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At Guidance or Beyond?

Setting Production and Cost Incentive Targets in Mining

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For mining companies, setting annual incentive targets requires balancing two important objectives: establishing credible operating expectations for investors and motivating executives to deliver meaningful performance. But should achieving publicly disclosed production and cost guidance be enough to earn target incentive compensation?

Meridian reviewed FY2025 production and cost incentive targets relative to publicly disclosed external guidance across 99 publicly traded mining and metals companies. Of those, 29 provided comparable numerical observations. The analysis found that companies frequently align incentive targets with external guidance, although practices vary across production and cost measures, commodity exposure, company size, and listing market. The findings demonstrate that alignment with external guidance alone does not determine whether an incentive target is appropriately challenging.

How Are Incentive Targets Positioned Relative to Guidance?

Most Incentive Targets Align with External Guidance, but Stretch Varies

Production targets above guidance and cost targets below guidance generally represent a more demanding performance requirement, as executives must achieve production levels and cost savings beyond the company's external expectations to achieve target payout.

Across the sample, the median production and cost incentive target was set at 100% of external guidance. The average target had some stretch, at 101.8% of guidance for production and 98.6% of guidance for cost.

Among the 37 comparable production metric observations and 45 comparable cost metric observations across 29 companies, approximately one-third incorporated additional stretch, roughly half aligned with guidance, and the remainder established less demanding targets.

Metric	Targets set with more stretch than guidance (higher for production, lower for cost)	Targets set at guidance	Targets set with less stretch than guidance (lower for production, higher for cost)
Production	35% of observations	46% of observations	19% of observations
Cost	33% of observations	51% of observations	16% of observations

More stretch generally means higher production targets or lower cost targets relative to guidance.

These results suggest that external guidance serves as a common reference point for incentive target setting, but companies differ in how much additional performance they expect executives to deliver. Importantly, a target aligned with guidance is not necessarily easier to achieve than one set above or below guidance.

Meridian Comment

Compensation committees should assess whether production and cost targets appropriately balance the credibility of external guidance with the need to establish meaningful performance stretch. The relationship between guidance and incentive targets is only one indicator of rigor. Committees should also evaluate the assumptions underlying each measure, operational risks, management's ability to influence results, and the likelihood of achievement.

Setting targets beyond guidance may create additional incentive opportunities for outperformance, but greater stretch does not automatically translate into better incentive design.

How Does Target Calibration Vary Across Mining Companies?

Target positioning varies by commodity exposure, company size, and listing market. While these comparisons provide useful context, differences in operating models, underlying performance measures, and sample sizes should be considered when interpreting the results.

- **Commodity exposure:** Copper companies had more demanding average incentive targets than gold companies, with production targets at 104.2% of guidance and cost targets at 95.1% of guidance, compared with 101.7% and 97.6%, respectively, for gold companies. Copper results are based on a smaller sample and should be interpreted directionally.
- **Company size:** Mid-cap ($2–$10B) companies had average production targets with the most stretch at 103.4% of guidance, compared with 100.8% for large-cap ($10–$50B) and 100.0% for mega-cap (>$50B) companies. Large-cap companies had the most demanding average cost targets in incentive plans at 96.5% of guidance.
- **Listing market:** Canadian-listed companies had higher average production targets than U.S.-listed companies (102.4% vs. 99.7%). U.S.-listed companies had less challenging (higher) average cost targets (105.1% vs. 97.2%), although this result was influenced by a single capital expenditure observation at 131% of guidance. With this data point excluded, the average cost target was 101.4% (vs. 105.1%).

Exhibit 1: **Average Target as % of Guidance**

By Industry

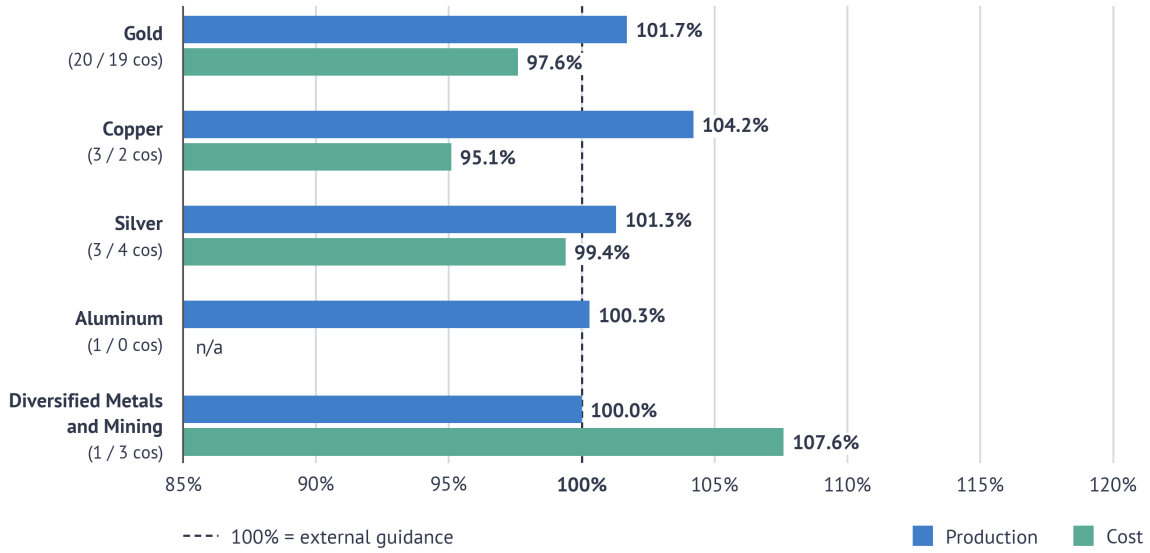


Exhibit 2: **Average Target as % of Guidance**

By Market Cap

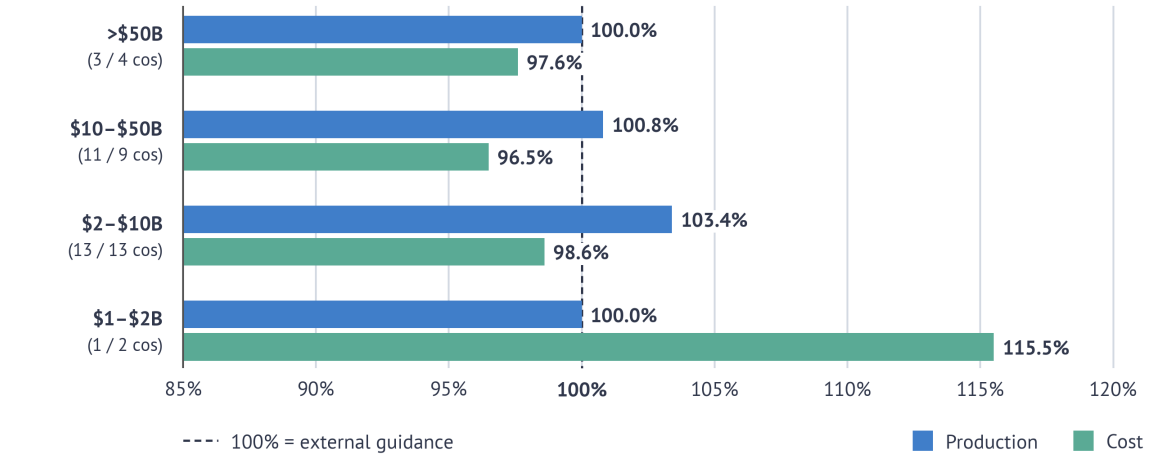
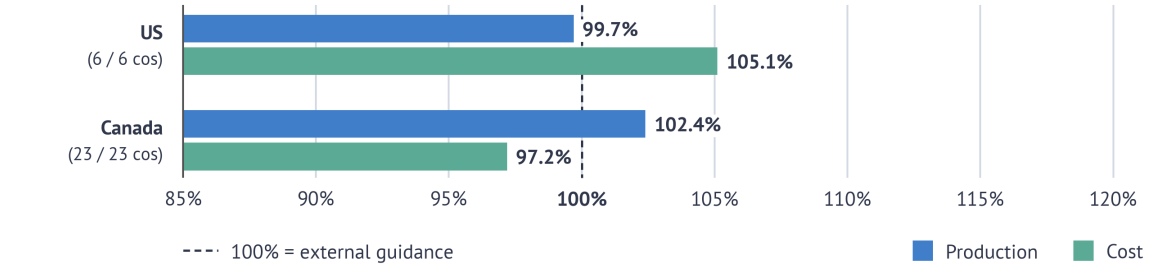


Exhibit 3: **Average Target as % of Guidance**

By Listing



Numbers show average incentive target as a percentage of external guidance. Sample sizes (production / cost companies) are noted below each label. A target above 100% is generally more demanding for production metrics; a target below 100% is generally more demanding for cost metrics. Axis begins at 85% of guidance.

Meridian Comment

Market benchmarks provide useful context, but subgroup averages should not be interpreted as definitive indicators of appropriate target rigor. Compensation committees should prioritize comparisons with companies that have similar commodity exposure, size, and operating complexity, while considering sample size and the nature of the underlying performance metric.

In particular, production, operating cost, and capital expenditure targets may require different calibration approaches. A uniform expectation for stretch across these measures may not reflect the operational realities of the business.

What Should Compensation Committees Consider?

Meridian's findings reinforce the importance of evaluating incentive targets within the context of each company's operating strategy, rather than relying solely on their relationship to external guidance. As committees establish annual incentive targets, three questions warrant particular attention:

1. **Are targets aligned with credible operating expectations?** External guidance provides a useful reference point, but committees should understand the assumptions supporting both guidance and internal budgets and the level of certainty and risk adjustments used for setting guidance.
2. **Does the level of stretch appropriately differentiate performance?** Targets should support meaningful pay-for-performance outcomes without encouraging excessively conservative guidance or performance expectations. Committees should also evaluate threshold and maximum performance levels to ensure the full payout structure appropriately differentiates performance outcomes.
3. **Are the metrics appropriate for the business?** Unit costs, operating costs, capital expenditures, and broader budget measures may warrant different calibration approaches.

Meridian Comment

External guidance is a useful reference point for incentive target setting, but it should not automatically determine the level of performance required for target compensation.

There is no single appropriate relationship between guidance and incentive targets for all mining companies. Targets set at guidance may be appropriate where expectations already reflect meaningful stretch, while targets above or below guidance may be warranted depending on the metric, operating plan, and underlying business conditions.

The objective is not simply to set targets above or below guidance. It is to establish performance expectations that are credible, appropriately challenging, and aligned with the company's operating strategy. In addition to external guidance, committees should consider historical performance, relevant industry benchmarks, operating conditions, and internal budgets and forecasts. Committees should evaluate whether the resulting payout opportunities reinforce accountability for operating performance and support long-term shareholder value creation.

Analysis Methodology

Meridian reviewed 99 publicly traded mining and metals companies. Only numerical target-to-guidance observations were included; unavailable and non-comparable observations were excluded. Individual companies may contribute multiple metric observations, and the production and cost samples are not necessarily identical.

Target positioning is expressed as incentive target divided by external guidance. For production, a target above 100% is generally more demanding; for costs, a target below 100% is generally more demanding.

Subsector, company-size, and listing-market comparisons are based on smaller cohorts and should be interpreted directionally where sample sizes are limited.

This is the third article in a series of industry-focused client insights for the compensation committees of mining and metals companies. For questions about the content of this article, please contact Krunal Billimoria, Senior Consultant, at kbillimoria@meridiancp.com.

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