

# 1H 2017 Results and Capital Raising Presentation



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# 1H 2017 Results

Period Ending 31 December 2016



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# Financial Performance – 1H FY17

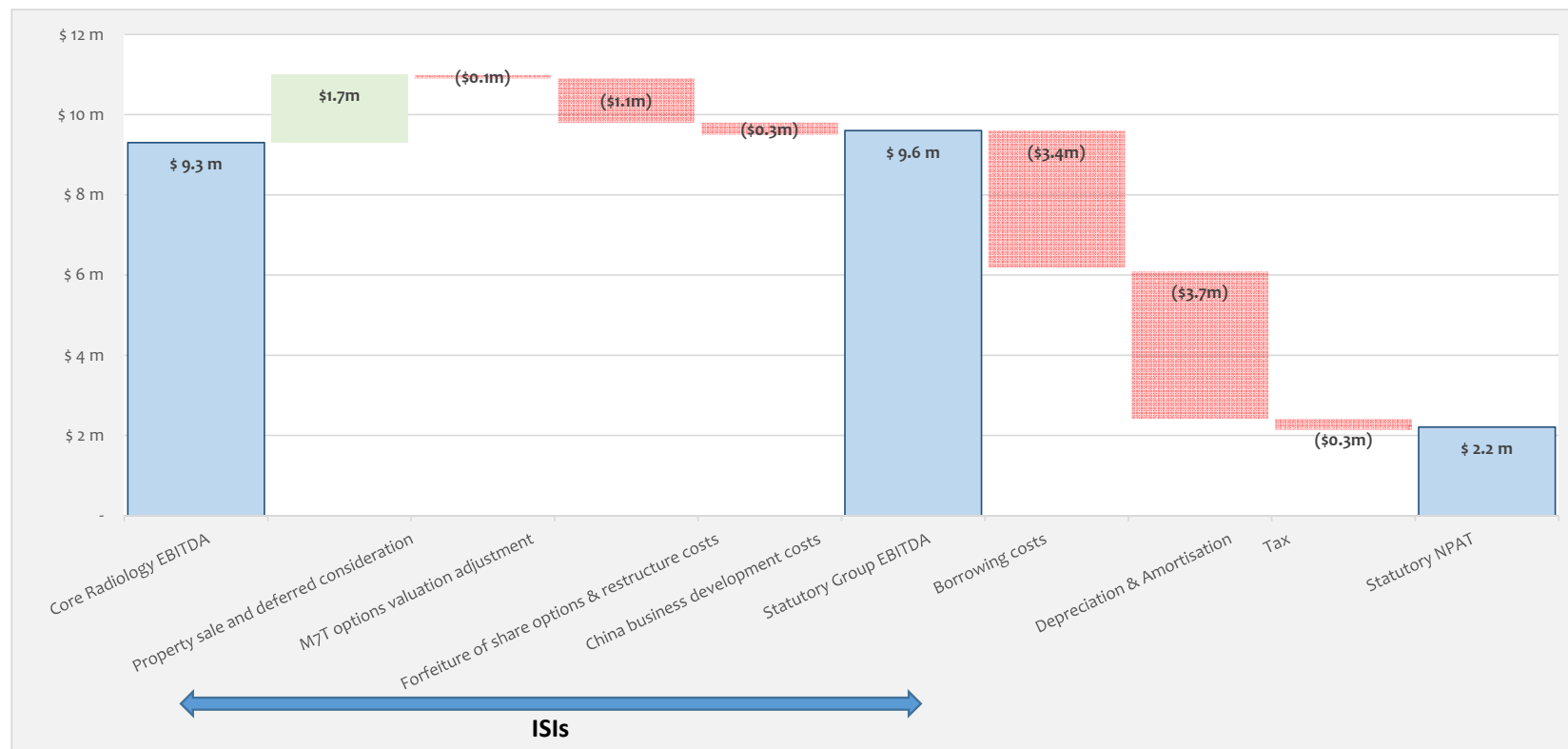
PROFIT & LOSS SUMMARY <sup>1, 2</sup>		
Item	1H FY17 (\$m)	1H FY16 (\$m)
Revenue	80.01	77.37
<b>EBITDA prior to ISI</b>	<b>9.30</b>	<b>10.93</b>
Net ISI	0.26	(1.68)
<b>EBITDA after ISI</b>	<b>9.56</b>	<b>9.25</b>
Borrowing Costs	3.41	2.35
Depreciation & Amortisation	3.67	3.40
<b>NPBT</b>	<b>2.48</b>	<b>3.49</b>
Tax	0.28	1.27
<b>NPAT</b>	<b>2.20</b>	<b>2.21</b>

1 Abridged summary prepared for comparative purposes; refer to Half Year Report for statutory detail

2 Figures rounded to nearest \$10k; sums subject to rounding differences

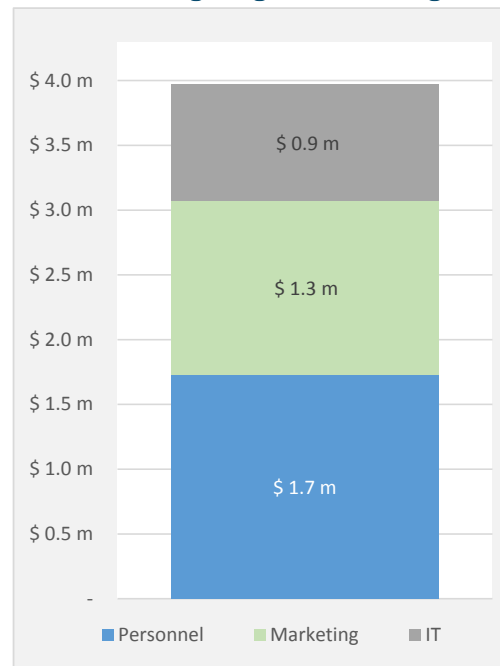
- Revenue up \$2.6m to \$80.0m (↑3% pcp)
- Radiology EBITDA prior to Individually Significant Items (ISI) \$9.3m ahead of AGM guidance of \$7.9m
- Reduction in NPAT impacted by increased borrowing costs (will reduce post capital raise and asset sales)

# Bridge from Underlying to Statutory Results



# Cost Saving Initiatives

Ongoing Cost Savings\*



**Annualised cost saving initiatives of \$3-4m p.a expected to be implemented in FY17 year – full impact of savings expected to be realised in FY18**

Primarily removal of VNA software and related IT costs

Removal of advertising, sponsorships and marketing costs.  
Focus on sales / medical liaisons

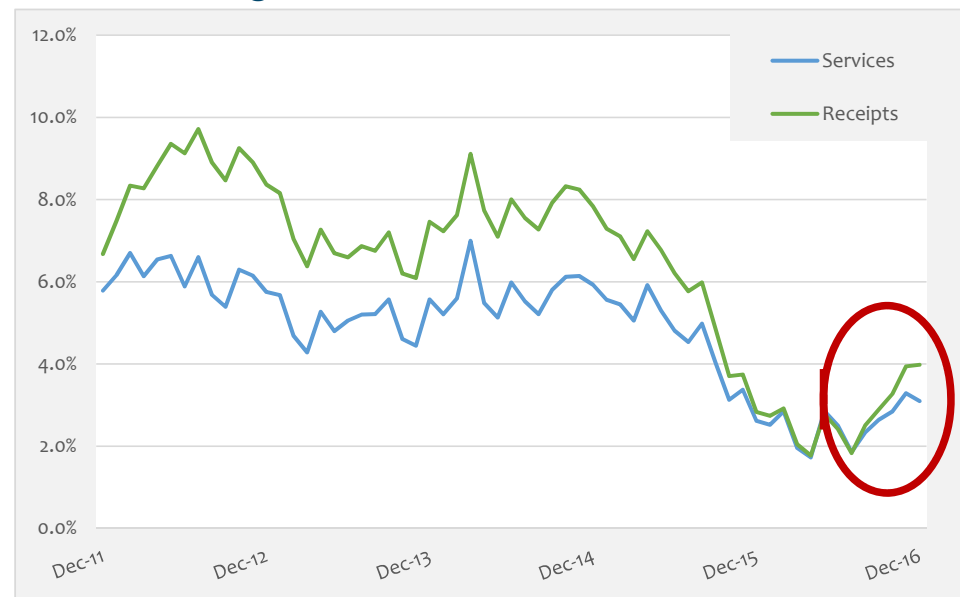
Net saving of departure and rehire of senior management roles.  
Reduction in total head office headcount

\* Some cost saving initiatives still planned or in implementation phase

# Market Outlook

- Signs of underlying growth returning to market ~3-4%
- Referral patterns settling down although still patchy
- Improved regulatory outlook. Proposed Bulk Billed cuts delayed with consultation
- New health minister signalled a review of the Medicare rebate freeze

Medicare – Diagnostic Services and Revenues  
12Mth Rolling Growth Rates



Source: Medicare

# ENLITIC



- Ownership 25% undiluted, 1 board seat
- Collaboration agreement in China
- Australian rights to use Enlitic as part of clinical partnership
- > 18 months of cash runway

- ENLITIC continue to make major breakthroughs in applying Deep Learning to DI
  - Chest X-ray Triage - CT Lung Cancer detection – Natural Language Processing (NLP) – Mammography
- Chest X-ray Data Testing, Calibration and Trials with major companies in China
- Data testing with Japanese companies
- Collaboration on CT lung cancer with a major research institution and commercial customers in US
- Leading medical data inventory from international sources
- Several patent opportunities and incremental regulatory approval strategy
- Successful attendance in February at Healthcare Information and Management System Society’s Annual Meeting HIMSS 2017 in Orlando
- CB Insights selected Enlitic to the prestigious Artificial Intelligence 100 list (“AI 100”), a select group of emerging private companies working on ground-breaking artificial intelligence technology



# China Diagnostic Imaging

- JV with CITIC & Zhouxin completed February 2017
  - Consulting & clinic management
  - 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 (~AUD\$600,000) for 30% stake in JV, CITIC will hold 60% & Zhouxin 10%
- No further cash contribution expected unless clinic ownership option exercised
- First independent imaging centres under management to open 2017
- Provides low risk access to growing market not reliant on Australian Government regulation
- No contribution to earnings expected until late FY18

## About CITIC Group

- >750,000 employees
- Annual revenue AUD\$737B
- Market Cap AUD\$55.5B
- 160 in global fortune 500 (2014)

## About Zhouxin Group

- High end health centre owner
- Cardiac MRI specialists
- CITIC has ownership stake

# Outlook H2 FY17

- Easing regulatory headwinds
- FY17 full year guidance
  - Revenue \$162 - \$165m
  - Core EBITDA \$19.5 - \$21.5m
- Consolidation and sale of underperforming assets expected to raise further \$4m
- Full impact of \$3-4m p.a cost saving initiatives expected in FY18 results
- FY18 free cash generation to further reduce leverage



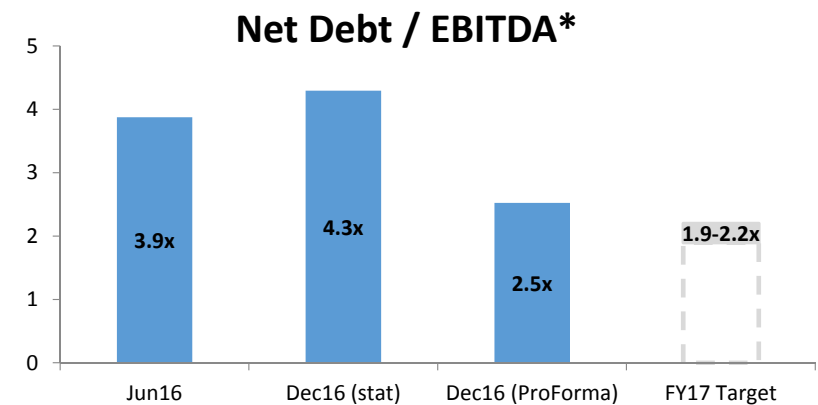
# Capital Raising Details & Impact



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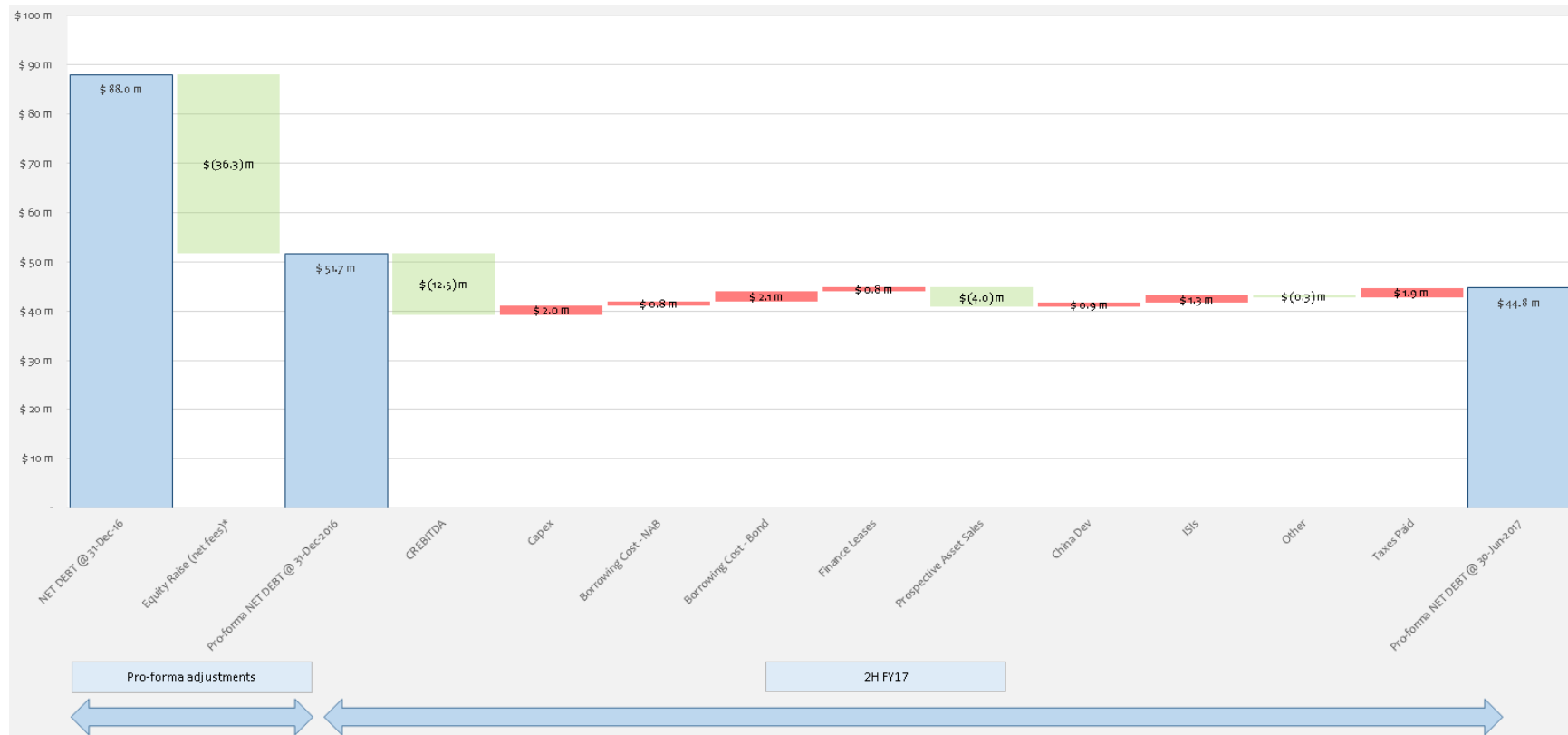
# Capital Raising Overview

- Capital Raising of \$38.5m\* at \$0.14 per share
  - Institutional Placement of \$35m subject to approval at EGM
  - Share Purchase Plan (SPP) of up to \$3.5m
- Proceeds used to reduce net debt
- Company targeting ND/EBITDA of below 2x in FY18 from asset sales, free cash flow generation and improved earnings



\* Assuming full \$3.5m raised in the SPP

# Pro-Forma Net Debt Impact



\* Assuming full \$3.5m raised in the SPP



# Pro-Forma Balance Sheet

Impact of capital raise	31 Dec 2016	Placement	SPP*	Pro forma
<b>Share capital</b>				
Ordinary shares on issue (m)	523.1m	250.0m	25.0m	798.1m
<b>Summary Financial Position</b>				
Total Interest Bearing Liabilities (\$m)	\$99.3m			\$99.3m
Bank Guarantees (\$m)	\$1.2m			\$1.2m
Net Cash (\$m)	(\$12.6m)			(\$12.6m)
Gross Proceeds from Capital Raising (\$m)		(\$35.0m)	(\$3.5m)	(\$38.5m)
Transaction costs (\$m)				\$2.2m
<b>Net Debt (including Bank Guarantees) (\$m)</b>	<b>\$88.0m</b>			<b>\$51.7m</b>
<b>FY17 EBITDA Guidance (midpoint) (\$m)</b>	<b>\$20.5m</b>			<b>\$20.5m</b>
<b>Net Debt to FY17 EBITDA Guidance (x)</b>	<b>4.3x</b>			<b>2.5x</b>

\* Assuming full \$3.5m raised in the SPP

# Capital Raising Details

<b>Placement</b>	<ul style="list-style-type: none"><li>• Placement of 250.0m shares at an offer price of \$0.14 per share to raise \$35.0m</li></ul>
<b>Share Purchase Plan</b>	<ul style="list-style-type: none"><li>• Offer of \$15,000 per eligible shareholder to raise up to \$3.5m</li><li>• Shareholders on the record date of 27 February 2017 will be eligible to participate in the SPP</li></ul>
<b>Offer Price</b>	<ul style="list-style-type: none"><li>• \$0.14 per share</li><li>• 10.8% discount to the volume weighted average price of the 5 trading days to 27 February 2017 of \$0.157 per share</li></ul>
<b>Lead Manager</b>	<ul style="list-style-type: none"><li>• Bell Potter Securities is Lead Manager to the capital raising</li></ul>

# Indicative Timetable

Event	Date
SPP record date	5pm Monday, 27 February 2017
Placement completed and announced, and shares recommence trading	Tuesday 28 February 2017 (pre-open)
EGM notice, SPP opens and booklets mailed	Friday, 3 March 2017
SPP closes	Friday, 17 March 2017
EGM date	Wednesday, 5 April 2017
Placement and SPP shares allotted	Tuesday, 11 April 2017
Placement and SPP shares begin trading	Wednesday, 12 April 2017

The above timetable is indicative only and subject to change. All times are Melbourne Time.



# Key Risks

The activities of the Company, as in any business, are subject to risks which may impact on its future performance. The future performance of the Company may be influenced by a range of factors, many of which are outside the control of the Board and the Company. Neither the Company nor the Directors warrant the future performance of the Company.

Prior to making any decision relating to an investment in the Company, prospective investors should carefully consider the risk factors which the Company has previously disclosed (many of which are listed below), as well as those risks of which the prospective investor is aware, or should be aware of through their own knowledge and enquiries.

Some of the risks may be mitigated by the Company using safeguards and appropriate systems and taking certain actions. However, as noted above and previously, some of the risks are outside the control of the Company and are not capable of mitigation. There are also general risks associated with any investment in an entity trading in variable market conditions.

The risks listed below (and previously disclosed by the Company) should not be taken as exhaustive of the risks faced by the Company. Factors other than those listed may in the future materially affect the financial performance of the Company. Prospective investors should review the Company's previous disclosures to the ASX and the public documents of the Company including its most recent financial statements and consult a professional advisor before deciding to invest.

**Regulatory risk and changes in government policy:** The healthcare industry is highly regulated and constantly changing. There are risks relating to changes to Federal and State policies and regulations to the general business of the Company including:

- changes to the Federal Government initiatives which promote private health insurance and encourage health fund membership, including the health insurance rebate and lifetime health cover;
- changes to regulations relating to health funds which presently restrict the level of premium increases and regulate the scope of coverage;
- policy direction changes to State owned public hospitals which encourages them to compete with private hospitals for private patients, and also to compete with private diagnostic imaging providers; and
- changes to the Medicare regime, including any reduction in Medicare rebates for diagnostic imaging.

In addition, the Company may become subject to other regulations which could increase the regulatory and compliance obligations. These may adversely impact on the financial performance, position and future prospects of the Company

**Competition:** The market for the provision of diagnostic imaging services is competitive and dynamic. Competitors as yet unknown to the Company may emerge from time to time. The introduction of new competitors or a more aggressive competitive response from existing participants may affect the Company's operating performance. Future costs may rise and prices that the Company is able to charge for its services may fall in response to the actions of its competitors, which may or may not restrict the Company's ability to compete profitably.

**The ability to attract and retain key personnel:** The Company's businesses are reliant on the continued performance and expertise of key personnel, including radiologists. Specifically, a significant component of the Company's revenues are dependent on radiologists providing services to patients. There is a risk that the Company may fail to attract, retain or develop key employees or consultants (particularly radiologists) and this would have the effect on the development of the Company, the revenue earned and the cost structure of the business. This in turn may have an adverse impact on the financial performance, position and future prospects of the Company.

**General claims and litigation:** Legal proceedings and claims may arise from time to time in the ordinary course of the Company's operations. There is a risk that material or costly claims or litigation could impact on the Company's financial performance either directly, as a result of meeting the costs of defending litigation and paying damages awards, or indirectly, as a result of damage suffered to the Company's brands and reputation. In particular, healthcare providers are exposed to the risk of medical indemnity or like claims and litigation. Current or former patients may, in the normal course of business, start or threaten litigation for medical negligence not only against the health service provider in question but also against the Company. Subject to medical insurance arrangements which the Company has in place at the relevant time, future medical malpractice litigation, or threatened litigation, may have an adverse impact on the financial performance, position and prospects of the Company.

# Key Risks (cont)

**Reliance on referrals:** The Company is heavily reliant on doctors continuing to refer cases to the Company for diagnostic services. There is a risk that doctors may reduce or end their level of requesting such services from the Company (which may or may not be the result of actions taken by the Company's competitors). These actions may result in a material decline in the Company's financial performance.

**MRI licensing:** The provision of MRI services and revenue generation from MRI machines is impacted by whether the machine is fully or partially licensed. Licences are issued by the Australian government's Department of Health on an indefinite basis and are not subject to any particular operational test or review to maintain currency. A change to license status, revocation of a license, or the granting of licenses to competitors may impact the Company's ability to generate revenue at facilities with MRI capability.

**IT systems:** The Company is reliant on the capability and reliability of its information technology systems and backup systems and those of its external service providers (such as communication carriers). The failure of any IT systems could have a significant impact on the ability to conduct its business in the ordinary course. Such failures may have an adverse effect on the Company's future financial performance.

**Performance risk:** The financial performance of the Company in any given year may have an adverse effect on the carrying value of the Company's intangible assets (including intellectual property) as well as the Company's capacity to achieve an acceptable financial result and cash flow balance.

**Financial Markets Risk:** The Company maintains an exposure to a number of financial market risks on an ongoing basis, including (but not limited to) the following:

- *Currency risk:* The Company has operations and investments in multiple jurisdictions. Accordingly, its revenues, profitability, liabilities and asset carrying values may be affected by adverse movements in the value of various foreign currencies.
- *Interest rate risk:* The Company currently has significant debt facilities on which it pays a variable interest rate. There is a risk in the future that interest rates may rise materially which may force the company to fall short of target or the Company's target rate of return
- *Financing risk:* The company currently relies on funding provided by various financiers. There is a risk that acceptable financing or refinancing facilities may not be available to the company in the future.
- *Credit risk:* The Company provides its services on various credit terms and as such is exposed to credit risk on payment of its invoices. This risk is managed and mitigated by internal policies to collect outstanding invoices within credit terms and established procedures for collection enforcement of overdue amounts.
- *Counterparty risk:* The Company may be affected by a counterparty such as a lessor, financial institution, vendor, or service provider failing to meet its contractual obligations.

**Liquidity Risk:** The Company may be affected by deterioration in its cash flows, including during seasonal low periods or periods of unanticipated disruption. Liquidity Risk is monitored on an ongoing basis with cash kept on hand to mitigate against potential shortfalls.

**Financing Risk:** The Company will face re-financing risk or debt covenant compliance risk under the terms of its agreed debt facilities at any time. A breach of debt covenants could require an immediate repayment of debt or other consequences under the facility agreement.

**General Economic Conditions:** Changes in the general economic climate may adversely affect the financial performance of the Company. Factors that may contribute to that economic climate include the general level of economic activity, inflation, supply and demand, industrial disruption, geopolitical factors and other economic factors. These factors are beyond the control of the Company and the Company cannot, with any degree of certainty, predict how they will impact on the Company.

**Taxation risk:** Future changes in taxation law in Australia, including changes in interpretation or application of the law by the courts or taxation authorities in Australia, may affect the Company's ability service its financial obligations.

# Appendix



# China Diagnostic Imaging

The Chinese market is undergoing a significant transformation

## Healthcare Spending

- 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

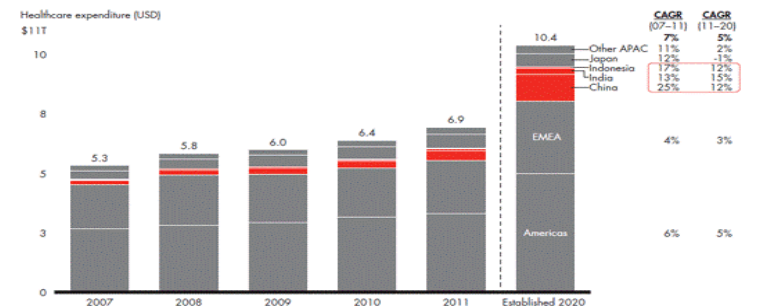
## Growth Drivers

- 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

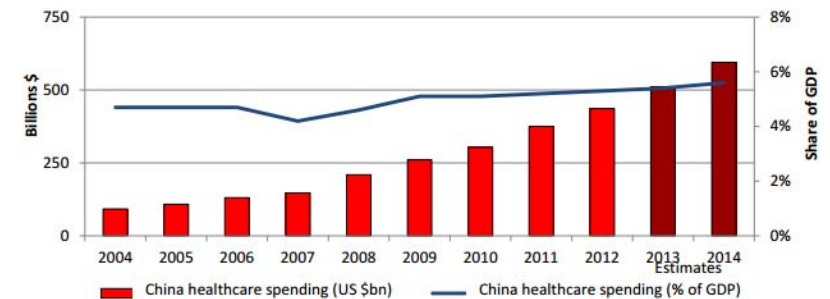
1 Sources: Epsicom; BMI; Bain

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

## GROWTH OF EMERGING MARKETS IN ASIA<sup>1</sup> Expected to grow 2x to 3x faster than global average to 2020



## CHINA HEALTHCARE SPENDING<sup>2</sup> US \$billion and as a % of GDP



# China Diagnostic Imaging

## PUBLIC HOSPITALS

- 13,300 public hospitals<sup>1</sup>
- 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<sup>1</sup>
- 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

## 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

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