



Virtus Health (ASX:VRT)

# FINANCIAL RESULTS PRESENTATION FY2018

Tuesday 21 August, 2018 AEST



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# RESULTS & OPERATIONAL OVERVIEW FY2018

# FY18 Financial Results: Highlights

**Revenue** ↑ 2.2%  
**\$262.1m**

**EBITDA** ↑ 0.3%  
**\$65.0m**

**NPAT attributable to ordinary equity holders**

↑ 9.4%  
**\$30.8m**

**EPS** ↑ 9.3%  
**38.26 cents**

**Underlying EBITDA**  
↑ 5.0%

**Final Dividend**  
**12 cps**  
**fully franked**

Headline earnings growth driven by:

- Consistent Australian ARS performance despite softening of domestic market in H2;
- Continued growth in Diagnostics;
- International EBITDA growth of 29.5%; and
- Effective cost management





# AUSTRALIAN SEGMENT PERFORMANCE

# Virtus Australia: Achievements

Australian segment EBITDA up 1.6% to \$66.8m

## Australian Fertility Business

- **Segment EBITDA margin improvement of 0.7%** despite a soft second half market through successful implementation of cost out and operational efficiency initiatives
- **Market share gains** NSW out performed the market for second year in a row and VIC recorded market share gains in a declining market
- **Virtus Victoria delivered strong profit growth** from scientific and operational improvements

## Diagnostics

- **Diversification** into Diagnostics delivers continued profit growth

## Day Hospitals

- **Facility development:** Alexandria Specialist Day Hospital NSW and Hobart Specialist Day Hospital

# Australian Operations: Fertility

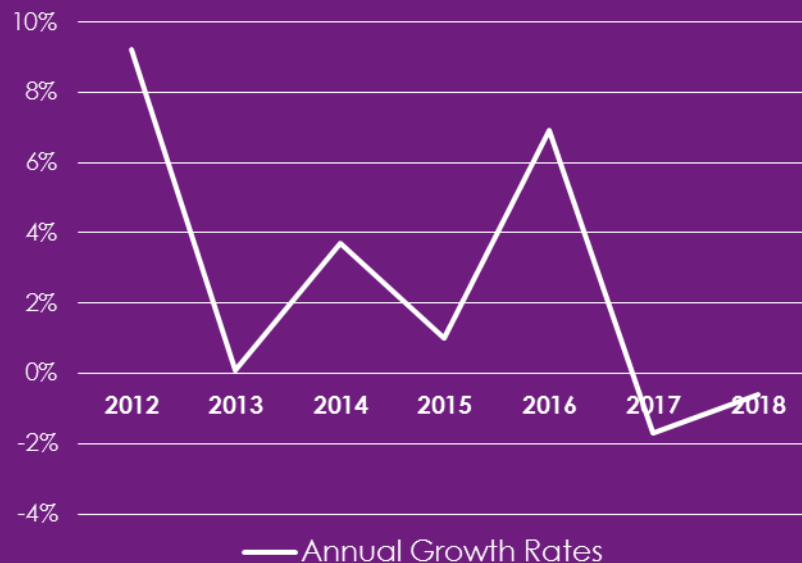
## Australian segment EBITDA increases despite challenging domestic conditions

- Overall market volume along eastern seaboard down 0.7%
- Virtus cycle activity in FY18 down 3.4% to 15,235 cycles
- Virtus market share improved in H2FY18 as the market started to settle in Queensland
- Virtus full service activity declined 2.5%
  - Confined to market share losses in QLD and TAS;
  - Virtus NSW outperformed market for the second year in a row;
  - Virtus VIC strategy improved market share in a declining market
- TFC activity declined 9.2%
  - Confined to loss of market share in QLD in a price sensitive market
  - NSW and VIC TFC volumes increased by 5.2%
  - TFCs represent ~13% of overall Virtus Australian activity
- Revenue flat at \$216.0m (FY17: \$217.1m)

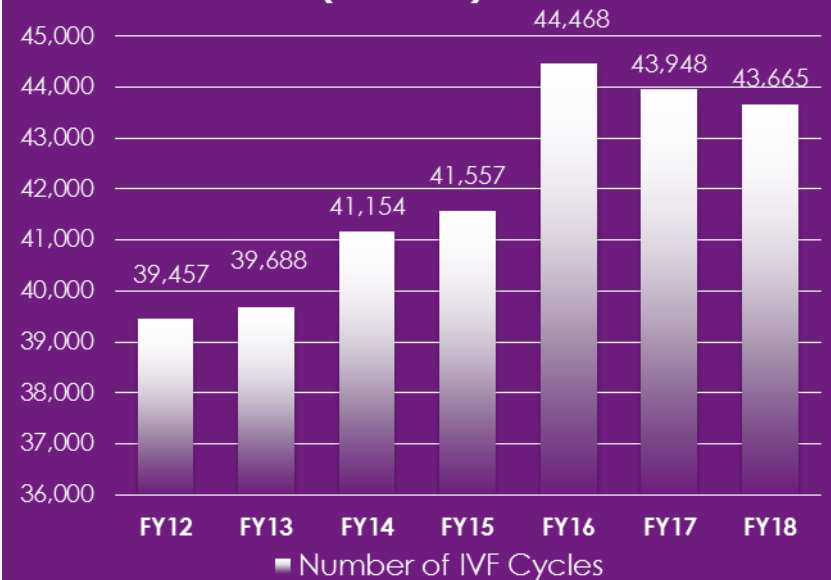
# Variability in Australian Market Growth

Annual growth rate variability is normal

**Annual Industry Growth rates (FY12-18)**



**Market Volumes (FY12-18)**



- 5 year market CAGR to June 2018 is 1.9%
- FY18 reflects a slight market contraction of <1% over pcg to 43,665 cycles
- Despite a strong H1 (5.5% increase over pcg); H2 reflected softer volumes with the Queensland market settling after H1 increase from the introduction of bulk bill service providers



# Australian Operations: Diagnostics



A MEMBER OF VIRTUS HEALTH

## Revenue and EBITDA growth

- Diagnostic revenue increased 3.6% and EBITDA increased 9.1%
- EBITDA growth driven by revenue growth and significant operational improvements in FY17
- Revenue growth reflects:
  - Strong H1 IVF activity partially offset by weaker IVF volumes in H2
  - Continued growth of PGD/PGS up 10.3% - utilisation at 17.7% of fresh cycles FY18 (FY17:13.9%)
  - 7% increase in new referring Doctors
- Focus on growth through expansion of:
  - Pathology testing platform and collection centre footprint
  - Genetic services
  - Services in Tasmania & ACT

# Australian Operations: Day Hospitals



## Day Hospital revenue flat

- Increase in IVF activity of 6.6% from strong IVF H1 volumes and higher frozen embryo transfers offset by decrease in Non-IVF procedure revenue of 5.3% across all day hospitals
- Virtus expands Day Hospital facilities to grow capacity with commissioning of:
  - Alexandria Specialist Day Hospital in NSW August '18
  - Hobart Specialist Day Hospital September '18
  - From 6 to 7 Day Hospitals, additional 3 operating theatres





# INTERNATIONAL SEGMENT PERFORMANCE

# Virtus International: Achievements

Revenue from international operations grows by 17.6% to \$44m

## UK

- Acquisition of Complete Fertility Clinic, Southampton establishes Virtus presence in the UK

## DENMARK

- Acquisition of Trianglen in Copenhagen enhances our Danish presence

## IRELAND

- Sims Group (including Rotunda IVF) ownership extended to 85%

## SINGAPORE

- Singapore continues to consolidate market reputation and improve financial performance

# UK Operations

## Complete Fertility Limited (CFL)

- Acquisition of 90% of CFL on 1st April 2018, based in Southampton UK for a consideration of £5.3m (AUD \$9.6m)
- Marks Virtus' entry to UK market, establishing a platform for further expansion in both public and private ARS markets
- Facility refurbishment underway to accelerate opportunity for growth
- Contributed 125 fresh cycles; and revenue £0.8m for three months to June 2018
- Annual cycles performed in year to March 2018 were 454
- Forecast to be EPS accretive in FY19





# Danish Operations

Trianglen acquisition increases Danish market presence to ~ 15%

- Acquisition of Trianglen on 28 June 2018, based in Copenhagen, for a maximum consideration of Kr 198m (AUD \$42m)
  - Annual cycles performed in year to June 2018 were 1,370
  - Forecast to be EPS accretive in FY19
- Aagaard Clinic contributed 539 cycles; and revenue Kr20.9m (AUD \$4.4m)
- Opportunity for operational synergies within Virtus Denmark



# Irish Operations

## EBITDA impacted by softer FY18 volumes

- 2,227 cycles performed in FY18 (FY17: 2,294) reflecting lower H1 activity at SIMS IVF Group (includes Rotunda IVF)
- Revenue flat at €21.7m (AUD \$33.4m)
- EBITDA down 3.7% to €4.1 (AUD \$6.3m) as a result of soft volumes
- First put option to acquire a further 15% stake in SIMS group was exercised in October 2017
- Appointment of Irish Clinic Director to implement operational, medical and scientific strategy



# Singapore Operations

## Increased cycles drive positive EBITDA

- 370 cycles performed in Singapore in FY18 (FY17: 341)
- FY18 EBITDA SG\$350,000 (AUD \$321,000) compared to pcp loss of SG\$144,000 (AUD \$120,000)
- Combined Medical & Scientific approach delivering successful patient outcomes driving market penetration





# FINANCIAL RESULTS FY2018

# Summary Income Statement

## Statutory and adjusted results

A \$ millions	Statutory Results		Adjustment		Adjusted Results	
	FY18	FY17	FY18	FY17	FY18	FY17
<b>Revenue</b>	<b>262.1</b>	<b>256.5</b>			<b>262.1</b>	<b>256.5</b>
Segment EBITDA	76.0	72.9			76.0	72.9
<b>EBITDA (before impairment)</b>	<b>65.0</b>	<b>64.8</b>	<b>(0.1)</b>	<b>(3.0)</b>	<b>64.9</b>	<b>61.8</b>
Depreciation, amortisation and impairment	(12.5)	(14.0)		1.9	(12.5)	(12.1)
<b>EBIT</b>	<b>52.5</b>	<b>50.8</b>	<b>(0.1)</b>	<b>(1.1)</b>	<b>52.4</b>	<b>49.7</b>
Interest	(7.6)	(8.0)	1.0	1.2	(6.6)	(6.8)
<b>Profit before income tax</b>	<b>44.9</b>	<b>42.8</b>	<b>0.9</b>	<b>0.1</b>	<b>45.8</b>	<b>42.9</b>
Income tax expense	(12.9)	(12.8)	(0.3)	(0.1)	(13.2)	(12.9)
<b>Profit after income tax</b>	<b>32.0</b>	<b>30.0</b>	<b>0.6</b>	<b>0.0</b>	<b>32.6</b>	<b>30.0</b>
Profit after income tax attributable to non-controlling interest	(1.2)	(1.9)			(1.2)	(1.9)
<b>Profit after income tax attributable to ordinary equity holders</b>	<b>30.8</b>	<b>28.1</b>	<b>0.6</b>	<b>0.0</b>	<b>31.4</b>	<b>28.1</b>
Earnings per share (cents)	38.26	35.00				
Diluted Earnings per share (cents)	37.98	34.79				

Notes:

Shaded area indicates IFRS disclosures FY18 Financial Statements; refer next page for reconciliation of detailed adjustments from statutory profit to adjusted profit.



# Statutory Profit Reconciliation to Adjusted Profit

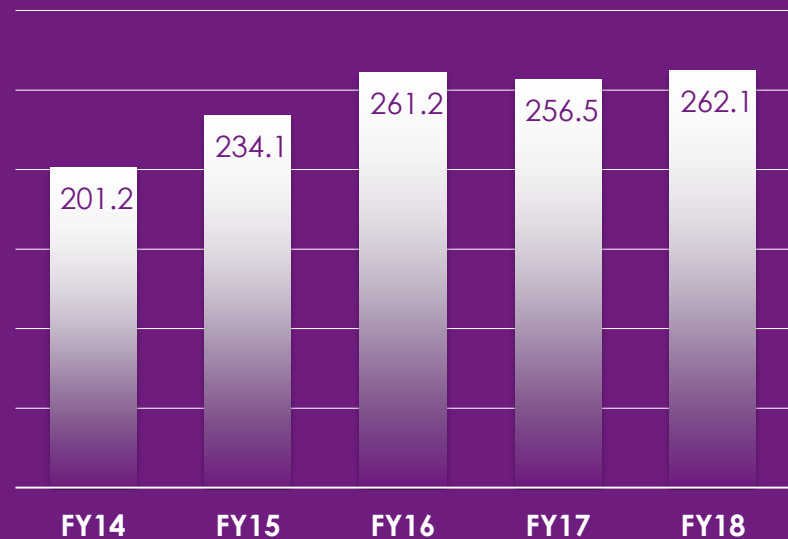
\$ Million	FY18	FY17
<b>Profit after income tax attributable to ordinary equity holders</b>	<b>30.8</b>	<b>28.1</b>
Fair Value Adjustment to put liabilities <sup>1</sup>	(0.9)	(3.3)
Fair Value Adjustment to contingent consideration	(0.2)	(0.5)
Non Cash Interest <sup>2</sup>	1.0	1.2
Transaction costs	1.0	0.8
Impairment of Goodwill	-	1.9
Tax-effect on all adjustments	(0.3)	(0.1)
<b>Adjusted NPAT</b>	<b>31.4</b>	<b>28.1</b>

Notes:

1. Fair value adjustment to put liabilities relating to remaining interests in Sims Group
2. Non cash interest relates to the unwinding of the discount on the put option and contingent consideration liabilities

# Key Revenue and EBITDA Drivers for FY2018

**FY14-18 Revenue**



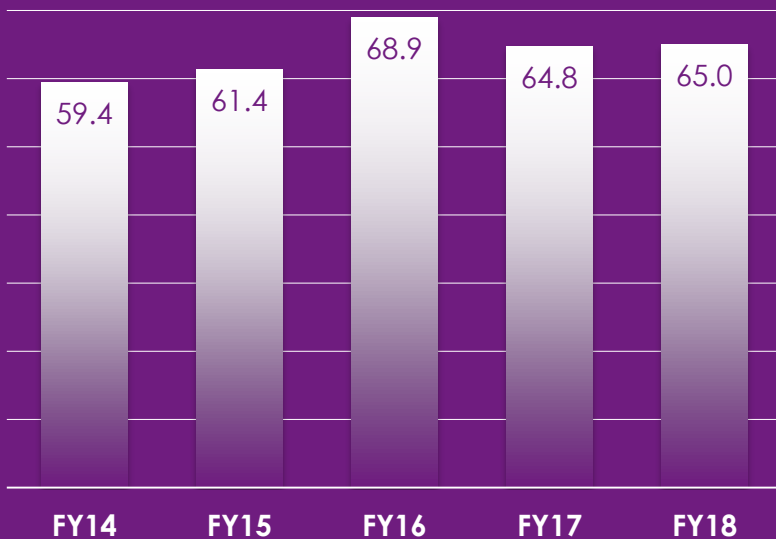
**FY18 Revenue impacted by:**

- NSW full service and TFC growth
- Diagnostics revenue growth
- First time full year contribution from Agaard
- Three months contribution from Complete Fertility

**Partially offset by:**

- QLD market share loss
- TAS market share loss

**FY14-18 Group EBITDA**



**FY18 EBITDA impacted by:**

- Successful implementation of cost out and operational efficiency initiatives outlined late FY17
- Strong recovery in VIC profitability
- Strong EBITDA growth in Diagnostics
- Positive Singapore EBITDA
- FY17 EBITDA included a fair value gain of \$3.8m compared to \$1m gain in FY18 on put liabilities

**Partially offset by:**

- Loss of market share and margin erosion in QLD
- Increased competition in weaker TAS market

# Statement of Financial Position

A \$ millions	Statutory June 18	Statutory June 17
Cash	21.7	27.3
Trade and other receivables	12.5	12.3
Inventories	0.8	0.7
Equity accounted investments	1.5	1.5
Other financial assets	3.6	3.0
PP&E	34.5	29.0
Deferred tax assets	5.5	4.6
Intangible assets	465.4	411.5
<b>Total Assets</b>	<b>545.4</b>	<b>489.9</b>
Trade and other payables	25.8	22.1
Deferred revenue	14.8	8.2
Borrowings	180.8	153.6
Provisions	10.6	9.8
Current tax liabilities	4.3	0.4
Deferred tax liabilities	0.9	0.6
Other financial Liabilities	24.7	26.8
<b>Total Liabilities</b>	<b>261.8</b>	<b>221.5</b>
<b>Net Assets</b>	<b>283.6</b>	<b>268.4</b>

## Cash balance

Decrease reflects utilisation of excess cash on Capex and acquisitions

## Gearing

- Increase in borrowings arising from additional drawdown of \$33m to fund acquisitions offset by voluntary repayment of \$6m
- Leverage ratio of 2.4 adjusted group EBITDA (LTM)
- Full compliance with sufficient head room under both interest cover and leverage ratios
- Funding capacity available, ~\$30m reflecting \$25m of unused facilities and ~\$5m of uncommitted cash

## Dividend proposed

12cps, (pcp12cps) fully franked payable on 12 October 2018

# Cash Performance

## Strong Operating cash flow

Summary (A\$m)	FY18 (A\$m)	FY17 (A\$m)
<b>Group EBITDA</b>	<b>65.0</b>	<b>64.8</b>
Changes in other operating assets /liabilities	6.0	(5.6)
Net financial costs	(6.6)	(6.4)
Income Tax	(10.0)	(10.7)
Other adjustments*	0.5	(3.4)
<b>Operating Cash Flow</b>	<b>54.9</b>	<b>38.7</b>
Net CAPEX	(15.5)	(9.8)
<b>Free Cashflow</b>	<b>39.4</b>	<b>28.9</b>
Dividends paid	(20.9)	(22.5)
<b>Free Cash Flow after dividends</b>	<b>18.5</b>	<b>6.4</b>

## Strong free cashflows after dividends used to fund:

- Exercise of the first put options to acquire a further 15% of the SIMs Group (Ireland) and TAS IVF of \$10.2m
- Voluntary debt repayment of \$6.0m
- Partial funding (\$6.4m) for the two acquisitions of Complete Fertility in UK and Trianglen in Denmark (balance of \$30m funded by additional drawdown)
- Changes in operating assets/liabilities mostly in relation to timing differences on payables in FY18 and FY17

\* Decrease resulting from higher non cash fair value adjustments during FY17



# STRATEGY

## VIRTUS HEALTH #1 FOR FERTILITY

Creating more chubby cheeks than anyone else



# Virtus Health Growth Initiatives

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

## Patient Centric: Leading minds, leading science

### Assisted Reproductive Services

- Utilise the Australian network size and scale to deliver the most comprehensive and complete fertility services to all demographics
- Targeted International acquisitions
- Adoption of Virtus developed AI 'Ivy' to improve patient outcomes

### Diagnostics (Domestic)

- Expand technology and network platform achieving market penetration in all service areas
- Genetic screening key growth area

### Day Hospitals (Domestic)

- Capacity expansion to drive patient services & revenue



# Virtus Scientific Innovation

## Advanced technology, digital platforms and collaboration

- Pioneering “**Ivy**” **Artificial Intelligence** to select an embryo with the best chance of achieving a successful pregnancy as quickly as possible.
- **One Lab Strategy** to deliver best in scientific methods, research, facilities, equipment and professionals
- Continued investment in **digital transformation** for improved patient experience eg Virtus App



# Summary

Virtus is well positioned for continued growth

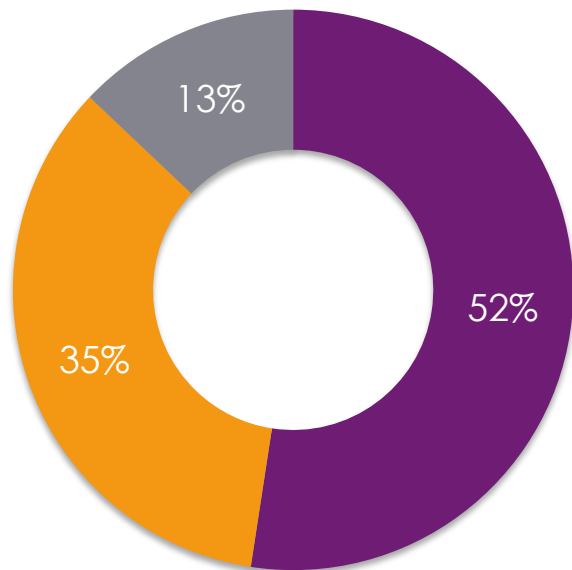
- Virtus' diversified model, scale & geographical reach provides an unrivalled platform for participation in all key fertility segments
- Investment in clinical and scientific research, early adoption of advanced technologies for improved patient outcomes to drive long term growth
- Culture of innovation the foundation of Virtus' digital transformation to enhance patient experience and advocacy
- Targeted International acquisitions position Virtus for further growth in selected geographies and continue to diversify our revenue sources



# APPENDICES

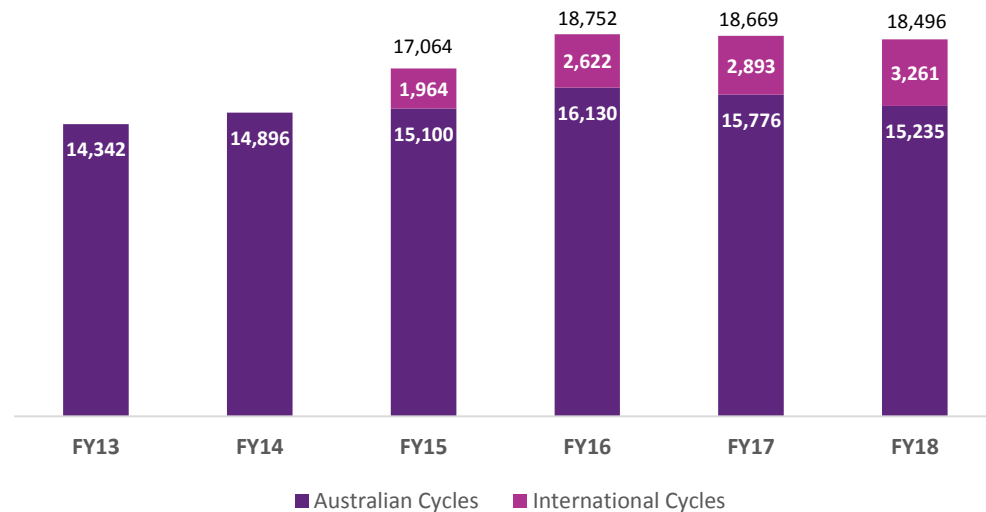
# Virtus Treatment Analysis

Treatment Mix



■ Cycle ■ Frozen ■ AI/OI

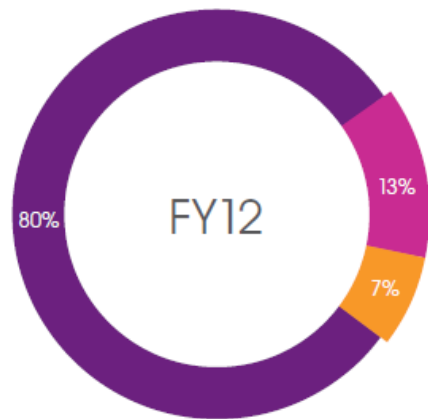
Virtus Cycles



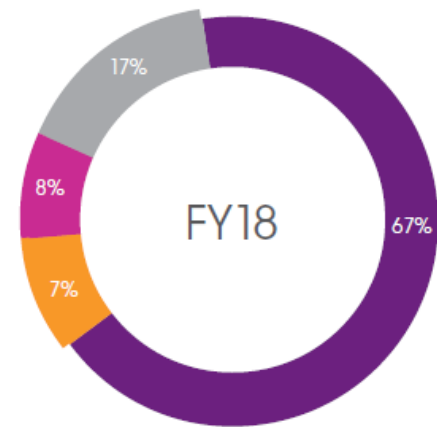


# Diversified Revenue Mix

## Multiple Sources of Revenue



VRT's revenue mix has continued to diversify



■ Australian ARS ■ Australian Diagnostic ■ Day Hospitals ■ International ARS

# KPIs – Australian Segment

**Segment EBITDA margin improves despite challenging domestic ARS market with strong performance in NSW and VIC offset by QLD and TAS**

Virtus	Note	FY18	FY17	Change
Number of IVF Cycles in Virtus Australia	1	15,235	15,776	(3.4%)
TFC cycles as a percentage of total Virtus IVF cycles		13.0%	13.8%	(0.8%)
Number of IVF Cycles in NSW, QLD, TAS, VIC, ACT market	1	37,231	37,497	(0.7%)
East states market share	1	40.9%	42.1%	(1.2%)
National market share	1	34.9%	35.9%	(1.0%)
Treatment volume	2	29,714	30,413	(2.3%)
Average number of Fertility Specialists		106	106	-
Average number of cycles per Fertility Specialist		144	149	(3.0%)
Average age of Fertility Specialists		52	51	(0.6%)
Average total revenue per cycle (A\$)		14,156	13,758	2.9%
Labour as a % of total revenue		32.5%	32.7%	0.2%
Provider fees as a % of total revenue		15.0%	15.1%	0.1%
Reported segment EBITDA margin %		30.7%	30.0%	0.7%

## 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

# VIRTUS HEALTH NETWORK OF CARE

## ASSISTED REPRODUCTIVE SERVICES

45

### FERTILITY CLINICS

Australia	38
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



126

### FERTILITY SPECIALISTS



977

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



241

### SCIENTISTS



# Regulatory Environment

## Australia

- Federal Health Department review of Medicare Benefits Schedule remains ongoing
- National Health and Medical Research Council ("NHMRC") report published June 2017; no recommendations enacted to date
- Committee (MSAC) review of PGD funding ongoing

## Ireland

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

## Singapore

- Government increased subsidy for ARS in public hospitals (for eligible couples) effective 1st April 2018

## Denmark

- Favourable market for local and international donor services following recent changes





THANK YOU