CAPITOL HEALTH LIMITED (ASX:CAJ)
FINANCIAL YEAR 2016 RESULTS PRESENTATION
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CAPITOL HEALTH LIMITED

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AGENDA

- About Capitol Health
- Results for Financial Year 2016
- Industry Developments
- Development Opportunities
- FY17 Outlook
- Contact

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ABOUT CAPITOL HEALTH

- Capitol Health Limited (ASX:CAJ) ("Capitol" or "the Company") is a leading provider of diagnostic imaging and related services to the Australian healthcare market
- Headquartered in Melbourne, the Company owns and operates clinics throughout Victoria and New South Wales
- Approximately 90% of group revenue is generated through:
  - X-Ray;
  - Ultrasound;
  - Computer Tomography (CT); and
  - Magnetic Resonance Imaging (MRI)
- Additional offerings include nuclear medicine, mammography, bone densitometry and other related services
- The Company employs over 700 staff and contractors, including approximately 50 radiologists (FTE basis) across its facilities in Victoria and NSW

RESULTS FOR THE FINANCIAL YEAR 2016

- Revenue up 42.3% year-on-year
- Core Radiology EBITDA up 3.6%
- Underlying NPBT down 36.6%
- Revenue weakness driven by pricing uncertainty, impact on referral patterns
- Signs of recovery in second half, but some renewed uncertainty continues in the wake of the federal election and varying Medicare platforms
- Some cost lift in second half driven by marketing and IT initiatives, shift towards lower-margin services
- NPBT and NPAT impacted by sustained debt load through FY16, senior unsecured notes issuance in May

PROFIT & LOSS SUMMARY[1, 2]

Item	FY 2016 ($m)	FY 2015 ($m)
Revenue	158.3	111.2
Core Radiology Cost	(135.3)	(89.0)
EBITDA – Core Radiology / prior to ISI	**23.0**	**22.2**
Business Development Costs (China)	(0.8)	-
EBITDA prior to ISI	**22.2**	**22.2**
Borrowing Costs	(5.2)	(1.5)
Depreciation & Amortisation	(7.0)	(4.9)
NPBT prior to ISI	**10.0**	**15.8**
Individually Significant Items	(13.1)	(8.0)
NPBT	**(3.2)**	**7.8**
Tax	(1.5)	(3.9)
NPAT	**(4.7)**	**3.9**

1 Abridged summary prepared for comparative purposes; refer to Annual Report for statutory detail
2 Figures rounded to nearest $000; sums subject to rounding differences

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RESULTS FOR THE FINANCIAL YEAR 2016

SUMMARY OF INDIVIDUALLY SIGNIFICANT ITEMS[1]	
Item	FY 2016 ($m)
EBITDA prior to ISI	**22.2**
Individually Significant Items:	
Intangible asset impairment	(8.1)
Investment impairment (M7T.ASX)	(0.7)
Borrowing costs written off	(2.1)
Acquisition and Restructure Costs	(2.1)
Total Individually Significant Items	**(13.1)**
Borrowing Costs	(5.2)
Depreciation and Amortisation	(7.0)
NPBT	**(3.2)**

1 Figures rounded to nearest $000; sums subject to rounding differences

- $13.1m in individually significant items driven by impairment of New South Wales (*NSW*) assets, other cost write-offs in FY16
    - *Primarily write-down of NSW assets following June review*
    - *Impairment of option value in Mach7 Technologies investment*
    - *Costs associated with FY16 debt restructuring including the Senior Unsecured Notes*
    - *Costs associated with completion of NSW acquisitions in 1H16*

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RESULTS FOR THE FINANCIAL YEAR 2016

- Completion of the NSW acquisitions drove an increased debt balance in the first half of FY16
- Debt balance (net of cash) in the second half of FY16 further impacted by Enlitic investment and costs associated with Unsecured Notes
  - $10.4m debt balance increase in 2H (net of cash)
  - Enlitic the key driver - $11m cash investment and further $3.4m promissory note (included in debt balance at 30 June)
  - Final Enlitic payment of $2.5m USD made in August 2016 from cash[1]
- With a view to FY17, three key priorities in capital management:
  1. Maintenance of an appropriate debt balance
  2. Continued shaping of the capital structure to improve flexibility
  3. Critical investments in technology to support the integrated business and continued growth
- Unsecured Notes issued to replace senior secured bank debt principal outstanding, providing additional covenant flexibility and funding diversity
- FY16 interim and final dividends suspended

SUMMARY OF DEBT BALANCE – ROLLFORWARD[2, 3]

Item	FY 2016 ($m)	FY 2015 ($m)
EBITDA prior to ISI	22.2	22.2
Working Capital and other Operating movements	0.7	(1.8)
Cash Flows Generated by Operations[4]	**22.9**	**20.5**
Capital Expenditure	(7.5)	(7.0)
Investments – Acquisitions and Associated Costs	(36.9)	(86.0)
Investments – Enlitic	(11.4)	-
Interest	(4.8)	(1.5)
Net Proceeds from Share Capital	(0.0)	55.4
Dividends Paid	(3.1)	(4.8)
Income Tax Paid	(4.6)	(3.3)
Other	(0.3)	(9.2)
Cash Outflows – Other	**(45.7)**	**(36.0)**
Enlitic Promissory Note	(3.4)	-
Summary Movements	**(49.1)**	**(36.0)**
Opening Balance: Debt less Cash & CE	**(38.3)**	**(2.4)**
Closing Balance: Debt less Cash & CE	**(87.5)**	**(38.3)**

1 Refer to ASX release, 15 August 2016
2 Refer to Annual Report – Balance Sheet and Note 18, *Loans and Borrowings* for additional detail. Excludes rental guarantees and liabilities related to derivative financial instruments.
3 Figures rounded to nearest $000; sums subject to rounding differences
4 Refer to Statement of Cash Flows; figure presented in this line equal to Operating Cash Flows prior to cash paid for interest and tax.

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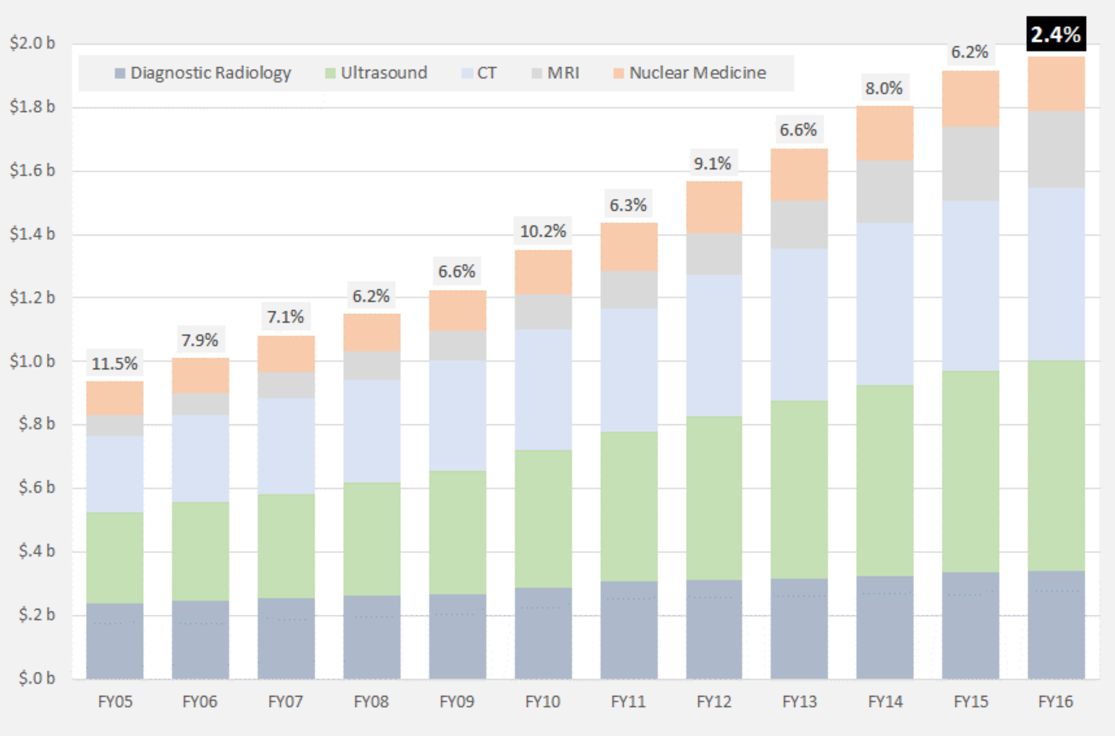
INDUSTRY DEVELOPMENTS

- 2016 marked a unique slowdown in historical growth trends
- Since 2000, Medicare statistics in the DI sector have shown continuing growth averaging approximately:
  - 5% p.a. (services)
  - 7% p.a. (receipts)
  - Growth in receipts has outpaced services due to continuing shift towards higher-cost modalities
- Trend materially slowed in 2016
  - Disruption to volume growth, particularly in 1H16 as indicated to market in October ASX release and interim results presentation
  - Slowdown in shift towards MRIs, CTs relative to prior years
- In 2016 in Victoria and NSW:
  - Medicare-reported DI services grew by 2.5%
  - Associated receipts grew by 2.4%

YEAR-ON-YEAR GROWTH RATE

Victoria & NSW Medicare receipts (aggregated)



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INDUSTRY DEVELOPMENTS

- Results impacted by movement toward more labour-intensive services
- Highest-margin modalities slowed…
  - CT volumes up 0.4%, revenue up 1.9%
  - MRI revenue up 3.7% after averaging double-digit growth in Medicare receipts since FY11-FY12
- …while volume growth was strongest in Ultrasounds
  - Relatively higher cost, lower margin service

Medicare Data		Services					
		12 Months to 30 June					
State	Modality	FY11	FY12	FY13	FY14	FY15	FY16
New South Wales	DR	3,338,921	3,359,129	3,441,536	3,564,733	3,662,687	3,690,350
	US	2,457,161	2,681,896	2,866,201	3,066,040	3,205,662	3,364,722
	CT	756,985	865,741	930,356	997,008	1,033,109	1,034,936
	MRI	183,305	198,327	213,869	283,592	333,472	345,476
	NM	236,672	267,949	280,966	294,924	300,278	292,008
	Total	**6,973,044**	**7,373,042**	**7,732,928**	**8,206,297**	**8,535,208**	**8,727,492**
Victoria	DR	2,416,039	2,406,136	2,459,504	2,544,498	2,680,337	2,715,253
	US	1,650,490	1,846,256	2,005,695	2,147,614	2,276,730	2,397,391
	CT	496,187	574,514	612,373	641,460	673,310	678,112
	MRI	138,335	155,342	169,224	217,615	255,885	267,868
	NM	112,067	124,530	131,171	137,660	142,215	141,350
	Total	**4,813,118**	**5,106,778**	**5,377,967**	**5,688,847**	**6,028,477**	**6,199,974**

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INDUSTRY DEVELOPMENTS

- The Liberal Party announced its platform for Medicare review on 5 June 2016
- The platform expanded upon previously announced initiatives:
  - Removal of the bulk billing incentive for non-concessional/over-16 patients commencing 1 January 2017
    - Was previously announced for implementation 1 July 2016
  - Continuation of the Medicare Benefits Schedule review led by government's MBS taskforce
- Following sector consultation, new tenets of the platform include:
  - An immediate independent review of the 'commercial pressures facing diagnostic imaging providers'
  - Re-alignment of the Medicare benefits fees – which have largely remained fixed for over 10 years – to current cost realities
    - Government to invest an extra $50m p.a. in diagnostic imaging rebates; will most likely go to CT and linked to on-site clinical supervision
  - Indexed pricing escalation to be implemented alongside resumption of GP price indexation
  - Agreement not to change the Diagnostic Imaging Services Table without sector consultation for three years

DEVELOPMENT OPPORTUNITIES

- Capitol is pursuing exciting opportunities in the rapidly evolving Chinese diagnostic imaging market
- In June, Capitol announced it had entered into non-binding Memorandum of Understandings (MOUs) with two major Chinese health care providers
- In discussions to deploy Enlitic's deep learning capabilities at a large health services provider's clinics across China

CHINA: PARTNERSHIPS UNDER DEVELOPMENT

	CITIC PHARMACEUTICAL (SHENZHEN)	SUNSHINE INSURANCE GROUP	ENLITIC OPPORTUNITY: CHINESE HEALTH SERVICES PROVIDER
THE COMPANY	- Majority controlled subsidiary of CITIC Medical and Health - Broadly integrated pharmaceutical and medical supplier	- Among China's largest insurance companies - Capital value in excess of RMB 185 billion (A$39b)	Chinese health services provider
LOCATION(S)	Proposed new private diagnostic imaging centres in cities where CITIC currently owns and operates hospitals	Sunshine Union Hospital, a new 2,000 bed state of the art facility in Weifang, Shandong Province, China	200+ clinics across China
THE CAPITOL OPPORTUNITY	JV to design, consult, and manage the operations of new imaging centres	Provision of teleradiology reporting services, clinical training and mentoring, and consultation on facility design	Provide Enlitic deep learning solution
STATUS	- MOU agreed and announced to ASX, 3 June 2016 - Parties negotiating terms of formal JV agreement	- MOU agreed and announced to ASX, 7 June 2016 - Parties negotiating terms of formal services agreement	In discussions regarding trial of product

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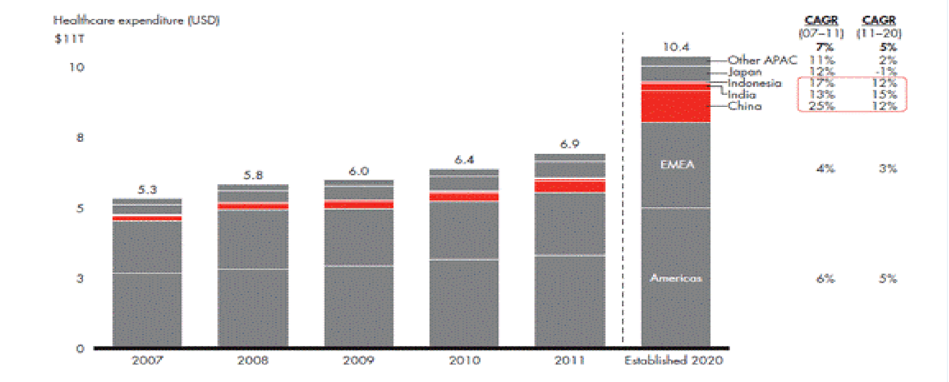
DEVELOPMENT OPPORTUNITIES

- The Chinese market is undergoing a significant transformation

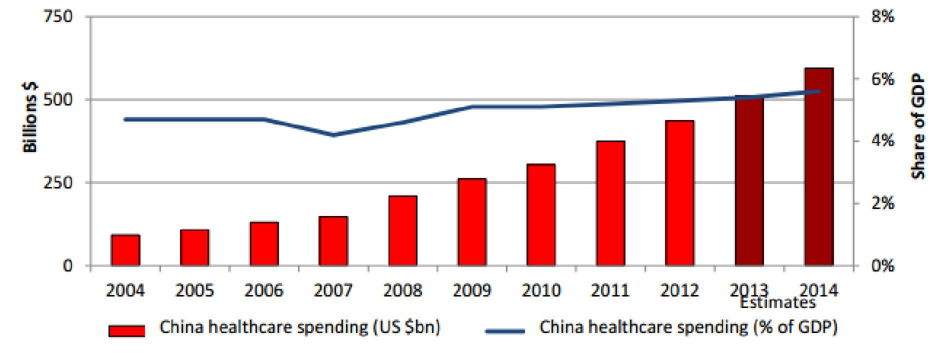
GROWTH OF EMERGING MARKETS IN ASIA[1]

Expected to grow 2x to 3x faster than global average to 2020



CHINA HEALTHCARE SPENDING[2]

US $billion and as a % of GDP



<u>Healthcare Spending</u>

- China set to become one of the largest healthcare markets in the world
- 2014 expenditure = US $590 billion; expected to grow to $1 trillion in 2020
- Health spending as a % of GDP c. 6% (Australia 9.5%, US 17%) needs to be managed
- Government working towards a basic standard of healthcare for whole population
- Health care reforms have opened up opportunities in private healthcare, increase in overseas investment in sector
  - Government understands need to take advantage of citizens' increasing ability to pay

<u>Growth Drivers</u>

- Rising per capita incomes (emerging middle class)
- Ageing population
- Adverse health factors
  - Pollution in urban centres, smoking rate over 2x the global average
  - Changes in diets causing chronic conditions – cardiovascular disease, diabetes

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1 Sources: Epsicom; BMI; Bain

2 EIU, *China Healthcare and Pharmaceuticals Report,* 4 March 2013, 2 December 2011, and 8 July 2008

DEVELOPMENT OPPORTUNITIES

- Capitol has the opportunity to penetrate the large and rapidly growing Chinese market

PUBLIC HOSPITALS

- 13,300 public hospitals[1]
- Divided into
  - Tier 3 (>1,800 beds usually in large urban centres)
  - Tier 2
  - Tier 1 (smaller provincial areas)
  - Community clinics
- Greater than 90% of patient services are delivered through these hospitals
- Operate under public health insurance

PRIVATE HOSPITALS

- 13,600 private hospitals[1]
- Rapidly growing – from just over 30% of all Chinese hospitals in 2009 to over 50% in 2015
- However just over 10% of patient services are rendered via private hospitals – facilities tend to be smaller on average with more varied offerings
- Changing regulatory environment means increasing potential for market entry

HEALTH CHECK CLINICS

- Provide private health check services
  - DI, pathology, general medical, cosmetics
- Generally paid for by employer, also private payments
- Market size
  - 2013 $US9.7b (60b RMB)
  - 2015 $US12.9b (80b RMB)
  - Forecast 2020 $US 49b (300b RMB)
- Currently over 200 clinics in Beijing alone
- Largest operator has over 250 clinics, 10 million patients in 2015
- Screening only – treatments referred to hospitals

INDEPENDENT IMAGING CLINICS

- DI only previously performed in hospitals and health check clinics
- New laws allow DI clinics to open outside these settings
- Clinics must be licensed (limited licenses issued)
- Few clinics currently exist
- Significant opportunity for private clinic networks

1 Source: *China Medical Imaging Diagnostic Research,* published February 2016; National Health and Family Planning Commission

FY17 OUTLOOK

- Revenue will continue to be influenced by government policy and industry response
  - Underlying growth fundamentals are strong, but a degree of uncertainty remains regarding near-term disruption
  - Signs of improvement were seen throughout the second half of FY16 in key modalities
  - However commentary associated with the budget and federal election are likely to have an impact into early FY17
  - The removal of the bulk bill incentive will impact industry offerings, patient behaviour
  - Capitol remains committed to a bulk bill focussed platform with targeted co-payments where required; will adapt a responsive approach to competitor and patient behaviour
- Cost impacted by the slowdown in growth of higher-margin modalities
  - Operating expense increases in the 2H FY16 largely driven by Liverpool integration, marketing and IT initiatives
  - Higher cost levels expected to be sustained in FY17 with continuing demand in more labour-intensive services, e.g. Ultrasound
  - Retention of bulk billing platform in the post-1 January environment expected to drive volume lift, corresponding cost increase (subject to industry activity)
- Capex historically high in FY16
  - Spend expected to be reduced in FY17

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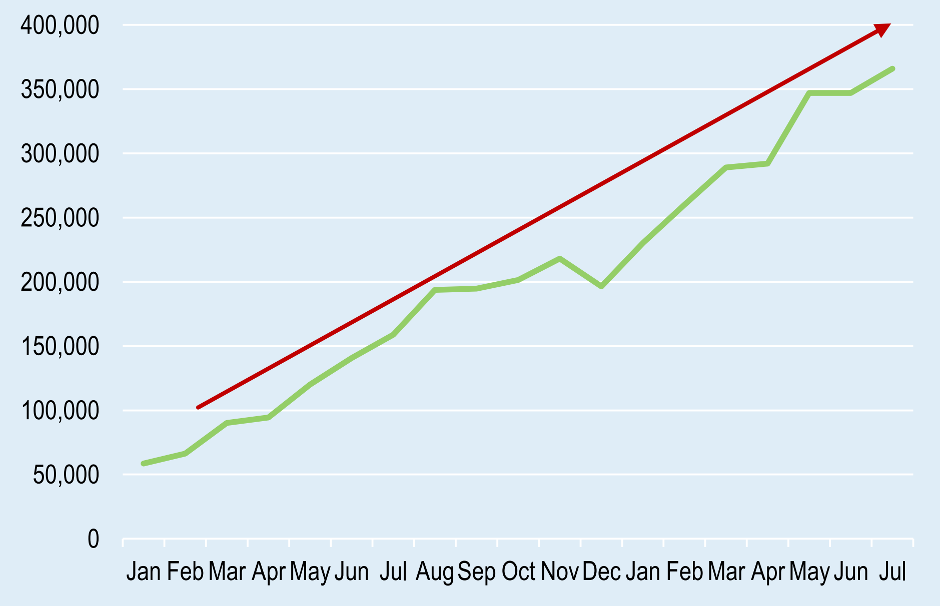
FY17 OUTLOOK

- Capitol is focussed on growing market share through continuing customer acquisition and retention
- Capitol has partnered with HealthEngine.com.au, Australia's leading platform for customer bookings and medical services
- HealthEngine has seen tremendous growth, now logging over 1 million users per month and over 360,000 bookings in July alone
  - 168% YOY growth in bookings
  - Approximately 30% of GP practices nationally using HealthEngine to connect with new and existing patients
- Dr Marcus Tan, HealthEngine CEO commented:
  HealthEngine's mission is to improve the access and experience of healthcare for everyone. By having one of the largest and best imaging groups in Australia offer appointments to users of our service means we take another important step towards achieving our mission.

HealthEngine Monthly Consumer Appointment Bookings, 2015-16[1]



1 Source: Nielsen Site Census and Market Intelligence Report, July 2016

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FY17 OUTLOOK

- Enlitic technology offers potential solutions to unique challenges facing the Chinese market – scale, shortage of skills, time and quality of reporting
  - Capitol has the Australian rights to use Enlitic technology exclusively as part of its clinical partnership
  - As part of the partnership Enlitic and Capitol developed an x-ray wrist fracture detection tool, which showed promising early results in terms of accuracy and Radiologist efficiency gains
  - Enlitic is also currently developing a CT lung cancer detection product in the US with results expected late 2016
  - Capitol's Enlitic focus has shifted to the recent opportunities in China that have resulted in the development of a chest x-ray tool with promising results in the Chinese market
  - Capitol is in advanced stages of negotiating a collaboration and revenue share agreement with Enlitic which is expected to cover the sale of Enlitic technology in mainland China
  - Agreement expected to be finalised shortly
  - Large volume of interest already generated in China for the technology
  - Enlitic continues to gain industry accolades – named for a second year as one of the "50 Smartest Companies in 2016" by MIT Tech Review

CONTACT

- For corporate and investor information visit http://capitolhealth.com.au/
- Investors may contact Capitol Health directly via
  - Email: investors@capitolhealth.com.au
  - Writing the Managing Director or Company Secretary at Level 3, 81 Lorimer St, Docklands VIC 3008

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