Executive Reward Report

30 June 2022

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 2022 PwC Executive Reward Report shows:

- Median ‘same incumbent’ FAR movement was 3.1% for the last 12 months.
- 66% of executives received an STI pay out in FY22.
- 42% of participant companies had an LTI scheme in place for their executives.

The following is a summary of our findings from our 2022 Executive Reward Report

The 2022 Executive Reward Report contains remuneration data from 143 New Zealand organisations on over 2,000 individual CEO and executive roles.

The full report contains information on 74 benchmark positions and covers:

- four CEO positions (Group CEO, Standalone CEO, Subsidiary CEO and Country Manager);
- 34 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 2022 PwC database consists primarily of 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, property and retail. The 2022 database contains a broad range of large-listed companies, medium sized companies and SMEs.

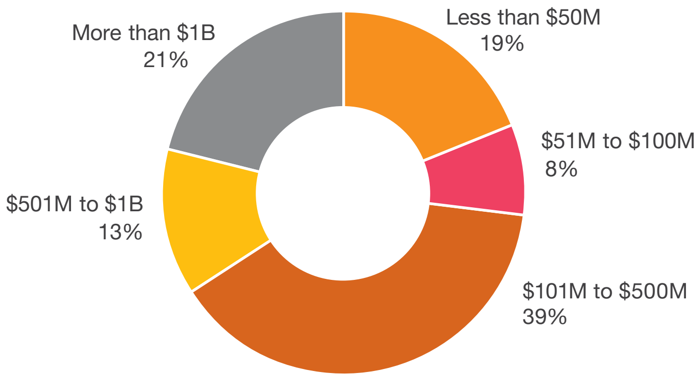
143
Companies

2,000+
Roles

74
Benchmark 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.

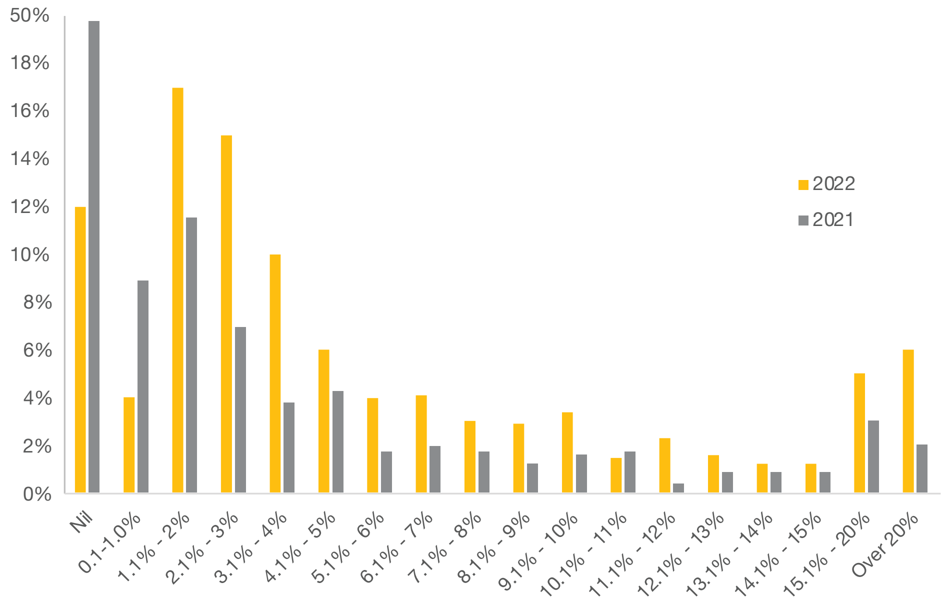
Report findings

Fixed annual remuneration

Across the database, the median fixed annual remuneration (FAR) pay movement for 'same incumbents' (those in the same job at the same company as in the 2021 report) was 3.1%, a significant increase compared to our 2021 levels (0.6%). The average movement for same incumbent FAR was 6.2% more than double 2021 levels (2.9%).

The current median and average FAR movement signals a return to more regular pay practices, following many participant organisations adopting a conservative remuneration approach last year, in response to the uncertainty which the COVID-19 pandemic gave rise to.

Percentage changes in FAR (same incumbent)



Changes in FAR (same incumbent)

The incidence of zero FAR increases for same incumbents has decreased significantly from 47% to 12% year-on-year.

Same incumbent FAR increases between the 1.1% - 2% range had the highest incidence in the past 12 months (17% of the same incumbent sample), followed closely by the 2.1% - 3% range (15% of the sample). Eleven percent (11%) of same incumbents received an increase to FAR above 15%.

3.1%
was the median fixed pay movement for same incumbents across our database.

12%
of same incumbents did not receive an increase to fixed pay.

Short-term variable pay

The incidence of STI payments was up on 2021 levels, with 66% of executives (CEOs, executives and third tier roles) in the survey receiving an STI payment this year (59% in 2021).

The median STI payment across the whole database was $64,800, an increase compared to last year's median of $52,500.

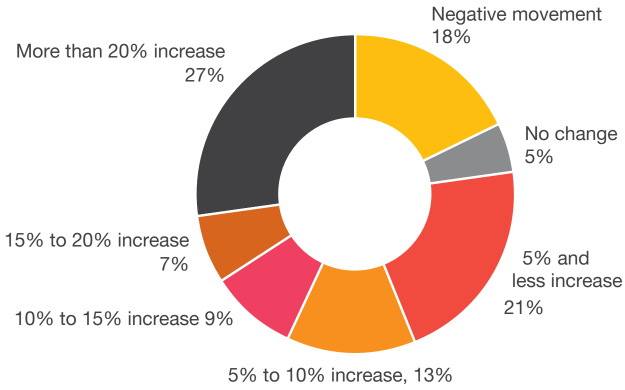
Total remuneration (FAR plus STI and/or bonuses)

The median same incumbent movement to total remuneration (FAR plus short-term variable pay) has increased compared to our 2021 findings, with a median increase of 7.3%, compared to 1.5% in our 2021 report.

Year-on-year, the aggregated total of negative movement and no change to total remuneration levels has dropped to a total of 23%, less than half of the 2021 reported levels (47%).

The chart below shows a breakdown of total remuneration movement outcomes.

Total remuneration increase trends (same incumbent)



Reward components

STI remained a common package component, with 66% incidence this year.

The incidence of long-term incentive (LTI) grants has remained consistent with 2020 and 2021 levels, with 29% of executives participating in an LTI scheme.

The incidence of KiwiSaver (on top of FAR) has decreased from 69% to 66% year-on-year.

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

FY22 reported fixed pay increases indicated a return to more typically seen remuneration practices after a period of conservatism due to the impacts of COVID-19. Median and average increases across all employee categories were higher than our 2021 findings.

For CEOs the median reported increase was 2.5% for FAR, with a median movement of 3.0% of FAR for executives. Both of these employee categories saw nil FAR increases at the median in last year's report.

For 'other staff', the median reported increase of 3.0% for FAR was also higher than the 2021 survey findings of 1.4%.

The incidence of companies reporting nil increases has decreased from our 2021 findings, with 37% of CEOs, 15% of executives and 3% of general staff not receiving increases.

Forecast increases to fixed pay at the median have risen by 2.0% year-on-year for CEOs, up to 4.0%. The median forecast fixed pay increases were 4.3% and 4.5% for executives and other staff respectively.

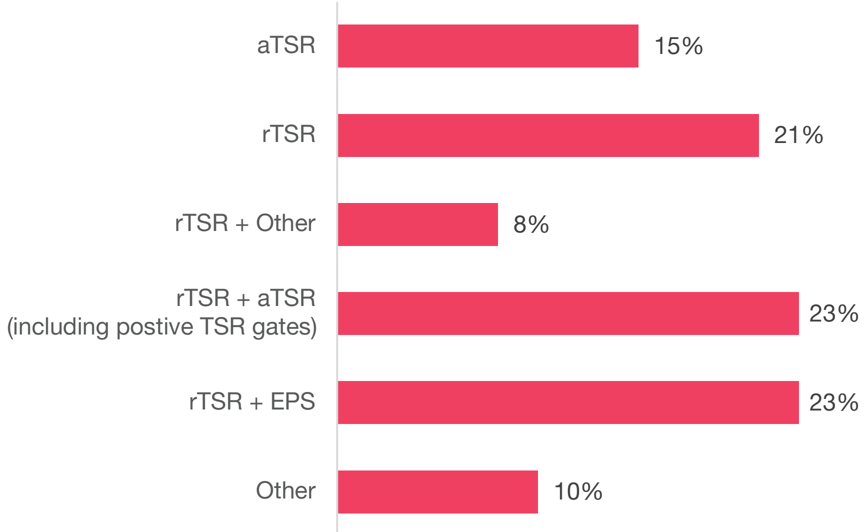
Almost two-thirds (63%) of the responding participants anchored their remuneration policy position to the market median, with a further 8% positioning pay at 'median plus a premium'. Nine percent (9%) adopted a 75th percentile policy position, slightly up from our 2021 report of 8%.

LTI schemes

Forty-two percent (42%) of survey participants had a current executive LTI scheme in place. Of those companies providing LTIs, the vast majority (80%) had an 'equity based' plan/s in place.

Share rights plans and variations thereof were the most prevalent LTI structure (85%), with relative total shareholder return (rTSR) utilised in isolation (or together with another metric) remaining the most common performance measurement approach.

LTI performance measures



Across the sample of share rights plans in our data this year, the majority (84%) were granted on a face value basis, with the balance adopting a fair value approach.

Allocating equity on a face value basis has increased in incidence in the past few years, in line with the Australian market where this has been the practice for several years now. Where options are utilised, typically a fair value approach is adopted.

SME analysis

Twenty-seven percent (27%) of participants represented companies with revenues of up to $100 million or less, which we classify as small to medium sized enterprises (SMEs).

None of the same incumbent SME CEO and executives reported nil fixed pay increases in the past 12 months.

The median SME CEO same incumbent FAR movement has increased from 0% to 7.3% year-on-year. For SME executive roles, the FAR market movement was 5.1% at the median this year (2021: 0.3%).

The incidence of STI in SME organisations remains low compared to larger entities. Fifty percent (50%) of SME CEOs received an STI payment this past year, compared to 65% of CEOs in larger organisations (revenues larger than $100m). With the inclusion of bonuses/profit share however, the figure lifts to 57% (variable pay incidence SME CEOs).

Twenty-nine percent (29%) of SME CEOs received an LTI grant this past year, with a median value of 34% of fixed pay.

Australian market update – ASX

Pressure on organisations for forthcoming salary reviews is high after a period of pay constraint for CEOs and executives over the 2020 - 2021 period, together with relatively high inflation levels.

Despite these drivers, our PwC Executive Reward practice has not seen material deviation from the traditional forecast budget salary increases of between 3% - 4%.

Increased costs for new recruits and out of cycle increases may however be masking the true impact of these market pressures. STI practice/ trends have largely remained consistent year-on-year. With stronger business confidence, there is an expectation of higher STI pay-out levels and quantums for executives over the 2022 calendar year, than seen in either 2020 or 2021.

LTI practice remains consistent, dominated by Performance Share Right Schemes (PSRs), with TSR hurdles (either relative, absolute or a combination having the highest incidence), with three-year performance periods most commonly found.

From FY23, we expect an increased prevalence and weighting of non-financial measures by Financial Services companies driven by APRA's CPS 511, which requires Financial Services companies to have a material weighting of non-financial measures in each incentive plan (i.e. STI and LTI).

89%

of CEO positions in our database were held by men.

Gender and pay

Incidence of women in executive roles continued to trail men, as did median pay levels.

Eighty-nine percent (89%) of CEO positions in our database were held by men. The incidence of women in first tier roles has risen by 4% compared to our 2021 report.

The incidence of women in executive direct report roles is fairly consistent with our 2021 findings (30% to 31% year-on-year). Men in direct report roles led the whole sample fixed pay median level by 3%, while women were collectively paid at a 6% discount to the overall sample median for fixed pay.

This trend continued for third tier roles, where 60% of the sample was constituted by men. The male median fixed pay was positioned at 102% of the whole sample median, with the female median at 94%, showing an increase of 1% against the 'all incumbents' median over the past year.

31%
of executive direct report roles in our database were held by women.

4%
increase of women in CEO roles across our database this year.

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