Capitol's offer for Integral

Creating a leading provider of diagnostic imaging services in Australia

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1. Transaction overview

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Summary

Offer	● Capitol Health Limited ("**Capitol**") intention to launch an off-market takeover offer for Integral Diagnostics Limited ("**Integral**") ● 6.9 fully paid ordinary shares in Capitol ("**Capitol Shares**") and $0.36 cash for each ordinary voting share on issue in Integral ("**Integral share**") ("**Offer**") ● Subject to conditions summarised on page 17 ● Adam Smith Asset Management, Microequities Asset Management, Regal Funds Management and Wilson Asset Management have indicated their support for the Offer by entering into pre-bid acceptance agreements with Capitol pursuant to which they have collectively agreed to accept or procure the acceptance of 19.55% of Integral shares, in aggregate, into the Offer in the absence of a superior proposal
Value	● The Offer implies a value of $2.46[2] per Integral share, representing an Enterprise Value of 11.0x FY18 EBITDA[3] ● 30% premium to Integral's last closing price on 28 November 2017[2] ● 29% premium to Integral's IPO price on 21 October 2015 of $1.91
Highlights	✓ Creates one of Australia's leading providers of diagnostic imaging services through its combined network of highly complementary clinics and hospital sites ("**MergeCo**") ✓ MergeCo is expected to have underlying pro forma FY18 EBITDA of $64m and pro forma FY18 net debt of $70m[4] ✓ MergeCo is expected to deliver mid-teens earnings per share ("EPS") accretion in FY19 for Capitol shareholders[5] ✓ Strong balance sheet and free cash flow to support accelerated investment in growth including acquisitions ✓ Strong partnerships with high quality healthcare professionals to deliver best-in-class outcomes for patients / doctors ✓ Following consultation with MergeCo's Doctors and staff, MergeCo will be rebranded to reflect the creation of one of Australia's leading providers of diagnostic imaging

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1. *Regal Funds Management, in relation to 5.13% of Integral shares, together with an obligation to procure the acceptance of an additional 4.91% of Integral shares into the Offer. In addition to Adam Smith Asset Management (3.25%), Microequities Asset Management (2.00%), Wilson Asset Management (4.26%)*
2. *Based on a valuation of each Capitol Share of $0.305, being the close price on 28 November, the last trading day prior to the date of this announcement.*
3. *Equity Value is based on 145.0 million ordinary shares on issue, based on Integral's FY17 Annual Report. Integral FY18 net debt of $49.0 million and Integral unaudited underlying pro forma FY18 EBITDA of $37.0 million is based on analyst research following Integral's AGM on 22 November 2017.*
4. *MergeCo unaudited underlying pro forma FY18 EBITDA is based on analyst research for both Capitol ($22 million) and Integral ($37 million) following the AGMs on 22 November 2017 and is inclusive of $5.0 million of run-rate synergies. Capitol FY18 EBITDA has been reduced by $1.3 million to reflect the non-continuing contribution from the NSW assets, as per Capitol's AGM presentation released to the ASX on 22 November 2017. MergeCo pro forma FY18 net debt is based on analyst research for both Capitol ($39 million net cash) and Integral ($49 million net debt) following the AGMs on 22 November 2017 and includes $52.2 million of transaction funding and $8.0 million of anticipated transaction costs relating to the Offer.*
5. *Based on underlying NPAT for each company from analyst research post AGMs. Excludes one-off transaction and integration costs, and is based on $5.0 million of run-rate cost synergies on a fully diluted basis.*

Transaction background

CAPITOL HEALTH LIMITED	● ASX-listed leading provider of diagnostic imaging and related services, headquartered in Melbourne, with c.50 locations across Victoria ● Operational focus on delivering a community-based infrastructure for radiologists and related medical practitioners to deliver optimal, efficient, accurate healthcare service outcomes for patients ● $39m net cash following divestment of Capitol's NSW assets[1] ● Investment in diagnostic imaging artificial intelligence through Enlitic Inc. ("**Enlitic**") in the US[2] ● Recently entered the Chinese diagnostic imaging market through a Joint Venture with CITIC Pharmaceutical (Shenzhen) Co., Ltd ("**CITIC Pharmaceutical**") and Xiamen Zhouxin Medical Image Co., Ltd ("**Zhouxin**")[2]
integral DIAGNOSTICS	● Leading provider of medical imaging services in Victoria, Queensland and Western Australia ● Provides state of the art diagnostic services to patients and their referrers at 44 radiology clinics, including 12 hospital sites ● Employs some of the country's leading radiologists and nuclear medicine specialists in a medical leadership model that ensures quality patient care, service and access
Previous discussions with Integral	● Discussions between Capitol and Integral have been held on a number of occasions over the past year ● Integral has previously communicated its support for a combination of the two businesses and Capitol looks forward to discussing the merger with Integral and its shareholders

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Notes:

1. *Capitol pro forma FY18 cash balance is based on analyst research for Capitol post AGM on 22 November 2017.*
2. *Further detail contained on Capitol's investment in Enlitic Inc. and Joint Venture arrangements is contained in Capitol's AGM presentation on 22 November 2017.*

Reasons for Integral shareholders to accept

- The Offer represents a significant premium to Integral share trading levels (and a premium to the Integral IPO price)
- Cash component of the Offer provides Integral shareholders with liquidity for a portion of their interest in Integral shares
- The Offer provides Integral shareholders with exposure to MergeCo
- Ability to benefit from synergies generated by MergeCo
- Establishes one of Australia's leading providers of diagnostic imaging services, with a more diverse growth platform across modalities, geography, hospitals and community practices
- Exposure to diagnostic imaging artificial intelligence through Enlitic and the Chinese market through JV arrangements
- Integral shareholders will not have to pay stamp duty and may not have to pay brokerage in respect of the transfer of their Integral Shares under the Offer
- Integral shareholders may be eligible for CGT rollover relief in respect of the transfer of their Integral shares under the Offer

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Benefits to Integral Doctors and staff

- MergeCo will have a larger referral network providing greater revenue opportunities
- Doctors will be provided with additional options for continuing professional development and flexibility to operate across new regions
- The Offer provides Integral Doctors who accept the Offer with exposure to MergeCo
- Development of new centres of excellence (e.g. Imaging at Olympic Park)
- Doctor remuneration model to remain largely unchanged
- Escrowed Integral Shares held by Doctor shareholders who accept the Offer to be released from escrow

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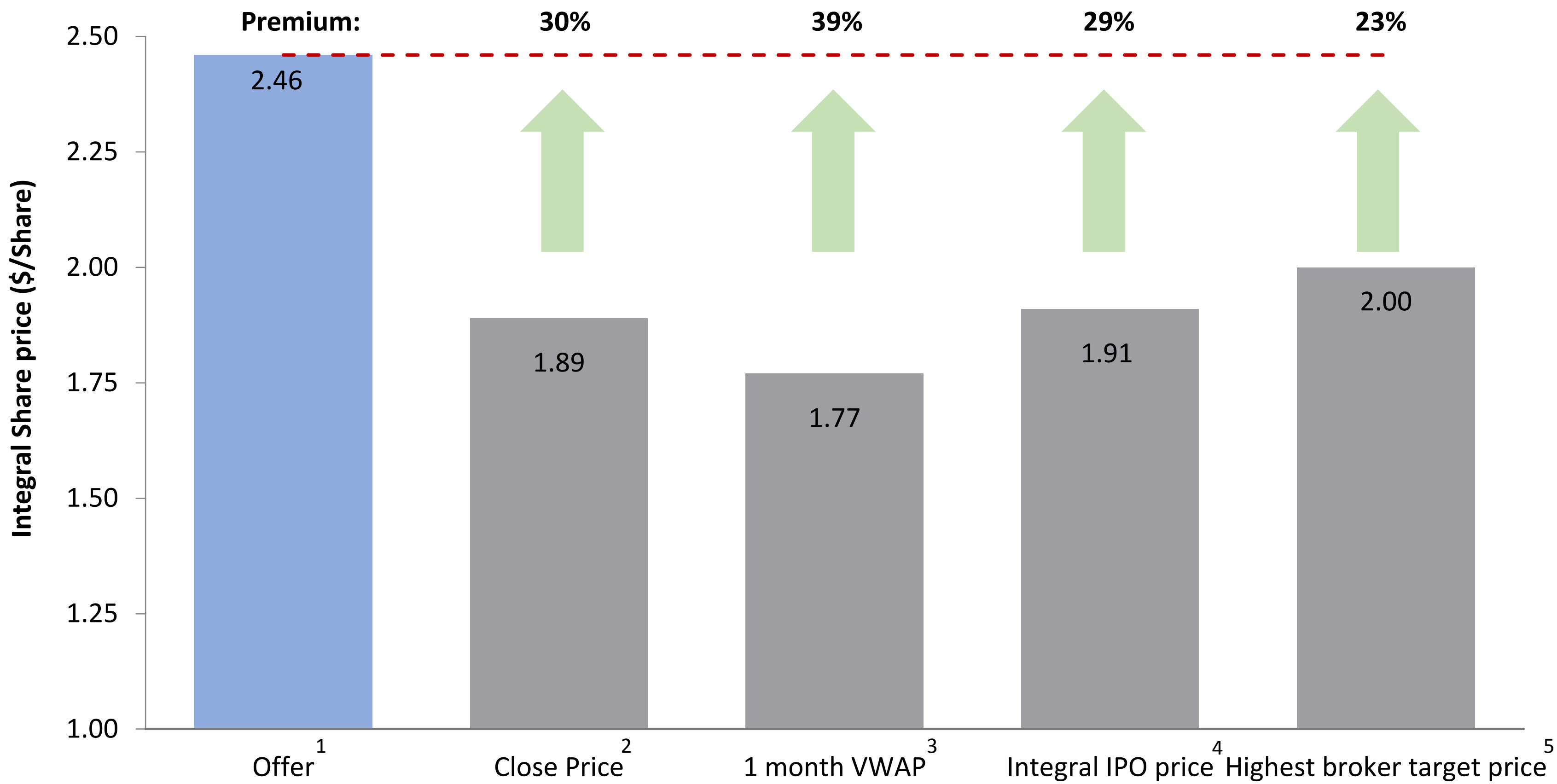
Offer value – strong premium



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Notes:

1. *Based on a valuation of each Capitol Share of $0.305, being the close price on 28 November, the last trading day prior to the date of this announcement.*
2. *Offer premium relative to the close price on 28 November 2017.*
3. *Offer premium relative to the 1 month VWAP.*
4. *Offer premium relative to the IPO price of on 21 October 2015.*
5. *Offer premium relative to the highest broker target price.*

2. MergeCo

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Transaction highlights

- Strong focus on doctor collaboration to deliver best in class clinical, operational and financial outcomes
- MergeCo network of over 70 locations across Victoria and over 20 across Queensland and Western Australia
- Strong platform to leverage the industry consolidation opportunity
- Mid-teens earnings per share accretion in FY19 for Capitol shareholders[1]
- Estimated annual pre-tax cost synergies of $5m[2]
- Underlying pro forma FY18 EBITDA of $64m and FY18 net debt of $70m[3]
- Strong balance sheet and free cash flow to support accelerated investment in growth
- Ability to leverage Capitol's investment in Enlitic and exposure to the Chinese diagnostic imaging market through

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Notes:

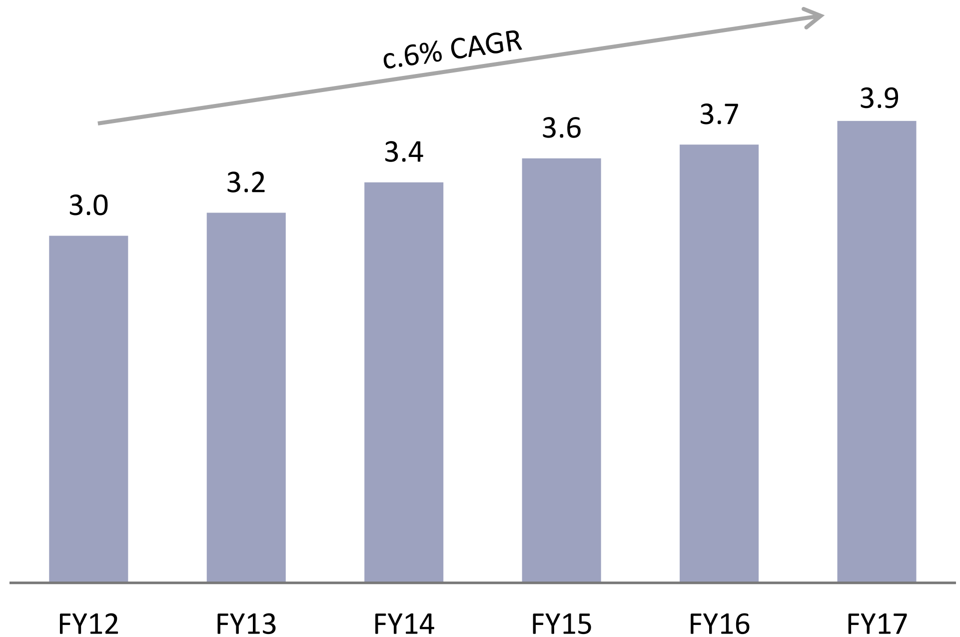
1. *Based on underlying NPAT for each company from analyst research post AGMs on 22 November 2017. Excludes one-off transaction and integration costs, and is based on $5.0 million of run-rate cost synergies on a fully diluted basis.*
2. *On a run-rate basis, and excluding one-off transaction and integration costs.*
3. *MergeCo unaudited underlying pro forma FY18 EBITDA is based on analyst research for both Capitol ($22 million) and Integral ($37 million) following the AGMs on 22 November 2017 and is inclusive of $5.0 million of run-rate synergies. Capitol FY18 EBITDA has been reduced by $1.3 million to reflect the non-continuing contribution from the NSW assets, as per Capitol's AGM presentation released to the ASX on 22 November 2017. MergeCo pro forma FY18 net debt is based on analyst research for both Capitol ($39 million net cash) and Integral ($49 million net debt) following the AGMs on 22 November 2017 and includes $52.2 million of transaction funding and $8.0 million of anticipated transaction costs relating to the Offer.*

Strong long-term fundamentals

Key drivers of industry growth

- ✓ **Ageing population**
- ✓ **Increasing demand for services from patients and referrers**
- ✓ **Increasing prevalence of chronic diseases**
- ✓ **Advancements in technologies for early diagnosis, screening and treatment**
- ✓ **Mix shift towards more complex, higher priced services**

Value of Diagnostic Imaging Services in Australia (A$bn)



Source: Department of Health - Medicare Statistics

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Combination overview

Financial metrics (A$m)	Capitol underlying[1]	Integral underlying[2]	Adjustments[3]	MergeCo underlying[4]
FY18 Revenue	115	187		302
FY18 EBITDA	22	37	5	64
FY18 *EBITDA margin*	18.8%	19.8%		21.1%
Pro-forma FY18 net debt/(cash)	(39)	49	60	70

Notes:

1. *Capitol income statement for FY18 has been derived from analyst research following Capitol's AGM on 22 November 2017.*
2. *Integral income statement for FY18 has been derived from analyst research following Integral's AGM on 22 November 2017.*
3. *Pro forma adjustments represent synergies of $5 million and incremental debt drawn as part of the transaction (including transaction costs) of $60 million.*

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Operational benefits

MergeCo

Complementary diagnostic imaging networks with an increased referral network

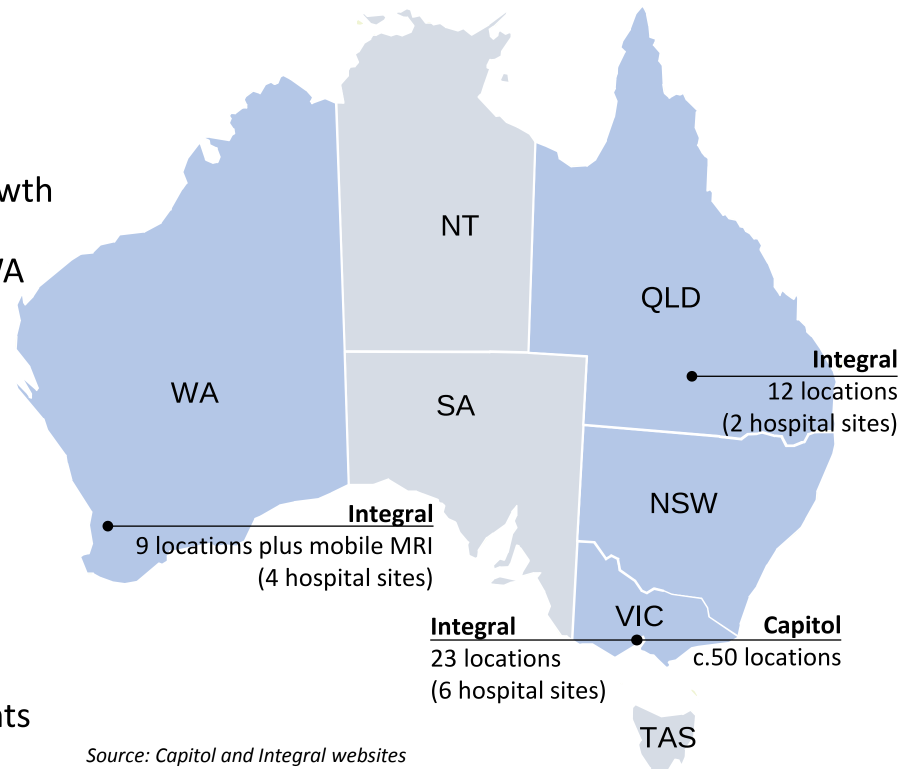
- Diversified geographic and clinical profile
- Capitol's metropolitan community clinics in key growth corridors complemented by Integral's regionally focused operations in VIC and strong positions in WA and QLD

Cost optimisation and efficiencies opportunities to deliver synergies of up to $5m per annum[1]

Ability to deliver national contracts

Strategic benefits including exposure to:

- The Chinese market through Capitol JV arrangements
- Emerging diagnostic imaging technologies



Source: Capitol and Integral websites

Notes:

1. *On a run-rate basis, and excluding one-off transaction and integration costs.*

Capital markets profile

- ✓ Greater equity market profile and liquidity
- ✓ Increased market capitalisation and free-float
- ✓ Potentially broader equity broker coverage
- ✓ Potential for future ASX300 index inclusion creating more relevance for institutional shareholders
- ✓ Improved access to capital to fund growth initiatives
- ✓ Attractive transaction currency for future acquisitions

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3. Further details

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Transaction terms and timetable

Overview	
Off-market takeover offer	Capitol has announced its intention to make a takeover offer for Integral in accordance with Chapter 6 of the Corporations Act 2001(Cth), comprising an offer to acquire all ordinary voting Integral Shares for consideration of 6.9 Capitol Shares and $0.36 cash for each Integral Share
Conditions	The Offer is subject conditions, including a 90% Minimum Acceptance Condition, Capitol obtaining all third party and regulatory approvals, no adverse regulatory action in respect of Integral, no Prescribed Occurrences, no Material Adverse Change, Integral continuing to conduct its business in the ordinary course (including not making any material acquisitions or disposals) and Integral maintaining material contracts, licences, registrations, certifications and accreditations

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Key risks

This section discusses some of the key risks associated with the Offer. The risks set out above are not listed in order of importance and do not necessarily constitute an exhaustive list of all risks involved with the Offer. There are also a number of general risks that may individually or in combination have a material adverse impact on Capitol or MergeCo and, therefore, are relevant. Additional risks that Capitol is unaware of, or that it currently considers to be immaterial, may also become important factors that adversely affect the future operating and financial performance of Capitol or MergeCo.

Issue of Capitol shares as consideration

- Integral Shareholders are being offered consideration under the Offer that consists of a specified number of Capitol Shares, rather than a number of Capitol Shares with a specified market value. As a result, the value of the consideration will fluctuate depending upon the market value of the Capitol Shares
- Furthermore, under the Offer, Capitol will issue a significant number of Capitol Shares. Some Integral Shareholders may not intend to continue to hold their Capitol Shares and may wish to sell them on ASX. There is a risk that if a significant number of Integral Shareholders seek to sell their Capitol Shares, this may adversely impact the price of Capitol Securities

Acquisition of less than 100% of Integral shares

- The Offer is conditional on Capitol becoming entitled to 90% or more of Integral Shares, and therefore being able to compulsorily acquire any remaining Integral Shares. While Capitol has no present intention to waive this condition, it is possible that Capitol will acquire less than 100% of Integral Shares under the Offer
- The impact of this will depend on the level of ownership that is ultimately acquired but, in any event, any minority interest in Integral may have an impact on MergeCo's capacity to integrate the businesses of the two groups and realise synergies from the acquisition of Integral
- Additionally, if Capitol does not ultimately hold 80% or more of the Integral Shares at the end of the Offer Period, Integral Shareholders who are Australian residents for income tax purposes and who would make a capital gain from the disposal of Integral Shares will be unable to elect for a rollover of that capital gain, resulting in a capital gain crystallising at the time of the sale of the Integral Shares

Integration risks

- There are risks that integration of the businesses of Capitol and Integral may take longer than expected and that anticipated benefits of that integration may be less than estimated. These risks include possible differences in the management culture of the two groups, inability to achieve synergy benefits and cost savings, and the potential loss of key personnel

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Key risks (cont.)

Termination of contracts

- Following the Takeover, a change in control of Integral will occur. It is possible that material contracts to which Integral is a party, such as Doctor Contracts and Hospital Contracts, may be subject to review or termination upon this change of control
- While Capitol is not aware of any counterparty that may wish to terminate a material contract, should any such contracts be terminated MergeCo would lose the benefit of the contract and may not be able to obtain similarly favourable terms upon entry into replacement arrangements (should replacement arrangements be available)

Healthcare industry risks

- Both Capitol and Integral operate in the healthcare industry and, accordingly, any investment in MergeCo will remain subject to the risks affecting that industry, including changes in government policies, uncertainties in relation to contract negotiations and renewals with hospitals, private health insurance funds, litigation, insurance risks and project development risks

Ability to Attract and Retain Key Personnel

- The businesses of Capitol and Integral, respectively, are reliant on the continued performance and expertise of key personnel, including radiologists. Specifically, a significant component of the revenues generated by Capitol and Integral, respectively, is dependent upon radiologists providing diagnostic imaging and related services to patients. There is a risk that, following the Takeover, MergeCo may fail to attract, retain or develop key employees or consultants (particularly radiologists), which may affect the development of MergeCo, its capacity to generate revenue and the cost structure of its business. This may, in turn, have an adverse impact on the financial performance, position or future prospects of MergeCo.

Competition

- The market for the provision of diagnostic imaging services in Australia is competitive and dynamic. Competitors, as yet unknown to Capitol or Integral, may emerge from time to time. The introduction of new competitors, or a more aggressive competitive response from existing competitors, may have an adverse impact on the operating performance of MergeCo following the Takeover. The operating costs of MergeCo may rise, and the prices that MergeCo is able to charge patients for its services may fall, in response to the actions of its competitors, which may restrict the ability of the MergeCo to compete profitably.

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