

# CAPITOL HEALTH LIMITED (ASX:CAJ) FIRST HALF 2016 RESULTS PRESENTATION (1HFY16) 8<sup>TH</sup> FEBRUARY 2016

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# AGENDA

- About Capitol Health
- Interim results H1 FY2016
- Track Record
- Trends, Outlook and Developments
- Equity Alignment
- Questions

# ABOUT CAPITOL HEALTH

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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 coupled with significant operations in New South Wales
- The Company employs approximately 800 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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# FIRST HALF FY2016 INTERIM RESULTS

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## 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

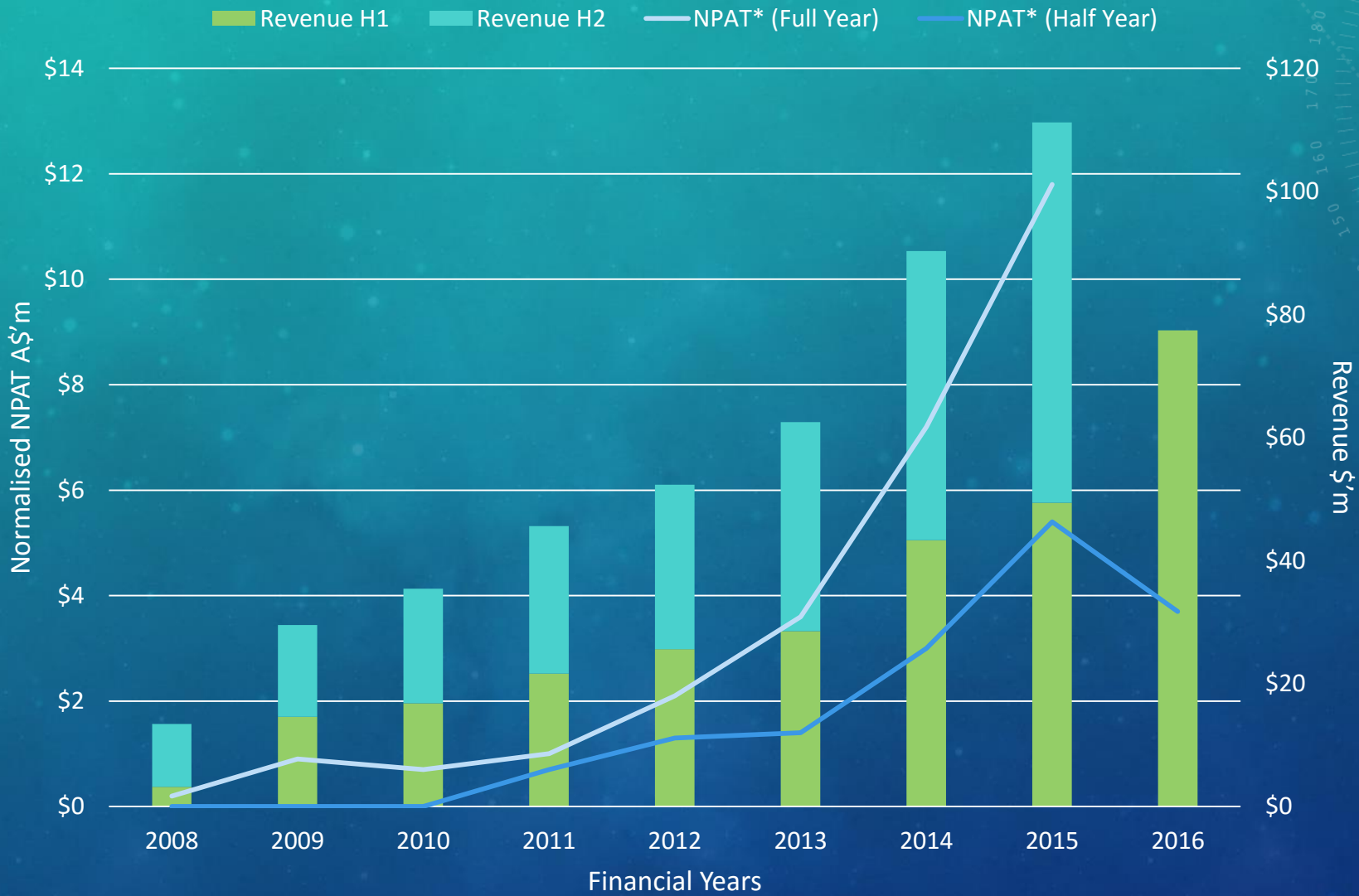
KPI (preliminary indicative only, drawn from unaudited management accounts)	6 months to Dec 2015	6 months to Dec 2014	% change
Clinic opening days (Victoria)	128	129	
Revenue	\$77.4m	\$49.4m	+ 57 %
Underlying EBITDA <sup>1</sup>	\$10.9m	\$9.7 m	+ 12 %
Underlying NPBT <sup>1</sup>	\$5.2m	\$7.3m	- 29 %
NPBT (reported)	\$3.5m	\$6.5m	- 47 %
NPAT (reported)	\$2.2m	\$4.6m	- 52 %
EPS (underlying) <sup>1</sup>	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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\* = FY15 and FY16 NPAT results normalised to remove impact of individually significant costs

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# TRENDS AND OUTLOOK

## 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 AND OUTLOOK

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## Medicare Statistics – Performance Explained

- 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 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 4.0%, CT fell by 2.9% - Correlation broken, anomaly exists**

Medicare Data		Services					
		First Half (July to December 2015)					
State	Modality	FY11	FY12	FY13	FY14	FY15	FY16
New South Wales	US	1,225,110	1,324,578	1,416,326	<b>1,521,502</b>	<b>1,602,484</b>	<b>1,662,275</b>
	CT	378,674	425,262	457,511	<b>494,215</b>	<b>517,865</b>	<b>510,609</b>
	DR	1,676,308	1,690,631	1,723,412	1,772,426	1,840,189	1,854,632
	NM	118,572	131,702	138,723	147,341	150,375	146,766
	MRI	92,813	99,852	106,004	128,592	166,420	172,303
	<b>Total</b>	<b>3,490,477</b>	<b>3,672,025</b>	<b>3,841,976</b>	<b>4,064,076</b>	<b>4,277,333</b>	<b>4,346,585</b>
Victoria	US	819,352	904,914	978,764	<b>1,070,054</b>	<b>1,132,802</b>	<b>1,177,670</b>
	CT	245,756	277,231	298,806	<b>318,246</b>	<b>341,037</b>	<b>331,192</b>
	DR	1,199,214	1,194,499	1,232,754	1,265,083	1,346,003	1,352,584
	NM	55,132	61,133	63,947	70,437	71,165	69,833
	MRI	69,170	77,271	80,878	100,764	128,330	132,969
	<b>Total</b>	<b>2,388,624</b>	<b>2,515,048</b>	<b>2,655,149</b>	<b>2,824,584</b>	<b>3,019,337</b>	<b>3,064,248</b>



# TRENDS AND OUTLOOK

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## Medicare Statistics First Half – 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

### 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”*

Medicare Data		Services (year on year comparison)					
		1 <sup>st</sup> Half (July to September 2015)					
State	Modality	FY11	FY12	FY13	FY14	FY15	FY16
New South Wales	US	5.8%	8.1%	6.9%	7.4%	5.3%	3.7%
	CT	-3.6%	12.3%	7.6%	8.0%	4.8%	-1.4%
Victoria	US	4.5%	10.4%	8.2%	9.3%	5.9%	4.0%
	CT	-7.5%	12.8%	7.8%	6.5%	7.2%	-2.9%

# TRENDS AND OUTLOOK

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## 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
  - 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
- 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.

# DEVELOPMENTS

## 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

# 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
  - 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 partnership will “aim to significantly shift the speed, accuracy, and cost with which radiology results are rendered and made available within typical radiology workflows”
  - After a period of data testing and integration into protocols, we see Enlitic delivering significant productivity enhancements and margin improvements. Work is well underway on this data review and workflow assessment of Capitol’s current environment
- 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
  - Provide Capitol with a USD10m investment in Enlitic (reduced by potential co-investment by Capitol professional staff) payable over the period to August 2016

# VISION

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Improving quality and costs of diagnostic care includes:

- Reduce false positive & false negative findings that can lead to unnecessary additional testing, patient distress, etc.
- Increasing accurate first-time diagnoses reducing overutilization of medical procedures
- Accurate and faster diagnosis should drive increased market share as referrers seek best outcomes first time
- Supporting 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 heat-map prioritisation to relevant problem areas
- Automating the administrative parts of the medical report, including measurements, comparison with priors, and creation of standardised reporting sentences for the radiologist to select from or confirm
- Aligns with Capitol's low cost model while maintaining high standard 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, with specialisation for the first time to areas with only general coverage
- Bringing advanced technology & protocols to developing economic regions that are increasingly demanding improved care

# EQUITY ALIGNMENT

## Option Issues

- Initial issue of 15m options to interest associated with Mr John Conidi covering both the FY15 and FY16 years
  - Strike price equal to 50% premium to the VWAP for this week (closing Friday 12<sup>th</sup> February 2016).
  - Vest over 42 months ensuring continued commitment.
- Broader plan
  - Expected to be finalised before the end of February 2016
  - Expected to be offered to professional staff with specific “job specific” targets
  - Expected to be similar metrics to Mr Conidi’s issue

## Enlitic Co-Investment

- Will be rolled out during March 2016
- Focussed offering to professional staff with greatest Enlitic engagement
- Potential financial enhancement for participants

# QUESTIONS

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