

## **VIRTUS HEALTH 2015 ANNUAL GENERAL MEETING**

### **CHAIRMAN'S ADDRESS**

Reflecting upon the events of financial year 2015, I am pleased to report on the progress Virtus has made, which has seen the company retain its leadership position in Assisted Reproductive Services in Australia and Ireland, expand its footprint domestically and internationally, and grow specialist diagnostics revenue further strengthening our diversification strategy and business.

Virtus has a proud heritage as a pioneer in ARS and we continue to remain at the forefront of scientific and clinical developments which are delivering improved patient outcomes to an increasing number of patients reinforcing our standing as one of the world leaders in reproductive medicine.

Our results for the financial year reflected growth from our international activities and the contribution from the two Australian clinic acquisitions, although there was some weakness in cycle growth in parts of our Australian operations the business remains in a strong position. Overall revenue increased by 16% to \$233.7 million; while net profit after tax decreased 1.7% to \$30.4M there are several one-off or short term factors that contributed to this situation.

- A change in clinical practice at Melbourne IVF resulted in a reduction in frozen cycles, translating to a revenue loss of \$3 million. However, this change led by our scientific and clinical team reinforces the organisation's position of clinical sovereignty and patient focus, delivering a positive benefit for our Victorian patients which in the longer term will benefit the company.
- We also incurred set up costs and start-up losses of approximately \$1.9 million associated with the establishment of our clinic in Singapore; however this Virtus branded clinic in Singapore establishes a platform for our growth into Asia.

- And we incurred costs relating to the acquisitions of Rotunda IVF, IVF Sunshine Coast, and TasIVF totalling \$2.4 million, in the form of transaction costs and non-cash interest charges.

After adjusting for these non-recurring expenses and non-cash interest our net profit after tax increased by 5.1% to \$33.6 million.

In Australia, Virtus continued to grow its service offer with a consulting and monitoring centre at Sydney Adventist Hospital, the acquisitions of TasIVF in Tasmania and IVF Sunshine Coast in Queensland; the latter has facilitated deeper local market penetration with a dual operation of full and low cost services on the Sunshine Coast.

Similarly Virtus has extended its local Wollongong consulting presence to a dedicated low cost “The Fertility Centre” branded clinic which has been well received.

In Ireland, the Sims Clinic network was expanded with the acquisition of Rotunda IVF and the establishment of a new clinic in Cork. Our Irish operations now account for 6% of adjusted EBITDA, and Ireland delivered good volume growth and margin improvement during the year.

In Singapore our much anticipated new state of the art clinic opened with three highly regarded fertility specialists and a senior embryology scientist. Our marketing activities in Singapore are driving interest from patients and other Singaporean fertility specialists, and as reported at the full year results, the cycle growth at the clinic is now improving and we believe the clinic will provide a valuable service to the Singaporean community.

One aspect of our business which is of growing importance is diagnostics. Not only has diagnostics delivered double digit revenue growth over the past two years, more importantly the application of genetic testing is improving success rates and opening ARS to a new group of more complex patients and delivering them healthy babies.

A recent step in executing this strategy was the acquisition of Independent Diagnostic Services (IDS), a general pathology laboratory located in Sydney, which was completed in September this year. This acquisition enables Virtus to expand the range of testing we can conduct in-house as part of the ARS process and capture greater revenues from these services.

Before handing over to Virtus Health's CEO Sue Channon for a more detailed overview of our operational achievements and financial results, I would like to give some insight to our performance in the first quarter of the financial year 2016.

As we have stated before – and have again seen recently – IVF cycle activity in Australia is prone to short term local economic influences.

In the first quarter of the new financial year, Virtus fresh cycle activity in Australia increased by 6.6% including the growth derived from prior year acquisitions. We have experienced volume growth in NSW, our most competitive market, and Queensland; however this has been offset by weakness in Victoria.

In Ireland underlying Sims Clinic growth was 10.2% compared to prior year comparative period. Our Singapore activity is now achieving 20 cycles per month, although this remains below our break even volume of 30 cycles per month; the unaudited first quarter EBITDA loss was \$206,000 for this operation.

We will continue to selectively invest in our network of full service and low cost fertility clinics and also the clinical and scientific services offered to patients in Australia and offshore. The Board is working closely with management to identify international market opportunities where we can leverage the considerable expertise Virtus has in the provision of ARS – from a scientific, clinical and management perspective.

Again I would like to acknowledge the hard work and leadership of Sue Channon and her team, and our employees everywhere who have again done an excellent job and are integral to the success of this company.

And on behalf of the Board I would like to thank all of our Shareholders for their ongoing support.

Thank you,

Peter Macourt

Chairman

Virtus Health Limited

28<sup>th</sup> October 2015