

ASX ANNOUNCEMENT

1 August 2016

Preliminary Results for period 1st July 2015 to 30th June 2016
Based on unaudited financial accounts
Core Radiology EBITDA of \$23m

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- Revenue expected to be \$158 million (up 42% on FY15)
 - Core Radiology EBITDA expected to be \$23 million before business development costs, slightly up on prior corresponding period
 - Business development costs \$0.8 million for China opportunity incurred during the year
 - Individually Significant Items including impairment, one-off acquisition costs (stamp duty, transaction costs), and restructuring costs of \$13 million
 - Reported Net Loss Before Tax (after individually significant items) expected to be \$3.2 million
 - The Board has decided to suspend the final dividend
 - Executive Director Peter Lewis will be stepping down from his executive and board roles
 - Managing Director, John Conidi, has voluntarily forfeited his right to 15,000,000 options
 - Capitol is in the process of divesting four freehold properties
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The Directors of Capitol Health Limited ("Capitol" or "Company", ASX: CAJ) provide guidance for the financial year ending 30 June 2016. This guidance is based on preliminary financial accounts. The audit has commenced and final results will be released to the market following completion of the audit including any changes to this information required by the audit.

Preliminary results overview

As previously advised to the market, the industry has seen revenue weakness throughout the financial year which had impacted the reported Capitol profits. Revenue for FY16 increased to \$158 million (up 42% on FY15), with growth from acquisitions completed 2015 and 2016 impacted by system weakness.

The underlying results show continued growth in revenue and EBITDA. The Individually Significant Items of impairment, acquisition and restructuring costs and other costs written off totalling \$13 million have naturally had a major impact on the reported result.

The Individually Significant Items follow a review of the balance sheet by the company in accordance with the accounting standards with the major items being an impairment of the goodwill associated with the NSW acquisitions, the 30th June 2016 mark to market of the Group's interest in Mach7 Technologies Limited, and the write-off of borrowing costs related to the recent senior unsecured notes issue and amendments to the senior secured facility agreement. The acquisition and restructuring costs were as reported at the half year as associated with the investments in NSW.

A breakdown of the operating earnings is expected to disclose:

Item	\$m
Core Radiology EBITDA	23.1
<u>Business Development costs (China)</u>	<u>(0.8)</u>
EBITDA	22.3
Individually Significant Items:	
– Intangible Asset Impairment	(8.1)
– Investment Impairment (M7T.ASX)	(0.8)
– Borrowing costs written off	(2.2)
– Acquisition and Restructuring Costs	(2.1)
Interest Expense for the Period	(5.2)
<u>Depreciation and Amortisation for the Period</u>	<u>(7.1)</u>
<u>Reported Net Loss Before Tax</u>	<u>(3.2)</u>

Allowing for the individually significant items, the normalised (underlying) Net Profit Before Tax (NPBT) figure is expected to be \$10 million.

Capitol Health's Managing Director, John Conidi, stated: "Especially in a challenging domestic market, it is essential that the company ensures strong foundations for the future by ensuring that asset values are based on realistic carrying values, reflecting current revenue and profitability.

The Board also remains focused on developing and progressing alternative revenue opportunities to improve shareholder returns and expects that these adjustments provide a solid foundation upon which to build those future returns."

Funding

Balance sheet debt at 30th June 2016 was \$103 million with cash of \$16 million netting this debt level to \$87 million.

Dividend

The Directors have decided to suspend the final dividend.

Forfeit of Managing Director Options

John Conidi has voluntarily forfeited his right to 15,000,000 unlisted options expiring 15 February 2020. These options were granted on 15 February 2016 and had an exercise price of \$0.2242 each.

Organisation Structure

The Directors also advise that Peter Lewis will be stepping down from his executive and Board roles at Capitol. Peter leaves with our best wishes and thanks for his efforts over the last twelve months. Peter has provided strong leadership during a difficult time for the company and made a significant contribution to the stability of the group at a time of considerable industry change. He leaves with our gratitude and support at the end of August 2016.

Property Divestment

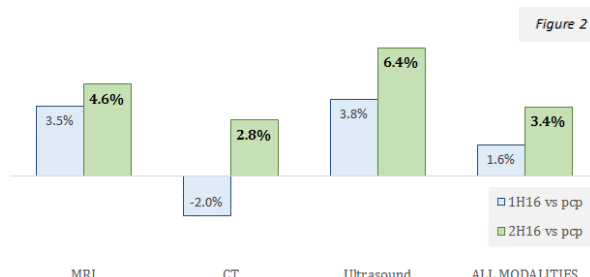
The Company has four (4) freehold properties that it has decided to divest. One has successfully been sold and settled in July for circa \$0.9 million, the other 3 properties are being marketed with a minimum expectation of \$3.5 million.

Market Commentary

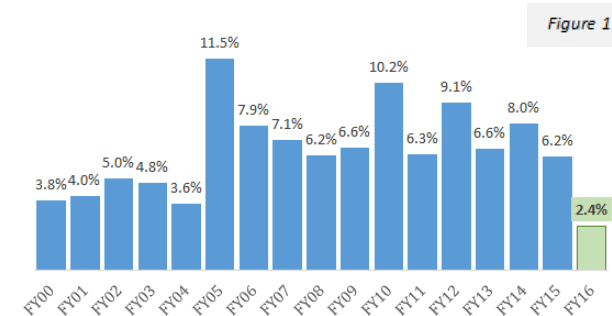
While year-on-year growth was historically low, 2H FY16 was encouraging for the broader sector.

Revenue weakening primarily in the early months of the year drove a historically low growth year overall in FY16, as Medicare billings for Victoria and NSW combined increased 2.4% against the prior year. Disruptions to referral patterns, the continuing MBS review, and regulatory and political uncertainty disrupted historical growth trends from Q1 forward. (see *Figure 1*)

Diagnostic Imaging (DI) Medicare Billings
VIC + NSW – 1H & 2H FY16 vs. Prior Corr. Periods
Source: Medicare



Diagnostic Imaging Medicare Billings
VIC + NSW – Annual Growth Rates
Source: Medicare



While these factors remained present in the lead up to the July election – which underpinned renewed softness in the final weeks of the financial year – the Medicare data published for 2H FY16 shows encouraging signs of recovery towards historical growth patterns versus 1H FY16. (see *Figure 2*)

Accelerated growth was seen across all critical modalities in 2H FY16 when compared with 1H FY16 versus its prior corresponding period. While trends were broadly consistent across both states, growth was more robust in Victoria than NSW.

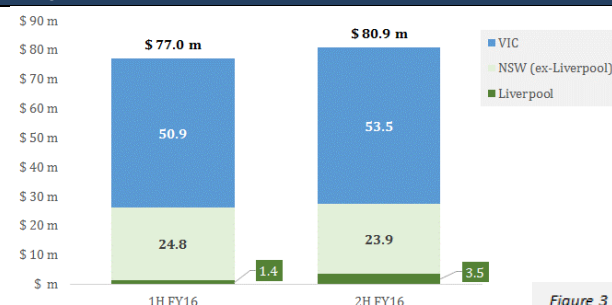
Capitol Performance against Market

Capitol core growth outpaced 2H FY16 market growth in aggregate, driven by improved trading in Victorian clinics, and was further supplemented by the continued integration of the New South Wales acquisitions.

In the 2H FY16:

- Victorian revenue grew by \$2.6m versus the first half of the financial year; and
- NSW improved by \$1.2m (including the Liverpool acquisition completed in October 2015), with an underlying decline of \$0.9m half-on-half. (see *Figure 3*)

Capitol Health Operating Revenue
FY16

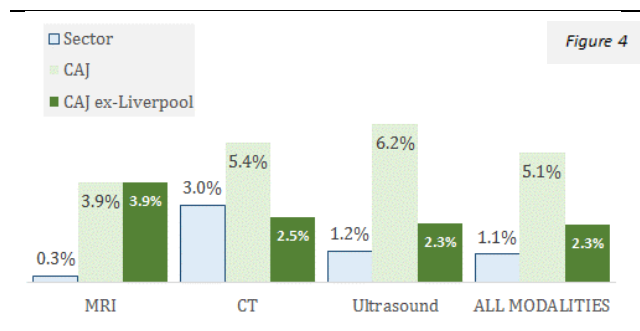


Capitol Health vs DI Medicare Billings
Revenue Growth within FY16: 2H FY16 vs 1H FY16¹

¹ There were two fewer calendar days and four fewer working days in 2H FY16 versus 1H FY16. Figures presented here are half-on-half and have not been adjusted to allow for the difference.

In aggregate, Victorian revenue growth rebounded across FY16 and outpaced growth in Medicare receipts in Capitol's key modalities, particularly the higher-revenue services (MRIs and CTs).

NSW revenue growth was driven by integration of the Liverpool clinics in 2H16. Underlying NSW performance was broadly flat, impacted by the relatively softer market and a shift towards lower-revenue, more labour-intensive services throughout FY16. (see *Figure 4*)



Further Information

Capitol is expecting to provide further commentary on Enlitic and China developments around the time of the release of its Annual Report.

Managing Director John Conidi commented:

"While this financial year has been difficult for the industry, Capitol has revenue growth and EBITDA consistency with the prior corresponding period. The outlook remains challenging to predict but we remain cautiously optimistic and are confident that the transformative nature of the investments we have made across the last two financial years coupled with our continuing investment in technology will drive earnings in FY17 and beyond."

For further information, please contact:

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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 approximately 70 clinics throughout Victoria and New South Wales. 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.