

ASX Announcement (ASX: HLS)

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Update on off-market takeover bid from Australian Clinical Labs Limited

On Monday 20 March 2023, Healius Limited (ASX:HLS) (**Healius**) received an unsolicited, highly conditional all scrip reverse takeover proposal from Australian Clinical Labs Limited (ASX:ACL) (**ACL**) (the **ACL Offer**). Later that same morning, Healius made an ASX announcement advising Healius shareholders to take no action in relation to the ACL Offer.

Since that time, Healius has had the opportunity to review in greater depth the unsolicited ACL Offer and discuss the proposal with its advisers. In due course, Healius will provide its shareholders with a formal target statement in response to the ACL Offer, as it is required to do pursuant to the Corporations Act.

In the meantime, the Healius board considers it important to re-iterate its “take no action” advice in relation to the ACL Offer and to update the ASX and shareholders in respect of a number of matters.

Relevant Context

1. Healius is Australia’s second largest pathology provider and ACL is the third largest (with national market shares of 28% and 14% respectively¹).
2. At the date of the offer, Healius had an enterprise value of \$3,179m and ACL \$1,039m².
3. The offer by ACL incorporates 25 conditions (with many sub-conditions) including, importantly, conditions pertaining to unconditional ACCC approval and a minimum acceptance condition of 90%.

¹ IBISWorld Industry Report Q8521 Pathology Services in Australia, dated February 2023

² Enterprise value for Healius is based on the closing price on 17 March 2023 (\$2.78), fully diluted Healius Shares outstanding of 574.5 million (fully diluted market capitalisation of \$1,597 million), and net debt (including lease liabilities) of \$1,709 million as at 31 December 2022 less an adjustment of \$127 million for proceeds from the Day Hospitals sale. The enterprise value for ACL is based on the closing price on 17 March 2023 (\$3.60), fully diluted ACL Shares outstanding of 203.5 million (fully diluted market capitalisation of \$733 million), and net debt (including lease liabilities) of \$307 million as at 31 December 2022.

4. The ACL offer comprises a share exchange ratio of 0.74 ACL shares for every 1 Healius share. Using a 10-day VWAP, ACL claims that this exchange ratio constitutes a nil premium merger and a discount of 4.2% to the closing price of Healius shares on the trading day immediately prior to the announcement of the ACL offer. Healius notes that using other conventional metrics, such as VWAPs over 1 month, 3 months and 6 months, the merger ratio proposed represents a discount to the value of Healius immediately prior to the bid being announced of 3.3%, 8.3% and 12.8% respectively³.
5. In the absence of a takeover premium, ACL argues in its Bidder's Statement and in collateral material released to the ASX regarding the ACL offer, that the value proposition to Healius shareholders is largely represented by the synergy value ACL claims would be unlocked over 4 years by the full combination of the Healius and ACL businesses following "successful completion" of the offer. By "successful completion" ACL means obtaining 100% of Healius' shares after all 25 conditions are satisfied or waived (including unconditional ACCC approval and 90% minimum acceptance condition) within the bid period of 6 months.
6. Importantly, ACL itself acknowledges that if ACL is unable to achieve a level of acceptances to meet a minimum acceptance level of 90%, *"then the expected cost synergies may not be achieved in a timely manner, at all, or to the extent expected by ACL."*⁴

Recent Developments

1. Relevantly, Healius notes media statements released on Sunday 26 March by two of its largest shareholders (Perpetual Investment Management Limited and Tanarra Capital) holding in aggregate approximately 21% of Healius.

Perpetual Investment Management Limited, Healius' largest shareholder, holding 12.5% said:

"Having considered the ACL proposal, our view is that the ACL proposal is unattractive in terms of its structure, certainty, and terms and in our view could likely result in an inappropriate transfer of value from Healius shareholders to ACL."

³ ACL's 10-day VWAP runs from the date of the release by Healius of its results for the half year to 31 December 2022. Prior to the release of those results, over the previous 6 months Healius regularly kept the market informed of its performance via trading updates (see Healius ASX announcement dated 28 November 2022 titled 'Trading Update') and interim results (see Healius ASX announcement dated 7 February 2023 titled 'Healius announces interim unaudited results'). Healius believes the average historical trading prices quoted above therefore remain relevant for the purposes of evaluating the ACL Offer.

⁴ See Section 7.8b (ii) page 105 of the ACL Bidder's Statement.

Among the comments made by Tanarra Capital, were the following:

“The Tanarra Long Term Value Fund owns 8.5% of Healius.

It considers both the exchange rate offered by ACL for Healius shares, and the offer conditions, to be very unattractive. It therefore has no intention to accept ACL’s offer. ACL’s offer has a 90% minimum acceptance condition, which it needs to achieve to compulsorily acquire Healius and deliver the synergies and shareholder value it argues will be created in combining the two businesses. It cannot do that with less than full ownership of Healius.

Tanarra’s position therefore effectively guarantees ACL cannot achieve 90% ownership and deliver on its promised synergies. ACL has made clear from its own statements that it intends to have management control, and in all likelihood Board control, of a combined Healius/ACL. Yet it is offering no control premium. To the contrary, ACL is seeking control at a discount to the pre-offer price for Healius, and a substantial discount to recent stock trading prices.”

2. Healius has written to ACL pointing out a number of deficiencies it considers exist in the Bidder’s Statement. Healius has not been able to resolve those issues with ACL and so has advised ACL that it intends to raise these matters with the Takeovers Panel.
3. Healius also notes that it considers that a number of the 25 conditions of the ACL Offer are overly restrictive to the extent that running of the Healius business in the ordinary course could lead to certain conditions being triggered. This is exacerbated by the unusually long offer period of 6 months. Healius has advised ACL to the effect that Healius remains focussed on running its business in the ordinary course and in a manner that preserves the goodwill of its business and its ability to compete vigorously in its markets, rather than trying to religiously adhere to a laundry list of conditions, many of which are not commercially critical to the Offer and are otherwise overly restrictive.

Further Comment

Healius’ board and management remains focussed on running Healius’ business in the best interests of shareholders. Should, at some future time, a merger proposal be developed (by Healius, ACL or another party) which, in the assessment of the Healius directors, would be in the best interests of Healius’ shareholders, that will be given careful consideration.

Healius will keep the ASX and shareholders advised of any material developments and will give further guidance to shareholders in its Target’s Statement.

In the meantime, Healius’ directors reiterate their advice to shareholders to take no action in relation to the ACL Offer.

ENDS

The release of this announcement has been authorised by the Chair.

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For over 30 years Healius has been one of Australia's leading healthcare companies, committed to supporting quality, affordable and accessible healthcare for all Australians. Today, Healius has two core diagnostics businesses, pathology and imaging. Through its unique footprint of centres and its 10,000+ employees, Healius provides Australia-wide specialty diagnostic services to consumers and their referring practitioners.