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

STRATEGY AND OPERATIONAL UPDATE AND TRADING STATEMENT FOR THE YEAR ENDED 30 JUNE 2021

STRATEGY UPDATE

On 3 September 2021 Ascendis Health Limited and its subsidiaries ("the Group") released a circular to shareholders relating to the Group Recapitalisation and the disposals of Animal Health and Respiratory Care Africa ("RCA"). Post the Group Recapitalisation, the Group will comprise of the three South African businesses namely Medical Devices (excluding RCA), Pharma and Consumer Health ("New Ascendis Health" or "continuing operations").

There has been positive momentum in the overall total Group performance as evidenced by the Normalised EBITDA[PM1] compound annual growth rate ("CAGR") of 18 % to 23% between the 2019 and 2021 financial years, in spite of difficult trading conditions resulting from the Covid-19 pandemic. The positive momentum in performance is also evident in the remaining assets that will comprise the New Ascendis Health.

This has contributed to the Group being able to negotiate the Group Recapitalisation while retaining a set of core assets that have more value than what was previously envisaged in the divestment programme mandated by the previous Senior Facilities Agreement as signed on 5 June 2020. Under that programme the lenders required the Group to sell all the assets in the Group except for Farmalider, Pharma South Africa and Consumer South Africa.

The current Group Recapitalisation proposal offers an improved value prospects for shareholders due to the shared upside on the disposal of Farmalider, together with exclusive access to Farmalider's value enhancing product portfolio as outlined under the Operational Update for Pharma below. In addition, the Group will retain the three remaining businesses in Medical Devices (excluding RCA) which would not have been included under the previous lender-led divestment programme.

The new draw down facility, equal to a ZAR equivalent of €20 million, which will become available post the Group Recapitalisation will ensure that there is access to sufficient working capital available for the businesses comprising the New Ascendis Health.

The board of directors of Ascendis Health ("Board") acknowledges that the Group finds itself at a critical strategic juncture. The Board has therefore been actively evaluating the value creation opportunities available upon successful completion of the Group Recapitalisation.

The option of remaining a listed Group, whilst still being reviewed, is challenged by the significantly reduced scale of New Ascendis Health, the costs associated with remaining listed and limited capital availability in relation to various growth opportunities in the remaining businesses.

Noting the above, the Board has engaged with the various interested parties in the remaining assets and is forming a perspective on the viability and value proposition of a sale of the remaining businesses in the Group over the short-to-medium term, including the option of taking the New Ascendis Health private.

[PM1] Normalised EBITDA, Normalised headline earnings and normalised headline earnings per share are alternative performance measures or non-IFRS measures. Further details regarding the computation of the performance measures and its purpose can be found on the Company's website via: : https://ascendishealth.com/wp-content/uploads/2020/09/Ascendis-Health-Performance-Measures-30-June-2020.pdf

Engagements with interested parties are still at an early stage and the Group will continue to provide updates on the post Group Recapitalisation strategy as the evaluation of options evolves.

Management will provide an update to investors on the strategic options for the New Ascendis Health with the release of the Group's annual results on 30 September 2021.

OPERATIONAL UPDATE

The Group's revenue and Normalised EBITDA^{PM} from continuing operations are shown below.

Continuing operations	Year ended 30 June 2021 Expected revenue ranges (R'm)	Year ended 30 June 2020 Revenue [Restated] (R'm)	% Change based on expected revenue ranges	Year ended 30 June 2021 Expected Normalised EBITDA^{PM} ranges (R'm)	Year ended 30 June 2020 Normalised EBITDA^{PM} [Restated] (R'm)	% Change based on expected Normalised EBITDA^{PM} ranges
Medical Devices (excluding RCA)	956 – 1 005	869	10% - 16%	57 - 63	58	(2%) – 8%
Pharma	562 – 591	700	(16%) - (20%)	(6) – (7)	(45)	86% – 87%
Consumer Health	650 – 683	634	3% - 8%	81 – 89	*59*	36% - 50%
Total continuing operations	**2 168 – 2 279**	**2 203**	**(2%) - 3%**	**132 – 145**	***72***	**83% - 101%**

Medical Devices (excluding RCA)

Description of business

The Medical Devices business is a market leader in the distribution of Medical Devices and In Vitro Diagnostics ("IVD"). It has long-standing, well entrenched and trusted relationships with key suppliers of over 15 years and is the exclusive distributor of leading, globally recognised and sought-after brands. Scale, geographic footprint and deep technical expertise position Medical Devices well as a partner of choice for multinationals looking to access South and sub-Saharan African markets.

Following the disposal of RCA, Medical Devices comprises three businesses structured around specific market segments which operate in a market worth approximately R38 billion:

- The Scientific Group ("TSG"): IVD testing and point-of-care testing
- Surgical Innovations ("SI"): Interventional, diagnostics, acute care therapies and surgery
- Ortho-Xact: Orthopaedic trauma and limb reconstruction

Market commentary

TSG plays a critical role in the fight against Covid-19, supplying testing equipment used to detect the virus and various diagnostic equipment to public and private hospitals in South Africa and the rest of Africa. The strong performance delivered by TSG was tempered by the SI and Ortho-Xact results which were negatively impacted by Covid-19.

Both SI and Ortho-Xact were significantly impacted over the past 18 months due to the decline in demand for elective medical procedures and the reduction in trauma cases during the pandemic. However, in the SI business, its market position is protected by a large installed equipment base which drives an annuity income stream. Ortho-Xact was able to counter the impact with customer segment expansion. In a post Covid-19 environment, the sale of consumables (medical consumables used when operating the installed base) should also return.

On the new business development front, the business has successfully expanded into a new cardiology segment being awarded the Philips and Microport agencies under the newly formed division CardaXes. The full benefit of the CardaXes division is expected to materialise from FY2022. The Medical Devices platform is scalable, and the management team has a proven track record of building new agencies in country by leveraging well developed infrastructure, customer relationships and intellectual property (training and technical service).

Optimisation strategy

Medical Devices revenue is expected to close between R956 million and R1 005 million, reflecting a 10% to 16% increase from the prior year.

In FY2020 Medical Devices began an optimisation programme that included a warehouse project which provides enhanced demand planning, warehouse operations, information systems and governance. This project enabled the business to identify and write-off obsolete legacy inventory as well as plant and equipment in the current year and in the corresponding prior year. These write-offs are not adjusted for in Normalised EBITDA^{PM} but the extent of them is non-recurring. As a result, the segment results reflect a decline in Normalised EBITDA^{PM} of between 2% and 8% to an expected range of R57 million to R63 million.

Furthermore, the results include costs related to a shared service platform within Medical Devices. These costs increased by at least 153% to close at a minimum of R41 million and include start-up costs for CardaXes. The shared services costs will be further reviewed in line with the revised structure of the segment following the disposal of RCA.

Pharma

Description of business

Pharma operates primarily within the private and public sectors of the South African pharmaceutical industry and is a marketer and distributor of both prescription and over the counter ("OTC") medicines. Its customers are retail pharmacies, pharmaceutical wholesalers, private hospital groups and government hospitals and clinics via strategic tenders.

Ascendis Pharma has a portfolio of well-known brands and a simple business model. The top 10 brands account for approximately 85% of sales. All brands are owned 100% and operate under an outsourced supply chain. The product pipeline comprises over 300 dossiers of which less than 50 are currently marketed. The majority of Pharma's sales are in the gastrointestinal tract and cough and cold therapeutic categories.

The business has set a clear strategic path focusing on OTC and prescription medicines in the following priority therapeutic areas: gastrointestinal tract, cough and cold, pain, diabetes and niche generics. Pharma's core competencies include the ability to source, register and launch brands and build a product and brand portfolio through strong marketing and sales capabilities.

Pharma has a formidable brand portfolio where the largest brands by sales consistently rank in the top three in their respective market segments:

- Reuterina: market-leading probiotic
- Sinuend and Sinucon: Collectively lead the cold preparation (oral solids) segment
- Phlexy and Aklid: Leading hospital products, both ranked number one in their respective market segments.

The business has set a focused, five-year new product launch plan for priority molecules. This includes the recently concluded licensing agreement for all Farmalider products, 40 of which have been identified for commercialisation. The Farmalider 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.

Market commentary

The private pharmaceutical market was in decline for most of the year due to Covid-19 and the absence of the normal winter cold and flu season in 2020. This was compounded by reduced consumer spending during lockdown periods and private hospitals reducing elective surgeries which contributed to slow growth in key brands, including Reuterina and Phlexy. Revenue in the private sector business that forms a part of the continuing operations increased by 2% to 5%, which was tempered by the disposal of Dezzo resulting in a reduction in combined revenue for the year of between 16% and 20% to close within a range of R562 million and R591 million. Despite the slower revenue growth, leading brands such as Reuterina, Sinucon and Sinuend achieved share gains within very competitive market segments. Sales increased in May and June 2021 with the country's third wave of infections, particularly in probiotics and cold medications.

Optimisation strategy

Management's optimisation strategy resulted in the lower margin, high capital consumption public sector tender and dispensing doctor business ("Dezzo") being sold in March 2021. In addition, focused operational cost rationalisation resulted in a return to profitability during the fourth quarter. As a result, the segment significantly reduced its Normalised EBITDA^{PM} loss from R45 million in 2020 to between R6 million and R7 million in the current period. This result includes a Normalised EBITDA^{PM} loss from Dezzo of R26 million (June 2020: R52 million). Adjusting for this historic loss the final EBITDA of the Pharma segment reflects a substantial turnaround from 2020 and leaves the business well placed going forward.

During the year, the business settled a long outstanding legal claim at approximately 40c in the Rand, thus removing a contingent liability risk that may have impacted future evaluation of the prospects for the business. This, when combined with the product pipeline and rationalisation benefits sets a strong platform for the business.

Consumer Health

Description of business

The Consumer Health segment comprises five consumer healthcare businesses:

- Wellness: Develops, markets, and distributes branded vitamins and supplements.
- Supply Chain: Procures and manufactures vitamins and supplements for the wellness business and third parties through its production facility in Wynberg, Gauteng.
- Skin and Body: Develops markets and distributes professional and premium skin and body care brands.
- Chempure: A specialty ingredients partner to key manufacturers and leading brands in South Africa which sources raw materials globally; focusing on the sports nutrition, health and wellness, food and personal care industries.
- Compounding Pharmacy: Compounds tailor-made prescriptions for patients and health care practitioners.

The brand portfolio within Consumer Health comprises seven key vitamin, mineral and supplement ("VMS") brands and three skincare brands. Consumer Health is the third largest VMS supplier in South Africa with a portfolio of brands that hold top 3 positions in 14 vitamin and supplements categories and have displayed promising growth in various fast-growing market segments. These brands include Solal, Vitaforce, Menacal, Chela range, Bettaway, Vitaforce, Biobalance, Jungle Vites, Nimue and Agewell. The business also represents globally reputable agencies, including DSM, Hilmar, Milk Specialities and Vitajoy.

The Skin and Body business owns the leading professional skincare range, Nimue, which generates more than 50% of its sales internationally. Chempure sources a portfolio of global speciality ingredients brands in resilient categories.

An increased consumer focus on health and wellness underpins predictable and growing demand for products offered by the business and is supported by sound fundamentals:

- The vitamins and supplements market is close to R8 billion in South Africa and is forecasted to grow at double digits over the next five years.
- The global compounding pharmacy market is forecasted to grow at 7.5% p.a.
- The global skincare market is forecasted to grow at 5% p.a. until 2026.

Market commentary

Strong demand for immunity building products during the pandemic was offset by the closure of 25% of the salon base impacting the Skin business, reduced contract manufacturing volumes, port strikes and the global supply chain crisis (affecting the supply of raw materials) and the factory closure for six weeks during lockdown due to Covid-19. Despite this, performance momentum increased in the second half of the financial year and the segment revenue is expected to close between R650 million and R683 million, reflecting a 3% to 8% increase. Normalised $EBITDA^{PM}$ is expected to close between R81 million and R89 million, reflecting a 36% to 50% improvement.

Optimisation strategy

Execution of management's strategic priorities has underpinned the business turnaround over the past two years and included the following:

- Wellness and Supply chain: SKU rationalisation to support margin improvement and reduce complexity; a review of the manufacturing options; improved in-fill rates and digitalisation.
- Skin: expansion of the international business, leveraging e-commerce/digital platforms; reduction in business complexity and the establishment of an innovation hub.
- Compounding: growth of income from IV drips; improved communication to end customers and roll out full wellness offering.
- Chempure: focus on health and wellness and personal care; onboarding new agencies; SKU rationalisation and improved inventory management.

Impact of Covid-19

The government's national vaccination roll-out programme commenced in mid-February 2021. After a slow start, the number of vaccinated adults continues to increase with over 11.2 million South Africans having been vaccinated to date. The success of the vaccination programme will support improved performance in each of the Group's remaining businesses.

Head office

Operating expenses include head office related costs of between R143 million compared to R142 million in the prior year. The group is transitioning from a global business with eight segments to a local group with three segments whose primary strategic objective is to unlock shareholder value in the shortest period possible.

The most significant cost categories within head office relate to payroll and staff related expenses, lease and office related costs as well as regulatory costs related to the audit and processes required to drive compliance as would be required in a listed environment.

The target head office cost structure will be capped at 2.5% of the aggregate revenue of the remaining businesses. A head office restructure programme commenced in April 2021 aimed at significantly reducing the cost of the head office and aligning it to the new structure of the group. In line with this, a retrenchment process commenced in April 2021. Further, the group gave notice to vacate its Bryanston head office in July 2022.

TRADING STATEMENT

The Group will be reporting annual results for the year ended 30 June 2021 ("the current period") on the Stock Exchange News Service of the JSE Limited ("SENS") on 30 September 2021.

In terms of paragraph 3.4(b) of the JSE Limited Listings Requirements, companies are required to publish a trading statement as soon as they are satisfied, with a reasonable degree of certainty, that the financial results for the period to be reported upon next will differ by at least 20% from those of the previous corresponding reporting period.

Accordingly, the Board advises shareholders that it is reasonably certain that the financial results for the current period, when compared with the published results for the prior corresponding period, are expected to differ as follows:

Continuing operations[2]:

- Basic loss per share ("LPS") from continuing operations of between 311.0 cents and 369.4 cents per share compared to the restated LPS from continuing operations of 294.5 cents for the year ended 30 June 2020, representing a decline of between 16.4 cents and 74.9 cents (5.6% and 25.4%).
- Headline loss per share ("HLPS") from continuing operations of between 303.7 cents and 343.8 cents compared to a restated HLPS from continuing operations of 202.2 cents for the year ended 30 June 2020, representing a decline of between 101.5 cents and 141.6 cents (50.2% and 70.0%).
- Normalised headline loss per share ("NHLPS")[3] from continuing operations of between 254.7 cents and 287.7 cents compared to a restated NHLPS from continuing operations of 166.4 cents for the year ended 30 June 2020, representing a decline of between 88.3 cents and 121.3 cents (53.0% and 72.9%).

Total operations:

- Basic loss per share ("LPS") from total operations of between 205.2 cents and 244.0 cents per share compared to the restated LPS from total operations of 195.3 cents for the year ended 30 June 2020, representing a decline of between 9.9 cents and 48.7 cents (5.1% and 24.9%).
- Headline loss per share ("HLPS") from total operations of between 162.7 cents and 168.0 cents compared to a restated HLPS from total operations of 26.9 cents for the year ended 30 June 2020, representing a decline of between 135.8 cents and 141.1 cents.
- Normalised headline loss per share ("NHLPS") from total operations of between 78.0 cents and 74.3 cents compared to a restated Normalised headline profit per share ("NHPPS") from total operations of 18.5 cents for the year ended 30 June 2020, representing a decline of between 96.4 cents and 92.8 cents.

Year-on-year revenue from continuing operations is largely unchanged and expected to close within a range of R2 168 million to R2 279 million compared to R2 203 million. Despite this, Normalised EBITDA[PM] from continuing operations before head office costs is expected to improve by between 83% and 101% to close at R132 million to R145 million. This operational turnaround was fundamental to ensuring that equity value remained for shareholders post the completion of the recapitalisation. The Operational Update in the section above sets out the normalised results for those businesses that will remain in the Group post the recapitalisation.

Earnings from continuing operations was negatively impacted by a combination of net funding costs, once-off transaction and restructure related costs as well as the current costs of the head office. Net funding costs increased by 37% to R1 080 million, while once-off transaction and restructure related costs increased by 21% to R274 million. Operating expenses include head office related costs as discussed above.

Restatement of comparative results

The current period results will reflect the results of the New Ascendis Health as continuing operations, and the rest of the subsidiaries will be reflected as discontinued operations in line with the requirements of IFRS 5: Non-current assets held for sale and discontinued operations. The comparative results disclosed for period the period ended 30 June 2020 ("the prior corresponding period") have been restated accordingly.

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[2] The comparatives have been restated for the change in discontinued operations as well as prior period adjustments relating to the release of deferred tax liabilities due to the impairment of intangible assets in prior periods and adjustments to trade creditors.

[3] : Normalised EBITDA, Normalised headline earnings and normalised headline earnings per share are alternative performance measures or non-IFRS measures. Further details regarding the computation of the performance measures and its purpose can be found on the Company's website via: https://ascendishealth.com/wp-content/uploads/2020/02/AscendisHealth-Performance-Measures-Jan-2020.pdf

The restated results for the corresponding period are also impacted by restatements in addition to those resulting from the requirements of IFRS 5. The reconciliation below provides a high-level overview of the impact of the reclassification of discontinued operations and the prior year adjustments:

				Continuing Operations		
	Revenue (R'000)	**Normalised EBITDA[PM] (R'000)**	**Loss from continuing operations after tax (R'000)**	**Loss per share (cents)**	**Headline loss per share (cents)**	**Normalised headline earnings per share (cents)**
As reported in FY2020	**6 963**	**1 181**	**(959)**	**(174.0)**	**(49,3)**	**(6.0)**
- Transfer to discontinuing operations	(4 760)	(1 236)	(660)	(134.8)	(167.1)	(174.7)
- Impact of prior year restatements	-	(14.7)	(14.7)	14,3	14,3	14.3
Restated FY2020	**2 203**	**(69.7)**	**(1 633.7)**	**(294.5)**	**(202.2)**	**(166.4)**

This trading statement and operational update is the responsibility of the directors and the financial information on which this statement is based has not been reviewed or reported on by the external auditors.

20 September 2021
Bryanston

Sponsor

Questco Corporate Advisory Proprietary Limited