



## DIRECTORS REAFFIRM GUIDANCE

ASX ANNOUNCEMENT

23 NOVEMBER 2010

The Directors of Capitol Health Limited (the “Company”) wish to advise the market that its strong trading performance is continuing in the current quarter & half year, and to reaffirm the market guidance previously released.

Managing Director, Mr. John Conidi, stated that “....the performance of the Company continues to match the Board’s expectations at both the top and bottom lines.”

The Company advises the addition of a further clinic to the network through the re-activation of a dormant facility to meet localised demand, taking the total number of facilities in the network to 28 sites across metropolitan and rural Victoria.

Please refer to the attached Corporate Presentation, to be presented at the Company’s Annual General Meeting on 23 November 2010.

Authorised by:

John Conidi  
Managing Director  
23 November 2010

For personal use only



CAPITOLHEALTH  
LIMITED

## **Annual General Meeting Presentation**

**Dominik Kucera – CFO, Executive Director**

**23 November 2010**

# 2009/10 Full Year Review

## Financial Performance

- Imaging Revenue increase  
\$35.4m - up 25% on prior year
- Net Profit After Tax (NPAT) turnaround  
\$0.7m profit vs (\$1.3m) loss in prior year (- \$2m turnaround)

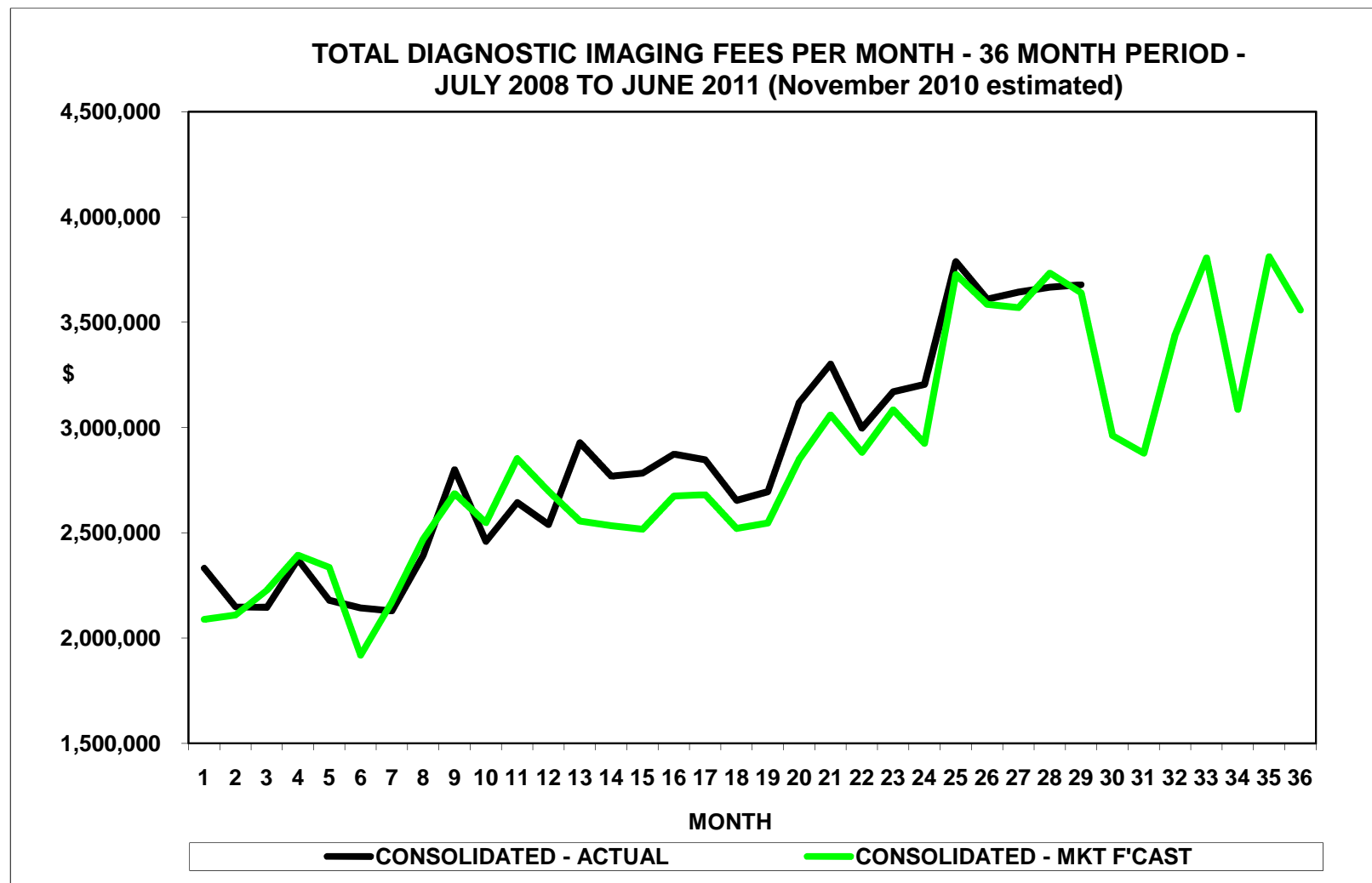
## Market Dynamics

- 10% Medicare Rebate increase (Nov 2009)
- Opportunity to introduce co-payments
- Ongoing opportunities from shakeout of competitors

## Company Developments

- 9 new clinics to be added during 2010/11
- Strong growth in Tele-radiology
- Technology investment will drive cost reduction

# Consistent Performance against Targets



# Highlights – Revenue Growth

---

- Consistent Revenue growth; + 25% yoy
  - \$2m NPAT turnaround
- Non Market factors impacted 4<sup>th</sup> Qtr 2009/10
  - CT media “scare”, and
  - Federal government programs
- Full benefits to emerge in 2010/11
  - Profit constrained short-term by process amalgamation and introduction of new technologies
  - Profit concentrated in 2H 2009/10 after Rebate increase and Technology Transformation Program (TTP) substantially completed
- Revenue YTD 2010/11 above Budget

## Highlights – Network Expansion

---

- Increased organic growth from existing facilities (14% growth 2009/10 over 2008/09)
- Organic growth clinics expanding within competitive local markets
- Significant increase in Tele-radiology services to third parties
  - 2008/9 revenue immaterial, 5% of total revenue in 2009/10
- 9 new Clinics to be added in 2010/11

# Highlights - Operational

---

- Consolidation of multiple brand names into one identity
  - Brand loyalty improving - conversion to “Capital Radiology” identity



- Major technology / infrastructure program completed (TTP)
  - Major capex spend complete
  - Upgrades both front office (Clinics) and back office (underway)
  - Facilitates easy centralised management of operations
- Consolidation towards to uniform operating procedures
- High staff retention rates in demand-driven environment

*Positive financial impact on the results for 2009/10, with full benefit received in 2010/11.*

# Best Practice Business Model

---

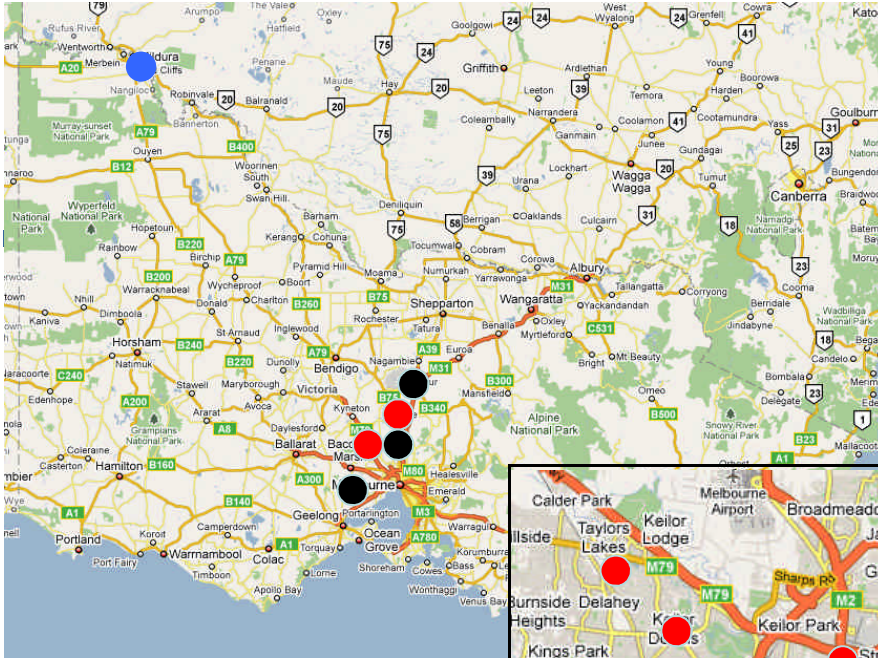
- TTP enables efficient, secure distributed information network
- Image reporting becoming “filmless” and independent of location
- Remote diagnostics improves cost and capacity utilisation
- Data network provides direct communication links between referrer and Capitol – enhances client relationships
- Facilitates scalable growth through acquisition of platforms or newly established sites
- Revenue potential through provision of reporting services to other parties (Tele-radiology)



# Growth in Diagnostic Imaging Clinics

				<b>Clinics</b>
<b>Acquisitions</b>	2007/8	Aug	Radiology Group	8
		Jan	SEMI	2
		Mar	Bell	9
	2009/10	Jul	Brimbank Medical	1
	2010/11	Jul	Reflective Imaging	2
		Aug	MDI sites	2
			<b>24</b>	
<b>Organic growth</b>	2007/8			2
	2008/9			2
	2009/10			1
	2010/11 (underway)			5
				<b>8</b>
<b>Consolidation</b>	Merged for operating efficiencies			(6)
<b>Current Network</b>	As at 23 November 2010			<b>28</b>
	(240 + Employees / Contractors)			<u><u>28</u></u>

For personal use only

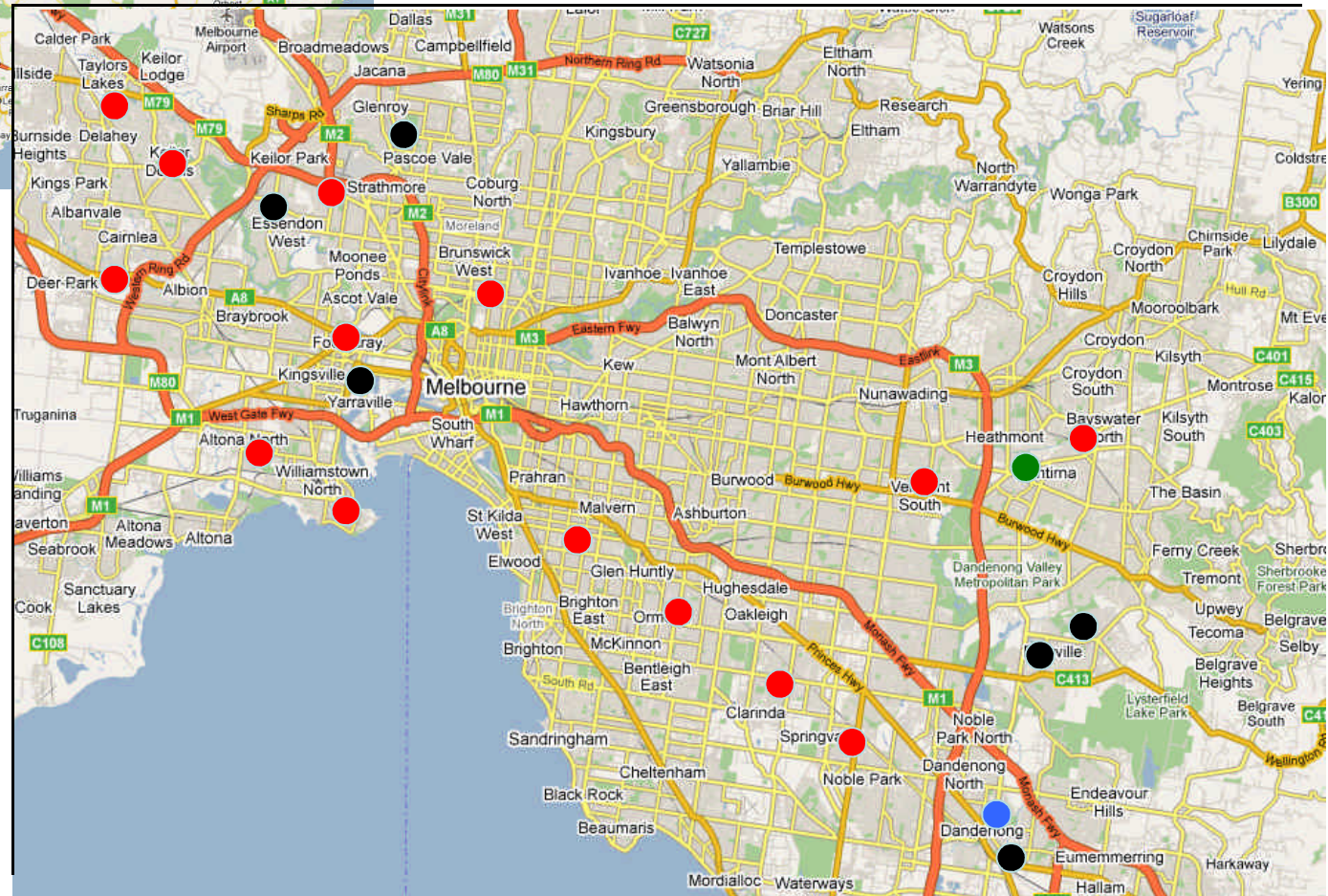


# Growth in Clinic network



## Clinic sites

- 2007/8
- 2008/9
- 2009/10
- 2010/11



# Competitive position

## Increase in Victorian Diagnostic Imaging Market Share

	Revenue	2008/9	2009/10	Growth
Medicare Benefits paid VIC (exc MRI)*		\$444.2m	\$490.9m	10.5%
Capitol Health revenue (exc MRI)		\$28.1m	\$34.8m	23.8%
Capitol Health % of VIC Medicare Benefits paid		6.3%	7.1%	12.1%

\* Source: Medicare Australia – Note Medicare MRI statistics combine Victoria and Tasmania, therefore MRI modality has been excluded

## Listed Entities in Diagnostic Imaging

	Revenue	2008/9	2009/10	% Chg
Primary Health (National)		\$314.4m	\$289.1m	-8.05%
Sonic Healthcare (National)		\$345.3m	\$357.1m	+3.4%
Capitol Health (Victoria)		\$28.3m	\$35.4m	+25.1%



# Technology upgrade substantially complete

---

Delivering cost reductions and strategic flexibility

16 major issues – 26 major programs

- ✓ Fibre Optic Data Network
- ✓ Centralised Data Centre
- ✓ Uniform Practice Management software (RIS)
- ✓ State-of-the-art Digital Imaging application (PACS)
- ✓ All imaging equipment upgraded to be PACS compatible
- ✓ VOIP implemented
- ✓ All new infrastructure hardware (complete overhaul)
- ✓ All new back-office software applications
- + All internal policies and procedures under review

**Full benefit to bottom line in 2010/11**

# Health Sector Dynamics

---

- **Sector Overview**
  - Health sector to overtake Retail as largest in economy
  - Increases in Health expenditure exceeds increases in GDP over last decade
  - Market shake-out of competitors = consolidation opportunities
- **Medicare**
  - First increase in rebates in 10 years in November 2009
  - Industry pressure to introduce co-payments – upside for Capitol Health through “gap” fees &/or financial stress on competitors
- **Growth Factors**
  - Ageing population & increasing dependents – growing demand
  - Liability issues – demand for specialised services will increase

# Growth Strategy

---

- Network Expansion
  - Acquisition – ongoing attractive opportunities
  - Organic growth – 5 clinics currently underway
- Capacity / Modality upgrades
  - New reporting functionality for referrers
  - Operational equipment upgrade program
- Teleradiology
  - Reporting for Metropolitan and Rural facilities in 4 States & Territories,
  - Rapid growth from a low base

# Financial Results

## MARKET GUIDANCE REAFFIRMED

	2007/8 Actual \$m	2008/9 Actual* \$m	2009/10 Actual* \$m	Sept Qtr 2010/11 Actual+ \$m	Full Year 2010/11 F/cast \$m
<b>Imaging Revenue</b>	13.4	28.3	35.4	10.9	41.0
Dental & Other Revenue	1.3	1.2	-	-	-
<b>Total Revenue</b>	14.7	29.5	35.4	10.9	41.0
<b>Imaging &amp; Corp EBITDA</b>	0.9	1.5	2.6	1.4	4.8
Dental & Other EBITDA	0.1	0.5	-	-	-
<b>Total EBITDA</b>	1.0	2.0	2.6	1.4	4.8
<b>NPBT</b>	0.3	(1.2)	0.6	0.8	2.2
<b>NPAT</b>	0.1	(1.3)	0.7	0.5	1.6

\* Includes non-capitalised expenses relating to TTP  
 + Unaudited

# Outlook

---

- Opportunities for further acquisition/greenfield growth
  - Both full-service & “Satellite” sites
  - High Cost-base or “small market focus” competitors under pressure
- Tele-radiology expansion
  - Review of other imaging partnerships or servicing arrangements underway
- Revenue projections sound – underpinned by 10% Medicare Rebate increase from 1 November 2009
  - (effective impact of 6%+ in 2009/10 and full impact in 2010/11)



## Outlook cont.

---

- Realign staffing to demand patterns
  - Flexible allocation of labour
- GAP Payment Introduction
  - Selective introduction of affordable “gap” or co-payments
  - Major competitors apply gaps to 40-60% of service output compared to 2% for Capitol Health
  - Approx 350,000/400,000 studies performed per year
  - Scope for material revenue improvements from modest “gap” payments
- Working Capital / Goodwill position is sound
  - Net Working Capital position includes a full-years value of accrued equipment lease and structured debt liabilities against a short-term debtor/collection cycle from operating as a Bulk-Biller.
  - Goodwill carrying value supported by future cash-flows

# Summary

---

- Growing market share & clinic network
  - 9 new clinics in 2010/11 to date incl. 5 being implemented
  - VIC market share 7.1% (+12% yoy)
- Ongoing Tele-radiology growth
  - Low fixed costs
  - Utilises excess capacity
- Upside from selective introduction of gap/co-payments
- 100% NPAT growth forecast for 2010/11
- Only ASX-listed company exclusively operating in Diagnostic Imaging

---

## Contacts

**John Conidi**  
**Managing Director**  
**0411 773 101**

**Dominik Kucera**  
**Chief Financial Officer**  
**0409 145 638**