

IM Medical Limited (ASX:IMI)



RIGHTS ISSUE TO RAISE \$0.5 MILLION & OPTION TO ACQUIRE A SPECIALISED PUMP AND POWER BUSINESS

Investor Presentation | April 2017

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For the purposes of section 734(5) of the Corporations Act, IMI intends to lodge a prospectus with ASIC (“Prospectus”) containing a non-renounceable pro rata offer to existing shareholders at an issue price of \$0.001 each on the basis of three (3) shares for every eight (8) shares held, together with one free attaching option for every share subscribed for (“Rights Issue”). Investors who wish to acquire shares under the Rights Issue should consider the information disclosed in the Prospectus and will need to complete an application form that will be in or will accompany the Prospectus. A copy of the Prospectus will be available for download from IMI’s website at www.immedical.com.au. During the offer period, any person may obtain a copy of the Prospectus (free of charge) by contacting IMI on (03) 9607 8280.

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Introduction

- IMI is currently undertaking an underwritten non-renounceable Rights Issue to raise \$0.5m to pay down existing creditors, pursuant to a Prospectus to existing IMI shareholders on a 3 for 8 basis priced at 0.1¢ps with a 1 for 1 attaching option (IMIOA exercisable @ 0.2¢ 31 Mar'19) and leave IMI with a cash balance of approximately \$100,000 ("**Rights Issue**").
- IMI has entered into a conditional 6 month option ("**Babylon Option**") to acquire Babylon Operations Pty Ltd ("**Babylon**"), a specialist service provider to the resource sector established in 2017 by Mr Michael Shelby ("**Acquisition**"). Michael Shelby was a key executive employed by Resource Equipment Limited (ASX: **RQL**) under the former Managing Director.
- The Babylon Option is subject to further due diligence by IMI on the Babylon business. In particular, IMI will be closely reviewing the operational performance and growth of the Babylon business over the Babylon Option period to ensure it is an appropriate business for acquisition and listing prior to making an election to exercise the Babylon Option. The Company has not yet consulted with ASX regarding whether the Babylon business is an appropriate business for listing.
- RQL itself was a shell that sourced a Managing Director and capital and from small beginnings went on to build through acquisition and organic growth a significant specialised resources pumping and power business. RQL's market capitalisation rose as high as circa \$170m and the company was ultimately taken over.
- Babylon is seeking to participate in the same and similar markets and is positively engaged with potential customers with initial revenues. Babylon is poised to make a range of strong executive appointments in line with new contract success.
- The Babylon team and their network have extensive relationships affording the opportunity to drive growth in the organic business and also pursue an acquisition strategy once the business is established so as to accelerate growth.
- If IMI proceeds with the Acquisition:
 - IMI intends to offer shareholders and investors the opportunity to subscribe for up to \$6m (with a target of \$3.8m) of new shares plus options to fund the development of Babylon ("**Capital Raising**").
 - The use of funds for the Capital Raising will include building the initial rental fleet, business development activities and costs of the offer.
 - Upon completion of the Acquisition and assuming the target Capital Raising of \$3.8m is completed, Babylon will emerge with a market capitalisation of \$6.5m and indicative net cash of \$4.2m to execute Babylon's strategy.

Babylon Acquisition

The Acquisition

- The proposed consideration for the Acquisition is to be satisfied by the issue of IMI Shares to a value equal to the value of capital raised by Babylon up to the date of completion, issued on a post-Consolidation basis at a deemed issue price equal to the Rights Issue price, together with one Option for every two Shares issued (with an exercise price of \$0.04 and expiry date of 31 March 2019 – the same terms as the existing listed IMIOA options on a post-Consolidation basis).
- Babylon has raised a total of \$920,000 in equity capital, and may seek to raise more equity as its business develops. Assuming \$1,000,000 in equity in total is raised by Babylon prior to completion of the Acquisition, the consideration payable for the Acquisition is the issue of 50,000,000 Shares at a deemed issue price of \$0.02 per Share and 25,000,000 Options (on a post-Consolidation basis) (reflecting a purchase price of \$1m, equal to the capital raised by Babylon) .
- If IMI proceeds with the Babylon Acquisition, IMI also proposes to issue 40,000,000 Performance Rights (on a post-Consolidation basis) (“**Performance Rights**”) to the senior management of Babylon, subject to performance milestones set out on slide 11.

Capital Raising

- Subject to IMI exercising the Option to complete the Acquisition, IMI proposes to raise between \$3,800,000 and \$6,000,000 of new equity capital at an issue price of 2¢ps with a 1 for 2 attaching option (on a post-Consolidation basis) (“**Capital Raising**”). The Babylon Acquisition is conditional on IMI raising at least \$2 million under the Capital Raising.
- A priority offer of \$2.5m will be made available to existing IMI shareholders under the proposed Capital Raising. The Capital Raising is proposed to be fully or partially underwritten and it is proposed to grant options to the underwriter on the same terms as the attaching options on the basis of one attaching option for every two Shares underwritten (“Underwriter Options”).
- The funds raised under the Capital Raising will be used to fund the expansion of the Babylon business following completion of the Babylon Acquisition, and to satisfy the requirements for re-listing of the Company’s securities on the ASX under Chapters 1 & 2 of the ASX Listing Rules. Adjusting for the Consolidation, the Capital Raising is proposed to be conducted at the same issue price as the Rights Issue.

Consolidation and re-compliance with Chapters 1 & 2 of the ASX Listing Rules

- Following exercise by IMI of the Babylon Option, in conjunction with the Babylon Acquisition, the Company is also intending to conduct a consolidation of its existing securities on a 1:20 basis (“**Consolidation**”).
- Subject to completion of the Acquisition and the Capital Raising, IMI intends to apply for the reinstatement of trading of its securities on the ASX. The proposed Acquisition will constitute a significant change in nature and scale of the Company’s activities of the nature contemplated by Chapter 11 of the ASX Listing Rules. As a result, various aspects of the transaction will need to be approved by IMI shareholders and IMI will need to re-comply with the requirements of Chapters 1 and 2 of the ASX Listing Rules.

Market Overview

“Australian resource industry’s annual expenditure to swell to \$10 billion within five years” – BIS Shrapnel

New Oil & Gas Assets and Deferred Maintenance Present Immediate Opportunity

- Low oil price has caused operators to reduce headcount – capable contractors are becoming more important
- International service companies are shrinking Australian presence as construction activities shift to operations
- Ongoing mining operations have presented significant recent opportunities



2000+ Large Diesel Engines Installed In Western Australia Represent a Market of \$750m per Rebuild Cycle

- Much of WA fleet entered service during the last mining boom
- Major maintenance is generally required every three to five years
- Mining companies have deferred/reduced maintenance in quest for savings
- But now, previously deferred maintenance will become operationally critical



Babylon Overview

- Babylon is a start-up speciality equipment and service provider to the expanding resources maintenance sector.
- Babylon will be headquartered in Perth leveraging networks and connections throughout Australia, SE Asia and UAE.
- Babylon will specialise in two niche areas:
 - **Specialised Equipment Rental** – Owning and renting specialised pumping equipment and providing operators and technicians for the oil and gas and mining sectors.
 - **Diesel Services** – The operations base and technicians employed will also be utilised to repair and maintain client equipment with a specific emphasis on rebuilding and providing maintenance for large diesel engines similar to the Babylon rental fleet.
- Babylon's business plan requires circa \$4m of initial equity capital involving year 1 plant and equipment purchases of circa \$3.5m (sequential purchases to fit contract opportunity) and budgeting start-up year 1 revenues of \$5.7m.



Specialised Equipment Rental

- Babylon will initially operate as a 2nd tier service provider targeting the oil & gas and mining speciality equipment rental market. Babylon will provide tradesmen to operate and maintain equipment on site as a high value-add service that is not provided by traditional rental companies. This strategy has been proven successful and was a key driver in the growth of REL prior to its takeover. Market conditions and description are creating opportunity.

Target Applications for Rental Fleet

- Process and pipeline maintenance
- Wellhead and well service work
- Decommissioning services
- Mine dewatering and water management

Rental Fleet Differentiation

- Hazardous area certification
- International offshore lifting certification
- High pressure/high performance design and build

Speciality Equipment Types

- Triplex pumps
- Single and multistage centrifugal pumps
- Submersible pumps
- Filters, compressors and dryers

Target Clients

- Top tier service companies (Baker Hughes, Halliburton, Schlumberger, etc.)
- Value oriented O&G operators (Quadrant, Buru, AWE, PTTEP, etc.)
- Mine operators (FMG, Anglo, BHP, etc.)

Diesel Services

- Babylon's engine rebuild services will commence as a 2nd tier provider behind the large engine OEM's. Target offering will be rebuild services focused on engines of 1000hp and greater. Successful engine rebuilds will provide growth opportunities into complimentary component maintenance and an additional revenue stream.

Points of Differentiation

- Focus on small underserved equipment owners
- Flexible parts and labour supply business model
- In house testing capability
- Experienced and respected team

Operational Synergies

- Quality, safety and environmental accreditation
- Facility and P&E requirements
- Key skills and tradesmen
- Business processes and project management

Business Synergies

- Recurring cyclical revenue vs project revenue
- Greater utilisation of people and assets
- Revenue spread across multiple resources
- Growth opportunities to cross sell services

Target Clients

- Major miners, across multiple commodities
- Small owner operators
- Grown opportunity into offshore oil and gas and marine

Babylon Board of Directors & Management

<p>Michael Shelby Managing Director</p>	<ul style="list-style-type: none"> • Senior Executive MBA to complement technical degree in Chemical Engineering. • Executive leader with almost 20 years international oil and gas experience <ul style="list-style-type: none"> • Most recently grew oil and gas service business of Resource Equipment Ltd (“REL”) from inception to A\$12m revenue pa whilst exceeding profit targets • Recruited key personnel and launched overseas branches to compliment Australian business activities • 10 years in Australia leading multifunction teams across mining and oil and gas during most recent market cycles
<p>Patrick Maingard Executive Director</p>	<ul style="list-style-type: none"> • 30 years of management experience • Strong SME background with Director and Managing Director portfolios • MSc Management – Oxford University • Director/Owner plastics manufacturing business for 14 years before negotiating sale to a European multinational
<p>Michael Kenyon Non-Executive Director / Company Secretary</p>	<ul style="list-style-type: none"> • Chartered Accountant with strong tier 1 accounting firm experience be20 year career as CFO/ Company Secretary in industry. • Significant exposure to manufacturing, engineering and contracting sectors through roles at ASX listed corporations • Two years as CFO/Company Secretary of REL”) up until takeover.

- If the Babylon Acquisition completes, it is expected that Mr Shelby, Mr Patrick Maingard and Mr Michael Kenyon will be appointed to the Board of IMI, and the existing directors of IMI will resign from the IMI Board. It is also intended that Mr Kenyon will be appointed as Company Secretary of IMI.

Indicative Capital Structure

- If IMI proceeds with the Babylon Acquisition, following the completion of the Rights Issue, the Acquisition, and the Capital Raising, IMI's indicative capital structure is set out below:

Indicative Capital Structure	IMI Shares	IMI Options (IMIOA)	Valuation at Offer Price of 2¢	Indicative Net Cash*
Existing Securities (at 0.1¢)	1,328,633,057	495,064,755	\$1,328,633	-
Rights Issue (at 0.1¢) ⁽¹⁾	498,237,396	498,237,396	\$498,237	\$100,000
Sub Total (at 0.1¢)	1,826,870,453	993,302,151	\$1,826,870	\$100,000
1:20 Consolidation of existing securities	91,343,523	49,665,108	\$1,826,870	-
Acquisition of Babylon ⁽²⁾	50,000,000	25,000,000	\$1,000,000	\$700,000
New Issue (Target Issue Size \$3.8m) ⁽³⁾	190,000,000	95,000,000	\$3,800,000	\$3,400,000
Underwriter Options ⁽³⁾	-	95,000,000	-	-
Sub Total	331,343,523	264,665,108	\$6,626,870	\$4,200,000
Performance Rights	40,000,000	-	\$800,000	-
Total (including Performance Rights)	371,343,523	264,665,108	\$7,426,870	\$4,200,000

Notes:

(1) Assumes the Rights Issue is fully subscribed/underwritten.

(2) Assumes Babylon has raised \$1m in equity capital prior to completion of the Babylon Acquisition.

(3) Assumes \$3.8m is raised under the Capital Raising, and that amount is underwritten. Oversubscriptions of up to \$2.2m are available and would add up to 110m shares and 55m options.

Performance Milestones

- If IMI proceeds with the Babylon Acquisition, the Performance Rights to be issued to Babylon management will vest upon the delivery of the following Performance Milestones :
 - 1) Delivery of revenues of \$4.6m in year 1 and \$9.2m in year 2 (being 80% of budgeted revenue) over 2 years (2 tranches of 7 million Performance Rights);
 - 2) Delivery of EBITDA of breakeven in year 1 and \$2.6m in year 2 (being 80% of the budgeted profit) over 2 years (2 tranches of 7 million Performance Rights); and
 - 3) The exercise of 80% of the IMIOA options delivering circa \$8.5 million of new capital, which will imply the new business strategy has been successful (12 million Performance Rights).
- Achieving the year 2 EBITDA Performance Milestone of \$2.6m implies an EBITDA multiple of 2.9 times based on an offer price of 2¢ per share and a fully diluted capital structure of 371m shares.

Performance Milestones	Year 1	Year 2
Revenue	\$4.6m	\$9.2m
EBITDA	Breakeven	\$2.6m
Options Exercise	-	\$8.5m

Performance Shares Vesting	Year 1	Year 2	Total
Revenue	7,000,000	7,000,000	14,000,000
EBITDA	7,000,000	7,000,000	14,000,000
Options Exercise	-	12,000,000	12,000,000
Total	14,000,000	26,000,000	40,000,000

Investment Thesis

- IMI entered into an option to acquire Babylon, a recently established speciality equipment and service provider that is well positioned to capitalise on the expanding resources maintenance sector.
- On exercising the option to complete the acquisition, IMI will be able to source an excellent executive team with both supporters and mentors who have a strategy that offers the prospect of creating strong shareholder returns.
- Adding an experienced and energised executive team through an acquisition, capital by way of a share offer to shareholders and a well-constructed strategy complete with aligned Performance Milestones to an ASX list ready shell like IMI can create a powerful platform for growth.
- Subject to completing the Acquisition, IMI will emerge with a clean and capable balance sheet, an undemanding valuation, with strong revenue and earnings growth targets, and with the drive and determination to grow shareholder value.
- These underlying strengths might be expected to attract a strong deal flow with opportunities for incremental and value adding acquisitions in what is currently a fragmented market with many smaller players.
- The exercise of all of the IMI options at a price of 4¢ in 2 years would axiomatically imply strong returns on the 2¢ps issue price with up to \$12.6m (assuming full subscription) of new equity capital from the options exercise capable of being deployed in growing the business.