



Remuneration policy 2021

2021



Remuneration policy

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Objectives

This policy provides an overview of the principles that apply to the remuneration of the executive and non-executive directors and of the other members of the Global Leadership Team. The starting point is the alignment of this policy with the Fagron culture (the Fagron values and "Family Rules"), with the business strategy and growth ambitions and with the long-term interests of all stakeholders. The requirements of the Corporate Governance Code 2020 and of the Shareholders' Rights Directive (EU) 2017/828 as transposed into Belgian law on 28 April 2020 have also been taken into account.

Fagron's remuneration policy is intended to attract and retain talent and to provide fair and competitive remuneration. The core principles of this remuneration policy are:

- 1) Alignment with the business strategy: by stimulating the financial and non-financial performance in order to achieve the ambitious growth and sustainability goals, and by also aligning this performance with the long-term goals of sustainable growth of the company.
- 2) Alignment with the HR strategy: by aligning the remuneration policy for the Global Leadership Team with the HR and remuneration strategy, as it is generally applicable within the company.
- 3) A balance between short-term and long-term objectives: through the combination of an annual bonus and a long-term variable remuneration.
- 4) Internal consistency: by differentiating compensation based on responsibilities, experience and required competencies of the individual jobholders.
- 5) External competitiveness: by providing a competitive remuneration package that is regularly assessed on the basis of a market comparison, based on the principle of a fixed remuneration in line with the market and a variable remuneration above the market median if the ambitious targets are achieved.
- 6) Simplicity and transparency: through simple and clear compensation systems and processes, which are easy to understand for all stakeholders.

The objective of the Board of Directors is to ensure that the remuneration policy is consistent with the general remuneration framework of Fagron as a leading company in the sectors in which it operates.

Adoption of the Remuneration Policy

In accordance with the Law of 28 April 2020 transposing the Shareholders' Rights Directive (EU) 2017/828, the remuneration policy will be stated as a separate item on the agenda of the General Meeting and submitted to the General Meeting for approval at least every 4 years. The Nomination and Remuneration Committee will regularly assess the remuneration policy for its market conformity and effectiveness, which may lead to adjustment.

The Board of Directors will, on the advice of the Nomination and Remuneration Committee, submit the components and the amount of the remuneration for non-executive directors, to the General Meeting for approval, taking into account the quoted nature and size of Fagron, the sector in which Fagron is active and with relevant benchmarks in relation to designated comparable companies and general international market practices. When determining the remuneration of the non-executive directors, care is taken to ensure that it is in accordance with their general and specific responsibilities and the associated risks.

The Board of Directors determines the remuneration policy for the members of the Global Leadership Team based on the recommendations of the Nomination and Remuneration Committee.

The remuneration is aimed at attracting, motivating and retaining highly qualified and promising management talent and to align the interests of management and all stakeholders of Fagron. The level and components of their remuneration are analysed annually by the Nomination and Remuneration Committee, taking into account relevant benchmarks and the individual and collective performance.

Remuneration of the non-executive directors

The remuneration policy for non-executive directors is aimed at providing market-based remuneration for their role and responsibilities. The Nomination and Remuneration Committee periodically makes sure that a benchmark analysis is carried out for the fees of the non-executive directors, in which these fees are assessed against the practices in the reference market of listed companies of a similar size.

The non-executive directors receive a fixed annual fee, regardless of the number of meetings. They do not receive performance-based payments directly related to the results of Fagron, nor benefits in kind or benefits that are tied to pension schemes.

The amount of directors' fees that are submitted for approval to the General Meeting take into account the specific role of the director or membership of a committee as well as the resulting responsibility and time commitment.

Principle 7.6 of the 2020 Corporate Governance Code stipulates that the non-executive directors must receive part of their remuneration in shares in the company. These shares must be held for at least one year after the end of their mandate as director and at least three years after their allocation.

Currently, the non-executive members of the Board of Directors do not receive any part of their remuneration in the form of shares of Fagron. In the coming years, the Nomination and Remuneration Committee will further analyse whether and to what extent the allocation of shares in the Company to non-executive directors as part of their remuneration has added value for the company and advise on the future remuneration of the executive directors and any changes that may be recommended therein.

Remuneration for the members of the Global Leadership Team

This section provides an overview of Fagron's remuneration policy for the executive directors (Chief Executive Officer and Chief Financial Officer) and the other members of the Global Leadership Team. The members of the Global Leadership Team do not receive separate remuneration for their membership of the Board of Directors.

Total remuneration package

The main objective is to provide the Global Leadership Team, as for all other employees, with a total compensation package that is competitive compared to those of similar positions in comparable companies in the reference markets.

It concerns the following remuneration components:

- a fixed remuneration
- an annual bonus
- a long-term variable remuneration in the form of subscription rights
- other benefits.

In view of ensuring an unbiased, competitive and fair remuneration, the Nomination and Remuneration Committee requests an external service provider to perform the market comparison of the remuneration packages of the Global Leadership Team. This analysis compares the remuneration packages with (in terms of size and complexity) comparable multinational companies in specific geographic markets, depending on the location of the jobholders. Such a market comparison is carried out every 3 years, most recently this was done in 2020.

With its general remuneration policy, and in line with this also the policy for the Global Leadership Team, Fagron strives for competitive remuneration in terms of fixed remuneration. In addition, it provides for variable remuneration components that are higher than the market median if the ambitious targets are achieved. Where applicable, an attractive benefits package is also provided in line with local market practices.

Fixed remuneration

The fixed remuneration is intended to reward the members of the Global Leadership Team based on their position, experience and competencies. In order to ensure that talented and qualified leaders can be recruited, motivated and retained, Fagron aims for a competitive fixed remuneration for the members of the Global Leadership Team.

The Board of Directors evaluates the fixed remuneration on an annual basis. The annual revisions of the fixed payments are made, just as for the other employees within the Fagron group, on the basis of expected inflation and general salary increases in the various geographic markets. Account is taken of the responsibilities, individual performance, experience and competencies of each member of the Global Leadership Team as well as the aforementioned market comparison and the general operating results. In terms of market positioning, Fagron focuses on the median of the reference market.

Any increases in the fixed remuneration will be applied from 1 January of each calendar year, unless other legal provisions apply.

Annual bonus

The annual bonus scheme is designed to achieve short-term operational performance for long-term value creation, taking into account the interests of all stakeholders. In view of the ambitious growth strategy and the active buy-and-build strategy, Fagron opts for a variable remuneration, which is higher than the market median if the set objectives have been achieved.

The annual variable remuneration “on target” for the CEO is 100% of the fixed annual remuneration and for the CFO 50% of the fixed annual remuneration. For the other members of the Global Leadership Team, the annual variable remuneration “on target” amounts to 41.66% of the fixed annual remuneration. In case of exceptional performance, the maximum bonus for the CEO can be up to 120%, for the CFO up to 75% and for the other members of the Global Leadership Team up to 62.5% of the fixed annual remuneration. The aforementioned “on target” and maximum percentages are regularly evaluated based on market comparison and can be adjusted to remain competitive and in line with the core principles of the remuneration policy.

The variable remuneration is awarded on the basis of the achievement of these financial and personal objectives, which are set and evaluated annually.

The criteria to be taken into account for awarding performance-related bonuses to the members of the Global Leadership Team are 90% based on financial targets, in particular on (1) turnover, (2) REBITDA and (3) OWC, where each of the three listed components are assessed proportionately. With the Area Leaders, this concerns both the objectives of the group and those of their own region; for the other members of the Global Leadership Team to those of the Fagron group. These performance criteria are an important measure of the successful implementation of the business strategy. In this way, the company also directly links the annual bonus to the long-term value creation.

For the remaining 10%, the criteria are based on personal / discretionary - usually qualitative - objectives that are clearly defined and laid down in writing each year.

Minimum thresholds apply to each of the bonus criteria: if these are not met, no bonus is awarded for that specific criterion.

The annual targets are challenging but realistic. The Board of Directors can decide for each of the beneficiaries, and for any bonus reference year, to change the relative weights for each of the criteria according to their relevance to the achievement of the strategic objectives.

	On-target % of the fixed annual remuneration	Maximum % of the fixed annual remuneration	Pay-out ratio (on the basis of ESG objectives)
CFO	100%	120%	90% of 110%
CEO	50%	75%	90% of 110%
Other members of the Global Leadership Team	41,66%	62,5%	90% of 110%

The effective payment of the annual variable remuneration is made dependent on the achievement of predefined sustainability objectives. When these objectives are achieved, the annual fee is paid at 110%. If these are not achieved, the payout percentage is 90%. The final assessment of the performance for the allocation of the variable remuneration is done by the Nomination and Remuneration Committee and submitted to the Board of Directors.

The variable compensation will be paid in the month of March of the year following the bonus reference year. To be entitled to an annual variable compensation, the member of the Global Leadership Team must still be employed at the time of payment.

Articles 7:90 et seq. of the Belgian Companies Code state that, except where the Articles of Association explicitly state otherwise or upon explicit approval by the General Meeting, the variable remunerations must be distributed over time as follows:

- 50% of the variable remunerations may be related to performance in the relevant year and will therefore be paid out after one year;
- the remainder must be distributed over at least the next two years, whereby at least 25% must be based on performance over a period of at least three years. This mandatory distribution does not apply if the variable remuneration amounts to 25% or less of the annual remuneration.

However, the Nomination and Remuneration Committee is of the opinion that there are justified reasons why it would not be expedient for Fagron to change its current bonus system based on annual targets, and to link it to long-term objectives over two and three years for the sake of the following reasons, and has therefore recommended that Fagron's current bonus system based on annual targets be retained:

- first of all, Fagron's Leadership Team is already well aligned with Fagron's long-term performance via the current warrant plans;

- in addition, Fagron also pursues an active buy-and-build strategy, which makes it neither simple nor opportune to set long-term targets relevant for Fagron in advance;
- the use of long-term turnover, net income or EBIT targets would, for example, be pointless if significant acquisitions were to take place over the course of the next years.

From 2021 onwards, the annual bonus plans explicitly provide a right to reclaim the variable compensation, in case of fraud or serious misrepresentation of the financial data, for the Company. This right to reclaim applies insofar as it is contractually or legally permissible.

Long-term variable remuneration

The members of the Global Leadership Team have the option to participate in a long-term incentive (LTI) plan. This aims to provide an additional incentive to align their performance with the long-term goals of value creation, taking into account the interests of all stakeholders, and also to achieve their retention.

In view of the ambitious growth strategy and the active buy-and-build strategy, Fagron also opts for a remuneration level that is higher than the market median for this variable remuneration component.

Fagron's long-term incentive schemes are subscription rights plans where no performance conditions are set for the granting, vesting or exercise of subscription rights. A seniority condition of 1 year applies to the granting. The vesting takes place after the expiry of a predetermined period, subject to the condition that the beneficiaries are still linked to an employment or service agreement with Fagron (and / or its subsidiaries) or if they are explicitly recognized by the Board of Directors as a "good leaver", or in the event of retirement, death or permanent incapacity for work.

The current warrant and subscription rights plans do not explicitly provide for a right to reclaim for the Company of the subscription rights granted in the event of fraud or fraud or serious misrepresentation of the financial data. Fagron will include such a right to reclaim in future plans.

Other benefits

Fagron strives to grant other benefits, where applicable, in line with local market practices in the geographic reference markets. In general, the members of the Global Leadership Team - with the exception of those who deliver their services through a management company - adhere to the benefit plans that exist for the other employees of the company with which they are associated.

This may specifically concern the use of a company car or mobility allowance, affiliation to a pension plan and / or affiliation to a medical expense plan. Additional benefits may be granted if customary in a particular geographic region.

Shareholding

According to principle 7.9 of the 2020 Code, the Board of Directors must set a minimum threshold of shares to be held by the members of the executive management. However, the Board of Directors of Fagron is of the opinion that it is not appropriate to require the members of the executive management to hold a minimum number of shares in the Company, as sufficient other mechanisms are provided to ensure the professional engagement of these members of the executive management.

Fagron believes that its remuneration policy, which includes the allocation of subscription rights, is clearly linked to sustainable organic growth and a selective and targeted takeover policy, thus ensuring that the executive board members act from the perspective of a long-term shareholder.

Fagron does encourage the executive board members and other members of the Global Leadership Team to acquire and retain shares in the Company. The CEO, the CFO and various members of the Global Leadership Team hold shares in the Company through share acquisition based on subscription rights exercised in previous years. In the coming years, the Company will further analyse whether a minimum threshold or concrete guidelines could still have an added value for the company.

Contractual arrangements

The rights and obligations associated with their position as a member of the Global Leadership Team are individually defined in employment or management agreements in line with applicable local law. These agreements provide confidentiality, non-competition and non-solicitation clauses, termination of employment, etc. For all members of the Global Leadership Team, none of the contractual severance pay exceeds an amount equal to 12 months fixed and annual variable remuneration.

The executive directors both have an employment contract for an indefinite period. The employment contract with the CEO provides for a contractual severance payment equal to 9 months fixed remuneration. The non-compete clause is valid for 24 months after the end of the employment contract and applies insofar as the contract is terminated by Fagron with immediate effect for urgent reasons. The employment contract with the CFO refers to the applicable legal provisions for termination and provides for a non-compete clause with a validity of 18 months.

The other members of the Global Leadership Team based in the Netherlands all have an employment contract for an indefinite period which, with regard to termination, refers to the applicable legal provisions. The Belgian members of the Global Leadership Team have a management agreement, which provides for a severance payment equal to 6 or 12 months' fixed remuneration. The US members of the Global Leadership Team have a fixed-term employment contract, renewable for one year each, which provides for a contractual severance package equal to 6 months fixed compensation. Finally, the Brazilian member of the Global Leadership Team has an independent service contract of indefinite duration with a notice period of 1 month. All have a non-compete clause with a period of validity varying between 1 and 3 years.

Deviations

The Board of Directors may decide to temporarily deviate from the Remuneration Policy in exceptional circumstances, if it deems this necessary to ensure the long-term interests and sustainability of the company or to ensure its viability. Such deviations may relate to - but are not limited to - the recruitment or promotion of executive directors or members of the Global Leadership Team or the retention of such individuals.

In addition, Fagron's articles of association provide for the possibility to deviate from the provisions of article 7:91 of the Belgian Companies Code, this in regard to all persons who fall under the scope of the application of those provisions.

Remuneration report

The concrete implementation of this Remuneration Policy will be reported annually in the remuneration report that is part of the corporate governance statement in the annual report, to which reference is made for the remuneration-related information relating to a specific financial year.

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