



Virtus Health (ASX:VRT)

FINANCIAL RESULTS PRESENTATION H1FY20

Tuesday 18 February 2020, 9.00am AEDT

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RESULTS & OPERATIONAL OVERVIEW H1FY20

H1FY20 Financial Results

Revenue  1.0%
\$142m

EBITDA \$39.5m¹

Underlying EBITDA stable at \$32.1m (excl. AASB 16 Leases impact)

NPAT attributable to ordinary equity holders

 2.3%
\$15.0m¹

EPS  2.4%
18.65 cents

EBITDA Margin (excl. AASB 16 'Leases' impact)¹

 0.5%

Interim Dividend

12 cps
fully franked

1. Virtus adopted AASB16 'Leases' effective 1 July 2019, resulting in an increase to EBITDA of \$7.4m and decrease to NPAT of \$0.2m for the half year to 31 December 2019. The comparative period has not been restated, refer to note 1 of half year report and slide 19 for further details

Virtus Health Overview

Virtus maintains Australian market leadership position

- Virtus outperformed overall market growth in Australia
- Australian IVF clinic EBITDA increased by 4.5% (excluding impact of AASB 16 'Leases')
- Strong growth in Australian low price volumes
- Lower premium service volumes
- Non-IVF day hospital procedure volume increased 5.7%
- International operations maintained EBITDA despite softer volumes – EBITDA improvement in Ireland, Singapore and UK
- Management focus on margin improvement including restructure initiatives



AUSTRALIAN SEGMENT PERFORMANCE

Segment Revenue

↑ 0.3% \$112.8m

Segment EBITDA

\$39.7m

Australian operations

Defend and build premium business	<ul style="list-style-type: none">• Growth in Queensland and Victorian premium service volumes maintained• Premium service volumes declined in New South Wales and TAS from soft market conditions
Grow low price volume	<ul style="list-style-type: none">• Volume growth of 30.2% achieved (now represents 22% (pcp: 17.3%) of overall volumes• Virtus will continue to grow this segment to address market demand
Grow Diagnostics revenue	<ul style="list-style-type: none">• Stable revenue• Cost management initiatives implemented• Increased capacity and range of tests
Grow non IVF Day Hospital revenue	<ul style="list-style-type: none">• Revenue growth of 6.8% on non-IVF procedures• Business development initiatives implemented increasing volumes at newly commissioned facilities

Australian Operations

Assisted Reproductive Services ("ARS")

EBITDA increases

- Available market volume up 1.2% H1FY20 on pcp along eastern seaboard
- Virtus Australia's overall cycle activity H1FY20 increased 2.7% to 8,302 cycles (pcp 8,085)
 - Virtus VIC grew 10.2% on pcp, market growth 1.7%
 - Virtus QLD grew 6.2% on pcp, market growth 4.4%
 - Virtus NSW (inc ACT) declined by 3.4% on pcp, market decline 0.5%
 - Virtus TAS declined by 20.3% on pcp, market decline 5%
- Virtus TFCs delivered low price volume increase of 30.2%
 - Improved performance across all states
 - Low price cycles represent 22.0% of overall Virtus Australian activity (H1FY19: 17.3%)
- Net increase in IVF clinic EBITDA of \$1.3m

Australian Operations Diagnostics

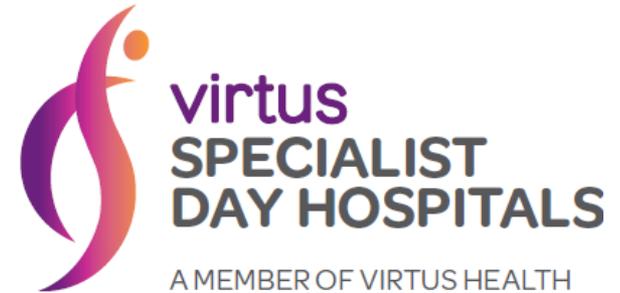


A MEMBER OF VIRTUS HEALTH

Diagnostic revenue stable, EBITDA impacted

- Diagnostic revenue increased 0.2% and EBITDA decreased 30.2% over pcp impacted by:
 - Continued softness in PGT utilisation, declining to 12.9% of fresh cycles H1FY20 (FY19: 14.6%) due to clinical practice change
 - Increased compliance costs
- Strategic initiatives to address performance:
 - Advanced technologies for non-invasive PGT currently under scientific evaluation
 - Business development to increase internal and external specialist referrals
 - Cost out initiatives in progress to improve margin – benefits to be realised in future periods

Australian Operations Day Hospitals



Day Hospital EBITDA stable

- EBITDA improvement from non-IVF procedures offset by lower IVF procedures from softer premium service volumes in NSW
- Alexandria EBITDA improved by \$0.3m over pcp as more non-IVF surgery is secured
- Increase in non-IVF procedure revenue of 6.8% on pcp across all Specialist Day Hospitals





INTERNATIONAL SEGMENT PERFORMANCE

Segment Revenue

↑ 3.5% \$29.2m

Segment EBITDA

\$6.8m

Irish Operations

EBITDA up on pcp

- 1,075 cycles performed in H1FY20 (H1FY19: 1,094)
- Revenue flat at €10.5m (local currency) despite lower fresh cycle volumes due to increase in frozen cycles
- EBITDA (local currency) up 17.1% on pcp as a result of cost management initiatives



Danish Operations

EBITDA down on pcp

- 849 cycles performed in H1FY20 (H1FY19: 930)
- Revenue down 7.5% at kr25.6m (local currency)
- EBITDA (local currency) down 45.9% on pcp

Danish clinics experienced a challenging six months impacted by:

- Reduction in cycles from Sweden (relaxation of donor regulations)
- Short term doctor resourcing issues at Aagaard - now addressed



UK Operations

Complete Fertility revenue and EBITDA improves

- CFC performed 215 fresh cycles (H1FY19: 228)
- Revenue up 13.4% from stronger donor activity and value add NHS outpatient activities
- EBITDA up 125% over pcp



Singapore Operations

Volumes and EBITDA continue to grow

- 208 cycles performed in Singapore in H1FY20 (H1FY19: 176)
- Revenue up 13.5% on pcp
- EBITDA up 77.4% compared to pcp (local currency)





FINANCIAL RESULTS H1FY20

Summary Income Statement

\$Millions	Statutory Results		Adjustment		Adjusted Results	
	H1FY20	H1FY19	H1FY20	H1FY19	H1FY20	H1FY19
Revenue	142.1	140.7			142.1	140.7
Segment EBITDA ¹	46.5	38.9			46.5	38.9
EBITDA¹	39.5	32.4	(0.8)	(0.6)	38.8	31.8
Depreciation and amortization ²	(12.6)	(6.6)			(12.6)	(6.6)
EBIT	26.9	25.8	(0.8)	(0.6)	26.2	25.2
Interest ³	(5.5)	(4.9)	0.2	0.7	(5.3)	(4.2)
Profit before income tax	21.4	20.9	(0.5)	0.1	20.9	21.0
Income tax expense	(5.9)	(6.0)			(5.9)	(6.0)
Profit after income tax	15.5	14.9	(0.5)	0.1	15.0	15.0
Profit after income tax attributable to non-controlling interest	(0.5)	(0.3)		-	(0.5)	(0.3)
Profit after income tax attributable to ordinary equity holders	15.0	14.6	(0.5)	0.1	14.5	14.7
Earnings per share (cents)	18.65	18.21				
Diluted earnings per share (cents)	18.48	18.10				

Notes:

1- Excludes \$7.4m of lease replaced by Depreciation and Interest charges on adoption of AASB 16 'Leases' in H1FY20

2 - Includes \$5.9m of depreciation on Right-of-use assets arising from adoption of AASB 16 'Leases' in H1FY20

3 - Includes \$1.7m of interest on lease liabilities arising from adoption of AASB 16 'Leases' in H1FY20

Shaded area indicates IFRS disclosures H1FY20 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 non-cash transaction items, transaction expenses and CEO transition costs

\$Millions	H1FY20	H1FY19
Profit after income tax attributable to ordinary equity holders	15.0	14.6
Non-cash Interest ¹	0.2	0.7
Transaction costs	-	0.2
Fair value adjustment to transaction put liabilities	(1.5)	(0.8)
CEO transition and recruitment costs	0.8	-
Adjusted NPAT	14.5	14.7

Notes:

1- Non-cash interest relates to the unwinding of the discount on the put liabilities and contingent consideration

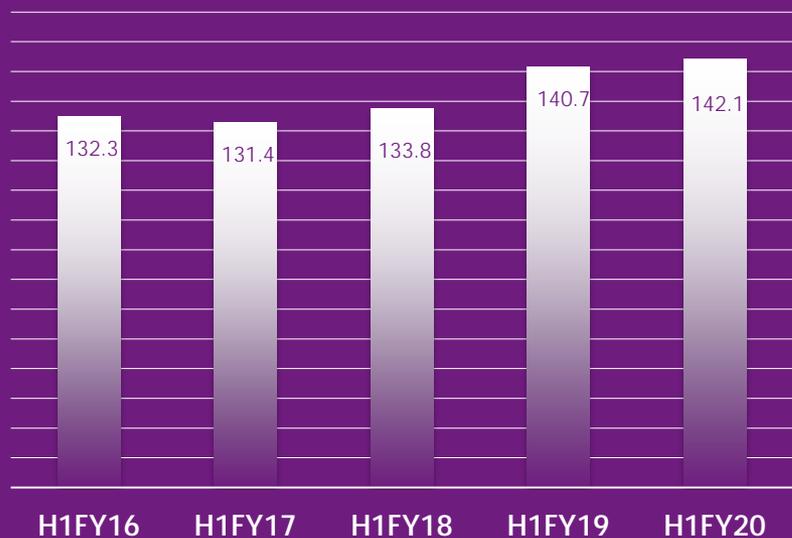
AASB 16 Leases

Impact of Adoption of AASB 16 'Leases'

\$Millions	Statutory Results	
	H1FY20	Impact of AASB 16 'Leases'
Revenue	142.1	
Segment EBITDA	46.5	↑ Increase of \$7.4m resulting from reclassification of lease expenses to Depreciation and Interest Expense below EBITDA
EBITDA	39.5	↑ Increase of \$7.4m from above
Depreciation and amortisation	(12.6)	↑ Increase of \$5.9m resulting from recognition of depreciation of right-of-use assets
EBIT	26.9	
Interest	(5.5)	↑ Increase of \$1.7m resulting from recognition of lease liabilities on operating leases
Profit before income tax	21.4	↓ Decrease of \$0.2m resulting from differences on the profile of leases
Income tax expense	(5.9)	
Profit after income tax	15.5	↓ Net decrease of \$0.2m
Earnings per share (cents)	18.65	↓ Net decrease of 0.25 cents
Diluted earnings per share (cents)	18.48	↓ Net decrease of 0.25 cents

Key Revenue and EBITDA Drivers for H1FY20

H1FY16- 20 Revenue



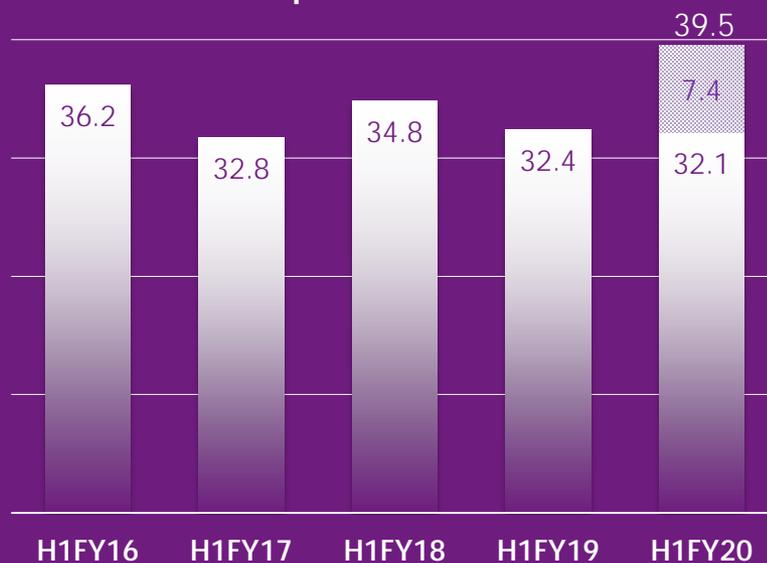
1HFY20 Revenue growth driven by:

- Strong TFC performance
- Improvement in QFG full service volumes

Partially offset by:

- Reduction in premium service volumes in NSW and Tas/VF
- Reduction in cycle activity in Denmark (Aagaard and Triangeln)

H1FY16-20 Group EBITDA



1HFY20 EBITDA increase driven by:

- Impact of adopting AASB 16 'Leases' - **\$7.4m increase** arising from a reclassification of lease expenses to depreciation and interest charges
- Revenue growth in TFC and QFG full service volumes

Partially offset by:

- Softer premium service volumes in NSW
- Diagnostics EBITDA reduction
- CEO transition and restructure costs
- Higher infrastructure and IT security costs

Cash Performance

Summary	H1FY20 (A\$m)	H1FY19 (A\$m)
Group EBITDA	39.5	32.4
Changes in other operating assets/liabilities*	(2.3)	(5.9)
Net financial costs	(3.3)	(3.9)
Lease interest	(1.7)	-
Income tax	(7.7)	(7.9)
Other	(0.9)	0.4
Operating cash flow	23.6	15.1
Lease principal payments	(5.7)	-
Net CAPEX	(2.8)	(9.0)
Free cash flow	15.1	6.1
Dividends paid	(9.6)	(9.6)
Free cash flow after dividends	5.5	(3.5)

*Excludes non-cash items (fair value adjustments and share-based payments)

Key movements

Operating cash flows increase as a result of:

- Reclassification of **\$5.7m** lease principal payments to financing activities as a result of adopting AASB 16 'Leases'
- Lower interest payments due to lower debt levels
- Positive working capital movements as compared to pcg

Free cash flows after dividends along with existing reserves was used for:

- Debt repayment of \$3.0m in November 19;
- Acquisition of SIMs non-controlling interest of \$6.6m in November 19; and
- Acquisition of \$1.9m of treasury shares

Statement of Financial Position

\$millions	Statutory Dec 19	Statutory June 19
Cash	12.6	18.8
Trade and other receivables	9.4	14.8
Inventories	1.2	1.3
Equity accounted investments	1.5	1.5
Other financial assets	4.7	3.2
PP&E	35.4	38.0
Deferred tax assets	9.7	7.1
Right-of-use assets	85.5	-
Intangible assets	457.3	459.6
Total assets	617.3	544.3
Trade and other payables	23.6	26.5
Deferred revenue	12.3	16.3
Borrowings	170.9	173.7
Deferred tax liability	0.8	1.1
Provisions	11.3	11.4
Lease liabilities	97.9	-
Current tax liabilities	0.0	1.1
Other financial Liabilities	11.1	19.6
Total liabilities	327.9	249.7
Net assets	289.4	294.6

Key movements

AASB 16 'Leases' adoption – Key Impacts

- Increase in Total assets of \$85.5m from recognition of Right-of-use assets
- Increase in Total liabilities of \$97.9m from recognition of Lease liabilities
- Increase in Deferred tax assets of \$3.5m

Cash balance

Existing cash reserves used to exercise final put option in SIMs Group of \$6.6m - reduced other financial liabilities

Gearing

- Leverage ratio of 2.8 times adjusted group EBITDA (LTM)
- Full compliance with sufficient head room under both interest cover and leverage ratios
- Funding capacity available of \$85m from unused debt facilities

Dividend proposed

12 cps (pcp 12 cps), fully franked, payable on 16th April 2020

Summary

FY20/21 Focus

- Defend and grow premium service volume
- Continue to grow our low price service volume in Australia
- Grow diagnostic revenue in Australia
- Grow non-IVF day hospital revenue in Australia
- Grow International revenue in existing locations
- Continued focus on cost out initiatives
- New CEO, Ms Kate Munnings commences 4 May 2020



APPENDICES

KPIs – Australian Segment

Virtus	Note	H1FY20	H1FY19	Change
Number of IVF cycles in Virtus Australia	1	8,302	8,085	2.7%
TFC cycles as a percentage of total Virtus IVF cycles		22.0%	17.3%	4.7%
Number of IVF cycles in NSW, QLD, TAS, VIC, ACT market		20,773	20,529	1.2%
Eastern states market share	1	39.9%	39.4%	0.5%
National market share	1	33.6%	33.5%	1.0%
Treatment volume	2	15,582	15,368	1.4%
Average number of Fertility Specialists		102	107	(4.7%)
Average number of cycles per Fertility Specialist		81	76	6.6%
Average age of Fertility Specialists		53	52	(1.6%)
Average total revenue per cycle (A\$)		13,477	13,797	(2.3%)
Labour as a % of total revenue		35.3%	33.9%	(1.4%)
Provider fees as a % of total revenue		14.6%	14.9%	0.3%
Reported segment EBITDA margin %	3	29.9%	29.8%	0.0%

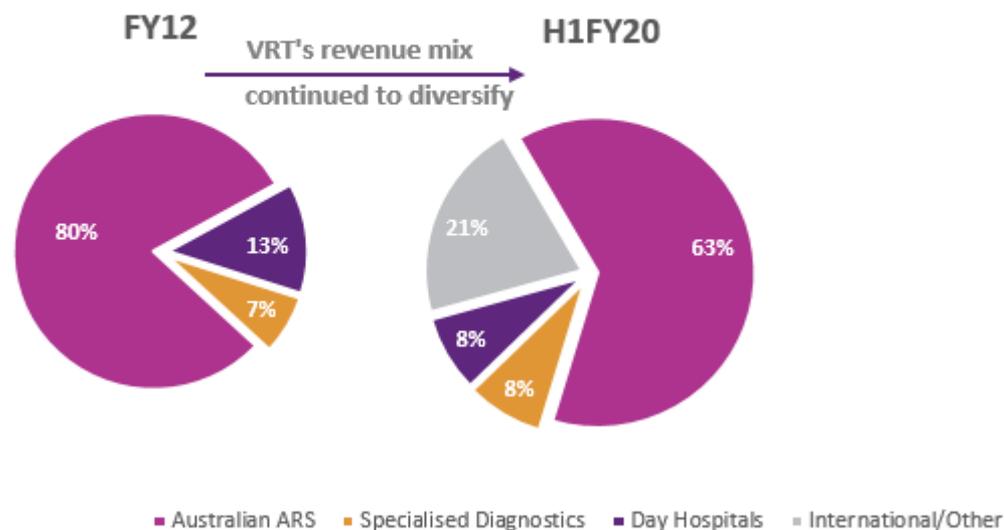
Notes:

1. Implied last six 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
3. Excludes \$7.4m increase in EBITDA resulting from the adoption of AASB 16 'Leases'

Virtus International

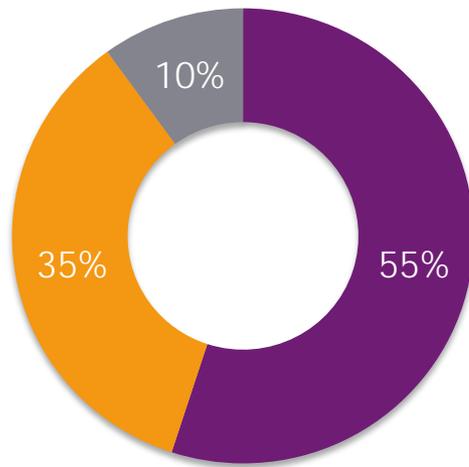
Virtus International : 21% of Group revenues

Multiple Sources of Revenue



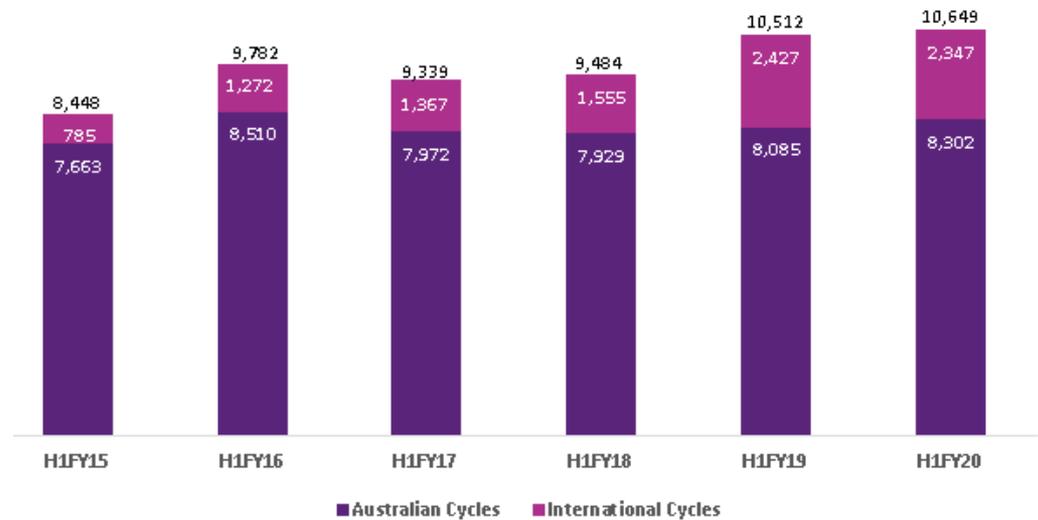
Treatment Analysis

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. [Centre Alliance senator Stirling Griff](#) tabled a legislative proposal requiring greater scrutiny of the IVF industry through reporting of patient outcomes (July 2019)
- State Governments considering opportunities to extend existing public IVF services eg NSW Govt announced Pre-IVF Fertility test \$500 rebate and support of public hospital IVF in January 2020; VIC Govt via VARTA commissioned Michael Gorton ART Review.
- 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; and
- 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; and
- 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

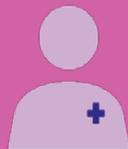
DAY HOSPITALS

IVF and non-IVF
procedures



125

FERTILITY SPECIALISTS



1,005

NURSES, COUNSELLORS, PATIENT SUPPORT (incl DIAGNOSTICS)



247

SCIENTISTS





THANK YOU