



VIRTUS HEALTH (ASX: VRT)

# FINANCIAL RESULTS PRESENTATION FY2017

Tuesday 22<sup>nd</sup> August, 2017 AEST

**virtus**health

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# RESULTS & OPERATIONAL OVERVIEW FY2017

# FY17 FINANCIAL RESULTS OVERVIEW

## *Challenging domestic ARS conditions; growth in diagnostics & international activities*

### **Revenue down 1.8% to \$256.5m**

- Group cycles flat at 18,669 (FY16: 18,752)
- Group treatments including IVF, FET, IUI and cancelled were up 3.6% to 35,360 on pcp
- Virtus Australian cycles down 3.7% like for like in the available domestic market which is down 0.24%

### **Group EBITDA before impairment down 5.9% to \$64.8m**

- Australian segment EBITDA down 7.6% to \$65.8m
- International segment EBITDA up 24.4% to \$7.1m

### **Net Profit after tax (NPAT) attributable to ordinary equity holders down 14.6% to \$28.1m**

### **Gearing at 2.1X adjusted Group EBITDA**

**Cash/Debt Funding capacity** ~\$60m (\$51m unused borrowing facility and ~\$9m uncommitted cash)

### **Final dividend 12cps fully franked (FY16:15cps)**



# OPERATIONAL HIGHLIGHTS

## *Virtus well positioned to care for all patients in chosen markets*

- Group EBITDA suppressed by Australian market performance
  - MelbourneIVF EBITDA decline
  - Day Hospital revenue shortfall
  - The Fertility Centre “TFC” margin reduction;
  - Partially offset by strong profit growth from Diagnostics
- Group Segment EBITDA grew in H2 FY17 on pcp as a result of:
  - TFC volume growth
  - Positive EBITDA Singapore
  - First time contribution Aagaard
- Virtus remains the market leader in Australian ARS market that continues to see composition change
- Overseas business broadly in line with expectations
- Consistent execution of strategy with effective cost management
- Leading demographic drivers for fertility services continue to drive sector growth



# AUSTRALIAN SEGMENT PERFORMANCE

# Virtus Australia: Achievements

*Virtus is well placed to respond to industry challenges and variability*

## Australian Fertility Business

### Victoria

- Organisational re-structure completed with new leadership team in place
- Continued focus on efficiency and process re-engineering to manage growth and costs
- Strengthened scientific leadership - Prof David Gardner IVF pioneer

**Changes forecast to deliver annualised OPEX reduction of \$3.5m in FY18**

### TFC (Service Models)

- Continuously improving clinical and service delivery models to respond to low cost market;
- Pricing & packaging development delivers volume improvement in H2 on pcp

### Operating Expenses

- Effective cost management (Diagnostic & Marketing restructure)
- Key supplier & consulting costs reduced

**Changes forecast to deliver annualised OPEX reduction of \$1.5m in FY18 (in addition to Victoria)**

## Diagnostics

- Vertical integration optimised with centralised lab accreditation and oversight
- Additional collection centres
- Strong profit growth from diagnostics; particularly genetic screening

***\$5m of forecast annualised savings for FY18***

# AUSTRALIAN OPERATIONS - FERTILITY

## *Virtus is the market leader in Australia*

- Overall market volume along eastern seaboard down 0.24% on pcp
- Virtus cycle activity in FY17 down 3.7% to 15,776 cycles on a like for like basis
- Virtus full service activity declined 3.1%
  - Growth achieved in TAS & QLD
  - Virtus NSW outperformed declining NSW market
  - Business & clinical strategy arrested VIC decline; market share stable in last quarter
- TFC clinics increased 3.9% on a like for like basis
  - Service model and pricing review resulted in 24% cycle growth in H2FY17
  - H2 FY17 EBITDA variance declined compared to pcp
  - TFCs represent ~15% of overall Virtus Australian activity
- Revenue down 1.1% to \$217.1m (FY16: \$219.5m)
- Australian segment EBITDA down 7.6% to \$65.8m (FY16: \$71.2m)

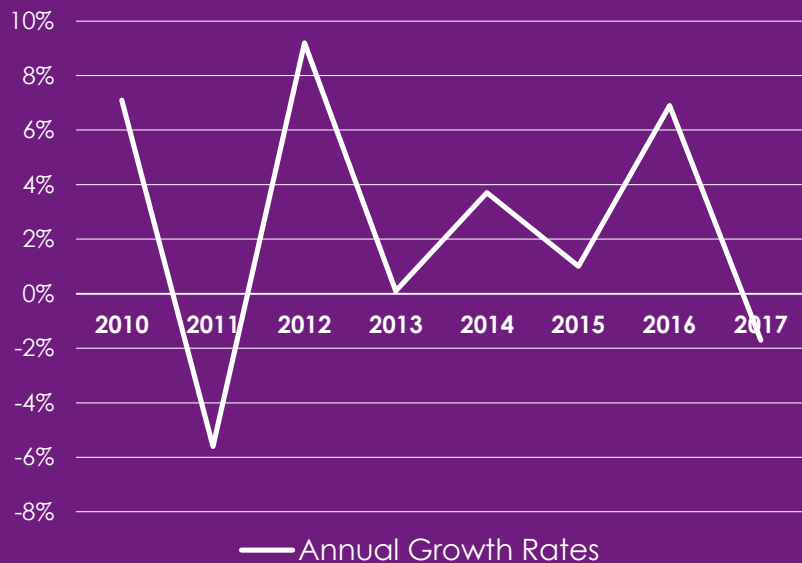




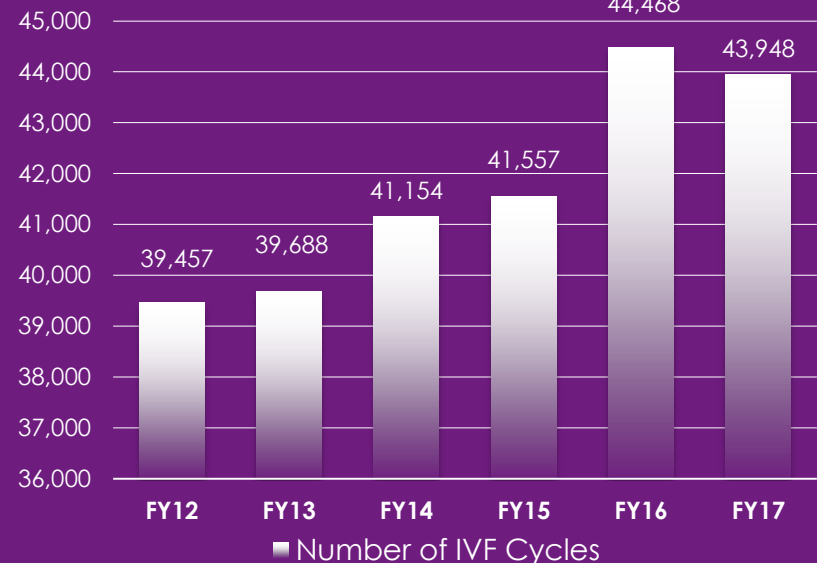
# VARIABILITY IN AUSTRALIAN MARKET GROWTH

*Annual growth rate variability is normal and historical activity has improved following periods of market downturn*

Annual Industry Growth rates (FY10-17)



Market Volumes (FY12-17)



- 5 year market CAGR to June 2017 is 2.2%
- FY17 reflects a market contraction of 1.2% over pcip to 43,948 cycles. H2 volumes improved over H1 with an increase in some states (H1 contraction was 6.4%)

Australian IVF Cycles Source: Medicare Australia

# AUSTRALIAN OPERATIONS - DIAGNOSTICS

## *Strong revenue and EBITDA growth*

- Diagnostic revenue increased 8.7%
- Significant operational enhancements completed in FY17 leading to EBITDA growth of 37%
- Revenue up 37% in PGD/PGS activity - utilisation at 14% of fresh cycles (H1FY17: 12.3%)
- Continued growth expected;
  - Genetic screening
  - An expanded testing platform including serology and early obstetric pathology testing
  - Expanded collection centre footprint
- Plan to extend services into Tasmania & ACT



# AUSTRALIAN OPERATIONS - DAY HOSPITAL

## *Day Hospital revenue decreased 7.2%*

- Impacted by softer IVF activity
- Decrease in Non-IVF procedure revenue of 9.2% on pcp across all day hospitals
- Continued focus on Non-IVF surgical relationships & services to improve utilisation in FY18



# INTERNATIONAL SEGMENT PERFORMANCE

# Virtus International: Achievements

## *Disciplined international expansion strategy*

### **IRELAND**

Performing in line with strategic objectives

### **SINGAPORE**

Increasing market reputation and improved financial performance

### **DENMARK**

Successful integration with Virtus and continued expansion

***International Expansion: Europe, UK & Scandinavian opportunities being pursued***



# IRISH OPERATIONS

## *Business performs in line with strategic objectives*

- Sims IVF Group remains market leader
- 2,294 cycles performed in FY17 (FY16: 2,321) consistent result considering six week closure for Rotunda IVF upgrade & Cork doctor changes
- Revenue down 1.4% to €21.8m (local currency)
- EBITDA (local currency) in line with pcp
- New Medical Director and Managing Director appointments



# SINGAPORE OPERATIONS

## *Singapore delivers increased cycles and improved EBITDA*

- 341 cycles performed in Singapore in FY17 (FY16: 301)
- H2 FY17 EBITDA positive
- Full year EBITDA loss improves to S\$120,000 compared to pcp loss of S\$637,000 (local currency)
- Market reputation continues to build
- Four contracted doctors plus four associated specialists utilising the facility



# DANISH OPERATIONS

## *Virtus newest member Aagaard Fertility Clinic Denmark delivers*

- Successful integration with Virtus demonstrating value of collaborative medical & scientific model
- EPS accretive on a full year 2017 basis contributing Kr4.4m to Group EBITDA (7 months)
- Additional doctor appointed 1 July to support growth
- Leading Danish fertility clinic outside Copenhagen with highest national reported success rates \*
- This acquisition opens further Scandinavian opportunities



\* Danish Fertility Society: ART arsrapport 2015

A photograph of a medical professional, likely a sonographer, performing an ultrasound on a pregnant woman. The sonographer is on the left, wearing a white lab coat, and is using a handheld transducer on the woman's abdomen. The woman is lying down on the right. In the background, a large monitor displays a 3D ultrasound image of a fetus. The scene is dimly lit, with a warm, orange-brown glow. The text "FINANCIAL RESULTS FY2017" is overlaid in white, bold, sans-serif font on the left side of the image.

# FINANCIAL RESULTS FY2017

# SUMMARY INCOME STATEMENT

## Statutory and adjusted results

A \$ millions	Statutory Results		Adjustment		Adjusted Results	
	FY17	FY16	FY17	FY16	FY17	FY16
<b>Revenue</b>	<b>256.5</b>	<b>261.2</b>			<b>256.5</b>	<b>261.2</b>
Segment EBITDA	72.9	76.9			72.9	76.9
<b>EBITDA (before impairment)</b>	<b>64.8</b>	<b>68.9</b>	<b>(3.0)</b>	<b>(1.3)</b>	<b>61.8</b>	<b>67.6</b>
Depreciation, amortisation and impairment	(14.0)	(11.2)	1.9		(12.1)	(11.2)
EBIT	50.8	57.7	(1.1)	(1.3)	49.7	56.4
Interest	(8.0)	(8.7)	1.2	1.1	(6.8)	(7.6)
<b>Profit before income tax</b>	<b>42.8</b>	<b>49.0</b>	<b>0.1</b>	<b>(0.2)</b>	<b>42.9</b>	<b>48.8</b>
Income tax expense	(12.8)	(14.2)	(0.1)		(12.9)	(14.2)
<b>Profit after income tax</b>	<b>30.0</b>	<b>34.8</b>	<b>0.0</b>	<b>(0.2)</b>	<b>30.0</b>	<b>34.6</b>
Profit after income tax attributable to non-controlling interest	(1.9)	(1.9)			(1.9)	(1.9)
<b>Profit after income tax attributable to ordinary equity holders</b>	<b>28.1</b>	<b>32.9</b>	<b>0.0</b>	<b>0.2</b>	<b>28.1</b>	<b>32.7</b>
Earnings per share (cents)	35.00	41.18				
Diluted Earnings per share (cents)	34.79	40.79				

Notes:

Shaded area indicates IFRS disclosures FY17 Financial Statements; refer next page for reconciliation of detailed adjustments from statutory profit to adjusted profit.



# STATUTORY PROFIT RECONCILIATION TO ADJUSTED PROFIT

*Overall transaction related non-cash adjustments, transaction expenses and Impairment net out to NIL in FY17*

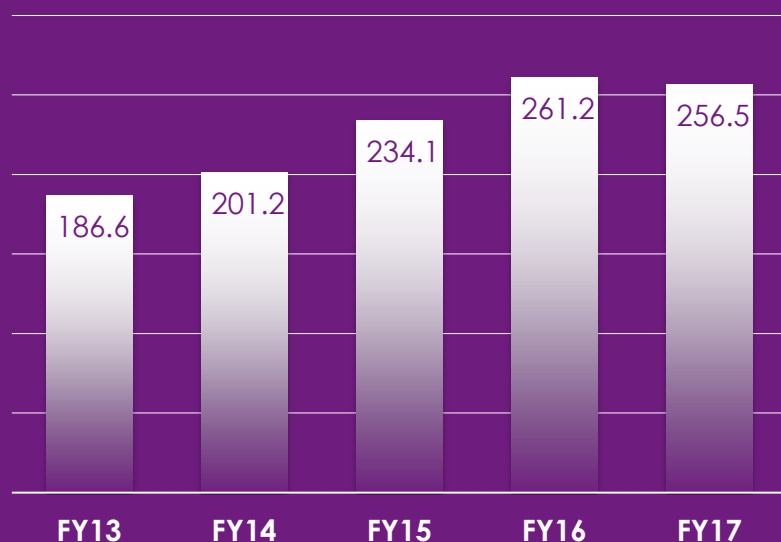
\$ Million	FY17	FY16
<b>Profit after income tax attributable to ordinary equity holders</b>	<b>28.1</b>	<b>32.9</b>
Fair Value Adjustment to put liabilities <sup>1</sup>	(3.3)	(2.2)
Fair Value Adjustment to contingent consideration	(0.5)	0.0
Non Cash Interest <sup>2</sup>	1.2	1.1
Transaction costs	0.8	0.9
Impairment of Goodwill <sup>3</sup>	1.9	0.0
Tax-effect on all adjustments	(0.1)	0.0
<b>Adjusted NPAT</b>	<b>28.1</b>	<b>32.7</b>

Notes:

1. Fair value adjustment to put liabilities relating to remaining interests in acquired entities
2. Non cash interest relates to the unwinding of the discount on the put option and contingent consideration liabilities
3. Impairment of goodwill in relation to Tasmania

# KEY REVENUE AND EBITDA DRIVERS FOR FY2017

## FY13-17 Revenue



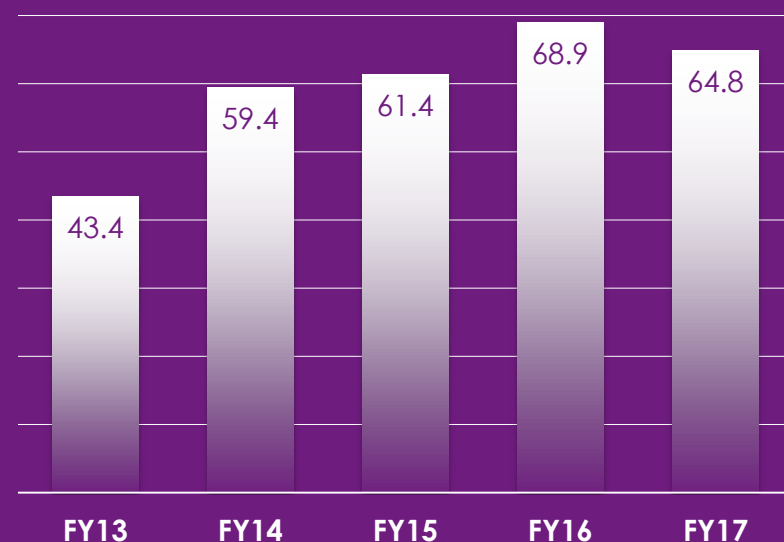
### FY17 Revenue impacted by:

- Australian general market contraction
- Victorian market share loss
- TFC price reduction
- Day Hospital revenue decline

### Partially offset by:

- Improvement in Virtus full service activity in Victoria H2FY17
- Mix change – improved TFC volume
- Diagnostics revenue growth

## FY13-17 Group EBITDA



### FY17 EBITDA impacted by:

- Lower Australian full service volumes
- Victorian EBITDA down by \$3.8m on pcp
- TFC margin deterioration
- Restructure costs \$0.8m

### Partially offset by:

- Diagnostics EBITDA growth
- Singapore EBITDA loss reduction
- Part year contribution of newly acquired clinic in Denmark

# STATEMENT OF FINANCIAL POSITION

A \$ millions	Statutory June 17	Statutory June 16
Cash	27.3	22.2
Trade and other receivables	12.3	11.3
Inventories	0.7	0.6
Equity accounted investments	1.5	1.5
Other financial assets	3.0	2.3
PP&E	29.0	30.3
Deferred tax assets	4.0	6.0
Intangible assets	411.5	399.0
<b>Total Assets</b>	<b>489.3</b>	<b>473.2</b>
Trade and other payables	22.1	25.1
Deferred revenue	8.2	5.8
Borrowings	153.6	147.4
Provisions	9.8	9.6
Current tax liabilities	0.4	0.0
Other financial Liabilities	26.8	27.2
<b>Total Liabilities</b>	<b>220.9</b>	<b>215.1</b>
<b>Net Assets</b>	<b>268.4</b>	<b>258.0</b>

## Cash balance

At normal level after utilisation of excess cash on Capex and dividends

## Gearing

- Increase in borrowings arising from additional drawdown of \$11m to fund acquisition offset by voluntary repayment of \$5m
- Leverage ratio of 2.1 adjusted group EBITDA (LTM)
- Full compliance with sufficient head room under both interest cover and leverage ratios
- Funding capacity available, ~\$60m reflecting \$51m of unused facilities and ~\$9m of uncommitted cash

## Dividend proposed

12cps, (pcp15cps) fully franked payable on 13 October 2017

# CASH PERFORMANCE

## Operating cash flow impacted by lower FY17 EBITDA

Summary (A\$m)	FY17 (A\$m)	FY16 (A\$m)
<b>Group EBITDA</b>	<b>64.8</b>	<b>68.9</b>
Changes in other operating assets /liabilities	(5.6)	1.5
Net financial costs	(6.4)	(6.9)
Income Tax	(10.7)	(16.2)
Other non-cash adjustments*	(3.4)	0.4
<b>Operating Cash Flow</b>	<b>38.7</b>	<b>47.7</b>
Net CAPEX	(9.8)	(9.6)
<b>Free Cashflow</b>	<b>28.9</b>	<b>38.1</b>
Dividends paid	(22.5)	(22.1)
<b>Free Cash Flow after dividends</b>	<b>6.4</b>	<b>16.0</b>

\* Increase resulting from non cash fair value gains

### Operating cash flows used to fund:

- Capex of \$9.8m
- Dividends of \$22.5m

Operating cash flows affected by lower EBITDA and lower payables in FY17

Net debt increased by \$2.0m as a result of additional drawdown of \$11m to fund the acquisition of Aagaard Fertility Clinic in Denmark, mostly offset by an increase in closing cash balance of \$4.0m and a voluntary debt repayment of \$5.0m.

# STRATEGY





# VIRTUS HEALTH STRATEGY

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

## Leading minds, leading science

### Ambition

**To be a leading global provider of ARS based on;**

- Clinical & scientific effectiveness
- Breadth of capability across ARS value chain
- Market leadership in chosen geographies & market segments
- Our patients being at the centre of everything we do

### Growth Strategy

#### ARS (Domestic & International)

Market penetration by acquisition, greenfield & organic growth

Research driven service development

#### Diagnostics (Domestic)

Leverage fertility, genetics & general pathology testing across the business

Other diversification opportunities

#### Day Hospitals (Domestic)

Optimise utilisation & efficiency

Opportunistic domestic acquisition

# SUMMARY

## *ARS is a long-term growth market*

- Virtus diversified model, scale & geographical reach provides an unrivalled platform for participation in all key fertility segments
- Significant operational changes improve domestic position
- International operations continue to perform in line with expectation
- Strong profit growth from diagnostics particularly genetic screening
- Early adoption of technology, advances in science and operations for patient, doctor and employee value
- Demographic drivers for ARS growth remain favourable globally

## *Virtus is well positioned to grow*

# APPENDICES

# KPIS – AUSTRALIAN SEGMENT

*Average sales revenue reflects mix change from full service to TFC*

Virtus	Note	FY17	FY16	Change
Number of IVF Cycles in Virtus Australia	1	15,776	16,130	(2.2%)
TFC cycles as a percentage of total Virtus IVF cycles		15.0%	13.0%	2.0%
Number of IVF Cycles in NSW, QLD, TAS, VIC, ACT market	1	37,497	37,587	(0.2%)
East states market share	1	42.1%	43.9%	(1.8%)
National market share	1	35.9%	36.2%	(0.3%)
Treatment volume	2	30,148	29,917	1.7%
Average number of Fertility Specialists		106	100	6.0%
Average number of cycles per Fertility Specialist		149	161	(7.5%)
Average age of Fertility Specialists		51	50	2.0%
Average total revenue per cycle (A\$)		13,758	13,784	(0.2%)
Labour as a % of total revenue		32.8%	30.0%	(2.8%)
Provider fees as a % of total revenue		15.1%	15.1%	0.0%
Reported segment EBITDA margin %		30.0%	32.1%	(2.1%)

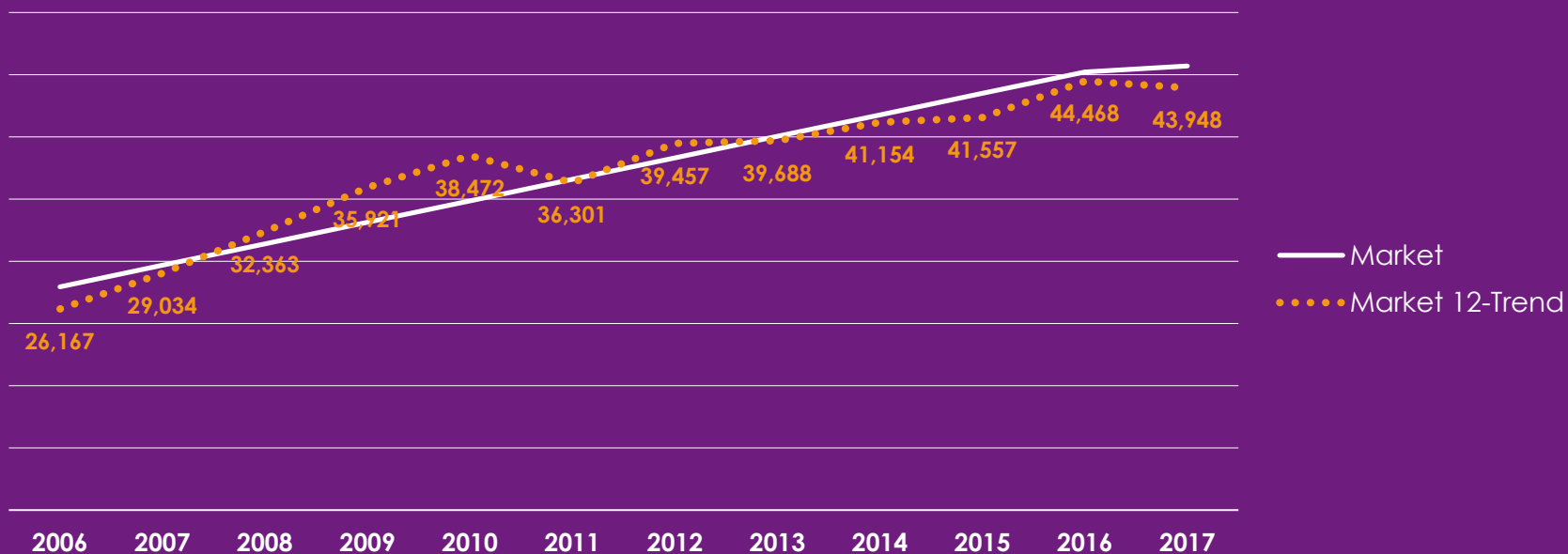
Notes:

1. Implied last 12months 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

# AUSTRALIAN MARKET GROWTH

## *Virtus remains the market leader in Australia*

Australian Market Volumes (2006-2017)

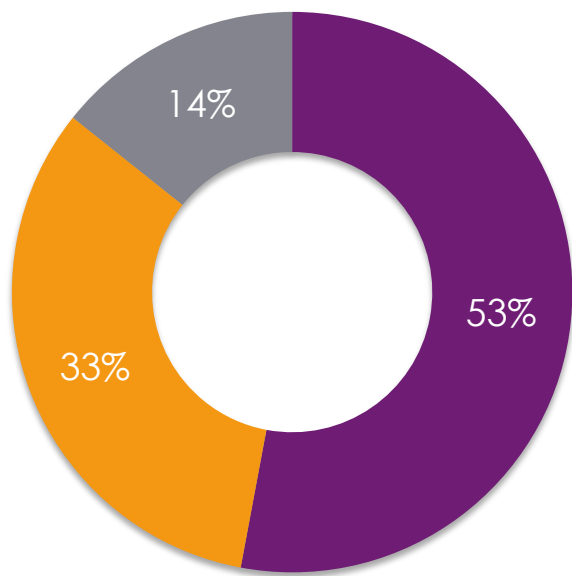


- Growing ARS Australian market since 2006 with some contraction in volume for FY17
- Demographic drivers for ARS remain favorable as evident in the historical trend line
- Strong industry fundamentals with occasional variability



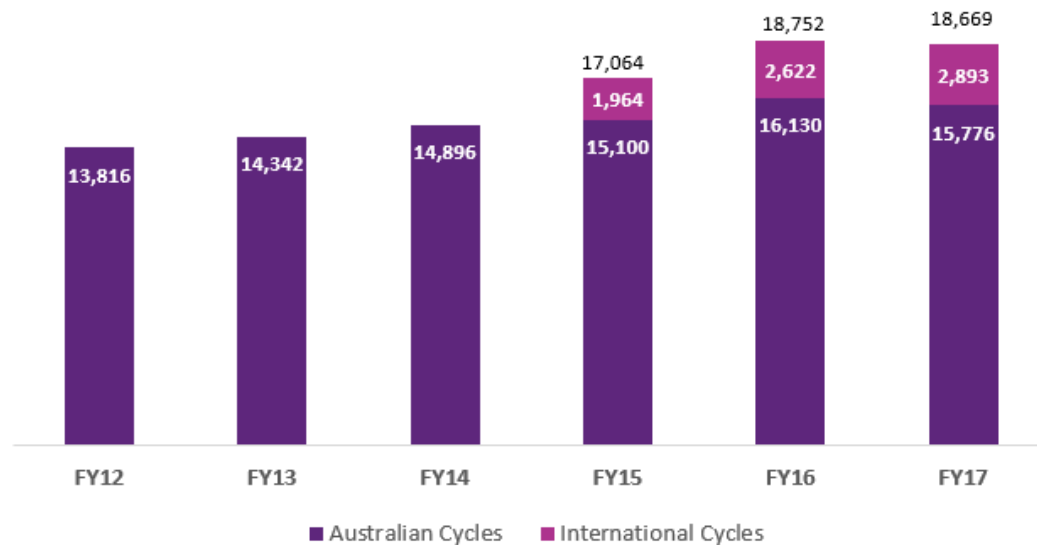
# VIRTUS TREATMENT ANALYSIS

Treatment Mix



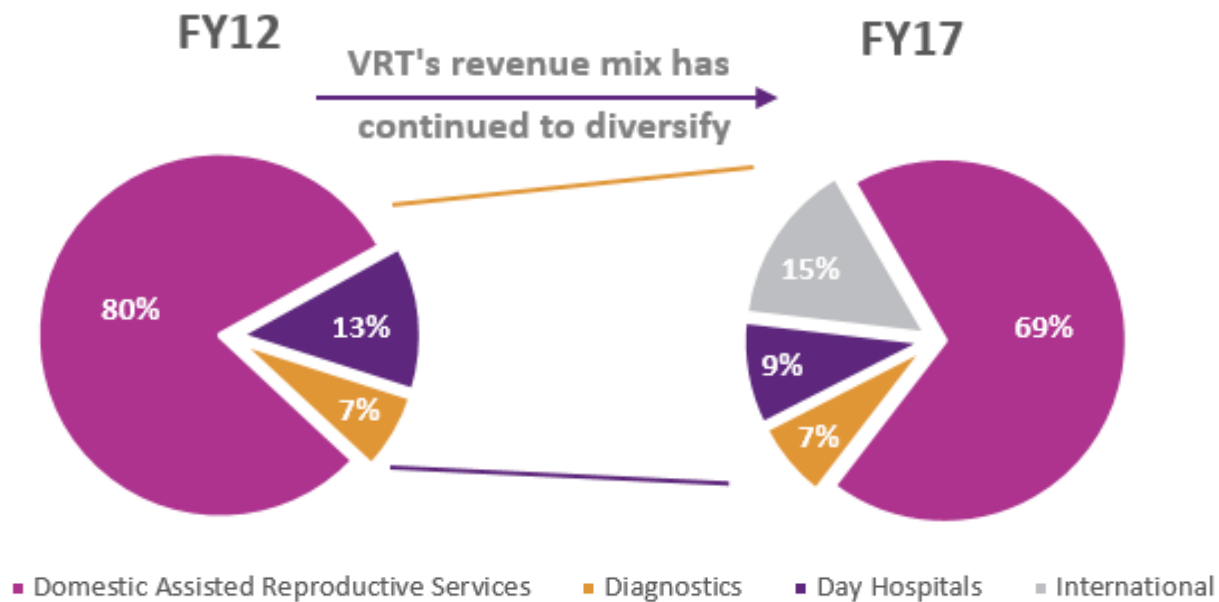
■ Cycle ■ Frozen ■ AI/OI

Virtus Cycles



# DIVERSIFIED REVENUE MIX

## Multiple Sources of Revenue



# VIRTUS HEALTH NETWORK OF CARE

## ASSISTED REPRODUCTIVE SERVICES

46

### FERTILITY CLINICS

Australia	41
Ireland	3
Singapore	1
Denmark	1



## SPECIALISED DIAGNOSTICS

62

### LABORATORIES

Embryology	29
Andrology	27
Endocrinology	4
Genetics	2



## DAY HOSPITALS

6

### DAY HOSPITALS

IVF and non-IVF  
procedures



122

### FERTILITY SPECIALISTS



951

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



231

### SCIENTISTS



# REGULATORY ENVIRONMENT

## Australia

- Federal Health Department review of Medicare Benefits Schedule is in progress
- National Health and Medical Research Council ("NHMRC") has provided new guidance on sex selection for family balancing (not currently permitted) and donor services
- Medical Services Advisory 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

- Growing interest in PGD/PGS access in Singapore

## Denmark

- Favourable changes to donor services and international use of gametes







**THANK YOU**

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