



# Managing Director's Presentation

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CAPITOLHEALTH  
LIMITED

# Investment highlights

## Sector

- Strong industry growth drivers: aging population, increase in chronic disease, rapidity of technology developments
- Long term sustained industry revenue growth.
- Total market estimated to be worth \$4bill in 2018/19 to \$5bill 2023/24 with 15 year CAGR of 5.1%
- Regulatory tailwinds, both parties positive signalling to industry (particularly bulk billers)

## Capitol

- Plays a critical role in caring for Australia's population
- Operates scale businesses across three states
- Over 1.2 million diagnostic imaging examinations p.a.
- Capitol is positioned to meet the evolving requirements of patients, payers and health care professionals



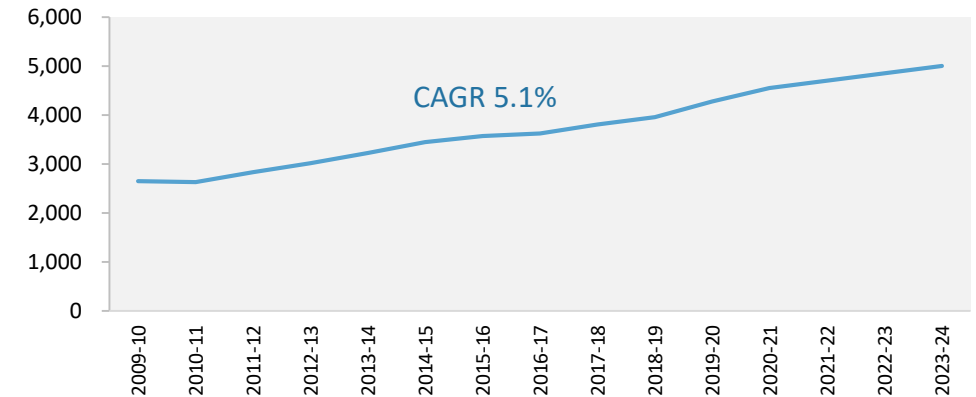
DI Industry  
Snapshot<sup>1</sup>

Revenue FY19  
\$4.0bn

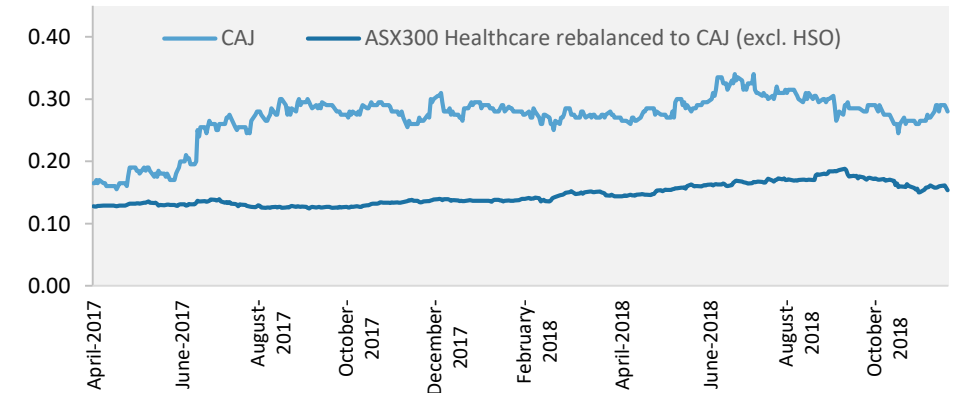
Annual growth  
2014-19  
4.2%

Annual growth  
2019-24  
4.8%

## DI Industry Revenue 2009-2024 (\$M)<sup>2</sup>



## CAJ Relative Performance<sup>3</sup>



<sup>1,2</sup> Ibisworld: Diagnostic Imaging Services in Australia 2018

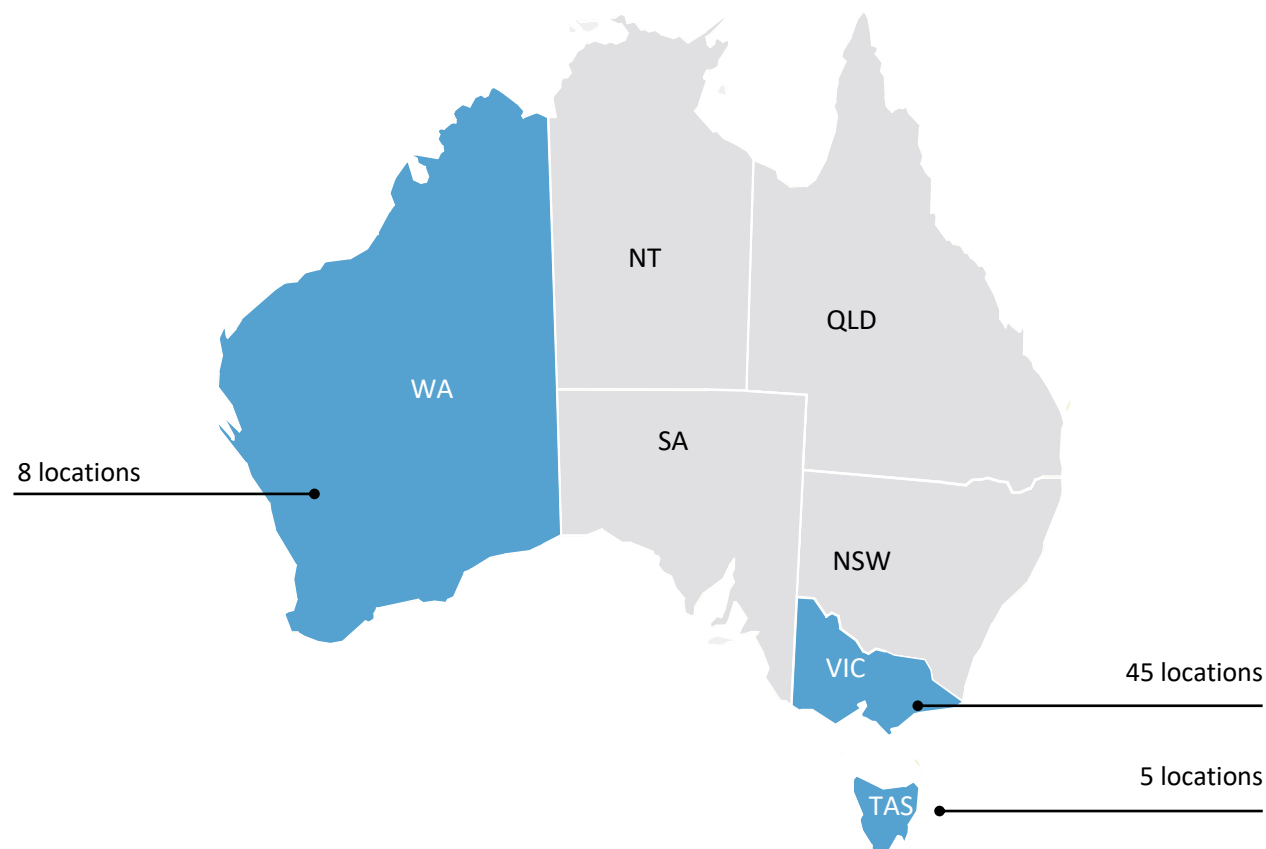
<sup>3</sup> Company information, Factset, Mergermarket

# Company overview

## Business description

- Capitol is an ASX listed leading provider of diagnostic imaging and related services to the Australian healthcare market
  - Owns and operates 58 clinics throughout Victoria, Tasmania and Western Australia
- Facilities are predominantly community-based rather than hospital-based, with priority given to service and minimisation of administrative burdens for healthcare professionals
- Strategic investment in diagnostic imaging artificial intelligence through Enlitic Inc in the US, and a Joint Venture with CITIC Pharmaceutical to provide consulting and clinic management services across mainland China
- Conducts more than 1.2 million procedures annually and employs c.800 people and c.65 radiologists

## Map of locations



# Capitol is a leading DI provider

## 1 Strong industry outlook

- Australian DI industry is growing with demand underpinned by factors including:
  - Aging population
  - Increasing demand for services from patients and referrers
  - Increasing prevalence of chronic diseases
  - Advancements in technologies
  - Mix shift towards more complex, higher priced services

## 2 Leading operator

- Economies of scale with Capitol being the largest community-based DI provider in Victoria
- Strong focus on doctor collaboration to deliver best in class clinical, operational and financial outcomes
- Development of high profile centres of excellence (e.g. Imaging at Olympic Park)
- Long-standing Medical Advisory Committee involved in key decisions

## 3 Strong recent financial performance

- Strong forecast financial performance
  - FY19 guidance remains strong, following acquisitive growth in FY18 and lift in EBITDA margins ~19%
- Strong balance sheet position - net debt ~ \$20m (after WCR completion)
  - Strategy to continue to pursue further acquisitions in FY19
- Well-established network of clinics in Victoria to capitalise on strong population growth

## 4 Growth opportunities

- Opportunity to deploy existing resources for accretive diagnostic imaging acquisitions
- Supportive Lender
- Significant number of small and medium industry participants
- Economics driving consolidation
- Significant blue sky opportunity for strong growth through Enlitic's technology and China JV

## 5 Strategic partnerships

- Research and training partnerships with major teaching hospitals and universities
- Partnerships to provide various services to Chinese DI providers - offshore growth opportunities

## 6 Strong management team

- New management team has grown the business and has strong shareholder support
- Effective governance structure

## 7 Experienced DI operator

- Long term operational focus on delivering a community-based infrastructure for radiologists and related medical practitioners to deliver optimal, efficient, accurate healthcare service outcomes for patients

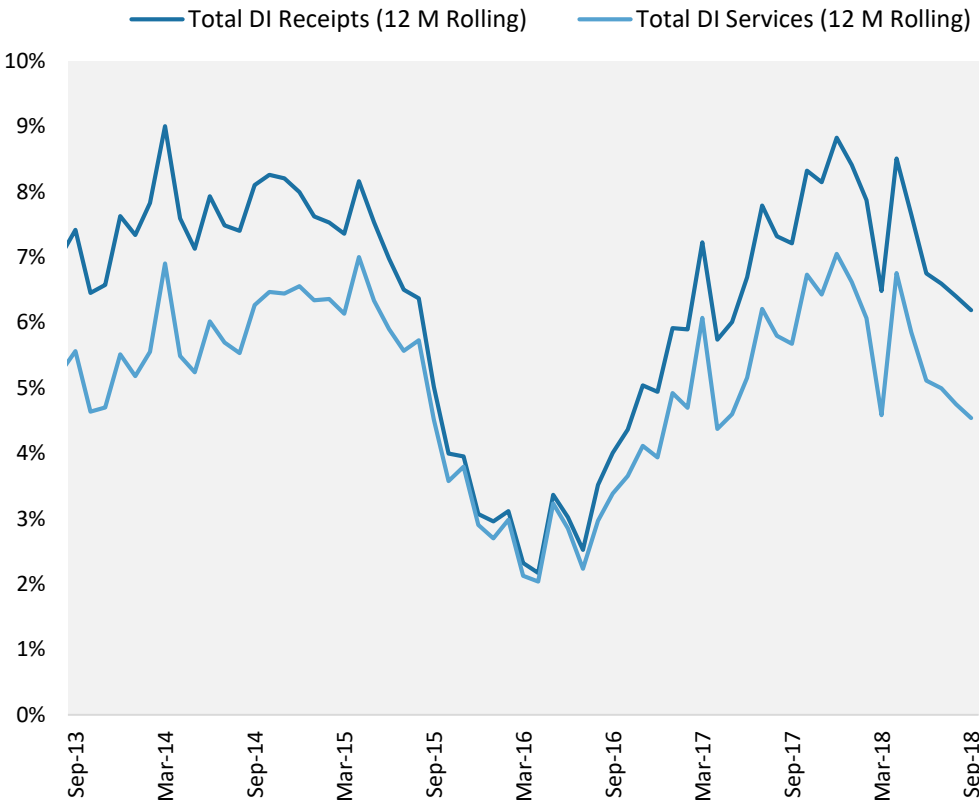
## 8 Attractive Doctor model

- Doctor model aligns interests of Capitol with the doctors
  - Remuneration is aligned with the business' goals including growing volume of patients and attracting new staff, whilst also respecting patients needs and maintaining integrity
  - Dr Option incentive scheme



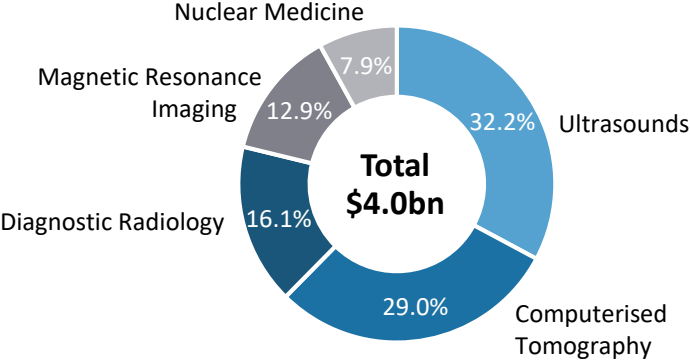
# Market underpinned by strong fundamentals

DI Services and Revenues – CAJ States<sup>1</sup>

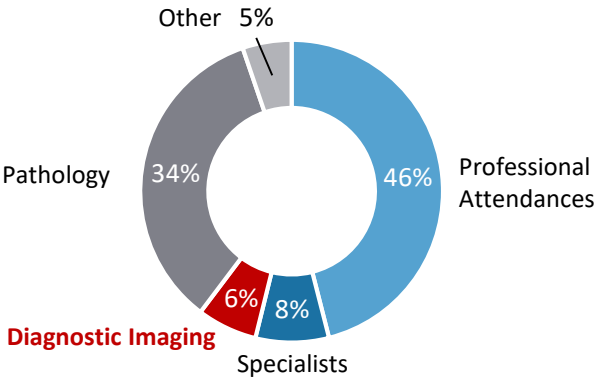


**Strong growth in DI services and \$ value**  
**Divergence between service and value driven by move to higher value modalities - MRI**

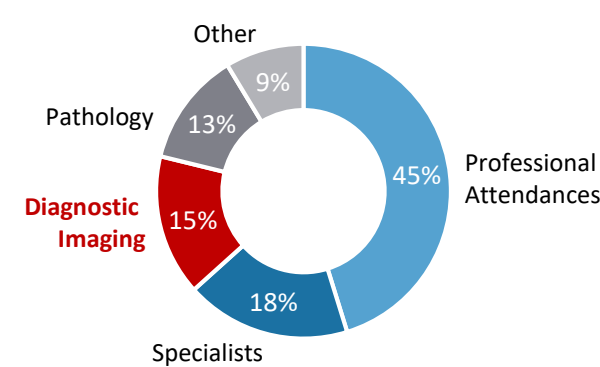
Product and services segmentation (2018-19)<sup>2</sup>



Medicare Services, FY 2018 – Australia<sup>1</sup>



Medicare Benefits, FY 2018 – Australia<sup>1</sup>

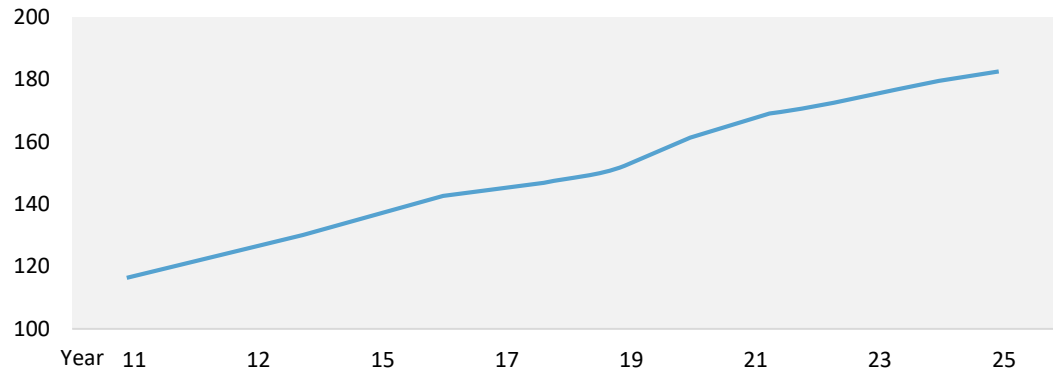


**DI is playing an increasing role in total Medicare outlays and services**

<sup>1</sup> Medicare  
<sup>2</sup> Ibisworld: Diagnostic Imaging Services in Australia 2018

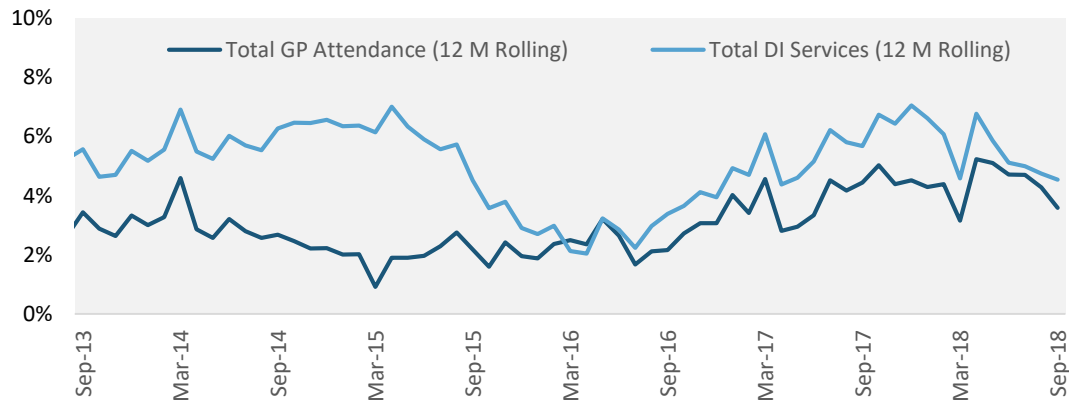
# Market underpinned by strong fundamentals

Total Visits to a General Practitioner (M)<sup>1</sup>



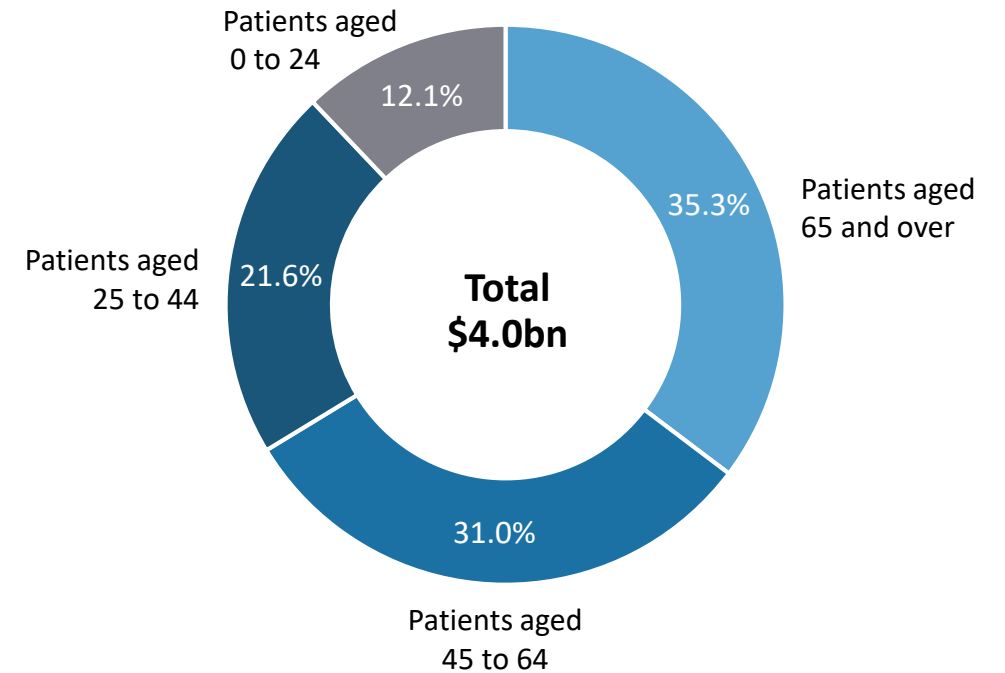
Total GP attendance has grown significantly and is expected to continue

GP Attendance & DI Services – CAJ States<sup>2</sup>



GP attendance is a key driver of DI referrals

Major Market Segmentation (2018-19)<sup>1</sup>



Aging population is a strong driver of DI demand. Industry services demanded by patients dramatically increases as they grow older

1 - Source: Ibisworld: Diagnostic Imaging Services in Australia 2018

2 - Medicare

# Capitol principles

## Key Areas Driving Shareholder Returns



# Capitol principles

1

## Continued Focus on Patient Care



- Focus on retaining and developing Doctor and clinical resources
- Doctor Incentive Option Scheme
- Medical Advisory Committee (MAC) reporting directly to Board of Directors
- Development of sub specialty focussed businesses
- MSK / Sports Imaging – Imaging at Olympic Park
- Body Imaging / Comprehensive Cardiac Imaging Services – Vermont

2

## Invest in People



- Fellowship programs in MSK and Body & Comprehensive Cardiac Imaging
- Sonographer training program
- Strong focus on training, education, and professional development through modality committees
- Training
- Flexible working arrangements

3

## Organisational Growth



- Clinic acquisitions to grow network
- Greenfield sites and capacity growth capex
- Referral growth across GP, Specialist, and allied health
- Large internal and external tele-radiology business

4

## Operational Excellence and Efficiency



- Strong research and training partnerships with major teaching hospitals and universities
- Renewed focus on IT and systems
- Margin expansion
- Investment in MRI growth (18 MRI units across network)
- Enlitic clinical trials and deployment



# Strategic imperatives



## Access

- Large community clinic networks across metropolitan areas and larger cities providing enough density for ease of access for patients and referrers
- Managing daily schedule to allow urgent and walk in cases (cater to urgent & anxious patients)
- Ease of car parking and public transport



## Affordability

- Low or no gaps, focus on Bulk Billing (where possible) with high clinical and patient service standards



## Efficiency

- Investment in new equipment for better clinical and more efficient patient outcomes
- Investment in technology – IT, Enlitic, Electronic access to records & images, Teleradiology



## Centres of Excellence Strategic Investments

- Invest in centres of excellence around specific physicians:
  - MSK and Sports Medicine Imaging @ Olympic Park
  - CT cardiac imaging (in conjunction with Cardiologists) – Vermont (Vic), Imaging Central (WA)
- Make strategic investments in industry changing technology - ENLITIC



## Disciplined Commercial Execution

- Acquisition identification, execution and integration
- Balance sheet capacity to execute
- Cultural integration & branding

# Strategic investments



- Twice named one of MIT Technology Review's 50 Smartest Companies. €1m prize for best start-up awarded by Apple founder Steve Wozniak
- Enlitic augments clinical workflows with artificial intelligence, enabling doctors to provide faster, earlier, and more accurate diagnoses.
- Enlitic's platform can incorporate a wide range of unstructured medical data, including radiology and pathology images, laboratory results such as blood tests and EKGs, genomics, patient histories, and electronic health records (EHRs), enabling deeper insights for every patient.
- Solutions integrate easily into existing health systems, offering seamless access to tools for patient triage and prioritization, population screening, retrospective analysis and quality assessment, and real-time clinical support.
- Leading medical data inventory from international sources
- Capitol invested AUD\$500,000 in round to be used for TGA registration and clinical trials in Capitol's clinic network
- US\$10m Series B funding round complete, Michael Sistenich appointed Chair
- Capitol to assess fair value of investment and expected to account for this increase in 1H FY19 financials

## About the Enlitic investment

- Ownership 12.6% fully diluted, 1 board seat (after Series B)
- Collaboration agreement in China
- Australian rights to use Enlitic as part of clinical partnership



# Strategic investments



## JV with CITIC

### Consulting and 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
- Capitol to contribute RMB 3m (~A\$0.6m) for 30% stake in JV, CITIC will hold 70%
- No further cash contribution expected unless clinic ownership option exercised
- Provides low risk option to growing market not reliant on Australian Government regulation
- Domestic regulatory delays and current negotiation of business plan and strategy have deferred commencement of operations
- Capitol has not yet contributed its equity funding
- Longer term option on emerging private Chinese DI market

### About CITIC Group

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

# MRI licensing



Federal Government recently announced pending allocation of 20 new Medicare MRI licences, comprising a mix of fully eligible units and upgrades of existing partial units.

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Applications were due for submission early November 2018

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A decision is expected to be made early in calendar year 2019, and licenses will be operational from 1<sup>st</sup> March 2019

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Capitol operates clinics across Victoria, Tasmania and Western Australia and currently has a fleet of 18 MRIs (including one under installation). Of these, two have full Medicare licences, eight have partial Medicare licences, and eight do not have Medicare licenses so operate without attracting a Medicare rebate.

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Capitol has several sites suitable for Medicare-funded MRI services and is optimistic that the allocation process will be supportive of Capitol's commitment to providing bulk-billed MRI services in communities that need them.

# Financial performance – FY18

- Operating revenue of \$129.1m
- Operating Revenue from continuing operations of \$118.3m (up 10.2% or \$10.9m on FY17)
- Underlying radiology EBITDA of \$24.2m (before ISI)
- Increase in underlying EBITDA margins to 19%
- Declared final FY18 dividend of 0.4 cps fully franked (Total dividend for FY18 0.8 cps)
- Transaction and takeover costs \$4.4m (Takeover costs \$2.7m)
- Non Cash Impairment of Enlitic investment (\$14.9m) FY18 to be re-valued to market in 1H FY19 as part of ongoing estimate of “fair value”
- Acquisitions accounted for 6.1% revenue growth. Balance of growth slightly below Medicare.
- High borrowing costs reduced with FY18 bond repayment. Senior debt refinanced



# FY19 guidance maintained

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

Maintain underlying EBITDA margins ~ 19%

Interest costs to fall ~ \$2m budgeted



## Assumptions:

- Capex of \$15m (comprised of \$8.9m growth & \$6.6m of maintenance)
- 3 new clinic openings (planned 2nd half)
- New acquisitions not included in guidance
- Assumes MRI licensing process produces no net change in revenues

## Key Drivers

- Long term market growth continuing ~5% RTM
- Some more patchy YoY growth over recent months
- More stable regulatory environment. Both government and opposition signalled positively toward DI
- Continuing strong organic and acquisitive growth opportunities supported by balance sheet capacity
- Reduced interest costs through note repayment / refinancing
- Tasmania performing to plan
- Continued growth in WA to build out clinic network
- Share buyback continuing when share price not reflective of value. 25.5m shares purchased for \$7m to 15/11/18 remaining capacity of 26.7m shares
- Franking balance \$9.3m





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