2019 Executive Reward Report

Summary of findings

pwc

The information in this summary is intended as a guide only and is not conclusive and should not be relied upon without consulting a PwC advisor. If more information on the report, the remuneration data it contains or any other remuneration related matter is required, please contact a member of our team.

The 2019 PwC Executive Reward Report shows that in the year to 31 March 2019:

- Median 'same incumbent' FAR increase was slightly down on 2018 levels at 2.9%
- STI pay-outs were made to 67% of executives
- 42% of participant companies have an executive LTI scheme in place
- Little change to remuneration 'discount' for female executives

The following is a summary of our findings from the 2019 Executive Reward Report

The PwC 2019 Executive Reward Report contains remuneration data from 149 New Zealand organisations on over 2,000 roles.

The full report contains information on 73 benchmark positions, and covers:

- four CEO positions (Group CEO, Standalone CEO, Subsidiary CEO and Country Manager);
- 33 executive roles that report directly to the CEO; and
- 36 third tier roles representing key functional areas and specialist skills.

The report provides commentary on market trends, remuneration policy and practice, long term incentive information and trans-Tasman trends.

The 2019 PwC executive pay database is made up of data predominantly from private sector organisations and large state owned enterprises which operate with commercial models. Industry sectors include energy, financial services, ICT, infrastructure & transport, manufacturing, primary industry and retail. The 2019 database contains a broad range of large listed companies, medium sized companies and SMEs.

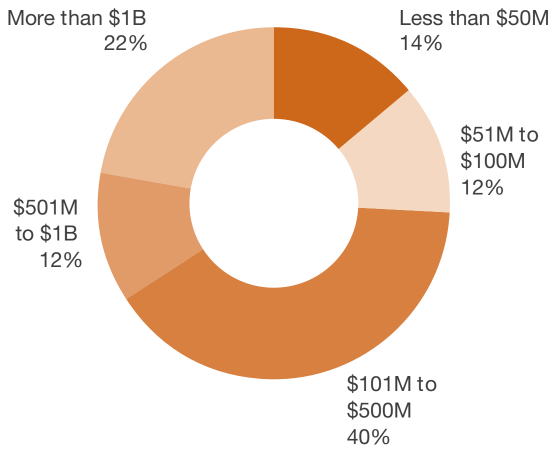
149
Companies

2000+
Roles

73
Benchmarked positions

A breakdown of the database participants by current annual revenue is illustrated below:

Annual Revenue



The report provides data on:

- fixed annual remuneration;
- short term incentives (actual, target and deferred);
- annualised long term incentive (LTI) grant values; and
- aggregate data e.g. total remuneration, annual cost to company.

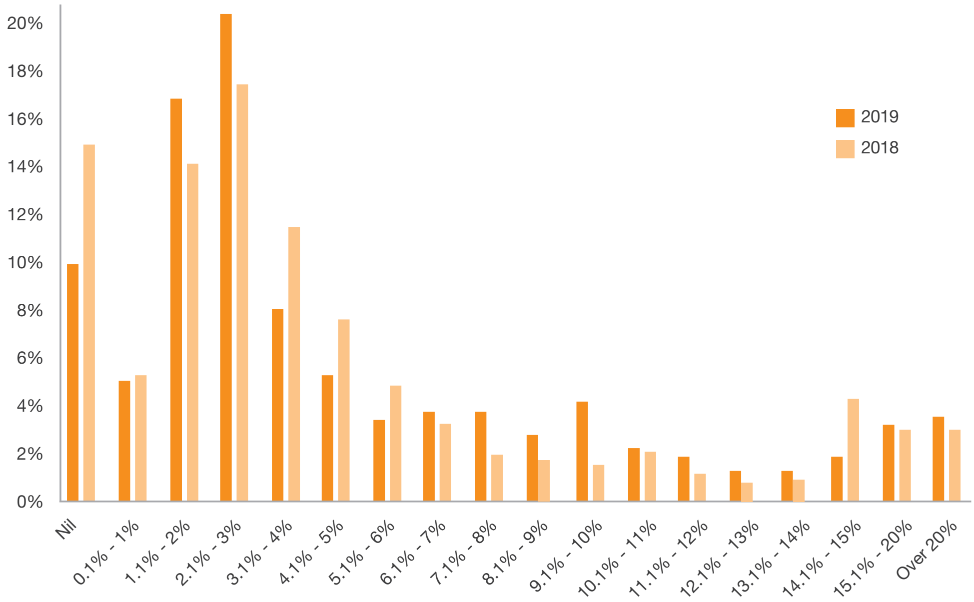
All references in this summary to ‘companies’, ‘CEOs’, ‘executives’ and ‘SMEs’ refer to survey participants only.

Report findings

Fixed annual remuneration

The median fixed annual remuneration (FAR) pay movement for same incumbents across the database was 2.9% (those in the same job at the same company as in the 2018 report), slightly down on the 2018 median movement of 3.0%. The average movement for same incumbent FAR was 5.3%, which was slightly higher than 2018 levels.

Changes in FAR (same incumbent)



Ten percent (10%) of same incumbents did not receive an increase to FAR this past year, a decrease from 2018 where 15% of same incumbents received nil increases.

Same incumbent FAR increases had the highest incidence in the 2.1% - 3% range for the period to 31 March 2019, followed closely by the 1.1% - 2% range.

2.9%
was the median fixed pay movement for same incumbents across our database

10%
of same incumbents did not receive an increase to fixed pay

Short-term variable pay

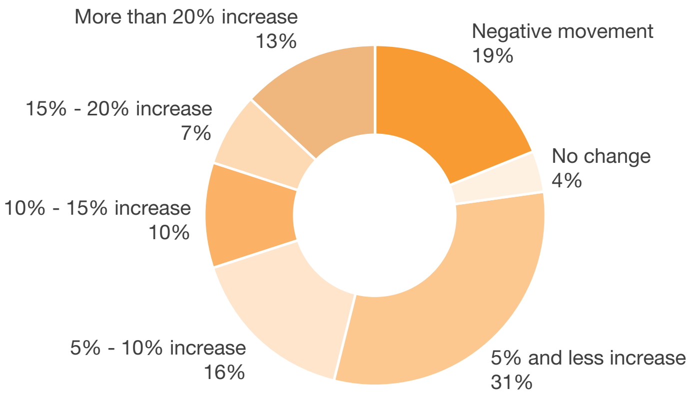
The incidence of CEOs across our database receiving an STI this year has reduced to 69%, from 71% last year. The incidence of executives receiving an STI pay-out has also decreased, with 65% receiving an STI pay out, compared to 2018 levels of 77%.

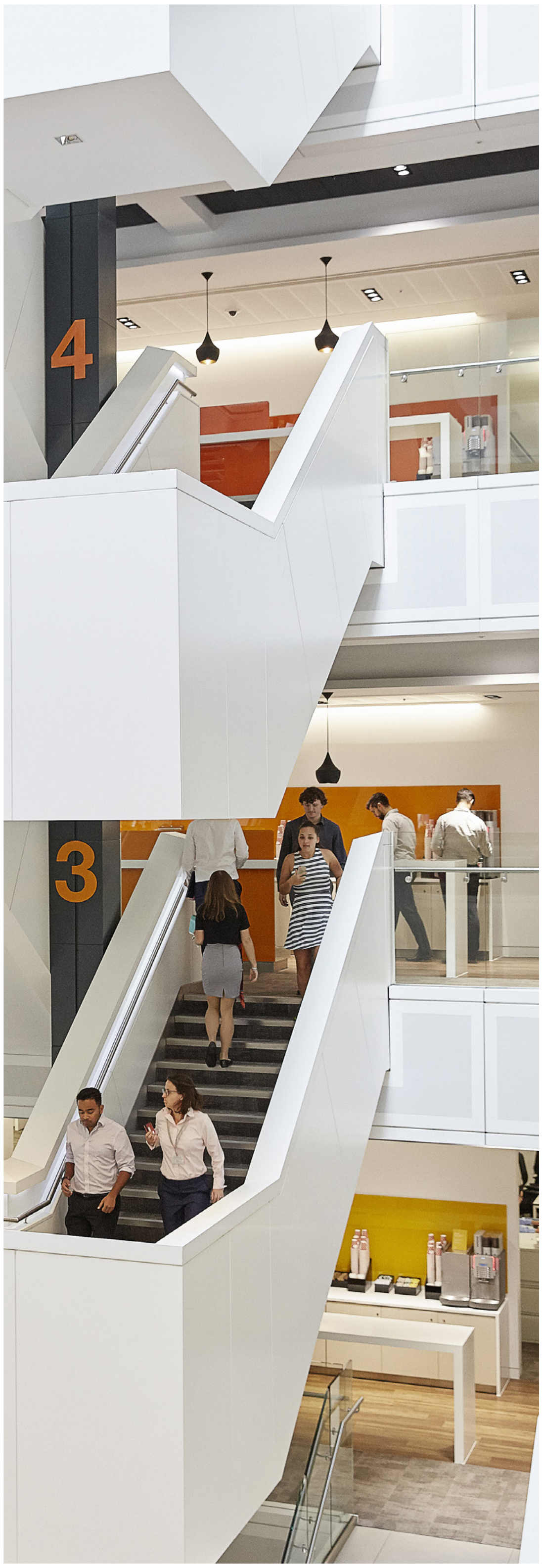
The median STI payment across the database was $52,400, a decrease to last year's median of $55,800.

Total remuneration (FAR plus STI and/or bonuses)

The median total remuneration (FAR plus short term variable pay) increase for same incumbents has decreased from 4.7%, since our 2018 report, to 4.1% this year.

Twenty three percent (23%) of same incumbents had nil movement or a negative movement in total remuneration year on year.





Reward components

Across the database, the incidence of short-term incentive payments has decreased from 73% in 2018 to 67% this year.

Twenty four percent (24%) of executives received an LTI grant in the last financial year, compared to 28% in our 2018 report. This may be in part be influenced by companies reviewing their current LTI schemes in light of the revised employee share scheme tax legislation (thereby delaying grants).

The incidence of KiwiSaver on top of FAR has increased this year by four percent to 61% this year.

Policy and practice findings
(based on participant questionnaires, not PwC analysis of actual data)

Participants reported a median FAR increase for CEOs at 2.5%, higher than our 2018 report where the median reported increase was 2.0%.

Fixed pay movement for second tier executives remained consistent year on year, with a median reported increase to FAR of 2.6% over the past 12 months.

For the ‘other staff’ category, the reported median movement to FAR has increased from 2.5% to 2.7% year on year.

The **forecast** median fixed annual remuneration movement for the next 12 months was 2.5% for all staff categories (CEOs, executives and ‘other staff’).

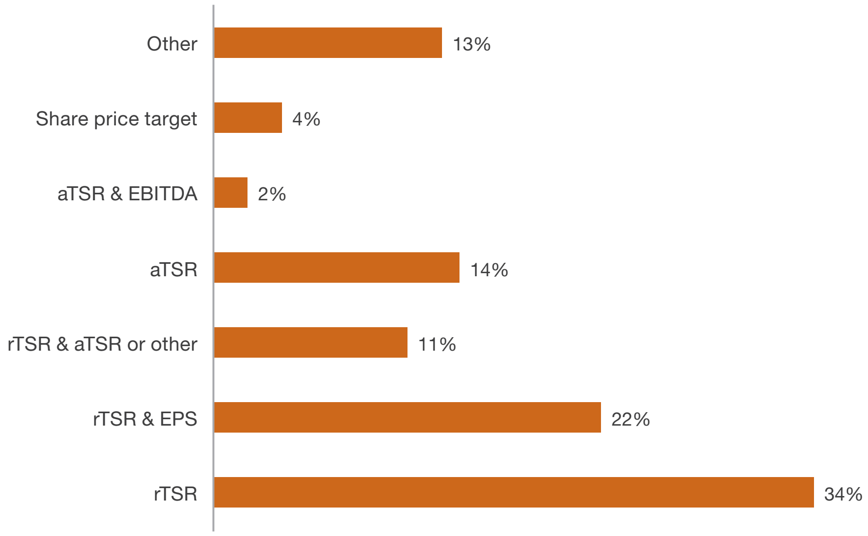
Eighteen percent (18%) of participants forecasted nil increases to fixed pay for their CEOs and 3% indicated zero increases for their second tier executives. Consistent with last year’s findings, all respondents expected to increase fixed annual remuneration in the next 12 months for the ‘other staff’ category.

LTI schemes

Of the 149 survey participants, 63 organisations (42%) have current executive LTI schemes in place (six organisations operate multiple schemes). Of those companies providing LTIs, the vast majority (76%) are listed entities or part of a listed group.

Sixteen companies (spread across sectors such as financial services, manufacturing, ICT and other industries) have deferred STI arrangements for executives (CEOs and CEO direct reports).

As in prior years, share rights plans and variations thereof were the most prevalent LTI structure (52%), with share loan and bonus schemes the next most common (24%). The most common performance measure used year-on-year was relative total shareholder return, used singularly or in conjunction with another measure, as per the illustration below:



Across the sample of share rights plans in our data this year, incidence of a fair value and face value approach was consistent across companies, with no particular bias overall.

Tax Landscape

In our last three reports, we have highlighted some pending changes in relation to share schemes that were due to become law. Those changes are now enacted and will impact on all grants made after 28 September 2018 (and potentially before).

The key aspects of the changes are in relation to:

- The taxing point of employee share schemes (ESS), which has seen the introduction of the concept of a 'share scheme taxing date' that will apply to ESS, and effectively tax nearly all ESS at delivery of unconditional ownership of the shares to the employees. This is defined as the first date after which:
  - There is no material risk that beneficial ownership of the shares will change; or
  - The employee is no longer entitled to be compensated for a fall in value of the shares; or
  - There is no material risk that there will be a change in the terms of the shares affecting their value.
- Availability of the tax deduction to employers in respect of providing ESS benefits is intended to align the tax consequences of remuneration in the form of shares, with the tax consequences of cash remuneration.

Combined with new reporting rules for employers in relation to ESS benefits, the new rules have changed the way many ESS are taxed and will have implications beyond tax. As a consequence we expect that share and loan and share, loan and bonus schemes (and variations thereon) will be phased out over time, in favour of economically equivalent simpler schemes. Funding of tax after the share scheme taxing date is however a key design issue.

SME analysis

Twenty six percent (26%) of 2019 survey participants were companies with revenues of $100 million or less.

SME CEOs received a median increase to fixed annual remuneration of 2.5%, lower than our 2018 findings of 4.5%. The median fixed annual remuneration movement for SME executives increased from 2.5% to 3.0% this year.

A quarter of SME CEOs and executives across our database did not receive an increase over the past year.

The incidence of STI and LTI grants in SME organisations remains low compared to larger entities. Fifty six percent (56%) of SME CEOs received an STI payment this past year, compared to 76% of CEOs in larger organisations (revenues larger than $100m).

Twenty one percent (21%) of SME CEOs received an LTI grant this past year, compared to 50% of CEOs in larger companies (revenues larger than $100m).

56%

of SME CEOs in our database received an STI payment over the past year

Australian update – FY18 (ASX100 companies)

Fixed pay increases remained modest in FY18 amongst ASX100 companies. The median increase for CEOs who received an increase was 2.7%, 3.6% for executives.

Forty five percent (45%) of CEOs did not receive a fixed pay increase in FY18, compared to 41% of CEOs in FY17. Consistent with FY17, one-third of executives did not receive a fixed pay increase in FY18.

Short term incentive payments decreased in FY18 for CEOs and executives. The median STI payment for CEOs was 101% of target and 93% of target for executives.

'Traditional' remuneration structures, comprising of fixed pay, STI and LTI remain the most prevalent executive remuneration framework (86% of companies). Eighty four percent (84%) of companies that have LTI plans utilise relative TSR as a sole metric or in conjunction with another metric.

45%

of Australian CEOs did not receive an increase in FY18

86%

of companies still operate traditional executive remuneration structures

Gender and pay

The incidence of females in executive roles continued to trail that of males. Median pay levels for women were also lower, based on our aggregated analysis by reporting level.

Ninety one percent (91%) of CEO positions in our database were held by men. The incidence of women in first tier roles has risen by 1% compared to our 2018 report.

Breaking down median fixed annual remuneration by gender showed that men in first tier roles' median payment was 101% of the overall market median. Median fixed annual remuneration for women in first tier roles was 68% of the overall market median.

The incidence of women in second tier roles (direct reports to the CEO) has increased from 22% to 29% year on year. The median fixed annual remuneration payment for women in second tier roles was 93% of the overall market median. Men in second tier roles' median fixed annual remuneration lead the overall market median at 102%.

Sixty six percent (66%) of third tier roles were held by men, 34% by women. The median fixed annual remuneration for women in third tier roles was 92% of the overall market median. Male incumbents' median fixed annual remuneration payment was 105% of the overall market median.

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