
Seeka Limited

Directors' Fees Review

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January 2020

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Overview

Michael Franks, Chief Executive Officer of Seeka Limited (“Seeka” hereafter), has commissioned Strategic Pay Ltd to provide a review of its Board of Director fees. Mr Franks and Mr McKinstry, CFO, supplied our background information, and we interviewed Fred Hutchings, Chair, by phone.

Board fees were last reviewed by Price Waterhouse Coopers in late 2017 and subsequently adjusted, consistent with Seeka’s governance policy of bi-annual Board fee reviews.

Our approach involves constructing relevant, customised market samples from our February 2019 [New Zealand Director Fees Survey](#) database to determine and position appropriate Board fee levels for Seeka.

We then “cross-check” our data results using our proprietary Director Evaluation Methodology which considers nine factors, the majority of which are qualitative and address issues of complexity, risk and stakeholder management.

This report presents the following:

1. Background information and context;
2. Recommendation Summary;
3. Customised market samples;
4. Results of Director Evaluation Methodology;
5. Chair Fee Practice; Committee Fees;
6. Recommendation;
7. Appendix 1 – February 2019 [New Zealand Director Fees Survey](#) highlights;
8. Appendix 2 - Overview of Director Remuneration Issues in New Zealand;
9. Appendix 3 - Director Evaluation Methodology and factors;
10. Appendix 4 – Strategic Pay Ltd – Capabilities and Offerings.

Background

In writing this report, we consider the following information supplied by Mr Franks, Mr McKinstry and Mr Hutchings as well as the Company's published investor information:

- + Based in Te Puke, Seeka is a NZX publicly listed company that provides fully integrated orchard-to-market services to leading retailers and wholesalers. The Company operates in both New Zealand and Australia such that it deals in a range of fruit varieties – kiwi-fruit most importantly.
- + Listed on the NZX, Seeka's market capitalisation stood at \$150 million at 22 January 2020. This represents a **58%** increase from the \$95 million market capitalisation figure in December 2017.
- + For the six months ending 30 June 2019, Seeka reports \$170 million revenue on an asset base of \$407 million. Accordingly, we estimate \$240 million total annual revenues for the year ending 31 December 2019, up from \$204 million the prior year. Profitability has improved over the prior year.
- + Seeka's Board consists of a Chair and six Directors. There are two grower-appointed Directors, two shareholder-appointed Directors and two independents. Such Board composition typically results in on-going efforts for shareholder and stakeholder alignment and management.
- + Current base annual fees are **\$100,000** for the Chair, consisting of a base Director fee of \$56,500 plus a \$43,500 Chair fee. Base annual fees are **\$56,500** for each independent Director.
- + The Board normally meets 14 days per year, including 11 regular Board meetings, a strategic planning day, and 2 days for the ASM and Stakeholder update. As a rule, we expect a 1:1 ratio of preparation time with actual meeting time. In the past year, workload has been unusually high, reflecting the Capital Raising and several acquisitions. Acquisition activity is expected to continue.
- + There two Committees:
 - The Audit & Risk Committee, including a Chair and two members. This Committee meets 6 times per year or more frequently as required. The Committee Chair is paid an \$11,000 Committee Chair fee. There are no Committee member fees.
 - The Remuneration Committee, consisting of a Chair and two members. This Committee meets twice annually and pays no separate fees.

*The Seeka Board advises that its remuneration philosophy positions base annual Director fees at competitive market levels for **publicly listed** companies in order to attract and retain the sort of governance skills and experience needed to achieve business success.*

Organisation Demographics / Dimensions	
Organisation Type	Private Sector, Listed NZ
Ownership	New Zealand and Overseas
Industry	Agribusiness
Annual Turnover	Approximately \$240 M
Assets	\$407 M
Market Capitalisation	\$147 M (22/1/2020)

Recommendation Summary

We recommend that base annual fees for Directors of Seeka increase from the existing **\$56,500** into a range from **\$60,000 to \$65,000**.

We further recommend that base annual fees for the Chair of Seeka be increased from **\$100,000** into a range from **\$120,000 to \$130,000** - a range that reflects the NZ market typical 2:1X premium between Chair and Director base annual fees.

We do not generally see Chair base annual fees calculated as a base annual Director fee plus a Chair premium. We believe a 2X premium is typically warranted by virtue of a Chair's greater responsibilities, risk and workload. This recommendation would alter the existing 1.77:1X relationship.

Additionally, it is appropriate to increase both Committee Chair fees from **\$11,000 to \$15,000**. This is a more appropriate level for a growing, publicly listed company with on-going transactions.

In our view, these recommendations represent appropriate and competitive levels for a successful, rapidly growing New Zealand publicly listed company. As noted earlier, market capitalisation has risen 58% in the past two years.

RECOMMENDATION SUMMARY

Fees	Current (\$)	Number	Proposed (\$)	Number	Proposed Total (\$)
Chair	100,000 (56,500 base + 43,500)	1	120,000 to 130,000	1	120,000 to 130,000
Directors	56,500	6	60,000 to 65,000	6	360,000 to 390,000
Audit & Risk Chair	11,000	1	15,000	1	15,000
Total	450,000				495,000 to 535,000

Depending on your final decisions, the annual governance pool costs rise from **\$450,000** into a range from **\$495,000 to \$535,000**. These represent increases respectively from **10% to 18.9%**.

Such increases are not surprising given the growth in market capitalisation and revenue since the 2017 report. We further note that since only an Audit & Risk Committee Chair fee is paid, the base annual fee above represents the entire remuneration for the other Directors.

Lastly, the 4-year rolling market median fee increase for Directors at publicly listed companies is 8.1% per annum (see Appendix 1).

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

The full recommendation appears on pages 10 and 11.

Market Data

Directors Fee Market Data – Market Capitalisation

Results of market capitalisation samples are key indicators of Director pay for publicly listed businesses, and are a key focus of the investment community. .

Table 1 below provides details of directors' remuneration for 13 NZ listed companies with market capitalisation ranging between \$75 million and \$225 million: a range built around Seeka's recent figure of \$150 million.

TABLE 1: DIRECTORS' FEES IN LISTED NZ COMPANIES WITH MARKET CAPITALISATION BETWEEN \$75 M AND \$225 M

Sample - 13	Lower Quartile (\$)	Median (\$)	Upper Quartile (\$)	Average (\$)
Chair	88,775	125,000	136,250	120,000
Directors	51,000	70,000	75,000	64,000

This sample yields median annual base fee levels for Directors of \$70,000 and median base annual fees of \$125,000 for Chairs.

The following publicly listed Companies are included in our sample, as of 22/01/2020:

Company	Market Cap (\$)
Abano Healthcare	137.9
Augusta Capital	145.8
Barramundi	147.7
ERoad	216
Evolve Education	181.2
Foley Family Wines	121.6
Livestock Improvement	98.8
NZME	78.6
NZ Oil & Gas	110.2
PGG Wrightson	184.9
South Port	186.8
Steel & Tube	136.1
TIL Logistics	93.8
Seeka	150

Directors Fee Market Data – Revenue Analysis

Our research consistently demonstrates that in the NZ market, company turnover is most strongly correlated with Board fee levels, and consequently results of revenue samples are a key consideration as we develop Board fee recommendations.

Table 1 below provides details of directors' remuneration for 13 publicly listed NZ organisations with total revenues ranging between \$190 million and \$290 million: a range that brackets Seeka's own estimated \$240 million in revenue for the financial year ending 31 December 2019.

TABLE 2: DIRECTORS' FEES IN LISTED NZ COMPANIES WITH REVENUES BETWEEN \$190 M AND \$290 M

Sample - 13	Lower Quartile (\$)	Median (\$)	Upper Quartile (\$)	Average (\$)
Chair	118,000	145,000	165,000	136,417
Directors	62,063	80,000	90,000	76,833

This sample yields median annual base fee levels for Directors of \$80,000 and median base annual fees of \$145,00 for Chairs. The companies included in this revenue sample are presented in the table below:

Company	Annual Revenues (\$ M)
AWF Madison	279.3
Delegat	272.1
Hallenstein Glasson Holdings	277.6
Heartland Bank	196.8
Kiwi Property Group	277.8
Livestock Improvement	236.4
Metro Performance Glass	268.3
Oceania Healthcare	252.3
Port of Tauranga	283.7
Skellerup Holdings	240.4
Skyline Enterprises	224.4
Smiths' City	215.9
Trade Me Group	250.3
Seeka	Est. 240

Directors Fee Market Data – Asset Analysis

Table 3 below provides details of directors' remuneration for 12 publicly listed NZ organisations with total assets ranging between \$300 million and \$500 million: a range constructed around Seeka's own \$407 million in assets as of 30 June 2019.

The range is necessarily wide in order to provide a sample large enough to be statistically meaningful.

TABLE 3: DIRECTORS' FEES IN LISTED NZ COMPANIES WITH ASSETS BETWEEN \$300 M AND \$500 M

Sample - 12	Lower Quartile (\$)	Median (\$)	Upper Quartile (\$)	Average (\$)
Chair	91,750	117,000	143,500	115,963
Directors	52,250	63,560	75,000	65,103

This sample yields median annual base fee levels for Directors of \$63,560 and median base annual fees of \$117,00 for Chairs. The Companies included in the asset sample are presented below:

Company
Abano Healthcare
Briscoe's
Comvita
Livestock Improvement
Metro Performance Glass
Michael Hill
Port of Napier
Restaurant Brands
Scales Corporation
Skyline Enterprises
Steel and Tube Holdings
The Colonial Motor Company
Trade Me Group

Directors Fee Market Data – Agribusiness Industry

Although this sample is small, we present the publicly listed industry sample results as a matter of interest. Strategic Pay’s defined Agribusiness industry includes numerous co-operative organisations, which are not publicly listed. Please note that dairy companies are not included in the Agribusiness industry as defined by Strategic Pay Limited, and are analysed separately. .

Table 4 below provides details of directors’ remuneration for 7 NZ listed companies operating in the NZ Agribusiness industry.

TABLE 4: DIRECTORS’ FEES IN LISTED NZ COMPANIES IN THE AGRIBUSINESS INDUSTRY

Sample - 8	Lower Quartile (\$)	Median (\$)	Upper Quartile (\$)	Average (\$)
Chair*	-	102,500	-	104,833
Directors	40,000	50,000	68,250	55,570

This sample yields median annual base fee levels for Directors of \$50,000 and median base annual fees of \$102,500 for Chairs.

The Companies included in this sample appear below:

Company
Allied Farmers
Delegat
Foley Family Wines
Livestock Improvement
Marlborough Wine Estates
PGG Wrightson
Scales Corporation
T&G Global

Latest available financial data for this sample group appears below:

	Lower Quartile (\$)	Median (\$)	Upper Quartile (\$)	Seeka (\$)
Total Revenues	101 M	279 M	1,839 M	240 M
Market Cap	170 M	968 M	6,793 M	150 M

With this analysis, placement slightly below median levels of the industry sample is appropriate for Seeka.

Director Evaluation

Strategic Pay Ltd 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 200 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 3.

Accordingly, in order to further benchmark Seeka’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.”

TABLE 5: – PRIVATE SECTOR DIRECTOR FEES FOR SEEKA BASED ON DIRECTOR EVALUATION METHODOLOGY:

	Lower Quartile	Median	Upper Quartile	Average
Directors	\$48,922	\$60,459	\$72,276	\$63,607

Our proprietary evaluation of the complexity, scope, responsibility and risk of Directors of Seeka results in recommended Director fees ranging from a lower quartile of \$48,922, to an upper quartile of \$72,276 with a median of **\$60,459**.

Chair Fees Ratio

Overall, the New Zealand market practice has consistently paid base annual Chair fees at a 2:1X ratio to base annual Director fees. This “premium” reflects the additional responsibilities, scope and risk borne by Chairs. (Chairs typically receive no separate committee fees, although they often attend these meetings.)

*Seeka is currently paying at a **1.77:1X** ratio of Chair to base annual Director fees.*

Committee Fees

Strategic Pay Ltd’s annual, February 2019 **NZ Directors’ Fees Survey** continues to indicate that between 25% and 40% of larger, commercial companies pay separate committee fees. (Among large Australian listed companies this is the norm.) **We support this ‘unbundling’ practice as a means of tracking and rewarding actual workload and responsibilities, and providing greater accountability and transparency.**

Typically, Committee Chair fees stand at a 2:1X ratio to respective Committee member fees. Specifically, across the market, median New Zealand annual committee fees are **\$10,000** for Audit Committee Chairs and **\$8,200** for Remuneration Committee Chairs, with member fees - if paid - at half those levels.

At upper quartile levels, the 2019 **NZ Directors’ Fees Survey** indicates **\$15,000** is paid to Audit Committee Chairs and **\$15,000** is paid to Remuneration Committee Chairs. Upper quartile levels are more typical of publicly listed companies.

Recommendation

Our recommendation is based on several factors including the financial size, ownership, and industry of Seeka, your own guidance, and the market data presented above.

DIRECTORS FEES

We recommend increasing base annual Director fees from **\$56,500** into a range from **\$60,000** to **\$65,000** as per the market sample results below:

TABLE 6: SUMMARY RESULTS – DIRECTOR FEE SAMPLES FOR SEEKA:

Sample	Positioning	Base Annual Fee (\$)
Market Cap	Median	70,000
Revenues	Median	80,000
Assets	Median	63,560
Industry	Median	50,000
Director Evaluation	Median	60,459

As you can see, there is variation in sample results, with base annual fees ranging from \$50,000 to \$80,000. A conservative positioning suggests a range from **\$60,000 to \$65,000**.

CHAIR FEES

Next, we recommend increasing the base annual fees for the Chair from the current **\$100,000** into a range from **\$120,000** to **\$130,000** by applying the typical 2:1X Chair/Director ratio premium to the Director fee recommendation above.

TABLE 7: SUMMARY RESULTS – CHAIR FEE SAMPLES FOR SEEKA:

Sample	Positioning	Base Annual Fee (\$)
Market Cap	Median	125,000
Revenues	Median	145,000
Assets	Median	117,000
Industry	Median	102,500

As you can see, sample results for the Chair vary widely from \$102,500 to \$145,000.

Given this variation, in such cases we prefer to apply the market typical **2:1X ratio** premium to the recommended Director fee range above, suggesting a range for the Chair from **\$120,000 to \$130,000**.

Alternatively, Seeka may choose to maintain its existing 1.77:1X ratio resulting in a range from \$106,200 to \$115,050.

COMMITTEE FEES

At the same time, we recommend increasing the **\$11,000** Committee Chair fee for the Audit & Risk Committee Chair to **\$15,000**. This is an appropriate level for a publicly listed company, especially with expected on-going acquisition activity.

GOVERNANCE POOL

Depending on your final decisions, the annual governance pool costs rise from **\$450,000** into a range from **\$495,000 to \$535,000**. These represent increases ranging from **10%** to **18.9%**.

You will note in Appendix 1 that the 4-year rolling average increase for median, base annual Director fees at publicly listed companies is **8.1%** per annum.

APPENDIX 1: NEW ZEALAND DIRECTORS' FEES SURVEY – FEBRUARY 2019

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 26th annual survey of its type conducted by Strategic Pay Ltd (the longest running survey of directors' fees in the country). 382 organisations contributed data to the 2019 [New Zealand Directors' Fees Survey](#). 2,444 individual directorships were analysed for the data.

The Survey combines information from three sources:

- Organisations from the Strategic Pay database;
- Questionnaires sent to Strategic Pay master mailing list;
- Publicly available annual reports and NZX listings.

The data is reported as at 1 February 2019.

MARKET MOVEMENTS

Annual Movements in Median and Average Fees 2010 – 2019

Non-Executive Chairs and Directors - All Organisations

The following table summarises median movements of the overall sample, by director category, year on year, based on the actual fees reported.

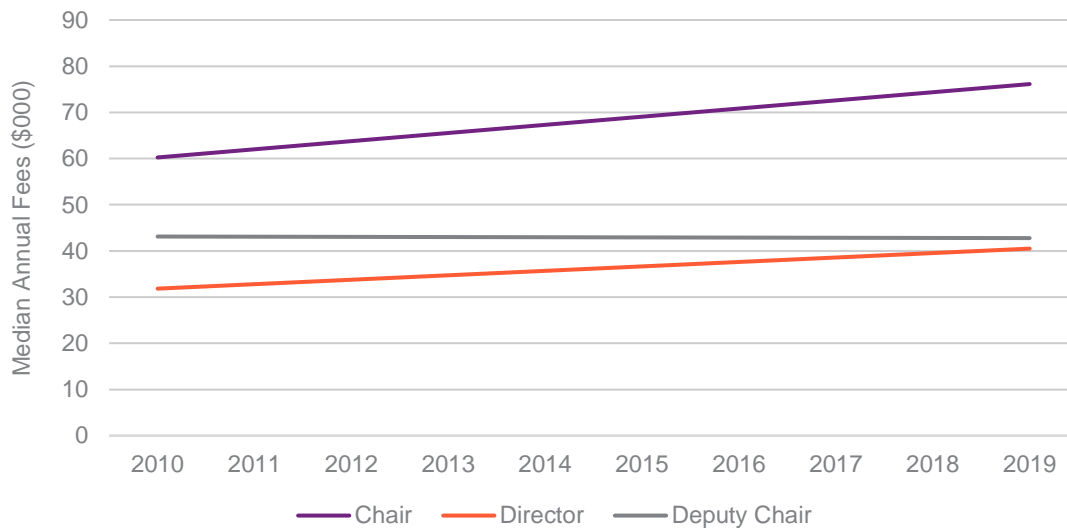
Period	Chairs	Directors
	Median	Median
2019	1.1%	4.6%
2018	1.6%	3.5%
2017	1.8%	2.1%
2016	2.4%	1.5%
2015	2.9%	2.5%
2014	3.3%	2.4%
2013	1.3%	1.2%
2012	3.8%	-4.0%
2011	8.3%	8.2%
2010	-*	2.9%

* Movement not reported in 2010

As illustrated below, the rate of increase may vary more for chairs than for directors. The graph illustrates the overall trend in median director fees from 2010 to 2019.

Deputy Chair positions are decreasing in prevalence, and are more often found in public sector organisations.

OVERALL TREND IN MEDIAN DIRECTOR FEES 2010 – 2019



MEDIAN BASE ANNUAL DIRECTOR FEES YEAR-ON-YEAR CHANGE BY ORGANISATION TYPE

Organisation type	2019/2018	2018/2017	2017/2016	2016/2015	Rolling Average
Private Listed Companies	+10.3%	+8.8%	+4.2%	+9.1%	8.10%
Private Unlisted Companies	0%	+7.4%	+1.9%	+8.2%	4.38%
Public Sector – Crown funded	+1.1%	+0.4%	-3.8%	+0.5%	-0.45%
Public Sector - Local Gov't Body	+5.1%	+2.5%	0%	-6.3%	0.33%

Clearly, Board fees in the Private Sector are rising steadily while the Public Sector is flat.

APPENDIX 2: 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 influence board remuneration (recognised by State Services Commission and Treasury.)

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 February 2019 Strategic Pay Ltd **New Zealand Directors' Fees Survey** of 382 organisations.

Across the entire sample, median annual base fees for Chairs increased by 1.1% from last year, while the median for Directors increased by 4.6%. This blended figure is misleading in some regards, since Private Sector (listed and unlisted private businesses) are seeing near double-digit increases while fees in the Public Sector including local government and SOEs are flat to down.

- The NZ market median base annual Director Fee is **\$40,000**, and the median Chairman's fee is **\$75,000**. Fee levels for same-sized businesses in Australia can be 50% to two times higher than NZ levels.

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.

- Chairs of publicly listed companies are paid 44% more (at the median) than Chairs of private, unlisted businesses. Likewise, Director fees at publicly listed companies are 66% above (at the median) base annual fees paid by private, unlisted businesses. These premiums reflect the greater reporting, compliance, liability and risks borne by Boards of listed companies.
- Our survey also reports that 38% of organisation boards meet 11 or more times per year; with an overall sample average of 10 meetings per year.
- We note that the typical Board of Directors consists of a Chair and five Non-Executive Directors.
- Over half of reporting organisations reported paying separate committee fees, with committee chair fees twice as prevalent as committee member fees. The Audit Committee Chair role is most likely to be paid separate fees.

APPENDIX 3: STRATEGIC PAY DIRECTOR FEE METHODOLOGY

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.

As a whole, we believe they are a good measure of the overall relative size, complexity and responsibility of the directors.

DirectorRate[®] Factors

- Complexity of Operating Environment

This factor evaluates the complexity of the environment in which the organisation operates.

- 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.

- 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.

- Stakeholder Management

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

- 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.

- 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.

- Public Perception/Organisation Profile Risk

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

- Organisation Revenues and Assets

Annual revenues/turnover and Total Assets of the organisation

APPENDIX 4: ABOUT STRATEGIC PAY LTD

At Strategic Pay we provide innovative solutions to help organisations meet their strategic remuneration, performance development and performance improvement goals. We help improve your overall performance by ensuring employee effort, remuneration and rewards are closely aligned with business objectives.

Deliver Strategic Rewards

We work alongside you to provide a compelling proposition that attracts retains and motivates the best people.

Our adaptable solutions include:

- Remuneration and reward strategy development
- Executive remuneration and performance advice (including incentives)
- Salary options using job evaluation, grades, bands or benchmarks
- Salary review management, including processes, tools and training
- Performance development systems, including customised design and implementation

Access New Zealand's Largest Remuneration Data Services

Strategic Pay offers an unrivalled suite of nation-wide and specialist industry and sector remuneration survey reports, based on a database of more than 180,000 employees from nearly 1,100 organisations.

Our key nation-wide surveys and reports include:

- NZ Remuneration Report (published 6 monthly)
- CEO and Top Executive Remuneration Report
- NZ Benchmark Report
- Corporate Services and Executive Management
- Directors' Fees Report
- HR Metrics Survey

Use Smart Technology

We understand busy HR practitioners' needs and offer a range of smart tools to manage remuneration and survey submissions:

- RemWise®: a remuneration tool to manage all aspects of your salary review, market data and survey submissions
- Rem On-Demand®: online access to remuneration reports, resources and insights
- PayCalculator: survey data at your fingertips

Drive Organisation Performance

Superior organisational performance is critical to delivering strategic business objectives. Speak to us today about using PLUS+ to develop a future proof strategy, an organisational model and structure that supports the strategy and matching the right people to accountabilities best designed to deliver the strategy in your organisation.

Build Capability

Through a range of workshops and the Strategic Pay Academy we provide clients with comprehensive short courses in Remuneration, Performance Management and Organisational Performance. We also offer training programmes that can be tailored to meet your specific requirements.

Consult Nationwide

Strategic Pay is nationwide, servicing clients across all parts of New Zealand from our various locations. Our consultants regularly travel to visit clients around the country and are happy to meet wherever you are. Find out more at www.strategicpay.co.nz