ASCENDIS HEALTH

MEDIA RELEASE

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STRONGER OPERATIONAL RESULTS IMPACTED BY HIGHER DEBT AND FINANCING COSTS

Johannesburg – Ascendis Health delivered a stronger operational performance in the year to June 2021 as normalised EBITDA from total operations rose 18% to R1.45 billion.

Normalised EBITDA from continuing operations, which excludes the assets earmarked for sale, increased by 120% to R14 million from -R70 million last year. However, rising debt levels, restructuring costs and higher finance charges contributed to the group reporting a loss after tax from continuing operations of R1.6 billion.

The results release comes days ahead of the all-important shareholder vote on the group's recapitalisation transaction on Monday, 4 October. Through the group recapitalisation transaction Ascendis Health will settle outstanding debt of approximately €444 million (R7.7 billion) owed to senior lenders.

The transaction requires the approval of 75% of shareholders in attendance at the general meeting. If the transaction does not receive the required support, the senior lenders will be able to enforce their security rights by taking control of the group's European assets and placing the South African assets in business rescue.

Chief executive Mark Sardi said through the recapitalisation the group is transitioning from a global business with eight segments to a local group with three businesses, namely Medical Devices (excluding Respiratory Care Africa (RCA) which is being sold), Pharma and Consumer Health. "Management plans to unlock shareholder value in the 'new' Ascendis Health in the shortest period possible," he said.

In the year to June 2021, Ascendis Health's three businesses were adversely impacted by COVID-19 and increased revenue by 1% to R2.2 billion. Medical Devices, the largest revenue contributor, increased turnover by 13% due mainly to the strong performance from The Scientific Group which supplies PCR diagnostic kits used for COVID-19 testing and diagnostic equipment to public and private hospitals. Medical Devices was negatively impacted by the decline in elective medical procedures and the reduction in trauma cases during the pandemic.

Revenue in Pharma was 17% lower owing largely to the absence of the normal winter cold and flu season in 2020 and reduced consumer spending during lockdown. Despite the slower revenue growth, leading brands such as Reuterina, Sinucon and Sinuend increased market share within very competitive market segments. Excluding Dezzo, the public sector tender and dispensing doctor business sold in February 2021, revenue in Pharma increased by 11%.

Consumer Health grew revenue by 5% with strong demand for immunity building vitamins, minerals and supplements including Solal, Vitaforce and Bettaway during the pandemic. This was offset by the closure of approximately 25% of the salon base impacting the Skin business, reduced contract manufacturing volumes, disrupted supply of raw materials and the factory closure for six weeks during lockdown due to COVID-19.

The group's gross profit from continuing operations increased by 10% to R931 million and the gross profit margin improved by 340 bps to 41.8%.

Despite the expansion in the gross margin, the group reported a loss after tax from continuing operations of R1 616 million (2020: R1 562 million). The deterioration in the loss was due primarily to increased once-off costs related to disposal and restructuring transactions of R274 million as well as finance costs which increased by R293 million to R1.1 billion largely due the payment-in-kind margin charged by the lenders on the senior debt.

Sardi said the recapitalisation will result in the transfer of certain of the group's assets to the lenders in exchange for existing debt obligations being extinguished and the provision of new debt facilities.

The lenders will take 100% ownership of Remedica (Cyprus) and Sun Wave Pharma (Romania). They will also receive the net disposal proceeds from the sale of Animal Health, RCA, Biosciences and Farmalider (Spain). The Biosciences and Farmalider disposals have been concluded and agreements reached for the disposals of Animal Health and RCA, with these transactions also being proposed to shareholders for approval at the general meeting on 4 October.

Ascendis Health will also share in the upside on the disposal of Farmalider, together with exclusive access to Farmalider's product portfolio. "The Pharma division will gain access to all Farmalider products, 40 of which have been identified for commercialisation. This licensing agreement grants the Pharma division indefinite and exclusive access and rights to market Farmalider's portfolio of products for 14 Southern African Development Community countries (including South Africa) and 11 other African countries," he said.

The lenders will provide a two-year loan facility to Ascendis Health of €15 million and a new loan facility of €20 million to fund remaining transaction costs, head office restructuring costs and working capital requirements. The facility will provide liquidity to optimise the value of the 'new' Ascendis Health.

Sardi said that post the completion of the group recapitalisation the board will implement the optimal path for shareholder value creation.

"At this stage the directors are considering whether to remain a listed group owing to the significantly reduced scale of the 'new' Ascendis Health, the cost of being listed and limited capital being available for growth opportunities in the remaining businesses.

"We have engaged with various parties that have expressed interest in the remaining assets. The directors are assessing the viability of a sale of the remaining businesses over the short-to-medium term, including the option of taking the remaining group private," he added.

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