



Orion Health Group Limited

Target Company Statement

Response to a full takeover offer by Grafton Health Holdings Limited

Date: 6 March 2019

This is an important document and requires your immediate attention. You should carefully read it in its entirety (including the Independent Adviser's Report from KordaMentha that accompanies this Target Company Statement as Appendix One). If you have any questions in respect of this document or the offer, you should seek advice from your broker or your financial, taxation or legal adviser.

Chairman's Letter

Dear Shareholders,

Background

On 20 February 2019, Grafton Health Holdings Limited (**Grafton**) made an unconditional takeover offer to purchase all of the ordinary shares (**Shares**) in Orion Health Group Limited (**Orion**) for an offer price of NZ\$1.224 per Share, payable in cash (the **Offer**).

You should have received a copy of the offer document directly from Grafton. A copy of the offer document can also be found on the NZX website (www.nzx.com) under the "OHE" ticker.

Before Grafton notified Orion of its intention to make the Offer on 6 February 2019, Grafton entered into lock-up agreements with McCrae Limited (a company controlled by Orion director and CEO Ian McCrae) and certain other shareholders who together held approximately 93% of the Shares. Shortly after the Offer was made, those shareholders accepted the Offer (as they were required to do under those lock-up agreements). This resulted in Grafton becoming the owner of more than 90% of the Shares and therefore entitled to exercise its rights under the Takeovers Code, as the dominant owner, to compulsorily acquire the outstanding Shares following the close of the Offer. Grafton has stated in its offer document for the Offer (the **Offer Document**) that it intends to exercise its compulsory acquisition rights to acquire any outstanding Shares.

Independent Directors' recommendation

The independent directors of Orion (being Andrew Ferrier and Paul Shearer) (the **Independent Directors**) unanimously recommend that shareholders accept the Offer from Grafton.

The other two Orion directors, Ian McCrae and Michael Falconer, are associated with Grafton and have therefore not been involved in the Board's response to the Offer.

The principal reasons for the Independent Directors' recommendation that shareholders accept the Offer are:

- **Offer price is within the Independent Adviser's valuation range:** The offer price is at approximately the midpoint of the valuation range of NZ\$1.00 to NZ\$1.47 per Share specified by KordaMentha in its Independent Adviser's Report. The price is also the same as the price offered by Orion in the recently completed share buyback; and
- **Unlikely to receive competing offers:** Given that Grafton has acquired over 90% of the Shares, there is no realistic prospect of a competing offer emerging.

Whether to accept now or wait until compulsory acquisition?

Grafton now owns more than 90% of the Shares and is therefore entitled to, and has said that it intends to, exercise its rights under the Takeovers Code to compulsorily acquire the outstanding Shares following the close of the Offer. Grafton will therefore acquire your Shares – either under the Offer or through compulsory acquisition.

A key question is therefore whether there is any advantage to you in either accepting the Offer or waiting instead for compulsory acquisition. This turns on the certainty of the price you will receive and when you will be paid for your Shares. These matters are summarised in the table below.

	If you accept the Offer	Under compulsory acquisition
Amount you will receive	<p>NZ\$1.224 per Share.</p> <p>This will be the final price you receive for your Shares and will not be subject to adjustment (even if the compulsory acquisition price is subsequently challenged).</p>	<p>NZ\$1.224 per Share unless the consideration payable is required to be determined by an independent expert appointed by the Takeovers Panel, and that expert determines a different price.</p> <p>Under the Takeovers Code, the consideration payable will be determined by an independent expert if:</p> <ul style="list-style-type: none"> the Offer fails to achieve a 50% acceptance level (excluding the shareholders that entered into lock-up agreements with Grafton). This equates to Grafton not receiving valid acceptances relating to more than 96.73% of the Shares. As at the latest practicable date before the date of this Target Company Statement, Grafton had received acceptances in respect of 95.93% of the Shares; and shareholders who hold 10% or more of the Shares not held by Grafton following the Offer challenge the price. The precise number of Shares that this corresponds to will depend on the level of acceptances received by Grafton under the Offer. <p>The independent expert is an independent person who will be appointed by the Takeovers Panel. The independent expert is required to determine the fair and reasonable amount for the Shares (without applying a minority discount). The independent expert must make his or her determination within 20 working days of his or her appointment.</p> <p>If the price is required to be determined by an independent expert, then that price would become the price payable for all shares acquired under compulsory acquisition (not just to those who challenge the price).</p> <p>Importantly, the price determined by the independent expert may be higher or lower than the Offer price of NZ\$1.224 per Share.</p>
When will you be paid	<p>Within five working days after acceptance.</p>	<p>Within five working days after accepting the compulsory acquisition offer.</p> <p>The compulsory acquisition notice must be sent within 20 working days after the end of the offer period for the Offer – so you will be paid later than if you accept the Offer.</p> <p>If the consideration is referred to determination by an independent expert, and the consideration determined is greater than NZ\$1.224 per Share, then Grafton must immediately after the determination pay you that difference for each of your Shares to be acquired under compulsory acquisition.</p> <p>However, if the consideration is referred to determination by an independent expert, and the consideration determined is less than NZ\$1.224 per Share, then Grafton may recover from you the amount of that difference for each of your Shares to be acquired under compulsory acquisition.</p> <p>KordaMentha anticipates that any such additional consideration payable (or any consideration recoverable from you) would be paid (or be payable) no sooner than 10 May 2019.</p>

The Independent Directors therefore believe that the most likely choices for shareholders are:

- (a) if you require price certainty and wish to receive payment for your Shares as soon as possible, then you should accept the Offer; or
- (b) if you:
 - (i) believe that an independent expert is sufficiently likely to determine a price that is higher than NZ\$1.224 per Share so as to offset the factors set out in paragraph (b)(ii) below; and
 - (ii) are willing to:
 - wait longer to receive payment;
 - take the risk of the independent expert determining a price that is lower than NZ\$1.224 per Share; and
 - take the risk that the thresholds for having the consideration determined by an independent expert are not triggered,

then you should not accept the Offer and, if the 50% acceptance level threshold referred to in the table above is not satisfied, you should object to the compulsory acquisition price. As at the date of this letter, acceptances of the Offer have not exceeded the 50% acceptance threshold. However, if acceptances were received for an additional approximately 1% of Shares, it would do so.

Further discussion of these matters is set out on pages 4 and 5 of the Independent Adviser's Report.

We urge you to read the Target Company Statement, including the Independent Adviser's Report prepared by KordaMentha, carefully before making a decision.

Notwithstanding the recommendation of the Independent Directors, the decision on whether or not to accept the Offer is a matter for each shareholder. Shareholders will need to consider the Offer in the context of their own circumstances, and should consult their own professional advisers.

Yours sincerely



Andrew Ferrier
Chairman
Orion Health Group Limited

Target Company Statement (Takeovers Code disclosures)

1. Date

This Target Company Statement is dated 6 March 2019.

2. Offer

- 2.1 This Target Company Statement relates to a full takeover offer (the **Offer**) by Grafton Health Holdings Limited (**Grafton**) to purchase all of the ordinary shares in Orion (**Shares**) for a purchase price of NZ\$1.224 per Share, payable in cash.
- 2.2 The terms of the Offer are set out in the offer document dated 15 February 2019 (the **Offer Document**), a copy of which was sent to Orion shareholders on 20 February 2019 by Grafton.

3. Target company

- 3.1 The name of the target company is Orion Health Group Limited (NZX and ASX: OHE).
- 3.2 The postal address of Orion is:
- P.O. Box 8273,
Symonds Street,
Auckland 1150,
New Zealand
- 3.3 The contact email address for Orion is investor@orionhealth.com.

4. Directors of Orion

The directors of Orion are:

- (a) Andrew Ferrier;
- (b) Ian McCrae;
- (c) Michael Falconer; and
- (d) Paul Shearer.

5. Ownership of Orion's equity securities

- 5.1 The only class of equity securities on issue in Orion is the Shares.
- 5.2 In the past, Orion has issued securities comprising conditional agreements to issue Shares under the Orion Health Restricted Stock Unit Scheme, also known as "restricted stock units" or "RSUs". However, all such conditional agreements lapsed as part of the recent Orion share buyback (with the last such agreements having lapsed on 20 December 2018, as announced on 27 December 2018).

- 5.3 Schedule 1 to this Target Company Statement sets out the number, designation and percentage of Shares held or controlled by a director or senior manager¹ of Orion (a **Director** or **Senior Manager**, respectively) or their associates. Except as set out in Schedule 1, no other Director or Senior Manager or their associates holds or controls any equity securities of Orion. Because Directors Ian McCrae and Michael Falconer are associated with Grafton, Schedule 1 includes the Shares held by Grafton.
- 5.4 To the knowledge of Orion, no other person (other than the Directors, Senior Managers or their associates, to the extent set out in Schedule 1) holds or controls more than 5% of any class of equity securities of Orion. In particular, details of the shareholdings held or controlled by Grafton, McCrae Limited and Ian McCrae (being the only persons who hold or control more than 5% of the Shares) are set out in Schedule 1.
- 5.5 Schedule 2 to this Target Company Statement sets out the number of Orion equity securities:
- (a) that have, during the two year period ending on the date of this Target Company Statement, been issued to the Directors, Senior Managers or their associates; or
 - (b) in which the Directors, Senior Managers or their associates have, during the two year period ending on the date of this Target Company Statement, obtained a beneficial interest under any employee share scheme or other remuneration arrangement in any Orion equity securities,

in each case, together with the price at which the relevant equity securities were issued or provided.

6. Trading in Orion's equity securities

- 6.1 Details of the acquisition or disposition of Orion equity securities during the six month period ending on 5 March 2019 (being the latest practicable date before the date of this Target Company Statement) by Directors, Senior Managers or their associates and, to the knowledge of Orion, any other person holding or controlling 5% or more of the Shares are set out in Schedule 3.
- 6.2 Except as set out in Schedule 3:
- (a) no Director, Senior Manager or associate of a Director or Senior Manager; or
 - (b) to the knowledge of Orion, any person holding or controlling 5% or more of any class of equity securities of Orion,

has acquired or disposed of equity securities of Orion during the six month period ending on 5 March 2019 (being the latest practicable date before the date of this Target Company Statement).

¹ For the purposes of this Target Company Statement, the Independent Directors have determined that the senior managers of Orion are: Mark Tisdell – Chief Financial Officer, Darren Jones – Chief Executive Officer – Hospitals, Gregory Balla – Executive Vice President – People, Mark Capill – Executive Vice President – Services, Sarah Thompson – Executive Vice President – Products and James Rice – Global Sales Director.

7. Acceptance of Offer by Directors, Senior Managers and their associates

The table below sets out, as at the date of this Target Company Statement, the name of every Director, Senior Manager and associate of a Director or Senior Manager who, to Orion's knowledge, has accepted, or intends to accept, the Offer and the number of Shares in respect of which the person has accepted, or intends to accept, the Offer.

Name	Description	Number of Shares
Ian McCrae	Director	178,280 (*)
McCrae Limited	Associate of a Director (Ian McCrae and Michael Falconer)	78,021,379 (*)
Hamish Kennedy	Associate of a Director (Ian McCrae and Michael Falconer)	4,837,643 (*)
Gordon McCrae	Associate of a Director (Ian McCrae and Michael Falconer)	1,090,598 (*)
Harish Panchal, Ashok Panchal and Ila Panchal (as trustees of the Panchal Family Trust)	Associate of a Director (Ian McCrae and Michael Falconer)	550,000 (*)
Ian McCrae, Rosemary McCrae and Gregory Walker (as trustees of the Gairloch Trust)	Associate of a Director (Ian McCrae and Michael Falconer)	165,773 (*)
Gavin Reeve, Victoria Reeve and Brian Leaning as trustees of the CVC Share Trust	Associate of a Director (Ian McCrae and Michael Falconer)	20,000 (*)
Mark Capill	Senior Manager	36,152

Notes:

- (1) Shares marked with a (*) symbol were subject to a lock-up agreement with Grafton dated 6 February 2019 whereby the shareholder agreed to accept the Offer in respect of all of his or her Shares within one working day of the Offer being made. As the Offer was made on 20 February 2019, the relevant shareholders accepted the Offer in respect of their Shares on 21 February 2019.
- (2) This information is based on (i) substantial product holder notices filed with NZX and (ii) responses to questionnaires circulated to the Directors and Senior Managers by Orion after receipt of Grafton's Takeover Notice.

8. Ownership of equity securities of Grafton and its related companies

8.1 Schedule 4 to this Target Company Statement sets out, as at the date of this Target Company Statement, the name of every Director, Senior Manager and associate of a Director or Senior Manager who holds or controls equity securities of:

- (a) Grafton; or
- (b) any related company of Grafton (other than Orion and its subsidiaries),

in each case, together with the number, designation and percentage of equity securities of that class of equity securities.

- 8.2 As a result of acceptances of the Offer, as at the date of this Target Company Statement, Grafton holds more than 50% of the Shares. This means that Orion (and each of its subsidiaries) is a related company of Grafton. Accordingly:
- (a) the number, designation and percentage of Shares held or controlled by every Director, Senior Manager and associate of a Director or Senior Manager is set out in Schedule 1 to this Target Company Statement.
 - (b) Schedule 5 sets out the name of every related company of Grafton, in which Orion holds or controls equity securities of any class, together with the number, designation and percentage of equity securities of that class of equity securities. Because Orion is a related company of Grafton, this means that all of Orion's subsidiaries are also related companies of Grafton. Accordingly, all of the companies set out in Schedule 5 are Orion's subsidiaries. In addition, because each of Grafton (an associate of Directors Ian McCrae and Michael Falconer), McCrae Limited (an associate of Directors Ian McCrae and Michael Falconer) and Ian McCrae (a Director) control Orion, they too will control the equity securities set out in Schedule 5 to this Target Company Statement.
- 8.3 Other than as set out in Schedules 1, 4 and 5, neither Orion nor any of the Directors, Senior Managers or their associates holds or controls any equity securities of Grafton or any related company of Grafton.

9. **Trading in equity securities of Grafton and its related companies**

- 9.1 Schedule 6 to this Target Company Statement sets out the name of every Director, Senior Manager and associate of a Director or Senior Manager that has acquired or disposed of any equity securities of:
- (a) Grafton; or
 - (b) any related company of Grafton (other than Orion and its subsidiaries),
- during the six-month period ending on 5 March 2019 (being the latest practicable date before the date of this Target Company Statement), together with the number and designation of the relevant equity securities and the consideration for, and the date of, every such transaction.
- 9.2 As explained in paragraph 8.2 of this Target Company Statement, Orion (and each of its subsidiaries) is a related company of Grafton. Accordingly:
- (a) Schedule 3 sets out the number and designation of Shares that every Director, Senior Manager and associate of a Director or Senior Manager has acquired or disposed of during the six-month period ending on 5 March 2019 (being the latest practicable date before the date of this Target Company Statement), together with the consideration for, and the date of, every such transaction; and
 - (b) Schedule 7 sets out the number and designation of equity securities in every related company of Grafton in which Orion has acquired or disposed of equity securities of any class during the six-month period ending on 5 March 2019 (being the latest practicable date before the date of this Target Company Statement), together with the consideration for, and the date of, every such transaction. Due to the fact that Grafton and Orion are related companies, Schedule 7 contains information relating to acquisitions and disposals by Orion of shares in its subsidiaries.

- 9.3 Other than as set out in Schedules 3, 6 and 7, neither Orion nor any of the Directors, Senior Managers or their associates have acquired or disposed of any equity securities of Grafton or any of its related companies during the six-month period ending on 5 March 2019 (being the latest practicable date before the date of this Target Company Statement).

10. Arrangements between Grafton and Orion

- 10.1 Orion understands that the following arrangements have been made between Grafton, or associates of Grafton, and Orion or any related company of Orion in connection with, anticipation of, or in response to, the Offer (noting that Grafton is a related company of Orion):
- (a) **Confidentiality agreement:** McCrae Limited (being an associate of Grafton) and Orion entered into a mutual confidentiality agreement dated 6 February 2019 in connection with the evaluation of a potential takeover offer in respect of Orion by McCrae Limited and its prospective investors. Under the confidentiality agreement, McCrae Limited agreed, subject to certain exceptions, to keep all confidential information disclosed by Orion strictly confidential and prevent any unauthorised use or disclosure of that information, and not to use any confidential information for any purpose other than for the purpose of evaluating and, if it decides to proceed, undertaking a takeover offer in respect of Orion. The confidential information disclosed by Orion under this agreement included financial information relating to Orion's business.
 - (b) **Lock-up agreements:** The persons listed below (being associates of Grafton) entered into lock-up agreements with Grafton (being a related company of Orion) on 6 February 2019 whereby they agreed to accept the Offer in respect of all of their respective Shares within one working day of the Offer being made:
 - (i) McCrae Limited, which agreed to accept the Offer in respect of all of its 78,021,379 Shares (being approximately 85.92% of the Shares) for total consideration of approximately NZ\$95,498,167;
 - (ii) Hamish Kennedy, who agreed to accept the Offer in respect of all of his 4,837,643 Shares (being approximately 5.33% of the Shares) for total consideration of approximately NZ\$5,921,275;
 - (iii) Gordon McCrae, who agreed to accept the Offer in respect of all of his 1,090,598 Shares (being approximately 1.20% of the Shares) for total consideration of approximately NZ\$1,334,892;
 - (iv) Harish Panchal, Ashok Panchal and Ila Panchal as trustees of the Panchal Family Trust, who agreed to accept the Offer in respect of all of their 550,000 Shares (being approximately 0.61% of the Shares) for total consideration of approximately NZ\$673,200;
 - (v) Ian McCrae, who agreed to accept the Offer in respect of all of his 178,280 Shares (being approximately 0.20% of the Shares) for total consideration of approximately NZ\$218,215;
 - (vi) Ian McCrae, Rosemary McCrae and Gregory Walker as trustees of the Gairloch Trust, who agreed to accept the Offer in respect of all of their 165,773 Shares (being approximately 0.18% of the Shares) for total consideration of approximately NZ\$202,906; and
 - (vii) Gavin Reeve, Victoria Reeve and Brian Leaning as trustees of the CVC Share Trust, who agreed to accept the Offer in respect of all of their 20,000 Shares

(being approximately 0.02% of the Shares) for total consideration of approximately NZ\$24,480.

The material terms of the lock-up agreements have been disclosed by Grafton in paragraph 6.2 of the Offer Document.

- (c) **Subscription agreement:** Grafton (being an associate of Orion) and its investors, as listed below (including McCrae Limited and each other person that entered into a lock-up agreement, as listed in paragraph 10.1(b) above – with each being an associate of Grafton), have entered into a subscription agreement, whereby those investors agreed to subscribe for new shares in Grafton at a price of NZ\$1.224 per share. The material terms of the subscription agreement have been disclosed by Grafton in paragraph 8.1(c) of the Offer Document. The investors that agreed to subscribe for shares in Grafton are:
- (i) McCrae Limited, which agreed to subscribe for 78,021,379 Grafton shares for a total subscription price of approximately NZ\$95,498,167;
 - (ii) Hamish Kennedy, who agreed to subscribe for 7,288,623 Grafton shares for a total subscription price of approximately NZ\$8,921,275;
 - (iii) Gordon McCrae, who agreed to subscribe for 1,090,598 Grafton shares for a total subscription price of approximately NZ\$1,334,892;
 - (iv) Ian McCrae, who agreed to subscribe for 178,280 Grafton shares for a total subscription price of approximately NZ\$218,215;
 - (v) Empire Group Investments Limited, which agreed to subscribe for 408,497 Grafton shares for a total subscription price of approximately NZ\$500,000;
 - (vi) Ian McCrae, Rosemary, McCrae and Gregory Walker as trustees of the Gairloch Trust, who agreed to subscribe for 165,773 Grafton shares for a total subscription price of approximately NZ\$202,906;
 - (vii) Michael Clegg and Kylie Clegg as trustees of The M&K Investments Trust, who agreed to subscribe for 408,497 Grafton shares for a total subscription price of approximately NZ\$500,000;
 - (viii) Harish Panchal, Ashok Panchal and Ila Panchal as trustees of the Panchal Family Trust, who agreed to subscribe for 550,000 Grafton shares for a total subscription price of approximately NZ\$673,200;
 - (ix) Juliet Maclean and Michael Falconer as trustees of the Juliet Maclean Investment Trust, who agreed to subscribe for 1,838,235 Grafton shares for a total subscription price of approximately NZ\$2,250,000; and
 - (x) Gavin Reeve, Victoria Reeve and Brian Leaning as trustees of the CVC Share Trust, who agreed to subscribe for 428,497 Grafton shares for a total subscription price of approximately NZ\$524,480.
- (d) **Bridge financing:** Under the subscription agreement described in paragraph 10.1(c), McCrae Limited (being an associate of Grafton) has also agreed to provide bridge financing of up to \$800,000 to Grafton (being a related company of Orion), on request, to fund Grafton's costs to give effect to the subscription agreement, the Offer and the subsequent compulsory acquisition. The interest rate applicable to any bridge financing advanced by McCrae Limited under the subscription agreement is 12% per annum (or such lower amount as McCrae Limited may notify to Grafton).

- (e) **Shareholders' agreement:** Grafton (being a related company of Orion) and the investors listed in paragraph 10.1(c) above (being associates of Grafton) have entered into a shareholders' agreement to govern the management and operation of Grafton. The shareholders' agreement sets out (in respect of Grafton) director appointment rights, funding and distribution policies, pre-emptive rights, restrictions on share transfers, drag along rights and tag along rights, put and call options, and reporting requirements.

10.2 Except as set out in paragraph 10.1, so far as Orion is aware no agreement or arrangement (whether legally enforceable or not) has been made, or proposed to be made, between Grafton or any associate of Grafton and Orion or any related company of Orion, in connection with, in anticipation of, or in response to, the Offer.

11. Relationship between Grafton and Directors and Senior Managers of Orion

11.1 No agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between Grafton, or any associates of Grafton, and any of the directors or senior managers of Orion or any related company of Orion (including any payment or other benefit proposed to be made or given by way of compensation for loss of office, or as to their remaining in or retiring from office) in connection with, in anticipation of, or in response to, the Offer, other than:²

- (a) the lock-up agreement between Ian McCrae (a director of Orion) and Grafton described in paragraph 10.1(b);
- (b) in relation to Ian McCrae and Michael Falconer, the subscription agreement described in paragraph 10.1(c) (including, in respect of Ian McCrae only, the bridge financing arrangements described in paragraph 10.1(d)); and
- (c) in relation to Ian McCrae and Michael Falconer, the shareholders' agreement described in paragraph 10.1(e).

11.2 Except as set out below, none of the Directors or Senior Managers are directors or senior managers of Grafton or any related companies of Grafton:

- (a) Both Ian McCrae (a director of Orion) and Michael Falconer (a director of Orion) are directors of Grafton.
- (b) As noted in paragraph 8.2 above, Grafton and Orion are related companies. Therefore each of the Directors (as listed in paragraph 4) and Senior Managers (as listed in footnote 1 on page 1) are automatically also directors and senior managers (as applicable) of a related company of Grafton (being Orion). In addition, Ian McCrae is a director of McCrae Limited (a related Company of Grafton) and each of Orion's subsidiaries listed in Schedule 5 (each of which is a related company of Grafton). Michael Falconer is also a director of Orion (Grafton) Limited (a subsidiary of Orion).

² This information is taken from responses to questionnaires circulated to the Directors and Senior Managers by Orion after receipt of Grafton's Takeover Notice.

12. Agreement between Orion, and Directors and Senior Managers of Orion

- 12.1 No agreement or arrangement (whether legally enforceable or not) has been made, or proposed to be made, between Orion or any related company of Orion and any directors or senior managers (or their associates) of Orion or any related company of Orion, under which a payment or other benefit may be made or given by way of compensation for loss of office, or as to their remaining in, or retiring from, office in connection with, in anticipation of, or in response to, the Offer.

13. Interests of Directors and Senior Managers in contracts of Grafton or related company

- 13.1 Except as set out in paragraphs 13.2 to 13.4, no Director, Senior Manager or any of their associates has an interest in any contract to which Grafton, or any related company of Grafton, is a party.³

- 13.2 ORION HEALTH GROUP LIMITED As explained in paragraph 8.2, Grafton and Orion are related companies. Accordingly, the following disclosures are made regarding contractual arrangements to which Orion (being a related company of Grafton) is a party and in which the Directors or Senior Managers have interests:

- (a) Each of the Directors and Senior Managers are employed or engaged by Orion and, accordingly, have interests in the contracts relating to their employment or engagement. The contracts of employment or engagement for each of the Directors and Senior Managers were entered into the ordinary course of Orion's business and are on usual terms and conditions, including as to monetary compensation.
- (b) Ian McCrae is Chief Executive Officer of Orion's Population Health business and is paid salary and bonuses on market terms.
- (c) Michael Falconer is a director of Orion and Orion's Population Health business and holds various other executive roles, which are all compensated on market terms.

- 13.3 Ian McCrae, Michael Falconer and each of their associates listed in paragraphs 10.1(c)(i) to (x) have agreed to invest in Grafton and, accordingly, have interests in:

- (a) the lock-up agreements described in paragraph 10.1(b), the monetary values of which are set out in paragraphs 10.1(b)(i) to 10.1(b)(vii). The acceptances contemplated by the lock-up agreements were given on 21 February 2019;
- (b) the subscription agreement described in paragraph 10.1(c), including the bridge financing arrangements agreed as part of the subscription agreement (as described in paragraph 10.1(d)). The monetary values of the subscription obligations under the subscription agreement are set out in paragraphs 10.1(c)(i) to 10.1(c)(x). The monetary value of McCrae Limited's interest as bridge financier (and Ian McCrae's interest as the sole shareholder of McCrae Limited) in the bridge finance arrangements under the subscription agreement are described in paragraph 10.1(d). All of the share subscriptions contemplated by the subscription agreement occurred

³ This information is taken from responses to questionnaires circulated to the Directors and Senior Managers by Orion after receipt of Grafton's Takeover Notice.

on 19 February 2019, other than Hamish Kennedy's share subscription, which occurred on 20 February 2019; and

- (c) the shareholders' agreement described in paragraph 10.1(e), the monetary value of which is not capable of quantification.

- 13.4 McCrae Limited and Ian McCrae, as the sole shareholder of McCrae Limited, also have interests in the confidentiality agreement described in paragraph 10.1(a), the monetary value of which is not capable of quantification.

14. Interests of Orion's substantial security holders in material contracts of Grafton or related company

- 14.1 Except as set out in paragraph 14.2 below, to the knowledge of the Directors and Senior Managers, no person who holds or controls 5% or more of the Shares has an interest in any material contract to which Grafton, or any related company of Grafton, is a party.
- 14.2 Grafton, McCrae Limited and Ian McCrae, being the only persons who, to the knowledge of the Directors and Senior Managers, hold or control 5% or more of the Shares, have interests in certain contracts entered into by Grafton or its related companies. In particular:
 - (a) Grafton has an interest in the material contracts described in paragraphs 10.1(b) to 10.1(e);
 - (b) McCrae Limited has interests in:
 - (i) the lock-up agreement described in paragraph 10.1(b)(i);
 - (ii) the confidentiality agreement described in paragraph 10.1(a);
 - (iii) the subscription agreement described in paragraph 10.1(c), including the bridge financing arrangements agreed as part of the subscription agreement (as described in paragraph 10.1(d)); and
 - (iv) the shareholders' agreement described in paragraph 10.1(e);
 - (c) Ian McCrae has interests in:
 - (i) the lock-up agreements described in paragraphs 10.1(b)(v) and 10.1(b)(vi);
 - (ii) the subscription agreement described in paragraph 10.1(c); and
 - (iii) the shareholders' agreement described in paragraph 10.1(e);
 - (d) McCrae Limited, as holder of 86% of the shares in Grafton, has an interest in any material contract entered into by Grafton; and
 - (e) Ian McCrae, as holder of all of the shares in McCrae Limited, has an interest in any material contract entered into by McCrae Limited or Grafton.

15. Additional information

- 15.1 In the opinion of the Directors, no additional information, within the knowledge of Orion, is required to make the information in the Offer Document correct or not misleading.

16. Recommendation

- 16.1 The independent Directors of Orion, being Andrew Ferrier and Paul Shearer (the **Independent Directors**), have carefully considered a full range of expert advice now available to them (including the Independent Adviser's valuation range of NZ\$1.00 to NZ\$1.47 per Share) and unanimously recommend that shareholders accept the Offer for the reasons set out in the Chairman's Letter.
- 16.2 Ian McCrae and Michael Falconer, as associates of Grafton, have a conflict of interest in respect of the Offer. Both Ian McCrae and Michael Falconer are considered to be associates of Grafton because (among other things) they are directors of Grafton. For this reason, they abstain from making any recommendation as to whether to accept or reject the Offer.
- 16.3 If you have any questions, you are encouraged to seek your own independent financial, taxation or legal advice.

17. Actions of Orion

- 17.1 Except for the arrangements summarised in paragraphs 10.1(a) to 10.1(e), there are no material agreements or arrangements (whether legally enforceable or not) of Orion or any related company of Orion entered into as a consequence of, in response to, or in connection with, the Offer.
- 17.2 There are no negotiations underway, as a consequence of, in response to, or in connection with, the Offer that relate to, or could result in:
- (a) an extraordinary transaction (such as a merger, amalgamation, or reorganisation) involving Orion or any of its related companies; or
 - (b) the acquisition or disposition of material assets by Orion or any of its related companies; or
 - (c) an acquisition of equity securities by, or of, Orion or any related company of Orion; or
 - (d) any material change in equity securities on issue, or policy related to distributions, of Orion.

18. Equity securities of Orion

- 18.1 Orion has 90,802,248 fully paid ordinary shares on issue. All of the Shares are fully paid.
- 18.2 Orion has no options, or rights to acquire equity securities, on issue.
- 18.3 Subject to certain conditions in the constitution of Orion, the NZX Main Board Listing Rules and the ASX Listing Rules, each Share confers upon the holder the right to:
- (a) an equal share in dividends authorised by the board of directors of Orion;
 - (b) an equal share in the distribution of surplus assets on liquidation of Orion; and
 - (c) cast one vote on a show of hands or the right to cast one vote per share on a poll, at a meeting of shareholders on any resolution, including a resolution to:
 - (i) appoint or remove a director or auditor;

- (ii) alter Orion's constitution;
- (iii) approve a major transaction by Orion;
- (iv) approve an amalgamation involving Orion; and
- (v) put Orion into liquidation.

19. Financial information

- 19.1 Each person to whom the Offer is made may request a non-electronic copy of Orion's most recent annual report (being the annual report for the year ended 31 March 2018) from Orion by making a written request to investor@orionhealth.com or, alternatively, by making a written request to Link Market Services (enquiries@linkmarketservices.com).
- 19.2 Orion's most recent half-yearly report since its annual report for the year ended 31 March 2018 (being the half-yearly report for the six months ended 30 September 2018) is available in the "Financial Information" section of Orion's website (<https://orionhealth.com/nz/about-us/investor-centre/financials-reports/>). No interim report has been issued by Orion since the issue of the half-yearly report for the six months ended 30 September 2018.
- 19.3 There have been the following material changes in the financial or trading position, or prospects, of Orion since its 31 March 2018 annual report:
- (a) **Hg transaction:** On 3 July 2018, Orion announced that it had reached an agreement with private equity technology investor Hg, whereby Hg would acquire 24.9% of Orion's Population Health business and 75.1% of Orion's Rhapsody business. The transaction implied a \$255 million enterprise value for Orion. The transaction completed on 31 October 2018. Further details of the transaction were disclosed in the notice of meeting despatch by Orion on 7 September 2018 (available at <https://orionhealth.com/media/4452/orion-health-notice-of-annual-shareholders-meeting-2018.pdf>).
 - (b) **Share buyback:** On 3 December 2018, Orion made a share buyback offer at NZ\$1.224 per Share, which closed on 4 January 2019. On 15 January 2019, the results of the share buyback were announced. A total of 105,400,905 Shares were acquired and cancelled as part of the buyback. Initial details of the share buyback were included in the notice of meeting despatch by Orion on 7 September 2018 (available at <https://orionhealth.com/media/4452/orion-health-notice-of-annual-shareholders-meeting-2018.pdf>), and Orion released an information booklet with further details upon the opening of the buyback offer on 3 December 2018 (available on the NZX website at <https://www.nzx.com/announcements/327721>).
 - (c) **FY 2019 interim results:** On 29 November 2018, Orion announced its half-yearly financial results for the six-month period to 30 September 2018. The announcement can be viewed on the NZX website at <https://www.nzx.com/announcements/327573> and a copy of the half-yearly report that was subsequently released on 27 December 2018 is available at <https://orionhealth.com/media/4676/fy2019-interim-financial-results.pdf>. Among other things, the interim results half-yearly financial results indicated that:
 - (i) the Rhapsody business saw operating revenue increase 26% from \$22.5 million in the first half of FY 2018 to \$28.3 million in the first half of FY 2019. Revenue contribution (before shared service costs) from Rhapsody grew 65% from \$10.4 million in the first half of FY 2018 to \$17.2 million for the same period of FY 2019;

- (ii) the Population Health Management business saw an 8% decline in operating revenue to \$49.2 million in the first half of FY 2019. Revenue contribution (before shared service costs) from the Population Health Management business improved 29% from \$(24.9) million in the first half of FY 2018 to \$(17.8) million in the first half of FY 2019; and
 - (iii) the Hospitals business operating revenue grew 9% from \$4.7 million in the first half of FY 2018 to \$5.1 million for the first half of FY 2019. Revenue contribution (before shared service costs) from the Hospitals business reduced from \$(0.83) million for the first half of FY 2018 to \$(3.3) million for the same period in FY 2019.
- 19.4 Orion will incur one-off costs in the 2019 financial year in connection with the Offer. These costs will include the fees and expenses of Orion's financial, legal and other advisers, the fees of the Independent Adviser, as well as design, printing, mailing and communication costs. All or most of these costs are expected to be recoverable from Grafton in accordance with sections 47 to 53 of the Takeovers Act.
- 19.5 Other than as set out elsewhere in this Target Company Statement, or as contained in the Independent Adviser's Report:
 - (a) there have been no known material changes in the financial or trading position, or prospects, of Orion since the 31 March 2018 annual report; and
 - (b) there is no other information about the assets, liabilities, profitability and financial affairs of Orion that could reasonably be expected to be material to the making of a decision by shareholders to accept or reject the Offer.

20. Independent advice on merits of Offer

- 20.1 KordaMentha is the Independent Adviser who has provided a report under Rule 21 of the Takeovers Code.
- 20.2 A copy of the Independent Adviser's Report is attached to this Target Company Statement at Appendix One.

21. Asset valuations

- 21.1 No information provided in this Target Company Statement refers to a valuation of any asset by a valuer.

22. Prospective financial information

- 22.1 The Independent Adviser's Report contains prospective financial information in relation to Orion. The principal assumptions on which the prospective financial information is based are set out in the Independent Adviser's Report.
- 22.2 Other than the prospective financial information referred to in paragraph 22.1 above, this Target Company Statement does not refer to any prospective financial information about Orion.

23. Sales of unquoted equity securities under Offer

- 23.1 There are no unquoted equity securities that are the subject of the Offer.

24. Market prices for quoted equity securities under Offer

- 24.1 The Shares are quoted on the NZX Main Board and the ASX.
- 24.2 The closing price on the NZX Main Board and the ASX of Shares on:
- (a) 5 March 2019, being the latest practicable working day before the date on which this Target Company Statement is sent to shareholders, was NZ\$1.21 on the NZX Main Board and A\$1.16 on the ASX, respectively; and
 - (b) 5 February 2019, being the last day on which the NZX Main Board and the ASX were open for business before the date on which Orion received Grafton's takeover notice, was NZ\$1.15 on the NZX Main Board and A\$1.12 on the ASX, respectively.
- 24.3 The highest and lowest closing market prices of Shares on the NZX Main Board and the ASX (and the relevant dates) during the six months before 5 February 2019 (being the last day on which the NZX and the ASX were open for business before the date on which Orion received Grafton's takeover notice), were as follows:
- (a) the highest closing market price on the NZX Main Board was NZ\$1.23 on 11 January 2019;
 - (b) the highest closing market price on the ASX was A\$1.15 on 14 November 2018;
 - (c) the lowest closing market price on the NZX Main Board was NZ\$1.00 on 20 September 2018; and
 - (d) the lowest closing market price on the ASX was A\$0.90 on 22 October 2018.
- 24.4 Particulars of any issue of equity securities, any changes in the equity securities on issue, and any distributions that could have affected the market prices referred to in this paragraph 24 are as follows:
- (a) Orion carried out a share buyback from 3 December 2018 to 4 January 2019 at a price of NZ\$1.224 per Share. On 15 January 2018, Orion announced that a total of 105,400,905 Shares were acquired and cancelled as part of the buyback; and
 - (b) in connection with the share buyback described above, all outstanding conditional agreements to issue Shares under Orion's Restricted Stock Unit Scheme lapsed, with the last of such agreements having lapsed on 20 December 2018.
- 24.5 Other than as set out elsewhere in this Target Company Statement, or as contained in the Independent Adviser's Report, there is no other information about the market price of the Shares that would reasonably be expected to be material to the making of a decision by shareholders to accept or reject the Offer.

25. Other information

- 25.1 Other than as described elsewhere in this Target Company Statement (including the reasons for the Independent Directors' recommendation set out in the Chairman's Letter), there is no other information that could reasonably be expected to be material to the making of a decision by shareholders to accept or reject the Offer.

26. Approval of this Target Company Statement

- 26.1 The contents of this Target Company Statement have been approved by the Independent Directors (Andrew Ferrier and Paul Shearer), who have been delegated with authority by the Directors to do so.
- 26.2 As disclosed in paragraph 16.2, the other Directors, being Ian McCrae and Michael Falconer, have a conflict of interest in respect of the Offer. As a result, they have not formally approved this Target Company Statement.⁴

27. Interpretation

- 27.1 In this Target Company Statement:

ASX means ASX Limited (ACN 008 624 691) or, as the context requires, the financial market operated by it known as the Australian Securities Exchange;

Directors means the directors of Orion;

Grafton means Grafton Health Holdings Limited;

Independent Adviser means KordaMentha;

Independent Adviser's Report means the independent adviser's report provided by KordaMentha under Rule 21 of the Takeovers Code and set out in Appendix One to this Target Company Statement;

Independent Directors means Andrew Ferrier and Paul Shearer, being the independent directors of Orion;

NZ\$ or \$ means New Zealand dollars;

NZX means New Zealand Exchange Limited;

NZX Main Board means the financial market operated by NZX known as the NZX Main Board;

Offer means the full takeover offer by Grafton to purchase all of the Shares for a purchase price of NZ\$1.224 per Share, payable in cash;

Offer Document means the offer document dated 15 February 2019 that was sent to Orion shareholders on 20 February 2019 by Grafton;

Orion means Orion Health Group Limited;

RSUs means securities comprising conditional agreements to issue Shares under the Orion Health Restricted Stock Unit Scheme (also known as "restricted stock units");

Senior Managers means the senior managers (as defined in the Takeovers Code) of Orion;

⁴ Ian McCrae has signed this Target Company Statement in his capacity as Chief Executive Officer of Orion, as required by the Takeovers Code.

Takeovers Act means the Takeovers Act 1993;

Takeovers Code means the Takeovers Code approved by the Takeovers Code Approval Order 2000 (as amended);

Takeover Notice means the notice pursuant to rule 41 of the Takeovers Code given to Orion by Grafton on 6 February 2019; and

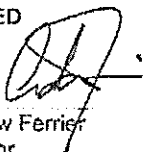
Share means an ordinary share in Orion.

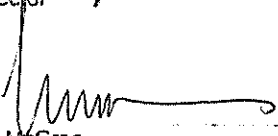
- 27.2 Words and expressions defined in the Takeovers Act or the Takeovers Code and not otherwise defined in this Target Company Statement have the same meaning when used in this Target Company Statement.

28. Certificate

To the best of our knowledge and belief, after making proper enquiry, the information contained in or accompanying this statement is, in all material respects, true and correct and not misleading, whether by omission of any information or otherwise, and includes all the information required to be disclosed by Orion under the Takeovers Code.

SIGNED


Andrew Ferrier
Director


Ian McCrae
Chief Executive Officer


Paul Shearer
Director


Mark Tisdell
Chief Financial Officer

Schedule 1: Shares owned or controlled by Directors, Senior Managers and their associates (paragraph 5.1)

Name	Description	Designation	Number of Shares held or controlled	Percentage of total Shares
Grafton Health Holdings Limited	Associate of a Director (Ian McCrae and Michael Falconer)	Ordinary shares	86,907,864	95.71
McCrae Limited	Associate of a Director (Ian McCrae and Michael Falconer)	Ordinary shares	86,907,864	95.71
Ian McCrae	Director	Ordinary shares	86,907,864	95.71
Mark Capill	Senior Manager	Ordinary shares	36,152	0.04

Notes:

- (1) Grafton Health Holdings Limited holds 86,907,864 Shares, comprising: (i) 84,863,673 Shares that were transferred to Grafton pursuant to acceptances of the Offer under the lock-up agreements described in paragraph 10.1(b); and (ii) 2,044,191 Shares that were transferred to Grafton pursuant to acceptances of the Offer received by Grafton from persons not party to lock-up agreements.
- (2) McCrae Limited controls all of the 86,907,864 Shares held by Grafton Health Holdings Limited as a result of holding 86.33% of the shares in Grafton Health Holdings Limited and the shareholders' agreement relating to Grafton Health Holdings Limited (described in paragraph 10.1(e) of this Target Company Statement).
- (3) Ian McCrae also controls all of the 86,907,864 Shares held by Grafton Health Holdings Limited as a result of holding all of the shares in McCrae Limited.
- (4) This information is based on (i) responses to questionnaires circulated to the Directors and Senior Managers by Orion after receipt of Grafton's Takeover Notice and (ii) information provided by Grafton's lawyers.
- (5) Percentages have been rounded to two decimal places.

Schedule 2: Equity securities issued to, or in which beneficial interest have been obtained by, Directors, Senior Managers and their associates during the previous two years (paragraph 5.5)

Part A – Shares

Name	Description	Number and designation of equity securities	Price per equity security (NZ\$)	Date of relevant event
Andrew Ferrier	Director	10,997 ordinary shares (*)	1.98	31 March 2017
Andrew Ferrier	Director	2,443 ordinary shares	0.90	4 July 2017
Andrew Ferrier	Director	20,938 ordinary shares (*)	1.04	2 November 2017
Andrew Ferrier	Director	28,279 ordinary shares (*)	0.77	29 March 2018
Andrew Ferrier	Director	20,350 ordinary shares (*)	1.07	1 October 2018
Canz Capital Limited	Associate of a Director (Andrew Ferrier)	266,666 ordinary shares	0.90	4 July 2017
Paul Shearer, Sonya Maree and Mark Wilson	Associate of a Director (Paul Shearer)	222,222 ordinary shares	0.90	4 July 2017
Paul Shearer	Director	4,230 ordinary shares (*)	1.98	31 March 2017
Paul Shearer	Director	940 ordinary shares	0.90	4 July 2017
Paul Shearer	Director	8,053 ordinary shares (*)	1.04	2 November 2017
Paul Shearer	Director	10,877 ordinary shares (*)	0.77	29 March 2018
Paul Shearer	Director	7,827 ordinary shares (*)	1.07	1 October 2018
Sarah Thompson	Senior Manager	8,612 ordinary shares (*)	0.77	3 April 2018
Sarah Thompson	Senior Manager	3,221 ordinary shares (*)	1.17	27 November 2018
Gregory Balla	Senior Manager	10,764 ordinary shares (*)	0.77	3 April 2018
Darren Jones	Senior Manager	18,291 ordinary shares (*)	0.77	3 April 2018
Darren Jones	Senior Manager	1,363 ordinary shares (*)	1.08	12 September 2018
Darren Jones	Senior Manager	7,667 ordinary shares (*)	1.17	27 November 2018
Mark Tisdell	Senior Manager	49,511 ordinary shares (*)	0.77	3 April 2018
Mark Capill	Senior Manager	8,612 ordinary shares (*)	0.77	3 April 2018
Michael Falconer	Director	7,391 ordinary shares (*)	0.77	29 March 2018

Name	Description	Number and designation of equity securities	Price per equity security (NZ\$)	Date of relevant event
Michael Falconer	Director	7,827 ordinary shares (*)	1.07	1 October 2018
Ian McCrae	Director	16,666,666 ordinary shares	0.90	4 July 2017
Harish Panchal, Ashok Panchal and Ila Panchal as trustees of the Panchal Family Trust	Associate of a Director (Ian McCrae and Michael Falconer)	100,000 ordinary shares	0.90	4 July 2017

Notes:

- (1) This information is based on (i) responses to questionnaires circulated to the Directors and Senior Managers by Orion after receipt of Grafton's Takeover Notice and (ii) Orion's share register.
- (2) Shares marked with a (*) symbol were issued to the relevant holder under an employee share scheme or other remuneration arrangement.

Part B – Rights

In 2017, Orion carried out a 2-for-9 rights offer. The rights offered under the offer (the **Rights**) comprised rights for eligible shareholders to subscribe for 2 new Shares for every 9 Shares held at a subscription price of \$0.90 per new Share. The Rights were tradeable on the NZX from 7 June 2017 to 23 June 2017. New Shares issued pursuant to any Rights taken up were issued on 4 July 2017. The Rights constitute equity securities for the purposes of the Takeovers Code and, accordingly, this Part B sets out the details of any Rights issued to the Directors, Senior Managers and their associates. The Rights were issued on 14 May 2017 (being the date on which the offer opened for acceptances) for nil consideration.

Name	Description	Number of Rights
McCrae Limited	Associate of a Director (Ian McCrae and Michael Falconer)	17,968,901
Ian McCrae	Director	39,617
Ian McCrae, Rosemary McCrae and Gregory Walker as trustees of the Gairloch Trust	Associate of a Director (Ian McCrae and Michael Falconer)	36,838
Andrew Ferrier	Director	2,443
Canz Capital Limited	Associate of a Director (Andrew Ferrier)	266,666
Paul Shearer	Director	940
Paul Shearer, Sonya Maree and Mark Wilson	Associate of a Director (Paul Shearer)	222,222
Hamish Kennedy	Associate of a Director (Ian McCrae and Michael Falconer)	366,344
Gordon McCrae	Associate of a Director (Ian McCrae and Michael Falconer)	242,355
Harish Panchal, Ashok Panchal and Ila Panchal as trustees of the Panchal Family Trust	Associate of a Director (Ian McCrae and Michael Falconer)	100,000

Name	Description	Number of Rights
Michael Clegg and Kylie Clegg as trustees of The M&K Investments Trust	Associate of a Director (Ian McCrae and Michael Falconer)	269,444
Gavin Reeve	Associate of a Director (Ian McCrae and Michael Falconer)	1,111
Darren Jones	Senior Manager	970
Gregory Balla	Senior Manager	564
Mark Capill	Senior Manager	5,007
Mark Capill, Bronwyn Capill, Integrity Trustees Limited as trustees of the Bayith Trust	Associate of a Senior Manager (Mark Capill)	222,274
Sarah Thompson	Senior Manager	451

Part C – RSUs

Orion has previously issued, to certain eligible employees, equity securities comprising conditional agreements to issue Shares under the Orion Health Restricted Stock Unit Scheme, also known as “restricted stock units” or “RSUs”. All RSUs lapsed as part of the recent share buyback undertaken by Orion, with the last RSUs having lapsed on 20 December 2018. The RSUs constitute equity securities for the purposes of the Takeovers Code and, accordingly, this Part C sets out the details of any RSUs issued to the Senior Managers and their associates during the two year period ending on the date of this Target Company Statement. No RSUs have been issued to the Directors or their associates.

Name	Description	Designation of equity securities	Number of equity securities	Price per equity security (NZ\$)	Date of relevant event
Sarah Thompson	Senior Manager	Restricted Stock Units (OHERSU18)	51,948	0.77	3 April 2018
Sarah Thompson	Senior Manager	Restricted Stock Units (OHERSU17)	26,316	1.52	29 May 2017
Darren Jones	Senior Manager	Restricted Stock Units (OHERSU18)	125,440	0.77	3 April 2018
Darren Jones	Senior Manager	Restricted Stock Units (OHERSU17)	55,695	1.52	29 May 2017
Mark Tisdell	Senior Manager	Restricted Stock Units (OHERSU18)	487,013	0.77	3 April 2018
Mark Tisdell	Senior Manager	Restricted Stock Units (OHERSU17)	198,044	1.52	29 May 2017
Mark Capill	Senior Manager	Restricted Stock Units (OHERSU18)	77,922	0.77	3 April 2018
Mark Capill	Senior Manager	Restricted Stock Units (OHERSU17)	26,316	1.52	29 May 2017
Gregory Balla	Senior Manager	Restricted Stock Units (OHERSU18)	64,935	0.77	3 April 2018
Gregory Balla	Senior Manager	Restricted Stock Units (OHERSU17)	32,895	1.52	29 May 2017

Schedule 3: Trading in Orion's equity securities in the previous six months (paragraph 6.1)

Part A: Acquisitions or disposals of Orion equity securities in the previous six months by Directors, Senior Managers and their associates (other than issuances set out in Schedule 2)

Name	Description	Acquisition or disposal	Designation of equity securities	Number of equity securities	Date of transaction	Consideration (NZ\$)
McCrae Limited	Associate of a Director (Ian McCrae and Michael Falconer)	Disposal (*)	Ordinary shares	78,021,379	27 February 2019	1.224
McCrae Limited	Associate of a Director (Ian McCrae and Michael Falconer)	Disposal (buy-back)	Ordinary shares	19,505,344	4 December 2018	1.224
Hamish Kennedy	Associate of a Director (Ian McCrae and Michael Falconer)	Disposal (*)	Ordinary shares	4,837,643	27 February 2019	1.224
Gordon McCrae	Associate of a Director (Ian McCrae and Michael Falconer)	Disposal (*)	Ordinary shares	1,090,598	27 February 2019	1.224
Michael Clegg and Kylie Clegg as trustees of The M&K Investments Trust	Associate of a Director (Ian McCrae and Michael Falconer)	Disposal (buy-back)	Ordinary shares	1,212,500	4 December 2018	1.224
Harish Panchal, Ashok Panchal and Ila Panchal as trustees of the Panchal Family Trust	Associate of a Director (Ian McCrae and Michael Falconer)	Disposal (*)	Ordinary shares	550,000	27 February 2019	1.224
Harish Panchal	Associate of a Director (Ian McCrae and Michael Falconer)	Disposal (buy-back)	Ordinary shares	27,510	10 December 2018	1.224
Ian McCrae	Director	Disposal (*)	Ordinary shares	178,280	27 February 2019	1.224
Michael Falconer	Director	Disposal (buy-back)	Ordinary shares	15,218	10 December 2018	1.224
Ian McCrae, Rosemary McCrae and Gregory Walker as trustees of the Gairloch Trust	Associate of a Director (Ian McCrae and Michael Falconer)	Disposal (*)	Ordinary shares	165,773	27 February 2019	1.224

Name	Description	Acquisition or disposal	Designation of equity securities	Number of equity securities	Date of transaction	Consideration (NZ\$)
Gavin Reeve, Victoria Reeve and Brian Leaning as trustees of the CVC Share Trust	Associate of a Director (Ian McCrae and Michael Falconer)	Disposal (*)	Ordinary shares	20,000	27 February 2019	1.224
Gavin Reeve, Victoria Reeve and Brian Leaning as trustees of the CVC Share Trust	Associate of a Director (Ian McCrae and Michael Falconer)	Disposal (buy-back)	Ordinary shares	61,111	9 January 2019	1.224
Andrew Ferrier	Director	Disposal (buy-back)	Ordinary shares	83,007	10 December 2018	1.224
Canz Capital Limited	Associate of a Director (Andrew Ferrier)	Disposal (buy-back)	Ordinary shares	1,466,666	10 December 2018	1.224
Paul Shearer	Director	Disposal (buy-back)	Ordinary shares	31,927	10 December 2018	1.224
Paul Shearer, Sonya Maree and Mark Wilson	Associate of a Director (Paul Shearer)	Disposal (buy-back)	Ordinary shares	1,222,222	10 December 2018	1.224
Sarah Thompson	Senior Manager	Disposal (buy-back)	Ordinary shares	13,866	4 December 2018	1.224
Sarah Thompson	Senior Manager	Disposal (lapse)	OHEEMP1	7,500	19 December 2018	Nil
Sarah Thompson	Senior Manager	Disposal (lapse)	Restricted stock units (OHERSU16)	9,654	10 December 2018	Nil
Sarah Thompson	Senior Manager	Disposal (lapse)	Restricted stock units (OHERSU17)	19,737	10 December 2018	Nil
Sarah Thompson	Senior Manager	Disposal (lapse)	Restricted stock units (OHERSU18)	51,948	20 December 2018	Nil
Darren Jones	Senior Manager	Disposal (buy-back)	Ordinary shares	32,659	10 December 2018	1.224
Darren Jones	Senior Manager	Disposal (lapse)	Restricted stock units (OHERSU16)	27,377	10 December 2018	Nil
Darren Jones	Senior Manager	Disposal (lapse)	Restricted stock units (OHERSU17)	41,772	10 December 2018	Nil
Darren Jones	Senior Manager	Disposal (lapse)	Restricted stock units (OHERSU18)	125,440	20 December 2018	Nil

Name	Description	Acquisition or disposal	Designation of equity securities	Number of equity securities	Date of transaction	Consideration (NZ\$)
Gregory Balla	Senior Manager	Disposal (buy-back)	Ordinary shares	13,869	10 December 2018	1.224
Gregory Balla	Senior Manager	Disposal (lapse)	Restricted stock units (OHERSU16)	15,154	10 December 2018	Nil
Gregory Balla	Senior Manager	Disposal (lapse)	Restricted stock units (OHERSU17)	24,672	10 December 2018	Nil
Gregory Balla	Senior Manager	Disposal (lapse)	Restricted stock units (OHERSU18)	64,935	20 December 2018	Nil
Mark Tisdell	Senior Manager	Disposal (buy-back)	Ordinary shares	49,511	10 December 2018	1.224
Mark Tisdell	Senior Manager	Disposal (lapse)	Restricted stock units (OHERSU17)	487,013	20 December 2018	Nil
Mark Tisdell	Senior Manager	Disposal (lapse)	Restricted stock units (OHERSU18)	148,533	20 December 2018	Nil
Mark Capill, Bronwyn Capill, Integrity Trustees Limited as trustees of the Bayith Trust	Associate of a Senior Manager (Mark Capill)	Disposal (buy-back)	Ordinary shares	1,222,508	10 December 2018	1.224
Mark Capill	Senior Manager	Disposal (lapse)	Restricted stock units (OHERSU16)	9,654	10 December 2018	Nil
Mark Capill	Senior Manager	Disposal (lapse)	Restricted stock units (OHERSU17)	19,737	10 December 2018	Nil
Mark Capill	Senior Manager	Disposal (lapse)	Restricted stock units (OHERSU18)	77,922	20 December 2018	Nil

Notes:

- (1) The information in this Part A is based on (i) responses to questionnaires circulated to the Directors and Senior Managers by Orion after receipt of Grafton's Takeover Notice and (ii) Orion's share register.
- (2) The transactions marked with a (*) symbol occurred as a result of acceptances of the Offer pursuant to the lock-up agreements described in paragraph 10.1(b).

Part B: Acquisitions or disposals of Shares in the previous six months by persons holding 5% or more of the Shares (other than Directors, Senior Managers and their associates set out in Part A of this Schedule 3)

Name	Acquisition or disposal	Designation of equity securities	Number of equity securities	Date of transaction	Consideration (NZ\$)
Pioneer Capital I Nominees Limited as bare trustee for Pioneer Capital Management Limited	Disposal	Ordinary shares	12,316,447	10 December 2018	1.224
Geoffrey A Cumming	Disposal	Ordinary shares	18,797,777	3 December 2018	1.224

Notes:

- (1) This information is based on substantial product holder notices filed with NZX.
- (2) The shareholders referred to in the table above ceased to hold or control 5% or more of the Shares from the date of the disposals referred to in that table.

Schedule 4: Ownership of equity securities of Grafton and its related companies (other than Orion group companies) – Directors, Senior Managers and their associates (paragraph 8.1)

Name	Description	Company in which securities are held or controlled	Designation of securities	Number of securities	Percentage of total class
Ian McCrae	Director	McCrae Limited	Ordinary shares	1,000	100
McCrae Limited	Associate of a Director (Ian McCrae and Michael Falconer)	Grafton Health Holdings Limited	Ordinary shares	78,021,389	86.33
Ian McCrae ⁽²⁾	Director	Grafton Health Holdings Limited	Ordinary shares	78,365,442	86.70
Hamish Kennedy	Associate of a Director (Ian McCrae and Michael Falconer)	Grafton Health Holdings Limited	Ordinary shares	7,288,623	8.06
Gordon McCrae	Associate of a Director (Ian McCrae and Michael Falconer)	Grafton Health Holdings Limited	Ordinary shares	1,090,598	1.21
Empire Group Investments Limited	Associate of a Director (Ian McCrae and Michael Falconer)	Grafton Health Holdings Limited	Ordinary shares	408,497	0.45
Ian McCrae, Rosemary McCrae and Gregory Walker as trustees of the Gairloch Trust	Associate of a Director (Ian McCrae and Michael Falconer)	Grafton Health Holdings Limited	Ordinary shares	165,773	0.18
Michael Clegg and Kylie Clegg as trustees of The M&K Investments Trust	Associate of a Director (Ian McCrae and Michael Falconer)	Grafton Health Holdings Limited	Ordinary shares	408,497	0.45
Harish Panchal, Ashok Panchal and Ila Panchal as trustees of the Panchal Family Trust	Associate of a Director (Ian McCrae and Michael Falconer)	Grafton Health Holdings Limited	Ordinary shares	550,000	0.61
Juliet Maclean and Michael Falconer as trustees of the Juliet Maclean Investment Trust	Associate of a Director (Ian McCrae and Michael Falconer)	Grafton Health Holdings Limited	Ordinary shares	1,838,235	2.03
Gavin Reeve, Victoria Reeve and Brian Leaning as trustees of the CVC Share Trust	Associate of a Director (Ian McCrae and Michael Falconer)	Grafton Health Holdings Limited	Ordinary shares	428,497	0.47

Notes:

- (1) This information is based on responses to questionnaires circulated to the Directors and Senior Managers by Orion after receipt of Grafton's Takeover Notice.

- (2) The 78,365,442 Grafton shares held or controlled by Ian McCrae comprise: (i) a controlling interest in the 78,021,389 shares held by McCrae Limited; (ii) 165,773 Shares jointly held by Ian McCrae, Rosemary McCrae and Gregory Walker as trustees of the Gairloch Trust; and (iii) 178,280 Shares held by Ian McCrae.

Schedule 5: Ownership of equity securities of Grafton and its related companies – Orion (paragraph 8.2)

Company in which securities are held or controlled	Designation of securities	Number of securities	Percentage of total class
Orion (Grafton) Limited	Ordinary shares	61,582,000	75.10
Orion Health Corporate Trustee Limited	Ordinary shares	100	100
Orion Health Properties Limited	Ordinary shares	100	100
Orion Hospitals Limited	Ordinary shares	6,915,333	100
Orion 2018 Limited	Ordinary shares	100	100
Orchestral Developments Limited (*)	Ordinary shares	16,476	100
Orchestral Developments International Limited (*)	Ordinary shares	100	100
Orion Systems International Limited (*)	Ordinary shares	14	100
Precision Research Limited (*)	Ordinary shares	1	100
Orion Health Limited (*)	Ordinary shares	100	100
Orion Health Asia Holdings Limited (*)	Ordinary shares	1	100
Orion Health Services Limited (*)	Ordinary shares	1	100
Orion Health China Limited (*)	Ordinary shares	100	100
Orion Hospitals (NZ) Limited (*)	Ordinary shares	1,273,017	100
Orion Health Asia Pacific Limited (*)	Ordinary shares	100	100
Orion Hospitals Licensing Limited (*)	Ordinary shares	100	100
Orion Health Pty Limited (a subsidiary incorporated in Australia) (*)	Ordinary shares	100	100
Orion Health Inc. (a subsidiary incorporated in the USA) (*)	Common stock	100	100
Orion Health Limited (a subsidiary incorporated in Canada) (*)	Class A shares	100	100
Orion Health Limited (a subsidiary incorporated in the UK) (*)	Ordinary shares	1	100
Orion Health SAS (a subsidiary incorporated in France) (*)	Ordinary shares	505,000	100
Orion Health SLU (a subsidiary incorporated in Spain) (*)	Ordinary shares	3,010	100
Orion Health Systems FZ-LLC (a subsidiary incorporated in Dubai) (*)	Ordinary shares	50,000	100
Orion Health Philippines Inc (a subsidiary incorporated in the Philippines) (*)	Ordinary shares	8,800,000	100
Orion Hospitals (Australia) Pty Limited (a subsidiary incorporated in Australia) (*)	Ordinary shares	100	100
Orion Saglik ve Bilgi Sistemleri Limited Sirketi (a subsidiary incorporated in Turkey) (*)	Ordinary shares	100	100

Company in which securities are held or controlled	Designation of securities	Number of securities	Percentage of total class
Orion Health Limited (a subsidiary incorporated in Thailand) (*)	Ordinary shares	200,000	100
Orion Health Pte. Limited (a subsidiary incorporated in Singapore) (*)	Ordinary shares	1	100

Notes:

- (1) Companies marked with a (*) symbol indicate that Orion controls the securities in the relevant company via its interests in related companies, but does not hold the securities in the relevant company directly.

Schedule 6: Trading in equity securities of Grafton and its related companies (other than Orion group companies) – Directors, Senior Managers and their associates (paragraph 9.1)

Name	Description	Company in which securities are held or controlled	Number and designation / class of equity securities	Consideration per equity security (NZ\$)	Acquisition / disposal	Date of transaction
McCrae Limited	Associate of a Director (Ian McCrae and Michael Falconer)	Grafton Health Holdings Limited	10 ordinary shares	1.224	Acquisition	29 January 2019
McCrae Limited	Associate of a Director (Ian McCrae and Michael Falconer)	Grafton Health Holdings Limited	78,021,379 ordinary shares	1.224	Acquisition	19 February 2019
Hamish Kennedy	Associate of a Director (Ian McCrae and Michael Falconer)	Grafton Health Holdings Limited	7,288,623 ordinary shares	1.224	Acquisition	20 February 2019
Gordon McCrae	Associate of a Director (Ian McCrae and Michael Falconer)	Grafton Health Holdings Limited	1,090,598 ordinary shares	1.224	Acquisition	19 February 2019
Ian McCrae	Director	Grafton Health Holdings Limited	178,280 ordinary shares	1.224	Acquisition	19 February 2019
Empire Group Investments Limited	Associate of a Director (Ian McCrae and Michael Falconer)	Grafton Health Holdings Limited	408,497 ordinary shares	1.224	Acquisition	19 February 2019
Ian McCrae, Rosemary, McCrae and Gregory Walker as trustees of the Gairloch Trust	Associate of a Director (Ian McCrae and Michael Falconer)	Grafton Health Holdings Limited	165,773 ordinary shares	1.224	Acquisition	19 February 2019
Michael Clegg and Kylie Clegg as trustees of The M&K Investments Trust	Associate of a Director (Ian McCrae and Michael Falconer)	Grafton Health Holdings Limited	408,497 ordinary shares	1.224	Acquisition	19 February 2019
Harish Panchal, Ashok Panchal and Ila Panchal as trustees of the Panchal Family Trust	Associate of a Director (Ian McCrae and Michael Falconer)	Grafton Health Holdings Limited	550,000 ordinary shares	1.224	Acquisition	19 February 2019

Name	Description	Company in which securities are held or controlled	Number and designation / class of equity securities	Consideration per equity security (NZ\$)	Acquisition / disposal	Date of transaction
Juliet Maclean and Michael Falconer as trustees of the Juliet Maclean Investment Trust	Associate of a Director (Ian McCrae and Michael Falconer)	Grafton Health Holdings Limited	1,838,235 ordinary shares	1.224	Acquisition	19 February 2019
Gavin Reeve, Victoria Reeve and Brian Leaning as trustees of the CVC Share Trust	Associate of a Director (Ian McCrae and Michael Falconer)	Grafton Health Holdings Limited	428,497 ordinary shares	1.224	Acquisition	19 February 2019

Notes:

- (1) This information is based on (i) responses to questionnaires circulated to the Directors and Senior Managers by Orion after receipt of Grafton's Takeover Notice and (ii) information provided by Grafton's lawyers.

Schedule 7: Trading in equity securities of Grafton and its related companies – Orion (paragraph 9.2)

Company in which securities are held or controlled	Number and designation / class of equity securities	Consideration per equity security (NZ\$)	Acquisition / disposal	Date of transaction
Orchestral Developments Limited	100 ordinary shares	As agreed in the relevant documents entered into in connection with the Hg transaction described in paragraph 19.3(a)	Acquisition (*)	30 October 2018
Orchestral Developments Limited	16,476 ordinary shares	As agreed in the relevant documents entered into in connection with the Hg transaction described in paragraph 19.3(a)	Disposal (*)	30 October 2018
Orion Systems International Limited	13 ordinary shares	As agreed in the relevant documents entered into in connection with the Hg transaction described in paragraph 19.3(a)	Acquisition (*)	30 October 2018
Orion Systems International Limited	14 ordinary shares	As agreed in the relevant documents entered into in connection with the Hg transaction described in paragraph 19.3(a)	Disposal (*)	30 October 2018
Orion (Grafton) Limited	900 ordinary shares	As agreed in the relevant documents entered into in connection with the Hg transaction described in paragraph 19.3(a)	Acquisition (*)	30 October 2018
Orion (Grafton) Limited	49,999,000 ordinary shares	As agreed in the relevant documents entered into in connection with the Hg transaction described in paragraph 19.3(a)	Acquisition (*)	30 October 2018
Orion (Grafton) Limited	11,582,000 ordinary shares	As agreed in the relevant documents entered into in connection with the Hg transaction described in paragraph 19.3(a)	Acquisition (*)	31 October 2018
Orion Hospitals Limited	100 ordinary shares	Nil	Acquisition	12 September 2018
Orion Hospitals Limited	6,915,233 ordinary shares	As agreed in the relevant documents entered into in connection with the Hg transaction described in paragraph 19.3(a)	Acquisition (*)	30 October 2018

Notes:

- (1) The transactions marked with a (*) symbol occurred in connection with the Hg transaction described in paragraph 19.3(a), which included an internal restructuring of Orion's corporate group.

Appendix One: Independent Adviser's Report



Orion Health Group Limited

Independent Adviser's Report

March 2019

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.

KordaMentha

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1 Terms of the Offer

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 has an equity interest in three businesses (each deemed a **Solution Group**):

- **Interoperability Bidco (known as Rhapsody):** An integration solution which allows complex healthcare systems to seamlessly connect with one another. Orion Health has a 24.9% equity interest in Rhapsody.
- **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. Orion Health has a 75.1% equity interest in PHM.
- **Hospitals:** Offers software solutions that assist with the administration of hospitals. Hospitals is wholly owned by Orion Health.

Grafton Health Holdings Limited (**Grafton**) is a company associated with Ian McCrae, who is Orion Health's founder, Board Member and Chief Executive Officer and with Michael Falconer, Board Member.

On 6 February 2019, Grafton announced its intention to make a full takeover offer (**the Offer**) to acquire all the fully paid ordinary shares (**Shares**) in Orion Health. The Offer price is \$1.224 per Orion Health Share, payable in cash.

The Offer is unconditional. Parties that accept the Offer are to be paid within five working days of acceptance.

Grafton has entered into Lock-Up Agreements with several of Orion Health's shareholders. As a result, Grafton has already received acceptances that exceed 90% of the Orion Health Shares and is now the dominant owner of Orion Health. This entitles Grafton, following the close of the Offer, to compulsorily acquire any remaining Orion Health Shares, which it has announced is its intention.

The Independent Directors of Orion Health have appointed KordaMentha to prepare an independent adviser's report in accordance with Rule 21 of the Takeovers Code (**the Report**). Our appointment has subsequently been approved by the Takeovers Panel.

The Report has been prepared to consider the merits of the Offer.

1.2 Lock-Up Agreements

Grafton has entered into Lock-Up Agreements with the following Orion Health shareholders:

- McCrae Limited, which owned 85.92% of the Orion Health Shares prior to the Offer;
- Hamish Kennedy, who owned 5.33% of the Orion Health Shares prior to the Offer;
- Gordon McCrae, who owned 1.20% of the Orion Health Shares prior to the Offer;
- Harish Panchal, Ashok Panchal and Ila Panchal as trustees of the Panchal Family Trust, who owned 0.61% of the Orion Health Shares prior to the Offer;
- Ian McCrae, who owned 0.2% of the Orion Health Shares prior to the Offer;
- Ian McCrae, Rosemary McCrae and Gregory Walker as trustees of the Gairloch Trust, who owned 0.18% of the Orion Health Shares prior to the Offer; and
- Gavin Reeve, Victoria Reeve and Brian Leaning as trustees of the CVC Share Trust, who owned 0.02% of the Orion Health Shares prior to the Offer.

At the time of the opening of the Offer, the parties to the Lock-Up Agreements together owned 93.46% of the Orion Health Shares. These parties have accepted the Offer in respect of all the Orion Health Shares they held at the time of the Offer and, as a result of their acceptances, Grafton now owns those Orion Health Shares.

In addition, all of the parties to the Lock-Up Agreements are also party to a Subscription Agreement, whereby they will have an equity interest in Grafton following the Offer. As a result, the parties to the Lock-Up Agreements will continue to have a beneficial interest in Orion Health following the Offer.

1.3 Background to Transaction

Prior to 31 October 2018, Orion Health owned 100% of each of the Solution Groups. It separated the companies last year and sold 75.1% of Rhapsody and 24.9% of PHM to 'Mercury 2 Fund', a vehicle managed by HgCapital LLP (**Hg**) in the second half of 2018 (**the Hg Transaction**). The Hg Transaction had a relatively complex structure, which involved Orion Health and Hg recapitalising each of PHM and Rhapsody, and the remaining net proceeds being available to Orion Health.

Following the Hg Transaction, Orion Health used part of the net proceeds received under the HG Transaction to undertake a share buyback, offering to acquire Orion Health Shares at a price of \$1.224 per share (**the Share Buyback**). This is the price that was implied for Orion Health Shares in the Hg Transaction and is also the same price as offered in the current Offer by Grafton.

Orion Health acquired 53.7% of its issued Shares in the Share Buyback. Because of the Share Buyback, the number of Orion Health Shares – excluding those held by McCrae Limited – reduced from 98,523,091 prior to the Share Buyback to 12,780,869 at the time of the Offer. This means that 87.0% of the outstanding Orion Health Shares, not held by McCrae Limited, were acquired in the Share Buyback. McCrae Limited also participated in the Share Buyback, but only in respect of 20% of its shareholding (prior to the Share Buyback).

1.4 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 Offer

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

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.

Grafton will acquire all Orion Health Shares, regardless of whether shareholders accept the Offer

Grafton became the dominant owner of Orion Health on 21 February 2019 by virtue of acceptances of the Offer received in accordance with the Lock-Up Agreements. As a result, once the Offer closes, Grafton has the right to compulsorily acquire the remaining Orion Health Shares from shareholders who do not accept the Offer. Grafton has stated its intention is to exercise this right.

As a result, there are three possible outcomes for shareholders:

- **Shareholders accept the Offer**

Shareholders who accept the Offer will receive consideration, at \$1.224 per share, within five working days of acceptance being received by Grafton. Consideration received by shareholders who accept the Offer will be final and not subject to determination by an independent expert.

- **Shareholders do not accept the Offer; and a new compulsory acquisition price is set by an independent expert**

The price offered under the compulsory acquisition process will be the same as the Offer price (\$1.224 per share). However, the Takeovers Code allows shareholders to challenge the compulsory acquisition price in certain circumstances.

In the context of Grafton's Offer, shareholders who do not accept the Offer will only have the right to challenge the compulsory acquisition price if acceptances under the Offer are received for 50% or less of the Orion Health Shares (excluding those shares subject to pre-commitments) and shareholders holding 10% or more of the outstanding Orion Health Shares (after the Offer) object to the compulsory acquisition price.

This means that, after allowing for acceptance under the Lock-Up Agreement, if Grafton owns less than 96.73% of the shares on issue, then shareholders who did not accept the Offer will have the option to challenge the \$1.224 per share compulsory acquisition price. If shareholders representing 10% or more of the shares not held by Grafton challenge the price, then an independent expert will be appointed by the Takeovers Panel to determine a fair and reasonable compulsory acquisition price.

The price determined by the independent expert would then become the price for the compulsory acquisition. The price determined by the independent expert would apply whether it is higher or lower than the Offer price of \$1.224 per share. The price would also apply to all shareholders who do not accept the Offer, even those who do not challenge the compulsory acquisition price.

Shareholders would receive consideration at the determined price. The price of \$1.224 per Orion Health Share offered in the compulsory acquisition would be paid to shareholders within five working days after accepting the offer in the compulsory acquisition notice. However, any difference between the \$1.224 price and the compulsory acquisition price determined by the expert would only become payable at a later date.

If the expert determines a compulsory acquisition price greater than \$1.224 per share, we anticipate that the difference would be paid no sooner than 10 May 2019. This allows for time for the Offer period to end; shareholder objections to be filed; an independent expert to be appointed; the independent expert to familiarise itself with Orion Health and prepare a valuation report; and payment by Grafton at the new price determined by the independent expert.

If the expert determines a compulsory acquisition price lower than \$1.224 per Share, Grafton will be entitled to recover the difference from each shareholder who did not accept the Offer.

- **Shareholders do not accept the Offer; and there is no change to the Offer price**

If Grafton owns more than 96.73% of the shares following the Offer, or if any shareholders objecting to the Offer price do not represent 10% or more of the shares not held by Grafton, then the Offer price (\$1.224 per share) would be the price for compulsory acquisition and shareholders would have no right to challenge this price.

In this scenario, shareholders who did not accept the Offer would receive \$1.224 per share, the same as in the Offer, but would receive the consideration later. If Grafton gives its compulsory acquisition notice on the first working day following the end of the Offer period, then the consideration would be paid by Grafton no later than 15 April 2019 (and possibly earlier, depending on shareholders return their share transfers).

The key difference between accepting and not accepting the Offer

The key differences between the above outcomes is the timing of when shareholders receive payment from selling their Orion Health Shares, and possibly the price changing if an independent expert is appointed. Accordingly, we consider the most likely choices for shareholders are to either:

- Accept the Offer to receive consideration as soon as possible; or
- If shareholders believe that an independent expert is likely to determine a price that is higher than \$1.224 per share, and are willing to (i) wait to receive payment; (ii) take the risk of a lower price being determined by an independent expert; and (iii) take the risk of shareholders not having a right to challenge the price (if the relevant circumstances do not apply), then not accept the Offer and, if Grafton fails to receive acceptances for more than 50% of Orion Health Shares (excluding those shares subject to pre-commitments), object to the compulsory acquisition price.

We estimate the value of the Orion Health Shares to be in the range of \$1.00–\$1.47 per share

Given the likely choices available to shareholders, we consider the most important consideration for shareholders is the value of the Orion Health Shares that may be assessed by an independent expert.

We have valued the Orion Health Shares with a sum-of-the-parts valuation approach, whereby each of the Solution Groups is valued as a separate investment and then net cash for the wholly owned entities is added to determine a value per share.

We estimate the value of the Orion Health Shares in the range of \$1.00–\$1.47 per share, with a midpoint of \$1.23 per share. Our valuation is summarised in Table 2.1 and described in more detail at Section 4 of this report.

Table 2.1: Orion Health valuation summary (\$ million)

	Low	High
Rhapsody (24.9% equity interest)	17.7	26.2
PHM (75.1% equity interest)	45.9	78.0
Hospitals (enterprise value)	3.0	5.0
Net cash in wholly owned entities	24.1	24.1
Orion Health equity value	90.7	133.3
Shares on issue (thousands)	90.8	90.8
Value of Orion Health Shares	\$1.00	\$1.47

The values shown for Rhapsody and PHM are based on the value of the shares that Orion Health holds in each of these Solution Groups. The value for Rhapsody includes a discount for lack of control.

The Offer price of \$1.224 per share is very close to the midpoint of our assessed range.

If shareholders object to the compulsory acquisition price and an independent expert is appointed, then we consider the single largest factor that would affect the independent expert's conclusion would be the value assessed for PHM. PHM is currently making significant losses (approximately \$30 million forecast in FY19) and is only expected to reach breakeven near the end of FY20. Accordingly, we consider there is a wide range of values that an independent expert could adopt, given the inherent uncertainty surrounding PHM's prospects and future finance performance.

Our valuation of PHM is summarised in Table 2.2 below:

Table 2.2: Equity Valuation – PHM (\$ 000)

	Low	High
FY18 Revenue	107,160	107,160
Multiple	0.4x	0.8x
Enterprise value	42,864	85,728
Plus: net cash	18,188	18,188
Equity value	61,052	103,916
Orion Health shareholding	75.1%	75.1%
PHM equity held by Orion Health	45,850	78,041

Source: Management accounts, KordaMentha analysis

When considering the value that an independent expert might adopt for PHM, we observe that in the Hg Transaction an enterprise value of \$50 million was placed on this business; albeit, with only 24.9% being transferred. If a minority discount of 15% was assumed for that transaction, then the implied enterprise value was \$58.8 million (including control). This would be equivalent to an equity value for the current transaction of \$57.8 million, which is slightly below the midpoint of our assessed range for Orion Health's shareholding in PHM. We also note that Grafton's Offer supports a value of PHM towards the middle of our assessed range.

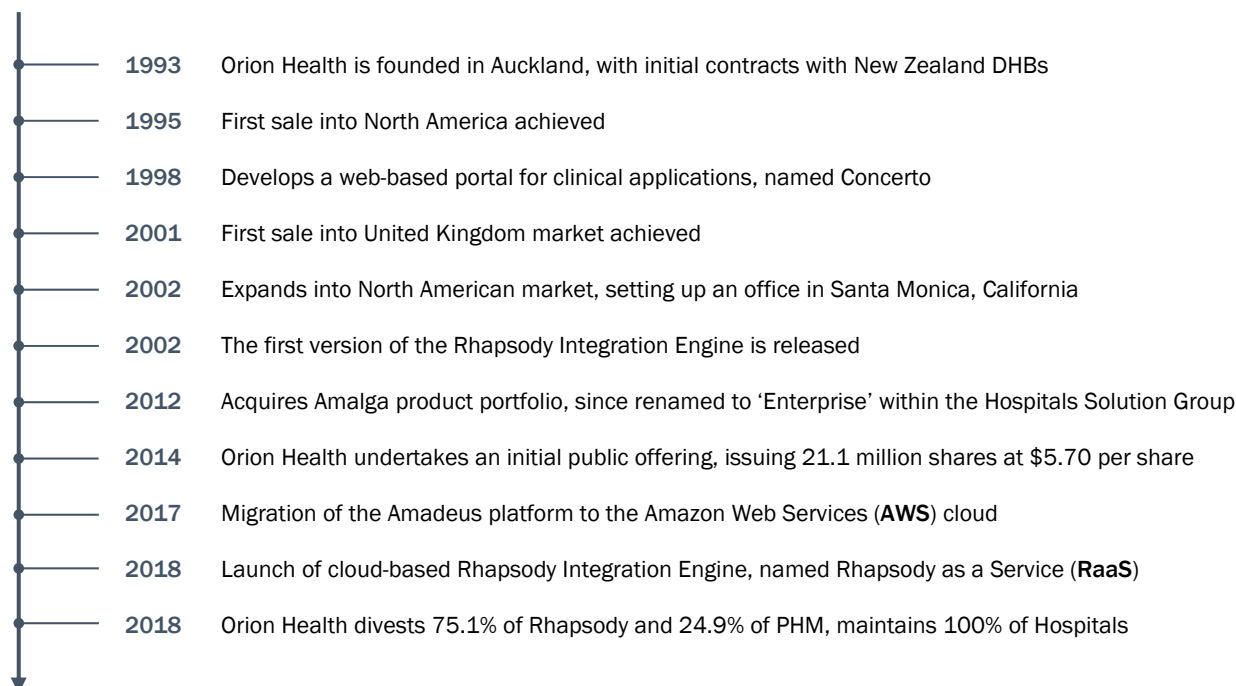
3 Profile of Orion Health

3.1 Background and History

Orion Health has an equity interest in three businesses that provide healthcare software: Rhapsody, PHM and Hospitals. Prior to the Hg transaction (discussed in Section 1), each of these companies was wholly owned by 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 history



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 subsequently developed its product offerings 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.

In the second half of 2018, Orion Health divested 75.1% of Rhapsody and 24.9% of PHM. This transaction was undertaken to raise capital to fund PHM and Hospitals; and to provide shareholders with an option to realise their shareholdings.

Orion Health had approximately 550 full time equivalent employees (**FTEs**) as at 31 January 2019. This excludes employees in Rhapsody, which Orion Health now treats as an equity investment. Rhapsody has approximately 100 FTEs.

3.2 Business Operations

The operations of the Solution Groups are summarised below:

Solution Group	Description
Rhapsody (24.9%)	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 growth in the Asia Pacific region.
PHM (75.1%)	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 (100%)	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.

Of the three Solution Groups, Rhapsody is the most profitable. It has a mature product with comparatively less R&D requirements as well as lower operating costs. In comparison, PHM is larger 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.

We discuss each of the Solution Groups, and their financial performance, in more detail at Section 3.4 (Rhapsody), Section 3.5 (PHM) and Section 3.6 (Hospitals).

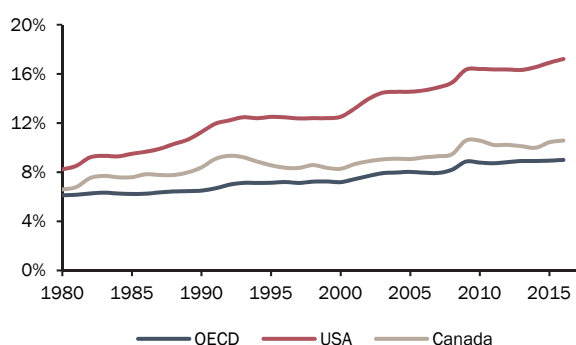
3.3 Industry Overview

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

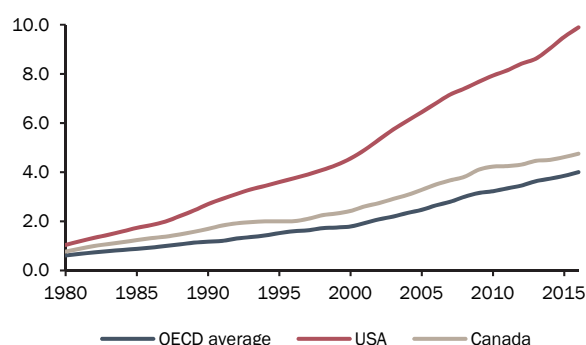
Health is the largest single cost for most governments in developed economies. In addition, private spending on healthcare is also a significant portion of the total healthcare spend, particularly in the United States. Figures 3.2 and 3.3 show health spend as a proportion of GDP and per capita over time, and illustrate the material, and increasing, cost incurred on healthcare.

Figure 3.2: Health spend as a proportion of GDP



Source: OECD data, includes both public and private spend

Figure 3.3: 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 2050.¹
- **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%).²
- **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.

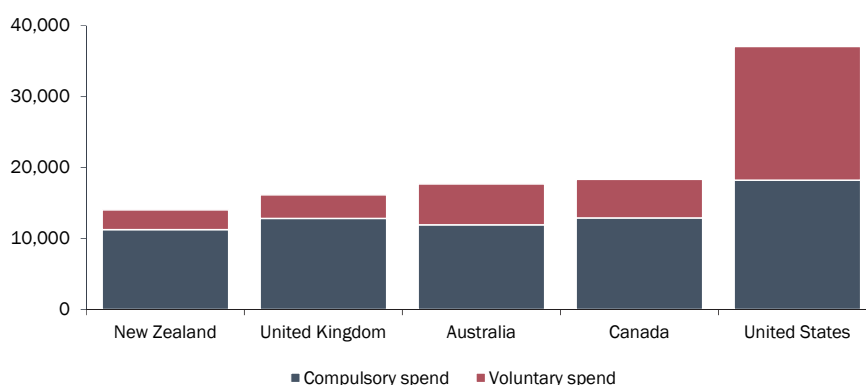
Funding systems

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

Figure 3.4: 2016 Health Spending (USD per capita)



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

¹ 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).

² OECD (2017), *Health at a Glance 2017: OECD Indicators*, OECD Publishing, Paris. http://dx.doi.org/10.1787/health_glance-2017-en

Figure 3.4 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 2012 study estimated that 34% of spending in the US healthcare system was wasted in 2011 (USD 910 billion).³ 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.

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.

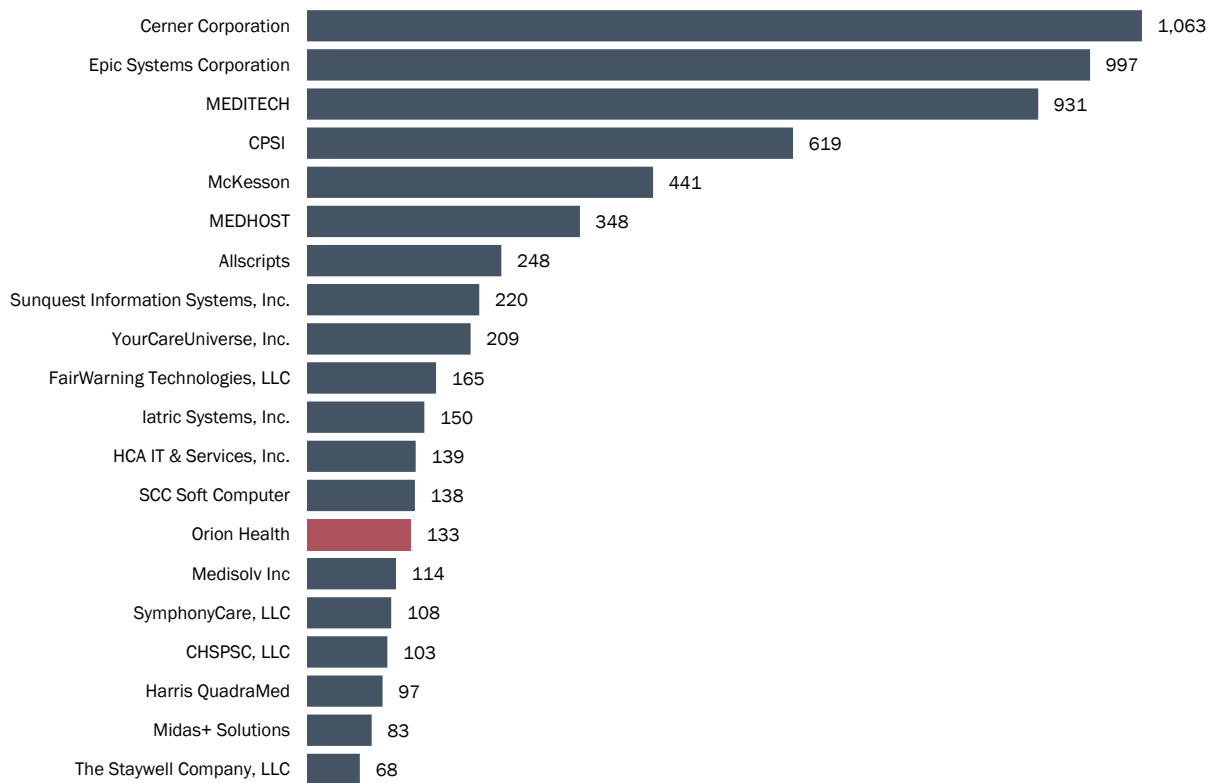
Whereas population health management software facilitates the aggregation and exchange of data across a wide geographical area or health system, integration and interoperability software connects the individual systems.

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.

³ Donald M. Berwick, MD, MPP and Andrew D. Hackbarth, MPhil "Eliminating Waste in US Health Care", American Medical Association (2012)

Figure 3.5 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. Orion Health refers to one or more of its Solution Groups being used.

Figure 3.5: Eligible US hospitals use developers' products



Source: Medicare EHR Incentive Program data, last updated 9 May 2018⁴

⁴ 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 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 used as a key part of PHM's and Hospital's product suites, 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 500 customers globally.

Rhapsody had approximately 100 full time equivalent employees as at 31 January 2019.

Orion Health has a 24.9% shareholding in Rhapsody.

3.4.1 Financial Performance

Table 3.1 summarises Rhapsody's earnings for FY15–FY18 (actuals) and FY19 (forecast). The historical financials are based on management accounts, rather than audited annual financial statements. The historical financials include cost allocations between Solution Groups, which have been determined by Orion Health. The forecast is based on Rhapsody management's views, using eight months of actuals to 30 November 2018 and four months forecast. Orion Health has had some, but limited, input into the preparation of forecasts for Rhapsody.

Table 3.1: Rhapsody earnings summary (\$ 000)

	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Forecast
Revenue	45,936	56,675	54,262	61,480
Direct costs	(8,765)	(8,153)	(10,227)	(8,364)
Operating contribution	37,171	48,522	44,035	53,116
Sales and marketing	(8,950)	(8,950)	(8,950)	
Research and development	(12,000)	(8,205)	(5,261)	
General and administration	(6,697)	(6,931)	(7,922)	
EBITDA	9,524	24,436	21,903	13,673
Add back Hg Transaction costs	-	-	-	14,873
Adjusted EBITDA	9,524	24,436	21,903	28,546
Adjusted EBITDA margin	21%	43%	40%	46%

Source: Orion Health management accounts and forecast provided by Rhapsody

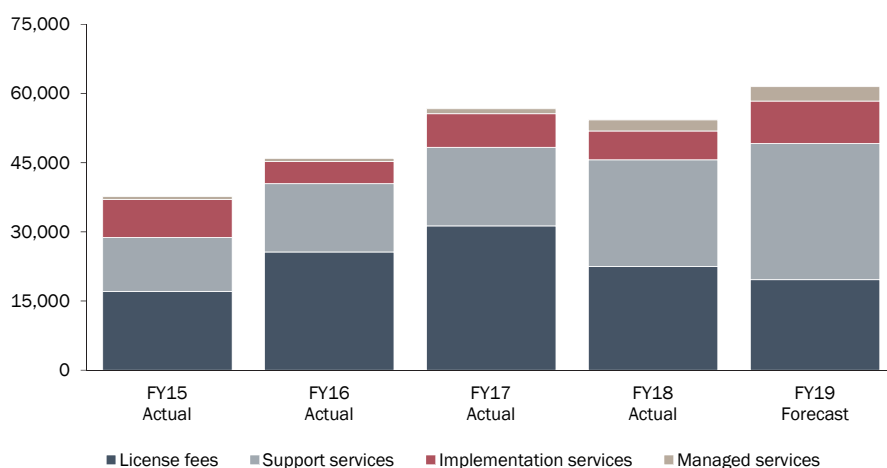
Rhapsody is highly profitable and earned \$21.9 million EBITDA in FY18. After allowing for transaction costs incurred in FY19 as a result of the Hg transaction, Rhapsody is expected to exhibit robust growth in FY19, as revenue is added without having a material impact on costs. Direct costs as a proportion of revenue are forecast to decrease in FY19, as Orion Health has focussed on improving margins on implementation services and managed services.

We have added back costs related to the Hg Transaction given they represent one-off costs. We have relied on managements allocations of those costs between the Solution Groups.

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.

Figure 3.6 illustrates Rhapsody's revenue by type. A significant portion of Rhapsody's revenue 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 3.6: Rhapsody revenue (\$ 000)



Source: Orion Health management accounts and forecast provided by Rhapsody

The key driver of the Forecast is that total revenue increases by 14% in FY19. Orion Health advises that this is based on an assumption of increased sales of perpetual licences, as well as achieving the historically strong customer retention for support services in line with historical norms.

The forecast revenue, as forecast by Rhapsody management, is approximately equal to the revenue that Orion Health had forecast when the Hg Transaction was in process.

The Rhapsody product is relatively mature. However, continued research and development costs will always be needed in the business. Orion Health has historically expensed its software development costs, rather than capitalise a portion and then amortise it over time.

3.4.2 Financial Position

Table 3.2 shows Rhapsody's financial position as at 31 December 2018, based on management accounts. All amounts have been converted to New Zealand Dollars at a NZD:USD exchange rate of 0.688.

Table 3.2: Rhapsody financial position (\$ 000)

	31 Dec 2018
Trade and other receivables	33,918
Accrued revenue	581
Trade and other payables	(7,287)
Employee benefits	(1,012)
Revenue in advance	(3,354)
Net working capital	22,845
Property, plant and equipment	379
Intangibles	179,164
Net operating assets	202,388
Net cash	9,419
Bank overdraft	(6,867)
Debt	(113,808)
Net assets	91,132

Source: Orion Health financial accounts

Rhapsody has \$111.3 million net debt, which includes the debt, bank overdraft and net cash.

3.5 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 multiple offerings being Amadeus, Engage, Coordinate, Medicines and Consult. 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.

PHM had approximately 450 full time equivalent employees as at 31 January 2019.

Orion Health has a 75.1% shareholding in PHM.

3.5.1 Financial Performance

Table 3.3 summarises PHM's earnings for FY15–FY18 (actuals) and FY19 (forecast). The historical financials are based on Orion Health's management accounts, rather than its audited annual financial statements. The historical financials include cost allocations between Solution Groups, which have been determined by Orion Health. The forecast financials have been prepared by Orion Health.

Table 3.3: PHM earnings summary (\$ 000)

	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Forecast
Revenue	145,482	126,947	107,160	108,367
Direct costs	(89,044)	(75,676)	(70,596)	(70,866)
Operating contribution	56,438	51,272	36,563	37,501
Grants and PDH	3,542	3,494	4,823	4,436
Selling and marketing	(27,070)	(21,546)	(21,029)	(18,689)
Research and development	(43,167)	(48,863)	(50,588)	(30,939)
General and administration	(41,924)	(29,328)	(24,000)	(28,794)
EBITDA	(52,181)	(44,970)	(54,231)	(36,485)
Add back Hg transaction costs	–	–	–	6,825
Adjusted EBITDA	(52,181)	(44,970)	(54,231)	(29,660)
Adjusted EBITDA margin	(36%)	(35%)	(51%)	(27%)

Source: Orion Health management accounts and forecast

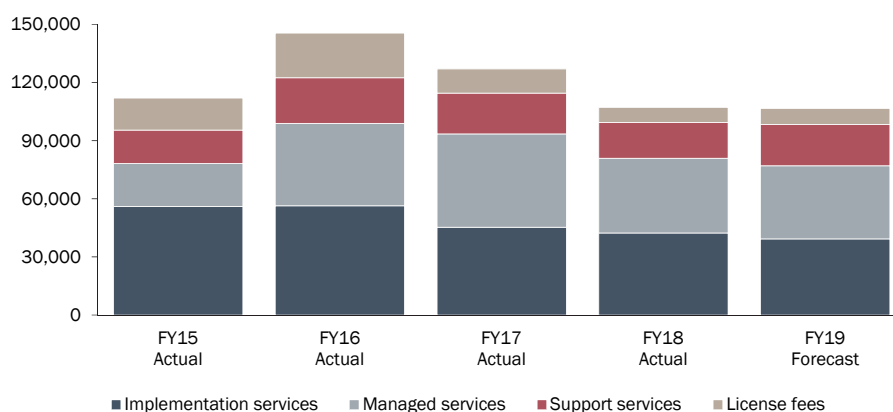
PHM has consistently made significant losses between FY15 and FY18, including a \$54.2 million EBITDA loss in FY18. It is forecast to remain unprofitable in FY20. Orion Health expects PHM to reach breakeven towards the latter half of FY20.

We have added back costs related to the Hg Transaction given they represent one-off costs. We have relied on managements allocations of those costs between the Solution Groups.

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 3.7 illustrates PHM's revenue by type.

Figure 3.7: PHM revenue (\$ 000)



Source: Orion Health management accounts and forecast

The FY19 forecast revenue and EBITDA are similar to the levels that were forecast prior to the Hg Transaction. In particular, the forecast revenue is 0.9% less and the Adjusted EBITDA is 0.6% more.

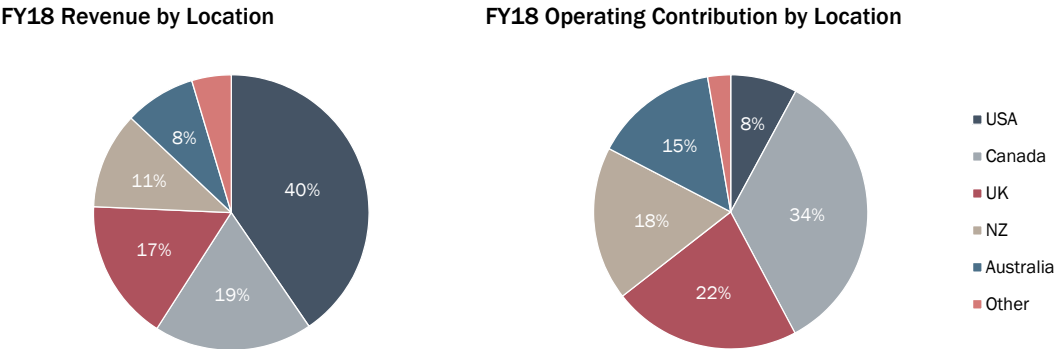
Orion Health’s strategy for PHM has been to switch from the upfront sale of perpetual licences to the sale of managed services. Although, the switch from perpetual licences to managed services has also caused a short to medium term deferral of revenues, as Orion Health has switched from customers purchasing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

The FY19 revenue forecast is based on a sales pipeline maintained by Orion Health. When forecasting revenue, Orion Health applies probability weightings to 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 from those incurred in FY18. This is expected to result in a reduction of approximately \$30 million in operating expenses across all three Solution Groups, net of one-time fees related to the Hg Transaction, premise rationalisation and redundancy costs, and changes in foreign currency exchange. These cost savings are expected to mainly affect the PHM Solution Group.

Figure 3.8 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 3.8: 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 due to a significant reduction in costs.



3.5.2 Financial Position

Table 3.4 shows PHM's financial position as at 31 December 2018, based on management accounts.

Table 3.4: PHM financial position (\$ 000)

	31 Dec 2018
Trade and other receivables	26,512
Accrued revenue	11,096
Income tax asset/(liability)	4,809
Trade and other payables	(14,392)
Employee benefits	(9,765)
Revenue in advance	(15,162)
Net working capital	3,097
Property, plant and equipment	4,313
Intangibles	678
Net operating assets	8,088
Cash and cash equivalents	18,227
Derivative financial instruments	(39)
Net assets	26,276

Source: Orion Health financial accounts

PHM has \$18.2 million net cash, which includes cash and cash equivalents and derivative financial instruments.

3.6 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 100 full time equivalent employees as at 31 January 2019.

Orion Health has a 100% shareholding in Hospitals.

3.6.1 Financial Performance

Table 3.5 summarises Hospitals' earnings for FY15–FY18 (actuals) and FY19 (forecast). The historical financials are based on Orion Health's management accounts, rather than its audited annual financial statements. The historical financials include cost allocations between Solution Groups, which have been determined by Orion Health. The forecasts have been prepared by Orion Health.

Table 3.5: Hospitals earnings summary (\$ 000)

	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Forecast
Revenue	15,062	14,743	8,113	10,985
Direct costs	(7,582)	(8,267)	(2,827)	(4,693)
Operating contribution	7,480	6,476	5,286	6,292
Grants	1,576	1,524	2,153	–
Selling and marketing	(2,787)	(2,492)	(1,592)	(1,334)
Research and development	(6,044)	(7,031)	(5,782)	(7,395)
General and administration	(4,434)	(3,494)	(1,850)	(4,565)
EBITDA	(4,209)	(5,016)	(1,785)	(7,002)
Add back Hg transaction costs	–	–	–	675
Adjusted EBITDA	(4,209)	(5,016)	(1,785)	(6,327)
Adjusted EBITDA margin	(28%)	(34%)	(22%)	(58%)

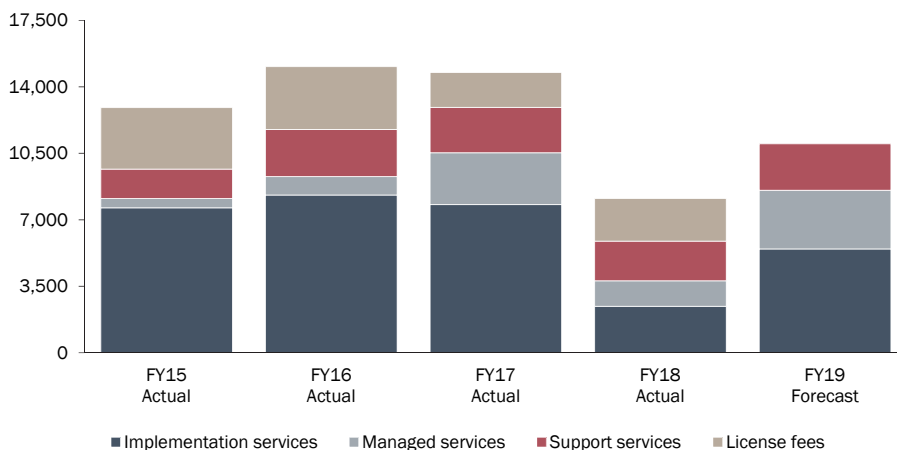
Source: Orion Health management accounts and forecast

Hospitals made a \$1.8 million EBITDA loss in FY18 and if forecast to have a \$6.3 million adjusted EBITDA loss in FY19. 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 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.

We have added back costs related to the Hg Transaction given they represent one-off costs. We have relied on managements allocations of those costs between the Solution Groups.

Figure 3.9 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 3.9: 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 an expansion of services with existing customers.

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

The FY19 forecast revenue and EBITDA are similar to the levels that were shown in our previous report. In particular, the forecast revenue is 2.1% less and the Adjusted EBITDA is 3.8% more.

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

3.6.2 Financial Position

Table 3.6 shows Hospitals' financial position as at 31 December 2018, based on management accounts.

Table 3.6: Hospitals pro-forma financial position (\$ 000)

	31 Dec 2018
Trade and other receivables	5,985
Accrued revenue	964
Income tax asset/(liability)	622
Trade and other payables	(389)
Employee benefits	(1,121)
Revenue in advance	(791)
Net working capital	5,269
Property, plant and equipment	107
Intangibles	58
Net operating assets	5,434
Bank overdraft	(632)
Net assets	4,802

Source: Orion Health financial accounts

Hospitals had \$0.6 million net debt as at 31 December 2018. To simplify our valuation analysis, we have combined the net debt of Hospitals with the net cash of Orion Health (the parent company).

3.7 Net cash in wholly owned entities

To assess the value of Orion Health Shares, we have considered the cash in each of the Solution Groups, as well as Orion Health (the parent company).

As Orion Health has an equity interest of less than 100% in each of Rhapsody and PHM, we have attributed the net cash/debt in these entities directly to the respective Solution Group in our valuation.

In addition to the net cash/debt in Rhapsody and PHM, Orion Health had \$153.7 million cash as at 31 December 2018 at the parent company level and \$0.6 million debt in Hospitals. Following 31 December 2018, Orion Health paid out \$129.0 million to shareholders in the Share Buyback. To value Orion Health, we have assumed a net cash balance of \$24.1 million for entities that are wholly owned by Orion Health, which is based on the cash in the parent company, less debt in Hospitals, and less the cash paid in the Share Buyback.

3.8 Capital Structure and Ownership

Following the Hg Transaction, Orion Health has 90,802,248 shares on issue and more than 1,350 registered shareholders. As at 7 February 2019, the top 20 shareholders accounted for 95.12% of the ordinary shares on issue.

Table 3.7: Share register as at 7 February 2019

Shareholder	Shares	Percentage
McCrae Limited – associated with Ian McCrae	78,021,379	85.92%
Hamish Kennedy	4,837,643	5.33%
Gordon McCrae – related to Ian McCrae	1,090,598	1.20%
Panchal Family Trust	550,000	0.61%
New Zealand Central Securities	376,072	0.41%
Stephen Attkins & Diane Campbell	251,449	0.28%
FNZ Custodians Limited	180,625	0.20%
Ian McCrae	178,280	0.20%
Gairloch Trust	165,773	0.18%
Public Trust	95,000	0.10%
David Dromer	79,500	0.09%
Brett Wilson	75,220	0.08%
Paul Rohtmets	75,000	0.08%
Keith and Shirley Matheson	73,333	0.08%
Lynette Duncan	61,200	0.07%
David Pannekoek	55,000	0.06%
BM Independent Trustee Limited	51,333	0.06%
Custodial Services Limited	50,463	0.06%
Craig Thompson	50,000	0.06%
Forsyth Barr Custodians Limited	50,000	0.06%
Top 20 shareholders	86,367,868	95.12%
Remaining shareholders	4,434,380	4.88%
Total	90,802,248	100.0%

Source: Orion Health

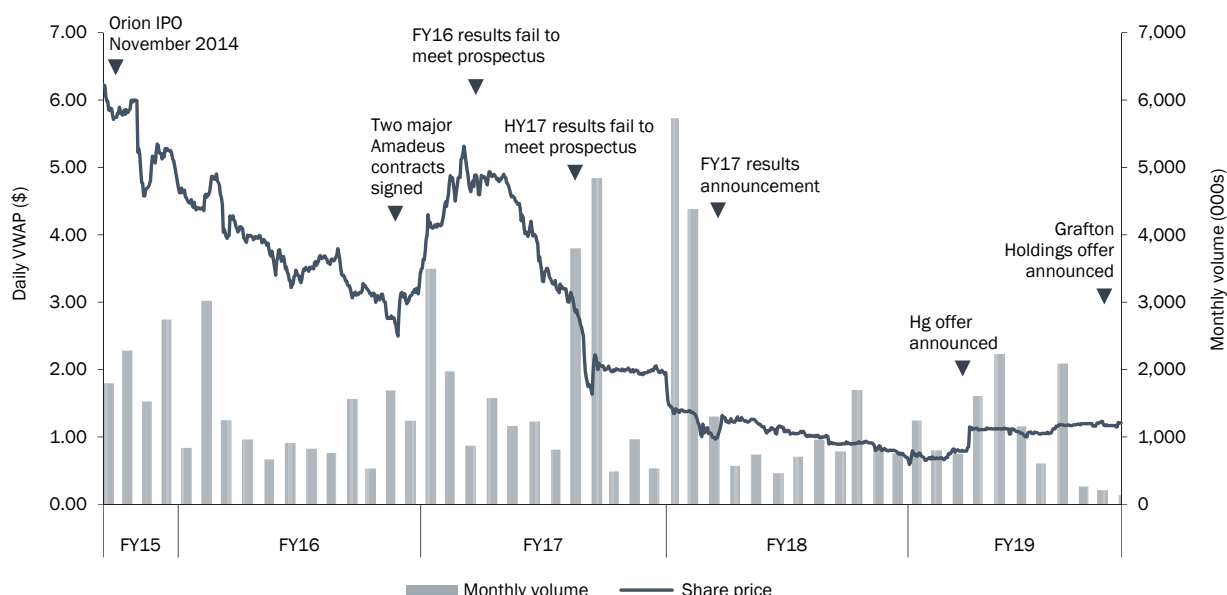
Prior to the Offer, the major shareholder of Orion Health was McCrae Limited, an entity associated with Ian McCrae. Mr McCrae and parties related to him (including McCrae Limited) held 79,456,030 Orion Health shares, representing 87.50% of the ordinary shares on issue.

As at 7 February 2019, the number of shares that were held by parties to the Lock-Up Agreements was 84,863,673, which represents approximately 93.46% of the total outstanding Orion Health shares. The shareholders that were subject to the Lock-Up Agreements have been shaded in Table 3.7.

3.9 Share Price Performance

Figure 3.10 illustrates the share price and volume for Orion Health shares since listing.

Figure 3.10: 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 Hg transaction.

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.

Orion Health announced the Hg Transaction on 3 July 2018. Orion Health undertook a share buyback on 3 December 2018, at a share price of \$1.224 per share. The Offer is at the same price as the Share Buyback. Since the Hg Transaction, Orion Health's share price has traded between \$1.00 and \$1.23.

Table 3.8: Share prices and volume as at 12 February 2019

	Share Price			Volume (millions)
	Low	High	VWAP ⁵	
One month	\$1.15	\$1.23	\$1.19	0.3
Three months	\$1.04	\$1.23	\$1.16	2.9
Twelve months	\$0.59	\$1.23	\$0.95	12.1

Source: Capital IQ

Approximately 12.1 million Orion Health shares have traded in the 12 months prior to the Offer being announced (on 7 February 2019), at prices between \$0.59 and \$1.23. This excludes the Share Buyback, in which 105,400,905 shares were acquired by the Company.

⁵ 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.

Orion Health management has provided KordaMentha with FY19 financial forecasts for each of the Solution Groups (**the Forecasts**). The Forecasts are based on eight months actual performance to 30 November 2018, and four months projections to 31 March 2019. The Forecasts for Hospitals and PHM were prepared by Orion Health; whereas, the Forecast for Rhapsody was prepared by the Rhapsody management team. The principal assumptions underpinning the Forecasts have been discussed above at Sections 3.4.1, 3.5.1 and 3.6.1.

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 have valued 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 uncertain.
- 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 have not undertaken a DCF valuation of any of the Solution Groups. PHM and Hospitals are mostly loss-making and there is only the current year financial forecast available for the Solution Groups.

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 on the values assessed for each of the respective Solution Groups.

4.2 Valuation Summary

We have valued Orion Health Shares using a sum-of-the-parts valuation approach, whereby each of the Solution Groups is valued as a separate standalone entity and then net cash for the wholly owned entities is added to determine a value per shares.

We estimate the value of the Orion Health Shares in the range of \$1.00–\$1.47 per share, with a midpoint of \$1.23 per share. Our valuation is summarised in Table 4.1.

Table 4.1: Orion Health valuation summary (\$ million)

	Low	High
Rhapsody (24.9% equity interest)	17.7	26.2
PHM (75.1% equity interest)	45.9	78.0
Hospitals (enterprise value)	3.0	5.0
Net cash in wholly owned entities	24.1	24.1
Orion Health equity value	90.7	133.3
Shares on issue (thousands)	90.8	90.8
Value of Orion Health Shares	\$1.00	\$1.47

The values shown for Rhapsody and PHM are based on the value of the shares that Orion Health holds in each of these Solution Groups. The value for Rhapsody includes a discount for lack of control.

It is arguable that, when considering the value of the value of PHM, an adjustment should be made for the fact that Orion Health holds less than 100% of this entity. However, for the purposes of our analysis, we consider it appropriate to assess value including control premia for this entity. Orion Health holds 75.1% of the shares in PHM, which allows it to pass both ordinary and extraordinary resolutions. Furthermore, the remaining 24.9% shares are held by a single party, which makes it easier to negotiate the acquisition of the remaining shares (should Orion Health wish to do so) at fair value.

The valuation of the Hospitals is for 100% of that entity and includes a premium for control. The value is on a cash and debt-free basis, as we separately adjust for the value of Hospitals debt.

The Offer price of \$1.224 per share is very close to the midpoint of our assessed range.

4.3 Rhapsody Valuation

4.3.1 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:

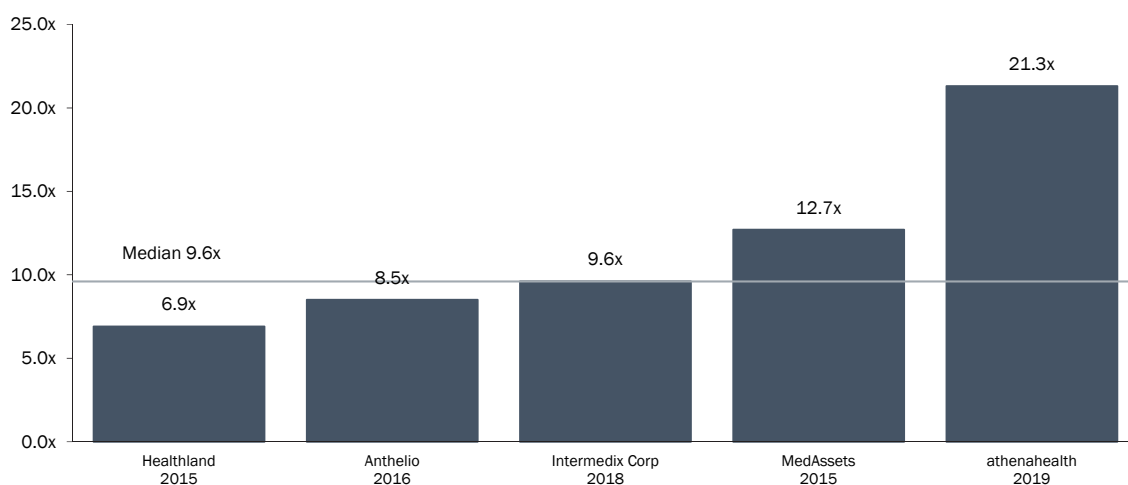
- Earnings multiples based on recent acquisitions of comparable companies.
- Earnings multiples based on the current share price of comparable listed companies.

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



Source: Capital IQ and KordaMentha estimates

The comparable transactions show earnings multiples in a very wide range of 6.9x to 21.3x historical EBITDA.

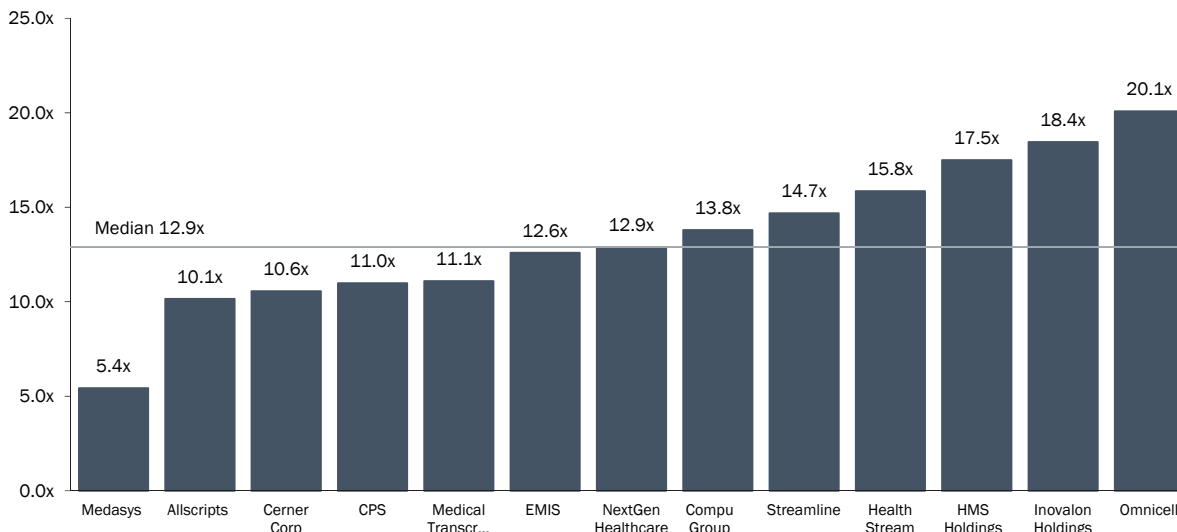
All the transactions shown in Figure 4.1 are for businesses that are larger than Rhapsody (revenues exceeding \$160 million and enterprise values exceeding \$300 million). In particular, MedAssets and athenahealth are significantly larger than Rhapsody (enterprise values exceeding \$4 billion). While 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 \$8 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 declined between FY17 and FY18, whereas the comparable companies generally had revenue growth over the same period. Rhapsody is forecast to increase revenue in FY19.

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 it only having recently separated from Orion Health), 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 4.5x and 10.8x forecast EBITDA.

We have assessed an earnings multiple range of 7.0x to 8.0x EBITDA for Rhapsody. This multiple range is for a wholly owned company and includes a premium for control.

Earnings for Rhapsody valuation

We have adopted \$28.5 million EBITDA for Rhapsody, which is Rhapsody management's estimate of FY19 financial performance, after adjusting for transaction costs in the Hg Transaction. The forecast is underpinned by an increase in revenue from \$54.3 million to \$61.5 million (between FY18 and FY19), together with a \$1.9 million reduction in direct costs.

Summary of Capitalisation of Earnings valuation

Our capitalisation of earnings valuation of Rhapsody results in a valuation range of \$200 million to \$228 million.

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

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

	Low	High
FY19 EBITDA	28,546	28,546
Multiple	7.0x	8.0x
Enterprise value	199,822	228,368

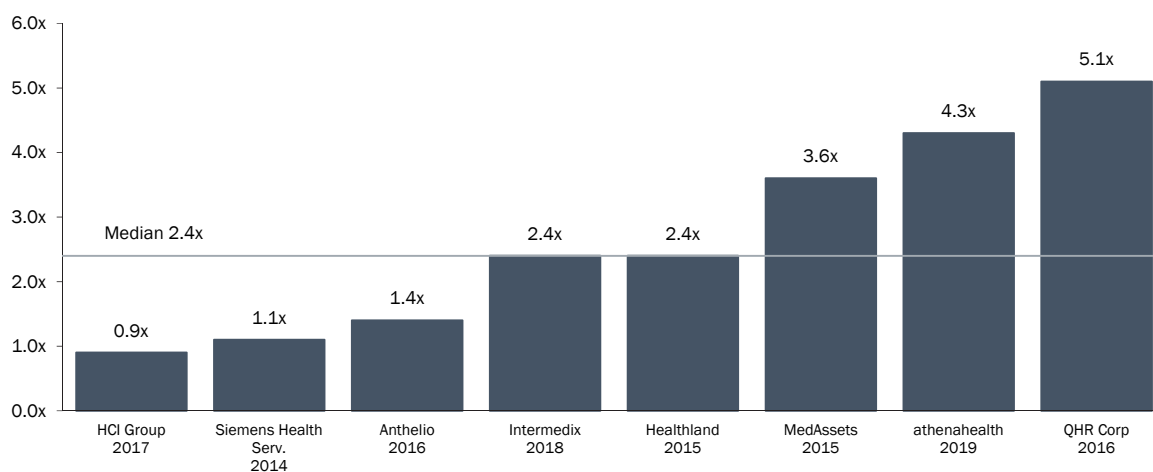
Source: Management accounts, KordaMentha analysis

4.3.2 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

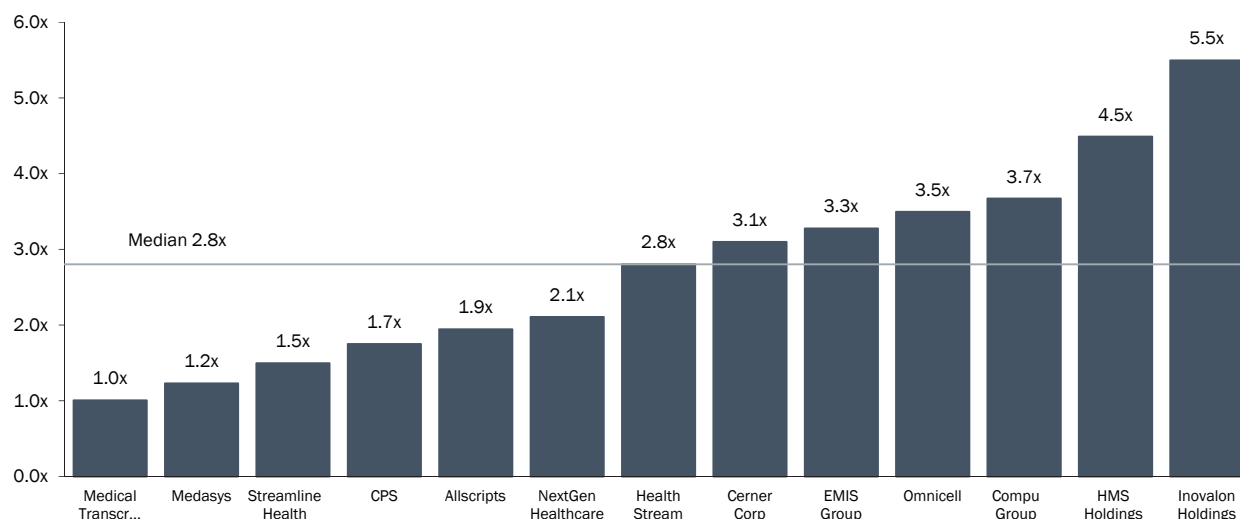


Source: Capital IQ and KordaMentha estimates

Revenue multiples for businesses in the health IT sector have tended to lie in a wide range, between 0.9x and 5.1x 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 1.0x and 5.5x forecast revenue, with a large portion between 1.5x 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 FY19 revenue.

Summary of Capitalisation of Revenue valuation

Our capitalisation of revenue valuation of Rhapsody results in a valuation range of \$184 million to \$246 million.

The capitalisation of revenue calculation is set out in Table 4.3:

Table 4.3: Capitalisation of revenue valuation (\$ 000)

	Low	High
FY19 Revenue	61,480	61,480
Multiple	3.0x	4.0x
Enterprise value	184,440	245,920

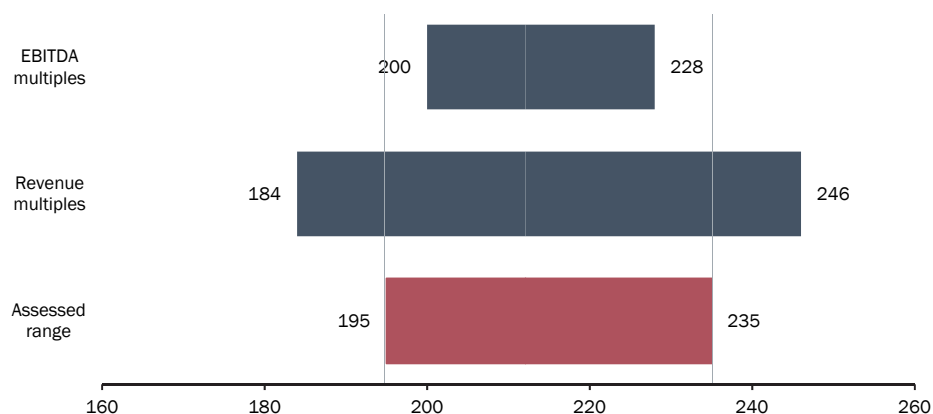
Source: Management accounts, KordaMentha analysis

4.3.3 Rhapsody – Valuation Summary

Enterprise value

We have assessed a range for Rhapsody's enterprise value at between \$195 million and \$235 million on a wholly owned basis. The valuation approaches and our assessed valuation range is illustrated in Figure 4.5.

Figure 4.5: Rhapsody valuation range (\$ million)



The low-end of the assessed range (\$195 million) is slightly above the average of the low-ends for the two valuation approaches (capitalisation of revenue and capitalisation of earnings); while the high-end of the assessed range (\$235 million) is slightly below the average of the high-ends for the two valuation approaches. In comparison to the above range, when the Hg Transaction was completed, Rhapsody was priced at an enterprise value of \$205 million.

Equity value

We estimate the value of Orion Health's shareholding in Rhapsody to be between \$17.7 million and \$26.2 million, as shown in Table 4.4. Orion Health owns only 24.9% of Rhapsody. Therefore, when determining the value of the equity held by Orion Health, we have adjusted for net debt, Orion Health's shareholding and applied a minority discount.

Table 4.4: Equity Valuation – Rhapsody (\$ 000)

	Low	High
Enterprise value	195,000	235,000
Less: net debt	(111,256)	(111,256)
Equity value	83,744	123,744
Orion Health shareholding	24.9%	24.9%
Pro rata equity value	20,852	30,812
Minority discount at 15%	(3,128)	(4,622)
Rhapsody equity held by Orion Health	17,724	26,190

Source: Management accounts, KordaMentha analysis

We have applied a 15% minority discount when valuing Orion Health's 24.9% shareholding in Rhapsody. We apply this discount to allow for Orion Health's lack of control over the day-to-day operations and strategic decisions facing Rhapsody, as well as a lack of marketability for a non-controlling interest.

4.4 PHM Valuation

4.4.1 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 FY17 and FY18; but is forecast to increase slightly in FY19.
- 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 \$31.5 million EBIT loss in FY19 (adjusted for Hg Transaction costs).
- 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

Based on the capitalisation of revenue approach, we estimate the value of Orion Health's shareholding in PHM to be between \$45.9 million and \$78.0 million, as shown in Table 4.5. Orion Health owns only 75.1% of PHM. Therefore, when determining the value of the equity held by Orion Health, we have adjusted for net cash and Orion Health's shareholding.

Table 4.5: Equity Valuation – PHM (\$ 000)

	Low	High
FY18 Revenue	107,160	107,160
Multiple	0.4x	0.8x
Enterprise value	42,864	85,728
Plus: net cash	18,188	18,188
Equity value	61,052	103,916
Orion Health shareholding	75.1%	75.1%
PHM equity held by Orion Health	45,850	78,041

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.

To value PHM, we have not applied a discount for lack of liquidity or control. We consider it appropriate to assess value including control premia for this entity. Orion Health holds 75.1% of the shares in PHM, which allows it to pass both ordinary and extraordinary resolutions. Furthermore, the remaining 24.9% shares are held by a single party, which makes it easier to negotiate the acquisition of the remaining shares (should Orion Health wish to do so) at fair value. However, we observe that if shareholders do not accept the Offer, and then object to the compulsory acquisition price, an independent expert may come to a different view and apply a discount for lack of liquidity or control.

4.5 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' enterprise value as being between \$3 million and \$5 million. Hospitals' pro-forma net operating assets are approximately \$5.6 million, which we have used to inform our adopted 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. This value takes account of Hospitals having \$5.6 million in net operating assets, which is predominantly trade and other receivables; however, it also takes into account that there would be cost to a wind-down process.

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.

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 and FY19 Forecasts
- Rhapsody FY19 Forecast
- Capital IQ
- Orion Health share register as at 7 February 2019
- A draft version of the Target Company Statement
- Financial statements and announcements for the comparable companies and Orion Health
- 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-readinesshospitals-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.

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 Offer. 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 Offer 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.

Table A4.1: Comparable Listed Company Multiples

Company	Head Office	Revenue (\$ million)	Revenue growth ⁶	EBITDA margin	Forecast revenue multiples	Forecast EBITDA multiples
Cerner Corporation	USA	7,925	7%	22.5%	3.1x	10.6x
Allscripts	USA	2,668	5%	19.2%	1.9x	10.1x
CompuGroup Medical	Germany	1,230	5%	24.7%	3.7x	13.8x
Omniceil	USA	1,162	11%	12.2%	3.5x	20.1x
HMS Holdings	USA	770	12%	19.2%	4.5x	17.5x
NextGen Healthcare	USA	753	4%	8.4%	2.1x	12.9x
Inovalon Holdings	USA	664	15%	29.8%	5.5x	18.4x
CPS	USA	417	4%	15.9%	1.7x	11.0x
HealthStream	USA	366	3%	11.4%	2.8x	15.8x
EMIS Group	UK	306	5%	26.0%	3.3x	12.6x
Medical Transcription...	USA	47	31%	9.1%	1.0x	11.1x
Medasys	France	39	12%	22.6%	1.2x	5.4x
Streamline Health	USA	36	(3%)	(2.8%)	1.5x	14.7x
Median		664	6.6%	19.2%	2.8x	12.9x

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 15% 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.

⁶ 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.



NextGen Healthcare

NextGen Healthcare 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. NextGen Healthcare was previously known as Quality Systems and 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 Table 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.

Table A4.2: Comparable Transaction Multiples

Date	Target Company	Acquiring Company	Target Location	Target Revenue (NZD\$ million)	Historical revenue multiples	Historical EBITDA Multiples
Feb 2019	athenahealth	Elliott Mgmt. Corp.	USA	1,900	4.3x	21.3x
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 acquisition was completed on 11 February 2019.

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

Table 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	25.6%	17.9%	104.5	4.2x	13.9x
Vista Group International	NZ	22.0%	17.9%	106.6	4.9x	21.0x
Bravura Solutions	AUS	18.2%	10.9%	232.4	3.8x	20.6x
Hansen Technologies	AUS	18.8%	8.7%	242.1	3.1x	13.1x
Class	AUS	38.2%	12.2%	36.7	4.0x	8.6x
Infomedia	AUS	22.3%	8.3%	76.5	4.7x	10.8x
Integrated Research	AUS	27.8%	6.5%	95.7	4.0x	10.4x
3P Learning	AUS	20.9%	7.0%	55.1	2.3x	6.8x
Isentia Group	AUS	14.5%	(4.6%)	143.9	0.9x	4.5x
Median		22.0%	8.7%	105.6	4.0x	10.8x

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
EBITDA	Earnings Before Interest, Tax, Depreciation, and Amortisation
EHR	Electronic Health Record
FTE	Full Time Employee
FY	Financial Year
Grafton	Grafton Health Holdings Limited
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
Lock-Up Agreements	Parties to the Lock-Up Agreements together owned 93.46% of the Orion Health Shares
NZD	New Zealand Dollar
Obamacare	Affordable Care Act
Offer	Offer by Grafton to acquire all Orion Health Shares at \$1.224 per share
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
RaaS	Rhapsody as a Service
RSU	Restricted stock units
SaaS	Software as a Service
Shares	Fully paid ordinary shares
Share Buyback	A buyback of Orion Health Shares that was completed at a price of \$1.224
Solution Group	Three business units in which Orion Health has an investment (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