

CO INVESTOR CAPITAL PARTNERS PTY LIMITED

Case Study: Software Of Excellence International Limited

SOFTWARE OF EXCELLENCE

SOE AT THE TIME OF INVESTMENT

Software of Excellence International Limited ("SOE") is a leading global developer of software for the dental profession. More than 5,000 sites worldwide use its software, with SOE generating most of its income from its market-leading position in the UK.

SOE was listed on the New Zealand Stock Exchange in 2000 at NZ\$1.00 per share. An investor group led by Co-Investor became SOE's cornerstone investor in July 2004. After an intensive restructuring and turnaround process, the company was sold at NZ\$2.90 per share in a public takeover in October 2007 to NASDAQ-listed Henry Schein, Inc.

In 2004, when Co-Investor became SOE's cornerstone investor, the company had missed its IPO prospectus forecasts, and was struggling to gain investor support. Key financial metrics as they stood at the time are set out below:

Market capitalisation at the time of initial investment	NZ\$32m
FINANCIAL PERFORMANCE	
	YEAR ENDED 31 MARCH 2004
Operating Revenues	NZ\$17.3m
Earnings Before Interest, Tax, Depreciation and Amortisation	NZ\$0.9m
Net Profit After Tax	NZ\$(0.8)m
EPS	NZ\$(0.03)
Dividend	nil

The company had diverted from its core competence in producing well-engineered, "shrink-wrapped" dental practice management software and had expanded into bespoke multi-site "Enterprise" applications across the globe. The financial drain from its Enterprise initiative masked the strong performance of SOE's core business.

In addition, the share register was highly fragmented, with no institutional support, and two stock overhangs totalling around 15%. The company's stock was controlled by a retail broker, ABN AMRO Craigs.

THE TURNAROUND

Co-Investor, management and the Board worked collaboratively over three years and delivered a sharp improvement in shareholder value through several initiatives:

1. DIVESTMENT OF UNDERPERFORMING ASSETS

Following reviews of segment profitability and overall strategy during 2005, SOE divested its unprofitable Enterprise division in order to transform itself into a profitable, predictable and stable business focused on its core Professional software business.

During the restructuring phase, significant write downs were taken. The stock plummeted to lows of NZ\$0.85 per share. Customer service and earnings improved quickly.

2. FOCUS ON CORE BUSINESS

Through a series of bolt-on acquisitions and organic growth, SOE had built the fastest-growing dental software business in the UK. This scalable, replicable software product generated organic top line growth of 15-20% per annum and had a high level (c.50%) of recurring revenues. The company decided to leverage this presence through the acquisition of leading Professional software products in selected markets.

In December 2005, SOE acquired the leading Australian practice management software company, Oasis Software. Oasis proved to be a highly successful acquisition, outperforming all expectations.

With the CEO and CFO now based in the UK, the company's European M&A strategy was now able to be driven locally. In January 2007, SOE seconded Christin Burns, a member of the Co-Investor team, to the UK to help develop SOE's European M&A programme.



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FINANCIAL RESULTS

3. COST REDUCTIONS

Major cost reductions were identified and implemented during 2006, achieving recurring savings of approximately NZ\$1.8 million per annum.

4. CAPITAL STRUCTURE AND SHARE REGISTER

While the business was being simplified, it became apparent that the company's capital structure also needed simplification, and the share register stabilised.

In May 2006, the SOE board conducted a review of its capital structure, and bought back and cancelled 70% of its convertible notes with cash reserves, streamlining its capital structure and improving EPS.

In two separate transactions during 2006, Co-Investor bought out former founders of the company whose stock was overhanging the market. Co-Investor increased its holding from 10.96% to 18.6%.

The restructuring had a profound impact on SOE's financial results, and on its stock price.

YEAR ENDED 31 MARCH	2004 \$'000	2005 \$'000	2006 \$'000	2007 \$'000
Operating Revenue	17,297	20,794	24,672	28,496
EBITDA (pre-abnormals)	904	2,515	3,658	6,626
EBITDA margin (pre-abnormals)	5.2%	12.1%	14.8%	23.3%
EBITDA (reported)	904	2,515	(2,949)	6,626
EBIT	(310)	854	(4,788)	5,010
NPAT	(750)	204	(5,351)	4,363

The company emerged from its restructuring with a strong balance sheet, significant recurring revenues and improving profit margins. SOE announced its maiden dividend in August 2006, reinforcing its revenue growth and profitability targets.

The company's share price performance reflected its rapidly improving financial results, with the price steadily rebounding from lows of \$0.85 during the restructuring phase, to ultimately reach the takeover price of \$2.90 in October 2007.

FIGURE 1: SHARE PRICE PERFORMANCE



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SALE OF THE COMPANY

In January 2007, SOE received a non-binding indicative proposal from Henry Schein Inc, the NASDAQ-listed, Fortune 500 global distributor of healthcare products and services.

In the three months prior to the offer being launched, the SOE share price traded in a range from NZ\$1.80-NZ\$2.20. After protracted negotiations, Henry Schein launched an offer at NZ\$2.70 per share cum a NZ\$0.03 dividend.

The offer was subject to conditions including due diligence, and reaching the minimum 90% compulsory acquisition threshold. Co-Investor and SOE Managing Director Brian Weatherly entered into lock-up agreements with Henry Schein to accept the offer.

In October 2007, after two extensions to the offer, and despite the market volatility of the 2007 sub-prime crisis, SOE secured an improved offer from Henry Schein for NZ\$2.90 per share. The takeover proceeded to compulsory acquisition and was completed in October 2007.

SOE AT THE TIME OF EXIT

	INITIAL INVESTMENT	AT EXIT
Market Capitalisation	NZ\$32m	NZ\$82m
FINANCIAL PERFORMANCE	YEAR ENDED 31 MARCH 2004	YEAR ENDED 31 MARCH 2007
Operating Revenues	NZ\$17.3m	NZ\$28.5m
Earnings Before Interest, Tax, Depreciation and Amortisation	NZ\$0.9m	NZ\$6.6m
Net Profit After Tax	NZ\$(0.8)m	NZ\$4.4m
Earnings per Share	NZ\$(0.03)	NZ\$0.166
Dividend	nil	NZ3.0cps

INVESTMENT PERFORMANCE

Co-Investor invested a total of \$3.9 million in SOE during the period July 2004 to June 2006 via a series of transactions including underwriting a placement and entitlements issue of convertible notes, and subsequent secondary market acquisitions.

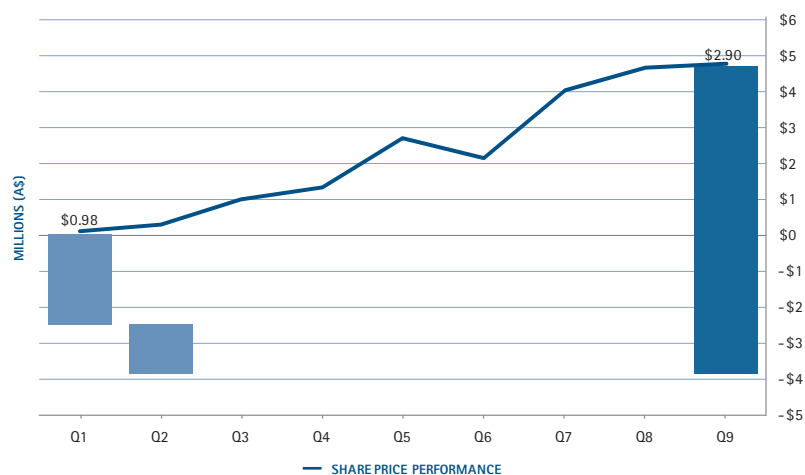
The No. 1&2 Funds sold 542,326 convertible notes with a face value of \$1.50 into the company's buyback offer in July 2006, exiting these notes at slightly more than cost. It simultaneously exchanged its remaining notes for additional ordinary shares at NZ\$1.00 per share. These transactions delivered the Funds an average entry price of NZ\$1.00 per SOE share.

The total investment period was three years, with the initial investment undertaken by a syndicated investment entity. The No. 1&2 Funds' investment period was 25 months, after acquiring its initial investment position in SOE in September 2005. The Funds exited SOE at 2.2x money, representing an IRR of 50.4% (before Manager's carried interest). Across the full three year investment period, a total return of 2.2x money and an IRR of 34.3% was achieved.



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FIGURE 2: INVESTMENT CASH FLOW/SHARE PRICE PERFORMANCE



ROLE OF CO-INVESTOR

Co-Investor played an active role in most facets of the restructuring and sale phases, and worked collaboratively with management and board in its review of segment profitability, the divestment of SOE's Enterprise businesses, the acquisition of Oasis, the company's European M&A programme, its investor relations programme, and the takeover offer by Henry Schein. Co-Investor was formally engaged by SOE as financial advisor in the takeover by Henry Schein, and took responsibility for the full range of investment banking processes required.

"Why did it work?"

The success of the SOE turnaround and sale can be attributed to three important factors:

1. the quality of the personnel involved;
2. the strength of the core business; and
3. all stakeholders' willingness to work together.

Co-Investor was an effective partner because SOE had a strong and proactive Chairman (Jim Syme), high quality CEO (Brian Weatherly) and CFO (Bryce Donnell), and principled, effective Independent Directors.

Our role was to act as a catalyst and to harness our analytical capability to demonstrate a series of better outcomes for the company, then to assist in the execution of the resultant strategies where relevant.

At times the traditional lines between shareholder, board and management were by necessity blurred in order to resolve some fundamental problems. While due process was followed and key governance structures remained intact at all times, we formed virtual teams comprising shareholders, directors and management, driven by a willingness to objectively look at new alternatives, and take action.

