

Dear Shareholders of Lenmed Investments Ltd

Introduction

This is the seventh newsletter to shareholders issued in line with our commitment to communicate with shareholders. This is specific to matters we expect might be addressed at the AGM.

Dividends

During the board meeting held in May 2023 and following the approval of the audited financial statements, the board approved and declared a dividend of 4.22 cents per share which was paid on 6 July 2023. This dividend is an increase of 20,5% on the prior year's dividend and in line with our dividend policy of declaring a dividend of no less than 10% of headline earnings attributable to shareholders.

Publication of financial results

A pleasing and strong set of results for the financial year ended on 28 February 2023 ("FY23"), were released during June 2023, with a well-attended results presentation held on the 5th of July 2023. Some of the highlights are:

- Revenue increased by 17% to marginally below R4 billion.
- EBITDA increased by 19% to R635 million at a margin of 15,9%;
- Total assets increased by 18,5% to R5,5 billion;
- Net asset value increased by 14,74% to R2,79 billion, or R3,93 per share;
- Headline Earnings decreased by 4%, primarily because our Mozambique business has fully utilized its assessed loss, and now pays tax at 32% of profits, compared to a minimal tax charge in the prior period.
- Net debt stands at 2.04 times EBITDA compared to 1,83 times in FY22 as a result of the acquisition of additional assets. There is considerable headroom available to fund our continued growth strategy.

Growth

Management and the board have consulted with professional advisors over several years to identify the optimum methods of unlocking value for shareholders. The consensus remains that the best results will be achieved from building the critical mass of the company and introducing additional shareholder investment to levels where we could seek a listing on a recognised stock exchange. Growth, as a means of improving and unlocking shareholder value, is therefore at the core of our strategy. As is set out in the AFS, we continue to identify and acquire commercially sound and attractive opportunities, and to enhance the returns on our core business. This is being achieved through:

- growing utilization;
- focusing on specialization in high complexity disciplines and centres of excellence;
- significant development and implementation of digitalization into our business;

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- embarking on programs of complementary investments which are likely to provide exciting future growth, diversification and sustainability.

Apart from the post year-end acquisitions of a 60% shareholding in Beira Private Hospital Limitada in Mozambique and, subject to the fulfilment of conditions, up to 100% of MooiMed Operating Company (Pty) Ltd (“MooiMed”), an 87-bed acute private hospital in Potchefstroom, management has a number of exciting organic and acquisitive growth projects planned, which will provide further potential for profit and margin uplift over the next 24 months.

The board believes that it will take an extraordinary effort from the management to achieve the growth in the business to attract a significant investor to create a liquidity event and put the company in a position to list. Such events would be unprecedented, might never be repeated and should create significant wealth for the shareholders.

Accordingly, the board is of the opinion that management should enjoy an incentive and reward for such achievement and has proposed the establishment of a Liquidity Alignment Plan at the forthcoming AGM.

Annual General Meeting

The 41st annual general meeting (“AGM”) has been scheduled for Thursday 3 August 2023 at 15:00. In addition to the regular business of the AGM, we have asked shareholders to consider the approval of a liquidity alignment plan (“LAP”) for executive management, excluding the executive chairman (refer special resolution number 4 and our comments above). A comprehensive presentation of the workings of the LAP is planned for the AGM with sufficient time for questions and answers. The board would like to share some of this information with shareholders in anticipation of the AGM.

Liquidity Alignment Plan

The board sought professional advice on such a program and appointed an international law firm, regarded as the pre-eminent expert in the structuring of incentive plans, to advise it in this regard. The structure and terms of the proposed LAP are common to those used internationally, in cases where shareholders expect above average returns and require a liquidity event (or series of events) to unlock shareholder value. The structure and terms proposed by advisors approved by the board and contained in the LAP, are typical of what are/have been used by numerous companies, including some of Lenmed’s peers and other private equity funded businesses.

The LAP proposed will allow the existing and/or future members of executive management (excluding the executive chairman) to participate in the value created above minimum hurdle rates achieved over a base price of R2,50 per share and on the achievement of certain trigger or liquidity events within a 10-year period. For the sake of clarity, payment will only be made in this respect if an actual liquidity event is created, and shareholders have the opportunity to monetize their investment in Lenmed.

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For illustrative purposes, the table below attempts to assist shareholders in determining the potential cost of the LAP under scenarios depicting a liquidity event at the end of year 5 and at various exit prices (for example a listing price) ranging between R4,00 and R6 per share. In the calculation of the total returns to shareholders in the three scenarios below, it was assumed that the dividend is increased by 10% per year over the 5-year term. The total return for shareholders (IRR per table below) is calculated with reference to the current OTC trading price of R1,50 per share.

Price (R per share) in 5 years	Value created for shareholders (R'mil)	IRR achieved from R1,50	Management participation (R'mil)	Management % of value created
R4,00	2 005	25,0%	-	0,0%
R4,21	2 154	26,2%	-	0,0%
R5,00	2 681	30,4%	34	1,2%
R6,00	3 323	35,0%	102	3,0%

Management will only participate in the value created through a liquidity event (under the above set of assumptions) above a share price of R4,21 and after value in excess of R2,15 billion has been realised for shareholders - resulting in a 26,2% IRR for shareholders.

As is common market practice, the LAP will be in addition to management's current remuneration packages, which are currently made up of guaranteed remuneration, short term variable remuneration and long-term share appreciation rights. These remuneration packages are benchmarked to the market on a regular basis as disclosed in the Remuneration Report contained in the Annual Integrated Report.

We encourage shareholders to positively consider the approval of the LAP in support of our desire to realise tangible value for shareholders, at above average returns and over the shortest possible timeframe.

We look forward to engaging with you at the upcoming AGM on 3 August 2023.



Mike Meehan
Lead Independent Director
10 July 2023

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