

CAPITOL HEALTH LIMITED (ASX:CAJ)

Bell Potter Emerging Leaders Conference

23RD MARCH 2016

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CAJ : ASX

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AGENDA

- About Capitol Health
- The Capitol Model
- Industry Overview
- Track Record
- Industry Conditions
- FY2016
- Response to Changing Conditions
- FY2016 – 2H To Date
- Investment Highlights
- Questions

ABOUT CAPITOL HEALTH

- 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 coupled with significant operations in New South Wales
- The Company employs over 700 people across 70 facilities within Sydney, Melbourne and rural Victoria
- The Company's objective is to build a leading primary healthcare business generating sustainable growth and profitability for shareholders whilst delivering a superior patient experience

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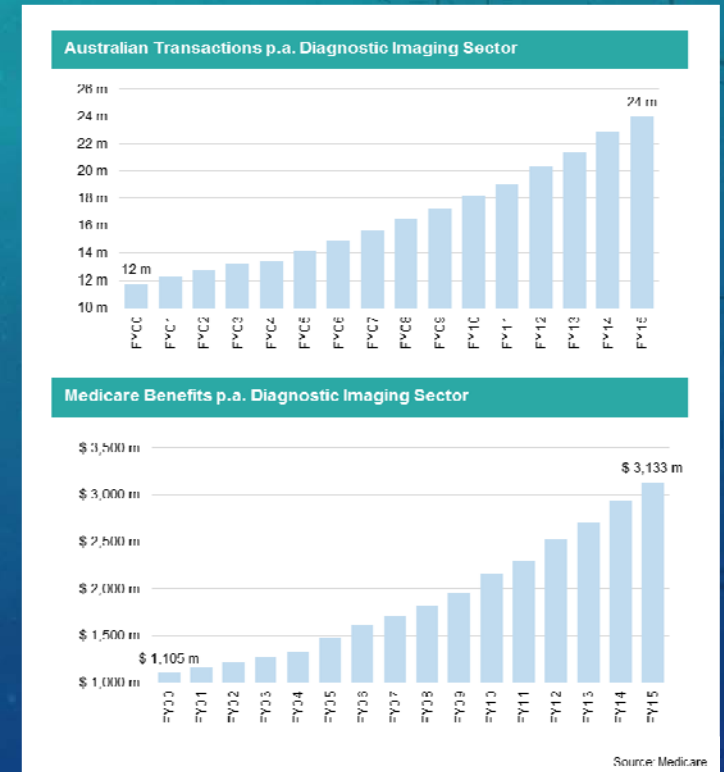
THE CAPITOL MODEL

- Context & Background to Capitol Model
 - Margin & Modality Perspective
 - Predominantly bulk billing, community orientation
 - 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
 - Focus on efficient (cost and quality) delivery of DI services
 - Improve radiologist productivity by providing tools and systems to enable accurate and timely reporting with best in class reporting tools and stakeholder management

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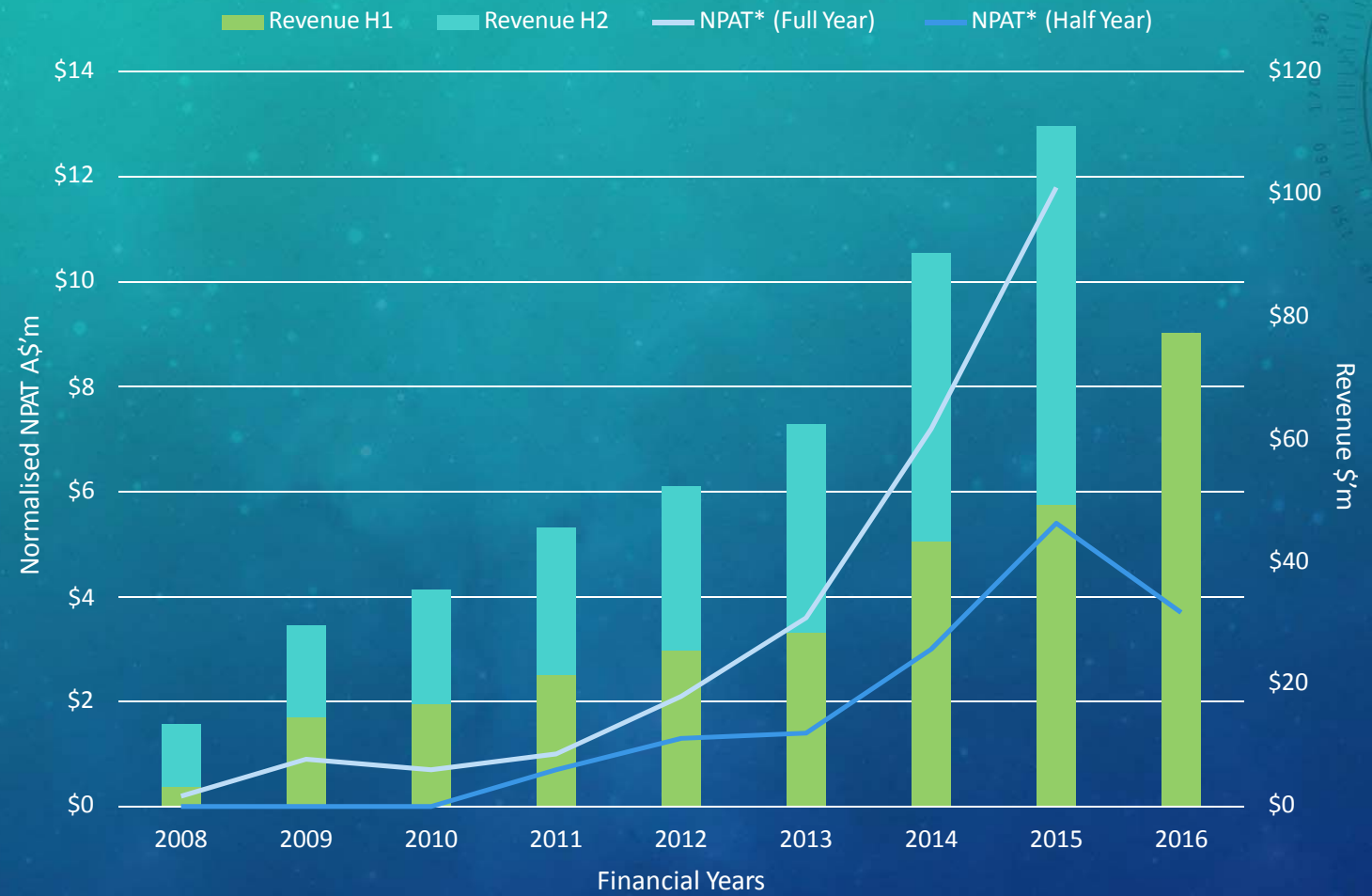
INDUSTRY OVERVIEW

- Australia's Diagnostic Imaging ("DI") market has maintained a consistently strong year-on-year growth profile between FY 2000 and FY 2015
 - Demand for DI services has been driven by:
 - An ageing and increasingly affluent population;
 - Population growth and expanding metropolitan centres;
 - Increased emphasis on early detection and prevention;
 - Demand for better, more personalised health care services; and
 - Better understanding and track record of DI among medical community
 - In Australia, for the FYs 2000 through 2015:
 - Transaction volumes have increased by approximately 5% p.a, with over 24m procedures undertaken in FY15
 - Revenue volumes have increased by over 7% as services have shifted towards relatively higher-value imaging services



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TRACK RECORD



* = FY15 and FY16 NPAT results normalised to remove impact of individually significant off costs

INDUSTRY CONDITIONS

- Government Policy

- In April 2015 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 with referrers more likely to alter referral patterns to avoid government scrutiny at the expense of patient outcomes
- In December 2015 the Government announced changes to bulk bill rebates for radiology services to commence in July 2016; full details and path for regulatory process still unclear

- Corporate

- ASX Listing of PE-backed Integral Diagnostics (ASX:IDX)
- Proposed listing of PE-backed IMED (MIA) postponed

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FY2016

- FY2016 First Half
 - Regulatory uncertainty and subsequent disruption to referral patterns has led to slower than anticipated growth so far in FY16
 - Revenue outcome in line with previously announced range of 4-6% down on expectations and historically revenue is higher in second half of the year
 - Ultrasound, CT and MRI primary areas of revenue weakness
 - Revenue weakness consistent across both NSW and Victoria
 - Costs in line with company and market expectations

KPI (preliminary indicative only, drawn from unaudited management accounts)	6 months to Dec 2015	6 months to Dec 2014	% change
Clinic opening days (Victoria)	128	129	
Revenue	\$77.4m	\$49.4m	+ 57 %
Underlying EBITDA ¹	\$10.9m	\$9.7 m	+ 12 %
Underlying NPBT ¹	\$5.2m	\$7.3m	- 29 %
NPBT (reported)	\$3.5m	\$6.5m	- 47 %
NPAT (reported)	\$2.2m	\$4.6m	- 52 %
EPS (underlying) ¹	0.7c	1.3c	- 43 %
EPS (reported)	0.4c	1.0c	- 61 %

1. Underlying number excludes \$1.7m in transaction and restructuring costs for the current period and \$0.8m for the prior corresponding period.

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FY2016

- Medicare Statistics reveal slow down in System Growth
 - In absolute terms the number of CT scans in FY16 first half was less than the prior corresponding period for both Victoria & NSW
 - Negative growth in CT & lower growth in MRI drove the reduction in Capitol's revenue and corresponding impact on margins and earnings
 - CT volumes have historically moved in correlation with ultrasound; in Victoria, ultrasound grew by 4.0% whilst CT fell by 2.9% - the link between ultrasound and CT has been severed
 - Revenue & earnings expectations have historically been based on Capitol outperforming the continuing growth trend underpinned by CT & MRI
 - Ultrasound growth has followed trend, whilst CT real volumes have dropped and MRI has slowed
 - The slower than expected MRI growth has occurred at the same time we have expanded our MRI footprint in Victoria

Medicare Diagnostic Imaging Volumes

NSW	1H15	1H16	% Change
US	1,602,484	1,662,275	3.73%
CT	517,865	510,609	-1.40%
X-Ray	1,840,189	1,854,632	0.78%
NM	150,375	146,766	-2.40%
MRI	166,420	172,303	3.54%
	4,277,333	4,346,585	1.62%

VIC	1H15	1H16	% Change
US	1,132,802	1,177,670	3.96%
CT	341,037	331,192	-2.89%
X-Ray	1,346,003	1,352,584	0.49%
NM	71,165	69,833	-1.87%
MRI	128,330	132,969	3.61%
	3,019,337	3,064,248	1.49%

Source: Medicare, Company Reports

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RESPONSE TO CHANGING CONDITIONS

- 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
 - Enlitic selected as one of the “50 Smartest Companies 2015” by the MIT Technology Review
 - 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”
 - Testing has demonstrated material improvements in accuracy of lung cancer and bone fracture detection, with application across multiple modalities and areas of the body
 - After a period of further data testing and integration into protocols, we see Enlitic delivering significant productivity enhancements and margin improvements
- Capitol has executed agreements with Enlitic that will:
 - Provide Capitol with a period of exclusivity in Australia
 - Provide Capitol with international opportunities through the Asia Pacific region; details being finalised
 - Provide Capitol with a USD10m investment in Enlitic (reduced by potential co-investment by Capitol professional staff) payable over the period to August 2016

RESPONSE TO CHANGING CONDITIONS

- Initiatives:
 - Key Purpose
 - Patients First, Outcome driven
 - Universal Thematic
 - Personalisation of healthcare, Data driven = Better patient outcomes
 - IT & medical data analytics will be the tools to provide evidence backed best outcome first time
 - 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 July 2016 – Rules driven, outcome focused
 - Enlitic – Improves accuracy and speed drives outcomes, leads to greater market share
 - Outcomes
 - VNA reduces broadband costs
 - Improves workflow flexibility and radiologist efficiency & productivity
 - Emphasis on early detection and prevention aligns with our strategy
 - Better patient outcomes via subspecialty = greater market share

RESPONSE TO CHANGING CONDITIONS

- Capital Management Initiatives
 - Investigating non-dilutive bond issue
 - Creates facility headroom for growth opportunities and reduces Senior Secured Net Leverage Ratio to <2x
 - Strong senior banking relationship
 - Covenant flexibility
 - Company has elected to increase amortisation profile to deliver greater balance sheet flexibility
 - Suspension of Dividend
- Operational Initiatives to Drive Market Share and Grow Margin
 - Moving to align its cost base with revenue opportunities
 - Aimed at industry leadership in IT
 - Software enabled workflow improvements

FY2016 – 2H TO DATE

- We have seen a stabilising of referral patterns and the sector in general
- Notwithstanding, regulatory uncertainty still provides for potential adverse outcomes
- Trading for 2H to date in line with previously announced expectations and showing signs of improvement as initiatives gain traction
 - Expectation of a stronger 2H vs 1H
- Broader footprint post 2015 acquisitions provides for diversification of earnings and acts as buffer against anomalous trading in certain geographies
- Early indications for 2H FY16 show that volumes are in line and above Medicare statistics

INVESTMENT HIGHLIGHTS

- Strength of demand in sector
 - Robust underlying industry and consumer fundamentals underpinning continued demand for services
 - Demonstrated long-term historical growth patterns
- Company positioned to deliver enhanced services through technology
 - Continued focus on interface between stakeholders, efficiency, and productivity improvement
 - Opportunity to provide improved services through Enlitic, VNA and other initiatives
- Scalable business and adaptive model
 - Personalised service and attention to brand emphasises customer focus
 - Flexible remuneration and employment approach attractive to radiologists and other professionals
 - Positioned to benefit from future industry consolidation

QUESTIONS