



CAPITOLHEALTH  
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# Acquisition and Equity Raising Investor Presentation

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March 2013

ASX: CAJ

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# Agenda

1. Capitol Health Snapshot
2. Acquisition Overview – MDI Group Pty Ltd (MDI)
3. Strategic Rationale
4. Financial Rationale
5. Synergies & Operational Benefits
6. Funding
7. Timetable
8. Risks
9. Summary

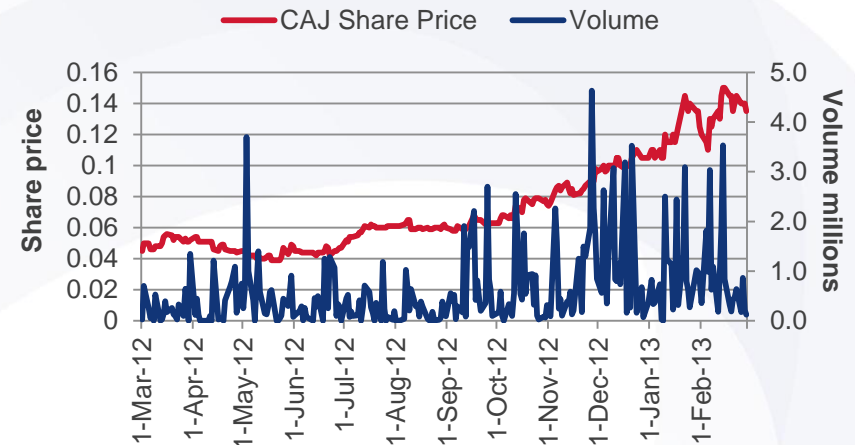
# 1. Capitol Health - Snapshot

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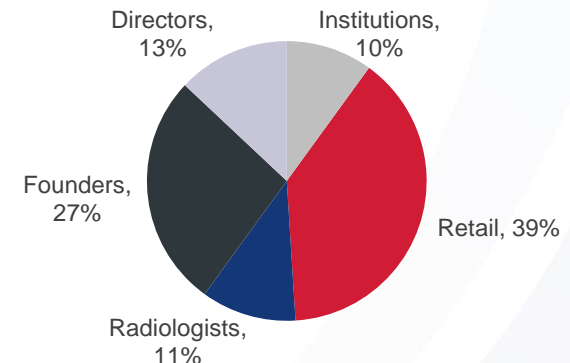
| ASX                   | CAJ (*at 27/2/13)                                    |
|-----------------------|--|
| Share price           | \$0.14 *   |
| Shares on issue       | 373.5m   |
| Market capitalisation | \$52.3m *  |
| 52 week range         | \$0.038 – \$0.165                                    |
| Dividend per share    | Interim FY13: 0.25 cents<br>Interim FY12: 0.20 cents |
| EPS (1H13)            | 0.39 cents   |

- › Capitol Health is a specialised diagnostic imaging (DI) company, based in Victoria
- › First and only specialised DI to list on the ASX:CAJ
- › At present, CAJ is 2nd largest diagnostic imaging network in Victoria, with 37 clinics
- › Profitable bulk billing revenue model
- › Full service offering – X rays through to nuclear imaging
- › Exceptional growth – expected to continue with strong organic industry growth and acquisitive strategies

Capitol Health – creating shareholder growth



Major shareholder category split

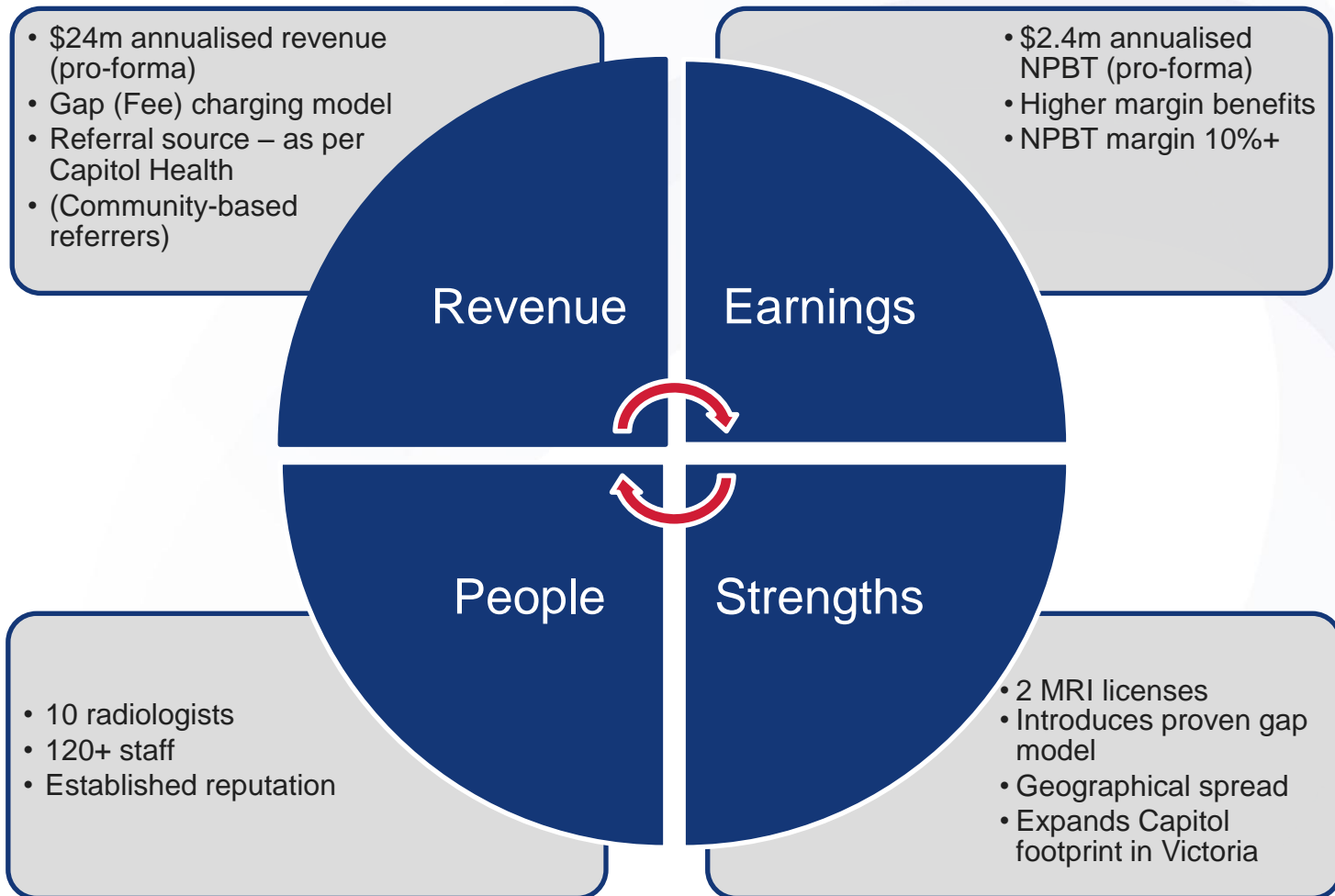


## 2. Acquisition Overview

- › **Gross purchase price of \$8m for 100% shares in MDI inclusive of pay-out of shareholder loans**
  - › **Assume \$2.8m bank debt & \$4.2m finance lease liabilities of MDI**
  - › **Acquisition multiple of 6.25x – Enterprise Value\*/NPBT<sup>+</sup>**
  - › **Key Highlights:**
    - Adds 11 clinics and 10 radiologists to CAJ's diagnostic imaging network
    - Delivers 2 additional MRI licenses
    - Positions CAJ as the largest community based DI provider in Victoria
    - Leverages CAJ business model and scalability to drive earnings accretion
    - Substantial revenue and cost synergies
- \* Enterprise Value is defined as acquisition price plus structured debt plus finance lease liabilities
- + NPBT is defined as the pro-forma 1H13 NPBT for MDI annualised

## 2. MDI - Company Overview

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# 3. Strategic Rationale

- › **Strategic and corporate profile aligned to Capitol Health**
  - Two additional licensed MRI's – benefits from the change to direct referral for MRI's from GP's as of 1 November 2013
  - Enhances geographical footprint – no overlap with existing Capitol clinics
  - Operational consolidation and synergies
  - Emphasis on technology
  - Consistent billing model across acquisition network
  - Full service and feed-in satellite facilities
  - Strategically located in population growth corridors





# 4. Financial Rationale

- › **Highly value accretive**
- › **Attractive acquisition multiple of 6.25x Enterprise Value\*/NPBT+**
- › **Impact on EPS (assumption of 56m shares issued)**
  - *Expected increase in 2014 over 2013 in region of 25%+ driven by acquisition contribution, including expected synergies*
- › **Consolidated annualised revenues of over \$80 million**
- › **Highly profitable ‘gap charging’ business model**
- › **Cost and operational synergies**

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- + NPBT is defined as the pro-forma 1H13 NPBT for MDI annualised

# 4. Pro forma financial position – conceptual restatement of 1H13 results

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| KPI                 | CAJ-1H13<br>(CAJ only) | CAJ-1H13*<br>(CAJ + MDI) | % change  | FY2012<br>(CAJ only) |
|---------------------|------------------------|--------------------------|-----------|----------------------|
| Revenue             | \$28.5m                | \$40.0m                  | ↑ + 40%   | \$52.3m              |
| NPBT Margin         | 7.2%                   | 8.3%                     | ↑ +110bps | 5.6%                 |
| NPBT                | \$2.1m                 | \$3.3m                   | ↑ + 57%   | \$3.0m               |
| NPAT                | \$1.4m                 | \$2.2m                   | ↑ + 57%   | \$2.1m               |
| Underlying NPBT     | \$2.1m                 | \$3.3m                   | ↑ + 57%   | \$2.7m               |
| Underlying NPAT     | \$1.4m                 | \$2.2m                   | ↑ + 57%   | \$1.9m               |
| EPS (diluted)       | 0.39c                  | 0.53c                    | ↑ + 33%   | 0.63c                |
| DPS (fully franked) | 0.25c                  | 0.25c                    | No Change | Total FY 0.40c       |

\* Includes H1 2013 pro-form result for MDI & assumes 56m shares issued and acquisition occurred 1 July 2012

# 5. Alignment of Corporate Culture & Operational Synergies

- › Alignment of corporate culture and clinical teams
- › Cost savings utilising Capitol Health supplier base and contracted rates
- › No significant one-off expenses to the P&L
- › Medium-term migration to Capitol Health technology infrastructure as appropriate but not required immediately
- › Additional referral base
- › MDI Radiologists retained on multi-year contracts with Capitol

# 6. Funding – Key Metrics

- › Acquisition price and transaction costs to be funded via a combination of debt and equity
- › **Equity Raise**
  - Placement to institutions and sophisticated investors
  - Placement price of 13c; represents 7.1% discount to last close and 7.3% discount to 10 day VWAP
  - Total capital raise: \$7.28m via issue of 56m shares
- › **Debt**
  - Additional acquisition Debt of \$3.5m will be assumed on completion of purchase transaction
  - Consistent with CAJ's existing debt strategy

# 6. Funding

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| Sources of Funds  | \$ million  |
|---|-------------|
| Equity – share placement (new shares will rank pari passu with existing ordinary shares ) | 7.3         |
| Debt  | 3.5         |
| <b>Total</b>  | <b>10.8</b> |



| Use of Funds                               | \$ million  |
|--|-------------|
| Acquisition consideration                  | 8.0         |
| Transaction Costs, general corporate costs | 0.5         |
| General working capital                    | 2.3         |
| <b>Total</b>                               | <b>10.8</b> |

| Details of Share Placement                                  | On Issue     |
|---|--------------|
| Ordinary Shares on Issue as at 1 March 2013                 | 373,511,663  |
| Placement shares  | 56,026,749   |
| Post placement  | 429,538,412  |
| Implied market capitalisation (based on last closing price) | \$60,135,377 |

# 7. Timetable

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| Indicative timetable  | Estimated Timing                |
|---|---------------------------------|
| Trading Halt  | Mon & Tues 4 & 5 March 2013     |
| Placement letters   | Tues 5 March 2013               |
| Confirmation letters returned   | Tues 5 March 2013 - 4.00pm      |
| Placement announced & Company resumes trading                               | Before 10.00am Wed 6 March 2013 |
| Placement contract notes issued (T)   | Thurs 7 March 2013              |
| Placement settlement via DvP (T+3) (allows for Vic public holiday)          | Wed 13 March 2013               |
| Placement allotment date & expected ASX quotation of placement shares (T+4) | Thurs 14 March 2013             |

# 8. Risks

## Key risk factors

A number of risks and uncertainties, which are both specific to CAJ and of a more general nature, may affect the future operating and financial performance of CAJ and the value of CAJ shares. You should carefully consider the following risk factors, as well as the other information provided by CAJ and consult your financial and legal advisors before making an investment decision. The risks and uncertainties described below are not the only ones facing CAJ. Additional risks and uncertainties that CAJ are unaware of, or that it currently considers to be immaterial, may also become important factors that adversely affect CAJ's operating and financial performance.

## General risks

### **Economic conditions risk;**

The performance of CAJ may be influenced by changes in various general economic factors in Australia, including but limited to; level of economic growth, interest rates, inflation, labour costs and other conditions which may affect the revenue or costs of CAJ.

### **Asset impairment risk;**

Under A-IFRS accounting standards, intangible assets that have an indefinite useful life, including goodwill, are not subject to amortisation and are reviewed annually for impairment. Individual assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an individual asset may not be recoverable. Changes to the carrying amounts of intangible assets of CAJ could have an adverse impact on the reported financial performance of CAJ.

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### **Regulatory risk;**

CAJ may be affected by changes in government policy or legislation applicable to companies in the Health sector.

### **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 taxation treatment of an investment in CAJ shares or the holding or disposal of those shares.

# 8. Risks

## General risks (cont.)

### **Credit risk;**

Credit market conditions and the operating performance of CAJ will affect borrowing costs as well as CAJ's capacity to repay, refinance and increase its debt.

### **Equity investment risk;**

Investors should be aware that there are risks associated with any investment listed on the ASX. The value of CAJ shares may rise above or fall below the issue price, depending on the financial condition and operating performance of CAJ. Further, the price at which CAJ shares trade on the ASX may be affected by a number of factors unrelated to the financial and operating performance of CAJ and over which CAJ and its directors have no control. Investors should note that the historic share price performance of CAJ shares provides no guidance as to its future share price performance.

### **Dividend risk;**

The future dividend levels of CAJ will be determined by the Directors of CAJ, taking into consideration the operating results and the financial position of CAJ. There is no guarantee that any dividend will be paid or, if paid, that they will be paid in accordance with any stated dividend payout ratio.

## Operational risks

### **Key personnel risk;**

The Health services industry is highly dependent on the technical skills of the personnel of the service provider. Any provider is vulnerable to adverse consequences from the loss of key personnel due to competition amongst providers.

### **Capital access risk;**

There is no assurance that debt funding will be available to CAJ in the future on acceptable terms. This may impact on the ability of CAJ to take advantage of future acquisition or expansion opportunities or otherwise respond to competitive pressures.

### **Strategy risk;**

CAJ may not be able to execute effectively the current strategies for its business.

## Acquisition risks

### **Execution risk;**

There is an inherent risk that the integration of any acquisition may encounter unexpected issues. As a result the acquisition may not realise the intended advantages or may suffer an unexpected loss.



# 8. Risks

## **Acquisition risks (cont.)**

### **Completion risk;**

Completion of the acquisition may be conditional on certain matters. If any of the conditions are not met then completion of the acquisition may be deferred or cancelled. Failure to complete this transaction and any action required to be taken to deploy the capital raised may have a material adverse effect on CAJ's financial performance, financial position and share price. Completion of the acquisition referred to in this presentation may or may not occur, or the acquisition may proceed on terms that differ to those currently anticipated by CAJ.

### **Analysis risk;**

CAJ has undertaken financial, business and other analysis of the acquisition in order to determine its attractiveness to CAJ and whether to pursue the acquisition. It is possible that such analysis and the best estimate assumptions made by CAJ draws conclusions and forecasts that are inaccurate or which are not realised in due course. To the extent that that actual results achieved by the business being acquired are different to those indicated by CAJ's analysis, there is a risk that the profitability and future earnings of the operations of CAJ may be materially different from the profitability and earnings expected as reflected in this presentation.

### **Due diligence risk;**

The information regarding the announced acquisition in this presentation has been derived from limited financial information and other information made available by or on behalf of the vendors during the due diligence process conducted by CAJ in connection with the acquisition. While CAJ has conducted due diligence on the announced acquisition and prepared financial analysis of the announced acquisition in order to determine the attractiveness of that business, CAJ is unable to verify the accuracy or completeness of the information provided to it or on behalf of the vendors and there is no assurance that this due diligence was exhaustive and that all material issues and risks in relation to the announced acquisition have been identified. To the extent that this information is incomplete, incorrect, inaccurate or misleading, or the actual results achieved by the acquisition are weaker than those indicated by CAJ's analysis, there is a risk that the profitability and future results of the operations of CAJ may differ (including in a materially adverse way) from CAJ's expectations, or that additional liabilities may emerge.

### **Synergies risk;**

There are risks that any integration between CAJ and the announced acquisition may take longer than expected and that anticipated efficiencies and benefits of that integration may be less than expected. These risks include possible differences in the management culture, inability to achieve synergy benefits and cost savings, and the potential loss of key personnel.

# 9. Summary and outlook

## Key Benefits of the acquisition

- Two additional MRI licenses
- Enhances geographic footprint
- Introduces gap (fee) charging model – proven and profitable
- Acquisition price of 6.25x – Enterprise Value\*/NPBT+
- Significant EPS accretion – expected 25%+ increase for FY2014 on FY2013

## Capitol Health continues to trade in line or ahead of expectations during 3Q13

- \* Enterprise Value is defined as acquisition price plus structured debt plus finance lease liabilities
- + NPBT is defined as the pro-forma 1H13 NPBT for MDI annualised

**Positions CAPITOL HEALTH as the largest community based Diagnostic Imaging provider in Victoria.**



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