



Virtus Health (ASX:VRT)

FINANCIAL RESULTS PRESENTATION H1FY19

Tuesday 19 February, 2019 9.00am AEDT

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RESULTS & OPERATIONAL OVERVIEW H1FY19

Virtus Health

Fertility Market Leader

Virtus invests to reinforce competitive position

- Investment in infrastructure, people and technology
- Targeted response to low cost competition in Australia resulting in market share increase
- Revenue diversification through international expansion continues
- Short term financial headwinds:
 - Growth initiatives; costs associated with infrastructure, people and technology
 - Change in Australian revenue mix
 - Softness in European business

H1 FY19 Financial Results

Revenue **↑ 5.1%**
\$140m

EBITDA **↓ 6.8%**
\$32.4m

NPAT attributable to
ordinary equity
holders

↓ 11.7%
\$14.6m

EPS **↓ 11.7%**
18.21 cents

EBITDA Margin
↓ 3.0%

Interim Dividend
12 cps
fully franked

- EBITDA margins impacted by targeted growth initiatives
- Headline earnings impacted by:
 - Planned expansion of infrastructure in Australia & UK
 - Targeted expansion in Australian lower margin segment
 - International EBITDA growth impacted by softer trading in UK and Ireland, doctor recruitment in Denmark



AUSTRALIAN SEGMENT PERFORMANCE

Australian Operations Fertility

Australia's market leading fertility provider

- Overall market volume along eastern seaboard up 0.6% on pcp to end of October 2018
- Virtus Australia's overall cycle activity H1FY19 increased 2.0% to 8,085 cycles (pcp 7,929)
 - Virtus VIC grew 6.8% on pcp
 - Virtus TAS grew 8.1% on pcp
 - Virtus NSW flat against pcp
 - Virtus QLD flat against pcp
- Virtus delivered a targeted TFC volume increase of 17.1%
 - Service model and pricing reviews improved performance across all states
 - TFCs represent 17% of overall Virtus Australian activity (H1FY18: 15%)
- Australian segment revenue in line with pcp at \$112m
- Australian segment EBITDA down 7.3% to \$33.4m (H1FY18: \$36.0m), mostly a result of:
 - Targeted volume growth in low cost segment impacting EBITDA margin
 - Change in premium service revenue mix: an increase in lower margin QLD premium cycles; and a decrease in higher margin NSW premium cycles
 - Additional costs from planned relocations

Virtus Australia: Achievements

Infrastructure development in H1FY19 expands capacity

Australian Fertility Business

- **Market share gains** across all Virtus states to October (last Medicare report date)
- **Relocation of IVFAustralia & TasIVF** lab & clinic to new facilities
- **Deployment of** time-lapse incubators and **rollout of AI** (Ivy) technology delivering improved patient outcomes

Diagnostics

- Secured site to **relocate Virtus Diagnostics' main Laboratory** and **opened 5 new pathology collection sites for future growth**
- **Supervisory model adjusted to ensure compliance** to new Therapeutic Goods Administration regulations

Day Hospitals

- **Facility completion:** Alexandria Specialist Day Hospital NSW and Hobart Specialist Day Hospital now open

Australian Operations Diagnostics



A MEMBER OF VIRTUS HEALTH

Regulatory changes and lower PGT utilisation impacts revenue and EBITDA

- Diagnostic revenue decreased 0.9% and EBITDA decreased 16.2% over pcp
 - Revenue was impacted by lower PGT utilisation to 14.6% of fresh cycles H1FY19 (H1FY18: 18.9%) following a clinical practice change in FY19; new technologies for non-invasive PGT are being explored
 - EBITDA was impacted by increased supervision costs from new regulations
- Focus on growth through:
 - Diagnostics main lab site relocation for enhanced capacity;
 - Additional scientific and pathology supervision to service the growing testing platform and "footprint"; and
 - Molecular Genetics testing through Next Generation Sequencing

Australian Operations Day Hospitals



Day Hospital EBITDA impacted by relocations

- EBITDA heavily impacted by the relocation costs and disruption to non-IVF activities in Alexandria (formerly Maroubra) and Hobart. These changes reduced EBITDA by approximately \$0.9m in H1FY19
- Decrease in non-IVF procedure revenue of 4.5% on pcp across all Specialist Day Hospitals
- Improved utilisation and business development now the focus for Alexandria SDH and Hobart SDH



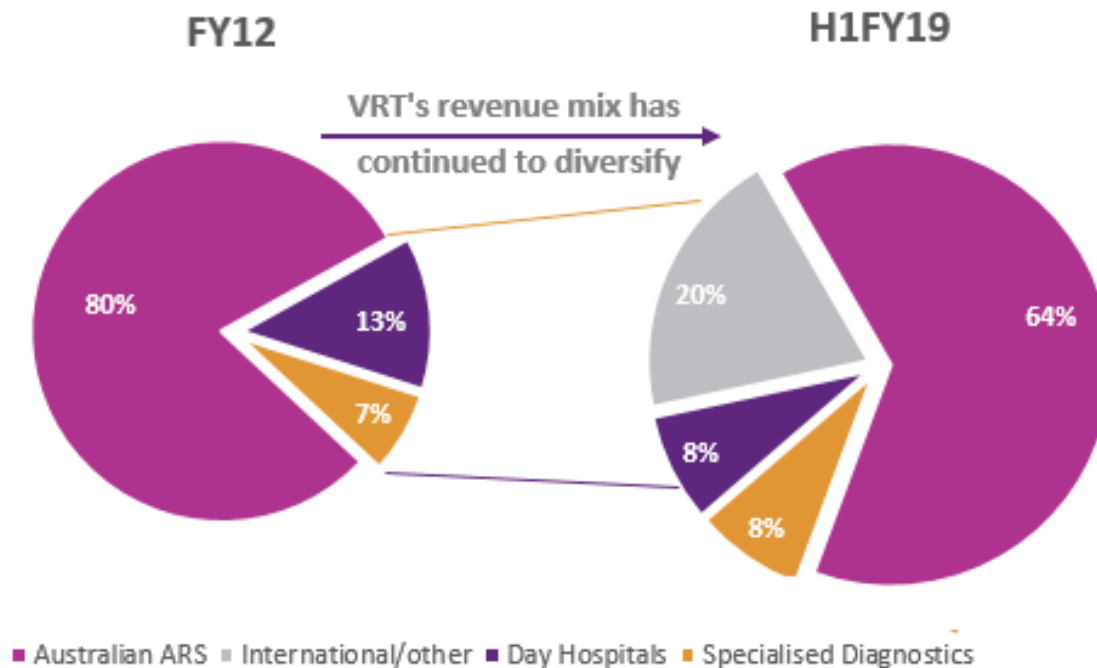


INTERNATIONAL SEGMENT PERFORMANCE

Virtus International: Achievements

International operations grows to 20% of Group revenues

Multiple Sources of Revenue



UK Operations

Complete Fertility reports positive EBITDA

- CFC performed 228 fresh cycles; revenue £1.6m
- Facility refurbishment completed to accelerate opportunity for growth, however the clinic experienced some disruption to operations resulting in lower than expected volumes
- CFL have been awarded the NHS contract for Dorset as one of three providers



Danish Operations

Danish clinics deliver mixed results

- Trianglen performed 722 fresh cycles; revenue DKK20.6m; EBITDA exceeding expectations
- Aagaard performed 207 (H1FY18: 254) fresh cycles; revenue DKK6.9m (H1FY18: DKK12.4)
- Aagaard results were impacted by doctor resourcing. H1FY18 also included a non-recurring sperm sale to a research body
- Operational synergies in business development and clinic management within Virtus Denmark being pursued



Irish Operations

Solid performance

- 1,094 cycles performed in H1FY19 (H1FY18: 1,099)
- Revenue down 1.5% to €10.5m (local currency) primarily resulting from softer H1, recovery expected in H2
- EBITDA (local currency) down 10.4% on pcp as a result of lower revenue and higher bad debt provisions



Singapore Operations

Subdued volumes however EBITDA remains positive

- 176 cycles performed in Singapore in H1FY19 (H1FY18: 202)
- H1FY19 EBITDA SG\$161,000 compared to pcp of SG\$245,000 (local currency), recovery expected in H2
- Additional doctor contracted to support growth





FINANCIAL RESULTS H1FY19

Summary Income Statement

Statutory and adjusted results

\$Millions	Statutory Results		Adjustment		Adjusted Results	
	H1FY19	H1FY18	H1FY19	H1FY18	H1FY19	H1FY18
Revenue	140.7	133.8			140.7	133.8
Segment EBITDA	38.9	40.6			38.9	40.6
EBITDA	32.4	34.8	(0.6)	0.3	31.8	35.1
Depreciation and amortisation	(6.6)	(6.1)			(6.6)	(6.1)
EBIT	25.8	28.7	(0.6)	0.3	25.2	29.0
Interest	(4.9)	(3.9)	0.7	0.5	(4.2)	(3.4)
Profit before income tax	20.9	24.8	0.1	0.8	21.0	25.6
Income tax expense	(6.0)	(7.5)			(6.0)	(7.5)
Profit after income tax	14.9	17.3	0.1	0.8	15.0	18.1
Profit after income tax attributable to non-controlling interest	(0.3)	(0.7)	-		(0.3)	(0.7)
Profit after income tax attributable to ordinary equity holders	14.6	16.6	0.1	0.8	14.7	17.4
Earnings per share (cents)	18.21	20.62				
Diluted earnings per share (cents)	18.10	20.48				

Notes:

Shaded area indicates IFRS disclosures H1FY19 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 and transaction expenses

\$Millions	H1FY19	H1FY18
Profit after income tax attributable to ordinary equity holders	14.6	16.6
Non-cash Interest ¹	0.7	0.5
Transaction costs	0.2	0.3
Fair value adjustment to transaction put liabilities	(0.8)	0.0
Adjusted NPAT	14.7	17.4

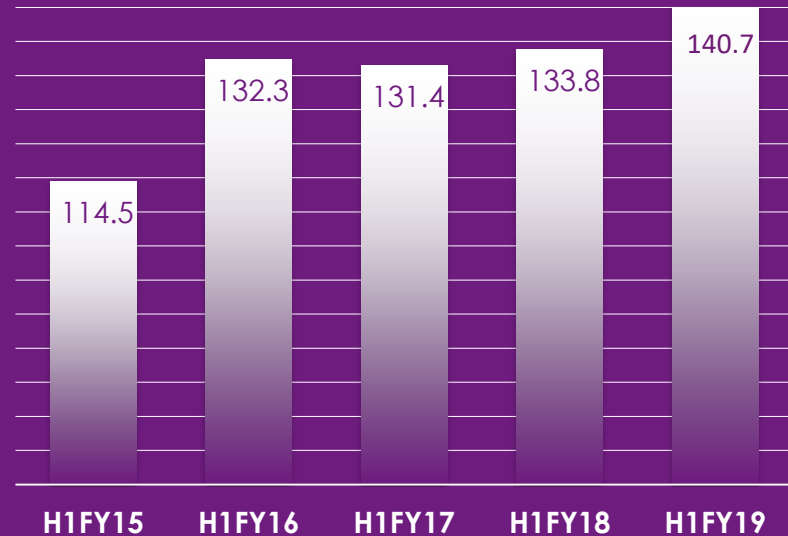
Notes:

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

Key Revenue and EBITDA Drivers for H1FY19

EBITDA margin reduces by 3.0%

H1FY15-19 Revenue



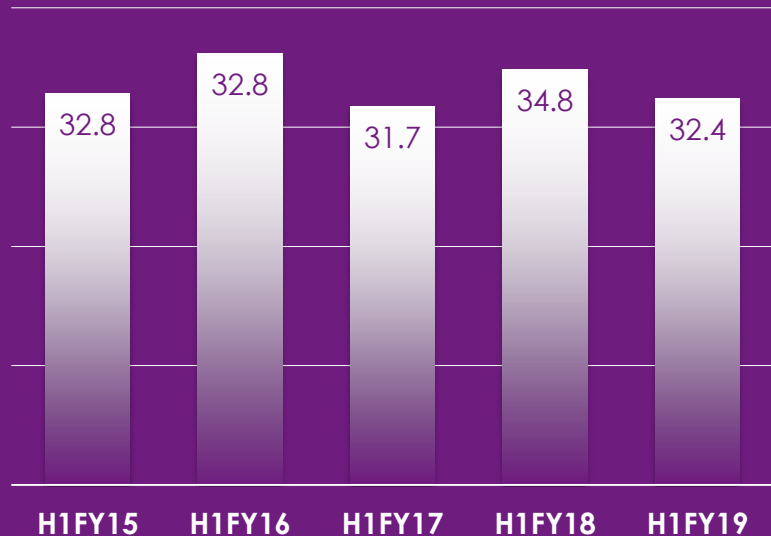
H1FY19 Revenue growth driven by:

- Strong TFC performance – VIC and NSW
- Improvement in QFG full service
- First-time contribution from Trianglen (Denmark) and a full six month contribution from Complete Fertility (UK)

Partially offset by:

- Reduction in Tas IVF revenue
- Reduction in Diagnostics revenue
- Reduction in drugs and diagnostics revenue in Ireland

H1FY15-19 Group EBITDA



H1FY19 EBITDA decline driven by:

- Revenue mix – stronger TFC volume growth which attracts lower margins
- Relocation costs/disruption to volumes from two major facility upgrades at Alexandria and Hobart Specialist Day Hospitals
- Increase in corporate costs as a result of salary/recruitment costs

Partially offset by:

- First-time contribution from Trianglen (Denmark)
- Continued improvement in VIC profitability

Cash Performance

Operating cash flow

Summary	H1FY19 (A\$m)	H1FY18 (A\$m)
Group EBITDA	32.4	34.8
Changes in other operating assets/liabilities*	(5.9)	3.9
Net financial costs	(3.9)	(3.2)
Income tax	(7.9)	(5.2)
Other	0.4	0.4
Operating cash flow	15.1	30.7
Net CAPEX	(9.0)	(5.6)
Free cash flow	6.1	25.1
Dividends paid	(9.6)	(9.6)
Free cash flow after dividends	(3.5)	15.5

Operating cash flows used to fund:

- Negative movement in operating assets/liabilities mostly timing related differences in trade payables
- Income tax movement due to timing differences on payments
- Capex of \$9.0m mostly relating to completion of Alexandria and Hobart Specialist Day Hospital developments during H1 of \$4.2m. Capex is expected to now settle at normal levels in H2FY19
- Dividends of \$9.6m

*Excludes non-cash items (share-based payments, non-cash interest and forex)

Statement of Financial Position

\$millions	Statutory Dec 18	Statutory June 18
Cash	18.8	21.7
Trade and other receivables	10.8	12.5
Inventories	0.9	0.7
Equity accounted investments	1.5	1.5
Other financial assets	7.0	3.5
PP&E	37.9	34.5
Deferred tax assets	6.7	5.5
Intangible assets	467.2	465.4
Total assets	550.8	545.3
Trade and other payables	25.9	25.8
Deferred revenue	12.0	14.8
Borrowings	181.1	180.8
Deferred tax liability	0.8	0.9
Provisions	10.9	10.6
Current tax liabilities	3.9	4.2
Other financial liabilities	24.4	24.7
Total liabilities	259.0	261.8
Net assets	291.8	283.5

Cash balance

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

Gearing

- Leverage ratio of 2.6 adjusted group EBITDA (LTM)
- Full compliance with sufficient head room under both interest cover and leverage ratios
- Funding capacity available, \$76m reflecting \$73m of unused facilities and \$3m of uncommitted cash

Dividend proposed

12 cps (pcp 14 cps), fully franked, payable on 18th April 2019



STRATEGY & OUTLOOK

VIRTUS HEALTH #1 FOR FERTILITY

Leading Minds, Leading Science

Virtus Health Strategy

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

Patient-Centric: Leading minds, Leading science

Ambition

To be a leading global provider of ARS based on:

- Extraordinary patient care
- Clinical & scientific effectiveness
- ARS capability driving market leadership in chosen geographies & market segments
- Investment in people for focused technology transformation

Growth Strategy

ARS (Domestic & International)

- Profitable market penetration by acquisition & organic growth
- Scientific innovation-driven service development

Diagnostics (Domestic)

- Investment in people and facilities to accelerate technology and network expansion

Day Hospitals (Domestic)

- Optimise utilisation & efficiency of expanded network

Virtus Innovation

Advanced technology, digital platforms and collaboration

- \$2.3m investment in time-lapse incubators in H1 throughout main laboratories
- Virtus research and technology **IVY AI** accelerating path to pregnancy for patients *'creating more families'*
- Early internal reports show meaningful improvement in success rates from **IVY AI**



Conclusion

Virtus investment in facilities, technology and people reinforces competitive position

- Investments in people and infrastructure across Virtus provides capacity for transformation and growth
- Early adoption of advanced technologies such as *IVY Artificial Intelligence* is improving patient outcomes and increasing market share
- Virtus' diversified model, scale & geographical reach provides an unrivalled platform for participation in all key fertility segments
- Acquisition and integration of international businesses remains key to our growth strategy



APPENDICES

KPIs – Australian Segment

Virtus	Note	H1FY19	H1FY18	Change
Number of IVF cycles in Virtus Australia	1	8,085	7,929	2.0%
TFC cycles as a percentage of total Virtus IVF cycles		17.3%	15.1%	2.2%
Number of IVF cycles in NSW, QLD, TAS, VIC, ACT market		*	19,804	*
Eastern states market share	1	*	40.0%	*
National market share	1	*	34.3%	*
Treatment volume	2	15,368	15,405	(0.2%)
Average number of Fertility Specialists		107	109	(1.8%)
Average number of cycles per Fertility Specialist		76	73	3.5%
Average age of Fertility Specialists		52	52	0.0%
Average total revenue per cycle (A\$)		13,797	13,973	(1.3%)
Labour as a % of total revenue		33.9%	31.4%	(2.5%)
Provider fees as a % of total revenue		14.9%	15.1%	0.2%
Reported segment EBITDA margin %		29.8%	32.3%	(2.5%)

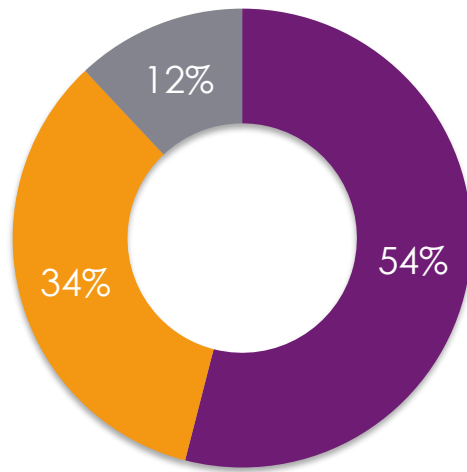
*Australian market data for H1FY19 is yet to be published

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

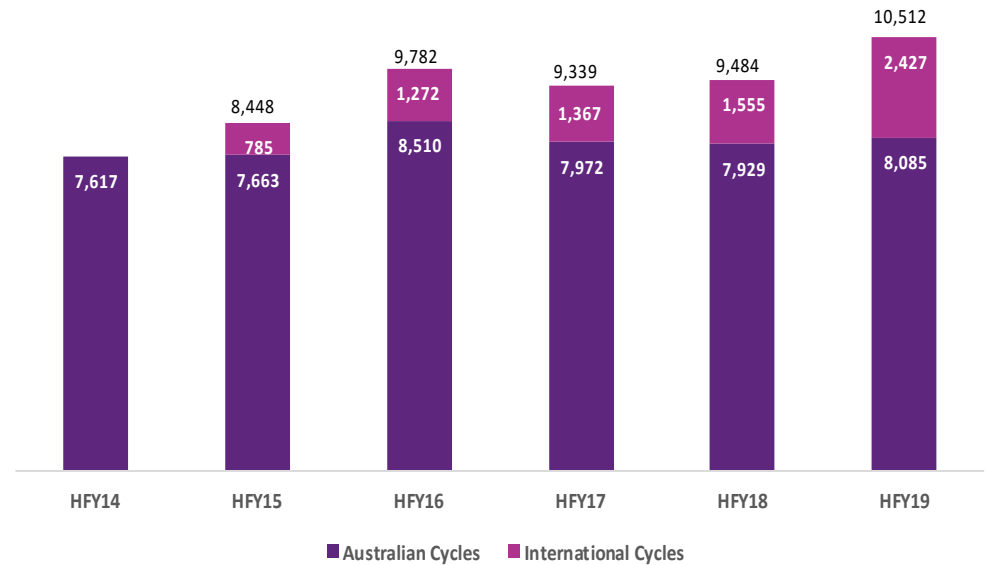
Treatment Analysis

Treatment Mix



■ Fresh cycle ■ Frozen cycle
■ AI/OI treatment*

Virtus Cycles



*AI/OI Artificial insemination/ ovulation induction treatment

Regulatory Environment

Australia

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

Ireland

- Government has confirmed some public funding to be made available for fertility provision in 2019, though the quantum is likely to be relatively small
- New dedicated Fertility Regulator expected to be introduced in 2020.

UK

- HFEA are focussing on funded 'add on' services through the introduction of a RAG system that informs patients of the clinical evidence in support of the treatment

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

45

FERTILITY CLINICS

Australia	38
Ireland	3
Singapore	1
Denmark	2
UK	1



SPECIALISED DIAGNOSTICS

63

LABORATORIES

Embryology	27
Andrology	29
General Pathology	5
Genetics	2



DAY HOSPITALS

7

DAY HOSPITALS

IVF and non-IVF
procedures



125

FERTILITY SPECIALISTS



≈ 977

NURSES, COUNSELLORS, PATIENT SUPPORT (incl DIAGNOSTICS)



≈ 241

SCIENTISTS





THANK YOU