CFO LEADERSHIP NETWORK

SETTING SOCIAL TARGETS FOR OUR SUSTAINABILITY-LINKED LOAN

Practical example: Ramsay Health Care

Ramsay Health Care

KING CHARLES III CHARITABLE FUND

WHAT

Founded in Australia in 1964, Ramsay Health Care is a global healthcare company with group revenues of AU$15.3 billion for the financial year ending 30th June 2023.

In June 2021, we put in place a AU$1.5 billion sustainability-linked loan. The loan was structured as three AU$500 million tranches, maturing in three, four and five years. The loan has five sustainability performance indicators (SPIs), linked to the three pillars of our sustainability strategy, Ramsay Cares (Figure 1).

We have two social SPIs: the cumulative number of employees who have been accredited with mental health first aid training ('caring for our people') and the percentage of eligible suppliers with a satisfactory sustainability rating ('caring for our community'). Environmental SPIs ('caring for our planet') focus on energy intensity, greenhouse gas emissions and renewable energy projects.

Our treasury and sustainability teams worked together closely on putting our sustainability-linked loan facility in place, with input from across the business. We also sought expertise on key areas from external advisers. The result is an ambitious sustainability-linked loan facility that supports our strategy, is operationally viable and has been well-received by lenders.

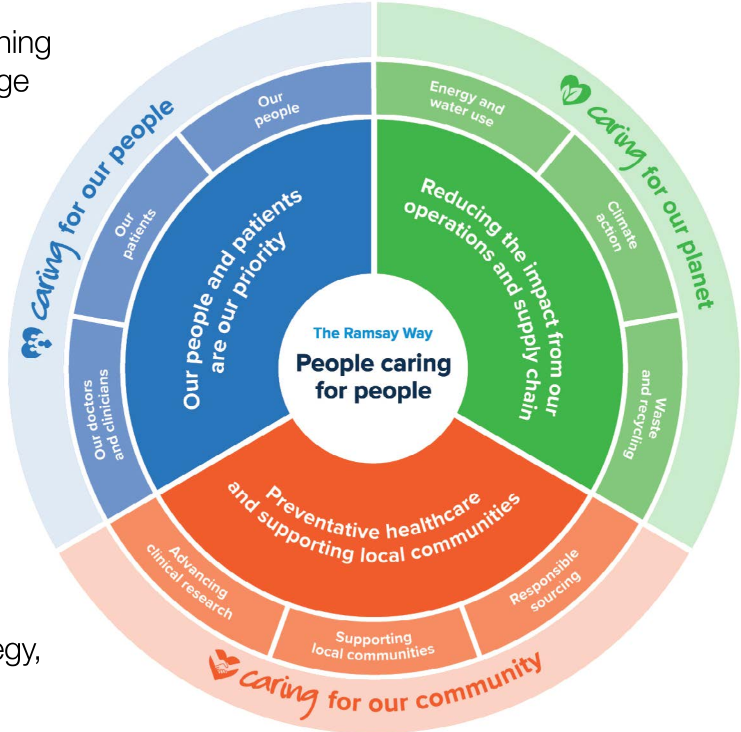

Figure 1: The three pillars of the Ramsay Cares strategy

Other financing

We have recently put in place some small bilateral loan facilities with banks and are using the same targets, even though these facilities are short term. This approach is being well-received by banks. We also entered the first ESG interest-rate swap in Australia and applied the same sustainability targets.

"The new facility was significantly oversubscribed and received support from existing and new lenders reflecting the growing level of interest in supporting sustainability linked loans."

Martyn Roberts, Group CFO, Ramsay Health Care

WHY

Through our Ramsay Cares strategy, we already had a strong commitment to sustainability. Putting in place a sustainability-linked loan was a way that we could support that strategy, tie financial incentives to our overarching goals and give sustainability extra focus across the organization.

As a healthcare company, we considered it particularly important for us to include social as well as environmental SPIs. We also wanted to make the social SPIs ambitious, so that they would push us to make material progress on the people and community pillars of Ramsay Cares.

The growing market interest in sustainability-linked loans provided a further driver. Although issuing sustainability-linked loans wasn't – yet – essential for us, we believed that doing so would improve our access to capital. The savings we could achieve from hitting our SPI targets were small compared to the benefits we anticipated from creating strong investor demand for our loan. Ultimately, our loan did end up being oversubscribed, which meant we could be selective and borrow from the prospective lenders offering the best rates.

HOW

In selecting social SPIs, our first step was to consider what we value. We identified two key social areas:

1. **Mental health** – in 2021 the COVID-19 pandemic was taking a toll on many people's mental health. While we provide care for patients through our hospitals, we need to care for our own people too. Investing in employees' mental health means that they can give the best care to patients and avoid burnout. We chose an SPI that would help us to identify signs of poor mental health among our staff so that we could get them the right support.

2. **Sustainable supply chain** – through our decisions about how we run our business and who we do business with, we have an indirect but significant impact on the world around us. So we wanted to hold ourselves accountable for working with suppliers who meet specific standards on sustainability, as accredited by a leading provider of sustainability assessments using their scoring methodology.

The targets set for these SPIs are stretching. This was a deliberate choice, as our focus is on making significant progress in specific areas – even if we fall short of the targets themselves. We got buy-in from the board on this approach by explaining that setting such challenging targets showed how serious we were about making meaningful improvements. For us, this only adds to our credibility and isn't undermined if we fall slightly short on one of our targets.

Note that we have not included the specific SPIs and targets in this case study as they have not been publicly disclosed and we are in the process of updating them.

Sustainability review events

A sustainability review event of our loan facility can be triggered by us as the borrower, by our lenders or by specific circumstances. The purpose is to reconsider whether our SPI targets are still reasonable or whether they need to be adapted.

One situation that would lead to a review is a change in the number of patients or the number of hospital beds by more than 10%. Such a significant change would affect the calculation of energy intensity – one of our environmental SPIs – in a way that could give us an unfair advantage or disadvantage.

In consultation with the majority of our lenders, we may also determine that a target is no longer appropriate, measurable or reportable. Should this happen, we would amend the targets.

DRAWING ON EXTERNAL ADVICE TO DEVELOP OUR SPIs

In selecting our SPIs, we used input from external advisers for two main functions: environmental, social and governance (ESG) advisory services and accreditation of the SPI targets.

The bank that took on the lead ESG advisory role was an experienced provider in this space with a strong understanding of market conditions. Our chief sustainability officer worked with the bank's advisory team to provide more context about our company and our sustainability goals. The bank used all this information to prepare a list of potential SPIs that would support our goals while also being acceptable to the market.

From there, we selected and refined the SPIs and associated targets through an iterative process. We brought the proposals to the CEOs of businesses across the group, who suggested adjustments that would make the targets more suitable for their businesses, and the accreditor provided valuable challenge. Between the CEOs and the accreditor, we were able to get the right balance between our ambition and what was achievable for the organization. We then took the SPIs and targets to the board for their discussion and approval.

Finally, we arranged a second party opinion from the accreditor, who reviewed our facility against the Sustainability-Linked Loan Principles published in 2019 by the Asia Pacific Loan Market Association, the Loan Market Association and the Loan Syndications & Trading Association.

The value of external advisers

The bank that played the lead ESG advisory role – also the debt arranger for our loan – provided essential input that supplemented the expertise of our internal sustainability and treasury teams. We particularly welcomed the global perspective this bank could offer. It drew on its direct experience of sustainability-linked loan transactions throughout the world to steer us in the right direction, which had great value in such an emerging market.

STAYING ON TRACK AND REPORTING ON PROGRESS

Now that the sustainability-linked loan facility is in place, we report every year to our lenders on our performance against the targets. An external accounting firm validated our baseline and now provides assurance over these annual reports. Internally, we have established regular monitoring and reporting to make sure that we maintain our focus on the targets throughout the year.

The finance team used their experience of processes and controls for financial reporting to put robust data collection processes in place. The team regularly analyses the data to identify any issues early. Then we can talk to the relevant teams about the issue, consider what to do and make any changes needed.

At the beginning of the loan, we reported to the board every month on our progress. Over time, as we built trust with the board that we have the right monitoring processes in place, the board requested less frequent updates. We now provide reports to the board every quarter.

NEXT STEPS

In 2023, we extended each of the AU$500 million tranches of the sustainability-linked loan by 2.25 years, which was strongly supported by our existing lenders. We are in the process of revisiting the targets to address recent M&A activity and to extend the targets out to the 2028 financial year.

We will always consider sustainability first when making our future financing decisions. We won't necessarily always directly tie our financing to sustainability, but we will actively consider whether it makes sense for us to do so, on a case-by-case basis.

For future sustainability-linked financing, we know we will also need to develop our SPIs and targets. When picking any new SPIs and targets, we will need to see how the market has developed and align our approach to that.

TOP TIPS

GET INTERNAL BUY-IN

Work with leaders throughout your organization to get buy-in at the right level. Agree targets for the full period of your loan facility with the leaders of each business area. That will give you the commitment you need to make your targets operationally achievable.

DEVELOP SPECIFIC PLANS – BEFORE GOING TO THE BOARD

Understand what you want to do and have credible plans and targets in place before taking your proposed sustainability-linked financing to the board. Doing that work first means that you can answer the board's questions straight away and avoid delays.

DRAW ON INTERNAL EXPERTISE

Developing sustainability-linked financing demands a range of skills and knowledge. You will already have some of this internally – so use it. Work to your own strengths in finance and draw on others' expertise as needed, including your internal sustainability champions.

CHOOSE THE RIGHT ADVISERS

For areas in which you need external support, do your due diligence. Make sure that you work with advisers with the right experience and who have credibility in the market. Talk to your peers to see if they have advice on who to use – and who not to use.

GET IN TOUCH OR FIND OUT MORE

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