
AWF Madison Group Limited

Directors' Fees Review

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Overview

Wynnis Armour, Chair of the Remuneration Committee at AWF Madison Group, has commissioned Strategic Pay Ltd to provide a review of its Board of Director fees. Ross Keenan, Board Chair, supplied our background information in a personal interview. Board fees were last reviewed by Strategic Pay Ltd in March 2014.

Our approach involves constructing relevant, customised market samples from our February 2017 **New Zealand Director Fees Survey** database to determine and position appropriate Board fee levels for AWF Madison Group.

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;
6. Recommendation;
7. Appendix 1 – February 2017 **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

Founded in 1988, AWF Madison Group Ltd (“AWF Madison” hereafter) has grown to be New Zealand’s largest recruitment company, and the only staffing provider listed on the NZX. Headquartered in Auckland, the Company operates through 39 branches and five offices nationally. The business consists of three business units: AWF (Allied Workforce), Madison Group, and Absolute IT, all serving a broad range of commerce and industry.

For the year to 31 March 2017, AWF Madison reported annual revenues of \$256 million, total assets of \$107 million, and the Company’s market capitalisation currently stands at \$95 million. The Chair anticipates generating revenues of at least \$300 million in the financial year to 31 March 2018. AWF Madison employs regular staff of 300, and deploys 5,000 temporary staff and contractor placements daily, and makes 1,500 permanent placements annually. It was recently awarded the New Zealand Census contract.

The Board of Directors consists of a Chair, two independent Directors, and two Non-Executive Directors (the founders of AWF and Madison respectively, and major shareholders.) Effective 1 July 2017, the Chair’s base annual fee is set at \$115,000 and each Director receives a \$60,000 base annual fee.

There are four committees including the Audit, Finance & Risk Committee, the Health & Safety Committee, the Remuneration Committee, and the Nominations Committee. No separate committee fees are paid.

The full Board of Directors meets monthly and actively participates in due diligence activities related to acquisitions or major contracts. As AWF Madison has grown through acquisition, it then faces the challenges of integrating the businesses successfully and realising synergies.

The Board of Directors is aspirational, with the following four strategic goals:

- Building a high performing management team;
- Achieving double digit growth;
- Steady lift in dividends;
- Contribution to the growth of the New Zealand economy.

Effective shareholder management involving Simon Hull, founder and majority owner, is a key Board responsibility. Finally, the Chair works closely with the Chief Executive Officer.

The philosophy of AWF Madison regarding positioning Board fees is to set fees at market median levels for comparably sized, publicly listed companies. Additionally, it chooses to pay no separate committee fees.

Organisation Demographics / Dimensions	
Organisation Type	Private sector, Listed
Ownership	NZ owned
Industry	Staffing, recruitment
Annual Turnover / Budget	\$256 M in FY 2017; \$300 M in FY 2018
Assets	\$107 M
Number of Full Time Equivalent Employees	300

Recommendation Summary

We recommend that base annual fees for Directors of AWF Madison be set into a range from **\$60,000** to **\$66,000**.

Likewise, we recommend that base annual fees for the Chair of AWF Madison be set into a range from **\$115,000** to **\$125,000**.

As you can see, while no adjustments are immediately required, there is latitude for higher fee levels.

While this recommendation may not precisely reflect the standard market 2.0:1X ratio between Chair and Director fees, we believe it is more important to follow actual market practice than simply to apply a ratio.

Consistent with the past, the Board chooses not to pay separate committee fees.

In our view, the recommended ranges represent appropriate and competitive levels for a successful, high growth New Zealand listed company. This is particularly true inasmuch as the base annual fees represent the entire annual remuneration for Directors, since separate committee fees are not paid.

RECOMMENDATION SUMMARY

Fees	Current (\$)	Number	Proposed (\$)	Number	Proposed Total (\$)
Chair	115,000	1	115,000 to 125,000	1	115,000 to 125,000
Directors	60,000	4	60,000 to 66,000	4	240,000 to 264,000
Total	355,000				355,000 to 389,000

Depending on your final decisions within the recommended ranges, the annual governance pool rises from **\$355,000** up to **\$389,000**.

A \$389,000 annual pool would represent a **9.5%** increase.

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 8 and 9.

APPENDIX 1: ABOUT STRATEGIC PAY LTD

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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

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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
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