

## Streamlining the business

<b>Company/ASX Code</b>	Healius / HLS
<b>AGM date</b>	22 October 2020
<b>Time and location</b>	11am AEDT Webcast at <a href="https://web.lumiagm.com">https://web.lumiagm.com</a>
<b>Registry</b>	Computershare
<b>Webcast</b>	Yes
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Patricia Beal assisted by Elizabeth Fish and Raja Rajagopal
<b>Pre AGM Meeting?</b>	Yes with Chair Rob Hubbard, NED Sally Evans, Charles Tilley (Co Sec) and Charlene Jaws (Corp Affairs)

One of the individuals involved in the preparation of this voting intention has a shareholding in this company.

<b>Item 1</b>	<b>Consideration of accounts and reports</b>
<b>ASA Vote</b>	No vote required

## Summary of ASA Position

### Governance and culture

When COVID-19 struck, core values of healthcare were prominent in medicos, nurses and other staff, to care for patients. Older GPs were used more for Telehealth as it expanded, to minimise risks to them. When required, lab staff were on 24 hour rosters to handle the volume of virus testing efficiently and meticulously. There was cooperation between staff and unions. Early on, it took 30 mins to collect 1 swab, including PPE changes and thorough cleaning of the room between patients, before drive-through testing was introduced.

The risk Management framework has been reviewed and updated since last year.

### Financial performance

First half results were promising, with the exception of more retirements of GPs from the medical centres and a competitive recruitment market for replacements. Satisfactory growth was seen in pathology, imaging and day hospitals. However all of these were disrupted by the arrival of

COVID-19 around March, of course. Fortunately a huge increase in covid testing outweighed a drop in other pathology tests. Imaging, private hospital surgery, GP clinics and dentistry were disrupted to varying extents. HLS gained contracts for COVID19 testing.

The H1 dividend was deferred till Oct 2020 (ie in FY 2021). And it was not considered appropriate to declare an H2 dividend due to assistance in various forms from Govt, including JobKeeper for Montserrat, assistance from Minderoo Foundation to purchase more technology to increase the volumes of virus testing, etc. Extra costs are involved for virus testing. If Govt assistance had not been received, further cuts and cost savings would have been instituted.

### **Key events**

A couple of earlier offers for the whole company were rejected by the board as undervaluing HLS. In mid-June, the sale was announced of the Medical Centres to BGH Capital, for \$500m. This includes 69 large medical centres, 13 Health & Co practices and 62 dental clinics. The decision to sell was based on the level of capital investment required to bring them up to standard, plus electronic booking software, plus probable lease expenditure growth. The sale is to be completed before the end of 2020, pending FIRB approval and possible other conditions. The loss on disposal was shown as \$142.5m, primarily as goodwill.

This simplifies the remaining business, leaving Pathology (#2 in Australia), Imaging (#3), and the Day Hospitals (Montserrat Day Hospitals, acquired in FY 2019, and a few previously owned Healius Day Hospitals - a growing sector; also 4 IVF clinics).

### **Key Board and senior management changes**

Errol Katz retired from the board on 19 August 2019.

Arlene Tansey will retire from the board at the end of the 2020 AGM.

The board announced they are in process of selecting candidates for 2 new NED positions. One factor will be the recently set gender diversity target of 40% male / 40% female / 20% either, by 31 Dec 2021.

John McKechnie appointed Chief Executive Pathology from 19 August 2019.

Maxine Jacquet to Chief Financial Officer from 19 August 2019 (prev Chief Exec, Health & Co).

Ben Korst appointed Chief Exec, Day Hospitals Nov 2019 (ie when Montserrat taken over, having been CEO at Montserrat since 2010).

## Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT (\$m)	(70.5)	55.9	4.1	(516.9)	74.9
UPAT (\$m)	55.4	93.2	87.5	92.1	104
Share price (\$)	3.05	3.02	3.37	3.64	3.95
Dividend (cents)	3.4 (FY19 final)	7.2	10.6	10.6	12.0
TSR (%)	2.1	-7.7	-4.2	-4.9	-19.2
EPS (cents)	(11.3)	9.2	0.8	-99.1	14.4
CEO total remuneration, actual (\$m)	1.625	2.05	1.41*	3.02**	1.77

\* for 2018, CEO rem was for 10 months only (new appointment)

\*\* includes \$1.12m termination payment to Peter Gregg

For FY 2020, the CEO's total actual remuneration was **17.7 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Note - For May 2020, the Full-time adult average weekly total earnings (annualised) was \$91,983 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings").

Item 2	Adoption of Remuneration Report
ASA Vote	For

## Summary of ASA Position

At the FY19 AGM, HLS proposed a one-off Transformation Long-Term Incentive Plan, which was approved to incentivise KMP for the long term, as there was little likelihood that the usual criteria for LTI would be satisfied at intermediate stages of the transformation. It was expected that it would take 5 years to show, in financial terms, the evidence of the full transformation - and that was before effects of any virus. This rationale, and the details (which were described in full in the NOM for the FY19 AGM), were approved.

From late March to end of June 2020, due to the effects of COVID-19, the Board decided on pay cuts to both senior executives and board members as follows:

CEO and Chair: 30% reduction in pay; other KMPs and NED: 20% reduction.

We supported the rem report last year, which included the TLTIP proposal, and the only changes are the reductions (March to June) described above.

CEO rem. framework	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.65	63%	1.65	63%
STI - Cash*	0.726	27.7%	0.726	27.7%
STI - Equity*	0.24	9.2%	0.24	9.2%
LTI**	**	**	**	**
Total	2.615	100.0%	2.62	100.0%

\* STI hurdles for FY20 were not met

\*\* Transitional LTI vests only in years 3 - 5 if hurdles met; LTI pending from prior years - nil. Intended to be 37% of total rem.

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan for 2020. \*Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

<b>Item 3</b>	<b>Re-election of Rob Hubbard as a Director</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Rob Hubbard was appointed to the board in Dec 2014; and as Chair of the Audit Committee in Feb 2015. In July 2018 he was appointed Chairman (at that stage changing to an ordinary member of the Audit C'tee and also joining the People & Governance C'tee). His professional experience has been in accounting, corporate finance, assurance and audit.

He is also Chairman of Orocobre, and an NED of Bendigo & Adelaide Bank. He assured us he has sufficient time for these responsibilities. Rob holds over 76,000 shares in HLS.

<b>Item 4</b>	<b>Approval of issue of securities under the ST Incentive Plan</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Consistent with approval of rem report.

<b>Item 5</b>	<b>Approval of acquisition of securities by CEO/Managing Director Malcolm Parmenter</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

These are issued under the rem plan which we support, with usual performance and termination conditions, described in Attachment A to the NOM.

Malcolm Parmenter is to receive 26,537 shares, for STI plan incentives for FY18. The value is calculated under the VWAP formula, averaged for the 10 trading days following the announcement of the results for the relevant FY.

<b>Item 7</b>	<b>Amendment of constitution</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Special rulings were required to hold AGMs virtually this year. This change will legitimise such meetings (or hybrid meetings) in future years if the necessity arises.

Also, the need to specify a fax number for lodging of proxies is removed.

**ASA Disclaimer**

*This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document, it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:*

- makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.*

*This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.*