

# EROAD Limited

Non-Executive Directors' Fees Benchmarking Summary

15 June 2021





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Mark Heine  
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Dear Mark

### **Market benchmarking of EROAD Limited's Directors' Fees – summary report**

We are pleased to provide our market benchmarking summary report for directors' fees at EROAD Limited (EROAD). Market data and information has been sourced from publicly available information, and the comparator groups are listed in the Appendices to the summary.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chris Place', is positioned below the 'Yours sincerely' text.

Chris Place  
Partner

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# Independence declaration

PwC's Reward Services team has been engaged by EROAD Limited's Board to provide independent benchmarking services in relation to EROAD's directors' fees (the Services).

As lead engagement Partner for the provision of the Services to the EROAD Board, I declare that no influence has been brought to bear upon me or, to the best of my knowledge and belief, any member of the PwC Reward Services team, by any Board member, employee or executive of EROAD or any other party regarding the services or outcomes of the Services.

Dated: 15 June 2021

A handwritten signature in black ink, appearing to read 'Chris Place', written in a cursive style.

Chris Place  
Partner  
PricewaterhouseCoopers

# Introduction

## Background

EROAD Limited (EROAD) is an NZX and ASX-listed company that provides electronics and software services to the transport sector in New Zealand, Australia and the United States of America (US).

EROAD has significant operations and opportunities in North America and Australia. In order to achieve its objectives, EROAD has appointed a US based Director and we understand intends to make further international appointments. The ability to competitively remunerate directors locally in its chosen markets is, we understand, important for EROAD.

The Board of EROAD is considering seeking shareholder approval at its 2021 AGM to increase its non-executive director (NED) fee pool (currently \$500,000).

The Board needs market information to help assess the competitiveness of current NED fee arrangements, and, therefore, asked PwC to provide market remuneration benchmarking data and other market information. Data for each of Australia, New Zealand and the US was sought.

## Data sources

Data in this summary report was generally sourced from publicly available information, including annual reports and proxy disclosures. US market survey information was also included, extracted from two US surveys (FW Cook and National Association of Corporate Directors).

## Data provided

Information on the following roles is included:

- Chairman
- Non-executive director (NED)
- Chair – Finance, Risk & Audit Committee
- Chair – Remuneration, Talent & Nomination Committee
- Member – Finance, Risk & Audit Committee
- Member – Remuneration, Talent & Nomination Committee

Additional fees for committee roles, e.g. Chair of the Finance, Risk & Audit Committee are typically calculated as the NED base fee plus a specific committee fee. We have provided data for both this aggregate fee and the specific committee fee on its own.

## Selecting comparator companies

Market capitalisation (Market cap) was the primary criterion used to determine appropriate comparator companies. An EROAD market cap of \$350 million was agreed to be assumed for the purpose of this exercise. Since January 2021 when this market cap was agreed, EROAD's market cap has increased to approximately \$475 million.

## EROAD's assumed financial dimensions

Market capitalisation: \$350 million

Annual revenue: \$90 million

We understand EROAD's annual revenue has grown at circa 28% per annum compounding for the last 4 years.

# Comparator group selection and data table guide

## Comparator group selection and data sources:

### New Zealand comparator group:

Appendix 1 summarises the comparator group of 20 NZX-listed companies, agreed with EROAD's Board Chairman and Company Secretary for the purposes of this exercise. This peer group underpins the New Zealand data set. Financial information (market capitalisation, assets and revenues) was generally sourced from CapIQ in January 2021.

New Zealand comparators largely have a market cap of 50% - 200% of EROAD's assumed market capitalisation, i.e. their market cap is generally in a range of \$175 to \$700 million.

There are two comparators outside this precise range, but they are still comparable in terms of size, and particularly relevant comparators. The median market capitalisation across the comparator group is \$348 million (average: \$394 million), and median revenue is \$139 million. Nine of the comparators are larger than EROAD's assumed market capitalisation of \$350 million and eleven are smaller by market capitalisation. In the New Zealand market it was not viable to apply further filters to the dataset (e.g. tech sector only) as there would be insufficient comparators to make up a robust sample.

### Australian comparator group:

The same 50% to 200% criteria was applied to the Australian comparator group of 17 companies, but most of the comparators are also members of the ASX AllTech index, which is considered by EROAD to be particularly relevant.

A summary of the comparator group is provided in Appendix 2, mostly based on information sourced from CapIQ in January 2021. Eight of the comparators are larger than EROAD's assumed market capitalisation of NZ \$350 million and nine are smaller.

The median market capitalisation across the 17 Australian comparators is NZ \$355 million (average: NZ \$411 million) and median revenue is NZ \$59 million.

### US disclosed data:

Line by line data extracted from proxy disclosures is also included in respect of eight agreed US technology companies agreed with EROAD, listed in Appendix 3.

## Data presentation:

For all the data tables in this summary report:

- Executive Directors are excluded.
- Data for Committee roles reflect company policy for Directors' fees, with one exception in the New Zealand data where this was not disclosed and actual data was used.
- The last column of each New Zealand and Australian data table shows EROAD's position versus the market median.
- Data is sourced from the latest Annual Report of each company in the samples. For 19 of the 20 New Zealand companies, this is the 2020 report, but in one case 2019 data was used. For Australian companies, 2020 reports were used.
- Annualised fees are shown, and where there are alternative Directors, data for only one Director is included.

## Factors to consider:

Where the EROAD Board chooses to position its fees against the market data will depend on the Board's view of the overall relevance of the comparator groups and specifically EROAD's perceived relative complexity of operations, relative scale, ranking (by scale), geographic reach and risk profile as compared with the comparator companies. We note that at the time of preparing this summary, EROAD'S market capitalisation is circa \$475m, approximately \$120m - \$125m higher than the median market capitalisation of the two samples. This should also be a factor considered by the Board in its decision making process.

# Executive Summary

## Introduction

New Zealand, Australian and United States directors' fee data is summarised in the following pages, in line with EROAD's need to attract and retain directors in offshore markets. All data is sourced from publicly available information.

## New Zealand data

Table 1 summarises market remuneration data for directors' fees from EROAD's agreed comparator group of 20 NZX-listed companies, and compares EROAD's directors' fees to the median of this data.

While most of the NZ comparators have overseas directors, only 4 companies disclose specific arrangements for overseas directors. These include AFT Pharmaceuticals (US based directors paid US\$50,000 plus USD \$5,000 for committee memberships compared to NZ based directors on NZ\$40,000 plus NZ\$5,000); Arborgen who made one off grants of \$150,000 of time restricted shares to 3 newly appointed directors (recruited to further the company's offshore commercialisation, with shares awarded in order to align with "common practice in the US") plus cash of NZ\$73,881 to fund tax of over three years, in addition to cash fees of NZ\$62,500; Gentrack who pays NZ\$300,000 to its Chair who is based in the UK; and Pacific Edge who pays its US based director NZ\$79,000 plus a sign on option grant of 225,000 options (as compared to cash fees to NZ directors of NZ\$44,000) in order to "address the disparity between the market rates paid in the US and New Zealand for suitably qualified directors".

**Table 1: NZ data executive summary table**

Position	Sample size <sup>1</sup>	Market median	Market 75th percentile	EROAD fee policy	Comparison to median
Chairman	17	128,000	150,000	110,000	86%
NED	20	70,000	85,000	55,000	79%
Chair of Finance, Risk & Audit Committee (aggregated fee)	17	91,000	102,500	80,000	88%
Chair of Finance, Risk & Audit Committee (committee fee only)	17	15,000	16,700	25,000	167%
Chair of the Remuneration, Nomination & Talent Committee (aggregated fee)	11	96,000	102,500	63,000	66%
Chair of the Remuneration, Nomination & Talent Committee (committee fee only)	11	12,000	15,000	8,000	67%
Member of Finance, Risk & Audit Committee (Committee fee only)	7	7,000	10,000	-	-
Member of the Remuneration, Nomination & Talent Committee (Committee fee only)	5	5,000	7,500	-	-

1. Sample sizes reflect the number of companies reporting each role, and excludes e.g. Executive Chair positions and companies that do not pay specific additional committee fees.

### Australian data

The table below summarises, market remuneration data for directors' fees from the agreed comparator group of 17 ASX-listed companies, most of which are members of the ASX AllTech index.

All director fees are expressed in AU dollars. EROAD's director fees have been converted from NZD to AUD at a yearly average exchange rate of AUD1.06673: NZD1.

EROAD's directors' fees are shown and compared to the comparator group medians.

There are a number of overseas directors appointed to the board of EROAD's Australian comparator companies. However, aside from frequently paying foreign based directors in their home currency (e.g. US based directors in US\$), there appear to be no specific arrangements disclosed for foreign based directors. This may be because there is a closer correlation between Australian and US directors' fees, than between New Zealand director's fees and the fees in those two countries (with New Zealand fees generally in our experience being lower than the fees in both countries).

**Table 2: Australian data executive summary table**

Position	Sample size <sup>1</sup>	Market median	75 <sup>th</sup> percentile	EROAD fee policy	Comparison to median
Chairman	14	170,000	186,500	103,121	61%
NED	16	86,300	91,300	51,561	60%
Chair of Finance, Risk & Audit Committee (aggregated fee)	10	100,400	103,900	74,997	75%
Chair of Finance, Risk & Audit Committee (committee fee only)	10	13,100	16,100	23,437	179%
Chair of the Remuneration, Nomination & Talent Committee (aggregated fee)	11	100,000	102,300	59,060	59%
Chair of the Remuneration, Nomination & Talent Committee (committee fee only)	11	11,200	15,000	7,500	67%
Member of Finance, Risk & Audit Committee (committee fee only)	5	5,500	10,000	-	-
Member of the Remuneration, Nomination & Talent Committee (committee fee only)	5	5,500	8,800	-	-

1. Sample sizes reflect the number of companies reporting each role, and excludes e.g. Executive Chair positions and companies that do not pay specific additional committee fees.

### US survey data

In general, US Directors' fees are higher than those paid in New Zealand. Equity grants to Directors are the norm in US tech sector companies, with all of the eight specific technology sector comparators reviewed (data provided overleaf) reporting equity grants, often vesting over 1 year, but sometimes 3 or 4 years, to all directors. Mandatory shareholding requirements are also common within US companies, typically expressed as a multiple of the cash retainer (requirements typically range from 1 year's to 5 years' cash retainer).

To supplement the line by line US data provided overleaf, the table below summarises US director fee survey data from two US survey providers, provided for additional context. This should in our view be considered to be broadly indicative only due to the wide range of companies in the samples of the data provided. All fees in the table are expressed in US dollars and exclude committee fees. EROAD's director fees have been converted from NZ dollars at a 2020 exchange rate of 1USD:0.65NZD for this purpose (as the data was provided to us in 2020). The FW Cook report is a 2018 Director Compensation Report covering director remuneration for 300 listed companies, and the data provided is a cut of circa 100 companies with market cap of US\$1B and below. Data presented is at the 25<sup>th</sup> percentile. The NACD survey is more dated and represents outputs from a study of 1,400 listed companies in the US published by the National Association of Company Directors in 2012, aged by PwC US by a factor of 3% per annum, which we understand represents the standard cost of living merit increase in the US in the past 10 years

**Table 3: United States survey data summary table – NED and Chair base fees**

Source	Description	NED Cash Retainer	NED Equity*	Total NED fees	Additional Chairman fee	Total Chairman Cash retainer fee	Total Chair fees (Total Chairman cash retainer + NED equity)
FW Cook	Small Cap – All sectors (Market cap: <\$1B USD) 25th percentile	36,000	52,500	88,500	30,000	66,000	118,500
NACD	Micro company – All sectors (Revenue \$50M - \$500M) 50th percentile	35,000	57,000	92,000	-	-	-
Average		35,500	54,750	90,250			
EROAD Policy fees		96,000		96,000		71,500	71,500
Comparison against average of 2 samples		270%		106%	-	108%	60%

\*Typically provided annually to both NEDs and Chair in the form of restricted stock or similar.

**US data extracted from proxy disclosures**

In the tables that follow we also include line by line disclosures for 8 US technology sector companies agreed for this purpose. Appendix 3 summarises these companies by market capitalisation and revenue. Data was sourced from proxy disclosures, and equity awards are shown at fair values which have not been assessed by PwC. Data is presented for base fees for Chair, Lead Independent Director, Non executive director, Committee Chairs and Committee Members (where disclosed).

**Table 4. US Director base fees**

Company	Board Chair Base Fees (USD)		Lead Independent Director Base Fees (USD)		Ned Base Fees (USD)	
	Cash	Equity	Cash	Equity	Cash	Equity
Acorda Therapeutics	100,000	59,898			50,000	59,898
Applied Optoelectronics					45,000	115,000
Bel Fuse Inc					24,000	83,200
Daktronics			45,000	57,497	40,500	57,497
GeoSpace	87,250	28,270	84,250	28,270	72,250	28,270
Liquidity Services			52,500	100,000	45,000	100,000
Olympic Steel			75,000	79,990	60,000	79,990
Spok Holdings					45,000	60,000

**Table 5. Committee Chair fees**

Company Name	Chair of Audit (USD)		Chair of Compensation (USD)		Chair of Nomination and Governance (USD)	
	Cash	Equity	Cash	Equity	Cash	Equity
Acorda Therapeutics	20,000		20,000		10,000	
Applied Optoelectronics	10,000		7,000		5,000	
Daktronics	8,000		6,000		6,000	
GeoSpace Technologies Corporation	12,000		12,000		12,000	
Liquidity Services	15,000		7,500		7,500	
Olympic Steel	12,500		10,000		7,500	
Spok Holdings	10,000	10,000				

**Table 6. Committee member fees**

Company Name	Member of Audit (USD)		Member of Compensation (USD)		Member of Nomination and Governance (USD)	
	Cash	Equity	Cash	Equity	Cash	Equity
Acorda Therapeutics	10,000		10,000		6,000	
Applied Optoelectronics	10,000		7,000		8,000	
Daktronics	5,000		3,000		3,000	
Liquidity Services	7,500		3,750		3,750	

# Appendices

# Appendix 1 - New Zealand comparator group

Company Name	Market Cap (NZ \$million)	Total Revenue (NZ \$million)
Pacific Edge Limited	776.9	6.27
Scales Corporation Limited	716.1	459.9
Napier Port Holdings Limited	674.1	103.2
Serko Limited*	606.0	16.3
NZX Limited	583.8	75.1
AFT Pharmaceuticals Limited*	533.4	107.5
Sanford Limited	457.2	468.8
Hallenstein Glasson Holdings Limited	433.6	287.8
T&G Global Limited	366.4	1,326.9
Millennium & Copthorne Hotels New Zealand Limited	349.1	203.8
Tourism Holdings Limited	346.4	400.9
Vista Group International Limited*	338.4	87.5
Turners Automotive Group Limited*	286.6	303.0
The Colonial Motor Company Limited	285.4	754.2
SKY Network Television Limited*	272.4	747.6
Smartpay Holdings Limited*	227.5	29.4
New Zealand King Salmon Investments Limited*	223.8	155.3
Rakon Limited	177.0	121.6
Gentrack Group Limited*	135.1	100.5
ArborGen Holdings Limited	83.7	82.6
<b>EROAD</b>	<b>350</b>	<b>90</b>

Financial information sourced from CAPIQ in January 2021.

\* Dual listed on NZX and ASX

## Appendix 2 - Australian comparator group

Company Name	Market Cap (NZ \$million)	Total Revenue (NZ \$million)	Market Cap (AU \$million)	Total Revenue (AU \$million)
Infomedia Ltd	767	101	719	95
Elmo Software Limited	695	54	651	50
Life360*	641	59	600	55
Nitro	598	55	560	51
Integrated Research Limited	484	119	454	111
Whispir Limited	446	42	417	39
Catapult Group International Limited	397	108	372	101
Superloop Limited	386	115	361	108
Praemium Limited	355	54	333	50
RPMGlobal Holdings Limited	334	77	313	72
rhipe Limited	321	60	300	56
Hipages Group Holdings Ltd	315	51	295	47
Ainsworth Game Technology Limited	271	160	254	150
Class Limited	255	47	239	44
Over the Wire Holdings Limited	236	94	221	88
Damstra Holdings Limited	282	25	264	23
ReadyTech Holdings Limited	202	42	189	39
<b>EROAD</b>	<b>350</b>	<b>90</b>	<b>328</b>	<b>84</b>

## Notes:

- AU comparator financial information sourced from CAPIQ in January 2021
- EROAD's financial dimensions have been converted from NZD to AUD using an exchange rate NZD 1: AUD 1.0673.
- Life 260 data excluded from aggregated ASX analysis, as its pay practices are more reflective of a US based company.

## Appendix 3 - US comparator group

Company Name	Market Cap (NZD - \$m)	Total Revenue (NZD - \$m)	Market Cap (USD - \$m)	Total Revenue (USD - \$m)
Liquidity Services	908	343	599	226
Spok Holdings	435	242	287	160
Applied Optoelectronics	425	289	281	191
Daktronics	366	920	242	607
Bel Fuse	284	743	187	490
Olympic Steel	264	1864	174	1,230
GeoSpace Technologies Corporation	190	145	125	96
Acorda Therapeutics	112	246	74	162
<b>EROAD</b>	<b>350</b>	<b>90</b>	<b>231</b>	<b>59</b>

### Notes:

- US comparator financial information sourced from CAPIQ in January 2021
- Liquidity Services Market Cap has increased more than 400% since 2020.
- Currency conversions made using an exchange rate USD 1:NZD 0.66.

# Thank you

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