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Operator: Thank you for standing by and welcome to the Monash IVF Group Full Year Results 2019. All participants re in a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr Michael Knaap, CEO. Please go ahead.

Michael Knaap: Thank you, Chantelle. Good morning to all and thank you for joining us today for Monash IVF Group's Financial Year 2019 Results presentation. Our CFO, Malik Jainudeen, joins me today and will be later stepping us through the detail of our numbers.

By way of background, Monash IVF is the market leader in women's health in our core assisted reproductive services, diagnostic and women's ultrasound services with a network of over 40 IVF clinics, ultrasound practices and service centres across Australia and Malaysia. Our long heritage is such that we were there at the very conception of the assisted reproductive technology specialties, having achieved the world's first IVF pregnancy in 1973. We will continue to break new ground with improvements in fertility care and women's imaging and diagnostics.

Our network includes 106 doctors, that's both fertility specialists and sonologists, and in excess of 450 full-time equivalent scientific, nursing and support staff. Since our conception in the 1970s, over 40,000 babies have been born with our help. Indeed today, a Monash IVF baby is born every 2.5 hours and one of our patients is scanned the equivalent of every 10 minutes.

To touch on the key points for financial year 2019 represented on page 3, the most important point is that we returned to earnings growth in the second half of 2019, with our NPAT being up by 9.5% on the previous corresponding period. For the full financial year, our NPAT was down 2.3% on the previous corresponding period, before one-off non-recurring items that occurred in the first half of this financial year. Our Australian full service business delivered stimulated cycles growth of 3.7%, excluding the impact from a departed high-volume specialist, whilst a total of 11.3% growth was achieved in the combined markets of New South Wales, Queensland and South Australia. Our ARS International growth through our Malaysian clinic in KL continues to deliver strong volumes and earnings growth. Thereby the stimulated cycles grew by 21.8% on the previous corresponding period.

It was extremely pleasing that we had a world-first scientific breakthrough, achieving commercialisation of non-invasive, pre-implantation genetic screening technology. We had exceptionally strong cash flows and cash conversion in financial year 2019, and our long-term funding was secured and extended to January 2022. We developed our Vision 2022 strategic roadmap, reconfirming our best-in-class full service positioning, focusing on growth. I will take you through some of these key themes a little bit later.

As we move on to the financial summary for the financial year 2019 on slide 4, Monash IVF Group's underlying business is solid, delivering a $20.9 million underlying NPAT and a $37.8 million underlying EBITDA. This enabled continued investment in strategic and operational growth initiatives. Our revenue increased slightly by 0.9% to $152 million. This was a positive result when put into context with our performance in the second half of 2019 and considering the departure of a high-volume fertility specialist. We delivered an excellent cash conversion of 107.1% and declared a total fully franked dividend of $0.06 per share to our shareholders.

As we take a look on the next slide, the performance of the second half of 2019 in a little more detail. Our performance was significantly better than the second half of 2018 resulting in 9.5% NPAT growth and 6.7% EBITDA growth, whilst continuing to invest in future demand creation and strategic initiatives. Furthermore, our free cash flow increased by 28% and our cash conversion pre-tax was 113.9%. These numbers highlight some of the progress and positive momentum we are building together at Monash IVF.

As we now take a look at slide 6 to focus on the ARS Australian market. Overall, the ARS stimulated cycle market grew by 6.4% in comparison to the previous corresponding period, well above the long-term expected growth rate of 2%. This recovered the decline of 0.3% in the previous financial year. In our key markets for financial year 2019, stimulated cycles increased by 5% compared to the previous corresponding period with Victoria, New South Wales and Queensland growing above the five-year cumulative annual growth rate of 2.5% and the growth was spread relatively evenly across both halves of the financial year.

As we take a look at slide 7 to look at our own volume in the ARS market, we delivered underlying full service stimulated cycle growth of 3.7%. 11.3% growth was achieved across South Australia, New South Wales and Queensland with each of these state markets continuing the growth momentum in the second half after a very strong first half of the financial year. In the South Australian market, we achieved stimulated cycle growth of 18.5% driven heavily by attraction of new fertility specialists.

In New South Wales we demonstrated stimulated cycle growth of 6.4% after the successful closure of the Mosman clinic and transitioning all of those patients to our Bondi Junction clinic. This result was exceptional. In Queensland our stimulated cycle growth was 7.7% derived from our full service IVF business. Our sole low-cost clinic, branded MyIVF, did decline in that market, however it now only represents less than 2% of our total stimulated cycles.

In Victoria, our full service business declined during the year due to a departed specialist. Stimulated cycles remain lower than the previous corresponding period in the second half. Our Australian Frozen Embryo Transfers have declined as a result of lower Stimulated Cycles during the year.

Looking at slide 8 on Australian market share. As a result of the strong market share growth in both South Australia and New South Wales, maintaining market share in Queensland in a market that grew by 6.1% and declining market share in Victoria for reasons previously outlined, our key market share for stimulated cycles was 20.6% for the year. This brings a total Australian market share for stimulated cycles to 18% for the year.

As we now look at slide 9, as we start to work through some of the details of our Australian ARS operational performance, commencing with scientific leadership. This is showcased by a world first internally developed non-invasive pre-implantation genetic screening technology. This symbolises our heavy focus on scientific and medical research, ensuring we are giving our patients the best possibility of having a healthy baby.

Furthermore, we are advancing, through multi-clinic trials, implementation of a more effective ICSI technology. We have also progressed a collaboration partnership on development of a sperm selection device. These are just a couple of improvement projects all geared towards our unrelenting focus to deliver better patient outcomes.

We have made significant progressions through the creation of our Group Scientific Advisory Committee, aligning the brilliant scientific capability we have across the Group. They have fast tracked greater collaboration and standardisation of scientific practices and protocols, known as the Monash Way.

If you take a look at slide 10, we have an unrelenting emphasis on enhancing the patient experience, focusing on care, empathy, support and consistency across all patient engagement. We have made great inroads in the NPS score with our patients, improving 16 percentage points over the year and also providing alternative patient funding options.

Given the recent event with five doctors departing, it is worthwhile spending some time on our doctor partnerships. Engagement with fertility specialists continues and remains a critical focus, including regular doctor forums, co-funded marketing initiatives, increasing consultation locations and research opportunities. This can take the form of various group engagement and certainly a lot of one-on-one engagement with management, myself included. We recruited and acquired nine new fertility specialists in the financial year 2019 and the early part of financial year 2020. This follows on from the seven that were recruited in financial year 2018. Enhancing the doctor value proposition and our partnership continues to be a key priority, along with recruitment of additional fertility specialists across all markets. Furthermore, I would highlight that more than 95% of specialists are contracted to Monash IVF group.

We are expanding our clinic and consulting network, particularly in Sydney where we are opening a full service clinic in Penrith to support a Greater Western region and we will also build a new flagship clinic in Sydney CBD, representing best-practice patient experience and clinical excellence.

Moving on to slide 11, engagement with employees has improved through our Principles and Beliefs, our focus on improving patient experience, our leadership training programs and engagement improvement programs from our People Feedback. We are continuing to develop our in-house patient management systems, with a focus on improving interaction with patients and doctors, and our scientific equipment, whilst improving the user experience. We are strengthening our cyber security risk profile across our network, whilst enabling increased efficiency, reliability, stability and security throughout our vast clinic network. Our Australian underlying Segment EBITDA, including Diagnostic Services and excluding one-off non-recurring items, declined by 5.3% due primarily to the ARS volume decline, increased marketing investment and occupancy costs to support demand creation and capacity in the future, whilst largely absorbing enterprise agreement wage increases.

As we take a look at slide 12 on our brands and marketing. We continue to build the Monash IVF Group brand through innovative marketing and our reputation as the trusted advisor for fertility. We are communicating more often and earlier in the fertility journey, using low-effort, high-scale marketing activities. This includes utilisation of brand influencers on social media channels and early funnel activity through our Ready Set Baby program. We continue to provide regular patient seminars as an effective program that builds community awareness and provides access to Monash IVF specialists, nurses and scientists.

As we take a look at slide 13, we have welcomed Fertility Solutions into our group with two fertility clinics in Queensland, based in Buderim on the Sunshine Coast, and Bundaburg. They perform more than 300 Stimulated Cycles per annum. Importantly, we have welcomed six new fertility specialists to the Monash IVF Group clinic network, along with other talented people with great experience and expertise. These clinics and the great people that work within them provide a very strong platform in the Sunshine Coast and Bundaburg to take advantage of the growing population in our target demographic.

We continue to build and broaden our diagnostic capabilities and develop new technologies whilst facing increased competition in the New South Wales ultrasound market. Our ultrasound scan volumes increased by 0.6% to in excess of 80,000 scans. However, our Sydney Ultrasound for Women's scans declined by 3.9% due to greater competitive pressures as a result of an industry shift to the public health sector. We are currently participating in a transformational review which was commenced on the Sydney Ultrasound for Women business. This is in order to optimise revenue and earnings.

Our new Sydney CBD flagship women's imaging clinic opened in March 2019 and has shown growth of 7% in the fourth quarter of the financial year 2019 compared to the previous clinic location which was based in York Street in Sydney.

Our pre-implantation genetic screening and diagnosis decreased by 6.9% with a stable penetration rate of approximately 18%. Our world first non-invasive, pre-implantation genetic screening commenced in June 2019, which is showing promising take-up rates with strong clinician support, whilst also providing us a clear market differentiator given it is exclusive to us. Non-invasive prenatal testing volumes increased by 0.7% to in excess of 13,000 tests as non-invasive prenatal testing revenue now represents 4% of Group revenues. Furthermore, we have also established a reproductive carrier screening service.

As we look at slide 15, our ARS International business continues to demonstrate exceptional growth with positive momentum in all metrics, headlined by an exceptional EBITDA growth versus the previous corresponding period of 40.5%. Revenue increased by 32.3% to $11.6 million as stimulated cycles increased by 21.8%, now exceeding 1000 cycles. An excellent result in the context of being only 500 stimulated cycles four years ago. EBITDA generated was $5.29 million with the EBITDA margin percentage expanding by 2.6 percentage points to 40.5% [sic - see slide 15 45.6%], as we continue to leverage the cost base from incremental volumes. Given we have demonstrated the capacity and capability to acquire and grow services in this region, we are focusing on an Asian Pacific expansion strategy and a number of opportunities are progressing.

I'll now hand you over to Malik to take us through our financials.

Malik Jainudeen: Thanks, Michael. So, turning over to slide 17 which details our $1.4 million or 0.9% full-year revenue growth compared to last year. Revenue was impacted by the departure of a high-volume Victorian specialist in September 2017 with both the first half and the second half impacted. The second half impact was lower than the first half as we eventually washed through a full 12 months of the specialist's non-compete period that ended in September 2018 and the residual volume. This was the primary contributor to the 3% decline in domestic stimulated cycles, but encouragingly strong growth outside of Victoria was achieved in the first half, which continued into the second half.

The combined 11.3% stimulated cycle growth rate in South Australia, New South Wales and Queensland contributed an additional $3.3 million in revenue. The attraction of seven specialists in FY18 drove much of this growth. Our Malaysian clinic continues to go from strength to strength, contributing an additional $2.8 million in revenue with this clinic now demonstrating growth year-on-year since acquisition in 2013.

Turning over to slide 18, which illustrates our ability to improve our EBITDA margins over the last 18 months. Whilst our full year EBITDA margin is down by 0.4% to 24.9%, we experienced margin improvement since December 2017. Margins should be compared to the second half of last year, as the impact from the doctor departure in the first half 18 largely washed through during FY19.

Margin improvement was largely achieved through both volume-leverage and cost-base initiatives. Cost-reduction initiatives included a need to realign our Victorian cost base given low activity, whilst the closure of the Mosman clinic in Sydney and transition of its activity to Bondi Junction has been a success. The cost base reduction has been critical in funding our long-term plans and growth including an increase of almost $1 million in marketing, particularly a focus on early funnel activity and brand awareness in all our markets. In addition, further investment was made into greater capacity and a focus on our service delivery and value proposition.

Turning over to slide 19 which details our high-level profit and loss. Whilst full year underlying EBITDA and NPAT was down 0.8% and 2.3% respectively, we have achieved 9.5% NPAT growth in the second half. Our statutory NPAT was down by 7% which included one-off items relating to the Mosman closure and CEO change. We accelerated the depreciation on certain Mosman clinic assets of approximately [$900k 21:23] before tax, as much of the assets written off were leasehold improvements which were not transferable to other clinics.

Following on from the previous revenue commentary and EBITDA margin commentary, other items to note include our depreciation was largely in line with last year, whilst our interest cost was higher than last year by almost $300,000. This was a result of an initial 10 basis-point increase in funding cost due to moving up a tier in our leverage ratio and a further 25 basis points for amending our syndicated debt earlier in the year. There was some relief in the BBSY rate in the second half on our variable debt, partly offsetting the increase in debt margin. Our effective tax rate was 27.9%, a 0.6% reduction on last year due to a high contribution of taxable income from Malaysia.

Turning over to slide 20 which provides a summary of the balance sheet position and capital metrics at June. The balance sheet continues to improve as net debt reduced by $9.4 million, driven by strong operating cash flow conversion, which is illustrated on the following slide. The net debt reduction has resulted in a vast improvement in our leverage ratio, which was reduced from 2.46 times to 2.24 times over the year. As noted at half year, we extended our syndicated debt facility, noting $66 million of the facility was due to mature in June of this year. Our facility is now due in January 2022 and our existing lenders will continue to support the business going forward.

Our debt capacity has not changed under the new terms of the facility, so we have $26 million in debt capacity available, plus a further $40 million in the accordion for any acquisitions or capital expansion opportunities. Our covenant ratios are well within our covenant requirements and it should be noted that our covenants have not changed from amending the facility. As Michael noted earlier, we have declared a $0.03 fully franked final dividend, which is in line with our Group policy and considering our cash flows over the short and medium term.

Turning over to slide 21, which illustrates strong cash metrics achieved during the year. Pre-tax operating cash flow increased by 12% driven by excellent EBITDA operating cash flow conversion of 107% as compared to 93% last year. Much of this was driven by an increase in cash receipts due to several collection initiatives, such as introduction of a website payment portal.

CapEx for the year was consistent with prior year with works continuing on our IT infrastructure including patient management system, with an aim to improve work flows, processes and digitisation. The second half saw an increase in CapEx after a low CapEx period in the first half, as we invested in a new women's imaging clinic in Sydney, commercialising our NIPGT technology and regular asset replacement. These cash flow outcomes have resulted in the generation of an additional $7.3 in free cash flow, allowing for debt repayments and dividends during the year.

I'll now hand you back to Michael to detail the Group strategy.

Michael Knaap: If we take a look at slide 23, I'd like to give some broad clarity in regards to our strategy. We have a well-defined and articulated strategy with strong alignment across the whole Group. Our key pillars of success are patient experience, doctor partnerships, scientific leadership, clinical excellence, people engagement, our brands and marketing, digital and systems transformation, and international expansion. We have key targets and expected outcomes in engagement for patients, doctors and our people. We have targets in regards to our market-leading success rates. We have targets in regards to our local and international market share. Most of all, we have targets to create sustainable value for all of us, both internally and externally, but particularly for our internal people. Furthermore, our principles are guiding the way we deliver this strategy.

If you take a look at the outlook statement, as a result of the momentum gained in the second half of 2019, we are well positioned to optimise future earnings as we progress our strategic initiatives. The key initiatives include: a clear strategy to grow our full service business through enhancing our best-in-class patient experience and scientific leadership, whilst ensuring our people are engaged and share common principles and beliefs; recruitment of new fertility specialists and continuing to engage and grow our existing fertility specialists; expansion of our footprint through new clinics, particularly in New South Wales and our recent Fertility Solutions acquisition; our Asia-Pacific expansion strategy through acquisition and partnerships is important. We will also continue our cost management initiatives including productivity and efficiency projects to build a stronger business.

In addition, there are strong underlying demand fundamentals for assisted reproductive services that remain domestically and abroad. Furthermore, I would like to reiterate that the exit of five Victorian-based fertility specialists may have an impact on the financial year 2020 net profit after tax. This is on a variable contribution basis of approximately $1.5 million to $2.5 million. However, we are working on strategies to minimise the financial impact. We will provide a further update on the financial year 2020 performance at our Annual General Meeting in November 2019.

So, with that said I'll bring to a close the formal part of the presentation, and Malik and I are happy to move to Q&A.

Operator: Thank you. If you wish to ask a question, please press star then one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star then two. If you are on a speakerphone, please pick up the handset to ask your question. Your first question comes from Sean Laaman, Morgan Stanley. Go ahead please.

Sean Laaman: (Morgan Stanley, Analyst) Thank you. Good morning, Michael; good morning, Malik. Just a question – two questions on the diagnostics, if you could give us a bit of a sense of where we can see the, I guess, troughing or turnaround in both ultrasound and in the PGS PGD component? That would be useful.

Michael Knaap: So if we look at ultrasound, as I said, we've converted our [Sydney volumes] to a 7% growth in the last quarter of the previous financial year, and that's sort of symbolic of what we have to do across that network to ensure that we're building a stronger business and a better service. I think that a trough in regards to our ultrasound business we've seen, and now we're starting to see a turnaround heavily predicated on some transformation in additional services and carrier screening is one of those, but also predicated on a better patient experience through better quality facilities and some really, really strong engagement from the people through the ultrasound business. I think we've hit the low point Sean.

In regards to PGS - pre-implantation genetic screening - you see that it was fairly stable across our network at around that 18%. Without putting a number on it, we do expect penetration to grow. The predominant driver of this growth is with the new technology of non-invasive, pre-implantation genetic testing. This allows us to access more embryos with the technology to ensure that we get better improvement of those embryos and a better outcome and success rate. It also reduces miscarriage rates, which is a really important service that we can offer our patients. So, it will have a stronger penetration and greater take-up, it is more affordable and we can access more embryos as a result of the non-invasive nature of this technology.

Sean Laaman: (Morgan Stanley, Analyst) Thank you, Michael. Just as a follow-on, just on the new carrier screening service, is that in-housing stuff that's already in the market or is it something new that Monash is pushing out there? If you could give us a bit more granularity on what it means that would be really useful.

Michael Knaap: Look, we are managing the process internally but we're using outsourced providers, international providers, to initially provide the service and I guess we'll see where that goes, as to whether we do potentially invest internally.

Sean Laaman: (Morgan Stanley, Analyst) Okay, thank you, Michael, that's all I have.

Michael Knaap: Thank you, Sean.

Operator: Thank you. As a reminder, please press star then one on your telephone to register for a question.

There are no further questions at this time. I will now hand back to Michael for closing remarks.

Michael Knaap: Okay, I'd just like to thank you all for participating and I really appreciate all of your support. Malik and I look forward to catching up with many of you over the oncoming week as we see you face-to-face. Have a good week, bye.

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