

A healthier company, overworked.

Company/ASX Code	Healius / HLS
AGM date	Thursday 21 October 2021
Time and location	e.g. 10am AEDT https://web.lumiagm.com (AGM no.398-679-470)
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Patricia Beal assisted by Elizabeth Fish
Pre AGM Meeting?	Yes, with Chair Robert Hubbard and Janet Payne (Group Executive, Corporate Affairs).

Please note any potential conflict as follows: One of the individuals involved in the preparation of this voting intention has a shareholding in this company.

Summary of issues for meeting

Streamlined, simplified company now. Giving improvement in shareholder returns, as well as company finances. The improvement process is ongoing.

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

As the situation with covid developed and worsened, the extent of the demands for testing etc became clearer, and Healius was able to upscale to satisfy this need. New and innovative technologies, with increased requirements for staff, equipment, reagents, PPE and so on drew very heavily on the expertise of the company - at a time when there was great competition for sometimes scarce resources, especially of staff. Simultaneously, when possible and allowed, more routine business proceeded, together with controls on cash flows and planned improvements.

Governance and culture

Corporate Responsibility (Sept 2021) and Sustainability (Nov 2020) Reports add to the understanding of this company. Environmental: HLS has announced the goal of carbon neutrality (scopes 1 & 2) by FY2025.

Social: Benefits for staff, recognising their huge efforts. These include paid parental leave, additional time off over Christmas, and wellbeing webinars.

Governance: Board renewal was undertaken, with increased female representation.

Financial performance

Revenues increased in non-covid areas, as well as (very dramatically) covid testing. By far the largest division (76% of total revenues), Pathology revenues increased by 25%. This was the major growth area, with tests both as part of the general testing regime and also by special contracts (eg workplaces and sporting codes).

Imaging revenues (21% of total) were up 8%; it is #3 in the Australian market.

While Day Hospitals is a small section, its revenues (3% of total) were up 32%; and there is certainly potential for growth in numbers of hospitals.

Key events such as restructures, acquisitions, buy backs and capital raisings

With the sale of the Medical Centres (ie Healius Primary Care, including the dental surgeries) (completed 23 Nov 2020, to BGH Capital), the scope of the company was simplified. The focus now is on diagnostics (second largest company in Australia) and medical imaging (3rd position), plus day hospitals. The much smaller Adora fertility clinics section has, subsequent to financial year-end, also been announced as sold. Capital management was reviewed.

There was an on market buyback of shares, up to AUD\$200 million, to better manage the capital position of the company. \$101 M was bought back by the end of June 2021.

Revised dividend payout of 50 - 70% of NPAT and stated aim of increasing dividends in real terms. The revised medium-term gearing target is 1.7x - 2.2x; debt facilities were reduced.

The Sustained Improvement Plan was progressed; both property and labour force productivity were improved. Phase 1 SIP was completed ahead of schedule; Phase 2 is proceeding, with further investments planned in digitisation.

Announced 12/7/21: Imaging business to be re-branded as Lumus Imaging. Purchase of a Qld firm, Axis Diagnostics.

Healius applied for and received, JobKeeper payments for the Day Hospitals segment only, but subsequently repaid this.

Key Board or senior management changes

Arlene Tansey resigned from the board in Oct 2020. Jenny MacDonald joined the board in Nov 2020, and Kate McKenzie in Feb 2021.

There are now 3 females on the board, out of a total of 7.

There is only one of the NEDs, plus the CEO, who have medical and/or medical laboratory qualifications, plus one with applied science background and another with agricultural science qualifications. They and other board members have a range of skills.

Summary

(As at FYE)	2021	2020	2019	2018	2017
NPAT (\$m)	43.7	(70.5)	55.9	4.1	(516.9)
UPAT (\$m)	148.4	55.4	93.2	87.5	92.1
Share price (\$)	4.63	3.05	3.02	3.37	3.64
Dividend (cents)	9.9	3.4	7.2	10.6	10.6
Simple TSR (%)	55	2.1	-7.7	-4.2	-4.9
EPS (cents)	7.1	(11.3)	9.2	0.8	-99.1
CEO total remuneration, actual (\$m)	1.732	1.625***	2.05	1.41*	3.02**

Note: UAPT (alone in the above table) is not an audited figure. Its significance is that it is HLS's measure of profits from "ongoing businesses", significant in calculating possible TLTP payments in future years.

***CEO's 2020 rem was reduced by 30% from late March to end of June 2020 due to covid.

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

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

For FY 2021, the CEO's total actual remuneration was **18.5 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2021 data from the Australian Bureau of Statistics). Note - For November 2020, the Full-time adult average weekly total earnings (annualised, original) 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.

Item 2	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

See Appendix 1.

While there is a slight increase in this year's CEO's rem, the turnaround in the company's finances (and TSR for shareholders) is dramatic. Shareholders have benefited from the latter, and Dr Parmenter's returns (the STI) will be received in future years (see table pp 56-7). Normally, this would show up most in the assessment of LTI, but currently these have been altered. This is due to the situation of the company, being very much in turnaround situation, and the dramatic changes were not expected so quickly. Back in 2019 (pre covid), a Transformational Long Term Incentive Plan was proposed, and accepted, to replace the LTI for the following 5 years.

This was basically a one-off grant of options (to capture changes hoped for in share price over the turnaround period). Unusually, the rewards were calculated on UPAT, which makes sense here as it removes items not due to the efforts of the executives. The options to vest equally over the final 3 years of the 5-year period which the changes were (and still are) expected to take.

Unexpectedly, however the huge changes this year are specifically due, in part, to the extra covid testing of the pandemic (and rewards have shown up in the STI). The rem report, p50, goes extensively into the reasoning behind the STI awards, saying it was a "pivotal year", enlarging on the measurable leadership achievements of Dr Parmenter.

Item 3	Re-election of Gordon Davis as a Director
ASA Vote	For

Summary of ASA Position

Appointed in 2015, Mr Davis has been a director for 6 years. He is Chair of the Risk Management Committee and a member of the Audit Committee (past Chair), also member of the Risk Management Committee. Earlier, he was MD of AWB. Currently Mr Davis is an NED of Nufarm and of Midway, serving on various Committees of both.

He holds over 55,000 shares in HLS.

Item 4	Re-election of Sally Evans as a Director
ASA Vote	For

Summary of ASA Position

Appointed in 2018. Ms Evans is Chair of the People & Governance Committee (since August 2019) and a member of the Risk Management Committee since her appointment as NED. Holding a degree in applied science, she has experience in private, government and social enterprise sectors in Aust, NZ, H Kong, and UK. Her current public company directorships are Oceania and Ingenia; also Allianz Life Insurance and REST Super.

Ms Evans holds a significant number of shares and NED share rights after 3 years as a director. Maybe not quite as many as ASA would prefer, but she is registered for the NED scheme. And HLS policy is that NEDs are allowed 5 years (rather than 3) to acquire 1 years' worth of rem in shares, to align herself more significantly with shareholders, whom she represents. We will support her re-election.

Item 5	Re-election of Jenny MacDonald as a Director
ASA Vote	For

Summary of ASA Position

Ms MacDonald was appointed in Nov 2020, so this will be her first AGM vote for election. She was also appointed as Chair of the Audit Committee and a member of the Risk Management Committee. She has a strong financial management background and has held executive roles. Ms MacDonald is also an NED of Bapcor, Redbubble, and API.

She already holds 35,000 shares in HLS, showing her alignment with shareholders.

Item 6	Re-election of Kate McKenzie as a Director
ASA Vote	For

Summary of ASA Position

Ms McKenzie was appointed an NED effective Feb 2021, and to the People & Governance and Risk Management Committees. She has extensive executive and board experience in change management and turnarounds, in the public sector and telecommunications companies. Currently, she is an NED of AMP, nbn co and Stockland.

Item 7	Approval of STI grant to CEO/Managing Director Malcolm Parmenter
ASA Vote	For

Summary of ASA Position

It has been an extremely busy year for Malcolm Parmenter, with leading this company at a time of huge volumes of covid testing, with all the organisation of necessary supplies and personnel. Also the sale of the Medical Clinics, and managing the improvements process economically and on schedule. The rem committee have awarded him a glowing endorsement, and a large STI grant. We agree the company has done well in difficult circumstances - and so have shareholders. We will support this resolution.

Item 8	Approval of grant or issue of securities under NED Share Plan
ASA Vote	For

Summary of ASA Position

A similar NED Share Plan was proposed, and accepted, at the HLS 2019 AGM, specific to those NEDs in office at the time. With new appointees comes the need to propose a similar scheme for the incoming NEDs. NEDs can choose to forego a portion of their cash remuneration, and such fees would be used to buy (and hold in trust) shares for them. The price would be calculated from the volume-weighted average price of the shares for the 5 trading days before the allocation of the shares. This proposal will encourage NEDs to align their interests with those of shareholders, hence we support it.

Appendix 1

Remuneration framework detail

STI is measured on financial, operational, and strategic KPIs, with leadership behaviour as a gateway.

In the rem report, there is detailed reasoning to justify the 'exceptional stretch' awarded this year, due to his 'exceptional' leadership, plus 'exceptional outcomes of LT strategy...and financial outcomes strongly above stretch' during, and despite, the pandemic. However, not being received during this financial year, this award will be received in ensuing years.

LTI is expected to be 35% of total rem; for the 5 years of the transformation (2019 to 2024) of the company, it was replaced by TLTI, in which options were granted (to capture the price of shares in 2019).

There to be testing of tranches of these at years 3, 4 and 5, with a gateway of positive rTSR compared to the comparator group. The criteria being TSR and ROIC, 50% each, against a comparator group, for each 3-year period, and adjusted for results extraneous to the transition.

There are good explanations, as well as various diagrams and tables, clearly setting forward the details of the Rem framework.

CEO rem. Framework for FY21	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.650	65%	1.650	61%
STI - Cash	0.584	23%	0.701	26%
STI - Equity	0.292	12%	0.350	13%
LTI	NA	**	NA	**
Total	2.526	100%	2.701	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.

** LTI transitional LTI (from LTIP, FY2019) vests only in years 3 - 5 if hurdles met; LTI from prior years - nil, though expected to be 35% of total.

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