Navigating rewards

Exploring equity incentives for listed companies on Oslo Børs

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Foreword

How do you align the interests of shareholders and management teams?

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The relationship between management teams and shareholders is undeniably central to the success of a business. At its core, equity incentives seek to align the shared goal and mutual interest between these parties.

In this report, we explore incentive plans among Norwegian listed companies. We frequently assist our clients on this topic. Drawing upon years of experience in publicly listed and private enterprises, we have accumulated significant insights into using equity incentive plans. Our commitment to confidentiality precludes us from publishing these insights. However, through this study, which we have based on publicly available information, we hope to provide you with insights into the landscape of equity incentives among publicly listed companies.

We aim to shed light on the most common types of incentive plans, including the program size, the program participants and the average term of the programs. Even though this report focuses on publicly listed companies, the significance of incentive programs also extends to the private sector.

A key observation from this year's study is that equity incentive plans' continue to increase. In our study that was published ten years ago, 60% of the companies had equity-based incentive programs. In our latest study, this figure has increased to 81%.

"In this report, we explore incentive plans among Norwegian listed companies. We aim to shed light on the most common types of incentive plans, including program size, who are included and the average term of the programs."

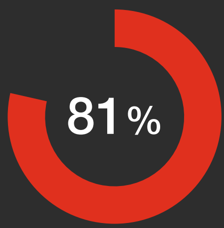
Noteworthy among companies with performance-based conditions is the inclusion of Environmental, Social- and Governance (ESG) in 25% of the programs. The performance criteria for these programs are typically related to carbon emissions and diversity. These findings align with the increased importance of ESG considerations among investors and employees. In anticipation of the forthcoming Corporate Sustainability Reporting Directive (CSRD), and to drive accountability towards key strategic priorities, we expect an increase in ESG metrics into management and employee remunerations.

Summary and comparison with the Swedish equity incentive study

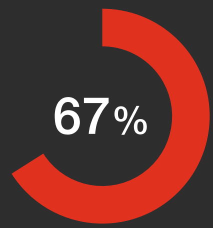
	Norway	Sweden

1 Share of equity based compensation

Norway



Sweden



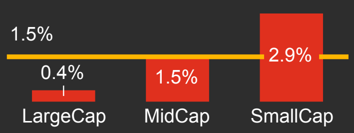
2 Types of equity incentive programs[1]

Norway		Sweden	
Options	44%	Warrants (options)	47%
Performance share units (PSUs)	12%	Employee option	17%
Restricted stock units (RSUs)	14%	Other options	3%
Matching shares	10%	Performance share units (PSUs)	14%
Share purchase with restrictions	16%	Matching shares	15%
Other	4%	Other	4%

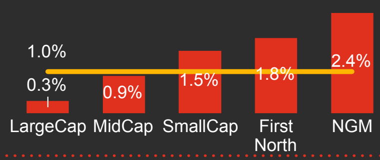
1 Sweden displays new programs in 2023, whereas this report displays the overall distribution of programs in Norway in 2022.

3 Portion of shares related to incentive program

Norway



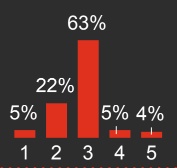
Sweden



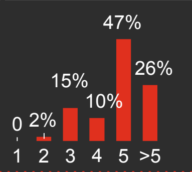
4 Duration

Norway

Vesting

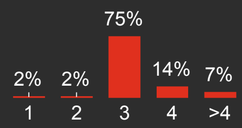


Exercise period (options)



Sweden

Total programs



5 Number of program participants

Norway		Sweden	
1–10	61%	1–10	30%
11–50	12%	11–30	27%
50+	27%	30+	42%

6 Board and executive remuneration

(Only included in this study)

Norway

Management remuneration	
Fixed compensation	71%
Variable compensation	29%

Board of Directors	
Median comp. Chair	NOK 570K
Median comp. Member	NOK 290K
Median # of members	6
Median share of women	40%

Sweden

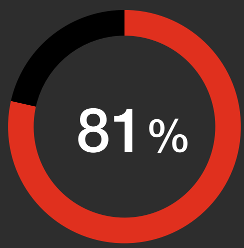
Please refer to the study conducted by PwC Sweden for further details.

Contents

81% of companies listed on Oslo Børs use equity-based compensation

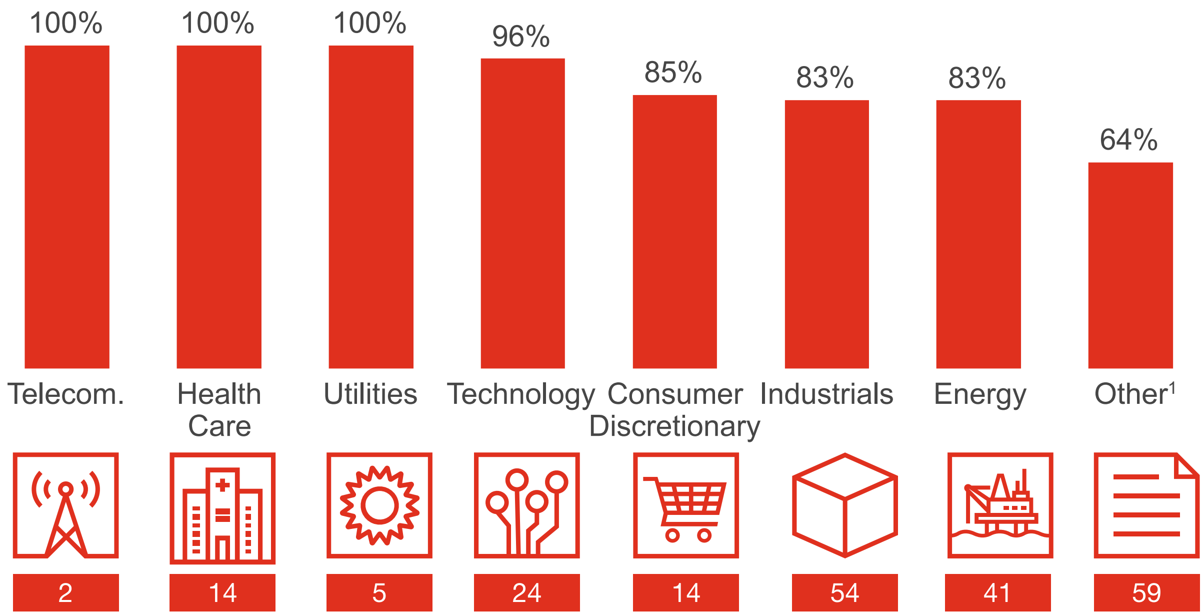
Equity incentives are increasing in popularity
The use of equity incentives among listed companies has become increasingly prominent. A decade ago, in our prior study of equity incentives among publicly listed companies on Oslo Børs, 60% had equity based incentive programs. In our latest study, this figure has increased to 81%. Our analysis reveals the use of a diverse spectrum of equity incentive programs, including traditional options to performance-based awards and share purchases with restrictions.

This report aims to provide insights into the practices of 213 publicly listed companies on Oslo Børs. The information used by PwC in preparing this report has been obtained from publicly available sources, predominantly the annual reports of 2022. Additionally, we have gathered information from the accompanying remuneration reports as well as minutes from the General Assembly. Our conclusions are dependent on such information being complete and accurate in all material respect. Even though listed companies are required to disclose remuneration of their management and BoD, we note that the level of detail of these disclosures varies and may impact the survey findings.



of the companies listed on Oslo Børs have either proposed new programs in 2022 or have existing programs from previous years.

Equity incentives among listed companies on Oslo Børs *(% of total)*



1 'Other' includes the sectors basic materials, real estate and financials.

Options and option like instruments prevail

Prevailing instruments
The figure below illustrates the most prevalent equity incentive programs offered by publicly listed companies on Oslo Børs.

For a full list of definitions of the different programs, please see page 24.

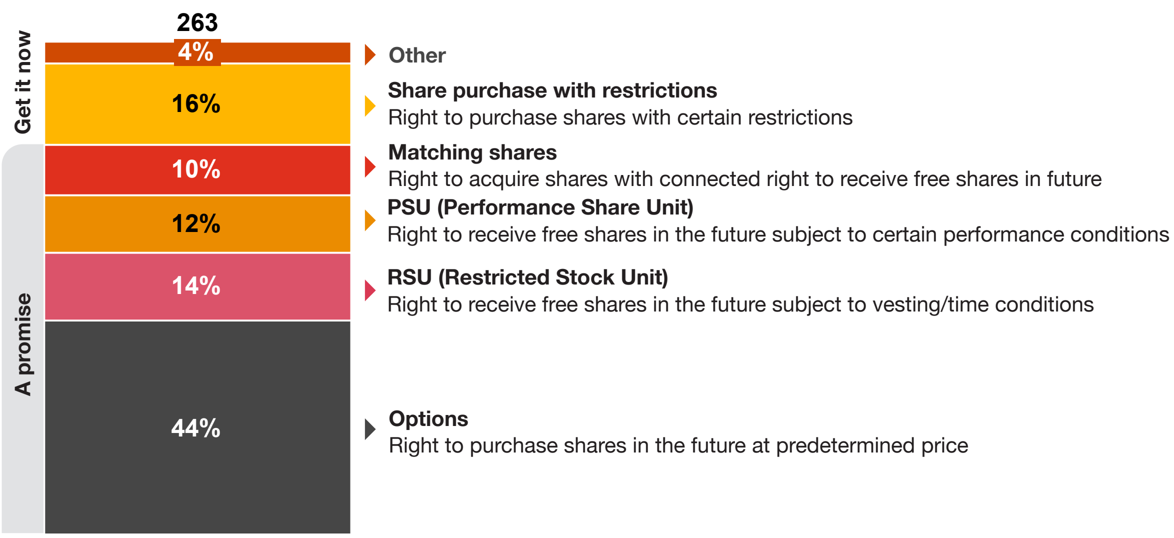
The most common types of programs are options, accounting for 44% of the programs within our survey. The options grant employees the right to purchase company shares in the future at a specified price. In Norway, employee options are always taxed as income from employment (salary) at the point of exercise based on the fair market value at exercise. In contrast, Swedish tax legislation opens for the possibility to structure warrants/options as capital investments under certain conditions.

Other common program types include PSUs (12%) and RSUs (14%). Both PSUs and RSUs grant employees shares at a future date subject to time based conditions (RSUs) and performance conditions (PSUs), normally for free. The taxation in Norway is similar as for ordinary options, i.e. salary taxation at the time the shares are received based on the fair market value at this point in time.

Share purchase with restrictions represent 16% of the incentive programs. The Norwegian tax authorities' recognise that restrictions to the shares may be taken into account as value-reducing elements that needs to be accounted for in the valuation of the shares. These factors often include lock-in periods and restrictions on share resale, determining how shares can be sold and at what price. Any further discounts that do not mirror a value reducing restriction is taxed as employment income.

Matching shares represent 10% of the instruments and imply a right for the employee to acquire shares at market value and then receive a specified number of shares for free at a later stage. The value of the shares that are received for free, are taxed as employment income at the time when these are received. These shares may be subject to further restrictions when received.

Types of programs



Options are considerably more common among Small- and Mid Cap companies

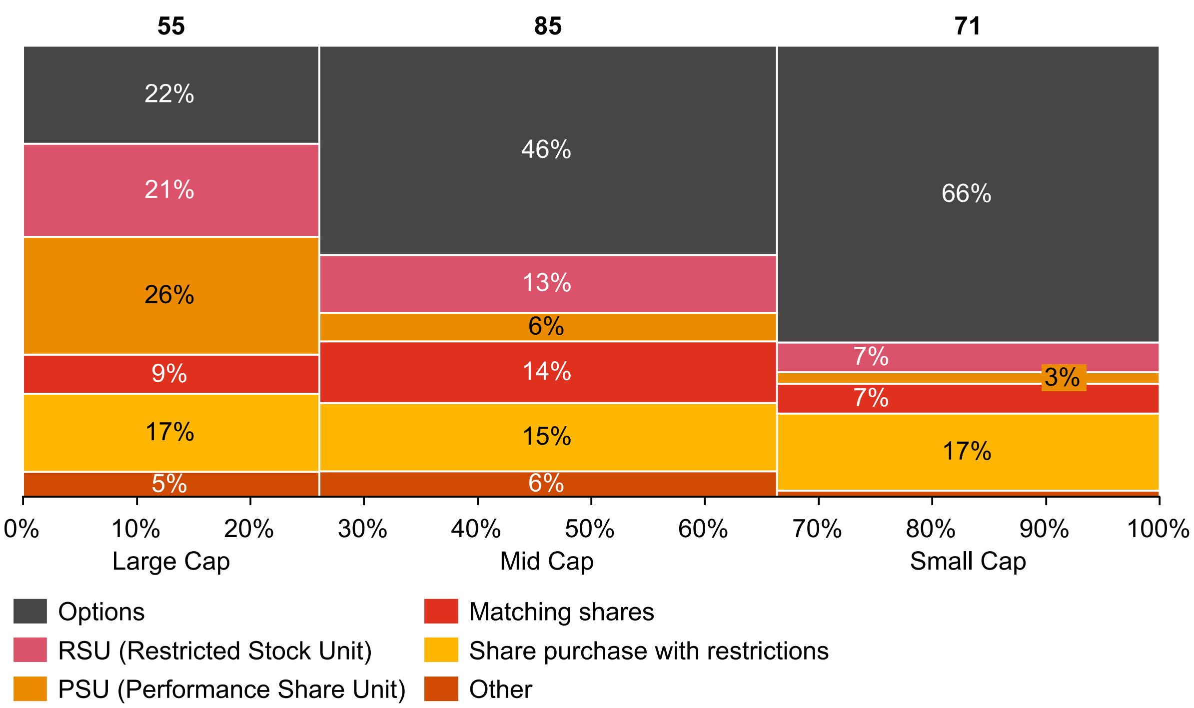
Distribution of companies by size
Company size appears to be a key factor influencing the choice of programs. Thus, we have categorised the companies into Large Cap (>= NOK 10’000 m), Mid Cap (between NOK 1’500 m and NOK 10’000 m), and Small Cap (< NOK 1’500 m) based on their market capitalisation as of 31 December 2022. The allocation between the categories was 55 Large Cap companies, 85 Mid Cap companies and 71 Small Cap companies.

The most notable distinction between different companies by size is that option programs are considerably more common among Small- and Mid Cap companies, as opposed to Performance and Restricted Share Units, which are more frequently found in Mid Cap and Large Cap companies.

Small- and Mid Cap companies usually have less liquidity and limited access to capital compared to Large Cap companies. Thus, these companies may offer options as an equity incentive due to limitations in their ability to provide competitive salaries and bonuses. Additionally, PSUs can be more resource-intensive than options, as they often involve performance metrics that may require more administrative resources.

Additionally, Large Cap companies with greater resources and better corporate governance may emphasise tying executive remuneration closer to the company’s strategy. For this purpose the PSU-programs may be the most appropriate incentive structure.

Types of programs by company size



The majority of programs include C-suite executives

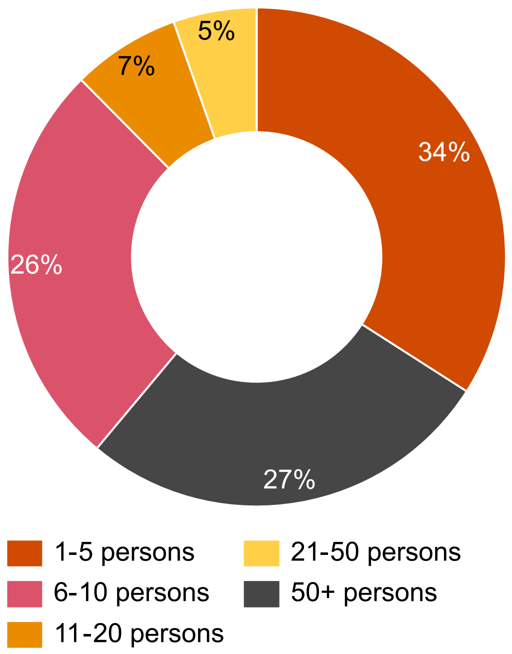
Program distribution and participant overview
The charts on this page depict the total participant count and the distribution among participant roles in new programs in 2022 or existing programs from previous years[1].

The number of participants in the programs vary significantly. Approximately 60% of the programs included in the analysis are designed for a limited number of participants, ranging from 1 to 10 individuals. Around 10% of the programs involve 11 to 50 employees, with another ~30% designed for groups exceeding 50 individuals, primarily all-encompassing employee programs.

As illustrated in the chart below, CEOs are included in 96% of the companies with equity incentive schemes, CFOs participate in 92%, and other C-suite executives are involved in 86%. All employees and board member participation rates stand at 37% and 18%, respectively, emphasizing a primary focus on senior executives within the programs.

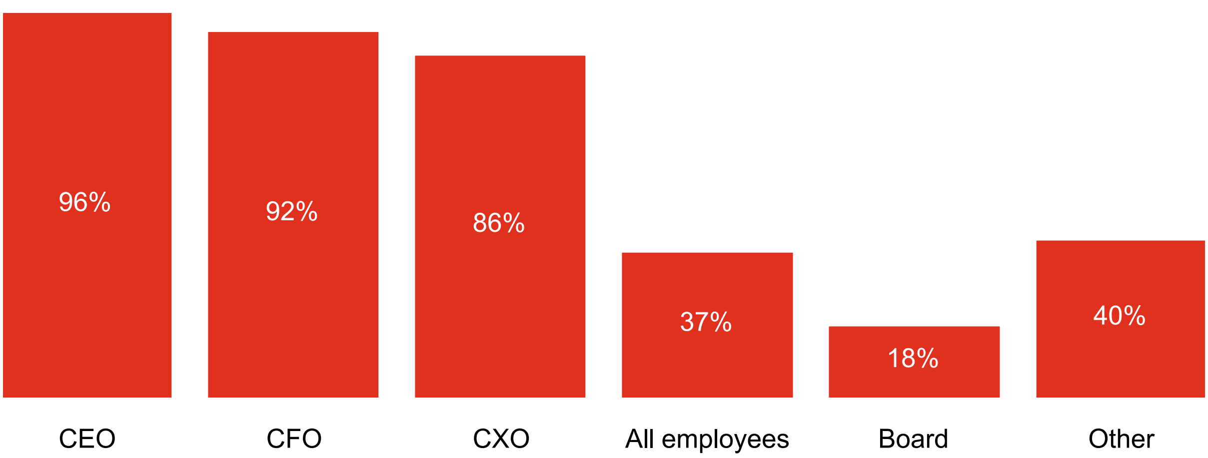
The category "Other" relates to other key personnel, general managers and programs where the participant group is unspecified.

Total participant count[1,2]



1 Please note that in 37% of the programs the total number of participants is undisclosed.
2 Please note that the participant count diagram is based on the total number of outstanding programs.
3 Please note that the program distribution by role graph is based on the total number of companies with outstanding programs.

Program distribution by role[3]

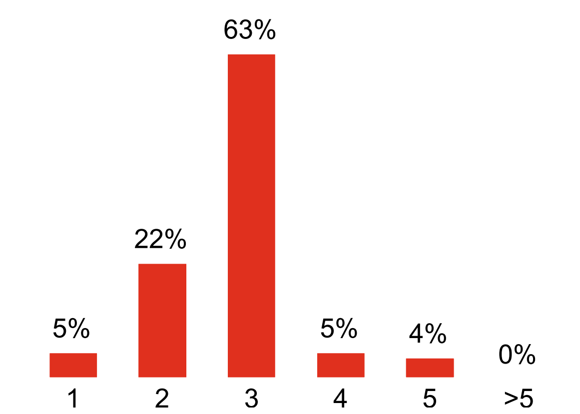


Three years is the most common vesting period in the majority of programs

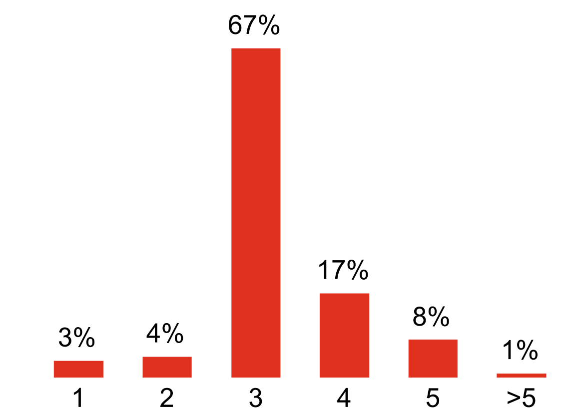
Vesting period
The graph on the below presents the distribution of vesting period for RSUs, PSUs and share purchases with matching shares. A vesting period is the period between the date of grant (or promise) of the shares and the date upon which the vesting conditions have been satisfied.

Vesting and exercise period for options
Options typically come with a vesting period and an expiration date. The vesting period is the period between the date of the grant and the date upon which the vesting conditions have been satisfied. The exercise period is the time between the date of grant and the expiration date. We often see that the option holder can exercise the option in the period after the vesting period up until expiration.

Vesting period in share-based programs



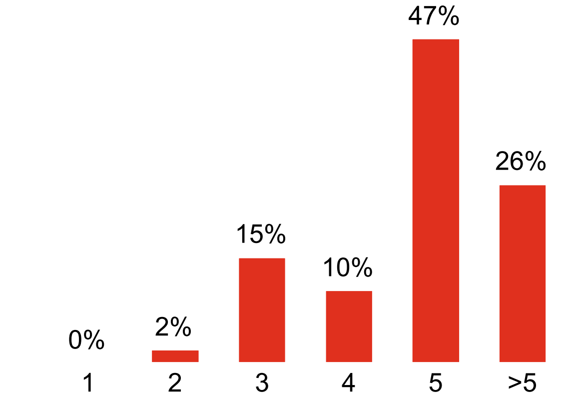
Vesting period in option programs



The most common vesting period is three years (~65% of the programs).

Options typically have a three-year vesting period and a five-year exercise period.

Exercise period in option programs



The median value adjustment is 25% for a three-year restriction period

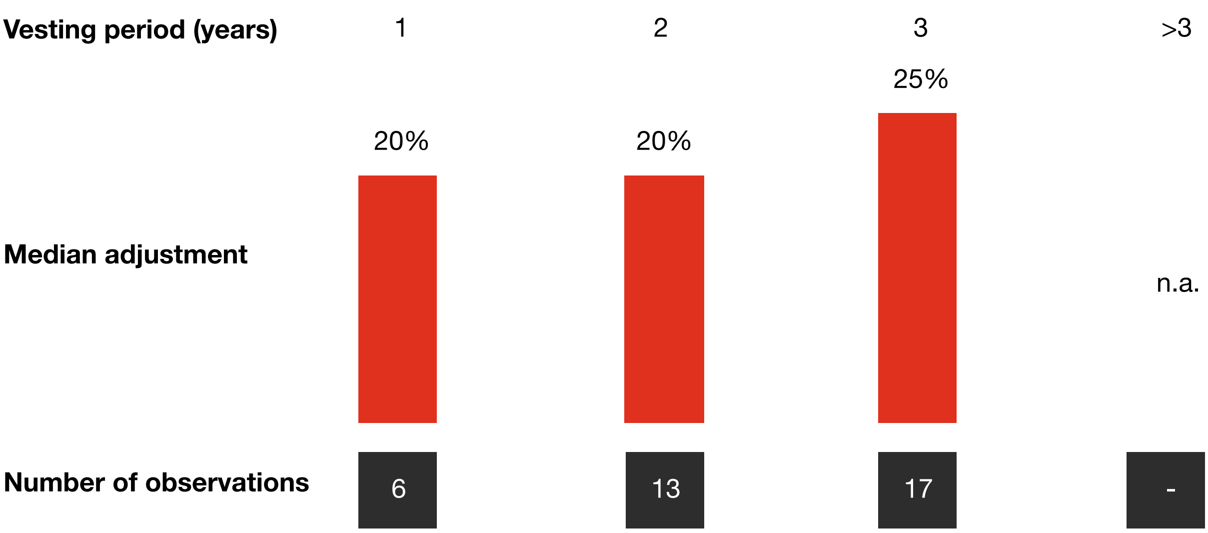
The correlation between the length of restriction and the adjustment of FMV
The chart below illustrates how the fair market value is adjusted due to restrictions connected to the shares. The longer the restrictions apply, the higher adjustment to FMV is normally applied.

The Norwegian tax authorities recognise that restrictions to the shares may be considered value-reducing elements that need to be accounted for in the valuation of the shares. These factors often include lock-in periods and restrictions on share resale, determining how shares can be sold and at what price. Any further adjustments that do not mirror a value-reducing restriction are seen as a discount that is taxable as employment income.

Please note that an individual assessment and documentation of the value adjustment must be done in each separate case based on the specific terms and nature of restrictions.

We emphasise that there are large differences in the reporting details among the companies in the study. As such, we can not conclude that the whole adjustment is related to restrictions. We have, for example, seen that some programs apply an additional discount to the value adjustment, that is treated as employee benefit (and taxed accordingly). For example, a company may apply a 50% discount on the shares, however, as the shares have restrictions a portion of the discount should be viewed as a non-taxable adjustment to the FMV. For the taxable portion of the discount, we have seen that as part of the schemes the employees receive a cash bonus equal to hers/his income tax payable triggered by the program.

Average adjustment by vesting period



Max	50%	30%	30%	n.a.
Min	15%	15%	15%	n.a.

Small Cap companies allocate a larger portion of shares to incentive programs compared to larger companies

Portion of total shares related to incentive programs

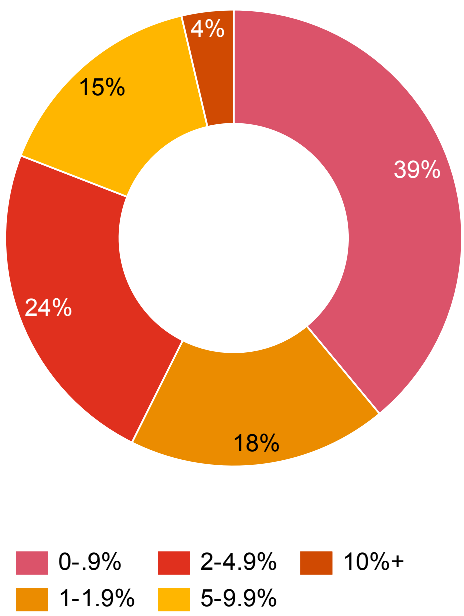
As the vast majority of the incentive programs offered by companies listed on Oslo Børs involve shares or options, a defined portion of the companies' outstanding shares are kept from the general public for this purpose.

The analysis to the right presents the maximum potential shares employees may obtain through outstanding incentive programs. Note that the calculation of the participants' share portion is independent of whether the shares have been repurchased or delivered in any other way by the company.

We observe that 39% of the companies allocate less than 1% of the company's total shares. Also, we see that 4% of the companies allocate more than 10% of the companies' shares.

Note that information is based on information on 136 companies, and number of shares outstanding as of 31.12.2022.

Number of shares allocated to the incentive program as a percentage of total outstanding shares

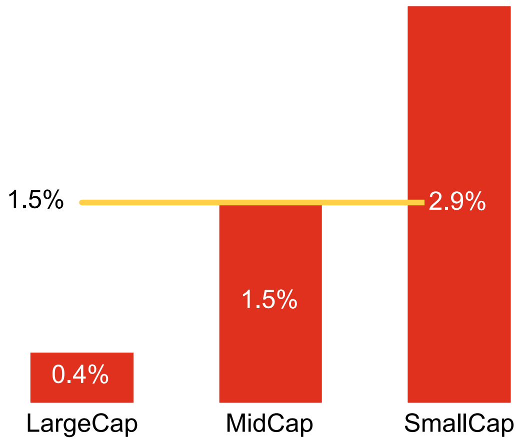


Program size (measured as the portion of total outstanding shares) by company size

The diagram to the right presents median values for the maximum potential shares employees may obtain through outstanding incentive programs, by company size.The overall median value amounts to 1.5%.

We observe that the median value of Small Cap companies of 2.9% is higher than the median of both Mid Cap and Large Cap companies. Companies offering higher share proportions often have a large share of option programs. Further, Small Cap companies show a higher presence of technology and health care firms, which on average have larger programs than other industries.

Median number of shares allocated to the incentive programs as a percentage of total outstanding shares, by company size



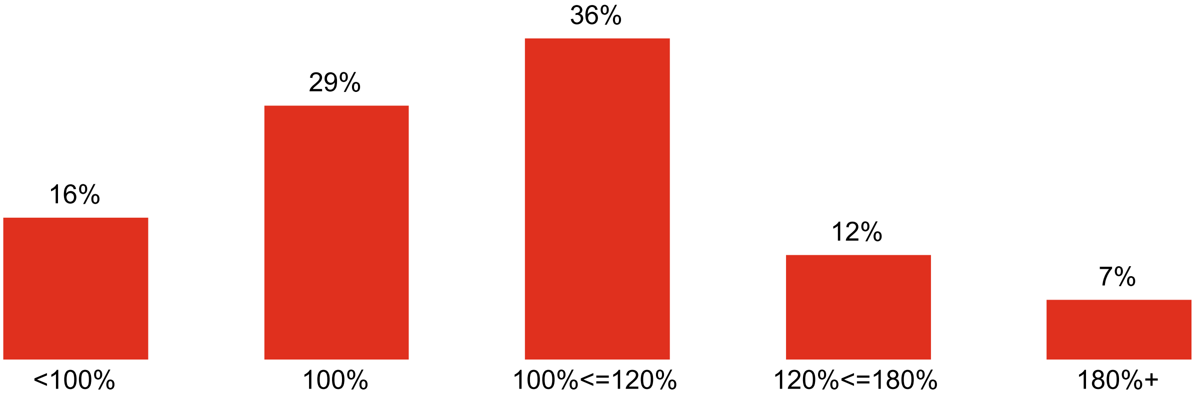
The most common strike price range from 100% to 120% of the stock price at grant

Relationship between strike price and stock price at grant
The diagram below illustrates the relationship between the strike price and the stock price at the grant date for options. Typically, strike prices fall within the range of 100% and 120% of the share price at the grant date.

The strike price of an option is the price you have to pay to acquire one share at the time of exercise. The benefit of an option depends upon whether the share's strike price is lower than the fair market value at exercise. In such cases, one could buy shares at a lower price and sell them at a higher fair market value. At the same time, if the company performs poorly and the share price never increases above the strike price, the option can expire as worthless.

Options are often granted with the expectation that the option holder will benefit if the share price increases. Consequently, most programs (84%) are designed so that the strike price equals (29%) or is above (55%) the share price at grant. 36% and 19% of the programs have strike prices between 100%–120% and above 120% respectively, providing participants with more ambitious targets.

Strike price in % of share price



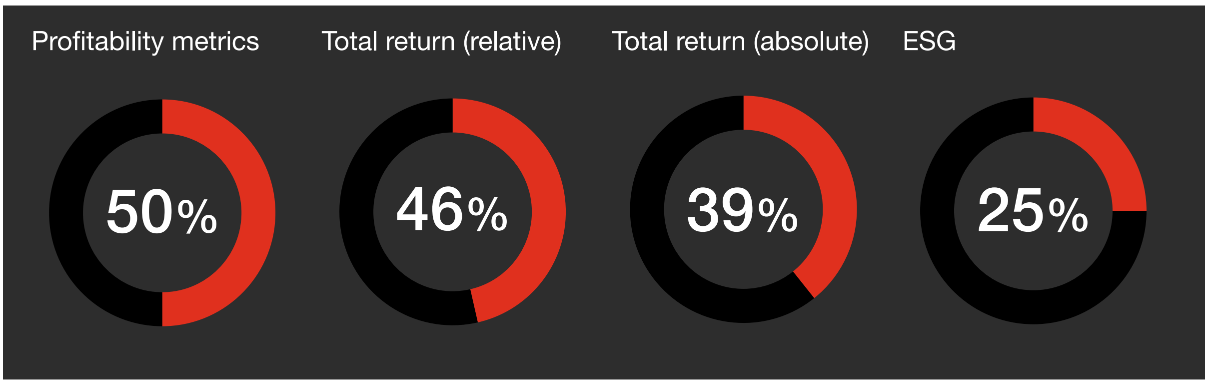
ESG performance is incorporated into executive remuneration

Performance-based metrics
The diagrams below present the most common performance conditions applied in Performance Share Unit (PSU) plans. PSUs or performance shares are awarded to employees at a future date subject to the achievement of certain performance conditions over a given period (typically, three years based on our findings on page page 9). The number of shares awarded is typically linked to key metrics based on individual strategies and the financial metrics that are the most important to the companies. We note that most performance-based programs in our analysis have multiple performance metrics.

Profitability metrics represent the most commonly used criteria (50%). Profitability metrics include earnings per share, revenue growth, and development in EBITDA, EBITA, EBIT and EBT.

After profitability metrics, we observe that total return metrics are commonly applied. These can be divided in relative total shareholder return and absolute total shareholder return. Relative return is based on the stock's performance in relation to an index or other comparable companies, while total return is a measurement based on the stock price development of the company.

Our results also show that 25% of the PSU programs include metrics based on Environmental, Social- and Governance (ESG). The performance criteria for these programs are typically related to carbon emissions and diversity. These findings align with the increased importance of ESG considerations among both investors and employees. In anticipation of the forthcoming Corporate Sustainability Reporting Directive (CSRD) and to drive accountability towards key strategic priorities, we expect an increase in ESG metrics into compensation.

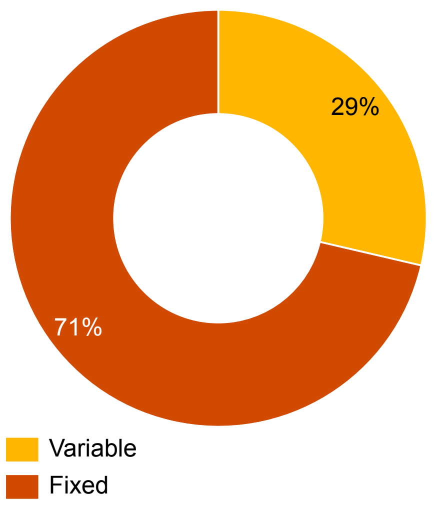


Approximately 30% of listed companies' management remuneration is variable

Fixed compared to variable compensation
This section provides insight into the fixed and variable remuneration for management team members, as reported by the companies. Fixed compensation, comprising 71% of the total remuneration, includes base salary and other guaranteed payments that executives receive regardless of the company's performance. The remaining portion, variable compensation, typically comprises bonuses and other equity incentives.

It is worth noting that some companies exclude equity incentives from their reported variable remuneration, suggesting that the actual proportion of variable compensation may be higher than reported.

Variable vs. fixed portion of total remuneration



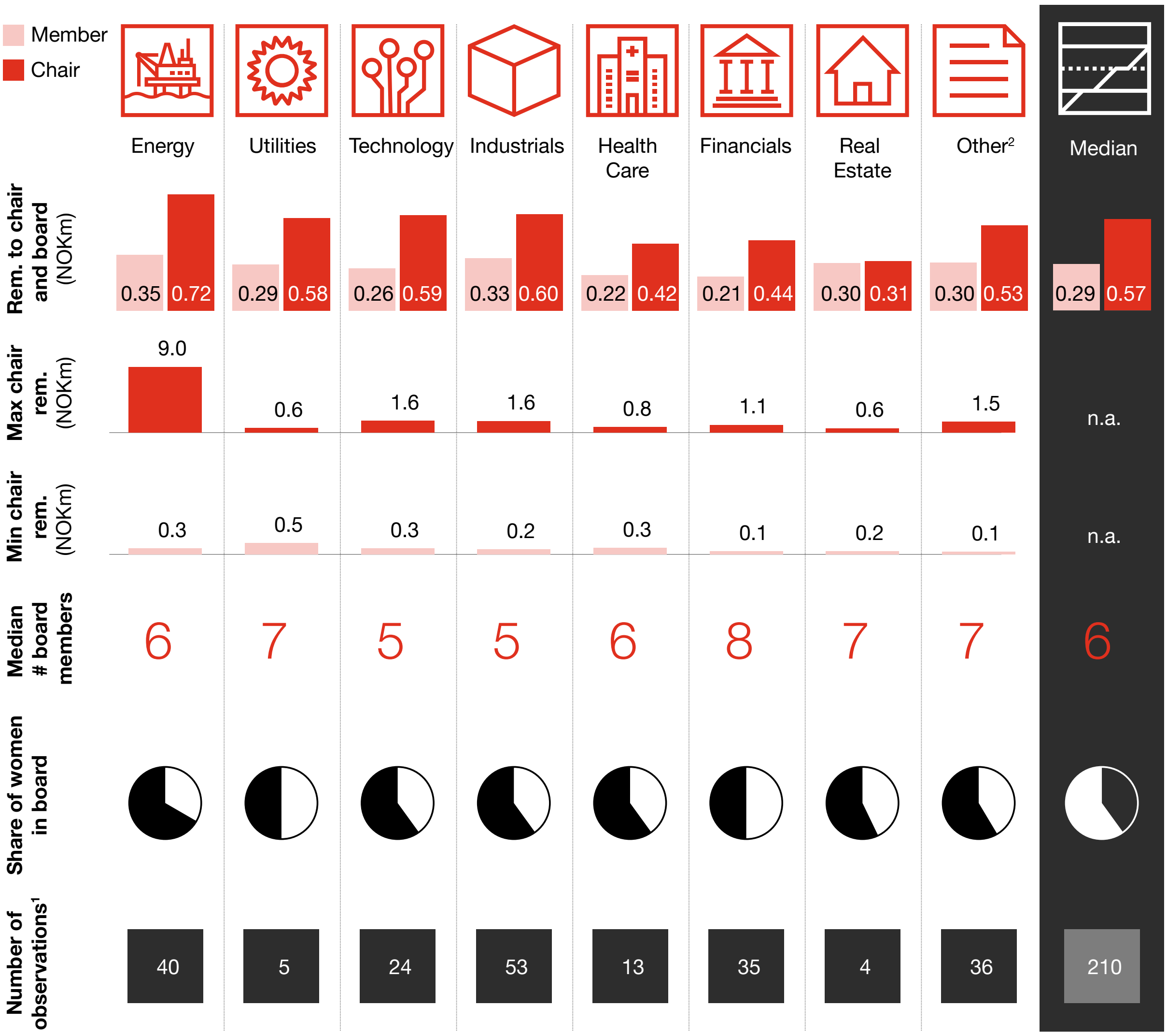
The largest difference between chair and board member remuneration is found in the Energy sector

Board remuneration

The preceding table presents an overview of the average remuneration for chairpersons and board members of listed companies on Oslo Børs, categorized by sectors. We have only included board members who have received compensation, as disclosed in the companies' remuneration report.

The median chairpersons receive an annual remuneration of approximately NOK 570k, while board members receive a median of NOK 290k.

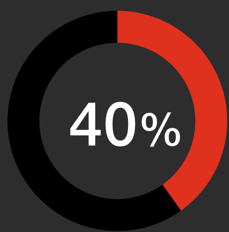
We observe the largest difference in the energy sector: the chairperson receives 2.1x the median board member. Moreover, the energy sector distinguishes itself as the sector with the highest median remuneration for both chairpersons and board members of approximately NOK 0.72m and NOK 0.35m, respectively.



¹ This includes the maximum number of companies considered in the analysis.
2 'Other' includes the sectors consumer discretionary, consumer staples, telecommunications and basic materials.

Board composition and gender equality

The table on the precedent page presents data on board composition, including number of board members and the percentage of women serving on boards. Across all sectors, the data indicate that the median representation of women on boards is equal to or below 50%. The overall female board representation stands at 40%, in line with the minimum requirement set by the Norwegian Public Limited Liability Companies Act[1].



represents the average share of women on boards of companies listed on Oslo Børs

Within the energy sector, it is observed that the median percentage of women on boards is below the 40% minimum requirement. An explanation for this may be that certain of these companies are registered in foreign countries, and thus do not need to comply with the Norwegian requirement for gender representation. Additionally, the exclusion of board members not receiving remuneration may impact the data analysis.

1 Source: Allmennaksjeloven, lovdata.no

Do you have any questions? Do not hesitate to reach out

Should any of the viewpoints presented in this report raise any questions, please do not hesitate to contact us for further discussions.

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The key to designing an effective incentive scheme lies in the collaboration of a wide variety of subject matter experts

How we can help:

Tax | **Valuation** | **Legal** | **Accounting**

Design and feasibility
- Evaluation of different incentive plans
- Provide an overview of incentive plan trends and best practice in the market
- Analyse and evaluate different incentive arrangement in relation to your needs
- Prepare a high-level analysis of the different types of incentive arrangements, including valuation and calculation of costs, tax and outcomes at different scenarios

Development of tailored solution
- Prepare detailed analysis of selected arrangements, including calculations of costs, tax, outcomes at different scenarios, dilution effects
- Development of strawman and support with stakeholder management
- Detailed analysis of tax and legal considerations
- Prepare material for potential board meetings

Implementation and approval process
- Prepare legal documents and agreements
- Prepare tax information sheet to employees and employers Company in relevant geographies, through using our global network of regional specialists
- Assist with example providers of administrative services
- Provide necessary information regarding the LTIP to the legal advisor's AGM Notice
- Perform final valuation of the selected LTIP arrangement(s).

Ongoing operations
- Support with changes due to change of management or other corporate events
- Enhancements/adjustments feeding back into redesign
- Tax reporting and attachment to the tax returns

Thank you to the team contributing to this report

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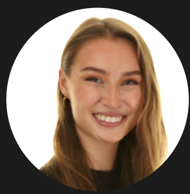

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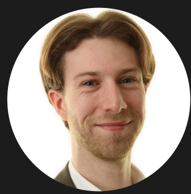

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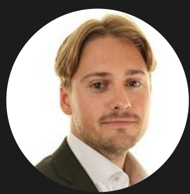

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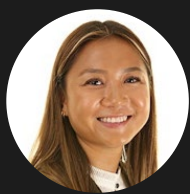

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Definitions

First section	Second section
ESG	Environmental, Social, and Governance
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortization
EBITDA	Earnings before interest, tax, depreciation and amortization
EBT	Earnings before tax
Large Cap	Companies with Market Capitalization >= NOK 10bn as of 31.12.2022
LTIP	Long-term incentive plan
Mid Cap	Companies with Market Capitalization >= NOK 1.5bn and < NOK 10bn as of 31.12.2022
Options	Right to purchase shares in the future at a predetermined price
PSU	Performance Share Unit: Right to receive free shares in the future subject to certain performance conditions
RSU	Restricted Stock Unit: Right to receive free shares in the future subject to vesting conditions
Small Cap	Companies with Market Capitalization < NOK 1.5bn as of 31.12.2022
”Share purchase with restrictions”	Right to purchase shares with certain value reducing restrictions
”Matching shares”	Right to receive a specified number of shares in the future for each individually purchased share in the company

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