Healius

Why Change is Essential

November 2023

TANARRA
LONG TERM VALUE

IMPORTANT

This report is solely for sophisticated investors who are Australian residents and wholesale clients as defined in section 761G of the Corporations Act 2001 (Cth)

This information is given in summary form and does not purport to be complete. Information in this presentation, including forecast financial information, should not be considered as financial product advice within the meaning of the Corporations Act or a recommendation to investors or potential investors in relation to holding, purchasing or selling securities or other financial products or instruments and does not take into account your particular investment objectives, financial situation or needs. Before acting on any information you should consider the appropriateness of the information having regard to your objectives, financial situation and needs. Nothing in this presentation should be interpreted as advice or a recommendation to buy, sell or hold Healius shares or any other securities.

TANARRA

Tanarra has supported Healius in its turnaround efforts. They have now lost our support. Here's why

Business is being run extremely poorly

Management decisions seem to lack understanding of the industry

Poor capital allocation

Lack of culture of performance and accountability

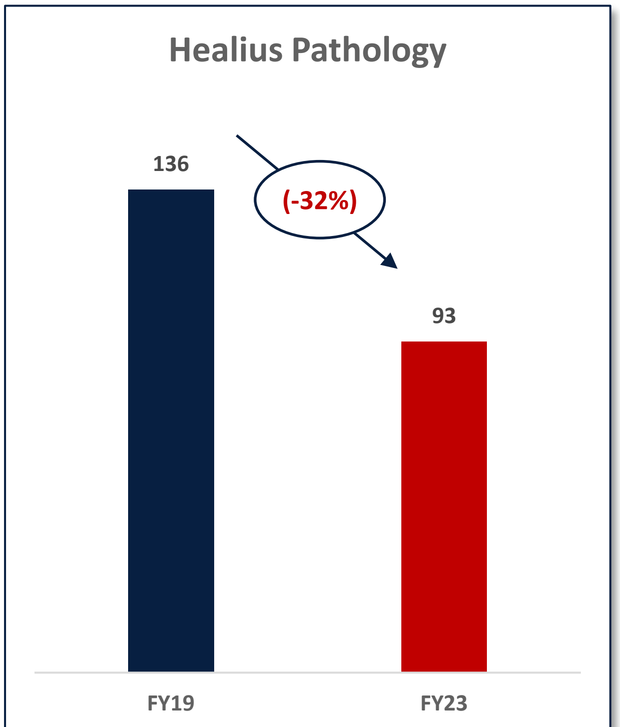
Immaterial skin in the game from management or board

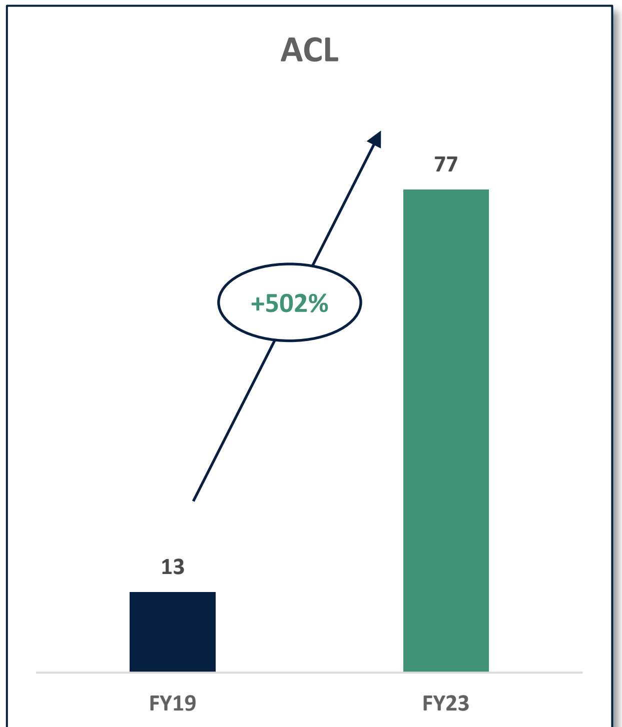
Predictable end consequences for shareholder value

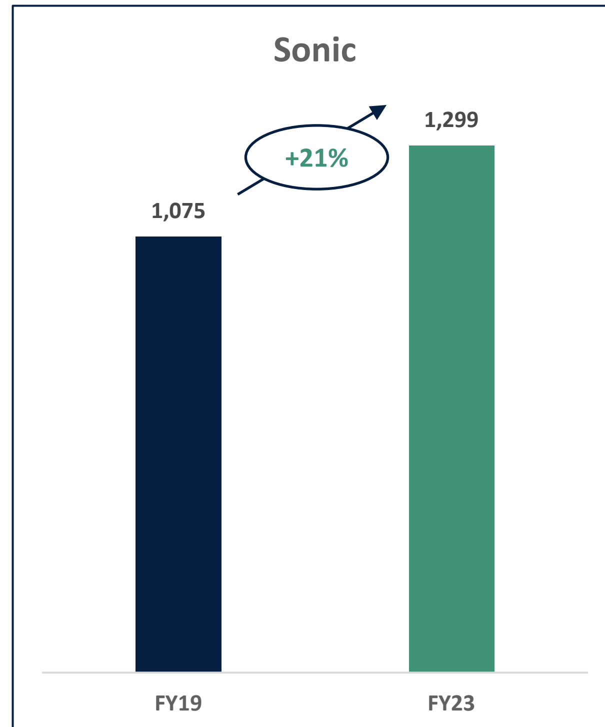
The facts don't lie: performance has been extremely poor, even allowing for GP shortage

LOWER PATHOLOGY BUSINESS EARNINGS THAN FY19, WHILE THE INDUSTRY HAS GROWN

Pre-AASB16 EBITDA (A$m)

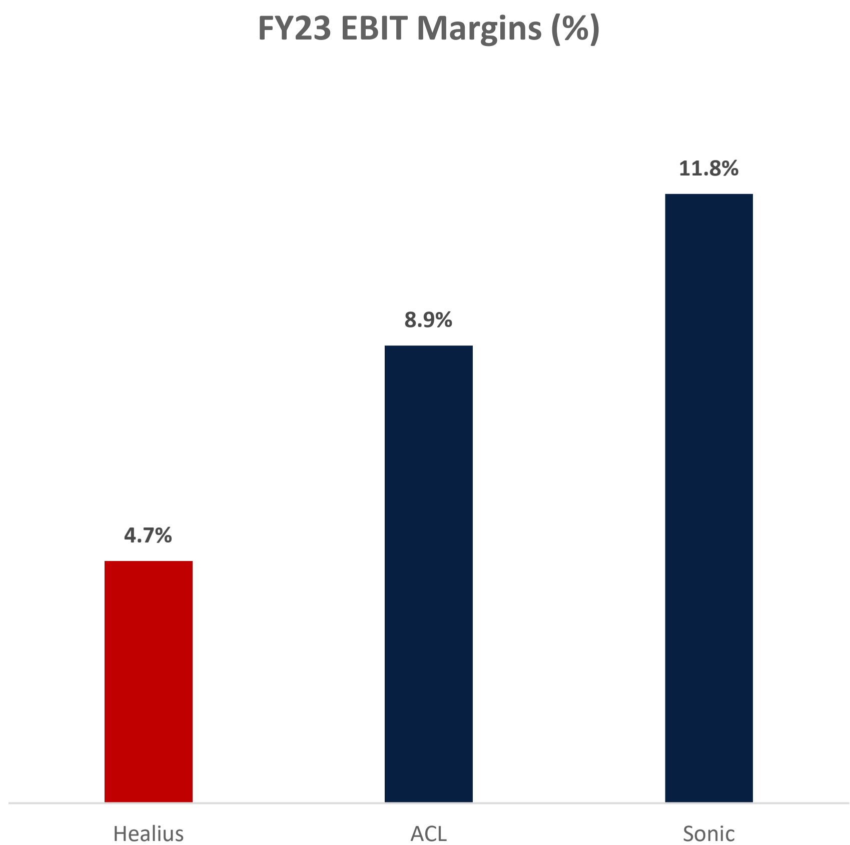


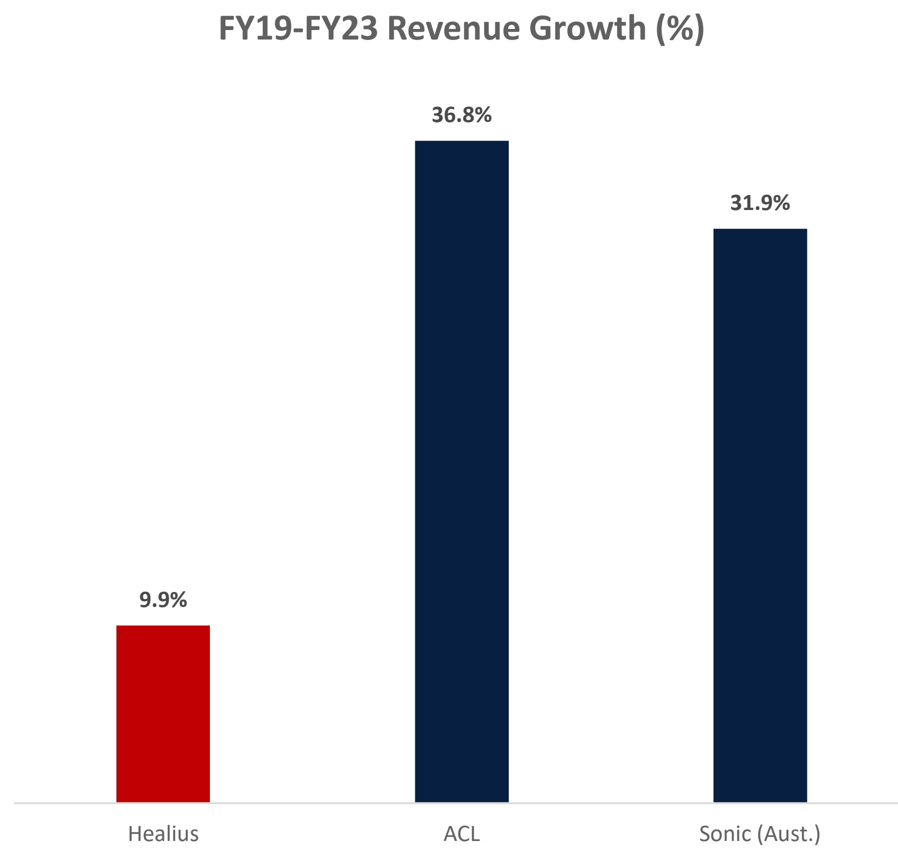




Note: Sonic represents total group
Source: Company reports and Tanarra estimates

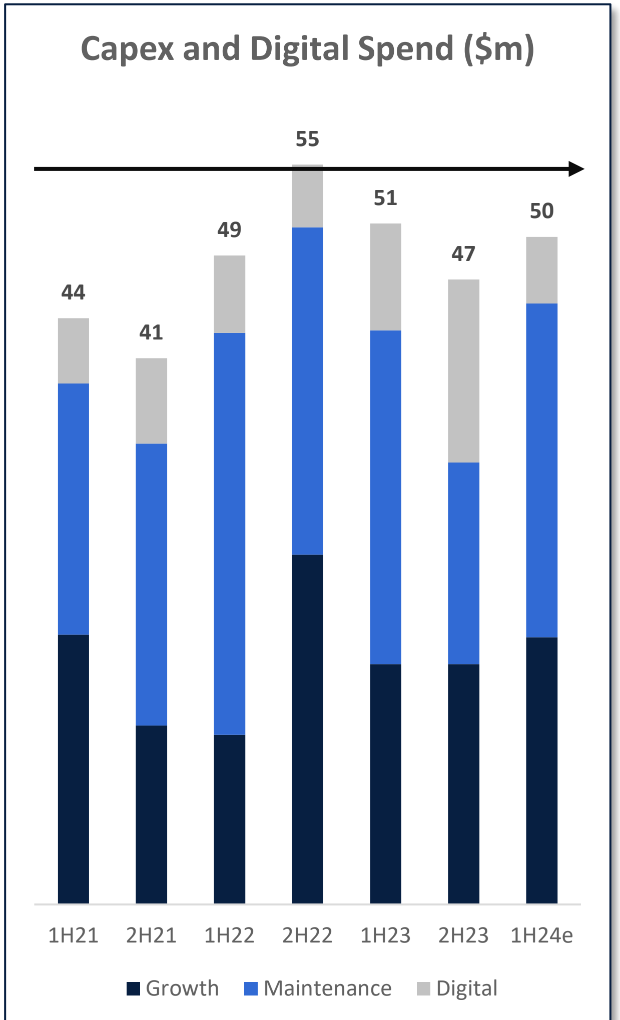
Healius' pathology margins are a fraction of competitors' and it's growing more slowly

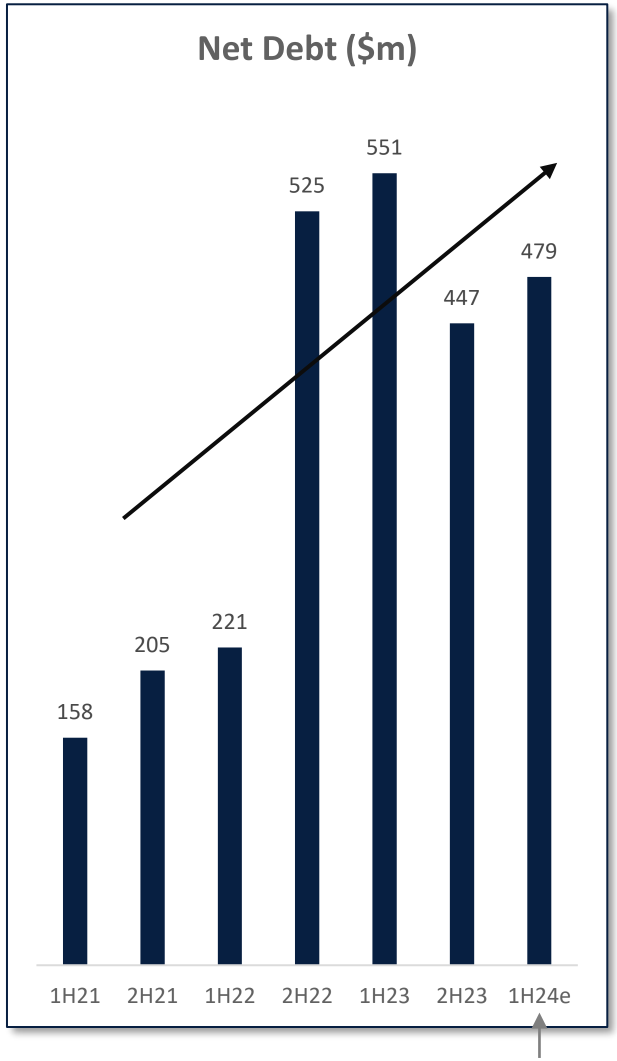




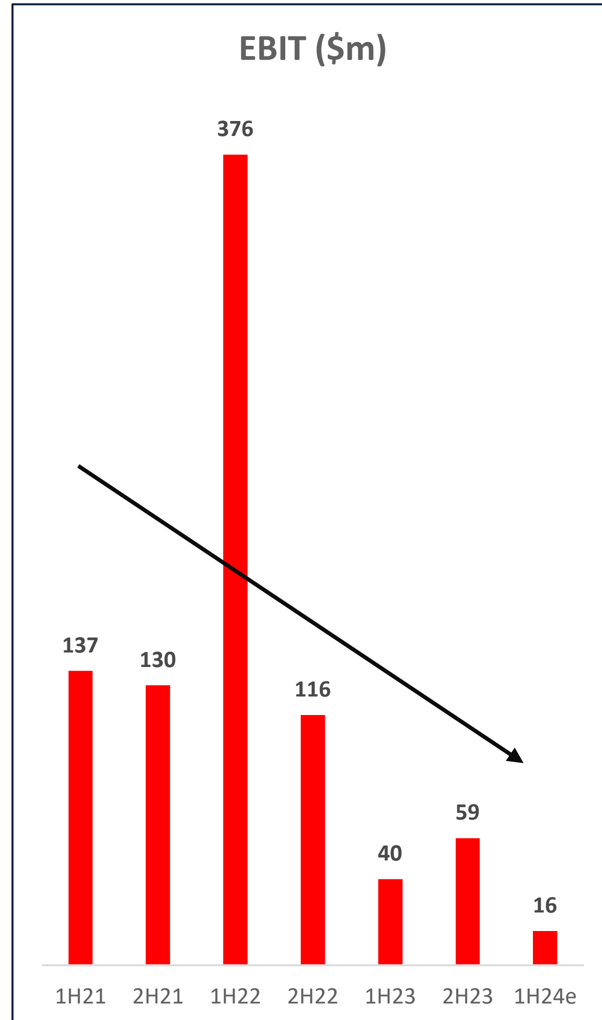
Note: Figures represent pre-AASB16 EBIT margins for Healius' pathology division, ACL Group and Sonic Group as per accounts

Company showing little capital discipline: capex up, debt up, while EBIT down



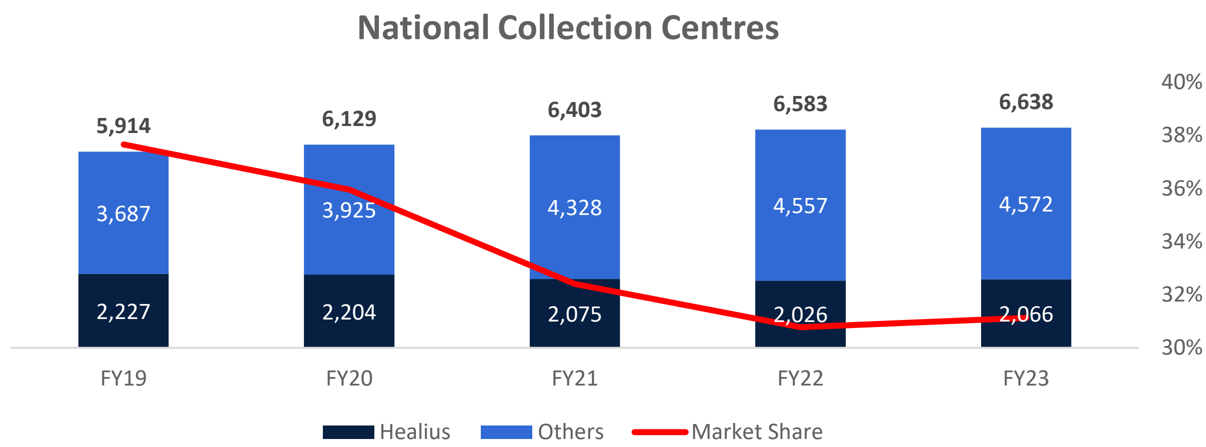


Excluding raise proceeds



Source: Financial accounts and Tanarra estimates

Management has shrunk collection centre footprint, adversely impacting network and scale



- Shrunk the ACC network without seeming to contemplate the consequence of that (lost market share, adverse network effects)
- Allowed an emerging competitor to scale into the market
- Led to growth below industry and inflation

	FY19	FY23	Growth
Industry ACCs	**5,914**	**6,638**	***12.2%***
Pathology MBS Outlays	**$2,682m**	**$2,967m**	***10.6%***
Healius ACCs	**2,227**	**2,066**	***(7.2%)***
Healius Core Pathology Revenue	**$1,128m**	**$1,156m**	***2.4%***

Revenue growth well below inflation

Source: Medicare data, financial reports

Own goal on $300M AgileX purchase has led directly to this distressed equity issue

- Has been a key contributor to the company's excessive debt levels, relative to covenants
- We believe Healius paid multiples of the price offered by the under bidder for AgileX
- The management and board did not understand the business properly, CEO was CFO at the time and directly responsible for it
- Was bought on projected year 1 EBITDA of $15m, produced nothing like that, key entrepreneur left

What was said…	…the outcome
"Highly Strategic"	**Non-core, not strategic, no material synergies**
"[CY22] EBITDA is within a range of … $14-16m"	**CY22 EBITDA of ~$2m (87% lower than estimates)**
"Low single digit EPS accretion within the first full year"	**Highly dilutive, and compounded by November 2023 equity issue**
"Experienced Agilex senior management team will remain"	**Key management left**

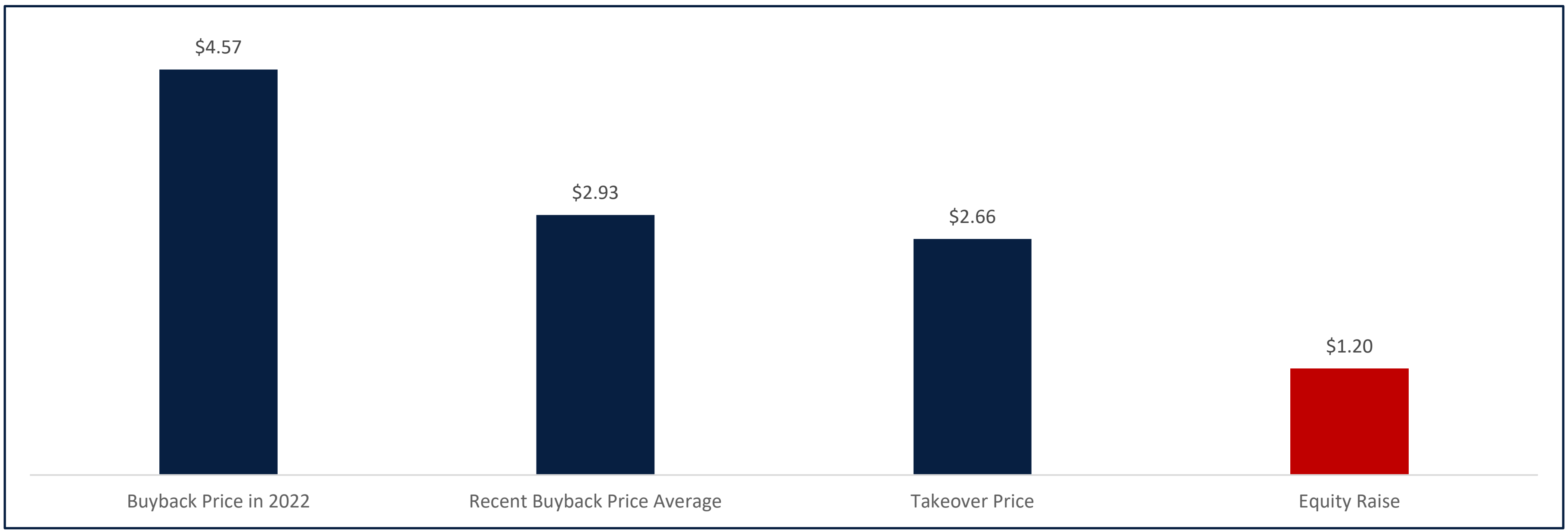
Healius paid ~150x EBITDA for a business they did not understand
c. 50% write down within 18 months

Source: Company announcements

Interaction with capital markets the opposite of what it should be

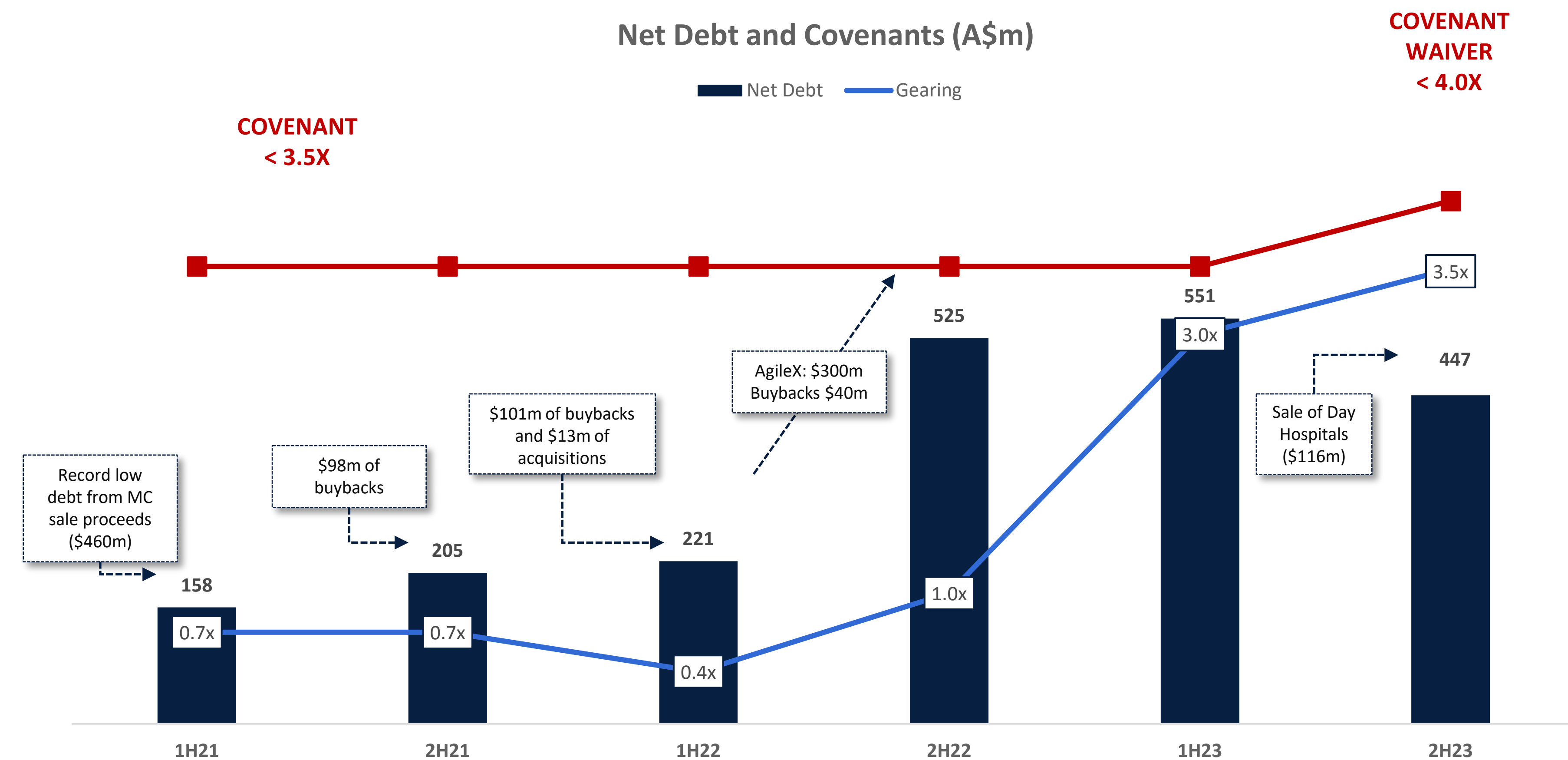
- **Stock buyback at $2.90 one year ago – now issuing equity at $1.20**

- **Rejected a takeover offer at $2.66 a share, then within months do a coercive non-renounceable equity issue at $1.20**



Source: Company announcements

Current debt issues have been self-inflicted

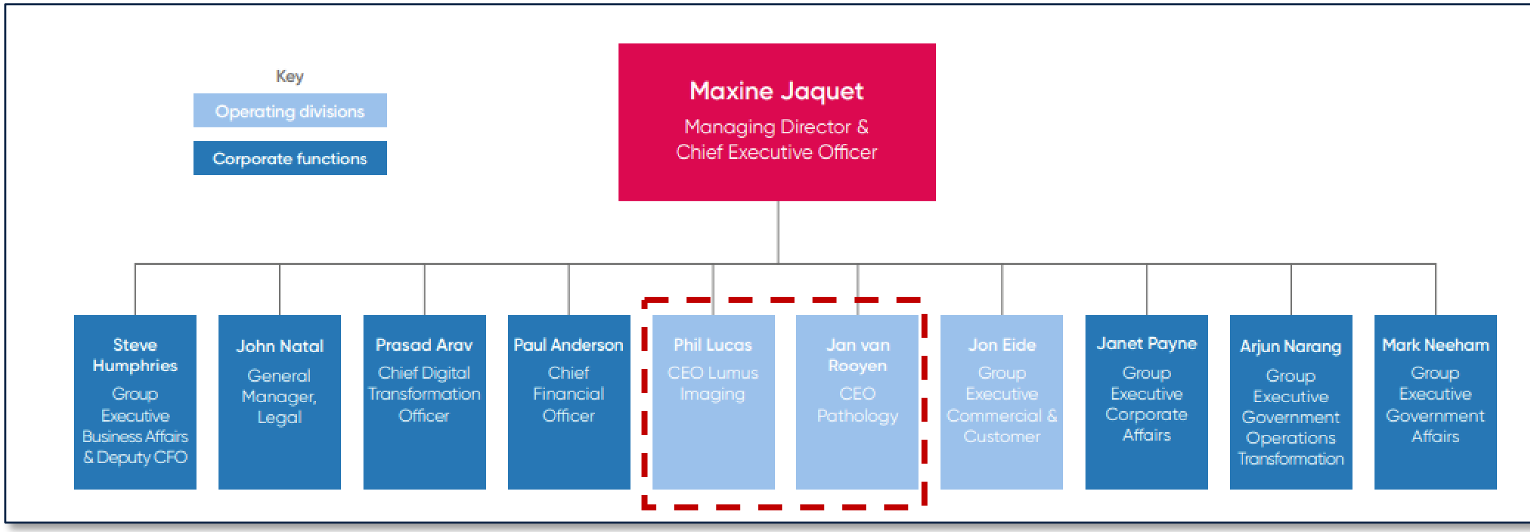


EBIT: | $137m | $130m | $376m | $116m | $40m | $59m

Source: Company announcements

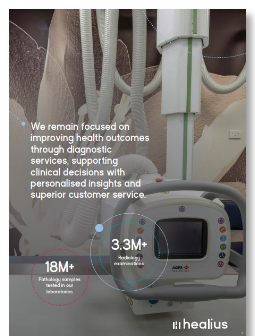
COVENANT CHALLENGES COULD HAVE BEEN SOLVED WITHOUT RAISING EQUITY WITH BETTER AND LESS PANICKED MANAGEMENT.
PROFORMA DEBT/EBITDA IF COMPANY MEETS ITS OWN GUIDANCE JUNE 24: 3.5x
AT ESTIMATED 50% RECOVERY IN PATHOLOGY FROM F24 GROUP GUIDANCE TO F19 LEVEL: PROFORMA 2.8x

The CEO runs a management structure with way too much indirect overhead



ONLY TWO OUT OF TEN DIRECT REPORTS WITH P&L RESPONSIBILITY

- 65 page Sustainability Report issued last week while earnings are about to be materially downgraded
- c. >80 person HR department
- Divisional finance departments, despite operating only <u>two</u> divisions



pg. 1

pg. 65

Source: Extract from FY23 Corporate Governance statement

SPEAKS TO A LACK OF P&L ACCOUNTABILITY AND FOCUS IN THE COMPANY CULTURE

What does it take at Healius for an advisor to be fired?

- Gresham were sole financial advisor to Healius on the disastrous AgileX purchase (fee undisclosed)
- Then re-hired by the CEO as sole advisor on ACL takeover offer, paid $4m for that (to date)
- Gresham retained again to advise on the heavily dilutive equity raise to reduce gearing from AgileX purchase (fee undisclosed)
- Gresham own no shares in the company* and have suffered no loss from the share price rout

** Based on public information*

Board and CEO together have less than $1m of stock in the company – and half of that is free stock issued to CEO under LTI plans*

MOST OF THE DIRECTORS OWN LESS THAN ONE YEAR'S FEES IN SHARES

Non-executive Directors	Shares	Rights	Value ($)	Fees ($)	Multiple
Jenny Macdonald	130,000	12,048	170,458	286,631	**0.59x**
Gordon Davis	55,759	40,214	115,168	181,721	**0.63x**
Sally Evans	15,000	34,882	59,858	176,250	**0.34x**
Kate McKenzie	35,000	2,008	44,410	170,704	**0.26x**
John Mattick	27,542	15,093	51,162	157,739	**0.32x**
Charlie Taylor	-	-	nm	nm	
Michael Stanford	-	-	nm	nm	

Note: Value based on raise price of $1.20

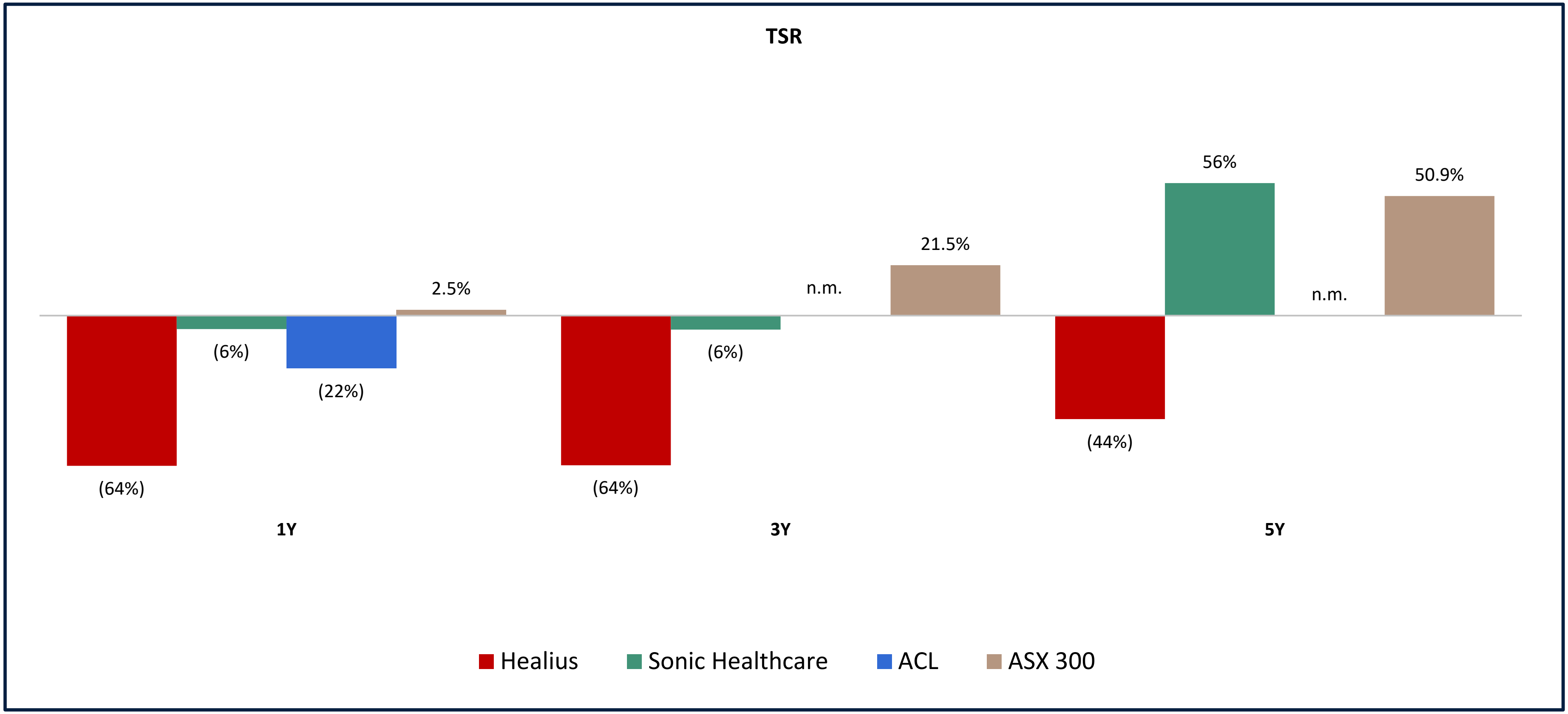
CEO

- Awarded 620,641 shares under LTI plans
- **Never purchased a share****
- Sold 252,624 shares in FY22

In total the non-Executive Directors will be only investing ~$120,000 to follow their money in the $187m capital raise

* *At $1.20 issue price*
** *Based on public information*

Share price returns speak for themselves



Note: TSR as per Refintiv at 21 November 2021, adjusted for Healius capital raise price of $1.20

For these reasons, we are voting as follows at the upcoming AGM:

		Reason
Re-elect Chair Jenny Macdonald	NO	Chair
Elect Charlie Taylor	NO	Member of Board Capital Raise Sub-Committee
Elect Ravi Jeyaraj	YES	Tanarra nominee, PE background
Elect Michael Stanford	YES	New director, pathology experience
Approve remuneration report	NO	Reflect performance
Approve grant of LTIP performance rights to CEO	NO	Has not purchased shares
Approve issue of shares under NED share plan	YES	In lieu of cash payments
Approve non-executive Director fee cap increase	YES	Attract quality talent to the board, but we expect NEDs to buy shares, especially at these levels

WE ALSO BELIEVE OTHER DIRECTORS WHO'VE BEEN ON THE BOARD SINCE 2018 SHOULD CONSIDER THEIR POSITIONS.
THE COMPANY NEEDS FRESH LEADERSHIP

Important Notices

Confidentiality

This presentation is prepared and furnished by Tanarra Capital Australia Pty Ltd ("TCA") (ACN 114 164 331) (AFSL No. 290098) on a confidential basis. The information contained herein should be treated in a confidential manner and may not be reproduced or used in whole or in part for any other purpose, nor may it be disclosed without the prior written consent of TCA.

Sophisticated investors

This presentation is solely for sophisticated investors who are Australian residents and wholesale clients (as defined in section 761G of the Corporations Act 2001 (Cth) (the Corporations Act).

Preliminary information and no advice

This information is given in summary form and does not purport to be complete. Information in this presentation, including forecast financial information, should not be considered as financial product advice within the meaning of the Corporations Act or a recommendation to investors or potential investors in relation to holding, purchasing or selling securities or other financial products or instruments and does not take into account your particular investment objectives, financial situation or needs. Before acting on any information you should consider the appropriateness of the information having regard to your objectives, financial situation and needs. Nothing in this presentation should be interpreted as advice or a recommendation to buy, sell or hold Healius shares or any other securities.

Independent investigation

Whilst the information contained in this presentation is believed to be reliable, its accuracy or completeness cannot be guaranteed, and, to the maximum extent permitted by law, no responsibility for the accuracy or completeness of such information is assumed by TCA or any other person furnishing this presentation. To the maximum extent permitted by law, neither TCA, nor any related party, officer, director, adviser or associate of TCA, provides any representation or warranty in relation to this presentation, and each such person disclaims all responsibility and liability for any loss or damage in relation to this presentation (including without limitation, liability for negligence).

Any opinions and forecasts in this presentation reflect the judgment and assumptions of TCA and its representatives on the basis of information available as at the date of publication and may later change without notice. Any projections contained in this presentation are estimates only and may not be realised in the future.

Investment risks

Any investment necessarily involves risks. Past performance is not necessarily indicative of future results. Any forward-looking statements included in this presentation may prove to be inaccurate and should not be relied upon as indicative of future matters. There can be no guarantee that targets or objectives set out in this presentation will be met.

Important Information Regarding Targeted Returns

Targeted returns will be based on TCA's analysis and evaluation of investment opportunities and on numerous investment-specific assumptions that may not be consistent with future market conditions and that may significantly affect actual investment results. Targeted returns are not projections, predictions or guarantees of future performance and there can be no assurance that target returns will be achieved.

No inside information

Information contained in this presentation is based on generally available information including deductions, conclusions or inferences drawn from such information. Any unauthorised use, disclosure or copying of this information or any part thereof is strictly prohibited and may be unlawful. Recipients of this presentation should refrain from trading, procuring, tipping or any other conduct that might contravene insider trading prohibitions.

TCA and its associates may have interests in financial products and may receive fees from investment funds invested in companies referred to.

Date

The information is current as at the date publication of this presentation, 22 November 2023. TCA does not accept any obligation to update this presentation.

TANARRA