

Non-Executive Directors' Fee Review

Synlait Milk Limited

2 September 2019

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Executive summary

The findings in this section summarise the market positioning for the Synlait Milk Limited (Synlait) Chair and Non-Executive Director (NED) base and committee fees against the market. EY has used a comparator group of 13 companies, as agreed with Synlait on 30 August 2019. The list of comparator companies is shown in Section 1.6. We confirm that our report has been prepared independently, is not subject to any influence from the management or any board member of Synlait or any third party.

Table 1: Summary of current fee practices against market. There are 13 organisations included in the comparator group (excluding Synlait)

Role		Synlait Fees (\$)	Base Fees				Comparative Ratio (Median)	Synlait Fee Positioning
			25 th Percentile (\$)	Median (\$)	75 th Percentile (\$)	Average (\$)		
Non-Executive Chair (base fee)		169,000	152,500	170,125	207,362	181,560	99%	Ranked 6 th equal
Non-Executive Director (base fee)		85,000	74,000	85,000	93,000	89,173	100%	Ranked 6 th
Audit & Risk Committee	Chair	12,000	10,750	15,250	17,998	17,382	79%	Ranked 9 th
	Member	None paid	8,846	9,688	13,750	11,091	N/A	N/A
People, Environment & Governance Committee	Chair	12,000	7,063	8,750	11,313	13,228	137%	Ranked 3 rd
	Member	None paid	7,000	7,750	15,000	10,406	N/A	N/A

Comparative ratios within 90%-110% of the market median are considered aligned to the market median.

In summary, our findings are:

- ▶ **Non-Executive Chair:** current base fee is aligned to the median of the comparator group.
- ▶ **NED:** current base fee is aligned to the median of the comparator group.
- ▶ **Audit & Risk Committee Chair:** current chair fee is between the 25th percentile and median of the comparator group.
- ▶ **People, Environment & Governance Committee Chair:** current chair fee is at the 75th percentile of the comparator group.

Synlait may wish to consider providing small increases to the Chair and NED fees and increasing the Audit and Risk Committee Chair fee to increase alignment with the market median. We also note that just under half of the sample pay Audit and Risk committee fees and five companies pay fees to members of the Remuneration committee, whereas Synlait do not pay committee fees. Details of the potential increases are outlined in Section 4 of this report.

Thank you for the opportunity to assist you on this assignment.



Una Diver
Partner - People Advisory Services
Ernst & Young Limited

1. Introduction

1.1 Background

Synlait Milk Limited (Synlait) has engaged EY to review the fees paid to Board Non-Executive Directors.

This report provides information on:

- ▶ New Zealand market practice
- ▶ Market fee data for similar profile organisations in terms of characteristics, industry, revenue and assets
- ▶ Comparisons between current Non-Executive Director (NED) fees and the market data
- ▶ Market practice related to committee fees.

1.2 Methodology

In completing this review of Synlait's NED fees, EY has applied the following methodology:

- ▶ Used a comparator group as agreed with Synlait on 30 August 2019
- ▶ Sourced information on current fees across the comparator group
- ▶ Compared Synlait's NED fees against the comparator group market data
- ▶ Analysed the relativity of current fees to the market.

1.3 Annual fee movement data

Table 2 below shows annual fee movements for the Chair and NEDs from EY's Directors' Fees Report 2019/20.

Table 2: Annual fee movement

Role	Median movement (%)
Non-Executive Chair	2.5%
Non-Executive Director	3.0%

The movements above are impacted by the frequency at which organisations review NED fees. In our experience, most organisations do not review Directors' fees annually and therefore, the changes to fees may also be impacted to changes in the data sample. Given the change in the comparator group this year, Synlait may consider adjustments to the NED fees to align to the anticipated movements detailed in the table above.

1.4 Fee elements analysed

Information set out in this report is based on both disclosed market data and information from EY's 2019 Directors' Fees database for the selected comparator group. Please note: we are unable to disclose information for privately-held organisations; however, all company information has been included in our overall analysis.

Base fees are typically used to benchmark and develop fee structures as they differentiate between board and committee duties and commitments.

1.5 Synlait current base fee structure

The current base fee structure operated by Synlait is outlined in *Table 3* below. We understand NEDs at Synlait do not receive additional fees as committee members.

Table 3: Synlait's current fee structure

Roles	2019 base fees
Board Chair	169,000
Non-Executive Director	85,000
Committee Chair	12,000
Committee Member	None paid

1.6 Comparator group

The 2018 comparator group was reviewed by EY in conjunction with Synlait to ensure continued relevance. The outcomes of this review were:

- ▶ The nine companies in the existing comparator group were still considered relevant; however
- ▶ There was a specific request to include Scales Corporation Limited due to its operational similarities to Synlait
- ▶ In addition, the Board requested additional representation from the NZX 50. The criteria that was agreed would be applied in selecting additional organisations were:
 - New organisations in the comparator group should fall within 50% to 200% of Synlait's revenue and/or market capitalisation
 - Companies outside the utilities, port and property sectors are the most appropriate comparators

- ▶ This resulted in the addition of SKYCITY Entertainment Group, Restaurant Brands New Zealand Limited and Kathmandu Holdings. Table 4 below lists the 13 companies included in the resulting comparator group.

Table 4: Comparator group (sorted by Company revenue)

Company	Additions to 2018 comparator group	Market Capitalisation (\$m)	Company revenue (\$m)
Zespri Group Limited		Not listed	2,448
Alliance Group Limited		Not listed	1,768
PGG Wrightson		416	1,193
T&G Global Limited		352	1,188
Synlait ¹	N/A	1,801	1,024
SKYCITY Entertainment Group Limited	New	2,464	994
The a2 Milk Company		9,601	923
Restaurant Brands New Zealand Limited	New	1,291	824
Tegel Foods		Not listed	615
Freightways		1,218	580
Sanford Ltd		658	515
Kathmandu Holdings	New	583	497
Scales Corporation Limited	New	655	339
Delegat Group Limited		1,037	272

Synlait	Ranked 3 rd	Ranked 5 th
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¹ Synlait's market capitalisation is as at 31 July 2019.

1.7 Key considerations

The market data provides guidance in relation to setting and positioning Synlait's Chair and NED fee policies.

In order for the information in this report to be applied effectively, Synlait may wish to consider the market data in the context of the following:

- ▶ The companies included in the comparator group. The typical approach adopted for setting NED fees is to compare against organisations broader than just the specific industry, as a broad range of skills and experiences are required to comprise an effective board of Directors.
- ▶ The Company's revenue and market capitalisation position against the relevant comparator group.
- ▶ Time commitment required for NEDs. The higher the time commitment, the greater the emphasis on positioning fees above median. Consideration of time commitment should focus on ongoing time rather than one-off increased loads (e.g. due to a transaction).
- ▶ Complexity of business. Complexity can be measured by factors such as international footprint (e.g. overseas revenue, assets, etc.) and regulatory / industry issues. The higher the complexity of the industry in which the company operates, the greater the emphasis on positioning fees above median.
- ▶ Degree of potential reputational risk. The higher the potential reputational risk, the greater the emphasis on positioning fees above median.
- ▶ The supply of talent available for the role(s). The greater the scarcity of talent or specific skill sets, the greater the emphasis on positioning fees above median.

2 Market fee data

This section presents market base fee data for the Chair and NEDs.

2.1 Non-Executive Chair

Table 5 compares Synlait's current Non-Executive Chair fee to the organisations in the comparator group.

Table 5: Base fees - Non-Executive Chair

Market data (\$)						
	Synlait	25 th percentile	Median	75 th percentile	Average	Sample size
Base fees (\$) ²	169,000	152,500	170,125	207,362	181,560	10
Market Capitalisation (\$m)	1,801	619	658	1,255	1,041	
Revenue (\$m)	1,024	531	720	1,143	977	

- ▶ Synlait's Chair fees are aligned to the median.
- ▶ Synlait's market capitalisation is above the 75th percentile.
- ▶ Synlait's revenue is between median and 75th percentile.

2.2 NEDs

Table 6 compares Synlait's current NED fees to the organisations in the comparator group.

Table 6: Base fees - NEDs

Market data (\$)						
	Synlait	25 th percentile	Median	75 th percentile	Average	Sample Size
Base fees (\$) ³	85,000	74,000	85,000	93,000	89,173	12
Market Capitalisation (\$m)	1,801	601	848	1,273	1,828	
Revenue (\$m)	1,024	515	824	1,188	935	

- ▶ Synlait's NED fees are aligned to median.
- ▶ Synlait's market capitalisation is above the 75th percentile.
- ▶ Synlait's revenue is between median and the 75th percentile.

² Base fees refer to the sum received by each Chair within an organisation excluding Committee fees

³ Base fees refer to the sum received by each NED within an organisation excluding Committee fees

3 Committee fee practice

This section presents market data in relation to Committee Chair and Member fees.

3.1 Audit and Risk Committee Fees

Table 7 below compares Synlait's Audit and Risk Committee Chair fee policy against the market data for disclosed Audit Committee Chair fees in the comparator group. Twelve companies within the comparator group pay additional fees to NEDs for chairing this committee.

Table 7: Audit and Financial Risk Committee Chair fee policy market data

Market data (\$)						
	Synlait	25 th percentile	Median	75 th percentile	Average	Sample size
Committee Chair policy fees (\$)	12,000	10,750	15,250	17,998	17,382	12
Market capitalisation (\$m)	1,801	655	1,037	1,291	1,966	
Revenue (\$m)	1,024	564	874	1,189	972	

- ▶ Synlait's Audit and Risk Committee Chair fee is between 25th percentile and median.

Table 8: Audit and Financial Risk Committee Member fee policy market data

Market data (\$)						
	Synlait	25 th percentile	Median	75 th percentile	Average	Sample size
Committee member policy fees (\$)	N/A	8,846	9,688	13,750	11,091	6
Market capitalisation (\$m)	1,801	655	658	2,464	2,759	
Revenue (\$m)	1,024	540	769	976	763	

- ▶ Six of the organisations in the comparator group pay Audit and Financial Risk committee member fees.

3.2 People, Environment & Governance Committee Fees

Table 9 below details People, Environment & Governance Committee Chair fee policy data against the market data for disclosed Remuneration Committee Chair fees within the comparator group. Of the thirteen companies, ten organisations disclosed their fees.

Table 9: People, Environment & Governance Committee fee policy market data

Market data (\$)						
	Synlait	25 th percentile	Median	75 th percentile	Average	Sample size
Committee Chair policy fees (\$)	12,000	7,063	8,750	11,313	13,228	10
Market capitalisation (\$m)	1,801	848	1,218	1,878	2,418	
Revenue (\$m)	1,024	531	720	976	928	

- ▶ Synlait's People, Environment & Governance Committee Chair fee is at the 75th percentile.

Table 10: People, Environment & Governance Committee Member fee policy market data

Market data (\$)						
	Synlait	25 th percentile	Median	75 th percentile	Average	Sample size
Committee Chair policy fees (\$)	N/A	7,000	7,750	15,000	10,406	5
Market capitalisation (\$m)	1,801	657	1,561	4,248	3,345	
Revenue (\$m)	1,024	515	615	923	677	

- ▶ Five of the organisations in the sample pay Remuneration Committee member fees.

4 Summary and recommendations

4.1 Chair

Synlait's Chair fee of **\$169,000** is aligned to the median of the comparator group data for Chair base fees, with a comparative ratio of **99%**.

4.2 NEDs

Synlait's NED fee of **\$85,000** is aligned to the median of the comparator group data for NED base fees, with a comparative ratio of **100%**.

4.3 Committee fees

Synlait's Chair fee for the Audit and Risk Committee is between the 25th percentile and median, whereas the Chair fee for the People, Environment & Governance Committee is at the 75th percentile of the comparator group.

We note that just under half the sample pay committee member fees to their Audit and Financial Risk committees and a further five pay fees to members of the Remuneration committee. We recommend Synlait monitor practice in this area as it may be a policy the Company wish to consider in the future.

4.4 Conclusion and recommendation

Based on the comparator group organisations with a similar profile, Synlait is ranked 5th for revenue and 3rd for market capitalisation. This positions Synlait above the middle of the comparator group with respect to the revenue ranking and within the top quartile for market capitalisation ranking.

Based on the information provided in this report, we propose the following increases:

- ▶ A 5% adjustment to Synlait's Chair fees, increasing them from \$169,000 to \$178,000
- ▶ A 4.6% increase to Synlait's NED fees, resulting in fees of \$88,900
- ▶ Increase the Audit and Financial Risk Committee Chair fees from \$12,000 to \$15,250 (27%)
- ▶ No adjustment to the People, Environment & Governance Committee Chair fees.

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