



## Human services newcomer and private equity ride into town

<b>Company/ASX Code</b>	APM Human Services International Limited/APM
<b>AGM date</b>	Thursday 27 October 2022
<b>Time and location</b>	10.00am AWST, University Club of Western Australia, Entrance 1, Hackett Drive, Crawley, WA, and online
<b>Registry</b>	Computershare
<b>Type of meeting</b>	Hybrid
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	John Ferguson
<b>Pre-AGM Meeting?</b>	Yes: teleconference with Megan Wynne (Board Chair), Tim Sullivan (Chair of Nomination and Remuneration committee), Neville Power (independent NED), Peter Torre (Company Secretary) and Matt Cooper (Investor Relations Manager)

Monitor Shareholding: The individual involved in the preparation of this voting intention has no shareholding in this company.

### Summary of issues for meeting

1. Board independence.
2. A number of issues with the Remuneration Report.
3. The use of net profit after tax adding amortisation as a key metric to judge company profitability and as target measure in the remuneration package for executives.

### Proposed Voting Summary

No.	Resolution description	
1	Adoption of Remuneration Report	Against
2	Re-election of Elizabeth Batten as a Director	For
3	Re-election of William Ritchie as a Director	Against
4	Election of Ben Wyatt as a Director	For
5	Approval of Long-Term Incentive Plan	Against
6	Grant of performance rights to Megan Wynne or her nominees	Against
7	Grant of performance rights to Michael Anghie or his nominees	Against
8	Amendment to company's constitution	Against

## **Summary of ASA Position**

### **Consideration of accounts and reports - No vote required**

APM listed on the ASX on 12 November 2021, with private equity outfit Madison Dearborn Partners (MDP) selling into the public listing at \$3.55. With a market valuation around \$3b, the listing represents a remarkable success story for local businesswoman, Megan Wynne.

The company pursues contracts to deliver a wide spectrum of human and health services for government departments and organisations like insurance companies. They are actively involved in market driven approaches to the delivery of services for a broad clientele base and is in a rapid growth phase.

### **Governance and culture**

The Board does not have an independent Chair, nor a majority of independent Non-Executive Directors (only 3 of 8). Megan Wynne, founder and Executive Chair, has a personal holding of 21.6% of the share registry and MDP has 30.4%. The IPO Prospectus contained a “Relationship Deed” between APM and MDP, where APM agreed to “procure” three Board directorships for MDP (plus some other benefits at Board level). It is highly unlikely for the Board to attain independent status within the foreseeable future (contrary to ASX Corporate Governance Council Corporate Governance recommendation 2.4).

In response to a question about independent NEDs taking a more prominent role in Board affairs, it seems Neville Power takes on the unofficial role of lead independent director

As well, there is a separate Advisory Board and they provide strategic advice to company executives on a need’s basis.

At an operational level, the company adopts a client-centred approach in providing a diverse range of services which enhance the social fabric of the communities in which they operate. Their values base and culture reflect this contribution.

### **Financial performance**

Revenue for the year was \$1.33b up 31% on FY21 figures. Revenue growth was 57% organic and 43% from acquisitions since listing.

The company’s preferred metric to describe profitability is NPATA (net profit after tax adding back amortisation). Proforma NPATA was \$166.3m up 29% on FY 21 figures.

The Auditor’s report listed three significant audit matters: the valuations placed on three acquisitions, judgements about actual revenue from outcomes-based contracts and the valuation of \$1.6b of goodwill and the testing of it for impairments.

### **Key events**

Since listing, APM has made nine acquisitions both in Australia and overseas. The acquisitions provide access to new opportunities for the contracting of a broader range of services.

Chair Megan Wynne had substantial ownership in three of these businesses (Early Start Australia a 100% purchase, Integrated Care a 100% purchase and Mobility Australia a 50% purchase). Total value for these companies was \$121.7m and APM made payment through a mixture of cash, settlement of loans and deferred consideration

A new \$810m revolving corporate facility was negotiated on very favourable terms in July. It was described as the first social loan linked to corporate debt in Australia.

Shares held by MDP came out of escrow in July.

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

Ben Wyatt, who is on the APM Advisory Board, was nominated for a Director position on 25 July 2022. Pleasingly he will be regarded as independent.

### **ASA focus issues (not discussed under remuneration report or re-election of directors):**

The company has a very strong social license for the work it does and so ESG issues are not material. No capital raisings were conducted during the year.

### **Summary**

(As at FYE)	2022	2021
NPAT (\$m)	\$114.6m proforma	\$114.6m proforma
Share price (\$)	\$2.87	\$2.87
Dividend (cents)	nil	nil
Simple TSR (%)	-23.7%	-23.7%
EPS (cents)	7.08c	7.08c
CEO total remuneration, actual (\$m)	\$3.732 calculated	\$3.732 calculated

### **Election or re-election of directors**

A key consideration is the influence of the private equity partner (MDP) on Board operations. They hold three Board seats and chair two of the Board's three committees – namely the Nomination and Remuneration committee and the Finance and Investments committee. Chairmanship of Board committees was not included in the Relationship Deed. In terms of the Board's skills matrix, investment banking expertise looks over-represented. Two executive directors sit on the Board – Megan Wynne (founder and executive Chair) and Michael Anghie (CEO)

On the pre-AGM teleconference, three suggestions were floated:

1. establishing an actual table of the fourteen identified skills displaying the particular skills each Director brings to the boardroom.
2. having all three Board committees chaired by an independent NED as a way of building more "independence" into Board operations.
3. formally appointing a lead independent NED.

Each received a lukewarm reception.

Two MDP directors are standing for re-election and both joined the Board on 9 March 2020:

1. Elizabeth Betten is the managing director of MDP and her working background is investment banking in the health care sector. Ms Betten's major academic qualification is a Master of Business Administration. She currently sits on all three APM Board committees. ASA will vote FOR the re-election.
2. William Ritchie is a MDP director with a working background as an investment banking analyst. Mr Ritchie's major academic qualification is a Master of Business Administration. He currently chairs APM's Finance and Investments committee. ASA will vote AGAINST the re-election based on Mr Ritchie holding the chairmanship of a Board committee and because the Board's skills matrix is not well served by an over-representation of investment banking skills.

Ben Wyatt is standing for election and has a working background in law and politics. Mr Wyatt's academic qualifications include a law degree and a Master of Science majoring in Political Science. He currently serves on the Boards of Woodside Energy and Rio Tinto. ASA will vote FOR the election.

#### **Adoption of Remuneration Report and approval of equity grants to Managing Director/CEO**

The current Report was drawn up when the company was a private entity and is evolving. The ASA will vote AGAINST the report for a number of reasons:

1. Short Term Variable Remuneration (STVR) was awarded in cash at the Board's discretion. Proforma NPATA > \$155.1m was set as a gateway. Incentives were awarded for the execution of the company's growth strategy. No specifics were provided.
2. The LongTerm Incentive Scheme used a single performance metric, namely relative Total Shareholder Returns as compared to the ASX 300 Industrial Index.
3. Fair value was used to calculate the number of performance rights to be awarded.
4. Vesting of incentives occurred over three years.

Resolution 5 (Maintain the LTI plan) will be put to the AGM. This resolution seeks to have advanced approval from shareholders to overcome the ASX cap on the issue of new shares under a company's incentive plan. ASA will vote AGAINST this resolution because fair value will be used to calculate the number of performance rights to be issued and because it gives further discretionary powers to a Board which is not independent.

Resolutions 6 and 7 will call for the approval of the granting of performance rights to Megan Wynne and Michael Anghie. The ASA will vote AGAINST both resolutions because fair value is used in calculations rather than face value. In Ms Wynne's case an extra 20,000 share rights will be awarded under the fair value model and 56,000 for Mr Anghie. Too generous by far.

## Adoption of new or amended constitution

Resolution 8 seeks to amend the constitution to allow for:

1. Better synchrony with the changes coming to the ASX clearing and settlement platform.
2. Facilitating hybrid and virtual-only meetings.
3. Providing greater flexibility to the company in the way it issues notices.

The ASA is guarded about giving companies the discretion to hold virtual-only meetings when it suits.

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## Appendix 1

### Remuneration framework detail

There is a good mix of the remuneration components.

STI is heavily biased towards the company's growth strategy. The \$1.365m cash reward is well in excess of the target award. Specific information is lacking about the CEO performance criteria.

LTI takes the form of performance rights with calculations done according to fair value methodology. Relative TSR is the sole performance hurdle for these incentives. The comparator TSR is the ASX 300 Industrial Index which is far too broad to make meaningful and relevant comparisons. However APM is quite a unique company and it is difficult to have a small group of similar comparator companies.

The *Western Australian* of 24<sup>th</sup> September published a table for the current remuneration of CEOs of WA based companies. Mr. Anghie was ranked 7<sup>th</sup> with a total remuneration of \$4.31m. Just ahead and ranked 6<sup>th</sup> was Meg O'Neill from Woodside Energy with \$4.53m. Woodside has a market cap of ~\$57.0b and APM's is ~\$2.7b.

CEO rem. Framework for FY21	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	2.115	50%	2.115	37%
STI - Cash	1.057	25%	1.586	27%
STI - Equity	na			
LTI	1.057	25%	1.586	36%
Total	4.3	100.0%	5.287	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.