Handcuffed by that relationship deed

Company/ASX Code	**APM Human Services International Ltd / APM**
AGM time and date	10am AWST Friday 10 November 2023
Location	University Club of Western Australia, Entrance 1, Hackett Drive, Crawley
Registry	Computershare
Type of meeting	Hybrid
Monitor	John Ferguson
Pre AGM Meeting	With Chair Megan Wynne, Neville Power (lead independent NED), Matt Cooper (newly appointed CFO) and Peter Torre (company secretary).

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

1. How we intend to vote

No.	Resolution description	Proposed vote for open proxies
1	Adoption of Remuneration Report	**Against**
2	Re-election of Ms Megan Wynne as a Director	**For**
3	Re-election of Ms Simone Blank as a Director	**For**
4	Re-election of Mr Robert Melia as a Director	**For**
5	Re-election of Mr Timothy Sullivan as a Director	**Against**
6	Grant of performance rights to Ms Megan Wynne	**For**
7	Grant of performance rights to Mr Michael Anghie	**For**

2. Summary of Issues and Voting Intentions for the AGM

- Board structure.
- Rapid growth strategy and the impact on remuneration and the accumulation of goodwill.
- Auditing.

The combination of a non-independent Board led by a non-independent Executive Chair has not worked for shareholders, who face a second year of more than 20% negative total shareholder returns (TSR). Not only are shareholders being denied the benefits of an independent Board, but the breadth of the Board's skills set is being crimped by three Board seats taken by private equity specialists from Madison Dearborn Partners (MDP).

To support its ambitions for rapid growth, the company has made numerous acquisitions over the past two years, resulting in accumulated goodwill of $1.797b, which compares to net assets of 1.498b. This is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The ongoing value of the goodwill relies on the successful integration of acquisitions and their meeting profit expectations.

There was minimal change from the provisional values included in the FY22 Annual Report for the range of acquisitions. The accounting standard, AASB 3 business combinations, requires a full year of operation to finalise the values, so this feature of provisional values in the first-part year of ownership followed by finalisation in the next year will persist while the company continues to acquire sizeable businesses.

3. Matters Considered

Accounts and reports - No vote required

The company's strategic plan is for rapid growth based on a combination of strategic acquisitions, new service contract wins and contract extensions. It now has 32 businesses operating in eleven different markets. Acquisitions cost $283.8m for the year and there was $18.5m of capital expenditure to service new contracts. Interest bearing liabilities stand at $866.1m, an increase over the year of $265.1m (+43%).

Group revenue was $1.9b (+19% on FY22 figures) and underlying NPATA (net profit after tax adding back amortisation) was $178.2m (+ 7%). The revenue increase of $565.7m was comprised of organic growth ($182.4m) and from acquisitions ($383.3m).

Dividend payments totalled $91.7m out of the year's profit of $107.4m and represented an 85% pay-out ratio.

Key Audit Matters for the year were:
1. Business combinations: the purchase of Equus Workforce Solutions and the accounting to support the price paid.
2. Revenue recognition for contracts where revenue is outcome-based.
3. Valuation of goodwill (which currently stands at $1.797b).

Commentary on the accounts predominantly features underlying figures rather than statutory figures.

Financial performance

(As at FYE)	**2023**	**2022**
NPAT ($m)	108.7	114.6 proforma
UPAT ($m)	128.4 calculated	
Share price ($)	2.12	2.87
Dividend paid (cents)	10c	nil
Simple TSR (%)	-22.6%	-23.7%
EPS (cents)	11.71	7.08
CEO total remuneration, actual ($m)	3.210 calculated	3.732

Governance and culture

The relationship deed between APM and private equity partner MDP effectively blocks, for the foreseeable future, an independent board. Three private equity specialists from MDP hold board positions inhibit a wider array of skills and experience on the board.

The company's board skills matrix is a comprehensive list of skills/experience (42 items) but is not really a meaningful matrix. At the pre-AGM meeting there was an interest in further developing its matrix. The company's sustainability strategy outlined seven key areas for governance and risk management and could serve as a base for the review of the adequacy of the Board's skill base. Given the nature of the services provided by the company to diverse client groups, data protection and cybersecurity are critical and warrant top priority.

A number of audit issues were raised: current public controversy around PricewaterhouseCooper (PwC); the company's relationship with PwC and the relatively high cost of the company's external audit. Assurance was given that the independence of the external auditor is actively promoted, to the extent that APM hires Protiviti (a global business solutions company) to assist with internal auditing and to maintain external auditor independence.

The company's culture is well articulated and supports the "enabling better lives" foundational purpose. The company also derives much social capital from the type of services it provides the community.

With three female directors on a Board of eight, gender representation is acceptable.

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

There were four acquisitions and three new contract wins through the year. Each gave APM either a bigger footprint in a major market (Equus Workforce Solutions in North America is the best example), or a wider suite of capabilities with which to compete for contracts.

Key Board or senior management changes

Mr Ben Wyatt took up his position as an independent NED (non-executive director) and joined the Board's Remuneration and Nomination Committee. Mr Neville Power was formally appointed as the Board's lead independent NED. Both appointments are very welcome because they enhance the contribution of independent directors on Board affairs.

On 3 October, it was announced that Mr Steve Fewster is the new Chief Operating Officer (moving from his current position of Chief Financial Officer), Mr Matt Cooper is the new CFO (moving from deputy CFO after joining APM from PwC in 2017) and Mr Ian Taylor will join APM as Chief Strategy Officer.

Sustainability/ESG

The Executive Officer and the Board's audit and risk committee have put together a sustainability strategy, and governance has been a focal area. Seven governance and effective risk management priorities have been established. Business ethics is a commendable inclusion.

ASA focus issues

One issue under the "fairness to shareholders" banner is the type of business summary provided to shareholders in the first pages of the Annual Report. Some information about the state of their investments, with a focus on the company's equity position and returns is needed alongside information about the company's operational performance.

Explanation of Voting Intentions

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

The company's strategy is for rapid growth and the Report reflects this. At the pre-AGM a number of issues were canvassed: TSR -23.4% for the year, the Board's discretionary powers, the use of "underlying" metrics, the build-up of goodwill etc. A strong case was put by Mr Power for no change to the selected metrics because the design is to encourage creativity and risk-taking from management. Discretionary powers would be used if there was a major deterioration in the company's operational performance, and this is not the current case.

On the issue of discouraging over-ambitious and poor decision making from management, the relative TSR hurdle is regarded by the Board as an appropriate prudential measure. APM's relative performance was -29.74% (calculated) for the year. In future years APM's relative performance might be superior because its share price is coming off a very low base, thereby negating the prudential purpose.

The accumulation of goodwill from its recent acquisitions has been a key audit matter for the past two years. Any major impairment of this goodwill, resulting in the write-down or write-off of assets, would signal that too much was probably paid for the businesses. Impairment testing is a "lagging" procedure so stretching out the vesting period for any incentive payments would serve a prudential purpose. APM's current three year vesting period for equity incentives is inadequate.

There is confusion about how the calculation of the number of share performance rights for KMP, as part of their long-term incentive program (LTIP), is carried out because there is a mismatch between what methodology is promised in the 2023 Annual Report and what appears in

Resolutions 6&7. The Report uses a “value of Right” calculated ignoring the performance conditions that apply, and is based on the Volume Weighted Average Share Price less expected annual dividends over 3 years (p71 AR).

Adjusting for the dividend gives 20% boost over that based on an unadjusted market value approach. The “value of Right” involves using the favoured market price mechanism, but then subtracting at the “front end” the value of three years of dividends. By way of example, taking the figures from Resolution 7 and using current dividend payments, Mr. Anghie’s award of 1,158,940 rights based on a straight market-based valuation, blew out by a further 229,948 rights based on the “value of Right” methodology. This represents a 19.84% boost to the number of free shares on offer. Clarification will be sought at the AGM.

The Remuneration Report will receive an “against” vote. There are a number of features which do not accord with ASA Voting Guidelines. However, the biggest issue is the absence of any meaningful disincentives for poor management decisions, particularly around an ambitious acquisitions strategy.

In Resolutions 6 and 7, the number of performance rights for Ms Wynne (413,907) and Mr Anghie (1,158,940) were calculated by using market value and ASA applauds the company for its shift of thinking, even if only for this year’s calculations. ASA is in favour of both of these resolutions.

<u>Re-election of directors</u>

ASA supports the re-election of independent NEDs. The nomination of any non-independent for re-election will be scrutinised on a “value added” basis.

Ms Megan Wynne is the Executive Chair, founder of the company and holds a substantial shareholding. Her appointment to the Board was on 30 June 2020. Ms Wynne is the company’s public figure-head and fills that role admirably. Her background is in occupational therapy and vocational rehabilitation. Although non-independent, ASA will vote for her re-election given her pivotal role in the development of this newly listed company.

Ms Simone Blank is an independent director and chairs the company’s Audit and Risk Management committee. Her background is in accountancy with an interest in private health care companies. Ms Blank joined the Board on 23 July 2020 and will receive a “for” vote.

Mr Robert Melia is an independent director and joined the Board on 30 June 2020. He is a member of two Board committees – Audit and Risk Management and Finance and Investment. His background is in the development of human services businesses and will receive a “for” vote.

Mr Timothy Sullivan is Co-CEO and co-founder of MDP and is non-independent. He joined the Board on 30 June 2020 and chairs the Remuneration and Nomination committee. Mr Sullivan has had extensive experience in the private equity field. The vote is “against” on the basis of the inflexibility within the Relationship Deed, where MDP is entitled to three Board seats (or more). This crimps the opportunity of having a wider array of skills and experience on the Board. A suitable question will be asked at the AGM.

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Appendix

Remuneration framework detail

The remuneration committee took advice (but not recommendations) from Aon and Ernst & Young.

The current fee pool for non- executive directors (NEDs) is $1.5m and total pay-out for the year was $1.125m with the fees positioned at the 50th percentile of market benchmarks.

The remuneration mix for KMP‘s STVR (short term variable remuneration plan) is 50% of base salary as target opportunity and 75% maximum opportunity. All is paid in cash. A weighting of 50% went to a financial measure (underlying NPATA) and 50% to execution of growth strategy (grow existing business, integrate and scale M&A, pursue new markets). For FY2023, cash was paid at target opportunity.

For the LTIP (long term incentive plan) 50% of base salary represents target opportunity and 100% of base salary for maximum opportunity. The award is composed of share performance rights vesting over a three-year period. The number of rights is calculated using a “value of Right” formula, which delivers a substantial boost over the preferred face value or market value calculation. Three independent performance measures (two are new) are used:

- 35% for outperforming the ASX 300 Industrial Total Return Index.
- 35% for exceeding a target of underlying EPS compound annual growth rate.
- 30% for meeting three strategic objectives (very similar to the STVR business objectives).

Actual take-home pay is not published nor information about the performance against the ASX 300 Industrial Total Return Index (my calculation: +7.1% return against -22.64% TSR for APM).

CEO Michael Anghie has substantial "skin in the game". His calculated take-home pay for the year was 55.6% of his maximum opportunity. His fixed remuneration of $2.1. is generous compared to the median fixed pay of $1.004m for CEOs of ASX101-200 companies (ref: ACSI 22nd annual survey of CEO pay, July 2023).

The Remuneration report was readable, but note the confusion over the calculation of the number of share performance rights available for distribution.

Framework for FY2023	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	2.1	50%	2.1	37%
STI - Cash	1.05	25%	1.575	27%
STI - Equity				
LTI	1.05	25%	2.1	36%
Total	4.2	100.0%	5.775	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.