

Annual General Meeting

24th November 2016

CAPITOLHEALTH
LIMITED

Managing Directors Presentation

Our Core Business

- 65 Clinics
- 700 employees
- 70+ Specialist physicians
- 1.2 mill patient visits pa
- 20,000+ referrers
- Predominantly bulk billed
- Largest community (non hospital) DI provider in Victoria

Capital
RADIOLOGY

Imaging
@ Olympic Park

SYDNEY XRAY
BONDI JUNCTION

Southern
RADIOLOGY

LIVERPOOL
DIAGNOSTICS

SYDNEY RADIOLOGY

MDI RADIOLOGY
Your Imaging Solution

CAPITOL HEALTH
LIMITED

Financial Performance – FY16

- Revenue up 42.3% year-on-year
- Core Radiology EBITDA up 3.6%
- Underlying NPBT down 36.6%
- Revenue weakness driven by pricing uncertainty, impact on referral patterns
- Some cost lift in second half driven by marketing and IT initiatives, shift towards lower-margin services
- NPBT and NPAT impacted by sustained debt load through FY16, senior unsecured notes issuance in May

PROFIT & LOSS SUMMARY^{1, 2}

Item	FY 2016 (\$m)	FY 2015 (\$m)
Revenue	158.3	111.2
Core Radiology Cost	(135.3)	(89.0)
EBITDA – Core Radiology / prior to ISI	23.0	22.2
Business Development Costs (China)	(0.8)	-
EBITDA prior to ISI	22.2	22.2
Borrowing Costs	(5.2)	(1.5)
Depreciation & Amortisation	(7.0)	(4.9)
NPBT prior to ISI	10.0	15.8
Individually Significant Items	(13.1)	(8.0)
NPBT	(3.2)	7.8
Tax	(1.5)	(3.9)
NPAT	(4.7)	3.9

¹ Abridged summary prepared for comparative purposes; refer to Annual Report for statutory detail

² Figures rounded to nearest \$000; sums subject to rounding differences

Financial Performance – FY16

SUMMARY OF INDIVIDUALLY SIGNIFICANT ITEMS

Item	FY 2016 (\$m)
EBITDA prior to ISI	22.2
Individually Significant Items:	
Intangible asset impairment	(8.1)
Investment impairment (M7T.ASX)	(0.7)
Borrowing costs written off	(2.1)
Acquisition and Restructure Costs	(2.1)
Total Individually Significant Items	(13.1)
Borrowing Costs	(5.2)
Depreciation and Amortisation	(7.0)
NPBT	(3.2)

\$13.1m in individually significant items driven by impairment of New South Wales (NSW) assets, other cost write-offs in FY16

Primarily write-down of NSW assets following June review

Impairment of value of Mach7 Technologies investment

Costs associated with FY16 debt restructuring including the Senior Unsecured Notes

Costs associated with completion of NSW acquisitions in 1H16

Financial Performance – 1H FY17

- Operating revenue weakness in first 4 months (down circa 4% compared to expectations – up 0.6% comparable year on year) resulting in first half forecast reduction in EBITDA to a range of \$7.7 to \$8.2m
- Actions planned to deleverage balance sheet, reduce overheads, and consolidate or sell underperforming sites expected to improve margins in second half
- First quarter FY17 saw recovery in industry-wide Medicare services showing signs of movement toward longer term growth trend
- Partial reversal in modality substitution to higher value services in first quarter

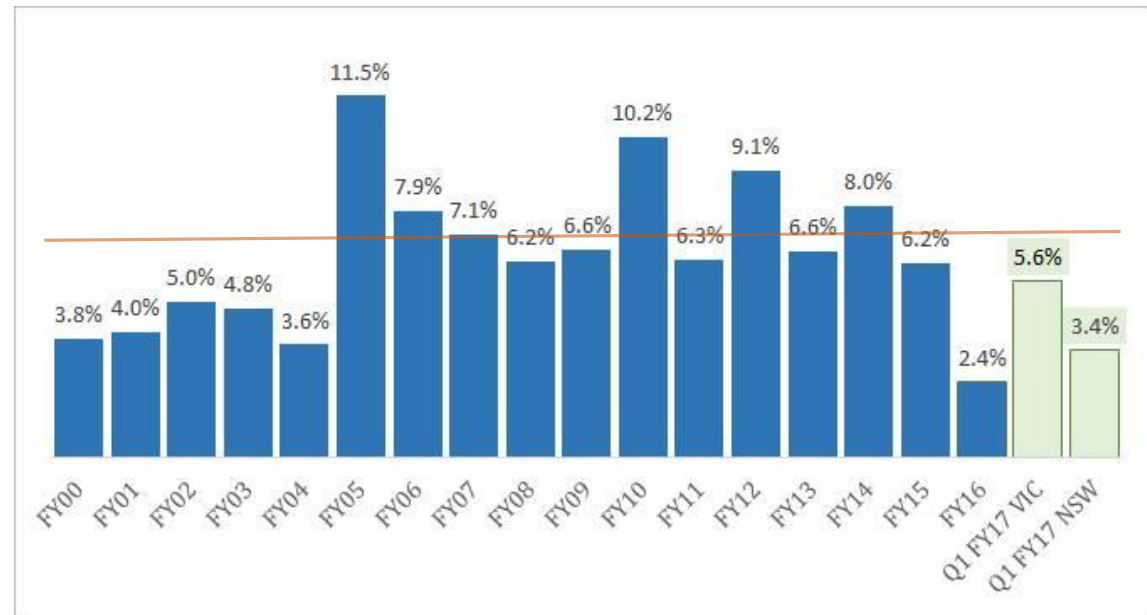
1H FY17 Forecast (preliminary indicative only, unaudited forecast)

Item	1H FY17 Range (\$m)
Revenue	79 - 80
Total Group EBITDA prior to ISI	7.7 - 8.2
<i>Add Back Individually Significant Items:</i>	
– China Business Development costs	0.4
– Forfeiture of Share Options & Restructure Costs ¹	1.0
– One off profit on property sale and write back of deferred consideration on acquisition	(1.7)
Core Radiology EBITDA	7.4 - 7.9

^[1] Upon forfeiture of share options issued to Mr John Conidi, mandatory accounting standards require the unamortised balance of \$0.55m to be written off in full to reserves.

Underlying Market Conditions

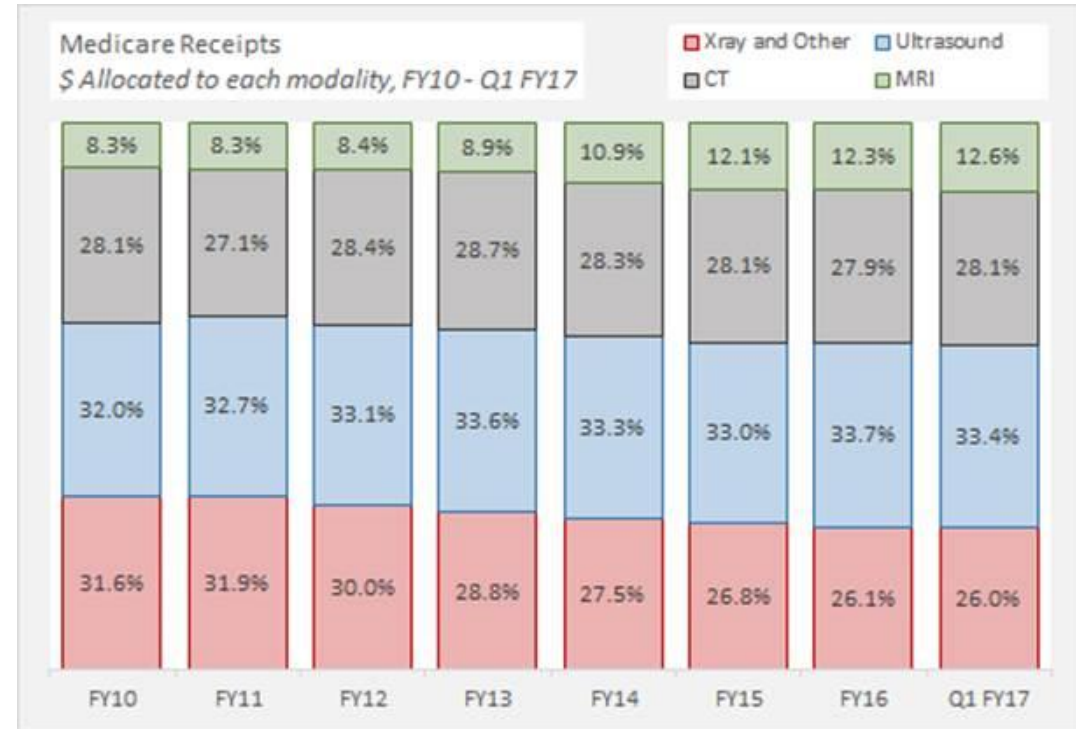
- Growth in Medicare DI billings for Q1 FY17 Up 4.3% (NSW & Vic)
- Growth stronger in Vic than NSW
- Growth moving back toward long term trend (7%)
- Bulk billing incentive cuts planned for Jan 2017 (non concession & >16 patients)
- Strong growth thematic over medium to long term



Source: Medicare

Underlying Market Conditions

- Q1 FY17 partial reversal in modality substitution to higher value services reverting to longer term trend
- MRI receipts have grown by 4.3% since 2010
- Government \$50m investment in DI rebates likely to go to CT



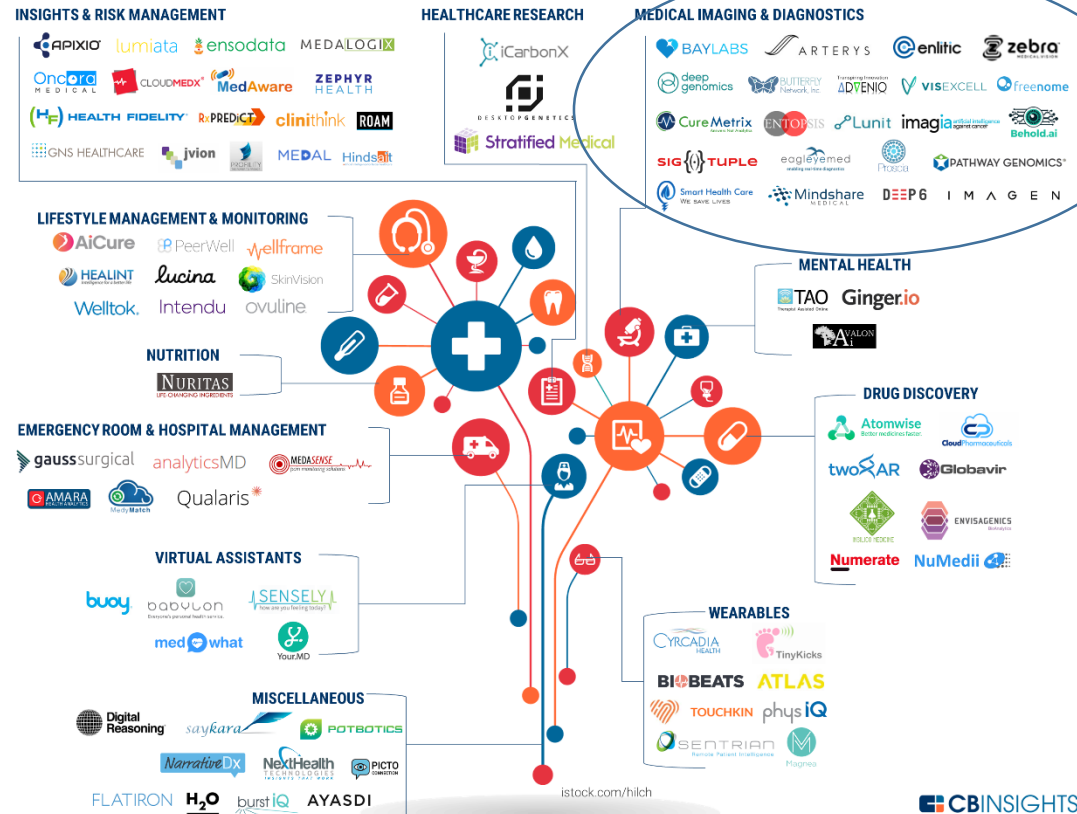
Source: Medicare

Enlitic

- Capitol invested \$10mill USD in preferred Enlitic stock
- Ownership 25% undiluted, 1 board seat
- Collaboration agreement in China
 - Share in revenue streams
 - 5 Year term from regulatory approval
 - Good faith negotiation on leads generated in other Asia Pacific countries
- Australian rights to use Enlitic as part of clinical partnership
- Enlitic continue to make major breakthroughs in applying Deep Learning to DI
 - Chest X-ray Triage
 - CT Lung Cancer detection
 - Mammography

Artificial Intelligence Health Ecosystem

 90+ STARTUPS TRANSFORMING HEALTHCARE WITH AI



MEDICAL IMAGING & DIAGNOSTICS



CBINSIGHTS

CAPITOLHEALTH
LIMITED



POPULATION SCREENER



SELECT STUDIES



China Diagnostic Imaging

The Chinese market is undergoing a significant transformation

Healthcare Spending

- China set to become one of the largest healthcare markets in the world
- 2014 expenditure = US \$590 billion; expected to grow to \$1 trillion in 2020
- Health spending as a % of GDP c. 6% (Australia 9.5%, US 17%) needs to be managed
- Government working towards a basic standard of healthcare for whole population
- Health care reforms have opened up opportunities in private healthcare, increase in overseas investment in sector
 - Government understands need to take advantage of citizens' increasing ability to pay

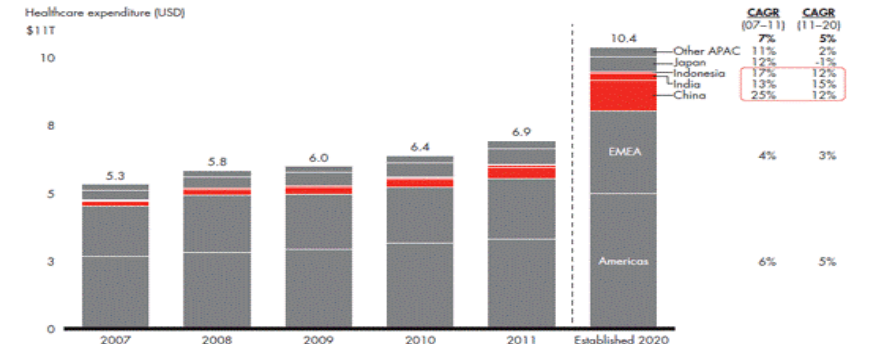
Growth Drivers

- Rising per capita incomes (emerging middle class)
- Ageing population
- Adverse health factors
 - Pollution in urban centres, smoking rate over 2x the global average
 - Changes in diets causing chronic conditions – cardiovascular disease, diabetes

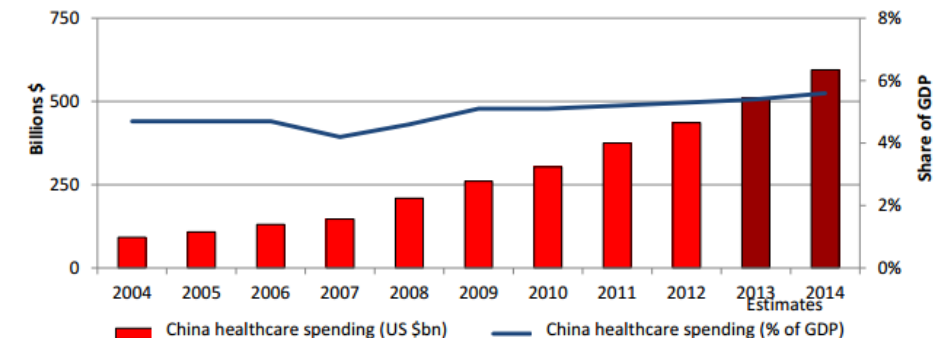
1 Sources: Epsicom; BMI; Bain

2 EIU, *China Healthcare and Pharmaceuticals Report*, 4 March 2013, 2 December 2011, and 8 July 2008

GROWTH OF EMERGING MARKETS IN ASIA¹ *Expected to grow 2x to 3x faster than global average to 2020*



CHINA HEALTHCARE SPENDING² *US \$billion and as a % of GDP*



China Diagnostic Imaging

PUBLIC HOSPITALS

- 13,300 public hospitals¹
- Divided into
 - Tier 3 (>1,800 beds usually in large urban centres)
 - Tier 2
 - Tier 1 (smaller provincial areas)
 - Community clinics
- Greater than 90% of patient services are delivered through these hospitals
- Operate under public health insurance

PRIVATE HOSPITALS

- 13,600 private hospitals¹
- Rapidly growing – from just over 30% of all Chinese hospitals in 2009 to over 50% in 2015
- However just over 10% of patient services are rendered via private hospitals – facilities tend to be smaller on average with more varied offerings
- Changing regulatory environment means increasing potential for market entry

HEALTH CHECK CLINICS

- Provide private health check services
 - DI, pathology, general medical, cosmetics
- Generally paid for by employer, also private payments
- Market size
 - 2013 \$US9.7b (60b RMB)
 - 2015 \$US12.9b (80b RMB)
 - Forecast 2020 \$US 49b (300b RMB)
- Currently over 200 clinics in Beijing alone
- Largest operator has over 250 clinics, 10 million patients in 2015
- Screening only

INDEPENDENT IMAGING CLINICS

- DI only previously performed in hospitals and health check clinics
- New laws allow DI clinics to open outside these settings
- Clinics must be licensed (limited licenses issued)
- Few clinics currently exist
- Significant opportunity for private clinic networks

¹ Source: *China Medical Imaging Diagnostic Research*, published February 2016; National Health and Family Planning Commission

China Diagnostic Imaging

- JV with CITIC to be completed shortly
 - Consulting & Clinic Management
 - Option of participating in clinic ownership
 - CITIC well placed due to large existing hospital network in China
 - Provides platform to leverage growth in Chinese healthcare and emerging private DI market
- MOU signed with Sunshine Insurance Group
 - Progressing on consulting and training agreement with 2,000 bed Sunshine Union Hospital
- Advanced discussions with other Chinese counterparties on Enlitic deployment

About CITIC Group

- >750,000 employees
- Annual revenue AUD\$737B
- Market Cap AUD\$55.5B
- 160 in global fortune 500 (2014)

About Sunshine Insurance Group

- >170,000 employees
- Top 500 Enterprises in China
- Insurance Coverage to >190m customers
- 151 trillion yuan insurance sum assured

Outlook H2 FY17

- Continued regulatory headwinds.
- Medium / long term view remains positive.
- Solid industry thematic
- Q1 FY16 Medicare data improvement
- Small improvement in October and November (to date) performance cause for some optimism
- Significant upside / revenue diversification through China JV and Enlitic



Balance Sheet

- Consolidation and sale of underperforming sites to improve margins and provide additional cash
- Sale of remaining properties expected to net \$3 mill+
- Review of non core investments
- Closures, sales, margin improvements, and reduced capex (to replacement levels) expected to fund deleveraging balance sheet



Profitability

- Overhead restructure
- Margin increase program focussed on overhead reduction annualised circa \$2 mill + to improve margins in 2H FY17
- Consolidation and sale of underperforming sites to improve margins and provide additional cash
- Margin improvements designed to make company stronger during regulatory uncertainty
- “Back to Basics” business improvement strategy





Questions

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