



ECONOMIC
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Canadian Executive Compensation Trends

December 2016



About This Report

ERI's Canadian Executive Compensation Trends is a quarterly report that measures trends in executive compensation using the top 1,000 publicly-traded Canadian companies by market capitalization in both 2014 and 2015. 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 2016. The breakdown of the chosen market cap groups is as follows:

- Small Cap - less than C\$10 million (331 companies)
- Mid Cap - between C\$10 million and \$100 million (336 companies)
- Large Cap - greater than C\$100 million (333 companies)

The 1,000 companies included in December 2016 Canadian Executive Compensation Trends collectively represent roughly 97.6% of the investable Canadian stock market. Unless otherwise noted, all values referred to in the index are in Canadian dollars.

Each quarterly edition of Canadian Executive Compensation Trends will include compensation data for Chief Executive Officer and one other executive position. The December 2016 edition includes these titles:

- Chief Executive Officer
- Chief Financial Officer

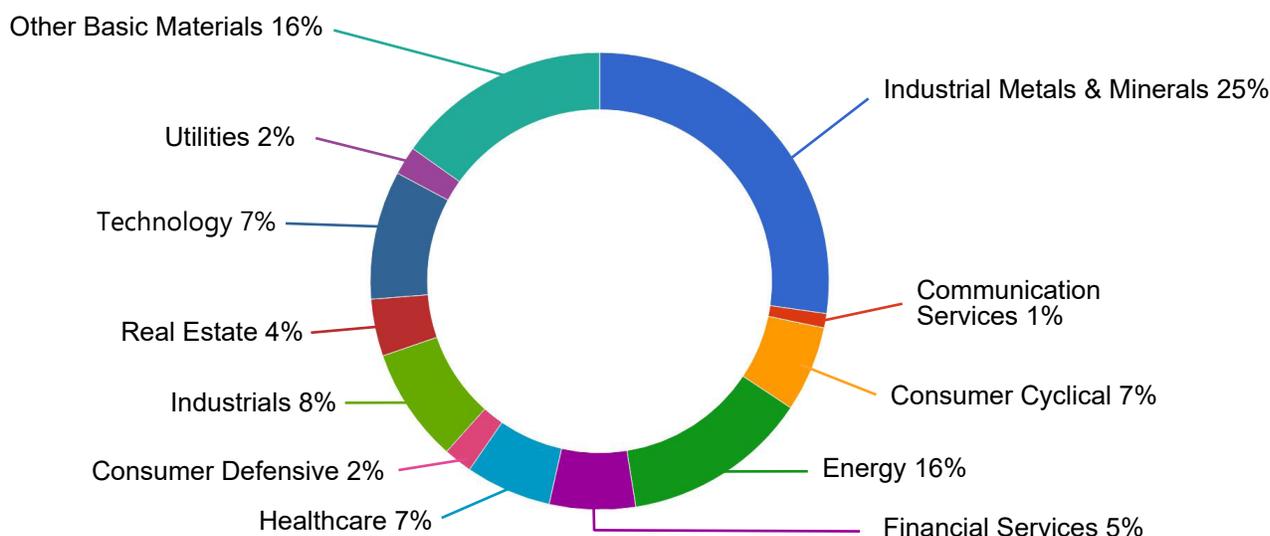
This report will also discuss the fluid landscape for the analysis and benchmarking of executive compensation packages. Analysis of Canadian public company information circulars will drive this discussion.

Company-Level Data

Mean revenue for the index decreased 0.5% from 2014 to 2015. In 2015, the median revenue for companies in the index was just over C\$10 million. Figure 1 illustrates the industry representation of the Canadian executive index in 2015. Manufacturers of Industrial Metals & Minerals represent 27% of the index, while Energy, Technology, and Other Basic Materials manufacturers combine for an additional third of the participating companies.

Figure 1 illustrates the industry representation within Canadian Executive Compensation Trends December 2016

Figure 1 - Industry Sectors



Chief Executive Officer

Total direct compensation includes salary, annual cash incentive, and the grant-date value of stock and option awards in a fiscal year. The small, mid, and large cap groups saw median total direct compensation decreases of 5%, 16.3%, and 4.5%, respectively, over 2014. Executives in the 75th percentile of the mid cap group experienced a 16.5% decrease in total direct compensation, due in larger part to a 15.5% decrease in incentives coupled with a 4.5% decrease in equity awards in 2015.

Table 1 shows the median total direct compensation for Canadian Chief Executive Officers in 2015

Table 1 - 2015 CEO Total Direct Compensation

Market Cap Group	Total Direct Compensation (C\$)		
	25th Percentile	Median	75th Percentile
Small	78,436	150,000	237,757
Mid	168,500	282,130	459,193
Large	750,000	1,508,299	3,021,334

Figure 2 shows values for the four components of total direct compensation, plus 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. These values should be interpreted as the median for those CEOs in ERI's Canadian executive index earning some compensation in the given form in 2015. Executives in the large cap group were the only executives who typically received an increase in salary and equity awards in 2015. Although the typical CEO of a mid cap company received a stock award in 2015 that was 9% higher than in 2014, the typical option award was 23.7% lower in 2015. CEOs in the mid and large cap groups experienced a decrease in other executive benefits and perquisites in 2015, while CEOs in the small cap group saw a 1.5% increase in this category.

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

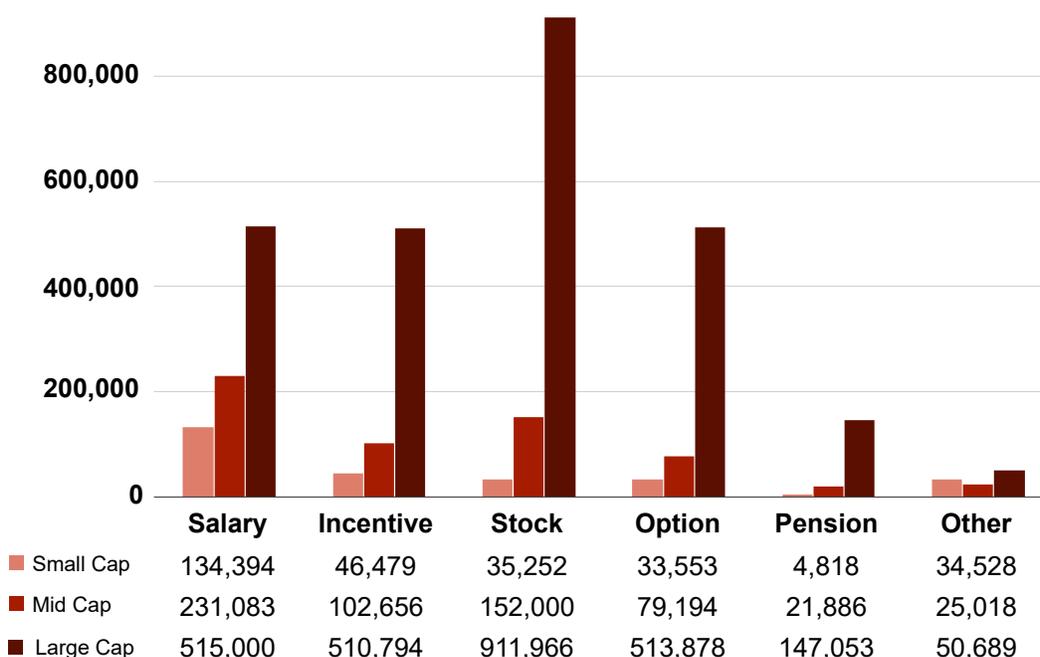


Figure 2 displays median values (in Canadian Dollars) for components of compensation, separated by market cap group

CEO Salary

CEO salaries increased for the largest public companies, but decreased elsewhere in 2015. The small and medium market cap groups saw salary decreases of 6.5% and 1.3% respectively, while the large cap group's median salary increased by 1%. As a result, we saw a significant increase in the separation of typical fixed cash payments between small and large Canadian companies.

CEO Annual Cash Incentive

Nearly 38% of Canadian public company CEOs earned some form of annual variable cash in 2015, which is a small decrease from the 40% of CEOs who earned variable cash in 2014. However, in 2013, over 50% of CEOs of the organizations in the ERI Canadian executive index were paid some form of annual variable cash. The general trend of the current decade is an increased focus on tying pay to objective company performance, so we expect that the use of performance cash plans will rise above 50% in the coming years.

CEO Equity Compensation

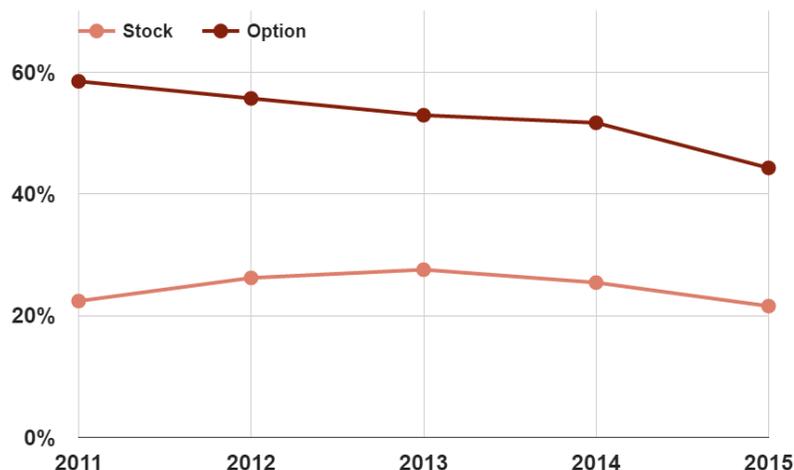
In 2015, the small and medium market cap groups saw decreases in the typical equity grants to CEOs, causing the proportion of CEOs in all three market cap groups who received equity grants to decrease from 62.7% in 2014 to 53.2% in 2015.

Larger companies generally pay executives more than their counterparts at smaller companies. While this difference exists in all pay categories, it is most dramatic when it comes to equity compensation. The median value of 2015 equity grants for ERI's large cap company group was over C\$850,000.

In 2015, option awards were part of 44.3% of CEO pay packages, while full-value awards were found in just 21.6% of packages. Figure 3 displays the prevalence of these two equity payments over the past five years. Although option awards were more prevalent than stock awards in 2015, the median value of the stock awards received was nearly double the median value of the option awards received in the mid and large cap groups. In the small cap group, the median value of stock awards received was only slightly higher than the median value of option awards received, at C\$35,000 and C\$33,500 respectively.

The median grant-date value of equity awarded to CEOs in 2015 was over six times higher for large cap companies as compared to small cap companies.

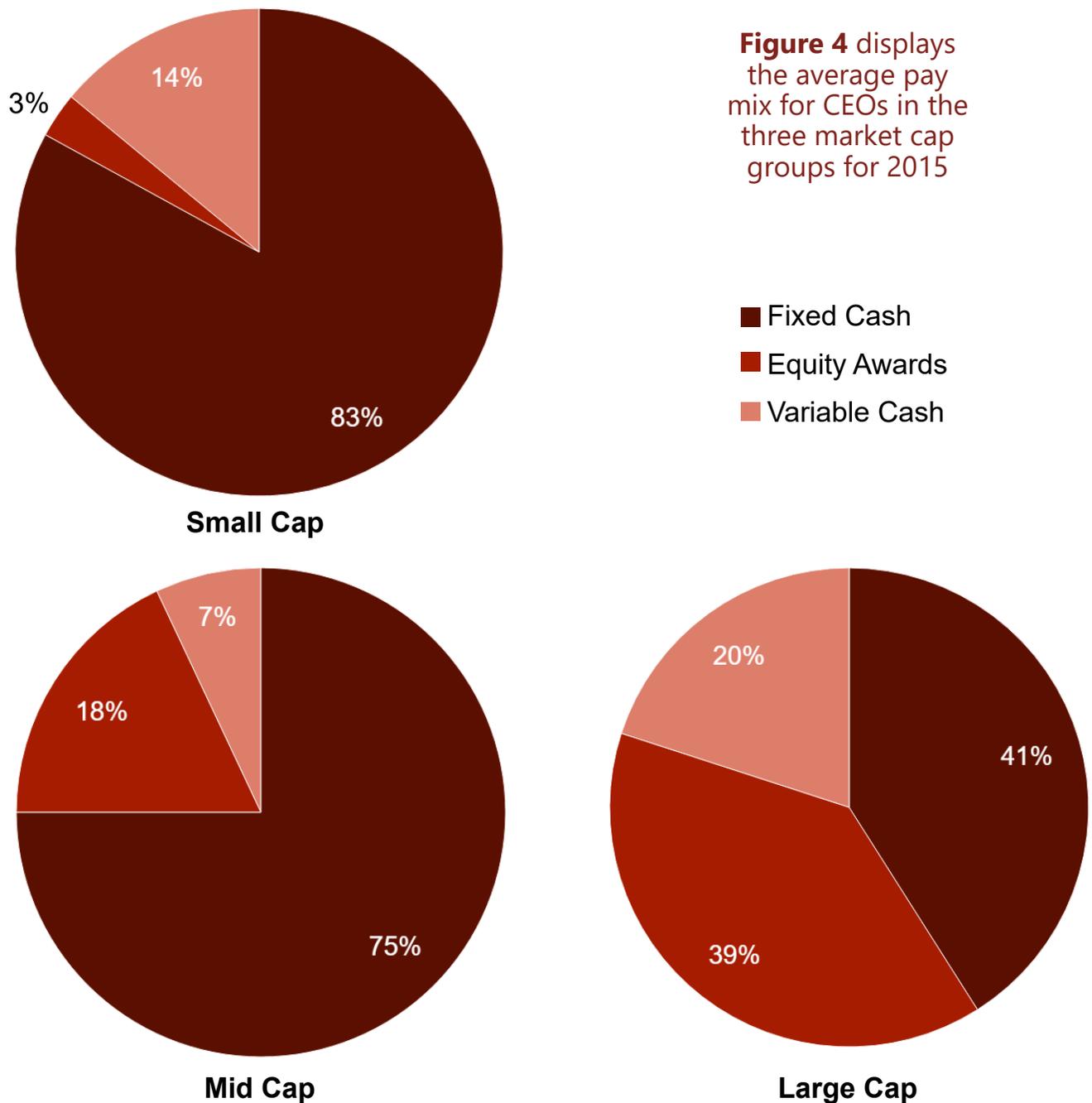
Figure 3 - Percentage of CEOs Earning Stock or Option Awards by Year



Average CEO Pay Mix

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. In general, CEOs in the ERI Canadian executive index had approximately the same percentage of variable cash in 2015 and, as company size increased, the proportion of pay that was fixed cash decreased as equity awards became more prevalent. For small cap companies, the average salary comprised almost 83% of 2015 direct compensation, and equity awards constituted just 3%. For large cap companies, the split between fixed, short-term variable pay, and equity grants was much more even, with fixed cash dominating at 41%.

Figure 4 - Average Mix of 2015 CEO Total Direct Compensation by Market Cap Group



Chief Financial Officer

CFOs of small, mid, and large cap companies saw median total direct compensation decreases of 4.6%, 4.5%, and 2.8%, respectively, from 2014 to 2015. The largest decrease in total direct compensation (8.5%) was realized by members of the large cap group at the 75th percentile. Meanwhile, CFOs in the mid cap group at the 25th percentile saw the largest increase in total direct compensation (14.1%).

Table 2 shows the median total direct compensation for Canadian Chief Financial Officers in 2015

Table 2 - 2015 CFO Total Direct Compensation

Market Cap Group	Total Direct Compensation (C\$)		
	25th Percentile	Median	75th Percentile
Small	22,000	61,400	128,781
Mid	85,400	170,559	283,879
Large	374,585	692,388	1,228,862

Figure 5 displays median values for the four components of total direct compensation, as well as medians 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 index earning some compensation in the given form in 2015. The small and mid cap groups saw increases in median salary in 2015 (1% and 4% respectively) while the large cap group saw a small decrease (.6%) in median salary. The typical CFO across all market cap groups saw a decrease in annual incentives from 2014 to 2015. CFOs in the small cap group saw the most significant decrease in median annual incentive (31%) while CFOs in the large cap group saw a decrease in median annual incentive of 5.5%. Although the typical CFO of mid and large cap companies received a 13% increase in their stock award in 2015, the typical option award these CFOs received was 12.5% lower in 2015.

Figure 5 - Median CFO Compensation by Market Cap Group for 2014

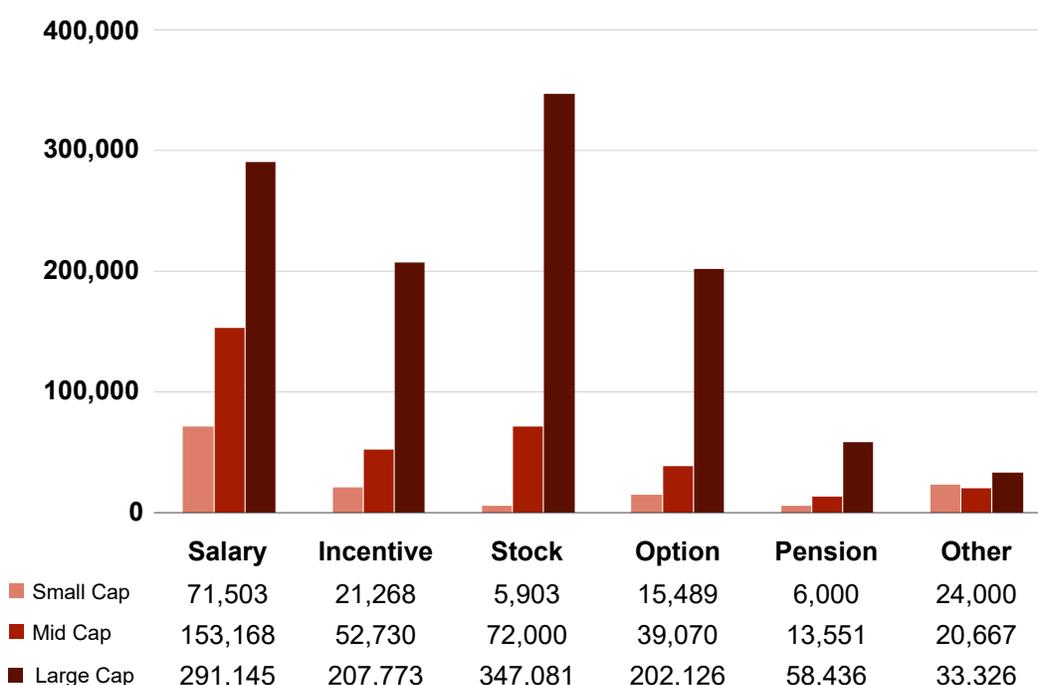


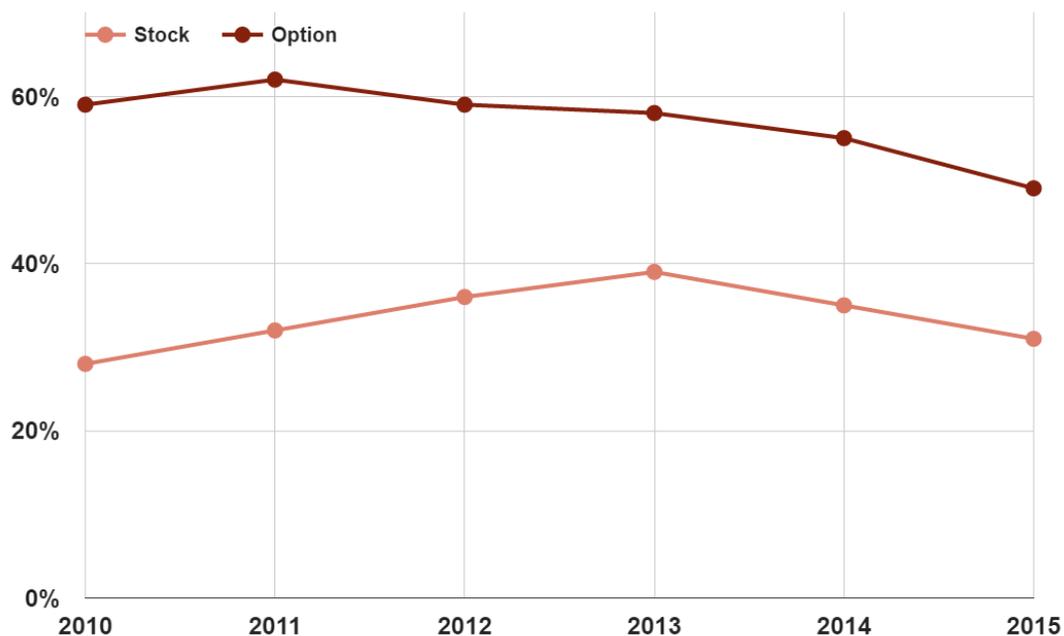
Figure 5 displays median values (in Canadian Dollars) for components of compensation, separated by market cap group

Supplemental Information

Equity Compensation for Canadian Executives

In recent years, U.S. publicly-traded companies have slowly shifted away from appreciation awards and toward full-value stock awards. While option awards are currently more popular than stock awards in Canada, a similar culture change may be occurring in Canada. Figure 6 displays the prevalence of stock awards and option awards received by Chief Executive Officers, Chief Operating Officers, Chief Marketing & Sales Officers, Chief Human Resources Officers, Chief Financial Officers, and Executive Vice Presidents in ERI's Canadian executive index. The percentage of executives who received option awards decreased from 59% in 2010 to 49% in 2015, while the percentage of executives who received stock awards increased from 27.9% to 31.5% in the same period.

Figure 6 - Canadian Executives Earning Stock or Option Awards by Year



Please email Katie Sebastian at katie.sebastian@erieri.com with questions or comments.

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