Ascendis HEALTH

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

Presentation outline

Presentation outline

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Overview of the six months

Oct 2021

Group Recapitalisation finalised, new facilities extended ✓

Oct / Nov 2021

Completed the disposal of RCA and Animal Health ✓

Resulted in reduction in debt of R7.7bn

Dec 2021

Mandatory prepayment provision exercised; Forbearance Agreement concluded ✗

New board appointed, marking shift in strategic direction ✓

Jan 2022

New SA based lenders buy out debt from L1 Health and Blantyre by advancing a new loan to Ascendis

31 Jan 2022

Recapitalisation Plan approved by the Board and debt extended to 30 June 2022

Performance highlights

- Remaining SA operations comprise Pharma (excluding Dezzo), Medical and Consumer Brands
- Continuing operations comprises Consumer Brands (excluding Nimue)
- Continued strong performance from current SA operations

Revenue	Gross profit	Normalised EBITDA^PM	Head office costs
↑6% to R298m (continuing operations)	↑10% to R122m (continuing operations)	↑43% to R119m (remaining SA operations, excl HO)	↓31% to R46m (remaining SA operations)

Normalised EBITDA^PM : *Normalised EBITDA is not a term defined by IFRS and may accordingly differ from company to company. The board believes that normalised EBITDA is a relevant performance measure as it provides a measure of sustainable earnings. The normalised EBITDA figures have been calculated per Ascendis Health's methodology for the calculation as set out on the company's website.*

Presentation outline

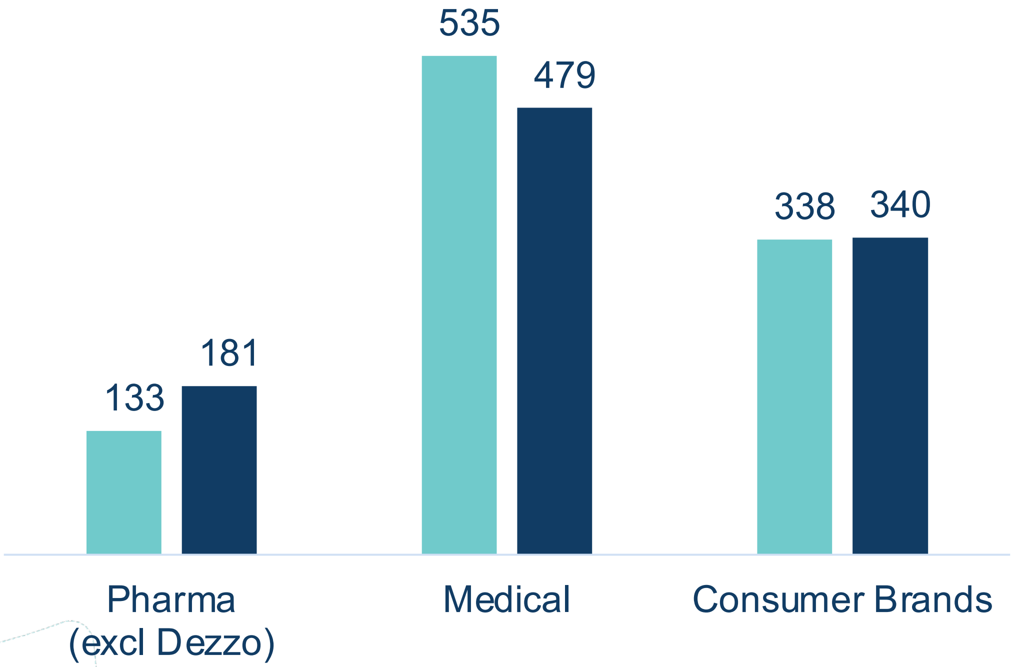
Section

Segment performance

Optimisation initiatives have significantly improved quality of earnings in remaining assets in SA

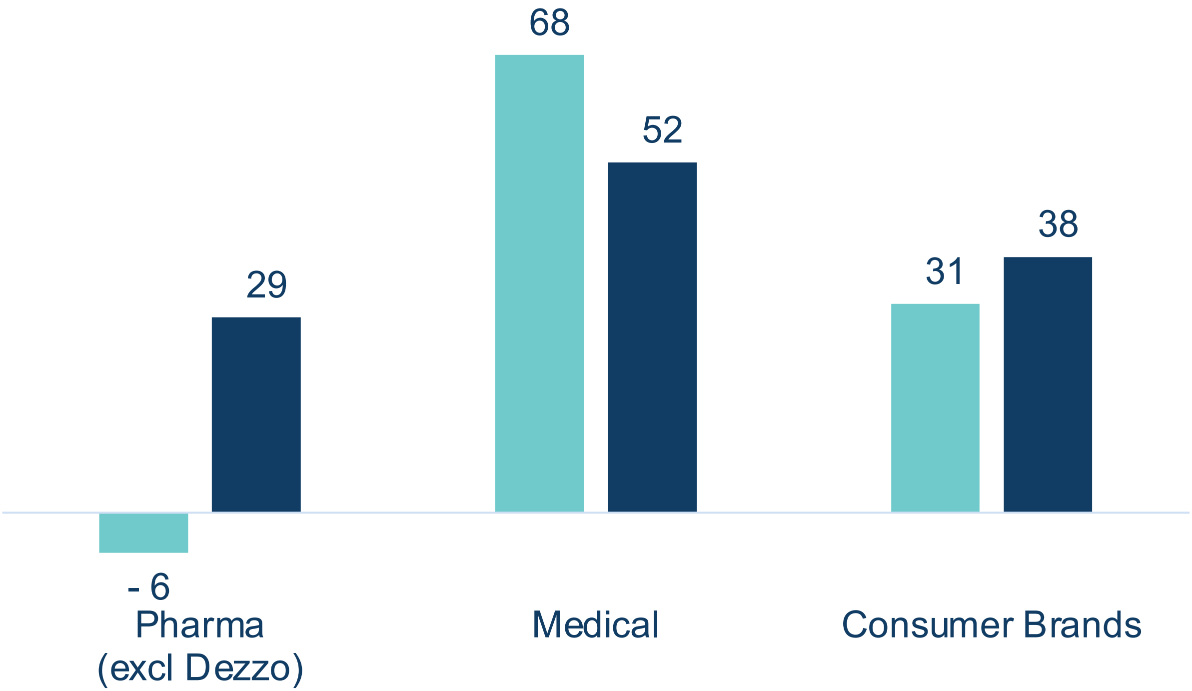
Revenue from remaining SA operations (R'm)

(excluding Dezzo)



Normalised EBITDA[PM] from remaining SA operations (R'm)

(excluding Dezzo, before HO costs)



H1 2021 (restated) H1 2022

Pharma (excluding Dezzo)

Summary P&L

R'm	Dec 2021	Dec 2020	% change
Revenue	**181**	133	36%
Normalised EBITDA[PM]	**29**	(6)	583%
Normalised EBITDA[PM] margin	**16.0%**	(4.5%)	

Overview

Ascendis Pharma operates within the private and public sectors of the local pharmaceutical market, selling and distributing generic pharmaceuticals and OTC medicines to retail pharmacies, dispensing doctors, pharmaceutical wholesalers, private hospital groups and government hospitals.

Performance

- Dezzo, the lower margin, public sector tender and dispensing business, was divested in February 2021
- The remaining business delivered strong sales growth due to market recovery (to pre-Covid-19 levels) and market share gains in key brands
- Strong EBITDA performance driven by improved GP margins and cost cutting (including organisation restructure)
- An improvement in working capital driven by high focus on stock management and timing of creditor payments. This was offset by higher debtors due to residual government Dezzo debt, and increased sales for the period.

Medical

Summary P&L

R'm	Dec 2021	Dec 2020	% change
Revenue	**479**	535	(10%)
Normalised EBITDA[PM]	**52**	68	(24%)
Normalised EBITDA[PM] margin	**10.8%**	12.7%	

Overview

Leading medical devices, consumables and in vitro diagnostic (IVD) product supplier in SA, comprising three integrated businesses: Surgical Innovations (surgical and interventional), The Scientific Group (IVD) and Ortho-Xact (orthopaedic)

Performance

- Recovery in performance from Surgical Innovations (SI) due to the resumption of elective surgeries. The business also benefited from the timing of certain equipment sales that were brought forward from H2 into H1.
- Ortho-Xact had strong growth driven by their product segment focus, as well as customer segmentation growth during Covid-19
- Revenue in The Scientific Group (TSG) was impacted by delays in tender awards, alternative Covid-19 diagnostic testing platforms and solutions, as well as direct global agreements between international funders and manufacturers, and the re-allocation of donor funding in Export territories
- Overall performance continues to be impacted by delays in maintenance capital expenditure in SI, Ortho-Xact and CardaXes, acting as a drag on sales (reduced availability of older equipment)

Consumer Brands

Summary P&L

R’m	Dec 2021	Dec 2020	% change
Revenue	**340**	338	1%
Normalised EBITDA PM	**38**	31	24%
Normalised EBITDA PM margin	**11.2%**	9.2%	

**includes Nimue Revenue R42m (Dec 20: R53m) and Normalised EBITDA PM of R9m (Dec 20: R14m)*

Overview

The Ascendis Consumer Brands portfolio comprises seven key vitamin, mineral & supplement (VMS) brands and three skincare brands. The business is the third largest VMS supplier in South Africa, with Solal, Vitaforce and Bettaway among the most established and recognised brands in the domestic VMS market.

Performance

- High demand for immunity products, but sales were affected by out-of-stocks due delays in payments, port and shipping delays for raw materials, and supply chain disruptions
- Contract manufacturing saw a significant decline in sales due to lack of government clinic activity (outside of Covid-19)
- Nimue was impacted by the July riots and reduced feet into salons, compounded by slow reopening of the salon base. The international business is also seeing a reduction in foot fall.
- The Consumer division continues to find optimisation within procurement, SKU rationalisation and people, resulting in improvement in the EBITDA

Head office

Summary P&L

R'm	Dec 2021	Dec 2020	% change
Head office costs	**(46)**	(67)	(31%)
Once-off costs	**(61)**	(120)	(49%)

Overview

The Head Office structure was originally set up to service a fast growth multi-geographical group. In 2021 a restructuring exercise commenced to align the Head Office structure to the much reduced, post Group Recapitalisation business. A further restructure is in progress in line with the disposals earmarked as part of the Recapitalisation Plan

Performance

- Head office cost reduction driven by lower costs of employment, IT and consulting costs
- FY2023 target structure in line with the strategy will result in:
  - Capability and structure alignment to smaller group size - leaner
  - Focus on capital sourcing and deployment, strategy and M&A growth support
  - Medium-term target: costs within 2.5% of revenue
- Once-off costs relate to the professional and advisor fees linked to the various divestment processes, costs of closure / deregistration of business and retrenchments

Presentation outline

Total revenue and EBITDA

R'm	REVENUE 6 months to Dec 2021	REVENUE 6 months to Dec 2020*	NORMALISED EBITDA[PM] 6 months to Dec 2021	NORMALISED EBITDA[PM] 6 months to Dec 2020*
Total operations	**2 460**	**4 619**	**510**	**561**
Discontinued operations	**(2 162)**	**(4 123)**	**(524)**	**(617)**
Historical discontinued operations	(1 460)	(3 403)	(434)	(550)
New discontinued operations	(702)	(720)	(90)	(67)
Continuing operations	**298**	**496**	**(14)**	**(56)**
Dezzo	-	(215)	-	9
Continuing operations excl Dezzo	**298**	**281**	**(14)**	**(47)**

** Restated*

Income statement

Continuing operations (R'm)	6 months to Dec 2021	Adjusted** 6 months to Dec 2020	Adjusted % change	Actual 6 months to Dec 2020*
Revenue	**298**	**281**	**6%**	**496**
Cost of sales	(176)	(169)	**4%**	(345)
Gross profit	**122**	**112**	**10%**	**151**
Gross profit margin	***41.0%***	***39.8%***		***30.5%***
Other income	4	29	**(88%)**	30
Operating expenses	(140)	(195)	**(28%)**	(237)
Normalised EBITDA[PM]	**(14)**	**(54)**	**(73%)**	**(56)**
Normalised EBITDA[PM] margin	***(4.8%)***	***(19.1%)***		***(11.2%)***
Transaction & restructuring costs	(62)	(119)	**(48%)**	(119)
Depreciation & amortisation	(18)	(8)	**121%**	(8)
Operating loss	**(94)**	**(181)**	**(48%)**	**(183)**

** Restated* *** Adjusted to exclude Dezzo*

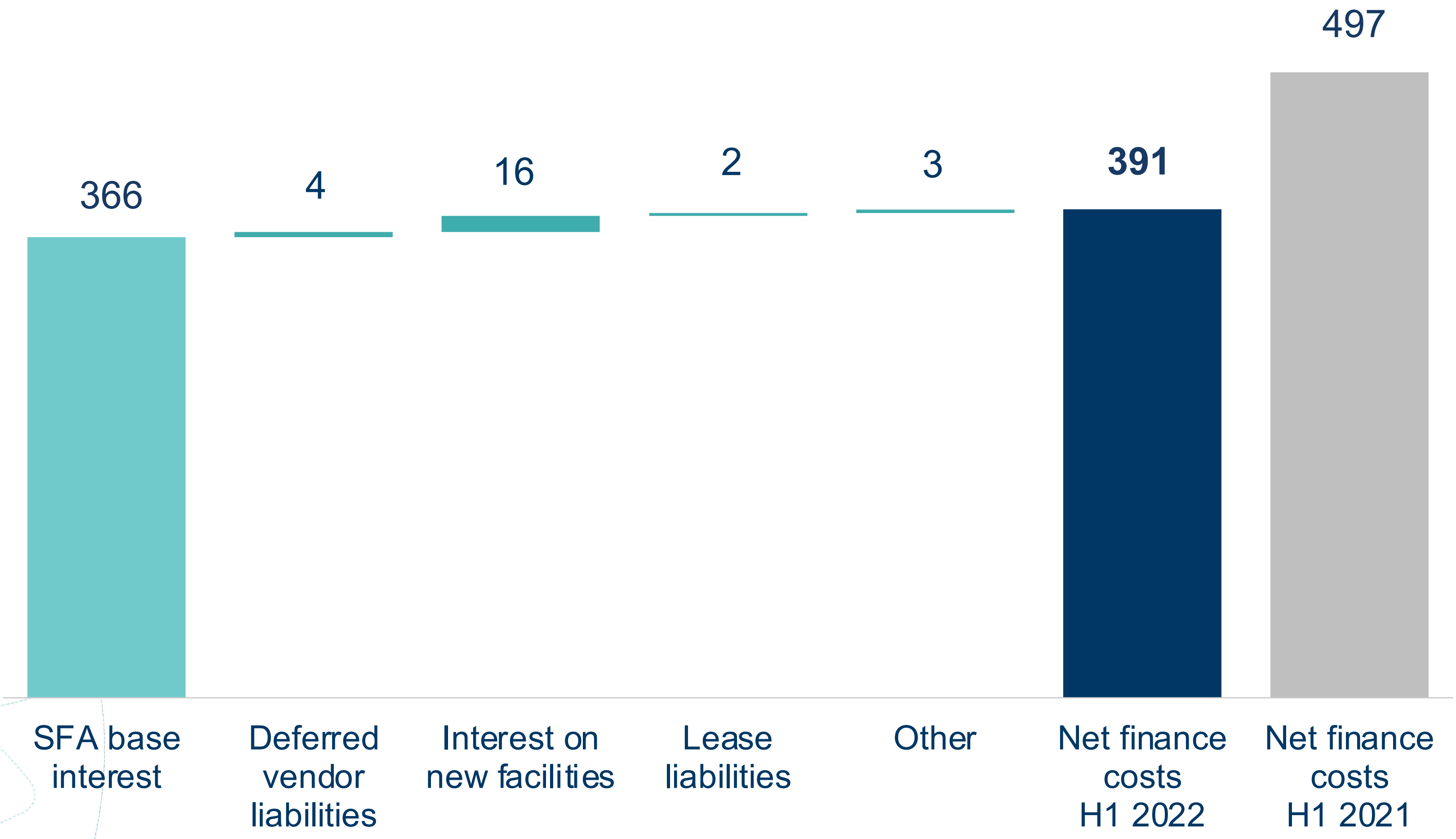
Income statement (*continued*)

Continuing operations (R'm)	6 months to Dec 2021		6 months to Dec 2020*	6 months to Dec 2020*
	As reported	Normalised headline earnings	Adjusted** normalised headline earnings	Normalised headline earnings
Operating loss	**(94)**	**(32)**	**(65)**	**(68)**
Operating margin	*(31.3%)*	*(10.8%)*	*(23.2%)*	*(13.5%)*
Net finance costs	(389)	(389)	(496)	(495)
Taxation	(9)	(17)	(17)	(25)
Loss after tax	**(492)**	**(438)**	**(578)**	**(588)**
Adjusted for capital items	(60)	-	19	19
Headline loss	**(552)**	**(438)**	**(559)**	**(569)**
WANOS ('m)	481.5	481.5	479.8	479.8
EPS (c)	**(102.1)**	**(90.9)**	**(119.7)**	**(121.8)**
HEPS (c)	**(114.6)**	**(91.0)**	**(116.4)**	**(118.5)**

** Restated* *** Adjusted to exclude Dezzo*

Finance costs

Total finance costs (R'm)



- Interest incurred up to point of group recapitalisation was R370 million
- Post recapitalisation interest reduced in line with lower rates + lower debt
- Default interest incurred during the forbearance period was R747k

Balance sheet – assets

R'm	As reported Dec 2021	Held for sale Dec 2021	Total Dec 2021
Intangible assets and goodwill	55	73	128
Trade and other receivables	164	267	431
Inventories	151	284	435
Property, plant and equipment	126	46	172
Cash and cash equivalents (net)	223	19	242
Right-of-use assets	25	113	138
Tax-related assets	6	100	106
Other financial assets	84	7	91
Total assets	**834**	**909**	**1 743**

- TSG goodwill fully impaired – R169 million impact
- Trade receivable days increased from 81 to 91 days, impacted by delays in collecting government debt
- Inventory days increased from 180 to 185 days, affected by timing of receiving of TSG and Chempure stock due to port delays
- Cash includes restricted cash of R81 million and escrow amounts of R78 million, and reflects the timing difference between collections and payments due to the December holidays

** Restated*

Balance sheet – liabilities and equity

R'm	As reported Dec 2021	Held for sale Dec 2021	Total Dec 2021
Borrowings	582	19	601
Trade and other payables	137	270	407
Tax-related liabilities	86	17	103
Other liabilities	54	166	220
Total liabilities	**859**	**472**	**1 331**
Equity	412		412
Total liabilities and equity	**1 271**	**472**	**1 743**

- Borrowings comprise senior debt of R545 million and other long-term liabilities of R56 million
- We continue to be impacted by unfavourable trade creditor repayment terms
- Other liabilities comprise lease liabilities of R34 million, and provision and contract liabilities of R20 million

** Restated*

New loan structure

	Facility H
Quantum	R550m
Base Rate	Jibar (monthly)
Margin (cash)	4%
Margin (PIK)	8.33% to 31 Jan Reduced to 4.33% post 31 Jan
Profile	Bullet Term Loan - disposal proceeds application
Term	Earlier of last disposal date or 30 June 2022
Covenants	Minimum liquidity headroom: R10m

- Refinance fee of 3% incurred – 50% paid in cash and the balance capitalised
- If the Recapitalisation Plan is not implemented, the default interest rate of 4% is applied retrospectively, and a 2% penalty rate is applied prospectively

Presentation outline

Rationale for full recapitalisation

- **Proposed disposals:** Ascendis Pharma
  Ascendis Medical
  Nimue (currently part of Consumer Brands)
- **Planned disposal of three businesses will alleviate the ongoing debt burden and enable the group to:**
  - Settle outstanding debt estimated to be at R571 million by mid-May 2022
  - Disposals to generate cash, with total reserves available to reinvest in rebuilding Ascendis expected to be c.R200 million (post estimated head office restructuring costs, transaction costs, and including approximately R50 million of Animal Health divestment proceeds in escrow)
- **Provides a fresh start to:**
  - Invest in optimising Consumer Brands
  - Make acquisitions in the right areas with conservative leverage
  - Remain listed to ensure value returned to shareholders

Recapitalisation plan – Nimue and Pharma disposals

Nimue disposal

- Disposal comprises the Nimue and Age-Well brands of professional skincare ranges
- Business had declining earnings due to Covid-19 and its impact on salons
- Potential to grow internationally and resuscitate SA business, but would require capital
- H1 2022 EBITDA: R9 million; FY2021 EBITDA: R20 million
- Disposal price: equity value of R102 million, all staff deal

Pharma disposal

- Business has seen improvement in performance post completion of operational clean-up
- Pharma had been earmarked for disposal to sustainably deleverage the balance sheet, as considerable interest had been shown by strategic players at attractive valuations
- As advised in the October cautionary, a formal auction process was conducted in the second half of 2021, which included financial and strategic bidders
- Disposal price: equity value of R375 million, all staff deal; delivers net proceeds materially in line with the best bid received from the auction process
- H1 2022 EBITDA: R29 million; FY2021 EBITDA: R18 million; FY2020 EBITDA: -R45 million

Recapitalisation plan – Medical disposal

- Under-investment in capex due to liquidity constraints in recent years
  - There is R125 million maintenance capex backlog at 31 December which is expected to fall to R105 million by end FY2022. This number does not include growth and future maintenance capex
  - Backlog capex takes into account capex required to sustain the business and comply with agency agreements
- Covid-19 impact and history of write downs makes it difficult to provide a potential buyer with certainty on earnings capability
  - Surgical Innovations and Ortho-Xact units adversely impacted by Covid-19, acting as a drain on historic earnings, exacerbated by TSG underperformance in the past 6 months
  - H1 2022 EBITDA: R52 million; FY2021 EBITDA: R62 million; FY2020 EBITDA: R58 million
  - Rent is c.R24 million pa and this is not reflected in EBITDA <u>but included in earnings used for valuation</u>
  - Depreciation + amortisation of c.R28 million p.a. (excl. right-of-use asset)
- Limited market interest during price discovery process (reflecting backlog capex and uncertainty on earnings trajectory given Covid-19 impact and prior period write downs)
  - 8 participants with 2 non-binding offers received on opposite ends of the spectrum
  - Distribution business with multiples ranging 4.5 – 5.5x and translating to an equity value range of approx. R255 million to R335 million (based on annualised H1 2022 earnings and after rent and backlog capex)
  - Board decision: deal certainty versus execution risk of not having a final confirmed bid for Medical and having to source capex
- Business at strategic juncture – either retain and source capex, or dispose and reinvest funds in higher ROI businesses
- Disposal price: Net R325 million (after R125 million capex) to Apex, with buyer inheriting capex backlog and lease obligations

Implications if divestment transactions not approved

- Should shareholders not approve the divestment transactions, there will be a shortfall in the debt payable to the Lenders on 30 June 2022, when the debt matures
- In addition, an additional interest margin of 4% will be levied by the Lenders retrospectively and an additional 2% margin prospectively in the event of a “no vote” amounting to an estimated R12 million to end June 2022
- The total debt outstanding including the additional interest expense above is currently estimated to be approximately R583 million by 30 June 2022 (assuming no assets are divested)
- Should the group fail to repay the debt owed to the Lenders in full by 30 June 2022, the group may be forced to enter business rescue
- In addition to financing a shortfall in the existing debt, in a case where the Ascendis Medical divestment is not implemented, the group will need to find a further c.R105 million to address the capex backlog in Ascendis Medical

The recently concluded Recapitalisation Plan with Lenders enables the group to have fresh start and re-build as a focused consumer business

Presentation outline

The Consumer Brands business presents a compelling investment case

Portfolio of leading brands

- Portfolio of market-leading household South African Vitamins & Supplements brands which **hold top 10 positions in 14 categories**
- Brands have displayed promising growth in various fast-growing market segments
- **Global speciality procurement** of ingredients in resilient categories
- The division's **compounding pharmacy** has grown into a highly recognisable pharmacy with ample opportunity to grow

Business supported by sound market fundamentals

- **Vitamins & Supplements market of R8bn in South Africa** that is forecasted to grow at double digits in next 5 years
- Global **compounding pharmacy market forecasted to grow at 7.5%** given tail wind of growing market for individualised medicines

Attractive financial and growth profile

- **Impressive growth profile** with revenue and EBITDA growth of 5% and 34% respectively in FY2021
- **Improving margins with gross profit of 44%** and EBITDA margin of 12% in FY2021
- **Outlook: top-line growth of c10% achievable over the next 5 years**

Leading brands in the consumer health space

Strong experienced senior management team

- **Established management team** with the majority of the team having been working together for >3 years
- Strong and specialised expertise in focused areas with knowledge sharing across businesses
- Competitive edge in **innovation, research and development**, education and technical knowledge

Manufacturing factory

- A **12 000 sqm SAHPRA-approved factory**
- Occupational Health & Safety Act and Good Manufacturing Practice ("GMP") compliant
- **One of only two SAHPRA accredited factories in South Africa that can produce soft gels**

Defensible and scalable platform

- Increased **consumer focus on health and wellness** underpins predictable and growing demand for products offered
- Independent functions for the Ascendis Consumer Brands business in place with **established routes to market** in various channels in South Africa
- **Plant has ample capacity to double the business**, with possible acquisition of brands posing various synergies

Outlook

What we will focus on:

1. **Optimise Consumer Brands**
   - Improve manufacturing efficiencies
   - Expand marketing and brand presence
2. **Expand through acquisitive growth**
   - Expand into broader consumer products sector
   - Acquire earnings-enhancing businesses with high ROEs and operating margins
   - Acquisitions to be funded through combination of cash, equity and debt at conservative levels
   - Estimated illustrative opportunity, EBIT of R90 million*
3. **Transition head office to investment holdco model**
   - HO responsible for strategic support, capital allocation and M&A activity
   - Each business operated on decentralised model
   - Leaner, more focused head office team

** Illustrative opportunity based on total funding for Ascendis "rebuild" (leveraging existing group earnings) of c.R270m: (R200m cash, R100m funding headroom (2 x EBITDA net of HO), less c.R30m operating cash buffer). Potentially, this would enable acquisition of c.R90m EBITDA (assuming 5x multiple and assuming 2x leverage in the business being acquired)*

How we will execute:

1. **Drive operational excellence**
   - Focus on cash generation through improved management of net working capital
   - Lean head office – costs within 2.5% of revenue and "self funded" incentives
   - Focus on 3rd party manufacturing and in-sourcing select SKUs
   - Scale identified high ROI components of Consumer Brands (strategic sourcing / compounding pharmacy)
2. **Defined capital allocation framework**
   - Acquisitions within defined return (ROI and FCF) framework
   - Gearing < 2.0x Net Debt: EBITDA
3. **Performance alignment**
   - Culture shift, rebuild pride in being part of "Team Ascendis"
   - Reward customer centric behaviour
   - Senior leadership metrics aligned to shareholder value unlock, EBITDA growth, ROIC and HEPS growth (long term incentive revision from FY2023 from divestment-based incentives to share option scheme)

Conclusion

- We have taken a radical step to completely rid the group of the debt and the SFA-related constraints
- We have the opportunity to rebuild Ascendis with the benefit of “lessons learned” whilst still harnessing the entrepreneurial spirit of the team
- Our ambition is to rebuild a business that our employees and stakeholders are proud to be associated with, and that delivers attractive and sustainable shareholder returns
- **Our focus over the next 6 months will be to lay the foundation for a reset of Ascendis:**
  - Develop and start implementing a road map that will see Consumer Brands reach its full potential
  - Develop and start implementing a growth strategy, underpinned by disciplined capital allocation principles and appropriate metrics to ensure shareholder value is enhanced
  - Reignite the passion and pride of our people and drive a focus on our customers

Presentation outline

Section


Thank you
Q&A

Additional Information

Revenue / normalised EBITDA^{PM} – remaining SA operations

	R'm	6 months to Dec 2021	6 months to Dec 2020*	% change
REVENUE	Pharma as reported	181	348	
	Less: Dezzo	-	(215)	
	Pharma excluding Dezzo	181	133	36%
	Medical	479	535	(10%)
	Consumer Brands**	340	338	1%
	Total remaining SA operations	**1 000**	**1 006**	(1%)
Normalised EBITDA^{PM}	Pharma as reported	29	(15)	
	Less: Dezzo	-	9	
	Pharma excluding Dezzo	29	(6)	583%
	Medical	52	68	(24%)
	Consumer Brands**	38	31	24%
	Total	**119**	**93**	28%
	Group head office costs	(46)	(67)	(31%)
	Total remaining SA operations	**73**	**26**	181%

** Restated*

*** Includes Nimue Revenue R42m (Dec 20: R53m) and Normalised EBITDA^{PM} of R9m (Dec 20: R14m)*

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