Ascendis Health Limited
(Registration number 2008/005856/06)
(Incorporated in the Republic of South Africa)
Share code: ASC
ISIN: ZAE000185005
("**Ascendis Health**" or "**the Company**")

PROPOSED TRANSACTION FOR THE RECAPITALISATION OF ASCENDIS HEALTH AND FURTHER CAUTIONARY ANNOUNCEMENT

KEY HIGHLIGHTS

- Ascendis Health is pleased to announce that it has entered into a Restructuring Support Agreement with the Forbearance Creditors to recapitalise and restructure the Group
- The Group Recapitalisation addresses the Group's unsustainable capital structure and future operational liquidity requirements, whilst protecting value for all Ascendis stakeholders. The key terms are as follows:
  - Participating Senior Lenders will exchange the Group's outstanding debt, that is expected to be approximately €447 million at the estimated closing date of the Proposed Transaction, for:
    - 100% of the shares in Remedica and Sun Wave
    - the 49% shareholding in Farmalider
    - the net proceeds from the sale of Animal Health, Biosciences and Respiratory Care Africa
  - Ascendis Health will also be provided, by the Participating Senior Lenders, with the following new facilities:
    - Access to a new draw down facility in the amount of the ZAR-equivalent of €20 million to fund future working capital requirements
    - A two-year Term Loan in the amount of the ZAR-equivalent of € 15 million, to settle outstanding and unpaid interest at closing and transaction costs
  - Ascendis Health will retain all the businesses within the Medical Devices (excluding RCA), Consumer Health and Pharma divisions, as well as 50% upside participation on the anticipated future sale of Farmalider
- The Group Recapitalisation is unanimously supported by the Board and is considered better than the original Divestment Programme, and a potential Business Rescue scenario if an agreement is not achieved
- Once definitive agreements are finalised, an announcement will be published and a circular will be sent to shareholders setting out full details of the Group Recapitalisation ahead of a general meeting to vote on the Proposed Transaction

1. INTRODUCTION

Shareholders are referred to the announcements published by the Company on the Securities Exchange News Service ("**SENS**") of the JSE Limited (the "**JSE**") on 2 February 2021 and 10 March 2021 in which it announced that the Company was exploring solutions with Blantyre Capital Limited ("**Blantyre**"), acting on behalf of the funds that it advises, and L1 Health GP SARL ("**L1 Health**"), (collectively, "the **Forbearance Creditors**") to recapitalise and restructure Ascendis Health and its subsidiaries ("the **Group**") ("the **Group Recapitalisation**") as an alternative to the Divestment Programme that the Company had previously embarked upon (referred to in Section 2 below) and in terms of which the Group's outstanding debt that is expected to approximate €447 million at the estimated closing date of the Proposed Transaction would be discharged in exchange for interests in the Company's operating subsidiaries.

Shareholders were also advised in the announcement of 10 March 2021 that the Forbearance Creditors and ABSA Bank Limited (in its capacity as agent for the Senior Lenders) had entered into a forbearance agreement with the Company ("**Forbearance Agreement**") to address the Company's short-term liquidity requirements and other potential events of default. In terms of the Forbearance Agreement, the Forbearance Creditors agreed not to take enforcement action in respect of the non-payment of interest and certain other events of default until 30

April 2021 ("**Forbearance Period"**). On 30 April 2021, the Company announced that discussions with Blantyre and L1 Health were ongoing and as such, the Forbearance Creditors had agreed to extend the Forbearance Period until close of business on 11 May 2021.

The board of directors of Ascendis Health ("the **Board**") is pleased to announce that the Company has entered into an agreement with the Forbearance Creditors ("the **Restructuring Support Agreement**"). The Restructuring Support Agreement provides a framework for the implementation of the Group Recapitalisation ("the **Proposed Transaction**"). The salient terms of the Proposed Transaction are set out in Section 3 below. Subject to certain events of default, the Restructuring Support Agreement also envisages the extension of the Forbearance Period up until the implementation of the Proposed Transaction.

The Board has reviewed and approved the principal terms of the Proposed Transaction as set out in the Restructuring Support Agreement.

2. BACKGROUND TO THE PROPOSED TRANSACTION

Over the past three years, the Board has considered several solutions to reduce the Group's unsustainable gearing levels, which arose from debt-funded acquisitions undertaken in 2016 and 2017, and to settle loans outstanding to a consortium of third-party lenders ("the **Senior Lenders**").

The Company and certain subsidiaries entered into an amended and restated Senior Facilities Agreement ("the **SFA**") with the Senior Lender on 5 June 2020 to restructure the Group's existing debt facilities of R6.9 billion; and provide for the advance of new debt facilities of R464 million to fund working capital requirements and play a meaningful role in the country's efforts to combat the effects and spread of the COVID-19 disease (collectively, the "**Senior Facilities**").

This arrangement enabled the Group to extend the repayment obligations of the Senior Debt to 31 December 2021, with no capital payments required in advance of that date other than repayments triggered as a result of asset disposals and the repayment of debt using excess cash beyond the Group's needs. In addition, it enabled the Group's management to focus on driving operational performance, while a cash sweeping arrangement implemented at Group level allowed improved oversight of the governance related to capital allocation.

The cost of extending the Senior Facilities was EURIBOR plus 10% to 14% (4% - 5% related to margin and an additional 5% to 10% payment in kind ("**PIK**") interest charge) on the Euro-denominated facilities and JIBAR plus 10% to 14.2% (3.75% to 5% related to margin and an additional 5% to 10% PIK interest charge) for the South African Rand-denominated facilities.

Despite a strong half-year performance from the underlying businesses, which generated operating profits from continuing operations of R368 million for the six months ended 31 December 2020, the Group's unsustainable capital structure and cost of funding in the form of PIK interest meant that the total level of debt, including deferred vendor liabilities, continued to rise. In the six-month reporting period to 31 December 2020, the proportionate average effective cost of debt was approximately 14.4% and 16.9% for European and South African denominated facilities, respectively, and the total interest cost for the six-month period was R476 million in respect of the Senior Facilities and R31 million in respect of the deferred vendor liabilities.

The SFA mandated a divestment programme (the "**Divestment Programme**") to facilitate the repayment of the amount outstanding under the SFA (the "**Senior Debt**"). This Divestment Programme was aimed at disposing of all Group assets except for Farmalider, Pharma South Africa and Consumer Health South Africa. Compliance with the terms of the SFA would have required the successful execution of multiple asset disposals simultaneously. The sales process was regulated by the SFA, including milestone obligations agreed by the Company with the Senior Lenders.

Although the Company received indicative offers for Remedica and Sun Wave, they were below the Board's initial expectations. In addition, several of the Divestment Programme milestones were not met, resulting in events of default and an increase in the PIK margin of 2.5% from 31 January 2021. Given the escalating financing costs, and the indicative offers received for the disposal of certain assets, a sale of all the assets identified for divestment was unlikely to generate sufficient value to repay the Senior Debt.

On 18 January 2021, Blantyre and L1 Health, as Senior Lenders, advised the Board that they had collectively increased their Senior Debt exposure to more than one third of the aggregate exposure of all Senior Lenders. Blantyre and L1 Health subsequently advised the Board on 28 January 2021 that they had increased this exposure to more than 75%. Under the terms of the SFA, this level of exposure enabled Blantyre and L1 Health to provide or withhold all waivers, deferrals and consents requiring majority lender approval and thus constituted them "**Majority Lenders**" for the purposes of the SFA.

Blantyre and L1 Health communicated that in their view the divestment of core assets was not in the best long-term interests of the Group and its stakeholders and would not be supported by them in their capacity as Majority Lenders, whose consent was required for any material disposals. Given the unfavourable disposal dynamics, the Board acknowledged that the Divestment Programme and associated milestones put the Group at a disadvantage and terminated the disposal processes of Remedica and Sun Wave.

In parallel with the Divestment Programme, Ascendis Health management conducted an extensive search for equity-linked and operating company gearing solutions to address Ascendis Health's unsustainable debt levels and repayment of the Senior Debt. The SFA has a mandatory debt repayment clause in the event of a change of control, as is common for this form of agreement, which meant that any alternative transaction would need to settle 100% of the Senior Debt; this proved to be an insurmountable obstacle for all the equity investors that management engaged with.

A further alternative explored by management was a merger of Remedica with a suitable product development partner to reduce new product development complexity. This approach would have also introduced debt at the merged entity level to allow for a partial reduction of the Senior Debt whilst keeping a residual equity stake in the merged entity. However, this structure was not approved by the Senior Lenders as it would not have addressed the Group's unsustainable levels of debt.

As an alternative, Blantyre and L1 Health proposed the Group Recapitalisation to reduce debt levels and indicated their willingness to provide funding to maximise the long-term strategic value of the Group. The Majority Lenders requested that the Company halt all disposal processes except for those related to the businesses known as "Animal Health", "Biosciences" and "Dezzo" ("the **Non-Core Disposals**") as these businesses were identified as non-core and were all in late-stage disposal negotiations. In addition, an unsolicited management buy-out offer for Respiratory Care Africa ("**RCA**"), a component of the Medical Devices business, had been received prior to this date, and its disposal was then sanctioned by the Majority Lenders in February 2021. The course of action with RCA was supported by the Board on the basis that a disposal of RCA ("the **RCA Disposal**") would enable maximum value realisation relative to its retention, considering the longer-term prospects for respiratory care post the COVID-19 pandemic.

The Board and management were supportive and receptive to the Group Recapitalisation given the Group's unsustainable debt levels, the need for additional short-term liquidity to support a potential third Covid-19 wave, and the absence of an actionable alternative to repay all of the outstanding Senior Debt plus accrued interest by 31 December 2021. In February 2021, Ascendis Health management began consensual negotiations with Blantyre and L1 Health on the Group Recapitalisation, with the objective of resolving the unsustainable capital structure to achieve an optimal outcome and balancing the position of all stakeholders.

The Board believes that the Group Recapitalisation, of which the Proposed Transaction forms a critical part, addresses the Group's unsustainable financial leverage, as well as its short-term debt maturities and operational liquidity requirements.

The disposal of Dezzo was implemented on 19 March 2021. Negotiations in respect of the remaining Non-Core Disposals and the RCA Disposal are at an advanced stage and the terms and conditions thereof will be announced once they have been agreed. The RCA Disposal and the Animal Health Disposal will constitute category 1 transactions in terms of the Listings Requirements of the JSE (the "**Listings Requirements**") and will be subject, *inter alia*, to the approval of Ascendis Health shareholders in due course. The completion of the Non-Core Disposals forms an integral part of the Group Recapitalisation.

3. SALIENT TERMS OF THE PROPOSED TRANSACTION

Pursuant to the Restructuring Support Agreement, participating Senior Lenders (currently being the Forbearance Creditors) will receive the following in exchange for the discharge of the Senior Debt and deferred vendor liabilities, an aggregate amount that is estimated to be €447 million at the estimated effective date of the Proposed Transaction:

- 100% of the shares in all the legal entities that comprise the businesses known as “Remedica” and “Sun Wave Pharma”;
- the 49% shareholding held by Ascendis Health in the business known as “Farmalider”; and
- the net proceeds from the remaining Non-Core Disposals and the RCA Disposal, which are subject to an agreed value threshold. Any proceeds above the agreed value threshold will be retained by Ascendis Health, while any shortfall from the agreed value threshold will be added to the facilities outlined below.

The legal entities that comprise the businesses known as Remedica, Sun Wave Pharma and Farmalider comprise the “**Disposal Group**” for purposes of the Proposed Transaction.

The Restructuring Support Agreement also sets out the key terms for the following new facilities for Ascendis Health:

- A two-year term loan facility in the amount of the ZAR equivalent of €15 million (“the **Term Loan**”), which will be used to repay the accumulated and unpaid interest accrued under the Forbearance Agreement of approximately R220 million and to contribute towards the costs of the Group Recapitalisation. This facility has a margin of JIBAR + 9% PIK charge; and
- Access to a new draw down facility (“the **New Draw Down Facility**”) with a two-year term amounting to ZAR equivalent of €20 million, that can be utilised as required by the Company to fund any remaining transaction costs, future head office optimisation costs and future working capital requirements. This facility has a margin of 3.3% cash and JIBAR + 3% PIK.

The Company will retain all the legal entities that comprise the businesses known as “Medical Devices” (excluding RCA), “Consumer Health” and “Pharma” (collectively, “the **South African Assets**”). The Company will have access to the New Draw Down Facility to ensure that it has adequate liquidity to optimise the value of the South African Assets over the next two years and to reduce the head office costs commensurate with the smaller business. In addition, Ascendis Health will work with Blantyre and L1 Health to optimise the value of Farmalider and will receive 50% of any incremental value from the eventual sale of the 49% shareholding in Farmalider, above a pre-agreed amount.

Definitive agreements to give effect to the Proposed Transaction will be prepared in accordance with the terms of the Restructuring Support Agreement.

4. RATIONALE

The Proposed Transaction provides an opportunity to protect the value of the South African Assets and the interests of all stakeholders, including shareholders, creditors, suppliers, customers and employees. The outcome of the Proposed Transaction is considered better than the original Divestment Programme since Ascendis Health will, in addition to retaining the Pharma and Consumer Health businesses:

- retain the Medical Devices business (excluding RCA), which had previously been identified as a mandatory disposal;
- have access to the ZAR equivalent of €20 million of additional liquidity via the New Draw Down Facility; and
- participate in any economic upside from the sale of Farmalider above a pre-determined level, without having to consolidate the €15.3 million of debt currently held by Farmalider.

The Proposed Transaction represents the best opportunity to protect the business and is also considered better than placing the Group in Business Rescue, the likely result if an agreement was not reached. An important part of the Group Recapitalisation framework is Ascendis Health's access to sufficient liquidity to operate in the future, as it transitions from an international group with eight separate operating entities to a smaller domestic group with three South African operating entities. Following engagements with shareholders, it became apparent that any rights issue was unlikely to be supported. Furthermore, it was unlikely that local banks would provide further financing. Therefore, Ascendis Health had to engage Blantyre and L1 Health to provide future liquidity.

The New Draw Down Facility provides Ascendis Health with working capital and bridge financing that will enable the Group to continue as a going concern, to optimise the value of the South African Assets and to reduce the head office cost structure of Ascendis Health to an appropriate level in an orderly manner. The New Draw Down Facility and the Term Loan can be repaid at any time without any early repayment penalties and can therefore be refinanced in future. The loans have been largely structured as PIK instruments, with only a 3.3% cash cost on the New Draw Down Facility, in order to optimise the cash position of Ascendis Health.

The Board believe that this outcome is the best that could have been achieved given the level of the Senior Debt in the Group and the cost and terms of this debt. The Proposed Transaction also provides Ascendis Health with greater certainty and future value optionality than the Divestment Programme. Ascendis Health management now have up to two years to optimise the value of the South African Assets and deliver it back to shareholders.

5. CONDITIONS PRECEDENT

The conditions precedent to the Proposed Transaction will be contained in a set of definitive agreements to be prepared in accordance with the terms of the Restructuring Support Agreement.

6. NATURE OF BUSINESS OF THE ENTITIES COMPRISING THE DISPOSAL GROUP

An overview of each of the operations comprising the Disposal Group is set out below:

- Remedica is a pharmaceutical manufacturer located in Cyprus which sells over 340 generic, branded generic and over-the-counter ("OTC") products in more than 100 countries. Products are sold mainly to emerging markets as well as to many non-governmental organisations while the company has a portfolio of over 3,400 marketing authorisations. The business has five "Good Manufacturing Practice" accredited manufacturing facilities, including a world-class oncology facility. Remedica was acquired by Ascendis Health in 2016.
- Sun Wave Pharma is a leading nutraceutical and OTC brand in its home market of Romania. Products are sold through multiple distribution channels including retailers, pharmacies, wholesalers, and health shops. Sun Wave Pharma was acquired by Ascendis Health in 2017.
- Farmalider is a Spanish pharmaceutical company which develops, licences and manufactures mainly generic and OTC products. Headquartered in Madrid, the business sells licensing rights on key products and has marketing authorisations and dossiers for a range of pharmaceutical products in several European countries. Ascendis Health acquired a 49% stake in Farmalider in 2015.

7. CLASSIFICATION OF THE PROPOSED TRANSACTION

The Proposed Transaction constitutes a Category 1 disposal and will require the approval of shareholders in general meeting.

8. INDEPENDENT EXPERT OPINION

As a matter of good corporate governance, the Board has elected to obtain an independent opinion on the fairness and reasonableness of the Proposed Transaction. Accordingly, the Board has appointed PSG Capital as Independent Expert to express an opinion on the fairness and reasonableness of the terms of the Proposed Transaction ("the **Independent Expert**"). The contents of the Independent Expert's opinion and the opinions and recommendations of the Board will be contained in the Circular referred to in paragraph 9 below.

9. CIRCULAR, PROCESS AND TIMING

Once the definitive agreements referred to in Section 5 above have been finalised, a SENS announcement to this effect will be made. A circular setting out full details of the Proposed Transaction ("the **Circular**") will be distributed to Ascendis Health shareholders within 60 calendar days after the date of publication of that announcement. Further details of the Proposed Transaction, including, *inter alia*, the pro forma financial effects of the Proposed Transaction, will be included in the Circular. The Circular will incorporate a notice convening a general meeting of Ascendis Health shareholders ("the **General Meeting**") at which Ascendis Health shareholders will be requested to vote on the resolutions necessary to give effect to the Proposed Transaction ("the **Resolutions**"). At the same time, the salient dates and times of the Proposed Transaction, including the date of the General Meeting, will be announced on SENS.

10. CONSEQUENCES OF FAILURE TO IMPLEMENT THE PROPOSED TRANSACTION

In terms of the Restructuring Support Agreement, if the Proposed Transaction is not implemented for any reason, including failure to receive adequate shareholder support at the General Meeting, the Forbearance Creditors will be entitled to enforce their rights under the SFA and their security across the shares and assets of Group. Accordingly, in such a scenario, a business rescue process in terms of section 129 of the Companies Act ("**Business Rescue**") will be initiated. A Business Rescue practitioner will be appointed and the Business Rescue practitioner will, in all probability, initiate an orderly sale of assets to settle the outstanding Senior Debt, by way of a creditor-approved Business Rescue plan. In parallel to any Business Rescue, it is also likely that the Senior Lenders will seek to enforce their security over the assets in the Disposal Group.

In a Business Rescue process, shareholders rank behind creditors. Furthermore, in an accelerated Business Rescue-driven asset disposal process (as is envisaged), it is likely that lower proceeds will be realised given the distressed circumstances in which they take place. It is therefore also likely that outstanding Senior Debt will exceed such proceeds. In this worst-case scenario, if the Proposed Transaction fails, then minimal to zero value will likely remain attributable to Ascendis Health shares.

In a business of the size and complexity of Ascendis Health, the Board is of the view that Business Rescue can only work and minimise value destruction if the practitioner has time to understand the current position and prospects of the Group. The Board has therefore identified an appropriate Business Rescue practitioner in case such an appointment becomes necessary and has engaged with them in order to fully understand the impact of Business Rescue on all of Ascendis Health's stakeholders.

The following events, *inter alia*, will result in the failure of the Proposed Transaction to proceed and the commencement of the Business Rescue process:

- the Resolutions not being approved by Ascendis Health shareholders at the General Meeting;
- the Resolutions are approved at the General Meeting but, having been approved, do not become effective and capable of implementation by 31 August 2021 (or such later date as the Forbearance Creditors may agree in writing);
- a director of the Company at any time withdrawing his or her support for the Proposed Transaction and / or his or her recommendation to the Ascendis Health shareholders to support the Proposed Transaction, or making any public statement on whatever platform or through whatever medium which in any way undermines that director's support for and / or recommendation of the Proposed Transaction, or otherwise disparaging or denigrating the Proposed Transaction in any way;
- any party or any other person (other than the Forbearance Creditors) taking any action, legal proceeding, or other procedure or step to appoint a liquidator, receiver, administrative receiver, examiner, administrator, compulsory manager, business rescue practitioner or other similar officer; and
- the Resolutions not being approved, or not becoming effective and capable of implementation by, 31 August 2021.

11. FURTHER CAUTIONARY ANNOUNCEMENT

Shareholders are advised to continue to exercise caution when dealing in Ascendis Health shares until the definitive agreements referred to in Section 5 above have been finalised and a further announcement is made.

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Bryanston

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