



**Ramsay: a global hospital group operating through a pandemic**

<b>Company/ASX Code</b>	Ramsay Health Care/RHC
<b>AGM date</b>	Tuesday 24 November 2020
<b>Time and location</b>	10:30am AEDT online at <a href="https://web.lumiagm.com/377315778">https://web.lumiagm.com/377315778</a>
<b>Registry</b>	BoardRoom
<b>Webcast</b>	The AGM is all online due to the COVID-19 pandemic
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Helen Manning assisted by Ramaswamy Rajagopal.
<b>Pre AGM Meeting?</b>	Yes with People & Remuneration Committee Chair, Ms Alison Deans, Group General Counsel & Company Secretary, Henrietta Rowe and Group Chief People Officer, Colleen Harris, Group Head of Investor Relations, Kelly Hibbins (and with the Chair Michael Siddle having to cancel at the last moment). Karin Hickman from the ASA in attendance.

Please note any potential conflict as follows: The individuals (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

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

Being a global hospital group operating in approximately 500 locations across Australia, the United Kingdom, France, Sweden, Norway, Germany, Indonesia, Malaysia, Hong Kong and Italy, Ramsay has been exceptionally impacted by the COVID-19 global health pandemic.

This pandemic started to impact the world from about February 2020 onwards. Elective surgery restrictions have been introduced in some countries and Ramsay has been involved in making its facilities available to some governments as a part of their response to COVID.

In France, Italy and Sweden it has meant being at the forefront of the pandemic, caring for over 7,000 COVID patients. Whilst there has been, and continues to be, uncertainty, with the progress of the pandemic, it has also meant that partnership agreements with some governments have resulted in Ramsay stating that the business is 'broadly breakeven' in some Australian states and in the UK. In the 2020 annual report 'Revenue from governments under COVID 19 support contracts' has been stated at \$189.6m. In France Ramsay Sante is receiving a revenue guarantee from the French government. In the 2020 annual report 'other income – income from governments grants' has been stated at \$235.2m. The Swedish government also provided support.

Ramsay sees these close partnerships agreements as continuing to be positive in any return to normalcy following the current crisis. They see the renewed demand for surgery when restrictions are lifted as being something that Ramsay could pick up on as the public sector hospitals are stretched.

## **Summary of ASA Position**

In our pre-AGM meeting with Ramsay we tried to get a better idea of how the company was handling the risks inherent in COVID in particular.

We also needed to discuss some detail in the remuneration report as the ASA had voted against this last year and there had been a big enough vote against the report to register a 'strike'.

## **Financial performance**

Ramsay's statutory net profit after tax (NPAT) was \$284m a decrease of 47.9% on last year. On a like for like basis, under the previous lease accounting standard (AASB117) this represented a decrease of 40% on the previous corresponding period.

Earnings per share (EPS) was 131 cents, a decrease of 49.6% on last year, or a decrease of 41.6% on a like for like basis under the previous accounting standard.

The company suspended payment of its final dividend on ordinary shares resulting in a total of 62.5 cents per share for the year being paid out: a significant drop from previous years.

As a consequence of implementing AASB16 the company had to capitalize \$4.5 bn right of use assets in 2020 and the ROCE fell quite dramatically.

Guidance was withdrawn in March 2020 given the unpredictability of the pandemic.

The company's share performance has been lacklustre falling to \$62.50 in 2020 from \$119 in 2016 with only modest dividends as the table below shows.

## **Key events**

A capital raising raised \$1.5b in April and May 2020, of which \$1.2b came from institutional investors. ASA's preference is for companies to raise capital through a renounceable pro-rata entitlements offer with a single bookbuild that treats all shareholders equally, or otherwise by way of a pro-rata accelerated institutional tradeable rights entitlements offer (PAITREO). Given that Ramsay offered its retail shareholders a share purchase plan (SPP) we urged Ramsay to lift its cap. An initial cap of 200m was raised to 300m for retail shareholders.

The company now has a strong balance sheet to fund future acquisitions and to weather further impacts from the pandemic. The company has money to remain flexible.

## **Key Board or senior management changes**

3 long term executives left the company last year. Non-executive directors Mr Rod McGeoch and Mr Kerry Roxburgh resigned from the board in November 2019 and The Group Finance Director and Chief Financial Officer, Mr Bruce Soden, resigned in December 2019. All 3 had been appointed in 1997. Mr James McMurdo joined in September 2019. Ms Karen Penrose joined the board in March 2020. This means that whilst the chair and deputy chair are long term board members, the remaining board has seen renewal. The Chief Group Strategy Officer, Mr Olivier Chretien left the company in June 2020.

**Summary: From 1<sup>st</sup> July 2019 AASB16 Leases replaced AASB117 Leases**

(As at FYE)	2020	2020**	2019	2018	2017	2016
NPAT (\$m)	284.0	327.1	545.5	388.3	550.9	511.3
UPAT (\$m)	336.9	387.7	590.9	579.3	601.9	539.5
Share price (\$)	66.52		72.24	53.98	73.6	71.76
Dividend (cents)	62.5		151.5	144.0	134.5	119.0
TSR (%)	-7.05%		36.63%	-24.71%	4.4%	18.86%
EPS (cents)	131.0		264.9	186.7	236.5	217.6
CEO total remuneration, actual (\$m)	5.124		4.803	7.519	22,23	17.98

\*\* We include this column for easier to comparison from previous years to show calculations under the old accounting standard

For FY20, the CEO's total actual remuneration was **56 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").

<b>Item 2</b>	<b>Adoption of Remuneration Report</b>
<b>ASA Vote</b>	<b>For</b>

**Summary of ASA Position**

MD & CEO rem. Framework for FY20	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	2.14	27%	2.14	25%
STI - Cash	1.07	13.5%	1.34	15.5%
STI - Equity	1.07	13.5%	1.34	15.5%
LTI	3.65	46%	3.77	44%
Total	7.93	100.0%	8.59	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.

\*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.

Following the large vote against the remuneration report last year that resulted in a first strike this year's annual report outlines the criticisms given and the measures taken. It is useful to look at the usual components that make up current remuneration with regards to these changes and to include the response to COVID-19 as follows:

## **Fixed Annual Remuneration (FAR)**

Due to COVID-19 it was announced that there would be no increases to FAR for senior management in Australia and the UK. This is commendable given the current situation.

## **Short term incentives (STI)**

Due to COVID-19 it was stated that no payments will be made, notwithstanding that a proportion of the non-financial scorecard targets were met. This is commendable given the situation.

The problem to be addressed from shareholders in 2019 was described as 'lack of transparency for disclosures to STI metrics and associated performance outcomes'.

In response Ramsay has supplied the weightings used for the 5 components of the scorecard, a description of how the award is calculated (the formula) and a colour coded indication of actual STI outcomes. They also state that one of the multipliers – 'the Ramsay Way' will only reduce the outcome (as it is a multiplier between 0 and 100). These additions have directly addressed the concerns shown.

We note: At our pre-AGM meeting we did ask how maximum opportunity could be achieved using the formula given - maximum opportunity being 125% of FAR and all multipliers in the equation seemingly being at 100% or a multiplier of 1. We were told the 125% would come from the scorecard result. As this seems to be also to a maximum of 100%, we are still unsure.

## **Long term incentives (LTI)**

Due to COVID-19 the FY18 LTI will not vest as neither the TSR or EPS hurdles were met. (Given that the EPS performance was well below threshold there was no need for a review of EPS inclusions or exclusions in determining individual accountability for vesting of LTI for this year). This is commendable under the circumstances.

The problems to be addressed from the shareholders in 2019 revolved around the use of Core EPS both in terms of individual executive accountability and the use of it, relative to an annual market guidance. There is also an absence of a return-based metric.

In response, Ramsay will

- No longer report on Core EPS from FY21
- Use 5 guiding principles to adjust the EPS metric as outlined in the annual report
- From FY21 the EPS metric will be updated with the introduction of a ROIC gateway
- From FY21 EPS will be based on a 3 year growth range against threshold and stretch performance hurdles.
- From FY21 have a ROIC gateway.

These measures address the concerns directly and we look forward to more detail on the ROIC gateway and the threshold and stretch performance hurdles for the EPS. We note that it should be usual to know these details before voting but a few companies are not revealing thresholds due to market uncertainty.

The ASA prefers LTI to have a performance period of 4 and preferably 5 years. Ramsay has a 3 year period.

The ASA prefers a more rigorous scale for vesting on the TSR metric.

### **Proposed changes for non executive director remuneration**

- Reduce NED base fees by 20% from 1 July 2020
- Chairman’s fee reduced by \$65,100 pa
- No longer making NED share rights plan award equal to 20% of the NED’s base fees
- (subject to shareholder approval) NED’s to be given opportunity to salary sacrifice for share rights.

The ASA commends these moves.

We note that with the addition of new modifiers and metrics we are increasing complexity for the remuneration as a whole. We urge Ramsay to continue to try to be clear in its reporting.

<b>Item 3.1</b>	<b>Re-election of Mr Michael Stanley Siddle as a Director</b>
<b>ASA Vote</b>	<b>For</b>

Mr Siddle is the Chairman of Ramsay and a founding director having been with the company since 1968. He serves as a member of the Company’s People & Remuneration Committee and Nomination & Governance Committee and he is also a Trustee of the Paul Ramsay Foundation. It is acknowledged that he would not be considered independent under the 4th Edition ASX Recommendations which apply to the Company from 1 July 2020 but there is now a growing number of board members who would now be considered independent. He holds no other board positions on any other listed company and owns 3.9 million shares in the company.

The ASA supports his re-election.

<b>Item 3.2</b>	<b>Re-election of Ms Karen Lee Collett Penrose as a Director</b>
<b>ASA Vote</b>	<b>For</b>

Ms Penrose was appointed to the board in March 2020 and is the chair of the Audit Committee and a member of the Risk Management Committee. She comes from a banking background and in our pre-AGM meeting it was explained that her specific skillset relating to capital management, finance and strategy were targeted. She is a full time company director and her board positions are set out in the Notice of Meeting and are: a Director of Vicinity Centres, Bank of Queensland, and Estia Health. Ms Penrose is a member of Chief Executive Women and on the Board of Marshall Investments Pty Limited. With her position on the board at Ramsay she fills 5 board positions, which the ASA considers the maximum number to comfortably fill. Since joining the board she has purchased shares in the company.

<b>Item 4</b>	<b>Approval of Performance Rights to Managing Director Craig McNally</b>
<b>ASA Vote</b>	<b>For</b>

The face value of the proposed grant of PRs to Mr McNally in FY2021 has been set at 175% of his total fixed remuneration (i.e. \$3,650,325).

Mr McNally will be granted 55,563 PRs. The number of PRs has been determined by dividing the FY2021 grant value of \$3,650,325 by the 5-day Volume Weighted Average of the Company's share price up to and including 1 July 2020 (\$65.6968), with 1 July being the first trading day of the performance period.

The PRs proposed to be granted to Mr McNally will be divided into two equal tranches that are to be tested independently from each other:

- The first tranche will be subject to a relative total shareholder return (**TSR**) performance hurdle (**Parcel A**) at the end of 3 year performance period
- The second tranche will be subject to an average actual return on invested capital (ROIC) and an earnings per share (**EPS**) performance hurdle (**Parcel B**) over a 3 year performance period.

#### Summary of ASA Position

We support the 2020 the Remuneration Plan from which these rights accrue. Therefore, ASA will vote all undirected proxies for this resolution.

<b>Item 5</b>	<b>Approval Of Non-Executive Director Share Rights Plan For Purpose Of Salary Sacrifice</b>
<b>ASA Vote</b>	<b>For</b>

#### Summary of ASA Position

The ASA supports meaningful share ownership. We see this as an alignment with shareholder interests.

<b>Item 6</b>	<b>Spill motion (contingent resolution)</b>
<b>ASA Vote</b>	<b>Against</b>

#### Summary of ASA Position

The ASA has voted for the remuneration report and therefore would not support a spill motion.

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