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# LIFE HEALTHCARE GROUP HOLDINGS LIMITED

https://www.lifehealthcare.co.za/investor-relations/

**Annual General Meeting**
27th January 2021
Financial Year End: 30th September 2020

| Proxies voted |
| --- |
| The Ditikeni Trust |
| The Ditikeni Investment Company |

The Integrated Annual Report (Report) notes that it was a difficult year for the company with the effects of Covid and a cyber attack on the company's systems.

The company profits for the year are a fraction of previous years and whilst we recognise the need to retain and incentivise management and that the effect on profits was beyond the control of management, we find it difficult to reconcile the increases in management bonuses with the financial results.

We are note that the chairman (Mr Brey) will step down as chair at the AGM, he has played a leading and invaluable role in the establishment of the company, however, the board was far too cosy and Mr Brey is not an independent director. Given that he is not independent, it was proper that a Lead Independent Director be appointed, however the appointee's service is also rather long at 10 years and as such we do not consider him sufficiently independent to be Lead Independent Director.

In our report last year, we noted an increase of 3.3% in employee numbers by Life in Southern Africa, unfortunately this year we note a decrease of 2.8% with total employees of 15 922 only marginally higher than in 2017/18 financial year.

Although the presentation of the Report is a bit dull, we again note that an impressive Report for a company of the size of Life Healthcare is spoiled by the fact that it is still designed to be printed rather than read on a computer screen – layout is in portrait format with frequent use of double page spreads and although links are indicated, they do not click through.

| | Resolution | Rationale | Vote | Outcome of AGM |
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| | Presentation of the audited annual financial statements | We favour the presentation of the Annual Financial Statements (AFSs) and a vote of acceptance thereof.<br>The auditors state that the AFSs fairly present the results of the operations and financial position of the company and we are satisfied with that. | | |
| | Presentation of the Social, Ethics and Transformation Committee report | The Social, Ethics and Transformation Committee Report at one and half pages does not go into issues in depth.<br>The report lists the responsibilities of the committee and areas of focus during the year. There is some information on its Covid work but not much else.<br>More detail would be welcome. | | |
| | **Ordinary Resolutions** | | | |
| 1 | Appointment of independent external auditors | Deloitte & Touche are one of the large international audit firms, they have been auditor for 1 year and the audit partner is named as required.<br>The audit committee commend Deloitte & Touche for their audit under difficult circumstances.<br>We support their reappointment. | FOR | FOR 98.9% |
| 2 | Re-election of directors | In considering the appointment of individual directors, we need to first consider the overall composition of the board. The primary factors we consider are: Independence, Continuity, Skills and Diversity.<br>The board is rather too cosy with average tenure of just under 9 years (the point at which a directors' independence is questioned in terms of King IV) when taking into account actual tenure rather than tenure since the company was listed. The Chairman has served for 17 years and holds shares in the company which are material to his wealth, he cannot be considered independent. The company is therefore required to appoint a Lead Independent Director which they have done. However, with 10 years' service his independence is questioned.<br>We note that the chairman will step down from that position at the AGM and a new and independent chair will be appointed.<br>The board has introduced some new directors over a period of time with two directors having served 6 years, 2 having served 3 years and 1 | | |

| | Resolution | Rationale | Vote | Outcome of AGM |
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| | | new appointment this year. The remaining 5 non-executive directors have an <u>average</u> tenure of 13 years. Continuity of the non-executive directors is not an issue although some directors are approaching an age when they will need to step down from the board.<br>Unlike the non-executive directors, the company has not had much success in retaining CEOs with the third appointee in 6 years.<br>Given the company's operations we applaud the appointment of a medical doctor as the new chairman, however, we remain concerned that there are still twice as many accountants as doctors on the board and that both executive directors are accountants. Only 1 out of 8 senior executives is a medical doctor.<br>The skills range seems to be light on medical skills.<br>The diversity of the board is satisfactory with 30% women and 70% black, however the executive team is 75% white men (2019 50% white men).<br>Given the international investments of the company we would expect to see greater diversity in the nationality of the directors, all but one of whom are South African, and the sole British director has in fact been resident in South Africa for many years. We are pleased to note that the special resolution on non-executive directors' fees states that a *process is*<br>*underway to identify and potentially recruit an internationally based director*. | | |
| 2.1 | Marian Jacobs | Prof Jacobs, 72, has been a director for 6 years. She brings medical knowledge and management experience to the board.<br>Her attendance record during the year under review was impeccable and we found no other directorships under her name, she does hold various other positions. | FOR | FOR 99.9% |
| 2.2 | Victor Litlhakanyane | Dr Litlhakanyane, 54, is a new appointee to the board and is due to take over as chairman of the board at the AGM.<br>A medical doctor with an MBA he is well skilled to take on the position as chairman of the board. | FOR | FOR 99.9% |

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| 2.3 | Audrey Mothupi | Ms Mothupi, 50, has been a director for 3 years, she brings financial and technological expertise to the board.<br>Her attendance record during the year under review was impeccable and she does not appear to be overcommitted. | FOR | FOR 99.9% |
| 2.4 | Mahlape Sello | Adv Sello, 58, has been a director for 3 years and brings legal expertise to the board.<br>Her attendance record at 80% for board meetings and 67% for committee meetings is not acceptable and no explanation is provided in the Report. | AGAINST | FOR 96.2% |
| 2.5 | Royden Vice | Mr Vice, 73, has been a director for 6 years he is one of 6 accountants on the board. As noted above we do have a concern that the board and executive team is heavy on accounting and light on medical skills but this in itself is insufficient reason to vote against Mr Vice.<br>Mr Vice is chairman of the Nominations Committee which has set the rule that non-executive directors should retire at the age of 70. Mr Vice himself is over 70 and is not following the rule which the committee he chairs set.<br>However, the key issue is that Mr Vice is overcommitted as he is the chairman of at least one other company. | AGAINST | FOR 95.8% |
| 2.6 | Peter Wharton-Hood | Mr Wharton-Hood, 55, is the recently appointed CEO of the company. He has extensive business experience and we trust will remain with the company for the foreseeable future. | FOR | FOR 99.0% |
| 3 | Election of Audit Committee members | Given our concern regarding the independence of the board, it is of great importance that the audit committee be independent.<br>Unfortunately, the committee includes two directors who have served for 10 and 15 years respectively and whose independence is therefore questioned. | | |

| | Resolution | Rationale | Vote | Outcome of AGM |
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| 3.1 | Peter Golesworthy | Mr Golesworthy is chair of this committee and is well qualified to fulfil this position. His attendance record is excellent.<br>He sits on most of the board committees and is the Lead Independent Director, we question his suitability as Lead Independent Director given his long service on the board.<br>Given our concerns regarding the independence of the board as a whole, we unfortunately find that Mr Golesworthy is insufficiently independent to chair this committee. | AGAINST | FOR 95.2% |
| 3.2 | Audrey Mothupi | Ms Mothupi has been considered by us as suitable to serve as a director under item 2.3 above and is suitably qualified to serve on this committee. | FOR | FOR 98.8% |
| 3.3 | Garth Solomon | Mr Solomon, was already a director prior to the listing of the company and as such has served the company for a total of 15 years.<br>We consider him insufficiently independent to serve on this committee. | AGAINST | FOR 91.3% |
| 3.4 | Royden Vice | Under 2.5 above we found that Mr Vice is overcommitted and as such do not support his appointment to the board. | AGAINST | FOR 99.5% |
| 4 | Approval of the remuneration policy | The Remuneration Committee (Remco) consists of 3 independent directors, we question the independence of Mr Solomon after 15 years on the board but are satisfied with the overall independence of this committee.<br>Neither of the remuneration resolutions received the requisite support at the last AGM; consequently, the company engaged with shareholders including Active Shareholder and a number of issues raised are listed in the Report.<br>Given the short tenure of the last 2 CEOs (3 years and 2 years) we will be paying particular attention to the policy and implementation in terms of retention of key executives. | | |

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| 4.1 | The Company's remuneration policy be and is hereby approved by way of a non-binding advisory vote | It is pleasing to note that the company is taking the extreme income disparity in South Africa seriously. It discloses the income ratio of the most highly paid 10% of employees against that of the most poorly paid 10% of employees. Using this measure, the company has a lower wage gap than the general South African company or State Owned Enterprise.<br>Whilst we applaud this commitment, we do caution that doctors are not employed by the company and that they may well be better paid than many employees and at the other end of the equation, security and cleaning services are outsourced.<br>The Report notes *The Group periodically consults market survey providers for an indication of the guaranteed remuneration and annual cash incentive payments made generally and sectorally*. Further details of the benchmarking in fact state that the company uses a bespoke report for executive remuneration and provides details of the service provider.<br>Further to the remuneration consultation referred to under 4 above, malus and clawback provisions have now been included in short and long term incentive schemes.<br>As noted above Guaranteed Pay is subject to benchmarking and it includes benefits.<br>The Report states *The short-term incentive bonus is discretionary*, we do not favour this level of discretion and believe executives must have clearly defined targets and know what benefit they will receive at various levels of achievement.<br>The targets set for the CEO for 2021 are disclosed and in summary are:<br>• Financial 60% - EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortisation), 80%, Gross Cash 10% & CAPEX (Capital Expenditure)10%.<br>• Clinical Metrics 15%.<br>• Other 25% - People, Stakeholder management, IT delivery, Operational delivery, Strategic delivery, and Leadership, values, culture and teamwork. | FOR | FOR 89.7% |

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| | | On target and maximum achievement as a percentage of Guaranteed Pay are: CEO 80% and 164%, CFO 65% and 134% and other executives 55% and 113%.<br>Certain conditions were changed or waived due to the significant impact of Covid on the company results. Payments of the bonuses will in future not be in 2 tranches but a single payment after the financial year-end.<br>The LTI scheme payable to executives is based on the achievement of:<br>• Capital efficiency. This is spilt into 2, of which 79% is business as usual capital allocation determined by ROCE (Return on Capital Employed) measured against WACC (Weighted Average Cost of Capital) plus a percentage; and 21% for allocation to key growth initiatives which are highly capital intensive.<br>• Normalised Group HEPS (Headline Earnings per Share). Targets are defined as the consumer price index plus varying percentages.<br>• Life Core Purpose Outcomes. These are defined and include patient experience and satisfaction.<br>On target and maximum achievement as a percentage of Guaranteed Pay are: CEO 80% and 152%, CFO 80% and 152% and other executives 62% and 117%.<br>The LTI share scheme has a 3-year vesting period, we consider this fairly short term and recommend vesting over 3, 4 and 5 years.<br><br>A once-off retention incentive scheme has been entered into with the new CEO and the CFO. In terms of this scheme the executives are required to purchase and hold shares in the company. The company has matched those shares on a 3 to 1 basis (ie 300% of the investment). The matched shares are held in escrow, are subject to various performance conditions, and shall vest in 3 equal tranches after 3, 4 and 5 years.<br>The total value of the matched shares is equal to 252% of the CEOs annual guaranteed package and 194% of the CFOs package. | | |

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| | | On the departure of the former CEO, shares were purchased which are held in escrow with certain performance conditions for the SA CEO and the International CEO to retain their services.<br>The above shares do not form part of the normal executive packages which consist of Guaranteed Pay, Short-Term Incentives (STIs) and Long-Term Incentives (LTIs).<br>The retention share schemes were clearly entered into in response to the problem the company has experienced in retaining its CEO and to stabilise senior management. However these are ad-hoc arrangements and we favour a proper, considered and even retention scheme. This however is an issue of implementation rather than policy and will be picked up under 4.2 below.<br>**In conclusion, the company policy report was a bit confusing and we do not favour an LTI scheme that vests in 3 years but do not consider this sufficient grounds to vote against the remuneration policy report.** | | |
| 4.2 | The Company's implementation report be and is hereby approved by way of a non-binding advisory vote | The implementation report is most confusing, it states that executive salaries increased by 5% or in the case of executives with additional responsibility 8.6%.<br>However, we found the CFOs salary increased by 30.1% and the South African CEOs salary reduced by 6.4%. We could find no explanation for these changes in his Guaranteed Pay.<br>The changes in salary of the International CEO and the Group CEO could not be assessed as there were not two complete years salary for either of them.<br>The STI targets were not clear to us and we struggled to understand how an EBITA target of 4 656 with an actual EBITA of 2 694 could possibly justify a bonus award. Clearly, we were not correctly able to understand the report.<br>The LTI target noted that EBIT targets were not met but the TSR (Total Shareholder Return) targets were met. Many shareholders may not feel that these targets were sufficiently robust. | AGAINST | AGAINST 36.0% |

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| | | **In the final analysis we oppose the implementation target given the payment of the once off retention schemes to the 4 most senior executives as detailed under 4.1 above. These payments do not fall within the remuneration policy and whilst we are concerned that the company has not been able to retain a CEO, we believe the existing policy should be amended rather than entering into ad hoc payment schemes.** | | |
| 5 | Authority to sign documents to give effect to resolutions | This is an administrative matter. | FOR | FOR 100% |
| | **Special Resolutions** | | | |
| 1 | Remuneration payable to non-executive directors and the Chairman | The non-executive directors' fees are proposed to increase overall by 4.1% with increases for the various committees and positions of between 3.5% and 6%. The resolution states *fees per annum are based on a comprehensive benchmarking exercise conducted by an independent remuneration consultant against other industry sector companies*. We would in the current climate prefer to see no increases but find that the fees are not in line with the market.<br>Fees consist of a retainer and attendance fees which we favour. | FOR | FOR 98.6% |
| 2 | Approval for the granting of financial assistance in terms of sections 44 and 45 of the Companies Act | The resolution notes that this resolution will allow for *financial assistance is provided for the purposes of, or in connection with, the subscription of any options, or any securities … to related or interrelated companies.*<br>The resolution notes that *the Company will not provide financial assistance to directors.*<br>It appears therefore that the resolution will only cover the provision of financial assistance to related or interrelated companies to purchase securities or options in the company itself or related or interrelated companies.<br>On the information provided it seems that this resolution is a catch-all which the company has no immediate intention of using. We do not favour such resolutions. | AGAINST | FOR 94.6% |

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| 3 | General authority to repurchase shares | We do not support general resolutions to buy-back shares as we consider these to be prejudicial to the interests of minority shareholders. | AGAINST | FOR 99.8% |

**OUTCOME OF THE AGM**

The AGM was well attended with 83% of shares voted in person or by proxy.

Resolution 4.2, the remuneration implementation advisory vote, did not get the required 75% support with 36% of shareholders voting against this resolution. There was also a lot of resistance to resolution 41, the remuneration policy advisory vote, with over 20% of shareholders opposing it. This is the third year in a row that one or more of the remuneration resolutions have not been approved.

Mr Solomon has not been a popular choice as a member of the audit committee for a number of years but he is still well supported which is most surprising given his length of service and obvious questions regarding his independence.