Spire Healthcare

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8 July 2021

Dear Spire Shareholder,

**Glass Lewis' Report on the Recommended Acquisition of Spire Healthcare Group plc ("Spire") by Ramsay Health Care Limited ("Ramsay")**

We are writing to you through Glass Lewis' process for companies to share their perspectives on reports issued by Glass Lewis.

Glass Lewis initially published a report on 2 July 2021 (the "Report") in relation to the recommended acquisition of Spire by Ramsay (the "Transaction"). **The Report was prepared on the basis of the old offer of 240 pence per Spire share (the "Initial Offer") as opposed to Ramsay's increased and final offer of 250 pence per Spire share (the "Increased Final Offer")[(1)].** Glass Lewis subsequently updated the Report on 7 July 2021 to reflect the increased offer price but has not changed its recommendation. **Spire disagrees with certain statements in the Report (and the 7 July update) published by Glass Lewis.**

The Board of Spire is focused on ensuring that all stakeholders have an accurate, up-to-date and timely information in relation to Spire and the Transaction. Accordingly, this letter sets out Spire's position on these matters in the Report (and the 7 July update).

The Spire Board notes that 3 proxy and corporate governance advisory agencies, ISS, PIRC and IVIS, have published recommendations to vote **IN FAVOUR** of the Transaction.

The Spire Board respects the views of all shareholders and it is incumbent on us to ensure the voting process is fair and open to all. A number of investors have requested a short extension to the process to allow them to exercise voting rights, and it is our responsibility to ensure that as many shareholders as possible have the opportunity to express their views. We urge all shareholders to take advantage of this extension.

The Spire Board reiterates its unanimous recommendation to shareholders to vote in favour of the Transaction at the Court Meeting and General Meeting due to be held on 19 July 2021. The Spire Board has assessed the Transaction against Spire's existing strategy and long term forecasts, and concluded that the Transaction is in the best interests of Spire Shareholders.

Yours Faithfully,

Jitesh Sodha
Chief Financial Officer

*[(1)] Ramsay reserves the right to increase the offer price if there is an announcement on or after 5 July 2021 of an offer or a possible offer for Spire by a third party offeror or potential offeror.*

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8 July 2021

Glass Lewis Europe, Ltd.
15 Henry Street
Limerick, V94 V09T, Ireland

Dear Sir / Madam,

**Recommended Acquisition of Spire Healthcare Group plc ("Spire") by Ramsay Health Care Limited ("Ramsay")**

We appreciate the opportunity to respond directly to the Report (as subsequently revised on 7 July), and for you arranging for this letter to be delivered to those subscribers of your services that purchased the Report and the subsequent revision on 7 July. We have set out below the matters that we request you, and our shareholders, consider when evaluating the Report and the related update issued by Glass Lewis on 7 July.

*1. Increased Final Offer*

The Spire Board believes that the Increased Final Offer is in the best interests of Spire Shareholders as a whole, and accordingly unanimously recommends that Spire Shareholders vote in favour of the Increased Final Offer at the Court Meeting and General Meeting.

The Spire Board considered a number of factors in determining to recommend the Increased Final Offer, and in particular encouraged shareholders to carefully consider the following:

- The Increased Final Offer represents an enterprise value multiple of approximately 21.6x Spire's adjusted post-IFRS 16 EBIT of £97.6 million for the year ended 31 December 2019 (prior to the COVID-19 pandemic), and a multiple of 33.4x the average annual discretionary free cash flow[(1)] of approximately £31.2 million for the three financial years 2017-2019.
- The plans against which the Increased Final Offer have been assessed by the Spire Board include the expectation of increases in patient volumes in 2021 and future years due to the unprecedented NHS waiting lists.
- The historical margins in 2017 and prior years are not reflective of the Spire Board's expectations of long term margins, given ongoing investment requirements to maintain high standards of clinical care and the challenging regulatory environment.
- Near term and longer term increases in patient volumes must be balanced against the need to use existing capacity safely, rising clinical costs, and ultimately the cost of increasing capacity. These factors will have an impact on the operating and cash margins of the business.
- The Spire Board believes that, as an independently listed company, the risks from a sale of a material portion of Spire's freehold properties outweigh the benefits of realising cash proceeds.
- Trading in the first five months of 2021 reflects revenues above the equivalent period in 2019, with higher associated clinical staff and direct costs. Current NHS commissioning volumes remain low while self-pay volumes are very strong.
- The Spire Board does not have a basis to change its 2021 outlook for Spire relative to that provided in May 2021.

- The Spire Board has been open to competing offers and confirms that it is not currently in receipt of any approaches or offers from other bidders.
- The volume-weighted average share price in the three months prior to announcement of the Initial Offer on 26 May 2021 was 179 pence per Spire share, which is approximately 30% below the Increased Final Offer price.
- In the event the Increased Final Offer is not implemented, the Spire Board notes that there is likely to be an overhang on Spire's share price given that a material proportion of Spire's share register has moved from long term shareholders to hedge funds since the Initial Offer was announced.

*(1) Defined as net increase in cash and cash equivalents before debt repayments, dividends, proceeds from asset disposals and exceptional items included in cash flow.*

Further details on the Spire Board's considerations are set out in Spire's announcement 5 July 2021 and in the scheme document dated 15 June 2021.

Against this backdrop, we encourage Glass Lewis to reconsider its current voting recommendation in particular given the items set out below.

*2. Valuation*

- The Report (and the 7 July update) state "…we see that the enterprise value-to-2019 EBITDA multiple on a post-IFRS basis implied by the proposed transaction (10.9x) falls below the mean and median multiples derived from the comparable set (12.8x and 12.5x) […] We note that the increased offer price represents a modest improvement to the enterprise value-to-2019 EBITDA multiple on a post-IFRS basis implied by the proposed transaction (11.1x vs 10.9x)".

- The terms of the Increased Final Offer represent an enterprise value of **11.9x** Spire's pre-IFRS 16 EBITDA of £120.5m for the year ended 31 December 2019.
- The majority of precedent transactions are likely to be on a pre-IFRS 16 basis, and given the changes in accounting standards, Spire believes that cash flow multiples are an important cross-check.
- The terms of the Increased Final Offer represent an enterprise value multiple of **21.6x** Spire's pre-IFRS EBIT of £97.6m for the year ended 31 December 2019, and an enterprise value multiple of **33.4x** the average annual discretionary free cash flow[(1)] of approximately £31.2m for the three financial years 2017-2019.
- Ultimately the Spire Board has used a range of long term valuation approaches, and a range of scenarios, in determining to recommend the Transaction. However, it is important that all stakeholders have the correct multiples benchmarks as they assess the Transaction.

*3. Spire's Share Price*

- The Report (and the 7 July update) state "Spire shares have traded at a premium to the £2.40 offer price since the transaction agreement was announced, including closing at an average price of £2.48 per share, or 3.3% above the offer price, over the period from May 26, 2021, the first trading day following announcement, through June 30, 2021, the last trading day prior to preparation of this report […] Given that Spire shares have consistently traded above the offer price since the deal was announced, we question whether approving the current offer would be in the best interests of shareholders"

- This information is incorrect as the Increased Final Offer is 250 pence per Spire share and <u>not</u> 240 pence per Spire share.
- In addition, based on trading information sourced from Bloomberg, over 90% of Spire shares traded between 26 May and 6 July have been at or below the Increased Final Offer price of 250 pence per Spire share.

*4. Trading Outlook*

- The Report (and the 7 July update) state "As a leading private healthcare provider in the UK, we recognize that Spire is well positioned to benefit from increased spending as the UK recovers from the Covid-19 pandemic"

- As stated in further detail in Spire's announcement of 5 July 2021, the plans against which the Increased Final Offer have been assessed by the Spire Board include the expectation of increases in patient volumes in 2021 and future years.
- However, increases in patient volumes must be balanced against the need to use existing capacity safely, rising clinical costs, and ultimately the cost of increasing capacity. Historical margins in 2017 and prior years are not reflective of the Spire Board's expectations of long term margins, given ongoing investment requirements to maintain high standards of clinical care and the challenging regulatory environment.

5. *Board Process*

- The Report (and the 7 July update) state "Spire has not however, to the best of our knowledge, provided substantive disclosure regarding the process used by the board in determining to support the proposed transaction"

- Following the receipt of the approach from Ramsay in March, the Spire Board applied due process including fulfilling its obligations in full under the Takeover Code and Company Law. The Board was also advised by three financial advisers and a leading UK law firm. As you will appreciate, we are unable to share the specific details of the conduct of this process, however, as noted in Spire's announcement of 5 July, we can confirm (i) the Initial Offer on 26 May was announced after extensive negotiation by the Spire Board with Ramsay and (ii) the Spire Board has been open to competing offers and confirmed on 5 July that it was not currently in receipt of any approaches or offers from other bidders.

6. *Shareholders*

- The Report (and the 7 July update) state "… two of Spire's largest institutional shareholders have publicly expressed support for the stand-alone alternative and the Company's share price has been trading meaningfully above the current offer price, providing limited incentive for shareholders to accept the current offer, in our view"

- Since the announcement of the Initial Offer, the Spire Board has engaged extensively with shareholders.
- The Report (and the 7 July update) reference opposition to the Transaction from 2 Spire shareholders, but it is important that the views of all shareholders are taken into consideration.
- We note, for example, that Mediclinic, which has a holding of approximately 30% in Spire, is supportive of the Transaction as evidenced by its irrevocable undertaking to vote in favour of the Transaction.

We have not been provided with the opportunity to engage with you in relation to your report on the Transaction, but would welcome the opportunity to do so at your earliest opportunity.

Yours Faithfully,

Jitesh Sodha
Chief Financial Officer

*All metrics and statements provided by Spire in this letter (excluding extracts from proxy and corporate governance advisory reports, and Bloomberg stock trading information) are sourced from the Spire RNS announcements dated 5 July 2021 and 7 July 2021, Ramsay's RNS announcement dated 5 July 2021 and the Company's scheme document dated 15 June 2021.*