

Vanguard Investment Stewardship Insights

Voting Insights: Management proposal to convert to a public benefit corporation at United Therapeutics

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Vanguard publishes Investment Stewardship Insights to promote good governance practices and to provide investors and public companies with our perspectives on important governance topics and issues that come up for shareholder votes..

Company: United Therapeutics Corporation (UTHR)

Meeting date: September 30, 2021

Proposal: Item 1—Amend Certificate of Incorporation to Become a Public Benefit Corporation

How the funds voted

At a special meeting for United Therapeutics Corporation, a U.S. biotechnology company, the Vanguard funds supported a management proposal that sought shareholder approval to amend the certificate of incorporation to become a public benefit corporation (PBC).

Vanguard's principles and policies

We use engagements to understand how boards govern long-term strategy and how they are setting their companies up to stay relevant today, tomorrow, and well into the future. We do not seek to dictate company strategy or operations, but we raise concerns with directors and company leaders when we feel that the economic interests of our shareholders may be at risk.

As part of their oversight of strategy, we have seen some boards advocate for a change in legal status to a PBC. A Delaware public benefit corporation is a for-profit company with two primary distinctions from a traditional Delaware for-profit corporation:

- A PBC adopts a public benefit purpose in its certificate of incorporation, stating that the

company intends to have positive effects on persons, entities, or communities instead of solely focusing on shareholder financial interests; and

- Directors of a PBC are required to balance the interests of shareholders, the interests of stakeholders materially affected by the PBC's conduct, and the pursuit of the corporation's public benefit purpose when making decisions.

The vote at UTHR marked the second time the Vanguard funds have supported a management proposal to convert a portfolio company to a Delaware PBC. We have not supported similar proposals brought by proponents because we believe that the decision to change the legal status of a company lies with the board.

Analysis and voting rationale

Vanguard engaged with United Therapeutics executives and independent directors ahead of the annual meeting to discuss the board's oversight of and leadership's approach to this matter.

In our discussion, UTHR leaders stated that the change in corporate structure would align with how the company has been operating for the past 20 years. The leaders believe that converting to a PBC would not change UTHR's business model or strategic goals and that the move supports the company's longtime focus on putting patients first.

In addition, there were no planned changes to shareholder rights, and the board intended that the stated public benefit purpose would create value for stakeholders and shareholders alike.

The company proposed adopting a purpose that provides for patients through the development of novel pharmaceutical therapies and technologies that expand the availability of transplantable organs.

Our analysis showed that UTHR could reap several benefits as a result of the conversion, including greater attraction and retention of talent and increased support from and resonance with doctors and patients (UTHR's customers). The company could also be perceived as a leader on environmental, social, and governance matters as the PBC designation gains traction and popularity.

We did identify potential risks of the conversion, which could include lawsuits or unfavorable public perception.

Through our discussions and research, we determined that the company's rationale for converting to a PBC, and the long-term value creation expected from the

conversion, outweighed the potential risks of doing so. Based on that determination and our assessment that investors would likely benefit from the PBC designation, the Vanguard funds supported the management proposal.

What we expect from companies on this matter

On behalf of the Vanguard funds, we expect boards to represent the interests of all shareholders and to be responsible for governance of a company's strategy and oversight of risk. As a long-term investor, Vanguard endeavors to understand how companies think beyond the next quarter and next year. We look to the board to articulate why a company exists and how it will be relevant over decades. Importantly, we do not seek to influence company strategy. A board that truly understands a company's long-term strategy serves as an assurance to investors that the company is less likely to veer off course.