CLEARBRIDGE HEALTH LIMITED
(Company Registration No. 201001436C)
(the "**Company**")

RESPONSE TO QUESTIONS RECEIVED FROM SHAREHOLDERS AND SIAS PRIOR TO THE COMPANY'S ANNUAL GENERAL MEETING

The board of directors (the "**Board**" or the "**Directors**") of Clearbridge Health Limited (the "**Company**" and together with its subsidiaries, the "**Group**") wishes to address questions received from shareholders of the Company and the Securities Investors Association (Singapore) ("**SIAS**") prior to the upcoming annual general meeting for its financial year ended 31 December 2019 to be held on 29 June 2020 at 10.00 a.m. by way of electronic means.

Questions from shareholders

Q1. Can you update us the distribution market and volume for testing kit?

The Company believes that the market and volume information for the COVID-19 Rapid Test Kits is commercially sensitive. Given the current COVID-19 situation, the market for COVID-19 test kits is competitive with a range of test kits offered by competitors. Providing such updates may have a negative impact on the competitive advantage of the Company.

We seek shareholders' kind understanding that the Company is unable to disclose such information due to the sensitive nature of the information.

Q2. What is the impact of the court case to company?

The Group is currently involved in a civil suit filed by PT Tirta Medika Nusantara ("**TMN**"), an existing shareholder of an indirect subsidiary, PT Tirta Medika Jaya ("**TMJ**"), against, among others (1) Clearbridge Medical Asia Pte. Ltd. ("**CBMA**"), a wholly-owned subsidiary of the company, and (2) TMJ.

As announced in the announcement dated 31 May 2020, TMN is seeking, among others, (1) the Court's declaration that a certain notarial deed has been made unlawfully and consequently (2) damages of IDR1.06 trillion (approximately S$102 million). No substantiation has been provided by TMN on how this claim for IDR1.06 trillion has been derived.

Accordingly, the Group is unable to ascertain the basis of TMN's claim and its impact on the financial performance. Nonetheless, the operations at TMJ remain unaffected.

Questions from SIAS

Q1. In the chairman's letter and in the CEO's message, it was highlighted that the group has had success in the past two years with its EBITDA-focused strategy. The group recognized revenue of $21.52 million in FY2019, up from $6.14 million in FY2018.

As noted in the Operations & Financial review, the group's adjusted EBITDA for full year of FY2019 narrowed to a loss of $(1.11) million in FY2019. In fact, adjusted EBITDA excludes the non-recurring item such as fair value losses/gains on other investments, associate and other derivative financial instruments, fair value adjustments on contingent consideration, non-recurring expenses, share-based payment as well as foreign exchange loss/gain.

As seen from the Consolidated statement of comprehensive income, loss for the year was $(11.54) million, an improvement from the loss of $(18.89) million in FY2018. Total losses for the two years add up to more than $(30.4) million. Net cash flows used in operating activities were $(10.2) million and $(8.6) million in FY2018 and FY2019 respectively.

The adjusted EBITDA and the loss for the year figures differ by as much as $10.4 million.

(i) Can management help shareholders understand if the current way of growing the business using a EBITDA-focus is a sustainable way to run the group?

At the current stage of growth, the management believes that an EBITDA-focused strategy is appropriate as cash flow generation is a key feature of a sustainable business and EBITDA is a widely-used proxy for cash flow.

As the Group's adjusted EBITDA losses narrowed by 81.9%, from S$(6.12) million in FY2018 to S$(1.11) million in FY2019, the Group believes that it is on the right track to long term sustainability.

Further, the management is of view that net profit or loss for any particular financial year might not provide meaningful insights to the fundamental performance and prospects of the Group as it comprises fair value adjustments, non-recurring expenses, share-based payments. These items are either non-cash or non-recurring in nature.

(ii) Would the Company also elaborate further on the cash flow generative ability of its major operations?

Generally, the major operations of the Group are generating positive operating cash flow. Additionally, they do not currently require significant capital expenditure as the Group's businesses tend to be asset light with low levels of debt. Since FY2018, the Group's cash flows from operating activities had improved significantly. As disclosed in our financial and business update for the first quarter ended 31 March 2020 which was released on SGXNET on 15 May 2020, net cash flows generated from operating activities was approximately S$0.9 million for the first quarter ended 31 March 2020 ("**1Q2020**") compared to net cash flows used in operating activities of approximately S$(2.4) million for 1Q2019.

(iii) If the management is constantly fund-raising, how much attention does management give to running the core operations? What is the level of influence and control over its main operating subsidiaries?

The Company only seeks to raise capital when there are opportunities to grow its business.

The Group has a corporate development team, which focuses on non-operational aspects of the Group's activities such as mergers and acquisitions as well as fund-raising, while the management of the core operations are delegated to dedicated managers, both in Singapore and overseas.

The Company endeavors to maintain a lean corporate development team and prefers to invest in human resources at the operating level, while outsourcing specialist skills for corporate actions as they are non-core in sustaining value creation over the long term.

We maintain close oversight of our operating subsidiaries and works closely with the leadership of the operating subsidiaries in all respects, including implementation of internal controls and appointing our senior management to the board of directors of the operating subsidiaries.

Q2. The group has grown rapidly via acquisitions since its listing on the SGX-ST in December 2017. As noted in the Report on the audit of the financial statements, the “Impairment assessment of goodwill” is a key audit matter (KAM) highlighted by the independent auditor (page 58).

Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, as at 31 December 2019, the group recorded goodwill amounted to $32.1 million. This represents a third of the group’s total assets and nearly half of the group’s non-current assets on the consolidated statement of financial position. The goodwill associated with medical clinics/centres amounted to $21.4 million and the goodwill related to healthcare systems totaled $10.7 million as at 31 December 2019. In particular, the increase in goodwill of $9.81 million in the year relates to the acquisition of IGM Labs in May 2019 and 9 dental clinics in August 2019.

For example, in the acquisition of the nine dental clinics operating under “Dental Focus”, the group would recognise provisional goodwill of $5.17 million out of the consideration of $5.3 million.

(i) What guidance has the board given to management as the group carries out its acquisitions? Specifically, how does the group maintain prudence and acquire companies/businesses at fair prices without overpaying for aggressive assumptions in its valuation models?

The Group benefits from a diverse Board which comprises individuals with background in business, law, accounting, and corporate finance. As the Group goes through the target evaluation and subsequently, the acquisition process, the Board provides guidance on several aspects including business considerations, transaction structure, valuation, and risk management.

The Group exercises prudence in determining valuation to ensure that it does not overpay for an acquisition target. In doing so, the Group engages third party advisors to perform the necessary due diligence. The outcome of the due diligence activities forms part of the valuation model and decision-making process. Valuation of targets are also compared to valuation multiples of comparable transactions and companies.

Where necessary the acquisition is structured with contingent payments, based on future performance, so as to mitigate the risk of over-valuation for the target.

Related to the acquisition of the 65% equity interest in Clearbridge Medical Philippines, the fair value of the contingent consideration as at 31 December 2019 decreased from $155,000 to S$84,000.

In addition, related to the acquisition of the 85% equity interest in Medic Laser Private Limited (“MLPL”) and Medic Surgical Private Limited (“MSPL”), the fair value of the contingent consideration as at 31 December 2019 decreased from S$2,739,000 to S$953,000.

For the 55% equity interest in PT Tirta Medika Jaya (“TMJ”), the fair value of the contingent consideration decreased from S$785,000 to Nil.

(ii) Would the decreases in fair value of the contingent consideration mean that the target companies/businesses are performing at below management’s expectations?

A decrease in the fair value of contingent consideration does not necessarily mean that the financial performance of the target did not meet our expectations.

In certain transactions, we may use contingent consideration to bridge the vendor's and the Company's expectations in terms of valuation which is, in turn, tied to financial performance of the target. Hence a decrease in contingent consideration could mean that the target did not achieve the financial performance that the vendor expected resulting in a decrease in consideration payable to the vendor. But such financial performance might have met or even exceeded our expectations.

A decrease in the fair value of the contingent consideration could also be due to such performance targets being met and contingent payments paid, resulting in a decrease in the contingent consideration.

(iii) How is management structuring the transactions to ensure that the interests of the vendors are aligned with that of the company in the long term?

The Company always seeks to align the interests of the vendors and business partners with its goals. In addition to contingent payments, we seek to align the post-acquisition business objectives and plans prior to completion of the acquisition.

Additionally, we seek to identify revenue and cost synergies early in the acquisition process and seek to realise such value during the post-acquisition integration process.

Where necessary, the management structures contingent payments subject to meeting pre-determined objectives to bridge the difference in expectation in valuation, which may also align business objectives in the medium term.

We also encourage vendors to retain significant minority interest post-acquisition which incentivizes the vendors to continue growing the businesses for the long term.

(iv) In addition, the group has also commenced legal proceedings against former directors of TMJ. What is the experience of the board in carrying out due diligence? How does the group select its partners/vendors to ensure that the acquisition will turn out to be successful?

As mentioned, the Group benefits from a Board which comprises individuals with background in business, law, accounting, and corporate finance. Further, where appropriate, the Board may also engage third party advisors to perform due diligence. In selecting potential partners/vendors, we consider a range of factors such as prospects of the target business, potential synergies between the target business and our existing businesses as well as the role of the target business in our overall strategic roadmap.

Q3. As disclosed in Note 35 (page 124 – Capital risk management), the group is required under the terms of its borrowing facilities to maintain a total debt-to-equity ratio not exceeding 50%.

As at 31 December 2019, the group has equity attributable to owners of the company of $50.3 million and interest-bearing borrowings of $21.6 million. The total debt to total equity ratio stood at 43.0%.

In 2019, the group recorded a loss of $(11.54) million in FY2019 as compared to a loss of $(18.89) million in FY2018.

(i) If the group continues to incur losses, the total debt-to-equity ratio may exceed 50% due to a smaller equity base. In that case, the group would probably breach the loan covenants. Can management clarify on the loan covenants and what would happen as a result of a failure to meet the loan covenants?

The loan covenant was imposed by a financial institution which provided a term loan to finance the acquisitions completed in FY2018. In the event that the loan covenant is breached, the financial institution shall have the right to demand immediate repayment of the loan.

The Group's debt-to-equity ratio has decreased from approximately 43% as at 31 December 2019 to approximately 35% as at 31 March 2020 due to improved financial performance.

Additionally, in April and May 2020, an aggregate principal amount of approximately S$2.7 million of convertible bonds were converted to ordinary shares, which reduced the debt obligations and increased the equity of the Group, which in turn, further reduced the debt-to equity ratio.

Notwithstanding the above, the management continues to closely monitor such financial ratios and appropriate actions are taken to prevent a breach of the loan covenant.

(ii) For a company that is on an aggressive acquisition strategy, has the board evaluated if it has the optimal capital structure and balance sheet strength to support its growth via acquisition?

The Board envisages that the Group's capital structure would change from time to time as it continues to grow. The Board believes an optimal capital structure comprises a mix of debt and equity, to achieve an optimal cost of capital. In that respect the Board actively monitors its debt levels, taking into account internal and external factors including cash flows generated from the businesses, existing cash position and interest rates environment.

Sources and availability of financing are also taken into account before acquisitions are made to maintain appropriate financial stability.

BY ORDER OF THE BOARD

Yee Pinh Jeremy
Chief Executive Officer and Executive Director

25 June 2020

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*This announcement has been prepared by the Company and has been reviewed by the Company's sponsor, United Overseas Bank Limited (the "**Sponsor**"), for compliance with Rules 226(2)(b) and 753(2) of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") Listing Manual Section B: Rules of Catalist. This announcement has not been examined or approved by the SGX-ST. The SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement. The contact person for the Sponsor is Mr Chia Beng Kwan, Senior Director, Equity Capital Markets, who can be contacted at 80 Raffles Place, #03-03 UOB Plaza 1, Singapore 048624, telephone: +65 6533 9898.*