

Directors' remuneration report



The Company's achievements would not have been possible without the flexibility and dedication demonstrated by our employees during the past year

Members

- [Claire Balmforth \(Chair\)](#)
- [Clive Watson](#)
- [Louis Eperjesi²](#)

Remuneration Committee composition and attendance

	Jun 22	Aug 22	Nov 22	Jan 23	Feb 23	Mar 23	Attendance
Claire Balmforth	●	●	●	●	●	●	100%
Scott Mac Meekin ¹	●	●		●			75%
Clive Watson	●	●	●	●	●	●	100%
Louis Eperjesi ²				●	●	●	100%

1. Scott Mac Meekin became interim CEO on 20 February 2023, previously Non-Executive Director. Scott was unable to attend the November 2022 meeting due to a prior personal commitment
2. Louis Eperjesi was appointed as a Non-Executive Director on 3 January 2023

Introduction

On behalf of the Remuneration Committee (the 'Committee'), I am pleased to present the Directors' remuneration report for the year ended 31 March 2023. The sections contained in this report are:

- The annual statement from the Chair of the Remuneration Committee
- The annual report on remuneration
- The proposed New Policy

As set out in the Annual Report, this has been a year of change for Trifast which has significantly impacted the Committee's implementation of the Directors' Remuneration Policy (the 'Policy'). Therefore, this report sets out the key decisions taken by the Committee in the year ended 31 March 2023, including those relating to the directorate changes. In addition, given that the current Policy will expire at the 2023 AGM, the Committee is required to present an updated Policy (the 'New Policy') for shareholder approval at this meeting.

Given the recent Board changes, current levels of corporate performance and noting that the Company's strategy remains unchanged, the Remuneration Committee determined that it was not the right time to perform a detailed review of the Policy and is therefore seeking to extend the current Policy for an additional three years with only a handful of changes.

Directors' remuneration report continued

Directorate changes

Chief Executive Officer role

Mark Belton resigned on 18 February 2023 and stepped down from the Board. Scott Mac Meekin assumed the role of interim Chief Executive Officer on 20 February 2023, relinquishing his NED responsibilities, including membership of the Remuneration Committee.

In line with the Policy regarding loss of office payments, the Remuneration Committee determined that Mark would receive 12 months' fixed pay in respect of his notice period and appropriate additional payments. There will be no entitlement to a FY23 annual bonus payment and all in-flight LTIP awards lapse. See page 100 for further details.

In relation to Scott, the Committee determined his remuneration package in line with Policy as follows:

- Six months' notice period from both parties
- Salary of £400,000
- Benefits in line with Policy
- 150% of salary maximum FY24 annual bonus opportunity with any bonus above 100% of salary deferred into shares for three years
- Relocation allowance of £10,000, in line with Policy on recruitment

Given the interim nature of the role, the Committee determined that Scott will not participate in the LTIP.

Jonathan Shearman will also spend additional time supporting Scott during this period. Therefore, to ensure Jonathan is fairly remunerated for this, his annual fee will be increased to £270,000 during this period.

Chief Financial Officer role

Clare Foster stepped down as Chief Financial Officer on 30 August 2022 and was replaced by Darren Hayes-Powell on 1 December 2022.

In line with the 2020 Remuneration Policy regarding loss of office payments, the Remuneration Committee determined that Clare be treated as a good leaver. She received:

- 12 months of fixed pay in respect of her notice period and additional payments in line with Policy
- Annual bonus pro-rated for time served during FY23, subject to the achievement of performance targets
- In-flight 2020 and 2021 LTIP awards pro-rated for time served during the vesting period, subject to the achievement of performance targets

See page 100 for further details.

In line with our recruitment policy, the Committee determined that Darren's starting salary would be broadly in line with that received by his predecessor at £300,000. The Committee approved that Darren's annual bonus and LTIP opportunity would each be set at 125% of salary, which is below the maximum allowed under the current Policy.

Shareholder engagement

At our 2022 AGM, the Committee was disappointed that the Directors' remuneration report was passed with only 68% support from shareholders. Given this level of support, soon after the AGM I engaged with some of our largest shareholders to better understand their views on remuneration at Trifast. The key themes that emerged from these discussions were as follows:

1. **Approach to increasing the salaries of the Executive Directors:** While shareholders were broadly comfortable with the need to pay the Executive Directors a more competitive salary, there was a strong preference to stagger the increases over a longer time frame
2. **Approach to long-term incentives:** There were differing views in relation to the most appropriate long-term incentive arrangement to align the interests of shareholders and executives

The Remuneration Committee is still of the opinion that the rebalancing of the Executive Director remuneration packages for FY23 was the right thing to do.

This report has been prepared by the Committee in accordance with the relevant legal and accounting regulations and has been approved by the Board.

Role and activities of the Committee

The primary role of the Committee is unchanged, which is to provide our Executive Directors with remuneration that motivates and aligns them with delivery of our strategy and creates shareholder value in a sustainable manner. In addition, it is our duty to ensure that the remuneration received by the Executive Directors is proportionate to the performance achieved and the returns received by shareholders. The main activities of the Committee were as follows:

- Engaging with major shareholders given the 2022 AGM voting outcome
- Determination of implementation of Policy in light of directorate changes
- Determination of the final remuneration outcomes for the year to 31 March 2023
- Determining the appropriate annual bonus targets and LTIP measures for FY24
- Oversight of the remuneration aspects of Senior Management and wider workforce pay and policies
- Consideration of our gender pay reporting summary
- Review the Remuneration Committee's terms of reference

Directors' remuneration report continued

Role and activities of the Committee continued

As noted above, Scott Mac Meekin relinquished his membership of the Remuneration Committee on 20 February 2023. Louis Eperjesi became a member of the Committee on 3 January 2023 on joining Trifast.

Company performance

Due to global uncertainties surrounding industrial markets and macroeconomic conditions contributing to volatility in demand patterns, FY23 proved challenging for Trifast. During the year, the Board was focused on taking steps to improve performance through a mix of price increases, cost efficiencies and working capital (primarily inventory) improvements. Whilst progress has been made, the benefits to operating profit were unfortunately offset by significant destocking from one of our Asian manufacturing customers. Gross inventory levels at CER (£97m) reduced during the second half of the year, and we achieved the targeted reduction by 31 March 2023. Consequently, whilst adjusted net debt is reducing, it currently stands at an elevated level of around £38m.

As a result, the Group's financial performance was significantly below budget and the market's original expectations for the year ending 31 March 2023 with an underlying PBT of £9.3m. Despite this, there were a number of positive highlights during the year that are worth noting:

- Trifast secured new contract wins totalling £25.6m
- In January 2023, we concluded negotiations with significant customers resulting in contractual pricing uplifts
- Revenue overall increased year on year by 11.8% to £244.4m led by our European and North American businesses

Whilst the short-term shortfall in the Group's performance is disappointing, given ongoing contract wins, pricing increases, and the roll out of key initiatives, the Board continues to believe in the medium-term potential of the Group.

FY23 remuneration outcomes

Annual bonus

Given the difficulties set out above, threshold performance was not achieved against the underlying organic operating profit or cash conversion rate targets. In line with Policy, the Committee was unable to consider payment of any bonus from the strategic and operational element as threshold performance was not met for the profit-based metric. Therefore, no FY23 annual bonus is payable to the Executive Directors. Although disappointing, the Committee felt comfortable that the formulaic bonus outcome reflected overall Company performance during FY23 and, as a result, determined that no overriding discretion should be applied.

Long-Term Incentive Plan (LTIP)

Vesting

The three-year performance period of LTIP awards granted to Clare Foster on 25 November 2020 ended on 31 March 2023 (Mark Belton's award lapsed on resignation). Performance was below the threshold level against the EPS (70% weighting) and relative TSR (30% weighting) targets, resulting in nil vesting. The Committee noted that the 2020 LTIP awards vesting outcome was aligned with Company performance as well as shareholders' experience. Full details of Trifast's performance against the LTIP targets is provided on page 98.

Grant

In line with the remuneration package rebalance implemented during FY23, the Committee granted a reduced LTIP award equivalent to 150% of salary to Mark Belton on 6 September 2022.

In line with Policy, the awards have a three-year vesting period and are subject to a two-year post-vesting holding period. The performance conditions attached to the awards were underlying diluted EPS growth (70% weighting) and relative TSR (30% weighting). The Committee will have overriding discretion to change the formulaic outcome (both downwards and upwards) if it is out of line with the underlying performance of the Company and this will include an assessment of whether any windfall gains have been made.

The EPS growth target at threshold performance is 9% p.a. and 29% p.a. at maximum performance with straight-line vesting between these points. The relative TSR targets remain unchanged. The Committee is comfortable that the performance measures remain appropriate and that the targets are challenging given the current economic conditions. Full details of the performance targets can be found in the annual report on remuneration on page 108.

The award lapsed on Mark Belton's resignation in February 2023.

Overall

The Committee is comfortable that the current Policy operated as intended and that the overall FY23 remuneration paid to Executive Directors was appropriate. Therefore, the Committee did not exercise any discretion.

Wider workforce considerations

In terms of wider workforce salary increases for FY24, given the current business performance the Board determined to postpone the review until later in the year. However, to protect our lower-paid colleagues we are increasing salaries for those individuals to ensure that they are above minimum wage legislation in each appropriate jurisdiction.

The current focus in relation to engagement has continued to centre around communicating regularly with our employees and conducting employee surveys. Our surveys focus on our culture and the wellbeing of employees.

Directors' remuneration report continued

Wider workforce considerations continued

I am pleased to report that our approach to engagement has allowed our employees, through both surveys and personal visits by our NEDs, to discuss a wide range of subjects including leadership, capacity, communication, work/life balance and hybrid/flexible working policies, strategic direction, learning and development, culture and values. In addition, we carry out a regular benchmarking exercise to ensure pay remains fair for all. Read more about our employee engagement on page 32.

We also published our sixth gender pay gap report in March 2023 (relating to the report for April 2022). We were encouraged to see that our median gender pay gap of +5% (i.e. our female employees are paid 5% more than our male employees) and the median bonus gap of nil demonstrates that Trifast is an equal opportunities organisation. We are proud that we have bonus schemes covering all employees. Our gender pay gap report can be found on our corporate website at www.trfastenings.com

We continue to be committed to creating an inclusive working environment and to rewarding all our employees in a fair manner and believe they should be able to share in the success of the Company. To facilitate this, we operate a popular Save As You Earn (SAYE) share plan which is open to all UK employees and are delighted that so many of our UK employees are currently enrolled.

Wider share ownership also aligns with our remuneration principles by rewarding our employees for the successful execution of strategy. Our long-term equity scheme now has c.140 participants and I am pleased to report that we made a further grant of awards in September 2022, which is subject to the same EPS performance condition as the Executive Director LTIP awards.

Implementation for FY24

We set out the implementation of Policy for FY24 opposite:

Salary

Given FY23 financial performance, the Committee has determined that the CFO will not receive an increase in base salary for FY24. The interim CEO will receive a salary of £400,000 as set out above.

Pension

The pension contribution for FY24 for the CFO will continue to be 5% of salary, in line with the rate available to the majority of the workforce. The interim CEO will not receive a pension contribution.

Annual bonus

The Committee determined to maintain the maximum annual bonus opportunity at 150% of salary for the interim CEO and 125% of salary for the CFO. In line with standard market practice, the New Policy has been updated such that the Committee has the flexibility to determine the appropriate bonus measures, weightings and targets each year. The performance measures for the FY24 annual bonus will be 70% based on underlying profit before tax (UPBT) targets, 20% on average working capital percentage targets and 10% based on strategic and operational targets (5% weighting will be based on a carbon emissions reduction target aligned with the Company's ESG strategy). Additionally, no bonus payment can be made under the average working capital % element or the strategic and operational element unless threshold UPBT performance has been achieved. Performance targets set by the Committee will be challenging but with an appropriate probability of payout and disclosed in detail in next year's remuneration report. Any bonus payable above 100% of salary will be deferred into shares for three years.

LTIP

As set out above, the interim CEO will not participate in the LTIP, whereas the CFO will receive an award equivalent to 125% of salary. The New Policy has been updated such that the Committee has the flexibility to determine the appropriate LTIP measures, weightings and targets each year.

The performance measures for the FY24 LTIP will be 75% based on relative TSR targets versus the FTSE Small Cap index (excluding Investment Trusts) with the remaining 25% based on underlying operating margin targets.

The calibration of the operating margin performance targets has been delayed given the difficulty of setting robust targets at the current time. These targets will be determined closer to the grant date and disclosed in the RNS on the grant of the award.

Non-Executive Director fees

As set out above, the Chairman's fee will be temporarily increased to £270,000 p.a. as he will be spending additional time supporting the interim CEO during FY24. In line with the approach for the Executive Directors, there will be no increase to all other Non-Executive Director fees for FY24.

Looking ahead

The Committee is comfortable that the operation of the Policy in FY23 and the implementation of Policy for FY24 are in line with the best interests of the Group and will incentivise and retain those team members who are critical to executing our business strategy and driving the long-term creation of value for shareholders. We look forward to your support for the advisory vote on the annual report on remuneration and the binding vote on the New Policy at the forthcoming AGM.

Finally, I want to recognise that the Company's achievements would not have been possible without the flexibility and dedication demonstrated by our employees during the past year. To all colleagues – thank you for your hard work and commitment to the business, and support given to colleagues and customers, which is making Trifast the robust business it is today.

Claire Balmforth

Chair of the Remuneration Committee

10 July 2023