

DirectorFees



Steel & Tube

Tailored fee review – Executive Summary

August 2022



Governance services

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This report has been prepared as guidance for the board of Steel & Tube and is not intended to be prescriptive or exhaustive or used or relied upon by any other organisation. It contains our benchmarking analysis using remuneration data provided by members in our annual survey on director remuneration, information supplied by Steel & Tube and other publicly-available sources of information. The report is an independent assessment of appropriate fees for board members of Steel & Tube and has been prepared free from any influence from Steel & Tube management, any board member or any other party in relation to the services provided or outcomes of those services.

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The IoD encourages an open and transparent process in setting director fees. To meet the requirements and guidance contained in the NZX Corporate Governance Code 2017, Recommendation 5.2, Steel & Tube may decide to share part or all of this report publicly.

1 Executive summary

Introduction

The depth and complexity of directors' duties are well known and growing. Given this, along with increased regulatory compliance and the personal risk that New Zealand directors face in their roles, setting director fees at the right level is essential.

Organisations need to attract progressive and effective directors who go beyond compliance, who aspire to meet the highest standards and are rewarded appropriately for their expertise and commitment.

Organisations should support and justify their board fee decisions with good disclosure, governance and accountability practices. This means demonstrating that fees have been set using robust processes and data.

Purpose and scope

Steel & Tube has asked the Institute of Directors in NZ Inc. (IoD) to undertake a formal fee review, incorporating recently released 2022-23 survey data.

This document sets out the approach taken, the relevant background information and our independent assessment of appropriate fee range benchmarks for your directors. In carrying out this assignment, the IoD has considered the following:

- Information supplied by Steel & Tube
- Data from the latest available annual IoD Directors' Fees survey
- Data, where available, on fees in organisations of a similar type or size
- Other confidential sources of fee data that the IoD holds

Our recommendations are formed from our considered judgement, and are provided as guidance. The final decision on fees is the ultimate responsibility of the organisation.

This report does not include an evaluation of specific constraints that may affect the organisation's final decision with respect to fee levels, such as available funds or the impact of fee levels on the ability to access appropriately qualified and skilled directors to your board.

Summary of approach

Directors' fees are a 'fee for service' rather than a salary. In line with the principle of collective responsibility, base fees should be shared equally as a rule, except in the case of additional responsibility of workload such as the chair.

The IoD encourages an open and transparent process to setting director fees. A fee benchmarking exercise is a suitable approach to determining whether your organisation's director fees are fair and appropriate, and it is important to review benchmarks across a wide range of relevant criteria. The IoD provides a recommended range of fees for your board roles based on:

- Data from our latest 2022-23 directors' fees survey, giving a broad picture of fees in the market relevant to your organisation type, industry and size
- Additional research of fees in comparative organisations
- Information provided by you on the scope and time commitments of the roles; and
- The nature and complexity of your organisations' industry or operating environment.

Before reaching a final decision, the IoD recommends that Steel & Tube also considers shareholder expectations; your own view on appropriate fee levels, as well the level of remuneration required to attract, motivate and retain appropriate candidates.

Relevant organisation background

Formed in 1953, Steel & Tube is New Zealand's leading provider of steel solutions, with expertise across the construction industry. They listed on the NZX in 1967. Following some significant challenges, the organisation is in the later stages of a significant turnaround programme and entering into a growth phase, with potential for acquisitions.

The operating environment is complex, with two different reporting segments with different customers, competency and risk profiles, and an international procurement and supply chain. The marketplace is highly competitive, and there is a need for digital transformation.

There are risks associated with the growth phase. In addition, high H&S risks associated with the industry, including the manufacturing (historical penalties from Commerce Commission relating to quality issues) construction, installation and movement of steel and heavy manufacturing. There is significant volatility in trading conditions due to fluctuating global steel pricing.

The Steel & Tube board consists of six independent directors, including the chair, and the current fee levels were last set in 2017 following an earlier review by the IoD.

Summary of fee research

General market fee movements

The last Steel & Tube fee review by the IoD was in 2017. Since that report, our annual survey data has shown the following year on year increases.

FEE CATEGORY	2018	2019	2020	2021	2022
Listed company	5%	4.7%	5.6%	0%	4%
Industry – construction	9.2%	(-4.8%)	5.2%	7.2%	0%
Industry – manufacturing	9.8%	6.1%	8.5%	5.2%	5%
Industry – transport, postal & warehousing	5.7%	1%	0.8%	0.8%	4%

Organisation specific research

This table provides a summary of our comparator fee research to Steel & Tube.

SOURCE	FEE COMPARATOR CATEGORY	DIRECTOR FEE OR RANGE	CHAIR FEE OR RANGE
2022-23 IoD Directors' Fees Survey	Steel & Tube, overall comparator dataset – <u>median to upper quartile</u>	\$60,446 - \$79,353	\$92,056 - \$127,732
	Listed companies – <u>median to upper quartile</u>	\$74,453 - \$92,389	\$128,000 - \$173,840
	Listed companies with market capitalisation \$200.1 - \$500m – <u>median to upper quartile</u>	\$65,000 - \$89,090	\$150,000 - \$170,000
	Listed companies with revenue \$200.1 - \$500m – <u>median to upper quartile</u>	\$75,000 - \$89,040	\$150,000 - \$173,680
Annual reports	Selected organisations – <u>median to upper quartile</u>	\$80,000 - \$86,750	\$162,500 - \$180,000
S&T CURRENT FEE		\$75,000	\$145,000

Summary of time commitments

Directors are paid for the expertise and skills they bring to the boardroom rather than for the specific time invested in the role. However, the hours devoted to the organisations' governance may provide an indication of the complexity of the roles, the level of involvement required, and is one of the considerations that can help to inform the decision on the appropriate level of fees.

The estimated time commitments for the Steel & Tube board align at the upper quartile of our comparator survey data.

	NON-EXECUTIVE DIRECTOR			NON-EXECUTIVE CHAIR		
	LOWER QUARTILE	MEDIAN	UPPER QUARTILE	LOWER QUARTILE	MEDIAN	UPPER QUARTILE
Survey comparator dataset – annual hours	97	144	202	169	222	296
S&T TIME COMMITMENTS	246 - 314			345		

Supporting commentary

In formulating our recommendations, we have taken into account information provided to us about the organisation's size, nature, complexity and risk profile, as well as the indicated duties and time commitments of the roles.

Steel & Tube fees were last set in 2017, and they align from the median to upper quartile of the comparator datasets we have researched. This is considered an appropriate positioning based on the demands and complexities of the roles.

Market fee movements have fluctuated over the last five years, and particularly during the period of the pandemic. However, the industries across which Steel & Tube operate have mostly shown increases over this period.

Between the latest 2022 data and previous 2021 data there are fee movements across the manufacturing and transport industries, although a 0% movement for the construction industry. Listed companies also show an overall fee movement.

The fee range for listed companies with market capitalisation \$200.1 - \$500m has increased. As has the director fees in the selected organisations we researched using latest annual reports.

In conclusion, we consider that the following fee ranges are appropriate and reflect fair remuneration for the governance commitments of the roles.

Recommended benchmark fee ranges

FEE CATEGORY	RECOMMENDED FEE RANGE
Base Directors' fee	\$85,000 - \$90,000
Chair fee	\$160,000 - \$170,000
Committee chair (excluding noms)	\$8,500 - \$18,000

Notes

- We have used a chair premium of approximately x1.9.
- Base fees include committee membership. We generally only recommend an additional fee for a committee chair
- Additional fees for committee chairs are based on a premium of between x1.1 to x1.2.

Appendix – Understanding the data measures

LOWER QUARTILE	This represents the point at which, when ranked from the lowest value to the highest value, 25% of the sample is lower and 75% of the sample is higher. The Lower Quartile is also known as the 25th percentile.
MEDIAN	When data is ranked from the lowest value to the highest value, the median represents the middle point of the data. At the median, 50% of the sample is lower and 50% of the sample is higher. The median is also known as the 50th percentile.
UPPER QUARTILE	This represents the point at which, when ranked from the lowest value to the highest value, 75% of the sample is lower and 25% of the sample is higher. The Upper Quartile is also known as the 75th percentile.
AVERAGE	Indicates the average value of remuneration or benefit in any given sample. The average is calculated by adding the numbers in a sample and then dividing by the count of the sample.

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