

FY 2020 RESULTS

Full Year Ended 30th June 2020

Justin Walter – Managing Director
Marcell Judkins – Chief Financial Officer

27 August 2020

CAPITOLHEALTH
LIMITED

AGENDA

01. Executive Summary

02. FY20 Highlights

03. FY20 Financials

04. Growth

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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY [Excluding impact of AASB 16¹]

Key Achievements and Highlights:

- YOY revenue increase of \$4.6m or 3.1% despite COVID-19 impacts
- Operating expenses lower than FY19 on higher revenue, resulting in margin expansion from 15.3% to 18.1%
- Operating EBITDA increased by \$5m or 21.8% to \$27.8m
- Management moved swiftly to minimise and defer expenses, matching service demand to staffing. This approach mitigated profit risk on variable costs.
- All employed clinic staff have been maintained through the pandemic
- \$40m Capital raise in April 2020 reduced net debt to \$9.2m providing balance sheet strength, and headroom for further growth and expansion
- Final dividend for FY21 declared at 0.5 cents per share fully franked
- Fowler Simmons Acquisition completed in March 2020 and integration now largely completed, and delivering on expectations

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

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

*** Where all references to FY19 reflect the restated results

Strategy:

- Enhanced patient experience initiatives underway
- Renewed market value proposition and referrer engagement plan
- Organisation redesign complete with team focusing on organic growth
- Destination employer strategy defined and progressing to plan
- Branding and digital profile review, beginning with website revamps
- New Clinical Governance Framework and Chief Medical Officer appointment in FY21
- Delivering results in Year 1 and clear path for further EBITDA growth

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2020

FY 20 HIGHLIGHTS

FY20 RESULTS SUMMARY

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REVENUE

\$153.8 m

Up 3% pcp

OPERATING EBITDA

\$27.8 m

Up 22% pcp

OPERATING EBITDA MARGIN

18.1%

Up from 15.3% pcp

FREE CASH FLOW

\$22.5 m

Up 82% pcp

NET DEBT / OPERATING EBITDA

0.3 x

FINAL DPS

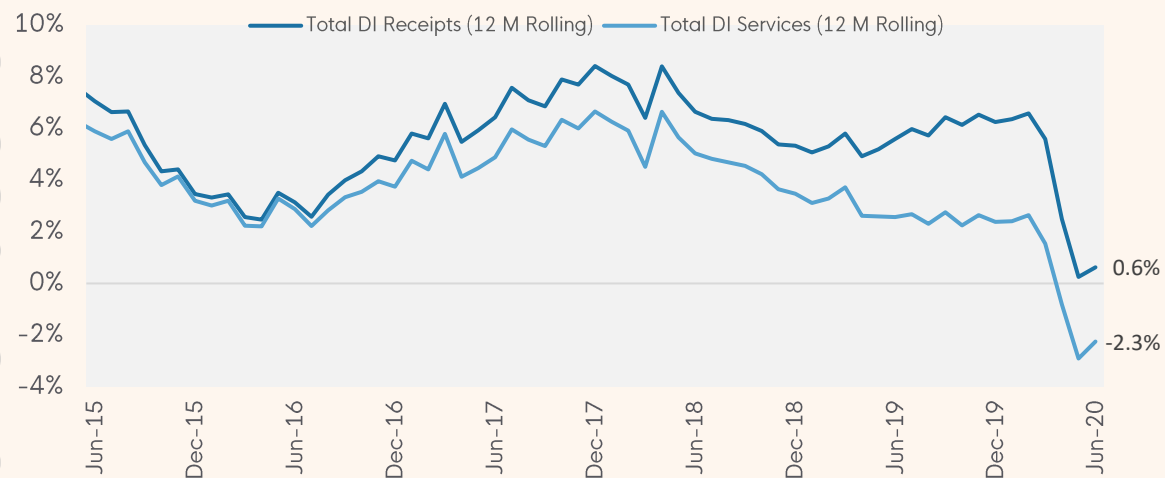
0.5 cps

1.0 cps for FY20

INDUSTRY GROWTH REBOUNDS BEFORE COVID-19

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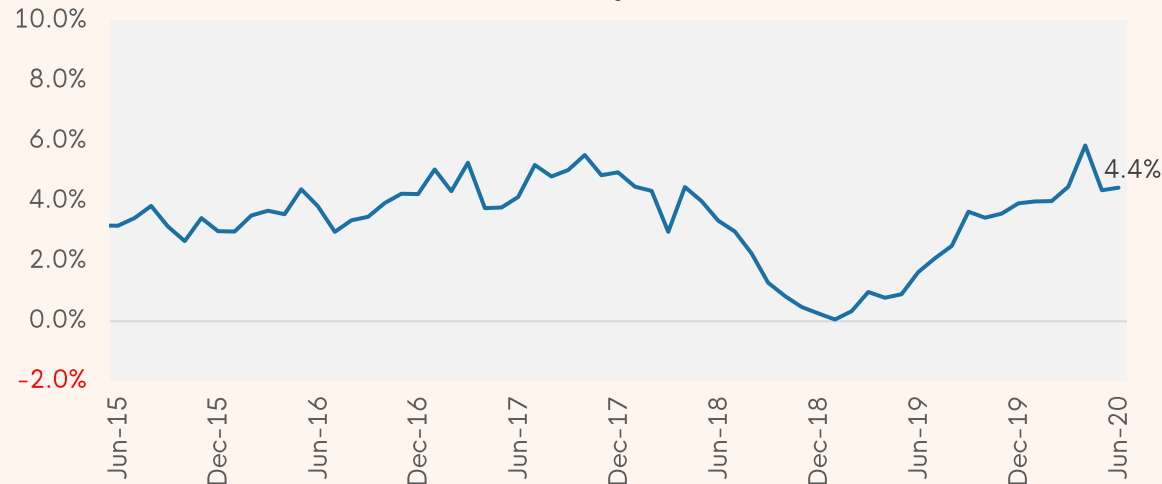
DI Services and Revenues - CAJ States¹



- DI Services remain stable and revenues increasing due to new MRI licenses in FY20 (prior to Covid-19)
- Diagnostic imaging Medicare receipts continue to increase on a 12-month rolling basis on the back of new MRI licenses issued in FY19
- Organic growth, prior to COVID-19, at 4.1%

GP Attendance & DI Services - CAJ States¹

12 M Rolling Basis

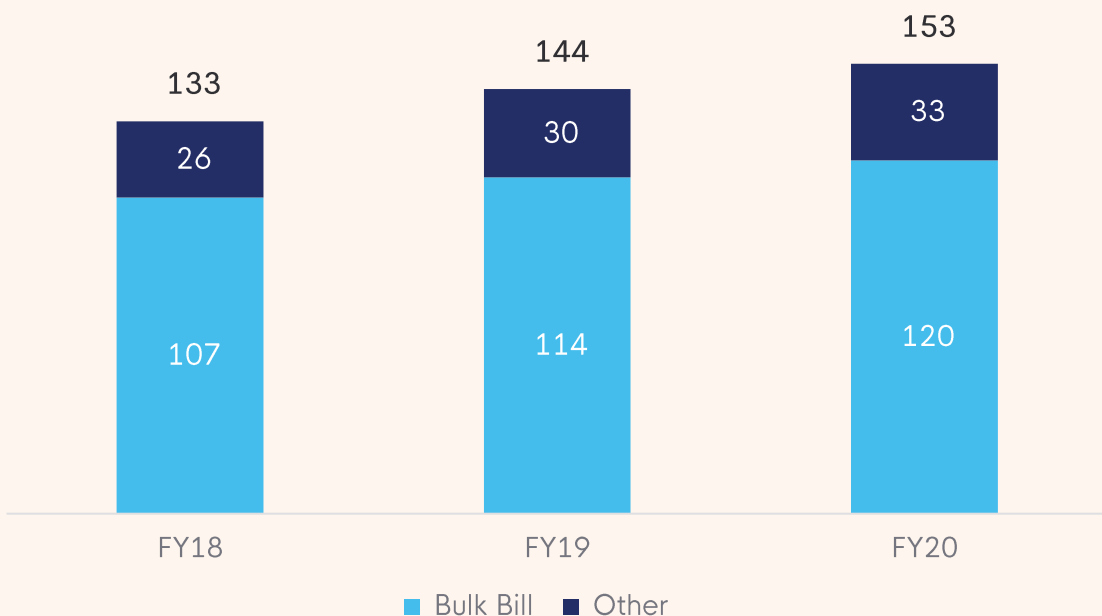


- GP attendances returned to long-term averages prior to COVID-19 of above 4%
- Capitol saw strong demand bounce back post the initial nationwide lockdown in May 2020

A STRONG AND DEFENSIVE SOURCE OF REVENUE

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Total Revenue Mix (\$m)



Rev Mix %	FY18	FY19	FY20
Bulk Bill	81%	79%	78%
Other	19%	21%	22%

- Bulk billing revenue remains the dominant component of revenue and represents a robust, defensive income in the anticipated period of recession over the remainder of FY21
- Out of pocket revenue increasing at a higher rate due to subtle changes in the service mix
- Fowler Simmons acquired in March 2020, has a higher ratio of out of pocket (OOP) revenue due to specialist diagnostic services
- Capitol does not currently provide services into large hospital networks

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

OPERATIONAL HIGHLIGHTS - FY20

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- ✓ Organic Growth gathering momentum at 4.1% prior to COVID-19
 - ✓ Cost review program delivering benefits via margin expansion
 - ✓ Rapid response to COVID-19 to match resourcing to patient demand
 - ✓ First year of 3yr strategy delivered
 - ✓ Fowler Simmons Radiology delivering to expectations
 - ✓ Cranbourne Greenfield opened Q2
 - ✓ Carlton Brownfield opened Late Q2
 - ✓ Camberwell open delayed due to COVID-19, now planned for Q1 FY21
 - ✓ Well supported capital raise in April 2020 of \$40m by institutional and retail investors



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FY 20 FINANCIALS

FY20 - PROFITABILITY

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Profit and Loss summary				
\$m	FY2019	FY2020	Growth	% Growth
Revenue	149.2	153.8	4.6	3.1%
Operating EBITDA	22.8	27.8	5.0	21.8%
<i>Operating EBITDA Margin</i>	<i>15.3%</i>	<i>18.1%</i>	<i>2.8%</i>	
Enlitic (writeback) writeup	19.9	(1.6)		
Restructure/Transactions costs	(4.0)	(3.1)		
Depreciation & Amortisation	(8.9)	(17.5)		
Other	(5.5)	(4.6)		
Profit for the Year	24.3	2.7		

- Revenue grows by \$4.6m or 3.1% over pcp
- Operating EBITDA margin increases to 18.1%, up from 15.3% pcp, due to systematic cost review and review of clinic profitability
- The Enlitic adjustment relates to the market movement in the fair value over the six month period since December 2019
- Transaction costs are associated with both successful acquisitions and acquisitions currently in the pipeline
- Restructuring costs are associated with the CEO transition, organisation redesign and changes in the back-office teams to drive efficiencies and uplift performance
- Depreciation increases reflect accelerated depreciation on a number of assets held in assets under construction and changes to equipment at the clinic level

FY20 - CASH FLOW

- Net cash from operations increased by 57% includes COVID-19 cash conservation actions
- CAPEX investment down 20% due to COVID-19 constraints and improved asset allocation methodologies
- Returns to shareholders are maintained with an interim dividend for FY20 remaining payable Oct 2020 and final dividend of .05 cents per share (totaling 1.0 per share for FY20)

CASH FLOW SUMMARY

\$m	FY2019	FY2020	% Growth
Cash Receipts and Payments	24.5	29.7	21%
Net Interest	-1.8	-2.2	
Income tax paid	-4.4	1.3	
Net Cash from operations	18.3	28.8	57%
Purchases of PP&E	-14.7	-12.2	-17%
Acquisition purchase and costs	-35.6	-20.7	
Net cash from Investing activities	-50.3	-32.9	
Payment of Dividends	-6.6	-3.8	-42%
Payments for Capital	-9.7	38.1	
Proceeds (Repay) Loans and leases	43.5	-23.8	
Net change in Cash and	27.2	10.5	-61%
Net Increase in cash for period	-4.8	6.4	-233%
Opening balance	12.1	7.4	
Cash and cash equivalents at End	7.4	13.8	87%

- Generated free cash flow of \$22.5m – up 82% on pcp
- Improved free cash flow conversion on operating EBITDA up to 81% – up from 54% in pcp
- No Income tax has been paid in FY20 as part of the COVID-19 concessions and has been deferred to Q2 FY21

Other Key Cash Measures

\$m	FY2019	FY2020	% Growth
Net Cash From Operations	18.3	28.8	57%
Maintenance Capex	5.9	6.3	-6%
Free Cash Flow	12.4	22.5	82%
FCF/ Underlying EBITDA (Cashflow conversion)	54%	81%	49%

CAPITAL MANAGEMENT



Funding for Growth

- \$131.4m of unused Facilities
- Net debt \$9.2m
- Gearing at less than 1 times provides significant headroom for growth, particularly acquisitions



Data Driven Approach

- Making considered capital management decisions based on the best use of capital and shareholder returns, with reference to:
- Company strategy
- Market outlook
- Opportunity cost of a range of growth alternatives
- Return on investment
- Positive EPS Impact



Share Buy Back

- Share Buy Back on hold during the market volatility of COVID-19
- Minimal share buy-back in FY20 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



Dividends

- Declared a Final dividend of 0.5 cents per share, taking the full FY20 distribution to 1 cent per share
- The company continues its commitment to a sustainable fully franked dividend

FY20 - 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 slightly lower than anticipated due to COVID -19 constraints resulting in a delay in the second Greenfield for FY20
- Cranbourne Greenfield site opened in October 2019
- Brownfield Carlton opened in December 2019
- Brownfield in Camberwell is poised to open post the pandemic restrictions
- Depreciation has increased on last year due to flow through of capex investment in FY19. Additionally, there has been a detailed review of the assets under construction and closed clinics resulting in a number of assets having a one-off accelerated impact on the depreciation run rate

Capex		
\$m	FY2019	FY2020
Maintenance	5.9	6.3
Growth	7.3	6.0
Total	13.2	12.3
Depreciation and Amortisation	8.9	18.0



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GROWTH

4 ENGINES OF GROWTH



Organic

- During HY20 we undertook a review of the cost base and where we could improve efficiencies. This approach delivered in the first half and built momentum through to June FY20.
- We successfully matched patient demand to our resourcing during lockdown 1.0
- In FY21 we will focus on market share and the 'go to' market strategy for organic growth.



Clinic Expansion and Upgrades

We continue to review and optimise our network of clinics.

There are three prongs to this approach:

1. Open Greenfield Clinics
2. Brownfield redevelopment and upgrading of modalities
3. Clinic portfolio review of profitability



Acquisitions

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



Technology Investment

- New employee engagement software including Time and Attendance
- Datawarehouse created with new BI Tool rolled out
- Referrer interface software and telehealth functionality
- Unlisted investment in Enlitic a leading AI software developer in Radiology
- BETA Enlitic software operating in a key CAJ clinic

MAKING PROGRESS FOR FUTURE ORGANIC GROWTH

Key Growth Drivers

- Prior to COVID-19 market growth returned to longer-term average of 4-6% CAGR, driven by fundamentals of demand (e.g. population growth and ageing demographic).
- Strong bounce back of demand following first wave, demonstrates the resilience of demand
- Focus continues on the existing business and the development of a rolling bolt on 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
- 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
- Data driven decision making with the implementation of BI, pulling together data from 10 operational data sources

Outlook

- Medicare DI indexation introduced in July 2020 – at 1.5% average across 60% approx. of item codes
- Focus on delivering operating EBITDA organic growth in FY21 as the acquisition pipeline softens due to COVID-19
- Investment in the front end of our business in operations systems and telephone optimisation
- Continuing to improve the 'cost-to-serve' of the business

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APPENDIX

THE CAPITOL BUSINESS

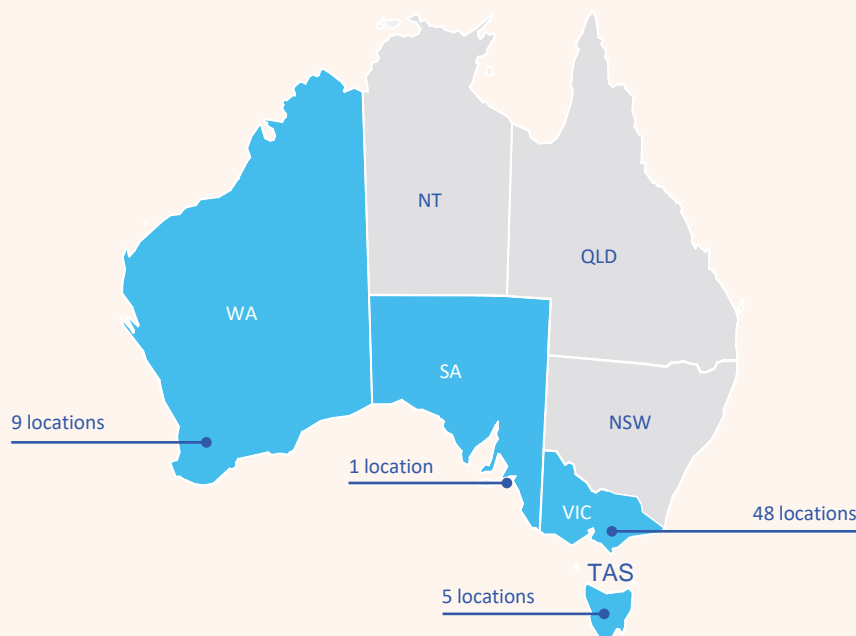
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Overview

- 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, SA, 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

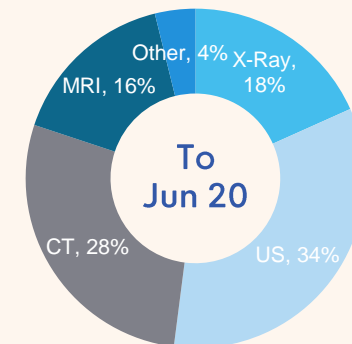
FY20



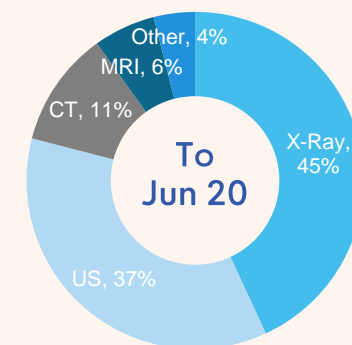
Radiology Tasmania



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

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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 reputation through strategic, values-centric communications, by:
 - Clearly and consistently communicating our business vision, purpose and CVPs
 - Identifying and nurturing strategic experience relationships
 - Demonstrating community-centred values and experiences
 - Communicating the 'why' to key stakeholders with clear, accurate messaging
 - Demonstrating good corporate citizenship

IMPACT OF LEASING STANDARD AASB 16 ON STATUTORY PROFIT AND LOSS

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Consolidated Statement of Profit or Loss and Other Comprehensive Income For the Year Ended 30 June 2020

	Note	MGT ACCOUNTS		STAT ACCOUNTS	
		Pre AASB 16	AASB16 ADJ	Post AASB 16	Restated
		2020 \$'000	2020 \$'000	2020 \$'000	2019 \$'000
Continuing Operations					
Revenue	5	153,791		153,791	149,238
Total Revenue		153,791	-	153,791	149,238
Wages, Contractor costs and Salaries	6	(91,729)		(91,729)	(94,251)
Occupancy costs		(12,335)	8,017	(4,318)	(10,962)
Medical equipment and consumable supplies		(9,469)	568	(8,901)	(9,049)
Service costs		(12,485)		(12,485)	(12,176)
Underlying Profit Before Transaction Costs and Impairment		27,773	8,586	36,359	22,800
Transaction Costs		(3,054)		(3,054)	(3,990)
Revaluation/(Impairment) of Financial Assets	7	(1,619)		(1,619)	19,915
Operating Profit Before Finance Costs, Income Tax, Depreciation and Amortisati		23,100	8,586	31,686	38,725
Depreciation and amortisation		(17,476)	(8,550)	(26,025)	(8,900)
Profit Before Finance Costs and Income Tax		5,625	36	5,661	29,824
Net finance costs	8	(1,839)	(1,659)	(3,498)	(1,655)
Profit Before Income Tax		3,785	(1,622)	2,163	28,170
Income Tax Expense	9	(1,075)		(1,075)	(3,863)
Profit for the year		2,710	(1,622)	1,088	24,307

IMPACT OF LEASING STANDARD AASB 16 ON STATUTORY BALANCE SHEET

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Consolidated Statement of Financial Position

As At 30 June 2020

		Pre AASB16	AASB 16	Post AASB 16	2019
	Note	2020			\$'000
					\$'000
Current Assets					
Cash and Cash Equivalents	10	13,763	-	13,763	7,330
Trade and Other Receivables	11	5,493	-	5,493	2,662
Other Financial Assets	12	277	-	277	256
Tax Receivable		-	-	-	1,273
Other Assets		767	-	767	683
Total Current Assets		20,300	-	20,300	12,204
Non-Current Assets					
Plant & Equipment	13	40,820	-	40,820	42,544
Intangible Assets	14	117,949	-	117,949	101,994
Right of use asset	23	-	54,729	54,729	-
Other Financial Assets	12	22,138	-	22,138	20,408
Other receivables		630	-	630	1,166
Deferred Tax Assets	9	5,741	-	5,741	4,499
Total Non-Current Assets		187,278	54,729	242,007	170,611
Total Assets		207,578	54,729	262,307	182,815
Current Liabilities					
Trade and Other Payables	15	16,966	-	16,966	10,625
Lease liability - right of use	23	2,080	7,559	9,639	2,005
Employee Benefit Liability	17	10,828	-	10,828	11,115
Income Tax Liability		2,751	-	2,751	(0)
Total Current Liabilities		32,626	7,559	40,185	23,745
Non-Current Liabilities					
Borrowings	16	17,000	-	17,000	38,750
Lease liability - right of use	23	3,910	48,792	52,702	4,906
Other Financial liability		3,698	-	3,698	-
Provisions	18	1,340	-	1,340	1,170
Employee Benefit Liability NC		852	-	852	844
Deferred Tax Liabilities	9	2,490	-	2,490	2,194
Total Non-Current Liabilities		29,290	48,792	78,081	47,864
Total Liabilities		61,916	56,351	118,267	71,609
Net Assets		145,662	(1,622)	144,040	111,206
Equity					
Issued Capital		145,776	-	145,776	107,632
Reserves	20	2,694	-	2,694	1,374
Accumulated profits/(Losses)		(3,076)	(1,576)	(4,653)	2,200
Equity Attributable to Owners of the Parent		145,393	(1,576)	143,817	111,206
Non-controlling interests		269	(46)	205	-
Total Equity		145,662	(1,622)	144,022	111,206

IMPACT OF LEASING STANDARD AASB 16 ON STATUTORY CASHFLOW

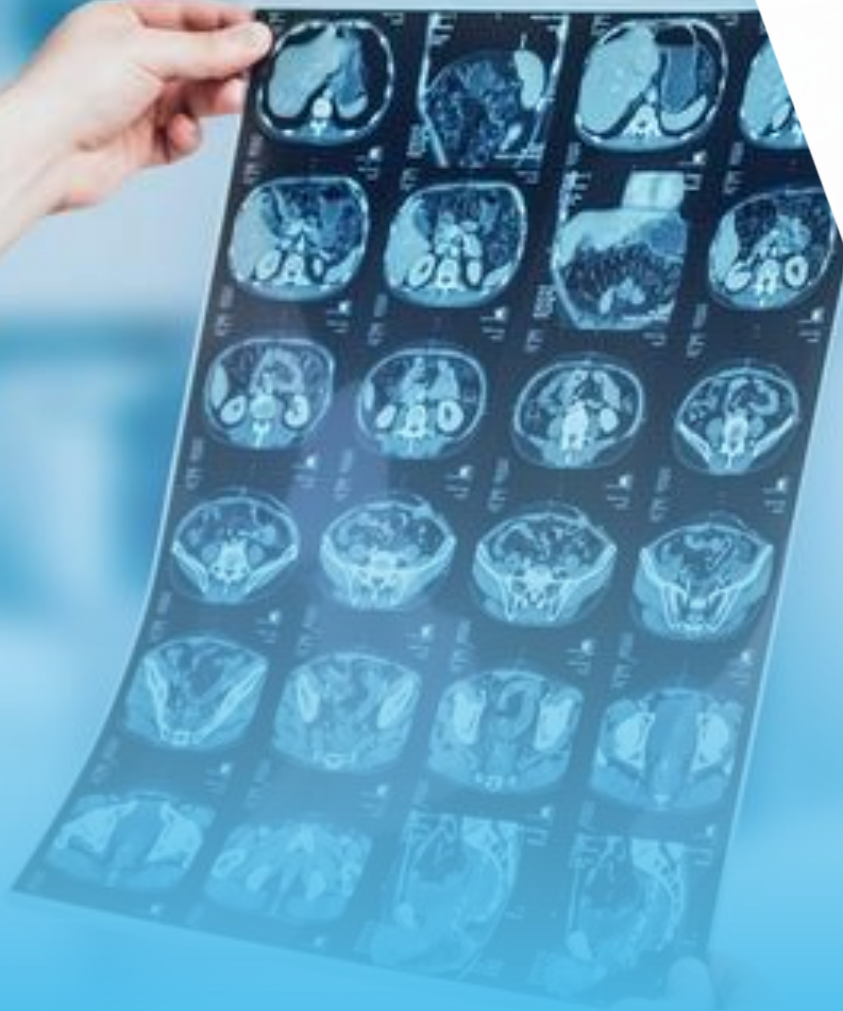
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		2020	AASB16	2019
	Note	\$'000		\$'000
Operating Activities				
Cash Receipts from customers		155,044	155,044	150,398
Cash Payments to Suppliers and employees		(125,352)	7,897 (117,455)	(125,890)
Interest Received		26	26	90
Interest and other finance charges on borrowings		(1,895)	(1,895)	(1,883)
Interest on lease liabilities	23	(309)	(1,659) (1,968)	
Income Tax (Paid)/refunded		1,258	1,258	(4,385)
Net Cash From Operating Activities	33	28,771	6,238 35,009	18,330
Investing Activities				
Purchase of Property Plant and Equipment	12	(12,165)	(12,165)	(14,747)
Payments for Business Acquisitions, divestments, investments		(20,680)	(20,680)	(35,568)
Payments of Transaction Costs		-	-	-
Payments for Investments in Associate		-	-	-
Proceeds from Sale of Investments In Equity Instruments		-	-	-
Net Cash From / (Used in) Investing Activities #		(32,845)	- (32,845)	(50,315)
Cash Flows From / (Used in) Financing Activities				
Net Proceeds on Issue of Share Capital	20	38,501	38,501	-
Payments of Share Buyback and Costs	20	(357)	(357)	(9,667)
Proceeds on exercise of options		-	-	1,785
Payment of Dividend	21	(3,842)	(3,842)	(6,613)
Purchases of equipment under finance lease		-	-	4,553
Cash Payment of Lease Liabilities	23	(2,045)	(6,238) (8,283)	(1,630)
Proceeds/(Repayment) of Secured Loans	16	(21,750)	(21,750)	38,750
Net Cash From / (Used in) Financing Activities #		10,507	(6,238) 4,269	27,178
Net Increase / (Decrease) in Cash and Cash Equivalents		6,433	0 6,433	(4,807)
Cash and Cash Equivalents at 1 July		7,330	- 7,330	12,137
Cash and Cash Equivalents at End of Period		13,763	0 13,763	7,330

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QUESTIONS

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