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NZ Oil and Gas CEO long term incentive plan

Many Investors, One Voice

In December, NZOG appointed a former director Andrew Knight to be new MD replacing outgoing CEO David Salisbury.

At the SGM next Monday 20th February, a motion will be put to issue him with 3m partly paid shares as the long term incentive portion of his salary package.

The NZSA has looked at this scheme and makes the following observations:

- The award is 3 million partly paid shares (1c each on issue). These are not “share options”.
- Mr Knight can pay the balance to a total of \$1 per share anytime between 2-5 years from issue. This means that the current share price would have to appreciate about 35% over that period for Mr Knight to “be in the money”. In effect if the share price was \$1.10 when he paid for them, he would make \$300k. If it was \$2, he would make \$3m.
- If they are “out of the money” (worth less than \$1 each at the end of 5 years), they can be paid up to current market value and sold. Mr Knight would then receive only his 1c per share back.
- There are other clauses covering the situation of termination or retirement which are not particularly generous to Mr Knight.
- The partly paid share dividends and voting rights will only be in proportion to the amount they are paid up.
- There are a number of clauses in the scheme that allow the board to vary the terms if they feel this is in the best interests of the company. We note that this type of discretion has been used in the past (by other companies) to assist executives who would otherwise be disadvantaged. We see this potentially as a heads you win, tails the shareholders lose scenario.
- The scheme rules allow the company to loan money to Mr Knight to effect the payment for the shares. We are not in favour of this type of arrangement excepting in very limited circumstances..
- The amount of the incentive is very large compared to previous awards. The company has told us that this is a deliberate decision to incentivise long term performance. Mr Knight’s base salary of \$510,000 will be amongst the lowest in the NZX top 50 if the scheme is approved.
- Shareholders could reasonably argue that one oil or gas find could rapidly push the NZOG share price up and give Mr Knight a much larger bonus than his own efforts deserve.
- Shareholders have the opportunity to vote on this action only because Mr Knight was a director and ASX rules mandate shareholder approval in those circumstances.
- If shareholders fail to pass the resolution, Mr Knight’s salary package will be renegotiated. In these circumstances it is likely to be much higher and the total cost to the company over time may be similar, but without the incentive to lift performance to the benefit of all.

The package meets many of our criteria. It requires Mr Knight to actually pay for the shares. To gain a significant benefit the company’s performance will need to improve steadily over the next few years. Failure to perform and increase the share price significantly will mean no bonus. The dilution effect for existing shareholders will be relatively insignificant due to the scheme design.

However, we are less happy about the potential for later modifications to the scheme and disapprove of the company being able to provide loans (probably interest free) to fund the purchase. The number of shares offered is much higher than previously, but the lower salary does partially offset this, though the extent of this is a matter of opinion.

This is a finely balanced decision and we recommend members should vote as they see fit. At this stage and in the absence of further information to alter our thinking, the NZSA intends to vote any discretionary proxies IN FAVOUR of the motion.