Aster
We'll Treat You Well

January 15, 2024

The Secretary Listing Department, BSE Limited, 1st Floor, Phiroze Jeejeebhoy Towers Dalal Street, Mumbai 400001 Scrip Code: 540975	The Manager, Listing Department, The National Stock Exchange of India Ltd Exchange Plaza, C-1, Block G Bandra Kurla Complex Bandra (East), Mumbai 400051 Scrip Symbol: ASTERDM

Dear Sir/Madam,

Sub: (a) Update on disclosures made by Aster DM Healthcare Limited ("Company") on March 28, 2022, June 11, 2022, November 10, 2022, February 14, 2023, July 05, 2023, July 24, 2023, November 28, 2023, December 23, 2023, December 30, 2023 and January 12, 2024;
(b) Outcome of Board meeting of the Company held on January 15, 2024

Ref.: Disclosure under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015 ("LODR Regulations")

In relation to the captioned subject, we wish to inform you that:

(a) The board of directors of the Company ("**Board**") held a meeting on January 15, 2024 to discuss progress of the transaction between Affinity Holdings Private Limited ("**Affinity**") and Alpha GCC Holdings Limited ("**Buyer**") for segregation of the Company's GCC business. The Board was briefed that there has been satisfactory progress on conditions precedent for the transaction and Affinity and the Buyer are aiming to complete the transaction soon.

(b) The Board also discussed the proposed utilisation of the transaction proceeds receivable at closing of the transaction. As previously disclosed, the consideration receivable from the transaction is ~USD 1.001 billion of which USD 903 million, subject to customary adjustments, is payable at closing and upto USD 98.8 million may be received subsequently subject to certain contingent events. This includes an earnout of upto USD 70 million based on EBITDA achieved by the GCC business for the Financial Year ending 31 March 2024. Following deliberations regarding future expansion plans, capex requirements, cash reserves, the Board is desirous to consider distribution of 70%-80% of the upfront consideration of USD 903 million, as dividend to its shareholders i.e. in the range of INR 110/- to INR 120/- per share. The proposed declaration of dividend by the Company is subject to completion of the transaction including receipt of shareholder approval for the transaction, approval of Affinity to distribute the transaction proceeds to the Company and receipt of approvals required under corporate laws for dividend distribution, including Board approval.

(c) The Board also took note of certain questions received from stakeholders in relation to the proposed segregation, including from proxy advisory firms, and the responses provided by the Company in subsequent discussions. While details as already communicated through the postal ballot notice and various disclosures to the stock exchange were reemphasised in such discussions, a summary of the same is provided in **Annexure 1** hereto for ease of reference.

Kindly take the above said information on record.

Thank you

For **Aster DM Healthcare Limited**

HEMISH PURUSHOTTAM

Digitally signed by HEMISH PURUSHOTTAM
Date: 2024.01.15 16:27:05 +05'30'

Hemish Purushottam
Company Secretary and Compliance Officer

ANNEXURE 1

Rationale for the transaction

The basic idea of the transaction was to segregate the Company's GCC business and the India business. The segregation allows shareholders to realise the true value of the Company's shares, and the Company's management believes that the transaction will be value accretive to shareholders. The market has considered the news of the transaction favourably as is evidenced by the Company's stock price after announcement of the transaction, supporting this assessment. This assessment is also borne out in various investor interactions following announcement of the transaction.

Use of transaction proceeds

- As previously clarified by the Company, a sizeable portion of the transaction proceeds will be distributed as dividend to the shareholders of the Company, subject to approvals required under law upon completion of the transaction.

- Affinity is the seller in the current transaction and will receive the transaction proceeds at completion.

- Affinity has already indicated its intent to upstream the transaction proceeds to the Company subject to adjustment of customary transaction costs and related adjustments.

- Net of costs, the Company expects to receive more than ~95% of the transaction proceeds from Affinity.

- The Company does not require the proceeds from the transaction to achieve its growth plans for the India business, considering the profitably scaling operations and minimal leverage in its books.

- Affinity and the Company's intention has been, and continues to be, that they shall distribute most of the proceeds from the transaction as dividend. Only a limited portion of the transaction proceeds will be retained, including to cover potential indemnity obligations under the transaction and attend to certain statutory limitations on retained earnings at the Company's level. The board of directors of the Company will take decision in relation to utilisation of the retained amounts (including utilisation for growth purposes) at the relevant time.

- Given the matters above, the Board is desirous to consider distribution of 70%-80% of the upfront consideration of USD 903 million, as dividend to its shareholders i.e. in the range of INR 110/- to INR 120/- per share.

- As a matter of corporate laws in India, dividend can be finalised and declared only after transaction proceeds are received by the Company at completion of the Transaction.

- The Board meeting is expected to be held after conditions precedent are completed (expected by early March 2024) and the Company will update all stakeholders in accordance with law thereafter.

Sale process and valuation

- The sale of GCC Business to the Buyer concluded after a year-long independently and professionally run bidding process involving in excess of 40 interested parties and multiple competing offers.

- The sale process was overseen by two investment banks and the board which helped in optimum value discovery.

- Apart from the robust value discovery and sale process, the fair valuation for the GCC business was determined by the following independent valuers appointed by Affinity and the Company's board of directors: (i) Ernst & Young Merchant Banking Services LLP ("EY"), and (ii) PwC Business Consulting Services LLP ("PwC").

- In addition to the valuation reports, the audit committee of the Company and the Board also reviewed a fairness opinion from ICICI Securities in relation to the valuation reports, which confirms the fairness of the valuation ranges provided by the valuers.

- The valuation reports and fairness opinion remain open for inspection at the registered office of the Company.

- The equity value ranges given by EY and PwC in their fair valuation reports were US$881mn to US$1,093mn and US$886mn to US$1,051, respectively. Basis the same, the transaction equity value of $1002 million is on the higher side of the valuation ranges given by both the reputed independent valuers.

Transaction Equity Value	US$1,002m

Independent Valuers	Equity Value Range		
EY	$881 mn	to	$1,093mn
PwC	$886mn	to	$1,051mn

- The valuation of GCC business under the deal was also largely better than the valuation given by various research houses to the GCC business prior to the deal announcement. Set out below is the valuation of GCC business compared with analyst estimates:

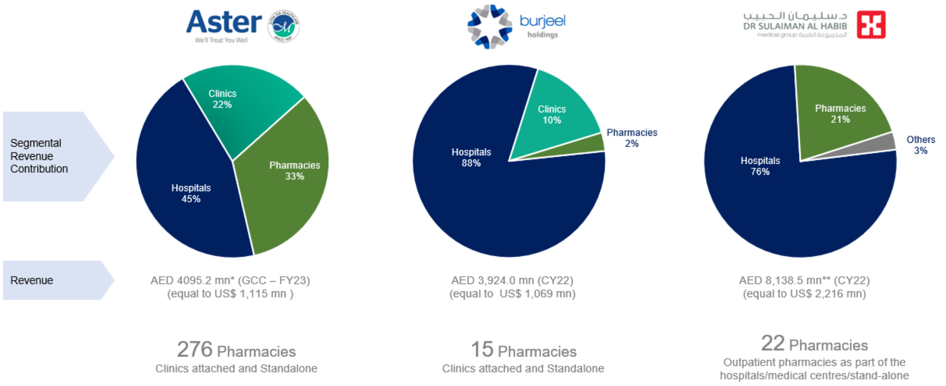
Analyst	Date	Valuation Metric	Value of Metric ($mn / INR Cr)	Multiple Used	Enterprise Value ($mn)	Enterprise Value (INR Cr)
Actual Valuation	28th Nov 2023	FY23 EV/EBITDA	$139mn / INR 1,139 Cr	11.9x	1,651	13,540
HSBC	30th Aug 2023	FY24E EV/EBITDA	$169mn / INR 1,385 Cr	10.0x	1,689	13,850
Avendus Spark	16th Aug 2023	FY25E EV/EBITDA	$176mn / INR 1,445 Cr	8.0x	1,409	11,559
Axis Capital	16th Aug 2023	FY26E EV/EBITDA	$166mn / INR 1,364 Cr	7.0x	1,164	9,550
JM Financial	16th Aug 2023	FY25E EV/EBITDA	$169mn / INR 1,386 Cr	5.0x	845	6,930
				Mean	1,277	10,472
				Median	1,287	10,555

Note: 1USD = INR 82 FX rate has been used for conversion

- The announcement of a firm transaction in Q3 2023 had an additional positive impact on the Company's stock price. This further underscores the market's confidence in the realisation of full value from the proposed segregation.

- While the valuation of peers in the GCC region appears higher than the GCC Business on a cursory examination, it is important to note that the GCC Business is not fully comparable with the other companies in the region. Unlike other companies in the GCC region (such as Burjeel etc.), Aster has a much higher contribution coming from non-hospitals businesses as compared to the peers. For instance, if one looks at Aster's business, ~45% of Aster's revenue comes from the hospital business, which does operate in the range of ~15-17% EBITDA margin, but ~33% comes from pharmacies, where the margin profile is only around 10-12%. So, the blended margin is very different and not strictly comparable to players like Burjeel, which don't have as many pharmacies or clinics.

- Owing to the different business mix, Aster's GCC business underperforms when compared with the listed hospital companies in the GCC region (which are largely pure-play hospitals) and hence attracted a different multiple as compared these companies.



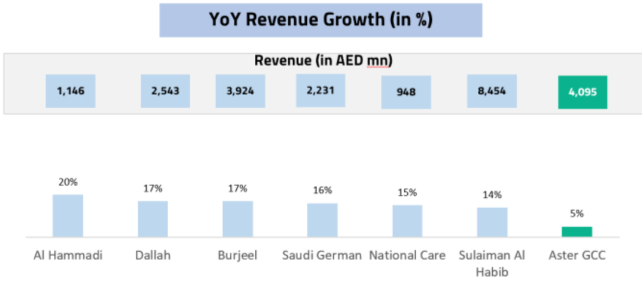
- Additionally, healthcare companies in the hospitals sector in the Saudi Arabia region trade at much higher multiples than healthcare companies in the UAE region as Saudi Arabia is currently a faster growing economy with much lower private sector hospital penetration. Given that Aster's GCC business has a majority of its business in UAE region, the Aster GCC business doesn't attract as high a valuation as some of the comparable companies which predominantly operate in the Saudi region.

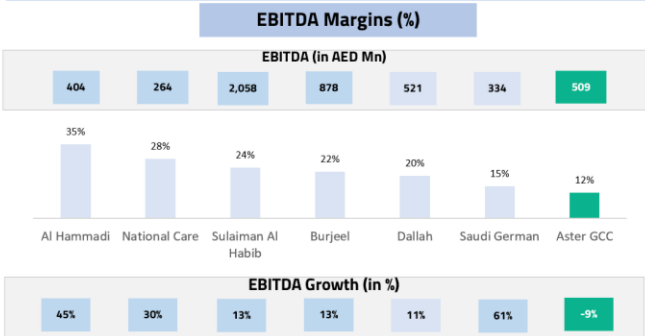
- In addition, the recent introduction of 15% corporate tax in the UAE also influenced the valuation due to its impact on future earnings projections.

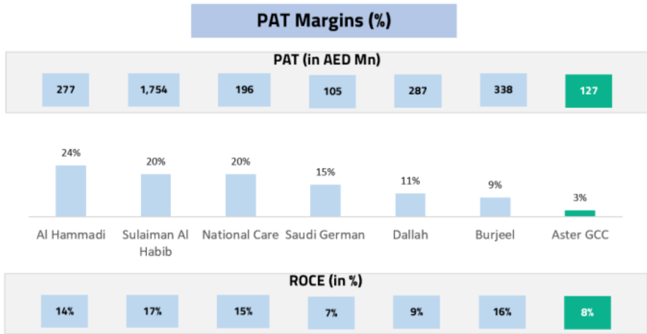
- Furthermore, pharmacy businesses in the region trade at much lower valuations than hospital businesses. Given that Aster's GCC business has nearly 1/3rd of its revenues coming from the pharmacy business as compared to a much lower share in the case of other companies in the region, Aster's GCC business valuation is not comparable to the valuations of other listed hospital companies in the region. It would not be appropriate to apply the multiples of companies with a different business mix to the Company's GCC business without adjusting for these factors.

Financial Performance – FY23 (TTM) GCC Listed peers

Company Name	Hospitals	Capacity Beds	Clinics	Pharmacies
Saudi German Health KSA	8	2,100	2	-
Dr. Sulaiman Al Habib	7	1,913	4	22
Burjeel Holdings	16	1,660	24	15
Dallah Healthcare	5	1,600	-	-
Aster GCC	15	1,439	115	264
Mowasat Hospital	6	1,080	-	-
Al Hammadi Hospitals	2	1,028	-	-
National Care Hospital	2	655	1	-







Note: 1 SAR = 0.98 AED conversion ratio; Burjeel numbers shown above are for CY22 due to non availability of FY23 TTM numbers; **TTM as on June 30,2023**

Summary:

In summary, the Company's GCC business cannot be simply compared with listed hospital players in the region and must be seen through an independent lens:

- A significant portion (~55%) of its revenue comes from non-hospitals businesses like clinics and pharmacies which impacts its financial performance when compared to hospital peers and consequently impacts valuation.
- The GCC market also values businesses like pharmacies much lower than hospitals. Given that a large part of its GCC business' revenue comes from pharmacies (~33%), Company's GCC business naturally gets a more blended, and therefore lower multiple, compared to other healthcare peers which are mostly pure play hospitals.
- Company has a much lower presence in Saudi Arabia as compared to most of the listed peers considered. Saudi Arabia is a faster growing market than the UAE, which is a more mature market now. Therefore, hospital companies based in or predominantly focused on Saudi Arabia currently enjoy much higher valuation than Company's GCC business.

The transaction valuation in this case was arrived at through a comprehensive and independent process to unlock maximum value and stands validated by the reports of the independent valuers and the fairness opinion.

<u>Transfer of shared services business</u>

- The Company received questions on whether the transaction involves a sale of DM Medcity Hospital (India) Private Limited, an Indian subsidiary of the Company ("**Medcity**").
- The transaction does not involve the transfer of Medcity to Aster FZC. Only Medcity's undertaking providing support services (the details of which were provided in the postal ballot notice) is proposed to be transferred to Aster FZC as a going concern.
- The said undertaking exclusively service the GCC Business and historically has been held by Medcity.

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- Since the undertaking exclusively services the GCC Business, as part of the segregation of the GCC business, the support services undertaking is also proposed to be transferred to a new entity (Aster Shared Services Pvt Ltd) directly held by the GCC Business. All other assets and liabilities in Medcity which are not relevant to the support services undertaking, such as the land in Kochi and the Aster Health Academy business will continue to be retained by Medcity which will continue to be a subsidiary of the Company.

- It is relevant to highlight that the slump sale has been contemplated for some time to ensure a clean corporate structure for GCC business as well as to ensure clear employee reporting and responsibility structures rolling into the GCC team. This move also directly aligns the cost structure under GCC.

<u>Rationale and impact of non-compete and brand co-existence agreement</u>

- One of the reasons for segregation of the India and GCC business was for the Company to exit the GCC region. From Q&A on prior earnings calls, discussions with analysts and investors, it had become evident that the Company's GCC operations posed structural complications which the Company's shareholders have also historically acknowledged.

- Having exited the GCC market after a long and thought-through process involving multiple advisors, the Company has no intention to re-enter the same GCC market to expand its business. As such, the non-compete on the Company restricting re-entry into GCC region did not pose any constrains on the Company's expansion plan going forward.

- It is customary for the seller of a business to enter into a non-compete with the buyer (especially when the seller/ seller's parent continues to operate the same business in another geography). Accordingly, a non-compete agreement has been entered into as part of the proposed transaction.

- As has been detailed out in the postal ballot notice, Affinity and the Company has ensured that the non-compete is mutual (i.e. there is a reciprocal non-compete from the Buyer) – this is unusual for similar transactions and was undertaken to ensure the Company's business expansion is not constrained and its core market remains protected.

- In the unique structure for the transaction, the non-compete arrangement prevents the GCC Business from expanding to India and ASEAN region as well. The non-compete obligations/ restrictions on the Company is for a fixed duration and do not apply in perpetuity.

- Given that historically, the Aster brand was used by both jurisdictions, the existing brand names will continue to be used by both the groups in their respective jurisdictions which will allow both parties to leverage the existing Aster brand name in both the geographies, so as to not let either party have a negative impact on account of a brand change. In this context, it becomes even more important that both sides mutually refrain from entering the other's identified core geographies to operate a competing business – as that would cause serious confusions and ultimately erode consumer trust in the brand, globally.

<u>Medical value travel agreement between the Company and GCC Business</u>

- While the Company is exiting the GCC region, the option to continue to source MVT business from countries within the region has been retained by the Company which has been agreed to be an exception to the non-compete arrangement. Consistent with the principle of avoiding brand confusion in the relevant jurisdictions, it has been agreed that for the purposes of MVT operation, sourcing of patients would be undertaken through contracts routed via the Buyer.

- Market commissions / reimbursement structures basis arm's length pricing have been agreed as below:

a) Aster GCC shall be paid 20% of billing as commission for MVT patients coming from Aster's GCC facilities or such arm's length value as evaluated on regular basis.
b) For patients who are channelled through other MVT service providers in the GCC, Aster GCC shall earn a 4% commission as compensation for all administrative efforts around this.
c) Further, in order to exercise control on the MVT business employees of Aster will be placed in the GCC region. These employees and their activities shall be on Aster GCC books and the Company will reimburse the costs incurred by Aster GCC for such operations and persons, with a 5% mark up on the actual spends.

- The MVT operations in countries that are not part of the non-compete region with GCC[1], will continue to be operated directly by the Company, as usual.

Company's warranty & indemnity obligations under the transaction agreements

- As previously indicated the Company has entered into a deed of guarantee with the Buyer. If Affinity fails to discharge certain liabilities in relation to the transaction, these will be discharged by payment of monies by the Company.

- These are very minimal and specific indemnities and the Company has a very limited liability for warranties A key feature of the transaction is coverage of claims through W&I Insurance. The limitations/ caps on each such potential liability is defined in the transaction documents.

- The management team, based on historical operations experience in the GCC, perceives the probability of indemnification events as low.

- The Company and Affinity have implemented measures to ensure monitoring to avoid any potential breaches and consequent pay-outs.

Promoters' continued participation in Aster GCC post transaction

- As previously indicated, a consistent message that the Company received from the Indian public markets is that the GCC business is structurally a different market compared to the Indian market and this adversely impacts the value of the India business. Based on various investor interactions and market feedback, management's understanding is that Indian shareholders, in general, would prefer for the Company to focus on India and not be a part of the GCC operations. This inference may be considered as validated, given the positive sentiment witnessed by the Company, as exit from the GCC came closer to reality.

- As previously disclosed, there was a common sentiment across the bidders that given such bidders were all financial investors they would heavily rely on the Promoters for their operational expertise and regional relationships to actualize the business plans shared with investors. Thus, the continuity of Promoters in the GCC Business, was an important consideration for incoming investors as they evaluated the opportunity and in determination of the value they attributed to the GCC business. In order to ensure and demonstrate, that the Promoter family has an important stake in the long-term success of the GCC business, the Promoter family decided on their shareholding in the new Buyer entity at the same equity value offered by Fajr Capital.

- Further, the promoter family will continue to manage and operate the GCC business. Dr. Azad Moopen will continue as Founder Chairman of Aster DM Healthcare Limited

[1] The Non-compete regions with GCC are:
a) the countries forming part of the Gulf Cooperation Council comprising of Saudi Arabia, Kuwait, United Arab Emirates, Qatar, Bahrain, and Oman; and
b) the countries forming part of the Middle East and North Africa region comprising of Algeria, Djibouti, Egypt, Iraq, Iran, Israel, Jordan, Lebanon, Libya, Malta, Morocco, Yemen, The Syrian Arab Republic, Tunisia, Turkey, West Bank and Gaza.

overseeing both India and GCC entities. Ms. Alisha Moopen will act as the new Managing Director of the GCC entity to lead a long-term strategy that will unlock value through regional expansion, diversification, and cost optimization as a pure-play GCC operating company

- Considering that Aster India has been operating for several growth years with a separate professional management team under the supervision of an exemplary Board of Directors, Promoters' continued shareholding in the GCC business is not expected to affect Company's operations in any manner.