

Integral Diagnostics' Board unanimously recommends shareholders REJECT Capitol Health's deficient takeover offer

6 February 2018, Melbourne: The Board of Integral Diagnostics Limited today announced that it **unanimously recommends that shareholders REJECT** Capitol Health Limited's unsolicited and predominantly scrip-based takeover offer of 6.9 Capitol shares and \$0.36 cash¹ for each share in Integral Diagnostics (the "Offer").

Integral Diagnostics' Directors, including both radiologists on the Board, intend to **REJECT** the Offer for all Integral Diagnostics shares they hold or control.²

In outlining the reasons for the Board's recommendation, the Chair of Integral Diagnostics, Helen Kurincic, said *"the Board believes the Offer is opportunistic, does not reflect the inherent value of Integral Diagnostics, and that the Offer's 90% minimum acceptance condition cannot be satisfied, given that shareholders who hold or control 32.88% of Integral Diagnostics shares have informed us they do not intend to accept the Offer. The Board unanimously recommends shareholders reject Capitol's deficient Offer"*.

The Board has based its recommendation on the following key factors:

- **Integral Diagnostics has attractive prospects as a standalone business**, supported by a medically led and diversified business model, multi-layered sustainable growth potential, and a market leading management and radiologist team
- **The Offer does not reflect the inherent value of Integral Diagnostics** and also fails to deliver a premium for a change of control
- **The underlying value of Capitol's scrip, which represents the majority of the Offer consideration, is unclear.** The scrip is impacted by the questionable quality of Capitol's accounts and significant financial restatements made in the replacement bidder's statement. Capitol also noted *"there may be differences in the application of accounting standards and the treatment of certain assets and liabilities between the two companies. As such, it is possible that this could have a material impact on the Combined Group financial information"*³
- **Capitol cannot integrate and effectively manage a business that is substantially larger and more complex**, given the fundamentally different business models, the significantly different cultures, and Capitol's limited clinical engagement and governance structures. The value of Integral Diagnostics' shareholders majority interest in the merged entity is likely to be detrimentally impacted
- **Capitol has not demonstrated a track record of creating shareholder value through material acquisitions**, as evidenced by its acquisition and divestment of Southern Radiology and other NSW businesses, where it recorded total shareholder losses of \$19m within 30 months of purchase⁴. The Capitol Board justified the loss on the sale because of *"the difficulties experienced in integrating the different business*

¹ Under the terms of the Offer, Capitol will be entitled to reduce the cash component per share by the fully franked 4 cent per share dividend announced by Integral Diagnostics on 19 January 2018

² The Directors together hold or control 4,314,512 Integral Diagnostics shares (2.97%)

³ Capitol's supplementary bidder's statement, page 91, 31 January 2018

⁴ \$19m shareholder costs calculated as difference between total cash paid for NSW acquisitions (\$93.5m) and the cash received upon sale of NSW assets (\$86.0m) plus total losses incurred on the NSW assets since their acquisition (\$11.7m)

*models... including bulk billing, hospitals, research and private billing*⁵. These businesses combined were approximately one third of the size of Integral Diagnostics.⁶

- **The Offer is highly conditional and the 90% minimum acceptance condition is not capable of being satisfied.** Investors Mutual, Adam Smith Asset Management, Perennial Value Management and Viburnum Funds (Integral Diagnostics' four largest shareholders) who hold or control 29.91% of Integral Diagnostics shares in aggregate⁷, have informed Integral Diagnostics they do not intend to accept the Offer in respect of the shares that they each hold or control

Board members and Executive Directors Dr Sally Sojan (Member of the National Clinical Leadership Committee and Member of the Queensland Clinical Leadership Committee) and Dr Chien Ho (Chair of the National Clinical Leadership Committee and member of the Victorian Clinical Leadership Committee), have also informed the Board that, if Capitol is successful in acquiring 50% or more of the shares in Integral Diagnostics, they intend to resign their employment as radiologists with Integral Diagnostics.

Integral Diagnostics raised matters of material concern with Capitol regarding the original bidder's statement lodged with ASX on Friday 22 December 2017 and subsequent draft documents submitted by Capitol to Integral Diagnostics. Integral Diagnostics' shareholders were not provided with a bidder's statement that was complete, accurate or met legal requirements, to enable an appropriately informed assessment of Capitol's predominantly scrip offer. As a result of our correspondence and diligence, Integral Diagnostics notes that Capitol acknowledged significant defects in its documents evident by the extensive revisions in the marked up supplementary bidder's statement released to the ASX on 31 January 2018 (<https://www.integraldiagnostics.com.au/page/for-investors/capitol-health-offer/>). Integral Diagnostics considers the replacement bidder's statement still fails to address certain matters which are relevant for Integral Diagnostics shareholders consideration of Capitol's offer.

We encourage you to refer to the investor presentation released on 6 February 2018 for further information on the matters raised in this release.

Integral Diagnostics will send a target's statement to shareholders in due course, which will include further information on the Board's detailed assessment of the Offer and an Independent Expert's Report.

Shareholders are likely to receive further documentation from Capitol. To **REJECT** Capitol's deficient Offer, **simply ignore all documentation sent to you by Capitol.**

Integral Diagnostics will continue to keep shareholders, radiologists and employees informed of any material developments.

Integral Diagnostics shareholders with any questions can contact the information line on 1300 117 908 (within Australia) or +61 3 9415 4336 (outside Australia), or visit our website at <https://www.integraldiagnostics.com.au/page/for-investors/>.

Helen Kurincic
Independent Chairman
Integral Diagnostics Limited

⁵ Capitol announcement of sale of NSW assets, 14 June 2017

⁶ Total cash payment of \$94m for NSW asset acquisitions compared to Integral Diagnostics' market cap of \$316m as at 5 February 2018 based on closing price of \$2.18 and 145m shares outstanding. Total cash payment of \$94m for NSW asset acquisitions includes \$60m for Southern Radiology, \$28m for Eastern Radiology Services, \$4m for Liverpool Diagnostics, \$2m for Sydney Radiology and \$0.3m for Sunrise Radiology

⁷ 14,530,000 Integral Diagnostics shares (10.02%), 10,279,000 Integral Diagnostics shares (7.09%), 10,070,000 Integral Diagnostics shares (6.94%) and 8,500,000 Integral Diagnostics shares (5.86%) respectively

About IDX:

Integral Diagnostics (IDX) is a leading provider of medical imaging services in Victoria, Queensland and Western Australia. The company provides state of the art diagnostic services to patients and their referrers at 47 radiology clinics, including 13 hospital sites. IDX employs some of the country'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.

