

Non-Executive Director Fee Benchmarking

Summary of Mercer Report dated 16 June 2023

Fisher & Paykel Healthcare Corporation Limited

Introduction

Mercer has been engaged by Fisher & Paykel Healthcare Corporation Limited (FPH or the “Company”) to provide independent remuneration benchmarking data for its Non-Executive Directors (NEDs) against publicly listed companies comparable to FPH.

In particular, FPH has requested Mercer to:

- Recommend and provide a rationale for a relevant set of comparator companies;
- Determine non-executive director remuneration at the comparator companies, including remuneration for committee membership;
- Report on our findings; and
- Provide a summary report to be made available publicly for review by shareholders and proxy advisors.

Approach

Mercer’s approach to this engagement was as follows:

- Gathered current information on FPH’s Board and Committee structure, workload commitments and current remuneration arrangements for all Board and Committee roles included in the review referencing information provided and FPH’s public disclosures.
- Worked with FPH to review and finalise a Listed Peer Group of companies listed on New Zealand Exchange (NZX) and the Australian Securities Exchange (ASX).
- Extracted and reviewed available board fee data sourced from the Listed Peer Group, and compared FPH’s practices against the collated market data.

- Provided relevant commentary in regards to Mercer’s observations of FPH’s position against the market, including potential changes to FPH’s board fee structure and the resultant impacts on the aggregate fee pool.
- Prepared a report outlining our approach, findings and recommendations.

Please see Appendix A for more information in regards to our benchmarking methodology.

Listed Peer Group

In establishing an appropriate comparator dataset, Mercer has worked with FPH to review and finalise a **Listed Peer Group** of companies. The diagram below shows the filtering process adopted in shortlisting the benchmarking peer group.

All Listed Companies Considered

All companies listed on the ASX and NZX, headquartered in either Australia or New Zealand

Industry Sector Filters applied

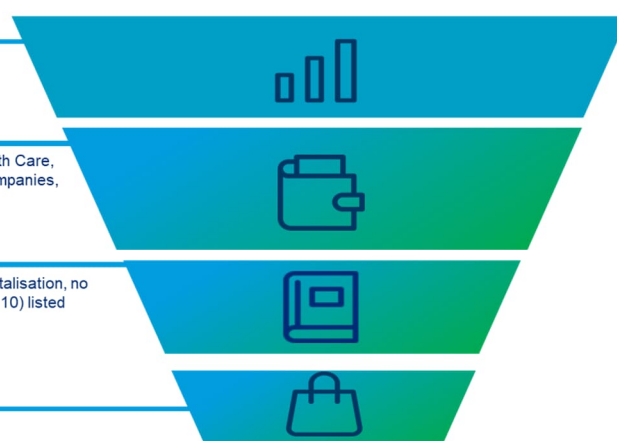
Mercer has then filtered all ASX listed companies to include only companies classified within the Health Care, Communication Services and Information Technology sectors based on the GICS. For NZX listed companies, the industry sector filter was not applied to ensure sufficient number of companies.

Financial Filters applied

Mercer applied a **market capitalisation filter** to 33% to 300% of FPH’s 6-month average market capitalisation, no revenue filters were applied. This approach resulted in balanced representation of NZX (9) and ASX (10) listed companies.

Extract market Board fee data from the peer group

Mercer proceeded to extract Board fee data from the 19 companies that comprise the Peer Group.



The final list of 9 NZX and 10 ASX listed companies is presented in the table below. FPH’s market capitalisation and revenue positioning against the Listed Peer Group is provided at the bottom of the table. All financial data is presented in New Zealand Dollars unless otherwise indicated and has been sourced from S&P Capital IQ as at 31 March 2023.

Company Name	Primary Listing Country	Market Capitalisation (6-months to 31 March 2023) (\$'000,000s)	Most Recent Year-End Revenue (\$'000,000s)
WiseTech Global Limited	Australia	20,195	700
REA Group Limited	Australia	17,436	1,580
Sonic Healthcare Limited	Australia	16,425	10,340
Ramsay Health Care Limited	Australia	15,792	14,738
Cochlear Limited	Australia	15,087	1,825
Meridian Energy Limited	New Zealand	13,032	3,703

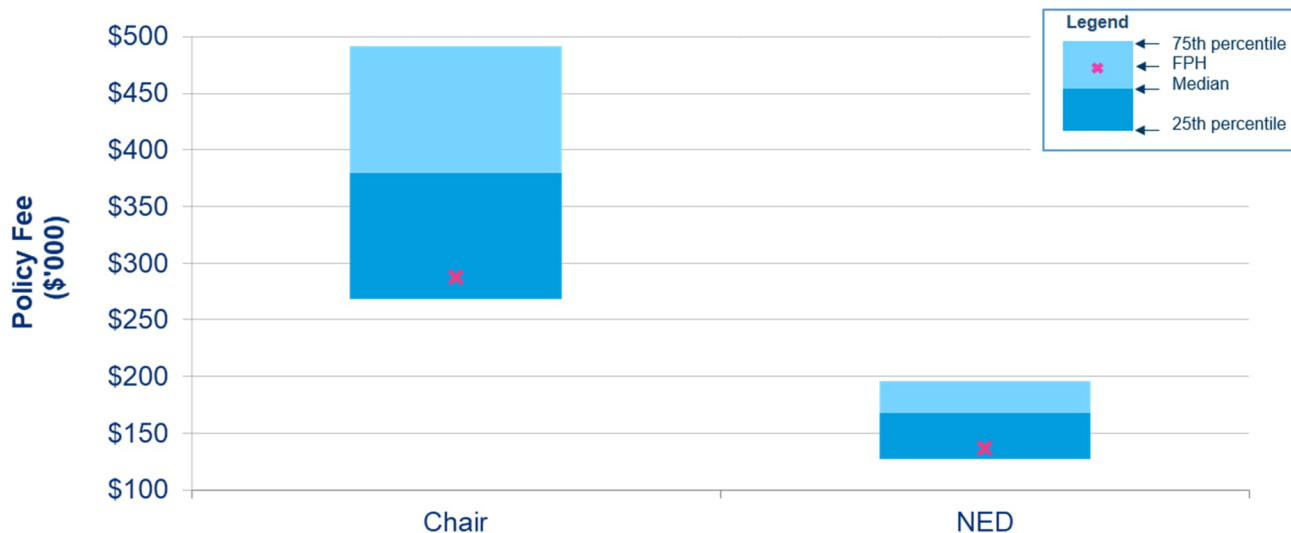
Company Name	Primary Listing Country	Market Capitalisation (6-months to 31 March 2023) (\$'000,000s)	Most Recent Year-End Revenue (\$'000,000s)
Xero Limited	Australia	12,387	1,097
Auckland International Airport Limited	New Zealand	11,955	291
TPG Telecom Limited	Australia	9,824	5,806
Spark New Zealand Limited	New Zealand	9,661	3,720
SEEK Limited	Australia	8,645	1,236
carsales.com Ltd	Australia	8,241	564
EBOS Group Limited	New Zealand	8,046	11,883
Mercury NZ Limited	New Zealand	8,041	2,188
Mainfreight Limited	New Zealand	7,098	5,218
Pro Medicus Limited	Australia	6,706	104
Infratil Limited	New Zealand	6,275	861
Contact Energy Limited	New Zealand	5,937	2,387
The a2 Milk Company Limited	New Zealand	5,002	1,444
Fisher & Paykel Healthcare Corporation Limited	New Zealand	13,307	1,682
Percent Rank		71%	47%
75th Percentile		15,087	5,218
Median		9,661	1,825
25th Percentile		7,098	861
Average		10,831	3,668

Benchmarking Outcomes

Positioning of FPH's Board Chair Fee and NED Base Fee against the Listed Peer Group

The diagram below presents the comparison of FPH's base policy fees against the selected Listed Peer Group.

- **FPH's Board Chair** fee is positioned at the 25th percentile of Listed Peer Group.
- **FPH's NED Base Fee** is positioned at the 25th percentile of Listed Peer Group.



FPH Fee Pool versus the Listed Peer Group

The diagram below present the comparison of FPH's approved maximum aggregate NED fee pool to the Listed Peer Group.



Additionally, Mercer notes the following:

- Based on the current fee structure, FPH total fee spend is \$1,421,494, which represents 97.7% of the current approved fee pool.
- Mercer has analysed the fee pool headroom for NZX companies within the peer group and found that the average headroom was 13.6%.
 - We note that the largest headroom was 22.5% and the smallest headroom was 5.1%. This suggests that FPH’s headroom is currently lower than all of the NZX companies in the Listed Peer Group.
 - In Mercer’s experience, a fee pool headroom of 20%-25% is typical for ASX-listed companies.
- The average “age” of the fee pool amongst the NZX companies within the peer group is 2.6 years.

Summary of FPH’s positioning

FPH’s positioning against the Listed Peer Group is summarised in the table below.

Fee Element		FPH’s Positioning vs Listed Peer Group	
Board Fees	Chair Fee	At the 25th percentile	
	Member Base Fee	At the 25th percentile	
Committee Fees	Chair	Audit and Risk Committee	Slightly below the 25th percentile
	Member		Between the 25 th percentile and the median
	Chair	People and Remuneration Committee	At the 25th percentile
	Member		Between the median and the 75th percentile
	Chair	Quality, Safety and Regulatory Committee	At the median
	Member		Above the median
NED Fee Pool		At the 25th percentile	
Number of NEDs		At the median	

Recommendations

Considerations in Determining a Target Market Position

In preparing our recommendations for FPH's proposed fees, we have proposed the median of the Listed Peer Group as an appropriate target market position given the below considerations:

- FPH's market capitalisation and revenue positioning being at the 71st and 47th percentile respectively.
- The workload of the FPH Board and Committees compared to the Listed Peer Group.

Recommended Adjustments to FPH's Policy Fees

Mercer's recommended changes to FPH's policy fees is presented in the table below.

Role	Current	Ratio of Chair to Member Fees	Proposed	Ratio of Chair to Member Fees	% Change
Main Board					
Board Chair Fee	\$287,897		\$324,000		12.5%
Member Base Fee	\$137,222	2.10x	\$144,000	2.25x	4.9%
Audit & Risk Committee					
Chair Fee	\$34,978		\$37,900		8.4%
Member Fee	\$18,950	1.85x	\$18,950	2.00x	0.0%
People & Remuneration Committee					
Chair Fee	\$26,906		\$33,163		23.3%
Member Fee	\$18,950	1.42x	\$18,950	1.75x	0.0%
Quality, Safety & Regulatory Committee					
Chair Fee	\$25,249		\$28,425		12.6%
Member Fee	\$18,950	1.33x	\$18,950	1.50x	0.0%
Maximum Fee Pool					
Suggested aggregate fee pool	\$1,455,000		\$1,750,000		20.3%

Key parameters considered in the proposed changes include:

- Retaining FPH's approach to paying an overseas director allowance to non-New Zealand based directors.

- Benchmark policy fees to the median *inclusive* of the overseas director allowance. Given the nature of the peer group being comprised of half Australian companies, the inclusion of the overseas director’s allowance would provide a more complete picture of FPH’s competitiveness.
- Retaining current committee member fees and adjusting committee chair fees to better reflect market relativities between chair and member fees for each committee within the Listed Peer Group.
- Setting the aggregate fee pool of \$1,750,000 to provide a headroom of approximately 15% consistent with the practices observed amongst NZX companies. This headroom is intended to act as a buffer for FPH to respond to any additional workload resulting from any potential changes in FPH’s board structure or any special circumstances for the next three years.

The proposed policy fees will broadly position FPH at the median of the Listed Peer Group consistent with the target positioning discussed above.

Statement of Independence

In providing advice to FPH, Mercer has adopted these Global Business Standards for Board and Remuneration Advisory Services to manage actual or perceived conflicts of interest and to preserve the integrity of our advice. The Global Business Standards address how we (i) manage the executive rewards consulting relationship, (ii) ensure the quality of executive rewards consulting services and (iii) structure our business to manage actual or perceived conflicts of interest.

Managing the Relationship

A clearly defined client relationship provides the foundation for ensuring the objectivity and integrity of our advice. At the beginning of each engagement, our consultants establish with clients a clear mutual understanding of our role and client reporting relationship, premised on our commitment to providing objective advice. We will provide clients information that is requested and reasonably available to ensure appropriate assessment of our objectivity. An Engagement Letter and Statement of Work document the key elements of the assignment and relationship: roles, responsibilities, scope of services, fees, timeframe and client reporting relationships, including how and to whom information and recommendations are communicated.

Our Business Structure

The structure of our business not only facilitates the seamless exchange of our best thinking but also demonstrates to employees and clients the integrity of our advice. Our Career business is accountable for all of Mercer’s executive rewards consultants, and our Career business leaders — not client relationship managers — evaluate performance and determine remuneration for all executive rewards consultants. Mercer’s Career business leadership requires our consultants to seek guidance from them whenever there is any question that our objectivity or integrity is at risk of being compromised. Mercer will discontinue executive rewards consulting relationships where actual or perceived conflicts that would impact the quality or objectivity of our advice cannot be resolved.



The Quality of Our Advice

Mercer is committed to providing the highest quality advice and solutions to our clients. To ensure that our professional standards are upheld, executive rewards consulting services are performed only under the direction of an executive rewards principal or partner. All consulting advice is peer reviewed pursuant to Mercer’s global professional standards before it is rendered.

Our Commitment

Mercer is committed to providing objective advice to all of our clients. Ensuring the objectivity of consulting advice on executive rewards is a corporate governance issue around the globe and is critical to our role as a trusted advisor to our clients.

In providing advice on FPH’s non-executive director remuneration arrangements, David Yong (Engagement Lead) has exercised professional judgment without being unduly influenced by any personal, financial, or professional relationships that could compromise the objectivity of the advice provided.

Mercer also confirms that there are no conflicts of interest that could impair the integrity of the advice provided. In particular, David Yong has not been engaged in any activity that could create a conflict of interest, either directly or indirectly, with the interests of FPH or its stakeholders.

Appendix A: Benchmarking Methodology

Market data presented

- Policy fee data has been extracted from the most recent annual report and corporate governance disclosures for the companies within the Listed Peer Group. Mercer references policy fees for market comparison purposes as they presented the underlying fee structure of the peer companies, independent of the committees and roles that each individual director is accountable for.
- Mercer has referenced the Global Industry Classification Standard (GICS®) developed by Standard & Poor's and MSCI Barra as a basis for identifying the respective industries for potential comparator companies. The GICS structure consists of 11 sectors, 24 industry groups, 69 industries and 158 sub-industries.
- All remuneration data is presented in New Zealand Dollars unless otherwise indicated.
- All financial data including 6-months Market Capitalisation to 31 March 2023 and Most Recent Year – End Revenue has been sourced from S&P Capital IQ as at 31 March 2023.

Ageing of market data

- Mercer does not apply 'ageing' to market data in our non-executive director fee reviews unless requested by the client. For this review, the data used in the analysis has not been aged.

Market positioning

- Fees are considered to be 'at' the relevant market reference point if FPH's incumbent fees were positioned within a $\pm 15\%$ range of the market data reference point.

Sample sizes

- Mercer's approach requires at least five data points observed before presenting the 25th and 75th percentiles for each fee element. For the median, data is only presented if there at least four data points observed. For this review, we note that there were at least four data points observed for each fee element.

Committee fees

- In comparing FPH's committees to the Listed Peer Group, data from peer companies was matched based on the following classifications:
 - **Audit and Risk Committee:** Any committee with "Audit", "Risk" or "Finance" in the name.
 - **People and Remuneration Committee:** Any committee with "Remuneration" in the name, and if a company does not have a committee with "Remuneration" in the name, any committee that focuses on people or human resources (e.g., People Committee).

- **Quality, Safety and Regulatory Committee:** Any committee with the following keywords in the name: “Quality”, “Safety”, “Regulatory”, “Science”, “Compliance”.