Hitting “Pay” Dirt

Bedford Resources Releases New Study on Canadian Mining Directors and Executive Remuneration

TORONTO: November 9, 2010—Since the dawn of time, prospectors have searched for gold underneath the earth’s surface. In modern times, however, it seems that it is the executives and board members of some mining companies that have struck gold with their compensation packages. Others, however, are undercompensated compared to their peers.

As the leading executive search firm in the mining world globally, Russ Buckland and Frank Galati, partners in the Bedford Consulting Group’s Resource practice, are often asked by Board members and CEO’s what the appropriate compensation is for a particular position. In order to be more accurate and comprehensive with respect to their responses, Bedford Resources commissioned David Crane, an ex-Canadian practice leader in executive compensation at The Hay Group, to conduct an in-depth study of over 100 mining companies in Canada listed on the TSX with an emphasis on junior and developing firms.

The survey focused on a variety of players at the Board level. It examined Board members, Board Chairs and how Audit and Compensation/HR Committee members are remunerated. On the management side, the study looked at CEO and CFO compensation.

In order to compare apples to apples, the report categorized mining companies the way they categorize themselves—according to market value. Revenue is a good way to measure the size and complexity of companies in other industries but doesn’t work well in mining. Many mining companies are either at the exploration or advanced development stages and; market capitalization is a better way to differentiate between them.
The study divides the companies into the following capitalization levels:

- $50 up to $500 million
- $500 million up to $1 billion
- $1 billion up to $4 billion
- $4 billion and up

The study examines all forms of compensation including retainers, meeting fees for Directors, salaries and bonuses for the CEO and CFO, and the value of share-based rewards for both Directors and executives. Including all of these components provides a more complete picture of total remuneration.

“Getting on Board”—Board Compensation for Mining Companies

91% of the surveyed mining companies pay annual retainers to their Board members. 54% pay an annual retainer and additional attendance fees. A number of the larger Canadian mining companies are responding to prevailing “good governance” guidelines and requiring Directors to acquire and hold an equity position in the company. Only 28% of the companies require Directors to own shares but a majority of Directors do so anyway.

The median annual retainer for Board members among companies under $500 million is $15,000 rising to $35,000 at the $1 billion-plus level. At the $4 billion-plus level it jumps dramatically to $100,000. If we add together the annual retainer plus meeting attendance fees plus the estimated value of share-based remuneration, Directors’ pay ranges from a median level of $69,300 for the under$500 million category to $186,000 for the $4 billion-plus category.

It is interesting to examine the degree to which rewards received by Directors are influenced by the prevailing market price of their company’s shares. Approximately 70% of Directors’ pay is related to share price in companies with a market capitalization under $500 million, but only 40% of remuneration is “at risk” in companies over $4 billion.

Only 67% of the companies reported the existence of a Board Chair. Regardless of market capitalization size, the annual amount of cash received by a Board Chair typically falls between 200% and 300% of that received by Directors.
Whereas “pay at risk” received by other Directors diminishes as market capitalization increases, the reverse tends to be true for Board Chairs. Chairs in more established companies tend to receive a greater proportion of their remuneration in share related form. Overall remuneration, including retainers, meeting fees and the estimated value of share-based remuneration increases from a median of $138,100 for the under-$500 million category up to $392,000 for the $4 billion-plus category.

Equally interesting is the compensation for the Audit Committee members. 88% of companies with an Audit Committees pay an additional retainer to the Audit Committee Chair but only 22% pay an additional retainer to Audit Committee members.

Audit Committee Chairs have an incremental reputational risk relative to other Directors. Are they being appropriately compensate for this additional responsibility and risk? The incremental median value of retainers and meeting fees to an Audit Committee Chair increases unevenly relative to market capitalization, from $14,900 to $27,500.

Executive Compensation

One way to look at CEO compensation is to compare the median salary across the group of mining companies. This is the salary level where half of the executives earn more than the median amount and half earn less. The study shows that median salaries for mining CEOs increase in lock step with market capitalization.

Table 1: CEO Salary Only Compensation

<table>
<thead>
<tr>
<th>Category</th>
<th>Salary</th>
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</thead>
<tbody>
<tr>
<td>Under $500 million</td>
<td>$270,900</td>
</tr>
<tr>
<td>$500 million up to $1 billion</td>
<td>$375,000</td>
</tr>
<tr>
<td>$1 billion up to $4 billion</td>
<td>$497,500</td>
</tr>
<tr>
<td>$4 billion-plus</td>
<td>$925,000</td>
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Only 58% of the companies in the study paid their CEOs a bonus in the most recent year either because of weak economic conditions or the company’s performance. The median bonus as a percentage of salary for the under $500 million category is 37%. This jumps to 161% of base salary for the $4 billion plus category. When salary and bonuses are combined 25% of CEOs from mining companies with market capitalizations in the under $500 million range earned more than $490,000 and in the $4 billion-plus category more than $2,950,000.

By adding the value of share-based remuneration, one gets the full picture. Typically CEOs are provided with either stock options or full-value shares as additional remuneration. In the $1 billion-plus categories, many CEOs receive both. These options and shares dwarf the actual base salaries. The median share-based rewards increased dramatically from 81% of salary for companies in the under $500 million category to 345% of salary for companies with a market cap over $4 billion. However, 13% of the companies did not grant share based rewards in the most recent year.

If it sounds complicated, the easy way to look at it is, to focus on what the total compensation is for a mining company’s CEO, which combines their base salary, their bonuses and their share-based rewards. The combined salary, bonus and shares received by the top 25% of CEOs in the $1 billion to $4 billion category exceeds $2,691,300. In the $4 billion-plus category, their combined earnings exceed $6,992,600.

It is interesting to note the degree to which the overall compensation of a CEO is “at risk.” An annual bonus is not guaranteed and remuneration linked to share values can go down. For CEOs, the median fixed reward (i.e. salary) gets smaller as a percentage of total compensation as market capitalization increases. Pay at risk (i.e. bonus and share based rewards) increases with market capitalization from 53% of the total compensation package among companies under $500 million capitalization rising to 82% for the over $4 billion category.

And how about the CFOs? There are no material differences in compensation for firms in the under $500 million category for CEOs and Board members; there are for CFOs. For example, the median salary for a CFO in a company with capitalization between $50 million and $100 million was $160,000. This rises to
$181,000 in the $100 million to $200 million category and to $232,800 in the $200 million to $1 billion category. In the $4 billion plus category, they earn $382,000.

The average salary of a CFO increases from $170,300 for companies with market caps of between $50 million to $100 million to an average salary for companies with market caps of over $4 billion dollars to $408,600.

If we look at total overall remuneration for CFOs, including salary plus bonuses plus share-based rewards on a combined basis, the median compensation at the $50 million to $100 million level is $215,600 and it rises to $1,562,700 in the over $4 billion category.

The study covers many additional aspects of Executive and Board compensation, including additional information about compensation for the Chairs and members of the Human Resources/Compensation Committee.

The Bedford Consulting Group is one of Canada’s leading privately held retained Executive Search firms. Complementing our core Executive Search business, The Bedford Group/TranSearch offers an integrated suite of innovative Talent Management services to our clients worldwide. We are passionate about providing exceptional services to and strategically partnering with our clients to attract and retain the very best talent to their organizations. The Bedford Resources Group is regarded as one of the leading recruiting firms for the global mining and metals industry. Over the past 25 years, Bedford Resources has managed over 2,000 global recruitment assignments. Bedford Resources assists clients across Canada and internationally from its offices in Toronto and Oakville, together with their worldwide partners, TranSearch with 65 offices in 35 countries.

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