

## Trusting the Medical Leadership

<b>Company/ASX Code</b>	Sonic Healthcare / SHL
<b>AGM date</b>	<b>18 November, 2021</b>
<b>Time and location</b>	10am AEDT <a href="https://web.lumiagm.com/327860815">https://web.lumiagm.com/327860815</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 with Richard Williams
<b>Pre AGM Meeting?</b>	Yes with Chair Mark Compton, Kate Spargo (NED, Rem Chair) and Paul Alexander (Co Sec).

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

### Summary of issues for meeting

The composition and long-term tenure of the board are unusual, and don't fit any 'tick the box' set of criteria. However this board has no doubt been very much entwined with its long term success. It is now a case of needing to ensure that there is long term succession planning, while at the same time not discarding the long experience of the incumbents before it is necessary.

Remuneration. An overly complicated system, assessed over a relatively short period.

<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

SHL's most recent Corporate Responsibility Report was released in Oct 2020, with a new version expected soon. This report emphasises the Medical Leadership and core values which have guided the company longterm, as relevant now as 20 years ago. Organisationally the company uses a Federated Management structure, with each company responsive to local needs, but

multiple ways of interacting and reporting to the overall leaders, CEO and board. For example informal communication between the CEO and key executives and via a committee of executives. There is also a global leadership group which meets at an annual conference. As well as written and financial reporting to the board there are regular presentations made at board meetings by overseas executives. In non-COVID times the board will also travel to meet executives in SHL's overseas operations.

### **Financial performance**

This is an international pathology company, with approx 25% of revenues each in USA, Australia and Germany. Smaller amounts come from UK+Ireland, Switzerland, Belgium and NZ, with also an Imaging company in Australia (7%) and Sonic Clinical Services 8%, which this year had a large contribution from vaccinations (largest non-government provider of these, in Australia) in medical centres, aged care and vaccination hubs.

Covid testing (around 30 million PCR tests worldwide) gave a huge boost to the revenues of the labs worldwide, with revenues around 28% above usual. From developing their own test when the virus was first detected to validating and getting approval for this, plus the constant challenge of keeping supplies of reagents and other consumables up, working the labs at times 24 hrs a day, let alone collecting the samples in Australia, and getting them couriered to the labs promptly, it all had to work optimally. It was a tribute to the culture of the company, plus of course the medical direction which had kept the lab equipment and people up to date, enabling SHL to respond quickly and efficiently to the sudden increase in the demand for its services.

While there are no forecasts, it is expected that covid testing will continue for some time, with opportunities for commercial contracts for travel companies, remote communities, aged care facilities and so on.

Both the share price increase (up 26%) and the dividend (up 2.3%) were significantly increased over this financial year, however this is a company which also invests in its people and equipment, as well as paying dividends, to keep the growth continuing steadily.

### **Key events**

There is a steady stream of small acquisitions / amalgamations of other independent firms as they become available. For example, the recent acquisition of Canberra Imaging in September 2021.

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

Both the board and senior management are very stable and experienced, which has stood the company in good stead at this time. It will be observed that most of the board have been stable for more years than is usual in the corporate world, but there is some refreshment of the board, and they assured us this would continue. It is hard to complain, when so many of them (board and executives) have very significant "skin in the game", and obviously have been prepared to work extremely hard this year. As for the executives, both the CEO and Finance Director have been in office since the company listed in 1993. Yes, it is unusual to have two Executive Directors on the board.

## Summary

(As at FYE)	2021	2020	2019	2018	2017
NPAT (\$m)	1.315	528	549.7	476	428
UPAT (\$m)	1.315	552	524	467	442
Share price (\$)	38.4	30.43	27.10	24.53	21.55
Dividend (cents)	87	85	82	78	75
Simple TSR (%)	29.1	15.6	14.1	4.9	16.3
EPS (cents)	273.1	110.6	122.1	112.2	102.1
CEO total remuneration, actual (\$m)	8.939	5.671	11.873*	9.978*	5.092

\*based on date the options were exercised

For 2021, the CEO's total actual remuneration was **96 times** the Australian Full time Adult Average Weekly Total Earnings (based on November 2020 data from the Australian Bureau of Statistics).

Actual earnings are ASA defined as the cash payments made during the year (FR, STI, deferred STI, plus any vesting of equity incentives at share price on date of vesting).

Note - For May 2021, the Full-time adult average weekly total earnings (annualised) was \$93,444 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings").

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, (excluding franking) by the share price at the start of the year.

<b>Resolution 1</b>	<b>Re-election of Kate Spargo as a Director</b>
<b>ASA Vote</b>	<b>For</b>

## Summary of ASA Position

Ms Kate Spargo has been a Director since 2010, so is approaching the time when ASA will no longer regard her as independent. Her current other ASX Directorships are Cimic, Adairs and Sigma Healthcare, with roles in other entities. She chairs the Remuneration & Nomination Committee and is on the Audit Committee.

To align herself with shareholders she holds 23,000 shares.

<b>Resolution 2</b>	<b>Re-election of Lou Panaccio as a Director</b>
<b>ASA Vote</b>	<b>Undecided</b>

### Summary of ASA Position

Mr Lou Panaccio has been a Director since 2005. In fact, he was CEO of Melbourne Pathology (acquired by SHL in 1999); CEO of Monash IVF till 2009, and Executive Chairman of Health Networks Australia till 2017. He is a Chartered Accountant, with obviously very considerable experience in the healthcare sector. Also he is on the boards of Avita (which he chairs) and Rhythm, as well as four other non-listed entities, one of which he chairs. We wish to question both the amount of time Mr Panaccio can devote to each of his responsibilities, and also the independence of thought he might still bring to this board, given his already 16 years tenure.

He holds over 8,000 shares in SHL.

<b>Item 3</b>	<b>Adoption of Remuneration Report</b>
<b>ASA Vote</b>	<b>Against</b>

### Summary of ASA Position

See Appendix 1 (below) for details of the scheme.

It does seem an overly complicated system! It was changed before the 2020 Annual Report, after a first strike against it in the previous year. We voted against last year, and it is the same scheme as last year.

The LTI is not very much 'longer' than parts of the STI. ASA much prefers LTI of 4 years or longer, as the rolling period over which long term performance of the company is assessed, and the rewards distributed over the same period. Also share grants should be allocated at face value (at SHL "fair value" is used). Usually LTI is split between 2 criteria to be satisfied, whereas SHL has 3; plus then it is split between options and rights. In addition, take-home remuneration is not disclosed in the annual report.

Certainly shareholders, like the executives, have been well rewarded this year, but we had hoped more thought might have been given to deciding which measures were most salient to ensuring that the chosen criteria did indeed give best alignment.

<b>Item 4</b>	<b>Approval of LT Incentives to CEO/Managing Director Colin Goldschmidt</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Dr Colin Goldschmidt's very long experience, plus his dedication to the company, have no doubt been crucial to the success of the company in these very stressful times for it. We cannot doubt that he has served the company extremely well, and deserves being rewarded. Hence our support for this item, despite our vote against the design of the remuneration package. These LTI are being issued half as options and half as performance rights, vesting between 3 and 5 years in the future, if the challenging conditions set are met. Maximum value achievable is \$3,066,001, but it is also possible that zero is awarded. Full details are set out in the Notice of Meeting.

<b>Item 5</b>	<b>Approval of LT Incentives to Finance Director / CFO Chris Wilks</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Mr Chris Wilks' very long experience, plus his dedication to the company, have no doubt been crucial to the success of the company in these very stressful times for it. We cannot doubt that he has served the company well, and deserves being rewarded. Hence our support for this item, despite our vote against the design of the remuneration package. These LTI are being issued half as options and half as performance rights, vesting between 3 and 5 years in the future, if the challenging conditions set are met. Maximum value achievable is \$1,168,399, but it is also possible that zero is awarded. Full details are set out in the Notice of Meeting.

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## Appendix 1

### Remuneration framework detail

CEO rem. Framework for FY21	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	2.397	31	2.397	26
STI - Cash	1.32	17	1.76	20
STI - Equity	0.88	12	1.32	15
LTI	3.068	40	3.45	39
Total	7.666	100.0%	8.927	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.

Fixed rem is designed to be 31% of the total rem for the CEO; STI 29% and LTI 40%.

STI is allocated 60% to cash; 40% to equity. To align with performance of the company, 80% is based on EBITDA growth; 50% of this allocation is as rights, converting to shares 2 years later. The remaining 20% of STI is assessed on strategic objectives of the executive, under 6 headings; it is admitted that these are fairly normal behaviour anyway for the executives.

LTI makes up 40% of the available rem and is awarded half as options, half as share rights.

It is split 45% on TSR, 33% on aggregate EPS and 22% on ROIC. All of these are aligned with long term returns (averaged over rolling 3 yr periods) for shareholders, awarded on sliding scales. Comparisons are with the ASX100 (minus banks and resources). More detail is in the Annual Report, Rem section.

It does seem a complicated system! It was changed before the 2020 Annual Report, after a vote against it in the previous year.