

ASX & MEDIA RELEASE

Integral Diagnostics reports 40.7% increase in Operating NPAT, Acquisition of Imaging Queensland and \$72 million Entitlement Offer

26 August 2019, Melbourne: Integral Diagnostics Limited (ASX: IDX) announces its results for the year ended 30 June 2019 (**FY19**).

Group highlights

- Key financial measures for the full year ended 30 June 2019 are higher than the prior corresponding period (**FY18**), including:
 - Operating revenue +22.9% to \$231.0 million
 - Operating EBITDA +39.1% to \$53.0 million, with a margin of 23.0% (FY18: 20.3%)
 - Operating NPAT +40.7% to \$25.6 million
 - Operating EPS +29.9% to 16.3 cents
 - Operating NPAT +40.7% to \$25.6 million; statutory NPAT of \$21.0 million after customer contract amortisation, transaction and other costs of \$4.6 million
 - Free cash flow of \$40.4 million with net debt of \$119.0 million
- Final dividend (fully franked) of 5.0 cents per share payable on 2 October 2019 which brings the total FY19 dividends to 10c per share, a 25% increase on FY18
- Announcement of acquisition of Imaging Queensland and a \$72 million Entitlement Offer – expected to deliver low single digit pro forma FY19 adjusted EPS accretion before synergies and integration costs¹

Key financial measures

\$ million	FY19	FY18	Change		
Profitability					
Operating revenue ²	231.0	188.0	43.0	22.9%	▲
Operating EBITDA ³	53.0	38.1	14.9	39.1%	▲
EBITDA from Operations (%)	23.0%	20.3%	2.7%	13.3%	▲
Operating EBIT	42.0	28.5	13.5	47.4%	▲
Operating NPAT	25.6	18.2	7.4	40.7%	▲
Operating EPS (cents)	16.3	12.5	3.8	29.9%	▲
Statutory NPAT	21.0	15.1	5.9	39.1%	▲

¹ FY19A pro forma EPS accretion on an NPAT basis assumes the Acquisition was effective from 1 July 2018, that IQ's EBITDA is adjusted as outlined in footnote 6 and that IDX's depreciation policies had been in place during FY19. The Acquisition is accretive on a pro forma FY19 basis both before and after application of the adjustment contemplated in AASB 133 under which EPS is adjusted to reflect the bonus element of the Entitlement Offer.

² Represents operating revenue and excludes other revenue in FY19 of \$1.4m (FY18 \$1.4m).

³ One-off costs include customer contract amortisation, transaction and other costs of \$5.5m pre-tax (\$4.6m post-tax). FY18 includes takeover response costs and transaction costs of \$3.9m pre-tax (\$3.1m post-tax).

\$ million	FY19	FY18	Change		
Cashflow & Capital Management					
Free cash flow	40.4	30.7	9.7	31.6%	▲
Cash flow conversation, net of replacement capex (%)	97%	103.6%	(6.6%)	(6.4%)	
Dividends declared per share (cents)	10.0	8.0	2.0	25.0%	▲
Net debt	119.0	44.9	74.1	165.0%	
Net debt / EBITDA	2.2x	1.2x	1.0		
Equity	127.2	93.4	33.8	36.2	

IDX achieved strong financial performance and successfully integrated acquisitions in New Zealand and Geelong during FY19. The average fee per exam increased by 3.3% driven by the continuing move to higher end modalities. In addition, the result has benefitted from strong organic revenue growth from new sites and services.

IDX also achieved an industry leading EBITDA operating margin of 23.0% (FY18 20.3%) despite making additional investments in technology and recruitment and retention of radiologists.

IDX continues to provide patients and referrers with excellence in diagnostic imaging across Australia and New Zealand.

Dividend

A fully franked FY19 final dividend of 5c per share has been declared (FY18: 4c per share). The increase in the FY19 final dividend on the prior corresponding period reflects the improved performance of the business during the 6 months to 30 June 2019. Key dates for the full year dividend are:

Record date	2 September 2019
Payment date	2 October 2019

The final dividend of 5c per share brings the total FY19 dividends to 10c per share, a 25% increase on the total FY18 dividend of 8c per share.

IDX's Chair, Helen Kurincic said:

"The full year results reflect the successful execution of our strategy and management's ability to leverage that platform to grow the business organically as well as successfully integrate significant acquisitions to provide immediate and sustainable improved returns to shareholders".

Acquisition of Imaging Queensland

IDX has entered into binding agreements to acquire Imaging Queensland (IQ) (the **Acquisition**).

IQ is a scale provider of comprehensive diagnostic imaging services primarily operating in major centres along the Queensland coast, with a high quality, multi-brand portfolio of 18 radiology sites⁴.

IQ is both a strong clinical fit and strategically aligned with IDX. The Acquisition is compelling for IDX:

- High-quality footprint in a growing region where IDX is not currently operating, including the Sunshine Coast, Rockhampton and Gladstone
- Experienced team of 16 long-tenured radiologists

⁴ Inclusive of IQ's 16 operational sites (as at 30 June 2019) and new sites at Deception Bay and Bli Bli (opened July 2019).

- Provides radiology services at 8 hospitals, and holds 3 full and 2 partial MRI licences⁵
- Pro forma FY19 adjusted EBITDA of \$11.9 million⁶
- Numerous growth initiatives underway including new and relocated sites, and plans to improve the proportion of high value modality volumes
- Satisfies IDX's investment criteria of:
 - attractive financial metrics; and
 - multiple future growth avenues

The Acquisition is expected to complete in November 2019, subject to satisfaction of conditions precedent, including those described in the Acquisition and Entitlement Offer Investor Presentation released to the ASX today.

Dr Ian Kadish, MD and CEO of Integral Diagnostics, commented:

"We are delighted to incorporate IQ into Integral Diagnostics. The group's radiologists and staff represent a strong strategic and cultural fit with IDX's doctor led operating model. The IQ group adds real value to IDX's already market leading model and it significantly extends our presence in the Queensland market. We extend a very warm welcome to the IQ doctors and staff and look forward to partnering with them to further grow our combined business."

Dr Siavash Es'haghi, Founder and Managing Director of IQ, also commented:

"We are extremely pleased to be partnering with IDX who we consider to be a leading provider of specialist radiology services in Australia and New Zealand. Together we will be able to realise multiple synergies across our practices and release benefits for our patients and referrers."

⁵ Full MRI licences currently at Gladstone (recently awarded), Rockhampton (owned by CQHHS and operated by IQ) and Sunshine Coast University Private Hospital. Partial licences at Maroochydore and Nambour.

⁶ IQ's FY19 EBITDA reflects FY19 unaudited EBITDA adjusted for items including one-off expenses incurred during FY19, revenue impairments, revised arrangements with IQ's radiologist workforce and partial run-rating of 3 of the Growth Sites.

Acquisition funding

IDX has agreed to acquire IQ for ~\$104 million⁷ (**Upfront Consideration**) payable 70% in cash and 30% in escrowed new ordinary IDX shares⁸, comprising:

- \$96 million⁹ representing a multiple of IQ's pro forma adjusted FY19 EBITDA of \$11.9 million¹⁰; and
- an additional payment of ~\$8.1 million for IQ's recent and proposed capex relating to Growth Sites¹¹ with operations and earnings that are expected to ramp up in FY20 and beyond (**Growth Capex Adjustment**)¹²
 - Growth Capex Adjustment to reduce any payments due under Earn Out A

The Upfront Consideration will be funded by:

- fully underwritten 1 for 5.91 pro rata accelerated non-renounceable entitlement offer to raise \$72 million, offered at \$2.71 per new ordinary IDX share (**Entitlement Offer**);
- issuing ~\$26.2 million of new ordinary IDX shares to the IQ vendors¹³ at completion of the Acquisition (**Scrip Consideration**), with those shares to be subject to escrow arrangements¹⁴; and
- \$12.1 million of debt.

The Acquisition is expected to deliver low single digit pro forma adjusted FY19 EPS accretion before synergies and integration costs.¹⁵

IDX's net debt / FY19 pro forma adjusted EBITDA at completion of the Acquisition is expected to be ~1.9x, which provides IDX with additional balance sheet flexibility to support continued investment in organic and inorganic growth initiatives.

The Acquisition is structured to incentivise IQ vendors to remain significantly invested in the combined group through remuneration and bonus schemes in their employment arrangements, as well as their ownership of IDX shares.

Subject to IQ achieving EBITDA performance hurdles, additional earn outs are potentially payable to the IQ vendors under two distinct performance-based earn out limbs for CY20 (**Earn Out A**) and CY21-CY24 (**Earn Out B**) (together, the **Earn Outs**). Aggregate payments under the Earn Outs are expected to be less than \$12 million and are spread approximately equally between Earn Out A and Earn Out B.

If the Acquisition does not complete, IDX will either return the Entitlement Offer proceeds, keep them in reserve for acquisitions and / or pay down debt.

Further detail on the Earn Outs is outlined in the Acquisition and Entitlement Offer Investor

⁷ Upfront Consideration includes the Growth Capex Adjustment, which will be offset against Earn Out A if IQ's CY20 EBITDA exceeds the requisite hurdle rate of \$12.9m.

⁸ To be issued at the Entitlement Offer price. Subject to certain limited exceptions, the release of escrowed shares occurs in equal tranches on the third, fourth and fifth anniversaries of the share issuance date.

⁹ Purchase price is on a cash-free and debt-free basis and will be adjusted for the value of cash, debt and debt-like items at completion of the Acquisition.

¹⁰ See footnote 6.

¹¹ Growth Sites refers to 2 relocated clinics (Gladstone and Nambour), 1 new growth initiative (Integrated Pain Management) and 2 new clinics (Bli Bli and Deception Bay) into which Imaging Queensland made substantial investments during FY19 and is expected to make further investment before Completion. IQ is also investing in Rockhampton Hospital with the term proposed to be extended for a further 5 years. Refer to page 12 of the Acquisition and Entitlement Offer Investor Presentation released to the ASX today for further detail.

¹² The Growth Capex Adjustment will be deducted from future performance-based earn outs under the terms of the Acquisition if those earn outs become payable by IDX – please see the Capital Raising Investor Presentation released to the ASX today for further details.

¹³ Shares issued as Scrip Consideration will be issued at the same price as new IDX shares issued under the Entitlement Offer.

¹⁴ See footnote 8.

¹⁵ See footnote 1 and 6.

Presentation released to ASX today.

Macquarie Capital (Australia) Limited is financial advisor to IDX on the Acquisition and will act as Lead Manager and Underwriter to the Entitlement Offer.

Entitlement Offer

IDX is undertaking a \$72 million Entitlement Offer at an offer price of \$2.71 (**Offer Price**) per new ordinary IDX share (**New Shares**). The Offer Price represents:

- 11.0% discount to the dividend-adjusted theoretical ex-rights price of A\$3.04 (**TERP**)¹⁶; and
- 12.6% discount to the dividend-adjusted last close price on Friday, 23 August 2019 of \$3.10¹⁷.

Approximately 26.6 million New Shares will be issued under the Entitlement Offer. Each New Share issued under the Entitlement Offer will rank equally with existing IDX shares on issue but will be issued after the dividend record date and will not be eligible for the final FY19 dividend of 5 cents per share. IDX will, upon issue of the New Shares, seek quotation of the New Shares on ASX.

Entitlement Offer details and key dates

Institutional Entitlement Offer

Eligible institutional shareholders will be invited to participate in the institutional component of the Entitlement Offer (**Institutional Entitlement Offer**), which is being conducted today (Monday, 26 August 2019). Eligible institutional shareholders can choose to take up all, part or none of their entitlement.

Institutional entitlements that eligible institutional shareholders do not take up, and institutional entitlements that would otherwise have been offered to ineligible institutional shareholders, will be offered to eligible institutional shareholders who apply for New Shares in excess of their entitlement, as well as to certain other eligible institutional investors, through an institutional shortfall bookbuild to be conducted concurrently with the Institutional Entitlement Offer.

Retail Entitlement Offer

Eligible retail shareholders will be invited to participate in the retail component of the Entitlement Offer (**Retail Entitlement Offer**) at the same Offer Price and offer ratio as under the Institutional Entitlement Offer. The Retail Entitlement Offer will open on 10:00am (Sydney time) on Monday, 2 September 2019 and close at 5.00pm (Sydney time) on Friday, 20 September 2019 (**Retail Offer Period**).

Further details about the Retail Entitlement Offer will be set out in a booklet (**Retail Offer Booklet**), which IDX will lodge with the ASX by Monday, 2 September 2019. The closing date for the receipt of Entitlement and Acceptance Forms and application payments is **5.00pm (Sydney time) on Friday, 20 September 2019**.

The Retail Offer Booklet and accompanying Entitlement and Acceptance Form are expected to be despatched to eligible retail shareholders on Monday, 2 September 2019.

¹⁶ The theoretical ex-rights price (**TERP**) is the theoretical price at which IDX shares should trade after the ex-date for the Entitlement Offer. TERP is a theoretical calculation only and the actual price at which IDX shares trade at that time will depend on many factors and may not be equal to TERP. TERP is calculated by reference to IDX's closing price of \$3.15 on Friday, 23 August 2019 and is adjusted for the FY19 final dividend of 5 cents per share.

¹⁷ After deduction of final FY19 dividend of 5 cents per share.

Key dates

Key event	Date
Trading halt and announcement of Acquisition and Entitlement Offer	Monday, 26 August 2019
Institutional Entitlement Offer opens (10.00am Sydney time)	Monday, 26 August 2019
Institutional Entitlement Offer closes (4.30pm Sydney time)	Monday, 26 August 2019
Trading halt lifted	Tuesday, 27 August 2019
Existing IDX shares re-commence trading on an ex-entitlement basis	Tuesday, 27 August 2019
Record date for Entitlement Offer (7.00pm Sydney time)	Wednesday, 28 August 2019
Retail Entitlement Offer opens and despatch of Retail Information Booklet (10.00am Sydney time)	Monday, 2 September 2019
Issue and normal trading of New Shares issued under the Institutional Entitlement Offer	Wednesday, 4 September 2019
Retail Entitlement Offer closes (5.00pm Sydney time)	Friday, 20 September 2019
Allotment of New Shares issued under the Retail Entitlement Offer	Monday, 30 September 2019

All dates and times are indicative and IDX reserves the right to amend any or all of these events, dates and times subject to the Corporations Act 2001 (Cth), ASX Listing Rules and other applicable laws.

Additional information

Additional information regarding IDX's FY19 financial results and the Acquisition and the Entitlement Offer is contained in the investor presentations released to the ASX today.

The Acquisition and Entitlement Offer Investor Presentation contains important information that shareholders should consider, including information about the risk factors and the foreign selling restrictions with respect to the Entitlement Offer.

The Retail Offer Booklet will be released separately and mailed to eligible retail shareholders.

You should seek appropriate professional advice before making any investment decision. If you have any questions about the Retail Entitlement Offer, please contact the IDX Offer Information Line on 1300 850 505 (within Australia) or +61 3 9415 4000 (outside Australia) between 8.30am and 5.00pm (Sydney time), Monday to Friday during the Retail Offer Period.

Investor and analyst conference call

Integral Diagnostics' Managing Director & CEO, Dr Ian Kadish and Chief Finance and Commercial Officer (**CFCO**), Anne Lockwood, will be holding an investor and analyst conference call at 10.30AM AEDT today.

For those wishing to dial into the call, please register for the call through the following link:

<https://s1.c-conf.com/diamondpass/integral-10001605-invite.html>

If you are unable to preregister, then at the time of the conference you can call one of the numbers below and provide the conference **ID 10001605** to an operator.

Australia Local: +61 2 9007 8048

Australia Toll Free: 1800 908 299

New Zealand Local: +64 9929 3905

New Zealand Toll Free: 0800 452 795

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About IDX:

Integral Diagnostics (IDX) is a leading provider of medical imaging services across Australia and New Zealand. The company provides state of the art diagnostic services to patients and their referrers at 53 radiology clinics, including 13 hospital sites. IDX employs some of Australasia's leading radiologists and nuclear medicine specialists in a unique medical leadership model that ensures quality patient care, service and access. Good medicine is good business.