Virtus Health Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	Virtus Health Limited
ABN:	80 129 643 492
Reporting period:	For the half-year ended 31 December 2021
Previous period:	For the half-year ended 31 December 2020

2. Results for announcement to the market

The Directors of Virtus Health Limited ('Virtus') announce the results for the half-year ended 31 December 2021 ('H1 FY2022'). Key highlights from the results are:

				$'000
Revenues from ordinary activities	up	1.0%	to	171,298
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	down	35.7%	to	37,933
Earnings Before Interest and Tax (EBIT)	down	45.0%	to	25,849
Profit from ordinary activities after tax	down	49.6%	to	15,260
Profit for the half-year attributable to the owners of Virtus Health Limited	down	49.5%	to	15,126

Dividends

	Amount per security Cents	Franked amount per security Cents
Final ordinary dividend paid for the year ended 30 June 2021 paid in October 2021	12.00	12.00

An interim dividend of 12.00 cents per share fully franked will be paid on 14 April 2022 for shareholders on the register at 24 March 2022.

Comments
The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to $15,126,000 (31 December 2020: $29,929,000).

A reconciliation of Segment EBITDA to statutory profit before tax for the financial half-year is as follows:

	Consolidated 31 Dec 2021 $'000	Consolidated 31 Dec 2020 $'000
Segment EBITDA	53,178	67,227
Share-based payment expense	(1,764)	(1,037)
Information technology costs	(5,280)	(4,463)
Other non-trading expenses	(5,550)	(4,360)
Transaction costs	(2,651)	-
Fair value adjustment to contingent consideration	-	1,599
EBITDA (reported)	37,933	58,966
Depreciation and amortisation expenses	(12,084)	(11,953)
EBIT	25,849	47,013
Net finance costs	(4,344)	(4,620)
Profit before income tax from continuing activities	21,505	42,393

Key financial features of the results are:

- Revenue increased 1.0% to $171.3m;
- EBITDA decreased 35.7% to $37.9m; and
- Profit before income tax expense decreased 49.3% to $21.5m

The significant decrease in EBITDA and profit before income tax expense as compared to the prior half year is primarily as a result of two major factors:

- There are a number of significant items that have impacted both the current half year and the prior half year results as detailed below
- If transaction costs in relation to the proposed Adora transaction (refer below for details) of $2.5m are excluded, current half year operating expenses were approximately $7.5m higher than in the prior half year. This increase in expenditure represents strategic investments in human capital and Infrastructure (including IT) that are being made for both the ability to sustainably serve current patient volumes as well as provide for the future growth of the business (explained in detail in the Operating and Financial Review below). The increased operating expenses also included increased costs associated with COVID-19 safety related precautions.

Significant Items
A summary of significant income and expenditure items impacting reported EBITDA were as follows:

$Millions	31 Dec 2021	31 Dec 2020
Fair Value adjustment to contingent consideration and put liabilities	-	1.6
Government assistance (COVID-19 related)	-	7.7
Transaction costs	(2.6)	-
Total	(2.6)	9.3

In the current period, significant items included in EBITDA and Profit before income tax related to transaction costs mostly in relation to the Adora transaction that did not proceed (see below for further details).

Prior period EBITDA and Profit before income tax included $7.7m of COVID-19 related Government assistance that assisted the consolidated entity to navigate through the early part of the pandemic by minimising employee stand downs and permanent job losses. This also provided a stable platform to allow the group to meet the deferred pent up patient demand that had built up in the course of H1 FY2021. The other significant item reflected in profit before income tax in the prior year was a fair value gain of $1.6m on the contingent consideration relating to the acquisition of Fertilitesklinikken Trianglen Aps.

Operating and Financial Review (OFR)

Australia
Virtus fresh cycle activity in Australia increased by 1.3% over pcp which was a high comparable period (having grown 18% over the pcp). This growth compares to an increase in Virtus' available Australian market (States in which Virtus provides services) growth of 3.4%. Key aspects of the volume movements compared to pcp were as follows:

- Premium service volumes (approximately 80-85% of Virtus Australia) increased by 1.2% with growth in all regions, building on 28.4% growth in the pcp. New South Wales, Queensland, Tasmania premium volumes exceeded market growth. Victoria recorded growth in premium cycles but was below market growth, impacted most by cancellations and deferrals in Q2; and
- Increase in The Fertility Centre (TFC) volumes (approximately 15-20% of Virtus Australia) across all States was limited to an increase of 1.7% as they were severely disrupted by the prolonged lockdowns in New South Wales in Q1 FY2022 which impacted our patients in Southwestern Sydney (epicentre of the Delta outbreak). Victoria's TFC operations were also impacted by COVID-19 related capacity restrictions at The Women's Hospital in Q2 FY2022. Whilst TFC has been impacted to a greater extent than Premium services during the pandemic Virtus remains optimistic in the greater potential for post pandemic growth in this service given the expected accumulation of deferred demand.

Overall, EBITDA in the Australian segment decreased by $12.5m compared to pcp. There were three main factors contributing to this decrease:

- Australian Segment EBITDA in the pcp included $7.7m of COVID-19 related Government assistance (JobKeeper Scheme).
- Employee costs increased by $2.8m in this period reflecting expansion of the workforce to sustain continued volume growth, as well, as investments in clinical and donor resources, business development and genetic clinicians to support future growth. The increase also included annual CPI and increases in enterprise agreement related salaried staff
- Balance of $2.0m is partially attributed to gross margin erosion resulting from higher number of COVID-19 related cancelled/deferred cycles and higher PPE for staff and patients to maintain robust COVID-19 response and safety plans. Remaining increase is attributed to increase in outgoings arising from additional cleaning costs in clinics and hospitals from increased throughput and COVID-19 safety related precautions.

International
Overall, EBITDA in the international segment decreased by approximately $1.5m compared to pcp.

- Ireland experienced a weaker EBITDA in the first half despite a slight cycle volume increase of 0.8%. EBITDA in local currency decreased by €0.2m primarily related to pre-conception genetic screening (PGS) roll out delays impacting revenue per cycle. Volume growth was restricted by the constraints on the Ireland egg donation program and this also impacted EBITDA. PGS rollout is expected to be completed in H2 FY2022 and it is expected that the Egg Donation programme will also recommence in H2 FY2022.

- Virtus Danish clinics reported a combined decline in cycle volume of 8.4% which contributed to EBITDA in local currency decreasing by DKK2.7m compared to pcp. Return of COVID-related travel restrictions/reluctance impacted volumes. Management focus on Donor and pre-implementation genetic diagnostics (PGD) cycles has part-mitigated volume shortfall. A new, larger and more modern facility in Copenhagen is being built for opening in FY2023 as Denmark remains an important hub for international patients who are expected to return as confidence in travel picks up with higher vaccination rates and easing of restrictions.

- In the UK, Complete Fertility cycles were up 6.8% on pcp however EBITDA in local currency was down by £0.1m. This was due to investments made in the senior management team as part of a strategic review to improve efficiency and clinical success rates.

- Fresh cycle volumes in Singapore decreased by 16.3% which resulted in EBITDA in local currency decreasing by $0.3m compared to pcp. The decline in volumes resulted from the early retirement of an experienced doctor for health reasons. Two additional doctors have been recruited and are expected to regain lost volumes going forward.

Operating expenses movement analysis (OPEX)

$'Millions	H1FY22	H2FY21
Employee benefits expense	61.8	57.7
Occupancy expense	3.8	3.2
Advertising and marketing	2.2	1.9
Practice equipment expenses	1.6	1.5
Professional and consulting fees	2.4	1.8
Other expenses	13.4	9.1
Total OPEX	85.2	75.2

Operating expenses
Group OPEX was approximately $10m higher than pcp and this comprised the following major movements;

- Employment costs increased by $4.1m (7.1%) to $61.8m, driven primarily by investments within the Australian Segment $2.9m (noted above); $0.6m in additional investments in the International segments mostly relating to doctor retention and recruitment activities; $0.6m reflecting full costs of investments made during H1 of FY21 in group functions including Digital Health, People and Culture and Legal teams.
- Occupancy costs increased by $0.6m (18.8%) to $3.8m – as noted above, increase is in relation to outgoings and additional cleaning costs in clinics and hospitals from increased throughput and COVID-19 safety related precautions.
- Other expenses increased by $4.3m (47.9%) to $13.4m. Key contributors for this was an increase of $1.1m in IT and Infrastructure expenses. This includes $0.6m of operating expenditure in respect of the Precision Fertility Platform which is the key enabler for the group's digital health strategy and $0.5m spread across other transformative investments that includes a new workforce management system and operational KPI dashboard. Insurance costs increased by $0.5m and $2.6m related to transaction costs (see details below).

Transaction Costs
On 23 August 2021, Virtus entered into a share sale agreement to acquire Adora Fertility and three day hospitals (“Adora Services”) from Healius Limited for $45.0 million. The acquisition was to be funded through a combination of existing cash reserves and an underwritten $35 million institutional placement which was completed on 24 August 2021. The fully underwritten Institutional placement comprised the issue of 5,147,059 new fully paid Virtus Health Limited ordinary shares to certain eligible institutional investors that raised $34.3 million net of transaction costs and tax (Gross $35 million) at a fixed price of $6.80 per share.

The proposed acquisition was not subject to regulatory approvals however as a courtesy, Virtus notified the Australian Competition and Consumer Commission (ACCC) of the acquisition upon announcing the proposed transaction. The ACCC subsequently commenced a public review followed by the commencement of proceedings alleging that the acquisition of the Adora clinics in Brisbane and Melbourne would result in a substantial lessening of competition in breach of the Competition and Consumer Act 2010. The ACCC restrained the parties from completing the acquisition and the matter was fixed for a two-week hearing in March 2022 before the Federal Court of Australia.

Virtus worked continuously, co-operatively and extensively to address the ACCC’s prima facie concerns regarding the ownership of the 2 Adora clinics of concern. However, the ACCC did not reach a decision to provide clearance for the acquisition despite the submission of extensive materials to support the rationale for Virtus’ view that the 2 clinics, supporting the practices of 4 fertility specialists, would not result in a substantial lessening of competition. With the continued uncertainty of the outcome of the hearing for shareholders, including the opportunity cost of the management team being distracted from other value creating opportunities, as well as the necessity to incur substantial legal costs if the matter proceeded to hearing, Virtus decided not to proceed with the acquisition and accordingly issued a notice of termination under the Share Sale Agreement with Healius.

Transaction costs, including accounting, legal and tax during the due diligence phase and subsequent legal costs in relation to this transaction totalled $2.5m.

Operating cash flow
Net cash from operating activities decreased by $11.4m to $20.7m driven mostly by the EBITDA decrease offset partially by lower tax payments. H1FY2021 included a $9m payment of tax balances in respect of the year to June 2020 that were deferred during the first wave of the COVID-19 pandemic.

Capital Expenditure
Total expenditure on tangible and intangible assets was $6.4m in H1 FY2022 (H1 FY2021; $7.2m). Key items included $1.2m for the development of the Precision Fertility Platform, $0.5m for an additional lab in Singapore to expand capacity and $1.2m in new state of the art medical equipment for Day Hospitals to expand non IVF procedures. The balance is comprised of maintenance capex across the IVF network.

Debt and interest expense
The consolidated entity has total commitments of $262m through its syndicated debt facilities.

As the proposed Adora acquisition did not proceed, net placement proceeds of $34m and excess cash of $16m generated from strong operating cashflows were used to reduce debt by $50m during H1 FY2022.

At 31 December 2021, total facilities drawn were $95m in borrowings and $7.8m in guarantees. Unused and available facilities amounted to $159m. The consolidated entity complied with the financial covenants of its borrowing liabilities during the financial half-year ended 31 December 2021. Subject to the continued compliance with debt covenants, the undrawn bank facilities may be drawn at any time and the total facility of $262m expires in October 2023. The reduction in the cash interest expense of $0.3m compared to pcp reflects reduced debt levels.

Other investments $1.8m (H1 FY2021: $1.5m)
During the year Virtus acquired 14,197 shares in 23Strands Pty Ltd (23Strands) for $0.3m. 23Strands is a wholly Australian owned start-up focused on delivering personalised healthcare utilising whole genome sequencing and Artificial Intelligence. Virtus has entered into a research collaboration with 23Strands that will include a study to determine whether whole genome sequencing coupled with big data linkage can inform clinical decisions and enhance ARS outcomes.

Taxation
The effective tax rate on operating earnings for H1 FY2022 was 29.0% (H1 FY2021: 28.6%).

Earnings per share
Basic earnings per share decreased to 18.06 cents per share (H1 FY2021: 37.42 cents per share). Diluted earnings per share decreased to 17.91 cents per share (H1 FY2021: 36.98 cents per share).

Dividend
An interim dividend of 12.00 cents per share fully franked (April 2021: 12.00 cents per share) will be paid on 14 April 2022 to shareholders on the register at 24 March 2022.

Outlook
The Australian ARS market has continued to be resilient throughout FY2021 and H1 FY2022 despite the varying outbreaks of the different COVID-19 variants, and accompanying Government responses during H1 FY2022.

The most recent outbreak of the COVID-19 Omicron variant has resulted in a much larger number of people being infected across most Australian states. While access to ARS treatment and elective surgeries has continued in all states; heightened infection control and safety protocols, including a strict requirement for our doctors and staff to self-isolate when displaying symptoms or being identified as a casual or close contact; is contributing to some deferral of certain treatments. There were some restrictions imposed in Victoria subsequent to 31 December 2021 but they were lifted after a two week period. This further highlighted the importance of providing continuous access to fertility services.

International ARS markets also continued to operate in the context of high numbers of COVID-19 cases and border closures. These conditions delayed the recommencement of our egg donation program in Ireland and our ARS “hub” strategy in Denmark.

We remain confident that with Virtus’s unique multiple market portfolio any of the potential near term impacts of COVID-19 on demand will likely be reflected as deferred, but not lost demand for ARS services.

Virtus has continued to invest in state-of-the- art clinics and labs with new clinics under development in FY2022 to support growth in Sydney (Nepean), Brisbane and Copenhagen. Our *One Lab* strategy also continues to be deployed to further improve IVF success rates. In FY2021 the Board approved the business case for the deployment of the *Precision Fertility™* Digital Platform which will be a key investment in FY2022/23 and thereafter will support growth and drive efficiencies.

The demand for ARS in H2 FY2022 and beyond will be influenced by a number of factors including, in the near term, consumer sentiment being focused on home and family, global vaccination rollout effectiveness and consumer confidence during the high number of COVID-19 cases. The disruption in December 21 and January 22 is likely to have a negative impact on H2 FY2022 from deferrals and cancellations that may not all be caught up within H2 FY2022. Whilst we acknowledge the near-term downside risk from impacts associated with COVID-19, we see that in the medium term, ARS demand will continue to be influenced by trends in maternal age, greater fertility choices and improvements in success rates. Virtus is well positioned to service the ongoing demand for ARS as well as to further diversify revenue via growth in its Day Hospitals and its fertility diagnostic and reproductive genetics service.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(101.63)	(158.91)
Net assets per ordinary security	397.85	373.94

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends paid

Current period

	Amount per security Cents	Franked amount per security Cents
Final ordinary dividend paid for the year ended 30 June 2021 paid in October 2021	12.00	12.00

Previous period

	Amount per security Cents	Franked amount per security Cents
Interim ordinary dividend paid for the year ended 30 June 2020 paid in November 2020	12.00	12.00

No final dividend was declared in June 2020.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period $'000	Previous period $'000
Obstetrics & Gynaecological Imaging Australia Pty Limited and City West Specialist Day Hospital Pty Ltd	50.00%	50.00%	210	668
Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)				
Profit/(loss) from ordinary activities before income tax			210	668
Income tax on operating activities			(63)	(200)

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Virtus Health Limited's foreign subsidiaries have used the International Financial Reporting Standards in compiling the report.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

11. Attachments

Details of attachments (if any):

The Interim Report of Virtus Health Limited for the half-year ended 31 December 2021 is attached.

12. Signed

Signed ____________________________ Date: 22 February 2022

Matthew Prior
Chief Financial Officer and Company Secretary
Sydney

Virtus Health Limited

ABN 80 129 643 492

Interim Report - 31 December 2021

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Virtus Health Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2021.

Directors
The following persons were directors of Virtus Health Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Sonia Petering (Chair)
Kate Munnings
Lyndon Hale
Greg Couttas
Shane Solomon - (resigned on 18 November 2021)
Catherine Aston - (appointed on 1 September 2021)
Priscilla Rogers - (appointed on 1 September 2021)

Principal activities
During the financial half-year the principal continuing activities of the consolidated entity were the provision of healthcare services which include fertility services, medical day procedure services and medical diagnostic services.

Review of operations
The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to $15.1m (31 December 2020: $29.9m).

The consolidated entity continued to engage in its principal activities, the results of which are disclosed in the attached financial statements.

For a detailed review on the trading results refer to the operating and financial review section in Appendix 4D and to the ASX market announcement on 22 February 2022.

Significant changes in the state of affairs
On 13 December 2021, the consolidated entity received an unsolicited, non-binding indication of interest from BGH Capital Pty Ltd (“BGH”) to acquire 100% of the issued, and to be issued, shares of Virtus by way of scheme of arrangement. The proposal attributes a value of $7.10 cash per Virtus share (BGH Proposal).

Implementation of BGH’s proposal is conditional on BGH’s nominated Bidco entering into an agreed scheme implementation agreement with the consolidated entity, and BGH has stated that its entry into a scheme implementation agreement is subject to a number of conditions precedent.

Subsequent to 31 December 2021, the consolidated entity received a competing non-binding indicative proposal from CapVest Partners LLP (“CapVest”) to acquire 100% of Virtus by way of a scheme of arrangement offering $7.60 cash per share. CapVest has also indicated it is willing to proceed with an alternative transaction structure which only requires acceptance by 50.1% of Virtus shareholders, such as an off-market takeover bid with a 50.1% minimum acceptance condition, offering $7.50 cash per share (“Alternative Transaction”) (together with the Scheme, the “CapVest Proposal”).

As noted the CapVest Proposal is an indicative non-binding offer with a number of conditions precedent and was provided on the basis that CapVest required exclusivity and cost recovery protections in order to proceed with the CapVest Proposal.

Following careful consideration of both the CapVest Proposal and BGH Proposal, including advice from its financial and legal advisers, the Virtus Board has determined that the CapVest proposal is attractive for shareholders in the context of a change of control transaction and superior to the BGH Proposal.

The Virtus Board considers that the CapVest Proposal provides an attractive premium for Virtus shareholders, with the cash consideration proposed in respect of the Scheme being:

- a premium of 46% to the closing price of Virtus shares on 13 December 2021 of A$5.21 (being the last trading day prior to the announcement of the BGH Proposal);
- a premium of 42% to the volume-weighted average price of Virtus shares for the one month to and including 13 December 2021 of A$5.36;
- a premium of 39% to the volume weighted average price of Virtus shares for the three months to and including 13 December 2021 of A$5.49; and
- 50 cents per share premium to BGH's indicative proposal of A$7.10 as announced on 14 December 2021.

After considering all the circumstances, including an assessment of fundamental value of Virtus on a stand alone basis and the interests of Virtus and its shareholders, the Virtus Board has agreed to provide CapVest with the opportunity for a period to conduct exclusive due diligence to facilitate development of a binding offer for Virtus. Accordingly, Virtus has entered into a Process Deed with CapVest.

Subject to Virtus and CapVest agreeing an implementation deed on terms acceptable to Virtus, it is the Virtus Board's intention to unanimously recommend that shareholders vote in favour of the Scheme and accept the Alternative Transaction if the consideration per Virtus share under the Scheme is at least $7.60 and under the Alternative Transaction is at least $7.50, in the absence of a superior proposal and subject to an independent expert concluding that the Scheme and the Alternative Transaction is in the best interests of Virtus' shareholders or fair and reasonable, as applicable.

In addition to a period of exclusive due diligence, Virtus has agreed under the Process Deed to pay a fee of $2 million to CapVest in certain circumstances including in the event that CapVest provides a fully documented, financed and binding offer that has been negotiated in good faith with Virtus reflecting the terms of the CapVest Proposal by an agreed date and Virtus elects not to proceed with that offer. That fee increases to $4 million if the Virtus Board recommends a superior competing proposal within an agreed timeframe.

There is no certainty that the CapVest Proposal will result in any transaction being put to Virtus shareholders for their consideration. The announcement of the CapVest Proposal does not constitute a proposal to make a takeover bid for the purposes of section 631 of the Corporations Act. Any takeover offer as part of the CapVest Proposal will only be made when, and if, an implementation deed is entered into between Virtus and CapVest which commits CapVest to make a takeover offer.

There were no other significant changes in the state of affairs of the consolidated entity during the financial half-year.

Events after the reporting period
Other than as disclosed elsewhere in the half year report, no matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Rounding of amounts
The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report and the Financial Report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors.

Sonia Petering
Chair

22 February 2022
Sydney

Auditor's Independence Declaration

As lead auditor for the review of Virtus Health Limited for the half-year ended 31 December 2021, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Virtus Health Limited and the entities it controlled during the period.

Mark Dow
Partner
PricewaterhouseCoopers

Sydney
22 February 2022

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General information

The financial statements cover Virtus Health Limited as a consolidated entity consisting of Virtus Health Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Virtus Health Limited's functional and presentation currency.

Virtus Health Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 3
176 Pacific Highway
Greenwich NSW 2065

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 22 February 2022. The directors have the power to amend and reissue the financial statements.

Virtus Health Limited
Statement of comprehensive income
For the half-year ended 31 December 2021

	Note	Consolidated 31 Dec 2021 $'000	Consolidated 31 Dec 2020 $'000
Revenue	3	171,298	169,613
Share of profits of associates accounted for using the equity method		210	668
Other income	4	717	10,199
Expenses			
Fertility specialists, consumables and associated costs		(49,069)	(46,308)
Employee benefits expense		(61,820)	(57,704)
Depreciation and amortisation expense		(12,084)	(11,953)
Occupancy expense		(3,833)	(3,191)
Advertising and marketing		(2,163)	(1,856)
Practice equipment expenses		(1,590)	(1,520)
Professional and consulting fees		(2,379)	(1,842)
Other expenses		(13,408)	(9,064)
Finance costs	5	(4,374)	(4,649)
Profit before income tax expense		21,505	42,393
Income tax expense		(6,245)	(12,118)
Profit after income tax expense for the half-year		15,260	30,275
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in the fair value of cash flow hedges taken to equity, net of tax		708	191
Foreign currency translation		(1,247)	(3,061)
Other comprehensive income for the half-year, net of tax		(539)	(2,870)
Total comprehensive income for the half-year		14,721	27,405
Profit for the half-year is attributable to:			
Non-controlling interest		134	346
Owners of Virtus Health Limited		15,126	29,929
		15,260	30,275
Total comprehensive income for the half-year is attributable to:			
Non-controlling interest		131	394
Owners of Virtus Health Limited		14,590	27,011
		14,721	27,405
		Cents	**Cents**
Basic earnings per share	15	18.06	37.42
Diluted earnings per share	15	17.91	36.98

The above statement of comprehensive income should be read in conjunction with the accompanying notes

Virtus Health Limited
Statement of financial position
As at 31 December 2021

	Note	Consolidated 31 Dec 2021 $'000	Consolidated 30 June 2021 $'000
Assets			
Current assets			
Cash and cash equivalents		18,478	37,008
Trade and other receivables		12,124	12,086
Inventories		1,538	1,313
Other		6,464	4,563
Total current assets		38,604	54,970
Non-current assets			
Investments		1,788	1,489
Property, plant and equipment		39,955	39,914
Right-of-use assets	6	70,638	69,082
Intangibles		427,242	428,357
Deferred tax		10,907	11,188
Other		337	312
Total non-current assets		550,867	550,342
Total assets		589,471	605,312
Liabilities			
Current liabilities			
Trade and other payables		34,834	31,626
Lease liabilities	6	11,488	12,076
Derivative financial instruments		923	1,166
Income tax		3,800	7,603
Provisions		4,870	4,886
Other financial liabilities		394	823
Unearned income		14,758	21,098
Total current liabilities		71,067	79,278
Non-current liabilities			
Borrowings		94,350	144,090
Lease liabilities	6	74,961	71,442
Derivative financial instruments		693	1,462
Deferred tax		599	599
Provisions		7,492	7,429
Other financial liabilities		-	399
Total non-current liabilities		178,095	225,421
Total liabilities		249,162	304,699
Net assets		340,309	300,613
Equity			
Issued capital	7	277,780	242,342
Reserves	8	12,012	12,745
Retained profits		48,861	44,000
Equity attributable to the owners of Virtus Health Limited		338,653	299,087
Non-controlling interest		1,656	1,526
Total equity		340,309	300,613

The above statement of financial position should be read in conjunction with the accompanying notes

Virtus Health Limited
Statement of changes in equity
For the half-year ended 31 December 2021

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2020	240,785	16,004	10,617	797	268,203
Profit after income tax expense for the half-year	-	-	29,929	346	30,275
Other comprehensive income for the half-year, net of tax	-	(2,918)	-	48	(2,870)
Total comprehensive income for the half-year	-	(2,918)	29,929	394	27,405
Transactions with owners in their capacity as owners:					
Purchase of treasury shares	(10)	-	-	-	(10)
Settlement of partly paid shares	140	-	-	-	140
Issue of shares pursuant to share based payment schemes	2,117	(2,117)	-	-	-
Share-based payments expenses	-	1,037	-	-	1,037
Dividends paid	-	-	(106)	-	(106)
Balance at 31 December 2020	243,032	12,006	40,440	1,191	296,669

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2021	242,342	12,745	44,000	1,526	300,613
Profit after income tax expense for the half-year	-	-	15,126	134	15,260
Other comprehensive income for the half-year, net of tax	-	(535)	-	(4)	(539)
Total comprehensive income for the half-year	-	(535)	15,126	130	14,721
Transactions with owners in their capacity as owners:					
Shares issued pursuant to institutional placement (net of transaction costs and tax) (note 7)	34,262	-	-	-	34,262
Purchase of treasury shares	(864)	-	-	-	(864)
Settlement of partly paid shares	78	-	-	-	78
Issue of shares pursuant to share based payment schemes	1,962	(1,962)	-	-	-
Share-based payments expenses	-	1,764	-	-	1,764
Dividends paid	-	-	(10,265)	-	(10,265)
Balance at 31 December 2021	277,780	12,012	48,861	1,656	340,309

The above statement of changes in equity should be read in conjunction with the accompanying notes

Virtus Health Limited
Statement of cash flows
For the half-year ended 31 December 2021

	Note	Consolidated 31 Dec 2021 $'000	Consolidated 31 Dec 2020 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		164,045	166,552
Payments to suppliers (inclusive of GST)		(131,262)	(127,027)
Other income		1,458	11,741
Interest and other finance costs paid		(2,164)	(2,366)
Lease interest paid		(1,640)	(1,772)
Income taxes paid		(9,737)	(15,028)
Net cash from operating activities		20,700	32,100
Cash flows from investing activities			
Payments for new investment		(299)	-
Payments for property, plant and equipment and intangibles		(6,350)	(7,228)
Other investing activities		422	411
Net cash used in investing activities		(6,227)	(6,817)
Cash flows from financing activities			
Shares issued pursuant to institutional placement (net of transaction costs)		33,945	-
Proceeds from partly paid shares	7	78	140
Repayment of borrowings		(50,000)	(10,000)
Payment of finance facility fees in relation to refinancing		-	(508)
Dividends paid	9	(10,265)	(9,647)
Purchase of treasury shares	7	(864)	(10)
Repayment of lease liabilities		(5,843)	(5,907)
Net cash used in financing activities		(32,949)	(25,932)
Net decrease in cash and cash equivalents		(18,476)	(649)
Cash and cash equivalents at the beginning of the financial half-year		37,008	38,047
Effects of exchange rate changes on cash and cash equivalents		(54)	(290)
Cash and cash equivalents at the end of the financial half-year		18,478	37,108

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2021 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Basis of Preparation

The financial report has been prepared on a going concern basis.

The Directors continually monitor the group’s working capital position, including forecast working capital requirements and have ensured that there are appropriate refinancing strategies and adequate committed funding facilities in place to accommodate financial obligations as and when they fall due.

At 31 December 2021 the consolidated entity’s current liabilities exceeded its current assets by $32,463,000 (June 2021: $24,308,000).

The current liabilities include unearned income of $14,758,000 as well as employee leave liabilities of $12,928,000. Whilst, the employee leave liabilities are required to be disclosed as a current liability not all of this liability is expected to be settled within 12 months. The cash balance as at 31 December 2021 is $18,478,000 and the consolidated entity also has unused and available debt facilities totalling $158,785,000, which mature in October 2023. Refer to note 13 for further details.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Note 2. Operating segments

Identification of reportable operating segments

AASB 8 'Operating Segments' requires operating segments to be identified on the basis of internal reports about components of the consolidated entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The board of directors and senior management are identified as the chief operating decision makers in assessing performance and in determining the allocation of resources. The consolidated entity currently has six operating segments being New South Wales, Queensland, Victoria, Tasmania, Australian Diagnostics and International. The consolidated entity has determined that the disclosure of two segments, being an Australian aggregated healthcare services segment and an International healthcare services segment is most appropriate. Disclosure of an aggregated segment for Australia is considered appropriate due to the similar economic characteristics faced by the operating segments and the similar nature of the products and services being delivered to a similar customer base.

Segment revenue

Sales between segments are carried out at arm’s length and are eliminated on consolidation. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the statement of comprehensive income.

Revenue from external customers is derived from the provision of healthcare services. A breakdown of revenue and results is provided below.

Note 2. Operating segments (continued)

Segment EBITDA

Segment performance is assessed on the basis of Segment EBITDA. Segment EBITDA comprises expenses which are incurred in the normal trading activity of the segments and excludes the impact of corporate costs, depreciation, amortisation, goodwill impairment, interest, share-based payments and other items which are determined to be outside of the control of the respective segments.

Consolidated - 31 Dec 2021	Healthcare services Australia $'000	Healthcare services International $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue				
Sales to external customers	138,525	32,002	-	170,527
Other revenue	741	-	-	741
Interest revenue	30	-	-	30
Total revenue	139,296	32,002	-	171,298
Segment EBITDA	46,632	6,546	-	53,178
Share-based payment expense				(1,764)
Transaction costs				(2,651)
Corporate costs				(5,581)
Information technology costs				(5,280)
Foreign exchange				31
Depreciation and amortisation expenses				(12,084)
Net interest				(4,344)
Profit before income tax expense				21,505
Income tax expense				(6,245)
Profit after income tax expense				15,260

Consolidated - 31 Dec 2020	Healthcare services Australia $'000	Healthcare services International $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue				
Sales to external customers	136,008	32,778	-	168,786
Other revenue	798	-	-	798
Interest revenue	29	-	-	29
Total revenue	136,835	32,778	-	169,613
Segment EBITDA	59,153	8,074	-	67,227
Share-based payment expense				(1,037)
Corporate costs				(4,407)
Information technology costs				(4,463)
Foreign exchange				47
Depreciation and amortisation expenses				(11,953)
Fair value adjustment to contingent consideration				1,599
Net interest				(4,620)
Profit before income tax expense				42,393
Income tax expense				(12,118)
Profit after income tax expense				30,275

Note 3. Revenue

	Consolidated 31 Dec 2021 $'000	Consolidated 31 Dec 2020 $'000
Revenue from contracts with customers		
Rendering of services	170,527	168,786
Other revenue		
Rent	741	798
Interest	30	29
	771	827
Revenue	171,298	169,613

Note 4. Other income

	Consolidated 31 Dec 2021 $'000	Consolidated 31 Dec 2020 $'000
Fair value gain on Contingent consideration	-	1,599
Government grants	-	7,679
Other income	717	921
Other income	717	10,199

Government grants: In the prior period receipts from the Federal Government's JobKeeper Program and similar government programs in other countries were accounted for as government grants and have been presented as other income.

Note 5. Expenses

	Consolidated 31 Dec 2021 $'000	Consolidated 31 Dec 2020 $'000
Profit before income tax includes the following specific expenses:		
Finance costs		
Interest and finance charges paid/payable on borrowings	2,390	2,409
Interest on lease liabilities	1,640	1,772
Interest on other financial liabilities - non-cash interest	84	179
Amortisation of bank facility fees	260	289
Finance costs expensed	4,374	4,649
Share-based payments expense		
Share-based payments expense - fertility specialists	1,196	406
Share-based payments expense - employee benefits	568	631
Total share-based payments expense	1,764	1,037

Note 6. Leases

	Consolidated 31 Dec 2021 $'000	Consolidated 30 June 2021 $'000
Right-of-use assets		
Properties	95,028	92,812
Less: Accumulated depreciation	(24,390)	(23,730)
	70,638	69,082

	Consolidated 31 Dec 2021 $'000	Consolidated 30 June 2021 $'000
Lease liabilities		
Current	11,488	12,076
Non-Current	74,961	71,442
Total lease liabilities	86,449	83,518

Lease contracts amounting to $33.8m which have been signed prior to balance date but which have not yet commenced are not included in right-of-use assets and lease liabilities until such time as the lease commencement date.

Note 7. Equity - issued capital

	Consolidated 31 Dec 2021 Shares	30 June 2021 Shares	31 Dec 2021 $'000	30 June 2021 $'000
Ordinary shares - fully paid	85,536,996	80,389,938	278,367	244,027
Treasury Shares	(102,497)	(276,484)	(587)	(1,685)
	85,434,499	80,113,454	277,780	242,342

Movements in ordinary share capital

Details	Date	No of shares	Issue price	$'000
Balance	1 July 2021	80,389,938		244,027
Shares issued pursuant to institutional placement (net of transaction costs and tax)	27 August 2021	5,147,058	$6.80	34,262
Settlement of partly paid shares	29 October 2021	-	$0.00	78
Balance	31 December 2021	85,536,996		278,367

Treasury shares
Treasury shares are shares in Virtus Health Limited that are held by the Virtus Health Limited Employee Share Trust ('VHLEST') for the purpose of providing shares under selected Group equity plans.

Note 7. Equity - issued capital (continued)

	Number of Shares	$'000
Balance at 1 July 2021	276,484	1,685
On market acquisitions during the period	150,000	864
Distribution of shares during the period to fertility specialists	(323,987)	(1,962)
Closing at 31 December 2021	102,497	587

Note 8. Equity - reserves

	Consolidated	
	31 Dec 2021 $'000	**30 June 2021 $'000**
Foreign currency translation reserve	3,092	4,334
Hedging reserve - cash flow hedges	(1,135)	(1,843)
Share-based payments reserve	14,292	14,491
Business combination reserve	(4,237)	(4,237)
	12,012	12,745

Note 9. Equity - dividends

Dividends paid during the financial half-year were as follows:

	Consolidated	
	31 Dec 2021 $'000	**31 Dec 2020 $'000**
Final dividend of 12.0 cents (31 December 2020: 12.0 cents) per fully paid share paid in October 2021	10,265	9,647

The prior year dividend paid was the interim dividend that was deferred in H2 FY2020.

Note 10. Fair value measurement

Fair value hierarchy
The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability

Consolidated - 31 Dec 2021	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Derivative financial liabilities	-	1,616	-	1,616
Total liabilities	-	1,616	-	1,616

Note 10. Fair value measurement (continued)

Consolidated - 30 June 2021	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Derivative financial liabilities	-	2,628	-	2,628
Total liabilities	-	2,628	-	2,628

The carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature.

Valuation techniques for fair value measurements categorised within level 2
Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

Note 11. Borrowings

The consolidated entity has total commitments of $261.6m through its syndicated debt facilities.

At 31 December 2021, total facilities drawn were $95.0m in borrowings and $7.8m in guarantees. Unused and available facilities amounted to $158.8m. The consolidated entity complied with the financial covenants of its borrowing liabilities during the financial half-year ended 31 December 2021. Subject to the continued compliance with debt covenants, the bank facilities may be drawn at any time and the total facility of $261.6m expires in October 2023.

Note 12. Capital Commitments

	Consolidated	
	31 Dec 2021 $'000	**30 June 2021 $'000**
Capital commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	4,822	1,750

Note 13. Contingent Liabilities

The consolidated entity may have contingent liabilities at 31 December 2021 in respect of the following matters:

- Finalisation of matters following the discontinuation of the Australian Competition and Consumer Commission (ACCC) proceedings in relation to the proposed acquisition of Adora. At this juncture the Directors do not expect the outcome to have any significant effect on the consolidated entity
- The consolidated entity is currently involved in litigations which may result in future liabilities and legal fees up to an insurance excess range of $25,000 to $250,000 per claim. The consolidated entity has disclaimed liability and is defending the actions. It is not practical to estimate the potential effect of these claims but advice indicates that any liability that may arise in the unlikely event that the claims are successful will not materially affect the financial position of the entity and it is expected that the claims will be covered largely by the consolidated entity's insurance policies.

Note 14. Events after the reporting period

Other than as disclosed elsewhere in the half year report, no matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 15. Earnings per share

	Consolidated	
	31 Dec 2021 $'000	31 Dec 2020 $'000
Profit after income tax	15,260	30,275
Non-controlling interest	(134)	(346)
Profit after income tax attributable to the owners of Virtus Health Limited	15,126	29,929
Add: interest savings on conversion of options	59	51
Profit after income tax attributable to the owners of Virtus Health Limited used in calculating diluted earnings per share	15,185	29,980

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	83,745,230	79,979,813
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	1,054,992	1,086,945
Weighted average number of ordinary shares used in calculating diluted earnings per share	84,800,222	81,066,758

	Cents	Cents
Basic earnings per share	18.06	37.42
Diluted earnings per share	17.91	36.98

In the directors' opinion:

- the financial statements and notes set out on pages 6 to 16 are in accordance with the Corporations Act 2001, including:

  (i) complying with Accounting standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2021 and its performance for the half-year ended on that date and

- there are reasonable grounds to believe that Virtus Health Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Sonia Petering
Chair

22 February 2022
Sydney

Independent auditor's review report to the members of Virtus Health Limited

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Virtus Health Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the statement of financial position as at 31 December 2021, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Virtus Health Limited does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

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Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

PricewaterhouseCoopers

PricewaterhouseCoopers

Mark Dow
Partner

Sydney

22 February 2022