

ASX ANNOUNCEMENT

27<sup>th</sup> February 2019

## Half Year Results for six months ending 31 December 2018

- Increase in Revenue of \$72.9m vs pcp 30% (+\$16.8m)
- Increase in operating EBITDA of \$11.9m vs pcp 15% (+\$1.6m)
- Increase in NPAT to \$11.9m vs pcp (+\$9m)
- Continued growth in dividend payments by 25% – 0.05 cps franked interim
- Revaluation of Enlitic investment post capital raising to fair value by \$8.9m
- Increase in net cash from Operations 99%
- Increase in EPS (basic) to 1.50 cps (up from 0.34)

Capitol Health Limited (**Capitol** or the **Company**) (ASX:CAJ) today announced its half year results for the period 1 July 2018 through 31 December 2018.

Profit and Loss summary				
\$m	1H FY19	1H FY18	Growth	% Growth
Revenue	72.9	56.1	16.8	30%
<b>Operating EBITDA</b>	<b>11.9</b>	<b>10.4</b>	<b>1.6</b>	<b>15%</b>
<i>Operating EBITDA Margin</i>	<i>16%</i>	<i>18%</i>	<i>-2%</i>	<i>-12%</i>
Transaction costs	2.1	1.6		
Reversal of Impairment	(8.9)	-		
Depreciation & Amortisation	4.3	2.7		
Borrowing Costs	0.8	1.8		
<b>NPBT</b>	<b>13.6</b>	<b>4.3</b>	<b>9.3</b>	<b>219%</b>
Tax	1.6	1.5		
<b>NPAT</b>	<b>11.9</b>	<b>2.7</b>	<b>9.2</b>	<b>338%</b>
Discontinued operations	-	0.2		
<b>Statutory NPAT</b>	<b>11.9</b>	<b>2.9</b>	<b>9.0</b>	<b>313%</b>
<b>Earnings per Share (cents)</b>	<b>1.50</b>	<b>0.34</b>	<b>1.16</b>	<b>344%</b>

During the period the Company delivered revenue of \$72.9 mill (up \$16.8 mill or ~30% compared to prior period) and operating EBITDA of \$11.9 mill (up \$1.6 mill or ~15% compared to prior period) .

An interim fully franked dividend of 0.05 cps (up from 0.04 cps in the prior period or 25%) was also declared.

The Company delivered improved net cash from operations to \$7.7m, up 99% on prior corresponding period.

The Company has experienced subdued demand across its network (particularly in Victoria) over the latter part of the first half, which was more evident during the holiday period and has extended into January. This organic revenue growth of some 2.1% is driven by patchy attendance across the clinic network particularly in Victoria. GP attendance, which is a strong driver of referral for the Company, has also been subdued.

The Company also experienced delays in deployment of growth capital deployment and settlement of acquisitions; the full benefit of these activities will be realised in future periods. This has been reflected in an overall reduction of organic growth.

This growth is reflective of greater political and economic uncertainty and has also manifested in recent trends in the increases in Emergency Department attendances for non-urgent care in Victoria. We believe this lower demand is being at least partly driven by reduced consumer confidence and consequent deferral of discretionary expenditure which has extended to some areas of healthcare.

The Company does not view the immediate issues as long term or structural in nature and believes the strong underlying drivers of ageing population and the rapidity of technology development in the sector will continue to drive growth in the medium to long term. In addition, we expect the political uncertainty which is contributing negatively to consumer confidence is expected to largely resolve following the federal election.

The regulatory environment continued to improve for diagnostic imaging as evidenced by the Governments announcement in October 2018 of an increase in Medicare funded MRI services through the issue of 30 new licence. This number was further increased to 50 new MRI licences early in 2019. The bulk of the new licences are still to be announced. Encouragingly, the opposition has also voiced strong support for the sector through supporting the issue of new MRI licences and particular support for access to healthcare through Medicare bulk billing.

Capitol currently has a fleet of 18 MRIs, of these, two have full Medicare licences, eight have partial Medicare licences, and eight do not have Medicare licences so operate without attracting a Medicare rebate. The Company 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.

During the period Enlitic Inc. (Enlitic), a world leading Company in medical artificial intelligence, closed a US\$15m funding round which included significant investments from blue chip institutional and technology investors including a major investment from Marubeni (a large Japanese multinational). As a result of this funding Capitol has realised a one off \$8.9m gain reflective of the fair value of Capitol's shareholding.

As part of Capitol's \$500,000 investment in the round the Company has commenced beta deployment of its technology with Capitol along with early stage planning for regulatory registrations and approvals. We expect this process will enhance the value of Capitol's exclusivity for Australia and provide for a tangible and competitive point of difference for clinicians, referrals and patients.

Capitol continues to negotiate with Citic Pharmaceutical over its China Imaging Joint Venture and intends to visit China during the half to finalise negotiations.

The Company has a strong acquisition pipeline despite upward pressure on domestic acquisition multiples which, if it continues, may limit acquisitive growth in the sector. Despite this the Company made a substantial investment in Doctor capacity in first half which resulted in higher costs relative to revenue but is expected to contribute to greater revenue over the medium term. The Company continues to invest in greenfield sites and deploy new capex to drive clinical outcomes and revenue growth.

Managing Director Andrew Harrison commented regarding the outlook for full year FY19 “While the delays in capital deployment and acquisition completion are expected to rectify in 2H 19, if subdued demand persists for the balance of the year, it is expected to result in a reduction to the previously guided full year FY19 EBITDA forecast in the order of 10% -13%”.

Mr Harrison said, “We remain confident about the future for Capitol and excited at the opportunities before us. I would like to thank all of our employees and Doctors for their efforts, as well as the ongoing support of our valued shareholders.”

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**Company**

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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.