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After COVID does Ramsay need to reset to a "new normal"

Company/ASX Code	Ramsay Health Care Limited / RHC
AGM time and date	10.30am 28 November 2023
Location	Sofitel Sydney Wentworth Hotel, 61–101 Phillip Street, Sydney
Registry	Boardroom
Type of meeting	In person (with webcast)
Monitor	Peter Gregory and Jennifer Owen
Pre-AGM Meeting	Yes, with Chair Michael Siddle, Chair Elect David Thodey, Rem Chair Alison Deans, Company Secretary Henrietta Rowe, Chief People Officer Colleen Harris and Head of Investor Relations Kelly Hibbons

Monitor Shareholding: An individual involved in the preparation of this voting intention has a shareholding in this company.

1. How we intend to vote

No.	Resolution description	
2	Adoption of the Renumeration Report	For
3	Re-election of Mr Michael Siddle	For
4	Re-election of Ms Karen Penrose	For
5	Grant of Performance Rights to Managing Director for FY2024	For

2. Summary of Issues and Voting Intentions for AGM/EGM

Director skills, independence and key person vulnerability

Ramsay Health Care (RHC) has a board of 8 people comprising the current chair, Michael Siddle, the CEO, Craig McNally, the current lead independent director and chair elect, David Thodey, and 5 other independent NEDs. All reside in Australia except one who is in Switzerland. Michael Siddle has announced that he will step down as chair after the AGM, but will continue as a NED, subject to his re-election at the AGM. David Thodey will then becoming chair.

The board is now able to travel and has an active program of visiting RHC sites across the UK and Europe as well as Australia and through this engaging with RHC people across all businesses to gain a valuable insight into the implementation of the "Ramsay way" across the organisation. Thus, directors gain better exposure to the business and staff gain exposure to the company's leadership.

RHC publishes a board skills matrix in its Corporate Governance Statement that lists the skills and number of directors with those skills. Unfortunately, it does not identify which directors have which skills. Generally, the board appears to contain a relevant set of skills. However, given the complex nature of RHC's business we believe that the specific skills and experiences of "Operating a private hospital" and "Hands on understanding health care reimbursement" should be included in the matrix. Were these included it is expected that that only the current chair and CEO have relevant experience.

Consequently, none of the other directors have the depth of knowledge and understanding to be able to question or add another perspective to these two people who have worked together for a long period of time and may unintentionally have some unconscious bias. It is important that the board quickly move to having at least one, and possibly 2 directors who have these skills. This may require, in the short term, increasing the board size.

There is also a question, given the importance of these specific skills, as to CEO succession planning and potential exposure to key person risk. This will be raised at the AGM.

<u>Ramsay going forward</u>

There is some difficulty in assessing the performance of RHC over time. As a provider of hospital and related services it was disproportionately affected by Covid over the past 3 years. Unrecoverable increased costs, staffing issues, inability to deliver its key service of surgery, and then its slow rate of recovery all distort comparators over time. It also raises the question as to whether things will "return to normal" or whether a new normal now exists?

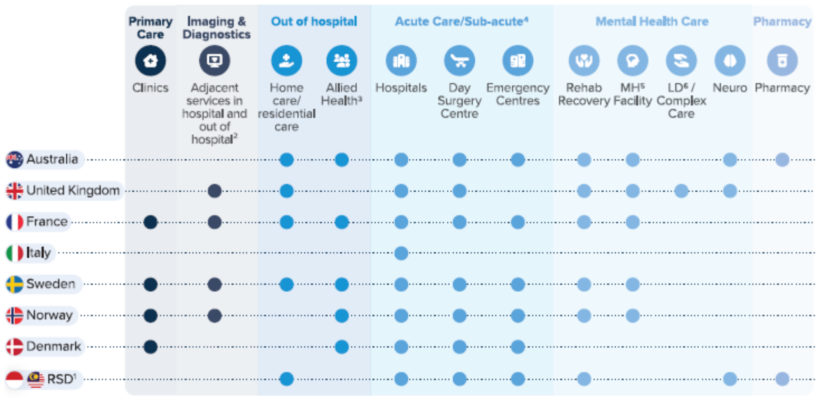
Therefore, it is appropriate to just focus on the future in considering concerns and opportunities. Here are some considerations:

<u>Debt</u> - RHC has more debt than its target level. It is currently at 3.2X EBITDA vs its target of 2.5X. With the hedging that has been put in place this appears just manageable for now. However, in 2025, assuming interest rates remain about where they are now the financing cost could double which would impact profitability. RHC are aware of this concern and the plan is to use the proceeds from the proposed Ramsay Sime Darby sale to pay down debt. Note, RHC announced on 13 November 2023 that this sale has been agreed to, subject to FIRB approval, with an expected completion by the end 3QFY24.

<u>IT spend</u> – the installation of a complete hospital management system including set up of management of patient information, control of processes and utilisation within the hospital is important for RHC to be able to deliver the highest standard of care most effectively and productively with the best outcome for stakeholders. RHC is committed to this and following our discussion at the pre-AGM meeting explained how they are using proven systems from known suppliers to mitigate any risks of cost blowouts, delays and reliability and performance issues.

<u>Portfolio review</u> – In order to conserve capital and focus on the core business of operating hospitals it is appropriate that RHC have the suite of facilities and services that will both optimise care and business outcomes. At the pre-AGM meeting we discussed the following chart (p9 Annual Report) and RHC indicated there was consideration being given as to their capability to effectively compete in all categories. For example, it was recognised that pharmacies were right for the business when located in a hospital or clinic but may not be as good a fit when located in the community.

Portfolio of Services



1 RSD: Ramsay Sime Darby
2 Includes Pathology
3 Allied Health includes HealthPlus, Psych Clinics
4 Sub-acute care includes Cancer, Gastrointestinal, Rehab
5 MH: Mental Health
6 LD: Learning Disabilities

Source: p24 Ramsay 2023 Annual Report

Elysium recovery – this acquisition has been disappointing, with difficulties in attracting sufficient staff preventing these facilities operating at scale being the reason. RHC recognises the urgent need to address this and has some short term and longer strategies being implemented. Time will tell whether these are sufficient Elysium to deliver on the pre-acquisition expectations.

Dependence on reimbursement

For the geographies that RHC operates in the primary source of revenue is either private health insurance or government. These are strong organisations that have the power to influence the income and profitability of RHC. RHC acknowledges that over the last 2 years the funding provided to them has not kept up with the cost increases they have incurred. While RHC claims to have a good and constructive relationship with their funders, the reality is these are either for profit organisations, or government bodies with pressure on their funding availability. Both have motivation to limit funding to private hospitals. They will also be motivated to seek lower cost or alternative means of delivering care that may not be consistent with RHC's business model or ethos.

RHC, in the pre-AGM meeting advised us that they were in the process of negotiating with their funders, based on solid cost evidence, to now obtain increased reimbursement. To date they have had a positive hearing, but decisions have not been finalised. And while they may have some success in the current round of negotiations, for the longer term there may be some difficult decisions required by RHC to meet the funder expectations, the changing competitive environment and shareholders expectation of returns. At the AGM we will seek assurance that RHC has the flexibility to adapt as needed.

See ASA Voting guidelines and Investment Glossary for definitions.

3. Matters Considered

Accounts and reports

Financial performance

(As at FYE)	2023	2022	2021	2020	2019
NPAT ($m)	298.1	274	449	284	545.5
Share price ($)	56.29	73.24	62.95	66.52	72.24
Dividend (cents)	75	97	151.5	62.5	151.5
Simple TSR (%)	-22.11%	17.89	-3.09%	-7.05%	36.63%
EPS (cents)	124.8	116.1	192.6	130.5	264.9
CEO total remuneration, actual ($m)	2.924	3.923	4.426	5.124	4.803

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.

Financial Performance

FY23 Revenue grew 11.6% over the prior year to $15,339.1m. EBITDA including discontinued operations was $2,022.1m, up 10.5% on the prior year. Reported Net Profit after Tax (NPAT) grew 8.8% to $298.1m.

Recovery in surgical activity during the year, accelerating during the second half in most regions, drove the revenue increase. Higher operating costs, in particular labour costs, and labour shortages slowed profit growth.

A final fully franked dividend of 25 cents per share was declared, taking full year fully franked dividend to 75 cps, a payout rate of 60%.

The final profit was boosted by $27.5m of non-recurring profits, compared to non-recurring losses of $44.9m in the prior year. Net profit adjusted for these items in both years was down 15% to $270.6m.

Fully diluted earnings per share grew 7.5% to 124.8 cps.

The auditors raised two key audit matters in their report to shareholders. Carrying value of goodwill, which was $5.8Bn at FY23 and Provision for Insurance, which was $81m at FY23. Both items involved considerable judgement and estimation. In assessing the Goodwill amount the auditors used their valuation specialists to review RHC's models and their actuarial specialists in assessed the adequacy of the provision for insurance. We will seek further explanation at the AGM.

Outlook

RHC expects mid-single digit revenue growth in FY24 driven by higher activity and higher reimbursement levels. Inflationary cost pressures not fully reflected in cost reimbursement will continue to be a feature of FY24, as well as labour cost pressures in selected markets. Spending on digital and data will increase to $60-70m (FY23 $26m). These factors will keep pressure on margin growth.

Depreciation and amortisation are expected to be $1.0Bn to $1.1Bn (FY23 $1.0Bn), net interest expense is guided at $570-600m (FY23 $524m), and effective tax rate of 30% (FY23 33.2%). This information is pre Ramsay Sime Darby sale.

Group capex is targeted at $0.89Bn-$1.1Bn (FY23 $772m). RHC flags that the performance of Elysium is expected to continue to improve based on better performance in 4QFY23, however a failure to improve profitability would result in deterioration in Elysium's financial outlook and may adversely impact its valuation.

Governance and culture

Michael Siddle is also a trustee and director of the Ramsay Foundation (PRF). This is a one of the largest philanthropic foundations in Australia, that takes social responsibility seriously with an aim to make a lasting contribution to positive change. The dividends PRF receives from its 18% holding of RHC shares contribute to funding its philanthropy. RHC, consistent with the Paul Ramsay ethos supports a wide range of health and medical research aimed at elevating the health and wellbeing of patients and society as a whole. Research conducted in hospitals not only benefits patients and advances clinical excellence, but is viewed very favourably by doctors when choosing where to work. RHC has established The Ramsay Hospital Research Foundation (RHRF) to manage its research. This is funded by an annual $5 million grant from PRF.

The relationship between RHC and PRF is important to both organisations and needs to be embedded in RHC's governance structure in a formal way and with appropriate continuity plans in place.

During FY23 RHC, through its Ramsay's Leadership Academy, conducted an Executive Leadership Summit bringing together 150 of the company's leaders from 10 countries to enhance global collaboration and equip them with additional skills to accelerate their key leadership attributes.

RHC also held its first global Clinical Excellence Summit during FY23. Gathering clinical experts and executive leaders providing an opportunity to share best practice and ideas for enhancing our patient care and experiences.

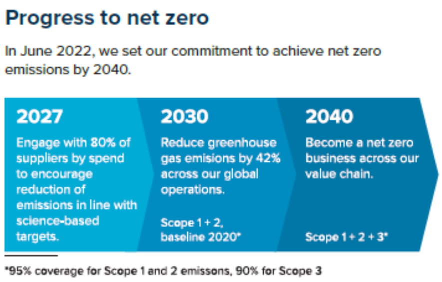
Central to RHC is a commitment to the Ramsay Way - People caring for people. This is the simple principle applied across all aspects of the business as espoused by the company founder, the late Mr Paul Ramsay AO.

Key board or senior management changes

Lead Independent Director David Thodey AO will become Chair of the Board following the 2023 Annual General Meeting as RHC continues to pursue its strategy of becoming an integrated, digitally enabled healthcare provider of the future.

Sustainability/ESG

RHC prepares a comprehensive [Impact Report] that defines the three pillars of Healthier People, Thriving Planet and Stronger Communities as the basis for its sustainability targets and goals. A high level sustainability roadmap shows that path from the commencement of the "Ramsay Cares" in 2020 through to 2040 when the goal is to become a net zero business across the value chain for scope 1, 2 and 3 emissions. This supported by specific strategies, and scorecards for each of the geographies RHC operates in. These are the high level targets on the path to net zero



Source: Ramsay 2023 Annual Report

and the sharing of some interesting case studies demonstrate how RHC are working towards these commitments a reality.

4. Rationale for Voting Intentions

Resolution 1 Adoption of the Renumeration Report **(for)**

The remuneration report is well structured and easy to understand. It is largely well aligned with ASA guidelines and actual payments are consistent with the FY23 company results. There are some aspects that we would like to see improvements in – namely a more rigorous definition of the Ramsay Way, disclosure as to how the percentagage applied for partially met STI metrics was arrived at and the lack of a financial gateway for all STI payment.

The LTI incentive has not vested since 2019. This reflects poor share price performance (relative TSR) and invested capital not meeting the required WACC hurdle. These are issues beyond the remuneration report.

Resolution 2 Re-election of Mr Michael Siddle **(for)**

Michael Siddle was appointed as a director in 1975 and when RHC listed in 1997 he became deputy chairman. In 2014 he was appointed Chaiman of the company and has continued in that role. At this AGM he will retire as chair but is standing for re-election to continue as a director.

In normal circumstances ASA would vote against his re-election as firstly he cannot be seen to be independent, and secondly, ASA is of the view that when a chairman retires from that role he/she should retire from the board to give the incoming chairman clear air to lead the company forward.

However, in the case of Michael Siddle he has some essential skills and experiences that are critical to the success of the company and which none of the independent directors have. These are a deep understating of the complex operation of a private hospital and experience in working through reimbursement negotiations in the geographies RHC operates in. We will vote "for" but will ask assurance from the chair elect that, mitigation strategies be put in place, even if means a short term increase in the number of directors, to enable Michael Siddle to retire, after a long period of dedicated service to RHC, from the board at the end of this term.

Resolution 3 Re-eelection of Ms Karen Penrose **(for)**

Karen Penrose commenced as a RHC director in 2020 and is an experienced company director. She is also a director of Ramsay Sante. From her executive career she is well versed in financial management, and we consider this to be an important capability for RHC. From her directorships of Cochlear and Estia Health (a listed operator of aged care facilities) she has had some exposure to the healthcare industry.

As the board skills matrix does not identify which of the skills she brings to RHC we will ask her at the AGM to describe in more detail what she brings to the RHC board.

Resolution 4 Grant of Performance Rights to Managing Director for FY2024 **(for)**

The performance rights are in line with the remuneration plan and their award, if vested, are consistent with shareholder interests.

The CEO will be granted 64,625 Performance Rights. This number of PRs has been determined by dividing the FY24 grant value of $3,650,325 by the 5-day Volume Weighted Average of the company's share price up to and including 3 July 2023 (AU$ $56.4846), with 3 July being the first trading day of the performance period.

Any shares obtained for this purpose will be sourced on market.

Appendix 1
Remuneration framework detail

Ramsay Remuneration Summary								
	FY23 CEO remuneration Plan						Actual FY23	
	Threshold		Target		Maximum			
CEO rem. Framework for FY23	$m	% of Total	$m	% of Total	$m	% of Total	$m	% of Total
Fixed Remuneration	**2,085**		**2,085**	**27%**	**2,085**	**25%**	**2,142**	**73%**
STI - Cash			1,043	13.5%	1,304	15.5%	391	13.4%
STI - Equity			1,043	13.5%	1,304	15.5%	391	13.4%
Total STI	**Not disclosed**		**2,085**	**27%**	**2,607**	**31%**	**782**	**27%**
LTI	**1,460**		**3,552**	**46%**	**3,650**	**44%**	**Not vested**	**0%**
Total			**7,722**	**100%**	**8,688**	**100%**	**2,924**	**100%**

STI achievement

% of target	% of max
38%	30%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.

The RHC remuneration plan has 3 components for the CEO: (A similar structure is applied to other executives.)

1 Fixed renumeration is reviewed each year against relevant benchmarks. This was not adjusted in FY23.
2 The STI at its target is 100% of FR and maximum is 125% of FR. The STI targets are set as part of the annual company planning process which sets the performance measures linked to business objectives aligned to the delivery of strategy. The performance measures (and their weighting) are Financial (50%), Strategic (15%), People (15%), Consumer (10%) and Quality (10%). After the scorecard is completed (shown on page 53 of the AR with outcomes for FY23), the Ramsay Way modifier is applied - The Ramsay Way 'People Caring for People' is the Group's cultural backbone which assists in guiding decision making that is both people and outcome focused, while also balancing risk behaviours in both a financial and non-financial sense. This modifier can only reduce the quantum of the STI award. No specifics are provided on how the modifier is implemented but it appears to be well "understood" within RHC.
The formulae used to calculate the applicable STI is:
STI $ target opportunity X % scorecard result X Ramsay Way modifier = $ value of STI award

The STI $ award is paid 50% in cash and 25% in equity deferred for a year and 25% in equity deferred for 2 years.

3 The LTI is 175% of FR and is based on the two equal metrics of Relative TSR (at 50th percentile vesting commences at 50% up to 100% vesting at 75th percentile) and CAGR EPS (at 3% vesting commences at 30% up to 100% vesting at 9%). The EPS component is subject to the Ramsay Group ROIC being above the WACC for the 3 year performance period.

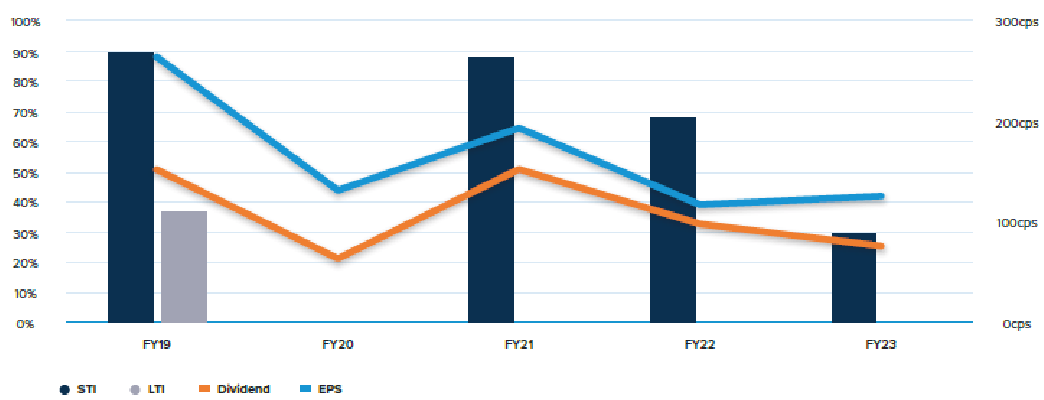
In FY23 with the STI the financial target was not met so that 50% was forfeited, Consumer (10%) and Quality (10%) targets were met so 20% of maximum was paid for these metrics. For Strategic (15%) and People (15%) were partially met – 10% was paid in total for these two metrics without any disclosure as to how this amount was arrived at. There was no adjustment from the Ramsay Modifier so 30% of the maximum STI was paid = forfeit of 70%.

With the LTI actual relative TSR was 17.02 percentile and the ROIC being more than the WACC gateway was not met. Therefore, there was no vesting of LTI in FY23. The last time that vesting of the LTI happened was in 2019.

This informative table from the Annual Report (p55) shows the five-year Ramsay Group performance correlated to variable reward outcomes.

4.3.4 Five year Group performance correlated to variable reward outcomes

The graph and table below summarises STI and LTI outcomes over the past 5 years together with share price, dividend and NPAT performance demonstrating the alignment of at-risk reward outcomes and shareholder outcomes.



	FY19	FY20	FY21	FY22	FY23
CEO STI outcomes (% of maximum)[1]	90	-	88	68	30
CEO LTI outcomes (% of maximum)[2]	37	-	-	-	-
Closing share price at end of period ($)[3]	$72.24	$66.52	$62.95	$73.24	$56.29
Dividends per Ordinary Shares (cents)	$1.5150	$0.6250	1.5150	$0.9700	$0.7500
NPAT ($M)	$545.50	$284.00	$449.00	$274.00	$298.1

1. *CEO STI outcomes are presented on an award basis. Commencing FY21, CEO STI awards are paid 50% in cash and the remaining 50% deferred via restricted shares.*
2. *CEO LTI outcomes are presented on a vested basis. For example, nil CEO LTI outcomes in FY20, FY21, FY22 and FY23 mean there is no vesting of LTI performance rights for these years.*
3. *The opening share price at the start of FY19 was $53.98.*

Source: p24 Ramsay 2023 Annual Report