

## 1. Company details

Name of entity:	Virtus Health Limited
ABN:	80 129 643 492
Reporting period:	For the half-year ended 31 December 2016
Previous period:	For the half-year ended 31 December 2015

## 2. Results for announcement to the market

The Directors of Virtus Health Limited ('Virtus') announce the results for the half-year ended 31 December 2016 ('H1 FY2017'). Key highlights from the results are:

			<b>\$'000</b>
Revenues from ordinary activities	down	0.7% to	131,438
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	down	12.3% to	31,731
Earnings Before Interest and Tax (EBIT)	down	15.9% to	25,709
Profit from ordinary activities after tax attributable to the owners of Virtus Health Limited	down	17.6% to	14,721
Profit from ordinary activities after tax	down	16.8% to	15,609
Profit for the half-year attributable to the owners of Virtus Health Limited	down	17.6% to	14,721

### Dividends

	<b>Amount per security Cents</b>	<b>Franked amount per security Cents</b>
Final ordinary dividend paid for the year ended 30 June 2016 paid in October 2016	15.000	15.000

An interim dividend of 13.00 cents per share fully franked will be paid on 18 April 2017 for shareholders on the register at 31 March 2017.

### Comments

The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to \$14,721,000 (31 December 2015: \$17,864,000).

A reconciliation of Segment EBITDA to statutory profit before tax for the financial half-year is as follows:

	Consolidated	
	31 Dec 2016	31 Dec 2015
	\$'000	\$'000
Segment EBITDA	36,535	41,388
Share-based payment expense	(95)	(392)
Other non-trading expenses	(5,722)	(4,803)
Fair value adjustment to put liabilities	484	-
Fair value adjustment to contingent consideration	529	-
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EBITDA (reported)	31,731	36,193
Depreciation and amortisation expenses	(6,022)	(5,625)
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EBIT	25,709	30,568
Interest revenue	61	71
Interest expense	(3,375)	(3,745)
Interest on other financial liability - non-cash interest	(481)	(564)
Amortisation of bank facility fees	(104)	(106)
	<hr/>	<hr/>
Profit before income tax from continuing activities	<u>21,810</u>	<u>26,224</u>

Key features of the results are:

- Revenue decreased by 0.7% to \$131.4m
- EBITDA decreased by 12.3% to \$31.7m
- Australian segment EBITDA decreased by 13.1% to \$33.9m
- International segment EBITDA increased by 11.7% to \$2.6m after an EBITDA loss in Singapore operations of \$177,000;
- Segment EBITDA decreased by 11.7% to \$36.5m
- Profit before income tax expense decreased by 16.8% to \$21.8m.

Profit before tax includes acquisition transaction costs of \$758,000, non-cash acquisition related interest expense of \$481,000, fair value write back to put liability of \$484,000, fair value write back to contingent consideration of \$529,000 and restructure costs of \$328,000

#### *Operating overview*

##### *Australia*

Fresh cycle activity reported by Medicare in H1FY17 in Virtus state markets fell by 6.0% compared to the prior year comparative period. Virtus fresh cycle activity in Australia in this half year decreased by 7.2% on a like for like basis. There are three main issues currently impacting Virtus cycle volumes in Australia:

- general market activity as described above;
- a combination of low cost competition and full service volume weakness has contributed to further market share losses in Victoria; and
- low cost competition in NSW has, we believe, continued to be a key reason for continued weakness in our NSW TFCs where volume is 19% below the prior year comparative period.

Virtus market share (in New South Wales, ACT, Queensland, Tasmania and Victoria) in the twelve months to December 2016 has decreased to 43.7% from 44.6% for the equivalent twelve months to December 2015 reflecting the impact of the increased bulk bill activity in NSW and the relative performance of our full service activity in Victoria. It should be noted that in the same period market share has improved in NSW and Queensland.

Specialist diagnostic revenue increased by 7.1% in H1 FY2017 compared to H1 FY2016 reflecting a more stable price environment for genetic testing activities. Revenue growth in our PGD/PGS activity was 37.9% on pcp and this activity represents utilisation of this capability in our full service clinics at 12.3% of fresh cycles (H1 FY2016: 7.9%). Offsetting this improvement, general levels of endocrinology and cytogenetic testing declined a result of the weak IVF cycle activity.

In day hospitals Virtus revenue declined by 9.7% as a consequence of the weak demand for IVF procedures. Non-IVF procedure revenue accounting for 42% of total day hospital revenue also decreased by 14.4% across all day hospitals.

#### *International*

Ireland experienced a solid first half with volumes increasing by 1.9% compared to H1 FY2016; EBITDA in local currency increased by 3.5%. Activity and profitability was slightly depressed by a six week shutdown at our Rotunda IVF facility where we conducted an upgrade of our operating procedures. The facility reopened in September 2016 and is operating normally.

Volumes in Singapore saw good improvement in the first 5 months of the period and the business was trading profitably. However we did experience a quiet December 2016 and this resulted in a first half EBITDA loss of \$177,000 compared to a pcp loss of \$565,000.

#### *Capital Expenditure*

Total expenditure on tangible and intangible assets was \$4.6m in H1 FY2017 (H1 FY2016; \$4.9m). The largest investment related to the continued development and rollout of the company's Virtus Patient Management software in Australia.

#### *Acquisitions*

On 30 November 2016 Virtus acquired Aagaard Fertility Clinic ("Aagaard"), based in Aarhus Denmark for an estimated consideration of up to DKK84 million (AUD 16.5m).

The consideration comprises a payment of DKK56 million (AUD 10.7M) at completion, plus an adjustment payment based on EBITDA in the 12 month period ending 31 December 2016 and an earn out based on EBITDA in the 12 month period ending 31 December 2017; the estimate of the adjustment payment and the earn out is DKK28 million (AUD 5.1m (discounted)). Up to DKK8 million (AUD 1.5m) of the earn out is payable in ordinary shares of Virtus Health or cash with the decision on funding to be made by Virtus.

#### *Debt and interest expense*

At 31 December 2016, total facilities drawn were \$159m in borrowings and \$4m in guarantees. Unused and available facilities amounted to \$47m. Credit facilities expire in September 2019. Cash balances at the end of December 2016 were \$24m. Net debt increased by \$9.4m since June 2016. The company continued to comply with the financial covenants of its facility agreement.

#### *Other financial liabilities (\$29.0m)*

Other financial liabilities comprise the non-controlling interests of Sims Clinic Limited and TasIVF Pty Limited, which hold put options established at the time of acquisition, and the contingent consideration in relation to the acquisition of Aagaard. Consequently in accordance with accounting standards the group is required to recognise a liability for the estimated consideration to acquire the non-controlling interests and also the contingent consideration. This liability has been discounted at the date of acquisition and the corresponding entry is included in reserves. The unwinding of the inherent discounting within the liability has resulted in a non-cash interest expense in H1 FY2017 of \$481,000 (H1 FY2016: \$564,000).

#### *Amortisation of borrowing costs*

Amortisation of borrowing cost expense for H1 FY2017 was \$104,000 (H1 FY2016: \$106,000).

#### *Taxation*

The effective tax rate on operating earnings for H1 FY2017 was 28.4% (H1 FY2016: 28.4%) as a consequence of lower tax rate applied to the Virtus Ireland activities and also adjusting for non taxable fair value gains recorded on put options and contingent consideration.

*Earnings per share*

Basic earnings per share decreased by 17.9% to 18.35 cents per share (H1 FY2016: 22.35 cents per share). Diluted earnings per share decreased by 17.7% to 18.21 cents per share (H1 FY2016: 22.13 cents per share).

*Dividend*

An interim dividend of 13.00 cents per share fully franked (April 2016: 14.00 cents per share) will be paid on 18 April 2017 to shareholders on the register at 31 March 2017.

*Outlook*

As outlined in our trading update dated 31 January 2017 cycle volumes in the first half were much weaker than in the prior year. The level of this volume shortfall, should it continue in the second half, will have a material impact on Virtus full year financial results compared to prior year. The exact level of the shortfall is highly dependent on fresh cycle activity in the second half of the financial year, and in particular, activity in the final quarter.

We also anticipate that volumes and margin in our TFC activities in Queensland will come under pressure in H2FY17 as a result of increased low cost competition.

**3. Net tangible assets**

	<b>Reporting period Cents</b>	<b>Previous period Cents</b>
Net tangible assets per ordinary security	<u>(186.36)</u>	<u>(176.34)</u>

**4. Control gained over entities**

Name of entities (or group of entities)	Aagaard Fertilitetsklinik ApS
Date control gained	30 November 2016

**5. Loss of control over entities**

Not applicable.

**6. Dividends paid**

*Current period*

	<b>Amount per security Cents</b>	<b>Franked amount per security Cents</b>
Final ordinary dividend paid for the year ended 30 June 2016 paid in October 2016	15.000	15.000

*Previous period*

	<b>Amount per security Cents</b>	<b>Franked amount per security Cents</b>
Final ordinary dividend paid for the year ended 30 June 2015 paid in October 2015	14.000	14.000

## 7. Dividend reinvestment plans

Not applicable.

## 8. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period \$'000	Previous period \$'000
Obstetrics & Gynaecological Imaging Australia Pty Limited and City West Specialist Day Hospital Pty Ltd	50.00%	50.00%	289	403
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>				
Profit/(loss) from ordinary activities before income tax			289	403
Income tax on operating activities			(87)	(121)

## 9. Foreign entities

*Details of origin of accounting standards used in compiling the report:*

Virtus Health Limited's foreign subsidiaries have used the International Financial Reporting Standards in compiling the report.

## 10. Audit qualification or review

*Details of audit/review dispute or qualification (if any):*

The financial statements were subject to a review by the auditors and the unmodified review report is attached as part of the Interim Report.

## 11. Attachments

*Details of attachments (if any):*

The Interim Report of Virtus Health Limited for the half-year ended 31 December 2016 is attached.

## 12. Signed

Signed  \_\_\_\_\_

Date: 21 February 2017

Glenn Powers  
Chief Financial Officer and Company Secretary  
Sydney

# **Virtus Health Limited**

**ABN 80 129 643 492**

**Interim Report - 31 December 2016**

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Virtus Health Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2016.

### Directors

The following persons were directors of Virtus Health Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Peter Macourt - Chairman  
 Susan Channon  
 Dennis O'Neill (resigned on 9 November 2016)  
 Lyndon Hale  
 Peter Turner  
 Sonia Petering  
 Greg Couttas (appointed on 5 October 2016)

### Principal activities

During the financial half-year the principal continuing activities of the consolidated entity were the provision of healthcare services which include fertility services, medical day procedure services and medical diagnostic services.

### Review of operations

The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to \$14,721,000 (31 December 2015: \$17,864,000).

Segment EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for non-specific non-cash and significant items.

A reconciliation of Segment EBITDA to statutory profit before tax for the financial half-year is as follows:

	<b>Consolidated</b>	
	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Segment EBITDA	36,535	41,388
Share-based payment expense	(95)	(392)
Other non-trading expenses	(5,722)	(4,803)
Fair value adjustment to put liabilities	484	-
Fair value adjustment to contingent consideration	529	-
	<hr/>	<hr/>
EBITDA (reported)	31,731	36,193
Depreciation and amortisation expenses	(6,022)	(5,625)
	<hr/>	<hr/>
EBIT	25,709	30,568
Interest revenue	61	71
Interest expense	(3,375)	(3,745)
Interest on other financial liability - non-cash interest	(481)	(564)
Amortisation of bank facility fees	(104)	(106)
	<hr/>	<hr/>
Profit before income tax from continuing activities	<u>21,810</u>	<u>26,224</u>

The consolidated entity continued to engage in its principal activities, the results of which are disclosed in the attached financial statements.

For further details refer to ASX market announcement on 21 February 2017.

### Significant changes in the state of affairs

On 30 November 2016, Virtus acquired Aagaard Fertility Clinic ("Aagaard"), based in Aarhus Denmark for an estimated consideration of \$15,779,000 (discounted). This acquisition adds to Virtus' international growth strategy reaffirming its vision for diversification and to expand the Virtus model in carefully selected international markets.

There were no other significant changes in the state of affairs of the consolidated entity during the financial half-year.

**Rounding of amounts**

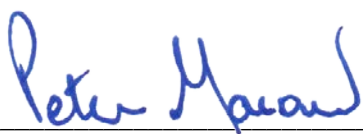
The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report and the Financial Report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in blue ink that reads "Peter Macourt". The signature is written in a cursive style and is positioned above a horizontal line.

Peter Macourt  
Chairman

21 February 2017  
Sydney





## Auditor's Independence Declaration

As lead auditor for the review of Virtus Health Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Virtus Health Limited and the entities it controlled during the period.

A handwritten signature in black ink that reads 'Eddie Wilkie'.

Eddie Wilkie  
Partner  
PricewaterhouseCoopers

Sydney  
21 February 2017

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### **General information**

The financial statements cover Virtus Health Limited as a consolidated entity consisting of Virtus Health Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Virtus Health Limited's functional and presentation currency.

Virtus Health Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 3  
176 Pacific Highway  
Greenwich NSW 2065

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 21 February 2017. The directors have the power to amend and reissue the financial statements.

**Virtus Health Limited**  
**Statement of comprehensive income**  
**For the half-year ended 31 December 2016**



	Note	Consolidated 31 Dec 2016 \$'000	31 Dec 2015 \$'000
<b>Revenue</b>	3	131,438	132,347
Share of profits of associates accounted for using the equity method		289	403
Other income		588	406
<b>Expenses</b>			
Fertility specialists, consumables and associated costs		(37,689)	(36,486)
Employee benefits expense		(43,790)	(42,455)
Depreciation and amortisation expense		(6,022)	(5,625)
Occupancy expense		(8,083)	(7,412)
Advertising and marketing		(2,260)	(1,967)
Practice equipment expenses		(1,008)	(994)
Professional and consulting fees		(1,246)	(1,262)
Other expenses		(6,447)	(6,316)
Finance costs	4	(3,960)	(4,415)
<b>Profit before income tax expense</b>		21,810	26,224
Income tax expense		(6,201)	(7,454)
<b>Profit after income tax expense for the half-year</b>		15,609	18,770
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in the fair value of cash flow hedges taken to equity, net of tax		522	(279)
Foreign currency translation		(519)	739
Other comprehensive income for the half-year, net of tax		3	460
<b>Total comprehensive income for the half-year</b>		<u>15,612</u>	<u>19,230</u>
Profit for the half-year is attributable to:			
Non-controlling interest		888	906
Owners of Virtus Health Limited		14,721	17,864
		<u>15,609</u>	<u>18,770</u>
Total comprehensive income for the half-year is attributable to:			
Non-controlling interest		886	1,045
Owners of Virtus Health Limited		14,726	18,185
		<u>15,612</u>	<u>19,230</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	14	18.35	22.35
Diluted earnings per share	14	18.21	22.13

*The above statement of comprehensive income should be read in conjunction with the accompanying notes*

**Virtus Health Limited**  
**Statement of financial position**  
**As at 31 December 2016**



	<b>Note</b>	<b>Consolidated</b> <b>31 Dec 2016</b> <b>\$'000</b>	<b>30 Jun 2016</b> <b>\$'000</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		23,972	22,215
Trade and other receivables		11,608	11,332
Inventories		717	550
Other		2,827	1,934
<b>Total current assets</b>		<u>39,124</u>	<u>36,031</u>
<b>Non-current assets</b>			
Investments accounted for using the equity method		1,489	1,489
Property, plant and equipment		29,464	30,320
Intangibles		413,670	399,000
Deferred tax		5,219	6,013
Other		535	335
<b>Total non-current assets</b>		<u>450,377</u>	<u>437,157</u>
<b>Total assets</b>		<u>489,501</u>	<u>473,188</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		19,911	23,539
Borrowings		-	22
Income tax		530	12
Provisions		3,366	3,236
Other financial liabilities	5	11,038	1,355
Other		5,795	5,826
<b>Total current liabilities</b>		<u>40,640</u>	<u>33,990</u>
<b>Non-current liabilities</b>			
Borrowings		158,460	147,357
Derivative financial instruments		1,010	1,756
Provisions		6,012	6,348
Other financial liabilities	6	17,969	24,130
Other payables		1,530	1,563
<b>Total non-current liabilities</b>		<u>184,981</u>	<u>181,154</u>
<b>Total liabilities</b>		<u>225,621</u>	<u>215,144</u>
<b>Net assets</b>		<u>263,880</u>	<u>258,044</u>
<b>Equity</b>			
Issued capital	7	241,876	238,829
Reserves	8	(12,664)	(12,764)
Retained profits		15,195	12,531
Equity attributable to the owners of Virtus Health Limited		<u>244,407</u>	<u>238,596</u>
Non-controlling interest		19,473	19,448
<b>Total equity</b>		<u>263,880</u>	<u>258,044</u>

*The above statement of financial position should be read in conjunction with the accompanying notes*

**Virtus Health Limited**  
**Statement of changes in equity**  
**For the half-year ended 31 December 2016**



<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Reserves \$'000</b>	<b>Retained profits \$'000</b>	<b>Non-controlling interest \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2015	238,429	(12,989)	1,995	18,886	246,321
Profit after income tax expense for the half-year	-	-	17,864	906	18,770
Other comprehensive income for the half-year, net of tax	-	321	-	139	460
<b>Total comprehensive income for the half-year</b>	<b>-</b>	<b>321</b>	<b>17,864</b>	<b>1,045</b>	<b>19,230</b>
<i>Transactions with owners in their capacity as owners:</i>					
Settlement of partly paid shares	261	-	-	-	261
Share-based payments	-	392	-	-	392
Dividends payable by subsidiary to non-controlling interest	-	-	-	(356)	(356)
Non-controlling interest on acquisition of subsidiary	-	-	-	29	29
Dividends paid (note 9)	-	-	(11,191)	-	(11,191)
<b>Balance at 31 December 2015</b>	<b>238,690</b>	<b>(12,276)</b>	<b>8,668</b>	<b>19,604</b>	<b>254,686</b>

<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Reserves \$'000</b>	<b>Retained profits \$'000</b>	<b>Non-controlling interest \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2016	238,829	(12,764)	12,531	19,448	258,044
Profit after income tax expense for the half-year	-	-	14,721	888	15,609
Other comprehensive income for the half-year, net of tax	-	5	-	(2)	3
<b>Total comprehensive income for the half-year</b>	<b>-</b>	<b>5</b>	<b>14,721</b>	<b>886</b>	<b>15,612</b>
<i>Transactions with owners in their capacity as owners:</i>					
Issue of shares on exercise of options	2,504	-	-	-	2,504
Settlement of partly paid shares	543	-	-	-	543
Share-based payments	-	95	-	-	95
Dividends payable by subsidiary to non-controlling interest	-	-	-	(861)	(861)
Dividends paid (note 9)	-	-	(12,057)	-	(12,057)
<b>Balance at 31 December 2016</b>	<b>241,876</b>	<b>(12,664)</b>	<b>15,195</b>	<b>19,473</b>	<b>263,880</b>

The above statement of changes in equity should be read in conjunction with the accompanying notes

**Virtus Health Limited**  
**Statement of cash flows**  
**For the half-year ended 31 December 2016**



		<b>Consolidated</b>	
	<b>Note</b>	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		131,320	131,872
Payments to suppliers (inclusive of GST)		(107,569)	(98,620)
Other revenue		588	406
Interest and other finance costs paid		(3,314)	(3,730)
Income taxes paid		(4,924)	(9,621)
		<u>16,101</u>	<u>20,307</u>
<b>Net cash from operating activities</b>			
<b>Cash flows from investing activities</b>			
Final payments for prior period's business acquisition	12	(826)	-
Payments for purchase of entity/businesss, net of cash acquired	12	(10,036)	(3,758)
Payments for property, plant and equipment and intangibles		(4,586)	(4,868)
Proceeds from disposal of property, plant and equipment		9	56
Payments for security deposits		(200)	-
Interest received		61	71
Associate distributions received		250	200
		<u>(15,328)</u>	<u>(8,299)</u>
<b>Net cash used in investing activities</b>			
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	7	2,504	-
Proceeds from partly paid shares	7	543	122
Dividends paid to non-controlling interest in subsidiaries		(861)	(356)
Proceeds from borrowings		11,000	-
Dividends paid	9	(12,057)	(11,052)
Repayment of leases		(22)	(76)
		<u>1,107</u>	<u>(11,362)</u>
<b>Net cash from/(used in) financing activities</b>			
Net increase in cash and cash equivalents		1,880	646
Cash and cash equivalents at the beginning of the financial half-year		22,215	18,371
Effects of exchange rate changes on cash and cash equivalents		(123)	67
		<u>23,972</u>	<u>19,084</u>
<b>Cash and cash equivalents at the end of the financial half-year</b>			

*The above statement of cash flows should be read in conjunction with the accompanying notes*

## **Note 1. Significant accounting policies**

These general purpose financial statements for the interim half-year reporting period ended 31 December 2016 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

### **New or amended Accounting Standards and Interpretations adopted**

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity during the financial half-year ended 31 December 2016 and are not expected to have any significant impact for the full financial year ending 30 June 2017.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

#### *AASB 15 Revenue from contracts with customers*

AASB 15 Revenue from contracts with customers, which replaces AASB 18 which covers contracts for goods and services and AASB 111 which covers construction contracts, addresses the recognition of revenue. The standard is applicable for annual reporting periods beginning on or after 1 January 2018.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (e.g. 1 July 2018), i.e. without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

The consolidated entity has commenced planning to perform a more detailed assessment of the impact over the next 12 months. The consolidated entity does not expect to adopt the new standard before 1 July 2018.

#### *AASB 16 Leases*

AASB 16 was issued in February 2016. The standard is applicable for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted if AASB 15, 'Revenue from Contracts with Customers', is also applied. The standard requires lessees to bring all leases on to the statement of financial position as the distinction between operating and finance leases has been eliminated. Lessor accounting remains largely unchanged.

The consolidated entity has commenced planning to perform a more detailed assessment of the impact over the next 12 months. The consolidated entity does not expect to adopt the new standard before 1 July 2019.

### **Comparatives**

Comparatives in the statement of comprehensive income have been reclassified, where necessary, to align with the current period presentation. There was no effect on profit or net assets.

## Note 2. Operating segments

### Identification of reportable operating segments

AASB 8 'Operating Segments' requires operating segments to be identified on the basis of internal reports about components of the consolidated entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. For disclosure purposes the consolidated entity currently has two reportable segments being Healthcare services Australia and Healthcare services International. The consolidated entity has determined that the aggregated segmental reporting for Australia is most appropriate due to the economic characteristics faced by the Australian operating segments and the similar nature of the products and services being delivered to a similar patient base.

### Segment revenue

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the statement of comprehensive income.

### Segment EBITDA

Segment performance is assessed on the basis of Segment EBITDA. Segment EBITDA comprises expenses which are incurred in the normal trading activity of the segments and excludes the impact of depreciation, amortisation, interest, share-based payments and other items which are determined to be outside of the control of the respective segments.

Revenue from external customers is derived from the provision of healthcare services. A breakdown of revenue and results is provided below:

<b>Consolidated - 31 Dec 2016</b>	Healthcare services Australia \$'000	Healthcare services International \$'000	Total \$'000
<b>Revenue</b>			
Sales to external customers	111,129	19,313	130,442
Other revenue	935	-	935
Interest revenue	61	-	61
<b>Total revenue</b>	<u>112,125</u>	<u>19,313</u>	<u>131,438</u>
<b>Segment EBITDA</b>	<u>33,911</u>	<u>2,624</u>	36,535
Share-based payment expense			(95)
Transaction costs			(758)
Corporate costs			(4,988)
Foreign exchange			24
Depreciation and amortisation expenses			(6,022)
Fair value adjustment to put liabilities			484
Fair value adjustment to contingent consideration			529
Interest expense			(3,375)
Interest revenue			61
Interest on other financial liability - non-cash interest			(481)
Amortisation of bank facility fees			(104)
<b>Profit before income tax expense</b>			<u>21,810</u>
Income tax expense			(6,201)
<b>Profit after income tax expense</b>			<u>15,609</u>



**Note 2. Operating segments (continued)**

<b>Consolidated - 31 Dec 2015</b>	Healthcare services Australia \$'000	Healthcare services International \$'000	Total \$'000
<b>Revenue</b>			
Sales to external customers	112,852	18,544	131,396
Other revenue	880	-	880
Interest revenue	71	-	71
<b>Total revenue</b>	<u>113,803</u>	<u>18,544</u>	<u>132,347</u>
<b>Segment EBITDA</b>			
Share-based payment expense			(392)
Transaction costs			(273)
Corporate costs			(4,484)
Foreign exchange			(46)
Depreciation and amortisation expenses			(5,625)
Interest revenue			71
Interest expense			(3,745)
Interest on other financial liability - non-cash interest			(564)
Amortisation of bank facility fees			(106)
<b>Profit before income tax expense</b>			<u>26,224</u>
Income tax expense			(7,454)
<b>Profit after income tax expense</b>			<u>18,770</u>

**Note 3. Revenue**

	<b>Consolidated</b>	
	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Sales revenue</i>		
Rendering of services	<u>130,442</u>	<u>131,396</u>
<i>Other revenue</i>		
Interest	61	71
Rent	935	880
	<u>996</u>	<u>951</u>
Revenue	<u><u>131,438</u></u>	<u><u>132,347</u></u>

**Note 4. Expenses**

**Consolidated**  
**31 Dec 2016    31 Dec 2015**  
**\$'000            \$'000**

Profit before income tax includes the following specific expenses:

*Finance costs*

Interest and finance charges paid/payable	3,375	3,745
Interest on other financial liabilities - non-cash interest	481	564
Amortisation of bank facility fees	104	106
	3,960	4,415

Finance costs expensed

*Share-based payments expense*

Share-based payments expense - fertility specialists	(4)	166
Share-based payments expense - employee benefits	99	226
	95	392

Total share-based payments expense\*

\*Share-based payment expense is included in employee benefits expense and fertility specialists, consumables and associated costs in the Statement of comprehensive income.

**Note 5. Current liabilities - Other financial liabilities**

**Consolidated**  
**31 Dec 2016    30 Jun 2016**  
**\$'000            \$'000**

Other financial liabilities	11,038	1,355
	11,038	1,355

The other financial liabilities represent the fair value of the put options held by the non-controlling interest in Sims Clinic Limited and TAS IVF Pty Limited.

**Note 6. Non-current liabilities - other financial liabilities**

**Consolidated**  
**31 Dec 2016    30 Jun 2016**  
**\$'000            \$'000**

Other financial liabilities	17,969	24,130
	17,969	24,130

The other financial liabilities represent the fair value of the put options held by the non-controlling interest in Sims Clinic Limited and TAS IVF Pty Limited and the contingent consideration in relation to the acquisition of Aagaard Fertilitetsklinik Aps (refer to note 12).

**Note 7. Equity - issued capital**

**Consolidated**  
**31 Dec 2016    30 Jun 2016    31 Dec 2016    30 Jun 2016**  
**Shares           Shares           \$'000            \$'000**

Ordinary shares - fully paid	80,376,726	79,935,938	241,876	238,829
	80,376,726	79,935,938	241,876	238,829

## Note 7. Equity - issued capital (continued)

### Movements in ordinary share capital

Details	Date	No of shares	Issue price	\$'000
Balance	1 July 2016	79,935,938		238,829
Share issued - exercise of options	24 August 2016	138,000	\$5.68	784
Share issued - exercise of options	29 August 2016	50,000	\$5.68	284
Share issued - exercise of options	1 September 2016	177,788	\$5.68	1,010
Share issued - exercise of options	13 September 2016	75,000	\$5.68	426
Settlement of partly paid shares	10 October 2016	-	\$0.00	543
Balance	31 December 2016	<u>80,376,726</u>		<u>241,876</u>

## Note 8. Equity - reserves

	Consolidated	
	31 Dec 2016 \$'000	30 Jun 2016 \$'000
Foreign currency reserve	(370)	147
Hedging reserve - cash flow hedges	(710)	(1,232)
Share-based payments reserve	12,241	12,146
Put option business combination reserve	(23,825)	(23,825)
	<u>(12,664)</u>	<u>(12,764)</u>

## Note 9. Equity - dividends

Dividends paid during the financial half-year were as follows:

	Consolidated	
	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Final dividend of 15.0 cents (31 December 2015: 14.0 cents) per fully paid share paid in October 2016	<u>12,057</u>	<u>11,191</u>

## Note 10. Fair value measurement

### Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated - 31 Dec 2016	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Derivative financial liabilities	-	1,010	-	1,010
Other financial liabilities	-	-	29,007	29,007
Total liabilities	-	<u>1,010</u>	<u>29,007</u>	<u>30,017</u>

**Note 10. Fair value measurement (continued)**

<b>Consolidated - 30 Jun 2016</b>	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Derivative financial liabilities	-	1,756	-	1,756
Other financial liabilities	-	-	25,485	25,485
Total liabilities	-	1,756	25,485	27,241

The carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

*Valuation techniques for fair value measurements categorised within level 2 and level 3*

Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates. Other financial liabilities have been valued using forecast earnings models, discounted using specific borrowing rates.

*Level 3 assets and liabilities*

Movements in level 3 assets and liabilities during the current financial half-year are set out below:

<b>Consolidated</b>	Put Options \$'000	Contingent Consideration \$'000	Total \$'000
Balance at 1 July 2016	24,130	1,355	25,485
Through business combination	-	5,064	5,064
Foreign exchange impact	(384)	129	(255)
Amounts paid during the period	-	(826)	(826)
Interest on unwinding	533	19	552
Fair value adjustment	(484)	(529)	(1,013)
Balance at 31 December 2016	<u>23,795</u>	<u>5,212</u>	<u>29,007</u>

\$11,038,000 of the \$29,007,000 is current and the balance of \$17,969,000 is non-current.

**Note 11. Borrowings and Contingent liabilities**

*Borrowings-Financial Arrangements*

At 31 December 2016, total facilities drawn were \$159,000,000 in borrowings and \$4,027,000 in guarantees. Unused and available facilities amounted to \$46,973,000. The consolidated entity complied with the financial covenants of its borrowing liabilities during the half financial year ended 31 December 2016. Subject to the continued compliance with debt covenants, the bank facilities may be drawn at any time and have an average maturity of 2.5 years (30 June 2016: 3 years).

Credit Facilities expire in September 2019

*Contingent Liabilities-Claims*

The consolidated entity is currently involved in litigations which may result in future liabilities and legal fees up to an insurance excess of \$25,000 relating to each and every claim (30 June 2016: \$25,000). It is not practical to estimate the potential effect of these claims but advice indicates that any liability that may arise in the unlikely event that the claims are successful will not be significant and will be covered by the consolidated entity's insurance policies.

**Note 12. Business combinations**

*Aagaard Fertilitetsklinik ApS*

On 30 November 2016, Virtus Health Europe Limited acquired 100% of the ordinary share capital in Aagaard Fertilitetsklinik ApS based in Aarhus Denmark for an estimated consideration of \$15,779,000. The values identified in relation to the acquisition of the entity are provisional as at 31 December 2016.

Details of the acquisition are as follows:

	<b>Fair value \$'000</b>
Cash and cash equivalents	679
Trade receivables and other receivables	211
Inventories	89
Plant and equipment	417
Trade payables	(495)
Other payables	(72)
Deferred tax liability	(35)
Employee benefits	(129)
Other provisions	(154)
Other liabilities	(312)
Net assets acquired	199
Goodwill	15,580
Acquisition-date fair value of the total consideration transferred	<u>15,779</u>
Representing:	
Cash paid or payable to vendor	10,715
Contingent consideration	5,064
	<u>15,779</u>
Acquisition costs expensed to profit or loss	<u>399</u>
Cash used to acquire the entity, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	15,779
Less: cash and cash equivalents	(679)
Less: contingent consideration	(5,064)
Net cash used	<u>10,036</u>

The acquired business contributed revenue and other income of \$97,013 and profit before tax of \$9,499 (excluding the cost of financing the transaction) to the consolidated entity for the period from 30 November 2016 to 31 December 2016. If the acquisition had occurred on 1 July 2016, the half year contribution would have been revenue of \$1,229,000 and pro-forma profit before tax of \$614,106 excluding any additional financing costs. These amounts have been calculated using the consolidated entity's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustment to property, plant and equipment and intangible assets had applied from 1 July 2016, together with the consequential tax effects.

The goodwill is attributable to the workforce and the expected profitability of the acquired entity

*Contingent consideration*

In the event that Aagaard achieves the forecast normalised earnings before interest, tax, depreciation and amortisation ('EBITDA') for the calendar year ending 31 December 2017, additional consideration of \$5,063,572, made up of \$1,531,100 payable in ordinary shares of Virtus Health and the balance payable in cash during March 2018. The fair value of the consideration of \$5,063,572 was estimated with reference to the expected EBITDA of Aagaard from management forecasts.

**Note 12. Business combinations (continued)**

*Canberra Fertility Centre acquired in the prior financial year*

Canberra Fertility Centre did not achieve its full earn-out targets and hence only \$826,000 of the contingent consideration of \$1,355,000 was paid during August 2016. The balance of \$529,000 was reversed to profit and loss.

**Note 13. Events after the reporting period**

No matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

**Note 14. Earnings per share**

	<b>Consolidated</b>	
	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit after income tax	15,609	18,770
Non-controlling interest	(888)	(906)
	<hr/>	<hr/>
Profit after income tax attributable to the owners of Virtus Health Limited	14,721	17,864
Add: interest savings on conversion of options	41	77
	<hr/>	<hr/>
Profit after income tax attributable to the owners of Virtus Health Limited used in calculating diluted earnings per share	<u>14,762</u>	<u>17,941</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	80,230,126	79,935,938
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	801,580	1,126,140
*Estimated Issuable shares (refer to note 12)	41,679	-
	<hr/>	<hr/>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>81,073,385</u>	<u>81,062,078</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	18.35	22.35
Diluted earnings per share	18.21	22.13

\*The maximum number of shares issuable for the contingent consideration is 245,369 however for the purposes of calculating the diluted earnings per share the weighted average number of number of shares is 41,679 which has been calculated from the date of the contingent share agreement being 30 November 2016.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in blue ink that reads "Peter Macourt".

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Peter Macourt  
Chairman

21 February 2017  
Sydney



## **Independent auditor's review report to the members of Virtus Health Limited**

### ***Report on the Half-Year Financial Report***

We have reviewed the accompanying half-year financial report of Virtus Health Limited (the company), which comprises the statement of financial position as at 31 December 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Virtus Health Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

### ***Directors' responsibility for the half-year financial report***

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Virtus Health Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Independence***

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Virtus Health Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*Eddie Wilkie*

Eddie Wilkie  
Partner

Sydney  
21 February 2017