
MARKET UPDATE ON RECENT SPECULATION IN RESPECT OF A POTENTIAL OFFER TO ASCENDIS HEALTH SHAREHOLDERS

1. Introduction

The attention of Ascendis Health shareholders ("Shareholders") is drawn to the announcement published on the Securities Exchange News Service ("SENS") on 3 September 2021 in which it advised that:

- certain allegations had been made through Social Media regarding the receipt by certain Shareholders of an offer to acquire their Ascendis Health shares; and
- the Company had not received any correspondence that would constitute a firm intention to make an offer to Shareholders and that it has not entered into discussions around a process that may result in one being forthcoming in the short- to medium-term.

The Company has now become aware that a redacted copy of a letter addressed to the board of directors of Ascendis Health ("the Board") containing details of a non-binding conditional offer ("the Letter") was published on Twitter, although the relevant Tweets have subsequently been removed.

The purpose of this announcement is to:

- provide Shareholders with information regarding the events that have led to the receipt of the Letter;
- provide a summary of the key terms of the proposal outlined in the Letter and some preliminary observations on the proposal;
- explain why the Letter does not constitute an "offer" to Shareholders under the Companies Act, 2008 ("the Act") and the Companies Regulations, 2011 ("the Regulations");
- remind Shareholders of the consequences of the failure of the Group Recapitalisation; and
- ensure that Shareholders are aware of the provisions of the Financial Markets Act 19, 2012 ("the FMA") as they relate to insider trading and market manipulation.

Terms defined in the SENS announcement published on 12 May 2021 have the same meaning in this announcement.

2. Background

Over the past three years, the Board and management of Ascendis Health, together with its advisors, have focused on addressing the unsustainable capital structure of the Ascendis Health group (the "Group"). This process culminated in the Group entering into a binding agreement to implement the Group Recapitalisation, the terms of which were announced on 12 May 2021 and, most recently, the announcement on 3 September 2021 informing Shareholders of the Posting of the Circular ("Circular") and Notice convening the General Meeting for Shareholders to vote on the Group Recapitalisation, to be held at 10:00 on Monday, 4 October 2021.

During the negotiation of the Group Recapitalisation, the Company engaged extensively with a wide range of stakeholders including its lenders, Shareholders, regulators, employees, suppliers, customers as well as potential buyers. Throughout this period, the Company also engaged closely with the JSE Limited ("JSE") and the Takeover Regulation Panel ("TRP") to ensure that it complied with all relevant regulations and that it kept the market informed with regular updates via the release of SENS announcements.

When entering into the binding agreement to support the Group Recapitalisation, and when entering into the subsequent agreement governing the implementation of the Group Recapitalisation, the Board carefully considered the merits of the proposed Group Recapitalisation transaction and concluded that it represented the best option to address the Group's unsustainable debt levels, the upcoming debt maturity as well as the Group's ongoing liquidity requirements. Their conclusions were based, amongst other matters, on the following important factors:

- As highlighted in the interim results for the period to 31 December 2020 and the Circular, despite the strong operational performance by the Group, the quantum of Senior Debt and the cost of funding has meant that the total level of debt continues to rise. It was clear to the Board that the Group was unable to service its debt, that it would be unable to repay its debt on maturity, and that its liquidity position was unsustainable without substantial and continuing support from the Lenders.
- The terms of the Senior Facilities Agreement signed on 5 June 2020 ("the SFA") prescribed a substantial divestment program of all the assets in the group except for Farmalider, Pharma Africa and Consumer Health Africa, with repayment of the debt by 31 December 2021. The SFA had punitive divestment related milestones and also required majority lender approval for any disposal. The Board was conscious of the related execution risk that also included forced sale discounts on these assets.
- The opinion of the independent expert that concluded that the Group Recapitalisation transaction is fair and reasonable. The independent experts report is included in the Circular.

The Company has received many proposals from a range of parties with ideas on how best to restructure the business. These proposals have been carefully considered and evaluated in order to ensure the best course of action is taken that protects the interests of all stakeholders, while also complying with the relevant regulations. Certain of the suggestions and proposals received ultimately assisted in formulating the Group Recapitalisation, while others have not been pursued as they were either not capable of implementation or were clearly not in the best interests of the Company or its stakeholders. The Board and management are dedicated to ensuring that, post the Group Recapitalisation, the remaining assets are optimised to the benefit of all stakeholders.

3. Recent speculation of a potential offer for Ascendis Health

On 19 August 2021, the Company received an unsolicited telephone call from representatives of certain investment firms, based in the United States (the "Third Party"). They outlined a high-level proposal to amend the Group Recapitalisation that had been announced on 12 May 2021 and requested that the Company consider a transaction that would involve them potentially acquiring control of Ascendis Health, following the completion of the Group Recapitalisation.

On 20 August 2021, a "Memo of Information" was received from the Third Party, which provided a high-level summary of the proposal that had been outlined on the call. The Memo of Information stated that *"it is the intention of [the Third Party] through their legal representative in South Africa, [...], to send a formal communication incorporating all of the information contained within this Memo of Information to the Board of Directors of Ascendis Health"*. Having consulted with our advisors it was clear that the Memo of Information received did not constitute a firm intention to make an offer to Shareholders and it was simply a record of the conversation.

On 25 August 2021, the Company received a "Non-Binding indicative expression of interest" ("EOI") from the Third Party, which was described as *"a Special Purpose Subsidiary Company"* of the Third Party. The EOI specifically stated that *"This non-binding EOI does not constitute an offer or a firm intention to make an offer as contemplated in the Companies Act 71 of 2008"*. Furthermore, the EOI stated that:

"This non-binding EOI is submitted on a strictly private and confidential basis, and we request that it is not disclosed to any party other than Ascendis Health's board of directors, its financial and legal advisers. We further request that Ascendis Health takes all reasonable steps to keep the contents of this letter, the Proposed Transaction and our discussions strictly confidential (including making Ascendis Health's board of directors, its financial and legal advisers aware that the contents of this letter, the Proposed Transaction and our discussions are strictly confidential).

The EOI was shared with the Board and advisors but, given the explicit statement in the letter that *“this non-binding EOI does not constitute an offer or a firm intention to make an offer”*, coupled with the high level of conditionality of the proposal and the request to keep the EOI confidential, it was concluded that a SENS announcement would be premature. The Company did however commence a very preliminary engagement with the representatives to better understand the proposal and to explain some of the practical limitations of the EOI.

On 2 September 2021, the Company received a letter from Ascendis Activist Investors (“AAI”) stating *inter alia* that AAI is *“aware that a formal binding offer to acquire all Ascendis shares may have been potentially submitted to management and the board.”* and calling on Ascendis Health *“to confirm or refute these claims by virtue of a SENS”*. The Company immediately responded to the AAI letter stating that *“as of writing this response to you we have not received any firm intention offers from any party”*.

Later in the day on 2 September 2021, the Company received a revised letter entitled *“Conditional Offer”* from the Third Party, in which the term *“non-Binding EOI”* from the letter dated 25 August 2021, had been replaced with the term *“Conditional Offer”*. Other than this change the two letters were almost identical. The Letter continued to state that *“This Conditional Offer does not constitute an offer or a firm intention to make an offer as contemplated in the Companies Act 71 of 2008”*, and the confidentiality clause outlined above also remained.

On the afternoon of 3 September 2021, the Company became aware that a group called Retail Activist Investors (“RAI”), which we understand is the new name for AAI, disclosed on Twitter that *“AAI have been approached by a large US private equity firm to acquire all shares in Ascendis Health”* and questioning why an announcement had not been made.

In response to these events, the Company and its advisors immediately contacted the TRP to seek guidance on how best to address the market speculation. This culminated in the SENS announcement entitled *“Market Update”* which was released shortly after market close on 3 September 2021, stating that the Company *“has not received any correspondence that would constitute a firm intention to make an offer to Ascendis Health shareholders and that it has not entered into discussions around a process that may result in one being forthcoming in the short- to medium-term”*.

4. Price sensitive information and market abuse regulations

The Company is publishing the sequence of events leading up to the publication of the Market Update on SENS on 3 September 2021 as the Board and management are concerned that there is considerable misinformation in the market that could potentially be deemed *“price sensitive”*. Given the market abuse regulations that apply in South Africa as contained in the FMA, Ascendis Health will engage with the relevant regulatory authorities to assess whether the recent events are in contravention of the FMA and will comply with whatever recommendations are made by them.

In terms of the Regulations, read with the Act, an approach with a view to making an offer must be made only to the board of the offeree regulated company, in this case Ascendis Health, and not to its Shareholders. Accordingly, contrary to statements made on social media, the Letter itself does not constitute an offer to Shareholders or a firm intention to make one. It is merely an approach setting out the basis on which an offer could potentially be made subject to a range of conditions.

Shareholders are also referred to the FMA which regulates *inter alia*, the sharing of inside information, market manipulation and trading while in possession of inside information.

5. Ascendis Health’s preliminary observations in relation to the Letter received

The Letter outlines *“the proposed terms and conditions upon which [the Third Party] would be prepared to potentially acquire the issued share capital of Ascendis Health post the currently proposed Blantyre/Letter One restructuring (the “Proposed Transaction”)*”. We note that the Third Party envisages that the Proposed Transaction follows the successful implementation of the Group Recapitalisation and that the Proposed Transaction is therefore not intended as an alternative to the Group Recapitalisation. Given the recent market speculation and the leak of the Letter, we think it is appropriate to outline the high-level terms of the Proposed Transaction and provide some preliminary observations on those terms.

Overview of the key terms of the Proposed Transaction received from the Third Party

1. Agreement must first be reached between the Third Party and the Lenders to reduce the level of reinstated debt in the Group Recapitalisation from €15m to €5m.
2. The Third Party will tender for 100% of the shares of Ascendis Health via the issue of Preferred Stock in the Third Party at a purchase price of R1.50 per share. The Preferred Stock will have a coupon of 5% with a 5-year term.
3. Tendering investors will be given a warrant to purchase 20% of their tendered shares at the end of the 5 years at a price of R1.00 per share.
4. The Third Party will invest US\$20million into Ascendis Health for the sole purpose of additional working capital and growth purposes.
5. Pre-conditions to a firm offer in respect of the proposal from the Third Party include:
 - i) Due diligence of Ascendis Health to the satisfaction of the Third Party which is expected to take approximately 60 days
 - ii) Legally binding irrevocable undertakings in a form acceptable to the Third Party
 - iii) Third Party Board approval
 - iv) An unconditional and irrevocable guarantee as required by the TRP in respect of any offer
 - v) Independent Board recommendation by Ascendis Health
6. The Proposed Transaction will also be subject to the fulfilment of several further conditions precedent that include *inter alia*:
 - i) Approval by the Shareholders
 - ii) Written approval from the Third Party that it wishes to proceed with the Proposed Transaction prior to any implementation
 - iii) All agreements contemplated in relation to points (1) to (5) above, having been finalised to the satisfaction of the Third Party and to have become unconditional
 - iv) No material adverse change in respect of Ascendis Health
 - v) Approval by the requisite regulatory authorities including, but not limited to, the JSE, TRP and SA Competition Authorities

Preliminary observations in relation to the Proposed Transaction

Given that the Letter was only received a day before the Circular in relation to the Group Recapitalisation was issued, the Board and management are still reviewing the Letter and considering the specific terms. However, our preliminary assessment is that the Proposed Transaction:

- Does not constitute either an offer or a firm intention to make an offer in terms of the provisions of the Act and the Regulations and this was explicitly acknowledged in the Letter;
- Is conditional upon the Lenders agreeing to reduce the level of reinstated debt from €15m to €5m. The Lenders have indicated to Ascendis Health that they remain committed to the terms of the Group Recapitalisation as agreed with the Group and that those terms are not subject to any further negotiation. They believe that Shareholders must first vote on the Group Recapitalisation and that, thereafter, the Board will be free to consider the Third Party, or any other, proposal;
- Is not a cash offer, but rather a proposal for Shareholders to exchange their ordinary shares for Preferred Shares in an unlisted US-based private company with a 5 year lock-up;
- Does not actually mean that Shareholders receive R1.50 per share; instead Shareholders receive a debt-like instrument where they are no longer ordinary shareholders in Ascendis Health, but effectively become lenders to the Third Party with the possibility of receiving R1.50 per share in 5 years' time;
- Provides no information on what the governance arrangements of the Third Party will be post acquisition, what the strategy is for Ascendis Health, or how they will aim to redeem the Preferred Shares in 5 years' time;
- Gives no detail on whether the Third Party has access to the US\$20 million they propose to invest in Ascendis Health as there has been no guarantee or cash confirmation;
- Is subject to a 60-day due diligence period by the Third Party, the scope of which is unclear;
- Remains highly conditional and uncertain with the Third Party having complete discretion on whether it will proceed to eventually make an offer once the pre-conditions are satisfied, some of which are not within Ascendis Health's control.

Based on the above, the Proposed Transaction as contemplated in the Letter does not appear to be in the best interests of Ascendis Health or its Shareholders.

6. Conclusion

The Board and management of Ascendis Health have been focused on addressing the unsustainable capital structure of the Group and have explored all options to address this over the last three years. The Board believes that the Group Recapitalisation is the best outcome that could have been achieved for Shareholders given the level of the Senior Debt in the Group and the cost and terms of this debt. The Group Recapitalisation provides Ascendis Health with greater certainty and future value optionality than all the other alternatives considered and as such it has been recommended by the Board given it provides the best solution for Shareholders. We continue to look at a number of strategic options to optimise the remaining value of Ascendis Health following the Group Recapitalisation and are in discussions with a number of credible parties in relation to this. Shareholders will be kept informed as and when it is appropriate to do so and in accordance with the Act, the JSE Listings Requirements and relevant regulations.

The recent market speculation in relation to a potential “offer” for Ascendis Health has been unhelpful at a time when Shareholders should be focusing on the Circular and the General Meeting on 4 October 2021 and at a time when no actionable offer has been made. Shareholders are again reminded that if the Group Recapitalisation is not implemented for any reason, including failure to receive adequate Shareholder support, the Senior Lenders will be entitled to exercise and enforce their rights and remedies under the SFA. Accordingly, in such a scenario, the Senior Lenders will most likely seek to enforce their security by taking control of the European assets and a business rescue process in South Africa (“Business Rescue”) will be initiated. In a Business Rescue, Shareholders rank behind all other creditors and it is likely that the outstanding Senior Debt will exceed the proceeds from any disposal process implemented by the Business Rescue Practitioner. Therefore, if the Group Recapitalisation fails, the most likely result is that there will be no return to Shareholders.

In contrast, if the Group Recapitalisation is approved by Shareholders, Ascendis Health management will have sufficient time and liquidity to explore all options to optimise the value of the South African Assets and deliver it back to Shareholders, including exploring a potential transaction with the Third Party.

The Company would once again, like to remind Shareholders that they should base their investment decisions regarding Ascendis Health shares on announcements published by the Company itself and not on information from other sources, which may not necessarily be accurate or based on a complete set of facts.

Mark Sardi, CEO of Ascendis Health said: *“I can assure our Shareholders, that the Board and our advisors have explored a wide range of alternatives to optimise value for Shareholders and will continue to do so. We will always provide relevant and timely updates to Shareholders in accordance with the Companies Act, particularly in relation to any definitive offers received for the Company. I would encourage Shareholders to vote in favour of the Group Recapitalisation on 4 October; if Shareholders do not support the transaction, they are likely to receive no value in the ensuing business rescue process. We are exploring various options to optimise the remaining value of Ascendis post the Group Recapitalisation. We remain committed to open and constructive dialogue with all our Shareholders within the relevant legal and regulatory parameters.”*

06 September 2021
Bryanston

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