



VIRTUS HEALTH (ASX: VRT)

# FINANCIAL RESULTS PRESENTATION H1FY2017

Tuesday 21<sup>st</sup> February, 2017 AEDT

**virtus**health 

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A photograph of a medical professional, likely a sonographer, performing an ultrasound on a pregnant woman. The sonographer is on the left, wearing a patterned scrub top, and is using a handheld transducer on the woman's abdomen. The woman is lying on her back on a medical table. In the background, a large monitor displays a 3D ultrasound image of a fetus. The scene is dimly lit, with a warm, orange-brown glow. The text "RESULTS & OPERATIONAL OVERVIEW H1FY2017" is overlaid in white, bold, sans-serif font in the center-left area.

# RESULTS & OPERATIONAL OVERVIEW H1FY2017



# H1FY17 FINANCIAL RESULTS OVERVIEW

## *Challenging H1FY17 domestic conditions have driven a decline in revenue & earnings*

### **Revenue down by 0.7% to \$131.4m**

- Group cycles down 3.8% to 9,410 (H1FY16: 9,782)
- Australian Virtus cycles down 7.2% pcp in a domestic market down 6% H1FY17

### **Group EBITDA down 12.3% to \$31.7m**

- Australian segment EBITDA down 13.1% to \$33.9m
- International segment EBITDA up 11.7% on pcp

### **Net Profit after tax (NPAT) down 17.6% to \$14.7m**

### **Cash/Debt**

- Funding capacity \$57m (\$47m unused borrowing facility and \$10m uncommitted cash)

### **Gearing at 2.3X adjusted Group EBITDA**

### **Interim dividend 13cps fully franked (H1FY16: 14cps)**



# AUSTRALIAN SEGMENT PERFORMANCE

# AUSTRALIAN OPERATIONS - FERTILITY

## *Virtus is the market leader in Australia*

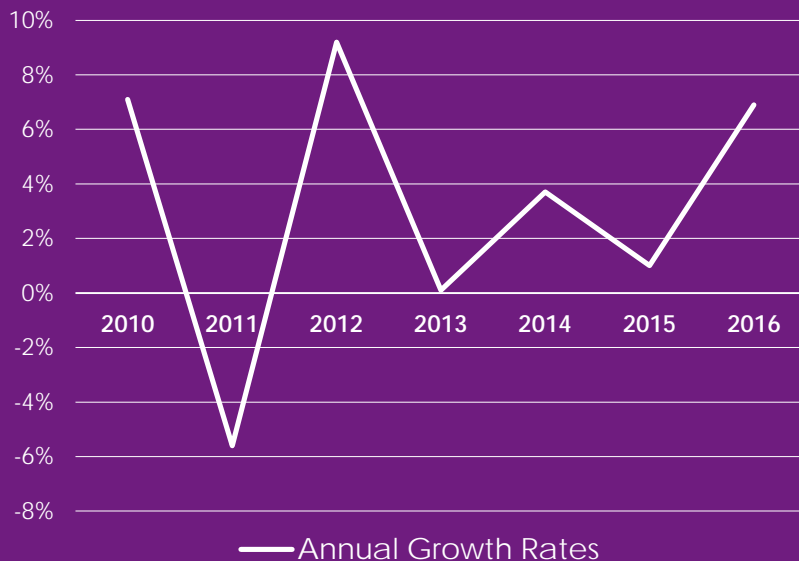
- General market activity in eastern seaboard states where Virtus operates down 6.0% compared to pcp
- Virtus cycle activity in H1FY17 down 7.2% to 8,070 cycles on a like for like basis
  - Decline in Virtus full service activity in Victoria
  - NSW TFC volume 19% below pcp; TFCs represent ~12% of overall Virtus NSW activity
  - TFC represents 12.4% of Virtus activity
  - Virtus NSW and QLD outperformed state markets
- Australian segment EBITDA down 13.1% to \$33.9m (H1FY16 \$39.0m)
- Revenue down 2% to \$111.1m (H1FY16 \$112.8m)
- Business and clinical strategy to address Victorian share loss; TFC model under review



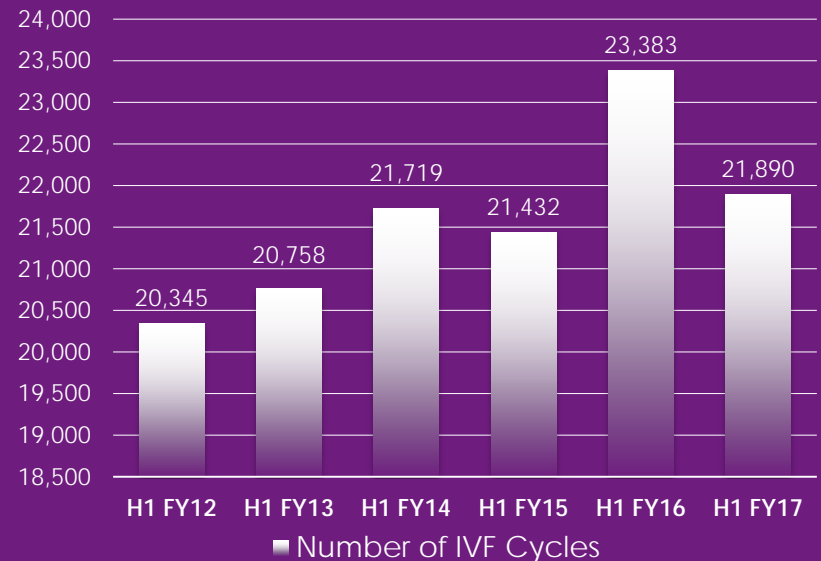
# VARIABILITY IN AUSTRALIAN MARKET GROWTH

*Annual growth rate variability is normal and historically activity has improved following periods of market downturn*

Annual Industry Growth rates (FY10-16)



H1 Market Volumes (FY12-17)



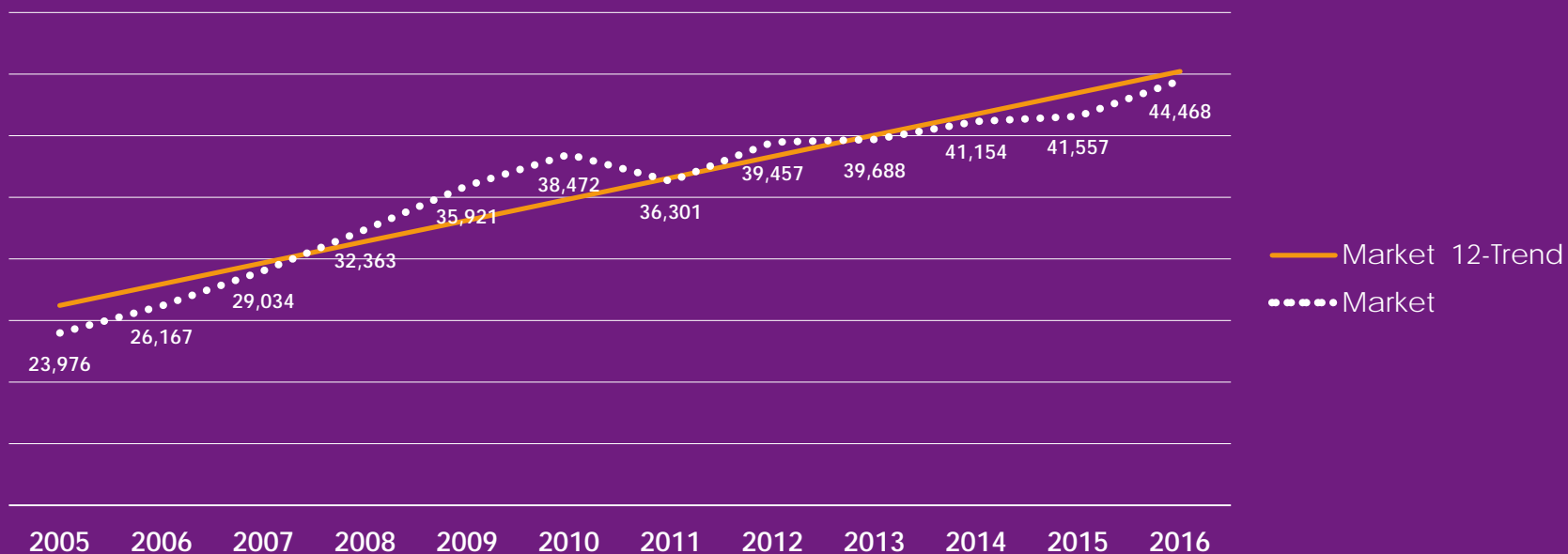
- 7 year market CAGR to June 2016 is 3.1%
- H1 FY17 reflects the market contraction of 6.4% over pcip to 21,890 cycles

Australian IVF Cycles Source: Medicare Australia

# AUSTRALIAN MARKET GROWTH

## Australian market volumes

Australian Market Cycles (2006-2016)



- Growing Australian ARS market since 2005
- Demographic drivers for ARS remain favorable
- Strong industry fundamentals with periodic variability

Source: Medicare Australia



# AUSTRALIAN OPERATIONS DIAGNOSTICS & DAY HOSPITAL



*Diagnostic revenue increased  
7.1% H1FY17*

- Revenue up 37.9% in PGD/PGS activity - utilisation at 12.3% of fresh cycles (pcp 7.9%)
- Endocrinology and cytogenetic testing declined as a result of weak IVF cycle activity



*Day Hospital revenue decreased  
10.5% H1FY17*

- Revenue decrease a consequence of weak IVF activity
- Non-IVF procedure revenue decreased 14.4% across all day hospitals

# INTERNATIONAL SEGMENT PERFORMANCE

# IRISH OPERATIONS

## *Market leader continues to deliver cycle and earnings growth*

- 1,170 cycles performed in H1FY17 (H1FY16: 1,148) strong result considering six week closure for Rotunda IVF upgrades
- Revenue up 4.3% on pcp (local currency)
- EBITDA up 3.5% on pcp (local currency)
- 7.6% contribution to group segment EBITDA up from 7.0% H1FY16 in-line with strategic objectives



# SINGAPORE OPERATIONS

## *Singapore cycles increasing – EBITDA performance improves*

- 170 cycles performed in Singapore in H1FY17 (H1FY16: 124)
- H1FY17 EBITDA loss improves to \$185,000 compared to pcp loss of \$572,000 (local currency)
- Market reputation continues to build as four contracted doctors plus four associated specialists utilise facility





# DANISH OPERATIONS

## *Virtus acquires Aagaard Fertility Clinic, November 2016*

- Sophisticated, well regulated Danish IVF market has excellent scientific capability
- Aagaard is the leading Danish fertility clinic outside Copenhagen with highest national reported success rates \*
- Integration of Aagaard with Virtus underway
- Forecast to be EPS accretive on a full year 2017 basis
- Denmark acquisition opens further Scandinavian opportunities



\* Danish Fertility Society: ART årsrapport 2015



# FINANCIAL RESULTS H1FY2017

# SUMMARY INCOME STATEMENT

## Statutory and adjusted results

A \$ millions	Statutory Results		Adjustment		Adjusted Results	
	H1FY17	H1FY16	H1FY17	H1FY16	H1FY17	H1FY16
<b>Revenue</b>	<b>131.4</b>	<b>132.3</b>			<b>131.4</b>	<b>132.3</b>
Segment EBITDA	36.5	41.4			36.5	41.4
<b>EBITDA</b>	<b>31.7</b>	<b>36.2</b>	<b>(0.3)</b>	<b>0.3</b>	<b>31.5</b>	<b>36.5</b>
Depreciation and amortisation	(6.0)	(5.6)			(6.0)	(5.6)
EBIT	25.7	30.6	(0.3)	0.3	25.4	30.8
Interest	(3.9)	(4.3)	0.5	0.6	(3.4)	(3.9)
<b>Profit before income tax</b>	<b>21.8</b>	<b>26.2</b>	<b>0.2</b>	<b>0.9</b>	<b>22.0</b>	<b>27.1</b>
Income tax expense	(6.2)	(7.5)	(0.1)		(6.3)	(7.5)
<b>Profit after income tax</b>	<b>15.6</b>	<b>18.8</b>	<b>0.1</b>	<b>0.9</b>	<b>15.7</b>	<b>19.6</b>
Profit after income tax attributable to non-controlling interest	(0.9)	(0.9)			(0.9)	(0.9)
Profit after income tax attributable to ordinary equity holders	14.7	17.9	0.1	0.9	14.8	18.7
Earnings per share (cents)	18.35	22.35				
Diluted Earnings per share (cents)	18.21	22.13				

Notes:

Shaded area indicates IFRS disclosures H1FY17 Financial Statements; refer next page for reconciliation of detailed adjustments from statutory profit to adjusted profit.

# STATUTORY PROFIT RECONCILIATION TO ADJUSTED PROFIT

*Net loss from transaction related non-cash adjustments and transaction expenses - \$0.1m*

\$ Million	H1FY17	H1FY16
<b>Profit after income tax attributable to ordinary equity holders</b>	<b>14.7</b>	<b>17.9</b>
Fair Value Adjustment to put liabilities <sup>1</sup>	(0.5)	0.0
Fair Value Adjustment to contingent consideration	(0.5)	0.0
Non Cash Interest <sup>2</sup>	0.5	0.6
Transaction costs	0.8	0.3
Tax-effect on all adjustments	(0.1)	0.0
<b>Adjusted NPAT</b>	<b>14.8</b>	<b>18.7</b>

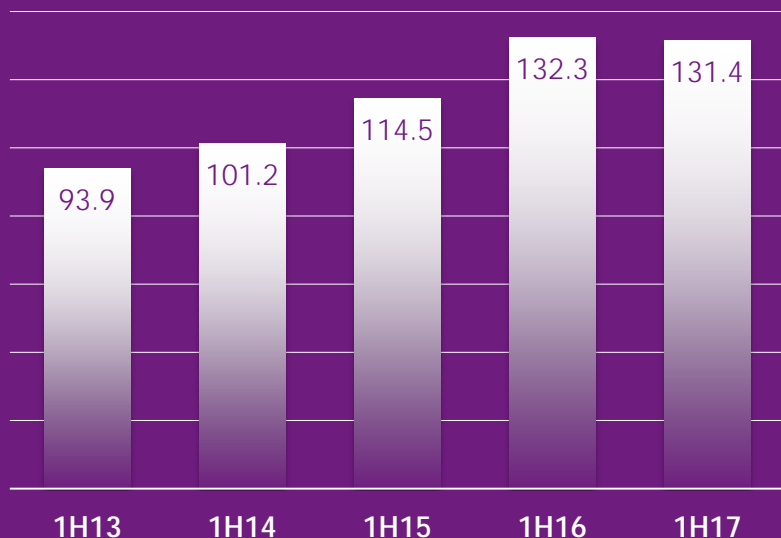
Notes:

1. Fair value adjustment to put liabilities relating to remaining interests in acquired entities
2. Non cash interest relates to the unwinding of the discount on the put liabilities



# KEY REVENUE AND EBITDA DRIVERS FOR H1FY2017

## H1 FY13-17 Revenue



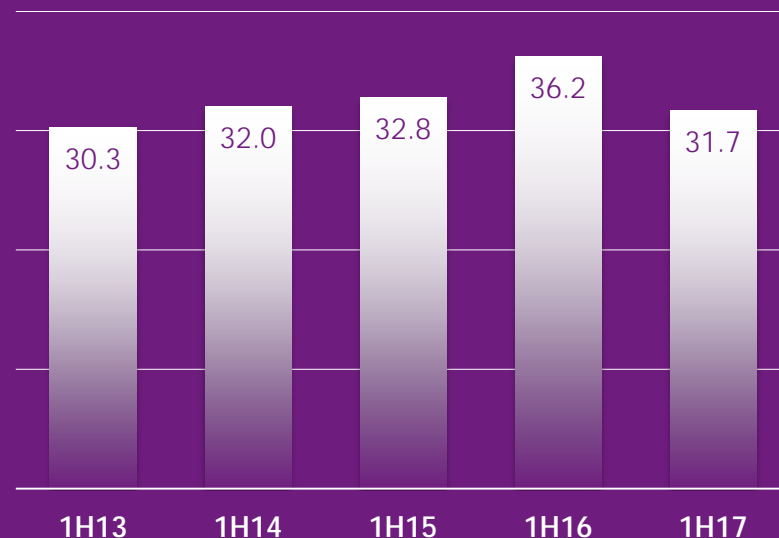
### 1H FY17 Revenue impacted by:

- Australian general market contraction
- Victorian market share loss
- TFC volume reduction
- Day Hospital revenue decline

### Partially offset by:

- Mix change – reduced TFC volume mix
- Price increase
- International revenue growth
- Diagnostics revenue growth

## H1 FY13-17 Group EBITDA



### 1H FY17 EBITDA impacted by:

- Lower Australian volumes
- Fall in Day Hospital revenue
- Margin deterioration in Victoria and TFCs
- Increase in underlying operating costs

### Partially offset by:

- Ireland EBITDA growth
- Singapore EBITDA loss reduction
- Improved Diagnostics performance

# CASH PERFORMANCE

## Operating cash flow impacted by lower H1 EBITDA

Summary (A\$m)	H1FY17 (A\$m)	H1FY16 (A\$m)
<b>Group EBITDA</b>	<b>31.7</b>	<b>36.2</b>
Changes in working capital	(3.7)	(5.6)
Changes in other operating assets /liabilities	(4.3)	2.6
Net financial costs	(3.3)	(3.7)
Income Tax	(4.9)	(9.6)
Other	0.6	0.4
<b>Operating Cash Flow</b>	<b>16.1</b>	<b>20.3</b>
Net CAPEX	(4.6)	(4.8)
<b>Free Cashflow</b>	<b>11.5</b>	<b>15.5</b>
Dividends paid	(12.1)	(11.1)
<b>Free Cash Flow after dividends</b>	<b>(0.6)</b>	<b>4.4</b>

### Operating cash flows used to fund:

- Capex of \$4.6m
- Dividends of \$12.1m

Net debt increased by \$9.3m as a result of additional drawdown of \$11m to fund the acquisition of Aagaard Fertility Clinic in Denmark, partly offset by an increase in closing cash balance of \$1.8m

# STATEMENT OF FINANCIAL POSITION

A \$ millions	Statutory Dec 16	Statutory June 16
Cash	24.0	22.2
Trade and other receivables	11.6	11.3
Inventories	0.7	0.6
Equity accounted investments	1.5	1.5
Other financial assets	3.4	2.3
PP&E	29.5	30.3
Deferred tax assets	5.2	6.0
Intangible assets	413.6	399.0
<b>Total Assets</b>	<b>489.5</b>	<b>473.2</b>
Trade and other payables	21.4	25.1
Deferred revenue	5.8	5.8
Borrowings	158.5	147.4
Provisions	9.4	9.6
Current tax liabilities	0.5	0.0
Other financial Liabilities	30.0	27.2
<b>Total Liabilities</b>	<b>225.6</b>	<b>215.1</b>
<b>Net Assets</b>	<b>263.9</b>	<b>258.0</b>

## Cash balance

At normal level after utilisation of excess cash on Capex and dividends

## Gearing

- Increase in borrowings arising from additional drawdown of \$11m to fund acquisition
- Leverage ratio of 2.3 adjusted group EBITDA (LTM)
- Full compliance with sufficient head room under both interest cover and leverage ratios
- Funding capacity available, \$57m reflecting \$47m of unused facilities and \$10m of uncommitted cash

## Dividend proposed

13 cps, (pcp14 cps) fully franked payable on 18 April 2017



# STRATEGY & OUTLOOK



# VIRTUS HEALTH STRATEGY

*Purpose: To help women and men achieve their aspirations to create a family*

## Leading minds, leading science

### Ambition

**To be a leading global provider of ARS based on;**

- Clinical & scientific effectiveness
- Breadth of capability across ARS value chain
- Market leadership in chosen geographies & market segments
- Our patients being at the centre of everything we do

### Growth Strategy

#### ARS (Domestic & International)

Market penetration by acquisition, greenfield & organic growth

Research driven service development

#### Diagnostics (Domestic)

Leverage fertility, genetics & general pathology testing across the business

Other diversification opportunities

#### Day Hospitals (Domestic)

Optimise utilisation & efficiency

Opportunistic domestic acquisition

# NEAR TERM PRIORITIES

*Virtus is well placed to manage industry challenges and variability*

## Australian Fertility Business

### Victoria

- Management and structural changes
- Strengthened scientific leadership - appointment of internationally renowned IVF pioneer to enhance scientific excellence

### TFC (Service Models)

- Review of clinical and service delivery models
- Pricing & packaging development

### Operating Expenses

- Targeted cost management across the group

## Diagnostics & Day Hospitals

- Maximise vertical integration and patient outcomes with advanced science
- Grow general fertility related pathology
- Increase business development to target non-IVF procedural growth

## International

- Actively pursue further opportunities in Europe
- Leverage presence in Denmark for Scandinavian opportunities

# CONCLUSION

## *ARS is a long-term growth market*

- Domestic financial performance in H1FY17 has been disappointing
- Strategies in place to address domestic underperformance
- International Operations performing strongly and diversification strategies on track
- Demographic drivers for ARS growth remain favourable globally

## *Virtus is well positioned to continue to create shareholder value*

# APPENDICES



# KPIS – AUSTRALIAN SEGMENT

*Average sales revenue increase reflects mix change from TFC to full service and small growth in diagnostic revenue*

Virtus	Note	H1FY17	H1FY16	Change
Number of IVF Cycles in Virtus Australia	1	8,070	8,699	(7.2%)
TFC cycles as a percentage of total Virtus IVF cycles		12.4%	13.5%	(1.1%)
Number of IVF Cycles in NSW, QLD, TAS, VIC, ACT market	1	18,665	19,860	(6.0%)
East states market share	1	43.2%	43.8%	(0.6%)
National market share	1	36.9%	36.7%	0.2%
Treatment volume	2	15,416	15,455	(0.3%)
Average number of Fertility Specialists		105	98	7.2%
Average number of cycles per Fertility Specialist		77	88	(12.5%)
Average age of Fertility Specialists		50	50	0.0%
Average total revenue per cycle (A\$)		13,771	13,352	3.1%
Labour as a % of total revenue		31.2%	28.7%	2.5%
Provider fees as a % of total revenue		15.3%	15.2%	0.1%
Reported segment EBITDA margin %		30.3%	34.3%	(4.0%)

Notes:

1. Implied last six months market share is based on fresh and cancelled cycles in NSW, VIC, QLD, TAS and ACT. ACT included in H1FY16 like for like comparison
2. Total treatments includes fresh cycles, cancelled cycles, IUIs and FETs

# VIRTUS HEALTH NETWORK OF CARE

## ASSISTED REPRODUCTIVE SERVICES

46

### FERTILITY CLINICS

Australia	41
Ireland	3
Singapore	1
Denmark	1



## SPECIALISED DIAGNOSTICS

62

### LABORATORIES

Embryology	29
Andrology	27
Endocrinology	4
PGD	2



## DAY HOSPITALS

6

### DAY HOSPITALS

IVF and non-IVF  
procedures



118

### FERTILITY SPECIALISTS



1042

### NURSES, COUNSELLORS, PATIENT SUPPORT (incl DIAGNOSTICS)



227

### SCIENTISTS



# REGULATORY ENVIRONMENT

## Australia

- Federal Health Department review of Medicare Benefits Schedule is underway
- National Health and Medical Research Council (“NHMRC”) reviewing Australian regulations for sex selection for family balancing (not currently permitted) and donor services
- Medical Services Advisory Committee (MSAC) review of PGD funding

## Ireland

- Government considering funding for fertility services – currently privately funded
- Proposed change to Children & Family Relationships Act 2015 precluding anonymous egg donation

## Singapore

- Growing interest in PGD/PGS access in Singapore

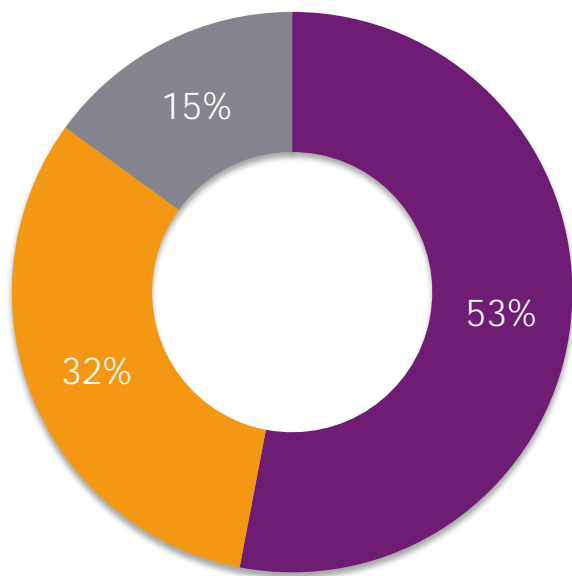
## Denmark

- Favourable changes to donor services



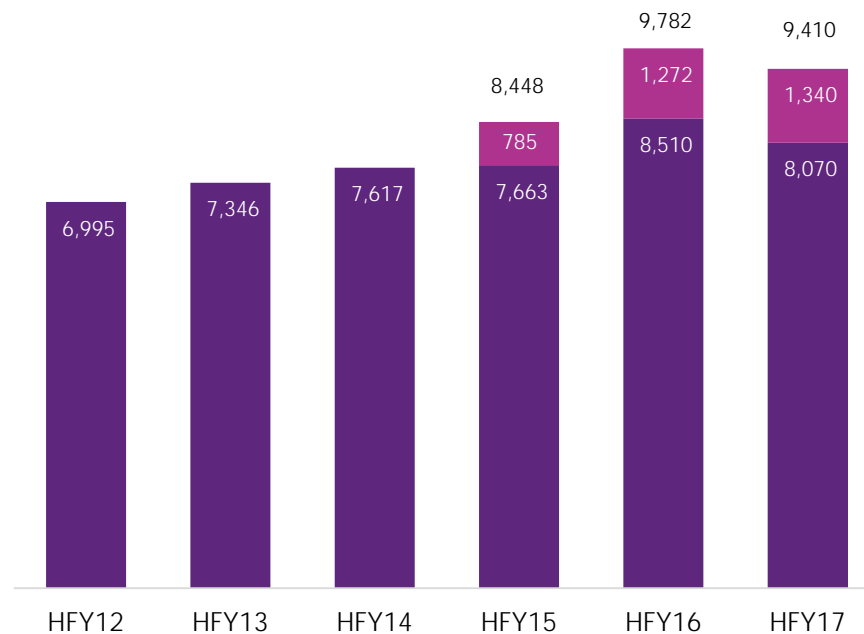
# VIRTUS TREATMENT ANALYSIS

Treatment Mix



■ Cycle ■ Frozen ■ AI/OI

Virtus Cycles



■ Australian Cycles ■ International Cycles





THANK YOU

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