

# Virtus Health (ASX:VRT) FY2014 Full Year Results

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# Agenda

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- 1 FY2014 Overview
  - 2 FY2014 Financial results in detail
  - 3 Strategy and Outlook



## 1. FY2014 Overview





# 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

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## 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 8.1% to \$60.8m

- **Pro-forma NPATA growth of 16.8%**

## Pro forma Income Statement

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

### 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%

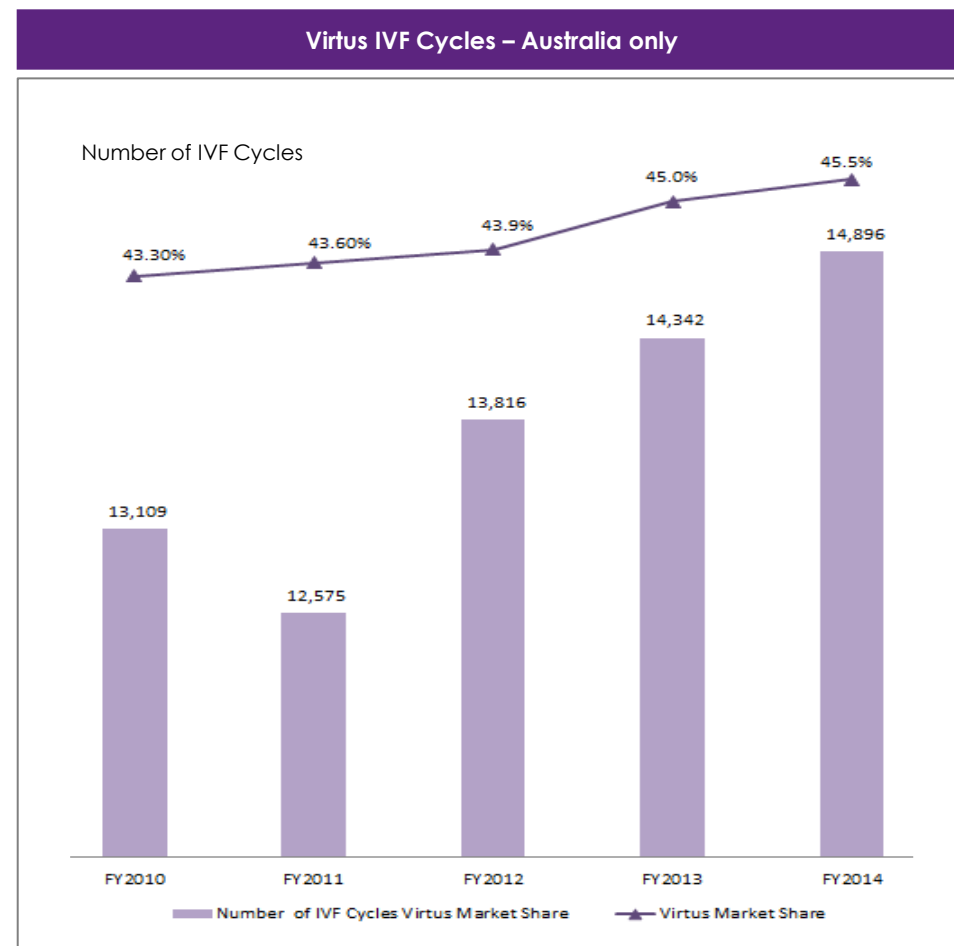
Virtus improved market share in NSW, VIC and QLD

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%



(1)

**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

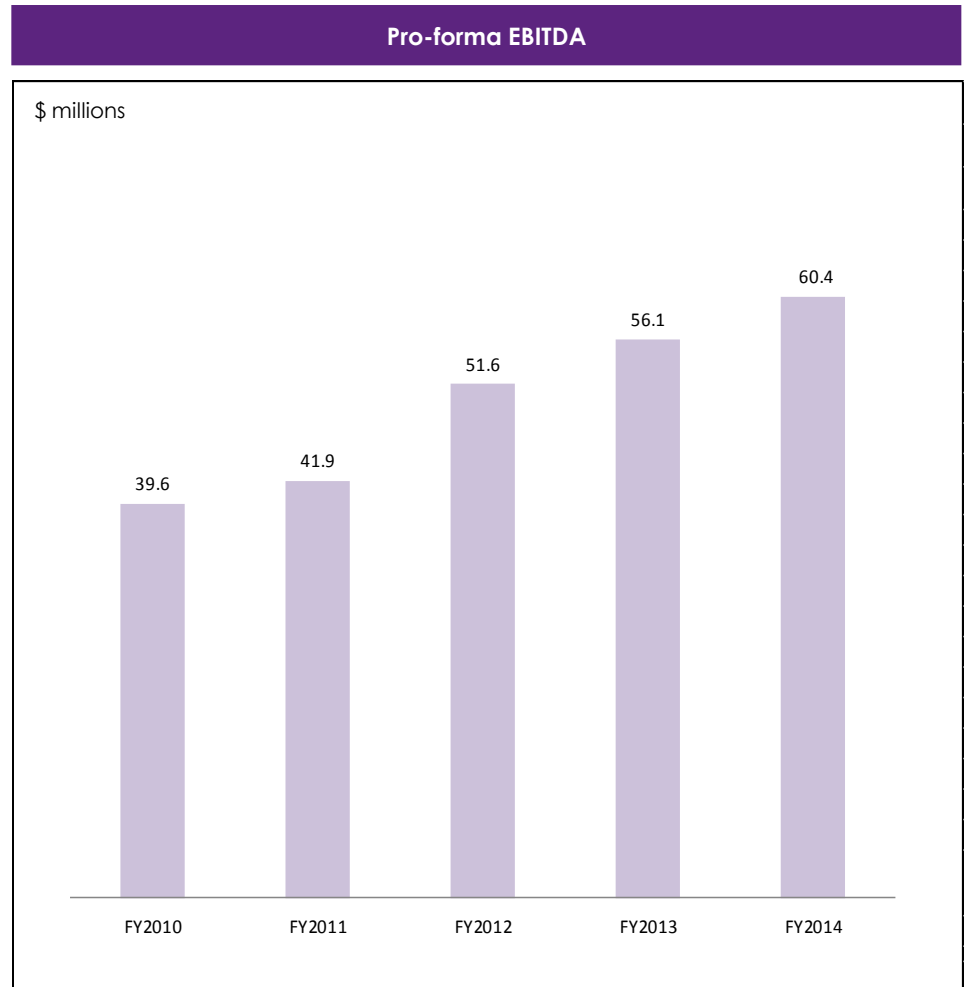
### Pro-forma Revenue



# 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

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- 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	-	-
Average Number of Fertility Specialists (Australia)	ACTUAL	83.5	82.0	1.8%
Average number of cycles per average Fertility Specialist (Australia)	ACTUAL	178	175	1.7%
Average 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 FY15

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## 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

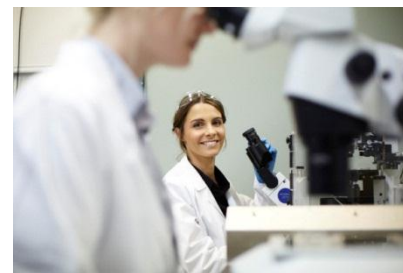


**Thank you**





## Appendix



# Pro forma - Statutory Profit and Loss Reconciliation

## FY2014 only

FY2014, A\$ million	Note	
<b>Statutory revenue</b>		<b>201.7</b>
Interest received	1	(0.3)
Pro forma impact of acquisitions	2	(1.5)
<b>Pro forma revenue</b>		<b>199.9</b>

FY2014, A\$ million	Note	
<b>Statutory NPAT</b>		<b>31.0</b>
Pro forma impact of acquisitions and other one-off costs related to the acquisitions	2	1.0
Income tax effect	3	-
<b>Pro forma NPAT</b>		<b>32.0</b>

### Notes:

- 1. Interest received** – an adjustment has been made to the Statutory Results to remove interest income from revenue.
- 2. Pro forma impact of historical acquisitions** – an adjustment has been made to the Statutory Results to eliminate the financial impact of the acquisition of Sims Clinic and its subsidiaries as if the acquisition had not occurred during the financial year; we have eliminated 1 month benefit to NPAT. The pre acquisition income statements of Virtus and these entities have been adjusted to eliminate non-recurring expenses, primarily transaction costs and foreign exchange movements and fair value accounting adjustments items associated with the Sims acquisition and/or items not relevant to the operations of Sims Clinic post the acquisition by Virtus.
- 3. Income tax effect** – this reflects the income tax impact of the above adjustments. The income tax chargeable on the net profit of Sims for one month trading is not material and there was no corporation tax benefit relating to the transaction costs incurred.
- 4. FY2013 Pro-forma NPAT** - is stated as per the IPO Prospectus published in May 2013.