



Investment ANALYSIS

Image Plus Consultants Limited
December 21, 2022

Company Profile

Image Plus Consultants Limited (trading as “Apex Radiology” and henceforth will be referred to as IPC) is a private Medical Imaging company established in February 1996. IPC offer a comprehensive set of imaging services including X-Ray, Ultrasound, CT Scan, Fluoroscopy, Interventional Procedures and Nuclear Medicine.

IPC operates from four locations; three in St. Andrew and one in St. Ann. These locations are as follows:

- 2A Molynes Road, St. Andrew.
- Winchester Surgical & Medical Institute at 3a Winchester Road, St. Andrew,
- 29 Old Hope Road, St. Andrew.
- Shops 8, 9 & 10, White River North Commercial Complex, St. Ann.

IPC’s three (3) branches in the Kingston/St. Andrew region services those parishes primarily and neighbouring parishes of St. Thomas and St. Catherine. It is estimated that these branches are accessible to 43% of the Jamaica’s population according to STATIN’s demographic survey by parish in 2019. The Winchester branch however, is classified as an associate company as IPC has only a thirty percent (30%) in its operation.

IPC’s Service Distribution by Location					
	CT Scan Machines	X-Ray Machines	Ultrasound Machines	Interventional Radiology	Fluoroscopic Unit & Nuclear Medicine Unit
Molynes Road		x	x		
Winchester Medical	x	x	x	x	x
Old Hope Road	x	x	x	x	
Ocho Rios	x	x	x		

Revenue Characteristics

The company’s primary means of customer/patient acquisition is through referral from referring physicians and its revenue is derived from a diverse mix of payers, including private patients, health insurance companies and the Ministry of Health and Wellness.

IPC’s Winchester Road location contributes the largest share of revenues across all of its facilities. Ultrasound tended to generate the most volume activity while CT scans generated the most dollar

value revenue per modality. In the past five years, the company performed an average of 39,934 scans across its locations, and in FY 2022, the company performed over 46,000 scans.

Differentiation Strategy

The company attempts to differentiate itself from its many competitors by striving to offer:

- Patient-friendly, non-clinical environments;
- A 48-hour turnaround on routine examinations;
- Interpretations within one to two hours, if needed;
- Flexible patient scheduling, including same-day appointments;
- Extended operating hours, including weekends;
- Reports delivered by courier, facsimile or email;
- Availability of second opinions and consultations;
- Availability of sub-specialty interpretations at no additional charge;
- Standardized fee schedules

Additionally, IPC's centres are interconnected and allow for Tele-Radiology, web-based appointment booking and direct access to referring physicians making the Company a leader in patient management and care.

Industry Overview

Diagnostic Medical Imaging involves the use of non-invasive procedures to generate representations of internal anatomy and function that can be recorded on film or digitized for display on a video monitor. Diagnostic imaging procedures facilitate the early diagnosis and treatment of diseases and disorders and may reduce unnecessary invasive procedures, often minimizing the cost of care for patients.

Medical imaging plays a critical role in establishing the diagnosis for innumerable conditions and it is used routinely in nearly every branch of medicine. The advancement of imaging technologies has improved the ability of clinicians to detect, diagnose, and treat conditions while also allowing patients to avoid more invasive procedures. For many conditions (e.g., a brain tumour), imaging is the only non-invasive diagnostic method available.

Going forward, the diagnostic imaging service industry in Jamaica is likely to continue to experience growth as it is believed that there will be escalating demand for healthcare services from an aging population. According to the Statistical Institute of Jamaica (Demographic Statistics, 2019), approximately 36% of Jamaica’s population is over the age of 40 (24% over the age of 50 years of age). Generally, healthcare requirements tend to increase as the population ages and the use of diagnostic imaging tools is expected to exhibit a strong correlation with growing health care needs.

Additionally, the industry is also expected to grow as people and health care practitioners assume a more proactive posture towards healthcare. This could be in the form of greater demand for Preventive Diagnostic Screening - Diagnostic Imaging, such as elective full-body scans, is increasingly being used as a screening tool for preventive care procedures.

Competitive Environment

The diagnostic imaging market is highly competitive. IPC’s competitors include independent imaging operators, as well as private and public hospitals that operate their own imaging services. A breakdown of the company’s major competitors are as follows.

Diagnostic Medical Imaging Competitive Landscape				
Service Provider	Services	# of Branches	Branch Parishes	Saturday Opening
Elite Diagnostics	MRI CT Scans Ultrasound X-ray Fluoroscopy Interventional studies	3	St. Andrew and St. Ann	Yes
Medical MRI Services (Ja) Limited	MRI CT Scans Mammography X-ray Ultrasound	1	St. Andrew	No
UWI Mona Radiology	CT Scans Ultrasound X-ray Fluoroscopy Mammography Interventional studies Biopsies and Drains	1	St. Andrew	Yes

Oxford Medical	Bone densitometry Fluoroscopy Mammography Ultrasound Interventional studies Musculoskeletal MRI Imaging CT Scans	1	St. Andrew	No
X-Ray & Diagnostic Ultrasound Consultants Limited	X-ray Ultrasound PET Interventional studies	1	St. Andrew	No
Kris Radiology	X-Ray Ultrasound Fluoroscopy Mammogram CT	1	St. Andrew	Yes
Danhope Radiology	X-Ray Ultrasound Fluoroscopy CT Mammograms	1	St. Andrew	Yes
Precision Imaging	Breast Biopsy CT X-Ray Mammogram Ultrasound	1	St. Andrew	No
Centre for Diagnostic Imaging	X-Ray Ultrasound CT	1	St. Andrew	Yes
Island Radiology	Ultrasound Mammography Fluoroscopy CT Scans Interventional studies CT	1	St. Ann	Yes
Medical X-Ray Inst.Ltd. (Medical Associates)	Ultrasound X-Ray Interventional Studies	1	St. Andrew	Yes
Imaging & Interventional Associates (IIA)	Ultrasound Mammogram CT Scans Fluoroscopy Interventional Studies	1	St. Andrew	Yes

Offer Summary

Issuer	Image Plus Consultants Ltd. (IPC)
Offer Opening Date	9:00 A.M. on December 18, 2022
Offer Closing Date	4:00 P.M. on January 11, 2023
Offer Details	<p>The issuer reserves the right to shorten or extend the subscription period</p> <p>IPC is offering 247,889,936 ordinary shares for subscriptions at a subscription price of J\$2.00 per share. Shares are being offered as follows:</p> <ul style="list-style-type: none"> * 182,889,936 (73.78% of offer) shares are being offered to the General Public * 65,000,000 shares are being Reserved for Reserved Share Applicants as follows: <ul style="list-style-type: none"> * 17,875,000 Shares are reserved for Image Plus Employee Reserved Shareholders * 42,125,000 Shares are reserved for Image Plus Key Partner Reserved Shareholders * 5,000,000 Shares are reserved for Broker Reserved Shareholders <p>The per share prices indicated was not inclusive of JCSD processing fee of J\$172.50 per application.</p>
Minimum Application	Applications will only be considered if made for a minimum of 5,000 Shares and amounts over that shall be in increments of 100 Shares.
Stock Exchange Listing	The Jamaica Stock Exchange's Junior Market
Use of Proceeds	<p>The Company intends to use funds raised to strategically and sustainably grow the business by:</p> <ul style="list-style-type: none"> * Acquiring property to be identified in Kingston which is suitable to relocate our largest operations, thereby ensuring control of our revenue and allowing for even further expansion of our offerings. * Procuring suitable new bio-medical equipment to offer additional diagnostic modalities at our Ocho Rios location. * Expand our offering of interventional procedures, maximizing on this fast growing area of diagnostic imaging.
Proposed Dividend Policy	For the first two years after listing, while the Company continues in its growth phase, up to a cap of 55% of the distributable profits will be made available in accordance with applicable laws, subject to the Company's need for working capital to finance the continuing operations and internal growth of the Company. The intention is for the Board to consider dividend distributions on a semi-annual basis.

Shareholder's Breakdown

Shareholder Distribution Prior to IPO		
Name of Shareholder	Shares Owned	% of Outstanding Shares
Dr. Karlene McDonnough	303,417,282	30.60%
Dr. Lilieth Bridgewater	160,632,679	16.20%
Quad G Limited	210,210,666	21.20%
Advanced Imaging Limited	168,565,156	17.00%
Surescan Radiology Services Ltd	49,577,987	5.00%
Dr. Leon Vaughan & Dr. Marian Allison-Vaughan	99,155,974	10.00%
Total	991,559,744	100.00%

Expected Shareholder Distribution Subsequent to IPO Closing		
Name of Shareholder	Shares Owned	% of Outstanding Shares
Dr. Karlene McDonnough	303,417,282	24.48%
Dr. Lilieth Bridgewater	160,632,679	12.96%
Quad G Limited	210,210,666	16.96%
Advanced Imaging Limited	168,565,156	13.60%
Surescan Radiology Services Ltd	49,577,987	4.00%
Dr. Leon Vaughan & Dr. Marian Allison-Vaughan	99,155,974	8.00%
Image Plus Employee Reserved Shareholdk	17,875,000	1.44%
Image Plus Key Partner Reserved Shareho	42,125,000	3.40%
Broker Reserved Shareholders	5,000,000	0.40%
General Public	182,889,936	14.76%
Total Issued Shares	1,239,449,680	100.00%

Analyst's Opinion

Rating	Offer Price	Estimated Fair Value	Potential Capita Gains
Overweight	J\$2.00	J\$2.98	49.00%

Over the past five (5) years of operation, IPC's financial performance has been exemplary. During that period, the company's top line grew at a compound annual growth rate (CAGR) of 21.89% while the bottom line grew at a CAGR of 30.56%. Management has been diligent in its management of the business which has:

- Ensured growth in profitability
- Allowed the company to secure external financing
- Allowed for adequate working capital.

Adherence to these tenets has allowed the business to expand over the years growing from a single branch operation in 1996 to now having four branches in Jamaica as of the time of writing.

The management process has been further refined recently with the company establishing a dividend policy to allow for the distribution of earnings to shareholders. Previously, when the company was private, it had no dividend policy and instead its shareholders served as directors and were paid Director's Fees. The fee, however, was paid at an extraordinary rate when compared to other publicly listed company's Directors' fees. However, going forward, directors' fees will be paid to directors at the customary rates for publicly listed companies of similar size, and dividends will be paid to all shareholders as available in accordance with the applicable dividend policy.

It is our opinion that the company is capable of realizing significant growth in the future as the population ages and as medical practitioners locally rely more heavily on non-invasive scanning procedures for diagnosis. The potential expansion of the branch network also augurs well for future growth. Consequently, using a relative multiple approach **we estimated the fair value of IPC at J\$2.98 per share**. This represents the potential of 49% capital gains relative to the offer price of J\$2.00 per share. Therefore, it is our recommendation that investors **Overweight** IPC's shares in their portfolios. However, Investors should be cognisant that if they hold Elite Diagnostics in their portfolio, the addition of IPC to their portfolio could result in overexposure to the industry, or more specifically, this type of business model.

Financial Analysis

Profitability Review

Between FY 2018 and FY 2022, IPC top line revenue grew each successive year; in the five (5) year window, revenue grew at a Compound Annual Growth Rate (CAGR) of 21.89%. The company's growth in revenue was primarily attributable to an increase in scan activity and price inflation. However, in FY 2020, the average scan per facility declined as a result of the company opening a new facility in that year. However, the trend in scans per facility may have also been negatively impacted by the Disaster Risk Management protocols implemented in the wake of the COVID-19 pandemic which curtailed business activity. Nonetheless, overall business activity by the company trended upwards with the company performing just shy of 36K scans in FY 2018 relative to just over 46K scans in FY 2022.



Cost of sales generally increased with revenue reflecting the higher level of business activity and cost associated with delivering the service. Despite this, gross profits increased each successive year, peaking at J\$505.27M in FY 2022, marking a 31.31% improvement over the previous year. Gross profit margin also improved year over year (YoY) as the company achieved a gross profit margin of 64.99% in FY 2022.



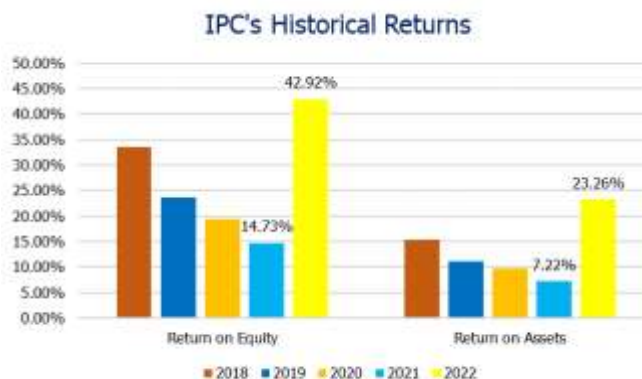
Despite the aforementioned YoY improvement in gross profits, between FY 2018 and FY 2021, IPC's operating profit demonstrated no significant signs of growth and instead hovered between J\$36M and J\$43M. This was primarily attributable to poor operating expense management which saw operating expenses rise from a low of J\$178M in FY 2018 to J\$341M in FY 2021. As a

consequence, IPC's operating profit margin contracted each successive year between FY 2018 and FY 2021. However, in FY 2022, operating profit improved significantly YoY (i.e. by 165%) to J\$115.06M as emphasis was placed on the management of operating expenses. Consequently, operating margin expanded

to 14.80%. Prior to the current financial year, the Company paid Director's Fees to those shareholders who were also directors but did not pay dividends which accounted for the high operating expenses. Going forward, directors' fees will be paid to directors at the normal and customary rates for publicly listed companies of similar size, and dividends will be paid as available in accordance with the applicable dividend policy. Consequently, operating expenses are expected to normalize going forward.



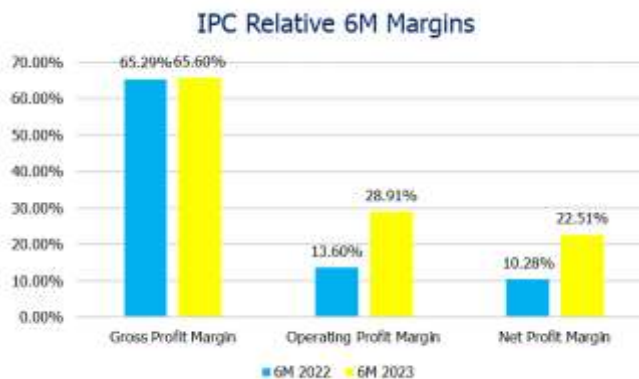
This trend followed through to the bottom line with the company earning J\$113.06M in net income, improving on the J\$27.04M earned in FY 2021 by 318.06%. This equated to return on average equity (ROE) and return on average total assets (ROA) of 42.92% and 23.26%, respectively. The returns earned in FY 2022 broke a streak of three consecutive years of declining returns.



Six Months of Financial Year 2023

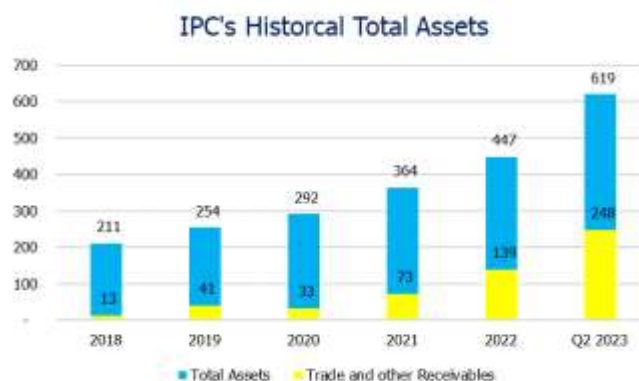
In the first half of FY 2023 (i.e. 6M 2023) IPC continued to focus on improving sales activity and operational efficiency. This focus resulted in IPC reporting net profit of J\$124.91M, surpassing the J\$94.29, earned for the entirety of FY 2022 by just shy of 32.50% and surpassing the J\$37.31M earned in the corresponding period of the previous financial year by 234.79%.

At the heart of the company's improvement was higher turnover, characterised by J\$554.82M in revenue. This was a 52.83% or J\$191.78M improvement relative to the J\$363.04M earned in 6M 2022. Improvement in operational efficiency was also visible in an expansion of the company's margins. Gross profit margin improved marginally from 65.29% in 6M 2022 to 65.60% in 6M 2023, while greater improvement was observed in the operating margin and net profit margin which increased from 13.60% and 10.28%, respectively, to 28.91% and 22.51%, respectively.



Balance Sheet, Liquidity & Solvency Analysis

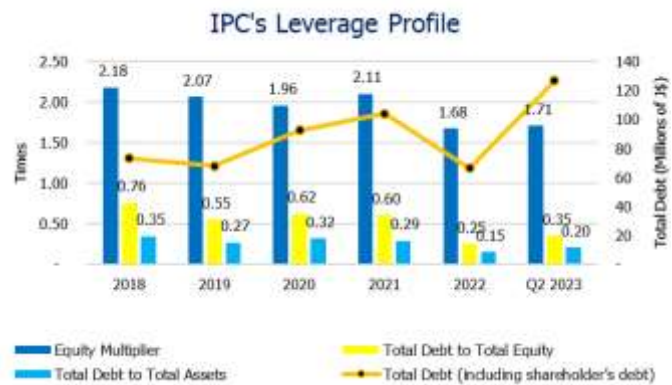
IPC's balance sheet has grown significantly over the past five and a half years. Between the end of FY 2018 and the end of FY 2022, IPC's balance sheet grew at a CAGR of 20.63%. At the end of Q2 2023, IPC reported J\$619.37M in total assets, a 38.44% increase relative to the end of FY 2022. Generally, Property plant and equipment has been the company's largest asset. However, in recent years, receivables have grown to occupy a significant proportion of the company's assets. As at the end of Q2 2023, IPC reported trade and other receivables of J\$247.50M, a 78% increase since the end of FY 2022. For context, IPC reported property plant and equipment of J\$277M in the same window. IPCC receivables comprises of amounts due from patients, insurance companies and the MOHW, net of expected credit loss, deposits, amounts due from employees and other receivables. The majority of our trade



receivables as at February 28, 2022 are due from insurance companies and the MOHW for which we have a 100% collection rate.

IPC's liquidity, as measured by the current ratio, has steadily improved each successive year since the end of FY 2019. At the end of FY 2022, the company's current ratio indicated current ratio was 1.70 times current liabilities. This ratio further improved in the FY 2023, as at the end of Q2 2023, the current ratio improved to current assets being 2.63 times current liabilities.

IPC's balance sheet growth was primarily funded by a mixture of debt and internal capital (i.e. retained earnings). Between the end of FY 2018 and FY 2021, total debt increased by just over 42% from J\$73M to J\$104. The debt was reduced at the end of FY 2022 to J\$66M before increasing to J\$127M at the end of Q2 2023. Despite the nominal increase in debt, the company solvency remains strong and has generally improved over the aforementioned period as a measure of debt to total assets, debt to equity and financial leverage (the equity multiplier).



IPC's shareholder's equity consistently increased YoY in line with profitability as the company maintained a 100% retention ratio during the window between FY 2018 ad FY 2022. At the end of Q2 2023, IPC reported J\$361.75M in shareholder's equity, a 35.57% increase relative to the end of FY 2022.



Cash Flow Analysis

Between FY 2018 and FY 2022, IPC's operating activities produced positive cash flows each year as a consequence of consistent annual net profits and prudent management of working capital. The company supplemented the positive operating cash flow with borrowing in FY 2020 and FY 2022 in order to purchase fixed assets.

In 6M 2023, IPC generated J\$52.22M from operating activities. This was a 15.04% increase relative to the J\$45.40M generated in 6M 2022. However, in the six-month window the company invested heavily, investing J\$108.12M in the period. Supplementing operating activity cash flow was J\$28.52M from financing activity which resulted in the company utilizing J\$27.38M of the cash it had on hand at the beginning of the year.

Company Valuation

Elite Diagnostic Ltd. represents the closest comparable company to IPC as both companies operate in the same industry, have nearly identical business models and operate on a similar scale. Consequently, we opted to use a relative valuation model to determine the fair value of IPC. Elite trades at a multiple of 20.5 times earnings and 1.40 times book value. Affording IPC a similar multiple against its FY 2024 forward earning per share of J\$0.21 and forward book value per share of J\$0.92, **yields an average fair value of J\$2.98 per share.**

Risks to Valuation

There is always a risk that forecasts could prove to be inaccurate. This is because the valuation is based on the interpretation of currently available data which may change in the future. We have compiled a short list of the most pertinent risk factors that is believed could affect the firm's performance. For a more comprehensive list, please refer to the, "Risk Factors" section of the prospectus. The risk that the valuation could prove inaccurate could be influenced by:

- 1) Changes in economic conditions could affect the company's performance. These changes include a larger economic downturn than we had incorporated into our model. Conversely, if the impact on the economy is less severe than we anticipated, or the recovery is quicker than we anticipated, then our model could also prove inaccurate.
- 2) Supply Side shocks could also inhibit the company's ability to procure essential machinery and services could negatively impact the company's operations.
- 3) The company is dependent on contracted labour from external radiologist to operate the machinery, and to analyse and interpret the results of scans. Therefore, shocks to the supply of competent labour could negatively impact the firm's ability to operate. Similarly, much of the company's clientele are acquired by referrals by physicians. Therefore, if a sufficiently large number of physicians and other third parties were to discontinue referring

patients to the firm, its scan volume could decrease, which would have an adverse impact on revenues, results of operations, financial position, and cash flows.

- 4) Malpractice liability could open the firm up to litigation or significant pay outs that could directly affect the company by way of settlement agreements or an increase in malpractice insurance.
- 5) The implementation of more Stringent Virus Spreading Mitigation Strategies by the Government of Jamaica could negatively impact business operations and revenue generating capacity.
- 6) The company could opt to expedite investment plans to expand its operations further. Such a move would likely impact the company's leverage and cash burn.

Appendix

Investment Recommendation Definitions

Overweight – Consider capping exposure to this asset to 10% of the value of the portfolio.

Underweight - Consider reducing portfolio exposure to this asset to less than 5%.

Marketweight - Consider capping exposure to this asset to 5% of the value of the portfolio.

Sell - Consider reducing your portfolio's exposure to this asset to 0%.

Disclosures and Disclaimers

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