

Restaurant Brands New Zealand Ltd

Directors' Fees Review

Private and Confidential

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Executive Summary

Strategic Pay Ltd has been retained by Ted Van Arkel, Chairman of Restaurant Brands New Zealand Ltd to review directors' fees for its Board of Directors. Moyle Consulting Ltd, a predecessor company acquired by Strategic Pay Ltd in April 2012, last reviewed fees in February 2011. Our report relies on information supplied by Grant Ellis, CFO; discussion with Sue Suckling, and review of relevant website and NZSX materials.

Established in 1997, Restaurant Brands NZ Ltd ("RBNZ" hereafter) is an NZSX publicly listed company that owns and manages 51 Pizza Hut restaurants and 90 Kentucky Fried Chicken ("KFC") restaurants in New Zealand. Through a second agreement, it owns and manages 27 Starbucks International stores. Recently 8 Carl's Jr. stores have opened, initiating a new brand into New Zealand.

For the financial year to 28 February 2014, annual revenues are projected at \$312 million on a total asset base of \$112 million. Half year revenues were \$176 million. Current market capitalisation on the NZSX is \$290 million. Over 3,700 employees work at RBNZ, and 60,000 customers are served daily.

The Board is composed of three directors, two of whom are independent, and an independent Chairman. This is an atypically small board for a listed company of this size and profile. (Per the Moyle Consulting 2012 Director Survey, the typical New Zealand Board is comprised of a Chairman and five Non-Executive Directors.) The Non-Executive Directors are each paid an annual base fee of \$55,000 and the Chairman receives an annual base fee of \$84,995. There are no committee fees. Shareholders approved a total fee pool of \$250,000 in 2011, a 14% increase from the previous \$220,000 pool.

Board meetings are held monthly with periodic conference calls between meetings. The Audit Committee meets three times annually in conjunction with the main board meeting. The Remuneration and Appointments Committee meets once annually. In terms of actual Board workings, we understand that all Board members participate in all committee activities.

RBNZ has restructured and remodelled over time, and recently incurred start-up expenses and capital expenditure with the opening of the Carl's Jr. chain. NPAT rose 45.3% from half-year 2013 to half-year ending 9 September 2013. Directors believe the Board has added value by developing and driving clear and compelling growth and operating strategies. The addition of Carl's Jr. presents a marketing challenge and represents an additional dimension of complexity.

The philosophy of the Board regarding fees continues to be the payment of a fully competitive base annual fee – without committee fees - in a range with comparable listed companies, but at the conservative end of said range.

We recommend that base annual fees for Non-Executive Directors be increased from \$55,000 into a range from \$60,000 to \$65,000.

We further recommend that base annual fees for the Chairman rise from \$84,995 into a range from \$110,000 to \$120,000. (Please note that our 2011 report's recommended \$100,000 fee for the Chairman was not implemented, hence the significant gap.) These levels largely reflect median placement in our key market samples.

Depending on your final decisions, this recommendation will increase the annual governance pool of **\$250,000** to as much as **\$315,000**. While this is a 26% increase, there has been no fee increase since 2011 while the Company's performance has improved and grown in complexity.

The full recommendation appears on page 7.

Strategic Pay Ltd Director Fee Survey – July 2013

This annual Survey is the basis for understanding current trends and practices in the payment of Director Fees at New Zealand organisations. This is the 21st annual survey of its type conducted by Strategic Pay Ltd (the longest running survey of directors' fees in the country). It analysed data from **381** organisations with **2,279** individual directorships.

Recent Movements in Fees

Many Boards do not move fees annually, so fluctuations are common and analysing these movements over a longer time span is useful. Typically, 40% to 50% of organisations surveyed report a fee change in the prior year. The Strategic Pay Ltd Directors Fee Survey reports the three year rolling averages and medians of fee increases as shown below:

Table 1: Three year rolling trend in Directors' Fees movements to 2013

Period	Chairs		Directors	
	Median	Average	Median	Average
2011 - 2013	4.5%	4.5%	1.8%	2.3%
2010 - 2012	6.1%	4.9%	2.4%	4.5%
2009 - 2011	7.7%	1.6%	4.9%	6.4%

Strategic Pay recommends a formal annual review of Directors' Fees, which may or may not result in an increase. This ensures that costs are known and minimises larger periodic increases/catch-ups.

Market Data

Directors Fee Market Data – Revenue Analysis – \$200M to \$500M

Table 2 below provides details of directors' remuneration for **19 publicly listed** New Zealand organisations with total annual revenues ranging between \$200 million and \$500 million. This range brackets RBNZ's current annual turnover level of \$312 million.

Our research in the New Zealand market consistently demonstrates that company revenues have the strongest correlation with Board fee levels. Furthermore, listed companies consistently pay fee premiums as a reflection of the greater complexity, risk and liability involved in a listed status. In our view, this is therefore the most relevant sample when considering RBNZ's own director fee levels.

Table 2: Directors' fees in listed New Zealand companies with annual revenues between \$200 M and \$500M.

Sample - 19	Lower Quartile (\$)	Median (\$)	Upper Quartile (\$)	Average (\$)
Chairman	97,000	120,000	130,000	118,250
Directors	52,250	60,000	68,500	63,188

This sample yields median annual base fee levels for Non-Executive Directors of \$60,000 and median base annual fees of \$120,000 for Chairmen.

Directors' Fees Market Data – Market Capitalisation Analysis

We have also selected **13 publicly listed New Zealand companies** with market capitalisation ranging from \$130 million to \$400 million, building a range around RBNZ's own \$290 million in market capitalisation. While this is a wide range, it is necessary to ensure a sample of sufficient size.

Financial parameters of this sample group follow:

- + Median annual revenues of sample companies is **\$405** million, with an upper quartile of \$460 million;
- + Median market capitalisation of sample companies is **\$304** million, with a lower quartile of \$265 million and an upper quartile of \$333 million.

Table 3: Directors' fees in New Zealand listed companies with market capitalisation between \$130M and \$400M.

Sample - 13	Lower Quartile (\$)	Median (\$)	Upper Quartile (\$)	Average (\$)
Chairman	100,000	114,000	136,000	110,136
Directors	50,000	60,000	63,000	58,733

This sample yields median annual base fee levels for Non-Executive Directors of \$60,000 and median base annual fees of \$114,000 for Chairmen.

Directors' Fees Market Data –Asset Analysis

We have also selected **17 publicly listed New Zealand companies** with total assets from \$100 million to \$200 million, building a range around RBNZ's own \$112 million at 9 September 2013.

We present this sample as a matter of interest. Particularly for a retail organisation, we do not place reliance on asset figures when developing Board fee recommendations since asset ownership varies considerably.

Table 4: Directors' fees in New Zealand listed companies with total assets from \$100M to \$200M.

Sample - 17	Lower Quartile (\$)	Median (\$)	Upper Quartile (\$)	Average (\$)
Chairman	75,000	85,000	98,000	84,840
Directors	35,000	42,500	50,000	42,904

This sample yields median annual base fee levels for Non-Executive Directors of \$42,500 and median base annual fees of \$85,000 for Chairmen.

Directors' Fees Market Data – Employee Numbers Analysis

Table 5 below provides market director fee data for 7 publicly listed New Zealand companies operating with 2,000 to 4,000 FTEs.

We present this sample as a matter of interest, since employee numbers do not have as strong a correlation with director fees as do revenues or market cap.

Table 5: Directors' fees for New Zealand organisations with 2,000 to 4,000 employees.

Sample - 7	Lower Quartile (\$)	Median (\$)	Upper Quartile (\$)	Average (\$)
Chairman	-	130,000	-	197,833
Directors	58,500	69,500	82,500	79,217

This sample yields median annual base fee levels for Non-Executive Directors of \$69,500 and median base annual fees of \$130,000 for Chairmen.

Director Evaluation

Strategic Pay has developed an evaluation methodology to determine the overall size, complexity, responsibility and risk of an organisation, as it relates to the role of the directors. Over 150 private sector businesses have been evaluated and input into our database on this basis. There are nine factors included in the evaluation which are described in detail in Appendix 2.

Accordingly, in order to further benchmark RBNZ's Board fees against the market, we have evaluated the Company using this methodology and used the final score to compare director fees with private sector companies of similar "size". The outcome of this analysis is presented below:

Table 6 - Director Remuneration for RBNZ based on Director Evaluation Methodology:

	Lower Quartile	Median	Upper Quartile	Average
Directors	37,767	43,417	61,044	49,947

Based on our evaluation of the complexity, responsibility and risk of Directors of RBNZ, our analysis indicates appropriate Non-Executive Directors fees range from a lower quartile of \$37,767 to an upper quartile of \$61,044 with a median of \$43,417. **As a publicly listed company within a general Private Sector sample, upper quartile positioning of \$61,044 is appropriate.**

We believe this evaluated figure confirms results of our revenue and market capitalisation market samples.

Recommendation

Our recommendation is based on several factors including the financial size, ownership, and industry of Restaurant Brands New Zealand Ltd, and the market data presented above.

Accordingly, we recommend that base annual Director fees at RBNZ be increased from **\$55,000 into a range between \$60,000 and \$65,000**. This range incorporates the \$60,000 **medians** of the revenue and market capitalisation samples presented in Tables 2 and 3, and provides a \$5,000 premium above these strict median levels. This premium recognises the small size of the Board, the resulting considerable workload per Director, and the lack of committee fees. (Per our Director Surveys over time, approximately one-third of New Zealand organisations pay separate committee fees, and it is most common in listed companies.)

Following the same logic, we further recommend that base annual fees for the Chairman be increased from **\$84,995 into a range between \$110,000 and \$120,000**, effectively incorporating the \$120,000 median of the revenue sample in Table 2, and the \$114,000 median of the market capitalisation sample in Table 3.

Depending on your final decisions within the recommended ranges, you may replicate the typical 2:1 fee ratio commonly seen in the New Zealand market between Chairmen and Non-Executive Directors fees, although this is not critical so long as fee levels are market appropriate. This 2:1 premium recognises the greater responsibility, time commitment and liability of Board Chairmen and has been consistent in the New Zealand market for many years.

Depending on your final decisions, the annual governance pool may rise from **\$250,000** to as much as **\$315,000**.

While this represents a 26% increase, we note that fees have remained unchanged since 2011. We further note that the 2011 Director Fee Review recommended a \$100,000 base annual fee for the Chairman. This recommendation was not adopted, and has led to a substantial gap behind median market practice today.

Since then, performance has improved and the business has grown in complexity with the introduction of a new brand. Additionally, this is an atypically small and active Board that has chosen not to expand its membership. Finally, in absolute dollars, this seems a conservative and reasonable cost for good governance at a \$290 million listed business.

Strategic Pay's guiding principle is that it is important not to undervalue the contributions, experience or time committed by Board members.

Appendix 1: Director Remuneration in New Zealand

The remuneration of New Zealand Directors is driven almost entirely by company size. There is a very strong correlation between Board payments and company scale as measured by revenues in particular. Assets, employee numbers and/or market capitalisation are other determinants which have value although care must be applied when selecting which to use given that certain business models render some of these invalid as determinants of scale.

It is worth noting that the complexity and risk profile of a company are deemed to be very important for governance and should also have a significant influence on board remuneration (recognised by State Services Commission and COMU – the Crown Ownership Monitoring Unit of Treasury - previously CCMAU).

We recognise that in New Zealand the competition for Board talent continues to be fierce. Boards of Directors in all sectors and industries are being required to pay competitive market rates in order to attract and retain directors and trustees of the calibre needed to manage increasingly complex and diverse organisations.

We present the following findings of the New Zealand market from the 2013 Strategic Pay Ltd New Zealand Directors' Fees Report:

- + In the year to May 2013, 54% of 381 organisations surveyed reviewed Directors' fees. The average annualised fee increase reported in the past year was 6.2% compared with 5.7% in the preceding year. No respondents reported a decrease. The annualised fee increase is calculated by taking the rate of increase and dividing it by the number of years since the last review date. Most firms tend to adjust fees every two to three years.
- + Across the entire sample, median annual base fees for Chairs increased by 1.3% from last year, while the median for Non-Executive Directors increased by 1.2%.
- + Chair fees when calculated across the whole survey sample are generally twice the level of Non-Executive Director fees. This ratio reflects the greater workload, time commitment and responsibility shouldered by Chairs. This year, our results indicate that across our entire sample, the average ratio was 1:1.9.
- + According to the Survey results, 27% of the 89 organisations that responded to our questioning reported paying separate committee fees in addition to annual base fees.
- + Our survey also reports that 18% of respondents meet 12 or more times per year; 21% meet 11 times per year; 50% meet 6-10 times per year, and 11% meet 1-5 times per year.
- + We also note from our Survey that over the last 12 months, participants have noticed a change in their workloads. 32% indicate they are spending more time on Board business, 61% are spending less time and 9% believe that it has been unchanged.

Appendix 2: Strategic Pay Director Fee Methodology Factors

Strategic Pay has developed an evaluation methodology to assess the relative complexity, risk and scale of an organisation. The methodology has a number of factors we believe can be applied to any organisation to provide a means of assessing appropriate director fees. This is not an evaluation of the individual directors, or the performance of the organisation, but an evaluation of the organisation as a whole, in relation to the role of the directors. The factors are also based on the fundamentals of the organisation, not the skills or requirements of individual directors.

The methodology can be applied to a governance board for any type of organisation. **We have distilled the key factors that affect the complexity, workload, responsibility and risk carried by directors, and that therefore should have some influence on overall fees.**

All of the factors we have selected are interdependent and potentially impact on each other. However, we have tried to capture the most important elements that may impact on the complexity of the governance role and how this should be rewarded.

Any evaluation of organisations is going to be a subjective assessment, none of the nine factors we have developed are perfect, and arguments can be made against any of them. As a whole, we believe they are a good measure of the overall relative size, complexity and responsibility of the directors.

Complexity of Operating Environment

This factor evaluates the complexity of the environment in which the organisation operates. This factor considers such questions as:

Is the organisation operating in an emerging market which is changing rapidly?

Does the organisation operate in a volatile market with the potential for significant, unpredictable and rapid changes?

Is the organisation subject to fierce global competition?

Is the organisation subject to severe shifts in resource availability and/or cost or customer demand?

Does the organisation operate internationally and/or on multiple sites?

Complexity of operating environment has been scored on a scale of 1 to 5 with the following descriptions of the top and bottom levels:

1. Very low complexity

+ *stable operating environment, largely predictable future, single site, New Zealand only.*

5. Very high complexity

+ *rapidly changing environment, uncertain future, operating on multiple sites, international.*

Innovation/Technology/Intellectual Complexity

Organisations have varying levels of complexity of the products or services that they provide. This adds to the difficulty of the directors' role.

How easy is it to communicate the nature of the work of the organisation?

How dependent is the organisation on the intellectual capital of its employees to be able to fulfil its purpose?

Is the organisation doing new and novel things, or doing things in ways that have never been done before that requires creative thinking and high intellectual capacity?

Is there a significant emphasis on innovation, R&D, nurturing of ideas?

Is the organisation subject to rapid technology change which has the potential to dramatically impact the organisation?

Is there high ambiguity and a long time horizon for product commercialisation?

Innovation/technology/intellectual complexity has also been scored on a scale of 1 to 5:

1. Very low innovation/ technology complexity

+ *well established products/ services unlikely to change dramatically.*

5. Very high innovation/ technology complexity

+ *complex products/services, organisation's survival dependent on R&D, culture of innovation, rapidly changing technology.*

Board Discretion/Autonomy

Whilst a governance board always has overall responsibility for the direction and strategy of the organisation, this can vary greatly between organisations.

Does the board have the authority to independently determine strategy and significantly change direction of the organisation?

Is the operating budget determined by the shareholder?

How influential are the shareholder(s) in developing the business plan?

Does the board have the authority to explore mergers/acquisitions/divestments?

1. Very low discretion/ autonomy

+ *the shareholders determine strategy, priorities and business plans with little or no input from directors.*

5. Very high discretion/ autonomy

+ *the board has full autonomy around strategic decisions and can make significant changes to the strategy and direction as they see necessary.*

Stakeholder Management

The level of interaction required with shareholders also adds to the complexity of the directors' role.

Is the board required to manage diverse needs of multiple stakeholder groups?

Are shareholders and/or stakeholders open and vocal about the performance of the organisation?

Is the board required to frequently meet with shareholders/stakeholders?

How sophisticated are shareholders/stakeholders? Does the board need to provide special reporting?

Is the board subject to on-going criticism from hostile stakeholder groups?

Does the board need to maintain relationships with Iwi stakeholder groups?

Does the board need to have a strong understanding of political processes and how these could impact the organisation?

1. Very low stakeholder management

- + board normally only meets shareholders annually; single shareholder; stable, homogeneous stakeholder group.

5. Very high stakeholder management

- + board meets stakeholders frequently; multiple, diverse and vocal stakeholder groups; complex issues to address.

Revenue/Capital Risk

Some organisations have very little risk regarding their income and funding, whilst for others income can be highly variable and requiring constant monitoring by the board.

How predictable are the organisations revenues? I.e. virtually guaranteed monopoly vs. highly variable and uncertain from month to month?

Are there low barriers to entry and significant competition?

Could the revenue or funding for the organisation change dramatically from year to year?

Does the organisation have the ability to raise or access capital or debt if required?

1. Very low revenue/ capital risk

- + organisation has almost guaranteed revenue, funding is secure.

5. Very high revenue/ capital risk

- + highly competitive market, revenues unpredictable, funding unclear and uncertain.

Liability Risk to Organisation

The risk of insolvency, or serious financial uncertainty, or potential for serious health and safety events is a significant responsibility for directors.

Is the organisation subject to an on-going high level of financial uncertainty?

Is there a real risk of insolvency for the organisation?

Is the organisation exposed to serious, on-going health, safety and/or security risk to employees or customers?

Is there potential for catastrophic event that would result in major loss of life (terrorist attack, sabotage, product failure, human error)?

Does the organisation operate in a highly regulated or complex industry?

Is the board required to meet specific disclosure requirements e.g. NZX or COMU continuous disclosure or Official Information Act?

Does the organisation conduct business across multiple national borders, with complex legal and regulatory issues, trade barriers and foreign exchange exposure?

1. Very low liability risk

+ few financial, health and safety or legal risks; unlikely to face legal action.

5. Very high liability risk

+ real risk of financial collapse, OR high potential for serious health and safety incidents, OR stringent disclosure and regulations.

Public Perception/Organisation Profile Risk

Most directors will evaluate the potential reputational risk in joining a board.

Under normal operating conditions are the organisation and its directors frequently in the media?

Is there a high level of awareness of the organisation and its operations by the general public?

Would adverse events be nationally important?

Does the organisation operate in a contentious industry that is subject to frequent criticism?

Is there significant reputational risk for directors?

How likely is it that the directors could be subject to legal action?

1. Very low public perception risk

+ organisation not well known, unlikely to be in media, risk to director reputation low.

5. Very high public perception risk

+ high profile organisation, frequently in media, nationally important, high risk to director reputation.

Organisation Revenues

Annual revenues/turnover of the organisation

Organisation Total Assets

Total assets of the organisation

Both revenues and assets are scored separately on a 10 point scale as follows:

Description	Score
\$10M or less	1
\$10.1M to \$20M	2
\$20.1M to \$50M	3
\$50.1M to \$100M	4
\$100.1M to \$200M	5
\$200.1M to \$500M	6
\$500.1M to \$1B	7
\$1B to \$2B	8
\$2B to \$5B	9
Over \$5B	10

Appendix 3: About Strategic Pay Limited

Strategic Pay is at the leading edge of developments in strategic remuneration and performance management solutions, offering a powerful combination of resources to help organisations improve their performance, ensuring remuneration and rewards are closely linked to business objectives.

Ensuring business success

Superior organisation performance is having a future proof strategy, an organisational model and structure that supports the strategy and the right people matched to the accountabilities best designed to deliver the strategy. Strategic Pay's PLUS+ business consists of experienced consultants delivering the PLUS+ suite of change management tools.

Strategic consultancy

The highly experienced consultancy team at Strategic Pay offers clients a depth of remuneration and performance expertise unmatched in the New Zealand market. Our team uses a sophisticated set of proprietary tools designed to integrate remuneration, performance and rewards management.

This includes:

- + Remuneration and reward strategy
- + Executive remuneration and performance
- + Incentive schemes, including STIs and LTIs
- + Base pay systems, including points, grades, bands or benchmarks using our proprietary job evaluation systems SP5®, SP10® and JobWise®
- + Salary review management, including processes, tools and training
- + Performance management systems, including customised design and implementation
- + Remuneration audit tools and processes

New Zealand's largest data services offering

Strategic Pay offers an unrivalled suite of nation-wide and specialist industry sector market surveys, based on a database of pay information for over 128,000 New Zealand employees from over 1,000 organisations. This rich data source gives our clients access to better and broader comparative information to effectively benchmark their remuneration and rewards packages.

Our key nation-wide surveys and reports include:

- | | |
|---|---|
| + NZ Remuneration Report (<i>published 6 monthly</i>) | + Corporate Services and Executive Management |
| + CEO and Top Executive Remuneration Report | + Directors' Fees Report |
| + New Zealand Benchmark Report | + HR Metrics Survey |

Our specialist industry sector surveys include:

- | | |
|---|---|
| + Association of Consulting Engineers NZ | + Law Firms |
| + Central Government | + Local Government (<i>published 6 monthly</i>) |
| + Chartered Accounting Firms | + Medical Technology Association of NZ |
| + Electricity Transmission, Distribution and Asset Management | + Not for Profit Sector |
| + Financial Services | + Patent Attorney |
| + HRINZ HR Practitioners | + Pharmaceutical |
| + Independent Schools of New Zealand | + Property |
| + Institutes of Technology and Polytechnics | + Retail Industry |
| | + Wine Industry |

Smart technology

We understand the needs of busy HR practitioners and have developed a range of smart automated tools to manage your remuneration and survey submission needs.

- + RemWise[®] – salary management software for managing every aspect of remuneration management.
- + spectREM[®] – Strategic Pay's Web-enabled database.
- + PayCalculator – survey data at your fingertips.
- + Rem On-Demand[®] - provides access to accurate and exhaustive 'real time' information on remuneration trends and topical human resource issues in New Zealand.

Building client capability

We offer a suite of educational programmes designed to help you build your organisation's management capability and understanding in reward management. The Strategic Pay Academy provides clients with comprehensive short courses in Remuneration, Performance Management and Organisational Performance.