

ASX ANNOUNCEMENT

28th August 2018

**Full Year Results for Period 1 July 2017 to 30 June 2018
FY19 Full Year Guidance**

- Operating revenue from continuing operations of \$118.9m up 10.2% compared to FY17
- Underlying EBITDA of \$24.2m up 9% before transaction costs
- Declared 0.4 cps final dividend (fully franked)
- Successful acquisitions in line with strategy and reflecting Balance Sheet strength
- FY19 full year guidance: group operating revenue of \$148m to \$155m and EBITDA of \$29m to \$31m

Capitol Health Limited (**Capitol** or the **Company**) (ASX:CAJ) today announced its full year results for the period 1 July 2017 through 30 June 2018, along with revenue and earnings guidance for the full year to 30 June 2019.

Capitol generated total revenue of \$129.1m for the period and operating revenue of \$118.3m from its continuing operations (up 10.2% or \$10.9m on FY17) in line with previous guidance. Importantly, underlying EBITDA margins continued to improve through the impact of operational leverage and cost reductions to be ~19%, these levels are expected to be maintained through FY19.

Managing Director Andrew Harrison said, "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".

"We have continued to successfully complete acquisitions during the period with total acquired annualised revenue of \$36m and EBITDA of \$7.5m at an average multiple of ~6.7. In doing so we have entered new geographies which provide further platforms for organic and acquisitive growth."

The Company declared a 0.4 cps fully franked dividend bringing the total dividend to 0.8 cps for the period. This 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 opportunities and providing a solid foundation for future growth.

The Company's strong focus on revenue and margin quality resulted in the elimination of several reporting relationships with Capital branded (but not Company owned) clinics and other lower margin teleradiology agreements during the period. It is expected that the balance of these relationships will be eliminated in FY19 but will not have a material impact on revenue. In conjunction with this focus on revenue quality, more patchy and subdued revenue growth in the second half (also reflected in Medicare system growth) resulted in the headline value of organic revenue growth being below system growth.

PROFIT & LOSS SUMMARY ^{1, 2}		
	FY18 (\$m) ³	FY17 (\$m) ³
Revenue	129.1	162.5
Underlying EBITDA	24.2	22.2
Net ISI	(19.9)	(10.2)
EBITDA after ISI	4.3	12.0
Borrowing Costs	(6.4)	(7.0)
Depreciation & Amortisation	(6.9)	(8.4)
NPBT	(9.0)	(3.4)
Tax	(1.9)	(0.7)
NPAT	(10.9)	(4.1)

The Company incurred \$4.4m of transaction and takeover costs during the period, \$2.7m of which related to the unsuccessful takeover offer of Integral Diagnostics and the balance to complete acquisitions. The Board has made the decision to write down the value of the Company's ENLITIC investment, representing a non-cash impairment of \$14.9m. ENLITIC is in discussions to raise capital to fund commercial roll out of its market leading AI offering however the Company took the decision to apply conservative accounting treatment to the investment and make the non-cash impairment. Any uplift in the fair value of this investment can be recognised in future periods.

During the period, the Company successfully completed a material Balance Sheet restructuring which has delivered significant flexibility and headroom for future growth. As part of this program, the \$50m unsecured note redemption was finalised in May 2018, delivering an expected annual interest expense saving of ~ \$2m. In conjunction with the note redemption the Company's principal lender, National Australia Bank Limited approved a suite of new banking facilities totalling up to \$130m with a significant reduction in margin – up to 30 basis points - while financial covenants remain unchanged. The Company had net cash of approximately \$8m at balance date.

Clinical Governance

Mr Harrison said "Capitol had continued to enhance clinical governance, with the long-standing Medical Advisory Committee continuing to have input into strategic decisions of the Company".

To further this strategy of improved clinical focus and Doctor engagement the Company introduced a Doctor equity incentive scheme. The scheme is intended to be offered to Doctors on an ongoing basis. The first grant of options was completed in June 2018 and involves the issue of 27.9 million options (~3.5% of the Company) at a strike price of \$0.3006 (30.06 cents per option), to Doctors of the group. 90% of eligible Doctors elected to participate.

The grant of options to eligible Doctors assists in the motivation, retention and reward of Doctors of the Company and its subsidiaries. These options also form an important part of a comprehensive remuneration strategy for the Company's employees, aligning their interests with those of the Company. Further, it seeks to reward performance in support of achievement of business strategy and allows the participant the opportunity to share in the growth in value of the Company.

Takeover Bid

Despite the unsuccessful takeover offer for Integral Diagnostics during the period Capitol continues to hold the view that there is strong strategic merit of a combination, and that industry consolidation has and will continue to occur.

Capital Management

The Board's intention is always to focus on the disciplined deployment of resources to maximise shareholder returns. During the period this has been achieved through a combination of acquisitions and capital management activities to drive EPS accretion. It is currently the Board's intention to continue this strategy and pursue the pipeline of acquisitions which are well progressed, and in the absence of these opportunities to continue with the share buyback if the Company's share price is not reflective of value. Similarly, it is also currently intended to continue paying a steadily increasing dividend stream. The Company's current franking account balance is approximately \$9.1m.

FY19 Outlook

The Company is pleased to provide the following guidance for the FY19 period.

A\$m	FY19 Guidance
Revenue Range	148 – 155
Underlying EBITDA Range	29 – 31

This guidance includes the following assumptions;

- Capex of \$15m (comprised of \$8.9 m growth and \$6.6m of maintenance), 3 new clinic openings
- Pipeline of new acquisitions not included in guidance

Change to Employment Terms of Managing Director

Following consideration of a benchmarked remuneration market data report, achievements in the financial period and the importance of retention, the Board has made the following changes to the employment terms of the Managing Director:

- The fixed remuneration of the Managing Director was increased by \$50,000 to \$700,000 per annum, effective 28 August 2018;
- The Managing Director's Short Term Incentive remains at 75% of his fixed remuneration which will be subject to the achievement of a mix of personal and performance objectives as determined by the Board; and
- An additional Long Term Incentive for the current financial year in the form of performance rights up to 75% of fixed remuneration which will be subject to appropriate service and performance hurdles, the specific terms to be determined by the Board and subject to shareholder approval.

All other terms and conditions of Mr Harrison's employment remain unchanged.

For further information, please contact:

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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, Tasmania, and Western Australia. 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 Joint Venture with CITIC Pharmaceutical (Shenzhen) Co., Ltd ("CITIC Pharmaceutical") to provide consulting and clinic management services across mainland China.