# The debt equity stranglehold at Ascendis

*Perspectives: March 11th, 2021*

Ascendis Health was created from a flurry of acquisition activity and listed on the JSE late in 2013, when Aspen's PE multiple was 35. Continued acquisitions, share issuance, increased financial gearing and earnings momentum fuelled a tripling of the Ascendis share price to its peak in September 2016 at R29, when it traded hands at a PE multiple of 51.

The annual financial results to June 2020 clearly painted a grim reality. Net debt of R7,9bn and increasing rapidly, continued asset impairments, operating losses from continuing and discontinued operations, and an annual interest bill of R855mn.

Much was made in the course of 2020 and thereafter of a restructuring proposal involving asset sales, cost cuts and the reduction of debt. It turns out this was too little too late. The company published a terse announcement a few days ago on March 9th, involving a 'forbearance agreement', whereby the forbearance creditors - being the entities that lent money to Ascendis and their agents - agreed to the following: "*…the Group Recapitalisation will be implemented by way of the discharge of outstanding debt in exchange for interests in the Company's operating subsidiaries…*"

For any company saddled with excessive debt the available course of action is probably more or less limited to the following:

1. Raise money from shareholders by issuing new shares.
2. Raise money from debtholders by issuing new debt.
3. Sell the whole business.
4. Sell assets.
5. Cut costs.
6. Reduce net working capital.
7. Phone a friend.
8. Swap debt for equity.

9. File for some or other form of bankruptcy or closure.

For a variety of reasons, options 1 to 3 often prove impossible. Options 4 to 6 ranges between difficult to impossible and often prove to be too small to make enough of a difference.

This leaves only options 7 to 9, but unfortunately *none* of them are likely to prove favourable to minority shareholders. However, it is almost certain to turn into a lucrative payday for various forms of professional advisors to the company and its debtholders.

Chart: Ascendis Share Price 2013 – 2021 (*Source: Refinitiv*)

Our work continues…

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