

# Compensation Report Summary

## **SUPPLEMENT TO THE INVITATION TO THE 2019 ANNUAL GENERAL MEETING**

Dear Shareholder,

The Straumann Group delivered another excellent performance in 2018 – both in absolute and relative terms. Operating in a continually evolving and complex environment, we generated the highest level of revenue growth (+23%) since 2005, outpacing our market significantly. We achieved further improvements in profitability, expanding our underlying EBIT-margin by 20 base points to 26%. At the same time, we made strong progress with all of our strategic priorities, expanding our business and organization globally, and laying further foundations for sustainable growth.

We met the majority of our short-term incentive targets across countries and businesses, resulting in a bonus payout at or above target for eligible employees. We also exceeded our 3-year objective for total shareholder return, which determines the long-term incentive for Senior Management.

## DEVELOPMENTS IN 2018

Our global workforce expanded 22% in 2018 and our total spend on compensation, benefits and social costs rose by approximately 11%. Compensation per employee went down because a large proportion of our expansion has been in markets where the cost of living and salaries are lower on average. I should add that, at the same time, our team in Switzerland grew by 12%.

The main compensation system change in 2018 was to our Employee Share Participation Plan (ESPP), where we generally increased the available benefit for participants who are not eligible for LTI and reduced it for LTI-eligible participants, i.e. senior management and the Executive Management Board.

Although 2018 marked our best performance so far this decade, the majority of our executive and senior management received considerably less compensation than in the previous two years because they voluntarily agreed to forgo their Long Term Incentive (LTI) grants in 2015 to help mitigate the impact of the sudden devaluation of the Euro. Had they vested in 2018, these grants would have resulted in a collective bonus of more than CHF 12 million. On behalf of the Board and the company, I would like to commend the respective managers for their exemplary and unselfish leadership.

## LOOKING AHEAD

In 2018, we continued to review and adapt our compensation system in consultation with external experts to ensure that it is competitive and in line with the interests of our stakeholders. In addition to our regular comparisons with peer companies, we engaged in constructive dialogues with key shareholders and proxy advisors, whose concerns we take seriously.

For 2019, we have decided to further simplify our short-term incentive program, without altering the potential payout targets. We have also changed one of the two key performance indicators in our LTI program (vesting 2022) in order to provide greater transparency outside the company. We have replaced EGA (EBIT growth amount) with relative total shareholder return (TSR) based on our 3-year share price development relative to the SMIM, which comprises the 30 largest mid-cap stocks in the Swiss equity market. The other KPI, absolute TSR, remains unchanged (see chart on final page). Additionally, the Group will formally introduce minimum shareholding requirements for the Executive Management Board, which emphasizes the alignment with shareholder interests.

## **PUSHING THE BOUNDARIES OF CONVENTIONAL COMPENSATION SYSTEMS**

People and culture are the Straumann Group's most valuable assets; they are unique keys to our continuing success. Therefore it is essential that our compensation system protects, supports and nurtures them. The very positive outcome to our 2018 global staff survey confirmed that we are doing the right things: engagement is high, with more than 90% of respondents indicating that they are proud to work for the Straumann Group, love what they do and feel their work contributes to the overall success of the company.

With this in mind, we continued the project we started in 2017 to broaden our compensation system into a total rewards program (TRP), which reflects the trend towards rewarding value creation with a combination of monetary and non-monetary components.

In addition to traditional elements, like the ESPP, STI and LTI plans, the TRP includes components like career development, work-life and recognition alongside conventional quantitative components like pay, incentives and benefits. We began to enhance this system at the outset of 2019.

We are confident that the aforementioned initiatives will contribute to staff engagement and enhanced value creation for our company, employees and shareholders. In view of the importance of these topics and the broader scope of our activities, we have renamed the Compensation Committee to the Human Resources & Compensation Committee.

On your behalf, I would like to thank our staff for their commitment and achievements. I would also like to thank the EMB for its constructive approach to the dialogue in 2018, and I would like to thank you and the Board for your confidence in the Human Resources & Compensation Committee.



**Ulrich Looser**

Chairman of the Human Resources & Compensation Committee

## COMPENSATION APPROVED, DISPENSED AND PROPOSED

(in CHF million)

		2018	2019
<b>Board of Directors</b>	members	7	8
Fixed compensation <sup>1</sup>	approved	2.4	
	dispensed	2.4	
	proposed <sup>2</sup>		2.7
<b>Executive Management Board</b>	members	12	12
Fixed salary <sup>3</sup>	approved	6.9	
	dispensed	6.6	
	proposed <sup>2</sup>		7.3
Short-term incentive (variable) <sup>3</sup>	approved	6.4	
	dispensed	6.1	
	proposed <sup>2</sup>		6.1
Long-term incentive (variable) <sup>1</sup>	approved	3.0	
	dispensed	2.9	
	proposed <sup>2</sup>		3.9

1 1 April to 31 March.

2 For approval at the 2019 AGM.

3 1 January to 31 December.

## LONG-TERM VARIABLE COMPENSATION PERFORMANCE SHARE UNIT PLAN

Relative TSR will replace EBIT growth amount as a performance condition for the PSU plan starting in 2019.

2016–2018 grant cycle (3 years)

- 50% absolute TSR<sup>1</sup>
- 50% EBIT growth amount



2019 and forward grant cycle (3 years)

- 50% absolute TSR<sup>1</sup>
- 50% relative TSR (SMIM)

1 Compound annual growth rate.