



Turnaround in progress

Company/ASX Code	Healius/HLS (formerly Primary Healthcare/PRY)
AGM date	Monday 25 November 2019
Time and location	9am Four Seasons Hotel Level 1, 199 George Street, The Rocks NSW
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Patricia Beal assisted by David Jackson
Pre AGM Meeting?	Yes with Chair Robert Hubbard, Janet Payne (Group Executive, Corporate Affairs) and Alison Stephenson (Company Secretary).

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

Summary of ASA Position

Governance and culture

There is an emphasis on attracting the best staff, engaging them with learning, and development around supporting their customers with care and empathy, for the best outcomes for them. Maximising efficiency and environmentally sustainable outcomes are also of importance as priorities.

A Sustainability Report was published in July 2019. The company's Strategy, Purpose and Mission are defined. The Values are defined by "We Care", with those letters representing different defined values, summed up as empathy and care.

Financial performance

Underlying profit of \$93.2m (previous year \$87.5m); statutory profit \$55.9m (versus \$4.1m last financial year (FY)). Total dividends paid were 7.2 cents compared to last year's 10.6 cents, both years' dividends were fully franked. Payout ratio for the final dividend was 60% of net profit after tax (NPAT), whereas first half dividend payout ratio was 60% underlying NPAT. Dividends are expected to rise again when large investments in the business have been completed. Total shareholder return (TSR) currently is negative 7.6%.

The following Divisional performances are all reported as "underlying" results. Pathology is the largest Division, with Revenue and earnings before interest and tax (EBIT) up 3.5% and down 1.8% respectively. On a positive note, second half financial year results were significantly improved over first half. Medical Centres had both revenue and EBIT increasing at least 13%; and Imaging also had a positive year, up 7.9% and 5.7% respectively. IVF, dental, and day hospital activities are

regarded as emerging businesses. The Chair explained that, with some items written off and some spending increased, the Board uses underlying net profit after tax (UNPAT) as the reference point for budgeting purposes, and for setting targets for key management personnel (KMPs). It refers to the ongoing business (for which the KMPs are responsible) rather than including discontinued operations etc and new spending (eg replacing the out-of-date laboratory software). Although the major write-offs are expected to have come to an end, new spending such as for the laboratory software will be expensed over several more years. Consequently, further UNPAT measurements will be used.

Key events

At last year's AGM of Primary Healthcare, it was resolved that the company change its name from Primary Healthcare to Healius Limited. Primary IVF was rebranded to Adora Fertility in March 2019. Other new brands introduced are Skin2 cancer & health. SwiftQ Immediate Care, SwiftQ Dental Care.

A capital raising was announced in August 2018, to raise \$250m to fund new initiatives over 3 years. These included modernisation of medical centres, software and technology for pathology, enhanced recruitment and retention of new staff, and acquiring a group of specialist day hospitals. The offer to retail shareholders was non-renounceable and underwritten, at a ratio of 1 share per 5.21 shares held, at a price of \$2.50 (a discount of 17.8%). These conditions were the same as that to Institutions; retail shareholders took up approximately 76% of their entitlements.

In January 2019, a takeover offer by Jangho was rejected by the Board.

Key Board or senior management changes

Robert Ferguson retired as Chair in July 2018 (replaced by Robert Hubbard); Sally Evans joined the Board in August 2018.

Ryan Fahy, Chief Information Officer, departed May 2019. As each division has different software, much of the responsibility for this has gone to the divisions; he will not be replaced.

On 29 July 2019, the Group announced the departure of two senior executives, Malcolm Ashcroft (Chief Financial Officer) and Wesley Lawrence (CEO Pathology). Maxine Jaquet (from CE Health & Co to Chief Financial Officer) and John McKechnie (new CEO Pathology) have been appointed as successors effective 19 August 2019. Both were internal appointments.

Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	55.9	4.1	(516.9)	74.9	127.5
UPAT (\$m)	93.2	87.5	92.1	104	111.5
Share price (\$)	3.02	3.37	3.64	3.95	5.04
Dividend (cents)	7.2	10,6	10.6	12.0	20.0
TSR (%)	-7.6	-4.5	-4.9	-19.2	15.4
EPS (cents)	9.2	0.8	-99.1	14.4	24.9
CEO total remuneration, actual (\$m)	1.65	1.95*	1.8	2.0	3.8

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

For May 2019, the CEO's total actual remuneration was **18.7 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Note - For May 2019, the Full-time adult average weekly total earnings (annualised) was \$88,145 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings", Trend(a)).

Item 2	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

Fixed remuneration is a higher proportion of total than usual (46% compared to usually around 33%).

Short-term incentive (STI): 27% of total. Board decided not to award any, although the bottom of the target range was achieved. Linked to "co. performance and shareholder value". Half cash (delivered following year) half equity (service rights), delivered after 2 yrs.

Long-term incentive (LTI): 27% of total. Determined by relative TSR and return on invested capital (ROIC), comprising deferred equity as Performance Rights. Initially, there is a gate requiring a positive TSR, even if the relative TSR is higher than the comparator group (which consists of healthcare companies listed on ASX).

There are clawback provisions for both STI and LTI. Stretch targets for STI and LTI are claimed to have 10 - 20% probability of being achieved.

CEO remuneration framework

FY19	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.65	46%	1.65	35%
STI - Cash	0.481	13.5%	0.538	11.5%
STI - Equity	0.481	13.5%	0.538	11.5%
LTI	0.968	27%	1.937	42%
Total	3.59	100.0%	4.663	100%

Item 3	Re-election of Dr Paul Jones as a Director
ASA Vote	For

Summary of ASA Position

Dr Jones was first appointed in 2010 and is a member of the Audit and the Risk Management Committees.

He has over 30 years' experience in a range of medical practices, including 12 years in Healius Group's medical centres. He has been a Director and Federal Councillor of the Australian Medical Association (AMA) a past President of AMA ACT and a member of the Federal AMA Council of General Practice. Dr Jones is a former Chair of ACT GP Workforce Working Group and was a member of the ACT Health Minister's GP Task Force in 2009. In 2010 he was awarded Fellowship of the AMA.

Dr Jones holds 40,588 shares in HLS, thus demonstrating his alignment with shareholders. He holds no other Directorships of public companies.

Item 4	Approval of issue of securities under the Transformation Long-Term Incentive Plan
ASA Vote	For

Summary of ASA Position

After recent discussions, the Board has decided to modify the incentives for the recovery period, which they predict to take 5 years until completion. As it is a different Remuneration scheme, it is being put separately to shareholders.

During this period, targets for long term growth (as normally set in LTI schemes) are unlikely to be achieved, so they wish to incentivise the key executives differently, hence the proposal of the Transformation Long-Term Incentive Plan (TLTIP). As it is a new Remuneration scheme, it is being put separately to shareholders.

Key to this is the immediate issue of Options (to be measured, before vesting, over a 3-year period), which will vest in years 3, 4 and 5 if the long term targets are met.

TLTIP:

Specifically to motivate the team over the 5-year term of 'transformation' - close alignment to cumulative shareholder returns with a measurement period of 3 yrs.

Move 25% of existing STI into long-term Plan, after increasing it by 1.2 times (longer dated, riskier). Grant of Options (not performance rights) to reward growth immediately, which 'captures' the price of shares now.

One-off grant of options, rather than annual grants, to cover 3-year period from 2020, exercisable in equal tranches at end of 2022, 2023, and 2024 financial years

- Subject to cumulative Earnings per Share (**EPS**) growth and relative TSR (**rTSR**) for the CEO and CFO (split 2/3 :1/3 between EPS : rTSR) to ensure a measurable and close alignment to shareholder returns.
- Underlying earnings to be used in the measurement of EPS and EBIT rather than statutory earnings to ensure management do not benefit from a lower starting point for statutory earnings than underlying earnings in FY19 and hence a higher delta over time; and
- In order to provide confidence on adjustments between underlying and statutory results, the underlying EPS and EBIT targets to include a gate limiting adjustment between underlying and statutory results from FY22 onwards to the implementation costs of the Laboratory Information System in Pathology and no others. This means that, for business divisions other than Pathology, statutory and underlying EBIT targets are expected to be identical.

STI will also continue, modified as follows: remaining 75% split 2:1 between cash and deferred equity (equity deferred 1 year); subject to criteria set by Board each year including return on investment and cash flow generation.

Noting that 2 senior executives resigned during FY19, and that the Board wishes the current team to stay for the next 5 years without likely incentives under the previous schedule, and recommends this plan, we support it.

CEO remuneration framework

(FY20 to FY24)	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.65	45%	1.65	33.3%
STI – Cash	0.48	13.2%	0.54	10.9%
STI - Equity (service rights)	0.24	6.6%	0.27	5.4%
LTI* (options)	1.26	35%	2.5	50.4%
Total	3.63	100.0%	4.96	100%

*The LTI is awarded after FY20 (once only, in advance) to be exercised (subject to testing) in three equal tranches in years 3, 4 and 5 (that is FY22, FY23 and FY24)

Item 5	Approval of acquisition of securities by the MD & CEO Dr Malcolm Parmenter under the STI Plan and the Transformation LTI Plan
ASA Vote	For

Summary of ASA Position

The TLTI is a well thought out plan to keep the MD/CEO for the 5 years when he would be unlikely to qualify for other incentives.

Item 6	Approval of issue of securities under Non-executive Director Share Plan
ASA Vote	For

Summary of ASA Position

There has not previously been any non-executive director (NED) Share Plan. The notice of meeting (NOM) sets forth details of the proposed Plan, under which NEDs can choose to forego a portion of their cash fees, and the number of shares they would acquire would be calculated from a 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.

Item 7	Renewal of proportional takeover approval provisions
ASA Vote	For

Summary of ASA Position

There has previously been such a plan, which needs renewal every 3 years, and would expire after this AGM unless renewed. Arguments for and against are given in the NOM, pp12-13.

While there has not been such an offer previously (nor is there currently one), this provision gives shareholders some input into any proportional offer for the company. We therefore support it.

One of the individuals involved in the preparation of this voting intention has a shareholding in this company.

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