

AFFINITY HEALTH

INVESTMENT REPORT

1. Summary of the Deal

On 21 October 2003, Ironbridge Capital co-led the A\$871 million management buyout of Affinity Health (“Affinity”) from Mayne Group Hospitals (“MHD”). Affinity operates 50, mainly acute, hospitals in Australia, and 3 in Indonesia. As Australia’s leading for profit hospital operator Affinity is able to benefit from economies of scale, leverage with the health funds and a diverse mix of assets, enabling it to tap into a variety of healthcare related income streams.

Affinity is inherently attractive for a leveraged buyout as it has steady growth prospects, stable revenues and good asset backing. The critical issue is operational excellence, an area where the former owners had struggled until recent management changes began to take effect.

The deal was jointly led by private equity managers, Ironbridge Capital and CVC Asia Pacific Limited with additional equity provided by GIC Special Investments Pte Limited and debt facilities underwritten by CSFB.



2. Background

During the nineties Affinity grew by acquisition but was not managed as a group until a widely reported centralisation strategy was implemented in 2001. This was handled poorly and disenfranchised important stakeholders such as referring doctors and hospital unit management. Costs increased and revenue fell.

Robert Cooke’s appointment as CEO in May 2002 resulted in new management appointments throughout the business and reversed much of the centralisation strategy. Hospital Directors were enfranchised to enable them to meet the needs of the local stakeholders. At the same time operational benchmarking was introduced to compare performance amongst the portfolio, key performance indicators were developed to manage critical areas such as labour and certain benefits of centralization were retained. These changes have been well received and are producing strong results. There is now a solid platform for continued gains across the portfolio. Good forward visibility of FY2004 profits presented an opportunity for Ironbridge to acquire the business whilst operational performance is improving.

Ironbridge conducted extensive due diligence into the financial and legal background of Affinity using Ernst & Young and Minter Ellison and has undertaken in depth industry and market analysis both directly and using AT Kearney. Aon also assessed the extent of potential medical malpractice liabilities.

“Affinity Health is inherently attractive for a leveraged buyout as it has excellent management, good growth prospects, stable revenues and solid asset backing.”

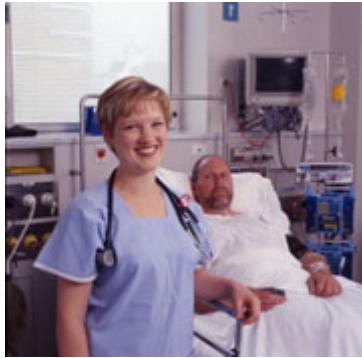
- Ironbridge partner, Neil Broekhuizen

3. The Business

The business is the largest for profit private hospital network in Australia with 50 hospitals providing 5,367 beds. There are also 3 hospitals in Indonesia with 627 beds. The principal focus of the business is the provision of acute health care: including orthopaedics; obstetrics; cardiology; oncology; neurology; colorectal surgery; head and neck surgery and breast surgery. Affinity delivers its services through approximately 14,000 employees in Australia.

The business has attractive growth drivers:

- An ageing population leads to greater healthcare spending;
- Medical technology advances mean greater healthcare spending;
- Public sector capacity constraints result in the private sector taking a greater share of this spend;
- Long public waiting lists push elective surgery to the private sector; and
- Wider acute care provision in private hospitals grows addressable market.



4. The Management Team

Robert Cooke, CEO, has been in hospital management for 26 years and his career includes running individual hospitals as well as hospital groups. He is a well regarded manager with a practical and pragmatic approach to running hospitals. He has introduced key performance measures across the group and utilised benchmarking practices to drive long term changes in behaviour. He understands doctor requirements well and recognises the need to work towards a cooperative environment rather than a remote, centre led forced behaviour change.

Robert Wise, COO, has been in the hospital business since 1988 starting as an accountant. He has held a number of administrative and senior hospital management roles since then and rejoined Affinity in 2002. Robert has worked closely with Robert Cooke in introducing key performance measures across the business and grouping the hospital network into tiers of 'like hospitals' to utilise benchmarking practice more effectively.

John Hickey, CFO, has been CFO for approximately 12 months having joined Affinity in 1994. John has 8 years of hospital industry experience. Prior to Affinity John was a chartered accountant. Within Affinity he has fulfilled both financial and hospital management roles in a

number of States. John has operated as a CEO across a number of hospitals and as Regional Manager for Western Australia.

5. Transaction Rationale

Leading market position in Australia with approximately 22% of the private hospital beds in the country and a relative market share of 2 times its nearest competitor.

Growing Market. Demographics, technology and public sector constraints mean that Affinity is operating in a growth market.

Limited competition with high barriers to entry. Affinity only competes directly with other hospitals in a few catchment areas. The threat of new entrants in acute services is low due to high build costs.

Operational improvement opportunity as new management practices, operational benchmarking and direct control of corporate cost are assumed.

Strong asset backing. High quality debtors and mainly freehold hospitals enabled the business to be purchased at approximately net asset value.

Strong management led by Robert Cooke, has rapidly reversed the downward trend in which Affinity was heading. He has also replaced most of the senior team and brought in around 20 new high quality hospital directors, replacing half of the incumbents.

Good exit opportunities through an IPO into hospital sector which has many quoted comparables throughout the world including two in Australia, both of whom are considerably smaller than Affinity.

Indonesia represents an attractive growth opportunity in private hospitals due to ageing population and growing middle class.

