



# Investor presentation

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**(ASX: CAJ)**

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# CAPITOL HEALTH SNAPSHOT



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Only pure diagnostic imaging company listed on the ASX (ASX: CAJ)

Market Cap: A\$21.2 million  
(At market close 11/09/2012)

Record profits recorded in FY2012



2nd largest diagnostic imaging network in Victoria, with 37 clinics

Combination of organic and acquisitive growth strategy

Diagnostic imaging market expected to grow at 4% p.a. over next 5 years

Profitable bulk billing revenue model

Full service offering – X rays through to nuclear imaging



300+ employees and 420,000 + procedures conducted p.a.

# FY2012 RESULT SCORECARD



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KPI	FY2012	FY2011	Trend
Revenue	\$52.3m	\$45.6m	✓
EBIT	3.5m	2.0m	✓
EBIT margin	6.7%	4.4%	✓
NPAT	\$2.1m	\$962,000	✓
EPS (diluted)	0.63c	0.29c	✓
DPS	Interim: \$0.002 Full: \$0.002	Nil	✓
Net debt	\$43,000	\$1.2m	✓

# FY2012 RESULTS COMMENTARY



## Revenue up 14.7% to \$52.3m

Driven by:

- Market share gains
- Organic industry growth
- Acquisition of IM Medical Ltd business.

## NPAT up 121.9% to \$2.1m

Reflects scalability of business model:  
Cost and operational efficiencies generated by recent substantial investments in IT systems and infrastructure.

## Large reduction in net debt

Acceleration in debt repayment.

Net debt reduced by 96.4%, from \$1.2m to \$43,000:

Reflects strong capital management initiatives.

[NOTE: Net debt = cash and cash equivalents minus current and non-current bank Commercial Bill liabilities]

## Dividend payments

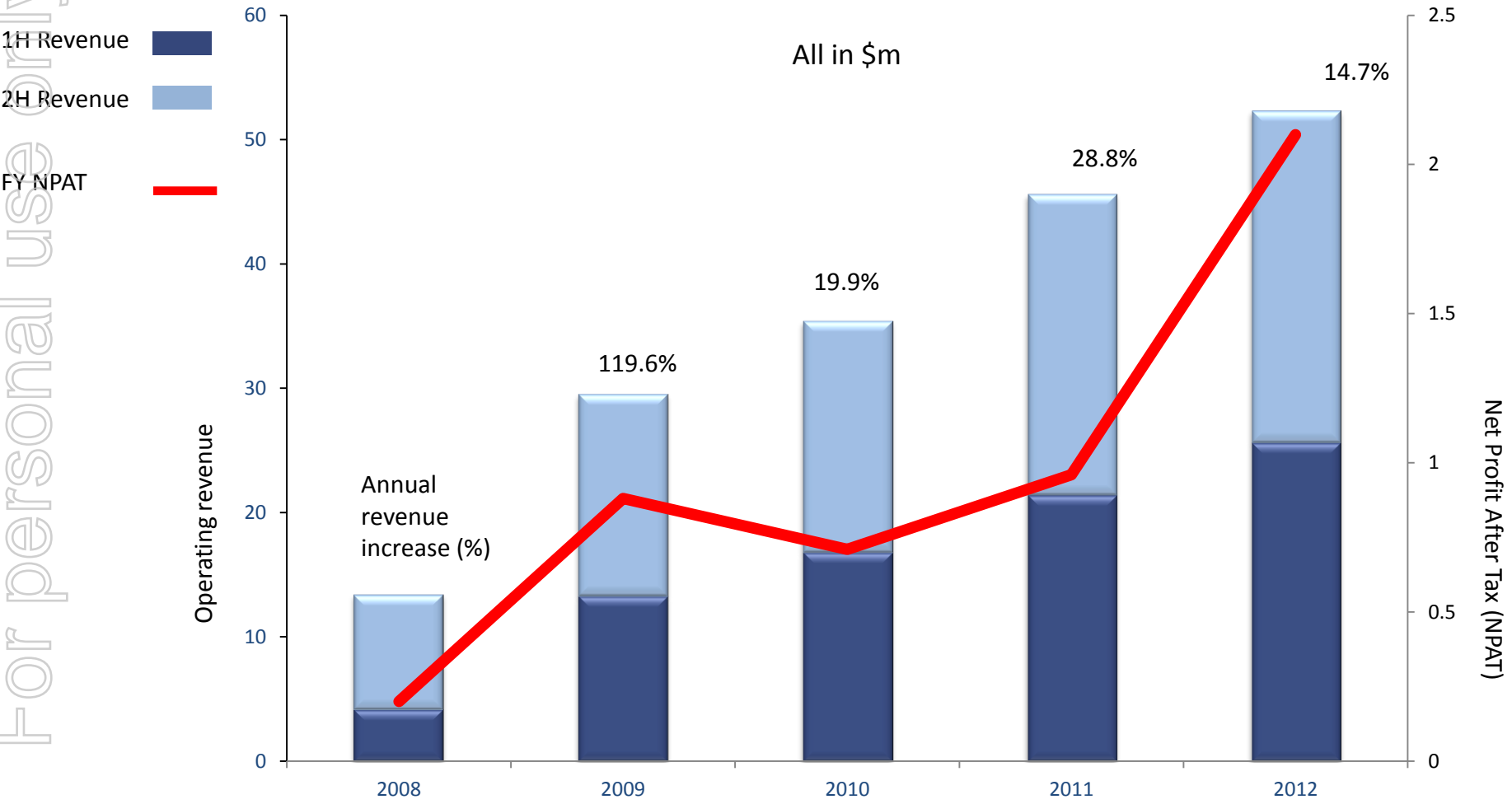
Fully Franked Dividends of \$0.002 per share declared at both Interim and Final Year:  
Reflects strong financial performance, solid funding position and positive operational outlook.

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# CONSISTENT PROFITABILITY GROWTH



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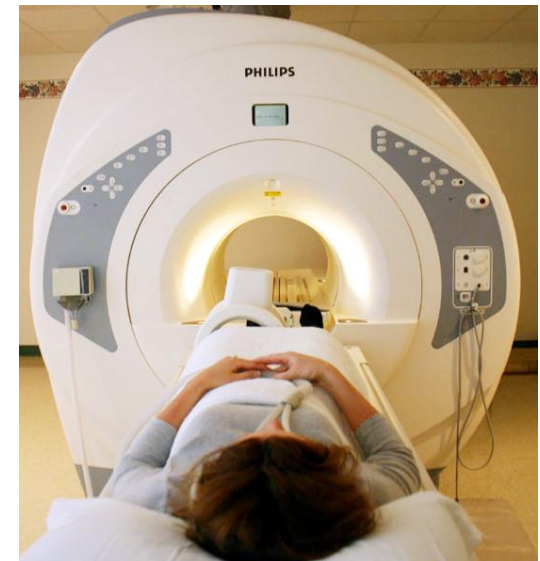
Operations commenced in 2008

**Note:** in 2009 a one-off non-cash goodwill impairment charge has been deducted to better reflect underlying profit

# INVESTMENT CASE



- Consistently strong profitability – FY12 profits up 121.9% on FY2011
- Highly focused strategy and ingrained commercial culture
- Dynamic and flexible management style
- Defensive revenue base – resilient and growing healthcare industry and profitable bulk billing model
- Attractive offering for customers, Radiologists and referrers
- Regulatory environment supports business model and growth strategy
- Highly-scalable & low cost commercial model
- Proven track record of value-added acquisitions
- Significantly undervalued with attractive dividend yield



# VISION AND STRATEGY



## VISION:

To be the leading “community-based” diagnostic imaging provider in Victoria, delivering consistently strong shareholder returns.



## STRATEGY:

- 1) Continue to provide patients, referrers and Radiologists with a superior and attractive offering:
- 2) Clear business and geographical focus
- 3) Low cost delivery model, supported by scalable IT infrastructure backbone

### Underpinned by:

- Commercially focused team with deep market understanding
- Dynamic and flexible management style



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# DIAGNOSTIC IMAGING IN AUSTRALIA



- Diagnostic imaging provides information about diseases and physical conditions
- Australian diagnostic imaging market was \$2.3bn in 2011
- Market growth expected to average 4% p.a. over the next 5 years
- Key growth drivers:
  - Population growth
  - Ageing population
  - Shift in focus to early detection and prevention
  - Improvements in accuracy and capabilities of imaging techniques
  - Government initiatives to improve access and affordability of diagnostic imaging services.





# DEFENSIVE REVENUE BASE



- Proven defensibility of healthcare spend
  - Australian health sector as a whole grows at a faster rate than the Australian economy
- Industry shift towards bulk billing
  - Incentivised by the Federal Government
- Capitol Health protected by:
  - 98% bulk billing price offering – regulation prohibits pricing below this level
  - Lowest cost operating position – competitors unable to compete on a bulk billing pricing model

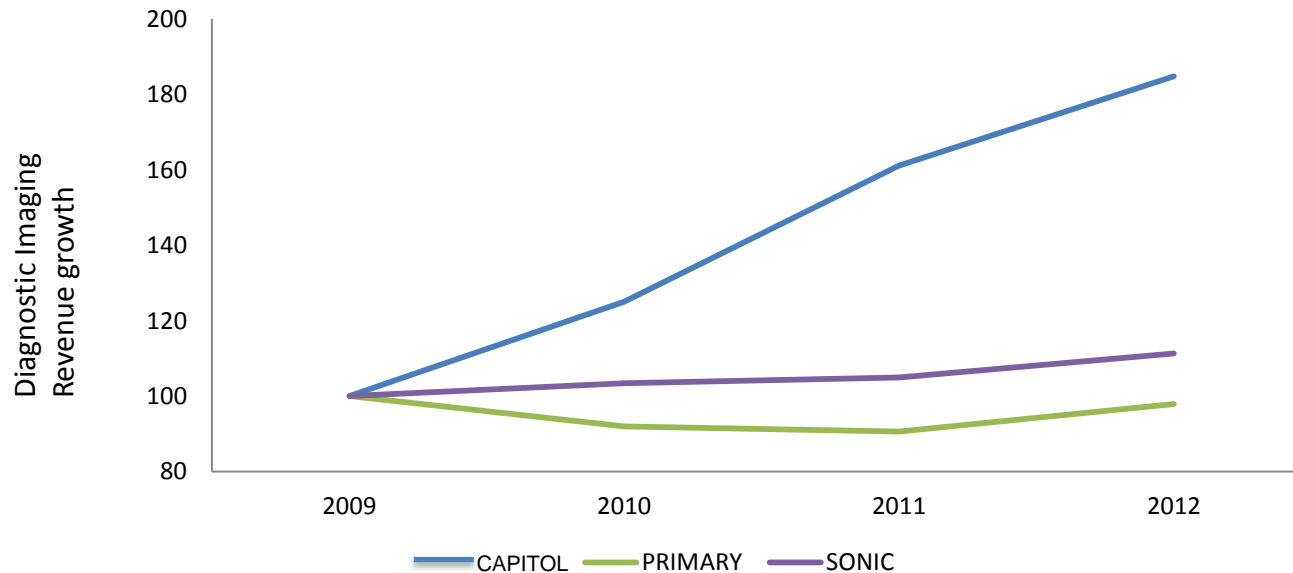


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# CAPITOL OUTPERFORMING PEERS



**Capitol's revenue is growing at a faster rate than its competitors**



NOTE: graph takes 2009 revenue figures and converts them into a base 100, then charts movement each progressive year against the 2009 base 100

- Growth strategy is both organic and acquisitive
- Acquisition of IM Medical Limited has added 5 clinics to the portfolio, increasing Capitol's share of the Victorian market
- Market share gains expected to continue moving forward

# ATTRACTIVE OFFERING



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## CUSTOMER PROPOSITION

### Patients:

- Affordable “bulk billing” pricing
- Quality services & leading-edge equipment

### Referring GPs:

- Market leading information systems – lifetime information storage
- Quick and efficient reporting



## RADIOLOGIST PROPOSITION

- Avoid ongoing earnings decline from regulatory reform
- CAJ offers superior commercial model and potential to significantly increase earnings

# SUPPORTIVE REGULATORY ENVIRONMENT



Federal Government announced \$104.4m Diagnostic Imaging Review Reform Package in 2011/12 Federal Budget to improve access to more affordable MRI services:

- **Selective allocation of Medicare-eligible MRI licenses – 5 licenses to Capitol Health clinics**

Other supportive changes:

- Patients free to choose location of imaging services – no longer restricted by referral
- Increase in bulk billing incentive for Medicare-eligible MRI services
- Requesting rights for Medicare-eligible MRIs extended to GPs (to commence 2013)



# MRI LICENSES ADD TANGIBLE VALUE



- Shift in customer demand from CT scans to for MRI services
- Increase in number of people using MRI services
- Forms a barrier to competition – Radiology peers without MRI capabilities will inevitably lose market share and be squeezed out of the market
- Medicare-funded MRI providers positioned for market share gains through a more affordable offering
- Supports long-term growth potential – organic and acquisitive
- Enhances long-term earnings
- Creates significant tangible asset base



# HIGHLY-SCALABLE & LOW COST COMMERCIAL MODEL



## Commercial model underpins growth strategy

- **Highly-scalable:**
  - Significant recent investment in IT systems and upgrade of high-tech equipment
  - IT platform would facilitate future clinic expansion

**Result = creates cost and operational efficiencies  
Margins and profits will expand significantly as the  
Capitol network grows.**

- **Low cost:**
  - Ingrained commercial culture
  - Ongoing margin growth

**Result = Radiologists driven to partner with CAJ to  
leverage model and increase their earnings**



# OPENS OPPORTUNITIES FOR CAPITOL



- **Market consolidation to accelerate:**
  - Capitol positioned as a natural consolidator with an industry low cost structure
  - Proven track record of acquiring and integrating diagnostic imaging businesses
- **Radiology peers without MRI capabilities likely to be shaken out of the market:**
  - Capitol has significant MRI capabilities and is well positioned to gain market share
  - MRI licenses to deliver market share gains
- **MRI licenses and for other services, Medicare benefits to be linked to age of equipment:**
  - Capitol allocated 5 Medicare-eligible MRI licenses
  - Significant recent investment by Capitol to upgrade equipment
- **Capitol is an efficient operator with track record of strong profitability on bulk billing model**

# POSES CHALLENGES FOR OTHERS



- Increase in bulk billing expected:
  - Cost structure for competitors will not support economic returns
- Providers without MRIs will suffer:
  - No additional MRIs will be issued licenses
  - Rebate rates decreased for CT scans
  - Increase in referrals for MRI scans in place of other technologies



**Result = reduced industry supply / accelerated consolidation**



# SUMMARY



## FY2012 has been a watershed year for Capitol Health

- Strong financial position
- Consistently strong growth in revenue and profitability
- Commencement of dividend payments
- Material ongoing market share gains
- Proven track record of acquiring and integrating diagnostic imaging businesses
- Business model supported by regulatory environment
- Led by commercially-focused and flexible management team



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