

ASX ANNOUNCEMENT

27 February 2018

**Half Year Results for six months ending 31 December 2017
EBITDA up 108%, unveils second consecutive earnings upgrade**

- Operating revenue of \$54.8m up 5.1% compared to 1HFY17
- EBITDA of \$10.4m before transaction costs up 108%
- Declared 0.4 cps interim dividend (fully franked)
- Successful acquisitions in line with strategy and reflecting balance sheet strength
- Upgraded FY18 full year results guidance: group operating revenue of \$129m to \$132m and EBITDA of \$23m to \$25m

Capitol Health Limited (**Capitol** or the **Company**) (ASX:CAJ) today announced its half year results for the period 1 July 2017 through 31 December 2017, along with upgraded revenue and earnings guidance for the full year to 30 June 2018.

Capitol generated operating revenue of \$54.8m for the period from its continuing operations which is in line with previous guidance and up \$2.3m on 1HFY17. This is an increase of 5.1% adjusted for 1 less working day in Victoria.

Managing Director Andrew Harrison said the sale of non-core and underperforming assets, capital management activities, improved margins and a combination of acquisitive and organic growth had contributed to the improved financial performance of the business.

"This is a very pleasing result which underscores an enormous amount of activity to reduce costs, strengthen the balance sheet and invest in our clinical assets, as well as capture acquisition opportunities to drive higher shareholder returns," he said.

"Since July 2017 we have completed the divestment of our NSW assets and undertaken a share buyback program to make our capital structure more efficient. We have opened two new greenfield clinics (Altona and Vermont Private Hospital) and have delivered higher referral volumes and the expansion of clinic operating hours as a result of transferring a full MRI license to Imaging @ Olympic Park."

As envisaged at the AGM, the Company has re-instated dividends. An interim dividend of 0.4 cps fully franked is payable on 3 April 2018, and is expected to be the basis for a growing but sustainable dividend stream over coming periods.

Mr Harrison noted that underlying market growth has returned to more normal levels over the period and regulatory headwinds have largely abated, resulting in increased revenue and providing a solid foundation for future growth.

EBITDA was \$10.4m before transaction costs of \$1.6m which relate to the acquisition of I-Rad and Radiology Tasmania, as well as the Integral takeover offer. Operating margins improved from ~13% in FY17 to ~19% in FY18.

	1H FY18 (\$m)	2H FY18 (\$m)
Revenue	56.1	52.7
EBITDA prior to ISI	10.4	5.0
Net ISI Losses/ (Gain)	1.6	(0.5)
EBITDA after ISI	8.8	5.5
Borrowing Costs	1.8	1.1
Depreciation & Amortisation	2.7	2.3
NPBT	4.3	2.0
Tax	1.5	0.0
NPAT (Continuing Operations)	2.7	2.0
NPAT (Discontinued Operations)	0.2	0.2
Statutory NPAT	2.9	2.2

Mr Harrison said the business was continuing to deliver on its existing growth strategy, utilising existing resources to make disciplined acquisitions which expand Capitol's network and service offering and be accretive to earnings.

"The successful acquisition of I-rad Sunshine and Radiology Tasmania through competitive processes holds Capitol in good stead as we continue to review and progress our acquisition pipeline," he said.

"Our acquisitions to date are consistent with our off-market takeover bid for Integral Diagnostics, announced in November 2017, which would see us bring together two highly complementary networks to create a new force in diagnostics in Australia," Mr Harrison said.

"We believe this is a highly attractive and transformational opportunity for the Company, and among the many benefits the combination of these businesses is expected to deliver greater scale and financial strength, as well as a more diversified geographic and clinical profile."

The Company's current cash balance and debt levels are \$85m and \$80m respectively and the projected net debt levels after the Integral Diagnostics takeover will be comfortable at ~1.5x EBITDA.

Mr Harrison said Capitol had continued to enhance clinical governance, with the long-standing Medical Advisory Committee now reporting directly to the Board of Directors. Capitol is also further developing sub-specialty practices and related fellowship programs, as well as lifting investment in training and development.

Strategic investments including the Joint Venture with CITIC and Zhouxin in mainland China and Enlitic, the leading deep learning company that applies artificial intelligence to diagnostic imaging, remain highly prospective and exciting opportunities for Capitol shareholders, Mr Harrison added.

The Company has again upgraded its previous guidance for the FY18 financial year to include improved operating results for the first half and the contribution of the I-Rad and Tasmania Radiology acquisitions.

	FY 18 (\$m) Nov Guidance	FY 18 (\$m) Feb Guidance
Revenue Range	\$121 - \$126	\$129 - \$132
EBITDA Range (before acquisition costs)	\$21.5 - \$23.5	\$23.0 - \$25.0

The return of stronger Medicare growth rates in the 4%-12% range of modalities also provides a platform for revenue growth across the balance of the FY18 period.

Mr Harrison said, "We remain confident about the outlook for Capitol and excited at the opportunities before us. I would like to thank all of our employees and Doctors for their efforts during this significant period of change, as well as the ongoing support of our valued shareholders."

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About Capitol Health

Capitol Health is a leading provider of diagnostic imaging and related services to the Australian healthcare market. Headquartered in Melbourne, Victoria, the Company owns and operates clinics throughout Victoria and Tasmania. The Company's operational focus is on delivering a community-based infrastructure for radiologists and related medical practitioners to deliver optimal, efficient, accurate healthcare service outcomes for patients.

Capitol also has an investment in diagnostic imaging artificial intelligence through Enlitic Inc in the US and a collaboration agreement with Enlitic regarding revenue share from the sale of Enlitic's Deep Learning Services in the radiology field in China.

Capitol also recently entered the Chinese diagnostic imaging market through a Joint Venture with CITIC Pharmaceutical (Shenzhen) Co., Ltd ("CITIC Pharmaceutical") and Xiamen Zhouxin Medical Image Co., Ltd (Zhouxin) to provide consulting and clinic management services to a network of independent imaging clinics to be created by CITIC and Zhouxin across mainland China.