citadel group

MANAGING COMPLEXITY

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18 February 2020

CITADEL TO BECOME A GLOBAL HEALTHCARE SOFTWARE COMPANY WITH THE ACQUISITION OF WELLBEING SOFTWARE GROUP

- **Citadel to acquire Wellbeing Software Group, the UK market leading provider of radiology and maternity software solutions that manage patient workflow and data**
- **The Wellbeing acquisition is in line with Citadel's strategy of further expanding into high quality software based recurring revenue streams, and shifts Citadel's overall earnings profile towards healthcare software**
- **Wellbeing will sit within the Citadel Health divison and augment Citadel's current market leading pathology and oncology software products**
- **Acquisition is expected to deliver high single digit percentage EPS accretion (including cost synergies), with the opportunity to generate substantial additional accretion from cross-sell revenues in Australia and the UK**
- **Acquisition to be funded by an underwritten two-tranche Placement raising approximately $127 million and a $90 million debt facility**
- **Non-underwritten Share Purchase Plan of up to $10 million for eligible shareholders**

Canberra, Australia – The Citadel Group Limited (ASX: CGL) is pleased to announce that it has entered into a binding agreement to acquire Wellbeing Software Group Limited (Wellbeing) for an enterprise value of £103 million.

Wellbeing is one of the UK's leading healthcare software companies

Over more than 25 years, Wellbeing has grown through a combination of organic development and acquisitions into the UK's leading provider of radiology and maternity healthcare software that manages patient workflow and data. Wellbeing is aligned to the UK NHS' long-term care agendas, with one or more of its solutions used in 81% of NHS Trusts across England.

Wellbeing generated £16.6 million revenue for the 12 months ended 31 December 2019, and is forecast to generate £18.7 million revenue this calendar year. In 2019, it delivered a Gross Profit of £10.1 million, and EBITDA of £6.5 million at a 39% margin.

Commenting on the acquisition, Citadel CEO Mark McConnell said:

"Citadel's acquisition of Wellbeing transforms Citadel into a global healthcare software company with multiple growth opportunities. Citadel has been focused on growing in the healthcare software sector in the UK over the past two years. I am excited to welcome Wellbeing's management team into

Citadel and am looking forward to executing on the many growth opportunities we see for the combined businesses.

"Wellbeing is the market leading provider of radiology and maternity software workflow solutions in the UK with a market share of 59% and 23% of the respective NHS acute trusts in England. Like Citadel, Wellbeing is well regarded, as is evident from its over 150 clients in the UK, average annual retention rate of 99% over the past 3 years, and average relationship length of over 12 years across its top 10 customers. With around 70% of revenues recurring and an EBITDA margin approaching 40%, Wellbeing has a highly attractive financial profile.

"While the acquisition is EPS accretive on the basis of a small amount of cost synergies, the big opportunity both management teams see is revenue synergies. The opportunity to cross-sell Citadel's existing enterprise software offerings to Wellbeing's large client base, Wellbeing's enterprise software offerings to Citadel's client base, and the entire healthcare software solution into new clients and markets, is substantial."

Compelling strategic rationale

The acquisition is underpinned by a compelling strategic rationale:

- Wellbeing has high quality, recurring revenues with strong margins
- Wellbeing has a strong sales pipeline with over 80% visibility on CY20 revenue
- Provides Citadel with immediate market share in the UK via a strong established business
- Broadens Citadel's product suite in Health – adding Radiology and Maternity Software to Citadel's existing Pathology and Oncology Software – providing a full suite solution to healthcare providers
- Provides a credible platform to launch the pathology and oncology solution into the UK
- Enhances and diversifies Citadels' customer base
- Adds a strong and aligned management team on the ground in the UK to continue to drive growth in both the existing Wellbeing product suite as well as the cross sell of Citadel products
- Improves group EBITDA and Gross Profit margins

Acquisition funding and terms

Wellbeing is being acquired for an enterprise value of £103 million ($198 million)[1] (Enterprise Value) (the Acquisition), comprising £4.8 million ($9 million) in Citadel shares to the vendors and management[2], issued at $4.65 per share, and £98 million ($189 million) cash.

[1] GBP / AUD conversion rate of 1.92. The Enterprise Value is subject to a ticking fee of ~$875,000, which is captured in transaction costs
[2] 100% of the majority of Citadel shares issued to managers will be released from escrow after 12 months; 50% of senior management's Citadel shares will be restricted from sale for 12 months, and the remaining 50% will be restricted from sale for 24 months.

The cash component of the Enterprise Value and transaction costs will be funded by a combination of:

- An underwritten placement and conditional placement to new and existing institutional investors to raise approximately A$127 million – see below for Placement details
- Subscription of 1.99 million new Citadel Shares to the Wellbeing Management at the Offer Price, which will result in the Wellbeing vendors and management owning approximately 2.5% of Citadel shares post-acquisition (**Wellbeing Management Shares**)
- Underwritten Senior Secured term loan of $90 million and undrawn revolving working capital facility of $10 million, based on pro forma net leverage at closing of 2.1x EBITDA[3]. Royal Bank of Canada and ANZ are acting as underwriters for these two debt facilities.

Citadel has sought in-principle advice from ASX on the application of Listing Rules 11.1.1, 11.1.2 and 11.1.3 and has received confirmation that those listing rules do not apply to the proposed Acquisition. Accordingly, completion of the Acquisition is only subject to the successful completion of the Placement and shareholder approval of the issuance of shares to Wellbeing Management. The Acquisition is expected to complete in April 2020.

Placement

Citadel will undertake an underwritten two tranche placement of approximately 27.4 million new ordinary shares (New Shares) to new and existing institutional investors to raise approximately A$127 million (the Offer), comprising:

- Tranche 1: Unconditional Placement of approximately 7.4 million shares to raise approximately $34 million under Citadel's existing 15% placement capacity
- Tranche 2: Conditional Placement of approximately 20.0 million shares to raise approximately A$93 million, subject to shareholder approval at an Extraordinary General Meeting (EGM) expected to be held on 30 March 2020.

  Mr McConnell, who currently has a relevant interest in 6,066,170 Citadel shares (representing approximately 12.3% pre-capital raise of the total number of Citadel shares on issue), has confirmed to the Directors of Citadel that he intends to vote, or procure the vote of, those shares in favour of the Conditional Placement and issue of Wellbeing Management Shares.

  Dr Miles Jakeman AM, who currently has a relevant interest in 6,276,181 Citadel shares (representing approximately 12.73% pre-capital raise of the total number of Citadel shares on issue), has confirmed to the Directors of Citadel that he intends to vote, or procure the vote of, those shares in favour of the Conditional Placement and issue of Wellbeing Management Shares.

  Mr Philip Allison, who currently has a relevant interest in 3,259,282 Citadel shares (representing approximately 6.6% pre-capital raise of the total number of Citadel shares on issue), has confirmed to the Directors of Citadel that he intends to vote, or procure the vote of, those shares in favour of the Conditional Placement and issue of Wellbeing Management Shares.

[3] CY19 Aggregated pro forma EBITDA of $38 million is based on Citadel's CY19 pro forma EBITDA of $24 million and Wellbeing's CY19 pro forma EBITDA of $14 million

As a show of support of the proposed transaction, Mark McConnell, and entities he controls, has also agreed to enter into voluntary escrow arrangements, in respect of the Citadel securities in which he has a relevant interest, for a period of 24 months commencing from 18 February 2020.

The New Shares represent approximately 56% of existing shares on issue.

All shares under the Offer will be issued at $4.65 per New Share (Offer Price), representing a:

- 12.1% discount to the 10-day Volume Weighted Average Price of $5.29
- 21.2% discount to last close at 17 February 2020 of $5.90.

The New Shares to be issued under the Placement and Conditional Placement will rank pari passu with existing Citadel shares on issue. Only the New Shares to be issued under the Unconditional Placement will be entitled to the dividend of 4.8 cents per share fully franked for the six months ended 31 December 2019.

Settlement of the Unconditional Placement is scheduled to take place on Friday, 21 February 2020, with allotment and quotation of the New Shares on ASX expected to occur on Monday, 24 February 2020.

The Offer is underwritten by the Royal Bank of Canada (trading as RBC Capital Markets). RBC Capital Markets is also acting as financial advisor to Citadel on the Acquisition. RBC Capital Markets and ANZ are acting as joint lead arrangers on the multicurrency debt facility to support the Acquisition.

Share Purchase Plan

In addition to the Offer, Citadel will also be undertaking an offer to eligible Citadel shareholders with registered addresses in Australia or New Zealand to participate in a non-underwritten Share Purchase Plan (SPP) to raise up to an additional $10 million.

The SPP will provide each eligible Citadel shareholder in Australia and New Zealand at 7:00pm AEDT on 17 February 2020 with the opportunity to subscribe for up to $30,000 worth of new Citadel fully paid ordinary shares at $4.65, being the Placement and Conditional Placement Price, without incurring brokerage or other transaction costs.

As with the New Shares issued under the Unconditional Placement and Conditional Placement, the New Shares issued under the SPP will rank equally with existing Citadel shares. However, as with the New Shares issued under the Conditional Placement, the New Shares issued under the SPP will not be entitled to receive the dividend relating to the six months ended 31 December 2019 (FY20 interim dividend).

Citadel reserves the right (at its absolute discretion) to scale back applications under the SPP if total demand exceeds $10 million. The funds raised from the SPP will provide Citadel with additional working capital.

An SPP Booklet containing the terms and further details of the SPP offer will be lodged with ASX and sent to all eligible Citadel shareholders shortly. The SPP offer period is intended to open on Wednesday, 26 February 2020 and close on Monday, 6 April 2020. The SPP is not underwritten.

Indicative timetable

Event	**Date**
Record Date for SPP	7:00pm AEDT, Monday, 17 February
Trading halt and Placement conducted	Tuesday, 18 February
Resume trading, announce results of Placement	Wednesday, 19 February
Placement settlement	Friday, 21 February
Issue and quotation of New Shares under the Placement	Monday, 24 February
Despatch of SPP terms and offer letter, and opening date of SPP	Wednesday, 26 February
Despatch of Notice of EGM	Thursday, 27 February
Citadel EGM to approve Conditional Placement (expected date)	Monday, 30 March
Settlement of Conditional Placement	Wednesday, 1 April
Issue and quotation of New Shares under the Conditional Placement	Thursday, 2 April
Closing date of SPP	Monday, 6 April
Announcement of results of SPP	Tuesday, 7 April
Settlement of SPP	Wednesday, 8 April

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About The Citadel Group

Citadel is a software and services company. We specialise in managing information in complex environments through integrating know-how, systems and people to provide information on an anywhere-anytime basis. We are a leader in the development and delivery of managed technology solutions. The majority of our revenues are derived from software solutions and long term managed services contracts.

Important Notices and Disclaimer

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This announcement does not constitute an offer to sell, or a solicitation of an offer to buy, any Citadel securities in the United States or in any jurisdiction in which such an offer would be illegal. Any securities offered or sold under the Placement, Conditional Placement or the SPP have not been, and will not be, registered under the U.S. Securities Act of 1933 (the "US Securities Act"), or the securities laws of any state or jurisdiction of the United States. Accordingly, the securities being offered and sold in the Placement and Conditional Placement may not be offered or sold, directly or indirectly, in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and any applicable US state securities laws. The securities being offered and sold in the SPP may not be offered or sold, directly or indirectly, to any person in the United States.

This announcement contains certain forward-looking statements about Citadel. The "may", "will", "expect", "intend", "plan", "estimate", "anticipate", "continue", and "guidance" and other similar expressions are intended to identify forward-looking statements. Forward-looking statements in this announcement include statements regarding: plans, strategies, growth initiatives and objectives of management, the future operation and financial performance of Citadel, and the outcome of the Placement, Conditional Placement and the SPP and the use of proceeds therefrom. Forward-looking statements, including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. No representation, warranty or assurance (express or implied) is given or made in relation to any forward-looking statement by any person (including Citadel). In particular, no representation, warranty or assurance (express or implied) is given that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur. Actual results, performance or achievement may vary materially from any projections and forward-looking statements and the assumptions on which those statements are based. Readers are cautioned not to place undue reliance on forward looking statements and Citadel assumes no obligation to update such information.

All dollar values are in Australian dollars (“$”or “A$”) unless stated otherwise.

This announcement contains certain financial measures that are "non-IFRS financial information" under ASIC Regulatory Guide 230 ‘Disclosing non-IFRS financial information’ published by ASIC and also “non-GAAP financial measures” within the meaning of Regulation G under the U.S. Securities Exchange Act of 1934, as amended, and are not recognised under Australian Accounting Standards (“AAS”) and International Financial Reporting Standards (“IFRS”). The non-IFRS/non- GAAP financial information does not have a standardised meaning prescribed by AAS and IFRS and therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with AAS or IFRS. Investors are cautioned not to place undue reliance on any non-IFRS/non-GAAP financial information included in this announcement.

In addition, the pro forma historical financial information included in this announcement does not purport to be in compliance with Article 11 of Regulation S-X under the US Securities Act and was not prepared with a view towards compliance with the rules and regulations or guidelines of the U.S. Securities and Exchange Commission or the American Institute of Certified Public Accountants for the preparation and presentation of pro forma financial information.