

Directors' Fees Review

Synlait Milk Limited

October 2017

Table of contents

Executive summary	1
1. Introduction.....	2
1.1 Background	2
1.2 Methodology.....	2
1.3 Fee elements analysed.....	2
1.4 Synlait current fee structure.....	2
1.5 Comparator group	3
1.6 Key considerations	4
1.7 Annual fee movement data	4
2. Chair and Non-Executive Directors' fee overview	5
2.1 Overview of fees paid to Chair and Non-Executive Directors	5
3. Summary market review results.....	6
3.1 Chairman.....	6
3.2 Non-Executive Directors	6
4. Committee fee practice	7
4.1 Audit and Risk Committee Fees.....	7
4.2 Remuneration and Governance Committee Fees.....	7
5. Committee fee practice	8
6. Summary.....	9
6.1 Chairman.....	9
6.2 Non-executive Directors	9
7. Conclusion and recommendation.....	9

Executive summary

The findings in this section summarise the market positioning for the Synlait Milk Limited (Synlait) Chair and Non-Executive Director fees against the market. Further information regarding the market comparator group used is discussed on page 3.

Role	Synlait Fees (\$)	Lower Quartile (\$)	Median (\$)	Upper Quartile (\$)	Average (\$)	Comparative Ratio (Median)	Synlait Positioning
Chairman	130,000	128,000	150,000	158,000	142,000	87%	Ranked 4 th
Non-Executive Director (base fee)	70,000	79,000	80,000	85,000	79,000	88%	Ranked 6 th
Audit & Risk Committee	Chairman	10,000*	10,000*	10,000*	12,000	120%	Ranked 3 rd
	Member	-	3,000	7,000	10,000	-	-
Remuneration & Governance Committee	Chairman	7,000	10,000**	10,000**	8,000	120%	Ranked 1 st
	Member	-	***	***	***	-	-

* Approximately 67% (6 out of 9) of the comparator group pays a \$10,000 base fee for chairing Audit & Risk Committee, this leads to the same Lower Quartile, Median and Upper Quartile data.

** Approximately 60% (3 out of 5) of the comparator group pays a \$10,000 base fee for chairing Remuneration & Governance Committee, this leads to the same Median and Upper Quartile data.

*** Lacks sufficient data from the comparator group to publish an interquartile fee range for this subcommittee.

In summary, our findings are as follows:

- ▶ Synlait is ranked 5th by revenues in the comparator group organisations outlined on page 3
- ▶ Chairman: current fees are below the median at **87%**
- ▶ Directors: current fees are below the median at **88%**.

Thank you for the opportunity to assist you on this assignment. Please don't hesitate to contact us if you have any questions.



Susan Doughty
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1. Introduction

1.1 Background

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

This report provides information on:

- ▶ New Zealand market practice
- ▶ Market fee data for similar organisations in terms of characteristics, industry, revenue and assets based on a comparator group supplied by Synlait
- ▶ Comparisons between current Board Director fees and the market data
- ▶ Market practice related to committee fees.

1.2 Methodology

In completing this review of Directors' fees, EY applied the following methodology:

- ▶ Defined a comparator group of companies
- ▶ Sourced information on current fees across the comparator group organisations
- ▶ Compared Synlait's Directors' fees against the comparator group market data
- ▶ Analysed the relativity of current fees to the market.

1.3 Fee elements analysed

Information set out in this report is based on both disclosed market data and information from EY's 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

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

Actual total fees

Actual total fees are typically used to understand how overall fees compare against the comparator groups.

Fee elements analysed	Roles	
Base fees	Board Chair	NEDs
Actual total fees	Board Chair	NEDs
Audit and Risk Committee	Chair	Member
Remuneration and Governance Committee	Chair	Member

1.4 Synlait current fee structure

The current fee structure operated by Synlait is outlined in the table below.

Synlait's current fee structure	Base fees
Board Chair	130,000
Non-Executive Director	70,000
Committee Chair	12,000
Committee Member	-

1.5 Comparator group

Market data is presented for the following comparator group.

General Market Comparator Group		
Company	Market Capitalisation (\$m)	Company revenue (\$m)*
Zespri Group Limited	678	1,700
Alliance Group Limited	-	1,362
PGG Wrightson Limited	460	1,181
T&G Global Limited	411	871
Synlait Milk Limited	1,333	759
Tegel Foods Limited	455	614
Freightways Limited	1179	545
Sanford Limited	682	463
The A2 Milk Company Limited	3,591	353
Delegat Group Limited	698	254

Synlait Milk Limited	Rank	5th
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*The data in the above table is presented in order of revenues as not all companies are listed.

The comparator group has been selected using the following parameters as a guide (not all apply to each company) as well as companies specifically requested by the Board of Synlait:

- ▶ Export focused
- ▶ High growth strategy
- ▶ Primarily B2B operations
- ▶ Diversified and innovative
- ▶ Market Cap / Revenue (where no market cap).

As not all companies are listed, we have sorted the index by revenues. We have aimed to position Synlait towards the median of the comparator group by revenue.

1.6 Key considerations

The market data, including base fees and actual total fees, provide 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 groups. 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 asset 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.

1.7 Annual fee movement data

The table below annual fee movements for the Chair and Non-Executive Directors from EY's Directors' Fees Report 2017.

Role	Median movement (%)
Non-Executive Chairman	1.9%
Non-Executive Director	2.3%

The movements above are affected by two key factors:

- ▶ Some organisations do not review fees annually, so the changes to fees can be affected by the changes in the data sample
- ▶ The data above reflects a whole sample movement. As a result, changes in the sample composition can impact fee movement data.

2. Chair and Non-Executive Directors' fee overview

2.1 Overview of fees paid to Chair and Non-Executive Directors

The Table below outlines a breakdown of fees paid to Non-Executive Chairman and Non-Executive Directors within the selected comparator group.

General Market Comparator Group		
Company	Base fees - Chairman (\$)	Base fees - Non Executive Directors (\$)*
Tegel Foods Limited	170,000	90,000
T&G Global Limited	**	88,000
Sanford Limited	150,000	85,000
The A2 Milk Company Limited	120,000	85,000***
Freightways Limited	150,000	80,000
PGG Wrightson Limited	**	80,000
Zespri Group Limited	104,250***	78,750
Synlait Milk Limited	130,000	70,000
Delegat Group Limited	**	65,000
Alliance Group Limited	160,000	62,813
Synlait Milk Limited	130,000	70,000

* Information is sorted by Base fees - Non Executive Directors (\$)

** Information is not shown because incumbents are not independent

*** Updated appropriately based on the new information obtained

- ▶ Chair and NED fees vary markedly across the comparator group
- ▶ Both Synlait's Chair fees and NED fees are positioned below the median range of the comparator group as shown in the summary on the following page.

3. Summary market review results

This section presents market fee data for the Chair and Non-executive Directors. The tables below compare the Base fees of Synlait’s Chair and Non-Executive Directors to market data for Chairs and Non-Executive Directors in the comparator group that held their position for the full financial year.

3.1 Chairman

Synlait’s Chair’s Base fees are positioned below the median of Base fees paid to Chairs in the comparator group at **87%**. Of the 9 companies, 3 were excluded from the analysis as their Chairs are executive Chairs.

Base fees - Chairman (\$)						
	Synlait	Market data (\$)				
		Lower Quartile	Median	Upper Quartile	Average	Sample size
Base fees (\$)¹	130,000	128,000	150,000	158,000	142,000	6
Market Capitalisation (\$m)	1,333	678	682	1,179	1,317	

3.2 Non-Executive Directors

Synlait’s NED base fees are positioned below the median of Base fees paid to incumbents in the comparator group at **88%**.

Base fees - NED (\$)						
	Synlait	Market data (\$)				
		Lower Quartile	Median	Upper Quartile	Average	Sample size
Base fees (\$)²	70,000	79,000	80,000	85,000	79,000	9
Market Capitalisation (\$m)	1,333	459	680	818	1,019	

¹ Base fees refers to the sum received by each Chair within an organisation excluding committee fees

² Base fees refers to the sum received by each NED within an organisation excluding committee fees

4. Committee fee practice

4.1 Audit and Risk Committee Fees

The table below compares Synlait's Audit and Risk Committee fee policy against the market data for disclosed fees in the comparator group.

Please note as the Chair of Synlait's Audit and Risk Committee receives total fees of \$82,000, we have assumed that the \$12,000 additional fees paid to the Chair (over those of other NEDs) reflects compensation for chairing this Committee.

Audit and Financial Risk Committee fee policy market data						
	Synlait	Market data				Sample size
		25th percentile	Median	75th percentile	Average	
Chair policy fees (\$)	12,000	10,000*	10,000*	10,000*	12,000	9
Market capitalisation (\$m)	1,333	459	680	818	1,019	
Revenue (\$m)	759	464	614	1,182	816	

*Six organisations in the sample pay a \$10,000 base fee for chairing the Audit & Risk Committee which results in the same Lower Quartile, Median and Upper Quartile data.

- ▶ Synlait's Audit and Risk Committee Chair fee is above the **75th** percentile
- ▶ Synlait's market capitalisation is above the **75th** percentile
- ▶ Synlait's revenue is above the **median**.

4.2 Remuneration and Governance Committee Fees

The table below details Remuneration and Governance Committee fee policy data in comparison to market data for disclosed Remuneration Committee fees within the comparator group. Of the 9 companies, 5 provide fees for chairing this Committee.

Remuneration and Governance committee fee policy market data						
	Synlait	Market data				Sample size
		25th percentile	Median	75th percentile	Average	
Chair policy fees (\$)	12,000	7,000	10,000*	10,000*	8,000	5
Market capitalisation (\$m)	1,333	673	939	1,782	1,481	
Revenue (\$m)	759	353	545	614	626	

*Three organisations in the sample pay a \$10,000 base fee for chairing the Remuneration & Governance Committee which results in the same Median and Upper Quartile data.

- ▶ Synlait's Remuneration and Governance Committee Chair fee is above the **75th** percentile
- ▶ Synlait's market capitalisation is above the **median**
- ▶ Synlait's revenue is above the **75th** percentile.

5. Committee fee practice

In the market, companies use Committee fees to recognise that participation in these Committees significantly increases work load and time commitments, and provide commensurate compensation to Directors. Committee fees allow companies to differentiate fees and recognise Directors that participate in Committees. The quantum of Committee fees typically differ by Committee type (e.g. Audit & Risk vs. Remuneration) and level of participation required (Chair vs. member) to reflect the associated workloads.

The provision of Committee fees can be delivered as either an annual amount (i.e. a flat rate), or a per diem amount that is contingent on the time commitment. Prevalent practice is for companies to provide an annual amount as this allows the company to ensure fee quantum is market comparable and provides ease of administration. However, a per diem approach is considered a better reflection by the market of the time investment requirements of Directors, particularly where there is an unexpected increase to Director workloads (e.g. a corporate transaction).

Some companies may also provide one-off fees to recognise when the Director workload is over and above typical requirements. The quantum of this fee is typically similar to per diems and is at the discretion of the company, but disclosed in annual reports.

We observe that the provision of additional fees for Committee participation (Chair and members) is common for organisations of a similar size to Synlait.

6. Summary and recommendations

6.1 Chairman

- ▶ Synlait's Chairman's fees of **\$130,000** is well below the median of the comparator group data for base fees at **87%**
- ▶ The Chairman's base fees are 1.9 x Non-Executive Director base fees which is aligned to market practice

We observe that organisational revenue does not necessarily correlate with the size of Chair fees. Other factors such as the complexity of an organisation, nature of the business also play a role in fee allocation.

6.2 Non-executive Directors

- ▶ Synlait's Non-Executive Director fees of **\$70,000** is below the median of the comparator group data for base fees at **88%**.
- ▶ Synlait's Chair Committee fees are sitting well above the median.

6.3 Conclusion and recommendation

Synlait is a high growth and innovative organisation poised to deliver significant returns in the short to medium term.

Based on the comparator group of organisations with a similar profile, Synlait is ranked 5th on revenues and likely to increase ranking in a relatively short time period. However the current fee structure for both the Chair and NED base fees is well out of line with the comparator group. We note however, that fee practice for chairing committees is in line with market expectations.

Based on the information provided in this report, EY recommend that Synlait consider increasing fees in line with the median of the comparator group. This will result in the following increases:

- ▶ An increase of 15% in Chairman's fees will increase the Board Chair's fees from \$130,000 to \$150,000
- ▶ An increase of 14% in Directors' fees will increase fees from \$70,000 to \$80,000
- ▶ No adjustment to committee fees.

It is important to note that as Directors' fees may not be reviewed annually, an uplift in fee quantum is appropriate in order to keep pace with the comparator group over the next 1-2 years, and to recognise the significant growth agenda of Synlait relative to peers.



Susan Doughty
Executive Director

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