

VIRTUS HEALTH 2016 ANNUAL GENERAL MEETING

CHAIRMAN'S ADDRESS

Reflecting upon the events of financial year 2016, 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.

Our results for the financial year saw strong growth from our international activities and a solid contribution from our Australian operations through both organic growth and clinic acquisition although there was some weakness in cycle growth in parts of our Australian operations.

Overall group revenue increased 11.6% to \$261.2 million primarily as a result of significant growth in Ireland and improvement in our Singapore clinic performance. We also benefitted domestically from strong performance of the premium services especially in NSW and the full year contribution of two Australian clinics, Sunshine Coast IVF and TasIVF, which we acquired in the previous financial year.

The performance of our domestic premium IVF business reflects the strength of our model, even in a competitive market. Net profit after tax increased 14.5% to \$34.8million.

There were some notable highlights:

- Our international activities achieved a significant improvement in EBITDA to \$5.7m compared to \$2.4m in the prior year with Ireland continuing to perform very strongly. In Singapore we progressively improved performance reducing EBITDA losses by \$1.4m to \$0.5m and in the last four months we achieved a positive EBITDA result. The Singapore team's clinical success and patient care has steadily built their reputation and we expect to see the benefits of this improved profile continue in the new financial year.

- Underlying cycle volume in Virtus Australian clinics increased by 4.1% with strong growth in NSW premium service. Growth in Tasmania and Queensland was broadly in line with the market and in Queensland we experienced growth in several regional clinics for the first time in three years. Some of this growth was offset by weakness in our Victorian business.
- Our Sydney and Melbourne metropolitan based “The Fertility Centre” (“TFC”) branded clinics experienced a slowdown; this resulted in an EBITDA decline in these clinics of \$1.4m. However our regionally positioned TFC clinics performed strongly and we plan to expand the Wollongong and Sunshine Coast dual service formats in other regional locations. In May we acquired *Canberra Fertility Centre* extending our presence in the Eastern states and territories.

The underlying demographic drivers of ARS remain favourable in all markets with the key factors stimulating volume growth being the impact of rising maternal age, the impact of underlying medical conditions on fertility, and increasing demand from same sex and single women accessing donor sperm and ARS to start a family.

A key feature of our strategy is international development and diversification.

The Board continues to work 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. Sue and her team are very active in this international activity and although we have collectively identified several interesting opportunities we remain disciplined in our approach to such expansion. Although we have not completed a transaction in the last twelve months we remain committed to this aspect of our strategy.

Another aspect of our diversification strategy was the acquisition of *Independent Diagnostic Services (IDS)*, a general pathology laboratory located in Sydney, which was completed in September last 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 our CEO Sue Channon for a more detailed overview of our operational achievements and financial results, I would like to give some insight into the first quarter of the financial year 2017.

As we have seen before, IVF cycle activity in Australia is prone to short term local economic influences and in this first quarter the market has been surprisingly weak with fresh cycle activity falling by 3.5% compared to the prior year comparative quarter.

Again I would like to acknowledge the hard work and leadership of Sue Channon and her team, our outstanding team of fertility specialists and employees everywhere who continue to do an excellent job and are integral to the success of this company.

I also wish to recognise the service of Dennis O'Neill. Dennis has announced his intention to retire from the Virtus Board and he will not seek re-election today. Dennis has been associated with Queensland Fertility Group since 2009 and he joined the Virtus Board at the time of its ASX listing. On behalf of all shareholders I would like to thank Dennis for his contribution to the development of the group.

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



I will handover to Sue Channon now for her detailed report on this past year.

Thank you,

Peter Macourt

Chairman

Virtus Health Limited

9 November 2016