

ASX ANNOUNCEMENT

16 December 2015

## **Response to Government Mid-Year Economic and Fiscal Outlook (MYEFO)**

The Federal Government announced changes to the bulk-billing incentive program for diagnostic imaging yesterday as part of the MYEFO announcement. No details were provided in the announcement about how the proposed changes would operate beyond implementation commencing in July 2016 and that the government would be “... aligning bulk-billing incentives for diagnostic imaging services with those that apply to General Practitioner services; and, reducing the bulk-billing incentive for Magnetic Resonance Imaging (MRI) services from 15 per cent to 10 per cent of the Medicare Benefits Schedule fee, aligning it with other diagnostic imaging services. Bulk-billing incentives for diagnostic imaging services will continue to apply for patients with concession cards and children under 16 years of age.” This announcement partly reflects proposed changes flagged in the 2014 Abbott/Hockey budget and the Company had identified a number of possible initiatives that might be undertaken in response to the 2014 proposed changes. The prospect of Government changes is a key catalyst for the Company’s pursuit of technology solutions to increase the productivity of its operations, most notably with the recent investment in the Vendor Neutral Archive (VNA) project and Enlitic Inc.

Following the announcement the Company is endeavouring to obtain greater detail in order to determine the potential impact of the proposed changes on the Group’s financial performance in FY17 and beyond.

However, based on certain assumptions surrounding the implementation of the changes including the potential composition of the patient profile (age or concession holders as a percentage of total patients) in July 2016 and onwards, potential impact of remedial actions implemented by the Group and other matters, the Company estimates a potential impact on revenue of approximately five to seven percent is possible. This estimated range is likely to change as the assumptions vary in the period up to implementation of the proposed changes in July 2016.

The Company will investigate possible remedial options that may be available between now and June 2016 including:

1. Potential co-payment for services provided.
2. Potential review of the range of services provided both in geography and modality.

The actual revenue impact and any actions taken by the Company in response to changes made by the Government will ultimately be a function of the final details when they are provided, the market conditions as they exist in July 2016 including both volume of demand and competitor behaviour and opportunities for cost reductions identified.

As noted above the Company is continuing the pursuit of technological advantage through our partnership with Enlitic Inc, which is expected to potentially yield revenue and expenditure benefits

during FY17. This benefit is expected to be derived from the greater efficiencies the Group should achieve through the deployment of deep or machine learning based software support for our clinical work driving the capacity to manage increased workflow.

The Company is committed to clear communication with all of its stakeholders concerning the potential impact of regulatory changes on its operations and will provide further updates as soon as appropriate clarity has been provided by the Government.

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Capitol Health Limited (ASX: CAJ) is an Australian public company providing medical diagnostic imaging (DI) services. It is the largest community based (non-hospital) DI provider within Victoria. The Company's objective is to build a leading primary healthcare business across Australia generating sustainable growth and profitability for shareholders whilst delivering a superior patient experience.