

Directors' Fee Review

Synlait Milk Limited

August 2018

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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) fees against the market. As requested by Synlait, EY used the updated comparator group agreed in October 2017. Further information regarding the comparator group used is discussed in *Section 1.6*.

Table 1: Summary of current fee practices against market

Role	Synlait Fees (\$)	Lower Quartile (\$)	Median (\$)	Upper Quartile (\$)	Average (\$)	Comparative Ratio (Median)	Synlait Positioning
Chair	150,000	155,000	169,000	184,724	168,350	89%	Ranked 6 th equal
Non-Executive Director (base fee)	80,000	80,000	85,000	90,000	85,584	94%	Ranked 7 th
Audit & Risk Committee	Chair	10,000*	10,000*	20,000	14,216	120%	Ranked 3 rd
	Member	-	7,375	11,619	10,244	-	-
Remuneration & Governance Committee	Chair	8,500	10,000**	10,000**	12,548	120%	Ranked 2 nd
	Member	-	***	***	***	-	-

* Approximately 55% (five out of nine) of the comparator group pays a \$10,000 base fee for the Audit & Risk Committee Chair, leading to the same lower quartile and median.

** Half (three out of six) of the comparator group pays a \$10,000 base fee for the Remuneration & Governance Committee Chair, leading to the same median and upper quartile.

*** Insufficient data from the comparator group to publish an interquartile fee range.

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

In summary, our findings are as follows

- ▶ Chair: current fees are below the median of the comparator group.
- ▶ NED: current fees are aligned to the median of the comparator group.

Thank you for the opportunity to assist you on this assignment. Please do not hesitate to contact us if you have any questions.



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 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 comparator group agreed with Synlait
- ▶ Comparisons between current 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:

- ▶ The comparator group agreed with Synlait in October 2017
- ▶ 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 Annual fee movement data

Table 5 below shows annual fee movements for the Chair and NEDs from EY's Directors' Fees Report 2018.

Table 5: Annual fee movement

Role	Median movement (%)
Non-Executive Chair	2.7%
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. For example, NEDs made up more than half of the sample (60%).
- ▶ The data above reflects a whole sample movement. As a result, changes in the sample composition can impact fee movement data.

1.4 Fee elements analysed

Information set out in this report is based on both disclosed market data and information from EY's 2018 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 group.

Table 2: Roles analysed for actual total fees

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

1.5 Synlait current fee structure

The current fee structure operated by Synlait is outlined in the *Table 3* below. We understand Non-Executive Directors (NEDs) at Synlait do not receive additional fees as committee members.

Table 3: Synlait's current fee structure

Roles	Base fees
Board Chair	150,000
Non-Executive Director	80,000
Committee Chair	12,000
Committee Member	-

1.6 Comparator group

Table 4 sets out revenue and market capitalisation for each organisation in the comparator group.

Table 4: Comparator group

Company	Market Capitalisation (\$m)	Company revenue (\$m)*
Zespri Group Limited	-	2,448
Alliance Group Limited	-	1,533
PGG Wrightson Limited	483	1,113
T&G Global Limited	392	1,106
Synlait Milk Limited	1,970	878**
Tegel Foods Limited	402	615
The A2 Milk Company Limited	7,607	550
Freightways Limited	1,218	545
Sanford Limited	716	477
Delegat Group Limited	946	253

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 publicly listed.

** Annualised based on the first half year revenue for 2018.

*** As in 2017, the data is sourced from New Zealand's Stock Exchange website, dated 3 August 2018.

1.7 Key considerations

The market data, including base fees and actual total fees, 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 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.

2 Chair and NED fee overview

2.1 Overview of fees paid to Chair and NEDs

Table 6 below outlines a breakdown of fees paid to Chairs and NEDs within the selected comparator group.

Table 6: Summary of fees paid to Chairs and NEDs

Company	Base fees - Chair (\$)	Base fees - NEDs (\$)*
The a2 Milk Company	120,000	120,809
T&G Global Limited	**	93,000
Tegel Foods Limited	169,000	90,000
Sanford Limited	150,000	85,000
Freightways Limited	160,000	85,000
Zespri Group Limited	199,447	81,447
PGG Wrightson Limited	210,000	80,000
Synlait Milk Limited	150,000	80,000
Alliance Group Limited	170,000	70,000
Delegat Group Limited	**	65,000
Synlait Milk Limited	Ranked 6 th equal	Ranked 7 th

* Information is sorted by Base fees - NEDs

** Information is not included in the analysis because incumbents are executive Chairs.

- ▶ Synlait's Chair fees are positioned below the median range of the comparator group.
- ▶ Synlait's NED fees are aligned to the market median of the comparator group.

3 Market fee data

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

3.1 Chair

Table 7 compares Synlait's current Chair fee to the organisations in the comparator group. Of the nine companies, two were excluded from the analysis as their Chairs are executive Chairs. Compared to 2017, median base fees for Chairs increased by 12% from 150,000 to 169,000.

Table 7: Base fees - Chair

	Market data (\$)					
	Synlait	Lower Quartile	Median	Upper Quartile	Average	Sample size
Base fees (\$) ¹	150,000	155,000	169,000	184,724	168,350	7
Market Capitalisation (\$m)	1,970	443	716	1,082	1,681	
Revenue (\$m)	878	548	615	1323	1040	

- ▶ Synlait's Chair's base fees are below the lower quartile of base fees paid to Chairs in the comparator group.
- ▶ Synlait's market capitalisation is above the 75th percentile
- ▶ Synlait's revenue is above the median

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

3.2 NEDs

Table 8 compares Synlait's current NED fees to the organisations in the comparator group. Compared to 2017, median base fees for NEDs increased by 6% from 80,000 to 85,000.

Table 8: Base fees - NED

	Market data (\$)					
	Synlait	Lower Quartile	Median	Upper Quartile	Average	Sample size
Base fees (\$) ²	80,000	80,000	85,000	90,000	85,584	9*
Market Capitalisation (\$m)	1,970	443	716	1,082	1,681	
Revenue (\$m)	878	545	615	1,113	960	

*Two organisations are not publicly listed

- ▶ Synlait's NED base fees are aligned to the lower quartile of base fees paid to incumbents in the comparator group and equate to 94% of median
- ▶ Synlait's market capitalisation is above the 75th percentile
- ▶ Synlait's revenue is above the median

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

Table 9 below compares Synlait's Audit and Risk Committee fee policy against the market data for disclosed fees in the comparator group. All organisations within the comparator group pay additional fees to NEDs for chairing this committee.

Table 9: Audit and Financial Risk Committee fee policy market data

Market data (\$)						
	Synlait	25th percentile	Median	75th percentile	Average	Sample size
Chair policy fees (\$)	12,000	10,000*	10,000*	20,000	12,000	9
Market capitalisation (\$m)	1,970	443	716	1,082	1,681	
Revenue (\$m)	878	545	615	1,113	960	

*Five organisations in the sample pay a \$10,000 base fee to the Audit & Risk Committee Chair which results in the same lower quartile and median.

- ▶ Synlait's Audit and Risk Committee Chair fee is 120% of the median.
- ▶ Synlait's market capitalisation is above the 75th percentile
- ▶ Synlait's revenue is above the median

4.2 Remuneration and Governance Committee Fees

Table 10 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 nine companies, six organisations disclosed their fees.

Table 10: Remuneration and Governance Committee fee policy market data

Market data (\$)						
	Synlait	25th percentile	Median	75th percentile	Average	Sample size
Chair policy fees (\$)	12,000	8,500	10,000*	10,000*	12,658	6
Market capitalisation (\$m)	1,970	638	967	2,815	2,486	
Revenue (\$m)	878	546	583	1,304	1,028	

*Three organisations in the sample pay a \$10,000 base fee to the Remuneration & Governance Committee Chair 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 median.

5 Summary and recommendations

5.1 Chair

Synlait's Chair fee of **\$150,000** is below the median of the comparator group data for base fees at **89%**.

5.2 NEDs

Synlait's NED fees of **\$80,000** is aligned to the median of the comparator group.

5.3 Committee Chairs

Synlait's Chair fees for both Committees (\$12,000) are above the median (\$10,000) of the comparator group

5.4 Conclusion and recommendation

Based on the comparator group organisations with a similar profile, Synlait is ranked 6th equal to Sanford Limited on revenues. However, the current fee structure for the Chair is not in line with the comparator group.

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

- ▶ Increase the Chair fee from \$150,000 to \$169,000 (13%)
- ▶ Increase Directors' fees from \$80,000 to \$85,000 (6%).

- ▶ No adjustment to Committee fees.

Thank you for the opportunity to assist Synlait. Please do not hesitate to contact us if you require further information for this engagement.

Yours sincerely,



Una Diver
Partner - People Advisory Services
Ernst & Young Limited

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