

HY 2020 RESULTS

Half Year Ended 31 December 2019

Justin Walter – Managing Director
Marcell Judkins – Chief Financial Officer

25 February 2020

CAPITOLHEALTH
LIMITED

AGENDA

01. Executive Summary

02. HY20 Highlights

03. HY20 Financials

04. Growth

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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY [Excluding impact of AASB 16¹]

Key Achievements and Highlights:

- Half-year revenue confirms solid organic growth, while reshaping the portfolio for increased profitability
- Increase in revenue of \$8.2m, representing 11% growth YOY increase in underlying EBITDA** of \$1.8m, representing 15% growth YOY
- Net debt of \$44.5m – allows for the purchase of FSR to remain under 2x net debt ratio
- Interim dividend declared of 0.5 cents per share fully franked
- Further investment in Enlitic and continued support for product development
- Cranbourne Greenfield and Carlton Specialised Cardiac Imaging Service opened

¹ Where AASB 16 (Australian Accounting Standards 16) relates to the new lease standard adopted as at 1st July 2019

** Where underlying EBITDA is equal to operating profit before finance costs, income tax depreciation and amortisation adjusted for revaluation/impairment of assets and transaction costs

Strategy:

- Review of operations has lifted underlying EBITDA margin to 17%
- Implementation of Ento, new purchasing functionality and business intelligence system on track to deliver benefits in second half
- Continued review of the cost base to further uplift margin in H2 and beyond
- Capitol Vision, Values and Strategy reset and to roll out in second half of FY20

FY20 Outlook and Guidance:

- Acquisition of Fowler Simmons Radiology (FSR), adding another specialist clinic into the network and expansion into South Australia
- Moderate growth in underlying EBITDA expected for FY20

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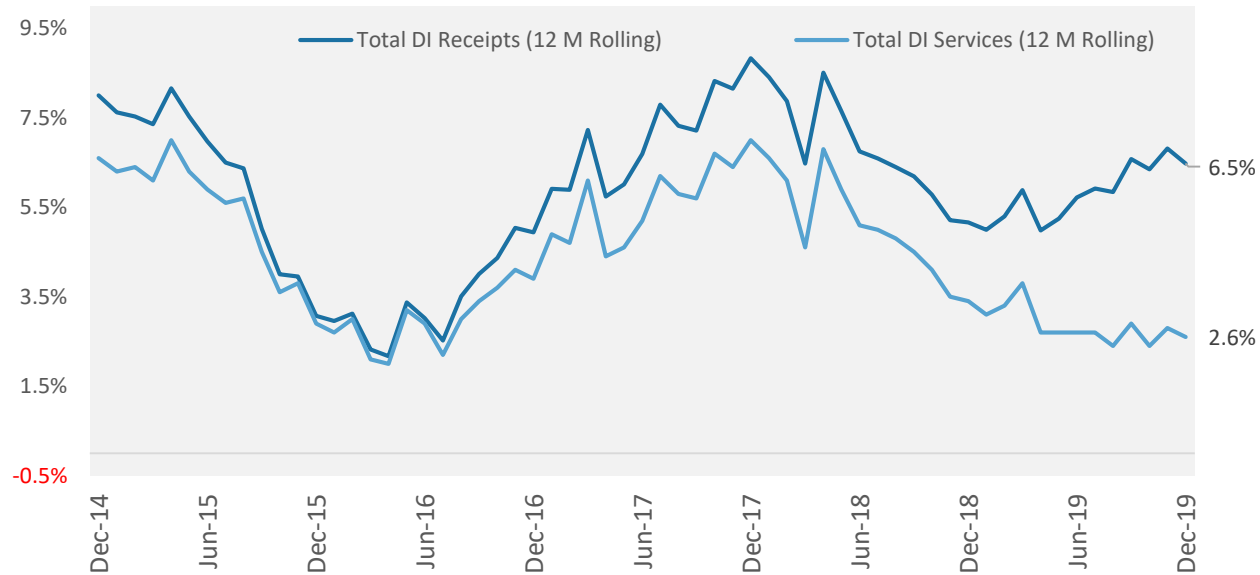
Q2

HY 20 HIGHLIGHTS

INDUSTRY GROWTH REMAINS STABLE IN HY20

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Diagnostic Imaging Receipts & Services – CAJ States *



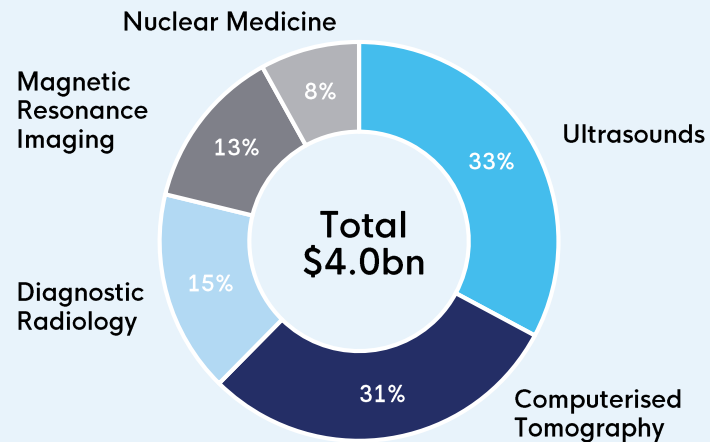
- HY20 shows flat Medicare Diagnostic Imaging Services growth from June 2019 for CAJ states (Change -.1%) based on a 12-month rolling average
- Diagnostic Imaging Medicare Receipts continue to increase on a 12-month rolling basis on the back of new MRI licenses issued in FY19
- Organically, Capitol achieved 4% growth in revenue HY20

* Medicare http://medicarestatistics.humanservices.gov.au/statistics/mbs_group.jsp includes performance for hospital and private radiologists

STRONG INDUSTRY DRIVERS CONTINUE

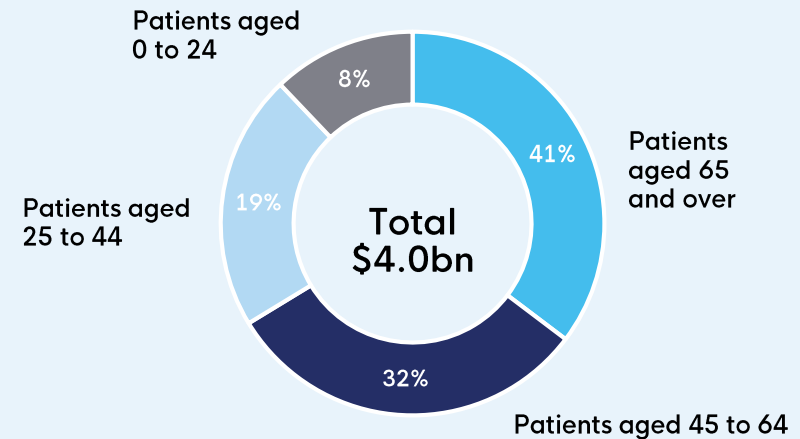
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Product and Services Segmentation (12 Months to Dec 19)*



- The market is currently seeing increased divergence between service and value – this is driven by the move to higher-value modalities such as MRI from Diagnostic Radiology (Including X-Ray)
- This is reflected in the 6 month revenue growth in Capitol's MRI business of 9% pcp
- Indexation of 80% of Medicare outlays on 1 July 2020

Major Market Segmentation (12 Months to Dec 19)*



- The ageing population continues to support growth
- More broadly, patients over 45 account for over 73% of industry revenues

* Medicare http://medicarestatistics.humanservices.gov.au/statistics/mbs_group.jsp includes performance for hospital and private radiologists

OPERATIONAL HIGHLIGHTS - HY20

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- ✓ Organic growth strengthened to deliver 4% revenue uplift for HY20
- ✓ Strengthened management team and back-office functions
- ✓ Increased radiologist capacity in key growth areas
- ✓ Capitol Health's new Vision, Values and Strategy launched
- ✓ Commenced new cardiac imaging services
- ✓ Patient net promotor score measurement and benchmarking underway
- ✓ Cranbourne Greenfield opened (Oct '19)
- ✓ Camberwell Brownfield poised to open
- ✓ Carlton Brownfield opened (Dec '19)
- ✓ New Group procurement contracts driving efficiency



FOWLER SIMMONS RADIOLOGY ACQUISITION

Fowler Simmons Radiology (FSR) is a leading Musculoskeletal (MSK) imaging provider with a full suite of imaging modalities and a state-wide referral service for MSK. Their strong local brand and MRI business is complimentary to our vision. This acquisition aligns with our strategic plan for network expansion and extends our platform for future long-term organic growth. Completion expected by Q4.

Our decision to acquire 90% of FSR was based on a solid criteria-based methodology across four key pillars:

Strong Business / Brand:

- Key radiologist has pre-eminent SA reputation and is committed to a 5-year term (min.)
- Community-engaged staff are highly trained with specialist expertise
- Strong referrer and patient engagement, poised for growth
- Opportunity for increased Out of Pocket (OOP) and non-Medicare income streams
- Ties to key high-level sporting clubs in South Australia
- Fixed radiologist costs model committed for 5 years

Opportunities:

- Additional site by FY21
- Ability to fold into current network with synergies
- Improved group purchasing and service costs
- Utilisation of nationally recognised MRI specialist to assist with MSK reporting in other areas of CAJ

Growth:

- Opportunities to expand into other SA areas with a growth plan already in place

IP:

- Image access: FSR's patient/referrer imaging access portal as possibility for use in the wider Capitol network



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HY 20 FINANCIALS

HY20 - PROFITABILITY

Profit and Loss summary (excluding AASB16)

\$m	1H FY19	1H FY20	Growth	% Growth
Revenue	72.4	80.6	8.2	11%
Underlying EBITDA	11.9	13.7	1.8	15%
<i>Underlying EBITDA Margin</i>	16.4%	17.0%	0.6%	3.6%
Enlitic Writeback	(8.9)	-		
Transactions costs	2.1	0.5		
Restructure Costs	-	1.2		
EBITDA	18.6	12.0		
Depreciation & Amortisation	4.3	5.9		
Finance Costs	0.8	1.1		
Tax	1.6	1.4		
NPAT	11.9	3.6		
Remove Enlitic Impact	(8.9)	-		
Underlying NPAT	3.0	3.6	0.6	20%

- Underlying EBITDA grows by \$1.8m or 15% over pcp
- Underlying NPAT grows by \$0.6m or 20% over pcp
- Underlying EBITDA margin increases to 17% due to systematic cost review and review of clinic profitability
- Transaction costs are associated with both successful acquisitions and acquisitions currently in the pipeline
- Restructuring costs are associated with the CEO transition and changes in the back-office teams to drive efficiencies
- Amortisation increases due to finalisation of Uniradiology acquisition and recognition of referral contracts
- Depreciation increase due to higher CAPEX in FY19

HY20 - CASH FLOW

CASH FLOW SUMMARY			
\$m	1H FY19	1H FY20	% Change
Cash Receipts and Payments	10.5	12.3	17%
Net Interest	(0.4)	(1.0)	
Income tax paid	(2.4)	0.1	
Net Cash from operations	7.7	11.3	47%
Purchases of PP&E	(7.4)	(5.3)	
Acquisition purchase include trans. costs	(26.6)	(8.0)	
Net cash from Investing activities	(34.0)	(13.3)	
Payment of Dividends	(2.7)	(3.8)	42%
Payment relating to Share Buy Back	(4.4)	(0.0)	
Proceeds (Repay) Loans and Leases	27.7	4.0	
Net change in Cash and equivalents	20.6	0.2	
Net Increase in cash for period	(5.7)	(1.8)	
Opening balance	11.5	7.3	
Cash and cash equivalents at End of Period	5.8	5.5	

- Net cash from operations increased by 47%
- Capex investment slower than last year due to timing differences for expansion activities associated with brownfield and greenfield investment in the first half YOY
- Returns to shareholders are maintained with an interim dividend of 0.5 cents per share

Other Key Financial Measures			
\$m	1H FY19	1H FY20	% Growth
Net Cash From Operations	7.7	11.3	47%
Maintenance Capex	3.1	2.9	
Free Cash Flow	4.6	8.4	82%
FCF/ Underlying EBITDA (Cashflow conversion)	39%	62%	58%

- Generated free cash flow of \$8.4m – up to 82% on pcp
- Improved free cash flow conversion on underlying EBITDA up to 62% – up from 39% in pcp
- Cash Receipts inflow reflect the level of bulk billing and result in a low level of outstanding debtors (averaging at 4 days)

HY20 - CAPEX INVESTMENT

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- Maintenance CAPEX invest approach has been reviewed to ensure that Capitol is optimising asset utilisation, reflecting revenue growth and required replacement levels to avoid capital sensitivity impacts
- Expansion/growth CAPEX on plan with a heavier weighting to H2 FY20
- Cranbourne Greenfield site opened in October 2019
- Brownfield Carlton opened in December 2019
- Brownfield in Camberwell is poised to open in H2 FY20
- Depreciation increase on pcp is a reflection of the increased business size and larger investment in FY19 flowing through the P&L

Capex		
\$m	1H FY19	1H FY20
Maintenance	3.1	2.9
Growth	3.6	2.4
Total	6.7	5.3
Depreciation	3.1	4.7



CAPITAL MANAGEMENT

Methodology

- Making considered capital management decisions based on the best use of capital and shareholder returns, with reference to:
 - Company strategy, market outlook and growth opportunities
 - Return on investment
 - EPS Impact

Share buy-back

- Minimal share buy-back in HY20 as the business identifies greater returns for capital
- The company refreshed its buy-back capacity in August 2019, allowing a further 76.8m shares to be acquired
- The company continues its commitment to buying back shares when the share price is not reflective of value

Dividend & DRP

- Declared an interim dividend 0.5 CPS
- The company has suspended the Dividend Reinvestment Plan (DRP)
- The company continues its commitment to a sustainable fully franked dividend

Funding

- \$90m of unused Facilities
- Net debt \$44.5m
- Based on Underlying EBITDA consensus as at Dec 2019 and H1 FY20 performance, gearing is approximately 1.6 times



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GROWTH

MAKING PROGRESS FOR FUTURE ORGANIC GROWTH

Key Growth Drivers

- We expect market growth to return to a longer-term average, driven by fundamentals of demand (e.g. population growth and ageing demographic)
- Focus will be given to our existing business and the development of a rolling acquisition and Greenfield/Brownfield pipeline to build momentum and growth over the next 3 years
- Building on our commitment to patients, staff activity will more closely align with patient demand – measured in real-time through investment in new systems
- Our WA branding project will leverage strength of the Capital Radiology brand and make a positive influence on the clinic network.
- Regular 'cost-to-serve' reviews improving efficiencies at a day-to-day level
- Our portfolio approach to clinic review will ensure appropriate community coverage and diagnostic modalities
- Continue to build the BDM function and go to market approach with a customer value proposition

Outlook

- Medicare DI indexation will be introduced July 2020 – expected to be CPI for 80% of outlays
- Focus on delivering underlying EBITDA organic growth in FY20
- Investment in systems, process and capacity to set us up for stronger growth into FY21
- Continuing to improve the 'cost-to-serve' of the business
- Moderate growth in underlying EBITDA expected for FY20

FUTURE GROWTH - THROUGH ACQUISITION

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Why We Acquire

- To build a community based radiology network, to leverage the latest technology and generate economies of scale required in a largely bulk billing business
- Our increased geographic coverage and footprint will provide opportunities for development of our team, more availability to services for our patients and greater returns for our investors
- Strategically-aligned acquisitions allow us to build momentum for year-on-year organic growth
- Expanded EBITDA through acquisition synergies
- The right acquisitions deliver best-in-class talent, a community entry point, industry know-how, and specialist radiologists

Our Target Acquisitions

- Location that complements our network
- Where synergies have been identified
- Where clinic investment will drive organic growth
- Pricing makes sense and will deliver value to shareholders.
- To obtain access to people and systems
- Alignment with Company of Vision, Values and Strategy

Acquisition Pipeline

- Within the acquisition pipeline we currently have 4 potential targets totaling \$40m of revenue
- Potential acquisitions refers to the total pipeline of acquisitions currently in stages of assessment and / or discussion (not yet committed)
- They are a blend of exclusive and competitive processes
- All acquisitions are assessed against internal opportunities for deployment of capital, to ensure best strategic fit and return for shareholders.
- Management continue to build out a pipeline as part of the company's 3-year strategy

STRATEGIC INVESTMENT FOCUS: ENLITIC

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What they do

- Enlitic augments clinical workflows with AI, with the goal of enabling doctors to provide a better experience for patients through faster, earlier and more accurate diagnoses
- The 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 the patient
- Solutions integrate easily into existing health systems, offering seamless access to tools for patient triage and prioritisation, population screening, retrospective analysis and quality assessment, and real-time clinical support. This leads to reduced costs and faster report turnaround times

Why Capitol was interested

- Enlitic is a world leader in DI and AI, and was twice named in *MIT Technology Review's* 50 Smartest Companies. Enlitic also earned a €1m prize for best start-up, awarded by Apple founder Steve Wozniak
- Enlitic has a compelling industry investment story and has raised US\$56m in funding over 3 rounds
- Enlitic marries Australian DNA with Silicon Valley expertise. The company was founded in Australia and is now based in San Francisco, with access to the world's best development experts

About our Enlitic investment

- Relationship formed in 2015
- Capitol Health is an initial investor and major stakeholder with a board seat
- Australian exclusive rights to use Enlitic as part of clinical partnership
- Collaboration opportunities in other markets



ENLITIC

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APPENDIX

THE CAPITOL BUSINESS

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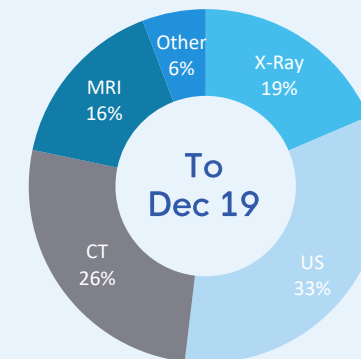
Overview

- Capitol is an ASX-listed provider of diagnostic imaging and related services to the Australian healthcare market. We are a talented team of experts motivated by our patients' needs
- We own and operate 63 clinics throughout VIC, TAS and WA, with a growth focus aided by our scalable operating model
- As a community focused company, our facilities are predominantly suburban rather than hospital-based, with priority given to service and minimisation of administrative burdens for healthcare professionals
- We meet a growing consumer demand and conduct more than 1.2 million procedures every year, employing ~800 staff and ~100 radiologists
- Our significant market position means we can adapt to changing industry dynamics and make strategic investments, such as our recent further investment in US-based diagnostic imaging AI provider Enlitic, Inc.

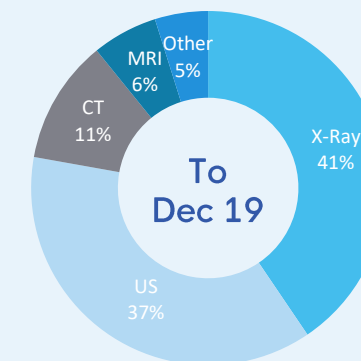
Locations and Brands



12-month Revenue by Modality



12-month Services by Modality



Our Vision:

To be the diagnostic imaging specialists of choice, serving our communities with compassion, integrity and precision

Our Aspirations:



No. 1 in patient satisfaction



Top repeat-referral rate



Leading team satisfaction & retention rate



Sustained market-share growth



Industry-leading shareholder returns

Our Values:

Patient centred

We create positive patient experiences. We listen with respect, inform with empathy and involve patients in their care

One Team

Our people are our best asset. Our outcomes are better when we work together. We treat each other with respect and nurture a culture of recognition, empathy and inclusion

Integrity

We are open and honest. We take pride in the way we work. Our patients and partners trust us because we are accountable and reliable

Excellence

Together we pursue excellence – in outcomes and experience for our patients, referrers and community. We utilise the best technology to deliver timely, precise results

Community focused

We are more than a network, we are a community. We create meaningful connections with our patients, referrers and colleagues built on trust, support and shared goals

The Pillars of our Business:

Operational Excellence

- Standardised operating model as platform for organic growth
- Value creation through post-acquisition integration
- Performance management through business intelligence and analytics

Destination Employer

- Employee Value Proposition
- Clear performance & reward mechanisms
- Focus on professional development
- Values driven people processes

Next-generation Technology

- Highly secure and effective technology model
- Holistic approach to technology encompassing clinical outcomes, operational efficiency and patient experience

First-choice Provider

- Differentiated customer and marketing plan
- Focus on and resourcing referrer relationship management including CRM implementation
- Patient experience management

Values-based Communications

- Coherent stakeholder communications strategy
- Focus on developing industry and government relationships
- Industry thought leadership program

CAPITOL STRATEGIC PILLARS

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First Choice Provider

- We aim to be the first choice for community-based diagnostic imaging
- Our strategies are based on qualitative and quantitative research into patient and referrer behaviour and preferences. The insights we gather inform our approach, and constant optimisation of the patient / referrer experience
- We build strong relationships with our referrers, providing them with precise and timely diagnostic imaging



Destination Employer

- We recruit, develop and retain the best clinical, technical and corporate staff; we recognise staff for their service and values
- We're implementing a feedback and coaching framework, and clearly defined remuneration strategy, to increase staff satisfaction / competency and reduce costs
- We're focused on our people and building a strong culture supported by our values. We seek feedback from staff on a regular basis and respond to insights accordingly



Next-generation Technology

- We're committed to the strategic implementation of next-generation technology to enhance service, quality and engagement
- We will deploy unified RIS platforms to improve service quality, load sharing and efficiency in existing and growth business units
- We will implement optimal online booking, eReferral, eForms and Pt Kiosk platform
- To support radiologists and deliver efficient reporting we will implement smart worklists
- We embrace AI in our business through strategic partnerships such as Enlitic



Operational Excellence

- Optimising operational efficiencies and clinical outcomes (e.g. timeliness, quality, standard processes) at a reduced cost-to-serve, through:
 - Evidence-based standard operating model (SOM)
 - Focused workflow management to maximise efficiency and quality
 - Benchmark human resource allocation and asset utilisation



Values-based Communications

- We're strengthening our brand, and building our reputation through strategic, values-centric communications, by:
 - Clearly and consistently communicating our business vision, purpose and CVPs
 - Identifying and nurturing strategic experience relationships (industry, Govt, education, investment)
 - Demonstrating community-centred values and experiences
 - Communicating the 'why' (choose us) to key stakeholders with clear, accurate messaging
 - Demonstrating good corporate citizenship

BRIDGING HUMAN AND ARTIFICIAL INTELLIGENCE TO ADVANCE MEDICAL DIAGNOSTICS



Enlitic has transformed, building a world-class team and platform around a unified vision. This vision aligns with Capitol's growth ambitions, particularly in the AI market, through the application of the latest technologies.

Key moments include:

- **Accessing more scans for deep iterative learning:** Provide new partnerships, access to more scans and patient outcomes, increasing the pace of iteration and deep learning
- **Pace-setter:** Launched proprietary data centre, enabling a 10x increase in model development speed
- **Beta deployment:** Launched new research platform with Capitol Health, starting with quality assessment of chest X-ray
- **Building scale:** Hired key leadership figures in operations, finance, regulatory, quality, business development, design and communications
- **Talent growth:** Engineering and modelling teams doubled in size, and NY office opened. Enlitic is now a team of 65 subspecialist radiologists and 40 multidisciplinary experts in clinical AI

Enlitic's focus on early commercialisation and scaling of diagnostic imaging AI supports Capitol's long-term strategy

- **Data insights:** Already developed a research platform and algorithms to support AI-assisted interpretation of 95% of common X-rays and 95% of CTs and MRIs. Amassed data from 35 million+ patients
- **International accreditations and Marketing Authorisations:** Received ISO 13485/MDSAP certifications for five countries, and permission to market Class I medical device in the US, with additional marketing authorizations expected soon from FDA, TGA, PMDA, and EU.
- **Global rollout:** Formed strategic partnerships providing regulatory and commercial support in more than a dozen countries. Wide-scale commercialisation in US, Japan, Canada, Australia, and the Middle East in FY21, providing access to more scans, leading to deep learning
- **Diversification:** Multiple partnerships with data and commercial support in oncology, pathology and genomics expecting to close throughout 2020, further increasing the value of the Enlitic investment for Capitol

IMPACT OF LEASING STANDARD AASB 16 ON STATUTORY ACCOUNTS

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Consolidated Statement of Profit or Loss and Other Comprehensive Income Half-Year to 31 December 2019

	Pre AASB 16 31 Dec 2019 \$'000	AASB 16 Lease adj	Post AASB16 31 Dec 2019	31 Dec 2018 \$'000
Continuing Operations				
Total Revenue	80,554		80,554	72,396
Wages, Contractor costs and Salaries	(49,796)		(49,796)	(43,643)
Occupancy costs	(6,164)	3,749	(2,415)	(5,718)
Medical equipment and consumable supplies	(4,706)	284	(4,422)	(5,001)
Service costs	(6,228)		(6,228)	(6,184)
Transaction Costs	(1,676)		(1,676)	(2,110)
Revaluation/(Impairment) of Financial Assets	-		-	8,891
Operating Profit Before Finance Costs, Income Tax, Depreciation and Depreciation and amortisation	11,984	4,033	16,017	18,631
Profit Before Finance Costs and Income Tax	6,094	(47)	6,047	14,343
Net finance costs	(1,117)	(840)	(1,957)	(765)
Profit/ (Loss) Before Income Tax	4,977	(887)	4,090	13,578
Income Tax Expense	(1,397)		(1,397)	(1,648)
Profit/ (Loss) for the Year	3,580	(887)	2,693	11,930
Other Comprehensive Income / (Expense)				
Items that may be Reclassified Subsequently to Profit or Loss				
Interest rate derivative movement	(137)		(137)	
Total Other Comprehensive Income / (Loss)	(137)		(137)	-
Total Comprehensive Income	3,443	(887)	2,556	11,930

IMPACT OF LEASING STANDARD AASB 16 ON STATUTORY ACCOUNTS

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Condensed Consolidated Interim Statement of Financial Position				
Half- Year to 31 December 2019	Pre AASB16 Dec-19 \$'000	AASB16 Adjust Dec-19	Stat Account Dec-19 \$'000	Stat Account Jun-19 \$'000
Current Assets				
Total Current Assets	10,701	-	10,701	12,204
Non-Current Assets				
Plant & Equipment	44,618		44,618	42,544
Right-of-Use Asset	-	52,126	52,126	-
Intangible Assets	106,230		106,230	107,294
Other Financial Assets NC	23,550		23,550	20,408
Other Receivables	621		621	1,166
Deferred Tax Assets	2,111		2,111	2,305
Total Non-Current Assets	177,130	52,126	229,256	173,717
Total Assets	187,831	52,126	239,957	185,921
Current Liabilities				
Total Current Liabilities	22,182	6,901	29,083	24,618
Non-Current Liabilities				
Loans and Borrowings NC	48,001		48,001	43,656
Lease Liability - Right-of-Use assets	-	46,112	46,112	-
Provisions	1,232		1,232	1,170
Employee Benefit Liability NC	844		844	844
Total Non-Current Liabilities	50,077	46,112	96,189	45,670
Total Liabilities	72,259	53,013	125,272	70,288
Net Assets	115,572	(887)	114,685	115,633
Equity				
Issued Capital	107,622		107,622	107,632
Reserves	1,585		1,585	1,374
Accumulated profits/ (losses)	6,365	(887)	5,478	6,627
Equity Attributable to Owners of the Parent	115,572	(887)	114,685	115,633
Total Equity	115,572	(887)	114,685	115,633

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QUESTIONS

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