

COMMERCIAL IN CONFIDENCE

Australian Institute of Joint Replacement

LEVEL 5, MACQUARIE UNIVERSITY HOSPITAL

Small Scale Offering

- ▶ This brochure is not a disclosure required under the *Corporations Act 2001* by way of a prospectus or information memorandum.
- ▶ This is an introduction of a small scale offering which, in accordance with Section 708 of the *Corporations Act 2001*, does not need disclosure. A small scale offering is an offer where a sophisticated investor must:
 - ▶ Invest an amount greater than \$500,000; and
 - ▶ Have a taxable income of greater than \$250,000 per annum; or
 - ▶ Have net assets greater than \$2.5 million

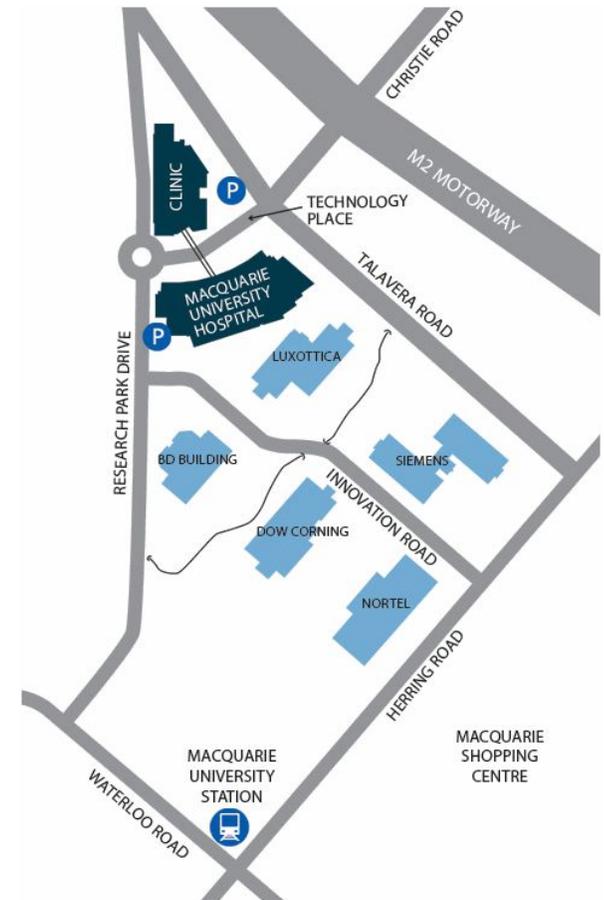
Australian Institute of Joint Replacement (the Institute)

- ▶ Macquarie University Hospital (MUH), Medibank and a group of Australia's leading orthopaedic surgeons are exploring the opportunity to create a world class orthopaedic facility that specialises in joint replacements on a dedicated floor (Level 5) of the existing Macquarie University Hospital Building
- ▶ The Australian Institute of Joint Replacement (the Institute) will aim to offer patients best-in-class experiences and outcomes, with higher reimbursement for doctors and, for some eligible patients, no/low out of pocket costs

Location

Level 5, Macquarie University Hospital

- ▶ Centrally situated
- ▶ Easily accessible due to proximity to major arterial roads
- ▶ Many orthopaedic surgeons already operate in both private and public hospitals in the catchment
- ▶ Large catchment with increasing demand for private healthcare services, extending from Mosman in the east to Baulkham Hills in the west and Hornsby in the north



Orthopaedics in the Catchment Area

Level 5, Macquarie University Hospital

- ▶ Over 5,500 total joint replacements are currently performed in the catchment per year in addition to a further 9,000 other orthopaedic procedures suitable to the Institute
- ▶ Although there are private hospitals in the catchment where orthopaedic procedures are performed, there is no specialist orthopaedic centre in the catchment area
- ▶ A specialist orthopaedic centre of this type, is likely to attract patients from outside the catchment seeking best-in-class experiences and outcomes

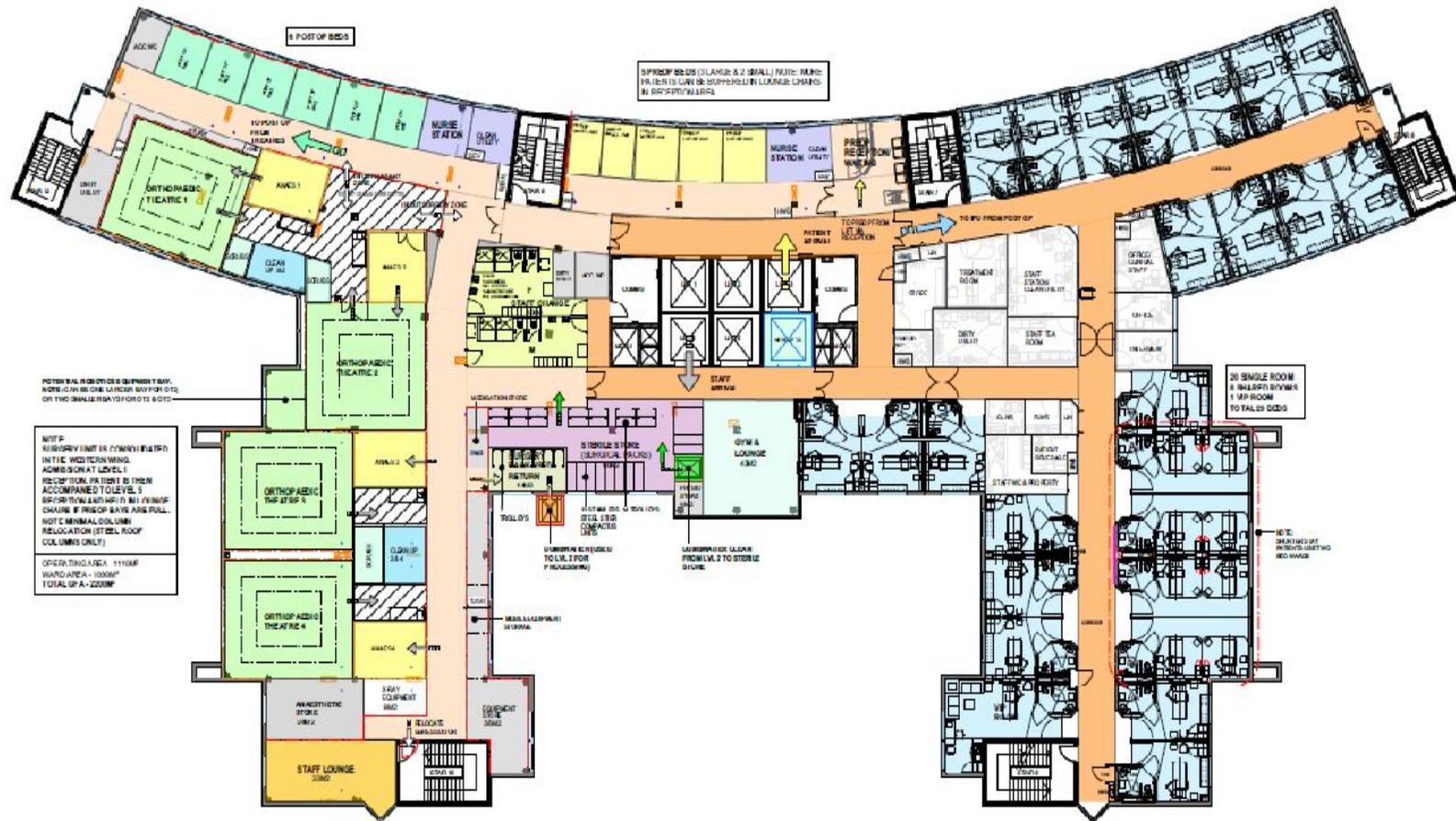
Existing Infrastructure

Level 5, Macquarie University Hospital

- ▶ Building the Institute within MUH provides strategic and cost-saving benefits that would not be available if the facility was a standalone centre
- ▶ The Institute will be operated by MUH, and as such be covered by MUH's existing operating license and accreditation
- ▶ MUH will provide the Institute with a "shell" Level 5 floor space that can be fitted out
- ▶ The scale, resources and expertise of MUH will eliminates many of the usual start-up costs for a new hospital.
- ▶ The Institute will have available to it all of the pre-existing infrastructure and services from MUH. A new hospital typically needs to invest in operating theatres, wards, CSSD, imaging, and pathology collection as well as hotel services (admissions, kitchen, laundry etc.) and back office services (IT, billing etc.)

Existing Infrastructure

Level 5, Macquarie University Hospital



Clinical and Research Opportunities

Level 5, Macquarie University Hospital

- ▶ Housing the Institute within MUH will provide:
 - ▶ the capacity for surgeons of the Institute to perform a case mix that includes higher acuity procedures across a wider base of patients, including those with comorbidities, given the wider range of clinical resources available, including ICU capacity and other medical specialties
 - ▶ opportunities for the Institute and its surgeons to partner with Macquarie University in areas such as research and teaching
- ▶ The Institute's research and clinical opportunities can allow it (and its personnel) to become a Centre of Excellence in future (subject to meeting accreditation criteria)

Relationships with Insurers

Level 5, Macquarie University Hospital

- ▶ MUH has existing funding agreements with all health funds
- ▶ MUH has in place no-gap, short stay total joint replacement arrangements with HCF and Medibank, which will be available to doctors that chose to enter into these arrangements
- ▶ These arrangements pay doctors at a significantly higher rate than normal health fund gap cover terms and result in no medical or hospital out of pockets to patients, a highly attractive proposition for the patient
- ▶ These factors would differentiate the Institute from its competitors and would make replicating a similar model within the catchment virtually impossible

Facility Overview

Level 5, Macquarie University Hospital

- ▶ The facility will include:
 - ▶ 4 large operating theatres suitable for all orthopaedic procedures including total joint replacements
 - ▶ 5 pre-operative beds
 - ▶ 6 post-operative beds for stage 1 recovery
 - ▶ 29 overnight beds predominately in single rooms with ensuite bathrooms
- ▶ Access to other MUH clinical services required for orthopaedics. This includes the central sterile services department (CSSD), radiology and medical imaging services, pathology and diagnostics, intensive care unit, plus the kitchen and other amenities required for an optimal patient and surgeon experience
- ▶ There is the option for overflow patients to be cared for elsewhere within MUH including, if required, in ICU

Facility Overview

Level 5, Macquarie University Hospital

- ▶ The layout of Level 5 has been designed for optimal patient flow
- ▶ Patients will present at reception on Level 1 before being accompanied to Level 5 and admitted
- ▶ Once admitted, patients will be prepared in lounge chairs or the pre-operative bays before entering the surgery unit located in the western wing of Level 5
- ▶ Following surgery patients will move into the recovery area in the northern wing of the facility before either being discharged or admitted to the inpatient ward in the eastern wing

Consulting Rooms and Operating Theatres

- ▶ The Institute management team will work with VMOs and doctor shareholders to ensure lists are adequately allocated and utilised
- ▶ Doctors within AIJR will receive a priority over theatre allocations at the Institute
- ▶ Clinic rooms will be allocated to the Institute from which doctors can consult
- ▶ Doctors within AIJR will receive time and access to clinic rooms at the Institute to consult with patients
- ▶ The Institute will have access to all clinical services available to MUH including onsite imaging, pathology, physiotherapy etc.



Business Structure and Rationale

Australian Institute of Joint Replacement Pty Ltd (AIJR)

- ▶ The Institute will be owned by a corporate trustee, namely, Australian Institute of Joint Replacement Pty Ltd (AIJR), offering units in the Australian Institute of Joint Replacement Unit Trust, for doctors to purchase
- ▶ This offer will be open to up to 20 doctors
- ▶ To be eligible to invest, each doctor must:
 - ▶ Be an orthopaedic surgeon, or such other doctor invited by the company to invest
 - ▶ Be prepared to commit some of your theatre time to the Institute
 - ▶ Obtain independent financial and legal advice surrounding this offer
 - ▶ Provide a certificate from an accountant that the doctor is a sophisticated investor

Australian Institute of Joint Replacement Pty Ltd (AIJR)

- ▶ The doctors that are Unitholders will be entitled to:
 - ▶ charge professional fees for providing their services in the ordinary way
 - ▶ receive priority for theatre allocations over other doctors who are not Unitholders
 - ▶ an annual distribution of profits of the Trust in proportion to their respective unitholding
 - ▶ participate in the no-gap arrangements with Medibank and HCF (and potentially other funds that participate in similar arrangements from time to time) which are beneficial to:
 - ▶ the doctor, and allow the doctor to charge significantly higher rates than normal health fund gap cover to the health insurer
 - ▶ eligible patients, who will not have any gap or out-of-pocket expenses

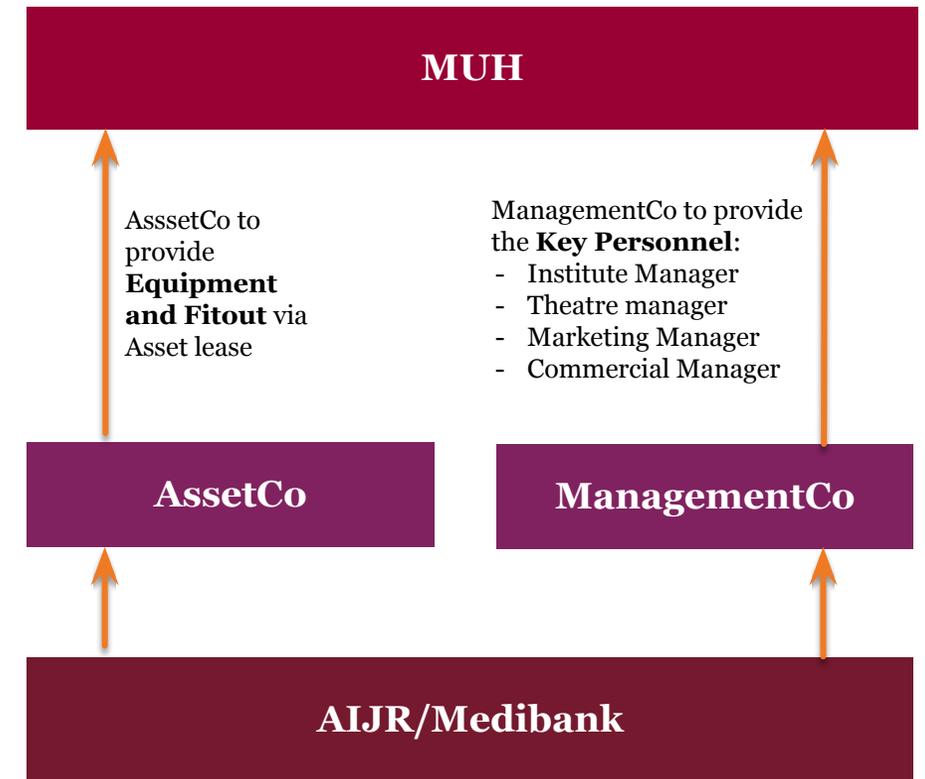
Joint Venture with Medibank

- ▶ AIJR will form a 50:50 joint venture (JV) with Medibank
- ▶ There will be a board of directors to govern the JV
- ▶ The JV will consist of two arms/entities, “AssetCo” and “ManagementCo”
- ▶ AssetCo will fund the necessary fitout and equipment within the centre. There may be an aspect of the equipment that may be financed which is yet to be determined
- ▶ ManagementCo will manage the development of the centre and installation of equipment and provide ongoing key personnel after the centre is opened



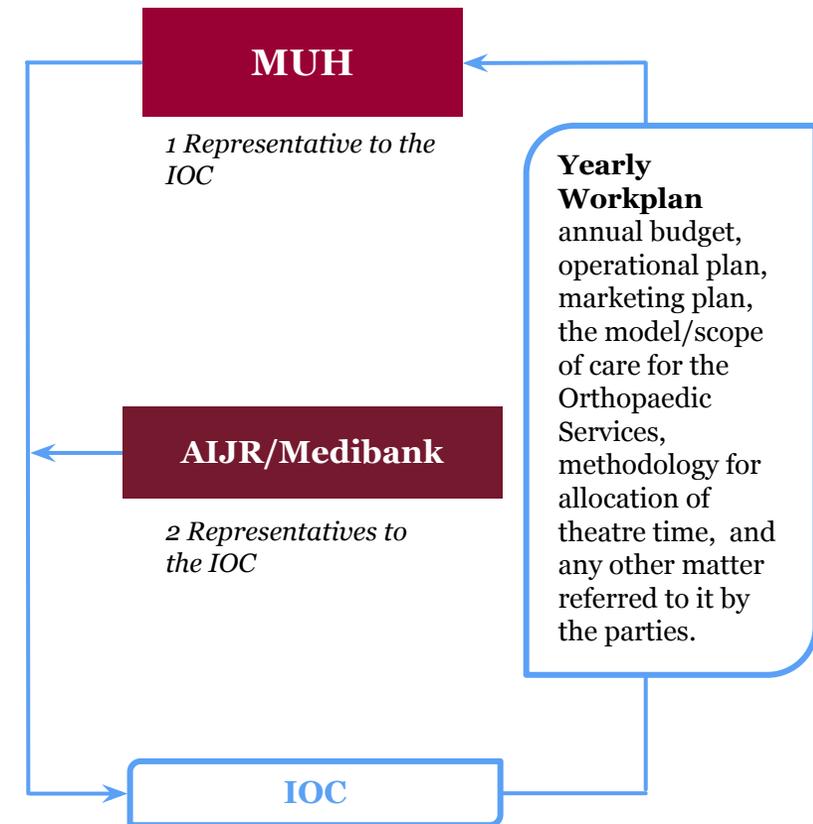
Contracts with Macquarie University Hospital

- ▶ AssetCo and ManagementCo will enter contracts with MUH where:
 - ▶ AssetCo will lease the Equipment and Fitout to MUH
 - ▶ MUH will:
 - ▶ be responsible for operation of the Institute
 - ▶ obtain and maintain licences and accreditations
 - ▶ establish and maintain clinical governance standards
 - ▶ engage ManagementCo's Key Personnel
 - ▶ employ nursing and other staff within the Institute
 - ▶ procure and supply consumables and medical devices
 - ▶ provide facilities management services, e.g., cleaning, waste, security, utilities,
 - ▶ enter into health fund arrangements with all funders



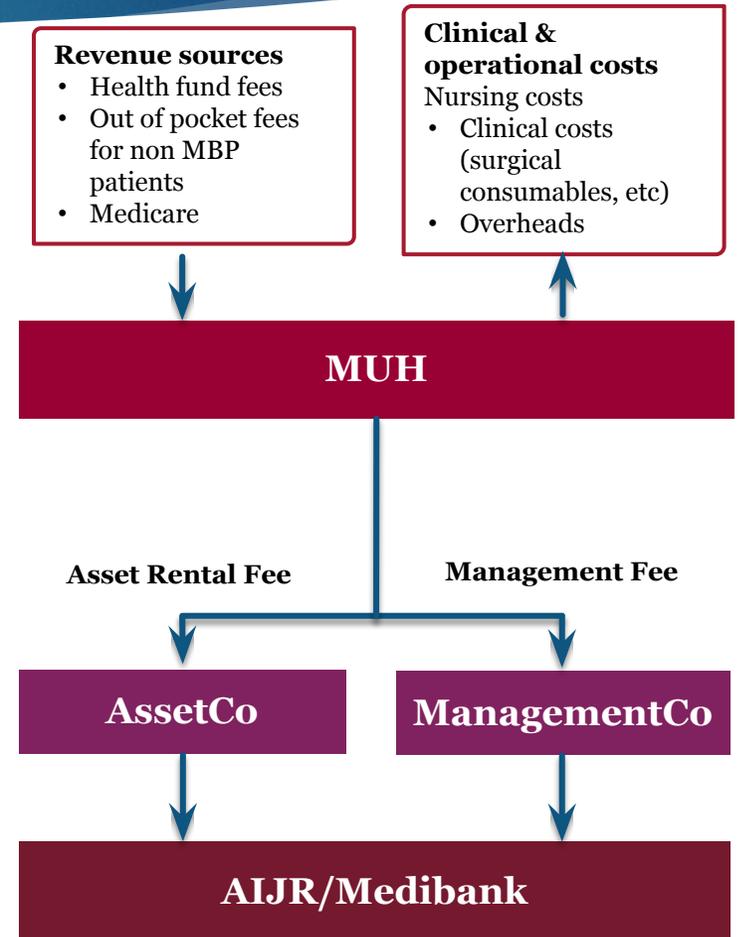
Institute Operations Committee (IOC)

- ▶ MUH and ManagementCo will establish an Institute Operations Committee (**IOC**) to manage the ongoing operations of the Institute
- ▶ MUH will appoint one member to the IOC
- ▶ ManagementCo will appoint two members to the IOC comprising one representative of Medibank and one representative of AIJR
- ▶ The IOC will agree and establish an annual budget, operational plan, marketing plan and model of care for orthopaedic services within the Institute
- ▶ Clinical operations will not be managed by the IOC, this will be solely managed by MUH



Economic Structure

- ▶ The agreements between MUH and the JV will replicate the economics of an equal three-way partnership
- ▶ MUH will pay AssetCo a rental fee for the assets and will pay ManagementCo a management fee
- ▶ MUH's contribution to the Institute comes in the form of the Level 5 space and will charge no rent to the Institute
- ▶ The agreement will be in place for an initial 15-year term and the JV will have the unilateral ability to extend this for a further 10-years at its election



Operating Profit

- ▶ Operating Profit will be calculated as follows:

Total Revenue, comprised of

- ▶ Gross Revenue from procedural fees in the Institute (excluding surgeon's professional fees); plus
- ▶ Prostheses rebates from patients treated in the Institute

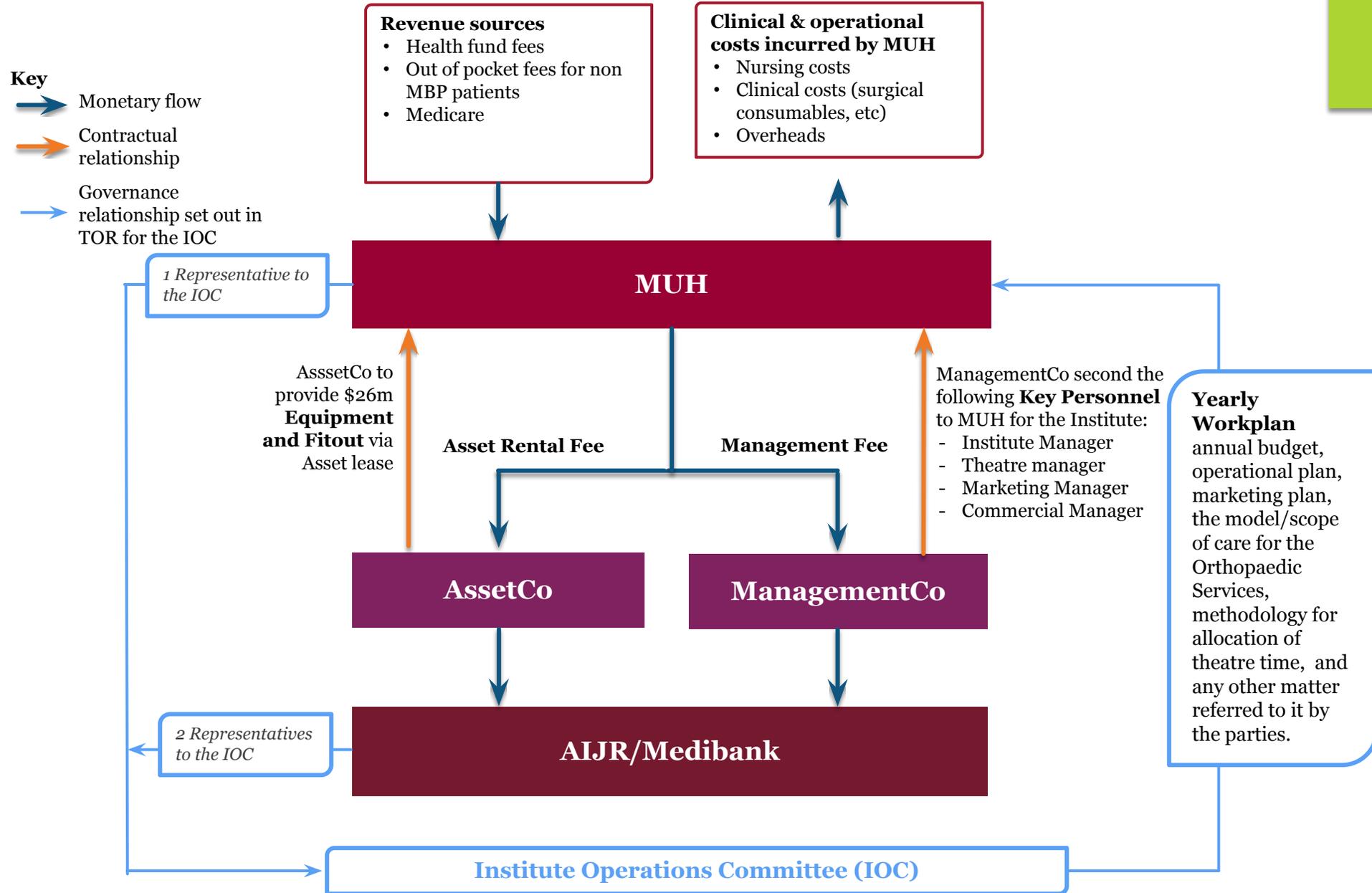
Less

Total Expenses, comprised of

- ▶ Direct Costs of the Institute (nursing staff etc.); plus
- ▶ Overhead costs from MUH allocated to the Institute (on a cost recovery basis)

- ▶ The agreements between MUH and the JV will specify how overhead cost categories will be allocated and will be reviewed by the IOC annually

Proposal Diagram: This diagram represents a structure which is still under review and is subject to change.



Steps to set up the Institute

1. AIJR is to initiate a round of funding from its participating doctors/investors
2. Medibank and AIJR form 50:50 JVs for AssetCo and ManagementCo and enter into:
 - a) shareholders agreements, outlining how the JV will operate and be managed on an ongoing basis;
 - b) share subscription agreements, outlining the amount, timing and milestones relating to the requirement for and contribution of funds from both parties; and
 - c) business plan which will include the initial annual budget for the Institute, operating plan and marketing plan
3. The JV to execute an asset rental agreement with MUH for AssetCo and a management agreement with MUH for ManagementCo

Investment Requirements

- ▶ The JV will need to raise capital to fund the Fitout and Equipment required by the centre, costs associated with commissioning the facility and the initial inventory
- ▶ The JV will need to raise approximately \$27m although there may be an opportunity to asset finance (via debt) some of the capital equipment, thereby reducing the equity contribution required from the JV partners
- ▶ The \$27m includes \$25.95m for construction and design of the fitout and equipment plus \$532k for commissioning and \$500k for initial inventory
- ▶ **Assuming there is no asset financing, both Medibank and AIJR will each need to contribute \$13.5m**
- ▶ It may be possible that asset finance will be available to fund some of the assets. This will reduce the capital required from \$27m to \$22m. In those circumstances, the Institute will need to raise capital of \$11m as opposed to \$13.5m

Investment Stages

- ▶ There are three stages of funding required by the JV shown in the table below (subject to delays with Covid-19 restrictions):

Investment Stage	Timing	% of Total Capital	Medibank Investment	AIJR Investment	Total
1 – JV Establishment	September 2021	10%	\$1.35m	\$1.35m	\$2.7m
2 – Construction	December 2021	80%	\$10.8m	\$10.8m	\$21.6m
3 – Begin Operating	Mid 2022	10%	\$1.35m	\$1.35m	\$2.7m
Total			\$13.5m	\$13.5m	\$27m

*Dates subject to change depending on any delays as a result of unforeseen matters including Covid-19 restrictions

**Investment amounts are estimates and subject to change depending on whether equipment finance is available and costs of building that are yet to be finalised

Investment Structure of AIJR

- ▶ Every dollar invested by a doctor will purchase one unit in the trust
- ▶ Each doctor may have different amounts of units reflecting their investment
- ▶ Each unit in the trust will have an entitlement to receive:
 - ▶ during each financial year, a percentage of the distribution of the trust calculated as the percentage of the doctor's revenue from their work at the Institute proportionate to the total revenue derived by all unitholding doctors from their work at the Institute
 - ▶ Such share in the distribution of any capital of the trust in proportion to the doctor's unitholding upon sale or winding up
 - ▶ The right to one vote for each unit held by a doctor at any meeting of unitholders

Doctors' Contributions

- ▶ All doctors will need to bring a proportion of surgeries conducted in their practice to the Institute
- ▶ The Institute's success and profitability is wholly dependant upon doctors performing procedures at the Institute
- ▶ There will be KPIs set for all doctors to contribute towards the profitability of the Institute
- ▶ The KPIs will be similar for all doctors within the unit trust and reflect each doctor's ability and practice
- ▶ If there is a failure by a doctor to meet their KPIs in any two quarters in a given financial year, this will trigger a sale of the doctor's units in the trust to ensure that the Institute remains profitable
- ▶ A doctor may not seek to sell their unitholding in AIJR until, the later of two years or when the Institute becomes profitable. A doctor can only sell their units to another doctor who is approved by AIJR



Operational and Financial Analysis

ALL INVESTORS SHOULD OBTAIN INDEPENDENT LEGAL AND FINANCIAL ADVICE

Business Case Assumptions

- ▶ This business case and assumptions have been put forward by Medibank and MUH based on their experience in the market place. AIJR cannot verify and does not represent that the financial model and assumptions prepared by Medibank and MUH and reproduced in this document are accurate or should be relied upon
- ▶ The business case assumes the facility is operational 230 days per year with 2 lists per day per theatre
- ▶ In the initial year theatre utilisation is assumed to be 40% of capacity growing to 65% utilisation in Year 3
- ▶ In Year 1 this translates to 782 Total Joint Replacement procedures and 1,069 other orthopaedic procedures and in Year 3 these respectively grow to 1,283 and 1,758 procedures

Business Case Assumptions

- ▶ The Institute's management team will work with VMOs and doctor shareholders to ensure lists are adequately allocated and utilised
- ▶ The use of evening and weekend lists has not been modelled and if required will need to be assessed on a case by case basis
- ▶ As part of the broader MUH, the Institute can leverage the scale of MUH to 'variabalise' many expenses. The Institute is expected to be profitable in the first year of operation with the EBITDA margin growing to 25% over the forecast period

Forecast Profit and Loss

(\$m)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Core Revenue	13.01	16.72	22.21	22.66	23.11
Other Revenue	0.00	0.00	0.00	0.00	0.00
Total Revenue	13.01	16.72	22.21	22.66	23.11
Labour Expense - Clinical	4.38	5.67	7.56	7.75	7.94
Labour Expense - Non Clin	1.53	1.98	2.64	2.71	2.78
Consumables	1.80	2.34	3.14	3.27	3.40
Other Supplies	0.68	0.87	1.15	1.17	1.19
Utilities	0.93	0.94	0.96	0.97	0.98
IT and Telecoms	0.81	0.83	0.84	0.85	0.86
Marketing	0.25	0.25	0.26	0.26	0.27
Total Expenses	10.39	12.88	16.54	16.97	17.41
EBITDA	2.61	3.84	5.67	5.68	5.69
<i>EBITDA %</i>	<i>20%</i>	<i>23%</i>	<i>26%</i>	<i>25%</i>	<i>25%</i>
<i>Theatre Utilisation</i>	<i>40.0%</i>	<i>50.0%</i>	<i>65.0%</i>	<i>65.0%</i>	<i>65.0%</i>

JV Investment Returns

- ▶ The table shows how profits will be distributed to MUH and the JV, and the post-tax free cash flows (**FCF**) attributable to the JV
- ▶ Assuming a terminal growth rate of 2.4% the JV would deliver an IRR of approximately 20% to investors

Profit and Distribution Forecast (\$m)						
Total EBITDA (\$m)	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Revenue	0.00	13.01	16.72	22.21	22.66	23.11
Operating Costs	0.52	10.39	12.88	16.54	16.97	17.41
EBITDA (excl. asset lease)	-0.52	2.61	3.84	5.67	5.68	5.69
MUH Distribution (\$m)						
MUH Distribution (\$m)	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Share of EBITDA	0.00	0.87	1.28	1.89	1.89	1.90
JV Distribution (\$m)						
JV Distribution (\$m)	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Mgmt Co Fee	0.00	0.08	0.86	2.03	2.00	1.96
Asset Co Fee	-0.52	1.66	1.70	1.75	1.79	1.83
Share of EBITDA	-0.52	1.74	2.56	3.78	3.79	3.80
Investment Returns Forecast						
Initial Investment	-27.0					
FCF		1.7	2.3	3.2	3.1	3.1
Terminal Value						69.4
Total FCF	-27.0	1.7	2.3	3.2	3.1	72.5
Discounted FCF	-27.0	1.7	2.1	2.7	2.4	53.0