



Virtus Health (ASX:VRT)

FINANCIAL RESULTS PRESENTATION FY2019

Tuesday 20 August, 2019 9.00am AEDT

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RESULTS & OPERATIONAL OVERVIEW FY2019


FY19 Financial Results

Revenue  6.1%
\$280m

EBITDA  2.3%
\$63.5m

NPAT attributable to
ordinary equity
holders

 7.6%
\$28.4m

EPS  7.6%
35.37 cents

EBITDA Margin
 2.0%

Final Dividend
12 cps
fully franked

Virtus Health

Fertility Market Leader

Virtus responds to changing market

- Revenue mix change impacting EBITDA margins in Australia
- Significant investment in infrastructure, people and technology
- Changed clinical practice impacted Diagnostics business
- Improved revenue diversification offset softness in some international operations
- Intellectual property commercialisation delivered \$4.1m EBITDA



AUSTRALIAN SEGMENT PERFORMANCE

Australian Operations Fertility

- Overall market cycle volume along eastern markets up 4.9% on pcp (June 2019). Virtus Australia up 1.5% to 15,460 cycles (pcp 15,235)
- Cycle growth summary;
 - NSW market up 2.6%; Virtus down 1.6%
 - VIC market up 8.4%; Virtus up 5.9%
 - QLD market up 5.0%; Virtus up 0.4%
 - TAS market down 2.7%; Virtus up 8.2%
- Virtus delivered a targeted TFC volume increase of 25.6%
 - Service model and pricing reviews improved performance across all states
 - TFCs represent 17.9% of Virtus Australian cycle volume (FY18: 14.5%)
- Australian segment revenue (excluding IP sale) is in line with pcp at \$218m despite overall cycle mix change
- Australian segment EBITDA down 8.6% to \$61.1m (FY18: \$66.8m), mostly a result of:
 - Change in premium service revenue mix between QLD, NSW & VIC
 - Volume growth in low cost segment impacting EBITDA margin
 - Decline in genetic testing utilisation and an increase in compliance costs in Diagnostics
 - Delays in planned relocations, impacting revenue and costs

Virtus Australia: Achievements

Investments for future growth

Australian Fertility Business

- **Relocation of IVF Australia East (Maroubra) & TasIVF** lab & clinic to new facilities
- **Deployment of** time-lapse incubators and **rollout of AI “Ivy”** technology to deliver improved patient outcomes
- **Sale of “Ivy” related IP** and **collaboration agreements** with Vitrolife (the manufacturer of time lapse incubators) and Harrison AI to further develop “Ivy”

Diagnostics

- Commissioning of new **Virtus Diagnostics’ main Laboratory** to expand scope of tests and capacity for volume growth
- **Supervisory model adjusted to comply** with new National Pathology Accreditation Advisory Council (NPAAC) regulations

Day Hospitals

- **Facility completion:** Alexandria Specialist Day Hospital NSW and Hobart Specialist Day Hospital TAS commissioned

Australian Operations Diagnostics



A MEMBER OF VIRTUS HEALTH

Regulatory changes and lower PGT utilisation impacts revenue and EBITDA

- Diagnostic revenue decreased 2.5% and EBITDA decreased 30% over pcp impacted by:
 - Lower PGT utilisation, 13.7% of fresh cycles in FY19 (FY18: 17.7%) \$1.3m revenue impact; and
 - Increased compliance costs
- Strategic focus in FY20 :
 - Main pathology lab relocated to larger facility enabling enhanced scope of testing and capacity for future growth;
 - Advanced technologies for non-invasive PGT currently under scientific evaluation
 - Recruitment of specialists to support Diagnostics growth
 - Business development to increase internal and external specialist referrals

Virtus Diagnostics Relocation



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Australian Operations Day Hospitals

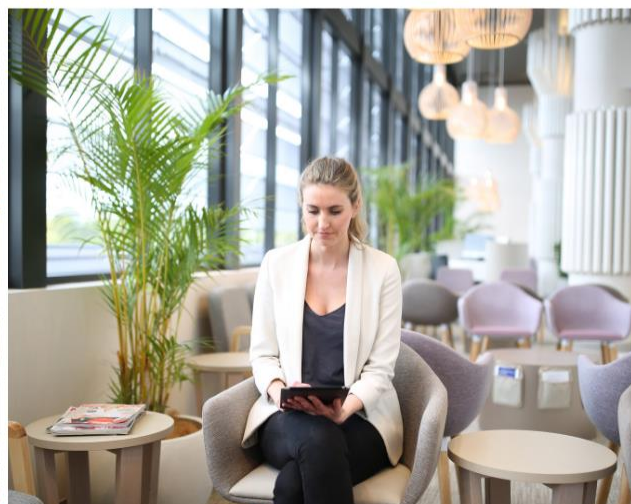


Day Hospital relocations complete

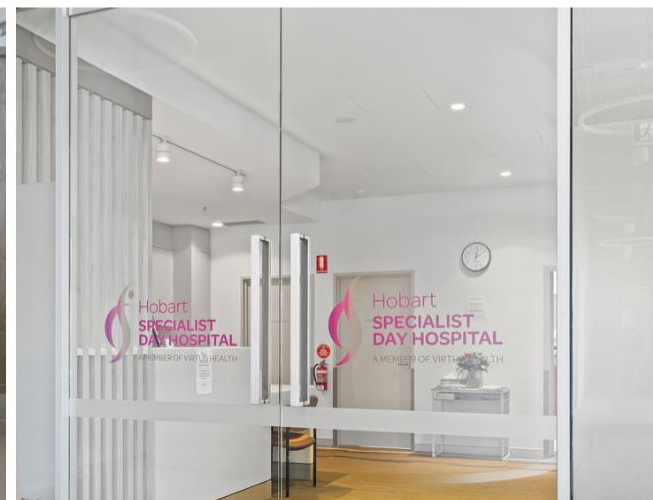
- EBITDA heavily impacted by the relocation costs and disruption to non-IVF activities in Alexandria (formerly Maroubra) and Hobart; changes reduced EBITDA by approximately \$1.5m in FY19
- Increase in non-IVF procedure revenue of 2.3% on pcp across all Specialist Day Hospitals
- Improved utilisation and business development now the focus for Alexandria and Hobart Specialist Day Hospitals



Alexandria Specialist Day Hospital



Hobart Specialist Day Hospital

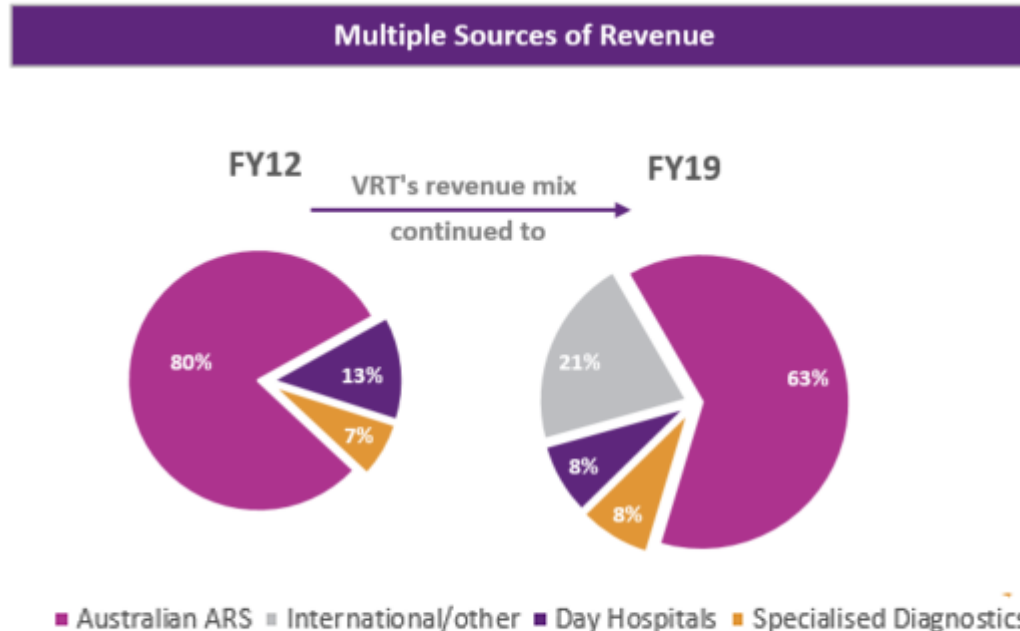




INTERNATIONAL SEGMENT PERFORMANCE

Virtus International: Achievements

International operations grow to 21% of Group revenue



Irish Operations

Flat cycle volume and restructure impacts earnings

- 2,197 cycles performed in FY19 (FY18: 2,227)
- Revenue up 0.7% to €21.9m. Lower cycle volumes were offset by increase in frozen cycles
- EBITDA (local currency) down 9.8% on pcp as a result of restructure costs



UK Operations

Complete Fertility reports positive EBITDA but softer than expected

- CFC performed 452 fresh cycles; revenue £3.1m
- Facility refurbishment completed to accelerate opportunity for growth, however the clinic experienced some disruption to operations resulting in lower than expected volumes
- Revenue also impacted by lower donor cycle activity due to shortage of donor gametes



Danish Operations

Danish clinics deliver mixed results

- Trianglen performed 1,397 fresh cycles; revenue DKK39.3m; EBITDA in line with expectations, contributing to the International segment revenue and EBITDA growth
- Aagaard performed 414 (FY18: 539) fresh cycles; revenue DKK13.4m (FY18: DKK20.9m)
- Aagaard results impacted by short term doctor resourcing issues. These have now been addressed and the clinic is expected to be fully resourced by December 2019



Singapore Operations

Volumes and EBITDA continue to grow

- 380 cycles performed in Singapore in FY19 (FY18: 370)
- FY19 EBITDA SG\$502,707 compared to pcp of SG\$363,000
- Additional doctor contracted to support growth





FINANCIAL RESULTS FY19

Summary Income Statement

Statutory and adjusted results

\$Millions	Statutory Results		Adjustment		Adjusted Results	
	FY19	FY18	FY19	FY18	FY19	FY18
Revenue	280.1	263.9			280.1	263.9
Segment EBITDA	71.1	76.0			71.1	76.0
EBITDA	63.5	65.0	(6.4)	(0.1)	57.1	64.9
Depreciation and amortisation	(13.6)	(12.5)			(13.6)	(12.5)
EBIT	49.9	52.5	(6.4)	(0.1)	43.5	52.4
Interest	(9.7)	(7.6)	1.1	1.0	(8.6)	(6.6)
Profit before income tax	40.2	44.9	(5.3)	0.9	34.9	45.8
Income tax expense	(11.2)	(12.9)	1.2	(0.3)	(10.0)	(13.2)
Profit after income tax	29.0	32.0	(4.1)	0.6	24.9	32.6
Profit after income tax attributable to non-controlling interest	(0.6)	(1.2)			(0.6)	(1.2)
Profit after income tax attributable to ordinary equity holders	28.4	30.8	(4.1)	0.6	24.3	31.4
Earnings per share (cents)	35.37	38.26				
Diluted earnings per share (cents)	34.97	37.98				

Notes:

Shaded area indicates IFRS disclosures for FY19 Financial Statements; refer next page for reconciliation of detailed adjustments from statutory profit to adjusted profit.

Statutory Profit Reconciliation to Adjusted Profit

Net movement from significant items and non-cash acquisition related items

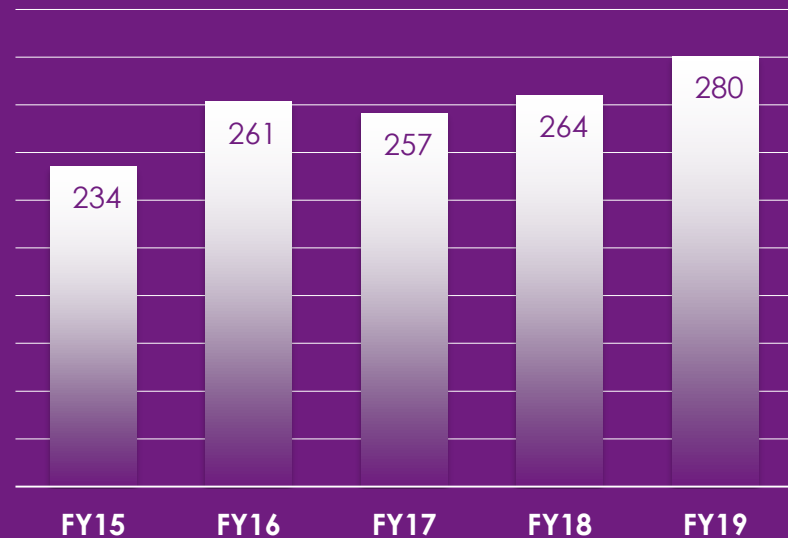
\$Millions	FY19	FY18
Profit after income tax attributable to ordinary equity holders	28.4	30.8
Sale of IP ¹	(4.1)	-
Fair value adjustment to transaction put liabilities ²	(4.5)	(0.9)
Fair Value Adjustment to contingent consideration ³	(3.8)	(0.2)
Non-cash Interest ⁴	1.1	1.0
Impairment of Goodwill ⁵	5.8	-
Transaction costs	0.2	1.0
Tax effect on relevant adjustments	1.2	(0.3)
Adjusted NPAT	24.3	31.4

Notes:

1. Profit on sale of Virtus'IP in relation to its Artificial Intelligence software "Ivy"
2. Fair Value adjustments in relation to reduction of underlying put option liabilities reflecting actual EBITDA
3. Fair Value adjustment in relation to reduction of estimated contingent consideration based on FY20 forecast trading
4. Relates to the unwinding of discount on the put liabilities and contingent consideration
5. Impairment of Goodwill in Tasmania reflecting changes in competitive landscape and delays in business development activities for the newly commissioned day hospital facilities

Key Revenue and EBITDA Drivers for FY19

FY15-19 Revenue



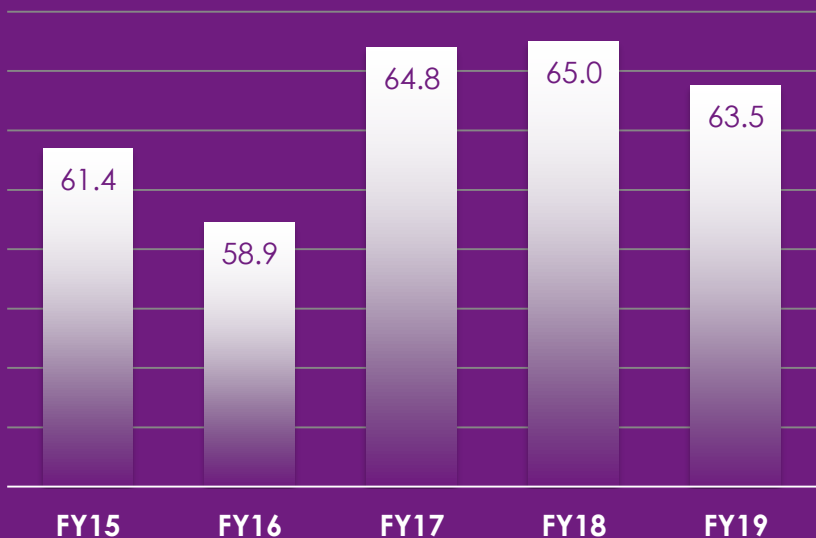
FY19 Revenue growth driven by:

- Strong TFC performance – VIC and NSW
- Improvement in QFG full service
- First-time contribution from Trianglen (Denmark) and a full twelve month contribution from Complete Fertility (UK)

Partially offset by:

- Reduction in TasIVF revenue
- Reduction in Diagnostics revenue
- Reduction in cycle activity in Aagard (Denmark)

FY15-19 Group EBITDA



FY19 EBITDA decline driven by:

- Revenue mix and TasIVF profitability
- Lower genetic testing/increase in compliance costs for Diagnostics
- Relocation costs/disruption to volumes from two major facility upgrades at Alexandria and Hobart Specialist Day Hospitals
- Increase in corporate costs as a result of salary/recruitment costs
- Investments in IT to support business development

Partially offset by:

- First-time contribution from Trianglen (Denmark)
- Profit on sale of IP

Cash Performance

Operating cash flow

Summary	FY19 (A\$m)	FY18 (A\$m)
Group EBITDA	63.5	65.0
Changes in other operating assets/liabilities	(2.4)	6.0
Net financial costs	(7.8)	(6.6)
Income tax	(15.8)	(10.0)
Other non cash items (net)	0.8	0.5
Operating cash flow	38.3	54.9
Net CAPEX	(14.6)	(15.5)
Free cash flow	23.7	39.4
Dividends paid	(19.3)	(20.9)
Free cash flow after dividends	4.4	18.5

Operating cash flows affected by:

- Negative movements in working capital mostly resulting from timing differences in trade payables/debtors
- Income tax movement due to timing differences on payments
- Higher interest payments due to increase in loan balance in late FY18 to fund acquisitions
- Lower EBITDA

Free cash flows remained positive and was used along with existing reserves to make a **voluntary debt repayment of \$7.5m** in June FY19

Statement of Financial Position

\$millions	Statutory June 19	Statutory June 18
Cash	18.8	21.7
Trade and other receivables	14.8	12.5
Inventories	1.3	0.7
Equity accounted investments	1.5	1.5
Other financial assets	3.2	3.5
PP&E	38.0	34.5
Deferred tax assets	7.1	5.5
Intangible assets	459.6	465.4
Total assets	544.3	545.3
Trade and other payables	26.5	25.8
Deferred revenue	16.3	14.8
Borrowings	173.7	180.8
Deferred tax liability	1.1	0.9
Provisions	11.4	10.6
Current tax liabilities	1.1	4.2
Other financial Liabilities	19.6	24.7
Total liabilities	249.7	261.8
Net assets	294.6	283.5

Key movements

Cash balance - At normal level after utilisation of excess cash on capex, dividends and voluntary debt repayment of \$7.5m

Intangible assets – reduction as a result of \$5.8m impairment of Goodwill in TAS IVF

Gearing

- Reduction in borrowings as a result of voluntary debt repayment
- Leverage ratio of 2.8 adjusted group EBITDA (LTM)
- Full compliance with sufficient head room under both interest cover and leverage ratios
- Funding capacity available, \$85m reflecting \$82m of unused facilities and \$3m of uncommitted cash

Current tax liabilities – reflects lower profit before tax in FY19 and higher PAYG instalments based on historical rate

Other financial liabilities – reduction as a result of fair value adjustments

Dividend proposed

12 cps (pcp 12 cps), fully franked, payable on 25 October 2019

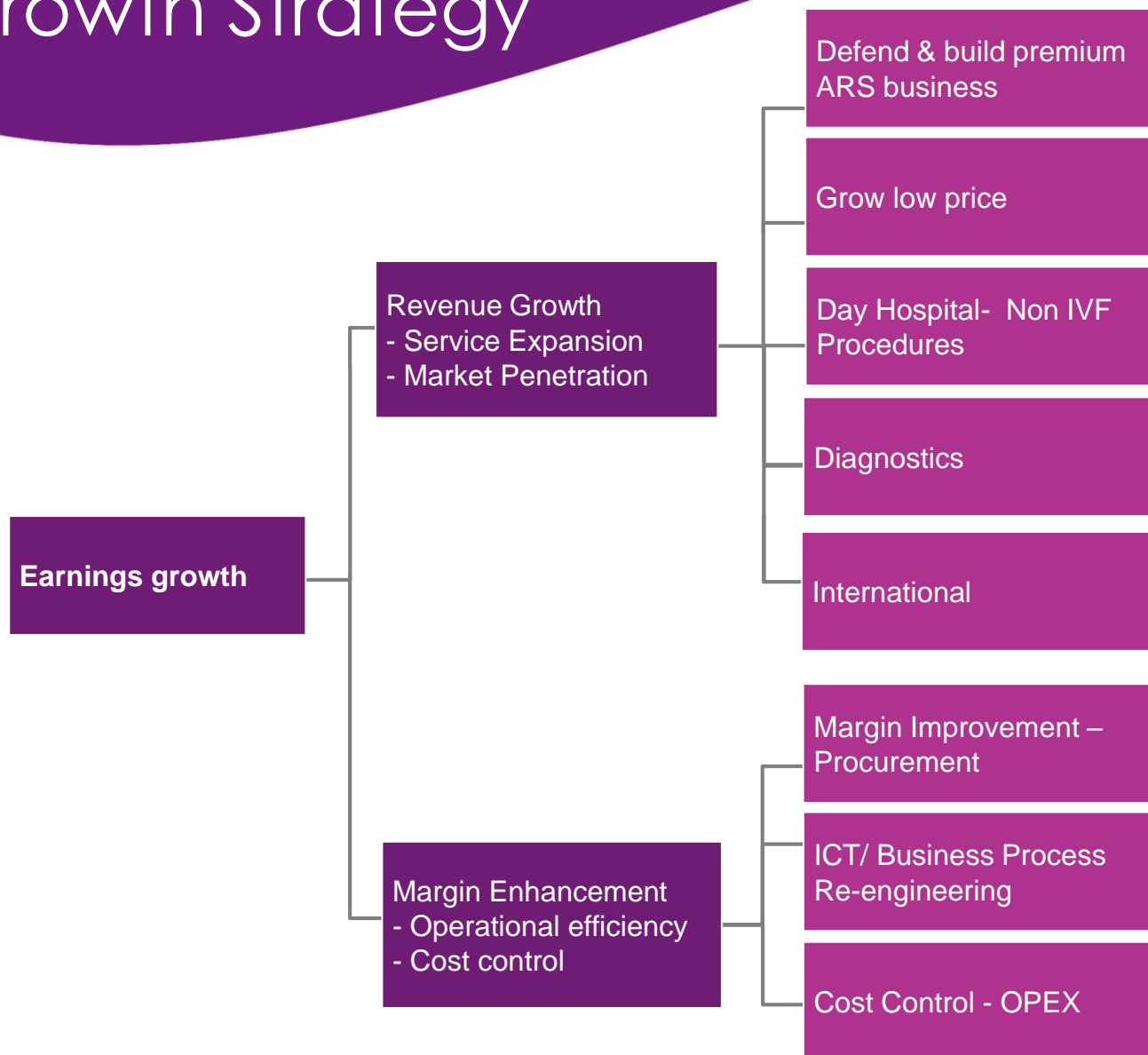


STRATEGY & OUTLOOK

VIRTUS HEALTH #1 FOR FERTILITY

Leading Minds, Leading Science

Virtus Health Growth Strategy



Virtus Innovation

Advanced technology, digital platforms and collaboration

- Virtus commercialises “Ivy” Artificial Intelligence (AI) Technology:
 - Transfer and collaboration agreements with Vitrolife and Harrison AI
 - International recognition - publication in *Journal of Human Reproduction*
 - Australian Government Therapeutic Goods Administration (TGA) approval
- One Lab :
 - Process improvement to improve consistency and drive efficiency
 - EmbryoScope+ being rolled out across Virtus network



Summary

FY20 Focus

- Defend and build services in our premium business;
- Grow our low price volume services in Australia;
- Grow diagnostic revenue in Australia;
- Grow non-IVF day hospital revenue in Australia;
- Expand our international revenue, initially through organic activities and acquisitions in targeted international markets

We have a focused strategy to deliver earnings growth in the face of a changing market



APPENDICES

KPIs – Australian Segment

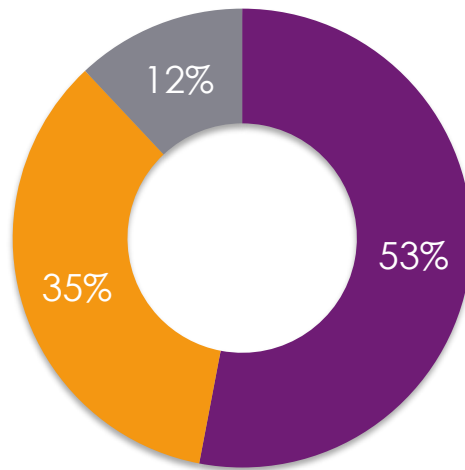
Virtus	Note	FY19	FY18	Change
Number of IVF cycles in Virtus Australia	1	15,460	15,235	1.5%
TFC cycles as a percentage of total Virtus IVF cycles		17.9%	14.5%	3.4%
Number of IVF cycles in NSW, QLD, TAS, VIC, ACT market		39,060	37,231	4.9%
Eastern states market share	1	39.6%	40.9%	(1.3%)
National market share	1	33.4%	34.9%	(1.5%)
Treatment volume	2	29,778	29,714	0.2%
Average number of Fertility Specialists		104	106	(1.9%)
Average number of cycles per Fertility Specialist		149	144	3.5%
Average age of Fertility Specialists		52	52	0.0%
Average total revenue per cycle (A\$)		13,999	14,176	(1.2%)
Labour as a % of total revenue		34.3%	32.5%	(1.8%)
Provider fees as a % of total revenue		14.3%	15.0%	0.7%
Reported segment EBITDA margin %		28.0%	30.7%	(2.7%)

Notes:

1. Implied last 12 months market share is based on fresh and cancelled cycles in NSW, VIC, QLD, TAS and ACT
2. Total treatments includes fresh cycles, cancelled cycles, IUIs and FETs

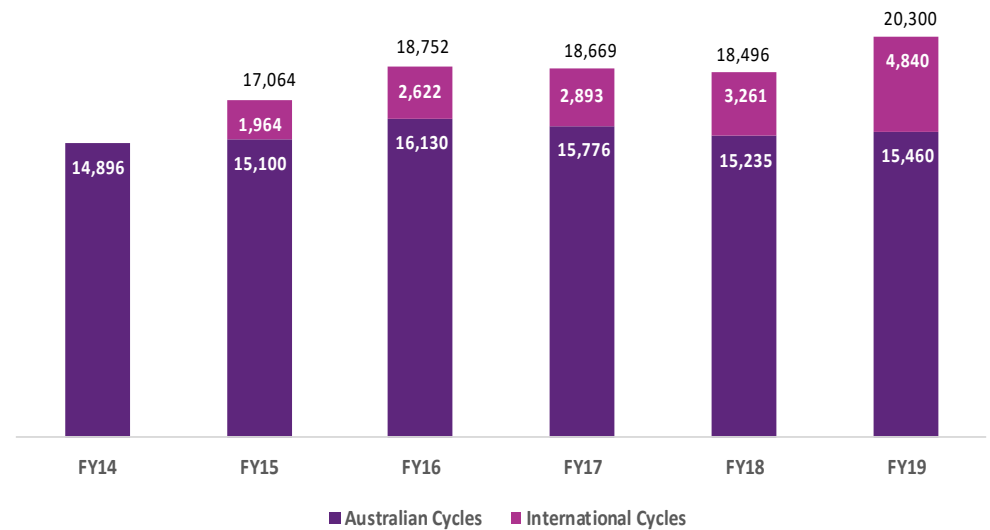
Treatment Analysis

Treatment Mix



- Fresh cycle
- Frozen cycle
- AI/OI treatment*

Virtus Cycles



*AI/OI Artificial insemination/ ovulation induction treatment

Regulatory Environment

Australia

- Publicly reported clinic specific pregnancy rates is now on the Australian Federal Health agenda for discussion
- State Governments considering opportunities to extend existing public IVF services
- Federal Health Department review of Medicare Benefits Schedule – report published for public consultation with no changes to ARS proposed to date
- National Health and Medical Research Council (NHMRC) report published June 2017; no recommendations enacted to date
- Committee (MSAC) review of PGD funding ongoing
- Proposed changes implemented by National Pathology Accreditation Advisory Council (NPAAC) have placed an additional cost impost on businesses in relation to pathologist supervisory requirements

Ireland

- Proposed changes to donor legislation, removing anonymity for donors and the potential for public funding of IVF are still to play out and there is no timeframe articulated on these matters.
- New dedicated Fertility Regulator expected to be introduced in 2020

UK

- A proposed National IVF tariff - A “Guidelines for Commissioning Fertility Services” paper has been released by the HFEA to clinical commissioning groups. This includes a proposed tariff for IVF - there is no information on when this might be introduced and it is likely to be contested by clinics.

Singapore

- Government-approved Pre-implantation genetic screening 'clinical trial' in public hospital could point to expanding service offering

Denmark

- No regulatory updates at the current time

VIRTUS HEALTH NETWORK OF CARE

ASSISTED REPRODUCTIVE SERVICES

43

FERTILITY CLINICS

Australia	36
Ireland	3
Singapore	1
Denmark	2
UK	1



SPECIALISED DIAGNOSTICS

63

LABORATORIES

Embryology	27
Andrology	29
General Pathology	5
Genetics	2



DAY HOSPITALS

7

DAY HOSPITALS

IVF and non-IVF
procedures



127

FERTILITY SPECIALISTS



1,046

NURSES, COUNSELLORS, PATIENT SUPPORT (incl DIAGNOSTICS)



242

SCIENTISTS





THANK YOU