



# 1H 2019 Results

Period ending 31 December 2018

CAPITOLHEALTH  
LIMITED

Andrew Harrison – Managing Director  
Marcell Judkins – CFO

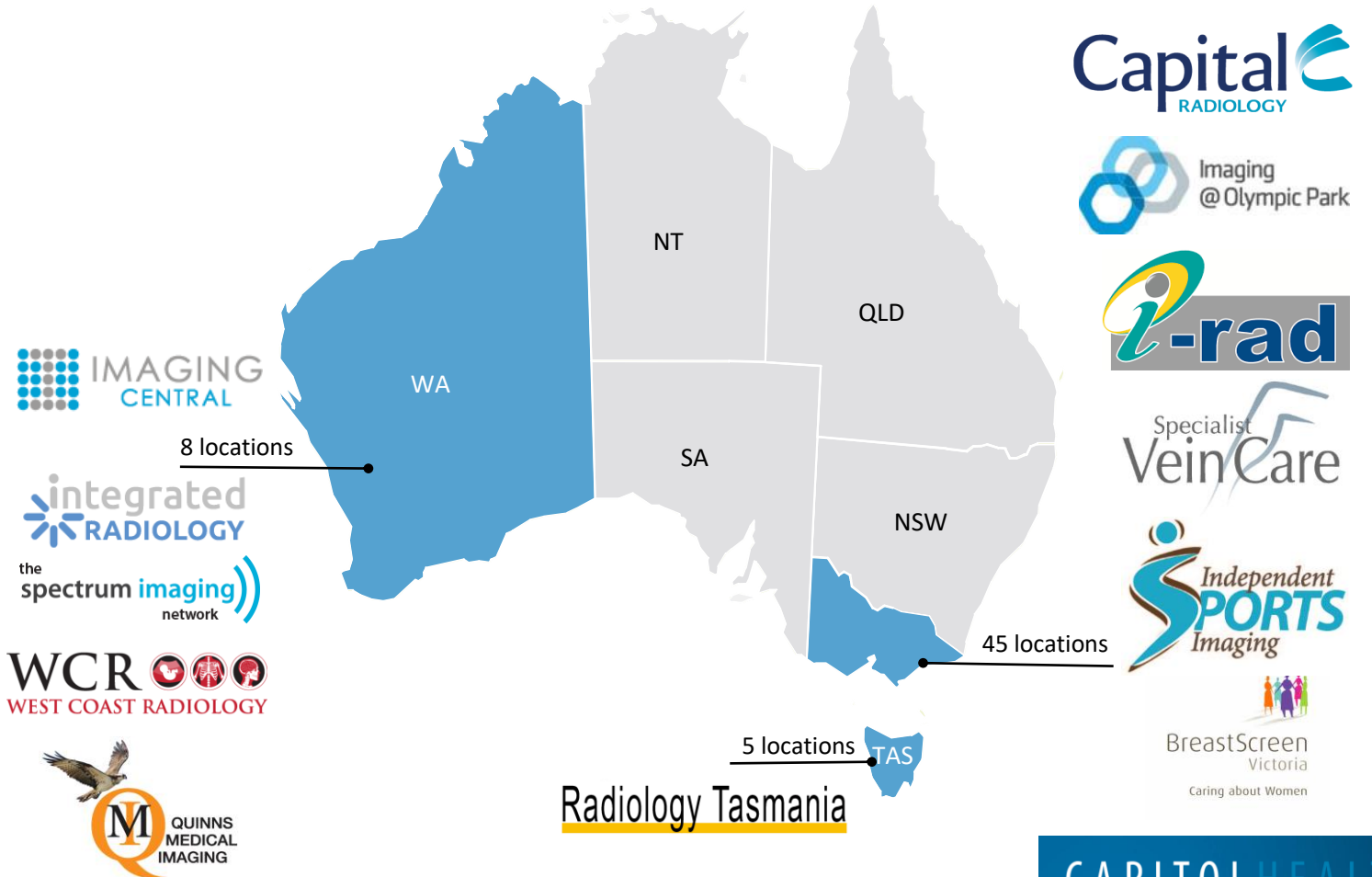
27th February 2019

# The Capitol Business

## Overview

- Capitol is an ASX listed leading provider of diagnostic imaging and related services to the Australian healthcare market
  - Owns and operates 58 clinics throughout Victoria, Tasmania and Western Australia
- Facilities are predominantly community-based rather than hospital-based, with priority given to service and minimisation of administrative burdens for healthcare professionals
- Strategic investment in diagnostic imaging artificial intelligence through Enlitic Inc in the US, and a Joint Venture with CITIC Pharmaceutical to provide consulting and clinic management services across mainland China
- Conducts more than 1.2 million procedures annually and employs c.900 people and c.65 radiologists

## Locations and Brands



# Key Achievements over the past 6 months

- ✓ Increase in Revenue of \$72.9m vs pcp 30% (+\$16.8m)
- ✓ Increase in Operating EBITDA of \$11.9m vs pcp 15% (+\$1.6m)
- ✓ Increase in NPAT to \$11.9m vs pcp (+\$9m)
- ✓ Borrowing costs down by 55% vs pcp to \$0.8m
- ✓ Balance sheet capacity - Net debt \$25.7m at balance date
- ✓ Continued acquisitive and organic growth
- ✓ Continued focus on clinicians with long-standing Medical Advisory Committee involved in key decisions
  - ✓ Doctor option incentive scheme implemented
- ✓ Continued growth in dividend payments by 25% – 0.05 cps franked interim
- ✓ Revaluation of Enlitic investment post capital raising to fair value by \$8.9m
- ✓ Increase in Net Cash from Operations to \$7.7m vs pcp 99%
- ✓ Increase in EPS (basic) to 1.5 cps (up from 0.34)



# 1H FY19-Profitability

Profit and Loss summary				
\$m	1H FY19	1H FY18	Growth	% Growth
Revenue	72.9	56.1	16.8	30%
<b>Operating EBITDA</b>	<b>11.9</b>	<b>10.4</b>	<b>1.6</b>	<b>15%</b>
<i>Operating EBITDA Margin</i>	<i>16%</i>	<i>18%</i>	<i>-2%</i>	<i>-12%</i>
Transaction costs	2.1	1.6		
Reversal of Impairment	(8.9)	-		
Depreciation & Amortisation	4.3	2.7		
Borrowing Costs	0.8	1.8		
<b>NPBT</b>	<b>13.6</b>	<b>4.3</b>	<b>9.3</b>	<b>219%</b>
Tax	1.6	1.5		
<b>NPAT</b>	<b>11.9</b>	<b>2.7</b>	<b>9.2</b>	<b>338%</b>
Discontinued operations	-	0.2		
<b>Statutory NPAT</b>	<b>11.9</b>	<b>2.9</b>	<b>9.0</b>	<b>313%</b>
<b>Earnings per Share (cents)</b>	<b>1.50</b>	<b>0.34</b>	<b>1.16</b>	<b>344%</b>

- High level of growth across key financial metrics
- First half operating EBITDA margin reduction driven by increase in doctor capacity
- Re established the value of Enlitic Investment
- Debt restructuring reducing on going costs
- Reduction in borrowing costs by 55%

# 1H FY19 – Balance Sheet

Balance Sheet summary		
\$m	1H FY19	1H FY18
Cash	5.8	85.4
PP&E	39.7	24.1
Other	21.762	28.2
Intangibles	98.9	53.2
<b>Total Assets</b>	<b>166.2</b>	<b>190.9</b>
Loans & Borrowings	31.5	52.6
Other	27.2	18.7
<b>Total Liabilities</b>	<b>58.7</b>	<b>71.3</b>
<b>Net Assets / Equity</b>	<b>107.5</b>	<b>119.6</b>
<b>Net Debt</b>	<b>25.7</b>	<b>-32.8</b>

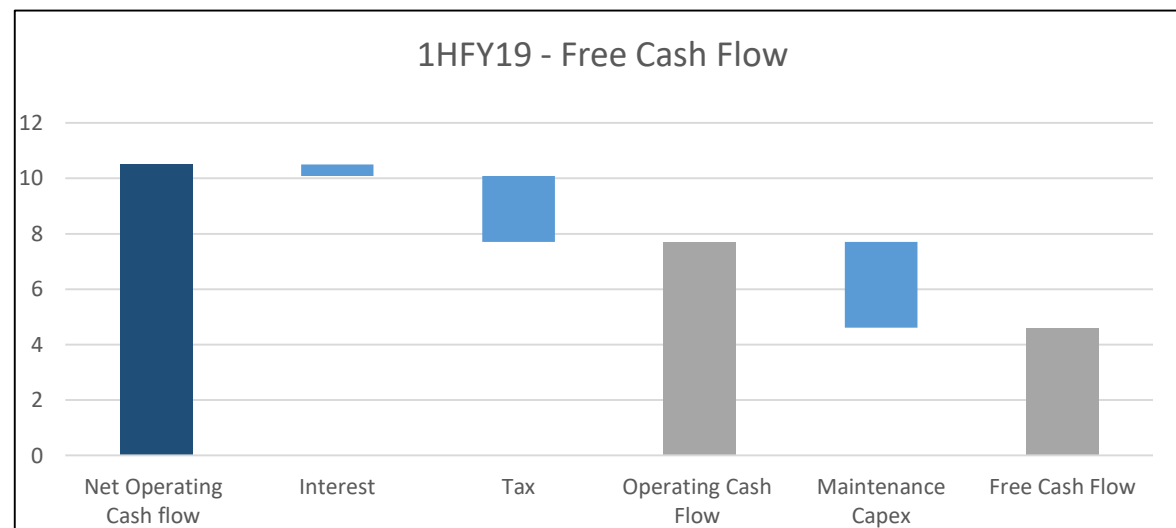
- Net Debt at balance date \$25.7m
- Low gearing - Net Debt/ Operating EBITDA ~ 1x
- Substantial available facility undrawn providing strong remaining balance sheet capacity



# Capex & Cashflow

Capex		
\$m	1H FY19	1H FY18
Maintenance	3.1	2.6
Growth	3.6	0.9
<b>Total</b>	<b>6.7</b>	<b>3.5</b>
<b>Depreciation and Amortisation</b>	4.3	2.7

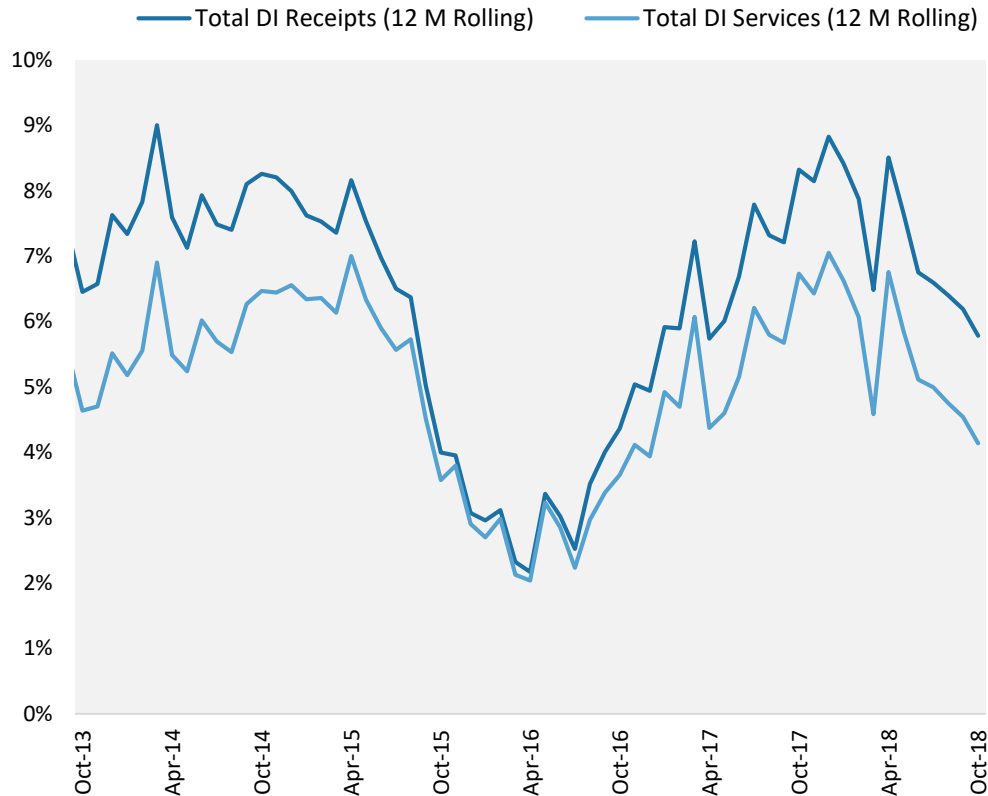
- Delays of 3-5 months in deploying growth capex in additional modalities
- Reassessment and cancellation of one greenfield development due to changes in local market conditions



- Generated free cashflow of \$ 4.6m up on pcg by \$3.3m
- Free cashflow conversion on Operating EBITDA up to 39% up from 12% in pcg

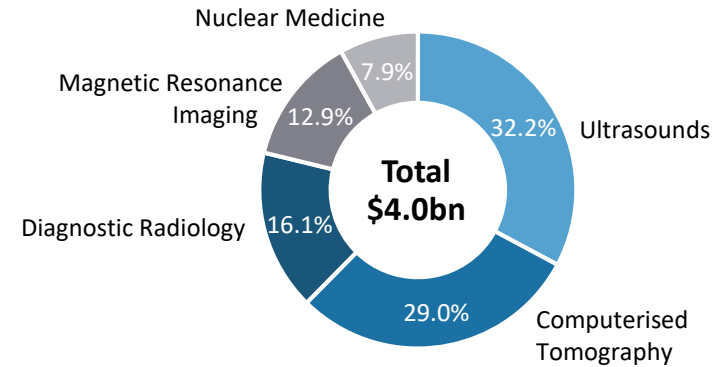
# Market underpinned by strong fundamentals

## DI Services and Revenues – CAJ States<sup>1</sup>

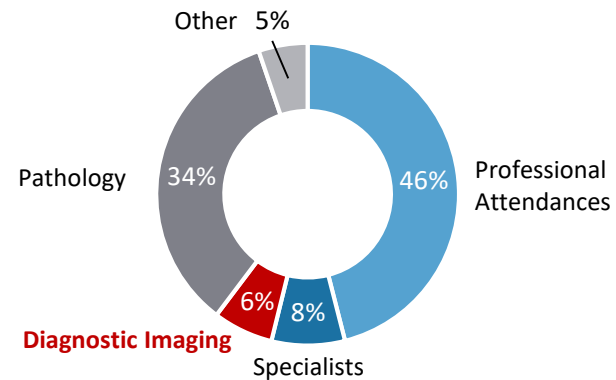


**Strong growth in DI services and \$ value**  
**Divergence between service and value driven by move to higher value modalities - MRI**

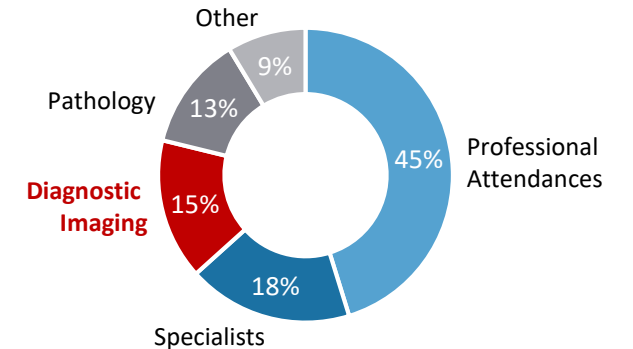
## Product and services segmentation (2018-19)<sup>2</sup>



## Medicare Services, FY 2018 – Australia<sup>1</sup>



## Medicare Benefits, FY 2018 – Australia<sup>1</sup>



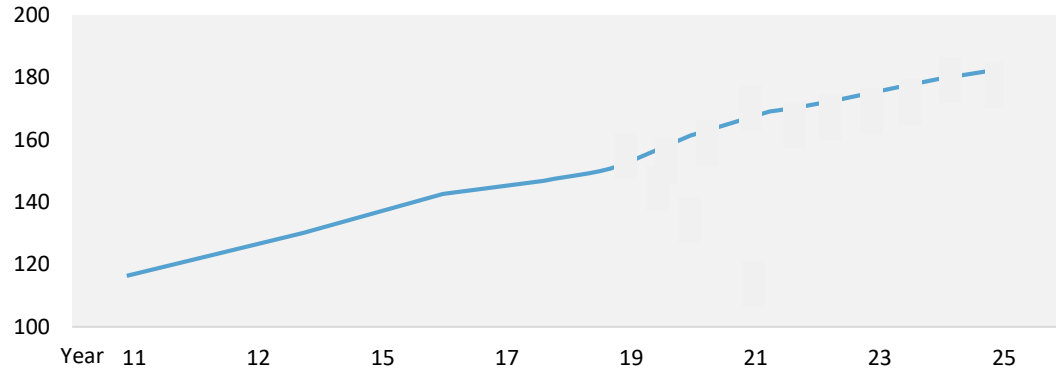
**DI is playing an increasing role in total Medicare outlays and services**

<sup>1</sup> Medicare

<sup>2</sup> Ibisworld: Diagnostic Imaging Services in Australia 2018

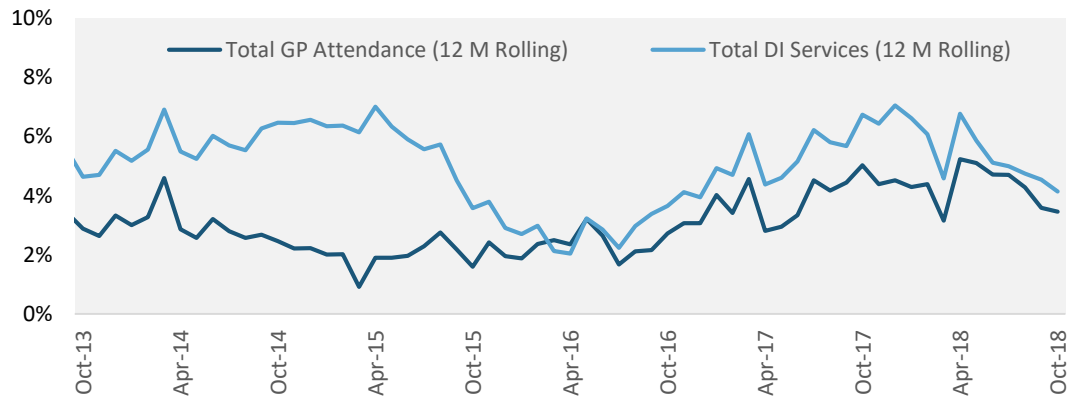
# Market underpinned by strong fundamentals

Total Visits to a General Practitioner (M)<sup>1</sup>



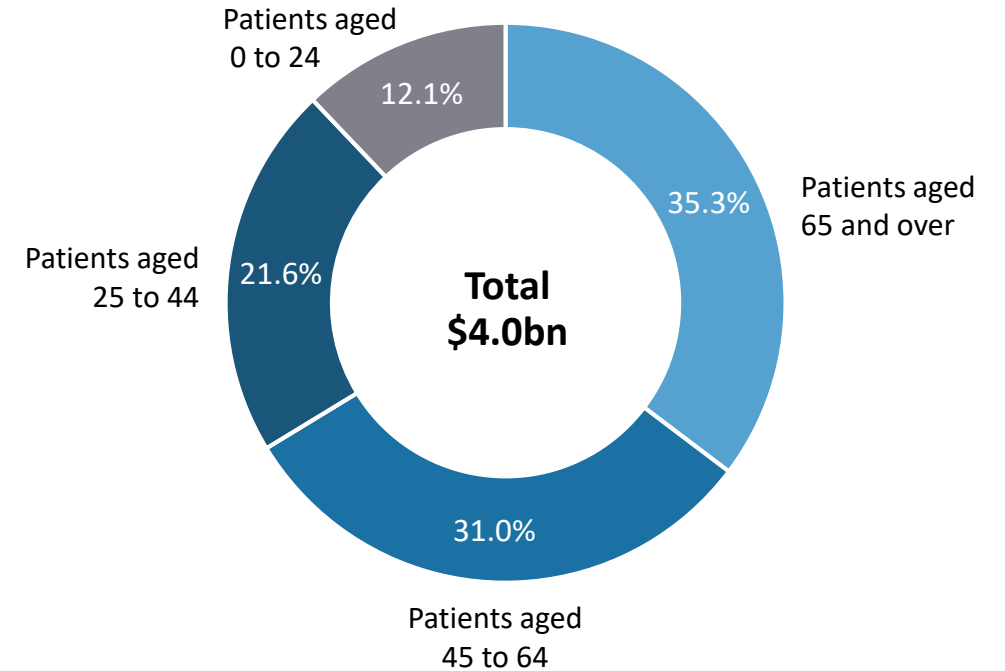
Total GP attendance has grown significantly and is expected to continue

GP Attendance & DI Services – CAJ States<sup>2</sup>



GP attendance is a key driver of DI referrals

Major Market Segmentation (2018-19)<sup>1</sup>



Aging population is a strong driver of DI demand. Industry services demanded by patients dramatically increases as they grow older

1 - Source: Ibisworld: Diagnostic Imaging Services in Australia 2018

2 - Medicare



# MRI licensing



Federal Government announced (2018) pending allocation of 20 new Medicare MRI licences, comprising a mix of fully eligible units and upgrades of existing partial units. In 2019 they expanded this to 50 licences.

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Applications were submitted early November 2018. Over 490 applications were received.

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Although a decision was promised early in calendar year 2019, and licenses to be operational from 1<sup>st</sup> March 2019. Only a handful of licenses have been announced to date.

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Capitol operates clinics across Victoria, Tasmania and Western Australia and currently has a fleet of 18 MRIs. Of these, two have full Medicare licences, eight have partial Medicare licences, and eight do not have Medicare licenses so operate without attracting a Medicare rebate.

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Capitol has several sites suitable for Medicare-funded MRI services and is optimistic that the allocation process will be supportive of Capitol's commitment to providing bulk-billed MRI services in communities that need them.

# Capital Management

## On market share buy back

- The Share buyback is continuing when share price not reflective of value. 30.9m shares purchased for \$8.5m with remaining capacity of 21.4m shares
- The company continues its commitment to buying back shares when share price not reflective of value

## Dividend & DRP

- Declared interim dividend 0.05 cps
- The Company has suspended the Dividend Reinvestment Plan (DRP) pending capital management activities
- The company continues its commitment to a steadily growing and sustainable fully franked dividend.

# Strategic investments



- Twice named one of MIT Technology Review's 50 Smartest Companies. €1m prize for best start-up awarded by Apple founder Steve Wozniak
- Enlitic's platform can incorporate a wide range of unstructured medical data, including radiology and pathology images, laboratory results such as blood tests and EKGs, genomics, patient histories, and electronic health records (EHRs), enabling deeper insights for every patient.
- Leading medical data inventory from international sources
- Capitol invested AUD\$500,000 in series B funding round to be used for TGA registration and clinical trials in Capitol's clinic network
- US\$15m Series B funding round complete, Michael Sistenich appointed Chair. Marubeni Corporation of Japan a cornerstone investor.
- Capitol has written back the fair value of its investment to \$8.9m + \$0.5m invested in series B



## Consulting and clinic management JV

- Option of participating in clinic ownership
- CITIC well placed due to large existing hospital network in China
- Provides platform to leverage growth in Chinese healthcare and emerging private DI market
- Capitol to contribute RMB 3m (~A\$0.6m) for 30% stake in JV, CITIC will hold 70%
- Capitol continues to negotiate with Citic Pharmaceutical over its China Imaging Joint Venture

# Strategic imperatives



## Access

- Large community clinic networks across metropolitan areas and larger cities providing enough density for ease of access for patients and referrers
- Managing daily schedule to allow urgent and walk in cases (cater to urgent & anxious patients)
- Ease of car parking and public transport



## Affordability

- Low or no gaps, focus on Bulk Billing (where possible) with high clinical and patient service standards



## Efficiency

- Investment in new equipment for better clinical and more efficient patient outcomes
- Investment in technology – IT, Enlitic, Electronic access to records & images, Teleradiology



## Centres of Excellence Strategic Investments

- Invest in centres of excellence around specific physicians:
  - MSK and Sports Medicine Imaging @ Olympic Park
  - CT cardiac imaging (in conjunction with Cardiologists) – Vermont (Vic), Imaging Central (WA)
- Make strategic investments in industry changing technology - ENLITIC



## Disciplined Commercial Execution

- Acquisition identification, execution and integration
- Balance sheet capacity to execute
- Cultural integration & branding

# Outlook and Growth

## Key Growth Drivers

- Long term market growth expected to continue at longer term average
- Lower and more patchy YoY growth over holiday period extending into January with organic growth circa 2.1% vs guidance 3.6%. No Medicare data since October 2018. Subdued GP attendance reported – strong driver of CAJ referrals
- Delays in completion, deployment of growth capex, reassessment of a greenfield site, and doctor under capacity in WA clinic network lead to underperformance in first half. These matters have all been rectified and are non permanent in nature
- Tasmania performing to plan
- More stable regulatory environment. Both government and opposition signalled positively toward industry
- Continuing acquisitive growth opportunities supported by balance sheet capacity
- Reduced interest costs through refinancing
- Share buyback continuing when share price not reflective of value 30.9m shares purchased for \$8.5m with remaining capacity of 21.4m shares

## Outlook

- Substantial investment in Doctor capacity in first half resulted in higher costs relative to revenue
- If subdued first half demand persists for the balance of the year it is expected to result in a reduction to the previously guided full year FY19 EBITDA forecast in the order of 10% to 13%
- Signs of revenue improvement during February
- Potential impacts relating to MRI licensing are not included in guidance

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