

Virtus Health Limited
ABN 80 129 643 492



prospectus

Initial Public Offering of Ordinary Shares

Joint Lead Managers

Morgan Stanley



important information

Offer

The Offer contained in this Prospectus is an invitation to acquire fully paid ordinary shares in Virtus Health Limited (ABN 80 129 643 492) ("Virtus") ("Shares").

Not investment advice

The information provided in this Prospectus is not financial product advice and has been prepared without taking into account your investment objectives, financial circumstances or particular needs. This document is important and requires your immediate attention. You should read the entire document carefully before deciding whether to invest in Virtus. Please carefully read the instructions on the accompanying Application Form. If you have any questions you should consult your professional adviser before deciding to invest.

In particular, you should consider the risk factors (see Section 5) that could affect the financial performance of Virtus before deciding what course you should follow. You should consider these factors in light of your investment objectives, financial situation and particular needs (including financial and taxation issues (see Section 9.10)). There may be risk factors in addition to these that should be considered in light of your personal circumstances.

No person named in this Prospectus, nor any other person, guarantees the performance of Virtus, the repayment of capital by Virtus or the payment of a return on the Shares.

Prospectus

This Prospectus is dated 24 May 2013 and was lodged with the Australian Securities and Investments Commission ("ASIC") on that date. This is a replacement prospectus which replaces the prospectus dated 17 May 2013 and lodged with ASIC on that date ("Original Prospectus"). This Prospectus is issued by Virtus and SaleCo for the purposes of Part 6D of the Corporations Act 2001 (Cth) ("Corporations Act").

Virtus will apply within seven days of the date of this Prospectus for the quotation of the Shares on Australian Securities Exchange ("ASX").

No shares will be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

None of ASIC, ASX or their respective officers take any responsibility for the contents of this Prospectus nor for the merits of the investment to which this Prospectus relates.

Prospectus availability

You can obtain a copy of this Prospectus during the period of the Offer by calling the Virtus Offer Information Line on 1800 134 068 (within Australia) or on +61 2 8767 1034 (from outside Australia) at any time from 8.30am to 5.30pm (AEST) Monday to Friday.

Exposure Period

The Corporations Act prohibits Virtus from processing applications to subscribe for Shares under this Prospectus in the seven day period after the date of lodgement of the Original Prospectus ("Exposure Period"). This period may be extended by ASIC by up to a further seven days. The Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. The examination may result in the identification of deficiencies in this Prospectus, in which case any application may need to be dealt with in accordance with section 724 of the Corporations Act. Applications received during the Exposure Period will not be processed until after the expiry of that period. No preference will be conferred on applications received during the Exposure Period.

No cooling-off rights

Cooling-off rights do not apply to an investment in Shares pursuant to the Offer. This means that, in most circumstances, you cannot withdraw your application once it has been accepted.

Applications may only be made on the relevant Application Form either attached to or accompanying this Prospectus.

The Corporations Act prohibits any person from passing the Application Form on to another person unless it is attached to a hard copy of the Prospectus or the complete and unaltered electronic version of this Prospectus.

Offer management

The Offer is managed by Morgan Stanley and UBS ("Joint Lead Managers").

Foreign jurisdictions

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register the Shares or otherwise permit an offering of Shares in any jurisdiction outside of Australia. The taxation treatment of Australian securities may not be the same as those for securities in foreign jurisdictions. If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

The distribution of this Prospectus outside Australia may be restricted by law. If you come into possession of this Prospectus, you should observe any such restrictions and seek your own advice on such restrictions. Any failure to comply with such restrictions may contravene applicable securities laws. This Prospectus may not be released or distributed in the United States. This Prospectus does not constitute an offer to any person in the United States.

The Shares described in this Prospectus have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "US Securities Act") or the securities law of any state of United States, and may not be offered or sold directly or indirectly, in the United States.

See Section 7.7 for further details.

Disclaimer

Section 4 sets out in detail the financial information referred to in this Prospectus. The basis of preparation of the financial information is set out in Section 4.2.

All references to FY2010, FY2011, FY2012, FY2013 and FY2014 appearing in this Prospectus are to the financial years ended or ending 30 June 2010, 30 June 2011, 30 June 2012, 30 June 2013 and 30 June 2014, respectively, unless otherwise indicated. All references to H1FY2011, H1FY2012 and H1FY2013 appearing in this Prospectus are to the financial periods ended or ending 31 December 2010, 31 December 2011 and 31 December 2012, respectively, unless otherwise indicated. All references to H2FY2012 and H2FY2013 appearing in this Prospectus are to the financial periods ended or ending 30 June 2012 and 30 June 2013, respectively, unless otherwise indicated.

The Historical Financial Information has been prepared in accordance with the recognition and measurement principles prescribed by the Australian Accounting Standards. This Prospectus also includes Forecast Financial Information based on the best estimate assumptions of the Directors. The basis of preparation and presentation of the Forecast Financial Information, to the extent applicable, is consistent with the basis of preparation and presentation for the

Historical Financial Information. The Forecast Financial Information presented in this Prospectus is unaudited.

This Prospectus includes information regarding the past performance of Virtus. Applicants should be aware that past performance is not indicative of future performance.

This Prospectus contains forward looking statements which are identified by words such as “may”, “could”, “believes”, “estimates”, “expects”, “intends” and other similar words that involve risks and uncertainties. The Forecast Financial Information is an example of forward looking statements. These forward looking statements speak only as of the date of this Prospectus and Virtus does not undertake to publicly update or revise any forward looking statement.

These forward looking statements are subject to various risk factors that could cause Virtus’ actual results to differ materially from the results expressed or anticipated in these statements. The risk factors that the Directors consider are key to an investment in Virtus are set out in Section 5. Further, you should not place undue reliance on any forward looking statement contained in this Prospectus.

The information in this Prospectus is not financial product advice and does not take into account your investment objectives, financial situation or particular needs. In particular, in considering Virtus’ prospects, you should consider the assumptions underlying the forecast financial information and the risk factors that could affect Virtus’ financial performance. You should carefully consider these factors in light of your personal circumstances (including financial and taxation issues). Refer to Sections 4.7.1, 4.7.2, 4.8.5 and 9.10 for further information. This Prospectus, including the industry overview in Section 2, uses market data, industry forecasts and projections. Virtus has obtained significant portions of this information from market research prepared by third parties. There is no assurance that any of the forecasts contained in the reports, surveys and research of such third parties which are referred to in this Prospectus, will be achieved. Neither Virtus nor SaleCo has independently verified this information. Estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed in the risk factors set out in Section 5.

No person is authorised to give any information or make any representation in connection with the Offer described in this Prospectus, which is not contained in this Prospectus. Any information or representation not contained in this Prospectus may not be relied on as having been authorised by Virtus, SaleCo or any of their Directors in connection with the Offer.

As set out in Section 7.9.3, it is expected that the Shares will be quoted on ASX initially on a conditional and deferred settlement basis. Virtus, SaleCo, the Share Registry, and the Joint Lead Managers disclaim all liability, whether in negligence or otherwise, to persons who trade Shares before receiving their holding statements.

Virtus website

Any references to documents included on Virtus’ website at www.virtushealth.com.au are for convenience only, and none of the documents or other information available on Virtus’ website is incorporated herein by reference.

Financial amounts

Money as expressed in this Prospectus is in Australian dollars unless otherwise indicated.

Investigating Accountant’s Report on the Financial Information and Financial Services Guide

The provider of the Investigating Accountant’s Report on the Financial Information is required to provide Australian retail investors with a financial services guide in relation to the review under the Corporations Act.

The Investigating Accountant’s Report and accompanying financial services guide is provided in Section 8.

Questions

If you have any questions about how to apply for Shares, please call your Broker. Instructions on how to apply for Shares are set out in Sections 7.3 and 7.4 of this Prospectus and on the back of the Application Form.

Definitions and abbreviations

Defined terms and expressions used in this Prospectus are explained in the Glossary at the end of this Prospectus. Unless otherwise stated or implied, references to times in this Prospectus are to Australian Eastern Standard Time (AEST).

the offer¹

Total number of Shares offered under this Prospectus ²	61.0 million ³
Number of Shares to be held by Existing Shareholders after the Offer ⁴	19.9 million
Total number of Shares on issue at Completion of the Offer	79.5 million
Offer Price	\$5.68 per share
Market capitalisation at the Offer Price ⁵	\$451.8 million
Enterprise Value ⁶ / pro forma consolidated FY2014 forecast EBITDA	9.4x
Enterprise Value / pro forma consolidated FY2014 forecast EBIT	11.1x
Offer Price / pro forma consolidated FY2014 forecast NPATA per Share	14.1x
Implied FY2014 forecast dividend yield at the Offer Price ⁷	4.6%

important dates

Broker Firm Offer open	9.00am AEST Monday, 27 May 2013
Broker Firm Offer close	5.00pm AEST Friday, 7 June 2013
Expected commencement of trading on ASX (conditional and deferred settlement basis)	Tuesday, 11 June 2013
Issue and transfer of Shares (Completion of the Offer) and last day of conditional trading	Wednesday, 12 June 2013
Expected dispatch of holding statements	Thursday, 13 June 2013
Shares expected to begin trading on a normal settlement basis	Friday, 14 June 2013

Dates may change

The dates above are indicative only and may change without notice.

Virtus in consultation with the Joint Lead Managers reserves the right to vary the times and dates of the Offer including to close the Offer early, extend the Offer or to accept late applications, either generally or in particular cases, without notification. Applications received under the Offer are irrevocable and may not be varied or withdrawn except as required by law.

Investors are therefore encouraged to submit their Application Forms as early as possible after the Offer opens. All times are Australian Eastern Standard Time.

How to invest

Applications for Shares can only be made by completing and lodging the Application Form.

Instructions on how to apply for Shares are set out in Sections 7.3 and 7.4 and on the back of the Application Form.

1. The Forecast Financial Information set out in Section 4.7 has been prepared on the basis of the best estimate assumptions set out in Sections 4.7.1 and 4.7.2 and should be read in conjunction with the discussion of the Historical Financial Information and the Forecast Financial Information in Section 4, including the sensitivities set out in Section 4.8, and the risk factors set out in Section 5.
2. Includes the transfer of Existing Shares through SaleCo and the issue of Shares by Virtus.
3. Includes 1.3 million Shares to be issued to certain Shareholders on exercise of existing share options. See Section 7.6.
4. 16.1 million of these Shares will be subject to voluntary escrow arrangements. See Section 7.6 for further details of these voluntary escrow arrangements.
5. Market capitalisation is determined by multiplying the number of Shares on issue by the price at which the Shares trade on the ASX from time to time. Shares may not trade at the Offer Price after Listing. If Shares trade below the Offer Price after Listing, the market capitalisation may be lower.
6. Enterprise Value is calculated by adding market capitalisation at the Offer Price and pro forma net debt.
7. Calculated as the implied dividend per Share (assuming the current intended dividend payout ratio of 65% of statutory NPATA in FY2014) divided by the Offer Price. For more information on Virtus' dividend policy, see Section 4.9.

chairman's letter

24 May 2013

Dear investor,

On behalf of the Directors of Virtus Health Limited ("Virtus"), it is my pleasure to invite you to read this Prospectus and to become a Shareholder of Virtus.

Virtus is Australia's largest Assisted Reproductive Services provider,⁸ responsible for approximately 4,000 couples each year achieving their dream of conceiving and having a baby. In 2012, Virtus conducted approximately 35% of the stimulated In Vitro Fertilisation ("IVF") Cycles performed in Australia.⁹

Virtus provides its patients with a model of healthcare that integrates an extensive range of Assisted Reproductive Services, specialised diagnostics and day hospital services. Services are provided to patients through 33 integrated fertility clinics, six specialised diagnostics laboratories, 17 embryology laboratories, 18 andrology laboratories and six day hospitals. Virtus' facilities are located across New South Wales, Queensland and Victoria, these states represent approximately 80% of the IVF Cycles conducted in Australia in 2012.

Virtus' three founding fertility clinic groups (IVFAustralia, Melbourne IVF and Queensland Fertility Group) were separately established as some of the first providers of Assisted Reproductive Services in Australia. Between 2008 and 2009, these state-based fertility clinics were brought together to form Virtus. This created Australia's largest provider of Assisted Reproductive Services, which resulted in significant scale efficiencies and enabled Virtus to share operational, clinical and scientific practices across its businesses.

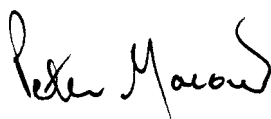
Virtus is led by an experienced senior management team and employs a highly skilled workforce consisting of 164 scientists, 583 nursing and patient service staff and 77 administrative, management and other staff. Virtus contracts 82 Fertility Specialists to provide the medical component of Assisted Reproductive Services at its fertility clinics. Virtus Fertility Specialists and scientists have been at the forefront of clinical and scientific developments in the fields of Assisted Reproductive Services and specialised diagnostics since the 1970s and 1980s respectively. This allows Virtus to offer patients a wide range of leading clinical and scientific treatment services and diagnostic tests.

Virtus has a strong financial track record and has achieved compound annual growth in pro forma consolidated revenue and EBITDA from FY2010 to FY2012 of 10.4% and 14.2% respectively. Virtus operates in a growing market where demand for Assisted Reproductive Services is underpinned by long-term demographic and social trends.

This Prospectus contains detailed information about the Offer, the industry in which Virtus operates and its financial and operating performance. As with other companies, Virtus is subject to a range of risks including changes in Commonwealth Government funding arrangements for fertility services, the ability to recruit and retain Fertility Specialists, and the potential for Virtus to suffer damage to its reputation or the reputation of Virtus' brands. The risks of investing in Virtus are fully detailed in Section 5. I encourage you to read this document carefully and in its entirety before making your investment decision.

On behalf of my fellow Directors, I look forward to welcoming you as a Shareholder.

Yours sincerely,



Peter Macourt
Chairman, Virtus

8. By number of IVF Cycles undertaken in the 12 months to 31 December 2012.

9. By number of IVF Cycles undertaken in the 12 months to 31 December 2012.

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section one



section one

investment overview

Topic	Summary	For more information
A. Introduction		
What is Virtus?	Virtus is an Australian healthcare services company whose main activity is providing patients with Assisted Reproductive Services, but which also derives significant revenues from specialised diagnostics and day hospitals. Virtus provides services to its patients through a network of 33 fertility clinics, 17 embryology laboratories, 18 andrology laboratories, six specialised diagnostic testing laboratories and six day hospitals across New South Wales, Victoria and Queensland.	Section 3 contains details about Virtus and the business it operates
What are Assisted Reproductive Services?	Assisted Reproductive Services involve treating and assisting patients experiencing infertility and/or who are unable to conceive naturally. These services are supported by specialised diagnostics and day hospital services. The most common Assisted Reproductive Service is a fresh stimulated IVF Cycle which involves administering a stimulating hormone to a woman, collecting eggs, clinical fertilisation of those eggs and observing their development in a laboratory before transferring the embryos into the uterus.	Section 3.4.1 contains details about the Assisted Reproductive Services offered by Virtus
Why is the Offer being conducted?	The Offer is being conducted to provide Virtus with: - a liquid market for its Shares and an opportunity for others to invest in Shares in Virtus; - funds to repay, in part, Virtus' existing debts, the cancellation of existing share options and Offer costs; and - additional financial flexibility to pursue the growth opportunities outlined in Section 3.10 through improved access to capital markets. The Offer also provides Existing Shareholders with an opportunity to realise part of their investment in Virtus.	Section 7.6 contains details of the costs associated with the cancellation of existing share options and the Offer Section 3.10 outlines Virtus' growth opportunities
B. Key features of Virtus' business model		
How does Virtus generate its income?	Virtus generates income by providing the following services to patients:¹⁰ <i>Assisted Reproductive Services</i> – Virtus receives income for providing Assisted Reproductive Services to patients using technologies and scientific methods aimed at achieving a clinical pregnancy. Assisted Reproductive Services accounted for 77% of Virtus' revenue in FY2012; <i>specialised diagnostics</i> – Virtus receives income for providing specialised diagnostic tests used in the diagnosis of infertility and the provision of Assisted Reproductive Services to its patients. Virtus' specialised diagnostic tests are also used by a small number of other fertility clinics in locations in which Virtus does not operate. Specialised diagnostics accounted for 7% of Virtus' revenue in FY2012; and <i>day hospitals</i> – Virtus receives income for patient procedures conducted in its day hospitals. In aggregate, procedures in relation to Assisted Reproductive Services are the single largest medical specialty area performed in Virtus' day hospitals. Day hospitals accounted for 13% of Virtus' revenue in FY2012. Virtus' patients receive partial reimbursement for services provided by Virtus from the Australian Commonwealth Government through Medicare and private health insurance (if insured).	Section 3.4 contains details about Virtus' business model and the factors Virtus depends upon to generate income Section 2.10 contains details about Commonwealth Government and private health insurance funding for Virtus' services

10. Remaining 3% of revenue relates to drug, rent recovery and other miscellaneous income.

Topic	Summary	For more information
What is Virtus' relationship with Fertility Specialists?	Fertility Specialists contract with Virtus to provide the medical component of Assisted Reproductive Services, including the management of a patient's treatment plan and the provision of surgical procedures. Fertility Specialists are also involved in the development of Virtus' clinical and scientific protocols and have a close working relationship with Virtus' management, scientific and nursing staff. Virtus provides the clinical and scientific infrastructure for patients to receive Assisted Reproductive Services. Virtus also provides marketing, diagnostic, scientific, nursing, counselling and administrative services required for the provision of Assisted Reproductive Services. Fertility Specialists enter into contracts with Virtus for an initial term of five years and rolling 12 month terms thereafter. Contracted Fertility Specialists provide Assisted Reproductive Services exclusively through Virtus and receive management fees for the Assisted Reproductive Services that they manage and procedural fees for the surgical procedures they perform.	Section 3.7 contains details about Virtus' relationship with Fertility Specialists
What is Virtus' strategy?	Virtus' strategy is to maintain its existing high quality of patient care, expand the range of services offered to patients and grow its fertility clinic network. This will ensure Virtus is well placed to benefit from the growing demand for Assisted Reproductive Services, specialised diagnostics and day hospital services in Australia.	Section 3.10 contains details about Virtus' strategic initiatives
How does Virtus expect to fund its operations?	Virtus' operations have historically been funded through cash flow generated by operations. Past acquisitions have been funded through a combination of cash flow from operations, debt and/or equity. After Listing, Virtus will have total debt facilities in place of \$155 million, which will comprise a term debt facility and a working capital facility. On Listing, it is expected that Virtus will have drawn debt of \$149 million.	Section 4.4 contains details on Virtus' debt facilities

C. Key strengths

Operates in attractive markets	Virtus operates in the Assisted Reproductive Services, specialised diagnostics and private day hospital markets in Australia. These markets are attractive because of their underlying growth and structure. The Assisted Reproductive Services market has experienced strong growth underpinned by long-term demographic and social trends. These trends include a growing female population, increasing maternal age of first pregnancy and increasing use of Assisted Reproductive Services as social acceptance, awareness and accessibility of these services have increased. The largest demand for Assisted Reproductive Services¹¹ comes from the capital cities of Sydney, Melbourne and Brisbane. In each of these locations, Virtus is one of the two largest providers which deliver the majority of Assisted Reproductive Services, with the remainder provided by a number of smaller fertility clinics. The specialised diagnostics and private day hospital markets have also experienced strong growth. In the private day hospital market, the number of procedures conducted has grown at a compound annual growth rate of 9% between FY2000 and FY2011.¹²	Section 2 contains details about the markets in which Virtus operates
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11. Based on the number of IVF Cycles undertaken for the 12 months ended 31 December 2012.

12. Australian Bureau of Statistics, *Private Hospitals 2010-2011*.

Topic	Summary	For more information
C. Key strengths <i>continued</i>		
Multiple scale benefits	Virtus is the largest provider of Assisted Reproductive Services in Australia¹³ with an approximate 35% share of IVF Cycles undertaken in 2012.¹⁴ Virtus is one of the two largest providers of Assisted Reproductive Services in each of the markets in which it currently operates. Virtus' scale provides it with operational benefits which include the ability to: • incrementally improve its scientific and diagnostic techniques across a large number of IVF Cycles in order to maximise patients' chances of success; • share operating methods across its network of fertility clinics; • invest in the development of patient management systems and standardised clinical and scientific protocols. This allows Virtus to consistently deliver high levels of patient care; • provide a range of valuable services that attract and retain Fertility Specialists. Virtus offers Fertility Specialists access to a range of scientific and diagnostic technologies to treat patients, sales and marketing support to build their practice, and administrative and accreditation support; • offer patients two different clinical models of care (being full service and a lower stimulation, lower cost service); and • attract highly qualified scientists to continually improve and refine scientific and diagnostic techniques. Virtus' scale also provides it with financial benefits which include: • the ability to profitably operate a vertically integrated business model by spreading the establishment and operating costs of in-house diagnostic laboratories and day hospitals across a large number of IVF Cycles; • the capability to invest funds into sales and marketing which help to build Virtus' brands and attract potential patients to Virtus and its Fertility Specialists; • access to cost savings through group procurement activities; and • the ability to spread the costs of increasing industry compliance and accreditation requirements across a large number of IVF Cycles.	Sections 2.7 and 3 contain details about why Virtus believes that its size gives Virtus competitive advantages
Mutually beneficial relationship with Fertility Specialists	Virtus has a mutually beneficial relationship with its Fertility Specialists. Key benefits of this relationship for Virtus' Fertility Specialists include: • the flexibility to operate their non-IVF practice independently of Virtus; • clinical autonomy within Virtus' quality framework; • sales and marketing activities which attract potential patients to Virtus' Fertility Specialists; • access to Virtus' scientific services and specialised diagnostics services and expertise; • convenient access to Virtus' day hospitals; • administration, accreditation and licensing requirements managed by Virtus, freeing up time for Fertility Specialists to focus on patient care; and • attractive financial arrangements, including financial support for Fertility Specialists during their period of training and the transition to private practice, and fee-for-service payments and a clear path to establish an equity position in Virtus thereafter.	Sections 3.7.2 and 3.7.3 contain details on the benefits Virtus provides to Fertility Specialists Section 9.5 contains details about the share option plan for Fertility Specialists

13. Based on the number of IVF Cycles undertaken for the 12 months ended 31 December 2012.

14. Based on Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202 for the 12 months ended 31 December 2012 <https://www.medicareaustralia.gov.au/statistics/mbs_item.shtml>.

Topic	Summary	For more information
Mutually beneficial relationship with Fertility Specialists <i>continued</i>	Key benefits of this relationship for Virtus include: • a large group of Fertility Specialists to provide the medical component of Assisted Reproductive Services; • working partnership with some of the leading Fertility Specialists in Australia which enhances Virtus' reputation and aids in patient referrals; • senior Fertility Specialists take responsibility for the clinical training and development of younger Fertility Specialists; and • payments to Fertility Specialists are fee-for-service (aside from the majority of services provided by Fertility Specialists at The Fertility Centre ("TFC") clinics) and are therefore largely variable in nature. These mutual benefits promote alignment of the interests of Virtus and its Fertility Specialists. Since the beginning of FY2010, 28 new Fertility Specialists have contracted to provide their services to Virtus. Other than six retirements, no Fertility Specialist has provided Virtus with notice of termination of their contract since Virtus was formed in 2008-2009.	
Scientific and clinical excellence	The success of Assisted Reproductive Services is in large part dependent on the quality of the complex scientific and clinical processes that support them. For this reason, Virtus employs 164 scientists to provide andrology, embryology and pathology services that are critical to the quality of Virtus' service offering. Some of Virtus' Fertility Specialists and scientists were involved in the pioneering stages of Assisted Reproductive Services research in the 1970s and 1980s respectively. Many of Virtus' scientists and Fertility Specialists remain at the forefront of global scientific and clinical developments in the field of Assisted Reproductive Services and specialised diagnostics, regularly publishing research and presenting at global industry conferences. Virtus' expertise allows it to continually improve patient outcomes and attract sponsors of new scientific and diagnostic technologies for fertility treatment to partner with. For example, Virtus was one of a small number of global test sites chosen to assess the use of array Comparative Genomic Hybridisation technology and its application to embryos.	Section 3.9 contains details on how scientific and clinical excellence benefits Virtus' business
Diversified funding of services	Patients receive partial reimbursement towards the cost of Assisted Reproductive Services, specialised diagnostics and day hospital services from one or more possible sources of funding: • <i>government funding</i> – Virtus' patients receive partial reimbursement for certain Assisted Reproductive Services and specialised diagnostics services that Virtus provides from the Commonwealth Government through the Medicare Benefits Schedule ("MBS") and the Extended Medicare Safety Net ("EMSN"); and • <i>private health insurance</i> – where a patient holds private health insurance, Virtus invoices the patients' private health insurer directly for patient fees relating to procedures performed within Virtus' day hospitals. For a large majority of Virtus' services, the total reimbursement provided by the above funding sources is less than the cost of the service. Therefore the difference is funded by patients through out-of-pocket payments. The relative benefits received by patients from different funding sources and required out-of-pocket payments differ by type of Assisted Reproductive Service, specialised diagnostics and day hospital services. For Virtus' most common treatment, an IVF Cycle, Commonwealth Government funding can contribute in the order of 42-59%, private health insurance in the order of 10-13% and patient out-of-pocket payments in the order of 27-49%. These levels of contribution from different funding sources are based on the assumptions outlined in Section 2.10.	Section 2.10 contains details about government and private health care funding for Virtus' services

Topic	Summary	For more information
C. Key strengths <i>continued</i>		
Strong financial track record	Virtus has a track record of revenue and EBITDA growth, together with strong cash flow generation. Pro forma consolidated EBITDA has grown from \$39.6 million in FY2010 to \$51.6 million in FY2012 (14.2% compound annual growth). Pro forma consolidated revenue and EBITDA are forecast to grow at a compound annual rate of 9.6% and 10.5% respectively between FY2012 and FY2014, with EBITDA forecast to be \$63 million in FY2014. Revenue and earnings growth is underpinned by the attractive markets in which Virtus operates, continuing expansion of Virtus' services and increases in the price of Virtus' services in line with historical trends. Virtus has strong cash flow generation, converting 89% of pro forma consolidated EBITDA to free cash flow in FY2012.¹⁵	Section 4 contains details about Virtus' historic and forecast financial position and performance Section 5 contains details of risk factors which may adversely affect Virtus' forecast financial position and performance
Multiple growth strategies	Virtus is well positioned to continue a number of ongoing growth initiatives: • <i>increase Virtus' market share of Assisted Reproductive Services</i> – sales and marketing activities, ongoing recruitment of Fertility Specialists and fertility clinic network expansion are expected to contribute to Virtus increasing its share of IVF Cycles performed in the states in which it operates; • <i>low-cost IVF</i> – in 2012-2013 Virtus established a low-cost IVF clinic in each state in which it operates, branded as TFC. The low-cost IVF service aims to meet the growing demand for Assisted Reproductive Services from a new segment of the market for whom fertility treatments were previously unaffordable. Continued growth in this new service is not expected to reduce the demand for established full services. This has been Virtus' experience since first introducing low-cost IVF services in 2012; • <i>grow specialised diagnostic services</i> – by expanding the range of specialised diagnostic tests offered by Virtus from its own facilities, increasing access to diagnostic testing to improve clinical outcomes and providing specialised diagnostic services to third parties in locations in which Virtus does not operate; • <i>increase day hospital revenue and earnings</i> – Virtus plans to increase revenue and earnings by attracting different specialties to increase the number of procedures performed in its day hospitals as well as focusing on areas of operational improvement; • <i>pricing of Assisted Reproductive Services</i> – Virtus has historically increased prices in its major services. Virtus adopts a pricing strategy that reflects medical inflation and local market conditions; and • <i>potential acquisition and investment opportunities</i> – Virtus will consider fertility clinic and day hospital acquisition opportunities in the Australian states in which it does not currently operate as well as internationally. Because of Virtus' size, clinical expertise, reputation and relationship with its Fertility Specialists, Virtus believes it is an attractive partner for both domestic and international Assisted Reproductive Services businesses.	Section 3.10 contains further details on Virtus' growth strategies
Experienced senior management team	Virtus' management team has considerable experience in the Assisted Reproductive Services, specialised diagnostics and day hospital markets in Australia. The senior management team is led by Sue Channon, Chief Executive Officer, who has been with Virtus and its New South Wales fertility clinic business since 2004. Sue has led Virtus' geographic expansion and vertical integration into specialised diagnostics and day hospitals and has over 30 years of experience in the Australian healthcare industry.	Sections 6.1 and 6.2 contain further details on the experience of Virtus' Board and senior management team

15. Free cash flow is calculated as EBITDA plus non-cash items plus movement in working capital minus capex.

Topic	Summary	For more information
Experienced senior management team <i>continued</i>	Virtus' Chief Financial Officer, Glenn Powers, has been with Virtus since 2008 and together with the CEO oversaw the acquisition and integration of Melbourne IVF and the Queensland Fertility Group. Glenn has extensive financial management experience with a specialty in managing small to medium sized higher growth companies. The senior management team is supported by managing directors in each state in which Virtus operates and a medical and scientific team with significant experience in the fertility sector.	
D. Key risks		
Change in Commonwealth Government funding for Assisted Reproductive Services	Patients receive partial reimbursement for Virtus' services through Commonwealth Government programs, including the MBS and EMSN. If the level of reimbursement provided by these programs for Virtus' services were to change, Virtus' patients may face higher out-of-pocket expenses for Assisted Reproductive Services. This may cause Virtus to experience reduced demand for its range of services, potentially leading to a reduction in Virtus' revenue and profitability.	Section 5.2.1
Increasing patient out-of-pocket expenses	Historically, the price charged by Virtus for IVF Cycles and other Assisted Reproductive Services has increased faster than the level of reimbursement provided by the Commonwealth Government and private health insurance. This has caused patient out-of-pocket expenses to increase at a faster rate than the increase in the price charged by Virtus. If this continues, the level of patient out-of-pocket expenses will continue to increase faster than the increase in the price charged by Virtus which may potentially adversely affect the affordability and demand for Virtus' services. A reduction in demand for Virtus' services may result in a reduction in its revenue and profitability.	Section 5.2.2
Inability to recruit and retain Fertility Specialists	Virtus relies on Fertility Specialists to provide the medical component of Assisted Reproductive Services and play a role in attracting patients. If several of Virtus' Fertility Specialists ceased to perform these services, Virtus may not be able to treat the same number of patients, which may result in lower volumes of IVF Cycles and negatively impact the profitability of the business. Virtus relies on maintaining its relationship with existing Fertility Specialists, as well as contracting with and growing IVF Cycles for new Fertility Specialists to assist in capturing market growth, increasing market share and replacing any retiring Fertility Specialists. If Virtus cannot successfully maintain its relationship with existing Fertility Specialists or contract and grow IVF Cycles for new Fertility Specialists, Virtus may not be able to achieve its growth projections set out in the Forecast Financial Information in Section 4 or maintain its market share. This may adversely impact Virtus' revenue generation and profitability.	Section 5.2.3
Variability in growth of IVF Cycles	The growth in patient demand and IVF Cycles has historically experienced variability over short-term periods notwithstanding the long-term social and demographic trends driving patient demand for Assisted Reproductive Services. Variability in the historic growth in IVF Cycles over short-term periods has been attributable to changes in local economic conditions, natural disasters and regulatory changes. Whilst Virtus is diversified across regional markets, Virtus' revenue generation and profitability can be positively and negatively affected in the short term by variability in the growth in IVF Cycles in the regional markets in which it operates.	Section 5.2.4
Increased competition	Virtus is subject to competition in all markets in which it operates. Virtus may face increased competition from existing competitors, new competitors that enter the market or new technologies or scientific advances that replace or reduce the requirement for Assisted Reproductive Services, specialised diagnostics or day hospital services. Increased competition may adversely impact on the financial performance, market position and future prospects of Virtus.	Section 5.2.5

Topic	Summary	For more information
D. Key risks <i>continued</i>		
Damage to reputation	The reputation of Virtus and its individual brands is important in attracting patients, Fertility Specialists and key employees. Reputational damage could arise due to a number of circumstances, including inadequate service, poor clinical outcomes for patients or malpractice or negligence of Virtus' employees and Fertility Specialists. A significant number of Virtus' patients are referred by general practitioners and medical specialists or approach Virtus on the basis of personal recommendations. Negative publicity could adversely impact Virtus' reputation with both general practitioners, medical specialists and members of the public. If this were to happen, it may potentially result in a fall in the number of patients seeking treatment at Virtus and impinge on Virtus' ability to maintain relationships with existing Fertility Specialists, contract new Fertility Specialists and attract key employees. If this were to occur, Virtus' financial performance may be negatively impacted.	Section 5.2.6
Changes to the private health industry	Part of Virtus' day hospital services are funded (either directly or via partial reimbursement to Virtus' patients) by private health insurers. Virtus is indirectly susceptible to factors adversely affecting the membership and profitability of private health insurers. For example, from 1 July 2012 the Private Health Insurance Rebate became subject to means testing, increasing the costs of private health insurance in higher income households. Patients wishing to use Virtus' services without private health insurance may experience higher out-of-pocket expenses, which may adversely affect the affordability and demand for Virtus' services. A decline in the profitability of health insurance funds or the inability of health insurance funds to obtain premium increases may result in Virtus' inability to achieve growth in the funding it receives from health insurance funds or its ability to renew contracts with health insurance funds on suitable terms.	Section 5.2.7
Litigation or other disputes	Virtus may be involved from time to time in disputes or claims of medical indemnity or similar claims and litigation with current or former patients. These disputes may lead to legal and other proceedings, and may cause Virtus to suffer additional costs.	Section 5.2.8
Inability to recruit and retain scientific staff	Virtus employs 164 scientific staff who operate in the scientific fields of andrology, cytogenetics and embryology. If Virtus lost several of its scientific staff it would lose highly specialised clinical expertise and experience. Given the level of training and specialisation required for andrology, cytogenetics and embryology there are not a large number of trained scientists in these fields in Australia and it may be difficult to recruit appropriately qualified replacements. This may affect the clinical outcomes Virtus provides to its patients and Fertility Specialists, which may potentially impact Virtus' reputation and its profitability.	Section 5.2.9
Funding of acquisitions may be dilutionary	Consistent with its stated growth strategy, Virtus may undertake acquisitions in the future. Virtus has not identified any presently viable acquisition opportunities to date. However, if an acquisition opportunity were to arise then depending on a number of factors including Virtus' share price, its financial position and performance and the nature of the acquisition, Virtus may decide that it is in the best interests of Virtus and its shareholders to fund the acquisition through the issue of further shares. If this were to occur, it may result in dilution of the ownership interests of Virtus' shareholders.	Section 5.3.4

Topic	Summary	For more information
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E. Key Offer statistics

What are the key Offer statistics?

Offer Price per Share	\$5.68
Shares available under the Offer ¹⁶	61.0 million
Total cash proceeds from the Offer ¹⁷	\$338.7 million
Shares on issue prior to the Offer	55.9 million
Total Issued Shares on Completion of the Offer	79.5 million
Market capitalisation at the Offer Price	\$451.8 million
Pro forma net debt (as at 31 December 2012)	\$143.2 million
Enterprise Value ¹⁸	\$595.0 million

Section 7.10 contains further details about the Shares made available under the Offer

Section 7.1.2 contains further details about the use of the proceeds of the Offer

What are the key investment metrics?¹⁹

Enterprise Value / pro forma consolidated FY2014 forecast EBITDA	9.4x
Enterprise Value / pro forma consolidated FY2014 forecast EBIT	11.1x
Offer Price / pro forma consolidated FY2014 forecast NPATA per Share	14.1x
Implied FY2014 forecast dividend yield at the Offer Price ²⁰	4.6%

Section 4 contains further details about Virtus' historic and forecast financial position and performance

	Pro Forma Historical Results			Pro Forma Forecast Results		Forecast Statutory Results	
\$ million	FY2010	FY2011	FY2012	FY2013	FY2014	FY2013	FY2014
Revenue	140.8	144.0	171.6	184.1	206.3	183.8	206.3
EBITDA	39.6	41.9	51.6	55.3	63.0	43.6	63.0
EBIT	34.0	35.8	44.6	46.8	53.7	34.4	53.7
NPAT	19.1	19.3	24.7	26.6	31.4	8.6	31.4
NPATA	19.8	20.0	25.4	27.3	32.1	9.3	32.1
Statutory revenue	117.0	127.2	165.1	n/a	n/a	183.8	206.3
Statutory NPAT	(1.6)	15.3	19.7	n/a	n/a	8.6	31.4
Earnings per Share (cents) ¹	nm	nm	nm	33.4	39.5	10.8	39.5

Note:

1. nm – earnings per share in the historical periods is not meaningful.

Key Ratios

Net debt/pro forma consolidated FY2014 forecast EBITDA	2.3x
Pro forma consolidated FY2014 forecast EBITDA / pro forma consolidated FY2014 forecast net interest expense	6.8x
Pro forma consolidated FY2014 forecast EBIT / pro forma consolidated FY2014 forecast net interest expense	5.8x

F. Virtus Directors

Who are the Directors of Virtus?

- Peter Macourt (Chairman)
- Sue Channon (Group CEO)
- Peter Turner
- Dennis O'Neill
- Marcus Darville
- Lyndon Hale

Section 6.1.1 contains details about the experience of each of the Directors

16. Includes the transfer of Existing Shares through SaleCo and the issue of Shares by Virtus. Includes 1.3 million Shares to be issued to certain Shareholders on exercise of existing share options. See Section 7.6.

17. \$126.7 million of this will be paid to Virtus with the remaining \$212.0 million being paid to the Selling Shareholders under their arrangements with SaleCo.

18. Enterprise Value is calculated by adding market capitalisation at the Offer Price and pro forma net debt.

19. See Section 4 for full details of the Financial Information. The financial information presented in this section is a summary only and should be read in conjunction with the more detailed discussion of the Historical Financial Information and the Forecast Financial Information in Section 4, as well as the risk factors set out in Section 5.

20. Calculated as the implied dividend per Share (assuming the current intended dividend payout ratio of 65% of statutory NPATA in FY2014) divided by the Offer Price. For more information on Virtus' dividend policy, see Section 4.9.

Topic	Summary	For more information
G. Significant interests of key people and related party transactions		

Who are the Existing Shareholders and what will be their interest in Virtus at Completion of the Offer?

Existing Shareholders	Number of Shareholders	Shares in Virtus on Completion of the Offer (million)	Shares in Virtus subject to escrow arrangements (million)
Contracted Fertility Specialists ²¹	78	18.32	14.88
Scientist shareholders	4	0.64	0.60
Management and employee shareholders	19	0.70	0.66
Quadrant Funds	–	–	–
Other existing shareholders ²²	8	0.24	–
Total	109	19.90	16.14

The Existing Shareholders are the current owners of Virtus. The Existing Shareholders have agreed to sell a portion of their Shares into the Offer through their arrangements with SaleCo and will retain the balance of their Shares on Listing. In the case of the Quadrant Funds, all of their Shares will be sold into the Offer through the arrangements with SaleCo.

Fertility Specialists, management and scientist shareholders currently hold Shares in Virtus, and in some cases share options under the existing equity incentive plans described in Section 9.5.1. Immediately prior to Listing those share options will be either exercised for Shares under this Prospectus, or cancelled, in each case for the net value for each option (generally being the sum of the Offer Price and other cancellation adjustments and payments less the exercise price of the option).

The Existing Shareholders have agreed to enter into voluntary escrow arrangements in relation to certain retained Shares which are subject to escrow and, subject to certain exceptions, may not dispose of those Shares for certain periods as outlined below.

An escrow is a restriction on sale, disposal, or encumbering of, or certain other dealings in respect of, the Shares concerned for the period of the escrow, subject to any exceptions in the escrow arrangement concerned.

Fertility Specialists

In conjunction with the Listing, each Fertility Specialist shareholder was provided with the opportunity to realise up to 50%²³ of the aggregate value of his or her equity interests in Virtus ("Pre-Listing Value") through the sale of Shares, cancellation of options and receipt of the Pre IPO Dividend. Pre-Listing Value includes all shares and the net value of options held in Virtus (at the Offer Price and including the value of the Pre IPO Dividend).

Following the Listing, Shares equivalent to 50% of a Fertility Specialist's Pre-Listing Value will be subject to escrow as follows:

- Shares equivalent to 10% of a Fertility Specialist's Pre-Listing Value will be held in short-term escrow with 3.33% being released from escrow on the first trading day in Shares following the announcement to ASX by Virtus of its preliminary final report for FY2014. Following each of the two subsequent announcements of Virtus' preliminary final report (up to and including the preliminary final report for FY2016) Shares equivalent to a further 3.33% of a Fertility Specialist's Pre-Listing Value will be released from escrow. All three tranches of shares each of which represent 3.33% of a Fertility Specialist's Pre-Listing Value will be released (if not already released) where the Fertility Specialist becomes a good leaver (as described in Section 7.6).

Section 7.6 contains details about the escrow arrangements which apply to the Shares which will be held by the Existing Shareholders after Listing

Section 9.5 contains details about the share option arrangements

Section 6.4.10 contains details about Virtus' transactions with related parties

21. Recently contracted Fertility Specialists have not yet been granted options, therefore this number does not equal the number of Fertility Specialists referred to elsewhere in the Prospectus.

22. Other existing shareholders represent retired Fertility Specialists and former employees.

23. Fertility Specialists who had retired or Fertility Specialists who had previously given notice of retirement were permitted to sell all or some of their Shares under the Offer, and none of their Shares will be subject to the escrow arrangements described in this Prospectus. The Fertility Specialists to which this applies hold 2.1 million Shares as at the date of this Prospectus.

Topic	Summary	For more information
Who are the Existing Shareholders and what will be their interest in Virtus at Completion of the Offer? <i>continued</i>	- Shares equivalent to 20% of a Fertility Specialist's Pre-Listing Value will be released when the Fertility Specialist reaches the age of 63. These Shares may be released earlier in the following circumstances: - for Fertility Specialists or scientists who are aged 63 or older at the time of Listing or who turn 63 within two years of Listing, these Shares will be released from escrow on the second anniversary of Listing; or - where a Fertility Specialist becomes a relocated leaver (as described in Section 7.6), these shares will be released five years after the date that they become a relocated leaver; or - where a Fertility Specialist dies or leaves Virtus as a result of becoming permanently disabled or seriously disabled on the date of the relevant occurrence (as resolved by the Board acting reasonably); or - if the Board determines to release the Shares from escrow earlier. - Shares equivalent to the final 20% of a Fertility Specialist's Pre-Listing Value will be released from escrow: - on retirement by the Fertility Specialist from the Assisted Reproductive Services industry (provided a Fertility Specialist must have used their best endeavours to transition their practice to another Fertility Specialist to the satisfaction of the Board); or - if the Fertility Specialist becomes a good leaver or a relocated leaver (as described in Section 7.6); or - five years after the Fertility Specialist leaves Virtus in other circumstances (whichever is applicable). Fertility Specialist shareholders will be free to sell any unescrowed Shares at any time following Listing, subject to complying with insider trading restrictions and Virtus' Securities Trading Policy. <i>Management and scientist shareholders²⁴</i> In conjunction with the Listing, each key management shareholder and each key scientist shareholder was provided with the opportunity to realise Shares with a value of up to 40% of his or her Pre-Listing Value. For each management shareholder and scientist shareholder, 60% of their Pre-Listing Value will be subject to escrow until the first trading day in Shares following the announcement to ASX by Virtus of its preliminary final report for FY2014. <i>Quadrant Funds</i> The Quadrant Funds will not hold any Shares on Completion of the Offer.	
What significant benefits and interests are payable to Directors and other persons connected with the issuer or the Offer?	At the date of this Prospectus, both Sue Channon and Lyndon Hale hold Shares. On Completion of the Offer, the number of Shares they will hold is as follows: - For Sue Channon, 354,881 Shares; and - For Lyndon Hale, 823,694 Shares. Sue and Lyndon will also be eligible to participate in the option plans described in Section 9.5.	Section 6.3 contains details on the Directors' interests

24. There will be two scientist shareholders who will be entitled to sell up to 50% of their Pre-Listing Value after the payment of any tax liabilities resulting from the options, with 50% of their Pre-Listing Value after the payment of any tax liabilities resulting from the options subject to escrow until the first trading day in Shares following the announcement to ASX by Virtus of its preliminary final report for FY2014.

Topic	Summary	For more information
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G. Significant interests of key people and related party transactions *continued*

What significant benefits and interests are payable to Directors and other persons connected with the issuer or the Offer? <i>continued</i>	Each of Peter Macourt, Dennis O'Neill and Peter Turner intend to apply for Shares through a Broker under the Broker Firm Offer. Final Directors' shareholdings will be notified to ASX on Listing. Directors and other management are entitled to remuneration and fees on ordinary commercial terms. Existing Shareholders will sell a portion of their Shares into the Offer and will be paid the Offer Price for those Shares under their arrangements with SaleCo. Advisers and other service providers are entitled to fees for services.
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H. Proposed use of funds and key terms and conditions of the Offer

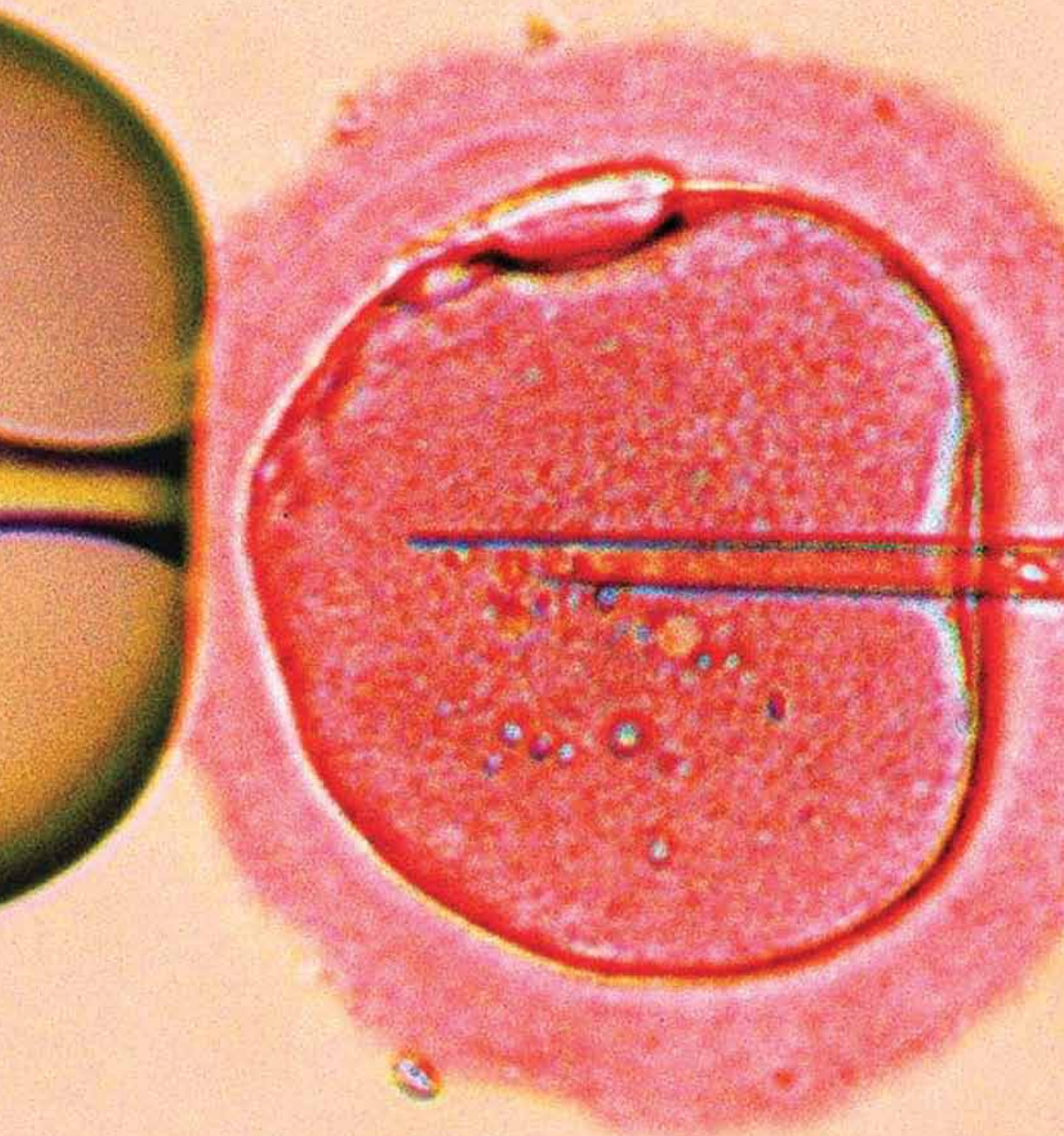
What is the Offer?	Virtus is offering to issue 23.6 million ²⁵ new Shares to raise up to \$126.7 million and SaleCo is offering to transfer 37.3 million Existing Shares through an initial public offering of Virtus.	Section 7 contains details about the Offer
What is SaleCo and what is its involvement in the Offer?	SaleCo is a special purpose vehicle established to enable Selling Shareholders to sell all or a portion of their Existing Shares. The Selling Shareholders have executed a deed poll in favour of, and for the benefit of, SaleCo under which they irrevocably offer to sell Existing Shares to SaleCo free from encumbrances and third party rights and conditional on Listing. The Selling Shareholders have agreed to sell 37.3 million Existing Shares to SaleCo. The Existing Shares which SaleCo acquires from the Selling Shareholders will be transferred to successful applicants at the Offer Price.	Section 9.4 contains details about SaleCo and the arrangements with Virtus and the Selling Shareholders
What is the proposed use of funds raised pursuant to the Offer?	Proceeds received by Virtus for the issue of Shares will be used to repay debt, ²⁶ cancel existing share options, further strengthen the balance sheet and pay the costs of the Offer. The proceeds received by or on behalf of SaleCo will be paid to those Selling Shareholders who sold Existing Shares to SaleCo.	Section 7.1.2 contains details about the use of the proceeds of the Offer
Will the Shares be listed?	Virtus will apply to ASX for admission to the official list of ASX and quotation of Shares on ASX under the code VRT. Completion of the Offer is conditional on ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.	Section 7.9.1 contains details about Listing
How is the Offer structured?	The Offer comprises: • The Broker Firm Offer; and • The Institutional Offer, which consists of an invitation to acquire Shares made to Institutional Investors.	Sections 7.3 and 7.4
Is the Offer underwritten?	Yes. The Offer is fully underwritten by the Joint Lead Managers.	Section 9.7.1 contains details about the underwriting agreement, including when it may be terminated by the Joint Lead Managers

25. Includes 1.3 million Shares to be issued under this Prospectus to certain Fertility Specialists on exercise of existing Share options. See Section 7.6.

26. In addition to the repayment of existing debt and related obligations of \$222.2 million, an amount of \$31.2 million has been drawn down under the existing debt facilities to pay the Pre IPO Dividend and associated adjustment payments to option holders.

Topic	Summary	For more information
What is the allocation policy?	The allocation of Shares between the Broker Firm Offer and the Institutional Offer was determined by the Joint Lead Managers and Virtus having regard to the allocation policy outlined in Section 7.3.5 and Section 7.4.2. The allocation of Shares among applicants in the Institutional Offer was determined by the Joint Lead Managers and Virtus. With respect to the Broker Firm Offer, it will be a matter for the Brokers how they allocate firm stock among their eligible retail clients.	Section 7.3 contains details about the Broker Firm Offer Section 7.4 contains details about the Institutional Offer
Is there any brokerage, commission or stamp duty payable by applicants?	No brokerage, commission or stamp duty is payable by applicants on acquisition of Shares under the Offer.	Section 9.10.4
What are the tax implications of investing in the Shares?	You may be subject to Australian income tax or withholding tax on any future dividends paid. The tax consequences of any investment in the Shares will depend upon your particular circumstances, particularly for non-resident shareholders. Applicants should obtain their own tax advice prior to deciding whether to invest.	Section 9.10 contains a general outline of Australian tax implications of investing in Shares by Australian income tax residents
When will I receive confirmation that my application has been successful?	It is expected that initial holding statements will be dispatched by standard post on or about 13 June 2013.	Section 7.9.2 and Key Dates on page 2
What is Virtus' dividend policy?	No dividend will be paid after Listing in respect of FY2013. The Board is targeting a dividend payout ratio in the range of 50% – 70% of statutory NPATA. The level of payout ratio is expected to vary between periods depending on factors the Directors may consider and as outlined in Section 4.9. Having regard to those factors, it is the Board's current intention to target a payout ratio of 65% of statutory NPATA in FY2014. It is the current intention of the Board to pay interim dividends in respect of the half-year ending 31 December and final dividends in respect of the full year ending 30 June each year. The Board expects that dividends will be fully franked. The Directors do not provide any assurance of the level of future dividends or the extent to which they may be fully franked, and there may be periods in respect of which dividends are not paid.	Section 4.9 contains details about Virtus' dividend policy
How can I apply?	If you are an eligible investor, you may apply for Shares by completing a valid Application Form (attached to or accompanying this Prospectus). To the extent permitted by law, an application under the Offer is irrevocable.	Sections 7.3 and 7.4
Where can I find more information about this Prospectus or the Offer?	Please call the Virtus Offer Information Line on 1800 134 068 (toll free within Australia) or +61 2 8767 1034 (outside Australia) from 8.30am until 5.30pm (AEST) Monday to Friday. If you are unclear in relation to any matter or are uncertain as to whether Virtus is a suitable investment for you, you should seek professional guidance from your solicitor, stockbroker, accountant or other independent and qualified professional adviser before deciding whether to invest.	Sections 7.2 and 7.3.6
Can the Offer be withdrawn?	Virtus and SaleCo reserve the right not to proceed with the Offer at any time before the issue or transfer of Shares to successful applicants. If the Offer does not proceed, Application Monies will be refunded by the Share Registry, your Broker or Virtus. No interest will be paid on any Application Monies refunded as a result of the withdrawal of the Offer.	Section 7.8

section two



section two

industry overview

2.1 Introduction

Virtus operates in the Assisted Reproductive Services market, the specialised diagnostics market and the private day hospital market in New South Wales, Victoria and Queensland. In order to explain the dynamics of these markets, this Section will first describe what Assisted Reproductive Services are, who uses them and the size of the market today. Following this, the Section will outline the key factors that have underpinned growth in demand for Assisted Reproductive Services, and how they have translated into growth for the overall Assisted Reproductive Services market (historic and forecast). The Section will then describe the competitive dynamics of the Assisted Reproductive Services market. Subsequently, the Section will describe the specialised diagnostics market and private day hospital market and their prospects for further growth in the future. The Section will then conclude by explaining the diversified funding arrangements that support the industry as a whole.

2.2 What are Assisted Reproductive Services?

Assisted Reproductive Services involve treating and assisting patients experiencing infertility and/or who are unable to conceive naturally. Infertility is commonly defined as the failure to achieve a pregnancy after 12 or more months of regular unprotected sexual intercourse. In females, the incidence of infertility increases with age, while male infertility is typically determined by a variety of lifestyle factors or disease that may impact upon semen quality.

Assisted Reproductive Services involve using technologies and scientific methods to provide patients with a range of services that can treat a variety of infertility conditions. These services are supported by specialised diagnostics and day hospital services (see Sections 2.8 and 2.9). The most common Assisted Reproductive Service is an IVF Cycle. An IVF Cycle involves administering a stimulating hormone to a woman, monitoring the impact of the stimulation, collecting eggs resulting from the stimulation, clinical fertilisation of those eggs and observing their development in a laboratory before transferring the embryos into the woman's uterus. The second most common form of Assisted Reproductive Service is a frozen embryo transfer. A frozen embryo transfer involves the thawing of a cryopreserved embryo in a laboratory and transferring the thawed embryo into a woman's uterus.

2.3 Who uses Assisted Reproductive Services?

Assisted Reproductive Services are used by couples who suffer from infertility and those who are unable to conceive naturally. Approximately one in six Australian couples suffer from infertility.²⁷ A study of the causes of infertility across 60,687 treatments and procedures in Australia and New Zealand in 2010 involving the in vitro handling of eggs and sperm or embryos for the purposes of establishing a pregnancy (excluding artificial insemination) found that 38.6% were due to female infertility factors, 21.7% to male infertility factors, 13.8% to a combination of female and male infertility factors with the remainder due to unexplained or not stated infertility factors.²⁸ Virtus estimates that approximately 100,000 couples in Australia experience fertility difficulties. In 2012, approximately 24,000 women in Australia undertook an IVF Cycle,²⁹ 58% of which were aged 35-54 years old, with a further 41% aged 25-34 years old.³⁰ Based on Virtus' experience, the majority of patients that use Assisted Reproductive Services have higher socioeconomic backgrounds and full time employment.

2.4 What is the size of the Assisted Reproductive Services market?

Within the Assisted Reproductive Services market, the majority of revenue is generated directly from IVF Cycles, which also generates associated revenues for the adjacent services of specialised diagnostics and private day hospitals (see Sections 2.8 and 2.9). In 2012, there were 39,870 IVF Cycles performed in Australia.³¹ Virtus believes these IVF Cycles and other Assisted Reproductive Services generated industry revenue in excess of \$350 million in 2012. There were 12,180 babies born (including 12,056 liveborn) following treatments and procedures involving the in vitro handling of eggs and sperm or embryos for the purposes of establishing a pregnancy (excluding artificial insemination) in 2010 in Australia and New Zealand,³² representing approximately 3.3% of total babies born in these countries.³³

27. Fertility Society of Australia – Homepage, 2013, <<http://www.fertilitysociety.com.au/>>.

28. Australian Institute of Health and Welfare, *Assisted Reproductive Technology in Australia and New Zealand Report*, 2010.

29. Based on Medicare Benefit Schedule Item Statistic Reports for item 13200 for the 12 months ended 31 December 2012 <https://www.medicareaustralia.gov.au/statistics/mbs_item.shtml>.

30. Based on Medicare Benefit Schedule Item Statistic Reports for item 13200 for the 12 months ended 31 December 2012 <https://www.medicareaustralia.gov.au/statistics/mbs_item.shtml>.

31. Based on Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202 for the 12 months ended 31 December 2012 <https://www.medicareaustralia.gov.au/statistics/mbs_item.shtml>.

32. Australian Institute of Health and Welfare, *Assisted Reproductive Technology in Australia and New Zealand Report*, 2010.

33. Based on internal Virtus estimates and data from the Australian Bureau of Statistics, *Births, Australia*, 2010.

2.5 Why is demand for Assisted Reproductive Services growing?

A growing number of people in Australia are using Assisted Reproductive Services to assist them to achieve their dream of having a child. This is the result of a range of long-term social and demographic trends that are described in detail below.

2.5.1 Growing female population

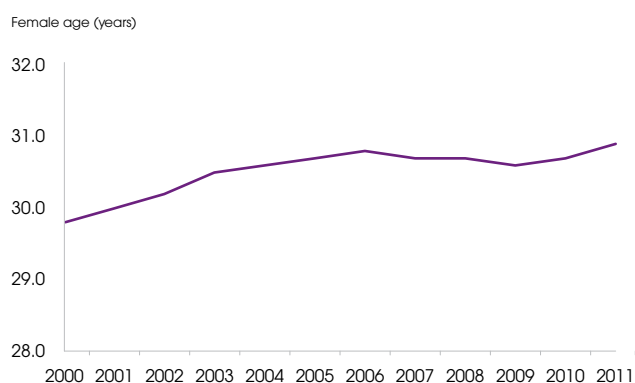
As noted above, Assisted Reproductive Services are predominantly provided to women aged between 25–54. The number of women aged 25–54 years old has been growing at a compound annual growth rate of 1.0% between 2001 and 2011.³⁴ The Australian Bureau of Statistics forecasts the number of women aged 25–54 years old to continue to grow at a compound annual growth rate of 0.9% between 2012 and 2018.³⁵ This is effectively growing the size of the target market for Assisted Reproductive Services providers in Australia.

2.5.2 Demographic trend towards increasing maternal age

There has been a long-term trend in Australia of women delaying the birth of children which has caused the median age of mothers to increase. Between 2000 and 2011 the median age of mothers increased from 29.8 years to 30.9 years. In the same period, the fertility rate (being the average number of babies born per woman) among women aged over 30 has increased. The increasing age of mothers and increasing fertility rates of women aged over 30 has been impacted by a number of factors including:

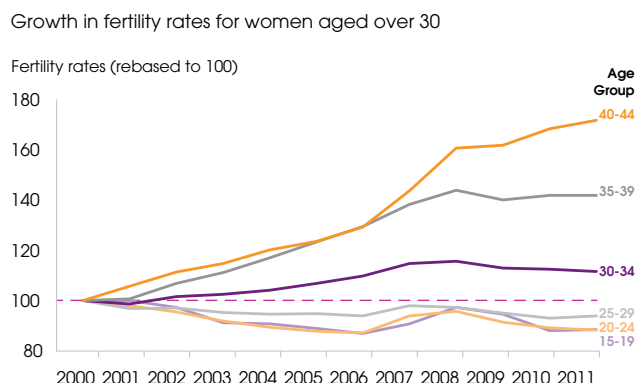
- the continued higher education of women;
- longer participation in the workforce;
- the increasing importance young Australians place on attaining financial security prior to having children; and
- more effective contraception.

Chart 1: Increasing median age of mothers



Source: Australian Bureau of Statistics – *Births, Australia, 2011*.

Chart 2: Growth in Age specific fertility rates in Australia

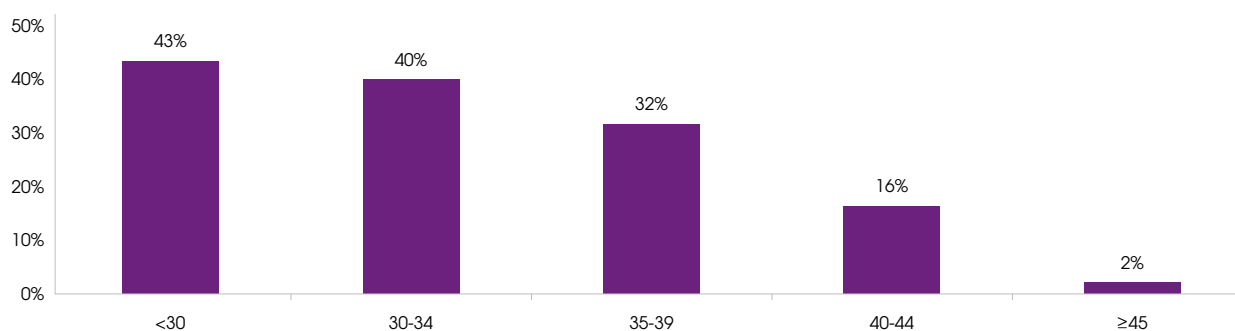


Source: Compiled from data from Australian Bureau of Statistics – *Births, Australia, 2011*.

As women age, the number of egg follicles that remain in their body declines. This can cause them to have difficulty conceiving a child naturally and therefore may require them to use Assisted Reproductive Services in order to conceive a child.

Chart 3: Female fertility declines with age

% of clinical pregnancies per embryo transfer cycle by age group (2010)
Success rates for embryo transfer cycles by age group (Australia/New Zealand)



Source: Figures calculated from data published by the Australian Institute of Health and Welfare, *Assisted Reproductive Technology in Australia and New Zealand Report, 2010*.

34. Australian Bureau of Statistics, *Population, 2001-2011*.

35. Australian Bureau of Statistics, *Population Forecasts, 2011-2018 (Series B)*.

The combined effect of these demographic trends has increased the number of people accessing Assisted Reproductive Services providers.

2.5.3 Increasing utilisation of Assisted Reproductive Services

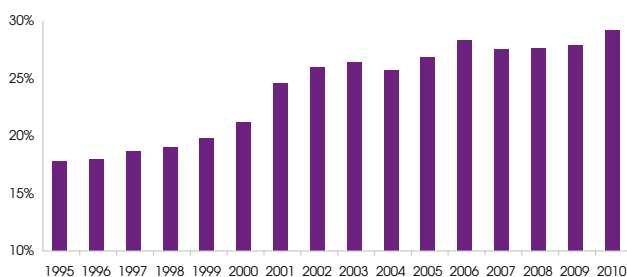
The number of women utilising Assisted Reproductive Services in Australia has been increasing and Virtus believes this will continue. There are a number of reasons behind this trend:

- *Increasing social acceptance of Assisted Reproductive Services* – the social awareness and acceptability of undertaking Assisted Reproductive Services has increased over time. This is demonstrated by a number of Australia-wide interview surveys that were conducted between July 1981 and February 2011 to gauge community attitudes towards Assisted Reproductive Services. It was found that support for Assisted Reproductive Services to help infertile married couples increased from 77% in 1981 to 91% in 2011. The surveys also showed a marked increase in the support for single women and lesbian couples using donor sperm.³⁶
- Virtus believes that the increasing social awareness and acceptability of Assisted Reproductive Services has caused more couples who are experiencing infertility to consult a general practitioner or medical specialist and be referred to a fertility clinic.
- *Increasing willingness of general practitioners and medical specialists to refer patients to a fertility clinic* – Virtus has found the continued education of general practitioners and medical specialists about the benefits of Assisted Reproductive Services has resulted in more patients being referred to Virtus' fertility clinics. Virtus has experienced increased referral rates from general practitioners and medical specialists following continued education about the benefits of Assisted Reproductive Services.
- *Increasing accessibility of fertility clinics* – the proximity of a fertility clinic to a patient's place of residence is a consideration in whether to undertake Assisted Reproductive Services. Virtus has found that opening new fertility clinics in areas where Assisted Reproductive Services have not historically been provided has enabled Virtus to service new areas of existing patient demand. This has been Virtus' experience in the opening of fertility clinics at Box Hill in Victoria in 2010 and at Dee Why in New South Wales in 2012.
- *Improving success rates and efficacy of Assisted Reproductive Services* – the success rates and efficacy of IVF Cycles and frozen embryo transfers have been increasing. This improvement in success rates has been achieved whilst reducing the average number of embryos transferred per IVF Cycle, which in turn minimises the risk of multiple births and associated health risks for patients. The improvements in success rates have been a result of improvements in embryo handling procedures, culture media, better cryopreservation and thawing techniques for embryos and advancements in specialised diagnostic techniques. Improving success rates and reducing the number of embryos transferred per patient has made Assisted Reproductive Services a more cost-effective and safe form of achieving a clinical pregnancy.

Chart 4: Success rates of Assisted Reproductive Services

% of clinical pregnancies per embryo transfer cycle (1995 – 2010)

Success rates for embryo transfer cycles (Australia/New Zealand)

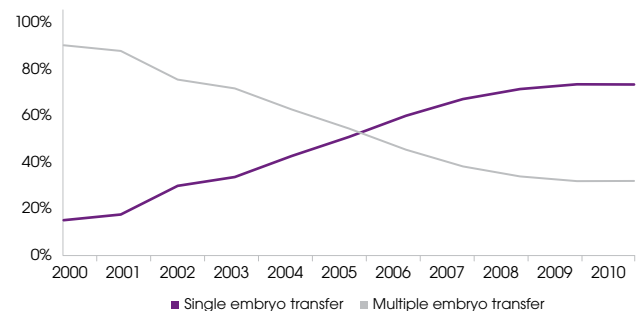


Source: Figures calculated from data published by the Australian Institute of Health and Welfare, *Assisted Reproductive Technology in Australia and New Zealand Reports, 1995-2010*.

Chart 5: Embryo transfer rates for Assisted Reproductive Services

2002 – 2010

% of IVF Cycles and frozen embryo transfers



Source: Figures calculated from data published by the Australian Institute of Health and Welfare, *Assisted Reproductive Technology in Australia and New Zealand Reports, 2002-2010*.

36. Gabor Kovacs, Gary Morgan, Michele Levine and Julian McCrann, 'The Australian community overwhelmingly approves IVF to treat subfertility, with increasing support over three decades' (2012) 52 *Australian and New Zealand Journal of Obstetrics and Gynaecology* 302.

2.6 Historic and forecast growth in the Assisted Reproductive Services market

The long-term social and demographic trends that are described above have driven strong historic growth in the Assisted Reproductive Services market. Virtus believes these trends will continue to drive growth in the Assisted Reproductive Services market.

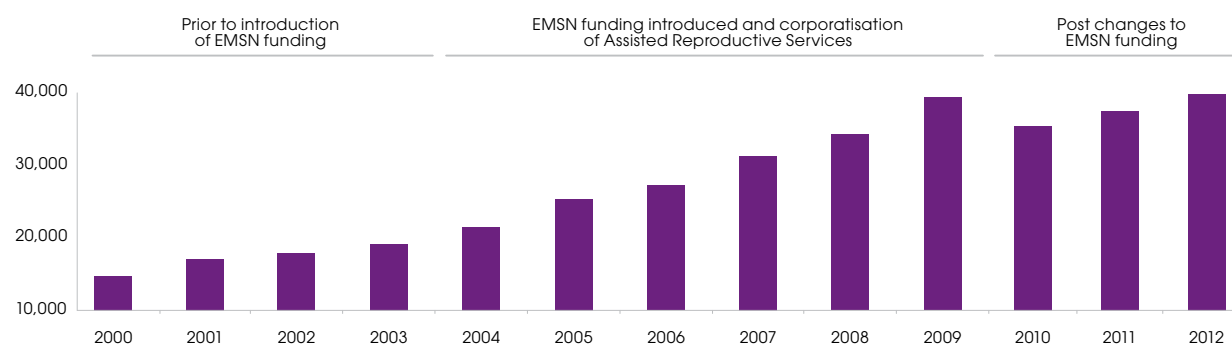
Growth in the Assisted Reproductive Services market between 2000 and 2012 can be broken down into three distinct periods:

- 2000 – 2003: prior to the commencement of the EMSN program in 2004, the number of IVF Cycles grew at a compound annual growth rate of 9%;
- 2004 – 2008: the EMSN program commenced in March 2004 and provided patients who met the annual threshold with reimbursement of 80% of their out-of-pocket payments for Assisted Reproductive Services. During this period, the corporatisation of Assisted Reproductive Services providers also occurred, leading to a greater range of marketing activities by fertility clinics that raised the profile and awareness of Assisted Reproductive Services. The introduction of the EMSN program and corporatisation of Assisted Reproductive Services resulted in the number of IVF Cycles growing at a compound annual growth rate of 12% between 2004 and 2008;
- 2009 – 2010: changes that placed caps on the amount of EMSN funding for Assisted Reproductive Services were announced in May 2009 and came into effect on 1 January 2010. The cap applies to all Assisted Reproductive Services. These changes caused patients to undertake more IVF Cycles in 2009 prior to the implementation of capped EMSN benefits on 1 January 2010 and a corresponding decrease in IVF Cycles in 2010. Following the changes coming into effect on 1 January 2010, patients faced higher out-of-pocket payments and were required to fund the full price of an IVF Cycle before receiving partial reimbursement (prior to 1 January 2010, patients only had to fund the out-of-pocket payment component). Virtus implemented a credit card payment system in 2011 to alleviate patients from having to fund the full price of a fresh stimulated IVF Cycle for extended periods. The number of IVF Cycles undertaken in Australia fell by 10.1% in 2010;
- 2011 – 2012: the number of IVF Cycles undertaken in Australia returned to growth in 2011. The number of IVF Cycles undertaken increased by 6.1% in 2011 and then by a further 6.2% in 2012. Including the 2009 and 2010 periods that were affected by the announcement and implementation of the capped EMSN benefits, IVF Cycles grew at a compound annual growth rate of 3.9% between 2008 and 2012.

The historic number of IVF Cycles undertaken in Australia is displayed in the diagram below.

Chart 6: IVF Cycles in Australia

Number of IVF Cycles per calendar year

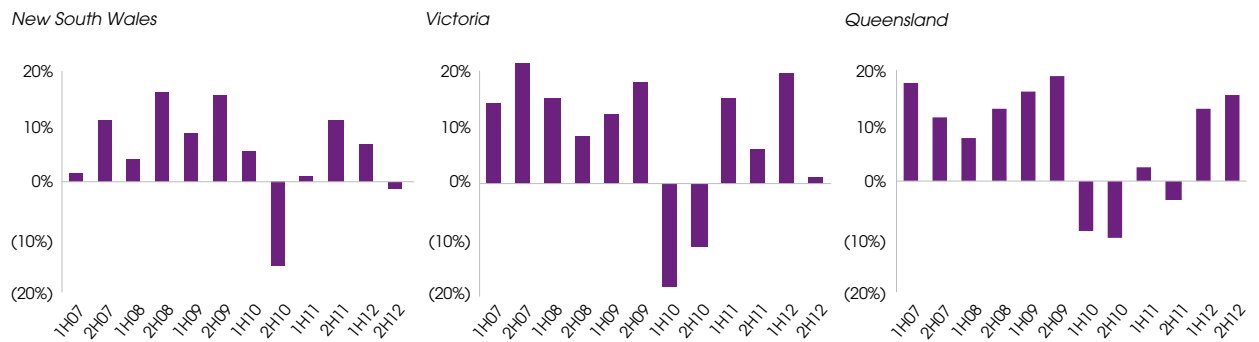


Source: Based on Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202 for the 12 months ending 31 December in each year <<https://www.medicareaustralia.gov.au/statistics/mbsitem.shtml>>.

Notwithstanding the long-term social and demographic trends driving patient demand for IVF Cycles, growth in IVF Cycles has historically experienced variability over short-term periods, as shown in the chart below. Variability in the historic growth in IVF Cycles in individual states over short-term periods has been attributable to changes in local economic conditions, natural disasters, regulatory changes and other factors affecting specific regional markets. The growth rates over six month periods between 2007 and 2012 in the states in which Virtus operates are shown in the diagram below. Where growth in a short-term period has been below long-term trends, Virtus has generally seen above trend growth in later periods. Patients do not typically elect to delay their IVF Cycle indefinitely as age typically has a negative influence on female fertility and a patient's chances of success.

Chart 7: Short-term variability in IVF Cycle volume growth

IVF Cycle volume growth (calendar half year vs prior corresponding period)



Source: Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202 <<https://www.medicareaustralia.gov.au/statistics/mbsitem.shtml>>.

Notwithstanding short-term variability, Virtus believes that the drivers of Assisted Reproductive Services demand outlined in Section 2.5 should continue to drive overall growth in the long term.

2.7 Structure and competitive dynamics of the Assisted Reproductive Services market

Assisted Reproductive Service providers compete on a regional basis. New South Wales, Queensland and Victoria are the largest states for Assisted Reproductive Services which together accounted for 80% of IVF Cycles performed in Australia in 2012.³⁷

- *New South Wales* – accounted for 33.5% of IVF Cycles performed in Australia in 2012. The majority of IVF Cycles are performed in Sydney with a small number of IVF Cycles performed in regional locations. Virtus is one of the two largest Assisted Reproductive Service providers in Sydney, where its primary competitor is Genea. Apart from Virtus and Genea, there are seven other smaller Assisted Reproductive Service clinics in Sydney. Virtus also has a presence in the regional locations of Newcastle, Gosford and Wollongong. Virtus was responsible for approximately 35% of IVF Cycles performed in New South Wales in 2012.³⁸
- *Victoria* – accounted for 29.1% of IVF Cycles performed in Australia in 2012 with the majority performed in Melbourne. Virtus is one of the two largest Assisted Reproductive Service providers in Melbourne, where its primary competitor is Healthbridge which operates under the Monash IVF brand. Virtus and Healthbridge were collectively responsible for approximately 91% of IVF Cycles performed in Victoria in 2012, with Virtus responsible for approximately 47% of those cycles.³⁹
- *Queensland* – accounted for 17.6% of IVF Cycles performed in Australia in 2012. Brisbane is the largest market for IVF Cycles in Queensland; however, there are several regional markets where IVF Cycles are also performed including Gold Coast, Toowoomba, Cairns, Mackay and Townsville. Virtus operates in Brisbane and a number of regional locations and is the largest provider of Assisted Reproductive Services in Queensland. Virtus' closest competitors are City Fertility, Healthbridge and Life Fertility Clinic. Virtus was responsible for approximately 52% of IVF Cycles performed in Queensland in 2012.⁴⁰

Nearly all Assisted Reproductive Services in Australia are provided by private fertility clinics. In Sydney, only two fertility clinics are located in public hospitals. In Melbourne, only one is located in a public hospital which Virtus operates under contract with The Royal Women's Hospital. Virtus believes that there are a number of advantages to patients in undertaking Assisted Reproductive Services provided by a private fertility clinic. While they provide a lower cost service, fertility clinics in public hospitals typically have significantly longer waiting lists than private fertility clinics, which is problematic for patients given the limited timeframe in which they can seek treatment. Public clinics also do not offer patients a choice of Fertility Specialist.

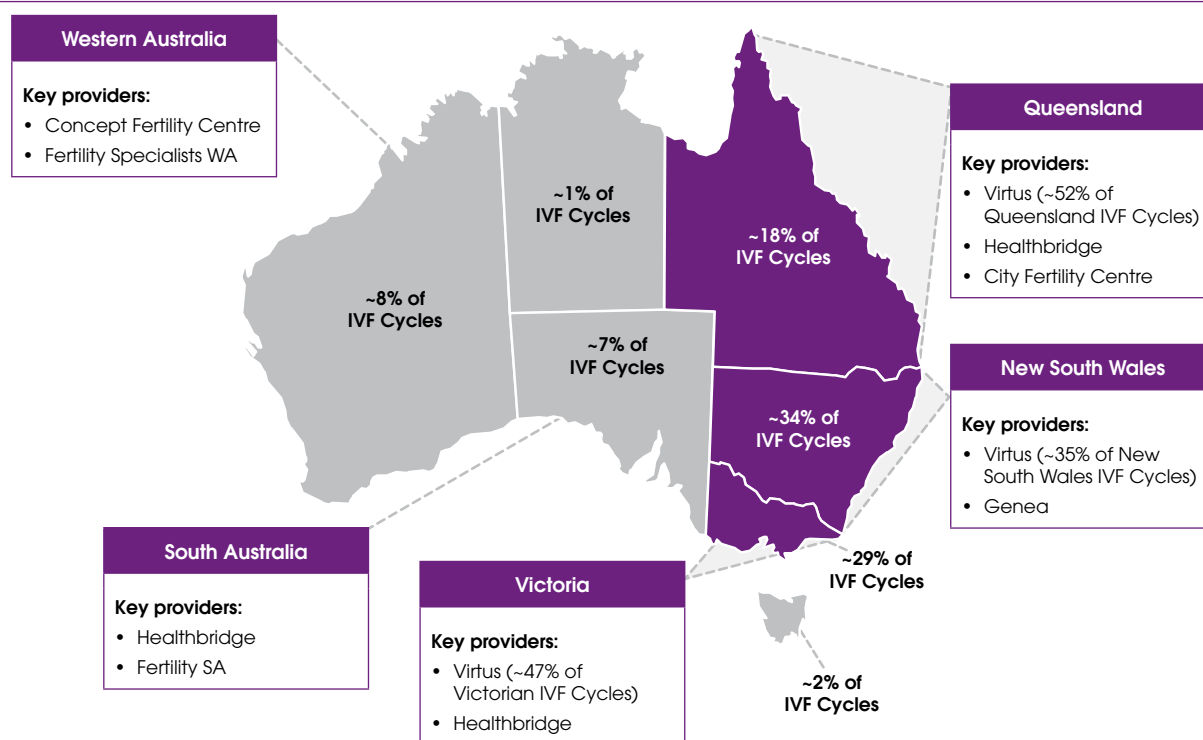
37. Based on Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202 for the 12 months ended 31 December 2012 <https://www.medicareaustralia.gov.au/statistics/mbs_item.shtml>.

38. Based on Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202 for the 12 months ended 31 December 2012 <https://www.medicareaustralia.gov.au/statistics/mbs_item.shtml>.

39. Victorian Assisted Reproductive Treatment Authority, *Annual Report 2012*.

40. Based on Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202 for the 12 months ended 31 December 2012 <https://www.medicareaustralia.gov.au/statistics/mbs_item.shtml>.

Chart 8: IVF Cycles undertaken in Australia (2012)



Source: Market wide data based on Medicare Benefit Schedule Item Statistic Reports for the 12 months ending 31 December 2012 for Medicare Benefit Schedule items 13200, 13201 and 13202 <<https://www.medicareaustralia.gov.au/statistics/mbsitem.shtml>>. Virtus market share numbers calculated by comparing Virtus' 13200, 13201 and 13202 data to the market wide data obtained from Medicare. Remaining 2% of IVF Cycles are performed in the Australian Capital Territory.

Providers of Assisted Reproductive Services in each regional market compete on their ability to attract potential patients through breadth and quality of services, sales and marketing activities, the location and accessibility of their fertility clinics and the number and quality of their Fertility Specialists. Larger fertility clinic groups such as Virtus possess a number of competitive advantages due to the scale of their activities:

- *breadth and quality of service* – patients may choose a fertility clinic based on the breadth and quality of Assisted Reproductive Services it offers. Larger fertility clinic groups can fund the operation of laboratories and an experienced workforce that can provide a wider range of advanced scientific and specialised diagnostic services;
- *number and quality of Fertility Specialists* – patients may be influenced by the availability, quality of training, and reputation of Fertility Specialists. The larger fertility clinic groups have more Fertility Specialists and may be able to limit waiting times for patients to see a Fertility Specialist;
- *location and accessibility of fertility clinics* – larger fertility clinic groups tend to have a broader geographic network of fertility clinics and are therefore more accessible for patients; and
- *sales and marketing capability* – patient's choice of fertility clinic can be influenced by the promotional activities of a fertility clinic group. These activities focus directly on potential patients in attracting them to a fertility clinic. An education program supports the general practitioners and medical specialists that may recommend and refer a patient to a fertility clinic.

2.8 The Australian specialised diagnostics market

The Australian specialised diagnostics market is a subset of the broader Australian diagnostics market. It includes laboratories that operate within the Category S (Specialised) definition contained in Section 17 of the *Health Insurance (Accredited Pathology Laboratories – Approval) Principles 2002*. This category of laboratories includes laboratories performing a limited range of pathology tests under the supervision of a person with special qualifications or skills in the field of those tests, that are tests performed for a particular target population or are of a specialised nature and are performed in the field of those special qualifications or skills.⁴¹

Virtus operates in a sub-set of the Category S laboratory market that is focused on Assisted Reproductive Services. Virtus operates three pathology laboratories specialising in endocrinology, serology and polymerase chain reaction testing of sexually transmitted diseases. Virtus also has satellite laboratories specialising in andrology at Virtus' main treatment centres in NSW, Queensland and Victoria.

41. *Health Insurance (Accredited Pathology Laboratories – Approval) Principles 2002*, s 17.

There are only two other companies in New South Wales, Victoria and Queensland that currently supply specialised tests for Assisted Reproductive Services. Genea performs specialised testing for Assisted Reproductive Services in New South Wales. Healthbridge (operating under the Monash IVF brand) also performs specialised testing for Assisted Reproductive Services in Victoria.

As noted in Section 4.6.1.1, revenue and testing volumes generated in specialised diagnostic testing for Assisted Reproductive Services is directly related to the size of the Assisted Reproductive Services market and, in particular, the number of IVF Cycles performed. This is because specialised diagnostic tests are generally undertaken by patients prior to or in conjunction with IVF Cycles. As the largest provider of IVF Cycles in Australia in 2012,⁴² Virtus believes that it undertook the highest number of diagnostic tests for Assisted Reproductive Services across the markets in which it competes in 2012. Furthermore, the growth drivers for Assisted Reproductive Services discussed in Section 2.5 are also likely to support growth in the specialised diagnostics market for Assisted Reproductive Services.

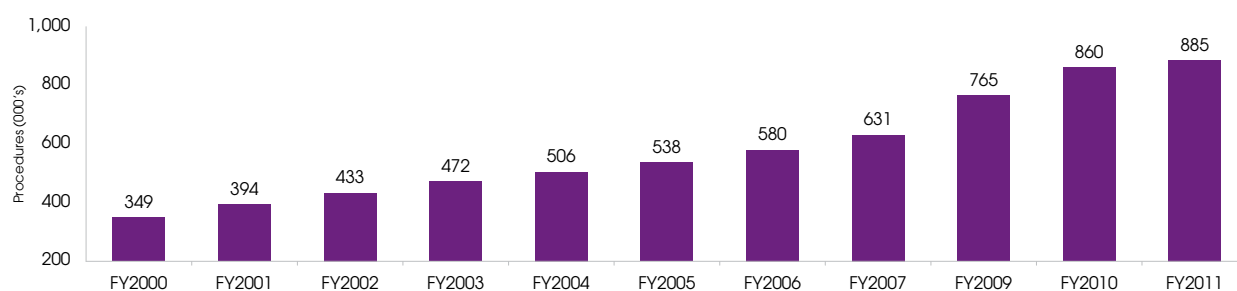
2.9 The Australian private day hospital market

Virtus operates in the Australian day hospital market through the operation of six day hospitals used for Assisted Reproductive Services and other related surgical procedures. There were 314 private day hospitals across Australia in FY2011, with the majority located in New South Wales, Victoria and Queensland.⁴³ The private day hospital market accounts for approximately 24% of all private hospital procedures in Australia.⁴⁴ Procedures for gynaecology, fertility treatments and family planning are a meaningful part of the day hospital market, accounting for 9% of total procedures performed in FY2011.⁴⁵

The number of procedures performed in private day hospitals has been growing at a compound annual growth rate of 9% between FY2000 and FY2011.⁴⁶ Private health insurers have continued to issue contracts to Virtus day hospitals. Virtus believes that this is because there are benefits to private health insurers in moving procedures from acute private hospitals to private day hospitals as it results in a decreased length of stay and corresponding reduction in benefit payments.

Chart 9: Procedures in private day hospitals⁴⁶

FY2000 – FY2011



Source: Australian Bureau of Statistics, *Private Hospitals, 1999 – 2011*.

In addition to strong procedure growth, the market has benefited from increases in the fees charged for procedures performed in private day hospitals. The fee charged for procedures is typically negotiated annually between each private health insurer and the day hospital operator.

Ownership of private day hospitals remains highly fragmented. Virtus believes that the largest operator of standalone private day hospitals in Australia operates nine day hospitals.

42. Based on the number of IVF Cycles undertaken for the 12 months ended 31 December 2012.

43. Australian Bureau of Statistics, *Private Hospitals 2010-2011*.

44. Australian Bureau of Statistics, *Private Hospitals 2010-2011*.

45. Australian Bureau of Statistics, *Private Hospitals 2010-2011*.

46. Australian Bureau of Statistics, *Private Hospitals 2010-2011*.

47. Data was not collected by the Australian Bureau of Statistics for FY2008 due to budgetary constraints.

2.10 Industry funding arrangements

Patients receive partial reimbursement towards the cost of Assisted Reproductive Services, specialised diagnostics and day hospital services from a number of possible funding sources:

Government funding

- **MBS** – Medicare is a universal health program that underpins Australia’s healthcare system. Medicare subsidises the cost of certain medical services that are provided out of hospital as well as in-hospital services provided to privately insured patients. Medicare defines more than 5,700 different health services on the MBS and specifies a set schedule fee and rebate for each service. Patients are typically entitled to a reimbursement of 85% of the schedule fee for out of hospital services. The Commonwealth Government has reviewed and implemented changes to the set fee and reimbursement for each service in November of each year. On 14 May 2013 the Commonwealth Government announced that the next review date would be 1 July 2014 and thereafter the review and implementation of changes to the set fee and reimbursement for services would be on 1 July each year. Virtus does not believe that the change in the review date will have a material impact on the demand for Virtus’ services. The MBS rebate for the most expensive component of an IVF Cycle⁴⁸ has increased at a compound annual growth rate of 1.9% between 2010 and 2013.⁴⁹
- **EMSN** – the Commonwealth Government also funds the EMSN program which provides qualifying patients with partial reimbursement for out-of-hospital services in addition to the set benefit under the MBS where the qualifying patient has incurred out-of-pocket medical expenses of at least the threshold amount in the calendar year. The threshold amount is inflation indexed and is reset from 1 January each year. The threshold is currently \$1,221.90 unless the patient is a concession cardholder or eligible for Family Tax Benefit A (in which case the threshold is \$610.70). Once a patient reaches the threshold for out-of-pocket medical expenses, the EMSN program provides a patient reimbursement for the lower of:
 - › 80% of the patients out-of-pocket payments for an out of hospital service; or
 - › a specific capped amount per out-of-hospital service (which applies to Assisted Reproductive Services).

On 14 May 2013 the Commonwealth Government announced a planned increase in the threshold from \$1,221.90 to \$2,000 effective from 1 January 2015. The threshold for patients who are concession cardholders or eligible for Family Tax Benefit A remains unchanged. The planned increase requires legislation to be passed by the Commonwealth Parliament. While out-of-pocket costs for TFC patients may increase if these changes are implemented, Virtus does not believe that the increased threshold will have a material impact on the demand for Virtus’ services.

The partial reimbursement paid to patients under the EMSN program for major types of Assisted Reproductive Services (i.e. IVF Cycles and frozen embryo transfers) was capped on 1 January 2010 at a set amount per treatment service. The EMSN cap for the most expensive component of an IVF Cycle⁵⁰ has increased at a compound annual growth rate of 2.6% between 2010 and 2013.⁵¹

Private health insurance

The private health insurance sector is an integral component of the Australian healthcare system and provides insurance coverage for in-hospital fertility procedures. The Commonwealth Government operates several policy measures (e.g. Medicare Levy Surcharge, Lifetime Health Cover, Commonwealth Government rebate) to encourage Australians to purchase private health insurance. As at 31 December 2012, 54.6% of the Australian population had private health insurance coverage.⁵² Greater than two thirds of Virtus’ day hospital patients in FY2012 had private health insurance.

For a large majority of Virtus’ services, the total reimbursement provided by the MBS, EMSN and private health insurance are less than the cost of the service. The difference between the cost of Virtus’ services and total reimbursement received by patients is funded by patients through out-of-pocket payments. The relative benefits received by patients from different funding sources and the required out-of-pocket payments differ by type of service Virtus provides:

- **Assisted Reproductive Services** – Virtus’ patients are required to pay the full price of the service to Virtus and then seek reimbursement from Medicare. The level of MBS and EMSN reimbursement will differ by type of service and the availability of the EMSN component will depend on the circumstances of individual patients. Chart 11 illustrates the funding breakdown for Virtus’ most common Assisted Reproductive Service, an IVF Cycle;
- **specialised diagnostic services** – Virtus bulk bills Medicare for the majority of its routine diagnostic tests. This means that patients are not required to make any out-of-pocket payments towards the price of the service as Virtus receives full payment for the price of the service from Medicare. For the majority of advanced diagnostic tests, Virtus’ day hospital patients are required to pay the full price of the service to Virtus and then seek reimbursement from Medicare if funded. The level of reimbursement from Medicare is typically a small percentage of the price of advanced diagnostic tests and therefore the patient out-of-pocket payments represent the majority of funding for such tests; and

48. The most expensive component of an IVF Cycle for Virtus is provided under MBS codes 13200 and 13201.

49. Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202 <https://www.medicareaustralia.gov.au/statistics/mbs_item.shtml>.

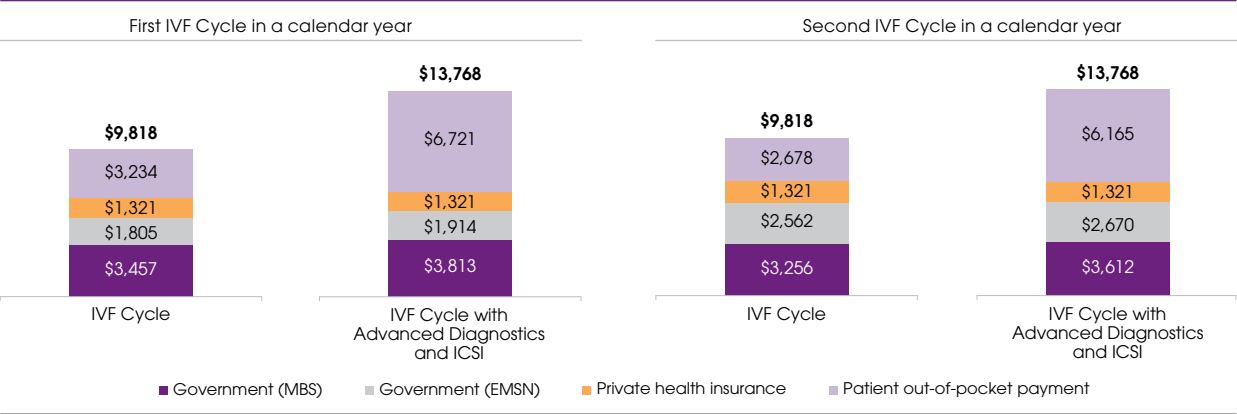
50. The most expensive component of an IVF Cycle for Virtus is provided under MBS codes 13200 and 13201.

51. Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202 <https://www.medicareaustralia.gov.au/statistics/mbs_item.shtml>.

52. Private Healthcare Australia, <http://www.privatehealthcareaustralia.org.au/news/stats_and_data/private-health-insurance-membership-%E2%80%93-december-2012/>.

- *day hospital services* – for the 80% of Virtus’ patients that hold private health insurance, Virtus invoices the patient’s private health insurer for the fees for day hospital services and the patient is not required to make any out-of-pocket payments other than an excess depending on the level of cover they hold. If the patient does not hold private health insurance, they are required to make an out-of-pocket payment for the service.
- Chart 11 illustrates possible funding scenarios for an IVF Cycle and the use of specialised diagnostics in conjunction with an IVF Cycle. As outlined above, the level of reimbursement from various funding sources will depend on a patient’s individual circumstances. The chart is illustrative only and makes a number of assumptions that are outlined in the notes below the chart.

Chart 10: Funding breakdown of an IVF Cycle



Source: Virtus.

- Notes:
1. Price of an IVF Cycle and level of reimbursement from different funding sources captures services provided by Virtus under the Medicare Benefit Schedule Item numbers 13200, 13209, 13212 and 13215 as well as day hospital theatre and accommodation fees.
 2. The total price of an IVF Cycle outlined in the chart is illustrative only. It reflects an average of the prices charged by Virtus across its main fertility clinics for these services.
 3. The level of reimbursement is illustrative only. The level of private health reimbursement assumes the patient holds private health insurance with a level of cover that does not require an excess payment for day hospital services. The ability to receive MBS and EMSN reimbursement assumes the patient has received a referral from a general practitioner or medical specialist (gynaecologist or obstetrician) in order to be entitled to Commonwealth Government reimbursement. The level of EMSN reimbursement assumes the patient has incurred the required threshold out-of-pocket medical expenses during a calendar year in order to be entitled to the full EMSN benefit. Virtus believes its patients who are undertaking a first IVF Cycle in a calendar year have typically incurred the threshold out-of-pocket medical expenses prior to commencement of their IVF Cycle. For a patient’s second and subsequent IVF Cycles, they would have incurred the threshold out-of-pocket medical expenses to be entitled to full EMSN benefit as a result of the cost of previous IVF Cycles.
 4. The advanced diagnostic services used in the chart assumes a patient also uses ICSI and pre implantation genetic diagnosis translocation.

As illustrated in the chart above, for an IVF Cycle, Commonwealth Government funding can contribute in the order of 54-59%, private health insurance approximately 13% and patient out-of-pocket payments in the order of 27-33% of the funding for the overall service. If a patient chooses to utilise Virtus’ advanced diagnostics testing and ICSI, Commonwealth Government funding can contribute in the order of 42-46%, private health insurance approximately 10% and patient out-of-pocket payments in the order of 45-49%.

section three



section three

business overview

3.1 Introduction

This Section will firstly provide an overview of Virtus and explain how it has evolved to become the largest provider of Assisted Reproductive Services in Australia.⁵³ It will then describe Virtus' vertically integrated business model and the way in which Virtus generates income from Assisted Reproductive Services and the adjacent services of specialised diagnostics and day hospitals. Following this, the Section will outline Virtus' geographic footprint across the eastern states of Australia as well as its sales and marketing activities which play an important role in attracting patients.

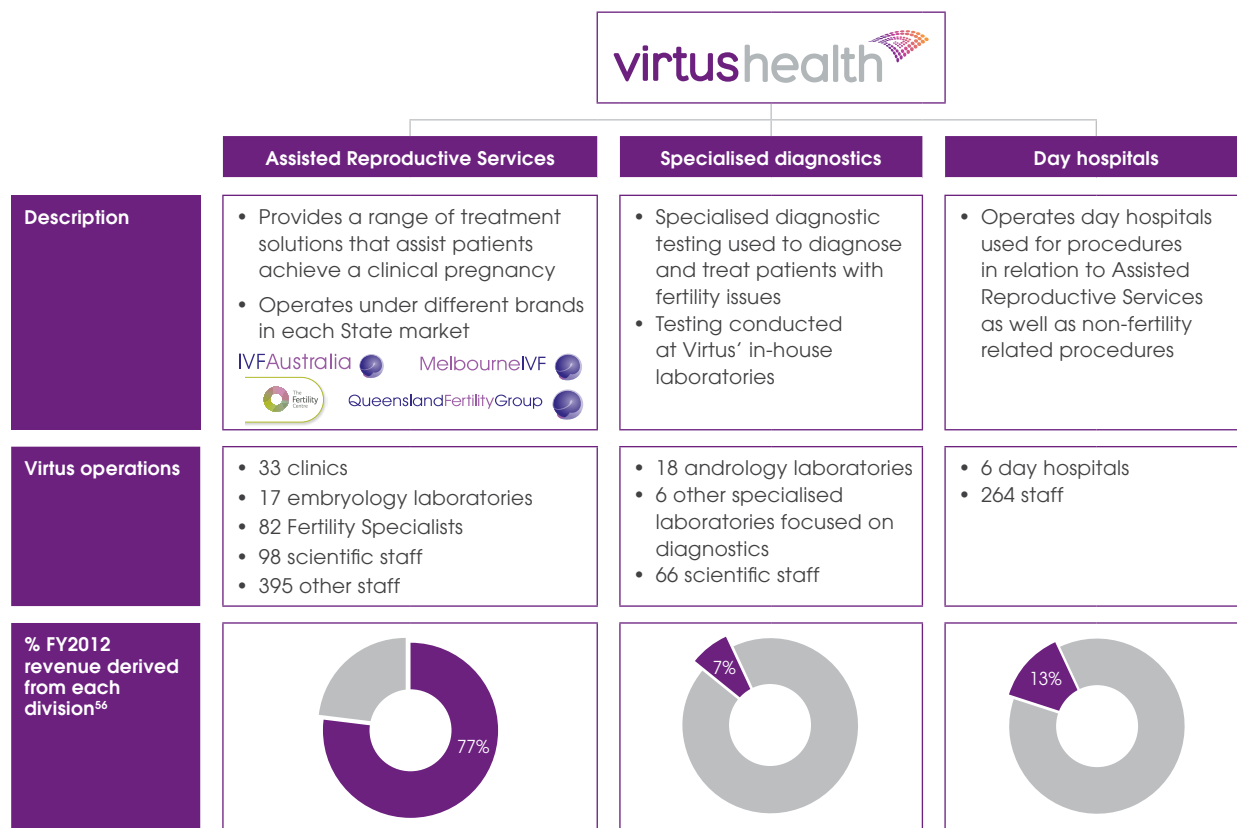
Due to the clinical and scientific nature of Assisted Reproductive Services, Virtus' business relies upon its ability to attract and retain high quality Fertility Specialists, scientific and nursing staff. For this reason, this Section will provide an overview of Virtus' Fertility Specialists, and its scientific and nursing staff as well as discuss Virtus' scientific and clinical capabilities and risk management framework. Finally, the Section will conclude by describing Virtus' strategy to continue to grow its business.

3.2 Overview of Virtus

Virtus is an Australian healthcare services company whose main activity is providing patients with Assisted Reproductive Services, but which also has significant revenues from specialised diagnostics and day hospitals. Virtus provides these services to its patients through a network of 33 fertility clinics, 17 embryology laboratories, 18 andrology laboratories, six specialised diagnostic testing laboratories and six day hospitals. Virtus is the largest provider of Assisted Reproductive Services in Australia with an approximate 35% share of IVF Cycles performed in 2012.⁵⁴ Virtus operates in New South Wales, Victoria and Queensland which together accounted for 80% of IVF Cycles performed in Australia in 2012.⁵⁵ Virtus is positioned as one of the two largest providers of Assisted Reproductive Services in each of these states.

Virtus' Assisted Reproductive Services are supported by group functions including finance, strategy, sales and marketing, IT, legal and human resources. A brief description of each of these key business lines is provided in the following diagram:

Figure 1: Overview of Virtus' business lines



53. Based on the number of IVF Cycles undertaken for the 12 months ended 31 December 2012.

54. Based on Medicare Benefit Schedule Item Statistic Reports for the 12 months ended 31 December 2012 <https://www.medicareaustralia.gov.au/statistics/mbs_item.shtml> and Virtus' internal cycle data.

55. Based on Medicare Benefit Schedule Item Statistic Reports for the 12 months ended 31 December 2012 <https://www.medicareaustralia.gov.au/statistics/mbs_item.shtml>.

56. Remaining 3% of revenue relates to drug, rent recovery and other miscellaneous income.

3.3 How has Virtus evolved?

Virtus' three founding fertility clinic groups (IVFAustralia, Melbourne IVF and Queensland Fertility Group) were separately established as some of the first providers of Assisted Reproductive Services in Australia. Virtus Fertility Specialists have been involved in the field of Assisted Reproductive Services since its establishment in the 1970s. In fact, some of Virtus' Fertility Specialists were involved in the Melbourne Egg Project which in 1980 which was responsible for the first baby born in Australia and the third baby born globally using Assisted Reproductive Services.

Since their origins in the 1980s, Virtus' fertility clinic groups have developed into some of the largest providers of Assisted Reproductive Services in their respective states of New South Wales, Victoria and Queensland. Between 2008 and 2009, Virtus was established through the combination of these three state fertility clinic groups. This resulted in significant scale efficiencies and allowed Virtus to share operational, clinical and scientific practices across its businesses.

In addition to bringing together fertility clinics in New South Wales, Victoria and Queensland, Virtus has pursued a strategy of capturing related business revenues. Virtus now provides specialised diagnostic services and day hospital services to support its network of fertility clinics. This has enabled Virtus to improve the quality, consistency and range of its patient services as well as receive income at each of the key steps in the fertility treatment process. Assisted Reproductive Services involve multiple clinical, scientific and administrative components where the management and co-ordination of each of the key steps is critical to the overall quality of patient services.

3.4 What is Virtus' business model?

Virtus generates income by providing Assisted Reproductive Services to patients from its network of fertility clinics and by supporting these services with its specialised diagnostic laboratories and its day hospitals. The diagram below summarises the various components of Virtus' vertically integrated business model and the main areas through which it receives income.

Figure 2: Overview of Virtus' business model

	Virtus activities	Virtus revenue sources
1 Sales and Marketing	Virtus operates a sales and marketing platform to attract potential patients to Virtus' clinics and Fertility Specialists	No revenue generated. Activities focused on drawing potential patients to Virtus' clinics
2 Consultation with Fertility Specialist	Virtus Fertility Specialist meets with patients and, if appropriate, refers them to Virtus for treatment	No revenue generated – Fertility Specialists charge patients directly
3 Specialised diagnostic testing	Virtus provides specialised diagnostic testing to assist in patient diagnosis and treatment	Virtus charges fees to patients for specialised diagnostic tests (specialised diagnostic revenue)
4 Assisted Reproductive Services	Virtus Fertility Specialists, scientific staff and nurses deliver Assisted Reproductive Services using Virtus' clinics and laboratories. Most common services are IVF Cycles and frozen embryo transfers	Virtus charges fees to patients for Assisted Reproductive Services (Assisted Reproductive Services revenue)
5 Day hospitals	Virtus provides day hospital facilities that are used by Fertility Specialists and other medical specialists for Assisted Reproductive Services related and other medical procedures	Virtus charges fees to patients for day hospital services (day hospitals revenue)
6 Other services	Virtus provides a variety of other related Assisted Reproductive Services including cryostorage of embryos, eggs and semen, and pregnancy testing services	Virtus charges fees to patients for services (Assisted Reproductive Services revenue)

Virtus' business model is dependent on certain key factors. These include:

- *attracting patients* – Virtus is reliant on its program of building and strengthening relationships with general practitioners and medical specialists and by raising awareness of the services it provides to its potential patients through its website, call centre and public information events;
- *availability of Fertility Specialists* – Virtus contracts with 82 Fertility Specialists to oversee the provision of Assisted Reproductive Services to its patients. Without these Fertility Specialists, Virtus could not provide Assisted Reproductive Services to its patients;
- *Commonwealth Government funding* – patients receive partial reimbursement from Commonwealth Government healthcare funding programs; and
- *employment of a large workforce* – Virtus employs 824 staff, including 164 scientists, to assist in the provision of Assisted Reproductive Services. Without these staff, Virtus could not provide Assisted Reproductive Services to its patients. Virtus relies on its scientists to continue to offer the range and quality of scientific services currently provided and maintain success rates.

A more detailed description of each of the key treatment areas which form part of Virtus' business model is provided below.

3.4.1 Assisted Reproductive Services

Virtus offers patients a wide range of Assisted Reproductive Services that can treat a variety of infertility conditions. Assisted Reproductive Services provided by Virtus include IVF Cycles, cryostorage of frozen embryos, frozen embryo transfers, intra-uterine insemination and other forms of treatment. While the majority of income is received from the provision of IVF Cycles, Virtus offers patients a range of services that may be incorporated with an IVF Cycle to increase a patient's chances of success. These include but are not limited to the use of sperm injection technology ("ICSI") in the laboratory environment (selection of single sperm for injection into the egg); digital sperm microscopy; pre implantation genetic diagnosis; cryopreservation of embryos, eggs and semen; use of donor sperm and counselling support. Virtus has experienced a trend among patients to add other services to a standard IVF Cycle in order to improve their chances of success. Over time, the growing use of these additional services has increased the Average Total Revenue Per IVF Cycle.

A key feature of Virtus' Assisted Reproductive Services is the knowledge and sub-specialisation of its Fertility Specialist group (see Section 3.7). Virtus contracts with 82 Fertility Specialists and is able to offer patients specialised expertise across a wide range of fertility sub-specialties and Assisted Reproductive Services.

A summary of the services a patient receives during an IVF Cycle is outlined in the following diagram.

Figure 3: Overview of an IVF Cycle

	Timeline	Patient Services
	Day 0 (typically day 21-22 of a woman's menstrual cycle)	Orientation – nurse provides patient with overview of treatment plan
	Days 0-14	- Cycle begins – ovaries are stimulated for 2 weeks by hormone injections - Regular ultrasounds and blood monitoring
	Days 14-15	Egg collection performed in Virtus day hospital and partner provides sperm sample
	Days 14-16	Same day egg fertilisation in Virtus laboratory
	Days 15-20	Following fertilisation, embryos are grown in Virtus' incubators
	Days 16-20	Embryo is transferred in day hospital (often being a Virtus facility)
	Days 16-20	Extra embryos may be frozen – this can take place on day 3-5 of embryo growth
	Days 30-34	Pregnancy blood test 2 weeks after embryo transfer

3.4.2 Specialised diagnostics

As noted above, prior to and during an IVF Cycle, Virtus offers patients specialised diagnostic testing. These services assist Fertility Specialists to understand and diagnose patients' fertility conditions, thereby increasing their probability of success during an IVF Cycle.

Virtus' specialised diagnostic services are focused on three main areas: andrology (testing of semen), endocrinology (testing of blood and urine) and genetics (analysis of chromosome structure). Within each of these areas, Virtus offers a broad range of routine and specialised diagnostic tests. Routine tests are typically easier to perform and have a lower price per test. Specialised tests require highly skilled scientists and have a higher price per test. Virtus conducted approximately 450,000 endocrinology tests, 14,000 andrology tests and 13,000 genetic tests in 2012. Apart from some routine blood testing, analysis of almost all specialised diagnostic tests are conducted at Virtus' laboratories. Virtus bills patients separately for all diagnostic tests undertaken, apart from routine tests covered within the price of an IVF Cycle.

A summary of Virtus' specialised diagnostic tests is outlined in the table below.

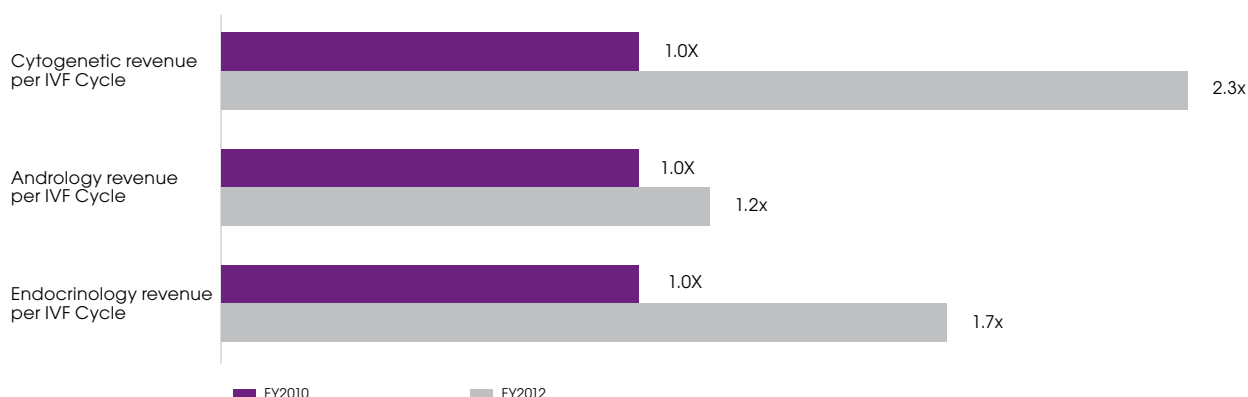
Table 1: Virtus' specialised diagnostic tests

Prior to an IVF Cycle	During an IVF Cycle
• General Endocrinology • Specialist Endocrinology • Infectious Diseases • Andrology Services • Flow Cytometry Services • DNA Diagnostics • Cytogenetics	• General Endocrinology • Specialised imaging of eggs, sperm and embryos • Array Comparative Genomic Hybridisation • Pre Implantation Genetic Diagnosis including use of microchip array technology

Virtus has found that the number and value of specialised diagnostic tests undertaken by patients has increased over time. Virtus is continuing to expand the range of diagnostic tests which it offers to patients. This has allowed Virtus to generate more revenue per IVF Cycle. The diagram below demonstrates the growth in diagnostic revenue per IVF Cycle that Virtus has achieved from FY2010 to FY2012:

Chart 11: Specialised diagnostic revenue

Revenue per IVF Cycle in FY2012 relative to FY2010



Source: Virtus.

3.4.3 Day hospitals

Virtus operates six day hospitals that are used for a mixture of procedures, with procedures in relation to Assisted Reproductive Services being the single largest medical specialty area performed in Virtus' day hospitals. Virtus receives income for procedures undertaken in its day hospitals.

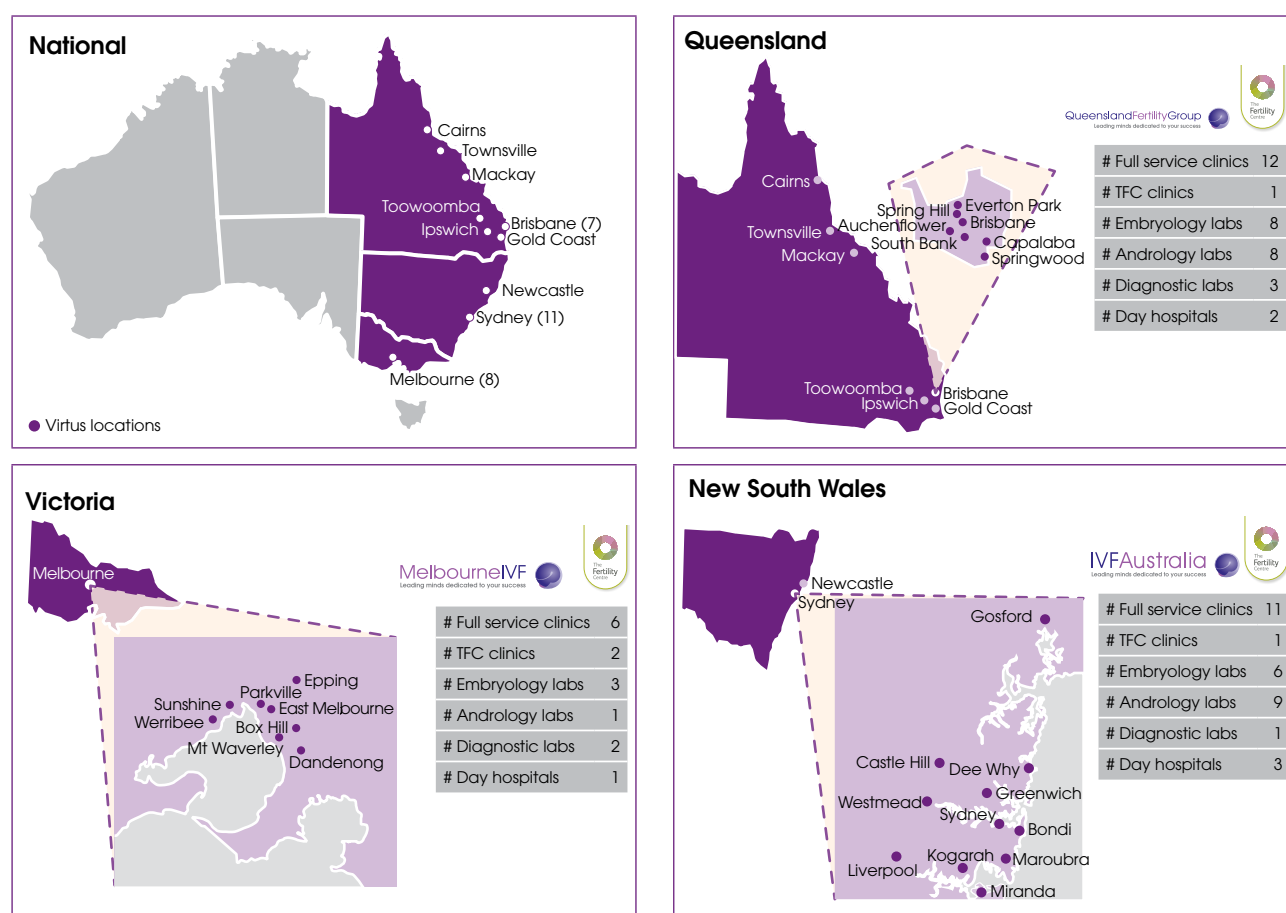
The majority of day hospital revenue in FY2012 was generated from procedures in relation to Assisted Reproductive Services, including egg collection, embryo transfers and other related services. Remaining day hospital revenue was generated from procedures in the medical fields of ophthalmology, endoscopy, plastic surgery, gynaecology, urology, dental and other surgical specialties. Virtus manages theatre lists and case mix in its day hospitals across multiple medical specialties to optimise financial performance of its day hospitals. Virtus continues to have sufficient capacity in its existing day hospitals to comfortably handle the forecast growth in fertility and other specialty procedures assumed in the Forecast Financial Information included in Section 4.

3.5 What is Virtus' geographic footprint?

Virtus operates in the three largest states for Assisted Reproductive Services in Australia (New South Wales, Victoria and Queensland), which together accounted for 80% of IVF Cycles undertaken in Australia in 2012.⁵⁷ The scale of Virtus' operations ensures it is one of the two largest Assisted Reproductive Services providers in each of these states and has an approximate 35% share of IVF Cycles performed in Australia.⁵⁸ Virtus' scale also enables it to utilise a hub and spoke system whereby Virtus operates six centralised specialised diagnostic laboratories in each major market that undertake specialised diagnostic tests that come from Virtus' extensive fertility clinic network. This network comprises 33 clinics which are strategically located in geographic locations where potential patients live, thereby providing ease of access and convenience for patients to undertake Assisted Reproductive Services.

In addition to the six specialised diagnostic laboratories, Virtus' fertility clinic network is also supported by 17 embryology laboratories, 18 andrology laboratories and six day hospitals that are used to deliver Assisted Reproductive Services to patients. A graphical depiction of Virtus' extensive geographic footprint is provided below:

Chart 12: Virtus' geographic presence



Source: Virtus.

Full service clinics include clinics that offer consult and monitoring services on site and offer access to full services.

3.6 Virtus' sales and marketing activities

Virtus operates a sales and marketing function that builds and supports its brands, attracts potential patients and referrals to Virtus and its Fertility Specialists. Virtus maintains separate brands in each of the states in which it operates. These brands are well established and are recognised by patients, general practitioners and other medical specialists alike. Virtus estimates that its sales and marketing function generates a meaningful number of patient referrals to its Fertility Specialists which translate into IVF Cycles at Virtus. This Section provides an overview of Virtus' sales and marketing activities which aim to build professional relationships with general practitioners and other medical specialists as well as raise Virtus' profile with prospective patients. Virtus expects to spend approximately \$3.2 million on sales and marketing activities in FY2014.

57. Based on Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202 for the 12 months ended 31 December 2012 <https://www.medicareaustralia.gov.au/statistics/mbs_item.shtml>.

58. Based on Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202 for the 12 months ended 31 December 2012 <https://www.medicareaustralia.gov.au/statistics/mbs_item.shtml>.

General practitioners and medical specialists

Patients must obtain a referral from a general practitioner or other medical specialist (gynaecologist or obstetrician) in order to receive Commonwealth Government funding for services provided by Virtus. As a result, general practitioners and other medical specialists can influence a patient's choice of fertility clinic and Fertility Specialist.

Virtus undertakes activities that build and support professional relationships between its Fertility Specialists and general practitioners and other medical specialists. These activities include employing a team of approximately 10 medical liaison officers that visit general practitioners and other medical specialists on a regular basis to educate them about the services Virtus provides, the Fertility Specialists that are contracted with Virtus, and the benefits of patient treatment at Virtus' fertility clinics. In addition to this, Virtus also organises professional development programs for general practitioners and other medical specialists that provide education on the medical field of infertility and different types of patient conditions. These education programs are registered with The Royal Australian College of General Practitioners and allow general practitioners and other medical specialists to receive continuing medical education points that are important to their ongoing professional registration.

Patients

Virtus has found that patients are becoming more informed about their choice of fertility clinic. Virtus operates an integrated brand, messaging and advertising platform aimed at potential patients which includes:

- *branding* – Virtus operates different brands in each state in which it operates (IVFAustralia in New South Wales, Melbourne IVF in Victoria and Queensland Fertility Group in Queensland). These individual brands are well established and are recognised by patients, general practitioners and other medical specialists alike. Virtus' size enables it to invest in activities to support and grow its brand in each of its respective markets;
- *digital marketing platform* – based on websites that have mobile functionality and search engine optimisation. Virtus' experience is that the Internet is often used as an important point of contact between Virtus and potential patients. For the last 12 months ended February 2013, Virtus' websites received an average of over 50,000 unique website visits a month. Typically, some of these visits translate into potential patients requesting further information, requesting a call back from Virtus' 1800 telephone service or registering for a public information evening with Virtus. Virtus has invested in a number of digital marketing channels such as a unique donor selection website, as well as developing social media channels such as its fertility forum and specialist blogs;
- *1800 telephone service* – operated by Virtus in each state where potential patients can speak with a nurse or patient management staff member about services provided at Virtus. The service is also used by patients to make a booking for a public information evening organised by Virtus or an appointment with a Virtus Fertility Specialist. Through this service, Virtus can allocate new patients to one of its Fertility Specialists; and
- *public information evenings* – these evenings provide potential patients with the opportunity to hear a Virtus Fertility Specialist provide an overview of fertility issues and Virtus' Assisted Reproductive Services and answer any questions they may have. It also provides Virtus Fertility Specialists with an opportunity to develop their practice and meet new patients. Virtus organises these sessions on a regular basis in each of the capital cities in which it operates.

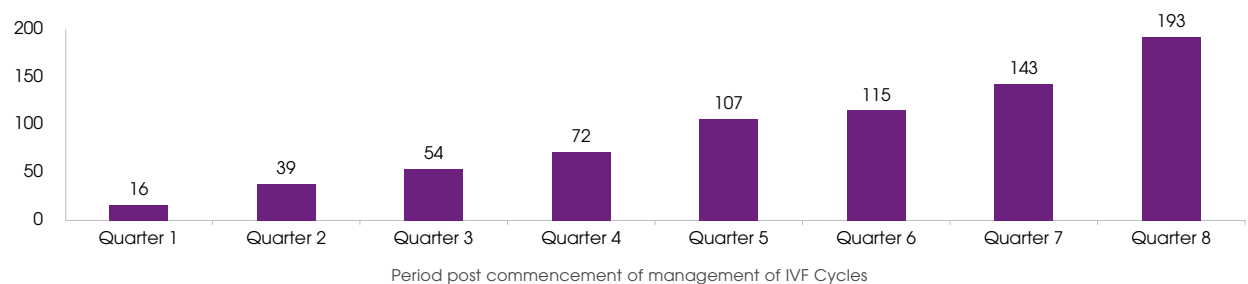
Effectiveness of Virtus' sales and marketing activities

Virtus' targeted sales and marketing function has been highly effective in assisting new Fertility Specialists to grow the number of IVF Cycles they manage and experienced Fertility Specialists to sustain the number of IVF Cycles they manage.

Virtus has assisted new Fertility Specialists to grow the number of IVF Cycles they manage over a short period of time. New Fertility Specialists typically start with a low number of IVF Cycles and build-up over a 24 month period. Virtus believes the growth in IVF Cycles for new Fertility Specialists is significantly higher than the number of IVF Cycles these Fertility Specialists could generate over the same period without Virtus' sales and marketing support.

Chart 13: Average IVF Cycles for new Fertility Specialists

Average IVF Cycles per Fertility Specialist for the group of Fertility Specialists that were new to the industry and contracted with Virtus (FY2010–FY2013) (calculated quarterly since commencement with Virtus and presented on an annualised basis)



Source: Virtus.

Notes:

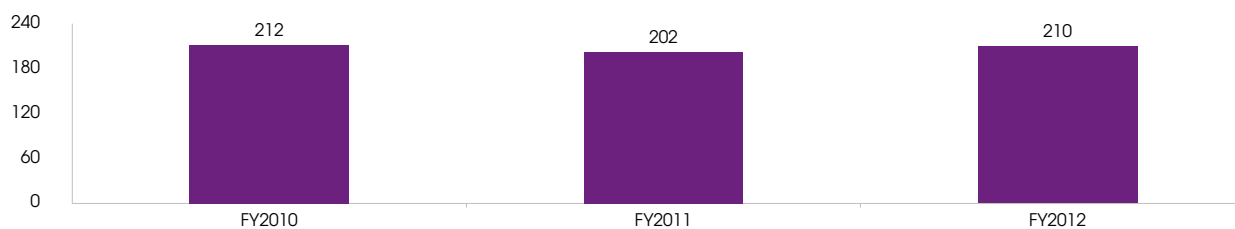
1. Average IVF Cycle ramp-up profile calculated for the group of Fertility Specialists that were new to the industry when they contracted with Virtus, starting from the quarter in which they started managing IVF Cycles. New Fertility Specialists often go through a period of training and development before they commence managing IVF Cycles.
2. In practice, the quarter in which new Fertility Specialists start managing IVF Cycles is not always the same as the quarter in which they contract with Virtus.

Virtus' sales and marketing activities have also assisted experienced Fertility Specialists sustain the number of IVF Cycles they manage. The Chart below illustrates the average number of IVF Cycles managed by Fertility Specialists that were contracted with Virtus prior to FY2010.

Chart 14: Average IVF Cycles of experienced Fertility Specialists

Average IVF Cycles per Fertility Specialists contracted with Virtus prior to FY2010

Average IVF Cycles per experienced Fertility Specialist



Source: Virtus.

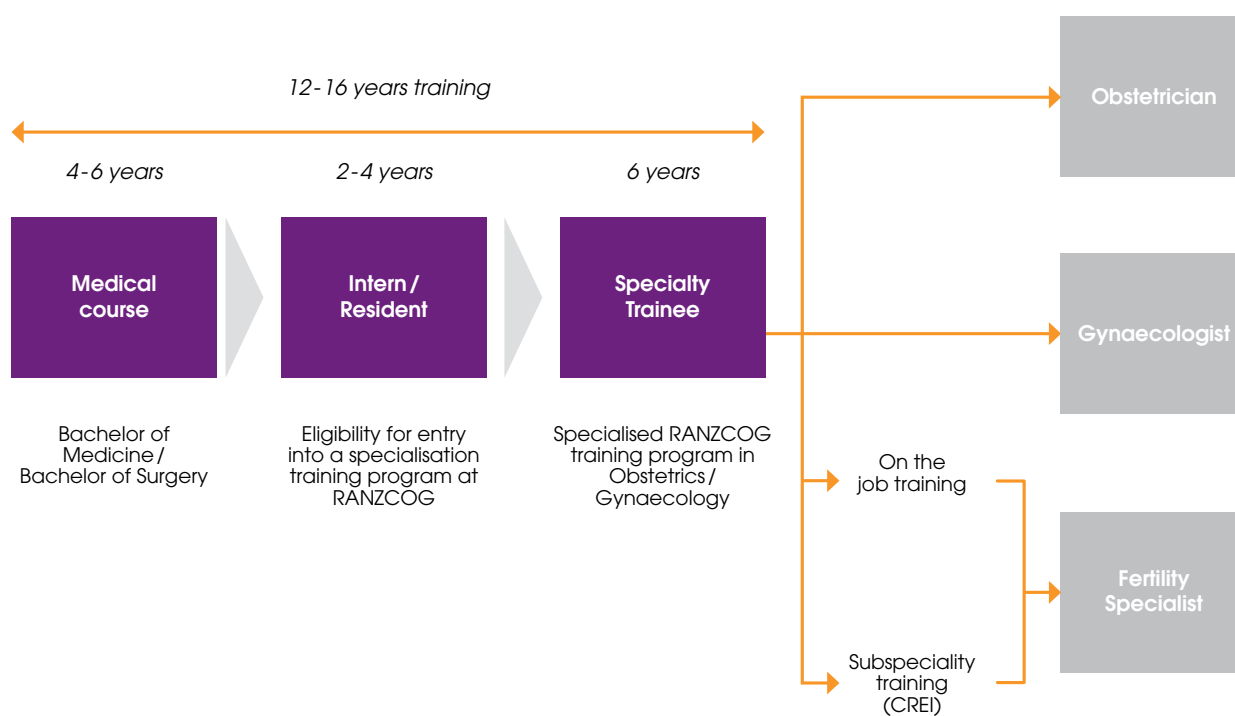
3.7 Profile of Virtus Fertility Specialists

Due to the highly specialised nature of Assisted Reproductive Services, Virtus' business relies upon its ability to attract and retain high quality Fertility Specialists. Indeed, without these Fertility Specialists, Virtus could not provide Assisted Reproductive Services to its patients. Fertility Specialists are contracted to provide the medical component of Assisted Reproductive Services, including providing medical care to patients during an IVF Cycle and the provision of surgical procedures. Fertility Specialists are also involved in the development of Virtus' clinical and scientific protocols and have a close working relationship with Virtus' management, scientific and nursing staff.

3.7.1 Training and career path of Virtus Fertility Specialists

Virtus' Fertility Specialists are highly trained medical specialists who have undertaken 12-16 years of formal medical training. Prior to entering the specialist field of Assisted Reproductive Services, Virtus Fertility Specialists have typically completed a medical degree at a university, trained in and become accredited with the Royal Australian and New Zealand College of Obstetricians and Gynaecologists ("RANZCOG"), and some have then gone on to complete a Certificate in Reproductive Endocrinology and Infertility ("CREI"). The diagram below outlines the education and training path that most Virtus Fertility Specialists have undertaken.

Chart 15: Training, education and career path of Virtus' Fertility Specialists



Source: Virtus.

Virtus' Fertility Specialists are registered as obstetricians and gynaecologists prior to moving into the fertility field. Obstetricians and gynaecologists choose to make the switch into fertility work for a number of reasons, including:

- *intellectual and academic interest* – Virtus believes fertility medicine offers greater research and academic opportunities for doctors than obstetrics. The field of obstetrics is well established whereas the field of fertility medicine is newer and continues to evolve;
- *risk mitigation* – Virtus believes obstetricians face higher malpractice risk and personal liability than Fertility Specialists. This is reflected in the different premiums obstetricians and Fertility Specialists pay for medical malpractice insurance; and
- *better lifestyle and predictable hours of work* – given the nature of obstetric work, obstetricians can have unpredictable hours of work where they can be called upon to deliver babies at any time of the day or week. Fertility Specialists mainly provide services between the hours of 7am and 6pm. However, there is a trade off between lifestyle/predictable hours of work and compensation. Virtus believes obstetricians have higher levels of compensation relative to Fertility Specialists.

Obstetricians and gynaecologists choose to move into the medical field of fertility at different points in their career and to varying degrees based on the above factors and relative compensation differences. Virtus has a core group of Fertility Specialists that have made the switch to fertility, undertaken sub-specialty training (CREI) and now dedicate the majority of their time to Assisted Reproductive Services. The remaining Virtus Fertility Specialists balance their time between Assisted Reproductive Services and obstetrics and gynaecology.

Virtus and its Fertility Specialists are involved in the training of medical specialists moving into the field of Assisted Reproductive Services. Virtus is a RANZCOG approved training centre for registrars and fellows undertaking subspecialist training in reproductive medicine. Virtus enjoys a close collaboration with Australia's leading medical faculties through its Fertility Specialists, many of whom hold teaching and academic roles within these faculties. As part of medical specialists' training for Assisted Reproductive Services, they work closely with Virtus' Fertility Specialists and are supported economically by Virtus. This allows Virtus to have a close relationship with medical specialists moving into the field of Assisted Reproductive Services.

3.7.2 Why do Fertility Specialists contract with Virtus?

There are a number of reasons why Fertility Specialists choose to contract with Virtus including:

- *flexibility to operate their non-IVF practice independently of Virtus* – the Virtus model allows Fertility Specialists the flexibility to manage their practice between Assisted Reproductive Services and other fields of medicine (including obstetrics and gynaecology). However, all Assisted Reproductive Services provided by Fertility Specialists must be provided through Virtus;
- *clinical autonomy within Virtus' quality framework* – Fertility Specialists at Virtus have complete clinical autonomy in their practise of Assisted Reproductive Services. However, to ensure that Virtus patients receive the highest levels of care, Fertility Specialists are expected to practise within the clinical and scientific protocols or guidelines set by the clinical leadership team;
- *Virtus' sales and marketing* – Virtus' sales and marketing activities help to attract potential patients to Virtus, resulting in referrals to Virtus' Fertility Specialists. This provides Virtus' Fertility Specialists with the ability to grow and sustain their fertility practice to a level beyond that which may be possible without the support of its sales and marketing function;
- *Virtus' scientific expertise* – Virtus provides Fertility Specialists with access to the scientific services and expertise that is required to provide Assisted Reproductive Services to patients. Virtus' scientists are responsible for a number of critical parts of Assisted Reproductive Services including selection of eggs and sperm, fertilisation of eggs, embryo selection and cryostorage of embryos. These procedures are undertaken by Virtus' scientists in Virtus' laboratories and play an important role in determining clinical success for patients;
- *Virtus' specialised diagnostics and day hospital infrastructure* – Virtus' specialised diagnostics and day hospital operations provide Fertility Specialists with in-house access to services and infrastructure that would otherwise be provided by third parties. Virtus is able to ensure that specialised diagnostic services are undertaken in accordance with its scientific protocols and that operating theatres are available when required by Fertility Specialists and patients;
- *accreditation and licences* – the provision of Assisted Reproductive Services is highly regulated. Virtus is responsible for ensuring its facilities and operations are compliant with the applicable compliance and accreditation standards, allowing Fertility Specialists to focus on providing medical services to patients;
- *opportunity to conduct research* – Virtus supports Fertility Specialists to undertake sponsored research in Assisted Reproductive Services. Virtus incurred approximately \$3 million in FY2012 on multiple clinical and scientific research projects;
- *opportunity to work with industry leaders* – Virtus contracts approximately 40% of the CREI accredited Fertility Specialists in the states in which it operates. Five of Virtus' Fertility Specialists are program directors of the CREI program, two of whom are also examiners of the CREI program. Seven of Virtus' Fertility Specialists are professors or associate professors. Some of Virtus' Fertility Specialists have held senior positions with the Fertility Society of Australia, the IVF Directors Group and the National Association of Specialist Obstetricians and Gynaecologists;

- *variety of challenging and interesting work* – as the largest provider of Assisted Reproductive Services in Australia, Virtus receives many difficult, challenging and interesting patient cases. This provides a stimulating work environment and an opportunity for Fertility Specialists to develop areas of sub-specialisation;
- *financial arrangements*: Virtus supports its Fertility Specialists through their specialist fertility training. Once fully trained, Virtus offers its Fertility Specialists a competitive remuneration package. Fertility Specialists are paid a professional fee per service or procedure performed at Virtus’ full service clinics as well as being paid professional fees on a sessional basis at Virtus’ TFC clinics. Volume-based fee-for-service remuneration for Fertility Specialists is a key aspect of Virtus’ business model. Virtus believes that the fees Virtus pays to Fertility Specialists for services performed are in line with competitors in each regional market and are not subsidised by past or ongoing dividends or capital returns;
- *long-term equity incentive program*: Virtus Fertility Specialists have the opportunity to build long-term wealth through an equity incentive program. Virtus provides its Fertility Specialists with share options on commencement of their contractual relationship with Virtus and over time if they grow and sustain the number of IVF Cycles they perform in a financial year. Further details about this program are outlined at Section 9.5.

Since the beginning of FY2010, 28 new Fertility Specialists have contracted to provide their services to Virtus. This number of Fertility Specialists is believed to represent a disproportionate share of Fertility Specialists entering the field of Assisted Reproductive Services during this period. Apart from six retirements, no Fertility Specialist has provided Virtus with notice of termination of their contract since the group was brought together in 2008-2009. The chart below provides a summary of the number of Fertility Specialists Virtus has contracted and had retired each year from FY2010 to FY2012, as well as the assumed number of Fertility Specialists that Virtus expects to contract with or retire in FY2013 and FY2014.

Chart 16: Growing number of Virtus Fertility Specialists

Number of contracted Fertility Specialists FY2010 – FY2014



Source: Virtus.

Note:

1. Whilst Virtus may decide to contract additional Fertility Specialists, the chart above reflects the assumptions underlying the Forecast Financial Information. That is, it assumes no new Fertility Specialists are contracted by Virtus in the period between the date of this Prospectus through to FY2014 and that two existing Fertility Specialists contracted prior to FY2010 retire during this period.

3.7.3 Contractual arrangements with Virtus Fertility Specialists

Virtus' 82 Fertility Specialists have each entered into a standard contract with Virtus. There are variations to the standard contract for some Fertility Specialists, however the key terms of this standard contract which apply to most Fertility Specialists are outlined below.

Table 2: Key terms of Fertility Specialists' contract

Term	Key Details
Nature of agreement	Fertility Specialists are engaged as an independent contractor to provide Assisted Reproductive Services conducted as part of Virtus' business. These services must be provided in compliance with Virtus' code of conduct.
Remuneration	- Fertility Specialists are paid a set fee for management of an IVF Cycle and other Assisted Reproductive Services. - The fee is set on a regional basis. - The fee increases at least in proportion with increases in Virtus' price of services.
Term	Five year initial term ("Initial Term") and on an ongoing basis thereafter ("Term"). The contract term will continue to apply on an ongoing basis if the Fertility Specialist does not provide notice of termination in the Initial Term.
Termination	- Fertility Specialists can terminate their contract, without impacting the arrangements for release of their Shares from escrow (see Section 7.6), where they are: - retiring permanently from the Assisted Reproductive Services Industry and are 61 years of age or older, provided they demonstrate to the Board best endeavours to transfer their practice to another Virtus Fertility Specialist; or - unable to provide services to Virtus as a result of serious disability or permanent incapacity through ill health (as determined by Virtus); or - in other specified circumstances set out in Section 7.6. - Virtus can terminate the contract if a Fertility Specialist is only available to provide service for 12 days or less in any quarter other than as a result of illness, parental leave or other reasonable circumstance, in the event the Fertility Specialist breaches a material term of their agreement and in other specified circumstances which generally warrant summary dismissal.
Notice period	6 or 12 months by Fertility Specialist, such notice to expire on or after the Initial Term and at the end of the 6 or 12 month notice period (unless otherwise agreed). - In some circumstances, with 12 months notice by Virtus.
Doctor obligations post termination	- Non-compete for 12 months subject to enforceability (from the date that they cease being engaged by Virtus) within a 12km radius of any fertility clinic where they have worked for Virtus. - No poaching or solicitation of patients or staff during the non-compete period.

Source: Virtus.

As part of the relationship with the Fertility Specialists, Virtus has also undertaken not to do any of the following without the approval of the relevant regional Fertility Specialist appointee(s)⁵⁹ to the Advisory Committee:⁶⁰

- offer Shares, options or other securities which may convert into Shares to any doctor who performs Assisted Reproductive Services in New South Wales, Victoria, Queensland or any other region where Virtus contracts with Fertility Specialists ("Qualifying Region") and who has not entered into a contract with Virtus for the performance of those services and who is not already a shareholder of Virtus;
- make any material change to the clinical practices currently in place at clinics operated by Virtus in that Qualifying Region;
- reduce the set fee rates to be paid to Fertility Specialists in a Qualifying Region under Fertility Specialists' contracts except to the extent required by any change in law which regulates, caps or reduces such fees; or
- make any change to the Virtus' code of conduct with Fertility Specialists which adversely affects the terms and conditions, taken as a whole, of Fertility Specialists engaged in that Qualifying Region.

59. Prior to giving their approval, the Fertility Specialist appointee(s) to the Advisory Committee in Victoria and Queensland are required to obtain approval of the relevant Fertility Specialist shareholders in Victoria or Queensland as applicable.

60. The Advisory Committee is a committee established to drive the strategic direction of Virtus as it relates to clinical, scientific and operational governance and direction. See Section 6.4.3.

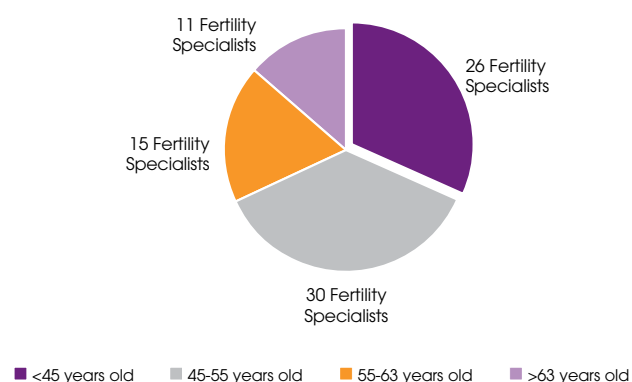
3.7.4 Capacity within Virtus' existing group of Fertility Specialists

In FY2012, Virtus Fertility Specialists managed 13,816 IVF Cycles (an average of 184 IVF Cycles per average number of contracted Fertility Specialists). The number of IVF Cycles per Fertility Specialist varies by age, stage of career and level of focus on Assisted Reproductive Services relative to obstetrics and gynaecology. The average number of IVF Cycles managed per Fertility Specialist has fallen as Virtus has contracted 28 new Fertility Specialists in the FY2010-FY2013 period, with most of these aged under 45. These Fertility Specialists manage less IVF Cycles on average as they are building their careers and some may also balance obstetric and gynaecology work. As these specialists establish their careers and increase their focus on fertility, Virtus expects them to manage a higher number of IVF Cycles. Virtus has found that Fertility Specialists typically work past the age of 63 although the average number of IVF Cycles they manage may decline post age 63.

The 28 new Fertility Specialists that have contracted with Virtus since 2010 has provided Virtus with capacity to grow its business and the number of IVF Cycles performed.

Chart 17: Virtus Fertility Specialists by age category

By number of Fertility Specialists⁶¹

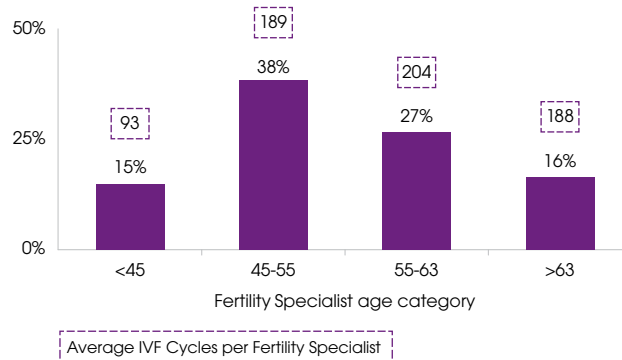


Source: Virtus.

Chart 18: IVF Cycles by age category of Fertility Specialist

Based on contracted Fertility Specialists in FY2012⁶²

Percentage of IVF Cycles (FY2012)



Source: Virtus.

3.7.5 Distribution of IVF Cycles amongst Virtus' Fertility Specialists

The number of IVF Cycles managed by any particular Fertility Specialist is low relative to the total number of IVF Cycles performed by Virtus. In FY2012, Virtus' most active Fertility Specialist managed 3.7% of Virtus' IVF Cycles and the most active five Fertility Specialists managed 17.4% of Virtus' IVF Cycles. The weighted average age of Virtus' five most active Fertility Specialists in FY2012 was 51 years. Virtus' ability to recruit new Fertility Specialists has resulted in reduced concentration of IVF Cycles per Fertility Specialist.

3.8 Virtus' scientific and nursing staff

Virtus employs 824 permanent full, part time and casual staff across New South Wales, Victoria and Queensland. Virtus has approximately 164 scientists (including 19 with PhD qualifications), 587 nursing and patient service staff including clinical psychologists and 73 administrative, management and other staff. Patient services could not be provided without these staff.

Virtus' scientists are an important part of providing fertility and specialist fertility diagnostic services to patients. Their clinical judgment and recommendations around embryology procedures and embryo selection is a key determinant of patient success. Without their skills, qualifications and experience, Virtus and its Fertility Specialists could not offer the range and quality of services currently provided. Virtus' scientists are typically recruited from Australian university science programs and given significant on the job training. Virtus offers its scientists the opportunity to work with specialised treatment and diagnostic technology, the opportunity to conduct further research and a long-term career path in the organisation. Virtus will support its scientists through Masters and PhD study programs. Approximately 24 Virtus scientists have completed or are currently undertaking PhD programs. Virtus pays competitive salaries and has enterprise agreements in place with its scientific staff.

Virtus employs 587 nursing staff to support Fertility Specialists and provide patient care within its clinics and day hospitals. Nurses play a major role in the education and communication of Assisted Reproductive Services to a patient. They maintain the link between the Fertility Specialist and the patient through an IVF Cycle, advising patients (either face-to-face or through call centre activity) of any changes the Fertility Specialist requires to the treatment activity based on the daily hormone and follicle tracking results which the nurses may undertake. Virtus' nurses are a combination of highly skilled senior midwives and less experienced nurses that work under the supervision of senior nurses. Virtus recruits its nursing staff from public and private hospitals, pays competitive salaries and has enterprise agreements in place with its nursing staff.

61. 82 Fertility Specialists reflects Virtus' existing group of 84 Fertility Specialists less two notified retirements effective 1 July 2013.

62. Excludes 4% of IVF Cycles performed (i) by uncontracted Fertility Specialists (ii) at TFC clinics (iii) at Virtus' Dubbo facilities and (iv) at Virtus' Royal Women's Hospital facility.

3.9 Virtus' scientific and clinical excellence

The success of Assisted Reproductive Services is in large part dependent on the quality of the scientific and clinical processes that support them. Some of Virtus' Fertility Specialists and scientists have been involved in the development of Assisted Reproductive Services and specialised diagnostics since the 1970s and 1980s respectively and were even involved in the delivery of Australia's first IVF child in 1980. Since then, Virtus' Fertility Specialists and scientists have continued to be at the forefront of global scientific and clinical developments in the field of Assisted Reproductive Services and specialised diagnostics. This Section provides an overview of Virtus' areas of scientific excellence and the benefits this expertise brings to Virtus' business. It also outlines Virtus' highly developed clinical governance and risk management framework that ensures patients have access to safe and high levels of care.

Virtus' areas of scientific excellence

Virtus currently incurs approximately \$3 million annually on sponsored research programs and has over 35 ongoing clinical research projects. Virtus' scientists and Fertility Specialists have authored approximately 119 scientific and clinical research papers published since 2010 and regularly present at global industry conferences. Virtus' scientists and Fertility Specialists have been involved in the development of a number of specific areas of Assisted Reproductive Services and specialised diagnostics including:

- *Array Comparative Genomic Hybridisation* – involves technology owned by Cambridge Blue Gnome and its application to Assisted Reproductive Services (specifically the genetic screening of embryos). Virtus was the first to offer this technology and service in Australia and is the fifth largest user of this technology for Assisted Reproductive Services globally;
- *Cryopreservation* – Virtus scientists have an international reputation in the area of egg freezing, publishing over 20 journal articles since 2010 in globally recognised medical journals⁶³ on the freezing and preservation techniques for embryos, eggs and ovarian tissue. Frozen embryo transfer allows patients to undergo fewer stimulation cycles, less expensive follow-up cycle to an IVF Cycle;
- *Polscope* – Virtus scientists were involved in modifying Polscope/Oosight technology for use in human embryo culture, and in assessing the type and normality of spindles created, that result in clinical pregnancies and have published six journal articles on this topic in globally recognised medical journals. Polscope involves the use of technology to differentiate potential egg related issues and enable scientists to select the best egg to maximise a patient's chances of success; and
- *Natural Killer (NK) Cells* – Virtus scientists and Fertility Specialists have successfully adapted a method of measuring levels of activated NK cells using a specific set of reference intervals to identify potential immune causes of a patient's recurrent miscarriage. Virtus believes it is one of only a small number of laboratories globally offering this test in this manner.

Benefits of Virtus' scientific excellence

Virtus believes that its scientific and clinical excellence:

- enables Virtus to continually improve scientific and clinical techniques which in turn allows Virtus to maximise patient success whilst minimising multiple embryo transfers and associated risks to patients;
- attracts sponsors of new scientific and diagnostic technologies for fertility treatment to partner with Virtus. Virtus scientists and Fertility Specialists have the knowledge, skills and experience to understand and test new scientific and diagnostic technologies. The large number of IVF Cycles undertaken by Virtus allows its scientists and Fertility Specialists to assess new scientific and diagnostic technologies over a meaningful data set in a short period of time. For example, Virtus was one of a small number of global test sites in the use of array PGD technology and its application to embryos.

Virtus' clinical governance and risk management framework

Virtus believes that its experience and size of operations enables it to operate a clinical governance model that ensures patients have access to a high level of care. Within the clinical governance model, Virtus Fertility Specialists retain absolute clinical autonomy inside of Virtus' corporate operational framework and clinical standards.

Clinical governance, state-based standardised clinical processes and patient management systems are critical aspects of Virtus' business. There is significant value in standardised protocols and patient management systems designed to consistently deliver high levels of care and translate into patient success. Virtus' clinical and scientific protocols have been developed over many years of operating experience and combine the best ideas and systems from each of its fertility clinics. The protocols and quality management systems are all RTAC, NATA and ISO 9001:2009 certified.

Virtus operates a comprehensive risk management system that covers all aspects of its operations including clinical practices and procedures, andrology, endocrinology, embryology, counselling, day hospitals, occupational health and safety, human resources, information technology and quality control. Virtus' incident reporting system is used by management to proactively manage risk, respond to incidents and minimise exposures. Since Virtus was formed in FY2009, it has provided over 50,000 IVF Cycles, with only 117 specific incident notifications received that Virtus considered to be potentially material (representing less than 0.2% of Virtus' total IVF Cycles). A large proportion of these incident notifications did not result in liability for Virtus or its insurers. Virtus has appropriate insurance in place to cover its exposure to these types of incidents.

63. Globally recognised medical journals include the Medical Journal of Australia, Australian and New Zealand Journal of Obstetrics and Gynaecology, Reproductive Biomedicine Online, Fertility and Sterility, Journal of Assisted Reproduction and Genetics, Human Reproduction.

3.10 What is Virtus' growth strategy?

Virtus is well positioned to continue a number of growth initiatives.

3.10.1 Increase Virtus' market share

Virtus believes its investment in its business since 2010 has positioned it to expand its market share in the regions in which it operates. Virtus is aiming to achieve this expansion in market share through a combination of:

- *new contracted Fertility Specialists* – Virtus believes the 28 new contracted Fertility Specialists (FY2010-2013) provides it with capacity to grow its IVF Cycles faster than the overall market;
- *expansion of fertility clinic network*– Virtus has opened four new full service clinics in the regions in which it operates since 2010 and continues to assess new locations for further expansion. This has enabled Virtus to meet the growing demand for Assisted Reproductive Services in these locations and positioned Virtus to capture market share; and
- *sales and marketing activities* – Virtus believes its sales and marketing activities position it well to attract a larger percentage of potential patients in the future.

3.10.2 Low-cost IVF

Since February 2012, Virtus has opened 3 new TFC clinics, operating in conjunction with its existing full service clinics. Virtus' analysis has found there are a number of potential patients in markets in which it operates not using Assisted Reproductive Services because of affordability. TFC clinics aim to meet the growing demand for Assisted Reproductive Services from this segment of the market without reducing demand for Virtus' existing services.

Virtus designed its TFC clinics by offering a differentiated patient experience. The differentiated price point and service offering of TFC clinics has allowed Virtus to open fertility clinics in new geographic areas. A comparison of a patient's experience at Virtus' TFC clinics versus its existing full service clinics is outlined below.

Table 3: Comparison of TFC clinics to full service clinics

Services offered	TFC clinic	Full service clinic
Treatment protocol	Limited protocol	Individual treatment plan
IVF / ICSI		✓
Frozen cycles	✓	✓
Simple diagnostics	✓	✓
Clinical contract	(rostered Fertility Specialist)	Individual Fertility Specialist
Drug / hormone stimulation regime	Lighter, less embryos collected	Stronger, more embryos collected
Advanced diagnostics	x	✓
Day hospital	x	✓
Donor sperm / eggs	x	✓
Surrogacy	x	✓
Intrauterine insemination	x	✓

Source: Virtus.

There has been strong patient demand at Virtus' TFC clinics since its first clinic opened in Springwood, Queensland in February 2012. Virtus believes that this strength of demand highlights the opportunity of this new market segment. Importantly, Virtus has not experienced any material shift in volumes from its full service clinics to TFCs during this period. In contrast, Virtus has experienced a positive referral towards its full service clinics during this period from patients who have visited a TFC clinic and then gone on to undertake treatment at Virtus' full service clinic. TFC clinics were opened in Dandenong, Victoria in November 2012 and Liverpool, New South Wales in February 2013.

3.10.3 Grow specialised diagnostic services

Virtus has a number of strategies to grow specialised diagnostics services revenue:

- *performing diagnostic services in house* – Virtus has the infrastructure and clinical expertise to conduct a larger proportion of its diagnostic services, especially andrology and endocrinology, from its own facilities as opposed to utilising third parties;
- *expanding the range of tests* – new routine but straightforward diagnostic tests being offered include Vitamin D and Chlamydia testing. In addition, new advanced diagnostic tests being offered include genetic screening, chromosome analysis and first trimester screening; and
- *providing specialised diagnostic services to third parties* – Virtus intends to continue to expand the number of third party customers it provides diagnostic services to. These customers may be located in Australian states in which Virtus does not operate and internationally.

3.10.4 Increase day hospital revenue and earnings

Virtus plans to increase the revenue and earnings from its day hospitals by:

- *performing more Assisted Reproductive Services related procedures* – continued growth in the number of IVF Cycles Virtus undertakes will have the flow on benefit of increasing the number of Assisted Reproductive Services related procedures that are performed in Virtus' day hospitals;
- *increasing other specialty procedures* – Virtus has a strategy to attract other medical specialists to undertake additional procedures in its day hospitals. Virtus has capacity within its existing day hospitals to handle a growing number of other specialty procedures; and
- *improving operational efficiency* – Virtus believes it can improve operational efficiency in its day hospitals by improving the mix of skilled nursing staff, better procurement of consumables and managing overall operating theatre utilisation.

3.10.5 Pricing of Assisted Reproductive Services

Virtus adopts a pricing strategy in each of its three regional markets which is aimed at balancing clinical outcomes, patient affordability and the general rise in medical cost inflation. Virtus has historically achieved steady pricing growth in its main IVF Cycle service. Across its clinics in New South Wales, Victoria and Queensland, the average price of an IVF Cycle at Virtus has increased by approximately 5% per annum between 2008 and 2013. Virtus believes pricing growth can be maintained over the forecast period in line with historical trends as a result of a number of favourable industry factors:

- *nature of demand for Assisted Reproductive Services* – Virtus believes Assisted Reproductive Services are highly valued by patients as they play a crucial role in assisting them to achieve their dream of having a child. Patients have limited alternatives and need to undertake the service before their mid to late 30s to maximise their chances of success. Virtus has found that these characteristics have resulted in strong ongoing demand for its services notwithstanding historic increases in price;
- *rising cost of healthcare services in Australia* – there is a trend of increasing costs throughout the healthcare industry in Australia. Between 2000 and 2012, medical sector consumer price inflation has increased at an average rate of 5% per annum.⁶⁴ As a result, Virtus believes its patients have become accustomed to absorbing the rising costs of delivering healthcare services; and
- *continued affordability of Assisted Reproductive Services* – while increasing the price of Virtus' services will increase the out-of-pocket payments for its patients, Virtus believes the level of these payments will continue to be affordable for the majority of its patients. This assessment is based on the majority of Virtus' patients coming from higher socioeconomic backgrounds and continued Commonwealth Government funding for Assisted Reproductive Services.

3.10.6 Potential acquisition and investment opportunities

Virtus will consider fertility clinic and day hospital acquisition opportunities in the Australian states in which it does not currently operate as well as internationally. Because of Virtus' size, clinical expertise, reputation and relationship with its Fertility Specialists, Virtus believes it is an attractive partner for both domestic and international Assisted Reproductive Services businesses.

Virtus has recently appointed an international business development director based out of Singapore who will assess the opportunities for expansion in the Asia Pacific and Middle East.

64. Australian Bureau of Statistics, Consumer Price Index, December 1999 - December 2012 <<http://www.abs.gov.au/AUSSTATS/abs@.nsf/second+level+view?ReadForm&prodno=6401.0&viewtitle=Consumer%20Price%20Index,%20Australia-Dec%202012-Latest-23/01/2013&&tabname=Past%20Future%20Issues&prodno=6401.0&issue=Dec%202012&num=&view=&>>.

section four



section four

financial information

4.1 Introduction

The financial information for Virtus contained in Section 4 includes:

Historical financial information for Virtus being the:

- Pro forma consolidated historical income statements for FY2010, FY2011, FY2012, H1FY2012 and H1FY2013 ("Pro Forma Historical Results");
- Statutory consolidated historical income statements for FY2010, FY2011, FY2012, H1FY2012 and H1FY2013 ("Historical Statutory Results");
- Pro forma consolidated historical cash flow statements for FY2010, FY2011, FY2012, H1FY2012 and H1FY2013 ("Pro Forma Historical Cash Flows");
- Statutory consolidated historical cash flow statements for FY2010, FY2011, FY2012, H1FY2012 and H1FY2013 ("Statutory Historical Cash Flows"); and
- Pro forma consolidated historical balance sheet as at 31 December 2012,

(together the "Historical Financial Information"); and

Forecast financial information for Virtus being the:

- Pro forma consolidated forecast income statements for FY2013 and FY2014 ("Pro Forma Forecast Results");
- Statutory consolidated forecast income statements for FY2013 and FY2014 ("Forecast Statutory Results");
- Pro forma consolidated forecast cash flow statements for FY2013 and FY2014; and
- Statutory consolidated forecast cash flow statements for FY2013 and FY2014,

(together the "Forecast Financial Information").

The Historical Financial Information and Forecast Financial Information together form the **Financial Information**.

All amounts disclosed in the tables are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest \$0.1 million.

4.2 Basis of preparation and presentation of the Financial Information

Under the terms of the Offer, Virtus is offering to issue new Shares and SaleCo is offering to transfer Existing Shares in Virtus. Refer to Section 7 for further details of the Offer. The FY2010, FY2011 and FY2012 consolidated financial statements of Virtus have been audited by PwC, who have issued unqualified audit opinions in respect of these periods. The H1FY2012 and H1FY2013 consolidated half year financial statements of Virtus have been reviewed by PwC, who have issued unqualified review opinions in respect of these periods. The Historical Financial Information and the Forecast Financial Information has also been reviewed and reported on by PwCS as set out in the Investigating Accountant's Report in Section 8. Investors should note the scope and limitations of the Investigating Accountant's Report (refer to Section 8).

The Financial Information has been prepared and presented in accordance with the recognition and measurement principles of Australian Accounting Standards, although it is presented in an abbreviated form insofar as it does not include all the disclosures, statements or comparative information as required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

Virtus' key accounting policies are set out in Appendix A.

In accordance with AASB 8 Operating Segments (AASB 8), Virtus has determined that it satisfies the criteria to allow the reporting of one aggregated segment, healthcare services, on the basis that each of Virtus' segments have similar economic and regulatory characteristics, similar services provided and similar customer demographics. Virtus' remaining key accounting policies are set out in Appendix A.

4.2.1 Preparation of Historical Financial Information

The Historical Financial Information has been derived from the audited statutory consolidated historical financial statements of Virtus for FY2010, FY2011, FY2012, H1FY2012 and H1FY2013, after adjusting for the pro forma impact of historical acquisitions and/or other adjustments to reflect Virtus' operations following Completion of the Offer and to eliminate non-recurring items, as set out in Section 4.3.2, 4.4 and 4.5.1. The pro forma impact of historical acquisitions have been included as follows:

- Queensland Fertility Group: acquired October 2009, pre-acquisition financials included from July 2009 to October 2009;
- Hunter IVF: acquired March 2011, pre-acquisition financials included from July 2009 to March 2011;
- Gold Coast Fertility: acquired July 2011, pre-acquisition financials included from July 2009 to July 2011; and
- City East Specialist Day Hospital (formerly Maroubra Day Surgery): Virtus acquired the remaining 50% it did not already own in August 2012; 100% of historical results included from July 2009 to August 2012.

\$1.2 million in public company costs have also been included in each financial year.

Investors should note that past results do not guarantee future performance.

4.2.2 Preparation of Forecast Financial Information

The pro forma consolidated forecast income and cash flow statements for FY2013 and FY2014 (Pro Forma Forecast Financial Information) have been derived from the statutory consolidated forecast income and cash flow statements of Virtus for FY2013 and FY2014 after adjusting for pro forma transactions and other adjustments to reflect Virtus' operations following Completion of the Offer and to eliminate non-recurring items as set out in Section 4.3.2 and 4.5.1. Both the statutory consolidated forecast income and cash flow statements for FY2013 consist of actual results for the eight months to February 2013 and Virtus' best estimate forecasts for the four months to June 2013.

The Forecast Financial Information has been prepared by Virtus based on an assessment of present economic and operating conditions and on a number of best estimate assumptions regarding future events and actions as set out in Section 4.7.1 and Section 4.7.2. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur. The Forecast Financial Information presented in this Prospectus has been reviewed by PwCS but has not been audited. Investors should note the scope and limitations of the Investigating Accountant's Report (refer to Section 8).

Virtus believes the best estimate assumptions when taken as a whole to be reasonable at the time of preparing this Prospectus. However, this information is not fact and investors are cautioned not to place undue reliance on the Forecast Financial Information.

Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information, and that this may have a material positive or material negative effect on Virtus' actual financial performance or financial position. Accordingly, neither Virtus, the Directors, nor any other person can give investors any assurance that the outcomes discussed in the Forecast Financial Information will arise.

The Forecast Financial Information in Section 4.7 should be read in conjunction with the specific assumptions as set out in Section 4.7.2, the general assumptions as set out in Section 4.7.1, the sensitivities as set out in Section 4.8, the risk factors as set out in Section 5 and other information in this Prospectus.

Virtus has no intention to update or revise the Forecast Financial Information or other forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

4.3 Consolidated historical and forecast income statements

Virtus has a track record of revenue and EBITDA growth. Between FY2010 and FY2012 pro forma consolidated revenue grew at a compound annual growth rate of 10.4% and at the same time, pro forma consolidated EBITDA increased at a compound annual growth rate of 14.2%. Virtus forecasts pro forma consolidated revenue and EBITDA to grow at a compound annual growth rate of 9.6% and 10.5% respectively between FY2012 and FY2014. Tables 4 and 5 below set out the Pro Forma Historical Results, the Pro Forma Forecast Results and the Forecast Statutory Results.

Table 4: Summary consolidated historical income statement information from FY2010 to FY2012 and summary consolidated forecast income statement information from FY2013 to FY2014

June year end, \$ million	Note	Pro Forma Historical Results			Pro Forma Forecast Results		Forecast Statutory Results	
		FY2010	FY2011	FY2012	FY2013	FY2014	FY2013	FY2014
Total revenue		140.8	144.0	171.6	184.1	206.3	183.8	206.3
Labour costs		(41.3)	(43.1)	(49.9)	(55.0)	(62.2)	(61.3)	(62.2)
Provider fees		(24.0)	(23.5)	(27.4)	(29.3)	(31.9)	(29.3)	(31.9)
Facility and occupation costs		(7.7)	(9.0)	(10.4)	(12.0)	(13.3)	(11.9)	(13.3)
Consumables and supplies		(8.0)	(7.0)	(9.8)	(9.9)	(11.5)	(9.9)	(11.5)
Other operating costs		(20.2)	(19.5)	(22.5)	(22.6)	(24.4)	(27.8)	(24.4)
Total expenses		(101.2)	(102.1)	(120.0)	(128.8)	(143.3)	(140.2)	(143.3)
EBITDA		39.6	41.9	51.6	55.3	63.0	43.6	63.0
Depreciation		(4.3)	(5.1)	(5.9)	(6.4)	(7.7)	(6.4)	(7.7)
Amortisation		(1.3)	(1.0)	(1.1)	(2.1)	(1.6)	(2.8)	(1.6)
EBIT		34.0	35.8	44.6	46.8	53.7	34.4	53.7
Net interest expense		(7.1)	(8.5)	(9.7)	(9.2)	(9.2)	(21.9)	(9.2)
Profit before tax		26.9	27.3	34.9	37.6	44.5	12.5	44.5
Income tax expense		(7.8)	(8.0)	(10.2)	(11.0)	(13.1)	(3.9)	(13.1)
NPAT		19.1	19.3	24.7	26.6	31.4	8.6	31.4
NPATA	3	19.8	20.0	25.4	27.3	32.1	9.3	32.1

Notes:

1. The Pro Forma Historical Results are reconciled to the Historical Statutory Results in Section 4.3.2.
2. The Pro Forma Forecast Results are reconciled to the Forecast Statutory Results in Section 4.3.2.
3. NPATA excludes the amortisation of acquired brand names of \$0.7 million after tax in each annual period.

Table 5: Summary consolidated historical income statement information for H1FY2012 and H1FY2013

		Pro Forma Historical Results	
December half, \$ million	Note	H1 FY2012	H1 FY2013
Total revenue		84.3	93.9
Labour costs		(24.0)	(27.6)
Provider fees		(13.4)	(15.0)
Facility and occupation costs		(4.7)	(5.6)
Consumables and supplies		(4.0)	(4.7)
Other operating costs		(11.4)	(10.7)
Total expenses		(57.5)	(63.6)
EBITDA		26.8	30.3
Depreciation		(2.6)	(2.9)
Amortisation		(0.6)	(1.0)
EBIT		23.6	26.4
Net interest expense		(5.2)	(4.6)
Profit before tax		18.4	21.8
Income tax expense		(5.4)	(6.5)
NPAT		13.0	15.3
NPATA	2	13.4	15.7

Notes:

1. The Pro Forma Historical Results are reconciled to the Historical Statutory Results in Section 4.3.2.
2. NPATA excludes the amortisation of acquired brand names of \$0.4 million after tax in each half-year period.

4.3.1 Key operating metrics

Tables 6 and 7 below provide a summary of Virtus' key historical operating metrics for FY2010, FY2011, FY2012, H1FY2012 and H1FY2013 derived from the Pro Forma Historical Results, and the forecast key operating metrics for FY2013 and FY2014 derived from the Pro Forma Forecast Results and the Forecast Statutory Results.

Table 6: Summary historical key operating metrics from FY2010 to FY2012 and summary forecast key operating metrics from FY2013 to FY2014

	Pro Forma Historical Results			Pro Forma Forecast Results		Forecast Statutory Results	
June year end	FY2010	FY2011	FY2012	FY2013	FY2014	FY2013	FY2014
Number of IVF Cycles – Virtus	13,109	12,575	13,816	14,124	15,409	14,124	15,409
Number of IVF Cycles – New South Wales / Victoria / Queensland ³	30,305	28,829	31,456				
Implied Virtus market share – IVF Cycles (%) ⁴	43.3%	43.6%	43.9%				
Average number of Fertility Specialists	61.5	65.0	75.0				
Average number of Virtus' IVF Cycles per average number of experienced contracted Fertility Specialists ^{5,7}	212	202	210				
Average number of Virtus' IVF Cycles per average number of new contracted Fertility Specialists ^{6,7}	13	27	73				
Average Total Revenue per IVF Cycle (\$)	10,741	11,453	12,420	13,034	13,389	13,013	13,389
Labour as a % of revenue	29.3%	29.9%	29.1%	29.9%	30.2%	33.3%	30.2%
Provider fees as a % of total revenue	17.0%	16.3%	16.0%	15.9%	15.5%	15.9%	15.5%
EBITDA growth		5.8%	23.2%	7.2%	13.9%		37.0%
EBITDA margin	28.1%	29.1%	30.1%	30.0%	30.5%	23.7%	30.5%
EBIT growth		5.3%	24.6%	4.9%	14.7%		45.9%
EBIT margin	24.1%	24.9%	26.0%	25.4%	26.0%	18.7%	26.0%
NPAT growth		1.0%	28.0%	7.7%	18.0%		204.9%
NPATA growth		1.0%	27.0%	7.5%	17.5%		191.8%

Notes:

1. The Pro Forma Historical Results are reconciled to the Historical Statutory Results in Section 4.3.2.
2. The Pro Forma Forecast Results are reconciled to the Forecast Statutory Results in Section 4.3.2.
3. Number of IVF Cycles for New South Wales / Victoria / Queensland represents the combined number of IVF Cycles for these states in each period based on Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202.
4. Implied Virtus market share represents Virtus' implied share of the IVF Cycles conducted in New South Wales, Victoria and Queensland based on Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202.
5. Experienced Fertility Specialists are defined as those Fertility Specialists contracted by Virtus prior to FY2010.
6. New contracted Fertility Specialists are defined as those Fertility Specialists contracted by Virtus from FY2010 onwards. The growth in the average number of Virtus' IVF Cycles per average number of new contracted Fertility Specialists under represents the typical ramp-up of an individual Fertility Specialist if they had started in FY2010. This is because new Fertility Specialists have continued to be contracted since FY2010 (with a large number contracted in FY2012). As noted in Section 3.7, Fertility Specialists commence their practice with a relatively low number of IVF Cycles, thereby reducing the average of the group.
7. There are a small number of Virtus IVF Cycles in historic periods that are not allocated to a particular contracted Fertility Specialist. These IVF Cycles have not been included in the calculation of the relevant average number of Virtus' IVF Cycles per average number of contracted Fertility Specialists.

Table 7: Summary historical key operating metrics from H1FY2012 to H1FY2013

December half, \$ million	Pro Forma Historical Results	
	H1 FY2012	H1 FY2013
Number of IVF Cycles – Virtus	7,032	7,327
Number of IVF Cycles – New South Wales / Victoria / Queensland ³	16,178	16,689
Implied Virtus market share – IVF Cycles (%) ⁴	43.5%	43.9%
Average number of Fertility Specialists	74.5	80.5
Average number of Virtus' IVF Cycles per average number of experienced contracted Fertility Specialists ^{5,7}	110	104
Average number of Virtus' IVF Cycles per average number of new contracted Fertility Specialists ^{5,7}	31	40
Average Total Revenue Per IVF Cycle (\$)	11,988	12,816
Labour as a % of revenue	28.5%	29.4%
Provider fees as a % of total revenue	15.9%	16.0%
EBITDA growth		13.1%
EBITDA margin	31.8%	32.3%
EBIT growth		11.9%
EBIT margin	28.0%	28.1%
NPAT growth		17.7%
NPATA growth		17.2%

Notes:

1. The Pro Forma Historical Results are reconciled to the Historical Statutory Results in Section 4.3.2.
2. The Pro Forma Forecast Results are reconciled to the Forecast Statutory Results in Section 4.3.2.
3. Number of IVF Cycles for New South Wales / Victoria / Queensland represents the combined number of IVF Cycles for these states in each period based on Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202.
4. Implied Virtus market share represents Virtus' implied share of the IVF Cycles conducted in New South Wales, Victoria and Queensland based on Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202.
5. Experienced Fertility Specialists are defined as those Fertility Specialists contracted by Virtus prior to FY2010.
6. New contracted Fertility Specialists are defined as those Fertility Specialists contracted by Virtus from FY2010 onwards.
7. There are a small number of Virtus IVF Cycles in historic periods that are not allocated to a particular contracted Fertility Specialist. These IVF Cycles have not been included in the calculation of the relevant average number of Virtus' IVF Cycles per average number of contracted Fertility Specialists.

4.3.2 Pro forma adjustments to the statutory income statements

Tables 8 and 9 below set out the adjustments to the Historical Statutory Results and the Forecast Statutory Results to primarily reflect the acquisitions that Virtus has made since 1 July 2009 as if they had occurred as at 1 July 2009 and the full year impact of the operating and capital structure that will be in place following Completion of the Offer as if it was in place as at 1 July 2009. In addition, certain other adjustments to eliminate non-recurring items have been made. These adjustments are summarised below.

Table 8: Pro forma adjustments to the audited statutory consolidated historical income statements from FY2010 to FY2012 and the statutory consolidated forecast income statements for FY2013 and FY2014

		Historical			Forecast	
June year end, \$ million	Note	FY2010	FY2011	FY2012	FY2013	FY2014
Statutory revenue		117.0	127.2	165.1	183.8	206.3
Interest received	1	(0.3)	(0.5)	(0.4)	(0.3)	–
Pro forma impact of historical acquisitions	2	24.1	17.3	6.9	0.6	–
Pro forma revenue		140.8	144.0	171.6	184.1	206.3
Statutory NPAT		(1.6)	15.3	19.7	8.6	31.4
Pro forma impact of historical acquisitions	2	15.6	2.2	3.6	(3.3)	–
Historical share-based payments expenses	3	0.6	0.4	0.3	6.5	–
Public company costs	4	(1.2)	(1.2)	(1.2)	(1.2)	–
IPO transaction costs	5	–	–	–	10.8	–
Debt structure	6	7.9	3.5	3.5	12.4	–
Amortisation	7	1.7	2.7	2.3	0.8	–
Income tax effect	8	(3.9)	(3.6)	(3.5)	(8.0)	–
Pro forma NPAT		19.1	19.3	24.7	26.6	31.4

Table 9: Pro forma adjustments to the reviewed statutory consolidated historical half year income statements for H1FY2012 and H1FY2013

December half, \$ million	Note	Historical	
		HY2012	HY2013
Statutory revenue		80.6	94.0
Interest received	1	(0.3)	(0.2)
Pro forma impact of historical acquisitions	2	4.0	0.1
Pro forma revenue		84.3	93.9
Statutory NPAT		10.4	11.1
Pro forma impact of historical acquisitions	2	2.1	(4.5)
Share-based payments expenses	3	0.2	5.6
Public company costs	4	(0.6)	(0.6)
IPO transaction costs	5	–	–
Debt structure	6	1.2	5.6
Amortisation	7	1.1	0.4
Income tax effect	8	(1.4)	(2.3)
Pro forma NPAT		13.0	15.3

Notes:

- Interest received** – an adjustment has been made to the Historical Statutory Results and Forecast Statutory Results to remove interest income from revenue.
- Pro forma impact of historical acquisitions** – an adjustment has been made to the Historical Statutory Results to reflect the acquisition of the Queensland Fertility Group, Hunter IVF, Fertility Gold Coast and City East Specialist Day Hospital, as if the acquisitions had been made as of 1 July 2009. The pre acquisition income statements of both Virtus and these entities have been adjusted to eliminate non-recurring items associated with these acquisitions and/or items not relevant to the operations of these entities post their acquisition by Virtus. In FY2010, this adjustment includes the elimination of the \$9.3 million non-cash charge recorded in Virtus' income statement in respect of the final QFG earn out payment. In FY2013, this adjustment includes the elimination of the accounting gain of \$5.5 million that arose on acquiring control of the City East Specialist Day Hospital.
- Share-based payments expenses** – an adjustment has been made to the Historical Statutory Results and Forecast Statutory Results to remove the AASB 2 share-based payments expenses in respect of Virtus' option incentive schemes applicable to management, scientists and Fertility Specialists prior to Completion of the Offer. Details of the option incentive schemes that are set to apply to management, scientists and Fertility Specialists from Completion of the Offer are set out in Section 9.5.3. The AASB 2 share-based payments expense applicable to these new schemes has been included in the Pro Forma Historical Results and Pro Forma Forecast Results based on an independent external valuation. The Pro Forma Forecast Results assume no new Fertility Specialists are contracted in FY2014 and a number of performance option grants are made as a result of IVF Cycle growth in FY2014.
- Public company costs** – an adjustment has been made to include Virtus' estimate of the incremental annual costs that it will incur as a public company. These incremental costs include Director and executive remuneration (including share-based payments expenses), additional audit and tax costs, listing fees, share registry fees, Directors' and officers' insurance premiums, as well as annual general meeting and annual report costs.
- IPO transaction costs** – total expenses of the Offer are estimated at \$17.3 million (\$16.9 million net of GST recoverable), of which \$10.8 million (\$7.6 million net of tax) is expensed in the Forecast Statutory Results (\$10.4 million (\$7.3 million net of tax) relating to the sale of Existing Shares and \$0.4 million in costs associated with the payment to Option holders). Whilst the remaining \$6.1 million (\$4.3 million, net of tax) is directly attributable to the issue of new Shares and hence will be offset against equity raised in the Offer.
- Debt structure** – Based on cash at hand at 31 December 2012 of \$20.6 million, the proposed \$126.7 million to be raised by Virtus under the Offer \$145.0 million from the cash drawdown of the New Banking Facilities and \$2.0 million of proceeds from the repayment of shareholder loans, Virtus intends to use \$17.3 million to pay for the IPO transaction costs noted above (\$16.9 million net of GST recoverable), \$11.3 million to settle certain other obligations of Virtus to option holders, \$9.7 million to pay option holders to cancel existing options, \$222.2 million to repay existing bank debt (and associated accrued interest and hedges), \$31.2 million to repay additional borrowings drawn down in relation to the payment of the Pre IPO Dividend and \$2.4 million additional equalisation payment to option holders, as well as \$1.1 million to pay borrowing costs associated with the New Banking Facilities in place following Completion of the Offer. The net interest expense included in the Historical Statutory Results has been adjusted to reflect the anticipated debt profile of and interest rates applicable to Virtus under the terms of the New Banking Facilities following Completion of the Offer.
- Amortisation** – brand names are the primary finite life intangible asset that has been recognised as a result of Virtus' acquisitions over the historical period. Virtus' policy is to amortise these brands on a straight line basis over a 10 year period. This adjustment assumes that all of the acquisitions made by Virtus were effective 1 July 2009. In addition, an adjustment has been made to eliminate the impact of historical amortisation expense relating to the historical capitalisation of development costs associated with one of Virtus' patient management software systems that will be fully amortised in FY2013. The tax impact of these amortisation adjustments is reflected in the income tax adjustment. Amortisation costs associated with all other capitalised software development costs (as well as brand names) remain in the Pro Forma Historical Results and Pro Forma Forecast Results.
- Income tax effect** – the forecast income tax rate applicable to Virtus is approximately 29%, which is slightly below the Australian corporate tax rate of 30%, primarily as a result of ongoing research and development tax concessions. This tax rate has been applied to each of the historical and forecast periods. In addition, the tax impact of the above adjustments has been reflected as part of this adjustment.

4.4. Consolidated historical balance sheet

Table 10 below sets out the adjustments that have been made to the reviewed statutory consolidated historical balance sheet for Virtus as at 31 December 2012 to prepare a pro forma consolidated historical balance sheet for Virtus. These adjustments reflect the impact of the operating and capital structure that will be in place following Completion of the Offer as if they had occurred or were in place as at 31 December 2012.

Table 10: Pro forma consolidated historical balance sheet as at 31 December 2012

As at 31 December 2012, \$ million	Note	Reviewed Statutory	Impact of the Offer and New Banking Facilities	Pro forma
Current assets				
Cash and cash equivalents	2,3	20.6	(19.1)	1.5
Trade and other receivables	2,6	11.2	0.8	12.0
Inventories		0.1	–	0.1
Total current assets		31.9	(18.3)	13.6
Non-current assets				
Investments accounted for using the equity method		2.3	–	2.3
Other financial assets		0.2	–	0.2
Property, plant and equipment		22.4	–	22.4
Deferred tax assets	6	2.3	5.8	8.1
Intangible assets	8	325.8	–	325.8
Total non-current assets		353.0	5.8	358.8
Total assets		384.9	(12.5)	372.4
Current liabilities				
Trade and other payables	3	16.1	(1.7)	14.4
Deferred revenue		2.0	–	2.0
Derivative financial liabilities	3	0.5	(0.5)	–
Borrowings	3	217.9	(217.7)	0.2
Provisions		2.1	–	2.1
Current tax liabilities		0.1	–	0.1
Total current liabilities		238.7	(219.9)	18.8
Non-current liabilities				
Borrowings	4	0.2	144.3	144.5
Provisions		3.4	–	3.4
Total non-current liabilities		3.6	144.3	147.9
Total liabilities		242.3	(75.6)	166.7
Net assets		142.6	63.1	205.7
Equity				
Contributed equity	5	132.6	101.0	233.6
Reserves		7.8	–	7.8
Retained earnings	7	2.2	(37.9)	(35.7)
Total equity		142.6	63.1	205.7

Notes:

- The accounting policies relevant to this table are set out in Appendix A.
- Cash decreases by \$19.1 million as a result of the receipt of cash proceeds from the Offer (\$126.7 million), drawdown of the New Banking Facilities (\$145.0 million), and \$2.0 million of proceeds from the repayment of shareholder loans, offset by the repayment of existing debt and related obligations (\$222.2 million), repayment of additional debt drawdown relating to the payment of the Pre IPO Dividend of \$31.2 million and \$2.4 million additional equalisation payment to option holders, \$11.3 million to settle certain other obligations of Virtus to option holders, payments to option holders to cancel existing options (\$9.7 million), as well as costs of the New Banking Facilities (\$1.1 million, of which \$0.4 million is recorded as a current asset and \$0.7 million recorded as a contra to non-current borrowings), and costs of the Offer (\$17.3 million (\$16.9 million net of GST recoverable).
- As a result of the drawdown of the New Banking Facilities, current borrowings will decrease by \$217.7 million through the repayment of existing current debt of \$220.0 million, partially offset by the non-cash write-off of unamortised capitalised borrowing costs (\$2.3 million). In addition, interest rate hedge liabilities (\$0.5 million) and accrued interest (\$1.7 million) associated with the existing current debt will also be settled, equating to total repayment of existing debt and related obligations of \$222.2 million.
- Non-current borrowings will increase by \$144.3 million as a result of the drawdown of the New Banking Facilities (\$145.0 million), net of that portion of the costs associated with the New Banking Facilities to be capitalised as non-current borrowing costs (\$0.7 million).
- Contributed equity increases by \$101.0 million as a result of the Offer through the issue by Virtus of Shares to new shareholders (\$126.7 million) and \$2.0 million from the conversion of shareholder loans into equity, offset by \$11.3 million to settle certain other obligations of Virtus to option holders, \$9.7 million in payments to option holders to cancel existing options, \$2.4 million additional equalisation payment to option holders relating to the Pre IPO Dividend and the after tax costs of the Offer (\$4.3 million).
- GST receivable (\$0.4 million) and deferred tax assets (\$5.8 million) result from the transactions noted above.
- Reduction in retained earnings of \$37.9 million reflects the Pre IPO Dividend to be paid to Existing Shareholders prior to Completion of the Offer (\$28.8 million), \$10.8 million total costs of the Offer expensed, including \$10.4 million (\$7.3 million net of tax) relating to the sale of Existing Shares and \$0.4 million in costs expensed associated with the planned payments to option holders prior to Completion of the Offer (\$0.3 million net of tax), and the write-off of unamortised capitalised borrowing costs (\$2.3 million, \$1.6 million net of tax).
- Intangibles balance includes Goodwill of \$318.7 million, Brands, trademarks and licences of \$5.5 million and Capitalised IT development and software of \$1.6 million. Refer to Appendix A for details of the amortisation policy applicable to each of these balances.

4.4.1 Pro forma adjustments to the statutory balance sheet

In conjunction with the Offer, Virtus will issue new equity and draw down on its New Banking Facilities (described in Section 4.4.3). Proceeds from the foregoing, together with available cash, will be used to pay:

- amounts owing by Virtus under debt facilities and associated derivatives in place immediately prior to Completion of the Offer (including repayment of additional debt drawn down in relation to the Pre IPO Dividend);
- cancellation costs paid to option holders in respect of existing share option schemes;
- establishment costs in respect of new debt facilities applicable post the Offer; and
- costs of the Offer, as well as other obligations of Virtus to be paid on Completion of the Offer.

Details of the pro forma adjustments made to the reviewed statutory consolidated historical balance sheet for Virtus as at 31 December 2012 are set out in the notes to Table 10 above. The pro forma consolidated historical balance sheet is provided for illustrative purposes only and is not represented as being necessarily indicative of Virtus' view on its future financial position. For further information, refer to the notes to Table 10 in Section 4.4. Further information on the sources and uses of funds of the Offer and the New Banking Facilities is contained in Sections 7.1.2 and 4.4.3.

4.4.2 Capitalisation and indebtedness

Table 11 below sets out the capitalisation and indebtedness of Virtus as at 31 December 2012, before and following the Completion of the Offer.

Table 11: Pro forma consolidated historical capitalisation and indebtedness as at 31 December 2012

As at 31 December 2012, \$ million	Note	Reviewed statutory Virtus (before Completion of the Offer)	Pro forma Virtus (following Completion of the Offer)
Cash and cash equivalents	2,3	(20.6)	(1.5)
Current borrowings	2	217.9	0.2
Non-current borrowings	2	0.2	144.5
Net total indebtedness		197.5	143.2
Contributed equity	3	132.6	233.6
Reserves	5	7.8	7.8
Retained profits / (losses)	4	2.2	(35.7)
Total equity		142.6	205.7
Total indebtedness and capitalisation		340.1	348.9
Net debt / FY2013 pro forma consolidated EBITDA			2.6x
Net debt / FY2014 pro forma consolidated EBITDA			2.3x

Notes:

1. Extracted from the reviewed statutory consolidated balance sheet of Virtus as at 31 December 2012.
2. The \$145.0 million of new debt facilities, net of non-current capitalised borrowing costs of \$0.7 million equals the \$144.3 million increase in non-current borrowings recorded in the pro forma consolidated historical balance sheet, resulting in total non-current borrowings of \$144.5 million following Completion of the Offer.
3. Contributed equity includes \$4.3 million of Offer costs (after tax) which have been offset against equity raised (see notes to table 10 in Section 4.4 for further details).
4. Pro forma retained earnings of (\$35.7) million reflects the factors outlined in the note 7 to table 10 in Section 4.4.
5. Reserves comprises share-based payments reserves established upon recognition of the AASB 2 share-based payments expenses that were recorded in the Historical Statutory Results in respect of Virtus' option incentive schemes applicable to management, scientists and Fertility Specialists prior to Completion of the Offer.

4.4.3 Description of the New Banking Facilities

Virtus has entered into a commitment letter for the provision of a three year bullet cash advance facility, a revolving cash advance facility and a revolving working capital facility ("New Banking Facilities"). On Completion of the Offer, funding provided under the New Banking Facilities (together with proceeds from the sale of New Shares under the Offer) will be utilised to repay existing debt facilities and associated derivatives as well as certain other obligations of Virtus as set out in Section 4.4. The New Banking Facilities and associated hedging will have the benefit of the existing security package given from Virtus to secure the existing facilities.

The availability of funding under the New Banking Facilities is conditional on confirmation that Virtus will be quoted on ASX as contemplated by this Offer and other conditions precedent which are within the control of Virtus. Accordingly, on Completion of the Offer, Virtus will have debt funding available to assist with the repayment of the existing debt and to provide for the funding needs of Virtus post Completion of the Offer.

The New Banking Facilities will comprise:

- \$100 million three year Bullet Cash Advance Facility (Tranche A).
- \$40 million three year Revolving Cash Advance Facility (Tranche B).
- \$15 million three year Working Capital Facility (Tranche C).

Table 12 below sets out the New Banking Facilities.

Table 12: Summary of New Banking Facilities

\$ million	Facility commitment	Pro forma drawn
Tranche A	100.0	100.0
Tranche B	40.0	40.0
Tranche C	15.0	9.0
Total New Banking Facilities	155.0	149.0

Virtus is required under the New Banking Facilities to hedge a minimum of 50% of its interest rate risk under Tranche A, refer Section 4.4.3.1.

Pro forma consolidated forecast net interest expense for FY2013 and FY2014 includes \$0.4 million in amortisation costs of the capitalised borrowing costs associated with the New Banking Facilities.

4.4.3.1 Tranche A

Tranche A is repayable in full at maturity, being three years from the date of the first drawdown under the New Banking Facilities. No interim scheduled principal repayments are required during the term of Tranche A.

Tranche A has a variable interest rate, which is based on BBSY.

The average effective interest rate of Tranche A is forecast to be 5.8%. Pro forma consolidated forecast interest expense in relation to Tranche A for FY2013 and FY2014 is \$6.0 million. This is based on pro forma historical (following Completion of the Offer) debt of \$100.0 million.

While Virtus intends to fully draw the Tranche A funds, if Tranche A is not fully drawn, Tranche A will attract commitment fees equal to 45% of the margin on the committed but undrawn funds under this facility. Virtus will be required to pay a ticking fee of 0.50% per annum of the total commitment under the New Banking Facilities for a period from and including the date which is 45 days after the date of the commitment letter to and including financial close.

4.4.3.2 Tranche B

Tranche B will be available for general corporate, working capital and capital expenditure purposes. The average effective interest rate of Tranche B is forecast to be 5.8%. It will have the same tenor and will attract the same margins, commitment fees and ticking fees as Tranche A. As with Tranche A, Virtus intends to fully draw the Tranche B funds and, accordingly, does not anticipate having to pay the commitment fees that would be payable under the New Banking Facilities where the Tranche B funds were not fully drawn.

Pro forma consolidated forecast interest expense in relation to Tranche B for FY2013 and FY2014 is \$2.4 million, on the assumption that Tranche B remains fully drawn for the entire FY2013 and FY2014 periods.

4.4.3.3 Tranche C Working Capital Facility

The Tranche C Working Capital Facility will be available for general corporate, working capital and capital expenditure purposes. It will have the same tenor and will attract the same interest rate, commitment fees and ticking fees as Tranches A and B.

It is assumed that \$9.0 million of the Tranche C working capital facility will be utilised immediately following Completion of the Offer, \$4.0 million of which will be used to provide bank guarantees in relation to leasehold properties occupied by Virtus and \$5.0 million of which will be used for general working capital purposes. Only \$5.0 million of the assumed \$9.0 million utilisation of this facility is reflected in the pro forma historical balance sheet as at 31 December 2012 set out in Section 4.4, as \$4.0 million of this facility is not drawn down in cash.

Pro forma consolidated forecast interest expense in relation to Tranche C for FY2013 and FY2014 is \$0.5 million. This assumes an average draw of \$9.0 million.

4.4.3.4 Financial undertakings

The agreement under which the New Banking Facilities will be made available contains undertakings typical for facilities of this nature. The undertakings include financial undertakings which will be tested at financial year end and financial half-year end based on the preceding 12 months results. Virtus expects to remain in compliance with these undertakings.

Table 13: Summary

	Note	Pro forma drawn as at 31 December 2012
Net leverage ratio to be not greater than 3.25:1	1	2.6
Interest cover ratio to be equal to or greater than 3:1	2	6.0

Notes:

1. Net leverage ratio calculation represents pro forma net indebtedness following Completion of the Offer divided by pro forma EBITDA for FY2013.
2. Interest cover ratio represents pro forma EBITDA divided by pro forma interest expense for FY2013.

4.4.3.5 Other financing considerations

The agreement under which the New Banking Facilities are made available contains certain representations, undertakings and events of default which are standard for a facility of this nature. Any breach by Virtus of the representations or undertakings given or made by it, or the occurrence of an event of default, may lead to the funds borrowed becoming due and the New Banking Facilities being cancelled. In addition, a review event will occur if either:

- in any 12 month period, Fertility Specialists who in aggregate contributed more than 20% of Virtus' total IVF Cycles over that 12 month period terminate their contracts, and such Fertility Specialists are not:
 - i) replaced by new Fertility Specialists that are capable of replacing the lost IVF Cycles; or
 - ii) retiring and handing over their practice to another existing Fertility Specialist; or
- any person (other than Quadrant) acquires control, whether direct or indirect, of more than 50% of the voting share capital of Virtus after financial close without the consent of the lenders; or
- Virtus is removed from the official list of the stock exchange operated by ASX Limited, or any class of the securities in Virtus are suspended from trading on ASX for a continuous period of 10 business days or longer for reasons other than there being an imminent announcement of a major acquisition or merger transaction.

If a review event occurs, the parties will be required to try to negotiate revised terms for the New Banking Facilities.

If agreement cannot be reached within a certain period, then it may lead to some or all of the funds borrowed becoming due and the New Banking Facilities being cancelled.

The New Banking Facilities also contain a market standard market disruption clause. If, due to a change in market circumstances, BBSY does not reflect the cost of funds of those lenders representing a certain threshold of commitments under the New Banking Facilities (and who give notice that they wish to claim under the market disruption provisions), then the interest rate payable to those lenders will be the cost of funds as notified by those lenders plus the margin.

4.4.4. Liquidity and capital resources

Following Completion of the Offer, Virtus' principal sources of funds will be cash flow from operations and borrowings under the New Banking Facilities noted in Section 4.4.3.

The majority of Virtus' capital expenditure relates to expenditure on office fit-outs, medical and scientific equipment, technology hardware and software. Virtus' historical and forecast capital expenditure and working capital trends are set out in Sections 4.5, 4.6 and 4.7.

Virtus expects that it will have sufficient cash flow from operations to meet its operational requirements and business needs during the forecast period. Virtus expects that its operating cash flows, together with borrowings under the New Banking Facilities, will position Virtus to grow its business in accordance with the Forecast Financial Information.

As Virtus has historically earned all of its revenues in Australian dollars, Virtus has not historically been exposed to foreign currency risks, apart from indirect foreign currency risk in relation to purchases of new medical and scientific equipment and certain consumables. As a consequence, Virtus does not currently undertake any foreign currency hedging. Virtus has historically hedged a portion of its interest rate risk and it is a requirement of the New Banking Facilities for Virtus to hedge a minimum of 50% of its interest rate risk under Tranche A of these facilities (see Section 4.4.3). The Forecast Financial Information set out in Section 4.7 has been prepared on the basis that Virtus hedges 50% of the total New Banking Facilities.

4.4.5 Contractual obligations and commitments

Table 14 below summarises Virtus' contractual obligations and commitments (following Completion of the Offer) under the New Banking Facilities and operating leases:

Table 14: Contractual obligations and commitments

As at 31 December 2012, \$ million	Pro forma drawn total	Facility commitment total	Payments due by period		
			< 1 year	1<3 years	> 3 years
Tranche A	100.0	100.0	–	–	100.0
Tranche B	40.0	40.0	–	–	40.0
Tranche C	9.0	15.0	–	–	15.0
Finance lease commitments	0.5	0.5	0.2	0.2	0.1
Operating lease commitments	n/a	n/a	6.0	8.2	6.9
Total	149.5	155.5	6.2	8.4	162.0

As noted in Section 4.4.3, the New Banking Facilities will be drawn down from Completion of the Offer and will have a three year term from the date of draw down. As such, as at 31 December 2012 repayment of the New Banking Facilities is not required for over three years.

4.5. Consolidated historical and forecast cash flows

Virtus has a track record of strong cash flow generation, converting a high proportion of EBITDA to operating free cash flow after capital expenditure. Virtus' strong cash flow generation is underpinned by its low working capital requirements and steady capital expenditures. Tables 15 and 16 below set out the Pro Forma Historical Cash Flows and the pro forma consolidated forecast operating cash flows and statutory consolidated forecast operating cash flows of Virtus for FY2013 and FY2014 ("Cash Flows").

Table 15: Pro forma consolidated historical and forecast operating cash flows from FY2010 to FY2014 and statutory consolidated forecast operating cash flows for FY2013 and FY2014

Pro Forma Historical Cash Flows					Pro Forma Forecasts		Statutory Forecasts	
June year end, \$ million	Note	FY2010	FY2011	FY2012	FY2013	FY2014	FY2013	FY2014
EBITDA	1	39.6	41.9	51.6	55.3	63.0	43.6	63.0
Non-cash items	2	0.2	0.2	0.2	0.2	0.2	0.9	0.2
Change in working capital		0.5	(2.0)	2.3	(1.9)	0.1	(1.9)	0.1
Operating free cash flow before capital expenditure		40.3	40.1	54.1	53.6	63.3	42.6	63.3
Capital expenditure		(5.4)	(8.4)	(8.2)	(10.1)	(8.4)	(10.1)	(8.4)
Operating free cash flow after capital expenditure		34.9	31.7	45.9	43.5	54.9	32.5	54.9
Net interest paid					(8.9)	(8.9)	(15.5)	(8.9)
Income tax paid					(9.4)	(8.6)	(12.8)	(8.6)
Net cash flow before dividends	3				25.2	37.4	4.2	37.4
Dividends paid	4				–	(10.2)		
Net cash flow					25.2	27.2		

Notes:

1. EBITDA above has been adjusted to reflect the pro forma adjustments to the Historical Statutory Results and Forecast Statutory Results set out in Section 4.3.2, with the exception of adjustments to debt structure, amortisation and income tax effects as none of these impact pro forma EBITDA.
2. Represents the pro forma share-based payments expense, which is a non-cash charge included within pro forma EBITDA.
3. The FY2013 Statutory consolidated forecast operating cash flows excludes the cash flows in respect of the Offer, with the exception of the costs expensed in the Statutory Forecast EBITDA, refer to Section 4.4.1.
4. Represents level of interim dividend expected to be paid in April 2014 in accordance with Virtus' dividend policy described in Section 4.9.

Table 16: Pro forma consolidated historical operating cash flows for H1FY2012 and H1FY2013

		Pro Forma Historical Cash Flows	
December half, \$ million	Note	H1 FY2012	H1 FY2013
EBITDA	1	26.8	30.3
Non-cash items	2	0.1	0.1
Change in working capital		2.1	(5.2)
Operating free cash flow before capital expenditure		29.0	25.2
Capital expenditure		(3.3)	(2.5)
Operating free cash flow after capital expenditure		25.7	22.7
Net interest paid			
Income tax paid			
Net cash flow before dividends			
Dividends paid			
Net cash flow			

Notes:

- EBITDA above has been adjusted to reflect the pro forma adjustments to the Historical Statutory Results and Forecast Statutory Results set out in Section 4.3.2, with the exception of adjustments to debt structure, amortisation and income tax effects as none of these impact pro forma EBITDA.
- Represents the pro forma share-based payments expense, which is a non-cash charge included within pro forma EBITDA.

4.5.1 Pro forma adjustments to the statutory cash flow statement

Tables 17 and 18 below set out the adjustments to the Statutory Historical Cash Flows as well as the statutory consolidated forecast cash flows in FY2013 and FY2014 to reflect the full year impact of the operating structure that will be in place following Completion of the Offer and to eliminate certain non-recurring items.

Table 17: Pro forma adjustments to the audited statutory consolidated historical cash flow statements for FY2010 to FY2012 and the statutory consolidated forecast cash flow statements for FY2013 and FY2014

June year end, \$ million	Historical			Forecast	
	FY2010	FY2011	FY2012	FY2013	FY2014
Statutory operating free cash flow after capital expenditure	32.8	27.8	43.6	32.5	54.9
Pro forma impact of historical acquisitions	3.3	5.1	3.5	1.4	–
IPO transaction costs expensed ¹	–	–	–	10.8	–
Public company costs	(1.2)	(1.2)	(1.2)	(1.2)	–
Pro forma operating free cash flow after capital expenditure	34.9	31.7	45.9	43.5	54.9

Note:

- The FY2013 statutory consolidated forecast operating cash flows excludes the cash flows in respect of the Offer, with the exception of the IPO costs expensed in the Statutory Forecast EBITDA, refer to Section 4.4.1.

Table 18: Pro forma adjustments to the reviewed statutory consolidated historical cash flow statements for H1FY2012 and H1FY2013

		Historical	
December half, \$ million		H1 FY2012	H1 FY2013
Statutory operating free cash flow after capital expenditure		23.3	22.1
Pro forma impact of historical acquisitions		3.0	1.2
Public company costs		(0.6)	(0.6)
Pro forma operating free cash flow after capital expenditure		25.7	22.7

4.6. Management discussion and analysis of Historical Financial Information

4.6.1. General factors affecting the operating results of Virtus

Below is a discussion of the main factors which affected Virtus' operations and relative financial performance in FY2010, FY2011, FY2012, H1FY2012 and H1FY2013 and which Virtus expects may continue to affect it in the future.

The discussion of those general factors are intended to provide a brief summary only and does not detail all factors that affected Virtus' historical operating and financial performance, nor everything which may affect Virtus' operations and financial performance in the future.

4.6.1.1 Revenue

An overview of the different revenue streams generated by Virtus and the key drivers of each revenue stream are set out below.

1. Assisted Reproductive Services revenue

Assisted Reproductive Services revenue is generated by Virtus from providing IVF Cycles and other forms of fertility treatments to patients. The key drivers of Assisted Reproductive Services revenue are therefore the number of IVF Cycles/fertility treatments undertaken by patients and average revenue per IVF Cycle/fertility treatment.

The number of IVF Cycles and other types of fertility treatments provided to patients may depend on a range of factors set out in Sections 2 and 3, including:

- demand for Assisted Reproductive Services in the markets in which Virtus operates;
- Virtus' ability to attract patient referrals from general practitioners and other medical specialists in the markets in which it operates;
- the rate at which patient referrals convert into IVF Cycles and other types of Assisted Reproductive Services which relies in part on the availability of Virtus' Fertility Specialists, and
- the level of funding received by patients (both from the Commonwealth Government and private health insurance where applicable).

As noted in Section 2.6, notwithstanding the long-term growth in IVF Cycles in Australia, growth in IVF Cycles can vary materially over short-term periods in the states in which Virtus operates. Where growth in a short-term period has been below long-term trends in a particular state, Virtus has generally seen above trend growth in subsequent periods in that state as patients typically elect not to delay their IVF Cycle indefinitely. The number of initial patient consultations with Virtus Fertility Specialists and new patient registrations is typically a leading indicator of Virtus IVF Cycle activity. Growth in initial patient consultations and new patient registrations typically leads the growth in Virtus' IVF Cycles by approximately 3–4.5 months.

Average revenue per IVF Cycle / fertility treatment is driven by the price charged by Virtus for each service, as well as the mix of fertility treatments undertaken by patients.

2. Specialised diagnostics revenue

Specialised diagnostics revenue is generated by Virtus for the provision of fertility related diagnostic tests. The key drivers of specialised diagnostics revenue are therefore the number of tests undertaken and the average revenue per test. The number of tests undertaken is a function of the range of tests offered by Virtus and the usage of such tests ordered by Fertility Specialists, general practitioners and other medical specialists in consultation with patients. The average revenue per test is a function of the prices charged by Virtus for each test as well as the mix of tests undertaken by patients.

As set out in Section 3.4.2, Virtus has expanded the range of specialised diagnostic tests it offers since FY2010, resulting in an increase in both the number and value of tests used by Fertility Specialists and patients.

3. Day hospital revenue

Day hospital revenue is generated by Virtus from the use of its day hospitals for the conduct of various procedures in relation to Assisted Reproductive Services and non-fertility related procedures. As noted in Section 3.4.3, the majority of FY2012 day hospital revenue was generated from procedures in relation to Assisted Reproductive Services. Remaining day hospital revenue is generated from procedures in other medical fields including ophthalmology, dental surgery, endoscopy, plastic surgery, gynaecology and other surgical specialties. The key drivers of day hospital revenues are therefore:

- the number of Assisted Reproductive Services and non-fertility procedures conducted in Virtus' day hospitals;
- the average revenue received by Virtus per procedure; and
- Fee increases negotiated on an annual basis with health funds.

The number of Assisted Reproductive Services related procedures undertaken is subject to the number of patients undergoing IVF Cycles and other fertility treatments with Virtus. The number of procedures not related to Assisted Reproductive Services is subject to the recruitment of third party medical specialists and the number of patients undergoing these procedures with the various medical specialists who operate in Virtus' day hospitals. The average revenue received by Virtus per day hospital procedure is dependent upon the fee per procedure and the mix of procedures conducted in any one period.

Based on the above, the number of IVF Cycles conducted by Virtus Fertility Specialists is a key driver of Virtus' overall revenue. IVF Cycles not only determine the amount of Assisted Reproductive Services revenue recorded by Virtus, but under Virtus' vertically integrated model, IVF Cycles are also a key determinant of specialised diagnostics revenue as well as the volume of Assisted Reproductive Services related procedures conducted in Virtus' day hospitals. This is demonstrated by the split between Virtus' different revenue streams in FY2012 as set out in Table 19 below.

Table 19: Pro forma revenue breakdown for FY2012

June year end, \$ million	Historical	
	FY2012	Percentage
Assisted Reproductive Services revenue	131.7	76.8%
Specialised diagnostics revenue	12.3	7.2%
Day hospital revenue	22.4	13.0%
Other revenue	5.2	3.0%
Total revenue	171.6	100%

Note:

1. Breakdown of Virtus' different revenue streams for FY2012 provided in the table above. The pro forma consolidated forecast income statements for FY2013 and FY2014 assume that Virtus' revenue in those periods is derived in relatively consistent proportions to that achieved in FY2012.

4.6.1.2 Expenses

Key expenses include:

- Labour costs** – salaries, wages and other employment related costs of nursing, scientific, administrative and management staff employed by Virtus. Labour costs are primarily fixed in nature in the short term, albeit with some ability to adjust headcount and nurse and clinic administrative rosters if the number of IVF Cycles materially increase or decrease, and some variability depending on leave taken and public holidays. Virtus' employment relationship with its nursing, administration and scientific staff is governed by enterprise bargaining agreements.
- Provider fees** – fees paid by Virtus to Fertility Specialists under the terms of their respective contracts. Fees are paid as a professional fee per service or procedure performed by a Fertility Specialist at Virtus' full service clinics and therefore vary by direct reference to the number of procedures they perform. The fees per service or procedure are reviewed annually and typically move in line with changes in Virtus' prices. The amount of provider fees paid by Virtus in respect of full service clinics is therefore subject to both the number of and type of services provided to patients by the Fertility Specialists. Virtus also incurs provider fees in respect of its TFCs. At certain locations of these clinics, Virtus pays its Fertility Specialists a fixed fee per session and at these clinics the total amount of provider fees paid is dependent upon the scheduled number of sessions for each Fertility Specialist.
- Facility and occupation costs** – rent, utilities and other occupancy related costs associated with the premises occupied by Virtus. Virtus leases all of its premises and Virtus' leases include typical periodic rent increases. Facility and occupation costs are primarily fixed in nature, although subject to annual inflation.
- Consumables and supplies** – reflects the costs of medical consumables and supplies used by Virtus during the course of the provision of IVF Cycles, specialised diagnostic tests or day hospital procedures. These costs are primarily variable in nature and move in line with IVF Cycle volumes, specialised diagnostic testing volumes and day hospital procedure volumes.
- Other operating costs** – includes sales and marketing costs, the cost of drugs provided to patients, other costs associated with the operation of the day hospitals, as well as corporate overheads costs such as information technology, human resources, legal, audit and other professional fees.

4.6.1.3 Working capital

Virtus' patients are required to pay for their IVF Cycle prior to the egg collection stage of the IVF Cycle. As a consequence, Virtus' trade receivables days have averaged approximately seven to 10 days in respect of clinical revenues since FY2011. As Virtus has obtained longer payment terms in respect of products and services sourced by Virtus from suppliers, Virtus has a negative working capital balance (reflected in the excess of trade payables over trade receivables and inventories on the balance sheet). This represents a form of funding for Virtus. Due to the size of the trade payables balance in comparison to other working capital items on Virtus' balance sheet, changes in working capital are primarily driven by movements in trade payables.

4.6.2. Pro forma consolidated income statements: FY2011 compared to FY2010

Table 20 below sets out the summary pro forma consolidated historical income statements and selected key performance indicators for FY2010 and FY2011.

Table 20: Summary pro forma consolidated historical income statements and key performance indicators: FY2011 compared to FY2010

Pro Forma Historical Results			
June year end, \$ million	FY2010	FY2011	Change
Total revenue	140.8	144.0	2.3%
Labour costs	(41.3)	(43.1)	(4.4%)
Provider fees	(24.0)	(23.5)	2.1%
Facility and occupation costs	(7.7)	(9.0)	(16.9%)
Consumables and supplies	(8.0)	(7.0)	12.5%
Other operating costs	(20.2)	(19.5)	3.5%
Total expenses	(101.2)	(102.1)	(0.9)%
EBITDA	39.6	41.9	5.8%
<i>EBITDA margin</i>	<i>28.1%</i>	<i>29.1%</i>	<i>1.0%</i>
EBIT	34.0	35.8	5.3%
<i>EBIT margin</i>	<i>24.1%</i>	<i>24.9%</i>	<i>0.8%</i>
Summary key performance indicators			
Number of IVF Cycles – Virtus	13,109	12,575	(4.1%)
Number of IVF Cycles – New South Wales / Victoria / Queensland ¹	30,305	28,829	(4.9%)
Implied Virtus market share – IVF Cycles (%) ²	43.3%	43.6%	0.3%
Average number of Fertility Specialists	61.5	65.0	5.7%
Average number of Virtus' IVF Cycles per average number of experienced contracted Fertility Specialists ^{3,5}	212	202	(4.6%)
Average number of Virtus' IVF Cycles per average number of new contracted Fertility Specialists ^{4,5}	13	27	103.8%
Average Total Revenue Per IVF Cycle (\$)	10,741	11,453	6.6%

Notes:

1. Number of IVF Cycles for New South Wales / Victoria / Queensland represents the combined number of IVF Cycles for these states in each period based on Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202.
2. Implied Virtus market share represents Virtus' implied share of the IVF Cycles conducted in New South Wales, Victoria and Queensland based on Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202.
3. Experienced Fertility Specialists are defined as those Fertility Specialists contracted by Virtus prior to FY2010.
4. New contracted Fertility Specialists are defined as those Fertility Specialists contracted by Virtus from FY2010 onwards.
5. There are a small number of Virtus IVF Cycles in historic periods that are not allocated to a particular contracted Fertility Specialist. These IVF Cycles have not been included in the calculation of the relevant average number of Virtus' IVF Cycles per average number of contracted Fertility Specialists.

4.6.2.1 Revenue

Total revenue grew 2.3% to \$144 million in FY2011. This was primarily due to an increase in specialised diagnostics revenue, an increase in day hospital revenue and an increase in the price of Assisted Reproductive Services provided by Virtus.

A summary of the key factors affecting Virtus' revenue growth in FY2011 is outlined below:

- the number of IVF Cycles undertaken by Virtus declined 4.1%. This result outperformed the broader market decline in IVF Cycles in the states in which Virtus operates following the introduction of the EMSN benefit cap on 1 January 2010. As outlined in Section 2.6, the introduction of the EMSN benefit cap resulted in an increase in patients' out-of-pocket expenses per IVF Cycle and a significant increase in the amount patients were required to cash fund prior to receiving Commonwealth Government reimbursement. The decline in IVF Cycles in the states in which Virtus operates can be characterised into two halves:
 - › H1FY2011 saw a 14% decline in IVF Cycles, which Virtus believes is primarily a result of the implementation of the EMSN benefit cap and growth was calculated off a prior corresponding period that saw patients rapidly increase the number of IVF Cycles undertaken prior to the implementation of the EMSN benefit caps on 1 January 2010; and
 - › H2FY2011 saw IVF Cycles grow 6% as the market returned to growth following implementation of the EMSN benefit caps.

- specialised diagnostics revenue increased as a result of Virtus offering more tests from its in-house laboratories and an increased usage of such tests by Fertility Specialists and patients;
- day hospital revenue increased as a result of the opening of Virtus' East Melbourne Day Hospital (opened for five months in FY2011) and an increase in the number of non-fertility related procedures being performed in Virtus' day hospitals; and
- the price of Assisted Reproductive Services provided by Virtus increased.

The average number of Fertility Specialists increased by 3.5 in FY2011, reflecting the five new Fertility Specialists contracted in FY2010 (thereby affecting the average for FY2010) and the three new Fertility Specialists contracted in FY2011, offset by the retirement of one Fertility Specialist. The average number of IVF Cycles per average number of experienced contracted Fertility Specialists declined in FY2011 consistent with the decline in Virtus' IVF Cycles. The average number of IVF Cycles per average number of new contracted Fertility Specialists increased reflecting the ramp-up of Fertility Specialists contracted in FY2010.

4.6.2.2 Expenses

Labour costs grew by 4.4% as a result of:

- Virtus' investment in more scientists to support the growth in specialised diagnostics revenue as Virtus expanded the range of tests provided from its laboratories;
- an increase in staff numbers in Virtus' day hospitals and overall number of procedures as a result of Virtus' East Melbourne Day Hospital commencing operations; and
- wage rises applicable under Virtus' enterprise bargaining agreements.

Provider fee payments reduced by 2.1% reflecting a decrease in IVF Cycles partially offset by an increase in the fee paid to Fertility Specialists per service or procedure. The increase in fees per service or procedure reflects the increase in price charged to patients for Assisted Reproductive Services. Provider fees declined as a percentage of revenue in FY2011, reflecting the growth in specialised diagnostics and day hospital revenues and the fact that provider fees are not payable on some elements of these revenues.

Facility and occupation costs increased by 16.9% as a result of annual rent increases, Virtus establishing a new clinic at Box Hill in Melbourne and establishing its East Melbourne Day Hospital.

Consumables and supplies expenses decreased 12.5% as Virtus achieved better purchasing terms as a result of its increased scale and supplier consolidation.

Total expenses increased 0.9% in FY2011, reflecting the net impact of the above factors and the fixed cost elements of the operating cost base.

4.6.2.3 EBITDA and EBIT

EBITDA grew 5.8% in FY2011 as a result of revenue growth of 2.3% and an increase in total expenses of only 0.9%. The low level of operating expense increase resulted in an increase in EBITDA margins from 28.1% in FY2010 to 29.1% in FY2011. EBIT grew 5.3% in FY2011 as a result of the 5.8% growth in EBITDA offset by higher growth in depreciation charges as a result of increased levels of capital expenditure in FY2011 (see Section 4.6.3.2 below).

4.6.3 Pro forma consolidated cash flows: FY2011 compared to FY2010

Table 21 below sets out the summary pro forma consolidated historical operating cash flow statements for FY2010 and FY2011.

Table 21: Summary pro forma consolidated historical cash flow statements for FY2010 and FY2011

June year end, \$ million	Pro Forma Historical Cash Flows		
	FY2010	FY2011	Change
EBITDA ¹	39.6	41.9	5.8%
Non-cash items	0.2	0.2	-
Change in working capital	0.5	(2.0)	nm
Operating free cash flow before capital expenditure	40.3	40.1	(0.5%)
Capital expenditure	(5.4)	(8.4)	55.6%
Operating free cash flow after capital expenditure	34.9	31.7	(9.2%)

Notes:

1. EBITDA above has been adjusted to reflect the pro forma adjustments to the Historical Statutory Results and Forecast Statutory Results set out in Section 4.3.2, with the exception of adjustments to debt structure, amortisation and income tax effects as none of these impact pro forma EBITDA.
2. nm - change in working capital percentage is not meaningful.

4.6.3.1 Change in working capital

Investment in working capital of \$2.0 million in FY2011 primarily reflected the offer by Virtus of changed payment terms following the introduction of the EMSN benefit cap on 1 January 2010. This saw patients change from making a full upfront payment (typically 4-6 weeks in advance of IVF Cycle completion) to a payment system that continued to offer upfront payments, supported by a credit card commitment or cash payment shortly before egg collection. As discussed in Section 2.6, Virtus introduced this scheme in order to allow patients to avoid funding the full cost of IVF Cycles for extended periods prior to receiving Commonwealth Government reimbursement (See Section 4.6.1.3). Virtus' level of bad debts incurred following the introduction of the credit card payment scheme has not been material.

4.6.3.2 Capital expenditure

The majority of Virtus' capital expenditure requirements are in respect of the premises at which it operates. In FY2010, spend on significant occupancy related projects included:

- \$1.9 million spend on relocation and upgrade of a clinic at Westmead in Western Sydney.
- \$0.9 million spend on the fit-out of new endocrinology and andrology laboratories and new premises in Melbourne.

The increased level of capital expenditure in FY2011 was primarily due to the amount spent on the two significant occupancy related projects in this period, namely:

- The fit-out and establishment of the East Melbourne Day Hospital (approximately \$4.0 million).
- The fit-out of a new clinic and laboratory at Box Hill in Melbourne (approximately \$0.7 million).

4.6.4 Pro forma consolidated income statements: FY2012 compared to FY2011

Table 22 below sets out the summary pro forma consolidated historical income statements and selected key performance indicators for FY2011 and FY2012.

Table 22: Summary pro forma consolidated historical income statements and key performance indicators: FY2012 compared to FY2011

	Pro Forma Historical Results		
June year end, \$ million	FY2011	FY2012	Change
Total revenue	144.0	171.6	19.2%
Labour costs	(43.1)	(49.9)	(15.8%)
Provider fees	(23.5)	(27.4)	(16.6%)
Facility and occupation costs	(9.0)	(10.4)	(15.6%)
Consumables and supplies	(7.0)	(9.8)	(40.0%)
Other operating costs	(19.5)	(22.5)	(15.4%)
Total expenses	(102.1)	(120.0)	(17.5%)
EBITDA	41.9	51.6	23.2%
<i>EBITDA margin</i>	<i>29.1%</i>	<i>30.1%</i>	<i>1.0%</i>
EBIT	35.8	44.6	24.6%
<i>EBIT margin</i>	<i>24.9%</i>	<i>26.0%</i>	<i>1.1%</i>
Summary key performance indicators			
Number of IVF Cycles – Virtus	12,575	13,816	9.9%
Number of IVF Cycles – New South Wales / Victoria / Queensland ¹	28,829	31,456	9.1%
Implied Virtus market share – IVF Cycles (%) ²	43.6%	43.9%	0.3%
Average number of Fertility Specialists	65.0	75.0	15.4%
Average number of Virtus' IVF Cycles per average number of experienced contracted Fertility Specialists ^{3,5}	202	210	4.0%
Average number of Virtus' IVF Cycles per average number of new contracted Fertility Specialists ^{4,5}	27	73	171.9%
Average Total Revenue Per IVF Cycle (\$)	11,453	12,420	8.4%

Notes:

1. Number of IVF Cycles for New South Wales / Victoria / Queensland represents the combined number of IVF Cycles for these states in each period based on Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202.
2. Implied Virtus market share represents Virtus' implied share of the IVF Cycles conducted in New South Wales, Victoria and Queensland based on Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202.
3. Experienced Fertility Specialists are defined as those Fertility Specialists contracted by Virtus prior to FY2010.
4. New contracted Fertility Specialists are defined as those Fertility Specialists contracted by Virtus from FY2010 onwards.
5. There are a small number of Virtus IVF Cycles in historic periods that are not allocated to a particular contracted Fertility Specialist. These IVF Cycles have not been included in the calculation of the relevant average number of Virtus' IVF Cycles per average number of contracted Fertility Specialists.

4.6.4.1 Revenue

Total revenue grew 19.2% to \$171.6 million in FY2012. This was primarily due to an increase in the number of IVF Cycles undertaken by Virtus, an increase in specialised diagnostics revenue, an increase in day hospitals revenue and increase in the price of Assisted Reproductive Services and specialised diagnostics provided by Virtus.

A summary of the key factors affecting Virtus' revenue growth in FY2012 is outlined below:

- the number of IVF Cycles undertaken by Virtus increased 9.9%. This outperformed the strong market increase in IVF Cycles in the states in which Virtus operates. This overall level of market growth reflected strong growth in New South Wales and Victoria, partially offset by lower growth in Queensland as a result of the impact of the Queensland floods. Strong market growth in New South Wales and Victoria followed negative market growth in FY2011 as a result of the implementation of EMSN benefit caps;
- specialised diagnostics revenue increased as Virtus offered higher value, advanced specialised diagnostic tests to patients (i.e. pre-implantation genetic testing) and there was continuing increase in the usage and cross selling between states of diagnostic tests provided by Virtus by Fertility Specialists to patients;
- day hospital revenue increased as a result of an increase in IVF Cycles and Assisted Reproductive Services procedures performed in Virtus' day hospitals and a first full year contribution by East Melbourne Day Hospital; and
- the price of Assisted Reproductive Services and specialised diagnostics provided by Virtus increased.

Virtus opened its first TFC clinic in FY2012 at Springwood, Queensland. This clinic opened in February 2012 and made a small initial contribution to revenue in FY2012 (approximately \$0.7 million).

The average number of Fertility Specialists increased by 10.0 in FY2012 reflecting a significant investment in Virtus' business that saw 14 new Fertility Specialists contracted in FY2012. The average number of IVF Cycles per average number of experienced contracted Fertility Specialists grew by 4.0% in FY2012. The average number of IVF Cycles per average number of new contracted Fertility Specialists increased reflecting the ramp-up of Fertility Specialists contracted in FY2010 and FY2011 partially offset by the lower initial contribution of the large group of Fertility Specialists contracted during FY2012. The number of new Fertility Specialists contracted in FY2012 was significantly larger than other historic periods, representing a significant investment in the future capacity of Virtus' business.

4.6.4.2 Expenses

Labour costs grew by 15.8% reflecting:

- an increase in nursing staff in Virtus' existing clinics and day hospitals to handle the growth in IVF Cycles;
- an increase in scientific staff to support the growth of specialised diagnostics and the introduction of advanced tests (i.e. pre-implantation genetic testing) as well as to handle the growth in IVF Cycles;
- the first full year contribution of labour costs in Virtus' East Melbourne Day Hospital;
- the opening of Virtus' first TFC clinic in February 2012; and
- wage rises applicable under Virtus' enterprise bargaining agreements.

Provider fee payments increased 16.6% reflecting the increase in IVF Cycles and the fee paid to Fertility Specialists per service or procedure (the latter corresponding to an increase in the prices charged by Virtus for Assisted Reproductive Services). Provider fees declined as a percentage of revenue to 16.0%, reflecting the continued growth in specialised diagnostics and day hospital revenues above the rate of growth of Assisted Reproductive Services revenues (provider fees are not payable on specialised diagnostics and day hospital revenues).

Facility and occupation costs increased 15.6% as a result of annual rent increases, Virtus establishing a new full service fertility clinic at Waverley in Melbourne, the establishment of Virtus' first TFC clinic at Springwood, Queensland, and the first full year contribution of Virtus' East Melbourne Day Hospital.

Consumables and supplies expense increased 40% as a result of the growth in pre-implantation genetic testing, combined with the pre-ordering of endocrinology consumables in order to secure lower forward pricing.

Total expenses increased 17.5% in FY2012, reflecting the net impact of the above factors and the fixed cost elements of the operating cost base.

4.6.4.3 EBITDA and EBIT

EBITDA grew 23.2% in FY2012 as a result of revenue growth of 19.2% and an increase in total expenses of 17.5%. This operating leverage resulted in an increase in EBITDA margins from 29.1% in FY2011 to 30.1% in FY2012. EBIT grew 24.6% as a result of the 23.2% growth in EBITDA and slightly lower growth in depreciation expense of 16.5% (reflecting increased levels of capital expenditure) and amortisation expense of \$1.1 million remaining consistent with FY2011.

4.6.5 Pro forma consolidated cash flows: FY2012 compared to FY2011

Table 23 below sets out the summary pro forma consolidated historical operating cash flow statements for FY2011 and FY2012.

Table 23: Summary pro forma consolidated historical cash flow statements for FY2012 and FY2011

June year end, \$ million	Pro Forma Historical Cash Flows		
	FY2011	FY2012	Change
EBITDA ¹	41.9	51.6	23.2%
Non-cash items	0.2	0.2	-
Change in working capital	(2.0)	2.3	nm
Operating free cash flow before capital expenditure	40.1	54.1	34.9%
Capital expenditure	(8.4)	(8.2)	(2.4%)
Operating free cash flow after capital expenditure	31.7	45.9	44.8%

Notes:

1. EBITDA above has been adjusted to reflect the pro forma adjustments to the Historical Statutory Results and Forecast Statutory Results set out in Section 4.3.2, with the exception of adjustments to debt structure, amortisation and income tax effects as none of these impact pro forma EBITDA.
2. nm – change in working capital percentage is not meaningful.

4.6.5.1 Change in working capital

A decrease in net working capital of \$2.3 million in FY2012 reflected the strong revenue growth achieved and the negative working capital profile of Virtus.

4.6.5.2 Capital expenditure

The level of spend on occupancy related projects in FY2012 decreased from FY2011 due to the end of the projects outlined in Section 4.6.3.2. FY2012 capital expenditure included the following occupancy related projects:

- Refurbishment of the Bondi clinic in Sydney (\$0.2 million).
- Refurbishment of the Maroubra clinic in Sydney (\$1.1 million)
- The fit-out of the new Waverley clinic in Melbourne (\$0.7 million).
- The fit-out of TFC Springwood, Queensland (\$0.9 million).

In addition to occupancy related spend, Virtus also continued to invest in the development of operating software in its main Assisted Reproductive Services clinics and new medical and laboratory equipment to support the growth in the business.

4.6.6 Pro forma consolidated income statements: H1FY2013 compared to H1FY2012

Table 24 below sets out the summary pro forma consolidated historical income statements and selected key performance indicators for H1FY2012 and H1FY2013.

Table 24: Summary pro forma consolidated historical income statements and key performance indicators: H1FY2013 compared to H1FY2012

December half, \$ million	Pro Forma Historical Results		
	H1FY2012	H1FY2013	Change
Total revenue	84.3	93.9	11.4%
Labour costs	(24.0)	(27.6)	(15.0%)
Provider fees	(13.4)	(15.0)	(11.9%)
Facility and occupation costs	(4.7)	(5.6)	(19.2%)
Consumables and supplies	(4.0)	(4.7)	(17.5%)
Other operating costs	(11.4)	(10.7)	6.1%
Total expenses	(57.5)	(63.6)	(10.6%)
EBITDA	26.8	30.3	13.1%
<i>EBITDA margin</i>	<i>31.8%</i>	<i>32.3%</i>	<i>0.5%</i>
EBIT	23.6	26.4	11.9%
<i>EBIT Margin</i>	<i>28.0%</i>	<i>28.1%</i>	<i>0.1%</i>
Summary key performance indicators			
Number of IVF Cycles – Virtus	7,032	7,327	4.2%
Number of IVF Cycles – New South Wales / Victoria / Queensland ¹	16,178	16,689	3.2%
Implied Virtus market share – IVF Cycles (%) ²	43.5%	43.9%	0.4%
Average number of Fertility Specialists	74.5	80.5	8.1%
Average number of Virtus' IVF Cycles per average number of experienced contracted Fertility Specialists ^{3,5}	110	104	(5.8%)
Average number of Virtus' IVF Cycles per average number of new contracted Fertility Specialists ^{4,5}	31	40	27.6%
Average Total Revenue Per IVF Cycle (\$)	11,988	12,816	6.9%

Notes:

1. Number of IVF Cycles for New South Wales / Victoria / Queensland represents the combined number of IVF Cycles for these states in each period based on Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202.
2. Implied Virtus market share represents Virtus' implied share of the IVF Cycles conducted in New South Wales, Victoria and Queensland based on Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202.
3. Experienced Fertility Specialists are defined as those Fertility Specialists contracted by Virtus prior to FY2010.
4. New contracted Fertility Specialists are defined as those Fertility Specialists contracted by Virtus from FY2010 onwards.
5. There are a small number of Virtus IVF Cycles in historic periods that are not allocated to a particular contracted Fertility Specialist. These IVF Cycles have not been included in the calculation of the relevant average number of Virtus' IVF Cycles per average number of contracted Fertility Specialists.

4.6.6.1 Revenue

Total revenue grew 11.4% to \$93.9 million in H1FY2013. This was primarily due to an increase in the number of IVF Cycles undertaken by Virtus, an increase in day hospital revenue and an increase in the price of Assisted Reproductive Services and specialised diagnostics provided by Virtus.

A summary of the key factors affecting Virtus' revenue growth in H1FY2013 is outlined below:

- the number of IVF Cycles undertaken by Virtus increased by 4.2%, which outperformed the increase in IVF Cycles in the states in which Virtus operates. This reflected the ramp-up and full half year contribution of Virtus' TFC clinic at Springwood, Queensland and a moderation of growth in IVF Cycles undertaken by Virtus' full service clinics. The moderation of growth in IVF Cycles in Virtus' full service clinics reflected the moderation of market growth in New South Wales and Victoria following very strong growth in FY2012 in these markets. The moderation of growth in New South Wales and Victoria was partially offset by strong market growth in Queensland (following periods of subdued market growth as a result of Queensland floods);
- specialised diagnostics revenue increased as a result of an increased usage of such tests by Fertility Specialists to patients;
- day hospital revenue increased as a result of a higher number of IVF Cycles and Assisted Reproductive Services procedures being performed in Virtus' day hospitals and growth in non-fertility related procedures in some of Virtus' day hospitals; and
- the price of Assisted Reproductive Services and specialised diagnostics provided by Virtus increased.

Virtus' TFC clinic at Springwood, Queensland was in operation for the full half year period in H1FY2013 and contributed \$1.6 million towards the total growth in revenue and added 3.1% to the growth in IVF Cycles. Virtus opened its second TFC clinic at Dandenong, Victoria in December 2012, but its financial contribution was immaterial in H1FY2013.

The average number of Fertility Specialists increased by 6.0 in H1FY2013 reflecting the new Fertility Specialists contracted in FY2012 (which affected the H1FY2012 average) and further contracting of three new Fertility Specialists in the H1FY2013 period, offset by two retirements in this period. The average number of IVF Cycles per average number of experienced contracted Fertility Specialists declined slightly in H1FY2013. The average number of IVF Cycles per average number of new contracted Fertility Specialists increased reflecting the continued ramp-up of Fertility Specialists contracted in FY2010-FY2011, partially offset by the lower initial contribution of the large group of Fertility Specialists contracted during FY2012.

4.6.6.2 Expenses

Labour costs grew by 15.0% in H1FY2013 reflecting staff costs associated with:

- full half year operation of new full service clinics opened in FY2012 (Waverley in Melbourne and Dee Why in Sydney);
- new TFC clinic opened in FY2012 at Springwood, Queensland;
- increase in staff numbers at certain Virtus day hospitals to support the growth in revenue; and
- wage rises applicable under Virtus' enterprise bargaining agreements.

Provider fee payments increased 11.9% reflecting an increase in IVF Cycles and the fee paid to Fertility Specialists per service or procedure (the latter corresponding to an increase in the prices charged by Virtus for Assisted Reproductive Services).

Facility and occupation costs increased 19.2% as a result of annual rent increases, and full half year operation of new full service clinics and day hospitals opened in FY2012 (Waverley in Melbourne and Mackay in Queensland), TFC clinic opened in FY2012 at Springwood, Queensland and TFC clinic opened in December 2012 at Dandenong, Victoria.

Consumables and supplies expenses increased 17.5% as a result of growth in procedures performed at Virtus' day hospitals, growth in PGD activity and the full half year operation of new full service clinics and day hospitals opened in FY2012 (Waverley in Melbourne and Mackay in Queensland), as well as the TFC clinic opening in FY2012 at Springwood, Queensland.

Other operating costs declined 6.1% as a result of savings in corporate overheads compared to the prior period.

Total expenses increased 10.6% in H1FY2013, reflecting the net impact of the above factors and the fixed cost elements of the operating cost base.

4.6.6.3 EBITDA and EBIT

EBITDA increased 13.1% in H1FY2013 as a result of revenue growth of 11.4% and an increase in total expenses of 10.6%. This operating leverage resulted in an increase in EBITDA margins from 31.8% in H1FY2012 to 32.3% in H1FY2013. EBIT grew 11.9% reflecting the growth in EBITDA partially offset by a greater increase in depreciation and amortisation charges as a result of the commencement of amortisation of capitalised internally developed software costs.

4.6.7 Pro forma consolidated historical cash flows: H1FY2013 compared to H1FY2012

Table 25 below sets out the summary pro forma consolidated historical operating cash flow statements for H1FY2012 and H1FY2013.

Table 25: Summary pro forma consolidated historical cash flow statements for H1FY2013 and H1FY2012

December half, \$ million	Pro Forma Historical Cash Flows		
	H1FY2012	H1FY2013	Change
EBITDA ¹	26.8	30.3	13.1%
Non-cash items	0.1	0.1	-
Change in working capital	2.1	(5.2)	nm
Operating free cash flow before capital expenditure	29.0	25.2	(13.1%)
Capital expenditure	(3.3)	(2.5)	(24.2%)
Operating free cash flow after capital expenditure	25.7	22.7	(11.7%)

Notes:

1. EBITDA above has been adjusted to reflect the pro forma adjustments to the Historical Statutory Results and Forecast Statutory Results set out in Section 4.3.2, with the exception of adjustments to debt structure, amortisation and income tax effects as none of these impact pro forma EBITDA.
2. nm – change in working capital percentage is not meaningful.

4.6.7.1 Change in working capital

\$5.2 million investment in working capital in H1FY2013 reflects:

- lower unearned income balance (\$1.9 million) – reflecting a lower level of cycle activity and a greater utilisation of Virtus’ no-upfront payment option arrangements;
- lower Accounts payable balance (\$1.0 million) – reflecting lower levels of CAPEX activity in December 2012 compared to December 2011;
- increased receivable balances (\$2.0 million) – reflecting an expansion of Virtus’ City West Day Surgery, increased diagnostic activity and a general increase in Assisted Reproductive Services; and
- a general increase in accounts receivable balances reflecting increased diagnostic activity in the period ending 31 December 2012.

4.6.7.2 Capital expenditure

H1FY2013 capital expenditure was lower than the prior period, largely due to the timing of occupancy related projects. H1FY2013 included capital expenditure of approximately \$0.8 million in respect of the fit-out of a new TFC clinic at Liverpool, New South Wales. This clinic opened in H2FY2013 (February 2013).

4.7 Pro forma Forecast Financial Information

The Forecast Financial Information has been prepared based on the significant accounting policies adopted by Virtus, which are in accordance with the Accounting Standards and are disclosed in Appendix A. It is assumed that there will be no changes to Accounting Standards, the Corporations Act or other financial reporting requirements that may have a material effect on Virtus’ accounting policies during the forecast period.

The Forecast Financial Information is based on various best estimate assumptions concerning future events, including those set out below. In preparing the Forecast Financial Information, Virtus has undertaken an analysis of historical performance and applied assumptions in order to predict future performance for FY2013 and FY2014. Virtus believes that it has prepared the Forecast Financial Information with due care and attention and considers all assumptions when taken as a whole to be reasonable at the time of preparing this Prospectus, including each of the general assumptions set out in Section 4.7.1.

However, the actual results are likely to vary from those forecast and any variation may be materially positive or negative. The assumptions upon which the Forecast Financial Information is based are by their nature subject to significant uncertainties and contingencies, many of which are outside the control of Virtus and its Directors, and are not reliably predictable.

Accordingly, none of Virtus, its Directors, or any other person can give you any assurance that the Forecast Financial Information or any prospective statement contained in this Prospectus will be achieved. Events and outcomes might differ in amount and timing from the assumptions, with a material consequential impact on the Forecast Financial Information.

The assumptions set out below should be read in conjunction with the sensitivity analysis set out in Section 4.8, the risk factors set out in Section 5 and the Investigating Accountant’s Report on the Forecast Financial Information set out in Section 8. A reconciliation of the Pro Forma Forecast Results to the Forecast Statutory Results is set out in Section 4.3.2.

4.7.1 General assumptions

In preparing the Forecast Financial Information, the following general assumptions have been adopted:

- Growth in patient demand for Assisted Reproductive Services continues and the overall number of IVF Cycles in the states in which Virtus operates grows in line with long-term trends.
- Virtus maintains price increases for Assisted Reproductive Services in line with historical trends.
- No material change in the competitive operating environment in which Virtus operates.
- No significant deviation from current market expectations of global or Australian economic conditions relevant to the healthcare industry in Australia for the forecast period.
- No material changes in Commonwealth, state or local government legislation, tax legislation, regulatory legislation, regulatory requirements or government policy that will have a material impact on the financial performance or cash flows, financial position, accounting policies, financial reporting or disclosure of Virtus during the forecast period.
- No material changes in Commonwealth Government funding arrangements for Assisted Reproductive Services.
- No material changes to the private health insurance industry that would have a material impact on demand or price of Virtus’ services.
- No material changes in key personnel, including key management personnel, scientists and Fertility Specialists. It is also assumed that Virtus maintains its ability to recruit and retain the personnel required to support future growth and that there is no material adverse impact of any renewal of any of Virtus’ state-based Enterprise Bargaining Agreements during the forecast period.
- No material changes in applicable Australian Accounting Standards, other mandatory professional reporting requirements or the Corporations Act which have a material effect on Virtus’ financial performance, financial position, accounting policies, financial reporting or disclosure.

- No material industry strikes or other disturbances, environmental costs, contingent liabilities or legal claims will arise or be settled to the detriment of Virtus.
- No material cash flow or income statement or financial position impact in relation to litigation (existing or otherwise).
- No material acquisitions, disposals, restructuring or investments.
- No additional clinic or day hospital openings, other than the opening of the Werribee clinic in Victoria (opened in March 2013), TFC Liverpool, New South Wales (opened in February 2013) and TFC Sunshine, Victoria (scheduled to open in July 2013).
- No material changes to Virtus' corporate and funding structure other than as set out in, or contemplated by, this Prospectus.
- No material disruptions to the continuity of operations of Virtus nor other material changes in its business.
- No material amendment to any material agreement or arrangement relating to Virtus' business other than set out in, or contemplated by, this Prospectus.
- None of the risks listed in Section 5 have a material adverse impact on the operations of Virtus.
- The first dividend is paid in April 2014, in relation to the six month period ending 31 December 2013. Subsequently, all dividends are assumed to be paid semi-annually. No full year dividend will be paid in respect of FY2013. No dividend reinvestment plan is activated by Virtus.
- The Offer proceeds in accordance with the timetable set out on page 2 of this Prospectus.

4.7.2 Specific assumptions

4.7.2.1 Pro forma consolidated income statements: FY2013 compared to FY2012

The pro forma consolidated forecast income statement for the year ending 30 June 2013 has been prepared on the basis of the reviewed pro forma consolidated historical financial income statement for the six months ended 31 December 2012, actual financial results for January and February 2013 per Virtus' management accounts and Virtus' pro forma consolidated forecast income statement for the four months ending 30 June 2013. Virtus' forecast for the four months ending 30 June 2013 also has regard to the current trading performance of Virtus up until the date of lodgement of this Prospectus.

Table 26 below sets out the pro forma consolidated forecast income statement for FY2013 compared to the pro forma consolidated historical income statement for FY2012.

Table 26: Pro forma consolidated historical and forecast income statements: FY2013 compared to FY2012

Pro Forma Historical and Forecast Results			
June year end, \$ million	FY2012	FY2013	Change
Total revenue	171.6	184.1	7.3%
Labour costs	(49.9)	(55.0)	(10.2%)
Provider fees	(27.4)	(29.3)	(6.9%)
Facility and occupation costs	(10.4)	(12.0)	(15.4%)
Consumables and supplies	(9.8)	(9.9)	(1.0%)
Other operating costs	(22.5)	(22.6)	(0.4%)
Total expenses	(120.0)	(128.8)	(7.3%)
EBITDA	51.6	55.3	7.2%
Depreciation	(5.9)	(6.4)	(8.5%)
Amortisation	(1.1)	(2.1)	(90.9%)
EBIT	44.6	46.8	4.9%
Net interest expense	(9.7)	(9.2)	5.2%
Profit before tax	34.9	37.6	7.7%
Income tax expense	(10.2)	(11.0)	(7.8%)
NPAT	24.7	26.6	7.7%
NPATA	25.4	27.3	7.5%
<i>EBITDA margin</i>	<i>30.1%</i>	<i>30.0%</i>	<i>(0.1%)</i>
<i>EBIT margin</i>	<i>26.0%</i>	<i>25.4%</i>	<i>(0.6%)</i>
Summary key performance indicators			
Number of IVF Cycles – Virtus	13,816	14,124	2.2%
Average Total Revenue Per IVF Cycle (\$)	12,420	13,034	4.9%

The key assumptions underpinning the FY2013 Pro forma Forecast Results are as follows:

Revenue

Total revenue is forecast to grow 7.3% in FY2013. It is expected that this growth will be primarily due to an increase in the number of IVF Cycles undertaken by Virtus, an increase in specialised diagnostics revenue and an increase in the price of Assisted Reproductive Services and specialised diagnostics provided by Virtus.

A summary of the key factors that are expected to affect the forecast revenue growth in FY2013 are:

- the number of IVF Cycles undertaken by Virtus is expected to increase by 2.2%. This reflects a growing contribution from Virtus' TFC clinics, partially offset by a moderation of growth in IVF Cycles undertaken by Virtus' full service clinics.
 - › *IVF Cycle growth at TFC clinics:* growth in IVF Cycles in Virtus' TFC clinics reflect a full year contribution and recent capacity expansion in the Springwood, Queensland clinic and part year contribution from Dandenong, Victoria clinic (opened December 2012) and Liverpool, New South Wales clinic (opened February 2013);
 - › *IVF Cycle growth at full service clinics:* the moderation of growth in IVF Cycles in Virtus' full service clinics reflects subdued market conditions in New South Wales and Victoria and investment in new Fertility Specialists, partially offset by strong market growth in Queensland (following periods of subdued market growth as a result of Queensland floods). The moderation of market growth in New South Wales and Victoria is expected following very strong growth in FY2012 in these markets. In New South Wales, initial patient consultations with Virtus Fertility Specialists have continued to grow steadily notwithstanding the lower rate of market growth. However, this is not expected to translate into as high a level of growth in IVF Cycles primarily due to a lower rate of conversion from initial patient consultation to IVF Cycles. The lower rate of conversion is primarily attributable to the new Fertility Specialists that joined Virtus in 2012. New Fertility Specialists typically take 24 months to build up their conversion ratios and IVF Cycle volumes. In Victoria, growth in Virtus' new patient registrations slowed in H2FY2012 leading to moderation in forecast growth in IVF Cycles in FY2013. New patient registrations have increased throughout H1FY2013;
- specialised diagnostics revenue is expected to increase as a result of increased usage of existing tests;
- day hospital revenue is expected to increase as a result of Virtus' new day hospital at Mackay, Queensland; and
- the price of Assisted Reproductive Services provided by Virtus is expected to increase in line with historic trends.

Virtus' TFC clinics are forecast to contribute \$2.8 million of the forecast growth in total revenue in FY2013. This reflects the factors described above.

Average Total Revenue Per IVF Cycle is expected to grow 4.9% in FY2013, reflecting continued growth in specialised diagnostic revenue and price increases in Virtus' Assisted Reproductive Services consistent with historic trends, partially offset by the mix effect of a higher revenue contribution from TFC clinics.

Revenues are typically weighted towards the first half of each financial year as Fertility Specialists and patients typically take holidays in the January summer holiday and Easter holiday periods.

Expenses

Labour costs are forecast to grow by 10.2% in FY2013 reflecting an increase in staff costs associated with:

- full year operation of new full service clinics opened in FY2012 (Waverley in Melbourne and Dee Why in Sydney);
- full year operation of Virtus' TFC clinic at Springwood, Queensland opened in FY2012;
- part year operation of Virtus' TFC clinics at Dandenong, Victoria clinic and Liverpool, New South Wales as well as new full service clinic at Werribee, Victoria; and
- wage rises applicable under Virtus' enterprise bargaining agreements.

Provider fee payments are forecast to increase 6.9%, reflecting the lower growth in IVF Cycles relative to FY2012 and an increase in the fee paid to Fertility Specialists per service or procedure (the latter corresponding to an increase in the prices charged by Virtus for Assisted Reproductive Services). Growth in provider fee payments is forecast to be slightly below growth in total revenue, consistent with recent trends.

Facility and occupation costs are forecast to increase 15.4% as a result of the full year and part year operation of new clinics Virtus has established throughout FY2012 and FY2013, increases in size of some of Virtus' existing clinics, as well as annual rent increases. Dual rents are also expected to be paid in FY2013 in Virtus' main Brisbane clinic as that clinic is moving to a new site in the Brisbane CBD. These new premises are expected to be in operation from June 2013.

Consumables and supplies expenses are forecast to only increase 1.0% due to lower growth in total IVF Cycles relative to FY2012 and better procurement terms secured by Virtus throughout FY2013.

Other operating costs are expected to remain consistent with FY2012 levels, reflecting savings in corporate overheads achieved in H1FY2013 and investment in the business in H2FY2013.

Total expenses are forecast to increase 7.3% in FY2013, reflecting the net impact of the above factors.

EBITDA and EBIT

EBITDA is forecast to increase 7.2% in FY2013 as a result of forecast revenue growth of 7.3% and forecast increase in total expenses of 7.3%. The investment in the operating cost base of the business and ramp-up of IVF Cycles at fertility clinics opened in FY2013 is forecast to result in EBITDA margins remaining consistent with FY2012 levels at approximately 30.0%. The lower EBITDA margin forecast in H2FY2013 reflects the impact of cost increases growing faster than revenues in H2FY2013 as well as revenues being typically weighted towards the first half of each financial year.

EBIT is forecast to increase 4.9% in FY2013 as a result of the 7.2% forecast growth in EBITDA offset by higher growth in depreciation expenses. Forecast growth in depreciation expenses is a result of higher levels of capital expenditure forecast in H2FY2013, as well as the first full year of amortisation expenses related to capitalised internally developed software in FY2012.

Net interest expense

Net interest expense is forecast to be \$9.2 million in FY2013, based on the capital structure post Completion of the Offer as set out in the pro forma balance sheet in Section 4.4 and in particular, the New Banking Facilities set out in Section 4.4.3. The net interest expense forecast assumes \$149.0 million of drawn facilities as set out in Section 4.4.3 (including \$9.0 million average drawdown on the Tranche C Working Capital Facility, both to support bank guarantees and for general working capital purposes) at an effective interest rate of 5.8%. Net interest expense also includes the costs of interest rate hedging to 50% of the drawn facilities, \$0.4 million of amortisation of borrowing costs, interest expense on finance leases and bank charges.

Income tax expense assumptions

Income tax expense of \$11.0 million has been forecast in FY2013 based on an effective tax rate of 29%, representing the current corporate income tax rate applicable in Australia in FY2013 of 30%, net of research and development tax concessions. Income tax expense has been adjusted to reflect the tax effect of the pro forma adjustments made to the Forecast Financial Information (refer Section 4.3.2).

4.7.2.2 Pro forma consolidated cash flows: FY2013 compared to FY2012

Table 27 below sets out the summary pro forma consolidated historical cash flow statements for FY2012 and the pro forma consolidated forecast cash flow statements for FY2013.

Table 27: Summary pro forma consolidated cash flow statements for FY2012 and FY2013

June year end, \$ million	Pro Forma Historical Cash Flows		
	FY2012	FY2013	Change
EBITDA ¹	51.6	55.3	7.2%
Non-cash items	0.2	0.2	-
Change in working capital	2.3	(1.9)	nm
Operating free cash flow before capital expenditure	54.1	53.6	(0.9%)
Capital expenditure	(8.2)	(10.1)	23.2%
Operating free cash flow after capital expenditure	45.9	43.5	(5.2%)

Notes:

1. EBITDA above has been adjusted to reflect the pro forma adjustments to the Historical Statutory Results and Forecast Statutory Results set out in Section 4.3.2, with the exception of adjustments to debt structure, amortisation and income tax effects as none of these impact pro forma EBITDA.
2. nm - change in working capital percentage is not meaningful.

The key assumptions underpinning the pro forma consolidated forecast cash flow statement for FY2013 are as follows:

Change in working capital

Investment in net working capital of \$1.9 million is forecast in FY2013 reflecting:

- a lower unearned income balance - reflecting a lower level of cycle activity and a greater utilisation of Virtus no-upfront payment option arrangements;
- increased receivable balances from the expansion of Virtus' City West Day Surgery and increased diagnostic activity in the period ending 30 June 2013.

Capital expenditure

Capital expenditure is forecast to increase to \$10.1 million in FY2013. This reflects the continued investment in the infrastructure necessary to further increase capacity to support the future growth in the business. The forecast levels of spend on material occupancy related projects in FY2013 is as follows:

- The fit-out of Virtus' new clinic in the Brisbane CBD clinic (\$4.3 million).
- The fit-out of TFC clinic at Liverpool, New South Wales (\$0.8 million).
- The fit-out of the new clinic at Werribee, Victoria (\$0.7 million).

In addition to occupancy related spend, the capital expenditure forecast also assumes that Virtus continues to invest in new medical and laboratory equipment and information technology requirements to support future growth in the business.

4.7.2.3 Pro forma consolidated income statements: FY2014 compared to FY2013

Table 28 below sets out the pro forma consolidated forecast income statement for FY2014 compared to the pro forma consolidated forecast income statement for FY2013.

Table 28: Pro forma consolidated forecast income statements: FY2014 compared to FY2013

June year end, \$ million	Pro Forma Forecast Results		
	FY2013	FY2014	Change
Total revenue	184.1	206.3	12.1%
Labour costs	(55.0)	(62.2)	(13.1%)
Provider fees	(29.3)	(31.9)	(8.9%)
Facility and occupation costs	(12.0)	(13.3)	(10.8%)
Consumables and supplies	(9.9)	(11.5)	(16.2%)
Other operating costs	(22.6)	(24.4)	(8.0%)
Total expenses	(128.8)	(143.3)	(11.3%)
EBITDA	55.3	63.0	13.9%
Depreciation	(6.4)	(7.7)	(20.3%)
Amortisation	(2.1)	(1.6)	23.8%
EBIT	46.8	53.7	14.7%
Net interest expense	(9.2)	(9.2)	–
Profit before tax	37.6	44.5	18.4%
Income tax expense	(11.0)	(13.1)	(19.1%)
NPAT	26.6	31.4	18.0%
NPATA	27.3	32.1	17.6%
<i>EBITDA margin</i>	<i>30.0%</i>	<i>30.5%</i>	<i>0.5%</i>
<i>EBIT margin</i>	<i>25.4%</i>	<i>26.0%</i>	<i>0.6%</i>
Summary key performance indicators			
Number of IVF Cycles – Virtus	14,124	15,409	9.1%
Average Total Revenue Per IVF Cycle (\$)	13,034	13,389	2.7%

The key assumptions underpinning the FY2014 Pro forma Forecast Results are as follows:

Revenue

Total revenue is forecast to grow 12.1% in FY2014. It is expected that this growth will be primarily due to an increase in the number of IVF Cycles undertaken by Virtus, an increase in specialised diagnostics revenue and an increase in the price of Assisted Reproductive Services provided by Virtus.

A summary of the key factors that are expected to contribute to the forecast revenue growth in FY2014 is provided below:

- the number of IVF Cycles undertaken by Virtus is expected to increase reflecting growth in IVF Cycles undertaken at Virtus' full service clinics and full year contribution of IVF Cycles from TFC clinics.
 - IVF Cycle growth at full service clinics:* the growth in IVF Cycles performed at Virtus' full service clinics is forecast to be approximately 4.5% in FY2014. This is forecast to be driven by general market growth as well as the opening of a new clinic in Werribee, Victoria and the relocation of Virtus' main Brisbane clinic to a new site in the Brisbane CBD. Virtus expects the New South Wales and Victorian markets to return to growth more consistent with medium-term levels of industry growth (after low growth in FY2013) and growth in the Queensland market to moderate (after high growth rates in FY2013). As described above, growth in IVF Cycles can vary over short-term periods in the states in which Virtus operates. Where growth in a short-term period has been below long-term trends in a particular state, Virtus has generally seen above trend growth in subsequent periods in that state as patients typically elect not to delay their IVF Cycle indefinitely. Growth in initial patient consultations and new patient registrations (leading indicators of IVF Cycle activity) in New South Wales and Victoria in the year to date FY2013 period, has been consistent with medium-term levels of IVF Cycle growth in those markets. As Virtus' new Fertility Specialists have become more experienced, their conversion ratio between initial patient consultation and IVF Cycle has continued to improve. This is forecast to translate into growth in IVF Cycles that is more closely aligned with the continued increase in initial patient consultations and new patient registrations.

- › *IVF Cycle growth at TFC clinics:* growth in IVF Cycles performed at Virtus TFC clinics is forecast to add approximately 4.6% to the growth rate in Virtus' total IVF Cycles in FY2014. This is a result of full year contributions from the Dandenong, Victoria and Liverpool, New South Wales clinics opened during FY2013, as well as capacity expansion undertaken at the Springwood, Queensland clinic in H2FY2013, as well as the planned opening of the Sunshine, Victoria clinic in early FY2014. It is assumed that IVF Cycle volumes will increase at the Dandenong, Victoria and Liverpool, New South Wales clinics in line with the growth already experienced at the Springwood, Queensland clinic since opening in February 2012, adjusted for local state regulatory differences.
- specialised diagnostics revenue is expected to increase as a result of the continuation of the recent trend of higher usage of specialised diagnostic tests by Fertility Specialists to patients;
- day hospital revenue is expected to increase as a result of a higher number of IVF Cycles and Assisted Reproductive Services procedures being performed in Virtus' day hospitals; and
- the price of Assisted Reproductive Services provided by Virtus is expected to increase in line with historic trends.

Virtus' TFC clinics are forecast to contribute \$4.8 million of the forecast growth in total revenue in FY2014 reflecting the factors outlined above.

Average Total Revenue Per IVF Cycle is expected to grow 2.7% in FY2014, reflecting continued growth in specialised diagnostic revenue and price increases in Virtus' Assisted Reproductive Services consistent with historic trends, partially offset by the mix effect of a higher revenue contribution from TFC clinics.

Expenses

Labour costs are forecast to grow by 13.1% in FY2014 reflecting an increase in staff costs associated with:

- the full year operation of clinics Virtus opened in FY2013 (TFC clinics at Dandenong, Victoria and Liverpool, New South Wales as well as the full service clinic at Werribee, Victoria) and the increase in capacity in Virtus' TFC clinic at Springwood, Queensland in FY2013;
- the full year impact of staff members added in FY2013 at Virtus' existing clinics to support the forecast growth in the business;
- the expansion of Virtus' management team as a result of recent appointments. These include the appointment of two separate managing directors whom are responsible for Virtus' operations in New South Wales and Queensland respectively (formerly a single managing director was responsible for both states), as well as the appointment of an international senior business development executive to explore opportunities for Virtus in Asian markets (no revenues from this initiative have been included in the revenue forecasts in FY2014);
- employee bonuses and incentives commensurate with the achievement of the FY2014 EBITDA forecast; and
- wage rises applicable under Virtus' enterprise bargaining agreements.

Provider fee payments are forecast to increase 8.9% in FY2014 reflecting forecast growth in IVF Cycles and an increase in the fee paid to Fertility Specialists per service or procedure (the latter corresponding to the assumed increase in the prices charged by Virtus for Assisted Reproductive Services). Growth in provider fee payments is forecast to be below growth in total revenue, consistent with recent trends and reflecting the increased revenue contribution forecast to be derived from TFC clinics (TFC clinics operate under a different business model with regard to the use and payment of Fertility Specialists).

Facility and occupation costs are forecast to increase 10.8% as a result of the full year operation of clinics opened in FY2013, increases in size of existing clinics (i.e. relocation of Virtus' main Brisbane clinic to a new location), as well as annual rent increases.

Consumables and supplies expenses are forecast to increase 16.2% as a result of growth in IVF Cycles at Virtus' TFC clinics as well as increases in specialised diagnostic tests.

Other operating costs are forecast to increase 8.0% reflecting expected increases in sales and marketing, drugs and specific day hospital related expenses.

Total expenses are forecast to increase 11.3% in FY2014 reflecting the net impact of the above factors and the fixed cost elements of the operating cost base.

EBITDA and EBIT

EBITDA is forecast to increase 13.9% in FY2014 as a result of forecast growth in revenue of 12.1% and forecast growth in total expenses of 11.3%. The operating leverage in Virtus' business which is partially offset by continued investment in the operating cost base is forecast to result in EBITDA margins increasing from 30.0% in FY2013 to 30.5% in FY2014.

EBIT is forecast to increase 14.7% in FY2014 as a result of 14.0% forecast growth in EBITDA and 20.3% growth in depreciation expenses partially offset by a reduction in amortisation expenses. The increase in depreciation expense is a result of the capital expenditure forecast in H2FY2013 and FY2014. The reduction in amortisation expenses is a result of the capitalised internally developed software costs in Virtus' New South Wales business being fully amortised by 31 December 2013.

Net interest expense

Net interest expense is forecast to be \$9.2 million in FY2014, consistent with FY2013.

Income tax expense assumptions

Income tax expense of \$13.1 million is forecast in FY2014 based on an effective tax rate of 29%, consistent with FY2013.

4.7.2.4 Pro forma consolidated cash flows: FY2014 compared to FY2013

Table 29 below sets out the summary pro forma consolidated forecast cash flow statements for FY2013 and FY2014.

Table 29: Summary pro forma forecast consolidated cash flow statements for FY2013 and FY2014

June year end, \$ million	Pro Forma Forecast Cash Flows		
	FY2013	FY2014	Change
EBITDA ¹	55.3	63.0	13.9%
Non-cash items	0.2	0.2	–
Change in working capital	(1.9)	0.1	nm
Operating free cash flow before capital expenditure	53.6	63.3	18.1%
Capital expenditure	(10.1)	(8.4)	(16.8%)
Operating free cash flow after capital expenditure	43.5	54.9	26.2%

Notes:

1. EBITDA above has been adjusted to reflect the pro forma adjustments to the Historical Statutory Results and Forecast Statutory Results set out in Section 4.3.2, with the exception of adjustments to debt structure, amortisation and income tax effects as none of these impact pro forma EBITDA.
2. nm – change in working capital percentage is not meaningful.

The key assumptions underpinning the pro forma consolidated forecast cash flow statement for FY2014 are as follows:

Change in working capital

Net working capital requirements at 30 June 2014 are forecast to remain consistent with forecast levels as at 30 June 2013.

Capital expenditure

Capital expenditure is forecast to decrease from \$10.1 million in FY2013 to \$8.4 million in FY2014. The forecast of \$8.4 million in FY2014 reflects a level consistent with actual capital expenditure spend in FY2012 (\$8.2 million). This decrease primarily reflects the reduction in the expected spend on occupancy related projects after the completion of the major expansion and refurbishment program commenced in FY2011.

In addition to occupancy related spend, the capital expenditure forecast also assumes that Virtus continues to invest in new medical and laboratory equipment and in information technology requirements to support future growth in the business.

4.8 Sensitivity analysis

The Forecast Financial Information included in Section 4.7 is based on a number of estimates and assumptions as described in Section 4.7.1 and Section 4.7.2. These estimates and assumptions are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Virtus, the Directors and management. These estimates are also based on assumptions with respect to future business decisions, which are subject to change.

Set out below is a summary of the sensitivity of the Pro Forma Forecast Results to changes in a number of key assumptions. The changes in the key assumptions set out in the sensitivity analysis is intended to provide a guide only and are not intended to be indicative of the complete range of variations that may be experienced. Variations in actual performance could exceed the ranges shown. For the purposes of this analysis, each sensitivity is presented in terms of the impact of each on FY2014 pro forma forecast NPAT of \$31.5 million and is set out below.

Assumption	Increase / Decrease	FY2014 pro forma NPAT impact (\$ million)
Number of IVF Cycles	+1% / -1%	0.8
Average Total Revenue Per IVF Cycle	+1% / -1%	1.2
Labour costs	+1% / -1%	0.4
Provider fees	+1% / -1%	0.2
Facility and occupancy costs	+1% / -1%	0.1
Interest cost	+25bps / -25bps	0.1
Effective tax rate	+1% / -1%	0.4

Care should be taken in interpreting each sensitivity. The estimated impact of changes in each of the assumptions has been calculated in isolation from changes in other assumptions, in order to illustrate the likely impact on the Pro Forma Forecast Results. In practice, changes in assumptions may offset each other or be additive, and it is likely that management would respond to any adverse change in one item to seek to minimise the net effect on Virtus' NPAT and cash flow.

4.9 Dividend policy

No dividend will be paid following Listing in respect of FY2013.

Depending on available profits and the financial position of Virtus, it is the current intention of the Board to pay interim dividends in respect of half years ending 31 December and final dividends in respect of full years ending 30 June each year. It is expected that all future dividends will be franked to the maximum extent possible. The payment of a dividend by Virtus is at the discretion of the Directors and will be a function of a number of factors, including the general business environment, the operating results and the financial condition of Virtus, future funding requirements, capital management initiatives, taxation considerations (including the level of franking credits available), any contractual, legal or regulatory restrictions on the payment of dividends by Virtus, and any other factors the Directors may consider relevant.

Beyond FY2014, the Directors intend to target a payout ratio of between 50% and 70% of statutory NPATA. The level of payout ratio is expected to vary between periods depending on the factors above and, in particular, should value accretive strategic growth, acquisition or investment opportunities arise it may result in a payout ratio in the future that is less than the above target.

Having regard to the factors outlined above, it is the Board's current intention to target a payout ratio of 65% of statutory NPATA in FY2014.

No assurances can be given by any person, including the Directors, about the payment of any dividend and the level of franking on any such dividend.

section five



section five

risks

5.1 Introduction

This Section describes the potential risks associated with Virtus' business and risks associated with an investment in Shares. It does not purport to list every risk that may be associated with an investment in Shares now or in the future, and the occurrence of consequences of some of the risks described in this Section are partially or completely outside the control of Virtus, its Directors and senior management team.

The selection of risks has been based on an assessment of a combination of the probability of the risk occurring and impact of the risk if it did occur. The assessment is based on the knowledge of the Directors as at the date of this Prospectus, but there is no guarantee or assurance that the importance of different risks will not change or other risks will not emerge.

Before applying for Shares, you should satisfy yourself that you have a sufficient understanding of these matters and should consider whether Shares are a suitable investment for you, having regard to your own investment objectives, financial circumstances and taxation position. If you do not understand any part of this Prospectus or are in any doubt as to whether to invest in Shares, it is recommended that you seek professional guidance from your stockbroker, solicitor, accountant, tax adviser or other independent and qualified professional adviser before deciding whether to invest.

5.2 Risks specific to an investment in Virtus

5.2.1 Change in Commonwealth Government funding arrangements for Assisted Reproductive Services

Virtus' patients receive partial reimbursement for some of Virtus' services through Commonwealth Government programs, including the MBS and EMSN. If the level of reimbursement provided by these programs for Virtus' services were to change, Virtus' patients may face higher out-of-pocket expenses for Virtus' services. This may result in reduced demand for Virtus' services, potentially leading to a reduction in Virtus' revenue and profitability. Virtus does not believe that any of the changes to the MBS or EMSN announced in the Commonwealth Government Budget on 14 May 2013 would have a material adverse impact on the demand for Virtus' services.

5.2.2 Increasing patient out-of-pocket expenses

Historically, the price charged by Virtus for IVF Cycles and other Assisted Reproductive Services has increased faster than the level of reimbursement provided by Commonwealth Government and private health insurance. This has caused patient out-of-pocket expenses to increase at a faster rate than the increase in the price charged by Virtus. If this continues, the level of patient out-of-pocket expense will continue to increase faster than the increase in the price charged by Virtus which may adversely affect the affordability and demand for Virtus' services. A reduction in demand for Virtus' services may result in a reduction in Virtus' revenue and profitability.

5.2.3 Inability to recruit and retain Fertility Specialists

Virtus relies on Fertility Specialists to provide the medical component of Assisted Reproductive Services and play a role in attracting patients. Virtus currently contracts 82 Fertility Specialists to provide Assisted Reproductive Services. In FY2012, Virtus' most active Fertility Specialist was responsible for 3.7% of Virtus' total IVF Cycles and Virtus' five most active Fertility Specialists accounted for 17.4% of Virtus' total IVF Cycles. If several of Virtus' Fertility Specialists ceased to perform these services, Virtus may not be able to treat the same number of patients which may result in a lower number of IVF Cycles and negatively impact the profitability of Virtus.

Virtus relies on maintaining its relationship with existing Fertility Specialists, as well as contracting and growing IVF Cycles for new Fertility Specialists to assist in capturing market growth, increasing market share and replacing any retiring Fertility Specialists. If Virtus cannot successfully maintain its relationship with existing Fertility Specialists or contract and grow IVF Cycles for new Fertility Specialists, Virtus may not be able to achieve its growth projections or maintain its market share. This may adversely impact Virtus' revenue generation and profitability.

5.2.4 Variability in growth of IVF Cycles

Virtus is dependent upon patient demand for IVF Cycles in the regional markets in which it operates. Notwithstanding the long-term social and demographic trends driving patient demand for IVF Cycles, the growth in patient demand and IVF Cycles has historically experienced variability over short-term periods, as set out in Section 2.6. Variability in the historic growth in IVF Cycles over short-term periods has been attributable to changes in local economic conditions, natural disasters and regulatory changes affecting specific regional markets. Whilst Virtus is diversified across many regional markets, Virtus' revenue generation and profitability can be positively and negatively affected in the short term by variability in the growth of IVF Cycles in the regional markets in which it operates.

5.2.5 Risk of increased competition

Virtus is subject to competition in all markets in which it operates. Virtus may face increased competition from:

- existing competitors; for example, undertaking aggressive marketing campaigns, product innovation or price discounting;
- new competitors that enter the market;
- consolidation between existing competitors; and
- new technologies or scientific advances that replace or reduce the requirement for Assisted Reproductive Services, specialised diagnostics or day hospital procedures.

If Virtus were to experience increased competition, it may adversely impact on the financial performance, market position and future prospects of Virtus.

5.2.6 Virtus may suffer damage to its reputation or the reputation of its key brands

The reputation of Virtus and its individual brands is important in attracting patients, Fertility Specialists and key employees. Reputational damage could arise due to a number of circumstances, including:

1. inadequate service or unsatisfactory clinical outcomes for patients; or
2. error, malpractice or negligence of Virtus' employees and Fertility Specialists.

A significant number of Virtus' patients are referred by general practitioners and other medical specialists or approach Virtus on the basis of personal recommendations. Negative publicity could adversely impact Virtus' reputation with general practitioners, other medical specialists and members of the public. If this were to happen, it may potentially result in a fall in the number of patients seeking treatment at Virtus and impinge on Virtus' ability to maintain relationship with existing Fertility Specialists, contract new Fertility Specialists and attract key employees. If this were to occur, Virtus' financial performance may be negatively impacted.

Virtus operates under a different brand in each state, thereby limiting the impact of reputational damage to one particular brand on the remainder of Virtus' business.

5.2.7 Changes to the private health insurance industry

Part of Virtus' day hospital services are funded (either directly or via reimbursement to Virtus' patients) by private health insurers. Virtus is indirectly susceptible to factors adversely affecting the membership and profitability of private health insurers.

Membership of private health insurance funds in Australia is supported by a number of Commonwealth Government policies, including the Private Health Insurance Rebate and Medicare Levy Surcharge. To the extent that these policies change, or new policies are enacted, this may reduce incentives to hold private health insurance and the level of private health insurance in Australia may fall. For example, from 1 July 2012 the Private Health Insurance Rebate became subject to means testing, increasing the costs of private health insurance in higher income households. Patients wishing to use Virtus' services without private health insurance may experience higher out-of-pocket expenses, which may adversely affect the affordability and demand for Virtus' services.

A decline in the profitability of health insurance funds or the inability of health insurance funds to obtain premium increases may result in Virtus' inability to achieve growth in the funding it receives from health insurance funds or the inability to renew contracts with health insurance funds on suitable terms.

5.2.8 Virtus may be involved in litigation or other disputes

Virtus may be involved from time to time in disputes or claims of medical indemnity or similar claims and litigation with current or former patients. These disputes may lead to legal and other proceedings, and may cause Virtus to suffer additional costs.

If future medical malpractice litigation, or threatened litigation, against Virtus were to result in damages being awarded against Virtus, it could have an adverse impact on the financial performance, position and future prospects of Virtus (and, therefore, Share price or liquidity of Shares).

Virtus maintains professional indemnity and public liability insurance in respect of a range of events within coverage ranges determined in accordance with the Board's review and decision. Fertility Specialists are also required to maintain their own professional indemnity insurance. However, no assurance can be given that such insurance will be available in the future on commercially reasonable terms or that any cover will be adequate and available to cover any or all claims.

Virtus may also have disagreements with regulatory bodies in the course of its operations which could result in its accreditations being revoked. This may prevent Virtus from claiming Medicare benefits.

As far as Virtus is aware, the only current or threatened civil litigation, arbitration proceeding, administrative appeal or criminal or governmental prosecution or insurance claim of a material nature in which Virtus is directly or indirectly concerned that is likely to impact on Virtus' financial position or reputation is described in Section 9.9.

5.2.9 Inability to recruit and retain scientific staff

Virtus employs approximately 164 scientific staff who operate in the scientific fields of andrology, cytogenetics and embryology. The expertise of Virtus' scientific staff allows Virtus to offer patients and Fertility Specialists high quality, safe, efficient clinical services. If Virtus lost several of its scientific staff Virtus would lose highly specialised clinical expertise and experience. Given the level of training and specialisation required for andrology, cytogenetics and embryology there is not a large number of trained scientists in these fields in Australia and it may be difficult to recruit appropriately qualified replacements. This may affect the clinical outcomes Virtus provides to its patients and Fertility Specialists, which may potentially impact Virtus' reputation and its profitability.

5.2.10 Virtus operates in a highly regulated industry

Virtus' activities are regulated by Commonwealth Government legislation, state government legislation and a number of professional and industry bodies.

Failure to comply with legislation, regulation and other professional standards and accreditations could have an adverse effect on Virtus' reputation and ability to attract patients.

Changes to regulation can negatively impact Virtus' business. For example, in January 2010, a regulatory change was implemented in Victoria which required Victorian residents to be subject to police checks before receiving Assisted Reproductive Services. This caused considerable delays for Virtus' patients in Victoria which in turn impacted upon the number of patients treated by Virtus and Virtus' revenues in that market for a short period.

The level of regulation has increased since 2008 as audit and accreditation review process requirements required by the Reproductive Technology Accreditation Committee ("RTAC") of the Fertility Society of Australia have increased. Under the audit and accreditation review process, all Assisted Reproductive Services centres are required to develop a continuous improvement program and demonstrate achievement of improvement through an annual audit. If a Virtus clinic fails to meet the audit and accreditation review requirements, services provided by that clinic may not be eligible for Commonwealth Government reimbursement for Virtus' patients.

There is a risk that these requirements become increasingly burdensome in the future. If this was to happen, Virtus could potentially be required to dedicate more time and expenditure to ensuring Virtus complies with these regulations.

5.2.11 Damage to relationships with general practitioners and other medical specialists

General practitioners and other medical specialists (for example, obstetricians and gynaecologists) have the ability to influence patients' selection of an Assisted Reproductive Services provider. A number of factors, including Virtus' reputation, the retirement or loss of certain Fertility Specialists or other key personnel, the activities of competitors or the introduction of a competing service that is perceived by general practitioners and other medical specialists to be superior could potentially impact Virtus' relationship with general practitioners and other medical specialists. This could in turn affect their behaviour in referring patients to Virtus' Fertility Specialists or recommending Virtus' services. General practitioners and other medical specialists have no contractual obligations or economic incentives to refer patients to Virtus' Fertility Specialists. A deterioration in the relationship with general practitioners and other medical specialists could adversely impact the number of patients treated by Virtus and Virtus' revenue generation and profitability.

5.2.12 Demographic trends

There is a risk that there is a reduction in the demand for Assisted Reproductive Services. This could be due to changes in a number of key demographic trends, including lower maternal ages, decline in the female population, improved fertility, a change in social acceptability of Assisted Reproductive Services, changes to technology and other factors. If this were to occur, the demand for Assisted Reproductive Services may not continue to grow as expected and Virtus may not meet its financial forecasts.

5.2.13 Lack of patent protection

Virtus does not have and has not registered any patents and does not regularly conduct patent searches to identify any third party patent infringement risks or to investigate its freedom to operate. While Virtus considers that the core technology it uses is commonly known and used in the industry and it does not consider that the technology and processes are unique to Virtus' business, there is a risk that other companies may have been granted patents that cover aspects of the technology used in connection with Virtus' business and that Virtus may be infringing those patents.

5.3 General risks of an investment in Virtus

5.3.1 Price of Shares

Once Virtus becomes a publicly listed company on ASX it will become subject to general market risk that is inherent in all securities listed on a stock exchange. This may result in fluctuations in the share price that are not explained by the fundamental operations and activities of Virtus.

The price at which Shares are quoted on ASX may increase or decrease due to a number of factors. These factors may cause the Shares to trade at prices below the Offer Price. There is no assurance that the price of the Shares will increase following the quotation on ASX, even if Virtus' earnings increase.

Some of the factors which may affect the price of the Shares include fluctuations in the domestic and international market for listed stocks, general economic conditions, including interest rates, inflation rates, exchange rates, commodity and oil prices, changes to government fiscal, monetary or regulatory policies, legislation or regulation, inclusion in or removal from market indices, the nature of the markets in which Virtus operates and general operational and business risks.

5.3.2 Virtus may be subject to changes in tax law

Significant reforms and current proposals for further reforms to Australia's tax laws give rise to uncertainty. The precise scope of many of the new and proposed tax laws is not yet known. Any changes to the current rate of company income tax may impact shareholder returns. In addition, any change in tax rules and tax arrangements could have an adverse effect on the level of dividend franking and shareholder returns.

5.3.3 Industrial disputes and wage increases

Many of Virtus' employees are covered by enterprise bargaining agreements and other workplace agreements, which periodically require renegotiation and renewal. Disputes may arise in the course of such renegotiations which may lead to strikes or other forms of industrial action that could disrupt Virtus' operations. Further, any such renegotiation could result in increased labour costs for Virtus. In times of low unemployment or shortage of skilled employees there can be upward pressure on wages. If any of these events occur, it may impact Virtus' ability to provide Assisted Reproductive Services and it may incur higher costs and reduced profitability.

5.3.4 Acquisition risk

From time to time Virtus may undertake acquisitions consistent with its stated growth strategy. The successful implementation of acquisitions will depend on a range of factors including funding arrangements, cultural compatibility and clinical integration. To the extent acquisitions are not successfully integrated with Virtus' existing business the financial performance of Virtus could be negatively affected. Depending on a range of factors at the time of any future acquisition, including Virtus' share price, its financial position and performance and the nature of the acquisition, Virtus may decide that it is in the best interests of Virtus and its shareholders to fund the acquisition through the issue of further shares. If this were to occur, it may result in dilution of the ownership interests of Virtus' shareholders.

5.3.5 Occupational health and safety

Virtus employees are at risk of workplace accidents and incidents. In the event that a Virtus employee is injured in the course of their employment, Virtus may be liable for penalties or damages. This has the potential to harm both the reputation and financial performance of Virtus.

5.3.6 Accounting standards

Australian Accounting Standards are issued by the Australian Accounting Standards Board and are not within the control of Virtus and its Directors. Any changes to the accounting standards or to the interpretation of those standards may have an adverse effect on the reported financial performance and position of Virtus.

5.3.7 Virtus may not be able to refinance debt or access debt markets on attractive terms

Virtus obtains significant funding from banks. Virtus is subject to the risk that it may not be able to refinance its existing bank facilities when they fall due or that the terms available to Virtus (including in relation to pricing) on refinancing will not be as favourable than the terms of its existing bank facilities.

5.3.8 Virtus may be exposed to interest rate fluctuations

Under its existing banking facilities, Virtus has floating rate borrowings, part of which Virtus is required to hedge by way of interest rate swaps into fixed rate payments within 90 days from entering into the facilities. Changes in interest rates will affect borrowings which bear interest at floating rates. Any increase in interest rates will affect Virtus' costs of servicing these borrowings which may adversely affect its financial position.

5.3.9 General economic and financial market conditions

General economic conditions (both domestically and internationally), may adversely impact the price of Shares as well as Virtus' ability to pay dividends. As a result of the above-mentioned factors, Virtus is unable to forecast the market price for Shares and they may trade on ASX at a price that is below the Offer Price.

section six



section six

key people, interests and benefits

6.1 Board of Directors

The Directors bring to the Board relevant experience and skills, including industry and business knowledge, financial management and corporate governance experience.

6.1.1 Experience and background

Peter Macourt Chairman BCom.; ACA; GAICD <i>aged 57</i>	Peter is a former director and chief operating officer of News Limited. While at News Limited, he served as a director of Premier Media, Foxtel, Independent Newspapers Limited and a number of subsidiaries and associated companies of The News Corporation Limited. Peter was appointed Chairman of SKY Network Television Limited in August 2002, a position he still holds. Peter is a member of the Audit and Risk Committee and the Nomination and Remuneration Committee.
Sue Channon Group CEO Registered Nurse Div1; OR Management Certificate <i>aged 56</i>	Sue has held senior management positions in various Australian healthcare organisations for over 20 years. Before her appointment to CEO of Virtus in November 2010, Sue was CEO of IVF Australia Pty Ltd. Prior to joining Virtus, Sue was State Manager for NSW and ACT for Medical Imaging Australia, the National Director of Nursing for Mayne Group (now part of Ramsay Health Care), CEO of Kareena Private Hospital, CEO of Castlecrag and Mosman Private Hospital and CEO and Director of Nursing for Castlecrag Private Hospital.
Peter Turner Non-executive Director BSc.; MBA; MAICD <i>aged 63</i>	Prior to joining Virtus, Peter served as Executive Director and Chief Operating Officer of CSL Limited and was the founding President of CSL Behring LLC. Peter is currently a non-executive director of NPS MedicineWise. Peter is Chairperson of the Nomination and Remuneration Committee.
Dennis O'Neill Non-executive Director BSc. (Hons) Mech. Eng; CPE (ret), FIEA; FAICD; FAIM <i>aged 66</i>	Dennis is the former CEO and Managing Director of Evans Deakin Industries Ltd and United Group Ltd and the former Chairman of Decmil Group Ltd. In March 2009 Dennis was appointed as Chairman and Advisory Chairman of Queensland Fertility Group Pty Ltd. He is also Advisory Chairman to several unlisted companies and is the Steel Supplier Advocate for the Commonwealth Government. Dennis is Chairperson of the Audit and Risk Committee.
Marcus Darville Non-executive Director MA; MBA <i>aged 51</i>	Marcus has been a director of Quadrant since 2006 and a director of Virtus since February 2008. Prior to joining Quadrant, Marcus was the joint Head of Private Equity at AMP and an Investment Manager at NatWest Ventures. Marcus is also a member of the Quadrant Investment Committee and has acted as a director of a number of Quadrant investee companies. Marcus currently serves on the boards of Summerset, iSentia (formerly Media Monitors), Super Amart and Barbeques Galore. Marcus is a member of the Audit and Risk Committee and the Nomination and Remuneration Committee.
Lyndon Hale Executive Director MBBS; FRACOG; CREI <i>aged 56</i>	Lyndon has been the Medical Director of Melbourne IVF Pty Ltd since 2008. He is also Director of Reproductive Surgery at The Women's Hospital, and is on the board of the Fertility Society of Australia. Lyndon is highly regarded for his knowledge and proactive approach and brings extensive experience in assisted reproduction treatments to the care of his patients.

The composition of the Board committees and details of its key corporate governance policies are set out in Section 6.4.

Each Director above has confirmed to Virtus that he or she anticipates being available to perform his or her duties as a non-executive or executive Director as the case may be without constraint from other commitments.

6.1.2 Director disclosures

The following is information about:

- any company of which a director was an officer that entered into a form of external administration because of insolvency during the time the director was an officer; and
- any legal or disciplinary action against a director that is less than 10 years old.

Peter Macourt was appointed as a non-executive director of One.Tel Limited on 17 May 2001. At the time, News Limited had a 24% shareholding in One.Tel Limited. One.Tel Limited was placed into administration on 30 May 2001 (less than two weeks after Peter's appointment) and joint liquidators were appointed on 24 August 2001. One.Tel Limited's special purpose liquidator brought a claim against a number of directors of One.Tel (including Peter) in their personal capacity; however, this claim was ultimately dismissed by the court. Peter is not the subject of any other legal or disciplinary actions by One.Tel's liquidators, ASIC or by any other government agency or regulator in connection with One.Tel Limited's insolvency.

Dennis O'Neill was a non-executive director of Environmental Solutions International Limited ("ESIL"), when the directors placed ESIL into voluntary administration in November 2004, and ESIL's banks appointed a receiver at the same time.

The other Directors do not believe that the above matters are material to or indicative of the future performance of either Peter or Dennis of their duties as a director of Virtus or the future performance or prospects of Virtus.

6.2 Management

Sue Channon <i>Group CEO</i>	See Section 6.1 above.
Glenn Powers <i>CFO and Company Secretary</i> BSc. (Hons); CMA aged 53	Glenn joined Virtus as CFO and Company Secretary in August 2008. Prior to joining Virtus, Glenn was CFO and Company Secretary of Tower Software Limited. Glenn has a broad range of experience in private equity backed businesses, working in a range of engineering, electronics, software and service businesses. Glenn has also been a Director for both main and AIM market listed businesses in the UK. Glenn is a Chartered Management Accountant.
Brendan Ayres <i>Managing Director, New South Wales</i> BEC.; CA aged 51	Brendan joined Virtus as Managing Director of New South Wales in March 2013. Brendan is an experienced healthcare executive having gained much of his experience in the private hospital sector. Brendan was previously the CEO of The Valley Hospital and South Eastern Private Hospital in Victoria, the CEO of Independent Private Hospitals of Australia and Managing Director of Brisbane Private Hospital in Queensland.
Andrew Othen <i>Managing Director, Victoria</i> CA; CPA; MBA; BSc.; MAICD aged 48	Andrew joined Virtus in 2010 as Managing Director of Melbourne IVF Pty Ltd and has held a broad range of senior financial and general management positions in the pharmaceutical and healthcare industries in the USA, Europe and Australia. Prior to joining Virtus, Andrew was the Senior Vice President and CFO of National Imaging Associates in the US, State General Manager of Imaging for Mayne Health and the Financial Controller of Health Services for Mayne Group in Australia. Andrew has also worked in senior financial roles for Sterling Winthrop, Sterling Health and SmithKline Beecham. Andrew started his career as a Certified Public Accountant with KPMG and earned his MBA in Australia.
Steve Zappia <i>Managing Director, Queensland</i> BAppSc. aged 54	Steve joined Virtus in May 2013. Prior to joining Virtus, Steve amassed a wealth of experience in the health industry having served as State Manager Queensland for Primary Healthcare, National Laboratory Manager for Idexx, General Manager Queensland and Practice Group Manager for Imed, General Manager Pathology and Development Manager for MIA and State Operations Manager NSW for Mayne Health. Steve also has extensive experience as a pathology scientist.
Peter Illingworth <i>Medical Director, New South Wales</i> MD (Hons); FRCOG; FRANZCOG; CREI aged 55	Peter joined Virtus in May 2006 and since that date has served as Medical Director of IVF Australia Pty Ltd along with providing contracted clinical services to patients of IVF Australia Pty Ltd. Peter is an accredited specialist obstetrician and gynaecologist with over 20 years specialist experience in the area of infertility practice. Peter has an international reputation in the field of reproductive medicine. Prior to joining Virtus, Peter was Network Director at the Women's and Children's Health, Director of Reproductive Medicine at Westmead Hospital and a Clinical Scientist at MRC Reproductive Biology Unit in Edinburgh, Scotland. Peter is a Conjoint Honorary Associate Professor at Sydney University, a position he has held since 1996.

David Molloy Medical Director, Queensland MBBS; FRANZCOG aged 57	David was appointed as Medical Director of Queensland Fertility Group Pty Ltd in 2004 and has provided contracted clinical services to patients of Queensland Fertility Group Pty Ltd since 1986. David has a distinguished resume of achievements, including acting as President of the Australian Medical Association in Queensland, Australian Gynaecological Endoscopy & Surgery Society Limited and National Association of Specialist Obstetricians and Gynaecologists as well as Chairman of the IVF directors group. David also currently holds the position of Vice Chair of the IVF directors group, a position he has held since 2004.
Lyndon Hale Medical Director, Victoria	See Section 6.1 above.

6.3 Interests and benefits

This Section 6.3 sets out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:

- Director or proposed Director of Virtus;
- person named in this Prospectus and who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- promoter of Virtus; or
- underwriter to the Offer,

holds at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of Virtus;
- property acquired or proposed to be acquired by Virtus in connection with its formation or promotion, or in connection with the Offer; or
- the Offer,

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given to any such persons for services in connection with the formation or promotion of Virtus or the Offer or to any Director or proposed Director to induce them to become, or qualify as, a Director of Virtus.

6.3.1 Interests of advisers

Virtus has engaged the following professional advisers:

- Morgan Stanley and UBS have acted as Joint Lead Managers to the Offer. Virtus has paid, or agreed to pay, the Joint Lead Managers the fees described in Section 9.7 for these services;
- King & Wood Mallesons has acted as Australian legal adviser to Virtus in relation to the Offer. Virtus has paid, or agreed to pay, approximately \$1.34 million (excluding disbursements and goods and services tax ("GST")) for these services up until the Prospectus Date. Further amounts may be paid to King & Wood Mallesons in accordance with its normal time-based charges;
- PwCS has acted as Investigating Accountant and has prepared the Investigating Accountants' Report and has performed work in relation to due diligence enquiries. Virtus has paid, or agreed to pay, approximately \$1.134 million (excluding disbursements and GST) for the above services up until the Prospectus Date; and
- CBA Equities Limited, RBS Morgans Limited, UBS Wealth Management Australia Limited, Bell Potter Securities Limited and Morgan Stanley Wealth Management Australia Pty Limited have acted as Co Managers in relation to the Offer. Each will be paid fees up to 1.50% of the value of Shares allocated to clients of that Broker. All of the amounts payable to them are payable by the Joint Lead Managers out of the fees payable to the Joint Lead Managers under the Underwriting Agreement.

These amounts, and other expenses of the Offer, will be paid by Virtus out of funds raised under the Offer or available cash. Further information on the use of proceeds and payment of expenses of the Offer is set out in Section 7.1.2.

6.3.2 Directors' interests and remuneration

Group CEO

Virtus has entered into an employment contract with Sue Channon to govern her employment with Virtus. Sue Channon is employed in the position of Group CEO of Virtus. Refer to Section 6.3.3.1 for further details.

Non-executive Director remuneration

Under the Constitution, the Directors decide the total amount paid to each Director as remuneration for their services as a Director to Virtus. However, under the listing rules of ASX ("ASX Listing Rules"), the total amount paid to all Directors for their services must not exceed in aggregate in any financial year the amount fixed by Virtus' general meeting. This amount has been

fixed by Virtus at \$500,000. Annual Directors' fees currently agreed to be paid by Virtus are \$125,000 to the Chairman Peter Macourt, and \$75,000 to each of Dennis O'Neill and Peter Turner. In addition, the chairman of the Audit and Risk Committee will be paid \$15,000 annually and each member of this committee (except Marcus Darville) will be paid \$7,500 annually. The chairman of the Nomination and Remuneration Committee will be paid \$10,000 annually and each member of this committee (except Marcus Darville) will be paid \$5,000 annually. All Directors' fees include superannuation at 9% of the respective amounts.

Deeds of indemnity, insurance and access for Directors

Virtus has entered into deeds of indemnity, insurance and access, with each Director which contain rights of access to certain books and records of Virtus for a period of seven years after the Director ceases to hold office. This seven year period can be extended where certain proceedings or investigations commence before the seven year period expires.

Pursuant to the Constitution, Virtus may indemnify Directors and officers, past and present, against liabilities that arise from their position as a Director or officer allowed under law. Under the deeds of indemnity, insurance and access, Virtus indemnifies each Director against all liabilities to another person that may arise from their position as a Director of Virtus to the extent permitted by law. The deed stipulates that Virtus will meet the full amount of any such liabilities, including reasonable legal costs and expenses.

Pursuant to the Constitution, Virtus may arrange and maintain directors' and officers' insurance for its Directors to the extent permitted by law. Under the deed of indemnity, insurance and access, Virtus must obtain such insurance during each Director's period of office and for a period of seven years after a Director ceases to hold office. This seven year period can be extended where certain proceedings or investigations commence before the seven year period expires.

Other information about Director's remuneration

Directors may also be reimbursed for expenses reasonably incurred in attending to Virtus' affairs. Non-executive Directors may be paid such additional or special remuneration as the Directors decide is appropriate where a Director performs extra work or services which are not in the capacity as a director of Virtus or a subsidiary. There is no contractual redundancy benefit for Directors, other than statutory superannuation contributions. The interests of Directors and management are set out in Sections 6.3.2 and 6.3.3.

Each of Peter Macourt, Dennis O'Neill and Peter Turner have also been paid consultancy fees in relation to their involvement in the due diligence process conducted in connection with the Offer.

Directors' shareholdings

Directors are not required under the Constitution to hold any Shares. On Completion of the Offer, the number of Shares held by Sue Channon and Lyndon Hale will be as follows:

- for Sue Channon, 354,881 Shares; and
- for Lyndon Hale, 823,694 Shares.

Each of Peter Macourt, Dennis O'Neill and Peter Turner intend to apply for Shares through a Broker under the Broker Firm Offer. Final Director's shareholdings will be notified to ASX on Listing.

6.3.3 Executive remuneration

6.3.3.1 Group CEO

Sue Channon will receive an annual fixed remuneration of \$465,000 (inclusive of superannuation). Sue will also be eligible to receive an annual cash bonus of up to \$155,000 or such other amount as determined by the Board. Payment of a cash bonus will depend on Virtus' performance and Sue's achievement of certain key performance indicators. Sue will also be eligible to participate in Virtus' option plan. For further details about Virtus' option plan, refer to Section 9.5.

Sue may terminate the employment contract by giving three months notice in writing. Virtus may terminate by giving 12 months notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, Virtus may terminate Sue's employment contract immediately by notice in writing and without payment in lieu of notice.

Upon the termination of Sue's employment contract, she will be subject to a restraint of trade period of 12 months. Virtus may elect to reduce the restraint of trade period, or eliminate the period in its entirety. The enforceability of the restraint clause is subject to all usual legal requirements.

6.3.3.2 CFO

Glenn Powers is employed in the position of Chief Financial Officer ("CFO") and has entered into an employment contract with Virtus to govern his employment with the company. Glenn will receive annual fixed remuneration of \$330,000 inclusive of superannuation. Glenn will also be eligible to receive an annual cash bonus of up to \$95,000 or such other amount as determined by the Board. Payment of a cash bonus will depend on Virtus' performance and Glenn's achievement of certain key performance indicators. Glenn will also be eligible to participate in Virtus' option plan. For further details about Virtus' option plan, refer to Section 9.5.

Glenn may terminate the employment contract by giving three months notice in writing. Virtus may terminate the employment contract by giving six months notice in writing or alternatively by making a payment in lieu of notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, Virtus may terminate Glenn's employment contract immediately by notice in writing and without payment in lieu of notice.

Glenn's employment contract also contains a post employment restraint of trade period of 12 months. Virtus may elect to reduce the restraint of trade period, or eliminate the period in its entirety. The enforceability of the restraint clause is subject to all usual legal requirements.

Other key managers

Each of Virtus' state managing directors, Andrew Othen, Steve Zappia and Brendan Ayres are employed under individual executive services agreements. These establish:

- total compensation including a base salary, superannuation contribution and incentive arrangements;
- variable notice and termination provisions of up to three months;
- confidentiality provisions;
- leave entitlements, as a minimum, as per the National Employment Standard; and
- in the case of Steve Zappia and Brendan Ayres, restraint provisions .

Virtus' medical directors, Dr David Molloy, Associate Professor Peter Illingworth and Dr Lyndon Hale provide services to Virtus in an executive capacity, but either do not have agreements or an agreement that is current covering the terms of their engagement by Virtus in this executive capacity. Their contracts with Virtus in the capacity as a Fertility Specialist have specific notice, termination, restraint and confidentiality provisions (refer to Section 3.7.3 for a summary of these provisions).

6.4 Corporate governance

This Section 6.4 explains how the Board will oversee the management of Virtus' business. The Board is responsible for the overall corporate governance of Virtus. The Board monitors the operational and financial position and performance of Virtus and oversees its business strategy, including approving the strategic goals of Virtus and considering and approving an annual business plan, including a budget. The Board is committed to maximising performance, generating appropriate levels of shareholder value and financial return, and sustaining the growth and success of Virtus. In conducting Virtus' business with these objectives, the Board seeks to ensure that Virtus is properly managed to protect and enhance shareholder interests, and that Virtus, its directors, officers and personnel operate in an appropriate environment of corporate governance. Accordingly, the Board has created a framework for managing Virtus, including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for Virtus' business and which are designed to promote the responsible management and conduct of Virtus.

The main policies and practices adopted by Virtus, which will take effect from Listing, are summarised below. In addition, many governance elements are contained in the Constitution. Virtus' code of conduct sets out the values, commitments, ethical standards and policies of Virtus and outlines the standards of conduct expected of Virtus' business and people in a range of circumstances. In particular, the code requires awareness of, and compliance with, Virtus' other policies and procedures. Details of Virtus' key policies and practices and the charters for the Board and each of its committees will be available from Listing at www.virtushealth.com.au.

Virtus is seeking a listing on ASX. The ASX Corporate Governance Council has developed and released corporate governance recommendations for Australian listed entities in order to promote investor confidence and to assist companies to meet stakeholder expectations. The recommendations are not prescriptions, but guidelines. However, under ASX Listing Rules, Virtus will be required to provide a statement in its Annual Report disclosing the extent to which it has followed the recommendations in the reporting period. Where Virtus does not follow a recommendation, it must identify the recommendation that is not being followed and give reasons for not following it. Except as set out below, the Board does not anticipate that it will depart from the recommendations of the ASX Corporate Governance Council; however, it may do so in the future if it considers that such departure would be reasonable.

6.4.1 Board of Directors

The Board of Directors is comprised of the Chief Executive Officer, the Chairman, three non-executive Directors and an Executive Director.

Detailed biographies of the Board members are provided in Section 6.1.

The Board considers an independent Director to be a non-executive Director who is not a member of Virtus' management and who is free of any business or other relationship that could materially interfere with or reasonably be perceived to interfere with the independent exercise of their judgment. The Board will consider the materiality of any given relationship on a case by case basis and has adopted guidelines to assist in this regard. The Board reviews the independence of each Director in light of interests disclosed to the Board from time to time.

Virtus' board charter sets out guidelines and thresholds of materiality for the purpose of determining independence of Directors in accordance with the ASX Recommendations, and has adopted a definition of independence that is based on that set out in the ASX Recommendations.

The Board considers thresholds of materiality for the purpose of determining “independence” on a case-by-case basis, having regard to both quantitative and qualitative principles.

Without limiting the Board’s discretion in this regard, the Board has adopted the following guidelines:

- the Board will determine the appropriate base to apply (for example, revenue, equity or expenses), in the context of each situation; in general, the Board will consider an affiliation with a business which accounts for less than 5% of the relevant base to be immaterial for the purpose of determining independence. However, where this threshold is exceeded, the materiality of the particular circumstance with respect to the independence of the particular Director should be reviewed by the Board; and
- overriding the quantitative assessment is the qualitative assessment. Specifically, the Board will consider whether there are any factors or considerations which may mean that the Directors’ interests, business or relationship could, or could be reasonably perceived to, materially interfere with the Directors’ ability to act in the best interests of Virtus.

The Board considers that each of Peter Macourt, Peter Turner and Dennis O’Neill are free from any business or any other relationship that could materially interfere with, or reasonably be perceived to interfere with, the independent exercise of the Director’s judgment and are each able to fulfill the role of an independent Director for the purposes of the ASX Recommendations.

Sue Channon, Marcus Darville and Lyndon Hale are currently considered by the Board not to be independent.

Sue Channon is currently the Group CEO. Marcus Darville is a director of Quadrant. Prior to the Completion of the Offer, the Quadrant Funds held a substantial interest in Virtus. Lyndon Hale is a Fertility Specialist who is contracted by Virtus to provide Assisted Reproductive Services under a contract described in Section 3.7.3 and is also entitled to participate in the option plans described in Section 9.5.2.

Accordingly, the Board does not consist of a majority of independent Directors. The Board acknowledges the ASX Recommendation that a majority of the Board should be independent non-executive Directors. The Board believes that each of the non-executive Directors brings objective and independent judgment to the Board’s deliberations and that each of the non-executive Directors makes invaluable contributions to Virtus through their deep understanding of Virtus’ business.

6.4.2 Board charter

The Board has adopted a written charter to provide a framework for the effective operation of the Board, which sets out:

- the roles and responsibilities of the Board including to provide overall strategic guidance for Virtus and effective oversight of management, oversight of Virtus’ financial and capital management, the promotion and facilitation of effective communication with shareholders, oversight of policies between Virtus and other stakeholders, ethical and responsible decision making along with compliance and risk management;
- the role and responsibilities of the Chairman and company secretary;
- the delegations of authority of the Board to both committees of the Board and the Group CEO and other management of Virtus;
- the membership of the Board, including in relation to the Board’s composition and size and the process of selection and re-election of Directors, independence of Directors and conduct of individual Directors; and
- board process, including how the Board meets.

6.4.3 Board committees

The Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities. The Board has established the Audit and Risk Committee and the Nomination and Remuneration Committee.

The role of the Audit and Risk Committee is to assist the Board in carrying out its accounting, auditing and financial reporting responsibilities including oversight of:

- the integrity of Virtus’ external financial reporting and financial statements;
- the appointment, remuneration, independence and competence of Virtus’ external auditors;
- the performance of the external audit function and review of their audit;
- the effectiveness of Virtus’ system of risk management and internal controls; and
- Virtus’ systems and procedures for compliance with applicable legal regulatory requirements.

The role of the Nomination and Remuneration Committee is to assist and advise the Board on the following nomination related matters:

- director selection and appointment practices;
- director performance evaluation processes and criteria;
- Board composition; and
- succession planning for the Board and senior executives,

to ensure that the Board is of a size and composition conducive to making appropriate decisions, with the benefit of a variety of perspectives and skills and in the best interests of Virtus as a whole.

The Nomination and Remuneration Committee also assists and advises the Board on remuneration policies and practices for the Board, the Group CEO, the CFO, senior executives and other persons whose activities, individually or collectively, affect the financial soundness of Virtus.

Other committees may be established by the Board as and when required to consider other matters of special importance.

6.4.4 Advisory Committee

An Advisory Committee has also been established to drive the strategic direction of Virtus as it relates to clinical, scientific and operational governance and direction and to provide support to the Key Managers. Specifically the Advisory Committee's role will include matters referred to it by the Board, including:

- providing a forum for sharing any doctor and management concerns or issues with Virtus management;
- providing a forum for agreeing and communicating doctor and management recommendations to the Board on certain matters, either as requested by the Board or at the request of the Advisory Committee;
- considering and providing input into Virtus' strategy, plans and budgets and monitoring performance against them;
- considering and providing input into the recruitment and succession planning opportunities for new Fertility Specialists;
- ensuring compliance with legal and regulatory requirements and ensuring that ethical standards of Virtus are maintained;
- ensuring adequate risk management processes exist within Virtus and are complied with; and
- ensuring that corporate governance initiatives and policy guidelines, as issued by the Board and Key Managers are implemented and providing feedback for consideration by the Board.

The Advisory Committee will comprise a member of the Board who is a Fertility Specialist, the Key Managers and up to one Fertility Specialist shareholder from New South Wales, Queensland and Victoria.

6.4.5 Diversity policy

Virtus has adopted a diversity policy which sets out Virtus' commitment to diversity and inclusion in the workplace. The diversity policy provides a framework to achieve Virtus' diversity goals and commitment to creating a diverse work environment where everyone is treated fairly and with respect and where everyone feels responsible for the reputation and performance of Virtus. The Board will oversee the implementation of the diversity policy and assess progress in achieving its objectives.

6.4.6 Disclosure policy

Once listed, Virtus will be required to comply with the continuous disclosure requirements of the ASX Listing Rules and the Corporations Act. Subject to the exceptions contained in the ASX Listing Rules, Virtus will be required to disclose to ASX any information concerning Virtus which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Shares. Virtus is committed to observing its disclosure obligations under ASX Listing Rules and the Corporations Act.

Virtus has adopted a policy to take effect from Listing which establishes procedures which are aimed at ensuring that Directors and management are aware of and fulfill their obligations in relation to the timely disclosure of material price-sensitive information. Under the disclosure policy, the Board will be responsible for managing Virtus' compliance with its continuous disclosure obligations.

6.4.7 Securities trading policy

Virtus has adopted a written policy to take effect from Listing for dealing in securities which is intended to explain the prohibited type of conduct in relation to dealings in securities under the Corporations Act and to establish a best practice procedure in relation to Directors', officers', employees', contractors' (including Fertility Specialists') and their families and associates' dealings in Shares in Virtus.

The securities trading policy sets out the restrictions that apply to dealing with Shares including "prohibited periods", during which certain persons are generally not permitted to deal with Shares along with a procedure under which certain persons are required to submit prior notification and obtain written confirmation prior to dealing in Shares outside the "prohibited periods".

6.4.8 Code of conduct

The Board recognises the need to observe the highest standards of corporate practice and business conduct. Accordingly, the Board has adopted a formal code of conduct, to take effect from Listing, to be followed by the Board along with all employees, officers, contractors, consultants and other persons that act on behalf of Virtus and associates of Virtus. The key aspects of this code are to:

- act with honesty and integrity in all dealings both internally and externally;
- respect all people, their ideas and cultures and to reflect this respect in all behaviours and actions;
- maintain a safe working environment to safeguard the health and safety of employees, consultants, contractors, customers, suppliers and other persons who visit Virtus' workplaces;
- develop a culture of excellence and deliver quality of service that meets the expectations of customers, regulatory requirements and continuously improves; and
- develop Virtus' people to ensure that patients have access to the best possible care and outcomes.

The code of conduct sets out Virtus' policies on various matters including conflicts of interest, use of Virtus' property, giving or accepting gifts (including money), dealings with politicians and government officials, confidentiality, privacy, fair dealings (in relation to suppliers, competitors and clients), discrimination, bullying, harassment, vilification, health and safety, responsibility to shareholders and the financial community, insider trading obligations and whistleblower protections.

The code also sets out the consequences for a breach of the code of conduct, including the possibility of legal or disciplinary action.

6.4.9 Communications with Shareholders

The Board's aim is to ensure that Shareholders are provided with sufficient information to assess the performance of Virtus and that they are informed of all major developments affecting the state of affairs of Virtus relevant to Shareholders in accordance with all applicable laws. Information will be communicated to Shareholders through the lodgement of all relevant financial and other information with ASX and publishing information on Virtus' website, www.virtushealth.com.au.

In particular, Virtus' website will contain information about it, including media releases, key policies and the terms of reference of its Board committees. All relevant announcements made to the market and any other relevant information will be posted on Virtus' website as soon as they have been released to ASX.

6.4.10 Related party transactions

Lyndon Hale, who is a director of Virtus, is a Fertility Specialist and so has entered into a Fertility Specialist contract with Virtus as described in Section 3.7.3. Lyndon is also one of Virtus' medical directors and in that executive capacity is paid an annual fee of \$75,000. Lyndon is also entitled to participate in the option plan described in Section 9.5.2. Lyndon's wife, Dr Amanda Sampson, is a partner at Women's Ultrasound Melbourne East. Melbourne IVF refers patients to Dr Sampson who performs ultrasound scans; these scans are performed on normal commercial terms and their cost is borne by the relevant patient.

Sue Channon's son is employed on a casual basis assisting in administration at City West Specialist Day Hospital.

Dennis O'Neill also acts as Advisory Chairman to the Queensland Fertility Group Pty Ltd. He is paid a fee of \$80,000 (plus GST) per year for his services. This fee is paid 50% by Virtus and 50% by fertility specialists and scientists of Queensland Fertility Group. Dennis' contract as Advisory Chairman to Queensland Fertility Group will expire in October 2013.

In addition, Michael Chapman (a director of Virtus subsidiary, IVFA Participants Pty Ltd) leases two premises located in Kogarah to Virtus on normal commercial terms.

As at the date of this Prospectus, Virtus has granted 15 Fertility Specialists (or their affiliates) 10 year interest-free shareholder loans of \$570,750 each (at an aggregate total of \$8,561,250) ("Shareholder Loans"). For each Fertility Specialist (or affiliate) who has a Shareholder Loan, a proportion of the proceeds (including 50% of the Pre IPO Dividend) received by that Fertility Specialist (or affiliate) in connection with the Offer will be used to repay (fully or partially) that Fertility Specialist's (or affiliate's) Shareholder Loan. Where the Fertility Specialist (or their affiliate's) proceeds are insufficient to discharge their Shareholder Loan in full, a proportion of the dividends and other share-related distributions or proceeds received by that Fertility Specialist (or their affiliate) following Listing will be used to discharge the outstanding balance of the Shareholder Loan.

6.5 Compliance

6.5.1 Key areas

The key areas of compliance for Virtus arise under the Commonwealth and state healthcare regulatory regimes which apply to Assisted Reproductive Services and associated medical services.

Commonwealth legislation requires providers of Assisted Reproductive Services to be licensed and accredited by the RTAC of the Fertility Society of Australia, and legislation in some states requires separate registration with the applicable government authority. Importantly, each of Virtus' Assisted Reproductive Services clinics must meet the compliance codes and standards set by RTAC, against which they are periodically assessed for ongoing compliance. Virtus' companies must continue to meet the relevant compliance standards in order to maintain their RTAC licences, without which it would be an offence under the relevant legislation to offer Assisted Reproductive Services.

Each Virtus Assisted Reproductive Services facility which performs diagnostic testing that is classified by Medicare as a pathology service must also be accredited with Medicare and maintain compliance with technical competencies assessed by the National Association of Testing Authorities ("NATA"). The proprietor of the facility must also be separately authorised by Medicare. If a facility does not meet the relevant compliance standards, patients will not be able to claim Medicare benefits for the diagnostic testing services Virtus renders at that facility.

Similarly, each Virtus Assisted Reproductive Services clinic which provides diagnostic imaging services (such as ultrasound) must also be accredited with Medicare and comply with relevant technical competencies assessed by NATA. If a facility does not meet the relevant compliance standards, patients will not be able to claim Medicare benefits for the diagnostic imaging services Virtus renders at that facility.

Virtus' day hospital facilities are subject to additional regulation at the state and Commonwealth level. At the state level, a licence or registration must be held for each of Virtus' day hospitals and compliance maintained with extensive conditions, standards and guidelines. Penalties can apply for failure to observe licence or registration requirements or non-compliance with conditions. Commonwealth provisions also apply where medicines are supplied in connection with treatment at such facilities, requiring the facility to be approved before patients are entitled to subsidisation under the Pharmaceutical Benefits Scheme.

The acquisition, possession, supply and use of medicines and medical devices at Virtus' clinics also requires compliance with state and Commonwealth laws regulating therapeutic goods and poisons. For example, penalties apply for the importation, manufacture, supply or use of unapproved therapeutic goods (both medicines and medical devices) except in limited circumstances.

Virtus must also comply with state and Commonwealth privacy regulations which relate to the health industry.

6.5.2 Approach to compliance

Virtus is focused on the wellbeing of its patients and outcomes which provide the best clinical outcomes. Each of Virtus' Assisted Reproductive Services clinics have the relevant accreditations required.

section seven



section seven

details of the offer

7.1 The Offer

The Offer comprises the issue of Shares by Virtus and the transfer of Existing Shares by SaleCo. A description of the role of SaleCo in the Offer is set out in Section 9.4.

In total, 59.6 million Shares are being offered under the Broker Firm Offer and the Institutional Offer.⁶⁵ All Shares will be issued or transferred at the Offer Price. The total number of Shares on issue at the Completion of the Offer will be 79.5 million and all Shares will rank equally with each other.

No general public offer will be made. The allocation of Shares between the Broker Firm Offer and the Institutional Offer was determined by the Joint Lead Managers and Virtus, having regard to the allocation policy outlined in Section 7.3.5 and Section 7.4.2.

The Offer has been fully underwritten by the Joint Lead Managers, Morgan Stanley and UBS.

7.1.1 Purpose of the Offer

The Offer is expected to raise approximately \$126.7 million for Virtus and \$212.0 million for SaleCo. The proceeds received by SaleCo will be paid to those Selling Shareholders who sold Existing Shares to SaleCo. Proceeds received by Virtus for the issue of Shares will provide Virtus with:

- a liquid market for its Shares and an opportunity for others to invest in Shares in Virtus;
- funds to repay, in part, existing debts of Virtus' business,⁶⁶ the cancellation of existing share options and Offer costs (as described further in Section 7.1.2); and
- additional financial flexibility to pursue the growth opportunities outlined in Section 3.10 through improved access to capital markets.

The Offer also provides Existing Shareholders and option holders with an opportunity to realise part of their investment in Virtus.

7.1.2 Sources and uses of funds

Sources of funds	A\$ million	%
Cash and cash equivalents at 31 December 2012	20.6	4.1%
Cash proceeds received for issue of Shares by Virtus and the transfer of Existing Shares by SaleCo	338.7	67.1%
Drawdown of New Banking Facilities	145.0	28.8%
Total sources	504.3	100.0%

Uses of funds	A\$ million	%
Repayment of syndicated finance debt facilities and associated derivatives and certain other obligations of Virtus to option holders, as well as additional debt drawn down in relation to the payment of the Pre IPO Dividend, payment to option holders and associated costs ⁶⁷	262.7	52.1%
Payment to Existing Shareholders and option holders	221.7	44.0%
Costs of the Offer	17.3	3.4%
Establishment costs in relation to New Banking Facilities	1.1	0.2%
Pro forma cash balance	1.5	0.3%
Total uses	504.3	100.0%

65. In addition, 1.3 million Shares will be issued under this Prospectus to certain shareholders from the conversion of Shareholder loans on exercise of existing share options. See Section 7.6.

66. In addition to the repayment of existing debt of \$222.2 million, an amount of \$31.2 million has been drawn down under the existing debt facilities to pay the Pre IPO Dividend, associated equalisation payments to option holders and associated costs.

67. Net of \$2.0 million proceeds from the repayment of the Shareholder Loans.

Sources of funds

The amount of \$338.7 million in respect of cash proceeds received for Shares under the Institutional Offer and Broker Firm Offer represents the cash that Virtus expects to receive on Completion of the Offer (59.6 million Shares at the Offer Price of \$5.68 per Share).

Virtus will draw \$145.0 million in cash under New Banking Facilities at Completion of the Offer. The total amount drawn down will be \$149.0 million (refer to Section 4.4.3).

Uses of funds

Key payments to be made by Virtus on Completion of the Offer include:

- \$262.7 million to repay existing debt, related obligations, certain other obligations of Virtus to option holders (\$11.3 million) and associated costs and additional debt in relation to the Pre IPO Dividend;
- \$221.7 million to Existing Shareholders and option holders comprising \$212.0 million to SaleCo as consideration for the transfer of Existing Shares by SaleCo (representing 29.3 million shares in Virtus multiplied by the Offer Price) and \$9.7 million to existing option holders to cancel existing options;
- \$17.3 million in respect of the costs of the Offer (comprising estimates of fees payable to legal, accounting and tax advisers and to the Joint Lead Managers under the Underwriting Agreement (in aggregate, \$15.6 million – refer to Sections 6.3.1 and 9.7.1), with the remaining \$1.7 million being for other estimated costs of the Offer including prospectus design, advertising, marketing, listing and administrative fees, and Share Registry expenses.

The payments to option holders noted above primarily relate to options issued on the formation of Virtus and do not relate to Virtus' equity incentive plans. The amounts referred to in the above table under the heading "Uses of funds" are estimates. To the extent that these amounts decrease or increase, the pro forma cash balance for Virtus will increase or decrease by a corresponding amount.

7.1.3 Pro forma balance sheet

Virtus' pro forma balance sheet following Completion of the Offer, including details of the pro forma adjustments, is set out in Section 4.4.

7.1.4 Capital structure

Virtus' capitalisation and indebtedness as at 31 December 2012, before and following Completion of the Offer, is set out in Section 4.4.2.

7.1.5 Shareholders

The details of the ownership of Shares on upon Listing are set out below:

	Prior to the Offer (economic interest in Virtus)	Following Completion of the Offer (ownership of Virtus)	
	%	Shares (million)	%
Contracted Fertility Specialists	46.0%	18.3	23.0%
Scientists shareholders	1.7%	0.6	0.8%
Management and employee shareholders	1.8%	0.7	0.9%
Quadrant Funds	46.3%	–	–
Other existing shareholders ⁶⁸	4.2%	0.2	0.3%
New Shareholders pursuant to the Offer	–	59.6	75.0%
Total	100.0%	79.5	100.0%

Information on the number of Shares will be subject to voluntary escrow arrangements, as set out in Section 7.6.

7.1.6 Control implications of the Offer

The Directors do not expect any Shareholder to control Virtus on Completion of the Offer.

7.1.7 Potential effect of the fundraising on the future of Virtus

The Directors believe that on Completion of the Offer, Virtus will have sufficient funds available from the cash proceeds of the Institutional Offer and Broker Firm Offer, Virtus' operations and the New Banking Facilities, to fulfill the purposes of the Offer and meet Virtus' stated business objectives.

⁶⁸. Other existing shareholders represent retired Fertility Specialists and former employees.

7.2 Terms and conditions of the Offer

Topic	Summary
What is the type of security being offered?	Shares (being fully paid ordinary shares in Virtus).
What are the rights and liabilities attached to the security being offered?	A description of the Shares, including the rights and liabilities attaching to them, is set out in Section 7.10 below.
What is the consideration payable for each security being offered?	The Offer Price is \$5.68 per Share.
What is the Offer period?	The key dates, including details of the Offer period, are set out on page 2. No securities will be issued on the basis of this Prospectus later than the expiry date of 16 May 2014.
What are the cash proceeds to be raised?	\$126.7 million will be raised by Virtus if the Offer proceeds. \$212.0 million will be raised by SaleCo if the Offer proceeds. The proceeds received by SaleCo will be paid to those Selling Shareholders who sold Existing Shares to SaleCo.
What is the minimum and maximum application size under the Broker Firm Offer?	The minimum application under the Broker Firm Offer is 400 Shares and in multiples of 100 Shares thereafter, as directed by the applicant's Broker. The Joint Lead Managers, in consultation with Virtus, reserve the right to reject any application or to allocate a lesser number of Shares than that applied for. There is no maximum number or value of Shares that may be applied for under the Broker Firm Offer.
What is the allocation policy?	The allocation of Shares between the Broker Firm Offer and the Institutional Offer was determined by the Joint Lead Managers and Virtus having regard to the allocation policy outlined in Section 7.3.5 and Section 7.4.2. With respect to the Broker Firm Offer, it is a matter for the Brokers how they allocate firm stock among their eligible retail clients. The allocation of Shares among applicants in the Institutional Offer was determined by the Joint Lead Managers in consultation with Virtus. The Broker Firm Offer and the Institutional Offer are not open to investors in the United States. For further information on the Broker Firm Offer, see Section 7.3. For further information on the Institutional Offer, see Section 7.4.
Will the securities be listed?	Virtus will apply for listing of the Shares on ASX under the code VRT. Completion of the Offer is conditional on ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.

Topic	Summary
When are the securities expected to commence trading?	It is expected that trading of the Shares on ASX will commence on or about 11 June 2013, initially on a conditional and deferred settlement basis. The contracts formed on acceptance of applications and confirmations of allocations will be conditional on ASX agreeing to quote the Shares on ASX, and on issue occurring. Trades occurring on ASX before issue occurring will be conditional on allotment issue. Conditional trading will continue until Virtus has advised ASX that (i) the Existing Shares to be sold by the Selling Shareholders have been transferred to SaleCo and (ii) Virtus has issued Shares, and SaleCo has transferred Shares, to successful Applicants under the Offer, which is expected to be on or about 11 June 2013. Trading will then be on an unconditional but deferred settlement basis until Virtus has advised ASX that holding statements have been dispatched to Shareholders. Normal settlement trading is expected to commence on or about 14 June 2013. If settlement has not occurred within 14 days (or such longer period as ASX allows) after the day Shares are first quoted on ASX, the Offer and all contracts arising on acceptance of the Offer and confirmations of allocations will be cancelled and of no further effect and all Application Monies will be refunded (without interest). In these circumstances, all purchases and sales made through ASX participating organisations during the conditional trading period will be cancelled and of no effect. It is the responsibility of each applicant to confirm their holding before trading in Shares. Applicants who sell Shares before they receive an initial statement of holding do so at their own risk. Virtus and the Joint Lead Managers disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their initial statement of holding, whether on the basis of a confirmation of allocation provided by any of them, by Virtus Offer Information Line, by a Broker or otherwise.
Is the Offer underwritten?	Yes. The Joint Lead Managers have fully underwritten the Offer. Details are provided in Section 7.5.
Are there any escrow arrangements?	Yes. Details are provided in Section 7.6.
Are there any taxation considerations?	Refer to Section 9.10.
Are there any brokerage, commission or stamp duty considerations?	No brokerage, commission or stamp duty is payable by applicants on acquisition of Shares under the Offer. See Section 9.7.1 for details of various fees payable by Virtus to the Joint Lead Managers and by the Joint Lead Managers to certain Brokers.
What should you do with any enquiries?	Call the Virtus Offer Information Line on 1800 134 068 (toll free within Australia) or +61 2 8767 1034 (outside Australia) from 8.30am until 5.30pm (AEST) Monday to Friday. If you are unclear in relation to any matter or are uncertain as to whether Virtus is a suitable investment for you, you should seek professional guidance from your solicitor, stockbroker, accountant or other independent and qualified professional adviser before deciding whether to invest.

7.3 Broker Firm Offer

7.3.1 Who can apply in the Broker Firm Offer

The Broker Firm Offer is open to persons who have received a firm allocation from their Broker and who have a registered address in Australia. If you have been offered a firm allocation by a Broker, you will be treated as an applicant under the Broker Firm Offer in respect of that allocation. You should contact your Broker to determine whether they may allocate Shares to you under the Broker Firm Offer.

7.3.2 How to apply for Shares under the Broker Firm Offer

Applications for Shares may only be made on an Application Form attached to or accompanying this Prospectus. If you are an investor applying under the Broker Firm Offer, you should complete and lodge your Application Form with the Broker from whom you received your firm allocation. Application Forms for the Broker Firm Offer must be completed in accordance with the instructions given to you by your Broker and the instructions set out on the reverse of the Application Form.

By making an application, you declare that you were given access to the Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

If you apply in the Broker Firm Offer, you must apply for a minimum number of 400 Shares and in multiples of 100 Shares thereafter. There is no maximum number or value of Shares that may be applied for under the Broker Firm Offer. However, Virtus, SaleCo and the Joint Lead Managers reserve the right to reject or scale back any applications in the Broker Firm Offer. Virtus, SaleCo and the Joint Lead Managers also reserve the right to aggregate any applications which they believe may be multiple applications from the same person. Virtus may determine a person to be eligible to participate in the Broker Firm Offer, and may amend or waive the Broker Firm Offer application procedures or requirements, in its discretion in compliance with applicable laws.

Applicants under the Broker Firm Offer must lodge their Application Form and Application Monies with the relevant Broker in accordance with the relevant Broker's directions in order to receive their firm allocation. Applicants under the Broker Firm Offer must not send their Application Forms to the Share Registry.

The Broker Firm Offer opens at 9.00am (AEST) on Monday, 27 May 2013 and is expected to close at 5.00pm (AEST) on Friday, 7 June 2013. Virtus and the Joint Lead Managers may elect to close the Offer or any part of it early, extend the Offer or any part of it, or accept late applications either generally or in particular cases. The Offer or any part of it may be closed at any earlier date and time, without further notice. Your Broker may also impose an earlier closing date. Applicants are therefore encouraged to submit their applications as early as possible. Please contact your Broker for instructions.

7.3.3 Application Monies

Virtus reserves the right to decline any Application and all Applications in whole or in part, without giving any reason. Applications under the Broker Firm Offer whose Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will receive a refund of all or part of their Application Monies, as applicable. No interest will be paid on refunded amounts.

7.3.4 Acceptance of applications

An application in the Broker Firm Offer is an offer by the applicant to Virtus and SaleCo to subscribe for or purchase Shares for all or any of the Application Amount specified in and accompanying the Application Form at the Offer Price on the terms and conditions set out in this Prospectus including any supplementary or replacement prospectus and the Application Form (including the conditions regarding quotation on ASX in Section 7.9.1). To the extent permitted by law, an application by an applicant under the Offer is irrevocable.

An application may be accepted by Virtus, SaleCo and the Joint Lead Managers in respect of the full number of Shares specified in the Application Form or any of them, without further notice to the applicant. Acceptance of an application will give rise to a binding contract.

7.3.5 Allocation policy under the Broker Firm Offer

Shares which have been allocated to Brokers for allocation to their Australian resident retail clients will be issued to the applicants nominated by those Brokers (subject to the right of Virtus and the Joint Lead Managers to reject or scale back applications). It will be a matter for the Brokers how they allocate firm stock among their eligible retail clients, and they (and not Virtus, SaleCo and the Joint Lead Managers) will be responsible for ensuring that retail clients who have received a firm allocation from them receive the relevant Shares.

7.3.6 Announcement of final allocation policy in the Broker Firm Offer

Virtus expects to announce the final allocation policy under the Broker Firm Offer on or about 11 June 2013. It is expected that this information will be advertised in The Sydney Morning Herald, The Melbourne Age, The Australian, The Australian Financial Review, and The Courier Mail as well as other major metropolitan newspapers on that same day. Applicants in the Broker Firm Offer should confirm their firm allocation with the Broker from whom they received their allocation. They may also call the Virtus Offer Information Line on 1800 134 068 (toll free within Australia) or +61 2 8767 1034 (outside Australia) from 8.30am until 5.30pm (AEST) Monday to Friday to confirm their allocations.

If you sell Shares before receiving a holding statement, you do so at your own risk, even if you have confirmed your firm allocation with your Broker or obtained details of your holding from the Virtus Offer Information Line.

7.4 Institutional Offer

7.4.1 Invitations to bid

The Institutional Offer consists of an invitation to certain Institutional Investors in Australia and a number of other eligible jurisdictions to apply for Shares. The Joint Lead Managers have separately advised Institutional Investors of the application procedures for the Institutional Offer.

7.4.2 Allocation policy under the Institutional Offer

The allocation of Shares among applicants in the Institutional Offer was determined by the Joint Lead Managers and Virtus. The Joint Lead Managers, in consultation with Virtus, had absolute discretion regarding the basis of allocation of Shares among Institutional Investors, and there was no assurance that any Institutional Investor would be allocated any Shares, or the number of Shares for which it bid. The allocation policy was influenced by the following factors:

- number of Shares bid for by particular bidders;
- the timeliness of the bid by particular bidders;
- Virtus' desire for an informed and active trading market following listing on ASX;
- Virtus' desire to establish a wide spread of institutional shareholders;
- overall level of demand under the Broker Firm Offer and Institutional Offer;
- the size and type of funds under management of particular bidders;
- the likelihood that particular bidders will be long-term shareholders; and
- any other factors that Virtus and the Joint Lead Managers considered appropriate.

7.5 Underwriting arrangements

The Offer is fully underwritten. The Joint Lead Managers, Virtus and SaleCo have entered into an Underwriting Agreement under which the Joint Lead Managers have been appointed as arrangers, managers and underwriters of the Offer. The Joint Lead Managers agree, subject to certain conditions and termination events, to underwrite severally applications for all Shares under the Offer in equal proportions. The Underwriting Agreement sets out a number of circumstances under which the Joint Lead Managers may terminate the agreement and the underwriting obligations. A summary of certain terms of the agreement and underwriting arrangements, including the termination provisions, is provided in Section 9.7.1.

7.6 Escrow arrangements

Existing Shareholders have agreed to sell a portion of their Shares into the Offer through their arrangements with SaleCo and will retain the balance of their Shares on Listing.

The Existing Shareholders have agreed to enter into voluntary escrow arrangements in relation to those retained Shares which are subject to escrow. An "escrow" is a restriction on sale, disposal, or encumbering of, or certain other dealings in respect of, the Shares concerned for the period of the escrow, subject to any exceptions in the escrow arrangement.

Fertility Specialists, management and scientists currently hold Shares in Virtus, and in some cases through outstanding share options. Immediately prior to Listing those share options will be either exercised for Shares under this Prospectus or cancelled, in each case for the net value for each option (generally being the sum of the Offer Price and the other cancellation adjustments and payments less the exercise price of the option).

In conjunction with the Listing, each Fertility Specialist was provided with the opportunity to realise up to 50% of the aggregate value of his or her interests in Virtus ("Pre-Listing Value") through the sale of Shares, cancellation of options and receipt of the Pre IPO Dividend. Pre-Listing Value includes all shares and the net value of options held in Virtus (at the Offer Price and including the value of the Pre IPO Dividend).⁶⁹

Following the Listing, Shares equivalent to 50% of a Fertility Specialist's Pre-Listing Value will be subject to escrow as follows:

- Shares equivalent to 10% of a Fertility Specialist's Pre-Listing Value will be held in short-term escrow, with 3.33% being released from escrow on the first trading day in Shares following the announcement to ASX by Virtus of its preliminary final report for FY2014. Following each of the two subsequent announcements of Virtus' preliminary final report (up to and including the preliminary final report for FY2016) Shares equivalent to a further 3.33% per year of a Fertility Specialist's Pre-Listing Value will be released (if not already released) from escrow. All three tranches of shares each of which represent 3.33% of a Fertility Specialist's Pre-Listing Value will be released where the Fertility Specialist becomes a "good leaver" (as described below).
- Shares equivalent to 20% of a Fertility Specialist's Pre-Listing Value will be released when the Fertility Specialist reaches the age of 63. These Shares may be released earlier in the following circumstances:
 - › for Fertility Specialists or scientists who are aged 63 or older at the time of Listing or who turn 63 within two years of Listing, these Shares will be released from escrow on the second anniversary of Listing; or

69. Fertility Specialists who had retired or Fertility Specialists who had given notice of retirement were permitted to sell all or some of their Shares under the Offer, and none of their Shares will be subject to the escrow arrangements described in this Prospectus. The Fertility Specialists to which this applies hold 2.1 million Shares as at the date of this Prospectus.

- › where a Fertility Specialist becomes a “relocated leaver” (as described below), these Shares will be realised five years after the date that they become a “relocated leaver”; or
- › where a Fertility Specialist dies or leaves Virtus as a result of becoming, becomes permanently disabled or seriously disabled on the date of the relevant occurrence (as resolved by the Board acting reasonably); or
- › if the Board determines to release the Shares from escrow earlier.
- Shares equivalent to the final 20% of a Fertility Specialist’s Pre-Listing Value will be released from escrow:
 - › on retirement by the Fertility Specialist from the Assisted Reproductive Services industry (provided a Fertility Specialist must have used their best endeavours to transition their practice to another Fertility Specialist to the satisfaction of the Board); or
 - › if the Fertility Specialist becomes a “good leaver” or a “relocated leaver” (as described below); or
 - › five years after the Fertility Specialist leaves Virtus in other circumstances.

Fertility Specialists will be able to sell any unescrowed Shares at any time following Listing, subject to complying with insider trading restrictions and Virtus’ Securities Trading Policy.

In conjunction with the Listing, each key management shareholder and each key scientist shareholder was provided with the opportunity to realise Shares with a value of up to 40% of his or her Pre-Listing Value.

For management and scientist shareholders, Shares equivalent to 60% of their Pre-Listing Value will be subject to escrow until the first trading day in Shares following announcement to ASX by Virtus of its preliminary final report for FY2014.⁷⁰

The Quadrant Funds will not hold any Shares on Completion of the Offer.

Types of leavers

The escrow arrangements describe the circumstances that a Fertility Specialist is a “good leaver” and “relocated leaver” in the following manner:

- A Fertility Specialist is a “good leaver” where:
 - › they leave Virtus as a result of death, serious disability or permanent incapacity through ill health (as determined by the Virtus Board, acting reasonably); or
 - › they or Virtus terminates the Fertility Specialists’ doctor contract in specific circumstances; or
 - › the Board determines, in its discretion, that the Fertility Specialist is a “good leaver”.
- A Fertility Specialist is a “relocated leaver” if they terminate their doctor contract and the Board is satisfied that:
 - › the Fertility Specialist genuinely intends to relocate permanently to a place which is more than 100km from any clinic operated by Virtus or any of its subsidiaries; and
 - › the Fertility Specialist also intends to provide Assisted Reproductive Services in the place the Fertility Specialist is relocating to; and
 - › the Fertility Specialist has used their best endeavours to transition their practice to another Fertility Specialist at Virtus.

Restrictions on dealing with Shares the subject of escrow

During the relevant escrow periods, the Shareholders whose Shares are subject to escrow may not deal with any of their Shares in any way other than:

- if the dealing is in relation to a reorganisation of their shareholding ownership structure where control of the Shares is retained by the ultimate controller, Virtus has given its consent to the reorganisation and the new holder has agreed to be bound by the same escrow arrangements;
- with prior written consent of Virtus;
- pursuant to a court order compelling the Shares to be disposed of or a security interest to be created over them;
- if the Shareholder dies, pursuant to a transfer by the personal representative of the Shareholder to a person to whom the Shares are bequeathed where that person has agreed to be bound by the same escrow arrangements;
- to allow acceptance of a takeover offer which is or has become unconditional and where at least half of the non-escrowed Shares have already accepted the offer;
- to allow the Shareholder to tender their Shares into a bid acceptance facility for a takeover offer where the holders of at least half of the non-escrowed Shares have already accepted the offer and tendered their Shares into the bid acceptance facility;
- in connection with the transfer or cancellation of Shares as part of a scheme of arrangement, share buyback or other similar reorganisation or an acquisition of share capital that has received all necessary approvals.

70. There will be two scientist shareholders who will be entitled to sell up to 50% of their Pre-Listing Value after the payment of any tax liabilities resulting from the options and with 50% of their Pre-Listing Value after the payment of any tax liabilities resulting from the options subject to escrow until the first trading day in Shares following the announcement to ASX by Virtus of its preliminary final report for FY2014.

If a takeover or reorganisation or acquisition of share capital does not successfully complete, the holding lock will be reapplied to the escrowed Shares.

The restriction on dealing is broad and includes, among other things, selling, assigning or transferring, or agreeing or offering to sell, assign or transfer, the relevant Shares, entering into an option which would enable or require the relevant Shares to be sold, assigned or transferred or creating or agreeing to create any security interest over the Shares.

Additional consequences of a breach of the escrow deed

Under the escrow deed, Virtus has certain rights where a Fertility Specialist, manager or scientist breaches, or Virtus believes that they may have breached the escrow deed. These rights include that the Fertility Specialist, manager or scientist will cease to be entitled to any dividends or distributions on their escrowed Shares if:

- a Fertility Specialist, manager or scientist breaches, or Virtus believes they are likely to breach, the escrow deed, other than the restraint clause, in which case all of their escrowed Shares will cease to be entitled to any dividends or distributions for so long as the breach continues or Virtus believes a breach is likely to occur;
- a Fertility Specialist, manager or scientist breaches, or Virtus believes they are likely to breach, the restraint clause in the escrow deed, in which case all of their escrowed Shares will cease to be entitled to any dividends or distributions until they are released from escrow; or
- a Fertility Specialist terminates their doctor contract and is not:
 - › retiring from the Assisted Reproductive Services industry (providing they have used their best endeavours to transition their practice to another Fertility Specialist to the satisfaction of the Board);
 - › a “good leaver” (described above); or
 - › a “relocated leaver” (described above),

in which case all of their escrowed Shares will cease to be entitled to any dividends or distributions until they are released from escrow.

7.7 Restrictions on distribution

No action has been taken to register or qualify this Prospectus, the Shares or the Offer or otherwise to permit a public offering of the Shares in any jurisdiction outside Australia.

This Prospectus does not constitute an offer or invitation to subscribe for Shares in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation or issue under this Prospectus.

This Prospectus may not be released or distributed by you in the United States, and may only be distributed to persons to whom the Offer may lawfully be made in accordance with the laws of any applicable jurisdiction.

This document does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. The Shares have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state of the United States and may not be offered or sold, directly or indirectly, in the United States.

Each applicant in the Broker Firm Offer, and each person to whom the Institutional Offer is made under this Prospectus, will be taken to have represented, warranted and agreed as follows:

- it understands that the Shares have not been, and will not be, registered under the U.S. Securities Act or the securities law of any state of the United States and may not be offered or sold, directly or indirectly, in the United States;
- it is not in the United States;
- it has not and will not send the Prospectus or any other material relating to the Offer to any person in the United States; and
- it will not offer or sell the Shares in the United States or in any other jurisdiction outside Australia except in transactions exempt from, or not subject to, registration under the U.S. Securities Act and in compliance with all applicable laws in the jurisdiction in which Shares are offered and sold.

Any offer, sale or resale of the Shares in the United States by a dealer (whether or not participating in the Offer) may violate the registration requirements of the U.S. Securities Act if made prior to 40 days after the date on which the Offer Price is determined and the Shares are allocated under the Offer or if such Shares were purchased by a dealer under the Offer.

7.8 Discretion regarding the Offer

Virtus may withdraw the Offer at any time before the issue or transfer of Shares to successful applicants or bidders in the Broker Firm Offer and Institutional Offer. If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded (without interest).

Virtus and the Joint Lead Managers also reserve the right to close the Offer or any part of it early, extend the Offer or any part of it, accept late applications or bids either generally or in particular cases, reject any application or bid, or allocate to any applicant or bidder fewer Shares than applied or bid for.

7.9 ASX listing, registers and holding statements, deferred settlement trading

7.9.1 Application to ASX for listing and quotation of Shares

Virtus will apply for listing of the Shares on ASX. Virtus' expected ASX code will be VRT.

ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit Virtus to the official list is not to be taken as an indication of the merits of Virtus or the Shares offered for subscription.

If Virtus does not make such an application within seven days after the date of this Prospectus, or if listing is not granted within three months after the date of the Original Prospectus (or any later date permitted by law), all Application Monies received by Virtus will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.

Subject to certain conditions (including any waivers obtained by Virtus from time to time), Virtus will be required to comply with ASX Listing Rules.

7.9.2 CHESS and issuer sponsored holdings

Virtus will apply to participate in ASX's Clearing House Electronic Sub-register System ("CHESS") and will comply with ASX Listing Rules and the ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on ASX under which transfers are effected in an electronic form.

When the Shares become approved financial products (defined in the ASX Settlement Operating Rules), holdings will be registered in one of two sub-registers, an electronic CHESS sub-register or an issuer sponsored sub-register. For all successful applicants, the Shares of a Shareholder who is a participant in CHESS or a Shareholder sponsored by participant in CHESS will be registered on the CHESS sub-register. All other Shares will be registered on the issuer sponsored sub-register.

Following Completion of the Offer, Shareholders will be sent a holding statement that sets out the number of Shares that have been allocated to them. This statement will also provide details of a Shareholder's Holder Identification Number ("HIN") for CHESS holders or, where applicable, the Securityholder Reference Number ("SRN") of issuer sponsored holders. Shareholders will subsequently receive statements showing any changes to their Shareholding. Certificates will not be issued.

Shareholders will receive subsequent statements at the end of each month if there has been a change to their holding on the register and as otherwise required under ASX Listing Rules and the Corporations Act. Additional statements may be requested at any other time either directly through the Shareholder's sponsoring broker in the case of a holding on the CHESS sub-register or through the Share Registry in the case of a holding on the issuer sponsored sub-register. Virtus and the Share Registry may charge a fee for these additional issuer sponsored statements.

7.9.3 Conditional and deferred settlement trading and selling shares on market

It is expected that trading of the Shares on ASX (on a conditional and deferred basis) will commence on or about 11 June 2013.

The contracts formed on acceptance of applications will be conditional on ASX agreeing to quote the Shares on ASX, and on issue occurring. Trades occurring on ASX before issue occurring will be conditional on issue occurring.

Conditional trading will continue until Virtus has advised ASX that (i) the Existing Shares to be sold by the Selling Shareholders have been transferred to SaleCo and (ii) Virtus has issued Shares, and SaleCo has transferred Shares, to successful Applicants under the Offer, which is expected to be on or about 11 June 2013. Trading will then be on an unconditional but deferred settlement basis until Virtus has advised ASX that holding statements have been dispatched to Shareholders. Normal settlement trading is expected to commence on or about 14 June 2013.

If settlement has not occurred within 14 days (or such longer period as ASX allows) after the day Shares are first quoted on ASX, the Offer and all contracts arising on acceptance of the Offer will be cancelled and of no further effect and all Application Monies will be refunded (without interest). In these circumstances, all purchases and sales made through ASX participating organisations during the conditional trading period will be cancelled and of no effect.

It is the responsibility of each person who trades in Shares to confirm their holding before trading in Shares. If you sell Shares before receiving a holding statement, you do so at your own risk. Virtus, SaleCo, the Share Registry, the Joint Lead Managers and the Existing Shareholders disclaim all liability, whether in negligence or otherwise, if you sell Shares before receiving your holding statement, even if you obtained details of your holding from the Virtus Offer Information Line or confirmed your firm allocation through a Broker.

7.10 Description of Shares

Introduction

The rights and liabilities attaching to ownership of Shares arise from a combination of the Constitution, statute, ASX Listing Rules and general law.

A summary of the significant rights attaching to the Shares and a description of other material provisions of the Constitution is set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that Virtus is admitted to the Official List of ASX.

Voting at a general meeting

At a general meeting of Virtus, every Shareholder present in person or by proxy, representative or attorney has one vote on a show of hands and, on a poll, one vote for each Share held.

Meetings of members

Each Shareholder is entitled to receive notice of, attend and vote at general meetings of Virtus and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, the Corporations Act and ASX Listing Rules.

Dividends

Subject to the Corporations Act, the Constitution and the terms or rights of any shares with special rights to dividends, the Board may from time to time resolve to pay dividends to Shareholders of Virtus and fix the amount of the dividend, the time for determining entitlements to the dividend and the timing and method of payment. For further information in respect of Virtus' proposed dividend policy, see Section 4.9.

Transfer of Shares

Subject to the Constitution, Shares may be transferred by a proper transfer effected in accordance with ASX Settlement Operating Rules, by a written instrument of transfer which complies with the Constitution or by any other method permitted by the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules.

The Board may refuse to register a transfer of Shares where permitted to do so under the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules. The Board must refuse to register a transfer of Shares when required by the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules.

Issue of further Shares

Subject to the Corporations Act, ASX Listing Rules and ASX Settlement Operating Rules and any rights and restrictions attached to a class of shares, Virtus may issue or grant options in respect of further Shares on such terms and conditions as the Directors resolve.

Winding up

If Virtus is wound up, then with the sanction of a special resolution of Virtus' members, the liquidator may divide among Virtus' members in kind the whole or part of Virtus' property, set the value of that property and determine how the division is to be carried out between members or different classes of members.

Unmarketable parcels

Subject to the Corporations Act, ASX Listing Rules and ASX Settlement Operating Rules, Virtus may sell the Shares of a Shareholder who holds less than a marketable parcel of Shares.

Share buybacks

Subject to the Corporations Act, ASX Listing Rules and ASX Settlement Operating Rules, Virtus may buy back shares in itself on terms and at times determined by the Board.

Variation of class rights

At present, Virtus' only class of shares on issue is ordinary shares. Subject to the Corporations Act and the terms of issue of a class of shares, the rights attaching to any class of shares may be varied or cancelled:

- with the consent in writing of the holders of three-quarters of the issued shares included in that class; or
- by a special resolution passed at a separate meeting of the holders of those shares.

In either case, the holders of not less than 10% of the votes in the class of shares, the rights of which have been varied or cancelled, may apply to a court of competent jurisdiction to exercise its discretion to set aside such a variation or cancellation.

Dividend reinvestment plan

The Constitution authorises the Directors, on any terms and at their discretion, to establish a dividend reinvestment plan (under which any member may elect that the dividends payable by Virtus be reinvested by a subscription for securities).

Directors – appointment and removal

Under the Constitution, the minimum number of Directors that may comprise the Board is three and the maximum is fixed by the Directors but may not be more than ten unless the Shareholders pass a resolution varying that number. Directors are elected at annual general meetings of Virtus. Retirement will occur on a rotational basis so that a Director may not hold office for three or more years or three or more annual general meetings without standing for re-election. The Directors may also appoint a Director to fill a casual vacancy on the Board or in addition to the Directors, who will then hold office until the next annual general meeting of Virtus.

Directors – voting

Questions arising at a meeting of the Board will be decided by a majority of votes of the Directors present at the meeting and entitled to vote on the matter. In the case of an equality of votes on a resolution, the chairperson of the meeting has a casting vote.

Directors – remuneration

See Section 6.3.2 for a description of the remuneration arrangements for Directors.

Indemnities

Virtus, to the extent permitted by law, may indemnify a current or former Director or officer against any liability incurred by that person as a Director or officer of Virtus, and legal costs incurred by that person in defending an action for a liability of that person.

Virtus, to the extent permitted by law, may pay, or agree to pay, a premium for a contract insuring a former or current Director or officer against any liability incurred by that person in that capacity, including liability for legal costs.

Virtus, to the extent permitted by law, may enter into an agreement or deed with a person who is, or has been, a Director or officer of Virtus in relation to the matters above. Such an agreement may include provisions relating to rights of access to Virtus' books conferred by the Corporations Act or otherwise by law.

Amendment

The Constitution can only be amended by special resolution passed by at least three-quarters of Shareholders present (in person or by proxy) and entitled to vote on the resolution at a general meeting of Virtus. Virtus must give at least 21 days' written notice of a general meeting of Virtus.

section eight



section eight

investigating accountant's report



The Directors

Virtus Health Limited
Level 3, 176 Pacific Highway
Greenwich NSW 2065

Virtus SaleCo Pty Limited
Level 3, 176 Pacific Highway
Greenwich NSW 2065

17 May 2013

Dear Directors

Subject: Investigating Accountant's Report on Historical and Forecast Financial Information and Financial Services Guide

We have prepared this report on certain historical and forecast financial information of Virtus Health Limited (formerly Virtus Health Pty Limited) (the **Company**) and its subsidiaries (collectively Virtus) for inclusion in a prospectus dated on or about 17 May 2013 (the **Prospectus**) relating to the issue of shares in the proposed initial public offering and listing of the Company on the Australian Securities Exchange (the **Offer**).

Unless otherwise defined in this report, expressions defined in the Prospectus have the same meaning in this report.

The nature of this report is such that it should be given by an entity which holds an Australian financial services licence under the Corporations Act 2001 (Cth). PricewaterhouseCoopers Securities Ltd, which is wholly owned by PricewaterhouseCoopers, holds the appropriate Australian financial services licence. This report is both an Investigating Accountant's Report, the scope of which is set out below, and a Financial Services Guide, as attached at Appendix A.

Scope

Virtus and SaleCo have requested PricewaterhouseCoopers Securities Ltd to prepare this investigating accountant's report (the **Report**) covering the following information for Virtus:

- Pro forma consolidated historical income statements for FY2010, FY2011, FY2012, H1FY2012 and H1FY2013 (**Pro forma Historical Results**);
- Statutory consolidated historical income statements for FY2010, FY2011, FY2012, H1FY2012 and H1FY2013 (**Historical Statutory Results**);
- Pro forma consolidated historical cash flow statements for FY2010, FY2011, FY2012, H1FY2012 and H1FY2013 (**Pro forma Historical Cash Flows**);

**PricewaterhouseCoopers Securities Ltd, ACN 003 311 617, ABN 54 003 311 617,
Holder of Australian Financial Services Licence No 244572
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au**



- Statutory consolidated historical cash flow statements for FY2010, FY2011, FY2012, H1FY2012 and H1FY2013 (**Statutory Historical Cash Flows**); and
- Pro forma consolidated balance sheet as at 31 December 2012, which assumes completion of the proposed Offer (**Pro Forma Balance Sheet**)

(collectively the “**Historical Financial Information**”) and

Forecast financial information for Virtus being the:

- Pro forma consolidated forecast income statements for FY2013 and FY2014 (**Pro Forma Forecast Results**);
- Statutory consolidated forecast income statements for FY2013 and FY2014 (**Forecast Statutory Results**);
- Pro forma consolidated forecast cash flow statements for FY2013 and FY2014; and
- Statutory consolidated forecast summary cash flow statements for FY2013 and FY2014

(collectively the **Forecast Financial Information**)

(Historical Financial Information and Forecast Financial Information together form the **Financial Information**)

This Report has been prepared for inclusion in the Prospectus. We disclaim any assumption of responsibility for any reliance on this Report or on the Historical Financial Information or the Forecast Financial Information to which this Report relates for any purposes other than the purpose for which it was prepared.

Scope of review of Historical Financial Information

The Historical Financial Information set out in Section 4 of the Prospectus has been extracted from the audited consolidated financial statements of Virtus in respect of the financial years ended 30 June 2010, 2011 and 2012, and the reviewed half year consolidated financial statements of Virtus in respect of the six month periods to 31 December 2011 and 2012. The consolidated financial statements for the financial years ended 30 June 2010, 2011 and 2012 were audited by PricewaterhouseCoopers who have issued unqualified audit opinions in respect of those periods. The half year consolidated financial statements for the 6 month periods ended 31 December 2011 and 2012 were reviewed by PricewaterhouseCoopers, who have issued unqualified review opinions in respect of those periods.

The Historical Financial Information incorporates such pro forma transactions and adjustments as the Directors considered necessary to present the Historical Financial Information on a basis consistent with the Forecasts (**Pro Forma Transactions**). The Directors are responsible for the preparation of the Historical Financial Information, including the determination of the Pro Forma Transactions.



We have conducted our review of the Historical Financial Information in accordance with Australian Auditing Standards applicable to review engagements. We made such inquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- an analytical review of the financial performance of Virtus for the relevant historical periods;
- a review of work papers, accounting records and other documents;
- a review of the adjustments made to the Historical Financial Information;
- a review of the assumptions (which include the Pro Forma Transactions) used to compile the Pro Forma Balance Sheet;
- a comparison of consistency in application of the recognition and measurement principles under Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by Virtus as disclosed in Appendix A of the Prospectus, and
- enquiry of Directors, management and others.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Historical Financial Information.

Review statement on Historical Financial Information

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that:

- the Pro Forma Balance Sheet has not been properly prepared on the basis of the Pro Forma Transactions;
- the Pro Forma Transactions do not form a reasonable basis for the Pro Forma Balance Sheet;
- the Historical Financial Information, as set out in Section 4 of the Prospectus, does not present fairly:
 - the pro forma consolidated historical income statements of Virtus for FY2010, FY2011, FY2012, H1FY2012 and H1FY2013;
 - the pro forma consolidated historical cash flow statements for Virtus for FY2010, FY2011, FY2012, H1FY2012 and H1FY2013; and



- the pro forma consolidated balance sheet of Virtus as at 31 December 2012, which assumes completion of the proposed Offer,

in accordance with the recognition and measurement principles prescribed under Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by Virtus as disclosed in Appendix A of the Prospectus.

Scope of review of Forecast Financial Information

The Directors are responsible for the preparation and presentation of the Forecast Financial Information, including the best estimate assumptions (which include the Pro Forma Transactions) on which they are based.

Our review of the best estimate assumptions underlying the Forecast Financial Information was conducted in accordance with Australian Auditing Standards applicable to review engagements. Our procedures consisted primarily of enquiry and comparison and other such analytical review procedures as we considered necessary to form an opinion as to whether anything has come to our attention which causes us to believe that:

- (a) the best estimate assumptions do not provide a reasonable basis for the Forecast Financial Information;
- (b) in all material respects, the Forecast Financial Information has not properly prepared on the basis of the best estimate assumptions and presented fairly in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies of Virtus disclosed in Appendix A of the Prospectus; or
- (c) the Forecast Financial Information is unreasonable.

The Forecast Financial Information has been prepared by the Directors to provide investors with a guide to Virtus' potential future financial performance based upon the achievement of certain economic, operating, development and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of the forecasts. Actual results may vary materially from the Forecast Financial Information and the variation may be materially positive or negative. The sensitivity analysis set out in Section 4.8 of the Prospectus demonstrates the impacts on the Forecast Financial Information of changes in key assumptions. The Forecast Financial Information is therefore only indicative of the financial performance which may be achievable. Accordingly, investors should have regard to the description of investment risks and sensitivity analysis set out in Sections 5 and 4.8 respectively, of the Prospectus.

Our review of the Forecast Financial Information and the best estimate assumptions upon which the Forecast Financial Information has been based is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards. A review of this nature provides less assurance than an audit. We have not performed an audit and we do not express an audit opinion on the Forecast Financial Information included in the Prospectus.



Review statement on the Forecast Financial Information

Based on our review of the Forecast Financial Information, which is not an audit, and the reasonableness of the best estimate assumptions giving rise to the Forecast Financial Information, nothing has come to our attention which causes us to believe that:

- (a) the best estimate assumptions set out in Section 4.7 of the Prospectus do not provide a reasonable basis for the preparation of the Forecasts;
- (b) in all material respects, the Forecasts are not properly prepared on the basis of the best estimate assumptions and presented fairly in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies of Virtus disclosed in Appendix A of the Prospectus; or
- (c) the Forecast Financial Information is unreasonable.

The best estimate assumptions set out in Section 4.7 of the Prospectus are subject to significant uncertainties and contingencies often outside the control of Virtus. If events do not occur as assumed, actual results and distributions achieved by Virtus may vary significantly from the Forecast Financial Information. Accordingly, we do not confirm or guarantee the achievement of the Forecast Financial Information, as future events, by their very nature, are not capable of independent substantiation.

Subsequent events

Apart from the matters dealt with in this Report, and having regard to the scope of our Report, to the best of our knowledge and belief no material transactions or events outside of the ordinary course of business of Virtus have come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

Independence or disclosure of interest

PricewaterhouseCoopers Securities Ltd does not have any interest in the outcome of the Offer other than the preparation of this Report and participation in due diligence procedures for which normal professional fees will be received.

Liability

PricewaterhouseCoopers Securities Ltd has consented to the inclusion of this Report in the Prospectus in the form and context in which it is included. The liability of PricewaterhouseCoopers Securities Ltd is limited to the inclusion of this Report in the Prospectus. PricewaterhouseCoopers Securities Ltd makes no representation regarding, and has no liability for, any other statements or other material in, or any omissions from, the Prospectus.



Financial Services Guide

We have included our Financial Services Guide as Appendix A to our Report. The Financial Services Guide is designed to assist retail clients in their use of any general financial product advice in our Report.

Yours faithfully

A handwritten signature in black ink, appearing to read "Troy Porter".

Troy Porter
Authorised Representative
PricewaterhouseCoopers Securities Ltd



Appendix A – Financial Services Guide

PRICEWATERHOUSECOOPERS SECURITIES LTD

FINANCIAL SERVICES GUIDE

This Financial Services Guide is dated 17 May 2013

1. About us

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) (**PwCS**) has been engaged by Virtus Health Limited (the **Company**) and Virtus SaleCo Pty Limited to provide a report in the form of an Investigating Accountant's Report in relation to the issue of shares in the proposed initial public offering and listing of the Company on the Australian Securities Exchange (the **Report**) for inclusion in the prospectus dated 17 May 2013.

You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

2. This Financial Services Guide

This Financial Services Guide (**FSG**) is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about PwCS generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

3. Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, managed investment schemes, government debentures, stocks or bonds, and deposit products.



4. General financial product advice

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

5. Fees, commissions and other benefits we may receive

PwCS has acted as Investigating Accountant and has prepared the Investigating Accountants' Report and has performed work in relation to due diligence enquiries. Virtus has paid, or agreed to pay, approximately \$1.134m (excluding disbursements and GST) for the above services up until the Prospectus Date.

6. Associations with issuers of financial products

PwCS and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, PricewaterhouseCoopers may be the auditor of, or provide financial services to, the issuer of a financial product and PwCS may provide financial services to the issuer of a financial product in the ordinary course of its business.

PricewaterhouseCoopers is the auditor of the client.

7. Complaints

If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Service (FOS), an external complaints resolution service. FOS can be contacted by calling 1300 780 808. You will not be charged for using the FOS service.



8. Contact Details

PwCS can be contacted by sending a letter to the following address:

Troy Porter
Authorised representative
PricewaterhouseCoopers Securities Ltd

Darling Park Tower 2
201 Sussex Street

Sydney NSW 1171

section nine



section nine

additional information

9.1 Registration

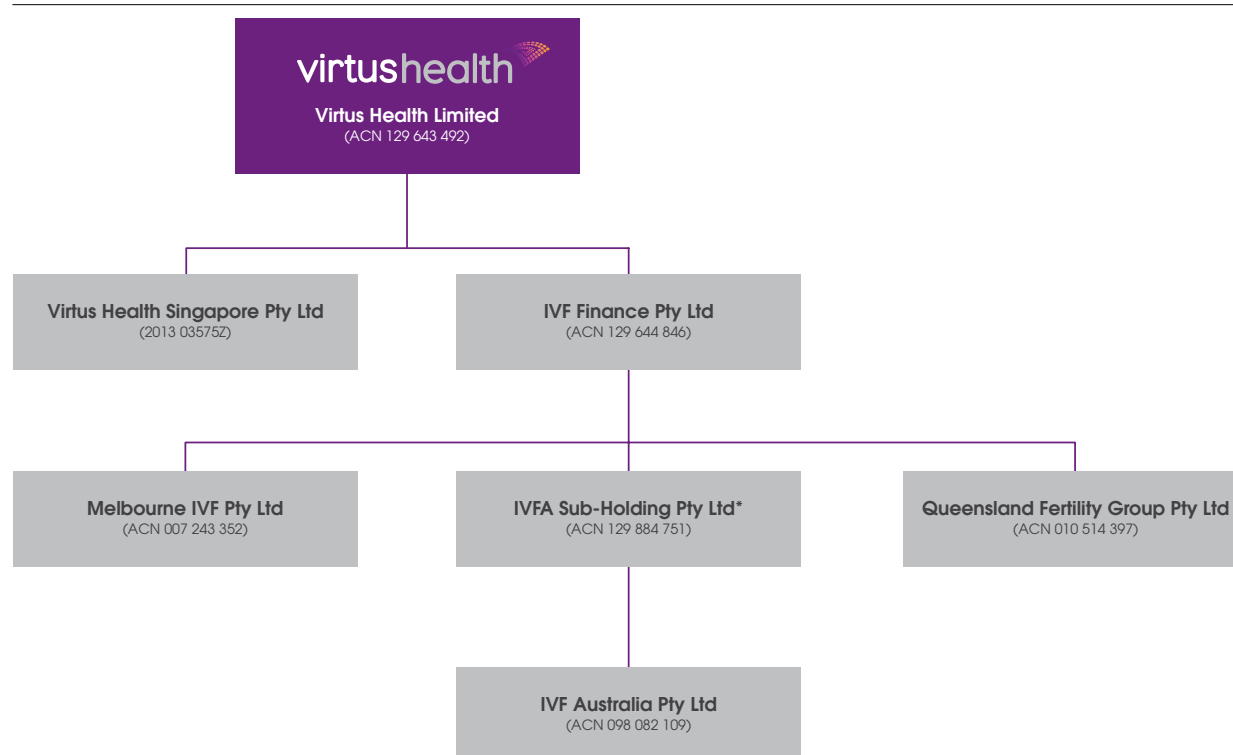
Virtus was registered in Victoria on 11 February 2008 as a private company limited by shares; it was converted to a public company limited by shares on 5 April 2013.

9.2 Company tax status

Virtus will be taxed as an Australian tax resident public company in Australia for the purposes of Australian income tax law.

9.3 Corporate structure

The following diagram shows a high level corporate structure of Virtus on Listing:



* IVFA Sub-Holding Pty Ltd will be deregistered and liquidated after Listing.

9.4 Sale of Existing Shares by Selling Shareholders

SaleCo, a special purpose vehicle, has been established to enable Selling Shareholders to realise all or a portion of their investment in Virtus. The Selling Shareholders have executed a deed poll in favour of, and for the benefit of, SaleCo under which they irrevocably offer to sell Existing Shares to SaleCo free from encumbrances and third party rights and conditional on Listing. The Selling Shareholders have agreed to sell 37.3 million Existing Shares to SaleCo.

The Existing Shares which SaleCo acquires from the Selling Shareholders will be transferred to successful applicants at the Offer Price. The price payable by SaleCo for these Existing Shares is the Offer Price. Virtus will also issue Shares to successful applicants under the Offer.

SaleCo is a special purpose vehicle which has no material assets, liabilities or operations other than its interests in and obligations under the Underwriting Agreement and deed poll described above. The sole director and shareholder of SaleCo is Peter Macourt, a non-executive Director of Virtus. Virtus has agreed to provide such resources and support as are necessary to enable SaleCo to discharge its functions in relation to the Offer and has indemnified SaleCo in respect of costs of the Offer. Virtus has indemnified SaleCo and the director of SaleCo for any loss which SaleCo or the director of SaleCo may occur as a consequence of the Offer.

9.5 Option plans

9.5.1 Treatment of options granted under existing plans

Virtus currently has in place equity incentive plans under which it has issued shares and granted options to executives and Fertility Specialists.

As noted in Section G of the Investment Overview, immediately prior to Listing the options granted under Virtus' existing equity incentive plans will be cancelled for cash or shares in Virtus equivalent to their net value (for each option generally being the sum of the Offer Price and other cancellation adjustments and payments less the exercise price of the option).

Accordingly, all pre-Listing equity incentive plans will no longer operate following Listing.

9.5.2 New option plans

Virtus has adopted two new option plans ("Plans") to assist in the reward, motivation and retention of personnel (including executive Directors, eligible employees and Fertility Specialists). The Plans are also designed to recognise the abilities, efforts and contributions of participants to Virtus' performance and success and provide the participants with an opportunity to acquire or increase their ownership interest in Virtus.

The Plans contemplate the grant of options over Shares. There is no ability for Virtus to provide any "cash equivalent" on exercise.

Virtus may offer additional incentive schemes to executive Directors, employees or Fertility Specialists over time.

Eligibility

Eligibility to participate in the Plans and the number of options offered to each individual participant, will be determined by the Board.

Grants of options

Senior executives and employees

It is expected that options may be granted to certain senior executives of Virtus on an annual basis as part of their annual remuneration review. Generally, Vesting Conditions attaching to grants of options made to senior executives will relate to the performance of Virtus over the performance period as well as continued employment. Options may also be granted to other Virtus employees from time to time subject to consideration by the Board.

It is proposed that Sue Channon and Glenn Powers will be granted options under this Prospectus at or around the time of Listing. The key terms and conditions attaching to that grant of options are set out in Section 9.5.3.2 below. The Remuneration Committee will determine the conditions attaching to any future grants of options to Virtus senior executives or other employees.

Fertility Specialists

As has been the case before Listing, it is expected that options will be granted on an annual basis to existing Fertility Specialists who achieve a benchmark level of IVF Cycles above a base or adjusted base number of IVF cycles completed in one of the financial years ending after June 2008. The initial benchmark level for new fertility specialists is 50 IVF Cycles and subsequent benchmark levels are at each 50 cycle increment thereafter.

A small number of Fertility Specialists have recently commenced a contractual relationship with Virtus and therefore have not been able to complete a number of cycles over a previous 12 month period. To trigger a grant of options, the initial benchmark level for these specialists is 50 IVF Cycles over 100 IVF Cycles (ie. 150 IVF Cycles). Options will also be granted at each 50 cycle increment thereafter.

In addition, consistent with the practice pre-Listing, it is expected that options will also be granted to new Fertility Specialists upon commencing a contractual relationship with Virtus post-Listing.

The key terms and conditions to these option grants are set out in Section 9.5.3.1.

Vesting Conditions

Options will vest and become exercisable to the extent that the applicable performance, service, or other Vesting Conditions specified at the time of the grant are satisfied. Vesting Conditions may include conditions relating to continuous employment or service, the individual performance of the participant in the Plans or Virtus' performance.

The Board has the discretion to set the terms and conditions on which it will offer options under the Plans, including the Vesting Conditions and different terms and conditions which apply to different participants in a Plan.

Upon the satisfaction of the Vesting Conditions and any other conditions to exercise, each option will convert to a number of Shares based on the terms of issue of the options. Options granted to employees (including executive Directors) will typically convert on a one-for-one basis whereas options granted to Fertility Specialists will typically convert into a variable number of Shares having regard, among other things, to the difference between the market price of Shares at the time of grant and at the time of exercise.

Participants may be required to pay an exercise price to exercise the options which may be based on the market price of Shares at or around the time of the grant of the options. The Plans also include flexibility to allow Virtus to grant options with no exercise price. Participants will not need to pay any money to be granted options under the Plans.

Ranking of Shares

Shares issued upon exercise of options granted under the Plans will rank equally with the other issued Shares.

Voting and dividend rights

Options do not carry any voting or dividend rights. Shares issued or transferred to participants on exercise of an option carry the same rights and entitlements as other issued Shares, including dividend and voting rights.

Approval

Grants of options under the Plans to Directors may be subject to the approval of Shareholders, to the extent required under the ASX Listing Rules.

Issue or acquisition of Shares

Shares allocated to participants in the Plans on the exercise of options may be issued by Virtus or acquired on or off market by Virtus or its nominee. Virtus may appoint a trustee to acquire and hold Shares on behalf of participants or otherwise for the purposes of the Plans.

No transfer of options

Without the prior approval of the Board, options may not be sold, transferred, encumbered or otherwise dealt with. Further, participants cannot enter into any transaction, scheme or arrangement which hedges or otherwise affects the participant's economic exposure to the options before they vest.

Lapse of options

Options will lapse if the applicable Vesting Conditions and any other conditions to exercise are not met during the prescribed period or if they are not exercised before the applicable expiry date.

Quotation

Options will not be quoted on ASX. Virtus will apply for official quotation of any Shares issued under the Plans, in accordance with the ASX Listing Rules.

Capital limit

Subject to the rules of the Plans, the Board must not offer options if making the Offer would breach the 5% capital limit on the issue of shares as set out in ASIC Class Order 03/184 in relation to employee share schemes.

Cessation of employment or contractual relationship

The Plans contain provisions concerning the treatment of vested and unvested options in the event a participant ceases employment or their appointment as a Director or they cease being contracted with Virtus as a Fertility Specialist.

Unvested options

In relation to employees, unless the Board determines otherwise:

- if an employee is a "good leaver" (e.g. they cease employment by reason of death, serious disability or permanent incapacity or they cease employment in circumstances other than for cause), a portion of the unvested options held by that employee upon cessation will lapse according to a formula which takes into account the length of time the participant has held the option and the performance period for the option; and
- if an employee is a "bad leaver" (e.g. they cease employment for cause) the unvested options held by that employee upon cessation will automatically lapse.

In relation to Fertility Specialists, the unvested options held by a Fertility Specialist upon cessation will automatically lapse, unless that Fertility Specialist is a "good leaver", in which case the Board may, in its absolute discretion, determine that some or all of the Fertility Specialist's unvested options will not lapse and/or may vest on such date determined by the Board.

Vested options

Any vested options held either by an employee or a Fertility Specialist must be exercised within 28 days of the participant ceasing employment or ceasing to be contracted to Virtus (as applicable), after which time any unexercised options will lapse.

Change of control of Virtus

The Board has the discretion to allow for vesting of options if certain extraordinary events occur such as of a change of control or winding-up of Virtus.

Costs and administration

Virtus must bear any costs incurred in the administration of the Plans.

Other terms of the Plans

The Plans also contain customary and usual terms having regard to Australian law for dealing with administration, variation and termination of the Plans.

9.5.3 Key terms of options

9.5.3.1 Grants of options to Fertility Specialists

As noted above, it is expected that options will be granted on an annual basis to Fertility Specialists who meet the performance criteria described above in Section 9.5.2.

Key terms and conditions of options granted to Fertility Specialists

Vesting / Exercise Conditions	For existing Fertility Specialists, options will generally vest equally in three tranches on the third, fourth and fifth anniversary of the grant of the options, conditional upon the Fertility Specialist performing a number of IVF Cycles in the immediately preceding year not less than 75% of the relevant benchmark in the year pursuant to which the options were awarded. For Fertility Specialists who join Virtus post-Listing, options will generally vest equally in three tranches on the third, fourth and fifth anniversary of the grant of the options, subject to: - the Fertility Specialist achieving the relevant benchmark (currently 50 IVF Cycles) in a 12 month period during the two years post commencement of the contractual relationship with Virtus and concurrent grant of options; and - the Fertility Specialist then achieving a number of IVF Cycles in the year before the relevant vesting date that is not less than 75% of the benchmark number. In addition, an option may not be exercised unless it is “in the money” (i.e. if the Share price at the relevant time is greater than the Share price at the time of the option grant).
Exercise price	Fertility Specialists will not need to pay an exercise price to exercise the options.
Number and offer value	If the applicable vesting and exercise conditions are met, the options will be exercisable into a variable number of Shares as indicated below. For FY2013, the offer value (at the time of grant of the options) will be equal to \$258,000. In subsequent years, the offer value will be determined by the Board and any increase in value may reflect any increase in provider fees per IVF Cycle from the FY2013 level. The offer value for Fertility Specialists who commence a contractual relationship with Virtus post-Listing will be determined by the Board having regard to a number of factors including the offer value applied to options granted to other Fertility Specialists in that year. The value of the options granted to the Fertility Specialist will depend on the prevailing Share price at the time of exercise and accordingly the value at that time may be less than or greater than the offer value.
Number of Shares to be delivered on exercise of options	Options will be granted in three separate tranches reflecting vesting on the third, fourth and fifth anniversary of grant. For example, in respect of the first tranche, the number of Shares to be delivered on exercise of an option will be determined as follows: $\text{Shares} = \frac{\text{Base Position} \times A}{B}$ rounded up to the nearest Share. Where: Base Position = the applicable component of the offer value attributable to the first tranche (i.e. one third of the offer value) divided by the Share price at the time the option is granted. A = the amount of the increase in the Share price between the date of grant and the vesting date. B = the Share price at the date of vesting.

Key terms and conditions of options granted to Fertility Specialists

Number of Shares to be delivered on exercise of options

continued

Worked example

Assuming that:

- the applicable component of the offer value is \$86,000;
- the Share price at the date of the option grant \$5.68;
- the Share price at the date of vesting is \$7.00; and
- the Fertility Specialist satisfies the Vesting Conditions.

On the basis of these figures:

Base Position = 15,141 (i.e. \$86,000/5.68)

A = 1.32 (i.e. 7.00 – 5.68)

B = 7.00

The number of Shares to be provided on exercise of the first tranche would be calculated as:

$$\begin{aligned} \text{Shares} &= \frac{15,141 \times 1.32}{7.00} \\ &= 2,586 \text{ Shares} \end{aligned}$$

Escrow arrangements

Where a Fertility Specialist receives Shares upon exercise of an option, 12.5% of these Shares will be escrowed until the Fertility Specialist reaches the age of 63. A further 12.5% will be escrowed until the Fertility Specialist retires and transitions their practice to the satisfaction of the Board.

These Shares or a portion of them may be released earlier than these scheduled dates in the following circumstances:

- where a Fertility Specialist becomes a “relocated leaver” (as described in Section 7.6), five years after the date that they become a “relocated leaver; or
- where a Fertility Specialist dies, or leaves Virtus as a result of becoming permanently disabled or seriously disabled on the date of the relevant occurrence (as resolved by the Board acting reasonably); or
- to fund a liability for tax arising in respect of the escrowed Shares; or
- if the Board determines to release the Shares from escrow earlier.

9.5.3.2 Offer of options to Sue Channon and Glenn Powers

It is proposed that Sue Channon and Glenn Powers will be offered options under this Prospectus at or around the time of Listing as part of their long-term incentive arrangements. The maximum number of options proposed to be offered under this Prospectus to Sue Channon is 262,500 and to Glenn Powers is 150,000. The key terms of those options are outlined below. Sue Channon and Glenn Powers will not need to pay any money to be granted these options.

Key terms and conditions of options offered to Sue Channon and Glenn Powers

Vesting/Exercise Conditions

The options to be granted to Sue Channon and Glenn Powers will be granted in two tranches, with each tranche subject to two separate Vesting Conditions which are both based on external measures as follows:

- The hurdle for 50% of the options will be based on a Share price hurdle which measures the growth in Virtus’ Share price over a three year performance period. The number of options that vest will depend on the share price growth (“SPG”) of Shares over the performance period. The SPG is determined by subtracting the Share price at the beginning of the performance period from the Share price at the end of the performance period, and dividing that figure by the Share price at the beginning of the performance period. No options will vest at growth below 15%, 50% will vest at 15% growth and vesting thereafter will be determined on a straight line scale with 100% vesting at 50% growth.

Key terms and conditions of options offered to Sue Channon and Glenn Powers *continued*

Vesting/Exercise Conditions

continued

- The hurdle for the remaining 50% of the options will be based on Virtus' total shareholder return ("TSR") relative to a peer group of companies in both the S&P ASX 300 Index and the S&P ASX 300 Healthcare Index (weighted 50% each) over the three year performance period. No options will vest if the TSR performance is less than the 50th percentile. 50% of the options will vest at median (i.e. the 50th percentile). TSR performance and vesting thereafter will be determined on a straight line scale with 100% vesting if the TSR performance is greater than or equal to the 75th percentile. TSR is a measure of the return on investment in a company's shares, including dividends and all other returns to shareholders notionally invested over the relevant performance period.

The performance hurdles for each tranche of options are not interdependent, meaning that it is possible for one tranche to vest while the other does not vest. In each case, the performance hurdles will only be measured once and there will be no retesting. Importantly, no value will be received by Sue Channon or Glenn Powers if the performance hurdles are not met and the options do not vest.

The vesting of the options is also subject to continued service by the relevant executive over the relevant performance period. The treatment for vested and unvested options on cessation of employment is outlined in Section 9.5.2.

Exercise price	Sue Channon and Glenn Powers will need to pay an exercise price to exercise any vested options. The exercise price per option for this initial grant is the Offer Price (being \$5.68).
Number of options	For Sue Channon 262,500 options and for Glenn Powers 150,000 options.
Number of shares to be delivered on exercise of option	Each option is exercisable into one Share, subject to adjustments in accordance with the ASX Listing Rules for certain capital actions.

Shareholder approval requirements

Virtus has sought a waiver from the requirement under the ASX Listing Rules to obtain shareholder approval in relation to the offer of options to Sue Channon through this Prospectus. This waiver is conditional on:

- the options being issued to Sue Channon no later than 3 months from the date of Virtus' admission to the official list of ASX;
- the information required by ASX Listing Rule 10.15 being disclosed in this Prospectus; and
- details of any options granted to Sue Channon under the Plans being published in each annual report of Virtus relating to a period in which the options were granted.

Future grants of options under the Plan to Directors may require shareholder approval. Currently, Sue Channon (together with Lyndon Hale) is the only Director who is eligible to participate in the Plan.

9.6 Dividend reinvestment plan

The Directors have approved a Dividend Reinvestment Plan ("DRP"). The Directors have determined not to activate the DRP at the date of this Prospectus, and will monitor when it may be appropriate to activate the DRP.

The rules of the DRP are typical of a DRP operated by an ASX-listed company. Shareholders who elect to participate in the DRP will be able to reinvest the dividends they are entitled to receive in Shares rather than receiving those dividends in cash. Shareholders may choose to participate in the DRP in respect of some or all of their Shares, although the Directors may specify a minimum and/or maximum number of shares that are required to be held in order to participate.

The Board may choose to enter into underwriting arrangements from time to time for the partial or full underwriting of any shortfall in the DRP take-up with respect to a particular dividend.

The DRP may be varied, terminated, suspended or recommenced by the Board at any time, according to the rules of the DRP.

A Shareholder may not be eligible to participate in the DRP if the Board considers that their participation is unlawful, impractical or would require compliance with conditions that the Board considers unduly onerous. If and when the DRP is activated, a copy of the rules of the DRP will be made available to Shareholders in advance of the record date for the first dividend payable by Virtus after the activation of the DRP, and a copy of the rules of the DRP will be made available on Virtus' website.

9.7 Underwriting Agreement

Along with the Underwriting Agreement, summarised below, the Directors consider that there are a number of contracts which are significant or material to Virtus or of such a nature that an investor may wish to have details of them when making an assessment of whether to apply for Shares. Summaries for material contracts set out in this Prospectus (including the summary of the Underwriting Agreement set out below), do not purport to be complete and are qualified by the text of the contracts themselves.

The Offer is being underwritten by the Joint Lead Managers pursuant to an underwriting agreement, dated 16 May 2013, between the Joint Lead Managers, Virtus and SaleCo ("Underwriting Agreement"). Under the Underwriting Agreement, the Joint lead Managers have agreed to arrange, manage and underwrite the Offer.

For the purpose of this Section 9.7, "Offer Documents" includes any of the following documents issued or published by, or on behalf of, and with the authorisation of, Virtus and SaleCo in respect of the Offer, and in the form agreed by the Joint Lead Managers:

- this Prospectus, the Application Form and any supplementary prospectus;
- the pathfinder version of this Prospectus that was provided to Institutional Investors, Co Managers and Brokers prior to the lodgement of this Prospectus with ASIC; and
- the marketing, roadshow presentation and/or ASX announcement(s) used by or on behalf of Virtus to conduct the Offer.

Commissions, fees and expenses

Virtus and SaleCo have agreed to pay the Joint Lead Managers an underwriting fee equal to 2.0% and a management fee and selling fee equal to 1.0% of the funds raised under the Offer. The underwriting, management and selling fees will become payable by Virtus and SaleCo on the date of settlement of the Offer and will be paid to the Joint Lead Managers in equal proportions.

Virtus and SaleCo may also pay an incentive fee to the Joint Lead Managers of up to 0.5% of the funds raised under the Offer. Payment of the incentive fee is at Virtus and SaleCo's absolute discretion and may be paid to one Joint Lead Manager and not the other or to a Joint Lead Manager in a different amount to the other Joint Lead Manager. If Virtus and SaleCo elect to pay the incentive fee, it will become payable by Virtus and SaleCo on the date of settlement of the Offer.

In addition to the fees described above, Virtus and SaleCo have agreed to reimburse the Joint Lead Managers for certain agreed costs and expenses incurred by the Joint Lead Managers in relation to the Offer.

Termination events

A Joint Lead Manager may, at any time after the date of the Underwriting Agreement and on or before the date of issue of Shares under the Offer (without any cost or liability by notice to Virtus, SaleCo and the other Joint Lead Manager), if any of the following events occur:

- in the reasonable opinion of that Joint Lead Manager, a statement in any Offer Document or any announcements, documents and other statements made by, or on behalf of and with the knowledge and consent of Virtus, SaleCo or any other member of the Group, in relation to the business or affairs of Virtus, SaleCo or the Group or the Offer is misleading or becomes misleading or deceptive or is likely to mislead or deceive, or a matter required to be included is omitted from an Offer Document;
- a new circumstance arises after lodgement of this Prospectus that would have been required to be included in this Prospectus if it had arisen before lodgement and in the reasonable opinion of that Joint Lead Manager is materially adverse from the point of view of an investor;
- Virtus and SaleCo are, in the reasonable opinion of the Joint Lead Manager, required by section 719 of the Corporations Act, and fail to lodge, a supplementary prospectus with ASIC within the required time period reasonably required by the Joint Lead Managers and in a form approved in writing by the Joint Lead Manager;
- the S&P / ASX 200 Index falls to a level that is 90% or less of the level as at the close of trading on 16 May 2013 and is at or below that level at the close of trading (i) for three consecutive business days during any time after the date of the Underwriting Agreement; or (ii) on the business day immediately before the date of settlement of the Offer;
- any of the escrow deeds entered into by the Existing Shareholders is withdrawn, varied, terminated, rescinded, altered, amended or breached or there is a failure to comply with any of them;
- the deed poll in favour of SaleCo entered into by each Selling Shareholder under which the Selling Shareholder irrevocably offers to sell a number of its Shares to SaleCo conditional on Virtus' listing is withdrawn, varied, terminated, rescinded, altered, amended or breached or there is a failure to comply with any of them;
- Virtus, SaleCo or any of their respective directors or officers engage, or have engaged since the date of the Underwriting Agreement, in any fraudulent conduct or activity, whether or not in connection with the Offer;
- approval (or approval subject to customary conditions) is refused or not granted to Virtus' admission to the official list of the ASX or to official quotation of the Shares within the specified timeframe, or ASX withdraws, qualifies (other than by customary conditions) or withholds such approval;
- any of the following notifications are made in respect of the Offer:
 - › ASIC issues an order (including an interim order) under section 739 of the Corporations Act;
 - › ASIC holds a hearing under section 739(2) of the Corporations Act;
 - › an application is made by ASIC for an order under Part 9.5 in relation to the Offer or an Offer Document or ASIC commences any investigation or hearing under Part 3 of the ASIC Act in relation to the Offer or an Offer Document;
 - › any person (other than the Joint Lead Managers) who has previously consented to the inclusion of its name in any Offer Document withdraws that consent; or
 - › any person (other than the Joint Lead Managers) gives a notice under section 730 of the Corporations Act in relation to an Offer Document;

- Virtus or SaleCo does not provide a closing certificate as and when required by the Underwriting Agreement;
- Virtus or SaleCo withdraws an Offer Document or the Offer or indicates that it does not intend to proceed with the Offer or any part of the Offer;
- any member of the Group becomes insolvent, or there is an act or omission which is likely to result in a member of the Group becoming insolvent;
- an event specified in the timetable up to and including the date of settlement is delayed by more than 3 business days (other than any delay agreed between the Virtus, SaleCo and the Joint Lead Managers or required as a result of ASIC extending the period under section 727(3) of the Corporations Act);
- Virtus is prevented from transferring or issuing (as applicable) new Shares, or SaleCo is prevented from transferring the relevant Existing Shares, within the time required by the timetable, the Offer Documents, the ASX Listing Rules, by applicable laws, an order of a court of competent jurisdiction or a governmental authority;
- Virtus (without the prior written consent of the Joint Lead Managers):
 - › alters the issued capital of Virtus or a member of the Group; or
 - › disposes or attempts to dispose of a substantial part of the business or property of Virtus or a member of the Group,
- a regulatory body withdraws, revokes or amends any regulatory approvals required for Virtus or SaleCo to perform their obligations under the Underwriting Agreement or to carry out the transactions contemplated by the Offer Documents;
- there is an event or occurrence, including any statute, order, rule, regulation, directive or request (including one compliance with which is in accordance with the general practice of persons to whom the directive or request is addressed) of any governmental agency which makes it illegal for the Joint Lead Manager to satisfy an obligation under the Underwriting Agreement, or to market, promote or settle the Offer;
- there is a change in senior management or the board of directors of Virtus or SaleCo;
- the chairman, CEO or CFO of Virtus vacates his or her office; or
- any of the following occur:
 - › a director or proposed director named in the Prospectus of Virtus or SaleCo is charged with an indictable offence relating to any financial or corporate matter or is disqualified from managing a corporation under sections 206B, 206C, 206D, 206E or 206F of the Corporations Act;
 - › any governmental agency commences any public action against Virtus or SaleCo or any of their respective directors in their capacity as a director of Virtus or SaleCo (as applicable), or announces that it intends to take action; or
 - › any director or proposed director named in the Prospectus of Virtus or SaleCo is disqualified from managing a corporation under Part 2D.6.

Termination events subject to materiality

A Joint Lead Manager may, at any time after the date of the Underwriting Agreement and on or before the issue of Shares under the Offer (without any cost or liability by notice to Virtus, SaleCo and the other Joint Lead Manager), if any of the following events occur and the Joint Lead Manager has reasonable grounds to believe the event (i) has or is likely to have a material adverse effect on the success, settlement or marketing of the Offer, or on the ability of the Joint Lead Manager to market, promote or settle the Offer, or on the likely price Shares will trade at on ASX following the Offer or the willingness of investors to subscribe for Shares; or (ii) will, or is likely to, give rise to a liability of the Joint Lead Manager under, or a contravention by the Joint Lead Manager or its affiliates being involved in a contravention of, any applicable law:

- any forecast that appears in an Offer Document is or becomes incapable of being met in the projected time (including financial forecasts);
- the due diligence report or verification material provided by or on behalf of Virtus or SaleCo to the Joint Lead Managers in relation to the Group or the Offer is (or is likely to), or becomes (or becomes likely to be), misleading or deceptive, including by way of omission;
- any adverse change occurs in the assets, liabilities, financial position or performance, profits, losses or prospects of Virtus and the Group (insofar as the position in relation to an entity in the Group affects the overall position of Virtus), including any adverse change in the assets, liabilities, financial position or performance, profits, losses or prospects of Virtus or the Group from those respectively disclosed in any Offer Document or any announcements, documents and other statements made by, or on behalf of and with the knowledge and consent of Virtus, SaleCo or any other member of the Group, in relation to the business or affairs of Virtus, SaleCo or the Group or the Offer;
- a new law is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any state or territory of Australia a new law, or the Reserve Bank of Australia, or any Commonwealth or state authority, including ASIC, adopts or announces a proposal to adopt a new policy (other than a law or policy which has been announced before the date of this agreement);
- there is a contravention by Virtus, SaleCo or any other member of the Group of the Corporations Act, the Competition and Consumer Act 2010 (Cth), the Australian Securities and Investments Commission Act 2001 (Cth) (or any regulations under those acts), Virtus or SaleCo's constitutions, or any of the ASX Listing Rules or any other applicable law or regulation;
- any of the Offer Documents or any aspect of the Offer does not comply with the Corporations Act (and all regulations under that act) or the ASX Listing Rules;

- a representation, warranty, undertaking or obligation contained in the Underwriting Agreement on the part of Virtus or SaleCo is breached, becomes not true or correct or is not performed;
- Virtus or SaleCo defaults on one or more of its obligations under the Underwriting Agreement;
- Virtus varies any term of its constitution without the prior written consent of the Joint Lead Managers;
- legal proceedings against Virtus, SaleCo, any other member of the Group or against any Director, or any director of SaleCo or any other member of the Group in that capacity are commenced or any regulatory body commences an enquiry or public action against a member of the Group;
- any information supplied by or on behalf of a member of the Group to the Joint Lead Managers in respect of the Offer or the Group is, or is found to be, misleading or deceptive, or likely to mislead or deceive (including, by omission);
- hostilities not presently existing at the date of the Underwriting Agreement commence (whether war has been declared or not) or a major escalation in existing hostilities occurs (whether war has been declared or not) involving any one or more of Australia, New Zealand, the United States, Canada, Japan, the United Kingdom, The People's Republic of China, South Korea, Israel, Singapore, or any member state of the European Union, or a major terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries;
- a statement in a closing certificate is false, misleading, inaccurate or untrue or incorrect;
- any of the following occurs (i) a general moratorium on commercial banking activities in Australia, New Zealand, Canada, The People's Republic of China, Japan, Singapore, Hong Kong, Russia, the United Kingdom, the United States or a Member State of the European Union is declared by the relevant central banking authority in those countries, or there is a disruption in commercial banking or security settlement or clearance services in any of those countries; (ii) any adverse effect on the financial markets in Australia, New Zealand, Japan, Canada, The People's Republic of China, Singapore, Hong Kong, the United Kingdom, the United States or a Member State of the European Union, or in foreign exchange rates or any development involving a prospective change in political, financial or economic conditions in any of those countries; or (iii) trading in all securities quoted or listed on ASX, the New Zealand Stock Exchange, New York Stock Exchange, London Stock Exchange, Hong Kong Stock Exchange or the Tokyo Stock Exchange is suspended or limited in a material respect for one day (or a substantial part of one day) on which that exchange is open for trading.

Conditions, warranties, undertakings and other terms

The Underwriting Agreement contains certain standard representations, warranties and undertakings by Virtus and SaleCo to the Joint Lead Managers (as well as common conditions precedent, including the entry into a voluntary escrow deed by certain of the Existing Shareholders, a deed poll in favour of SaleCo being executed by or on behalf of each Selling Shareholder, and ASIC and ASX granting the waivers and modifications necessary to enable the Offer to proceed in accordance with the timetable).

The representations and warranties given by Virtus and SaleCo relate to matters such as conduct of Virtus and SaleCo, power and authorisations, information provided by Virtus and SaleCo, financial information, information in this Prospectus, the conduct of the Offer, compliance with laws, ASX Listing Rules and other legally binding requirements. Virtus also provides additional representations and warranties in connection with matters including in relation to its assets, litigation, non-disposal of escrowed shares, entitlements of third parties, tax, insurance, authorisations, eligibility for Listing and internal accounting controls.

Virtus' undertakings include that it will not, during the period following the date of the Underwriting Agreement until 120 days after Shares have been issued under the Offer, issue any Shares or securities without the consent of the Joint Lead Managers (any consent not to be unreasonably withheld or delayed), subject to certain exceptions. These exceptions include an issue of securities pursuant to an employee share plan or option plan described in the pathfinder version of this Prospectus, a non underwritten dividend reinvestment or bonus share plan described in the pathfinder version of this Prospectus or a proposed transaction fully and fairly disclosed in the pathfinder version of this Prospectus.

Indemnity

Subject to certain exclusions relating to, among other things, fraud or wilful misconduct of an indemnified party, Virtus and SaleCo agree to keep the Joint Lead Managers and certain affiliated parties indemnified from losses suffered in connection with the Offer.

9.8 Consents to be named and to inclusion of statement and disclaimers of responsibility

Each of the parties listed in this Section 9.8 (each a Consenting Party), to the maximum extent permitted by law, expressly disclaims all liabilities in respect of, makes no representations regarding and takes no responsibility for any statements in or omissions from this Prospectus, other than the reference to its name in the form and context in which it is named and a statement or report included in this Prospectus with its consent as specified below.

Each of the parties listed below has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to the inclusion of the statements in this Prospectus that are specified below in the form and context in which the statements appear:

- each of Morgan Stanley and UBS has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as Joint Lead Managers in the form and context in which they are named;

- King and Wood Mallesons has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as Australian legal adviser to Virtus in relation to the Offer in the form and context in which it is named;
- PwCS has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as Investigating Accountant on Historical and Forecast Financial Information in the form and context in which it is named and has given and not withdrawn its consent to the inclusion in this Prospectus of its Investigating Accountants' Report in the form and context in which it is included;
- PwC has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as auditor to Virtus in the form and context in which it is named;
- Link Market Services Ltd has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as the Share Registry in the form and context in which it is named. Link Market Services Ltd has had no involvement in the preparation of any part of this Prospectus other than being named as Share Registry to Virtus;
- each of CBA Equities Limited, RBS Morgans Limited, UBS Wealth Management Australia Limited, Bell Potter Securities Limited and Morgan Stanley Wealth Management Australia Pty Limited has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as Co Managers in the form and context in which they are named. CBA Equities Limited, RBS Morgans Limited, UBS Wealth Management Australia Limited, Bell Potter Securities Limited and Morgan Stanley Wealth Management Australia Pty Limited have had no involvement in the preparation of any part of this Prospectus other than being named as Co Managers; and
- Australian Institute of Health and Welfare has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to the inclusion in this Prospectus of statements by it, including the statements specifically attributed to it in the text of, and by a footnote in, this Prospectus in the form and context in which they are included. Australian Institute of Health and Welfare has had no involvement in the preparation of any part of this Prospectus.

9.9 Litigation and claims

Virtus may be involved from time to time in disputes or claims of medical indemnity or similar claims and litigation with current or former patients. These disputes may lead to legal and other proceedings, and may cause Virtus to suffer additional costs. Virtus' subsidiary, Melbourne IVF is currently involved in a claim in the Victorian Supreme Court, AX & BX v Melbourne IVF (S CI 2008 08701) which involves a negligence claim against Melbourne IVF and a Fertility Specialist in relation to a child born with downs syndrome. Melbourne IVF's insurers have granted Melbourne IVF indemnity for all costs in relation to the proceedings (after the \$100,000 insurance deductible has been exhausted).

9.10 Taxation considerations

The following comments provide a general summary of Australian tax issues for Australian tax resident Shareholders who acquire Shares under this Prospectus.

The categories of Shareholders considered in this summary are limited to individuals, companies (other than life insurance companies), trusts, partnerships and complying superannuation funds that hold their shares on capital account.

This summary does not consider the consequences for non-Australian tax resident Shareholders, or insurance companies, banks, Shareholders that hold their Shares on revenue account or carry on a business of trading in shares or Shareholders who are exempt from Australian tax. This summary also does not cover the consequences for Shareholders who are subject to Division 230 of the Income Tax Assessment Act 1997 (the Taxation of Financial Arrangements or "TOFA" regime). Shareholders who are subject to TOFA should obtain their own tax advice as to the implications under the TOFA regime (if any).

This summary is based on the law in Australia in force at the time of issue of this Prospectus. Australian tax laws are complex. It also does not take into account the tax law of countries other than Australia. This summary is general in nature and is not intended to be an authoritative or complete statement of the applicable law. The taxation laws of Australia or their interpretation may change. The precise implications of ownership or disposal will depend upon each Shareholder's specific circumstances.

Shareholders should seek professional advice on the taxation implications of holding or disposing of the Shares, taking into account their specific circumstances.

9.10.1 Dividends on a Share

9.10.1.1 Australian resident individuals and complying superannuation entities

Where dividends on a Share are distributed by Virtus, those dividends will constitute assessable income of an Australian tax resident Shareholder. Australian tax resident Shareholders who are individuals or complying superannuation entities should include the dividend in their assessable income in the year the dividend is paid, together with any franking credit attached to that dividend. Such Shareholders should be entitled to a tax offset equal to the franking credit attached to the dividend subject to being a "qualified person" (refer further comments below). The tax offset can be applied to reduce the tax payable on the Shareholder's taxable income. Where the tax offset exceeds the tax payable on the Shareholder's taxable income, such Shareholders should be entitled to a tax refund.

Where a dividend paid by the Company is unfranked, the Shareholder will generally be taxed at his or her prevailing marginal rate on the dividend received with no tax offset.

9.10.1.2 Corporate Shareholders

Corporate Shareholders are also required to include both the dividend and associated franking credit in their assessable income. A tax offset is then allowed up to the amount of the franking credit on the dividend.

An Australian resident corporate Shareholder should be entitled to a credit in its own franking account to the extent of the franking credit on the dividend received. Such corporate Shareholders can then pass on the benefit of the franking credits to its own shareholder(s) on the payment of dividends.

Excess franking credits received cannot give rise to a refund, but may be able to be converted into carry forward tax losses.

9.10.1.3 Trusts and partnerships

Shareholders who are trustees (other than trustees of complying superannuation entities) or partnerships should include the franking credit in determining the net income of the trust or partnership. The relevant beneficiary or partner may be entitled to a tax offset equal to the beneficiary's or partner's share of the net income of the trust or partnership.

9.10.1.4 Shares held at risk

The benefit of franking credits can be denied where a Shareholder is not a "qualified person" in which case the Shareholder will not be able to include an amount for the franking credits in their assessable income and will not be entitled to a tax offset.

Broadly, to be a qualified person, a Shareholder must satisfy the holding period rule and, if necessary, the related payment rule.

The holding period rule requires a Shareholder to hold the Shares "at risk" for more than 45 days continuously, measured as the period commencing the day after the Shareholder acquires the Shares and ending on the 45th day after the Shares become ex-dividend. The date the Shares are acquired and disposed of are ignored for the purposes of determining the 45 day period. Any day on which a Shareholder has a materially diminished risk or loss of opportunity for gain (through transactions such as granting options or warrants over Shares or entering into a contract to sell the Shares) will not be counted as a day on which the Shareholder held the Shares "at risk". This holding period rule is subject to certain exceptions, including where the total franking offsets of an individual in a year of income do not exceed A\$5,000. Special rules apply to trusts and beneficiaries. On 14 May 2013, the Commonwealth Government announced changes that will apply to "dividend washing" arrangements and the amendments are proposed to be made through the 45 day 'holding period rules'. No legislation has yet been released in respect of this change. Shareholders should consider the impact of this proposed change given their own personal circumstances.

Under the related payment rule, a different testing period applies where the Shareholder has made, or is under an obligation to make, a related payment in relation to a dividend. The related payment rule requires the Shareholder to have held the Shares at risk for a period commencing on the 45th day before, and ending on the 45th day after the day the Shares become ex-dividend. Practically, this should not impact Shareholders who do not pass the benefit of a dividend to another person. Shareholders should obtain their own tax advice to determine if these requirements have been satisfied.

9.10.2 Disposal of Shares

The disposal of a Share by a Shareholder will be a capital gains tax ("CGT") event. A capital gain will arise where the capital proceeds on disposal exceed the cost base of the Share (broadly, the amount paid to acquire the Share plus any transaction costs). In the case of an arm's length on-market sale, the capital proceeds will generally be the cash proceeds from the sale.

A CGT discount may be applied against the net capital gain where the Shareholder is an individual, complying superannuation entity or trustee, the Shares have been held for more than 12 months and certain other requirements have been met. Where the CGT discount applies, any capital gain arising to individuals and entities acting as trustees (other than a complying superannuation entity) may be reduced by one half after offsetting current year or prior year capital losses. For a complying superannuation entity, any capital gain may be reduced by one third, after offsetting current year or prior year capital losses.

A capital loss will be realised where the reduced cost base of the Share exceeds the capital proceeds from disposal. Capital losses may only be offset against capital gains realised by the Shareholder in the same income year or future income years, subject to certain loss recoupment tests being satisfied. Capital losses cannot be offset against other assessable income.

9.10.3 Goods and Services Tax

Investors should not be liable for GST in respect of their investment in Shares. Investors may not be entitled to claim full input tax credits in respect of any GST paid on costs incurred in connection with their acquisition of the Shares. Separate GST advice should be sought by investors in this respect.

9.10.4 Stamp duty

Investors should not be liable for stamp duty in respect of their investment in Shares. Under current stamp duty legislation, no stamp duty would ordinarily be payable by Shareholders on any subsequent transfer of Shares.

9.10.5 Tax file numbers

A Shareholder is not required to quote their tax file number ("TFN") to Virtus. However, if a valid TFN or exemption details are not provided, Australian tax will be required to be deducted by Virtus from distributions and/or dividends at the maximum marginal tax rate plus the Medicare levy. A Shareholder that holds Shares as part of an enterprise may quote their Australian Business Number instead of their TFN. Non-residents are exempt from this requirement.

9.11 Costs of the Offer

The costs of the Offer are expected to be approximately \$17.3 million. These costs will be borne by Virtus from the proceeds of the Offer.

9.12 Privacy

By making an application for Shares, you are providing personal information to Virtus and SaleCo through Virtus' service provider, the Share Registry, which is contracted by Virtus to manage applications. Virtus, SaleCo and the Share Registry on their behalf, collect, hold and use that personal information to process your application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration. If you do not provide information requested, Virtus, SaleCo and the Share Registry may not be able to process or accept your application. By submitting an application, each applicant agrees that Virtus, SaleCo and the Share Registry may use the information provided by an applicant (including in an Application Form) for the purposes set out in this privacy disclosure statement and may disclose it for those purposes to Virtus and to Virtus' other related bodies corporate, the Joint Lead Managers, agents, contractors and third party service providers, including mailing houses and professional advisers, and to ASX and other regulatory authorities.

The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Share Registry for ongoing administration of the Shareholder register;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- market research companies for the purpose of analysing Virtus' shareholder base and for product development and planning; and
- legal firms, accounting firms, auditors, contractors, consultants and other advisers,

for the purpose of administering, and advising on, the Shares and for associated actions. If an applicant becomes a Shareholder, the Corporations Act requires the Group to include information about the Shareholder (including the name, address and details of the Shares held) in its public register of members. The information contained in Virtus' register of members must remain there even if that person ceases to be a Shareholder. Information contained in Virtus' register of members is also used to facilitate dividend payments and corporate communications (including Virtus' financial results, annual reports and other information that Virtus may wish to communicate to its Shareholders) and compliance by Virtus with legal and regulatory requirements. An applicant has a right to gain access to the information that Virtus and the Share Registry hold about that person, subject to certain exemptions under law. A fee may be charged for access. Access requests must be made in writing or by telephone call to Virtus' registered office or the Share Registry's office, details of which are disclosed in the corporate directory. Applicants can obtain a copy of Virtus' privacy policy in relation to Shareholders by visiting Virtus' website (www.virtushealth.com.au).

9.13 Photographs and diagrams

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are owned by Virtus. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the date of this Prospectus.

9.14 Governing law

This Prospectus and the contracts that arise from the acceptance of the application and bids under this Prospectus are governed by the laws applicable in New South Wales, Australia and each applicant for Shares under this Prospectus and each bidder submits to the exclusive courts of New South Wales.

9.15 Statement of Directors

This Prospectus is authorised by each Director who consents to its lodgement with ASIC and its issue.

appendix a



appendix a

significant accounting policies

A.1 Key accounting policies

The principal accounting policies adopted in the preparation of the Financial Information are set out below.

Entities reporting

The consolidated Financial Information of the Group is for the economic entity comprising Virtus Health Limited and its subsidiaries ("Group"). On completion of the Offer, the Group consists of:

Name of entity	Country of incorporation	Class of shares	Beneficial interest %
Virtus Health Limited	Australia	Ordinary	Holding company
IVF Finance Pty Limited	Australia	Ordinary	100
IVFA Sub-Holdings Pty Limited	Australia	Ordinary	100
IVF Australia Pty Limited	Australia	Ordinary	100
Melbourne IVF Holdings Pty Limited	Australia	Ordinary	100
Melbourne IVF Pty Limited	Australia	Ordinary	100
The Heptarchy Trust	Australia	Units	100
North Shore Specialist Day Surgery Pty Limited	Australia	Ordinary	100
Queensland Fertility Group Pty Limited	Australia	Ordinary	100
IVF Australia Plan Management Pty Limited	Australia	Ordinary	100
North Shore ART Pty Limited	Australia	Ordinary	100
IVF Australia Participants Pty Limited	Australia	Ordinary	100
IVF South Pty Limited	Australia	Ordinary	100
City West IVF Pty Limited	Australia	Ordinary	100
Spring Hill Specialist Day Hospital Pty Limited	Australia	Ordinary	100
The QFG Day Theatres Unit Trust	Australia	Units	100
Hunter Fertility Pty Ltd	Australia	Ordinary	100
Hunter IVF Pty Limited	Australia	Ordinary	100
Hunter Fertility Unit Trust	Australia	Units	100
Bremiera Pty Ltd	Australia	Ordinary	100
Queensland Fertility Group Gold Coast Pty Limited	Australia	Ordinary	100
Gold Coast Obstetrics & Gynaecology Specialist Services Pty Limited	Australia	Ordinary	100
Mackay Specialist Day Hospital Pty Limited	Australia	Ordinary	100
City East Specialist Day Hospital Pty Limited	Australia	Ordinary	100
Maraubra Day Surgery Trust	Australia	Units	100
Virtus Health Singapore Pte Ltd	Singapore	Ordinary	100
Obstetrics & Gynaecological Imaging Australia Pty Limited*	Australia	Ordinary	50
City West Day Surgery Pty Limited*	Australia	Ordinary	50

* Note: These entities are not consolidated, but are equity accounted.

The proportion of ownership interest is equal to the proportion of voting power held.

Virtus has commenced a process to simplify its corporate structure. As part of this process, some of the entities listed above will be deregistered and liquidated after Listing.

Accounting standards

The Financial Information has been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The Financial Information also complies with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Historical cost convention

The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Principles of consolidation

(i) Subsidiaries

The Financial Information comprises the consolidated financial information of the Group. Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Associates

The interest in an associate is accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in the statement of comprehensive income, and the share of movements in reserves is recognised in reserves in the balance sheet.

Profits or losses on transactions establishing the associates and transactions with the associates are eliminated to the extent of the Group's ownership interest until such time as they are realised by the associates on consumption or sale, unless they relate to an unrealised loss that provides evidence of the impairment of an asset transferred.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Rendering of services

Revenue from the rendering of services is recognised upon the delivery of the service to a patient or customer. Revenue is recognised on completion of a medical procedure, on supply of drugs, or on completion of an analytical test. If payments received from patients exceed the revenue recognised, the difference is disclosed as deferred revenue.

(ii) Lease income

Lease income from property sub-leases is recognised as income on a straight-line basis over the lease term.

(iii) Interest income

Interest income is recognised on a time apportioned basis using the effective interest method.

(iv) Deferred revenue

Fees for fertility treatment cycles paid in advance are recognised as deferred revenue until the service has been provided whereupon the fees are recognised as revenue.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the senior management team.

Sponsorship and research grants

Sponsorship grants and research grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where Virtus' subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Virtus Health Limited and its wholly-owned subsidiaries have formed a tax consolidated group and are therefore taxed as a single entity. The head entity within the tax consolidated group is Virtus Health Limited.

The head entity, Virtus Health Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right. In addition to its own current and deferred tax amounts, Virtus Health Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The wholly-owned entities fully compensate Virtus Health Limited for any current tax payable assumed and are compensated by Virtus Health Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Virtus Health Limited under the tax consolidation legislation. These amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The tax amounts receivable/payable are due upon request from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising with tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the group. Any difference between the amounts assumed and amounts receivable or payable are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Business combinations

The purchase price method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity. Transaction costs directly attributable to business combinations are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Cash and cash equivalents

For the purpose of the Financial Information, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

Inventories

Inventory comprises medical supplies used in the fertility procedures performed in the Group's fertility clinics. Inventories are valued at the lower of cost and net realisable value.

Investments and other financial assets

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

Recognition and derecognition

Purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments classified as available-for-sale are not reversed through the statement of comprehensive income.

Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges)
- hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced asset is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the reporting period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost amounts, net of their residual values, over their estimated useful lives, as follows:

Leasehold improvements	Over the life of the lease or useful life if shorter
Medical equipment	2 to 10 years
Office equipment	2 to 5 years
Furniture, fittings	2 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Intangible assets

(i) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each primary reporting segment.

(ii) Brands, trademarks and licences

Brands, trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of brands, trademarks and licences over their estimated useful lives, which vary from two to 10 years.

(iii) IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service, direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over periods generally ranging from one to five years.

IT development costs include only those costs directly attributable to the development phases and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within agreed credit terms.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual drawdown of the facility, are recognised as prepayments and amortised on a straight line basis over the term of the facility.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non cash assets transferred or liabilities assumed, is recognised in other income or other expenses. Any unamortised transaction costs relating to the extinguished obligation are taken to the statement of comprehensive income upon extinguishment of the obligation.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Provisions

Provisions for legal claims and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of each reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of each reporting period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Other long-term employee benefit obligations

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based payments

Share-based compensation benefits are provided to employees via Virtus' existing equity incentive plans and the Plans. Information relating to these schemes is set out in Section 9.5.

The fair value of options granted under the plans is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the statement of comprehensive income with a corresponding adjustment to equity.

(iv) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to Virtus' shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(v) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example as the result of a share buyback, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

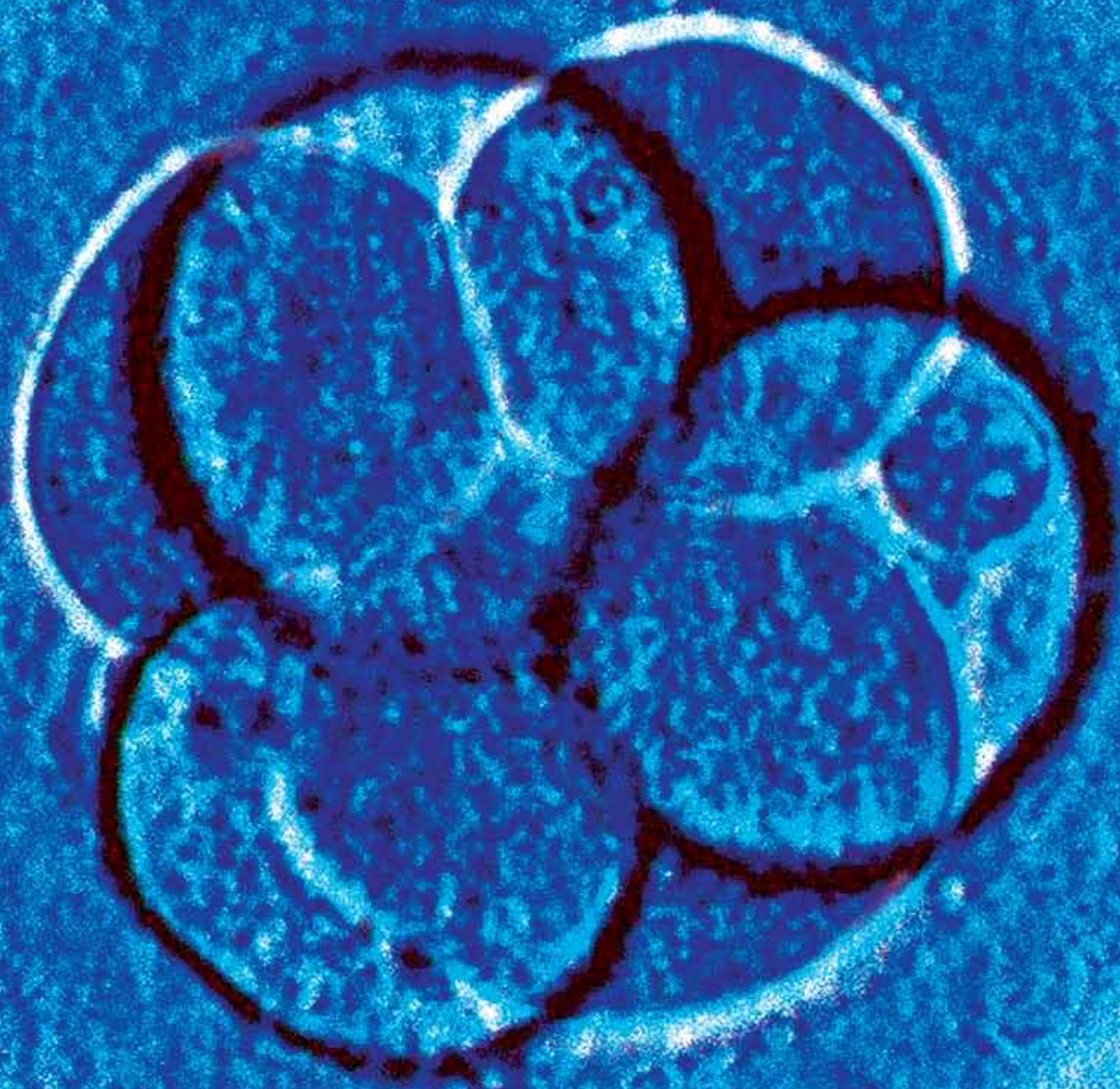
Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included within other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

appendix b



appendix b

glossary

Term	Meaning
Advisory Committee	the national advisory committee of Virtus, as described in Section 6.4.4
AEST	Australian Eastern Standard Time
Application Amount or Application Monies	the amount accompanying an Application Form submitted by an applicant
Application Form	an application form made available with a copy of this Prospectus
ASIC	Australian Securities and Investments Commission
Assisted Reproductive Services	treatments that involve the application of laboratory or clinical techniques to gametes and/or embryos for the purpose of reproduction. Common treatments include IVF Cycles, frozen embryo transfers, cryostorage of frozen embryos and intra-uterine insemination
ASX	Australian Securities Exchange
ASX Listing Rules	the rules of the ASX that govern the admission, quotation and removal of securities from the ASX official list
ASX Recommendations	revised in 2010, the ASX Corporate Governance Council's principles-based framework that aims to promote consistent corporate performance and accountability in the interests of shareholders and the wider community
ASX Settlement Operating Rules	the settlement rules of ASX as amended, varied or waived from time to time
Audit and Risk Committee	the committee described in Section 6.4.3
Australian Accounting Standards	Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board and Urgent Issues Group Interpretations
Average Total Revenue Per IVF Cycle	the average revenue generated by Virtus per IVF Cycle
Board	the board of Directors of Virtus
Broker	any ASX participating organisation selected by the Joint Lead Managers and Virtus to act as a Broker to the Offer
Broker Firm Offer	the offer of Shares under this Prospectus to Australian resident retail clients of Brokers who have received a firm allocation from their Broker
CGT	Capital Gains Tax
Co Managers	CBA Equities Limited, RBS Morgans Limited, UBS Wealth Management Australia Limited, Bell Potter Securities Limited and Morgan Stanley Wealth Management Australia Pty Limited
Commonwealth Government	the Australian Federal Government
Completion of the Offer	completion in respect of the issue of Shares pursuant to the Offer under the Underwriting Agreement
Consenting Party	the parties described in Section 9.8
Constitution	the corporate constitution of Virtus
Corporations Act	Corporations Act 2001 (Cth)
CREI	Certificate in Reproductive Endocrinology and Infertility
Directors	each of the directors of Virtus
DRP	the Board approved Dividend Reinvestment Plan described in Section 9.6
EBIT	for a relevant period, operating profit before interest expense, tax, abnormal and extraordinary items in that period
EBITDA	for a relevant period, operating profit before interest expense, tax, depreciation, amortisation and abnormal and extraordinary items, in that period

Term	Meaning
EMSN	the Commonwealth Government's Extended Medicare Safety Net, described in Section 2.10
Enterprise Value	the sum of market capitalisation at the Offer Price and pro forma net debt
Existing Shares	the Shares held by Existing Shareholders
Existing Shareholders	those Shareholders who hold Shares at the Prospectus Date, being the Quadrant Funds, Fertility Specialists, scientists and management
Exposure Period	the seven day period after the Prospectus Date, which may be extended by ASIC for up to an additional seven days
Fertility Specialists	the doctors with whom Virtus has contracts in place to provide Assisted Reproductive Services at its fertility clinics and day hospitals and Fertility Specialist means one of them
Financial Information	together the: • Historical Financial Information; and • Forecast Financial Information
Forecast Financial Information	together the: • Pro Forma Forecast Results; • Forecast Statutory Results; • Pro Forma Consolidated Forecast Cash Flow Statements for FY2013 and FY2014; and • Statutory Consolidated Forecast Cash Flow Statements for FY2013 and FY2014
Forecast Statutory Results	statutory consolidated forecast income statements for FY2013 and FY2014
Group	the companies and subsidiaries comprising Virtus group, described in Appendix A
GST	Goods and Services Tax
Historical Financial Information	together the: • Pro Forma Historical Results; • Historical Statutory Results; • Pro Forma Historical Cash Flows; • Statutory Historical Cash Flows; and • Pro Forma Consolidated Historical Balance Sheet as at 31 December 2012
Historical Statutory Results	statutory consolidated historical income statements for FY2010, FY2011, FY2012, H1FY2012 and H1FY2013
ICSI	Intra-cytoplasmic Sperm Injection
Institutional Investor	investors who are: • persons in Australia who are wholesale clients under section 761G of the Corporations Act and either "professional investors" or "sophisticated investors" under sections 708(11) and 708(8) of the Corporations Act; • institutional investors in certain other jurisdictions, as agreed by Virtus and the Joint Lead Managers to whom offers of Shares may lawfully be made without the need for a lodged or registered prospectus or other form of disclosure document or filing with, or approval by, any governmental agency (except one with which Virtus is willing in its discretion to comply); and • provided that in each case such investors are not in the United States
Institutional Offer	the invitation to Institutional Investors under this Prospectus to acquire Shares, as described in Section 7.4
International Organisation for Standardization ("ISO")	international body responsible for developing voluntary international standards in relation to product and service quality
Investigating Accountant	PwCS
Investigating Accountant's Report	the report prepared by PwCS referred to in Section 8
IVF	in vitro fertilisation, being the process by which an egg is fertilised by a sperm outside the body

Term	Meaning
IVF Cycle	a treatment where fertility drugs are administered in preparation for collection of eggs for IVF
Joint Lead Managers	Morgan Stanley and UBS
Key Managers	the Group CEO, the CFO, the medical director from New South Wales, Queensland and Victoria and the managing director from New South Wales, Queensland and Victoria, at the date of this Prospectus being: Sue Channon (Group CEO), Glenn Powers (CFO), Dr Lyndon Hale, Associate Professor Peter Illingworth, Dr David Molloy, Andrew Othen, Steve Zappia and Brendan Ayres
Listing	admission of Virtus to the official list of ASX
MBS	the Commonwealth Government's Medicare Benefits Schedule, described in Section 2.10
Medicare Levy Surcharge	levy on payers of Australian tax who do not have private health insurance with hospital cover and who earn above a certain income
Morgan Stanley	Morgan Stanley Australia Securities Limited (ABN 55 078 652 276)
National Association of Testing Authorities ("NATA")	authority responsible for accreditation of laboratories, inspection bodies, calibration services, producers of certified reference materials and proficiency testing scheme providers throughout Australia
National Employment Standards	commencing on 1 January 2010, these are national standards that provide a safety net for employees by covering everyone in the national workplace relations system
New Banking Facilities	a three year bullet cash advance facility, a revolving cash advance facility and a revolving working capital facility available to Virtus upon completion of the Offer, the key terms of which are set out in Section 4.4.3
Nomination and Remuneration Committee	the committee described in Section 6.4.2
NPAT	net profit after tax
NPATA	net profit after tax and after adding back the tax effected amortisation expense
Offer	the offer under this Prospectus of new Shares for issue by Virtus and of Existing Shares for sale by SaleCo
Offer Price	\$5.68 per Share
Original Prospectus	the Prospectus dated 17 May 2013 and lodged with ASIC on that date, and which this Prospectus replaces
PGD	preimplantation genetic diagnosis
Plans	the two new option plans adopted by Virtus to assist in the reward, motivation and retention of personnel (including executive Directors, eligible employees and Fertility Specialists)
Pre IPO Dividend	the dividend of 51 cents per Share to be paid by Virtus to the Existing Shareholders subject to the Offer proceeding
Pre-Listing Value	the aggregate value of an Existing Shareholder's interests in Virtus prior to Listing (including all shares and the net value of options held)
Private Health Insurance Rebate	a rebate from the Australian Government to help cover the cost of premiums for private health insurance in Australia
Pro Forma Forecast Financial Information	the pro forma consolidated forecast income and cash flows for FY2013 and FY2014
Pro Forma Forecast Results	pro forma consolidated forecast income statements for FY2013 and FY2014
Pro Forma Historical Cash Flows	pro forma consolidated historical cash flow statements for FY2010, FY2011, FY2012, H1FY2012 and H1FY2013
Pro Forma Historical Results	pro forma consolidated historical income statements for FY2010, FY2011, FY2012, H1FY2012 and H1FY2013
Prospectus	this document (including the electronic form of this Prospectus) and any supplementary or replacement prospectus in relation to this document
Prospectus Date	the date on which a copy of the Original Prospectus was lodged with ASIC, being 17 May 2013

Term	Meaning
PwC	PricewaterhouseCoopers (ABN 52 780 433 757)
PwCS	PricewaterhouseCoopers Securities Ltd (ACN 003 311 617, ABN 54 003 311 617, Holder of Australian Financial Services Licence No 244572)
Quadrant	Quadrant Private Equity, acting through one or more managers of various Quadrant private equity funds
Quadrant Funds	the Quadrant funds comprising Quadrant Private Equity Fund No.2 L.P. (acting via its general partner Quadrant Private Equity Management No.2 Pty Limited) and QPE Co-investment Pty Ltd as trustee for the Quay IVFA Co-investment Trust
Qualifying Region	New South Wales, Victoria, Queensland or any other region where Virtus contracts with Fertility Specialists
RANZCOG	Royal Australian and New Zealand College of Obstetricians and Gynaecologists
Reproductive Technology Accreditation Committee ("RTAC")	a committee which administers the scheme that sets and maintains the minimum standards for businesses offering Assisted Reproductive Services
S&P ASX 200 Index	Standard & Poor's stock market index comprising the 200 largest and most liquid stocks listed on ASX
S&P ASX 300 Index	Standard & Poors stock market index comprising the 300 largest and most liquid stocks listed on ASX
S&P ASX 300 Healthcare Index	Standard & Poor's stock market index comprising those companies included in the S&P ASX 300 which are classified as members of the GICS (Global Industry Classification Standard) healthcare sector and sub-industries
SaleCo	Virtus SaleCo Pty Ltd (ACN 162 983 833)
Selling Shareholders	those Existing Shareholders who have agreed to sell Shares to SaleCo prior to Listing
Share	a fully paid ordinary share in the capital of Virtus
Shareholder	a holder of a Share in Virtus
Share Registry	Link Market Services Ltd (ABN 54 083 214 537)
Statutory Historical Cash Flows	statutory consolidated historical cash flow statements for FY2010, FY2011, FY2012, H1FY2012 and H1FY2013
SPG	share price growth, as described in Section 9.5.3.2
TFC	The Fertility Centre
TFN	tax file number
TOFA	Taxation of Financial Arrangements regime under Division 230 of the Income Tax Assessment Act 1997, as described in Section 9.10
Total Revenue Per IVF Cycle	Virtus' total revenue from all its business streams divided by the number of IVF Cycles it undertook during the corresponding period
TSR	total shareholder return, as described in Section 9.5.3.2
UBS	UBS AG, Australia Branch
Underwriting Agreement	the underwriting agreement between Morgan Stanley, UBS and Virtus described in Section 9.7
United States	The United States of America
U.S. Securities Act	United States Securities Act of 1933, as amended
Vesting Conditions	the conditions upon which the options under the new option plans will vest and become exercisable, as described in Section 9.5.2
Virtus	Virtus Health Limited (ABN 80 129 643 492) and its subsidiaries
Virtus Offer Information Line	within Australia: 1800 134 068 outside Australia: +61 2 8767 1034 in each case, open from 8.30am to 5.30pm (AEST) Monday to Friday during the Offer Period

corporate directory

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UBS

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Sydney, NSW 2000, Australia

CO MANAGERS

CBA Equities Limited

Ground Floor Tower 1, 201 Sussex Street
Sydney, NSW 2000, Australia

RBS Morgans Limited

Level 29, 123 Eagle Street
Brisbane, QLD 4000, Australia

UBS Wealth Management Australia Limited

Level 16, Chifley Tower, 2 Chifley Square
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Bell Potter Securities Limited

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Morgan Stanley Wealth Management Australia Pty Limited

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King & Wood Malletsons

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AUDITOR

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