

October 2nd, 2009

Dear clients and colleagues,

This week we would like to introduce a new name in the portfolio – iSOFT Group Ltd (ISF AU).

iSOFT is Australia's largest publicly-listed healthcare IT company, and one of the largest in the world. Over 13,000 healthcare providers in 38 countries use iSOFT solutions to manage patient information and workflows across hospitals, clinics, aged and community care facilities, the primary care sector, as well as claims and payments processes. Its brand product is called LORENZO.

Market Cap U\$717M, div yield 1.23%, 5-year sales CAGR 93%, Net debt/equity 21%, ev/t12 sales 1.8x, ev/t12 ebitda 7.3x, fwd p/e (06/2010) 12.0x, operating margin 14.3%, profit margin 6.5%, one-year return 10%, www.isofthealth.com

Target Market

Global market for Electronic Health Records (EHRs) is expected to grow at an annual rate of 15%-20%. In US alone, the target market size is U\$10B with current physician penetration of less than 20%. iSOFT has annual sales of U\$500M.

Competitive Advantages

- Leadership Technology: Brand product LORENZO was selected as one of the principal applications for deployment in the UK NHS National Program for IT. This program is the largest civilian IT project in the world connecting health info of 30 million citizens. Its procurement phase was the most rigorous evaluation ever undertaken of the products available in the international healthcare IT market.
- Top Ebitda margin: 25% vs. peers average of 17%.
- Dominant position in UK with 60% market share.

Growth Strategy

M&As: The company has conducted over 10 M&A transactions since 1998, expanding from ANZ to Europe and recently to US and Latin America. The underlying sales growth rate is 15%.

Investment Theme

- Favorable industry trend: EHR is the cornerstone of healthcare technology, supported by governments worldwide. The US federal economic stimulus package included U\$19B in incentive payments for hospitals and physicians who adopt the technology. Beginning in 2015, physicians not demonstrating meaningful use of an EHR will face penalties.

- Recurring revenue: 40% of total revenue is from maintenance.

Valuation

The stock has very attractive valuation. Its forward p/e is at 12.0x, compared to peers such as Eclipsys 32.9x, Cerner 30.0x, Allscripts-Misys 31.2x, and CompuGROUP 34.9x. We believe the discount is mainly due to two reasons: 1) Listing in Australia instead of popular markets in the US or EU. 2) Relatively new corporate structure following the merger of UK-based iSOFT in 2007.

Our target price = A\$1.44, using DCF model at growth rate of 13.5% for 7 years, 6% at maturity, and risk premium of 6%. Expected rate of return = 50%

Have a nice weekend.

The Global Alpha Team