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COVID, takeovers and the promise of growth

Company/ASX Code	Ramsay Health Care / RHC
AGM date	Tuesday 29 November 2022
Time and location	10:30am Grand Ballroom, Sheraton Sydney Hyde Park, 161 Elizabeth Street, Sydney, New South Wales, Australia.
Registry	Boardroom
Type of meeting	Physical and (webcast on https://boardroomlimited.com.au/agm/ramsay2022 or on https://www.ramsayhealth.com/Sustainability/Governance with the webcast you can't vote or ask questions)
Poll or show of hands	Poll on all items
Monitor	Helen Manning assisted by Ramaswamy (Raja) Rajagopal
Pre AGM Meeting?	From Ramsay: Alison Deans chair of people and remuneration committee, Henrietta Rowe group general counsel and company secretary, Colleen Harris group chief people officer, Kelly Hibbins IR. Michael Siddle sent his apologies From ASA: Helen Manning and Ramaswamy (Raja) Rajagopal

Monitor Shareholding: The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

Summary of issues for meeting

The annual general meeting should be uncontroversial.

Proposed Voting Summary

No.	Resolution description	
2	Adoption of Remuneration Report	For
3.1	Election of Mr Steven Sargent as a Director	For
3.2	Re-election of Ms Alison Deans as a Director	For
3.3	Re-election of Mr James McMurdo as a Director	For
4	Approval of equity grant to Managing Director Mr Craig Ralph McNally	For

Summary of ASA Position

We will be voting in favour of all resolutions.

The annual report describes a business continuing to assist governments across all regions through COVID related activity, whilst upholding its values by retaining its core hospital operations and staffing levels. It outlines its various initiatives in investing in its people through graduate programs, cadetships and reskilling programs. It places importance on developing leaderships skills. This year it has also established a group-wide commitment to science-based targets to achieve net zero greenhouse gas emissions by 2040.

Ramsay states that outlook for the group remains strong. They expect a gradual recovery in activity levels through FY23 and more normalised conditions from FY24 onwards. In its first quarter for FY23 update on 11 November 2022 Ramsay reported that trading was improving.

Financial performance

The financial impact of COVID in FY22 was the most severe of the pandemic due to high incidence of cases across all regions and elective surgery restrictions in Australia.

- Revenue in constant currency terms grew by 4.6% reflecting
    - good growth in the Nordic region (reduced COVID impact)
    - initial contribution from Elysium for 5 months
    - GHP contribution for 2 months
- NPAT declined 39% to $274m due to reduced activity levels and higher costs. The estimated impact to EBIT of the COVID disruption in Australia was $264m net of government support payments ($12m)
- 97c per share dividend. 36% decline of FY21
- Fully diluted EPS per share declined by 39.7% to 116.1c per share
- $2.2b invested in organic and inorganic growth strategies over the year
- Non-recurring items had a negative impact on EBIT of $60.5m compared to a negative impact of $34.2m in pcp

Key events

The KKR takeover offer

On 20 April 2022 Ramsay announced that it had received a conditional, non-binding, indicative proposal from a consortium of financial investors led by KKR to acquire 100% of the shares in Ramsay by way of a scheme of arrangement at an indicative price of A$88.00 cash per share (reduced by the value of any dividends paid). This proposal was from a process which is believed to have started in June 2021. In our pre-AGM talk with Ramsay we were told that the consortium had had difficulty in getting due diligence with Ramsay Sante, which has a separate board. They explained that this was because the consortium had links to a competitor in Europe. The offer from KKR then became $78.20 cash and 0.22 Ramsay Santé shares (for shareholders owning more than 5000 shares). Ramsay considered this too low. On 26 September 2022, Ramsay announced to the ASX that the Ramsay Board and the consortium had mutually agreed to terminate discussions.

The Sime-Darby takeover

In March 2022 Ramsay received a non-binding indicative proposal from IHH Healthcare Berhad that valued its joint venture in Asia at $US1.35 billion ($1.83 billion). As announced to the ASX on 9 September 2022, discussions between Ramsay, Sime Darby Berhad and IHH Healthcare Berhad in relation to a potential sale of the Ramsay Sime Darby Health Care Sdn Bhd joint venture concluded. The discussions did not result in a binding agreement for the sale of Ramsay Sime Darby.

Investing for growth

- Invested $2.2b in organic and inorganic growth strategies to upgrade and expand including
  - $276m in brownfield and greenfield development with a number completed during the year
  - $94m in growth projects, including new imaging equipment
- 2 acquisitions of note this year which are expected to be EPS accretive in FY23 and will build on synergies.
  - Elysium Healthcare (Elysium) in the UK. Comes with a strong pipeline of new projects that are being pursued for acute mental health care services in the UK
  - GHP Specialty Care (GHP) a Swedish specialty health care business

Net zero by 2040

Ramsay announced this year that it will commit to achieving net zero greenhouse gas emissions by 2040, group wide. To achieve this objective, it will be proactively changing how it operates and the resources it uses. It will also be looking at its supplier relationships.

Key Board or senior management changes

Steve Sargent joined the board following the retirement of Peter Evans, the former Deputy Chair.

Dr Andy Jones, formerly the CEO of the UK business has been appointed the first Group Chief Growth Officer. He is tasked with responsibility of strategic transformation agenda.

Nick Costa, the former COO of the acute hospital business in the UK becomes the UK CEO. He joins the Ramsay Global Executive Committee.

A new position created as Group Chief Data & Digital Officer for Dr Rachna Gandhi. She will lead the Australian digital and IT teams whilst also working with the international teams to develop and deliver the global digital strategy and data management.

Joy Chamberlain the CEO of Elysium, the newly acquire company, joins the Ramsay Global Executive Team.

ASA focus issues

- We discussed cyber security in the wake of the Optus and Medibank hacks. They described this problem as something that is an ongoing thing that they address.
- Leadership succession. The annual report talks about leadership initiatives, and we wondered if this also applied to the highest levels in the organisation. We realised in our short conversation that this is something that gets a lot of attention at Ramsay. They said that they review succession planning annually; that there are programs throughout the

organisation and that the CEO himself undertakes 360 degree evaluations. They also tailor individual education programs.

- We discussed the purchase of Elysium Healthcare and its effect on the business. We understood that it will approximately double the UK business. The point was made that there are existing synergies with mental health through this acquisition. We note that mental health is also an area of growth in the health sector.

Summary: From 1 July 2019 AASB16 Leases replaced AASB117 Leases *

(As at FYE)	**2022**	**2021**	**2020**	**2019**	**2018**
NPAT ($m)	274	449	284.0	545.5*	388.3*
UPAT ($m)		na	336.9	590.9*	579.3*
Share price ($)	73.24	62.95	66.52	72.24	53.98
Dividend (cents)	97	151.5	62.5	151.5	144.0
Simple TSR (%)	17.89	-3.09%	-7.05%	36.63%	-24.71%
EPS (cents)	116.1	193.2	131.0	264.9	186.7
CEO total remuneration, actual ($m)	3.923	4.426	5.124	4.803	7.519

Actual earning are defined as cash payments made during the years (FAR, STI, deferred STI plus any vesting of equity incentives at share price on date of vesting).

For FY22, the CEO/MD's total actual remuneration was **41.3 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2022 data from the Australian Bureau of Statistics).

Note - For May 2022, the Full-time adult average weekly total earnings (annualised) was $95,030.00

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.

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

Remuneration has had attention from Ramsay over several years and it considers it is table for the foreseeable future.

The report is found in the annual report from pages 43 to 64. It is well laid out with effective headings and graphics.

The framework for the Ramsay remuneration is found in appendix 1.

Ramsay includes an actual remuneration table on page 56 of the annual report as follows:

Name	Financial Year	FAR[1]	Other payments	STI Awarded[2]	LTI Vested	Total Actual Remuneration
C.R. McNally	**FY22**	$ 2,150,170	-	$ 1,773,015	-	$ 3,923,185
	FY21	$ 2,131,330	-	$ 2,294,490	-	$ 4,425,820
M.J. Roberts[3]	**FY22**	$ 1,200,000	$ 299,995	$ 510,000	-	$ 2,009,995
	FY21	$ 1,200,000	$ 207,403	$ 642,000	-	$ 2,049,403

1 *FAR includes cash salary, superannuation and non-monetary benefits such as private health insurance cover and motor vehicle running costs.*
2 *STI represents the amount awarded for FY22 and FY21 noting that 50% is deferred into equity for 3 years for the CEO, and 1 and 2 years for the CFO.*
3 *As noted above in section 3.3(b), in joining Ramsay, the Group CFO Martyn Roberts forfeited unvested equity from his prior role. In recognition of this, the Group CFO was provided with performance rights equivalent to $1M that vest subject to meeting individual performance requirements and service conditions over the 3 years from his employment anniversary. On 20 April 2021, 20% or 3,074 of the Rights vested, with a vesting date value of $207,403. On 20 April 2022, 30% of the Rights or 4,611 of the Rights vested with a vesting date value of $299,955 which is shown in the "Other payments" column.*

You can compare this to the target/budgeted pay for the CEO of $7.8m

Changes to the framework

A new metric in the short-term incentive plan (STI) was added under strategy for 'greenhouse gas intensity reduction'.

Outcomes

Ramsay includes a nice graph of five-year group performance correlated to variable reward outcomes on page 56 of the annual report.

Fixed Annual Remuneration (FAR)

For FY22 there was no adjustments to KMP. CR McNally was paid $2,085,900 and MJ Roberts $1,200,000.

Short term incentive (STI)

The FY22 STI vested at 85% of FAR (FAR being also the target/budget) for both the CEO and the CFO. The scorecard for the CEO is included on page 53 of the annual report

Long term incentive (LTI)

The FY20 LTI did not vest. This is well described in pages 54-55 of the annual report.

Except for the ASA preferring the LTI to be over 4-5 years the remuneration report meets our guidelines.

We will vote undirected proxies in favour of accepting the remuneration report.

Election or re-election of directors

The board of Ramsay has 8 directors, 7 of which are non-executive directors (NEDs) and 1 executive director. In terms of longevity and the idea of independence, the only NED considered to be non-independent by the company and ASA is the chair, Michael Siddle. David Thodey acts as Lead Independent Director, a role he has held since March 2020. There are 3 female directors. A board skill matrix is included in the annual report on page 38. It doesn't specify which directors provide the particular skill, and at what level of expertise.

Election of Mr Steven Sargent as a Director

Mr Sargent's background, qualifications, board committee memberships and his date of appointment are laid out in the notice of meeting. The annual report also details the fees he earned, his attendance for all of the possible formal committee meetings and his share ownership in Ramsay. Since being appointed to the board in November 2021 Mr Sargent has purchased 5325 shares.

Mr Sargent is quoted as being appointed vice president and officer of General Electric (GE) in 2008, the first Australian in GE's 130 plus history to be appointed to such a position. It is also quoted that he was recognised by *The Australian* newspaper in 2013 as being one of the top 20 most influential leaders in Australia.

In the ASX announcement 24 November 2021 Mr Siddle said "We are very pleased to welcome Steven to the Board. His executive experience managing businesses in international markets combined with his broad experience across industries including medtech, technology and financial services will bring new insights and further diversify the Board's skills and experience. We look forward to his insights and contribution."

We look forward to hearing from Mr Sargent at the AGM so that shareholders can know more about him. We will be voting our undirected proxies to support his election

Re-election of Ms Alison Deans as a Director

Ms Dean's background, qualifications, board committee memberships and her date of appointment are laid out in the notice of meeting. The annual report also details the fees she earned, her attendance for all of the possible formal committee meetings and her share ownership in Ramsay.

We note that Ms Deans is the current chair of Cochlear and is otherwise impressive. As the chair of the people and remuneration committee at Ramsay she is responsible for the remuneration report and as such the ASA has had the opportunity to talk to her in our pre-AGM meetings for a few years now.

We look forward to hearing more from Ms Deans at the AGM so that all shareholders can know more about her. We will be voting our undirected proxies to support her re-election

Re-election of Mr James McMurdo as a Director

Mr McMurdo's background, qualifications, board committee memberships and his date of appointment are laid out in the notice of meeting. The annual report also details the fees he earned, his attendance for all of the possible formal committee meetings and his share ownership in Ramsay.

We look forward to hearing from Mr McMurdo at the AGM so that shareholders can know more about him. We will be voting our undirected proxies to support his election

Approval of equity grant to Managing Director Mr Craig Ralph McNally

The face value of the proposed grant of performance right (PRs) to Mr McNally in FY2023 has been set at 175% of his total fixed remuneration (i.e. $3,650,325). Mr McNally will be granted 49,814 PRs. The number of PRs has been determined by dividing the FY2023 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 2022 (AU$73.2796), with 1 July being the first trading day of the performance period.

The Company grants the LTI in the form of PRs because they create share price alignment between Mr McNally and shareholders but do not provide the full benefits of share ownership (such as dividend and voting rights) unless the PRs vest.

Performance Conditions:

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**).
- 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**).

  There will be no retesting of either of the performance conditions.

(see appendix 1 for the detail on the tranches)

278,040 PRs have been granted to Mr McNally under the LTI programme in prior years since Mr McNally's appointment as Managing Director. These PRs were granted to Mr McNally as his LTI for no cost.

If shareholders approve Item 4, then PRs will be granted to Mr McNally as soon as practicable after the date of the meeting and in any event no more than 12 months after the meeting (i.e. 29 November 2023).

The performance period is over 3 years. The ASA would prefer a period of 4 to 5 years.

We will support the equity grant and vote all open proxies to that aim.

Appendix 1
Remuneration framework detail

Ramsay has a fixed annual remuneration (FAR) component along with a short term incentive (STI) and a long term incentive (LTI). The details are found in the 2022 annual report from pages 47-50.

Fixed Annual Remuneration (FAR)

This takes into account market benchmarks referenced to ASX-listed companies with similar market capitalisation, revenue and international operations. Consideration is also given to international healthcare organisations and other private healthcare operators in Australia. It is reviewed annually against benchmarks and individual performance and expertise.

Short Term Incentive (STI)

The STI has the following components to its scorecard

	Rationale	Operational Executive (i.e. MD & CEO)	Non-Operational Executive (i.e. Group CFO)
Financial	Financial results are critical to delivering for our key stakeholders including patients, staff and shareholders, as well as positioning Ramsay to deliver long-term value. Typically financial results are measured against targets set at the beginning of the year. In 2022, financial results were considered relative to the challenges and impact of the ongoing COVID-19 pandemic.	50%	40%
Strategic	Delivery of annual strategic objectives that are key to delivering the long-term strategy.	15%	20%
People	Our people are our most important asset and our culture, The Ramsay Way is fundamental to our ongoing success.	15%	20%
Consumer	Listening and responding to the needs of our patients allows us to continually evaluate and improve on all aspects of our performance ensuring ongoing competitive advantage.	10%	10%
Quality	Delivering superior clinical outcomes is critical to our ongoing success, so we focus on maintaining the highest stands of clinical quality and safety.	10%	10%

Once the scorecard is determined an individual's performance modifier is applied: 'The Ramsay Way' as follows:

STI Opportunity				**Unadjusted Outcome**		**Ramsay Way Modifier**		**Performance Outcome**
FAR ($)	x	STI Target Opportunity (%)	x	Scorecard Result (%)	x	The Ramsay Way (%)	=	Value of STI Award ($)

The STI is delivered 50% in cash and 50% deferred as restricted shares.

- For the CEO & MD restricted shares are granted and deferred for 3 years (subject to continued employment
- For other KMP, the deferral period is 2 years with 50% released after first year and 50% released at the end of subsequent year (subject to continued employment)
- Restricted shares are allocated on a face value basis by diving the deferred STI amount by the 5-day volume weighted average price (VWAP) of group shares to the STI payment date (rounded to nearest whole number)

Long term incentive (LTI)

The LTI has 2 performance conditions

- Relative total shareholder return (rTSR) is 50% of the incentive

- Compared against the S&P ASX100 index (excluding real estate, finance and resources, this gives a link between executive remuneration and shareholder return relative to Ramsay's ASX peers. Ramsay considers that there are too few healthcare companies of similar size and scope. The table below shows how they will vest

Group's relative TSR	Vesting
Below 50th Percentile	Nil
50th Percentile	50% vesting
50th and 75th Percentile	Vesting on a straight-line basis between 50% and 100% vesting
Above 75th Percentile	100% vesting

- Compounded annual growth rate in earnings per share (CAGR) in EPS is 50% of the incentive
  - Earnings per share (EPS) has been chosen as it is linked to long-term growth targets
  - Based on a 3 year growth range against threshold and stretch performance hurdles.
  - Subject to the return on invested capital (ROIC) the following shows vesting schedule

CAGR EPS	Vesting
Less than 3%	Nil
3% (threshold)	30% vesting
Between 3% and 9%	Vesting on a straight-line basis between 30% and 100% vesting
9% (stretch)	100% vesting

  - The ROIC gateway. This reflects the capital intense nature of the business.
  - The EPS component is subject to the ROIC gateway.
  - The ROIC outcome over the 3 year period is tested relative to the weighted average cost of capital (WACC). The actual ROIC outcomes will need to be above the WACC for vesting to occur.
  - The board will consider investments meant to deliver long-term profitable growth by excluding capital and the returns from that acquisition for the period of the approved ramp-up
  - Board discretion is made with 5 guiding principles; plan integrity and management accountability, nature and timing of adjustments, transparency, material or significant events, and balance of interests.

- Performance rights are granted using a face value methodology as follows:

Executive FAR Amount ($)		LTI Opportunity (%)		Share Price ($)		Allocation of Performance Rights
	x		/	Face value allocation using 5 Day VWAP to first day of performance period	=	(Rounded to the nearest whole number)

- The performance period is over 3 years. The ASA prefers 4 to 5 years.

CEO rem. Framework for FY22	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	2.0859	26.7%	2.0859	25%
STI - Cash	1.043	13.3%	1.304	15.62%
STI - Equity	1.043	13.3%	1.304	15.62%
LTI	3.6503	46.6%	3.6503	43.75%
Total	7.822	100.0%	8.343	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.