ASX Announcement (ASX: HLS)

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Update on the non-binding indicative proposal for the acquisition of Healius Limited

Healius Limited (Healius or the Company) refers to the non-binding, indicative proposal received from an entity associated with Partners Group to acquire all the shares in the Company for $3.40[1] cash per share by way of a scheme of arrangement (the Proposal).

After careful consideration of the Proposal and after consulting with the some of its largest shareholders, the Board of Healius unanimously rejects the Proposal on the basis that it neither reflects the fundamental value of the Company nor represents compelling value for exclusive due diligence.

The Board is willing to engage constructively with any party where it considers a proposal may be in the best interests of shareholders. To this end, the Board has advised Partners Group that it is willing to engage with them to explore the prospects of a superior proposal reflective of the Company's fundamental value. The Board also understands that the call option deed between Jangho and Partners Group does not prevent a third party from making, or the Healius Board from considering, proposals from other parties.

The Chairman of Healius, Mr Rob Hubbard, stated: "We recognise the extreme volatility in the share market at present and the pressure our shareholders are under to deliver returns to their clients. However, the Board's response reflects its assessment of the value of each of Healius' businesses. We are continuing to experience solid growth in our Pathology, Imaging and Day Hospitals divisions and are taking active steps to reduce the group's cost base.

"Healius is also in the process of seeking offers for its medical centres business which is believed to be undervalued in the current share price. An Information Memorandum has been distributed to interested parties. This sale process, while part of our long-term strategy, introduces an element of contestability into the current situation.

"With one of the most extensive frontline care networks across the country, the team remains focused on supporting identification, screening and treatment of coronavirus as community needs continue to expand," Mr Hubbard concluded.

[1] $3.374 per share adjusted for the $0.026 1H FY 2020 dividend payable on 15 April and to be further adjusted for any dividends paid prior to completion of the Scheme.

The Proposal does not adequately value the underlying businesses

Healius operates a leading, Australia-wide network of pathology laboratories and authorised collection centres, diagnostic imaging facilities, medical centres, dental clinics, day hospitals and IVF services.

81% of Healius' 1H 2020 segment EBIT[2] was generated from its Pathology and Diagnostic Imaging businesses. These businesses enjoy strong market positions and deliver critical, largely non-discretionary healthcare services. They are expected to continue to grow at higher than GDP rates over the medium to long term.

With economies of scale and cost efficiencies, Healius has delivered EBIT CAGRs[3] of 11% and 14% respectively in its Pathology and Diagnostic Imaging businesses in the past three years. Over this period, Healius has invested extensively to improve the quality of services and to deliver greater efficiencies in these divisions, including in a new imaging technology platform and an upgraded serum work area covering around 60% of pathology testing.

Montserrat, the day hospitals and haematology/oncology clinic network acquired in FY 2019, is expected to deliver materially improved earnings over the near term as its newly opened facilities, including the flagship Westside Private Hospital in Brisbane, ramp up to full capacity and as the range and number of procedures undertaken in a day hospital setting approaches international benchmarks.

Exploration of a sale of Medical Centres division

The Company's earnings growth has been impacted by the renewal of its Medical Centres business (19% of 1H 2020 segment EBIT[1]). Pleasingly, the Healius brand is attracting many healthcare practitioners, while the division has transformed its service offerings as well as its systems and processes. The business is now well positioned for sustainable earnings growth.

Healius has previously announced that it intends to explore a sale of its Medical Centres business, excluding Day Hospitals and IVF. This would result in a simplification of Healius' portfolio, provide additional capital and capacity to growing the Pathology and Diagnostic Imaging businesses and, in time, the Day Hospitals division. Importantly, Healius believes that a full or partial sale of the business should realise a value for the business that is not currently recognised in Healius' share price.

Finalisation of key projects and Sustainable Improvement Program to deliver value

Healius' recent earnings performance has been impacted by investment in major projects, necessary to position the business for future growth. While the operating and capital investment associated with these projects will peak in the current financial year, the Company expects the costs will be significantly lower in FY 2021 and beyond. This includes an amended pathway for implementation of a new laboratory information system (LIS) in Pathology which Healius now believes can be achieved at a lower total project cost than the $100 million initially identified.

As previously announced, the Sustainable Improvement Program is expected to produce progressive cost savings over a three-year period, underpinned by a range of detailed initiatives across the group. As part of this program, $20 million of savings were delivered in 1H 2020, in productivity, property, consumables and information technology costs, partially offsetting other increases in the Company's cost base, and Healius has now identified a further $30 million in annualised cost reductions expected to be realised over the coming 12 months.

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[2] EBIT prior to unallocated corporate costs

[3] Pathology EBIT CAGR normalised for the impact of items as set out in 1H 2020 results presentation on slide 10

Call option arrangement between Partners Group and Jangho

The Board of Healius has considered the call option arrangement between Partners Group and Jangho which was disclosed to the ASX on 24 February 2020. Under the terms of arrangement, Jangho will receive a $30 million option fee in the event of either the option being exercised or a successful Partners Group Scheme of Arrangement. The practical effect of the option fee is that, under a Scheme of Arrangement for Partners Group to acquire Healius shares at a particular price, Jangho would receive consideration of approximately $0.30 per share greater than that price (and therefore other Healius shareholders). The Board would prefer to see shareholders benefit equally if any change of control transaction were to eventuate.

ENDS

This release has been authorised by the Board.

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For over 30 years Healius has been one of Australia's leading healthcare companies with a commitment to supporting quality, affordable and accessible healthcare for all Australians. Today Healius has three main businesses – pathology, medical centres and imaging - and three emerging businesses – dental, IVF and day hospitals. Through its unique footprint of centres and 13,000 employees, Healius provides diagnostic services to consumers and their referring practitioners, as well as enabling a range of independent healthcare professionals to deliver patient care in partnership with Healius' nurses and support staff.

APPENDIX

Frequently asked questions in relation to the Call Option Deed

These frequently asked questions are intended to provide Healius shareholders with a high-level overview of how the Call Option Deed works. They are not a comprehensive summary of the Call Option Deed. They do not constitute legal or financial product advice and have been prepared without reference to the investment objectives, financial situation, taxation position or particular needs of any individual shareholder or other person. Healius shareholders should read the Call Option Deed in full and, if appropriate, obtain their own independent advice on it before making any investment decision which is based on or influenced by the Call Option Deed.

Q: Does the option agreement prevent a third party from making an offer to acquire Healius?

No. The Board of Healius is free to consider and, if in the best interests of shareholders, support proposals from any other parties that may wish to acquire Healius.

Q: What is the Call Option Deed and what does it do?

The Call Option Deed is an agreement between entities associated with Jangho, which collectively own 98.9 million Healius shares (15.88% of issued capital) and an entity controlled by Partners Group.

The agreement provides Partners Group with the right, but not the obligation, to acquire all the shares owned by Jangho for a base price of $3.30 per share ($3.274 per share adjusted for the $0.026 1H 2020 dividend to be paid on 15 April 2020 and as further adjusted for any future dividends paid) (with other amounts potentially payable as described below).

Q: What are the Option Fees (Tranche 1 and Tranche 2) and when are they paid?

The Option Fee Tranche 1 is an amount of $20 (twenty dollars) in aggregate and it was paid by Partners Group to Jangho on 24 February 2020.

The Option Fee Tranche 2 is an amount of $30 million (equivalent to approximately $0.30 per share owned by Jangho). This amount would be paid by Partners Group to Jangho where Partners Group either:

- exercises its option to acquire the relevant shares from Jangho; or
- acquires Healius by way of a scheme of arrangement at a price not less than $3.30 per share ($3.274 per share adjusted for the $0.026 1H FY 2020 dividend to be paid on 15 April 2020 and as further adjusted for any future dividends paid)

The practical effect is that under a scheme of arrangement for Partners Group to acquire Healius shares at a particular price, Jangho would receive consideration of approximately $0.30 per share greater than that price (and therefore other Healius shareholders).

There is no obligation on Partners Group to undertake any of the steps that would trigger payment of the Option Fee Tranche 2 and, hence, no certainty that Partners Group will pay this amount.

Q: What happens if the option is exercised?

If Partners Group exercised its option to acquire Jangho's shares, it would pay Jangho approximately $356.5 million (prior to allowing for any dividend adjustments), comprising:

- $3.30 per share to acquire 98.9 million shares; plus
- the $30 million Option Fee Tranche 2.

If a Healius scheme of arrangement with Partners Group subsequently completed at a price higher than $3.30 per share (as adjusted), Partners Group would make an additional payment to Jangho equivalent to the difference between $3.30 per share (as adjusted) and the price under the scheme of arrangement. In other words, Jangho would receive the benefit of the higher price as well as keeping the $30 million Option Fee Tranche 2.

If, having exercised the option, Partners Group subsequently sold the shares into a third party competing takeover bid or scheme of arrangement at a price higher than $3.30 ("Superior Offer"), Partners Group would make an additional payment to Jangho equivalent to the difference between the price of the Superior Offer and $3.30 per share (as adjusted), less the $30 million Option Fee Tranche 2 (to the extent this amount is greater than nil). In other words, in these circumstances Jangho would not get the benefit of both the higher price under the Superior Offer and the $30 million Option Fee Tranche 2.

Q: How can Jangho vote on a Partners scheme?

Jangho has confirmed to Healius that, if the call option is not exercised, it intends to vote in favour of a scheme of arrangement with Partners Group at a price of not less than $3.30 per share, subject to there being no superior proposal and the independent expert opining that the scheme is in the best interests of Healius shareholders.

Based on the approach taken by Courts in recent schemes of arrangement involving individual shareholders receiving benefits not available to all shareholders under the scheme, Healius expects that a Court would disregard any votes cast in favour of the scheme by Jangho in determining whether the necessary shareholder approval thresholds had been achieved. This would ensure that, to the extent that the Call Option Deed (and in particular the Option Fee Tranche 2) delivered an additional benefit to Jangho not available to other shareholders, Jangho's votes would not be determinative in deciding the outcome of the scheme of arrangement.

Q: Can Jangho vote its shares in favour of a competing proposal recommended by the Board of Healius?

As far as Healius is aware, there are no restrictions on how Jangho can exercise the voting rights attached to the shares it owns other than as set out above (in relation to the Partners scheme).

Q: When does the Call Option Deed expire?

The option expires on the earliest of:

- 24 November 2020, if Healius has not entered into a Scheme Implementation Deed with Partners Group (or associated entities) by that time;
- If Healius has entered into a Scheme Implementation Deed with Partners Group (or associated entities) by 24 November 2020, 9 months after the date of entering into the agreement; and
- Partners Group notifying Jangho that it does not intend to proceed with its scheme proposal.

Q: What is the "Call Back Option"?

Jangho has the right to buy back the relevant shares at $3.30 per share (as adjusted) if the option is exercised and, at the expiry of Call Option Deed:

- a scheme of arrangement with Partners Group has not become effective; and
- Partners Group has not sold the shares into a takeover bid from, or scheme of arrangement with a third party.

If it exercises the "Call Back Option", Jangho must refund the $30 million Option Fee Tranche 2.