Persimmon LTIP hits mainstream media

By John Hunter

In October 2012 Nick Stevens sent a note to the UKSA office saying he was an investor in Persimmon and thought there was something suspicious about a Long Term Incentive Plan (LTIP) approved at a recent special meeting. The office passed the note to Eric Chalker and Eric, knowing my attraction to intriguing analyses, passed it to me. It took me just half-an-hour to see that there was something seriously wrong with it, and then rather longer to do the analysis to support what was otherwise just a hunch. I called Eric and he devised a long-term strategy to question the key players in writing at the outset, track how things turn out and exploit the findings as a catalyst for change.

Now, five years later, Eric's foresight is about to yield fruit. The features that made it a bad plan have become obvious, the facts that reporting anomalies allowed to be concealed have become too extreme to hide, and the press have got on to it. The Chairmen of both the company and the remuneration committee (both already in position in 2012) have resigned, ostensibly because they failed to cap the LTIP, but no doubt avoidance of public ridicule at the coming AGM had something to do with it.

The LTIP is currently worth £750 million to 140 staff (as at 2012) and their successors. One-third goes to a handful of directors, of which £115 million to the current Chief Executive and £90 million to the Finance Director. With a scandal of this magnitude, unfolding year-by-year like a slow-motion car-crash and documented by UKSA as it went (see website), it's hard to see how the regulators and the government can avoid taking some action.

So how did it happen? What did I notice in my first half-hour that persuaded me to have a serious look at it?

- First, it was giving away 9% of the company to current employees. That's a big number, admittedly over 10 years, but what were tomorrow's employees going to get?
- Second, the performance condition for triggering awards comprised solely the payment of dividends. There are lots of ways of paying dividends that are not necessarily sensible or indicative of real wealth creation.
- Third, the payment schedule indicated a cast of mind that committed the company to returning cash to shareholders instead of investing for growth (the schedule was and is called the 'Capital Return Plan'). Might be a good view of today's prospects, but locked in for ten years…….. ?
- Fourth, there was something odd about the provisions for intermediate years – turning a simple plan into a complicated one. Why, I wondered?

Well, I won't bore you with the detail of my subsequent 'serious look' except to say that it all got worse. The plan wasn't a ten-year plan, it was a 'ten-years-at-the-most' plan; and the complicated provisions for intermediate years turned out to have the effect of turning 'long-term' into a series of short-terms. The early years were ridiculously easy to achieve – a single dividend on Day 1 would have done it had that been necessary.

The fact that the Plan was a simple programme of enrichment for management should have been obvious to anyone with a bit of technical competence. And this would have become even more obvious as time passed. (I originally estimated the Plan to be worth £300 million and it now looks likely to be about £750 million.) The Persimmon case is now history: there's nothing we can do about it except vent our anger. But its outcome is so egregious that it should be difficult for government and regulators to ignore the governance weaknesses it exemplifies, weaknesses that UKSA and others have been banging on about for years, weaknesses both of structure and transparency.

The key players here are: the institutional major shareholders, who were consulted about the Plan before the vote but failed to grasp, or ignored, its implications (the vote was 85% in favour); the regulators (the Financial Conduct Authority and Financial Reporting Council) for overseeing a system of governance that has so manifestly failed in one of its primary purposes; the accounting profession (and specifically the Big-4 accountants that dominate that profession and strongly influence the FRC) for its promotion of accounting standards and reporting practices that have concealed this enormous transfer of wealth for five years; and the government, on the principle that the buck stops here.

UKSA, with ShareSoc, will be trying, again, to promote solutions with these bodies over the coming months.

Persimmon management still looking ahead

The new public focus on the Persimmon LTIP has been caused in part by the impending first interim vesting date - December just passed - when, for the first time, some (but not all) of the options under the LTIP will vest and the extent of the award will be revealed. But what Persimmon have never revealed (except by a close read of the original documentation) is that the whole Plan vests not in December 2021 but when the cumulative dividends paid since 2012 reach 620p/share.

This became relevant when, in February 2015, Persimmon announced, with some fanfare, an enhanced Capital Return Plan schedule totalling 900p per share to 2021. But they made absolutely no mention of the consequences to the LTIP, which would now vest in full in July 2019 – two and a half years early. However, the revised schedule totalled only 570p at July 2018, just 50p short of the full-vesting total of 620p.

But Persimmon are nothing if not inventive in these matters. To lay the groundwork it declared a 'special' dividend of 25p, paid March 2017. You can almost feel their brains working: *Hang on a minute while I do the maths, let me see now, half of 50p is 25p, another 'special' dividend of 25p in March 2018 will bring the cumulative total to 620p in June 2018 after payment of the usual dividend of 110p, that ought to do it. We'll be able to call it 'repeating the practice established last year'*.

It's almost endearing isn't it – like a child trying to sneak up on the ice-cream tub without its mother noticing?

We'll see when Persimmon announces its results on February 27 whether the management has chosen to dip its spoon into this particular tub.

Date of AGM

UKSA's accounts for the past financial year will be sent out to members around mid-February. The AGM will be held on May 15 at the usual time and place (2pm at the RAF club). The reason for the gap is to allow a clearer debate on progress with ShareSoc. There should be more to see in terms of progress on cooperation and therefore a more productive AGM debate.