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Fisher & Paykel Healthcare Limited

Review of Non-Executive Director Fees

Summary of EY report dated 12th March 2020

1. Introduction

Fisher & Paykel Healthcare Corporation Limited (FPH) has engaged Ernst & Young Limited (EY) to provide market data in relation to Non-Executive Directors' (NED) fees. In preparing the report on which this summary is based, we have exercised and acted with due independence.

2. Approach

The comparator group used by EY has been considered by the FPH Board to be an appropriate New Zealand comparator set, details of which are set out below.

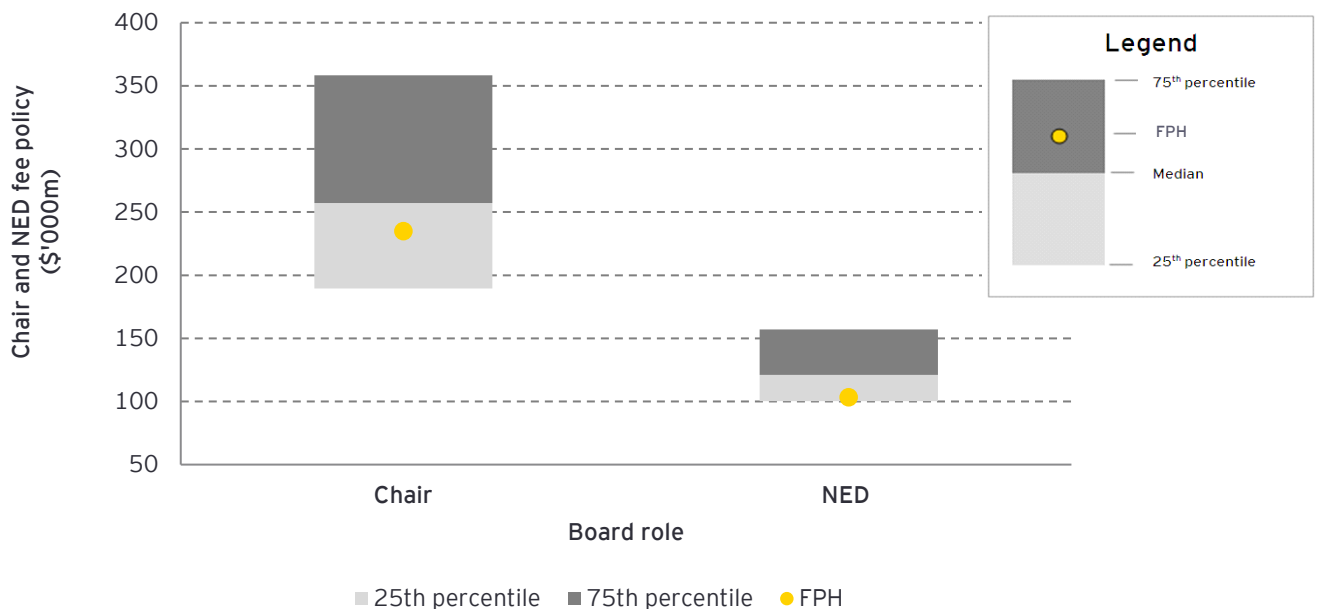
Comparator group			
Company	Primary listing country	Revenue (most recent year end) (\$ millions)	Market capitalisation (12-month average) (\$ millions)
Ramsay Health Care	Australia	11,415	13,896
Fletcher Building Limited	New Zealand	9,307	4,369
Sonic Healthcare	Australia	6,184	14,117
Air New Zealand	New Zealand	5,785	3,140
Spark New Zealand Limited	New Zealand	3,553	7,314
Meridian Energy Limited	New Zealand	3,491	10,412
Contact Energy	New Zealand	2,519	4,933
Computershare Limited	Australia	2,411	8,769
Mercury NZ Limited	New Zealand	2,000	5,464
Seek Limited	Australia	1,537	7,099
Cochlear Limited	Australia	1,446	12,754
Infratil Limited	New Zealand	1,336	2,497
Vector Limited	New Zealand	1,319	3,547
A2 Milk Company	New Zealand	1,300	10,017
Trustpower Limited	New Zealand	1,030	2,139
Synlait Milk Limited	New Zealand	1,024	1,720
Chorus Limited	New Zealand	970	2,329
Sky City Entertainment Group	New Zealand	802	2,596
Auckland International Airport	New Zealand	743	9,887
Xero Limited	Australia	553	8,650
Ryman Healthcare Limited	New Zealand	382	5,990
WiseTech Global Limited	Australia	348	11,051
Afterpay Touch	Australia	142	9,064
FPH		1,070	10,500
25th percentile		886	3,344
Median		1,336	7,099
75th percentile		3,005	9,952
Average		2,591	7,033
Relative to comparator group		Between the 25 th percentile and the median	At the 75 th percentile

FPH's market capitalisation is at the 75th percentile of the comparator group, revenue is between the 25th percentile and the median relative to the comparator group. Positioning of fees in this statement should be considered in conjunction with the FPH's market capitalisation and revenue position against the relevant comparator group.

3. Results of review

3.1. Board Chair and NEDs policy base fee positioning

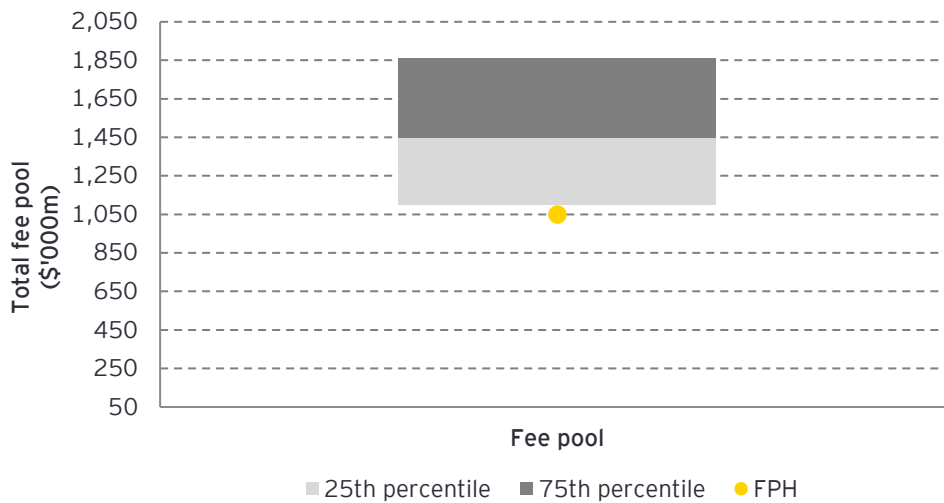
The diagrams below display the internal relativity of FPH's Board Chair and NED fees compared to the agreed comparator group.



- ▶ **Chair:** The Board Chair fee is at the median of the comparator group.
- ▶ **Other NEDs:** Board NED fees are at the 25th percentile of the comparator group.

3.2. Fee pool

The diagram below compares FPH's approved maximum aggregate NED fee pool to the approved maximum aggregate NED fee pools of the selected comparator group. The median number of NEDs with the comparator group is seven, with a median headroom of 2.0 x NED base fees.



- ▶ FPH's total NED fee pool is at the 25th percentile of the comparator group.

3.3. Summary of market positioning

The findings from the review, including the position of FPH's committee fees, are summarised in the table below.

Fee element		FPH compared to comparator group	
Board Fees	Chair	At the median	
	NED	At the 25 th percentile	
Committee Fees	Audit and Risk Committee	Chair	Between the 25 th percentile and the median
		Member	At the median
	People and Remuneration Committee	Chair	At the median
		Member	At the 75 th percentile
	Quality, Safety and Regulatory Committee	Chair	At the median
		Member	Above the 75 th percentile
NED Fee Pool		At the 25 th percentile	
Number of NEDs		At the median	

4. Recommendations

When developing the recommendations below, we have considered the following factors:

- ▶ Whether the workload required, or the nature of the governance role has substantially changed since the last review and/or is likely to increase prior to the next review
- ▶ The complexity of compliance and regulation requirements and any change in regulations
- ▶ The current skill and capability of the Board and the need to retain talent over the long term
- ▶ Current market movements and trends for NED fees
- ▶ Alignment of NED fees to the comparator group
- ▶ FPH relative positioning: between the 25th percentile and median for revenue, and at the 75th percentile for market capitalisation.

Based on the considerations above, information provided by FPH's Board and comparator data, our recommended FPH fee structure is set out below. We have recommended a range for the base fees, providing FPH the opportunity to apply discretion while maintaining fees which are market aligned.

Recommended fee increases			
Role	FPH's Current Practice (\$)	Recommended Fee (\$)	Maximum Increase (%)
Chair Base Fee	234,812	250,000 - 285,000	21.4%
NED Base Fee	103,298	120,000 - 135,000	30.7%

Committee Fees

Audit and Risk Committee - Chair	29,365	32,500	10.7%
Audit and Risk Committee - Member	17,608	17,608	-
People and Remuneration Committee - Chair	23,460	25,000	6.6%
People and Remuneration Committee - Member	17,608	17,608	-
Quality, Safety and Regulatory Committee - Chair	23,460	23,460	-
Quality, Safety and Regulatory Committee - Member	17,608	17,608	-

Aggregate fee pool

The current available fee pool is \$1,050,000. The fees received by NEDs of FPH in FY20 were \$1,045,627 (including travel allowance).

We understand the current fee pool has not been increased since the last review in 2017. If the above recommendations are adopted, the fees paid to directors would exceed the current \$1,050,000 fee pool. Therefore, in order to ensure FPH has sufficient headroom, EY recommends that the fee pool is increased to \$1,455,000. Increasing the fee pool to \$1,455,000 will ensure that FPH's headroom equates to no less than 1.2x the proposed NED base fee, if FPH positions the fees at the top of the recommended range.



Una Diver
Partner - People Advisory Services
Ernst & Young Limited

Appendix A: Benchmarking methodology

Market data presented

- ▶ The market data includes individuals who were in their role for the full financial year.
- ▶ Where market data has been taken from Australian organisations, fees have been converted to NZD at the exchange rate of 1.034.
- ▶ Fee policies are typically more useful for determining underlying fee structures, especially for other NEDs, as they differentiate between Board and Committee fees.

Market positioning

- ▶ Fees were 'at' the relevant market reference point if FPH's incumbent fees were positioned within a 10% range of the market data reference point.

Remuneration data

- ▶ Market remuneration data used in the analysis has been sourced from a combination of annual reports for the most recent financial year and EY's Directors' fees database.
- ▶ Revenue and Assets data is based on the most recently disclosed full-year result.
- ▶ Data for market capitalisation has been sourced from Thomson Reuters, a third-party data provider. This data has been inserted directly into the table without detailed verification. EY will not be responsible for any errors or inconsistencies that arise due to errors in this source data.

Sample sizes

- ▶ The 25th and 75th percentiles for each element are presented provided the market sample size containing five data points or more. The median is presented where there were four data points or more. The average is presented where there were three data points or more.
- ▶ Where less than three data points were available, no data was provided.
- ▶ Market data percentiles and averages are independent observations. Therefore, they should not be expected to sum to the market data percentiles and averages for total fees.

Ageing of market data

- ▶ Generally, Ernst & Young does not support 'ageing' market data to account for the time lag in remuneration disclosures. The data used in the analysis has not been aged.

Committee fees

- ▶ FPH's committees (based on committee titles) were matched to disclosed market committees based on the below classification:

Committee name	Classification criteria
▶ Audit and Risk Committee	▶ Any committee with "Audit", "Risk" or "Finance" in the name
▶ People and Remuneration Committee	▶ Any committee with "Remuneration" in the name, and if a company does not have a committee with "Remuneration" in the name, any committee that focuses on people or human resources (e.g., People Committee)
▶ Quality, Safety and Regulatory Committee	▶ Any committee with "Quality", "Safety" or "Regulatory" in the name

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Our report may be relied upon by Fisher & Paykel Healthcare Limited for the purpose of understanding Director Fees only pursuant to the terms of our engagement letter dated 18 December 2019. We disclaim all responsibility to any other party for any loss or liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of our report, the provision of our report to the other party or the reliance upon our report by the other party.

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