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# CAPITOL ANNOUNCES THE SALE OF ITS NSW ASSETS TO I-MED RADIOLOGY NETWORK FOR $81.5 MILLION

- Sale of NSW assets to I-Med for $81.5m
- FY17 Core radiology EBITDA expected to be at top of guidance range ~ $21.5m
- FY18 Core radiology EBITDA expected to be in range of $19.0m to $21.0m post transaction
- Further planned overhead cost reductions $1.5m - $ 2.0m
- Acquisitions, capital management & refinancing initiatives

Capitol Health Limited (**Capitol** or the **Company**) (ASX: CAJ) has finalized the broad strategic review of its business resulting in a binding all cash agreement with I-Med Radiology Network (**I-Med**) to sell its NSW radiology assets for a total consideration of $81.5m (less $1.2m cash adjustment for employee entitlements). The parties expect the transaction is likely to complete on or around 31 August 2017.

The sale price of the assets represents more than 8.5 times expected FY17 NSW EBITDA, and when added to other property and clinic sales in NSW represents a total exit price from the NSW business of $85.4m to $86.0m. The net carrying value of the NSW assets at 30 June 2017 is expected to be $88.4m. The Company was advised by EY on this transaction.

The transaction is subject to Foreign Investment Review Board (**FIRB**) approval and completion is subject to customary regulatory and third party consents.

There are a number of key factors underpinning the Board's decision to sell these assets:

- The poor performance of the assets since acquisition had already forced a $7.1m impairment of their goodwill carrying value in FY16;
- The difficulties experienced in integrating the different business models associated with the four NSW acquisitions, including bulk billing, hospitals, research, and private billing;
- The sale price represents more than 8.5 years of earnings on an FY17 EBITDA basis; and
- The Board believes the sale funds can be deployed to improve shareholder value through a combination of investing in organic growth of Capitol's core Victorian network, targeted earnings accretive acquisitions, capital management activities, refinancing the $50.0m unsecured note facility when it is redeemable in May 2018, and to support management's renewed focus on margin expansion.

To ensure that overhead costs are tailored appropriately to the Company's size after the sale, the Company plans to further reduce its overheads in the order of $1.5m to $2.0m per annum. This reduction will encompass senior management and administrative personnel, and associated overhead costs in IT, legal, and administration. The majority of benefits from these reductions will flow through to earnings in FY18.

Managing Director, Andrew Harrison stated "The Board believes this transaction represents value for shareholders and draws a line under the restructuring of the business commenced in October 2016. This process has resulted in a much stronger balance sheet, more appropriate cost structure, higher operating margins, and provides a strong basis for future growth."

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"We will seek to strengthen our position in the Victorian market through new clinic openings, investment in equipment and additional modalities, deploying funds through new earnings accretive acquisitions, and actively considering capital management initiatives that deliver shareholder value. The restructuring of the Company's balance sheet will be completed in May 2018 when the $50.0m unsecured note is able to be redeemed and/ or refinanced."

## FY17 Outlook

Recent trading has been particularly strong across the Victorian network, driven by continued growth in underlying Medicare receipts. This has resulted in an increase in earnings guidance to the top of the range confirmed in April 2017. The Company now expects Core Radiology EBITDA (before ISI) for full year FY17 to be circa $21.5m.

## Post Transaction Business

Set out below is guidance for the FY18 financial year for the Company assuming completion of the sale transaction on or around 31 August 2017.

| | |
|---|---|
| ***Range of Total Group Operating Revenue** | **$118m to $122m** |
| ***Range of Core Radiology EBITDA** *(before one off costs)* | **$19m to $21m** |

**FY18 includes approx. $8.6m of revenue & $1.3m of EBITDA from 2 months of NSW operations and the expected reduction in overheads.*

Guidance is underpinned by a number of factors:

- Revenue growth based on 3.5% at the bottom end of expected Medicare growth;
- Modest 2-3% growth in underlying operating costs;
- FY18 impact of further overhead reductions in the range of $1.5m to $2.0m per annum;
- Organic growth initiatives – clinic openings, modality changes, equipment investment, full MRI license transfer to Imaging Olympic Park; and
- No assumed growth through acquisitions in the period or earnings from ENLITIC or China JV.

The Company is currently reviewing opportunities for potential diagnostic imaging acquisitions that, if achieved will be accretive to earnings.

## Capital Management

Upon completion of the transaction at the end of August 2017, Capitol expects to have a cash balance of ~$100.0m and total debt of an estimated $55.8m, including finance leases and the Unsecured Notes. In the absence of a material acquisition, from the time the proceeds of the NSW sale are received, Capitol intends to commence an on-market buy-back to acquire up to 52.3 million shares in the Company, the maximum allowed without obtaining shareholder approval. At the current Capitol share price of 20 cents, this would utilise $10.5m of Capitol's expected cash balance.

In addition, Capitol may seek shareholder approval to buy-back further shares.

The Board intends reinstating dividends in respect of the 2018 financial year, consistent with the restrictions imposed by the Unsecured Notes and subject to corporate, legal and regulatory considerations. In this context, Capitol notes that it currently has a franking account balance of approximately $7.3m.

Capitol plans to exercise its right to buy-back the Unsecured Notes in May 2018 subject to its ability to obtain any necessary alternative funding.

The Board believes that the combination of these capital management initiatives will materially enhance shareholder value.

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## About Capitol Health

Capitol Health is a leading provider of diagnostic imaging and related services to the Australian healthcare market. Headquartered in Melbourne, Victoria, the Company owns and operates clinics throughout Victoria. The Company's operational focus is on delivering a community-based infrastructure for radiologists and related medical practitioners to deliver optimal, efficient, accurate healthcare service outcomes for patients.

Capitol also has an investment in diagnostic imaging artificial intelligence through Enlitic Inc in the US and a collaboration agreement with Enlitic regarding revenue share from the sale of Enlitic's Deep Learning Services in the radiology field in China.

Capitol also recently entered the Chinese diagnostic imaging market through a Joint Venture with CITIC Pharmaceutical (Shenzhen) Co., Ltd ("CITIC Pharmaceutical") and Xiamen Zhouxin Medical Image Co., Ltd (Zhouxin) to provide consulting and clinic management services to a network of independent imaging clinics to be created by CITIC and Zhouxin across mainland China.

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