

ASX ANNOUNCEMENT

22 February 2022: VIRTUS HEALTH LIMITED (ASX: VRT)

VIRTUS' RESULT HIGHLIGHTS RESILIENT DEMAND AND INVESTMENT IN SCALABILITY & INNOVATION

Sydney, Australia - Virtus Health, ("Virtus", ASX: VRT) a leading global Assisted Reproductive Services (ARS) provider in Australia, today reports its interim results for the half year ended 31 December 2021.

Key points

- Group revenue \$171.3m (H1FY21: \$169.6m);
- Reported earnings before interest, tax, depreciation and amortisation ("EBITDA") is \$37.9m (H1FY21: \$59.0m);
- Reported NPAT attributable to equity holders is \$15.1m (H1FY21: \$29.9m);
- An improved leverage (Net Debt / Adjusted EBITDA) ratio of 1.3x at 31 December 2021 (30 June 2021: 1.5x);
- Progress against growth strategy continued with new clinic developments in Australia and Europe progressing towards completion; the restructure of Virtus Fertility Diagnostics & Reproductive Genetics service having been completed; and the pending launch of modules of the *Precision Fertility™* Digital Platform in H2 FY22, on time and on budget;
- An interim dividend for 1HFY22, 12cps fully franked.

Commenting on the results, Virtus Health Group CEO, Kate Munnings said, "It was a resilient performance across all our services globally, in the face of ongoing COVID-19 operating restrictions and heightened infection control requirements. These results are a testament to all Virtus Health staff and specialists who have worked extremely hard throughout the period to progress Virtus's ability to help more people become parents".

Australian Segment

Revenue was up 1.8% on pcp to \$139.3m and segment EBITDA down 21% to \$46.6m. Key factors contributing to H1 performance were:

- Virtus fresh cycle activity in Australia increased by 1.3% over pcp which was a high comparable period (having grown 18% over the pcp). This growth compares to an increase in Virtus' available Australian market (States in which Virtus provides services) growth of 3.4%. Key aspects of the volume movements for Virtus compared to pcp were as follows:

- Premium service volumes (approximately 80-85% of Virtus Australia) increased by 1.2% with growth in all regions, building on 28.4% growth in the pcp. New South Wales, Queensland, Tasmania premium volumes exceeded market growth. Victoria recorded growth in premium cycles but was below market growth, impacted most by cancellations and deferrals in Q2.
- Increase in The Fertility Centre (TFC) volumes (approximately 15-20% of Virtus Australia) across all States was limited to an increase of 1.7% as they were severely disrupted by the prolonged lockdowns in NSW in Q1 FY2022 which impacted our patients in Southwestern Sydney (epicentre of the Delta outbreak). Victoria's TFC operations were also impacted by COVID-19 capacity restrictions at The Women's Hospital in Q2 FY2022.
 - Whilst TFC nationally has been impacted to a greater extent than Premium services during the pandemic Virtus remains optimistic in the greater potential for post pandemic growth in this service given the expected accumulation of deferred demand.
- Fertility diagnostic revenue increased 8.5% in H1FY22 compared to pcp reflecting resilient IVF volumes and the increasing growth of Pre-Implantation Genetic Testing (PGT) activity. PGT also now has additional Medicare reimbursement which was introduced in the period, and Virtus services in reproductive genetics are now provided to other operators across the industry.
- In Day Hospitals, revenue increased by 4.3%, in part due to the growth in IVF activity mentioned above but more so the improvement in demand for non-IVF procedures and investment in state of the art equipment for specialist procedures. Non-IVF procedures now account for almost half of total day hospital revenue.
- Overall, EBITDA in the Australian segment decreased by \$12.5m compared to pcp. There were three main factors contributing to this decrease:
 - Employee costs increased by \$2.8m in this period reflecting expansion of the workforce to sustain continued volume growth, as well as investments in clinical and donor resources, business development and genetic clinicians to support future growth. The increase also included annual CPI and increases in enterprise agreement related salaried staff.
 - Gross margin was impacted by approximately \$2.0m from a higher number of COVID-19 related cancelled/deferred cycles and higher PPE for staff and patients to maintain robust COVID-19 response and safety plans. There were also costs ongoing from cleaning in clinics and hospitals from increased throughput and COVID-19 safety related precautions, and
 - Australian Segment EBITDA in the pcp included \$7.7m of COVID-19 related Government assistance (JobKeeper Scheme).

"This half, given the ongoing challenges of COVID-19, demonstrated the resilience of IVF as a non-discretionary service as well the sustaining nature of the underlying drivers of demand. This translated into revenue growth against what was considered record growth in the prior period and sets a new level of demand for fertility treatment in Australia. Virtus's network of specialists, staff, fertility diagnostics & reproductive genetics service and Day Hospital capability provides a market leading platform for patient access, best practice, collaboration and innovation into the future", said Ms Munnings.

International Segment

Virtus' international operations also demonstrated resilience in the period with EBITDA decreased by approximately \$1.5m compared to pcp.

- In the UK, Complete Fertility cycles were up 6.8% on pcp however EBITDA in local currency was down by £0.1m. This was due to investments made in the senior management team as part of a strategic review to improve efficiency and clinical success rates.
- Ireland experienced a weaker EBITDA in the first half despite a slight cycle volume increase of 0.8%. EBITDA in local currency decreased by €0.2m primarily related to pre-conception genetic screening (PGS) roll out delays impacting revenue per cycle. Volume growth was restricted by the constraints on the Ireland egg donation program and this also impacted EBITDA. PGS rollout is expected to be completed in H2 FY2022 and it is expected that the Egg Donation programme will also recommence in H2 FY2022.
- Virtus Danish clinics reported a combined decline in cycle volume of 8.4% which contributed to EBITDA in local currency decreasing by DKK2.7m compared to pcp. Return of COVID-related travel restrictions/reluctance impacted volumes. Management focus on Donor and pre-implementation genetic diagnostics (PGD) cycles has part-mitigated the volume shortfall. A new, larger and more modern facility in Copenhagen is being built for opening in FY2023 as Denmark remains an important hub for international patients who are expected to return as confidence in travel picks up with higher vaccination rates and easing of restrictions.
- Fresh cycle volumes in Singapore decreased by 16.3% which resulted in EBITDA in local currency decreasing by \$0.3m compared to pcp. The decline in volumes resulted from the early retirement of an experienced doctor for health reasons. Two additional doctors have been recruited and are expected to regain lost volumes going forward.

"Results across our International services demonstrated resilience to their unique market and business factors and reflected progress in operating efficiency and capacity as well as investments to benefit future growth" said Ms Munnings.

Capital Management

During the financial period, Virtus reduced its Net Debt from \$108.0m at FY21 to \$76.5m at 31 December 2021. At 31 December 2021, the group is in compliance with its debt covenants following another period of strong cash generation. Virtus has debt funding capacity of greater than \$158m as at 31 December 2021.

An interim dividend of 12.0 cents per share fully franked has been declared (FY21: final dividend 12 cents). The interim dividend will have a record date of 24 March 2022 and will be payable on 14 April 2022. The interim dividend represents a payout ratio of ~65% with the target forward dividend payout ratio to be based on a full year dividend range of 45-55% to enhance balance sheet flexibility for investment in organic and inorganic growth initiatives.

Key Financial Results

Metric	H122 (A\$m)	H121 (A\$m)	Variance (%)
Revenue	171.3	169.6	+1.0
Reported EBITDA	37.9	59.0	-35.7
PBT	21.5	42.4	-49.3
NPAT Pre-minorities Reported	15.3	30.3	-49.5
NPAT attributable to Virtus owners	15.1	29.9	-49.5
Basic EPS (cps)	18.06	37.42	-51.7
Diluted EPS (cps)	17.91	36.98	-51.5

Business Outlook

The Australian ARS market has continued to be resilient throughout FY2021 and H1 FY2022 despite the varying outbreaks of the different COVID-19 variants, and accompanying Government responses during H1 FY2022.

The most recent outbreak of the COVID-19 Omicron variant has resulted in a much larger number of people being infected across most Australian states. While access to ARS treatment and elective surgeries has continued in all states; heightened infection control and safety protocols, including a strict requirement for our doctors and staff to self-isolate when displaying symptoms or being identified as a casual or close contact; is contributing to some deferral of certain treatments. There were some restrictions imposed in Victoria subsequent to 31 December 2021 but they were lifted after a two week period. This further highlighted the importance of providing continuous access to fertility services.

International ARS markets also continued to operate in the context of high numbers of COVID-19 cases and border closures. These conditions delayed the recommencement of our egg donation program in Ireland and our ARS “hub” strategy in Denmark.

We remain confident that with Virtus's unique multiple market portfolio any of the potential near term impacts of COVID-19 on demand will likely be reflected as deferred, but not lost demand for ARS services.

Virtus has continued to invest in state-of-the-art clinics and labs with new clinics under development in FY2022 to support growth in Sydney (Nepean), Brisbane and Copenhagen. Our *One Lab* strategy also continues to be deployed to further improve IVF success rates. In FY2021 the Board approved the business case for the deployment of the *Precision Fertility™* Digital Platform which will be a key investment in FY2022/23 and thereafter will support growth and drive efficiencies. That program of work is on time and on budget and the “go live” of the *Precision Fertility™* Digital Platform is expected from the end of 2022. A commercialisation strategy is also under development given the unique nature and IP ownership that Virtus will have in this new platform.

The demand for ARS in H2 FY2022 and beyond will be influenced by a number of factors including, in the near term, consumer sentiment being focused on home and family, global vaccination rollout effectiveness and consumer confidence during the high number of COVID-19 cases. The disruption in December 21 and January 22 is likely to have a negative impact on H2 FY2022 from deferrals and cancellations that may not all be caught up within H2 FY2022.

Ms Munnings added: “Whilst we acknowledge the near-term downside risk from impacts associated with COVID-19, we see that in the medium term, ARS demand will continue to be influenced by trends in maternal age, greater fertility choices and improvements in success rates. Virtus is well positioned to service the ongoing demand for ARS as well as to further diversify revenue via growth in its Day Hospitals and its fertility diagnostic and reproductive genetics service.”

Investor Conference Call and Webcast

Investors are invited to join a conference call and webcast presentation hosted by Kate Munnings, Group CEO, and Matthew Prior, Group CFO on **Tuesday 22 February 2022 at 9:30am AEDT**. To access the call and webcast, please use the log in details below.

- **Conference Call Registration:** <http://apac.directeventreg.com/registration/event/7777285>

Please note: upon registering online, you will receive a confirmation with phone numbers to dial into the conference call together with a unique passcode.

- **Webcast:** <https://webcast.openbriefing.com/8517/>

Authorised by the Board of Directors of Virtus Health Limited.



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Virtus Health Limited (ASX:VRT) brings together leading clinicians, scientists, researchers and support staff to provide the very best in fertility care and related specialised diagnostic and day hospital services. We have developed one of the most successful ARS collaborations in the world. With 126 of the world's leading fertility specialists supported by over 1300 professional staff, we are the largest network and provider of fertility services in Australia, Ireland and Denmark, Singapore and UK.