

Abano Healthcare Group Limited

Directors' Fees Review

Private and Confidential

Overview

Richard Keys, Chief Executive Officer, and Ted Van Arkel, Remuneration Committee Chair at Abano Healthcare Group Limited (“Abano Healthcare” hereafter), has commissioned Strategic Pay Ltd to provide a review of its Board of Director fees. Mr Keys supplied our background information, and we phone interviewed Remuneration Committee Chair, Ted Van Arkel. The Company has presented its own fee proposal for our consideration herein.

To our knowledge, the last formal fee review was provided by Moyle Consulting Ltd, a predecessor organisation to Strategic Pay Ltd in August 2010.

Our approach involves constructing relevant, customised market samples from our February 2016 New Zealand Directors’ Fees Survey database to determine and position appropriate Board fee levels for Abano Healthcare.

We then “cross-check” our data results using our proprietary Director Evaluation Methodology which considers nine factors, the majority of which are qualitative and address issues of complexity, risk and stakeholder management.

This report presents the following:

1. Background information and context;
2. Recommendation Summary;
3. Customised NZ market samples;
4. Customised Australian market samples;
5. Results of Director Evaluation Methodology;
6. Committee Fees, Chair Pay Practice;
7. Recommendation;
8. Appendix 1 - 2016 NZ Director’s Fees Survey highlights;
9. Appendix 2 - Overview of Director Remuneration Issues in New Zealand;
10. Appendix 3 - Director Evaluation Methodology and factors;
11. Appendix 4 – Strategic Pay Ltd – Capabilities and Offerings.

Background

In writing this report, we consider the following information supplied by Mr Keys and Mr Van Arkel, as well as the Company's published investor information.

- + Abano Healthcare is an NZSX publicly listed company that owns and operates successful businesses in two sectors of the healthcare market in New Zealand and Australia, with over 50% of revenues now generated in Australia. The Company co-invests with clinical leaders and founders in businesses that have growth and profit enhancement potential.
- + Abano Healthcare operates in the dental industry through Lumino Dental in New Zealand, and through Maven Dental in Australia. Lumino Dental has just achieved 100 practices, and Maven Dental owns approximately 85 practices. Investment continues apace in this \$11 billion Trans-Tasman dental industry, and offers considerable growth opportunity.
- + Abano Healthcare also operates in the radiology sector through Ascot Radiology in New Zealand, a 73% owned business, offering high quality digital imaging and radiology services.
- + Earlier in 2016, Abano Healthcare divested its 50% ownership in Bay Audiology for \$32 million, recording a \$20 million gain for the 2016 financial year.
- + Listed on the NZSX, Abano Healthcare's market capitalisation stands at \$175 million as of 17 September 2016.
- + For the financial year ended 31 May 2016, Abano reported total revenues of \$214 million, with an EBIT of \$16.9 million. Total assets were recorded at \$274 million at this financial yearend
- + Abano Healthcare's Board consists of six independent members: a Chair, a Deputy Chair, and four Directors. Importantly, Abano Healthcare has appointed its second Australian-based Director reflecting its activity and growth opportunities in that market.
- + Current base annual fees are \$120,000 for the Chairman, \$90,000 for the Deputy Chairman and \$60,000 for the independent Directors. Board fees were last reviewed and adjusted in 2014. Since 2012, under the Director Share Plan, 50% of annual after-tax Director fees have been paid in shares bought on the market. This is a prevalent practice among Australian listed companies, as a matter of ensuring Board members have "skin in the game."
- + Over time an unallocated \$150,000 special annual pool has been available to remunerate directors for extraordinary transactions, costs or projects, however, this pool has not been tapped since 2010.
- + The workload and time commitment are high. 12 full Board meetings (half-days) are scheduled, with 3 to 4 of these held in Australia given the growth of those operations. Since detailed business reviews and site visits are included in these sessions, Australian Board meetings are typically 2-day commitments. The 2-day annual strategy/planning review is also held in Australia. Finally, given a high level of transactions and activity, the Board often requires informal meetings, discussions and calls between formal meetings. Based on our experience, we assume preparation time equals meeting time, thus doubling the overall time commitment.

- + The Risk Assurance and Audit Committee consists of a Chair plus two members. Four meetings are held annually, with the Chair paid a \$12,000 committee fee.
- + The Governance & Remuneration Committee also consists of a Chair plus two members. There are 2 to 3 meetings annually, and the Committee Chairman receives a \$12,000 annual committee fee.
- + According to the Strategic Pay Ltd 2016 NZ Directors' Fees Survey, at NZ market medians, Boards consist of a Chair and five Directors, and often more at listed companies. Therefore, the Abano Healthcare Board is of a median size. Furthermore, we acknowledge the relatively small management team at the holding company level, hence the Board's range of skills is fully utilised to support management during various transactions.
- + Finally, we emphasise the obvious complexity and risks inherent in listed company status, with ongoing compliance and reporting requirements. Additionally, health and safety issues loom large for businesses operating in the medical/health sector. These responsibilities are compounded, in our view, at a relatively small growth business that has seen material acquisitions, material divestments, capital raising, share buybacks, three takeover attempts, and litigation over the past 10 years.

The philosophy of the Board regarding fees continues to evolve, as its presence in Australia expands. Accordingly, the Company desires to pay comparably and competitively for publicly listed companies in the New Zealand market, while also anticipating Australian-level Director fees to ensure it can attract and retain experienced directors within the Australian market as well.

Recommendation Summary

We recommend that base annual fees for Directors of Abano Healthcare be increased from \$60,000 into a range from **\$65,000 to \$75,000**.

We further recommend that base annual fees for the Deputy Chair at Abano Healthcare, now set at \$90,000, be set in a range from **\$97,000 to \$112,500**.

Likewise, we recommend that base annual fees for the Chair be increased from **\$120,000** into a range from **\$130,000 to \$140,000**.

We also believe that increasing Committee Chair fees from **\$12,000 to \$13,000** is appropriate and representative for publicly listed companies. At some point the Company may also choose to introduce Committee Member fees at half these levels.

In our view, the recommended fee ranges represent appropriate, competitive levels for publicly listed companies with significant operations in both the NZ and AU markets. Our recommendation supports the Company's own fee proposal, and provides additional scope. Furthermore, we strongly support the practice of paying 50% of fees in Company shares as providing alignment with shareholders and "skin in the game."

The Company proposal represents an **8.2%** increase to the current annual governance pool, or **\$39,000** annually. We note there has not been a fee adjustment since 2014.

Strategic Pay's guiding principle is that it is important not to undervalue the contributions, experience or time committed by Board members.

Recommendation Summary

Fees	Current (\$)	Number	Abano Proposal (\$)	SPL Recommendation (\$)	Recommended Total (\$)
Chair	120,000	1	130,000	130,000 to 140,000	130,000 to 140,000
Deputy Chair	90,000	1	97,000	97,000 to 112,500	97,500 to 112,500
Directors	60,000	4	65,000	65,000 to 75,000	260,000 to 300,000
Chair – Risk & Audit	12,000	1	13,000	13,000	13,000
Chair - Remuneration	12,000	1	13,000	13,000	13,000
Total	474,000		513,000		513,000 to 578,500
Special Pool	150,000				150,000

Appendix 4: Strategic Pay Ltd

Strategic Pay is at the leading edge of developments in strategic remuneration and performance management solutions, offering a powerful combination of resources to help organisations improve their performance, ensuring remuneration and rewards are closely linked to business objectives.

Ensuring business success

Superior organisation performance is having a future proof strategy, an organisational model and structure that supports the strategy and the right people matched to the accountabilities best designed to deliver the strategy. Strategic Pay's PLUS+ business consists of experienced consultants delivering the PLUS+ suite of change management tools.

Strategic consultancy

The highly experienced consultancy team at Strategic Pay offers clients a depth of remuneration and performance expertise unmatched in the New Zealand market. Our team uses a sophisticated set of proprietary tools designed to integrate remuneration, performance and rewards management.

This includes:

- + Remuneration and reward strategy
- + Executive remuneration and performance
- + Incentive schemes, including STIs and LTIs
- + Base pay systems, including points, grades, bands or benchmarks using our proprietary job evaluation systems SP5®, SP10® and JobWise®
- + Salary review management, including processes, tools and training
- + Performance management systems, including customised design and implementation
- + Remuneration audit tools and processes

New Zealand's largest data services offering

Strategic Pay offers an unrivalled suite of nation-wide and specialist industry sector market surveys, based on a database of pay information for over 128,000 New Zealand employees from over 1,000 organisations. This rich data source gives our clients access to better and broader comparative information to effectively benchmark their remuneration and rewards packages.

Our key nation-wide surveys and reports include:

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| + NZ Remuneration Report (<i>published 6 monthly</i>) | + Corporate Services and Executive Management |
| + CEO and Top Executive Remuneration Report | + Directors' Fees Report |
| + New Zealand Benchmark Report | + HR Metrics Survey |

Our specialist industry sector surveys include:

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| + Association of Consulting Engineers NZ | + Law Firms |
| + Central Government | + Local Government (<i>published 6 monthly</i>) |
| + Chartered Accounting Firms | + Medical Technology Association of NZ |
| + Electricity Transmission, Distribution and Asset Management | + Not for Profit Sector |
| + Financial Services | + Patent Attorney |
| + HRINZ HR Practitioners | + Pharmaceutical |
| + Independent Schools of New Zealand | + Property |
| + Institutes of Technology and Polytechnics | + Retail Industry |
| | + Wine Industry |

Smart technology

We understand the needs of busy HR practitioners and have developed a range of smart automated tools to manage your remuneration and survey submission needs.

- + RemWise® – salary management software for managing every aspect of remuneration management.
- + spectREM® – Strategic Pay’s Web-enabled database.
- + PayCalculator – survey data at your fingertips.
- + Rem On-Demand® – provides access to accurate and exhaustive ‘real time’ information on remuneration trends and topical human resource issues in New Zealand.

Building client capability

We offer a suite of educational programmes designed to help you build your organisation’s management capability and understanding in reward management. The Strategic Pay Academy provides clients with comprehensive short courses in Remuneration, Performance Management and Organisational Performance.