

# CAPITOL HEALTH LIMITED (ASX:CAJ) ANNUAL GENERAL MEETING 16<sup>TH</sup> NOVEMBER 2015

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LIMITED

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# PRESENTATIONS

- FY2015 year in review and FY2016 Performance to date
- Trends, Outlook and Developments

Peter Lewis (Executive Director)

John Conidi (Managing Director)

# FY2015 YEAR IN REVIEW AND FY2016 PERFORMANCE TO DATE

- Peter Lewis (Executive Director)

# FY2015 YEAR IN REVIEW AND FY2016 PERFORMANCE TO DATE

- FY2015 Year in Review
  - Revenue up 23% to \$111.2m
    - Driven by:
      - Market share gains
      - Organic industry growth
      - Acquisition of SR and IOP (part year)
      - Govt regulatory changes to MRI referral rights
  - Underlying NPBT up 59% to \$16.2m
    - Underpinned by:
      - Scalability of the business model
      - Ongoing improvements in cost and operational efficiencies
      - Underlying NPAT of \$11.8m and reported NPAT of \$3.9m reflecting higher effective tax rate due to non-deductible and partially deductible one-offs; deferred tax asset in future years
      - Underlying EBITDA of \$22.6m

KPI	FY2015	FY2014	% change
Revenue	\$111.2m	\$90.3m	+ 23 %
NPBT Margin *	14.5 %	11.3 %	+ 325 bps
NPBT *	\$16.2m	\$10.2m	+ 59 %
NPAT (reported)	\$3.9m	\$7.2m	- 46 %
EPS (underlying) *	2.49c	1.68c	+ 48 %
DPS (fully franked)	1.25c	0.90c	+ 39 %

• \* Underlying number, excludes \$8.4m in one-off transaction and restructuring costs associated with acquisitions, of which \$5.7m is non-recurring, non-deductible cost (ie stamp duty); ~\$0.4m of tax benefit  
 • # Includes issue of ~26m shares as part of SPP in February 2015

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# FY2015 YEAR IN REVIEW AND FY2016 PERFORMANCE TO DATE

- FY2016 Performance to date
  - Regulatory uncertainty and subsequent disruption to referral patterns has led to slower than anticipated growth so far in FY16
  - As previously announced, revenue is currently down 4-6% on expectations and historically revenue is higher in second half of the year
  - The NSW network has performed marginally better than Victoria in terms of expectations and provides a strong platform for organic growth
  - Liverpool Radiology acquisition did not add to profit in the period under review

KPI (preliminary indicative only, drawn from unaudited management accounts)	4 months to Oct 2015	4 months to Oct 2014	% change
Clinic opening days (Victoria)	87	89	
Revenue	\$52.4m	\$34.6m	+ 51 %
Underlying EBITDA <sup>1</sup>	\$8.9m	\$7.3m	+ 22 %
Underlying NPBT <sup>1</sup>	\$5.4m	\$5.8m	- 7 %
NPBT (reported)	\$4.0m	\$5.8m	- 30 %
NPAT (reported)	\$2.2m	\$4.1m	- 44 %
EPS (underlying) <sup>1</sup>	0.65c	0.94c	-31.0 %
EPS (reported)	0.44c	0.94c	- 54 %

1. Underlying number excludes \$1.1m in transaction and restructuring costs associated with acquisitions and \$0.3m of general restructuring costs

# TRENDS, OUTLOOK & DEVELOPMENTS

- John Conidi (Managing Director)

# TRENDS, OUTLOOK & DEVELOPMENTS

- Context & Background to Capitol Model
  - Margin & Modality Perspective
    - Predominantly bulk billing
    - CT & MRI
      - provide the greatest revenue per service/item by a factor of at least 2.5x
      - are the highest margin services in diagnostic imaging
      - highest capital cost ranging from \$300k to \$1.5m for CT and \$1m to \$1.5m for MRI
    - Ultrasound
      - labour intensive with the highest cost service to produce
      - most in demand modality
      - lowest margin service
      - nature of the scan generally leads to other higher margin imaging ie: CT, MRI

# TRENDS, OUTLOOK & DEVELOPMENTS

- Medicare Statistics – Performance Explained

- In absolute terms the number of CT scans in FY16 1st Quarter was less than the prior corresponding period for both Victoria & NSW
- Negative growth in CT & minimal growth in MRI explains the reduction in revenue and corresponding impact on margins and earnings**
- Slower than expected MRI growth while we expanded our MRI footprint by 6 in Victoria.
- CT volumes move in correlation with ultrasound. In Victoria, ultrasound grew by 4.3%, CT fell by 2.8% - Correlation broken, anomaly exits**

Medicare Data		Services					
		1 <sup>st</sup> Quarter (July to September)					
State	Modality	FY11	FY12	FY13	FY14	FY15	FY16
New South Wales	US	618,058	671,944	712,105	771,664	805,436	840,676
	CT	192,927	214,790	229,343	251,837	261,991	261,443
	DR	861,958	881,615	892,910	920,008	946,949	966,119
	NM	59,439	66,102	70,856	75,414	75,842	77,233
	MRI	45,541	51,591	53,503	60,530	84,685	90,057
	Total	1,777,923	1,886,042	1,958,717	2,079,453	2,174,903	2,235,528
Victoria	US	415,068	461,319	492,796	543,273	571,926	596,521
	CT	126,333	141,392	151,622	161,031	172,625	167,757
	DR	619,651	623,931	639,150	650,686	689,629	697,812
	NM	28,291	30,540	32,484	35,540	35,563	35,959
	MRI	35,697	40,972	41,173	48,290	67,148	69,710
	Total	1,225,540	1,298,154	1,357,225	1,438,820	1,536,891	1,567,759

# TRENDS, OUTLOOK & DEVELOPMENTS

- Medicare Statistics 1<sup>st</sup> Quarter – Anomaly Explained
  - Our revenue & earnings expectations were based on continuing growth trend underpinned by CT & MRI
  - Ultrasound growth has followed trend, CT real volumes have dropped, MRI slowed
  - The link between ultrasound and CT has been severed

Medicare Data		Services (year on year comparison)					
		1 <sup>st</sup> Quarter (July to September)					
State	Modality	FY11	FY12	FY13	FY14	FY15	FY16
New South Wales	US	4.5%	8.7%	6.0%	8.4%	4.4%	4.4%
	CT	-4.7%	11.3%	6.8%	9.8%	4.0%	-0.2%
Victoria	US	3.5%	11.1%	6.8%	10.2%	5.3%	4.3%
	CT	-7.8%	11.5%	7.2%	6.2%	7.2%	-2.8%

## WHY?

- To find the answer we need to go back to March 2010*
- “Medicare gets tough on unnecessary CT scans”*  
THE AUSTRALIAN MARCH 15, 2010
- In 2015 via the MBS Review Taskforce, the Health Minister & Head of the review prosecuting the argument that 25% of Medicare is waste as seen on “Four Corners”*

# TRENDS, OUTLOOK & DEVELOPMENTS

- Government Policy
  - In April the Government established a Medicare Benefits Schedule (MBS) Review Taskforce
  - Its purpose is to review more than 5,500 services listed on the MBS Schedule across all medical disciplines
  - The MBS Review Taskforce will consider how services can be aligned with contemporary clinical evidence and improve health outcomes for patients; the outcomes of this review are expected some time in 2016
  - Impacting referrer behaviour sooner than expected
  - Referrers are more likely to alter referral patterns to avoid government scrutiny at the expense of patient outcomes
  - Treatment and associated funding may be more evidenced and outcome based with checks in place

# TRENDS, OUTLOOK & DEVELOPMENTS

- Initiatives
  - Key Purpose
    - Patients First, Outcome driven
  - Universal Thematic
    - Personalisation of healthcare, Data driven = Better patient outcomes
  - Strategy
    - Patient specific tailored diagnostic imaging – subspecialty to the patient first time
    - Technology creating an interface between stakeholders driving productivity and improving patient outcomes through personalised medicine
  - How
    - Mach7 VNA solution to drive efficiency from Jan '16 – Rules driven, outcome focused
    - Enlitic – Improves accuracy and thus outcomes, leads to greater market share
  - Outcomes
    - VNA reduces broadband costs
    - Improves workflow flexibility and radiologist efficiency & productivity
    - Better patient outcomes via subspecialty = greater market share

# TRENDS, OUTLOOK & DEVELOPMENTS

- Summary

- IT & medical data analytics will be the tools to provide evidenced backed best outcome first time
- Mach7 and Enlitic in conjunction with other pattern systems will drive competitive advantage, enhance decision making for radiologists, referrers and Capitol executive.
- Technology creating an interface between stakeholders driving productivity and improving patient outcomes through personalised medicine
- Reduce costs per scan (from point above)
- Emphasis on early detection and prevention aligns with our strategy
- Government position still unclear, an election within 12 months
- Industry corporates likely to drive consolidation, however price expectations may inhibit transactions

# TRENDS, OUTLOOK & DEVELOPMENTS

- Developments

- In response to industry outlook and trading conditions Capitol has moved to align its cost base with revenue opportunities and cement its industry leadership in IT and software enabled workflow improvements
- Advancements in machine and deep learning are delivering a new paradigm in the provision of healthcare
  - IBM Watson has recently acquired healthcare IT company Merge for ~USD1b
  - Telstra Health continue to build their data-driven healthcare capabilities
- Capitol intends to be at the forefront of the confluence of traditional service provision and technology driven improvements
- Capitol has executed a Memorandum of Understanding with Enlitic Inc that will:
  - Provide Capitol with a period of exclusivity in Australia
  - Provide Capitol with international opportunities through the Asia Pacific region
  - Allows for investment of a maximum of USD10m (reduced by potential co-investment by Capitol professional staff)

# TRENDS, OUTLOOK & DEVELOPMENTS

- Developments .... Continued
  - Enlitic Inc is a San Francisco-based healthcare IT company founded and run by expatriate Australian Mr Jeremy Howard
  - Jeremy has a strong track record in building technology companies and is a well established expert in the area of machine learning
  - The MoU states that the partnership will “aim to significantly shift the speed, accuracy, and cost with which radiology results are rendered and made available within typical radiology workflows”
  - We have seen enormous radiologist “buy in” of the technology and, after a period of data testing and integration into protocols, we see Enlitic delivering significant productivity enhancements and margin improvements
  - Work has commenced on the data review and workflow assessment of Capitol’s current environment.

# TRENDS, OUTLOOK & DEVELOPMENTS

- Developments .... Continued
  - Improving quality and costs of diagnostic care includes:
    - Reduce false positive & false negative findings that can lead to unnecessary tissue biopsies, lab testing, patient distress, etc.
    - Increasing accurate first-time diagnoses (missing diagnoses and missed diagnoses) educing overutilization of medical procedures
    - Accurate and faster diagnosis should drive increased market share as referrers seek best outcomes first time
    - Supporting Indemnity insurers through Enlitic tools that provide another layer of comfort & assurance in diagnosis process
  - Improved productivity of radiologists through:
    - Directing interpretation to most clinically relevant images/slices
    - Speeding review of images through head-map prioritization to relevant problem- areas
    - Automating the generation of the administrative parts of the medical report, including measurements, comparison with priors, and creation of standardized reporting sentences for the radiologist to select from or confirm.
    - Aligns with Capitol's low cost model while maintaining high standards of care
  - Improved productivity and quality in developing economies, such as Asian markets:
    - Assisting radiologists to read more images and generate more radiology reports per capita
    - Assisting medical professionals (or even community workers) with less training to handle routine cases
    - Widening radiology service coverage, ushering in specialization for the first time to areas with even insufficient general coverage. For example, In India there is approximately one radiologist for every 100,000 population compared to US where the corresponding ratio is 1:10,000. (Source <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC4256238/>)
    - Bringing advanced technology & protocols to developing economic regions that are increasingly demanding improved care