

# 2021 SAY-ON-PAY RESULTS CANADA

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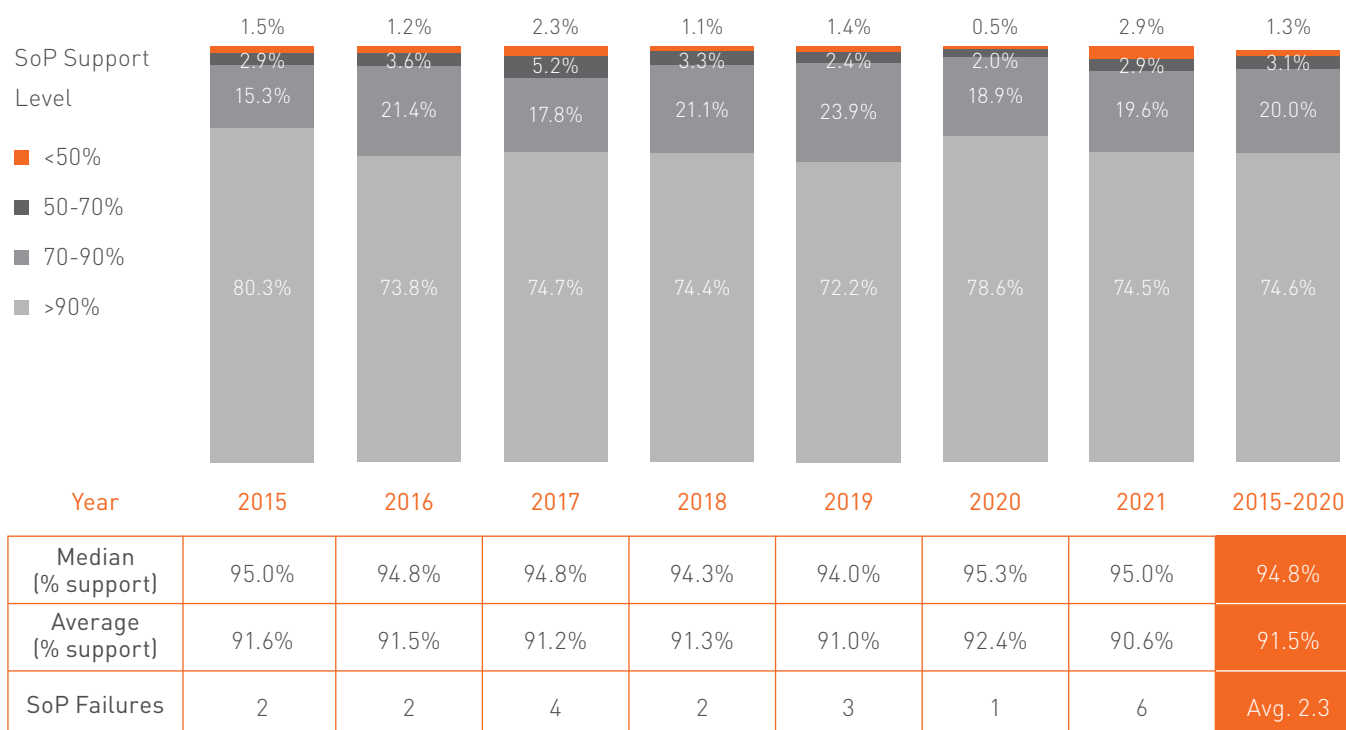
## Introduction

The 2021 proxy season took place in context of an unprecedented pandemic and offered shareholders a unique opportunity to express their views on executive compensation decisions. While most Canadian companies continued to experience high shareholder support for their advisory vote on Say-on-Pay (SoP), there was a record number of six failed SoP resolutions<sup>1</sup>. These were largely driven by a perceived misalignment between executive pay and the experience of shareholders. While pay-for-performance alignment is widely viewed to be a key driver of shareholders' acceptance of a company's approach to executive compensation, a common criticism is that SoP is a de facto "say on performance" vote. Hugessen has analyzed SoP results over the past five years to identify the extent of the relationship between SoP support levels and total shareholder returns (TSR).

## Key Takeaways

- Median SoP support level in 2021 remained flat at ~95%
- Six companies failed their 2021 SoP resolutions (received less than 50% support), representing a record number for the Canadian market – in each case, the company was flagged by proxy advisors for having a disconnect between pay and performance
- A review of SoP results over the past five years reveals no statistically significant relationship between a company's absolute Total Shareholder Return (TSR) and SoP support levels; however, low support or failing SoP resolutions were almost always preceded by modest or negative absolute TSR




## Canadian Say-on-Pay Support Levels 2015-2021






## Highlights from 2021 Canadian Say-on-Pay Resolutions

### Say-on-Pay Failures (<50% support)







Six out of 204 Canadian companies<sup>2</sup> (2.9%) in 2021 failed their SoP vote, which represents a significantly higher proportion than the average over the previous six years of 1.3%. All six companies had experienced negative TSR in the calendar period preceding the shareholder vote on both 1-year and 3-year basis. They had all received an “against” voting recommendation from ISS in 2021 and were flagged for a high degree of concern on pay-for-performance alignment. Four of the six companies also received an “against” vote recommendation from Glass Lewis in 2021.

Company with Failed SoP Vote	2021 SoP Support <sup>2</sup>	1-Year TSR <sup>3</sup>	3-Year TSR <sup>3</sup>	Issues Flagged by Proxy Advisors <sup>4</sup>
 <b>RIO CAN™</b>	24.1%	-31.8%	-15.9%	“Outsized retention and pandemic-related one-time awards in the context of share price underperformance”
 <b>CI FINANCIAL</b>	38.1%	-23.9%	-39.5%	“Highly discretionary CEO pay; pay-and-performance disconnect”
 <b>CHEMTRADE</b>	40.1%	-40.4%	-58.5%	“Pay-and-performance disconnect”

Company with Failed SoP Vote	2021 SoP Support <sup>2</sup>	1-Year TSR <sup>3</sup>	3-Year TSR <sup>3</sup>	Issues Flagged by Proxy Advisors <sup>4</sup>
 <b>GILDAN</b> <sup>®</sup>	40.9%	-6.6%	-8.9%	"Pay-and-performance disconnect; large CEO discretionary bonus"
 <b>VERMILION</b> ENERGY	41.8%	-71.7%	-84.3%	"Outsized sign-on grants; poor disclosure of former CEO's severance package; pay-and-performance disconnect"
 <b>Precision</b> DRILLING	42.4%	-42.2%	-72.5%	"Pay-and-performance disconnect"

### Low Say-on-Pay Support (50%-70%)

Six out of 204 Canadian companies (2.9%) in 2021 received SoP support between 50-70%, which was a higher proportion than in 2019 and 2020, but in-line with the average over the previous 6-year period (2015-2020). All six companies had experienced negative TSR in the calendar period preceding the shareholder vote on either a 1-year or 3-year basis.<sup>5,6,7</sup>

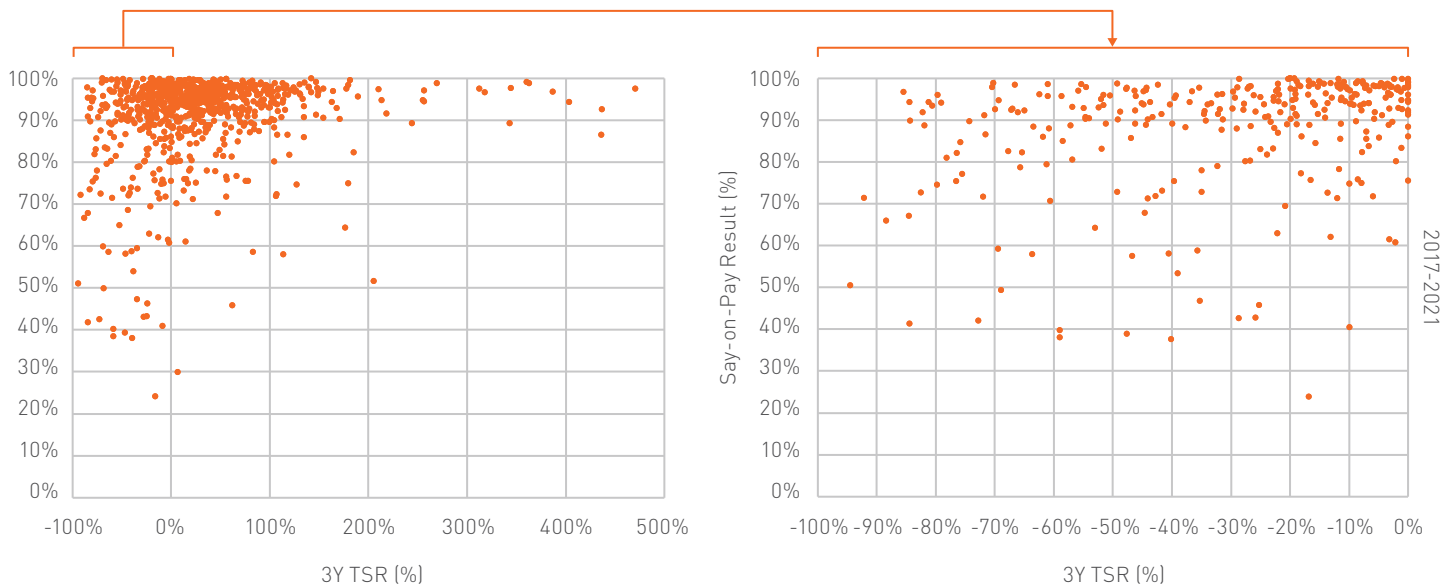
Company with Low SoP Vote	2021 SoP Support	1-Year TSR <sup>5</sup>	3-Year TSR <sup>5</sup>	Issues Flagged by Proxy Advisors <sup>6</sup>
 <b>Aurinia</b> <sup>™</sup>	51.6%	-31.7%	205.3%	"Poor pay practices and insufficient disclosure of STIP and LTIP goals"
 <b>BlackBerry</b>	58.8%	1.1%	-39.9%	"Pay-for-performance disconnect and concerning pay practices"
 <b>Scotiabank</b> <sup>®</sup>	60.8%	-0.3%	-2.2%	"Pay-and-performance disconnect relative to peer banks"
 <b>IMAX</b> <sup>®</sup>	62.9% <sup>7</sup>	-11.8%	-22.2%	"Ongoing pay-for-performance disconnect and unresponsiveness to shareholder dissent"
 <b>NUVISTA</b> ENERGY LTD	66.7%	-70.5%	-88.3%	"Pay-and-performance disconnect"
 <b>CHARTWELL</b> retirement residences	69.5%	-14.5%	-20.9%	"Use of discretion in assessing customer and reputation scores, leading to increased STIP awards despite stakeholder backlash following COVID outbreaks in certain Chartwell homes"

# Relationship Between Total Shareholder Return and Say-on-Pay Support Level

A common criticism of SoP is that it is a de facto shareholder “say on performance”. Those who make this argument will refer to examples of companies that have been perceived to have “excessive” levels of executive compensation, but nonetheless garner broad shareholder support for SoP due to strong performance. Conversely, some companies that have historically received strong support for their executive pay programs have experienced a precipitous decline in SoP support when performance is weak.

Hugessen has analyzed the SoP results of all Canadian issuers over the past five years and compared their voting results to absolute TSR over the preceding three years. We observe three notable trends:

- Among companies that received very low (<70%) shareholder support or failed SoP, almost all had experienced a modest or negative absolute TSR in the preceding three years. This is consistent with the notion that most SoP failures are due to a perceived disconnect between pay and performance (i.e., when performance is weaker, the risk of a poor SoP vote increases)
- Interestingly, among companies that experienced a negative 3-year TSR, there was a wide distribution in SoP support levels ranging from failure to support in the high-90s. This suggests that a company with weak absolute TSR performance could still receive strong shareholder support for SoP
- Overall, there was no statistically significant relationship between a company’s absolute TSR and SoP support level. That said, company performance is also measured on a relative basis by the proxy advisors, and it is important to monitor the TSR of the company’s peers in a given performance period



# Concluding Thoughts

Say-on-Pay provides shareholders an opportunity to voice their views on a company's approach to executive compensation. Notwithstanding the impacts of COVID-19, shareholder scrutiny continues to be focused on outliers. The median level of SoP support in 2021 remained flat year-over-year at 95%, which suggests there was no broad discontentment in the market on executive pay. A historical analysis of the relationship between SoP support and absolute TSR indicates no statistically significant relationship between the two. However, a strong absolute TSR has demonstrated to greatly reduce the likelihood of low SoP support. Companies with weak performance can undertake strategies to bolster shareholder support for SoP including through pay structure and design decisions, and enhanced disclosure of the rationale behind the company's approach to executive pay.

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## References

- <sup>1</sup> Say-on-Pay data as of September 2021
- <sup>2</sup> Say-on-Pay data as of September 2021; sample represents Canadian companies that have held a SoP vote in 2021
- <sup>3</sup> Source: S&P Capital IQ; TSR is calculated based on share price return and includes reinvested dividends
- <sup>4</sup> Source: ISS and Glass Lewis reports
- <sup>5</sup> Source: S&P Capital IQ; TSR is calculated based on share price return and includes reinvested dividends
- <sup>6</sup> ISS and Glass Lewis reports
- <sup>7</sup> IMAX Corporation is a Canadian-headquartered company listed on the New York Stock Exchange. The company is not classified as a foreign private issuer in the U.S. and is subject to U.S. voting guidelines by the proxy advisors