

VIRTUS HEALTH 2017 ANNUAL GENERAL MEETING

CHAIRMAN'S ADDRESS

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Results for the financial year ended 30 June 2017 reflected a challenging year in our core Australian fertility operations and continued growth from our international activities reaffirming the strategic vision of Virtus Health.

Group revenue decreased 1.8% to \$256.5 million primarily as a result of market volume weakness and price pressure in a competitive Australian market where revenue declined by 1.3%. International revenue also declined slightly, primarily a result of foreign exchange translation impact on our euro earnings.

For the year ended 30 June 2017 the Directors announced a final dividend of 12 cents per share fully franked and this resulted in a full year dividend payout of 25 cents per share fully franked; this is a decrease on the prior year due to the lower results although the underlying cash generation of the business remains solid.

Our international activities achieved further improvement in EBITDA to \$7.1m compared to \$5.7m in the prior year with Ireland continuing to deliver solid results. In Singapore we progressively improved performance reducing EBITDA losses by \$0.4m to \$0.1m.

Virtus also welcomed Aagaard to the group and this well-appointed clinic has been immediately earnings enhancing; the Aagaard team have quickly embraced the opportunity to integrate with Virtus international teams.

In the Australian eastern state markets in which we operate there was an overall market volume decrease of 0.24% for Assisted Reproductive Services ("ARS"). This small decrease was largely supported by strong growth in Queensland where new entrants providing low cost ARS to a broader population helped drive volume growth of 27% in the last six months.

Underlying cycle volume in Virtus Australian clinics decreased 3.7% and reflected two main issues; our Victorian premium service activity continued to lose market share and several other markets were fundamentally weaker than in the prior year. Indeed the NSW market which had seen strong growth over the previous two years saw volumes decline by 5% in FY2017 although Virtus clinics achieved a better result. Our Sydney and Melbourne metropolitan based “The Fertility Centre” (“TFC”) branded clinics experienced a slowdown in the first half of the financial year; Management made several changes to the TFC service and we saw improvements in volumes and financial performance in the second half of the year. Management also enhanced the range of services offered by several regionally located clinics and this led to improvements in volume and profit.

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 couples and single women accessing donor sperm and ARS to start a family. The Virtus Board believe that providing services to support patients across a range of social and economic demographics, as well as meeting the full range of clinical demands is essential to the sustainability of the Virtus business.

On a similar theme diagnostic revenue increased by nearly 9% in FY2017, largely driven by the new applications of genetic testing and screening in reproductive medicine which are improving success rates for patients and providing access to new patient segments, including the fertile population. The strong improvement in financial performance of Virtus Diagnostics reflects the efforts of a committed team, management and employees, who have undertaken major changes to the operational capability of the Virtus laboratories.

Recognising the continued evolution in the Australian market and the competitive pressure on revenue the management team made changes to the domestic operation. This resulted in a restructure of Melbourne IVF in particular, where financial and competitive performance over the last two years had been disappointing. Under a new management team major changes were made to the Victorian operation and this included the recruitment of a world renowned laboratory management team. Additionally, changes were made to our diagnostic laboratories and our national sales and marketing team; we believe these changes were essential to meet the evolving demands of the ARS sector.

Financial performance in the first four months of FY18 is broadly in line with expectations. In the first quarter the Australian ARS market (available to Virtus) has experienced volume growth of 5.4% primarily a consequence of significant growth in the low cost sector in Queensland resulting in a loss of market share for Virtus in that state. Virtus growth in NSW and Victoria has exceeded market growth in this period.

I would like to thank all our staff, fertility specialists and management teams who contribute daily to the success of Virtus Health and would commend their flexibility and resilience in a year where organisational change has been significant.

Thank you,

Peter Macourt

Chairman

Virtus Health Limited

22 November 2017