



## Voting Intentions – ProMedicus 2021 AGM

ASX Code	PME
Meeting Time/Date	10am, Tuesday 23 November 2021
Type of Meeting	Virtual, <a href="https://meetings.linkgroup.com/PME21">https://meetings.linkgroup.com/PME21</a>
Monitor	Stewart Burn assisted by Steve van Emmerik
Pre-AGM Meeting?	Yes with Sam Hupert and Clayton Hatch

### Proposed Voting Summary

2	Adoption of Remuneration Report	For
3.1	Election of Ms Alice Williams	For
3.2	Re-election of Mr Peter Kemken	Undecided
4	Approval to issue securities under the Pro Medicus Limited Long-Term Incentive Plan	For

### Key Financials

	2021	2020	2019	2018	2017
Statutory NPAT (\$m)	30.85	23.1	19.1	12.7	9.3
Underlying NPAT (\$m)	42.6	22.8	18.7	12.7	9.3
Statutory EPS (cents)	29.6	22.2	18.5	9.7	9.1
Dividend per Share (cents)	15	12	8	6	4
Share Price at End of FY (\$)	58.81	26.46	25.29	8.02	5.32
Statutory CEO Remuneration (\$m)	0.508	0.508	0.508	0.507	0.507
Total Shareholder Return (%)	123	20	90.7	6.6	44.4

Statutory NPAT and EPS are the audited figure from the financial accounts. Underlying NPAT is (usually) an unaudited figure used in management presentations or commentary. Total Shareholder Return is calculated as the share price change over the year plus the dividend declared during the year, divided by the share price at end of previous year. This may differ from the figure quoted by the company. \* includes \$335K in unused annual leave entitlements, and using an accounting amortization method for determining option and rights value.

### Summary of Historical ASA Issues with the Company

The ASA discussed increasing female representation on the board and the company has addressed this area with the appointment of Alice Williams.

### Review of Board on Governance, Transparency, Fairness to Retail Shareholders

#### Positives

- The board has a majority of independent directors

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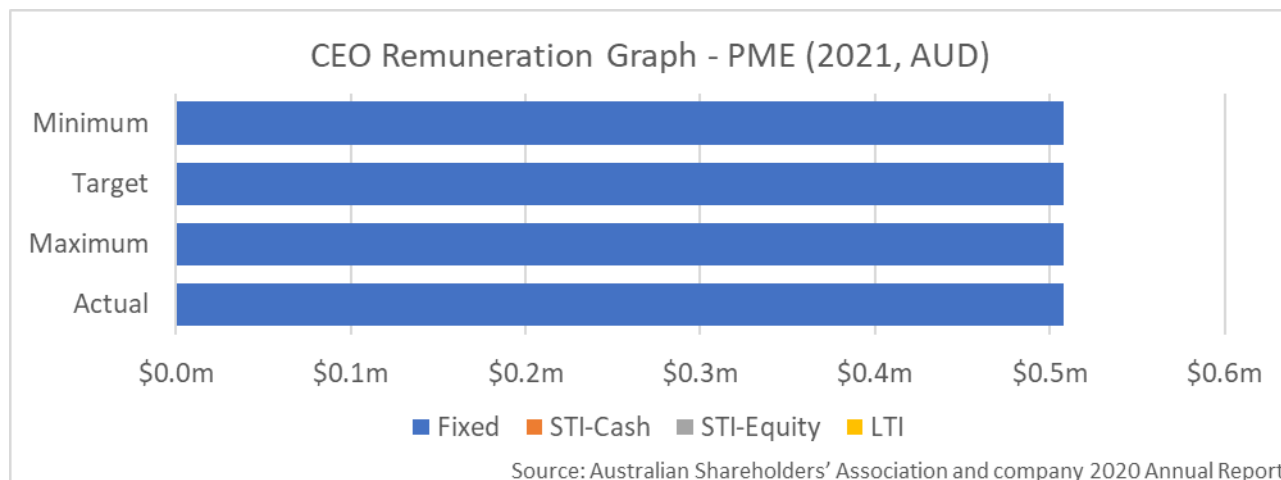
- With the recent appointment of Alice Williams, the Board has close to 30% female and at least 30% male directors with diversity of geography, age, and ethnic background.
- Directors and other KMP are investing at least one year's worth of base cash fees in company shares, within 3 to 5 years.
- The company has a sound sustainability and corporate governance report
- ESG are currently being addressed with a report from KPMG due by end 2021

## Areas for Improvement

- The Board does not have an independent Non-Executive Chair as the current chair has served more than 12 years.
- Financial metrics can be difficult to find with no 5-year table of key metrics available in the annual report.
- No succession plan for the CEO is apparent and the presence of a cofounder on the board may be an issue going forward.

## Items for Voting

Item 2	Adoption of Remuneration Report
ASA Vote	For



*The amounts in the table above are the statutory 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.*

## Positives

- CEO's actual take-home remuneration, as well as the target and maximum opportunity of each component is clearly disclosed.
- The total quantum of the CEO remuneration package does not reasonably exceed the Godfrey Group report benchmarks and in fact are in the lower quartile.
- The quantum of Board fees doesn't reasonably exceed the Godfrey Group report benchmarks and are in fact in the lower quartile.
- The majority of STIs are based on quantifiable and disclosed performance metrics and, where non-financial hurdles are used, no STIs to be paid unless a financial gateway is met.

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- Clear disclosure is provided for all KMP performance hurdles, and the weightings applied for each incentive.
- No retesting of performance hurdles is allowed.
- LTI hurdles are measured a minimum of four years or more after issue.
- LTI hurdles are based on at least two hurdles, one of which is TSR, with no payment if absolute TSR is negative.
- Overall, the Remuneration report is readable, transparent, and understandable with a logical relationship between rewards and financial performance and corporate governance.

## Areas for Improvement

- None of the CEO's pay is genuinely at risk, with no STIs or LTI's paid. However, the remuneration of the CEO and directors are remarkably small, all being well below the 25<sup>th</sup> percentile of salaries analysed for the Godfrey Remuneration Group (GRG).
- STIs are paid in cash rather than at least 50% in equity with a minimum 12 month holding lock.
- All LTI performance share grants are allocated at nil value and calculated at fair value rather than face value.
- Share grants are not satisfied by equity purchased on-market.
- The remuneration report doesn't clearly show the shares vesting in the current year.

## Conclusion on Remuneration

The CEO does not participate in a short-term incentive (STI) or long-term incentive (LTI) incentive remuneration plan, largely because the CEO is co-founder and takes a notional, relatively small fixed remuneration. In the event of a handover to a new CEO we would expect this to change to a conventional package.

A plan does exist for some key executives: The (STI) in the form of cash bonuses are paid to Executives based on a mix of Company based and personal performance targets. STI award are based on hurdles relating to of EBIT (50%), annual contract value (25%) and individual performance measures (25%) being met. In the 21FY all targets were met.

A (LTI) plan exists where Senior Executives of the Group are offered performance rights over the ordinary shares of Pro Medicus Limited. The performance rights, issued for nil consideration, are offered on a year-to-year basis and vest 4 years after grant date on completion of service, with a 3-year performance period. This long-term incentive plan includes performance hurdles related to profitability - Earnings per Share (EPS) growth (60%) which is set on an annualised basis by the Board, and Total Shareholder Returns (TSR) growth (40%). The Company's TSR growth performance hurdle is measured relative to the ASX200 Index. In 2021, none of the grants from previous years vested. The issue of these at fair value is of concern.

The ASA considers the STI and LTI remuneration plans offered to KMP to be fair and reasonable, however; there are several governance issues that the ASA is concerned about that need addressing. We will continue to raise these issues with the company on an ongoing basis.

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Item 3.1	Election of Ms Alice Williams
ASA Vote	For

Ms Williams was appointed to the board on 01 September 2021. She has a background in commerce and is a CPA. She is currently Chair of the Audit and Risk Management Committee and a member of the People and Culture Committee. Ms Williams is also a director of Djerriwarrh Investments, Vocus Group, Defence Health Ltd, Tobacco Free Portfolios, Mercer Investments (Australia) Ltd and Florey Institute of Neuroscience. We understand that she has recently resigned from one of these companies.

Whilst we have concerns with Ms Williams workload, some of her appointments are not public companies, so carry a lighter workload. She is independent, has suitable skills and her appointment will help achieve gender diversity. We expect that Ms Williams will increase her shareholding in the company over time.

Item 3.2	Re-election of Mr Peter Kempen
ASA Vote	Undecided

Mr Kempen was appointed to the board in 2008 and has a background in finance. Mr Kempen is Chairman of Australasian Leukaemia and Lymphoma Group, Chairman of Logie-Smith Lanyon, a Trustee of the Barr Family Foundation and a member of the Board of St Hilda's College Ltd, University of Melbourne. Mr Kempen confirmed to the company that he would continue to have sufficient time to properly fulfil his director's duties for the Company. However, he has been on the board for over 12 years and is thus not considered independent, he does have a significant shareholding in the company. The ASA has a preference for the chairman of a company to be independent. We will base our voting preferences on the answer Mr Kempen gives at AGM regarding his independence.

Item 4	Approval to issue securities under the Pro Medicus Limited Long-Term Incentive Plan
ASA Vote	For

ProMedicus issues performance rights to KMP under its LTI plan and seeks to increase the number available from 7 million to 10 million, an increase of 3 million from the last approval in 2017. In 2021, 162,880 performance rights were granted. The ASA prefers shares for the LTI to be purchased on market, rather than issue new shares which dilute existing shareholders. We will raise this issue with PME again, however as the issue provides minimal dilution of shareholders in this instance, we will support the resolution.

### Monitor Shareholding

*The individual(s) (or their associates) involved in the preparation of this voting intention have a shareholding in this company.*

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