

ASX ANNOUNCEMENT

8th February 2016

Capitol Health – First Half FY16
Result for period 1st July 2015 to 31st December 2015
Underlying EBITDA of \$11m up 12% compared to prior corresponding period

- **Revenue of \$77.4 million (up 57% on H1FY 2015)**
- **Underlying Earnings Before Interest, Depreciation and Amortisation (EBITDA) before acquisition & restructuring costs up 12% to \$10.9m (from \$9.7m in H1FY15)**
- **Underlying Net Profit Before Tax (NPBT) of \$5.2m down from \$7.3m in H1FY15 reflecting higher interest and depreciation costs flowing from acquisitions**
- **Significant one-off acquisition and restructuring costs (stamp duty, transaction costs, etc) of \$1.7m**
- **Reported NPBT (after acquisition & restructuring costs) of \$3.5m and Net Profit After Tax (NPAT) of \$2.2m**
- **Interim dividend suspended pending capital management activities**

The Directors of Capitol Health Limited (“Capitol” or “Company”, ASX: CAJ) are pleased to report the results for the period to 31st December 2015 being the first half of the financial year to end on 30th June 2016, following completion of the audit review.

Preliminary results overview

As previously advised to the market, Capitol has seen revenue weakness throughout the first half of this financial year, which has impacted on the reported profits for the half year period to 31st December 2015. Revenue for H1FY16 increased to \$77.4 million (up 57% on H1FY15) with growth from acquisitions completed in the 2015 year impacted by system weakness.

Whilst the underlying results show continued growth in revenue and EBITDA, the significant acquisition and restructuring expenses of \$1.7 million incurred during H1FY16, have naturally had a significant impact on the reported result. This is largely driven by stamp duty and other transaction and restructuring costs.

Net Profit Before Tax (NPBT) for H1FY16 is \$3.5 million. However, allowing for the acquisition and restructuring expenses, the normalised (underlying) NPBT figure is \$5.2 million. The Net Profit After Tax (NPAT) is \$2.2m for the period down from the prior corresponding period of \$4.6 million, again impacted by one-off costs.

Balance sheet debt at 31st December 2015 is \$97.6 million with cash of \$20.6 million netting this debt level to \$77.1 million.

Funding Arrangements

The Board is pleased to advise the market that the Company's principal lenders, National Australia Bank (NAB), have approved a revised banking facility to the group for a current total of \$140 million (reducing to \$115m by December 2019) with normal key covenants including Net Debt to EBITDA of no more than 4x through to December 2016, dropping to 3.5x by the end of June 2017 and then set at 3x, and fixed charges cover ratio of not less than 2x. The Board also engaged NAB to investigate raising up to \$50 million through a senior unsecured bond issue during the second half of FY16.

Executive Remuneration and Option Issue

As previously advised to shareholders, the Remuneration and Nomination Committee of the Board have conducted an external review by professional consultants of the remuneration packages offered to the executive team. The review and its consequent findings have been progressively adopted where possible by the Company in the form of base salary package adjustments plus short and long term incentives. Part of that review includes developing a broad based option program to key staff, including via the Employee Incentive Plan approved at the Annual General Meeting. Further details will be provided to shareholders as the findings are formalised into the overall compensation policy for the group.

An initial step towards establishing an appropriate compensation for the Managing Director and as part of the Employee Incentive Plan, the Board has today agreed to issue 15 million employee options to Mr John Conidi. The options have a strike price that is based on a 50% premium to the Volume Weighted Average Price (VWAP) for the five trading days ending on 12th February 2016, will vest over a four year period and when the options are exercised the shares are to be purchased on market in accordance with ASX Listing Rules 10.15B and 10.12, exception 4A. The Board reached this decision after consideration of a comprehensive remuneration benchmarking report, and considered the issue of options important to recognise Mr Conidi's substantial contribution to the group during recent years, and as an incentive to maintain his engagement for the foreseeable future, which will be included in his overall compensation arrangements that will be advised to shareholders when finalised.

Dividend

The Directors have decided to suspend the interim dividend and the Board will again review the opportunity to pay a dividend in respect of this current financial year at the completion of FY16 subject to profits and debt levels.

Enlitic Partnership

The Board is pleased to advise that, in accordance with the release to the market on 28 October 2015 (“October Release”), Capitol is expecting to be issued this week, USD\$10 million of shares in Enlitic Inc, that was selected by MIT Technology Review as one of the world’s “50 Smartest Companies 2015”. Consideration for this investment was an initial USD\$5 million and a commitment for two further interest bearing payments of USD\$2.5 million on 15th April 2016 and 15th August 2016. As previously released to the market, the Company will make available to its professional staff a certain percentage of that investment, enabling staff buy-in and supporting retention.

Related to this investment, Capital Radiology has also secured exclusive access to the Enlitic technologies in Australia for at least five years from the commencement of fully-operational, real-time use on a fee per scan basis. The details of the parties’ plans to jointly develop the Asia Pacific market are still being finalised and will be announced when complete.

Managing Director, Mr John Conidi commented:

“While the first six months of the current financial year have been difficult for the industry, Capitol has revenue and EBITDA growth over the prior corresponding period due to the acquisitions last year. The outlook remains challenging to predict but we remain confident that the transformative nature of the acquisitions we made in 2015 coupled with the continuing investment in technology will drive earnings in FY17 and beyond.

Our capital management activities announced today should help ensure the group has sufficient resources to meet the continuing growth objectives of the Board.”

For further information please contact: John Conidi
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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, has recently extended its operations into New South Wales and is an ASX-listed company operating exclusively in DI. 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.