

## 1. Company details

Name of entity:	Virtus Health Limited
ABN:	80 129 643 492
Reporting period:	For the half-year ended 31 December 2020
Previous period:	For the half-year ended 31 December 2019

## 2. Results for announcement to the market

The Directors of Virtus Health Limited ('Virtus') announce the results for the half-year ended 31 December 2020 ('H1 FY2021'). Key highlights from the results are:

			<b>\$'000</b>
Revenues from ordinary activities	up	19.4% to	169,613
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	up	49.1% to	58,966
Earnings Before Interest and Tax (EBIT)	up	75.0% to	47,013
Profit from ordinary activities after tax	up	95.7% to	30,275
Profit for the half-year attributable to the owners of Virtus Health Limited	up	100.0% to	29,929

### *Dividends*

	<b>Amount per security Cents</b>	<b>Franked amount per security Cents</b>
Interim ordinary dividend paid for the year ended 30 June 2020 paid in November 2020	12.00	12.00

No final dividend was declared in June 2020.

An interim dividend of 12.00 cents per share fully franked will be paid on 15 April 2021 for shareholders on the register at 25 March 2021.

### *Comments*

The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to \$29,929,000 (31 December 2019: \$14,968,000).

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

	Consolidated	
	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Segment EBITDA	67,227	46,474
Share-based payment expense	(1,037)	(629)
Other non-trading expenses	(8,823)	(7,809)
Fair value adjustment to put liabilities	-	1,500
Fair value adjustment to contingent consideration	1,599	-
	<u>58,966</u>	<u>39,536</u>
EBITDA (reported)	58,966	39,536
Depreciation and amortisation expenses	(11,953)	(12,675)
	<u>47,013</u>	<u>26,861</u>
EBIT	47,013	26,861
Net finance costs	(4,620)	(5,510)
	<u>42,393</u>	<u>21,351</u>
Profit before income tax from continuing activities	<u>42,393</u>	<u>21,351</u>

Key features of the results are:

- Revenue increased 19.4% to \$169.6m;
- EBITDA increased 49.1% to \$58.9m; and
- Profit before income tax expense increased 98.6% to \$42.4m

EBITDA and Profit before income tax for the period included \$7.7m of COVID-19 related Government assistance that assisted the consolidated entity to preserve employee relationships through the pandemic by minimising employee stand downs and permanent job losses, providing a stable platform to allow the group to meet the deferred pent up patient demand in the first quarter. The other significant item reflected in profit before income tax was a fair value gain of \$1.6m on the contingent consideration relating to the acquisition of Fertilitesklinikken Trianglen Aps.

#### Operating overview

##### Australia

Virtus fresh cycle activity in Australia increased by 18.0% compared to an increase in Virtus' available market of 24.0%. Key aspects of the volume movements compared to pcp were as follows:

- Premium service volumes increased by 24.5% with growth in all regions ; and
- TFC volumes decreased by 5.2%. Volume growth in New South Wales of 37.2% was offset by a reduction in Victoria of 29.5% due to Covid-19 capacity restrictions.

Overall, EBITDA in the Australian segment increased by approximately \$19.4m (49.0% increase compared to pcp). There were four main factors contributing to this movement:

- Doctor and professional staff availability for restart of elective surgery;
- Increased cycle activity in IVF clinics resulted in an improvement in EBITDA of \$9.4m with improvement achieved in New South Wales, Victoria, Queensland and Tasmania;
- Specialist diagnostic revenue increased in H1 FY2021 compared to H1 FY2020 reflecting improved volumes in PGT activity from premium service cycles and this contributed to an increase in EBITDA of approximately \$0.2m in the half year compared to pcp; and
- In day hospitals, revenue increased by 37.5%, a consequence of improved demand for non-IVF procedures which now account for 43.4% of total day hospital revenue. Non-IVF revenue increased by 54.8% and revenue from IVF procedures increased by 26.7% across all day hospitals. Day Hospital EBITDA increased by \$2.1m compared to pcp.

The balance of the increase in EBITDA was due to the Government assistance received,(refer to above).

#### *International*

Ireland experienced a weaker EBITDA in the first half in spite of a slight cycle volume increase of 0.7%. EBITDA in local currency decreased by €0.1m primarily related to costs and business interruption associated with the planned Rotunda IVF clinic relocation which was completed in December 2020. Volume growth was also restricted by the continued constraints on the Ireland egg donation programme and this also impacted EBITDA.

Fresh cycle volumes in Singapore increased by 56.7% and EBITDA in local currency increased by \$0.7m compared to pcp.

Virtus Danish clinics reported a combined growth in cycle volume of 21.1%. Danish EBITDA increased by DKK3.5m compared to pcp.

In the UK, Complete Fertility increased revenue by 21.8% and this resulted in EBITDA growth of £0.2m compared to pcp.

#### *Operating expenses*

Group OPEX was approximately \$9.2m higher than pcp and this comprised the following major movements:

- Employment costs increased by \$6.6m (13.0%), driven by higher volumes (higher FTEs), reduced employee leave during H1 2021, higher STI accruals compared to pcp and additional FTEs to support the group's digital health strategy;
- IT and insurance costs were also up by \$1.7m reflecting increased insurance costs (primarily related to D&O premiums) and IT related costs; and
- Balance of the increase in group OPEX of \$0.9m relates to increase in occupancy costs and other expenses.

#### *Operating cash flow*

Net cash from operating activities increased by \$8.5m to \$32.1m driven mostly by EBITDA increase but offset by negative working capital movements from deferred revenue and payment of tax balances in respect of the year to June 2020. These tax liabilities were settled during H1 FY2021 from operating cash inflows.

#### *Capital Expenditure*

Total expenditure on tangible and intangible assets was \$7.2m in H1 FY2021 (H1 FY2020; \$2.8m) and included \$5.3m for the relocation of the Rotunda IVF clinic to Swords Business Campus in Ireland.

#### *Debt and interest expense*

The consolidated entity has total commitments of \$262,000,000 through its syndicated debt facilities. During December 2020, the consolidated entity successfully extended its existing three-year facilities, amounting to A\$92,000,000 maturing in October 2021 to October 2023, aligning with the maturity of its five-year facilities.

At 31 December 2020, total facilities drawn were \$155m in borrowings and \$4.9m in guarantees. Unused and available facilities amounted to \$102m. The consolidated entity complied with the financial covenants of its borrowing liabilities during the financial half-year ended 31 December 2020. Subject to the continued compliance with debt covenants, the undrawn bank facilities may be drawn at any time and the total facility of \$262m expires in October 2023. The reduction in the cash interest expense of \$0.9m compared to pcp reflects reduced debt levels and lower interest rates.

#### *Other financial liabilities \$1.6m (H1FY2020: \$3.7m)*

Other financial liabilities of \$1.6m at 31 December 2020 represents a vendor loan note of \$1.6m in relation to the acquisition of Fertilitesklinikken Trianglen Aps. The reduction of Other financial liabilities from prior year reflects the write back of contingent consideration relating to the acquisition of Fertilitesklinikken Trianglen Aps during the period resulting in a fair value gain of \$1.6m.

#### *Amortisation of borrowing costs*

Amortisation of borrowing cost expense for H1 FY2021 was \$0.3m (H1 FY2020: \$0.2m). H1 FY2021 included a write-off of residual borrowing costs in relation to the three year facility which was refinanced during December 2020.

#### *Taxation*

The effective tax rate on operating earnings for H1 FY2021 was 28.6% (H1 FY2020: 27.5%).

#### *Earnings per share*

Basic earnings per share increased by 100.6% to 37.42 cents per share (H1 FY2020: 18.65 cents per share). Diluted earnings per share increased by 100.1% to 36.98 cents per share (H1 FY2020: 18.48 cents per share).

#### *Dividend*

An interim dividend of 12.00 cents per share fully franked (April 2020: 12.00 cents per share) will be paid on 15 April 2021 to shareholders on the register at 25 March 2021.

*Outlook*

Australian market demonstrated resilience in H1 FY2021 from the severe disruptions of the COVID-19 pandemic which impacted Q4 of FY2020. Detailed planning for the successful restart of services and improvement in consumer sentiment contributed to the positive performance. Whilst we expect normalisation of growth rates heading into H2 FY2021, the timing and extent of this normalisation will be a function of a number of factors including consumer sentiment, availability of international travel, future pandemic lockdowns and vaccination rollout effectiveness.

International markets experienced strong demand in the early parts of H1 FY2021, however rising COVID-19 cases in Europe has led to the imposition of stricter restrictions in UK and Ireland. This could impact activity in Q3 FY2021 and beyond.

We expect to see sporadic disruptions from local and international COVID outbreaks for some time yet but remain optimistic that clinics will continue to maintain their resilience to these developments.

**3. Net tangible assets**

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>(165.37)</u>	<u>(205.86)</u>
Net assets per ordinary security	<u>369.04</u>	<u>333.63</u>

**4. Control gained over entities**

Not applicable.

**5. Loss of control over entities**

Not applicable.

**6. Dividends paid**

*Current period*

	Amount per security Cents	Franked amount per security Cents
Interim ordinary dividend paid for the year ended 30 June 2020 paid in November 2020	12.00	12.00
No final dividend was declared in June 2020.		

*Previous period*

	Amount per security Cents	Franked amount per security Cents
Final ordinary dividend paid for the year ended 30 June 2019 paid in October 2019	12.00	12.00

## 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%	668	291
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>				
Profit/(loss) from ordinary activities before income tax			668	291
Income tax on operating activities			(200)	(87)

## 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 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 2020 is attached.

**12. Signed**

Signed \_\_\_\_\_

Date: 15 February 2021

Glenn Powers  
Chief Financial Officer and Company Secretary  
Sydney

# **Virtus Health Limited**

**ABN 80 129 643 492**

**Interim Report - 31 December 2020**

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 2020.

### **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:

Sonia Petering (Chair)  
Kate Munnings  
Lyndon Hale  
Greg Couttas  
Shane Solomon  
Michael Stanford

### **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 \$29,929,000 (31 December 2019: \$14,968,000).

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

For a detailed review on the trading results refer to the operating and financial review section in Appendix 4D and to the ASX market announcement on 16 February 2021.

### **Significant changes in the state of affairs**

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

### **Rounding of amounts**

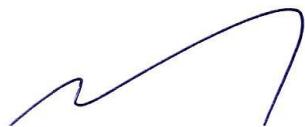
The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report and the Financial Report have been rounded off in accordance with that Corporations Instrument to the nearest thousand 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, appearing to read "Sonia Petering". The signature is fluid and cursive, with a prominent arch over the 'P'.

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Sonia Petering  
Chair

15 February 2021  
Sydney



## *Auditor's Independence Declaration*

As lead auditor for the review of Virtus Health Limited for the half-year ended 31 December 2020, 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, appearing to read 'Mark Dow', with a long horizontal flourish extending to the right.

Mark Dow  
Partner  
PricewaterhouseCoopers

Sydney  
15 February 2021

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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 15 February 2021. 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 2020**



		<b>Consolidated</b>	
	<b>Note</b>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Revenue</b>	3	169,613	142,050
Share of profits of associates accounted for using the equity method		668	291
Other income	4	10,199	2,135
<b>Expenses</b>			
Fertility specialists, consumables and associated costs		(46,308)	(38,986)
Employee benefits expense		(57,704)	(51,084)
Depreciation and amortisation expense		(11,953)	(12,675)
Occupancy expense		(3,191)	(2,989)
Advertising and marketing		(1,856)	(2,121)
Practice equipment expenses		(1,520)	(1,257)
Professional and consulting fees		(1,842)	(2,010)
Other expenses		(9,064)	(6,469)
Finance costs	5	(4,649)	(5,534)
<b>Profit before income tax expense</b>		42,393	21,351
Income tax expense		(12,118)	(5,882)
<b>Profit after income tax expense for the half-year</b>		30,275	15,469
<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		191	17
Foreign currency translation		(3,061)	(1,374)
Other comprehensive income for the half-year, net of tax		(2,870)	(1,357)
<b>Total comprehensive income for the half-year</b>		<u>27,405</u>	<u>14,112</u>
Profit for the half-year is attributable to:			
Non-controlling interest		346	501
Owners of Virtus Health Limited		29,929	14,968
		<u>30,275</u>	<u>15,469</u>
Total comprehensive income for the half-year is attributable to:			
Non-controlling interest		394	475
Owners of Virtus Health Limited		27,011	13,637
		<u>27,405</u>	<u>14,112</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	15	37.42	18.65
Diluted earnings per share	15	36.98	18.48

*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 2020**



	Consolidated	
	31 Dec 2020	30 June 2020
	\$'000	\$'000
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	37,108	38,047
Trade and other receivables	10,928	13,372
Inventories	1,360	1,399
Other	4,619	3,149
<b>Total current assets</b>	<b>54,015</b>	<b>55,967</b>
<b>Non-current assets</b>		
Investments accounted for using the equity method	1,489	1,489
Property, plant and equipment	37,383	34,913
Right-of-use assets	85,839	89,719
Intangibles	429,611	433,694
Deferred tax	13,587	10,329
Other	292	306
<b>Total non-current assets</b>	<b>568,201</b>	<b>570,450</b>
<b>Total assets</b>	<b>622,216</b>	<b>626,417</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	29,006	41,538
Lease liabilities	11,076	10,661
Derivative financial instruments	1,259	1,148
Income tax	7,416	9,662
Provisions	4,689	4,396
Other financial liabilities	802	2,374
Unearned income	14,989	20,032
<b>Total current liabilities</b>	<b>69,237</b>	<b>89,811</b>
<b>Non-current liabilities</b>		
Borrowings	153,869	164,087
Lease liabilities	88,430	92,137
Derivative financial instruments	2,202	2,586
Deferred tax	3,475	799
Provisions	7,500	7,510
Other financial liabilities	834	1,284
<b>Total non-current liabilities</b>	<b>256,310</b>	<b>268,403</b>
<b>Total liabilities</b>	<b>325,547</b>	<b>358,214</b>
<b>Net assets</b>	<b>296,669</b>	<b>268,203</b>
<b>Equity</b>		
Issued capital	243,032	240,785
Reserves	12,006	16,004
Retained profits	40,440	10,617
Equity attributable to the owners of Virtus Health Limited	295,478	267,406
Non-controlling interest	1,191	797
<b>Total equity</b>	<b>296,669</b>	<b>268,203</b>

*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 2020**



<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 2019	241,890	5,159	29,336	10,453	286,838
Profit after income tax expense for the half-year	-	-	14,968	501	15,469
Other comprehensive income for the half-year, net of tax	-	(1,331)	-	(26)	(1,357)
<b>Total comprehensive income for the half-year</b>	<b>-</b>	<b>(1,331)</b>	<b>14,968</b>	<b>475</b>	<b>14,112</b>
<i>Transactions with owners in their capacity as owners:</i>					
Purchase of treasury shares	(1,984)	-	-	-	(1,984)
Settlement of partly paid shares	110	-	-	-	110
Issue of shares pursuant to share based payment schemes	443	(443)	-	-	-
Share-based payments expenses	-	629	-	-	629
Put option exercise	-	5,983	-	(5,983)	-
Dividends payable by subsidiary to non-controlling interest	-	-	-	(609)	(609)
Dividends paid	-	-	(9,647)	-	(9,647)
<b>Balance at 31 December 2019</b>	<b>240,459</b>	<b>9,997</b>	<b>34,657</b>	<b>4,336</b>	<b>289,449</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 2020	240,785	16,004	10,617	797	268,203
Profit after income tax expense for the half-year	-	-	29,929	346	30,275
Other comprehensive income for the half-year, net of tax	-	(2,918)	-	48	(2,870)
<b>Total comprehensive income for the half-year</b>	<b>-</b>	<b>(2,918)</b>	<b>29,929</b>	<b>394</b>	<b>27,405</b>
<i>Transactions with owners in their capacity as owners:</i>					
Purchase of treasury shares (note 9)	(10)	-	-	-	(10)
Settlement of partly paid shares	140	-	-	-	140
Issue of shares pursuant to share based payment schemes	2,117	(2,117)	-	-	-
Share-based payments expenses	-	1,037	-	-	1,037
Dividends paid	-	-	(106)	-	(106)
<b>Balance at 31 December 2020</b>	<b>243,032</b>	<b>12,006</b>	<b>40,440</b>	<b>1,191</b>	<b>296,669</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 2020**



	<b>Note</b>	<b>Consolidated</b>	
		<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		166,552	139,900
Payments to suppliers (inclusive of GST)		(127,027)	(105,039)
Other income		11,741	1,534
Interest and other finance costs paid		(2,366)	(3,345)
Lease interest paid		(1,772)	(1,737)
Income taxes paid		(15,028)	(7,674)
		<u>32,100</u>	<u>23,639</u>
<b>Net cash from operating activities</b>			
<b>Cash flows from investing activities</b>			
Payment for acquisition of non-controlling interest		-	(6,591)
Payments for property, plant and equipment and intangibles		(7,228)	(2,781)
Proceeds from disposal of property, plant and equipment		7	-
Other investing activities		404	404
		<u>(6,817)</u>	<u>(8,968)</u>
<b>Net cash used in investing activities</b>			
<b>Cash flows from financing activities</b>			
Proceeds from partly paid shares	9	140	110
Dividends paid to non-controlling interest in subsidiaries		-	(609)
Repayment of borrowings		(10,000)	(3,000)
Payment of finance facility fees in relation to refinancing		(508)	-
Dividends paid	11	(9,647)	(9,647)
Purchase of treasury shares	9	(10)	(1,984)
Repayment of lease liabilities		(5,907)	(5,709)
		<u>(25,932)</u>	<u>(20,839)</u>
<b>Net cash used in financing activities</b>			
Net decrease in cash and cash equivalents		(649)	(6,168)
Cash and cash equivalents at the beginning of the financial half-year		38,047	18,831
Effects of exchange rate changes on cash and cash equivalents		(290)	(103)
		<u>37,108</u>	<u>12,560</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 2020 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 2020 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.

### **Basis of Preparation**

The financial report has been prepared on a going concern basis.

The Directors continually monitor the group's working capital position, including forecast working capital requirements and have ensured that there are appropriate refinancing strategies and adequate committed funding facilities in place to accommodate financial obligations as and when they fall due.

At 31 December 2020 the consolidated entity's current liabilities exceeded its current assets by \$15,222,000 (June 2020:\$33,844,000).

The current liabilities include unearned income of \$14,989,000 as well as employee leave liabilities of \$12,229,000. Whilst, the employee leave liabilities are required to be disclosed as a current liability not all of this liability is expected to be settled within 12 months. The cash balance as at 31 December 2020 is \$37,108,000 and the consolidated entity also has unused and available debt facilities totalling \$102,080,000, which mature in October 2023. Refer to note 13 for further details.

### **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.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

## **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:

Note 2. Operating segments (continued)

	Healthcare services Australia \$'000	Healthcare services International \$'000	Intersegment eliminations/ unallocated \$'000	Total \$'000
<b>Consolidated - 31 Dec 2020</b>				
<b>Revenue</b>				
Sales to external customers	136,008	32,778	-	168,786
Other revenue	798	-	-	798
Interest revenue	29	-	-	29
<b>Total revenue</b>	<b>136,835</b>	<b>32,778</b>	<b>-</b>	<b>169,613</b>
<b>Segment EBITDA</b>				
	<b>59,153</b>	<b>8,074</b>	<b>-</b>	<b>67,227</b>
Share-based payment expense				(1,037)
Corporate costs				(8,870)
Foreign exchange				47
Depreciation and amortisation expenses				(11,953)
Fair value adjustment to contingent consideration				1,599
Net interest				(4,620)
<b>Profit before income tax expense</b>				<b>42,393</b>
Income tax expense				(12,118)
<b>Profit after income tax expense</b>				<b>30,275</b>
<b>Consolidated - 31 Dec 2019</b>				
<b>Revenue</b>				
Sales to external customers	111,886	29,241	-	141,127
Other revenue	899	-	-	899
Interest revenue	24	-	-	24
<b>Total revenue</b>	<b>112,809</b>	<b>29,241</b>	<b>-</b>	<b>142,050</b>
<b>Segment EBITDA</b>				
	<b>39,696</b>	<b>6,778</b>	<b>-</b>	<b>46,474</b>
Share-based payment expense				(629)
Transaction costs				(4)
Corporate costs				(8,230)
Foreign exchange				425
Depreciation and amortisation expenses				(12,675)
Fair value adjustment to put liability				1,500
Net interest				(5,510)
<b>Profit before income tax expense</b>				<b>21,351</b>
Income tax expense				(5,882)
<b>Profit after income tax expense</b>				<b>15,469</b>

### Note 3. Revenue

	Consolidated	
	31 Dec 2020 \$'000	31 Dec 2019 \$'000
<i>Revenue from contracts with customers</i>		
Rendering of services	168,786	141,127
<i>Other revenue</i>		
Rent	798	899
Interest	29	24
	<u>827</u>	<u>923</u>
Revenue	<u><u>169,613</u></u>	<u><u>142,050</u></u>

### Note 4. Other income

	Consolidated	
	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Fair value gain on put liability	-	1,500
Fair value gain on Contingent consideration	1,599	-
Government grants	7,679	-
Other income	921	635
	<u>921</u>	<u>635</u>
Other income	<u><u>10,199</u></u>	<u><u>2,135</u></u>

Government grants: The receipts from the Federal Government's JobKeeper Program and similar government programs in other countries are accounted for as government grants and have been presented as other income.

### Note 5. Expenses

	Consolidated	
	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Profit before income tax includes the following specific expenses:		
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings	2,409	3,346
Interest on lease liabilities	1,772	1,737
Interest on other financial liabilities - non-cash interest	179	246
Amortisation of bank facility fees	289	205
	<u>289</u>	<u>205</u>
Finance costs expensed	<u><u>4,649</u></u>	<u><u>5,534</u></u>
<i>Share-based payments expense</i>		
Share-based payments expense - fertility specialists	406	731
Share-based payments expense - employee benefits	631	(102)
	<u>631</u>	<u>(102)</u>
Total share-based payments expense*	<u><u>1,037</u></u>	<u><u>629</u></u>

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

**Note 6. Non-current assets - right-of-use assets**

	<b>Consolidated</b>	
	<b>31 Dec 2020</b>	<b>30 June 2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Properties - Right-of-use	102,675	101,235
Less: Accumulated depreciation	<u>(16,836)</u>	<u>(11,516)</u>
	<u><u>85,839</u></u>	<u><u>89,719</u></u>

The consolidated entity leases properties for its clinics, day hospitals, laboratories and offices under agreements of between 2 to 15 years with, in some cases, options to extend. On renewal, the terms of the leases are renegotiated.

The consolidated entity leases a number of premises under agreements of 1 year or less. These leases are short-term and low-value, so have been expensed as incurred and not capitalised as right-of-use assets.

**Note 7. Current liabilities - Other financial liabilities**

	<b>Consolidated</b>	
	<b>31 Dec 2020</b>	<b>30 June 2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Other financial liabilities	-	1,546
Loan note	<u>802</u>	<u>828</u>
	<u><u>802</u></u>	<u><u>2,374</u></u>

Loan note reflects the current portion of a loan owing to the vendor of Fertilitesklinikken Trianglen Aps.

Prior years current other financial liabilities represented the fair value of the contingent consideration arising from the acquisition of Fertilitesklinikken Trianglen Aps and this was finalised in September 2020.

**Note 8. Non-current liabilities - other financial liabilities**

	<b>Consolidated</b>	
	<b>31 Dec 2020</b>	<b>30 June 2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Loan Note	<u>834</u>	<u>1,284</u>

Loan Note reflects the non-current portion of a loan owing to the vendors of Fertilitesklinikken Trianglen Aps.

**Note 9. Equity - issued capital**

	<b>Consolidated</b>			
	<b>31 Dec 2020</b>	<b>30 June 2020</b>	<b>31 Dec 2020</b>	<b>30 June 2020</b>
	<b>Shares</b>	<b>Shares</b>	<b>\$'000</b>	<b>\$'000</b>
Ordinary shares - fully paid	80,389,938	80,389,938	243,032	242,892
Treasury Shares	<u>-</u>	<u>(470,141)</u>	<u>-</u>	<u>(2,107)</u>
	<u><u>80,389,938</u></u>	<u><u>79,919,797</u></u>	<u><u>243,032</u></u>	<u><u>240,785</u></u>

**Note 9. Equity - issued capital (continued)**

*Movements in ordinary share capital*

Details	Date	No of shares	Issue price	\$'000
Balance	1 July 2020	80,389,938		242,892
Settlement of partly paid shares	24 November 2020	-	\$0.00	97
Settlement of partly paid shares	20 December 2020	-	\$0.00	43
Balance	31 December 2020	<u>80,389,938</u>		<u>243,032</u>

*Treasury shares*

Treasury shares are shares in Virtus Health Limited that are held by the Virtus Health Limited Employee Share Trust ('VHLEST') for the purpose of providing shares under selected Group equity plans.

	Number of Shares	\$
Balance at 1 July 2020	470,141	2,106,705
On market acquisitions during the period	1,857	9,898
Distribution of shares during the period to fertility specialists	(471,998)	(2,116,603)
Closing at 31 December 2020	<u>-</u>	<u>-</u>

**Note 10. Equity - reserves**

	Consolidated	
	31 Dec 2020	30 June 2020
	\$'000	\$'000
Foreign currency translation reserve	4,456	7,565
Hedging reserve - cash flow hedges	(2,426)	(2,617)
Share-based payments reserve	14,213	15,293
Business combination reserve	(4,237)	(4,237)
	<u>12,006</u>	<u>16,004</u>

**Note 11. Equity - dividends**

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

	Consolidated	
	31 Dec 2020	31 Dec 2019
	\$'000	\$'000
Interim dividend of 12.0 cents (31 December 2019: 12.0 cents) per fully paid share paid in November 2020	<u>9,647</u>	<u>9,647</u>

November dividend paid was the interim dividend normally paid in April, that was deferred in H2 FY2020. Dividend paid in prior year was the final dividend for FY2019 and no final dividend was declared in June 2020.

**Note 12. 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

<b>Consolidated - 31 Dec 2020</b>	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Derivative financial liabilities	-	3,461	-	3,461
Total liabilities	-	3,461	-	3,461

<b>Consolidated - 30 June 2020</b>	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Derivative financial liabilities	-	3,734	-	3,734
Other financial liabilities	-	-	1,546	1,546
Total liabilities	-	3,734	1,546	5,280

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 other financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

*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>	Contingent Consideration \$'000	Total \$'000
Balance at 1 July 2020	1,546	1,546
Foreign exchange impact	38	38
Interest on unwinding	15	15
Fair value adjustment	(1,599)	(1,599)
Balance at 31 December 2020	-	-

### Note 13. Borrowings and Contingent liabilities

#### *Borrowings-Financial Arrangements*

The consolidated entity has total commitments of \$262,000,000 through its syndicated debt facilities. During December 2020, the consolidated entity successfully extended its existing three-year facilities, amounting to A\$92,000,000 maturing in October 2021 to October 2023, aligning with the maturity of its five-year facilities.

At 31 December 2020, total facilities drawn were \$155,000,000 in borrowings and \$4,920,220 in guarantees. Unused and available facilities amounted to \$102,079,780. The consolidated entity complied with the financial covenants of its borrowing liabilities during the financial half-year ended 31 December 2020. Subject to the continued compliance with debt covenants, the bank facilities may be drawn at any time and the total facility of \$262,000,000 expires in October 2023.

#### *Contingent Liabilities-Claims*

The consolidated entity is currently involved in litigations which may result in future liabilities. The consolidated entity has disclaimed liability and is defending the actions. 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 14. Events after the reporting period

No matter or circumstance has arisen since 31 December 2020 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.

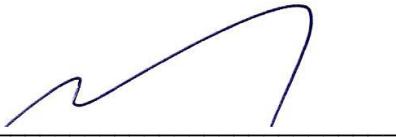
### Note 15. Earnings per share

	<b>Consolidated</b>	
	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit after income tax	30,275	15,469
Non-controlling interest	(346)	(501)
Profit after income tax attributable to the owners of Virtus Health Limited	29,929	14,968
Add: interest savings on conversion of options	51	89
Profit after income tax attributable to the owners of Virtus Health Limited used in calculating diluted earnings per share	<u>29,980</u>	<u>15,057</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	79,979,813	80,241,377
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	<u>1,086,945</u>	<u>1,214,805</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>81,066,758</u>	<u>81,456,182</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	37.42	18.65
Diluted earnings per share	36.98	18.48

In the directors' opinion:

- the financial statements and notes set out on pages 5 to 15 are in accordance with the Corporations Act 2001, including:
  - (i) complying with Accounting standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and
- there are reasonable grounds to believe that Virtus Health Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors

A handwritten signature in blue ink, appearing to read "Sonia Petering", written over a horizontal line.

Sonia Petering  
Chair

15 February 2021  
Sydney



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

### ***Report on the half-year financial report***

#### ***Conclusion***

We have reviewed the half-year financial report of Virtus Health Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

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

1. giving a true and fair view of the Group's financial position as at 31 December 2020 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*.

#### ***Basis for conclusion***

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

#### ***Responsibility of the directors 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 gives a true and fair view and is free from material misstatement whether due to fraud or error.

#### ***Auditor's responsibility for the review of the half-year financial report***

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether 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

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and fair view of the Group's financial position as at 31 December 2020 and of 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*.

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.

A large, stylized cursive signature of 'PricewaterhouseCoopers' written in black ink.

PricewaterhouseCoopers

A large, stylized cursive signature of 'Mark Dow' written in black ink.

Mark Dow  
Partner

Sydney  
15 February 2021