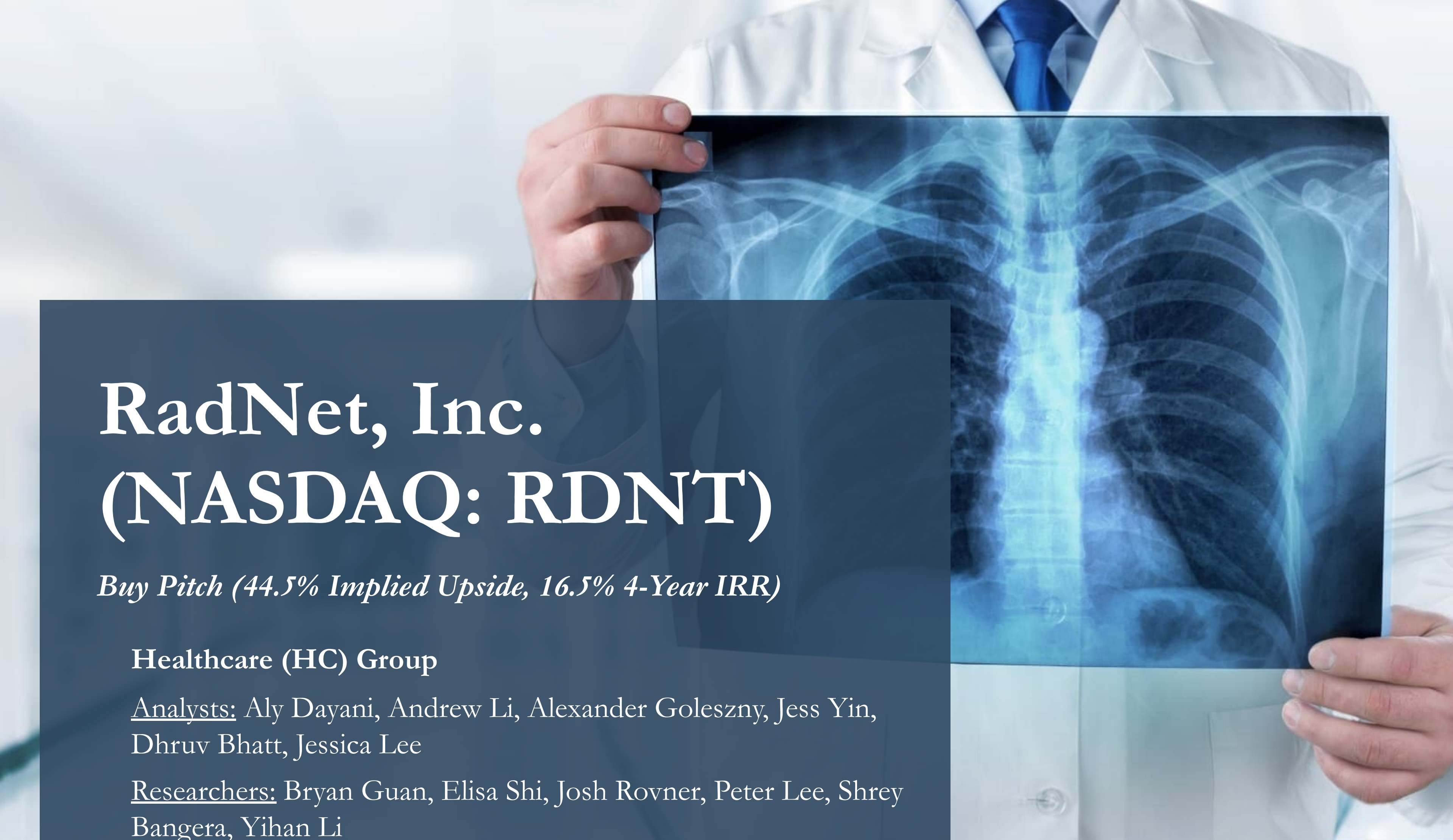


RadNet, Inc. (NASDAQ: RDNT)

Buy Pitch (44.5% Implied Upside, 16.5% 4-Year IRR)

Healthcare (HC) Group

Analysts: Aly Dayani, Andrew Li, Alexander Goleszny, Jess Yin, Dhruv Bhatt, Jessica Lee

Researchers: Bryan Guan, Elisa Shi, Josh Rovner, Peter Lee, Shrey Bangera, Yihan Li

December 1st, 2021

Western Investment Club

Disclaimer

The analyses and conclusions of the Western Investment Club ("WIC") contained in this presentation are based on publicly available information. WIC recognizes that there may be confidential information in the possession of the companies discussed in the presentation that could lead these companies to disagree with WIC's conclusions. This presentation and the information contained herein is not a recommendation or solicitation to buy or sell any securities.

The analyses provided may include certain statements, estimates and projections prepared with respect to, among other things, the historical and anticipated operating performance of the companies, access to capital markets and the values of assets and liabilities. Such statements, estimates, and projections reflect various assumptions by WIC concerning anticipated results that are inherently subject to significant economic, competitive, and other uncertainties and contingencies and have been included solely for illustrative purposes. No representations, express or implied, are made as to the accuracy or completeness of such statements, estimates or projections or with respect to any other materials herein. Actual results may vary materially from the estimates and projected results contained herein.

The sole responsibility for the content of this publication lies with the authors. Its contents do not reflect the opinion of the University Students' Council of the University of Western Ontario ("USC"). The USC assumes no responsibility or liability for any error, inaccuracy, omission or comment contained in this publication or for any use that may be made of such information by the reader.

Table of Contents

I.

Investment Summary

Investment Summary

An attractive industry, above market organic growth, and M&A opportunities make for a "rad" investment

Key Investment Highlights

1

Outpatient Radiology Benefits from Multiple Secular Tailwinds

- While radiology is a ~GDP growth industry, a broad shift from inpatient to outpatient providers is underway
- Outpatient imaging is cheaper for payors and more convenient for customers; insurance giants are forcing hospitals to create or partner with outpatient imaging providers
- Imaging volumes growing with aging population + rise of preventative medicine; pricing remains somewhat flat

2

Industry Leading Position Supports Above Market Organic Growth

- RadNet captures market organic volume growth from existing referral channels and can also takes share by opening new clinics in geographic whitespaces (i.e rural areas that have no existing imaging capabilities)
- RadNet's investments in higher quality machinery have allowed the company to compound prices at ~4% p.a. historically, although the additional investments have resulted in margins compounding at ~1% p.a.

3

RadNet is a Natural Consolidator in its Geographies

- RadNet's size, operating leverage, superior utilization rates, and higher margins make it the natural consolidator in the seven states where the company already has ~20% market share; average synergized entry multiple is 4x
- Consolidation increases RadNet's bargaining power with hospitals and insurers, supporting price growth, and allows the company to better execute on higher margin value-based care contracts

Buy RadNet at $26.85

II.

Business Overview

Company Overview

RadNet is the industry leader in the US imaging industry

Business Overview

- RadNet operates 350 outpatient radiology imaging facilities throughout the US through **independent** and **joint-venture** facilities
- Joint-ventures are **contractual agreements** with **hospitals**, where RadNet operates and hires staff while using hospital facilities
  - **25%** of RDNT's total facilities are under JV agreements, with management looking to increase that number to **50%** in the next **5-7 years**

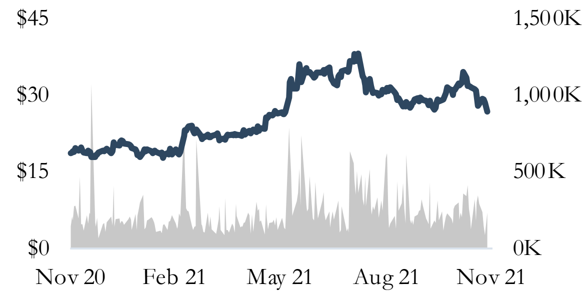
Key Financials

Ticker	NASDAQ: RDNT
Share Price	$26.85
Market Capitalization	$1.51B
Enterprise Value	$2.85B
EV/EBITDA	9.4x

Geographical Focus

A focus on regional dominance in **population-dense urban cities** and **untapped rural areas** maximizes market share capture, driving **high operating leverage**

52 Week Stock Chart



Portfolio of Services

Magnetic Resonance Imaging

Computed Tomography

Positron Emission Tomography

X-Ray

Ultrasound

Mammography

Fluoroscopy

Nuclear Medicine

Software Services

eRAD

AI-powered interpretation and distribution of digital images

EV/EBITDA calculation adds back lease liabilities into EV and lease expense into EBITDA

Sources: RadNet 10-K, Yahoo Finance

Overview of The Imaging Process

RadNet

Patients are acquired via physician referrals dependent on scale, density, and network relationships

1

Physician Referral

2

Exam Performed

Urgent Care Hospital / ER
or
Outpatient Imaging

3

Radiologist Assessment

4

Results and Downstream Care Management

Radiology services are reimbursed in 2 components:

Professional

Reimbursements paid to the physician for the slide interpretation and result reporting

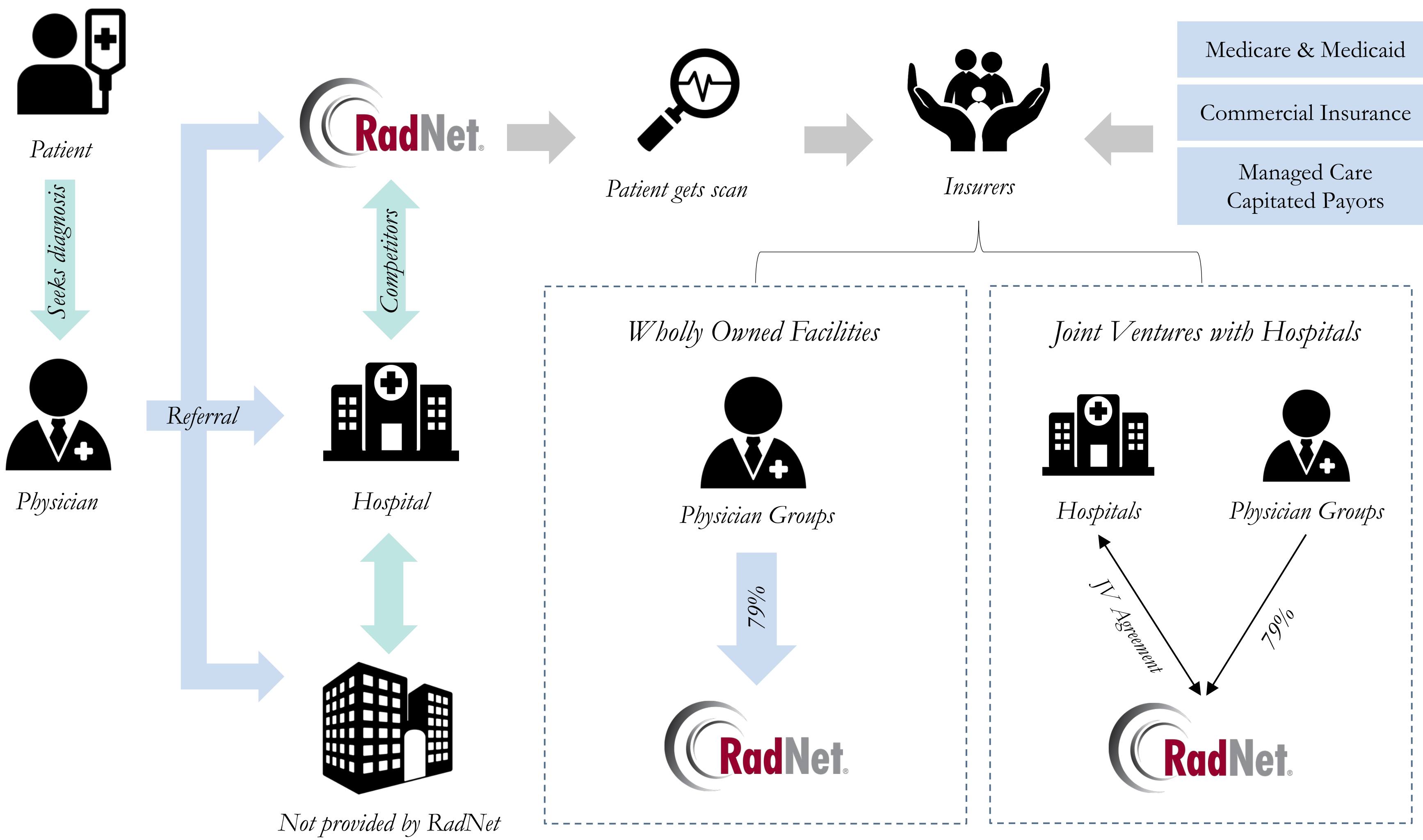
Technical

Reimbursement paid to the facility for the equipment, supplies, personnel, and other support labor costs

Sources: L.E.K. Analysis

RadNet Value Chain

RadNet's value chain taps into a network of hospital referrals and cost savings from back office aggregation



III.

Internal Analysis

Internal Analysis: Superior Operating Leverage

High operating leverage results in strong margin profiles

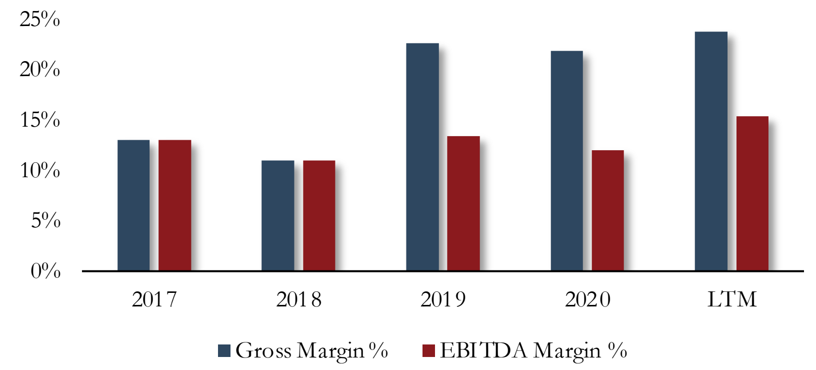
Operating Leverage Makes a Difference

Rollup Strategy: Maximizes profits due to high operating leverage, particularly in population dense regional areas

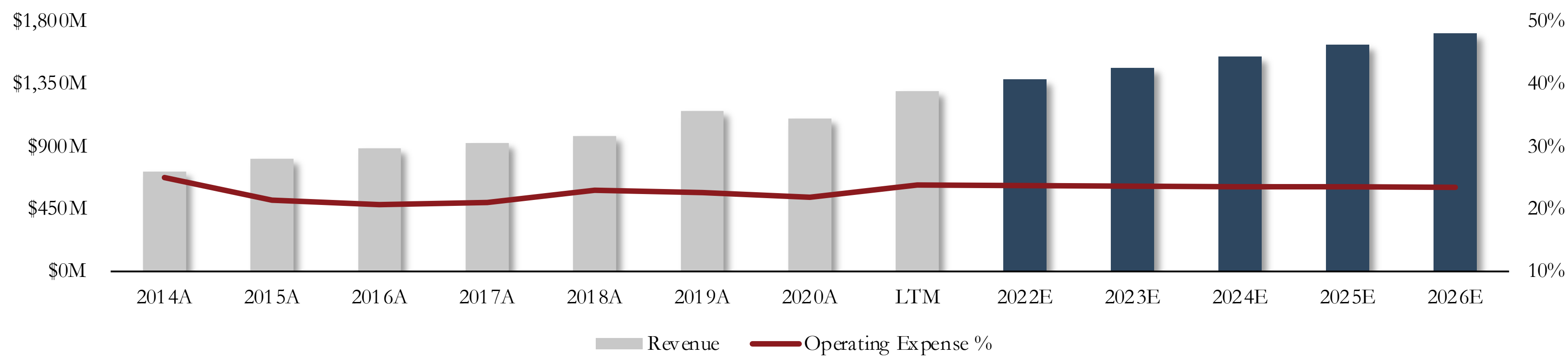
Shared Fixed Costs: Facility maintenance, imaging medical instruments, and back-office expenses for HR, legal, and accounting matters

RadNet's scale provides continued opportunity for margin expansion through **improved utilization** in such a **high fixed-cost industry**

Margin Profile



Revenue vs Operating Expense



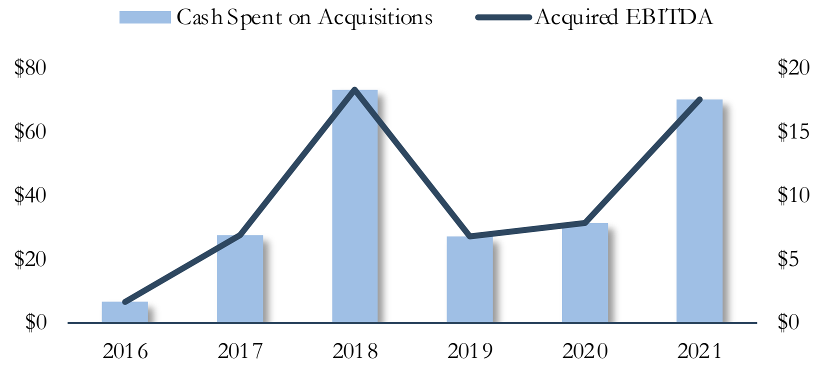
Sources: RadNet 10-K

WESTERN INVESTMENT CLUB

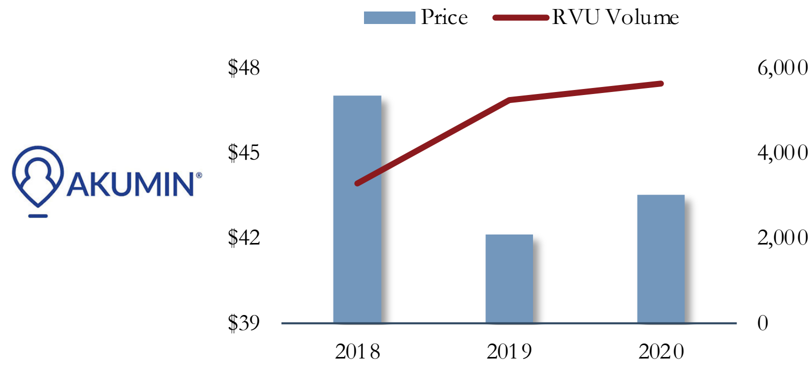
Internal Analysis: Efficiency Over Competitors

Management's shift to capitated contracts reduces payment risks and improves operating margins

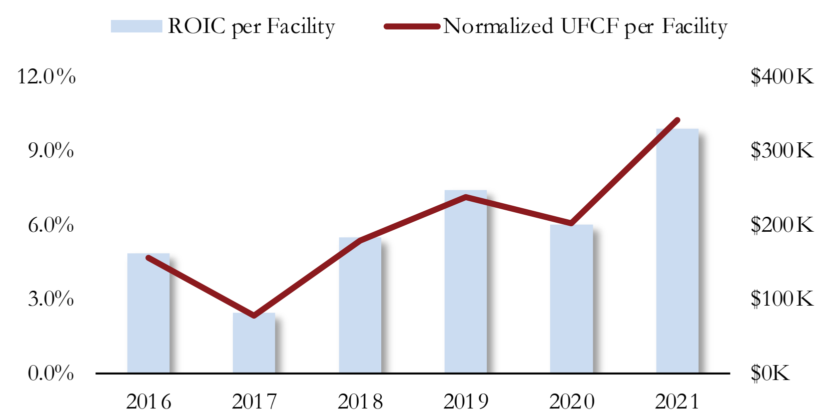
Facility Acquisitions



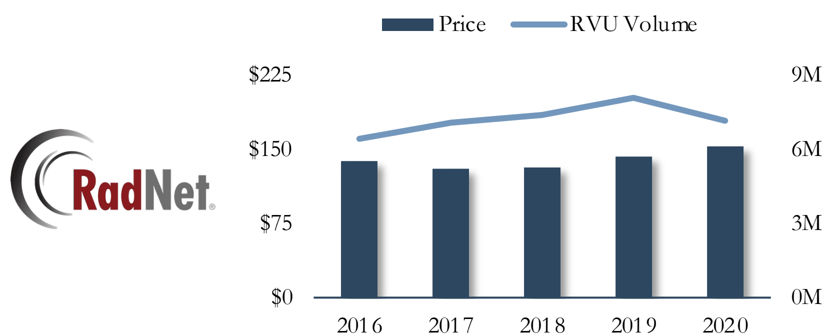
Price / Volume Trends: RDNT vs Competition



Increasing Per Facility ROIC



Despite rising volume, Akumin's price per scan is declining, signifying **low pricing power** and **lack of technical reinvestment**
In comparison, RadNet's larger **scale and leverage in higher-priced imaging subsectors** allow their price per scan to grow



Sources; RadNet 10-K

IV.

External Analysis

External Analysis: Tailwinds in Imaging Segments

Societal and technological advancements in imaging segments imply growth serviceable market

Mammography	Ultrasound	MRI
Increased **awareness & desire** for periodic breast and cervical cancer monitoring In 2018, **13.5M mammograms** were performed in the US	Rise of non-invasive, pocket-sized, **point-of-care (PoC)** ultrasounds Integration of **AI algorithms** to improve accuracy through **anatomy color-coding**	Volume decline in **open MRIs** due to the rise of portable/wheelable machines 2020: FDA cleared world's **first portable MRI** scanner; reduces cost by **20x**
7.5% CAGR throughout **2021-2026**	**$10.8B by 2031** with a **5.7% CAGR**	**4.6% CAGR** throughout **2021-2028**

CT	Fluoroscopy	Nuclear Medicine
Integration of **deep learning** to improve image quality for **quicker** readings Development of **compact CT machinery**; cheaper and portable	Rising burden of **cardiovascular disease** in the US; **1.2M** coronary cases in **2020** **3D printed models** to improve safety for radiologists; mitigates **radiation risk**	Improvements in nuclear medicine **education** through **government funding** **July 2019:** Medicare Diagnostic Radiopharmaceutical Payment Equity Act
$3.1B by 2026 with a **4.5% CAGR**	**$892.8M by 2026** with a **2.8% CAGR**	**$10.3B by 2026** with a **10.4% CAGR**

Other sub-specialties are growing at a **1-2% CAGR** throughout the next **5-7 years**

Sources: Global Newswire, Centers for Disease Control and Prevention, Food & Drug Administration, Mordor Intelligence, IBISWorld

External Analysis: Untapped Growth Opportunities

The US radiology industry is consolidating which is ideal for RadNet's acquisition strategy

Competitive Landscape Dynamics

Large Outpatient Radiology Facility Consolidators

RadNet · US Radiology Specialists (Imaging and Interventional Partners) · radiology partners · AKUMIN

$12B market size; difficult to penetrate

In-House Hospital Radiology Centers

Diminishing market; large insurers are no longer reimbursing scans performed in hospitals

$36B market size; untouchable

Small Regional "Mom-and-Pop" Shops

GSI · Hudson Valley Radiology Associates · KR Kern Radiology

$12B market size; large **M&A whitespace**

Radiology Industry Characteristics

High Fragmentation	Accelerating Pace of Consolidation	Pricing Pressures	Technology Synergies
The top 100 practices represent **<20%** of the total market RDNT is the largest player, occupying **4.8% share**	**Financial stress** on small practices has accelerated consolidation **50%** of practices have **<10 radiologists** and struggle to manage IT and hospital expectation **costs**	A big player can drive more leverage to result in **2x the profitability** Despite industry prices trending sideways, RDNT has been able to consistently drive theirs up	The integration of the **cloud** and **AI** with radiology allows for cost savings, population health management, and improved preventative models
RDNT has **advantages of scale** in a heavily fragmented industry	RDNT is a **natural consolidator** well-positioned to take advantage	RDNT benefits from their scale & size for true **pricing power**	RDNT's AI investments will improve **operational efficiency**

Sources: RadNet 10K, IBISWorld, TripleTree LLC

V.

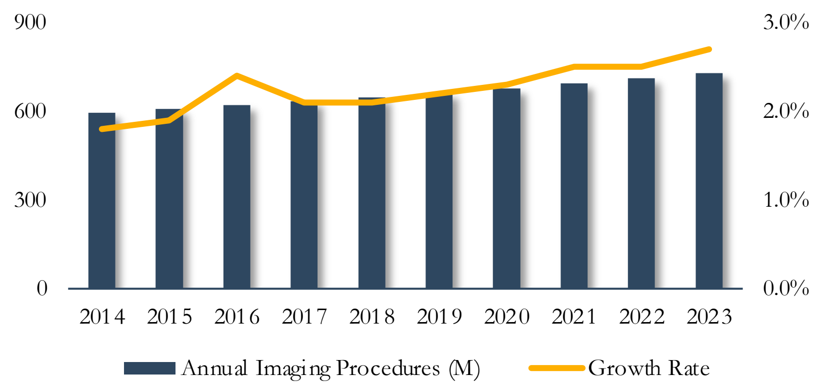
Investment Theses

Thesis I: Growth Opportunities in Outpatient Radiology

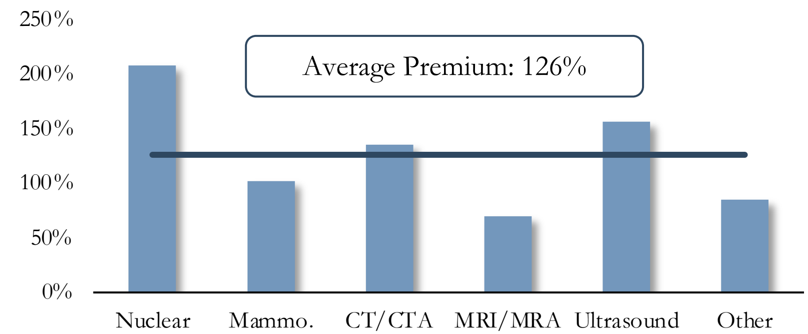
RadNet

$60B US radiology imaging market is growing with a strong push for outpatient models over traditional hospital systems

Projected US Diagnostic Imaging Revenue



Hospital Prices as % of Free-Standing Imaging



The Push for Outsourcing

Policy Changes from Insurance Providers

Anthem — United Healthcare — Cigna

42M | 26M | 550K

Restricting outpatient imaging within hospitals

85-90% of hospitals outsource radiology

Management Point-of-View

Advantages of Scale	More meaningful operating leverage with **multi-modality facilities**, **back-office**, and **negotiation**
Move Away From Hospitals	Hospitals do not have the scale for a **fully-staffed radiology team** with **sub-specialty expertise**
Patient Pipeline Stability	JVs with hospitals allow outpatient clinics to capture **100% patient market share** in specific regions

Sources: KPMG, Tegus, IBISWorld, Frost & Sullivan

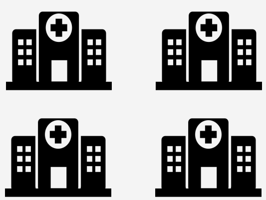
Thesis I: Growth Opportunities in Outpatient Radiology

RadNet

Leveraging regional hospital networks efficiently captures a fragmented market that is crucial for referrals

Market Penetration Via Joint Ventures

Hospital System Networks



Referrals

RadNet

Provide backend and fixed costs

25% of centers are held in JVs, goal of **expanding to 50%** within the short term

Combining Forces with Competitors

A Seat at the Negotiation Table

Hospital networks have the scale to **negotiate reimbursement terms**, payment methods, and service bunding – the **median premium increase is 13-17%** between broad and narrow networks

Protecting Patient Volume

Customer acquisition synergies arise as RadNet relies on **physician referrals to drive volume**. JV networks encompass a geographical network of hospitals, driving **same-center volume to over 2%**

Accelerated Market Penetration through Bundled Growth

JV Network	Region	Hospitals in Network	Total Hospitals in Region	Penetration
Memorial Care	Orange County	4	28	14%
Cedars Sinai Healthcare System	Los Angeles	4	40	10%
RWJBarnabas	New Jersey	11	113	10%
Lifebridge Health	Connecticut	4	41	10%

JVs acquire existing RadNet facilities to add to hospital networks

Expand contracts to other facilities within JV hospital networks

Large-scale customer acquisition via bundled hospitals

Expand JV contracts within the 637 health systems within the US

Sources: RDNT Earnings Transcript, McKinsey

Thesis I: Growth Opportunities in Outpatient Radiology

A focus on expanding internal technology and monetizing developments translates to higher efficiency

Investments in Technology

Radiology Information System

Back-end and operational efficiency for scheduling, billing, collections, image management, marketing, accounting, finance, and HR.

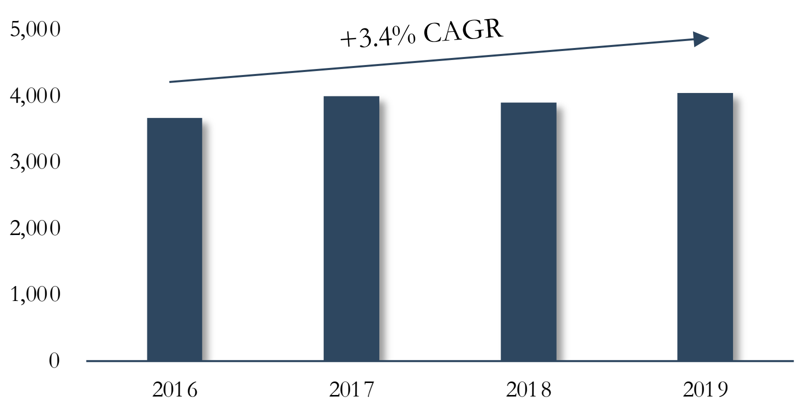
Saige-Q

FDA Approved Mammography AI that detects cancer up to 2-years earlier. Improves cost effectiveness through growing volume while creating new revenue streams from selling to insurance.

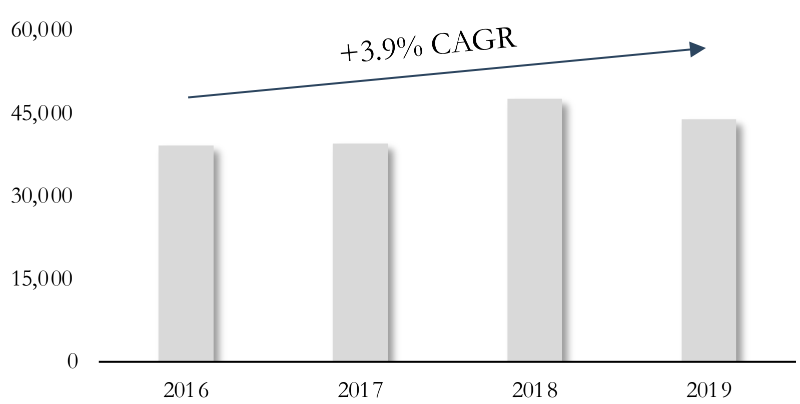
eRAD: Cloud-Based Architecture

Improves radiologist volume capacity and reduces scan time - results in higher utilization rate per machine and volume growth without additional CapEx spend.

Procedures per Machine



Procedures per Radiologist



Sources: RDNT Earnings Transcript, Capital IQ

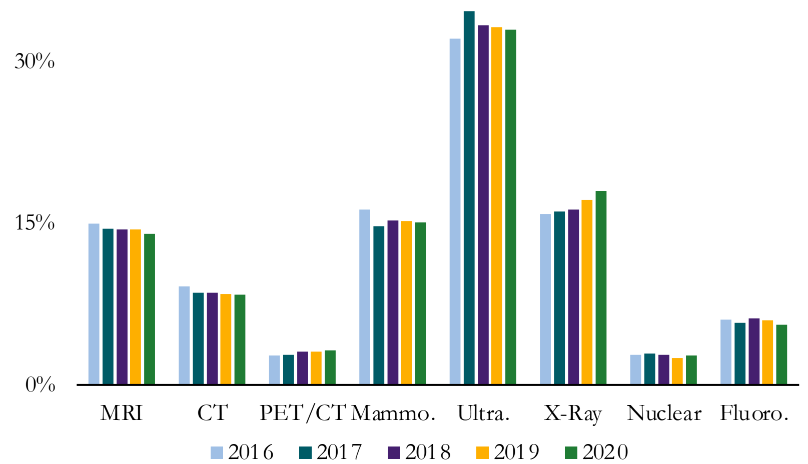
Western Investment Club

Thesis II: Scale Supports Above Market Organic Growth

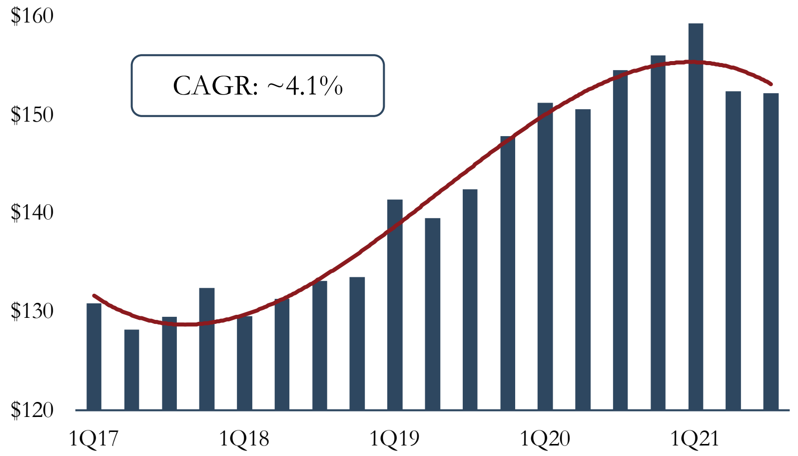
RadNet

RadNet has grown pricing at 400-450 bps p.a. without mix shift over the last 4 years

Units as a Percentage of Total Machines



Pricing per Procedure



Commentary:

Although RadNet has expanded their overall number of total machines over the years, the mix has not changed

Each clinic is an independent unit that offers the same modalities as clinics in another geography; no need for variance among clinics

We do not expect meaningful machinery mix shift going forward

Commentary:

Since mix is constant, growth in pricing per procedure can be attributed to price increases

Not all price gains flow into margin expansion; price gains driven by growth CapEx in higher quality machines result in greater D&A

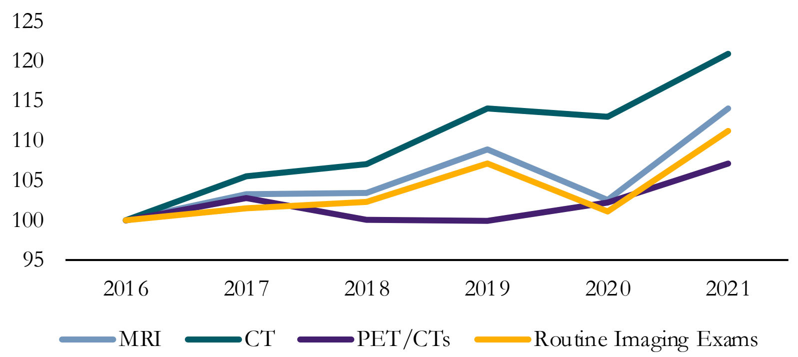
Margins have expanded ~200bps over last 4 years – a trend that we expect to continue seeing

Sources: RadNet 10-K, Capital IQ

Thesis II: Scale Supports Above Market Organic Growth

We project 1% of true pricing growth, and 3% p.a. pricing growth that is offset by higher D&A

Same Store Exam Growth (2016 = 100)



Commentary on CapEx

Historically, CapEx has grown **in line** with the number of facilities with each facility requiring the same equipment with same useful life

2020 CapEx was **~25%** higher due to Covid-19 related expenditures and integration of large acquisitions

Assumption: CapEx grows at **~6%** p.a. due to **~4%** increase in clinics through M&A and **~2%** inflation of equipment cost

Final Projection: Model **~$230K per clinic** in forward CapEx

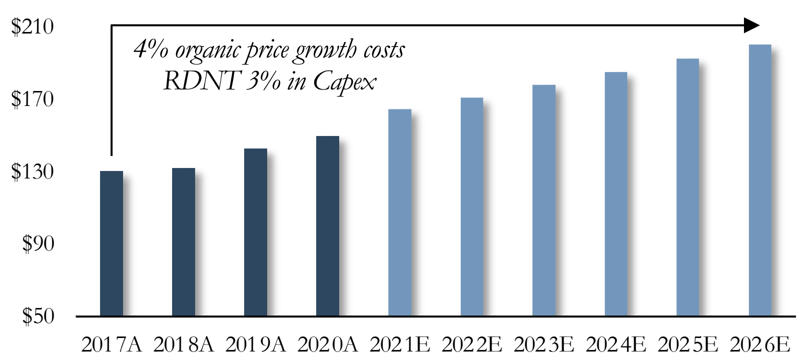
Prices Will Continue To Rise

Current CapEx levels include both (1) maintenance and (2) growth CapEx, the latter which drives **higher prices per scan**

Yet the street assumes all CapEx is maintenance and **does not give RadNet credit for reinvestment** through growth CapEx

We do not project above street margin expansion, but rather, model that **above-market pricing increases of ~3% p.a.** continue as RadNet continues to invest in new & improved machinery

Future Price Driven by CapEx and Organic Growth



Sources: RadNet 10-K, Capital IQ

Western Investment Club

Thesis II: Scale Supports Above Market Organic Growth

RadNet

Driven by continued push into outpatient clinics, RadNet's business model ensures growth in volume

Three Ways to Grow Volume

Hospital Referrals

Referrals taken from non-JV hospitals, applicable in areas where hospitals currently offer in-house imaging

Difficult route to take, as hospitals with built-in radiology centers will view RadNet's outpatient clinics as competition

JVs in New Areas

New joint venture partnerships with large hospitals in new untapped areas

Potential new geographies for expansion: (1) Midwest states with a sizable aging population and (2) Large metropolises in already-tapped-into states

De Novo Clinics

The acquisition of de novo clinics located in geographical whitespaces

Ideal locations: rural areas with limited competition, aging populations, and radiology under-penetration

Our Viewpoint on Volume

Organic Growth of ~1.5%: Driven by continued increases in same-store volume as a result of stronger JV networks, societal preference for more frequent checkups, and organic TAM growth

De Novo Clinic Growth of ~1.0%: Driven by RadNet's continued geographical expansion into new rural areas in states where they already possess operational dominance

Unmodelled Upside: The trend of radiology imaging moving out of hospitals has been accelerated by major US insurers, providing a ripe opportunity for outpatient radiology facility consolidators like RadNet

In 2017, health insurer Anthem stated they would no longer allow patients to get MRIs or CT scans at hospital-owned facilities in 13 states, requiring them to use independent imaging centers instead → Other major US insurers are expected to soon follow this policy

Sources: RadNet 10-K, Tegus, Los Angeles Daily

Thesis II: Scale Supports Above Market Organic Growth

RadNet historical EBITDA bridges show consistent above market price and volume growth

2-Year Growth

'19-'21 EBITDA Bridge		2y CAGR
'19 EBITDA	$154.5	
'19-'21 SS Volume Growth	5.4%	2.6%
SS Volume EBITDA Contribution	$8.4	
'19-21 Pricing per Procedure Growth	8.3%	4.1%
Pricing EBITDA Contribution	$12.8	
2021E Organic EBITDA	**$175.7**	
'19-'21 M&A Total Spend	$149.7	
Acquired EBITDA (4x synergized)	**$37.4**	
2021E EBITDA (Bridge Output)	**$213.2**	
2021E EBITDA (CIQ Estimate)	**$213.3**	

4-Year Growth

'17-'21 EBITDA Bridge		4y CAGR
'17 EBITDA	$119.8	
'17-'21 SS Volume Growth	9.7%	2.4%
SS Volume EBITDA Contribution	$11.7	
'17-21 Pricing per Procedure Growth	18.7%	4.4%
Pricing EBITDA Contribution	$22.4	
2021E Organic EBITDA	**$153.9**	
'17-'21 M&A Total Spend	$250.5	
Acquired EBITDA (4x synergized)	**$62.6**	
2021E EBITDA (Bridge Output)	**$216.5**	
2021E EBITDA (CIQ Estimate)	**$213.3**	

Commentary:

The pace of price, volume, and M&A has been consistent over the years

Organic growth drives about 1/3 of growth, with pricing growth not fully flowing into bottom margins

Sources: RadNet 10-K

Thesis III: RadNet is a Natural Consolidator

RadNet's size, operating scale, leading margins, and historical M&A success have made it a natural buyer

Regional Dominance

State	AZ	CA	DE	FL	MD	NJ	NY
Number of RadNet Facilities	7	148	8	3	53	24	90
Outpatient Radiology Clinics	200	1249	30	599	150	200	250
Market Share	3.5%	11.9%	26.7%	0.5%	35.4%	12.0%	36.0%

~20.0% market share in 7 states

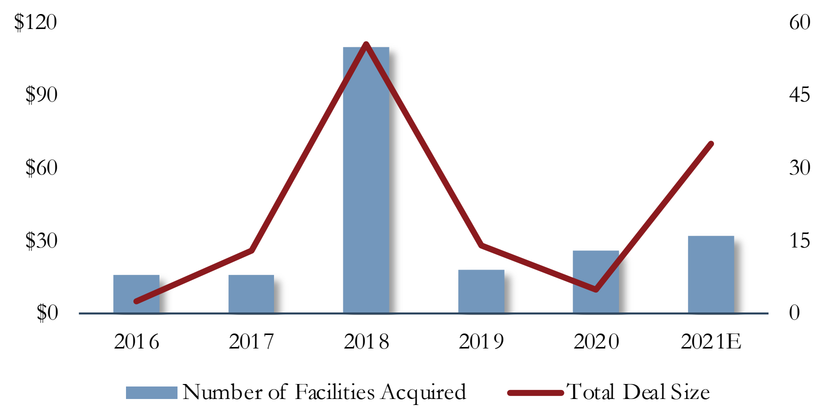
Lack of competition from other large radiology platforms in 7 state segments

Ongoing pricing pressures

Physicians' desire to sell their business

Consolidation is the natural next step for the radiology industry

Historical M&A



Expansion in Concentrated Geographies

- RadNet focuses on concentrating M&A in select states to drive up market share and establish regional pricing power
- High geographical market share allows for higher operating efficiencies and regional relationships with insurers, hospitals, and referring physicians
- Concentrating M&A therefore allows for higher revenue and margin growth across all facilities within a specific geographical region

Sources: RadNet 10-K, US Bureau of Statistics

VI.

Valuation

Intrinsic Valuation: DCF Outcome

RadNet

A 4-year investment has a ~95% implied upside (at exit vs. today) with ~14-19% IRR in the base case

Discounted Cash Flow

DCF - 4 Year Projection

	Bear Case	Base Case	Bull Case
Enterprise Value	2,347,690	3,363,230	4,354,447
Less: Debt	(1,381,239)	(1,381,239)	(1,381,239)
Less: Minority Interest	(114,542)	(114,542)	(114,542)
Add: Cash	923,695	923,695	923,695
Equity Value	**1,775,604**	**2,791,144**	**3,782,361**
Shares	53,817.80	53,817.80	53,817.80
Share Price 2025E	$32.99	$51.86	$70.28
Implied Upside	**(10%)**	**47%**	**108%**
4-Year IRR	**4%**	**14%**	**21%**

Implied Upside Sensitivity

	4.0%	**6.0%**	**8.0%**	**10.0%**	**12.0%**
8.0x	$35.19	$30.21	$25.75	$21.74	$18.13
9.0x	$41.07	$35.55	$30.61	$26.18	$22.18
10.0x	$46.94	$40.89	$35.47	$30.61	$26.24
11.0x	$52.81	$46.23	$40.33	$35.05	$30.29
12.0x	$58.68	$51.56	$45.20	$39.48	$34.34

Terminal Year Breakout

Revenue	**2,769,837**
Margin	27%
Gross Profit	**747,856**
SG&A	(182,330)
SBC	(26,571)
D&A	(184,257)
EBITDA	455,530
Margin	*16%*

Multiples

EV/EBITDA

	Bear Case	Base Case	Bull Case
EBITDA	278,434	371,963	455,530
Multiple	8.0x	9.0x	10.0x
Enterprise Value	**2,227,475**	**3,347,670**	**4,555,302**
Net Debt	457,544	457,544	457,544
Equity Value	**1,769,931**	**2,890,126**	**4,097,758**
Shares	53,817.80	53,817.80	53,817.80
Share Price 2025E	$32.89	$53.70	$76.14
Implied Upside	**(10%)**	**42%**	**92%**
4-Year IRR	**5%**	**19%**	**30%**

Key Drivers

	2021E	2022E	2023E	2024E	2025E	2026E
1) Organic Volume	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
2) True Pricing Power	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
3) M&A Spend	*5.0%*	*4.8%*	*4.6%*	*4.4%*	*4.2%*	*4.0%*

1) *Rationale:* RadNet has historically growth organic volume at ~2.5% when considering SSS growth and ~5 de novos p.a.

2) *Rationale:* RadNet has been able to consistently increase price by 4% per year, with 1% truly flowing into profit

3) *Rationale:* As a consolidator, RadNet has consistently increased revenue spend year-over-year

VII.

Catalysts

Catalysts

Several key benchmarks are expected to increase share price in the near and long-term future

Catalyst	Details	Timeframe
Margin Expansion over NTM	▪ Shift over to **capitated contracts** reduces payment risks, creates supply advantages through long-term contracts, and improves operating margins ▪ Effective **utilization management** shifts the focus away from volume while benefitting cost margins	*Short-Term*
JV and M&A Pipeline Materialization	▪ Joint ventures grow to compose **50% of RadNet's centers** in the **next 3-5 years** to take up a larger share of the **637 healthcare systems** in the US ▪ RadNet acquires more small players to convert **new radiologists** into joint-venture hospital systems	*Short-Term*
Large Value-Based Contract Wins	▪ Large joint-venture contracts with hospitals would improve **regional penetration** and increase margins due to **lower costs** from savings in capital expenditure	*Medium-Term*
Accelerated Revenue Growth	▪ Continuous price/volume increases due to RadNet's **pricing power** will drive revenue growth ▪ Increased market share capture through **acquisitions of smaller players** is expected to further drive **top-line growth**	*Medium-Term*
Geographical Expansion	▪ Expansion into **new states** in the long term would expand RadNet's market share, allowing for greater **scale advantages** and further increased **pricing power**	*Long-Term*

Further efforts by management to expand into higher margin JVs and new geographies will boost operational efficiency in the medium- to long-term, causing our thesis and growth projections to materialize

Sources: RadNet 10-K, Bloomberg

VIII.

Risks & Mitigations

Risks & Mitigations

Despite structural risks, industry tailwinds point favorably towards RadNet's upside

	Risk Potential	Mitigation
Competition from Hospitals and Physicians	The market for diagnostic imaging services is **highly competitive** and RDNT must compete **locally** with other operators and hospitals	Hospitals are becoming increasingly open to the possibility of **joint-venture deals**; RadNet expects **50%** of their centres to have JV agreements in a few years
High Utilization Rates on Capitated Contracts	Capitated contracts cover patients for a set period for a set price; if patients use more than the contract price, **margins would compress**	Management continually reviews contracts with capitated payors; additionally, RadNet boasts **great payor diversity**, with capitated contracts representing only 13% of revenue
US Healthcare Legislation	Healthcare reform legislation can increase Medicaid coverage, shifting payor mix **away from higher-margin private payor contracts**	Most private payor contracts are **short-term** and **regularly negotiated**; RadNet's status as a leading provider enables **favourable contract terms** and **negotiation power**
Cuts in Payor Coverage and Medicare	RadNet's revenues largely depend on payor coverage and Medicare coverage; this means their revenues will be **very sensitive** to any **changes in coverage**	Many Democratic lawmakers in Congress are currently pushing to expand the **health insurance program** so that it covers more services and procedures

Sources: RadNet 10-K

IX.

Investment Recommendation

Investment Recommendation

An attractive industry, above market organic growth, and M&A opportunities make for a "rad" investment

Key Investment Highlights

1

Outpatient Radiology Benefits from Multiple Secular Tailwinds
- While radiology is a ~GDP growth industry, a broad shift from inpatient to outpatient providers is underway
- Outpatient imaging is cheaper for payors and more convenient for customers; insurance giants are forcing hospitals to create or partner with outpatient imaging providers
- Imaging volumes growing with aging population + rise of preventative medicine; pricing remains somewhat flat

2

Industry Leading Position Supports Above Market Organic Growth
- RadNet captures market organic volume growth from existing referral channels and can also takes share by opening new clinics in geographic whitespaces (i.e rural areas that have no existing imaging capabilities)
- RadNet's investments in higher quality machinery have allowed the company to compound prices at ~4% p.a. historically, although the additional investments have resulted in margins compounding at ~1% p.a.

3

RadNet is a Natural Consolidator in its Geographies
- RadNet's size, operating leverage, superior utilization rates, and higher margins make it the natural consolidator in the seven states where the company already has ~20% market share; average synergized entry multiple is 4x
- Consolidation increases RadNet's bargaining power with hospitals and insurers, supporting price growth, and allows the company to better execute on higher margin value-based care contracts

Buy RadNet at $26.85

X.

Appendix

Financial Model Assumptions

Assumptions											
Fractional years per period											
	2016A	**2017A**	**2018A**	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**
Income Statement											
Effective Tax Rate %	40.12%	92.78%	14.06%	18.93%	18.56%	21.06%	21.06%	21.06%	21.06%	21.06%	21.06%
Gross Margin	21.34%	13.73%	11.82%	23.37%	23.02%	22.66%	26.00%	26.00%	27.00%	27.00%	26.00%
SG&A	8.39%	-	-	9.23%	9.85%	7.15%	7.00%	7.00%	7.00%	7.00%	7.00%
SBC	0.66%	0.74%	0.79%	0.76%	1.13%	1.95%	0.70%	0.70%	0.70%	0.70%	0.70%
Equity Earnings from JV	1.10%	1.47%	1.17%	0.72%	0.72%	0.85%	1%	1.20%	1.30%	1.40%	1.50%
Working Capital											
A/R Days	67.8 Days	61.6 Days	55.7 Days	48.9 Days	43.1 Days	27.6 Days	5.0 Days	5.0 Days	5.0 Days	5.0 Days	5.0 Days
A/P Days	21.5 Days	13.1 Days	28.9 Days	26.5 Days	30.3 Days	82.2 Days	40 Days	30 Days	37 Days	25 Days	25 Days
Prepaid Expense Days	135.8 Days	-	-	154.2 Days	111.3 Days	159.3 Days	80 Days	130 Days	130 Days	130 Days	130 Days
Depreciation Schedule											
Beginning PP&E		247,725	244,301	345,729	813,272	1,031,685	1,031,685	1,026,037	1,020,048	1,013,656	1,006,838
(+) CapEx	59,251	61,336	72,180	74,153	94,172	106,759	112,963	119,788	127,833	136,369	144,301
							6%	6%	7%	7%	6%
(-) Depreciation	(66,610)	(66,796)	(72,899)	(80,607)	(86,795)	(98,069)	(118,611)	(125,777)	(134,224)	(143,188)	(151,516)
(-) Sale of PP&E	-	2,036	102,147	473,997	62,347	(8,690)	-	-	-	-	-
Ending PP&E	247,725	244,301	345,729	813,272	882,996	1,031,685	1,026,037	1,020,048	1,013,656	1,006,838	999,623
CapEx as % of Revenue	7%	7%	7%	6%	9%	8%	8%	7%	7%	7%	7%
Dep. as % of CapEx	112%	109%	101%	109%	92%	92%	105%	105%	105%	105%	105%
Acquisitions as % of Revenue	1%	3%	8%	2%	3%	6%	5%	5%	6%	6%	5%
Minority Int. Earnings/Equity	22%	24%	8%	11%	14%	17%	18%	18%	18%	18%	19%

UFCF Build

UFCF Build	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E
Revenue	884,535	922,186	975,146	1,154,179	1,098,104	1,353,844	1,486,351	1,640,932	1,813,230	2,005,432	2,220,013
EBIT	42,124	53,013	34,700	73,880	45,407	85,655	147,145	167,321	208,121	235,529	244,149
NOPAT	**25,226**	**3,828**	**29,821**	**59,893**	**36,979**	**69,981**	**120,505**	**123,817**	**164,301**	**185,938**	**192,743**
Add: D&A	66,610	66,796	72,899	80,607	86,795	98,069	118,611	125,777	134,224	143,188	151,516
Less: CapEx	(59,251)	(61,336)	(72,180)	(74,153)	(94,172)	(106,759)	(112,963)	(119,788)	(127,833)	(136,369)	(144,301)
Less: Change in NWC	(26,457)	20,215	10,288	(11,019)	108,768	(3,595)	(28,698)	(16,850)	38,014	(29,690)	11,810
UFCF	6,128	29,503	40,828	55,328	138,370	57,696	97,455	112,957	208,707	163,066	211,768
PV of UFCF							91,989	98,724	168,897	122,187	146,926

Historical Operational Efficiency

Margin

	2016A	2017A	2018A	2019A	2020A	1Q21A	2Q21A	3Q21A
Revenue	884,535	922,186	975,146	1,154,179	1,098,104	321,567	333,961	332,690
COGS	(695,761)	(795,590)	(859,885)	(884,467)	(845,295)	(274,032)	(243,535)	(236,932)
SG&A	(74,214)	-	-	(106,495)	(108,202)	-	(31,139)	(31,403)
D&A	(66,610)	(66,796)	(72,899)	(80,607)	(86,795)	(22,656)	(24,011)	(24,606)
SBC	(5,826)	(6,787)	(7,662)	(8,730)	(12,405)	(8,248)	(8,897)	(4,421)
Total OpEx	**(146,650)**	**(73,583)**	**(80,561)**	**(195,832)**	**(207,402)**	**(30,904)**	**(64,047)**	**(60,430)**
EBIT	42,124	53,013	34,700	73,880	45,407	16,631	26,379	35,328

	2016A	2017A	2018A	2019A	2020A	1Q21A	2Q21A	3Q21A
SG&A Margin	*8.39%*	*8.39%*	*8.39%*	*9.23%*	*9.85%*	*9.85%*	*9.32%*	*9.44%*
D&A Margin	*7.53%*	*7.24%*	*7.48%*	*6.98%*	*7.90%*	*7.05%*	*7.19%*	*7.40%*
SBC Margin	*0.66%*	*0.74%*	*0.79%*	*0.76%*	*1.13%*	*2.56%*	*2.66%*	*1.33%*
EBIT Margin	*5%*	*6%*	*4%*	*6%*	*4%*	*5%*	*8%*	*11%*

RadNet, Inc. (NASDAQ: RDNT)

Buy Pitch (44.5% Implied Upside, 16.5% 4-Year IRR)

Healthcare (HC) Group

Analysts: Aly Dayani, Andrew Li, Alexander Goleszny, Jess Yin, Dhruv Bhatt, Jessica Lee

Researchers: Bryan Guan, Elisa Shi, Josh Rovner, Peter Lee, Shrey Bangera, Yihan Li

December 1st, 2021

Western Investment Club