

ASX ANNOUNCEMENT

3 May 2022

VIRTUS HEALTH LIMITED (ASX: VRT)

VIRTUS' TARGET'S STATEMENT RECOMMENDS REJECT THE BGH OFFER

Virtus Health Limited (ACN 129 643 492) (**Virtus**) announces that it has today released its target's statement (**Target's Statement**) in response to the off-market takeover offer by entities wholly owned by BGH Capital Pty Ltd (**BGH Bidders**) for all of the Virtus Shares in which the BGH Bidders do not have a Relevant Interest at an offer price of \$8.00 cash per share (**BGH Offer**). A copy of the Target's Statement is attached.

The Virtus Board has unanimously determined that the BGH Offer is INFERIOR to the CapVest Transaction and therefore unanimously recommends that Virtus Shareholders DO NOT ACCEPT the BGH Offer. Each Virtus Board member will not be accepting the BGH Offer in respect of any Virtus Shares that are held or controlled by or on behalf of them, consistent with their recommendation to Virtus shareholders.

The Target's Statement sets out the Virtus Board's reasons for its recommendation, an Independent Expert's Report prepared by Deloitte Corporate Finance Pty Limited and other information that is material to Virtus shareholders in assessing the BGH Offer. Virtus shareholders should read the Target's Statement carefully, in full and, if required, seek independent advice if they are in any doubt as to how to respond to the BGH Offer.

The Target's Statement has or will be sent to the BGH Bidders and lodged with the Australian Securities and Investments Commission (**ASIC**) today.

Due to the coronavirus pandemic and other relevant issues impacting the timing of postal dispatch of the Target's Statement, ASIC has granted Virtus relief from the usual requirement under the Corporations Act to send the Target's Statement to Virtus shareholders by post. This means that:

- if you have nominated an email address to receive communications from Virtus, then you will receive an email to your nominated email address with a link to an electronic copy of the Target's Statement; and
- if you have not nominated an email address to receive communications from Virtus, then you will receive a letter from Virtus to your registered postal address, which will contain details of a link to an electronic copy of the Target's Statement.

Virtus shareholders may also request a hard copy of the Target's Statement be sent to them (if in Australia, by pre-paid ordinary post or by courier, or, if outside Australia, by pre-paid airmail post or by courier) by contacting the Virtus shareholder information line on 1800 262 299 (within Australia) or +61 1800 262 299 (outside Australia) Monday to Friday between 8.30am and 7.30pm (Sydney time).

ASIC has advised that the fact that it has granted this relief in connection with the BGH Offer should not be taken as a reflection of ASIC's views on any other aspect of the BGH Offer.

Virtus also provides an update in relation to the proposal made by CapVest Partners LLP (**CapVest**) to acquire all of the shares in Virtus by way of scheme of arrangement and simultaneous takeover bid (**CapVest Transaction**), announced on 11 April 2022. The CapVest Transaction is currently superior to the BGH Offer. Virtus is currently seeking orders from the Supreme Court of New South Wales (which Court hearing has been stood over to Wednesday, 4 May 2022) to convene the meeting to consider the scheme of arrangement and to dispatch the transaction booklet which has been prepared in relation to the CapVest Transaction (**Transaction Booklet**).

The Transaction Booklet will set out all information Virtus shareholders need to decide how to vote on the CapVest scheme of arrangement and proposed capital return and whether to accept the CapVest takeover that forms part of the CapVest Transaction. The Transaction Booklet will also include the recommendation of the Virtus Board and an Independent Expert's Report prepared by Deloitte Corporate Finance Pty Limited. It is anticipated that the Transaction Booklet will be sent to shareholders in early May.

The Virtus Board unanimously recommends that Virtus Shareholders:

- ***REJECT and TAKE NO ACTION in relation to the BGH Offer;***
- ***TAKE NO ACTION in relation to the CapVest Transaction until they receive the Transaction Booklet, at which time the Board will explain how Virtus Shareholders can follow its recommendation to support the CapVest Transaction, in the absence of a Superior Proposal and subject to the Independent Expert providing a positive opinion in relation to the CapVest Transaction; and***
- ***consult their licensed financial adviser or other suitable professional adviser if in any doubt as to what they should do.***

This announcement is authorised by the Virtus Board.

-ENDS-

Further information:

Investor Enquiries:

Matt Prior
CFO, Virtus Health
+61 (0)498 003 973
matthew.prior@virtushealth.com.au

Media Enquiries:

Peter Brookes
Citadel Magnus
+61 (0)407 911 389
pbrookes@citadelmagnus.com

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.



Target's Statement

This Target's Statement has been issued in response to the off-market takeover bid made by the BGH Bidders for all of your ordinary shares in Virtus Health Limited (ACN 129 643 492) (**Virtus**).

THE VIRTUS BOARD **UNANIMOUSLY RECOMMENDS** THAT YOU

REJECT

THE TAKEOVER BID FROM THE BGH BIDDERS

This is an important document and requires your immediate attention.

If you are in doubt as to how to deal with this document, you should consult your financial or other professional adviser immediately.

Virtus Shareholders can call the Virtus Shareholder Information Line on 1800 262 299 (within Australia) or +61 1800 262 299 (outside Australia) if they require assistance.

Financial Adviser

Jefferies

Legal Adviser



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Important information

Key Dates

Announcement of the BGH Offer	6 April 2022
Date of the BGH Offer	20 April 2022
Date of this Target's Statement	3 May 2022
Close of BGH Offer Period (unless extended or withdrawn)	7.00pm (Melbourne time) on 20 May 2022

Nature of this document

This document is a Target's Statement issued by Virtus Health Limited (ACN 129 643 492) (**Virtus**) under Part 6.5, Division 3 of the Corporations Act in response to the off-market takeover bid made by the BGH Bidders for all of the Virtus Shares in which the BGH Bidders do not have a Relevant Interest. The purpose of the Target's Statement is to provide you, as a Virtus Shareholder, with information on the BGH Bidder's Statement to assist you in your decision as to whether to accept the BGH Offer.

ASIC and ASX disclaimer

A copy of this Target's Statement was lodged with ASIC and given to ASX on 3 May 2022. Neither ASIC nor ASX, nor any of their respective officers, take any responsibility for the content of this Target's Statement.

Defined terms and interpretation

Capitalised terms used in this Target's Statement are defined in section 11. The rules of interpretation that apply to this Target's Statement are also set out in section 11.

No account of personal circumstances

The Virtus Board recommends that you read this Target's Statement, BGH's Bidder's Statement and BGH's First Supplementary Bidder's Statement and the CapVest Booklet (when released) in full and seek independent advice if you have any queries in respect of the BGH Offer. The information contained in this Target's Statement does not constitute personal advice. In preparing this Target's Statement, Virtus has not taken into account the objectives, financial situation or needs of individual Virtus Shareholders. It is important that you consider the information in this Target's Statement in light of your particular circumstances. You should seek advice from your financial, legal or other professional adviser before deciding whether to accept or reject the BGH Offer.

Forward-looking statements

This Target's Statement contains forward-looking statements, including statements of current intention or expectation. As such forward-looking statements relate to future matters, they are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements to differ materially from the anticipated results, performance or achievements expressed, projected or implied by such forward-looking statements.

None of Virtus or any of the Virtus Directors, officers or advisers give any representation, assurance or guarantee to Virtus Shareholders or any other person as to the accuracy or likelihood of fulfilment

of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward-looking statement. The forward-looking statements in this Target's Statement (including in the Independent Expert's Report) reflect views held only as at the date of this Target's Statement. Except as required by applicable law, Virtus does not undertake to update or revise these forward-looking statements nor any other statements (written or oral) that may be made from time to time by or on behalf of Virtus, whether as a result of new information, future events or otherwise.

Disclaimer as to information about the BGH Bidders

The information on the BGH Bidders contained in this Target's Statement has been compiled from and prepared by Virtus using information obtained from the BGH Bidders or publicly available information (including information contained in the Bidder's Statement) and has not been independently audited or verified by Virtus or its advisers. Accordingly, subject to the Corporations Act, Virtus does not make any representation or warranty (express or implied) as to the accuracy or completeness of such information. If any information obtained from the BGH Bidders or the public sources is inaccurate or incomplete, this may affect the information included in this Target's Statement. In particular, if the information has been used as the basis for forward-looking statements in this Target's Statement, this may add to the risk that actual values, results, performance or achievements will differ materially from those expressed or implied by the forward-looking statements.

Independent Expert's Report

The Independent Expert's Report has been prepared by the Independent Expert for the purposes of this Target's Statement and the Independent Expert takes full responsibility for that report. Neither Virtus nor any of its officers, employees or advisers assumes any responsibility for the accuracy or completeness of the Independent Expert's Report.

Foreign jurisdictions

The release, publication or distribution of this Target's Statement may be restricted by law or regulation in some jurisdictions outside Australia. Accordingly, persons outside Australia who come into possession of this Target's Statement should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Target's Statement has been prepared in accordance with Australian law and the information contained in this Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with laws and regulations outside Australia.

Privacy

Virtus has collected your information from the Virtus Share Register for the purpose of providing you with this Target's Statement. Such information may include the name, contact details and shareholdings of Virtus Shareholders and the names of persons appointed to act as proxy, attorney or corporate representative of Virtus Shareholders. Without this information, Virtus would be hindered in its ability to issue this Target's Statement.

The Corporations Act requires the name and address of shareholdings to be held in a public register. Personal information of the type described above may be disclosed on a confidential basis to Virtus and its Related Bodies Corporate, holders of Virtus Shares and external service providers (including the Virtus Share Registry), and may be required to be disclosed to regulators, such as ASIC. If you would like details of information about you held by Virtus, please contact us on the Virtus Shareholder Information Line as set out below.

Diagrams

Diagrams appearing in this Target's Statement are illustrative only and may not be drawn to scale.

Rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Target's Statement are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Target's Statement.

Virtus Shareholder Information Line

If you have any questions in relation to the BGH Offer, please contact the Virtus Shareholder Information Line on 1800 262 299 (within Australia) or +61 1800 262 299 (outside Australia) Monday to Friday between 8.30am and 7.30pm (Sydney time).

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Summary of bidding contest for Virtus

Date	Bidder	Event	Value offered ¹
13/12/21	BGH	Tables non-binding indication of interest to acquire Virtus by scheme of arrangement after acquiring 19.99% Relevant Interest in Virtus Shares	\$6.98
20/01/22	CapVest	Signs process deed with Virtus in support of non-binding indicative offer to acquire Virtus by: <ul style="list-style-type: none"> • scheme of arrangement, or • if the scheme is not successfully implemented, an alternative transaction with a lower acceptance threshold, such as an off-market takeover bid with a 50.1% minimum acceptance condition 	\$7.48 (scheme) \$7.38 (alternative)
28/02/22	BGH	Tables revised non-binding indicative proposal to acquire Virtus by scheme of arrangement	\$7.53
01/03/22	CapVest	Tables revised non-binding indicative proposal to acquire Virtus by: <ul style="list-style-type: none"> • scheme of arrangement, or • if the scheme is not successfully implemented, an alternative transaction with a lower acceptance threshold, such as an off-market takeover bid with a 50.1% minimum acceptance condition 	\$7.68 (scheme) \$7.58 (alternative)
10/03/22	BGH	Tables revised non-binding indicative proposal to acquire Virtus by scheme of arrangement	\$7.98
13/03/22	CapVest	Signs implementation deed with binding proposal to acquire Virtus by: <ul style="list-style-type: none"> • scheme of arrangement, or • takeover if the CapVest scheme is not approved 	\$8.13 (scheme) \$7.98 (takeover)
6/04/22	BGH	Announces the BGH Offer (to which this Target's Statement relates)	\$8.00
10/04/22	CapVest	Improves its binding proposal to acquire Virtus by: <ul style="list-style-type: none"> • scheme of arrangement, or • takeover if the CapVest scheme is not approved 	\$8.15 (scheme) \$8.10 (takeover)
13/04/22	CapVest	Amends implementation deed to improved terms; this is the CapVest Transaction	

¹ Per Virtus Share. All amounts are presented on a like for like basis by adjusting for the amount of Virtus' \$0.12 Interim Dividend (which was paid on 14 April 2022). The value of any other dividends or distributions declared, proposed or paid after the relevant date are to be deducted from the price offered.

Letter from the Chair of Virtus

Dear Virtus Shareholders

REJECT BGH'S TAKEOVER OFFER AND VOTE IN FAVOUR OF THE CAPVEST TRANSACTION

You will have recently received a Bidder's Statement from the BGH Bidders outlining their unsolicited and inferior takeover offer for your Virtus Shares for \$8.00 per Virtus Share. Your Virtus Board unanimously recommends that you **DO NOT ACCEPT** the BGH Offer.

BGH Capital Pty Ltd and CapVest Partners LLP have been engaged in a bidding contest for ownership of Virtus, which began on 13 December 2021 when your Board received an unsolicited non-binding indication of interest from BGH to acquire Virtus by scheme of arrangement for total net cash value of \$6.98 per Virtus Share². To date, your Board has received a total of 8 proposals from BGH and CapVest (including the unsolicited BGH Offer at \$8.00 per Virtus Share), and has carefully reviewed each of those proposals with a focus on maximising value for Virtus Shareholders.

BGH's \$8.00 per Virtus Share offer is inferior to the latest proposal from CapVest received on 10 April 2022 and reflected in the CapVest Transaction. That CapVest Transaction, which is unanimously recommended by your Directors, involves a simultaneous scheme of arrangement and takeover bid, under which you will be entitled to receive:

- \$8.15 cash per Virtus Share if the CapVest Scheme is approved, or
- \$8.10 cash per Virtus Share accepted into the CapVest Takeover if the CapVest Scheme is not approved and the CapVest Takeover is declared or becomes unconditional,

in each case less the value of any dividends or distributions (including a potential capital return) declared or paid after the date of this Target's Statement and before payment of the CapVest Scheme consideration or the CapVest Takeover consideration. The CapVest Booklet, which details the CapVest Transaction, is expected to be sent to Virtus Shareholders shortly.

The Virtus Board unanimously determined the BGH Offer to be INFERIOR to the CapVest Transaction and therefore unanimously recommends that you DO NOT ACCEPT The BGH Offer. To do this, simply DO NOTHING in respect of the BGH Offer.

The Virtus Board considers the BGH Offer to be inferior to the CapVest Transaction because:

- the BGH Offer is offering \$0.15 per Virtus Share less than the amount available under the CapVest Scheme if it is approved by Virtus Shareholders and the Court;
- the BGH Offer is offering \$0.10 per Virtus Share less than the amount available under the CapVest Takeover if the CapVest Scheme is not approved and the CapVest Takeover is declared or becomes unconditional; and
- in addition, those Virtus Shareholders who can capture the full benefit of the franking credits associated with a Special Dividend of up to \$0.44 per Virtus Share (if paid³) that Virtus is permitted to pay in connection with the CapVest Transaction will receive additional value as a

² The proposal that BGH tabled was \$7.10 per Virtus Share before deducting the \$0.12 interim dividend that was paid on 14 April 2022.

³ The payment and the amount of any special dividend remain at the discretion of the Virtus Board and will be subject to tax advice based on franking credits available and forecast to the time for payment of the dividend as a result of the earnings performance of Virtus at that time. See also section 5.5 of this Target's Statement.

result of franking credits of up to \$0.19 per Virtus Share attached to the Special Dividend (if paid). Whether any Virtus Shareholder will be in a position to realise the full benefit of franking credits attached to any Special Dividend will depend on their tax status and specific circumstances.

In making its recommendation, the Virtus Board has taken into account the fact that the CapVest Transaction is subject to a number of CapVest Transaction Conditions, such as no Material Adverse Change and a 50.1% minimum acceptance condition in respect of the CapVest Takeover, which the BGH Offer is not subject to. The Virtus Board has no reason to believe that the CapVest Transaction Conditions are not capable of being satisfied. As a result, in light of the superior value of the CapVest Transaction, the Virtus Board believes the CapVest Transaction is superior to the BGH Offer despite the difference in conditionality.

Deloitte, the Independent Expert, has concluded, without having regard to any superior proposal, that the BGH Offer is fair and reasonable. Given the basis for the Independent Expert's opinion, the factors considered by the Independent Expert and the fact that the Virtus Board unanimously determined the CapVest Transaction to be superior to the BGH Offer, the Virtus Board believes that the Independent Expert's Report supports its recommendation to reject the BGH Offer for so long as the CapVest Transaction remains superior to the BGH Offer. A copy of the Independent Expert's Report is included as Attachment A to this Target's Statement, and you are encouraged to read that report in full.

The Virtus Board considers that BGH's Bidder's Statement contains material inaccuracies and omitted material information that was known to BGH when it dispatched its Bidder's Statement to Virtus Shareholders. It compares the BGH Offer to an earlier CapVest proposal and not the one which is currently available to Virtus Shareholders and provides misleading information about the risks associated with the CapVest Transaction which no longer apply. It omits material information that you need to make a fully informed decision about whether to accept the BGH Offer, particularly in circumstances when the superior CapVest Transaction is available to Virtus Shareholders.

Accordingly, your Directors encourage you to take great care when reading BGH's Bidder's Statement and the First Supplementary Bidder's Statement and recommend that you only make a decision in relation to the BGH Offer after you have read this Target's Statement in full. If you have already accepted the BGH Offer and are concerned that you have done so on the basis of the misleading and incomplete BGH Bidder's Statement, please call the Virtus Shareholder Information Line on 1800 262 299 (within Australia) or +61 1800 262 299 (outside Australia).

Your Directors will not be accepting the BGH Offer in respect of any Virtus Shares which are held or controlled by or on behalf of them, consistent with their recommendation to Virtus Shareholders.

The Virtus Board unanimously recommends that you vote in favour of the CapVest Scheme, and accept the CapVest Takeover should the CapVest Scheme not be approved by Virtus Shareholders or the Court, in the absence of a Superior Proposal and subject to the Independent Expert concluding that the CapVest Scheme is in the best interests of Virtus Shareholders and the CapVest Takeover is fair and reasonable.

The reasons for this recommendation are set out in detail in the CapVest Booklet, which is expected to be sent to Virtus Shareholders shortly, and you should read that carefully before making any decision in relation to the CapVest Transaction.

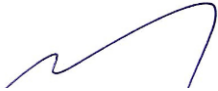
The CapVest Scheme can only proceed if the requisite majorities of Virtus Shareholders vote in favour of the CapVest Scheme. This requires more than 50% of Virtus Shareholders (by number) present and voting at the Scheme Meeting and at least 75% of total number of votes cast at the Scheme Meeting to be in favour of the CapVest Scheme. The CapVest Scheme also requires Court approval.

Your Board strongly encourages every Virtus Shareholder to vote at the Scheme Meeting because every vote in favour of the CapVest Scheme will increase the likelihood of all Virtus Shareholders receiving the \$8.15 per Virtus Share available under the CapVest Scheme, which in the opinion of the Board, is the superior proposal that is currently available for Virtus Shareholders.

If you have any queries, please call the Virtus Shareholder information line on 1800 262 299 (within Australia) or +61 1800 262 299 (outside Australia) Monday to Friday between 8.30am and 7.30pm (Sydney time).

For your choices as a Virtus Shareholder, refer to section 3 of this Target's Statement.

Yours sincerely



Sonia Petering
Chair
Virtus Health Limited

1 Your Directors' Recommendation

After carefully reviewing each of the competing proposals received from BGH and CapVest, and taking into account the matters in this Target's Statement and in BGH's Bidder's Statement and First Supplementary Bidder's Statement, **your Directors consider the BGH Offer to be INFERIOR to the CapVest Transaction and therefore unanimously recommend that you REJECT the BGH Offer.**

The Virtus Board considers the BGH Offer to be **INFERIOR** to the CapVest Transaction as a result of the superior value inherent in the CapVest Transaction and taking all relevant considerations into account in the interests of Virtus and its shareholders. In that regard, you should note that:

- the BGH Offer is offering \$0.15 per Virtus Share less than the amount available under the CapVest Scheme if it is approved by Virtus Shareholders and the Court;
- the BGH Offer is offering \$0.10 per Virtus Share less than the amount available under the CapVest Takeover if the CapVest Scheme is not approved and the CapVest Takeover is declared or becomes unconditional; and
- in addition, those Virtus Shareholders who can capture the full benefit of the franking credits associated with the Special Dividend of up to \$0.44 per Virtus Share (if paid⁴) that Virtus is permitted to pay in connection with the CapVest Transaction will receive additional value as a result of franking credits of up to \$0.19 per Virtus Share attached to the Special Dividend (if paid). Whether any Virtus Shareholder will be in a position to realise the full benefit of franking credits attached to any Special Dividend will depend on their tax status and specific circumstances.

See Section 2 of this Target's Statement for more detail on the reasons why your Directors unanimously recommend that you DO NOT ACCEPT the BGH Offer.

When considering this recommendation, you should note that Virtus' Chief Executive Officer and Managing Director, Ms Kate Munnings, has previously been issued Virtus Performance Rights under the Virtus Health Limited Executive Option Plan and Specialist Option Plan. If the CapVest Scheme is approved by Virtus Shareholders and the Court, or the BGH Offer or the CapVest Takeover results in a change in control of Virtus, the Board has determined that, as is customary, the Virtus Performance Rights will vest and, as a result, Virtus Shares will be acquired by Ms Munnings as a result of the vesting and exercise of such Virtus Performance Rights. This would mean that Ms Munnings would receive a maximum amount of \$2,953,504 if the BGH Offer succeeds, \$3,008,882.20 if the CapVest Scheme is implemented or \$2,990,422.80 if the CapVest Takeover succeeds, as described in more detail in Section 5.8. Despite this interest, Ms Munnings considers that, given the importance of these competing proposals and her role as Chief Executive Officer and Managing Director, it is important and appropriate for her to provide a recommendation to Virtus Shareholders in relation to the BGH Offer and the CapVest Transaction. The Virtus Board (excluding Ms Munnings) also considers that it is appropriate for her to make a recommendation on the BGH Offer and the CapVest Transaction given her detailed knowledge of the needs of Virtus and all of its key stakeholders, including her leadership role in the management of Virtus' operations and her deep industry knowledge.

In considering whether to accept the BGH Offer, your Directors encourage you to:

- read the whole of this Target's Statement, BGH's Bidder's Statement (which BGH has sent you), BGH's First Supplementary Bidder's Statement and the CapVest Booklet in relation to the

⁴ The payment and the amount of any special dividend remain at the discretion of the Virtus Board and will be subject to tax advice based on franking credits available and forecast to the time for payment of the dividend as a result of the earnings performance of Virtus at that time. See also section 5.5 of this Target's Statement.

CapVest Transaction (which is expected to be sent to you shortly). When reading the BGH Bidder's Statement, you should take into account the information provided in section 5.1 of this Target's Statement as there are a number of misleading statements in, and material omissions from, the BGH Bidder's Statement and it does not contain all the information you need to make an informed decision about the BGH Offer, particularly in its comparison with the CapVest Transaction, which is the proposal that is recommended by the Virtus Board;

- have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances;
- consider your choices noted in section 3 of this Target's Statement; and
- if you are in doubt as to what you should do, consult your licenced financial adviser or other suitable professional adviser.

Your Directors will not be accepting the BGH Offer in respect of any Virtus Shares held or controlled by, or on behalf of, them consistent with their recommendation to Virtus Shareholders.

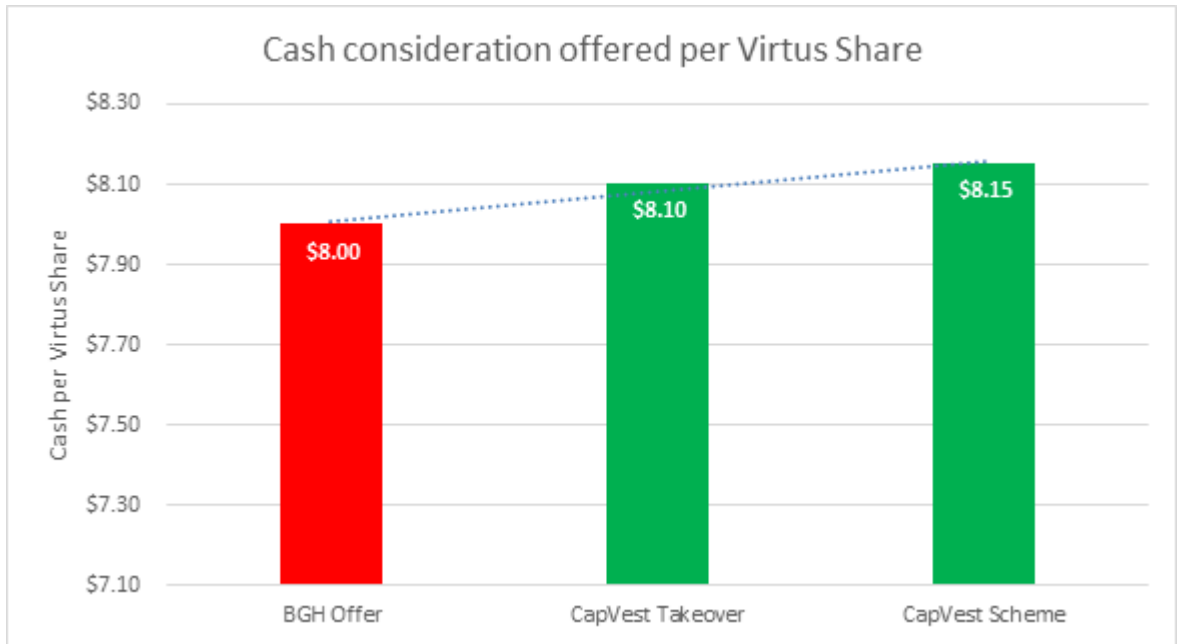
If you have any queries, please call the Virtus Shareholder information line on 1800 262 299 (within Australia) or +61 1800 262 299 (outside Australia) on Monday to Friday between 8.30am and 7.30pm (Sydney time).

2 Why your Directors recommend that you REJECT the BGH Offer

2.1 The BGH Offer is INFERIOR to the CapVest Transaction

The Virtus Board considers the BGH Offer to be **INFERIOR** because:

- the BGH Offer is offering \$0.15 per Virtus Share less than the amount available under the CapVest Scheme if it is approved by Virtus Shareholders and the Court;
- the BGH Offer is offering \$0.10 per Virtus Share less than the amount available under the CapVest Takeover if the CapVest Scheme is not approved and the CapVest Takeover is declared or becomes unconditional; and
- in addition, those Virtus Shareholders who can capture the full benefit of the franking credits associated with the Special Dividend of up to \$0.44 per Virtus Share (if paid⁵) that Virtus is permitted to pay in connection with the CapVest Transaction will receive additional value as a result of franking credits of up to \$0.19 per Virtus Share attached to the Special Dividend (if paid). Whether any Virtus Shareholder will be in a position to realise the full benefit of franking credits attached to any Special Dividend will depend on their tax status and specific circumstances.



⁵ The payment and the amount of any special dividend remain at the discretion of the Virtus Board and will be subject to tax advice based on franking credits available and forecast to the time for payment of the dividend as a result of the earnings performance of Virtus at that time. See also section 5.5 of this Target's Statement.

2.2 If you accept the BGH Offer, you will not be able to accept the CapVest Takeover and will likely not be able to vote on the CapVest Scheme

If you accept the BGH Offer:

- You will not be able to accept the CapVest Takeover, which is offering an extra \$0.10 cash per Virtus Share compared to the BGH Offer. This is because you cannot withdraw an acceptance of the BGH Offer unless BGH extends the BGH Offer by more than one month and you are entitled to withdraw your acceptance under the Corporations Act.
- You will likely not be able to vote on the CapVest Scheme, which is offering an extra \$0.15 cash per Virtus Share compared to the BGH Offer. This is because if BGH waives the Prescribed Occurrences Condition to the BGH Offer before the record date for the CapVest Scheme Meeting, you will not be able to vote your Virtus Shares.

You will also give up your right to sell your Virtus Shares on market and lose the ability to accept any other takeover bid that may be made for Virtus Shares.

2.3 The Independent Expert has concluded, without having regard to any superior proposal, that the BGH Offer is fair and reasonable.

The Virtus Board appointed Deloitte as the Independent Expert to assess the merits of the BGH Offer. The Independent Expert has concluded, without having regard to any superior proposal, that the BGH Offer is fair and reasonable.

The Independent Expert has performed a detailed assessment and has concluded that the estimated market value of Virtus is between \$7.31 to \$8.27 per Virtus Share. The BGH Offer Consideration is within this valuation range and above the mid-point (\$7.79) of the Independent Expert's estimate of the market value of a Virtus Share.

The basis for the Independent Expert's conclusion is that the BGH Offer Price is within this valuation range. Whilst it is not a requirement under ASIC RG 111 for the Independent Expert to determine whether the CapVest Transaction or the BGH Offer is superior, the Independent Expert has highlighted the following factors for consideration by Virtus Shareholders in their assessment:

- It is currently possible to sell Virtus Shares on the market for a price greater than the BGH Offer Consideration and the consideration offered under the CapVest Transaction;
- The consideration being offered to Virtus Shareholders under the CapVest Scheme and the CapVest Takeover is greater than the BGH Offer Consideration by \$0.15 per Virtus Share and \$0.10 per Virtus Share, respectively;
- The consideration being offered to Virtus Shareholders under the CapVest Scheme and the CapVest Takeover has certain elements, namely the potential to receive a Special Dividend of up to \$0.44 per Virtus Share (if paid) with franking credits of up to \$0.19 per Virtus Share, which may be of additional value to certain Virtus Shareholders;
- There is greater certainty for Virtus Shareholders in the BGH Offer as it has no notable conditions, and there is the possibility that the CapVest Scheme or the CapVest Takeover may not proceed as a result of the minimum acceptance conditions attached to the CapVest Transaction; and
- The Virtus Board is unanimously recommending the CapVest Transaction in the absence of a Superior Proposal.

Given the basis for the Independent Expert's opinion and the fact that the Virtus Board unanimously determined the CapVest Transaction to be superior to the BGH Offer, the Virtus Board believes that, taking into account the factors set out above, the Independent Expert's Report supports its

recommendation to reject the BGH Offer for so long as the CapVest Transaction remains superior to the BGH Offer.

A copy of the Independent Expert's Report is attached to this Target's Statement as Attachment A. You are encouraged to read the Independent Expert's Report in its entirety.

2.4 **BGH's intentions for Virtus are not clear where it obtains control but less than 90% of Virtus Shares**

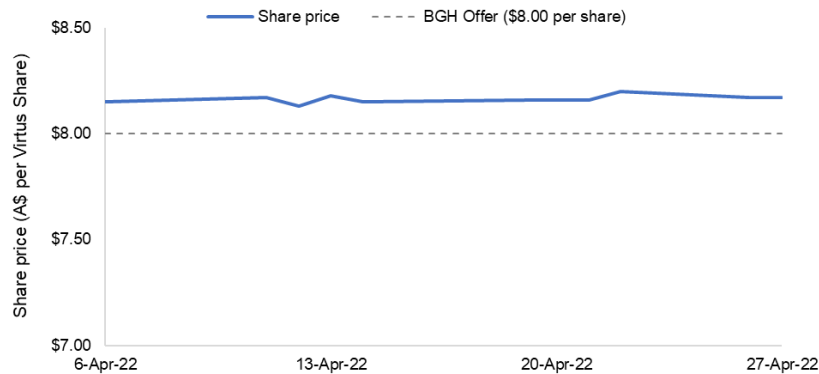
Your Directors are of the view that BGH's Bidder's Statement provides inadequate disclosure about BGH's intentions in circumstances where it has control of Virtus but cannot proceed to compulsory acquisition. For example, BGH has made limited disclosure in relation to its intentions with respect to the future capital management policy of Virtus, although it has stated that it would seek to replace Virtus' existing debt facilities with a new financing structure and it may upsize Virtus' debt facilities with the net proceeds being returned to Virtus Shareholders as a capital reduction.

BGH has not provided details of the nature, amount, timing or circumstances of payment of this proposed refinancing or capital reduction in spite of Virtus' solicitors writing to BGH's solicitors and requesting fulsome disclosure and details (including with respect to risks) relating to these intentions given such information is material to Virtus Shareholders' assessment of the BGH Offer.

2.5 **Virtus Shares have consistently traded on the ASX above the BGH Offer price of \$8.00 per Virtus Share since the BGH Offer was announced**

Since announcement of the BGH Offer on 6 April 2022, Virtus Shares have traded on ASX above the BGH Offer price of \$8.00 per Virtus Share and often above the CapVest Scheme consideration of \$8.15 per Virtus Share. On the last day of trading prior to the date of this Target's Statement, Virtus' closing share price was \$8.17 per Virtus Share.

Virtus Share Price Performance since 6 April 2022 (as at 27 April 2022)



Source: Capital IQ as at 27 April 2022.

The Virtus Board believes that this reflects a market perception that the bidding contest between BGH and CapVest may not yet have concluded. While there can be no certainty that either BGH will increase the BGH Offer Consideration or that CapVest will increase the consideration offered under the CapVest Transaction, if you accept the BGH Offer now then you will not be able to participate in the CapVest Scheme, which is currently the superior proposal that is available to Virtus Shareholders, and you will be not able to accept any superior proposal that CapVest or any other bidder makes.

3 Your choices as a Virtus Shareholder

Virtus encourages you to consider your personal risk profile, investment objectives and tax and financial circumstances before making any decision in relation to your Virtus Shares.

As a Virtus Shareholder, you have the following choices currently available to you:

3.1 Option 1 – Support the superior CapVest Transaction

You can choose to support the CapVest Transaction, and not accept the BGH Offer. To do this, you should:

- vote in favour of the CapVest Scheme;
- accept the CapVest Takeover for all of your Virtus Shares should the CapVest Scheme not be approved by Virtus Shareholders or the Court; and
- vote in favour of the Capital Return Resolution.

This is the approach unanimously recommended by your Directors subject to there being no Superior Proposal and the Independent Expert concluding that, in respect of the CapVest Scheme, it is in the best interests of Virtus Shareholders and that, in respect of the CapVest Takeover, it is fair and reasonable.

Full details relating to the CapVest Transaction and your choices in respect of the CapVest Transaction will be set out in the CapVest Booklet, which is expected to be sent to Virtus Shareholders shortly.

3.2 Option 2 – Take no action and REJECT the BGH Offer

If you do not wish to accept the BGH Offer and wish to retain your Virtus Shares, you do not need to take any action in respect of the BGH Offer.

Shareholders should note that if BGH or CapVest acquires control of Virtus but less than 90% of Virtus and you continue to hold your Virtus Shares, you will be exposed to the risks associated with being a minority shareholder of Virtus. Some of these risks are explained in section 7.5.

3.3 Option 3 – Sell your Virtus Shares on market

During a takeover, shareholders in a target company who have not already accepted a bidder's offer may still sell their shares on market for cash. Accordingly, Virtus Shareholders remain free to sell their Virtus Shares, provided they have not already accepted the BGH Offer or the CapVest Takeover.

Since BGH announced the BGH Offer on 6 April 2022, Virtus Shares have been trading higher than both the \$8.00 per Virtus Share offered under the BGH Offer and the \$8.10 per Virtus Share offered under the CapVest Takeover. Since that time, they have also often traded above the \$8.15 per Virtus Share available under the CapVest Scheme.

Virtus Shareholders who sell their Virtus Shares on market:

- will lose the ability to participate in the CapVest Transaction (offering \$8.15 under the CapVest Scheme and \$8.10 under the CapVest Takeover) or accept the BGH Offer (offering \$8.00), or participate in any other Superior Proposal that may emerge;
- may receive more or less for their Virtus Shares than under the CapVest Transaction or the BGH Offer; and
- may incur a brokerage charge.

Virtus Shareholders who wish to sell their Virtus Shares other than via the BGH Offer should contact their stockbroker or financial adviser for instructions on how to effect that sale.

3.4 Option 4 – Accept the BGH Offer

You may elect to accept the BGH Offer. **Your Directors recommend that you DO NOT ACCEPT the BGH Offer.** Despite that and the fact that your Directors have determined that the BGH Offer to be inferior to the CapVest Transaction, you may consider the BGH Offer to be more attractive because it is only subject to the Prescribed Occurrences Condition and you may receive your consideration sooner if that condition is waived or satisfied before the end of the BGH Offer Period.

Full details on how to accept the BGH Offer are set out in section 7.3 of BGH's Bidder's Statement, and Virtus Shareholders wanting to accept the BGH Offer should read that section and also sections 7.4 and 7.5 of BGH's Bidder's Statement in their entirety.

If you accept the BGH Offer, you will:

- give up your right to sell your Virtus Shares on market;
- lose the ability to accept the CapVest Takeover, which is offering an extra \$0.10 cash per Virtus Share compared to the BGH Offer;
- likely lose the ability to vote on the CapVest Scheme, which is offering an extra \$0.15 cash per Virtus Share compared to the BGH Offer; and
- lose the ability to accept any other takeover bid that may be made for Virtus Shares.

See section 2.2 for more information.

4 Frequently asked questions

This section answers some common questions about the BGH Offer. It is not intended to address all relevant issues for Virtus Shareholders. This section is qualified by, and should be read together with, all other parts of this Target's Statement, BGH's Bidder's Statement and BGH's First Supplementary Bidder's Statement.

Question	Answer
Who is making the BGH Offer?	The BGH Offer is being made by the BGH Bidders. Information in relation to the BGH Bidders is set out in section 1 of BGH's Bidder's Statement.
What is the Bidder's Statement?	The Bidder's Statement contains information on the BGH Offer. It has been prepared by the BGH Bidders and the law requires them to send it to you. The BGH Bidders lodged their Bidder's Statement with ASIC on 6 April 2022.
What is this Target's Statement?	This booklet is the Target's Statement and has been prepared by Virtus. Virtus is required by law to produce this Target's Statement in response to the BGH Offer. The Target's Statement contains information to help you decide whether to accept or reject the BGH Offer, including the recommendation by the Virtus Board and the accompanying Independent Expert's Report.
What are the BGH Bidders offering for my Virtus Shares?	\$8.00 cash per Virtus Share. This is less than the amount available under the CapVest Transaction.
Do the BGH Bidders already have an interest in Virtus Shares?	As at close of trading on the Last Practicable Trading Date, the BGH Bidders had a Relevant Interest in approximately 20.02% of the total issued capital of Virtus.
What is the CapVest Transaction?	The CapVest Transaction is a SUPERIOR proposal from CapVest BidCo, an entity owned by a fund managed by CapVest, to acquire all of your Virtus Shares by way of: <ul style="list-style-type: none">the CapVest Scheme for \$8.15 per Virtus Share, orthe CapVest Takeover for \$8.10 per Virtus Share if the CapVest Scheme is not approved. Further information in respect of the CapVest Transaction will be available in the CapVest Booklet, which is expected to be sent to Virtus Shareholders shortly and will be available on Virtus' website (https://www.virtushealth.com.au/) and https://www.asx.com.au/ .
Who is CapVest?	CapVest is an international, London-headquartered investment firm with over €5 billion in assets under management. CapVest has a proven capability of growing its companies and a particular focus on investing in the healthcare sector across the world. CapVest BidCo is an indirect wholly owned subsidiary of a fund managed by CapVest that has been incorporated specifically for the purpose of holding Virtus Shares pursuant to the CapVest Scheme and the CapVest Takeover. Further information about CapVest will be available in the CapVest Booklet, which is expected to be sent to Virtus Shareholders shortly and will be available on Virtus' website (https://www.virtushealth.com.au/) and https://www.asx.com.au/ .

Question	Answer
<p>What choices do I have in response to the BGH Offer?</p>	<p>As a Virtus Shareholder, you have the following choices in respect of your Virtus Shares:</p> <ul style="list-style-type: none"> • REJECT the BGH Offer and support the superior CapVest Transaction as unanimously recommended by your Directors in the absence of a Superior Proposal – see further details in section 3.1 of this Target’s Statement; • reject the BGH Offer by doing nothing; • sell your Virtus Shares on market, unless you have previously accepted the BGH Offer or CapVest’s Takeover; or • accept the BGH Offer. <p>There are several implications in relation to each of the above choices. A summary of these implications is set out in section 3 of this Target’s Statement.</p>
<p>What is the Virtus Board recommending?</p>	<p>The Virtus Board unanimously recommends that you DO NOT ACCEPT the BGH Offer. See section 2 of this Target’s Statement for their reasons.</p>
<p>Are the Virtus Directors recommending the CapVest Transaction?</p>	<p>Yes. The Virtus Directors unanimously recommend that you:</p> <ul style="list-style-type: none"> • vote in favour of the CapVest Scheme; • accept the CapVest Takeover for all of your Virtus Shares should the CapVest Scheme not be approved by Virtus Shareholders or the Court; and • vote in favour of the Capital Return Resolution, <p>subject to there being no Superior Proposal and the Independent Expert concluding that, in respect of the CapVest Scheme, it is in the best interests of Virtus Shareholders and that, in respect of the CapVest Takeover, it is fair and reasonable.</p>
<p>What do the Virtus Directors intend to do with their own Virtus Shares?</p>	<p>The Virtus Directors will not be accepting the BGH Offer in respect of any Virtus Shares that are held or controlled by, or on behalf of, them consistent with their recommendation to Virtus Shareholders.</p> <p>Each Virtus Director intends to:</p> <ul style="list-style-type: none"> • vote all of the Virtus Shares controlled or held by, or on behalf of, that Virtus Director in favour of the CapVest Scheme; • accept the CapVest Takeover in respect of all Virtus Shares controlled or held by, or on behalf of, that Virtus Director should the CapVest Scheme not be approved by Virtus Shareholders or the Court; and • vote all of the Virtus Shares controlled or held by, or on behalf of, that Virtus Director in favour of the Capital Return Resolution, <p>subject to there being no Superior Proposal and the Independent Expert concluding that, in respect of the CapVest Scheme, it is in the best interests of Virtus Shareholders and that, in respect of the CapVest Takeover, it is fair and reasonable.</p>

Question	Answer
What does the Independent Expert say?	<p>The Independent Expert has concluded, without having regard to any superior proposal, that the BGH Offer is fair and reasonable.</p> <p>The Independent Expert's Report is included as Attachment A to this Target's Statement, and you are encouraged to read that report in full.</p>
Will I be forced to sell my Virtus Shares to BGH?	<p>You cannot be forced to sell your Virtus Shares to BGH unless the BGH Bidders are entitled to, and do, proceed to compulsory acquisition under either Part 6A.1 or 6A.2 of the Corporations Act. See section 5.6 for more information on the compulsory acquisition process.</p>
When does the BGH Offer close?	<p>The BGH Offer Period must remain open for at least 1 month. It is currently scheduled to close at 7.00pm (Melbourne time) on 20 May 2022 but can be extended in certain circumstances.</p>
Can the BGH Offer Period be extended?	<p>The BGH Bidders may extend the BGH Offer Period at any time before the end of the BGH Offer Period. The maximum BGH Offer Period is 12 months.</p> <p>There will be an automatic extension of the BGH Offer Period if, within the last 7 days of the BGH Offer Period, the BGH Bidders increase the consideration offered. If that happens, the BGH Offer will be automatically extended so that it ends 14 days after that event.</p>
What are the conditions of the BGH Offer?	<p>The BGH Offer is subject only to no Prescribed Occurrences occurring in relation to Virtus before the end of the BGH Offer Period. Prescribed Occurrences are certain events listed in section 652C of the Corporations Act which, if they occur, will give the BGH Bidders the right not to proceed with the BGH Offer.</p> <p>For further information, please refer to section 7.6 of the Bidder's Statement.</p>
Do I get a special dividend under the BGH Offer?	<p>No special dividend has yet been declared, although Virtus is permitted to pay a Special Dividend of up to \$0.44 under the CapVest Transaction. The payment and the amount of any special dividend remain at the discretion of the Virtus Board and will be subject to tax advice based on franking credits available and forecast to the time for payment of the dividend as a result of the earnings performance of Virtus at that time.</p> <p>If the Special Dividend is paid and you accept the BGH Offer after you have received the Special Dividend, the BGH Offer Consideration you receive will be reduced by the amount of the Special Dividend.</p> <p>Virtus Shareholders who accept the BGH Offer before the record date for any such Special Dividend will not receive the Special Dividend or any associated franking credits if the BGH Offer becomes unconditional and those Virtus Shares accepted into the BGH Offer are registered in the name of the BGH Bidders before that record date.</p> <p>The BGH Offer Period is currently scheduled to close before the Special Dividend under the CapVest Transaction is likely to be paid. However, BGH may choose to extend the BGH Offer Period.</p>
How do I accept the BGH Offer?	<p>Instructions on how to accept the BGH Offer are set out in section 7.3 of the Bidder's Statement, and Virtus Shareholders wanting to accept the BGH Offer should read that section and also sections 7.4 and 7.5 of the Bidder's Statement in their entirety.</p> <p>Your directors recommend that you DO NOT ACCEPT the BGH Offer.</p>

Question	Answer
<p>What are the consequences of accepting the BGH Offer now?</p>	<p>If you accept the BGH Offer, you will be obliged to sell your Virtus Shares to the BGH Bidders and, if the Prescribed Occurrences Condition to the BGH Offer is satisfied or waived, you will have sold your Virtus Shares to BGH.</p> <p>The effect of accepting the BGH Offer is set out in sections 7.4 and 7.5 of the Bidder's Statement. You should read those sections in full to understand the effect that acceptances will have on your ability to exercise Rights attaching to your Virtus Shares and the representations and warranties that you give by accepting the BGH Offer.</p>
<p>What will happen if a competing or superior proposal emerges?</p>	<p>As at the date of this Target's Statement, the superior proposal is the CapVest Transaction.</p> <p>If another proposal is received, the Virtus Board will carefully consider any Competing or Superior Proposal and will advise you whether the Competing Proposal affects their recommendation.</p> <p>Importantly, if you accept the BGH Offer, you will be unable to withdraw your acceptance and accept or support a Superior Proposal (including the CapVest Transaction), except in limited circumstances.</p>
<p>If I accept the BGH Offer, can I withdraw my acceptance?</p>	<p>Once you have accepted this BGH Offer, you will NOT be able to revoke or withdraw your acceptance of the BGH Offer or otherwise dispose of your Accepted Shares, except as follows:</p> <ul style="list-style-type: none"> • if the Prescribed Occurrences Condition is not fulfilled or waived such that the BGH Offer terminates; • in certain limited circumstances in accordance with section 650E of the Corporations Act if the BGH Offer remains subject to the Prescribed Occurrences Condition and the BGH Offer is varied in a way that postpones for more than one month the time when BGH has to meet its obligations under the BGH Offer Period.
<p>Can BGH withdraw the BGH Offer once I have accepted?</p>	<p>The BGH Offer cannot be withdrawn if you have already accepted it. Before you accept it, the BGH Offer may be withdrawn with the written consent of ASIC, which consent may be subject to conditions. However it is unlikely that ASIC would allow BGH to withdraw the BGH Offer.</p>
<p>Can I accept the BGH Offer for only some of my Virtus Shares?</p>	<p>Yes. You may accept the BGH Offer for all or some of your Virtus Shares.</p>
<p>What happens if BGH increases the consideration offered under the BGH Offer?</p>	<p>If the consideration offered under the BGH Offer is improved:</p> <ul style="list-style-type: none"> • your Directors will reconsider their recommendation in light of that and advise Virtus Shareholders accordingly; and • all Virtus Shareholders who have accepted the BGH Offer will be entitled to the benefit of that improved consideration (whether they accepted the BGH Offer before or after the consideration was improved).

Question	Answer
<p>When will I receive the BGH Offer Consideration if I accept the BGH Offer?</p>	<p>The BGH Offer is subject to the Prescribed Occurrences Condition so any payment will only occur if that condition is satisfied or waived. If that occurs, then payment must be made no later than 10 Business Days after the later of:</p> <ul style="list-style-type: none"> • the date that the Prescribed Occurrences Condition is fulfilled or waived; and • the date that you accept the BGH Offer. <p>Unless the Prescribed Occurrences Condition is waived, you will only receive payment of the BGH Offer Consideration after the end of the BGH Offer Period, even if you have accepted the BGH Offer earlier.</p> <p>Further details on when and how you will be paid the BGH Offer Consideration are set out in section 7.8 of the Bidder's Statement.</p>
<p>How does the BGH Offer apply to my Virtus Performance Rights?</p>	<p>BGH is not offering to acquire any Virtus Performance Rights. However, the BGH Offer extends to all Virtus Shares that are issued or otherwise come into existence before the end of the BGH Offer Period as a result of the vesting of, conversion of or exercise of rights attached to, Virtus Performance Rights that are on issue at the Register Date. This means that holders of Virtus Performance Rights that vest or are exercised will be able to accept the BGH Offer in respect of the Virtus Shares issued during the BGH Offer Period as a result of that vesting or exercise.</p>
<p>What are the tax implications of accepting the BGH Offer?</p>	<p>This depends on your personal tax position and the price and time at which you originally acquired your Virtus Shares. A general outline of the tax implications of accepting the BGH Offer is set out in section 8 of this Target's Statement. You should consult with your taxation adviser for detailed advice on your personal circumstances before making a decision whether or not to accept the BGH Offer.</p>
<p>Who should I call if I have questions?</p>	<p>The Virtus Shareholder Information Line on 1800 262 299 (within Australia) or +61 1800 262 299 (outside Australia), Monday to Friday between 8.30am and 7.30pm (Sydney time) or go to https://www.virtushealth.com.au/investor-centre.</p>

5 Important matters for Virtus Shareholders to consider

5.1 Disclosure concerns relating to BGH's Bidder's Statement

Your Directors consider that BGH's Bidder's Statement contains material inaccuracies and omitted material information that was known to BGH when it dispatched its Bidder's Statement to Virtus Shareholders on 20 April 2022. Virtus (through its solicitors) raised these concerns with BGH (through its solicitors) nine days before BGH dispatched its Bidder's Statement.

For example, BGH's Bidder's Statement:

- does not refer to the fact that the Virtus Board is unanimously recommending the CapVest Transaction;
- refers to an earlier proposal from CapVest dated 13 March 2022 that offered less consideration than the CapVest Transaction recommended by the Virtus Board on 11 April 2022 such that the comparison of the amount available under the BGH Offer relative to the CapVest Transaction understates the premium inherent in the CapVest Transaction;
- states that the BGH Offer is materially higher than the price that the Virtus Board said it would recommend on 20 January 2022 without noting that since then, and consistent with the Virtus Board's qualification around a Superior Proposal, the Virtus Board has received and recommended proposals at much higher prices and is currently recommending the superior CapVest Transaction;
- states that the BGH Offer is superior to the conditional and uncertain CapVest Takeover when, under the CapVest Transaction, the CapVest Takeover is offering \$0.10 per Virtus Share more than the BGH Offer;
- asserts that there is uncertainty for Virtus Shareholders regarding the tax treatment of the Capital Return as it relates to the CapVest Takeover when there is no such uncertainty under the terms of the CapVest Transaction because the Capital Return will only proceed in the event that the outcome of the tax ruling being sought by Virtus is favourable;
- states that the Virtus Board has been unwilling on multiple occasions to engage with BGH regarding its proposals, but does not explain that the reason for this was because the various CapVest proposals have been considered by the Virtus Board to be superior to the corresponding BGH proposals at the relevant time; and
- provides inadequate disclosure about the BGH's intentions in circumstances where it has control of Virtus but cannot proceed to compulsory acquisition (as to which see section 2.4 of this Target's Statement).

Accordingly, your Directors encourage you to take great care when reading BGH's Bidder's Statement and the First Supplementary Bidder's Statement and recommend that you only make a decision in relation to the BGH Offer after you have read this Target's Statement in full.

5.2 Notify Virtus if you accepted the BGH Offer in reliance on its Bidder's Statement before you received this Target's Statement

Given the matters noted in section 5.1 above, you should inform Virtus if you have accepted the BGH Offer in reliance on BGH's Bidder's Statement before you received this Target's Statement.

Virtus has made an application to the Takeovers Panel seeking withdrawal rights for Virtus Shareholders who accepted the BGH Offer in reliance on BGH's Bidder's Statement after being notified that this had occurred. There is no certainty that Virtus will be successful in its application or that you will be permitted to withdraw your acceptance of the BGH Offer.

5.3 Conditions to the BGH Offer

The BGH Offer is conditional on no Prescribed Occurrences occurring between 6 April 2022 and the end of the BGH Offer Period. Prescribed Occurrences are certain events listed in section 652C of the Corporations Act which if they occur, will give the BGH Bidders the right not to proceed with the BGH Offer. For further information, see section 7.6 of the Bidder's Statement.

5.4 Timing under the BGH Offer and the CapVest Transaction

The BGH Offer is currently open and is scheduled to close on 20 May 2022, unless extended or withdrawn. At this stage, unless BGH waives the Prescribed Occurrences Condition to the BGH Offer before the end of the BGH Offer Period, the earliest you will get paid if you accept the BGH Offer is 3 June 2022.

The CapVest Takeover is expected to open in early May, and if the CapVest Scheme is not approved by Virtus Shareholders or the Court, is scheduled to close in early July 2022, unless extended or withdrawn.

The CapVest Scheme Meeting is scheduled to take place in early June and, if approved, the CapVest Scheme is currently scheduled to be implemented in late June. Virtus Shareholders will receive their consideration under the CapVest Scheme (if it is approved) on or shortly after the implementation date.

The CapVest Scheme can only proceed if the requisite majorities of Virtus Shareholders vote in favour of the CapVest Scheme. This requires more than 50% of Virtus Shareholders (by number) present and voting at the Scheme Meeting and at least 75% of total number of votes cast at the Scheme Meeting to be in favour of the CapVest Scheme. The CapVest Scheme also requires Court approval.

Your Board strongly encourages every Virtus Shareholder to vote at the Scheme Meeting because every vote in favour of the CapVest Scheme will increase the likelihood of all Virtus Shareholders receiving the \$8.15 per Virtus Share available under the CapVest Scheme, which in the opinion of the Board, is the superior proposal that is currently available for Virtus Shareholders.

These dates could change, and any changes to these dates will be announced to the ASX and notified on Virtus' website at <https://www.virtushealth.com.au>.

5.5 The Special Dividend

Virtus is permitted to pay a Special Dividend of up to \$0.44 under the CapVest Transaction. Eligible Virtus Shareholders may be entitled to the additional benefit of franking credits attached to any such Special Dividend that is paid.

Those Virtus Shareholders who can capture the full benefit of the franking credits associated with the \$0.44 Special Dividend (if paid) will receive additional value as a result of franking credits of up to \$0.19 per Virtus Share attached to the Special Dividend. Whether eligible Virtus Shareholders will be in a position to realise the full benefit of franking credits attached to any Special Dividend will depend on their tax status and specific circumstances. Virtus Shareholders should seek independent professional taxation advice in this regard. Additional information will be set out in the CapVest Booklet, which is expected to be sent to Virtus Shareholders shortly and will be available on Virtus' website (<https://www.virtushealth.com.au/>) and <https://www.asx.com.au/>.

The payment and the amount of any Special Dividend remain at the discretion of the Virtus Board and will be subject to, among other considerations, tax advice based on franking credits available and forecast to the time for payment of the dividend as a result of the earnings performance of Virtus at that time.

No such Special Dividend has yet been declared so Virtus Shareholders who accept the BGH Offer before the record date for any such Special Dividend will not receive the Special Dividend or any associated franking credits if the BGH Offer becomes unconditional and those Virtus Shares accepted into the BGH Offer are registered in the name of the BGH Bidders before that record date.

If the Special Dividend is paid and you accept the BGH Offer after you have received the Special Dividend, the BGH Offer Consideration you receive will be reduced by the amount of the Special Dividend.

The BGH Offer Period is currently scheduled to close before the Special Dividend under the CapVest Transaction is likely to be paid. However, BGH may choose to extend the BGH Offer Period.

5.6 Compulsory acquisition

BGH has stated in section 3.3 of the Bidder's Statement that if it satisfies the required thresholds it intends to compulsorily acquire any outstanding Virtus Shares.

BGH will be entitled to compulsorily acquire any Virtus Shares in respect of which it has not received an acceptance on the same terms as it is offering under the BGH Offer if, during or at the end of the BGH Offer Period, BGH and its associates have a Relevant Interest in at least 90% (by number) of Virtus Shares. BGH has stated that it intends to exercise its rights of compulsory acquisition if it becomes entitled to do so.

If this threshold is met, BGH will have one month after the end of the BGH Offer Period within which to give compulsory acquisition notices to Virtus Shareholders who have not accepted the BGH Offer. Virtus Shareholders have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the relevant shareholder to establish to the satisfaction of a court that the terms of the BGH Offer do not represent "fair value" for their Virtus Shares. If compulsory acquisition occurs, Virtus Shareholders who have their Virtus Shares compulsorily acquired are likely to be issued their consideration approximately 5 to 6 weeks after the compulsory acquisition notices are dispatched to them.

It is also possible that BGH will, at some time after the end of the BGH Offer Period, become the beneficial holder of 90% of Virtus Shares. The BGH Bidders would then have rights to compulsorily acquire Virtus Shares not owned by it within 6 months of becoming the holder of 90%. BGH's price for compulsory acquisition under this procedure would have to be considered in a report of an independent expert.

5.7 Relevant Interests of Directors in Virtus, the BGH Bidders or a Related Body Corporate's securities

As at the date of this Target's Statement, except as set out below, no Director has a Relevant Interest in any of the securities of Virtus or BGH or any other Related Body Corporate of BGH.

Director	Number of Virtus Shares held directly or indirectly	Number of Virtus Performance Rights held directly or indirectly	Number of ordinary shares in BGH held directly or indirectly	Description of ordinary shares in any Related Body Corporate of Virtus or BGH held directly or indirectly
Sonia Petering	45,000	nil	nil	N/A
Kate Munnings	108,025	369,188	nil	N/A

Director	Number of Virtus Shares held directly or indirectly	Number of Virtus Performance Rights held directly or indirectly	Number of ordinary shares in BGH held directly or indirectly	Description of ordinary shares in any Related Body Corporate of Virtus or BGH held directly or indirectly
Lyndon Hale	826,572	nil	nil	N/A
Gregory Couttas	10,000	nil	nil	N/A
Catherine Aston	nil	nil	nil	N/A
Priscilla Rogers	nil	nil	nil	N/A

The table below lists the interests of Virtus Directors in Virtus Performance Rights as at the date of this Booklet.

Virtus Director	Position	Virtus Performance Rights
Sonia Petering	Chair	nil
Kate Munnings	Chief Executive Officer and Managing Director	369,188
Lyndon Hale	Executive Director	nil
Gregory Couttas	Non-executive Director	nil
Catherine Aston	Non-executive Director	nil
Priscilla Rogers	Non-executive Director	nil

5.8 Virtus Performance Rights

(a) Overview

As at the date of this Target's Statement, Virtus has 1,689,028 Virtus Performance Rights on issue, which were granted to Virtus management and Fertility Specialist contractors under the Virtus Health Limited Executive Option Plan and Specialist Option Plan.

Each Virtus Performance Right vests and exercises into one fully paid Virtus Share.

(b) Intended treatment of Performance Rights in connection with the CapVest Transaction

The Virtus Board has, in exercise of the discretions granted to it under the Virtus Health Limited Executive Option Plan and Specialist Option Plan, passed resolutions, which provide for all existing Virtus Performance Rights to vest and be exercised in time for the holders of the Virtus Performance Rights to acquire Virtus Shares to ensure that there will be no Virtus Performance Rights in existence on the record date for the CapVest Scheme.

Should there be a change of control as a result of the BGH Offer before the time that this occurs, the Virtus Board intends to exercise the discretions granted to it under the Virtus Health Limited Executive Option Plan and Specialist Option Plan to provide for all existing Virtus Performance

Rights to vest and be exercised in time for the holders of the Virtus Performance Rights to participate in the BGH Offer if they choose to do so.

(c) **Consequences for Ms Munnings**

Virtus' Chief Executive Officer and Managing Director, Ms Kate Munnings, has previously been issued Virtus Performance Rights under the Virtus Health Limited Executive Option Plan and Specialist Option Plan.

If the CapVest Scheme is approved by Virtus Shareholders and the Court, or the BGH Offer or the CapVest Takeover results in a change in control of Virtus, the Board has determined that, as is customary, the Virtus Performance Rights will vest and, as a result, Virtus Shares will be acquired by Ms Munnings as a result of the vesting and exercise of such Virtus Performance Rights.

This would mean that Ms Munnings would receive a maximum amount of \$2,953,504 if the BGH Offer succeeds, \$3,008,882.20 if the CapVest Scheme is implemented or \$2,990,422.80 if the CapVest Takeover succeeds.

Despite this interest, Ms Munnings considers that, given the importance of these competing proposals and her role as Chief Executive Officer and Managing Director, it is important and appropriate for her to provide a recommendation to Virtus Shareholders in relation to the BGH Offer and the CapVest Transaction.

The Virtus Board (excluding Ms Munnings) also considers that it is appropriate for her to make a recommendation on the BGH Offer and the CapVest Transaction given her detailed knowledge of the needs of Virtus and all of its key stakeholders, including her leadership role in the management of Virtus' operations and her deep industry knowledge.

5.9 Recent dealings of Directors in Virtus securities and the BGH Bidders' securities

No Director acquired or disposed of any Virtus Shares, any other securities in Virtus or in the BGH Bidders, within the period of four months immediately preceding the date of this Target's Statement.

5.10 Benefits and agreements

No member of the Virtus Board has an interest in any contract entered into by them with the BGH Bidders.

As a result of the BGH Offer, no benefit (other than a benefit permitted by section 200F or 200G of the Corporations Act) will or may be given to a member of the Virtus Board in connection with their retirement from office in Virtus or a Related Body Corporate of Virtus.

No member of the Virtus Board has agreed to receive, or is entitled to receive, any benefit from the BGH Bidders which is conditional on, or is related to, the BGH Offer.

Virtus does not propose and, except as otherwise disclosed in this Target's Statement, is not aware of any proposal in connection with the BGH Offer:

- that will confer a benefit on any person in connection with the retirement of that person from a board or managerial office of Virtus or Related Body Corporate of Virtus; or
- that will or may be given to any person in connection with the transfer of the whole or any part of undertaking or property currently owned by Virtus.

6 Information relating to Virtus

6.1 Overview of Virtus

Virtus is the fifth largest Assisted Reproductive Services (ARS) provider globally, and the market leader in Australia, Denmark, Ireland and Singapore and nascent operations in the United Kingdom. Virtus employs approximately 1,500 people globally across its network.

Virtus is headquartered in Sydney and is listed on the ASX (ASX:VRT).

Virtus provides healthcare services to people in Australia which includes fertility services, surgical day procedure services and fertility diagnostic services. In Denmark, United Kingdom, Ireland and Singapore, Virtus provides fertility services.

Australia is Virtus' home market, and Virtus offers a model of healthcare that includes full service and affordable fertility services, world-class embryology and andrology services, the leading reproductive genetics service, supported by specialist day hospitals.

6.2 Overview of operations

Assisted Reproductive Services	<p>Virtus offers patients a wide range of Assisted Reproductive Services that can treat a variety of infertility conditions. Assisted Reproductive Services provided by Virtus include IVF Cycles, cryostorage of frozen embryos and gametes, frozen embryo transfers, intra-uterine insemination and other forms of treatment.</p> <p>As part of the IVF Cycles that Virtus offers, Virtus offers a range of additional services which are available to patients for increasing their chances of success in having a family. These include but are not limited to the use of sperm injection technology in the laboratory environment (selection of single sperm for injection into the egg); digital sperm microscopy; pre implantation genetic diagnosis; cryopreservation of embryos, eggs and semen; use of donor sperm and eggs and counselling support.</p>
Specialised Diagnostics	<p>Virtus offers patients specialised diagnostic testing prior to and during their IVF Cycles. These services assist Fertility Specialists to understand and improve the diagnosis of patients' fertility conditions. The services are focused on three main areas: andrology (testing of semen), endocrinology (testing of blood and urine) and genetics (analysis of chromosome structure). Apart from some routine blood testing, analysis of almost all specialised diagnostic tests are conducted at Virtus' laboratories.</p>
Day Hospitals	<p>Virtus operates 7 day hospitals which are used for a variety of procedures, with procedures in relation to Assisted Reproductive Services being the single largest medical specialty area performed in Virtus' day hospitals. Procedures in relation to Assisted Reproductive Services include egg collection, embryo transfers and other related services. Other procedures that may take place at Virtus' day hospitals include those in the medical fields of ophthalmology, endoscopy, plastic surgery, gynaecology, urology, dental and other surgical specialties.</p>

6.3 Board and senior management

(a) Virtus Directors

At the date of this Target's Statement, the Virtus Board is comprised of the following directors:

Name	Current position
Sonia Petering	Chair
Kate Munnings	Chief Executive Officer and Managing Director
Lyndon Hale	Executive Director and Medical Representative
Gregory Couttas	Non-executive Director
Catherine Aston	Non-executive Director
Priscilla Rogers	Non-executive Director

(b) Virtus senior management

As at the date of this Target's Statement, Virtus' executive management team is comprised of the following members:

Name	Current position
Kate Munnings	Chief Executive Officer and Managing Director
Matthew Prior	Chief Financial Officer
Ava Bentley	Chief Legal & Risk Officer and Company Secretary
Lee Bakerman	Chief People Officer
Jorge Silveira	Chief Digital Health Officer
Richard Banks	Chief Strategy Officer & European Managing Director
Teena Pisarev	Chief Operating Officer & Managing Director – NSW / ACT, Diagnostics & Singapore
Chris Smedley	Managing Director – QLD
Adurty Rao	Managing Director – VIC / TAS

6.4 Recent Virtus Share price performance

Virtus Shares are listed on the ASX under the ticker “VRT”.

On 14 December 2021, Virtus announced it had received an unsolicited, non-binding indication of interest from BGH to acquire 100% of the issued, and to be issued, shares of Virtus by way of scheme of arrangement for total net cash value of \$6.98 per Virtus Share (being \$7.10 per Virtus Share before deducting the \$0.12 interim dividend paid on 14 April 2022). The closing share price on 13 December 2021, being the undisturbed trading price on the last trading day prior to announcement of the proposal, was \$5.21 per Virtus Share (being \$5.09 per Virtus Share after deducting the \$0.12 interim dividend paid on 14 April 2022).

During the three months ended 13 December 2021:⁶

- the 1-month VWAP was \$5.36 per Virtus Share (being \$5.24 per Virtus Share after deducting the \$0.12 interim dividend paid on 14 April 2022); and
- the 3-month VWAP was \$5.49 per Virtus Share (being \$5.37 per Virtus Share after deducting the \$0.12 interim dividend paid on 14 April 2022).

On 14 March 2022, Virtus announced it had entered into a binding implementation deed with CapVest. The closing price on 10 March 2022, being the last trading day prior to the announcement of the CapVest Implementation Deed was \$7.70 per Virtus Share (being \$7.58 per Virtus Share after deducting the \$0.12 interim dividend paid on 14 April 2022).

During the three months ended 10 March 2022:

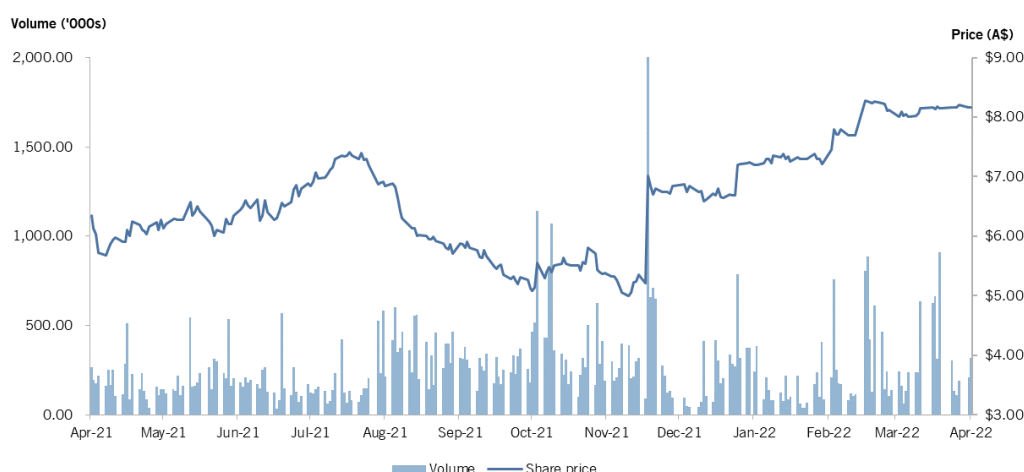
- the highest recorded daily closing price was \$7.80 per Virtus Share (being \$7.68 per Virtus Share after deducting the \$0.12 interim dividend paid on 14 April 2022), on 1 March 2022;
- the lowest recorded daily closing price was \$5.21 per Virtus Share (being \$5.09 per Virtus Share after deducting the \$0.12 interim dividend paid on 14 April 2022), on 13 December 2021;
- the 1-month VWAP was \$7.53 per Virtus Share (being \$7.41 per Virtus Share after deducting the \$0.12 interim dividend paid on 14 April 2022); and
- the 3-month VWAP was \$7.06 per Virtus Share (being \$6.94 per Virtus Share after deducting the \$0.12 interim dividend paid on 14 April 2022).

The closing price of Virtus Shares on the ASX on the Last Practicable Trading Date was \$8.17 per Virtus Share. During the three months ended 27 April 2022:

- The highest recorded daily closing price was \$8.28 per Virtus Share (being \$8.16 per Virtus Share after deducting the \$0.12 interim dividend paid on 14 April 2022), on 14 March 2022; and
- The lowest recorded daily closing price was \$7.20 per Virtus Share (being \$7.08 per Virtus Share after deducting the \$0.12 interim dividend paid on 14 April 2022), on 27 January 2022.

The figure below shows the Virtus Share price performance over the last 12 months to 27 April 2022:

⁶ Historical trading data referenced are shown prior to deducting the interim dividend of \$0.12, which was declared on 22 February 2022 with Virtus Shares beginning to trade ex dividend from 23 March 2022.



The above trading data has been sourced from Capital IQ and referenced in this Target's Statement without their consent.

6.5 Historical financial information

(a) Basis of preparation

This section sets out the historical financial information about the Virtus Group for FY20, FY21 and H1FY22. The financial information in this section is a summary only and is prepared for the purpose of this Target's Statement. It does not contain all the disclosures, presentations, statements or comparatives that are usually provided in an annual report prepared in accordance with the Corporations Act. The information has been extracted from the audited financial reports of Virtus for FY20 and FY21 and the reviewed accounts for the half year ended 31 December 2021. The financial information has not been subject to further review by an independent accountant.

Further details on Virtus' financial performance and financial statements for FY20, FY21 and H1FY22 as announced to the ASX can be found at <https://asx.com.au/>.

(b) Historical statement of profit or loss and other comprehensive income

Below is a summary of Virtus' consolidated statements of profit or loss and other comprehensive income for FY20, FY21 and H1FY22.

Consolidated	FY20 \$'000	FY21 \$'000	H1FY22 \$'000
Revenue	258,932	324,602	171,298
Share of profits of associates accounted for using the equity method	403	1,060	210
Other income	15,040	10,915	717
Expenses			
Fertility specialists, consumables and associated costs	(70,754)	(89,552)	(49,069)
Employee benefits expense	(100,177)	(117,328)	(61,820)
Depreciation and amortisation expense	(25,017)	(24,086)	(12,084)
Impairment of goodwill	(24,587)	-	-
Impairment of brand	(388)	-	-
Occupancy expense	(6,026)	(6,576)	(3,833)

Consolidated	FY20	FY21	H1FY22
	\$'000	\$'000	\$'000
Advertising and marketing	(3,970)	(4,214)	(2,163)
Practice equipment expenses	(2,645)	(3,349)	(1,590)
Professional and consulting fees	(4,839)	(4,452)	(2,379)
Other expenses	(14,748)	(17,668)	(13,408)
Finance costs	(10,792)	(8,954)	(4,374)
Profit before income tax expense	10,432	60,398	21,505
Income tax expense	(9,486)	(16,596)	(6,245)
Profit after income tax expense for the year	946	43,802	15,260
Other comprehensive income / (loss)			
Net change in the fair value of cash flow hedges taken to equity, net of tax	(862)	774	708
Foreign currency translation	1,394	(3,169)	(1,247)
Other comprehensive income / (loss) for the year, net of tax	532	(2,395)	(539)
Total comprehensive income for the year	1,478	41,407	14,721
Profit for the year is attributable to:			
Non-controlling interest	477	667	134
Owners of Virtus Health Limited	469	43,135	15,126
	946	43,802	15,260
Total comprehensive income for the year is attributable to:			
Non-controlling interest	524	729	131
Owners of Virtus Health Limited	954	40,678	14,590
	1,478	41,407	14,721
	Cents	Cents	Cents
Basic earnings per share	0.59	53.86	18.06
Diluted earnings per share	0.59	53.17	17.91

(c) **Historical statement of financial position**

Below is a summary of Virtus' consolidated statement of financial position as at FY20, FY21 and H1FY22.

Consolidated	2020	2021	H1FY22
	\$'000	\$'000	\$'000
Assets			
Current Assets			
Cash and cash equivalents	38,047	37,008	18,478
Trade and other receivables	13,372	12,086	12,124
Inventories	1,399	1,313	1,538
Prepayments	3,149	4,563	6,464
Total current assets	55,967	54,970	38,604
Non-current assets			
Investments accounted for using the equity method	1,489	1,489	1,788
Property, plant and equipment	34,913	39,914	39,955
Right-of-use assets	89,719	69,082	70,638

Consolidated	2020	2021	H1FY22
	\$'000	\$'000	\$'000
Intangibles	433,694	428,357	427,242
Deferred tax	10,329	11,188	10,907
Other	306	312	337
Total non-current assets	570,450	550,342	550,867
Total assets	626,417	605,312	589,471
Liabilities			
Current liabilities			
Trade and other payables	41,538	31,626	34,834
Lease liabilities	10,661	12,076	11,488
Derivative financial instruments	1,148	1,166	923
Income tax	9,662	7,603	3,800
Provisions	4,396	4,886	4,870
Other financial liabilities	2,374	823	394
Unearned income	20,032	21,098	14,758
Total current liabilities	89,811	79,278	71,067
Non-current liabilities			
Borrowings	164,087	144,090	94,350
Lease liabilities	92,137	71,442	74,961
Derivative financial instruments	2,586	1,462	693
Deferred tax	799	599	599
Provisions	7,510	7,429	7,492
Other financial liabilities	1,284	399	-
Total non-current liabilities	268,403	225,421	178,095
Total liabilities	358,214	304,699	249,162
Net assets	268,203	300,613	340,309
Equity			
Issued capital	240,785	242,342	277,780
Reserves	16,004	12,745	12,012
Retained profits	10,617	44,000	48,861
Equity attributable to the owners of Virtus Health Limited	267,406	299,087	338,653
Non-controlling interest	797	1,526	1,656
Total equity	268,203	300,613	340,309

(d) **Historical statement of changes in equity**

Below is a summary of Virtus' consolidated statement of changes in equity for FY20, FY21 and H1FY22.

Consolidated	Issued Capital	Reserves	Retained profits	Non-controlling interest	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2019	241,890	5,159	29,336	10,453	286,838
Profit after income tax expense for the year	-	-	469	477	946

Consolidated	Issued Capital \$'000	Reserves \$'000	Retained profits \$'000	Non- controlling interest \$'000	Total equity \$'000
Other comprehensive income for the year, net of tax	-	485	-	47	532
Total comprehensive income for the year	-	485	469	524	1,478
<i>Transactions with owners in their capacity as owners:</i>					
Put option exercise	-	9,571	-	(9,571)	-
Dividends payable by subsidiary to non-controlling interest	-	-	-	(609)	(609)
Transfer of shares to participants pursuant to share based payment schemes	463	(463)	-	-	-
Share based payment expense	-	1,252	-	-	1,252
Settlement of partly paid shares	416	-	-	-	416
Purchase of treasury shares	(1,984)	-	-	-	(1,984)
Dividends paid	-	-	(19,188)	-	(19,188)
Balance at 30 June 2020	240,785	16,004	10,617	797	268,203

Consolidated	Issued Capital \$'000	Reserves \$'000	Retained profits \$'000	Non- controlling interest \$'000	Total equity \$'000
Balance at 1 July 2020	240,785	16,004	10,617	797	268,203
Profit after income tax expense for the year	-	-	43,135	667	43,802
Other comprehensive income for the year, net of tax	-	(2,457)	-	62	(2,395)
Total comprehensive income for the year	-	(2,457)	43,135	729	41,407
<i>Transactions with owners in their capacity as owners:</i>					
Transfer of shares to participants pursuant to share based payment schemes	2,701	(2,701)	-	-	-
Share based payment expense	-	1,899	-	-	1,899

Consolidated	Issued Capital \$'000	Reserves \$'000	Retained profits \$'000	Non- controlling interest \$'000	Total equity \$'000
Settlement of partly paid shares	1,135	-	-	-	1,135
Purchase of treasury shares	(2,279)	-	-	-	(2,279)
Dividends paid	-	-	(9,752)	-	(9,752)
Balance at 30 June 2021	242,342	12,745	44,000	1,526	300,613

Consolidated	Issued Capital \$'000	Reserves \$'000	Retained profits \$'000	Non- controlling interest \$'000	Total equity \$'000
Balance at 1 July 2021	242,342	12,745	44,000	1,526	300,613
Profit after income tax expense for the half-year	-	-	15,126	134	15,260
Other comprehensive income for the half-year, net of tax	-	(535)	-	(4)	(539)
Total comprehensive income for the half-year	-	(535)	15,126	130	14,721
<i>Transactions with owners in their capacity as owners:</i>					
Shares issued pursuant to institutional placement (net of transaction costs and tax)	34,262	-	-	-	34,262
Purchase of treasury shares	(864)	-	-	-	(864)
Settlement of partly paid shares	78	-	-	-	78
Issue of shares pursuant to share based payment schemes	1,962	(1,962)	-	-	-
Share-based payment expenses	-	1,764	-	-	1,764
Dividends paid	-	-	(10,265)	-	(10,265)
Balance at 31 December 2021	277,780	12,012	48,861	1,656	340,309

(e) **Historical statement of cash flows**

Below is a summary of Virtus' consolidated statements of cash flow for FY20, FY21 and H1FY22.

	2020	2021	H1FY22
Cash flows from operating activities			
Receipts from customers (inclusive of GST)	262,820	323,972	164,045
Payments to suppliers (inclusive of GST)	(193,273)	(243,140)	(131,262)
	69,547	80,832	32,783
Other revenue	8,258	13,317	1,458
Interest and other finance costs paid	(6,132)	(4,784)	(2,164)
Lease interest paid	(3,440)	(3,464)	(1,640)
Income taxes paid	(1,850)	(20,080)	(9,737)
Net cash from operating activities	66,383	65,821	20,700
Cash flows from investing activities			
Payments for new investment	-	-	(299)
Payment of acquisition of non-controlling interest	(7,109)	-	-
Payments for property, plant and equipment and intangibles	(7,921)	(14,855)	(6,350)
Payment of security deposits	(19)	(17)	-
Proceeds from disposal of property, plant and equipment and intangibles	-	30	-
Interest received	28	39	-
Associate distributions received	382	750	-
Other investing activities	-	-	422
Net cash used in investing activities	(14,639)	(14,053)	(6,227)
Cash flows from financing activities			
Shares issued pursuant to institutional placement (net of transaction costs)	-	-	33,945
Proceeds from partly paid shares	416	1,135	78
Payment of dividends	(9,647)	(19,293)	(10,265)
Dividend paid to non-controlling interest in subsidiaries	(609)	-	-
Repayment of borrowings	(11,000)	(20,000)	(50,000)
Proceeds from borrowings	1,000	-	-
Payment of finance facility fees in relation to refinancing	-	(545)	-
Repayment of lease liabilities	(10,812)	(11,554)	(5,843)
Purchase of treasury shares	(1,984)	(2,279)	(864)
Net cash used in financing activities	(32,636)	(52,536)	(32,949)
Net increase / (decrease) in cash and cash equivalents	19,108	(768)	(18,476)
Cash and cash equivalents at the beginning of the financial year	18,831	38,047	37,008
Effects of exchange rate changes on cash and cash equivalents	108	(271)	(54)
Cash and cash equivalents at the end of the financial year	38,047	37,008	18,478

6.6 Material changes to the financial position of Virtus since 31 December 2021

So far as the Virtus Board is aware, the financial position of Virtus has not materially changed since 31 December 2021, as reported in the Virtus H1 FY2022 Interim Report for the financial half year ended 31 December 2021, other than:

- as a result of payment of the interim dividend;
- the accumulation of profits in the ordinary course of trading;
- as disclosed to ASX by Virtus; or
- as disclosed in this Target's Statement.

A copy of the Virtus H1 FY2022 Interim Report for the financial half-year ended 31 December 2021 is available on Virtus' website (<https://www.virtushealth.com.au/>).

6.7 Q3FY22 trading update

As foreshadowed in the "H2FY22 Outlook" commentary in the "Virtus H1FY22 Result Investor Presentation"⁷, Virtus' operating performance in Q3FY22 has continued to be impacted by the COVID-19 Omicron variant both in Australia and internationally.

Throughout the quarter, Virtus has experienced deferrals in patient volumes and high staff sick leave across its international operations, with a disproportionate COVID-related impact in Australia. February and March saw the disruption from community spread of the Omicron variant easing with differing degrees of local market impact and differing Government health policy responses. By the end of March 2022, patient volumes were recovering and revenue had returned to a level comparable to the prior year, although this was not at a level sufficient to offset the impact from disruption experienced in January, February and early March.

This has resulted in group revenue for the Q3FY22 being negatively impacted by –4% compared with the prior year, albeit with a monthly profile showing resilience of the business over the quarter. Consequently, whilst the cost base was managed to reduce the impact of lower patient volume and revenue, the operating costs required to sustain the business and provide for recovered demand resulted in EBITDA also being impacted. This EBITDA profile is recovering with the improvement of revenue performance and consistency.

The risk of further COVID-19 disruption remains in H2FY22. In addition, there is a risk to performance in H2FY22 due to the ongoing disruption caused by the competing change of control proposals from BGH and CapVest and the uncertainty created by the contested future ownership of Virtus.

⁷ Available on Virtus' website at <https://www.virtushealth.com.au/>.

6.8 Virtus equity structure

The equity structure of Virtus at the date of this Target's Statement is as follows:

Type of security	Number of securities
Virtus Shares (i.e. fully paid ordinary shares) ⁸	85,536,996
Virtus Performance Rights (i.e. each convertible into one Virtus Share)	1,689,028

6.9 Substantial Shareholders

Based on substantial shareholder notice filings to the ASX⁹ and information in the Virtus Share Register, the substantial holders of Virtus Shares as at the Last Practicable Trading Date are:

Substantial shareholder	Number of Virtus Shares ¹⁰	Percentage of issued capital
BGH (via Oceania Equity Investments Pty Ltd and its associates ¹¹)	17,098,846	19.99% ¹²
Paradise Investment Management Pty Ltd	8,350,158	9.76%
Yarra Capital Management Limited and its associates ¹³	5,449,088	6.37%
Dimensional Fund Advisors LP and its associates ¹⁴	4,273,405	5.00%

Information in regard to substantial holdings arising, changing or ceasing after the date of this Target's Statement or in respect of which the relevant announcement is not available on ASX's website (<https://www.asx.com.au/>) is not included above.

Virtus understands that as at the date of this Target's Statement, the BGH Bidders have a Relevant Interest and Voting Power in 20.02% of Virtus Shares.

The BGH Bidders are required to notify the ASX and Virtus before 9.30am on the next trading day during the BGH Offer Period where there is a movement of at least 1% in its Voting Power in Virtus Shares (being the Relevant Interests in Virtus Shares held by it and its Associates) as compared with its last substantial holder notice.

⁸ Includes 48,485 treasury Virtus Shares.

⁹ These substantial shareholder notices can be found on the ASX website at <https://www2.asx.com.au/>.

¹⁰ This refers to the number of Virtus Shares in which the person or any associate has a Relevant Interest as noted in the substantial holder notices released to the ASX or information in Virtus Share Register, which was available to Virtus as at Friday, 29 April 2022.

¹¹ See Form 604 notice of change of interests in substantial holder as announced on ASX, 6 April 2022.

¹² From information made available to Virtus, it is understood that as at the date of this Target's Statement, BGH has a Relevant Interest in 20.02% of issued capital in Virtus.

¹³ See Form 604 notice of change of interests in substantial holder as announced on ASX, 16 December 2021.

¹⁴ See Form 603 notice of initial substantial holder as announced on ASX, 3 May 2019.

6.10 Shareholder loans

As at the date of this Target's Statement, there are eleven shareholder loans on foot with an aggregate outstanding balance of \$2,965,711.05. These loans were made by Virtus to certain shareholders in 2012, prior to Virtus listing on the ASX, and have been steadily paid down since that time. It is intended that these shareholder loans will be paid out on implementation of the CapVest Scheme or completion of the CapVest Takeover or the BGH Offer.

6.11 Risks relating to Virtus' business

There are existing risks relating to Virtus' business and an investment in Virtus which will continue to be relevant to Virtus Shareholders if you retain your Virtus Shares. A summary of the key risks relating to Virtus' business and an investment in Virtus is set out in section 7.5.

6.12 Publicly available information

Virtus is a listed disclosing entity for the purposes of the Corporations Act and as such is subject to regular reporting and disclosure obligations. Specifically, as a company listed on the ASX, Virtus is subject to the ASX Listing Rules which require (subject to certain exceptions) continuous disclosure of any information Virtus has that a reasonable person would expect to have a material effect on the price or value of Virtus Shares.

ASX maintains files containing publicly disclosed information about all companies listed on the ASX. Information disclosed to ASX by Virtus is available on ASX's website at <https://www.asx.com.au/>.

In addition, Virtus is required to lodge various documents with ASIC. Copies of documents lodged with ASIC by Virtus may be obtained from an ASIC office.

Virtus Shareholders may obtain a copy of:

- Virtus' 2021 Annual Report (being the last full financial statements given to ASX) and the H1 FY2022 Interim Report (being the most recent financial reports recently lodged with ASX before registration of this Target's Statement with ASIC); and
- any announcements given to ASX by Virtus after the lodgement by Virtus of the H1 FY2022 Interim Report and before the date of this Target's Statement, on ASX's website at <https://www.asx.com.au/>,

free of charge, by calling the Virtus Shareholder Information Line on 1800 262 299 (within Australia) or +61 1800 262 299 (outside of Australia) Monday to Friday between 8.30am and 7.30pm (Sydney time), or from ASX's website at <https://www.asx.com.au/>.

A substantial amount of information about Virtus, including financial information and releases to ASX, is available in electronic form on Virtus' website at <https://www.virtushealth.com.au>.

7 Risk factors

7.1 Introduction

In considering the BGH Offer, Virtus Shareholders should be aware that there are a number of risk factors associated with either accepting the BGH Offer or rejecting the BGH Offer and continuing to hold Virtus Shares.

In deciding whether to accept the BGH Offer, Virtus Shareholders should read this Target's Statement and the Bidder's Statement carefully and consider these risks. While some of these risks can be mitigated, some are outside the control of Virtus and the Virtus Board and cannot be mitigated.

This section is not intended to provide a list of every risk that may be related to the BGH Offer or an investment in Virtus at any time. This section only provides a brief summary of the risks that may be applicable to Virtus Shareholders, and should not be considered exhaustive. These risks do not take into account your individual circumstances including your investment objectives, financial situation or taxation position.

There may also be additional risks and uncertainties not currently known to Virtus, or which are currently known to Virtus but which Virtus currently considers to be individually immaterial, which may adversely affect Virtus' operating and financial performance and the price or value of Virtus Shares in the future.

You should carefully consider the risks mentioned in this section 7, as well as the other information contained in this Target's Statement deciding whether to accept the BGH Offer. You should also consult a licenced financial adviser or other suitable professional adviser if you are uncertain about any matters in this Target's Statement or the Bidder's Statement.

7.2 Risks associated with accepting the BGH Offer

There are risks associated with accepting the BGH Offer, including those described in this section 7.2 of this Target's Statement.

(a) Possibility of a Superior Proposal emerging

If you accept the BGH Offer, you will forego the opportunity to benefit from any Superior Proposal by another party for your Virtus Shares, including the existing superior CapVest Transaction.

As at the date of this Target's Statement, your Directors consider the CapVest Transaction to be superior to the BGH Offer. Under the CapVest Transaction, Virtus Shareholders will receive:

- \$8.15 cash per Virtus Share if the CapVest Scheme is approved – which is \$0.15 per Virtus Share more than is available under the BGH Offer, or
- \$8.10 cash per Virtus Share accepted into the CapVest Takeover if the CapVest Scheme is not approved and the CapVest Takeover is declared or becomes unconditional – which is \$0.10 per Virtus Share more than is available under the BGH Offer,

in each case less the value of any dividends or distributions (including the potential Capital Return) declared or paid after the date of this Target's Statement.

(b) Possibility of future Virtus Share price appreciation

You may be able to sell your Virtus Shares in the future for more valuable consideration than that offered under the BGH Offer (although Virtus can give no assurances and makes no forecast of whether this will occur).

(c) **Taxation consequences**

The taxation consequences of disposing of your Virtus Shares pursuant to the BGH Offer depend on a number of factors and will vary depending on your particular circumstances. A general outline of certain Australian tax considerations of such a disposal is set out in section 8 of this Target's Statement.

You should carefully read and consider the taxation consequences of disposing of your Virtus Shares pursuant to the BGH Offer. The outline provided in this Target's Statement is of a general nature only and you should seek your own specific professional tax advice as to the taxation implications applicable to your circumstances.

7.3 Risks associated with rejecting the BGH Offer

In addition to the risks associated with continuing to hold Virtus Shares outlined in section 7.5 and 7.6 below, risks associated with rejecting the BGH Offer include:

- The risk that the CapVest Scheme is not approved and so is not available as a superior alternative to the BGH Offer. Given BGH's shareholding in Virtus and the voting thresholds required to approve the CapVest Scheme, it is possible that the CapVest Scheme may not be approved by the requisite majorities of Virtus Shareholders even though this would deliver Virtus Shareholders \$0.15 per Virtus Share more than is available under the BGH Offer and \$0.05 per Virtus Share more than is available under the CapVest Takeover. The CapVest Scheme is also subject to the CapVest Scheme Conditions, including a no Material Adverse Change condition. Your Directors have no reason to expect that those other CapVest Scheme Conditions will not be satisfied.
- The risk that the CapVest Takeover does not become unconditional and so is not available as a superior alternative to the BGH Offer. The CapVest Takeover is also subject to the CapVest Takeover Conditions, including a 50.1% minimum acceptance condition and no Material Adverse Change condition. Given the 50.1% minimum acceptance condition presents a lower threshold to satisfy than the CapVest Scheme, and the fact that the CapVest Takeover offers \$0.10 per Virtus Share more than the BGH Offer, your Directors have no reason to expect that the CapVest Takeover will not become unconditional if the CapVest Scheme is not approved by Virtus Shareholders or the Court.
- The BGH Offer Period is currently scheduled to close before the outcome of the CapVest Scheme or the satisfaction or waiver of CapVest Takeover Conditions under the CapVest Takeover is likely to be known. If that happens, and any of the CapVest Transaction Conditions are not satisfied or waived, Virtus Shareholders will no longer have the opportunity to accept the BGH Offer.
- The risk that, in the absence of the BGH Offer and the CapVest Transaction, the Virtus Share price could fall, perhaps materially.

7.4 General risks

Virtus Shares carry no guarantee in respect of profitability, dividends, return of capital or the price at which they may trade on ASX. If you retain your Virtus Shares, the market price of Virtus Shares (assuming Virtus remains listed) and future distributions made to Virtus Shareholders will be influenced by a number of factors beyond the control of the Virtus Directors and management, including:

- changes in investor sentiment and overall performance of the Australian and international stock markets;
- changes in general economic conditions (both domestically and internationally) including inflation (including wage inflation), interest rates, exchange rates and consumer demand;

- failure to make or integrate any future acquisitions or business combinations (including the realisation of synergies), significant one-time write-offs or restructuring charges, and unanticipated costs and liabilities;
- changes in government and to fiscal, monetary and regulatory policies;
- changes in accounting standards which affect the financial performance and position reported by Virtus;
- changes in taxation laws (or their interpretation by relevant courts or authorities);
- geopolitical events such as an outbreak or exacerbation of hostilities, acts of terrorism, conflict and declaration of war (including the current conflict in Ukraine); and
- natural disasters such as fires and floods and catastrophes, whether on a global, regional or local scale.

7.5 Risks associated with continuing as a Virtus Shareholder

There are various risks associated with continuing to hold Virtus Shares. Some of these risks are specific to Virtus while others are risks of a more general nature that apply to any investment in a listed company.

The list of risks summarised below is not exhaustive and does not take into account the personal circumstances of Virtus Shareholders. Virtus Shareholders should seek professional advice if they are in any doubt about the risks associated with accepting or rejecting the BGH Offer, having regard to their individual investment objectives and financial circumstances.

(a) COVID-19

On 11 March 2020, the World Health Organisation declared a pandemic following the emergence of a severe acute respiratory illness caused by a novel coronavirus (COVID-19). The COVID-19 pandemic had a sudden and significant adverse effect on global markets, operations and activity generally. As with Government measures in Australia, the other geographies where Virtus operates and globally continue to be aimed at controlling the spread of COVID-19 such as travel and border restrictions, closure of certain businesses and facilities (including bans on elective surgery at certain hospitals), restrictions on public gatherings and social distancing, it is expected that these measures will continue to have a prolonged negative impact on global economic activity. This has resulted in and is likely to further result in increased volatility and negative investor sentiment in financial, capital and retail markets both in Australia and globally.

The expected duration and magnitude of COVID-19 and its potential impacts on the economy and financial markets remains unclear. However, should the impact of the COVID-19 pandemic be severe or prolonged (including the risk of ongoing geographical lockdowns, the imposition of restrictions on access to hospitals for certain procedures following community transmission of COVID-19 and disruption to staffing levels and treatment cancellations due to compliance with requirements regarding isolation of COVID-19 positive case and their close contacts) there would be a likely degree of impact on the Assisted Reproductive Services market globally.

The outbreak of the COVID-19 Omicron variant from December 2021 has resulted in some restrictions in elective surgery, including a suspension of IVF treatments in Victoria for a 2 week period in January 2022. While access to ARS treatment and elective surgeries has recommenced in all states; heightened infection control and safety protocols, including a strict requirement for Virtus' 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.

International ARS markets continue to operate with high numbers of COVID-19 cases and border closures. These conditions have delayed the commencement of the egg donation program in

Ireland (which was expected to commence in January 2022 but which commenced in April 2022) and the Virtus ARS “hub” strategy in Denmark. However, there remains confidence that any of the near term impacts of COVID-19 on demand will be reflected as deferred, not lost, demand for ARS services.

All of the above, together with any other epidemics or pandemics that may arise in the future, have the ability to impact the Virtus Group’s financial performance, financial position, capital resources and prospects.

Further lockdowns and other restrictions in the future, if applied by the Governments in Australia and the other jurisdictions in which Virtus operates its businesses, could have an adverse impact on Virtus’ business and financial position.

(b) **Regulatory risks**

Virtus operates in a highly regulated industry globally and its activities, operations and corporate practices are governed by a significant number of laws and regulations, including those related to its status as an ASX-listed entity as well as laws regulating patient treatment, privacy, data protection and professional accreditation. Failure to meet these regulations and laws may have an adverse effect on Virtus’ reputation and ability to attract patients. Changes to regulation can negatively impact Virtus’ business.

There is a risk that these requirements become increasingly burdensome in the future. If this was to happen, Virtus could potentially be required to dedicate more time and expenditure to ensuring Virtus complies with these regulations.

(c) **Change in Commonwealth Government funding arrangements for Assisted Reproductive Services**

In Australia, Virtus’ patients receive partial reimbursement for some of Virtus’ services through Commonwealth Government programs, including the Commonwealth Government’s Medicare Benefits Schedule and the Extended Medicare Safety Net. If the level of reimbursement provided by these programs for Virtus’ services were to change, Virtus’ patients may face higher out of pocket expenses for its services. This may result in reduced demand for Virtus’ services, potentially leading to a reduction in Virtus’ revenue and profitability.

(d) **Changes to the private health insurance industry**

Also in Australia, part of Virtus’ day hospital services are funded (either directly or via reimbursement to Virtus’ patients) by private health insurers. Virtus is indirectly susceptible to factors adversely affecting the membership and profitability of private health insurers. Membership of private health insurance funds in Australia is supported by a number of Commonwealth Government policies, including the Private Health Insurance Rebate and Medicare Levy Surcharge. To the extent that these policies change, or new policies are enacted, this may reduce incentives to hold private health insurance and the level of private health insurance in Australia may fall. Patients wishing to use Virtus’ services without private health insurance may experience higher out-of-pocket expenses, which may adversely affect the affordability and demand for Virtus’ services. A decline in the profitability of health insurance funds or the inability of health insurance funds to obtain premium increases may result in Virtus’ inability to achieve growth in the funding it receives from health insurance funds or the inability to renew contracts with health insurance funds on suitable terms.

(e) **Relationships with Fertility Specialists**

Virtus relies on Fertility Specialists (who are medically qualified doctors) to provide the medical component of ARS and play a role in attracting patients. If one or more of Virtus’ Fertility Specialists ceased to perform these services for Virtus, Virtus may not be able to treat the same

number of patients which may result in a lower number of IVF Cycles and negatively impact the profitability of Virtus.

Virtus relies on maintaining its relationship with existing Fertility Specialists, as well as attracting new Fertility Specialists so as to achieve growth and also to replace any Fertility Specialists who retire or leave. If Virtus cannot successfully maintain its relationship with existing Fertility Specialists or contract and grow IVF Cycles for new Fertility Specialists, this may adversely impact Virtus' revenue generation and profitability.

The unexpected departure of Fertility Specialists, or a failure of Virtus to recruit and retain appropriately skilled and qualified Fertility Specialists, could each have an adverse effect on Virtus' reputation, patient services and its profitability. Given that changes of control of companies can affect the engagement and ongoing commitment of some stakeholders, it is possible that the ongoing commitment of one or more Fertility Specialists could be affected by the impact of a change in control and/or identity of the new owner. This could result in the unexpected departure of one or more Fertility Specialists which could have an adverse effect on Virtus' reputation, patient services and its profitability.

(f) Failure to recruit and retain key executives and employees

In addition to Fertility Specialists, key executives, employees and directors play an integral role in the operation of Virtus' business and its pursuit of strategic objectives. The unexpected departure of an individual in a key role (including in connection with the BGH Offer or the CapVest Transaction), or a failure of Virtus to recruit and retain appropriately skilled and qualified persons into these roles, could each have an adverse effect on the Virtus Group's business, prospects, reputation, financial performance or financial condition. In particular, Virtus employs a large number of scientific staff across the scientific fields of andrology, cytogenetics and embryology. The expertise of Virtus' scientific staff allows Virtus to offer patients and Fertility Specialists high quality, safe and efficient clinical services. If Virtus lost several of its scientific staff Virtus would lose highly specialised clinical expertise and experience. Given the level of training and specialisation required for andrology, cytogenetics and embryology there is not a large number of trained scientists in these fields in Australia and it may be difficult to recruit appropriately qualified replacements. This may affect the clinical outcomes Virtus provides to its patients and Fertility Specialists, which may potentially impact Virtus' reputation, success rate for patients and its profitability.

(g) Damage to relationships with general practitioners and other medical specialists

General practitioners and other medical specialists (for example, obstetricians and gynaecologists) have the ability to influence patients' selection of an assisted reproductive services provider. A number of factors, including Virtus' reputation, the retirement or loss of certain Fertility Specialists or other key personnel, the activities of competitors or the introduction of a competing service that is perceived by general practitioners and other medical specialists to be superior to Virtus' service could potentially impact Virtus' relationship with general practitioners and other medical specialists. This could in turn affect their behaviour in referring patients to Virtus' Fertility Specialists or recommending Virtus' services. General practitioners and other medical specialists have no contractual obligations or economic incentives to refer patients to the Virtus Group's Fertility Specialists. A deterioration in the relationship with general practitioners and other medical specialists could adversely impact the number of patients treated by Virtus and Virtus' revenue generation and profitability.

(h) Variability of growth

The growth in patient demand and IVF Cycles has historically experienced variability over short-term periods notwithstanding the long-term social and demographic trends driving patient demand for assisted reproductive services. Variability in the historic growth in IVF Cycles over short-term periods has been attributable to changes in local economic conditions, natural disasters and regulatory changes. Whilst Virtus is diversified across regional and international

markets, the consolidated entity's revenue generation and profitability can be positively and negatively affected in the short term by variability in the growth in IVF Cycles in the regional and international markets in which it operates.

(i) **Risk of increased competition**

Virtus is subject to competition in all markets in which it operates. Virtus may face increased competition from:

- existing competitors (e.g. expanding their operations, undertaking aggressive marketing campaigns, offering financial inducements to attract Fertility Specialists or price discounting);
- new competitors that frequently enter the market;
- consolidation between existing competitors; and
- new technologies or scientific advances that replace or reduce the requirement for ARS, specialised diagnostics or day hospital procedures.

If Virtus were to experience increased competition (which may arise as a result of the uncertainty caused by this transaction), it may adversely impact on the financial performance, market position and future prospects of Virtus.

(j) **Execution risk**

A key strategic initiative for Virtus is its investment in the development of the Precision Fertility™ Digital Platform. The existing patient management system that exists across Virtus is at end of life and is no longer fit for purpose. Instead of replacing it with an off the shelf, software as a service solution, Virtus has developed an innovative solution which includes a patient portal, provider portal, research wizard and data warehouse that will differentiate the services that Virtus can offer to Fertility Specialists and patients in the future. The Precision Fertility™ Digital Platform is expected to deliver significant benefits to Virtus in that its capability is lead generating; it will improve IVF outcomes via its interoperability with technologies such as AI; and it will enhance data insights and enable research. It will also significantly increase efficiency across Virtus' operations and may be commercialised by Virtus creating a new business line.

To date this initiative is on time and on budget but the implementation phase is due to commence from November 2022. In the event that the implementation is delayed or the change management and implementation is not executed successfully, there could be negative financial implications for Virtus. The existing patient management system could fail rendering clinical services unable to be provided; efficiency dividends forecast to be delivered with the implementation of the Precision Fertility™ Digital Platform may not be realised and Virtus' relationship with its Fertility Specialists may deteriorate given the substandard performance of the current patient management system and the expectations of the new platform.

(k) **Medical indemnity claims, disputes and associated costs**

Virtus may be involved from time to time in disputes or claims of medical indemnity or similar claims and litigation with current or former patients. These disputes may lead to legal and other proceedings, and may cause Virtus to suffer additional costs to the extent that the claim is not covered by insurance. Subject to indemnity insurance arrangements, future medical malpractice litigation, or threatened litigation, could have an adverse impact on the financial performance, position and future prospects of Virtus (and therefore the price and liquidity of Virtus Shares). Further, even if such matters are successfully disposed of without direct adverse financial effect, they may have an adverse effect on Virtus' reputation and divert resources and management attention.

(l) **Insurance**

Virtus maintains professional indemnity and public liability insurance in respect of a range of events within coverage ranges determined in accordance with the Virtus Board's review and decision. Fertility Specialists are also required to maintain their own professional indemnity insurance. However, no assurance can be given that such insurance will be available in the future on commercially reasonable terms or that any cover will be adequate and available to cover any or all claims.

(m) **Cyber-security risk**

Virtus operates in an environment that is increasingly exposed to heightened cyber-attack threats and data breach risks. Virtus has in place measures and plans aimed at preventing or mitigating the risk of cyber-attack or data breach, including systems to monitor emails and web traffic for viruses, spam and malware, as well as firewalls and other systems which are aimed at preventing or limiting malicious activity. Virtus also undertakes cyber security awareness training for its staff. Despite the measures and plans implemented by Virtus, it may not be able to prevent a cyber-attack or a data breach, which could lead to the interruption of Virtus' systems and operations, additional costs and reputational damage.

7.6 Risks to Virtus Shareholders associated with the BGH Offer becoming unconditional

This section outlines some of the risks to Virtus Shareholders associated with the BGH Offer being or becoming unconditional. The BGH Offer will become unconditional if no Prescribed Occurrence has occurred by the end of the BGH Offer Period.

(a) **Minority ownership (if the BGH Bidders acquire control of Virtus but less than 90% of Virtus Shares)**

If the BGH Bidders acquire more than 50% but less than 90% of the Virtus Shares then the BGH Bidders will acquire a majority shareholding in Virtus but will not be entitled to compulsorily acquire the outstanding Virtus Shares. In this situation or in any other situation where BGH Bidders acquire control of Virtus but less than 90% of Virtus Shares, Virtus Shareholders who do not accept the BGH Offer will become minority shareholders in Virtus. This has a number of possible implications, including:

- Virtus Shareholders who do not accept the BGH Offer will continue to hold Virtus Shares, unless sold on-market (provided Virtus remains an ASX-listed entity), and will remain exposed to the general risks set out in section 7.3 and the specific risks relating to Virtus' business and operations set out in section 7.5;
- the BGH Bidders will be in a position to cast the majority of votes at a general meeting of Virtus. This will enable it to control the composition of the Virtus Board of directors and senior management, which would allow its nominees on the Virtus Board to determine Virtus' dividend policy and control the strategic direction of the businesses of the Virtus Group;
- the BGH Bidders could cause Virtus to refinance its existing debt financing facilities and increase the bank debt present in its capital structure, which will expose the Virtus Group to greater financial risks than they currently face arising from their increased financial leverage, including risk from higher interest rates and the possibility that cash flows may not be sufficient to support debt repayments, leading to insolvency. As set out in Section 5.1, BGH has not provided any detail in relation to its intentions in this regard so Virtus Shareholders do not currently have all the information they need to assess this risk and the impact for them as minority shareholders in Virtus under BGH control;
- having regard to any such refinancing, dividends may not be paid at all or at least until Virtus' debt levels are substantially reduced, with the result that the future Virtus dividend

policy when the BGH Bidders are the majority shareholder may vary significantly from the current Virtus dividend policy;

- repayment of Virtus' existing finance facility may be required, which would have materially adverse consequences for Virtus if alternative financing arrangements are not put in place;
- Virtus' share price is likely to fall immediately following the end of the BGH Offer Period in the absence of the CapVest Transaction, a further takeover offer from or a third party and it is unlikely that the price of Virtus Shares will contain any takeover premium;
- the Virtus business will remain subject to a number of listing and other compliance costs associated with Virtus remaining an ASX-listed company, assuming that it remains an ASX-listed entity;
- liquidity of Virtus Shares may be lower than at present and there is a risk that Virtus could be fully or partially removed from certain S&P/ASX market indices due to lack of free float and/or liquidity; and
- if the number of Virtus Shareholders is less than that required by the ASX Listing Rules to maintain an ASX listing the BGH Bidders have stated that it intends to seek to have Virtus removed from the official list of ASX. If this occurs, Virtus Shares will not be able to be bought or sold on ASX.

(b) **Special resolutions and ASX delisting (if BGH Bidders acquire at least 75% but less than 90% of Virtus Shares)**

If the BGH Bidders acquire at least 75% but less than 90% of Virtus Shares then all of the risks outlined in section 7.6(a) will apply. In addition, if the BGH Bidders acquire at least 75% of the Virtus Shares, then it will be able to pass a special resolution of Virtus. This will enable the BGH Bidders to, among other things, change Virtus' constitution. Virtus may also be removed from the official list of ASX.

(c) **Compulsory acquisition (if BGH Bidders acquires at least 90% of the Virtus Shares)**

If the BGH Bidders acquire at least 90% of the Virtus Shares, then the BGH Bidders will be entitled to compulsorily acquire any Virtus Shares in respect of which it has not received an acceptance of its BGH Offer on the same terms as the BGH Offer. In this situation, regardless of whether Virtus Shareholders have accepted the BGH Offer, it is possible that their Virtus Shares may be compulsorily acquired by the BGH Bidders in accordance with the Corporations Act and they will be forced to receive the BGH Offer Consideration.

8 Tax considerations

8.1 Overview

This section 8 provides a summary of the general Australian income tax consequences for Virtus Shareholders in relation to the BGH Offer, and should be considered in conjunction with the rest of this Target's Statement.

The information contained in this section 8 is only a general guide and is not intended to be an authoritative or complete statement of the tax law applicable to the specific circumstances of any Virtus Shareholder and should not be relied upon by Virtus Shareholders as tax advice. Virtus Shareholders are strongly advised to seek their own professional advice with respect to the tax implications of the BGH Offer.

The following is a general summary of the Australian income tax implications for Virtus Shareholders who hold their Virtus Shares on capital account.

This summary does not apply to all Virtus Shareholders, including those who:

- acquired their Virtus Shares pursuant to an employee share plan;
- hold their Virtus Shares as revenue assets, as trading stock, or are subject to the Taxation of Financial Arrangements provisions in Division 230 of the *Income Tax Assessment Act 1997* or other special taxation rules;
- are financial institutions, insurance companies, partnerships, tax exempt organisations or dealers in securities;
- are shareholders who changed their tax residency while holding their Virtus Shares; or
- are foreign shareholders who own their Virtus Shares through a permanent establishment in Australia.

This summary has been prepared on the basis of Australian income tax law and administrative practice as at the date of this Target's Statement, including the ATO's practices in previous, comparable transactions. References to Australian resident Virtus Shareholders are to Virtus Shareholders who are residents of Australia for Australian income tax purposes and are not tax resident in any other jurisdiction.

8.2 Australian income tax implications of the disposal of Virtus Shares under the BGH Offer

(a) Australian capital gains tax (CGT)

The disposal of Virtus Shares by a Virtus Shareholder under the BGH Offer should constitute a CGT event for Australian income tax purposes.

Virtus Shareholders should:

- make a capital gain if the proceeds from the disposal of their Virtus Shares are greater than the cost base of their Virtus Shares; or
- make a capital loss if the capital proceeds from the disposal of their Virtus Shares are less than the reduced cost base of their Virtus Shares.

The CGT event should occur:

- For personal use only
- for a Virtus Shareholder who has agreed to sell their Virtus Shares by accepting the BGH Offer prior to the BGH Offer becoming unconditional, when the BGH Offer becomes or is declared unconditional; or
 - for a Virtus Shareholder who subsequently sells their Virtus Shares as part of the BGH Offer upon the BGH Offer being or becoming unconditional, when the Virtus Shareholder accepts the BGH Offer from the BGH Bidders to acquire their Virtus Shares; or
 - for a Virtus Shareholder whose Virtus Shares are compulsorily acquired, when the Virtus Shareholder ceases to be the registered shareholder of those Virtus Shares.

Capital proceeds

The capital proceeds for the CGT event arising from the disposal of Virtus Shares under the BGH Offer should be the BGH Offer Consideration.

Cost base

The cost base and reduced cost base of Virtus Shares should generally include the amount paid to acquire the Virtus Shares and the market value of any property given to acquire the Virtus Shares, plus any incidental costs of acquisition (for example, brokerage fees).

CGT discount

Generally, Australian resident Virtus Shareholders who are individuals, trusts, or complying superannuation entities that have held their Virtus Shares for at least 12 months (excluding the dates of acquisition and disposal) at the time of their CGT event should be entitled to the CGT discount in calculating the amount of capital gain on disposal of their Virtus Shares.

The CGT discount is applied after available capital losses have been offset to reduce the capital gain.

The applicable CGT discount which should reduce a capital gain arising from the disposal of Virtus Shares is as follows:

- 50% for individuals and trusts; and
- 33½% for a complying superannuation entity.

The CGT discount is not available for Australian resident Virtus Shareholders who are companies. In addition, the Federal Government has announced that the tax law will be amended with retrospective effect from 1 July 2020 so that trusts that are managed investment trusts and attribution managed investment trusts will be prevented from applying the CGT discount at the trust level (however, the discount may still be available at the unitholder level).

Non-resident Virtus Shareholders may be entitled to the CGT discount on part of their capital gains if they acquired their Virtus Shares before 9 May 2012, but see section 8.2(c) below.

(b) Australian resident Virtus Shareholders

Australian resident Virtus Shareholders who make a capital gain on disposal of their Virtus Shares will be required to aggregate the capital gain with any other capital gains the Virtus Shareholder may have in that income year. Any resulting net capital gain (after offsetting any available capital losses from the current income year or brought forward from prior income years) should be reduced by any applicable CGT discount and any remaining discounted net capital gain for the income year should be included in the Virtus Shareholder's assessable income and should be subject to tax at the Virtus Shareholder's applicable rate of tax.

Australian resident Virtus Shareholders who make a capital loss on the disposal of their Virtus Shares can only offset the capital loss against capital gains realised in the same income year. Any resulting net capital loss may be carried forward and offset against taxable capital gains in subsequent income years. Specific loss recoupment rules apply to companies and trusts, and may restrict their ability to utilise any such capital losses in a future period.

(c) **Non-resident Virtus Shareholders**

Non-resident Virtus Shareholders should be entitled to disregard any capital gain made on the disposal of their Virtus Shares as the Virtus Shares should not be considered to be “indirect Australian real property interests” as the value of Virtus’ interest in Australian land is not more than the value of Virtus’ other assets.

8.3 Foreign resident capital gains tax withholding

The BGH Bidders have stated that, although they are not aware of any circumstances that would lead them to believe the Virtus Shares are “indirect Australian real property interests”, the BGH Bidders may withhold up to 12.5% of the BGH Offer Consideration payable to a Virtus Shareholder unless that shareholder provides a declaration to the effect that either they are a resident of Australia for tax purposes or the shares in Virtus are not “indirect Australian real property interests” by the relevant time.

The BGH Bidders have not indicated what the relevant time is. Virtus recommends that Virtus Shareholders who accept the BGH Offer provide the declaration at the same time. Virtus Shareholders whose Virtus Shares are compulsorily acquired should provide the declaration as soon as they become aware that their Virtus Shares are to be compulsorily acquired. The declaration form can be found at https://www.ato.gov.au/uploadedFiles/Content/LB_1/downloads/Foreign%20resident%20capital%20gains%20withholding%20-%20vendor%20declaration.pdf.

8.4 Minority ownership (if the BGH Bidders acquire control but less than 90% of Virtus Shares)

(a) **Dividend distributions**

Virtus Shareholders who continue to hold Virtus Shares after the BGH Bidders acquire control but less than 90% of Virtus Shares may continue to receive dividend distributions in the future. Virtus Shareholders should be taxed on those dividends (and any attached franking credits) in the same way that they are currently taxed.

(b) **Capital return**

The BGH Bidders have indicated that they may cause Virtus to return capital to Virtus Shareholders. Although no details of such a capital return are available at present, the following broad principles should apply:

- The receipt of the capital return by a Virtus Shareholder should constitute a CGT event for Australian income tax purposes on the date that Virtus distributes the capital return to Virtus Shareholders.
- Virtus Shareholders should either:
 - have the cost base of each of their Virtus Shares reduced by the capital return where the capital return is less than the cost base of each of their Virtus Shares; or
 - make a capital gain if the capital return is greater than the cost base of each of their Virtus Shares, with the capital gain equal to the excess. The cost base of the Virtus Shareholder's Virtus Shares should also be reduced to nil.
- If the ATO determines that it will apply one or more integrity measures to treat part of the capital return as a dividend, the CGT implications described above should only apply to

the part of the capital return that is not determined to be a dividend. Instead, the dividend component will be taxed as a dividend without the benefit of any franking credits.

- An Australian resident Virtus Shareholder who makes a capital gain from the capital return should be entitled to apply capital losses and the CGT discount to reduce the amount of the gain that is taxable.
- Non-resident Virtus Shareholders should be entitled to disregard any capital gain made on the capital return if the Virtus Shares are considered to be “indirect Australian real property interests” at the time of the capital return.

9 Additional information

9.1 Update on CapVest Transaction

Virtus is currently seeking orders from the Supreme Court of New South Wales to convene a Scheme Meeting in relation to the CapVest Scheme and to despatch the CapVest Booklet which has been prepared in relation to the CapVest Transaction. As at the date of this Target's Statement, the court hearing has been adjourned to 4 May 2022. If the orders sought by Virtus are obtained from the Court at that time, the CapVest Booklet will be released to the ASX and despatched to Virtus Shareholders shortly thereafter.

9.2 CapVest Implementation Deed

On 13 March 2022, Virtus and CapVest BidCo entered into a binding implementation deed, which governs the conduct of the CapVest Transaction. The implementation deed was amended and restated on 13 April 2022.

A summary of the key elements of the CapVest Implementation Deed is set out below. A full copy of the CapVest Implementation Deed was released to ASX on 14 April 2022 and can be obtained from <https://www.asx.com.au/> or <https://www.virtushealth.com.au/>.

- (a) **Exclusivity:** Under the CapVest Implementation Deed, Virtus is subject to exclusivity arrangements in favour of CapVest BidCo, which include:
- (i) a no-shop restriction preventing Virtus from soliciting alternative transactions;
 - (ii) a no-talk restriction preventing Virtus from participating in negotiations or discussions with any person in relation to a Competing Proposal, subject to a fiduciary out;
 - (iii) a no due diligence restriction preventing Virtus from allowing any third party to conduct due diligence on Virtus, subject to a fiduciary out;
 - (iv) a notification obligation requiring Virtus to notify CapVest BidCo of any Competing Proposal received and pass on details of the Competing Proposal received (including the person making the proposal and its material terms and conditions) to CapVest BidCo; and
 - (v) a 5 day right for CapVest BidCo to match any Competing Proposal that the Virtus Board considers is superior to the CapVest Transaction before the Virtus Board can recommend that alternative proposal and terminate the CapVest Implementation Deed.
- (b) **Break fee payable by Virtus:** Virtus has agreed to pay CapVest BidCo a break fee of approximately \$7.19 million (excluding GST) if:
- (i) the Virtus Board changes its recommendation of the CapVest Transaction other than where:
 - (A) in case of the CapVest Scheme, the Independent Expert concludes that the CapVest Scheme is not in the best interests of Virtus Shareholders;
 - (B) in case of the CapVest Takeover, the Independent Expert concludes that the CapVest Takeover is not fair and reasonable,other than where the reason for that conclusion is as a result of a Competing Proposal;
 - (ii) a Competing Proposal is announced before 13 September 2022 and, within 9 months of that occurring, a person or persons (other than a member of the CapVest group) obtains control of, or merges or amalgamates with, Virtus or acquires an interest in all or a substantial part of the business or assets of the Virtus Group; or

- (iii) CapVest BidCo terminates the CapVest Implementation Deed due to a material breach by Virtus and the CapVest Transaction does not complete or proceed.

However, the break fee is not payable if the CapVest Scheme becomes Effective or if CapVest BidCo becomes the holder of a Relevant Interest of not less than 50.1% of the Virtus Shares and the CapVest Takeover has been declared or becomes unconditional.

- (c) **Reverse break fee payable by CapVest:** CapVest BidCo has agreed to pay Virtus a break fee of approximately \$7.19 million (excluding GST) where Virtus terminates the CapVest Implementation Deed as a result of CapVest BidCo being in material breach of the CapVest Implementation Deed.
- (d) **Unanimous recommendation:** The Virtus Board agreed to unanimously recommend the CapVest Transaction subject to there being no Superior Proposal and the Independent Expert concluding that, in respect of the CapVest Scheme, it is in the best interests of Virtus Shareholders and that, in respect of the CapVest Takeover, it is fair and reasonable.
- (e) **Termination rights:** Either party may terminate the CapVest Implementation Deed if:
- (i) the other party is in material breach of the CapVest Implementation Deed (including breach of a representation and warranty where such breach is material in the context of the CapVest Transaction as a whole) and the relevant circumstances continue to exist for 10 Business Days from the time the non-breaching party's notice of intention to terminate is given;
 - (ii) a CapVest Scheme Condition is not, or becomes incapable of being, satisfied and is not waived and, after consulting in good faith, the parties are unable to reach an agreement on the basis on which they will proceed with the CapVest Transaction by alternative means;
 - (iii) the CapVest Scheme does not become Effective or the CapVest Takeover is withdrawn or lapses; or
 - (iv) the Control Date has not occurred on or before 13 September 2022.

Virtus may terminate the CapVest Implementation Deed if a majority of the Virtus Board changes their recommendation of the CapVest Transaction on the basis that (i) Virtus receives a Competing Proposal and determines that, after all of CapVest BidCo's matching rights have been exhausted, the Competing Proposal constitutes a Superior Proposal, or (ii) the Independent Expert opines that the CapVest Scheme is not in the best interests of Virtus Shareholders and the Capital Return and CapVest Takeover are not fair and reasonable to Virtus Shareholders.

CapVest BidCo may terminate the CapVest Implementation Deed if the Virtus Board recommends or supports a Competing Proposal or the Virtus Board or any Virtus Director fails to make, withdraws or adversely modifies, their recommendation that Virtus Shareholders vote in favour of the CapVest Scheme and the Capital Return or accept the CapVest Takeover.

9.3 Effect of the BGH Offer on Virtus' material contracts

Virtus is a party to a number of contracts and agreements with a broad range of suppliers, service providers and landlords.

Some contract counterparties have a right to terminate contracts in certain circumstances, including where a change of control provision is triggered or where Virtus is in material breach of the contract. In addition, some contracts contain a right for the counterparty to terminate for convenience at any time during the contract term.

If the BGH Offer is declared or becomes unconditional and a change of control in Virtus occurs, it is possible that material contracts to which Virtus is a party may be subject to termination rights, including in relation to banking arrangements.

In particular, if BGH holds or controls more than 50% of the Virtus Shares, it will give rise to a review event under Virtus' facility agreement which may and give rise to termination rights in favour of the counterparty and an obligation on Virtus to immediately repay all amounts outstanding under the facility. Virtus is not aware of whether BGH has put in place any arrangements to mitigate the adverse consequences to Virtus that would arise if this happened.

Whilst Virtus will seek to mitigate the risk of termination of any other contracts triggered by any change of control transaction, Virtus cannot guarantee that any necessary consents to a change of control will be forthcoming or, if forthcoming, that such consents will not be subject to conditions that are unfavourable to Virtus.

9.4 Takeovers Panel proceedings

There have been a number of recent applications to the Takeovers Panel involving BGH, CapVest and Virtus.

The first application was made by BGH on 2 February 2022. BGH submitted, amongst other things, that entry into a process deed between Virtus and CapVest constituted unacceptable circumstances. The process deed, which was terminated on entry into the CapVest Implementation Deed, contained certain exclusivity and cost recovery protections in favour of CapVest and outlined the framework under which CapVest was willing to proceed with its first non-binding indicative offer in response to the initial unsolicited indication of interest from BGH. On 23 February 2022, the Takeovers Panel made a declaration of unacceptable circumstances and made orders that, amongst other things, effectively required the process deed to be amended to clarify the fiduciary out and non-public information provisions. On the same day, Virtus and CapVest amended the process deed consistent with the Takeovers Panel's orders.

On 4 March 2022, BGH brought a second application submitting, amongst other things, that circumstances hindered the acquisition of control of Virtus taking place in an efficient, competitive and informed market, and deprived Virtus Shareholders of the opportunity to participate in the benefits of a proposal. On 10 March 2022, the Takeovers Panel announced that it had declined to conduct proceedings in relation to that application on the basis there was no reasonable prospect that it would make a declaration of unacceptable circumstances because it would not be willing to second guess the decision of the Virtus Board as to whether it should engage with BGH after CapVest had submitted a superior proposal.

On 8 April 2022 (following announcement of the BGH Offer on 6 April 2022), CapVest made an application to the Takeovers Panel submitting that BGH's Bidder's Statement allows BGH to instruct its broker to acquire Virtus Shares above \$8.00 per Virtus Share without first announcing to the ASX that the offer price under the BGH Offer be varied to a higher price contrary to Rule 5.13.1 of the ASIC Market Integrity Rules and the principle in the Corporations Act that the acquisition of control of Virtus takes place in an efficient, competitive and informed market. On 11 April 2022, the Takeovers Panel made interim orders effectively prohibiting BGH from acquiring on market any Virtus Shares above BGH's Takeover bid price unless it had made certain disclosures to the market. On 22 April 2022, the Takeovers Panel announced that it had accepted an undertaking from BGH and declined to make a declaration of unacceptable circumstances. Later on 22 April 2022, CapVest sought the consent of the Panel President, which was granted, to have that decision reviewed by a newly constituted Takeovers Panel. CapVest is seeking orders to the effect that BGH's broker not be permitted to acquire Virtus Shares on behalf of BGH at a price higher than the BGH Offer bid price until it has announced the price it proposes to acquire them at and ASX Operating Rules Procedures have been complied with and until after 9.00am (London time) following the announcement of the higher price. At the date of this Target's Statement, no decision has been made whether to conduct proceedings.

On 29 April 2022, Virtus made an application to the Takeovers Panel submitting that the circumstances caused by BGH dispatching a defective bidder's statement at a time when it was on notice of the material inaccuracies or omissions in that document (including the superior CapVest Transaction) has the effect of hindering, or is likely to hinder, the acquisition of control of Virtus taking place in an efficient, competitive and informed market and is inconsistent with section 602 of the Corporations Act.

Virtus is seeking interim orders that BGH Bidders be restrained from processing acceptances under the BGH Offer until the conclusion of the Panel proceedings and be required to keep the BGH Offer open for acceptances until the conclusion of the Panel proceedings. Virtus is seeking final orders that BGH Bidders must offer withdrawal rights to Virtus Shareholders for a period of not less than 10 trading days with such period starting from the date on which a supplementary bidder's statement (in a form approved by ASIC and the Panel) is dispatched to Virtus Shareholders, and must extend the BGH Offer Period so that it remains open until the earliest date it could have closed if BGH Bidders had sent a replacement bidder's statement, instead of dispatching the BGH Bidder's Statement, without the consent of Virtus. At the date of this Target's Statement, a sitting Panel has not been appointed and no decision has been made whether to conduct proceedings.

Further information is available on the Takeovers Panel website at <https://www.takeovers.gov.au/>.

9.5 ASIC relief

ASIC has granted relief from the requirement in section 648C of the Corporations Act which requires takeover documents to be sent to shareholders by post or courier. This relief allows this Target's Statement (and any supplementary target's statement) to be despatched electronically to those Virtus Shareholders who have nominated an email address for the purposes of receiving communications from Virtus and for those Virtus Shareholders who have not nominated an email address, to be despatched by sending a letter which outlines how those shareholders can access an electronic copy or hard copy of the Target's Statement.

9.6 Consents

- (a) The following parties have given, and have not withdrawn before the date of this Target's Statement, their consent to be named in this Target's Statement in the form and context in which they are named:
 - (i) Jefferies as financial adviser to Virtus;
 - (ii) Link as the manager of the Virtus Share Registry;
 - (iii) Deloitte as the Independent Expert; and
 - (iv) Gilbert + Tobin as legal adviser to Virtus.
- (b) The Independent Expert has given and has not withdrawn its consent to be named in this Target's Statement and to the inclusion of the Independent Expert's Report in Attachment A to this Target's Statement and to the references to the Independent Expert's Report in this Target's Statement being made in the form and context in which each such reference is included.
- (c) As permitted by ASIC Class Order 13/521, this Target's Statement may include or be accompanied by statements which are made in documents lodged with ASIC or ASX. Pursuant to the Class Order, provided this Target's Statement fairly represents such statements, the consent of the parties making those statements is not required for, and those parties have not consented to, the inclusion of such statements in this Target's Statement. Virtus Shareholders may, during the BGH Offer Period, obtain a copy of the documents (free of charge) in which the aforementioned statements appear (or in which statements based on those statements appear, as the case may be), or the relevant part(s) of any of those documents, by contacting the Virtus Shareholder Information Line on 1800 262 299 (within Australia) or +61 1800 262 299 (outside Australia) Monday to Friday between 8.30am and 7.30pm (Sydney time).
- (d) In addition, as permitted by *ASIC Corporations (Consents to Statements) Instrument 2016/72*, this Target's Statement contains trading data sourced from S&P Capital IQ and IRESS without their consent and may include or be accompanied by statements fairly representing a statement by an official person, or statements from a public official document or a published book, journal or comparable publication.

- (e) Each person named in this section 9.6:
- (i) has not authorised or caused the issue of this Target's Statement;
 - (ii) does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based, other than as specified in this section 9.6; and
 - (iii) to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Target's Statement, other than a reference to its name and the statement (if any) included in this Target's Statement with the consent of that party as specified in this section 9.6.

9.7 Documents available

An electronic version of this Target's Statement and the CapVest Implementation Deed are available for viewing and downloading online at Virtus' website at <https://www.virtushealth.com.au/investor-centre>. The CapVest Booklet will also be available for viewing and downloading at Virtus' website once it is released.

9.8 Supplementary information

If Virtus becomes aware of any of the following between the date of lodgement of this Target's Statement for registration with ASIC and the close of the BGH Offer Period:

- a material statement in this Target's Statement is false or misleading;
- a material omission from this Target's Statement;
- a significant change affecting a matter in this Target's Statement; or
- a significant new matter has arisen and it would have been required to be included in this Target's Statement if known about at the date of lodgement with ASIC,

depending on the nature and timing of the changed circumstances, and subject to obtaining any relevant approvals, Virtus may circulate and publish any supplementary document by:

- making an announcement to ASX;
- placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia;
- posting the supplementary document to Virtus Shareholders at their registered address as shown in the Virtus Share Register; or
- posting a statement on Virtus' website at <https://www.virtushealth.com.au/>,

as Virtus in its absolute discretion considers appropriate.

9.9 Other

(a) Registration of Target's Statement with ASIC

This Target's Statement was registered with ASIC on 3 May 2022 in accordance with section 633(1), Item 13 of the Corporations Act.

(b) **Other material information**

This Target's Statement is required to include all information that Virtus Shareholders and their professional advisors would reasonably require to make an informed assessment whether to accept the BGH Offer, but:

- only to the extent to which it is reasonable for investors and their professional advisors to expect to find the information in this Target's Statement; and
- only if the information is known to any of the Virtus Directors.

The Virtus Board is of the opinion that the information that Virtus Shareholders and their professional advisors would reasonably require to make an informed assessment of whether to accept the BGH Offer is the information contained in:

- this Target's Statement;
- the Bidder's Statement and the First Supplementary Bidder's Statement (to the extent that the information is not inconsistent with or superseded by information in this Target's Statement);
- Virtus's annual reports and public announcements before the date of this Target's Statement; and
- documents lodged by Virtus with ASIC before the date of this Target's Statement.


The Virtus Board has assumed, for the purposes of preparing this Target's Statement, that the information contained in the Bidder's Statement and the First Supplementary Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, the Virtus Board does not take any responsibility for the contents of the Bidder's Statement or the First Supplementary Bidder's Statement and is not to be taken as endorsing, in any way, any or all of the statements contained in it.

In deciding what information should be included in this Target's Statement, the Virtus Board has had regard to:

- the nature of the Virtus Shares (being fully paid ordinary shares);
- the matters which Virtus Shareholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to the professional advisors of Virtus Shareholders; and
- the time available to Virtus to prepare this Target's Statement.

10 Approval of this Target's Statement

This Target's Statement has been approved by a resolution of the directors of Virtus Health Limited (ACN 129 643 492) in accordance with section 639(1)(a) of the Corporations Act. All Virtus Directors voted in favour of that resolution.



Sonia Petering
on behalf of the Board of Virtus Health Limited (ACN 129 643 492)

Dated: 3 May 2022

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11 Glossary and Interpretation

In this Target's Statement unless the context otherwise requires:

Accepted Shares has the meaning given in section 7.3(c) of the Bidder's Statement.

ASIC means the Australian Securities & Investments Commission.

ASIC Market Integrity Rules means *ASIC Market Integrity Rules (Securities Market) 2017 (Cth)*.

Assisted Reproductive Services or **ARS** means treatments that involve the application of laboratory or clinical techniques to gametes and/or embryos for the purpose of reproduction. Common treatments include IVF Cycles, frozen embryo transfers, cryostorage of frozen embryos and intra-uterine insemination.

Associate has the meaning set out in section 12(2) and 16 of the Corporations Act on the basis that each reference to "designated body" is read as a reference to "Virtus". For the avoidance of doubt, this term does not include a reference to "associates" for the purposes of, or as defined in, the tax law including the ITAA 1936 and the ITAA 1997.

ASX means ASX Limited ACN 008 624 691 or, as the context requires, the financial market operated by it.

ASX Listing Rules means the Listing Rules of ASX.

ASX Operating Rules Procedures means the "ASX Operating Rules Procedures" as approved by ASX and published on <https://www2.asx.com.au/about/regulation/rules-guidance-notes-and-waivers/asx-operating-rules-guidance-notes-and-waivers> from time to time.

ATO means Australian Taxation Office.

BGH means BGH Capital Pty Ltd, its wholly owned and controlled entities, and funds managed or advised by it, including the BGH Bidders, as the context requires.

BGH Bidders means Oceania and Bidco.

BGH Offer means the offer by BGH Bidders for Virtus Shares dated 20 April 2022 contained in section 7 of the Bidder's Statement.

BGH Offer Consideration means \$8.00 per Virtus Share.

BGH Offer Period means the period during which the BGH Offer will remain open for acceptance in accordance with section 7.2 of the Bidder's Statement.

Bidco means A.C.N. 658 293 166 Pty Ltd (ACN 658 293 166).

Bidder's Statement means the bidder's statement of the BGH Bidders lodged with ASIC on 6 April 2022.

Business Day means any day that is each of the following:

- (a) a 'Trading Day' within the meaning given in the ASX Listing Rules; and
- (b) a day that is not a Saturday, Sunday or a public holiday or bank holiday in Melbourne, Australia.

Capital Return means the capital return proposed under the CapVest Transaction as part of the CapVest Takeover. Refer to the CapVest Booklet, which is expected to be sent to Virtus Shareholders shortly, for further details.

Capital Return Resolution means the resolution to be considered at the Extraordinary General Meeting by Virtus Shareholders in relation to the Capital Return.

CapVest means CapVest Partners LLP or CapVest BidCo, as the context requires.

CapVest BidCo means Evergreen Bidco Pty Ltd (ACN 657 613 860), an entity controlled by CapVest.

CapVest Booklet means the transaction booklet regarding the CapVest Transaction, which is expected to be sent to Virtus Shareholders shortly.

CapVest Implementation Deed means the implementation deed dated 13 March 2022 between Virtus and CapVest BidCo as amended and restated on 13 April 2022, and as released to ASX on 14 April 2022 and can be obtained from <https://www.asx.com.au/> or <https://www.virtushealth.com.au/>.

CapVest Scheme means the offer by CapVest BidCo to acquire 100% of the Virtus Shares by a scheme of arrangement for total value of \$8.15 per Virtus Share.

CapVest Scheme Conditions means the following conditions precedent to the CapVest Scheme:

- (a) **Restraints:** no restraining order, injunction or other order that would prevent or materially restrict the CapVest Scheme made by a court of competent jurisdiction or Government agency is in effect at 8.00am on the Second Court Date;
- (b) **Shareholder approval:** Virtus Shareholders approve the CapVest Scheme at the Scheme Meeting by the requisite majorities;
- (c) **Court approval:** the Court approves the CapVest Scheme in accordance with section 411(4)(b) of the Corporations Act;
- (d) **No Virtus Prescribed Occurrence:** no Virtus Prescribed Occurrence occurs between (and including) 13 March 2022 and 8.00am on the Second Court Date;
- (e) **No Material Adverse Change:** there is no Material Adverse Change between (and including) 13 March 2022 and 8.00am on the Second Court Date;
- (f) **Independent Expert's Report:** the Independent Expert provides an Independent Expert's Report to Virtus, stating that in its opinion the CapVest Scheme is in the best interests of Virtus Shareholders, and the Independent Expert does not change or publicly withdraw this conclusion prior to 8.00am on the Second Court Date;
- (g) **Warranties:** the representations and warranties given by CapVest BidCo in relation to funding are true and correct at all times between (and including) 13 March 2022 and 8.00am on the Second Court Date; and
- (h) **Performance Rights and Options:** before 8.00am on the Second Court Date, arrangements have been put in place to deal with any options and performance rights on terms acceptable to CapVest BidCo, such that no options or performance rights are in existence on the record date for the CapVest Scheme.

CapVest Takeover means the off-market takeover offer for Virtus Shares by CapVest BidCo, for total value of \$8.10 per Virtus Share.

CapVest Takeover Conditions means the following conditions precedent to the CapVest Takeover:

- (a) **No Virtus Prescribed Occurrence:** no Virtus Prescribed Occurrence occurring between 13 March 2022 and the end of the period in which the CapVest Takeover will remain open for acceptance;
- (b) **Restraints:** no law, statute, ordinance, regulation, rule, temporary restraining order, preliminary or permanent injunction or other judgment, order or decree issued by any Court of competent jurisdiction or Government agency or other legal restraint or prohibition preventing or materially restricting the CapVest Takeover is in effect at the end of the period in which the CapVest Takeover will remain open for acceptance;
- (c) **CapVest Scheme fails:** either:
 - (i) the CapVest Scheme is not approved at the Scheme Meeting by the requisite majority of Virtus Shareholders under subparagraph 411(4)(a)(ii)(B) of the Corporations Act; or
 - (ii) following the approval of the CapVest Scheme at the Scheme Meeting by the requisite majority of Virtus Shareholders under subparagraph 411(4)(a)(ii)(B) of the Corporations Act, the Court does not approve the CapVest Scheme in accordance with section 411(4)(b) of the Corporations Act;
- (d) **Minimum acceptance:** CapVest BidCo has a Relevant Interest in at least 50.1% of the Virtus Shares (on a fully diluted basis);
- (e) **Approval of Capital Return Resolution:** Virtus Shareholders approve the Capital Return Resolution;
- (f) **No Material Adverse Change:** no Material Adverse Change occurs between (and including) 13 March 2022 and the end of the period in which the CapVest Takeover will remain open for acceptance;
- (g) **Termination of CapVest Implementation Deed:** the CapVest Implementation Deed is not terminated by CapVest BidCo under clause 13.1(a) of the CapVest Implementation Deed before the end of the period in which the CapVest Takeover will remain open for acceptance.

CapVest Transaction means the CapVest Scheme and the CapVest Takeover, in each case on the terms set out in the CapVest Implementation Deed.

CapVest Transaction Conditions means the CapVest Scheme Conditions and the CapVest Takeover Conditions.

CGT means capital gains tax.

Competing Proposal means any offer, proposal, agreement, arrangement or transaction, whether existing before, on or after 13 March 2022 (including for the avoidance of doubt any offer, proposal, agreement, arrangement or transaction arising out of or in connection with the BGH Proposal (as that term is defined in the CapVest Implementation Deed) but excluding any Virtus Shares that BGH acquired or agreed to acquire before 13 April 2022 while that shareholding is less than 20%), which, if entered into or completed, could mean that a person other than CapVest BidCo or its associates would:

- (a) directly or indirectly acquire Voting Power in, or have a right to acquire a legal, beneficial or economic interest in, or control of, more than 20% of the securities in any member of the Virtus Group;

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- (b) acquire Control of any member of the Virtus Group;
 - (c) directly or indirectly acquire or become the holder of, or otherwise acquire or have a right to acquire a legal, beneficial or economic interest in, or control of, all or substantially all or material part of the business or assets of any member of the Virtus Group;
 - (d) otherwise directly or indirectly acquire, be stapled with or merge with Virtus; or
 - (e) require CapVest BidCo to abandon, or otherwise fail to proceed with, the CapVest Transaction,

whether by way of a takeover bid, scheme of arrangement, shareholder approved acquisition, capital reduction, buy back, sale, lease or purchase of shares, other securities or assets, assignment of assets or liabilities, joint venture, dual listed company (or other synthetic merger), deed of company arrangements, any debt for equity arrangement or other transaction or arrangement.

Control Date the date on which CapVest BidCo acquires a Relevant Interest in 50.1% or more of all Virtus Shares on issue and either:

- (a) the CapVest Takeover becomes or is declared unconditional; or
- (b) the CapVest Scheme has been implemented.

Corporations Act means the *Corporations Act 2001* (Cth) as modified from time to time by ASIC class orders and ASIC regulatory instruments.

Deloitte means Deloitte Corporate Finance Pty Limited.

Effective means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the CapVest Scheme.

Extraordinary General Meeting means the extraordinary general meeting of Virtus Shareholders convened to consider the Capital Return Resolution.

Fairly Disclosed to a party means disclosed in writing to any of that party or any of its authorised persons in good faith and in sufficient detail so as to reasonably apprise a party (or one of its authorised persons) as to the nature and scope of the relevant matter, event or circumstance.

Fertility Specialists means the doctors with whom Virtus has contracts in place to provide Assisted Reproductive Services at its fertility clinics and day hospitals and **Fertility Specialist** means one of them.

First Supplementary Bidder's Statement means the first supplementary bidder's statement of the BGH Bidders lodged with ASIC on 21 April 2022.

FY20 means the financial year ended 30 June 2020.

FY21 means the financial year ended 30 June 2021.

GST means a goods and services tax or similar value added tax levied or imposed under the GST Law.

GST Law has the meaning given to it in the *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

H1FY22 means the half year ended 31 December 2021.

H2FY22 means the half year ended 30 June 2022.

H1 FY2022 Interim Report means Virtus' half year report for the H1FY22.

Independent Expert means the expert appointed by Virtus, being Deloitte.

Independent Expert's Report means the report prepared by the Independent Expert, a copy of which is set out in Attachment A to this Target's Statement.

ITAA 1936 means *Income Tax Assessment Act 1936* (Cth).

ITAA 1997 means *Income Tax Assessment Act 1997* (Cth).

IVF means in vitro fertilisation, being the process by which an egg is fertilised by a sperm outside the body.

IVF Cycle means a treatment where fertility drugs are administered in preparation for collection of eggs for IVF.

Jefferies means Jefferies (Australia) Pty Ltd (ACN 623 059 898).

Last Practicable Trading Date means Wednesday, 27 April 2022, being the last practicable trading date before the date of this Target's Statement.

Link means Link Market Services Limited (ABN 54 083 214 537).

Material Adverse Change means:

- (a) a counterparty does not provide the relevant approval, waiver, or confirmation in respect of a change of control provision in a contract which is agreed between Virtus and CapVest BidCo to be a key contract;
- (b) an event, occurrence or matter that occurs after 13 March 2022, and which (individually or when aggregated with other events, occurrences or matters) has or is reasonably likely to have the effect of:
 - (i) diminishing the net assets of the Virtus Group by \$34,000,000 or more, as compared to what the net assets of the Virtus Group could reasonably be expected to have been but for the relevant event, occurrence or matter; or
 - (ii) diminishing the annual EBITDA of the Virtus Group (on a recurring basis) by at least \$6,500,000 (calculated after taking into account any event, occurrence or matter after the date of this deed that has or could reasonably be expected to have a positive effect on consolidated annual EBITDA), as compared to what the consolidated annual EBITDA of the Virtus Group (on a recurring basis) could reasonably be expected to have been but for the relevant event, occurrence or matter,

in each case other than an event, occurrence or matter:

- (c) required to be done or procured by Virtus under the CapVest Implementation Deed or the CapVest Transaction (including the payment of a Special Scheme Dividend or Special Takeover Dividend) or relating to the third party debt financing provided or intended to be provided to CapVest Group or the Capital Return;
- (d) to the extent that it was Fairly Disclosed in the disclosure letter from Virtus provided to CapVest BidCo on or prior to 13 March 2022 or the due diligence materials in relation to the Virtus Group disclosed in writing by or on behalf of Virtus to CapVest BidCo and its representatives prior to 13 March 2022;

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- (e) to the extent it was Fairly Disclosed to the ASX in the 2 years before 13 March 2022 or in a document lodged with ASIC in the 18 months before 13 March 2022 or which may arise from an event, occurrence or matter which was so disclosed;
 - (f) to the extent it was actually known to CapVest BidCo prior to 13 March 2022 (which does not include knowledge of the risk of an event, matter or circumstance occurring);
 - (g) which CapVest BidCo has previously approved or requested in writing;
 - (h) relating to costs and expenses incurred by Virtus associated with the CapVest Transaction process, including all fees payable to external advisers of Virtus, to the extent such amounts are Fairly Disclosed in the disclosure letter from Virtus provided to CapVest BidCo on or prior to 13 March 2022 or the due diligence materials in relation to the Virtus Group disclosed in writing by or on behalf of Virtus to CapVest BidCo and its representatives prior to 13 March 2022; or
 - (i) which arise from:
 - (i) changes in exchange rates or interest rates;
 - (ii) general economic, political or business conditions, including changes or disruptions to, or fluctuations in, domestic or international financial markets;
 - (iii) acts of terrorism, war (whether or not declared), natural disaster or adverse weather conditions or the like;
 - (iv) general outbreaks of illness (including COVID-19 or any mutation, variation or derivative) or the like, or from any law, order, rule or direction of any Government Agency in relation thereto (excluding any change in any law, or rule or regulation of any Government agency in respect of fertility treatment and health or impacting the market or business in which the Virtus Group operates); or
 - (v) changes to accounting standards or policies or the interpretation of them, applicable laws or policies of a Government agency in Australia.

Medicare Levy Surcharge means a levy on payers of Australian tax who do not have private health insurance with hospital cover and who earn above a certain income.

Oceania means Oceania Trustee as trustee for the Oceania Trust.

Oceania Trustee means Oceania Equity Investments Pty Ltd (ACN 655 692 738).

Prescribed Occurrence has the meaning given section 7.6 of the Bidder's Statement.

Prescribed Occurrences Condition means the prescribed occurrences condition to the BGH Offer, which is set out in section 7.6 of the Bidder's Statement.

Private Health Insurance Rebate means a rebate from the Australian Government to help cover the cost of premiums for private health insurance in Australia.

Q3FY22 means the quarter year ended 31 March 2022.

Register Date means 8.00am (Melbourne time) on 7 April 2022, being the date set by the BGH Bidders under section 633(2) of the Corporations Act.

Related Body Corporate has the meaning given in the Corporations Act.

Relevant Interest has the meaning given to that term in section 608 and 609 of the Corporations Act.

Rights means all accretions, rights and benefits of whatever kind attaching to or arising from the Virtus Shares directly or indirectly at or after the date of this Bidder's Statement (including all dividends and all rights to receive them and rights to receive or subscribe for shares, notes, bonds, options or other securities or entitlements declared, paid or issued by Virtus or any Subsidiary of Virtus).

Scheme Meeting means the meeting of Virtus Shareholders ordered by the Court to be convened pursuant to section 411(1) of the Corporations Act in relation to the CapVest Scheme, and includes any adjournment of that meeting.

Second Court Date means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the CapVest Scheme is heard (or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard).

Special Dividend means a fully franked cash dividend of up to \$0.44 per Virtus Share held by a Virtus Shareholder on the record date for that special dividend which is intended to be declared by the Virtus Board in connection with the CapVest Transaction.

Subsidiary or **Subsidiaries** has the meaning given to that term in the Corporations Act.

Superior Proposal means a bona fide Competing Proposal (and not resulting from a breach by Virtus (or any of its authorised persons, affiliates or representatives) of any of its obligations under clause 10 of the CapVest Implementation Deed) which the Virtus Board determines in good faith and in order to satisfy what the Virtus Board reasonably considers to be its fiduciary or statutory duties, would, after taking advice from its legal and financial advisers, if completed substantially in accordance with its terms, be likely to result in a transaction more favourable to Virtus Shareholders than the CapVest Transaction having regard to matters including consideration, conditionality, funding, certainty, timing and the identity, reputation and financial condition of the proponent.

Takeovers Panel means the Takeovers Panel constituted under the *Australian Securities and Investments Commission Act 2001* (Cth).

Target's Statement means this document and includes the attachment to it.

Trading Day has the meaning given to that term in the ASX Listing Rules.

Virtus means Virtus Health Limited (ACN 129 643 492).

Virtus Board or **you Board** means the board of directors of Virtus.

Virtus Director or **your director** means a director of Virtus.

Virtus Group means Virtus and each of its Subsidiaries.

Virtus Performance Right means each option, performance right or other security granted to an employee of the Virtus Group in accordance with an employee equity incentive plan of the Virtus Group.

Virtus Prescribed Occurrence means the occurrence of any of the following matters:

- (a) Virtus converts all or any of its shares into a larger or smaller number of shares;
- (b) Virtus resolves to reduce its share capital in any way;

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- (c) Virtus:
 - (i) enters into a buy-back agreement; or
 - (ii) resolves to approve the terms of a buy-back agreement under subsections 257C(1) or 257D(1) of the Corporations Act;
 - (d) any member of the Virtus Group issues shares, or grants a performance right or an option over its shares, or agrees to make such an issue of shares or grant such a right or an option;
 - (e) any member of the Virtus Group issues, or agrees to issue, convertible notes or any instruments or securities convertible into shares other than where the securities are issued, or agreed to be issued to a member of the Virtus Group;
 - (f) any member of the Virtus Group making any change to its constitutive documents;
 - (g) Virtus declaring, paying or distributing any dividend, bonus or other share out of its profits or assets, other than the Special Dividend;
 - (h) any member of the Virtus Group disposes, or agrees to dispose, of the whole, or a substantial part, of the business or property of the Virtus Group;
 - (i) any member of the Virtus Group creates or agrees to create any mortgage, charge, security interest, lien or other encumbrance over the whole, or a substantial part, of its business or property, other than in the usual and ordinary course of business consistent with past practice; or
 - (j) any member of the Virtus Group becomes Insolvent (as that term is defined in the CapVest Implementation Deed);

in each case provided that a Virtus Prescribed Occurrence will not include any matter:

- (k) expressly required to be done or procured by Virtus pursuant to the CapVest Implementation Deed or the CapVest Transaction;
- (l) to the extent it is publicly Fairly Disclosed in filings of Virtus with the ASX in the 2 years before 13 March 2022 or in a document lodged with ASIC in the 18 months before 13 March 2022;
- (m) to the extent it is Fairly Disclosed in the disclosure letter from Virtus provided to CapVest BidCo on or prior to 13 March 2022 or the due diligence materials in relation to the Virtus Group disclosed in writing by or on behalf of Virtus to CapVest BidCo and its representatives prior to 13 March 2022;
- (n) required by law or by an order of a court or Government agency; or
- (o) the undertaking of which CapVest BidCo has previously approved in writing.

Virtus Share means a fully paid ordinary share issued in the capital of Virtus.

Virtus Shareholder Information Line means 1800 262 299 (within Australia) or +61 1800 262 299 (outside Australia) Monday to Friday between 8.30am and 7.30pm (Sydney time).

Virtus Share Register means the register of Virtus Shareholders kept by Virtus and **Virtus Share Registry** means the manager from time to time of the Virtus Share Register (currently Link).

Virtus Shareholder means a person registered in the Virtus Share Register as a holder of Virtus Shares.

Voting Power has the meaning given in the Corporations Act.

VWAP means volume weighted average price.

Interpretation

- (a) Words and phrases to which a meaning is given by the Corporations Act have that meaning in this Target's Statement unless that meaning is inconsistent with the context in which the word or phrase is used.
- (b) Headings are for convenience only and do not affect the interpretation of this Target's Statement.
- (c) The singular includes the plural and vice versa and words importing any gender include the other gender, and references to persons include corporations, other bodies corporate, unincorporated bodies, partnership, joint ventures or associations.
- (d) References to sections are to sections of this Target's Statement, unless stated otherwise.
- (e) Where a term is defined, its other grammatical forms have a corresponding meaning.
- (f) References to time are references to the time in Sydney, Australia on the relevant date, unless stated otherwise.
- (g) A reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- (h) A term not specifically defined in this Target's Statement has the meaning given to it in the Corporations Act (being, if any special meaning is given for the purposes of Chapter 6 or 6A of the Corporations Act or a provision of those chapters, that special meaning).
- (i) "\$" or "A\$" or "AUD" is a reference to the lawful currency of Australia.

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Virtus Health Limited

Independent expert's report and Financial Services Guide in respect of the
Proposed BGH Takeover

3 May 2022

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Financial Services Guide (FSG)

What is an FSG?

An FSG is designed to provide information about the supply of financial services to you.

Why are we providing this FSG to you?

Deloitte Corporate Finance Pty Limited (Deloitte Corporate Finance) (AFSL 241457) has been engaged by Virtus Health Limited (Virtus) to prepare an independent expert's report (our Report) in connection with the proposed acquisition by entities associated with BGH Capital Pty Ltd (BGH) of all the issued shares in Virtus that it does not already own by way of a takeover offer (Proposed BGH Takeover). Virtus will provide our Report to you.

Our Report provides you with general financial product advice. This FSG informs you about the use of general financial product advice, the financial services we offer, our dispute resolution process and our remuneration. Our contact details are in the document that accompanies this FSG.

What financial services are we licensed to provide?

We are authorised to provide financial product advice and to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes, government debentures, stocks or bonds, to retail and wholesale clients. We are also authorised to provide personal and general financial product advice and deal by arranging in derivatives and regulated emissions units to wholesale clients, and general financial product advice relating to derivatives to retail clients.

We are providing general financial product advice

In our Report, we provide general financial product advice as we have not taken into account your personal objectives, financial situation or needs, and you would not expect us to have done so. You should consider whether our general advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is in connection with the acquisition of a financial product, you should read the relevant offer document carefully before making any decision about whether to acquire that product.

How are we remunerated?

Our fees are usually determined on a fixed fee or time cost basis plus reimbursement of any expenses incurred in providing the services. Our fees are agreed with, and paid by, those who engage us. You are not responsible for our fees.

We will receive a fee of approximately AUD 75,000 exclusive of GST in relation to the preparation of our Report. This fee is not contingent on the outcome of the Proposed BGH Takeover.

Apart from these fees, Deloitte Corporate Finance, our directors and officers, and any related bodies corporate, affiliates or associates, and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary, and, while eligible for annual salary increases and bonuses based on overall performance, they do not receive any commissions or other benefits as a result of the services provided to you.

The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

3 May 2022

Deloitte Corporate Finance Pty Limited, ABN 19 003 833 127, AFSL 241457 of Level 1 Grosvenor Place, 225 George Street, Sydney NSW 2000

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Associations and relationships

The Deloitte member firm in Australia (Deloitte Touche Tohmatsu) controls Deloitte Corporate Finance. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu.

We, and other entities related to Deloitte Touche Tohmatsu, do not have any formal associations or relationships with any entities that are issuers of financial products. However, we may provide professional services to issuers of financial products in the ordinary course of business.

In the last 2 years Deloitte has provided advice and services to Virtus that are not connected with this IER. Deloitte Corporate Finance has prepared a draft independent expert's report in respect of the CapVest proposals (the CapVest Offers IER). None of the individuals who were involved in preparing the IER were involved in providing that advice or services.

What should you do if you have a complaint?

If you have a concern about our Report, please contact us:

The Complaints Officer
PO Box N250
Grosvenor Place
Sydney NSW 1220
complaints@deloitte.com.au
Fax: +61 2 9322 7000

If an issue is not resolved to your satisfaction, you can lodge a dispute with the Australian Financial Complaints Authority (AFCA). AFCA provides fair and independent financial services dispute resolution free to consumers.

www.afca.org.au
1800 931 678 (free call)
Australian Financial Complaints Authority Limited
GPO Box 3 Melbourne VIC 3001

What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services we provide. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

The Directors
Virtus Health Limited
Level 3
176 Pacific Highway
Greenwich NSW 2065

3 May 2022

Dear Directors

Re: Independent expert's report in respect of the Proposed BGH Takeover

Introduction

On 20 April 2022 entities associated with BGH Capital Pty Ltd (BGH) made an off-market takeover offer for Virtus Health Limited (Virtus) whereby they would seek to acquire all the shares in Virtus they did not own for AUD 8.00 cash per share (Proposed BGH Takeover). An overview of the Proposed BGH Takeover is provided in Section 1 of our detailed report, and full details are included in the bidder's statement despatched to Shareholders on 20 April 2022 by BGH (the BGH Bidder's Statement) and the target's statement issued by Virtus (the Target's Statement).

The Proposed BGH Takeover is made in the context of offers made by entities associated with CapVest Partners LLP (CapVest) on 11 April 2022. Further details on the offers by CapVest (being the Proposed CapVest Scheme and the Proposed CapVest Takeover) are set out in Section 1.1.

Purpose of the report

The directors of Virtus (the Directors) have requested that Deloitte Corporate Finance Pty Limited (Deloitte Corporate Finance) provide an independent expert's report advising whether, in our opinion the Proposed BGH Takeover is fair and reasonable so far as shareholders not associated with BGH (Shareholders) are concerned.

This report is to be included in the Target's Statement to be sent to Shareholders and has been prepared for the exclusive purpose of assisting Shareholders in their consideration of the Proposed BGH Takeover. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than Shareholders and Virtus, in respect of this report, including any errors or omissions however caused.

Basis of evaluation

In preparing this report, we have had regard to ASIC Regulatory Guide 111 in relation to the content of expert's report and ASIC Regulatory Guide 112 in respect of the independence of experts.

To assess whether the Proposed BGH Takeover is fair and reasonable, we have adopted the test of whether the Proposed BGH Takeover is either fair and reasonable, not fair but reasonable, or neither fair nor reasonable, as set out in ASIC Regulatory Guide 111.

Further information on the basis of evaluation is set out in Section 2.

Our evaluation

In evaluating the Proposed BGH Takeover and forming our opinion, we have had regard to the following factors.

The Proposed BGH Takeover is fair

According to ASIC Regulatory Guide 111, in order to assess whether the Proposed BGH Takeover is fair, the independent expert is required to compare the market value of a Virtus share on a control basis with the consideration offered.

The Proposed BGH Takeover is fair if the value of the consideration is equal to or greater than the value of a Virtus share. Set out in the table below is that comparison:

Table 1: Comparison of our valuation of a Virtus share to the Consideration

AUD	Section	Low	High
Estimated market value of one Virtus share	5.1	7.31	8.27
Cash consideration under the Proposed BGH Takeover ¹			8.00
Alternative offers			
Cash consideration under the Proposed CapVest Scheme ¹			8.15
Cash consideration under the Proposed CapVest Takeover ¹			8.10

Notes:

1. Excludes Permitted Dividend of AUD 0.12 per share

Source: Deloitte Corporate Finance analysis

The Consideration being offered under the Proposed BGH Takeover is within the range of our estimate of the market value of a Virtus share and therefore the Proposed BGH Takeover is fair. However, we highlight that the Consideration under the Proposed BGH Takeover:

- is lower than the Consideration being offered under the Proposed CapVest Scheme
- is lower than the Consideration being offered under the Proposed CapVest Takeover.

The Proposed CapVest Scheme and the Proposed CapVest Takeover are subject to certain conditions. Our analysis of these conditions is discussed later.

In addition, since the Proposed BGH Takeover was announced, shares in Virtus have consistently traded above the Consideration being offered under the Proposed BGH Takeover and the Proposed CapVest Takeover and more recently above the Consideration under the Proposed CapVest Scheme.

Valuation of a Virtus share

We have estimated the enterprise value of Virtus by applying the market multiples approach and also considered the discounted cash flow approach.

Table 2: Valuation summary

	Section	Unit	Low	High
Market multiples approach	5.3	AUD m	850.0	935.0
Discounted cash flow approach	5.4	AUD m	820.0	960.0
Enterprise value (selected)		AUD m	850.0	935.0
Add: Surplus assets	5.5	AUD m	1.8	1.8
Less: Net debt	5.6	AUD m	(204.2)	(204.2)
Less: Minority interests	5.7	AUD m	(10.3)	(11.3)
Equity value		AUD m	637.3	721.3
Number of shares	5.8	m	87.2	87.2
Value per share		AUD	7.31	8.27

Source: Deloitte Corporate Finance analysis

Under the market multiples approach we have assessed the maintainable EBITDA to be AUD 85m, as outlined in Section 5.3.1, based on our analysis of a normalised EBITDA and having regard to the current market environment and management's plans for the business.

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The selected earnings multiple of 10x to 11x (on a control basis) was based on the earnings multiples of various listed companies and recent transactions involving companies in the assisted reproductive services sector and broader health services industry.

The discounted cash flow approach requires the determination of an appropriate discount rate and the projection of future cash flows. We selected a nominal after tax discount rate in the range of 8.25% to 9.25% to discount the estimated future cash flows to their present value. We considered a number of future cash flow scenarios having regard to industry trends and government support with respect to medium-term and long-term projections in the current environment. The range under the discounted cash flow approach is therefore wide. Consequently, we only consider it appropriate to use it as a secondary approach and we have selected our enterprise value range based on the market multiples approach. In our opinion our market multiples approach is supported by our discounted cashflow approach.

We made adjustments to the selected enterprise value for some investments (surplus assets), net debt and minority interests in subsidiaries which are not 100% owned by Virtus, to arrive at the equity value. The equity value divided by the number of shares on issue calculates the value of a Virtus share.

Further details of our valuation of Virtus are set out in Section 5.

The proposed Consideration

BGH has proposed cash consideration of AUD 8.00 per share (excluding the Permitted Dividend of AUD 0.12 per share) with no notable conditions.

CapVest has proposed different consideration under each of the Proposed CapVest Scheme and the Proposed CapVest Takeover. If the Proposed CapVest Scheme is approved, Shareholders will receive AUD 8.15 cash per share (excluding the Permitted Dividend of AUD 0.12 per share). If the Proposed CapVest Scheme is not approved, and if the Proposed CapVest Takeover is accepted by Shareholders who own at least 50.1% of the shares on issue (or this condition is waived), then the Proposed CapVest Takeover will proceed and those Shareholders who have accepted the Proposed CapVest Takeover will receive AUD 8.10 cash per share (excluding the Permitted Dividend of AUD 0.12 per share).

The Proposed BGH Takeover is reasonable

ASIC Regulatory Guide 111 states that an offer is reasonable if it is fair. On this basis, in our opinion, the Proposed BGH Takeover is reasonable.

We also highlight the following factors that Shareholders may wish to consider in their assessment of the Proposed BGH Takeover.

Recent trading in Virtus shares has been above the Consideration under the Proposed BGH Takeover

Since the Proposed BGH Takeover was announced, shares in Virtus have consistently traded above the Consideration being offered under the Proposed BGH Takeover.

BGH has indicated that it will vote against the Proposed CapVest Scheme

BGH, which at the time of this report holds 19.99% of the shares in Virtus, has stated it will vote against the Proposed CapVest Scheme in respect of any Virtus shares it holds. Given the shareholding of BGH, and based on precedents, there is a significant risk that the Proposed CapVest Scheme will not be approved. If this was the case, Shareholders will not be able to realise the benefit of the higher consideration under the Proposed CapVest Scheme.

However, at that point, Shareholders will still have the opportunity to sell their shares into the Proposed CapVest Takeover, subject to the 50.1% minimum acceptance condition. Since BGH is unlikely to accept the Proposed CapVest Takeover, this means that other shareholders owning more than 60% of the remaining shares not owned by BGH would need to accept the Proposed CapVest Takeover unless CapVest waives this minimum acceptance condition.

This risk that the minimum acceptance condition is not satisfied or CapVest does not waive this condition should be considered together with the timing of the payment to be made under the Proposed BGH Takeover which is discussed below.

The premium to the share price of Virtus prior to the announcement of the initial approach from BGH under the Proposed BGH Takeover is lower than the Proposed CapVest Scheme and the Proposed CapVest Takeover

The premium implied by the Consideration to undisturbed share trading prices is significant and higher than the normal range of premiums observed in the Australian market. Regardless of how you look at it and as long as you use a consistent basis of measurement, the premiums are greater under the Proposed CapVest Scheme and the Proposed CapVest Takeover.

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There is certainty in the cash consideration

The Proposed BGH Takeover represents an opportunity for Shareholders to realise their investment in Virtus without incurring any transaction costs. This is also the case with the Proposed CapVest Scheme and the Proposed CapVest Takeover. However, there are no notable conditions to the Proposed BGH Takeover whereas the Proposed CapVest Scheme and Proposed CapVest Takeover have notable conditions.

At this stage, there is little difference in the timing of the payment of the Consideration under the different offers:

- Shareholders are likely to be paid the Consideration under the Proposed BGH Takeover on or after 3 June 2022
- Shareholders are likely to be paid the Consideration under the Proposed CapVest Scheme in late June 2022
- If the Proposed CapVest Scheme is not approved, Shareholders who accept the Proposed CapVest Takeover can expect to be paid the Consideration under the Proposed CapVest Takeover in late July 2022.

The offer period of the Proposed BGH Takeover does not allow Shareholders to assess whether the Proposed CapVest Scheme or the Proposed CapVest Takeover will go ahead

The Proposed BGH Takeover is currently expected to close on 20 May 2022 whilst the meeting to approve the Proposed CapVest Scheme or the Proposed CapVest Takeover is currently expected to be held in early June 2022. If BGH does not extend its offer period, Shareholders who have chosen not to accept the Proposed BGH Takeover offer may not be able to sell their shares into the Proposed CapVest Scheme and Proposed CapVest Takeover if the conditions of those offers are not satisfied or waived.

In that case Shareholders who have not accepted the Proposed BGH Takeover will continue to be exposed to the risks and rewards associated with Virtus and the Australian Assisted Reproductive Services (ARS) sector, possibly with BGH being a shareholder with control of the company. BGH's intentions in the event it acquires more than 50% but less than 90% of the shares in Virtus are set out in Section 1.6.2.

Given the disclosure requirements of the Corporations Act, Shareholders will benefit from some transparency as to the acceptances of the Proposed BGH Takeover (as BGH will have an obligation to inform the market) until that offer closes.

The tax outcomes under the various offers are likely to be different depending on the individual circumstances of Shareholders

Whilst the cash consideration under the various offers is as described above, the nature of the payment under the various offers differs.

Under the Proposed BGH Takeover, Shareholders will receive a cash payment from BGH and this will be subject to tax based on their individual circumstances.

The form of the Consideration under the Proposed CapVest Scheme and Proposed CapVest Takeover could result in different tax outcomes for different Shareholders based on their individual circumstances. In particular, the Proposed CapVest Scheme and the Proposed CapVest Takeover propose a special franked dividend which may be of value to certain Shareholders. Given that any benefit will be unique to each individual shareholder we have did not attempt to value these different outcomes.

The likelihood of a superior offer emerging from a party other than BGH or Capvest is low

Prior to entering into the transaction implementation deed with CapVest, Virtus had received an initial offer from BGH (in December 2021) and, subsequently CapVest and BGH made competing, higher offers. As such the market value of Virtus (including controlling interests) is well informed.

Following the announcement of Virtus entering into the transaction implementation deed with CapVest, BGH announced an off-market takeover offer at a price of AUD 8.00 cash per share after adjustment for a Permitted Dividend. CapVest then increased its offer above that price.

At the date of this report, the Consideration under the Proposed CapVest Scheme and the Proposed CapVest Takeover exceeds the Consideration under the Proposed BGH Takeover.

The share price of Virtus is unlikely to fall if the Proposed BGH Takeover is not successful

It is common for the share price of a target company that is subject to a takeover offer to trade at or around the price of the takeover offer during the offer period, particularly if the market has formed the view that the takeover will proceed at that price. The price of Virtus shares on the ASX has been consistently higher than the Consideration being offered under the Proposed BGH Takeover.

If the Proposed BGH Takeover is not successful, we consider that the share trading price will continue to be underpinned by the Proposed CapVest Scheme and the Proposed CapVest Takeover and expectations of their success. As such, it is unlikely to decline unless these two proposals are also unsuccessful.

Opinion

In our opinion, and without having regard to any superior proposal, the Proposed BGH Takeover is fair and reasonable. Whilst it is not a requirement under ASIC Regulatory Guide 111 for us to determine which offer is superior we highlight the following factors for consideration by Shareholders in their assessment:

- It is currently possible to sell Virtus shares on the market for a price greater than the offers from BGH and CapVest
- The consideration being offered to Shareholders under the Proposed CapVest Scheme and the Proposed CapVest Takeover is greater than the Consideration being offered under the Proposed BGH Takeover by AUD 0.15 per share and AUD 0.10 per share, respectively
- The Consideration being offered to Shareholders under the Proposed CapVest Scheme and the Proposed CapVest Takeover has certain elements (namely a special franked dividend) with franking credits of up to AUD 0.19 per share which may be of additional value to certain Shareholders
- There is greater certainty for Shareholders in the Proposed BGH Takeover as the offer has no notable conditions and there is the possibility that the Proposed CapVest Scheme and the Proposed CapVest Takeover may not proceed as a result of the minimum acceptance conditions attached to those offers
- the Virtus Board is unanimously recommending the CapVest Offers in the absence of a superior proposal.

An individual shareholder's decision in relation to the Proposed BGH Takeover, the Proposed CapVest Scheme or the Proposed CapVest Takeover may be influenced by their particular circumstances. If in doubt the shareholder should consult an independent adviser, who should have regard to their individual circumstances.

This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

Yours faithfully



Tapan Parekh
Authorised Representative (Number 461009)
Deloitte Corporate Finance Pty Limited (AFSL Number 241457)

Glossary

Reference	Definition	Reference	Definition
ABS	Australian Bureau of Statistics	m	Million
ARS / ART	Assisted reproductive services / Assisted reproductive treatment	Management	Virtus management
ASIC	Australian Securities and Investments Commission	NPAT	Net profit after tax
BGH	Entities associated with BGH Capital Pty Ltd	Permitted Dividend	The dividend of AUD 0.12 per share declared on 22 February 2022 and paid on 14 April 2022
BGH Bidder's Statement	Bidder's statement lodged on 6 April 2022 and despatched to Shareholders on 20 April 2022 by BGH	Proposed BGH Takeover	The proposed acquisition of Virtus by way of off-market takeover by BGH for AUD 8.00 per share excluding any Permitted Dividend
bn	Billion	Proposed CapVest Scheme	The proposed acquisition of 100% of Virtus by way of scheme of arrangement by CapVest for AUD 8.15 per share excluding any Permitted Dividend
CapVest	Entities associated with CapVest Partners LLP	Proposed CapVest Takeover	The proposed acquisition of Virtus by way of off-market takeover by CapVest, conditional on the Proposed CapVest Scheme failing, for AUD 8.10 per share excluding any Permitted Dividend
CapVest Offers	Refers to the Proposed CapVest Scheme and Proposed CapVest Takeover collectively	Shareholder	Holder of Virtus shares, not associated with BGH
Consideration	AUD 8.15 per share in the case of the Proposed CapVest Scheme, AUD 8.10 per share in the case of the Proposed CapVest Takeover and AUD 8.00 per share in the case of the Proposed BGH Takeover	Special Dividend	The Virtus Board is permitted to pay a special dividend of up to AUD 0.44 per share in cash, on or shortly before implementation of the Proposed CapVest Scheme or the Proposed CapVest Takeover
COVID-19	Novel Coronavirus	Target's Statement	Target's statement issued by Virtus in relation to the Proposed BGH Takeover
Deloitte	Deloitte Touche Tohmatsu	Transaction Implementation Deed	The binding agreement entered into between CapVest and Virtus on 13 March 2022 and announced to the market by Virtus on 14 March 2022, including the amendments made on 13 April 2022
Deloitte Corporate Finance	Deloitte Corporate Finance Pty Ltd	Virtus	Virtus Health Limited
EBITDA	Earnings before interest, tax, depreciation and amortisation	VWAP	Volume-weighted average price
EV	Enterprise value		
FY	Financial year ended 30 June		
H1FYxx	First half of financial year ended 30 June 20xx		
H2FYxx	Second half of financial year ended 30 June 20xx		
IER	Independent expert's report		
IVF	In-vitro fertilisation		

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1 Overview of the Proposed BGH Takeover

1.1 Background to the Proposed BGH Takeover

On 20 April 2022 BGH lodged with the Australian Securities Exchange (ASX) a notice of despatch of a bidder's statement (the BGH Bidder's Statement) in respect of the Proposed BGH Takeover.

Prior to this, on 11 April 2022, CapVest announced the terms of a revised proposal by which it will undertake to:

- acquire 100% of Virtus by a scheme of arrangement (Proposed CapVest Scheme) for AUD 8.15 cash per share excluding a Permitted Dividend of AUD 0.12 per share
- make a simultaneous off-market takeover offer, conditional on the Proposed CapVest Scheme failing and 50.1% minimum acceptance condition¹ (Proposed CapVest Takeover) for AUD 8.10 cash per share excluding a Permitted Dividend of AUD 0.12 per share.

(collectively referred to as the CapVest Offers).

Under the Proposed CapVest Scheme and the Proposed CapVest Takeover, CapVest has also allowed Virtus to pay a Special Dividend of up to AUD 0.44 per share in cash, on or shortly before implementation of the Proposed CapVest Scheme and Proposed CapVest Takeover which will reduce the amount paid by CapVest for each Virtus share

Under the Proposed CapVest Takeover, but subject to a positive tax ruling from the Australian Taxation Office, Virtus intends to pay a capital return of AUD 3.11 less the amount of any Special Dividend (of up to AUD 0.44) and the amount of the Special Dividend. The capital return will require approval of Shareholders and is inter-conditional on the Proposed CapVest Takeover receiving the 50.1% minimum acceptance¹.

The components of the Consideration under the various offers are summarised in the table below.

Table 3: Components of the Consideration

	Proposed CapVest Scheme		Proposed CapVest Takeover		Proposed BGH Takeover
	Low	High	Low	High	
Special Dividend (paid by Virtus)	-	0.44	-	0.44	-
Capital return (paid by Virtus)	-	-	3.11	2.67	-
Payment by CapVest or BGH	8.15	7.71	4.99	4.99	8.00
Total consideration paid to Shareholders	8.15	8.15	8.10	8.10	8.00

Source: Management

The Special Dividend will be franked and as such there may be additional benefits that shareholders may be able to realise from the value of those franking credits subject to the circumstances of each individual shareholder. It is proposed that, if the Australian Taxation Office has not confirmed that 100% of the capital return payment will be treated as a capital return before the Proposed CapVest Takeover is declared or becomes unconditional, the payment of the capital return will be deferred (and will not be deducted from the AUD 8.10 per share consideration under the Proposed CapVest Takeover).

The consideration being offered by BGH is cash and there is no Special Dividend or capital return proposed.

Further information on the Proposed BGH Takeover is contained in the BGH Bidder's Statement and the Target's Statement.

1.2 Timeline of the offers

On 14 December 2021, Virtus announced that it had received an unsolicited, non-binding indication of interest from BGH to acquire 100% of Virtus for AUD 7.10 per share less Permitted Distributions by way of scheme of arrangement. BGH also disclosed that, inclusive of a total return swap, they had a beneficial interest of 19.99% of the issued capital.

¹ CapVest has reserved the right to waive this condition

On 20 January 2022, Virtus announced that it had received a non-binding indicative offer from CapVest to acquire 100% of Virtus for AUD 7.60 per share less Permitted Distributions, by way of scheme of arrangement. Under the offer, if the scheme was not successfully implemented, CapVest indicated they were willing to proceed with an alternative transaction structure offering AUD 7.50 per share less Permitted Distributions, with a 50.1% minimum acceptance condition¹.

The Virtus Board also announced that it had entered into a Process Deed with CapVest, granting them exclusive due diligence in order to allow the development of a binding proposal capable of being recommended to Shareholders.

On 23 February 2022 and following receipt by the Australian Takeovers Panel of an application from BGH, the Australian Takeovers Panel made the declaration that certain exclusivity arrangements in the Process Deed were anti-competitive and therefore determined to be of no force and effect. In addition, CapVest were prohibited from entering into a scheme implementation agreement to acquire Virtus for 10 business days.

On 28 February 2022, Virtus announced it had received a revised non-binding indicative proposal from BGH to acquire 100% of Virtus for AUD 7.65 per share less Permitted Distributions, by way of scheme of arrangement.

On 1 March 2022, Virtus announced it had received a revised non-binding indicative proposal from CapVest to acquire 100% of Virtus for AUD 7.80 per share less Permitted Distributions. The offer under the alternative transaction was also revised to AUD 7.70 per share less Permitted Distributions.

On 10 March 2022 BGH revised their non-binding indicative proposal to acquire Virtus for AUD 8.10 per share less Permitted Distributions.

On 13 March 2022, CapVest increased their offer to AUD 8.25 cash per share and after adjustment for a Permitted Dividend, AUD 8.13 per share. The offer under the alternative transaction increased to AUD 8.10 cash per share, and after excluding the Permitted Dividend, AUD 7.98 per share. Virtus then entered into the Transaction Implementation Deed.

On 6 April 2022, BGH announced its intention to make an off-market takeover offer at AUD 8.00 cash per share (excluding the Permitted Dividend).

On 11 April 2022, CapVest increased their offer in line with the terms outlined in Section 1.1.

On 20 April 2022, BGH lodged the BGH Bidder's Statement in line with the terms outlined in Section 1.1.

1.3 Background to BGH

BGH is a private equity firm founded in 2017 with in excess of AUD 6bn in committed capital. It has investments in various private companies in the healthcare, food, education and entertainment sectors. It is focussed on the Australian and New Zealand markets.

BGH partners with entrepreneurs and management teams providing the portfolio companies with capital as well as analytical, strategic and operational resources and in the process achieve attractive risk-adjusted returns for its investors.

Further information about BGH is contained in Section 1.2 of the BGH Bidder's Statement.

1.4 Key conditions of the Proposed BGH Takeover

The Proposed BGH Takeover has no notable conditions.

Further detail on the conditions of the Proposed BGH Takeover are set out in Section 7.6 of the BGH Bidder's Statement.

1.5 Key conditions of the CapVest Offers

The Proposed CapVest Scheme is subject to customary conditions, including:

- no material adverse changes as defined under the Transaction Implementation Deed and as set out in the glossary to the Target's Statement
- shareholder approval, including the majority of shareholders present and voting and 75% of the votes cast supporting the resolution
- court approval
- no court or government agency issuing a temporary or permanent restraint on the Proposed CapVest Scheme.

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Should the Proposed CapVest Scheme not proceed, similar conditions (with the exception of a requirement for shareholder approval) would apply to the Proposed CapVest Takeover, however a minimum shareholder acceptance condition of 50.1% would apply and the capital return referred to in Section 1.1 being approved by shareholders. Under the Proposed CapVest Takeover, CapVest has the right to waive any or all of those conditions.

Under the CapVest Offers, Virtus or CapVest is liable for a break fee of AUD 7.2m, payable under certain prescribed conditions. The break fee conditions are set out in Section 11 and Section 12 of the Transaction Implementation Deed. If the Proposed BGH Takeover is successful, Virtus will need to pay to CapVest the break fee.

Further detail on the conditions of the CapVest Offers is set out in the Target's Statement.

1.6 Intentions if the Proposed BGH Takeover is successful

There is a range of outcomes under the Proposed BGH Takeover which are encapsulated in three scenarios:

1. BGH acquires 90% or more of the shares in Virtus
2. BGH acquires greater than 50% but less than 90% of the shares in Virtus
3. BGH acquires less than 50% of the shares in Virtus.

Under each of these scenarios, the Consideration Shareholders will receive will remain unchanged, being AUD 8.00 cash per share.

Whilst we have provided a brief summary of BGH's intentions below, further information about BGH's intentions is contained in Section 3 of the BGH Bidder's Statement.

1.6.1 BGH acquires 90% or more of the shares in Virtus

If BGH acquires 90% or more of the shares in Virtus, it will then proceed to compulsorily acquire the balance of the shares in Virtus it does not own such that it will then own all of the shares in Virtus.

In such a scenario, BGH intends for Virtus to continue to be centred around quality patient experiences and outcomes whilst seeking to grow the business in the fertility sector organically and through other opportunities, including strategic acquisitions. BGH also intends to engage with existing fertility specialists on their existing incentive plan and consider any improvements which would increase the ability of the group to attract and retain fertility specialists.

In this scenario, Shareholders will no longer have the opportunity to participate in the Proposed CapVest Scheme or the Proposed CapVest Takeover.

1.6.2 BGH acquires greater than 50% but less than 90% of the shares in Virtus

If BGH acquires between 50.1% and 90% of the shares, it has indicated that it will:

- apply to delist Virtus from the ASX, which is subject to certain conditions. If this occurs, it will be very difficult for continuing Shareholders to trade or sell their shares. If Virtus shares continue to trade on the ASX, continuing Shareholders will own shares with lower levels of liquidity on the ASX
- nominate persons to be appointed to the Virtus Board proportionate to their percentage shareholding in Virtus
- seek to replace the existing debt facilities of Virtus with a new financing structure designed to facilitate the continued growth of Virtus and implement a capital management policy. Whilst no further information has been provided by BGH in respect of this, we would expect that:
 - BGH will request that Virtus increase its borrowings
 - as a consequence of the increase in borrowings, there may be implications for future dividends.

In this scenario, Shareholders will no longer have the opportunity to participate in the Proposed CapVest Scheme and absent CapVest waiving the minimum 50.1% acceptance condition, Shareholders will also not have the opportunity to participate in the Proposed CapVest Takeover.

1.6.3 BGH acquires less than 50% of the shares in Virtus

If BGH acquires less than 50% of the shares, it has indicated that it will:

- seek to keep Virtus shares listed on the ASX subject to the requirements for listing being maintained
- nominate persons to be appointed to the Virtus Board proportionate to their percentage shareholding in Virtus.

In this scenario, Shareholders will no longer have the opportunity to participate in the Proposed CapVest Scheme and depending on acceptance levels of the Proposed BGH Takeover together with CapVest waiving the minimum 50.1% acceptance condition, Shareholders will also not have the opportunity to participate in the Proposed CapVest Takeover.

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2 Basis of evaluation

2.1 Guidance on evaluating the Proposed BGH Takeover

Section 640 of the Corporations Act 2001 (Section 640) requires an independent expert's report in connection with a takeover offer to state whether, in the expert's opinion, the takeover offer is fair and reasonable.

ASIC Regulatory Guide 111

This regulatory guide provides guidance in relation to the content of independent expert's reports prepared for a range of transactions.

ASIC Regulatory Guide 111 refers to a 'control transaction' as being the acquisition (or increase) of a controlling stake in a company that could be achieved, for example, by way of a takeover offer, scheme of arrangement, approval of an issue of shares using item 7 of s611, a selective capital reduction or selective buy back under Chapter 2J.

In respect of control transactions, under ASIC Regulatory Guide 111 an offer is:

- fair, when the value of the consideration is equal to or greater than the value of the shares subject to the proposed scheme. The comparison must be made assuming 100% ownership of the target company.
- reasonable, if it is fair, or, despite not being fair, after considering other significant factors, shareholders should accept the offer under the proposed scheme, in the absence of any higher bids before the close of the offer.

To assess whether the Proposed BGH Takeover is in the best interests of Shareholders, we have adopted the tests of whether the Proposed BGH Takeover is either fair and reasonable, not fair but reasonable, or neither fair nor reasonable, as set out in ASIC Regulatory Guide 111.

ASIC Regulatory Guide 112 primarily focuses on the independence of experts and provides little guidance on evaluating transactions.

2.1.1 Fairness

ASIC Regulatory Guide 111 defines an offer as being fair if the value of the offer price is equal to or greater than the value of the securities subject to the offer. The comparison must be made assuming 100% ownership of the target company. Accordingly, we have assessed whether the Proposed BGH Takeover is fair by comparing the consideration offered with the value of a share in Virtus on a control basis.

The Virtus shares have been valued at market value, which we have defined as the amount at which the shares would be expected to change hands between a knowledgeable and willing but not anxious buyer and a knowledgeable and willing but not anxious seller, neither of whom is under any compulsion to buy or sell.

Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuation of a Virtus share has not been premised on the existence of a special purchaser.

We have assessed whether the Proposed BGH Takeover is fair by comparing the value of a Virtus share to the value of the Consideration to be received from BGH. We have assessed the value of each Virtus share by estimating the current equity value of Virtus on a control basis and dividing this value by the number of shares on issue.

From the perspective of the market value of a Virtus share, whilst we have had regard to a fundamental valuation of a Virtus share, we have also had regard to the consideration offered by CapVest under the Proposed CapVest Scheme and the Proposed CapVest Takeover. This is because, just as the fundamental valuation forms a reference point of market value, so does any alternative offers made for the Virtus shares.

2.1.2 Reasonableness

ASIC Regulatory Guide 111 considers an offer in respect of a control transaction, to be reasonable if either:

- the offer is fair
- despite not being fair, but considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.

To assess the reasonableness of the Proposed BGH Takeover, we considered the following factors:

- the premium over trading in Virtus shares implied by the offers prior to the initial approach from BGH
- the likely market price and liquidity of Virtus shares in the absence of the Proposed BGH Takeover
- the likelihood of an alternative offer being made
- the advantages and disadvantages of the Proposed BGH Takeover
- other implications associated with Shareholders not accepting the Proposed BGH Takeover.

2.2 Limitations

This report should be read in conjunction with Appendix 4.

3 Profile of Virtus

3.1 Company overview

Virtus is an Australian healthcare services company that was established in 2008 through the combination of key state fertility clinic groups in New South Wales, Victoria and Queensland. Virtus employs over 1,555 fertility specialists, scientists, nurses and other support staff in 44 fertility clinics, 64 laboratories and diagnostic labs and 7 day hospitals across Australia, Ireland, Singapore, Denmark and the UK.

Virtus' core business involves the provision of Assisted Reproductive Services (ARS), most commonly in-vitro fertilisation (IVF) cycles and frozen embryo transfers. Virtus also provides additional patient services through the fertility treatment process, including fertility consultation, specialised diagnostic testing and day hospital services.

Virtus has expanded through a combination of acquisitions, opening new locations in existing geographies and strategic partnerships with other ARS companies. Virtus' strategy involves capability growth in ARS treatment, known as assisted reproductive treatment (ART), through these avenues, as well as increased efficiency through a focus on development of ART and genetic technology.

As at 13 December 2021 (the day prior to the initial indication of interest from BGH), Virtus had a market capitalisation of AUD 444m.

3.1.1 Company history

Key milestones in Virtus' history are set out in the table below.

Table 4: Corporate timeline

Year	Events
2002	IVFAustralia formed from the merger of 4 leading Sydney based IVF clinics
2008	Quadrant, an Australian private equity group, established IVF Holdings Group through acquisition of IVFAustralia Acquisition of Melbourne IVF
2009	Acquisition of Queensland Fertility Group
2011	Acquisition of Queensland-based Fertility Gold Coast and regional NSW-based Hunter IVF
2013	Undertook an IPO at an implied market capitalisation of AUD 452m thereby listing on the ASX with a portfolio of 33 fertility clinics, 41 laboratories, 6 day hospitals and over 900 employees
2014	Expansion into Ireland with acquisition of 70% share in SIMS IVF Ireland for EUR 15.5m Acquisition of remaining 80% share in Queensland-based IVF Sunshine Coast for AUD1.2m and 70% share in Tasmanian IVF provider TasIVF for AUD 16.0m Expansion to Singapore with opening of new Virtus Fertility Centre Virtus Diagnostics was established
2015	Acquisition of Irish fertility centre, the HARI clinic, for EUR 6.0m by SIMS IVF Ireland Acquisition of IDS Pathology Lab, a Sydney-based business with seven test collection centres
2016	Acquisition of Canberra Fertility Centre for a transaction value of up to AUD 3.5m Expansion to Denmark with acquisition of Aagaard Fertility Clinic for up to AUD 16.5m
2017	Acquisition of further 15% share in SIMS IVF Ireland for EUR 4.8m
2018	Expansion to UK with acquisition of 90% share in Complete Fertility Centre for AUD 9.0m Expansion to Denmark with acquisition of Trianglen Fertility Clinic for up to AUD 43.0m
2019	Agreement for transfer and collaboration with Vitrolife (Sweden-based health services company) and Harrison.AI (Australian company specialised in artificial intelligence) relating to Ivy artificial intelligence system Acquisition of remaining 15% share in SIMS IVF Ireland for EUR 4.1m
2020	Emergence of COVID-19 pandemic leading to a pause on elective surgery across Virtus' international clinic portfolio from March 2020
2021	Proposed acquisition of Adora Fertility for AUD 45.0m in August 2021, to be partially funded by AUD 35.0m institutional placement. The proposed acquisition was terminated following the failure of the ACCC to provide clearance, with proceeds from the institutional placement used to reduce debt Takeover offers received from BGH and CapVest
2022	Latest offer received from CapVest as detailed in Section 1.1 BGH lodges Bidder's Statement thereby formally making a takeover offer at AUD 8.00 per share

Sources: Virtus Health website, Virtus Health 2020 Annual Report, ASX announcements, Deloitte Corporate Finance analysis

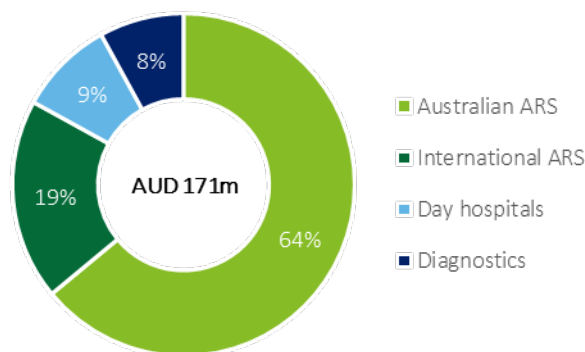
3.2 Operational overview

Virtus derives revenue from the following key activities:

- Assisted Reproductive Services
- specialised diagnostics
- day hospitals.

The proportion of revenue generated from each activity is summarised below.

Figure 1: Revenue by operating activity (H1FY22)

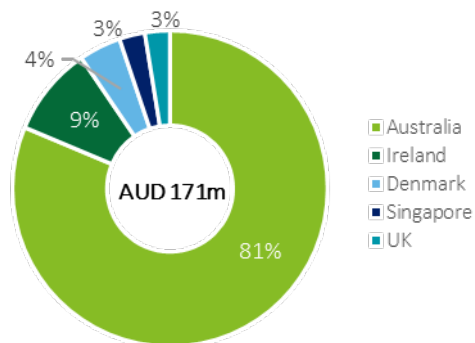


Source: Virtus H1FY22 investor presentation

3.2.1 Geographical footprint

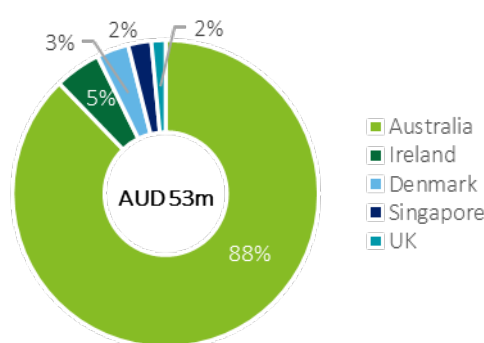
The figures below set out the geographic footprint of the business:

Figure 2: Geographic footprint – revenue (H1FY22)



Source: Virtus H1FY22 investor presentation

Figure 3: Geographic footprint – EBITDA (H1FY22)



Source: Virtus H1FY22 investor presentation

Virtus’ geographic exposure has remained relatively stable since FY19, with the greatest concentration in Australia.

In Australia, Virtus has 34 clinics across Eastern Australia, with the majority of its portfolio in New South Wales (16 clinics) and Queensland (11 clinics). Virtus also operates clinics in Victoria (7 clinics), Tasmania (2 clinics) and the Australian Capital Territory (1 clinic).

Internationally, Virtus operates 3 clinics in Ireland, 2 in Denmark, 1 in the United Kingdom and 1 in Singapore.

3.2.2 Assisted Reproductive Services

Virtus conducts the majority of ART operations through the IVF cycle. A typical cycle encompasses patient orientation to the treatment plan, patient monitoring, egg collection, fertilisation, embryo transfer and a pregnancy test. Virtus also provides ovulation induction and interuterine insemination treatments as part of its ART offerings, as well as optional services such as cryostorage and use of donor sperm that may increase chances of successful fertilisation.

ARS revenue is driven by the number of clinics and laboratories, the number of cycles and treatments undertaken, the average revenue per cycle or treatment and the number of fertility specialists.

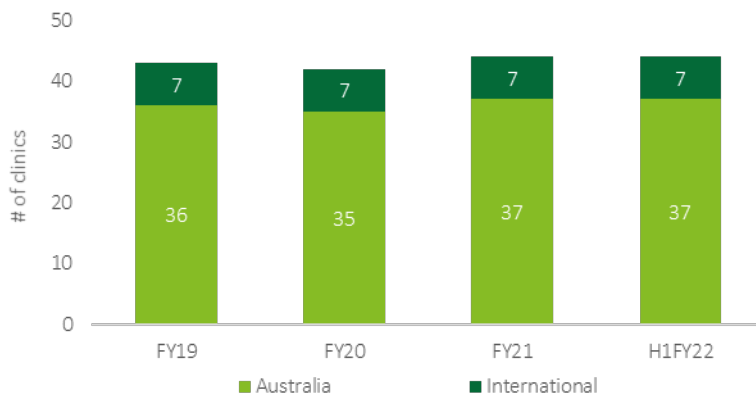
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Operational footprint

Virtus is one of the largest global ARS providers, with operations across Australia, Singapore and Europe. In Australia, Virtus is the leading ARS provider with a market share of 37%². Virtus also has a leading market presence in Ireland (c. 39% of market) and Denmark (c. 12% of market) with a growing presence in the UK and Singapore³.

Since entry into the UK and expansion of the Danish operations in 2018, Virtus has maintained a consistent portfolio of clinics and laboratories. It has chosen to expand operations through strategic partnerships with other ARS businesses and development of technology as discussed in section 3.10. The change in Virtus' portfolio of clinics is shown in the charts below.

Figure 4: Fertility clinics



Sources: Virtus investor presentations for FY19, FY20, FY21, H1FY22

The decrease in the number of clinics from FY19 to FY20 relates to consolidation of clinics, without reducing overall service capacity. Following strong performance during COVID-19, Virtus made several investments to expand their service capacity, including the commissioning of a new Western Sydney clinic and the relocation to improved facilities, in Brisbane and Triangeln (Denmark), amongst others.

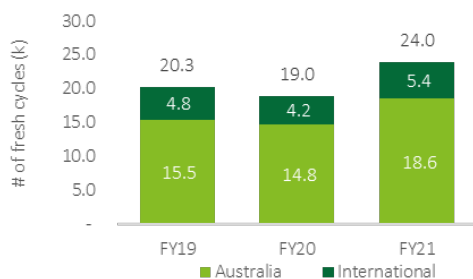
Cycle and treatment volume

Virtus provides IVF cycle treatments which involve the preparation for and collection of eggs for clinical fertilisation. Embryos are monitored in laboratory conditions before being transferred to the patient. The process takes approximately 35 days to complete and is known as a fresh cycle. Fresh IVF cycles are the most common form of ART, comprising 57% of treatment volumes in H1FY22 and are used as a metric to measure current industry demand and business performance due to their short cycle length.

Another form of treatment is frozen cycles, which involve the thawing of cryopreserved embryos in laboratories for transfer to the patient. Other less common forms of fertility treatment include ovulation induction, which is the administration of medication to regulate ovulation for a greater chance of pregnancy, or intra-uterine insemination, which involves the injection of semen directly into the uterus for fertilisation.

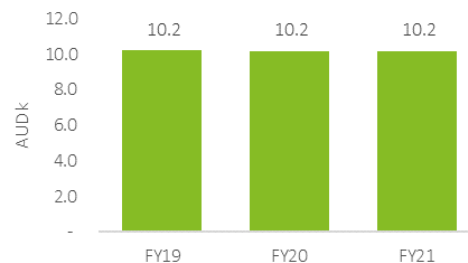
The figures below present the fresh cycles growth and revenue per cycle of Virtus from FY19 to FY21.

Figure 5: Number of fresh cycles



Sources: Virtus investor presentations for FY19, FY20, FY21

Figure 6: Revenue per fresh cycle



Note: Revenue per fresh cycle is calculated as IVF revenue divided by total fresh cycles in each period
Source: Management

² Virtus Health H1FY22 Financial Results Investor Presentation, based on the Australian markets Virtus operates in

³ Virtus Health H1FY22 Financial Results Investor Presentation

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In respect of the number of fresh cycles, we highlight the following:

- fresh cycle volume has increased at a CAGR of 8.7% from FY19 to FY21
- revenue per fresh cycle is driven by additional premium services provided during a cycle. In FY22F, average revenue per cycle is forecast at AUD 10.4k which is higher compared to average revenue per cycle of AUD 10.2k from FY19 to FY21. This represents upwards pressure on pricing due to growth in demand, as well as patient uptake of premium products as technological investments allow for higher success rates of conception as discussed in section 4
- Australian fresh cycles comprise 77% of total fresh cycle volumes from FY19 to FY21. This corresponds directly with the proportion of Australian clinics as provision of IVF cycles is driven by availability of clinics
- Australian fresh cycle growth has been supported by technological developments (refer to section 3.10) to improve the quality of patient services
- the decline in fresh cycle volumes in FY20 can be attributed to the impacts of the COVID-19 pandemic, which led to a pause on non-essential procedures and a reduction in patient demand
- the higher volume from FY20 to FY21 can be attributed to pent up patient demand following COVID-19 lockdowns and the easing of travel restrictions.

3.2.3 Diagnostics and day hospitals

Virtus supports IVF cycles with additional specialised diagnostic and day hospital services. Upon consultation with fertility specialists, patients may elect to receive these services through a more personalised treatment that will improve chances of fertilisation.

Specialised diagnostic services are all linked to ART, or post-ART, procedures and involve andrology (testing of semen), endocrinology (testing of blood and urine), genetics (analysis of chromosome structure and genetic sequence) and general pathology (general testing for disease) which are conducted at Virtus laboratories by scientists and diagnostic professionals. Revenue is generated for each additional service performed.

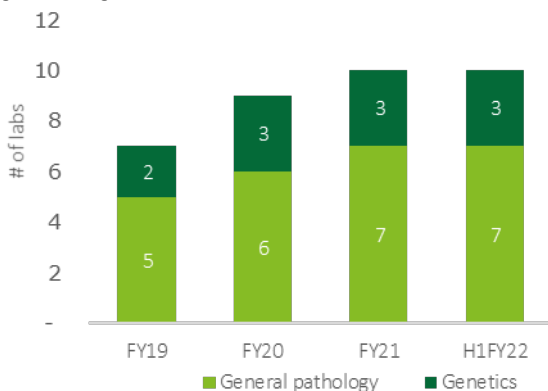
Day hospitals mainly support Virtus’ ART procedures including egg collection and embryo transfers, offering a consolidated space for both ART operating procedures and diagnostic testing to occur. Day hospitals also service other medical fields such as ophthalmology and endoscopy and this represented 45% of Virtus day hospital revenue in FY21. Day hospital revenue is generated for procedures performed, with the majority of revenue relating to ART procedures.

Operational footprint

Virtus operates 10 diagnostic labs across Eastern Australia in close proximity to fertility clinics. As diagnostic tests are performed upon consultation during an IVF cycle, diagnostic lab service volumes are driven by availability of labs and IVF cycle volumes. The expansion of labs between FY19 and H1FY22 is set out in the chart below.

Virtus operates 7 day hospitals which provide direct IVF procedures and complementary medical services to support the core ART business. The presence of hospitals in each Australian state is shown below. Virtus has not increased the number of day hospitals since FY19, instead increasing its operational footprint by expanding adjacent medical services such as urology and endoscopy to compliment the core business.

Figure 7: Diagnostic labs



Sources: Virtus investor presentations for FY19, FY20, FY21, H1FY22

Figure 8: Day hospitals (H1FY22)



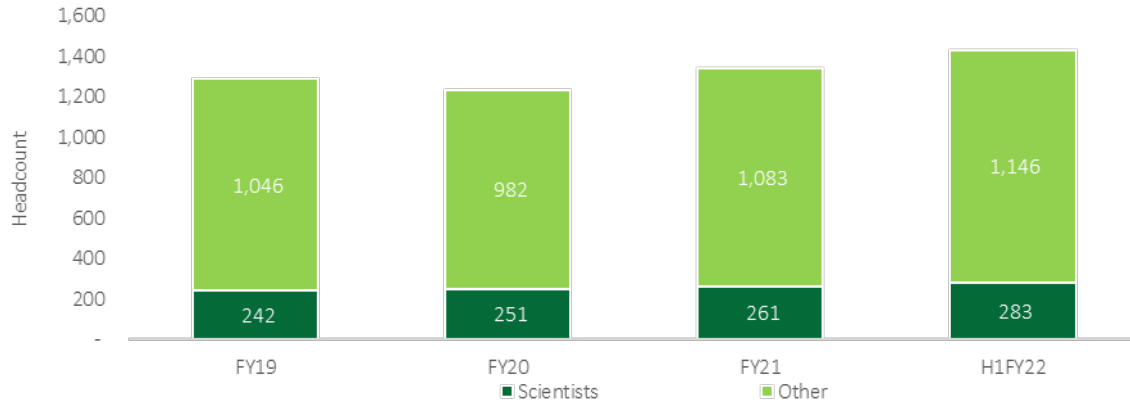
Source: Virtus investor presentation for H1FY22

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3.3 Operating workforce

The provision of ART is heavily dependent on the workforce to attract patients and provide consultation and procedures. The figure below shows the operational workforce, comprising scientists and other staff including nurses, counsellors, patient support and operational staff. We highlight that fertility specialists, who Virtus needs to provide ART to its patients, are largely contracted by Virtus and not employees of the company.

Figure 9: Operating workforce



Note: Excludes Fertility specialists which are mostly contracting doctors, as detailed in Section 3.3.1
Sources: Virtus investor presentations for FY19, FY20, FY21

Scientists include embryologists who specialise in the development and care of embryos and qualified professionals who support the provision of diagnostic services during IVF cycles. The number of scientists employed at Virtus has increased consistently from FY19 as additional embryologists have been recruited to service growing demand.

Other staff comprise nurses, counsellors, patient support, sales and marketing and other administrative staff who support the core business. The headcount of other staff has increased in line with fresh cycle volumes as shown in Figure 5. In FY21, employee expenses associated with scientists and other staff comprised 48% of total operating expenses.

3.3.1 Fertility specialists

Fertility specialists are the core of the Virtus business model. Virtus provides the necessary infrastructure and other services to allow fertility specialists to conduct their practices but, as mentioned earlier, Virtus could not provide its services without fertility specialists.

Fertility specialists are highly trained medical professionals who commence their careers with at least 12 years of formal medical education and accreditation in obstetrics and gynaecology. At that stage, specialists are able to perform ART services. Specialists may opt to complete further accreditation in reproductive endocrinology and infertility to become sub-specialists in fertility, which leads them to be able to address more complex fertility and reproduction issues. Fertility specialists undertake medical training with economic support by Virtus.

Due to the high level of expertise required for specialist entry into ARS, fertility specialists are critical to Virtus' core business in three main ways:

- clinical assessment of patients: the standards of education and accreditation required to specialise in fertility services mean that no other medical specialist can diagnose patients in relation to fertility issues
- provision of treatment: fertility specialists are essential to provide the core treatments that a patient requires in IVF cycles, including interventional treatment (egg collection and embryo placement) and prescription of hormone stimulation medication
- ability to bill services: the billing of Medicare services requires provider numbers. Provider numbers are a unique non-transferrable number granted to eligible individual health professionals to allow them to access Medicare services. The Virtus fertility clinic network relies upon the provider numbers of its fertility specialists to bill for Medicare services provided.

Virtus attracts and retains fertility specialists with a flexible contracting model whereby they are able to practice non-IVF services independently of Virtus. Furthermore, Virtus offers a network of infrastructure, including staff support and labs, which facilitates the provision of ART services to patients. Virtus also provides value to fertility specialist through established brands, marketing and business development which generate patient volumes for the specialist.

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In Australia and Singapore, fertility specialists' contractual terms outline a commission per service, which is either a fixed dollar value per procedure or a percentage of total patient billings and varies between region depending on the complexity of the procedure and staff support required. Virtus also rewards fertility specialist performance through equity incentives as set out below:

- new fertility specialists may receive a grant depending on their service of a minimum level of fresh cycles based on a 3 year vesting period
- specialists may receive an annual performance grant depending on their service of pre-determined base fresh cycle numbers for each year over a 3 year period
- loyalty grants are provided to fertility specialists based on individual contribution of a pre-determined number of fresh cycles in the year preceding the grant.

Grants are rewarded in the form of performance rights and options as discussed in section 3.7.

Fertility specialists are able to terminate their contract by giving a minimum of 3 months notice in writing, or alternatively by making a payment, if both parties agree, in lieu of notice equivalent to the value of 3 months average monthly fees (the monthly amount is calculated with reference to fees earned over the prior 12 months of their engagement with Virtus)⁴. Following the date of termination, fertility specialists are subject to a non-solicitation period of 6 months, during which specialists are not permitted to poach and/or solicit patients or staff.

The nature of Virtus' flexible business model has led to a high retention rate amongst fertility specialists.

In Ireland, Denmark and the UK, fertility specialists are employees who are remunerated on a salary basis. The differences in the model (contractor versus employee) reflects the nature of those geographical markets and the regulations present in those markets.

⁴ Notwithstanding this notice period, both parties may agree to reduce the notice period to a period of less than 3 months

3.4 Key management

Virtus’ strategic direction is facilitated by the extensive expertise of the management team. Virtus introduced a number of new roles during FY21 following the departure of the previous Chief Executive Officer and Chief Financial Officer and the development of several strategic development pathways as outlined in section 3.10. Set out below are key management, along with their experience:

Table 5: Management team

Name and current position	Experience	Time in role
Kate Munnings Chief Executive Officer	<ul style="list-style-type: none"> Chief Operating Officer of Ramsay Health Care Chief Executive, Operations at Transfield Board member of the South Eastern Sydney Local Health District 	2 years
Matt Prior Chief Financial Officer	<ul style="list-style-type: none"> Head of Strategy, Vice President Finance and Commercial Operations – Asia Pacific at Cochlear Head of Healthcare Equities Research Asia Pacific at Bank of America Merrill Lynch Head of Equities Research Australia at Evans and Partners 	9 months
Richard Banks Chief Strategy Officer and Managing Director, Europe	<ul style="list-style-type: none"> Extensive experience as NHS Director in the UK, management consultant and private hospital director Significant experience working with executive teams in healthcare 	5 years
Teena Pisarev Chief Operating Officer and Managing Director, NSW/ACT, Singapore and Diagnostics	<ul style="list-style-type: none"> Over 20 years’ experience in private healthcare in hospital, diagnostics, pathology and outpatient services Chief Executive Officer and Regional CEO of Icon Cancer Care, leading the Icon expansion into South East Asia 	3 years
Aurdy Rao Managing Director, Victoria and Tasmania	<ul style="list-style-type: none"> Australian executive team member at Ramsay Health Care 14 years’ experience in leadership positions across healthcare groups 	1.5 years
Chris Smedley Managing Director, Queensland	<ul style="list-style-type: none"> Chief Executive Officer of Assure Programs General Manager of BUPA, Queensland Over 20 years’ experience working in healthcare organisations 	2 years
Ava Bentley Chief Legal and Risk Officer and Company Secretary	<ul style="list-style-type: none"> Corporate and litigation lawyer in private practice and in-house roles Risk and leadership roles in medical defence and insurance 	1.9 years
Jorge Silveira Chief Digital Health Officer	<ul style="list-style-type: none"> Implementation support for projects such as the Australian-first Stroke Telemedicine program and the Victorian-first digital electrocardiogram Chair of the Victorian Health Sector CIO Cybersecurity Working Group 	1.5 years
Lee Bakerman Chief People Officer	<ul style="list-style-type: none"> HR and Industrial Relations workstream lead for Broadspectrum Vice President Human Resources across Asia Pacific for AREVA T&D, Alstom T&D and Norfolk Group 	1.5 years

Source: Virtus website

Virtus also has a team of 11 Medical Directors who lead the portfolio of fertility clinics with extensive educational and management experience in fertility, obstetrics and gynaecology.

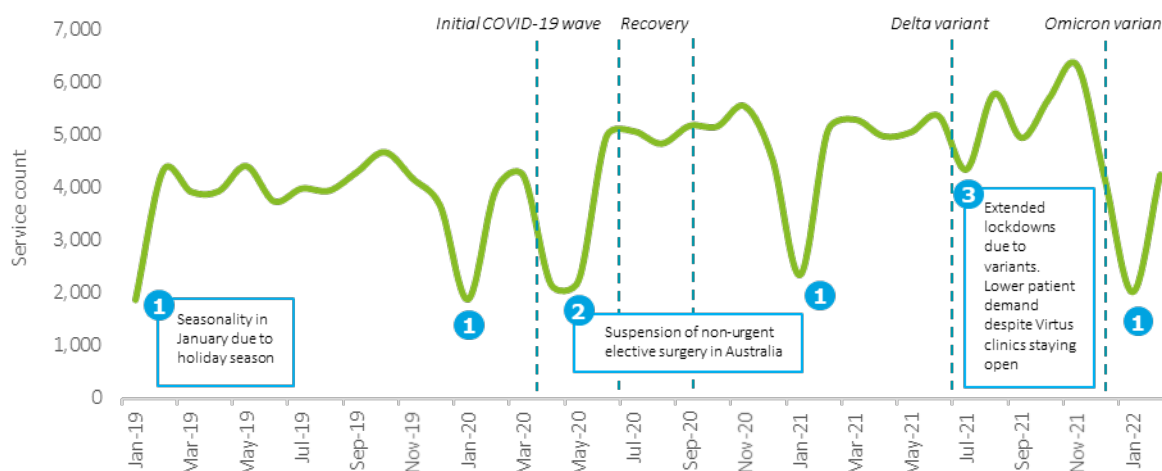
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3.5 Impact of the COVID-19 pandemic

In January 2020, Australia recorded its first case of COVID-19 followed by rapid growth in infection rates both locally and worldwide, leading the World Health Organisation to declare a global pandemic in March 2020, causing widespread extended lockdowns in 2020. Mutation of the COVID-19 virus caused a more transmissible strain, known as the Delta variant, to spread worldwide in mid-2021. This was followed by another mutation with a greater rate of transmission, known as the Omicron variant, which spread internationally in late 2021. With each outbreak, governments enforced policies to limit transmission, particularly in hospitals, which affected the ARS industry.

In Australia, non-urgent elective surgery was suspended between 25 March 2020 and 26 April 2020, which caused a delay in new diagnoses and treatments. Procedure numbers in day hospitals also reduced significantly as the public responded to growing concern for infections. Furthermore, patient demand for fertility treatments waned during COVID-19 driven by financial concerns and job insecurity, societal concerns and health risks associated with the pandemic⁵. The impact of COVID-19 on the Australian ARS industry is set out in the figure below.

Figure 10: Medicare service count for Australian fresh IVF cycle and related services



Sources: Medicare Benefits Schedule items 13200, 13201, 13202, Virtus ASX announcements

While demand decreased significantly during the initial COVID-19 lockdown in March 2020, the industry recovered quickly, returning to regular levels of demand by June 2020 owing to a backlog of treatments during lockdown and a social trend towards family values. Industry demand also experienced fast recovery following the Delta and Omicron outbreaks, attributed to the aforementioned factors and more lenient restrictions allowing ARS clinics to remain open.

In Singapore, IVF was considered an essential service and therefore Virtus activities were not severely impacted. The Singaporean Government introduced some restrictions for elective treatments in May and June 2020 which led to weaker treatment numbers in May 2020. However, activity throughout COVID-19 remained strong with generation of revenue in line with previous years.

In Europe, restrictions on medical procedures were enforced in March 2020 which impacted all new ART procedures and led to clinic closures. Virtus offered telehealth consulting services with fertility specialists in the interim. Virtus clinics resumed operations in Denmark in April 2020, followed by Irish clinics in early May 2020 and the UK clinic in mid-May 2020.

As a result of clinic closures, employees in Australia and Europe were stood down during the pandemic, however Virtus increased recruitment activity to restore employee levels to service regular levels of patients. In FY20, Management estimated a loss of AUD 14.6m related to the COVID-19 pandemic, partially offset by AUD 7.7m of Government assistance payments (including JobKeeper) received. During the period, an impairment of intangible assets of AUD 25m was recognised in the Tasmania and Denmark CGUs, for the impacts of COVID-19 amongst other factors.

⁵ AIFS Impacts of COVID-19 on pregnancy and fertility intentions July 2021

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3.6 Interests in other entities

The table below summarises Virtus' interests in entities that are not wholly owned.

Table 6: Interests in entities <100% owned

Entity	Interest	Accounting treatment	Material to group?
Virtus Andrology Laboratory Singapore	67%	Consolidated	No
Virtus Fertility Centre Singapore	67%	Consolidated	Yes
Complete Fertility	90%	Consolidated	Yes
Obstetrics & Gynaecological Imaging Australia	50%	Equity interest in associate	No
City West Specialist Day Hospital	50%	Equity interest in associate	No

Sources: Virtus Annual Report 2021, ASX announcements

A brief description of these entities is as follows:

- Virtus Andrology Laboratory Singapore and Virtus Fertility Centre Singapore are the operating entities for the Virtus Fertility Centre in Singapore
- Complete Fertility relates to Virtus' UK fertility centre. The remaining 10% ownership was retained by two vendors upon Virtus' acquisition of Complete Fertility in 2018
- Obstetrics & Gynaecological Imaging Australia and City West Specialist Day Hospital relate to the joint venture for the refurbishment and management of the City West Specialist Day Hospital located in Westmead, NSW. Obstetrics & Gynaecological Imaging Australia is currently in the process of being deregistered.

3.7 Shareholders and capital structure

3.7.1 Substantial shareholders

As at 31 March 2022, substantial shareholders accounted for 41.1% of total ordinary shares on issue.

Table 7: Substantial shareholders

Holder	Securities held (m)	Ownership (%)
BGH	17.1	20.0%
Paradice	8.4	9.8%
Yarra Capital	5.4	6.4%
Dimensional Fund Advisors	4.3	5.0%
Subtotal – Substantial holders	35.2	41.1%
Other shareholders	50.4	58.9%
Total ordinary shares on issue	85.5	100.0%

Note: Numbers may not reconcile due to rounding.

Sources: Virtus, Substantial Shareholder notices, Deloitte Corporate Finance analysis

BGH acquired its interests in December 2021 as part of its proposed takeover offer. Other shareholders comprise a number of fund managers with holdings of less than 4.0% each. Fertility specialists own approximately 9% of the shares.

3.7.2 Capital structure

Issued equity as at 31 December 2021 is set out below.

Table 8: Equity in Virtus

Security type	Total number of securities (m)
Ordinary shares	85.5
Performance rights and options	1.7
Treasury shares	(0.0)
Total securities	87.2

Source: Virtus

Virtus offers fertility specialists and senior executives a share option plan at the Board’s discretion. The plan grants senior executives with rights and options based on financial performance metrics (relative total shareholder return and return on equity) and based on operational metrics (number of IVF cycles successfully performed) for fertility specialists. Performance rights are granted annually and vest over three-year performance periods, after which they have an exercise period of ten years. Of the 1.7m performance rights and options at 31 December 2021, 46% related to fertility specialists with the balance related to senior executives.

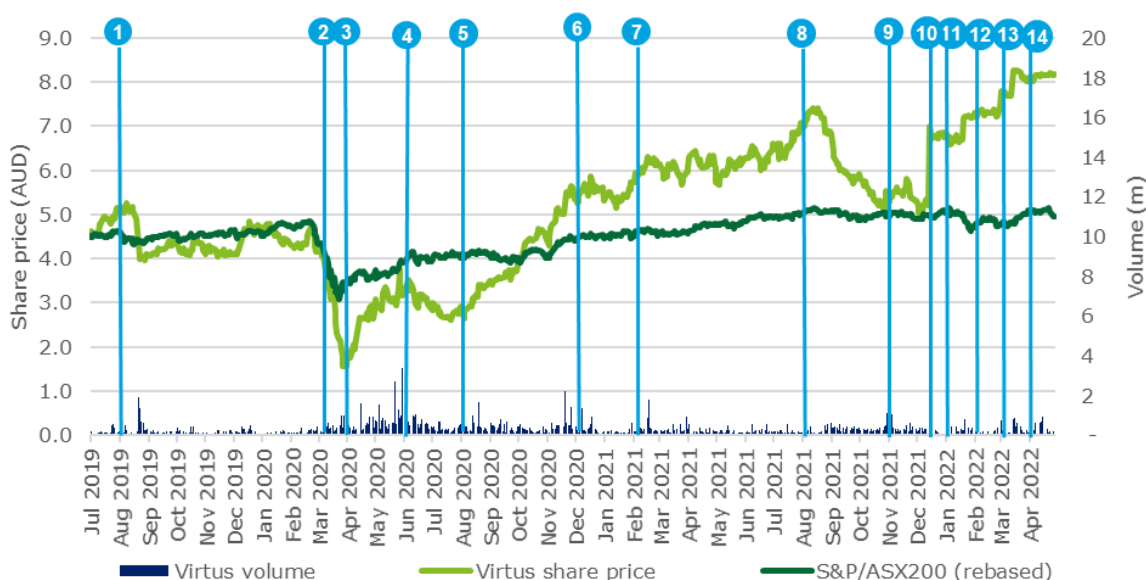
Treasury shares relate to shares held for the purpose of providing shares for selected Virtus equity plans.

As at 31 December 2021, Virtus had AUD 261.6m in committed bank debt facilities, of which AUD 95.0m was drawn. The facility has a maturity of October 2023, with interest based on bank bill swap bid rate (BBSY) plus a margin, which differs based on Virtus’ total leverage ratio but sits at 1.45% based on current total leverage ratio. Virtus has two interest rate swaps with a total notional principal amount totalling AUD 60m and an expiry date of October 2023. The swaps effectively result in Virtus paying a fixed base rate of c. 2.0% to 2.2% on the hedged amount.

3.7.3 Trading in Virtus shares

The figure below illustrates movements in the share price since July 2019.

Figure 11: Virtus’ share price movements



Sources: S&P Capital IQ, ASX announcements, Deloitte Corporate Finance analysis

82% of the share capital had traded in the twelve-month period to 13 December 2021, the day prior to the initial BGH offer.

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Table 9: Key events and announcements

#	Date	Announcement
1	Aug 19	Reported earnings results for FY19 with an EBITDA decrease of 2.3% compared to FY18, mainly attributed to a shift in revenue mix away from higher margin premium services towards low cost procedures. This decrease was also driven by an increase in compliance costs associated with diagnostics procedures
2	Mar 20	The World Health Organisation announced a global COVID-19 pandemic which led governments to enforce lockdowns and restrictions on non-urgent elective procedures. As a provider of ARS services, Virtus operations were delayed or cancelled and Virtus closed its European clinics
3	Apr 20	Following the re-opening of Australian clinics, Virtus reported capex deferrals and staff redundancies in an effort to mitigate costs during lockdowns. Virtus also announced delay of the payment of dividends until November 2020
4	Jun 20	Virtus continued to provide ARS services throughout the initial lockdown. Following public health advice, Virtus re-opened European clinics throughout April to June, with all Virtus clinics returning to regular operations in June 2020
5	Aug 20	Reported earnings for FY20 which detailed a decrease in EBITDA by 27% relative to FY19. The results reflected the impact of clinic closures and weak demand as a result of public health orders during the COVID-19 pandemic
6	Dec 20	The ARS industry experienced recovery from COVID-19 owing to provision of delayed services and greater patient demand following a social focus on health and family during the pandemic. Several private equity transactions in the health care industry also fuelled positive investor perceptions, including a significant minority stake investment in Fullerton Health Australia by Quadrant Private Equity and the BGH acquisition of the Healius medical centres
7	Feb 21	Virtus released H1FY21 earnings results, announcing 19% revenue growth and 49% EBITDA growth relative to the prior corresponding period. This was attributed to strong cycle volumes in all geographies and investment in technology to enhance patient services
8	Aug 21	Release of FY21 earnings results which outlined growth of over 100% in reported EBITDA, mainly due to strong IVF cycle growth of 26%, three new clinics and the expansion of capabilities in specialised diagnostics Announced entry into a share sale agreement for the acquisition of Adora Fertility at a transaction value of AUD 45m, to be partially funded by AUD 35.0m institutional placement
9	Nov 21	ACCC proceedings continued in relation to Virtus' proposed acquisition of Adora Fertility
10	Dec 21	Virtus received an unsolicited non-binding indication of interest from BGH Still awaiting ACCC approvals in regards to the proposed Adora Fertility, Virtus terminated the agreement to acquire Adora Fertility
11	Jan 22	Virtus received a non-binding indicative offer from CapVest, at a price of AUD 7.60 per share
12	Feb 22	Virtus released H1FY22 financial results, which indicated resilience across the business despite ongoing pandemic disruptions. Revenue remained consistent, growing 1% on the prior comparable period, whilst EBITDA fell 36%, largely attributable to a reduction in government grants and increased operating costs tied to investments in growth initiatives
13	Mar 22	Virtus received several revisions of indicative offers from BGH and CapVest. On 14 March 2022, Virtus entered into a binding Transaction Implementation Deed with CapVest
14	Apr 22	Virtus receives a revised offer from CapVest and accordingly amends the Transaction Implementation Deed BGH announces off-market takeover offer at a price of AUD 8.00 per share

Sources: S&P Capital IQ, ASX announcements, Deloitte Corporate Finance analysis

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3.8 Financial performance

We have summarised the profit and loss statements for the periods ended 30 June 2020 to 31 December 2021.

Table 10: Financial performance

AUD m (unless otherwise stated)	Audited FY20	Audited FY21	Reviewed H1FY22
Revenue	258.9	324.6	171.3
Other income	15.0	10.9	0.7
Total operating revenue	273.9	335.5	172.0
Fertility specialists, consumables and associated costs	(70.8)	(89.6)	(49.1)
Employee costs	(100.2)	(117.3)	(61.8)
Other expenses ¹	(32.2)	(36.3)	(23.4)
Total operating expenses	(203.2)	(243.1)	(134.3)
Operating EBITDA	70.8	92.3	37.7
Share of profit of associates	0.4	1.1	0.2
Depreciation and amortisation ²	(25.0)	(24.1)	(12.1)
Impairment expense	(25.0)	-	-
Net finance expense	(10.8)	(8.9)	(4.3)
Income tax expense	(9.5)	(16.6)	(6.2)
NPAT	0.9	43.8	15.3
EPS (AUD cents)³	0.59	53.17	17.91
Interim dividend per share (AUD cents)	12.00	12.00	12.00
Final dividend per share (AUD cents)	-	12.00	n.a.

Operating metrics			
Fresh cycles (No.)	18,981	23,994	12,551
Revenue per fresh cycle ⁴	13,640	13,527	13,646
Revenue growth (%)	(7.5%)	25.4%	5.5% ⁵
EBITDA margin (%)	27.3%	28.5%	22.0%
Number of operating staff (No.)	1,353	1,472	1,555

Notes:

n.a. = Not applicable

- Other expenses include occupancy expense, advertising and marketing, practice equipment expenses, professional and consulting fees and other costs
- Includes ROU depreciation. AASB 16 Leases was adopted from 1 July 2019
- Basic EPS
- Revenue per fresh cycle is calculated as revenue divided by number of fresh cycles
- Based on annualised H1FY22 revenue (without seasonality adjustments).

Sources: FY20 - FY21 annual reports, H1FY22 financial statement, Deloitte Corporate Finance analysis

Growth in operating revenue was driven by the general recovery of the industry, following the challenges of a COVID-19 impacted FY20. In FY21, the provision of core services, as is indicated by the number of fresh cycles, achieved record results. This was aided by shifting consumer patterns that looked to prioritise family and homelife, as well as a backlog of demand created by COVID-19 restrictions. Pricing remained relatively constant, with revenue per fresh cycle marginally lower in FY21 than in FY20, but slightly higher in H1FY22 in line with upward price pressure as a result of more demand than the prior comparable period.

Other income includes Government grants of AUD 7.7m relating the Federal Government's Job Keeper scheme in FY20 and FY21. Other income also includes fair value gains on contingent consideration relating to the acquisition of Fertilitesklinikken Triangeln Aps (Triangeln Fertility Clinic, Denmark) in 2018. Gains of AUD 4.5m and AUD 1.6m were recognised in FY20 and FY21, respectively.

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Total operating expenses increased in FY21, in line with the recovery of core services post-COVID-19. Employee costs increased by 17.2%, as management ramped up staff to cater for the recovery in fresh cycle volumes. Further investment in the group's digital health strategy (detailed in Section 3.10), and a reduction in leave taken during FY21 also contributed to higher employee costs. Practice equipment expenses also increased in FY21, largely attributable to general maintenance works that had been deferred during FY20. Newly implemented COVID-19 safety protocols also resulted in an increase in costs. Professional and consulting fees decreased by AUD 0.4m, as strategic reviews and support relating to COVID-19 were primarily absorbed during FY20. Occupancy costs comprise property charges which are not covered by AASB 16.

Impairment expenses in FY20 arose due to restructuring within the Tasmania CGU (AUD 15.0m) in addition to the goodwill write-down of the Denmark CGU as a result of COVID-19 uncertainty (AUD 9.9m).

In H1FY22, revenue growth and EBITDA margins returned to levels that existed prior to the COVID-19 pandemic. Revenue growth in H1FY22 was in line with growth in FY18 (3.6%) and FY19 (6.4%), prior to the COVID-19 pandemic. EBITDA margins are lower than in FY20 and FY21, as these periods were supported by the Government's JobKeeper scheme, and H1FY22 earnings were also impacted by costs related to investment in ongoing growth and maintaining COVID-19 safe protocols.

Dividends paid were influenced by the uncertainty surrounding COVID-19. In FY20 no final dividend was paid, with the Board citing ongoing economic uncertainty.

3.8.1 Normalisation of EBITDA

Normalisation adjustments for FY20 to H1FY22 are presented in the table below.

Table 11: Normalised EBITDA

AUD m	FY20	FY21	H1FY22
Operating EBITDA	70.8	92.3	37.7
Deduct: Government assistance	(7.7)	(7.7)	-
Deduct: Fair value adjustments	(6.0)	(1.6)	-
Addback: Transaction costs	-	-	2.6
Addback: CEO transition	0.8	-	-
Normalised EBITDA	57.9	83.0	40.3
<i>Normalised EBITDA margin</i>	<i>21.7%</i>	<i>25.3%</i>	<i>23.4%</i>

Sources: FY20 – FY21 annual reports, H1FY22 financial statement, Deloitte Corporate Finance analysis

In respect of the non-recurring adjustments, we highlight the following:

- the normalisations do not adjust for the volume impacts of the COVID-19 pandemic, which includes a decrease in revenue due to the deferral or cancellation of procedures and additional operating costs. Management have estimated the gross profit impact of COVID-19 to be AUD 14.6m in FY20, however we have not included this adjustment due to the difficulties associated with an offsetting adjustment (removal of pent-up demand) in future periods. Additional costs associated with compliance with COVID-19 protocols were immaterial
- Virtus received payments in both FY20 and FY21 from Australian Government's JobKeeper program or similar programs in other countries in relation to COVID-19 pandemic
- the non-cash fair value adjustments include the following:
 - gains of AUD 4.5m in FY20 and AUD 1.6m in FY21 related to the contingent consideration for the acquisition of Fertilitesklinikken Trianglen Aps in 2018, which was settled in FY21
 - gains of AUD 1.5m in FY20 in relation to the put option liabilities, which were exercised in FY20. The options originated from the acquisitions of SIMS Clinic Limited and TasIVF Pty Ltd in 2019 and were held by non-controlling interests.
- transaction costs adjustment relates to the due diligence and legal costs of the withdrawn acquisition of Adora Fertility and three day hospitals
- CEO transition adjustment includes separation and recruitment costs associated with the departure of Sue Channon and arrival of Kate Munnings.

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3.9 Financial position

Table 12: Financial position

AUD m	Audited FY20	Audited FY21	Reviewed H1FY22
Trade and other receivables	13.4	12.1	12.1
Trade and other payables	(32.0)	(31.6)	(34.8)
Unearned income	(20.0)	(21.1)	(14.8)
Other current assets and liabilities	(9.5)	(6.6)	(0.7)
Net working capital	(48.2)	(47.3)	(38.1)
Property, plant and equipment	34.9	39.9	40.0
Intangible assets	433.7	428.4	427.2
ROU assets	89.7	69.1	70.6
Other assets and liabilities ¹	2.3	3.5	3.2
Funds employed	560.7	540.8	541.0
Investments accounted for using the equity method	1.5	1.5	1.8
Cash and cash equivalents	38.0	37.0	18.5
Borrowings	(164.1)	(144.1)	(94.4)
Lease liabilities	(102.8)	(83.5)	(86.4)
Other financial assets and liabilities ²	(16.9)	(3.9)	(2.0)
Net cash/(debt)	(245.8)	(194.5)	(164.3)
Net assets	268.2	300.6	340.3
<i>Attributable to Virtus shareholders</i>	<i>267.4</i>	<i>299.1</i>	<i>338.7</i>
<i>Attributable to non-controlling interests</i>	<i>0.8</i>	<i>1.5</i>	<i>1.7</i>

Notes:

1. Includes deferred tax assets & liabilities and other non-current assets and liabilities

2. Includes interest rate swaps, dividends payable, loan notes and other financial liabilities

Sources: FY20 and FY21 annual reports, H1FY22 financial statement, Deloitte Corporate Finance analysis

Patient fees for most treatments are received in advance and recognised as unearned income. Unearned income is seasonal and tends to dip over the summer months due to a reluctance of patients to enter into exhaustive medical procedures. Furthermore, clinics tend to operate for fewer hours as staff on leave increases. Lows have historically occurred during December and January, explaining the smaller amount in H1FY22. Services are generally provided to patients within the average IVF cycle life of 3 to 8 weeks after payment. Unearned income is also recorded in relation to cryostorage of embryos. Virtus charges storage fees 6 to 12 months in advance and amortises the fees over the year.

Trade and other payables are mostly comprised of the purchase of good and services, which result from normal operations. These operating items have historically been very consistent, with the slight increase in the payables balance in H1FY22 a reflection M&A transaction costs arising from the withdrawn Adora Fertility acquisition, that were paid in the new calendar year.

Property, plant and equipment comprises leasehold improvements, furniture and fittings, office equipment and medical equipment. The moderate increase in the balance of PPE between FY20 and FY21 is a result of AUD 5.3m spent on the relocation of the Irish operation, Rotunda IVF.

Intangible assets in FY21 of AUD 428m are primarily comprised of goodwill (AUD 422m), brand names (AUD 4.5m) and software (AUD 1.8m). The decrease in book value is attributed to the amortisation of brand and software assets, as well as the decrease in value of the Denmark and Ireland CGUs due to unfavourable exchange rate movements.

The decrease in the right-of-use asset (and corresponding lease liability) between FY20 and FY21 reflects depreciation (principal and interest repayments) and reversal of options.

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Cash and net proceeds from a capital raising undertaken in August 2021 were used to reduce debt in H1FY22. As at 31 December 2021, net debt (including lease liabilities) was AUD 164.3m. Management anticipate that, at or around the date of payment of the Consideration, net debt will be c. AUD 205m with the increase attributable to the opening of a new clinic at Nepean and a new larger clinic in Spring Hill that will consolidate existing Brisbane facilities during H2FY22.

Other financial assets and liabilities fluctuated between FY20 and FY21 as a result of movements in the dividends payable balance. In February 2020, Virtus declared an interim dividend which was deferred as a result of uncertainty surrounding the impact COVID-19 would have on the business. By delaying the payment date to November 2020, an additional payable of AUD 9.5m was owing at the end of FY20.

3.10 Strategy and outlook

Virtus has a strong market position in the Australian market and a growing market share in the various international markets that it is has operations. Management intends to grow the business and profitability through strategic initiatives that can be summarised as follows:

Organic growth

- In the next 12 months Virtus anticipates opening/relocating clinics at the following sites:
 - **Nepean:** a new fertility clinic in NSW with ART and diagnostics capabilities which is expected to open in April 2022. The site is expected to ramp up over a period of 5 years
 - **Spring Hill:** a new clinic in Queensland which will consolidate the existing fertility clinic on Little Edward Street and the day hospital and IVF lab on St Andrew's Place in Spring Hill. The site is expected to open in January 2023 and will be a consolidated clinic with ART, diagnostics and day hospital services with a fresh cycle capacity of 3,000 cycles
 - **Trianglen:** Virtus' Danish clinic, Trianglen, which was acquired in 2018, will be relocated to a new, modern and larger facility during 2022. The new site is expected to have a fresh cycle capacity of 4,500.

Optimise the core

- implementation of a new workforce management system to improve productivity. The system is expected to result in the replacement of existing technology and improve rostering and attendance efficiency thereby reducing staff idle time. This is expected to deliver net annual cost savings of AUD 1.3m in the first year of uptake and AUD 2.0m annually thereafter over a 5-year period
- implementation of the One Lab (and One Clinic) approach to standardise processes and ensure compliance with best practice procedures in an effort to improve operational efficiency
- provision of a centre-led donor service to complement the existing fertility services
- optimising day hospitals through the delivery of non-IVF procedures that complement ARS

Grow capabilities in genetics

- growth of diagnostics capabilities through research into rapid genetic techniques and investment in patient data systems to optimise diagnostic testing procedures and increase the mix of higher margin specialised diagnostics revenue

Development and growth of precision fertility

- development of Precision Fertility, an integrated digital workflow optimisation system that will manage patient information in one consolidated system and provide data insights to facilitate strategic and operational analysis. This platform is expected to improve efficiency and deliver synergies in future transactions, which will aid their expansion within target regions, Australia, Asia and Indonesia. Virtus intends to launch individual modules of Precision Fertility from FY22 with the full integrated system launched in FY23
- capitalising on Virtus' data and information with the development of strategic partnerships with other businesses.

3.10.1 Equity research analysts' perspectives

The table below sets out the equity research analysts' consensus estimates for Virtus based on broker reports available to us as at 16 March 2022.

Table 13: Summary of equity research analysts' consensus estimates (average for FY22, FY23 and FY24)¹

AUD m	Audited FY21	Consensus estimates FY22	Consensus estimates FY23	Consensus estimates FY24
Revenue	327.8 ¹	335.9	351.2	366.2
EBITDA	83.0 ²	78.2	85.2	92.4
<i>Revenue growth (%)</i>	19.7%	2.5%	4.5%	4.3%
<i>EBITDA margin (%)</i>	25.3%	23.3%	24.3%	25.2%

Notes:

1. Only considers equity research analysts who published forecasts after the release of the half-year results

2. Normalised to exclude Government assistance of AUD 7.7m

3. Normalised EBITDA per Section 3.8.1.

Sources: S&P Capital IQ, FY21 financial statements, Broker reports, Deloitte Corporate Finance analysis

The consensus estimates are based on coverage by four equity research analysts' reports published on or after 18 November 2021. We highlight the following:

- FY22 consensus revenue growth is anticipated to be minimal. The sustained COVID-19 impacts in FY20 led to outperformance in FY21, which is not forecast to be achieved in FY22
- projected revenue growth is anticipated to be driven by recruitment of new fertility specialists in Singapore and Ireland which will increase international cycle volumes. Revenue growth is anticipated in the immediate forecast due to a backlog of delayed procedures as a result of the Omicron variant, and is expected to continue thereafter as patients are able to travel internationally to receive treatments, with Virtus' Denmark operations a notable beneficiary
- decrease in the EBITDA margin in FY22F is driven by an increase in employee costs in H1FY22 to support high IVF cycle volumes and an increase in corporate costs in line with strategic investments. Virtus also experienced COVID-19 related disruptions including cancellations and deferrals in H1FY22 and January 2022. Brokers note that Management expects regular levels of demand to return both domestically and internationally, however Virtus may not be able to fulfil the entire backlog of treatment volumes by H2FY22F
- the EBITDA margin is anticipated to increase, assisted by investment in ongoing growth and a reduction in the cost associated with COVID-19 safe protocols
- more generally, brokers expect that the ARS and IVF markets will see continual growth owing to increased social awareness surrounding ARS and socio-behavioural shifts towards a focus on family over the medium to long term.

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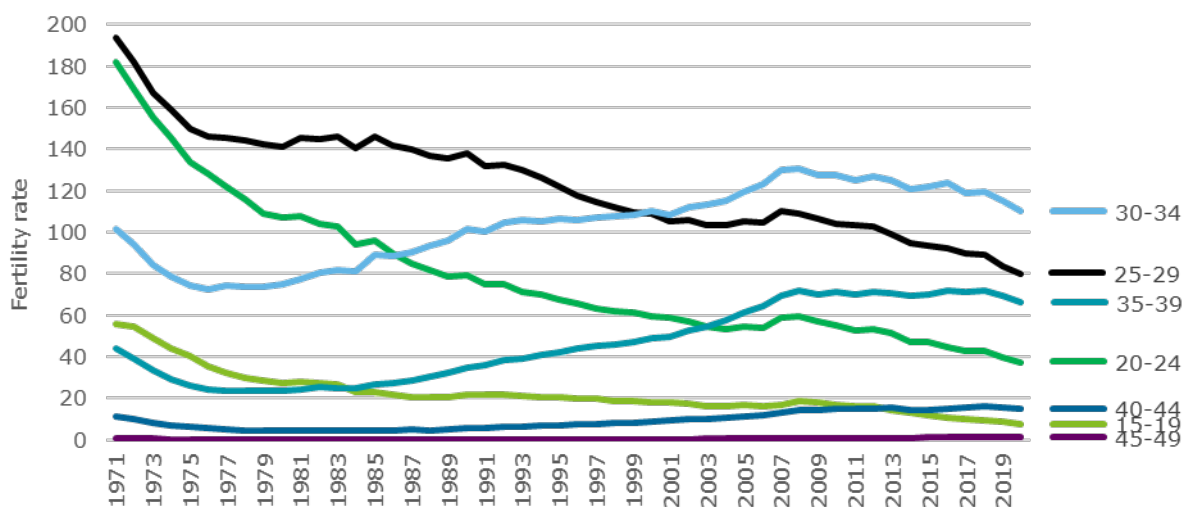
4 Industry considerations

The following sections summarise key themes impacting the ARS industry in Australia.

4.1 Australia’s childbearing age is increasing

In 2020, the ABS reported the lowest total fertility rate⁶ on record⁷. Although driven in part by COVID-19 disruptions, the result reflects a long-term decline in the fertility of younger mothers, as women shift toward childbearing later in life. This change has been driven by modern social trends, which have seen more female workforce participation, same-sex couples and single parents wishing to raise a family. In 2020, the median age of an Australian mother was 31.6 years, compared to 26.5 in 1979 and 29.7 in 1999. This trend is illustrated in the figure below.

Figure 12: Fertility rate¹ in Australia (calendar year)



Notes:

1. Fertility rate is a measure of births per 1,000 women.

Sources: ABS Births, Australia, Deloitte Corporate Finance analysis

Successful conception is often more challenging later in life, consequentially, an opportunity exists in the ARS industry, which key operators such as Virtus, Monash IVF and Genea have benefited from. The majority of ART targets women aged between 30 and 44 years⁸, which, as set out in the figure above, are showing the highest levels of growth relative to other age brackets.

4.2 In Australia, the industry is concentrated

Competition

The Australian ARS industry is highly concentrated, with the three largest operators, Virtus Health, Monash IVF and Genea accounting for more than three quarters of industry revenue in FY22. Concentration within the industry is protected by a challenging regulatory environment and the rate of technological innovation (which, often, requires substantial investment). Consolidation within the industry has been significant and can be anticipated to continue over the next 5 years, albeit perhaps only for certain market participants and with a backdrop of competition scrutiny.

Industry participants tend to compete on the breadth and quality of services and fertility specialists, sales and marketing activities and the location and accessibility of clinics. These dynamics underlie the high concentration of the industry, as larger firms have a competitive advantage due to the scale of their operations.

⁶ Measured as the average number of babies born to a woman throughout her reproductive life.

⁷ Australian Bureau of Statistics, 2021, *Australian fertility rate hits record low*, viewed 21 March 2022, <<https://www.abs.gov.au/media-centre/media-releases/australian-fertility-rate-hits-record-low>>

⁸ IBIS World, *Fertility Clinics in Australia*, September 2021

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Competition from outside the industry has lessened over time. Adoption and to a lesser extent surrogacy arrangements, which require IVF, have often been considered a form of external competition to the ARS industry. However, adoption figures have fallen by over 50% in the past 25 years, with only 310 adoptions recorded in FY19⁹, compared to 15,158 IVF births in CY19¹⁰. Likewise, complex domestic regulation that prohibits commercial surrogacy, and increasingly strict international laws have made surrogacy an unattractive alternative.

Low-cost IVF

Increasing inter-industry competition has seen the evolution of a low-cost model of care, as high costs and out-of-pocket expenses associated with ART has developed an increasingly price conscious customer base. In January 2012, Virtus established Australia's first low-cost model of ARS under their brand The Fertility Centre, opening a clinic in Springwood, Queensland. The brand currently has six locations. In July 2014, Primary Healthcare (now known as Healius) established Australia's first Medicare bulk-billable IVF service, Adora Fertility. Firms have continued to invest in these low-cost solutions, as increasing competition within the industry drives an effort to broaden client bases through improved accessibility, especially in regions with lower average incomes.

More recently, State Governments have also invested in low-cost solutions. From January 2020, the NSW Government announced a rebate for fertility testing and the expansion of the availability of low-cost ART services in IVF clinics at three public hospitals across NSW until June 2023. In May 2021, the Victorian State Government also announced its investment in free IVF treatment cycles and other fertility care services, as well as construction of the first public health care facility in Victoria. These Government initiatives further contribute to the shift towards a low-cost treatment model.

Listed operators

Of the Australian ARS operators, the top 3 participants have an estimated 77% of the market share. Virtus and Monash IVF are currently listed on the ASX, and Genea is privately owned. Set out below is a comparison of these three participants:

Table 14: Comparison of ASX listed ARS operators

	Unit	Virtus	Monash IVF	Genea
Market capitalisation (13 Dec 2021)	AUD m	444.2	366.3	n.a.
Service revenue (FY21) ¹	AUD m	324.6	183.6	93.7
Market share ²	%	39.5%	25.3%	12.6%
ART clinics	No.	44	27	12 ³
Fertility specialists	No.	128	105	38 ³
Service revenue CAGR (FY19 to FY21)	%	7.7%	9.9%	0.5%
Service revenue CAGR (FY21 to FY23) ⁴	%	4.0%	7.0%	n.a.
EBITDA margin (FY21) ⁵	%	25.9%	26.0%	13.1%
Cycles (FY21) ⁶	No.	23,994	10,815	8,864
Revenue per cycle ⁷	AUD	13,528	16,977	10,567
Cycle per fertility specialist (FY21)	No.	187	103	216
International operations (30 June 2021)		Ireland Denmark Singapore UK	Malaysia Indonesia	Thailand UK Spain
% international revenue (FY21)	%	20.1%	5.8%	12.4%
Australian footprint				

Notes:

n.a. = Not applicable

1. Service revenue is measured at the group level
2. Based on IBISWorld estimates
3. Genea's clinic and specialist numbers refer only to their Australian operations
4. Based on broker consensus estimates
5. EBITDA has been adjusted to remove the impact of one-off items
6. Virtus (fresh cycles), Monash IVF (stimulated cycles) and Genea (cycles at large) measure their cycle numbers on different bases
7. Revenue per cycle is calculated as service revenue divided by number of cycles

Sources: Management, FY20, FY21, H1FY22 annual reports and investor presentations, IBISWorld, ASX, Deloitte Corporate Finance analysis

⁹ Australia Institute of Health and Welfare, Adoptions Australia, December 2019

¹⁰ University of New South Wales, Assisted reproductive technology in Australia and New Zealand 2019, September 2021

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As measured by market capitalisation, market share, service revenue, cycles and the number of fertility clinics, Virtus is larger than its closest competitors. All three companies provide ART services, with additional diagnostics testing to support the core ART business. However, Monash IVF and Genea also generate a portion of their revenue through ultrasound services and research and development, respectively. By comparison to Virtus, Monash IVF's ultrasound services create the appearance of additional revenue per cycle, but rather reflect a more diverse service offering. Likewise, Genea's research and development business, Genea Biomedx, distorts the revenue per cycle comparison as it provides less incremental revenue than Virtus' and Monash IVF's ancillary services. Furthermore, the Genea Biomedx operating segment achieved a negative adjusted EBITDA result in FY21, creating a drag on the EBITDA margin result at the group level.

While Monash IVF is active in South-East Asia, its presence is growing with new clinics in Malaysia and Indonesia and a Singapore clinic to be commissioned in H2FY22. In FY21, 5.8% of Monash IVF's service revenue was generated from its international operations, far less than Virtus, who have a larger and more established international presence, which contributed 20.1% of their service revenue in FY21. Genea began FY21 with operations in five countries, however disposed of its interest in the New Zealand based Genea Oxford Fertility Limited in March 2021, after a number of loss-making years. Genea's international operations are heavily concentrated in the UK, which comprised 82.7% of its international service revenue in FY21.

Brokers forecast Virtus' service revenue to grow at a CAGR of 4.0% from FY21 to FY23, compared to 7.0% for Monash IVF (forecasts are not available for Genea given it is privately owned). Brokers note that Monash IVF has a high rate of conversion from patient registration to ART service and invested in a new marketing campaign in H1FY22 which led to an increase in patient registration numbers and strong cycle growth. Monash IVF also expects high levels of fertility specialist recruitment and will open new clinics in Victoria, Queensland, Singapore and Indonesia across FY22 and FY23. Analysts note that these factors, underpinned by strong H1FY22 performance, support a stronger pipeline and growth for Monash IVF.

4.3 The sector is underpinned by technology advancements

The ARS sector is underpinned by advancements in technology which improve the success of detecting and treating infertility. Current treatment options are able to offer a better chance of successful conception, with the live birth rate per IVF fresh cycle in women aged 35 to 39 increasing from 32.5% to 35.1% between 2009 and 2019, an 8% increase in relative success, according to the 2019 Assisted Reproductive Technology in Australia and New Zealand report which summarised a study conducted by the University of New South Wales. Across all age groups, live births per IVF fresh cycle increased from 23.0% to 25.3% in the ten years to 2019. Moreover, the development of single embryo transfer technology has significantly lowered the risk of multiple births, which occurred in 2.9% of births in 2019 compared to 8.2% in 2009. Technology also allows medical professionals to better select healthy embryos, with techniques developed to identify chromosome abnormalities.

Collectively, these advancements in ART technology provide a more cost-effective and safe form of achieving clinical pregnancy, and have resulted in an increase in ART adoption as evident in Figure 13 in Section 4.6 below.

4.4 Regulation of the sector is high

The industry operates under a stringent regulatory framework. Ethical and social concerns regarding fertility treatments have continually driven the development of regulation within the industry, with changes also being made to keep pace with improvements in technology. The industry's first piece of legislation was Victoria's Infertility (Medical Procedures) Act 1984. This was driven by Monash IVF (then part of Monash University), delivering the world's first frozen embryo birth in 1983. Other states followed suit throughout the 1990s, targeting various forms of ART.

No Commonwealth legislation directly regulates Australia's ARS industry, rather regulation is enacted on a state-by-state basis. Currently, four states (New South Wales, Victoria, South Australia and Western Australia) regulate ART through the provision of licenses to clinics, pursuant to this regulation, operators are required to satisfy a number of professional and commercial requirements and guidelines. Compliance with regulation is costly and is a key risk for the industry going forward.

4.5 Recent transactional activity

The Australian ARS industry has demonstrated a continued appetite for consolidation, as larger players look to build scale and access new technologies. New entrants often lack the full suite of services provided by major participants, and rather look to provide price-competitive alternatives to specific offerings. By specialising in niche solutions such as egg or sperm freezing, intrauterine insemination and counselling, these new entrants present as attractive M&A opportunities for an established operator looking to improve the quality of their services or expand their service offering.

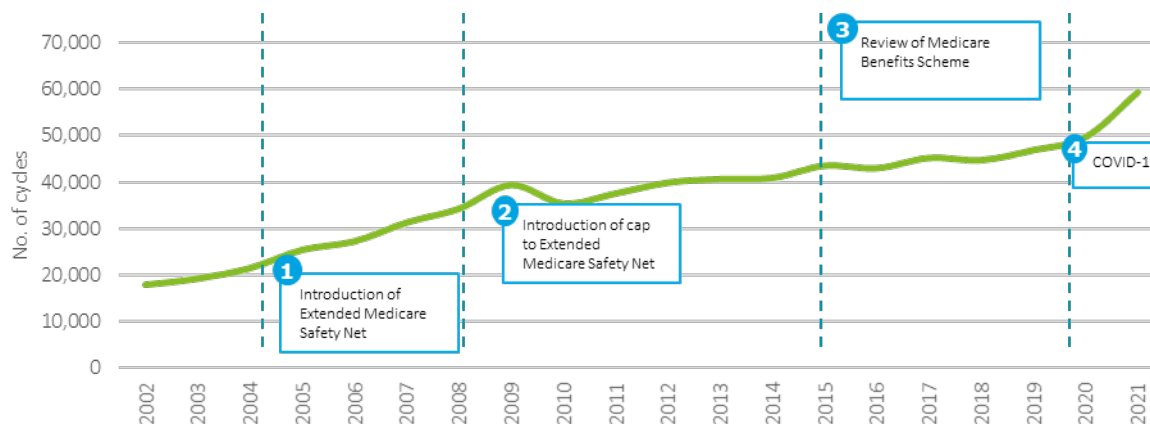
With the market share held by the two largest participants, Virtus and Monash IVF, it may be the case that they will experience challenges with undertaking acquisitions in the Australian market.

On 25 March 2022, Healius announced it had entered into a binding agreement to sell Adora Fertility to Liverpool Partners for AUD 30.5m. In 2018, Genea was acquired by an Asian consortium of investors.

4.6 Growth and outlook

IVF cycle growth has historically shown a level of variability, driven by economics conditions, natural disasters and regulatory changes. The number of IVF Cycles undertaken in Australia over the past 20 years is set out in the figure below.

Figure 13: IVF cycles in Australia (calendar year)



Sources: MBS Item Statistic Reports for items 13200, 13201, 13202, Deloitte Corporate Finance analysis

Government funding is one of the most important drivers of demand for ART. From 2000 to 2003 the number of IVF cycles undertaken in Australia grew at an annual rate of 9%. Following the introduction of the Extended Medicare Safety Net (EMSN) in March 2004, which offered to reimburse 80% of out-of-pocket payments above a given threshold for ART, the growth rate increased to 12% p.a. through 2008. In May 2009, it was announced that caps would be placed on the safety net payments for ART, coming into effect in 2010. Facing higher out-of-pocket payments, prospective mothers took advantage of the existing system, as IVF Cycles increased by 15% in 2009, falling 10% the following year when the caps came into effect. With little change in government funding for the industry in the following 10 years (2011 to 2020), annual growth remained steady at 3%. However, as part of a review of the Medicare Benefits Schedule (MBS) undertaken from 2015 to 2020, the Federal Government is now progressively considering and implementing changes for the industry. The review’s report on gynaecology items represents a potential threat to the industry, with an array of recommendations suggesting potential cuts to ART funding.

Similarly, socio-economic factors have the potential to swing demand for ART. Treatment volumes increased by 6% in 2020, a year heavily disrupted by COVID-19, and 19% in 2021. The higher level of volume growth in FY21 is largely a result of fulfilment of pent-up demand created by public health concerns during lockdowns and the suspension of ART on a state-by-state basis in March and April 2020.

Given the childbearing age trends discussed in section 4.1, growth in the female population aged between 25 to 45 years is a key determinant for the demand of ART services. Australia’s female population aged 25 to 44 years is predicted to grow by 0.6% p.a., between 2021 to 2031¹¹, providing moderate growth in the industry’s target market.

Opportunities for growth in Australia’s ARS industry are available through global expansion. Australia has been at the forefront of technological development and adoption of ART and Australian companies such as Virtus and Monash have sought to expand into international markets. Forecasts of growth for the industry globally are estimated to be 8.2%¹² as compared to 2.5%¹³ in Australia over the same period.

¹¹ .id, 2021, *National to State tops-down forecast*, viewed 22 March 2021, <Population and age structure | Australia | Population forecast (id.com.au)>

¹² Mordor Intelligence, *In Virto Fertilization Market*, viewed 30 March 2022, <In Vitro Fertilization Market | Growth, Trends, COVID-19 Impact, and Forecasts (2022 - 27) - Mordor Intelligence>

¹³ IBIS World, *Fertility Clinics in Australia*, September 2021

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5 Valuation approach and assumptions

5.1 Valuation summary

We have estimated the enterprise value of Virtus to be in the range of AUD 850.0m to AUD 935.0m. After adding surplus assets and deducting net debt and minority interests, this implies a value of between AUD 7.31 and AUD 8.27 per share. A summary of our valuation is set out in the following table:

Table 15: Valuation summary

	Section	Unit	Low	High
Market multiples approach	5.3	AUD m	850.0	935.0
Discounted cash flow approach	5.4	AUD m	820.0	960.0
Enterprise value (selected)		AUD m	850.0	935.0
Add: Surplus assets	5.5	AUD m	1.8	1.8
Less: Net debt	5.6	AUD m	(204.2)	(204.2)
Less: Minority interests	5.7	AUD m	(10.3)	(11.3)
Equity value		AUD m	637.3	721.3
Number of shares	5.8	m	87.2	87.2
Equity value per share		AUD	7.31	8.27

Source: Deloitte Corporate Finance analysis

In estimating the enterprise value, we have had primary regard to the application of the market multiples approach but also had regard to the discounted cash flow approach. Our rationale for selecting these approaches is as follows:

- The market multiples approach confers the benefit of having the valuation reference point of a highly comparable listed business. However, it still requires exercise of judgement to reflect the differences between the businesses
- The discounted cash flow approach allows for significantly more flexibility in medium to long-term financial projections. However, it presents challenges with respect to being able to accurately project medium to long-term cash flows, especially due to difficulties with forecasting the impact of the growth initiatives
- Given the above challenges associated with the application of the discounted cash flow approach, we consider it is more appropriate to place greater emphasis on the outcomes of the market multiples approach in selecting our enterprise value range.

We have selected an enterprise value range of between AUD 850.0m and AUD 935.0m.

We have added to this enterprise value the value of assets which are not reflected in our valuations utilising the discounted cash flow or market multiples approaches and deducted the estimated value of net debt and minority interests to arrive at the equity value of Virtus. These items are discussed in Section 5.5, 5.6, and 5.7.

The equity value has then been translated into a value per Virtus share based on the number of shares on issue.

The analysis supporting the valuation is set out in the following sections.

5.2 Selection of valuation methodologies

We estimated the enterprise value of Virtus using the market multiples method, before adding the value of surplus assets and deducting net debt and minority interests. Refer to Appendix 1 for a detailed discussion on the various valuation methodologies which can be adopted in valuing entities and businesses. The market multiples approach involves applying a multiple to estimated earnings. In this regard, we note:

- there exists a listed company in Australia (Monash IVF), and various transactions concerning businesses with operations sufficiently comparable to Virtus from which a meaningful comparison can be made and an appropriate multiple can be ascertained

- Virtus is a relatively mature business and is not required to undertake any significant capital expenditure in the near future, making the market multiples an appropriate methodology.

We also undertook a discounted cash flow analysis having regard to the 3-year budget developed by Virtus management. We extended the cash flow projections to FY26 and considered various scenarios to account for the uncertainty related to industry trends. However, given the challenges associated with the application of the discounted cash flow approach, we consider it was more appropriate to place greater emphasis on the outcomes of the market multiples approach and only use the discounted cash flow approach as a secondary approach.

Our valuation of Virtus has been undertaken on a control basis, consistent with the requirements of ASIC RG111.

5.3 Market multiples approach

Set out below is a summary of the outcome of the market multiples approach.

Table 16: Valuation based on earnings multiple

	Section	Unit	Low	High
EBITDA	5.3.1	AUD m	85.0	85.0
Earnings multiple	5.3.2	Times	10.0x	11.0x
Enterprise value		AUD m	850.0	935.0

Source: Deloitte Corporate Finance analysis

We have selected EBITDA as an appropriate measure of earnings because earnings multiples based on EBITDA are less sensitive to different financing structures, depreciation and amortisation accounting policies and effective tax rates than multiples based on EBIT or NPAT. This allows a better comparison with earnings multiples of other comparable companies. In addition, EBITDA is an earnings measure monitored by Management, and is more commonly and consistently forecast by equity research analysts and thus also results in more accurate implied multiples for the comparable companies which form our market benchmarks.

5.3.1 Assessment of normalised EBITDA

In selecting the normalised EBITDA, we have considered the following:

- the historical financial performance of Virtus in FY20 and FY21, adjusted for abnormal or non-recurring revenue and expenses, as set out in Table 11. We also considered the impact of the COVID-19 pandemic and how it has impacted historical earnings
- Management's FY22 budget and outturn having regard to the half year performance for H1FY22
- Management's projected FY23 and FY24 outlook
- FY22 and FY23 consensus estimates forecast by equity research analysts covering Virtus, as set out in Table 13
- the expected full-year earnings contributions of new clinics in Nepean, Spring Hill, and Trianglen opened in the next 12 months, which were only partially reflected in FY22 budget
- the growth initiatives planned in FY22 to reduce costs or generate revenue, such as the investment in a new workforce management system and Precision Fertility. These initiatives are expected to improve EBITDA by between AUD 5m to AUD 10m from FY23 onwards
- the potential to reduce costs that Virtus currently incurs by being a listed company.

We also highlight the following in respect of our assessment of EBITDA:

- no future acquisitions or disposals have been factored into maintainable earnings
- the financials for both historical and future periods exclude rent expenses, and therefore the maintainable earnings are selected on a post-AASB 16 basis.

Based on the above considerations, we have adopted an EBITDA of AUD 85.0m. The selected EBITDA is:

- slightly higher than the normalised EBITDA for FY21 of AUD 83.0m, to recognise that the maintainable earnings of Virtus is expected to benefit from the new clinics and growth initiatives
- higher than the annualised H1FY22 normalised EBITDA of AUD 80.6m and the FY22 consensus EBITDA of AUD 78.2m. Whilst these periods include a nominal contribution from the new clinics, they were impacted by the breakout of the COVID-19 Omicron variant and do not include the benefit of the growth initiatives
- broadly comparable with FY23 consensus EBITDA of AUD 85.2m, based on current analyst reports and represents the expected earnings after a normalisation following the impacts of COVID-19.

5.3.2 Assessment of earnings multiple

In selecting an appropriate earnings multiple for Virtus, we have considered earnings multiples observed from share market prices of listed companies with operations comparable to Virtus and the implied multiple paid to acquire companies with operations similar to Virtus.

Earnings multiples derived from share market trading do not reflect the market value for control of a company as they are for portfolio holdings. The difference between the market value of a controlling interest and a minority interest is referred to as the premium for control.

The owner of a controlling interest has the ability to do many things that the owner of a minority interest does not. These include:

- control the cash flows of the company, such as dividends, capital expenditure and compensation for management
- determine the strategy and policy of the company
- make acquisitions, or divest operations
- control the composition of the board of directors.

Whilst Australian studies indicate takeover premiums range between 20% and 40% of the portfolio holding value, these figures are influenced by a number of factors of which, control is just one.

Selection of comparable companies and transactions

There is one listed ARS company in Australia that we consider highly comparable to Virtus, being Monash IVF. We have also identified certain transactions involving businesses in the ARS sector of developed economies, the most relevant ones, which are set out in the table below:

Table 17: Selected valuation metrics

	Metric type	Revenue (AUD m)	EBITDA margin	EBITDA multiple	
		Historical	Historical	Historical	Current
Monash IVF	Listed company	184	26.0%	10.9x	9.9x
Fertility Associates (Dec-21)	Transaction	44	31.8%	12.0x	n.a
Adora Fertility (n.a)	Transaction	29 ¹	15.5% ¹	n.a.	n.a
Genea (May-20)	Transaction	93	17.9%	12.6x	n.a

Notes:

1. Based on disclosures made by Virtus at the time of Virtus' bid for Adora.

Sources: Company announcements, S&P Capital IQ, broker reports, news articles, Deloitte Corporate Finance analysis

A side-by-side comparison of Virtus and Monash IVF is set out in Table 14 in Section 4.2. Information on valuation multiples is presented in Appendix 2. We highlight our key considerations below:

- Virtus operates 44 clinics, with a total of 128 fertility specialists. It generated AUD 325m of service revenue from c. 24,000 fresh cycles in FY21
- Monash IVF operates 27 clinics with 105 fertility specialists. It generated AUD 184m of service revenue from c. 11,000 fresh cycles in FY21
- Virtus is more geographically diversified than Monash IVF, with operations in Ireland, Denmark, Singapore and the United Kingdom representing c. 20% of service revenue. Monash IVF operates in Malaysia and Indonesia, representing c. 6% of revenue, however, has plans to increase its international presence by opening a new clinic with 4 specialists in Singapore in H2FY22

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- Monash IVF also generates substantial revenue from other activities, namely the provision of ultrasound and other related services. On the other hand, Virtus generates revenue from its 7 day hospitals
- Both companies were similarly impacted by COVID-19 restrictions. Virtus estimated a lost gross profit of AUD 14.6m (c. 6% of revenue) in FY20 due to temporary suspensions of procedures, whereas Monash IVF estimated it lost revenue of AUD 7.8m (c. 5% of revenue) in FY20. The two companies also saw the number of fresh cycles decline by c. 7% from FY19 to FY20. Following the omicron variant outbreak, while Virtus recorded no growth in the number of fresh cycles for H1FY22 compared to H1FY21, Monash IVF posted 4% of fresh cycle growth over the same period due to investment in marketing campaign and a new clinic and recruitment of new fertility specialists
- Despite the differences noted above, Virtus and Monash IVF achieve similar EBITDA margins of c. 26%
- Brokers project a higher revenue growth rate from FY21 to FY23 for Monash IVF (c. 7%) compared to Virtus (c. 4%). Equity research analysts attribute this growth to 4 new clinics planned by Monash IVF, accelerated recruitment of fertility specialists, continued marketing efforts and the resilience of the business during the Omicron variant outbreak as compared to Virtus.

We have also considered other companies that operate in the broader healthcare services sector, for example companies that provide hospital, dental and other health services, as set out in Table 18. In the current environment, we consider the comparability of this group to Virtus, or more broadly the ARS sector, is limited given the different impacts of COVID-19. Some of these companies, such as Sonic Healthcare and Healix, have benefited from the pandemic by providing COVID-19 testing services, while some others have been impacted by the government restrictions. We also note that companies, such as Ramsay operate capital-intensive hospitals, which have higher operating and financial leverage compared to IVF clinics. Notwithstanding, the median EBITDA margins based on analysts' forecast are broadly similar to that of Virtus. The median EBITDA multiple of these companies is 10.7x historical (FY21) earnings, and 11.1 current (FY22) earnings.

Of the comparable transactions in the ARS sector identified after 2020, we consider the following three to be most comparable:

- A 70% equity ownership of Fertility Associates was acquired in Dec 2021 by a consortium of investors, which include Pioneer Capital, New Zealand Superannuation Fund and White Cloud. Fertility Associates operates the largest chain of fertility clinics in New Zealand, with a small presence in Malaysia. This transaction implied a multiple of c. 12.0x historical EBITDA
- Adora Fertility operates 4 fertility clinics across Australia and 3 day hospitals. Relative to Virtus, Adora Fertility is a smaller operator and operates under a low-cost model, thereby generating lower margins, which suggests a lower valuation multiple would be warranted for the business. Conversely, the focus on the low-cost model which has a favourable outlook with potentially higher growth prospects which could warrant a higher multiple.

In March 2022 Liverpool Partners entered into a binding agreement to acquire Adora Fertility for a price of AUD 30.5m. Whilst the financials of Adora Fertility have not been publicly disclosed, Virtus' public disclosure of Adora's financial performance suggests that the multiple implied in Liverpool Partners' purchase price is c. 7x. We consider that Liverpool Partners, not having pre-existing operations in the ARS sector or healthcare services industry, would not have the same level of synergistic benefits from integrating Adora Fertility as would have been the case with Virtus and therefore we consider that the multiple implied in Liverpool Partners' acquisition is likely to have been higher than c. 7x

- In May 2020, a subsidiary of NWS Holdings acquired a 34% interest in TT Holdings Limited, an entity which owns a 55.2% interest in Genea, for a price of USD 23m. This transaction which involved the acquisition of a non-controlling interest implied an EBITDA multiple of 12.6x¹⁴. Genea is the third largest IVF operator in Australia. Relative to Virtus, Genea is significantly smaller, has lower historical EBITDA margins, lower historical revenue growth as well as lower international diversification. The profitability of Genea is impacted by the loss generating Biomedx business, which designs, manufactures and sells IVF equipment, consumables and media, and consequently the multiple attributable to the core IVF business is likely to be slightly lower.

We also considered international transactions concerning fertility clinics in developed markets. The multiples from these transactions were in the range of 13x to 18x EBITDA. However, we considered this evidence at a high level given the different markets in which the businesses operate, the higher perceived growth in these markets, the differing regulatory and funding model, the differing contractual arrangements with fertility specialists (in particular, in a lot of European markets, the fertility specialists are employed by the company), different level of COVID-19 impacts, as well as the limited availability of information from which the transaction multiples were based.

Selected multiple

We have selected an EBITDA multiple in the range of 10.0x to 11.0x on a control basis, having regard to the following:

- Virtus is larger than Monash IVF, based on various key operating metrics, such as service revenue and the number of cycles and clinics. Virtus also generates significantly higher revenue than the identified comparable transactions
- Virtus has a more diversified geographical presence and generates higher number of cycles per fertility specialist relative to its listed counterpart

¹⁴ The calculation of the multiple is limited by the availability of information surrounding the consolidation of Genea in TT Holdings Limited.

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- Virtus and Monash IVF generate similar EBITDA margins at c. 26%. The EBITDA margin of Genea is not directly comparable as its results are affected by loss-making non-IVF segments
- we also considered the higher growth prospects as approximated by the 4 new clinics planned by Monash IVF in FY22 and FY23, in comparison to Virtus
- the growth prospects of Virtus, driven by the strategic growth initiatives beyond FY23, in particular in relation to the Precision Fertility initiative which provides a platform for growth in terms of improving success rates and performance of existing operations, as well as the opportunity for exploitation in global markets over the medium to long term.

5.4 The discounted cash flow method

The discounted cash flow approach estimates enterprise value by discounting a company's future cash flows to their net present value provided that the future cash flows that are expected to be derived from a business are capable of being estimated with a reasonable degree of confidence.

The discounted cash flow method requires the determination of the following:

- future cash flows of the business
- an estimate of the terminal value growth rate
- an appropriate discount rate to be applied to the future cash flows.

Our considerations on each of these factors are presented below.

5.4.1 Future cash flows

In developing their budget, Management undertakes a detailed review of operations and financial performance. The Virtus budgeting process typically commences prior to the financial year end, when budgets are prepared at a business unit level, considering a set of broader market expectations and assuming a 'business as usual' basis. Following inputs from each business unit and direction from Management, strategic growth initiatives are developed. A high-level 3-year outlook of the business is also prepared to demonstrate business prospects and supplement the analysis on the growth initiatives. All budgets are developed in local currency, and converted to AUD. These budgets are then consolidated with the budgets of other business units and support functions and reviewed by the CFO and CEO, before being presented to the board.

Set out below are the key considerations in Management's development of the budget:

- growth in fresh cycles is the key underlying assumption of the forecast. The growth assumption is based on the overall expected market growth and market share improvement. Some business units may have a higher or lower growth rate, after accounting for the specific situation in each state, such as lockdown restrictions or new clinics. Overseas clinics, which have been heavily affected by COVID-19, are forecast to grow at a higher rate than Australian clinics
- slight reduction of margins in FY22 driven by higher expenses in employee and IT infrastructure. The margins are forecast to improve and stabilise FY23 onwards
- adjustments to remove rent expenses in order to present the budget on a post-AASB 16 basis
- discontinuation of government COVID-19 support payments
- capital expenditure in FY23 is expected to be lower than in FY22, albeit slightly higher than the historical average, due to the investment in clinic relocation and growth initiatives. Capital expenditure in the latter years is expected to decline as investment in the growth initiatives reduces
- EBITDA contributions of the growth initiatives which is expected to materialise from FY23 onwards.

We included certain adjustments, including:

- a corporate tax rate of 28.4% which reflects a weighted average tax rate for the jurisdictions in which that Virtus operates
- lease sustaining capital expenditure in line with the adoption of a post-AASB16 EBITDA assessment.

We projected the cash flows for a further 2 years from the 3-year outlook on the expectation that the growth rate and the earnings contribution from and capital expenditure requirement for the growth initiatives would reduce to a normalised level over this period. As compared to the core business, the growth initiatives carry a higher level of risk and consequently, we have had regard to a sensitivity analysis set out in Section 5.4.4 below.

5.4.2 Terminal growth rate

We have estimated a terminal value at the end of the forecast period using the perpetuity growth formula. Our assessment of the long-term growth rate has had regard to long term growth rates for the geographies that Virtus operates in (Australia, Denmark, Ireland, Singapore and the UK) and the long-term outlook for the sector.

5.4.3 Discount rate

The discount rate used to equate the future cash flows to a present value reflects the risk adjusted rate of return demanded by a hypothetical investor. We have selected a base case nominal after tax discount rate in the range of 8.25% to 9.25% to discount the future cash flows to their present value. In selecting these discount rates, we considered the following:

- the required rate of return of comparable companies
- the debt-to-equity ratio of comparable companies.

We also used the Capital Asset Pricing Model as a frame of reference for the calculation of these rates and used the following inputs in applying this model:

- a cost of equity of 9.8% to 11.1% based on:
 - a risk-free rate of 2.8% based on the five-day average of the zero-coupon ten-year Australian government bond
 - an equity market risk premium of 6.25%
 - a levered beta of 1.1 to 1.2 having regard to the betas of the companies identified in Appendix 2, particularly the betas of Virtus, Monash IVF and published industry betas. We had regard to the betas of comparable companies prior to COVID-19 to adjust for the operational uncertainty and market volatility due to lockdown restrictions and public health concerns
 - company specific risk premium of nil to 0.5% to reflect the risk associated with the strategic growth initiatives
- a net debt to enterprise value ratio of 25.0% based on gearing observed for comparable companies
- a pre-tax cost of debt of 5.5%. We had regard to the spread of BBB-rating debt as published by Reserve Bank of Australia and the current margin on Virtus' existing debt facility
- a corporate tax rate of 28.4% which reflects a weighted average of the jurisdictions that Virtus operates in.

The cost of capital of 8.25% to 9.25% is an estimate of the rate of return an investor would demand for investing in an ARS business such as Virtus. Having regard to the risks and opportunity cost of capital, we consider this range to be reasonable.

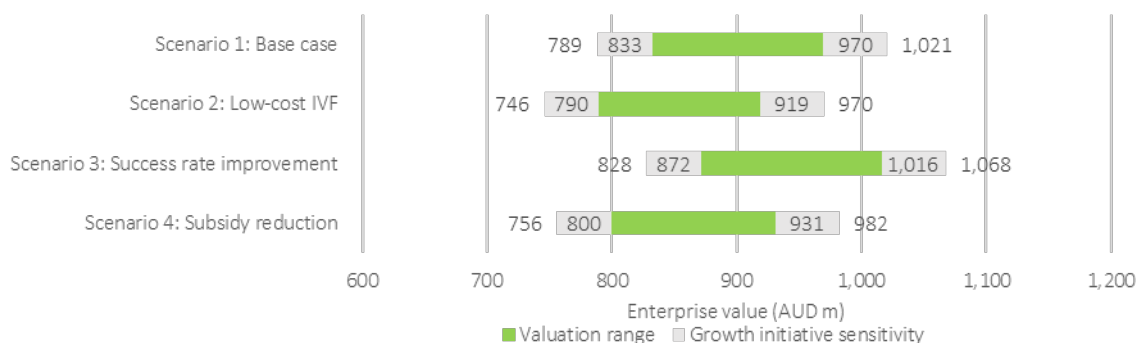
5.4.4 Conclusion on discounted cash flow valuation

Given the uncertainty in the financial projections of the business, particularly surrounding the industry trends and government support, we have considered a variety of scenarios with a probability weighting applied to those scenarios. We consider this approach more appropriate and, accordingly, have set out below the various scenarios we considered:

- **Scenario 1 – Base case:** assumes revenue growth broadly in line with broker consensus in FY23 and FY24, before moderating thereafter. This is assumed to be driven by volume growth, however, a low level of price growth is expected from FY25 onwards. This scenario also assumes the cost of service provision and operating expenses will grow largely in line with inflation
- **Scenario 2 – Low cost IVF:** considers the move toward a low-cost market model over the medium to long-term. This scenario assumes revenue per cycle progressively decreases, however is partially offset by an increase in cycle volumes (due to higher demand at a lower price point). We also assume a lower cost of service provision under a low-cost operating model, reflecting the benefits of some of the strategic growth initiatives being executed by the group
- **Scenario 3 – Success rate improvement:** assumes the successful implementation of new lab designs and protocols, supported by the Precision Fertility platform, resulting in an increase in the success rate. An improved success rate is expected to reduce volume growth as the average number of cycles required for a successful pregnancy reduces, partially offset by additional customers opting for Virtus (and more broadly ART) given the higher success rate. This will also drive a higher revenue per cycle. This scenario also assumes a higher operating cost base through more complex procedures and a higher quality service offering
- **Scenario 4 – Subsidy reduction:** considers the possibility that government funding provided to patients through the MBS and EMSN will reduce. We assume the growth in number of cycles to decrease over the medium and long-term, reflecting a decline in the affordability of ARS. Moreover, we assume the decline in affordability will be partially absorbed by ARS providers, reflected through a decline in revenue per cycle. However, we also assume that the business would reduce its cost structure in response to the lower cycle volume and revenue per cycle.

The valuation range for the above scenarios assumes 50% of the expected cash flows generated by the growth initiatives. In the figure below, we have also provided a sensitivity of +/-20% contribution for these initiatives.

Figure 14: Outputs of discounted cash flow valuation



Source: Deloitte Corporate Finance analysis

We consider a weighting of 60%, 20%, 10% and 10% for scenarios 1 to 4, respectively, is reasonable based on the likelihood of the scenarios eventuating. The resulting enterprise value using the discounted cash flow approach is AUD 820m to AUD 960m. We emphasise that given the uncertainty associated with projecting future cash flows for the business and noting the availability of comparable company multiples (which increases the utility of the market multiples approach), we consider this approach suitable as a secondary approach.

5.5 Surplus assets

Assets not captured by our enterprise valuation comprise investments in entities that are not controlled by Virtus (namely entities accounted for using the equity method), as noted in section 3.9. The book value of these investments as at H1FY22 was 1.8m and Management have advised that the book value is likely to approximate the market value.

5.6 Net debt

Virtus' net debt position, inclusive of lease liabilities and the impact of the Permitted Dividends, is projected to be AUD 204.2m at or around the date of payment of the Consideration.

5.7 Minority interests

Adjustments associated with the minority interests are required to reflect the partial ownerships in three entities, as noted in section 3.9. We have had regard to the book value of the minority interests, the size and FY21 financial performance of the entities and the original acquisition of Complete Fertility in 2018. Based on these factors, we have adopted a similar EBITDA multiple of 10.0x to 11.0x, resulting in a minority interest equity value in the range of AUD 10.3m to AUD 11.3m.

5.8 Number of shares outstanding

As discussed in section 3.7 above, the number of shares issued is anticipated to be 87.2m at or around the date of payment of the Consideration. We have assumed that all the outstanding performance rights will vest.

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Appendix 1: Valuation methodologies

Common market practice and the valuation methodologies which are applicable to corporate entities and businesses can be categorised under one of the following three approaches.

Market approach

The market approach involves the determination of market value having regard to pricing and other metrics implied by market trading or transactions of comparable assets. Valuation methods commonly adopted under the market approach include:

- earnings multiples
- analysis of an entity's recent share trading history
- industry specific methods.

The market multiple method estimates market value as the product of an entity's earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market trading and/or transactions involving comparable companies. The earnings multiple method is appropriate where the entity's earnings are relatively stable.

The most recent share trading history provides evidence of the market value of the shares in an entity where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally, rules of thumb provide less persuasive evidence of the market value of an entity than other valuation methods because they may not account for entity specific factors.

Income approach

The income approach involves the determination of market value based on the present value of future amounts. The discounted cash flow method estimates market value by discounting an entity's future cash flows using an appropriate cost of capital to reflect the risks of the cash flows, to a net present value. This method is appropriate where a projection of future cash flows can be made with a reasonable degree of confidence, and is commonly used to value early stage companies or projects with a finite life.

Other methods under the income approach include option pricing models (such as Black Scholes-Merton formula or a binomial model) and the multi-period excess earnings method in the case of valuing intangible assets.

Cost approach

The cost approach involves the determination of market value based on the cost of replacement. Valuation methods under the cost approach estimate the market value of an entity's shares based on the realisable value of its identifiable net assets, and typically comprise:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner. The liquidation method is similar to the orderly realisation of assets method, except that it assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market value of the net assets of an entity, after deduction for the costs of operating the net assets of the business, but does not take account of realisation costs.

These methods ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill which may not be recognised on the balance sheet. Asset based methods are appropriate when companies are not profitable, or a significant proportion of an entity's assets are liquid, or for asset holding companies.

Appendix 2: Comparable entities

We identified the following companies whose securities are traded on Australian Securities Exchange which we consider broadly comparable:

Table 18: Comparable company financial performance and valuation metrics

Name	Type of healthcare service provision	EV ¹ (AUD m)	Net Debt / EV ¹ (%)	Revenue Growth ²	EBITDA margin (%) ¹			EBITDA multiple ¹		
					FY21 ³	FY22	FY23	FY21 ³	FY22	FY23
Australian ART										
Monash IVF	IVF clinics	522	7.4%	7.0%	26.0%	26.3%	26.3%	10.9x	9.9x	9.4x
Australian healthcare services										
Ramsay Health Care ⁴	Private hospitals	28,287	28.9%	5.8%	15.7%	14.6%	16.0%	13.5x	13.9x	11.9x
Sonic Healthcare	Pathology	20,089	12.4%	-3.7%	29.3%	30.5%	23.4%	7.8x	7.1x	10.6x
Healius	Pathology	3,999	34.1%	2.9%	26.9%	33.9%	27.5%	7.8x	4.8x	7.2x
Australian Clinical Labs	Pathology	1,283	18.6%	4.2%	34.2%	39.5%	27.9%	5.6x	3.3x	6.3x
Integral Diagnostics	Radiology	1,268	23.2%	13.0%	24.1%	22.5%	25.0%	15.0x	14.8x	11.3x
Pacific Smiles	Dentistry	446	19.8%	11.2%	24.7%	9.7%	18.8%	11.7x	31.2x	12.4x
Capitol Health	Radiology	415	15.8%	7.4%	23.7%	23.3%	23.7%	9.8x	9.2x	8.5x
Healthia	Allied health	402	31.6%	37.1%	23.7%	14.6%	16.4%	12.3x	12.9x	9.4x
Median			19.8%	6.6%	24.4%	22.9%	23.5%	10.7x	11.1x	10.0x

Notes:

1. EV, Net Debt, and EBITDA are presented on a "post-AASB16" basis, i.e. including lease liabilities in EV, and excluding rent expense from EBITDA

2. Forecast annualised growth from FY21 to FY23.

3. Where possible, EBITDA is presented exclusive of non-recurring items, such as JobKeeper payments

4. Subject to a takeover approach and therefore enterprise value and EBITDA multiples include a takeover premium Sources: Publicly available announcements, S&P Capital IQ, Deloitte Corporate Finance analysis.

Appendix 3: Comparable transactions

We identified the following publicly available acquisitions of ART services since 2020. The availability of information for the comparable transactions has meant that the enterprise value does not include lease liabilities, and in most instances, it is not clear whether the EBITDA is on a pre- or post-AASB16 (or international equivalent) basis.

Table 19: Comparable transaction valuation metrics

Completion date	Country	Target	Acquirer	Enterprise value (AUD m)	Enterprise value / EBITDA	Notes
Australian/New Zealand fertility clinics						
Dec-21	New Zealand	Fertility Associates	NZ Super Fund, White Cloud Capital, Pioneer Capital	c. 200	c. 12.0x	1
n.a.	Australia	Adora Fertility	Liverpool Partners	31	n.a.	2
May-20	Australia	Genea	NWS Holdings	170	12.6x	3
International fertility clinics						
Jan-22	Italy	Tecnobios Procreazione	Generalife	47	17.6x	4
Nov-21	Spain	Generalife	KKR & Co.	629	13.3x	4
Jul-21	UK	Create Health	IVIRMA Global	189	14.0x	
Jul-21	US	CCRM Management Company	Unified Women's Healthcare	1,028	c. 15.5x	1,4
Apr-21	Spain	Eugin (NMC)	Fresenius SE	693	13.9x	

Notes:

n.a. = not available

All transactions are presented on a historical and pre-AASB16 basis, unless indicated otherwise.

1. Based on broker reports

2. Transaction multiple not disclosed

3. Transaction involved a 34% interest in TT Holdings, which indirectly had 55% ownership in Genea Limited

4. Based on news articles.

Sources: News articles, company announcements, broker reports, S&P Capital IQ, MergerMarket, Deloitte Corporate Finance analysis

Appendix 4: Context to this report

The report has been prepared at the request of the directors of Virtus and is to be included in the Target's Statement to be provided to Shareholders in respect of the Proposed BGH Takeover. Accordingly, it has been prepared only for the benefit of the directors of Virtus and those persons entitled to receive the Target's Statement in their assessment of the Proposed BGH Takeover and should not be used for any other purpose. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Shareholders and the directors of Virtus, in respect of this report, including any errors or omissions however caused.

The report represents solely the expression by Deloitte Corporate Finance of its opinion as to whether the Proposed BGH Takeover is fair and reasonable so far as Shareholders are concerned.

The report has been prepared having regard to professional standard APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited.

Individual circumstances

We have evaluated the Proposed BGH Takeover for Shareholders as a whole and have not considered the effect of the Proposed BGH Takeover on the particular circumstances of individual Shareholders. Due to their particular circumstances, individual Shareholders may place a different emphasis on various aspects of the Proposed BGH Takeover from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Proposed BGH Takeover is fair and reasonable. If in doubt, Shareholders should consult an independent adviser, who should have regard to their individual circumstances.

Limitations

Our opinion is based on the prevailing economic, market and other conditions as at the date of this report. Such conditions can change significantly over relatively short periods of time.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte Corporate Finance has relied upon the completeness of the information provided by Virtus, BGH and CapVest and their officers, employees, agents or advisors. Deloitte does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to the executives of Virtus for confirmation of factual accuracy.

In recognition that Deloitte Corporate Finance may rely on information provided by Virtus, BGH and CapVest and their officers, employees, agents or advisors, Virtus has agreed that it will not make any claim against Deloitte Corporate Finance to recover any loss or damage which Virtus may suffer as a result of that reliance and that it will indemnify Deloitte Corporate Finance against any liability that arises out of either Deloitte Corporate Finance's reliance on the information provided by Virtus, BGH or CapVest and their officers, employees, agents or advisors or the failure by Virtus, BGH or CapVest and their officers, employees, agents or advisors to provide Deloitte Corporate Finance with any material information relating to the Proposed BGH Takeover.

To the extent that this report refers to prospective financial information, we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Deloitte's consideration of this information consisted of enquiries of Virtus and CapVest executives and their officers, employees, agents or advisors and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the AUASB or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.

Based on these procedures and enquiries, Deloitte Corporate Finance considers that there are reasonable grounds to believe that the prospective financial information for Virtus included in this report has been prepared on a reasonable basis consistent with the requirements of ASIC Regulatory Guide 111. In relation to the prospective financial information, actual results may be different from the prospective financial information of Virtus referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

Qualifications

Deloitte Corporate Finance holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu.

The employee of Deloitte Corporate Finance principally involved in the preparation of this report was Tapan Parekh, Partner, B.Bus, M.Comm, CA, F.Fin. Tapan has many years' experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of independent expert's reports.

Consent to being named in disclosure document

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) of 225 George Street, Sydney, NSW, 2000 acknowledges that:

- Virtus proposes to issue the Target's Statement in respect of the Proposed BGH Takeover
- the Target's Statement will be issued in hard copy and be available in electronic format
- it has previously received a copy of the draft Target's Statement for review
- it is named in the Target's Statement as the 'independent expert' and the Target's Statement includes its independent expert's report as Attachment A to the Target's Statement.

On the basis that the Target's Statement is consistent in all material respects with the draft Target's Statement received, Deloitte Corporate Finance Pty Limited consents to it being named in the Target's Statement in the form and context in which it is so named, to the inclusion of its independent expert's report as Attachment A to the Target's Statement and to all references to its independent expert's report in the form and context in which they are included, whether the Target's Statement is issued in hard copy or electronic format or both.

Deloitte Corporate Finance Pty Limited has not authorised or caused the issue of the Target's Statement and takes no responsibility for any part of the Target's Statement, other than any references to its name and the independent expert's report as included as Attachment A.

Sources of information

In preparing this report we have had access to the following principal sources of information:

- Virtus annual reports and investors presentations for the year ending 30 June 2018, 30 June 2019, 30 June 2020 and 30 June 2021
- Virtus half year reports and investors presentations for the year ending 31 December 2018, 31 December 2019, 31 December 2020 and 31 December 2021
- The contents of a dataroom made available to CapVest
- The Transaction Implementation Deed
- The Bidder's Statement
- Draft Target's Statement
- Information published by third party subscription providers such as Thomson Research, S&P Capital IQ, Mergermarket and IBIS World
- other publicly available information, media releases and broker reports on Virtus, the comparable companies and the IVF sector and broader health industry.

In addition, we corresponded with and had discussions with the Directors and executives of Virtus (and their representatives) in relation to the above information, the current operations and prospects of Virtus and the Proposed BGH Takeover.

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