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Takeover Offer for Healius Limited – Response to Healius’ Target’s Statement

Australian Clinical Labs Limited (**ACL**) refers to its off-market takeover offer (the **Offer**) for all of the fully paid ordinary shares (**Healius Shares**) on issue in Healius Limited (**Healius**), announced on 20 March 2023 and set out in ACL’s replacement bidder’s statement dated 14 April 2023 (**Bidder’s Statement**).

ACL wishes to address the target’s statement released by Healius on 4 May 2023 (**Target’s Statement**), in which the Healius Board recommended that Healius Shareholders reject the Offer. In response to Healius’ Target’s Statement, ACL has issued a second supplementary bidder’s statement (**Second Supplementary Bidder’s Statement**). ACL lodged a copy of the Second Supplementary Bidder’s Statement with ASIC and the ASX today.

Set out below is a summary of ACL’s response to Healius’ Target’s Statement. ACL’s complete response is set out in the Second Supplementary Bidder’s Statement released to the ASX. **ACL strongly encourages Healius Shareholders to read the Second Supplementary Bidder’s Statement together with the Bidder’s Statement (including the risks section at section 8 of the Bidder’s Statement) carefully and in their entirety before making a decision as to whether to accept the Offer.** Capitalised terms used, but not otherwise defined, in this announcement have the meanings given to them in the Bidder’s Statement.

Summary of issues with Healius’ fundamentally flawed Target’s Statement

Healius’ Target’s Statement is fundamentally flawed. The Proposed Merger represents the most value accretive option available to Healius Shareholders

ACL believes that the Healius Board is failing its shareholders and is not acting in their best interests by:

- Failing to fully assess the Offer (including the Expected Cost Synergies) either by appointing an independent expert or by providing guidance on its own view as to the value of Healius that is not based on inappropriate historical price comparisons;
- Failing to disclose any alternative value creation opportunities (along with their associated rationale and risks) to consider as true alternatives to the Proposed Merger; and
- Refusing to engage in any substantive or considered way with ACL in respect of the Expected Cost Synergies, despite undertaking extensive work collaboratively with ACL during FY20, when ACL was a materially smaller business, that estimated a synergy opportunity from a merger with ACL of over \$80 million to be achieved within three years.

Given the potential value creation opportunities for Healius Shareholders as a result of the Proposed Merger (90% increase in the value of a Healius Share implied by the Offer Consideration¹ to \$5.15 per

¹ See sub-section 4 of the “Why You Should Accept the Offer” section of the Bidder’s Statement.

Healius Share²), ACL encourages the Healius Board to substantively engage with ACL in relation to the Proposed Merger (including the Expected Cost Synergies).

ACL has offered a meeting with the Healius Board to discuss the rationale for the Offer and the Expected Cost Synergies, but the Healius Board has declined to take up this offer.

ACL continues to believe that the Proposed Merger represents the most value accretive option available to Healius Shareholders, particularly given recent announcements by Healius indicating continued underperformance, including that:

- Healius has required a waiver from its lenders to increase its gearing ratio covenant from 3.5x to 4.0x for FY23 and 1H24, despite stating less than three months ago that it expected to remain within its covenants at the end of FY23;³
- Healius is likely to be cash flow negative for 2H23 excluding proceeds of the Day Hospitals Sale;⁴ and
- Healius intends to continue its ongoing practice of significant EBIT normalisations⁵ in 2H23, which ACL believes will considerably inflate Healius' adjusted "underlying" figures, relative to its statutory performance.⁶ Healius has consistently undertaken this practice over multiple years such that it no longer represents a one-off event.

ACL believes that the reasons for the Healius Board's recommendation have fundamental flaws, as summarised below:

- **Control premium:** Existing ACL Shareholders will not control the Merged Group and, accordingly, ACL rejects the Healius Board's claim that a "control premium" is justified. If Successful Offer Completion occurs:
 - The composition of the Merged Group's board will be decided by the Merged Group shareholders, of which Existing Healius Shareholders will comprise 68%.⁷ Healius' claim that ACL intends to exert control over the Merged Group's board is inaccurate and misleading
 - Existing ACL Shareholders will hold a minority position in the Merged Group. Typically, shareholders holding a minority position (not those holding a majority) receive a premium
 - Healius Shareholders that accept the Offer will not give up the opportunity to receive a control premium in the future in respect of the Merged Group⁸
- **Synergies:** Healius has failed to engage in any substantive or considered way with the Expected Cost Synergies, despite undertaking work itself collaboratively with ACL in FY20 which estimated a synergy opportunity of over \$80 million that could be achieved within three years from a potential merger with ACL

² Being \$2.72 per Healius Share, based on the VWAP of ACL Shares on the ASX for the period from (and including) 28 February 2023 (being the date after which Healius released the Healius 1H23 Report to the ASX) to 17 March 2023 (being the last practicable trading date on the ASX before the Announcement Date) (being \$3.66).

³ See the announcement made by Healius to the ASX on 27 February 2023 titled "*Healius announces 1H 2023 results*".

⁴ On the basis of the implied projected total net debt (excluding proceeds of the Day Hospitals Sale) of the Healius Group of \$564 million as at 30 June 2023 (**Implied Projected Net Debt**) being larger than Healius' reported total net debt of \$551.3 million as at 31 December 2022 (as set out on page 6 of the Healius 1H23 Report). The Implied Projected Net Debt of \$564 million is calculated on the basis of Healius' statement on page 43 of the Target's Statement that there is a likelihood that Healius' net debt plus current tax liabilities less current tax assets following completion of the Day Hospitals Sale will exceed the amount of \$437.3 million specified by ACL in the relevant Conditions (see sections 11.9(g)(v) and 11.9(p)(ii)(B) of the Bidder's Statement) for more than 30 days and on the assumption that this will continue to be the case until and as at 30 June 2023. Excluding cash proceeds of \$127 million from the Day Hospitals Sale (as announced by Healius to the ASX on 2 May 2023 in the announcement titled "*Healius Update*") implies Implied Projected Net Debt of \$564 million.

⁵ See sub-sections 3 and 5 of the "*Why You Should Accept the Offer*" section of the Bidder's Statement.

⁶ On the basis of Healius' statements in the Target's Statement to the effect that Healius does not expect FY23 underlying EBIT to differ materially from analyst consensus of \$98.6 million, and that Healius expects that reported EBIT from continuing operations for FY23 will be less than the amount of \$46.1 million specified by ACL in the relevant Conditions.

⁷ The assumptions that ACL has made in calculating these indicative Merged Group ownership percentages are set out in section 7.5 of the Bidder's Statement.

⁸ As part of a control transaction in relation to the Merged Group.

- ACL has significantly grown as a business (demonstrated by 35%+ revenue growth) since Healius undertook this work, supporting a materially larger synergy opportunity
- ACL has also undertaken detailed analysis to support the estimated range of Expected Cost Synergies of \$78 million to \$113 million,⁹ with the support of a leading external professional services firm,¹⁰ and believes this quantum may be increased if ACL and Healius were to co-operate to refine synergy estimates
- **Exchange ratio:** Healius' evaluation of the Offer Consideration is based on an inappropriate set of historical value comparisons and disregards the significant deterioration in performance of Healius over the six months before 17 March 2023 (being the Last Practicable Date)
 - Healius' reliance on 3-month, 6-month and 12-month VWAPs does not fairly reflect the current relative values of Healius and ACL. Broker consensus views on Healius' FY23 EBIT were downgraded 58% (in aggregate) following successive market updates on Healius' deteriorating trading conditions in the six months prior to the Last Practicable Date. The Post-Results VWAP Period is the first time in over two years¹¹ that the market has had clear reporting on the core, non-COVID pathology margins of Healius and ACL.¹² This was reflected in the share price movements of both companies following the release of their respective 1H23 financial results¹³
 - The Offer equates to an FY23F EV/EBIT valuation multiple of 31.4x for Healius, which ACL considers is highly attractive for Healius Shareholders and ensures Healius Shareholders receive significant value for the upside from the Healius Group Cost Reset¹⁴
- **Independent expert:** The Healius Board has not appointed an independent expert to assist its assessment of whether the Offer is in the best interests of Healius Shareholders, which ACL considers is unusual for a transaction of this nature and size. ACL strongly encourages Healius to appoint an independent expert to properly assess whether the Offer is in the best interests of Healius Shareholders
- **Superior proposal:** No superior proposal has been disclosed by Healius, and in any event, Healius Shareholders that accept the Offer will not give up the opportunity to receive a control premium¹⁵ in the future in relation to the Merged Group

⁹ Midpoint of \$95 million. The Expected Cost Synergies were estimated via detailed analysis by ACL (based on publicly available information in respect of Healius) and based on ACL's historic synergies on past acquisitions. See section 7.4 of the Bidder's Statement for detailed information on the Expected Cost Synergies, including the basis for, and underlying assumptions supporting, the Expected Cost Synergies.

¹⁰ The ACL Board has engaged a leading external professional services firm to perform due diligence on ACL's proposed synergy plan and provide a due diligence report to the ACL Board in respect of the range of, timing of implementation of, and estimated one-off costs required to achieve, the Expected Cost Synergies.

¹¹ As at the date of the Bidder's Statement.

¹² See "What will you receive if you accept the Offer?" in the section of the Bidder's Statement entitled "Overview of the Offer" for more information.

¹³ Based on ACL's share price increasing 8.1% from 20 February 2023 (being the date of ACL's 1H23 results announcement to the ASX) to the Last Practicable Date and Healius' share price decreasing (6.7)% from 7 February 2023 (being the date of Healius' unaudited 1H23 results announcement to the ASX) to the Last Practicable Date.

¹⁴ Based on Healius' enterprise value of \$3,142 million (post AASB 16) and the FY23 Average Broker Forecast of EBIT for Healius (being \$100 million). Refer to Annexure A of the Bidder's Statement for details of the FY23 Average Broker Forecast in respect of Healius, including a summary of the selection criteria, number, range and date of the broker forecasts used to calculate the FY23 Average Broker Forecast. See also sub-section 4 of the "Why You Should Accept the Offer" section of the Bidder's Statement.

¹⁵ As part of a control transaction in relation to the Merged Group.

– ENDS –

This announcement was authorised for release to the ASX by the ACL Board. For further information regarding this announcement, please contact:

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About Australian Clinical Labs

ACL is a leading Australian private provider of pathology services. Our NATA accredited laboratories perform a diverse range of pathology tests each year for a range of clients including doctors, specialists, patients, hospitals and corporate clients. ACL is one of the largest private hospital pathology businesses nationally. ACL is focused on its mission of combining talented people, and medical and scientific leadership, with innovative thinking and technologies to empower decision making that saves and improves patients' lives.