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# Turners Automotive Group Limited

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## Directors' Fees Review

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## Overview

Grant Baker, Chair at Turners Automotive Group Limited ("Turners Group" hereafter), has commissioned Strategic Pay Ltd to provide a review of its Board of Director fees. Mr Baker supplied our background information and was interviewed. Board fees were last reviewed in 2018.

Our approach involves constructing relevant, customised market samples from our February 2023 [New Zealand Director Fees Survey](#) database to determine and position appropriate Board fee levels for Turners Automotive Group Limited. 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 2023 [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

Turners Group (formerly Turners Limited) was formed through the 2014 merger of New Zealand's largest vehicle and machinery retailer (Turners Auctions) and a leading consumer finance and insurance business, Dorchester Finance. Turners is listed on the NZSX and was dual listed onto the ASX in 2017. Today it is an integrated group including the following lines of business:

- Automotive retailing
- Automotive finance and insurance
- Debt management systems

Turners Group, as New Zealand's largest seller of second-hand motor vehicles, is well positioned to offer an integrated suite of vehicle finance and insurance products and services to consumers. Turners Group has grown organically and through acquisition of complementary businesses. Today it is an integrated group including the following lines of business, with approximately 50% of profit earned through automotive sales and the other 50% from finance and insurance:

The 31 March 2022 annual financial results highlight a 14% increase in revenues to \$344.5 million. Net profit before tax was up 15% to \$43.1 million, while net profit after tax is running 16% ahead of the prior year. Total assets stand at approximately \$825 million, and Turners Group employs nearly 500 staff. Market capitalisation on the NZSX stands at \$320 million as of May 2023.

From 1 April 2023, the Board consists of a Chair, and six Directors. The Directors are each paid an annual base fee of **\$75,000**, and Chair receives a base fee of **\$150,000**. One Director, who serves as independent Chair of insurance subsidiary DPL Insurance, is paid an additional **\$35,000** Chair fee.

There are 11 monthly formal Board meetings per year.

There are two Committees and one Subsidiary Board

- + Credit and Lending Committee: Committee met 11 times during FY22, Chair + 2 members, Chair paid \$15,000 committee chair fee.
- + Audit Committee: Meetings as needed, Chair + 2 members, Chair paid \$15,000 committee chair fee.
- + DPL Insurance Board, Meetings as needed, Chair plus two members, Chair paid \$35,000 subsidiary Chair fee.

*The Board advises that its remuneration philosophy positions base annual Director fees at market **Median** levels for comparable-sized, **publicly listed** organisations.*

Organisation Demographics / Dimensions	
<b>Organisation Type</b>	Private Sector, Listed NZ and AU
<b>Ownership</b>	New Zealand
<b>Industry</b>	Retail, Finance, Insurance
<b>Annual Turnover</b>	\$345 M (FYE 31/3/2022)
<b>Assets</b>	\$825 M
<b>Market Capitalisation</b>	\$320 M

## Recommendation Summary

We recommend that base annual fees for all Directors increase from the existing **\$75,000** into a range from **\$85,000 to \$95,000** – a competitive, consensus market median level for listed businesses. There are two specific considerations:

- The Director who serves as independent Chair of DPL Insurance should be paid – as a matter of equity - the identical base annual Director fee since he has identical responsibilities, risk and workload as the other Directors.

We further recommend that base annual fees for the Chair of Turners Group be increased from the existing **\$150,000** into a range from **\$170,000 to \$190,000** - a range that incorporates the NZ market typical 2X:1 premium between Chair and Director base annual fees. This maintains the existing Chair/Director ratio.

Additionally, it is appropriate to increase the Committee Chair fees at both the Audit and Credit & Lending Committees from **\$15,000 to \$18,000 - \$20,000**. This is a more appropriate level for a growing, publicly listed company.

While adjusting the main Board fee for the independent Chair of DPL Insurance, it is appropriate to increase the DPL Subsidiary board Chair fee from **\$35,000 to \$40,000**. This will maintain an appropriate and justified overall premium for this Committee Chair.

In our view, these recommendations represent appropriate and competitive levels for a successful, rapidly growing New Zealand publicly listed company.

### RECOMMENDATION SUMMARY

Fees	Current (\$)	Number	Proposed (\$)	Number	Proposed Total (\$)
Chair	150,000	1	170,000 to 190,000	1	170,000 to 190,000
Directors	75,000	6	85,000 to 95,000	6	510,000 to 570,000
Chair - Credit & Lending	15,000	1	18,000 to 20,000	1	18,000 to 20,000
Chair - Audit	15,000	1	18,000 to 20,000	1	18,000 to 20,000
DPL Insurance Chair	35,000	1	40,000	1	40,000
Director DPL Insurance Ltd	0	2	20,000	2	40,000
Member – Audit and Risk Committee	0	2	10,000	2	20,000
Member Credit and Lending Committee	0	2	10,000	2	20,000
<b>Total</b>	<b>665,000</b>				<b>665,000 to 920,000</b>

Depending on your final decisions, the annual governance pool cost rises from **\$665,000** into a range from **\$756,000 to \$920,000**. This in turn represents increases from **12.8% to 38.3%**.

**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 11 and 12.

## Market Data

### 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 11 publicly listed NZ organisations with total revenues ranging between \$200 million and \$500 million: a range that brackets Turners Group's own estimated \$345 million in revenue for the financial year ending 31 March 2022.

The range is necessarily wide to ensure a sample of sufficient size.

TABLE 1: DIRECTORS' FEES IN LISTED NZ COMPANIES WITH REVENUES BETWEEN \$200 M AND \$500 M

Sample - 18	Lower Quartile (\$)	Median (\$)	Upper Quartile (\$)	Average (\$)
Chair	\$137,500	<b>\$167,708</b>	\$180,000	\$154,110
Directors	\$80,000	<b>\$90,000</b>	\$92,000	\$85,593

This sample yields median annual base fee levels for Directors of \$90,000 and median base annual fees of \$167,708 for Chairs.

### Directors Fee Market Data – Asset Analysis

Table 2 below provides details of directors' remuneration for 10 publicly listed NZ organisations with total assets ranging between \$500 million and \$1,000 million: a range constructed around Turners Group's own \$825 million in assets.

The range is necessarily wide to ensure a sample of sufficient size.

TABLE 2: DIRECTORS' FEES IN LISTED NZ COMPANIES WITH ASSETS BETWEEN \$500 M AND \$1,000 M

Sample - 10	Lower Quartile (\$)	Median (\$)	Upper Quartile (\$)	Average (\$)
Chair	\$102,500	\$150,000	\$152,000	\$130,386
Directors	\$70,000	\$90,000	\$95,000	\$75,753

This sample yields median annual base fee levels for Directors of \$90,000 and median base annual fees of \$150,000 for Chairs.

## Directors Fee Market Data – Market Capitalisation

*In our view, results of Market capitalisation samples are also key indicators of Director pay for a listed business such as Turners Group.*

Table 3 below provides details of directors' remuneration for 15 NZ listed companies with market capitalisation ranging between \$150 million and \$350 million: a range built around Turners \$314 million level.

**TABLE 3: DIRECTORS' FEES IN LISTED NZ COMPANIES WITH MARKET CAPITALISATION BETWEEN \$200 M AND \$500 M**

Sample - 15	Lower Quartile (\$)	Median (\$)	Upper Quartile (\$)	Average (\$)
Chair	\$94,500	\$129,000	\$170,000	\$123,706
Directors	\$50,000	\$67,500	\$90,000	\$69,276

This sample yields median annual base fee levels for Directors of \$67,500 and median base annual fees of \$129,000 for Chairs.

## Directors Fee Market Data – Retail Industry

Table 4 below provides details of directors' remuneration for 15 NZ listed companies operating in the retail industry.

**TABLE 4: DIRECTORS' FEES IN LISTED NZ COMPANIES IN THE RETAIL INDUSTRY**

Sample - 13	Lower Quartile (\$)	Median (\$)	Upper Quartile (\$)	Average (\$)
Chair	\$123,750	\$155,000	\$200,000	\$160,103
Directors	\$70,000	\$87,000	\$100,000	\$86,596

This sample yields median annual base fee levels for Directors of \$87,000 and median base annual fees of \$155,000 for Chairs.



## Directors Fee Market Data – Finance/Insurance industry

Table 5 below provides details of directors' remuneration for 12 NZ listed companies operating in the finance and insurance industries.

TABLE 5: DIRECTORS' FEES IN LISTED NZ COMPANIES IN THE FINANCE/INSURANCE INDUSTRY

Sample - 12	Lower Quartile (\$)	Median (\$)	Upper Quartile (\$)	Average (\$)
Chair	\$50,000	\$100,000	\$150,000	\$103,944
Directors	\$32,500	\$50,000	\$95,000	\$58,686

This is a small and atypical sample. Also, this sample does not include the Australian banks in New Zealand as not comparable entities.

Since Turners Group is relatively large within this sample group, it is appropriate to place it at upper quartile levels. This then yields base annual fee levels for Directors of \$95,000 and \$150,000 for Chairs respectively.

## 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 Turners Group'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 6: – PRIVATE SECTOR DIRECTOR FEES FOR TURNERS BASED ON DIRECTOR EVALUATION METHODOLOGY:

	Lower Quartile	Median	Upper Quartile	Average
Directors	\$71,875	\$90,000	\$100,000	\$85,288

Our proprietary evaluation of the complexity, scope, responsibility and risk of Directors of Turners Group results in recommended Director fees ranging from a lower quartile of \$71,875, to an upper quartile of \$100,000 with a median of \$90,000.

In our view, median positioning is appropriate for a company such as Turners, since it is in line with the majority of the other data sets provided, all based on listed companies.

## Chair Fees Ratio

Overall, the New Zealand market practice has consistently paid base annual Chair fees at a 2.0:1X 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.)

*Turners Group is currently paying at a **2.0:1X** ratio of Chair to base annual Director fees.*

## Committee Fees

Strategic Pay Ltd's annual **NZ Directors' Fees Survey** of February 2023 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 2X:1 ratio to respective Committee member fees. Specifically, across the market, median New Zealand annual committee fees are **\$10,000** for both Audit Committee Chairs and Remuneration Committee Chairs, with member fees - if paid - at only a little less than those paid to the chair. Audit Committee member median fees are \$9,500 and Remuneration Committee median fees \$9,000. Risk Committee Chairs are paid a median \$15,000 fee.

At upper quartile levels, the 2023 **NZ Directors' Fees Survey** indicates **\$18,000** is paid to Audit Committee Chairs and **\$20,000** is paid to Remuneration Committee Chairs. Upper quartile levels are typically paid by publicly listed companies.

*Board Chairs do not typically receive separate committee fees since their base annual fee premium takes into account their committee participation.*

## Board Fee Reviews

Strategic Pay recommends a formal review of Directors' Fees at least every two years, as market best practice. While such reviews may or may not result in increases, it enables the Company to track market movements, avoid “getting behind” and to ensure appropriate and competitive fees are paid to Board members. Additionally, this practice ensures that costs are controlled year on year, and minimises larger periodic increases.

## Recommendation

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

### DIRECTORS FEES

First, we recommend increasing base annual Director fees from **\$75,000** into a range from **\$85,000** to **\$95,000** as per the market sample results below:

TABLE 7: SUMMARY RESULTS – DIRECTOR FEE SAMPLES FOR TURNERS GROUP:

Sample	Positioning	Base Annual Fee (\$)
Revenue	Median	90,000
Assets	Median	90,000
Market Cap	Median	67,500
Retail Industry	Median	87,000
Finance Industry	Upper Quartile	95,000
Director Evaluation	Median	90,000

As you can see, while there is variation in sample results, the consensus falls at or near \$90,000.

Accordingly, we recommend an increase in base annual fees from **\$75,000** into a range from **\$85,000 to \$95,000**, as an appropriate positioning relative to these sample results. Such positioning reflects Turners Group's own policy for setting Board fees at market medians amongst like-sized publicly listed companies.

### CHAIR FEES

Next, we recommend increasing the base annual fees for the Chair from the current **\$150,000** into a range from **\$170,000 to \$190,000** by applying the existing and typical 2:1X Chair/Director ratio premium.

TABLE 8: SUMMARY RESULTS – CHAIR FEE SAMPLES FOR TURNERS GROUP:

Sample	Positioning	Base Annual Fee (\$)
Revenue	Median	141,967
Assets	Median	150,000
Market Cap	Median	110,000
Retail Industry	Median	114,000
Finance/Insurance Industries	Upper Quartile	150,000

As you can see, sample results for the Chair vary considerably: that is, from **\$110,000 to \$150,000**. Given this variation, in this case we choose to apply the market typical **2:1X ratio** premium to the recommended Director fee range above, suggesting a range for the Chair from **\$170,000 to \$190,000**.

## COMMITTEE FEES

At the same time, we recommend increasing the **\$15,000** Committee Chair fee for the Audit Committee Chair to **\$20,000**. This is an appropriate level for a listed company.

Likewise, we recommend increasing the **\$15,000** Committee Chair fee for the Credit & Lending Committee Chair to **\$20,000**. This is an appropriate level for a listed company.

Strategic Pay supports the 'unbundling' practice of paying separate Committee fees as a means of tracking and rewarding actual workload and responsibilities and providing greater accountability and transparency. We recommend that Committee Members are paid at half the rate of Committee Chair payments, or **\$10,000**. This is in line with the **2.0:1X** ratios for Board Chairs/Directors.

## DPL INSURANCE COMMITTEE CHAIR FEES

In order to maintain equity around the Board table, we recommend that all Directors be paid identically – in this case, in a range from \$85,000 to \$95,000. At the same, maintaining the premium fully justified by the chairmanship of DPL Insurance, we recommend that the Chair fee be increased from **\$35,000 to \$40,000**.

## GOVERNANCE POOL

Depending on your final decisions, the annual governance pool cost rises from **\$665,000** into a range from **\$756,000 to \$920,000**. This in turn represents increases from **12.8%** to **38.3%**.

Finally, since our recommendation involves large percentage increases, you may choose to stage the increases over two years rather than adopting the full adjustments immediately.

## APPENDIX 1: NEW ZEALAND DIRECTORS' FEE SURVEY – FEBRUARY 2023

This annual Survey is the basis for understanding current trends and practices in the payment of Directors Fees' at New Zealand organisations. This is the 31<sup>st</sup> annual survey of its type conducted by Strategic Pay Ltd (the longest running survey of directors' fees in the country). 400 organisations contributed data to the 2023 New Zealand Directors' Fees Survey. 2,522 individual directorships were analysed for the Directors' fees 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 2023.

### INCREASES REPORTED BY ORGANISATIONS

Annual Movements in Median 2014 – 2023

#### Non-Executive Chairs and Directors - All Organisations

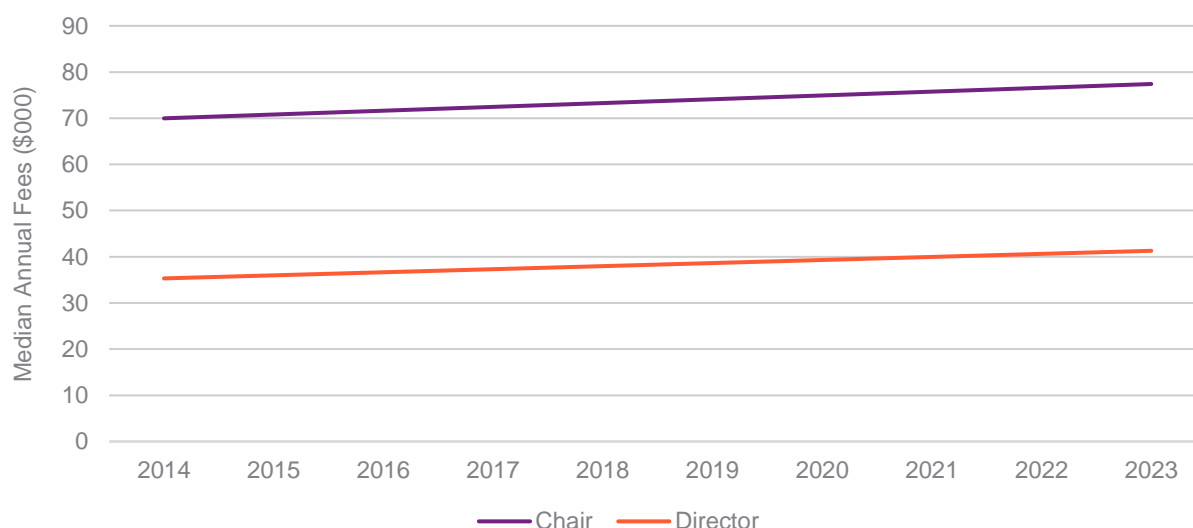
This year we have seen Chair and Director fees remain unchanged from 2021, with organisations being cautious about increases during this stage of the recovery cycle of the pandemic economy. This is an overall movement from the General Market, where higher movements from the private sector this year were tempered by the lower movement in fees in the public sector.

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

Period	Chairs	Directors
	Median	Median
2023	0.0%	0.0%
2022	0.0%	0.0%
2021	-6.3%	-2.4%
2020	6.7%	2.5%
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%

## Overall Trend in Median Director Fees 2014 – 2023

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 2014 to 2023.



## INCREASES IN THE YEAR TO FEBRUARY 2023

### Three Year Rolling Trend in Median 2019 – 2023

#### Non-Executive Chairs and Directors – General Market

Traditionally our data has shown quite variable movements from one year to the next, with subsequent difficulty in using it as a guide for setting directors' fees. We have included a three-year rolling average for median to assist organisations in tracking overall trends. We recommend the use of the following figures when applying market movements to set current directors' fees.

Period	Chairs	Directors
	Median	Median
2021 – 2023	-2.1%	-0.8%
2020 – 2022	0.1%	0.0%
2019 – 2021	0.5%	1.5%

An additional factor in market movements is that fees are not always increased annually so fluctuations are common and analysing movements over a longer time span is necessary, particularly if there has been a disruption in the market.

Strategic Pay recommends a formal annual review of Directors' Fees, which may or may not result in an increase. This ensures that costs are known and minimises larger periodic increases/catch-ups.

## APPENDIX 2: 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, these factors provide 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 3: 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](http://www.strategicpay.co.nz)