

Newsletter September 2015

In anticipation of the AGM season, this month Egan Associates has prepared a summary of updated proxy advisor guidelines and views for your reference.

In addition, we look at ACSI's newly released survey of CEO pay, which is the first to include comparisons of realised and reported pay for all CEOs in the S&P/ASX200.

Concluding the newsletter is our comment on the outcome of the National Reform Summit, including issues which the new Government leadership will need to consider in relation to pay, productivity, innovation and economic growth.



2015 AGM Season Proxy Advisor Views

Egan Associates has provided a summary of updated proxy advisor and institutional investor views as our latest KMP Report.



Realised Pay a Focus of ACSI Survey

Complexities associated with current reporting practices were revealed in ACSI's study of CEO pay, which compares realised and reported pay for 2014.



Outcome of the National Reform Summit

The National Reform Summit was recently held in Sydney, bringing together some of Australia's top business, union and social leaders. Egan Associates believes that all core areas identified are worthy of the national focus, and provides comment on productivity as a key challenge.

2015 AGM Season Proxy Advisor Views

As the 2015 AGM season approaches, institutional investors and proxy advisors are set to consider a range of matters related to company performance and reporting standards.

We have provided a summary of the updated views as our latest [KMP report](#), which can be downloaded [here](#).



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Realised Pay a Focus of ACSI Survey

The Australian Council of Superannuation Investors (ACSI) has published its Annual Survey of S&P/ASX200 Chief Executive Remuneration. Although this is ACSI's fourteenth study of CEO pay in the S&P/ASX100, and the fourth year that ACSI has extended the study to encompass all of the S&P/ASX200, it is the first to include realised pay for all CEOs in the sample. In its previous two surveys, ACSI had only provided this data for the highest and lowest paid CEOs.

The difference between realised and reported pay is a reflection of the statutory disclosure requirements, whereby a company must amortise the expense of deferred awards over a period of time, discounted for the possibility that the amount will be forfeited. This is an accounting estimation of the cost to the company, and provides an incomplete picture of what an executive is actually paid in any given year. Egan Associates discussed the implications of using accounting values to evaluate executive pay in our June Newsletter. The article is available [here](#).



In terms of methodology, ACSI calculates realised pay as cash pay plus the value of equity that vested during the year. Thus there is the potential to overstate or understate the amount realised where vested incentives have not yet been drawn on by an individual. Options with an exercise price are the exception, the value of which is assessed on exercise rather than on vesting,

There has been a lot of discussion in the media regarding ACSI's findings that CEOs in S&P/ASX100 companies were paid much more than reported. The average realised pay was \$5.626 million, which is 12.3% higher than the reported average. The variance was particularly high in the top 10 sample, where CEOs received around \$70 million more in aggregate.

The size of the gap was predominantly due to three CEOs - those at Ramsay Health Care, Seek and Sonic Healthcare - who had equity vest in the context of large share price increases.

The CEO of Ramsay had 600,000 retention rights vest at \$21.23 million as a result of a more than three-fold increase in RHC's share price. Consequently, he was the highest paid CEO in the ASX100 on a realised pay basis although he was ranked 9th on a reported pay basis. His total realised and reported pay was \$30.80 million and \$9.09 million respectively.

The CEOs of Seek and Sonic Healthcare derived significant value from the exercise of options. Collectively, their realised pay was \$31.39 million, well over three times their reported pay of \$8.04 million.

ACSI reveals that shareholders may begin to push for a change in reporting practices, which presently only reveal "the tip of the iceberg". ACSI's CEO, Louise Davidson, stated that while there is nothing untoward about the way earnings are declared, an alternative means of judging whether rewards are excessive compared to return on investment may be welcomed in the future.

Realised pay for CEOs in S&P/ASX101-200 companies, in contrast to those in the ASX100, was close to reported pay for the period. Average reported pay was 1.9% higher than realised pay, at \$2.34 million, while median realised pay was \$1.74 million, marginally above the reported pay median.

There were fewer cases where realised pay was many multiples of reported pay; the largest discrepancy was due to the exercise of options by Sirius Resources' Mark Bennett. His reported pay of \$1.22 million was just over a quarter of his realised pay of \$4.49 million.

The largest discrepancy on a reported pay basis was the result of a single one-off payment issued in connection with an initial public offering (IPO). Nerida Caesar, the CEO of Veda Advantage, received a cash bonus of \$1.35 million but the equity she received was either shares subject to escrow or options which vested but were not exercised in 2014. She realised \$2.38 million against "accounting pay" of \$8.28 million.

Alternatively, Nine Entertainment's David Gyngell realised most of his IPO award, which had a major impact on his pay outcome. According to ACSI's calculations, he received \$18.03 million of a reported \$19.09 million, which made him the highest paid CEO in the sample on both a realised and reported basis. ACSI notes that his pay was so high it would have ranked him among the 10 highest paid ASX100 CEOs, the only CEO from the second 100 cohort to have a pay outcome of this size.

ACSI also found that:

- Median fixed pay for ASX100 CEOs fell 1.1%, with the median ASX100 CEO receiving fixed pay of \$1.81 million.
- Median fixed pay for the ASX101-200 CEO cohort rose 3% to \$930,000 while the median cash bonus fell 4% to \$335,000. However, the sample was distorted by the sharp decline in the number of exploration companies, and by the inclusion of several highly-paid CEOs of newly-listed companies including Nine, Veda and OzForex.
- The median cash bonus in the ASX100 lifted 12% to 1.07 million. The proportion of CEOs receiving bonuses also increased to just over 90%, which is the highest it has been since 2008.
- For the ASX101-200 the average bonus was \$609,010, an increase of more than 40%. However, this was mostly due to large bonuses for CEOs of newly listed companies, and the median actually fell 4.4%.
- Excluding two large termination payments to former Leighton CEO Hamish Tyrwhitt (\$13.59 million) and former PanAust CEO Gary Stafford (\$8.13 million), there were only six payments in excess of \$1 million across the ASX200.

The survey is available for download [here](#).

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Outcome of the National Reform Summit

The National Reform Summit was recently held in Sydney, bringing together some of Australia's top business, union and social services leaders including from the ACTU, Business Council of Australia, Australian Industry Group and the Australian Council of Social Services, National Seniors Australia and COTA Australia.

The objectives were broad, and aimed to refocus the course and debate on policy in Australia and settle upon ideas and ways forward to boost the economy, jobs and Australia's fiscal position. There were four main areas of focus: fiscal sustainability; tax reform; sustainable fair retirement incomes policy; and increasing workforce participation and productivity.

Egan Associates believes that all core issues are worthy of the national focus and provides comment below on the final agenda policy area.



Increasing Workforce Participation and Productivity

The Summit noted that Australia's productivity performance has been weaker in recent years compared to the 1990s and early 2000s. With long term economic headwinds such as the slowing of the mining sector and an ageing population, productivity enhancements would be necessary if living standards are to rise in the future. Similar workforce participation improvements will be crucial to deal with these challenges.

It was agreed that improvement was intertwined with growing the economy, though not solely about working hours or real incomes. Rather, the Summit identified several key focus areas with the greatest capacity to enhance productivity - the ability to generate more output from the same inputs, and participation - by delivering more input into the economy generally:

- Fostering innovation and entrepreneurship;
- Fostering healthy competition;
- Streamlining red tape and regulatory constraints;
- Improving education for future demands; and
- Improving the workplace relations system to be non adversarial and flexible

Additional areas that the Summit has undertaken to look into include lifting collaboration between universities, research institutes and industry and utilising the skills of young researchers such as PHD students in small and new businesses.

Role of Government

The opportunity for participants across business, unions and social services to come together to discuss this issue was significant. Despite varied perspectives there was an overwhelming consensus on the urgency for reform in key areas, all of which are interrelated. It remains to be seen how this spirit of collaboration on ideas for the betterment of workforce participation and productivity will translate at State and Federal level.

The Australian Chamber of Commerce and Industry (ACCI), commenting on the outcome of the Summit, stated that it hopes to see more economic reform from the Turnbull Government.

Prime Minister Malcolm Turnbull has so far announced that innovation will be front and centre of the new government, receiving a positive response from the science and technology sector as well as the wider business community. Many have high expectations that the Prime Minister's reform agenda, which he states will build on values of individual initiative and free enterprise, will facilitate the level of job creation and economic growth required to boost our national competitiveness.

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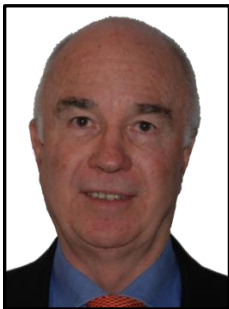
About us

For more than 25 years, Egan Associates has advised leading organisations and emerging enterprises in Australia and New Zealand on the remuneration of Board Directors, executives and key staff members, as well as performance management, corporate governance and Board effectiveness.

Our Services include:

- **Remuneration reviews and benchmarking:** for CEOs, executives, senior management and professional positions, including specialist roles
- **Annual incentive plan structures:** advice on performance criteria, target and maximum payment levels as well as deferral and clawback provisions
- **Long term incentive plan structures:** advice on participation, performance hurdles, equity instruments, valuation and allocation, as well as provision of performance monitoring services
- **Corporate transactions / IPOs:** assistance transitioning pre-IPO reward arrangements into the listed company environment (or any other corporate transformation) considering issues including escrow provisions
- **Government pay reviews:** assistance at federal, state and local level in administrative, policy and corporatised environments on reward for senior executives, professional and administrative staff, and governing Boards
- **Board fee reviews:** benchmarking Board fee levels, including Chairman and Director retainer fees, Committee Chairman and member fees and fees for adhoc engagements.
- **Board effectiveness:** assistance with Board reviews, Board skills matrices, scenario planning and Board documentation.

John Egan



John's early career was with Cullen Egan Dell (now Mercer Human Capital), which he chaired from 1983 to 1989, when he formed Egan Associates. John has been an advisor to Boards and senior executives on organisation, governance and reward issues over many years. He has assisted a significant majority of Australia's top 200 companies as well as a myriad of entrepreneurial organisations and government entities across a wide range of industries.

John has been actively involved with Universities, chairing Sydney University's Board of Advice for its Faculty of Economics & Business (2001 – 2010). John is an Honorary Fellow of the University and an Adjunct Professor in the School of Business.

His personal interests are in cool climate gardens – www.thebraesgarden.com – and he served as a Trustee of the Sydney Royal Botanic Gardens & Domain Trust from May 2010 to June 2014.