
AVASTRA
SLEEP CENTRES LIMITED
(Code: AVS)

May 2008

Section 1

Executive Summary

Executive Summary

- ▶ **Avastra Sleep Centres Limited (AVS) is the second largest sleep company in the U.S.**
- ▶ **Only sleep centre company listed on the ASX**
- ▶ **AVS' mission is to be the largest and highest quality sleep services provider**
- ▶ **Lines of Revenue**
 - Diagnostic testing services; Includes Ambulatory testing (In-home testing)
 - Clinical research services
 - Equipment sales services (CPAP)
- ▶ **AVS is currently organised into four regional headquarters (Hubs)**
- ▶ **All Hubs were acquired with experienced physician leadership**
 - Operated profitable companies for multiple years
 - Stock ownership aligns incentives for growth
 - Experience across all major lines of revenue

Operations

Northwest

Hub: Washington

Spokes: Oregon

Total Beds: 24

Presidents:

Dr. Ralph Pascualy, M.D.

Northeast

Hub: New York

Spokes: Florida

Total Beds: 40+

President:

Dr. Daniel Rifkin, M.D.



Southwest

Hub: California

Spokes: Utah, Arizona

Total Beds: 70+

President:

Dr. Milt Erman, M.D.

Midwest

Hub: Kansas

Spokes: Missouri, Nebraska, Iowa, Minnesota, South Dakota

Total Beds: 40+

President:

Dr. Steven Hull, M.D.

Industry Overview and Opportunity

Market

- ▶ An estimated 50 million Americans, about 1 in every 6, suffer from chronic disorders of sleep and wakefulness
- ▶ Annual direct cost of sleep related problems is \$16 billion
- ▶ Additional \$50-\$100 billion in indirect costs (accidents, litigation, property destruction, hospitalizations, etc.)
- ▶ Insomnia is the largest sleep disorder followed by sleep apnea
 - A growing clinical trial services market that require sleep facilities

Opportunity

- ▶ Sleep disorders diagnostic/treatment services is a profitable but highly fragmented market
- ▶ Significant opportunity for growth by consolidating profitable local businesses while retaining operational leadership
- ▶ Consolidation leads to higher quality through sharing best practices

Upcoming Year – Vision

ORGANIC GROWTH

- ▶ **Integrate existing businesses to realize promise of profit growth**
- ▶ **Revenue Synergies**
 - Expansion of Clinical Trials (invest in internal sales capabilities)
 - Leverage existing trials from Hub-to-Hub and Hub-to-Spoke
 - Utilize Nationwide Call Centre platform to drive growth
 - Patient recruitment for clinical trials
 - Improve occupancy rates
 - CPAP re-supply sales
 - Opening of greenfield centres
- ▶ **Streamlined cost structure**
 - Centralisation of key functions
 - Back Office (Billing, IT, Accounting, HR)
 - Better pricing in DME (CPAP) and supply purchasing
 - Centralize call centre for outbound marketing and patient recruitment
 - Minimize corporate overhead

ACQUISITION

- ▶ Strategic acquisitions to complete the national footprint and create barriers to entry

Section 2

Financial Projections

Financial Projections

	H1 2008	H2 2008	FY 2008	FY 2009	FY 2010	FY 2011
<u>Revenue (a)</u> <u>(\$A000)</u>						
Clinical	10,534	13,540	24,074	29,788	32,767	36,043
Research	5,638	4,064	9,702	12,967	14,913	17,149
DME	<u>2,657</u>	<u>2,784</u>	<u>5,441</u>	<u>6,125</u>	<u>6,737</u>	<u>7,411</u>
Total	18,829	20,388	39,217	48,880	54,417	60,604

(a) Assumes growth from existing sleep centres and opening new spoke centres without new hub acquisitions.

(b) Market conditions may cause actual results to vary from projections.

Financial Projections

	H1 2008	H2 2008	FY 2008	FY 2009	FY 2010	FY 2011
<u>Net Profit</u> <u>(\$A000)</u>						
Reported NPAT	(447)	(1,200)	(1,647)	1,444	2,579	4,087
Reported EPS	(0.004)	(0.010)	(0.014)	0.012	0.020	0.030
Adjusted NPAT (a)	1,339	300	1,639	2,944	3,679	4,437
Adjusted EPS (a)	0.013	0.003	0.014	0.024	0.028	0.033

(a) Excludes non-cash expenses: foreign exchange gain/loss, stock compensation expense, and imputed interest on deferred purchase payments.

(b) Market conditions may cause actual results to vary from projections.

Financial Projections

	H1 2008	H2 2008	FY 2008	FY 2009	FY 2010	FY 2011
<u>Cash Flow</u> <u>(\$A000)</u>						
Operations	297	(249)	48	6,586	6,720	7,500
Investing (a)	(5,779)	(6,595)	(12,374)	(8,884)	(4,050)	(4,345)
Financing	<u>5,042</u>	<u>2,826</u>	<u>7,868</u>	<u>3,955</u>	<u>(1,141)</u>	<u>(851)</u>
Total	(440)	(4,019)	(4,459)	1,657	1,529	2,303
Cash Balance	7,623	3,604	3,604	5,261	6,790	9,094

(a) Includes earn-out payments for existing sleep centres and investment in spoke centres.

(b) Market conditions may cause actual results to vary from projections.

Valuation Comparison

Respironics

Purchased by Phillips in March 2008

Price/Sales Ratio 4.0

ResMed

Price/Sales Ratio in May 2008 4.3

Forward P/E Ratio for 2009 22.6

Avastra

Price/Sales Ratio in May 2008 0.15

\$A35 cents per share at Price/Sales ratio of 1.0

Forward P/E Ratio for 2009 2.2

\$A24 cents per share at Forward P/E Ratio of 10