



ECONOMIC
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Canadian Executive Compensation Trends

September 2016



About the Index

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 (329 companies)
- Mid Cap - between C\$10 million and \$100 million (334 companies)
- Large Cap - greater than C\$100 million (337 companies)

The 1,000 companies included in September 2016 Canadian Executive Compensation Trends collectively represent roughly 85% of the investable Canadian stock market. Unless otherwise noted, all values referred to in the index are in Canadian dollars.

This edition of Canadian Executive Compensation Trends contains compensation data for Chief Executive Officer. Future quarterly editions of Canadian Executive Compensation Trends will include compensation data for Chief Executive Officer and one other executive position.

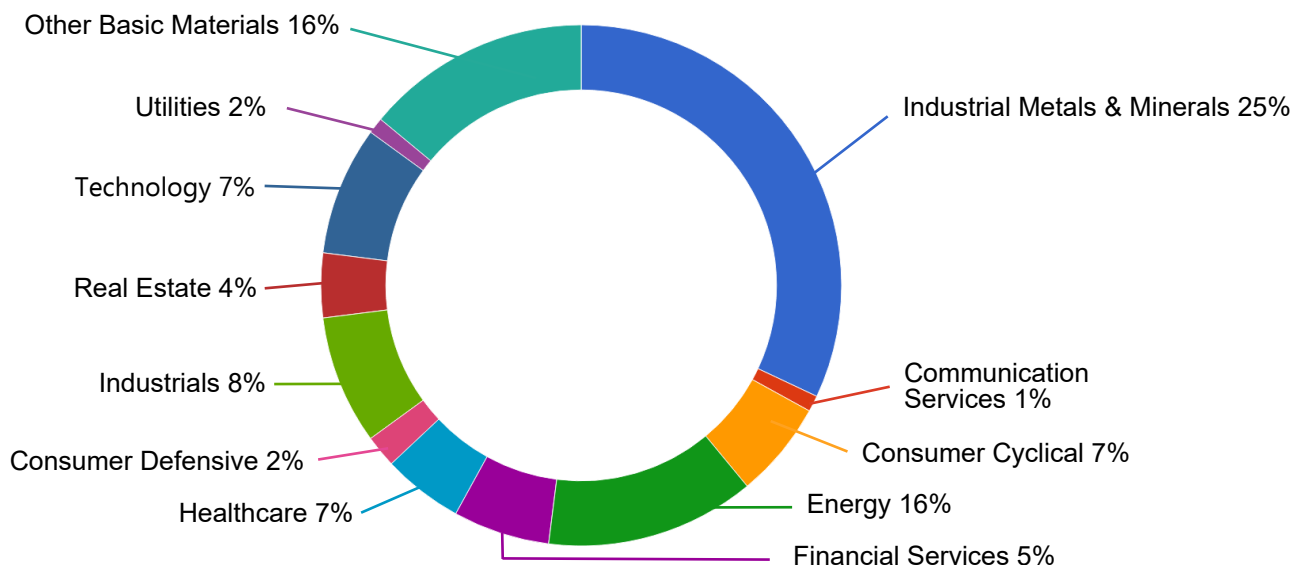
This report will also discuss the fluid landscape for the analysis and benchmarking of executive compensation packages. Analysis of Canadian public company information circulars will drive this discussion.

Company-Level Data

Mean revenue increased 8.9% from 2014 to 2015. In 2015, the median revenue for companies included in this analysis was just over C\$1 billion. Figure 1 illustrates the industry representation of the companies reviewed for this report. Manufacturers of Industrial Metals & Minerals represent 32% 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 Trends September 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 9.8%, 8.8%, and 1.3%, respectively, over 2014. Executives in the 75th percentile of the mid cap group experienced a nearly 14% decrease in total direct compensation, due in larger part to an 18% decrease in incentives coupled with a small increase in equity awards in 2015.

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

Table 1 - 2014 CEO Total Direct Compensation

Market Cap Group	Total Direct Compensation (C\$)		
	25th Percentile	Median	75th Percentile
Small	60,000	120,000	211,500
Mid	155,000	250,000	420,000
Large	679,588	1,375,250	2,719,337

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. These values should be interpreted as the median for those CEOs in ERI's Canadian Executive Compensation Trends earning some compensation in the given form in 2015. Executives in the mid cap group were the only executives who typically received an increase (over 6%) in the pensions 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 24.9% lower in 2015. CEOs in all three market cap groups experience a decrease in other executive benefits and perquisites in 2015. 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

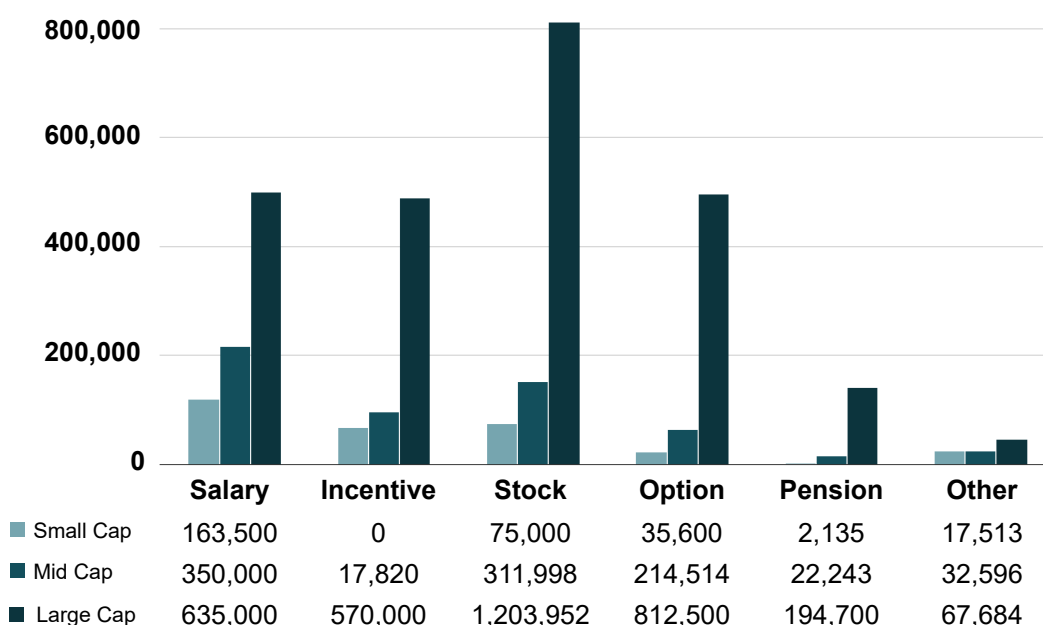


Figure 2 displays median values (in Canadian Dollars) for the four components of total direct compensation, separated by market cap group

CEO Salary

CEO salaries decreased for the smallest public companies, but increased elsewhere in 2015. The medium and large market cap groups saw salary increases of 5.8% and 2.3% respectively, while the small cap group's median salary decreased by 5.7%. 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 35% of Canadian public company CEOs earned some form of annual variable cash in 2015, which is not a material difference from those who earned variable cash in 2014. However, in 2013, over 49% of CEOs of the organizations in ERI Canadian Executive Compensation Trends September 2016 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

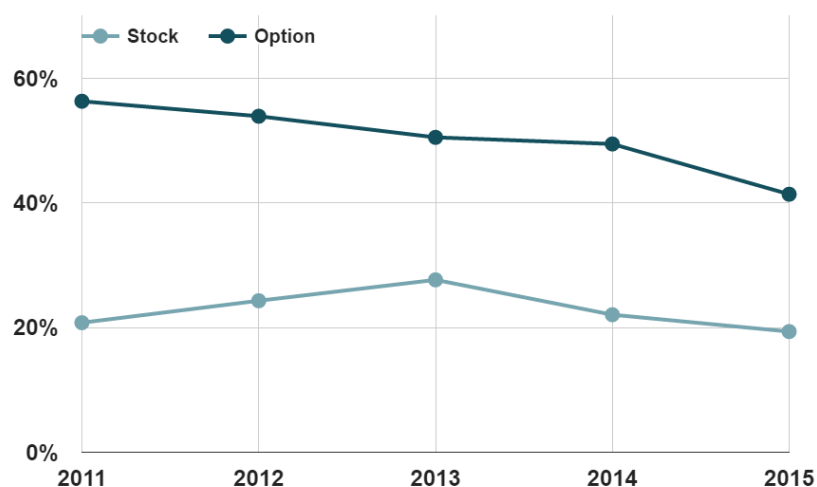
In 2015, the mid and large market cap groups saw increases in the typical equity grants to CEOs. However, the proportion of CEOs in all three market cap groups who received equity grants decreased from 58.9% in 2014 to 49.7% in 2015.

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 grant-date value of equity awarded to CEOs in 2015 was almost seven times higher for large cap companies as compared to small cap companies. The median value of 2015 equity grants for ERI's large cap company group was over C\$815,000.

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In 2015, option awards were part of 41% of CEO pay packages, while full-value awards were found in just 19.5% 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 double the median value of the option awards received in each market cap group.

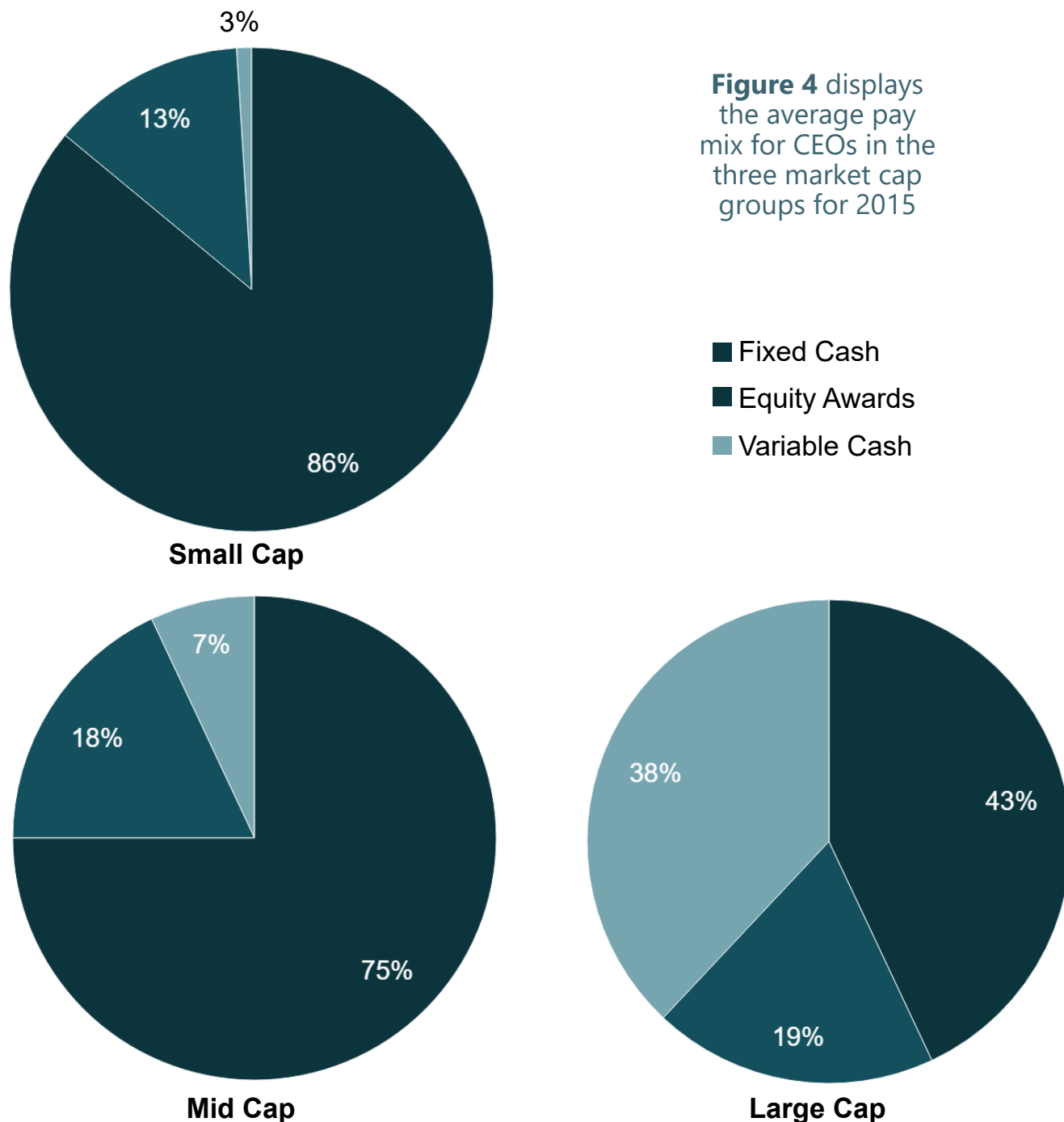
Figure 3 - Percentage of CEOs Earning Stock or Option Awards by Year



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 78% of 2015 direct compensation, and equity awards constituted just 1%. For large cap companies, the split between fixed, short-term variable pay, and equity grants was much more even, with fixed cash dominating at 43%.

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



Supplemental Information

Highest Paid Canadian Chief Executive Officers for 2015

Table 2 shows the ten highest paid Chief Executive Officers in Canada in 2015, their total compensation, and the breakdown of their total direct compensation. Pension and Other compensation, as defined in the CEO section of this report, are not included in the compensation breakdown but are included in the Total Comp column. The salaries of these Canadian executives were significantly lower than their counterparts in the United States. In fact, only one Canadian executive in this list had a salary over C\$2 million, and the top earning CEO in Canada had a salary which accounted for a mere 0.4% of the total direct compensation he earned in 2015. The top two earners in Canada received stock awards which constituted over 98% of their total direct compensation for the year. While these stock awards are impressive, it is unlikely that awards of this size will be granted again next year. The total annual incentives paid to George A. Cope and Donald Walker accounted for 80.6% and 50.3%, respectively, of their total direct compensation in 2015. Finally, E. Harrison of Canadian Pacific Railway Ltd received a fairly balanced compensation package with a pay breakdown of 14.1% salary, 30.2% annual incentive, 23.9% stock awards, 25.9% options awards, and 5.9% pension and other compensation. [Click here](#) for a full list of the 100 Highest Paid Canadian Top Executives in 2015.

Table 2 - 2015 Highest Paid Canadian Executives

Company	Title	Name	Salary	Incentive	Stock	Option	Total Comp
Canadian Real Estate Investment Trust	CEO	Stephen E. Johnson	730,000	750,000	167,001,118	0	168,538,441
Valeant Pharmaceuticals International Inc	Director and CEO	J. Pearson	0	2,000,000	140,304,682	0	143,077,442
BCE Inc	President and CEO	George A. Cope	1,400,000	4,406,250	4,406,250	1,468,750	42,049,599
Magna International Inc	Director and CEO	Donald Walker	325,000	6,962,000	6,962,000	2,875,750	20,761,000
Canadian Pacific Railway Inc	Director; CEO	E. Harrison	2,803,522	4,749,089	4,749,089	5,163,279	19,902,453
Aralez Pharmaceuticals Inc	CEO and Director	Adrian Adams	410,217	14,858,944	14,858,944	0	15,875,376
Manulife Financial Corp	President and CEO	Donald Guloien	1,723,671	6,104,719	6,104,719	4,069,812	15,613,519
Open Text Corp	Director, President and CEO	Mark Barrenechea	847,000	4,578,866	4,578,866	8,923,671	15,502,989
Imax Corp	Director and CEO	Richard Gelfond	1,100,000	7,400,011	7,400,011	3,899,993	14,494,187
Alimentation Couche-Tatd Inc	President and CEO	Brian Hannasch	1,356,260	1,255,947	2,388,756	6,437,480	13,458,456

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