

Non-Executive Directors' Fee Review

Solution Dynamics Limited

27 September 2019

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Executive summary

The findings in this section summarise the market positioning for Solution Dynamics Limited (Solution Dynamics or the Company) Chair and Non-Executive Director (NED) base and committee fees against the market. EY understands that the Board has constituted one standing committee, being the Audit and Risk Committee. All organisations within the comparator group operate an Audit and Risk Committee; however, only three disclose Committee Chair fees. Because no organisations disclose Committee member fees, EY has sourced the Audit and Risk Committee member fee data from EY's Director fee database.

EY has used a comparator group of 11 companies, as agreed with Solution Dynamics on 11 September 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 Solution Dynamics or any third party.

1.1 Board Chair and NED fee positioning

The table below compares Solution Dynamic's Chair and other NED fees to the market data for the comparator group.

Table 1: Summary of current fee practices against market. There are 11 organisations included in the comparator group (excluding Solution Dynamics)

Role	Solution Dynamics fees (\$)	Base fees				Comparative ratio (Median)	Solution Dynamics fee positioning
		25 th percentile (\$)	Median (\$)	75 th percentile (\$)	Average (\$)		
Non-Executive Chair (base fee)	45,000	56,225	60,000	70,000	64,122	75%	Ranked 10 th **
Non-Executive Director (base fee)	25,000	40,000	43,250	47,500	44,477	58%	Ranked 11 th
Audit & Risk Committee *	Chair	-	10,000	-	18,667	-	-
	Member	-	7,500	12,000	9,038	-	-

*EY is unable to disclose the interquartile range for the Audit and Risk Committee Chair fees due to insufficient sample size.

** Moa Group Limited's Chair is an Executive Chair; therefore, has been excluded from this analysis.

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 below the 25th percentile.
- ▶ **NED:** current base fee is below the 25th percentile.

1.2 Recommendations

When developing the recommendations below, we have considered the following factors:

- ▶ Current market movements and trends for NED fees
- ▶ The time commitments required of NEDs in comparison to the comparator group organisations
- ▶ Alignment of current NED fees to the comparator group
- ▶ The complexity of compliance and regulation requirements which has increased Board accountabilities
- ▶ Solution Dynamic's revenue is positioned between the median and 75th percentile of the comparator group.

Based on our understanding of current director workloads and positioning of fees relative to market, our recommended fee structure is set out below.

Table 2: Recommended fee increases

Role	Solution Dynamic's current practice (\$)	Recommended fee (\$)	Increase (%)
Chair Base Fee	45,000	60,000	33%
NED Base Fee	25,000	40,000	60%
Committee Fees			
Audit and Risk Committee - Chair	-	7,500	-
Audit and Risk Committee - Member	-	-	-

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



Una Diver
Partner - People Advisory Services
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1. Introduction

1.1 Background

Solution Dynamics Limited (Solution Dynamics or the Company) has engaged EY to review the fees paid to Board Non-Executive Directors (NEDs).

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 Solution Dynamics' NED fees, EY has applied the following methodology:

- ▶ Used a comparator group as agreed with Solution Dynamics on 11 September 2019
- ▶ Sourced information on current fees across the comparator group
- ▶ Compared Solution Dynamics' NED fees against the comparator group market data
- ▶ Analysed the relativity of current fees to the market.

1.3 Annual fee movement data

Table 3 below shows annual fee movements for the Chair and NEDs from EY's Directors' Fees Report 2019/20.

Table 3: 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, Solution Dynamics' 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.

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

1.5 Solution Dynamics fee structure

The current base fee structure operated by Solution Dynamics is outlined in *Table 4* below.

Table 4: Solution Dynamics' current fee structure

Roles	2019 base fees
Board Chair	45,000
Non-Executive Director	25,000

1.6 Comparator group

The 2019 comparator group was reviewed by EY in conjunction with Solution Dynamics to ensure relevance. The comparator group consists of organisations within 50% to 200% of Solution Dynamics' revenue of \$25 million.

Table 5 below lists the 11 companies included in the resulting comparator group.

Table 5: Comparator group (sorted by Company revenue)

Company	Company revenue (\$m)	Market capitalisation (\$m)
QEX Logistics Limited	59	61
Mercer Group Limited	38	14
Vital Limited	35	32
Just Life Group Limited	34	36
Allied Farmers Limited	21	13
Geneva Finance Limited	27	42
Solution Dynamics Limited	25	24
Smartpay Holdings Limited	21	34
Burger Fuel Group Limited	21	30
Finzsoft Solutions Limited	15	15
NZ Windfarms Limited	12	39
Moa Group Limited	16	29
Solution Dynamics Limited	Ranked 7 th	Ranked 9 th

1.7 Key considerations

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

In order for the information in this report to be applied effectively, Solution Dynamics 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 the 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 the median.

2 Market fee data

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

2.1 Non-Executive Chair

Table 6 compares Solution Dynamics' current Non-Executive Chair fee to the organisations in the comparator group.

Table 6: Base fees - Non-Executive Chair

Market data (\$)						
	Solution Dynamics	25 th percentile	Median	75 th percentile	Average	Sample size
Base fees (\$) ¹	45,000	56,225	60,000	70,000	64,122	10 ²
Market capitalisation (\$m)	24	19	33	38	32	
Revenue (\$m)	25	21	24	35	28	

- ▶ Solution Dynamics' Non-Executive Chair fee is below the 25th percentile.
- ▶ Solution Dynamics' market capitalisation is between the 25th percentile and median.
- ▶ Solution Dynamics' revenue is aligned to the median.

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

2.2 NEDs

Table 7 compares Solution Dynamics' current NED fees to the organisations in the comparator group.

Table 7: Base fees - NEDs

Market data (\$)						
	Solution Dynamics	25 th percentile	Median	75 th percentile	Average	Sample size
Base fees (\$) ³	25,000	40,000	43,250	47,500	44,477	11
Market capitalisation (\$m)	24	22	32	38	31	
Revenue (\$m)	25	19	21	35	27	

- ▶ Solution Dynamics' NED fee is below the 25th percentile.
- ▶ Solution Dynamics' market capitalisation is aligned to the 25th percentile.
- ▶ Solution Dynamics' revenue is between the median and 75th percentile.

² Sample size is reduced due to removal of one organisation that has an Executive Chair.

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 Audit and Risk Committee Chair and member fees.

3.1 Audit and Risk Committee Fees

Table 8 below summarises the market data for disclosed Audit and Risk Committee Chair fees in the comparator group. All organisations within the comparator group have an Audit and Risk Committee, with only one indicating they do not pay additional fees for chairing this committee. As indicated in the table below, only three organisations (NZ Windfarms Limited, Moa Group Limited and Allied Farmers Limited) disclosed their Chair fees.

Table 8: Audit and Risk Committee Chair fee policy market data

Market data (\$)					
	25 th percentile	Median	75 th percentile	Average	Sample size
Chair policy fees (\$)	-	10,000	-	18,667	3
Market capitalisation (\$m)	-	29	-	27	
Revenue (\$m)	-	16	-	16	

As none of the organisations within the comparator group disclosed their member fees, therefore, we have included data from our Directors' Fees survey to show indicative Committee Member fees in Table 8 below.

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

Market data (\$)					
	25 th percentile	Median	75 th percentile	Average	Sample size
Member policy fees (\$)	3,074	7,500	12,000	9,038	104

4 Summary and recommendations

4.1 Chair

Solution Dynamics' current Chair fee of **\$45,000** is below the 25th percentile of the comparator group data for Chair base fees, with a median comparative ratio of **75%**.

4.2 NEDs

Solution Dynamics' NED fee of **\$25,000** is below the 25th percentile of the comparator group data for NED base fees, with a comparative ratio of **58%** of the median.

4.3 Committee fees

While only three organisations in the comparator group disclosed Audit and Risk Committee Chair fees, it is common market practice for organisations to pay fees to the Chair and Members of the Audit and Risk Committee.

4.4 Conclusion and recommendations

Based on the comparator group organisations with a similar profile, Solution Dynamics is ranked 7th for revenue and 9th for market capitalisation. This positions Solution Dynamics just below the middle of the comparator group with respect to the revenue ranking and within the bottom quartile for market capitalisation ranking.

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

- ▶ Increase the Chair fee from \$45,000 to **\$60,000**, which is aligned to both the 25th percentile and the median of the comparator group;
- ▶ Increase the NED fee from \$25,000 to **\$40,000**. NED fees will therefore be aligned to the 25th percentile, median and 75th percentile. This recommendation retains the current relativity between Chair and NED fees (the Chair fee is 1.5x current NED fees).
- ▶ Implement a fee of **\$7,500** for the Chair of the Audit and Risk Committee. This equates to 75% of the median of the market data sample, which was drawn from three organisations.

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