

# Virtus Health (ASX:VRT)

Corporate Presentation and  
FY2014 Financial Results

BoAML Emerging Stars Conference October 2014

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# Agenda

- 1 Introduction to Virtus Health
- 2 IVF Market Overview
- 3 FY2014 Operational and Financial Highlights
- 4 Strategy and Outlook



# 1. Introduction to Virtus Health



# Virtus Health – Investment Highlights

## The market leader in Assisted Reproductive Services (ARS) in Australia

- Size and scale a source of competitive advantage
- Virtus conducts ~36% of all IVF cycles performed in Australia
- One of the two largest providers in NSW, Victoria and Queensland

## International expansion underway

- Acquired 70% stake in Sims Clinic, Ireland in 2014
- First “Virtus” branded clinic to open in Singapore in December 2014





# Virtus Health – Investment Highlights

## Integrated business model with multiple sources of revenue

- Full service and low cost IVF, day hospitals and specialised diagnostics

## Scientific and clinical excellence

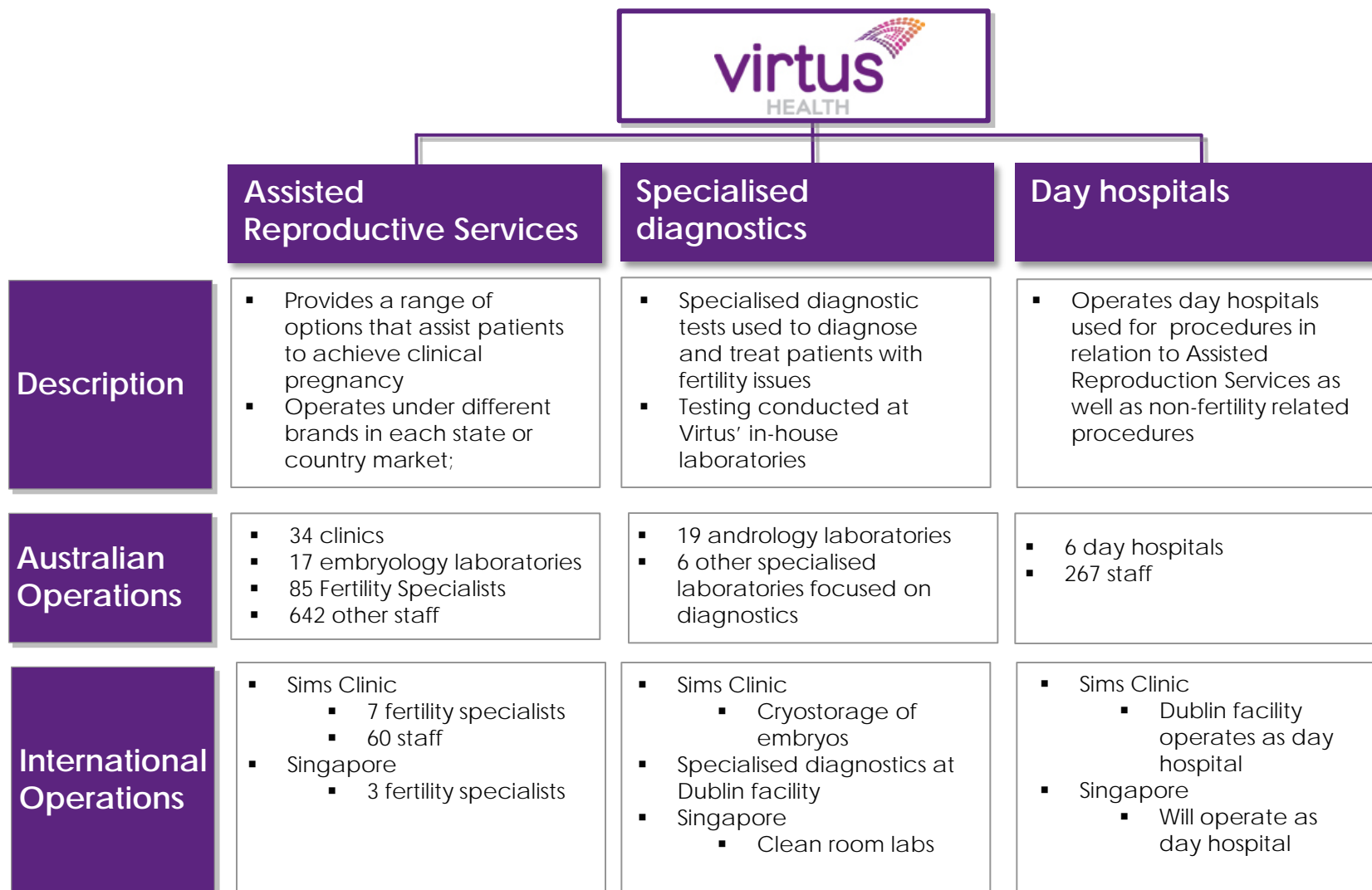
- Ongoing investment in new technologies and innovation to improve patient outcomes

## Strong financial track record

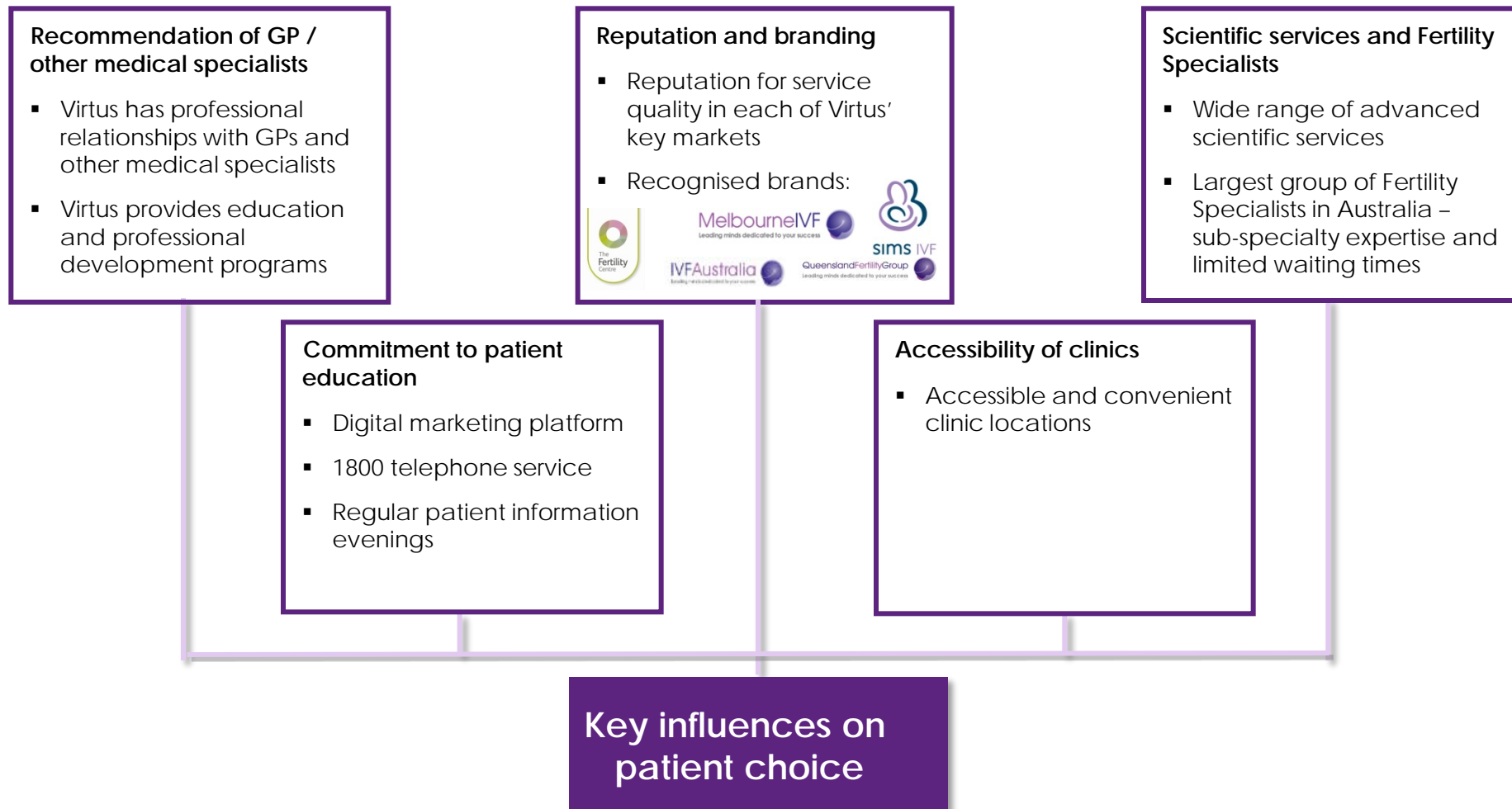
- Actual revenue increased by 7.9% to \$201.2m in FY14
- Pro-forma NPAT up 17.2% to \$32m, 2% above prospectus forecast



# Overview of Virtus' patient services



# The Virtus brand: Why GPs and patients choose us







## 2. IVF Market Trends

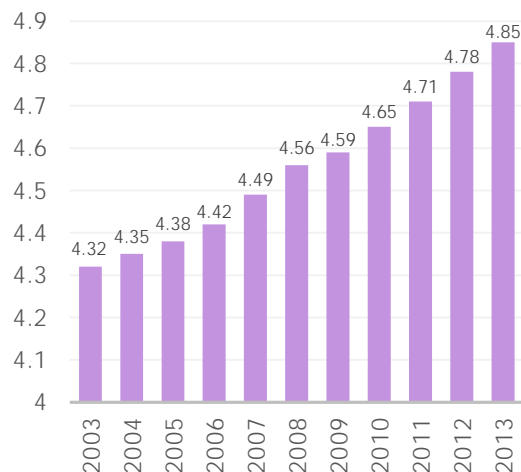


# Industry growth

## Growth in the industry is underpinned by demographic and social trends

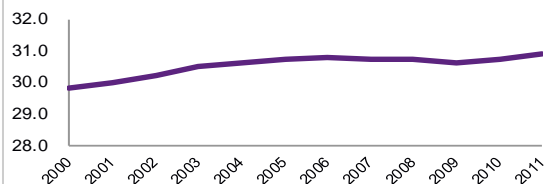
### Female population growth

Number of Australian women aged 25-54 (million) 2003-2013<sup>(1)</sup>



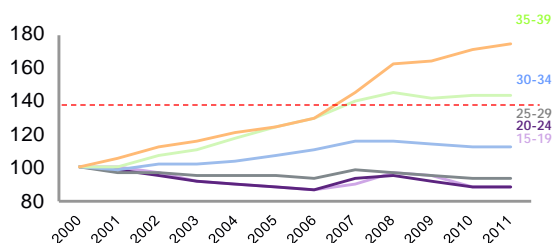
### Maternal age

Median age of mothers<sup>(2)</sup>



Growth in fertility rates for women aged over 30

Fertility rates (rebased to 100)<sup>(2)</sup>



As women age, the number of egg follicles that remain in their body declines...impacting fertility

### Use of Assisted Reproductive Services

Accessibility, awareness and acceptance of ARS

Delayed maternal age, rising incidence of obesity and chlamydia impacting fertility

Increasing willingness of general practitioners and medical specialists to refer patients to a fertility clinic

Improving success rates and efficacy of Assisted Reproductive Services  
(Scientific advancements enabling treatment of patients not previously treatable)

#### Notes:

(1) Australian Bureau of Statistics, Population, 2003-2013

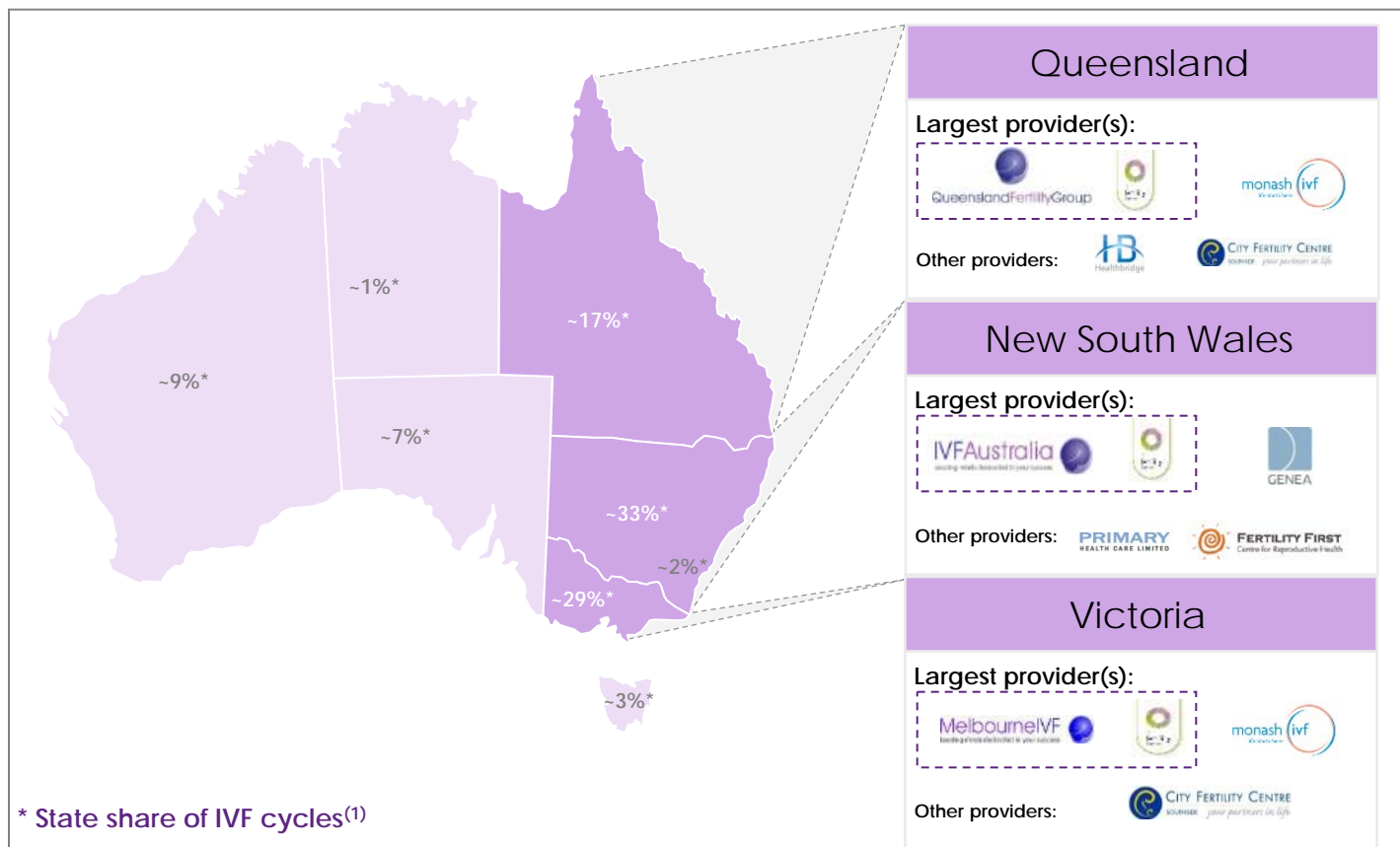
(2) Australian Bureau of Statistics, Births Australia, 2011

# Market structure: Australia

**Virtus is one of the two largest providers in New South Wales, Victoria and Queensland**

- New South Wales, Victoria and Queensland are the largest markets and accounted for approximately 80% of IVF cycles <sup>(1)</sup>
- Virtus accounted for 45.5% of IVF cycles conducted in the Eastern states in FY14 <sup>(1)</sup>
- VRT cycles up 3.9% in FY14, compared to 2.9% overall market growth

## Market Structure



Note:

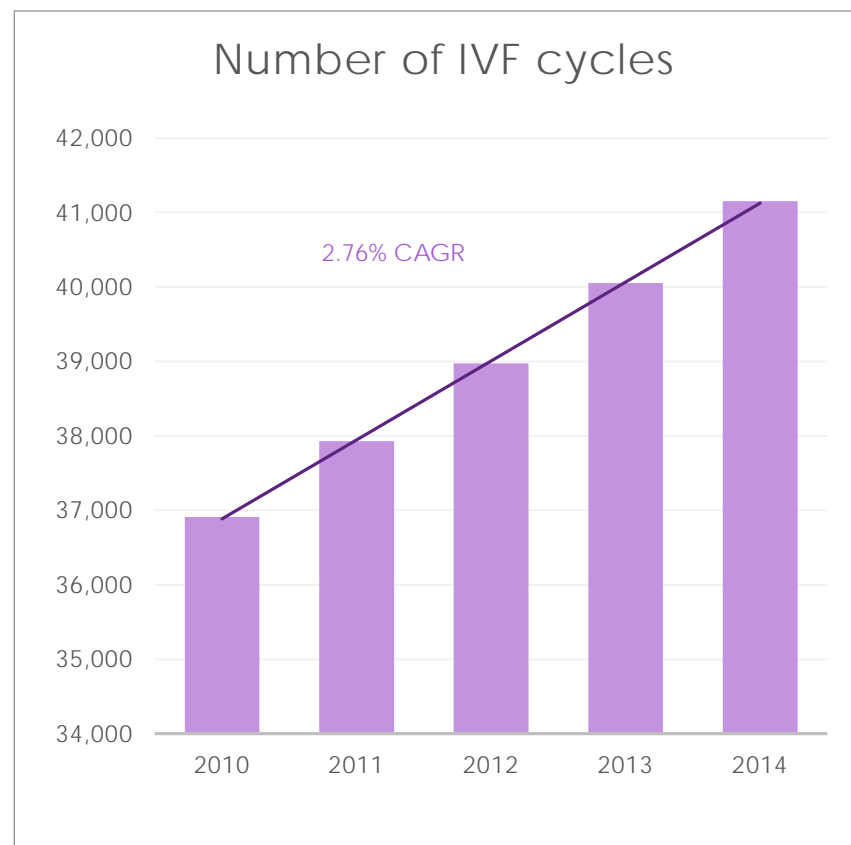
(1) Based on Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202 in FY2013. Difference between aggregate figure and the sum of individual state market shares is due to rounding error. Remaining IVF cycles conducted in the Australian Capital Territory

# Growth in IVF - Australia

## Australia

- 2.76% CAGR since 2010
- 3.7% of all children born through IVF – one of the highest rates in the world
- Patients receive partial reimbursement towards the cost of services in Australia

### Historic IVF cycle growth in Australia <sup>(1)</sup>



#### Notes:

(1) Over the period 2000 to LTM June 2013

(2) Based on Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202 in FY2013

# Market Overview - Ireland

## Virtus owns 70% of Sims Clinic – the leading provider of ARS in Ireland

- Approximately 15% of couples in Ireland will experience subfertility and require medical help
- Estimated that at least 1% of all births result from ARS
- Fertility rate of 2.10, slightly higher than in Australia
- The Irish market has averaged 4 to 5% growth over the past four years
- Assessing opportunities for further acquisitions in Ireland and UK

Future growth expected from the increased penetration of IVF supports case for expansion into Ireland

Country	Cycles per million of population
Ireland	750
Denmark	2,159
Australia	1,642
Netherlands	1,017



# Market Overview -Singapore

## The first 'Virtus' branded fertility centre is being established in Singapore

- The number of couples opting for IVF has grown from 1,710 in 2005 to approximately 4,000 in 2013
- Total fertility rate (TFR) has fallen to an all time low of 1.16, well below the replacement level of 2.1 for a population of 5,200
- Delays in conception age contributor factor:
  - Out of 37,967 babies born in 2010, 8,960 babies (23.6%) are born to mothers aged 35 or older
  - 3% of all children born in Singapore are through IVF
- Singapore a central hub, attracts patients from other countries and has a reputation for high medical standards
- Of the 16,800 women who received treatments via assisted methods from 2008 to 2012, 60% are Singaporeans, 22% are permanent residents and 18% are foreigners.
- In January 2013 government co-funding was increased to 75% of costs, for up to 6 cycles (3 fresh, 3 frozen cycles)
- Increased public funding is also driving up demand for private ARS





### 3. FY2014 Operational Highlights



# FY2014 Operational Highlights – Australian IVF

## VRT maintained its position as the Australian market leader in Assisted Reproductive Services (“ARS”)

- Overall cycle growth up 3.9%, outpacing overall market growth of 2.9%; market growth below prospectus forecast
- Full service volumes slightly down offset by increase in TFC volumes
- Market share growth in Eastern States (NSW, VIC, QLD)
  - VRT market share 45.5%, versus 45.0% pcp
- Five fertility specialists recruited in FY2014 (three in H2)
- Growth in new fertility specialist cycle volume
- Two new locations:
  - Burwood – NSW, consult and monitoring
  - Werribee – VIC, full service



# FY2014 Operational Highlights – International IVF

## International expansion underway

- Acquired 70% stake in SIMS Clinic, Ireland
- Integration process
  - Procurement activity
  - Business development initiatives
- First “Virtus” branded, purpose-built facility in Singapore, operational by December 2014





# FY2014 Operational Highlights - Diagnostics

## Specialised diagnostics an important differentiator and source of revenue growth

- Revenue increased by 17.5% in FY2014
- Additional endocrinology tests introduced in FY2014
- In-house genetic testing capability expanding
  - Investment in Next-Generation gene sequencing and karyomapping technologies
  - Available to patients in H1FY2015
- Genetics Working Party established to determine VRT's long term strategy in rapidly evolving field of human genetics





# FY2014 Operational Highlights – Day Hospitals/General

## Day Hospital revenue/EBITDA improving strongly:

- Non-IVF procedure revenue up 9.4% in FY2014
- Non-IVF procedures now 47% of total procedures (41% pcp)
- All day hospitals increased utilisation
- Public / private collaborations with Westmead Hospital (paediatrics) and Mackay Hospital



## General operational improvements:

- Supplier contract re-negotiation resulted in ~\$150K savings
- Separated Audit and Risk committee into two committees
- New risk management initiatives include electronic platform for incident reporting



# FY2014 Financial Highlights

## Actual FY2014 financial results

A\$ million	FY14	FY13	Variance
Revenue	201.2	186.6	7.9%
PBT	43.8	14.4	204.2%
NPAT <sup>(1)</sup>	30.9	10.1	205.9%
NPATA <sup>(1)</sup>	31.6	10.8	192.5%
EPS (cps) <sup>(2)</sup>	38.80	17.78	118.2%
Fully Diluted EPS (cps) <sup>(3)</sup>	38.48	16.78	129.3%

### Notes:

1) NPAT & NPATA FY14 is stated after deduction of amounts due to non-controlling interest.

2) EPS assumes 79,593,751 ordinary shares for FY14 and 56,829,522 ordinary shares for FY13.

3) Fully diluted EPS assumes 80,680,860 ordinary shares for FY14 and 63,358,539 ordinary shares for FY13.





## 2. FY2014 Financial Results in detail



# FY2014 Financial Highlights

## Pro forma FY2014 financial results <sup>(1)</sup>

A\$ million	Pro-forma FY14	Pro-forma FY13	Variance	Prospectus
Revenue	199.9	187.3	6.7%	206.3
EBITDA	60.4	56.1	7.7%	63.0
NPAT	32.0	27.3	17.2%	31.4
NPATA <sup>(2)</sup>	32.7	28.0	16.8%	32.1
EPS (cps) <sup>(3)</sup>	40.2	34.3	17.2%	39.5

### Notes:

1) The appendix includes reconciliation of pro forma financial results to statutory financial results for FY14.

2) NPATA excludes the amortisation of acquired brand names of \$0.7million after tax

3) Pro-forma EPS assumes 79,536,601 shares on issue for full year for FY13 and 79,593,751 for FY14



# Summary Pro-forma Income Statement

## Pro-forma revenue growth of 6.7

- Market growth below prospectus forecast

## Pro-forma EBITDA growth of 7.7%

- Australian Segment EBITDA growth of 8.1%

## Pro-forma NPATA growth of 16.8%

## Pro forma Income Statement

FY2014, A\$ million	Note	FY2014	FY2013	Change
Total revenue		199.9	187.3	6.7%
Total expenses		(139.5)	(131.2)	(6.3%)
EBITDA		60.4	56.1	7.7%
Depreciation & Amortisation		(8.2)	(8.5)	3.5%
EBIT		52.2	47.6	9.7%
Net interest expense		(7.4)	(9.2)	19.6%
Profit before tax		44.8	38.4	16.7%
Income tax expense		(12.8)	(11.1)	(15.3%)
NPAT		32.0	27.3	17.2%
NPATA	1	32.7	28.0	16.8%

### Note

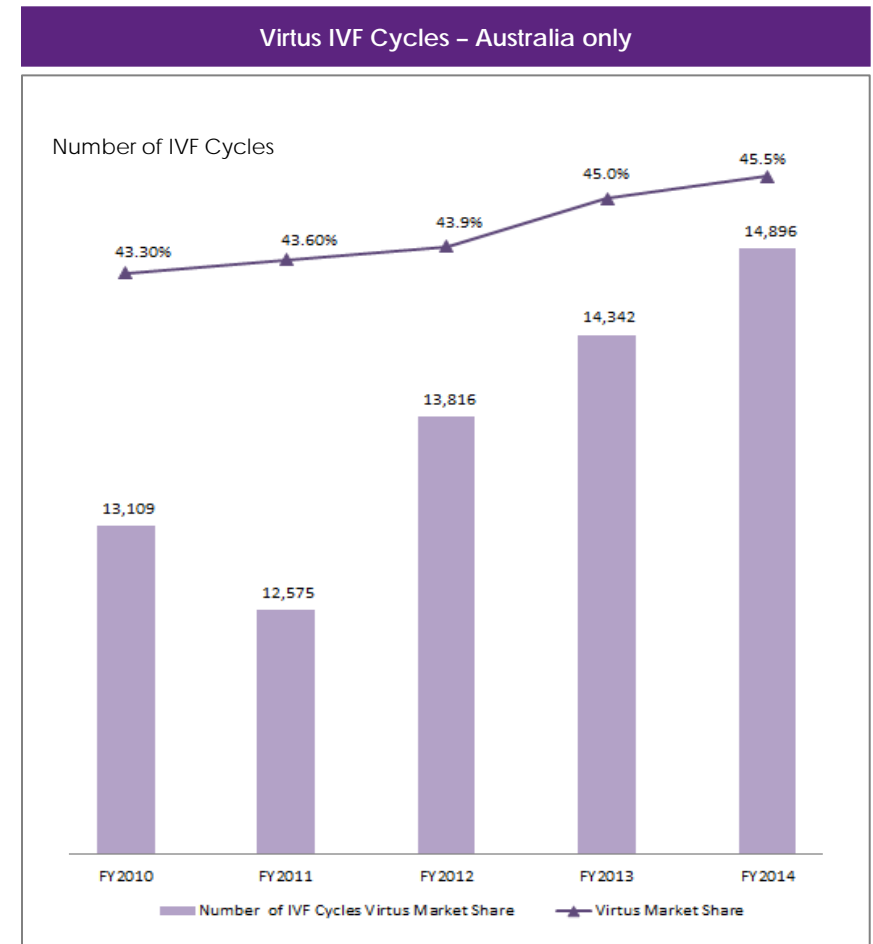
- 1) NPATA excludes the amortisation of acquired brand names of \$0.7 million after tax



# IVF Cycle Performance - Australia

IVF cycles increased 3.9% to 14,896 with strongest performance in NSW

- Market share in eastern states improved by 0.5% to 45.5%
- Virtus improved market share in NSW, VIC and QLD
- Strong growth from TFC clinics
- Full service activity declined by 2.0%
- Market activity:
  - NSW strongest growth of 5.0%
  - VIC growth of 2.5%
  - QLD growth, negative 0.5%



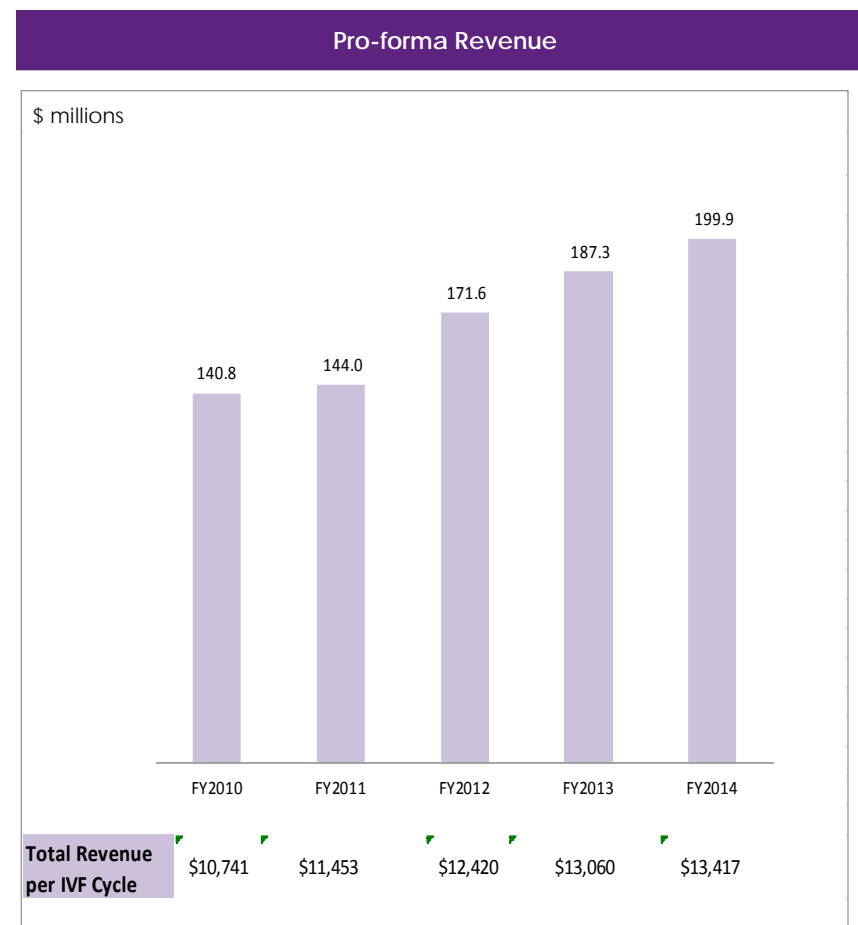
**Note:**

(1) Represents Virtus' implied share of the IVF Cycles conducted in New South Wales, Victoria and Queensland based on Medicare Benefit Schedule Item Statistic Reports for items 13200, 13201 and 13202.

# Revenue Growth

## Actual revenue increased 7.9%

- Growth underpinned by service offering / international expansion
  - One month revenue contribution from Sims Clinic at \$1.5m
- Specialist diagnostic revenue growth
  - Key drivers - NIPT, Cytogenetic testing
- Day hospital revenue growth
  - Key drivers - non-IVF activity in Queensland and NSW
- Revenue expected to increase with international expansion
  - 12 months contribution from Sims Clinic in FY15
  - 6 months contribution from Singapore in FY2015



# Total Expenses and EBITDA Growth

## EBITDA growth driven by Australian segment performance

- Pro-forma EBITDA % increased slightly to 30.2%;
- Australian segment margin increased to 30.5% from 30.2%

## Total expenses

- Underlying growth at 6.2% represents more normal level when compared to prior year of 9.3%

## Labour costs

- Underlying growth at 6.3% represents more normal level when compared to prior year of 11.8% and reflects near maturity of Australian geographic footprint

## Consumable costs

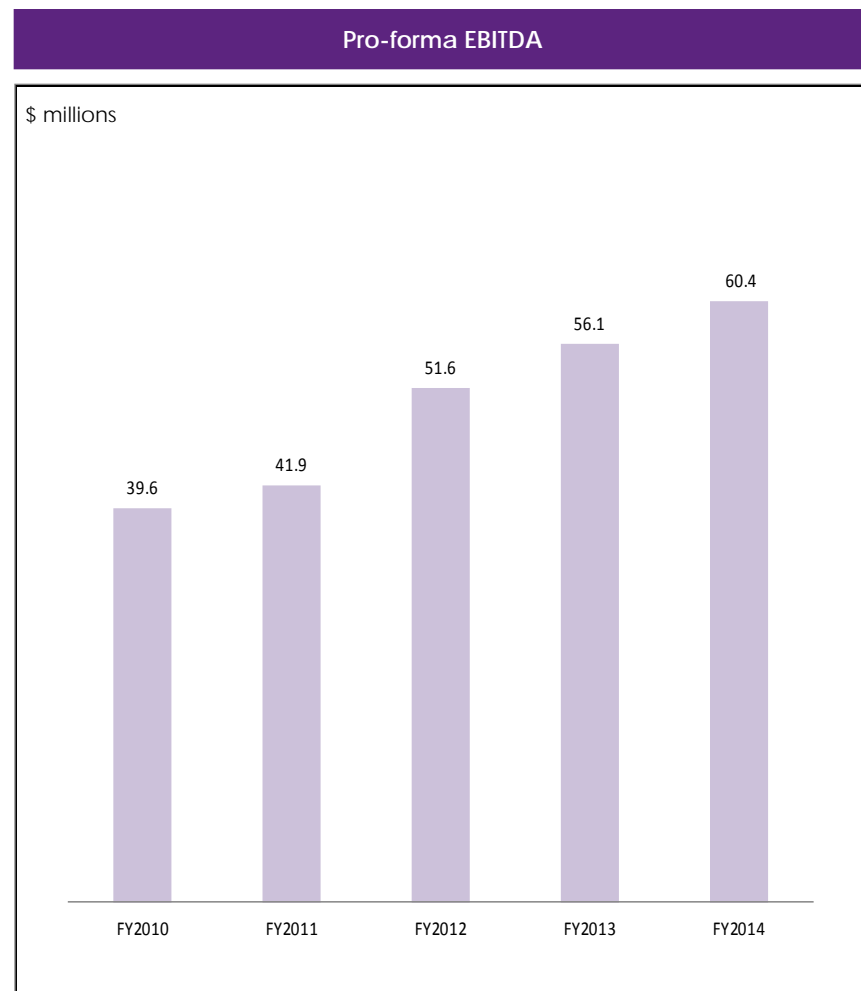
- Increase of 17.7% driven by NIPT test costs

## Facility and occupation costs

- Underlying growth at 6.8% represents more normal level when compared to prior year of 13.5%

## Other costs

- Reduction primarily a function of reduced marketing launch costs of TFCs in prior year



# Key performance indicators

- Market share position
  - Improvement in all states, TFC key driver
- Expansion
  - 85 fertility specialists in Australia up from 82 at end of prior year
  - Capacity available to meet growth
- Pro-forma EBITDA margin at 30.2%
- Average total revenue per cycle broadly in line with prospectus

Full year KPIs	Note	Pro-forma FY2014	Pro-forma FY2013	Variance
Number of IVF Cycles (Virtus Australia)	ACTUAL	14,896	14,342	3.9%
Number of IVF Cycles in NSW/VIC/QLD	ACTUAL	32,757	31,842	2.9%
Implied market share	ACTUAL	45.5%	45.0%	0.5%
Number of IVF Cycles (International)	ACTUAL	1,217	-	-
Av. Number of Fertility Specialists (Australia)	ACTUAL	83.5	82.0	1.8%
Av. number of cycles per average Fertility Specialist (Australia)	ACTUAL	178	175	1.7%
Av. total revenue per cycle (A\$)		13,417	13,060	2.7%
Labour as a % of revenue		30.2%	30.3%	(0.1%)
Provider fees as a % of revenue		15.1%	15.7%	(0.6%)
EBITDA margin %		30.2%	30.0%	0.2%

# Statement of Financial Position

Operating cash flow and growth in earnings has resulted in a reduction in leverage

## Cash Balance

- Closing cash balance of \$21.5 million and \$6.6 million undrawn funding available in existing facilities

## Working Capital

- Normal level of negative non-cash working capital at end of June

## Gearing

- Pro forma historic leverage ratio is 1.9x pro-forma EBITDA (including Sims Clinic)

## Dividend

- Dividend declared of 14.0 cps fully franked takes total payout in respect of FY2014 to 26.0 cps, fully franked, 65% of statutory NPATA.
- Virtus' final dividend to be paid on 16 October 2014.

## Capex

- Expenditure in FY2014 was \$8.0 million

## Summary Statement of Financial Position

A\$ million	Statutory June -14	Statutory Jun-13	Statutory Dec-13
Cash	21.5	12.5	19.4
Trade and other receivables	13.8	12.4	12.7
Inventories	0.2	0.3	0.2
Equity accounted investments	1.5	1.5	1.5
Other financial assets	0.3	0.2	0.4
PP&E	28.2	26.6	25.6
Deferred tax assets	8.1	6.9	9.4
Intangible assets	356.1	325.0	324.4
<b>Total assets</b>	<b>429.7</b>	<b>385.4</b>	<b>393.6</b>
Trade and other payables	23.5	17.5	15.4
Deferred revenue	3.6	3.1	2.8
Borrowings	139.5	144.2	131.3
Provisions	7.1	6.0	6.3
Current tax liabilities	4.5	-	1.7
Other Financial Liability	11.9	-	-
<b>Total liabilities</b>	<b>190.1</b>	<b>170.8</b>	<b>157.5</b>
<b>Net assets</b>	<b>239.6</b>	<b>214.6</b>	<b>236.1</b>





### 3. Strategy and Outlook



# Corporate Strategy FY2015

## Market share (AU)

- Continue to offer full range of class leading IVF and diagnostic services
- Focus on fertility specialist recruitment and succession planning
- Promote awareness of clinical and scientific excellence – a key source of competitive advantage

## Low-cost IVF

- Source of additional volume growth, focus on marketing existing centres
- Assessing opportunities for new clinics

## Specialised Diagnostics

- Enhance service offerings through new products and innovations, e.g. advanced genetic screening
- Non Invasive Pre-natal Testing ('NIPT') to be conducted in-house by end of CY14

## Day Hospitals

- Opportunity to improve operational efficiencies and increase revenues through increased utilisation
- Non-IVF procedure growth

## International Expansion

- Further international opportunities under review
- Integration of Sims Clinic and launch of Singapore



Thank you