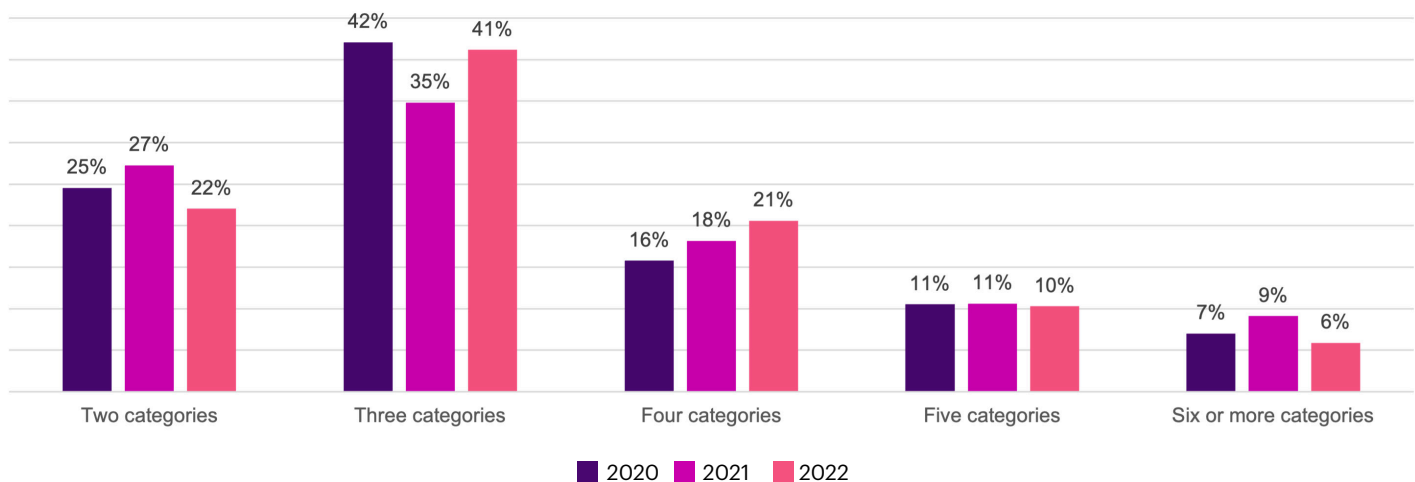
LTI plans are generally targeting a smaller group of employees, the top executives and key employees. In 2022 we observe an increase in the number of eligible participants in LTI plans which is driven both by sample change and companies increasing the number of eligible employees. Looking at the year-on-year change for the individual companies, we observe both companies increasing and decreasing the number of eligible employees in the LTI plans.

The relatively high increase in companies offering all employees to participate in the LTI plan is driven by sample change.

Number of participants, % of employees	2020	2021	2022
Upper quartile	6,16%	4,68%	8,32%
Median	1,50%	1,37%	2,10%
Lower quartile	0,73%	0,53%	0,87%
Number of companies offering all employees to participate in the LTI plan	5	6	13

Companies typically divide the eligible employees in different categories where the grant sizes are differentiated on other factors than salary (e.g. number of shares, percentage of salary etc.). CEO is typically in a separate category, which means that companies with two categories generally covers the CEO and the management team. Most commonly, two or three categories are used, but we can also see that four categories are becoming more common, among Swedish companies.

**Number of participant categories  
(% of LTI plans granted each year)**



# Chapter 9

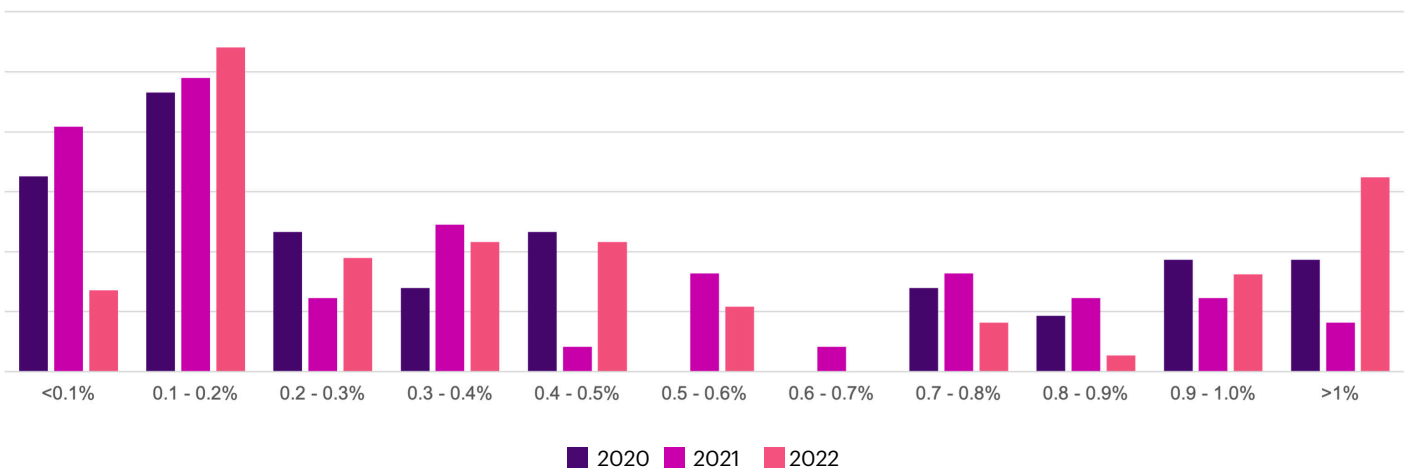
## Plan size

The table shows the portion of shares that may be used in companies' LTI plans. We observe that the plan sizes have grown during 2022. The median company is now expected to use about 0.40% of the total number of shares outstanding. Upper and lower quartiles are also higher than in previous years.

Plan Size, % of shares outstanding	2020	2021	2022
Upper quartile	0,73%	0,62%	0,86%
Median	0,30%	0,30%	0,40%
Lower quartile	0,16%	0,14%	0,19%

The graph shows the variation of plan size between different plan types. In general, co-investment plans and performance share plans comprise a smaller number of shares whereas stock option plans include more shares as % of the total number of shares outstanding.

**Plan size - number of shares as % of total number of shares outstanding  
(% of share based LTI plans granted each year)**



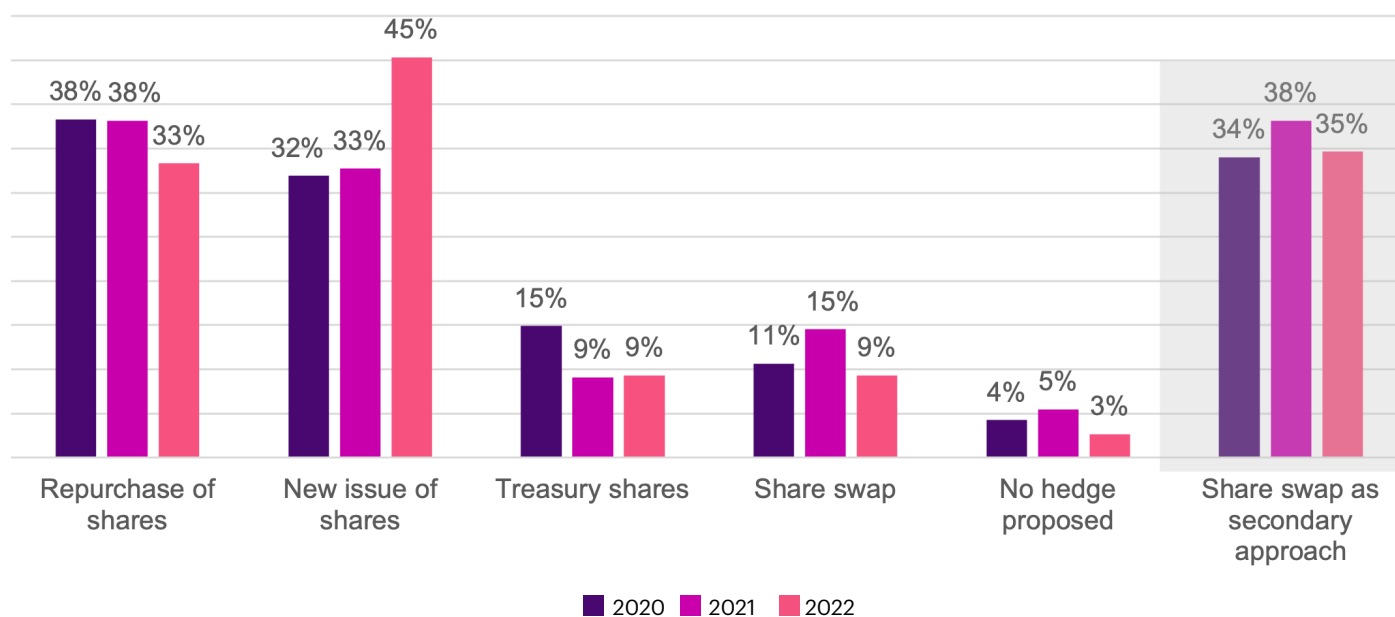
# Chapter 10

## Financing of share based LTI plans

In order to deliver shares to LTI plan participants, the company need to receive shareholders' approval on how the company will secure the delivery. The two most common ways of securing the delivery of shares are new issue of shares (results in a dilution cost) and repurchase of shares (results in a cash cost).

The number of companies using a share swap as a secondary financing alternative is quite stable just above one third. The small decrease can be explained by sample changes. The reason for including a secondary financing alternative is to have coverage for a situation where the primary financing alternative does not pass the shareholder vote at the Annual General Meeting (AGM). A share swap is more costly to the company but does not require as high voting majority at the AGM.

**Primary hedging methodology**  
(% of share based LTI plans granted per year)



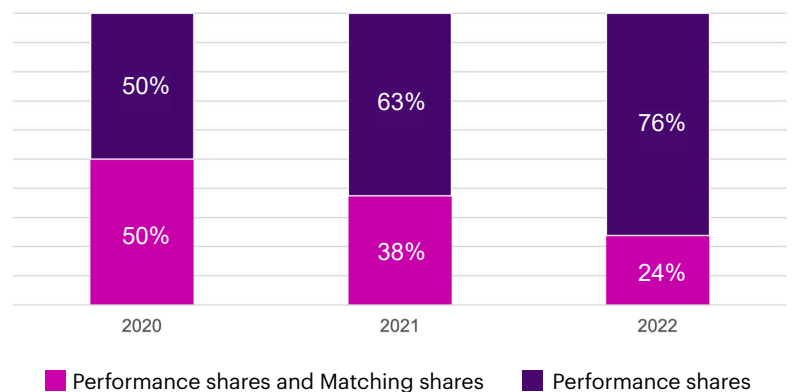
# Chapter 11

## Co-investment plans

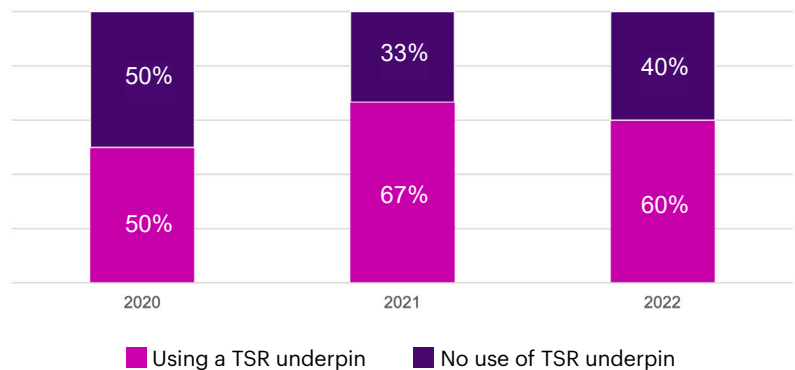
The co-investment plan is no longer the most common LTI plan design type. However, it remains popular and has been for a long time. The co-investment plan requires participants to purchase company shares in order to be eligible for matching of performance shares and in some plans also matching shares. The decrease in companies offering to match the investment with matching shares (i.e. shares that are subject to employment and not performance conditions) continues in 2022, this is largely driven by companies implementing new co-investment plans tend to only offer a performance share match.

The companies still offering matching shares tend to use a TSR underpin for the matching shares. This means that matching shares are subject to a TSR performance condition requiring the company's TSR to be positive during the vesting period (in addition to remain employed during the vesting period). The slight decrease of TSR underpins in 2022 is driven by one company removing the TSR underpin and instead implementing a performance condition.

**Matching vehicles**  
(% of number of co-investment plans)



**Percentage of co-investment plans with matching shares that utilizes a TSR underpin**





Companies defining the possible investment size as a number of shares or a fixed amount tend to differentiate this size between different participant categories. However, most companies defining the investment size as a percentage of salary quote the same percentage level over all participant categories, differentiation is then fulfilled by the varying salary levels. Most commonly, an investment size of 10% of base salary is used for all participants. However, we do observe a few companies increasing the investment opportunity to higher levels, normally not higher than 15% of base salary. Among these companies it is more common to use different percentage levels, thus creating a bigger differentiation between tiers.

The number of matching shares per investment share is usually the same for all participant categories, i.e. no differentiation. The lowest matching ratio observed is one matching share per four investment shares and the highest is one matching share per one investment share. Looking at the performance shares the matching ratio is normally differentiated between the participant categories. Compared to last year, the median matching ratios tend to remain stable.

Number of performance shares per one investment share	CEO	Management Team	Tier 3	Tier 4
Upper quartile	7,0	6,0	5,0	3,4
Median	6,0	5,0	4,0	2,0
Lower quartile	2,9	2,9	2,0	2,0

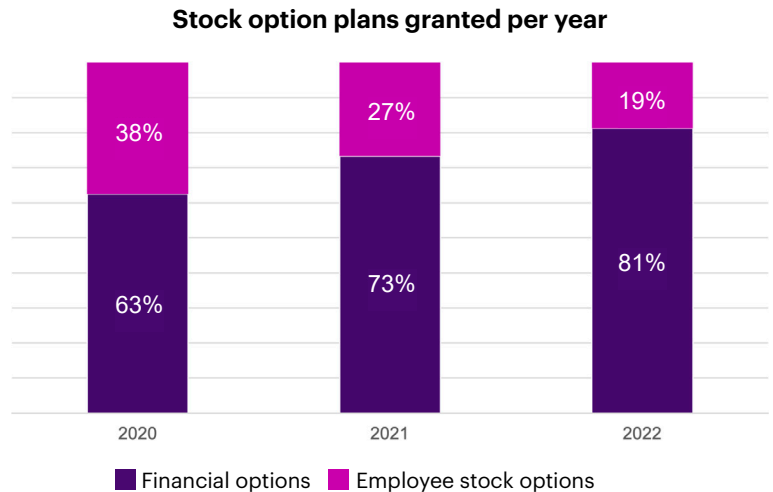
Considering co-investment plans where the investment requirement is defined as a percentage of base salary, the table below illustrates the median and quartile award values as percentage of salary for the different participant categories. The median CEO award is 60% of salary and the median award for management team members is 48% of salary. The median for CEO award is the same as in 2021, while the median for management team members has increased by 3 percentage points.

LTI award value (% of base salary)	CEO	Management Team	Tier 3	Tier 4
Upper quartile	79%	63%	44%	35%
Median	60%	48%	30%	23%
Lower quartile	43%	30%	15%	10%

# Chapter 12

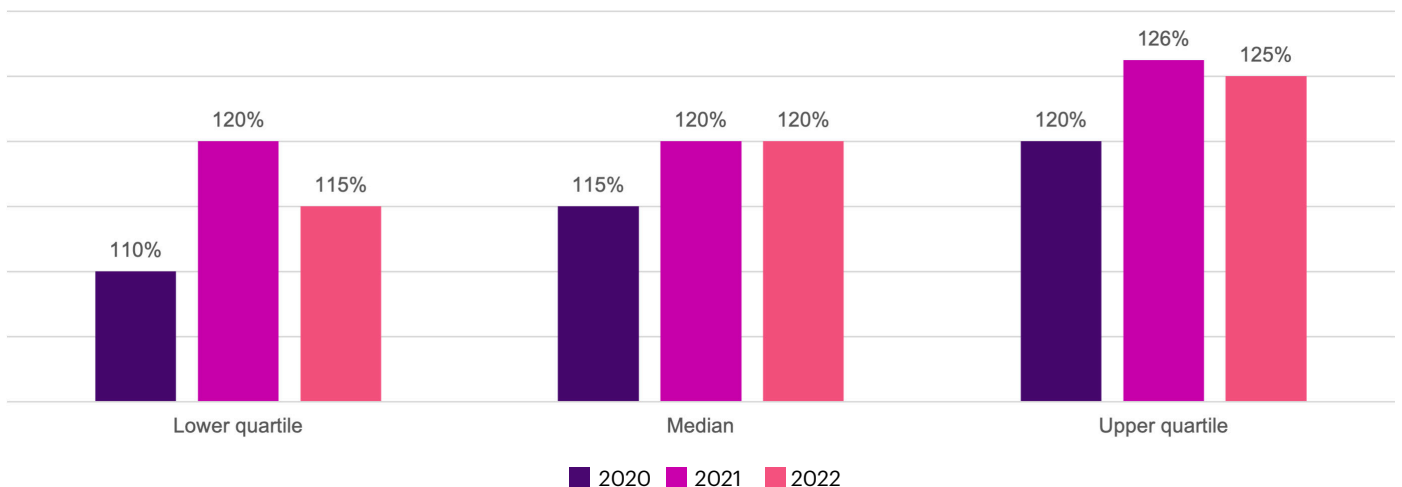
## Stock option plans

Stock option plans include both employee stock options (“personaloptioner”) and financial options (“teckningsoptioner”/”Köoptioner”). The vast majority of the stock option plans consist of financial option plans. We observe that the actual number of employee stock option plan have increased. However, the proportion decrease due to bigger growth in financial options, which is largely driven by companies new to large cap implementing financial option plans.



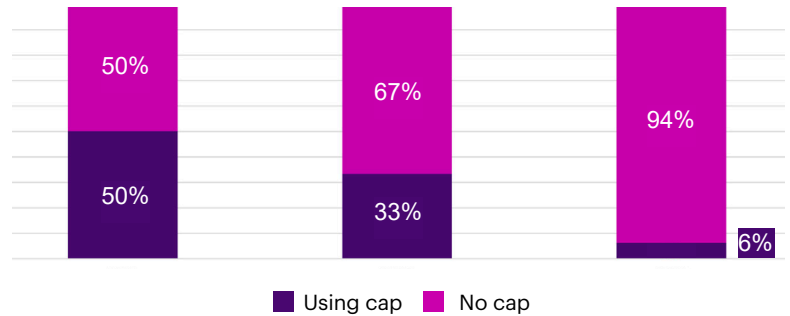
The exercise price as percentage of the share price at grant has remained stable over the years and is typically set at 120%. The lower and upper quartiles have decreased slightly from last year’s levels but remain higher than in 2020. The slight decrease is driven by sample change rather than companies moving towards lower exercise prices. Among the Swedish large cap companies, lower exercise prices are generally applied within employee stock option plans while the higher exercise prices are generally applied in financial option plans.

**Exercise price, % of share price at grant  
(quartiles based on stock option plans granted each year)**



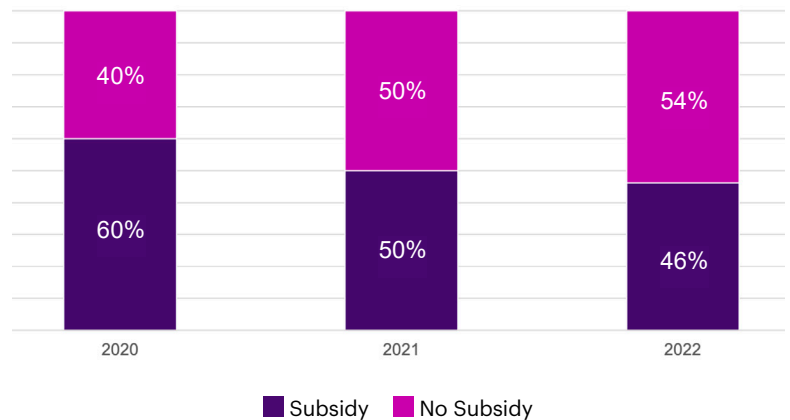
Stock options usually have a high upside potential. However, this upside can be limited by adding a cap to the option (i.e. the maximum gain per option is capped at a certain level). The decrease in companies using a cap is due to new companies entering the Swedish large cap list with uncapped stock option plans. As well as companies previously using caps leaving large cap. A few companies have been observed who removed their caps.

**Companies using an exercise cap in stock option plans  
(% of stock option plans granted each year)**



In financial option plans participants are required to purchase the options at market value. Companies can choose to subsidize the participants' purchase cost fully or partly (e.g. to encourage participation). Less and less of the companies granting financial options subsidize the participants' purchase cost fully or partly. The subsidy is generally paid after a certain time period (e.g. after the vesting period ends) for retention purposes.

**Prevalence of subsidy in financial option plans  
(% of financial option plans granted each year)**



# Appendix I

## Swedish large cap companies

Below are the Swedish large cap companies as of January 2022 and which industry these have been categorized within. Certain companies have been excluded from the analysis in this report due to being considered non-Swedish and hence not applying typical Swedish market practice when it comes to LTI plan design.

Consumer goods	Industrials	Real estate and financials	Technology	Excluded due to non-Swedish practice	Excluded due to delisting
AAK	Addtech	Atrium Ljungberg	Byggfakta Group	ABB	Ahlstrom-Munksjö
Addlife	AFRY	Avanza Bank	Cint	Arion Banki	ICA Gruppen
Arjo	Alfa Laval	Bure Equity	Ericsson	AstraZeneca	Kungsleden
Axfood	ASSA ABLOY	Castellum	Hemnet	Autoliv	Veoneer
BHG Group	Atlas Copco	Catena	Hexagon	Fenix Outdoor	
Bico	Beijer Ref	Creades	HMS Networks	Lundin Mining Corporation	
Bilia	BillerudKorsnäs	EQT	Lagercrantz	Millicom Int. Cellular	
Biotage	Boliden	Fabege	Mycronic	Nordea Bank	
Boozt	Bravida	Fast. Balder	NCAB	Stora Enso	
Dometic Group	Bufab	Fastpartner	Viaplay Group	TRATON	
Electrolux	Electrolux Professional	Handelsbanken	Sinch	TietoEVRY	
Elekta	Epiroc	Hufvudstaden	Stillfront		
Essity	Hexatronic	Industrivärden	Tele2	Companies entering large cap in 2022	Companies leaving large cap in 2022
Evolution Gaming Group	HEXPOL	Intrum	Telia Company		
Getinge	Holmen	Investor	Truecaller	Addlife	Attendo
Hennes & Mauritz	Husqvarna	Kinnevik	Vitec	Bico	Bonava
JM	Indutrade	Klövern		Bilia	Modern Times Group
K-Fastigheter	Instalco	Lundbergföretagen		Biotage	Betsson
Karo Pharma	Latour	Nordnet		Boozt	Nobia
Kindred Group	Lifco	NP3		Bufab	Resurs Holding
Medicover	Lindab	Nyfosa		Byggfakta Group	
Mips	Loomis	Pandox		Cint	
SECTRA	Lundin Energy	Platzer Fastigheter Holding		Creades	
Sobi	Munters	Ratos		Hemnet	
Swedish Match	NCC	Sagax		Hexatronic	
Thule Group	NIBE Industrier	Samhällsbyggnadsbo. i Norden		HMS Networks	
Vitrolife	Nolato	SEB		Instalco	
Volvo Cars	Peab	Swedbank		K-fastigheter	
	SAAB	Wallenstam		Karo Pharma	
	Sandvik	Wihlborgs Fastigheter		Lagercrantz	
	SAS			Lindab	
	SCA			Mips	
	Sdiptech			Munters	
	Securitas			NP3	
	Skanska			SAS	
	SKF			Sdiptech	
	SSAB			Stillfront	
	Storskogen			Storskogen	
	SWECO			Systemair	
	Systemair			Troax	
	Trelleborg			Truecaller	
	Troax			Vitec	
	Volati			Volati	
	Volvo			Volvo Cars	
				Electrolux Professional	
				NCAB	

#### About WTW

At WTW (NASDAQ: WTW), we provide data-driven, insight-led solutions in the areas of people, risk and capital. Leveraging the global view and local expertise of our colleagues serving 140 countries and markets, we help you sharpen your strategy, enhance organisational resilience, motivate your workforce and maximise performance. Working shoulder to shoulder with you, we uncover opportunities for sustainable success — and provide perspective that moves you. Learn more at [wtwco.com](https://www.wtwco.com).



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