

Orion Health Group Limited

Notice of Annual Shareholders' Meeting

The Annual Shareholders' Meeting will be held at 10.00am (New Zealand Time) on 28 September 2018 at Ellerslie Event Centre 80 Ascot Ave, Auckland

Shareholder Information Line +64 9 375 5998 between 8.30am and 5.00pm (New Zealand time) Monday to Friday

This is an important document and requires your immediate attention. You should carefully read it in its entirety (including the Independent Report from KordaMentha that accompanies this Notice of Meeting as Appendix One) before deciding whether or not to vote in favour of the Resolutions. If you are in any doubt about what you should do, you should seek advice from your broker or your financial, taxation or legal adviser immediately.

Important Information

Purpose of this Notice of Meeting

The purpose of this Notice of Meeting is to:

- Inform you about the Hg Transaction and the Share Buyback and the important matters requiring Orion Health Shareholder approval in connection with the Hg Transaction and/or the Share Buyback;
- Make you aware of the Annual Shareholders' Meeting to be held at Ellerslie Event Centre 80 Ascot Ave, Auckland on 28 September 10.00 am to vote on the Resolutions relating to those important matters;
- Enable you to appraise the implications of the Proposed Transactions; and
- help you decide whether to vote for or against the Resolutions. If you choose not to vote at all, whether the Resolutions are passed or not will be determined solely by reference to the number of votes cast by the Shareholders who do vote.

Proposed Share Buyback

The proposed Share Buyback is not open for acceptances.

Shareholders will be sent materials relating to the Share Buyback separately if it and the Hg Transaction are both approved at the Annual Shareholders' Meeting and the Hg Transaction is completed.

Voting/Proxy Form

Accompanying this Notice of Meeting is a Voting/Proxy Form to enable you to vote on the Resolutions by:

- Attending the Annual Shareholders' Meeting; or
- Appointing a proxy to vote on your behalf at the Annual Shareholders' Meeting.

You are urged to complete and return the Voting/Proxy Form as soon as possible if you do not plan to attend the Annual Shareholders' Meeting.

Disclaimer

This Notice of Meeting is not an offer of financial products and the provision of this Notice of Meeting to any person does not constitute, and may not be used for the purposes of, an offer of financial products or interests of any kind to that person or an invitation to any person to apply for the issue of financial products or interests of any kind.

Sold your Shares?

If you have sold all of your Shares, please immediately hand this document and the accompanying Voting/Proxy Form to the purchaser or the agent through whom the sale was made, to be passed to the purchaser.

Your decision

This Notice of Meeting does not take into account your individual investment objectives, financial situation or needs. You must make your own decisions and seek your own advice in this regard.

The information and recommendations contained in this Notice of Meeting do not constitute, and should not be taken as constituting, financial product advice.

If you are in any doubt as to what you should do, you should seek advice from your financial, taxation or legal adviser before making any decision regarding the Proposed Transactions.

Forward looking statements

This Notice of Meeting contains certain forward looking statements. You should be aware that there are risks (both known and unknown), uncertainties, assumptions and other important factors that could

cause the actual conduct, results, performance or achievements of Orion Health to be materially different from the future conduct, market conditions, results, performance or achievements expressed or implied by such statements or that could cause future conduct to be materially different from historical conduct. Deviations as to future conduct, market conditions, results, performance and achievements are both normal and to be expected.

Forward looking statements generally may be identified by the use of forward looking words such as 'aim', 'anticipate', 'believe', 'estimate', 'expect', 'forecast', 'foresee', 'future', 'intend', 'likely', 'may', 'planned', 'potential', 'should', or other similar words.

Neither Orion Health nor any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this Notice of Meeting will actually occur. You are cautioned against relying on any such forward looking statements.

Privacy and personal information

Orion Health may collect personal information in the process of implementing the Proposed Transactions. Such information may include the name, contact details and shareholdings of Shareholders and the name of persons appointed by those persons to act as a proxy or corporate representative at the Annual Shareholders' Meeting. The primary purpose of the collection of personal information is to assist Orion Health to conduct the Annual Shareholders' Meeting and to implement the Proposed Transactions. Personal information of the type described above may be disclosed to Link, Hg, print and mail service providers, proxy solicitation firms, related companies of Orion Health and Hg and Orion Health's and Hg's service providers and advisers. Shareholders have certain rights to access personal information that has been collected. You should contact Link, in the first instance, if you wish to access your personal information. Shareholders who appoint a named person to act as their proxy or corporate representative should make sure that person is aware of these matters.

NZX

NZX has approved this Notice of Meeting pursuant to NZX Listing Rule 6.1.1. However, NZX accepts no responsibility for any statement in this Notice of Meeting.

Effect of rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Notice of Meeting are subject to the effect of rounding. Accordingly, actual calculations may differ from amounts set out in this Notice of Meeting.

Defined terms

Capitalised terms set out in this Notice of Meeting have the meanings given to them in the Glossary.

Currency

In this Notice of Meeting, a reference to \$ is to New Zealand dollars, unless otherwise stated.

Date and time of this Notice of Meeting

This Notice of Meeting is given on 7 September 2018.

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Indicative date and time	Event
7 September 2018	Notice of Meeting - date this Notice of Meeting was distributed
5.00pm 26 September 2018	Closing time and date for Voting/Proxy Forms for the Annual Shareholders' Meeting to be submitted
	Voting Eligibility Time for determining eligibility to vote at the Annual Shareholders' Meeting
10.00am 28 September 2018	Annual Shareholders' Meeting to be held at Ellerslie Event Centre, 80 Ascot Ave, Auckland
If the Transaction Resolutions are approved by Shareholders	
Late October 2018	Completion - estimated time for completion of the Hg Transaction (assuming Shareholders have approved the Hg Transaction and the Share Buyback, Hg has obtained Overseas Investment Office approval and the other conditions have been satisfied)
November 2018	Estimated time for Share Buyback price finalised and materials sent to Shareholders
December 2018	Estimated time that the Share Buyback will be completed

In addition, the de-listing from ASX and compulsory sale of Minimum Holdings is expected to take place in December 2018, although they are not conditional on the Transaction Resolutions being approved by Shareholders.

All dates in the table above are indicative only. In particular, the timing of completion of the Hg Transaction will depend on the timing of the satisfaction of the various conditions to that transaction, as described in this Notice of Meeting. The timing of the Share Buyback depends on the timing of the completion of the Hg Transaction. Any material updates to the timetable will be announced via the NZX Market Announcement Platform (MAP) and notified on Orion Health's website at www.orionhealth.com.

All references to time in this Notice of Meeting are references to New Zealand time, unless otherwise stated. Any obligation to do an act by a specified time in New Zealand time must be done at the corresponding time in any other jurisdiction.

Hg and Orion Health

In this Notice of Meeting, the term **Hg** is used to refer to the limited partnerships comprising Hg Mercury 2 Fund, the Hg Group and to members of the Hg Group (including Hg Rhapsody Purchaser and Hg PHM Newco), as the context requires.

Equally the term **Orion Health** is used to refer to Orion Health Group Limited, the Orion Group and members of the Orion Group, as the context requires.

7 September 2018

Dear Shareholders,

On behalf of the Orion Health Board, I am pleased to enclose the Notice of Meeting, which outlines important information regarding the proposed acquisition of the Rhapsody business and investment in the Population Health Management business by entities controlled by Hg and the subsequent Share Buyback offer to Orion Health Shareholders. Shareholders will be given the opportunity to vote on the Resolutions to approve these transactions at the Annual Shareholders' Meeting on 28 September 2018.

As previously advised, the Board has undergone a comprehensive strategic review process to assess long term Shareholder value and the future operating structure of Orion Health's global business. As a result, in April this year Orion Health restructured to focus on its core solutions and operate as Rhapsody, Population Health Management and Hospitals businesses. It was also proposed that each solution could benefit from different opportunities for future investment and that it was in the best interests of Orion Health and Shareholders to consider options specific to each business.

The strategic review received strong interest from a number of global investors, attracted by Orion Health's reputation for innovation and technology in the healthcare sector. A partnership with Hg, a specialist technology investor with deep healthcare expertise, stood out as the best option to deliver a combination of investment and capability to Orion Health, providing a stronger platform for the company to continue to deliver to customers and the healthcare sector, while providing optionality for Shareholders wishing to exit their investment in Orion Health.

The Board and I believe that Hg is the right partner to accelerate the expansion of Rhapsody and to support our vision for Population Health Management. Hg will acquire Orion Health's Rhapsody business, with Orion Health retaining a 24.9% shareholding in that business. Hg will also take a 24.9% stake in Orion Health's Population Health Management business. Orion Health will continue to own 100% of its Hospitals business.

The Hg Transaction enables Orion Health to benefit from Hg's funding and technology expertise while ensuring that each of Orion Health's three separate businesses is set up to capitalise on its full potential. For Rhapsody, the combination of its global team and Hg's resources and leadership will extend Rhapsody as a leader in the interoperability platform space, building on both its world class technology and highly rated customer service. For our Population Health Management business, Hg's investment will help strengthen our position as a technology leader

in the transformation of global healthcare for an aging population with rising numbers of chronic diseases. Our Population Health Management suite of solutions has a track record of success in data aggregation, analytics and care pathways, and operates in one of the largest global markets in healthcare today. For our Hospitals business, the benefits will be seen in its continued growth and its clinical capability to automate processes and help run an efficient and safe hospital.

Following completion of the Hg Transaction, Orion Health will undertake a Share Buyback at an estimated price range of \$1.16-\$1.26 per Share, with the final offer price to be determined by the Board closer to the time. The offer price will be dependent on Orion Health's available cash immediately following completion of the Hg Transaction, taking into account transaction costs and working capital adjustments in relation to the Rhapsody Sale. You will have the option to accept the Share Buyback in respect of up to 100% of your Shares.

With the benefit of a further two months since the original announcement of a higher estimated buyback offer price range, the Directors have been able to further analyse the impact of the variables that could affect the level of cash available for the Share Buyback at the time it is able to be made. In particular, the period required to satisfy the various conditions to the Hg Transaction, and hence to close the Hg Transaction, is uncertain, and therefore the timing of the Share Buyback could be delayed. Other variables include our forecast trading results over that period as well as expectations regarding the Rhapsody net working capital adjustment based on the potential closing dates. In light of the uncertainty created by these variables, and in particular to address the possibility of a later than expected completion of the Hg Transaction, the Directors have extended and lowered the estimated buyback offer price range to \$1.16-\$1.26 per Share.

We believe that providing the option to cash-out at a substantial premium to the trading price that existed prior to the announcement of the Hg Transaction, as well as the opportunity to elect to maintain an ongoing investment in Orion Health, including its 24.9% stake in Rhapsody, the 75.1% stake in Population Health Management and 100% ownership of Hospitals, is in the best interests of Shareholders. This represents an opportunity for Shareholders to realise a premium, in cash, to Orion Health's pre-announcement share price for all or a portion of their shareholdings, or to continue as a Shareholder to benefit from any potential future value creation. To help us with planning, we are asking you to indicate your current intentions regarding the Share Buyback (this indication will not be binding on you and the information provided for these purposes will remain confidential and will only be reported on an aggregated basis).

With the support of all of Orion Health's Board and major key Shareholders, the Hg Transaction is an important stepping stone in the Company's efforts to build a solid and competitive business and provides our Shareholders with choice in relation to their investment.

The Board supports fully the Proposed Transactions outlined in this Notice of Meeting and unanimously recommends that Shareholders vote in favour of the Hg Transaction and the Share Buyback at the Annual Shareholders' Meeting.

Certain Shareholders and the Directors of Orion Health have provided to Hg an irrevocable undertaking to vote their shares in favour of the Hg Transaction and the Share Buyback, which in aggregate represent 15.5% of the Orion Health Shares on issue. Orion Health's largest Shareholder, McCrae Limited (which is associated with current CEO Ian McCrae), is restricted by the Takeovers Code from providing an equivalent undertaking; however McCrae Limited has given to Hg confirmation of its intention to vote all of its Orion Health Shares (approximately 50% of the total number of Orion Health Shares on issue) in favour of the Hg Transaction and Ian McCrae has given to Hg confirmation of his intention to ensure that McCrae Limited does so.

The Hg Transaction is subject to certain pre-closing conditions, including the approval of Orion Health's Shareholders for the Hg Transaction and the Share Buyback, Hg obtaining approval under the Overseas Investment Act 2005 and the receipt of third party consents to transfer certain Rhapsody contracts.

The Shareholder vote to approve the Hg Transaction and the Share Buyback will take place at the Annual Shareholders' Meeting. In broad terms:

- the Hg Transaction will require approval by way of ordinary (50%) resolution, on which all Shareholders can vote; and
- the Share Buyback will require approval by way of:
 - a special (75%) resolution, on which all Shareholders can vote; and
 - an ordinary (50%) resolution of Shareholders, on which all Shareholders can vote other than McCrae Limited and its associated parties.

The Board has commissioned an independent report from KordaMentha (refer to Appendix One) for Shareholders to support their consideration of the Transaction Resolutions.

The Annual Shareholders' Meeting will be the last for Directors Roger France and Ronald Andrews, each of whom is due to retire by rotation and is not standing for re-election. I would like to take this opportunity to express my thanks, on behalf of Orion Health and personally, to Roger and Ronald for their dedicated service to Orion Health.

Given the anticipated change to the nature and scale of Orion Health's operations after the Hg Transaction and the Share Buyback, it will be appropriate for us to review the

composition of the Board following those processes being completed. Accordingly, we are not proposing to appoint new Directors at the Annual Shareholders' Meeting to replace Roger and Ronald.

Once the Hg Transaction is complete, new boards of directors will be constituted for Rhapsody and Population Health Management. The position agreed with Hg is that the Rhapsody board will comprise five directors: four appointed by Hg and one appointed by Orion Health. Equally, we have agreed that the Population Health Management board will comprise five directors, with four appointed by Orion Health, and one appointed by Hg. With these new business boards, the role of the Orion Health Board will change meaningfully. Once the individual business boards have been established, the Share Buyback is complete, and new directors who are well placed to lead Orion Health through its next phase are identified, I intend to retire as Chairman, and Paul Shearer and I intend to resign as Directors of Orion Health.

The Board has determined that the Company will apply to be de-listed from ASX which will leave the Company listed only on the NZX Main Board. The ASX de-listing is proposed to occur after the completion of the Share Buyback, or if the Hg Transaction and Share Buyback are not approved, within two months after the Annual Shareholders' Meeting. Shareholder approval is not expected to be required for the ASX de-listing. Further information on the proposed ASX de-listing will be provided by the Company following its discussions with ASX. The decision to de-list from the ASX was made in anticipation of the reduced size of Orion Health's Shareholder base following the Share Buyback, and also in the context of having very low trading volumes, but relatively high listing fees, on ASX.

Your vote is important whether or not you support the Hg Transaction or Share Buyback and regardless of how many Shares you own. I strongly encourage you to exercise your right to vote on these important matters.

Please read this Notice of Meeting carefully. It contains important information which you should consider before you vote. You may also wish to seek independent legal, financial, taxation and other professional advice when considering your vote.

On behalf of Directors, I would like to sincerely thank Shareholders for their support as we progressed the strategic review to determine Orion Health's next chapter. We look forward to your participation in the upcoming Annual Shareholders' Meeting on 28 September 2018 at 10.00am at the Ellerslie Events Centre, Auckland.

Yours sincerely,



Andrew Ferrer
Chairman, Orion Health

Summary

- The Hg Transaction involves entities controlled by Hg acquiring majority ownership of Rhapsody and investing in Population Health Management.
- Hg is a specialist technology investor committed to helping build global businesses with funds of approximately £10 billion under management.
- The Hg Transaction implies a \$255 million enterprise value of Orion Health.
- Following completion of the Hg Transaction, Orion Health will undertake the Share Buyback at an estimated price range of \$1.16-\$1.26 per Share, with the final offer price to be determined by the Board closer to the time. The final offer price will be dependent on Orion Health's available cash immediately following completion of the Hg Transaction, taking into account transaction costs and working capital adjustments in relation to the Rhapsody Sale.
- The bottom of the estimated buy back price range represents a premium of 36% to the closing price per Orion Health Share of \$0.85 on 2 July 2018 immediately prior to the date of the announcement of the Hg Transaction and Share Buyback, and a 48% premium to the volume weighted average trading price over the 20 trading days before that date.
- The Hg Transaction is subject to a number of conditions, including:
 - approval of both the Hg Transaction and the Share Buyback by Orion Health's Shareholders;
 - Hg obtaining approvals required under the Overseas Investment Act 2005; and
 - transfer consents being received from a sufficient number of an agreed group of Rhapsody customers.

The Offer

- Hg will acquire Rhapsody for \$205 million in cash, funded by debt and equity arranged by Hg. Orion Health will then utilise circa \$28 million of the transaction proceeds to acquire an ongoing 24.9% shareholding in the Rhapsody business.
- Hg will also acquire a 24.9% stake in Population

Health Management by investing circa \$20 million of equity in that business. Orion Health will invest around \$12 million of the Rhapsody Sale proceeds in Population Health Management based on an agreed pre cash enterprise value of \$50 million (on a cash free and debt free basis) together with \$30 million of net cash to fund ongoing operations.

- Orion Health will continue to own 100% of its Hospitals business.
- The balance of the net proceeds from the Hg Transaction will be used by Orion Health to:
 - fund the Share Buyback;
 - pay transaction costs; and
 - fund the Hospitals business and any future capital requirements of Population Health Management.

Further details of the Hg Transaction are set out in Section 9, "Details of the Hg Transaction".

Share Buyback

- The approval of the Share Buyback is required in order for the Hg Transaction to complete.
- Shareholders will be able to set their level of participation in the Share Buyback, up to 100%.
- Shares will be cancelled once bought back in accordance with the Companies Act.
- McCrae Limited has undertaken to elect to participate in the Share Buyback with respect to 20% of its Shares, and will remain as Orion Health's largest Shareholder following completion of the Share Buyback.

Further details of the Share Buyback are set out in Section 10, "Details of the Share Buyback".

QUESTION	ANSWER	MORE INFORMATION
Proposed Transactions		
What am I being asked to consider?	You are being asked to consider whether you support the Hg Transaction and the Share Buyback. To make this decision, you should read this Notice of Meeting (including the Independent Report) and seek advice if you have any questions.	Read this Notice of Meeting and the Independent Report in Appendix One.
What is the Hg Transaction?	The Hg Transaction involves Hg acquiring Orion Health's Rhapsody business, with Orion Health retaining 24.9% shareholding in that business. Hg will also take a 24.9% stake in Orion Health's Population Health Management business.	See Section 9 "Details of the Hg Transaction" for more detail.
What is the Share Buyback?	Following completion of the Hg Transaction, Orion Health will undertake the Share Buyback to return surplus proceeds to Shareholders. The offer price is estimated to be \$1.16-\$1.26 per Share, with the final offer price to be determined by the Board closer to the time. The final offer price will be dependent on Orion Health's available cash immediately following completion of the Hg Transaction, taking into account transaction costs and working capital adjustments in relation to the Rhapsody Sale. You will have the option to accept the Share Buyback in respect of up to 100% of your Shares.	See Section 10 "Details of the Share Buyback" for more detail.
What does the Board recommend?	The Board supports fully the Proposed Transactions outlined in this document and unanimously recommends that Shareholders vote in favour of the Hg Transaction and the Share Buyback.	See Section 5 "Key Considerations Relevant to Your Vote" for more detail.
How do the Board and large Shareholders intend to vote?	Certain Shareholders and the Directors of Orion Health have provided to Hg an irrevocable undertaking to vote their shares in favour of the Hg Transaction and the Share Buyback. Orion Health's largest Shareholder, McCrae Limited (which is associated with current CEO Ian McCrae) is restricted by the Takeovers Code from providing an equivalent undertaking; however it has also given to Hg confirmation of its intention to vote all of its Shares (approximately 50% of the total number of Shares on issue) in favour of the Hg Transaction. Also, Ian McCrae has confirmed to Hg his intention to ensure that McCrae Limited does so.	See Section 10 "Details of the Share Buyback" and Section 11 "Notice of Annual Shareholders' Meeting" for more detail.
Is there an independent advisor's report?	Yes. The Board commissioned the Independent Report from KordaMentha.	See the Independent Report in Appendix One.

QUESTION	ANSWER	MORE INFORMATION
What is KordaMentha's conclusion?	<p>The Independent Report concludes, amongst other things, that the consideration of \$205 million for Rhapsody under the Hg Transaction is within the range of \$190 million and \$230 million that KordaMentha has assessed for Rhapsody on a standalone basis. Further, it concludes that, after applying a discount for lack of control, the \$50 million enterprise value of Population Health Management implied by the Hg Transaction is within its assessed valuation range of \$37 million to \$77 million.</p> <p>Overall, the Independent Report concludes that the terms and conditions (including proposed consideration) of Hg's acquisition of Rhapsody and investment in Population Health Management are fair to all Shareholders.</p> <p>KordaMentha conclude that the Share Buyback is fair to Shareholders not associated with McCrae Limited. KordaMentha also conclude that the estimated Share Buyback offer price range of \$1.16-\$1.26 is at the low end of its standalone valuation range of \$1.15 to \$1.61 per Share.</p>	See the Independent Report in Appendix One for more detail.
Who is Hg?	Hg is a sector expert investor with deep healthcare expertise, committed to helping build ambitious businesses across the technology, services and industrial technology space. Hg has funds under management of approximately £10 billion serving some of the world's leading institutional and private investors. For further details about Hg, please see www.hgcapital.com .	See Section 8 for "Overview of Hg" for more detail.
What is required for the Hg Transaction to proceed?	<p>For the Hg Transaction to proceed, it is necessary that: (i) Shareholders approve the Hg Transaction by way of ordinary (50%) resolution, and, further, that (ii) Shareholders approve the Share Buyback, which requires the approval of a special (75%) resolution on which all Shareholders can vote, and an ordinary (50%) resolution on which all Shareholders other than McCrae Limited and its associated parties can vote.</p> <p>The Hg Transaction is also conditional upon, among other things, approval of the Overseas Investment Office and the receipt of third party consents in relation to the transfer of a sufficient number of an agreed group of Rhapsody customers.</p>	See Section 5 "Key Considerations Relevant to Your Vote", Section 9 "Details of the Hg Transaction" and Section 12 "Explanatory Notes and Additional Information" for more detail.
Share Buyback		
What does this mean for me?	When the Share Buyback is implemented, you will have the option to accept the Share Buyback in respect of up to 100% of your Shares.	See Section 10 "Details of the Share Buyback" for more detail.
What is the Share Buyback price?	The Board will determine the price for the Share Buyback closer to the time. The estimated price range for the Share Buyback is \$1.16-\$1.26 per Share.	See Section 10 "Details of the Share Buyback" for more detail.

QUESTION	ANSWER	MORE INFORMATION
Why was the estimated range reduced?	With the benefit of a further two months since the original announcement of a higher estimated buyback offer price range, the Directors have been able to analyse the impact of the variables that could affect the level of cash available for the Share Buyback at the time it is able to be made. In particular, the period required to satisfy the various conditions to the Hg Transaction, and hence to close the Hg Transaction, is uncertain, and therefore the timing of the Share Buyback could be delayed. Other variables include our forecast trading results over that period as well as expectations regarding the Rhapsody net working capital adjustment based on the potential closing dates. In light of the uncertainty created by these variables, and in particular to address the possibility of a later than expected completion of the Hg Transaction, the Directors have extended and lowered the estimated buyback offer price range to \$1.16-\$1.26 per Share.	Not applicable.
Why isn't the Share Buyback price known now?	The final offer price is dependent on the Company's available cash immediately following completion of the Hg Transaction, taking into account transaction costs and working capital adjustments in relation to the Rhapsody Sale.	See Section 10 "Details of the Share Buyback" for more detail.
What if the final Share Buyback price is outside the estimated range of \$1.16-\$1.26?	In the event that the Board determines that the final offer price will be below the bottom end of this estimated range, we will come back to Shareholders for a further approval of the Share Buyback at that offer price. Further Shareholder approval would not, however, be sought in the event that the final offer price is determined by the Board to be above the top end of this estimated range.	See Section 5 "Key Considerations Relevant to Your Vote" for more detail.
What is required for the Share Buyback to proceed?	For the Share Buyback to proceed, it is necessary that Shareholders approve it, which requires the approval of a special (75%) resolution on which all Shareholders can vote, and an ordinary (50%) resolution on which all Shareholders other than McCrae Limited and its associated parties can vote. Further, it is necessary that the Hg Transaction completes, which is itself conditional upon a number of matters (see the table above).	See Section 5 "Key Considerations Relevant to Your Vote" for more detail.
Will the Share Buyback proceed if the Hg Transaction does not?	No. The implementation of the Share Buyback will be funded from the proceeds of the Hg Transaction and is conditional on the Hg Transaction completing.	See Section 5 "Key Considerations Relevant to Your Vote" for more detail.
When will the Share Buyback be implemented?	The Share Buyback will be implemented after the Hg Transaction has closed and the related working capital adjustment process has been completed. As described above, that transaction is subject to a number of conditions that are outside of Orion Health's control, including Hg receiving approval from the Overseas Investment Office. We anticipate distributing the materials relating to the Share Buyback (including the final offer price) in November 2018, with completion to take place in December 2018.	See Section 10 "Details of the Share Buyback" for more detail.
Can I accept the Share Buyback now?	No. The Share Buyback is not currently open for acceptances. At this stage, you are only being asked to consider whether or not to approve the implementation of the Share Buyback by voting on the relevant Resolution. The record date for entitlement to participate in the Share Buyback will be set at a later date. If you are still a Shareholder on that record date, you will be sent further materials setting out the details of the Share Buyback, including instructions on how you can participate.	See Section 10 "Details of the Share Buyback" for more detail.

QUESTION	ANSWER	MORE INFORMATION
When will I be paid for my Shares?	The timing of the Share Buyback depends on the timing for completion of the Hg Transaction. We currently expect that you will be paid for your Shares in December 2018 if you elect to participate in the Share Buyback. This timing is subject to change.	See Section 10 "Details of the Share Buyback" for more detail.
What am I being asked to do now?	In addition to considering whether to vote for or against the Share Buyback, we are asking you to indicate your current intention regarding the Share Buyback on the enclosed form. This will be an indication of your interest only and will not be binding on you. That may allow us to provide Shareholders with an aggregated summary of Shareholders' intentions when we distribute the Share Buyback materials later in the year. Information provided for these purposes will remain confidential and will only be reported on an aggregated basis.	See the Voting/Proxy Form accompanying this Notice of Meeting for more detail.
Will McCrae Limited also participate in the Share Buyback?	Yes. McCrae Limited will participate in the Share Buyback in the same way that you will, although it has committed in advance that it will only participate in respect of 20% of its Shares.	See Section 10 "Details of the Share Buyback" for more detail.
What are the voting requirements to approve the resolutions?	The Share Buyback requires the approval of a special (75%) resolution on which all Shareholders can vote; and an ordinary (50%) resolution on which all Shareholders other than McCrae Limited and its associated parties can vote.	See Section 5 "Key Considerations Relevant to Your Vote" for more detail.
What happens to my Shares if I do not vote, or if I vote against the Board's recommendation and the Transaction Resolutions are passed?	If sufficient other Shareholders vote in favour of the Proposed Transactions, they will be implemented notwithstanding the fact that you did not vote, or if you voted against the Proposed Transactions. In certain circumstances, you may be entitled to minority buyout rights under the Companies Act.	See Section 12 "Explanatory Notes and Additional Information" for more detail.
What happens to my Shares if I do not elect to participate in the Share Buyback?	Nothing. You will continue to hold your Shares. However, if McCrae Limited and its associates hold or control more than 90% of the Shares on issue following the Share Buyback, they could elect to compulsorily acquire your Shares.	See Section 10 "Details of the Share Buyback" for more detail.
Process		
Where will the Annual Shareholders' Meeting be held?	The Annual Shareholders' Meeting will be held at 10.00am (New Zealand time) on Friday 28 September 2018 at Ellerslie Events Centre, 80 Ascot Ave, Auckland.	See Section 11 "Notice of Annual Shareholders' Meeting" for more detail.
What else is being considered at the Annual Shareholders' Meeting?	In addition to the Hg Transaction and the Share Buyback, Shareholders will have the opportunity to vote on a resolution authorising the Board to fix the auditor's remuneration.	See Section 11 "Notice of Annual Shareholders' Meeting" for more detail.
When will the result of the Annual Shareholders' Meeting be known?	As soon as the results are available, we will announce them via the NZX and ASX.	Not applicable.

QUESTION	ANSWER	MORE INFORMATION
How do I vote if I am not able to attend the Annual Shareholders' Meeting?	You can exercise your right to vote at the Annual Shareholders' Meeting in two ways. Namely, by being present and voting in person or by appointing a proxy to attend and vote in your place. A Voting/Proxy Form is enclosed with this Notice of Meeting. If you wish to vote by proxy you must complete the Voting/Proxy Form and ensure it is received by no later than 5.00pm (New Zealand time) on 26 September 2018. You can also lodge your proxy online.	See Section 11 "Notice of Annual Shareholders' Meeting" and the Voting/Proxy Form accompanying this Notice of Meeting for more detail.
Why is my vote important?	For the Hg Transaction to proceed, Shareholders must approve both the Hg Transaction and the Share Buyback. The Hg Transaction requires the approval of an ordinary (50%) resolution. Further, the Share Buyback, which is conditional on the Hg Transaction completing, requires the approval of a special (75%) resolution on which all Shareholders can vote; and an ordinary (50%) resolution on which all Shareholders other than McCrae Limited can vote.	See Section 5 "Key Considerations Relevant to Your Vote" for more detail.
Post Transaction		
What happens if the Hg Transaction is not approved?	Orion Health will continue to operate as it does currently. The Share Buyback will not proceed.	See Section 6 "Overview of Orion Health Group" for more detail.
What will I receive when the Hg Transaction is approved, and the Share Buyback is implemented?	If you elect to participate in the Share Buyback, you will receive the final offer price for each Share bought back. The offer price is estimated to be in the range of \$1.16-\$1.26. If you retain Shares after completion of the Share Buyback, you will continue to have an investment in Orion Health.	See Section 10 "Details of the Share Buyback" for more detail.
If I decide not to participate in the Share Buyback how much of each of Orion Health's business will I own?	Your proportionate ownership of Orion Health will depend on the extent that other Shareholders take up the Share Buyback. Orion Health will have a 24.9% interest in Rhapsody; 75.1% interest in Population Health Management and 100% interest in Hospitals.	See Section 10 "Details of the Share Buyback" for more detail.
Can I sell my Shares now?	Yes. You can sell your Shares on market at the prevailing market price (which may be more or less than the final offer price for the Share Buyback) at any time.	Not applicable.
What are the tax implications of the Share Buyback?	Orion Health is in the process of confirming with the Inland Revenue Department that the Share Buyback should not give rise to a dividend for tax purposes and therefore the proceeds are not taxable to capital account shareholders. However, you are encouraged to obtain your own tax advice for your personal circumstances.	Not applicable.

QUESTION	ANSWER	MORE INFORMATION
De-listing		
Will Orion Health de-list from the NZX and ASX?	Neither the Hg Transaction nor the Share Buyback will result in Orion Health being de-listed from either the NZX Main Board or the ASX. However, the Board has determined that the Company will apply to be de-listed from ASX which will leave the Company listed only on the NZX Main Board. The ASX de-listing is proposed to occur after the completion of the Share Buyback, or if the Hg Transaction and Share Buyback are not approved, within two months after the Annual Shareholders' Meeting. Shareholder approval is not expected to be required for the ASX de-listing. Further information on the proposed ASX de-listing will be provided by the Company following its discussions with ASX. The decision to de-list from the ASX was made in anticipation of the reduced size of Orion Health's Shareholder base following the Share Buyback, and also in the context of having very low trading volumes, but very high listing fees, on ASX.	See Section 10 "Details of the Share Buyback" for more detail.
Will Orion Health continue to satisfy NZX listing requirements?	If there are less than 500 Shareholders after the completion of the Share Buyback, NZX would have the power to terminate Orion Health's listing. However, Orion Health understands the NZX does not normally seek to exercise this power in a way that isolated minority shareholders and that it has given relief from the requirement to have at least 500 shareholders in the past. Having said that, whether or not NZX would grant Orion Health such relief will depend on the circumstances at the time.	See Section 10 "Details of the Share Buyback" for more detail.
How might a NZX de-listing occur?	The Board will consider whether continued listing on the NZX Main Board remains appropriate following the completion of the Share Buyback. Any proposal to de-list from the NZX Main Board would likely need a subsequent approval of Orion Health's Shareholders that are "members of the public" (e.g., Shareholders holding less than 10% of the Shares) by way of ordinary (50%) resolution.	See Section 10 "Details of the Share Buyback" for more detail.
Could McCrae Limited take Orion Health private?	In the event that McCrae Limited and its associates hold or control more than 90% of the Shares following completion of the Share Buyback, it would be required to initiate a process in accordance with the Takeovers Code whereby it would be required to elect to either compulsorily acquire all of the outstanding Shares not owned by it or its associates or to give the remaining Shareholders the opportunity to voluntarily sell their Shares to it. If McCrae Limited compulsorily acquired the Shares it does not own, this would result in Orion Health being de-listed from the NZX Main Board and the ASX (if the proposed ASX de-listing has not already occurred.)	See Section 10 "Details of the Share Buyback" for more detail.

Recommendation of the Board

Orion Health's Board believes the Hg Transaction represents an important stepping stone in Orion Health's efforts to build a solid and competitive business for the future. Together with the Share Buyback, it provides Shareholders with a choice in relation to their ongoing investment. The Board strongly supports a vote in favour of the Hg Transaction and the Share Buyback.

The Independent Report by KordaMentha concludes, amongst other things, that the consideration of \$205 million for Rhapsody under the Hg Transaction is within the range of \$190 million and \$230 million that KordaMentha has assessed for Rhapsody on a standalone basis. Further, it concludes that, after applying a discount for lack of control, the \$50 million enterprise value of Population Health Management implied by the Hg Transaction is within its assessed valuation range of \$37 million to \$77 million. Overall, the Independent Report concludes that the terms and conditions (including proposed consideration) of Hg's acquisition of Rhapsody and investment in Population Health Management are fair to all Shareholders.

KordaMentha conclude that the Share Buyback is fair to Shareholders not associated with McCrae Limited. KordaMentha also conclude that the estimated Share Buyback offer price range of \$1.16-\$1.26 is at the low end of its standalone valuation range of \$1.15 to \$1.61 per Share. These are only some of the conclusions reached in the KordaMentha Report, the Board recommends that you read the Independent Report attached as Appendix One.

The Board supports fully the Hg Transaction and Share Buyback and unanimously recommends that Shareholders vote in favour of the Transaction Resolutions.

Your vote is important

For the Hg Transaction to proceed, it is necessary that Shareholders approve both the Hg Transaction and the Share Buyback. The Hg Transaction requires the approval of an ordinary (50%) resolution. The Share Buyback, which is conditional on the Hg

Transaction completing, requires the approval of:

- a special (75%) resolution on which all Shareholders can vote; and
- an ordinary (50%) resolution on which all Shareholders other than McCrae Limited and its associated parties can vote.

Reasons to vote in favour of the Hg Transaction and Share Buyback

- **The Hg Transaction will provide Orion Health with the platform, funding and expertise for its three business units to reach their potential.**
 - Opportunity to leverage investment in Population Health Management business to further develop solutions the growing market of precision medicine.
 - Population Health Management and Hospitals customers will benefit from these business units having greater resources.
- **Drive accelerated growth of Rhapsody.**
 - Hg has ambitious plans for Rhapsody to grow globally.
 - Leverages capabilities of Hg, a well-connected and knowledgeable global private equity technology investor.
 - Transaction brings leadership from Philippe Houssiau, an experienced global technology executive, who becomes Rhapsody's CEO.
- **Spearheading the next chapter of Orion Health's delivery of technology and innovation for healthcare organisations globally.**
 - This investment and business partnership will help global teams plan for the long term.
 - With greater focus on the separate businesses, Orion Health will be better able to deliver its product roadmap and vision.
- **Shareholders can exit for a premium.**
 - The bottom of the estimated buy back price range represents a premium of 36% to the closing price per Share of \$0.85 on the day before the Hg Transaction and Share Buyback were announced and 48% to the volume weighted average trading price over the 20 trading days before that date.

- **Shareholders will have the choice to sell or remain.**
 - Shareholders will be able to set their level of participation in the Share Buyback, up to 100%.

Other considerations relevant to the Hg Transaction and Share Buyback.

While it is expected the Hg Transaction and Share Buyback will deliver significant value and choice for Shareholders, and the Board has unanimously recommended that Shareholders vote in favour of the Hg Transaction and the Share Buyback, Shareholders should also consider the following factors relating to the Hg Transaction and Share Buyback and their potential impact on Orion Health and Shareholders.

- **You may wish to maintain an investment in a publicly listed company with the specific characteristics of Orion Health as it is currently comprised, as the 100% owner of Rhapsody, Population Health Management and Hospitals businesses.**
 - The Hg Transaction will involve Orion Health selling the significant majority (75.1%) of its interest in Rhapsody and a portion (24.9%) of its interest in Population Health Management.
 - You may consider that your investment requirements are well suited to maintaining an investment in Orion Health as it is currently comprised and that the Hg Transaction will change the composition of Orion Health in a way that would no longer match your requirements.
- **You may consider that Orion Health has greater value over the longer term than you would receive as part of the Share Buyback.**
 - You may consider that the longer term value of Orion Health as it is currently comprised, including 100% ownership of Rhapsody and Population Health Management, is more than you would receive under the Share Buyback.
 - However, the bottom of the estimated Share Buyback price range represents a premium of 36% to the closing price per Share of \$0.85 on the date immediately before the Hg Transaction and Share Buyback were announced and 48% to the volume weighted average trading price over the 20 trading days before that date.
- **The fact that the price for the Share Buyback is not able to be precisely set might mean that you are not prepared to approve the Hg Transaction.**
 - Orion Health estimates that the Share

Buyback will be undertaken at a price per Share of \$1.16-\$1.26. The final price will be dependent on Orion Health's available cash following completion of the Hg Transaction, taking into account transaction costs and working capital adjustments required in relation to the Rhapsody Sale.

- In the event that the Board determines that the final offer price will be below the bottom end of this estimated range, we will come back to Shareholders for a further approval of the Share Buyback at that offer price. Further Shareholder approval would not, however, be sought in the event that the final offer price is determined by the Board to be above the top end of this estimated range.
- **You may consider that the Hg Transaction and Share Buyback are not in your best interests.**
 - There may be other reasons, particular to you, why you consider that the Hg Transaction and the Share Buyback are not in your best interests.
- **You may consider that there is a possibility that a superior transaction could emerge.**
 - The Board has no basis to believe an alternative proposal will be received given that the Company has not received any approaches of similar quality or value since the announcement of the Hg Transaction and Share Buyback on 3 July 2018.
 - Although we have received strong interest in Orion Health's business throughout the strategic review process, the Board believes that Hg is the right partner to accelerate the expansion of Rhapsody and support the vision for Population Health Management.
 - Certain Shareholders and the Directors of Orion Health have provided to Hg an irrevocable undertaking to vote their Shares in favour of the Hg Transaction and the Share Buyback.
 - McCrae Limited has also given to Hg confirmation of its intention to vote its circa 50% of Shares in favour of the Hg Transaction and the Share Buyback.
- **The tax implications of the Proposed Transactions may not suit your current financial position.**
 - If the Hg Transaction and Share Buyback are approved and implemented, they will potentially result in tax implications for you, which may arise earlier than may otherwise have been the case.

This year Orion Health celebrates 25 years serving customers in the complex healthcare sector. Orion Health has become a significant New Zealand technology company, with more than 90% of its revenue generated from outside of New Zealand.

Orion Health announced a strategic review of the business in April 2017 focused on maximising Shareholder value. The first outcome of the strategic review was the restructuring of its operations as announced in April 2018. Orion Health was reorganised into three solution groups – Rhapsody, Population Health Management and Hospitals – repositioning the business to solve the big issues in healthcare today and to realign closer to customers and their needs.

Rhapsody

Orion Health built the first Rhapsody integration engine in the late-1990s and it has become one of the most recognised interoperability platforms for healthcare organisations. Rhapsody is an integration engine for more than 466 customers and 640 health systems around the world.

Considered to be vital data integration technology by CIOs and developers, the Rhapsody business unit is focused on maximising the opportunity in the U.S., as well as increasing business globally.

Snapshot

The Rhapsody business continues to gain traction – with the Department of Health and Human Services (DHHS) in Victoria running it across 15 of its public health services, the Singapore Ministry of Health deploying Rhapsody to support over 500,000 users across eight public hospitals and the Nottingham University NHS Trust in the UK completing a complex project to switch integration engines. This year, Orion Health also launched Rhapsody as a Service, a cloud-based offering of the Rhapsody integration engine which is already live at the University of Louisville Hospital in Kentucky, U.S.

The Rhapsody business is reorganising its support teams to improve focus on their customers' needs and renewed emphasis on the development of the integration engine and solutions.

PEOPLE	KEY OFFICES	FOCUS MARKETS	SOLUTIONS
88	Auckland Boston Scottsdale London	Global Rhapsody is used in 36 countries	Rhapsody Symphonia Rhapsody as a Service (RaaS)

Population Health Management

In the face of growing and aging populations, the rise of chronic diseases, and global resource constraints, health systems the world over are under strain. Digital technology is helping address the transformation necessary in the healthcare industry. As the healthcare market evolves, so too has Orion Health's Population Health Management business. Orion Health considers that the future potential for the Population Health Management business' software and services is increasingly significant with offerings enabling interoperability across healthcare IT systems to advanced analytics supported by machine learning models to address critical issues within the sector.

Population Health Management is focused on solutions for a digitally enabled and integrated health system delivering patient-centered health care and quality health outcomes. Orion Health believes that the greater precision of identifying at-risk populations will transform the way clinicians work at the point of care. The Amadeus platform can translate the findings from the Amadeus Intelligence machine learning models. It can take in and store data then use the findings to surface through Orion Health Amadeus Analytics and Orion Health Coordinate to turn insights into clinical action. Healthcare organisations will improve their understanding of their patients both as an individual and as a population and

will be able to use this knowledge to provide targeted and appropriate care in a cost-effective manner. In addition, the Orion Health Consult product is a collection of clinical applications that is designed to enable the creation and presentation of managed and trusted clinical information with a view to maximising the providers' ability to deliver precise patient care.

Orion Health considers that Population Health Management represents its largest growth opportunity and has been the focus of the majority

of R&D investment over the last few years. With the significant influx of health data being collected from a wide range of sources in today's digital environment, Orion Health considers that precision medicine is the future of healthcare and that using solutions that have the ability to make meaningful use of this data will have a significant impact on the health outcomes of patients.

Snapshot

PEOPLE	OFFICES	FOCUS MARKETS	SOLUTIONS
684 people (includes the Shared Services support organisation of HR, Legal and Finance of 136 people)	Auckland Christchurch Boston Scottsdale London	New Zealand Australia Singapore Middle East UK & Ireland Canada United States	Amadeus Amadeus Intelligence Analytics Communicate Consult Coordinate Referrals Screening

Global in reach, Population Health Management has won a number of important deals recently. In the UK, Orion Health is working closely with the NHS Doncaster Clinical Commissioning Group to develop an integrated digital care record, and continues to build on its relationship across Scotland with 10 of 14 Health Boards implementing Orion Health solutions to serve millions of patients. A first for healthcare in Northern Ireland, Orion Health is helping deploy a patient portal initially to people living with dementia and in Canada, Orion Health saw eReferrals rolled out across Alberta Netcare.

Population Health Management recently completed a considerable R&D milestone to migrate its product suite to the cloud with AWS. Some of Orion Health's biggest customers have migrated their systems successfully to the cloud, including St Vincent's HealthCare in Jacksonville, Florida with a network of acute-care hospitals and 30+ primary care facilities, Horizon Blue Shield of New Jersey, a major Payor organisation in the U.S., The Koble Group, a Minnesota-based Health Information Organisation for the Iowa Health Information Network, and the State of Oklahoma.

Hospitals

Orion Health's Hospital business unit is focused on its proven information systems software, Orion Health Enterprise, which is designed to provide clinicians with the best single view of a patient's clinical record. This is considered fundamental to automating processes, running an efficient hospital and increasing patient safety.

In a first of its kind in New Zealand, Hospitals established a region-wide patient information system pioneered by the South Island Patient Information Care System which shares health records across multiple District Health Boards.

Snapshot

PEOPLE	OFFICES	FOCUS MARKETS	SOLUTIONS
107	New Zealand Thailand Turkey	New Zealand South East Asia Turkey	Enterprise

Financial Information

Information regarding the relative financial performance of the Rhapsody, Population Health Management and Hospitals business units is set out in Appendix Two "Financial Information".

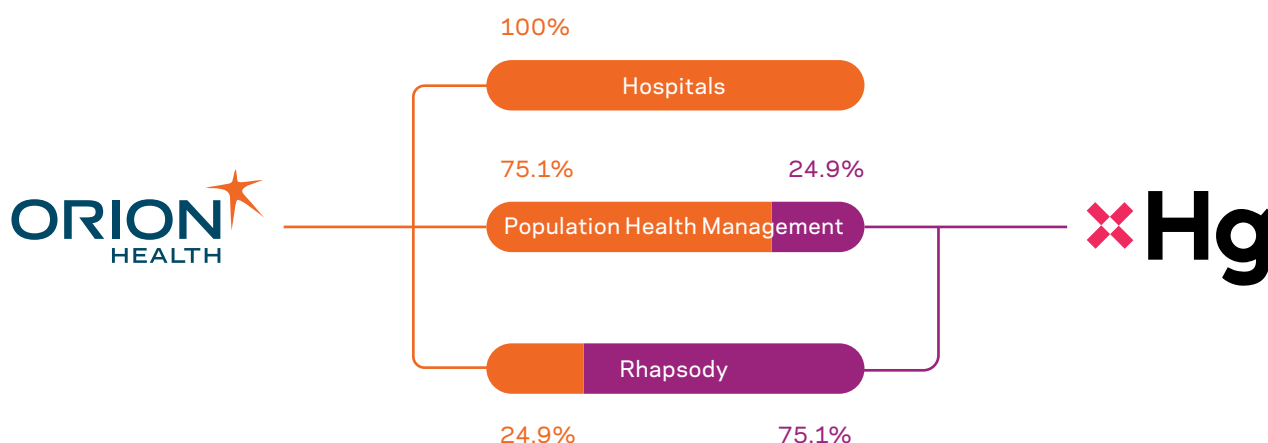
For more information about Orion Health's FY 2018 Financial Results, please refer to the Orion Health 2018 Annual Report. Visit Orion Health's Investor Centre at www.orionhealth.com/global/about-us/investor-centre.

Orion Health After the Hg Transaction and Share Buyback

07

Orion Health considers that the Hg Transaction will allow for the acceleration of the expansion of Rhapsody and support Orion Health's vision for Population Health Management and Hospitals. Orion Health will operate as three separate businesses after completion of the Hg Transaction. A U.S.

vehicle established and controlled by Hg will acquire the Rhapsody business, with Hg owning 75.1% of that vehicle and Orion Health 24.9%. Hg will also take a 24.9% stake in Population Health Management. The Hospitals business will remain 100% owned by Orion Health.



Capital structure

- Hg will acquire Rhapsody for \$205 million funded by debt and equity arranged by Hg. Orion Health will then utilise circa \$28 million of the Hg Transaction proceeds to acquire an ongoing 24.9% shareholding in the Rhapsody business.
- Hg will also acquire a 24.9% stake in Population Health Management by investing circa \$20 million of equity in that business. Orion Health will invest around \$12 million of the Rhapsody Sale proceeds in Population Health Management based on an agreed pre cash enterprise value of \$50 million (on a cash free and debt free basis) together with \$30 million of net cash to fund ongoing operations.
- Orion Health will continue to own 100% of Hospitals.

Opening balance sheet position

Orion Health's available cash following the completion of the Hg Transaction and the Share Buyback will depend on the level of participation by Shareholders in the Share Buyback. Orion Health expects to have surplus proceeds of approximately \$165 million after the transactions described above under "Capital structure" (i.e., taking into account the acquisition of the Rhapsody shareholding, the investment of around \$12 million in Population Health Management and the \$30 million retained within Population Health Management).

If all Shareholders accept the Share Buyback in respect of all of their Shares, other than McCrae Limited which has committed to accept the Share Buyback in respect of 20% of its Shares (described below in Section 10 "Details of the Share Buyback"), then the amount of capital to be returned to Shareholders is expected to be between \$137 million to \$149 million. In addition, in connection with the Share Buyback, Orion Health will make payments to holders of approximately 2.3 million restricted stock units that will represent, in aggregate, a further \$2.7 million to \$2.9 million. Both calculations are based on the estimated price range of \$1.16 to \$1.26.

Further detail on the financial implications of the Proposed Transactions is set out in Appendix Two "Financial Information".

Governance – Board Structure

The Orion Health Board immediately following the Annual Shareholders' Meeting will comprise Andrew Ferrier (Independent Chairman); Ian McCrae (CEO); John Halamka (Independent Director); Paul Shearer (Independent Director) and Michael Falconer (Director). Current Directors Roger France and Ronald Andrews will retire by rotation at the Annual Shareholders' Meeting and are not standing for re-election.

Given the anticipated change to the nature and scale of Orion Health's operations after the Hg Transaction and Share Buyback, it will be appropriate for Orion Health to review the composition of the

Board following those processes being completed. Accordingly, it is not proposed that new Directors to replace Roger and Ronald are appointed at the Annual Shareholders' Meeting.

Once the Hg Transaction is complete, new boards of directors will be constituted for Rhapsody and Population Health Management. The position agreed with Hg is that the Rhapsody board will comprise five directors: four appointed by Hg and one appointed by Orion Health. Equally, it has been agreed that the Population Health Management board will comprise five directors, with four appointed by Orion Health, and one appointed by Hg. With these new business boards, the role of the Orion Health Board will change meaningfully. Once the individual business boards have been established, the Share Buyback is complete, and new directors who are well placed to lead Orion Health through its next phase are identified, Andrew Ferrier intends to retire as Chairman and Andrew Ferrier and Paul Shearer intend to resign as Directors of Orion Health. The Board composition could change if Orion Health was de-listed from NZX at any point.

Hg is a sector expert investor with deep healthcare expertise, committed to helping build ambitious businesses across the technology, services and industrial technology space. Based in London and Munich, Hg has funds under management of approximately £10 billion serving some of the world's leading institutional and private investors. Deeply resourced sector teams focus on specific sub-sectors and investment themes to identify companies occupying an established position within a niche, and which have the potential to grow faster than their market, create employment and become the leader in their industry.

Healthcare technology is a core investment area for Hg, having recently completed a number of transactions across the sector. The investment in Rhapsody and Population Health Management will be made from Hg's Mercury 2 Fund.

Hg's dedicated operations innovation team also provides practical support to management teams to help them realise their growth ambitions.

For further details, please see www.hgcapital.com

Details of the Hg Transaction

09

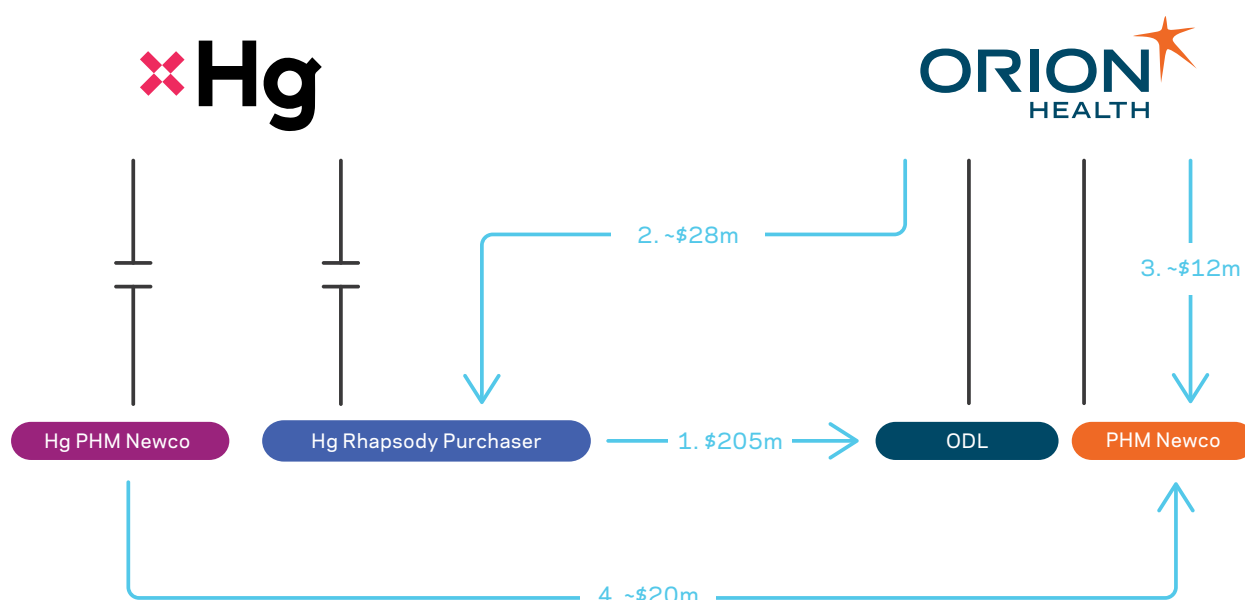
Overview

The Hg Transaction involves the following legal steps:

- Hg Rhapsody Purchaser, a newly established company that is indirectly wholly-owned by Hg, acquiring Rhapsody from Orion Health in consideration for \$205 million;
- Orion Health immediately applying approximately \$28 million of the proceeds to subscribe for a 24.9% stake in the holding company of Hg Rhapsody Purchaser, Hg Rhapsody Holdco;
- Orion Health completing an internal reorganisation such that Population Health Management is held by PHM Newco;

- Orion Health investing approximately \$12 million of the proceeds of the Rhapsody Sale in PHM Newco; and
- Hg PHM Newco, a newly established company that is indirectly wholly-owned by Hg, subscribes for a 24.9% stake in PHM Newco for approximately \$20 million.

These steps will be implemented through the transaction documents summarised below. A chart summarising these steps is set out below.



1. Hg Rhapsody Purchaser acquires Rhapsody from ODL for \$205 million.
2. Orion Health applies ~\$28 million of the proceeds to subscribe for a 24.9% stake in Hg Rhapsody Purchaser.
3. Orion Health invests ~\$12 million of the proceeds in PHM Newco.
4. Hg PHM Newco subscribes for a 24.9% stake in PHM Newco for ~\$20 million.

Following completion of the Hg Transaction:

- Hg Rhapsody Purchaser will own Rhapsody and will itself be indirectly owned by Hg (75.1%) and Orion Health (24.9%). The Rhapsody LLC Agreement (described below) will govern the relationship between Hg, Orion Health and Hg Rhapsody Holdco relating to Rhapsody;
- PHM Newco will own Population Health Management and will itself be owned by Orion Health (75.1%) and Hg (24.9%). The Population Health Management Shareholders' Agreement (described below) will govern the relationship between Orion Health, Hg and PHM Newco relating to Population Health Management; and
- Orion Health will continue to own 100% of Hospitals.

Also:

- Orion Health will provide transitional services to support Rhapsody pursuant to a Transitional Services Agreement; and
- following completion, Orion Health and Hg Rhapsody Purchaser will enter into arms' length commercial reseller arrangements.

Asset Sale and Purchase Agreement

Pursuant to the Asset Sale and Purchase Agreement, ODL agrees to sell Rhapsody to Hg Rhapsody Purchaser for \$205 million. Orion Health Group Limited is also a party to the Asset Sale and Purchase Agreement to, amongst other things, guarantee ODL's obligations.

Completion of the Rhapsody Sale is subject to the satisfaction or waiver of a number of conditions, including in particular:

- Hg Rhapsody Purchaser obtaining any approvals required under the Overseas Investment Act 2005;
- Orion Health obtaining the requisite approvals from its Shareholders (which will be put to Shareholders at the Annual Shareholders' Meeting);
- receipt of third party consents required to transfer a sufficient number of an agreed group of Rhapsody customers;
- there being no material breach by Orion Health of its pre-completion undertakings under the Asset Sale and Purchase Agreement, which largely relate to operating Rhapsody in the ordinary course; and
- completion of the subscription for shares in PHM Newco pursuant to the PHM Subscription Agreement.

The Asset Sale and Purchase Agreement also governs the subscription by Orion Health for a 24.9% stake in Hg Rhapsody Holdco for approximately \$28 million. The final amount required to be paid will be determined closer to completion of the Rhapsody Sale and depends on, amongst other things, the USD:NZD exchange rate at the time.

Orion Health's payment obligation relating to this subscription will be effectively set off against Hg Rhapsody Purchaser's obligation to pay the purchase price for Rhapsody. As a result, Orion Health will receive a net amount at completion.

The Asset Sale and Purchase Agreement sets out circumstances in which Orion Health may be required to pay Hg a transaction fee of \$3 million where the Rhapsody Sale does not proceed. Those circumstances are where:

- a Director makes a public statement to the effect that they no longer recommend the Hg Transaction to Shareholders and the Hg Transaction is not implemented, unless: (i) the Independent Report has an adverse finding; (ii) Hg is in material breach of a transaction document; (iii) there is a change in circumstances relating to Hg that materially adversely affects the interests of Shareholders; or (iv) Orion Health is otherwise entitled to terminate the Asset Sale and Purchase Agreement due to a default by Hg or Hg Rhapsody Purchaser; or
- a competing proposal is received or announced, completion of the Hg Transaction cannot occur as a result, and the competing proposal is subsequently completed; or
- Hg terminates the Hg Transaction as a result of a default by Orion Health.

The purchase price of \$205 million is subject to adjustment after completion of the Rhapsody Sale if the actual working capital of Rhapsody at completion was greater or less than an agreed defined target working capital. The process for finalising any working capital adjustment is expected to take less than one month after completion.

Hg is required to offer Orion Health's Rhapsody employees employment. Orion Health is prevented from knowingly encouraging a Rhapsody employee away from the Rhapsody business. Similarly, Hg is prevented from knowingly encouraging a non-Rhapsody Orion Health employee away from Orion Health.

Orion Health gives certain standard warranties relating to Rhapsody. Other than warranties relating to Orion Health's authority to enter into the transaction and its title to the assets being sold (the **Fundamental Warranties**), all warranties are given subject to Orion Health's knowledge. There is an aggregate maximum cap on Orion Health's liability in respect of any warranty claims of \$25 million, other than for claims relating to a breach of a Fundamental Warranty, where the cap on liability is the total purchase price. Warranties are given subject to normal qualifications, including for matters fairly disclosed during the due diligence process. The time period during which Hg can bring a claim for breach of warranty expires on 30 June 2019.

Rhapsody LLC Agreement

On completion of the Hg Transaction, Orion Rhapsody Newco proposes to enter into a Limited Liability Company Agreement in respect of Hg Rhapsody Holdco, which will set out the rights and obligations of the members (equivalent to shareholders) of Hg Rhapsody Holdco. Immediately following completion of the Hg Transaction, the members of Hg Rhapsody Holdco will be Orion Rhapsody Newco, Hg and Philippe Houssiau (who will also be CEO). The key terms of the Rhapsody LLC Agreement are summarised below.

Board and members

The board of Hg Rhapsody Holdco will initially consist of five directors, of which Orion Health has the right to appoint one director for so long as it holds greater than a 5% interest in Hg Rhapsody Holdco. Hg will have the right to appoint and remove all directors of the board other than the Orion Health-appointed director. Decisions of the board will be by a majority of votes cast and the Hg-appointed directors will always hold a majority of the votes at any board meeting.

Decisions of members will generally be made by votes constituting a majority of the interests of Hg Rhapsody Holdco. Hg will hold a majority of those interests.

Orion Health consent matters

The Rhapsody LLC Agreement will provide Orion Health with minority consent rights in respect of certain actions of Hg Rhapsody Holdco. Some of those rights will fall away if Orion Health ceases to hold a 10% interest and the remainder of the rights

will fall away if Orion Health ceases to hold a 5% interest. The rights include consent rights in respect of:

- related party transactions between Hg Rhapsody Holdco and its subsidiaries, and Hg, Orion Health or their affiliates;
- changing the nature of Hg Rhapsody Holdco's business;
- acquisitions and dispositions with a value exceeding 25% of the Rhapsody business' EBITDA for the preceding 12 months;
- litigation or arbitration proceedings where the amount involved exceeds US\$2 million; and
- changes to Hg Rhapsody Holdco capital structure which would have a material and disproportionately adverse tax impact on Orion Health.

In addition, certain of Orion Health's consent rights fall away if Ian McCrae ceases to be the ultimate legal and/or beneficial owner of greater than 50% of the voting shares in Orion Health.

Capital structure and distributions

The initial members will subscribe for both debt securities and preferred equity in Hg Rhapsody Holdco. No member can transfer any debt securities without transferring the corresponding preferred equity, and vice versa. Management equity interests will also be issued by Hg Rhapsody Holdco as a separate class of security.

Hg Rhapsody Holdco will not be permitted to pay distributions until all amounts (interest and principal) have been paid with respect to the member debt securities. The interest rate of the debt securities will be confirmed immediately prior to completion of the Hg Transaction. Distributions (once able to be made) will be payable in the following order of priority:

- on the preferred equity, such that the blended rate of return, when combined with the interest received on the shareholder debt securities, equals 10% per annum; then
- on the preferred equity, to repay each preferred equity holder's initial capital contribution; then
- pro rata between the preferred equity holders and management equity holders.

Transfers and issuances of membership interests

Orion Health will only be able to transfer its interests in Hg Rhapsody Holdco in limited circumstances prior to the 5th anniversary of completion of the Hg

Transaction. Following that time, Orion Health may transfer its interests, subject to limited exceptions. If Orion Health does propose to transfer its interests after the 5th anniversary of completion of the Hg Transaction, Hg has the right to make a first offer to acquire those interests.

Hg will be able to freely transfer its interests in Hg Rhapsody Holdco to a third party. If Hg intends to make such a transfer to a third party it will generally be required to provide Orion Health (and other members) with the opportunity to participate in the transfer on a proportionate basis. If Hg intends to sell interests which represent greater than 50% of the total interests in Hg Rhapsody Holdco, then Hg will generally have the right to require Orion Health and any other members to sell the same proportion of their interests that Hg proposes to sell (on terms no less favourable to the member).

Subject to certain exceptions, members will have proportionate pre-emptive rights in relation to issuances of new equity securities. The exceptions broadly include equity securities issued:

- as consideration for, or in connection with a capital raising for, the acquisition of a business or assets;
- to a third party in connection with a debt financing arrangement, an exit or a joint venture or strategic partnership entered into primarily for the purposes of raising capital; and
- in connection with an initial public offering.

Exit or refinancing

At any time prior to an initial public offering of the Rhapsody business, Hg will have the right to require Hg Rhapsody Holdco to commence:

- an exit – which broadly includes the sale of more than 50% of the voting interests in Hg Rhapsody Holdco, the sale of all or substantially all of the Rhapsody business, or the liquidation or dissolution of Hg Rhapsody Holdco; or
- a refinancing – which broadly includes a raising of debt financing or a refinancing or recapitalisation of Hg Rhapsody Holdco.

Population Health Management Shareholders' Agreement

On completion of the Hg Transaction, Orion Health also proposes to enter into a Shareholders' Agreement relating to PHM Newco. Immediately following completion of the Hg Transaction, the shareholders of PHM Newco will be Orion Health and Hg PHM Newco.

The key terms of the Population Health Management Shareholders' Agreement will be largely consistent with the terms of the Rhapsody LLC Agreement described above under "Rhapsody LLC Agreement", with the key difference being that Orion Health has the majority shareholder rights and Hg has the minority shareholder rights (that is, the inverse of what is described with respect to the Rhapsody LLC Agreement).

The points highlighted below are a summary of the key points of the Population Health Management Shareholders' Agreement that materially deviate from the terms of the Rhapsody LLC Agreement:

- *Hg consent matters:* Hg's consent rights are consistent with Orion Health Rhapsody Newco's consent rights under the Rhapsody LLC Agreement, other than the value threshold to trigger Hg's consent right with respect to acquisitions and dispositions is 15% of the Population Health Management business' revenue for the preceding 12 months.
- *Capital structure and distributions:* PHM Newco will initially issue two classes of ordinary shares (common shares and management shares). Neither of Orion Health or Hg may hold management shares, which may constitute a maximum of 10% of PHM Newco's total ordinary shares. Distributions are made pro-rata according to each shareholder's ordinary shareholding.
- *Future funding:* Any future capital funding required by PHM Newco (other than funding in connection with an M&A transaction) must be provided by Orion Health in the form of shareholder loans, which will accrue interest at 10% per annum. Hg is not required to provide any such additional funding. There is also no equivalent requirement on Hg to provide further funding in this manner under the Rhapsody LLC Agreement.

Population Health Management Subscription Agreement

On 3 July 2018, PHM Newco entered into a Subscription Agreement under which it agreed to issue ordinary shares to:

- Hg PHM Newco, in consideration for approximately \$20 million; and
- Orion Health, in consideration for approximately \$12 million. Such issuances will result in Orion Health holding 75.1% and Hg holding 24.9% of the issued share capital of PHM Newco, which will own the Population Health Management business.

Completion of the subscription is conditional on the Asset Sale and Purchase Agreement becoming unconditional and executing a pre-completion restructuring to separate the Population Health Management and Hospitals businesses.

The Subscription Agreement also imposes certain restrictions on the operation of the Population Health Management business until completion of the subscription, including requiring the Population Health Management business to be operated in the ordinary course of business and restrictions on acquiring or disposing of assets over \$5 million.

In addition, Orion Health warrants under the Subscription Agreement, subject to specified qualifications and limitations, that following completion of the pre-completion restructuring, PHM Newco will own or be entitled to use all assets held or used by Orion Health that are necessary to carry on the Population Health Management business in a manner no less favourable in all material respects than it was operated in the 12 months prior to completion of the subscription.

Restraint Deed

On completion of the Hg Transaction, various Orion Health and Hg entities will enter into a Restraint Deed pursuant to which:

- Hg and Hg Rhapsody Holdco each undertake to not:
 - for five years from completion of the Hg Transaction, develop or re-sell any end product for sale to third parties which has substantially similar functionality to any Population Health Management business product or Hospitals business product;
 - for five years from completion of the Hg Transaction, solicit, entice away or knowingly encourage to leave their employment or engagement any Population Health Management employee or Hospitals employee; and
 - subject to standard exceptions, use or disclose to any third party any confidential information of Population Health Management or Hospitals.
- Each of Orion Health, Population Health Management and Hospitals provides the corresponding undertakings with respect to Rhapsody business products, Rhapsody employees and Rhapsody confidential information.

Transitional Services Agreement

Orion Health will provide a range of transitional services to Hg Rhapsody Purchaser to support Rhapsody for period of up to 18 months following completion of the Hg Transaction. In consideration, Hg Rhapsody Purchaser will pay Orion Health fees, at different rates depending on the services.

Details of the Share Buyback

10

Overview

Following the completion of the Hg Transaction, Orion Health proposes to return the surplus cash proceeds to Shareholders by way of a pro-rata share buyback. Shareholders will be able to set their level of participation in the Share Buyback, up to 100%.

Structure of the Share Buyback

The Hg Transaction will significantly change Orion Health as an investment proposition. The Share Buyback structure is designed to provide Shareholders with options as to the extent that they would like to remain invested in Orion Health after the completion of the Hg Transaction. Shareholders will be able to decide to:

- cash out completely, by accepting the Share Buyback in respect of 100% of their Shares;
- cashing out some of their Shares, but retaining some of their Shares, by accepting the Share Buyback in respect of a portion of their Shares; or
- remain fully invested in Orion Health, by not accepting the Share Buyback in respect of any of their Shares.

Shares bought back will be cancelled in accordance with the Companies Act.

To help Orion Health (and potentially other Shareholders) with planning, Orion Health is asking Shareholders to indicate their current intentions regarding the Share Buyback on the enclosed forms. This will be an indication of interest only and will not be binding on Shareholders providing that indication. That information may allow Orion Health to provide Shareholders with an aggregated summary of other Shareholders' intentions when it distributes the Share Buyback documents later in the year. Information provided for these purposes will remain confidential and will only be reported on an aggregated basis.

Timing of the Share Buyback

The Share Buyback will be implemented after the Hg Transaction has closed and the related working capital adjustment process has been completed. As described above in Section 9 "Details of the Hg Transaction", the Hg Transaction is subject to a number of conditions that are outside of Orion Health's control, including Hg receiving approval

from the Overseas Investment Office. We anticipate distributing the materials relating to the Share Buyback (including the final offer price) in November 2018, with completion to take place in December 2018.

The Share Buyback is not currently open for acceptances. At this stage, Shareholders are only being asked to consider approving the implementation of the Share Buyback by voting on the relevant Resolutions. The record date for entitlement to participate in the Share Buyback will be set at a later date. Shareholders on that record date will be sent further materials setting out the details of the Share Buyback, including instructions on how to participate.

Share Buyback price

The Share Buyback price per Share has not been set yet, as it will depend on Orion Health's available cash immediately following completion of the Hg Transaction, taking into account transaction costs and the working capital adjustment described above in Section 9 "Details of the Hg Transaction" under "Asset Sale and Purchase Agreement".

Orion Health estimates that the Share Buyback will be conducted at a price in the range of \$1.16 - \$1.26 per Share (inclusive). In the event that the Board determines that the final offer price will be below the bottom end of this estimated range, the Board will come back to Shareholders for a further approval of the Share Buyback at that offer price. Further Shareholder approval would not, however, be sought in the event that the final offer price is determined by the Board to be above the top end of this estimated range.

The bottom of the estimated Share Buyback price range represents a premium of 36% to the closing price per Share of \$0.85 on the date immediately before the Hg Transaction and Share Buyback were announced and 48% to the volume weighted average trading price over the 20 trading days before that date.

At the time the Share Buyback is conducted, all Shareholders that elect to participate in the Share Buyback, and submit a valid application form, will receive the same price per Share that is bought back.

Amount of capital to be returned to Shareholders under the Share Buyback

For the reasons described above, the total size of the Share Buyback cannot be determined at this stage. However, indicatively, Orion Health expects to receive \$205 million from Hg at the completion of the Hg Transaction and then:

- apply approximately \$28 million to acquire a 24.9% stake in the Rhapsody business; and
- invest approximately \$12 million into its Population Health Management business,

leaving surplus proceeds of approximately \$165 million.

If all Shareholders accept the Share Buyback in respect of all of their Shares, other than McCrae Limited which accepts the Share Buyback in respect of 20% of its Shares (described below), then the amount of capital to be returned to Shareholders is expected to be between \$137 million - \$149 million. In addition, in connection with the Share Buyback, Orion Health will make payments to holders of approximately 2.3 million restricted stock units that will represent, in aggregate, a further \$2.7 million to \$2.9 million. Both calculations are based on the estimated price range of \$1.16 to \$1.26.

In addition to the \$30 million in PHM NewCo, the Company would expect to retain surplus cash of approximately \$12 million - \$15 million after the Share Buyback has been completed and transaction costs paid.

Orion Health's plans for the surplus cash will depend on the level of cash retained. A portion of the surplus cash will be available to fund its Hospitals business unit. Further information about the financial implications of the Share Buyback at different participation levels is included in Appendix Two "Financial Information".

McCrae Limited undertaking

McCrae Limited has given an undertaking in favour of Orion Health to accept the Share Buyback in respect of 20% of its holding of Shares at the time that the Share Buyback is made (the **Share Buyback Undertaking**). McCrae Limited will receive the same price per Share under the Share Buyback as other Shareholders.

The Share Buyback Undertaking will expire on the earlier of:

- the termination of the Asset Sale and Purchase Agreement;

- the completion of the Share Buyback;
- Orion Health deciding not to proceed with the Share Buyback;
- the Share Buyback being unable to be completed in, or reduced in scale from, the manner described in this Notice of Meeting (including if the Share Buyback price is not within the estimated range);
- the approval of Shareholders not being obtained; or
- 3 January 2019, being the date that is six months after the date of the Share Buyback Undertaking.

No consideration was provided to McCrae Limited under the Share Buyback Undertaking.

McCrae Limited ownership and control after the Share Buyback

McCrae Limited's level of ownership of Orion Health following the completion of the Share Buyback is not known at this stage, as it depends on the extent to which other Shareholders participate in the Share Buyback. The range of potential outcomes is wide. Given McCrae Limited's commitment to participate in the Share Buyback in respect of 20% of its Shares:

- if no other Shareholders participated in the Share Buyback, McCrae Limited's ownership would be diluted from 49.75% to 44.19%; or
- if all other Shareholders participated in the Share Buyback in respect of 100% of their Shares, McCrae Limited's ownership would be increased from 49.75% to 100%.

As a result, McCrae Limited's proportionate ownership of Orion Health after the completion of the Share Buyback could be anywhere between 44.19% and 100%, depending on the level of participation of other Shareholders in the Share Buyback. By way of further examples:

- if all other Shareholders participated in the Share Buyback in respect of 20% of their Shares, McCrae Limited's ownership would remain at 49.75%; or
- if all other Shareholders participated in the Share Buyback in respect of 50% of their Shares, McCrae Limited's ownership would be increased from 49.75% to 61.30%.

Orion Health has not yet canvassed Shareholders on the extent to which they plan to take up the Share Buyback. However, Orion Health expects that a reasonable portion of Shareholders will participate in the Share Buyback in full, based on the premium to the pre-announcement Share price that it represents. Based on that expectation, Orion Health considers that it is reasonable to anticipate that McCrae

Limited's proportionate ownership of Orion Health will increase materially following the completion of the Share Buyback. For example, McCrae Limited's proportionate ownership could reasonably be expected to end up in the range of 70% – 80% of all Shares.

An explanation of the practical implications of McCrae Limited's proportionate ownership at different levels is summarised in the table below.

Level of McCrae Limited ownership*	Implications
44.19% - 50.00%	<ul style="list-style-type: none"> No material change. McCrae Limited would be expected to control the outcome of ordinary resolutions (50.1% majority) at Shareholder meetings on the assumption that less than all Shares on issue are voted. Approximately 75% of Shares were voted at Orion Health's 2017 annual shareholders' meeting, of which McCrae Limited represented 66.04%. McCrae Limited could not, by itself, approve a takeover of Orion Health by way of scheme of arrangement, which generally requires approval of at least 75% of shares entitled to vote and voting, and at least 50.1% of all shares on issue.
50.01% - 75.00%	<ul style="list-style-type: none"> McCrae Limited would be able to control the outcome of ordinary resolutions at Shareholder meetings, even if all other Shares were voted. McCrae Limited would be increasingly expected to control the outcome of special resolutions (75% majority) at Shareholder meetings, depending on voter turnout. McCrae Limited would likely be able to approve a takeover of Orion Health by way of scheme of arrangement, depending on voter turnout (assuming that it is not treated as a separate "interest class" for some reason, such as association with the bidder). McCrae Limited would control the composition of the Board, although the NZX Listing Rule requirements relating to the need for independent directors would remain.
75.01% - 100.00%	<ul style="list-style-type: none"> McCrae Limited would be able to control the outcome of ordinary resolutions and special resolutions at Shareholder meetings, even if all Shares were voted. McCrae Limited would likely be able to approve a takeover of Orion Health by way of scheme of arrangement, depending on voter turnout (assuming that it is not treated as a separate "interest class" for some reason, such as association with the bidder).
90.01% - 100.00%	<ul style="list-style-type: none"> McCrae Limited would be required to initiate a process whereby it is required to elect to either compulsorily acquire all of the outstanding Shares not owned by it or its associates or to give the remaining Shareholders the opportunity to voluntarily sell their Shares to it.

* together with its associates in respect of certain thresholds.

In any case, the restrictions on transactions with related parties in the NZX Listing Rules will continue to apply for so long as Orion Health remains listed on the NZX Main Board. This means that any

material transaction that Orion Health is party to, which McCrae Limited is also party to, will require Shareholder approval, and McCrae Limited will be prevented from voting on that resolution.

Liquidity and continued listing

A consequence of the Share Buyback is that Orion Health will have fewer Shares on issue, and expects to have fewer Shareholders. As a result, the volume of trading in Shares is expected to reduce. The level of that reduction will depend on the extent to which Shareholders elect to participate in the Share Buyback. If participation levels are high, liquidity after completion will reduce more significantly than if participation levels are low. Shareholders that decide not to take up the Share Buyback, or decide to take it up in part, should be aware that the reduced liquidity may make it more difficult for them to subsequently sell their Shares.

Neither the Hg Transaction nor the Share Buyback will result in Orion Health being de-listed from either the NZX Main Board or the ASX. However, the Board has determined that the Company will apply to be de-listed from ASX which will leave the Company listed only on the NZX Main Board. The ASX de-listing is proposed to occur after the completion of the Share Buyback, or if the Hg Transaction and Share Buyback are not approved, within two months after the Annual Shareholders' Meeting. Shareholder approval is not expected to be required for the ASX de-listing. Further information on the proposed ASX de-listing will be provided by the Company following its discussions with the ASX. The decision to de-list from the ASX was made in anticipation of the reduced size of Orion Health's Shareholder base following Share Buyback, and also in the context of having very low trading volumes, but relatively high listing fees, on ASX.

If there are less than 500 Shareholders after the completion of the Share Buyback, NZX would have the power to terminate Orion Health's listing. However, Orion Health understands the NZX does not normally seek to exercise this power in a way that isolated minority shareholders and that it has given relief from the requirement to have at least 500 shareholders in the past. Having said that, whether or not NZX would grant Orion Health such relief will depend on the circumstances at the time. Depending on the composition of Orion Health's Shareholders after the completion of the Share Buyback, the Board will consider whether continued listing on the NZX Main Board remains appropriate. Subject to the following sentence, any proposal to de-list from the NZX Main Board would likely need a subsequent approval of Orion Health's Shareholders that are "members of the public" (e.g., Shareholders holding less than 10% of the Shares) by way of ordinary

(50%) resolution. Notwithstanding the foregoing, in the event that McCrae Limited and its associates hold or control more than 90% of the Shares following completion of the Share Buyback, it is required to initiate a process whereby it is required to elect to either compulsorily acquire all of the outstanding Shares not owned by it or its associates or to give the remaining Shareholders the opportunity to voluntarily sell their Shares to it. If McCrae Limited compulsorily acquired the Shares it does not own, this would result in Orion Health being de-listed from the NZX Main Board and the ASX (if the proposed ASX de-listing has not already occurred.)

Minimum Holdings

The terms of the Share Buyback will be designed to prevent Shareholders being left with less than the Minimum Holding size under the NZX Listing Rules after the completion of the Share Buyback. To this end:

- where a Shareholder has less than a Minimum Holding on the applicable record date, they will be able to accept the Share Buyback in full or not at all. They cannot elect to participate at a different level; and
- where a Shareholder has more than a Minimum Holding on the applicable record date, they will not be able to accept the Share Buyback in a way that will leave them with less than a Minimum Holding after completion of the Share Buyback.

In these instances, Orion Health will round up participating Shareholders' election so that all of their Shares are bought back and that they are not left with less than a Minimum Holding. However, in no circumstance will Orion Health buy back Shares from a Shareholder that has not elected to participate in the Share Buyback.

What constitutes a Minimum Holding will depend on the Share price at the record date. Indicatively, a Minimum Holding of Shares is 200 where the share price is between \$1.00 and \$2.00 and 500 where the share price is between \$0.50 and \$1.00. Further details on what constitutes a Minimum Holding can be found at www.nzx.com.

Shareholders who continue to have a Minimum Holding after the completion of the Share Buyback may have their Shares sold, as described in Section 13 "Compulsory Sale of Minimum Holdings".

Statutory information required

The information below is required to be included in connection with the Buyback Exemption.

- a. Full particulars of the Share Buyback are set out in this Section 10 "Details of the Share Buyback".
- b. The persons who hold Shares and are relying on the Buyback Exemption are McCrae Limited and its associated parties: (a) Ian Richard McCrae (**IMC**); (b) Ian Richard McCrae, Rosemary McCrae and Gregory Thomas Walker (**Family Trust**); and (c) Orion Health Corporate Trustee Limited as trustee for the Orion Health Long Term Incentive Scheme (**Corporate Trustee**). McCrae Limited currently holds approximately 49.75% of the Shares and, given its undertaking to only take up the Share Buyback in respect of 20% of its holding of Shares, its proportionate holding of Shares is expected to increase as a result of the Share Buyback. McCrae Limited's associated parties IMC, Family Trust and Corporate Trustee hold 178,280 Shares (0.09%), 165,773 Shares (0.08%) and 1,065,502 Shares (0.54%) respectively and have given no undertaking in relation to their participation in the Share Buyback. Their proportionate holdings are relatively small, but may increase depending on whether or not they elect to participate in the Share Buyback.
- c. The following particulars are provided in response to the requirements of clause 3(a) – (j) of Schedule 1 of the Buyback Exemption:
 - i. The Share Buyback could involve Orion Health acquiring up to a maximum number of 98,703,810 Shares from Shareholders other than McCrae Limited if all such Shareholders take up the Share Buyback in full. That figure increases to a maximum number of 118,209,155 when including McCrae Limited taking up the Share Buyback in respect of 20% of its Shares (19,505,345 Shares). The following figures show how these numbers decrease if one of McCrae Limited's associated parties is also excluded:
 - IMC (less 178,280 Shares): 98,525,530 / 118,030,875;
 - Family Trust (less 165,773 Shares): 98,538,037 / 118,043,382; and
 - Corporate Trustee (less 1,065,502 Shares): 97,638,308 / 117,143,653.
 - ii. The maximum number of 98,703,810 Shares (excluding McCrae Limited's 20% participation) would represent 50.3% of all Shares on issue, and the maximum number of 118,209,155 Shares (including McCrae Limited's 20% participation) would represent 60.24% of all Shares on issue. This percentage decreases from 60.24% as follows if one of McCrae Limited's associated parties is also excluded:
 - IMC: 60.15%;
 - Family Trust: 60.16%; and
 - Corporate Trustee 59.70%.
 - iii. McCrae Limited would hold a maximum of 100% of the Shares on issue if the maximum number of 98,703,810 Shares was acquired pursuant to the Share Buyback from Shareholders other than McCrae Limited (or 118,209,155 when taking into account McCrae Limited taking up the Share Buyback in respect of 20% of its Shares). In respect of each of McCrae Limited's associated parties, if they did not participate but all other Shareholders did, other than McCrae Limited which participated in respect of 20% of its Shares, they would hold the following percentages of all Shares on issue: (a) IMC: 0.23%; (b) Family Trust: 0.21%; and (c) Corporate Trustee: 1.35%.
 - iv. Similarly, the maximum percentage of all Shares that McCrae Limited (excluding its associated parties) could hold if the maximum number of 98,703,810 Shares was acquired pursuant to the Share Buyback from Shareholders other than McCrae Limited is 100%.
 - v. Also, in respect of McCrae Limited and each of its associated parties (IMC, Family Trust and Corporate Trustee), 100% is the maximum percentage of all Shares on issue that it and all of its associates could hold or control, in aggregate, if Orion Health acquired the applicable maximum number of Shares.
- d. For the reasons described above, the consideration payable for the Share Buyback will be set at a later date, but will be in the range of \$1.16 - \$1.26 per Share. All Shareholders participating in the Share Buyback will receive the

- same consideration for each Share bought back. The consideration for the Share Buyback will be payable on completion of the Share Buyback, the date for which will be set after completion of the Hg Transaction. Completion of the Share Buyback is currently expected to take place in December 2018.
- e. The reasons for undertaking the Share Buyback are to return surplus capital to Shareholders following the completion of the Hg Transaction and, in light of the significant change that the Hg Transaction will represent, to allow Shareholders the option to decide whether or not to continue to be invested in Orion Health (and, if so, the extent of that investment).
 - f. The increase in McCrae Limited, IMC, Family Trust and Corporate Trustee's voting control that will result from the Share Buyback would, if approved by Shareholders at the Annual Shareholders' Meeting, be permitted as an exception to Rule 6(1) of the Takeovers Code in reliance on the Buyback Exemption.
 - g. The Independent Report accompanying this Notice of Meeting complies with the requirements of paragraph 3(g) of Schedule 1 of the Buyback Exemption.
 - h. The Board supports fully the Proposed Transactions (including the Share Buyback) and unanimously recommends that Shareholders vote in favour of the Transaction Resolutions (including approving the Share Buyback). Whether Shareholders wish to participate in the Share Buyback and, if so, the extent of their participation, is a decision that each Shareholder should make taking into account their own situation, investment needs and views on Orion Health's business and the risks involved following completion of the Hg Transaction. The Directors are not making a recommendation to Shareholders as to whether or not they should participate in the Share Buyback.
 - i. The assumptions on which the particulars referred to in paragraph (c) above are based are that:
 - i. the number of Shares on issue is 196,230,533, being the 196,049,814 on issue at the date of this Notice of Meeting plus 180,719 that are expected to be issued prior to the calculation date of 1 December 2018;
 - ii. there is no change in the total number of voting securities of Orion Health on issue between the date of this Notice of Meeting and the completion of the Share Buyback, other than as a result of the Share Buyback;
 - iii. as separately disclosed, each of McCrae Limited, IMC, Family Trust and Corporate Trustee does not participate in the Share Buyback (although particulars are also provided assuming McCrae Limited participates in respect of 20% of its Shares);
 - iv. in each case, the approved maximum number of Shares are acquired from Shareholders;
 - v. none of McCrae Limited, IMC, Family Trust and Corporate Trustee disposes of any of its Shares; and
 - vi. where noted, McCrae Limited participates in the Share Buyback in respect of 20% of its Shares (being 19,505,345 Shares).
 - j. The calculation date for the purposes of the Buyback Exemption is 1 December 2018.

Notice is hereby given that the annual shareholders' meeting (the **Annual Shareholders' Meeting**) of Orion Health Group Limited (the **Company**) will be held at 10.00am (New Zealand time) on Friday, 28 September 2018 at Ellerslie Events Centre, 80 Ascot Avenue, Auckland.

The business of the Annual Shareholders' Meeting will be to consider and, if thought fit, pass the following Resolutions. Resolutions 1 and 2 are cross-conditional, meaning that both Resolutions must be passed in order for any of them to be effective. This reflects the fact that these Resolutions being passed is a condition to both the Hg Transaction and the Share Buyback.

Resolutions

Resolution 1 – Hg Transaction – Ordinary Resolution

To consider and, if thought fit, pass the following resolution:

That, subject to passing Resolution 2, the Hg Transaction, as described in this Notice of Meeting, be approved.

This resolution requires approval as an ordinary resolution, including as a major transaction for the purposes of NZX Listing Rule 9.1.1. See Explanatory Note 1 in Section 12 "Explanatory Notes and Additional Information".

Resolution 2 – Share Buyback – Special Resolution and Ordinary Resolution

To consider and, if thought fit, pass the following resolution:

That, subject to passing Resolution 1, and to the completion of the Hg Transaction, the Share Buyback, as described in this Notice of Meeting, be approved.

This resolution requires approval as both a special resolution and an ordinary resolution including:

- as a major transaction for the purposes of section 129 of the Companies Act and NZX Listing Rule 9.1.1;
- as an acquisition or redemption of equity securities for the purposes of NZX Listing Rule 7.6.5;
- any increase in voting control by McCrae Limited

and its associated persons as a result of the Share Buyback for the purposes of the Buyback Exemption;

- McCrae Limited's participation in the Share Buyback as a material transaction with a related party for the purposes of NZX Listing Rule 9.2.1; and
- any increase in the effective control of the Company by McCrae Limited as a result of the Share Buyback for the purposes of NZX Listing Rule 7.5.1.

When determining whether the approvals referred to in (c), (d) and (e) have been obtained, votes cast by McCrae Limited and its associates will not be counted.

See Explanatory Note 2 in Section 12 "Explanatory Notes and Additional Information".

Resolution 3 – Auditors' remuneration – Ordinary Resolution

To consider and, if thought fit, pass the following resolution:

That the Board of the Company be authorised to fix the auditors' remuneration for the financial year ending 31 March 2019.

This resolution requires approval as an ordinary resolution. See Explanatory Note 3 in Section 12 "Explanatory notes and Additional Information".

Directors' recommendation to approve the Transaction Resolutions

The Board supports fully the Proposed Transactions and unanimously recommends that Shareholders vote in favour of the Transaction Resolutions.

The Independent Directors and Michael Falconer have each undertaken to vote the Shares they hold in favour of the Transaction Resolutions. McCrae Limited (which is associated with Ian McCrae) has confirmed its intention to vote the Shares it holds in favour of the Transaction Resolutions.

Conclusion from Independent Report

Orion Health has commissioned KordaMentha, as independent adviser, to prepare the Independent Report on the merits of, amongst other things, the Share Buyback for the purposes of NZX Listing Rule 6.2.2(b) and the Buyback Exemption, as well as the Proposed Transactions generally.

The Independent Report by KordaMentha concludes, amongst other things, that the consideration of \$205 million for Rhapsody under the Hg Transaction is within the range of \$190 million and \$230 million that KordaMentha has assessed for Rhapsody on a standalone basis. Further, it concludes that, after applying a discount for lack of control, the \$50 million enterprise value of Population Health Management implied by the Hg Transaction is within its assessed valuation range of \$37 million to \$77 million. Overall, the Independent Report concludes that the terms and conditions (including proposed consideration) of Hg's acquisition of Rhapsody and investment in Population Health Management are fair to all Shareholders. KordaMentha conclude that the Share Buyback is fair to Shareholders not associated with McCrae Limited. KordaMentha also conclude that the estimated Share Buyback offer price range of \$1.16-\$1.26 is at the low end of its standalone valuation range of \$1.15 to \$1.61 per Share. These are only some of the conclusions reached in the Independent Report, the Board recommends that you read the Independent Report attached as Appendix One.

Voting and proxies

You can exercise your right to vote at the meeting two ways:

- **In person:** By being present and voting in person. Please bring the Voting/Proxy Form enclosed with this Notice of Meeting with you.
- **By proxy:** By appointing a proxy to attend and vote in your place. A Voting/Proxy Form is enclosed with this Notice of Meeting. If you wish to vote by proxy you must complete the Voting/Proxy Form and ensure it is received by no later than 5.00pm (New Zealand time) on 26 September 2018. You can also lodge your proxy online at www.linkmarketservices.com/OHE. See the Voting/Proxy Form for more details.

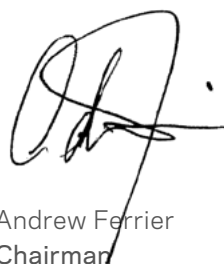
If you wish to appoint a proxy:

- the proxy does not need to be a Shareholder;
- you may direct your proxy how to vote, or give your proxy discretion to vote as they see fit. If you wish to give your proxy that discretion, you should mark the appropriate box on the Voting/Proxy Form. If you do not mark any appropriate box on the Voting/Proxy Form then your proxy may vote or abstain from voting as they see fit;
- the Chairman of the Annual Shareholders' Meeting is willing to act as proxy. If you appoint the Chairman as proxy but do not direct the Chairman how to vote on a particular Resolution, then the Chairman will vote your Shares in favour of that Resolution; and
- votes cast by McCrae Limited and its associated persons will not be counted in respect of certain approvals. As a result, although McCrae Limited and its associates (including Ian McCrae) are willing to act as proxy, any votes they cast as a discretionary proxy will not be counted in respect of any approvals where their own votes will not be counted.

Audio link

A live audio link of the Annual Shareholders' Meeting will be available on the Orion Health Investor Centre www.orionhealth.com/nz/about-us/investor-centre/. Note, you will not be able to ask questions through the live audio link or be able to vote, so if you wish to vote you will need to appoint a proxy or attend the meeting in person. A recording of the audio link will also be made available after the meeting.

By order of the Board.



Andrew Ferrier
Chairman

7 September 2018

Explanatory Note 1: Resolution 1 – Hg Transaction

NZX Listing Rules

NZX Listing Rule 9.1.1 provides that Orion Health and its subsidiaries must not enter into a transaction, or series of linked or related transactions, to sell assets:

- a. which would change the essential nature of the business of Orion Health; or
- b. in respect of which the gross value exceeds 50% of the “average market capitalisation” of Orion Health and its subsidiaries,

in each case except with the prior approval of an ordinary resolution of Orion Health (or a special resolution if section 129 of the Companies Act also applies).

As at the close of business on 2 July 2018 (which was the last NZX Main Board trading day prior to the date of announcement of the Hg Transaction and Share Buyback), Orion Health’s average market capitalisation was approximately \$156.4 million. The gross value of the Hg Transaction is \$205 million. As a result, the value of the Hg Transaction exceeds 50% of Orion Health’s “average market capitalisation”.

The Hg Transaction may also arguably change the essential nature of Orion Health’s business. As a result, approval is being sought for the Hg Transaction under both limbs of NZX Listing Rule 9.1.1.

The Hg Transaction does not require approval as a “major transaction” of Orion Health under section 129 of the Companies Act.

Resolution required

Resolution 1 will therefore be proposed as an ordinary resolution to satisfy the requirements of NZX Listing Rule 9.1.1. An ordinary resolution is required to be passed by a 50% majority of the votes of the Shareholders entitled to vote and voting on the resolution.

All Shareholders will be entitled to vote on Resolution 1.

Explanatory Note 2: Resolution 2 – Share Buyback

As described below, the implementation of the Share Buyback by Orion Health requires the approval of Shareholders for various different purposes. In some cases the approval threshold is different (i.e., a special resolution or ordinary resolution) and for some approvals certain Shareholders will be excluded from voting. Resolution 2 will only be put to the meeting once. Votes cast on Resolution 2 will be counted:

- a. firstly, to determine whether or not it has been passed as a special resolution for the purposes of section 129 of the Companies Act and NZX Listing Rule 9.1.1 (see A. below);
- b. secondly, to determine whether or not it has been passed as an ordinary resolution for the purposes of NZX Listing Rule 7.6.5 (see B. below);
- c. thirdly, to determine whether or not it has been passed as an ordinary resolution for the purposes of satisfying the conditions of the Buyback Exemption (see C. below);
- d. fourthly, to determine whether or not it has been passed as an ordinary resolution for the purposes of satisfying the requirements of NZX Listing Rule 9.2.1 (see D. below); and
- e. fifthly, to determine whether or not it has been passed as an ordinary resolution for the purposes of satisfying the requirements of NZX Listing Rule 7.5.1 (see E. below).

A. Major transaction - section 129 of the Companies Act and NZX Listing Rule 9.1.1

Section 129 of the Companies Act provides that Orion Health must not enter into a “major transaction” unless the transaction is approved by a special resolution of Orion Health or contingent on approval by special resolution of Orion Health. For the purposes of the Companies Act, a major transaction includes the acquisition of, or an agreement to acquire, the assets the value of which is more than half the value of Orion Health’s assets before the acquisition. A major transaction also includes a transaction that has, or is likely to have, the effect of Orion Health incurring obligations or liabilities the value of which is more than half the value of Orion Health’s assets before the transaction.

Although dependent on participation in the Share Buyback by Shareholders, the value of the maximum number of Shares that Orion Health may acquire pursuant to, and the purchase price obligation which Orion Health may incur for, the Share Buyback are greater than half the market value of Orion Health's assets.

In addition, NZX Listing Rule 9.1.1 provides that Orion Health and its subsidiaries must not enter into a transaction, or series of linked or related transactions, to acquire assets in respect of which the gross value exceeds 50% of the "average market capitalisation" of Orion Health and its subsidiaries. As at the close of business on 2 July 2018 (which was the last NZX Main Board trading day prior to the date of announcement of the Hg Transaction and Share Buyback), Orion Health's average market capitalisation was approximately \$156.4 million. The gross value of the maximum number of Shares that may be acquired by Orion Health under the Share Buyback is \$148.9 million, assuming the offer price is \$1.26, being the top end of the estimated price range.

As such, depending on the take up of the Share Buyback by Shareholders, the gross value of assets being acquired may exceed 50% of Orion Health's average market capitalisation and therefore Shareholder approval of the Share Buyback is also required under NZX Listing Rule 9.1.1. In addition, the Share Buyback and the Hg Transaction may constitute a related series of transactions for the purposes of NZX Listing Rule 9.1.1. NZX Listing Rule 9.1.1 requires approval by way of special resolution if section 129 of the Companies Act also applies to a transaction or related series of transactions.

As a result of the above, the Share Buyback requires approval by way of a special resolution, meaning approval is required to be passed by at least a 75% majority of the votes of Shareholders entitled to vote and voting on the resolution. All Shareholders will be entitled to vote on Resolution 2 for this purpose.

B. Acquisition or redemption of equity securities - NZX Listing Rule 7.6.5

The Share Buyback may also constitute a redemption of equity securities requiring approval under NZX Listing Rule 7.6.5. As a result, Resolution 2 also requires approval by an ordinary

resolution of Shareholders for that purpose. An ordinary resolution is required to be passed by a 50% majority of the votes of the Shareholders entitled to vote and voting on the resolution. All Shareholders will be entitled to vote on Resolution 2 for this purpose.

C. Buyback Exemption

Rule 6(1) of the Takeovers Code provides that, subject to any applicable exception, a person who holds or controls 20% or more of the voting rights of Orion Health may not become the holder or controller of an increased percentage of the voting rights in Orion Health.

McCrae Limited currently holds approximately 49.75% of the Shares and, given its undertaking to only take up the Share Buyback in respect of 20% of its Shares, its proportionate holding of Shares (and therefore voting rights) is expected to increase as a result of participation in the Share Buyback by other Shareholders.

The Buyback Exemption provides that every person who increases voting control of Orion Health as a result of the acquisition by Orion Health of its own Shares is exempted from Rule 6(1) of the Takeovers Code in respect of that increase in voting control if it is approved by an ordinary resolution of Shareholders.

Any person, or associate or any person, who holds or controls shares in Orion Health and is relying on the Buyback Exemption will not be entitled to vote on the ordinary resolution. McCrae Limited and its associated parties (including Ian McCrae and his family trust) are relying on the Buyback Exemption.

As a result, Resolution 2 also requires approval by an ordinary resolution of Shareholders for the purposes of satisfying the conditions of the Buyback Exemption. The ordinary resolution is required to be passed by a 50% majority of the votes of the Shareholders entitled to vote and voting on the resolution. All Shareholders other than McCrae Limited and its associated parties will be entitled to vote on Resolution 2 for these purposes.

D. McCrae Limited participation in Share Buyback - NZX Listing Rule 9.2.1

NZX Listing Rule 9.2.1 provides that Orion Health must not enter into a "material transaction" if a "related party" is likely to become a direct or indirect party to the material transaction, or to at least one of a related series of transactions of which the material transaction forms part, unless that material transaction is approved by an ordinary resolution of Orion Health.

A "material transaction" is defined by NZX Listing Rule 9.2.2 to include a transaction or related series of transactions whereby Orion Health acquires its own equity securities having a market value in excess of 10% of the average market capitalisation of Orion Health.

McCrae Limited is a "related party" of Orion Health under NZX Main Board Listing Rule 9.2.3(b) as a holder of a relevant interest in more than 10% of Shares. McCrae Limited will participate in the Share Buyback. The value of Shares to be acquired by Orion Health under the Share Buyback may exceed 10% of the average market capitalisation of Orion Health.

As a result, Resolution 2 also requires approval by an ordinary resolution of Shareholders for the purposes of satisfying the requirements of NZX Listing Rule 9.2.1. Orion Health expects that all Shareholders, excluding McCrae Limited and its associated parties, will be entitled to vote on Resolution 2 for these purposes.

Certain Directors and executive officers of Orion Health (or their associated entities) are also "related parties" of Orion Health that will participate in the Share Buyback. However, they will be treated in the same way as other Shareholders (other than McCrae Limited) and, pursuant to NZX Listing Rule 9.2.4(b), their participation does not require approval under NZX Listing Rule 9.2.1. Although McCrae Limited will be offered the same Share Buyback terms as other Shareholders, the fact that it has committed to only accept the Share Buyback in respect of 20% of its Shares means that it has been considered separately for these purposes.

E. McCrae Limited participation in Share Buyback - NZX Listing Rule 7.5.1

NZX Listing Rule 7.5.1 provides that Orion Health may not acquire its own shares if:

- there is a significant likelihood that the acquisition will result in any person or group of associated persons materially increasing their ability to exercise, or direct the exercise of (either then or at any future time) effective control of Orion Health; and
- that person or group of associated persons is entitled before the acquisition to exercise, or direct the exercise of, not less than 1% of the total votes attaching to the shares of Orion Health,

unless the precise terms and conditions of the acquisition have been approved by an ordinary resolution of Orion Health.

As described in this Notice of Meeting (see Section 10 "Details of the Share Buyback"), there is a significant likelihood that McCrae Limited and its associated parties will increase their ability to exercise, or direct the exercise of effective control of Orion Health as a result of the Share Buyback. McCrae Limited and its associates are entitled to exercise approximately 50.5% of the total votes attaching to Shares.

As a result, the precise terms and conditions of the Share Buyback must be approved by an ordinary resolution of Orion Health for the purposes of satisfying the requirements of NZX Listing Rule 7.5.1. All Shareholders other than McCrae Limited and its associated parties will be entitled to vote on Resolution 2 for these purposes.

**Explanatory Note 3:
Resolution 3 – Auditors' remuneration**

The proposed resolution, if passed by Shareholders by way of ordinary resolution, authorises the Board to fix the remuneration of the Company's auditors, PwC, for the financial year ended 31 March 2019.

Additional Information

Minority Buy-Out Rights

Section 110 of the Companies Act may confer minority buy-out rights on Shareholders who vote against the Share Buyback (Resolution 2). For a Shareholder to exercise those minority buy-out rights, it must cast all the votes attached to Shares registered in the Shareholder's name and having the same beneficial owner against the Share Buyback.

If the Share Buyback is nevertheless approved, that Shareholder must, within 10 working days, give written notice to Orion Health that it wishes Orion Health to purchase the Shareholder's Shares. The Board must then either: (a) agree to Orion Health purchasing the relevant Shares; or (b) arrange for some other person to agree to purchase them; or (c) apply to court for an order exempting Orion Health from the requirement to repurchase the Shareholder's Shares; or (d) arrange for the approval of the Share Buyback to be rescinded by a special resolution of Shareholders, or not to implement the Share Buyback; and (e) give written notice to the Shareholder of the Board's decision as to which of the above actions it will take.

Where the Board agrees to Orion Health purchasing the relevant Shares, it must give notice to the relevant Shareholder setting out the price the Board offers to pay for those Shares and certain information

relating to how that price was calculated. That price must be a fair and reasonable price (as at the close of business on the day before the Share Buyback was approved) for the relevant Shares held by the Shareholder, calculated (subject to the following two sentences) using a default methodology described in the Companies Act designed to allocate to the relevant Shares held by the Shareholder a pro rata portion of the fair and reasonable value of all Shares in Orion Health adjusted to exclude any fluctuation in the value of all Shares that occurred and that was due to, or in expectation of, the Share Buyback. The Board may use a different methodology to calculate the fair and reasonable price if using the default methodology would be clearly unfair to the Shareholder or Orion Health. The Shareholder has certain rights to object to the price offered by the Board.

Compulsory Sale of Minimum Holdings

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Under Orion Health's constitution and the NZX Listing Rules, the Board may notify any Shareholder holding less than the Minimum Holding that if, at the expiration of three months after the date that notice is given, the Shareholder still holds less than the Minimum Holding, the Board may exercise the power of sale of those shares.

At the current Orion Health Share price, the Minimum Holding is 200 Shares. If Orion Health's Share price reduced to between \$1.00 and \$0.50 per Share, then the Minimum Holding will be 500 Shares, and if it increased to above \$2.00 per Share, then the Minimum Holding would be 100 Shares.

The Board hereby gives notice that, following the completion of the Share Buyback and at the expiry of three months after this notice has been given, it may exercise its right to require the compulsory sale of Shares held by Shareholders that hold less than the Minimum Holding.

The earliest that the sale of shareholdings less than the Minimum Holding can occur is three months after this notice has been given. This means that affected Shareholders can, if they wish, utilise the Share Buyback to sell their Shares, or sell their Shares on market, or alternatively increase their shareholding to above a Minimum Holding before Orion Health moves to sell shareholdings less than the Minimum Holding.

If the power of sale becomes exercisable, the Board will arrange for the sale of the affected Shares through NZX or in some other manner approved by NZX. Orion Health will then pay to the affected Shareholders the gross proceeds of the sale of their Shares.

Orion Health will meet the brokerage and other sales expenses associated with the sale.

The meaning of terms set out in this Notice of Meeting are set out below:

Annual Shareholders' Meeting	means the annual shareholders' meeting of Orion Health (and includes any adjournment of that meeting)
Asset Sale and Purchase Agreement	means the asset sale and purchase agreement between Orion Health, ODL, Orion Rhapsody Newco, the Hg Rhapsody Purchaser and the Hg Rhapsody Holdco dated 3 July 2018
associate	has the same meaning as in Rule 4 of the Takeovers Code and associated has the corresponding meaning
ASX	means ASX Limited and where the context requires, the Australian Securities Exchange which it operates
Buyback Exemption	means the exemption provided for in clause 4 of the Takeovers Code (Class Exemptions) Notice (No.2) 2001
Companies Act	means the Companies Act 1993 (New Zealand)
Company	means Orion Health Group Limited
Directors or Director	means a member or members of the Orion Health Board
Hg Group	means Hg together with entities directly or indirectly wholly-owned by Hg
Hg PHM Newco	means Healthier Populations Holdco Limited, a newly established UK-domiciled company that is indirectly wholly-owned by Hg
Hg Rhapsody Purchaser	means InterOperability Bidco, Inc., an entity indirectly wholly-owned by Hg
Hg Rhapsody Holdco	means InterOperability Holdco, LLC, the indirect holding company of the Hg Rhapsody Purchaser
Hg Transaction	means the Rhapsody Sale and the subscription for new shares in PHM Newco pursuant to the PHM Subscription Agreement
Hospitals	means Orion Health's Hospitals business and associated assets
Independent Report	means the independent adviser's report and independent appraisal report prepared by KordaMentha that accompanies this Notice of Meeting as Appendix One
Independent Directors	means Andrew Ferrier, Roger France, Paul Shearer, Ronald Andrews and John Halamka, each being independent directors for the purposes of the NZX Listing Rules
Link	means Link Market Services Limited, Orion Health's share registrar

Minimum Holding	means the minimum holding of Shares as defined under the NZX Listing Rules
Notice of Meeting	means this document together with its appendices
NZX	means NZX Limited
NZX Listing Rules	means the listing rules of the NZX Main Board and Debt Market operated by NZX
NZX Main Board	means the main board equity security market operated by NZX
ODL	means Orchestral Developments Limited, a wholly owned subsidiary of Orion Health
Orion Group	means Orion Health and each of its related companies, and a reference to an Orion Group member or a member of the Orion Group is to Orion Health or any of its related companies
Orion Health Board or Board	means the board of directors of Orion Health
Orion Rhapsody Newco	means Orion 2018 Limited
PHM Newco	means Orion Grafton Limited, the holding company for the Population Health Management business
PHM Subscription Agreement	means the subscription agreement pursuant to which Orion Health and Hg PHM Newco have agreed to subscribe for shares in PHM Newco, as described further in Section 9 "Details of the Hg Transaction" under "PHM Subscription Agreement"
Population Health Management or PHM	means Orion Health's Population Health Management business and associated assets
Proposed Transactions	means the Hg Transaction and the Share Buyback
Register	means the share register of Orion Health
related company	in relation to a company, has the meaning given to that expression in section 2(3) of the Companies Act read as if a reference to a "company" was a reference to any body corporate wherever incorporated
Resolutions	means the resolutions to be put to Shareholders at the Annual Shareholders' Meeting, as described in Section 11 "Notice of Annual Shareholders' Meeting"
Rhapsody	means Orion Health's Rhapsody business and associated assets (including the Rhapsody software)

Rhapsody Sale	means the sale by ODL of Rhapsody pursuant to the Asset Sale and Purchase Agreement, as described further in Section 9 "Details of the Hg Transaction" under "Asset Sale and Purchase Agreement"
Share	means a fully paid ordinary share in the capital of Orion Health
Share Buyback	means the proposed buy back offer by Orion Health of Shares, as described in Section 10 "Details of The Share Buyback"
Shareholder	means each person registered in the Register as a holder of Shares
Takeovers Code	means the Takeovers Code recorded in the Takeovers Code Approval Order 2000 (SR2000/210) (New Zealand), as amended, including any applicable exemption granted by the Takeovers Panel
Transaction Resolutions	means Resolutions 1 and 2 set out under Section 11 "Notice of Annual Shareholders' Meeting"
Voting/Proxy Form	means the voting and proxy form accompanying this Notice of Meeting

Appendix One

Independent Report





Orion Health Group Limited

Independent Adviser's Report and Independent Appraisal Report

September 2018

STATEMENT OF INDEPENDENCE

KordaMentha confirms that it:

- (a) has no conflict of interest that could affect its ability to provide an unbiased report; and
- (b) has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

KordaMentha has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.

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1 Terms of the Proposed Transactions

1.1 Introduction

Orion Health Group Limited (**Orion Health** or **the Company**) is a New Zealand incorporated company listed on the NZX Main Board. It is a provider of healthcare information technology (IT).

Orion Health's operations span three business units (each deemed a **Solution Group**):

- **Rhapsody**: An integration solution which allows complex healthcare systems to seamlessly connect with one another.
- **Population Health Management (PHM)**: Provides software that aggregates and allows for the analysis of health data from a diverse set of sources such as General Practitioners, Specialists and Hospitals.
- **Hospitals**: Offers software solutions that assist with the administration of hospitals.

Orion Health's largest shareholder is McCrae Limited, which is associated with Orion Health's founder and Managing Director Ian McCrae. McCrae Limited and associated parties own 50.5% of the fully paid ordinary shares in Orion Health (**Shares**).

Orion Health has announced a relatively complex transaction (**the Hg Transaction**), which would result in the sale of 75.1% of Rhapsody and 24.9% of PHM to 'Mercury 2 Fund', a vehicle managed by HgCapital LLP (**Hg**). Hg is a private equity firm with approximately GBP 10 billion funds under management. Hg has offices in London and Munich and serves more than 100 highly regarded institutional investors, including private and public pension funds, endowments, insurance companies and fund of funds.

Orion Health has announced that on completion of the Hg Transaction, it would undertake a share buyback, at an estimated price range of \$1.16-\$1.26 per share (**the Share Buyback**). It is anticipated that the Share Buyback would occur by December 2018.

The approval of the Hg Transaction and Share Buyback are cross-conditional, so either both are approved or neither will occur. In this report, we refer to the Hg Transaction and the Share Buyback together as '**the Proposed Transactions**'.

The Proposed Transactions will effectively give Orion Health shareholders the option to:

- Sell their existing Shares for cash consideration, estimated to be in the range of \$1.16-\$1.26 per share, with the ultimate price dependant on Orion Health's available cash following completion of the Hg Transaction.
- Remain a shareholder of 'New Orion', which will own:
 - 24.9% of Rhapsody
 - 75.1% of PHM
 - 100% of Hospitals.
- Partially exit their investment in Orion Health.

The Independent Directors of Orion Health have appointed KordaMentha to prepare this report (**the Report**) to inform Orion Health shareholders. The Report is required under both the NZX Listing Rules and the Takeovers Code. Our appointment has subsequently been approved by NZX Regulation and the Takeovers Panel. The Report has been prepared to assist Orion Health shareholders to consider the Proposed Transactions and is being sent to shareholders of Orion Health together with the **Notice of Meeting**. Shareholders should read the Notice of Meeting issued by Orion Health in conjunction with the Report.

Approving or rejecting the shareholder resolutions is a matter for individual shareholders based on their own views as to value, future market conditions, risk profile, liquidity preference, portfolio strategy, tax position and other factors. For example, taxation consequences for shareholders that decide to participate in the Share Buyback will vary widely across shareholders. Shareholders will need to consider these consequences and, if appropriate, consult their own professional adviser.

1.2 The Proposed Transactions

1.2.1 Key terms of the Hg Transaction

Under the terms of the Hg Transaction:

- Hg will acquire a 75.1% equity interest in Rhapsody at an implied enterprise value of \$205 million. In approximate terms, this will be accomplished by Hg acquiring all of Rhapsody for \$205 million in cash. This will be part funded by Hg borrowing \$104.2 million as debt in Rhapsody. In addition to the cash acquisition of Rhapsody, Hg will contribute and capitalise \$11.5 million of transaction costs. Under the terms of the Hg Transaction the implied equity value of Rhapsody, including capitalised transaction costs is \$112.3 million. Orion Health will then utilise \$28.0 million of the transaction proceeds to acquire a 24.9% equity interest in Rhapsody.
- Hg will acquire a 24.9% equity interest in PHM at an implied enterprise value of \$50 million. In approximate terms, this will be accomplished by Orion Health investing \$12 million of the Rhapsody sale proceeds into PHM and Hg investing an additional \$20 million into PHM. Following these investments and after fees, PHM will have \$30 million of net cash to fund ongoing operations, which will imply a total equity value of \$80 million (\$50 million enterprise value plus \$30 million net cash). Hg will be issued PHM shares for its \$20 million investment to give it a 24.9% shareholding in PHM.
- Orion Health will continue to own 100% of its Hospitals business.

The balance of the net proceeds from the Hg Transaction will be used to fund the Share Buyback, pay transaction costs and fund the Hospitals business and any future capital requirements of PHM, beyond the \$30 million of net cash described above.

1.2.2 Key terms of the Share Buyback

The proposed consideration for the Share Buyback is \$1.16–\$1.26 per share. That price range has been calculated to provide equality with the enterprise values that underpin Hg's acquisition of Rhapsody and PHM and also ascribes nil value to Hospitals.

If the Orion Health Board determines that the final offer price will be below the bottom end of the estimated Share Buyback price range, Orion Health will come back to shareholders for a further approval of the Share Buyback at that offer price. However, shareholder approval would not be sought if the final offer price is determined by the Board to be above the top end of the estimated price range.

Shareholders will have the option to sell all or none of their Orion Health shares, or any other portion of their shares in the Share Buyback. McCrae Limited has undertaken to elect to participate in the Share Buyback with respect to 20% of its Shares; and will continue to be Orion Health's largest shareholder following completion of the Share Buyback.

1.2.3 Conditions and features of the Proposed Transactions

The Proposed Transactions are conditional on:

- Approval by Orion Health shareholders of the Hg Transaction as an ordinary (50%) resolution.
- Approval by Orion Health shareholders of the Share Buyback as both a special (75%) resolution on which all shareholders can vote, and an ordinary (50%) resolution on which all shareholders other than McCrae Limited can vote.
- The separation of the Rhapsody, PHM and Hospitals business units into separate legal entities as well as novation of certain key contracts from Orion Health to each of the separate legal entities.
- Receipt of third party consent to transfer from a sufficient number of an agreed group of Rhapsody customers.
- Approval by the Overseas Investment Office of Hg's acquisition of Rhapsody and investment in PHM.
- Other conditions for the benefit of Hg, that may be waived at its discretion, that are relatively common in transactions of this type.

Orion Health is required to pay a \$3 million termination fee in certain circumstance if the Hg Transaction does not complete.

1.3 Shareholder Approval

Orion Health shareholders are being asked to consider and, if thought fit, pass two shareholder resolutions that would allow the Hg Transaction and the Share Buyback to proceed. The shareholder resolutions are cross-conditional, meaning that both resolutions must be passed for either of them to be effective.

The Independent Directors of Orion Health unanimously recommend that shareholders vote in favour of the shareholder resolutions required for the Hg Transaction and Share Buyback to proceed.

Certain shareholders and directors of Orion Health, which represent 15.5% of the shares on issues, have provided an irrevocable undertaking to vote their shares in favour of the Hg Transaction and Share Buyback. McCrae Limited is restricted by the Takeovers Code from providing an equivalent undertaking. However, it has given confirmation of its intention to vote in favour of the Proposed Transactions.

1.4 Purpose of the Report

1.4.1 NZX Listing Rules

The Proposed Transactions require an Appraisal Report under NZX Listing Rules 6.2.2 and 9.2.5.

Pursuant to NZX Listing Rule 1.7.2, this Report is addressed to the Independent Directors of Orion Health, for the benefit of non-associated Orion Health shareholders, as relevant to each requirement for this Appraisal Report. We set out below the requirements for our report under the NZX Listing Rules.

Material transaction with a related party

NZX Listing Rule 9.2.1 provides that Orion Health must not enter into a 'material transaction' if a 'related party' is likely to become a direct or indirect party to the material transaction, unless that material transaction is approved by an ordinary resolution of Orion Health.

A 'material transaction' is defined by NZX Listing Rule 9.2.2 to include a transaction or related series of transactions whereby Orion Health acquires its own equity securities having a market value in excess of 10% of the average market capitalisation of Orion Health. As a consequence, the Share Buyback will constitute a material transaction.

Pursuant to NZX Listing Rule 9.2.3, McCrae Limited will be considered a related party in the Share Buyback.

There will be an ordinary resolution to satisfy NZX Listing Rule 9.2.1. The ordinary resolution is required to be passed by a 50% majority of the votes of the shareholders entitled to vote and voting on the resolution.

NZX Listing Rule 9.2.5 provides that any resolution to be put to a meeting of Orion Health shareholders, for the purpose of NZX Listing Rule 9.2.1, must be accompanied by an Appraisal Report.

Buyback of securities affecting control

NZX Listing Rule 7.5.1 provides that Orion Health may not acquire its own shares if:

- there is a significant likelihood that the acquisition will result in any person or group of associated persons materially increasing their ability to exercise effective control of Orion Health; and
- that person or group of associated persons is entitled before the acquisition to exercise, or direct the exercise of, not less than 1% of the total votes attaching to the shares of Orion Health,

unless the precise terms and conditions of the acquisition have been approved by an ordinary resolution of Orion Health.

There is a significant likelihood that McCrae Limited will increase its ability to exercise effective control of Orion Health as a result of the Share Buyback. McCrae Limited is entitled to exercise approximately 49.75% of the total votes attaching to Shares¹. As a result, the precise terms and conditions of the Share Buyback must be approved by an ordinary resolution of Orion Health.

¹ Associates of McCrae Limited are entitled to exercise a further 0.75% of the votes attaching to Shares.

NZX Listing Rule 6.2.2 provides that any resolution to be put to a meeting of Orion Health shareholders, for the purpose of NZX Listing Rule 7.5.1, must be accompanied by an Appraisal Report.

Disposal of assets

NZX Listing Rule 9.1.1 provides that Orion Health must not enter into a transaction, or series of linked or related transactions, to sell assets in respect of which the gross value exceeds 50% of the 'average market capitalisation' of Orion Health, unless that transaction is approved by a shareholder resolution.

The Hg Transaction requires approval under NZX Listing Rule 9.1.1, because the interests in Rhapsody and PHM to be acquired by Hg exceed 50% of Orion Health's market capitalisation. Further, the Share Buyback requires approval under NZX Listing Rule 9.1.1, because the gross value of the shares being repurchased may also exceed Orion Health's market capitalisation.

There is no specific requirement for an Appraisal Report in respect of Rule 9.1.1. However, NZX Listing Rule 9.1.2 requires the notice of meeting containing a resolution to approve any transaction referred to in Rule 9.1.1 contain or be accompanied by such information, reports, valuations and other material as are necessary to enable shareholders to appraise the implications of the transaction. Orion Health's Independent Directors have determined that our Appraisal Report shall also consider the sale of shareholdings in Rhapsody and PHM to Hg and the Share Buyback for this purpose.

1.4.2 Takeovers Code

The Share Buyback also requires a report prepared under the Takeovers Code, due to the expected change in shareholding of McCrae Limited.

Rule 6(1)(b) of the Takeovers Code provides that, subject to any applicable exception, a person who holds or controls 20% or more of the voting rights of Orion Health may not become the holder or controller or an increased percentage of the voting rights in Orion Health.

McCrae Limited currently holds approximately 49.75% of Orion Health's Shares and, given its undertaking to only take up the Share Buyback in respect of 20% of its Shares, its proportionate holding of Shares (and therefore voting rights) may increase, depending on the participation in the Share Buyback by other Orion Health shareholders.

There is an exemption from Rule 6(1)(b) for buybacks of shares that have been approved by shareholders resolution. However, the notice of meeting containing the proposed resolution to approve the buyback must contain, or be accompanied by, an Independent Adviser's Report that complies with Rule 18 of the Takeovers Code (as modified by the exemption for buybacks).

The Takeovers Code requires the independent adviser to form an opinion as to the merits of the Share Buyback and in doing so to take into consideration issues wider than just valuation.

For this report, we consider the merits of both the Proposed Transactions (the Hg Transaction as well as the Share Buyback).

The term 'merits' has no definition either in the Takeovers Code itself or in any statute dealing with securities or commercial law in New Zealand. While the Takeovers Code does not prescribe a meaning of the term 'merit', it suggests that merits include both positives and negatives in respect of the Proposed Transactions.

1.5 Other

The sources of information, to which we have had access and upon which we have relied, are set out in Appendix 1 of this report.

This report should be read in conjunction with the statements and declarations set out in Appendix 2 regarding our independence, qualifications, general disclaimer and indemnity and the restrictions upon the use of this report.

References to '\$', dollars or cents are to New Zealand dollars, unless specified otherwise. References to financial years or 'FY' mean Orion Health's financial year end 31 March unless specified otherwise.

Please note, tables may not add due to rounding.



2 Merits of the Proposed Transactions

The term 'merits' has no definition either in the Takeovers Code itself or in any statute dealing with securities or commercial law in New Zealand. While the Takeovers Code does not prescribe a meaning of the term 'merit', it suggests that merits include both positives and negatives in respect of the Offer.

2.1 Summary of the merits of the Proposed Transactions

The key issues to be considered when assessing the merits of the Proposed Transactions include:

- The consideration offered under the Hg Transaction and the Share Buyback are equivalent. In particular, both transactions are based on Rhapsody and PHM having enterprise values of \$205 million and \$50 million respectively.
- The Proposed Transactions allow for minority shareholders to exit Orion Health in an environment where the business is currently incurring significant cash losses and its share price has declined materially since listing at \$5.70 on 2014.
- The Share Buyback price represents a significant premium above the price that Orion Health's shares have been trading at in advance of the announcement of the Proposed Transactions. The Share Buyback price range is a premium of 36% to 48% above the share price of \$0.85 prior to the announcement of the Proposed Transactions.
- The estimated Share Buyback price range of \$1.16–\$1.26 per share sits at the low end of our assessed standalone valuation range of \$1.15 to \$1.61 per Orion Health share. However, our valuation analysis relies on forecasts for the Orion Health Solution Groups provided to us by management and there are inherent risks to Orion Health delivering on its growth plans, particularly in relation to PHM and Hospitals' future profitability. In addition, our estimate of value relies on an estimated range of net debt at completion.
- If the Proposed Transactions are rejected by Orion Health shareholders, then it is likely Orion Health will consider alternative transactions, including the separation transaction. In our view, the Proposed Transactions are more favourable because under the separation transaction:
 - Any uplift in Rhapsody's share price, beyond the price implied by Hg's acquisition, is likely to take time given an unproven record as a standalone entity.
 - The separation transaction does not allow for existing Orion Health shareholder to cash out of their shares.
 - There is no potential upside in value from improved performance by PHM and Hospitals, which could accrue to Orion Health minority shareholders.
- In our view, the positives of voting for the Hg Transaction outweigh the negatives. The consideration offered for 75.1% of Rhapsody and 24.9% of PHM are within our assessed valuation ranges and those valuations rely on forecasts which are inherently uncertain. Voting against the Hg Transaction could result in shareholders having to continue to fund losses in PHM and Hospitals.
- The decision as to whether to participate in the Share Buyback will be up to individual investors and their investment horizons. Those with a short-term focus are likely to see the Share Buyback as a relatively attractive price at which they can exit their shareholdings in the short-term. Those with a longer investment horizon may consider that the upside potential of PHM and Hospitals are sufficient to remain a shareholder in New Orion. In any event, in our view, there are significant positives to voting for the Share Buyback to be allowable as it provides an opportunity for those shareholders to cash out should they choose to do so. For those shareholders considering whether to participate in the Share Buyback or not, in addition to our comments on investment horizon, we note the following:
 - The Share Buyback price is within our assessed valuation range and there are limited prospects of alternative transactions which results in cash proceeds to existing minority shareholders at this level in the short term.
 - Not participating in the Share Buyback would result in shareholders having a minority interest in New Orion, which will be controlled by McCrae Limited. Minority shareholders would have a very uncertain dividend stream and very limited liquidity. We consider that there is a high likelihood that the price at which minority parcels of shares in New Orion would trade would be lower than the Share Buyback price, in the short term at least.

2.2 Fairness assessment under NZX Listing Rules

Under the NZX Listing Rules, the key requirement of an Appraisal Report is to state whether the consideration and terms and conditions of the Proposed Transactions are fair to non-associated Orion Health shareholders. Although the exact meaning of the word "fair" is not prescribed in the NZX Listing Rules, it is usually given a relatively narrow definition focusing on the price paid or received for the assets involved.

For this Report, we have considered the Proposed Transactions in their entirety. On this basis, the main focus for Orion Health shareholders is whether the shareholdings in Rhapsody and PHM that are being acquired by Hg are at a price and on terms and conditions favourable to Orion Health, as well as whether the price being offered under the Share Buyback is also favourable.

All of the relevant terms, conditions and implications of the Proposed Transactions are discussed in some detail under our review of the merits of the Proposed Transactions. For the reasons set out therein, we conclude that the terms and conditions (including the proposed consideration) of:

- Hg's acquisition of Rhapsody and investment in PHM are fair to Orion Health's shareholders.
- The Share Buyback is fair to Orion Health's shareholders not associated with McCrae Limited.

2.3 Orion Health

Orion Health has established a global presence in the health IT sector. However, while Rhapsody is profitable, the other Solution Groups (PHM and Hospitals) currently make significant losses and are being restructured

Orion Health was founded by Ian McCrae in 1993. It initially developed a portal to allow clinicians to view patient information spread across multiple systems using one login. When hospitals started to link their disparate information systems, Orion Health developed Rhapsody, an integration engine that acts as a hub allowing a number of hospitals' different IT systems to communicate with each other.

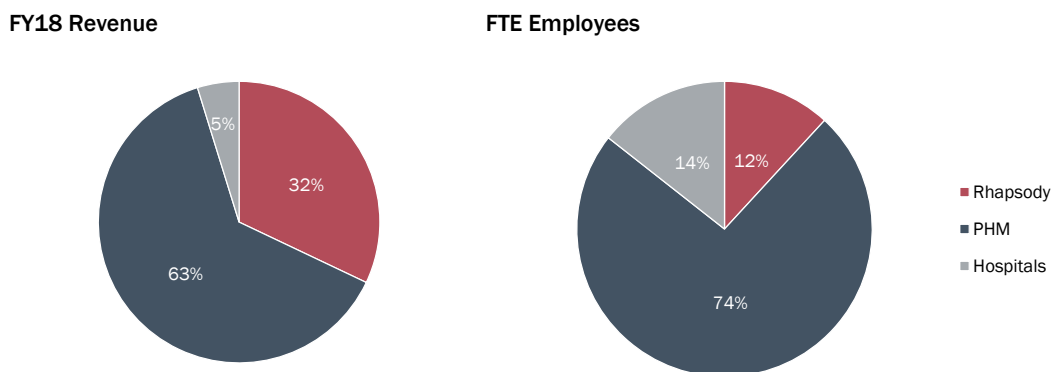
Orion Health operates globally, with key markets including the United States, Canada, United Kingdom, Australia and New Zealand.

Orion Health has developed its range to incorporate software that can facilitate the management of hospitals and manage population health initiatives. The investment in these products has seen substantial cash deployed in employing people, which has resulted in substantial cash losses being generated by Orion Health since listing in 2014. This investment helped generate revenue growth in FY15 and FY16. However, changes to government funding programmes specific to the Affordable Care Act (**Obamacare**) in the US in 2017 have resulted in reducing revenues for Orion Health.

In recent periods, Orion Health has undertaken a substantial restructuring of its global operations, pulling back from expansion in non-core regions, optimising employee resources and premise rationalisation.

Figure 2.1 illustrates the relative size of each Solution Group, based on revenue and employees.

Figure 2.1: Relative size of the Solution Groups



Source: Orion Health Management

Rhapsody is currently Orion Health's most profitable Solution Group and accounts for 32% of group revenue. Rhapsody is a mature product with comparatively less R&D requirements and lower operating costs. In comparison, PHM is Orion Health's largest Solution Group by revenue and employees but has material costs associated with R&D and sales and marketing, which have resulted in significant losses over recent years. Hospitals is also loss-making.

Orion Health has had large cash losses for the last four years. While management expects to reduce the cash losses and move towards breakeven in FY19, achieving this goal remains inherently uncertain

Table 2.1 summarises Orion Health's actual financial performance between FY15 and FY18; and forecast financial performance in FY19.

Table 2.1: Financial Performance (\$ 000)

	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Forecast
Revenue	206,935	199,074	170,122	182,880
Direct costs	(106,310)	(92,978)	(84,505)	(77,653)
Operating contribution	100,625	106,096	85,617	105,227
Grants and PDH	5,117	5,018	6,976	4,507
Sales and marketing	(38,807)	(32,988)	(31,571)	(28,650)
Research and development	(61,212)	(64,099)	(61,630)	(48,260)
General and administration	(53,056)	(39,752)	(33,773)	(37,263)
EBITDA	(47,331)	(25,724)	(34,380)	(4,439)
Depreciation	(7,387)	(7,066)	(6,021)	(4,259)
EBIT	(54,718)	(32,790)	(40,401)	(8,698)
EBIT margin	(26%)	(16%)	(24%)	(5%)

Source: Orion Health management accounts and forecast

Table 2.1 shows that Orion Health expects to substantially reduce its EBIT losses in FY19. The improvement in profitability is due to an expected improvement in Rhapsody earnings and reduction in losses in each of PHM and Hospitals. This follows Orion Health undertaking a major restructuring to optimise employee resources and reduce costs. As a result, operating expenses, net of one-time fees related to the Proposed Transactions, premise rationalisation and redundancy costs, and changes in foreign currency exchange, are forecast to reduce by more than \$30 million in FY19.

While recent group results have been disappointing, they mask good performance from Rhapsody as well as significant losses in PHM and Hospitals

Rhapsody is highly profitable and earned \$20.0 million EBIT in FY18. Orion Health expects Rhapsody to exhibit robust growth in FY19, as revenue is added without having a material impact on costs. In particular, direct costs as a proportion of revenue are forecast to decrease in FY19, as Orion Health has focussed on improving margins on implementation services and managed services.

We understand from Orion Health that, in the past, some potential Rhapsody customers have been concerned with the level of cash burn in the Orion Health group, which may have made some customers hesitant to contract. Orion Health has indicated that it has received some inbound queries on its cash position, but that it has not experienced material customer churn as a result. Following the Proposed Transactions, Rhapsody will be a standalone profitable entity and this is expected to allay any concerns from potential customers about its ability to operate as a going concern. Rhapsody could further benefit from being standalone as there may be increased focus on growing its core profitable operations, which may not have occurred to the same extent when Rhapsody was part of Orion Health, due to the significant focus on the cash losses being generated by PHM and Hospitals.

PHM has consistently made significant losses between FY15 and FY18 and made a \$58.0 million EBIT loss in FY18. It is forecast to remain unprofitable in FY19 as material research and development costs are incurred. Orion Health expects PHM to reach breakeven in the latter half of FY20, although there is no certainty of this occurring.

PHM experienced revenue growth in North America between FY15 and FY16, benefiting from a favourable operating environment in Canada and the introduction of Obamacare in the US. However, changes to Obamacare funding in 2017, amongst other factors, resulted in PHM revenue declining by 14.2% per annum between FY16 and FY18.

The profitability of PHM is very different by location, with a disproportionate share of revenue and operating contribution coming from Canada.

Hospitals has incurred approximately \$12 million in EBIT losses over the last three years. Hospitals is forecast to incur a further \$6.1 million EBIT loss in FY19.

Orion Health's Share price has been affected by its financial performance since listing

Since listing at \$5.70 in November 2014, Orion Health's share price has generally trended down, although, the share price did increase strongly between March and May 2016, which followed the announcements that Orion Health had partnered with Cognizant (26 February 2016) and signed an agreement with a major U.S. healthcare insurer (30 March 2016). Both announcements were related to Orion Health's Amadeus platform, which is part of PHM.

Orion Health's Share price at 2 July 2018, immediately prior to the announcement of the Proposed Transactions, was 85 cents per share. Furthermore, Orion Health's Share price at close of trading on 4 April 2018 was 59 cents, which was immediately in advance of its announcement that it was undertaking a strategic review. It is likely that the share price has been influenced by the prospect of a change in control transaction since that time.

Long-term financial performance will be driven by the prospects of getting PHM and Hospitals to profitability

For the purposes of informing our Report, Orion Health management have prepared a forecast for FY19. Management were not able to provide us with financial forecasts beyond the current year. It is the nature of Orion Health's businesses that it is very difficult to forecast beyond the short-term. By necessity, we have relied on the Forecast when valuing the Solution Groups and Orion Health Shares.

Loss-making IT service providers such as PHM and Hospitals have a very high level of uncertainty due to:

- The value of those businesses depending on their future prospects, which are inherently uncertain.
- PHM, in particular, is currently generating significant losses and in order to establish a profitable business it will likely need to rely upon significant financial support from its shareholders.
- PHM and Hospitals have generated significant revenues. However, the costs to support those revenues have historically been high. It remains to be seen and is inherently uncertain whether these businesses can lower their costs enough to generate a sustainable earnings stream.

The standalone assessments for each Solution Group rely on corporate cost allocations that have been provided to us by Orion Health management. There is necessarily a degree of subjectivity involved in these allocations.

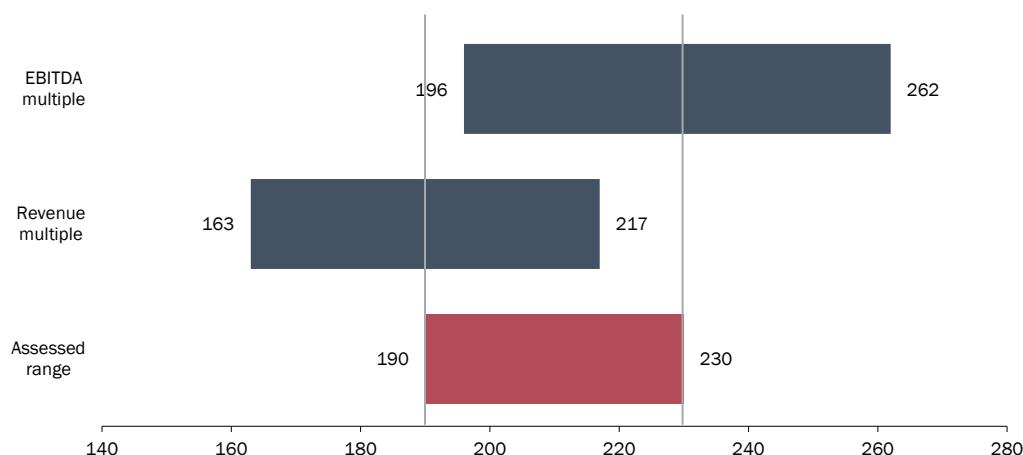


2.4 Valuation of Solution Groups

2.4.1 Rhapsody

A summary of our valuation approaches for Rhapsody, as well as our assessed valuation range, is illustrated in Figure 2.2.

Figure 2.2: Rhapsody Valuation range



We have assessed a range for Rhapsody's enterprise value at between \$190 million and \$230 million. The low-end of our range is based on the mid-point of the capitalisation of revenue approach and the high-end of the range is based on the mid-point of the capitalisation of earnings approach.

Our assessment of Rhapsody's value is based on its FY19 forecast financial performance. Orion Health management has forecast Rhapsody's profitability to improve significantly between FY18 and FY19. As a crosscheck, we have considered the earnings multiples implied by our valuation range, based on FY18 EBITDA, as set out in Table 2.2.

Table 2.2: Implied FY18 EBITDA valuation (\$ 000)

	Low	High
Enterprise value	190,000	230,000
FY18 EBITDA	21.903	21.903
Implied multiple	8.7x	10.5x

In our view, the implied historical EBITDA multiples for Rhapsody are reasonable. While the historical EBITDA multiples for much larger listed health IT businesses are on average slightly higher than 8.7x to 10.5x EBITDA, we consider this represents a reasonable valuation multiple for a relatively mature and well-established business with good growth prospects and established sales channels globally. This range is also in line with observed historical EBITDA multiples for broadly comparable transactions in the health IT sector.

2.4.2 PHM

Our capitalisation of revenue valuation of PHM results in a valuation range of \$43 million to \$86 million for 100% of the business on a standalone basis.

Table 2.3: Capitalisation of revenue valuation (\$ 000)

	Low	High
FY18 revenue	107,160	107,160
Multiple	0.4x	0.8x
Enterprise value	42,864	85,728

Source: Management accounts, KordaMentha analysis

We have assessed a revenue multiple for PHM of 0.4x to 0.8x, after taking into account the multiples of broadly comparable businesses, the recently declining revenues of PHM and its substantial cash losses.

The low-end of our valuation range is equivalent to the high-end revenue multiple (0.8x) with a \$43 million deduction to allow for the losses that maybe incurred before reaching breakeven. We observe that many of the comparable companies are profitable and consider it appropriate to account for this additional cash cost to shareholders at the low end of the range. We also observe that the quantum of expected losses, before breakeven is reached, is inherently uncertain.

2.4.3 Hospitals

In our view, given the losses being generated and the inherent uncertainty as to the ability of the Hospitals business to remain a going concern, it is not appropriate to value the business based on earnings.

We have assessed Hospitals' value as being between nil and \$5 million, assuming it is separate from the rest of Orion Health group. Hospitals' pro-forma net assets are expected to be approximately \$3 million, which lies near the low end of our valuation range.

The high end of our valuation range is based a high-level estimate of \$5 million for a business that is forecast to generate revenue of approximately \$11 million in the current financial year, albeit it will also generate significant financial losses. There is potential for a strategic purchaser to see some value in acquiring this established revenue stream.

The low end of our assessed valuation range assumes there is no strategic purchaser and the best estimate for future financial performance is for the business to continue to incur trading losses the foreseeable future, including if a controlled wind-down was undertaken.

We consider it unlikely that a potential purchaser of Hospitals would pay a significant premium to its asset value, at the current time, given its recent experience of significant cash losses.

2.5 Hg Transaction

Table 2.4 shows the enterprise values which we have assessed for Rhapsody and PHM, compared to the prices implied by the Hg Transaction:

Table 2.4: Assessed value versus Hg Transaction price (\$ million)

	Low	High	Offer price
Rhapsody	190	230	205
PHM	43	86	50

Source: KordaMentha analysis

The consideration offered for 75% of Rhapsody (\$205 million enterprise value) is within the range of \$190 million and \$230 million that we have assessed for 100% of Rhapsody on a standalone basis.

The consideration offered for 25% of PHM is based on a \$50 million enterprise value, which is at the low end of the \$43 million to \$86 million range that we assess for 100% of PHM on a standalone basis. Hg will only acquire 25% of PHM's shares in the Hg Transaction, which means there are cogent arguments to apply a discount for the lack of control applicable to Hg's interest in PHM on completion of the Hg Transaction. After applying a discount for lack of control, our assessed enterprise value range for PHM is \$37 million to \$77 million and \$50 million enterprise value implied by the Hg Transaction lies within our assessed valuation range.

2.6 Share Buyback

To assess the value of Orion Health's shares, we have valued Orion Health using a sum-of-the-parts valuation approach, whereby each of the Solution Groups is valued as a separate standalone entity and then group adjustments are made to determine a value for the Orion Health Shares.

Our valuation analysis is summarised in Table 2.5. The estimates for the Solution Groups are enterprise values, prior to deducting debt.

Table 2.5: Valuation summary (\$ million)

	Low	High
Rhapsody	190.0	230.0
PHM	43.0	86.0
Hospitals	–	5.0
Total enterprise value	233.0	321.0
Net debt estimate at completion	(4.9)	(0.3)
Equity value	228.1	320.7
Fully diluted Shares on issue (million)	198.6	198.6
Implied value of Orion Health Shares	\$1.15	\$1.61

Source: KordaMentha analysis

All values shown above are based on values applicable to 100% of the respective entity and therefore include any applicable premia for control.

It is arguable that, when considering the Share Buyback, Orion Health shareholders should make adjustment for the fact that New Orion will only hold a minority (25%) shareholding in Rhapsody. However, for the purposes of our analysis of the share buyback, we consider it appropriate to assess value including control premia for each Solution Group. The Proposed Transactions are akin to a takeover proposal on a transaction where control is transferred, and we therefore consider it should be assessed on a similar basis.

The estimated consideration offered under the share buyback (between \$1.16–\$1.26 per Share) represents a premium of between 36% and 48% to the share price just prior to the announcement of the Proposed Transactions (\$0.85 per Share).

Orion Health's entrance into the Hg Transaction does not mean that the Share Buyback will necessarily occur. Furthermore, the Share Buyback price is currently unknown. We understand it is possible for Orion Health to go back to shareholders asking for approval to conduct a share buyback at a price outside of the stated price range after the Hg Transaction has completed. While this is a matter that should be considered by shareholders deciding on whether to approve the Share Buyback, we ultimately consider that approval of the Share Buyback is in the interests of shareholders, as the Hg Transaction will not occur without approval.

The Orion Health Board has determined that the Company will apply to be delisted from ASX which will leave the Company listed only on the NZX Main Board. We understand this will likely occur regardless of whether the Proposed Transactions proceed. Shareholders may want to consider the loss of ability to trade on the ASX when deciding whether to accept or reject the Share Buyback.

2.7 Potential outcomes of the Proposed Transactions

2.7.1 If the Proposed Transactions proceeds

Orion Health shareholders have the option of selling their shares for \$1.16–\$1.26 per share or holding shares in New Orion

If the Proposed Transactions proceed, then Orion Health shareholders will have the option to have their Shares repurchased at an estimated \$1.16–\$1.26 per share, or continue to hold shares in New Orion. Shareholders will need to consider whether they wish to participate in the Share Buyback. A key element to this decision is how New Orion is expected to operate following the Proposed Transactions.

On completion of the Proposed Transactions, the three Solution Groups will be split into separate legal entities. New Orion will own 24.9% of Rhapsody, 75.1% of PHM and 100% of Hospitals. Table 2.6 summarises the Solution Groups' FY19 forecast earnings, once they are separated into separate legal entities.

Table 2.6: FY19 Forecast earnings (\$ 000)

	Rhapsody	PHM	Hospitals
Revenue	62,271	109,378	11,231
Operating contribution	55,497	46,041	4,871
EBITDA	32,712	(31,360)	(5,792)

Source: Orion Health management

Key considerations for Orion Health shareholders deciding whether to have their Shares repurchased, other than value (refer Section 2.6), include:

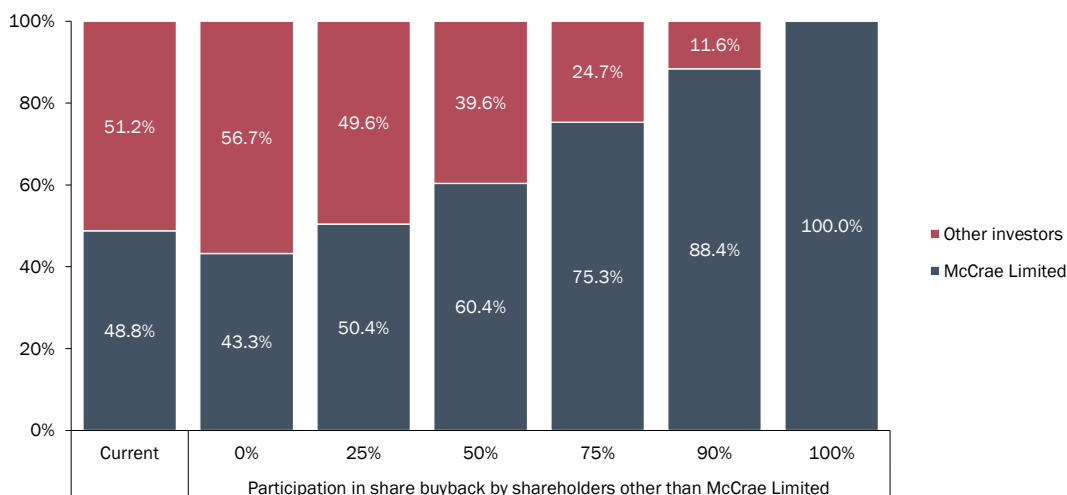
- New Orion would hold 24.9% of Rhapsody.
 - Rhapsody's forecast pro-forma EBITDA is a \$32.7 million profit in FY19.
 - Rhapsody is expected to have a \$114 million debt obligation (after paying fees), which will need to be serviced.
 - New Orion would not control Rhapsody and there is no certainty that Rhapsody would pay dividends. The Hg Agreement requires debt to be repaid before Rhapsody distributes capital. Even after debt is repaid, it is possible that Hg would have Rhapsody retain its profits to fund acquisitions or organic growth opportunities.
- New Orion would hold 75.1% of PHM.
 - PHM's forecast pro-forma EBITDA is a \$31.4 million loss in FY19. After factoring in Hg's minority interest, \$23.6 million of PHM's loss would be attributable to New Orion.
 - PHM would have \$30 million in cash, which Orion Health management expect will be sufficient to cover operating losses in the second half of FY19 and into FY20. Orion Health management advise that, based on current expectations, PHM may reach breakeven using the \$30 million cash. However, if financial performance is worse than expected, then PHM would likely need to raise additional funds.
 - We consider there is upside potential and downside risk for PHM. If the business becomes profitable, we consider it would attract a much higher value. However, the business currently has a high cash burn, which may continue if forecasts are not met and prospects are inherently uncertain.
- New Orion would hold 100% of Hospitals.
 - Hospitals' forecast pro-forma EBITDA is a \$5.8 million loss in FY19, all of which will be attributed to New Orion.
 - Following the Share Buyback, it is expected that Hospitals and New Orion will have at least \$11.6 million in cash available to fund both the Hospitals cash burn and any PHM rights issue(s) that may eventuate. Any further cash funding requirements may need to be funded by Orion Health issuing new equity (e.g. undertaking a rights issue or private placement)
 - There is significant uncertainty as to when Hospitals is expected to break even.

The Share Buyback could affect the control of Orion Health

Orion Health will offer to buy back shares from existing shareholders. McCrae Limited has committed to participate in the Share Buyback for 20% of the shares it owns. All other shareholders will have the option to sell all or none of their Orion Health shares, or any other portion of their shares.

Figures 2.3 illustrates the current and potential shareholdings in Orion Health, following the Share Buyback, assuming that on average, shareholders other than McCrae Limited opt in to the buyback for between 0% and 100% of their shares.

Figure 2.3: Current and possible shareholdings in Orion Health (fully diluted)



We consider the scenario where there is no participation by entities unrelated to Ian McCrae shareholders to be unlikely.

If participation in the Share Buyback among entities other than Mr McCrae Limited reaches approximately 91%, then McCrae Limited and associated entities will own more than 90% of Orion Health and will be the dominant owner, as defined in the Takeovers Code, this would mean:

- McCrae Limited would have the right to acquire all the outstanding shares in Orion Health (Rule 52); and
- Remaining Orion Health shareholders would have the right to sell their outstanding shares to McCrae Limited (Rule 53).

If the shares were to be acquired in under either Rule 52 or Rule 53 of the Takeovers Code, then the price at which shares would be acquired would need to be fair and reasonable, as certified by an independent adviser. If 10% of the remaining Orion Health shareholders objected to the value ascribed by the independent adviser, then the price would be determined by expert determination.

2.7.2 If the Proposed Transactions do not proceed

If the Proposed Transactions do not occur, and in the absence of any other factors, we consider there is a real prospect that Orion Health's share price may recede from levels observed following the announcement of the Proposed Transactions.

The status quo leaves Orion Health as a relatively unattractive investment proposition. If no alternative transaction were undertaken, then Orion Health will likely require additional capital, due to the cash losses being incurred by PHM and Hospitals. Although, there may be some ability to raise debt capital if that can be secured against Rhapsody and directors could get comfort that would be in the best interests of Orion Health shareholders. Otherwise, Orion Health would need equity capital, most likely in the form of a rights issue to existing shareholders.

Orion Health has considered other potential alternative transactions, which would be options were the Proposed Transactions not to proceed. One option considered was a separation transaction whereby McCrae Limited reduces its holding in Orion Health for cash consideration to acquire PHM and Hospitals.

The separation transaction would involve Rhapsody, PHM and Hospitals being split into three legal entities (as envisaged under the Proposed Transactions) and then a series of transactions as follows:

- Rhapsody would raise debt of approximately \$50 million.
- There would be a buyback of some of McCrae Limited's shares.
- McCrae Limited would use the proceeds of the buyback to acquire PHM and Hospitals.

The final effect of the separation transaction would be that:

- PHM and Hospitals would be privately owned by McCrae Limited.
- Orion Health would be renamed Rhapsody and remain listed on the NZX. It would have the Rhapsody business unit, approximately \$50 million debt and be majority owned by existing Orion Health minority shareholders. McCrae Limited would be expected to have a shareholding of 20% to 25%.

Potential positives of this alternative transaction include that because Rhapsody is profitable and established it is likely to be more attractive to investors than Orion Health in its current form. Other benefits include potential future losses in PHM and Hospitals will be avoided as those businesses would be owned by McCrae Limited and the transaction would preserve tax losses and R&D credits, which would be available to offset future tax. On balance, the transaction may have some benefits over the status quo, where uncertainty as to the level of cash losses which would be incurred by PHM and Hospitals is likely to affect the business for the short to medium term, at least.

However, in our view, the Proposed Transactions are more favourable than the separation transaction because:

- Any uplift in Rhapsody's share price, beyond the price implied by Hg's acquisition, is likely to take time to be achieved, given an unproven record as a standalone entity.
- The separation transaction does not allow for existing Orion Health shareholder to cash out of their shares.
- There is no potential upside in value from improved performance by PHM and Hospitals, which could accrue to Orion Health minority shareholders.

2.8 Prospect of alternative transactions to acquire Orion Health

Orion Health has been undertaking a strategic review since April 2017. The directors of Orion Health have appointed New Zealand and United States based investment banks to canvass interest for various transactions involving a sale of all or part of Orion Health's business. As a result, we consider it unlikely that an alternative transaction will eventuate, beyond those transactions considered above.

2.9 Acceptance or rejection

Voting for the Proposed Transactions is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile, liquidity preference, portfolio strategy, tax position and other factors. In particular, taxation consequences will vary across shareholders and we note the net proceeds will vary between shareholders given their respective tax position. Shareholders will need to consider these consequences and, if appropriate, consult their own professional adviser.

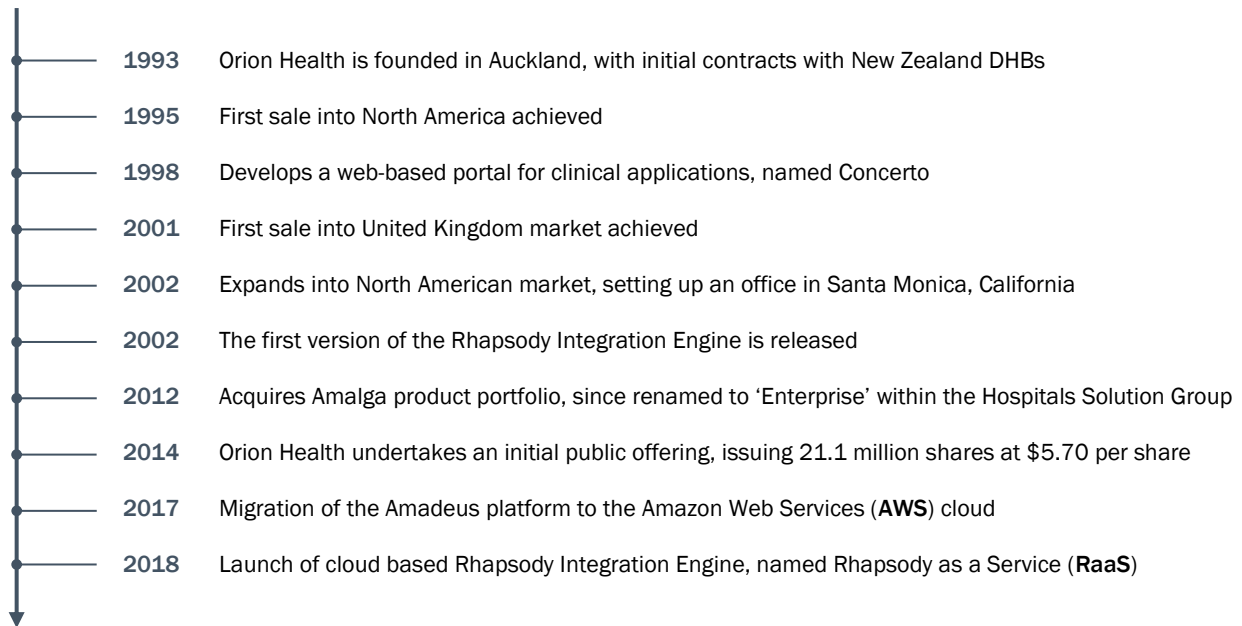
3 Profile of Orion Health

3.1 Background and History

Orion Health is a global provider of healthcare software. Orion Health delivers healthcare software across three product areas, Rhapsody, PHM and Hospitals (each operated as a division within Orion Health).

A timeline of key events since Orion Health was incorporated in 1993 is shown below:

Figure 3.1: Timeline of key events in Orion Health's formation



Orion Health was founded by Ian McCrae in 1993. It initially developed a portal to allow clinicians to view patient information spread across multiple systems using one login.

When hospitals started to link their disparate information systems, Orion Health developed Rhapsody, an integration engine that acts as a hub allowing a number of hospitals' different IT systems to communicate with each other.

Orion Health has subsequently developed its range to incorporate software that can facilitate the management of hospitals and manage population health initiatives. Population health initiatives require a centralised depository of healthcare information that enables a comprehensive health record and facilitates information sharing across providers.

Orion Health undertook an initial public offering in November 2014, raising \$120 million of new capital, which was used to fund a substantial expansion and scaling of the business.

In recent periods, Orion Health has begun a substantial restructuring of its global operations, pulling back from expansion in non-core regions, optimising employee resources and rationalising its offices.

Orion Health had approximately 880 full time equivalent employees (**FTEs**) as at 2 September 2018.

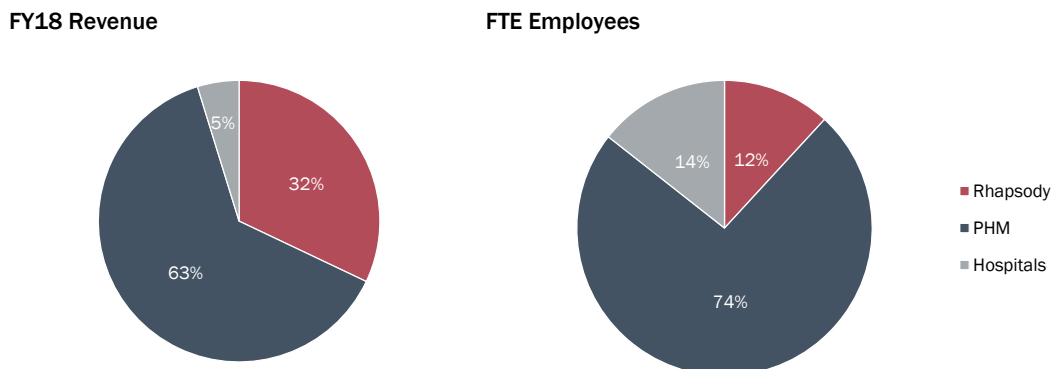
3.2 Business Operations

If the Proposed Transactions proceed, the three Solution Groups will be split into three separate legal entities. Understanding each Solution Group is important in order to understand the Proposed Transactions, because, on completion Orion Health and Hg will own different proportional interests in each Solution Group entity. The operations of the Solution Groups can be described as:

Solution Group	Description
Rhapsody	Rhapsody is an integration engine that helps separate software systems in various parts of a hospital communicate with each other by 'translating' data. Rhapsody is a mature product with a broad customer base, particularly across North America. It has recently experienced strong growth in the Asia Pacific region.
PHM	PHM is a range of platform, analytics and management software which uses IT to unify and collate health data from nodes of the health system (e.g. hospitals, GPs, specialists). Most of PHM's revenue is earned in North America, Europe, Australia and New Zealand.
Hospitals	Hospitals is a product suite that manages patient and clinical workflow. The Hospitals product suite was originally acquired from Microsoft. Most of Hospitals' revenue is earned in New Zealand, Southeast Asia and Turkey.

Figure 3.2 illustrates the relative size of the Solution Groups, based on revenue, operating contribution and employees.

Figure 3.2: Relative size of the Solution Groups



Source: Orion Health Management

Rhapsody is currently Orion Health's most profitable Solution Group and accounts for 32% of group revenue. Rhapsody is a mature product with comparatively less R&D requirements as well as lower operating costs. In comparison, PHM is Orion Health's largest Solution Group by revenue and employees but has material costs associated with R&D and sales and marketing, which have resulted in significant EBITDA losses over recent years. Rhapsody, PHM and Hospitals currently employ 88, 548 and 107 FTE employees respectively; with shared service employees forming the balance of Orion Health's approximately 880 FTE employees.

We discuss each of the Solution Groups, and their financial performance, in more detail at Section 3.5 (Rhapsody), Section 3.6 (PHM) and Section 3.7 (Hospitals).

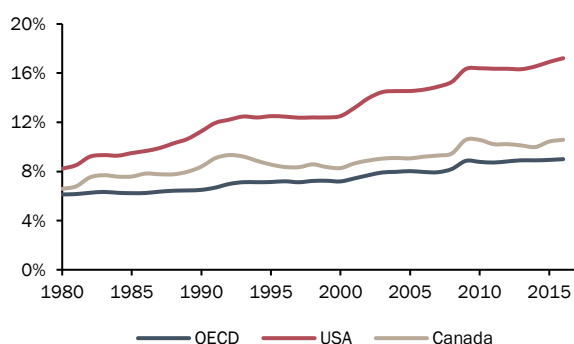
3.3 Industry Overview

Orion Health operates in the global health Information Technology (IT) industry. This industry supports the exchange and management of digital information for entities operating within the healthcare sector.

Health spend is increasing quickly

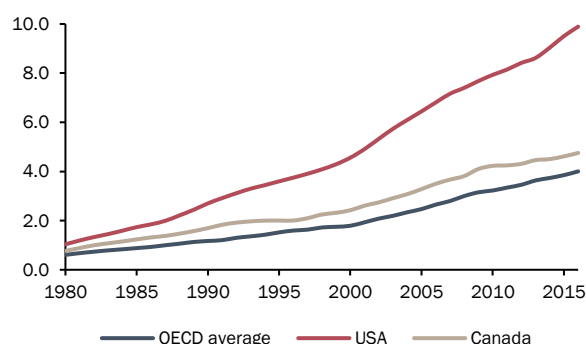
Health is the largest single cost for most governments in developed economies. In addition, private spending on healthcare is also a significant portion of the total healthcare spend, particularly in the United States. Figures 3.4 and 3.5 show health spend as a proportion of GDP and per capita over time, and illustrate the material, and increasing, cost incurred on healthcare.

Figure 3.3: Health spend as a proportion of GDP



Source: OECD data, includes both public and private spend

Figure 3.4: Health spend (USD 000 per capita)



Source: OECD data, includes both public and private spend

Across the OECD, spending on healthcare increased by 5.2% per annum between 2000 and 2016 and rose from 7.2% to 9.0% of GDP over the same period. Healthcare spend is higher in the USA than in any other OECD country, and reached 17.2% of GDP in 2016 (USD 9,892 per capita).

Healthcare costs are expected to continue to increase over time, due to:

- **An aging population** – Many chronic diseases, such as cardiovascular disease and cancer are correlated with age. In the USA, the proportion of the population aged over 65 years has increased from 9% to 15% between 1960 and 2016; and is forecast to reach 21% by 2030. Furthermore, the proportion of the population over the age of 85 is forecast to increase from 2% to 5% between 2016 and 2050.²
- **Increasing levels of obesity** – Obesity is a major risk factor for many chronic diseases, including diabetes, cardiovascular diseases and cancer. Obesity rates have been increasing in recent decades in almost all OECD countries, with an average of 54% people overweight, of which 19% are obese. Obesity rates are considerably higher than the OECD average in the United States (38.2%), Mexico (33.3%) and New Zealand (31.6%).³
- **More specialised treatments** – There is growing demand for more expensive medical treatments, partly due to the development of new more specialised drugs and treatments, which often causes an increase in the cost per dose.

As a result of the increasing cost of healthcare, many government entities are attempting to make health systems more efficient, as the alternatives are to either increase taxes or restrict access to essential healthcare.

Funding systems

Healthcare systems are large and complex, with large variations in funding of health costs and ownership of healthcare facilities. The Commonwealth countries (e.g. UK, NZ, Canada and Australia) operate the most concentrated and therefore aligned healthcare systems while the US system is highly fragmented:

- **Commonwealth:** In many Commonwealth countries, healthcare is mainly funded by government entities (e.g. central government in New Zealand and the UK and state governments in Canada). Essential healthcare is at a relatively low cost

² Vespa, Jonathan, David M. Armstrong, and Lauren Medina, "Demographic Turning Points for the United States: Population Projections for 2020 to 2060", Current Population Reports, P25-1144, U.S. Census Bureau (2018).

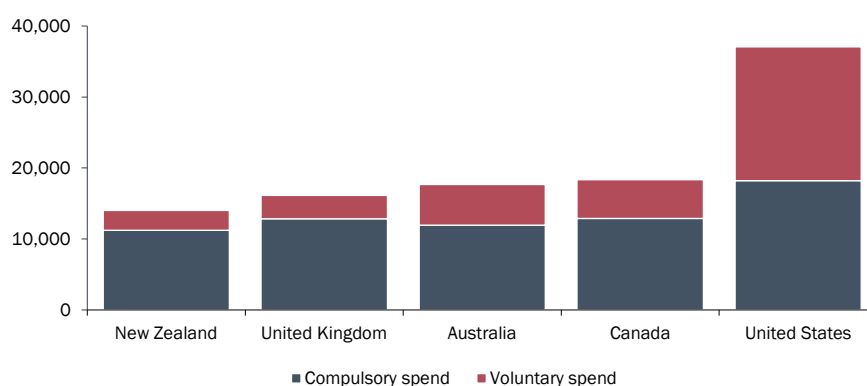
³ OECD (2017), Health at a Glance 2017: OECD Indicators, OECD Publishing, Paris. http://dx.doi.org/10.1787/health_glance-2017-en

to the patient, with private insurance mainly used to fund elective procedures. While there are private hospitals in these countries, the Government tends to be the largest hospital operator. GPs, specialists and labs are independent contractors that mostly rely on Government funding. Australia is slightly more complex, with a mix of central and state Government funding and a greater reliance on private insurance.

- **United States:** Health funding and hospital ownership is highly fragmented in the US. The private sector funds 51% of healthcare, much of it (35%) via private insurance. Approximately 38% of funding in the US is through two state run insurance schemes: Medicare, which is funded by US Federal Government and provides care for senior citizens, and Medicaid, which is funded by the States and provides care for those on low incomes or with disabilities. These schemes are administered by the Centers for Medicare and Medicaid Services (**CMS**). The healthcare provider sector in the US is also highly fragmented, with GPs and specialists as independent contractors and hospitals almost all privately owned and operated for-profit.

Figure 3.5 illustrates the spending per person in key countries in which Orion Health operates.

Figure 3.5: 2016 Health Spending (USD per capita)



Source: OECD (2018), *Health spending (indicator)*

Figure 3.5 illustrates the relative mix of healthcare funding between government spending and compulsory health insurance (**Compulsory spend**) and voluntary health insurance and private funds such as households' out-of-pocket payments, non-government organisations and private corporations (**Voluntary spend**).

Wasted healthcare spend

There is increasing recognition that there is significant inefficiency in the health sector. A study estimated that 34% of spending in the US healthcare system was wasted in 2011 (USD 910 billion).⁴ This included:

- **Administrative complexity** – USD 248 billion – Waste that comes when government, accreditation agencies, payers, and others create inefficient or misguided rules. For example, payers may fail to standardise forms, thereby consuming limited physician time in needlessly complex billing procedures.
- **Overtreatment** – USD 192 billion – Waste that comes from subjecting patients to care that, according to sound science and the patients' own preferences, cannot possibly help them—care rooted in outmoded habits, supply-driven behaviours, and ignoring science. Examples include excessive use of antibiotics, use of surgery when watchful waiting is better, and unwanted intensive care at the end of life for patients who prefer hospice and home care.
- **Fraud and abuse** – USD 177 billion – Waste that comes as fraudsters issue fake bills and run scams.
- **Failures of care delivery** – USD 128 billion – Waste that comes with poor execution or lack of widespread adoption of known best care processes, including, for example, patient safety systems and preventive care practices that have been shown to be effective.
- **Failures of care coordination** – USD 35 billion – Waste that comes when patients experience fragmented care, resulting in complications, hospital readmissions and increased dependency, especially for the chronically ill.

Healthcare costs are generally funded by governments and insurance companies (payers). It is these entities that are increasingly looking to increase efficiency and reduce waste through the entire health sector.

⁴ Donald M. Berwick, MD, MPP and Andrew D. Hackbarth, MPhil "Eliminating Waste in US Health Care", American Medical Association (2012)

Population health management software

Population health management software solutions are increasingly being implemented to reduce waste and improve patient outcomes. Population health management is the concept of using health IT to unify health data, so that health professionals can deliver more effective, precise healthcare. As part of a population health management solution, health information exchanges (**HIEs**) act as hubs, which collect data from the nodes of the health system (e.g. hospitals, GPs, specialists, labs) into a single data repository, allowing the relevant parties to access patients' information.

In the US, the Office of the National Coordinator for Health IT (**ONHIT**) has stated that HIEs are the best way to achieve the overall goal of improved care coordination. Furthermore, the CMS has stated that HIEs will be critical to the success of further attempts at population health management. However, changes to Obamacare funding in 2017 have resulted in many US HIE's failing or experiencing financial difficulties.

Integration and Interoperability software

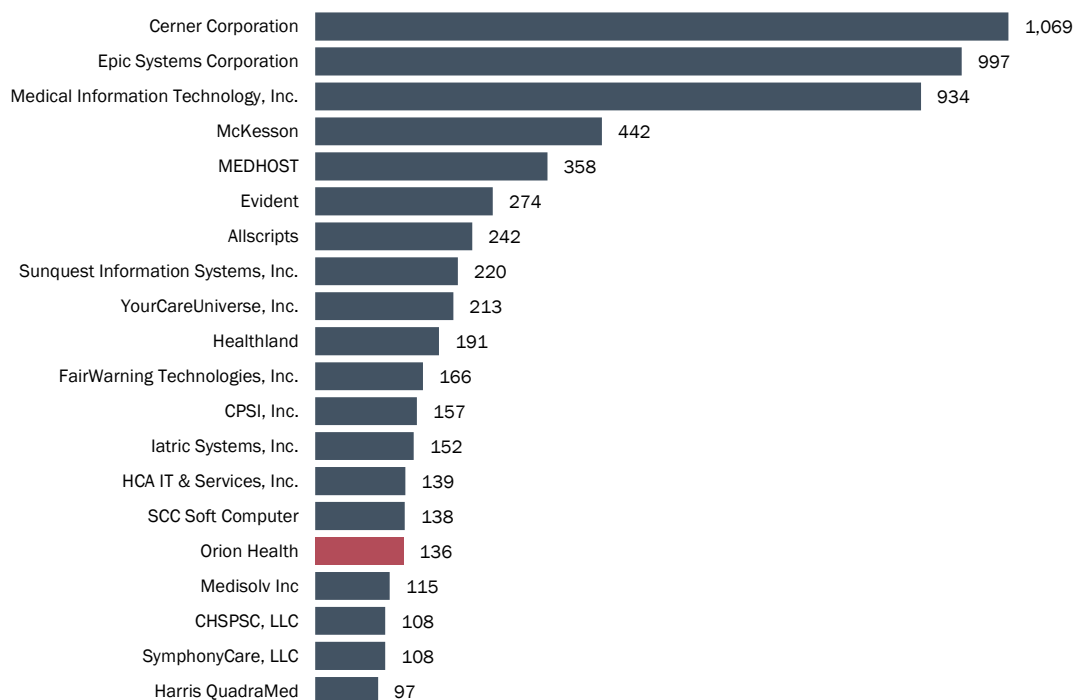
Various software systems used within the wider healthcare sector are built by different vendors at different times using different programming languages and are therefore not able to understand each other directly. Integration and interoperability software is used to facilitate the exchange of data between different health software systems within and between hospitals, regional networks and public health organisations.

Whereas population health management software facilitates the aggregation and exchange of data across a wide geographical area or health system, integration and interoperability software connects the individual systems.

Integration and interoperability software is required for a wide range of other health IT software solutions, including HIEs and many enterprise software solutions. Orion Health's integration engine, Rhapsody, is one of the leading integration engines in the United States market and is also used by Orion Health's other software solutions. Orion Health also licences to other parties, including other software vendors that use Rhapsody rather than build their own integration engine.

Figure 3.6 illustrates the number of hospitals that reported use of various developers' systems, based on hospitals eligible to participate in the CMS EHR Incentive Program. Note, some hospitals report usage of software from multiple developers.

Figure 3.6: Eligible US hospitals use developers' products



Source: Medicare EHR Incentive Program data, last updated 9 May 2018⁵

⁵ Office of the National Coordinator for Health Information Technology. '2015 Edition Market Readiness for Hospitals and Clinicians Data' from <https://dashboard.healthit.gov/datadashboard/documentation/2015-edition-market-readiness-hospitals-clinicians-data-documentation.php>

3.4 Group Financial Performance

Table 3.1 summarises Orion Health's financial performance for FY15–FY18 (actual) and FY19 (forecast).

Table 3.1: Financial Performance (\$ 000)

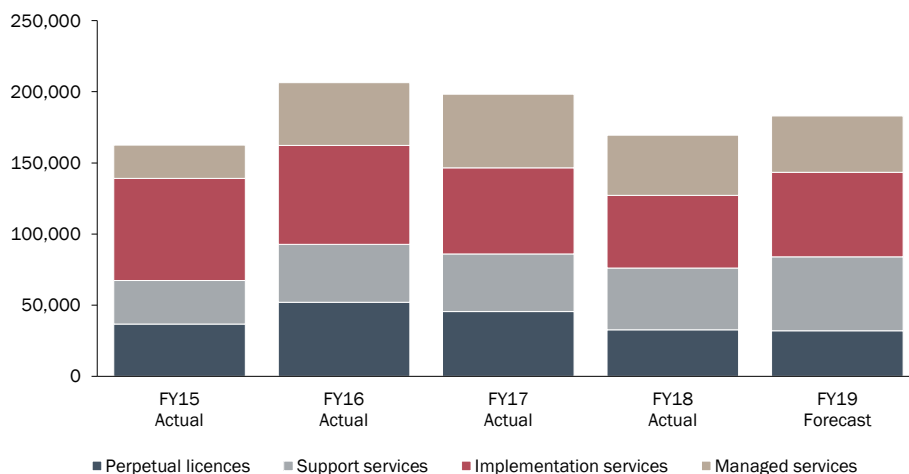
	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Forecast
Revenue	206,935	199,074	170,122	182,880
Direct costs	(106,310)	(92,978)	(84,505)	(77,653)
Operating contribution	100,625	106,096	85,617	105,227
Grants and PDH	5,117	5,018	6,976	4,507
Sales and marketing	(38,807)	(32,988)	(31,571)	(28,650)
Research and development	(61,212)	(64,099)	(61,630)	(48,260)
General and administration	(53,056)	(39,752)	(33,773)	(37,263)
EBITDA	(47,331)	(25,724)	(34,380)	(4,439)
Depreciation	(7,387)	(7,066)	(6,021)	(4,259)
EBIT	(54,718)	(32,790)	(40,401)	(8,698)
EBIT margin	(26%)	(16%)	(24%)	(5%)

Source: Orion Health management accounts and forecast

Table 3.1 shows that Orion Health expects to substantially reduce its EBIT losses in FY19. The improvement in profitability is due to an expected improvement in Rhapsody earnings and reduction in losses in each of PHM and Hospitals. This follows Orion Health undertaking a major restructuring to optimise employee resources and reduce costs. As a result, operating expenses, net of one-time fees related to the Proposed Transactions, premise rationalisation and redundancy costs, and changes in foreign currency exchange, are forecast to reduce by more than \$30 million in FY19.

Figure 3.7 illustrates Orion Health's Group revenue by type over time.

Figure 3.7: Orion Health revenue (\$ 000)



Source: Management Accounts and Forecast

Perpetual licence and support services primarily relate to the sale of enterprise software, managed services primarily relates to software as a service (SaaS) and implementation services is the implementation of software, whether on-premise or hosted.

3.5 Rhapsody

Rhapsody is a leading data integration and interoperability platform, which facilitates the acquisition and integration of patient data from a vast array of data sources. It is also used as a key part of Orion Health's other Solution Groups (PHM and Hospitals) as well as being sold on a standalone basis.

Rhapsody allows for disparate software systems to share information. These disparate systems are typically built by different vendors. Rhapsody is used by healthcare providers to act as a 'translator' between these systems. Rhapsody provides value to hospitals by ensuring data transferred is accurate, extending the useful life of legacy software and allowing linkages to outside contractors (e.g. labs).

Rhapsody is used by more than 700 customers in 36 countries globally.

Rhapsody had approximately 88 full time equivalent employees as at 2 September 2018.

3.5.1 Financial Performance

Table 3.2 summarises Rhapsody's earnings for FY15–FY18 (actuals) and FY19 (forecast). The financials are based on Orion Health's management accounts, rather than its audited annual financial statements. The financials include cost allocations between Solution Groups, which have been determined by Orion Health.

Table 3.2: Rhapsody earnings summary (\$ 000)

	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Forecast
Revenue	45,936	56,675	54,262	62,271
Direct costs	(8,765)	(8,153)	(10,227)	(6,856)
Operating contribution	37,171	48,522	44,035	55,415
Sales and marketing	(8,950)	(8,950)	(8,950)	(5,858)
Research and development	(12,000)	(8,205)	(5,261)	(5,213)
General and administration	(6,697)	(6,931)	(7,922)	(11,632)
EBITDA	9,523	24,436	21,903	32,712
Depreciation	(1,643)	(2,019)	(1,927)	(687)
EBIT	7,880	22,417	19,976	32,026
EBIT margin	17%	40%	37%	51%

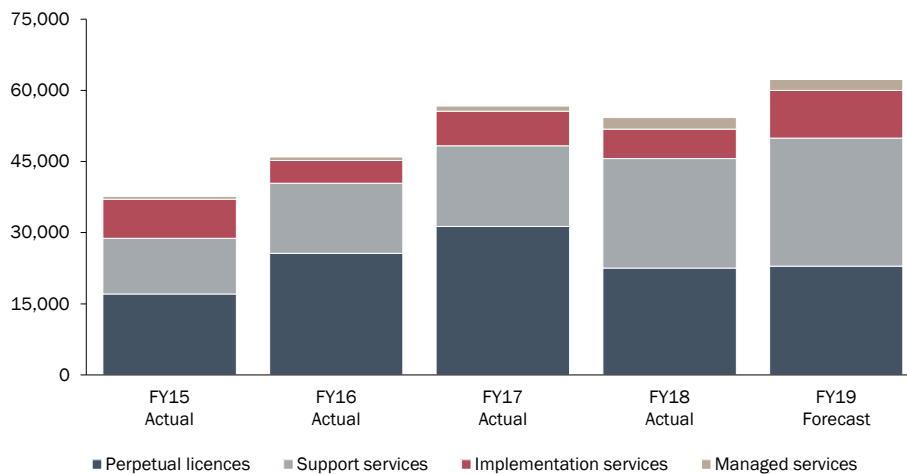
Source: Orion Health management accounts and forecast

Rhapsody is highly profitable and earned \$20.0 million EBIT in FY18. Orion Health expects Rhapsody to exhibit robust growth in FY19, as revenue is added without having a material impact on costs. In particular, direct costs as a proportion of revenue are forecast to decrease in FY19, as Orion Health has focussed on improving margins on implementation services and managed services.

Rhapsody revenue exhibited steady growth between FY15 and FY17. The decline in revenue in FY18 was due to the reduction in sales to a single large global customer, which accounted for approximately 20% of Rhapsody revenue in FY17 and 10% in FY18. The customer purchased perpetual licences in quantity to use in their medical devices, which are sold to end user customers. Orion Health advises that the customer is not expected to purchase further licences in the near term.

Figure 3.8 illustrates Rhapsody's revenue by type. A large portion of Rhapsody's revenue, including growth in FY19, is generated from non-recurring sources (perpetual licences and implementation services). Support services typically scale with the use of the Rhapsody product and therefore represent a recurring source of revenue.

Figure 3.8: Rhapsody revenue (\$ 000)



Source: Orion Health management accounts and forecast

Orion Health signed its first 'Rhapsody as a Service' (**RaaS**) customer in FY18. The FY19 Forecast, as shown in Figure 3.8, does not include material growth in RaaS. However, over the medium to long term, Orion Health expects RaaS to be critical to the future growth and profitability, increasing the level of recurring revenue from Rhapsody.

The key driver of the Forecast is that total revenue increases by 15% in FY19. Orion Health based this assumption on the ability to execute on the sale of perpetual licences in line with expectations, as well as achieving the historically strong customer retention as it relates to support services revenue. When forecasting revenue, Orion Health applies probability weightings to prospective customers, based on historical success for prospects at a similar stage of engagement. Orion Health excludes some potential projects from the pipeline that would have a material positive impact on revenue, but which Orion Health considers are relatively uncertain.

Orion Health also expects a reduction in direct costs, primarily due to a reduction in cost allocations that Rhapsody previously received from Orion Group and improved efficiencies in the delivery of implementation services.

We understand from Orion Health that in the past, some potential Rhapsody customers have been concerned with the level of cash burn in the Orion Health group, and that this may have made some customers hesitant to contract. Orion Health has indicated that it has received some inbound queries on its cash position, but that it has not experienced material customer churn as a result. Following the Proposed Transactions, Rhapsody will be a standalone profitable entity and this is expected to allay any concerns from potential customers about its ability to operate as a going concern.

The Rhapsody product is relatively mature. However, continued research and development costs will always be needed in the business and forecasts for R&D expenditure in FY19 are in line with levels incurred in FY18. Orion Health has historically expensed its software development costs, rather than capitalise a portion and then amortise it over time.

If shareholders approve the Proposed Transactions, then Orion Health considers there are unlikely to be any material synergies, given Hg is a financial buyer. Nevertheless, Orion Health considers Rhapsody will likely still benefit from being a standalone entity, as there may be increased focus on growing its core profitable operations, which may not have occurred to the same extent when Rhapsody was part of Orion Health, which has had some focus on the cash losses being generated by Hospitals and PHM (which have been at an earlier stage of investment).

3.5.2 Financial Position

Table 3.3 shows Rhapsody's pro-forma financial position, projected as at 30 September 2018, based on management estimates of some shared assets and liabilities. This projected balance sheet is prior to the Proposed Transactions, and therefore excludes the debt that will be raised in Rhapsody in the Hg Transaction.

Table 3.3: Rhapsody pro-forma financial position (\$ 000)

	30 Sep 2018
Trade and other receivables	27,357
Accrued revenue	404
Income tax asset/(liability)	1,120
Trade and other payables	(6,155)
Employee benefits	(1,849)
Revenue in advance	(21,978)
Net working capital	(1,101)
Property, plant and equipment	1,719
Deferred tax assets	624
Intangible assets – software	405
Net operating assets	1,646

Source: Orion Health management accounts

Rhapsody has relatively low level of net operating assets, relative to its earnings.

If the Hg Transaction proceeds, \$114 million debt will be raised by Rhapsody, which will represent a debt ratio of approximately 5.7x historical EBIT and 3.6x Forecast EBIT. We expect that material intangible assets will also be recognised in the Hg Transaction.

3.6 PHM

Using data analytics to drive precision medicine, disease diagnosis and helping insurers to quantify risk, PHM is an integrated, patient-centric solution, which manages and improves the health of an entire population by providing optimal care for every individual.

It is becoming increasingly common for medical professionals to access and share medical information electronically. The intention is that making medical records available to all medical professionals interacting with a patient should increase the quality and reduce the cost of patient care, as decisions will be based on a more complete set of information.

PHM is comprised of four main platforms being Amadeus, Engage, Coordinate and Medicines. The platforms integrate to identify, manage and transition at-risk patients in real time, increasing satisfaction of patients and lowering costs while improving care quality.

- **Amadeus** is a solution that aggregates, stores and processes all patient specific data. The data that can be processed ranges from traditional clinical data (claims, medical devices, patient needs etc) to non-traditional data types (insurance information, behavioural data, genomics files etc). This data can be drawn from different healthcare organisations allowing clinicians to view the history of clients. Amadeus is active in a global market with a focus in the US.
- **Engage** comprises a web and mobile application that provides information to patients/consumers themselves, encouraging participation in their own healthcare. Patients/consumers can contribute data to their own health record, which is automatically shared with their clinician or other certified professionals. Engage is active primarily in the US, Europe, and Middle East.
- **Coordinate** is software that allows members of the same or different healthcare facilities to collaborate, proactively coordinate and manage patient care, as well as work together in providing preventative solutions to patients. If there are multiple healthcare professionals working with one patient, this software allows these professionals to share ideas and information on that patient to improve the healthcare provided. Coordinate is globally active, with a focus in the US.
- **Medicines** is a web application that enables patients and clinicians, in the hospital or in the community, to prescribe, curate, review and modify medications. It provides patients with the ability to compare and contrast the different medications available to them. The Medicines platform is used in the UK, Europe and Middle East.
- **Consult** is a software system used to manage patient care, it captures clinical information, identifies problems and creates medical orders (laboratory and radiology). The software provides a consolidated view of all information for a patient and is designed to provide clinicians with more information, so that treatment decisions are made with better and more complete information. Consult is active in the UK, Asia, Pacific, Europe, and Middle East.

Orion Health's solution is based on its data integration, Rhapsody, its data repository, Amadeus, and associated apps that share and mine the information contained in patient health records.

The core of Amadeus is a data engine that stores processes and delivers information to the application layer.

Orion Health advise that there is some overlap in the PHM and Hospitals operations. If shareholders approve the Proposed Transactions, then both Hospitals and PHM will remaining Orion Health businesses, although Hg would acquire 24.9% of PHM.

PHM had approximately 548 full time equivalent employees as at 2 September 2018.



3.6.1 Financial Performance

Table 3.4 summarises PHM's earnings for FY15–FY18 (actuals) and FY19 (forecast). The financials are based on Orion Health's management accounts, rather than its audited annual financial statements. The financials include cost allocations between Solution Groups, which have been determined by Orion Health.

Table 3.4: PHM earnings summary (\$ 000)

	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Forecast
Revenue	145,482	126,947	107,160	109,378
Direct costs	(89,044)	(75,676)	(70,596)	(64,338)
Operating contribution	56,438	51,272	36,563	45,039
Grants and PDH	3,542	3,494	4,823	4,507
Selling and marketing	(27,070)	(21,546)	(21,029)	(20,797)
Research and development	(43,167)	(48,863)	(50,588)	(36,911)
General and administration	(41,924)	(29,328)	(24,000)	(23,199)
EBITDA	(52,181)	(44,970)	(54,231)	(31,360)
Depreciation	(5,204)	(4,522)	(3,806)	(3,269)
EBIT	(57,386)	(49,492)	(58,037)	(34,629)
EBIT margin	(39%)	(39%)	(54%)	(32%)

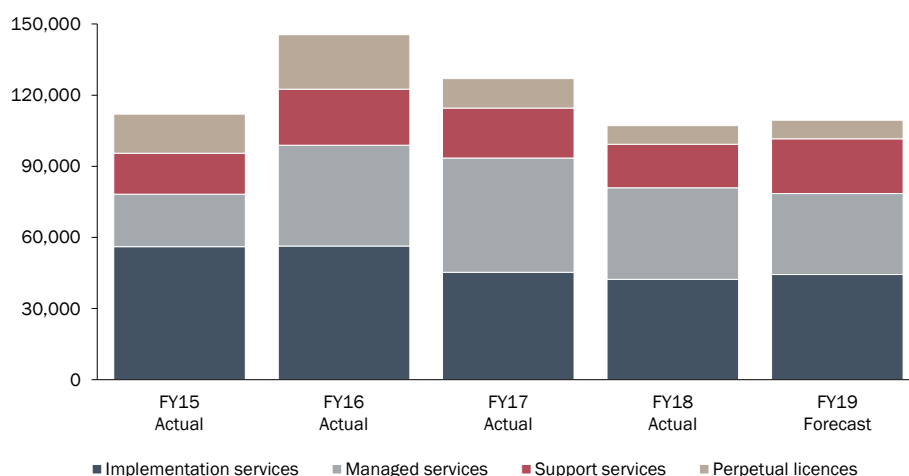
Source: Orion Health management accounts and forecast

PHM has consistently made significant losses between FY15 and FY18, including a \$58.0 million EBIT loss in FY18. It is forecast to remain unprofitable in FY19 as material research and development costs are incurred. Orion Health expects PHM to reach breakeven in the latter half of FY20.

PHM experienced revenue growth in North America between FY15 and FY16, benefiting from a favourable operating environment in Canada and the introduction of Obamacare in the US. However, changes to Obamacare funding in 2017 resulted in many US HIE's closing or experiencing financial difficulties. PHM revenue fell by 15.6% in FY18, due to the retrenchment of these HIE's in the US.

Figure 3.9 illustrates PHM's revenue by type.

Figure 3.9: PHM revenue (\$ 000)



Source: Orion Health management accounts and forecast

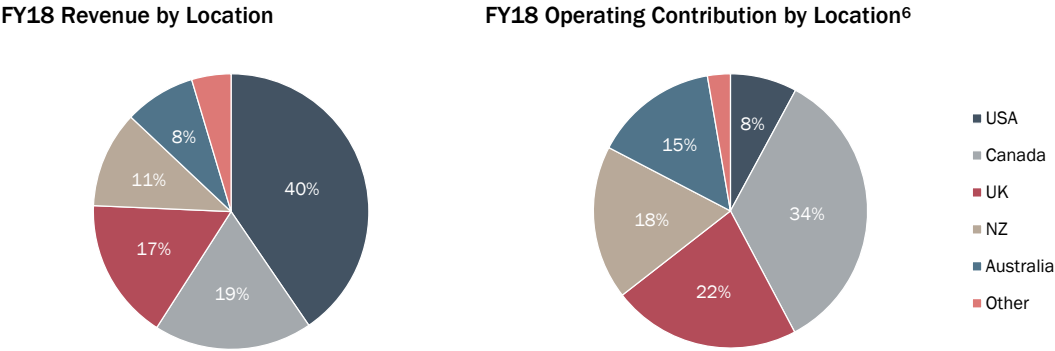
Orion Health’s strategy for PHM has been to switch from the upfront sale of perpetual licences to the sale of managed services. Although, the switch from perpetual licences to managed services has also caused a short to medium term deferral of revenues, as Orion Health has switched from customers purchasing perpetual licenses to purchasing subscription based contracts. US HIE retrenchment has also affecting revenue.

The FY19 revenue forecast is based on a sales pipeline maintained by Orion Health. When forecasting revenue, Orion Health applies probability weightings prospective customers, based on historical success for prospects at a similar stage of engagement.

The key assumption underpinning the FY19 forecast is that there will be material reductions in overall expenses, while revenue remains relatively unchanged. Orion Health has undertaken a major restructuring to optimise employee resources and reduce costs in FY18. This is expected to result in a reduction of approximately \$30 million in operating expenses across the Orion Health group, net of one-time fees related to the Proposed Transactions, premise rationalisation and redundancy costs, and changes in foreign currency exchange. These cost savings are expected to mainly affect the PHM Solution Group.

Figure 3.10 illustrates the geographical concentrations of PHM revenue and operating margin in FY18. This shows that the profitability of PHM is very different by geographical location, with a disproportionate share of operating contribution coming from Canada, relative to the share of revenue. Conversely, PHM generates a large portion of its revenue in the US at a relatively low margin.

Figure 3.10: PHM revenue and operating contribution by location



Source: Orion Health Management

Orion Health management has forecast an improved operating contribution in FY19; this follows a drop in operating contribution in FY18, due to the retrenchment of US HIEs, as indicated above. Operating Contribution is forecast to improve because of new sales being largely made in Canada, where PHM has already been relatively successful in achieving profitable sales and significant reduction in costs, particularly R&D.

⁶ Operating contribution is prior to sales costs, overheads, research and development costs and other group costs.



3.6.2 Financial Position

Table 3.5 shows PHM's pro-forma financial position, projected as at 30 September 2018, based on management estimates of some shared assets and liabilities. This projected balance sheet is prior to the Proposed Transactions, and therefore excludes the cash that will be received by PHM in the Hg Transaction.

Table 3.5: PHM pro-forma financial position (\$ 000)

	30 Sep 2018
Trade and other receivables	25,339
Net cash	2,862
Accrued revenue	7,159
Income tax asset/(liability)	2,119
Trade and other payables	(11,641)
Employee benefits	(8,928)
Revenue in advance	(15,580)
Net working capital	1,330
Property, plant and equipment	3,251
Deferred tax assets	1,179
Intangible assets – software	765
Net operating assets	6,526

Source: Orion Health management accounts

PHM has approximately \$6.5 million of net operating assets, with significant working capital balances.

If the Hg Transaction proceeds, PHM will receive \$30 million cash, to be used to fund PHM's operations. Based on PHM's FY19 forecast, this would be sufficient to cover operating losses in the second half of FY19 and into FY20. Orion Health management advises that, based on current expectations, PHM may reach breakeven using the \$30 million cash. However, if financial performance is any worse than expected, then PHM would likely need to raise additional funds.

If the Proposed Transactions proceed, New Orion will likely have residual cash that could be used to fund PHM's operations. The exact level of cash would depend on the participation in the Share Buyback.

3.7 Hospitals

The Hospitals Solution Group provides hospital facilities with an integrated patient administration and clinical record solution that simplifies business processes and facilitates greater organisational efficiencies, with increased patient safety in the acute care setting.

Hospitals contains Orion Health's Enterprise software platform. Enterprise provides the IT backbone required to support hospital administration and consequently covers a diverse range of functions from financial and facility management to laboratory and radiology information management. Enterprise provides a medium for patients and clinicians to securely transfer written communications and clinical documentation that contain protected health information. This platform allows the many software applications used by hospitals to communicate with each other and clinicians/administrators.

Enterprise is mainly used in New Zealand, Southeast Asia and Turkey.

The Enterprise software was originally acquired from Microsoft in February 2012 and then integrated with Orion Health's existing Consult software. The consideration for Enterprise was a nominal payment of \$1 plus the assumption of associated obligations. Enterprise had revenue of approximately \$1 million at that time.

Hospitals has approximately 107 full time equivalent employees as at 2 September 2018.

3.7.1 Financial Performance

Table 3.6 summarises Hospitals' earnings for FY15–FY18 (actuals) and FY19 (forecast). The financials are based on Orion Health's management accounts, rather than its audited annual financial statements. The financials include cost allocations between Solution Groups, which have been determined by Orion Health.

Table 3.6: Hospitals earnings summary (\$ 000)

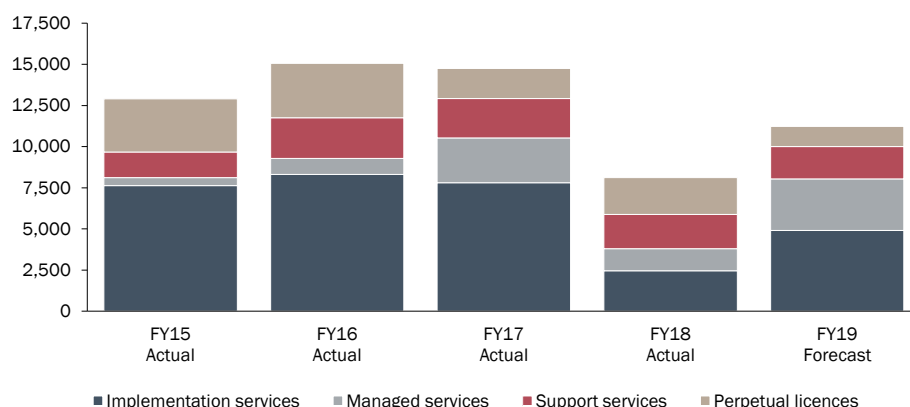
	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Forecast
Revenue	15,062	14,743	8,113	11,231
Direct costs	(7,582)	(8,267)	(2,827)	(6,458)
Operating contribution	7,480	6,476	5,286	4,773
Grants	1,576	1,524	2,153	–
Selling and marketing	(2,787)	(2,492)	(1,592)	(1,996)
Research and development	(6,044)	(7,031)	(5,782)	(6,137)
General and administration	(4,434)	(3,494)	(1,850)	(2,432)
EBITDA	(4,209)	(5,016)	(1,785)	(5,792)
Depreciation	(539)	(525)	(288)	(303)
EBIT	(4,748)	(5,542)	(2,073)	(6,095)
EBIT margin	(32%)	(38%)	(26%)	(54%)

Source: Orion Health management accounts and forecast

Hospitals made a \$2.1 million EBIT loss in FY18. The Hospitals business is expected to move towards improved profitability after FY19, as the Enterprise product matures and slowly increasing levels of recurring revenues, which earn relatively higher contribution margins as well as a significant reduction in selling, general and administration costs due to cost savings initiatives recently implemented by Orion Health, including reducing the number of employees.

Figure 3.11 illustrates Hospitals' revenue by type. A key assumption underpinning the FY19 Forecast is the quantum and type of revenue generated by Hospitals in FY19. Orion Health expects to generate a significant portion of revenue from recurring sources in FY19 (managed services and support services). Hospitals also earns significant implementation revenue in FY19, which is non-recurring and typically earns a much lower margin. The overall growth in FY19 revenue is based on execution of license opportunities in the pipeline and the ability to achieve historical customer retention rates.

Figure 3.11: Hospitals revenue (\$ 000)



Source: Orion Health management accounts and forecast

Orion Health's strategy for Hospitals has been to switch from the upfront sale of perpetual licences to the sale of subscription based licenses. Implementation revenue dropped in FY18, as several large projects that were being deployed went live early in FY18. Management expects revenue in FY19 to partly recover, due to new licenses being added and expansion services with existing customers.

The FY19 revenue forecast is based on a sales pipeline maintained by Orion Health.

Orion Health expects the Hospitals Solution Group to receive no income from grants in FY19.

3.7.2 Financial Position

Table 3.7 shows Hospitals' pro-forma financial position, projected as at 30 September 2018, based on management estimates of some shared assets and liabilities. This projected balance sheet is prior to the Proposed Transactions, and therefore excludes the cash that will be received by PHM in the Hg Transaction.

Table 3.7: Hospitals pro-forma financial position (\$ 000)

	30 Sep 2018
Trade and other receivables	3,387
Accrued revenue	1,299
Income tax asset/(liability)	209
Trade and other payables	(1,150)
Employee benefits	(1,033)
Revenue in advance	(478)
Net working capital	2,235
Property, plant and equipment	321
Deferred tax assets	116
Intangible assets – software	76
Net operating assets	2,748

Source: Orion Health management accounts

Hospitals has approximately \$2.7 million of net operating assets, most of which relates to net working capital.

If the Proposed Transactions proceed, New Orion will likely have residual cash that could be used to fund Hospitals' operations. The exact level of cash would depend on the participation in the Share Buyback.

3.8 Group Financial Position

Table 3.8 summarises Orion Health's projected pro-forma financial position, as at 30 September 2018 and Orion Health's estimate of the pro-forma balance sheets that would be assigned to each Solution Group, assuming legal separation occurs. The projected balance sheets are prior to the debt and cash raised/paid in the Proposed Transactions.

Table 3.8: Pro Forma Financial Position as at 30 September 2018 (\$ 000)

	Rhapsody	PHM	Hospitals	Group
Trade and other receivables	27,357	25,339	3,387	56,083
Net cash	-	2,862	-	2,862
Accrued revenue	404	7,159	1,299	8,862
Income tax asset/(liability)	1,120	2,119	209	3,449
Trade and other payables	(6,155)	(11,641)	(1,150)	(18,945)
Employee benefits	(1,849)	(8,928)	(1,033)	(11,810)
Revenue in advance	(21,978)	(15,580)	(478)	(38,036)
Net working capital	(1,101)	1,330	2,235	2,464
Property, plant and equipment	1,719	3,251	321	5,291
Deferred tax assets	624	1,179	116	1,919
Intangible assets – software	405	765	76	1,246
Net operating assets	1,646	6,526	2,748	10,920

Source: Orion Health Management Projections

Orion Health expects to have between \$0.3 million and \$4.9 million net debt when the Proposed Transactions complete, expected to be in October or November 2018. For our valuation analysis, we have adopted this estimate of net debt.

3.9 Capital Structure and Ownership

Orion Health has 196,049,814 shares on issue and more than 3,000 registered shareholders. As at 16 August 2018, the top 20 shareholders accounted for 82.56% of the ordinary shares on issue.

Table 3.9: Share register as at 16 August 2018

Shareholder	Shares	Percentage
McCrae Limited – associated with Ian McCrae	97,526,723	49.75%
Geoff Cumming	15,817,777	8.07%
Pioneer Capital I Limited	12,316,447	6.28%
New Zealand Central Securities	6,069,355	3.10%
Hamish Kennedy	4,837,643	2.47%
HSBC Custody Nominees	3,718,492	1.90%
Telstra Holdings Pty Ltd	3,508,772	1.79%
Emerald Capital Limited	2,980,000	1.52%
Deborah Thomson	2,173,174	1.11%
Canz Capital Limited – associated with Orion Health chairperson	1,466,666	0.75%
ASB Nominees Ltd	1,227,109	0.63%
Mark Capill – Orion Health employee	1,222,508	0.62%
Jacon Investments Limited	1,222,222	0.62%
Paul Shearer – Orion Health director	1,222,222	0.62%
Michael Clegg	1,212,500	0.62%
Edwin Ng	1,170,942	0.60%
J P Morgan Nominees Australia	1,127,032	0.57%
Gordon McCrae – related to Ian McCrae	1,090,598	0.56%
Orion Health Corporate Trustees Limited	1,065,502	0.54%
FNZ Custodians Limited	886,054	0.45%
Top 20 shareholders	161,861,738	82.56%
Remaining shareholders	34,188,076	17.44%
Total	196,049,814	100.0%

Source: Orion Health

The major shareholder of Orion Health is McCrae Limited, an entity associated with Ian McCrae. Mr McCrae and parties related to him (including McCrae Limited) hold 98,992,331 Orion Health shares, representing 50.5% of the ordinary shares on issue.

In addition to the ordinary shares on issue, as shown in Table 3.9 above, Orion Health has:

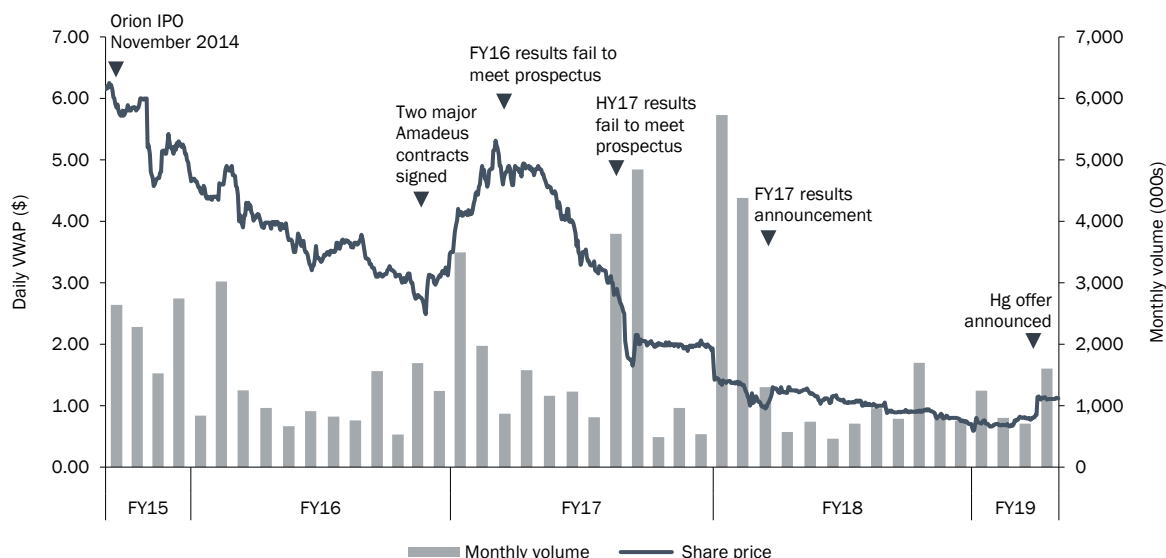
- 2,327,997 restricted stock units (RSU), which will vest based on the tenure of key staff. If the Share Buyback proceeds, the RSU will convert to cash, with the cash payable being the same as the ultimate Share Buyback price. This means that while the shares do not count for voting, they will dilute the funds available to shareholders.
- 91,433 shares held for an employee share repurchase scheme. These shares are expected to be all be issued prior to completion of the Share Buyback.
- 89,286 directors' shares are expected to be issued prior to completion of the Share Buyback.

There are 198,558,510 fully diluted shares in Orion Health.

3.10 Share Price Performance

Figure 3.12 illustrates the share price and volume for Orion Health shares since listing.

Figure 3.12: Orion Health price and volume chart



Source: Capital IQ

Since listing in November 2014, Orion Health's share price has generally trended down, although, the share price did increase strongly between March and May 2016, which followed the announcements that Orion Health had partnered with Cognizant (26 February 2016) and signed an agreement with a major U.S. healthcare insurer (30 March 2016). Both announcements were related to Orion Health's Amadeus platform, which is part of PHM.

Orion Health announced that it was undertaking a strategic review in April 2017. This review was subsequently widened and extended to explore possible investment from other parties. The strategic review resulted in the Proposed Transactions.

Orion Health announced a rights issue in May 2017. Eligible shareholders could subscribe for up to two new Orion Health Shares for each nine shares held, at 90 cents per share.

Table 3.10: Share prices and volume as at 2 July 2018

	Share Price			Volume (millions)	Proportion of Issued Capital
	Low	High	VWAP ⁷		
One month	\$0.77	\$0.85	\$0.80	0.6	0.33%
Three months	\$0.59	\$0.85	\$0.72	2.8	1.46%
Twelve months	\$0.59	\$1.30	\$0.90	10.3	5.36%

Source: Capital IQ

Approximately 10.3 million Orion Health shares have traded in the 12 months prior to the Proposed Transactions being announced (on 3 July 2018), at prices between \$0.59 and \$1.30. The estimated Share Buyback price range of \$1.16–\$1.26 per share represents a:

- Premium of 36%–48% to the share price of \$0.85 prior to 3 July 2018;
- Premium of 45%–58% to the VWAP of \$0.80 in the one month prior to 3 July 2018;
- Premium of 61%–75% to the VWAP of \$0.72 in the three months prior to 3 July 2018; and
- Premium of 29%–40% to the VWAP of \$0.90 in the twelve months prior to 3 July 2018.

⁷ Volume weighted average price – calculated based on daily volumes and closing share prices sourced from Capital IQ.

4 Valuation

4.1 Valuation Approach

There are four methodologies commonly used for valuing businesses:

- Discounted Cash Flow (**DCF**) analysis
- Capitalisation of earnings
- Estimate of proceeds from an orderly realisation of assets
- Industry rules of thumb.

Each of these valuation methodologies is appropriate in different circumstances. A key factor in determining which methodology is appropriate is the actual practice commonly adopted by purchasers of the type of businesses involved. These valuation methodologies are detailed at Appendix 3.

Any valuation, by its very nature, must attribute a current value that reflects the expected future financial performance of the subject business. Consequently, information regarding the expected future performance, such as financial projections, is vital to the valuation exercise.

For the purposes of informing our Report, Orion Health management have prepared a forecast for FY19 (**the Forecast**). The principal assumptions underpinning the Forecast have been discussed above at Sections 3.5.1, 3.6.1 and 3.7.1. It is the nature of Orion Health's businesses that it is very difficult to forecast beyond the short-term. Management were not able to provide us with financial forecasts beyond the current year.

By necessity, we have relied on the Forecast when valuing the Solution Groups and Orion Health shares.

Our primary valuation methodology used to estimate the market value of the Solution Groups as standalone entities is the capitalisation of earnings approach. This has been adopted because it is widely used when valuing comparable IT businesses.

We are able to value Rhapsody based on a multiple of its profits. Rhapsody is consistently profitable and has a steady, and growing, stream of earnings to which an appropriate multiple can be applied to assess value. We have also considered revenue multiples for Rhapsody.

PHM and Hospitals are not currently profitable. Therefore, it is not possible to value those businesses based on a multiple of profits. Instead, in comparable situations, a common benchmark used to value these types of businesses is a multiple of revenue. However, we note that valuations of loss-making IT service providers such as PHM and Hospitals have a very high level of uncertainty due to:

- The value of those businesses depending on their future prospects, which are inherently uncertainty.
- PHM, in particular, is currently generating significant losses and in order to establish a profitable business it will need to rely upon significant financial support from its shareholders.
- PHM and Hospitals have generated significant revenues. However, the costs to support those revenues have historically been high. It remains to be seen and is inherently uncertain whether those businesses can lower their costs enough to generate a sustainable earnings stream.

We have cross-checked our primary valuation methodology where possible, using a variety of approaches discussed below. We note that we have not undertaken a DCF valuation of any of the Solution Groups. PHM and Hospitals are mostly loss-making through the Forecast period and in any event for all three Solution Groups there is only one year of financial forecast available.

The standalone assessments of value for each Solution Group rely on corporate cost allocations that have been provided to us by Orion Health management. There is necessarily a degree of subjectivity involved in these allocations and based on our limited knowledge of the work requirements of personnel that work across the Orion Health Group it is not possible to determine the reasonableness of the allocations. The allocations adopted can have a material impact of the values assessed for each of the respective Solution Groups.

4.2 Rhapsody Valuation

4.2.1 Capitalisation of earnings

Earnings Multiple

To undertake a capitalisation of earnings valuation, it is necessary to determine an appropriate earnings multiple, which is then applied to an estimate of earnings.

Comparable earnings multiples are generally derived by benchmarking the entity being valued against the sale and purchase of shares in comparable companies. Transaction evidence is typically sourced from:

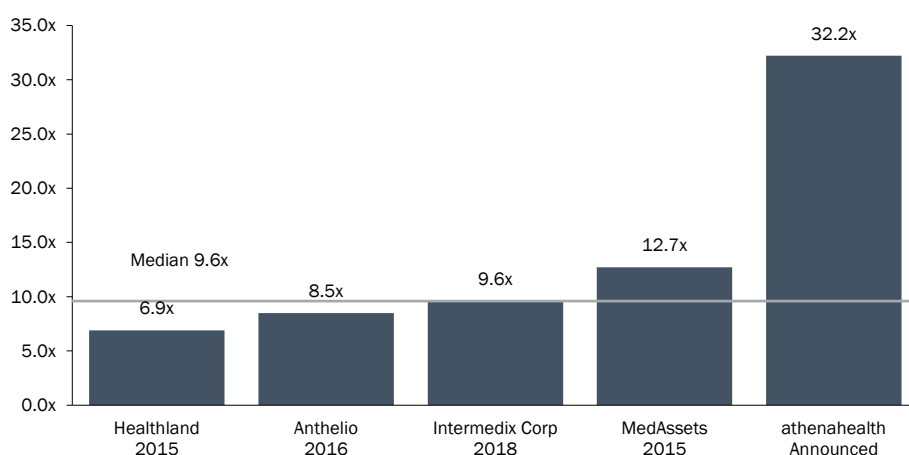
- Earnings multiples based on recent acquisitions of comparable companies.
- Earnings multiples based on the current share price of comparable listed companies.

Observed trading multiples need to be adjusted for factors such as relative size, growth, profitability and risk. Also, observed transactions for listed entities are generally for small parcels of shares, and therefore typically exclude a premium for control that normally applies to a 100% shareholding.

Comparable transaction and trading EBITDA multiples

Appendix 4 sets out details of historical EBITDA multiples implied by transactions of broadly comparable health IT service providers, which are summarised in Figure 4.1. These transactions have been selected based on the company operating in the health IT sector and the acquirer gaining control of the comparable company on completion of the transaction.

Figure 4.1: Comparable Transactions – Historical EBITDA multiples



The comparable transactions show earnings multiples in a very wide range of 6.9x to 32.2x historical EBITDA.

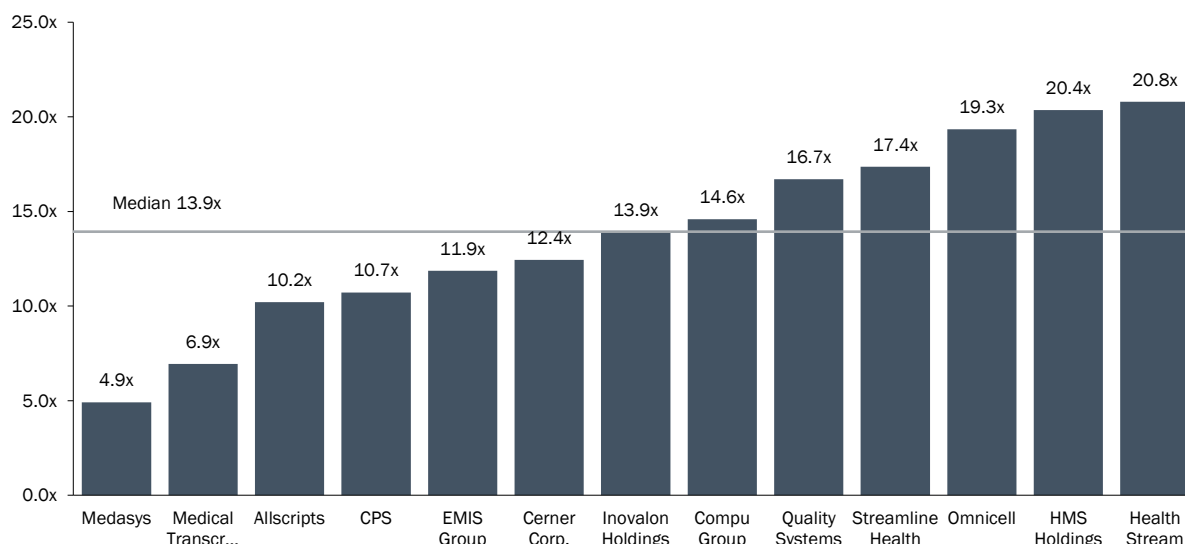
All the transactions shown in Figure 4.1 are for businesses that are larger than Rhapsody (revenues exceeding \$160 million and enterprise values exceeding \$300 million). In particular, MedAssets and athenahealth are significantly larger than Rhapsody (enterprise values exceeding \$4 billion). While the remaining three transactions were for businesses larger than Rhapsody, they are nevertheless of a more comparable size (enterprise values between \$300 million and \$700 million), these transactions have earnings multiples between 6.9x and 9.6x historical EBITDA, which we consider provides some guide as to the value for Rhapsody.

We have selected comparable listed companies based on the following criteria:

- **Industry:** We have selected companies that engage in the health IT sector.
- **Geography:** We have selected global companies.
- **Size:** Listed companies with revenue between \$35 million and \$7 billion have been selected.

Figure 4.2 illustrates forecast EBITDA multiples for comparable listed comparable companies. A summary of these companies is set out at Appendix 4.

Figure 4.2: Comparable Listed Companies – Forecast EBITDA multiples



Source: Capital IQ and KordaMentha estimates

The comparable listed companies have earnings multiples in a range between 5x and 20x forecast EBITDA. There are several fundamental differences between Rhapsody's operations and those of the listed comparable companies, as summarised below:

- The listed companies tend to offer a wide range of health IT services whereas Rhapsody is a niche product focussed on interoperability between health providers' systems. Furthermore, Rhapsody is a relatively mature and established business; whereas, while many of the comparable companies have business units that are mature and profitable, they also have other units that are loss-making or at low levels of profits. For this reason, we would expect Rhapsody's earnings multiples to be less than many of the comparable companies.
- The Rhapsody business is smaller than most of the comparable companies, with only three of the listed companies having less revenue.
- Rhapsody's EBITDA margin is higher than the comparable listed companies.
- Rhapsody's revenue growth declined between FY17 and FY18, whereas the comparable companies generally had revenue growth over the same period.

In our view, given the issues noted above, as well as a degree of uncertainty as to Rhapsody's true underlying profit as a standalone business (due to the risks of separation from the Orion Health Group), we would expect it to have an earnings multiple less than those of the comparable company set.

For completeness, we have also considered the valuation multiples implied by ASX and NZX listed IT companies of a broadly comparable scale to Rhapsody, which are also included in Appendix 4.

It is difficult to place much reliance on the metrics of IT companies in New Zealand and Australia, as these companies operate in different segments and are not exposed to the health IT sector. Nevertheless, we note that Isentia Group, 3P Learning, Integrated Research and Infomedia and are broadly comparable in size to Rhapsody, have broadly similar revenue growth and trade at earnings multiples between 4.0x and 10.6x forecast EBITDA.

We have assessed an earnings multiple range of 6.0x to 8.0x EBITDA for Rhapsody.

Earnings

For the purpose of valuing Rhapsody, we have adopted \$32.7 million EBITDA, which is management's estimate of the standalone financial performance for Rhapsody in FY19. We consider there is material risk to value around the ability to improve EBITDA to \$32.7 million in FY19 from \$21.9 million in FY18. The increase in EBITDA is underpinned by an increase in

revenue from \$54.3 million to \$62.3 million, together with a \$3.5 million reduction in direct costs. It is the nature of a forecast that it remains to be seen whether the revenue increase and cost reductions can be achieved. We have been cognisant of this substantial growth in the EBITDA forecast when assessing an appropriate multiple to apply to FY19 EBITDA.

As a cross-check to our valuation, we have also considered the valuation multiples implied by our assessed valuation range, when compared to Rhapsody's FY18 EBITDA.

Summary of Capitalisation of Earnings valuation

Our capitalisation of earnings valuation of Rhapsody results in a valuation range of \$196 million to \$262 million.

The capitalisation of earnings calculation is set out in Table 4.1:

Table 4.1: Capitalisation of earnings valuation (\$ 000)

	Low	High
FY19 EBITDA	32,712	32,712
Multiple	6.0x	8.0x
Enterprise value	196,274	261,699

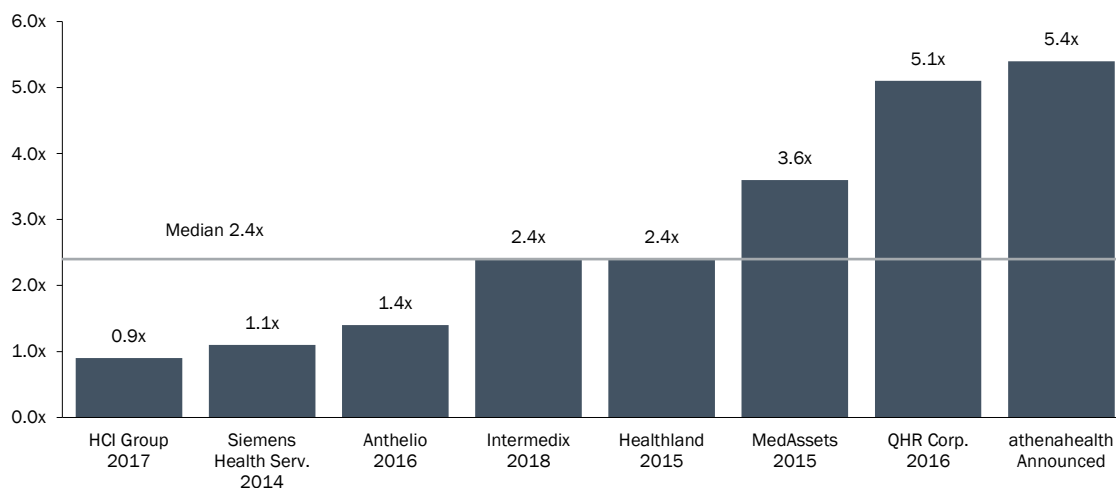
Source: Management accounts, KordaMentha analysis

4.2.2 Capitalisation of revenue

Comparable transaction and trading Revenue multiples

Figure 4.3 illustrates the revenue multiples implied by transactions of comparable health IT service providers. These transactions are set out in greater detail at Appendix 4 and have been selected based on the comparable company operating in the health IT sector and acquirers gaining control of the comparable companies on completion of the transactions.

Figure 4.3: Comparable transactions – Historical revenue multiples

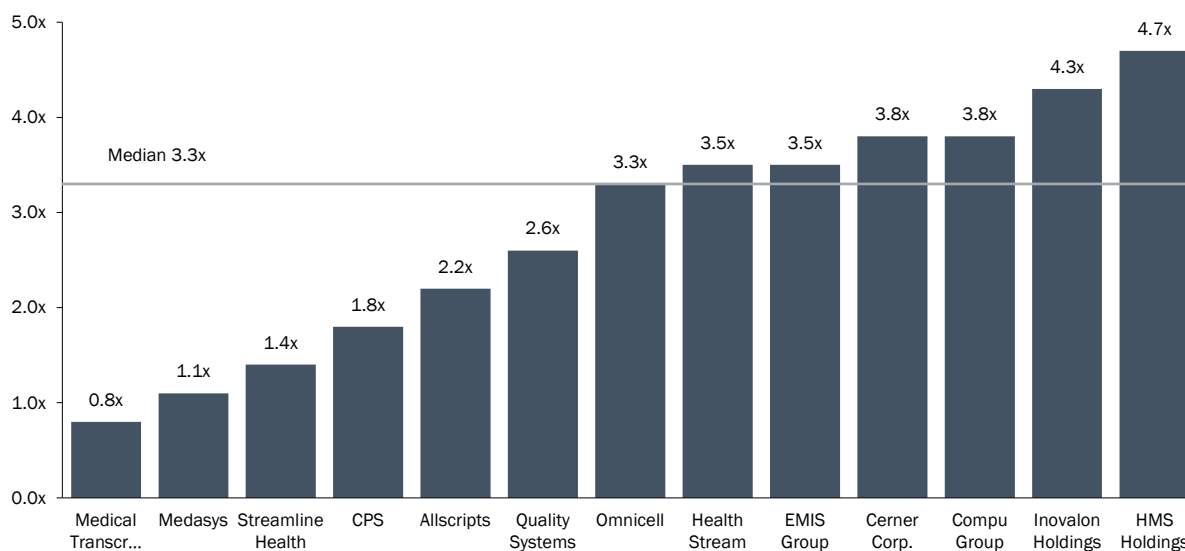


Source: Capital IQ and KordaMentha estimates

Revenue multiples for businesses in the health IT sector have tended to lie in a very wide range, between 0.9x and 5.4x historical revenue. Based on publicly available information it is difficult to ascertain the key reasons for the wide variety in revenue multiples adopted.

Figure 4.4 illustrates the revenue multiples for comparable listed companies. Further detail on these companies is set out at Appendix 4.

Figure 4.4: Comparable listed companies – Forecast revenue multiples



Source: Capital IQ and KordaMentha estimates

As noted above, there are fundamental differences between Rhapsody's operations and those of the listed comparable companies operating in the health IT sector. However, the revenue multiples implied by their market capitalisations lie in a wide range between 0.8x and 4.7x forecast revenue, with a large portion between 2.0x and 4.0x.

We consider that Rhapsody should be valued based on a revenue multiple towards the upper end of the comparable company set, particularly because its EBITDA margins are higher than many of the companies in the peer group.

We have assessed a revenue multiple range of 3.0x to 4.0x, which we apply to Rhapsody's FY18 revenue.

Summary of Capitalisation of Revenue valuation

Our capitalisation of revenue valuation of Rhapsody results in a valuation range of \$163 million to \$217 million.

The capitalisation of revenue calculation is set out in Table 4.2:

Table 4.2: Capitalisation of revenue valuation (\$ 000)

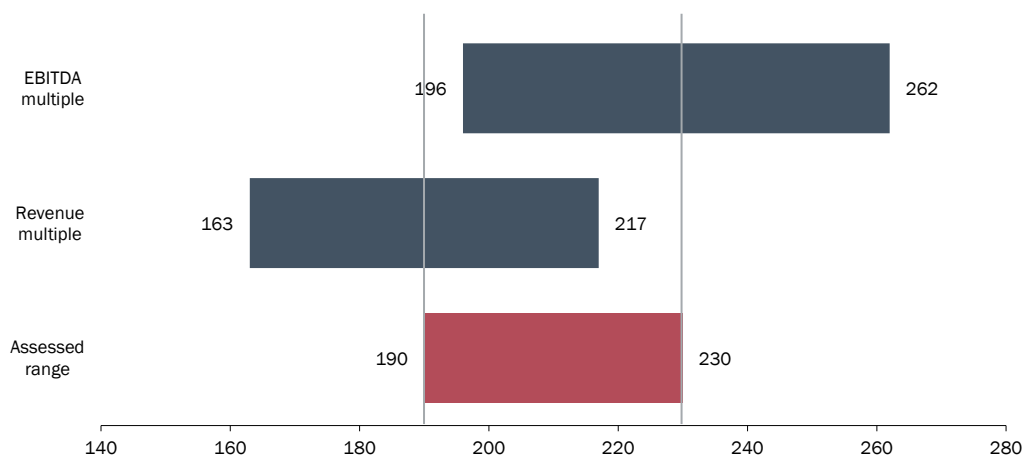
	Low	High
FY18 Revenue	54,262	54,262
Multiple	3.0x	4.0x
Enterprise value	162,786	217,048

Source: Management accounts, KordaMentha analysis

4.2.3 Rhapsody – Valuation Summary

A summary of our valuation approaches for Rhapsody as well as our assessed valuation range is illustrated in Figure 4.5.

Figure 4.5: Rhapsody valuation range (\$ million)



We have assessed a range for Rhapsody's enterprise value at between \$190 million and \$230 million. The low-end of our range is based on the mid-point of the capitalisation of revenue approach and the high-end of the range is based on the mid-point of the capitalisation of earnings approach.

Our assessment of Rhapsody's value is based on its FY19 forecast financial performance. Orion Health management has forecast Rhapsody's profitability to improve significantly from FY18 to FY19. As a crosscheck, we have considered the earnings multiples implied by our valuation range, based on FY18 EBITDA, as set out in Table 4.3.

Table 4.3: Implied FY18 EBITDA multiples (\$ 000)

	Low	High
Enterprise value	190,000	230,000
FY18 EBITDA	21,903	21,903
Implied multiple	8.7x	10.5x

In our view, the implied historical EBITDA multiples for Rhapsody are reasonable. While the historical EBITDA multiples for broadly comparable businesses are on average slightly higher than 8.7x to 10.5x EBITDA, we consider this represents a reasonable valuation multiple for a relatively mature and well-established business with good growth prospects and established sales channels globally. This range is also in line with observed historical EBITDA multiples for broadly comparable transactions in the health IT sector.

4.3 PHM Valuation

4.3.1 Capitalisation of revenue

Revenue Multiple

PHM is currently unprofitable, which means we cannot value it based on EBITDA multiples and have instead focussed on revenue multiples. To assess a revenue multiple to apply to PHM we have considered the same set of comparable transactions and listed companies that operate in the health IT sector as we considered when valuing Rhapsody.

Our assessment of an appropriate revenue multiple accounts for issues specific to PHM. There are several fundamental differences between PHM's operations and those of the listed comparable companies and transactions, including:

- The listed companies tend to be more mature and are profitable, whereas PHM is unprofitable and has a significant cash burn. There is uncertainty around PHM's ability to reduce expenditure, reach breakeven and generate future profits.

- The listed companies offer a wide range of health IT services, including population health services.
- The PHM business is smaller than most of the comparable companies, with only three of the listed companies having less revenue than PHM.
- Our analysis indicates that revenue multiples are positively correlated with profitability. Loss making companies tend to have significantly lower revenue multiples.

Selection of revenue multiple

We have assessed a revenue multiple range of 0.4x to 0.8x, which we apply to PHM's FY18 revenue. This represents the low end of the range of the comparable companies but given the significant uncertainties around whether PHM is a sustainable business, we consider this appropriate.

In coming to this revenue multiple range, we have taken the following into account:

- The specialised nature of PHM's services. This makes it harder for customers of population health management software to switch suppliers, which helps defend existing revenue streams but also affects the ability to win new customers.
- PHM's revenue declined in each of FY17 and FY18.
- PHM has been successful in establishing customers and generated more than \$100 million revenue in FY18. Albeit, the costs to serve these customers have been much higher than revenues generated, resulting in significant financial losses. PHM is forecast to incur a \$34.6 million EBIT loss in FY19.
- PHM is currently a high-risk investment, while the potential rewards are high, there is a risk that PHM will continue to burn cash and never reach breakeven.

Summary of Capitalisation of revenue valuation

Our capitalisation of revenue valuation of PHM results in a valuation range of \$43 million to \$86 million.

The capitalisation of revenue calculation is set out in Table 4.4:

Table 4.4: Capitalisation of revenue valuation (\$ 000)

	Low	High
FY18 Revenue	107,160	107,160
Multiple	0.4x	0.8x
Enterprise value	42,864	85,728

Source: Management accounts, KordaMentha analysis

The low-end of our valuation range is equivalent to the high-end revenue multiple (0.8x) with a \$43 million deduction to allow for the losses that may be incurred before reaching breakeven. We observe that many of the comparable companies are profitable and consider it appropriate to account for this additional cash cost to shareholders at the low end of the range. We also observe that the quantum of expected losses, before breakeven is reached, is inherently uncertain.

4.4 Hospitals Valuation

Hospitals is forecast to make losses in FY19 and Orion Health management is uncertain when it might breakeven. The business has a relatively limited set of customers, focussed in New Zealand and, revenue declined from \$15.1 million to \$8.1 million between FY16 and FY18. Over the same period Hospitals has generated cumulative \$12.4 million EBIT losses.

In our view, given the losses being generated and the inherent uncertainty as to the ability of the Hospitals business to remain a going concern, it is not appropriate to value the business based on earnings.

We have assessed Hospitals' value as being between nil and \$5 million, assuming it is separate from the rest of Orion Health group. Hospitals' pro-forma net assets are expected to be approximately \$3 million, which lies in the middle of our valuation range.

The high end of our valuation range is based a high-level estimate of \$5 million for a business that is forecast to generate revenue of approximately \$11 million in the current financial year, albeit it will also generate significant financial losses. There is potential for a strategic purchaser to see some value in acquiring this established revenue stream.

The low end of our assessed valuation range assumes there is no strategic purchaser and the best estimate for future financial performance is for the business to continue to incur trading losses the foreseeable future, including if a controlled wind-down was undertaken.

We consider it unlikely that a potential purchaser of Hospitals would pay a significant premium to its asset value, at the current time, given its recent experience of significant cash losses.

4.5 Hg Transaction

Key elements of the consideration implied by the Hg Transaction include:

- 75% shareholding in Rhapsody is priced at an enterprise value of \$205 million
- 25% shareholding in PHM is priced at an enterprise value of \$50 million.

The enterprise values we assess for Rhapsody and PHM, compared to the prices implied by the Hg Transaction, are as follows:

Table 4.5: Hg Transaction price versus assessed value (\$ million)

	Low	High	Offer price
Rhapsody	190	230	205
PHM	43	86	50

Source: KordaMentha analysis

The consideration offered for 75% of Rhapsody (\$205 million enterprise value) is within the range of \$190 million and \$230 million that we have assessed for 100% of Rhapsody on a standalone basis.

The consideration offered for 25% of PHM is based on a \$50 million enterprise value, which is at the low end of the \$43 million to \$86 million range that we assess for 100% of PHM on a standalone basis. Hg will only acquire 25% of PHM's shares in the Hg Transaction, which means there are cogent arguments to apply a discount for the lack of control applicable to Hg's interest in PHM on completion of the Hg Transaction.

In our experience, typical minority interest discounts to apply to a 25% shareholding in businesses broadly comparable to PHM would be of the order of around 20% of equity value. However, this discount would typically only be applied to the companies' equity; whereas, we are valuing PHM's enterprise value (which includes both equity and debt). Therefore, when considering Hg's acquisition of 25% of PHM, we have consider a discount for lack of control in the order of 10% to 15% to be reasonable. After applying the discount for lack of control, we assess an enterprise value range of \$37 million to \$77 million for PHM. The \$50 million enterprise value implied by the Hg Transaction lies within our assessed valuation range.

Potential Synergies

Orion Health management's view is that there are unlikely to be significant synergies which could be extracted by Hg, as a financial buyer, which might exceed the typical level of synergies inherent in our standalone valuation, via the inclusion of a control premium.

Earnings adjustment

As part of the agreement between Orion Health and Hg, the Solution Groups will enter into a series of agreements, which allow each Solution Group to sell the others' products at a margin (reseller agreements); and also require PHM to pay Rhapsody a fee to use its interoperability platform in PHM's own products.

The net impact of these transfer pricing arrangements on FY19 earnings is summarised in Table 4.6:

Table 4.6: Estimated impact of the inter-entity agreements (\$ 000)

	Rhapsody	PHM	Hospitals
Added Revenue	1,471	1,078	270
Added Costs	(1,348)	(1,471)	-
Added EBITDA	123	(392)	270

Source: Orion Health management forecast

For the purpose of considering the Hg Transaction, we consider the impact of the agreements on value for each Solution Groups to be relatively small and have not adjusted our estimates of value.

In addition to the above, Orion Health advises that there will be a series of consulting agreements to allow each party to utilise the other parties' resources for a fee. This will be governed by a series of consulting agreements between the Solution Groups.

4.6 Share Buyback

In order to assess the value of Orion Health's shares, we have valued Orion Health using a sum-of-the-parts valuation approach whereby each of the Solution Groups is valued as a separate standalone entity and then group adjustments are made to determine a value for the Orion Health Shares.

Our valuation analysis is summarised in Table 4.7. The estimates for the Solution Groups are enterprise values, prior to deducting debt.

Table 4.7: Valuation summary (\$ million)

	Low	High	Section Reference
Rhapsody	190.0	230.0	4.2
PHM	43.0	86.0	4.3
Hospitals	–	5.0	4.4
Total enterprise value	233.0	321.0	
Net debt estimate at completion	(4.9)	(0.3)	3.8
Equity value	228.1	320.7	
Fully diluted Shares on issue (million)	198.6	198.6	3.9
Implied value of Orion Health Shares	\$1.15	\$1.61	

All values shown in Table 4.7 are based on values applicable to 100% of the respective entity and therefore include any applicable premia for control.

It is arguable that, when considering the Share Buyback, Orion Health shareholders should make an adjustment for the fact that New Orion will only hold a minority (25%) interest in Rhapsody. However, for the purposes of our analysis of the share buyback, we consider it appropriate to assess value including control premia for each Solution Group. The Proposed Transactions are akin to a takeover proposal on a transaction where control is transferred, therefore, we consider it should be assessed on a similar basis.

Under the Proposed Transactions, Hg will acquire control of Rhapsody and Orion Health will retain control of PHM and Hospitals. Furthermore, following the Proposed Transactions, McCrae Limited may retain effective control over Orion Health. As a result, the Orion Health Shares will likely be illiquid and only McCrae Limited and Hg are likely to have any effective control over the standalone Solution Groups. Therefore, the value we ascribe to the Orion Health shares exceeds the price at which we expect Orion Health shares to trade immediately following the transaction.

Appendix 1: Sources of Information

Documents relied upon

Key information which was used and relied upon, without independent verification, in preparing this report includes the following:

- Orion Health Financial Statements FY15 – FY18
- Orion Health Management Accounts FY19
- Capital IQ
- Office of the National Coordinator for Health Information Technology. '2015 Edition Market Readiness for Hospitals and Clinicians Data' from <https://dashboard.healthit.gov/datadashboard/documentation/2015-edition-market-readiness-hospitals-clinicians-data-documentation.php>
- Vespa, Jonathan, David M. Armstrong, and Lauren Medina, "Demographic Turning Points for the United States: Population Projections for 2020 to 2060", Current Population Reports, P25-1144, U.S. Census Bureau (2018).
- OECD (2017), Health at a Glance 2017: OECD Indicators, OECD Publishing, Paris.
- Donald M. Berwick, MD, MPP and Andrew D. Hackbarth, MPhil "Eliminating Waste in US Health Care", American Medical Association (2012)
- OECD Health Statistics 2017
- Data sourced from the Reserve Bank of New Zealand's website (rbnz.govt.nz).

We have also had discussions with Orion Health's management in relation to the nature of Orion Health's business operations, and the known risks and opportunities for the foreseeable future.

In our opinion, the information to be provided by Orion Health to shareholders that are non-associated shareholders (as given meaning at NZX Listing Rule 1.7.2) is sufficient to enable the non-associated shareholders to understand all the relevant factors and to make an informed decision in respect of the Proposed Transactions.

Reliance upon information

In forming our opinion we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by Orion Health and its advisers. We have no reason to believe any material facts have been withheld.

We have evaluated that information through analysis, enquiry and examination for the purposes of forming our opinion but we have not verified the accuracy or completeness of any such information. We have not carried out any form of due diligence or audited the accounting or other records of Orion Health. We do not warrant that our enquiries would reveal any matter that an audit, due diligence review or extensive examination might disclose.



Appendix 2: Qualifications and Declarations

Qualifications

KordaMentha is an independent New Zealand Chartered Accounting practice, internationally affiliated with the KordaMentha group. The firm has established its name nationally through its provision of professional financial consultancy services with a corporate advisory and insolvency emphasis, and because it has no business advisory, audit or tax divisions, avoids any potential conflicts of interest which may otherwise arise. This places the firm in a position to act as an independent adviser and prepare independent reports.

The persons responsible for preparing and issuing this report are Grant Graham (BCom, CA); Shane Bongard (BCom (Hons)); and Shaun Hayward (BCom, BProp, CFA). All have significant experience in providing corporate finance advice on mergers, acquisitions and divestments, advising on the value of shares and undertaking financial investigations.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of KordaMentha's opinion as to merits of the Proposed Transactions. KordaMentha expressly disclaims any liability to any Orion Health security holder that relies or purports to rely on the Report for any other purpose and to any other party who relies or purports to rely on the Report for any purpose.

This report has been prepared by KordaMentha with care and diligence and the statements and opinions given by KordaMentha in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by KordaMentha or any of its officers or employees for errors or omissions however arising (including as a result of negligence) in the preparation of this report, provided that this shall not absolve KordaMentha from liability arising from an opinion expressed recklessly or in bad faith.

Indemnity

Orion Health has agreed that, to the extent permitted by law, it will indemnify KordaMentha and its partners, employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of this report. This indemnity does not apply in respect of any negligence, misconduct or breach of law. Orion Health has also agreed to indemnify KordaMentha and its partners, employees and officers for time incurred and any costs in relation to any inquiry or proceeding initiated by any person except where KordaMentha or its partners, employees and officers are guilty of negligence, misconduct or breach of law in which case KordaMentha shall reimburse such costs.

Independence

KordaMentha does not have at the date of this report, and has not had, any shareholding in, or other relationship, or conflict of interest with Orion Health that could affect its ability to provide an unbiased opinion in relation to this transaction.

KordaMentha will receive a fee for the preparation of this report. This fee is not contingent on the success or implementation of the Proposed Transactions or any transaction complementary to it. KordaMentha has no direct or indirect pecuniary interest or other interest in this transaction. We note for completeness that a draft of this report was provided to Orion Health and its advisers, solely for the purpose of verifying the factual matters contained in the Report. While minor changes were made to the drafting, no material alteration to any part of the substance of this report, including the methodology or conclusions, were made as a result of issuing the draft.

Consent

KordaMentha consents to the issuing of this report, in the form and context in which it is included, in the information to be sent to Orion Health shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without the prior written consent of KordaMentha as to the form and context in which it appears.

Appendix 3: Valuation Methodologies

There are four methodologies commonly used for valuing businesses:

- Discounted Cash Flow (**DCF**) analysis;
- Capitalisation of earnings;
- Estimate of proceeds from an orderly realisation of assets; and
- Industry rules of thumb.

Each of these valuation methodologies is appropriate in different circumstances. A key factor in determining which methodology is appropriate is the actual practice commonly adopted by purchasers of the type of businesses involved.

Discounted cash flow

It is a fundamental principle that the value of an asset or business is represented by its expected future cash flows, discounted to present value at a rate which reflects the risk inherent in those cash flows. This approach, referred to as the DCF methodology, is particularly suited to situations where a business is in a growth phase or requires significant additional investment to achieve its projected earnings.

The DCF methodology requires considerable judgement in estimating future cash flows and the valuer generally places significant reliance on medium to long term projections prepared by management. The DCF valuation methodology can also be very sensitive to changes in underlying assumptions. Notwithstanding these limitations, DCF valuations are appropriate where current earnings are not representative of reasonable expectations of future earnings.

Capitalisation of earnings

The capitalisation of earnings methodology requires an assessment of the maintainable earnings of the business and the selection of an appropriate capitalisation rate, or earnings multiple. This methodology is most appropriate where there is a long history of relatively stable returns and capital expenditure requirements are neither large nor irregular. In practice, it is often difficult to obtain accurate forecasts of future cash flows and therefore the capitalisation of earnings methodology is often used as a surrogate for the DCF methodology.

Realisation of assets

The realisation of assets approach is based on an estimate of the proceeds from an orderly sale of assets. This methodology is more commonly applied to businesses that are not going concerns. The valuation result reflects liquidation values and typically attributes no value to any goodwill associated with on-going trading.

Industry rules of thumb

In some industries, businesses are valued using well established 'rules of thumb'. These rules of thumb are generally used as a cross-check for other valuation methodologies.



Appendix 4: Valuation Evidence

Comparable Listed Companies

Revenue and EBITDA multiples for publicly listed companies that operate in the health IT market are set out in Table A4.1. Many of these companies are competitors to Orion Health and produce software that is an alternative to one or more of Orion Health's Solutions Groups. Although each of Orion Health's Solutions Groups are quite different, and we have applied a different valuation multiple to each, we have analysed all of the comparable companies as one group then adjusted multiples as appropriate to value each of Rhapsody, PHM and Hospitals.

Figure A4.1: Comparable Listed Company Multiples

Company	Head Office	Revenue (\$ million)	Revenue growth ⁸	EBITDA margin	Forecast revenue multiples	Forecast EBITDA multiples
Cerner Corporation	USA	7,679	9%	25.1%	3.8x	12.4x
Allscripts	USA	2,992	9%	5.2%	2.2x	10.2x
CompuGroup Medical	Germany	1,171	4%	21.0%	3.8x	14.6x
Omnicell	USA	1,130	11%	9.5%	3.3x	19.3x
HMS Holdings	USA	839	10%	20.6%	4.7x	20.4x
Quality Systems	USA	795	5%	8.1%	2.6x	16.7x
Inovalon Holdings	USA	710	16%	16.5%	4.3x	13.9x
CPS	USA	424	6%	12.3%	1.8x	10.7x
HealthStream	USA	380	3%	11.4%	3.5x	20.8x
EMIS Group	UK	309	4%	12.2%	3.5x	11.9x
Medical Transcription...	USA	49	32%	7.0%	0.8x	6.9x
Medasys	France	40	12%	(6.9%)	1.1x	4.9x
Streamline Health	USA	37	(1%)	2.8%	1.4x	17.4x
Median					3.3x	13.9x

Source: Capital IQ and companies' announcements and financial statements

When assessing the comparability of the listed companies to each of Rhapsody, PHM and Hospitals we have considered that the listed companies tend to be:

- Larger than each of the Solution Groups
- Profitable
- Expecting revenue growth between minus 3% and 16% over the next financial year
- Providers of a wide range of healthcare IT services.

We have observed some trends within the comparable listed companies that are relevant when considering the appropriate multiples to apply to Rhapsody, PHM and Hospitals. In particular:

- Revenue multiples are correlated with profitability. Those companies with losses or low EBITDA margins tend to have lower revenue multiples and vice versa.
- EBITDA multiples are correlated with profitability but also forecast revenue growth. Those companies with higher revenue growth typically exhibit higher EBITDA multiples.

A summary of each comparable company follows.

⁸ Forecast annual revenue growth percentages are generally based on revenue changes between the last financial year and FY21, where consensus broker estimates are available. Other date ranges are used where consensus broker estimates are unavailable.

Cerner Corporation

Cerner provides health care IT solutions internationally. Its offering includes clinical, financial, and management information systems that allow providers to access an individual's electronic health record (EHR) at the point of care and organises and delivers information for physicians, nurses, laboratory technicians, pharmacists, front- and back-office professionals and consumers. It also offers a cloud-based platform that enables organisations to aggregate, transform and reconcile data across the continuum of care. In addition, Cerner provides a portfolio of clinical and financial health IT care solutions, as well as departmental, connectivity, population health, care coordination solutions and various complementary services. Further, it provides various services, such as implementation and training, remote hosting, operational management, revenue cycle, support and maintenance, health care data analysis, clinical process optimization, transaction processing, employer health centres, employee wellness programs, and third party administrator services for employer-based health plans. It serves integrated delivery networks, physician groups and networks, managed care organisations, hospitals, medical centres, reference laboratories, home health agencies, imaging centres, pharmacies, pharmaceutical manufacturers, employers, governments, and public health organisations. Cerner was founded in 1979 and is headquartered in Missouri.

Allscripts Healthcare Solutions, Inc.

Allscripts provides IT solutions and services to healthcare organisations, mainly in the United States and Canada. It offers electronic health records, connectivity, private cloud hosting, outsourcing, analytics, patient engagement, clinical decision support, and population health management solutions. Allscripts' clinical and financial solutions segment provides integrated clinical software applications and financial and information solutions, which primarily include financial and practice management software solutions, as well as related installation, support and maintenance, outsourcing, private cloud hosting, revenue cycle management, training, and electronic claims administration services. Its population health segment offers health management and coordinated care solutions that enable hospitals, health systems, accountable care organisations, and other care facilities to connect, transition, analyse, and coordinate care across the entire care community. Allscripts serves physicians, hospitals, governments, health systems, health plans, life-sciences companies, retail clinics, retail pharmacies, pharmacy benefit managers, insurance companies and employer wellness clinics, as well as post-acute organisations, such as home health and hospice agencies. Allscripts was founded in 1986 and is headquartered in Chicago.

CompuGroup Medical Societas Europaea

CompuGroup develops and sells software and IT services for the healthcare sector worldwide. It provides practice management software and electronic medical records for office-based physicians, dentists, medical care centres, and physician's networks, which offers integrated software solutions for customers to manage, analyse, and use medical data; organise business operations; and generate invoices. Its pharmacy information systems segment provides integrated clinical, administrative, and financial software applications for retail pharmacies. This segment also offers in-store and online merchandising programs. CompuGroup hospital information systems segment provides clinical and administrative solutions for the inpatient sector. This segment serves acute hospitals; rehabilitation centres; and social services, including multi-site hospital networks and regional care organisations. Its health connectivity services segment provides solutions that enable pharmaceutical companies to provide information to healthcare providers through software interfaces. This segment also offers clinical decision support systems, and drugs and therapy databases for healthcare providers; and solutions for personal health records, consumer portals, and mobile applications, as well as collects and mediates clinical data for market studies, clinical trials, etc. It serves pharmaceutical companies, health insurance companies, and other healthcare IT companies and consumers. CompuGroup was founded in 1979 and is headquartered in Germany.

Omnicell, Inc.

Omnicell provides automation and business analytics software for medication and supply management in healthcare worldwide. It operates through two segments, Automation and Analytics and Medication Adherence. It also offers a dispensing system, which automates the management and dispensing of medications; SinglePointe, a software product that controls medications. Omnicell was founded in 1992 and is headquartered in California.

HMS Holdings Corp.

HMS provides cost containment solutions in the United States healthcare marketplace. It provides coordination of benefits services to government and commercial healthcare payers and sponsors to coordinate benefits for claims; and payment integrity services that ensure healthcare claims billed are accurate and appropriate, as well as offers care management and consumer engagement solutions. It serves state Medicaid programs, commercial health plans, federal government health agencies, government and private employers, children's health insurance programs, and other healthcare payers and sponsors. HMS was founded in 1974 and is headquartered in Texas.



Quality Systems, Inc.

Quality Systems provides IT services to medical and dental group practices in the United States. Its principal products include NextGen Enterprise EHR, an electronic health records solution, which stores and maintains clinical patient information; and offers a workflow module, prescription management, automatic document and letter generation, patient education, referral tracking, interfaces to billing and lab systems, physician alerts and reminders, and reporting and data analysis tools. Its principal products also comprise NextGen Enterprise PM, a practice management (PM) solution; and NextGen Office, a cloud-based electronic health record and PM solution. It also offers population health services. Additionally, the company offers interoperability solutions and provides professional services, including training, project management, functional and detailed specification preparation, configuration, testing, installation, support, and client services. Quality Systems was founded in 1974 and is headquartered in California.

Inovalon Holdings, Inc.

Inovalon provides cloud-based platforms in the healthcare industry. Its platform enables the assessment of clinical and quality outcomes and financial performance. It serves health plans and provider organisations, as well as pharmaceutical, medical device and diagnostics companies. Its platforms are informed by data pertaining to approximately 932,000 physicians; 455,000 clinical facilities; and approximately 240 million individuals and 37 billion medical events. Inovalon was founded in 1998 and is headquartered in Maryland.

Computer Programs and Systems, Inc.

Computer Programs and Systems provides healthcare IT solutions in the United States and the Caribbean nation of St. Maarten. Its software systems include patient management software that enables a hospital to identify a patient at various points in the healthcare delivery system, as well as helps to collect and maintain patient information throughout the process of patient care; and financial accounting software, which offers business office applications to track and coordinate information needed for managerial decision-making. In addition, it offers Healthland Centriq, a Web-based electronic health record platform that centralises data from various care areas; and Healthland Classic that offers a suite of integrated applications for managing operations, resources, and people, as well as for ambulatory information management solutions. It serves community hospitals and physician clinics, skilled nursing and assisted living facilities and small specialty hospitals. Computer Programs and Systems was founded in 1979 and is based in Alabama.

HealthStream, Inc.

HealthStream provides workforce and provider solutions to healthcare organisations in the United States. It offers workforce development solutions comprising software-as-a-service (SaaS) and subscription-based products to meet talent management, training, certification, competency assessment, performance appraisal, and development needs, as well as training, implementation, and account management services. HealthStream was founded in 1990 and is headquartered in Tennessee.

EMIS Group plc

EMIS, through its subsidiaries, provides healthcare IT and related services for healthcare professionals in the United Kingdom. It operates in four segments: Primary, Community & Acute Care; Community Pharmacy; Specialist & Care; and Patient. EMIS offers clinical management systems that hold patient records for healthcare providers and commissioners; dispensary pharmacy management software for the community pharmacy market; and non-clinical software for health and social care. The company was founded in 1987 and is headquartered in Leeds, the United Kingdom.

Medical Transcription Billing, Corp.

Medical Transcription Billing, a healthcare IT company, provides an integrated suite of Web-based solutions and related business services to healthcare providers primarily in the United States. It principally offers a software-as-a-service (SaaS) platform, which includes practice management software and related tools that facilitate the day-to-day operation of a medical practice; electronic health record (EHR), which enables customers to reduce paperwork; revenue cycle management services, such as end-to-end medical billing, analytics, and related services; and mobile health solutions, including smartphone applications that assist patients and healthcare providers in the provision of healthcare services. Medical Transcription Billing serves physicians, nurses, nurse practitioners, physician assistants, and other clinical staff that render bills for their services. Medical Transcription Billing was founded in 1999 and is headquartered in New Jersey.



Medasys S.A.

Medasys provides software solutions and services to the healthcare industry. It offers a solution for patient record, healthcare production, technical biology, imaging and pharmacy platforms, billing, reporting, and activity management, which is offered to caregivers and institution managers. It serves healthcare professionals in France, Spain, the United Kingdom, the United States, Latin America, China, the Middle East, and Africa. The company is based in France.

Streamline Health Solutions, Inc.

Streamline provides health IT solutions and services for hospitals and health systems in the United States and Canada. It provides software-based solutions and auditing services, which captures, aggregates, and translates structured and unstructured data to deliver predictive insights to its clients. Streamline offers health information management, coding, and clinical documentation solutions, which include cloud-based software solutions. It also provides financial management solutions, including accounts receivable management, denials management, claims processing, spend management, and audit management; patient care solutions that enable healthcare providers to enhance their patient care; and custom integration, training, electronic image conversion, audit, and database monitoring services. Streamline Health Solutions was founded in 1989 and is based in Georgia.



Precedent Transactions

Revenue and EBITDA multiples for transactions in the health IT sector are set out at Figure A4.2.

We note that public information tends to be available to allow revenue multiples to be assessed but there is limited available information on profitability of the target companies.

Figure A4.2: Comparable Transaction Multiples

Date	Target Company	Acquiring Company	Target Location	Target Revenue (NZD\$ million)	Historical revenue multiples	Historical EBITDA Multiples
Announced	athenahealth	Elliott Mgmt. Corp.	USA	1,900	5.4x	32.2x
Feb 2018	Intermedix Corp	R1 RCM	USA	264.0	2.4x	9.6x
May 2017	The HCI Group	Tech Mahindra	USA	162.6	0.9x	n/a
Sep 2016	Anthelio	Atos SE	USA	273.6	1.4x	8.5x
Aug 2016	QHR Corporation	Loblaw Companies	Canada	32.6	5.1x	n/m
Nov 2015	Healthland	CPSI	USA	164.3	2.4x	6.9x
Nov 2015	MedAssets	PCP IV LP	USA	1,160	3.6x	12.7x
Aug 2014	Siemens Health Serv.	Cerner Corporation	USA	1,470	1.1x	n/a
Median					2.4x	9.6x

athenahealth

athenahealth provides network-based medical record, revenue cycle, patient engagement, care coordination and population health services for medical groups and health systems. It offers a network-enabled billing and practice management solution; an electronic health record for managing patient's clinical documentation; an engagement and communication solution that provides an automated communication service between patients and provider practices for interactions outside the exam room; and order transmission and care coordination services. athenahealth also provides a cloud-based population health service. athenahealth serves healthcare providers, medical groups and health systems through its direct sales force and channel partners in the United States and internationally. It was founded in 1997 and is headquartered in Massachusetts.

Elliott Management Corporation (**Elliott**) made an unsolicited offer to acquire the remaining 98.56% stake that it does not already own in athenahealth for \$6.5 billion on 7 May 2018. The proposal is subject to, among other things, the negotiation and execution of a mutually satisfactory definitive acquisition agreement, regulatory approvals, and satisfactory completion of due diligence.

Intermedix Corporation

Intermedix Corporation offers revenue cycle management, practice management and electronic care records software to Hospitals, physicians and emergency medical service centres. Intermedix has a diverse customer base of approximately 700 customers and 2,500 employees located in offices within the U.S., Lithuania, the United Kingdom and New Zealand.

R1 RCM Inc. (**RCM**) entered into a definitive agreement to acquire Intermedix for \$460 million cash on 23 February 2018.

The HCI Group

HCI offers healthcare technology consulting services including system selection advisory, legacy system support, data migration, integration and testing, implementation, training, ERP implementation and support, healthcare IT PMO, and revenue cycle. It serves customers in North America, Europe, the Middle East, and Asia Pacific. The company was founded in 2009 and is based in Jacksonville, Florida.

Tech Mahindra signed an agreement to acquire HCI in May 2017. Under the terms of the transaction, 84.7% of HCI Group was acquired for USD 89.5 million. The remaining 15.3% of HCI Group was subject to put and call options, whereby Tech Mahindra would acquire this residual portion with the price set based on revenue and EBITDA achieved between 2017 and 2019. This effectively acts as contingent consideration. For our analysis, we have assumed a total transaction value of USD 106 million,

which is based on the USD 89.5 million paid for the initial 84.7% interest. This estimate also factors in the notes to Tech Mahindra's 2018 financial accounts, which indicate that the value of the liability to acquire the remaining 15.3% is proportionally consistent with the value of the initial shares acquired.

Anthelio Healthcare Solutions

Anthelio provides healthcare technology solutions to hospitals, physician practice groups, and other healthcare providers in the United States. It offers healthcare IT services in the areas of applications management, IT infrastructure, business services, revenue cycle management, electronic health record (EHR) and optimisation services. Anthelio also provides a web-based database driven aggregation and presentation tool for archival, a platform for population health management that empowers healthcare providers to transform patient care by providing timely data for care interventions and a proactive approach to patient care, a patient portal to educate, engage, and empower patient population, a mobile application for patient education and engagement, and a suite of analytical applications for clinical documentation improvement. It was founded in 1999 and is based in Texas.

Atos SE acquired Anthelio from Actis LLP, McLaren Health Care Corporation and others for an enterprise value of approximately \$280 million cash on 12 September 2016. Anthelio had annual revenues of about \$200 million in 2015.

QHR Corporation

QHR was focused on healthcare technology, empowering providers and connecting patients. Its technologies and services enable secure medical records management for clinical environments, empowering health providers with tools for virtual care, including secure video and messaging, as well as tools for clinic management including scheduling, billing, and patient management.

Shoppers Drug Mart acquired QHR Corporation for approximately CAD 160 million on 21 August 2016.

Healthland

On 25 November 2015, Computer Programs and Systems (**CPSI**) agreed to acquire the assets and liabilities of Healthland Holdings Inc., including its wholly-owned subsidiaries, Healthland, AHT and Rycan.

- Healthland provides electronic health records (EHR) and clinical information management solutions to over 350 hospital customers.
- American HealthTech provides clinical and financial solutions in the post-acute care market, serving over 3,300 skilled nursing facilities.
- Rycan offers SaaS-based revenue cycle management workflow and automation software to over 290 hospital customers.

Total consideration amounted to USD 259.6 million and was paid in cash (65%) and CPSI common Stock (35%). The revenue multiple shown in Table A4.2 is based on Healthland's 2015 revenue, which would have largely been known prior to transaction being agreed. The transaction was completed 8 January 2016.

MedAssets

MedAssets provided technology-enabled products and services for hospitals, health systems, non-acute healthcare providers, payers, and other service providers and product manufacturers in the United States. It operates in two segments, Spend and Clinical Resource Management (SCM) and Revenue Cycle Management (RCM). The SCM segment provides a suite of cost management services, supply chain analytics, and data capabilities; strategic sourcing and group purchasing services; and medical device and clinical resource consulting, lean performance improvement, workforce management, and supply chain outsourcing and procurement services. This segment also provides business intelligence and decision support tools. The RCM segment offers Web-based software and technology-enabled services designed to enhance the revenue performance for healthcare organisations through patient access and financial responsibility, clinical documentation, charge capture and revenue integrity, pricing analysis, claims processing and denials management, payor contract management, extended business office revenue recovery, accounts receivable, and outsourcing services.

As of 31 December 2014, the company served approximately 4,500 acute care hospitals and 123,000 ancillary or non-acute provider locations.

On 1 November 2015, Pamplona Capital Partners IV LP, a fund managed by Pamplona Capital Management LLP, agreed to acquire MedAssets for \$1.97 billion in cash.

Siemens Health Services

On 5 August 2014, Cerner Corporation agreed to acquire substantially all of the assets, and assumed certain liabilities of Siemens Health Services the health information technology business unit of Siemens AG. Siemens Health Services offered a portfolio of enterprise-level clinical and financial health care information technology solutions, as well as departmental, connectivity, population health, and care coordination solutions globally.

Cerner completed the acquisition on 2 February 2015.

ASX/NZX Listed IT Companies

Figure A4.3 Australian and New Zealand IT Comparable Company Multiples

Company	Head office	EBITDA Margin	Forecast Revenue Growth	Revenue (\$ million)	Forecast Revenue Multiples	Forecast EBITDA Multiples
Gentrack Group	NZ	29.3%	16.7%	98.2	6.9x	22.4x
Vista Group International	NZ	22.0%	17.3%	106.6	5.3x	21.3x
Bravura Solutions	AUS	16.7%	10.0%	221.5	3.4x	18.6x
Hansen Technologies	AUS	18.8%	1.6%	252.0	3.1x	13.0x
Class	AUS	38.2%	14.7%	37.5	5.9x	12.3x
Infomedia	AUS	22.3%	10.0%	79.6	4.7x	10.6x
Integrated Research	AUS	27.8%	8.7%	99.5	4.1x	10.3x
3P Learning	AUS	20.8%	7.4%	60.4	2.6x	7.6x
Isentia Group	AUS	14.5%	(3.3%)	149.7	1.0x	4.0x
Median		22.0%	10.0%	99.5	4.1x	12.3x

Gentrack Group Limited

Gentrack engages in the development, integration, and support of enterprise billing and customer management software solutions for the energy and water utility, and airport industries worldwide.

Vista Group International Limited

Vista Group International Limited engages in the development, sale, and support of software solutions to the film industry worldwide.

Bravura Solutions Limited

Bravura provides enterprise software and software-as-a-service (SaaS) to the wealth management, life insurance, and funds administration markets in Australia, New Zealand, the United Kingdom, Europe, Africa, Asia, and Internationally.

Hansen Technologies Limited

Hansen Technologies Limited develops, integrates, and supports billing software solutions for the utilities, energy, pay-tv, and telco sectors.

Class Limited

Class Limited develops and distributes cloud-based accounting, investment reporting, and administration software for accountants, administrators, and advisers in Australia.

Infomedia Limited

Infomedia Limited develops and supplies electronic parts catalogues and service quoting software systems for the automotive industry in the Asia Pacific, Europe, the Middle East, Africa, and the Americas.

Integrated Research Limited

Integrated Research Limited designs, develops, implements, and sells systems and applications management computer software for business-critical computing, unified communication networks, and payment networks in the Americas, Europe, and the Asia Pacific.

3P Learning Limited

3P Learning Limited and its subsidiaries develop, sell, and market online educational programs to schools and parents of school-aged students worldwide.

Isentia Group Limited

Isentia Group Limited provides media intelligence software-as-a-service (SaaS) that provides media monitoring and insights, and manages media relations and content marketing, to public and private sector clients in Australia, New Zealand, Asia and Internationally.



Appendix 5: Glossary of Key Terms and Definitions

Term	Definition
CMS	Centers for Medicare and Medicaid Services
Compulsory Spend	Government spending and compulsory health insurance
DCF	Discounted cash flow
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation, and Amortisation
EHR	Electronic Health Record
FTE	Full Time Employee
FY	Financial Year
Hg	The Hg Mercury 2 fund or HgCapital LLP (as the context requires)
Hg Transaction	Hg's acquisition of 75.1% of Rhapsody and 24.9% of PHM
HIE	Health Information Exchanges
IT	Information Technology
NZD	New Zealand Dollar
Obamacare	Affordable Care Act
ONHIT	Office of the National Coordinator for Health IT
Orion Health	Orion Health Group Limited
Payers	Governments and insurance companies
PHM	The Population Health Management Solution Group
Proposed Transactions	The Hg Transaction and Share Buyback
RaaS	Rhapsody as a Service
RSU	Restricted stock units
SaaS	Software as a Service
Shares	Fully paid ordinary shares in Orion Health Group Limited
Share Buyback	A buyback of Orion Health Shares at an estimated price range of \$1.16–\$1.26 per share
Solution Group	Orion Health Group Limited's three business units (Rhapsody, PHM and Hospitals)
The Company	Orion Health Group Limited
The Report	KordaMentha's independent advisor's report to the shareholders of Orion Health Group Limited
USD	United States Dollar
Voluntary spend	Voluntary health insurance and private funds such as households' out of pocket payments, non-government organisations and private corporations

Appendix Two

Financial Information

1. Introduction
2. Summarised pro forma income statements data for the Fiscal Years ending 31 March 2016 through 31 March 2018
 - Group
 - Rhapsody
 - Population Health Management
 - Hospitals
3. Reconciliation of the pro forma financial information to the audited GAAP financial information
4. Projected pro forma balance sheet as of 30 September 2018

Except where expressly identified as having been extracted from GAAP financial statements, the contents of this Appendix Two constitutes non-GAAP financial information. It has been provided to assist Shareholders to better understand the financial impact of the Hg Transaction and Share Buyback.

Appendix Two

Financial Information

1. Introduction

The information in this Appendix primarily provides pro forma financial information about the three business units which currently comprise the Orion Health Group:

- Rhapsody
- Population Health Management ("PHM")
- Hospitals

If you do not understand this financial information, you should seek advice from a financial adviser or accountant. This information is disclosed in NZD.

The pro forma financial information has been derived from the audited GAAP financial statements of the Group for the fiscal years 2016-18. The results of the three business units are based on assumptions relating to the allocation of shared costs, such as General and Administrative expenses, which are considered, when taken as a whole, to be reasonable at the time of preparing the Notice of Meeting.

This Appendix contains a reconciliation between the results shown in the audited GAAP financial statements of the Group for the fiscal years 2016-18 to the unaudited, pro forma results of the three business units for the same years. The full financial statements of the Group for those years can be found at www.orionhealth.com/nz/about-us/investor-centre/overview/.

This Appendix also contains forward looking information in the form of the projected pro forma balance sheet as at 30 September, 2018. This information by its nature is inherently uncertain and is for illustrative purposes only. It is a prediction of future events which cannot be assured. It involves risks and uncertainties many of which are beyond the control of Orion Health. The forward looking information has been prepared based on assumptions which, when taken as a whole, are considered to be reasonable at the time of preparing the Notice of Meeting. Actual results are likely to vary from the information presented and variances may be material. Accordingly, neither the Directors nor any other person can provide any assurance that the forward looking information will be achieved and Shareholders are cautioned not to place undue reliance on the forward looking information.

In the tables below:

Revenue includes:

- Licence revenue from perpetual licences
- Maintenance and Support revenue related to perpetual licences
- Implementation Services revenue
- Managed Services revenue, which includes:
 - Subscription based licences
 - Hosting fees
 - Support for Subscription based licences

Cost of Revenue represents the cost to deliver the respective revenue. Cost of Revenue includes:

- The cost of labour for Implementation Services
- The cost of labour for Maintenance and Support Services
- 3rd party costs associated with the delivery of our hosted solutions (i.e. Amazon Web Services)

Gross Margin represents the difference between Revenue and the corresponding Cost of Revenue for the corresponding revenue type

Grants and Precision Driven Health (PDH) includes:

- Revenue from the Callahan Innovation Grant
- Revenue from the PDH joint venture

Sales and Marketing includes:

- The cost of labour and related expenses for the Sales and Marketing organisation
- The cost of Marketing programs

Research and Development includes

The cost of labour and related expenses for the Research and Development organisation

General and Administrative includes

- The cost of labour and related expenses for the General and Administrative organisation
- The cost of Premises
- The legal, accounting and payroll consulting and service fees

EBITDA - Earnings before interest, tax, depreciation and amortisation

EBIT - Earnings before interest and tax

Appendix Two

Financial Information

2. Summarised pro forma income statements for the Fiscal Years ending 31 March 2016, 2017 and 2018.

The following tables contain summarised income statements based on the audited GAAP financial statements of the Orion Group for the three years ending 31 March 2016, 2017 and 2018, respectively and unaudited pro forma income statements for the Rhapsody, Population Health Management and Hospitals business units, respectively.

The following tables contain summarised income statements based on the audited GAAP financial statements of the Orion Group for the three years ending 31 March 2016, 2017 and 2018, respectively and the unaudited, proforma income statements for the Rhapsody, Population Health Management and Hospitals business units, respectively.

Orion Group (in NZD million)

	FY16	FY17	FY18
Revenue	206,935	199,074	170,122
Cost of Revenue	(106,310)	(92,978)	(84,505)
Gross Margin	100,625	106,096	85,617
%	49%	53%	50%
Grants and PDH	5,117	5,018	6,976
FX gains/(losses)	476	(5)	1,924
Sales and Marketing	(38,807)	(32,988)	(31,571)
Research and Development	(61,212)	(64,099)	(61,630)
General and Administrative	(53,532)	(39,747)	(35,697)
EBITDA	(47,331)	(25,724)	(34,380)
Depreciation and Amortisation	(7,387)	(7,066)	(6,021)
EBIT	(54,718)	(32,790)	(40,401)
%	-26%	-16%	-24%

The summarised Orion Group income statement for the fiscal years ending 31 March 2016, 2017 and 2018 comprises financial results of the three business units plus other activity which are recorded at a "Group" level, specifically:

- The revenue and expenses related to the Welcome Café
- Foreign exchange gains and losses

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Financial Information

Rhapsody (in NZD million)

	FY16	FY17	FY18
Revenue	45,936	56,675	54,262
Cost of Revenue	(8,765)	(8,153)	(10,227)
Gross Margin	37,171	48,522	44,035
%	81%	86%	81%
Grants and PDH	-	-	-
Sales and Marketing	(8,950)	(8,950)	(8,950)
Research and Development	(12,000)	(8,205)	(5,261)
General and Administrative	(6,697)	(6,931)	(7,922)
EBITDA	9,953	24,436	21,903
Depreciation and Amortisation	(1,643)	(2,019)	(1,927)
EBIT	<u>7,880</u>	<u>22,417</u>	<u>19,976</u>
%	17%	40%	37%

- The unaudited, pro forma income statement represents the activity for the Rhapsody business for the fiscal years ending 31 March 2016, 2017 and 2018, respectively.
- The Revenue for the Rhapsody business was determined by reviewing the billing history of the Rhapsody products sold and recognised as revenue.
- The Sales and Marketing and Research and Development expenses for the Rhapsody business are based on the labour costs and related expenses of the employees in the Rhapsody business plus the marketing program spend.
- The General and Administrative expenses comprise an allocation of all Group General and Administrative expenses other than Premise Costs, based on the proportion of the Rhapsody business unit's Revenue to Group Revenue. Premise Costs were allocated to Rhapsody based on the proportion of the Rhapsody business unit's head count to the total head count in each Premise.
- Rhapsody did not have any Grant Revenue nor PDH related revenue for the fiscal years ending March 31 2016, 2017 and 2018, respectively.

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Population Health Management (in NZD million)

	FY16	FY17	FY18
Revenue	145,482	126,947	107,160
Cost of Revenue	(89,044)	(75,676)	(70,596)
Gross Margin	56,438	51,272	36,563
%	39%	40%	34%
Grants and PDH	3,542	3,494	4,823
Sales and Marketing	(27,070)	(21,546)	(21,029)
Research and Development	(43,167)	(48,863)	(50,588)
General and Administrative	(41,924)	(29,328)	(24,000)
EBITDA	(52,181)	(44,970)	(54,231)
Depreciation and Amortisation	(5,204)	(4,522)	(3,806)
EBIT	(57,386)	(49,492)	(58,037)
%	-39%	-39%	-54%

- The unaudited, pro forma income statement represents the activity for the PHM business for the fiscal years ending 31 March 2016, 2017 and 2018, respectively.
- The Revenue for the PHM business was determined by reviewing the billing history of the PHM products sold and recognised as revenue.
- The Sales and Marketing and Research and Development expenses for the PHM business are based on the labour costs and related expenses of the employees in the PHM business plus the marketing program spend.
- The General and Administrative expenses comprise an allocation of all Group General and Administrative expenses other than Premise Costs, based on the proportion of the PHM business unit's Revenue to Group Revenue. Premise Costs were allocated to PHM based on the proportion of the PHM business units head count to the total head count in each Premise.

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Hospitals (in NZD million)

	FY16	FY17	FY18
Revenue	15,062	14,743	8,113
Cost of Revenue	(7,582)	(8,267)	(2,827)
Gross Margin	7,480	6,476	5,286
%	50%	44%	65%
Grants and PDH	1,576	1,534	2,153
FX gains/(losses)	-	-	-
Sales and Marketing	(2,787)	(2,492)	(1,592)
Research and Development	(6,044)	(7,031)	(5,782)
General and Administrative	(4,434)	(3,494)	(1,850)
EBITDA	(4,209)	(5,016)	(1,785)
Depreciation and Amortisation	(539)	(525)	(288)
EBIT	(4,748)	(5,542)	(2,073)
%	-32%	-38%	-26%

- The unaudited, pro forma income statement represents the activity for the Hospitals business for the fiscal years ending March 31 2016, 2017 and 2018, respectively.
- The Revenue for the Hospitals business was determined by reviewing the billing history of the Hospitals products sold and recognised as revenue.
- The Sales and Marketing and Research and Development expenses for the Hospitals business are based on the labour costs and related expenses of the employees in the Hospitals business plus the marketing program spend.
- The General and Administrative expenses comprise an allocation of all Group General and Administrative expenses other than Premise Costs, based on the proportion of the Hospitals business unit's Revenue to Group Revenue. Premise Costs were allocated to Hospitals based on the proportion of the Hospital business units head count to the total head count in each Premise.

Appendix Two

Financial Information

3. Reconciliation of pro forma financial information to the audited GAAP financial information

The following table provides a reconciliation of the Revenue and EBIT shown in the pro forma summarised income statements of the three business units to the audited GAAP financial statements of the Group for the financial years 2016-18. The tables are in NZD millions.

Pro Forma Financial Results - Revenue

Revenue	Rhapsody	PHM	Hospitals	Other	Total	GAAP Financial Results
FY16	45.9	145.5	15.1	.5	206.9	206.9
FY17	56.7	126.9	14.7	.7	199.1	199.1
FY18	54.3	107.2	8.1	.6	170.1	170.1

Footnote

1. Other revenue represents revenue from the Cafe.

Pro Forma Financial Results - EBIT

EBIT	Rhapsody	PHM	Hospitals	Other	Total	GAAP Financial Results
FY16	7.9	(57.4)	(4.7)	(.5)	(54.7)	(54.7)
FY17	22.4	(49.5)	(5.5)	(.2)	(32.8)	(32.8)
FY18	20.0	(58.0)	(2.1)	(.3)	(40.4)	(40.4)

Footnote

1. Other EBIT represents EBIT from the Cafe.

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Financial Information

4. Projected proforma balance sheet as at 30 September 2018

The following table represents the projected balance sheet for the Orion Group as at September 30, 2018 assuming:

- All the various components of Hg Transaction were completed at that date so the Orion Group would then comprise a 24.9% interest in an Associate Company carrying on the Rhapsody business, a 75.1% interest in a subsidiary carrying on the Population Health Management business and 100% of the Hospitals business.
- All transaction costs had been paid
- The Share Buyback was completed on that date at a price of \$1.22 per share

At this stage, it is expected that, with the Share Buyback following later in 2018 settlement of the Hg Transaction will take place on 31 October 2018. The projected balance sheet does not include any allowance for the operating results during October or any changes in working capital during that month.

While McCrae Limited has committed to accept the Share Buyback for 20% of its shareholding, it is not possible to know how the remaining Shareholders will respond to the options of electing a Share Buyback of up to 100% of their holdings. Accordingly, the projected balance sheet as at 30 September 2018 set out below reflects three possible outcomes for illustrative purposes only, being;

- 100% Buyback: This view represents a scenario where all the eligible Shareholders other than McCrae Limited exercise their right to sell all their eligible Shares.
- 50% Buyback: This view represents a scenario where all the eligible Shareholders other than McCrae Limited exercise their right to sell 50% of their eligible Shares.
- 0% Buyback: This view represents a scenario where all the eligible Shareholders other than McCrae Limited exercise none of their right to sell any of their eligible Shares.

In each scenario McCrae Limited participates in the Share Buyback in respect of 20% of its current holding of Shares.

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Projected pro forma balance sheet as at 30 September 2018

	100% Share Buyback	50% Share Buyback	0% Share Buyback
NZ\$ 000	ORION GROUP	ORION GROUP	ORION GROUP
	30 September 2018	30 September 2018	30 September 2018
ASSETS			
Current Assets			
Cash	41,730	102,401	163,073
Cash in Escrow	2,840	2,840	2,840
Trade and other receivables	28,726	28,726	28,726
Accrued revenue	8,458	8,458	8,458
Income tax asset/(liability)	<u>2,328</u>	<u>2,328</u>	<u>2,328</u>
Total Current Assets	84,082	144,753	205,425
Non-current Assets			
Deferred tax assets	1,296	1,296	1,296
Investment in Associate	27,960	27,960	27,960
Property, plant and equipment	3,572	3,572	3,572
Intangible assets - software	<u>841</u>	<u>841</u>	<u>841</u>
Total Non-current Assets	33,669	33,669	33,669
Total Assets	117,751	178,422	239,094
LIABILITIES			
Current Liabilities			
Trade and other payables	(12,790)	(12,790)	(12,790)
Employee benefits	(9,961)	(9,961)	(9,961)
Revenue in advance	<u>(16,057)</u>	<u>(16,057)</u>	<u>(16,057)</u>
Total Current Liabilities	(38,808)	(38,808)	(38,808)
Total Liabilities	(38,808)	(38,808)	(38,808)
Net Assets	<u>78,943</u>	<u>139,614</u>	<u>200,285</u>
Minority Interest	9,095	9,095	9,095
Shareholder Equity	<u>69,848</u>	<u>130,519</u>	<u>191,190</u>
Total Equity	<u>78,943</u>	<u>139,614</u>	<u>200,285</u>

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Financial Information

The Company adopted the following approach to preparing the projected proforma balance sheets as of September 30, 2018 represented above:

- **Trade and other receivables**

- Trade and other receivables was derived from:
 - Current trade and other receivables balances
 - Plus: addition Current trade and other receivables balance based on forecasted transaction from the current period through 30 September 2018
 - Less: cash collected from Current trade and other receivables from the current period through 30 September 2018
 - Less: estimated bad debt write-off and reserves, as applicable.

- **Accrued Revenue**

- Accrued Revenue was derived from:
 - Current Accrued Revenue balances
 - Plus: addition unbilled activities based on forecasted transaction from the current period through 30 September 2018
 - Less: revenue invoiced from Accrued Revenue from the current period through 30 September 2018

- **Income Tax liability**

- The Company does not forecast any changes in Income Tax Liability in the current period through 30 September 2018.

- **Deferred Tax**

- The Company does not forecast any changes in Deferred Tax in the current period through 30 September 2018.

- **Investment in Associate**

- Investment in Associate was derived from:
 - The 24.9% Net Investment in Rhapsody (equity value less debt)

- **Property Plant and Equipment (PP&E)**

- PP&E was derived from:
 - Current PP&E balance
 - Plus: additional capital purchases forecasted from the current period through 30 September 2018

- Less: applicable depreciation from the current period through 30 September 2018

- Less: assets retired from the current period through 30 September 2018

- **Intangible Assets**

- The Company does not forecast any changes in Intangible Assets in the current period through 30 September 2018.

- **Trade and Other Payables**

- Trade and other payables was derived from:
 - Current trade and other payables balances
 - Plus: addition Current trade and other payables balance based on forecasted transaction from the current period through 30 September 2018
 - Less: Current trade and other payables payments from the current period through 30 September 2018

- **Employee Liabilities**

- Employee Liabilities was derived from:
 - Current employee liability balances
 - Plus: addition accrued employee liabilities, such as Accrued Holiday, Accrued Personal Time Off (PTO - US), Accrued Commissions and Accrued Bonus
 - Less: Holiday Pay and PTO utilised and Accrued Commissions paid. Accrued Bonuses are paid on an annual basis.

- **Revenue in Advance (RIA)**

- RIAs was derived from:
 - Current RIA balances
 - Plus: additional RIA balance based on forecasted transaction from the current period through 30 September 2018
 - Less: revenue recognised from RIA from the current period through 30 September 2018

Directory

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Ian McCrae, Chief Executive Officer

Andrew Ferrier, Chairman

Roger France, Deputy Chairman

Paul Shearer

Ronald Andrews

John Halamka

Michael Falconer

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