Canadian Executive Compensation Index

ECONOMIC RESEARCH INSTITUTE

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September 2015

About the Index

ERI's Canadian Executive Compensation Index is a quarterly report that measures trends in executive compensation using 800 publicly traded companies in Canada. These organizations were ranked in the top 1,000 public Canadian companies by market capitalization in both 2013 and 2014. To account for the effect of company size on executive pay, the participant companies in this analysis are separated into three groups based on individual market capitalization as of August 2015. The breakdown of the chosen market cap groups is as follows:

- Small Cap – less than C$25 million (295 companies)
- Medium Cap – between C$25 million and C$500 million (245 companies)
- Large Cap – greater than C$500 million (260 companies)

Unless otherwise noted, all values referred to in the index are in Canadian dollars. The 800 companies included in the September 2015 Canadian Executive Compensation Index collectively represent roughly 85% of the investable Canadian stock market. Click here for a list of the companies included in this index.

Each quarterly edition of the Canadian Executive Compensation Index will include compensation data for Chief Executive Officer and one other executive position. The September 2015 edition includes these titles:

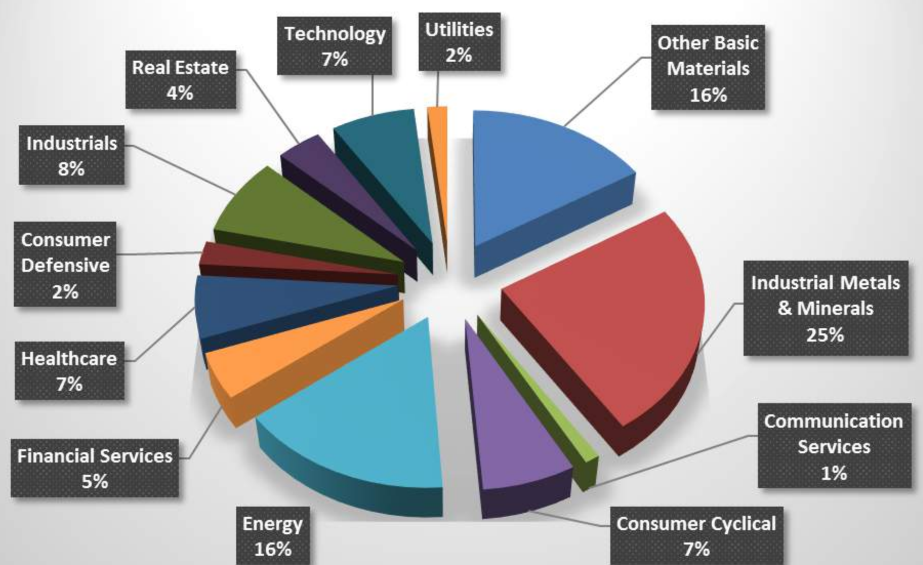
- Chief Executive Officer
- Chief Financial Officer

This report will also discuss the fluid landscape for the analysis and benchmarking of executive compensation packages. Analysis of Canadian public company information circulars will drive this discussion.

Company-Level Data

Median revenue for the index increased 15% from 2013 to 2014. In 2014, the median revenue for companies in the index was just over C$40 million. Figure 1 illustrates the industry representation of the Canadian Executive Compensation Index for 2014. Manufacturers of industrial basic materials represent 25% of the index, while energy and other basic materials manufacturers combine for an additional third of the participating companies.

Figure 1: Industry Sectors



Chief Executive Officer

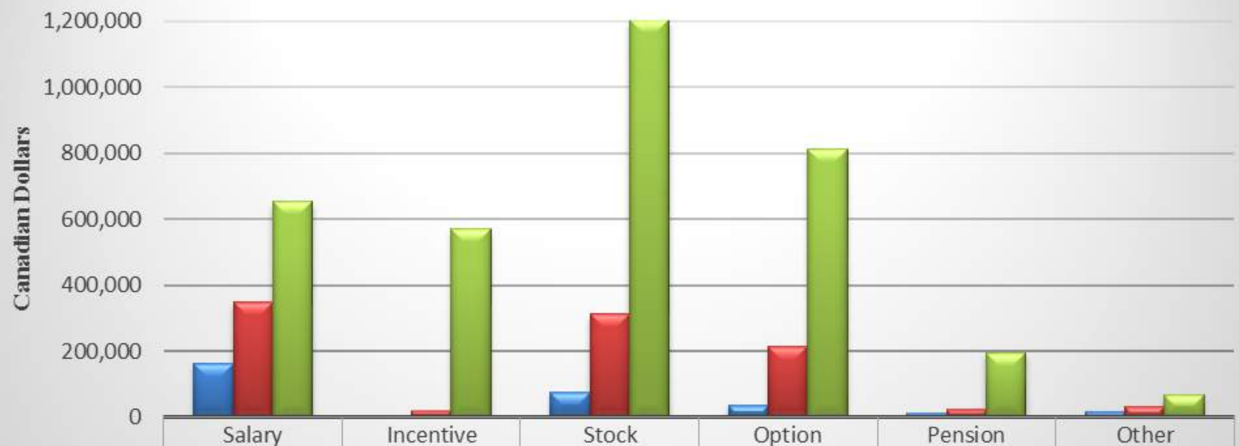
Table 1 shows the median total direct compensation for Canadian Chief Executive Officers in 2014. Total direct compensation includes salary, annual cash incentive, and the grant-date value of stock and option awards in a fiscal year. The mid and large cap groups saw median total direct increases of 4.4% and 5.5%, respectively, over 2013. However, executives in the 75th percentile of the large market cap group experienced a 5% decrease in total direct compensation. The small cap companies saw a decrease in total direct compensation of 11% in 2014. This was mostly attributed to smaller equity grants in 2014, as well as an 8% decrease in median salary.

Table 1 - 2014 CEO Total Direct Compensation

Market Cap Group	Total Direct Compensation (C$)		
	25th Percentile	Median	75th Percentile
1	120,000	183,601	284,130
2	358,713	592,358	1,024,090
3	1,347,205	2,566,013	4,583,279

Figure 2 displays median values for the four components of total direct compensation, separated by market cap group. It also shows values for two other traditional summary compensation table elements. *Pension* refers to above-market earnings in, or direct payouts to, retirement or non-qualified deferred compensation plans. *Other* refers to executive benefits and perquisites (e.g., use of the company aircraft) that are not included in one of the other categories. Although the small market cap group experience a decrease in total direct compensation, CEOs in this group experienced significant increases in pension (57%) and other compensation (28%) in 2014. Meanwhile, CEOs in the medium and large market cap groups saw decreases in these areas.

Figure 2: Median CEO Compensation by Market Cap Group for 2014



	Salary	Incentive	Stock	Option	Pension	Other
Small Cap	163,500	0	75,000	35,600	12,135	17,513
Mid Cap	350,000	17,820	311,998	214,514	22,243	32,596
Large Cap	653,000	570,000	1,203,952	812,500	194,700	67,684

Small Cap Mid Cap Large Cap

CEO Salary

CEO salaries decreased for the smallest public companies, but increased elsewhere in 2014. The medium and large market cap groups saw salary increases of roughly 5%, while the small group median salary decreased 8%. As a result, we saw a significant increase in the separation of typical fixed cash payments between small and large Canadian companies. As of 2014, the median large cap CEO earned a salary more than four times higher than that of his small cap counterpart.

CEO Annual Cash Incentive

Roughly 48% of Canadian public company CEOs, primarily in the medium and large market cap groups, earned some form of annual variable cash in 2014. This is a decrease of 8% from 2013, but the general trend of the current decade is an increased focus on tying pay to objective company performance. We expect that the likelihood of performance cash plans will move back above 50% in the coming years.

CEO Equity Compensation

Typical equity grants decreased slightly in 2014 for all three market cap groups.

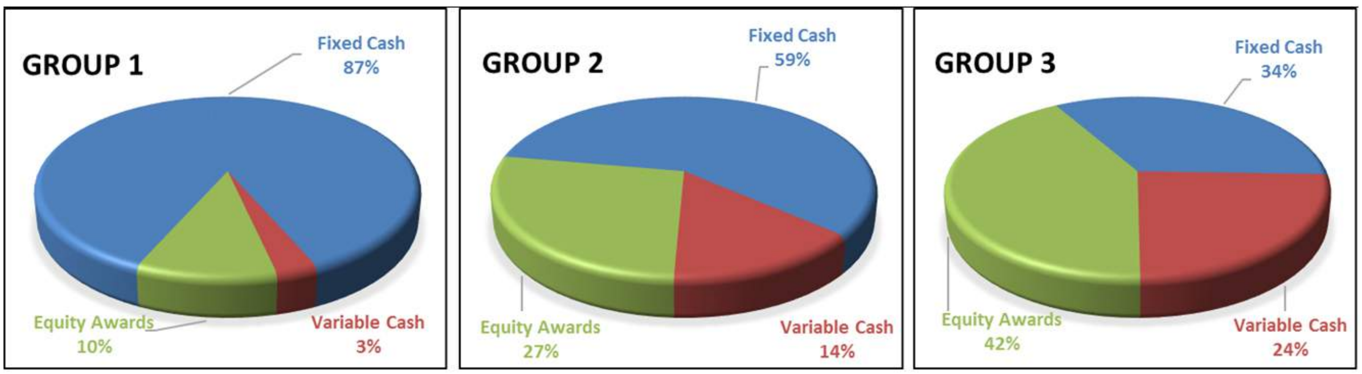
Larger companies tend to pay executives more than smaller companies in all pay categories. That difference is most dramatic when it comes to equity compensation. The median grant-date value of equity awarded to CEOs in 2014 was almost eight times higher for large cap companies as compared to small cap ones. The median value of 2014 equity grants for our large cap company group was C$1,250,000.

The percentage of CEOs earning full-value stock versus option awards remained flat in 2014. Option awards were part of 52% of CEO pay packages, while full-value awards were found in just 31% of packages. Figure 3 displays the prevalence of these two equity payments over the past five years.

Average CEO Pay Mix

Figure 4 displays the average pay mix for CEOs in the three market cap groups for 2014. Variable pay, including short-term cash bonuses and long-term equity grants, is a much larger percentage of total direct CEO compensation at larger companies. For small cap companies, the average salary comprised almost 90% of 2014 direct compensation, and variable cash constituted just 3%. For large cap companies, the split between fixed, short-term variable, and equity grants was much more even, with equity grants dominating at 42%.

Figure 4: Average Mix of 2014 CEO Total Direct Compensation by Market Cap Group



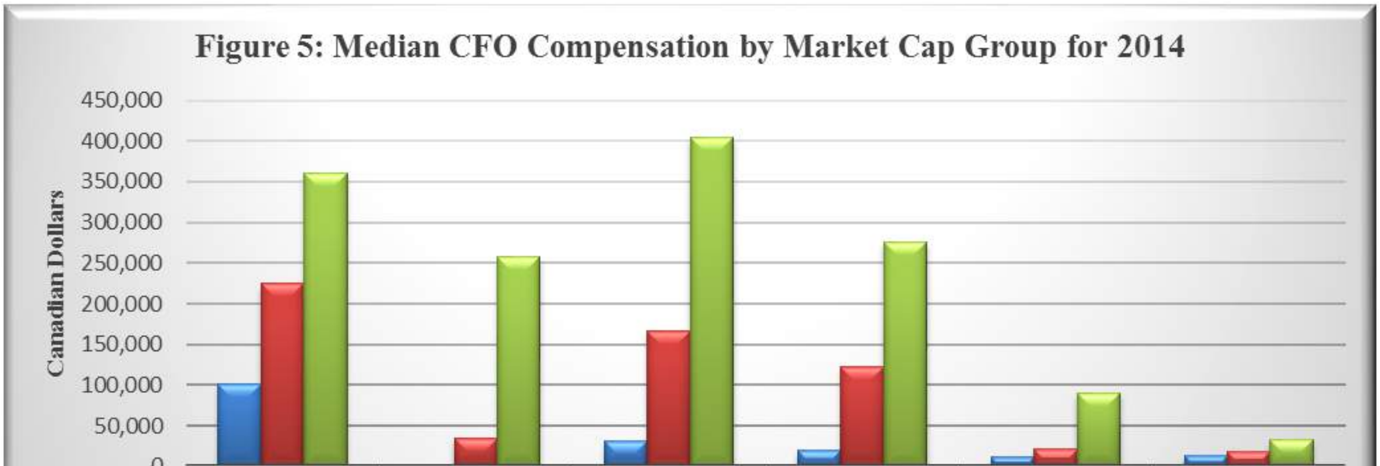
Chief Financial Officer

Table 2 shows the median total direct compensation for Canadian Chief Financial Officers in 2014. The mid and large cap groups saw median total direct increases of 6.2% and 0.1%, respectively, from 2013 to 2014. The small cap companies saw a decrease in total direct compensation of 6.5% over 2013, a result of a 23% decrease in stock awards as well as a 13% decrease option awards.

Table 2 - 2014 CFO Total Direct Compensation

Market Cap Group	Total Direct Compensation (C$)		
	25th Percentile	Median	75th Percentile
1	53,007	109,600	190,000
2	236,600	360,000	606,056
3	646,369	1,092,778	1,864,790

Figure 5 displays median values for the four components of total direct compensation, as well as median values for the *Pension* and *Other* columns defined in the CEO section of this report. Again, these values should be interpreted as the median for those CFOs in ERI's Canadian Executive Compensation Index earning some compensation in the given form in 2014. All three market cap groups analyzed showed small (<1.5%) increases to median salary in 2014. Annual cash incentive decreased almost 31% for medium sized companies but increased by 2% for large sized companies. While CFOs of small and medium cap companies experienced an increase in pension and other compensation, CFOs of large cap companies saw a decrease of 19.6% and 8.8%, respectively, from 2013 to 2014.



	Salary	Incentive	Stock	Option	Pension	Other
Small Cap	100,790	0	30,788	19,705	11,666	13,860
Mid Cap	225,000	35,000	165,750	122,139	20,994	18,671
Large Cap	360,725	257,584	403,998	276,252	90,500	32,885

Supplemental Information

CEO to Median Worker Pay Ratio

A note about the United States

The SEC recently adopted new changes that will require U.S. public companies to disclose the ratio of current CEO pay to the median pay of all company employees. This has added fuel to the media fire surrounding income inequality and executive compensation. Unfortunately, the current ratio of CEO to median worker pay depends a great deal on who you ask. Estimates for this ratio for 2014 range from around 50:1 to more than 300:1. The differences tend to be the result of which CEOs are chosen for comparison. Some report this measure for only the top 50 or 100 highest paid public CEOs (approximately 300:1 is accurate in this case). Others report it for S&P 500 CEOs. Still others report it using BLS data that includes private chief executives (including private companies, you could reasonably argue a ratio as low as 4:1).

ERI recently conducted its own study on this topic. The goal was to compare the median and average annual income of all full-time U.S. workers to the median and average total direct compensation of all public company CEOs. Total direct compensation was defined as it is in this report – the sum of salary, annual cash bonuses, and the grant-date value of equity awards. Using this definition, the pay ratio of the *median* worker to the *median* CEO has grown from 26:1 in 2006 to 72:1 in 2014. The pay ratio of the *average* worker to the *average* CEO increased from 54:1 in 2006 to 95:1 in 2014. The difference between these values for 2014 is the result of a few very large CEO pay packages pulling the average far above the median.

How does Canada compare?

According to Statistics Canada, the average annual compensation for all Canadian workers was C$46,766 in 2014. Using the companies included in this index as the basis for comparison, this equates to a ratio of roughly 38:1 between the average CEO total direct pay and the annual income of the average full-time worker. This is quite a different story than what is seen in the U.S. What is more interesting, though, is that this ratio in Canada has remained quite stable over the past five years. The ratio of average CEO pay to average Canadian worker was just 36:1 in 2010.

Comparison of Canadian and U.S. Total Direct Compensation

In the United States, stock awards are an increasingly popular component of direct compensation, with 76% of Russell 3000 CEOs earning some full-stock value in 2014. However, the percentage of U.S. CEOs who have received an option award has gradually decreased from 55% in 2010 to approximately 47% in 2014. In Canada, on the other hand, option awards are more popular than stock awards, with 51.5% of CEOs receiving an option award and only 32.6% earning some full-stock value in 2014. In Canada, there has been little change in the percentage of CEOs who receive these equity awards since 2010, although there has been a slight increase in the popularity of stock awards.

Additionally, larger inequalities exist between Canadian executives in the small market cap group and the large market cap group than exist between their United States counterparts. This is due, in large part, to the fact that, in 2014, the average small market cap executives in Canada experienced significant decreases in total direct compensation, while the majority of the large market cap executives experienced an increase in total direct compensation. In the United States, the small, medium, and large groups all experienced growth in total direct compensation from 2013 to 2014, with increases of 17%, 20%, and 13% respectively. Please refer to ERI's United States Executive Compensation Index for a complete analysis of current trends in U.S. executive pay.

Please email Matt Skrinjar at matt.skrinjar@erieri.com with questions or comments.

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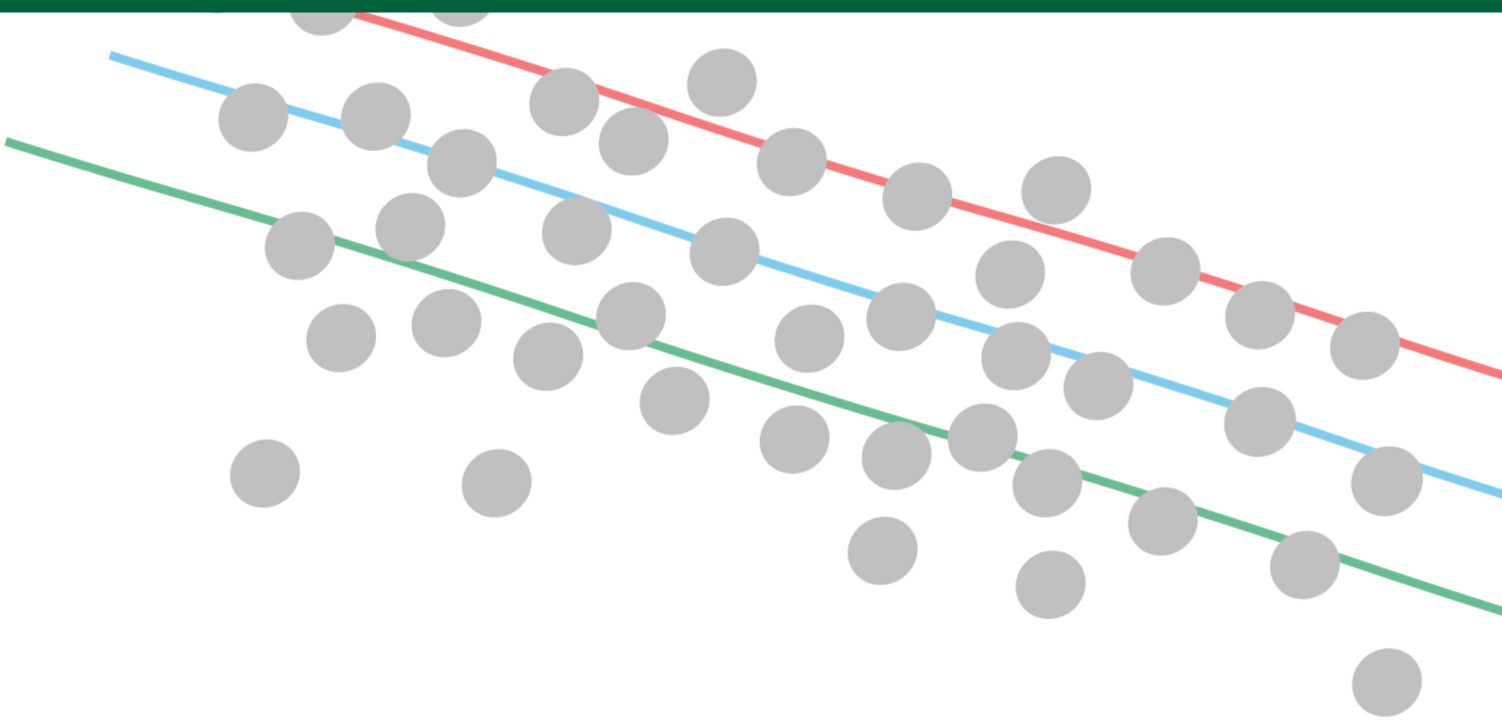

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