

## **ASCENDIS HEALTH LIMITED**

(Incorporated in the Republic of South Africa)

(Registration number 2008/005856/06)

ISIN: ZAE000185005 JSE share code: ASC

("Ascendis" or "the Company")

## **ACQUISITION OF THE MAJORITY OF THE SCIENTIFIC GROUP PROPRIETARY LIMITED ("SG")**

### **1. Introduction**

Ascendis shareholders are advised that the Company has entered into an agreement ("the Agreement") with Capitalworks Private Equity GP Proprietary Limited in its capacity as general partner of Capitalworks Private Equity Partnership, Brimstone Investment Corporation Limited, the trustees of the Scientific Management Trust, the trustees of the Scientific Incentive Trust and the trustees of the Scientific GP Trust in its capacity as the general partner of the Scientific Investment Partnership (collectively, "the Selling Shareholders"), in terms of which Ascendis will acquire 100% of the issued ordinary share capital of Lexshell 834 Investments Proprietary Limited (holder of 100% of the issued ordinary share capital of SG) and contemporaneously dispose of the portion of the SG business that excludes the diagnostics business back to the Selling Shareholders.

The net effect of the transaction will be the acquisition by Ascendis of 100% of the diagnostics business of SG ("SG Diagnostics") ("the Acquisition").

### **2. Rationale for the Acquisition**

#### **2.1. A Growing Medical Devices Platform**

The medical devices businesses within the Pharma-Med Division of Ascendis have been important drivers of growth for Ascendis, via the established platform of Surgical Innovations and the recently acquired Respiratory Care Africa businesses ("Ascendis Medical"). Collectively, these businesses have positioned Ascendis Medical as a leading provider of turnkey solutions to private and public hospitals and clinics, as well as medical professionals in the Southern African primary health care markets. Accordingly, Ascendis now seeks to further consolidate its position as a market leading supplier through implementing the intended Acquisition.

The Ascendis Medical range already incorporates, *inter alia*, hi-tech surgical consumable and capital equipment within the varying fields of general surgery, gynaecology, urology, ear nose throat, spine and biosurgery and interventions - with a focus on operating theatres and intensive care units. Following the conclusion of the SG Diagnostics transaction, Ascendis Medical will exhibit significant scale and scope due to the addition of a competence in the diagnostics market. SG Diagnostics is therefore considered an ideal "bolt-on" opportunity for Ascendis as the SG Diagnostics product range will further entrench a turnkey offering of devices within Ascendis Medical.

SG Diagnostics will be integrated into the successful Ascendis Medical platform thereby driving additional revenues, profits, synergy benefits and efficiencies. It is anticipated that the combination of these aspects will provide attractive margin enhancement for the group.

#### **2.2. Diagnostics and Preventative Health Care**

Ascendis Medical considers an entry into the medical diagnostics market as strategic for many reasons, including the global trend of health care towards preventative care where diagnostics plays a vital role. Similarly, there is an increasing demand for In-Vitro Diagnostics for the purposes of disease detection, particularly in response to increased investment in emerging market health care opportunities.

### 2.3. Diversified Suppliers and Customers

Not only does this Acquisition represent an active and growing market within the holistic healthcare industry, but it also represents an attractive opportunity for Ascendis due to the inclusion of renowned international principal suppliers with whom SG Diagnostics enjoys long standing relationships plus the introduction of a diversified customer base which extends to pathology laboratories and research institutions. The relationships developed with both suppliers and customers shall continue to be fostered by the SG Diagnostics management team who are set to continue to drive the business going forward.

### 2.4. Export Growth

SG Diagnostics' strong growth experienced to date throughout the rest of the African continent is another attribute which contributed towards cementing the rationale to conclude the Acquisition. Exports account for c. 40% of SG Diagnostics' sales, with particularly strong sales growth experienced in both Botswana and Zambia – providing Ascendis with a further channel through which it can accelerate its African expansion strategy.

## 3. Salient Features of the Acquisition

The Acquisition will conclude within five business days following the fulfilment of the conditions precedent set out in paragraph 3.2 (“Closing Date”) and will be in effect from the first business day of the calendar month in which the last of the conditions precedent has been fulfilled (“Effective Date”).

### 3.1. The Purchase Consideration

3.1.1. An amount of R283,733,383 (“Base Consideration”); and

3.1.2. A maximum amount of R100,000,000 payable only to the extent a pending specified contract (“Contract”) is awarded to SG Diagnostics in 2015 (“Additional Consideration”),

(collectively, “Purchase Consideration”).

3.1.3. The Base Consideration will be discharged by Ascendis utilising existing cash resources, existing bank facilities available to the group and the proceeds of a planned issue of shares for cash to public shareholders in the form of a vendor consideration placement as defined within the JSE Limited Listings Requirements, settled as follows:

3.1.3.1. An amount of R153,382,500 on the Closing Date payable as settlement of various SG loan accounts with the balance thereof payable to the Selling Shareholders; and

3.1.3.2. An amount of R4,947,541 on or before 1 June 2015; and

3.1.3.3. An amount of R25,363,750 on or before the sixth month anniversary of the Closing Date payable to the Selling Shareholders; and

3.1.3.4. An amount of R26,149,592 on or before the first anniversary of the Closing Date payable to the Selling Shareholders; and

3.1.3.5. An amount of R73 890 000 on or before the earlier of 12 December 2015 and the first anniversary of the Closing Date.

3.1.4. The Additional Consideration will be discharged by Ascendis in cash on or before the first anniversary of the date on which the first order in respect of the Contract may be received by SG Diagnostics.

### 3.2. Conditions Precedent

The Acquisition is, *inter alia*, subject to the following key conditions precedent:

3.2.1. Ascendis obtaining the consent of SG's key suppliers to a change in control, by no later than 31 January 2015;

3.2.2. The implementation of the agreement pertaining to the disposal of the SG medical devices business as contemplated within paragraph 1, by no later than 31 January 2015; and

3.2.3. Ascendis and the Sellers obtaining such regulatory approvals necessary to enable them to implement the Acquisition, including the consent of the Competition Authorities.

### 3.3. Warranties and Indemnities

Warranties and indemnities applicable to the Acquisition are standard for transactions of this nature.

## 4. Unaudited *Pro Forma* Financial Effects (“Financial Effects”) of the Acquisition

SG Diagnostics is set to contribute a further R32.8 million profit after tax towards Ascendis' earnings on a historic last 12 months basis, resulting in a pro-forma 12% increase in the Company's published annual earnings per share, as evidenced within the table below. In the event 100% of the Contract is awarded, additional earnings are anticipated to be generated by SG Diagnostics and accordingly the maximum Additional Consideration of R100 million will only be payable to the Selling Shareholders upon the probable realisation of such additional earnings being received by SG Diagnostics. Furthermore, SG Diagnostics will contribute additional net asset value of R75 million to Ascendis.

The table below sets out the Financial Effects of the Acquisition on the Company's most recently published annual earnings per share (“EPS”), headline earnings per share (“HEPS”), fully diluted earnings per share (“Diluted EPS”), net asset value per share (“NAV”) and net tangible asset value per share (“NTAV”). The Financial Effects and the preparation thereof, which is the responsibility of the directors of Ascendis, have been prepared for illustrative purposes only, and because of their nature, may not give a fair reflection of the Company's financial position and results of operations, nor the effect and impact of the Acquisition on Ascendis going forward. In order to accurately reflect the impact of similar periods, the management accounts of SG Diagnostics for the 12 month period ending 31 August 2014 have been incorporated within the Financial Effects below.

	<b>30 June 2014 - Before the Acquisition (cents)</b>	<b><i>Pro forma</i> 30 June 2014 - After the Acquisition (cents)<sup>4</sup></b>	<b>Change (%)</b>
HEPS <sup>1,3,5,7</sup>	65	73	12%
EPS <sup>1,3,5,7</sup>	65	73	12%
Diluted EPS <sup>1,3,5,7</sup>	65	73	12%
NAV <sup>2,3,6,7</sup>	572	614	7%
NTAV <sup>2,3,6,7</sup>	(41)	(64)	58%
Weighted average and total shares in issue <sup>3,7</sup>	212,131,999	222,265,332	5%

Notes:

- For the purposes of calculating HEPS, EPS and Diluted EPS, the amounts in the "30 June 2014 - Before the Acquisition" column are based on Ascendis' statement of comprehensive income for the annual period ended 30 June 2014, as announced on SENS on 9 September 2014.
- For the purposes of calculating NAV and NTAV, the amounts in the "30 June 2014 - Before the Acquisition" column are based on Ascendis' statement of financial position for the annual period ended 30 June 2014, as announced on SENS on 9 September 2014.
- HEPS, EPS, Diluted EPS, NAV and NTAV in the "30 June 2014 - Before the Acquisition" column have been calculated using the *pro forma* weighted average and total number of shares in issue, as applicable, for the annual period ended 30 June 2014 of 212,227,595 shares less treasury shares held of 95,596 as per the published annual results, as announced on SENS on 9 September 2014.
- The amounts in the "*Pro forma* 30 June 2014 - After the Acquisition" column have been calculated using the management accounts of SG Diagnostics for the 12 months ended 31 August 2014. The amounts used to calculate HEPS, EPS and Diluted EPS represent the profit before tax amount adjusted by an assumed tax rate of 28%. A tax rate of 28% is assumed for all "*Pro-forma* 30 June 2014 - After the Acquisition" column adjustments.
- For the purposes of calculating the *pro forma* HEPS, EPS and Diluted EPS, it was assumed that the Acquisition was effective on 1 July 2013 and a post-tax lending rate of 7.3% was applied to R131,733,383 of the Base Consideration, resulting in an implied interest expense of R9.6 million (R152,000,000 of the Base Consideration is assumed to be financed by way of vendor placement at R15 per share which has been fully committed to). In the event the maximum Additional Consideration is payable for the Contract, additional annual revenue of R100 million will be included in the earnings of SG Diagnostics at a contribution margin level, for a period of at least five years and is thus expected to be added to the future earnings of SG Diagnostics as a result of the Contract awarded. For the purpose of this announcement the impact of the Additional Consideration and the corresponding earnings uplift has not been included in the calculation of the Financial Effects of the Acquisition.
- For the purposes of calculating NAV and NTAV, it was assumed that the Acquisition was effective on 30 June 2014 and that the net debt position is increased by an amount equal to R131,733,383 of the Base Consideration. The allocation of the Base Consideration resulted in an increase of intangible assets of R209 million
- Pro forma* HEPS, EPS, Diluted EPS, NAV and NTAV have been calculated using the *pro forma* weighted average and total number of shares in issue, as applicable, for the annual period ended 30 June 2014 of

212,227,595 shares less treasury shares held of 95,596 plus an additional 10,133,333 Ascendis shares which will be issued by way of vendor placement to settle R152,000,000 of the Base Consideration.

## **5. Categorisation of the Acquisition**

The Acquisition is categorised as a Category 2 transaction in terms of the JSE Limited Listings Requirements.

27 October 2014

Johannesburg

Arranger and Financial Advisor

Coast2Coast Investments Proprietary Limited

Sponsor

Investec Bank Limited