

# Directors' Remuneration Review

Solution Dynamics Limited

9 September 2022

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# 1. Executive Summary

Solution Dynamics Limited has engaged Ernst & Young Limited (EY) to review their Directors' remuneration. The findings in this section summarises the market positioning of Solution Dynamics' Chair and other Non-Executive Director base fees compared to the comparator group market data. Fees are 'at' the relevant market reference point if positioned within 10% of the market data reference point.

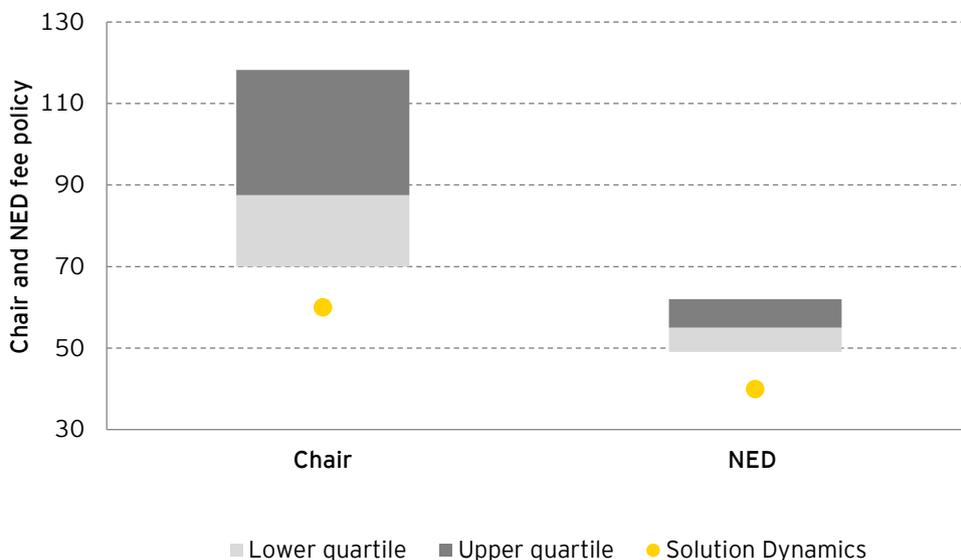
The market information pertaining to fee practices within the comparator group has been sourced from EY's Directors' fees database, supplemented with publicly disclosed information from the most recent financial year end annual reports for the matched comparator group. The comparator group selected by EY is referenced in *Section 5.7*.

We confirm that our report has been prepared independently and our recommendations are not subject to any influence from the management or any Board member of Solution Dynamics or any third party. EY last reviewed Solution Dynamics' NED fees in September 2019.

## 1.1 Board Chair and other NED fee positioning

The diagram below compares Solution Dynamics' Chair and other NED base fees to the New Zealand comparator group.

Diagram 1: Solution Dynamics' Chair and NED market positioning



- ▶ **Chair:** The Chair fee is below the 25<sup>th</sup> percentile of the market
- ▶ **Other NEDs:** NED base fees are below the 25<sup>th</sup> percentile of the market.

## 1.2 Recommendations

The following considerations impacted the determination of recommended director fee structure:

- ▶ Current market movements and trends for NED fees
- ▶ The time commitments required of Solution Dynamics' NEDs in comparison to the comparator group organisations is aligned to the 75<sup>th</sup> percentile
- ▶ Solution Dynamics' revenue is positioned at the median of the comparator group
- ▶ The nature of Solution Dynamics' business

- ▶ Alignment of current NED fees to the comparator groups
- ▶ Solutions Dynamics only pay additional fees to Committee Chairs
- ▶ The skill, capability and accountability of the Board members, and the requirement to retain Board talent over the long term.

Based on the above factors our recommendations are set out in *Table 1*.

Table 1: Recommended fee increases			
Role	Current fee (\$)	Recommended fee (\$)	Increase (%)
Chair Fee	60,000	80,000	33%
NED Fee	40,000	50,000	25%
<b>Committee Fees</b>			
Audit & Risk Management Committee: Chair	7,500	7,500	-

Only three (19%) organisations have disclosed a member fee for their Audit and Risk Committee.

### 1.3 Aggregated fee pool

The current available fee pool is \$227,500 excluding Officer fees. The fees received by NEDs of Solution Dynamics' during the last financial year were \$229,000.

We have considered the comparator group market data for Chair and NED roles when making our recommendations in Section 1.2 and the impact of these recommendations on the total fee pool required. We have also taken into consideration the fact that Solution Dynamics pays committee chair fees but does not pay committee member fees.

If our recommendations are adopted, Solution Dynamics will require a fee pool of \$335,000, excluding Officer fees. This is a 47% increase on the current fee pool but will provide funds to cover all recommendations in Section 1.2, plus headroom of approximately 1.5x the proposed NED fees, in order to address ongoing business needs.

We have not recommended Solution Dynamics implement committee member fees for their committees at this time.

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



Mairéad Wychfield  
Associate Director - People Advisory Services  
Ernst & Young Limited

## 2. Introduction

### 2.1 Background

EY was engaged by Solution Dynamics Limited to conduct a review of their Board Chair, NED and Audit and Risk Committee Chair fees against the New Zealand market. Solution Dynamics' Board structure and current fee policy is outlined in *Section 5.8*.

This report includes information on:

- ▶ Chair (Chair) base fees
- ▶ Non-Executive Director (NED) base fees
- ▶ Audit & Risk Committee Chair fees
- ▶ Fee pool.

This report is based on the following understanding of the key background facts:

- ▶ Financial: Solution Dynamics' revenue in the most recent full financial year was approximately \$40 million.
- ▶ Market capitalisation: Solution Dynamics' market capitalisation is approximately \$38 million as of 22 August 2022
- ▶ The Solution Dynamics Board is currently made up of five NEDs (including the Chair) and are joined at meetings by the Chief Executive Officer
- ▶ The Board met 11 times in the previous year
- ▶ Solution Dynamics operates an Audit & Risk Committee which meets two times per annum
- ▶ Based on the information provided by Solution Dynamics, the total fee pool is \$227,500. This fee pool excludes Officer fees.

### 2.2 Annual New Zealand Director fee movements

Table 2 below shows the annual fee movements for the Chair and other NEDs from EY and IoD's Directors' Fee Report 2022/23.

Role	Director fees (median) (\$)			
	2020	2021	2022	Movement
Non-Executive Chair	60,000	64,750	67,000	2.1%
Non-Executive Directors (NEDs)	46,000	50,000	51,529	3.1%

In determining potential increases to Solution Dynamics' fee policy, we have reviewed and considered a number of sources including:

- ▶ Information provided through EY's management of the annual IoD Directors' Fee Report
- ▶ Our collective consulting experience and recent consulting engagements on this topic.

### 3. Market data

#### 3.1 Board fees

Table 3 below compares the fees paid to Solution Dynamics' Board to disclosed market data in the comparator group.

Table 3: Board fee policy (\$ per annum)						
Role	Solution Dynamics	25 <sup>th</sup> percentile	Median	75 <sup>th</sup> percentile	Comparative ratio	Sample size
Chair	60,000	70,000	87,500	118,275	69%	16
NED	40,000	49,013	55,000	62,000	73%	16
Board size	5	4	4	5	83%	16
Number of meetings	11	8	10	11	116%	12

- ▶ Solution Dynamics' Chair fee is positioned below the 25<sup>th</sup> percentile of the comparator group
- ▶ Solution Dynamics' NED fee is positioned below the 25<sup>th</sup> percentile of the comparator group
- ▶ The total number of NEDs is aligned to the 75<sup>th</sup> percentile of the comparator group. Five organisations have a similar number of NEDs
- ▶ The total number of Board meetings is aligned to the 75<sup>th</sup> percentile.

##### 3.1.1 Audit & Risk Committee fee data

Table 4 below compares Solution Dynamics' Audit & Risk Committee fee policy to the market data for disclosed Audit & Risk Committees in the comparator group.

Table 4: Audit & Risk Committee fee policy market data						
Role	Solution Dynamics	25 <sup>th</sup> percentile	Median	75 <sup>th</sup> percentile	Comparative ratio	Sample Size
Chair fee	7,500	5,250	8,000	10,000	94%	6
Number of Audit Committee meetings	2	3	4	5	57%	12

- ▶ Solution Dynamics' Audit & Risk Committee Chair fee is between and 25<sup>th</sup> percentile and median of the comparator group
- ▶ The total number of Audit & Risk Committee meetings is below the 25<sup>th</sup> percentile.

## 4. Recommendations

The following considerations impact the determination of appropriate fee increases:

- ▶ Current market movements and trends for NED fees
- ▶ The time commitments required of Solution Dynamics' NEDs in comparison to the comparator group organisations is aligned to the 75<sup>th</sup> percentile
- ▶ Solution Dynamics' revenue positioning at the median of the comparator group
- ▶ The nature of Solution Dynamics' business
- ▶ Alignment of current NED fees to the comparator groups; and,
- ▶ The skill, capability and accountability of the Board members.

### 4.1 Aggregated fee pool

The current available fee pool is \$227,500, excluding Officer fees. The fees received by NEDs of Solution Dynamics in the last financial year was \$229,000.

We recommend Solution Dynamics set a total fee pool **\$335,000**, excluding Officer fees. This is a 47% increase on the current fee pool but will provide funds to cover all recommendations, plus headroom of approximately 1.5x the proposed NED fees, in order to address ongoing business needs. Sections 4.2 and 4.3 below set out our recommendations for the allocation of fees, assuming the proposed fee pool is adopted.

### 4.2 Base fee policy

We recommend that Solution Dynamics increase the Chair fee to **\$80,000** per annum (33% increase). This fee is positioned between the 25<sup>th</sup> percentile and the median of the comparator group.

Keeping the current fee structure in place, we recommend that Solution Dynamics increase their NED base fee to **\$50,000** per annum (25% increase) to align to the lower quartile of the comparator group.

These recommendations recognise the time commitments required of Solution Dynamics' Chair and NEDs and the organisation's revenue alignment to the median of the comparator group.

### 4.3 Committee Chair fee policy

We recommend that Solution Dynamics maintain their Audit and Risk Committee Chair fee at **\$7,500** without any change.

The Chair fee is aligned to the median of the comparator group, and we believe this adequately reflects the time commitment required from the Committee Chair.

## 5. Benchmarking methodology

### 5.1 Market data presented

- ▶ The market data includes individuals who were in their role for the full financial year.
- ▶ Market data sample sizes will vary for each remuneration element and fee element. For example, not all market incumbents disclosed a NED fee policy.
- ▶ Fee policies are typically more useful for determining underlying fee structures, especially for other NEDs, as they differentiate between Board and committee fees. However, as disclosure of policy amounts for Board and committee fees are voluntary, data may not be available for all companies in the comparator group.

### 5.2 Market positioning

- ▶ Fees were 'at' the relevant market reference point if Solution Dynamics' incumbent fees were positioned within 10% of the market data reference point.

### 5.3 Remuneration data

- ▶ Market remuneration data used in the analysis has been sourced from a combination of annual reports for the most recent financial year and EY's Institute of Directors Remuneration Survey.
- ▶ Revenue and assets data are based on the most recently disclosed full-year result.

### 5.4 Sample sizes

- ▶ The 25th and 75th percentiles for each element are presented provided the market sample contains five data points or more. The median is presented where there were four data points or more. The average is presented where there were three data points or more.
- ▶ Where less than three data points were available, no data was provided.
- ▶ Market data percentiles and averages are independent observations. Therefore, they should not be expected to sum to the market data percentiles and averages for total fees.

### 5.5 Ageing of market data

- ▶ Generally, EY does not support 'ageing' market data to account for the time lag in remuneration disclosures. The data used in the analysis has not been aged.

### 5.6 Committee fees

- ▶ Solution Dynamics' committees (based on committee titles) were matched to disclosed market committees based on the classification below:

Committee name	Classification criteria
▶ Audit & Risk Committee	▶ Any committee with 'Audit' or 'Risk' in the name

## 5.7 Solution Dynamics comparator group comparisons (n=16)

Organisation	Revenue (\$millions)	Market Capitalisation (\$millions)
Accordant Group Limited	205	62
Allied Farmers Limited	22	21
Blis Technologies Limited	9	39
Bremworth Limited	112	39
Burger Fuel Group Limited	21	15
Foley Wines Limited	58	95
Geneva Finance Limited	43	39
Harmony Corp Limited	79	80
Just Life Group Limited	36	59
Metro Performance Glass Limited	178	44
MHM Automation Limited	51	46
NZ Windfarms Limited	16	56
Savor Limited	31	29
Smartpay Holdings Limited	34	176
Vital Limited	35	16
Wellington Drive Technologies Limited	64	67
<b>25<sup>th</sup> percentile</b>	<b>28</b>	<b>36</b>
<b>Median</b>	<b>39</b>	<b>45</b>
<b>75<sup>th</sup> percentile</b>	<b>68</b>	<b>63</b>
<b>Solution Dynamics Limited</b>	<i>Aligned to the median</i>	<i>Aligned to the 25<sup>th</sup> percentile</i>
	<b>40</b>	<b>38</b>

## 5.8 Solution Dynamics structure and current fee policy

Current Directors' Fees Policy - actual fee at Board discretion			
Board Member	Role	Fees per role	Total Fees (\$ pa)
John McMahon	Chairman	60,000	60,000
Andy Preece	Non-Executive Director	40,000	47,500
	Chairman Audit & Risk Management Committee	7,500	
Elmar Toime	Non-Executive Director	40,000	40,000
Julian Beavis	Non-Executive Director	40,000	40,000
Lee Eglinton	Non-Executive Director	40,000	40,000

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